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update

Increase in oil-spill liabilities approved by IMO delegates

LONDON—The International Maritime Organization wants to hike oil companies' and shipowners' liability for oil spills to more than $200 million and introduce a minimum pollution liability for shipowners, according to proposals that were approved by IMO delegates here recently.

But, any changes in international law must be approved by at least 10 member countries—including the

Continued on next page

Outlook mixed

Optimism grows in efforts to kill limits on FSAs, 501(c)(9) trusts

By JERRY GEISEL

WASHINGTON—Employers may be in striking distance of overturning proposed Internal Revenue Service rules that could wipe out flexible spending accounts.

And, it looks like support for a strict limit on reserves held by 501(c)(9) trusts and experience-rated benefit plans is waning.

Employer groups say there is so much support for a proposal by Rep. Barber Conable, R-N.Y., to save flexible spending accounts from the IRS rules that the plan now has at least an even chance of becoming part of the tax bill that a conference committee will begin hammering out this week.

"There is a good chance the Conable proposal will be considered" by the conference committee, predicts William Chip, an attorney representing the Employers Council on Flexible Compensation in Washington. "Something will be done."

In fact, all Republican members of the House Ways and Means Committee signed a May 22 letter to President Reagan in which they endorsed the Conable proposal. Three of those Republicans—Mr. Conable and Reps. John Duncan, R-Tenn., and Bill Archer, R-Texas—will be members of the conference committee.

At the same time, House members of the conference committee now seem likely to back off from a provision in the House-passed tax bill—H.R. 4170—that would severely restrict the use of 501(c)(9) trusts and experience-rated benefit plans to fund long-term benefit obligations, sources say.

That restriction says that employers cannot receive tax deductions for contributions to trusts or premiums paid to experienced-rated plans if reserves held by the trusts or plans exceed 75% of average claims paid out over a company's most recent two years.

Instead, House conferees now are more supportive of a provision in the Senate-passed tax bill—H.R. 2163—that would impose financial penalties on employers if too many trust benefits go to top executives. That provision is aimed at small companies and would have no effect on the vast majority of 501(c)(9) trusts used by em-

Continued on page 30

Deductions for self-funded reserves are probably doomed, experts say

By JERRY GEISEL

WASHINGTON—The battle over whether employers can deduct contributions to self-funded reserves established to pay property/casualty claims may be over before it begins.

Risk management experts say there is virtually no chance that a congressional conference committee will remove a provision in both the House and Senate tax bills that would deny tax deductions for reserves to pay self-funded losses known in the current year but not payable until the future (*BI*, April 16).

"We done everything we can, but we've run up against a brick wall," explains Douglas Stevenson, a partner with the Chicago law firm of Stevenson, Rusin & Friedman, and executive director of the National Council of Self-Insurers.

"Realistically, I don't see it (prohibition on tax deductions for self-insured reserves) coming out of the bill," adds Barbara Haugen, government affairs officer for the National Assn. of Insurance Brokers in Washington.

"The situation does not look good," points out Jon Harkavy, director of governmental affairs for the Risk & Insurance Management Society in New York.

But the news concerning property/casualty issues to be discussed by the conference committee isn't all bad.

Continued on page 32

Stouffer insurers pay $36.6 million for fire

By KATHRYN J. McINTYRE

Insurers for Stouffer Corp. are paying about three-quarters of the $48.7 million in settlements agreed to by 12 defendants with 39 plaintiffs in litigation stemming from the 1980 fire at the company's Harrison, N.Y., Stouffer's Inn.

Twenty-six people, many of whom were high-ranking corporate executives in the prime of their careers working for Arrow Electronics and Nestle Enterprises Inc., were killed in the fire. An additional 14 were injured.

The fire erupted in the third-floor meeting room area of the hotel complex, where the executives were meeting for breakfasts (*BI*, Dec. 15, 1980).

The settlements of the wrongful death and injury cases were announced May 24 by Federal District Court Judge Abraham D. Sofaer for the Southern District of New York.

The settlements end all litigation involving those killed or injured in the fire. A civil suit related to unsuccessful criminal proceedings is pending (see related story, page 46).

All the damages cases that had been filed in state and federal courts around the country after the fire were consolidated in 1982 for pretrial discovery under Judge Sofaer under the multidistrict rules.

Solon, Ohio,-based Stouffer is paying $35.6 million of the $48.7 million in settlements, *Business Insurance* learned from one source who asked not to be named. Others confirmed Stouffer's payment is about that amount.

Stouffer Vp and General Counsel James Ball would not comment on Stouffer's share of the settlement, but said that it would be paid by three excess insurers: Columbia Casualty Co., First State Insurance Co. and Northbrook Excess & Surplus Insurance Co.

A $1 million primary policy from American Mutual Liability Insurance Co. was exhausted by a $1 million settlement in one wrongful death case in Texas more than a year ago. Stouffer's payments to fire victims, therefore, total about $36.6 million.

Columbia Casualty's $10 million layer excess of $1 million and First State's following $20 million layer are exhausted by the settlements. Northbrook is excess of First State with a $10 million layer and expects to pay about $5.6 million.

Other defendants, citing an agreement to keep the settlement shares secret, also declined to discuss their contributions to the settlements. Those close to the litigation who revealed the contributions did so only on the condition that their names not be used.

On those conditions, *BI* also learned that an addi-

Continued on page 46

High cost of war risk cover slows Persian Gulf shipping

By STACY SHAPIRO

LONDON—The soaring cost of war risk coverage for vessels in the Persian Gulf is forcing some companies to stop sending their ships into the Iran-Iraq war zone, brokers say.

Those ship owners willing to take the chance found last week that hull war risk underwriters had more than doubled rates to $7.50 per $100 of insured value for certain areas of the Persian Gulf, as insured losses caused by attacks on ships hit $130 million.

In addition, some cargo underwriters last week were reducing the amount of Persian Gulf risks they would accept, making it difficult—though not impossible—to place coverage.

And, some hull war risk mutual insurance associations were wondering whether to write coverage at all for certain areas of the Gulf.

Last week, "Some clients were looking for war risk insurance, but others were ready to quit," said J. William Sherar, president of oil and energy specialty broker Sherar, Cook & Gardner Inc. in Metairie, La.

"Why take the risk and pay $7.50 per $100 in war risk rates when you could lose the crew and the ship and the cargo? . . .It just isn't worth it."

A spokesman for Marsh & McLennan Middle East Ltd. in London added, "I talked to one client and he is seriously considering stopping sailing into the Gulf—and he is one of the few companies left.

"You may be spending about $3.6 million in premiums on a hull value of $72 million, which may be more than anticipated profits. Also, at the last minute, crews are refusing to go. . . .The situation is getting serious."



Map: Amy Palmer

Last week, about 60 vessels were anchored outside the Gulf, waiting to see if that situation would change. And Japan—which depends heavily on Arab nations for its oil supply—announced that none of its ships would enter the Gulf.

Although the vast majority of the brokers and underwriters say high war risk insurance rates are causing some companies to pull their ships out of the Gulf, a Lloyd's of London spokesman said high rates were having no effect on ship owners.

"The insurance aspect is not a determining factor in whether or not the ships go into the Gulf," the spokes-

Continued on page 45

INSIDE:

Manville and major insurers reach accord
Page 3

NEWSPAPER

update

Oil-spill liability proposals

Continued from previous page

United States. The U.S. delegate to the conference spoke in support of the changes and voted for them. But, the delegate from Japan spoke against the proposals, although he abstained in the voting.

These proposed changes will affect the limits on the 1969 Civil Liability Convention, which said shipowners were responsible for around $15 million of any pollution losses, and the 1971 Fund Convention, which said that oil importers would be responsible for the rest of the losses up to around $70 million.

The new adopted rules now say that:

- Under the Civil Liability Convention, shipowners will be responsible for up to $62 million and no less than $3 million of any single loss, depending on the size of their vessels.
- Under the Fund Legislation, oil importers will be responsible for the rest of the claim up to $140 million or the fund's limit. But, if the IMO can attract at least three importing countries that contract more than 600 million tons of oil to approve the new limits, the maximum limit of the liability fund will be raised to $208 million.
- Any other changes in limits in the future will need only the approval of IMO delegates at a conference and not the ratification of member states.

In order for the proposals to become international law, at least 10 countries—six of which must have at least 1 million tons of tankers (as they are weighed in marine circles)—must ratify the changes in the Civil Liability Convention that affect shipowners. And, eight countries that among them import 600 million tons of crude oil must ratify the change in the fund's limits. The governments have at least five years to consider the proposals.

Posgate suspension extended

LONDON—Ian Richard Posgate, former chairman of Alexander Howden Underwriting Agencies Ltd. and a Lloyd's of London underwriter, has been suspended from Lloyd's for an additional six months, the Council of Lloyd's ruled last week.

He had been suspended from Lloyd's for the past year following allegations that he and four former Howden directors misappropriated $55 million of underwriting funds (*BI*, Sept. 27, 1982).

Three charged in Salem case

HOUSTON—A federal grand jury has indicted three men on criminal charges in the case of the Salem, Shell International Petroleum Co. Ltd.'s tanker that was scuttled off the African coast in 1979.

About 180,000 tons of crude oil were pumped off the Salem at Durban, South Africa, and sold to the South African government, allegedly by crew members who later scuttled the vessel (*BI*, Feb. 23, April 13, 1981).

The South African Oil Purchasing Agency reimbursed Shell for about $30 million of the company's $56 million loss, but Shell and its marine insurers were embroiled in litigation over the remaining $26 million (*BI*, May 11, 1981; Jan. 18, Feb. 22, 1982; Feb. 28, 1983).

In September 1983, Shell received 3.5 million pounds ($4.83 million) under marine excess insurance policies, mostly issued by the London market, a spokeswoman in Shell's London office said.

"As far as we're concerned, the case is over," she said. "This is now a criminal proceeding, outside of our interest."

The three men face various federal criminal charges in the incident, including conspiracy, perjury, wire and mail fraud, and violation of transportation and interstate commerce statutes.

Promotions announced at Buck

NEW YORK—William E. Giegerich has been elected to the new post of president and chief executive officer of Buck Consultants Inc., a New York-based benefit and pension consulting firm.

His election will become effective July 10. In his new position, Mr. Giegerich will be responsible for the ongoing management of the firm, which is the seventh-largest benefit consultant in the country.

Mr. Giegerich's new office will replace the office of the president, which consists of the current chairman, Hugh Gillespie, and two members of the board, Douglas Borton and George T. Favetta, who remain on the board.

The board of directors of Buck also announced that John Seltzer was elected chairman of the board. He will take over Jan. 1, 1985, after Mr. Gillespie retires.

Tulsa flood loss at $150 million

TULSA, Okla.—A flash flood that swept through Tulsa recently, killing at least 11 people, caused at least $150 million in total damages, according to the Southwest Insurance Information Service in Oklahoma City.

The organization estimates that insured losses may represent between $75 million and $80 million of that figure. Most of the damage occurred in residential, not commercial, areas.

index

A.R.M. exercises	38
Classifieds	44
Insurance services guide	46
International issues	35
Legal briefs	38
London line	40
Opinions	6
Perspectives	35
Ticker	47
Washington	33

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1,100 Lloyd's members could lose $52.7 million

By STACY SHAPIRO

LONDON—Asbestos and Agent Orange claims coupled with funds allegedly misappropriated by former management of P.C.W. Underwriting Agencies Ltd. could cost 1,100 members of six Lloyd's of London syndicates formerly managed by P.C.W. Underwriting 37.9 million pounds ($52.7 million), the members were told last week.

The cost to the members, however, may be reduced by 26.2 million pounds ($36.4 million) if the new P.C.W. Underwriting agents, Richard Beckett Underwriting Agencies Ltd., can recover syndicate funds that were found and secured in Gibraltar (*BI*, May 21).

And, Richard Beckett says it will soon propose to the members a way to recover the full 38.9 million pounds ($54.1 million) that Richard Beckett said had been paid by the syndicates for reinsurance.

The Lloyd's names were notified of the amount of their possible liabilities in a May 25 letter from Richard Beckett Chairman J.R.K. Beckett.

Each name's liabilities for the years 1979, 1980 and 1981 vary depending on the name's share of each syndicate. If a member had a 10,000 pound-share for each of the three years in all six syndicates, the name would owe 41,300 pounds ($57,407).

Any reinsurance recoveries will "mitigate substantially" the losses on Marine Syndicates 810 and 869, and on non-Marine Syndicate 157. These losses over three years for each individual with a 10,000 pound-share in all three syndicates total 21,250 pounds ($29,538).

However, members of Non-Marine Syndicate 918 and 940 and Aviation Syndicate 859 will suffer losses in any event, the letter says, due to a "substantial" increase in asbestos claims and the need for increased reserves.

One member in these three syndicates for three years with a 10,000-pound share in each will owe 16,150 pounds ($22,449).

Reserves are also being increased for claims arising from the defoliant Agent Orange, he said. Recently, seven manufacturers of Agent Orange agreed to pay $180 million dollars to pay claims from Vietnam war

Continued on page 46

California may get self-insurers fund

By STEVE TARAVELLA

SACRAMENTO, Calif.—California may soon establish a security fund to provide workers compensation benefits to employees of bankrupt self-insured businesses whose security bonds are either insufficient or inaccessible.

A.B. 1285 was expected to come before the state Senate and Assembly for final approval late last week or sometime this week.

The bill, co-authored by Democratic Assemblyman Bruce Young and Republican Assemblywoman Marian W. La Follette, already has been approved by committees in the Senate and the Assembly, as well as a joint conference committee.

The California Self-Insurers Assn. proposed the fund, which allows individual assessments to private self-insureds up to 1.5% of the amount they spent on benefits during the previous year for job-related injuries, to a maximum of 2% each year. This would result initially in a fund of $1.6 million to $1.8 million, estimates Joseph E. Markey, CSIA legislative advocate.

Self-insured employers would not have to contribute to the fund until a self-insurer became insolvent. But, contribution would be mandatory, and self-insured employers who do not contribute would face revocation of their certificate to self-insure.

Between 18% and 20% of the state's estimated 14,050 private-sector businesses self-insure their workers compensation exposures, according to the Office of Self-Insurance Plans, a division of the Department of Industrial Relations.

"The whole objective is to flow money quickly so injured workers are not injured economically when an employer has problems," Mr. Markey explains.

The bill, which amends and revises various provisions of the state Labor Code, also would increase the minimum security bond for California private-sector firms that apply to self-insure to $200,000 from $100,000, or up to 125% of estimated future liabilities, whichever is greater.

Current self-insurers also would be required to increase their bonds if the bonds are found to be less than 125% of projected liabilities when they submit their annual report to the state. Self-insureds now are required to post securities equal to 100% of the estimated future liabilities. Increases beyond that are only required if the state so requests.

Continued on page 44

Guarded optimism shows in survey of underwriters

By JAMES M. BURCKE

Underwriters expect rates for most commercial insurance lines to rise—or at least hold steady—during the next year, according to a survey by a securities firm.

In addition, more than half of the insurers believe the underwriting cycle will bottom out sometime this year, according to the survey by Baltimore-based Legg Mason Wood Walker Inc.

However, the insurers participating in this year's survey are not as confident that rates will rise as they said they were in a similar poll that was taken last year.

And, few of the insurers responding to the survey, conducted in the first quarter of this year, say they have seen a decline in the rate competition that has plagued the property/casualty insurance industry since the late 1970s.

"We can detect some inconsistencies in the results of the survey," notes Gloria L. Vogel, a Legg Mason vp in New York. She added that some companies appear to be "not sure what direction the market is headed."

Nearly 100 of the largest U.S. property/casualty insurance groups, representing about 60.5% of the industry's total premium volume, participated in the 1984 Legg Mason survey, a 46% response rate.

The survey, which is available only to Legg Mason clients, asked for the insurers' perception of trends in five commercial insurance lines: commercial property, general liability, workers compensation, specialty lines and commercial auto.

In addition, the insurers were surveyed on their thoughts concerning two personal lines—personal auto and homeowners. These two lines are included in the aggregate "all lines" responses.

Insurers participating in this year's survey are generally less confident that rates will rise than the underwriters that were polled in a similar survey taken in early 1983.

For instance, only 48.7% of the insurers surveyed earlier this year said they expected rates to increase in all lines within the next 12 months, compared with 56.4% in the 1983 study.

Likewise, 31.4% of those surveyed in 1984 said commercial property rates would rise in the next year,

Continued on page 47

Explosion victims may get no compensation

By STACY SHAPIRO

ST. MICHAEL'S, England—The survivors of most of those killed and the people injured by an explosion that ripped through a water station in this village in northwest England may not be compensated by the station's owner.

English law stipulates that the Northwest Water Authority, which owns the Abbeystead underground water station, is not liable for claims unless the authority's negligence can be proven.

That means the authority's employers liability and public liability insurers would not have to pay unless the authority is found negligent, notes Ian Lees, the authority's claims officer.

Survivors of three employees of the water authority who were killed in the May 23 blast will receive an undisclosed amount under personal accident insurance that was given to the workers as an employee benefit.

But, the 33 injured people and the survivors of the seven villagers killed in the blast must wait

Continued on page 42

Administration sets guidelines for terminating pension plans

By JERRY GEISEL

WASHINGTON—Employers can terminate overfunded pension plans to recapture surplus assets and then set up new defined benefit or contribution plans if they follow certain guidelines, the Reagan administration says.

Those guidelines, issued jointly last month by the Pension Benefit Guaranty Corp., the Labor Department and the Treasury Department, stipulate that:

- If an employer terminates a defined benefit plan, the company may not recover any surplus assets until it has fully vested participants' accrued benefits. The company then must purchase an annuity contract from an insurer that will guarantee that the participants' benefits will be paid. This guideline follows current law.
- If participants in a terminated plan elect a lump-sum benefit rather than a monthly payment, the amount of the lump sum must fairly reflect the value of the pension. The PBGC will develop guidelines to aid employers in determining lump-sum values.
- In the case of a "spinoff" termination, the employer must purchase annuity contracts from an insurer to cover accrued benefits of both active and retired employees.

In addition, spinoff transactions will be allowed only once every 15 years.

In a spinoff, an employer splits its defined benefit plan into two new defined benefit plans—one for retirees and one for employees. The excess assets are placed in the retirees' plan, which the company then terminates. The company then purchases annuities to pay promised benefits to retirees and can recapture whatever is left over.

Continued on page 45

Manville pact with insurers could help reorganization

By STEPHEN TARNOFF

DENVER—The proposed agreement between Manville Corp. and its three major insurers that will resolve disputes over coverage for asbestos injuries could help move Manville out of bankruptcy court.

Moreover, the agreement should further precipitate an end to the longstanding, massive asbestos coverage litigation involving more than 75 insurers and five producers that has been consolidated in the San Francisco Superior Court.

The Travelers Indemnity Co., Home Insurance Co. and underwriters at Lloyd's of London have tentatively agreed to a settlement that ultimately will provide Manville with $315 million in coverage.

However, the present value of the settlement is not much more than the $250 million the three insurers offered Manville in bankruptcy court last fall to settle the litigation.

Details of the settlement and how much each insurer will contribute were closely guarded last week. Neither Manville's creditors in bankruptcy court nor its co-defendants in pending asbestos litigation had been filled in on the details or seen a copy of the agreement.

The agreement must still be approved by the insurers, Manville and Judge Burton R. Lifland of U.S. Bankruptcy Court for the Southern District of New York.

Richard Von Wald, vp and general counsel for Manville, said he expects all the approvals to be received within three weeks. Shortly after that, Manville will seek dismissal of the suit without leave for it to be reinstated.

Parties close to the negotiations, which have been under way 1½ years, said the agreement provides a "comprehensive settlement" of issues of concern to both Manville and the insurers.

It includes resolutions of questions over Travelers' continuing duty to defend Manville as its primary insurer in pre-1966 policies and over Travelers' and Lloyd's underwriters' liability on policies that contained no aggregate limits.

Travelers has for a long time contended it has paid out the full $16 million limits of its primary policies written from 1947 to 1976 and also paid out more than $7 million in defense costs.

The Home wrote first-layer excess coverage for Manville from 1963 to 1976 with first layer excess limits over the period totaling $115 million, according to sources. It also wrote some coverage on upper excess layers.

In a prepared statement, City Investing Co., the parent company of The Home, said The Home has substantially reinsured or otherwise reserved against its Manville insurance exposure and the agreement will

Continued on page 43

Form is useful tool for work comp reserves

By CAROL CAIN

LOUISVILLE, Ky.—Properly reserving for workers compensation claims is a must for a self-insurer, and devising a quick-reference computation sheet will make that task more manageable, one expert says.

Robert L. McCallister, Crown Zellerbach Corp.'s workers compensation regional manager in Vancouver, Wash., told fellow members of the National Council of Self-Insurers how the computation sheet is used by the San Francisco-based forest products and paper manufacturer for reserving for workers compensation claims.

Those attending the NCSI's annual meeting in Louisville, Ky., May 20-23 jotted notes as Mr. McCallister spoke and nodded in agreement that standard forms are needed.

The conference attendees, many of whom manage their company's self-insured workers compensation plans, eagerly snatched up copies of the computation sheet to take back home. (A close facsimile of Crown Zellerbach's computation sheet appears on this page.)

Workers compensation reserves, just like insurance claim reserves, are business reserves, Mr. McCallister said. "Reserves are accounts payable, money we haven't paid but we know we owe. . .but we're not sure how much we owe," he said.

Reserving practices, especially when they apply to self-insured workers compensation claims, have been the subject of debate between employers and the Internal Revenue Service.

"Until the Kaiser Steel case, the IRS took the position that workers compensation expenses couldn't be deducted by employers until cash benefit payments were actually made to industrial accident victims," said Paul Dawes, the San Francisco attorney who represented Kaiser Steel Corp. in its tax dispute.

Last October, the 9th U.S. Circuit Court of Appeals upheld a 1980 federal court ruling allowing Kaiser Steel to deduct certain workers compensation reserves from its taxes (*BI*, Oct. 17, 1983).

"The Kaiser Steel case proved the IRS wrong. . . .We did so, essentially, by demonstrating that reserve computations, in the aggregate, can be accurately made by professional claims analysts, who utilize a set of claims procedures and analytical rating formulas to price an injury," Mr. Dawes said.

And the reserve computation forms used by Crown Zellerbach, "are exactly what you need to show the court that you're not guessing," Mr. Dawes said.

The Crown Zellerbach computation sheet has spaces for all the necessary identification information, such as employee's name, claim number, date and nature of injury. This information, as well as other information on

Continued on next page



Reserve analysis

Northwest region
Workers' compensation

Employee's name
Claim no.
Date of injury
Age ____ Subrogation Yes ____ No ____
Nature of injury

TTD
01 TTD paid to date — Uncontested $ ____ Contested $ ____
Future TTD ____ Weeks X ____ rate — $ ____ $ ____
02 Total $ ____ $ ____

MEDICAL
03 Paid to date — Uncontested $ ____ Contested $ ____
Future — $ ____ $ ____
Total medical — $ ____ $ ____

PTD
11 Indemnity $ ____ Total medical $ ____
(Use statutory or actuarial method)
10 FATALITY

PPD
05 Scheduled (Specified) ____ % — Degree of ____ Body part — Uncontested $ ____ Contested $ ____
Unscheduled (Unspecified) ____ % — Degree of ____ Rate — $ ____ $ ____
Total $ ____ $ ____

VR
07 Temporary disability — Paid to date $ ____ Future $ ____ Uncontested $ ____ Contested $ ____
08 Professional services — $ ____ $ ____ $ ____ $ ____
09 Vocational rehabilitation misc. — $ ____ $ ____ $ ____ $ ____

LEGAL
08 Attorney $ ____
04 Legal—other $ ____
04 Investigations $ ____

FILE MANAGEMENT PLAN

By: ____ Date ____
Approved by: ____ Date ____
*Circle when completed

Injuries

	TTD weeks	Medical cost
Head		
Contusion	4	775
Eyes		
Scratch	1	140
Neck	2	400
Arms		
Fracture	14	1,100
Contusion	5	570
Tedinitis	4	225
Elbows		
Contusion	2	250
Epicondylitis	4	180
Tedinitis	4	750
Wrist		
Carpal Tunnel	6	1,140
Contusion	2	220
Sprain	1	130
Tedinitis	5	300
Hand		
Crush	26	2,000
Fracture	10	2,000
Laceration	3	310
Laceration tendon	6	700
Sprain	1	120
Trauma	20	675
Fingers		
Amputated tip	12	1,225
Crush	6	825
Fracture	3	275
Laceration	3	318
Pinch	3	150
Trauma	8	370
Back		
Cervical	8	1,000
Dorsal	8	900
Lumbar	8	1,200
Trunk		
Contusion	2	120
Fractured ribs	6	400
Hernia	6	1,700
Leg		
Contusion	3	450
Muscle pull	1	100
Knee		
Contusion	3	275
Strain	3	550
Fracture	8	995
Dislocated patella	4	280
Torn meniscus	12	2,500
Feet		
Contusion	4	525
Heel tendon	16	1,200
Sprain	6	560
Top fracture	5	255
Top contusion	2	470

Codes

A. *Administrative*
1. Incomplete report
2. Supervisor's report
3. Reserve adjustment
4. Custody (WA)*
6. Return to work date
7. Medically stationary date
8. PPD rating
9. I.M.E.*
10. Medical conference
11. University or medical search

B. *Technical*
1. Employee vs. I.C.
2. Timely filing
3. AOE/COE/Compensability*
4. Aggravation vs. new
5. Denial
6. Subrogation

E. *Vocational*
1. ORR case (WA)*
2. V.R. "A"*
3. V.R."B"*
4. RB I (CA)*
5. RB I (supplemental)*
6. RB 20*
7. Referred to vendor

C. *Investigation*
1. Claimant's report
2. Claimant's statement
3. Formal investigation
4. Activity check
5. Surveillance
6. Index bureau
7. MVA/MVR*
8. Personnel file
9. Medical authorization

F. *Litigation*

G. *Collateral benefits*
1. Second injury fund
2. Supplemental pension fund
3. Reimbursements/state
4. Social Security offset

D. *Medical*
1. Physician's initial report
2. Diagnosis—causal relationship
3. Pre-existing condition
4. Medical progress report
5. Narrative report

H. *Accounting*
1. Data input
2. Payment reconciliation

I. *Other*
1. Notify location

The reserve analysis computation sheet above is similar to one used by Crown Zellerbach Corp. in its self-insured workers compensation program. The form features in the upper right corner estimates of the number of weeks of temporary total benefits and medical costs for various injuries (enlarged in upper right-hand box). In the lower right corner, various codes are listed (enlarged in lower right-hand box) that are logged in the "file management plan" section to track progress on each claim. The meaning of some of the codes are explained on page 4.

Codes

A. *Administrative*
1. Incomplete report
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D. *Medical*
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5. Narrative report

H. *Accounting*
1. Data input
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I. *Other*
1. Notify location

Computation form

Continued from previous page
the sheet and from other forms, is fed into a computer so that Crown Zellerbach can track individual cases and trends within the company.

The computation form was designed in-house by regional supervisor John Paque and is used by Crown Zellerbach in the states where it has large employee population and self-insures its workers comp risks. Those states include Washington, Oregon, California, Louisiana and Missouri.

But the form also features in the upper right corner a list of injuries and the estimated number of weeks of temporary total disability and medical costs the injuries can trigger. (On Crown Zellerbach's form these injuries surround a sketch of the human body that has been omitted from the form reprinted on page 3.)

Mr. McCallister explained that the numbers used in the injury list were computed separately for each region of the country, using data from previous claims.

"It (represents) the average time-loss in each state and how much medical cost is involved," he said, adding that these numbers are updated annually.


Mr. McCallister

The sheet he used in his example uses numbers based on statistics in the Northwest region of the country. For example, a fracture of an arm probably will result in 14 weeks of temporary total benefits and cost about $1,100 in medical fees in that region.

The injury is checked on the figure of the body on Crown Zellerbach's form for quick reference by the claims manager or workers compensation manager, Mr. McCallister added.

The form also has sections to show amounts reserved for temporary total benefits, permanent partial benefits, medical costs, rehabilitation, legal and investigative fees and if the case involved is uncontested or contested.

The form also includes a section for the file management plan, located in the lower left corner. In this section, claim file managers note the progress of the case and future action to be taken by using codes from the list to the right of the file management plan section, Mr. McCallister said.

For example, if the case is based in California and the injured worker is in rehabilitation, the state requires that a series of reports be filed periodically. So codes E4, E5 and E6 would be listed under file management plan, referring to the California rehabilitation bureau's first required report (RB I), a supplemental report (RB I, supplemental) and a final report (RB 20). As these reports are filed, the claims manager will circle the code listed under file management plan, Mr. McCallister said.

In addition to the computation sheet, Crown Zellerbach also uses an update sheet, which shows whether an existing case is changed, deleted or re-activated.

This information is added to the information already in the computer for easy tracking, Mr. McCallister said.

But, Mr. McCallister said, using the computation and update sheets is just a small part of the reserving practices, which are done both at regional and corporate levels. Several factors go into determining reserves, he noted.

To calculate the reserves, regional work comp managers take into account what they call "the case reserve," which is the best estimate of the final payout on an individual case, plus the pure loss-time benefits.

This is added to the incurred losses, which are those already paid in addition to those already reserved.

Also considered when figuring aggregate reserves are the costs for the incurred-but-not-reported (IBNR) cases, plus loss adjustment expenses, both allocated and unallocated.

Allocated loss adjustment expenses, Mr. McCallister said, include money spent that can be tied directly to a case—for example, legal or investigative fees. These are usually computed at the regional level.

Unallocated expenses would include the cost of operating the department, the overhead, he said, and these expenses are usually added in at the corporate level.

Mr. McCallister also gave some pointers on achieving good case reserving:

- Insulate the people who are doing the reserving from the pressures of the operating units.
- Use logic, common sense.
- Reserve each benefit (TTD, PPD, rehabilitation, medical, legal) one at a time.
- Use a computation sheet, which gives you the mechanical ability to get the information down on paper and into a computer.
- Keep a diary for reviewing the reserves.
- Stress reserve awareness among employees. Hold training sessions.
- Reserve for the injury *and* the individual, considering any special characteristics of the injured.
- Have a reserve backstop, someone who will review reserves and discuss them with the people doing the reserving.

Crown Zellerbach reviews its cases monthly, according to Mr. McCallister.

"A monthly review, from a tax lawyer, is outstanding," Mr. Dawes said.

And each claim files manager handles about 200 indemnity cases at Crown Zellerbach, Mr. McCallister said, which is the optimum. Supervisors of the claim files managers handle many fewer cases, around 100, he noted.

"If you get up over that you have claim shufflers, not managers," he said.

"Once you say to a claims persons that 'I'm going to have you handle 250 plus cases,' the quality of work goes down," Mr. McCallister said.

Claims managers in that situation will seek relief by sending cases to lawyers or trying to settle the case, without really looking at it, he said. ■

Code definitions

Someone looking for the first time at the lists of codes used on Crown Zellerbach Corp.'s reserve analysis computation sheet may need a code book to decipher them.

For instance the "(WA)" in codes A4 and E1 refers to provisions in Washington state law. And "ORR", also in code E1, stands for the office of rehabilitation review in Washington.

Codes E2 and E3 refer to "vocational rehabilitation" plans, one where the case is referred to an outside provider, and the other handled internally.

Codes E4, E5, and E6 all refer to special rehabilitation bureau reports required in California.

The abbreviation "AOE/COE" in code B3 stands for arising out of/in the course of employment; "MVA/MVR" in code C7 stands for motor vehicle accident or records; and "I.M.E." in code D9 stands for independent medical examination.

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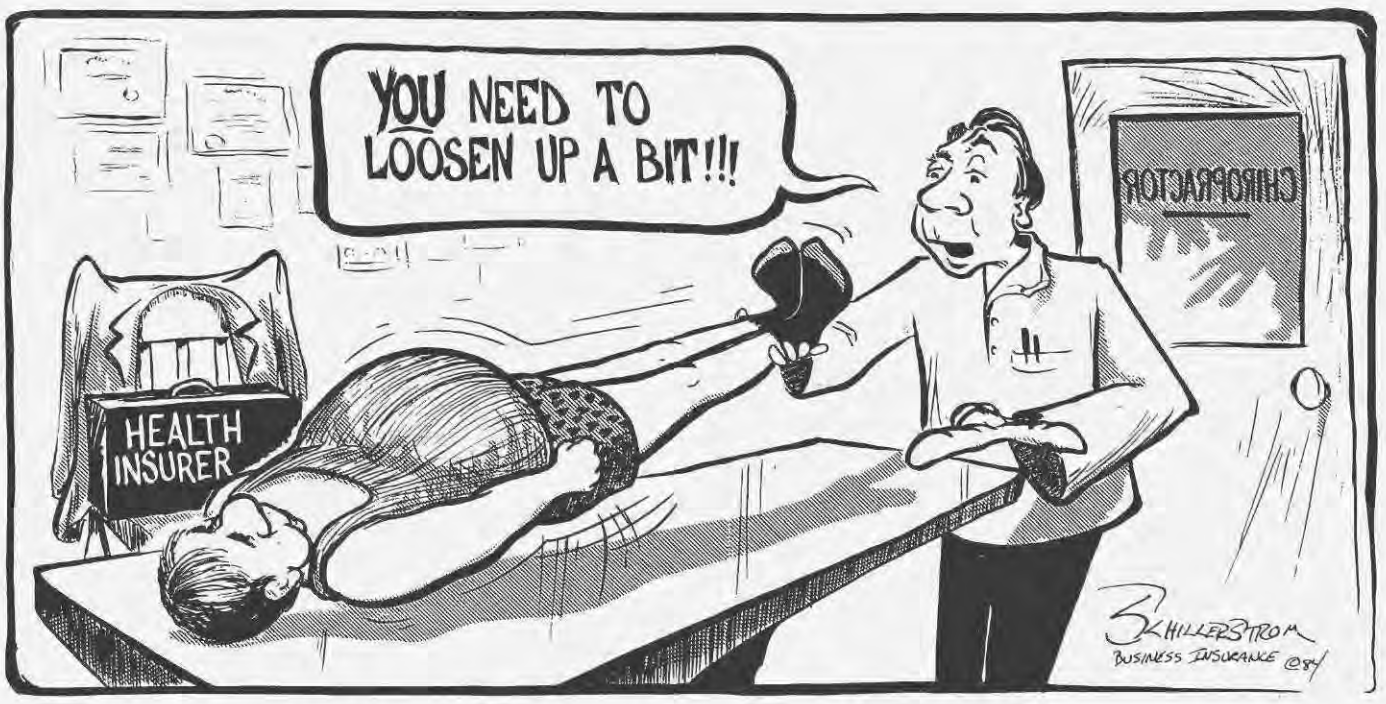
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opinions



Off with the blinders

NO, WE DON'T EXPECT employers and their health insurers to dole out precious claims dollars to every health nut peddling a new potion made from nature's finest or every body manipulator who has discovered yet another "vital" spot or every philosopher who says good health is a state of mind attainable only through meditating while standing on one's head and chewing bubble gum.

But we also don't expect the door to be slammed in the face of alternative health care practitioners simply because their way of doing things differs from the norm.

Such a rigid attitude could close the door to possibly valid and less expensive forms of health care services that encourage a healthy lifestyle and promote prevention of illness, rather than restricting services to the treatment of illnesses.

We do not advocate that employers demand that their insurers immediately begin paying claims filed for services rendered by naprapaths, homeopaths, nutripaths, acupuncturists or any of the dozens of other alternative care practictioners.

But we do advocate removing the blinders that block out all options in deference to the "way it has always been done" and honestly exploring whether there are treatments that are better or equally as effective as good old-fashioned M.D. medicine.

It was this apparent lack of open-mindness among some insurers—often expressed in the name of health care cost containment—that we found disturbing in Associate Editor Carol Cain's report on alternative medicine in our May 28 issue:

"We're not going to cover anything we don't have to cover."

"We want to hold the line and cover as few practitioners as possible."

"The traditional medical model is the acceptable model—when a service is provided by an M.D. or in a hospital, then it's paid for."

One of the key reasons many of the alternative methods of health care are rejected by insurers is not because they have been proven to be ineffective but because there is no proof that they are effective or ineffective.

While the job of proving the worth of alternative health care rightfully falls most heavily to the practitioners themselves, we suggest that the health insurance industry and employers initiate research in this area, too.

Why bother? Why open up the door to more health care claims when everyone is already working double time to control health care costs?

First, while we don't believe employees should fritter away their employers' health care dollars, we do believe a certain element of freedom of choice comes into play here. Granted, an employer could get burned if all of his employees immediately jumped on the bandwagon every time a new health care fad made the rounds. But, in fairness, those employees that honestly believe that alternative medicine is the right treatment for them deserve some consideration.

One way to accommodate employees who prefer alternative medical care is to incorporate coverage for these practitioners in flexible spending accounts. As designed, these accounts already incorporate some flexibility.

Second, some alternative forms of medicine are being covered already by some insurers but the criteria for covering or not covering appears to be somewhat arbitrary.

For example, most group health insurance policies do cover Christian Science practitioners, who rely on Christian prayer, rather than medical treatment, to heal. And, some unions have won coverage for their American Indian members who turn for health care to medicine men who utilize song, prayer, ritual and natural elements to cure.

But, coverage is rarely granted for treatments provided by homeopaths (unless they are M.D.s), who use substances found in nature to strengthen a person's "vital force," which in turn, they believe will help the body heal itself. And, likewise, coverage is seldom provided for care provided by nutripaths, who pull together the basic fundamentals of several natural healing theories and promote health rather than diagnose disease.

How can one of these methods of care be considered valid and the other not when they all appear to be based on a person's beliefs or philosophy?

Third, we do not see the logic in so many employers and their insurers touting wellness programs as one way of controlling health care costs and then turning their backs on practitioners whose total goal is to prevent illness rather than treat sickness. Many of the alternative care practitioners stress the role of nutrition in preventing illness, and now even the American Cancer Society is warning that what you eat or drink can increase or diminish your chances of developing cancer.

And lastly, even if employers and health insurers refuse to consider coverage for valid alternative care, it is still possible that consumers and the alternative practitioners can lobby hard enough to get laws passed forcing coverage for alternative care. The fact that group health care coverage for chiropractic care is now mandated in almost all states is proof that this can happen. We believe it is better to loosen up a little now and explore the worth of alternative health care than to be hamstrung by legislation later.

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Keep work comp as a state system, self-insurers told

By CAROL CAIN

LOUISVILLE, Ky.—Employers need to take a more active role in the crusade to keep workers compensation as a state system rather than federal program, according to an expert with the U.S. Chamber of Commerce.

"The business community has a mission. . .if you believe that workers compensation is indeed a state system, then it is necessary to get in there at the state level and make sure the system is working the way it's supposed to," said Eric J. Oxfeld, manager of health care and employee benefits with the Chamber's Washington office.

Mr. Oxfeld was among the speakers at the annual meeting of the National Council of Self-Insurers in Louisville, Ky., held May 20-23.

Mr. Oxfeld joined Robin Waller, a member of the Connecticut Workers' Compensation Commission and chairman of the legislation committee of the International Assn. of Industrial Accident Boards & Commissions, to discuss the topic: "Occupational Disease—Are States Doing Enough?"

It is an understatement to say that workers compensation is not understood—both at the state level and especially in Washington, Mr. Oxfeld said.

"People even in the business community believe that workers compensation is not a particularly important program. . .and they don't see any reason for protection of the basic fundamental precepts of workers compensation. There also are those who believe that the state system is an anachronism," Mr. Oxfeld said.

He cited an example of someone on the Chamber's staff who questioned "this silly preoccupation" with trying to keep the workers compensation system as a state program.



Mr. Oxfeld

Mr. Oxfeld said employers will have to be more prepared in the future to fight their own battle in Congress over workers compensation issues.

U.S. Rep. John N. Erlenborn, R-Ill., has been a friend to business in the area of workers compensation and the drive to keep it at the state level, Mr. Oxfeld pointed out. However, Rep. Erlenborn is retiring at the end of the sesssion and Mr. Oxfeld doesn't see a strong, knowledgeable voice in Congress to replace him.

So it will be up to employers to make their views known, he said, noting that labor is continuing its push for additional compensation for workers.

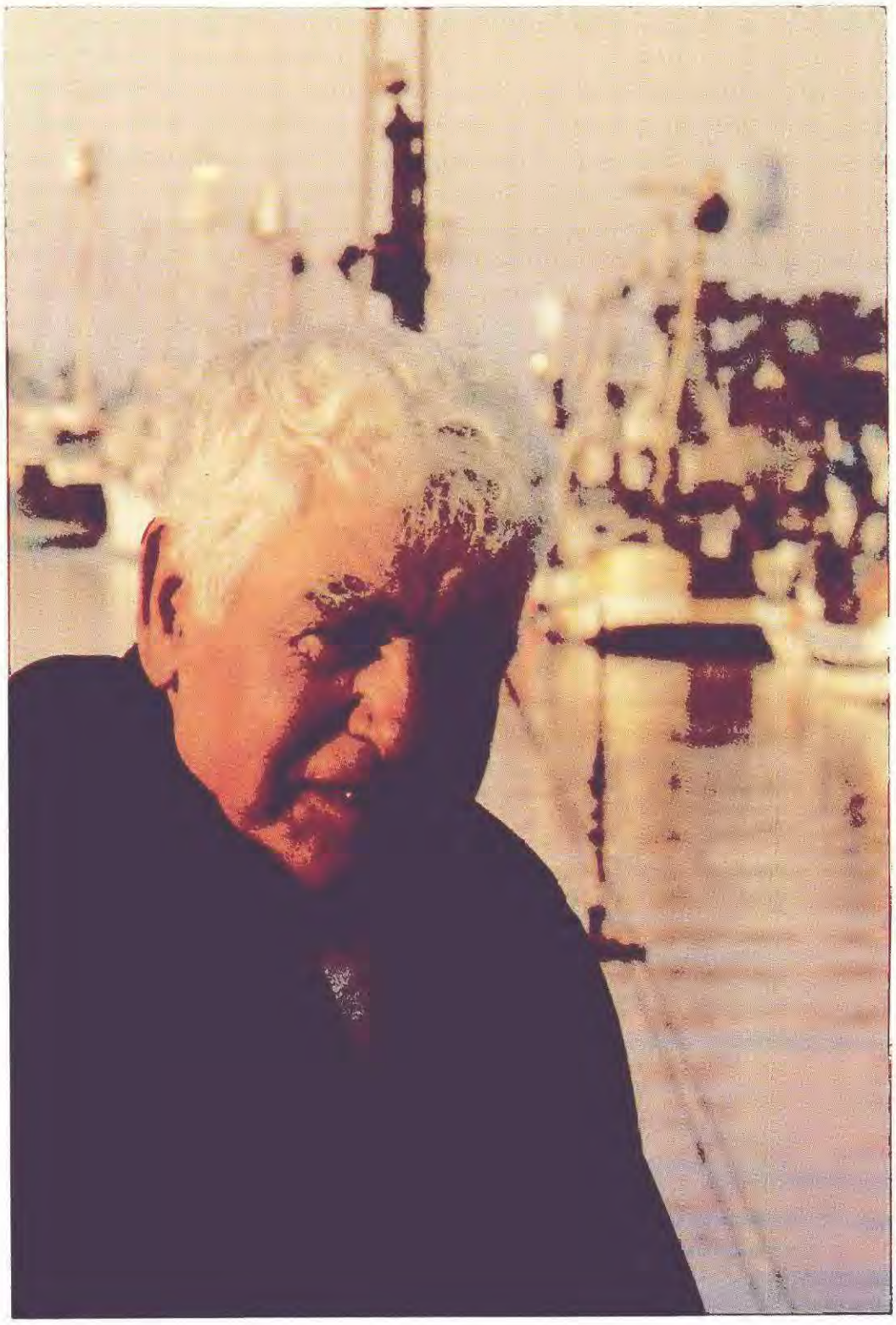
For instance, in testimony last month before the Subcommittee on Labor, which was holding oversight hearings for the Senate Labor and Human Resources Committee, an AFL/CIO representative said organized labor supports the exclusive remedy doctrine of workers compensation, but there should be exceptions for "willful and intentional employer misconduct and for exposure to dangerous substances," Mr. Oxfeld said.

And, labor also contends that compensation should be paid now to workers who are in jobs where they risk developing illnesses later, Mr. Oxfeld said.

It's these long-latent diseases, like asbestosis, that are troubling labor and business alike, the panelists pointed out.

"Occupational disease is the sleeping giant, waking up," said Russell Guy, the workers compensation counsel for Bethlehem Steel Corp. in Bethlehem, Pa., and a member of the NCSI's executive committee who moderated this discussion.

Continued on page 25



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Keep work comp at state level: Experts

Continued from page 8

"(Occupational disease) is a bear that we're going to wrassle with for a long time to come," he said, noting that this is a time for discussion, especially in the business community.

But just as workers compensation is misunderstood, so is occupational disease, according to Connecticut's Mr. Waller.

State workers compensation administrators report a much lower incidence of occupational disease death cases per year than is reported in the media, Mr. Waller said.

"We estimate the number of cases (of deaths caused by occupational disease) at 500 a year. But this is just an estimate; there are no hard numbers," he said.

He noted that administrators also classify under occupational disease an additional 2,000 deaths a year caused by heart attacks that were job-related.

But even so, those 2,500 deaths handled through the workers compensation system are nowhere near the 100,000 deaths per year the media says are related to occupational disease, Mr. Waller said.

"And that 100,000 figure is being used more and more by advocates of a federal program (for occupational disease)," Mr. Waller said.

'Occupational disease is the sleeping giant, waking up,' says Russell Guy.

However, the figure the media is reporting includes not only cases processed through workers compensation but the thousands of pending cases in which workers have gone to court to seek compensation from a third party, rather than their employer, for what they believe are occupational diseases.

And, the reason the workers are in court is not because the workers compensation system could not handle their claims, but because their attorneys have preferred to go the court route, Mr. Waller says.

Many of these cases deal with either retirees or with those still working with asbestos, "where there is very little disability and what they're looking for is damages for pain and suffering," Mr. Waller said.

State workers compensation commissions are not able to award those types of damages, which is why the injured worker's attorney seeks relief in the courts.

"But unfortunately, the press, no matter how many times they are told this, ignore it," he said.

"This might lead you to believe that we (the IAIABC) don't think there is an occupational disease problem. That's not quite true. There are cases out there," Mr. Waller said, noting that those cases should be processed through the state workers compensation systems.

"There should be full coverage of occupational disease, without exception, and occupational disease should be litigated through the local state agencies," Mr. Waller said.

The association also believes that occupational disease cases should receive full medical care and those injured workers should receive the same benefits as are awarded workers with traumatic injuries.

"The present information concerning occupational disease and its extent is inadequate. So little is known about the issue and the problem," Mr. Waller said.



Mr. Waller

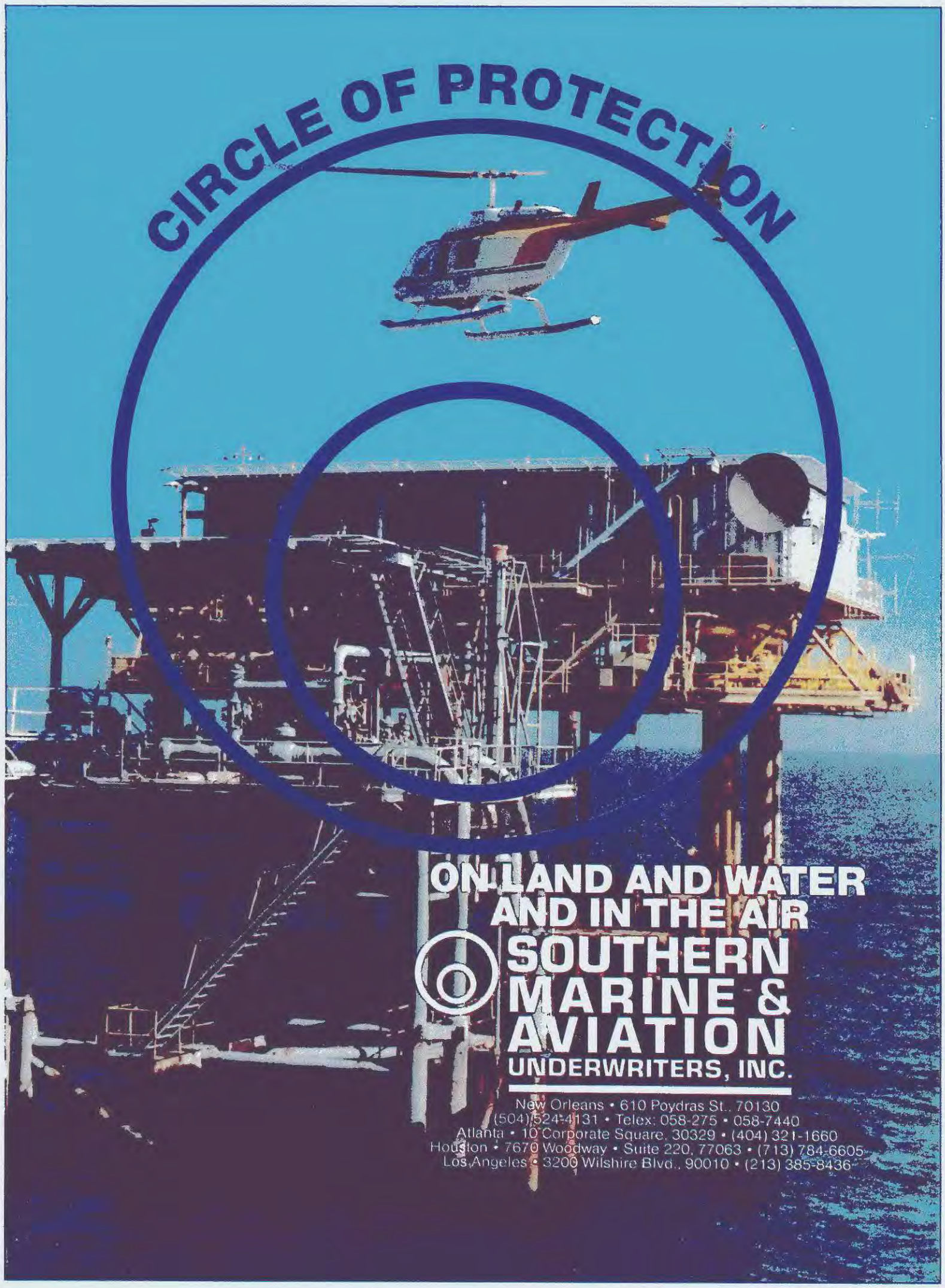
The IAIABC opposes federalization of workers compensation and hopes to take a leadership role in keeping workers compensation within a state framework.

"We feel the states are probably handling the claims adequately now, but the number will increase," Mr. Waller said.

The IAIABC's legislation committee is currently working on a model occupational disease bill, as is the National Assn. of Insurance Commissioners. Both are expected to stress the issue of keeping workers compensation at a state level.

"We (the IAIABC) recognize the role of the federal government in the protection of all Americans as far as health is concerned. On the other hand, we feel that the proper organizations to administer the workers compensation law are the state administrations," Mr. Waller said.

"If the federal government is going to get involved with workers compensation, it should be limited to areas of (medical and scientific) research," he added. ■



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NCSI hoping to strengthen work comp lobbying efforts

LOUISVILLE, Ky.—Clout. The National Council of Self-Insurers wants more of it.

"We're going to have a voice on the national scene," said Daniel Minnick, an attorney with Jones & Laughlin Steel Corp. in Pittsburgh, who was re-elected president of the 39-year-old organization last month.

The NCSI, which represents employers that self-insure their workers compensation risks, held its annual conference May 20-23 in Louisville. More than 150 people attended the event.

"We need to pick up more clout," noted Douglas F. Stevenson, executive director of the NCSI and an attorney with Stevenson, Rusin & Friedman in Chicago. "Workers compensation is important for every employer, but unfortunately, not the most important thing," he said.

The NCSI reorganized last year and appointed Mr. Stevenson executive director in hopes of becoming a recognized and respected voice in Washington, Mr. Minnick said.

"We want to make our association a real major spokesman on workers compensation," he explained.

To achieve this goal, the NCSI hopes to get support from state workers compensation administrators, particularly members of the International Assn. of Industrial Accident Boards & Commissions.

"We improved our relationship with the IAIABC last year. . .and for the first time have members on some of the IAIABC committees," Mr. Minnick said.

For instance, John (Jack) Molloy, manager of workers compensation for K mart Corp. in Troy, Mich., is a member of the IAIABC's administration and procedure committee, and Russell Guy, workers compensation counsel for Bethlehem Steel Corp. in Bethlehem, Pa., is on the IAIABC's legislation committee.

And two IAIABC members, including its president, Lincoln Alexander of Toronto, chairman of the Ontario Workers' Compensation Board, were among speakers at this year's conference.

The NCSI also must continue to grow to achieve a national standing, Mr. Minnick stressed, noting that Louisiana recently formed a self-insurers group that joined the national association.


Mr. Minnick

Organizations for self-insurers also are being considered currently in the states of Tennessee, Virginia and Maine.

In order to educate its members and exchange problems and solutions, the NCSI plans to hold state seminars this year, in addition to session to be held in conjunctic with the IAIABC convention th. fall in Toronto.

The group also has started a newsletter and is looking at ways to develop a data bank of ideas.

"It's been a busy year, but next year will be even busier," Mr. Minnick said.

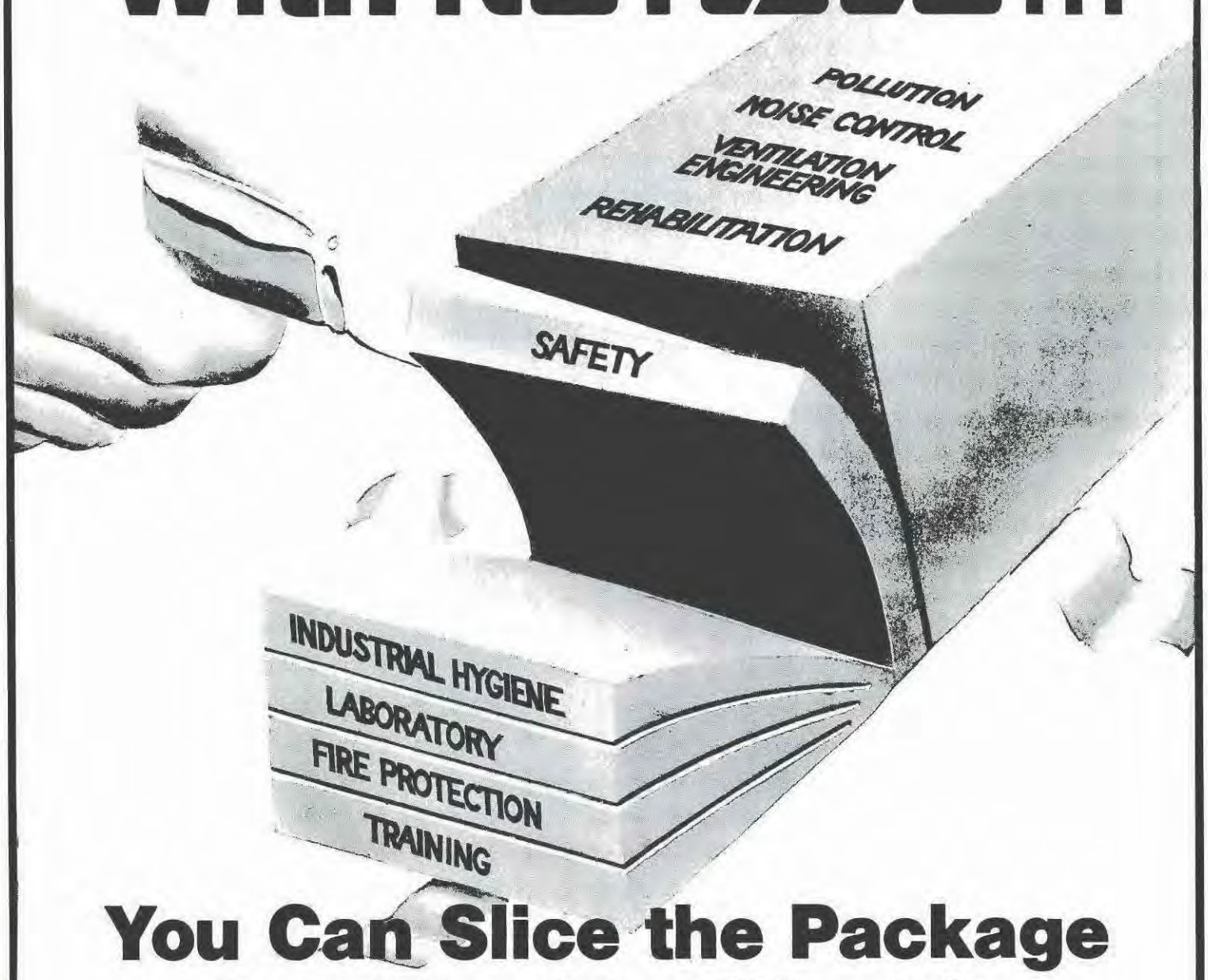
Other officers elected at the annual meeting include Lawrence J. Holt, benefit administration manager for the Newark, N.J., office of American Telephone & Telegraph Technologies Inc., vp; Phil DeRousseau, corporate manager of safety and security for Pabst Brewery Co. in Tumwater, Wash., secretary; and Joseph E. Burns, manager of workers compensation for Aluminum Co. of America in Pittsburgh, treasurer.

The board of managers for the NCSI includes representatives from 19 state self-insurers associations and 19 employers. Those employers are: Aluminum Co. of America, Asarco Inc., AT&T Technologies Inc., Bethlehem Steel Corp., Caterpillar Tractor Co., E.I. du Pont de Nemours & Co. Inc., General Motors Corp., Georgia-Pacific Corp., Jewel Cos. Inc., K mart Corp. and Pabst Brewing Co.

Also, Procter & Gamble Co., Republic Steel Corp., Shell Oil Co., Southern California Edison Co., Union Oil Co. of California, United States Steel Corp., Westinghouse Electric Co. and Weyerhaeuser Co.

Information about the NCSI may be obtained from Mr. Stevenson, 10 S. Riverside Plaza, Suite 1530, Chicago, Ill. 60606. ■

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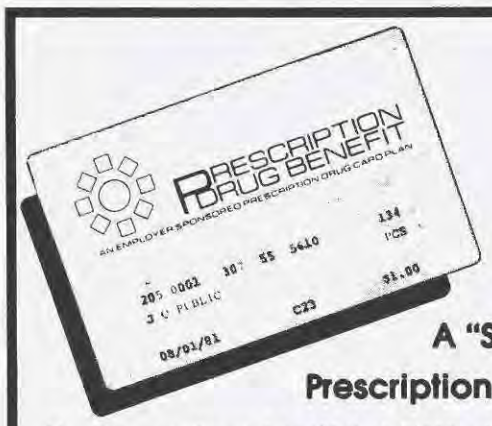
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Suits against fellow employees allowed in some states: Lawyer

By CAROL CAIN

LOUISVILLE, Ky.—Workers' suits against employers that seemingly fall outside the exclusive remedy provisions of workers compensation laws may be on the rise, attorneys say.

In particular, co-employee suits involving supervisors or corporate officers is one area that is giving courts and employers problems, said Merton Marks, an attorney with Lewis & Roca in Phoenix, Ariz.

Mr. Marks joined attorneys from Michigan, Minnesota and Illinois to discuss workers compensation laws at the annual meeting of the National Council of Self-Insurers.

Most states now prohibit suits against an employer that take the form of a co-employee suit, Mr. Marks said, but a number of states do not have laws that specifically immunize employers from such suits. They merely permit actions against persons other than the employer, or simply "third persons," he said.

And, courts have been sharply divided as to whether a co-employee is a "third person" who can be sued, Mr. Marks said.

For instance, Mississippi, Kentucky and Idaho have barred such actions on the grounds that to allow these suits is contrary to the underlying principle of workers compensation, Mr. Marks said. Courts in these states have held that a "third person" is someone unrelated to the plaintiff's employment, adding that a co-employee's act is an extension of and indistinguishable from the employer's own act. Therefore, they have ruled the co-employee, like the employer, should be immune from suit, he said.

But where there is no expressed statutory immunity, like in Florida and Ohio, co-employee suits have been allowed on the theory that statutes allowing third-party suits cannot diminish common law or constitutional rights, he said.

Such decisions have led to enactment of statutes and constitutional amendments to protect co-employees in several states, including Ohio, Michigan, West Virginia and Arizona, Mr. Marks said.

But the closest question of whether a sued co-employee is really the employer is posed in actions against supervisors, corporate directors and officers, he said.

Court decisions in Missouri, Iowa, Wisconsin and other states have permitted such actions, but only for active and direct torts like negligent vehicle operation, failure to enforce company safety standards, violation of state safety rules, breach of duty increasing risk of injury, negligence beyond the scope of the employer's non delegable duty to provide a safe work place, negligent first aid to an employee, or directing an employee contrary to OSHA regulations, Mr. Marks said.

In Minnesota, under certain circumstances, the law allows one employee to sue another, but only if there is gross negligence on the part of the co-employee, added Jeffrey B. Oberman, an attorney with the Minneapolis-St.Paul law firm of Doherty, Rumble & Butler.

Some employers that self-insure their workers compensation liability may wind up buying insurance to handle co-employee suits.

John (Jack) Malloy, manager of workers compensation for K mart Corp. in Troy, Mich., told those attending the session that his company currently has five cases of employees suing co-employees.

Without going into the details of the cases, Mr. Malloy said the company's attorneys recommended that K mart consider buying insurance to protect itself in such cases.

Apparently, the attorneys are seeing more and more cases involving co-employee suits, especially suits against managers.

"If any trends emerge. . .they appear to be that courts will be more protective of co-employees for mere negligence while at the same time expanding certain intentional torts against employers and carriers," Mr. Marks said.

But there are other areas where lawsuits, or the threat of suits, are increasing besides those involving co-employees, the attorneys note. These newer exceptions to exclusivity include fraudulant concealment of product dangers and emotional distress cases.

In the area of emotional distress and discrimination, where an employee is fired by an employer and then suffers severe emotional distress, "we are only beginning to see the results in court cases," Mr. Marks said.

"This is where dual capacity was five years ago. No one's aware of what the ramifications will be."

Other attorneys who spoke at the conference include James R. Geroux with the Mount Clemens, Mich., law firm of Plunkett, Cooney, Rutt, Watters, Stanczyk & Pedersen, and Douglas F. Stevenson of the Chicago firm of Stevenson, Rusin & Friedman. ■

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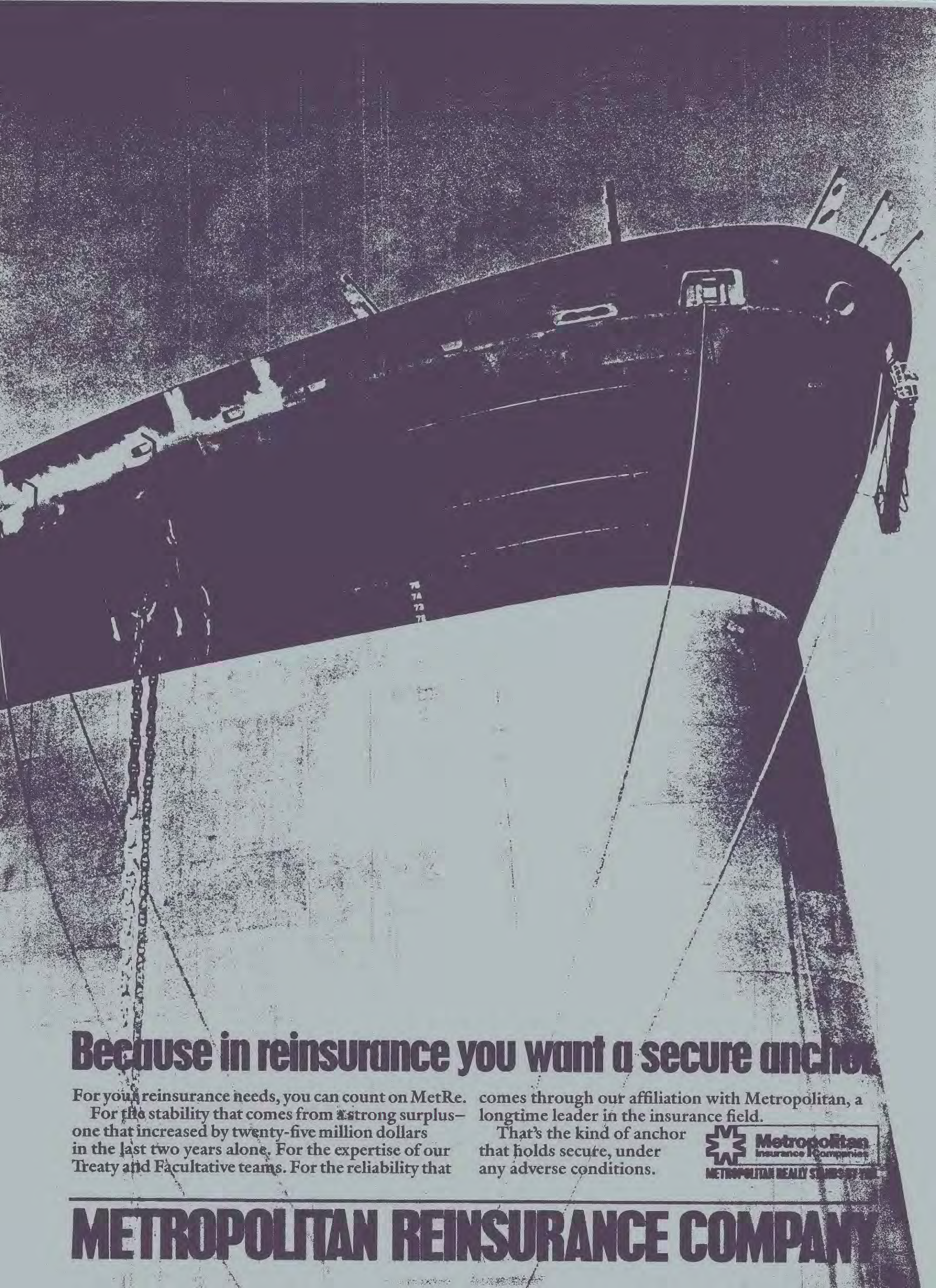
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Benefit proposals

Continued from page 1

ployers.

"No one in the House wants to even admit that he favors a 75% limit on reserves," says a benefit lobbyist for an insurer.

That is a startling change from mid-April when not a single congressman stood up to defend 501(c)(9) trusts when the House passed its tax bill.

These developments follow some of the most intense efforts in recent years by benefit lobbyists who want to save these vitally important ways of funding benefit obligations from regulatory and congressional attacks.

The lobbying effort is now peaking as the conference committee, which will iron out differences between House and Senate bills and fashion a uniform tax package, begins its meetings this week.

Hundreds of employers and some insurers have written to congressmen to convince them not to allow restrictions to be placed on FSAs, 501(c)(9) trusts and experienced-rated plans.

In addition, a number of employer trade associations have been meeting almost daily with congressional and Treasury Department staffers to express their views.

And to ensure their message gets an even wider audience, these trade associations have spent thousands of dollars on newspaper ads.

The lobbying effort has been so massive and costly because the stakes are so high, experts say.

The loss of FSAs would mean that employers would have one less weapon in their battle to control health care costs.

And 501(c)(9) trusts have been used by thousands of employers for more than 50 years as a cost-effective way of self-funding benefits. Some 9,400 trusts now are operating, and the number of trusts continues to grow as more employers have become aware of the financial advantages of the trusts.

A 501(c)(9) trust allows employers to receive tax deductions for contributions to the trust, which are used to fund benefits. The trust assets and the interest they earn are not taxed.

The battle over FSAs first erupted in February when the IRS issued news release 84-22 that invalidates most FSAs (*BI*, Feb. 20).

That news release, followed by proposed IRS rules last month (*BI*, May 7, May 14), says that most employers and employees who have taken advantage of the tax savings offered through FSAs are retroactively liable for additional taxes, interest and possible penalties.

The IRS rules say that to be a valid FSA under Section 125 of the Internal Revenue Code participants must forfeit unused benefits in their individual flexible spending accounts at the end of the year.

In addition, the proposed rules say that employees enrolled in FSAs must elect at the beginning of the year a specific amount to be allocated for each type of benefit.

FSAs often have been introduced at companies to win employee acceptance of higher health care deductibles. Employees funding their health costs through an FSAs are more willing to accept higher deductibles because they can collect any unused money in the account or bank at the end of the year.

Since employees know they can "cash out" a balance in an FSA or roll the excess over into a savings plan, they have a powerful financial incentive not to overutilize health care services.

But if employees must forfeit FSA balances at the end of the year, then they will lose the incentive to use health care services wisely, consultants say.

Employers and consultants failed in their first effort to convince congressmen that the IRS rules would wipe out FSAs as a powerful cost-containment tool. At a February hearing, Ways and Means Committee members saw FSAs as ways to avoid income and Social Security taxes rather than as cost-containment weapons (*BI*, March 5).

After that fiasco, some employers thought it was futile to try to overturn the IRS rules. "Some people said we should give up," recalled Mr. Chip of the Employers Council on Flexible Compensation, a 151-member trade association that represents companies that have or are interested in flexible benefit plans.

But after considerable lobbying, employers found an influential member of Congress—Rep. Conable, ranking minority member of the Ways and Means Committee—who thought the IRS rules were outrageous.

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

The proposal, which Rep. Conable will attempt to attach to the tax bill in conference committee, would go into effect on Jan. 1, 1985, giving employers several months to modify their arrangements.

Mr. Chip says the chances are 50-50 the Conable proposal will be accepted by the committee.

He notes that aside from the endorsement of the Conable plan by Republicans on the Ways and Means Committee, a majority of the members of the Senate Finance Committee have signed a letter drafted by Sen. Bob Packwood, R-Ore., or sent their own letter that urges Treasury Secretary Donald Regan to convince the IRS to withdraw or reconsider its proposed FSA rules (*BI*, April 23).

On the 501(c)(9) trust issue, a majority of Senate members of the conference committee are sticking to their position that employers only would be liable for tax penalities if more than 25% of trust benefits were paid to a company's highly compensated executives.

And, several House members of the conference committee, like Reps. Duncan, Archer, J.J. Pickle, D-Texas, and Sam Gibbons, D-Fla., are either for or leaning toward the Senate provision rather than the House's proposal, a source said.

However, Rep. Daniel Rostenkowski, D-Ill., who will chair the conference conference, has not taken a public position on the reserve issue for trusts since the House passed the tax bill in April.

Some other conferees aren't happy with either provision on 501(c)(9) trusts and may offer other approaches, sources say. ■

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Final tax bill likely to limit reserve deductions

Continued from page 1

Tax attorneys and industry lobbyists say they have received assurances that the conference committee will delete a provision—now contained only in the Senate tax bill, H.R. 2163—that would raise to 4% from 1% the federal excise tax on property/casualty reinsurance premiums paid to foreign insurers.

In addition, Oliver Wright, the British ambassador to the United States, also has received word from the administration that the Treasury Department will oppose the excise tax provision when it comes before the conference committee, according to Brenda R. Viehe-Naess, an attorney in the Washington office of LeBoeuf, Lamb, Leiby & MacRae, which represents the British Insurance Assn. and Lloyd's of London.

The fates of other risk management-related provisions in the tax bills, like those that would alter the tax treatment of income received by offshore insurance subsidiaries (*BI*, April 23), are unclear at this point.

The provision in both the House and Senate tax bills that bars tax deductions for self-insured reserves has its origins in an October 1983 decision by the 9th U.S. Circuit Court of Appeals (*BI*, Oct. 17, 1983).

In that decision, involving Kaiser Steel Corp., the appellate court ruled that self-insured employers can deduct reserves to pay for uncontested workers compensation claims if:

- All events governing the fact of the employer's liability occur during the tax year. For workers compensation, courts have said that the only event determining liability is the worker's injury.
- The amount of the liability can be determined with "reasonable accuracy." The court held that aggregate reserve accuracy—rather than accuracy on a case-by-case basis—is sufficient to meet this requirement.

At the time, employers and consultants were jubilant at the victory. Employers, just like insurance companies, could deduct reserves to pay self-funded losses known in the current year but payable in the future.

But while employers were savoring their victory, staffers at the Treasury Department and the congressional Joint Committee on Taxation were working behind the scenes to nullify the court decision.

Not wanting to risk another unfavorable court decision, the administration declined to appeal the Kaiser Steel decision to the U.S. Supreme Court.

Instead, congressional and administration staffers—who suffered "bruised egos" over the Kaiser Steel decision, according to Mr. Stevenson—drafted language in the tax bills to overturn the ruling.

Those provisions say that a tax deduction for a reserve cannot be taken until "economic performance" begins. Economic performance is defined as the time a claim is actually paid.

> '(Deductions for reserves) isn't an issue that is likely to come up in conference committee. Our message has been delivered, but it hasn't been received,' concedes Douglas Stevenson of the NCSI.

The prohibition on tax deductions for self-insured reserves was not touched as the tax bills sailed through the House and then the Senate in April.

As a result, because the provisions are virtually identical, there is no reason why the conference committee should make changes, lobbyists say.

"It isn't an issue that is likely to come up in conference committee," Mr. Stevenson concedes. "Our message has been delivered, but it hasn't been received."

But employers shouldn't completely despair. If Congress writes a new tax bill next year, as is considered likely, an effort could be made to reverse the ban on tax deductions for self-insured reserves, Mr. Stevenson said.

In addition, employers could lobby for legislation that would allow tax deductions for self-insured reserves. A broad coalition of risk management interests has, in fact, supported a bill introduced by Rep. Bill Frenzel, R-Minn., that would permit tax deductions for self-insured reserves as well as premiums to captive insurers.

The Ways and Means Committee considered the Frenzel proposal earlier this year when it was considering a variety of tax proposals, but no positive action was taken, said Mr. Harkavy of RIMS. ■

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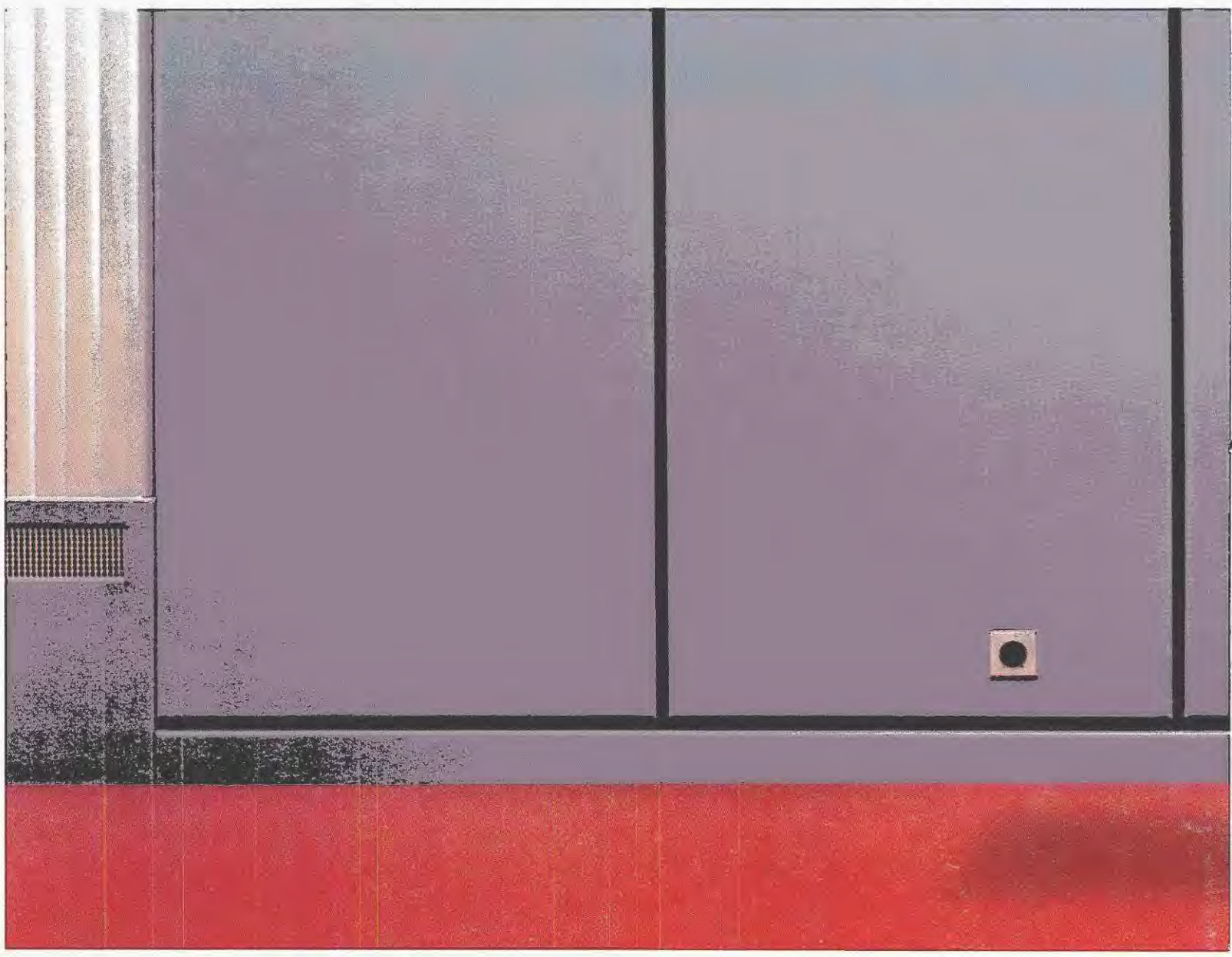
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FAA wants stricter safety rules for planes

By JERRY GEISEL

washington

WASHINGTON—The Federal Aviation Administration wants to make the nation's commercial airlines install more safety equipment in their planes.

The FAA has proposed that airlines equip their craft with smoke detectors in galleys and lavatories. Also, automatic fire extinguishers would have to be installed in lavatory trash receptacles.

The FAA also has proposed that the number of hand-held fire extinguishers be increased from the current two to as many as eight.

The exact number of extinguishers would depend on the plane's seating capacity. Two extinguishers would be required for a plane with fewer than 61 seats, three for 61 to 200 seats and one for each additional 100 seats beyond 200.

Two of the devices would have to be Halon 1211 extinguishers, which have greater range and firefighting capability than conventional extinguishers, according to the FAA.

In a related safety issue, the FAA says it is considering final action on rules proposed last October to require fire-blocking layers on seat cushions and emergency escape path markings near the cabin floor.

The slower-burning seat covers would provide an additional 40 seconds of escape time from a burning aircraft. The escape path markings would make it easier to find exits in a smoke-filled cabin.

Tax bill comparison

To help people still analyzing the major provisions in the House and Senate tax bills, the Government Printing Office has published a side-by-side comparison of the two bills, including provisions dealing with employee benefits and risk management issues.

The 402-page analysis, entitled "Description of H.R. 4170 as Passed by the House and Senate for the Use of House and Senate Conferees," will be used by that committee as a guide when it tries to reconcile differences in the tax bills.

Copies of the comparison are available from the Government Printing Office, Main Book Store, North Capitol and H Streets, Washington, D.C. 20401; 202-275-2051. The cost is $11 per copy.

Mandatory retirement

Congressional interest in mandatory retirement ages is picking up.

Rep. Claude Pepper, D-Fla., has introduced legislation that would overhaul the Age Discrimination in Employment Act by stating that employers—except for universities and colleges—no longer could require employees to retire at 70.

H.R. 5310, introduced by Rep. Matthew Rinaldo, R-N.J., takes a different approach to the issue.

His bill would give state and local governments authority to set mandatory retirement ages for public safety officers, like firefighters and law enforcement personnel.

The Rinaldo legislation was prompted by a 1983 Supreme Court decision that said the Age Discrimination in Employment Act's prohibition on mandatory retirement before age 70 applied to public as well as private employers.

That "jeoparidizes the legality of at least 39 states and countless municipalities which have seen fit to set retirement ages of less than 70 for state and local public safety officers," Rep. Rinaldo said.

Agent Orange study

The Veterans Administration and a new 15-member independent commission will decide how servicemen exposed to the herbicide Agent Orange and to radiation from atomic weapons testing should be compensated by the VA, the Senate agreed last month.

Under the Veterans' Dioxin and Radiation Exposure Compensation Standards Act, S. 1651, the VA and the commission will develop compensation rules for several diseases linked to Agent Orange, including cloracne, a skin disorder; soft tissue sarcoma, a rare cancer; and a liver disorder known as PCT.

Also, compensation rules will be developed for diseases linked to exposure to atomic bomb blasts.

Currently, the VA has denied virtually all claims by veterans who say they were injured by exposure to atomic weapons or Agent Orange.

A congressional conference committee now will be set up to resolve differences between the Senate bill and a related measure, H.R. 1961, passed in February by the House.

New AIA counsel

The American Insurance Assn.'s Washington office has a new counsel.

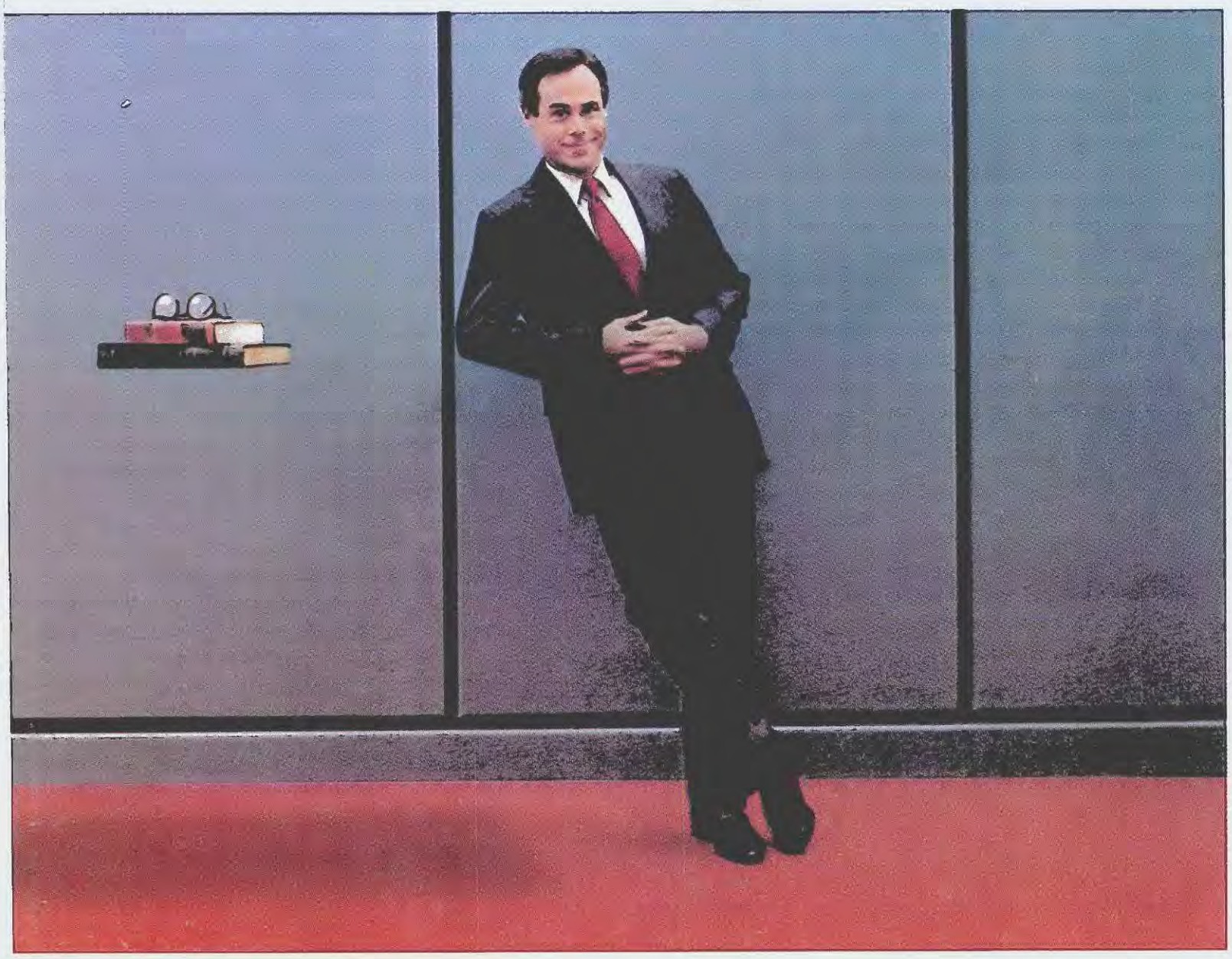
Margaret Durbin, former minority counsel on the House Energy and Commerce Committee, is now in the AIA federal affairs department.

In the new position, she will be involved in a wide range of federal property/casualty insurance issues, like occupational disease.

As a committee staffer working for Rep. Matthew Rinaldo, R-N.J., Ms. Durbin assisted in the passage of the Risk Retention Act, the 1981 law that allows businesses to set up captives—free from most state regulations—to cover their product liability exposures.

The AIA is a trade association representing 170 property/casualty insurance companies. ■

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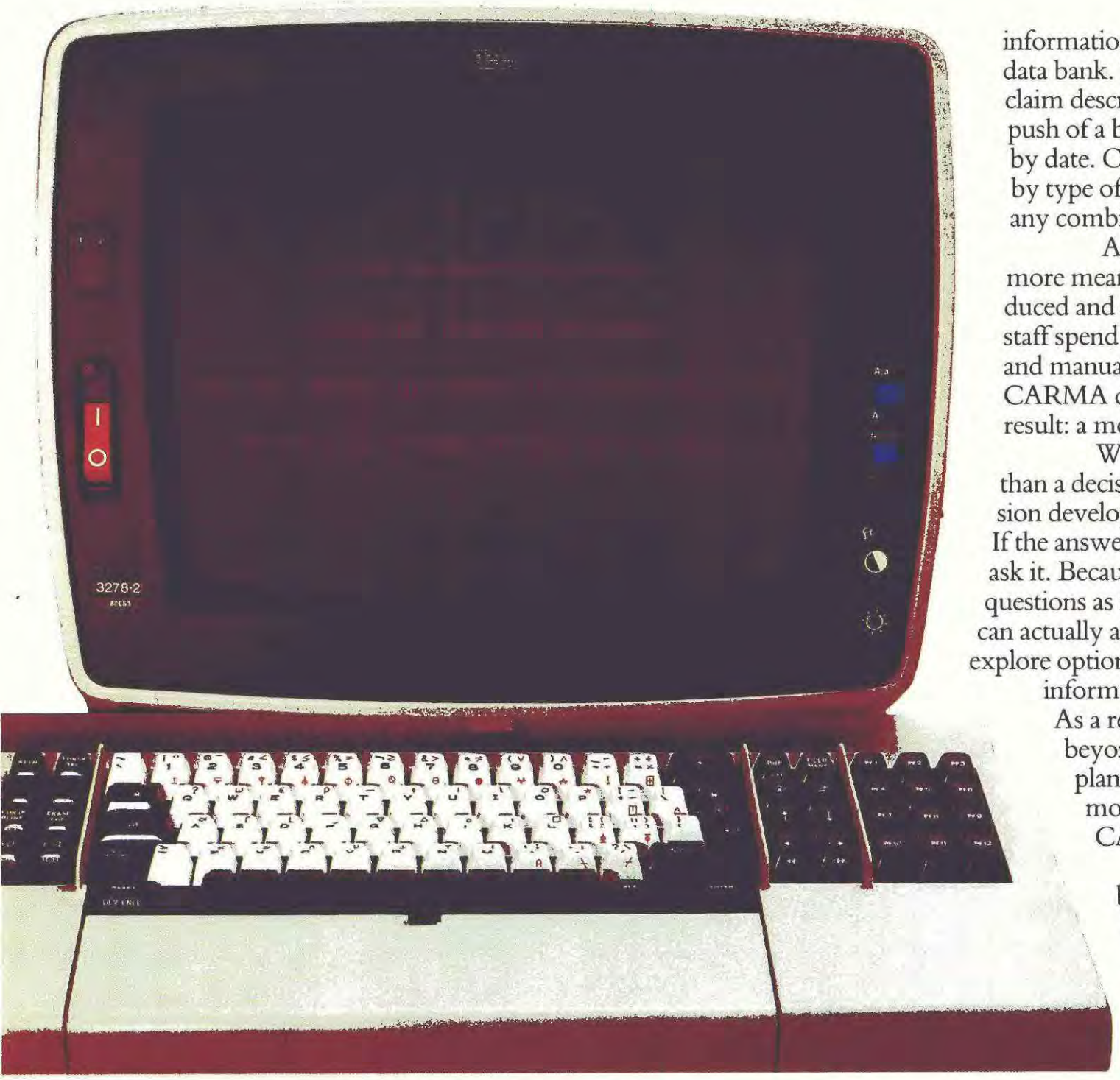
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perspective

RESTRAINING RISKS ABROAD

Risk managers discover that 'something gets lost' when translating loss-control programs to foreign plants

By Charles H. Bechtold Jr.

international issues

EVERYONE AGREES that loss control is an integral part of risk management. But, when it comes to implementing a parent company's loss-control programs abroad, U.S. risk managers are apt to tear their hair out in frustration.

Many managers of foreign subsidiaries are likely to respond negatively to the risk manager's requests for capital expenditures for risk reduction.

Understanding the reasons for this is essential to securing the cooperation necessary for successful and effective loss-control programs.

The factors most apt to create resistance to property loss-control programs are:

- The expense of such programs and the inability to justify the expense with significant premium savings.
- The locals' indifference to loss-control standards.

Historically, the most effective form of property loss control—sprinkler installations—was limited to high-risk industries such as cotton spinning and weaving.



Later, as HPR (highly protected risk) underwriting expanded domestically and abroad, sprinklers and other forms of protection made it possible to obtain highly advantageous rate credits for protected facilities.

In recent years, the soft insurance market has made it difficult to justify the expense of upgrading fire protection for existing plants in terms of prospective rate savings.

In fact, where non-tariff rating is permitted, it has been possible to obtain rate levels for non-HPR facilities that approach those of HPR facilities. Local managers are understandably reluctant to comply with costly HPR requirements for added protection. In tariff markets such as Brazil and Mexico, rate advantages for fire protection are geared to local production standards. Therefore, applying U.S. standards usually eliminates the financial incentive.

In addition, the costs of fire protection equipment and components may seem excessive if the equipment cannot be manufactured locally. This is certainly the case in most developing countries, where the added cost of imported equipment discourages investment in fire protection systems. Unfortunately, on-premise protection is even more important in these countries because local fire service may be inadequate.

In new facilities, acceptance of the cost of state-of-the-art fire protection is somewhat greater. Even so, rather than justify loss control on the basis of rate savings, risk managers do better to support their recommendations with loss statistics, credible loss scenarios and the consequences of serious loss.



Charles H. Bechtold Jr. is vp and manager of the New York International department of Johnson & Higgins. He serves on the Permanent Working Group of UNISON, an international network of insurance brokers. His column on international issues appears the first Monday of every month.

Lack of appreciation of U.S. standards of protection can be a second stumbling block.

Local managers often feel that U.S. fire protection standards are not applicable to their country, especially when comparable local standards are less demanding, less costly and easier to negotiate. Non-technical explanations presented in an understanding manner will go a long way toward overcoming the resistance of local management to comply with parent company standards.

Like property loss control, casualty loss control must be sold on its merits rather than on its potential for achieving premium reductions.

Casualty loss control is the responsibility of government in many foreign countries. To the extent that it exists abroad, casualty loss control relates to two general areas—safety in the workplace and safety in the marketplace.

In countries where workers compensation for work-related injuries is handled by that country's social security system, effective employer loss-control programs generally do not result in lower contributions.

In countries such as Australia, Hong Kong and Belgium, where workers compensation is left to the private sector, casualty loss-control programs are becoming increasingly important.

Indeed, emphasis on safety in the workplace due to the activities of Occupational Safety and Health Administration in the United States has led to the voluntary application of OSHA standards in certain countries. Certainly, multinational employers are generally as concerned with employee safety abroad as at home.

In many countries, companies or individuals may be held criminally responsible if a third party is injured through professional negligence.

The responsibilities of manufacturers—particularly in the pharmaceutical industry—to provide financial compensation for injuries to consumers may broaden substantially in the future. Indeed, responsibility for injury may extend to the design of a product.

This increased liability should demonstrate the need for loss-control measures abroad similar to those practiced in the United States.

Interestingly enough, safe-driver programs are popular among employers abroad.

In many countries, lack of good roads and a tendency to disregard the rules of the road mean that driving is at least more challenging, if not actually more dangerous. Management's commitment to establishing safe-driving procedures can mean a real reduction in losses and lost time due to injuries.

Traditionally, cargo loss control was apt to receive little attention until after the loss of an important shipment or a series of large losses.

In an earlier era of easier money, damage to cargo and subsequent recovery of the loss were viewed as normal. In the present era of tight money, however, cargo loss control has evoked considerable interest because losses increase the squeeze on cash flow and may mean lost sales. Effective loss control can significantly improve loss experience, reduce premiums and ensure the continuity of goods in the marketplace.

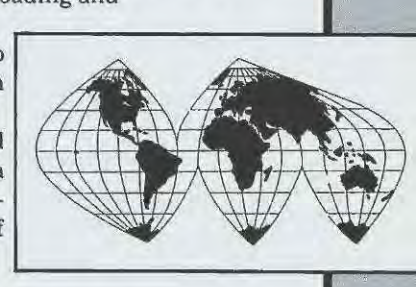
Loss claims for exported goods usually are filed by the importer and settled by the underwriter overseas. The shipper only belatedly learns of the loss experience. A loss-control consultant will quantify and qualify the damages in a timely manner and can use the claims data to pinpoint problem areas and help the shipper to concentrate on reducing controllable losses.

Some problems that plague shippers are:

- Damage to merchandise through inadequate packaging.
- Loss due to pilferage, theft and non-delivery of goods due to incorrect documentation.
- Poor follow-up by customs agents and freight forwarders.
- Outright hijacking of container loads.

Fortunately, the solutions are relatively straightforward and there is a direct return on the monies spent:

- Using containerized freight to reduce handling, breakage and pilferage and improve customer satisfaction.
- Using sturdy packages designed to ensure safe overseas delivery; avoidance of identifying marks and labels to avoid theft of valuable cargo.
- Choosing overseas ports that have up-to-date facilities, good dock worker relations and a good loss-experience record for loading and discharging cargo.
- Scrutinizing claims to avoid inflated charges on losses.



In general, an informed management can create a higher awareness in shipping and receiving staff and better transport experience.

Security of property and personnel is one of the newest areas of loss control.

These unsettled times require added attention to security details—to prevent unauthorized access to critical company information in computer centers, to prevent terrorist attacks on factories and offices, to protect inventories and to provide personal security for key personnel and other employees working overseas.

For property loss-control, common sense dictates simple preventive measures such as secure locks and more restrictive access to important plant and office areas.

In preventing harm to personnel, several measures are suggested to prevent kidnap of key executives in high-risk countries:

- Protection by guards and alarm systems.
- Use of chauffeurs trained in defensive driving.
- Vary routes to and from work.
- Stagger daily schedules to avoid predictability.

Dealing with kidnap and ransom incidents both in the United States and abroad has become highly sophisticated. Independent crisis management firms specialize in counseling crisis management teams of top corporate officers on step-by-step procedures to avoid panic and to increase the chances for a successful outcome if a kidnapping of an executive or family member should occur.

Loss control—whether for property, casualty, cargo or security exposures—is the responsibility of the risk manager and all other members of the management team.

A conscientious effort on the part of all management levels at home and abroad will produce the desired results of continuity of production and sales and a healthy environment for employees and customers.

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an important conference

THE DOLLARS & SENSE OF COMMUNICATING EMPLOYEE BENEFITS

July 30 and 31
The Grand Hyatt Hotel, New York City

AGENDA

Sunday, July 29
REGISTRATION **5:00 - 7:00 p.m.**
Advance conference check-in. Meet speakers and attendees during a cocktail reception. Browse the EBC Gallery; collect material available in the Literature Gallery.

Monday, July 30
REGISTRATION **8:00 a.m.**
A continental breakfast will be served. Chat informally with speakers and attendees. The EBC Gallery and Literature Gallery will be open.

GENERAL SESSIONS

Opening Remarks
Kathryn J. McIntyre, Editor, BUSINESS INSURANCE

Washington vs. Employee Benefits
Jerry Geisel, Washington Editor, BUSINESS INSURANCE
Recent legislative and regulatory developments affect the type of employee benefits programs you offer and how you fund them. Mr. Geisel will explain the reasons behind — and the latest news about — the attacks on employee benefit plans waged by Congress and the Internal Revenue Service. He will also alert you to what you can expect out of Washington in the future.

Strategic Planning
Richard M. Coffin, VP, TOWERS, PERRIN, FORSTER & CROSBY
Developing your plan, setting objectives, analyzing your audience, and being alert to emerging trends, are the keys to every successful communication effort. Mr. Coffin will define 'strategic planning' and explain why it's especially needed in benefits communication. He'll focus on the principles and components needed as well as the specific steps to be followed in developing your own strategic plan.

Budgeting
Julio Esteban, VP, Manager of Creative Services, BENEFACTS INC.
Effective budgeting requires organized thinking, logic and an intense business sense. Mr. Esteban's unique approach provides insight in the common elements used in budgeting for benefits communication. He positions these principles as the 'heart' of the proposed presentation.

Media Selection
Polly Carpenter, President, CARPENTER GRAPHIC DESIGN, INC.
Mary Anne Pakosta, Sales & Client Services, FRAME ONE, Inc.
Two experts offer innovative ideas for print and state-of-the-art audio-visual communication approaches. In this two part session, they'll look at when, where, why and how to select the right medium for your communication needs.

Luncheon/EBC Awards Presentation
Alfred Malecki, Publisher, BUSINESS INSURANCE
Business Insurance honors the winners of the 12th annual EBC Competition. One of the winning audio-visuals selected for excellence in communicating an employee benefits program will be shown.

Media Selection
Part two.

CONCURRENT SESSIONS

Concurrents afford you the opportunity to zero in on specific communication programs. Sessions will be repeated in the afternoon and again on Tuesday morning so that you may attend all three sessions. These smaller work-groups are presented as 'Case Studies' dealing with:

Flexible Benefits
Robert E. Mathieu, Asst. VP - Benefits, MELLON NATIONAL CORPORATION
David M. Kieffer, Sr. VP, WILLIAM M. MERCER-MEIDINGER, INC.
In 1983, the judges of the EBC Competition called Mellon National Corporation's award winning program "one of the most effective descriptions of flexible benefits ever seen." Mr. Mathieu and Mr. Kieffer will walk you through the communication concepts used to provide a clear understanding of flexible benefits so that employees can make well educated choices.

Communicating On Your Own
Russ Ringl, Personnel Director, PLAYBOY ENTERPRISES
Their objectives seemed simple ... to effectively communicate a high standard of benefits to serve as a motivating factor to employees; to keep employees informed, updated and clear about the company's benefits. Focusing on their booklet component, Mr. Ringl tells how his firm did it on its own - providing benefits in a serious yet personal manner.

Flexible Spending Accounts & The IRS
Ed Dewees, Director, Department of Human Resources,
THOMAS JEFFERSON UNIVERSITY
FSA's - everyone came up with a different way to design and communicate their plan. If you are confronted with a program in the works or on the drawing board, you won't want to miss Mr. Dewees' program. He went ahead with a program and anticipated restrictive IRS regulations.

Tuesday, July 31
CONCURRENT SESSIONS
Repeated this morning

A Look At This Year's Winners
Herb Zeltner, HERBERT ZELTNER INC., Marketing & Communications Consultant
Mr. Zeltner, invited for a return engagement at the Conference, takes an in-depth look at what makes a winning program. This two part session is lively, entertaining and informative. It has been the highest rated by past attendees.

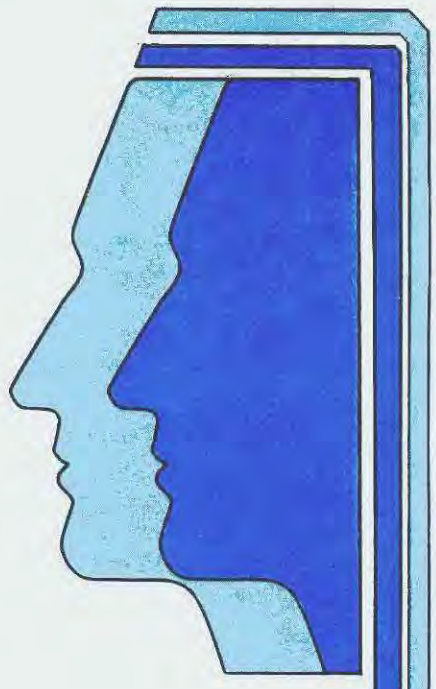
Luncheon
Exchange ideas with speakers and attendees. Spend some additional time in the Galleries.

A Look At This Year's Winners
Part two. This is your best opportunity to see what other professionals are doing.

Management Training
David M. Kieffer, Sr. VP, WILLIAM M. MERCER-MEIDINGER, INC.
You've planned, budgeted, and selected your media ... but your program can still fall flat without properly trained managers, meeting leaders, counselors, human resource personnel and, sometimes even employees to carry the communications program through. Mr. Kieffer will focus on inter-personal communication and the important issues essential in such training.

Closing Remarks
Kathryn J. McIntyre, Editor, BUSINESS INSURANCE

The Conference adjourns at 3:30 p.m.



In today's economic climate, corporations are particularly sensitive to the rising cost of benefits and are concerned about more efficient and effective ways to communicate the value of benefits to employees.

The *BI Employee Benefits Communication Conference* is a valuable investment of your time and dollars that makes sense for your company and for you as a benefits professional.

While exploring issues that are critical to your professional responsibilities, the *BI Conference* will focus on the foundation of effective communication. A clearer understanding of the methods used by the experts in your field will help you achieve better targeting of communication and more efficient utilization of your company's benefits programs.

You'll leave this Conference with a new perspective that's bound to have a positive effect on your company's bottom line!

Sessions and speakers have been selected to help you meet the challenges of your profession. General sessions focus on the planning and implementation of communication efforts. Concurrent sessions afford you the opportunity to zero in on specific communication programs. You can attend all three of these work-groups, presented as 'Case Studies.'

Highlighting this year's conference is the 12th annual EBC Competition Awards Presentation. Competition programs will be available for review in the EBC Gallery. The Benefits Literature Gallery makes it possible for you to collect some of the latest information available from consultants, insurance companies and service organizations.

REGISTRATION

The cost is **$545**. A 10% discount is offered to additional registrants from the same company. The fee includes sessions, workbook and educational materials, breakfast, coffee breaks, luncheons and cocktail reception.

Payment required with registration.
(Check or credit card accepted, see registration form.)

All cancellations must be received in writing. A full refund will be made on cancellations received prior to July 1. A $100 service charge will apply to cancellations received after July 1. No refund will be made on cancellations received less than five business days prior to the Conference.

However, if your plans change at any time, you may substitute the name of another person from your company without penalty.

All registrations will be confirmed in writing.

To register, simply complete the form and send it along with your payment to:

Business Insurance, Communication Services Department
220 East 42nd Street, New York, NY 10017

For additional information call:
Ann Vazquez at 212/210-0137

HOTEL ACCOMMODATIONS

We have set aside a block of rooms at a special rate at the Grand Hyatt Hotel in New York. These rates are available to Conference registrants only: $95 single room; $120 double room.

You must mention the Business Insurance Benefits Conference when making your reservations. Hotel cards will be included with your Conference Registration Confirmation Or call The Grand Hyatt Hotel at (212)883-1234; or toll-free at (800)228-9000. These rates will be honored only until July 15.

TRAVEL ACCOMMODATIONS

We are pleased to announce that Travel Headquarters Ltd. has been selected to help you coordinate money-saving flights to New York for the BI Conference. Travel Headquarters will provide travel arrangements for registrants, from every major city in the U.S. and Canada, at substantial discounts without sacrificing your comfort or convenience. Space is limited and reservations will be accepted on a first come-first serve basis.

For special airfares and reservations call:
In Illinois and Canada, (312)641-3088;
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You must mention the Business Insurance Benefits Conference when making your reservations. Airfares and reservation cards will be included with your Conference Registration Confirmation.

It's all there at the BI Benefits Communication Conference.
"The Dollars & Sense of Communicating Employee Benefits," July 30 and 31 at The Grand Hyatt Hotel in New York City.
This Conference makes good sense for you and your company.
Register NOW and save on your hotel and airfare too.

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CHOOSING YOUR OPTIONS

The right risk-financing techniques can enhance profitability

By the Insurance Institute of America

The following question and answer are drawn from the curriculum for the Associate in Risk Management designation awarded by the Insurance Institute of America. They represent the types of questions asked, and possible answers to, the three examinations for the Associate in Risk Management designation.

How an organization can choose those risk-financing options that enhance both its profitability and security, or certainty, of its loss financing arrangements is the basis of this week's question.

Q: The wisdom of a particular organization's relying on risk retention to finance possible losses from a given loss exposure varies with the nature of the potential losses and of the organization.

For example, the managements of Corporation A and Partnership B are trying to decide whether to purchase any insurance against particular loss exposures that these organizations previously have been fully retaining.

Corporation A, although a relatively small steel manufacturer whose earnings and cash flow fluctuate, has long qualified and acted as a self-insurer of its potential liability under workers compensation statutes.

Corporation A is diversifying into new types of manufacturing to stabilize its reported earnings. As one way to secure outside expertise to counter its worsening work safety record, especially in these new areas, Corporation A is considering purchasing workers compensation and employers liability insurance.

These questions and answers are drawn from the curiculum for the Associate in Risk Management (A.R.M.) designation awarded by the Insurance Institute of America. For more information on the content of the A.R.M. program, write Dr. G.L. Head, Vp, Insurance Institute of America, P.O. Box 314, Malvern, Pa. 19355.

A.R.M. exercises

Partnership B is one of the largest national stockbrokerages. It has cash-flow stability, but slowly declining earnings because of its increasing operating costs. It is considering whether to purchase insurance against liability to customers due to loss or destruction of securities while in the partnership's custody. Such loss or destruction has been so rare in the past that the firm has, until recent increases in trading volume, been content to retain this exposure.

What features of, or reasonable inferences from, the above set of facts suggest that:

A(1) Corporation A should continue to fully retain its workers compensation and employers liability exposure?

A(2) Partnership B should continue to fully retain its liability exposure to customers for loss or destruction of securities?

What features of, or reasonable inferences from, the above set of facts suggest that:

B(1) Corporation A should purchase insurance to cover its workers compensation and employers liability exposure?

B(2) Partnership B should purchase insurance to cover its liability exposure to customers for loss or destruction of securities?

A: A(1) Normally, an organization should retain a loss exposure if doing so will enhance its profitability without endangering its financial security—that is, if the firm can expect to finance losses for less than the cost of insurance and if the potential losses are not so severe that they may bankrupt the firm.

For Corporation A, circumstances that indicate it should fully retain its workers compensation exposures are:

- The amount of its workers compensation premium (which is likely to be large).
- The adverse effect that having to pay these premiums at the beginning of a coverage period would have on Corporation A's cash flow.
- The increasing spread of loss exposures that the corporation may be able to obtain through its diversification.
- The experience that the corporation has gained as a self-insurer of this exposure.
- The hope that retaining this exposure will encourage the corporation's management and its other personnel to make greater efforts to achieve safety than would be the case if an insurer paid compensation losses.

A(2) On the basis of these same profitability and financial security considerations, Partnership B possesses fewer characteristics that would suggest that it continue to fully retain its liability exposure to customers.

One such feature is that the probability of loss is so low that, if the partnership were to retain this liability exposure, it probably would not suffer a significant loss in the near future.

Therefore, through retention, the partnership could devote its resources to improving its earnings rather than to increasing its insurance costs. A second factor to consider is that, because the partnership's earnings are declining, its potential liability exposures for loss or destruction of customers' securities is not as great as it would be if the firm were more prosperous. Also, having no insurance may make the partnership a less attractive target for customers' suits.

B(1) In contrast to the features referred to in A(1), some aspects of Corporation A's situation suggest that it will enjoy greater profitability and financial security if its insures, rather than retains, its workers compensation exposure.

With respect to profitability, insurance may be advisable because:

- Compensation losses are increasing.
- The corporation's diversification will create new compensation exposures.
- The premiums the corporation will pay for compensation insurance are likely to be more stable than the fluctuations in retained compensation losses, thus stabilizing the corporation's earnings and cash flow.

With respect to financial security, insurance may be suggested by:

- The high loss potential from simultaneous injuries to many employees arising out of one incident.
- The possibly greater expertise of the insurer in providing loss-control services better than those now available to the corporation.

B(2) Partnership B may decide to purchase insurance against this liability exposure because:

- The low probability of loss suggests that the premium for the liability coverage will be quite reasonable.
- A liability suit may bankrupt the partnership.

Off-the-job incident leads to comp benefits

legal briefs

AN EMPLOYEE who attempted to rescue a co-worker from a shooting incident was entitled to workers compensation benefits, notwithstanding the fact that the employee had deviated from the scope of his employment at the time of the incident, according to a Florida appellate court.

Mr. Gonzalez, accompanied by co-worker, Mr. Wilson, was making his scheduled deliveries for his employer, a liquor dealer.

He took a shortcut to his next delivery and passed a restaurant, also one of his employer's clients. Mr. Gonzalez saw the owner, Mr. Fernandez, and stopped to visit. While there, Mr. Gonzalez accepted an invitation to pick tomatoes from a nearby field. Mr. Wilson reluctantly went along.

While in the field, Mr. Fernandez, for unknown reasons, wanted to scare Mr. Wilson by firing a gun. Mr. Gonzalez objected without success and then attempted to protect Mr. Wilson by moving between the two men. Mr. Gonzalez was shot in the head, which gave way to this compensation claim. The commissioner awarded him benefits.

The appellate court affirmed. The court agreed that Mr. Gonzalez had deviated from the scope of his employment when he stopped at the restaurant.

Nevertheless, the court concluded that the circumstances under which Mr. Gonzalez was injured in protecting a co-worker permitted the injury to be compensable in this case. *Southern Wine & Spirits vs. Gonzalez*, District Court of Appeals of Florida, April 12, 1983, *rehearing denied*, May 3, 1983 (*BI*/05/My.-$5).

These abstracts were prepared by Cases Unlimited Inc. A copy of an entire decision may be obtained by sending a check for $5 made out to Cases Unlimited to Business Insurance, 740 N. Rush St., Chicago, Ill. 60611. List the number for each opinion.

Raise doesn't affect benefits

The Utah Supreme Court denied a disabled employee an increase in benefits under a group insurance policy after she received a retroactive salary increase.

Clare K. Olsen suffered a heart attack July 29, 1976, while employed with Mt. Wheeler Corp. On Sept. 14, 1976, the employer raised Ms. Olsen's salary retroactively, effective July 1, 1976.

At issue here was whether the retroactively effective pay raise would increase Ms. Olsen's disability benefits under the group policy issued by John Hancock Mutual Life Insurance Co.

The policy provided benefits after a 13-week qualifying period of 50% of the monthly salary in effect immediately before the date of cessation of employment due to total disability.

Under a policy amendment, a pay increase caused an increase in disability benefits on the date of the change in rate, provided the employee was actively working on that date. The trial court denied Ms. Olsen increased benefits.

The appellate court concluded that the policy language clearly was designed to prevent an employer from giving retroactive raises to a favored employee that would be paid not by the employer, but by the insurance company.

To grant the disability increase, the court emphasized, would be in direct contradiction of the terms of the policy. *Olsen vs. John Hancock Mutual Life Insurance Co.*, Utah Supreme Court, June 20, 1933 (*BI*/04/My.-$5). ■

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It doesn't just give you faster and more complete access to your information. It gives you the facility to update and perform extensive analysis of the information in your files as well.

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Jun 11	May 30
Jun 18	Jun 6
Jun 25	Jun 12
Jul 2	Jun 20
Jul 9	Jun 26
Jul 16	Jul 3
Jul 23	Jul 10
Jul 30	Jul 18
Aug 6	Jul 25
Aug 13	Aug 1
Aug 20	Aug 7
Aug 27	Aug 15
Sep 3	Aug 21
Sep 10	Aug 28
Sep 17	Sep 4
Sep 24	Sep 11
Oct 1	Sep 19
Oct 8	Sep 26
Oct 15	Oct 2
Oct 22	Oct 10
Oct 29	Oct 17
Nov 5	Oct 24
Nov 12	Oct 30
Nov 19	Nov 7
Nov 26	Nov 13
Dec 3	Nov 20
Dec 10	Nov 27
Dec 17	Dec 5
Dec 24*	Dec 11
1985	
Jan 7	Dec 19
Jan 14	Dec 26

*Year-end double issue, December 24/31.

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Public can invest in new Lloyd's fund

By STACY SHAPIRO

london line

LONDON—Anyone with 2,000 pounds ($2,760) soon will be able to buy a piece of a Lloyd's of London underwriting agency.

That's the minimum amount needed for an individual to invest in the Lloyd's Act Divestment Fund, a new venture capital fund that will allow Lloyd's members and the general public to buy shares in a wide range of Lloyd's agencies.

The idea for the fund comes from one of the external members of the Lloyd's Council, Dennis Fredjohn, who is head of Capital Ventures Ltd.

Mr. Fredjohn says that he felt that Lloyd's members and the general public should be able to own shares in underwriting agencies after they are divested by brokers, as mandated in the Lloyd's Act of 1982.

"The primary purpose of the fund. . .is to improve the access for Lloyd's members to Lloyd's syndicates and particularly for American members in taking a stake," he said.

Mr. Fredjohn envisions that underwriting agencies, once they are divested by brokers, will need outside capital. The agencies will be able to tap the fund for that needed capital, in exchange for a share of the agency's ownership, he said.

This new fund will allow an individual to invest in Lloyd's without being a Lloyd's member and without being unlimitedly liable for syndicate losses, he pointed out.

However, the initial returns realized from the fund won't be nearly as lucrative as the returns realized from Lloyd's membership, he said.

"But it is a good prospect for those not joining Lloyd's to have a great opportunity to have a stake at Lloyd's," he said.

Currently, only Lloyd's members can invest in the fund, but the fund will be open to the public after June 18.

El Al's new broker

El Al Israel Airlines Ltd., a client of U.S. broker Alexander & Alexander Services Inc., now is using A&A affiliate Alexander Howden Group P.L.C. as its London broker.

El Al had been a client of Sedgwick Group P.L.C.

El Al switched London brokers because A&A, its producing broker in New York, wanted Howden to handle the account from now on, according to an official for Alexander & Alexander.

In addition, El Al has renewed the hull and liability coverage for its $658 million fleet.

According to a London aviation underwriter on the risk, El Al was hit with a 22.5% increase on its hull coverage rates to 0.41% of fleet value. And, liability rates for the airline company increased 37% to 0.32% per revenue passenger miles.

Underwriter cited

David Tudor Williams, managing director of Alexander Howden Underwriting Ltd., has been cited by the Council of Lloyd's in a disciplinary proceeding, according to John A. Bogaudus Jr., the chairman of parent company, Alexander & Alexander Services Inc.

"Mr. Tudor Williams has said that he will vigorously contest the charges," says a letter to Lloyd's members from Mr. Bogardus.

However, neither Lloyd's nor A&A would specify the exact nature of the allegations against Mr. Tudor Williams, though the letter notes that the allegations are in connection with "funding policies."

A Howden spokesman said that he did not believe that Lloyd's charges against Mr. Tudor Williams referred to the investigation by Lloyd's into the alleged misappropriation of Howden funds by five former directors of Howden.

After discussions with Mr. Tudor Williams, the Howden Underwriting board has decided to allow Mr. Tudor Williams to remain as managing director, according to Mr. Bogardus.

"If circumstances warrant, this matter may be considered again," he concluded.

Mr. Tudor Williams was unavailable for comment.

In addition, Stanley John, an employee of Lloyd's press office, has been suspended from his job pending an investigation, a Lloyd's spokesman confirmed. However, the Lloyd's spokesman would not elaborate on the charges against Mr. John.

Three join Minet

Three former employees of the North American division of Alexander Howden Insurance Brokers Ltd. have joined J.H. Minet & Co. Ltd.

Colin Bird, former managing director of the division, as well as Stephen Row and Richard Goward resigned from Howden after four employees of the North American division of Sedgwick Group P.L.C. joined Howden (*BI*, May 28).

"We are very pleased that they decided to join us in preference to a number of other brokers," said Simon Arnold, managing director of Minet Holdings P.L.C.

"This adds to the professionalism and expertise that we have in dealing with North American business—direct, reinsurance or wholesale," he said. ■



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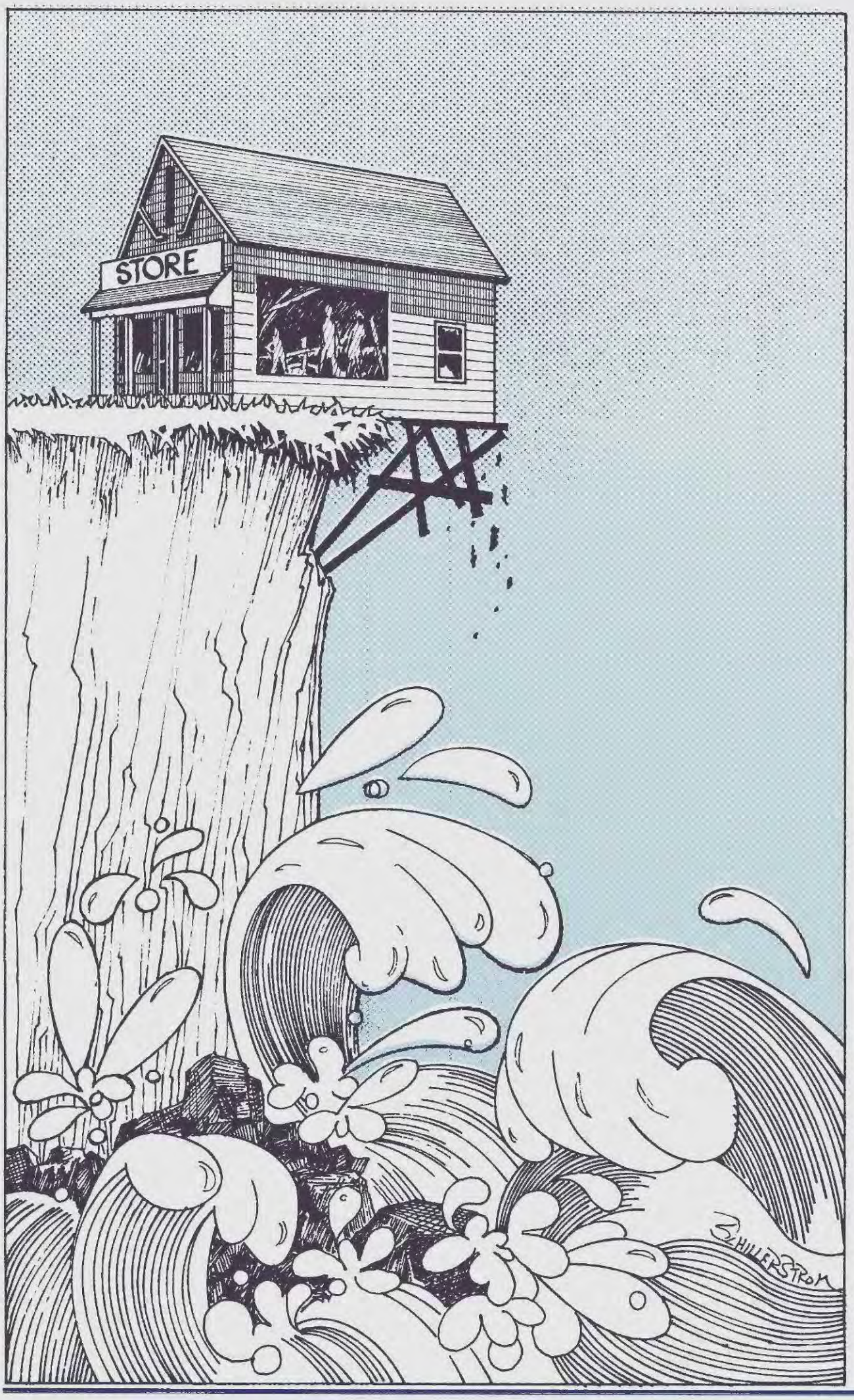
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A regular editorial section exclusively for agents and brokers



The small commercial risk!

Small accounts 'bop' agents, but profits still can be made

By MARGARET LeROUX

Handling small commercial accounts can be a big risk.

Agents and brokers have watched commission income on small-business property/casualty policies plummet as a result of rate cutting and the advent of Business Owners Policies.

In fact, some agencies refuse to write small commercial accounts at all, and others say they've stopped soliciting small businesses.

But some agents and agency consultants still believe you can make a buck on small commercial accounts—you just have to know how to do it.

Small businesses, they explain, sometimes grow into large corporations. Refusing to place coverage for a would-be giant is bad business.

But, they add, it's no longer possible—in an age of dwindling commissions—to give small commercial policyholders the same service that is given to large policyholders. Instead, they suggest, treat small commercial accounts like personal lines and let customer service representatives maintain the business, instead of a top producer.

Few will disagree, though, that the commissions generated by small commercial accounts have fallen through the floor, and many attribute the decline to the Business Owner Policies.

The major insurers introduced BOPs—package policies that resemble personal lines products—several years ago to replace the traditional multiperil policies that were the mainstay of the small commercial market. Because of increased automation, insurers discovered they could manage their small commercial accounts almost totally via computer, much like personal lines. That meant very competitive rates for the buyer—and much lower commissions for the agent (see story, page 48B).

For instance, Kurt Fickling, president of Fickling Insurance Agency in Greenville, N.C., saw the commission on a local ice cream parlor's account drop by more than 700%, to $48 from $352, when a BOP replaced a multiperil package.

"It used to be, you could handle accounts between $500 and $1,500 (in premium)—they paid between 15% and 20% commission—and still make a profit," Mr. Fickling says. "But, all at once, the BOP plans came into the market, commissions disappeared and I was losing my shirt on this business."

"I tried to continue to compete for that kind of business," Mr. Fickling continues, "but I was losing my shirt. You can't spend five hours on a risk that will pay you $50 in commissions."

In Orlando, Fla., the Kuykendall Agency no longer solicits small commercial accounts, "but we will write them if we get a request," notes Sheila Kenyon, the agency's commercial lines manager.

"We don't think you can make a lot of money writing them," Ms. Kenyon says. "I don't mean to knock the programs; the small commercial policies meet a real need for small businesses. But we wonder if there's enough premium to make them profitable in the long run.

Continued on next page

NAIB's 50th anniversary meeting . . . Page 40F

Insurers streamline approach to small commercial risks

By MARGARET LeROUX

Although some commercial insurers are still agonizing over how to handle their small commercial accounts, most commercial underwriters are making the transition and are treating the business like personal lines.

Almost four years ago the first Business Owner Policies began to appear on the market, replacing the multiperil packages that for years had been the vehicles for insuring small commercial risks.

BOPs offer a simplified approach to the small commercial marketplace. For instance:

- Most functions—like quotations, policy issuing, rating and renewal—are automated, cutting both the insurer's and the agent's overhead.
- Insurers are directly billed by the insurer, and often installment payment plans are available.
- Policy wordings are much simpler. In fact, some consultants note that a BOP is more similar to a homeowners policy than a commercial multiperil package.

BOPs have eliminated a great deal of expensive paperwork for agents, but, since they cost less than multiperil policies, they've also eliminated much of their commission.

"Insurance companies are getting small commercial policies down to a commodity item," explains consultant George Nordhaus, president of Insurance Marketing Services Inc. in Santa Monica, Calif.

Carol Hammes, a consultant with the Middleton Group in Chicago, adds, "Lots of insurers are putting together attractive policies (for small commercial accounts) that are good products for agents and brokers to sell."

Seventeen different insurers are now writing BOPs, according to the latest edition of the "Business Owners Comparison Guide", a handbook published by the Independent Insurance Agents & Brokers of California.

Most policies, according to the IIABC, include coverage for the replacement cost of insured buildings; loss of income for eight to 12 months; contingent business interruption; and crime coverages such as theft of money and securities, counterfeit currency and money orders, employee dishonesty and forgery.

Almost all the policies include a $100 deductible.

Additional coverages available include accounts receivable, exterior glass, earthquake, burglary and robbery, heating and cooling systems and a lessor as an additional insured.

Liability coverages available include comprehensive general, contractual, host liquor, advertising, personal injury, products/completed operation, fire (legal), worldwide products, non-owned auto and watercraft, incidental malpractice, druggists and funeral directors liability.

Among insurers that offer BOPs, SAFECO and Hartford are most often mentioned by agents and consultants as leaders in the field.

SAFECO's Safeplan "is our biggest seller in commercial lines products," said A. Frank Kandt Jr., assistant vp of commercial lines underwriting. "For agents, it bridges the gap between personal and commercial lines.

"Basically, the Safeplan covers less-hazardous exposures that are fairly homogenous. It lends itself very well to automation."

SAFECO provides agents with rating guidelines, eliminating the need for the insurer to quote each package.

The Safeplan requires a minimum premium of $100, and there is no maximum limit for property value. However, when an account substantially increases its values, "it would be better served by a (multiperil) package policy," Mr. Kandt said.

Features like direct billing to the insured are being improved upon, according to the SAFECO executive.

"We have installment billing now, and we're developing a system so accounts that have more than one policy—workers compensation and auto liability, for example—can all be put on the same bill, like Visa or Master Charge," he said.

"As of July, we'll be releasing a new round of changes in the Safeplan including higher options on medical payments and new coverages, such as loss of refrigeration," Mr. Kandt said.

Hartford's new Select Customer program, which was introduced earlier this year, is an improvement upon the Spectrum business-owner's policy Hartford released three years ago, the insurer says.

The key to the plan is automation, from policy issuance and renewal to direct billing.

"We're now processing small commercial accounts the same way we process personal lines," said Geoffrey Furtney, director of business development and market planning for Hartford.

"We're getting a good flow of inquiries from agents who realize they have to get a handle on their own bottom line," he said.

An agency "doesn't have to be on a computer to take advantage of our automated system. We tell them, 'Let us automate you.'"

For example, Hartford representatives will come to an agent's office with a portable computer terminal and review the firm's book of small commercial business, "putting it into our system for automation," Mr. Furtney said.

When an agency already has a computer, it can use the Select Customer program in a "what if" environment for small commercial accounts, he continued. "You can look at possible changes in a risk or do a cost-benefit analysis of the risk," he said.

Kurt Fickling, president of Fickling Insurance Agency in Greenville, N.C., put the Select Customer program into effect in September 1983, starting with renewals of small commercial policies.

"We had to feel our way in," Mr. Fickling said, "and it took a few months to work the bugs out."

However, Mr. Fickling added, since the beginning of the year, using the system has greatly increased his agency's efficiency. He estimated that profitability on small commercial accounts is now up 25%, with an increase in volume as well as profitability expected during the next year.

Agents exploring new methods to boost small-account profits

Continued from previous page

"One terrible loss could kill your whole ratio."

Other agencies have set minimum premium requirements for commercial business, and some have revamped their approach to the business.

Agency consultant George Nordhaus, president of Insurance Marketing Services Inc. in Santa Monica, Calif., says several Georgia agencies have reported they will not accept a commercial lines account that generates less than $50 in commission, while others say they will not write a BOP unless it gets the client's other business, like its life and health coverages, too.

But, agents and consultants say that taking such attitudes can mean lost opportunities.

For instance, Robert Cowie, president of Lasker-Cowie Agency in Phoenix, Ariz., says the secret to fighting falling commissions on BOPs is to "treat small commercial accounts like personal lines.

"We insist on underwriting authority so we can quote the policy, write it and put it to bed," says Mr. Cowie, explaining that this total control saves money and time spent sending applications and other paperwork to an insurer.

In addition, Mr. Cowie's agency no longer pays commissions to producers on small commercial accounts, "except when it's sold on a first-time basis." He notes that small commercial accounts are "a good way to break in new salespeople.

"But once we have the account," Mr. Cowie adds, "it's turned over to our customer service representative and no more commission will be paid." A customer service rep, he explains, "is probably doing a better job of servicing these accounts than the salesmen were."

> 'It's a market too big to ignore, but if you ran a profit-and-loss statement, you'd find most agencies are losing money on it,' Robert Cowie says.

The agency sticks with this approach for all accounts generating less than $2,000 in annual premium, he says. Such accounts "generate very little premium income, probably less than 10% of our total, but represent 40% of our customers.

"It's a market too big to ignore, but if you ran a profit-and-loss statement, you'd find most agencies are losing money on it," he says.

Some agencies say one of the best ways to increase profits on small commercial accounts is to write more of them.

"The best way to keep your costs down is to write more business," suggests Joe Quinn, president of Allan Walker Agency in Taunton, Mass.

Mr. Quinn estimates that about 40% of the agency's $3.5 million premium volume is generated by commercial lines business and, of that amount, "probably 75% is small commercial accounts, from $800 to $1,500 in premium.

"I've never sat down and actually figured out how much it's costing us to write small commercial accounts, but we feel if we deal in large numbers, it will average out (to a profit) in the long run," Mr. Quinn explains.

"You may spend a lot of time on a apartment complex" generating $5,000 in premium volume, Mr. Quinn continues, "but then you may get a referral from the owner and write his friend's business, which is worth more.

"As a professional agent, you're obligated to do your best, whether an account is worth $1,200 or $10,000," he says.

In addition, the Walker agency, like Lasker-Cowie, "insists that we quote and underwrite the business," Mr. Quinn says. "We have guidelines under which we can work.

"For some accounts, we want to be able to use discounts; if a risk is a good one, we'll use all the credits available," he explains.

"I don't buy the theory that you have to make $25 in commission before you'll write an account," Mr. Quinn continues. "There's no more irate person in the world than a customer you've just refused because his premium is too small. Just because the local pizzeria is paying a premium of only $900 is no reason to refuse them.

"You can't turn your back on people."

Mr. Fickling, who says he tried to stop writing small commercial accounts after commissions plummeted, agrees. "We began to hear criticism from the local business community," he explains.

"I realized I couldn't turn off a segment of the market."

Mr. Fickling again writes small commercial business, but he now uses customer service reps to handle the business and relies heavily on an insurer's automation program designed specifically for small commercial risks.

Mr. Quinn says he thinks small commercial accounts can be a good investment for an agency.

"How many good commercial accounts that an agency writes today started out at a premium of less than $500?" he asks. "You should consider that the $1,200 account today could well be worth $50,000 in a few years."

Dan Fleming, president of Ordway-Saunders Agency in Amarillo, Texas, agrees.

"You're betting on the (future)," he says. "A lot of small accounts become large, and for that reason we don't turn them away."

About 40% of Ordway-Saunders' estimated premium volume of $20 million—including branch offices in Dallas and Pampa, Texas—is generated by small commercial accounts, Mr. Fleming estimates.

Like Lasker-Cowie, customer service reps at Mr. Fleming's agency service its small commercial accounts, and the agency has underwriting authority for small commercial lines from six of the insurers it represents.

"It allows us to quote, write and move the policies along," Mr. Fleming says. "It speeds up our efficiency and our cash flow.

"As a rule, we treat small commercial accounts like personal lines. . . .We generally will handle a small commercial account by phone from the office, though that's a judgment call. It depends on what the account is and what it might connect us to."

Agency consultants agree with both the agents who disdain small commercial accounts and those who relish placing these risks.

Gary Holgate, president of consultant Holgate, Sitkins & Associates in Fort Meyers, Fla., who offers agency profitability seminars for Hartford Insurance Co., notes that a survey of 100 agencies conducted by his firm showed that only 5% of the agencies were making a profit on small commercial policies.

But, he says that's not because this business is inherently unprofitable, but because most agencies use producers to service these accounts.

Consultant Carol Hammes of the Middleton Group in Chicago agrees in part, noting that "if you can't handle a piece of business profitably, it's not worth handling."

Underwriters are providing lots of attractive products for small commercial risks, Ms. Hammes says, but she adds that many agencies have the wrong attitude toward small commercial accounts.

"So many of them are used to doing business the old way," she says, pointing to producers who still service small risks.

"Most small commercial accounts never see the agent after the sale," Ms. Hammes notes, adding that a customer sales rep "can do a super job of serving an account over the phone."

Richard Kasyjanski, director of agency services for the Independent Insurance Agents of America in New York says that he "disagrees with consultants who say it's difficult to make money on small commercial business.

"Many of our members tell me they love to compete with bigger brokers for small commercial accounts because they can provide the service the big brokers can't," Mr. Kasyjanski says.

Adds Walker Agency's Mr. Quinn, "The same industry people who were telling us a few years ago we couldn't afford to handle personal lines are now saying the same thing about small commercial accounts.

"Some of my contemporaries who followed that advice and got heavily into commercial lines are badly off today."

Mr. Kasyjanski says the key to making small accounts profitable is "selling the entire package: auto liability, workers compensation, homeowners property and liability and umbrella coverages."

Mr. Nordhaus of Insurance Marketing Services explains that a successful agent builds a relationship that may begin with a customer's commercial property/casualty insurance but that someday can grow to include the company's group life, health and disability coverages.

"There's nothing quicker to kill a small agency than to have a lot of small, one-policy customers," Mr. Nordhaus says.

"They'll leave when someone else offers them a better price. In self-defense, you have to sell them more than one policy to make it profitable."

"The important thing is, you can't re-sell every year," adds Geoffrey Furtney, secretary-marketing at the Hartford Insurance Co. "If you do, you'll never catch up."

Allowing small commercial accounts to be serviced "in an automated environment," Mr. Furtney says, "will help address the expense problems most agencies have." ■

Big brokers going after association business

Unlike some smaller agents, the alphabet brokers are going after small commercial accounts, too, but they have a different strategy in mind.

Instead of fighting the low rates associated with small-business risks by cutting down on service, the big brokers are concentrating on economy of scale and targeting mass-marketed, association programs.

And, some of the big brokers that manage association insurance programs, like Corroon & Black of Minnesota, are giving independent agents and small brokerages a piece of the action.

Association programs are sought after by small businesses, since they are usually cheaper than individually purchased policies because of the combined clout of an association's membership.

Also, because they are endorsed by their trade association, buyers perceive the policies as being tailored to their needs.

Association Management Services, a subsidiary of Corroon & Black of Minnesota, offers nationwide property/casualty package insurance programs for three very different groups: religious communities and their affiliates; independent colleges and universities; and the National Midas Muffler Dealers Assn.

In addition, the company brokers coverage for regional supermarket chains.

The programs are marketed by AMS to independent agents, explains Jeff Bowers, AMS' managing officer.

"All the agent has to do is send us the application. We market it, write the policy and provide him with a proposal," Mr. Bowers says, adding that AMS then pays the agent a commission or negotiates a fee.

The premiums generated by most of the AMS programs vary widely, from $2,000 to $30,000 per account, Mr. Bowers explains. He adds, however, that premiums for the college/university program average more than $20,000 per account.

AMS' coverages are usually written on a commercial multiperil package form, though the company does use a Business Owners Policy for very small accounts.

Crum & Forster writes the coverage of the college/university program, Royal Insurance Co. underwrites the religious community program and Travelers Insurance Co. provides the coverage for the supermarkets, he adds.

The programs offer stability in their premium and "a better deal on premiums than they had been getting," Mr. Bowers says.

Besides the package coverage, some of the programs also allow policyholders to purchase services, like loss-control engineering, on an unbundled basis.

Another large broker, Alexander & Alexander Inc., is entering the small-account arena by managing self-insurance workers compensation pools made up of small businesses.

For instance, one A&A-managed pool provides work comp coverage for 120 small industrial manufacturers in North Carolina. The members receive a 20% discount from manual work comp rates and they have received a dividend for each of the pool's three years of existence.

But sometimes success can come at a price. The program has been so successful that it has prompted the state's work comp insurers to ask for rate reductions, cutting agents' commissions.

"Since our plan has been in effect, the average workers comp rate for the entire state has dropped 28%," says Harry Clark, president of the North Carolina Associated Industries, the group that sponsors the insurance program. ■

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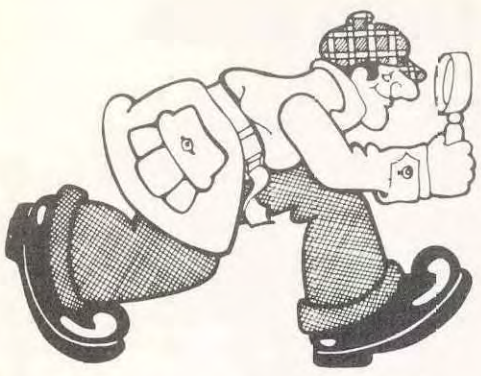
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Agencies, insurers can boost their productivity, study notes

Document processing and duplication of effort between agencies and insurers represent a large part of the expenses for independent agents, according to a report released by IIR/ACORD Corp., a joint venture of several industry organizations.

The 200-page report by the research and development corporation is based on analysis of the agency system and incorporates information from similar reports prepared by the National Assn. of Professional Insurance Agents and the Independent Insurance Agents of America.

One of the report's findings was that duplication occurs between agencies and insurers because the functions of each are not clearly delineated. It suggests that tasks should be assigned to each, and that each should trust the other's competence in performing its tasks.

For example, the data entry function is best moved to the agencies in order to eliminate duplicate proofreading, reduce opportunities for error and do away with suspense, the report suggests.

And, qualified agencies should receive expanded underwriting authority, the study notes. To avoid duplication, the policies written at the agency should not be re-underwritten, but insurers should keep tabs on the profitability of the business, it comments.

Insurers should bill policyholders and issue policies directly for maximum efficiency, the report says.

Although some agents prefer agency billing because they can invest the cash float, the PIA's agency cost study found that the expenses involved in processing and billing more than cancel out the income earned.

The report also says that insurers should use automated policy-writing systems to handle about 80% of their business, though it adds that automation is not cost-effective for handling the other 20%.

Automation can increase the agency's efficiency, but only if the correct systems are found for the agency's needs and if those systems are used properly, it comments.

Forms, systems and automation, like those that IIR/ACORD is developing, would make the agency system more efficient, and therefore more competitive, it says.

Standardization has allowed direct writers to lower their expenses, and independent agents can do the same by using standardized forms and automation, the study notes.

Using standardized forms saves insurers money because they don't have to design and print their own forms, and the establishment of electronic standards lends order to the growth of automation.

"Widespread adoption of industy standards for agency-company communication will provide the American agency system with a competitive edge."

Commercial lines and personal lines operations should be separated, the report adds. When the two are distinct profit centers, insurers cannot restrict personal lines one year and then push them when the market changes.

In another finding, the report says that if agencies are to increase their sales, they must adopt new marketing methods and management information tools. Marketing methods that agents may find useful include personal lines package policies, continuous policies and simplified, mass-marketed commercial policies.

The personal lines package policy is effective in retaining accounts and in total-account selling, the report says. It also is more efficient for the agency, and policyholders tend not to let package policies lapse as easily as single policies.

By using continuous policies, agencies can eliminate the paperwork of yearly renewal processing, it suggests. Since direct writers are soliciting small commercial accounts, which they can write at low premiums because of their high degree of standardization, independent agents can incorporate the same methods and capture some of those small commercial accounts.

The report calls for new ways of compensating agents, because of changes caused by reduced commercial lines premiums, loss of income due to direct billing and increased agent responsibilities. ■

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NAIB's 50th anniversary meeting

Prepare to ride out 'megatrends': James chief

By STEVE SHERWOOD

PEBBLE BEACH, Calif.—Noting he would rather be honest than affable, the chairman of Fred S. James & Co. Inc. says brokers who want to survive should be ready to ride out coming "megatrends" that challenge the insurance industry.

Citing author John Naisbitt's best seller, James Chairman Charles A. O'Malley opened the National Assn. of Insurance Brokers' 50th anniversary meeting by identifying five insurance megatrends he believes brokers must accept and be prepared to deal with.

"Trends, like horses, are easier to ride in the direction they're going," he said, quoting from Mr. Naisbitt's book.

Mr. O'Malley's megatrends for the insurance industry include:

- The entry of other businesses into insurance.
- The continuation of the insurance cycle.
- The trend toward self-insurance.
- The movement toward a world insurance economy.
- The shift to long-term business planning.



Mr. O'Malley

"We at James have accepted these as a reality, and we're prepared to ride them," said Mr. O'Malley, who is also James' president and chief executive officer.

"If you haven't fully considered them already, I urge you to do so, because I believe, near term, we will witness a major watershed—one that will leave a limited number of strong survivors."

Although many may fear the entry of banks into the insurance industry, Mr. O'Malley said, "I'm sure we'll put up a terrific battle—and may even win it temporarily. But this is a trend, or perhaps a revolution, whose time has come."

He pointed out that Sears, Roebuck & Co., the nation's largest retailer, sells insurance. So does Merrill Lynch Pierce Fenner & Smith Inc., the largest stockbroker, and American Express Co., the leading travel card firm.

"Of course, American Express also sells luggage and clocks, Sears sells stocks and Merrill Lynch sells houses," he remarked.

The idea of banks selling insurance is only a small phase in the blurring of traditional boundaries among financial service companies, Mr. O'Malley said. "It's part of a trend—easier to ride in the direction it's going. And why not?"

He asked brokers to look at their successful financial guarantee products.

"Is that insurance or is that banking? I say, let the banks sell insurance that complements banking lines as long as we can sell banking products that complement insurance lines. That's the way the trend is going anyway.

"You can delay it, but get ready to ride it," he said.

Mr. O'Malley also noted that he expects the cyclical nature of the insurance industry to continue into the future, but added that cycles will not be uniform.

"We're coming up gradually, carefully, surely—but slowly," he said of the current cycle.

Some insurers, reinsurers and brokers will be unable to survive until the market hardens, but the strong companies will, he said.

He quoted a Conning & Co. official, saying, "The average and below-average underwriters are bleeding to death. . .the good guys are getting better."

Mr. O'Malley also cited recent estimates that the industry's loss reserves are inadequate by 10%—translating into a $12 billion overstatement of industry surplus—and that the 1983 aggregate combined ratio hit 111%, the highest underwriting deficit since the 1906 San Francisco earthquake.

"Only the strong brokers will be able to withstand the aftershocks that will shake them over the next several years as the weak insurers and reinsurers fold," he said.

The megatrend toward self-insurance is one that is both coming and going, Mr. O'Malley said.

"On one hand, a soon-to-be-considered federal bill (H.R. 4170) could sharply reduce tax advantages that currently interest the self-insurer. Brokers would do well in being prepared to recapture large self-insuring corporations that see their cash-flow advantages disappearing, if this bill is passed," he said (*BI*, March 19, April 9).

But self-insurers probably will continue to retain risks—like workers compensation—in which losses are frequent rather than severe, he said.

"This could be a long-range trend. The income from this (self-insurance) market is often fee-oriented and takes you out of the

Continued on facing page

Finally. After

INTRODUCING AN EFFECTIVE, EFFICIENT INSURANCE

IN THE BEGINNING.

When the property and casualty insurance business began, around 2000 B.C., the work wasn't easy. There was all that merchandise on the caravan to keep track of. Recording information was an impossible task. Finding qualified stone cutters was bad enough without thinking about the information storage problem. Communication? Forget it. Even Job could've lost patience waiting for a reply from Babylonia.

The P & C insurance business circa 2000 B.C. Send out the caravan and cross your fingers.



MUCH LATER.

3,870 years later, things weren't much better. Paper was a definite improvement over stone slabs, and the Pony Express was faster than the caravan. But, after all, ponies can only hold so much paper. Typists were easier to find than stone cutters, too, but a page of paper can only hold so many words. And in insurance, there always have been a lot of words. There just wasn't any information link, although with enough typewriters . . .

Relying on the Pony Express for your information link was something less than reassuring.

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Walter Sanders, LIFE Magazine © 1942 Time, Inc.

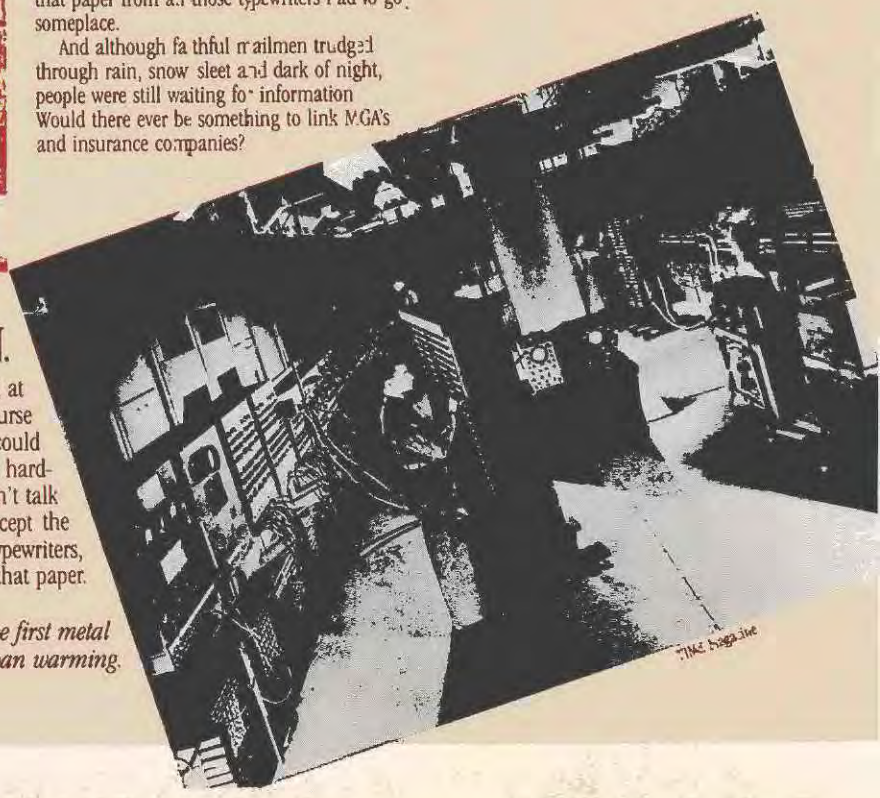


In the '40s, reams and reams became rooms and rooms.

THE TYPEWRITER ARMY.

Think about how many pages one typewriter can turn out in one day. Multiply that times 50. That will give you some idea of the amount of information property and casualty insurance people had to deal with in the '30s and '40s. And the storage problem didn't just continue, it got worse. All that paper from all those typewriters had to go someplace.

And although faithful mailmen trudged through rain, snow sleet and dark of night, people were still waiting for information. Would there ever be something to link MGA's and insurance companies?



A HERO ON THE HORIZON.

By 1950, it appeared, somewhat briefly, that help had arrived at last. The computer. It could store all the information. Of course hiring a Ph.D. was expensive, but he was the only one who could communicate with that giant mass of metal. Even with all that hardware, the communication lag continued. The computer couldn't talk to you and didn't feel much like talking to anyone else either. Except the Ph.D. And although one huge piece of machine had replaced 50 typewriters, there was still all that information that had to go on all that paper.

Attempts at meaningful conversation with the first metal heroes were somewhat less than warming.

Continued from facing page

normal premium cycles. Why not go for it?" he said.

The movement to a world economy is evident because it is the international insurance market that holds the greatest potential for development of new business, Mr. O'Malley said. "It's tough to make a buck in the saturated U.S. market."

British brokers have been enjoying the fruits of the international arena for decades, he said.

"A buck is a buck, even if it is a mark or a yen or a pound. I'll take it if you won't."

The Japanese are responsible for starting America on the fifth megatrend—the trend toward long-term planning, Mr. O'Malley said. "Too often we Americans are shackled to the quarterly report. We get stuck in a three-month game plan."

The Japanese are lucky in not being wedded to the stock market, he explained. "We still are, but more and more in the insurance industry the office of long-range planning and the strategy review committee are making their presence felt."

This is fortunate, he said, because "in an industry as service-oriented as ours, a long-term relationship that grows steadily can produce far more profit than a dozen quick scores."

Mr. O'Malley also cited as important to the insurance industry Mr. Naisbitt's predictions of moves toward an information society, greater involvement with high technology and consumer markets that offer multiple options.

Mr. O'Malley said that, to meet these megatrends, as well as the ones that apply specifically to the insurance industry, brokers should make plans now to feed the information society with a steady diet of information.

"That means we'll have to develop vast data banks and computer interface capabilities both for our clients and our markets."

To offer multiple marketing options, brokers must prepare to increase staff to create and support a multitude of innovative financial products, Mr. O'Malley said. "And remember, they don't have to be insurance products."

Brokers also should move into the global economy, he said.

"We'll have to have an international presence. We can buy it, join it or else commit to training an international staff and establishing an overseas network," he said.

Finally, brokers must begin now to move to a long-term orientation, he said. "That suggests we should have strong financial reserves to weather quarterly storms and to resist the demands for instant gratification." ■

Brokers asked to help battle health costs

By STEVE SHERWOOD

PEBBLE BEACH, Calif.—Risk manager Robert M. Colasanto is challenging members of the National Assn. of Insurance Brokers to help lead the fight against rising health care costs.

And, an executive at Connecticut General Life Insurance Co. is urging the brokers to accept this challenge.

Both men spoke as part of a panel discussion at the NAIB's 50th anniversary meeting in Pebble Beach last month.

"Many employers believe insurers, brokers and consulting firms have abrogated their responsibilities to be leaders in the effort to control health care costs in this country," said Mr. Colasanto, director of insurance and employee benefits for San Diego-based Pacific Southwest Airlines.

The insurance industry is at a crossroad, where brokers and insurers must decide if they are to become permanent passive bystanders or catalysts for positive change in the health care system, he said. What they decide to do can have a major impact on the future of their industries.

"You ought to know that property/casualty premiums are insignificant compared to what we employers are paying for health care," Mr. Colasanto said. He cited estimates that employers paid more than $150 billion for health care, inlcuding taxes used to finance Medicare and other public health programs.

"In San Diego the general inflation rate was 1.3% in the first six months of 1983, but the average hospital bill rose 17.8%—more than 10 times the inflation rate," he said. "Patients were charged about $5,000 for the average stay in an acute-care hospital."

That such costs are not unique to San Diego is evident from the rise in the nation's annal per capita health care expense, Mr. Colasanto said. It rose to $1,216 in 1980 from $212 in 1965 and is projected to rise to $3,300 by 1990.

In the past few years employers have gone from being passive health care consumers to being informed consumers, he said. In the interest of cost control, they have:

- Redesigned employee benefit plans to move away from overused first-dollar coverage.
- Become involved in data collection and hospital utilization review programs to identify efficient health care providers and eliminate inefficiencies.
- Started wellness programs.
- Encouraged the development of alternative health care delivery and payment systems, like health maintenance organizations and preferred provider organizations.

PPOs, in which employers contract with providers for discounted services in exchange for encouraging employees through financial incentives to use the preferred providers, have finally allowed employers to directly address the health care reimbursement system, Mr. Colasanto said.

But, he added employers want more help than brokers and insurers are now giving them.

"My challenge should not be interpreted to mean that employers blame the insurance industry for health care cost problems," he said.

"We all share the blame—employers for agreeing to first-dollar coverage, labor unions for pushing these plans, providers for being well-satisfied with a system in

Continued on next page

4,000 Years.

INFORMATION MANAGEMENT SYSTEM: DATA LINK.

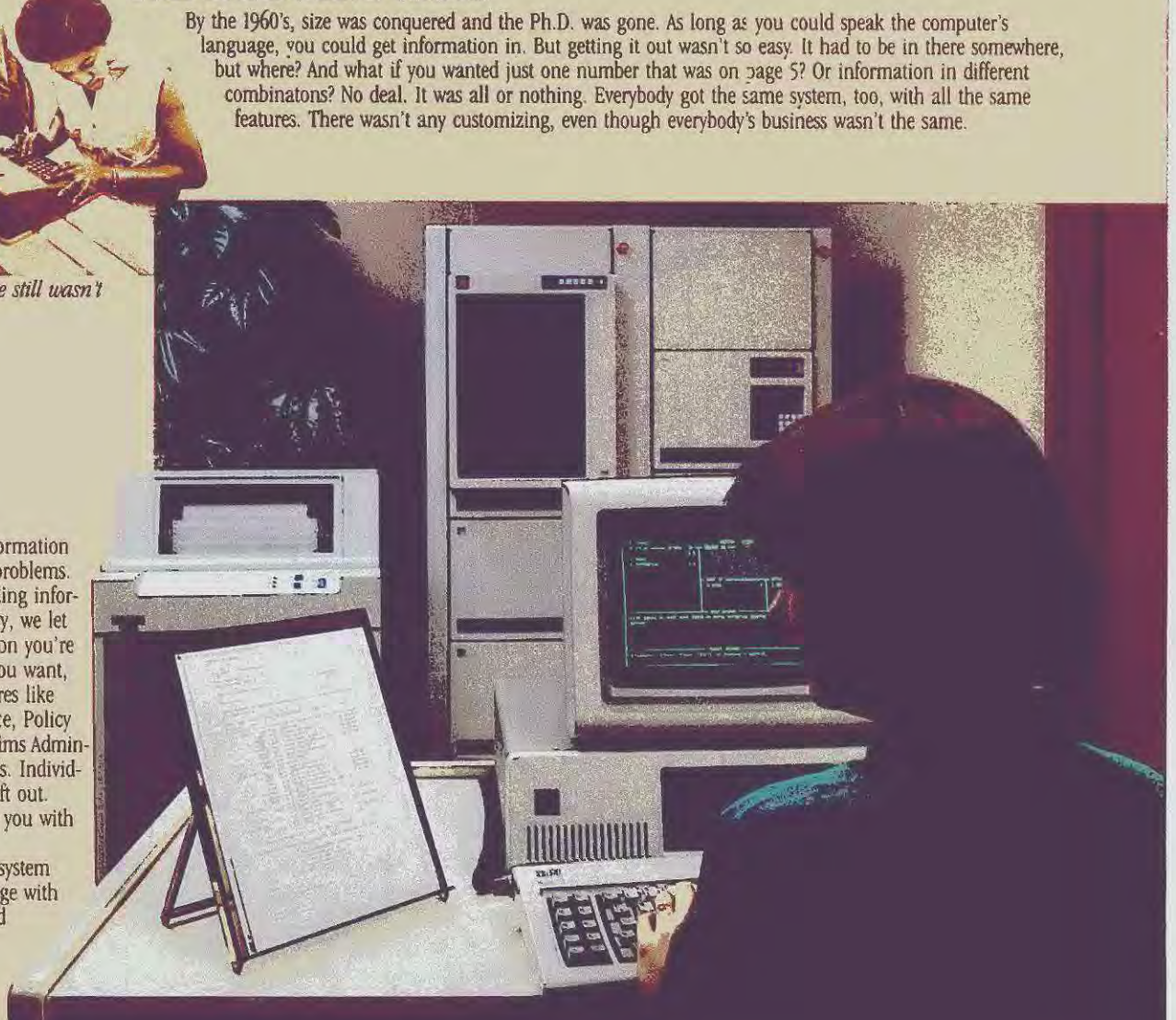
THE SHRINKING HERO.

By the 1960's, size was conquered and the Ph.D. was gone. As long as you could speak the computer's language, you could get information in. But getting it out wasn't so easy. It had to be in there somewhere, but where? And what if you wanted just one number that was on page 5? Or information in different combinatons? No deal. It was all or nothing. Everybody got the same system, too, with all the same features. There wasn't any customizing, even though everybody's business wasn't the same.



Tony Tomsic/TIME Magazine

The machine was smaller, but be still wasn't very friendly.



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Client challenges brokerages to help fight health care costs

Continued from previous page
which we pay them whatever they decide to bill us—and must share in the solution."

But employers see a reluctance on the part of the insurance industry to go head-to-head with providers to change the system's faults.

"The industry tends to deal with peripheral issues," Mr. Colasanto said, noting that he receives brochures on how to buy generic drugs or get a second surgical opinon.

"If insurers think a viable health care cost-containment strategy involves encouraging second opinions or pre-admission testing, they are sadly mistaken," he said. "We need them to get involved with the truly tough issues—developing alternative and cost-effective health delivery systems."

Employers also tend to see the insurers as a conduit for the passage of funds from the employer to the health care providers, Mr. Colasanto said. Third-party claims payers appear to have little or no incentive for controlling costs because the employer ultimately pays them.

To change these perceptions, he advised the industry to throw away national cost-containment strategies and attempt to address each community's unique problems on an individual basis. They should also do their part to coordinate the cost-containment efforts of all health care participants.

"Above all, do not allow yourselves to be relegated to the position of bystander," he said. "I suspect we will end up with a pluralistic system in which employees will be able to choose from a variety of health care programs. You still have time to be leaders in this changing system."

William H. Sharkey Jr., vp of Connecticut General's group insurance and services division, acknowledged that employers are becoming more militant about health care costs and said, "I think this challenge is one we should all accept without reservation."

The urgent need to address the problem has forced insurers, employers, providers and legislators to rethink what they have done in the past and in some cases start doing things in completely new ways, Mr. Sharkey said, adding that the rapid change within the market is unprecedented.

"It has been shaped by a number of factors," he said. "The economic pressures on our commercial clients during the late '70s and early '80s made health care cost escalation not merely an annoyance but a real survival issue."

To address this issue, he believes enlightened health care plans will, in the near future, offer options that isolate efficient providers of care—identified through analysis of claims data—and give economic incentives or make it mandatory for employees to use these providers.

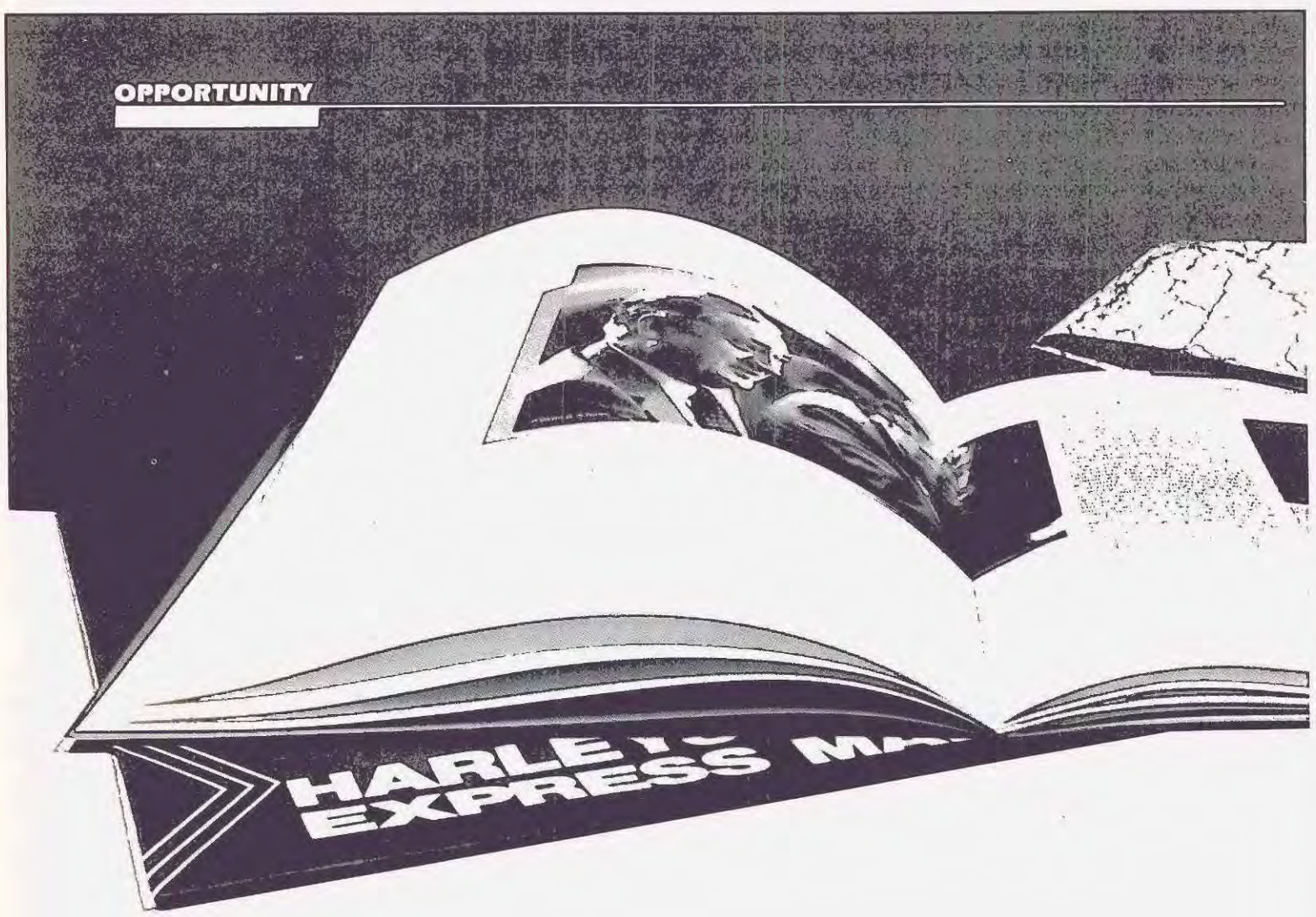
"Today we talk in terms of PPOs, HMOs and indirect management of providers through pre-admission certification and concurrent review," Mr. Sharkey said. "I suggest that many of these terms will not be with us six or eight years in the future, but the concepts behind the terms will evolve."

The combination of demographic shifts and corporate competition for employees, he believes, will lead to a proliferation of choice in health care plans, "what is today called flexible benefits but which will extend far beyond this tomorrow."

Employers will seek to meet the true needs of employees while minimizing their own contribution and avoiding any commitment to elements of the plans in which costs cannot or are not being controlled, he said.

Clients will need much more advice as plans grow increasingly complex, not only in determining which options are best for employees but also in comparing offerings of insurers and providers.

"Working together, the challenge for all of us is to make sure we are at the forefront of developing these kinds of arrangements and that we take an aggressive role in offering and explaining them to commercial clients," Mr. Sharkey said. ■



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Underwriters tell brokers not to fear bank competition

By STEVE SHERWOOD

PEBBLE BEACH, Calif.—An insurance company executive says brokers should look upon the entry of banks into the insurance industry as an opportunity more than a threat.

"I don't think brokers and insurers should look at the banks' entry as something that excludes traditional players in the business," explains Dale R. Comey, executive vp of Hartford Insurance Group in Hartford, Conn.

Another panel member, John R. Schoneman, chairman and chief executive officer of Wausau Insurance Cos., appeared to agree with Mr. Comey's assessment.

"I don't think we should be too paranoid about banks getting into the industry," Mr. Schoneman explained.

"They are not risk takers, and their coming in doesn't mean we can't get the busines back from them. I'm not that concerned about it," the insurance company executive said. ■

Rather, they should see it as major opportunity for traditional forces to deal with the new entrants as clients, as well as competitors, Mr. Comey said during a panel discussion at the 50th anniversary meeting of the National Assn. of Insurance Brokers, held last month in Pebble Beach.

"Organizations likely to be interested in getting into the business —banks and stockbrokers—are going to need the exact resources represented by the people in this room.

"They must either develop them or buy them," he said.

Banks will be getting into insurance from a distribution standpoint, not as risk takers, Mr. Comey noted.

> 'I don't think we should be too paranoid about banks getting into the industry,' Wausau's Mr. Schoneman says.

The banks look at insurance involvement as a way to compete with American Express Co. and other financial services companies, he said.

Mr. Comey noted that since insurance makes up about 40% of the financial services industry, banks must feel the need to be active in insurance.

If banks do begin to sell insurance, brokers probably will maintain their competitive edge in large commercial lines, where consumers still demand customized policies, he said.

"In my view, banks are aiming at commodity personal lines and small commercial lines, where they can draw on client lists they have developed through other services," he said.

In such lines, individual products have become virtually indistiguishable from broker to broker, with competition focusing on merchandising, price and convenience of delivery.

"Their approach will mainly be direct sales through mail and telephone," Mr Comey said. Some may seek the pen of national insurers, while others develop direct sales forces of their own. Most probably will do a combination of the two, he said.

"There will be a lot of new product development and new ways of delivering the product to the consumer," Mr. Comey said.

"There will be a tendency of striving to bypass the broker, but this doesn't have to be the case. In standard lines, progress can be made in developing the types of delivery systems to meet the competition."

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Complete computer interface won't be easy

By STEVE SHERWOOD

PEBBLE BEACH, Calif.—Industrywide computer interface between insurers and brokers is inevitable, automation experts say. But, although great strides are being made, this interface is still years away.

And, achieving this capability will involve planning, financial commitment and "the pain of change," they add.

"Interface today is a mixed bag and a mixed blessing," John W. McCauley, president of McCauley & Co, a California computer consulting firm, told the National Assn. of Insurance Brokers at its 50th anniversary meeting in Pebble Beach.

"Many insurers have effective interface tools available to brokers," he said, but "we look at clients of ours who must stop everything in the office and, in fact, turn off the switches so they can communicate."

In the next five years changes in the insurance industry wrought by interface will be significant, he said.

"It is going to be great, but we're not there yet," he said.

One difficulty in discussing interface is that it means different things to different people, noted Donald L. Jordan, the NAIB's executive director.

The definition of interface accepted by the Insurance Value Added Network Services (IVANS)—a computer network formed in 1981 to facilitate industrywide automation—is that in which a broker with a single universal terminal can communicate electronically with any insurer's computer, despite differences in software or protocol.

Up until now, only limited interface has been achieved, most commonly between a single insurer and its agency force or between a broker and several insurers, he said. And, Mr. Jordan adds, both of these types of interface have their drawbacks.

Although an insurer may foot the bill for a terminal connecting it with an independent agent, giving the agent inexpensive automation, any benefits the agent gains through interface may be offset by limiting his access to other markets and reducing his flexibility, Mr. Jordan said.

"It can undercut the producer's independence by requiring him to guarantee a minimum volume of business to the insurer," he explained.

In cases in which a broker owns his own equipment, he must still have special programming to allow communication with each insurer with which he does business, Mr. Jordan said. This can be expensive.

The reason widespread interface has been slow to develop is that so few agencies are automated, he said.

"Only about 5% of the American agency system at this time have interface capability, and this tends to be concentrated among the largest agents and brokers."

Further complicating the problem is that many insurers themselves have not yet automated their policy files, and the systems of those that have are not only expensive but also incompatible.

"By installing their own systems, some insurers have gotten ahead of planning that should have gone on in the insurance industry" to arrive at a standard computer language or code, said James Cutro, executive vp of Crum & Forster in Morristown, N.J., and a director of IVANS.

"Now we are faced by a slower reaction to interface and a slower return on capital investment because of the retrofitting that must go on before the systems that are out there now can talk to each other," Mr. Cutro said.

IVANS hopes that insurers and brokers will install systems that conform to industry standards set by IIR/ACORD, another industry group formed to address computer issues, to make interface easier. However, as experts pointed out, it is unlikely that cooperation will be 100% in the near term.

"It seems to me with the large dollars companies have invested in their own networks, they may be reluctant to change to industry standards," said James B. Wiertelak, vp of information systems for Fred S. James & Co. Inc. The national brokerage expects to have all its offices automated by early next year.

"We have invested $35 million in software," noted Jonathon Forrest, a vp at insurer Chubb & Son Inc.

He added that it had been estimated that to replace existing computer systems in the insurance industry would require all programmers and technicians to cease what they were doing and spend five years rebuilding them—and that would cause all business to cease.

"We're forced to find a different way," Mr. Forrest said.

That way is through a "black box," or translator, that will take whatever language an IVANS member's computer uses and translate it into the IIR/ACORD standard and then, if necessary, into a third language used by another company.

"We're working hard on the translator device," said Mr. Forrest, whose company is a member of IVANS. "I believe, once it is up and running, it will become a commonplace, generic solution."

As of April, 27 insurers, four national producer associations, 41 service vendors and 4,000 agents had enrolled as members of IVANS, Mr. Cutro said.

He said he believes IVANS will eventually replace the individual insurers' networks.

"They will be white elephants from an economic and work standpoint because they will not have access to the number of agents—perhaps 30,000-60,000—as those who are tied in," he said. "I think you can get more out of an industrywide network than you could ever get out of your own."

He urged small or medium-sized brokers to consider joining IVANS, saying they would avoid start-up costs for a system of their own and the learning process that accompanies automation.

Small agents and brokers receive the same advantages as other IVANS members, he said, especially ready communication with a great number of insurers.

"The battle for clients will be fought on products, services and insurance expertise, not with legions of computer technicians the larger companies can bring to bear," he said.

Smaller brokers will also have a say, as IVANS members, in what services the network will provide, he added.

"IVANS is an opportunity for brokers to create a data system for their own use. The NAIB must be able to find some functions that are common to all of you and have these added to the network," Chubb's Mr. Forrest said.

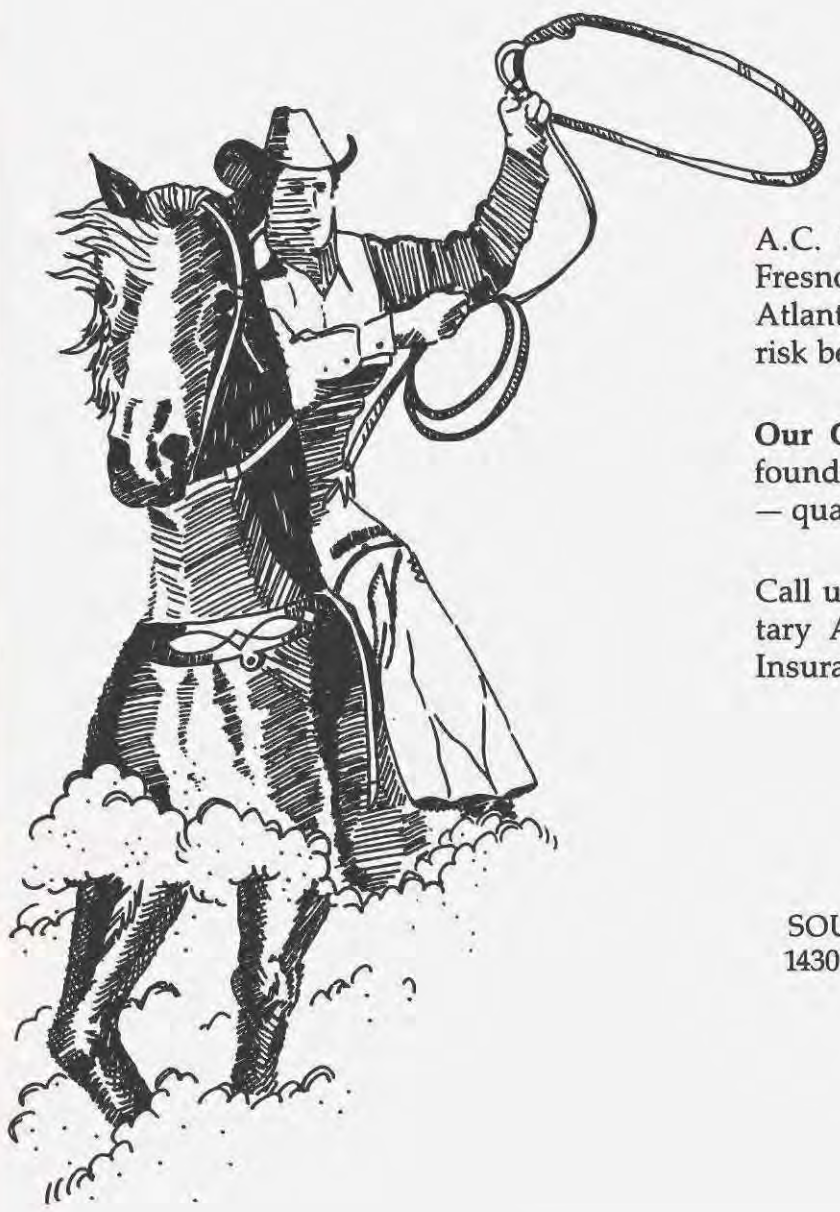
But, Mr. Wiertelak at Fred S. James noted, "Interface has to be an integral part of the way we do business, a tool we use in the normal course of things. In my opinion, this has not been demonstrated."

In addition, groups like IVANS must demonstrate the cost-benefit relationship of using a standard computer interface, Mr. Wiertelak said.

"It has not yet been shown that there is a real good business reason to use IVANS at this point. I think interface is inevitable and a network is inevitable, but we are not there yet."

Such thinking is one reason IVANS has been slow off the starting blocks, Mr. Cutro said.

"If people keep saying the benefits aren't there and no one steps up and takes the first shot, we'll never reach the critical mass of funding and information we need," he said. "But, I think we are either very close to or have crossed the line where we can be competitive." ■



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Rate relief coming soon, NAIB's Jordan predicts

By STEVE SHERWOOD

PEBBLE BEACH, Calif.—Higher rates and financial recovery for brokers are just around the corner, but brokers should continue to work through the National Assn. of Insurance Brokers for positive change in the industry.

This was the message NAIB officials delivered to members during the organization's 50th anniversary meeting May 13-16 at the Lodge at Pebble Beach.

In an optimistic assessment of current trends, Donald L. Jordan, the NAIB's executive director, forecast that an accelerated drain on market capacity and an increased demand for insurance will combine to set the stage for significantly higher insurance rates by fall 1984.

"There's a sense of apprehension in the air as carriers are forced to digest the long-term costs of building market share with underpriced business," Mr. Jordan said.

Combined ratios for insurers and reinsurers have climbed into the stratosphere, yet the industry's loss reserves remain grossly inadequate, he noted, adding that insurers no longer can rely on capital gains and investment income to rectify negative operating results.



Mr. Jordan

"And so we see the quality of industry earnings deteriorating as underwriting losses increasingly flow directly to the bottom line," Mr. Jordan said. "Return on equity has become painfully unacceptable and underwriting capital is leaving the market.

"As a result, I believe the attention of many carrier CEO's is now shifting," he said. "Concern about achieving market share objectives is being overriden by the need to rebuild loss reserves, maintain liquidity and assure financial solvency."

On the demand side, real economic growth and buoyant corporate profits are increasing insurable values and stimulating the purchase of risk management products and services, Mr. Jordan said.

"It is expected that an economic recovery is on course and will continue well into next year. The demand for insurance is riding a tail wind," he said.

As a result, he says there will be a faster drain on insurers' capacity than the market has yet experienced, while the demand for insurance will continue to rise, he said. This, in turn, should result in higher rates, possibly by fall—earlier than seemed possible only a few months ago.

"Commercial brokers are poised for a long-overdue recovery," he said, adding that opportunities for growth should come not only in property/casualty lines, but also in reinsurance, employee benefits and surety products, fueled by an increase in construction activity.

"Any discussion of new opportunities would be incomplete if we didn't touch on the phenomenal surge of interest by brokers in the financial guarantee business," Mr. Jordan said (*BI*, May 14). Financial guarantees' broad appeal and application in meeting corporate credit requirements have only begun to be appreciated, he said.

"For example, financial guarantees can be used anywhere letters of credit can be found, and this is

segment," he said. "Let's give the banks some competition and go after their markets for a change."

In his speech, William A. Quinn, outgoing NAIB president and president of broker Frank B. Hall & Co. Inc. of New York, noted that the NAIB's purpose has changed little since its inception in 1934.

Quoting from the organization's charter, he said the NAIB's purpose is to safeguard the interests of the public and of brokers in all insurance matters, to develop a better understanding on the part of the public of broker functions and to support and foster right principles and oppose bad practices in the insurance profession.

Continued on next page

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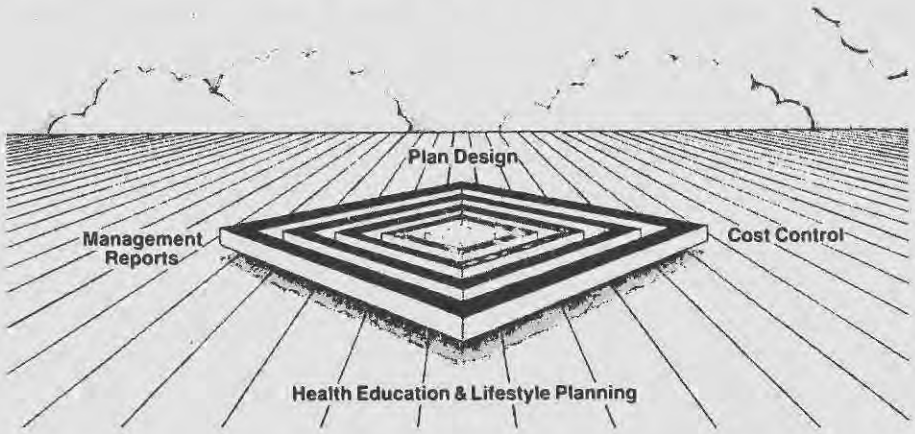
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The explosion of medical technology, combined with an increased use of medical services, is producing a parallel explosion in medical costs that could put proper sickness care beyond the financial capacity of the average family. Until recently, medical insurance has filled the gap. But costs are rising so rapidly that premiums are becoming prohibitive.

Pilot Life shares the national concern for this situation and has taken positive steps toward corrective action. Most recently Pilot put into effect a Four-Point Health Plan embracing the following concepts.

PLAN DESIGN

Americans have become used to insurance plans which, because of their low deductibles, high maximums and broad coverage, tend to encourage excessive use. What is needed are plans designed to encourage prevention more than cure. Plans which encourage more concern for cost and efficiency by both the insured and the medical community. Plans which make use of alternative, low-cost service.

Pilot was a pioneer in providing such plans with its Control-Med program specifically designed to encourage less costly outpatient treatment, second opinions for surgery and the like. Other innovative plans are in the works and will be announced soon.

MANAGEMENT REPORTS

Pilot's state-of-the-art, on-line claims system, P.A.C.E., not only provides fast handling of claims, it also generates a wide range of reports which enable employers to audit their insurance programs. To compare charges of the various providers of medical services, for example, to see which are most efficient. Or to see which kind of illnesses or accidents are most common among their employees. Armed with this information, employers are better equipped to negotiate for more efficient care and to counsel employees seeking medical help.

COST CONTROL

A special Cost Control unit has been set up at Pilot which concentrates on reviewing unusually large claims, auditing charges of hospitals where services seem inconsistent with treatment, or where costs seem out of line. They are in constant contact with Professional Standards Review Organizations, and other auditing organizations across the country, seeking more effective means of cost control.

HEALTH EDUCATION & LIFESTYLE PLANNING

The best way to cut medical costs is not to get sick in the first place. That's why Pilot has inaugurated Health Education & Lifestyle Planning, a program designed to assist employers in developing health maintenance programs for their employees. It addresses such problems as overindulgence in eating, drinking and smoking, drug use, hypertension detection, stress management, and the general problem of staying physically fit. It involves everything from pamphlets and payroll stuffers to worksite classes and exercise facilities to nutrition programs and blood pressure testing.

Pilot managment has also taken an active leadership role in the campaign for health cost containment promoted by industry groups such as the American Council of Life Insurance and the H.I.A.A.

Just as there is no single cause for the inflation of medical insurance costs, there is no single solution. But we feel our Four-Point Plan is an important first step in controlling those costs for our policyowners. If you'd like to know more about our group plans and our cost control program, please contact Pilot Regional Group Office, or the Group Division, Pilot Life Insurance Company, P.O. Box 20727, Greensboro, NC 27420. Or call (919) 299-4720.

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agent/broker briefs

Bank of America prepares push into insurance industry

SAN FRANCISCO—Bank of America is laying the groundwork for an assault on the retail insurance business.

The nation's second-largest bank holding company has appointed Edward J. Blackburn to the newly created post of executive officer-retail insurance. He will be responsible for all of the bank's current and future consumer insurance business.

Mr. Blackburn had been field executive vp for Allstate Insurance Co.'s Midwest zone.

"The creation of this executive-level post is a clear indication of the importance we attach to insurance," said the bank's vice chairman, J.B. Wiesler. "We intend to become a major payer in what we expect will be a very profitable expansion of our services."

Technical info

NEW YORK—The Independent Insurance Agents of America is now publishing a newsletter to keep its members up to date with the latest technical information.

The publication, called Technical Tips, will contain information gathered by the IIAA's various industry committees, including the commercial lines, personal lines, producer service review and producer liaison committees. It will also contain information provided by various industry rating services.

"The information in Technical Tips is being provided by IIAA committee members working side-by-side with industry executives and other key personnel and represents the most current information available," says Matthew Cantoni Jr., the IIAA's technical affairs director.

The publication will be sent to all IIAA state associations, which will disseminate the information in their newsletters.

Travelers automation

Travelers Corp. has completed an $8 million automation project that the company says will improve service to both clients and agents and aid in the introduction of new financial products and services.

The Travelers computer network now links some 900 independent agents as well as more than 240 Travelers field offices in all 50 states.

"Our ability to easily upgrade hardware and software lets us improve existing products and services and market significant new ones," says Joseph Brophy, senior vp-data processing.

Among the products that will be developed through the system is the Capital T cash management systems for agents, small businesses and individuals (*A/BT*, Aug. 1, 1983). ■

NAIB reviews accomplishments

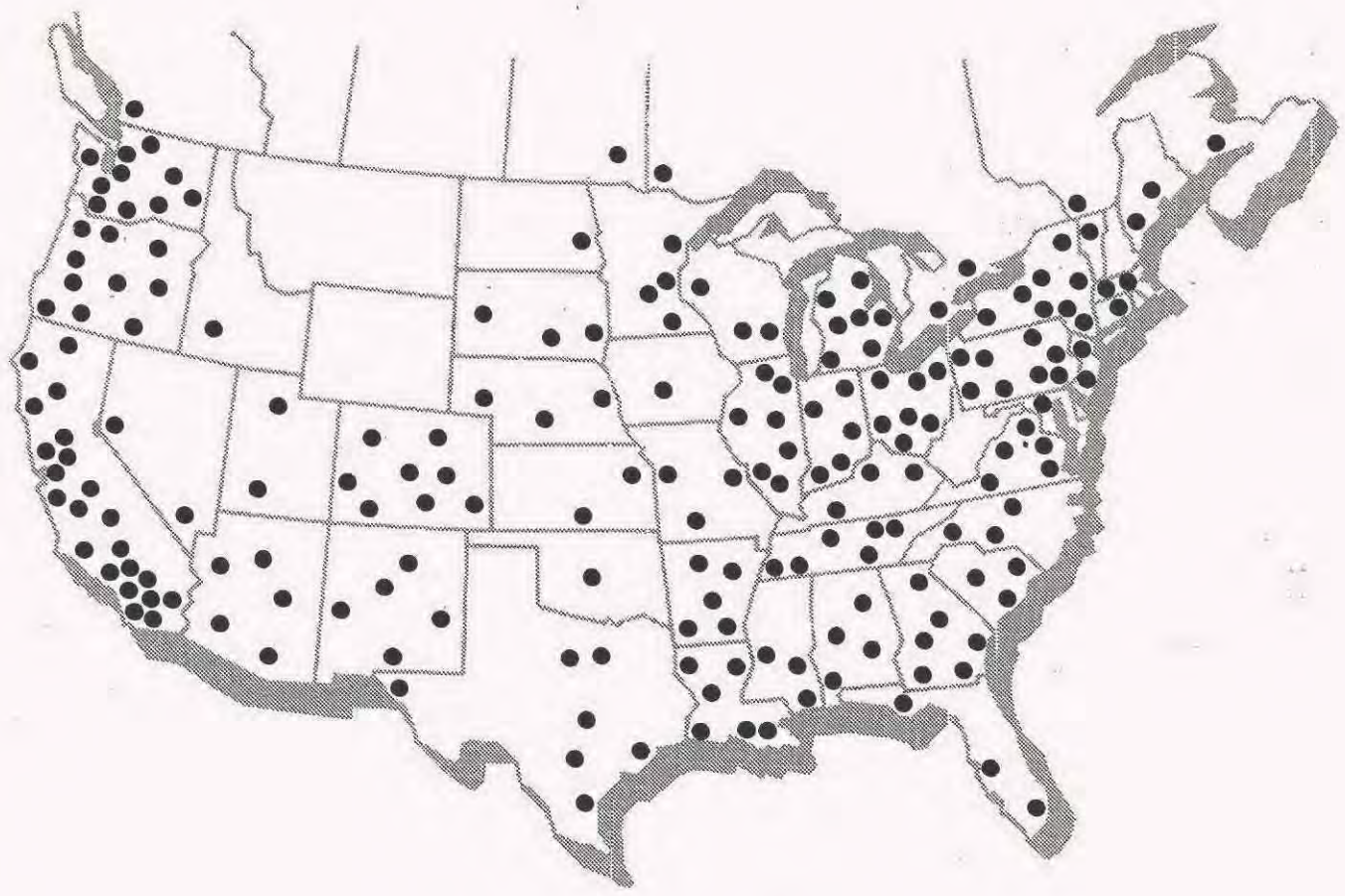
Continued from previous page

"I think we all agree that purpose is still valid and we should continue to adhere to that simple goal," Mr. Quinn said.

He listed a number of the organization's accomplishements of the past year, including:

- Joining with other industry associations at both state and federal levels to keep the insurance industry independent of the banking industry.
- Lobbying in support of product liability reform legislation.
- Working with legislators and regulators on occupational disease and workers compensation issues.
- Educating members to be alert and concerned about potential insurer insolvencies.
- Continued active participation in the IIR/ACORD program so that members have access to information on automation and computer interface with clients and insurers.
- Dealing with the Export-Import Bank, the Department of Commerce and others to promote U.S. insurance interests abroad and reduce trade barriers. ■

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Blast victims may get no compensation

Continued from page 2
until the investigations by the Health and Safety Executive—the British equivalent of the Occupational Safety and Health Administration—and the Water Authority are complete.

Mr. Lees said the authority's employer's liability coverage, which has no limit, is placed with Iron Trades Insurance Group.

To cover any claims arising from the non-employees killed or injured in the blast, the Water Authority has three layers of public liability insurance, with a total limit of 50 million pounds ($69 million), with a 100,000 pounds ($138,000) per-occurrence self-insured retention.

The first layer of 400,000 pounds ($690,000) excess of 100,000 pounds is written by Sun Alliance & London Insurance P.L.C. The second layer of 500,000 pounds excess of 500,000 pounds is led by Legal & General Group P.L.C. And, the third layer of $45 million pounds ($62.1 million) excess of 1 million pounds ($1.38 million) is led by Prudential Assurance Co. Ltd.

The personal accident insurance covering the dead workers, written by Insurance Co. of North America (U.K.) Ltd., pays an employee's beneficiary an undisclosed sum in case of death. There is no need for negligence to be proven to trigger this policy, Mr. Lees said.

Property damage to the site, estimated at around 500,000 pounds, is insured through Municipal Mutual Insurance Co. Ltd.

Mr. Lees said it is unlikely that any of the survivors or injured will hire attorneys or file lawsuits against the authority until the investigation is complete.

At the time of the explosion, a group of people from St. Michael's and the surrounding area were visiting the station for a demonstration of how water is pumped. Ironically, the purpose of the visit was to allay fears of the townspeople that recent continuous flooding of St. Michael's and the surrounding area was caused by the station.

Although the Health and Safety Executive says it will be months before an official reason for the blast is declared, sources believe that an accumulation of methane gas probably caused the disaster.

Also, a Northwest Water Authority spokesman confirmed that scientists have discovered traces of methane in the water in a tunnel leading to the station.

A methane gas buildup may have been caused by a buildup of decaying vegetable matter somewhere in the tunnel.

The Health and Safety Executive and the authority's consulting engineers, Binnie & Partners, are investigating the blast.

The 4-year-old station, which cost 4 million pounds ($5.52 million), was built underground to preserve the beauty of the surrounding countryside.

An authority spokesman said it is one of the authority's newest buildings, and was inspected by the Health and Safety Executive "as a matter or course" before it opened.

The Northwest Water Authority, which has about 9,000 employees, maintains 200 water treatment plants and 650 effluent or sewage systems in an area of northwest England that covers 5,500 square miles and more than 7 million people. ■

Former Home chairman dies at age 72

NEW YORK—John H. Washburn, former chairman of The Home Insurance Co. and a director of City Investing Co., The Home's parent, died May 12 at age 72.

Mr. Washburn had been with The Home for 42 years when he retired in 1976. He again became active as vice chairman of the company in 1978 and held that position through 1979.

Mr. Washburn also had served as chairman of the board of the Insurance Information Institute and chairman of the board of trustees of AFIA Worldwide Insurance. He also had been a trustee and member of the executive committee of The College of Insurance and a director and member of the executive committee of the Underwriters Salvage Co. of Chicago. ■

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Manville accord

Continued from page 3

not result in any significant additional costs to The Home nor affect projected results of The Home or City Investing.

Lloyd's underwriters wrote excess coverage for Manville from 1947 to 1963 and from 1978 until 1979. Spokesmen for Lloyd's could not be reached for comment.

However, only Lloyd's policies from 1951-1963 are part of the agreement, Mr. Von Wald said. Some of these policies did not have aggregates, he added.

Manville says it has $600 million in insurance coverage. "The agreement is comprehensive as to all insurance claims between Manville and settling insurers," said Francis McCarthy, general counsel for Travelers.

"It's a full satisfaction of all claims against them (insurers)," agreed a Manville spokesman.

Despite last week's agreement in principle, it could be a long time before any of three insurers pays anything toward the settlement.

Under terms of the pact, the money will not be paid until after entry of a "final order" approving a reorganization plan for Manville, but not before Dec. 31, 1985.

That process could take years and if no reorganization plan is ever approved, the settlement with the insurers could be voided.

Currently, Manville and creditors are negotiating over details of a consensual plan that would bring Manville out of bankruptcy.

Manville filed for bankrupty August 26, 1982, contending it could not pay an estimated $2 billion for more than 16,500 current asbestos claims and 30,000 expected to be filed over the next 20 years.

Some predict that this settlement between Manville and its insurers could also be a catalyst to ending the bankruptcy litigation.

"I can see a catalytic development here," said Travelers' Mr. McCarthy.

"I think it will be positive in the sense that it makes funds available to a reorganization plan and disposition of those funds to creditors and claimants."

Manville's Mr. Von Wald called the insurance money a "centerpiece" of the reorganization proceedings that will lend some certainty to discussions between the creditor groups and Manville. "It (the agreement) should be beneficial to the whole reorganization process," he said.

With the money guaranteed, it will be more difficult for the asbestos litigants to reject a reorganization plan, another attorney suggested. "It gives Manville more leverage than it previously had."

However, one bankruptcy attorney close to the litigation said the settlement between Manville and its insurers could complicate more matters than it solves.

The $315 million offered by the insurers, while significant, is substantially below the approximately $700 million plaintiffs are seeking for present asbestos claimants, he pointed out.

"It won't solve the present plaintiffs' problems," the attorney said. "While it is a step in the right direction, it isn't magic. There's not enough to it."

Robert Rosenberg, attorney for the committee representing the plaintiffs in the bankruptcy litigation, said he could not evaluate the pact because he had not seen it.

Besides possibly speeding up Manville's reorganization, some believe the settlement will add further impetus to a move to end asbestos litigation nationwide and specifically speed up litigation consolidated in California.

In San Francisco Superior Court, five asbestos companies are suing more than 75 insurers over numerous issues relating to interpretations of liability policies going back a generation.

It is expected that if Manville and its three major insurers settle their coverage disputes, 24 other insurers Manville is suing in San Francisco will settle, too. They may be prompted to do so because Travelers, which led the defense, would no longer be involved.

In addition to Manville, the companies involved in the San Francisco litigation include Fibreboard Corp., Nicolet Inc., GAF Corp. and Armstrong World Industries Inc.

Marsh & McLennan, Manville's broker for many years, is also a defendant in the litigation, which is currently set for trial on March 4, 1985.

On May 17, only about a week before the Manville settlement was announced, a representative of a group of asbestos producers and insurers outlined a plan to San Francisco Superior Court Judge Ira Brown that would resolve more than a score of asbestos coverage disputes nationwide—including the San Francisco litigation—and set up a claims handling facility for asbestos claims (*BI*, May 28).

Signatures of various asbestos producers and insurers are currently being sought in order to implement the plan, devised by the Center for Public Resources.

Fibreboard and Armstrong were major negotiators of the agreement for the facility. According to one attorney, if Manville settles with its insurers and Fibreboard and Armstrong enter the facility if it is created, it would leave GAF to fight the California litigation alone.

The fact that Manville apparently will not be participating in the facility is not expected to harm the effectiveness of the asbestos facility, said a spokesman involved in its creation.

Manville was not part of the Center for Public Resources agreement negotiations because of its reorganization plans. And, Travelers, which had helped spearhead the CPR negotiations, said it could not support the principles of the tentative agreement when it was announced in April.

While Manville has said it would study the facility and Travelers says it remains committed to an expeditious handling and settlement of asbestos claims, the settlement between them will likely foreclose their participation in the CPR agreement.

A spokesman involved in the negotiations pointed out, however, that the facility was conceived without Manville and it was assumed that plaintiffs' attorneys would have to go to the facility and to Manville to resolve claims.

"This (the settlement) doesn't really change anything," he said. "Manville was out and is still out." ■

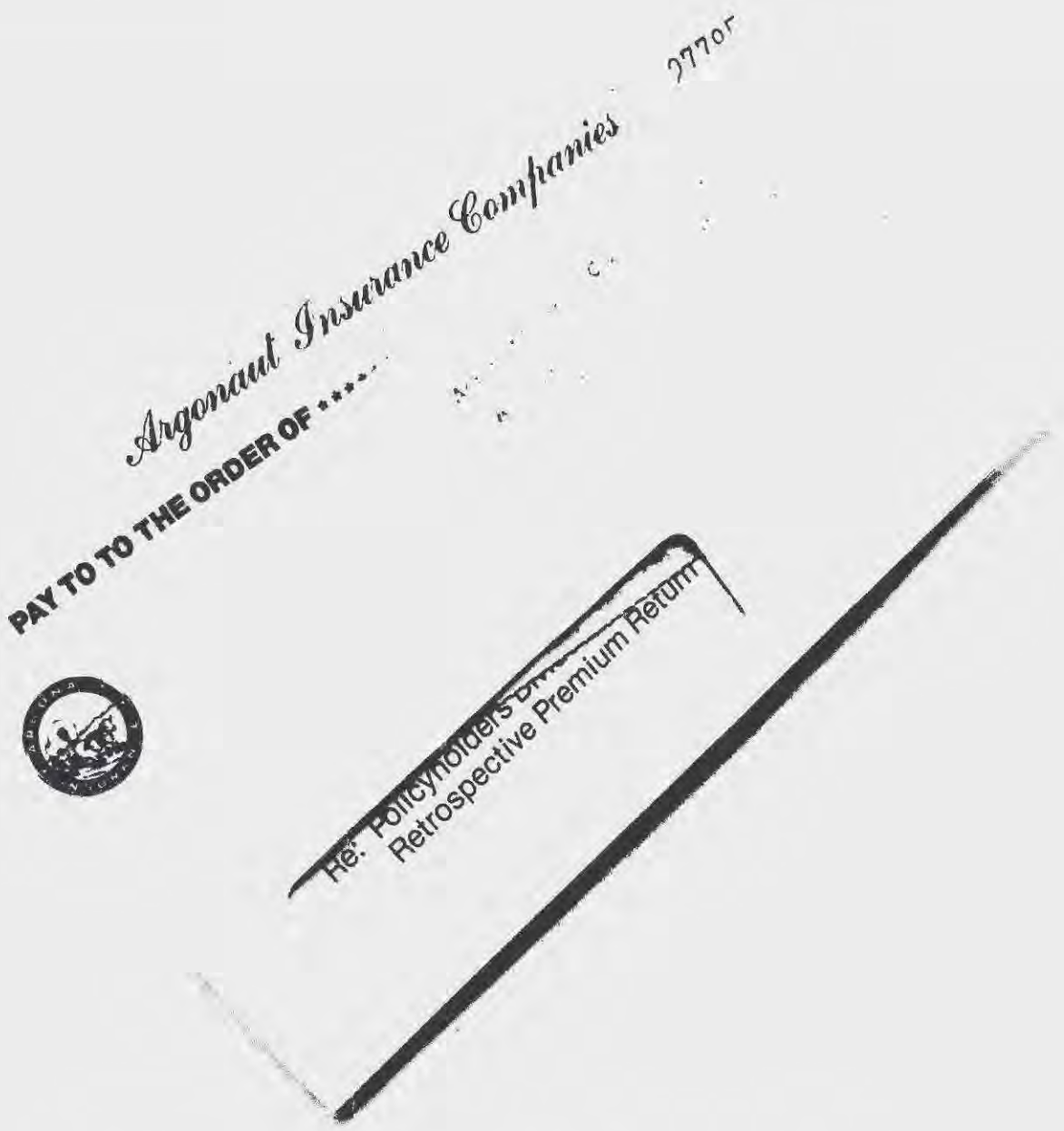
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California considering security fund for self-insurers

Continued from page 2

"The advantage to the fund is that it will protect employees in the event that a Cal-Canners situation should ever recur," observes Ron Rinaldi, director of the Department of Industrial Relations.

California Canners & Growers is a self-insured cooperative whose $2.1 million security bond posted with the state fell more than $1 million short of expected losses when the company filed for bankruptcy in June 1983. An estimated 350 workers compensation claimants haven't received benefits since September 1983 (*BI*, April 9).

The state Workers Compensation Appeals Board is currently reviewing that case at the request of Aetna Casualty & Surety Co., which issued CCG the bond in 1979.

If approved, the security fund would help make up the difference between CCG's bond and its comp liabilities, observers say.

The fund is "long-needed," notes Richard S. Anderson, manager of the Office of Self-Insurance Plans.

"This will provide the security we've needed for some time and will eliminate as much risk as reasonably possible," he says, noting that requiring only a security deposit from self-insured is "becoming too risky."

The security fund would be managed by a board of seven trustees that would include the director of the Department of Industrial Relations, currently Mr. Rinaldi.

With advice from self-insured employers, Mr. Rinaldi would initially appoint six others to serve two-year terms. After those terms were served, the six other trustees would be elected by representatives from various self-insureds.

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Insurance Management: vps, directors, managers of insurance, risk, benefits, compensation, safety, security, etc.	6,604
Associations	1,133
Government, Unions, Educational Institutions	799
Commercial Consumers Sub-total	**24,376**
Insurance Agents & Brokers	9,655
Insurance Cos.	5,461
Financial Institutions	441
Actuaries, Attorneys, Adjusters, Appraisers & Consultants	2,977
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*Source: Business/Occupational breakdown of qualified circulation, November 7, 1983 issue, as submitted to BPA for December 1983, BPA Publisher's Statement.

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Persian Gulf war risk rates, losses climbing

Continued from page 1
man said.

Ship and cargo owners contacted last week by *Business Insurance* would not comment on the Persian Gulf situation.

As of early last week, eight tankers and two dry-cargo vessels had been attacked by either Iraq or Iran as the four-year war between the two Arab nations continued to escalate, according to Lloyd's intelligence unit.

In addition, there were unconfirmed reports that six other vessels had been hit in the northern Gulf.

Losses suffered by war risk underwriters within the past two months as a result of the Iran-Iraq war total around $130 million, said Stephen Merrett, chairman of Lloyd's underwriting agency Merrett Holdings P.L.C. and a leading Lloyd's war risk underwriter.

Added to the $400 million paid by underwriters for the 72 vessels that were trapped in 1980 in the Shatt-al-Arab waterway separating Iraq and Iran, war risk insurers so far have lost $530 million because of the Iran-Iraq conflict.

Consequently, hull and cargo war risk rates have ballooned.

For the most part, the hull rate hikes quoted by the leading Lloyd's war risk underwriters—like Mr. Merrett and Henry Chester, underwriter for the marine syndicates managed by Janson, Green Ltd.—have been followed by the other major war risk underwriters, said Mr. Sherar. That includes the New York-based American Hull Insurance Syndicate, which includes more than 50 U.S. underwriters, he said.

For instance, Mr. Merrett announced May 25 that Lloyd's hull war risk underwriters had more than doubled the additional premium for vessels sailing to Kharg Island, Iran's major oil terminal, or other ports farther north in the Gulf. The rate is now $7.50 per $100 of insured value, compared with $3 per $100 a week earlier.

This additional premium is tacked on the normal hull war risk rate of 10 cents per $100 of insured value that applies to most other areas of the world.

Thus, the owner of a tanker bound for Kharg Island with an insured hull value of $50 million would have to pay a premium of about $3.8 million for full coverage.

However, Mr. Sherar added that most tankers are insured for only up to 80% of their replacement costs.

Besides, the huge additional premium for ships headed to Kharg Island, hull war risk insurers are imposing higher rates for other Persian Gulf destinations, though not nearly as high as those for destinations in the northernmost section of the Gulf.

For instance, hull underwriters are charging an additional premium of 25 cents per $100 of insured value for ships headed to the Iranian port of Bandar Abbas, which is several hundred miles south of Kharg Island. Previously, this destination was quoted at the standard rate.

And, hull war risk underwriters also imposed additional premium of 12.5 cents per $100 of insured value for ships bound for two ports in the United Arab Emirates—Khor Fakkan and Fujairah—which are used by ships that are headed farther up the Gulf to Iran.

Not all hull war risk underwriters are following these rates, however.

Hull war risk mutual associations are quoting rates that are sometimes more than 40% less expensive than Lloyd's, noted Charles Goldie, a partner at Thomas R. Miller & Son, agents for managers of Shipowners Mutual Insurance Assn.

However, war risk associations do not cover cargo risks and have restrictions that are not shared by other hull war risk insurers.

Also, Mr. Goldie said, hull war risk associations only cover ships that are owned by club members. For example, the Hellenic Mutual War Risks Assn. (Bermuda) Ltd. only covers Greek vessels.

And, most war risk associations stopped writing coverage for ships headed for the northernmost portion of the Gulf in 1980, when fighting first flared between Iran and Iraq.

The associations are now wondering whether to include Kharg Island in this prohibited zone, Mr. Goldie said.

"There have been talks recently about whether or not the mutuals should extend this prohibited area south to include Kharg Island, but so far that is still just an additional premium area," he said.

Cargo owners, as well as ship owners, are paying additional premiums because of the Iran-Iraq War.

The Joint Cargo War Risk Rating Committee, which determines the minimum rates that can be charged by Lloyd's and other London cargo war risk underwriters, is allowing members to quote risks on a "held cover" basis, which means underwriters can charge whatever they want.

The spokesman at Marsh & McLennan Middle East said last week that cargo war risk underwriters in both London and the United States were charging rates of $5 per $100 of insured value for ships headed for Kharg Island.

The standard cargo war risk rate is 2.75 cents per $100 of insured value.

In addition, cargo underwriters were charging $1.25 to $1.50 per $100 for cargo bound for ports north of the 27th parallel, with the exception of Kuwaiti ports, and 50 cents per $100 for ships bound for Persian Gulf ports in Kuwait and those south of the 27th parallel.

"But they are changing this all the time," the spokesman said. "Underwriters are a little bit nervous."

The M&M spokesman also said that some cargo war risk underwriters are also reducing the amounts of Persian Gulf risks they will write, adding that the brokerage last week placed coverage for cargo aboard three ships scheduled to head into the Gulf.

"The capacity was available, but instead of underwriters accepting $1 million or $2 million lines, they were taking smaller lines. Underwriters are being cautious and are taking half of what they normally underwrite," he said.

However, Carel Mosselmans, the chairman of Sedgwick Group P.L.C., said last week that there is still adequate capacity in the London market for Persian Gulf war risks.

"We can meet the needs of our clients and can place up to $100 million of business," said Mr. Mosselmans, whose company is the leading oil and energy risk broker in London. "The capacity is there. . . .There is not very much problem with capacity."

Lloyd's underwriters said they agreed with Mr. Mosselmans. For instance, Mr. Chester at Janson, Green noted that Lloyd's continued to write war risk coverage during World War II, although rates ballooned as high as $30 per $100 of insured value of an Atlantic crossing.

Mr. Merrett added that the only time Lloyd's stopped writing war risk coverage was during the 1982 Falkland Islands dispute when the British government asked the market not to write Argentine war risks. ■

Guidelines set for terminating pension plans

Continued from page 3
The other plan—the one covering current employees—is retained.

It is this spinoff technique of terminating pension plans that concerned the Reagan administration and led to the development of the guidelines.

The PBGC, the federal agency that guarantees workers' pension benefits through an insurance program, had held up applications by employers who proposed spinning off pension plans. The agency feared that it could get stuck with big liabilities through spinoff techniques.

For example, after the excess assets were transferred to the retirees' plan, which would then be terminated, the remaining plan might only have a thin cushion of assets to cover promised benefits.

Then, if such a skimpily funded surviving plan incurred serious investment losses, the plan might lack sufficient assets to pay guaranteed benefits to its participants.

As a result, if the company went out of business and terminated the plan, the PBGC would have to take over the plan and pay benefits.

By requiring employers to purchase annuity contracts from insurers guaranteeing participants' benefits before they spin off a pension plan, the PBGC is less likely to have to pay benefits if the plan later folds.

PBGC Executive Director Charles Tharp calls the guidelines a compromise that balances the interests of employers and employees.

"It is important that plan participants receive the full benefits to which they are entitled at termination, while recognizing the rights of plan sponsors to any surplus above that," Mr. Tharp said.

"And we believe it is essential that policies in this area encourage the establishment and maintenance of defined benefit plans," he said.

Experts agree that perserving the spinoff technique—with necessary protection for the PBGC—is essential to ensure the continuation of defined benefit plans.

For example, if the administration has proposed a ban on spinoffs, then more employers might simply have terminated their defined benefit plans and replaced them with defined contribution plans.

That could harm employees since defined contribution plans often are less flexible than defined benefit plans in meeting workers' retirement income needs, experts say.

"The guidelines are in the best interest of preserving the defined benefit plan universe," said Fredrick Rumack, director of tax and legal services for Buck Consultants Inc. in New York.

The guidelines cover all terminations of overfunded pension plans, regardless of the size of the asset reversion. Previously, the administration indicated that the guidelines would not apply in reversions of less than $1 million. ■

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Stouffer to pay $36.6 million in hotel fire

Continued from page 1
tional almost 20% of the total in settlements, or $8.9 million, is being contributed by the insurer for J.A. Jones Construction Co. of Charlotte, N.C., whose subsidiary, William L. Crow Construction Co., was the general contractor for the construction of the Stouffer Inn, completed in 1978. Others had pegged Jones/Crow's contribution at closer to $10 million.

Jones' share of the settlement is covered by general liability insurance written by Aetna Casualty & Surety Co., both Jones and Aetna confirmed.

Without confirming or denying Jones' share of the settlement, an Aetna spokesman added that Aetna has maintained adequate reserves.

The next largest contributor to the settlements is West-Fair Electric Contractors Inc. of Hawthorne, N.Y., which installed the fire alarm system. The company is insured for its share of the settlement, $1.5 million, by a Crum & Forster insurance company, *BI* also learned.

The other nine settling defendants, whose contributions together total less than $2 million, each contributed much smaller amounts to the settlements and all were covered by insurance, parties in the case said. These defendants included the architects of the inn, subcontractors who worked on the fire and smoke alarm systems and manufacturers of materials in the inn that burned in the fire.

At least eight other companies that had been originally named in the litigation had been dropped over the past three years and an additional three that were continuing their defense did not contribute to the settlements.

Attorney Anthony J. Caputo of White Plains, N.Y., lead defense counsel for Crow, confirmed that Stouffer and Crow were the two principal defendants settling the litigation, and the "others are minor by comparison."

The May 25 settlement brings to $49.7 million the total of liability settlements reached with 40 plaintiffs. Of that amount, $48,583,000 was paid to the families of the 26 people who were killed and $1,138,000 was paid to the 14 plaintiffs who were injured in the fire, said Rudolph Pino, a partner in the New York City law firm of Speiser & Krause who was one of the lead co-counsels for the plaintiffs in the discovery portion of the litigation.

The most recent settlements with families of those killed in the fire ranged from $1 million to more than $5 million each to two families, said David G. Miller, a partner in the law firm of Gair, Gair Conason in New York City, another lead co-counsel for the plaintiffs' discovery efforts. His firm represented 11 of the families of those killed and one of the injured.

The highest settlement to any of the 14 injured was $250,000, Mr. Miller said.

Many of those killed in the fire were highly compensated executives in the prime of their careers who were survived by families including minor children. These circumstances increased the cost of the settlements.

Several attorneys involved in the litigation called the American Mutual settlement of one case, which bumped the liability for the defense of the remaining cases up to excess insurers, "buying its way out."

That settlement exhausted the limits of American Mutual's policy and relieved the insurer of any continuing duty to defend Stouffer in litigation filed by the other 39 plaintiffs.

Mr. Ball at Stouffer and the excess insurers all declined to comment on the issue.

An American Mutual executive said that American Mutual considered the settlement "good claims handling and the proper response," noting that the amounts of the recent settlements confirm its judgment of the proper settlement amounts.

Without addressing the Stouffer case specifically because he is not involved in it, one attorney specializing in insurance litigation said it is not unusual for a primary insurer to settle one or more claims to the extent of its policy limits under certain circumstances.

A primary insurer settles for its limits when the insurer believes there is clear liability, the case or cases can be reasonably settled within its policy limits and the policyholder has coverage for defense costs provided by excess insurance policies, explained Stephen A. Cozen, a partner with Cozen, Begier & O'Connor in Philadelphia.

"It is difficult to do if there is no excess insurance or if defense costs are not covered by the excess policies. It is very dangerous to leave the policyholder bare," he said.

"In many instances, the primary insurer is perfectly entitled and it is the perfectly right thing to do." he added.

Some of the recent settlements with the families of those killed in the fire will be structured settlements, under which the families will receive periodic payments, said Rudolph Pino, a partner in the New York City law firm of Speiser & Krause. Mr. Pino, one of the lead co-counsels for the plaintiffs in the consolidated discovery, represented six plaintiffs, three of whom will receive structured settlements.

When children are survivors, it makes a lot of sense to structure the settlements, Mr. Pino observed.

The extent to which structured settlements are used, however, will not reduce the amount of money the defendants are contributing to the individual settlements, Mr. Pino stressed. "The total expenditure is $48.7 million and the defendants will have to spend at least that," he said.

Structured settlements, however, could ultimately increase the total dollars received by a plaintiff.

Mr. Pino's six clients, all families of those killed in the fire, will receive in excess of 20% of the settlement, or in excess of $9.6 million.

The settlement negotiations began in November, Mr. Miller said. The case was settled last month because the judge had announced he intended to impose an August trial date for the litigation, several attorneys agreed.

"No one wanted 25 widows paraded before a jury," said one defendant.

"After three years of discovery, by the fall, everyone understood their exposure—they may not have agreed, but they understood it," Mr. Pino said.

Asked why so many companies contributed to the settlement, Mr. Pino responded "it was expensive litigation for everyone who was named."

Mr. Miller agreed that the pressure of an August trial date encouraged the settlement, but he also credited Judge Sofaer and the efforts of the special master he had appointed, Morton B. Silberman, a retired state Supreme Court judge. "Together, their efforts caused the parties to have meaningful discussions," he said.

While the liability discovery had been consolidated, each of the approximately 14 plaintiffs' attorneys individually negotiated the settlements for their clients.

The plaintiffs had contended that Stouffer was liable for the deaths and injuries in the fire because it was the owner of the building and intimately involved in the architectural design and construction of the building. Stouffer opted for aesthetics rather than safety, the plaintiffs charged. They contended that the Stouffer Inn needed a sprinkler system and a more sophisticated fire alarm system.

The plaintiffs also had charged that Stouffer had authorized alteration of the existing fire alarm system that rendered it useless because there had been inconveniences caused by false alarms.

The plaintiffs contended that Crow's liability stemmed in part from its construction of the hotel and in part from the mistakes—the errors and omissions—of the subcontractors working on the project, for which they contended Crow should be responsible.

As is typical in settlements, the defendants settled without admitting any liability.

Other defendants that are settling with the plaintiffs include the architects of the Stouffer Inn, Dalton Van Dijk Johnson & Partners in Cleveland; Edwards Co., a division of General Signal Corp. in Stamford, Conn., which manufactured the fire alram and smoke detection system; Fire Systems Inc. of Hawthorne, N.Y., which designed the wiring for the systems; Byers Urban Klug & Pittenger, also known as Byers, Urban, Klug, White & Partners, of Cleveland, original engineers for Stouffer's electrical and mechanical systems; Denk-Kish Associates Inc. of Cleveland, electrical engineers that replaced Byers after construction began; Partitions Inc. of New York City, which manufactured the interior walls for the conference area; Shelby Williams Industries Inc. in Morristown, Tenn., which made chair coverings; J. Josephson Inc. of Hackensack, N.J., maker of the wall coverings, and Firth Carpets Ltd., which manufactured some of the carpeting in the area of the fire.

The architects and Byers Engineering are covered by professional liability policies issued by CNA Insurance, each believed to have $1 million limits. Shelby Williams also is insured by CNA Insurance, under a general liability policy.

Firth Carpets, which contributed $25,000, was insured by Commercial Union U.K.

A Kemper Group company insured J. Josephson Inc.

Liberty Mutual Insurance Co. insured Fire Systems.

The insurers for the other defendants could not be learned. ■

Court frees man charged in blaze

On the heels of the settlement with plaintiffs claiming wrongful death and injury damages in the Stouffer Inn fire in December 1980, the freedom of the person charged with starting the fire was affirmed in New York.

The settlement with plaintiffs was announced Thursday, May 24. On Tuesday, May 29, the appellate division of the state Supreme Court affirmed the trial judge's finding that there was insufficient evidence to support a jury verdict of guilty of murder against former Stouffer Inn employee Luis Marin.

Now pending is a civil suit filed by Mr. Marin against Stouffer Corp. seeking $6 million in damages.

Mr. Marin was arrested in April 1981, charged with having started the blaze in the Stouffer Inn and the murder of the fire victims. He was convicted about a year later after a six-week trial. Four days after the jury verdict, however, the trial judge found that there was insufficient evidence to establish guilt beyond a resonable doubt and Mr. Marin was freed from jail for the first time since his arrest.

Although having lost the first appeal, Westchester County District Attorney Carl A. Vergari said he intends to apply for permission to appeal to the New York State Court of Appeals, the state's highest court. "We felt we had a case beyond a reasonable doubt and the jury felt that way," he said.

In the meantime, pending in the State Supreme Court in Westchester County is Mr. Marin's suit against Stouffer, filed earlier this year by his defense attorney, Howard Dryer of White Plains, N.Y.

The suit seeks $1 million in compensatory damages and $5 million in punitive damages, charging that Stouffer willfully and intentionally concealed information about the fire that if revealed would not have supported the criminal case against Mr. Marin.

Mr. Marin, now 26, is working as a shipping and delivery clerk for another company.

Mr. Dryer, who was employed as a public defender for Mr. Marin, compensated by the county at a rate of $15 per hour, except for trial work compensated at $25 an hour, said the case "became an obsession for me."

Lloyd's losses

Continued from page 2
veterans (*Bi*, May 14).

The RBUA Marine Syndicate will stop underwriting non-marine long-term liability risks and the non-marine syndicates will underwrite little, if any, U.S. general liability risks, Mr. Beckett added.

The names will pay any losses either through their Lloyd's deposits and reserves, though profits accumulated on other syndicates or out of personal reserves.

But, no money will be paid out of Lloyd's central fund, noted Lloyd's Chairman Peter Miller. The central fund is for the benefit of policyholders, not members, he said. ■

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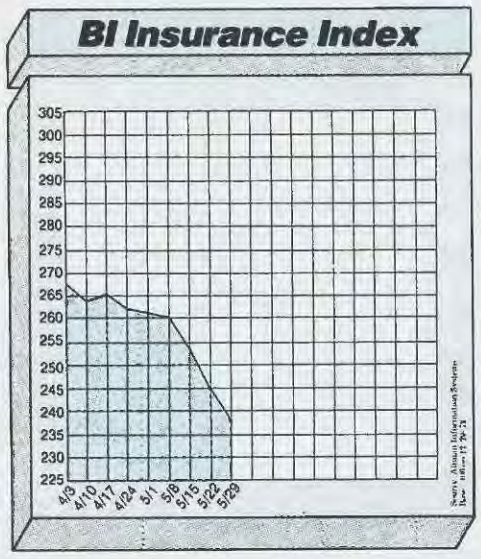
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The *Business Insurance* index plummeted again for the week ending May 29 to set a low for the year. The index fell 6.4 points to 238.4 from 244.8 on May 22, which was the previous low for the year. In the most recent trading period, 38 issues posted declines, 14 stocks closed unchanged and only eight reported gains. The largest increases were reported by Aneco Reinsurance Co. Ltd., 5.6%; Poe & Associates Inc., 5.0%; CNA Financial Corp., 3.9%; USLife Corp., 2.5%; and Corroon & Black Corp., 2.2%. The largest losses were posted by Integrated Resources Inc., 13.6%; American National Insurance Co., 9.4%; Alexander & Alexander Services Inc., 8.8%; Combined International Corp., 8.3%; and Statesman Group Inc., 7.3%. The *BI* index of insurance industry stocks reported a 2.6% decrease during the holiday-shortened trading period, while the New York Stock Exchange composite fared a bit better, decreasing 2.2%.

British Issues

29 May Companies	Price pence	P/E	Div. pence	Yield %	1 Week High—Low pence	pence
Comml Union	197	17.9	16.86	8.6	207—	197
Genl Accident	437	11.8	30.00	6.9	450—	435
Gdn Royal Exch	545	12.1	36.43	6.7	550—	542
Phoenix	430	15.4	31.43	7.3	443—	430
Royal	545	15.1	42.86	7.9	550—	545
Sun Alliance	345	14.2	22.86	6.6	360—	343
Brokers						
CE Heath	427	7.8	28.57	6.7	432—	427
Hogg Robinson	177	11.8	10.43	5.9	189—	177
JH Minet	148	9.9	9.00	6.1	161—	148
Sedg Grp	239	10.9	12.86	5.4	242—	239
Stew Wrightson	362	10.3	24.00	6.6	366—	362
Willis Faber	830	14.8	35.00	4.2	835—	830

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

Survey of underwriters shows guarded optimism

Continued from page 2

compared with 42.5% of last year's respondents. And, only 24.6% of this year's survey say workers compensation rates will rise, compared with 31.1% last year.

The same percentage of insurers in both surveys—42.6%—said rates will rise in specialty lines, which the survey defines as nonstandard auto, fidelity and surety and other commercial casualty lines.

And, a slightly greater percentage of those polled in 1984 said general liability rates will increase within 12 months. Fifty-eight percent of those polled earlier this year expect general liability rate hikes, compared with 57.4% of those responding to the 1983 study.

Some 68.1% of the insurers polled this year expect hikes in commercial auto rates. Insurers were not polled on this in 1983.

Although many of the insurers responding to this year's survey said they expected rates to rise within a year, fewer underwriters said they expected rates to rise immediately.

Only 29.1% of the insurers polled in this year's first quarter said they expected rates to rise across all lines within the next quarter. That compares with the 48.7% that expected rate hikes within the next year.

And, in each of the commercial lines surveyed, a smaller percentage of respondents expected rates to rise within the next quarter. For example, only 33.3% said general liability rates would rise in the next quarter, compared with the 58% that said these rates would rise within a year. And only 40.6% saw a quick increase in commercial auto rates, compared with the 68.1% that said rates in this line would increase in the next year.

Although a large percentage of insurers surveyed earlier this year expect rate hikes within 12 months, few insurers reported a decrease in rate competition.

Only 9.8% of those surveyed said that competition across all lines is decreasing, while 28.9% said they think competition is still increasing and 61.3% said competition was about the same as it had been a year before.

Of the commercial lines surveyed, commercial auto was the line most often cited by insurers as an example of decreased rate competition. Some 22.1% said commercial auto competition had decreased, 14.7% reported an increase in competition, and 63.2% said there had been no change.

Insurers' rate predictions for next 12 months*

	Expect rates to increase	Expect no change	Expect rates to decrease
All lines[1]	48.7%	40.5%	10.8%
Commercial property	31.4	61.5	7.1
General liability	58.0	37.7	4.3
Workers compensation	24.6	35.4	40.0
Specialty lines	42.6	48.1	9.3
Commercial auto	68.1	29.0	2.9

[1] Includes homeowners and personal auto.
* Asked during first quarter of 1984.
Source: Legg Mason Wood Walker Inc. survey.

Some 17.7% said competition had declined for general liability risks, while 13.2% said competition in this line was increasing and 69.1% said that it had remained the same.

But, the insurers reported that competition was increasing in the rest of the commercial lines surveyed, including:

- Commercial property. Only 4.3% said competition in this line had decreased, while 20% said it was still increasing.
- Workers compensation. Just 4.6% reported a decrease in work comp rate competition, while 56.9% reported an increase.
- Specialty lines. About 11% said competition for specialty risks was decreasing, but 18.5% said competition was still heating up.

Although few insurers said competition was decreasing when the survey was conducted earlier this year, 63.2% believed that the current underwriting cycle would touch bottom sometime during 1984.

Specifically, 5.3% said the cycle would hit bottom during the first quarter, 15.8% predicted it would happen during the second quarter, 26.3% said the cycle would hit bottom in the third quarter and 15.8% said the bottom of the cycle would be reached in the fourth quarter.

However, 36.8% said the competitive cycle would continue into 1985.

Almost 65% of the respondents said they had seen changes in the reinsurance market, an indication that the cycle could be nearing the bottom. Some 50.7% of these insurers said they had seen higher reinsurance rates, 19.2% said reinsurers had insisted on tougher terms and 17.8% said that reinsurers had forced them to increase their retentions.

But, most of the insurers facing higher reinsurance costs or stricter contract terms say they are not yet increasing the rates they charge policyholders. Only 29.8% said they were increasing rates, 40.3% said they would increase their retentions and 26.8% said they'd just absorb higher reinsurance costs.

Despite the fact that few insurers said competition was decreasing and less than half expected rates to rise across all lines in the next 12 months, the insurers said they expect their combined ratios to decrease during 1984.

However, it must be noted that the survey was conducted before the major property/casualty insurers released their first-quarter results, most of which included steep increases in underwriting losses.

In the survey conducted earlier this year, the insurers projected an aggregated 1984 combined ratio of 107.4%. They also estimated their aggregate 1983 combined ratio at 108.5%, much lower than the aggregate 111.95% combined ratio tabulated by Legg Mason for a sample of 25 insurers.

(The study notes that the relatively low 1983 combined ratio estimated by the insurers may be related to the fact that the same weight is given to small specialty firms, which are more likely to have smaller combined ratios, as is given to the giant multiline companies.)

The surveyed insurers also note they expect improved underwriting results in 1984 in each of the five commercial lines surveyed. According to the survey:

- The insurers project an aggregate 107% combined ratio for commercial property risks in 1984, compared with an estimated 108% combined ratio for the line in 1983.
- They expect a 111.2% general liability combined ratio in 1984, compared with an estimated 113.3% in 1983.
- The insurers predict a 108.5% combined ratio for workers compensation risks in 1984, compared with an estimated 108.5% in 1983.
- They expect the combined ratio for specialty lines to decrease to 105% in 1984, compared with an estimated 106.3% in 1983.
- The underwriters project a commercial auto combined ratio of 111.5% in 1984, compared with an estimated 113% in 1983.

"Obviously, the insurers predicted wrong," Legg Mason's Ms. Vogel said of the insurers' combined ratio forecasts.

She noted, though, that many of the companies had completed the survey very early in the year, adding that heavy losses suffered in March had wrecked the insurers' first-quarter underwriting results.

Interestingly, a greater percentage of insurers responding to the 1984 poll, compared with those participating in the 1983 study, say combined ratios for commercial lines will exceed 108% in the coming year.

For instance, 65.7% of the insurers polled earlier this year say the general liability combined ratio will top 108% in 1984. Only 60.5% of the respondents in the 1983 survey said the general liability combined ratio would exceed 108% in 1983. And, 42.9% of this year's respondents expect the workers compensation combined ratio to reach 108%, compared with only 24.7% of the insurers surveyed last year. ■

BI Industry Stock Report

MAY 29, 1984 5/23/84 THRU 5/29/84

Insurance Cos.		Price	% Chg.	P/E	$ Div.	% Yld.	High	Low	Vol. (000)
Aetna Life & Cas Co	NYSE	31.50	-1.9	15.4	2.64	8.4	31.88	31.50*	541.4
American Bankers Ins Group	OTC	10.75	-5.5	7.6	0.50	4.7	11.38	10.75*	66.7
American General Corp	NYSE	20.13	-3.0	6.8	0.90	4.5	20.63	20.13	1,804.4
American Indty Finl Corp	OTC	16.00	-1.5	114.3	1.12	7.0	16.25	16.00*	6.9
American Intl Group Inc	OTC	55.00	-5.2	9.7	0.44	0.8	57.00	55.00	799.1
American Natl Ins Co	OTC	22.88	-9.4	6.7	0.96	4.2	24.75	22.88	66.0
Aneco Reins Ltd	OTC	2.38	5.6	7.0	0.00	0.0	2.38	2.25	7.6
Avemco Corp	AMEX	17.75	-1.4	11.3	0.58	3.3	18.00	17.75	1.0
Banks Iowa Inc	OTC	51.50	0.0	20.4	1.56	3.0	51.50	51.50	10.7
Bitco Corp	OTC	11.00	0.0	0.0	1.33	12.1	11.00	10.00*	45.6
Carolina Cas Ins Co	OTC	3.50	0.0	0.0	0.00	0.0	3.50	3.50	0.7
Chubb Corp	OTC	61.50	-5.9	11.2	3.12	5.1	64.00	61.50	113.4
Combined Intl Corp	NYSE	27.50	-8.3	7.0	2.08	7.6	29.75	27.50*	129.2
Continental Corp	NYSE	25.75	-5.1	0.0	2.60	10.1	27.13	25.75*	885.9
Crawford & Co	OTC	14.50	-4.9	9.9	0.66	4.6	15.00	14.50	3.7
Crown Life Ins Co	OTC	121.00	0.8	7.9	3.20	2.6	121.00	120.00	1.5
Employers Cas Co	OTC	30.50	0.0	7.2	1.20	3.9	30.50	30.50	3.0
Equifax Inc	NYSE	26.00	-1.0	11.5	1.60	6.2	26.75	26.00	14.1
Farmers Group Inc	OTC	36.38	-6.1	8.6	1.52	4.2	39.00	36.38	170.5
Foremost Corp Amer	OTC	22.50	-7.2	12.3	0.96	4.3	24.25	22.50	38.1
Fremont Gen Corp	OTC	12.75	-6.4	0.0	0.48	3.8	13.50	12.75	150.4
Great West Life Assurn Co	OTC	300.00	0.0	9.6	12.00	4.0	300.00	300.00	0.0
Hanover Ins Co	OTC	23.50	-1.1	7.8	0.44	1.9	23.75	23.50*	24.8
Hartford Steam Boiler Inspctn	OTC	50.00	0.0	12.6	3.00	6.0	50.50	50.00	1.3
Jefferson Natl Life Ins Co	OTC	40.75	0.0	18.5	0.76	1.9	41.00	40.75	0.8
Kemper Corp	OTC	34.50	-1.1	11.3	1.80	5.2	34.63	34.50	73.2
Lincoln Natl Corp Ind	NYSE	29.50	-2.5	7.2	1.68	5.7	29.88	29.38*	230.0
Mission Ins Group Inc	NYSE	13.38	0.0	0.0	0.50	3.7	13.50	13.25*	101.3
Northwestern Natl Life Ins	OTC	39.25	0.6	8.8	1.50	3.8	39.50	38.75	95.3
Ohio Cas Corp	OTC	39.25	-3.7	10.9	2.68	6.8	41.00	39.25*	82.5
Old Rep Intl Corp	OTC	30.75	-2.8	6.7	0.88	2.9	31.63	30.75	47.7
Orion Cap Corp	NYSE	19.50	-8.2	11.4	0.76	3.9	20.50	19.50*	37.5
Preferred Risk Life Ins Co	OTC	22.63	0.0	7.8	0.74	3.3	22.63	22.63	1.6
Provident Life & Acc Ins Co	OTC	68.00	-2.9	6.7	2.88	4.2	70.00	68.00	30.4
St Paul Cos Inc	OTC	50.00	-5.9	11.4	3.00	6.0	53.75	50.00*	149.9
SAFECO Corp	OTC	60.13	-4.6	8.4	2.60	4.3	62.63	60.13	130.1
Sri Corp	OTC	15.00	-4.8	8.8	0.68	4.5	16.00	15.00*	170.2
Seibels Bruce Group Inc	OTC	20.50	-5.7	13.3	0.80	3.9	20.75	20.50	24.5
Statesman Group Inc	OTC	6.38	-7.3	7.4	0.15	2.4	6.88	6.38*	44.1
Tokio Marine & Fire Ins Co	OTC	119.50	-0.6	24.1	0.96	0.8	121.50	119.50	2.5
Travelers Corp	NYSE	30.00	-1.6	7.5	1.92	6.4	30.00	29.50	475.0

MAY 29, 1984 5/23/84 THRU 5/29/84

		Price	% Chg.	P/E	$ Div.	% Yld.	High	Low	Vol. (000)
United Fire & Cas Co	OTC	27.25	-5.2	15.6	1.60	5.9	28.75	27.25*	2.1
United States Fid & Gty Co	NYSE	44.75	-6.8	6.8	4.16	9.3	47.38	44.75*	156.6
United Svcs Life Ins Co	OTC	26.00	-2.3	7.6	1.00	3.8	26.50	25.75	25.8
Uslife Corp	NYSE	25.38	2.5	6.8	0.96	3.8	25.38	25.00	85.9
Washington Natl Corp	NYSE	18.00	-4.0	10.5	1.08	6.0	18.38	18.00*	107.0
Zenith Natl Ins Corp	OTC	12.00	-5.9	8.0	0.68	5.7	12.50	12.00*	9.4
INSURANCE COMPANIES	AVERAGE			10.8		4.3			
Agents/Brokers									
Alexander & Alexander Svcs	NYSE	18.13	-8.8	0.0	1.00	5.5	19.50	18.13*	155.1
Baldwin & Lyons Inc	OTC	37.00	0.0	616.7	0.80	2.2	37.00	37.00	0.0
Corroon & Black Corp	NYSE	23.50	2.2	14.8	1.00	4.3	23.50	23.25	11.5
Crump E H Cos Inc	OTC	12.38	1.0	15.5	0.40	3.2	12.38	12.38	6.5
Emett & Chandler Cos Inc	OTC	9.25	0.0	20.1	0.00	0.0	9.25	9.25	0.2
Hall Frank B & Co Inc	NYSE	20.63	0.0	27.9	1.18	5.7	20.63	20.38	134.1
Integrated Res Inc	AMEX	17.50	-13.6	4.1	0.00	0.0	20.38	17.50*	237.8
Marsh & Mclennan Cos Inc	NYSE	36.50	-5.8	28.5	2.20	6.0	38.75	36.50*	317.0
Poe & Assoc Inc	OTC	5.25	5.0	0.0	0.00	0.0	5.25	5.25	0.1
Reed Stenhouse Cos Ltd	OTC	11.75	3.0	22.6	0.60	5.1	11.88	11.75	23.4
AGENTS/BROKERS	AVERAGE			22.8		3.7			
Conglomerates/Holding Cos.									
American Express(Fireman's Fd)	NYSE	26.75	-10.1	11.8	1.28	4.8	29.00	26.75*	2,811.0
Anderson Clayton(Ranger/PanAm)	NYSE	25.00	-4.8	11.3	1.32	5.3	25.88	25.00*	498.3
Armco Inc	NYSE	16.75	-6.3	0.0	0.40	2.4	17.25	16.63*	272.7
Baldwin Utd Corp	NYSE	1.38	0.0	0.0	0.00	0.0	1.50	1.38	146.9
CIGNA Corp	NYSE	34.25	-4.2	8.4	2.60	7.6	35.13	34.25*	1,118.8
City Investing Co. (Home Ins.)	NYSE	39.75	-3.9	9.5	2.00	5.0	41.13	39.75	945.8
CNA Finl Corp (CNA)	NYSE	23.25	3.9	8.7	0.00	0.0	23.63	22.50	17.8
Control Data (Comml. Credit)	NYSE	30.25	-0.4	7.3	0.66	2.2	30.63	30.25	491.9
General Re Corp	NYSE	52.50	-1.2	14.0	1.44	2.7	52.75	51.75*	151.6
ITT (Hartford Group)	NYSE	34.25	-0.7	7.6	2.76	8.1	34.63	34.00*	1,051.3
Optimum Hldg Corp	OTC	3.75	-6.2	0.0	0.00	0.0	4.00	3.50	4.0
Sears Roebuck & Co. (Allstate)	NYSE	30.63	-2.4	7.8	1.76	5.7	31.13	30.63	1,743.4
Teledyne Inc (Argonaut)	NYSE	199.50	3.6	15.1	0.00	0.0	199.50*	194.00	1,217.9
Transamerica Corp (Occidental & Fred S. James)	NYSE	22.38	1.7	7.7	1.56	7.0	22.50	22.00	244.1
CONGLOMERATES/HOLDING COS.	AVERAGE			79.0		2.9			

*Record high/low since Jan. 1, 1983

System design: Altman Information Systems

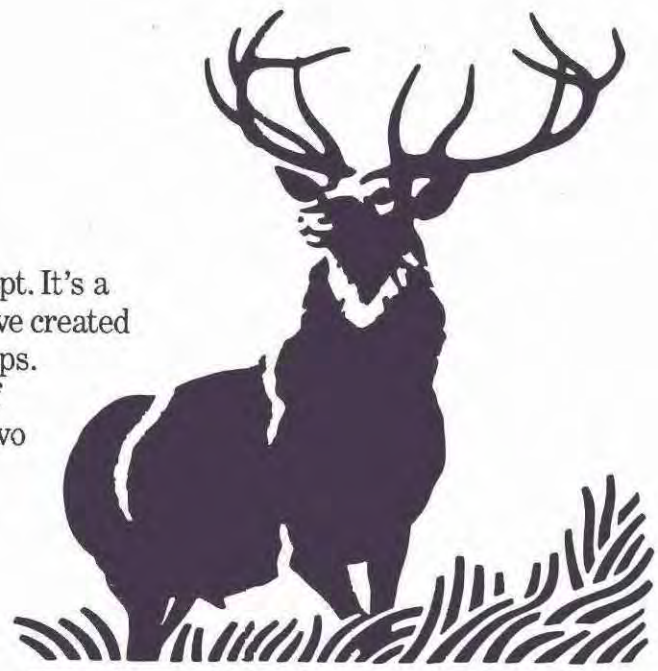
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