

business insurance

Reporting weekly for corporate risk, employee benefit and financial executives/\$1 a copy; \$40 a year

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update:

House of Commons approves Lloyd's bill

LONDON—After more than a year of consideration, the Lloyd's of London self-regulation bill has been approved by the House of Commons, but it still faces challenges in the House of Lords.

As many as three petitions may be filed this week against the bill. Alexander Howden Group Ltd. will petition against the di-

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Few states have pollution cover rules

By JOHN W. MILLIGAN

NEW YORK—Even if the federal Environmental Protection Agency drops its pollution liability insurance regulations, hazardous waste handlers in 14 states won't be off the hook.

These states say, regardless of what the EPA does, they will still require insurance or other proof of ability to pay for damages from sudden and non-sudden pollution as proposed by the EPA under the Resource Conservation and Recovery Act. They have already adopted EPA-like regulations or will soon.

But in 15 other states, there may not be any pollution insurance requirements at all. These states, which have also already adopted the federal regulations or are close to adopting them, now say they will drop them if the EPA suspends its regulations.

These results of a study by environmental consultants Risk Science International of Washington, D.C., show that few states are ready to take over regulation of pollution insurance, which some in the federal government say really is state business. The survey also shows that pollution coverage regulations will vary greatly from state to state.

While the survey doesn't show specifically what each state has in mind, it does show their attitudes toward pollution insurance regulations. In the absence of a federal standard, states are not required to adopt any minimum requirements.

The federal EPA last fall postponed the effective date of financial responsibility requirements for companies that treat, store or dispose of hazardous wastes until April 13, and now it appears it will drop them altogether (BI, March 8).

Under those regulations, any company that generates hazardous wastes and treats or stores it on-site for more than 90 days would have to purchase insurance.

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rm board

Risk managers reporting layoffs, hiring freezes

By KATHRYN J. MCINTYRE

If you are looking for a new risk management job and getting the cold shoulder, it's probably not your fault.

You most likely are running into the hiring freeze.

Forty percent of the risk management departments responding to the most recent survey of the Business Insurance Risk Management Board are operating under a hiring freeze. Another 11% expect to be under a hiring freeze within the next six months.

And 13% of the respondents have eliminated jobs in the risk management department, including four concerns that eliminated the top risk management position.

A hiring freeze is the most prevalent impact of the troubled economy—continued recession, high interest rates and inflation—on risk management departments, according to the 80 members of the Risk Management Board responding to the survey.



Illustration: Amy Palmer

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Court asked: Can employer be sued as a landowner?

By EILEEN NORRIS

CHICAGO—Illinois employers are undeniably tense as they await a state Supreme Court ruling that could shatter their protective shield against employee lawsuits.

Unless the Supreme Court reverses a lower court decision, all Illinois employers that own their business sites will be open to lawsuits from injured employees who want more than workers compensation benefits.

And, although the court case in question only deals with landowners, employers fear down the road the decision also could be interpreted to apply to employers who lease their land because they have the responsibility to maintain that property.

Employers and business groups have filed statements with the state Supreme Court predicting economic doom—for all employers—if the decision in Sharp vs. Gallagher is upheld.

Russell Dean Sharp was employed as a carpenter for two partners who own the Orchard Hill Building Co. when he was injured on a Downers Grove, Ill., construction site on Jan. 16, 1978.

The worker, who was hurt when he

slipped on a scaffolding, filed a workers compensation claim. The \$18,363 Mr. Sharp received, for which his employer was insured, represents 19 weeks of temporary total disability and 70% loss of use in his left foot.

The worker then filed a two-count lawsuit against Robert Gallagher and Daniel Henry, the partners owning Orchard Hill.

Both counts claim Orchard Hill owned the premises where Mr. Sharp slipped and fell and as landowner could be held negligent and responsible for the carpenter's injuries. The landowner is ultimately responsible for what happens on his property, the suit says.

Mr. Gallagher and Mr. Henry moved to dismiss the lawsuit on the basis that they were Mr. Sharp's employer and could not be sued under common law or under the Structural Work Act.

The Structural Work Act of 1907, also known as the Scaffolding Act, says whomever is in charge of the worksite—contractor, subcontractor, foreman—is totally liable for employee injuries. Although the Workers Compensation Act of 1911 nullifies this law because of its exclusive remedy provisions, the Scaffolding Act is still on the books.

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Commons approves Lloyd's bill

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vestment of brokers from their underwriting agencies, which was added to the bill last summer, says Michael Glover, Howden's chief executive officer.

Two other petitions, one opposing the immunity from liability clause and the other opposing voting procedures for the proposed Council of Lloyd's, also are expected to be filed, he said.

A Lloyd's spokesman says he believes the bill will be enacted by the end of the parliamentary session in July. However, if the bill is not enacted this session, Lloyd's must receive special permission to carry the bill over to the next session.

Cause of rig disaster hinted

WASHINGTON—The president and chief executive officer of Ocean Drilling & Exploration Co. says a broken porthole window may have triggered the events that led to the Feb. 15 sinking of the Ocean Ranger oil rig, which killed 84 people (BI, Feb. 22).

Hugh J. Kelly told the House Merchant Marine and Fisheries Committee the company was aware of radio communications from the rig about six hours before it disappeared from radar screens in which an unidentified voice reported water and broken glass on the floor of the ballast control room.

Videotapes of the wreck, which lies in 265 feet of water, confirm the broken porthole, he said.

Municipal coverage plan killed

PALO ALTO, Calif.—The Palo Alto City Council has killed a plan that would have set up municipal homeowners coverage.

The proposal called for the city to accept bids from companies to insure private homes, which would be inspected by the city. Billing and premium collection would have been handled by the city, which also would have self-insured a portion of the risks. Excess profits would have been returned to the city coffers.

The council turned down the proposal after extensive testimony from insurers who claimed the plan would hurt their business. Donald West, the city's loss-control manager, said the council also felt it did not want to be in the insurance business and that the city would be assuming too large a risk (BI, March 1).

Worker loses asbestos case

GROTON, Conn.—More than a dozen asbestos manufacturers and suppliers were freed from liability last week in the first trial among some 300 lawsuits brought by former workers at a shipyard.

A federal court jury ruled that 71-year-old Joseph LaBrecque never proved his lung-related ailments were due to exposure to asbestos.

Mr. LaBrecque, who worked at the Electric Boat shipyard for 18 years, sought \$1.23 million in damages. Expert testimony conflicted on whether his ailments were due to asbestos. Defendants contended that his 45-year smoking habit contributed to his ailments.

The jury's finding meant it did not have to decide whether the manufacturers and distributors on trial failed to warn of the dangers of asbestos insulation.

MGM claims worry bank

LAS VEGAS, Nev.—First Interstate Bancorp. wants MGM Grand Hotels Inc. to take out a second mortgage on its Las Vegas hotel to secure a loan spent to rebuild the fire-ravaged hotel last year, a proxy statement reveals.

Other debt level and dividend payment restrictions also are sought by the Los Angeles-based bank, which is concerned that MGM Grand has not been able to collect more than \$69 million in insurance it claims it is owed from the fire.

MGM Grand Hotels Inc. is battling two of its excess insurers, American Protection Insurance Co., a member of the Kemper Group, and Insurance Co. of North America, for an additional \$69 million to fully cover an alleged \$221 million property loss caused by the November 1980 fire (BI, March 1).

Liquid waste rule reconsidered

WASHINGTON—The Environmental Protection Agency will reconsider its decision to temporarily lift a ban on the dumping of hazardous liquid wastes in landfills because of the controversy it prompted (BI, March 8).

An informal hearing on the action was held March 11 after two opposing petitions and a lawsuit were filed in response to the lifting of the ban. The Hazardous Waste Treatment Council filed a petition requesting that the EPA reinstate its ban on dumping liquid wastes. It also filed a lawsuit against the agency in U.S. District Court here. The National Solid Waste Management Assn., however, filed a petition requesting that the lifting of the ban be made permanent.

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Houston fire not covered by Hilton chain's package

By STEVE SHERWOOD

HOUSTON—Hilton Hotels Corp., the nationwide hotel chain, is not responsible for liability claims resulting from a fire that killed 10 people at the Westchase Hilton Hotel in Houston, a company official says.

Since the Westchase Hilton is a franchise operation, owned by Houston-based 9999 Westheimer Hotel Joint Venture and other investors, it is not covered by the chain's \$400 million liability insurance program, the official says. He added, however, that he has been assured the hotel's coverage is adequate.

Insurance industry sources say the hotel may have up to \$50 million in liability coverage.

Until December 1981, however, the hotel had only \$5.3 million in liability coverage, one industry source says. This included a \$300,000 primary policy written by The Travelers Insurance Co. of Hartford, Conn., and a \$5 million excess policy written by managing general agent Baccala & Shoop Insurance Service Inc. on behalf of Old Republic Insurance Co. of Greensburg, Pa.

The hotel's coverage was placed through Desert American Insurance Agency of Houston.

The Travelers also writes the property coverage for the \$14.5 million hotel, including \$3 million of business interruption coverage.

A Baccala & Shoop official from the company's Newport Beach, Calif., headquarters says the Westchase Hilton's insurance contract does not indicate whether the hotel has coverage above \$5.3 million.

But industry sources say that since the end of December, the hotel has purchased an undisclosed amount of additional liability insurance in reaction to recent major fires, increasing its coverage to between \$20 million and \$50 million.

The Travelers confirms it insures the Westchase Hilton's property risks and a modest portion of the liability risk but cannot comment on policy limits, according to Raymond W. Stahl, senior vp of property/casualty claims. He did confirm, however, that the hotel's liability insurance surpasses \$5.3 million.

"Our basic investigation is complete and we have
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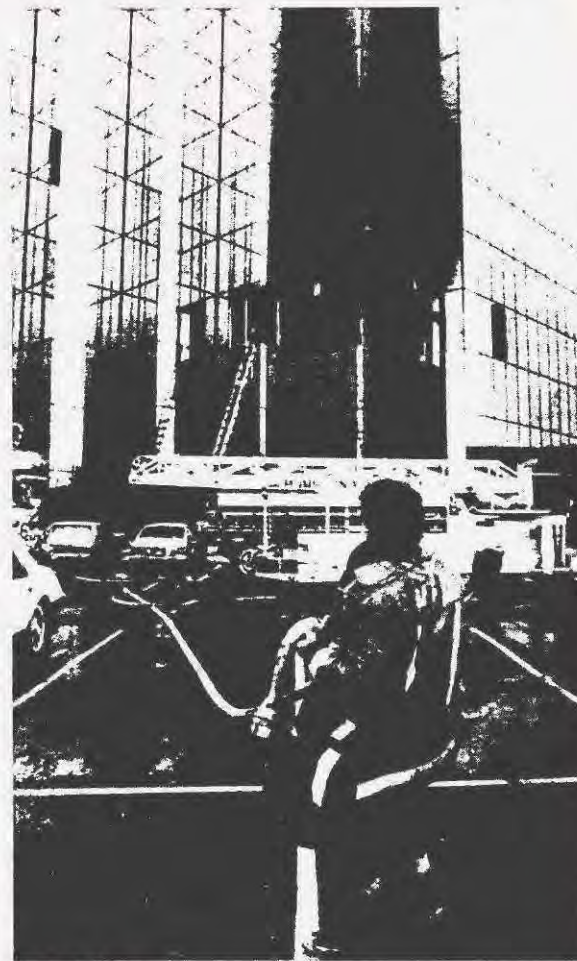


Photo: Wide World

The fire at the Westchase Hilton Hotel in Houston was confined to the fourth floor.

Bill would require nuclear plants to have more property insurance

By JOHN W. MILLIGAN

WASHINGTON—U.S. Rep. Allen Ertel, D-Pa., soon will introduce legislation in Congress requiring nuclear utilities to have \$2 billion in on-site property insurance by 1985 or lose their operating licenses.

The measure additionally will require nuclear utilities to contribute \$225 million over a six-year period toward cleanup costs at the Three Mile Island nuclear plant.

In a related matter, a TMI cleanup plan formulated last year by Pennsylvania Gov. Richard Thornburgh continues on track, where state officials feel they are making some progress.

This is Rep. Ertel's second shot at nuclear insurance legislation. It follows an earlier bill, introduced in 1980, which pursued the same goals through different

means.

"I think it's a reasonable proposal," notes Rep. Ertel's legislative assistant Bob Hall. "I'm sensing a little renewed interest in it from House (of Representatives) committees."

The Ertel legislation, which is in draft discussion form is tentatively titled the Nuclear Powerplant Decontamination Act of 1982. Under the bill's insurance requirement provisions, licensed nuclear utilities and license applicants would have to meet two separate timetables for on-site property insurance. Failure to do so would lead to termination or suspension of a nuclear utility's operating license.

For a period starting 30-days after the bill's enactment and ending Dec. 31, 1984, all nuclear utilities would have to show the Nuclear Regulatory Commis-
Continued on page 8

Supreme Court won't solve asbestos coverage dilemma

By STEPHEN TARNOFF

WASHINGTON—The Supreme Court's refusal last week to rule on a federal court decision that broadens asbestos manufacturers' insurance coverage likely closes the door on a uniform judicial solution to insurer liability for asbestos claims.

The high court voted not to review the District of Columbia Court of Appeals decision in *Keene Corp. vs. INA*, which said that all insurers of a manufacturer—from the time a claimant was exposed to a harmful product through the appearance of an injury—are liable for damages. This has been re-

ferred to as the triple trigger theory.

The court's decision not to review the case leaves the interpretation of insurance coverage in asbestos cases with the states.

Two other federal appellate courts have held that coverage is triggered when the employee becomes exposed to asbestos.

And a federal appellate court in Boston is currently considering a U.S. District Court decision that held liability is triggered when the disease is manifested in the victim, the so-called manifestation theory.

What remains to be seen is which of the three theories or their variations are applied by other courts.

The four insurance company defendants in the *Keene* case—Aetna
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errors & omissions

• The reinsurer for the INA PROSPORT workers compensation program (BI, Feb. 1) was incorrectly identified. The reinsurer is American Accident Reinsurance Group, a member of the Duncanson & Holt Group.

• The telephone number reported for ETM Management Co. (BI, Feb. 15) was incorrect. The number is 214-783-1719.

• The Will-Gard Group is not a member of the IRMC as reported in the annual claims administrators directory (BI, Feb. 15).

Royal baby spurs coverage debate

By STACY SHAPIRO

LONDON—Lloyd's of London is known around the world for accepting almost any risk it is offered. It's also famous for its adherence to good taste.

However, those two standards can clash, as companies preparing products to coincide with the birth of Prince Charles' and Princess Diana's child are finding out.

Manufacturers and publishers are finding it difficult to buy abandonment insurance for their products in case the infant, due in June, dies or is deformed or if Princess Diana dies during childbirth.

An informal Lloyd's advisory committee believes that insuring manufacturers against such losses is "in bad taste" depending on the manner in which the policy is written, a Lloyd's spokesman said.

However, two companies trying to cash in on the hoopla surrounding the royal birth have been able to find markets for abandonment insurance to cover production losses if something happens to the baby.

But other brokers and underwriters take a dim view of the coverage.

"I would hesitate to produce an insurance policy for abandonment if the child dies," says Geoffrey Fox, a director of Adam Bros. Contingency Ltd., even though the

Lloyd's broker offers abandonment policies on the pope and other prominent figures.

Mr. Fox says insuring the manufacturers is like insuring that a broodmare will give birth to a live foal, "and I would not want to get into that. It is not a subject for insurance nor indeed for the royals."

Lloyd's underwriter Burt Stratton of the A.J. Stratton Syndicate was first approached by a Lloyd's broker to underwrite the abandonment coverage because he usually leads this type of policy in the market.

"But we did what we normally do with the political issues of this kind," said Mr. Stratton. "We had a chat with the people on Lloyd's advisory committee and I think this particular format is in bad taste."

Lloyd's recommended that Mr. Stratton not write the policy because of potential adverse publicity if a manufacturer were to receive money because of the death or deformity of the child, his office said.

Other Lloyd's underwriters, however, are insuring other companies for production losses in case something happens to the baby.

Pan Books already has published a royal baby book and has insured its production cost with Lloyd's for 155,000 pounds (approximately \$283,650). The policy covers publishing costs if the book is declared

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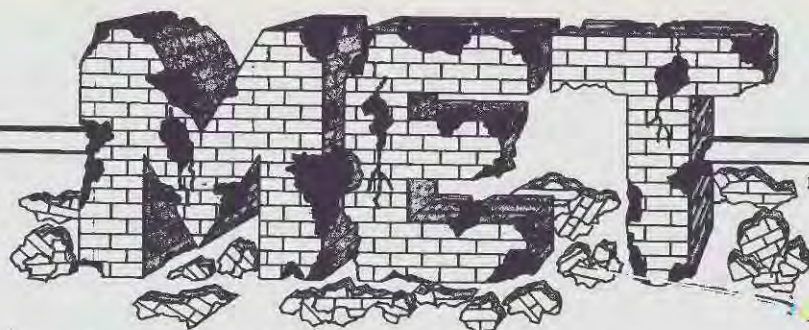


Illustration: Amy Palmer

California firm fighting for unpaid claims...

By RHONDA L. RUNDLE

CHATSWORTH, Calif.—Hydro-Mill Corp., an industrial machining company north of downtown Los Angeles, is mad as hell and it's not going to take it anymore.

The company, which employs about 150 people, is recruiting other angry employers with unpaid group health insurance claims to join a class-action lawsuit against a self-funded multiple employer trust and various claims administrators and affiliates who managed or marketed their group health plan.

Hydro-Mill has identified about 60 companies with health benefits provided through Western Conference of Public, Professional & Medical Employees, a self-funded MET in Long Beach, Calif., that is administered by the Western Conference of Teamsters.

Established in 1973 to provide benefits to Teamsters members, the Western Conference began marketing its health insurance plans to non-union commercial employers during the past couple of years. Far West Administrators Inc. in Santa Ana, Calif., provided claims administration and also marketed the plans through local brokers and agents.

Hydro-Mill charges that Western Conference owes its employees about \$70,000 in unpaid health care claims that are up to a year old. From May 1980 to December 1981, Hydro-Mill paid about \$350,000 in premiums for medical and dental benefits for employees.

Doctors and hospitals that contracted with Western Conference through Far West to collect direct payments are also stuck with about \$100,000 in bills

for treatment of Hydro-Mill employees.

"We have found about 50 companies in the same position that we are in who are interested in joining a lawsuit against Western Conference and its associates," reports Hydro-Mill Treasurer/Controller Ramon Ordonez. The other companies are smaller than Hydro-Mill, each with an average of four or five employees.

"We were taken and so were they," declares G. Brown, fund manager for Western Conference who says that plan trustees never authorized Far West Administrators to offer benefits to non-union employees.

Mr. Brown said that Western Conference will bring legal action against Far West and its affiliates.

Mr. Brown said he had no idea how many employers might be stuck in this position or how much money in unpaid claims might be at stake. "We are trying to clean up the mess," he noted.

Hydro-Mill's tale is typical of the experiences of small employers victimized by financially unsound or fraudulent multiple employer trusts. In this case, the MET is, in turn, proclaiming innocence and blaming unfunded claims on claim administrators.

The state Corporations Department recently issued a cease-and-desist order against Far West Administrators Inc. and several affiliate companies for operating a health care service plan without a license. The state Insurance Department and the U.S. Labor Department also are investigating (see story on page 31).

"Our problem is we can't find out who any of these invisible people are who are running Western

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... while ways to solve problem are debated

By JERRY GEISEL

CHICAGO—A solution to the 5-year-old problem of regulating self-funded multiple employer trusts may be on the way.

Rep. John Erlenborn, R-Ill., says he may introduce legislation that would allow states to regulate METs until the U.S. Labor Department rules that the trust is an employee benefit plan.

Others suggest that the Employee Retirement Income Security Act be overhauled to deal with the problem or want METs to be certified by the Labor Department before they begin operation.

Multiple employer trusts, which offer comprehensive health and life insurance coverage, have attracted thousands of self-employers and small businesses by charging lower premiums than commercial insurers, an appealing factor as health care costs continue to rise.

However, a growing number of mismanaged METs have gone bankrupt, leaving behind unpaid health care bills.

"We are all dedicated to a legislative solution," said Rep. Erlenborn at a March 5 hearing in Chicago by a House Labor-Management Relations subcommittee to decide what can be done to reduce the growing number of MET collapses.

However, regulators from California, Georgia, Indiana and Texas asked the panel to take even tougher action than Mr. Erlenborn has in mind, including amending ERISA to make it clear that the federal law only would pre-empt state regulation of pension plans and not other employee benefits.

But a subcommittee staff member said Mr. Erlenborn and Congress would not go along with such a massive dilution of ERISA's provisions. She urged state regulators to accept the Erlenborn approach.

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Kielland victims, families sue Phillips for \$2 billion

By BILL DENSMORE

CLEVELAND—Almost two years after the oil rig Alexander L. Kielland capsized in the North Sea, survivors and families of the 123 people killed in the world's worst ocean oil rig loss are suing Phillips Petroleum for \$2 billion in damages.

A total of 164 suits have been filed in the last two months in U.S. District Court in Cleveland by a Detroit law firm headed by admiralty attorney Leonard C. Jaques. Mr. Jaques says he is retained by the Norwegian-based Alexander Kielland Disaster at Sea Foundation, a group of victims and their families.

Mr. Jaques says the suits, before Judge John M. Manos, were filed in Ohio because only one of the 89 injured survivors of the disaster is currently in the United States. He is Ole Hestvik, who is recuperating from his injuries in Medina, Ohio, 20 miles from Cleveland.

The attorney declined to say why Mr. Hestvik, a Norwegian who is one of the plaintiffs in the suits, is in Ohio.

"That's a question we have, as to why Mr. Hestvik suddenly decided to take up residence in the United States," says Kenneth E. Rogers, an attorney

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Biggest brokers escape '81 profit pinch

By LEN STRAZEWSKI

The bigger they are, the softer they fall.

Despite falling commission levels and increasing demands for service, the three largest U.S. insurance brokers, according to *Business Insurance* rankings—Marsh & McLennan, Alexander & Alexander and Frank B. Hall—are landing lightly on their feet with strong revenue and some earnings gains.

However, some of the smaller publicly held brokers, from sixth-ranked Corroon & Black down to 19th-ranked Poe & Associates, are hitting bottom with a resounding smack.

The difference lay in international business, which is expanding faster than U.S. risks. Although many factors, including business diversification, expense control and fee compensation, affect a broker's profitability, presence in the international risk management marketplace seemed to have separated the winners from the losers in 1981.

"It's clear that the growth of the market is faster overseas," explains Lawrence B. Dorman, vp of investor relations at Marsh & McLennan Cos. Inc. "The United States is a more mature marketplace and while there are some tradings of large accounts between the big brokers, most relationships are set

and stable. In foreign countries, however, the broker's role is still evolving.

"Overseas companies traditionally go direct to underwriters. As they realize the services that brokers have to offer, they are creating important opportunities for international insurance brokerages," he says.

The momentum and services that the large brokers offer also help to maintain growth, according to Mr. Dorman.

"We are continuing to take business away from smaller agents and brokers whose clients have outgrown them. You can expect small agents and brokers to have a difficult year," he says.

Marsh & McLennan Cos. Inc., the parent of brokerage Marsh & McLennan, led the brokers with strong revenue and net income gains in 1981. Gross revenues jumped 25% over 1980, to \$846.8 million from \$677.3 million, and net income increased 19.2%, to \$120.1 million from \$100.7 million. Earnings per share grew to \$3.27 from \$3.12.

During the last quarter of 1981, gross revenues grew to \$205.8 million, 11% over the same period in 1980, but net income slipped 4.1% to \$22.1 million.

"We were pleased that our results for 1981

Continued on page 34

Broker results (in millions)

Year-end 1981	Gross revenues	% change	Net income	% change
Alexander & Alexander	458.5	8.5	57.5	.5
Corroon & Black	156.0	1.0	14.4	-19.4
E.H. Crump	32.3	13.6	1.5	-46.2
Frank B. Hall	353.5	13.0	30.5	6.5
Fred S. James	242.4	18.2	19.3	-6.4
Marsh & McLennan	846.8	25.0	120.1	19.2
Poe & Associates	19.3	26.6	1.6	-12.8
Rollins-Burdick Hunter	76.8	5.8	7.0	-25.0
Fourth quarter				
Alexander & Alexander	118.7	16.6	15.7	36.7
Corroon & Black	38.4	3.6	4.4	62.6
E.H. Crump	9.9	48.0	-.09	-101.8
Frank B. Hall	92.6	5.4	5.7	7.2
Fred S. James	58.8	7.7	4.4	1.0
Marsh & McLennan	205.8	11.0	22.1	-4.1
Poe & Associates	5.4	25.5	.6	8.8
Rollins-Burdick Hunter	17.2	2.1	.9	-52.3

Shield against employee suits threatened

Continued from page 1

Sources in the case say Mr. Sharp's attorney, who could not be reached for comment, is citing this law as a backup to his main "dual capacity" argument.

The dual capacity doctrine, which has been narrowly applied in Illinois, permits employee suits when the employer and employee step out of those roles and into another relationship. This circumvents the exclusive remedy provision of the workers compensation system, which was designed to pay benefits to injured workers without determining fault.

The appellate court in the Sharp case found that the employer did operate in a dual capacity as employer and landowner and allowed Mr. Sharp to sue Mr. Gallagher and Mr. Henry as landowners, not em-

'By opening one door to multiple liability in addition to the statutory relief under the (work comp) act, the courts may be closing the door to this state's continued well-being,' Mr. Flynn says.

ployers.

Now, big business is joining with various interest groups to attempt to persuade the state Supreme Court to reverse the appellate court's decision in the Sharp case. The high court is expected to begin hearing oral arguments in May.

"By holding that an employer who owns land may be sued in common law by any employee injured on the land, the appellate

court has greatly expanded the potential liability of employers," says Stanley J. Davidson, attorney for the defendants.

The net result, he says, is that all Illinois employers will face greater potential liability because they will be faced with an increasing number of lawsuits brought by their employees.

"An employer will not be adequately insured against claims brought by workers unless he car-

ries not only workers compensation coverage but also insurance that protects against common-law action."

While businesses do carry general liability insurance that would cover suits brought against them as landowners, the fear is that the increased number of employee suits would raise those rates and that the employer would be paying twice for the same injury.

Employers already are taking their businesses out of Illinois because of high workers compensation insurance rates, and this could accelerate the exodus.

"Insurance premiums will rise drastically in order to provide adequate protection for employers," Mr. Davidson predicted.

U.S. Steel Corp., which paid \$3

million in workers compensation claims in 1980—a 100% increase over payments in 1978—agrees with that assessment.

The company, which is a self-insured employer and landowner, filed a brief with the Supreme Court on behalf of the Illinois Manufacturers' Assn., the Illinois State Chamber of Commerce and the American Insurance Assn.

It argues that the state's business community should not be exposed to multiple liability for the same work-related injury merely because they may own their worksites.

"No doubt can exist that creating several remedies for an employee against his employer for the same injury imposes a considerable burden on Illinois business," said Terrence E. Flynn, an attorney for U.S. Steel.

"By opening one door to multiple liability in addition to the statutory relief under the (workers compensation) act, the courts may be closing the door to this state's continued commercial and industrial well-being," he said.

Republic Steel Corp., which employs 6,300 workers in Illinois, also filed a brief opposing the concept behind Sharp vs. Gallagher.

"Russell Sharp was an employee. Gallagher and Henry were his employers. He was injured in the course of his employment. He filed a claim under the Workers Compensation Act. That claim represents his sole remedy."

"It's an attorney's retirement plan and an employer's nightmare," says Leonard Day, the Illinois Chamber of Commerce's labor relations manager.

Illinois has only had a handful of "dual capacity" cases where employees have attempted to sue their employer after having received benefits under the Workers Compensation Act.

The Sharp vs. Gallagher case is based on a 1973 appellate court decision that first addressed the theory of dual capacity in Illinois.

In Marcus vs. Green, the court held that an employee could sue a member of the partnership that employed him on the theory that the defendant was both a landowner and employer.

But in three more recent decisions the courts ruled that the dual capacity doctrine is inapplicable to the employer/landowner or the employer in control of the worksite, employer opponents say.

"Dual capacity is a concept whose present limits are only those of imagination," adds Mr. Flynn of U.S. Steel.

Illinois is not the only state in which the dual capacity doctrine has been debated.

In California, the state Supreme Court last year ruled that the state's workers compensation law does not shield an employer from common law liability when the cause of an employee's injuries is a defective product manufactured by the employer (BI, Dec. 21, 1981).

That ruling differs dramatically from a ruling in Michigan, where a state appeals court ruled the state's workers compensation system is the exclusive remedy for employees who claimed they were exposed to a toxic chemical.

In West Virginia, 350 employee lawsuits are pending in courts against employers following a state Supreme Court decision that allows workers to sue their employers if the employer's disregard for job safety leads to injury or death.

To counteract that decision, business groups are supporting legislation that would grant employers complete immunity from employee suits for work-related injuries. ■

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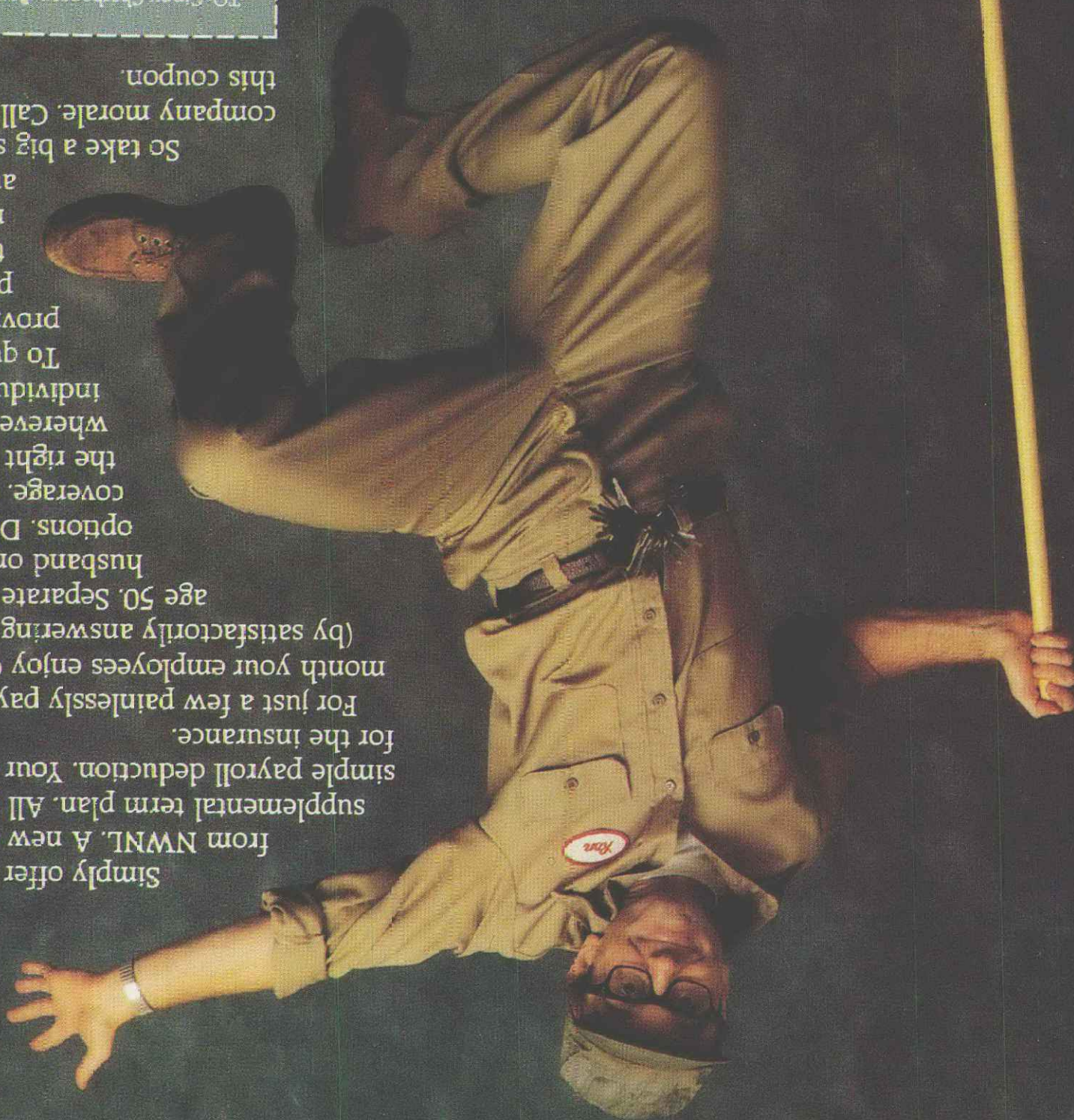
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High court won't rule on asbestos coverage

Continued from page 2

Casualty & Surety Co., Hartford Accident & Indemnity Co., Insurance Co. of North America and Liberty Mutual Insurance Co.—expressed dismay that the decision was not overturned and that the Supreme Court would not set a uniform standard for insurer liability.

"We're disappointed the court refused to hear the case," a spokesman for Hartford said. "The Supreme Court's failure to inject itself into the problem leaves unresolved different conclusions of law in several federal courts."

Chris Mansfield, an attorney for Liberty Mutual, said: "We felt the (appellate court) decision was erroneous in logic and law. It's not surprising, but we're disappointed it (the Supreme Court) won't review these kinds of cases."

According to Keene attorney Jerold Oshinsky of the Washington firm of Anderson Baker Kill & Olick, it is very possible that other courts will follow the reasoning of the Keene decision.

"It seems to me that the court decision will have an important influence on decisions elsewhere," Mr. Oshinsky said.

Even where appellate courts already have decided on a particular theory of coverage, arguments in light of the Keene decision could change their minds, Mr. Oshinsky added.

However, Mr. Mansfield and other insurance company spokesmen said "it was too early to tell" whether other courts would follow Keene.

The District of Columbia circuit may not have the influence in in-

surance contract matters that it does in other areas of the law, Mr. Mansfield explained.

Whether the decision will be adopted in other jurisdictions will depend on how good the theory is compared with either the exposure or manifestation theories, added San Francisco attorney Victor B. Levit, who represents The Travelers Insurance Co.

But he said that the reasoning in Keene might be applicable in other areas of tort litigation dealing with latent diseases.

"The reasoning used in the Keene case is equally applicable in any latent disease situation," he said. "It's not limited to asbestos."

The Supreme Court's decision not to hear the Keene case also means the company will have com-

plete insurance coverage for the nearly 5,000 claims that have been brought against it, according to Mr. Oshinsky.

Mr. Mansfield added that the high court's refusal to hear the case does "add a degree of finality" to the appellate decision.

But which of Keene's insurers will end up paying and how much they ultimately will pay is far from certain.

"It is so complicated and complex that until all the refinements are worked out and fleshed out we don't know what it means," Mr. Levit said.

The insurers have 25 days from the date of the high court's ruling in which to seek a rehearing. While none were optimistic that the court would reverse its decision, they said attorneys were studying the

matter.

One attorney said it might be significant that three justices voted to hear the case when four are needed for review.

Since none of the justices earlier voted to hear two other asbestos coverage cases, it may indicate a softening of the high court's stand against consideration of the issue, he said.

Keene's involvement in asbestos litigation stems from a four-year period ending in 1972 when it sold thermal insulation products containing asbestos.

The 1981 report of Bairnco Corp., the holding company that owns Keene, indicates the cost of settlements and litigation concerning asbestos claims was \$11 million in 1981, \$6 million in 1980 and approximately \$2.5 million prior to 1980. ■

Royal baby spurs debate on coverage

Continued from page 3
a total loss.

"The book has been produced and published, but it isn't very good if Princess Di has a miscarriage or something," said a spokesman at Pan Books.

The book, insured through Lloyd's brokers Stewart Wrightson Group Ltd., is covered by Lloyd's until the child is 3 months old, he said.

The premium is very "cheap," the spokesman said. "The likelihood of anything happening is remote."

A company producing stamps to commemorate the royal birth is also being insured by Lloyd's for more than 1 million pounds, said a Lloyd's underwriter.

"You have to have a royal birth stamp," he said. "But if Princess Diana and the royal child do not both live for 90 days after the birth, then the stamp should not be published. It would, among other reasons, cause Buckingham Palace undue stress."

Both policies were issued at cheap rates because neither the insurers nor the manufacturers think anything will go wrong.

"We are not charging a lot of money," said the Lloyd's underwriter on the policy for the stamp company. "Princess Diana is a healthy lady and she is a good age to have a baby."

Pan Books says it went to Lloyd's because it is a known market for unusual risks. Indeed, Lloyd's has insured against the assassination of the pope, Prince Charles breaking his leg and the Queen Mother taking ill on her 80th birthday. Lloyd's even paid \$1 million to Warner Bros. for a non-appearance policy on John Lennon after he was slain.

Pan Books says the abandonment coverage is just another one of those risks.

"There are opinions about this policy, if it is ethical or moral," said the Pan Books spokesman. "But it is simply a business transaction." ■

More complaints

WASHINGTON—Although the mandatory retirement age was raised to 70 from 65 in 1978, age discrimination complaints are increasing, a House committee says.

Last year, employees filed 9,500 age discrimination complaints with the Equal Employment Opportunity Commission, according to the House Select Committee on Aging.

The number of complaints has jumped 75% in just two years. ■

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More nuke plant property coverage urged

Continued from page 2

sion that they have the maximum amount of on-site property insurance that the commission determines to be available.

Utilities also would have the option of self-insurance, where in lieu of insurance coverage they would have to demonstrate "an equivalent amount of protection."

The second timetable starts Jan. 1, 1985, when both licensees and applicants would have to have \$2 billion in on-site property insurance or again demonstrate the abil-

ity to self-insure their facilities.

The bill does not require that utilities purchase \$2 billion in coverage for each reactor unit, but rather on a "per station" basis.

This term includes all nuclear reactors at a plant location, and follows the standard practice of nuclear insurers, notes Mr. Hall.

While the nuclear insurance industry has been officially silent on Rep. Ertel's proposal, Mr. Hall says the industry feels this version is an improvement over the congressman's first bill.

That legislation would have created a quasi-government corporation that would pay 75% of cleanup costs after existing insurance and a \$50 million deductible were exhausted. Participation in the program would be mandatory for all nuclear utilities.

In reaction to the current proposal, insurers do not have the concern of a competing "federal insurance entity," Mr. Hall observes.

Insurers also feel this measure gives them "more running time to put \$2 billion in place," he added.

However, the nuclear insurance industry is still far away from providing \$2 billion in capacity.

Two commercial risk pools—American Nuclear Insurers and Mutual Atomic Energy Liability Underwriters—currently provide \$450 million in primary property insurance. Nuclear Mutual Ltd., a Bermuda-based mutual insurance company, also offers \$450 million in primary insurance and is to raise that to \$500 million Aug. 1.

Excess insurance in the amount of \$247 million excess of \$500 mil-

lion is available from Nuclear Electric Insurance Ltd., a second Bermuda-based mutual insurer. NEIL hopes for bimonthly increases in capacity throughout this year, with a goal of providing \$500 million excess of \$500 million.

A second provision in Rep. Ertel's proposal is for a partial funding solution for the Three Mile Island decontamination project, where cost estimates range as high as \$760 million.

General Public Utilities Corp., a utility holding company which owns the TMI plant, was insured by the ANI and MAELU risk pools when the accident occurred.

GPU had \$300 million in on-site property insurance at the time of the accident, the maximum then available.

The utility has spent about \$230 million of that insurance on cleanup activities, a company spokesman says, and expects the remainder to last until early 1983.

Rep. Ertel's newest measure would generate \$225 million over a six-year period toward TMI cleanup costs.

These funds would be provided through annual assessments of \$37.5 million from Jan. 1, 1983, to Dec. 31, 1988, levied exclusively against nuclear utility licensees.

This annual assessment would be collected in two ways:

- \$18.75 million in pro rata shares based on the total sales of electricity in the year of assessment.

- \$18.75 million in pro rata shares based on the megawatt capacity rating of the nuclear reactors operated or under construction. This assessment would include license applicants as well as licensees.

This approach differs from Rep. Ertel's original bill, which called for \$112.5 million in annual assessments for the TMI cleanup. One-half of this assessment would have been in the form of a grant and the other half a loan, Mr. Hall says.

Assessment figures in the current proposal were lowered following a ruling by the Pennsylvania Public Service Commission, which said TMI could use proceeds from its undamaged reactor No. 1 to pay for reactor No. 2's cleanup.

Help for troubled GPU may still come from other quarters.

Pennsylvania Gov. Richard Thornburgh is working on his plan to raise \$760 million for the TMI cleanup, and aides to the governor note some progress.

"It's as long-range and complex as we thought it would be, but we're a long way from where we started last July," notes Roland Page, a spokesman for the governor.

Thornburgh's proposal would tap several sources, starting with \$245 million from GPU itself, as well as the utility's unexpended insurance. Added would be \$192 million from the Edison Electric Institute, an association of some 200 investor-owned utilities; \$190 million from the federal government; \$30 million from Pennsylvania; and \$15 million from New Jersey, some of whose residents are serviced by TMI.

The governor has requested \$5 million in the state's 1983 budget for the project as the first of six installments totalling Pennsylvania's \$30 million share.

Mr. Page additionally points to a commitment from the U.S. Department of Energy to fund a three-year, \$123 million research and development program for the TMI cleanup.

The Edison Electric Institute already has announced its support for a \$192 million contribution from the utility industry. ■



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editorial opinions

A time for action

IT'S TIME.

Time for manufacturers to decide what must be contained in federal product liability legislation.

Time to remember that power does lie in numbers.

And time to realize that if you're really hungry, half a loaf is better than none.

The time is here because Congress seems to be responding to employers' pleas for a federal solution to the nation's product liability laws.

Already, as reported by Washington Editor Jerry Geisel in the March 8 issue of *Business Insurance*, Sen. Robert Kasten, R-Wis., and Rep. Norman Shumway, R-Calif., have unveiled proposals for a federal product liability law.

And Rep. Henry Waxman, D-Calif., chairman of the House Health and Environment subcommittee, soon is expected to unveil yet another tort reform proposal, one thought to be more attractive to consumer groups.

We're encouraged that these legislators have recognized that enactment of a uniform federal law, which addresses such key issues as how long manufacturers are responsible for the safety of their products, is vital to restore certainty and balance to the legal system.

But the number of proposals poses problems for business groups. Which of the three measures should employers support?

We believe Sen. Kasten's bill is a good starting point for reform.

His draft bill would, among other things, require product liability suits involving major capital goods to be filed within 25 years of delivery, strengthen manufacturers' defenses if their products were altered or conformed with federal safety standards and give wholesalers new protection from product liability suits.

Some manufacturers complain that Sen. Kasten "sold out" when he rewrote his proposed legislation, removing any time limitations for suits to be filed on consumer products and home appliances. They also criticize the lack of a statute of repose for injuries

caused by prolonged exposure to a product and point out that Sen. Kasten's bill hasn't addressed the problem of outlandish punitive damage awards.

They say, pointing to Rep. Shumway's bill, that business should rally around legislation that achieves employers' maximum tort reform objectives, including a 10- to 15-year statute of repose for all products and a \$1 million cap on punitive damage awards.

We agree it would be a dream come true for manufacturers to have this type of protection from liability, but it is only a dream.

First, manufacturers should be responsible for injuries caused by their own negligence. But more to the point, a bill that offers manufacturers sweeping immunity from liability isn't going to fly in a Congress that also has consumer constituents to serve.

We fear a drive to enact a tort reform "wish list" could sour Congress on the idea of federal tort reform and give more ammunition to consumer and plaintiff attorney groups who say business really wants blanket protection from product liability suits, not a more balanced legal system.

We realize even Sen. Kasten's bill, which tries to balance consumer and business interests, has no chance of passage this year. But consideration of a compromise proposal now could lay the groundwork for enactment of legislation during the next session.

That's why it is time that manufacturers decide what they need most now—half a loaf or none—and unite in their efforts to let Congress know where they stand.

"The center has the best chance of flying," advises Les Cheek, vp of federal affairs for insurer Crum & Forster, in discussing the three product liability bills in Congress.

It's advice that should be heeded by those who will settle for nothing less than federal legislation that attempts to solve every product liability problem.

Our experience is that those who want Congress to deliver a full plate usually go home hungry.

letters

More questions about leases

To the editor: Neither Howard C. Alper in his Perspective article about leases (*BI*, Feb. 8) nor Mr. Nordenberg in his letter to the editor (*BI*, Feb. 22) has called attention to the fact that business interruption insurance only pays a loss of the tenant or lessee to the extent that the amount claimed would have been earned had no loss occurred.

If, as it happens frequently today, the tenant or lessee operated at a loss, the insurer may not be obligated to pay the continuing rental expense and the tenant will be financially hurt without the rent abatement clause.

In his article Mr. Alper suggests that the interest of the landlord be included under the tenant's workers compensation policy. However, this is not permissible, neither legally nor under the rules applicable to this insurance. Even if it were possible, it would not relieve the landlord/lessor of any liability if sued by an injured employee of the tenant/lessee.

Henry Salfeld
Consultant
Frenkel & Co. Inc.
New York, N.Y.

■ *Mr. Alper responds:* "If the tenant operates at a loss, he may not be able to pay the rent, with or without a fire. In addition, the insurer would not pay the continuing rent directly to the lessor; the tenant would pay it and the insurance company would reimburse their insured (ten-

ant) for the continuing expense. The normal consideration for deleting the rent abatement clause from the lease would be a fixed obligation to quickly repair the property.

"If the landlord were sued by an employee of the tenant, the general liability policy would respond. And if a workers compensation claim was made, with the lessor insured, the policy would cover regardless of whether the employer were the tenant or landlord. I'm sure Mr. Salfeld will agree that it is in the lessor's interest to be protected against claims made under the workers compensation law.

"If the tenant's insurance company will not add the landlord as an additional insured, and it often will, then the tenant can obtain a simple independent workers compensation policy naming the lessor, which will satisfy the requirement. Obtaining the coverage is merely a mechanical problem and can be accomplished one way or the other."

Flexible group life

To the editor: In our letter on flexible group life (*BI*, Feb. 8), we had said that the first \$50,000 of yearly renewable term is not taxable. It should have read that the first \$50,000 of group life insurance is not taxable.

However, the response to my letter by Gregory M. Hare misses the point (*BI*, Feb. 22). If an individual 40-year-old man is going to incur a tax of \$276 because he has \$150,000 of group life, then, theoretically, the \$276 is listed as additional income.

Thus, he would have to pay an income tax on it. As the \$250 cost for a \$100,000 yearly renewable term policy is also going

to have to be paid from earned income, he is slightly ahead with the individual yearly renewable term.

My point is exemplified by the fact that the Internal Revenue Service now allows participants in pension and profit-sharing plans to use either tax table PS-58, which is similar to IRS tax regulation 1.79, or the insurer's yearly renewable term rates, whichever is more favorable. You can even use non-convertible yearly renewable term rates, which are even more favorable.

Richard P. Duffy
Group sales specialist
The Equitable Life
Assurance Society
White Plains, N.Y.

Keeping it simple

To the editor: In very few words, Ralph Perry's Perspective article (*BI*, Jan. 25) captures the essence of risk management: careful shopping for insurance services, strong loss-prevention efforts and surveillance of medical control systems.

AMFAC's program seems to confirm the axiom that keeping it simple is keeping it smart.

Bruce A. Lepore
Administrative director
Back Dynamics Institute
Foster City, Calif.

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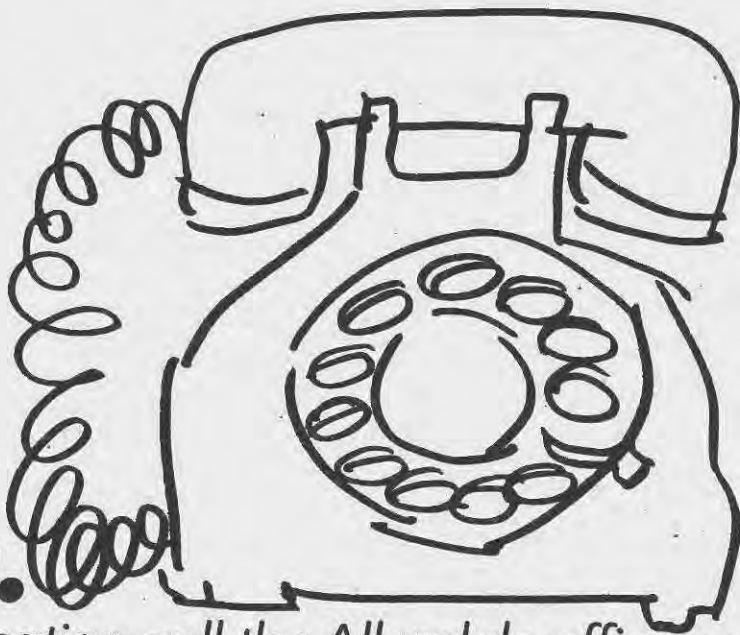
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Allendale Insurance

Chamber now opposing multiemployer law

By JERRY GEISEL

washington

WASHINGTON—The U.S. Chamber of Commerce has changed its mind about the Multiemployer Pension Plan Amendments Act of 1980.

"We've realized that withdrawal liability provisions contained in the act are not working out," said Michael Romig, the group's director of employee benefits.

The law was passed—with considerable Chamber support—to

shore up troubled multiemployer pension plans by forcing companies that withdraw to pay a share of the unfunded vested benefits, a liability that can exceed a company's net worth.

"Our members tell us they cannot operate in this environment," Mr. Romig said. Because of the multiemployer law "no one can

buy (firms enrolled in underfunded multiemployer plans) and no one can sell."

Diving regulations

Going for a dive?

The Occupational Safety and Health Administration wants to know whether its 1977 safety standard covering the nation's 2,500 commercial divers should be revised.

Compliance with certain requirements in the standard "may place an unreasonable economic burden on small entities within the industry," said OSHA chief Thorne Auchter.

Issues on which OSHA wants comments include:

- Should the provisions requiring decompression chambers for dives deeper than 100 feet be modified?

- Are there alternatives to diver depth gauges?

- How should the possibility of diver hose lines becoming entangled with boat propellers be minimized?

Four copies of written comments should be submitted by April 12 to OSHA Docket Officer, Docket S-550, Room S6212, 200 Constitution Ave. N.W., Washington, D.C. 20210.

Outdated computers

The Social Security Administration's outdated computer system may be headed for the scrap heap.

The agency plans to spend \$479 million over the next five years to replace its outmoded computer system with state-of-the-art products, according to Commissioner John Svahn.

The Social Security Administration's computers are so obsolete that it took about six months of work to ensure that the first checks with last July's 11.2% cost-of-living increase went out on time. The latest computers on the market could have done the work in a few days.

The computers must keep records on hundreds of millions of employer wage reports, 36 million beneficiaries, 120 million Medicare health bills and millions of requests for Social Security cards.

Unless the system is overhauled soon, the checks may not continue to go out, Mr. Svahn warns.

Money to pay for the new computer system will come out of Social Security administrative funds.

Access to records

The Occupational Safety and Health Administration is considering overhauling a 1980 rule that gives workers exposed to hazardous products access to their corporate medical records.

Under that rule, employees, their designated representatives and OSHA can examine records kept by companies regarding exposure to hazardous products and job-related medical histories.

Changes to the August 1980 rule now under consideration include:

- Companies would be required to retain medical records for 30 years or until an employee leaves a job, whichever is longer. The cur-

rent rule requires medical records be kept for 30 years after an employee leaves a job.

- Medical records wouldn't have to be retained for employees who work less than a year or for construction workers.

- Employers with medical and exposure records wouldn't have to save them for workers only "marginally" exposed to toxic substances.

About 27 million workers are now covered by the standard.

Multipiece rims

The National Highway Traffic Safety Administration has officially dropped its plan to require manufacturers to change the design of multipiece rims used on tube truck tires.

In announcing its decision, the agency noted that an Occupational Safety and Health Administration regulation for tire shops that service the rims provides adequate protection for workers.

In addition, the NHTSA said multipiece rims are gradually being phased out as truckers switch to radial tires that use single-piece rims instead.

Several manufacturers of multipiece rims face dozens of product liability suits from plaintiffs who charge that defectively designed rims have caused tires to explode with with enormous force.

Just last month, a Montana jury awarded more than \$1.8 million in compensatory and punitive damages to a man who was injured when he attempted to put a tire mounted on a Goodyear K-type split rim on a truck (BI, Feb. 22). ■

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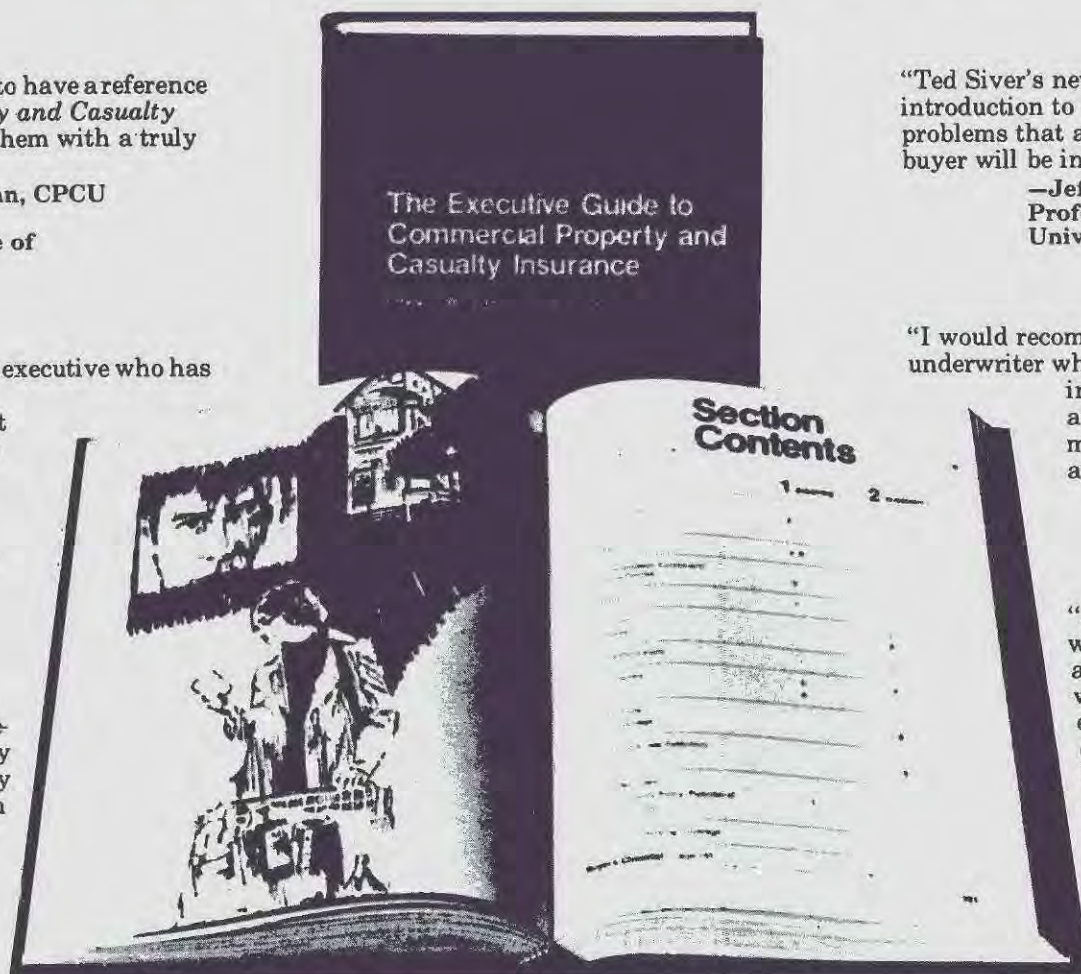
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About the Author

Ted Siver, CPCU, CLU, the founding principal of E.W. Siver & Associates, has been very active in the insurance industry for over 25 years as a broker and consultant. He has contributed numerous articles to such publications as *Business Insurance*, *Agent & Broker*, and others.



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Firm marketing coverage for pro athletes

Lockwood, Dipple & Green Inc. in Woburn, Mass., has formed a new subsidiary, American Sports Underwriters Inc., as a market for life and disability insurance for professional athletes and sports clubs.

The wholesaler, which has marketed similar policies in the past, formed the subsidiary to become more aggressive in this area of insurance, said Edward Dipple, chairman and underwriter for the new subsidiary and president of the parent company.

The president of the new subsidiary is Pete Eshelman.

American Sports Underwriters can bind up to \$5 million of insurance on an athlete for State Mutual Life Assurance Co. of America, the insurance company providing the market for the new subsidiary.

markets

Higher limits can be arranged.

Lockwood, Dipple & Green and its new subsidiary, which work with retail brokers, are located at 300 Unicorn Park Drive, Woburn, Mass. 01801.

Bache deal completed

Jardine, Matheson & Co. Ltd. has completed its acquisition of Bache Insurance Services Inc., a commercial multiline insurance brokerage, from Bache Group Inc., a subsidiary of Prudential Insurance Co. of America (BI, Jan. 11).

The acquisition represents the Hong Kong-based Jardine's first major entry into the U.S. brokerage

market.

"By including Bache Insurance Services within our existing network of independently managed broking companies in 19 countries, Jardine Insurance Brokers expects to handle worldwide premiums of \$1 billion and to achieve a brokerage income in excess of \$100 million in 1982," says Jardine Chairman D.K. Newbigging.

Bernard Mizel continues as president and chief executive officer of Bache Insurance Services.

A&A purchase

In its first major move since acquiring London-based Alexander

Howden Group Ltd., Alexander & Alexander Services Inc. has acquired a 21% equity interest in the French brokerage firm of Cie Europeenne de Courtage D'Assurances et de Reassurances (CECAR).

CECAR is the fourth-largest insurance broker in France, employing some 250 people.

The move represents the first financial link between the French firm and A&A, which have been corresponding brokers for more than 15 years.

Taiwanese license

AIU Insurance Co., a member company of American International Group Inc., is the first foreign insurer to receive a license to operate in Taiwan.

Issued by the minister of finance,

the license will enable AIU to write all non-marine lines for U.S. citizens and U.S. fully-owned entities operating in the Taiwan.

New brokerage

E.H. Crump Cos. Inc. has formed a jointly owned insurance brokerage firm, Crump/Harris Inc., in association with insurance executive Richard T. Harris.

Crump/Harris will provide Crump, based in Memphis, Tenn., with its first presence in the Northeast general lines agency business. While the company does have excess/surplus lines and reinsurance operations in the Northeast, its general brokerage offices have been located exclusively in the South and West.

Mr. Harris, who has more than 20 years of experience in the insurance business, will be the new company's president.

Crump/Harris has also purchased the insurance business and assets of Zinman Group Inc., a multiple-line property/casualty insurance agency that has operated in the Philadelphia area since 1890.

Ocean marine

St. Paul Fire & Marine Insurance Co. has expanded its ocean marine operations on the West Coast by opening new offices in Seattle and Brea, Calif. The insurer's marine operations were formerly handled from its San Francisco service center.

Agency formed

Security Insurance Agency, a subsidiary of Security Federal Savings & Loan Assn. of Columbia, S.C., has been formed to handle all lines of commercial and personal insurance.

While savings and loan associations in South Carolina have been allowed to establish insurance agencies for some time, this is the first such subsidiary in the state, according to a Security Insurance official.

Underwriting manager

Unigard Specialty Associates Inc., a subsidiary of Seattle-based Unigard Insurance Group, has been formed to act as underwriting manager and a marketing vehicle for Unigard's excess/surplus lines products.

All E/S business will be written through the Unigard Indemnity Co. Present plans call for Unigard Indemnity to operate as a non-admitted insurer in all states except North Carolina, where it is admitted.

Wellness center

The New York-based Life Extension Institute has opened its first Staywell Center. The center is open to both employees of enrolled corporations and to the public.

The center, which claims to be New York City's first physician-supervised facility for self-health management programs, will offer education courses and "behavior change" counseling, along with traditional physical examinations.

The center is staffed by LEI physicians and technicians and is equipped with facilities for medical examinations.

In conjunction with the medical staff, wellness counselors help participants develop plans for lifestyle changes like weight and stress control and smoking cessation.

LEI is a division of Control Data Corp., a computer and financial services company based in Minneapolis.

THE OLDEST NEW NAME IN AMERICA

For 140 years, Jardine Insurance Brokers has served businesses and individuals all over the world. Now the company has established a major U.S. presence with the acquisition of Bache Insurance Services, Inc. Clients of former BISI subsidiaries, including Albert M. Bender, Inc., and Ter Bush & Powell Inc., will be served by one of the largest international insurance organizations.



**Jardine Insurance
Brokers Inc.**

formerly Bache Insurance Services Inc.

Control Data appoints Dregni to benefits post

Control Data Corp. in Minneapolis has promoted **John C. Dregni** to general manager of corporate employee benefits. He reports to Dave Rogosheski, vp of corporate compensation and benefits. Mr. Dregni was formerly director of international compensation. In his new position, he is responsible for the administration of retirement benefits, disability management, health care services and safety. He received bachelor's degrees in industrial relations and vocational rehabilitation from the University of Minnesota. He replaces **Donald Shovein**, now president of Systems Resources Co. in Dallas.

Bernard F. Lefson has joined VHD Programs Inc. and VHD Disc Manufacturing Co. in Los Angeles as vp of employee relations. He will oversee all employee benefit, property/casualty insurance and risk management functions, as well as other personnel functions. He was previously vp of personnel and industrial relations at IT Corp. in Wilmington, Calif., industrial relations manager at Transmix Co. in Los Angeles and director of operations at Pacific Maritime Assn. in San Francisco. Mr. Lefson, 40, received a bachelor's degree in economics from the University of California at Berkeley. He replaces **Richard Cameron** and will report to Gary Dartmall, president and chief executive officer.



Mr. Lefson

Texas Instruments Inc. in Dallas has named **James M. Dineen**, 29, corporate risk analyst. Mr. Dineen is responsible for casualty coverage and policy and claims administration. He was most recently premium audit manager at Reliance Insurance Co. in Dallas. He received a bachelor of science degree in accounting from St. Joseph College in Rensselaer, Ind., and a master of business administration degree from North Texas State University. Mr. Dineen reports to Hugo Hines, corporate risk manager. He replaces **Mike Houston**, now with W.R. Grace & Co. in Dallas.

Gulf States Utility Co. in Beaumont, Texas, has appointed **Gregory L. Edford** director of risk management and **Donald R. McCarter** director of loss prevention, both new positions. Mr. Edford, 38, handles all contract negotiations and the purchase of corporate insurance. He was previously a staff assistant in the risk management department at General Motors Corp. in Detroit. He received bachelor's and master's degrees in economics from Eastern Michigan University in Ypsilanti. Mr. McCarter, 49, is responsible for corporate fire protection and property loss prevention for the River Bend Nuclear Power Plant and the Nelson Coal Project. He held engineering positions with Industrial Risk Insurers in Houston and Charlotte, N.C. Both men report to Olice A. Stewart, manager of risk management services.

Ira Irwin has joined United Jersey Banks in Princeton as vp of employee benefits. In this newly created position, Mr. Irwin will assume responsibility for corporate group insurance and retirement plan stock purchases. He most recently served as senior benefits adviser in the industrial relations division of W.R. Grace & Co. in New

comings & goings: buyers

York. Mr. Irwin, 49, received a bachelor of arts degree from Brooklyn College and a master of business administration degree from New York University. He will report to A.M. D'Augusta, senior vp of human resources.

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Dick Fuchs on franchises: "The best things in life are free."

SFO Inc. is among the nation's leading underwriters of special multi-peril property/casualty insurance for specialty lines. With its principal office in Kansas City, Missouri, SFO is now a division of the Mission Insurance Group of Los Angeles. In a recent interview, Dick Fuchs, SFO President, addresses the special needs of independent insurance agents and their clients in light of the recent proliferation of agency franchises.

The common definition of an 'expert' is a person from out-of-town.

"But in the commercial insurance field, a recent survey indicated insureds prefer to do business with their local, home-town agent. A qualified local business person is in a better position to keep his finger on the pulse of his insured's special requirements and changing needs.

"Can the independent agent become an expert in a specialty class of business through the purchase of a franchise and still maintain his close working relationship with his client?

"Possibly. But it is an unnecessary major expense.

"First of all, few of the benefits exclusive to agency franchises are of any real value to the customer of the insurance product. The majority of these services have been developed for the benefit of the agent, and, of course, the agent is charged accordingly.

"Yet nearly all the sophisticated services touted by so many of the new franchise groups are available *at no cost through SFO, and they have been for over 10 years!*

"SFO charges no franchise fees and does not require the independent agent to give up any of his freedom in selecting what is right for the customer that he alone knows best. Yet SFO still provides single source capabilities for high quality, comprehensive programs at remarkably competitive rates.

Groups and associations.

"SFO offers the independent agent an opportunity to penetrate many of the more complex

groups and associations through our own national advertising campaigns tailored to the needs of these groups, and based, in most cases, upon our long experience with these groups. Often this includes association endorsement. And all of our advertising messages, from regional and national magazines to direct mail, refer the potential customer to his local independent agent.

"Our in-house computer operations are believed to be the very best in the industry. We have the data at our fingertips to provide prompt quotations and policy issuance for a wide variety of businesses, including supermarkets, bowling centers, racquetball clubs, ice rinks and country clubs.

"We have the ability to track all claims by computer, to see immediately the reserves on any claims, to isolate claims against any single class of business, to know immediately the loss ratio on an earned premium basis on every account.

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"All SFO insureds are personally inspected by professional engineers using SFO-created data forms as well as photographic data. All SFO insurance programs are written through Best's A or A+ rated companies.

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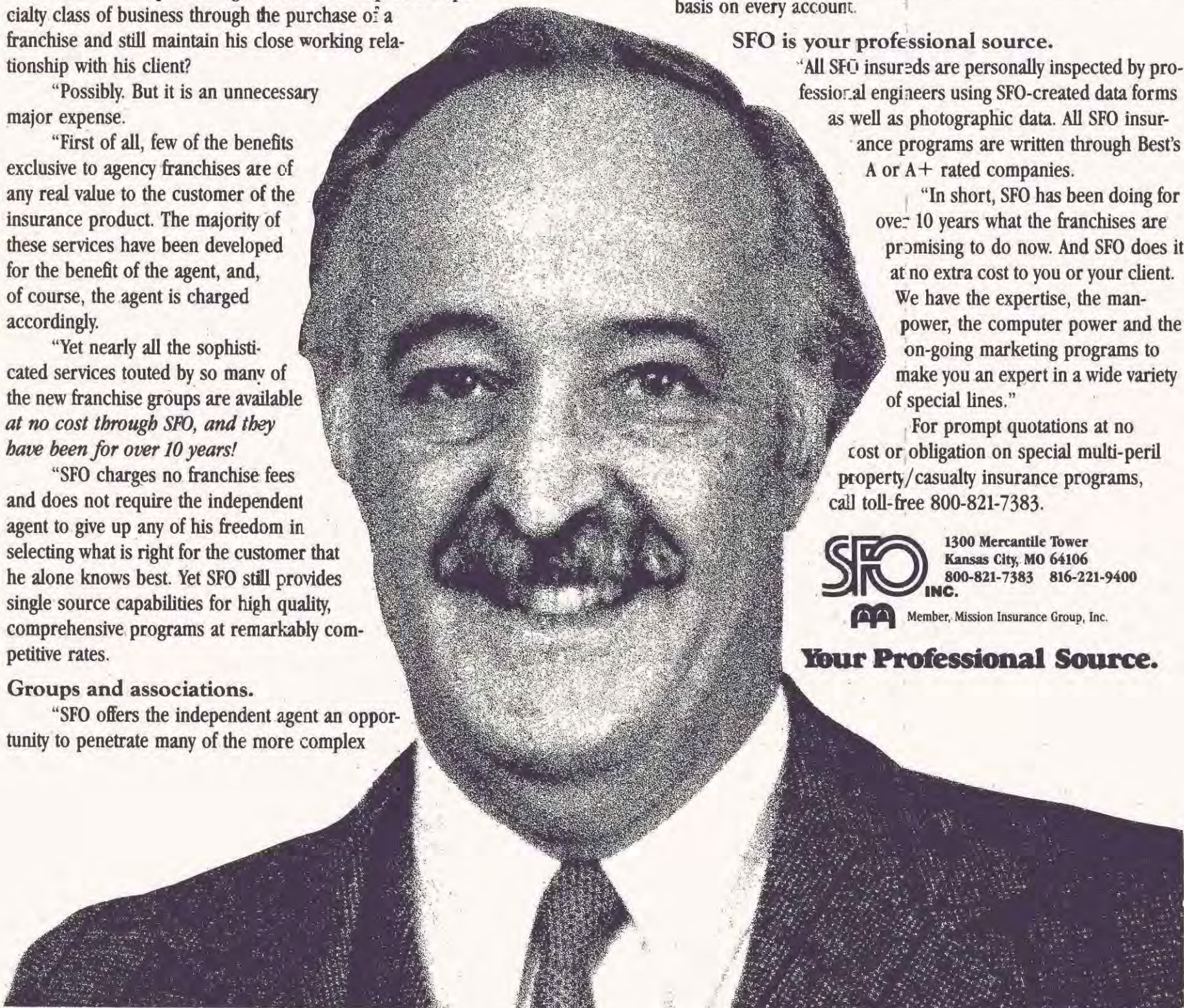
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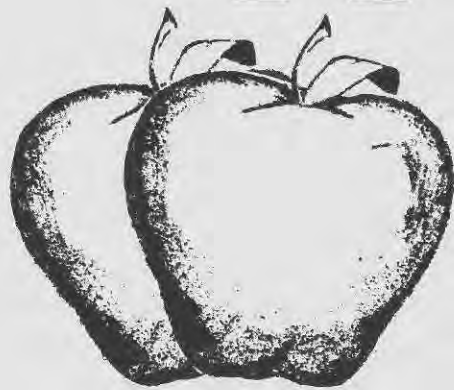
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Apples and oranges



By T. Lawrence Jones

A RECENT PERSPECTIVE article entitled "Comparing comp systems" (BI, Jan. 25), by insurance analyst Barry T. Martin, proposed that state funds are superior to private insurers in providing workers compensation insurance.

His argument is that state workers compensation fund programs are administered more "efficiently" than private insurers.

Just the opposite of Mr. Martin's thesis is true. Private insurers perform better than state funds. Ironically, this evidence is provided in his own analysis.

If efficiency is defined as "producing the desired result at a minimum cost," the private insurers outperform state funds in several significant areas. Among these are:

- Safety and loss prevention.
- Claims management and rehabilitation.
- Guidance and assistance to employers in identifying and obtaining coverage.

First, however, it is essential to point out a fundamental error the author has made while trying to compare 1979 state fund loss ratio data, computed to a large extent on paid losses, with the average ratios based on incurred losses for private insurers. In doing this, he alleges that the loss ratio for state funds is lower than that for private insurers—less of the premium dollar paid to the state funds goes to pay benefits to injured employees.

As a result, Mr. Martin's conclusions are based on incomplete figures that are not comparable and are incorrectly interpreted.

Five of the 17 state fund loss ratios cited, including Ohio's and Washington's, are computed on the basis of paid losses instead of incurred losses. Paid losses do not include reserves for future payments on existing claims. Thus, paid losses are usually significantly less than incurred losses.

Therefore, it is not possible to use paid

losses or to mix paid and incurred losses and calculate a loss ratio with any accuracy, as Mr. Martin did.

This basic error has created a distortion. For insurance companies, the loss ratio, using paid losses to written premiums, is 43% for 1979. When incurred losses and earned premiums are used, the ratio is 70.4%, according to Daniel N. Price, who annually surveys workers compensation for the federal government.

Mr. Price's survey indicates that for state funds, the loss ratio of paid losses to written premiums is 51.8%. Incurred loss figures to earned premiums are not given, and this lack may account for the deficient reserves of many state funds and the financial difficulties they have experienced.

Thus, to an extent, Mr. Martin is comparing apples and oranges. In view of the amount involved—more than 40% of state fund premiums—the resulting distortion is significant and undermines the credibility of his analysis.

Incurred losses, to be meaningful, must include loss reserves as well as losses paid. Ohio alone had total incurred claims expenses (paid and reserved losses and an

unknown amount for paid loss adjustment and other administrative expenses) for the year ending Dec. 31, 1979, of more than \$947 million, almost three times the \$333 million reported. If this omission alone were corrected, the total loss ratio of 68.2% (BI, Feb. 15) would jump to approximately 88%.

If the experience of the five states reporting only paid losses was disregarded, the ratio would rise to 76%.

The article is misleading in other areas as well.

Despite the author's own acknowledged inability to elicit expense figures from eight of the 18 funds, he concludes that state funds are more efficient. He was unable to obtain any usable figures from the Maryland fund. Is this evidence of

Continued on next page

T. Lawrence Jones is president of the American Insurance Assn. in New York.



...did not use comparable statistics

By Don W. Segraves

WE READ WITH interest and some puzzlement the recent Perspective article (BI, Jan. 25) that "proved" state funds outperform insurance companies in efficiently and effectively providing workers compensation insurance. But, as in any analytical study, the final results depend on the accuracy of numbers plugged into the equation. We take issue with Barry Martin's numbers as well as his conclusions.

Mr. Martin compares the efficiency of state funds and private insurers by using loss ratios. He asserts if a state's average loss ratio had been significantly higher than that of private industry, "then the lower loss adjustment expense ratio in the state funds would indicate a tendency for state funds to pay unjust claims."

This is not the case, he says, because private industry and state fund loss ratios are largely the same for 1979, 70.4% vs. 68.2% (BI, Feb. 15), showing that both systems are paying approximately the same amount in benefits to workers for each premium dollar paid by employers.

The problem is that Mr. Martin used inaccurate figures in calculating the loss

ratio for state funds. For five states—Montana, Ohio, Oklahoma, Utah and Washington—he did not know what the state funds' incurred losses were, so he substituted paid losses. This is a serious mistake.

Adjusting the paid-loss figures to allow for the reserves that four of those state funds had on hand (Utah figures are unavailable) to pay losses in 1979 gives a total incurred loss figure of \$2.7 billion instead of the \$2 billion Mr. Martin reported, according to an Argus Property & Casualty Financial Reports chart and the 1979 Ohio State Fund annual report.

The insurance company figures used by Mr. Martin already reflect reserves. This adjustment hikes the collective loss ratio for all state funds to 95% instead of 68%, almost 25 percentage points higher than the 70.4% loss ratio for private insurance companies.

In keeping with Mr. Martin's own analysis, a loss ratio 25 percentage points higher than that of private insurance companies, in combination with a low loss adjustment expense ratio (5.4% in 1979 vs. 9.2% for private insurance companies) indicates that state funds have a tendency to "pay unjust claims."

One might also suspect that lower administrative costs attributed to state funds indicate not enough time is spent on adequate underwriting and loss control, thus further contributing to the extremely high loss ratio for the state funds for workers compensation.

Mr. Martin's analysis of state funds' administrative expense ratios pegs the

figure at a collective 5.6%. Research by the Alliance of American Insurers, however, shows that the administrative expenses for state funds are approximately \$25 million higher than reported by Mr. Martin, bringing the total administrative expenses of state funds for 1979 to \$119 million, or 7.4% of written premiums.

This 7.4% figure, based on Argus F.C.& S. charts, rather than state fund annual reports that often categorize data differently than private insurers, is still four percentage points lower than the 11.5% administrative expense ratio of private insurers.

Why the discrepancy? Because insurance companies pay an additional 3.6% for taxes, licenses and fees to the states where they operate. Without this cost factor, insurance companies administer their workers compensation business for a total administrative expense ratio of 7.9%, a figure that's more competitive with the 7.4% expense factor of state funds.

Considering the additional services provided by private insurers, including loss control, private insurers turn out to be competitive with state funds.

As legislators, regulators, employers and the insurance industry work to find solutions to stem the rising costs of workers compensation insurance, state fund advocates are sure to press for adoption of a government-operated insurance company. But, while proponents claim that a state fund would reduce the cost of workers compensation insurance, our research has found that:



• Consumers generally pay the bill for capitalization costs and administrative overhead of state insurance funds through yearly tax bills. A state fund merely shifts the cost of operating the system to the taxpayer.

• State funds do not solve the problems of any state workers compensation system and many times only add to those problems. Like any insurance company, a state fund must operate within a system of the same fundamental and frustrating long-term problems—excessive litigation, liberal interpretation of benefit eligibility and lack of standards for disability determination, to cite a few.

Workers compensation cost problems can be solved by addressing and correcting specific deficiencies in the present laws. As members of the business community, the insurance industry is committed to working for real reform of state workers compensation systems, wherever reform is needed.

Realistic and effective alternatives for streamlining benefits delivery and containing costs can be found. Proposals for state workers compensation funds sidestep the real issues and only delay the efforts needed to bring about genuine cost-cutting reforms.

Don W. Segraves is vp of research for the Alliance of American Insurers in Chicago.



perspective

Get the most for your benefit dollar

By Peter B. O'Brien

MUCH HAS BEEN written about sophisticated funding techniques for the multimillion-dollar group insurance buyer. But what about the average guy? What can the smaller company do to tighten its belt in this recessionary economy?

Here's a list of 10 money-saving ideas for the medium-sized buyer, the company that may not have a professional employee benefit manager. These recommendations would be most beneficial to companies employing 100 to 500 people. But, some of these tips can also serve as prudent buying guidelines for any benefit purchaser, from General Motors to the smallest company:

- Call for competitive bids every three to five years. Insurance companies definitely vary in their intensity to compete for new business. A period of hot sales activity can be followed by a period of quiet digestion. Also, companies periodically single out a particular line of coverage they feel should be spurred on with a special sales effort. Attractive rates

Peter B. O'Brien is a vp and senior employee benefit coordinator at Alexander & Alexander of New York Inc. His column appears the third Monday of each month.



thrift tips

usually are part of the package in this special effort.

The idea is to stay in touch with the industry price leaders and keep your underwriter in line with those bidders that would like a chance to take over your plan.

- Don't necessarily feel locked in by your renewal dates. Unlike your property/casualty policies, group insurance changes can be made anytime without short-rate penalties. Your insurer is generally obligated to hold the line on rates until renewal date, but you have the right to entertain a favorable alternative at any time.

- Ask for policies that pay dividends and avoid signing IOUs. Rating methods vary widely among underwriters, from full experience rating to complete pooling. Assuming you don't have to pay a meaningful penalty, select the rating option that could pay a dividend for favorable experience. While the cost of benefits is rising, your own experience is subject to periodic fluctuations that could produce a handsome cash dividend. This is particularly significant for life and long-term disability policies.

Incidentally, never rate the long-term disability and life plans together as a single package.

- Make your group insurance materials

portable. Rather than highlight your insurance company's logo on your enrollment cards, ID cards and booklets, highlight your own company's image. After all, it's your plan. Besides, this will prove to be a cost-saving benefit should you ever decide to change insurers. Done right, most of the material the employee handles can survive a couple of insurance company changes.

- Try unbundling your plan for bidding. Many buyers save considerable premium by using separate specialty underwriters. While the administration might be less convenient, the savings and increased plan portability could well overshadow the extra paperwork. The extra work should be minimized by switching from monthly to semiannual statements.

- Develop the ideal census. Insurance companies cater best to the perfect profile of age, wage, sex and area. If you have a million-dollar president living in New York while the troops work in Ohio, pull Mr. Big out of your census and consider writing a separate policy for him. He probably wants a special deal anyway. Many company profiles have been badly skewed by including owners, senior officers and directors. Another benefit of this move should be a savings on pooling charges.

- Develop accurate experience records. This is essential for bids. You obviously know what you paid by adding up the premium reports, but there frequently is confusion about the exact amount of claims.

There is an easy way to keep track. Just request that your underwriters to send you a copy of each draft they issued to your employees.

- Use a consultant that has access to all markets. If you are using an agent, chances are he only represents a few group underwriters. This limits your exposure to the marketplace. Select a full-service consultant and have him search the entire field, including the Blues and direct writers.

- Use a coordinated group insurance and pension consultant. Many companies find considerable savings by using a single consultant to handle both their group insurance and pension plans. You should enjoy efficient "dovetailed" consulting, thereby avoiding overlaps or gaps in coverage.

- If, after considering all the options, you decide to change insurers, don't worry about being tagged a fickle buyer. The insurance industry has gone through extreme ups and downs, and you owe it to your firm to keep tabs on the changing market. If you keep accurate records and foster a businesslike approach to the problem, you will end up ahead of the game.

Complete data needed to compare insurers, funds

Continued from previous page
state fund efficiency?

In Ohio, Arthur Andersen & Co., which was directed by the state auditor in 1980 to audit the fund, found that it was not auditable. Records for the years 1977 and 1978 were not adequate to provide a basis for an examination in accordance with generally accepted auditing standards. This major monopolistic state fund has had, for several years, a record of fiscal and general mismanagement for which it has been excoriated by state auditors, public officials and the press.

Based on Mr. Martin's data, the Pennsylvania State Fund with its 1.2% administrative expense ratio is the most efficient of all state funds. Yet, a Governor's Study Commission in 1981 found that the operational problems of the fund were insurmountable. The commission recommended that the fund be dissolved.

Further, the differences in the expense data for individual states used by Mr. Martin cry out for explanations. Despite similarities in premium size, Arizona's administrative expense ratio, as reported, is nine times that of Pennsylvania.

Likewise, a comparison of two large funds, Washington and California, shows California's administrative expense ratio is four times greater than Washington's. These differences must be caused by something other than differences in efficiency. Until the reasons for these differences can be explained, the state fund expense data used by the author lacks credibility.

Mr. Martin's use of ratios has little value when comparing the results of state funds and private insurers. Loss ratios are affected by the adequacy of the rates.

Variations in benefit levels, premiums and services provided complicate the use of ratios to make this kind of comparison impossible.

For example, if a more carefully prepared analysis showed that private insurers had a lower loss ratio than state funds, it would not necessarily mean that state funds are more efficient. If anything, we believe it

means that additional services provided by private insurers are having their intended effect of improving workplace safety and reducing accidents and losses.

Mr. Martin neglects to consider that in monopolistic fund states, like Ohio and Washington, employers must retain service bureaus at extra cost to obtain claims and safety services that the funds do not provide.

In Ohio, for example, an additional 10% of the cost of insuring with the fund is frequently spent to purchase services from independent providers. This further illustrates the futility of trying to compare state fund and private insurer expenses. This comparison fails to give full consideration to total costs vs. benefits and services provided.

Where records are kept, as in New York, private insurers frequently outperform the state fund in the prompt payment of claims.

Compensation Board performance records in New York indicate that insurance companies had a 78.30 index of prompt payment. That translates to a disability payment within 18 days of filing. That is fairly representative of performance by insurers nationwide.

The New York fund is considered to be one of the best managed. However, the fund ranked sixth when compared with a group of eight insurers of similar size. The fund only had an index of 77.11 compared with 90.27 for best performance for promptness in the group.

Poor claim service means delayed payments and higher costs, lack of adequate medical care and rehabilitation services.

The author is correct in stating that insurers allocate more funds for loss-control services, but wrong to suggest from this that their incurred losses should be lower.

Actually, these efforts produce fewer losses and, consequently, lower premiums and lower real costs.

The author observes that in all but one state, the state fund has a larger market share than any single commercial insurer. He concludes that such market

share reflects the "buyers' opinion of their effectiveness and overall operation."

In order for a comparison of market shares to be meaningful, one must extract the residual market business. Considering this, the market share for state funds would then be substantially lower.

Regardless, the market share numbers provided in the analysis do portray the buyers' confidence in the private insurance market, not the state funds. In the 17 states, 77.6% of the market is insured by private insurers while only 22.4% is insured by the funds.

The author is also silent about dividends, although there is an implication that he made no adjustment for dividends paid when calculating loss ratios for the state funds and private insurers. It is difficult to know exactly what the impact of this would be for state funds. In 1979, private insurers returned nearly 7% of earned premiums in dividends to policyholders.

Also, administrative expenses for private insurers include various taxes paid to state and local governments. These taxes average 3.7% of written premiums. Many state funds do not pay these taxes.

Unaccountably, Mr. Martin questions the value of the services of agents and brokers. These services are most valuable to employers in obtaining coverage promptly at proper rates. They help employers with claims processing and safety education. Most employers value these services and use them.

In his analysis, Mr. Martin also ignores the wide variety of insurance companies and the services they provide on a tailor-made basis, permitting employers to select the type of insurer best suited to their needs. Among them are non-participating companies, participating companies, direct writers, mutuals, reciprocals and others, each competing to provide the best service at the lowest cost. Under a state monopoly, there is no choice.

In short, Mr. Martin's data and methodology have such serious shortcomings that they are of little value in promoting understanding of the issues.

Bermuda market needs collection agency: Broker

HAMILTON, Bermuda—An international insurance debt-collection agency should be set up in Bermuda to collect late premiums for the world's reinsurers, a leading Lloyd's of London broker suggests.

Millions of dollars in unpaid premiums that are creating cash-flow problems for reinsurers could be collected by such a group, says David Springbett, managing director of Pearson Webb Springbett.

Bermuda should take the lead in offering a debt-factoring facility before large financial institutions move in and steal the initiative, he advised members of the Bermuda Insurance Institute at a meeting late last month.

"Bermuda," said Mr. Springbett, "is an overcapitalized and underutilized market with a rare combination of underwriting and financial talent. It also has excellent communications facilities and is free of exchange controls on international funds."

"Why shouldn't it form an organization made up of captives and other companies that would undertake to buy the established debts of international reinsurers at a discount?" he asked. "This pool could start off with a capital of, say, \$50 million and would make more money out of collecting unpaid premiums than out of reinsurance."



Mr. Springbett

"This organization would then be able to draw up a blacklist of the world's worst payers that would include the names of countries as well as companies," he said.

"This sort of service is not offered anywhere and I know that the big financial institutions and credit card companies would like to get in on it."

"Obviously, such an organization would need to have contacts or agents around the world who would put pressure on debtors," he noted.

The 43-year-old broker, one of the founders of Pearson Webb Springbett when it was formed 17 years ago, also urged reinsurers to adopt some tough commercial sense and start collecting their debts because cash-flow problems threaten to collapse the reinsurance industry.

"The balance sheets of many international reinsurers look healthy enough but it's a question of when the dues will come in. Some premiums go unpaid for years and there are now hundreds of millions of dollars owing to the industry."

Mr. Springbett, who was last month named Britain's 1981 Salesman of the Year for his personal broking efforts, partly blamed the world's reinsurers for their own cash shortage.

"The tail is now wagging the dog," he said, "and one of the reasons for this is the reinsurance industry's 'Father Christmas-like' outlook—it has been either too nice, too timid or just too stupid to insist on its rights."

"When was the last time you heard of a reinsurer taking a customer to court over unpaid premiums or of interest being charged on outstanding balances? OK, so you can say you are not going to handle a client's business anymore, but if you don't want it, there's an army of brokers out there queuing up for it."

"High interest rates have made it attractive for people to hang onto

their money as long as possible, and the present overcapacity in the markets has made companies frightened of losing their business. But the markets are just being suckers at the moment and accepting outrageous commercial behavior from countries and companies that change the firms they do business with every few years just to keep ahead."

Mr. Springbett predicted the markets may never see the return of underwriting profits of a few years ago and would continue to face the effects of high interest rates.

"It's time," he added, "for the markets to get commercial rather than fund the world and continue being nice chaps."

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NORTH STAR

Could reinsurers survive series of disasters?

By STACY SHAPIRO

LONDON—Suppose a wayward hurricane hit New York City.

At the same time a typhoon strikes Tokyo, a major earthquake rocks San Francisco, the Thames River floods London, the stock market crashes and several major insurers go belly up under the pressure.

"Wouldn't this lead to a financial Armageddon?" asked a participant at the recent "Reinsurance at the Crossroads" conference in London.

"The probability of that happening is so low that you could probably buy cheap protection for it in the London insurance market," replied Francois Negrier, director general of Societe Commerciale de Reassurance of France.

But just one of these disasters could cause some insurers and reinsurers to go broke and close up shop, conference members agreed. And that would slow payment to corporate insurance buyers who vitally need the funds after such a disaster.

"Indigestion would break the

'Reinsurance at the Crossroads' conference

LONDON—About 500 people gathered March 3 and 4 at the "Reinsurance at the Crossroads" conference in London to take a close look at the international reinsurance industry.

The conference was sponsored by City Financial Conference Services Ltd.

system," said Michael Butt, chairman of Sedgwick International Ltd. "That is our main concern—the speed with which compensation gets to the client."

He told the conference his firm tried to formulate a scenario on how long it would take to pay a catastrophe loss: What would happen if an enormous claim had to be paid in less than six days but consumed all the insurance and reinsurance premium paid for the entire class of business?

"But we did not get over the first hurdle because the first Lloyd's underwriter we approached told us to mind our own business. So, we still don't know," Mr. Butt said.

However, the chance that some company in the insurance chain might go broke in the event of a

huge catastrophe has almost everyone in the industry worried, conference participants said.

But Mr. Negrier pointed out the chain could break without such a catastrophe.

Most bankruptcies occur because of inefficiency, poor management, high overhead, poor investment strategy, trust in the wrong people and acceptance of volatile risks at low premium levels, he said.

"Political and financial crises and natural catastrophes affect all the insurers and reinsurers of the same market," Mr. Negrier said. "But only a minority of ill-managed or vulnerable firms disappear since their reinsurance was poorly conceived or their liabilities were spread over an excessively long period."

Capacity should be based on actual surplus: Reinsurer

LONDON—How much of today's reinsurance capacity is based on real capital and how much of it is based on bankers' letters of credit and fictitious surplus?

That's the question to ask before a major catastrophe provides the answer, according to John C.S. Lepine, chairman of Norwich Winterthur Reinsurance Corp. Ltd.

"I would hate to be a banker the day a really large loss arrives and I am asked by a client to advance millions of pounds or dollars against the alleged security provided by cover notes issued on behalf of 100 companies domiciled all over the world," Mr. Lepine said at the recent "Reinsurance at the Crossroads" conference in London.

"And even if I were largely able to satisfy myself of their ultimate ability to pay, how could I be sure that my client's claims would not be rejected on one pretext or another?" he asked.

Thus, reinsurance capacity that is based on fictitious capital and credit, not on actual reserves, may be a trouble spot in the future, Mr. Lepine said, if today's market practices continue.

"Many reinsurers today are dealing in product and territories that are strange to them and where they have very limited ability and knowledge to properly assess the hazards involved," he said. "You can see why the fundamentals of modern capacity quake, posing

question marks for tomorrow and continued willingness and ability to respond positively to yet new areas of demand."

To understand a future lack of capacity, Mr. Lepine examined what reinsurance capacity exactly is.

"Capacity is an expression of the willingness and ability to absorb reinsurance risk," he told conference participants.

The existence of a reinsurer depends on three things:

- Capital funds to back it at a predetermined solvency level.
- Ability to generate sufficient earnings to adequately service the capital employed.
- Ability to effectively borrow and service capital funds from retrocessionaires.

"But the actual role played by capital in determining capacity is limited, varied and diffused," Mr. Lepine said.

Responsible management, for example, will limit the amount of exposure drawn on capital funds. They will only reinsure for the most unexpected and unforeseeable losses, thus limiting their "ruin probability," he said.

Solvency regulations can restrict the amount of capacity, too. But subjective views made by management of probable risk, volume, portfolio mix and results are more likely to determine the amount of capacity available.

That amount may depend on investment opportunities and government regulation, auditing controls and taxation.

"Let us suppose that it is permissible or tolerated in one territory to add substantial surpluses to conventional and technical reserves before declaring a result. Let us also assume that solvency requirements or conventions are lower in one territory than in another," said Mr. Lepine.

"Although the amount of capital effectively employed and the rates of tax payable may in both cases be the same, the actual amount of capital to be serviced and of tax to be paid will be less in one case than in another."

But the amount of capital available to a company does not necessarily determine its reinsurance capacity, he said.

Defaults caused by investment policy, internal fraud or poor administration are probably easiest to detect in their early stages because of mandatory auditing, he said. Late settlements also may be a warning sign that a company is on thin ice.

But other financial problems may not be so easy to detect, especially if they are incorporated into the very core of a company strategy, Mr. Negrier said.

"Many defaults are due to the ceding company's choice of reinsurance program," he said. "The problems are most familiar to reinsurers who cannot manage to convince direct companies of their ill effects."

Poor administration of these cessions brings on bankruptcy, as seen by the demise of Strathcona General Insurance Co. of Canada, Mr. Negrier said. Treaty wordings and accounting confusion caused Strathcona's reinsurers to contest claims, making it impossible for Strathcona to receive payments for the 80% of its business it had reinsured, he said.

Companies that have a bad book

of business are also difficult to detect until a catastrophe occurs, Mr. Negrier said. But in such a case, a default may not necessarily be the company's fault.

"Death by innocence, as the name implies, is not the victim's fault," he said. "It is due to the unfamiliar products that do not represent a very large premium volume; otherwise the victim would not be innocent."

But finding these troubled companies in the insurance pipeline and preventing them from going broke before a major catastrophe occurs is difficult, Mr. Negrier pointed out. The best detector is the regulatory bodies that govern insurers and reinsurers, but their jobs are compounded by the fact that companies often operate in many nations.

"The variety of such areas makes the supervisory authorities' task almost impossible to perform as far as underwriting business is concerned," Mr. Negrier said. "And no supervisory board in the world is now able to perform a reliable audit of an international reinsurance company."

Risk management, technology spurring evolution of industry

LONDON—Evolution is taking place in the international reinsurance industry due to advances in risk management and technology, industry leaders say.

"Risk management is bringing about a profound change in reinsurance," said Kenneth J. Duffy, chairman of Commercial Union Risk Management Ltd.

For example, captive insurance companies are now in the thick of the competition for third-party reinsurance business.

Bermuda now takes in more reinsurance premiums from the United States than any other world insurance market, said Robert V. Hatcher, president and chief executive officer of Johnson & Higgins. He said the total captive surplus in Bermuda exceeds \$3.5 billion.

"My own firm now manages captives in Bermuda that have a total surplus of nearly \$500 million," Mr. Hatcher said in a speech delivered at the "Reinsurance at the Crossroads" conference.

The growth of captives and self-insurers also affects the type of risks the reinsurance market must accept, pointed out John C.S. Lepine, chairman of Norwich Winterthur Reinsurance Corp. Ltd., who estimated that captives and self-insurance account for 22% of the "real" commercial lines market in the United States.

The companies that self-insure or use captives pick the risks they want to assume, forcing reinsurers to accept the more volatile classes of business at competitive rates.

"Corporate buyers of insurance have acquired greater professionalism including an understanding of the financial implications of an insurance transaction and a recognition and resultant use of their own risk-financing capacity," Mr. Duffy of Commercial Union said.

"They increasingly retain the measurable or predictable risk and pass the unpredictable or catastrophe risk to the commercial insurer," he said. And insurers, using reinsurers strictly as sources for capital, move the explosive risks down the pipeline.

"Thus, the reinsurer's portfolio is composed of a greater proportion of peak risks," Mr. Duffy said.

Also, technological advances are producing more volatile risks, which buyers pass to insurers and, ultimately, reinsurers.

"The public believes that the benefits to be derived from technical advances would outweigh the risks taken in achieving these advances," Mr. Duffy said.

But the risks created by high technology—asbestos, hazardous wastes, jumbo jetliners, and offshore oil platforms—may prove to be too much if a major catastrophe occurs, he explained.

World insurance and reinsurance capacity is already being squeezed in certain areas, like the market for offshore oil platforms in the North Sea, Mr. Duffy said.

Although reinsurers are worried that a major catastrophe could injure the entire world market, Mr. Duffy told the conference it is more likely that reinsurers in one area of the world would be hit hardest because of the concentration of risks and local legislation.

Companies in some countries are required to reinsure national risks or certain classes of risk with a domestic market. And other insurance companies are nationalized so when the state begins to default, so does the insurer or reinsurer.

"It is likely, too, that a major earthquake or hurricane in a populous area will test the soundness of contemporary accumulation and concentration controls," said Mr. Duffy.

It is doubtful, however, that reinsurers are becoming an endangered species as risk management and technology advance, portfolio spread decreases and reinsurers fight one another with cheap rates or by accepting volatile business, Mr. Duffy said.

"Reinsurers have long pleaded with ceding companies for a greater sharing of technical information to better reflect their relative risk participations," he said. "I think we will see a resurgence of facultative reinsurance as the method which more readily satisfies the perceived and real needs of reinsurers in the future."

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Companies seeking capital looking toward reinsurers

By STACY SHAPIRO

LONDON—"Reinsurance is another word for capital," according to one insurance company official.

And that capital is now sought by corporations that form captives, banks seeking to become financial warehouses and brokers and insurers that believe reinsurance provides the best returns in this market.

The reinsurance industry is now growing faster than the direct insurance industry as more financial institutions become interested in the company at the end of the insurance pipeline, participants at the recent "Reinsurance at the Crossroads" conference in London agreed.

"The supply of total world insurance has remained roughly constant over the last decade in terms of the number of insurers, though the number of reinsurers has increased by some 25%," said Michael Butt, chairman of Sedgwick International Ltd.

"The volume of reinsurance premiums has grown by 400%; direct insurance premiums have grown by 350%," he said.

"This growth suggests not only an increase in demand for insurance but also a shift in the demand toward reinsurance. Indeed, the amount of reinsurance equaled 13.6% of direct business in 1970 and 16.1% at the end of the decade."

Some people in the world insurance markets are worrying about the security of this shift toward reinsurance. Many of the reinsurers at the conference said that a major California earthquake could topple the entire international reinsurance structure.

But if one would have asked one of the many bankers attending the conference whether he would rather invest in a British insurance company or an international reinsurer, he probably would not have hesitated to choose the latter.

"My particular preference would be to invest in the international reinsurance company," said Esme Howard of Bankers Trust Co. in London. "I'd take the longer view of a company in the international market because that is where the future is. I would not write to full capacity because not all the business will be up to scratch. But I would rather have the international company than a non-life U.K. business."

Mr. Howard's fellow bankers in the United States are also becoming more interested in the reinsurance industry as their search for capital moves them closer to the insurance industry.

The insurance industry currently shows the most expansion potential of all the financial service industries, Mr. Howard said, and banks want part of the action.

Reinsurance premiums can earn attractive profits if invested wisely, conference members agreed. But some reinsurers haven't learned how to invest wisely.

"One classified the reinsurance markets into three categories: sophisticated, greedy and naive," Mr. Butt said. "The buyer today is tempted to exploit the latter, putting increasing pressure on the sophisticated to join the greedy and continually undermining the traditional qualities of continuity and long-term investment in the relationship between ceding company and reinsurer."

Reinsurers should re-examine how they invest their incoming capital, says Mr. Howard, so they receive the best returns for their money and are in a position to pay heavy losses.

Reinsurance companies must ei-

ther learn or employ those who understand how to best finance and invest their capital, Mr. Howard said. Reinsurers also must learn how to best use bankers' letters of credits.

The futures markets may be another way to hedge expected losses, he said.

"Financial futures have become a conspicuous growth sector in the United States and it is likely that the direct insurance market over there will make increasing use of interest and foreign exchange futures to establish its reserves," said Mr. Howard.

Reinsurers must revitalize their management and investment structures to plan ahead and secure a good future, Mr. Howard said. ■

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THE SPECIALISTS

Poor business climate affects risk management departments

Continued from page 1

These respondents, who have volunteered to answer regular surveys from *BI*, represent all sizes of businesses and government entities.

Other effects of the current poor business climate on risk management departments, and the risk managers' reactions, reported by the board members include:

- More shopping of the insurance markets for better prices.
- More self-funding to gain cash flow.
- Slower claims payments by insurers, forcing risk managers to pressure insurers to pay claims.
- Delaying premium payments to insurers to hold cash.
- Less spending on safety.
- Less spending on travel.

According to the survey, 32 companies are operating under a hiring freeze. Another nine companies expect to be under a hiring freeze within the next six months.

These hiring freezes are forcing some companies to turn to their brokers and other outside suppliers for more services. Thirteen companies say they have taken this approach within the last six months and another 13 expect to need more help from outside suppliers within the next six months.

In the eight risk management departments reporting cutbacks in risk management personnel, four let go the top risk managers, one eliminated an assistant risk manager, one eliminated a claims specialist and two eliminated other

Coverage availability growing

Insurance you couldn't buy or afford in the 1970s could be available today, one *Business Insurance* Risk Management Board member reports.

"We just renewed our architects and engineers errors and omissions coverage which we had dropped in 1977," wrote the vp and secretary for a steel and alloy plate fabricator with \$110 million in sales.

"We bought \$10 million with a \$500,000 deductible for just under \$100,000 a year. The policy is on a claims-made basis with retroactive coverage back to July 1, 1977.

"We design as well as manufacture and, therefore, while the price is no bargain, we feel fortunate to even be able to buy it."

support personnel.

A steel-related manufacturing company whose sales have dropped to \$280 million eliminated the top risk management position and retained a consultant to handle risk management matters.

At a university with a \$50 million budget, the former risk manager's responsibilities are being handled by the vp for administrative affairs.

A trucking carrier that has closed its largest division, reducing its \$150 million in revenues by 80%, this month eliminated the top risk management position, an assistant risk manager and a claims specialist.

A municipality with a \$323 million budget eliminated the top risk management position and assigned the responsibilities to the insurance administrator.

An assistant risk manager was eliminated by a county government, and two support personnel at a chemical and food products company with \$4 billion in sales were cut out of the budget.

Only one respondent admitted knowing that the company will eliminate the assistant risk manager position within the next six months. Some respondents answered "hopefully not" or "don't know" when asked if they would lose staffers within the next six months.

The assistant vp for risk management with a retail drug store chain noted, however, "there is a contingency 10% cutback in budget/personnel companywide plan established, but not implemented."

Pressure on risk managers to reduce expenses also is apparent by the large number who say they are switching insurers for lower prices.

Thirty-four percent or 27 companies say they have switched insurers within the last six months for lower prices and another 16% or 13 companies say they expect to do so within the next six months.

"We have required our broker to use more markets to secure the best

price," said the assistant secretary and corporate director of risk management for a manufacturing company with \$235 million in sales.

Two respondents noted they have renegotiated contracts with their insurers for lower prices. The insurance manager for a Midwestern city, for example, said, "Some three-year policies have been canceled and rewritten on the anniversary date to take advantage of certain rate reductions and additional credits."

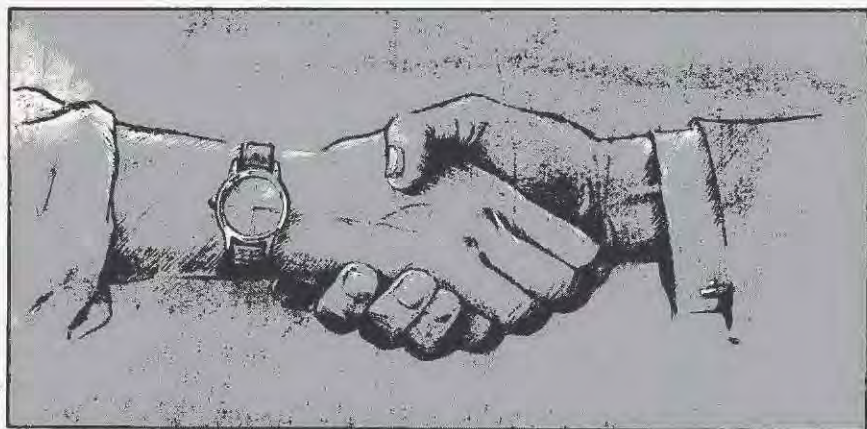
Brokers, however, obviously are shopping the markets well at their clients' instruction. Only 10 companies said they have switched brokers for lower prices and only five expect to change brokers for better prices within the next six months.

In addition to switching insurers for lower prices, companies are continuing to investigate more self-funding to gain cash flow. One-fourth of the respondents say they have increased their self-funding, and another 25% expect to increase it within the next six months.

Self-insurance can be the wrong decision for a company pressed by internal cash-flow problems, but only one company says it has reduced its self-assumed risk because of cash problems.

The tug-of-war for cash between policyholders and insurers appears to be heating up, with insurers delaying claims payments and risk managers delaying premium payments.

Twenty-three percent of the survey respondents said that insurers are slowing down on paying claims, forcing them to pressure insurers to pay up. The board members said they generally expect to wait 30 days for a claim payment, but 18 risk management departments report insurers are dragging their feet, delaying claims checks for as long as six months. Nine respondents put the delay at two to three months. Others said insurers are taking as long as they can by law to pay the claims.



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Malaysian insurer severs links with foreign investors

KUALA LUMPUR, Malaysia—Tugu Insurance Group is severing its financial links with its Hong Kong shareholders, although it will still maintain close ties through reinsurance.

Tugu is now owned entirely by Malaysians and is searching for a new name to avoid confusion with Tugu Insurance Co. of Hong Kong, which has held a 30% stake in the Malaysian company since it was formed in 1975.

The company's chairman, Enick Abdullah Ishak, explained, "Though we only began operations in the name of Tugu Malaysia in 1975, we are already in the top 20 of 60 general insurance companies operating here (in Asia) in terms of premium income."

Poi Tee, its managing director, told shareholders: "When the company was building up its Malaysian business, it received considerable assistance by way of reinsurance from its associate company in Hong Kong, Tugu Insurance Co., which is one of the largest and most profitable insurance companies registered in Hong Kong."

"It (the Malaysian company) is a specialist insurer in Southeast Asia for oil and gas insurance business and also for large risks in aviation, marine hull and major construction projects."

The company got its name through a previous association with an Indonesian company, where the word means "momentum" or "strength and stability."

The assistant risk manager for a restaurant chain observed a "slow-down on handling auto claims when the insured was at fault and no question of liability."

Another 10% expect insurers, who also want to hold cash for the investment income, to slow claims payments within the next six months.

The survey respondents say they are in turn pressuring insurers to pay the claims more quickly. The director of risk management and special financial services for an electrical equipment manufacturer, for example, says he seeks half the claim as an advance and the balance six weeks after all costs are available.

On the policyholders' side, 21% of the respondents admit to delaying premium payments to hold cash, and another 10 companies or 12.5% admit they will start delaying premium payments in the next six months.

One risk manager, however, objected to this tactic. "Never," he wrote below the question, "Are you delaying premium payments to hold cash?" The risk and insurance manager for a multistate financial institution with \$1.6 billion in assets added, "I want the reputation of paying promptly. Anything less is an insult to the broker/carrier and invites slow claims and increased premium."

The squeeze for money also is forcing companies to scrutinize safety budgets, and some aren't passing the test. Safety budgets have been cut at 12 companies, or 15% of the respondents. Another 10 companies expect their safety budgets to be cut within the next six months.

"It's more difficult to get capital projects approved for fire protection, such as sprinklers and fire ex-

tinguishers," said the director of risk management for a publishing company with \$2 billion in sales.

Only one respondent said the safety budget was being increased.

The risk manager for a refuse hauling company with \$30 million in revenues, however, is "adding the position of defensive driver trainer to the risk management staff" as part of an effort to reduce the cost of self-insured liability and workers compensation programs. "We're also exploring the addition of an in-house claims person in hopes of reducing the cost of administration and further reducing the cost of claims through prompt handling," the risk manager said.

Some insurance budget reductions are fallout from reduced business and, therefore, reduced risk.

Ten companies report reducing business interruption insurance limits: six because product demand is down, two because inventories are high and two because currently idle facilities could pick up the

slack if another facility was closed by a loss.

Another eight companies expect to reduce their business interruption insurance limits within the next six months: four in response to reduced product demand, two with high inventories and two with idle facilities.

Increased inventories, however, have forced the purchase of more insurance—either automatically or at a specific request—at eight companies and another four expect this within six months.

Five survey respondents noted they have reduced their travel to control expenses and one reported a reduction in the education budget.

In response to an open-ended question on the effects of the current economy, specific board members said they were:

- Adjusting insurance cost provisions—accruals based on payroll or sales—because of reduced personnel and sales.

- Expecting higher workers compensation claim costs.

- Performing more cost/benefit analysis.

- Emphasizing short-range projects that will produce immediate cost reductions.

- Seeing a renewed desire by profit centers to directly benefit from cash-flow insurance programs.

- Observing more awareness among risk management personnel to "show and tell" their contributions to a profit center and the company; for example, settling a claim at less than the reserved amount.

But it's not gloom and doom everywhere.

An education, research and patient care concern with \$645 million in revenues is cutting all department budgets 2% except the budget of the risk management department. The director of risk management is getting an increase to add five more employees to handle biological safety and health

concerns and the hazardous waste disposal risk. The department already has 21 employees, including risk management, safety and health experts.

A conglomerate with \$3 billion in sales had a record year in 1981 and "1982, from business positions, looks better than 1981," reports the vp for insurance. He is more worried about the insurance industry's financial position than his own company's and is "looking for maximum security of insurers and reinsurers—demanding letters of credit and cut-through endorsements in some cases."

A major hospital chain risk manager simply said, "The recession is not affecting my job."

The risk manager for an aviation, technical and motor carrier company said, "None of the questions asked are applicable to our firm. The recession has not changed our commitment to operate a first-class insurance program."

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File No. 13165/1981
Date 15th January 1982

CERTIFICATE

It is certified by us the principal clerk of this court that having checked the document and proceedings on the File No 13165/1981 it is ascertained that the Administration of State Insurance (ADAS) with head office in Bucharest, No. 5 Smiridan Street, District No. 3 introduced the action of voidance ab initio of agency binding authority agreement concluded with Promotora De Occidente S.A. with head office in Mexico City and C.J.V. Associates Inc., with head office in New York, including the previous and subsequent agreements connected therewith against Promotora De Occidente S.A. with head office in Panama Apdo 1824, Panama 1, and others with trial date 25th June, 1982.

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Principal Clerk of the Court,
Zoe Stanescu

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Laker's underwriting capabilities grounded

By STACY SHAPIRO

LONDON—As a result of the crash of his "no-frills" airline, Sir Freddie Laker has suspended his underwriting capabilities as a member of Lloyd's of London.

Due to his financial troubles and bearing in mind Lloyd's continuing means test for its names, Sir Freddie decided to cease underwriting "forthwith," according to a statement by Lloyd's.

Lloyd's names must show assets of at least 100,000 pounds (approximately \$182,000) if they want to invest in Lloyd's underwriting syndicates.

Oil well danger

LONDON—The losses caused by an out-of-control oil well off the

london line

coast of Angola (BI, Feb. 15) could gush even higher as the well threatens to explode again, according to an underwriter.

The Sedco 250 well, owned by Sedco Inc. in Dallas and operated by Gulf Oil Corp., is forming a "bubble" that could cause it to erupt highly toxic hydrogen and light oil again, said David Hill, a Lloyd's of London underwriter for D.B. Hill Syndicate.

The explosion, which occurred last May, was finally capped Feb. 3. But rescue equipment is already in place if the Sedco 250 erupts again, Mr. Hill said.

So far, insurance claims from the Sedco 250 well blowout have ex-

ceeded \$100 million.

British fire losses

Fires in Great Britain caused more than 356 million pounds (\$665.7 million) in property losses in 1981, the British Insurance Assn. estimates.

The 1981 figure is 24% below 1980's record of 469 million pounds (\$877 million) for industrial, commercial and private property losses due to fire.

"Large losses from fires in schools were particularly worrying," said George Williams, chairman of the BIA's fire insurance panel, "especially when viewed

against the background that fires caused by malicious or doubtful ignition continued to account for a significant proportion of all fires."

There were 16 school fires costing more than 250,000 pounds (\$467.5 million) apiece, he said. And 33 fires caused more than 1 million pounds (\$1.87 million).

The British Safety Council, however, says that many companies are cutting back on safety and security personnel, which could cause fire losses to increase even more this year.

"Many firms are unwisely cutting back on safety and security personnel," the council said. "Arson and vandalism are escalating daily and the threat of political terrorism designed to cause maximum shock, fear and publicity is ever-present."

However, disasters that cause large losses of life can be prevented by fire control and proper fire escapes, the council says.

But not every public place properly practices fire safety, says James Tye, general director of the British Safety Council. Mr. Tye said he conducted his own inspection while attending a boxing match in Albert Hall in London.

"I was alarmed to discover that the main doors and adjacent fire exits were locked," Mr. Tye reported.

A British Safety Council report on fire safety at the Albert Hall, which is regulated by a Royal Charter, has been submitted to Home Secretary William Whitelaw, requesting that the building meet the fire standards that apply to other entertainment structures in London.

52 great issues coming up!

ISSUE NUMBER

ISSUE DATE

AD CLOSING

16. CAPTIVES/OFFSHORE ... RIMS

APR 19

APR 6

17. RIMS Conference Report # 1

APR 26

APR 14

18. RIMS Conference Report # 2

MAY 3

APR 21

more to come :

ISSUE DATE

AD CLOSING

15. Employee Benefits Board Survey

APR 12

Mar 31

16. CAPTIVES/OFFSHORE ... RIMS REVIEW

APR 19

Apr 6

17. RIMS REPORT #1

APR 26

Apr 14

18. RIMS REPORT #2 and Annual Report Section

MAY 3

Apr 21

19.

MAY 10

Apr 28

20. Risk Management Board Survey

MAY 17

May 5

21. ILLINOIS MARKET REPORT

MAY 24

May 11

22.

MAY 31

May 19

23. EMPLOYEE BENEFITS: CONFRONTING THE FUTURE

JUN 7

May 25

24.

JUN 14

Jun 2

25. Employee Benefits Board Survey

JUN 21

Jun 9

26. AGENT/BROKER PROFILES

JUN 28

Jun 15

27.

JUL 5

Jun 23

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Insurance learning

The Insurance Industry Training Council is publishing an easy-to-read explanation of insurance basics.

"Pick up a newspaper any day of the week and you will find details in it of the normal everyday risks of life which face us all," the IITC guide says.

"Behind each story lies a measure of personal tragedy and anxiety for those closely involved. Yet behind each one is also the vast, sophisticated mechanism of insurance."

The 31-page guide tell employees how the insurance mechanism works and explains some of its terms.

One of many publications offered by the IITC, the insurance guide costs 2 pounds including postage (approximately \$3.50). A discount is available for bulk orders.

Contact the Insurance Industry Training Council, 20 Aldermanbury, London EC2V 7HY, England; 01-606-383.

For those who need to know more about the complexities of international insurance and reinsurance, the Chartered Insurance Institute in London offers associate and fellowship programs in insurance.

The CII associate program is a nine-subject, three-year course that gives employees a complete overview of all the facets of insurance, from pensions to reinsurance. The entire course costs about 60 pounds (about \$112).

Once an employee has an associate designation, he can study for a CII fellowship, which is similar to a university degree, a CII spokesman said.

"You are required to take three specialist subjects from one to six areas," he said, including marine, aviation, life, non-marine and pensions. Exams are held in April every year for the two-year course, as they are for those in the associate program.

A CII degree, which is offered to U.S. employees through correspondence courses, can lead to salary increases and promotions, the CII spokesman said. And some British companies require the CII courses if an employee wants to be promoted, he said.

For more information, contact the Chartered Insurance Institute, 31 Hillcrest Road, London E18 2JP, England.

And if you're a British employee looking for more information about insurance, the CII's College of Insurance offers individual training courses that vary in length and complexity.

For more information contact the CII College of Insurance, Churchill Court, 90 Kippington Road, Seven Oaks, Kent TN13 2LL, England.

Houston fire

Continued from page 2
 begun the claims settlement process," Mr. Stahl says. "The Houston office began yesterday (March 10) to try to reach all guests registered at the hotel."

Several people have been reimbursed for immediate expenses that were incurred, but no claims have been settled, he says.

Whether the Westchase Hilton has sufficient liability coverage will be tested by lawsuits resulting from the March 6 fire. Three had been filed by March 11.

One suit was filed March 9 in the Harris County, Texas, Probate Court on behalf of Sylvia Espanol, 17, who lost her father, mother, two sisters and grandmother in the 3 a.m. blaze.

The suit, filed by Miguel Gaitan, who has been appointed Ms. Espanol's guardian, asks unspecified punitive damages from the Westchase Hilton; the hotel's Austin-based registered agent, also called Hilton Hotels Corp.; and the distributor of the building's fire alarm system, Texas Electronic Systems Inc. of Houston.

Ms. Espanol's suit charges the three defendants with gross negligence in the deaths of her family.

She was in the hotel when the fire broke out but escaped.

The other suits have been filed on behalf of two survivors (see related story).

Hilton Hotels Corp. of Beverly Hills, Calif., the hotel chain, is not named in the suits and company officials say they doubt it will be involved in any other suits stemming from the fire.

"We have been advised that the property (the Westchase Hilton) has adequate insurance and that we wouldn't be exposed," says Timo-

thy Applegate, legal counsel for the Hilton chain. "We don't own or operate the hotel and have an agreement indemnifying us in the event of any action against it."

The Hilton chain recently increased its own liability coverage from \$225 million to \$400 million, Mr. Applegate says. "We already had the increase in the works when the Las Vegas Hilton fire occurred. It was in response to the MGM Grand Hotel fire in Las Vegas."

Eighty-four people were killed in the November 1980 fire at the MGM Grand Hotel. In February 1981, a fire, later judged to be arson, broke out in the Las Vegas Hilton, killing eight people (BI, Dec. 1, 1980; Feb. 16, 1981).

Hilton Hotels Corp. authorizes the Westchase Hilton and other franchised hotels to use the Hilton name, logo and reservation service, but has no direct management function, Mr. Applegate says. "This is not the same as a management agreement, as with the Las Vegas Hilton where we are directly responsible for operations."

Despite this, there could be a "limited liability" based on a customer's trust in the Hilton name, he indicates. Some courts have held franchisors liable simply because their name is on the property.

It is not yet known if the legal climate in Texas allows imputed liability arguments, which are usually reserved for cases where property owners would be unable to cover damage judgments, Mr. Applegate says.

"Once we knew the insurance coverage was adequate, we were not concerned," he says.

Fire officials say that the Westchase Hilton's fire alarm was functional at the time of the fire but that the hotel's night clerk may have inadvertently switched off a

buzzer that would have sounded the general alarm.

"It appears the clerk did turn it off," says Houston Fire Chief V.E. Rogers. "But there are conflicting stories."

Another spokesman for the fire department says the hotel's alarm is set so that it recycles when switched off, ringing again if there is a fire.

"Reports were made to us that guests heard no alarm, but some said in certain areas they did hear an alarm," the spokesman says. Chief Rogers says those who say they heard alarms may have heard the buzzing of smoke detectors in their rooms.

If the clerk did switch the alarm off, it would indicate problems with the hotel's fire-training procedures, the chief says, adding that Houston ordinances require hotels to familiarize employees with fire alarm systems.

The Westchase Hilton has strong training procedures, says manager Erich Huemer, who declined to elaborate.

There have been no property damage estimates, Mr. Huemer says. "We are closed because of this tragedy. No decision has been made on a reopening."

The fire itself was confined to one room on the fourth floor of the 14-story, 507-room hotel, but thick black smoke from burning upholstery carried poisonous fumes throughout the floor, officials say. All 10 victims apparently died of smoke inhalation.

The Westchase Hilton, which opened in 1980, met all existing fire and safety codes, officials say. In November 1981, however, the Houston City Council passed a ordinance requiring sprinkler systems in all new buildings taller than 75 feet.

Chief Rogers and other fire

safety experts say they believe the death toll would have been greatly reduced had the hotel's guest rooms been equipped with sprinklers.

Julian Mills, office manager for the Fire Protection & Engineering Bureau of Texas in Houston, an insurance inspection organization, says sprinkler systems are designed primarily to control—not extinguish—fires, but that they actually put out the fire in 96% of the cases.

"At the very least they keep the fire from spreading until firefighters arrive and dilute the smoke and fire gases," Mr. Mills says. "There is no question sprinklers would have made a difference."

"We have discovered sprinklers are one of the most effective ways to contain fires," says a spokesman for the National Fire Prevention Assn. in Boston. "The problem is cities that have passed sprinkler ordinances apply them only to new

buildings, not existent ones."

But there's a good reason for limiting the scope of such ordinances, says Jack Buckley, a member of the Construction Industry Council, a city council committee that drafted Houston's ordinance.

"It is very difficult politically and practically to pass an ordinance applying retroactively to cover older buildings," he says. "It is possible, but rather hard to enforce. We wanted to be sure we got sprinklers in new buildings. If we'd tried for old ones, too, it would have taken another two to three years to pass."

He says that he believes the new ordinance still may not apply to the Westchase Hilton, even though it has been the site of a fatal fire.

"If a building is 50% destroyed and rebuilt, it has to meet the new ordinance," Mr. Buckley says. "If not, it remains under the old codes."

Brothers seek \$4 million

HOUSTON—A Houston attorney heavily involved in litigation in the Kansas City Hyatt Regency Hotel skywalk disaster is representing two survivors of the March 6 Westchase Hilton Hotel fire in lawsuits against the hotel.

Robert L. Collins, representing Michael and Douglas Cisco of upstate New York, filed two suits seeking a total of \$4 million in damages in the U.S. District Court in Houston March 10 against the owners and operators of the hotel.

The Cisco brothers, who were guests in the hotel, received respiratory injuries from smoke inhalation and claim actual damages of \$500,000 each and punitive damages of \$1.5 million each.

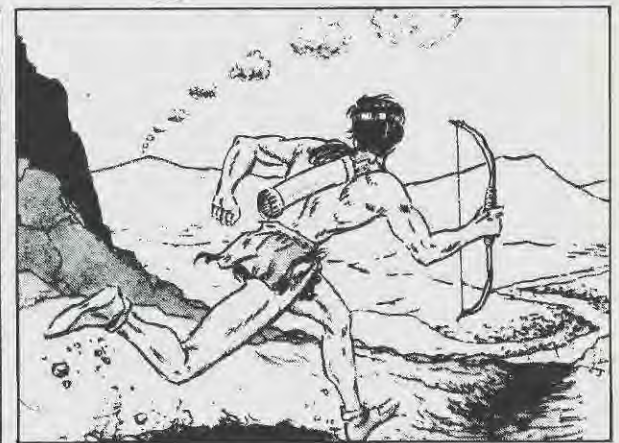
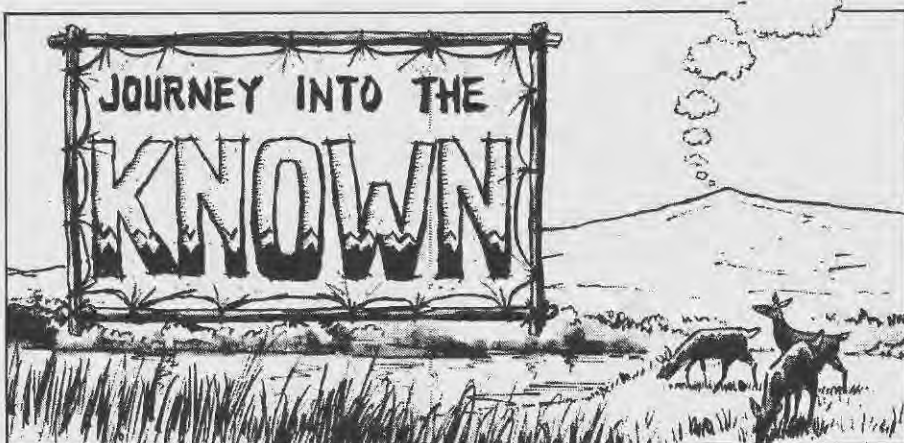
The Houston attorney says defendants include the Westchase Hilton's operator and manager, Westchase Hotel Corp. of Houston, and its owner, 9999 Westheimer Hotel Joint Venture. The joint venture is a partnership of LNC Development Corp., an Indiana company, and other investors.

Also named in the suit is the family estate of Houston resident George Ballas, inventor of Weed Eater garden tools. Mr. Ballas reportedly was a heavy investor in the hotel.

Hilton Hotels Corp. of Beverly Hills, Calif., the nationwide hotel chain that granted a franchise to the Westchase Hilton, is not a party in the suit.

Mr. Collins, along with several other lawyers, is representing victims and their families in a class-action suit in the Hyatt disaster.

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Victims' tales

Continued from page 30

federal statutes. But in fact, the federal government never ruled on the regulatory status of the plan.

"I feel we've been misled. We thought we were buying insurance. This is a perfect opportunity...for people to be cheated," Ms. Kahn said, referring to the regulatory confusion that has allowed METs to operate.

Ms. Kahn now believes health insurance should be purchased from a company that the buyer has

heard of, not from a firm that gave a post office box as its address.

She says the promoters of Chai ERISA Trust probably weren't out to defraud the public but that they just didn't know how to run a complex business.

"Still, those administrators bear a responsibility. They were entrusted with other people's money. They shouldn't be allowed to do business," she said.

Joan Williams and her family are waiting for the Northwest Assn. of Independent Businesses Inc. of Boise, Idaho, a self-funded multiple employer trust, to pay

\$10,000 in medical and hospital bills.

The Elgin, Ill., family may have to wait a lot longer.

The Idaho MET collapsed last year (BI, Sept. 7, Sept. 21) with tens of thousands of dollars in unpaid bills. Bankruptcy proceedings have been underway since last fall to determine how much in assets remain.

Like Kathy Kahn, Ms. Williams opted for the Northwest plan in 1978 because it offered excellent benefits for a premium of \$75 a month—about \$50 a month less than the premium for an Illinois

Blue Cross/Blue Shield plan.

In addition, the plan was recommended by her agent. Her agent thought that because Northwest had filed with the Department of Labor as an ERISA benefit plan, the department had approved the plan.

What Ms. Williams did not know is that Idaho Insurance Department officials had been trying since 1977 to shut down Northwest as an unauthorized insurer. The plan asserted that its status as an "ERISA" plan barred state regulation. As a result, the state action got bogged down in the courts.

Finally in October 1980, the

Labor Department ruled that Northwest was not an employee benefit plan. But by then, Northwest may have been sinking.

Northwest wouldn't pay an \$8,568 claim Ms. Williams filed in December 1980 for a hysterectomy or a \$1,600 claim she filed in March 1981 after she was hospitalized for hepatitis.

On July 21, 1981, Northwest filed a petition for bankruptcy.

With \$10,000 in unpaid medical bills ahead of her, Ms. Williams realizes that while the MET collected more than \$4,000 in premiums to cover her family of three, they didn't get anything in return. ■

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New Jersey already implementing rules

TRENTON, N.J.—New Jersey has adopted pollution liability insurance regulations; it just has to get the word out to the hazardous waste handlers.

Since Oct. 8, hazardous waste treatment, storage and disposal facilities operating in New Jersey have been required to have liability coverage for sudden or accidental pollution with limits of \$1 million per occurrence and a \$2 million annual aggregate.

And two additional regulations take effect next month.

Effective April 8, companies that maintain a landfill, surface impoundment or land treatment facility will have to purchase liability insurance for gradual incidents with limits of \$3 million per occurrence and \$6 million annual aggregate.

The April deadline applies to companies with \$10 million or more in annual sales; regulation of smaller firms will be phased in over the next 12 months.

Also by April 8, New Jersey disposal sites must guarantee with a trust fund or letter of credit that

they can meet the costs of closing and monitoring their sites. Insurance and self-insurance for these closure/post-closure costs also are being considered.

However, many of the 4,000 New Jersey companies that will be affected by the rules—including 2,000 chemical and petrochemical firms—apparently are unaware of them.

The state's Bureau of Hazardous Wastes admits that some companies may be in the dark and blames it partially on confusion caused when the federal Environmental Protection Agency postponed its pollution liability insurance regulations the week before New Jersey adopted its regulations.

Greg Pikul of the bureau's industry advisory group noted that public hearings were held in 1980 on New Jersey's new rules, and two

notices were sent in 1981 to about 4,000 companies.

The bureau now will make a greater effort to get the word out, Mr. Pikul said, and in the meantime is taking a flexible attitude toward enforcement.

While the regulations are considered enforceable, the bureau probably will accept some type of consent agreement from offending companies in which they promise future compliance, Mr. Pikul said.

After New Jersey, California may be the next state to put pollution liability insurance rules on the books. The state Legislature has passed a bill requiring the Department of Health Services to formulate pollution insurance requirements by May 31.

The Legislature decided to act when the EPA postponed its regu-

lations, notes Phil Guadagnino, waste management engineer for the department's hazardous waste management division.

The state will examine various funding options for sudden and gradual pollution and closure/post-closure costs, Mr. Guadagnino says. The final regulations may be similar to the EPA's original proposal.

"My view is that we will try to carry on where the federal government peaked out," he says. "The result will be as close as what was intended as possible."

On the other side of the coin, New York has quite a bit of work to do before it has a pollution liability insurance requirement for sudden and non-sudden incidents.

While companies may insure their sudden exposures under standard liability policies, coverage for

gradual pollution incidents is illegal under New York insurance law.

However, legislation recently introduced by State Sen. Donald Halperin, D-Brooklyn, would legalize coverage for gradual pollution incidents. This bill and a companion bill in the state Assembly still are in the committee stage.

Norman H. Nosenchuck, director of the state's Division of Solid Wastes, says his agency will develop requirements for coverage if the Halperin legislation passes.

"I will recommend that we go with our own regulations irrespective of what the federal government does," added Mr. Nosenchuck, a strong supporter of federal pollution regulations.

"We're not going to accept what the feds do."

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About the Speaker

Dr. Kenneth R. Oppenheimer, President of Decision and Risk Analysis, Inc., of Palo Alto, California, specializes in executive education and the application of decision and risk analysis to corporate decisions in the insurance, fire protection, banking, wood and paper products, data processing, cattle feeding, and oil and gas drilling industries. Prior to founding Decision and Risk Analysis, Inc., he spent five years with the Decision Analysis Group at S.R.I. International (formerly Stanford Research Institute). His academic background includes a B.S. in mathematics from Tufts University, and a M.S. and Ph.D. in Engineering-Economic Systems from Stanford University. While at Stanford, he was a member of the Decision Analysis Group at Xerox Corporation.

Seminar Dates

May 17	New York	St. Regis-Sheraton
May 19	Chicago	The Ritz Carlton
May 24	San Francisco	The Fairmont
June 14	New York	St. Regis-Sheraton
June 16	Chicago	The Ritz Carlton
June 21	San Francisco	The Fairmont

Agenda

1. Introduction to decision and risk analysis
2. A risk management decision (case study)
3. Assessing the probabilities of loss
4. Assessing the corporate attitude toward risk
5. Analyzing risk transfer alternatives (case study)
6. Analyzing risk control alternatives (case study)
7. Conclusion

Oil rig victims, families suing for \$2 billion

Continued from page 3
ney with Phillips Petroleum Co. of Bartlesville, Okla.

The giant oil company's subsidiary, Phillips Petroleum of Norway, a Delaware corporation, chartered the Alexander Kielland.

The first suit was filed Jan. 6 by the family of Rolf Arthur Reme, who was killed when the rig capsized, Mr. Rogers said.

Norwegian authorities ruled the craft, a semi-submersible, flooded when one of its five supporting legs broke apart.

On Feb. 1, a group of 48 survivors filed suits and the latest batch, filed March 8, include claims by families of deceased victims.

Mr. Rogers said the company already has filed dismissal motions in the first two filings, arguing that U.S. courts have no jurisdiction over the claims.

He said the latest suits, 115 in total, appear to have been filed in some cases by families who have previously obtained out-of-court settlements from Phillips Norway and Stavanger Drilling Co., which owned the rig.

The Norwegian-registered Kielland, which capsized on March 27, 1980, had been used as a drilling rig but was later converted to provide accommodations for a large number of workers employed on an adjacent oil pumping station, said Mr. Jaques.

In his suits, the attorney alleges that during and after the conversion, a watertight system designed to keep the Kielland afloat after capsizing was removed. Mr. Jaques also alleges that the crew members were not warned of weather conditions and that the crew was not properly trained for the emergency.

The only two U.S. citizens on board the Kielland died in the disaster, said Mr. Jaques, and the other workers were of varied nationalities, including Norwegian, Finnish and Portuguese.

Two years after the disaster, the capsized rig sits in Stavanger Harbor, where it was towed, about 100 miles from the scene of the disaster.

Thirty-six or 37 of the bodies remain entombed in the wreckage of the rig.

Biggest brokers escape '81 profit pinch

Continued from page 3

and for the fourth quarter showed continued growth in each of our basic areas of activity," notes M&M Chairman John M. Regan Jr. "Insurance services revenue in the 1981 fourth quarter was 11% ahead and was up 28% for the whole year. Benefits consulting reported a 17% increase for the fourth quarter and a 16% gain for all of 1981.

"The growth of investment management revenue was only 2% in the fourth quarter, primarily the result of a lower general level of security prices on which management fees are calculated," he adds. However, "investment management revenue for 1981 was up 18% from 1980 levels."

Income from insurance underwriting de-

BI ticker

clined 44% in 1981 as M&M sold or reduced equity investment in London underwriting managers Tower Hill Ltd. and Terra Nova Ltd.

Although the company no longer publishes separate revenue and net income results for its British division, C.T. Bowring, income from Bowring contributed "substantially" to the strong 1981 reports, according to M&M officials.

Frank B. Hall & Co. Inc., the third-largest U.S. broker, produced the second-best record in 1981, boosting gross revenues 13%, to

\$353.5 million from \$312.9 million in 1980. Net income grew 6.5%, to \$30.5 million from \$28.6 million in 1980. Earnings per share increased slightly to \$2.65 in 1981 from \$2.61.

Hall's fourth-quarter results, however, are slightly less impressive. Gross revenues in the last three months of 1981 grew 5.4% to \$92.6 million from the same period in 1980, while net income increased 7.2% to \$5.7 million.

International business also helped buoy Hall's results. As the first of the major U.S.

brokers to purchase a Lloyd's brokerage, Hall is seeing a steady flow of income from overseas, executives say.

"Leslie & Godwin, our company in the London market, is definitely growing faster than Frank B. Hall," notes Executive Vp Peter T. Pruitt. "And our other overseas affiliates are also growing at a faster pace than Hall domestically, even though some affiliates are still quite small.

"But if you look at Hall five years ago, international business was not a significant factor in our growth. Now it is a major portion of our business."

Although property/casualty insurers overseas are as competitive as they are in the United States, thus squeezing profits, brokers

How the states stack up on pollution insurance regulations

Will keep EPA-like regulations even if EPA suspends

Arizona	Missouri
Arkansas	New Jersey
Connecticut	Oklahoma
Florida	Oregon
Kansas	Rhode Island
Kentucky	Washington
Louisiana	West Virginia

Will likely drop regulations if EPA suspends

Georgia	North Dakota
Idaho	South Dakota
Illinois (in preparation)	Tennessee
Indiana	Texas
Iowa	Utah
Montana	Vermont
New Mexico (in preparation)	Virginia (in draft form)
North Carolina	

Formulating liability regulations

California	Massachusetts
Colorado	Mississippi
Maine	Nevada
Maryland	

Sudden, accidental requirements (No nonsudden)

Maryland	New Hampshire
Michigan	South Carolina
Minnesota (proposed)	Vermont
	Wisconsin

No existing regulations, but "leaning" toward liability requirements

Delaware	Ohio
Nebraska	Pennsylvania

No existing regulations

Alabama	Hawaii
Alaska	New York
District of Columbia	Wyoming

Few states have own pollution coverage rules

Continued from page 1

If insurance were purchased, limits on coverage for sudden or accidental pollution would have to be at least \$1 million per occurrence with an annual aggregate of at least \$2 million, exclusive of legal defense costs.

And, companies that operate a landfill, surface impoundment or land treatment facility to manage hazardous wastes would have to purchase liability insurance for

non-sudden or gradual pollution incidents of at least \$3 million per occurrence with an annual aggregate of \$6 million.

Arizona, Oregon, Rhode Island, Louisiana, Missouri, New Jersey, Oklahoma and Washington already have adopted EPA-like regulations for sudden and non-sudden pollution and will keep them even if the EPA drops its rules.

In fact, Rhode Island and Louisiana have enacted stricter regula-

New Jersey has already adopted pollution laws, although many companies there may not know it. See story, page 33.

tions, requiring minimum policy limits of \$5 million per occurrence for sudden incidents, and \$5 million per occurrence and a \$10 million annual aggregate for gradual incidents.

Arizona requires proof of financial responsibility without setting minimum policy limits, and allows treatment, storage and disposal facilities (TSDFs) to use insurance, a trust fund, surety bond or self-insurance to prove financial responsibility.

In Oregon, TSDFs must justify to state regulators the amount of liability insurance that they propose to buy.

Arkansas, Connecticut, Florida, Kansas, Kentucky and West Virginia expect to adopt rules similar to the EPA proposal whether or not the EPA suspends its regulations. In Kansas, the Department of Health and Environment will determine the appropriate amount of insurance. Kentucky will possibly allow self-insurance in addition to commercial insurance.

On the other hand, 15 states that have adopted or proposed financial responsibility rules will drop them if the EPA suspends its rules, the study says.

Georgia, Indiana, Iowa, Montana, North Carolina, South Dakota, Tennessee and Utah have adopted the EPA version pending final issuance of the regulation. Idaho, Illinois, New Mexico, North Dakota and Virginia are still in the adoption process. And Texas and Vermont have adopted the EPA's sudden pollution insurance requirements but have yet to act on the requirements for gradual pollution.

The lack of uniform regulations will create more work for companies that operate in several states. Risk managers will have to meet varying insurance requirements and stay abreast of regulatory developments in each state.

"Those companies would have to track the individual state requirements and that can be difficult to do," observes Lynne M. Miller, president of Risk Science International.

Companies also will have to contend with different funding mechanisms, since a limited number of states may allow self-insurance in addition to traditional insurance coverage.

According to the Risk Science International study, here is how other states can be classified:

- Six states have adopted insurance regulations for sudden pollution only. Michigan, New Hampshire, South Carolina, Wisconsin, Vermont and Maryland require liability coverage for sudden pollution incidents in the amount of \$1 million per occurrence and a \$2 million aggregate. Minnesota has a similar requirement in the works.

- Seven states are formulating liability insurance regulations. They are California, Colorado, Maine, Maryland, Massachusetts, Mississippi and Nevada. The California Department of Health Services has until May 31 to draft its regulations, following passage of recent legislation. Colorado and Nevada may propose regulations no more stringent than federal requirements. Massachusetts and Mississippi hope to have their regulations proposed sometime in 1982.

- Four states—Delaware, Nebraska, Ohio and Pennsylvania—have no requirements but are "leaning" toward formulating some.

- Five states—Alabama, Alaska, Hawaii, New York and Wyoming—have no regulations in the works. The District of Columbia also falls into this category.

Georgia proposes comp rate decrease

ATLANTA—Georgia Insurance Commissioner Johnnie Caldwell is proposing to cut workers compensation insurance rates to a level 20.1% below the rates that went into effect Oct. 15, 1978, the last time an across-the-board rate in-

crease was granted.

Under the proposal all insurers, even those that have been granted interim increases, would have to file and use rates less than or equal to the rates effective Oct. 15, 1978, minus 20.1%.

Since 1978, Mr. Caldwell has required each workers compensation insurer operating in Georgia to support requests for rate changes with individual statistical data on state business in addition to NCCI statistics.

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are becoming more sophisticated and attracting new customers and premium volume in foreign countries.

"Insurance premium generally follows the gross national product of a country," Mr. Pruitt explains. "And the GNPs of continental Europe, Africa and many Third World countries are growing at a faster pace than the United States."

"We—Hall, M&M, and Alexander & Alexander—are also benefiting from foreign currency exchanges. The dollar was a lot stronger against foreign currencies in 1981," he says.

Alexander & Alexander Services Inc., the second-largest U.S. broker, produced the third-best results. It surprised the brokerage industry by showing a slight net income gain at year-end after three quarters of declines.

Gross revenues for 1981 reached \$458.5 million, up 8.5% from \$422.7 million in 1980. Net income grew 0.5%, to \$57.5 million from \$57.2 million in 1980. Earnings per share was unchanged at \$2.98.

Fourth-quarter improvements, however, were much more dramatic. Gross revenues jumped 16.6% over the corresponding period last year to \$118.7 million, and net income shot up 36.7% to \$15.7 million.

"Several of our divisions are seasonal in their activity," explains William Farley, senior vp and chief financial officer, "and their revenues and income don't show up until the fourth quarter. Property Tax Service Co., for example, does most of their business at the end of the year and obviously had a good year in 1981."

Thomas A. Greene & Co., A&A's reinsurance intermediary, also contributed to the strong finish, according to Mr. Farley, as it began building its business in a new market for A&A.

"For many of the brokers, international business added to a strong year, but until recently, A&A's international holdings have been rather small," he adds. "However, as Alexander Howden is integrated into the structure, we certainly expect some significant growth—otherwise we wouldn't have made the investment."

Fifth-ranked Fred S. James & Co. Inc.—privately held Johnson & Higgins is the fourth-largest U.S. broker, according to BI estimates—drifted into a twilight zone last year. James was the largest of the brokers to report a annual decline in net income, but it was the smallest of the public brokers to maintain relatively stable results.

James finished 1981 with strong gross revenue growth, up 18.2% to \$242.4 million from \$205 million in 1980. Net income, however, fell 6.4%, to \$19.3 million from \$20.7 million in 1980. Earnings per share dropped to \$2.14

from \$2.33.

Fourth-quarter results were slightly better as gross revenues reached \$58.8 million, up 7.7% from the same period last year, and net income grew about 1% to \$4.4 million.

James' London subsidiary, Wigham Poland, which was acquired in November 1980, accounted for \$2 million of the fourth-quarter revenue increase and \$31 million of the rise for the year. However, the acquisition continues to dilute James' earnings, James executives note.

E.H. Crump Cos. Inc. was the year's biggest financial loser, showing significant revenue gains but severe net income declines as it pursues acquisitions around the country.

Crump's revenues grew 13.6% in 1981, to \$32.3 million from \$28.4 million in 1980. Net income, however, fell 46.2% to only \$1.5 million, down from about \$2.9 million in 1980. Earnings per share fell to 54 cents from \$1.14 in 1980.

Fourth-quarter earnings were hit even harder by acquisitions. Gross revenues in the last three months of 1981 grew 48%, to \$9.9 million, including some contributions from three companies acquired in October, Kindler & Lauczi Insurance Brokers Inc. of California and Arizona, LaBow, Haynes Co. Inc. of Washington and Oregon and Insurance Agency of Florida. However, fourth-quarter net income dropped dramatically from more than \$500,000 in 1980 to an \$89,000 loss in 1981.

Crump blames the expense of the mergers, amortization of good will and the seasonal nature of some of its business for the losses.

"There's lots of reasons," explains Vice Chairman James Power. "The interest rate we receive on investments hasn't been as high as the (other) brokers', we are gradually removing the real estate business from our company and we took dilution because of the acquisitions and seasonality of the business."

"But we also feel that we are a different company than we were just a year ago. We are optimistic that the agencies we have acquired, without future expenses for the acquisitions, will be very profitable and provide us with the geographic spread we need to grow."

Rollins Burdick Hunter Co. and Corroon & Black Corp. also reported serious reductions in net income and only slight overall revenue growth.

Eighth-ranked RBH's gross revenues grew only 5.8% in 1981, to \$76.8 million from \$72.6 million in 1980. Net income fell 25%, to only \$7 million from about \$9.4 million. Earnings per share dropped to \$1.60 from \$2.12 in 1980.

In the last three months of 1981, gross revenues grew only 2.1% to \$17.2 million, and net income fell 52.3% to less than \$1 million.

Although 1981 earnings benefited from a \$285,500 gain from the sale of a subsidiary and a 35% increase in investment income, according to RBH executives, investment in the new Rollins Wrightson Co. joint venture, designed to provide insurance products to financial institutions in the United States and Canada, and other acquisitions hurt earnings.

Despite the short-term impact, RBH plans to continue geographic growth, both at home and overseas, according to Chairman Charles R. Hall.

"In the U.S., our primary goal is to have a major office in each of the 25 to 35 key commercial, industrial and financial centers. International expansion will continue through merger or joint venture with internationally prominent broking firms, financial institutions and other institutions," he says.

RBH is also investing in expanded information technology to provide risk management information services and increase the brokerage's overall productivity, executives say.

Likewise, sixth-largest Corroon & Black Corp. had a disappointing year. Gross revenues in 1981 grew only about 1% to \$156 million from \$154.8 million in 1980. Net income fell 19.4%, to \$14.4 million from \$17.9 million, and earnings per share dropped to \$1.83 from \$2.30.

Fourth-quarter results appear much stronger but are deceptive. Gross revenues grew 3.6% over the last quarter of 1980 to \$38.4 million, and net income jumped 62.6% to \$4.4 million.

However, improvements in fourth-quarter earnings are not attributable to better operating results but to reductions in provisions for income taxes and incentive compensation awards, points out Chairman Robert F. Corroon.

Poe & Associates of Florida, the smallest of the public brokers surveyed, reported strong fourth-quarter but disappointing overall 1981 results. At year-end, gross revenues had grown 26.6%, to \$19.3 million from \$15.3 million in 1980. Net income, however, fell 12.8%, to \$1.6 million from about \$1.9 million in 1980. Earnings per share fell to 88 cents from \$1.13.

Fourth-quarter results were better as gross revenues increased 25.5% to \$5.4 million, and net income grew 8.8% to about \$600,000.

Poe has also been active in the acquisition market and is making its first international steps by acquiring 80% of Stetzel, Thomson & Co. Ltd. of London, an underwriting agency that manages reinsurance portfolios for several insurance company syndicates. It has offices in Britain and Bangkok, Thailand.

The acquisition should provide the brokerage with "a viable presence in the London

market and international marketplaces," according to Chairman William F. Poe, while providing an additional step in the firm's planned diversification into insurance related fields.

Poe already owns several small insurance companies in addition to its insurance agencies.

Financial briefs

MSI Insurance

MSI Insurance of St. Paul, Minn., an insurance group including Mutual Service Life Insurance Co., Mutual Service Casualty Insurance Co. and Modern Service Insurance Co., reported record revenue and net earnings in 1981.

Consolidated 1981 revenue for the companies reached \$204 million, a 7% increase over 1980. Net income topped \$8.3 million, a 12% increase.

Net investment income rose to \$29.9 million, an 18% increase. Premium income rose to \$153.6 million, a 2% increase.

Kemper

Kemper Corp. has declared a regular quarterly dividend of 45 cents per share, payable May 28 to shareholders record May 7.

Provident Life

Provident Life & Accident Insurance Co. has declared a regular quarterly dividend of 61 cents per share of its common stock, payable June 10 to shareholders of record May 28.

British Issues

9 Mar	Price	P/E	Div.	Yield	1 Week
Companies	pence		pence	%	pence pence
Comml Union	144	12.0	16.85	11.7	148-142
Eagle Star	383	11.0	21.43	5.6	391-376
Genl Accident	322	7.2	21.07	6.5	328-322
Gdn Royal Exch	314	7.4	23.21	7.4	318-310
Phoenix	258	8.6	22.43	8.7	258-250
Royal	365	9.7	36.07	9.9	377-363
Sun Alliance	896	9.2	53.57	6.0	908-896

Brokers

CE Heath	310	9.0	15.71	5.1	312-300
Hogg Robinson	117	9.0	8.57	7.3	117-111
JH Minet	169	10.0	6.80	4.0	174-162
Sedg Grp	152	9.8	7.50	4.9	159-152
Stanhouse Hldg	113	8.2	7.28	6.4	113-106
Stew Wrightson	215	9.8	17.14	8.0	223-215
Willis Faber	408	12.0	17.85	4.4	412-405

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

BI Industry Stock Report

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Insurance Cos.		Pric	Chg	P/E	S.D.V.	Yld	High	Low	Vol (000)
Aetna Life & Cas Co	NYSE	46.13	-1.3	7.5	2.52	5.5	47.63*	46.13	1,264.7
American Bankers Ins Group	NYSE	7.25	-7.9	7.7	0.48	6.6	7.63	7.25	136.1
American Gen Ins Co	NYSE	41.00	-2.7	6.2	2.20	5.4	42.13	40.75	200.9
American Indty Flal Corp	OTC	15.63	-3.1	7.5	1.12	7.2	16.00	15.63	12.4
American Intl Group Inc	OTC	66.00	-3.3	11.4	0.40	0.6	67.75	66.00	311.0
American Natl Ins Co	OTC	13.88	-0.9	5.9	0.76	5.5	14.13	13.88	60.8
American Sls Life Ins Co	OTC	15.75	-4.5	5.0	0.80	5.1	16.50	15.50*	4.3
Aneco Reins Ltd	OTC	1.75	0.0	0.0	0.00	0.0	1.75	1.63*	17.0
Appalachian Natl Corp	OTC	2.63	0.0	0.1	0.00	0.0	2.63	2.63	0.1
Avenco Corp	AMEX	11.25	1.1	7.4	0.54	4.8	11.50	11.13	23.5
Banks Ind Inc	OTC	36.00	-4.0	5.5	1.48	4.1	37.00	36.00	2.9
Bitco Corp	OTC	38.50	-0.6	4.6	2.40	6.2	39.00	38.50	15.2
Carolina Cas Ins Co	OTC	6.75	0.0	6.3	0.32	4.7	6.75	6.75	3.7
Central Natl Flal Corp	OTC	35.38	0.0	11.5	0.65	1.8	DID NOT TRADE		
Chubb Corp	OTC	47.00	0.0	5.6	2.92	6.2	47.88	47.00	166.9
Combined Intl Corp	NYSE	20.25	-2.4	5.5	1.80	8.9	20.25	20.00	131.5
Connecticut Gen Ins Corp	NYSE	49.38	-1.3	5.7	2.04	4.1	50.00	49.38	165.5
Continental Corp	NYSE	25.63	0.5	6.4	2.60	10.1	25.63	25.25	287.3
Crawford & Co	OTC	12.75	-1.9	10.0	0.56	4.4	13.00	12.75	1.9
Crown Life Ins Co	OTC	80.00	-0.3	5.9	3.10	3.9	80.25	80.00	0.3
Cum & Forster	NYSE	32.63	1.2	5.3	1.64	5.0	33.00	32.63	103.7
Employers Cas Co	OTC	28.00	0.0	6.0	1.20	4.3	28.00	28.00	6.6
Equifax Inc	NYSE	30.00	-0.8	8.6	2.60*	8.7	30.38	30.00	29.4
Excelsior Ins Co	OTC	17.50	0.0	12.0	0.70	4.0	17.50	17.50	0.2
Farmers Group Inc	OTC	34.00	0.7	10.0	1.24	3.6	34.38	33.88	362.6
First Colony Life Ins Co	OTC	62.25	-0.2	16.1	1.00	1.6	62.38	62.25	6.3
Foremost Corp Amer	OTC	24.50	-3.9	6.8	1.12	4.6	25.50	24.50	14.4
Great West Life Assurn Co	OTC	235.00	0.0	9.1	10.00	4.3	235.00	235.00	0.0
Hanover Ins Co	OTC	32.00	-1.2	3.9	0.72	2.3	32.50	31.75	27.3
Hartford Steam Boiler Insprtn	OTC	39.50	-1.3	6.8	2.80	7.1	40.00	39.50	3.4
Jefferson Natl Life Ins Co	OTC	32.00	-4.5	9.8	0.75	2.4	32.50	32.00	4.3
Kemper Corp	OTC	33.13	0.0	5.4	1.80	5.4	33.25	33.00	54.9
Lincoln Natl Corp Ind	NYSE	41.63	-0.3	6.8	3.00	7.2	42.25	41.38	63.0
Mie Inv Corp	NYSE	51.75	-2.7	12.7	1.28	2.5	51.75*	50.50	924.3
Mission Ins Group Inc	NYSE	33.13	-2.2	8.6	1.00	3.0	35.25	33.13*	64.1
Nationwide Corp Ohio	OTC	26.50	0.0	7.7	0.70	2.6	26.50	26.50	3.6
Northwestern Natl Life Ins	OTC	25.38	-4.7	5.3	1.36	5.4	26.63	25.38	28.1
Ohio Cas Corp	OTC	42.50	-0.5	6.4	2.36	5.6	44.25	42.50	73.1
Old Rep Intl Corp	OTC	18.50	-0.7	4.4	0.92	5.0	18.63	18.50	91.3
Preferred Blak Life Ins Co	OTC	17.50	-1.4	5.2	0.80	4.6	17.75	17.00	8.9
Provident Life & Acc Ins Co	OTC	47.00	-5.1	5.8	2.44	5.2	49.50	47.00	101.1
Ryan Ins Group Inc	OTC	17.50	-1.4	7.6	0.12	0.7	17.75	17.50	5.3
St Paul Cas Inc	OTC	47.75	-5.0	6.3	2.60	5.4	50.00	47.75	155.5
Safeco Corp	OTC	37.38	-6.3	6.5	2.20	5.9	39.75	37.38	124.1
Sri Corp	OTC	22.50	-4.3	4.5	1.00	4.4	23.50	22.50	26.6
Seibels Bruce Group Inc	OTC	20.75	-0.6	10.0	0.80	3.9	21.13	20.75	60.1

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		Price	Chg	P/E	S Div	Yld	High	Low	Vol (000)
Statesman Group Inc	OTC	5.63	0.0	4.9	0.15	2.7	5.63	5.63	7.3
Tokio Marine & Fire Ins Co	OTC	96.50	0.8	7.7	1.00	1.0	97.75	96.50	2.1
Travelers Corp	NYSE	48.13	-1.8	5.7	2.88	6.0	49.38	48.13	420.6
United Fire & Cas Co	OTC	29.00	0.0	6.8	0.88	3.0	29.00	29.00	0.1
United States Fld & Gty Co	NYSE	44.63	-0.6	7.4	3.60	8.1	45.00	44.38	232.8
United Sves Life Ins Co	OTC	14.50	0.0	5.4	1.00	6.9	14.50	14.38	6.9
US Life Corp	NYSE	20.25	-4.1	4.1	0.84	4.1	20.63	20.25	158.0
Washington Natl Corp	NYSE	14.88	-6.3	5.3	1.08	7.3	15.38	14.63*	66.4
Zenith Natl Ins Corp	OTC	16.50	-1.5	8.3	0.76	4.6	16.50	16.50	19.1
INSURANCE COMPANIES	AVERAGE			5.9		4.4			
Agents/Brokers									
Alexander & Alexander Sves	OTC	28.75	-5.0	9.6	1.94	6.7	29.88	28.75	237.6
Baldwin & Lyons Inc	OTC	35.50	0.0	6.4	0.80	2.3	35.50	35.50	0.2
Corroon & Black Corp	NYSE	19.75	-1.9	11.1	1.76	8.9	20.25	19.75	12.6
Crump E H Cos Inc	OTC	8.88	-10.1	16.4	0.40	4.5	9.63	8.88*	43.0
Hall Frank B & Co Inc	NYSE	26.00	-7.1	9.8	1.70	6.5	27.88	25.63	123.0
Integrated Res Inc	AMEX	14.38	-11.5	5.9	0.00	0.0	15.63	14.38	39.5
James Fred S & Co Inc	NYSE	20.88	-2.9	9.8	1.60	7.7	20.88	20.50	49.9
Marsh & McLennan Cos Inc	NYSE	32.75	-2.2	10.0	2.00	6.1	32.75	31.75	277.6
Reins Corp Flal Inc	NYSE	6.00	0.0	4.8	0.16	2.7	6.00	5.75	218.9
Pinehurst Corp	OTC	8.63	0.0	0.0	0.00	0.0	8.63	8.63	2.5
Poe & Assoc Inc	OTC	8.00	0.0	9.1	0.80	10.0	8.00	8.00	1.3
Reed Stenhouse Cos Ltd	OTC	11.25	1.1	9.2	0.60	5.3	11.50	11.25	16.1
Rollins Burdick Hunter Co	OTC	17.75	-2.7	11.1	1.32	7.4	18.25	17.75*	30.9
AGENTS/BROKERS	AVERAGE			9.1		5.5			
Conglomerates/Holding Cos.									
American Express(Fireman's Rd)	NYSE	45.25	-2.4	8.1	2.20	4.9	46.25	44.75	1,089.9
Anderson Clayton(Ranger/Panama)	NYSE	27.75	-1.8	5.7	1.32	4.8	30.00*	27.75	117.3
Araco Inc	NYSE	21.50	0.0	4.3	1.80	8.4	22.63	21.00*	325.4
City Investing Co (Home Ins.)	NYSE	21.25	-7.1	6.1	1.60	7.5	22.63	21.25	405.7
CMA Flal Corp (CMA)	NYSE	15.38	-3.1	6.4	0.00	0.0	16.25	15.38	67.9
Control Data (Comm. Credit)	NYSE	32.00	-12.9	7.2	0.55	1.7	34.75	31.25	1,365.5
General Res Corp	NYSE	80.86	-4.9	9.9	2.16	2.7	85.38	80.88	142.9
Gulf Utal Corp	NYSE	15.75	-11.9	5.3	1.32	4.8	17.75	15.75*	94.4
INA Corp (Ins. Co. of NA)	NYSE	45.63	1.1	6.2	2.40	5.3	45.75	45.13	378.9
ITT (Hartford Group)	NYSE	26.88	0.5	16.0	2.68	10.0	26.88	26.00	877.5
Optimum Hldg Corp	OTC	8.50	-10.5	6.5	0.00	0.0	9.50	8.25*	6.4
Sears Roebuck & Co. (Allstate)	NYSE	18.13	1.4	8.8	1.36	7.5	18.63	18.00	3,686.0
Halvdin Utal Corp	NYSE	54.75	-4.8	9.4	1.60	2.9	57.38	52.25	101.0
Teledyne Inc (Argonaut)	NYSE	119.75	-6.7	6.0	0.00	0.0	127.50	117.00*	629.4
Transamerica Corp (Occidental)	NYSE	19.75	-7.1	5.7	1.40	7.1	21.13	19.75	190.4
CONGLOMERATES/HOLDING COS.	AVERAGE			6.8		3.7			

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From the client's point of view.