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update

MGM would get $40 million in tentative settlement

LAS VEGAS—MGM Grand Hotels Inc. would receive $40 million under a "settlement in principle" with most of the insurers that wrote $170 million in back-dated liability coverage for a 1980 fire at MGM's Las Vegas hotel, a source close to the litigation says.

The settlement also includes insurers that wrote liability coverage for Del E. Webb Corp., a general contractor who was doing work at the hotel

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Many employers not ready to battle benefit taxation

By JERRY GEISEL

WASHINGTON—Many benefit managers doubt that their companies will fight to protect the tax-preferred status of employee benefits, according to a new study.

Benefit managers' reaction to tax proposals

Will actively oppose proposals to tax benefits	31%
Will make contingency plans	23%
Will ignore proposals unless they become law	23%
Will delay implementing new benefit proposals	19%
No opinion	2%
No response	2%

Source: The Wyatt Co.

Just 31% of the 403 benefit managers surveyed by The Wyatt Co. said their companies plan to lobby actively against proposals to tax employee benefits.

Some 23% of the respondents predicted their companies would pay little attention to proposals to tax benefits—unless those proposals are enacted into law. However, the same percentage indicated their companies would develop contingency plans to alter their benefit plans if such tax proposals were enacted.

An additional 19% said their companies would delay implementation of new benefit programs in light of these tax proposals.

These findings, compiled by Wyatt in January and released this month to *Business Insurance*, suggest there will be little corporate resistance if Congress acts on proposals to tax employee benefits. The findings, which will be published in greater detail later this spring, also confirm earlier observations that most employers still are reluctant to lobby to protect employee benefits from taxation.

The survey also found that a surprisingly high percentage of ben-

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Rate hikes won't bolster insurer profits immediately

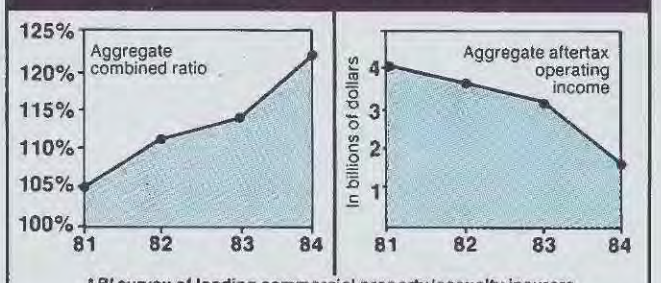
By JUDY GREENWALD

The commercial property/casualty insurance industry will look back on 1984 as a watershed year, observers say.

"For many companies, 1984 was probably the worst year they've seen since the San Francisco earthquake, in terms of underwriting losses," says Barbara Stewart, president of New York-based consultant Stewart Economics.

But, 1984 will be remembered as the year property/casualty underwriters began raising commercial insurance rates after years of unprecedented rate competition, observers say, adding that the momentum toward higher rates has spilled into 1985.

Will the industry's* slide end in '85?



**BI survey of leading commercial property/casualty insurers*

Industry management has finally "bitten the bullet" and decided that to remain solvent, something must be done about pricing, notes Frederick V. Hill, principal at New York-based Derby Securities.

But, company officials and analysts warn that the industry's recovery will be slow. They predict the impact of rate increases will not begin to appear on insurers' bottom lines until late 1985 and that any real improvement will not materialize until at least 1986.

In the meantime, the industry must still contend with deteriorating policyholders surplus, under-reserving and continued underwriting losses, observers say.

And, the industry also has yet to address issues like tort liability and asbestosis, notes Donald R. Frahm, president of property/casualty operations at the Hartford Insurance Group in Hartford, Conn.

"There's a lot of potential problems out there," he says. But, he says of 1984, "I'm glad it's over."

Most insurance executives probably would agree. According to *Business Insurance's* survey of 28 leading commercial property/casualty underwriters:

- Underwriting losses at the surveyed insurers rose 62.3% during 1984. But, this was an improvement over both the 71.9% increase in underwriting losses during the first nine months of 1984 (*BI*, Nov. 26, 1984), and the 114.8% rise in underwriting losses during the first half of the year. That could be an indication that rate increases are beginning to be reflected in insurers' results.
- The combined ratio for the companies tracked by *BI* continued to climb to 122.1% for all of 1984, compared with a 120.4% combined ratio for the first nine months, as the industry continued to be hit by a big increase in incurred losses. The surveyed insurers' combined ratio at the end of 1983 stood at 114.7%.
- Pretax investment income rose 7.6% for the year, compared with an increase of 7.1% during the first three quarters. Companies continued in the fourth quarter to switch their investments from tax-free municipal bonds to higher-yielding taxable securities, be-

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Irish government takes control of insurer

By STACY SHAPIRO

DUBLIN, Ireland—Insurance Corp. of Ireland, which was taken over by the Irish government earlier this month, will continue to pay claims and write new business, including North American risks, according to its new administrator.

The Irish government, which assumed control of Ireland's second-largest insurer from Allied Irish Banks Inc., will guarantee that policyholders' claims will be promptly paid, even though an official at Allied Irish Banks says the insurer's capital and surplus has been depleted.

"There will be no moratorium" on claims payments or underwriting as there often is when a U.S. insurance company is taken over by a state, said a spokesman for William McCann of accountant Craig Gardner & Co./Price Waterhouse in Dublin, which the Irish government has appointed to administer ICI's affairs.

The spokesman would not speculate on what triggered ICI's problems, pending a report now being prepared by the auditors. That report will not be released for at least six weeks.

However, Neil Dean, group internal auditor for Allied Irish Banks in Dublin, says ICI's problems may have been caused by under-reserving in previous years.

ICI wrote gross property/casualty premiums of 389 million Irish pounds ($361.8 million) in 1983, the last year for which figures are available. An official at Allied Irish Banks said ICI wrote about $100 million in premium for North American risks, including both direct property/casualty coverages and facultative and treaty reinsurance.

The spokesman for Mr. McCann said ICI would continue to write North American business under the new ownership, though he noted that ICI's previous management had decided to reduce its U.S. activities earlier this year.

At that time, ICI management said it would "drastically reduce" the amount of North American business underwritten from ICI's London office because of poor results.

Also, ICI announced earlier this year that it would close its U.S. branch located in Chicago because of the federal prohibition against bank ownership of insurers. The U.S. branch wrote $5.2 million in gross premiums in 1983 and $1.3 million net.

The manager of the ICI Chicago office, William D. Fleming, was traveling last week and could not be reached for comment.

The Irish government announced March 15 that it had acquired ICI from the Allied Irish Banks "for a nominal sum. . .to ensure the continuation of the insurance business and the protection of all policyholders."

Sources in London speculate the purchase price was less than $10.

Allied Irish Banks' decision to transfer control of ICI to the government followed the bank's discovery in early March that ICI would show "major losses" for 1984, said Allied Irish Banks' Mr. Dean.

The insurer's 1984 results have not yet been compiled, he said. But, a preliminary audit revealed that ICI posted an operating loss of at least 63 million Irish pounds ($58.6 million), Mr. Dean said.

ICI's capital and surplus at year-end 1984 stood at a negative 15 million Irish pounds ($13.95 million) from capital and surplus of 38.7 million Irish pounds ($36 million) at year-end 1983, said Mr. Dean.

Underwriting losses in 1984 will total at least 78 million Irish pounds ($72.5 million), he said, noting that about 50 million Irish pounds ($46.5 million) of that loss was generated from ICI's London branch, which wrote both British and U.S. risks.

ICI's estimated 1984 investment income of 13 million Irish pounds ($12 million) fell far short of offsetting the underwriting losses.

Mr. Dean said he did not know how much

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NEWSPAPER

update

Tentative MGM settlement

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at the time of the fire.

However, as of last week, the coverage settlement did not include Frank B. Hall & Co. Inc., which brokered the back-dated coverage, and Union International Insurance Co., a Hall unit that wrote the first $35 million of the retroactive insurance. MGM had $30 million in liability insurance at the time of the fire.

The tentative settlement followed the March 18 opening of the trial to determine who would pay the $75 million settlement MGM has negotiated with 450 fire victims (*BI*, March 18).

Under the proposed settlement, which is "subject to conditions yet to be resolved," the insurers would pay $40 million to MGM to help cover the settlement, the source said.

According to the source, one of the conditions requires the insurers to pay MGM more than $4.5 million in defense costs if a court decision that awarded MGM the defense costs is overturned.

Another condition that must be satisfied relates to the second layer of retroactive coverage, which is shared by Union and other insurers. Under the settlement, second-layer retroactive insurers would agree to pay Union's $3.5 million participation on that layer on the condition that they be reimbursed if MGM settles with Union or recovers any judgment from Union, the source said.

MGM would not confirm or deny the proposed settlement. "I can't comment at all," an attorney said.

MGM sued Hall, Union and a number of other insuers in 1983 after Union stopped paying claims stemming from the fire.

Northumberland seeks funds

TORONTO, Ontario—Northumberland General Insurance Co., a unit of Ivanhoe Insurance Group Ltd., is trying to arrange new financing for its operations, according to Peter E. Reeve, chairman and chief executive officer.

Mr. Reeve would not comment further on the insurer's financing efforts, saying the company plans to make an announcement shortly. Northumberland and its Bermuda-based affiliate, Southampton Insurance Co. Ltd., continue to write new and renewal business and pay claims, Mr. Reeve said.

Hall posts loss for '84

BRIARCLIFF MANOR, N.Y.—Frank B. Hall & Co. Inc. will post a net loss of $14.5 million for 1984 because of a decision to further increase the reserves of discontinued underwriting operations.

According to Senior Vp-Finance Stanley Martinez, Hall added $16 million to the reserves following a review of the underwriting operations. The reserve addition resulted in a fourth-quarter 1934 net loss of $16.4 million, he said.

Hall had earlier reported 1984 net income of $1.5 million and fourth-quarter net loss of $440,000 (*BI*, March 18).

Wisconsin investigates insurer

MADISON, Wis.—The Wisconsin Insurance Department is conducting an examination of Northwestern National Insurance Co., a department exmainer says.

The "rather general" investigation, which began last December, was spurred by Northwestern's affiliation with parent Armco Insurance Group, according to Randy Bluner, deputy director of the Wisconsin department's financial examinations bureau.

Armco has tried unsuccessfully to sell its U.S. insurance operations since January 1984 (*BI*, Nov. 19, 1984). Armco affiliate, Universal Reinsurance Corp., of Holland Township, N.J., has stopped underwriting and is filing regular reports with the New Jersey Insurance Department.

Wisconsin does not conduct regular examinations, but examines insurers "when and if possible for the most part," Mr. Bluner says. Northwestern National's most recent exam was in 1981.

Northwestern National declined to comment.

Auditor sued in E.S.M. collapse

FORT LAUDERDALE, Fla.—The court-appointed receiver for E.S.M. Government Securities Inc., the securities firm whose collapse triggered the failure of one Ohio thrift institution and the temporary closing of about 70 others, is suing E.S.M.'s auditor.

Chicago-based Alexander Grant & Co., one of the 15 largest U.S. accounting firms, and partner Jose Gomez are accused of "gross negligence" in conducting audits and preparing reports for E.S.M. and a related company, according to the suit filed in U.S. District Court in Fort Lauderdale by Miami attorney Thomas Tew, E.S.M.'s receiver. The suit seeks $300 million in compensatory damages and unspecified punitive damages.

John Miller, a Grant partner in New York, declined to comment on the firm's errors and omissions insurance coverage.

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AFL-CIO says it is 'uneasy' over Wellington agreement

By STEPHEN TARNOFF

WASHINGTON—The AFL-CIO, many of whose members have asbestos-related diseases, is throwing some cold water on a proposed asbestos claims facility.

Testifying before a Senate labor subcommittee last week, AFL-CIO Associate General Counsel David M. Silberman said the proposal—known as the Wellington agreement—won't necessarily provide adequate and timely compensation to asbestos disease victims.

"Our review (of the Wellington agreement) has left us uneasy—but not uninterested," Mr. Silberman said.

The Wellington agreement named for Dean Harry Wellington of Yale Law School, who chaired negotiations establishing the facility, sets up an out-of-court mechanism to handle asbestos claims. Proponents say the plan is fair and efficient and should save millions of dollars in legal expenses.

In addition, the agreement also would resolve most disputes between asbestos producers and their insurers over who should pay defense and indemnification costs for asbestos claims.

Photo: Susan Bowser

Yale Law School Dean Harry Wellington testified last week.

Late last month, negotiators of the facility announced that a sufficient number of asbestos producers and insurers had conditionally joined the facility to proceed with the plan. They set May 29 as the final deadline for joining the facility (*BI*, March 4).

At the March 19 hearing, Mr. Silberman told subcommittee Chairman Sen. Don Nickles, R-Okla., that the facility's effectiveness will depend on how insurers and policyholders ultimately pay victims' claims.

"What is apparent is that the Wellington agreement, at bottom, is a peace treaty between the asbestos producers and their primary insurers," Mr. Silberman said.

"But, despite the claims that have been made for it, the Wellington agreement does not, in and of itself, advance the cause of providing adequate and timely compensation to asbestos victims.

"Whether the agreement will lead to such a result—or whether the agreement will lead in the opposite direction—remains to be seen and will depend entirely upon the answers given to questions that are not yet resolved," Mr. Silberman said.

"The crucial unanswered question" is whether the

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NAIB asks state regulators to delay CGL policy approval

By ROBERT A. FINLAYSON

WASHINGTON—A group of insurance brokers is asking state insurance commissioners to withhold approval of the Insurance Services Office's new commercial general liability policy forms.

The National Assn. of Insurance Brokers, which has taken issue with three key provisions in the revised CGL contracts, also is asking state commissioners to schedule hearings to debate the merits of the forms.

The NAIB's concerns will be spelled out in a letter to be sent this week to commissioners in states that have not yet approved the new CGL claims-made and occurrence forms.

(Under a claims-made form, an insurer is responsible only for claims first filed during the policy period; under an occurrence form, insurers are liable for losses that occur during their policy period, regardless of how long after a policy's expiration date a claim is brought.)

The letter will focus on concerns over:

- The inclusion of an overall policy aggregate limit that will determine in advance how much an insurer will pay under each CGL policy.
- The elimination of coverage for sudden and accidental pollution liability exposures.
- A provision in the policy forms that will allow insurers to charge up to 200% of the annual policy premium to extend the reporting period for coverage under the claims-made form.

Meanwhile, the Risk & Insurance Management Society does not plan to take a position on the new CGL policy forms, says Jesse Pagonis, chairman of RIMS' Products and Services Committee and corporate director of insurance for Engelhard Corp., a metals and mining company based in Edison, N.J.

"As a matter of policy, we (RIMS) won't embrace or reject it," he says, adding that it is up to individual RIMS members to take a position on the forms.

The NAIB sees the aggregate policy limit as a significant reduction in coverage from what is offered under the existing CGL contracts, said Raymond L. Hayes, a

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Group insurers say individual rating is not workable

By JERRY GEISEL

WASHINGTON—Although President Reagan's economic advisers say group health insurers could hold down health care costs by individually rating employees, benefit experts contend such individual rating could spell the end of group health coverage.

The President's Council of Economic Advisers said the failure of insurers to measure each individual's health behavior when setting group insurance rates discourages prudent use of health care services.

"If premiums are not risk-rated, then the costs of each individual's behavior are spread throughout the insurance pool and are negligible to the individual," the council said in its annual report to Congress.

"Because the benefits of using more medical care, however slight, accrue to the individual, each person will have little incentive to use medical services carefully," the council added.

The council conceded it would be difficult for insurers to rate every employee covered by a group health care plan. But, insurers could use certain "observable characteristics," such as smoking, when setting rates, the report said.

For example, in the Federal Employees Health Benefits Plan, the nation's largest, with

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Maine begins hearings on workers comp bills

By CAROL CAIN

AUGUSTA, Maine—The Maine Legislature will begin consideration of workers compensation reform this week as two joint standing legislative committees begin hearings on several bills.

The legislation calls for competitive workers compensation rating, reducing and capping weekly maximum benefits, a reduction of attorneys' fees and new back-to-work and rehabilitation efforts.

The joint committees will consider three bills, drafted by the governor, the speaker of the House and the Senate president. A "slew" of other single-issue bills that duplicate the three main measures are not expected to be acted on this session, capital observers say.

The Joint Committee on Labor meets today and will take up the issue of benefits. Tuesday and Wednesday, the Joint Committee on Business and Commerce will discuss the insurance and financial aspects of the measures.

Maine's rate of work injuries was 45% higher than the national average in 1983, and its rate of actual workdays lost was 90% higher than the national average.

"The plain truth is all around us. Workers compensation costs are a barrier to an even stronger Maine," Democratic Gov. Joseph E. Brennan said in a speech to the Legislature last month.

Maine employers' groups fully support the governor's bill—Legislative Document 1062—which incorporates many of the recommendations of a special study commission (*BI*, July 16, 1984). Specifically, L.D. 1062 establishes

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Asbestos removal firm scrambles for coverage

By STEPHEN TARNOFF

EAST HARTFORD, Conn.—A company that specializes in removing asbestos from buildings says it may withdraw from that line of business because of a lack of insurance.

If Acmat Corp. cannot find coverage in the commercial insurance market at a reasonable price, the East Hartford-based company says it may either form an offshore captive insurance company to write the coverage or be forced to withdraw from the asbestos removal business.

"You can't bid a job" without insurance, explained Acmat Executive Vp Henry Nozko Jr. Asbestos removal generates about half of the company's $50 million in annual revenue.

Acmat, which employs approximately 700 people, has been in business since 1950 and has been an asbestos abatement contractor since 1973. The company also does heating, ventilation, air conditoning, plumbing and electrical contracting.

Acmat's insurance problems began when CIGNA Corp. canceled, effective April 1, most of Acmat's insurance coverage—including its general and umbrella liability coverage—because of the company's potential exposure to asbestos-related lawsuits, said Mr. Nozko.

However, he noted that Acmat's asbestos removal operations have never triggered a lawsuit.

Mr. Nozko said the cancellation notice by two CIGNA subsidiaries—Insurance Co. of North America and Aetna Insurance Co.—includes nearly all Acmat's insurance coverage, including general liability, automobile liability, workers compensation, umbrella liability, installation floater, property and equipment coverages.

'I'm optimistic we will put something together. But it will be at a price substantially greater than last year,' explains Acmat Executive Vp Henry Nozko Jr.

Some of these policies, like the auto liability coverage, were in no way related to the company's asbestos removal operations, he added.

Mr. Nozko explained that CIGNA had renewed all of Acmat's policies effective Jan. 1, but on Feb. 15., CIGNA told Acmat it would cancel the coverage on April 1.

On Feb. 17, CIGNA told the company it would continue to write the coverage, but three days later the insurer again notified Acmat that coverage would be canceled on April 1, he said.

"It totally disrupted and confused us from Jan. 1 to the end of February," Mr. Nozko said.

However, a spokesman for CIGNA said the insurer informed Acmat at the beginning of the year that it would not renew the coverage, but would extend the policies for 90 days to give Acmat time to find other insurance.

As a result of CIGNA's decision, Acmat, which is believed to be the nation's largest asbestos removal contractor, says it is considering three options:

- Withdrawing from the asbestos removal business, which would reduce the company's annual sales to $25 million from $50 million.
- Locating insurers who will write all the canceled coverages at a reasonable rate. "We haven't found it (an insurer) yet," Mr. Nozko said, noting the company has contacted more than 18 insurers.
- Establishing an offshore captive.

Acmat's investigation into the feasibility of a captive is "just beginning to get off the ground," said Acmat's agent, Frank Craemer, president of Amins Insurance Inc. of East Hartford. "Where the market is tight, it could be feasible, but obviously it will take time to develop."

Mr. Craemer said there have been only preliminary discus-

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U.S. reinsurers report underwriting results lag behind industry's

By JUDY GREENWALD

NEW YORK—The underwriting performance of U.S.-based reinsurers is considerably worse than that of the property/casualty insurance industry as a whole, according to a preliminary report by the Reinsurance Assn. of America.

The 77 reinsurers surveyed reported an aggregate combined ratio of 127.1% for 1984, compared with a combined ratio of 114.1% for 1983, according to the RAA report (*BI*, April 2, 1984).

The overall property/casualty industry reported a 117.4% combined ratio for the year, compared with 111.9% for 1983, according to a report issued by the Insurance Services Office Inc. and the National Assn. of Independent Insurers (see story, page 1). The insurers covered in the ISO/NAII report write 97% of the country's property/casualty insurance premium.

The reinsurers' loss ratio was 97%, and their expense ratio was 30.1%, according to the RAA report.

The reinsurers' combined ratio has deteriorated steadily, according to the RAA. The reinsurers posted an aggregate combined ratio of 104.6% in 1980, 105.7% in 1981 and 109% in 1982. The combined ratios averaged 112.9% for the 1980-84 period, according to the report.

The surveyed companies reported aggregate net written premiums of $6.6 billion; volume comparisons with 1983 cannot be made because of a difference in the number of companies surveyed. A total of 62 reinsurance companies and 15 other companies that also write reinsurance business participated in the survey.

The reinsurers that had the highest combined ratios in 1984, according to the RAA report, were:

- Capital Assurance Co. in Coral Gables, Fla., with a combined ratio of 165.7% in 1984, up from 125.9% in 1983.
- United Reinsurance Corp. of New York, with a combined ratio of 160.7% in 1984, up from 119.6% in 1983.
- Gerling Global Reinsurance Corp.'s U.S. branch in New York, with a combined ratio of 153.5% in 1984, up from 115.8% in 1983.
- Galaxy Reinsurance Co. in New York, with a combined ratio of 151.2% in 1984, up from 118.8% in 1983.
- Prudential Reinsurance Co. in Newark, N.J., with a combined ratio of 150.9% in 1984, up from 122% in 1983.

"It was a bad year," said Marion A. Woodbury, chairman of United Re. He said United Re's book of business was "overbalanced" with property

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Sweetening the pot

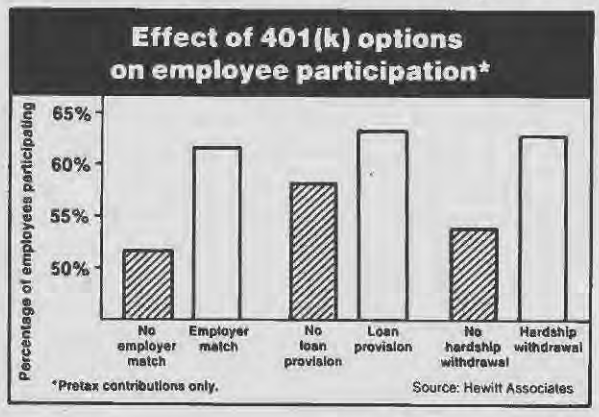
Incentives heighten interest in 401(k) plans

By ALISON KITTRELL

The popularity of 401(k) salary reduction plans continues to boom, a new survey shows.

And, the inclusion of certain features in 401(k) plans—such as employer matching contributions, loan provisions and hardship withdrawal provisions—makes the plans even more attractive to employees, the survey adds.

An average of 75% of employees eligible to join a 401(k) plan are making contributions to the plan either on a pretax or a post-tax basis, according to the survey conducted by benefit consultant Hewitt Associates of Lincolnshire, Ill. About 60% of the eligible employees participate only on a pretax basis.



Under a 401(k) plan, employees are allowed to contribute to the plan a portion of their salaries and exclude that amount from their taxable income. In addition, 78% of the surveyed plans allow employees to contribute additional funds on an aftertax basis.

The survey data indicate that more employees participate on both a post-tax and pretax basis than on a pretax basis only because salary deferred on a pretax basis cannot be withdrawn, except in the case of hardship, until the employee reaches age 59½.

However, in 68% of the plans surveyed, the employee participation level in the 401(k) plan was higher than it had been in the savings plan it replaced, the survey says.

"Clearly, the survey shows that employees, given tax incentives and financial incentives, are excited about and willing to set money aside for their retirement years," said Tom Roch, a partner in Hewitt's Milwaukee office.

He said this high rate of participation is especially significant in light of the Treasury Department proposal to eliminate 401(k) plans (*BI*, Dec. 10, 1984).

"It seems clear, based on the statistics, that 401(k) plans are very popular and, to the extent that the government wants the population to set aside resources for retirement, this is a very effective vehicle," Mr. Roch said.

Hewitt surveyed 199 plans offered by 195 companies, although not all the respondents provided answers to all the survey questions.

Information about plan design contained in the survey is current as of Jan. 1, 1985, while plan experience data represented are based on 1984 annual results.

According to the survey, the inclusion of several options in a 401(k) plan increases employee participation on a pretax basis (see chart). For example, the survey found:

- Plans in which the employer matches employee contributions boast a 9% higher employee participation rate than plans without such an employer match.
- Plans with hardship withdrawal provisions likewise attract 9% more employees than plans

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California says agent sold bogus policies

By ROBERT A. FINLAYSON

LOS ANGELES—The state Insurance Department is investigating an Orange County insurance agent for allegedly bilking $122,000 in premiums from apartment and office building owners by issuing phony insurance policies.

The department alleges that John Anthony Renna, doing business as John Renna Insurance Agency of Mission Viejo, Calif., issued 118 bogus business owners policies bearing the Utica Mutual Insurance Co. logo without the knowledge or consent of the company. Business owners policies are package policies covering both property and casualty risks.

Utica Mutual has no record of receiving any premiums for policies written by Mr. Renna, according to Utica Mutual attorney James M. McFaul of the Carpinteria, Calif., firm of Ives, Kirwan & Dibble. Mr. McFaul adds that Mr. Renna has never been an agent for the insurer.

Neither Mr. Renna nor his Los Angeles attorney, George Hobson, would return phone calls to comment on the charges.

The policies in question have combined limits of $72.4 million in property coverage and $110 million in liability coverage, according to Donald Blackey, supervising investigator for the Insurance Department. He says the department believes that all the policies in question were sold in Southern California.

The Insurance Department will not release information about Mr. Renna's clients except to say they are owners of apartment and office buildings. The department indicated several claims had been filed on the policies, but would not discuss the claims further.

The department filed a formal accusation against Mr. Renna late last month with the intent of revoking his insurance licenses. Mr. Renna is currently licensed as a property/casualty agent, as a life and disability agent and as an insurance broker.

According to the accusation, Mr. Renna, from October 1984 through February 1985, issued 118 business owners policies that included an authentic-looking policy declaration page bearing the name of Utica Mutual Insurance Co.

A line on the bottom of the declaration page noted the policies were "a self-insured and administered plan backed by E&O carrier stated above," evidently referring to Utica Mutual.

Mr. Renna's errors and omissions liability insurance is underwritten by Utica Mutual, but the insurer refused to divulge the limits or any other information concerning Mr. Renna's E&O coverage.

Because the policies sold by Mr. Renna were not authorized by Utica Mutual, there was no transfer of risk and thus no coverage, according to the Insurance Department.

Even if Mr. Renna had intended to back the policies with his E&O coverage, as stated on the declaration page, he still would have been operating an insurance company without a license, Mr. Blackey said.

The Insurance Department accusation says Mr. Renna "fraudulently printed the policy declaration pages bearing the Utica Mutual Insurance Co. name, failed to obtain any apartment or office building property and liability insurance for any of the 118 persons, thereby exposing each person to the risk of loss, failed to remit the premium payments received to Utica Mutual Insurance Co. or any other insurer and retained such premium payments for his own use and benefit, and was not appointed by Utica Mutual Insurance Co. to represent that insurer as an agent."

The accusation further alleges that Mr. Renna "demonstrated incompetency or untrustworthiness in the conduct of his insurance business or has by the commission of wrongful acts exposed the public or those dealing with him to a danger of loss," which

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Group health insurers criticize proposal

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9.2 million participants, premiums could be adjusted so that those with "excess health costs" due to smoking and drinking would pay more than those who don't smoke or drink, the council suggested.

Participants in the federal plan pay about 40% of the premium, and the government pays the remainder.

Currently, insurers and health maintenance organizations that offer coverage in the federal employees health plan set rates based on previous group experience and the benefits offered. Federal employees who smoke or drink pay the same premiums as non-smokers and non-drinkers.

Benefit experts pointed out that the federal government has no jurisdiction over health insurance rates in the private sector. Under the federal McCarran-Ferguson Act, primary regulation of insurers' ratemaking practices are left with the states and not with the Congress.

But, if the council's recommendation for overhauling the federal employees health plan were carried over to the private sector, insurers would have analyze the health risks of every employee and dependent covered under a group health insurance policy.

After the insurers compiled this information, those covered by the plan who smoked or drank would have to pay more than others for coverage.

However, benefit experts say that—despite the proposal's philosophical appeal—it would be so costly to administer that it would wipe out group insurance plans.

'There are very few of us who don't have some vice,' said James Dorsch of the HIIA.

"In a world where administrative costs don't exist, this might work," observed Deborah Cholett, a research associate at the Employee Benefit Research Institute, a Washington-based benefits think-tank. "But administration is very costly."

"The administrative costs would be enormous," said James Dorsch, Washington counsel for the Health Insurance Assn. of America, an industry trade group. "It would be like going back to individual insurance."

Such individual rating within a group health care program could turn employers and insurers into "benefit cops" monitoring employees' personal habits, the benefit experts said.

"You'd have to set up 'watchdogs' at the corporate level," said Robert E. Hayes, senior vp with Metropolitan Life Insurance Co. in New York.

Employers and insurers could survey employees to find out those who smoke or drink, but it would be difficult to determine if employees were giving honest answers, said a spokeswoman for Blue Cross & Blue Shield Assn. in Chicago.

And, it would be even more difficult to survey dependents and verify their responses.

Even if employees and dependents supplied honest answers, insurers constantly would have to adjust rates to reflect changing employee behavior.

For example, experts asked, would rates have to be changed every time an employee stopped and started smoking?

"This would be fraught with difficulties and unfairness," said Metropolitan's Mr. Hayes.

The HIAA's Mr. Dorsch questions the fairness of singling out smoking and drinking for special rating in group health insurance programs.

For example, a non-smoker may ski and thus may be more likely in any given year to incur a claim, such as a broken leg, than a smoker who doesn't ski.

"There are very few of us who don't have some vice," he said.

If rates are based on smoking and drinking, the next step could be charging employees different rates based on age, warned Albert Cole Jr., a consultant with Buck Consultants Inc. in New York.

"This opens up a ton of questions," he said.

Insurers are irked that the economic council's report suggests rate making practices are to blame for the rapid increases in health care costs over the last several years.

"The report implies that all the blame for medical care inflation rests with the insurance system," Mr. Dorsch said.

"The report ignores poorly run hospitals, an aging population that needs more health care and the use of more sophisticated medical equipment" as factors in health care inflation.

The council's report is consistent with the Reagan administration's long-held view that individuals should take more responsibility for their health and retirement.

For example, the Treasury Department wants to wipe out 401(k) salary reduction plans offered by employers in favor of increasing the contribution people are allowed to make to an Individual Retirement Account.

And, the administration wants to tax employees on a portion of employers' health care costs. The administration believes that employees use health care services unwisely because they aren't taxed on the benefits. ■

Maine considers work comp bills

Continued from page 2
a competitive rating system based on a model bill drafted by the National Assn. of Insurance Commissioners.

It also calls for capping the annual cost-of-living adjustment of benefits at 5% and for a reduction in maximum weekly benefits to 110% of the state average weekly wage from the current 166.7%.

Another provision calls for attorneys' fees to be awarded only in cases where the employee prevails.

Another bill—L.D. 1063—introduced by House Speaker John L. Martin, D-Eagle Lake, calls for a revised re-employment/rehabilitation system and a restriction of attorneys' fees for plaintiffs' lawyers.

The third bill was introduced by Senate Pres. Charles P. Pray, D-Millinocket.

The bill calls for creation of the Maine Occupational Safety Board, which would provide safety evaluations and develop safety education programs for management employees, and would create a low-interest loan program to help employers correct workplace hazards. ■

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opinions

31% is not enough

WE ARE SURPRISED—and a bit disturbed—at the results of a recent study that show only 31% of benefit managers believe their companies will take an active role in the fight against proposals to tax employee benefits (see story, page 1).

And we're even more surprised at The Wyatt Co.'s finding that 23% of benefit managers say their employers will ignore the benefit tax proposals, unless they become law.

There is, of course, an explanation for such complacency on the part of some employers. There are provisions in the tax reform measures now circulating in Washington—especially the Treasury Department's tax simplification plan—that are onerous to corporations' aftertax profits while the taxation of employee benefits is not. Many corporations appear to have decided to direct all their lobbying efforts against the provisions that would specifically increase their own tax liabilities.

But, all employee benefit managers should make sure that top management knows the devastating effect that taxing benefits and other benefit provisions in the Treasury Department proposal would have—on both employers and employees.

For instance, if the government takes a bigger chunk out of employees' paychecks because what had previously been tax-free benefits are considered taxable income, employees are going to clamor for more pay to offset their higher taxes.

In addition, the Treasury's proposal to eliminate 401(k) savings plans—which allow employees to reduce their pretax income by deferring a portion of their salaries to retirement savings—would be a giant step backward. A recent Hewitt Associates survey shows that almost three-quarters of the employees who are eligible to participate in a 401(k) plan make some kind of contribution to the plan (see story, page 3).

Such employee retirement savings not only relieve pressure on employers to increase pension plan benefits to ensure that employees will have sufficient income when they retire, but they also take some pressure off the strapped Social Security system.

There are many other arguments that can be made against proposals to tax benefits and eliminate 401(k) plans, all of which have been discussed by benefit managers at length. Now, benefit managers must make sure their superiors are aware of these arguments and know of the dangers posed by the benefit tax proposals.

It's certainly not too late for employers to join the fight to save the tax-preferred status of employee benefits. Labor unions and insurance industry organizations are already in the trenches lobbying against the proposals.

And, some members of Congress, like Senate Finance Committee Chairman Robert Packwood, are lending their support.

This battle requires the support of all employers, not just 31%.

letters

New York department defends Ideal's liquidation

To the editor: The following answers address the five questions posed in your editorial of Jan. 21 regarding Ideal Mutual Insurance Co., and reiterated in your editor's note of Feb. 18:

● "How can the examiners for the New York Insurance Department find Ideal Mutual's loss reserves inadequate if actuaries Tillinghast, Nelson & Warren certified them as adequate?"

It is not unusual for the findings of Insurance Department actuaries conducting their own actuarial review to disagree with the conclusions of actuarial firms employed by insurance companies. The department never blindly accepts the opinion of the company's actuaries and, in fact, has disagreed with Tillinghast's findings in the past. The Tillinghast opinion showed Ideal's reserves to be at the low end of what Tillinghast found to be an acceptable range.

● "Why did the New York department wait until Ideal Mutual's 1983 triennial examination to disallow credit for reinsurance with its affiliate Optimum Insurance Co. of Illinois?"

The question contains an incorrect assumption. The Insurance Department did not wait to disallow credit for reinsurance with Optimum. In 1980, $39 million in Optimum reinsurance was treated as unauthorized. However, in 1980 Ideal had withheld premium moneys from Optimum totaling $42 million. The withheld premiums were sufficient offset to the unauthorized reinsurance to preclude imposition of a penalty liability.

● "Is there any real possibility that the major corporate policyholders of Ideal whose risks have been reinsured with their own insurance subsidiaries would not reimburse Ideal for all claims paid on their behalf? Is this merely the New York department expressing its displeasure with fronting programs?"

The obvious answer is that major corporations are not immune from failure, as recent failures prove.

Beyond the obvious, fronting at Ideal was not restricted to large corporations. A number of small trade associations throughout the country formed offshore captives, associations with no previous experience in this kind of self-insurance program.

The suggestion that any regulator would foment the rehabilitation of its licensee as a way of "expressing its displeasure" is patently absurd.

● "Why didn't the department follow up on its 1980 examination of Ideal Mutual if in fact it found 'problems,' as a spokesman said?"

Once again, the question contains a false assumption. The department did follow up on the 1980 examination. At the time, Ideal had total unauthorized reinsurance that resulted in a technical liability penalty of $23 million. The department worked with Ideal, and Ideal tried to secure additional funding and letters of credit to remove the penalty. They did obtain funding for $13 million of the $23 million penalty from 1980 but never succeeded in resolving the other $10 million. At the time of the 1980 examination, Ideal embarked on the managing general agent programs that subsequently had such poor experience.

The department started the 1983 examination process much earlier than normal. The examination revealed that Ideal was treating Optimum as an admitted carrier in New York, failing to fund any reinsurance, and thereby creating an enormous technical insolvency. Moreover, a special actuarial analysis disclosed a significant deficiency in reserves. Finally, the adverse impact of the MGA experience manifested itself.

● "Why did the department announce to Ideal Mutual the preliminary results of its triennial examination at the time Ideal Mutual was on the verge of successfully negotiating a $30 million capital infusion?"

For the third time, the question is formed on a false premise. Never, at any time, was the department presented with any plan that would result in anything like a $30 million capital infusion. What was discussed, although never formally proposed to the department, were various deals, including the $30 million one, that might have infused capital into Optimum, but very little would reach Ideal. There was never a proposal for substantial moneys to go into Ideal.

Clearly in keeping with its 125-year tradition, the department regulated in a responsive, responsible, dedicated manner to protect Ideal's policyholders.

N. Barry Greenhouse
Special Assistant to the Superintendent
New York Insurance Department
New York

Coverage of computer systems called unfair

To the editor: Your Feb. 18 issue appeared as though Tillinghast, Nelson & Warren Inc. either owned the magazine or bought up all copy space. Virtually every article made reference to them or an individual in the organization.

Tillinghast's biennial study of available personal computer-based risk management information systems does not include Fast Forward Inc., and we are the only multiuser, multiterminal (non-local area networking) risk management system supplier in the country! Our nine-terminal, 80-megabyte disk, 300-line-per-minute printer system may not be a mainframe, but it's better than the PC-based systems that were acknowledged.

There were glowing reports on companies with PC-based systems for which I have not seen an ad purchased in *Business Insurance* over the last 10 months. Fast Forward Inc. spent $14,000 for BI ads over a six-month period and did not receive an honorable mention.

Fair play is an honorable trait in this crazy business world!

Eugene Fair
President
Fast Forward Inc.
Louisville, Ky.

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Asbestos facility

Continued from page 2

producers and insurers will "use their new-found harmony to wage a unified war of attrition against victims who seek compensation," Mr. Silberman said.

He said there is no assurance that the savings achieved in legal costs by the insurers and producers resolving their coverage disputes through the claims facility will be used to compensate victims "rather than being pocketed by the produers and primary insurers," he added.

"It is perfectly possible that those businessmen, having reduced their own legal costs, will now do what they can to delay resolving claims until the victims are forced by their desperate circumstances to succumb to inadequate offers of settlements."

Mr. Silberman said he fears that producers and their insurers may be more willing to delay settlements once the facility is operating because they will not have the incentive to settle quickly to cut litigation costs.

However, those representing the facility who spoke at the hearing emphasized that there are incentives in the agreement to discourage producers and insurers from delaying compensation or making inadequate settlement offers.

For example, claimants still will have the option of suing the asbestos producers if they are not satisfied with the settlement they receive.

And, if claims are not resolved fairly, the facility will be ignored by the claimants and their attorneys.

"If we don't behave fairly, the facility will not be used; the tort system will be used," Dean Wellington said.

Mr. Silberman was the only speaker who provided testimony that did not specifically endorse the facility.

Sen. Nickles told the approximately 75 persons present that the subcommittee had tried to get nonsigning producers and insurers to attend but that they had not accepted.

In addition to Dean Wellington, those speaking on behalf of the facility included DeRoy C. Thomas, chairman and chief executive officer of the Hartford Insurance Group; Robin A.G. Jackson, director of Merrett Holdings P.L.C. and chairman of the London Asbestos Working Party, composed of Lloyd's of London and other London insurers; and John L. Baldwin, chairman and chief executive officer of Pittsburgh-Corning Corp., an asbestos producer.

The advantages of the facility, according to Dean Wellington, include:

- Providing plaintiffs with a quicker and more equitable resolution of their claims.
- Overcoming compensation inequities by providing a central location to file claims.
- Reducing legal costs for plaintiffs and defendants by encouraging settlement of claims.
- Ending disputes between producers and insurers over responsibility for insurance coverage.
- Allowing producers and insurers to manage their liability and plan for the future.

Mr. Baldwin of Pittsburgh-Corning told Sen. Nickles that the agreement provides a "much higher level of certainty for both producers and insurers."

He noted that Pittsburgh-Corning employs only 650 persons and has been hit with more than 22,000 lawsuits, even though it only manufactured a thermal pipe insulation product containing asbestos from 1962 to 1972.

"The truth is that asbestos litigation represents not only a personal disaster for thousands of asbestos-injured workers, but an economic calamity for defendant companies and their employees," Mr. Baldwin said.

"There is no question that asbestos litigation poses a tremendous burden on our companies. It devours management time and financial resources; it hurts our productivity; it hampers our ability to create jobs; it tarnishes our image and efforts to encourage public investment; it affects our credit record and ability to deal with potential lenders; in short, it stifles our ability to reinvest in America," according to Mr. Baldwin.

Mr. Thomas of Hartford Insurance Group said a major issue left unresolved is the need for domestic reinsurers' participation in the agreement.

"If reinsurers will not agree to apply their contracts to losses paid under this agreement, then the direct-writing insurers are faced with having to set aside one group of lawsuits only to initiate another," Mr. Thomas said.

"If indeed this were only an inconvenience it might be viewed as merely troublesome. But there is then the real problem of whether any insurer which wrote the underlying primary and excess policies can afford to disburse millions of dollars for which reinsurers should be obligated, if it must then litigate this issue and hope for a successful result.

"We believe, however, that reinsurers will recognize the considerable benefits to them in following the lead of their insureds."

Mr. Jackson of Merrett Syndicate said that reinsurers won't actually join the facility but will agree to reimburse ceding companies that do.

In his testimony, Mr. Jackson said that many insurers have been "at loggerheads" with reinsurers whose interpretation of how reinsurance should respond to asbestos claims substantially differs from that of insurers.

As an example, he cited reinsurers that accept part of a risk on a quota share or proportional basis and share premiums and claims with the ceding insurer. In these cases, the reinsurer typically follows the ceding company's fortunes.

"The stakes are, however, much higher if the reinsurance is arranged on an excess-of-loss or nonproportional basis," Mr. Jackson said.

"Here, the risk premium is substantially lower, as reinsurers only start to pay when, and to the extent that, any loss exceeds the amount retained by the ceding insurer for its own account."

Since many reinsurance limits are applied to each "loss occurrence," whether asbestos claims ought to be grouped into a single loss occurrence or considered as more than one occurrence becomes a critical issue dividing insurers and their excess-of-loss reinsurers, he added.

There is an "increasing chance" of asbestos losses contributing substantially to so-called "domino" insolvencies within the insurance and reinsurance industry, Mr. Jackson said.

"It must be remembered that the assets of both reinsurers and insurers are not unlimited," he added. ■

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BI 3/85

Many employers won't lobby against benefit tax

Continued from page 1

efit managers—41%—are not opposed to an overall limit on the amount of tax-free benefits employers can provide.

In addition, almost half of benefit executives say legislation should be passed to restrict employers' ability to recover excess assets from pension plans.

Companies may shy away from lobbying against increased benefit taxation because they have other lobbying priorities and must conserve corporate resources, some experts believe.

"There is only so much lobbying capital a company can expend," said Dallas Salisbury, president of the Employee Benefit Research Institute, a Washington-based benefits think tank.

When companies decide lobbying strategies, other tax issues—such as protecting investment tax credits or rapid depreciation schedules for plants and equipment—take precedence over benefits, Mr. Salisbury said.

However, John Menefee, an economic consultant with Wyatt, believes that companies don't lobby to protect benefits from taxation because they are frustrated and feel shut out of the political process.

For example, many benefit provisions in the last tax bill Congress enacted—The Deficit Reduction Act of 1984—were decided behind closed doors, Mr. Menefee noted.

Ironically, companies' blase attitude toward lobbying against benefit taxes comes at a time when threats to alter the tax-favored status of employee benefits have never been greater.

For example, the Treasury Department, as part of its plan to overhaul the Internal Revenue Code, has indicated its intent to tax most employee benefits.

Under the Treasury proposal, employers' health insurance contributions that exceed $70 a month for individual coverage and $175 a month for family coverages would be taxable income to employees.

The Treasury plan also would tax employees on employer contributions for term life insurance, dependent child care, van pooling and group legal benefits, as well as wipe out 401(k) salary reduction plans and tax-free cafeteria benefit programs.

And congressional interest in taxing benefits also is on the rise. House Ways and Means Committee member Rep. Willis Gradison, R-Ohio, recently voiced his support for a limit on the amount of tax-free benefits employees can receive (*BI*, March 18).

In conducting the survey, Wyatt and Opinion Research Corp., a Princeton, N.J., polling organization, surveyed 403 employee benefit managers working for companies representing a broad cross-section of American industry.

Of those surveyed, 200 benefit managers were employed by companies with more than 1,000 workers and more than $10 million in sales. The remainder said they work for companies with between 250 and 1,000 employees and less than $10 million in sales.

In addition to asking benefit managers how they will react to proposals to tax benefits, the Wyatt survey also addressed a variety of other benefit issues.

On the issue of limiting the amount of tax-free benefits employees can receive, 41% of benefit managers said they support such a benefit tax cap. Fifty-eight percent said they opposed the idea, and 1% said they had no opinion.

"A sizable number of employers aren't offended by a limit on (tax-free) benefits," said Sylvester Schieber, director of Wyatt's research and information center in Washington.

As threats to tax employee benefits intensify, more employers may become resigned that Congress sooner or later will impose limits on how much in tax-free benefits companies can provide, added Stuart Brahs, executive director of the Assn. of Private Pension and Welfare Plans, a Washington-based benefits lobbying organization representing employers.

Survey respondents were divided on whether Congress should pass legislation to restrict employers' ability to recover surplus assets from overfunded defined benefit pension plans. Forty-eight percent said they opposed such restrictions, while 46% favor them. Six percent had no opinion.

The fact that so many managers favor restrictions on removing excess assets from pension plans illustrates that "a lot of companies are committed to their pension plans," said Mr. Schieber.

'There is only so much lobbying capital a company can expend,' said Dallas Salisbury, president of the Employee Benefit Research Institute, a Washington-based benefits think tank.

Yet, the majority of benefit managers indicated they are not willing to accept faster vesting schedules in their pension plans. Fifty-nine percent of respondents said they oppose shortening vesting schedules to provide benefits to workers after five years of service; 40% favored five-year vesting and 1% had no opinion.

Currently, most employers offer 10-year "cliff-vesting" schedules in their pension plans. Under 10-year cliff vesting, a participant becomes fully vested only after completing 10 years of service.

Most benefit managers did agree that pension credits should be given for employees who continue to work past age 65.

Some 73% say pension benefit accruals should continue after a worker turns 65, while 27% are opposed.

"Companies want to be as fair as possible to participants," said Mr. Schieber. "There is a feeling that if someone wants to work after 65, they should be credited for that service."

Recently, the Equal Employment Opportunity Commission, the federal agency in charge of age discrimination issues, proposed that companies be required to give pension credits for workers who stay on the job after 65 (*BI*, March 18). Those proposed rules, now being reviewed by other regulatory agencies and the Reagan administration, would overturn a 1979 Labor Department interpretative bulletin

Continued on facing page

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that pension benefit accruals can cease when a worker turns 65 years old.

Benefit managers also were divided on the issue of mandatory retirement. Fifty-two percent of respondents say they would oppose legislation to wipe out mandatory retirement, while 48% favor the elimination of mandatory retirement.

Under 1978 amendments to the Age Discrimination in Employment Act, companies can force most workers to retire when they reach age 70.

Mr. Schieber, however, said he questions the importance placed by companies on mandatory retirement. "This is kind of a hollow issue," he said, noting that with incentives—like sweetened early retirement benefits—companies can encourage more workers to retire at earlier ages.

Some 66% of benefit executives agree that companies should provide a minimum pension—one that could not be offset or reduced by Social Security—to those who vest in a corporate pension plan.

"This is a fairness question," said Mr. Schieber. Companies want to guarantee that workers receive some kind of benefit from the plan, he added.

In 1982, Congress agreed that so-called "top-heavy" pension plans—those in which more than 60% of benefits go to key executives—provide a minimum benefit that cannot be offset by Social Security (*BI*, Aug. 23, 1982).

Finally, 56% of managers said employees in a defined benefit plan who have not reached retirement age should not be able to cash out a vested benefit after they terminate their employment; 42% said they favor such benefit cash-outs.

"A lot of companies are relatively paternalistic," Mr. Schieber explained. "There is a fear that employees might spend the money" before retirement," he added. ■

PBGC executive director to resign

washington

By JERRY GEISEL

WASHINGTON—Charles Tharp, the executive director of the Pension Benefit Guaranty Corp., will resign on April 1.

Mr. Tharp, 34, said he is resigning to pursue other unspecificed interests. "I have decided that it is now time for me to move to other pursuits," he said last week.

Mr. Tharp's successor has not yet been named.

Mr. Tharp was appointed to the top post at the PBGC in January 1984, succeeding Edwin Jones (*BI*, Jan. 23, 1984). Previously, Mr. Tharp had been the PBGC's deputy executive director.

Mr. Tharp spent much of his time working with legislators to convince Congress to overhaul the PBGC insurance program and raise the termination insurance premiums the PBGC charges employers with pension plans.

More revenue is needed because the agency is paying out more in benefits than it is collecting in premium income.

While major changes in the insurance program still are being considered, such as making it more difficult for employers to terminate underfunded pension plans, Congress took its first step to increase the PBGC premium when the Senate Budget Committee last week agreed to hike the premium to $7.50 per year per plan participant from $2.60.

Mr. Tharp believes that Congress will act favorably on the premium increase and thus eliminate the agency's $462 million deficit.

During his tenure at the PBGC, Mr. Tharp often spoke out on the importance of defined benefit plans and rejected suggestions that the plans were part of a dying breed.

Retirement plan study

The House Ways and Means Committee says it will study how employer-provided retirement plans operate.

Such a study is needed, says Committee Chairman Rep. Daniel Rostenkowski, D-Ill., because there is little information on the effectiveness and cost of retirement plans and how those plans coordinate with Social Security.

The study will focus on these issues:

- Which employees at certain income levels are more likely than others to participate in various retirement plans?
- How, if at all, should the Social Security program be changed as private pension plans expand during the next several decades?
- Should the tax treatment of pension plans be altered? Currently, employers receive tax deductions for their contributions to pension plans.

The assets held by the plans earn interest tax-free. Employees are taxed when they draw benefits from the plans.

- Does the complexity of current law and the cost of administering pension plans discourage employers from setting up new plans?
- Does the Employee Retirement Income Security Act discriminate against women and other workers who may never stay long enough at one job to vest?

Under ERISA, employers may offer a vesting schedule that entitles participants to benefits only if they work for a company at least 10 years.

Tax-free benefit cap

Sen. David Durenberger, R-Minn., says there should be a limit on the amount of tax-free benefits that companies can provide their workers.

In a speech before an Employers Council on Flexible Compensation conference recently in Washington, Sen. Durenberger said tax-free benefits "has to stop at some point" because of the large federal budget deficit.

Under Sen. Durenberger's proposal, an employee would be taxed if his or her employer spent more than $2,250 per year per worker for group term life, health, and group legal coverages. Workers with family coverage would be taxed on employers' annual costs that exceed $4,000.

For educational assistance benefits, employees would be taxed on employers' costs that exceed $5,000 per employee a year, the same limit that Congress last year incorporated in amendments to Section 127 of the Tax Code which pertains to educational assistance programs.

In addition, annual tax-free dependent child care benefits that an employee could receive would be limited to $2,400 per dependent.

Current limits contained in the tax code on retirement plan benefits and contributions would be retained under the Durenberger proposal.

Employers now cannot contribute more than $30,000 a year per worker to a defined contribution plan. And, a defined benefit plan cannot provide an annual benefit that exceeds $90,000 to a plan participant. ■

California accuses agent of selling bogus policies

Continued from page 3

the department says constitutes grounds for suspending or revoking his licenses.

Under California law, Mr. Renna is entitled to a hearing before the insurance commissioner. To date, he has not requested such a hearing, according to the Insurance Department.

Both Utica Mutual and the Insurance Department were surprised when they learned of the suspect policies, explains Frederick J. Fisher, president of Fisher Associates, an adjusting firm in Torrance, Calif., which was retained by Utica Mutual to investigate the suspect policies.

"The Utica attorneys didn't believe what it said," Mr. Fisher explains, referring to the declaration page.

"Nobody ever heard of such a thing before. Even the department did a double take," Mr. Fisher notes.

The policies came into question when one of Mr. Renna's clients went to an office in Beverly Hills listed on the policy to pay his premium and found only a mail drop instead of an agency office, Mr. Fisher explains.

The client then contacted Utica Mutual, whose name was printed on the declaration page of the policy.

When the client read the policy number to a Utica Mutual official in New York, the official recognized it as being a policy number from an errors and omissions policy.

The company then contacted Mr. Fisher to investigate.

Mr. Fisher says that after examining several of the policies issued by Mr. Renna, he concluded that they were not Utica Mutual policies. After consulting with Utica Mutual, he turned the information over to the California Insurance Department.

'Nobody ever heard of such a thing before,' explains Fisher Associates' Frederick Fisher.

The department's audit of Mr. Renna's files turned up 118 suspect policies. That investigation continues and the department has not yet decided whether to ask the Orange County District Attorney to file criminal charges against Mr. Renna.

Mr. McFaul says Utica Mutual has not filed criminal charges against Mr. Renna, and would not say if the insurer intends to press charges.

However, Utica Mutual's attorney obtained an injunction Feb. 25 from Los Angeles County Superior Court to prevent Mr. Renna from issuing any additional policies and to order him to advise his clients that the policies were not backed by an insurer and that new coverage should be sought.

Mr. Renna subsequently sent letters to the clients explaining that they have no coverage under the suspect policies.

Mr. Renna implies in the letter, a copy of which was obtained by *Business Insurance*, that he intends to refund the premiums paid by the clients, though he did not say when the refund will occur.

"Know that we are actively reconciling our records in order to make reimbursement," the letter reads.

"Until reconciliation is complete, your advance premium cannot be returned," the letter continued.

Both Utica Mutual and the Insurance Department are in the process of sending their own letters to those who purchased the policies to warn them that they have no coverage.

Mr. Fisher says he is investigating the potential for claims against Mr. Renna's E&O coverage from those that purchased the suspect policies.

Mr. Blackey says the department is investigating the possibility that other insurers may have been victimized in the scheme.

Investigators are also attempting to determine what happened to the $122,000 in premium allegedly collected by Mr. Renna. ■

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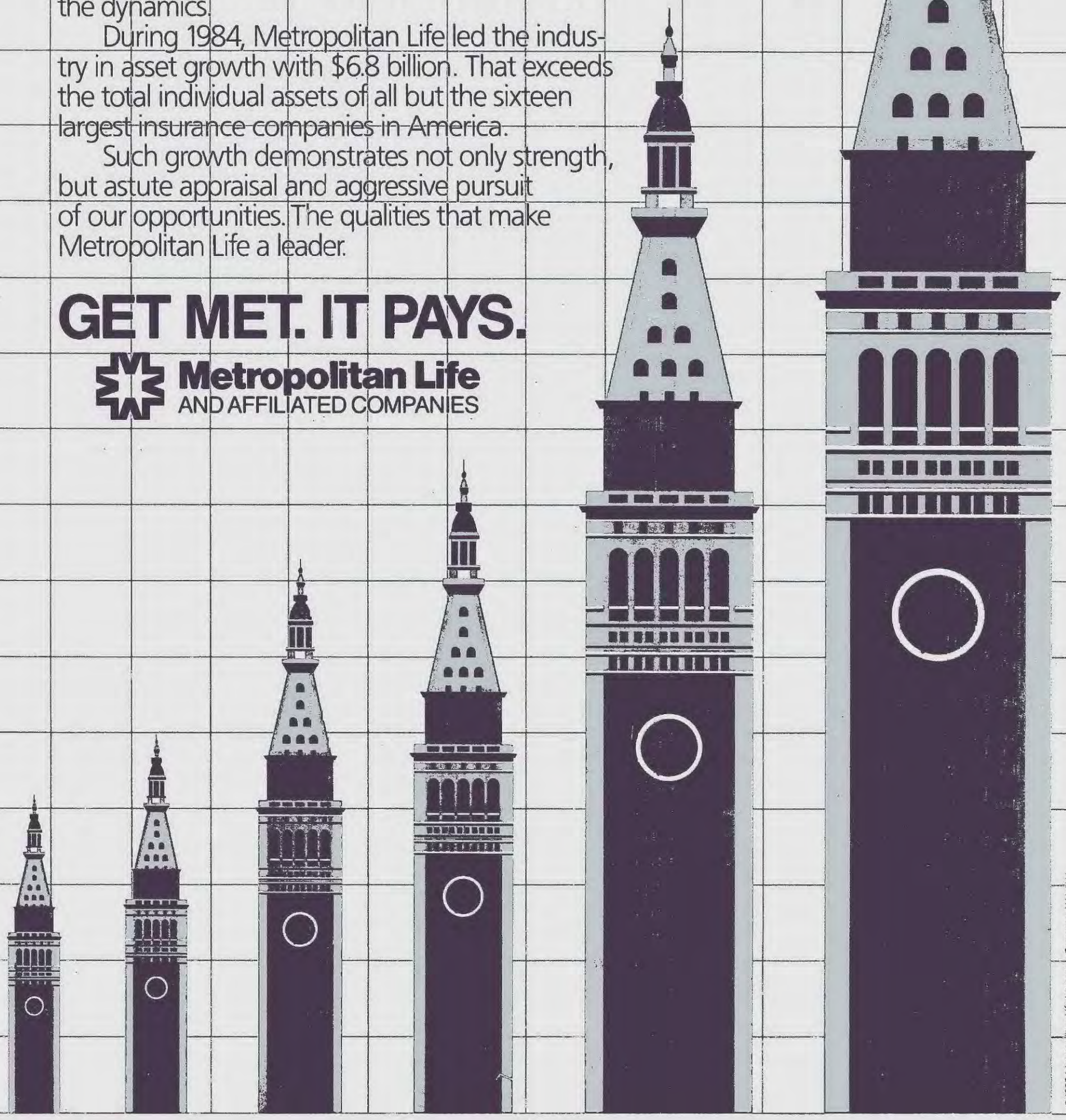

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perspective

Strategy helps manage liability exposures

By The Insurance Institute of America

A.R.M. exercises

The following question and answer is drawn from the curriculum for the Associate in Risk Management (A.R.M.) designation awarded by the Insurance Institute of America. It represents the type of question asked, and possible answers to, the three examinations for the Associate in Risk Management designation.

Effective risk management requires practical knowledge of many disciplines, including some basic knowledge of "strategy." For example, the case presented in the following question describes three basic strategies for dealing with liability exposures and for using knowledge of psychology management, medicine and law to apply these strategies.

Q: An effective liability loss control program rests upon three foundations:

- Preventing breaches of legal duties owed to others.
- Minimizing bodily injury or property damage caused by any unavoided breaches.
- Maintaining valid legal defenses against any claims that may be brought because of an alleged breach of duty.

The operator of a restaurant located within a shopping mall faces a number of liability exposures to, for example, restaurant patrons and the owners of the other stores within the mall. With respect to each of the liability exposures listed below, describe what specific actions the restaurant should take to achieve each of the three foundations of a legal liability loss control program listed above:

The liability exposures include:

1. Liability to a restaurant patron suffering bodily injury because of impure food served by the restaurant.

2. Liability to owners of other stores in the mall for damage to their premises caused by a fire due to a restaurant employee's negligence.

A: 1. The actions the restaraunt should take to achieve each of the three foundations of a legal liability loss control program with respect to the liability to a restaurant patron suffering bodily injury because of impure food served at the restaurant are:

- The most basic step in the restaurant's avoiding breaches of duty to its customers is to keep all restaurant employees alert to the restaurant's duty to serve only healthful food under wholesome conditions.

With this awareness as a foundation, restaurant employees should then be able to carry out their individual responsibilities in meeting this organizational duty to customers by, for example, selecting carefully the vendors from whom the restaurant purchases food and the utensils with which it is prepared and served; checking incoming shipments of foodstuffs for their quality and wholesomeness; storing foodstuffs under proper conditions until they are ready for preparation; assuring that the restaurant complies with all governmental standards for its operation; preparing food under proper conditions; and disposing of outdated or otherwise suspect foodstuffs.

- Activities for minimizing bodily injury to customers who may have eaten impure food focus on proper treatment of, and negotiations with, these customers.

The restaurant should be prepared to offer appropriate first-aid services and, when necessary, prompt evacuation to a nearby hospital. After the immediate emergency is passed, the restaurant should be prepared to meet ill customers' medical expenses without delay in situations where the restaurant's liability is clear. Moreover, the restaurant should investigate both valid and suspicious claims to correct any hazardous conditions, thus minimizing future injuries.

- To maintain the restaurant's legal defenses, its management and employees must be aware of both the nature of these defenses and the actions they should take to preserve them.

Thus, all personnel should be trained in how best to deal with apparently ill customers and what procedures to follow in gathering evidence about incidents that may lead to claims. Appropriate supervisory personnel should know procedures for notifying the restaurant's liability insurer or for summoning some other legal assistance. Even before any incidents arise, management and other employees should maintain appropriate records to document the restaurant's care in food preparation. These records may provide useful evidence in court or during negotiations of any claims.

If the restaurant becomes subject to a claim involving possible fault by one of its suppliers, that supplier may be able to assist in—or even take primary responsibility for—disposition of the claim.

2. In the case of liability to other storeowners in the mall:

- Again, employees need to be made aware of the restaurant's potential liability for spread of fire and should be trained in fire-safe working procedures and in appropriate conduct during a fire emergency.

The restaurant's management should confirm that the restaurant's premises and operations comply with applicable fire codes and should install appropriate fire-suppression systems.

Finally, the restaurant may be able to reduce its liability to other store owners by entering into a mutual agreement under which each owner waives the right to sue other owners for fire damage.

- Because the restaurant has a duty to control the spread of a fire from its premises, several of the above-mentioned actions it would take to fulfill this first part of an effective liability loss control program also would help to minimize property damage from any fire. Specifically, these probably would include calling the fire department immediately, firefighting action by the restaurant employees, and operation of the restaurant's fire-suppression system.
- Both before and after any fire, the restaurant can act to maintain its potential legal defenses.

Before a fire, it should keep records documenting its fire-safety actions—including employees training and fire-suppression system maintenance, for example.

After a fire, restaurant personnel should gather information on its cause(s) and extent of the fire, perhaps to document the restaurant was not at fault or the damage was not as extensive as claimed. The restaurant employees also should refrain from any admissions of responsibility but should, instead, summon appropriate insurance or other legal assistance. ■

The sample questions and answers used in this column are taken from the Associate in Risk Management designation curriculum of the IIA.

For more information on the content of the A.R.M. program, write Dr. G.L. Head, Vp, Insurance Institute of America, P.O. Box 314, Malvern, Pa. 19355.

'Discovery of loss' clear: Court

legal briefs

The term "discovery of the loss" in a commercial blanket bond was not ambiguous, according to a California appellate court.

The court said that the term meant that the limitation period provided by the bond began upon discovery of an actual loss, not upon discovery of anticipated loss.

Palomar Financial started two real estate investment trusts, Palomar Mortgage Investors and Pacific-Southern Mortgage Trust Co. Perry Davis was president of Palomar Financial and was also president, treasurer and trustee of Pacific-Southern.

Pacific-Southern was covered under a commercial blanket bond issued by the Insurance Company of North America that indemnified it for fraudulent acts committed by its employees up to $1 million. In essence, Mr. Davis made numerous misrepresentations about a $1.5 million loan, in which Pacific-Southern approved participation in 1973.

Later, Pacific-Southern sued to set aside the participation agreement and claimed Mr. Davis had made fraudulent representations to Pacific-Southern. In the meantime, the loan was foreclosed.

On Dec. 21, 1976, Pacific-Southern first notified INA it had a potential claim. INA refused to indemnify, and Pacific-Southern sued INA.

Pacific-Southern won a judgment of $1.7 million in the trial court.

On appeal, INA argued, in part, that Pacific-Southern had failed to bring its action within two years after discovery of its loss as required by the bond. The court said that in the case of a secured loan made because of fraudulent misrepresentation, the fraud and the loss do not necessarily occur at the same time. "The loss may occur much later or not at all," the court said.

The court added that, if INA had wanted the notice and the limitations period to start upon the discovery of the fraud, it could have so stated. *Pacific—Southern Mortgage Trust vs. Insurance Co. of North America,* Court of Appeal of California, May 18, 1984 (BI/05/M.-$5) ■

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

RMIS commentary

Continued from preceding page

is somewhat simpler, since the vendor has the technical abilities to convert data from the old insurer and receive input from the new one. There still are difficulties and expenses involved, but they are much less severe.

In this case, the risk manager would inform the vendor with as much advance notice as possible of the impending changes. The vendor would then act as intermediary between the insurer and risk analyst, changing the RMIS to accept the new data while maintaining the ability to receive updates from the former insurer.

The second major recommendation would be to obtain an up-front agreement from the provider concerning data continuity. If it is an insured program, the policy should contain an endorsement concerning appropriate and regular updates on the run-out claims. The tapes should contain the same level of detailed information received before the policy cancellation and/or expiration.

You should also agree to a fair and reasonable cost to continue these services, depending upon the volume of old claims and the degree of detail desired.

If your program is self-insured with either an internal or external claims administrator, an agreement is still recommended.

If you switch claims administrators, it may be wise to have the new administrator assume responsibility for any existing claims. But, the risk manager should carefully monitor the transfer of the old claims to the new administrator to ensure that none are reopened by mistake or that new claims occurring prior to the change are not omitted.

Solving technical problems that can accompany a switch in insurer or other service provider is another matter.

Depending on the volume of old claims and the detail needed for accurate reports, it may not be necessary to make potentially expensive system modifications to receive both the new data and detailed information on older claims. In some cases, a single "snapshot" view of the older claims' value at time of policy cancellation, with occasionally manually in-put reserve changes, may suffice.

But, for detailed, comprehensive reports, the appropriate data are necessary. In these cases, an external RMIS vendor, experienced in data transfer and familiar with most insurance company systems' requirements, is helpful. Internal data processing departments simply do not have the time or manpower to handle a complex change quickly.

Despite the problems that data ownership/control can present for a risk manager, awareness and careful planning can help avoid them, and the risk management information system will do what it is intended to do—make the risk manager's job easier and more efficient. ■

ASK A BENEFIT MANAGER

Benefit communication is difficult and costly, but it pays off in the end

Q **Although our benefits program costs the company a lot, we don't make any special effort to communicate it to employees. How can I convince senior management of the need for effective benefits communication?**

A Companies usually spend a great deal of time and money attempting to communicate an image to the public. They are, of course, concerned with the attitudes of their shareholders, the government and the general public toward their operations.

It is also important, however, that companies concern themselves with the attitudes of their employees. High turnover, low morale and decreased productivity are the costly byproducts of this oversight.

And, since their benefits are very important to employees, the way that a company communicates its benefit program has a tremendous impact on the attitudes of employees toward their company.

Many companies, however, still treat their benefits program as essentially passive—to be communicated only when triggered by a specific event, such as a specific benefit change. This is because communicating employee benefits is probably more difficult than other communication efforts.

The factors that make communicating a benefits program so difficult are:

- Benefit programs are necessarily diverse, since they are designed to affect and protect employees in many different types of situations (e.g. death, disability or retirement). An effective communications program, therefore, necessarily begins with a rational, competitive benefits package.
- Benefit provisions are complex, and the potential for confusion and misunderstanding by employees is great.
- Benefit plan provisions are detailed, and this detail must be communicated accurately.

The job of effectively communicating benefit programs to employees has also been further complicated by governmental legislation, beginning with the Employee Retirement Income Security Act. This legislation has mandated many complex and technical changes to benefit plans and required that these changes be communicated to employees.

As a result, employees are being hit with more technical benefits information than they ever had to deal with before. And, as a result of that, it's difficult for them to focus on the basics of their benefits package and to see the "forest rather than the trees".

Having participated in many industry panels dealing with this subject, I know the problems involved. However, I believe that the challenge of effectively communicating benefit programs must be met if a company is to obtain maximum value for its benefit dollar.

Furthermore, I believe that this challenge really represents an opportunity for us to effectively relate our benefit programs and their costs to our companies' business needs.

Of course, despite high costs, your benefits program may not be generally competitive with programs of other companies, and your management may understandably not want you to make any special efforts to communicate it.

Your first task in this instance would be to examine the benefit levels and costs of your program, and develop a strategy over the longer term—e.g., three to five years—to provide a competitive program for your employees at the least possible cost to your company.

If your program is competitive, develop a communications strategy that will relate your benefit programs to the company's business needs. The objectives for such a strategy will vary according to the company, but they should be specific.

At my company, for example, we have two benefit communication objectives.

First, employees should recognize the cost of the benefit program and, correspondingly, the value to them of the benefits program.

Second, employees should recognize that the company's ability to maintain the program depends on its profitability and that we need to work hard to sustain and increase the company's profitability.

Once you have formulated your communications objectives, incorporate them in a recommendation to management for an expanded communications effort. Your recommendation should include:

- A list of the communications in current use—including those required by law—and their costs and dates of distribution.
- An evaluation of their effectiveness and a list of additions or deletions that you believe will improve the total package.
- Recommendations for the use, where appropriate, of specific communication techniques, such as audiovisual presentations or group meetings.
- A list of the costs of additional materials you feel are necessary. However, be sure to make maximum use of your company's internal resources. In this way, you will not only keep outside charges to a minimum, but you will also have the opportunity to involve the other managers and departments in your company in your communications effort.
- Data on your company's payroll cost and the total cost of your employee benefits program. This will help show management the relative value of the proposed communication effort when compared with the total cost of the company's benefit programs.

Finally, employee understanding and appreciation of your benefit programs can only be achieved through a long-range, continuing communications effort that builds on the important aspects of your benefits program.

This is a tough challenge, and its success will be difficult to measure. But, it must be attempted if your company is to get the most for its benefit dollar in terms of employee morale and productivity.

The Perspective section, which is a forum for readers' opinions, is compiled and edited by Copy Editor Alison Kittrell. She can be reached at 312-649-5262.

401(k) savings program often is strengthened by a provision for loans

Q **My company recently amended our savings plan to allow employees to make pretax contributions under Section 401(k) of the Internal Revenue Code. The plan is very popular with employees, but some of them now are asking that we adopt a loan provision so that they can borrow against their 401(k) accounts. How does such a provision work, and do you think that it is appropriate to a savings plan?**

A Savings plans are extremely popular with employees; these plans are more easily understood than defined benefit plans, and employees usually can actively participate in the plan by determining the amount of their individual contributions and by making investment decisions.

In addition, employee contributions are generally matched in some portion by an employer contribution, and there is the convenience of saving by payroll deduction. In addition, the adoption of a plan with the 401(k) feature, named after the section of the Internal Revenue Code that authorizes the plans, allows employees to exclude a part of their salary from taxable income and contribute it to the plan.

Perhaps the major reason for the increasing popularity of these plans, however, is that they are perceived by employees as being more effective in addressing their individual needs. This perception is reinforced by the changing demographics of our workforce, and savings plans are ideally suited to address these demographic changes.

For example, older employees can use these plans for retirement income, while younger employees can accumulate savings for a home or for their children's education.

The diversity of individual need among employees is accommodated in savings plans not only by allowing employees to determine the amount of their contribution or to choose among investment funds, but also by usually permitting them, subject to certain restrictions, to withdraw a portion of their account while they are still employed. In the case of pretax contributions to a savings plan, this option is restricted by the Internal Revenue Service to withdrawals that meet certain "financial hardship" restrictions, or to withdrawals when the employee reaches age 59½.

The employee's pretax account balance, however, can be made available to him or her through a loan provision, without the requirement to demonstrate "financial hardship."

The Tax Equity and Fiscal Responsibility Act of 1982 specifically permits loans to employees subject to certain limitations, and most 401(k) loan provisions allow payment of all or part of the employees pretax account balance, subject to the TEFRA limits.

Repayment of the loan—including both principal and interest—usually is credited back to the participant's account.

The loan provision also usually provides for a minimum amount or limits the amount of loans a participant may have during a specific period of time. Under TEFRA, it must provide for repayment within five years unless the loan is used for acquiring, constructing or substantially rehabilitating a principal residence.

The interest rate that is to be charged the participant is generally tied to an outside index: At my company, for example, the interest rate is fixed at 1% above the prime rate as established by the Morgan Guaranty Trust Co.

Some companies have felt it necessary to adopt a loan provision to attract the younger, lower-paid employee to the 401(k) plan and thereby meet the 401(k) discrimination test.

Aside from this, however, I see no good reason, given the diversity of employee needs, why an employee's pretax account balance should not be made available to him or her by means of a loan provision, especially if the provision requires payment of the withdrawn amount through payroll deductions and limits the number of times or the amount an employee may borrow from his or her account.

The only reservation I would have in this regard is in cases in which the 401(k) savings plan is going to provide the only source of retirement income for the employee.

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

Ask A Benefit Manager and Ask A Risk Manager answer written questions from readers on risk and benefit management issues.

Mr. Duva

This month's column, on employee benefit issues, is written by Joseph Duva, director of employee benefits and compensation at SCM Corp. in New York. Next month, Ralph F. Perry Jr., vp and director of risk management at Amfac Inc. in San Francisco, answers risk management questions.

Mr. Duva's and Mr. Perry's columns appear alternately each month. Mr. Duva's next column will appear in May.

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

401(k) survey

Continued from page 3

without this feature.

- Plans with a loan provision have a 6% higher employee participation rate than those without.

"(These provisions) simply make the plan more attractive," Mr. Roch said. "If employees can view it as a capital accumulation device, whereby they can have access while they are still employed, and when employer matching is involved...it s almost hard not to take it."

Employer matching contribution is a popular 401(k) plan feature, both with employees and employers, the survey notes.

Some 61.7% of eligible employees made pretax contributions to 401(k) plans in which the employer matches employee contributions, compared with a 52.8% participation rate in plans without an employer match.

Some 84% of the 199 401(k) plans surveyed included some kind of employer matching contribution. And, 55% of the plans that did not provide employer matching contributions did have provisions for some other kind of employer contribution, like discretionary or profit-sharing contributions.

Only 7% of the surveyed plans precluded any corporate contributions.

Of the plans providing for an employer matching contribution, the most common match was 50 cents for each dollar contributed by the employee; 39% of the plans matched employee contributions at this rate. But, 21% of the surveyed plans matched at a rate greater than 50 cents on the dollar, including 14% that matched employee contributions dollar-for-dollar. In 16% of the plans, the employer matching contribution was profit-related.

The survey also found a higher rate of employee participation in plans with a hardship withdrawal provision, which allows employees experiencing "extreme hardship" to withdraw the funds from their 401(k) funds before retirement.

Some 63.4% of eligible employees participated on a pretax basis in plans with hardship withdrawal provisions, compared with a 53.9% participation rate in plans that do not.

Some 87% of the surveyed plans have a hardship withdrawal provision, even though the Internal Revenue Service has not issued its final rules on hardship withdrawals.

Ten percent of the plans do not allow hardship withdrawals. And, 3% of the plans surveyed have a provision for hardship withdrawal written into their plan documents, but the provision will not be used until the IRS rules are issued.

The largest number of the plans with a hardship withdrawal provision—46%—allow the withdrawals for the purchase of a primary residence, the education of a family member or in the case of death or serious illness in the family

An additional 34% allow withdrawals for these and some other kinds of extreme hardship, like loss of property or a catastrophic expense.

A few plans are even more liberal in their interpretation of hardship. For example, 5% of the plans with a hardship provision allowed withdrawals if the employee gets divorced; 4% allow withdrawal for legal expenses; 3% allow withdrawal if the employee loses his or her job; and 2% allow withdrawal for remodeling or repairing an employee's primary residence.

In addition to the hardship withdrawal provision, 36% of the surveyed plans have a provision that allows participants to borrow some or all of the money in their 401(k) account. An additional 10% plan to include such a provision in 1986 or 1987.

Hewitt's Mr. Roch said he expects the number of plans offering a loan provision to continue to grow. He said the reason relatively few plans have offered the provision is "primarily that employers are hesitant to get involved in the administration and communication involved in loans. But, (loan provisions) seem to be becoming more popular as the amount of money accumulated in the 401(k) plans gets larger."

This option also increases employee participation, the survey shows. An average of 63.7% of eligible employees participated on a pretax basis in plans with a loan provision, compared with 58.2% in those without.

Approximately 15% of the plans with loan provisions require employees to satisfy some definition of "extreme hardship" before granting a loan. And, 79% of the plans with a loan provision limit either the number of loans that can be outstanding at one time or the number of loans that can be made in one year.

Ninety percent of the plans with a loan provision require employees to borrow a minimum amount, which is usually $1,000.

Some 46% of the plans allow an employee to borrow all of his or her vested funds, but 30% allow the borrowing only of employee contributions.

The average interest rate charged by the plans with loan provisions was 11.61%, and 48% of the plans set their rate according to the interest rate being charged by some type of financial lending institution. The remainder used some other indicator.

In addition, the survey said, in the average plan offering a loan provision, 15% of the eligible employees have a loan outstanding.

The survey found that 28% of the surveyed plans have both a loan and a hardship provision. And, only 6% of the plans have neither a loan nor a hardship provision.

Although the hardship and loan provisions in some 401(k) plans are under attack on Capitol Hill, (*BI*, Jan. 28), Mr. Roch was quick to point out those provisions only enhance employee participation.

"Although we're getting rumblings from Washington that certain parties aren't particularly enamored with hardship withdrawals or loan provisions, plans without either provision still have a relatively high level of employees participating...and participating at relatively high levels," he said.

The survey also revealed that the average 401(k) plan deferral among all employees eligible to join the plans was 4.1% of salary.

The average annual deferral among all employees who actually participated in a 401(k) plan was 6.7%.

The percentage of salary deferred into a 401(k) plan rose along with the employee's salary, according to the survey.

Among eligible employees earning less than $15,000 a year, the average deferral was 3.2% of salary. But, average salary deferrals rose to 3.8% of salary for eligible employees earning $15,000 to $30,000 a year; 4.8% for those making $30,000 to $45,000 a year; and 5.9% for those making $45,000 to $60,000 a year.

And, among eligible employees earning more than $60,000 a year, the average deferral rate jumped to 7.4% of salary.

•

Copies of "Survey of Plan Design and Experience in 401(k) Salary Reduction Plans" are available for $25 from Lori Cuda at Hewitt Associates, 100 Half Day Road, Lincolnshire, Ill. 60015.

Brokers ask states to delay approval of new CGL forms

Continued from page 2
vp with Chicago-based broker Rollins Burdick Hunter Co. Mr. Hayes is chairman of NAIB's research and development committee.

The current CGL policy includes limits on several types of perils, but does not contain an overall cap on liability coverage.

NAIB members also believe that the provision allowing insurers to charge up to 200% of the policy premium for tail coverage on claims-made policies "could limit the insured's options as far as moving from one underwriter to another," according to Mr. Hayes. He says brokers see this provision as "anti-competitive."

NAIB members see ISO's total exclusion of pollution liability coverage as "disasterous because of the condition of the (environmental impairment liability) market," Mr. Hayes explains.

The market for EIL coverage has been steadily eroding over the past two years.

Elimination of sudden and accidental pollution coverage from the CGL policy "really creates a dilemma for everyone engaged in commercial enterprise in the country," Mr. Hayes maintains.

The NAIB 'has not raised any new issues,' says a spokesman for ISO.

Almost every manufacturing operation in the country has a sudden and accidental pollution exposure and the unavailability of coverage for this exposure would leave many companies with no protection against the potential for millions of dollars in pollution liability claims.

The decision to ask state regulators to hold hearings on the new CGL policy forms was unanimously approved by NAIB's board of directors last week, Mr. Hayes said. "After many hours of analyzing these changes, we felt that they would substantially reduce the protection afforded commercial insureds," he says.

"We believe that the coverage being proposed is radically different from what exists and that people will suffer," Mr. Hayes maintains.

The NAIB wants state insurance commissioners to hold hearings on the new forms because it believes the ISO-backed changes are "not sufficiently understood by the entire insurance community," he added.

Mr. Hayes says that the letter represents the first time that NAIB, the national trade group for the insurance brokerage industry, has requested hearings on proposed changes in insurance contracts.

Mr. Hayes expects a favorable response from insurance commissioners.

However, an ISO spokesman says that NAIB "has not raised any new issues, and I would expect insurance commissioners would recognize the need for the introduction of the new forms."

The proposed policy forms would be available for use by insurers Jan. 1, 1986 under ISO's implementation plan.

Just what effect the NAIB action will have on the use of the insurer-supported CGL policy forms is unclear. The proposed contracts already have been approved in 12 states and would be available for use Jan. 1, 1986, in eight others that do not require prior approval of new insurance policies by state insurance commissioners.

ISO officials are confident that the new CGL policy forms will be approved in most states prior to Jan. 1, 1986.

In January, two other trade groups that had opposed the new CGL policy forms—the Independent Insurance Agents of America and the National Association of Professional Insurance Agents—dropped their oppostion to the proposal after ISO agreed to revise the extended-reporting-period section of the new claims-made contract (*BI*, Jan. 28).

ISO agreed to include a 60-day mini-tail without charge. During that period, the policyholder could buy full tail coverage in the event of non-renewal or cancellation. ■

datebook

APRIL 14-19. Risk & Insurance Management Society 23rd annual conference in New Orleans, sponsored by RIMS; $545 for members; $645 for non-members; reduced fees for part of the conference. RIMS, Conference Department, 205 E. 42nd St., New York, N.Y. 10017.

APRIL 15-16. Insurance/Credit Enhancement seminar in Palm Desert, Calif., sponsored by Standard & Poor's Corp.; $500. Gail Neuman, Standard & Poor's Corp., 25 Broadway, New York, N.Y. 10004; 212-208-1702.

APRIL 15-16. Practical Management Oversight Risk Tree seminar in Sacramento, Calif., sponsored by the International Loss Control Institute; $280. Contact Registrar, ILCI, P.O. Box 345, Loganville, Ga. 30249; 1-800-554-6001, 404-466-2208.

APRIL 15-17. 1985 Trustees and Administrators Institutes in Miami, sponsored by The International Foundation of Employee Benefit Plans; $420 for members; $495 for non-members. Also **June 17-19** in Lake Tahoe, Nev., and **Sept. 23-25** in Banff, Alberta, Canada. Contact Registration Department, IFEBP, P.O. Box 69, Brookfield, Wis. 53008-0069.

APRIL 15-19. Safety in Chemical Operations course in Chicago, sponsored by the Safety Training Institute of the National Safety Council; $595 for members; $740 for non-members. Registrar, Safety Training Institute, National Safety Council, 444 N. Michigan Ave., Chicago, Ill. 60611; 312-527-4800.

APRIL 16. Surety Claims '85—New Directions in Suretyship conference in Seattle, sponsored by CMA Consulting Group; $230. Also, **April 18** in Dallas, **April 30** in Hartford, Conn. Arlene Brower, Conference Coordinator, CMA Consulting Group, 170 E. Hanover Ave., Morristown, N.J. 07960; 201-267-7171.

APRIL 16. NYPHRM, DRGs or What? conference in New York, sponsored by The New York Group on Health Inc.; $10 for members; $25 for non-members. Write or call Registrar, The New York Business Group on Health Inc., 1633 Broadway-46th Floor, New York, N.Y. 10019; 212-397-1260.

APRIL 17-19. Systematic Incident Investigation seminar in Sacramento, Calif., sponsored by the International Loss Control Institute; $420. Those interested should contact the Registrar, ILCI, P.O. Box 345, Loganville, Ga. 30249; 1-800-554-6001, 404-466-2208.

APRIL 18. Resource Conservation and Recovery Act seminar in Washington, sponsored by the Hazardous Waste Treatment Council and The Environmental Defense Fund; $295; $275 for subsequent registrants from same company. Those interested should contact Richard Fortuna, HWTC, 1919 Pennsylvania Ave. N.W., Washington, D.C. 20006; 202-296-0778.

APRIL 18-19. Third Annual Financial Services institute in New York, sponsored by the Practising Law Institute; $390. Write Registrar, 810 Seventh Ave., New York, N.Y. 10019; 212-765-5700.

APRIL 18-19. Lessons from Success conference in Washington, sponsored by The American Assn. of Preferred Provider Organizations and Health Care Competition Week; $445 members or subscribers; $490 for non-members or non-subscribers. Contact the Conference Registrar, AAPPO, 4301 Connecticut Ave., NW #139, Washington, D.C. 20008.

APRIL 18-19. A Brief Course in Reinsurance in New York, which is being sponsored by The College of Insurance; $145. Those interested should contact Laura Mckeon, Professional Development Programs, The College of Insurance, One Insurance Plaza-101 Murray St., New York, N.Y. 10007; 212-962-4111.

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Business Insurance

Circulation Breakdown*

Commercial Consumers

Administrative:

CEO's presidents and owners 2,513
Vice-presidents, general managers and other administrative personnel ... 2,573

Financial:

Chief financial officers and vice-presidents of finance 2,168
Secretaries, treasurers, controllers and other financial personnel 7,167

Risk/employee benefits:

Vice-presidents, directors, managers, and other related department personnel of: insurance, risk, employee benefits, personnel, compensation, pension, safety, security, industrial relations, human resources and employee/labor relations 8,206

Sub-total 22,627

Associations 1,081
Government, unions and educational systems 944

Commercial Consumers

Sub-total 24,652

Insurance agents and brokers 9,524
Insurance companies 5,867
Financial institutions 556
Actuaries, attorneys, adjusters, appraisers and consultants 3,265
Others allied to the field, ... 1,143

TOTAL 45,007

* Source: Business/Occupational breakdown of qualified circulation, Nov. 5, 1984 issue, as submitted to BPA for Dec. 1984, BPA Publisher's Statement.

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Irish government takes control of insurer

Continued from page 1
business was written by ICI in 1984.

Mr. Dean said the losses were the result of "considerable underprovisioning for losses of previous years," rather than heavy claims activity in 1984.

Mr. Dean noted that Allied Irish Banks had injected 40 million Irish pounds ($37.2 million) in new capital into the insurer last year in an effort to strengthen ICI.

However, "It became apparent that the restoration of the insurance company to full health would require major funding and a substantial further investment," an Irish government statement reads. "Allied Irish Banks informed the authorities of the position and of the need for remedial action of the kind that is being taken.

"In the government's view, it would not be feasible for the parent company, Allied Irish Banks, to undertake the reorganization measure required."

Allied Irish Banks first purchased a 25% stake in the insurer in 1981 and acquired the remaining ICI shares in 1983.

"We certainly did not buy ICI because it was in trouble," Mr. Dean noted. "We hear stories after the event. We thought then that it was the sixth-largest public company in Ireland."

When it sold the insurer to the government, Allied Irish Banks wrote off its 90 million Irish pound ($83.7 million) investment in ICI, said Mr. Dean. The bank has indicated it will sue the accounting firm of Ernst & Whinney, which audited ICI when the bank acquired it in 1983, to recover its losses.

ICI posted operating income of 600,000 Irish pounds ($558,000) in 1983, the year the bank purchased the insurer. ICI's property/casualty gross premiums written totaled 389 million Irish pounds ($361.8 million) in 1983. Underwriting losses totaled 15 million Irish pounds ($14 million), which was offset by 15.9 million Irish pounds ($14.8 million) in investment income. Including other gains, ICI posted a pretax profit of 2 million Irish pounds ($1.86 million).

Any funds needed to cover losses at ICI will be provided by the government under the the Irish Insurance (No. 2) Act of 1983, said the spokesman for Mr. McCann.

About 60% of the business written by ICI was coverage for risks outside Ireland, and much of that business was written by ICI's London office.

"ICI took a lot of business in the London market," said Hamish Ritchie, chief executive of broker Bowring U.K. Ltd. in London, an affiliate of Marsh & McLennan Cos. Inc.

Bowring has not yet decided whether it will continue to place business with ICI. "If they are supported lock, stock and barrel by the Irish government, I think we will consider them secure. .and have ICI write business."

Broker support for ICI may depend on what types of lines ICI continues to write, Mr. Ritchie said, noting ICI had been a leading market for excess coverages and reinsurance.

However, ICI's troubles is making at least one U.S. broker reluctant to deal with the insurer.

"Quite frankly, I would be reluctant to use them even though the Irish government is backing them," noted Earl R. Lanning, vp in charge of surplus lines operations at The Crump Cos. Inc. in Memphis, Tenn.

Mr. Lanning had done some business with ICI, but stopped placing business with the insurer when it stopped underwriting through its U.S. branch.

Another U.S. broker, who asked not to be named, said the Irish government's guarantee is a good one and it lessens what could be "far-reaching repercussions." ■

South Carolina selects regulator

COLUMBIA, S.C.—John G. Richards, who has been the acting insurance commissioner in South Carolina for several months, is assuming that role on a permanent basis.

Mr. Richards, 35, was named insurance commissioner March 7. He replaced Rogers T. Smith, who retired Jan. 31 for health reasons (*BI*, Feb. 4).

"During the extended illness of former Commissioner Smith, Mr. Richards demonstrated the administrative abilities and insurance expertise required of the office," said Thomas E. Rogers Jr., chairman of the state Insurance Commission, which appointed Mr. Richards.

"Mr. Richards' 13 years of experience in working with insurance has prepared him well for the challenges that are ahead in dozens of areas of insurance that are supervised by the Department of Insurance," Mr. Rogers said.

In addition to being insurance commissioner, Mr. Richards is now chairman of the Board of Governors of the South Carolina Automobile Insurance Reinsurance Facility, the Medical Malpractice Joint Underwriting Assn. and the Patients' Compensation Fund.

Mr. Richards joined the South Carolina department in 1973 and has served as deputy commissioner. Before that, he was legislative assistant to former Gov. John C. West.

Mr. Richards has an undergraduate degree in political science from The Citadel in Charleston. He has done graduate work in political science and has attended the University of South Carolina School of Law. ■

Eakin to assume post in Indiana

INDIANAPOLIS—Harry E. Eakin, who has done "a little bit of everything in insurance at one time or another," is going to try his hand at regulation starting April 1, when he becomes Indiana's insurance commissioner.

Mr. Eakin, 58, was appointed to replace Don H. Miller, who is retiring from the post he's held since 1981 (*BI*, Feb. 25).

For the past six years, Mr. Eakin has worked in Marion County as the county auditor, which is an elected position. He also was president of the Speedway Town Board for seven years.

Mr. Eakin also had worked for various insurance companies for some 29 years, including Lincoln National Life Insurance Co. ■

Insurer results

Continued from page 1

cause the severe underwriting losses have eliminated much of the need for non-taxable income.

- Net written premiums grew by 8% to $47.9 billion for the year, compared with an increase of 6.8% for the first nine months.
- Policyholders surplus for the 24 companies reporting the data declined to $14.7 billion, down 3.7% from $15.2 billion at the nine-month mark, and down 8.3% from the end of 1983.
- Net operating income declined 52.4% in 1984 to $1.6 billion, compared with a 51.8% decline during the nine months. Only six of the 28 companies reporting posted improved operating results for the year.

The entire U.S. property/casualty industry suffered a larger drop in income during 1984 than the commercial insurers surveyed by *BI*, although the industry as a whole posted a better combined ratio, according to the Insurance Services Office Inc. and the National Assn. of Independent Insurers. Those statistics represent the results of insurers that account for 97% of the country's property/casualty insurance business.

According to the ISO/NAII report, the industry generated $1.94 billion in net aftertax income in 1984, down 68% from 1983's net income of $6 billion. This includes income from capital gains, which is not included in *BI's* figures.

The industry as a whole had a 117.4% combined ratio for 1984, compared with a 111.9% combined ratio for 1983. The industry's policyholders surplus declined 2.2% to $61.9 billion.

Industry analysts point out that 1984 insurer operating results are really even worse than these figures indicate.

"What earnings there were for many companies consisted of, where they were left, tax benefits, creative investment strategies and income from sources other than property/casualty insurance," says Ms. Stewart.

Continental Corp., for instance, reported $102.4 million in aftertax operating income in 1984 because of a $129.5 million tax credit, says Mary E. Leary, manager of corporate research for Continental. The insurer's property/casualty operations generated a $48.4 million pretax loss last year.

And while American General Corp. reported total operating income of $424 million, it actually lost $60 million on its property/casualty operations. The bulk of its earnings came from life insurance, according to company figures.

Analysts note that one factor leading to increased property/casualty rates is the exhaustion of many insurers' deferred tax liabilities. Underwriting improved when insurers discovered they could no longer cut their losses in half by tapping deferred tax credits, says David P. Wells, an analyst with Merrill Lynch Pierce Fenner & Smith in New York.

And, observers say, improving pricing will be an ongoing process. Overall rates may not jump by as large a percentage in 1985 as they did in 1984, but the hikes will continue, predicts David Anthony, an analyst with Smith Barney Harris Upham & Co. Inc. in New York.

Company officials agree more increases are needed. Seattle-based SAFECO plans 25% average increases this year, says George P. Yonker, assistant controller. And, he adds, "I don't think even that is going to be enough."

The industry has experienced several years of rate cutting and "you can't make that up overnight," says Paul J. Robitaille, director of investor relations for American International Group Inc., which plans to continue to seek rate increases.

And, despite the continued improvement in pricing, the industry will not return to underwriting profitability any time in the near future, observers warn.

Unless there is a sharp decline in interest rates, causing cuts in investment income, insurance buyers will not allow the industry to charge the prices that would permit a return to underwriting profitability, says Thomas G. Rosencrants, research director of Conning & Co. in Hartford.

However, industry observers say the rate increases could lead to an improvement in their combined ratios of two to three percentage points in 1985, with even better results ahead in 1986.

C. David Mencer, controller of Ohio Casualty Co., says that in 1985, "We're looking for some pretty strong rate increases, and probably some modest improvement in operating results, but we don't expect to have a spectacular bounce-back."

The price increases also will mean a boost in written premiums. Gloria L. Vogel, vp of Legg Mason Wood Walker in New York, estimates there will be an increase of 12% to 15% in premiums written this year.

But, observers say that, with many insurers' policyholder surplus declining, there has been increasing concern about maintaining a proper premium-to-surplus ratio. And the decline in policyholders surplus is likely to continue through 1986, says Mr. Rosencrants of Conning & Co.

Insurers have found themselves in a kind of "Catch-22" situation, says Ms. Stewart. They need the increased rates, but to maintain a proper premium-to-surplus level, they are forced to write less business.

The solution, say observers, is for firms to "go to market" in an attempt to raise cash and boost their surplus.

Some already have. The Travelers Corp., for instance, filed a registration statement with the Securities and Exchange Commission to offer 4 million shares of convertible, exchangeable preferred stock. The stock offering is expected to raise $200 million, a Travelers spokesman says.

In a similar proposal, Chubb Corp. has filed a preliminary prospectus with the SEC to issue 3 million shares of convertible, exchangeable preferred stock expected to gross $150 million. The money will be used to strengthen the insurer's capital base and enable it to take advantage of opportunities in the improving market, says a Chubb spokesman.

In addition, The St. Paul Cos. is in the process of issuing $100 million in Eurobonds, which are bonds sold on the European markets. The proceeds from the sale of those bonds will be added to the capital base of its major subsidiary, St. Paul Fire & Marine Insurance Co., a St. Paul spokesman says.

More such deals are expected, observers say. And as long as stock prices hold up, Mr. Rosencrants says, "We think there'll be a fairly steady parade over the next few months to raise additional equity capital."

And, with insurance stocks now selling at a premium, insurers would be foolish not to take advantage of this opportunity to raise additional capital, comments Michael A. Lewis, a vp and financial stock analyst at E.F. Hutton in New York.

Not everyone will be going to market, though. As a mutual company, Sentry Insurance Cos. cannot raise equity cash, says Bernard C. Hlavac, vp and treasurer. But, it still intends to seek premium increases.

"We're just going to have to be under a temporary strain on our premium-to-surplus ratio," he says.

Some analysts also believe there is less capacity in the marketplace.

"There are very strong indications that a capacity crunch is developing," says Ms. Vogel of Legg Mason Wood Walker. This is particularly true of the reinsurance and specialty markets, Ms. Stewart says.

But, Sean Mooney, economist with the Insurance Information Institute in New York, doesn't think that capacity is leaving the market. Instead, he says, companies are becoming involved in "premium-cap underwriting," setting limits as to how much business they will write.

"But then, other companies are coming in and picking up the good risks that are available," he says.

One problem that observers expect the industry to escape in 1985 is last year's estimated 16% jump in incurred losses. Mr. Mooney blames the increase on bad underwriting decisions made in prior years.

"The chickens came home to roost in '84," he says, predicting there will be a 10% jump in incurred losses this year.

Denis J. Callaghan, first vp of New York-based Paine Webber Mitchell Hutchins Inc., who estimates a 13.1% increase in 1985, says the expanding economy also was a factor in the jump.

But, a continuing cause of concern has been the level of reserves. Companies that boosted reserves in the fourth quarter included Travelers, which added $100 million in reserves for losses related to toxic substances; AIG, which boosted its reserves by $193 million; and St. Paul Cos., which increased its reserves by $177.3 million.

Despite such actions, though, many observers believe the industry overall remains under-reserved.

"We think reserves are in horrendous shape," says David O'Leary, director of research at Hartford-based Fox-Pitt, Kelton. "The industry still hasn't 'fessed up to its reserves shortage."

"Much of the rate increases are to pay for inadequate loss reserves," and therefore not all the increases will show up on the bottom line, according to Conning's Mr. Rosencrants.

Other tactics used by insurers to boost bottom line results include put options, loss portfolio transfers, sale lease-back arrangements, discounting loss reserves and terminating overfunded pension plans.

In a put option transaction, a property/casualty insurers sells municipal bonds to another company for their cost plus a small premium. The buyer is also given a "put," entitling it to sell the bonds back to the insurer after a period of time.

The insurer then takes the proceeds of the sale, invests them in taxable instruments and eventually buys back the municipal bond. By taking this approach, insurers

Continued on facing page

Summary of major property/casualty insurers' 1984 results

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

		Corporate			Property/casualty operations									
Rank 1984		Consolidated revenues 1984	Aftertax[1] operating income 1984	Percent increase (decline) 1983-1984	Combined[1] ratio 1984	Combined[1] ratio 1983	Net premiums written 1984	Percent increase (decrease) 1983-1984	Pretax underwriting income (loss) 1984	Percent increase (decline) 1983-1984	Pretax investment income 1984	Percent increase (decrease) 1983-1984	Policyholders surplus 1984	Percent increase (decrease) 1983-84
1	The Continental Corp.	4,641,047	102,408	606.3	116.5	117.4	2,615,014[2]	8.9	(400,451)	7.2	356,063	19.1	1,008,061	7.7
2	American General Corp.	5,362,000	424,000	46.2	131.0[2]	115.1[2]	1,023,000	5.2	(306,000)	(161.5)	130,000	2.4	506,000	(16.8)
3	Fireman's Fund Ins. Cos.	4,025,158	42,820	42.2	121.1	126.0	2,834,432	1.9	(598,155)	(15.0)	403,734	(2.8)	928,577	16.7
4	Old Republic Int'l (inc. life)[3]	521,300	61,606	20.8	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
5	Fremont General Corp.	419,046	(13,947)	1.8	130.2	129.9	311,812	29.0	(89,317)	(21.4)	55,934	29.7	144,159	15.9
6	The Travelers Corp. & subs.	13,476,700	346,100	1.0	121.0	112.9	3,275,300	13.4	(662,100)	(88.2)	274,800	0.7	924,700	(21.8)
7	CNA Financial Corp.	3,738,800	138,300	(4.2)	126.2	119.7	1,899,300[2]	21.1	(533,900)[2]	(56.1)	468,300[2]	16.7	1,066,300	1.8
8	SAFECO Corp.	1,942,178	113,326	(15.0)	110.2	103.1	981,060	10.5	(96,363)	(258.6)	112,397	6.6	413,428	(16.2)
9	Reliance Ins. Co. & subs.	2,048,938	55,672	(17.9)	113.4[2]	109.9[2]	1,292,237	9.7	(138,436)	(58.9)	171,902	4.4	595,711	2.1
10	Chubb Corp.	2,033,600	68,600	(18.7)	115.5[2]	108.8[2]	1,421,600	14.5	(213,300)	(101.4)	161,700	22.1	525,442	32.1
11	American International Group	4,280,990	317,438	(25.7)	109.8	100.8	2,513,303	2.9	(248,538)	(945.1)	327,688	2.1	N/A	N/A
12	Aetna Life & Casualty Co.	15,411,000	182,500	(43.9)	118.5	113.6	4,022,600	9.4	(653,800)	(41.7)	522,300	8.8	1,270,406	(23.7)
13	USF&G Corp.	2,839,400	93,300	(45.6)	123.1[2]	116.6[2]	2,296,100[2]	15.5	(512,500)	(54.6)	443,000	22.1	653,200	16.2
14	Ohio Casualty Corp.	930,564	30,026	(46.1)	113.3[2]	107.0[2]	886,335[2]	5.2	(116,391)	(95.8)	104,261	16.1	341,761	(19.8)
15	Hartford Insurance Group	5,724,111	105,153	(54.6)	122.0	114.0	3,098,951	2.8	(640,935)	(53.9)	456,238	1.2	1,192,132	(13.5)
16	General Re Corp.	1,842,442	72,172	(62.4)	127.0[2]	107.1[2]	1,065,380	18.1	(272,629)	(472.5)	218,692	15.5	709,597	(15.1)
17	Kemper Corp.	2,301,773	24,723	(63.8)	120.4	112.2	650,296	(24.2)	(138,568)	(33.4)	76,835	4.5	295,331	(12.7)
18	Hartford Steam Boiler	259,839	6,332	(74.5)	115.9	98.2	173,641	11.8	(25,227)	(1,034.7)	20,908	20.9	112,046	(39.5)
19	CIGNA Corp.	14,775,226	38,459	(90.4)	128.3[2]	121.3[2]	4,074,141	15.4	(1,173,556)	(45.8)	589,297	4.3	1,471,300	22.3
20	Sentry Ins. Cos.[2]	476,901	(626)	(101.5)	115.4	104.6	837,584	13.6	(133,597)	(213.1)	97,630	8.2	187,466	(26.1)
21	Crum & Forster Inc.	2,482,071	(50,507)	(146.2)	124.8	113.5	2,099,243	11.5	(528,241)	(103.6)	331,405	8.4	667,066	27.3
22	The Home Group Inc.	2,106,140	(61,358)	(168.9)	136.4	120.5	1,546,393	(1.8)	(564,425)	(69.4)	316,789	2.4	552,508	(20.7)
23	Royal Group (U.S. subs.)[2]	N/A	(106,000)	(194.4)	120.0	114.0	1,288,000	3.4	(258,000)	(50.0)	191,000	6.7	N/A	N/A
24	The St. Paul Cos. Inc.	2,359,141	(196,794)	(269.6)	131.0	113.5	1,894,355	8.6	(572,542)	(147.7)	319,357	16.6	637,925	(17.6)
25	Mission Ins. Group Inc.	511,515	(200,432)	(1,221.7)	161.2	124.7	430,660	7.4	(256,387)	(163.7)	55,643	18.6	43,399	(81.4)
—	Liberty Mutual Ins. Co.	N/A	N/A	N/A	117.5	114.3	3,007,834	6.5	(381,522)	(74.5)	535,140	4.9	N/A	N/A
—	Commercial Union Ins. (U.S.)	N/A	N/A	N/A	128.1[2]	123.9[2]	1,215,500	(10.1)	(332,700)	(4.0)	172,700	(8.9)	406,700	(18.6)
—	Wausau Insurance Cos.	N/A	N/A	N/A	132.7	112.0	1,157,749	13.0	(376,269)	(192.4)	153,839	2.0	N/A	N/A
	Cumulative	94,509,880	1,593,271	(52.4)	122.1	114.7	47,911,820	8.0	(10,223,849)	(62.3)	7,067,552	7.6	14,653,215	(8.3)

[1] After dividends. [2] Statutory. [3] Before dividends. N/A—Company did not provide data.

Continued from facing page

avoid dipping into their policyholders surplus.

USF&G and Ohio Casualty were among the first firms to use put option deals. The Hartford also participated in these transactions, including one $133 million transaction in December and an additional $124.7 million transaction about two weeks ago, says a Hartford spokesman.

In a loss-portfolio transfer, an insurer pays another underwriter to assume a portion of its reserves and the attendant liabilities. Typically, the seller of the reserves pays the buyer less than the amount of liability because the buyer can earn investment income on the reserves before future claims must be paid.

Mission Insurance Group Inc. received a $75 million infusion from its major shareholder, American Financial Corp., in part through the use of a loss portfolio transfer (*BI*, March 18).

In a sale lease-back arrangement, a company sells a building with the condition that it can lease it for an agreed-upon period of time, and then invests the proceeds. Fireman's Fund Insurance Cos. is among those insurers who recently put through a sale lease-back transaction, raising $145 million (*BI*, Jan. 28).

Firms that have discounted loss reserves include General Re Corp., which boosted its shareholder's equity by $94 million by discounting its tabular casualty reserves, predominantly workers compensation, using a 4.5% interest rate.

Wausau Insurance Cos., Chubb Corp. and The Home Insurance Co. expect to gain more than $264.5 million by terminating their overfunded pension plan and purchasing annuities to pay benefits to participants (*BI*, Feb. 25).

These efforts can be expected to continue —and others can be expected to develop—as companies struggle to improve their bottomline results in 1985, according to some analysts.

"Who knows what the next gimmick that they'll come up with will be?" asks E.F. Hutton's Mr. Lewis.

"I'm sure they'll come up with something." ■

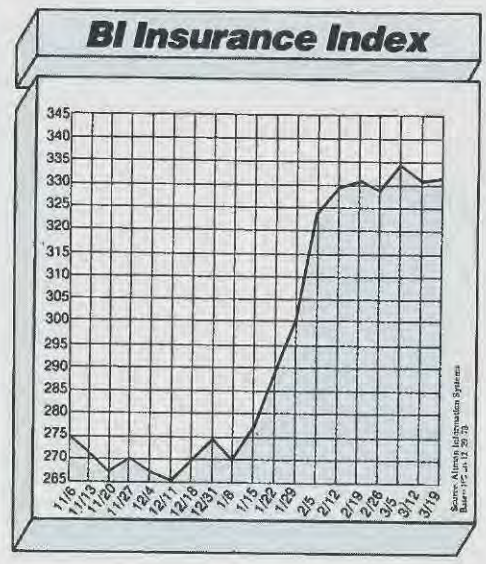
BI Industry Stock Report

March 19, 1985 3/13/85 thru 3/19/85

Brokers		Price	% Chg.	P/E	$ Div.	% Yld.	High	Low	Vol.(000)
Alexander & Alexander Svcs	NYSE	29.88	-2.8	331.9	1.00	3.3	30.63	29.88	403.6
Baldwin & Lyons Inc	OTC	54.00	0.9	11.5	0.80	1.5	54.00	53.00	8.4
Corroon & Black Corp	NYSE	42.00	0.0	33.1	1.00	2.4	43.13	42.00	80.2
Crump E H Cos Inc	OTC	26.00	-2.3	21.8	0.44	1.7	26.75	26.00	115.5
Emett & Chandler Cos Inc	OTC	14.75	0.0	0.0	0.00	0.0	14.75	14.75	0.2
Gallagher Arthur J & Co	OTC	37.75	-0.7	23.7	0.28	0.7	37.75	37.75	19.0
Hall Frank B & Co Inc	NYSE	26.13	-1.9	50.2	1.00	3.8	26.25	25.88	70.5
Marsh & Mclennan Cos Inc	NYSE	62.88	-2.5	38.8	2.40	3.8	64.38	61.00	338.8
Poe & Assoc Inc	OTC	8.25	0.0	0.0	0.00	0.0	8.25	8.25	1.1
Reed Stenhouse Cos Ltd	OTC	24.75	0.5	35.4	0.60	2.4	25.00	24.25	142.4
AGENTS/BROKERS	AVERAGE			29.4		2.3			
Conglomerates & Holding Cos.									
American Express(Fireman's Fd)	NYSE	42.00	1.5	15.1	1.28	3.0	42.00	40.38	3,589.6
Anderson Clayton(Ranger/PanAm)	NYSE	39.00	2.6	20.1	1.32	3.4	39.00*	38.00	36.3
Armco Inc	NYSE	9.50	0.0	0.0	0.00	0.0	9.63	9.25	348.5
Berkley W R Corp	OTC	15.25	1.7	0.0	0.32	2.1	15.50	15.00	45.4
CIGNA Corp	NYSE	48.63	-1.8	442.0	2.60	5.3	48.88	48.50	995.4
City Investing Co. (Home Ins.)	NYSE	38.38	-1.0	9.2	0.00	0.0	38.50	38.38	416.0
CNA Finl Corp (CNA)	NYSE	36.75	-2.0	15.2	0.00	0.0	37.75	35.50	76.5
General Re Corp	NYSE	72.75	1.4	45.5	1.56	2.1	73.13	72.25	366.5
ITT (Hartford Group)	NYSE	31.88	1.6	10.7	1.00	3.1	32.38	31.00	2,962.8
Optimum Hldg Corp	OTC	0.50	0.0	0.0	0.00	0.0	0.50	0.50	5.0
Sears Roebuck & Co. (Allstate)	NYSE	34.88	-0.4	8.7	1.76	5.0	34.88	33.88	1,985.5
Teledyne Inc (Argonaut)	NYSE	255.88	-2.0	14.0	0.00	0.0	260.00	255.88	159.7
Transamerica Corp (Occidental & Fred S. James)	NYSE	29.00	-1.3	12.5	1.64	5.7	29.25	28.88	438.6
CONGLOMERATES/HOLDING COS.	AVERAGE			21.8		1.8			
Insurers									
Aetna Life & Cas Co	NYSE	40.00	-2.4	25.2	2.64	6.6	40.13	39.75	842.5
American General Corp	NYSE	28.00	-4.7	9.3	1.00	3.6	28.63	28.00	561.6
Amern Heritage Life Invt Co	NYSE	31.50	-2.3	9.5	1.08	3.4	32.25	31.50	3.5
American Indty Finl Corp	OTC	17.75	-1.4	0.0	1.12	6.3	18.00	17.75	0.8
American Intl Group Inc	NYSE	69.75	-2.6	16.3	0.44	0.6	70.75	69.63	837.4
Aneco Reins Ltd	OTC	1.50	0.0	0.0	0.00	0.0	1.50	1.50	7.9
Avemco Corp	NYSE	25.25	-1.5	12.3	0.60	2.4	25.50	25.13	10.5
Bitco Corp	OTC	13.50	0.0	0.0	0.40	3.0	0.00	0.00	0.0
Business Mens Assurn Co Amer	OTC	54.25	3.8	6.8	2.08	3.8	54.25*	52.75	20.1
Chubb Corp	NYSE	58.00	-1.3	16.5	2.20	3.8	58.50	56.88	184.8
Combined Intl Corp	NYSE	42.63	-2.6	8.6	2.16	5.1	43.63	42.38	182.9
Continental Corp	NYSE	41.13	0.3	21.3	2.60	6.3	41.13	40.63	752.1
Crown Life Ins Co	OTC	120.00	0.0	12.4	5.00	4.2	120.00	120.00	0.5
Durham Corp	OTC	40.00	0.0	7.7	1.28	3.2	40.00	40.00	5.8
Farmers Group Inc	OTC	56.13	0.4	10.2	1.76	3.1	56.13	55.88	376.8
Fremont Gen Corp	OTC	25.63	4.1	0.0	0.48	1.9	25.63*	24.50	858.7
Great West Life Assurn Co	OTC	350.00	0.0	9.4	14.00	4.0	350.00	350.00	0.0
Hanover Ins Co	OTC	35.75	-0.7	33.1	0.56	1.6	36.00	35.50	17.8
Hartford Steam Boiler Inspctn	OTC	77.00	10.0	68.7	3.00	3.9	77.00*	70.50	40.7
Kans City Life Ins	OTC	83.00	0.0	9.5	2.88	3.5	83.00	83.00	2.8
Kemper Corp	OTC	50.50	0.0	29.4	1.80	3.6	50.50	50.38	69.0
Liberty Corp S C	NYSE	31.25	2.9	15.0	0.72	2.3	31.25	30.63	40.0
Lincoln Natl Corp Ind	NYSE	42.00	2.8	11.1	1.84	4.4	42.00	40.00	239.1
Mission Ins Group Inc	NYSE	7.75	-11.4	0.0	0.50	6.5	9.00	7.75	350.2
Monumental Corp	OTC	30.00	0.4	12.5	1.30	4.3	30.00	29.50	41.5
Northwestern Natl Life Ins	OTC	35.75	2.1	8.3	0.80	2.2	36.13*	35.00	173.1
Ohio Cas Corp	OTC	51.25	-1.2	19.3	2.80	5.5	51.88	51.25	60.1
Old Rep Intl Corp	OTC	35.00	-0.4	6.8	0.88	2.5	35.13	34.75	61.9
Orion Cap Corp	NYSE	24.00	-1.5	266.7	0.76	3.2	24.13	23.38	251.8
Protective Corp	OTC	21.50	-4.4	7.3	0.62	2.9	22.00	21.25	138.7
Provident Life & Acc Ins Co	OTC	97.00	0.0	7.0	3.38	3.5	98.00	96.50	5.3
St Paul Cos Inc	OTC	56.50	0.9	0.0	3.00	5.3	56.50	55.88	263.3
SAFECO Corp	OTC	34.75	-0.4	11.4	1.50	4.3	34.88	33.88	234.2
Sri Corp	OTC	17.50	8.5	29.7	0.68	3.9	17.50	16.63	113.8
Seibels Bruce Group Inc	OTC	24.25	-5.8	0.0	0.80	3.3	25.63	24.00	46.9
Statesman Group Inc	OTC	6.50	4.0	9.7	0.15	2.3	6.50	6.25	44.2
Tokio Marine & Fire Ins Co	OTC	175.50	12.9	30.4	1.05	0.6	175.50*	161.25	20.2
Torchmark Corp	NYSE	41.75	0.9	9.9	1.00	2.4	42.75	41.75	1,000.3
Travelers Corp	NYSE	41.25	-4.1	10.0	2.04	4.9	41.63	41.00	702.9
United Fire & Cas Co	OTC	24.00	0.0	0.0	0.80	3.3	24.00	24.00	0.1
United States Fid & Gty Co	NYSE	31.50	-0.4	18.3	2.20	7.0	31.50	30.88	3,469.1
Uslife Corp	NYSE	40.13	4.9	9.2	1.04	2.6	40.25*	38.63	608.1
Washington Natl Corp	NYSE	27.63	-0.5	8.6	1.08	3.9	27.75	27.38	92.8
Zenith Natl Ins Corp	OTC	12.75	-1.9	23.2	0.68	5.3	13.00	12.75	14.7
INSURANCE COMPANIES	AVERAGE			16.1		3.5			

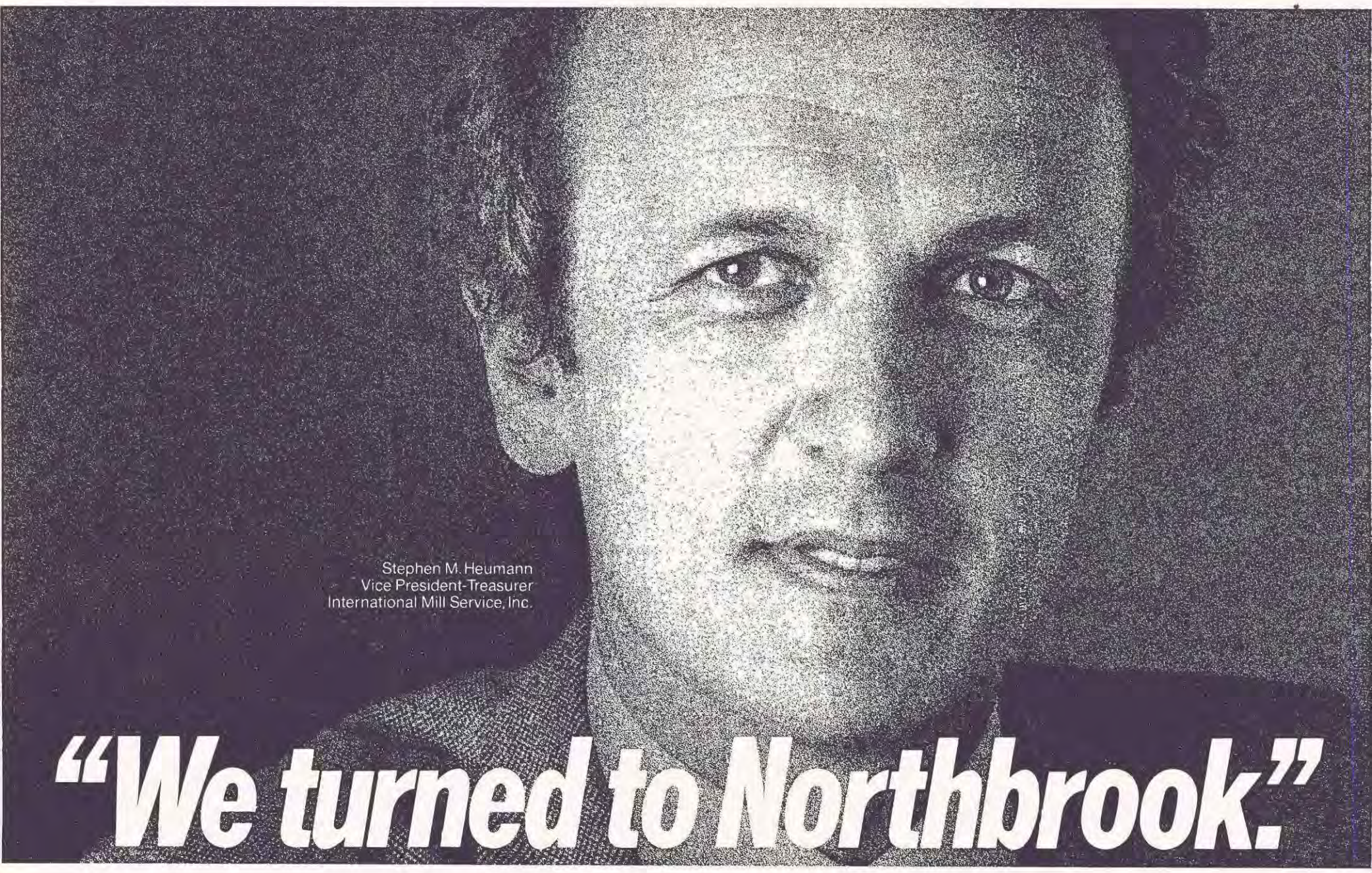
System design: Altman Information Systems

BI Insurance Index



The *BI* index of insurance industry stocks rose slightly for the period ending March 19, after a decline the previous week. The *BI* index closed at 331.9 on March 19, up 0.3 points from 331.6 on March 12. In all, 19 stocks rose, 24 fell, and 15 were unchanged. The biggest gains were by Tokio Marine & Fire Insurance Co., up 12.9%; Hartford Steam Boiler Inspection & Insurance Co., up 10%; SRI Corp., up 8.5%; and USLIFE Corp., up 4.9%. The biggest losses were by Mission Insurance Group Inc., down 11.4%; American General Corp., down 4.7%; Protective Corp., down 4.4%; and Travelers Corp., down 4.1%. The *BI* index rose 0.1% for the period; the NYSE composite fell 0.1%.

Where does a company that turns waste into profits find efficient insurance protection?



"We turned to Northbrook."

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Together, IMS and Northbrook worked out a loss-sensitive pricing program. Essentially, it enabled IMS to operate much like a self-insured.

According to Stephen Heumann, "What that did was increase employee incentive toward loss reduction. And with continued employee involvement, plus strong, ongoing communication between IMS and Northbrook, the program continues to get better and better."

Take a lesson from IMS. See if the innovative Northbrook approach to pricing can make your insurance protection more efficient. Call your nearest Northbrook agent or broker today.

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