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update

Underwriters deny reports they have deal to sell probes

LONDON—Satellite underwriters deny reports they have agreed in principle to sell two salvaged satellites to TERESAT Inc. of Houston.

The main satellite underwriters—Stephen Merrett, chairman of Lloyd's of London's Merrett Syndicates Ltd., and James Barrett, president of International Technology Underwriters Inc. in Washington—said the reports were untrue. The underwriters now

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States challenge status of 'purchasing group'

By DOUGLAS McLEOD

NEW YORK—Insurance departments in two states are challenging the status of a Florida-based company that claims to be operating under the federal Risk Retention Act.

The Florida Insurance Department has ordered Boca Raton-based Dyna Span Corp. and two agencies representing it to show cause why they should not be subject to administrative action for possible violations of Florida insurance law.

The Florida department says Dyna Span is not authorized to engage in the insurance business in Florida and that it may not qualify under the Risk Retention Act as a company exempt from state regulation.

Meanwhile, Michigan Insurance Commissioner Herman W. Coleman has ordered Dyna Span to stop issuing policies in the state, charging that it is not authorized to do so under the Risk Retention Act.

In addition, Delaware Insurance Commissioner David N. Levinson said in a memo sent to all state commissioners last week that Dyna Span's status as a "purchasing group" does not allow it to retain any risk itself but only to purchase insurance for its members from a licensed insurer.

Regulators in Florida and Michigan say that Dyna Span has retained risk on policies it has issued.

Only a handful of groups have formed under the Risk Retention Act, which permits businesses to secure coverage for product liability risks by purchasing insurance as a group or forming an insurance company to pool their risks. Such groups are largely exempt from state insurance regulation.

Last month, two senators said they will introduce legislation to expand the act to permit group purchase of insurance or pooling to cover all commercial casualty risks except worker compensation (*BI*, Feb. 24).

Dyna Span—which claims to be a "purchasing group" exempt from state law—has been selling product liability, insurance agents' errors and omissions and liquor law liability insurance at below-market rates in several states—including Florida, Michigan, New Jersey and North Carolina—since last August.

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Law firm has coverage for $40 million settlement

By STEPHEN TARNOFF

SAN DIEGO—A prominent New York-based law firm has enough liability coverage to pay a $40 million settlement it recently reached with hundreds of investors who filed malpractice claims against it stemming from its representation of a fraudulent investment firm.

The law firm, Rogers & Wells, has $70 million in coverage to pay what some believe is the largest legal malpractice settlement ever.

The settlement was announced Feb. 21 with about 350 former investors in J. David & Co. in San Francisco who have sued to recover more than $145 million in losses from Rogers & Wells and other firms formerly representing J. David enterprises.

The Rogers & Wells settlement also relieves RBH of Northern California of a guarantee to pay settlements of $1.8 million.

Plaintiff attorneys say that investors actually suffered losses of about $100 million.

The settlement will give investors 40-45 cents on the dollar and still leaves major defendants from whom the plaintiffs can seek to recover the rest of their losses.

Rogers & Wells was paid between $700,000 and $900,000 for the work it did for J. David companies, said a plaintiff's attorney.

J. David Dominelli, who founded the investment firm, was convicted of investment fraud in 1985.

Malpractice insurance purchased by Rogers & Wells included a $250,000 deductible and was written in four layers with the first $20 million layer led by underwriters at Lloyd's of London, according to a source knowledgeable about the litigation.

In addition, the primary layer contains numerous other insurers including Wausau International Underwriters in San Francisco, an excess and surplus lines subsidiary of Employers Insurance of Wausau, a spokesman for the insurer confirmed.

The excess layers also were written by numerous insurers, sources say.

The coverage was brokered by J.H. Minet in Montreal, sources said.

The Rogers & Wells settlement also relieves insurance broker Rollins Burdick Hunter of Northern California, also a defendant in the lawsuits, of a guarantee to pay $1.8 million to two of the investor groups under a prior settlement it reached with them. RBH, which still faces claims from a third group of investors for its role as insurance broker for J. David, guaranteed the $1.8 million to the investors if they did not settle with any of the other defendants remaining in the litigation.

The approximately 350 claims filed in the litigation still remain against various other defendants, including the accounting firm of Laventhol & Horwath and two other law firms.

Last week, an attorney for Rogers & Wells would not comment on the firm's insurance but said the settlement would not have an adverse financial impact on the firm.

"It will not have any effect on the business of Rogers & Wells or have any adverse economic affect on the firm or its partners," said Dennis Kinnaird, an attorney with the Los Angeles firm of Munger, Tolles & Olson.

Mr. Kinnaird said Rogers & Wells entered the settlement after weighing the cost of settlement against the cost of defending itself in 350 separate lawsuits.

"The costs and uncertainty of litigation, as well as the

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Consultants blast pension tax sanctions

By JERRY GEISEL

WASHINGTON—Consultants are urging employers to lobby the Internal Revenue Service to withdraw a notice announcing severe tax sanctions on thousands of companies that haven't amended pension and savings plans to comply with three federal laws.

The IRS said last month that employers would lose part of their tax deductions for plan contributions if they didn't meet an IRS deadline to amend their plans to comply with the laws: the Tax Equity and Fiscal Responsibility Act of 1982, the Deficit Reduction Act of 1984 and the Retirement Equity Act of 1984.

The deadline for most companies was Nov. 1, 1985, though it was later for others.

In some instances, some key employees such as corporate officers and workers who own a significant percentage of company stock will also be taxed on corporate contributions to their retirement benefits.

How tax deductions dwindle if compliance lags*

Month in which compliance date falls	Number of months elapsed between pension rules compliance date and filing plan amendments										
	1	2	3	4	5	6	7	8	9	10	11
Nov. 1985	95	90	85	80	70	60	50	40	30	20	10
Dec. 1985	95	90	85	75	65	55	45	35	25	15	5
Jan. 1986	95	90	80	70	60	50	40	30	20	10	
Feb. 1986	95	85	75	65	55	45	35	25	15	5	
March 1986 or later	90	80	70	60	50	40	30	20	10		

* Percent of contributions that are tax deductible

Chart: Holly Seguine, Amy Palmer

Companies that missed the deadline will have to file amended tax returns for 1984 to compensate for taking full deductions for pension contributions because some of the mandated plan changes were retroactive to 1984.

Employers that already have filed their 1985 tax returns also will have to prepare new returns to reflect the loss of some of their tax deductions for pension contributions.

Some companies will also have to send out revised income statements to key employees indicating how much additional taxable income now will be attributable to those employees. These employees will then have to file revised tax returns.

The IRS is calling its unprecedented sanctions "relief."

The service notes in Notice 86-3, to be published March 3, that employers that missed the filing date now have non-qualified pension plans. Non-qualification means, among other things, a complete loss of the employer's tax deduction for pension contribution, taxation of investment income generated by plan assets and taxing most participants—not just key employees—on plan contributions.

To avoid such severe penalties, employers can seek the "relief" laid out in Notice 86-3. Employers that file plan amendments under the procedure stated in the notice would lose only part—not all—of their tax deduction for plan contributions, interest earned by plan assets would not be taxable and non-key employees would not be taxed on employer contributions.

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update

Probe owners deny sale report

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own the salvaged probes.

Last week, TERESAT, a joint venture managed by Universal Satellite Corp. of New York, announced it had reached an agreement in principle to buy the satellites, the Westar VI and the Palapa B2. Henry A. Schwartz, president of Universal Satellite, said in a news release that TERESAT planned to relaunch the probes in 1987.

Mr. Schwartz last week told *Business Insurance* he had an unsigned agreement in principle with Intec for an option of about 120 days to purchase the satellites. He also said he has had discussions, but no agreement, with Mr. Merrett.

He said that under his offer, underwriters would receive about $50 million for the satellites. He plans to use the probes to provide shared telecommunications services to office center tenants.

"I have no doubt we will have a signed agreement with Intec in the next week and with Mr. Merrett in the next two weeks," Mr. Schwartz said.

But, Mr. Merrett said, "There is no deal, but Mr. Schwartz knows we are very willing to sell one or both of these satellites to any acceptable buyer who has the necessary finances." He said two other parties also are negotiating for the purchase of the satellites.

The underwriters, led by Intec and Merrett, paid $180 million in claims to Western Union Corp., the owner of the Westar, and the Indonesian government, owner of the Palapa, when the probes failed to reach proper orbit after they were launched aboard the space shuttle in February 1984. They paid an additional $10 million to fund the salvage operation in November 1984 (*BI*, Nov. 19, 1984).

Ceding firms join MIC bailout

LOS ANGELES—About seven additional companies that ceded business to Mission Insurance Co. have agreed to support the insurer's rehabilitation plan, according to Donald J. Greene of LeBoeuf, Lamb, Lieby & MacRae, the New York law firm representing a group of MIC's ceding insurers.

At least 12 companies or groups had agreed to the plan when it was submitted Feb. 11 to Los Angeles Superior Court (*BI*, Feb. 17).

Mission Insurance Group Inc. continues to lobby MIC's reinsurance policyholders and MIG's debtholders for support of the rehabilitation plan. "Everything is slowly fitting into place," reports Lawrence G. Becker, MIG's vp, secretary and general counsel.

Before approving the plan, California insurance regulators want agreements from companies due at least 70% of MIC's outstanding liabilities on reinsurance assumed business (*BI*, Feb. 24).

Meanwhile, James E. Evans, vp and general counsel at MIG investor American Financial Corp., and Ronald F. Walker, AFC president and an MIG director, have been meeting in New York with representatives of four MIG creditors that have filed a petition to place MIG into Chapter 11 bankruptcy.

James P. Heffernan, an attorney with Anderson, Russell, Kill & Olick in New York, representing the creditors, says the meetings have been "open, frank and constructive."

MIG's deadline to respond to the debtholders' bankruptcy petition has been postponed until March 5, Mr. Becker says.

Fireman's Fund stock to be sold

NEW YORK—American Express will reduce its stake in Fireman's Fund Corp. to as low as 11% from its current 41% through the sale of public securities, the company says.

American Express said Feb. 25 it plans a public offering of up to 10 million common shares of Fireman's Fund stock it now holds. The company also said it will sell warrants allowing investors to acquire up to 10 million more shares. The offering, which may be made as early as next month, is part of American Express' planned divestment of its interest in Fireman's Fund.

American Express and Fireman's Fund raised $906.4 million in late October from the sale of 35.2 million shares of Fireman's Fund stock (*BI*, Oct. 28, 1985).

American Express now owns about 27 million shares of Fireman's Fund's outstanding common stock. The sale of 10 million shares would reduce its stake to 26%. If all of the warrants are exercised, Amex would hold 7 million shares, or 11%. Proceeds of the sale will be used for "general corporate purposes," the company said.

Supreme Court upholds MPPAA

WASHINGTON—The federal law that allows multiemployer pension plans to demand huge payments from employers leaving underfunded plans is constitutional, the Supreme Court says.

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HMO proposal would affect employers' contributions

By DONNA DiBLASE

WASHINGTON—A proposed amendment to the federal HMO Act of 1973 would give employers and federally qualified health maintenance organizations greater flexibility in determining employer contributions to the plans.

The proposal was jointly submitted to the Department of Health and Human Services' Office of HMOs last week by the Washington Business Group on Health, a national employer group, and the Group Health Assn. of America, a national HMO organization.

'If this is what HMOs and purchasers want, it doesn't give me heartburn,' says Frank Seubold.

It is the first such agreement to be negotiated between employers and HMOs.

"This is an extremely important step for two reasons: First, because of the actual proposal we agreed upon, and second, because employers and HMOs have gotten together and worked out their problems," said Mark Joffe, associate counsel for the GHAA.

"This is really just the first step," said Dan Fritz, benefit program planning manager for Concord, Mass.-based Digital Equipment Corp. and head of the business group's subcommittee that negotiated the proposal.

But, he said, "The proposal hopefully will clarify the latitudes employers can use in developing their contributions."

HMO Act regulations require employers to contribute the same amount per employee toward HMO coverage that they contribute toward indemnity health plans. If the HMO premium is greater than the indemnity plan premium, employers can require workers choosing HMO coverage to pay the difference.

The proposal expands on these regulations, allowing employers to base their contributions on certain classes of employees and to require employee cost-sharing even when the HMO premium is not greater than the indemnity plan premium.

Employers have argued that employees participating in HMOs generally are younger and healthier, and therefore less likely to file medical claims, than other workers. For that reason, employers want to be able to contribute less to HMOs for their lower-risk employees than to indemnity plans.

The proposal deals with several ways employers and HMOs could negotiate employer contributions:

- Employers could separate employees into classes by age, sex, marital status, family size or other charac-

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BI's Fletcher receives ARM designation

CHICAGO—Meg Fletcher, a *Business Insurance* associate editor, now holds the Associate in Risk Management designation.

She recently completed three courses and national examinations in the program sponsored by the Malvern, Pa.-based Insurance Institute of America.

Ms. Fletcher, 37, of Hinsdale, Ill., joined *BI* in July 1984.



Ms. Fletcher

She previously worked as an associate news editor of the Herald-News in Joliet, Ill. Before that, she was a reporter for the Herald-News and The Argus in Fremont, Calif. She has also written for The Suburban Trib, which was published by the Chicago Tribune.

She graduated from Northwestern University in Evanston, Ill., with a bachelor's degree in sociology and a master's degree in journalism. ■

Prudential creates new financial guarantee insurer

By JUDY GREENWALD

NEWARK, N.J.—A new financial guarantee insurance company backed with $100 million in capital from Prudential Insurance Co. of America is expected to begin operations during the third quarter.

Dryden Guarantee Insurance Co., a Prudential subsidiary, will specialize in insuring asset-backed securities issued by financial institutions, said Timothy G. Freestone, president and chief executive officer.

The financial institutions' assets may include one- to five-year corporate loans as well as consumer receivables like credit card debt. Banks and leasing companies are among the financial institutions whose securities Dryden will insure, he said.

Although Mr. Freestone said Dryden also may write municipal bond guarantees, "we perceive most of our opportunity" in the corporate market.

Mr. Freestone said last week the new insurer plans to apply for ratings from Standard & Poor's Corp. and Moody's Investors Service Inc. "within the next 45 to 60 days."

Financial guarantee insurance companies with triple-A ratings confer that rating on the securities they insure, making them more attractive investment opportunities.

Dryden expects to have 20 "professionals" on staff by the end of the year. Ultimately, Mr. Freestone said, he does not foresee having more than 30 to 40 professionals on staff.

Dryden's closest competitior, according to Mr. Freestone, probably will be New York-based Financial Security Assurance Inc., established last year, which also specializes in the corporate market (*BI*,

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S&P, Moody's lower CIGNA ratings

NEW YORK—Standard & Poor's Corp. has lowered CIGNA Corp.'s claims-paying ability rating to a double-A from a triple-A.

As a result, a special reinsurance arrangement must be made for financial guarantee insurance written by CIGNA through a consortium of insurers, says Gavin Arton, director of financial relations.

S&P and Moody's Investor Services Inc. also lowered ratings on CIGNA's preferred stock and debt issues, says Mr. Arton.

The move to lower the ratings followed CIGNA's announcement last month that it would report a $1.2 billion charge against its fourth-quarter 1985 earnings to strengthen its reserves (*BI*, Feb. 3).

CIGNA is one of a consortium of five insurance companies that underwrite each guarantee issued by the Muncipal Bond Insurance Assn., one of the largest markets for guarantees of tax-exempt bonds. Issues insured by MBIA have automatically had a triple-A rating because each insurer member of the consortium member had such a rating.

Now, as a result of the downgrading, Mr. Arton says CIGNA is negotiating at S&P's suggestion a reinsurance arrangement with the other consortium members: Aetna Casualty & Surety Co., Fireman's Fund Insurance Cos., Travelers Corp. and Continental Corp. so that MBIA's triple-A rating can be maintained.

Mr. Arton says the downgrading otherwise will have virtually no impact on CIGNA's day-to-day operations. But, he was nevertheless critical of S&P's decision to make the change.

"We think S&P missed the point of the reserve strengthening, quite frankly," he says. CIGNA strengthened its reserves to enhance its claims-paying ability, said Mr. Arton, while S&P is saying by lowering the rating that this ability has been impaired.

S&P also lowered the rating on CIGNA's short-term commercial paper to an A1 from an A1-plus, while its rating on CIGNA's long-term senior debt was lowered to an A-plus from a double-A. Double-A ratings on an 8% subordinated debt issue and on a preferred stock issue also were lowered to a single A.

Moody's lowered its rating on CIGNA's long-term senior debt issue to a AA2 from an AA1, while its rating on its subordinated debt was lowered to an A1 from a double-A3. Its rating on the preferred stock issue was lowered to AA2 from AA1. Moody's rating on CIGNA's short-term debt was left unchanged at Moody's highest rating, P-1.

Moody's does not rate insurers' claims-paying ability.

Mr. Arton says the downgradings mean CIGNA's debt will cost it "hundredths of a percentage point" more, which is not a meaningful difference. "We're certainly not at all dampened by it," he says. ■

New business helps boost broker results

By LINDA J. COLLINS

The publicly-held insurance brokerages that have released 1985 results are coming off a banner year.

Rate increases by commercial lines insurers, combined with new business growth, helped boost these brokerages' gross revenues 23% to 40.7% higher than in 1984, with accompanying increases in net earnings.

"We attribute our growth in 1985 to the change in the rating environment and new business development," said Michael J. Cloherty, vp-finance for Arthur J. Gallagher & Co. in Rolling Meadows, Ill., where revenues grew 27% to $81.6 million in 1985.

However, the earnings reports from two of the largest public brokers may not be as good as the rest of the pack's.

New York-based Alexander & Alexander Services Inc. and Briarcliff Manor, N.Y.-based Frank B. Hall & Co. Inc., both of which will not report until March 14, have said they may report still more losses due to discontinued operations.

Another public broker, Emett & Chandler Cos. Inc., also will not report until later this month because it has announced it will merge with Hong Kong-based Jardine Matheson Holdings Ltd. (*BI*, Feb. 3).

The business boom reported by most publicly held brokers apparently will continue into 1986, as fourth-quarter results outperformed the brokers' year-end numbers.

Year-end 1985 broker results
(In thousands of dollars)

Broker	Gross revenues	% change	Net income	% change
Marsh & McLennan	$1,367,600	23.0%	$162,900	177.5%
Corroon & Black	263,497	29.0	27,985	N/M
Crump Cos. Inc	97,973	40.7	9,036	82.7
Arthur J. Gallagher	81,572	27.1	9,880	56.9
Poe & Associates	28,729	25.9	2,868	N/M

Chart: Holly Seguine, Amy Palmer

N/M-Not meaningful

"For the entire brokerage group, commission and fee growth was faster in the fourth quarter of 1985 than in any previous quarter. Their average growth for the 1985 fourth quarter from the 1984 fourth quarter was 30% to 35%," said Thomas G. Rosencrants, director of research and general partner with Conning & Co. in Hartford, Conn.

One of the primary reasons behind the large, publicly held brokers' improved results is new business growth, analysts and brokers agree. Buyers are increasingly looking for brokers that have both the contacts and the expertise to put together a complete insurance program in a difficult insurance market, the say.

"We are getting a lot of new accounts at the expense of smaller and weaker brokers and agents. Price is no longer the factor it was in the soft market," said Stephen A. Crane, senior vp and chief financial officer of Corroon & Black Corp. in New York.

"Major brokerages are involved in a long-term trend to increase their market share. This accelerates in the tight market when their clout helps clients who are having difficulty completing their programs," Mr. Crane added.

"The main thing we have seen in our domestic brokerage operations is new business (growth) in excess of 20%" over 1984, said a spokesman for Marsh & McLennan Cos. Inc., explaining that the brokerage's revenues increase "has primarily been from new clients and new business rather than from rate increases."

M&M, the world's largest broker, reported record-breaking 1985 gross revenues of just less than $1.37 billion, a 23% increase from $1.11 billion in 1984.

M&M also reported a 177.5% gain in net income to $162.9 million from $58.7 million in 1984. However, the 1984 figure

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Levee's liability cover expired before flood

By STEVE TARAVELLA

LINDA, Calif.—The owner of a levee that buckled under torrential rains recently, putting thousands of homes under water, is without liability insurance, a victim of the current tight casualty insurance market.

"The sad fact" is that Reclamation District 784, a municipal agency that operates under the California Water Code, could not find replacement coverage when its liability insurance expired in January, says Robert Epley, the district's attorney with the Marysville, Calif., firm of Aros, Tegui, Cooke, Epley, Gengler & Kelter.

Mr. Epley said he did not know the district's former insurer or its policy limits.

But, he said the coverage that expired "was nowhere near enough to cover the potential losses here."

Commercial losses alone in Yuba County, where the Linda levee broke, could be $100 million, estimates Dave Chagnon, the county's emergency services director. This estimate reflects losses from about eight days of rain in addition to losses caused directly by the 150-foot break in the levee that released water from the Yuba and Feather rivers.

District 784 owns and maintains the levee, which was built by the U.S. Army Corps of Engineers in 1902. Property owners in the district pay an assessment to the district, which has an annual operating budget of $180,000.

The district is run by a five-member elected board of trustees, all of whom also are landowners in the district.

Reclamation District officials could not be reached for comment.

Mr. Epley says the largely agricultural Yuba County was one of California's poorest when the levee broke Feb. 20 after 44 inches of rain.

"They didn't have much before and now they have even less," he says.

Observers are not sure what recourse, if any, property owners have to try to recoup their losses.

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Transatlantic panel urged to chart industry course

By STACY SHAPIRO



Mr. Caperton



Mr. Bailey

LONDON—Insurance industry leaders on both sides of the Atlantic should form a group to examine the problems in the U.S. insurance market, say two U.S. industry executives.

The group would examine the problems faced by insurance buyers, who cannot find coverage for some types of risks, as well as promote civil justice reform.

The formation of such a group was proposed individually by Gaston Caperton, president of McDonough Caperton Group Inc. of Charleston, W.Va., the 20th-largest U.S. broker, and William O. Bailey, president of Aetna Life & Casualty Co. of Hartford, Conn.

Both men spoke at the "London Insurance Market and Its Future" conference in London last month sponsored by Risk Research Group Ltd., a London risk management consultant.

Mr. Caperton called for the formation of a panel of 10 industry leaders, as well as 10 alternates. Representatives would come from Lloyd's of London, U.S. insurers, reinsurers and brokers and other industry experts.

"The purpose of the committee is to set guidelines to ensure the long-term prosperity of our industry and to restore the public's confidence that we are taking steps to recognize and fulfill our responsibility to customers, employees and stockholders," Mr. Caperton explained.

"Our industry must realize our vital role in the world economy. We must correct our short-term problems without destroying our long-term future," he said.

Mr. Caperton said the committee would create a vision of the future for

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Up in the air

Coverage crisis curtails N.Y. tramway service

By JUDY GREENWALD

NEW YORK—The tramway that normally transports residents of Roosevelt Island to their jobs and schools may be back in operation soon after it was shut down last month because of liability insurance problems.

About 2,600 residents of Roosevelt Island, which is in the East River between Manhattan and Queens, had commuted daily to Manhattan aboard the tram. But the service stopped Feb. 15 after the tram's excess liability insurance program, which had provided $150 million in coverage at a cost of $677,000, fell apart.

Howard Kaye, senior vp at Kaye Group in New York, says there is no problem with the first $5 million of coverage, which is insured by American International Group Inc. under a first-dollar policy that expires either late this year or early next year.

The difficulty, he says, is with the tram's "numerous" excess insurers. There "might be" $25 million to $30 million in coverage available "at a very expensive price," says Mr. Kaye, but that is not enough to provide catastrophic coverage.

A "combination of many factors" led to this situation, including the hard market and the uniqueness of the risk, says Mr. Kaye.

Roosevelt Island's tramway is the only one that operates in an urban area for mass transit, says Tom Viola, a spokesman for the Roosevelt Island Operating Corp., the state corporation responsible for the tram. This has made it difficult to set a price for insurance on the tram, he adds.

"They always make the worst-case scenario when they set up their rates," he says, although the tram has not had an accident since it began operations

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Photo: AP/Wide World

The Roosevelt Island tram carried residents across the East River to Manhattan.

U.K. pension changes proposed

By STACY SHAPIRO

LONDON—Proposed sweeping changes in the British pension system, which would reduce minimum guaranteed pension benefits for future retirees, are drawing mixed reviews from pension experts.

Some applaud the proposals, noting they will encourage the formation of employer-sponsored pension plans and personal retirement savings while leaving intact Britain's 40-year-old state-run pension system.

However, others are critical of the legislation, especially a provision that would give a special government-sponsored contribution to newly formed employer-sponsored and individual retirement plans.

The pension reform legislation, called the Social Security Bill of 1986, is now pending in a House of Commons committee and could be passed by Parliament by this summer.

The bill, drafted by the Conservative government, has three main objectives:

- To cut in half by the year 2010 the expense of Britain's state-run pension system, known as the State Earnings-Related Pension Scheme. The bill will cut SERPS' cost to 13 billion pounds ($18.3 billion) from the current 25 billion pounds ($35.3 million), according to the British Department of Health and Social Security.
- To promote the growth of employer-sponsored pension plans, called occupational pension plans, and individual retirement savings plans, called personal pension plans, by providing incentives for employers and employees to leave—or "contract out" of—SERPS. At the moment, only half of the working population is covered by employer-sponsored defined benefit plans and very few British workers have personal pension plans.

In addition, for the first time, employers contracting out of SERPS would be allowed to set up defined contribution plans to provide legally mandated pension benefits.

- To provide other changes in Britain's welfare system to direct more cash to very poor families with children.

The bill currently in Parliament is "enabling legislation" that will allow the British social services secretary to write new regulations that will implement these

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Bankers plan captive for D&O, bond cover

By STEVE TARAVELLA

The ABA hopes the captive can offer up to $10 million each in D&O coverage and bankers blanket bonds, says Mark Stevens, associate director of security and risk management. But this is dependent on reinsurance.

WASHINGTON—The American Bankers Assn. is moving ahead with plans for a captive insurance company to provide its members with hard-to-get directors and officers liability coverage and bankers blanket bonds.

The ABA's proposal is one of several such projects initiated by financial institutions that are struggling to find coverage in this market's capacity crunch (*BI*, July 22, 1985; Oct. 28, 1985).

Plans call for the participating ABA member banks to contribute an average of $15,000 to capitalize the insurer, but this will vary depending on each bank's size, explains Mark Stevens, the ABA's associate director of security and risk management in Washington.

On Feb. 21, the association sent a questionnaire to its members—approximately 12,000 U.S. banks—to assess their interest in financing the captive, which likely would be domiciled in Bermuda.

The survey's results are expected in about two weeks. Meanwhile, the ABA is discussing its plans with various fronting insurers and reinsurers, Mr. Stevens says.

The name and management company are among the other details yet to be decided.

Bankers blanket bonds are fidelity bonds purchased by banks to respond to losses resulting from employee fraud and dishonesty.

The ABA decided to proceed with a captive when a Wyatt Co. study determined such a project is feasible. That study was completed in December.

The association has considered forming a captive during every insurance cycle since 1918, but this is the first time the ABA's executive board has approved the project, Mr. Stevens says.

The executive board approved plans to establish the captive on Feb. 20, after a presentation by Ron Lawless, vp of First City Bancorp of Texas in Houston.

But the ABA is not alone among banks groping for ways to deal with the tight D&O market.

Independent Community Banks in Illinois, whose 500 members have average assets of $36 million, is considering a variety of ways it might generate its own capacity for D&O coverage, bankers blanket bonds and other liability insurance coverages.

It might form a captive or purchase an existing insurer, says Robert L. Broucek, president of Self Funding Insurance Management Inc., a consultant that works with the ICBI.

The association also is considering a risk-sharing pool similar to the multiple-employer trust it sponsors for group health claims, says Roy Pinnell, ICBI executive manager in Springfield. About 10% of ICBI's members participate in the 2-year-old MET.

But the ICBI would have to secure enabling legislation at the state level to apply the same pooling concept to property/casualty exposures, he explains.

Elsewhere, BankInsure, an Oklahoma City-based insurer founded by bank associations in five states, is up and running.

The insurer, which was established by banks in Oklahoma, Minnesota, Wisconsin and North and South Dakota opened its doors Jan. 1 and, in its first month, wrote about 30 policies generating $225,000 in premium, according to Timothy O'Toole, account executive at broker and organizer C.L. Frates & Co.

The company can write D&O limits of up to $300,000, which it retains itself because it has been unable to secure reinsurance, Mr. O'Toole says. But, with the help of Frank B. Hall & Co. Inc. in New York, BankInsure did find sufficient reinsurance for its bankers blanket bond program to offer bonds of up to $1.75 million. That amount could even go higher with facultative reinsurance, Mr. O'Toole adds.

In a related development, a group of electric utilities is proceeding with plans to set up its own mutual liability insurer.

Sedgwick Risk Management in London is "in the final stages" of analyzing questionnaires completed by the 64 utilities participating in the Electric Insurance Mutual project, reports Dr. Irene M. Moszer, vp-administrative services at Virginia Electric & Power Co. in Richmond.

Results of the questionnaires will help organizers of the mutual determine the group's rating practices and insurance needs.

EIM hopes to write liability limits of $75 million excess of $25 million, including D&O coverage and maybe even environmental impairment liability insurance, Dr. Moszer says. Many, but not all, of the 64 utilities purchase their primary liability coverage from Associated Electric & Gas Insurance Services Ltd., a Bermuda mutual.

Dr. Moszer hopes EIM can offer formal applications to electric utilities in mid-May and begin underwriting by July 1.

"We are on a very tight time schedule but are making good progress and feel reasonably assured we'll make the July deadline," Dr. Moszer says.

Although plans are not finalized, the mutual will likely be based in Barbados, she says. This would enable the utilities to take advantage of a new taxation agreement between the United States and the Barbados government (*BI*, April 15, 1985).

Dr. Moszer, chairperson of EIM's 11-member steering committee, was one of three utility representatives to visit London about three weeks ago to inform reinsurers about the project. She says the reinsurers were receptive to the concept, which includes a loss prevention program, but formal discussions have not taken place.

The two others who traveled with Dr. Moszer are Thomas A. Nunnelly, executive vp of Southern Co. Services Inc. in Atlanta, and Conrad R. Faulk, vp at Middle South Services Inc. in New Orleans. ■

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Tax sanctions

Continued from page 1

How much of an employer's tax deduction would be lost depends on how late a company files its plan amendments with the IRS.

For example, if a company filed its plan amendments on March 1—four months after the Nov. 1, 1985, deadline—it could only deduct 80% of pension plan contributions made for 1984 and 1985 (see chart, page 1).

The Nov. 1, 1985, deadline affected most employers, though some companies were given later deadlines, depending upon the dates on which their tax and plan years ended.

Th IRS' position, another of the agency's so-called "Friday bombshells," was announced Feb. 14 at the annual Enrolled Actuaries meeting in Washington.

The announcement by Ira Cohen, director of the IRS Actuarial and Technical Division, has stunned and angered benefit experts.

They say employers missed filing deadlines because the IRS originally didn't give companies enough time to comply. They say the compliance period was so brief because the IRS dragged its feet in issuing regulations to help employers properly amend their plans.

Especially galling, experts say, is that the IRS is imposing retroactive penalties.

"The retroactive nature of the penalities is harsh and unreasonable," said Mark Ugoretz, executive director of the ERISA Industry Committee, a Washington-based benefits lobbying group representing large employers.

The controversy over IRS Notice 86-3 is reminiscent of the last major IRS Friday bombshell: the Feb. 10, 1984, IRS news release that threatened to invalidate thousands of flexible spending accounts that allowed employees to use pretax dollars to pay for uncovered benefit expenses, such as health care deductibles.

After refusing to issue FSA rules for six years, the IRS release said employers and employees who had taken advantage of the tax savings offered through FSAs would be retroactively liable for additional taxes, interest and possible penalties (*BI*, Feb. 20, 1984).

While legislators allowed the IRS rules on FSAs to stand, a massive lobbying campaign by employers helped convince Congress to add an amendment to the 1984 tax law that eliminated retroactive IRS enforcement of its FSA rules (*BI*, July 2, 1984).

It may take a similar lobbying campaign to force the IRS to withdraw or amend the retroactive penalties in Notice 86-3.

Consultants and others already are urging that employers take the offensive.

Hewitt Associates, the Lincolnshire, Ill.-based benefit consultant, is sending out a special bulletin encouraging employers to send protest letters to the IRS and legislators.

Employers that met the filing deadline and are not affected by Notice 86-3 should also protest, Hewitt advises.

"Even the majority of employers that already amended their plans on a timely basis should be concerned about this notice," Hewitt said. "Legislation and regulations are currently pending which will require additional amendments. There can be little doubt that the IRS will attempt to apply the procedure to future compliance periods. An employer that doesn't have a problem today may well be faced with short compliance deadlines and severe tax sanctions in the future."

Stuart Brahs, executive director of the Assn. of Private Pension & Welfare Plans in Washington, says he intends to discuss Notice 86-3 with influential legislators such as Senate Finance Committee Chairman Robert Packwood, R-Ore., to seek help for employers.

"If the IRS proceeds with writing public policy, then we are left to go to Congress to seek redress," Mr. Brahs said.

One consultant wants President Reagan to intervene. William Giegerich, president and chief executive officer of Buck Consultants Inc. in New York, told the president in a Feb. 21 letter that "the attempt to reduce deductions because bona fide amendments were made after impossible due dates is outrageous.

"We do not believe this approach will have anything but negative results or that it is your administration's intention to discourage private plans by harassment and added cost," Mr. Giegerich said.

No one is sure how many employers missed the Nov. 1 1985, deadline for filing plan amendments required under TEFRA, DEFRA and the REA.

Thomas Butterworth, a benefit consultant in the Rowayton, Conn., office of Hewitt Associates, estimates that between 10% and 40% of employers may not have filed amendments with the IRS by the due date.

The rate of compliance was highest among large companies and probably was substantially lower among smaller employers, Mr. Butterworth said.

"Right now, we're trying to get feedback on the extent of compliance," Mr. Butterworth added.

While the extent of compliance isn't known, experts say it isn't the fault of employers for missing compliance dates and instead are pinning much of the blame on the IRS.

"It was a difficult task to comply. The time was just too short," said Frederick Rumack, director of taxes and legal services for Buck in New York.

Dennis Coleman, a partner with benefit consultant Kwasha Lipton in Fort Lee, N.J., attributes much of the non-compliance to "catch-22" situations laid down by the IRS in an effort to cut its workload.

For example, the IRS had set a Sept. 15, 1985, deadline for employers to file plan amendments required by TEFRA and a Dec. 31, 1985, deadline for filing DEFRA and REA amendments.

The required TEFRA and DEFRA amendments, such as changing maximum pension benefits offered by a plan, were relatively minor and employers needed little guidance from the IRS to comply.

But under a late 1984 IRS notice, employers couldn't file those TEFRA and DEFRA amendments until they amended their plans to comply with the REA. The purpose of that IRS notice was to allow the agency to review TEFRA, DEFRA and REA plan amendments at one time, Mr. Coleman said.

But experts say amending plans to comply with the REA was extremely difficult. "For custom-designed plans, it was very hard to add REA amendments. One plan could take 20 hours of consulting," said Mr. Coleman.

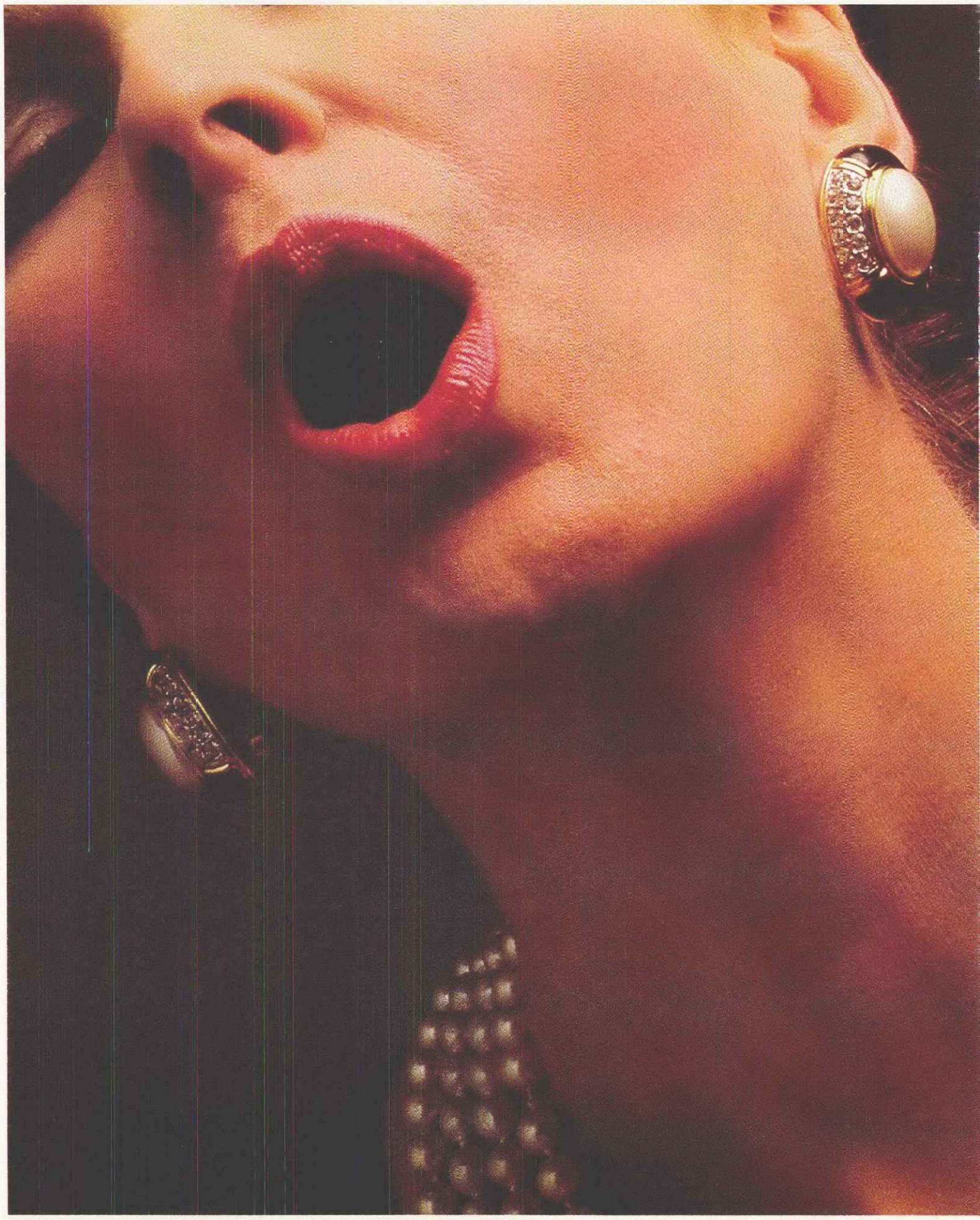
To comply with the REA, employers had to amend their plans so that, among other things, younger employees were allowed to participate in a plan spouses automatically receive survivors' benefits when a vested employee dies and the minimum age at which employees receive vesting credits was lowered.

Despite the complexity of the required changes the IRS delayed issuing regulations implementing the REA until July 19, 1985.

Then, in late August, the IRS said it would delay the effective date of TEFRA compliance to Nov. 1, 1985, from Sept. 15, but accelerate the filing of REA and DEFRA amendments to Nov. 1 for most companies from Dec. 31.

However, the IRS continued to change the REA regulations. For example, in October the IRS reversed itself—after a storm of pro-

Continued on next page



Continued from previous page
test—and said employees didn't need spousal permission to retire early and collect early retirement benefits (*BI*, Oct. 14, 1985).

As a result, many employers had less than a month to amend their plans to comply with the three laws, a deadline many found impossible to meet.

"Many plans, handicapped by a relatively small number of experts who could do the necessary work and the time taken by the IRS in issuing regulations, could not meet unreasonable dates promulgated though they made extensive efforts to do so," said Mr. Giegerich.

Experts note that the IRS frequently has extended compliance dates, which is why employers didn't protest the short time they had to file the amendments.

"Many employers did not protest compliance deadlines for recent legislation because they anticipated a continuation of the IRS' prior pattern of warnings followed by le-

'It was a difficult task to comply. The time was just too short,' says Buck's Mr. Rumack.

nient treatment if the employer acted with reasonable diligence and in good faith," Hewitt said.

But an IRS official contends that the agency's compliance deadlines were reasonable and that most companies were able to meet those deadlines.

"Our assessment is that pension practitioners were able to meet the deadlines of time. Only a minority did not," the IRS official explained.

The IRS official rejected a new filing deadline, saying that it would be unfair to those employers who worked hard to file their amendments on time. ■

HMO proposal

Continued from page 2
teristics that reasonably predict utilization, experience, cost or risk. They could then vary contributions for each group.

- Employers could base their contributions on the average cost of the indemnity plan for the total group of employees.

"This basically refers to the way most employers make contributions now," said Mr. Joffe.

"For example, if an employer has an average cost of $80 for his group plan, then he pays $80 toward the HMO."

- Contributions also could be determined by any method mutually acceptable to both the employer and the HMO, providing there are no contrary regulations.
- Employers that require their employees to contribute to indemnity plans could also require those enrolled in HMOs to make a contribution of not more than 50% of what they would contribute if they participated in the indemnity plan.

The proposal also addresses the disclosure of contribution levels by employers to HMOs and the disclosure of standard rates by HMOs.

"This part of the proposal is intended to protect HMOs from adverse selection and employers from shadow-pricing," said Mr. Joffe.

HMOs could experience adverse selection if employers determine their contributions to the HMO by employee class and make different contributions to the indemnity and HMO plans. In that case, HMOs could become less expensive for high-risk employees, he said.

To protect HMOs, the proposal requires employers to notify the HMO of their contributions for each class. Then, the HMO can recalculate its original rates applying to that employer to reach a uniform employee contribution for all classes of employees.

But, employers contend that by revealing their contribution levels to HMOs before HMOs reveal their rates, HMOs sometimes set their rates according to the amount the employer already pays toward coverage in the indemnity plan—a practice referred to as shadow-pricing or price-following.

Employers would be protected from shadow-pricing under the proposal because the HMO can first be asked to reveal its standard rates and the method it will use to recalculate those rates before the employer discloses contributions.

"This part of the proposal is something we wrestled with," said Mr. Fritz.

"We were aware of shadow pricing, so we tried to develop a process that would protect employers from this," he said.

"This protects the employer by first requiring the HMO to reveal its community rates before the employer tells his contribution levels. In other words, you have to tell me before I tell you," he said.

The proposal is the result of several months of meetings, said Carol Cronin, vp-policy of the WBGH. "The proposal developed out of a critical mass of WBGH employers who wanted to change the employer contribution requirements."

Meetings were also held with the federal Office of HMOs.

"We met with them informally all along, so we were quite aware of what they wanted to do," said Frank Seubold, executive director of the office.

"If this is what HMOs and purchasers want, it doesn't give me heartburn," he said.

"This is the first time that a large number of employers have met with the HMO industry to effect a regulatory change. They have met before to discuss problems or issues," he added.

Other employer groups also support the joint proposal.

"Any move that gives employers more flexibility will help business as well as HMOs," said James Mortimer, president of the Chicago-based Midwest Business Group on Health.

"Less regulation will increase the level of activity between HMOs and employers," he added.

The National Assn. of Employers on Health Care Alternatives supports the proposal, but also supports a full repeal of the dual-choice and equal employer contribution regulations under the HMO Act.

"We feel that mandating and regulating price are in direct opposition to competition in the health care marketplace," said Ruth Stack, executive director of the Key Biscayne, Fla., organization.

"As a representative of industry, I think it demonstrates to any interested parties that there is a willingness among providers and purchasers to work together," said Laird Miller, corporate manager for provider information for Minneapolis-based Honeywell, Inc. and co-chairman of the Community Buyer Service Committee of the Minnesota Coalition on Healthcare Costs. Mr. Miller is also a member of the WBGH subcommittee.

The next step for the WBGH and the GHAA is to design a uniform HMO data form for reporting data to employers, said Mr. Joffe.

Mr. Miller said he has submitted a data form developed by the Minnesota coalition for use as a model.

"In industry, when we look at information on indemnity plans, such as cost, utilization, experience, etc., we realize that we don't have any of this data on HMOs or PPOs," said Mr. Miller.

Mr. Miller stressed that "employers have to understand that there has to be one uniform data set. We can't all develop different ones for our own companies."

"We need uniformity so that we can compare not only within one HMO, but also among several of them," he added.

Mr. Joffe said the joint proposal is "an important first step." ■

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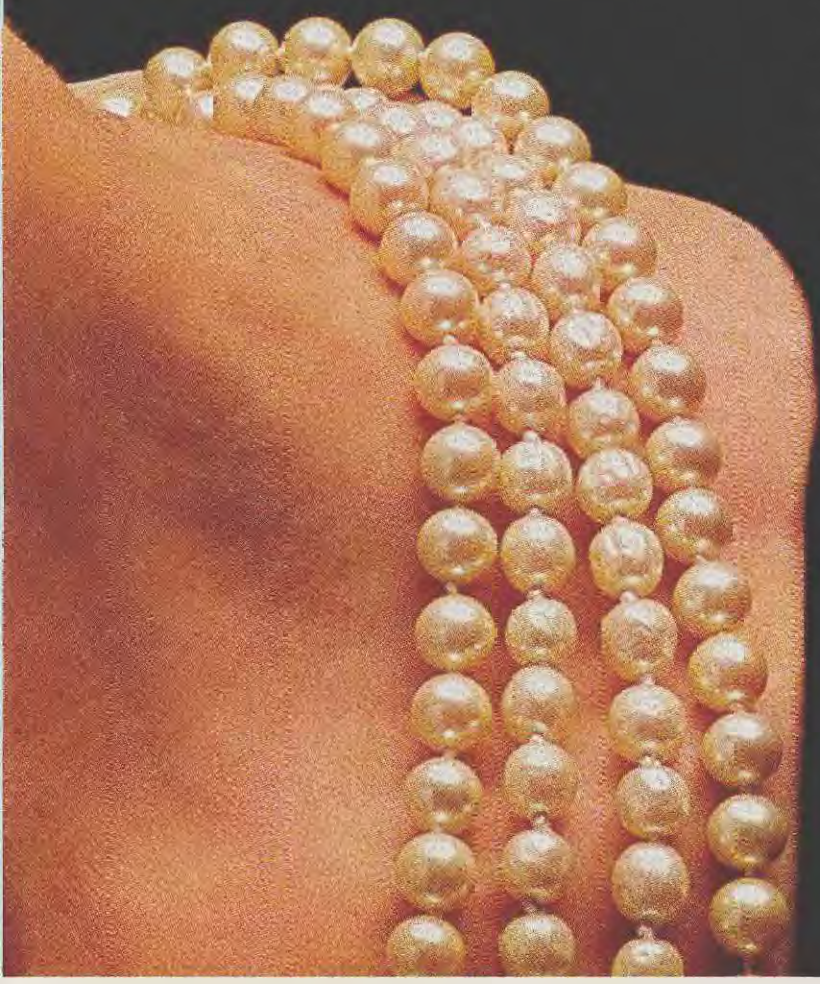


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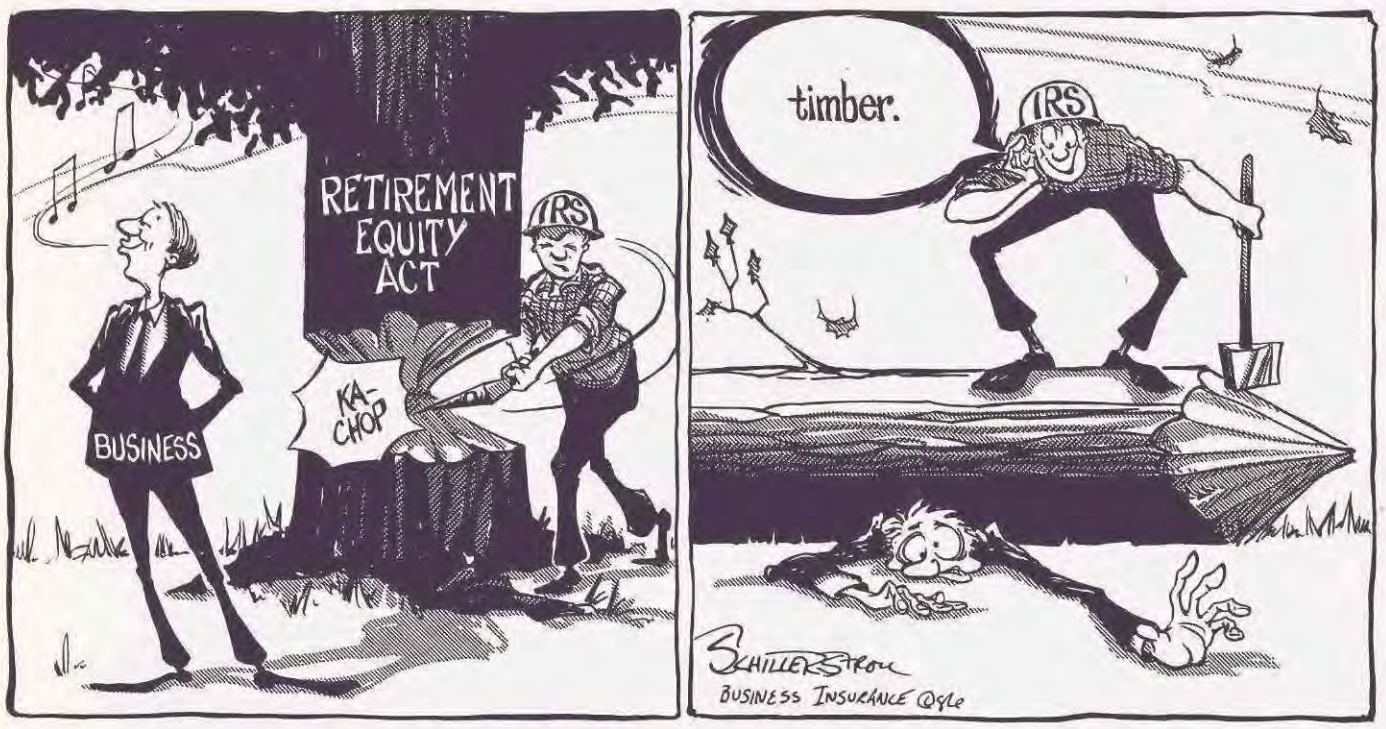
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opinions



IRS 'relief' unrealistic

SOMEONE AT THE Internal Revenue Service must be reading George Orwell's "1984."

In classic "Doublespeak," the IRS characterizes its sanctions against employers that failed to comply with deadlines for amending their pension plans as "relief" (see story, page 1).

The IRS reasons that the sanctions are relief because the agency could have made the penalties much worse. Instead of only reducing an employer's tax deduction for missing the compliance deadline, the IRS could have denied the entire tax deduction.

Some relief!

It was the IRS' own bungling and foot dragging, followed by an unrealistically short compliance period, that caused many employers to miss the deadline for filing pension plan amendments required under federal laws.

For example, the extremely complex Retirement Equity Act of 1984 was enacted in August. Yet, the IRS waited nearly a year until July to issue rules needed by employers to guide them in making the necessary plan amendments. And then in October, the IRS reversed a key provision and said employees did not need the consent of their spouses to collect early retirement benefits.

When all was said and done, most employers had only about a month to meet the Nov. 1, 1985, compliance deadline. That clearly wasn't enough time.

Employers must comply with federal laws and there should be penalties for failure to do so. But, those filing dates should be realistic and the penalties for not complying should be known in advance.

Advance knowledge of penalties is straight talk employers can understand.

letters

Higher rates, less coverage threaten Iowa builders

To the editor: The following is testimony I gave at a public hearing before legislators Feb. 12 in Des Moines, Iowa:

I am operations manager of the Master Builders of Iowa, a 74-year-old statewide association of about 300 contractors.

Recently, we sent out a blind survey on liability and umbrella insurance costs and coverage fluctuations now and in the past two years.

Early returns bear out the rumors of drastic increases in cost and some coverage decreases.

Overall liability premiums increased 268%, coverages were down 27%. Overall umbrella premiums increased 805%, but coverages are the same.

If the rest of the survey results stay the same, and I believe they will, construction costs in Iowa will go up 2.93%, or $9.4 million.

The umbrella insurance costs for our contractors will increase from around $600,000 to around $4.8 million and liability premiums will increase from around $3 million to $8 million.

We are small businessmen and these drastic increases are extremely hard to pay. Some of our members may be forced out of business because of this.

More importantly, there are dangers of not being insured, due to the new retroactive dates on claims-made policies being misstated or misunderstood, legal expense costs reducing the limits of coverage, aggregate limits being used where they have not been before, and several other schemes. The risk of doing business is appreciating rapidly. We are scared.

The basic problem is the tort system. It is sadly lacking in justice. The insurance industry is in serious trouble. Lloyd's of London has backed off liability risks in the United States because of our tort system.

There are changes in our system which should be addressed separately and I beg you to do so. They may be harsh, but they will care for our injured citizens fairly, eliminate waste and prevent injustice from reigning. More importantly, they will stabilize the costs and allow the insurance industry to calculate the odds. They include:

- Allow evidence to the jury of a plaintiff's insurance coverage.
- Allow juries to determine guilt only, not amounts of awards.
- Limit contingency fees to 15%.
- Preclude payment of contingency fees from workers compensation awards.
- Mandate arbitration.
- Preclude insurance coverage for punitive damages.
- Use workers compensation limits to pay for economic physical injury costs.
- Use the workers compensation system to determine third-party injury awards.
- Repeal comparative negligence.
- Cap non-economic damages at $100,000.
- Make workers compensation the sole remedy for injured workers.
- Adopt a six-year statute of limitations (statute of repose).

Everyone should talk to the judges and tell them how you feel.

James I. Seaman
Operations Manager
Master Builders of Iowa
Des Moines

Business Insurance welcomes letters from its readers. Please keep your comments as brief as possible. We reserve the right to edit letters for clarity or space. We will not publish unsigned letters. Send your comments to Letters to the Editor, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611.

Punitive awards belong in criminal courts

To the editor: William Shernoff's criticism of punitive awards (*BI*, Feb. 17) seems ill-advised to me—I think the insurers are correct that the award should go to the one who won it.

However, I would agree that the awards themselves should not be a part of the civil tort liability system; they properly belong in the criminal system.

Asking the insurers to pay punitive awards is not punishing the offender—only the insurance system, unless they have insured punitive damages per se. Asking the insurers to pay the awards over to public projects would amount to assessing the insurance company for a donation in the name of the offender. Instead of punishment, the offender pays nothing and gets credit for the good works performed in his name with the insurance company's money!

That seems a tortuous path in the name of punishment.

F. Eliene Mitchell
The Midland Mutual Life Insurance Co.
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GM offers employees prepaid dental plans

General Motors Corp. is offering prepaid dental coverage to about 1.5 million employees, retirees and dependents to help reduce the automaker's benefit costs.

Coverage under the prepaid plans took effect March 1, said Marcie Grynes, senior staff assistant-employee benefits at GM.

Employees were to choose between GM's indemnity dental plan or a prepaid plan by Jan. 31, she said. Even though benefits under the prepaid plan were to begin March 1, Ms. Grynes said last week that GM did not yet know how may people had opted for coverage under a prepaid plan.

"What we hope to do is to offer quality care in a more cost-effective manner," she said, though she added the company did not yet know how much it would save by offering the prepaid plan option.

Under the prepaid plans, employees pay no deductibles or premiums, and there are no limits on the amount of benefits.

However, certain orthodontic and other procedures may require some employee co-payments.

Employees in Michigan had a choice of three prepaid plans: Dental Care Network, Metropolitan Independent Dental Associates and Pacesetter.

A $700 maximum co-payment is required for orthodontic care under both the Dental Care Network and Pacesetter plans.

Employees in Illinois, Indiana, Ohio and Wisconsin were offered the Dentacare plan, which requires a maximum $695 co-payment for orthodontic care.

Ms. Grynes added that these four plans also require employees to pay small fees for crowns, dentures and some lab work.

In Missouri and Kansas, employees were offered the Delta Care Plus plan, which requires a $1,000 maximum co-payment on orthodontic care and small co-payments on lab fees, said Ms. Grynes. She said the plan also requires a $60 to $80 co-payment on full crowns.

California employees were offered the Safeguard plan. Under this plan, employees pay a $700 maximum co-payment for orthodontic care.

Employees who did not enroll in one of the prepaid plans continue their existing coverage under GM's traditional self-insured dental plan. The plan—which is nationwide—is administered by several insurers, depending on location, said Ms. Grynes.

Under the plan, employees do not pay a deductible and preventive care is fully covered. A 10% copayment is required for restorative care, like fillings, and a 50% copayment is required for orthodontic care. There is a $1,000 yearly limit on all dental care and an $800 lifetime limit on orthodontic treatment.

Chrysler ESOP

Participants in Chrysler Corp.'s 4-year-old employee stock ownership plan received more than $550 million collectively when the plan was terminated in late 1985.

The Detroit-based auto manufacturer terminated the plan—which became operational in 1981—following negotiations with the United Auto Workers union last year, a company spokesman said.

A total of 87,500 employees in the United States and Canada elected to receive either certificates for Chrysler common stock or cash from sale of their stock to Chrysler, said the spokesman.

U.S. employees who participated in the plan for the full four years received either $8,200 or 183 shares of stock.

Canadian employees who participated for the two years the Canadian plan was in effect received either $6,400 or 142 shares of stock.

The plan required Chrysler to make four equal installments of $40.6 million, the last of which was paid in June 1984.

FMC Corp. changes

Chicago-based FMC Corp. has improved benefit plans for 1986, including a reduction in the long-term disability premium paid by employees and the addition of an optional supplementary aftertax employee contribution to the company's 401(k) salary reduction plan.

The monthly long-term disability premium has been reduced 46%, to 30 cents per $100 of covered salary from 55.5 cents, said Kenneth Morrissey, manager of corporate employee benefits.

FMC's long-term disability plan is self-insured and administered by T.L. Jacobs & Associates, a third-party administrator in Chicago.

And, effective April 1, participants in the company's 401(k) plan can contribute up to 5% of their aftertax salary to the plan. Currently, employees can contribute a maximum of 10% of pretax salary.

All FMC employees are eligible to participate in the plan, he said, adding that FMC matches the first 5% of salary contributed by employees at a rate of 60 cents on the dollar.

Mr. Morrissey said that employees will be allowed to withdraw their aftertax contributions for certain needs, like the purchase of a primary residence or educational expenses, while still contributing to the plan on a pretax basis.

In addition, new FMC employees will be allowed to roll over savings from qualified plans sponsored by their previous employers into the 401(k) plan's guaranteed income fund, said Mr. Morrissey.

The fund's guaranteed interest rate will be 12.5% from April 1, 1986, to March 31, 1987, he said.

In another benefit change, FMC has eliminated an age requirement for death benefits paid to spouses from the company's defined benefit pension plan.

Previously, employees had to be at least 40 years old and have 10 years of service for surviving spouses to qualify for the death benefit.

Now, only the 10-year vesting requirement must be met, Mr. Morrissey said.

Finally, all participants in FMC's employee stock ownership plan received an allocation of about 4.1 shares of FMC stock. The current selling price is $85 per share.

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New firm to write reinsurance for captives

Star Insurance Co. in Southfield, Mich., has been formed to write reinsurance for captives and self-insured programs, according to the new company's chief executive officer.

Merton Segal, chairman of the Meadowbrook Insurance Group in Southfield, said Star is operating with $3.5 million in capital raised from 25 individual investors.

The insurer will write reinsurance for 15 captives managed by Meadowbrook subsidiary Meadowbrook Risk Management Ltd. in Bermuda, according to Mr. Segal.

Mr. Segal also said Star will write reinsurance for agency captives, group and association captives managed by other firms. In some cases, Star may act as a fronting company for risks placed with a captive, he noted.

"Star is not there to write Main Street business," Mr. Segal emphasized.

He noted that Michigan regulations regarding premium-to-surplus ratios would allow Star to write around $10 million to $12 million in net premiums.

However, he said first-year underwriting goals have not been set. "We're still in the process of doing that."

Mr. Segal said he is currently searching for a chief operating officer.

Star Insurance Co. can be reached at 24370 Northwestern Highway, Southfield, Mich. 48075; 313-358-4020.

Rehabilitation center

The Paulson Center for Rehabilitation Medicine is opening in Willowbrook, Ill., to provide services to those injured in workplace accidents.

The center will emphasize services aimed at returning injured workers to their jobs. Those services include:

- A comprehensive evaluation of an individual's ability to perform his or her work.
- Therapy aimed at restoring job-related capabilities.
- Instruction in preventing injuries and reinjuries of the back.
- The application of methods and medications for pain.
- Therapy to workers with hand, shoulder and arm injuries.
- Techniques for pulmonary rehabilitation.

In addition, the center will offer an adult day-care service that will allow older or disabled individuals to receive care and supervision in a comfortable social setting.

Dr. Robert E. Eilers, medical director of rehabilitation services at Hinsdale Hospital, will serve as medical director.

"We are not just physical therapists or occupational therapists. If a patient needs speech therapy, for example, we have highly skilled people to provide this service," said Dr. Eilers.

"Major diagnostic care is provided persons with multiple sclerosis, head and back injuries, Parkinson's disease and multiple trauma and fractures," he said.

The center also can treat those who have had strokes and amputations, as well as paraplegics and quadraplegics, Dr. Eilers said.

The Paulson staff consists of workers compensation attorneys, insurance case managers, benefits coordinators and personnel directors.

For more information, contact the center at 619 Plainfield Road, Willowbrook, Ill. 60521; 312-323-5656.

New agency

Strouse, Greenberg & Co. Inc., a Philadelphia-based real estate firm, has formed Strouse Greenberg Insurance Agency, an agency specializing in property risks.

"Property insurance demands a thorough knowledge and understanding of every aspect of real estate, a knowledge that only an experienced company can provide," noted Sam Switzenbaum, president of the Philadelphia real estate company.

"For 70 years, our commitment at Strouse Greenberg has been to total real estate capability," Mr. Switzenbaum added.

"The new agency will specialize in property insurance, providing specially tailored coverage at competitive prices," said Al Lusardi, director of the agency.

Mr. Lusardi was formerly marketing manager at Republic Hogg Robinson Inc.

He also has been an underwriter for Chubb Corp. and an independent agent.

The agency is located at 1126 Locust, Philadelphia, Pa. 19103; 215-985-1100.

markets

New offices

Stop Loss International Corp., an independent managing underwriter of medical stop-loss insurance, is moving its headquarters to One College Park, 8910 Purdue Road, Suite 210, Indianapolis, Ind. 46268; 317-876-0399.

Stop Loss maintains branch offices in Kansas City, Mo.; Phoenix, Ariz.; and Dallas. The company also has a reinsurance facility in Phoenix.

LeBoeuf, Lamb, Leiby & MacRae has relocated its Boston office to 260 Franklin St., Boston, Mass. 02110; 617-439-9500.

Reinsurance intermediary **G.L. Hodson & Son Inc.** has moved to new offices at 325 Cedar St., Suite 400, St. Paul, Minn. 55101. The telephone number remains 612-224-2447.

NAS Insurance Services Inc., a surplus lines broker, is moving to new offices at 1800 Ave. of the Stars, Suite 410, Los Angeles, Calif. 90067; 213-277-2112.

Superior National Insurance Co., the workers compensation insurance company established by several former Mission Insurance Group officers, has moved to new offices at 5900 Canoga Ave., Suite 200, Woodland Hills, Calif. 91367; 818-716-7100.

Emett & Chandler Cos. Inc. has a new location at 11845 W. Olympic Blvd., Los Angeles, Calif. 90064-5099; 213-444-3300.

Mergers/acquisitions

Swett & Crawford Group in Los Angeles is acquiring the Boston-based regional wholesale broker **Fort Hill Insurance Agency Inc.**

Kinney, Pike, Bell & Conner Inc. in Poultney, Vt., has purchased the VanGuilder Insurance Agency of Fair Haven, Vt. ■



Harcum heads National Aviation Underwriters

George L. Harcum elected president and chief operating officer of National Aviation Underwriters Inc. of St. Louis, a surplus lines brokerage subsidiary of Frederick, Md.-based AVEMCO Corp. Mr. Harcum joined AVEMCO in 1970.


Mr. Harcum

Also at NAU, **John F. Shettle** elected chairman and chief executive officer. Mr. Shettle has more than 32 years experience in the insurance and reinsurance business.

Other excess/surplus changes:

Amanda L. Garceau named vp and **James C. Kilduff** named assistant vp of Major Surplus Inc. of New York.

Ed Skidmore named vp of Maclean, Ody & Associates Inc. of Dallas. Mr. Skidmore previously was vp and branch manager of the Denver office for Swett & Crawford. He also has been associate with Continental Insurance Co. and Crum & Forster Inc.


Mr. Shettle

James C. Campbell, C. Gary Deanhardt and **Billy G. Hamm** named senior vps of both Southern American Insurance Co. and Crump London Underwriting Management, affiliates of The Crump Cos. Inc. of Memphis. Mr. Campbell previously was vp-underwriting for the Crump affiliates. Prior to joining Crump in 1985, he was manager of captive operations with Argonaut Insurance Co. Mr. Deanhardt joined Crump in 1985 as vp of finance and administration for CLUM/Southern American. He previously was employed with Cherokee Insurance Co. Mr. Hamm is responsible for claims administration for the Crump affiliates. He joined the Memphis company in 1974.

comings & goings: industry

Insurance

John T. Riordan has been named president of Intramerica Life Insurance Co. of New York, a subsidiary of Colonial Penn Group Inc. In his new position, Mr. Riordan will be chief administrative officer for Intramerica. Prior to joining Colonial Penn in 1977, Mr. Riordan was employed by Allstate Insurance Co.


Mr. Riordan

Richard L. Brown appointed president and chief executive officer of Houston General Insurance Group of Fort Worth, Texas. Mr. Brown previously was president and chief operating officer of Unigard Security Insurance Co. of Seattle, a subsidiary of John Hancock Mutual Life Insurance Co. He also has been employed by Chubb & Son Inc.

John D. Nolan appointed president of Gulf Insurance Co. of Baltimore, the property and casualty insurance subsidiary of Commercial Credit Co. Mr. Nolan previously was executive vp and chief operating officer. Mr. Nolan joined the company in 1984 as chief financial officer and actuary.

At Metropolitan Life Insurance Co. of New York, **Paul S. Entmacher** named senior vp and chief medical director and **William D. Livesey** appointed vp in the group national accounts department. Dr. Entmacher will be responsible for all medical activities at Metropolitan Life. Dr. Entmacher previously was a vp. Mr. Livesey will be responsible for national accounts administration. Mr. Livesey, who joined Metropolitan Life Insurance Co. in 1968, previously was an assistant vp.

Gary P. Lia named vp and general manager of the loss prevention department at Liberty Mutual Insurance Co. of Boston. Mr. Lia previously was vp and manager of Liberty Mutual's Canadian division headquarters.

Robert P. Ambrisco elected vp of Lincoln National Life Insurance Co. of Fort Wayne, Ind. Mr. Ambrisco heads the company's nationwide network of group claims offices. He previously was a vp of Lincoln National Corp., the parent company.

Morgan Davis named executive vp-claims of Fireman's Fund Insurance Cos. of Novato, Calif., a subsidiary of Fireman's Fund Corp. Mr. Davis previously was senior vp-claims management of CIGNA Corp.

Michael F. Cook named vp of customer service for Concord-based Blue Cross & Blue Shield of New Hampshire. Mr. Cook previously was director of customer service.

Robert C. Olsman named senior vp of Reliance Insurance Co. of Philadelphia, a subsidiary of Reliance Group Holdings Inc. Mr. Olsman will be responsible for the commercial division, including field operations, underwriting, marketing, product management and development. Previously, Mr. Olsman was manager of the commercial accounts marketing division for The Travelers Insurance Co.

Francis N. Graham Jr. named resident vp and regional manager of the Eastern regional office of Utica National Insurance Group of New Hartford, N.Y. Mr. Graham, who joined the Utica National Group in 1975, previously was a vp and the national accounts manager.

Donald K. Lough named vp and general manager of the Toronto-based Canadian region of The Home Insurance Co. of New York, a subsidiary of Home Group Inc. Mr. Lough previously was secretary/manager of the company's Alberta, Canada, office.

R. Barry Roberson elected vp of Chubb & Son Inc. of Warren, N.J. Mr. Roberson also retains his responsibilities as branch manager of Chubb's Irvine, Calif., office. Mr. Roberson has held various positions during his 22-year tenure with the company.

Charles C. Hewitt named vp-claims of Western Employers Insurance of Santa Ana, Calif. Mr. Hewitt has 17 years experience in property/casualty claims management in California.

J. David McDonald named

Continued on next page



comings & goings: industry

Continued from previous page
senior vp and chief underwriting officer of Westchester Fire Insurance Co. of Basking Ridge, N.J., a unit of Crum & Forster Inc. Mr. McDonald will be responsible for establishing underwriting policies and developing and underwriting all lines of insurance business. Mr. McDonald previously was vp with another insurer.

James A. Harper named executive vp of InsuranCenter Financial Co., a subsidiary of InsurAmeriCorp of Grand Rapids, Mich. Mr. Harper will be the general agent for Central Life of Iowa and will recruit and train agents. Mr. Harper previously was director of agencies for Central Life in Des Moines.

Agents/brokers

Jeffrey G. McKinley named president and chief executive officer of Emett & Chandler Northern California Insurance Brokers Inc. Also, **George W. Brown** named chairman and **George M. Powers** named vice chairman.

Robert P. Burns, Mary Ann Grayson and **James M. Healy** named vps at International Insurance Group Ltd. of Boston. Mr. Burns will manage all construction bonding. He previously was with Travelers Corp. Ms. Grayson will market and service property and casualty coverages. She previously was with Marsh & McLennan Cos. Inc. Mr. Healy will direct all aspects of marine and aeronautical coverages for the Boston-based company.

C. Timothy Morris named senior vp of the Agencies Division of FBS Insurance of Minneapolis, Minn., a subsidiary of First Bank System Inc. Prior to joining the company in 1982, Mr. Morris was executive vp of Adapt Inc.

Thomas A. Basalla, C. Charles Cernik and **John D. Schramm** appointed vps at Johnson & Higgins of New York. Mr. Basalla is manager of the technical services division. Mr. Cernik is a senior account manager in the property department. Mr. Schramm is manager of the bond division of the casualty department.


Mr. Pyle

Also, **Clayton P. Cormier** named senior vp and manager of the Oil & Gas/Energy Department of J&H. Mr. Cormier previously was president of Ancon Insurance Co. S.A., the Bermuda-based insurance subsidiary company of Exxon Corp.

Jack M. Pyle elected vp of Bayly, Martin & Fay of St. Louis. Mr. Pyle previously was vp at Lawton-Byrne-Bruner. He also has been associated with Employers Insurance of Wassau.

Corroon & Black Corp. of New York has announced several appointments. **Brian M. Kawamoto** named senior vp and production manager of Corroon & Black of Washington, D.C. Mr. Kawamoto, who previously was vp, will be responsible for the direction of all new business sales. **Sam H. McGoun** named chief executive officer of Corroon & Black of Michigan Inc. Mr. McGoun most recently was chief operating officer. He will continue as president of the firm.

Also, in Corroon & Black's Research & Development Division, **Lucien P. Laborde Jr.** appointed president and chief executive officer and **J. Edward Costner** appointed vp and actuary. Mr. Laborde, who joined C&B in 1979, previously was vp of Corroon & Black of Louisiana Inc., serving as risk management coordinator and energy coordinator. Mr. Costner also joined C&B in 1979 and has served as a consultant for industrial clients, muncipalities and state government.

Also, **M. Lynn Patton** named vp of C&B's National Accounts Services Division. Ms. Patton previously was assistant account executive in the corporation's Major Account Division.

And, **Robert J. Hogan Jr.** appointed senior vp of the National Accounts department of Chicago-based Corroon & Black of Illinois Inc. Mr. Hogan previously was vp and casualty manager for Marsh & McLennan Cos. Inc. He also has been associated with the Chubb Cos.

James L. Conklin named vp of Financial Services Intermediaries Inc. of Atlanta. Mr. Conklin will be responsible for market development, agency relations with FSI producers throughout the United States and marketing and placing coverages for special financial risks. Mr. Conklin previously was sales manager and regional vp for MGIC Indemnity Corp.

Robert A. Meister named senior vp of New York-based Fred S. James & Co. and vice chairman of Fred S. James of New York Inc. Mr. Meister will be involved in developing sales and servicing strategies tailored to major national and multinational accounts. Mr. Meister previously was with Alexander & Alexander Services and was vice chairman of Alexander & Alexander of New York Inc.

Also at James & Co., **J. Michael Hammer** named vp-national marketing. Mr. Hammer, who joined James in 1973, previously was an account executive and group leader in the New York office.

Other suppliers

Robert A. Reeves named president of Nashville-based Underwriters Safety & Claims of Tennessee Inc. Mr. Reeves previously was with Hospital Corp. of America. Underwriters specializes in workers compensation and claim service.

Roy Adams Jr. elected president and chief executive officer of CMA Consulting Group of Morristown, N.J. Mr. Adams replaces **Thomas C. Schlefer**, who remains as chairman. CMA provides consultants and project manager for sureties, insurance companies and banks.

Kurt E. Biedermann named a partner in the law firm Kroll, Tract, Pomerantz & Cameronof New York, which specializes in products liability.

Richard A.C. Lawrey appointed manager of the international employee benefits consulting practice of Tillinghast, Nelson & Warren Inc. in Newton, Mass. Mr. Lawrey previously was the manager of the employee benefits consulting practice in the company's London office.

Reinsurance

Paul Dassenko named vp in the New York office of John F. Sullivan Co. of Seattle. Prior to joining Sullivan, Mr. Dassenko has held production positions at American Re-Insurance Co. and North American Reinsurance Corp.

Albert W. Davis, James P. Quinn and **Harold E. Shergold** named executive vps at North American Reinsurance Corp. of New York. Mr. Davis will be responsible for marketing. He previously was Eastern region group vp. Mr. Quinn will be responsible for special lines and service. He previously was special lines and services group vp. Mr. Shergold will be responsible for underwriting. He previously was Central region group vp. ■



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Mayor's concern lands him insurance department post

TRENTON, N.J.—David N. Grubb's concern about municipal liability insurance as the mayor of Park Ridge, N.J., is indirectly responsible for the former risk manager's appointment as special deputy commissioner with the New Jersey Insurance Department.

Mr. Grubb, 39, was elected mayor of the New Jersey borough in 1983 while he was director of insurance and pension investments for The Great Atlantic & Pacific Tea Co. in Montvale, N.J.



Mr. Grubb

"The methodology of risk management, I've always found, is fairly well-suited to the effective management of local government," Mr. Grubb told *Business Insurance* after his election (*BI*, Feb. 27, 1984).

As mayor, he saw firsthand how the current lack of availability and high cost of commercial liability insurance strikes municipalities.

In his mayoral role, Mr. Grubb met on several occasions with New Jersey Insurance Commissioner Hazel Frank Gluck. As a result of those discussions, Ms. Gluck asked him to join the department earlier this year to replace retiring Deputy Commissioner Charles N. Steel.

"Right now, with what's happening in the insurance market in general, and in New Jersey in particular, this is an exciting place to be," he said.

Ms. Gluck, who is planning to leave the department within the next few months to become state commissioner of transportation, said the Insurance Department is fortunate to have a former risk manager like Mr. Grubb on staff.

However, Mr. Grubb notes that the state's own risk management and insurance program is run by the finance division, and he will not be involved.

Instead, Mr. Grubb will spend a lot of time on policy formation, specifically how to deal with the current lack of availability and the high cost of commercial insurance, and the new commercial general liability claims-made form.

Mr. Grubb will still serve as mayor of Park Ridge.

Before his involvement with government, Mr. Grubb was with Lipton Inc., where he left as corporate loss control administrator in 1977 to join A&P as its national safety manager. He later became A&P's director of insurance and pension investments.

Mr. Grubb left A&P last autumn to become executive vp of the Joseph L. Vozza Agency Inc. in Park Ridge, where he was in charge of the firm's risk management consulting division, a position he left Jan. 18.

Mr. Grubb said he has already met with Kenneth D. Merin, who is stepping back into the role of commissioner when Ms. Gluck leaves to go to the Department of Transportation (*BI*, Feb. 10).

Mr. Merin was Gov. Thomas Kean's deputy general counsel in 1984 when he was appointed acting insurance commissioner (*BI*, March 19, 1984; April 16, 1984).

At the time of that appointment, Mr. Merin announced he did not want to be commissioner on a permanent basis. Ms. Gluck, who previously was director of the New Jersey State Lottery, was sworn in as commissioner in March 1985 (*BI*, April 18, 1985).

After leaving the insurance department, Mr. Merin returned to the governor's staff as director of policy and planning.

Mr. Merin said he went to the insurance department as acting commissioner the first time to do a specific job: "Get a handle on the auto insurance situation."

After that was accomplished, Mr. Merin returned to the governor's office to handle issues affecting the health care delivery system, the environment and commerce.

But now, "we find that many of the areas we were working on, things that are important to the governor and the people of New Jersey, are all tied to insurance," Mr. Merin said.

It is still undetermined when the governor will officially nominate Mr. Merin as insurance commissioner and Ms. Gluck as transportation commissioner. Both appointments require Senate confirmation. ■

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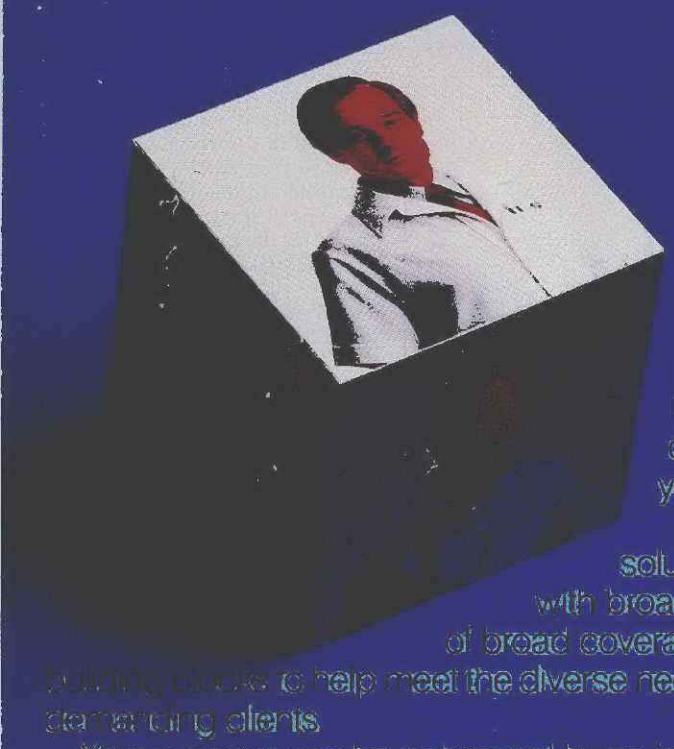
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U.S. catastrophes cost insurers $2.8 billion

Natural catastrophes in the United States last year cost insurers more than $2.8 billion, a record, according to Swiss Reinsurance Co.

Insured natural catastrophe losses in 1985 were more than 25% higher than the previous record of $2.25 billion in 1983 and nearly double the $1.55 billion in 1984.

A good portion of the 1985 U.S. losses were caused by three storms:

- Hurricane Elena, which struck the Gulf Coast in late August and early September causing $542 million in insured damage (*BI*, Sept. 9, 1985). Elena was the fourth-costliest hurricane in history, following Hurricane Fredrick in 1979, which caused $752 million in insured damage; Hurricane Betsy in 1965, which caused $715 million in insured damage; and Hurricane Alicia in 1983, which caused $675 million in damage.
- Hurricane Gloria, which hit the Northeast in late September, killing 16 people and causing $419 million in insured damage (*BI*, Oct. 7, 1985).
- Winter storms that hit 29 states in January, which caused insured damage of $400 million.

Swiss Re noted that large losses were common in 1985.

The report says: "1985 will go into the history books as a year with abundant losses, in terms of both the number and the amount. This observation applies in particular to natural catastrophes, which set new records regarding extent of loss, and aviation, for which 1985 is considered as being especially bad."

Natural catastrophes in other parts of the world included:

- Tornadoes Eric and Nigel, which struck the Fiji Islands in January. The storms killed 27 people and cost insurers $68.4 million.
- Hailstorms in Brisbane, Australia, in January. The storms caused $68.4 million in damage.
- A January cold spell in France, which caused $132.3 million in insured damage.
- Typhoons Pat and Ruby, which struck Japan in August and September, killing 30 people and causing $99.5 million in damage.
- Earthquakes that struck Mexico City in September, killing more than 5,000 and costing $220 million.

The Swiss Re report divides major losses in several categories, including natural disasters, fires and explosions and aviation losses.

The natural disasters striking the United States included:

- Windstorms that hit California in January, causing $15 million in insured damage.
- The January winter storms.
- A January cold spell in Florida, causing $21.6 million in insured damage.
- Tornadoes that swept through 16 states in April, causing $90 million in insured damage.
- Hail and tornadoes that hit 11 states in mid-April, which caused $55 million in insured damage.
- April hail, tornadoes and floods in Texas, Oklahoma and New Mexico, which cost $55 million.
- Wind, hail, tornadoes and floods that struck 10 states in May and cost insurers $79.8 million.
- Windstorms and hail that hit San Antonio, Texas, in late May, causing $30 million in damage.
- Tornadoes and hail that struck portions of the Eastern United States and Canada in May and June, costing insurers $221 million.
- Storms that struck Iowa and Nebraska in late June, causing $10 million in insured damage.
- Hurricane Elena.
- Hurricane Gloria.
- Tornado Juan, which hit the Gulf Coast in late September, causing $44 million in insured damage.

The major U.S. fires and explosions last year included:

- A Feb. 21 warehouse fire in Elizabeth, N.J., that cost $100 million (*BI*, May 13, 1985).
- A March 26 oil refinery fire in Big Spring, Texas, that caused $6 million in insured fire losses and $31.5 million in lost profits.
- Florida brushfires in late May, causing at least $25 million in losses.

The major aviation disaster in the United States included:

- The Jan. 21 crash of a Galaxy Airlines' Lockheed Electra 188 near Reno, Nev., killing 67 people. The hull loss was $2.2 million, and liabilities are estimated at $60 million.
- The drastic loss in altitude of a China Airlines' Boeing 747 en route to San Francisco on Feb. 19. The hull loss was $7.6 million.
- Heavy damage to a Southwest Airlines' Boeing 737 upon landing in Amarillo, Texas, on April 28. The hull loss was $5.9 million.
- The Aug. 2 crash of a Delta Airlines' L-1011 near Dallas, which killed 132 people. The hull loss was $24.7 million, and liabilities are estimated at $105 million.
- The Sept. 9 crash of a Midwest Express DC-9 near Milwaukee, which killed 31 people. The hull loss was $3.1 million, and liabilities are estimated at $15 million.
- The Sept. 23 crash of a Piedmont Airlines' Beech 99, which killed 14 people. The hull loss was $600,000, and liabilities are estimated at $7.7 million.

In addition, two major aviation losses occurred on U.S.-bound jets:

- The June 23 crash of an Air India Boeing 747 off Ireland's coast, which killed 329 people. The hull loss was $100 million, and liabilities are estimated at $33 million.
- The Dec. 12 crash of an Arrow Air DC-8 near Gander, Nova Scotia, killing 258 U.S. servicemen and crew members. The hull loss was $5 million, and liabilities are estimated at $150 million.

In addition, the worst aviation disaster on record occurred last year, when a Japan Air Lines Boeing 747 crashed in Japan on Aug. 12, killing 520 people. The hull loss was $35 million, and liabilities are estimated at $178 million. ■

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Ex-attorney general joins tort reform group

By JERRY GEISEL

washington

WASHINGTON—A former attorney general in the Carter administration is joining the drive for tort reform.

Benjamin Civiletti, who served as U.S. attorney general in 1979-80, and now is a partner with the law firm of Venable, Baetjer, Howard and Civiletti in Washington, has been named general counsel of the American Tort Reform Assn.

"The experience Mr. Civiletti brings to the American Tort Reform Assn. will give us strong support in solving this crisis affecting every American," said James Coyne, president of the Washington-based ATRA.

ATRA, which was founded a month ago to seek reform of the civil justice system, primarily at the state level, is growing rapidly (*BI*, Jan. 27). The lobbying organization, which began with 24 trade association members, has increased its roster to 100 business and professional groups and individuals.

ATRA, which charges a membership fee of $50, gets about 10 new members a week, a spokeswoman said.

In another civil justice reform development, Sen. Mitch McConnell, R-Ky., last week was expected to ask the Senate to adopt a resolution urging overhaul of the legal system at the state level.

The resolution will say that "it is the sense of the Senate that reform of the civil justice system is urgently needed and that. . .states should consider and adopt with all due speed measures designed to alleviate the liability crisis through reform of their civil justice and tort law systems."

Although Sen. McConnell believes Congress has an obligation to deal with the civil justice system, he believes it also is appropriate for states to adopt their own reforms, an aide said.

Product liability

More than 1,000 manufacturers are going to Washington on March 11 in an attempt to persuade Congress to pass a uniform federal product liability reform law.

The manufacturers, under the sponsorship of the National Assn. of Manufacturers, will deliver a simple message to Congress: Both business and consumers need a federal product liability law.

The legal system has become so distorted that manufacturers feel they are unable to make a product that will not at some point be the target of litigation and unprecedented jury awards, according to NAM President Alexander Trowbridge.

"With the costs of product liability insurance skyrocketing, manufacturers have been faced with closing plants, dropping product lines or increasing prices to the point where their products can't compete with those abroad," Mr. Trowbridge added.

Pension trustees

Current and former trustees of a California multiemployer pension plan have agreed to repay the plan $55,000 to settle a Labor Department suit.

The department had charged that the trustees of the California Woodworkers Pension Trust of Oroville had made certain loans that violated the Employee Retirement Income Security Act.

The $55,000 restored to the plan includes $15,000 in lost interest on loans made at below-market interest rates and $40,000 of the outstanding balance on a real estate loan that allegedly violated ERISA's prohibited transaction rules, the department said.

Under the settlement, the trustees also agreed to turn over investment authority to an indpendent manager, Integrated Asset Management Corp. of New York.

The settlement was filed in the U.S. District Court in Sacramento.

Simon suggestion

Sen. Paul Simon, D-Ill., should reconsider his suggestion that the federal government provide reinsurance when commercial coverage dries up, an insurer says.

Sen. Simon recently said he would examine whether a federal reinsurance program could be established for businesses whose rates have gone up more than 100% in one year or that can't get coverage at any price.

"For example, if service stations cannot get insurance, the association of service stations could form a company to offer insurance, and the federal government could reinsure (or underwrite) at a small fee," Sen. Simon said.

But Les Cheek, vp-federal affairs for Crum & Forster in Washington, says a federal reinsurance program would be a disaster.

"Domestic and foreign professional reinsurers have abandoned certain lines and classes of business in North America because they have absorbed huge losses," he said in a letter to Sen. Simon.

"Do you really believe that the federal government, totally lacking in casualty reinsurance expertise, could underwrite distressed lines that professional reinsurers have abandoned after decades of experience and make 'a small profit?'

"As soon as Uncle Sam, with his printing press, becomes the reinsurer of last resort, no plaintiff will hesitate to press even the most spurious claim," Mr. Cheek added in the letter.

In essence, such a plan would be like "giving the keys of the U.S. Treasury to the organized plaintiff's bar," he said.

Pension task force

The Labor Department has formed a special task force to examine whether the wave of terminations of overfunded pension plans is adversely affecting the security of participants' benefits.

The 12-member task force will determine whether any changes in the Employee Retirement Income Security Act are needed to protect participants' benefits.

The task force will report to the Labor Department's ERISA Advisory Council.

"The task force will provide valuable advice concerning the impact asset reversions have on the retirement income security of American workers, the additional safeguards that may be required to secure promised benefits and the possible effects of potential changes in the law on the viability of our voluntary private pension system," said Labor Secretary William Brock. ■



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Bunner warns insurers about discounted reserves

SAN FRANCISCO—California Insurance Commissioner Bruce Bunner has warned warned property/casualty insurers licensed in the state not to include discounted loss reserves in their 1985 financial statements.

Mr. Bunner said a growing number of property/casualty insurers are reporting unpaid losses and loss adjustment expenses on a discounted basis in their statutory financial statements due March 1.

The Insurance Department maintains that discounting loss reserves overstates an insurer's statutory net worth by giving the insurer credit for income to be earned in the future on reserves.

Mr. Bunner cautioned insurers that the filing of a financial statement showing discounted reserves "may be construed as the filing of a false or misleading statutory financial statement with intent to deceive," a department statement said.

Mr. Bunner noted the warning was partly the result of attempts by CIGNA Corp. to partially discount the $1.2 billion reserve addition announced last month and partly as a result of research he has done on the quality of insurer's policyholder surplus (*BI*, Feb. 24).

"What we need is quality surplus. We don't need surplus composed of bookkeeping credits," he said.

around the states

Malpractice hike

ATLANTA—Georgia Insurance Commissioner Warren D Evans said last month he would approve a 38% increase in average medical malpractice insurance rates in Georgia requested by The St. Paul Cos. Inc. The increase is retroactive to Jan. 25.

St. Paul, which insures about 60% of all Georgia doctors, originally had asked for a 55.5% increase in average basic medical malpractice rates (*BI*, Dec. 30, 1985). That request was rejected last month.

Mr. Evans said of the 38% increase in medical malpractice rates: "I don't like it, but my actuarial staff advises me it is justified because St. Paul submitted sufficient evidence to support their request and the law leaves me no choice."

St. Paul also agreed to provide medical malpractice insurance through affiliated companies to Georgia applicants who can't get coverage directlty from St. Paul. Mr. Evans said he hoped this would offset the effect in Georgia of the company's nationwide moratorium on writing new malpractice business (*BI*, Jan. 6).

N.C. regulation

RALEIGH, N.C.—The North Carolina General Assembly has given the state insurance commissioner authority to create risk-sharing plans, also known as joint underwriting associations, for any line of insurance.

This authority is activated only when there is a coverage problem. A joint underwriting association is a pooling arrangement in which all insurers join to provide coverage that is unaffordable or unavailable as determined by the state regulator. The association sets rates and administers the JUA.

The measure was adopted during a special session of the assembly Feb. 18 and took effect that day. Its provisions expire June 30, 1988.

The legislative action also extends the existing state FAIR Plan to include the entire state rather than only designated areas.

A FAIR Plan—Fair Access to Insurance Requirements—is a pooling arrangement established to provide access to insurance for property owners, including businesses, in designated areas.

Texas plans MAP

AUSTIN, Texas—The Texas Board of Insurance is preparing to launch a market assistance program to help commercial insurance buyers obtain most general liability coverages.

The MAP organizing committee, appointed Feb. 10, plans to submit its draft plan to the State Board of Insurance by March 18, said Evelyn Ireland, director of Research and Information Services for the state.

The program is being modeled after a similar one implemented in the mid-1970s in response to a tight product liability insurance market, she said. That MAP was discontinued in 1980.

The new MAP will help consumers find most lines of general liability coverage, except medical malpractice and environmental impairment exposures. The Texas MAP also will provide assistance in securing commercial auto liability insurance, Ms. Ireland noted.

The proposed design of the new MAP will include four committees comprised of agents, insurance company representatives, surplus lines brokers and consumers. The committees are:

- A producers committee, which will review applications and decide what route to take in finding suitable coverage.
- An underwriting committee, which will determine which risks are worth taking and what policies should cover.
- An executive committee, whose duties have not yet been defined.
- A research committee, comprised primarily of research department staff, which will gather information on problem areas to "really document what's going on in the marketplace," Ms. Ireland explained.

Ms. Ireland says the board hopes to implement the new MAP by the end of this month.

Vermont regulator

MONTPELIER, Vt.—The former executive vp and chief operating officer of the Bank of Vermont is slated to become the state's commissioner of banking and insurance on March 10.

Thomas P. Menson, 39, was appointed Feb. 20 to replace David T. Bard, who is resigning to become president of the New England IBM Credit Union in Essex Junction, Vt. Mr. Bard has been commissioner since January 1985.

Mr. Menson admits he will step into the post with little direct knowledge of insurance. However, he pledges to continue the legislative lobbying effort begun by the Departent of Banking and Insurance calling for a statute to allow the formation of joint underwriting associations.

Mr. Menson's appointment as commissioner is pending Senate confirmation. ■

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Georgia agents form personal lines insurer

Continued from previous page

over the next five years," Mr. Crawford said. "At the end of those five years, we project having right at $9 million in premium volume."

Mr. Crawford estimated that Southern Heritage will have issued about 400 personal lines package policies by the end of February.

Agents representing the insurer can bind coverage that generates up to $5,000 in premium without receiving prior approval from the insurer, said Fred W. McGinty, president of Trupp-McGinty Realtors Insurors agency on St. Simon's Island and chairman of Southern Heritage's board of directors.

However, the agents are limited in the total amount they can place with Southern Heritage as part of the insurer's effort to control its growth.

"We are practicing careful growth, so our volume doesn't outstrip our ability to administer service," Mr. McGinty said.

Southern Heritage's guarded growth rate is designed not only to allow management to exert better control over the insurer during its formative stages, but also to help participating insurance agents avoid alienating the other personal lines underwriters they represent.



Mr. Smith

"We would have gotten a negative reaction from the personal lines companies in Georgia if we had come in and just 'opened up' premium volume," Mr. McGinty said.

"We are practicing controlled growth because our purpose is to strengthen the independent agency system" rather than to create further conflict, he explained.

Mr. McGinty added that Southern Heritage's growth rate also is controlled by the fact that, under the provisions of its charter, the insurer must maintain at least a 2-1 premium-to-surplus ratio.

An agent-owned personal lines insurance company was Mr. Crawford's brainchild.



'We are geared toward the 75% of the public who are good exposures. We do not want hard-to-place business,' Mr. Crawford says.

Mr. McGinty said Mr. Crawford already had "put together preliminary underwriting guidelines and an operating pro forma" in July 1984, when he approached Mr. McGinty, 12 other Georgia agents and an attorney with his proposal.

"Everybody at the meeting agreed that it was a viable concept," Mr. McGinty pointed out.

"The idea of starting an insurance company appealed to me," said Harold L. Smith, president of Turner, Wood & Smith Inc. in Gainesville and also a founder and board member of Southern Heritage.

"As agents, we are on the front line of the underwriting aspect (of the business) anyway," he said.

"We also felt the insurance company could offer us a nice, long-term return on our investment."

"This is the perfect time to start an insurance company because, unlike other insurers who are trying to recover from losses incurred over the last few years, we do not have a past loss history hanging over our head," explained Frank A. Brown, Jr., president of Cooper, Brown & Currie Inc. agency in Rome and a founder and member of the board.

"We're not carrying that excess baggage to start with," Mr. Brown said.

Another board member agreed.

"We were beginning to be caught in a more restricted marketplace with stricter underwriting guidelines and reduced capital. It looked like a good time for us to make a move," said Devon Donaldson, chairman of the board of Jim Anderson & Co. agency in Decatur.

"We certainly didn't want to do so in a down cycle, when no one has a prayer of making a profit," Mr. Donaldson pointed out.

The agents that founded Southern Heritage decided to write only personal lines coverages because they felt it was a less-risky endeavor than writing commercial insurance lines.

Mr. Brown explained: "Commercial lines are struggling right now. If a new commercial lines company were started up right now, it would have a real struggle in the reinsurance market, much more than would a personal lines insurer.

"Personal lines provide a more stable approach. They're less volatile."

Mr. Crawford added: "We picked what we could do best. Personal lines is my area of expertise and it puts us in a more competitive mode than commercial lines."

In addition, the company decided to write business only in Georgia because it offered a "more controlled situation," said H. Barron Brooks, president of T.W. Brooks Agency Inc. in Chatsworth, a founder and board member of Southern Heritage.

Not only can the company "more effectively underwrite its personal lines book. . .it will also help our service because a local company can react more promptly to changing conditions within the insurance industry," Mr. Brooks said.



Mr. Eldridge

"There is a possibility of regional expansion later, but it has not been discussed. It would be more likely for Southern Heritage to expand out of Georgia than to go into commercial lines," Mr. Brown added.

Originally, Mr. Crawford planned to find 50 to 60 agents who would privately capitalize the insurer. But, after his preliminary discussions with the 13 agents and attorney, those plans were modified.

Realizing the difficulty of finding that many agents to invest substantial funds in a new insurance company, the 15 founders decided instead to each contribute enough capital—a total of $145,000—to set up the preliminary paperwork, pay attorneys and get approval to sell stock in Southern Heritage through a public stock offering within Georgia.

When the founders received authorization to sell the stock, they restricted its sale to Georgia residents under the Georgia Securities Act of 1973, Mr. Crawford said.

"Under our filing, only the chairman and the executive officers of the company could sell stock," he explained, adding that they offered the stock only to select agents and key business contacts.

"When I looked at the agents involved in the founding of Southern Heritage, I saw that they represented a pretty well-respected group of agents around the state of Georgia, and they have a good handle on the business they are targeting," said Doc Eldridge, a partner in Athens Insurers, an agency in Athens that is licensed to place business through Southern Heritage. Mr. Eldridge is also a Southern Heritage shareholder.

After meeting the Georgia Insurance Department's licensing requirements and insurer capitalization requirements of $1.2 million, which was raised through the stock sale, Southern Heritage was licensed on Sept. 24 and opened for business Oct. 1.

Southern Heritage also lined up reinsurance through a treaty with General Reinsurance Corp. of Greenwich, Conn.

"It is interesting for us as founders to be involved in the handling of reinsurance markets and the company investment portfolio," said Mr. Smith.

"It makes us better appreciate the problems and complications faced by the insurance companies with which we do business," he pointed out.

The insurer will write homeowners coverage limits of up to $250,000. Auto liability limits range up to $250,000 per person and $500,000 per occurrence for bodily injury and $100,000 property damage, Mr. Crawford explained.



Southern Heritage's personal lines policies are issued and billed directly to the clients by the insurer.

"We are geared toward the 75% of the public who are good exposures. We do not want hard-to-place business. Specialty markets or heavy schedules do not interest us," Mr. Crawford said.

"Southern Heritage's underwriting philosophy is pretty conservative. It's a preferred-writing company, looking for the above average risk," Mr. Donaldson commented.

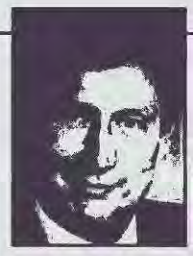
Southern Heritage's agents have a stronger incentive for placing only good business with the insurer than simply following underwriting guidelines.

"The agents/stockholders representing Southern Heritage aren't going to gamble their stake in the company by placing bad business through it," Ms. Elliott stressed.

She added that Southern Heritage has "eliminated many of the frills offered by other insurers—advertising campaigns and gimmicks like fancy policy folders and stuffers."

That, combined with the ease in processing the package policies, has helped Southern Heritage keep its rates relatively low, Ms. Elliott explained.

"Their rates have been about 18% under market price for our agency in metropolitan Atlanta," Ms. Elliott said.



'It is a convenience for the client and for the agent that Southern Heritage is highly automated,' says Robert J. Powell.

Mr. Brooks attributed the insurer's relatively low rates to its "more disciplined underwriting approach" and the cost-effectiveness of writing only personal lines package policies.

According to Mr. Crawford, Southern Heritage's commission schedule is competitive with the commissions offered by other insurance companies.

Despite its relatively small size, Southern Heritage will soon be fully automated to further reduce its costs.

Southern Heritage's founders worked with Policy Management Systems Corp. in Columbia, S.C., to develop a computer software system that could be run on an IBM 36 system, a small mainframe computer that the insurer could afford.

The system expedites the insurer's policy processing and billing functions, which improves client service and holds down costs, Mr. Crawford says.

"It is a full insurance operation system—from rating to policy printing to billing to management and statistical support, and yet the system stays within our expense ratio," Mr. Crawford explained, noting the Southern Heritage system will be fully operational by April.

Since the insurer will be automated almost from its inception, Southern Heritage will not incur the extra expenses or need the extra personnel required by other insurance companies when they convert from a manual to an automated system.

And the rapid processing time afforded by the automated processing system "will be a tremendous asset," said Mr. Smith of Turner, Wood & Smith.

"The response time will be much more efficient for agents in terms of account suspense and processing, and it's certainly a plus for consumers," he said.

Robert J. Powell, president of Cannon & Powell Insurors in Albany, agrees: "It is a convenience for the client and for the agent that Southern Heritage is highly automated.

"It will help agents eliminate their paper shuffle and afford lower prices through efficiency," he said.

However, Southern Heritage's agents will not be interfaced with the insurer. They will submit applications to Southern Heritage through the mail or over the phone, Mr. Crawford said.

The Decatur office of Southern Heritage will process all policies for the foreseeable future, Mr. Crawford explained, adding there are no immediate plans for the insurer to establish branch offices in other parts of the state.

Currently, Southern Heritage has seven full-time employees in the Decatur office: two personal lines managers, three personal lines administrators, a vp/treasurer and Mr. Crawford, who handles all the underwriting.

In addition, the company employs a full-time consultant on a temporary basis to help Southern Heritage get on its feet, Mr. Crawford said. ■

agent/broker topics

A monthly editorial section sent exclusively to agents and brokers



Putting it all together

Agent-owned insurer specializes in package policies

By LINDA J. COLLINS

DECATUR, Ga.—A group of Georgia insurance agents has come up with a sure-fire way of finding a market for personal lines business in the tightening insurance environment:

They have established their own insurance company.

Southern Heritage Insurance Co. in Decatur, which specializes in writing personal lines package policies, was founded last year by 13 insurance agents, an attorney and a former insurance company executive.

The company was capitalized at slightly less than $2.15 million through the sale of stock, with more than 50% of that stock sold to Georgia agents.

In addition, the company's charter provides that at least half the members of Southern Heritage's board of directors must be agents.

"This company will be in tune with agents in the state of Georgia and can work closely with us to provide service to clients. They also have sound underwriting guidelines that I certainly approve of," explained Julia W. Morgan, president of Ed Morgan Insurance Agency Inc. in Conyers, Ga.

Southern Heritage 'will be in tune with agents in the state of Georgia and can work closely with us to provide service to clients,' explains Julia W. Morgan.

Ms. Morgan is a licensed agent with Southern Heritage Insurance Co. and is also a Southern Heritage stockholder.

Southern Heritage, which began operations on Oct. 1, underwrites only personal lines package policies and will not write a single policy for a client.

The packages combine automobile coverage with homeowners, renters or condominium insurance. In addition, optional boat or personal umbrella coverage can be added to the package.

"The personal lines packages have streamlined processing activities" for both Southern Heritage and its agent representatives, said Susan A. Elliott, vp and partner with Jarvis Insurance Agency Inc. in Atlanta and a Southern Heritage agent.

Southern Heritage policies are very simple to price, Ms. Elliott explained, adding that because the packages offer only a limited selection of options, "their product turnaround time is 48 hours in many cases."

"Clients like the idea of a package policy with common expirations," Ms. Morgan said.

In addition, Ms. Morgan stressed that although the insurer offers limited options, "Southern Heritage is using a broad form of insurance with very good coverage."

Southern Heritage writes business exclusively in Georgia. Sixty-five agents, all of whom are stockholders, currently represent the company.

The insurer's founders made a conscious decision to start slowly. Despite its $2.15 million in capital, Southern Heritage, expects to write only about $2.5 million in premium volume this year, said Thomas W. Crawford, Southern Heritage's president and chief executive officer.

"We plan to expand our premium growth gradually

Continued on next page

perspective

Waste dumping causes many losses

By The Insurance Institute of America

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

This month's material, taken from the December 1985 examination for ARM 54, Structure of the Risk Management Process, deals with the many diverse losses that can be suffered by an organization that pollutes the environment. This particular question concentrates on identifying these potential losses, which hopefully is the first step in preventing, or financing recovery from, these losses.

Q: The risk management professional for a mining company that dumps its wastes into a major navigable river adjoining its smelter recognizes that, if this dumping is found to be a flagrant violation of the state's environmental protection statute, the firm may be held liable for both civil and criminal wrongs, and its senior executives may even be imprisoned for up to one year.

Other than the legal expenses, to what financial consequences of liability and other potential losses is this firm subject if:

- Its violation of the statute enables owners of downstream property to bring successful civil suits against the mining company?
- The state orders the company to stop dumping its wastes into the river?
- Most of the company's key executives are jailed for six months?

A.R.M. exercises

A: Beyond paying legal expenses, the mining company, if successfully sued by downstream property owners, would have to pay verdicts won, or settlements negotiated by, these claimants plus the cost of any environmental cleanup required for their property.

A less evident, but significant, financial consequence of liability would be loss to the mining company of the value of its executives' time devoted to the suits rather than to their normal productive activities.

Further losses stemming from violation of this statute include the cost of modifying its processes to comply with statutory requirements, the loss of net income during any partial or full shutdown required to modify these processes, and the loss of reputation and market—and consequently future income—because of any adverse publicity sparked by the company's violation.

- If ordered to halt dumping, the mining company's liability losses would include the expenses of complying with any specific court order mandating particular changes in its process.

In addition, the company could be legally required to pay fines for any dumping it may have done in the past.

The mining company's other losses from being ordered to halt dumping would be like the other losses mentioned above stemming from landowners' suits.

Moreover, if halting the dumping made the company's operations less cost-effective and profitable, this reduction in future profits from use of the company's land also would lower the market value of the land itself.

- The jailing of the company's key executives for six months might well require the company to reimburse these executives for, or even to pay on their behalf, any criminal fines imposed upon those individuals.

The obligation of the mining company could well arise from the terms of any indemnity agreements through which the company protects its executives.

With respect to the jailed executives, the company's other losses would include payments made under any salary continuation plan for these executives plus the cost of locating, hiring and paying a salary to any replacement personnel so that the company could continue operating.

If the company could not continue operating, the resulting loss of net income during shutdown would be another loss attributable to the absence of these key executives.

Finally, these incarcerations, like many of the losses dealt with in the previous parts of this question, could lead a number of key executives to resign either under pressure or in the hopes of more favorable employment elsewhere. The loss of the special expertise could be a major financial blow to the mining company. ■

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.

Insureds can't recover for bad-faith allegation

legal briefs

Policyholders could not recover for the tort of an insurer's bad-faith failure to properly investigate and pay losses incurred by the policyholders in a case where the policyholders did not prevail on their claim that the insurers were liable on the underlying policies, a federal court in Mississippi ruled.

Several businesses operated in an old historic section of Natchez, Miss., on the east bank of the Mississippi River below a bluff. The several businesses were covered by insurance policies issued by United States Fidelity & Guaranty Co. and another insurer.

In 1980, a huge section of the bluff broke loose and slid down, destroying the property of the policyholders. The policies excluded coverage for losses caused by water below the surface and other water-related causes.

The policyholders claimed that the slide was caused by high winds that loosened tree roots, triggering the mudslide. The insurers denied the claims, based on the water exclusion provisions of the policies, claiming the bluff had been weakened by excessive rainfall.

The trial court noted that the area had experienced excessive rains in late 1979 and early 1980, causing the soil on the bluffs to become saturated with moisture and unstable.

The court concluded that the sole cause of the mudslide was the excessive rain rather than the strong winds and that, therefore, the claims were subject to the water exclusions in the policies.

Therefore, the court said, the policyholders' further claims for tort damages arising out of bad-faith failure by the insurance companies to properly investigate and pay the losses could not be supported because the policyholders had not established the insurers were liable on the policies or that the insurers had no "arguable reason" for denying coverage. *J. O'Malley vs. United States Fidelity & Guaranty Co.*, U.S. District Court for the Southern District of Mississippi, Feb. 7, 1985 (*BI*/01/F.—$5).

Workers compensation

A trash collector fatally shot while on his route by the jealous husband of his paramour was not injured in an accident "arising out of employment" for workers compensation purposes, a Louisiana appellate court ruled.

Michael Williams, an employee of the town, was engaged in picking up trash when John Beale pulled his automobile alongside the truck. Mr. Beale stepped out of his car, began arguing with Mr. Williams and then shot him dead. Mr. Beale had discovered that Mr. Williams was carrying on an illicit relationship with Mr. Beale's wife.

Mr. Williams' mother filed a claim for death benefits under the workers compensation act.

The trial court found in favor of Mr. Williams' mother.

But, the appellate court said that mere location of the accident at the workplace does not automatically cause liability to ensue under the workers compensation law.

"A causal connection between the accident and the employment must be shown before the accident can be held to arise out of the employment," the court said. This contemplates that the accident be the result of some risk to which the employee is subjected in the course of his employment, the court emphasized, or that the risk is greater than that occasioned by a person not engaged in the employment.

Here, the court said, there was no evidence there was an increase in the risk of Mr. Williams being shot attributable to his employment. And, thus, the claim was denied. *Verrette v. Town of Ponchatoula, Court of Appeal of Louisiana, Feb. 26, 1985 (BI/03/F.—$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.

International issues

Continued from previous page

company's accounting department. In addition, the law allows retiring employees to take their benefits in a lump-sum payment.

Many provisions of the law have been unenforceable because of ambiguities that still exist, and the credibility of the law appears to be declining.

Nevertheless, benefit managers should monitor the situation closely.

"Down under," in Australia, a recent government statement proposed a 3% "productivity increase" to superannuation plans. If approved, employers would be required to augment their superannuation plans by the required amount over a two-year period beginning July 1, 1986.

This quick worldwide tour shows that today's employee benefit manager is hard-pressed to keep pace with an ever-changing legislative climate. Of particular importance are the ongoing revisions that these legislative changes cause to the foreign budgets of U.S. multinationals.

But, even more important, the human element always must be considered when reviewing legislative changes.

The future is expected to bring more rounds of legislative cost-shifting to the private sector, as well as a move toward foreign Individual Retirement Accounts.

Witness the United Kingdom and Spain, which are heading toward a three-tiered retirement system: basic state retirement income, company-provided supplements and individual savings.

Other European countries most likely will follow this pension trend. Can "Australiasia" then be far behind?

But, don't despair. Just follow this column in the coming year for legislative updates and commentary. ■

GLOBAL PENSIONS

Changes in retirement plan rules to affect multinationals

By Jerome Karter

international issues

AT A TIME when U.S. risk managers are busy battling rising premiums, constricted capacity and increased self-insured retentions, U.S. employee benefit managers are finding themselves caught in the continuing legislative fray that affects both domestic and international benefit planning.

A recent wave of foreign pension legislation, aimed at streamlining local benefit levels, is expected to have a dramatic impact on U.S corporations operating abroad.

In addition, new Financial Accounting Standards Board statements are mandating pension accounting changes in the areas of planning, financing and reporting.

Of particular importance is FASB No. 87, which subjects the foreign pension plans of U.S. multinationals to new reporting principles.

Under FASB No. 87, all future income statements, balance sheets and financial statement footnotes must reflect the following changes in an employer's foreign pension accounting:

- Uniform actuarial cost method.
- Uniform amortization period for prior service costs.
- Balance sheet liabilities and assets.
- Current discount rate assumptions.
- Expanded disclosure requirements.

The new FASB standards are expected to cause the transfer of certain pension-related responsibilities out of the employee benefits arena and into corporate finance departments. Critics of the new standards thus assert that the accounting process now may drive pension planning rather than report it neutrally.

Spain has joined the growing list of countries trying to shift the emerging costs of a national social security system onto private employers.

A provision of FASB No. 87 will allow U.S. multinationals to delay compliance with all foreign employee plan provisions until Dec. 15, 1988. However, planning is necessary in the interim period to help ease local managers of U.S. multinationals into future accounting and reporting standards.

When planning for future changes, employers specifically should consider the following:

- In which foreign locations do you have existing pension plans or similar arrangements, such as a termination indemnity plan? What has been done in the way of pension accounting?
- What changes, if any, will you make in your funding policy? (It is possible that your funding policy may produce results different from those required by the FASB accounting guidelines.)
- Will you wait until fiscal year 1989 to comply with FASB No. 87, or will you want to comply on the schedule required for U.S. plans?
- Do you have a uniform set of accounting and reporting guidelines to facilitate the consolidation of results for financial reporting? Guidelines may be needed in the areas of disclosure, determination of income and balance sheet entries, setting of actuarial assumptions, deadlines and actuarial assistance.

In addition to impending changes in FASB standards, U.S. multinationals also are facing a rash of changes in foreign benefits planning due to new or soon-to-be-enacted pension legislation.

Across the Atlantic, legislation is pending in the United Kingdom to eschew a financially troubled social security system.

A proposal pending in Parliament sponsored by the Conservative government would encourage employers to opt out of the State Earnings-Related Pension Scheme and set up private pension funds as an alternative to participation in SERPS (see story, page 3).

The cost-reduction features of the scaled-down SERPS program will not affect existing pensioners, and they will not affect the pensions of those retiring or widowed during this century.

But, future participation undoubtedly will be viewed as financially unattractive, primarily because:

- New SERPS pensions will be calculated as 20% of lifetime average earnings instead of 25% of the highest-paid 20 years as is the current practice.
- Survivors will inherit only 50% of their spouses' pension rights instead of the previous 100%.

In an effort to further encourage the spread of occupational schemes in Britain, the pension plans that opt out of SERPS will qualify for an extra rebate from the state worth 2% of the earnings on which reduced national insurance contributions for contracted-out schemes are based.

And, as an alternative to either SERPS or an employer's pension plan, the measure would encourage personal pension schemes similar to Individual Retirement Accounts in the United States.

These personal pensions will be provided by investment in a variety of financial institutions.

At retirement, however, these savings must be invested in insurance company annuities. These annuities must include spouses' pensions as well as an inflation-proofing cost.

Benefit managers should begin a complete review of existing British pension plans pending implementation of the new SERPS legislation.

Moving on to the continent, Spain has joined the growing list of countries trying to shift the emerging costs of a national social security system onto private employers.

In Spain, company provided pension plans that are integrated with the social security system will be seriously affected by legislation enacted in 1985. Changes in the method of calculating social security retirement pensions are expected to reduce existing benefits by 6% to 14%.

Significant revisions to Japan's state pension system are designed to prevent future insolvency of the system.

In addition, legislative changes in disability pension accounting will increase employer costs under company-provided plans that supplement social security disability pensions by affording a targeted-income replacement ratio.

The new law in Spain also mandates stricter eligibility requirements for social security retirement pensions.

In Belgium, companies have until June 7 to implement the provisions of a new law that will affect many uninsured private pension plans. Pay-as-you-go pension plans and book reserve schemes no longer will be allowed as funding mechanisms. Instead, private pension plans will have to be funded externally.

The new Belgian law also mandates stricter pension reporting requirements, as well as minimum reserve requirements for defined benefit plans, solvency margin requirements for pension funds providing death and/or disability benefits and rules governing investments of pension fund assets.

U.S. benefit managers should work with their Belgian subsidiaries to establish a timetable for compliance with the various provisions of this new legislation.

In Italy, the recent National Labor Contract for Industrial Executives included a Jan. 1, 1986, obligation for employers to provide lump-sum death and permanent disability insurance.

Benefit levels are set at 80 million lire ($47,648) for single employees, 100 million lire ($59,560) for employees with one dependent and 120 million lire ($71,475) for employees with two or more dependents.

Most employers in Italy already are providing some level of these benefits, but benefit managers should make sure their local policies carry the required limits.

As of Jan. 1, 1986, employers in Germany are required to comply with a non-discrimination law pertaining to company-sponsored pension plans.

In the past, separate benefit levels for widows and widowers were permitted, but such benefit differentials no longer are allowed.

In Denmark, proposed amendments to current tax legislation are aimed at eliminating or reducing the deductibility of certain items, including the amount of pension contributions.

The proposed amendments, which are scheduled to take effect Jan. 1, 1987, would limit tax-deductible amounts to 50,000 krone annually ($6,000). An indexing feature still is being considered.

As yet, no special legislative provisions have been granted for existing pensions.

This situation deserves monitoring because, if none is allowed, many U.S. multinationals will be forced to re-evaluate the way they provide benefits to their senior executives in Denmark.

Within the Pacific region, Singapore often has been considered a high-cost base for business. To comply with local requirements, employers in Singapore must pay 25% of total covered salaries to the Central Provident Fund.

In addition, employees also are required to pay 25% of their covered earnings to the CPF.

In an attempt to lower production costs in Singapore and stimulate a stagnating economy, the prime minister has proposed a reduction in, or a temporary suspension of, the employer's contribution to the Central Provident Fund.

But, while some of the savings might be pumped back into the local economy, reduced pay-ins will result in lower employee retirement benefits.

In Japan, significant revisions to the state pension system will take effect April 1, 1986. These revisions are designed to prevent future insolvency of the state pension system by establishing a healthy balance of income—contributions—and outgo—payments to pensioners.

In addition, benefit increases will be limited through a gradual reduction in the benefit accrual rate.

In Taiwan, the Labor Standards Law was published in August 1984, but it was supplemented in March 1985 by enforcement rules intended to clarify and implement the ambiguous provisions of the law.

Today, local employers still are protesting the Taiwan law's potentially damaging cost impact, such as a provision requiring that employers pay a retirement benefit equal to two months' salary per year of service up to the first 15 years of employment and one month's salary per year of service after that.

Employers must fund for these retirement benefits outside of the

Continued on next page



Jerome Karter is vp and manager of the New York International Department of Johnson & Higgins. His column on international issues appears the first Monday of every month.

N.Y. agency mergers common, study shows

By LINDA J. COLLINS

ALBANY, N.Y.—Merger activity is heating up among agents in New York, according to a recent survey.

Some 25% of the respondents to a recent survey of members by the Professional Insurance Agents of New York said they have merged with or acquired another agency within the last three years.

And, 10% of agents said their economic survival was the main factor in their decision to merge.

In addition, 48% of the respondents said they expect to be involved in a merger or acquisition within the next three years.

"If all the anticipated mergers were effectuated, this would represent an approximate doubling of the merger rate, which has stayed relatively stable from 1979 to 1985," the survey states.

The PIANY recently published these and other results of its membership survey in a booklet, entitled "An Analysis of Agency Costs for Property/Casualty Insurance."

Forty-eight percent say they expect to be involved in a merger or acquisition within three years.

More than 250 agencies responded to the 22-page survey sent out to members of the Albany-based PIANY.

In addition to the information about merger and acquisition activity, the PIANY compared the data from this survey with the results of similar surveys it conducted in 1979 and 1981.

For example, 39% of the respondents in 1985 represented large agencies, defined as those with more than $1.2 million in annual property/casualty premium volume. Forty percent represented medium-sized agencies, with $500,000 to $1.2 million in annual property/casualty premium volume, while 21% of the respondents represented small agencies, with less than $500,000 in annual property casualty premium volume.

This differs from 1979, when 41% of the respondents represented small agencies, 37% represented medium-sized agencies and 22% represented large agencies.

In 1981, the respondents were fairly evenly divided among the three categories: Some 32% represented small agencies, 35% represented medium-sized agencies and 33% represented large agencies.

The average annual property/casualty premium volume reported by the survey respondents was slightly more than $1.4 million in 1985, up from about $1.2 million in 1981 and up from slightly less than $900,000 in 1979.

According to the survey, large and medium-size agencies wrote a larger percentage of personal lines business in 1985 than they did in 1981. Data on the mix of business was not available from the 1979 survey.

In 1985, large agencies reported an average mix of business consisting of 47% personal lines and 53% commercial lines, compared with a mix of 35% personal lines and 65% commercial lines in 1981.

Medium-sized agencies reported an average breakdown of 64% personal lines business and 36% commercial lines in 1985, while in 1981 the average mix reported was 57% personal lines business and 43% commercial lines business.

Small agencies reported the same mix of business in 1981 and 1985: 70% personal lines and 30% commercial lines.

Small agencies experienced a drop in property/casualty commission rates, to 15.6% of premium in 1985 from 16.5% of premium in 1981.

However, medium-sized and large agencies reported an increase in property/casualty commission rates from 1981 to 1985. Medium-sized agencies reported an increase to 16% in 1985 from 15.8% in 1981, and large agencies reported a jump to 15.5% in 1985 from 14.9% in 1981.

The survey also shows the aver-

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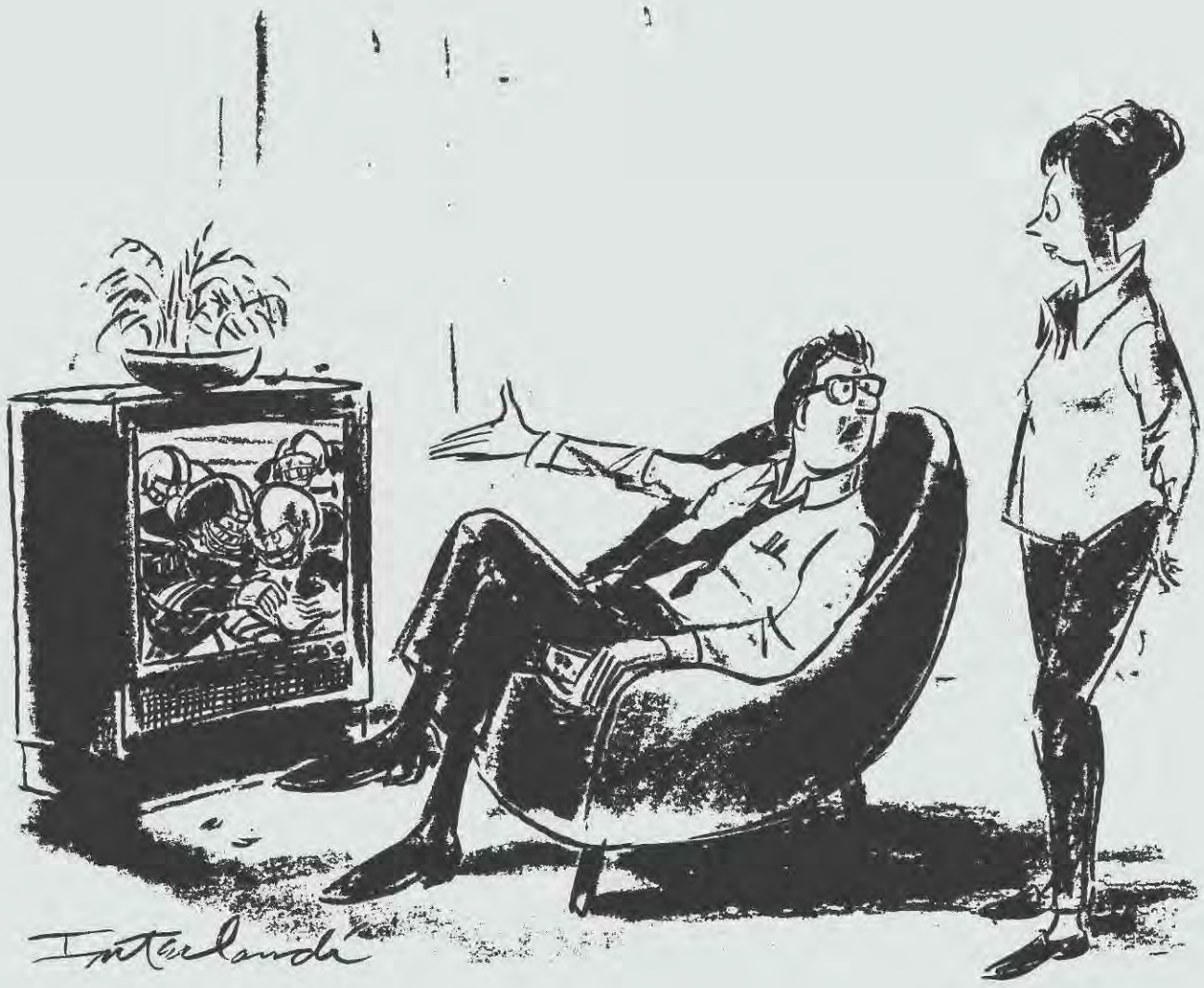
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PIANY survey

Continued from previous page

age amounts and breakdown of revenues taken in by the member agencies.

In 1985, small agencies reported an average of $45,236 in property/casualty commission, $5,235 in profit-sharing income and $1,636 in other income, for average total agency revenue of $52,107.

Medium-sized agencies reported an average of $123,655 in property/casualty commissions, $11,272 in profit-sharing income and $1,503 in other income, for average total agency revenue of $136,430.

And, large agencies averaged $415,940 in property/casualty commissions, $18,173 in profit-sharing income and $12,126 in other income, for average total agency revenue of $446,239.

The average employment costs—including salaries, commissions, bonuses, payroll taxes and employee benefits—for agency principals ranged from $26,162 for small agencies to $49,751 for medium-sized agencies to $134,063 for large agencies, the PIANY survey showed.

The average employment cost for agency principals among all the agencies surveyed was $78,243.

Average employment expenses for non-principal producers ranged from $2,776 for small agencies, most of which do not employ producers who are not agency principals, to $16,956 for medium-sized agencies to $57,104 for large agencies. The average expense among all responding agencies was $20,173.

Employment expenses for other office personnel ranged from $12,640 for small agencies to $33,206 for medium-sized agencies to $134,165 for large agencies.

The average expense reported among all the survey respondents was $69,701.

The survey also showed that, on average, a small agency has 1.15 full-time principals, 0.2 part-time principals, 0.1 full-time sales force members, 0.06 part-time sales force members, 0.58 full-time office staff members and 0.42 part-time office staff members, for a total of 2.51 agency personnel.

A medium-sized agency has an average of 1.31 full-time principals, 0.12 part-time principals, 0.22 full-time sales force members, 0.38 part-time sales force members, 2.08 full-time office staff members and 0.67 part time office staff members, for a total of 4.78 agency personnel, according to the survey.

And, a large agency has an average of 1.96 full-time principals, 0.18 part time principals, 1.75 full-time sales force members, 0.22 part-time sales force members, 6.98 full-time office staff members and 1.16 part-time office staff members, for a total of 12.25 agency personnel, the survey showed.

The average number of total employees at small agencies dropped 26% between 1979 and 1985, while the average number of workers at medium-sized agencies fell 9% in the same period. Large agencies' number of employees remained the same.

All three types of agencies reported increases in commissions per employee between 1979 and 1985.

Large agencies reported commissions of $51,098 per employee in 1985, compared with $46,470 in 1981 and $40,161 in 1979. Medium-sized agencies reported commissions of $44,965 per employee in 1985, compared with $44,482 in 1981 and $35,027 in 1979, while small agencies reported commissions per employee of $45,236 in 1985, compared with $33,220 in 1981 and $26,718 in 1979.

The average agency principal spent 32.3% of his or her time on commercial lines business, according to the survey.

The average agency principal spent 32.3% of his time on commercial lines business.

Agency management consumed 31.1% of the average principal's time, voluntary personal auto business consumed 14.6%, homeowners coverage consumed 13.2%, assigned risk pool auto business consumed 5.7% and other activities consumed 3.1% of principals' time.

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Copies of the survey, which were distributed to PIANY members, are not available to the public. For more information, contact the Professional Insurance Agents of New York, P.O. Box 98, Glenmont N.Y. 12077; 518-434-3111

Travelers offers marketing assistance

a/bt products & services

A new consulting service is now available to agents representing Travelers Corp. The Travelers' "Market Analysis Program" (MAP) provides agencies with individualized marketing information on their customers and market areas.

Where possible, results are provided in the form of colored maps to help agents quickly analyze their strengths and weaknesses to determine the areas in which they should be concentrating their marketing efforts.

The maps show where an agency's major market segments are located and the amount of penetration they have made into those areas. The maps also highlight ZIP Code areas where the market is extremely attractive, but where the agency has low penetration.

Depending on the agent's needs, the MAP package can also include tables of statistical data on household and business markets.

The average cost for the service is between $700 and $1,000 says Sandra Haas, Travelers' manager of agency support, although the MAP service could cost as much as $2,000 for a large agency.

For additional information about the MAP service, contact Travelers Corporate Marketing Department, 10-SB, One Tower Square, Hartford, Conn. 06183; 203-277-0111.

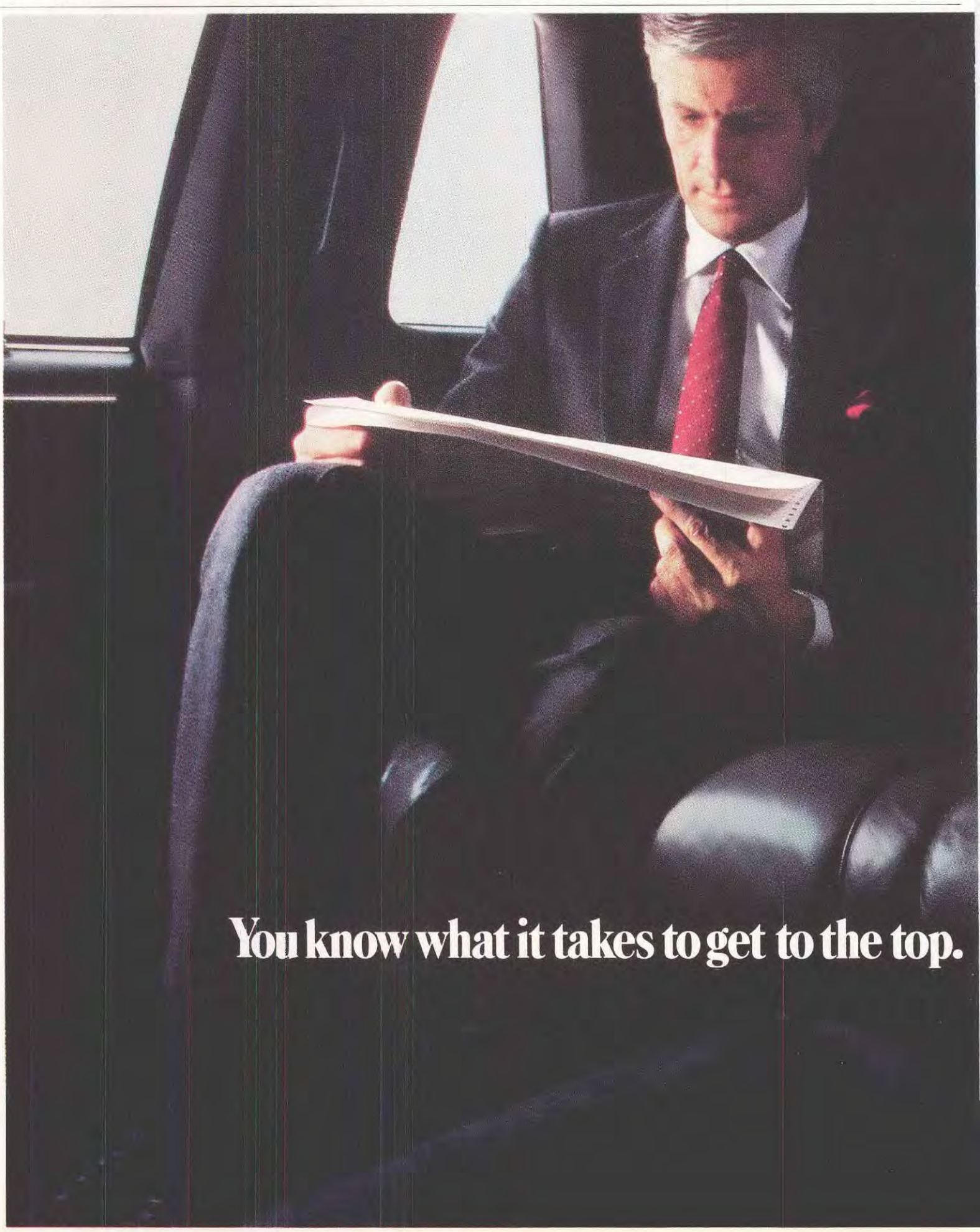
CGL videotape

The Professional Insurance Agents of New York, New Jersey and Connecticut is offering a four-hour video tape in either VHS or Beta format providing instruction on the Insurance Service Office's commercial general lines policy forms.

The tape comes complete with the ISO manual that is referenced throughout the tape and with one year of written updates.

The video is designed to provide instruction for people who can't spare time away from their offices to attend a seminar, according to the association.

The cost of the tape is $125 for PIA members and $225 for non-members. Contact the PIA, Old Route 9 W., Glenmont, N.Y. 12077.



Alternate energy risks require special coverage

By ALAN BROWN

WITH CHANGES expected in federal tax regulations, the alternate energy industry is in a state of flux.

In recent years, private financing and development of alternate energy projects has created a new market segment for insurers and agents alike. The proposed elimination of many federal tax credits, however, is already exerting its impact on the industry. As a result, only the most promising projects are being developed.

Private development of such projects, ranging from hydroelectric to waste-to-energy systems, has opened new opportunities for traditional as well as specialized insurance coverages. Financially astute project developers realize that a comprehensive insurance program is an integral part of any project. Consequently, several insurers are providing coverage for the specialized needs of the alternate energy industry.

While a market for this coverage exists and the rewards for placing this insurance are great, project developers and insurance agents and brokers embarking on an alternate energy venture should prepare for a lengthy endeavor. The risk analysis for specialty coverages alone can require months of work. And, of course, the project will probably require property, liability, boiler and machinery and other coverages.

Doing your homework is the first step in placing an alternate energy risk. The insurer will require several things before it can properly evaluate the risk.

Foremost is time. Be aware that from Day One, particularly when specialty coverages are needed, the insurer will often take several months to underwrite insurance for such a project. With this in mind, the project developer can then realistically schedule construction and project start-up.

Timing will also be critical to investors relying on tax credits to take effect in a certain fiscal year.

Second, the insurer will need thorough, organized project documentation, preferably compiled by independent consultants, including:

- A description of operations, including feasibility studies and project plans.
- History of similar projects in which your client and his contractors have been involved.
- Financial information regarding debt and equity investors.
- Construction contracts, possibly including information on contractors' performance bonds.
- Vendor contracts and warranties on the system's performance.
- Fuel purchase and power sales agreements, if any.
- Operation and maintenance plans.
- Technical data, such as expected steam, electricity and heat output and fuel consumption.

Remember, finalize as many details as possible before contacting an insurer.

The agent or broker should choose an insurer with proven experience underwriting both traditional and alternate energy projects. The experience could translate in a more receptive market for the project. Work with underwriters that specialize in serving energy clients and that understand the technological and financial aspects of energy projects, as well as their insurance requirements.

Coordination of all of the project's coverages with these underwriters is also critical. Having one insurer write all or at least most of a project's primary coverages make for a more cohesive insurance portfolio.

Coverages need to be built around the project's specific risks. Think about how a coverage can best protect a project against each given risk, not how many risks a specific coverage can insure against. Don't attempt to overextend one type of coverage to insure against other types of risks. By doing so, gaps in coverage may result.

Multiple policies, each covering its own specified portion of the total exposure, may provide all of the needed coverage.

Once the agent or broker has done his or her homework, it's up to the insurer to analyze the risk. Generally, alternate energy projects can be broken down into three phases:

- Financing.
- Construction.
- Operation.

The risks of each phase must be assessed appropriately:

Financing is the crucial first step in the project, and insurance can be a critical step toward gaining the financial backing needed to complete an alternate energy project.

The trend in alternate energy is "project financing," a concept borrowed from real estate syndication. In project financing, the project is self-supporting and may take advantage of various tax credits. Investors usually require some assurance that the project is technically feasible since there is no access to a "deep pocket."

The two types of insurance designed to meet that requirement are systems performance or efficacy coverage and resource guarantee coverage.

Systems performance coverage stands behind the technical integrity of the project: that it will perform to a pre-agreed level of estimated energy output for a predetermined period. It does not insure the availability of the necessary resource.

Resource coverage insures that the project will have a necessary supply of resources necessary to operate. These resources can include sunlight, wind or water.

Financial institutions and project developers normally rely solely on the project revenue to meet credit needs. A failure of the project to mechanically perform can seriously impact the project's revenues. Financial institutions therefore may insist that systems performance and/or resource guarantee coverage be purchased before financing an alternate energy project.

Systems performance coverage stands behind the project's performance at a specific efficiency for a predetermined period. The insured level of efficiency is related to the project's break-even point.

Systems performance policies

Continued on next page

Alan Brown is assistant vp and manager of Chubb Corp.'s energy resources group in Warren, N.J.



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comings & goings: buyers

American Honda names corporate risk manager

Lawrence H. Nemirow, 36, has been named corporate risk manager at American Honda Motors Co. Inc. in Gardena, Calif. In his new position, his responsibilities include identification of loss potentials, evaluation of risk exposure, development of loss prevention programs, determination of American Honda's levels of insurance and self-insurance and administration of property/casualty insurance. In this newly created position, Mr. Nemirow will report to M. Shinkai, senior vp-administration. Prior to joining American Honda, Mr. Nemirow was vp of risk services with Ford Motor Co. in Dearborn, Mich. He holds a bachelor of business administration degree and master of business administration degree in finance from the University of Detroit. In addition, Mr. Nemirow is a deputy member of the Risk & Insurance Management Society.

* * *

J. Victor Elliott, 31, has been promoted to senior legal counsel at Risk Management Services, the risk management division of the world headquarters of the Seventh-Day Adventist Church in Takoma Park, Md. In addition to increased legal responsibilities, he will supervise the church's response to liability claims in the denomination's Eastern region. And, he will assist in the administration of International Insurance Co. of Takoma Park, Md., which is a captive insurance company for the church's risks. The Seventh-Day Adventist Church operates approximately 70 hospitals throughout the United States. Mr. Elliott joined Risk Management Services in 1981 as assistant claims manager in the hospital liability claims and loss prevention department, and he was promoted to manager of that department in 1983. In 1984 he was named legal counsel. Mr. Elliott has a bachelor of arts degree in psychology from Columbia Union College in Takoma Park and a law degree from the Potomac School of Law in Washington, D.C. In addition, he is a member of the American Bar Assn.

* * *

Ann Colucci has been promoted to director-risk management at Occidental Chemical Corp. in Niagara Falls, N.Y. Ms. Colucci has been manager-risk and insurance since 1981, and in her new position, her responsibilities will continue to be administration of all areas of Occidental Chemical's property/casualty insurance programs in addition to overseeing corporate payroll and travel functions at the Occidental Chemical Center in Niagara Falls. Ms. Colucci joined Occidental Chemical in 1963 and, in her new position, she will report to R. Rajaji, vp-finance. In addition, Ms. Colucci is a member of the American Society of Insurance Management and the American Management Assn.

* * *

Raymond M. Carberry has been promoted to manager-corporate risk management at Raytheon Co. in Lexington, Mass. He replaces **Russell F. Gooley**, who has retired from the diversified electronics company after 31 years. Mr. Carberry will report to Herbert Deitcher, vp-treasurer. In his new position Mr. Carberry will direct all aspects of the company's insurance programs, including evaluation of risks, determination of self-insurance levels and types and amounts of insurance. In addition, he will serve as an insurance adviser to Raytheon subsidiaries. Mr. Carberry joined Raytheon in 1969 as an assistant manager responsible for the company's property insurance. He has a bachelor of science degree in insurance from the University of Connecticut in Storrs. In addition, Mr. Carberry is a deputy member of the Risk & Insurance Management Society.

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We'd like to report on staff changes in your company's risk management, safety or employee benefits department. Just drop a note to Paul Winston, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611, or call 312-649-5442. Please send a photograph, too.

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Industry panels

Continued from page 3
the industry.

"This vision should be a clear, concise statement of the long-term service role in the industry."

In building such a vision, the committee will have to examine the problems of the industry and assess the impacts of short- and long-term solutions, he added.

"With vision, we can re-create the trust that is essential to our industry. Trust is the emotional glue that binds us together."

The committee should also set an agenda for attacking shared industry problems, he said, specifying "capacity and pricing stability" as two problems to be examined.

The formation of the committee would be looked on as an "offensive move," Mr. Caperton said, rather than the defensive posture taken by the industry recently.

"As concerned as I am about regulations, I am even more concerned about the loss of confidence of the insurance buyer," he said. "In subtle ways, I see adversary relationships starting to develop between insurer and policyholder. I can tell you that the anger, confusion and lack of confidence of the buyer are becoming frightening."

Mr. Caperton specifically called upon officials at Lloyd's of London to serve on the committee.

"Without Lloyd's leadership and the formation of the committee of 10, I believe the cold clammy hand of regulation will descend on our industry with rules and regulations which will be defeating, demeaning and destructive," he said.

Mr. Caperton asked Lloyd's Chairman Peter Miller to set up the committee. Mr. Miller later told Business Insurance he felt the U.S. insurance industry should set up the committee if it felt it was necessary, but he added that he would serve on the committee if asked.

Among those suggested by Mr. Caperton as members or alternates are Mr. Miller; Maurice R. Greenberg, chairman of American International Group Inc.; David Palmer, chairman of Lloyd's broker Willis Faber P.L.C.; Peter Lewis, president of Progressive Insurance Co.; Edward J. Noha, chairman and president of CNA Financial Corp.; Jim Noyes of Edward L. Noyes & Co. Inc.; William Berkley, president of W.R. Berkley Corp.; and Kathryn J. McIntyre, editor of *Business Insurance*.

Mr. Caperton also suggested as committee members or alternates representatives from Munich Reinsurance Co., Swiss Reinsurance Co., Marsh & McLennan Cos. Inc., Hartford Insurance Group., Chubb Corp., Fireman's Fund Corp. and the National Assn. of Casualty & Surety Agents. He also suggested the addition of an "outstanding insurance regulator in America."

"Ten of our best and brightest industry leaders meeting for one day could get this job done efficiently and objectively," he said.

Mr. Caperton also urged Lloyd's to play an increasingly important role in the future of the U.S. property/casualty industry. Specifically, he called for Lloyd's to:

- Take a strong leadership role in the excess/surplus lines market. He noted surplus lines is a $3 billion business and Lloyd's is estimated to write 50% of this business.

He also urged Lloyd's to reinsure well-managed surplus insurers.

- Create a more stable and reliable insurance industry through the use of reinsurance.
- Act as a world industry leader.

"Although Lloyd's is not the largest industry player, they certainly are by tradition and prestige the world center of the insurance industry. As Lloyd's focuses on its own problems, it must increasingly take an industry leadership role," Mr. Caperton said.

Aetna's Mr. Bailey also proposed the formation of an industry group to discuss the problems of the U.S. property/casualty industry.

Mr. Bailey said a task force of insurers and reinsurers should be formed to voice the industry's position that tort reform is necessary. In addition, the task force can deal with "market and public perception issues," he said.

London should be represented on this task force because it is a vital reinsurance market for U.S. underwriters, he said.

"I believe this is a time for cooperation between our industry and those who support us in the London market," Mr. Bailey said. "Significant change in legal systems or business practices do not come easily and governments tend to face major policy issues only after a period of public debate, education and emerging consensus."

Mr. Bailey said the London market, particularly Lloyd's, must face its responsibilities for the severe U.S. capacity shortage.

"The Lloyd's market supported for too long companies which were clearly accepting business that was poorly underwritten, if it was underwritten at all, and that was increasingly underpriced and underreserved," he said.

Then, to correct disastrous results, the London market withdrew capacity, creating at least a portion of the problems faced by U.S. insurers today, Mr. Bailey said.

"I don't mean to suggest for one minute that the correction you took was improper," said Mr. Bailey. "If I have any point to make to you, it is to urge you to accept more fully the import of the commitments you made by recognizing early on the consequences of withdrawal or serious contraction of capacity on the companies you reinsured and the markets they serve.

"Our marketplace has not been well-served by the cheap reinsurance readily available to primary companies, which often acted more like brokers than underwriters."

Since London underwriters helped contribute to the soft market and its subsequent hardening, London should also be involved in drafting solutions to today's problems, he said.

"Since we both created the problem, I suggest that voluntary action, such as market assistance plans supported by reinsurers, is preferable to the alternatives and will maintain our public support while we seek longer-term solutions," Mr. Bailey said.

"Reinsurance is essential in a world of boxcar-size property values and enormous potential liabilities," he said.

"The London market is the hub of the reinsurance industry. This is a great business and it is made so by people in your country and mine with integrity, a sense of public responsibility and a desire to work together cooperatively." ■

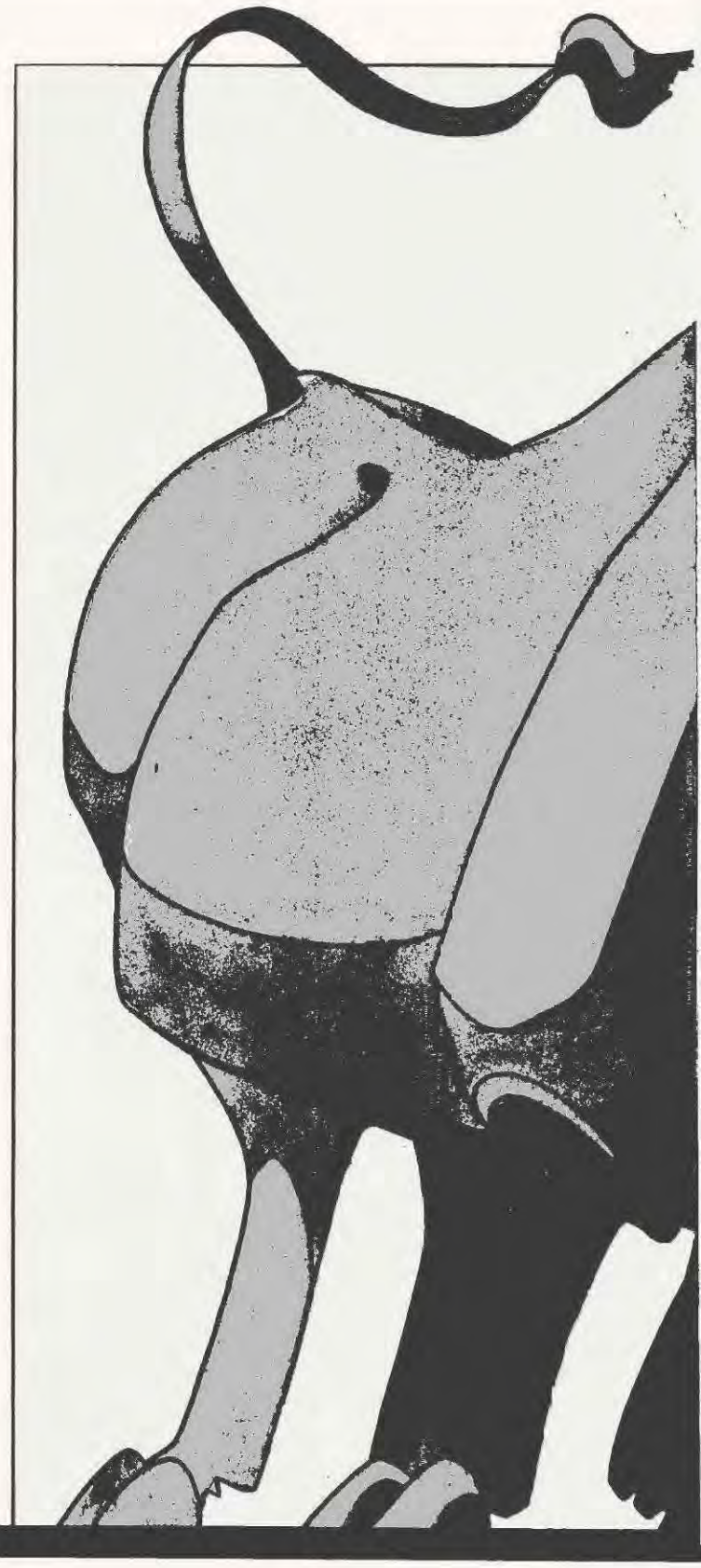
Conference attracts 200

LONDON—More than 200 people attended the "London Insurance Market and Its Future" conference, held Feb. 12 and 13 in London.

The conference, sponsored by Risk Research Group Ltd., a London risk management consultant, attracted an impressive array of speakers, including Lloyd's of London Chairman Peter Miller; William O. Bailey, president of Aetna Life & Casualty Co.; and David Lowen, chairman of the Institute of London Underwriters.

As the title of the conference suggests, participants examined the role of the London market in the future and whether it will remain the pinnacle of the world's insurance industry.

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Experts see bright future for London market

By STACY SHAPIRO

LONDON—Leading figures in the London insurance market, although critical of the market's past and current problems, say the market has a bright future.

British brokers, insurers, reinsurers and buyers attending a conference last month on the future of the London market sponsored by Risk Research Group Inc. noted many market failings, including the recent scandals at Lloyd's of London, the current capacity shortage and the long delays for brokers trying to see underwriters.

Some of the speakers at the conference also noted some problems were caused by the competitive market of the late '70s and early '80s, including large insurer losses, greatly increased rates and tougher policy wordings.

Yet, despite these negatives, the speakers said they still believe London will remain the world's major reinsurance market and the hub of the entire industry.

"The quality of underwriting and brokering is greater (in London) than anywhere else in the world," said Stephen Merrett, chairman and chief executive of Merrett Holdings P.L.C.

"The concentration of underwriters and brokers is greater than anywhere else in the world. And the backup services—of lawyers and bankers and accountants—is better here than anywhere else," he noted.

However, Mr. Merrett said it is a "myth" to think that London leads in quantity as well as quality.

"The bulk of our volume is our own retrocessions," he said. London's business has been recycled "ad infinitum," which has "distorted the resources of our market."

In fact, Mr. Merrett said he looks with horror at any thought that London may lead the world's insurance markets in premium volume. "If that is true, then the problems of the world will end up in the Lloyd's market," he said.

He said casualty losses will continue to pour into the London market as a result of competitive underwriting from 1979-1983.

"They haven't been felt yet," he said. "But I reject any notion that Lloyd's is the pot from which all those claims in due course will be paid."

Despite the market's strength, Mr. Merrett said, some market practices could be improved.

Brokers should give underwriters more information on "the risks he's stuffing him with," he said.

He also said there should be some type of peer review system in the market to regulate the management of underwriters, noting the worth of a company "doesn't begin and end with solvency."

Mr. Merrett also urged Lloyd's underwriters to continue to charge high rates. "Any rating must be hopelessly inadequate if members at Lloyd's are unlimitedly liable," he said. "Underwriters must show profits in the short term to create reserves and pay members profits, or Lloyd's syndicates will not be able to keep their names.

"The primary requirement is maintenance of the confidence in the standards of underwriting," he said. "We have some way to go on that. . . Let's hope it is improving."

A risk manager who addressed the conference said that the London market must keep buyers' interests in mind, noting that more capacity must be created.

The London market will only appeal to insurance buyers "if it continues to meet the legitimate continuing needs of its customers," said David P. Pollock, group risk manager for Scottish & Newcastle Breweries.

"It smacks of real unprofessionalism to be offering unlimited capacity one year and a quarter of that capacity the next," he explained. "If the London market wishes to take itself seriously, then capacity has to be made available."

He also said the London market should provide capacity to British buyers first.

"I pose a question as to the responsibility which the U.K. insurance industry owes to domestic U.K. business corporations," said Mr. Pollock. "May I suggest it is a priority to satisfy domestic requirements before overseas risks."

Roger L. Earl, managing director of Lloyd's broker Fenchurch Insurance Holdings, noted the London non-marine insurance market is writing casualty coverages that are scarce in the United States.

For instance, London underwriters still offer some capacity for directors and officers liability coverage, insurance brokers' errors and omissions coverage and other professional liability lines, he said.

"The London market remains one of the few major players in the professional indemnity field," he said. But, London will not be able to respond to the glut of U.S. liability business coming into the market, said Mr. Earl.

"The smaller company's third-party liability coverage needs are going to have to be resolved domestically by U.S. brokers and insurers," he said, noting that companies that have minimum deductibles or retentions of $1 million to $2 million are best-suited to buy coverage in the London market.

"The underwriters are having to be selective."

London can still write the property limts to meet most buyers' needs, though rates and deductibles have risen, Mr. Earl said.

"My own company, for example, continues to handle primary property layers for some 50 members of the Fortune 500 lists and to a very large extent these are placed in Lloyd's," he said.

However, the London market no longer can provide the same property capacity that it offered in the late '70s and early '80s, he said.

"The optimum approach at this particular stage in the market cycle is a layered program starting with a primary $10 million, of which 100% can be completed in London given the right circumstances, followed by various excess layers up to $100 million, on which varying but significant percentages can generally be placed in London," he said.

Mr. Earl, like others at the conference, said he resents comments by consumer advocates Ralph Nader and J. Robert Hunter that Lloyd's has been the key architect in the reduction of capacity for U.S. liability risks (*BI*, Jan. 13, Feb. 24). "This suggestion would be laughable if it wasn't so mischievous," said Mr. Earl.

Commenting on Mr. Nader's and Mr. Hunter's assertion that 95% of U.S. insurers' reinsurance should be repatriated to the United States, Mr. Earl said, "Mr. Nader and Mr. Hunter's countrymen have had ample opportunity to invest in the reinsurance business through the medium of the three American insurance exchanges and have shown a marked reluctance to do so."

Lloyd's aviation underwriter Terrence O. Pitron, second vp of the International Union of Aviation Insurers, said the London aviation market will continue as a major player in the world market.

Despite record losses in 1985, total premium capacity among the 40 Lloyd's syndicates specializing in aviation risks has increased to 600 million pounds ($846 million) from $440 million pounds ($620 million) last year.

"Perhaps Lloyd's market alone could cater for 25% of the available worldwide premium income for aviation," said Mr. Pitron.

At today rates, worldwide aviation insurance premium will total $3 billion to $3.5 billion in 1986, he said. Of this, one-third is generated from airline risks, one-third from aviation product liability coverage and one-third from general aviation risks.

"Extraordinarily, the aviation market is still able to provide limits of $500 million and more, whereas to acquire $100 million limits in the non-marine U.S. casualty field is extremely difficult, if not impossible," he said.

Mr. Pitron admitted that the London aviation market has reduced its participation on airline hull and liability insurance orders because of rate competition and the development of overseas markets, including U.S insurers. But, he said, "There are some signs that U.S. orders might increase and accounts which left London might return, albeit from partial orders.

"Perhaps the continuity of capacity London's market has to offer is beginning to show," he said.

"We have been led to believe we are the innovators, the market with more collective experience and expertise than anywhere else in the world, the providers of more capacity than any other market in the world. . . .That is as we in London see ourselves and our market."

London marine underwriters, including Lloyd's syndicates and companies represented by the Institute of London Underwriters, "still leads the world in its technology, international marketing and by far in its quantum of world marine premiums," said ILU Chairman David Lowen.

The market collects about 60% of the world marine insurance premium, he said.

London also still dominates the marine war risk market, he said, noting that it provides security "second to none."

While he admitted the London marine market has slumped with the decline in the world shipping, he said many orders are coming back to London.

And while the Lloyd's scandals have tainted the London market's image, he added, "I genuinely feel the market now is sufficiently policed, controlled and disciplined to face the future with confidence."

Mr. Lowen warns, however, that underwriters that write large excess liability layers for U.S. risks will not continue to write the coverage if U.S. courts continue to award "unjustifiable" damages.

"If the federal authorities in the U.S.A. do not control in some way the jungle of court and jury behavior, then it is inevitable that insurance companies will withdraw altogether from certain sections of U.S. liability business," he said. ■

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Brokers must tame 'lions' in London market: Mahoney

By STACY SHAPIRO

LONDON—The London insurance market can resemble a "three-ring circus" with the major Lloyd's of London brokers performing as lion tamers, says Dennis Mahoney, co-chairman of Lloyd's broker Alexander Howden Group Ltd.

But, in the current hard market, Mr. Mahoney says, the Lloyd's broker is having a rough time taming the animals in the circus, some of which he says include underwriters and insurance buyers.

In a tongue-in-cheek presentation to a conference on the future of the London insurance market sponsored last month by Risk Research Group Inc., Mr. Mahoney gave his views of the current operating environment for the "big" Lloyd's brokers, which he described as the five largest of the 247 Lloyd's brokerages.

These five companies—Sedgwick Group P.L.C., C.T. Bowring & Co. Ltd., Willis Faber P.L.C., Minet Holdings P.L.C. and Howden—collectively employ 46,000 people and handled a premium volume last year in excess of 1 billion pounds ($1.41 billion). They broker 80% of Lloyd's business, he said.

In describing the "three-ring circus," Mr. Mahoney said "each ring is full of dangerous lions and other animals of every description."

"In the first ring on my left, observe the ferocious underwriter lions," he said, noting that in today's market, the lion—not the tamer—has a chair and a whip "to keep the brokers at bay even if they do bring tempting morsels of firm orders."

The "Peter Miller" lion, named after the Lloyd's chairman, is also in this first ring; he is "small, but has a huge roar and real bite," said Mr. Mahoney.

The center ring is occupied by three "house lions," which he said symbolize the brokers' costs.

He said one of the lions "salivates" at the thought of being fed the high cost of new office space in London; another lion roars all the names of companies selling multi-million-dollar computer systems; and the third lion has an appetite for "staff and greater benefits for all that is truly insatiable."

"It is known for these three lions to attack together whenever you turn your back," he said.

In the third ring are the "client or buyer" cats, he said.

"Once upon a time these were the most docile and friendly of creatures," said Mr. Mahoney. "Accustomed over many years to seemingly automatic rate reductions and broadening coverage, they have of late been starting to change their spots.

"In fact, gone altogether are the sleeping old 'in risk management by default' breed," Mr. Mahoney said. "Now, in an ever tougher and more sophisticated market, they have become real tigers."

They roar strange sounds like "discounted cash-flow analysis" and want a rich diet of statisticians, econometrics and "other expensive tidbits" from the broker, he said.

The broker must go from ring to ring to accomplish his mission: Place the client's insurance, Mr. Mahoney explained.

"See how cruelly the underwriters treat my broker, forcing him to leap numerous obstacles, perform all sorts of gymnastics and finally put him through a hoop of fire known throughout the circus as the claims-made form," he said.

The broker also must encounter a "black panther," which is what Mr. Mahoney called the broker's errors and omissions underwriter. The panther demands "an arm and a leg from my broker," said Mr. Mahoney, meaning high retentions, low limits and higher premiums.

When the broker returns to the buyers' ring, he "is given the traditional welcome of messengers, bearing bad tidings. Risk manager tigers devour him. Snarling of captives, self-assumption of risks, mutuals and pools, they even add insult to injury by fixing the price of the broker's demise," he said, referring to negotiated fees.

"The show must go on. And so it will, as long as the outstanding ability and innovation of the players remains. The unique security of the Lloyd's syndicate will always be one of the star attractions.

"We the broker must be more than just showmen. We must continuously endeavor to improve our act," he said. ■

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Misconceptions imperil Lloyd's: Miller

By STACY SHAPIRO

LONDON—Several dangerous misconceptions endanger the future of self-regulation at Lloyd's of London, said Lloyd's Chairman Peter Miller.

"Our continued market expansion and success is threatened, too," he said.

These misconceptions, mostly reported in British newspapers, are fueling calls in Parliament for government regulation of Lloyd's.

Some members of Parliament have called for Lloyd's to be included in the financial services bill that is currently before a House of Commons committee. The bill would affect the regulation of British financial markets to protect investors' rights. Lloyd's is currently not included in the bill.

However, the call for an end to self-regulation is unfounded, said Mr. Miller in a speech at a conference sponsored last month by Risk Research Group Ltd.

"The various misconceptions are internal to Lloyd's and concern only the individuals wealthy enough to become members of the society," he said. "Protection of policyholders is not at issue and has never been a problem."

Mr. Miller noted a recent article with the headline, "The freedom of Lloyd's is now a lost cause."

"I do not consider that Lloyd's freedom is a lost cause, nor I believe do our agents, our brokers, our members, nor indeed our policyholders," he said.

"Whatever else may be said, it is fairly clear, and I believe by now generally agreed, that the financial services bill is not a suitable vehicle for supervision of Lloyd's," he said.

'Our continued market expansion and success is threatened, too,' says Mr. Miller.

Lloyd's has used the powers under the Lloyd's Act of 1982 to regulate the market, he stressed.

"Unless it is proved that we have failed under our new constitution, there is no case to answer for departing from the carefully thought-out Fisher constitution," he said, referring to the 1980 report by a commission headed by Sir Henry Fisher that served as the basis for the Lloyd's Act.

Another misconception cited by Mr. Miller is that Lloyd's committee members in the past failed in their duties and they should not be entrusted to exclusively supervise the market.

Mr. Miller contends, however, that Lloyd's today is regulated by a Council of Lloyd's that is "fundamentally different in concept, composition and constitution than the regulatory body of the past."

Eight of the council's 28 members are non-working members, while four others—including the Lloyd's chief executive—are non-members who are approved by the Bank of England.

Another misconception, says Mr. Miller, is that self-regulation—without any element of outside supervision—inevitably breeds attitudes that make it impossible for regulators to set themselves apart from the regulated.

"But Lloyd's does, under its new act, have an in-built element of outside supervision," he said, referring to the four council members who are not Lloyd's names. "The element of outside control, given the balance of the council under our new act, is very real and is where it matters most—in the council itself."

Lloyd's also reports to the Department of Trade and Industry, he said.

"The fundamental question is whether Lloyd's should be supervised by some other, different, outside body;" he said. "Those who propose such a course put forward a very thin case."

Other misconceptions are that Lloyd's has been remiss in its duty to punish wrongdoers, that it ignores the consequences of its past failures and that the role of the chief executive is being weakened.

Mr. Miller, however, says that Lloyd's has charged past offenders and publishes public disciplinary reports.

Also, he said Lloyd's is trying to mend the consequences of the problems at PCW Underwriting Agencies Ltd. PCW members have refused to pay 62 million pounds (currenty $87.4 million) in underwriting losses and have threatened legal action against Lloyd's.

The Lloyd's Council is trying to ensure that "the affected names receive just resolution of their problems—and by 'just' I mean both to them and to the other members of the society," he said.

As for the role of the chief executive, Mr. Miller believes that the Lloyd's chief executive must work as a team with the other two deputy chairmen, the chairman and the council to see that Lloyd's members' interests are protected.

"It is wrong to think the chief executive in some way, in contrast to the rest of the Council of Lloyd's, is looking after the interests of names," he said.

"That is a duty fairly and squarely of the whole Council of Lloyd's. There is no evidence whatsoever that the present council is in any way ignoring that duty.

"I know of no occasion in the past where the present chief executive has had to voice in the council reservation with regard to the attitude of the council in the area of the protection of the names," he said, referring to Ian Davison, who resigned as chief executive at the end of last month.

Mr. Miller believes that Lloyd's freedom from further regulation is a cause worth fighting for. "All the evidence suggests that the new self-regulatory regime is being successful," he said.

"Neither I nor anyone else would be so arrogant as to suggest that the new regime guarantees that no further problems will occur. That would be foolish indeed. What I do say is that it makes it a very great deal less likely."

Mr. Miller told the conference that sometimes when he is feeling depressed, he walks into the underwriting room, where his depression rapidly disappears.

"It is almost impossible to move as underwriters enjoy one of the most notable booms in insurance which has been seen in any of our business lifetime," he said. "Lloyd's shows every sign that it will soon move into a far more profitable period, both for its names and therefore for the country.

"I would say that Lloyd's has every reason to look forward with great confidence to a profitable trading future on a well-protected capital base," he said. ■



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CB—3-6/86

Lloyd's underwriter urges tighter regulation

By STACY SHAPIRO

LONDON—The entire London insurance market—including Lloyd's of London, insurance and reinsurance companies and insurance brokers—must be more tightly regulated, says a retired Lloyd's underwriter.

"We must accept that total self-regulation is no longer acceptable," said Robert Kiln, retired chairman of Lloyd's underwriting agency R.J. Kiln & Co. and a past member of the Council of Lloyd's.

"Where our behavior affects others, like the policyholders or the public, then we have to accept supervision by representatives of those affected and the supervised can no longer have a right of veto over that supervision," Mr. Kiln said.

The London insurance market is still well-respected throughout the world "in spite of all the scandals," Mr. Kiln said, adding that the London market particularly Lloyd's, is poised to take advantage of the hardening market.

But Mr. Kiln told a conference sponsored last month by Risk Research Group Ltd. that standards in the market must be strengthened. This can be accomplished with stricter codes of conduct, along with education and training of underwriters and recruiting better underwriting candidates, he said.

"Education and training of underwriters is vital but, in addition, the best mathematical brains and the toughest characters should be underwriters," he said.

Mr. Kiln called for the formation of one agency in London to regulate the insurance market and that would be answerable to the Department of Trade and Industry. The agency would oversee Lloyd's, London insurance companies and both Lloyd's and non-Lloyd's insurance brokers.

'We must accept that total self-regulation is no longer acceptable,' Mr. Kiln says.

This proposal goes beyond the proposals in the financial services bill currently pending in Parliament, which would set up self-regulatory bodies to supervise non-life insurance companies and other financial institutions. Lloyd's and non-life insurance companies would not be affected by the legislation.

Mr. Kiln noted that, under his proposal, the Lloyd's Act of 1982 might have to be changed.

"There are valid arguments that the Lloyd's Act was a poor act, obtained without Parliament being fully aware of all the facts surrounding Lloyd's, and it should be amended or repealed," he said.

"It is my firm view that the history of Lloyd's in the last 15 years has shown conclusively that self-regulation carried out by the council can only work provided that council is given very specific instructions as to its duties and those duties are supervised by someone other than the council itself, which is controlled by elected members," he said.

If the Lloyd's Act is changed, Mr. Kiln recommended that:

- The chairman of the Council of Lloyd's should not be a Lloyd's member. He could be an ex-member, but he would have to relinquish his salary and any remuneration from Lloyd's activities.
- The council chairman should be assisted by an independent full-time executive deputy chairman who is also not a Lloyd's member.
- The chairman and deputy chairman would supervise the membership so that Lloyd's is financially solvent to stand behind its policies. They would also be responsible for the auditing and security of members, protection against fraud and disciplinary actions arising from fraud.
- A secretariat, answerable to the deputy chairman, would be responsible for the administration of the Corp. of Lloyd's.
- The chairman and the deputy chairman would be appointed by and answer to the Department of Trade and Industry and the Securities Commission.
- Under the council would be the Lloyd's Committee, made up of working members of the market. The chairman of the Lloyd's Committee would be responsible for running the services of the market efficiently. This officer would be assisted by a deputy chairman and a chief executive.

Currently, Peter Miller is chairman of the both the Lloyd's Council and Committee.

Mr. Kiln also believes that Lloyd's should be relieved of its obligation to supervise Lloyd's brokers.

"I say this because, firstly, Lloyd's cannot effectively control the very large international brokers and, secondly, some of the worst misdemeanors in the broking field have and are being committed by brokers who are not Lloyd's members."

London insurance companies should be regulated by a council similar to the one Mr. Kiln outlined for Lloyd's, he said. "It would work parallel with the Lloyd's Council and should have cross-representation on it and from it," he said.

The company council also may need some statutory powers similar to the powers the Bank of England has over British banks.

Mr. Kiln said there should be tighter controls on policyholder protection. For instance, he said that Lloyd's security has been weakened by the attitude of some Lloyd's members.

Lloyd's members are unlimitedly liable for claims—the basis of Lloyd's security. The Lloyd's Central Fund is designed to pay claims only if a member is unable to pay, Mr. Kiln noted.

But lately, the fund has been used to pay claims that members "refused to pay. The whole position of names who refuse to pay has weakened and will further weaken the security of Lloyd's," he said. "It strikes at the fundamental issue of unlimited liability and, if that is no longer tenable, something has to replace it."

Some mechanism must be quickly found to collect money from all members to meet debts that other members either refuse or are unable to pay, he said.

Mr. Kiln also suggested that underwriters keep better records and statistics, particularly for long-tail business.

"This market has, in my view, a marvelous chance to put things right," Mr. Kiln said. "However, the longer-term future of London as the worldwide reinsurance center depends on the actions we now take in the areas I have set out." ■



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U.K. pensions

Continued from page 3

changes.

Under the current British pension system, employees can receive retirement income through one of three means.

First, employees can be compensated through SERPS, the government-administered plan. Under this plan, employees contribute 2.1% of their earnings to SERPS, while employers contribute an amount equal to 4.15% of each employee's earnings. This brings the total contribution to 6.25% of earnings.

The guaranteed minimum retirement benefit paid by SERPS is currently equal to 25% of average earnings over an employee's 20 highest-paid years.

But, under a 1975 law, employers are able to "contract out" of SERPS and offer an employer-sponsored defined benefit plan, provided that plan provides the minimum benefit promised by SERPS.

Employers that contract out and covered employees still must make contributions to SERPS, which in turn contributes an amount equal to 6.25% of a worker's earnings, known as a rebate, to the employer plan.

Employees and employers are allowed to make additional contributions to an employer-sponsored plan, though an employee cannot contribute more than 15% of his or her annual salary.

Occupational plans, which either are administered by the employer or are insured, must provide five-year vesting.

In addition, under the 1985 Social Security Act, employees covered under an employer-sponsored plan can transfer their accrued benefits to another employee when changing jobs if they are vested.

While employers are allowed to contract out of SERPS, few British workers are allowed to set up personal retirement plans, like Individual Retirement Accounts and Keogh plans.

Workers can only set up personal plans if they are self-employed or do not otherwise participate in SERPS or an employer-sponsored plan. And, personal plans must be insured by an insurance company.

The legislation under consideration by Parliament would make several major changes to the current system.

First, the guaranteed minimum pension would be cut to 20% of an employee's average earnings over his entire career. The reduction would be implemented over a 10-year period starting with workers that retire in April 2000.

In addition, the legislation would give businesses an incentive to set up their own plans and contract out of SERPS, explains Norman Fowler, the British social services secretary.

Newly formed employer-sponsored plans would be given a contribution from SERPS equal to an additional 2% of a worker's earnings, along with the regular 6.25% rebate. The additional contribution would be paid over a five-year period after the law is implemented.

In addition, employers contracting out of SERPS would be allowed to establish defined contribution plans.

Under the legislation, an employer is allowed to contract out if:

- The employer plan provides the guaranteed minimum benefit under SERPS.
- The employer promises to make a guaranteed minimum contribution to the plan, which is expected to be set at 5.75% of salary. This provision thus, would allow employers to set up defined contribution plans.

Also under the bill, all British employees would be able to establish a personal pension plan and be eligible for the 2% incentive rebate. Under the legislation, employees can choose to set up a personal plan by opting out of SERPS and an employer-sponsored plan. The employer and the worker still would contribute to SERPS, which would pay the rebate to the employee's personal plan.

In addition, savings and loans, banks and trust companies would be allowed to offer personal pension products as well as insurance companies.

Additional employee contributions to personal plans will be tax-deductible, though the amount of the deduction will be capped.

The bill also would require occupational plans to provide two-year vesting, and employers can transfer amounts in an employer-sponsored plan to another employer after only two years of service, instead of the current five.

Among the other changes in the bill:

- SERPS will reduce the pension that can be inherited by a retiree's survivor to 50% of the retiree's benefit. Currently, survivors receive the entire benefit.
- Occupational and personal pension plans will have to provide equal benefits to male and female survivors, regardless of the employee's sex or age. Currently, female survivors receive preferential treatment.

The legislation's provisions would begin taking effect in April 1988. However, the proposals would not affect employees who retire before the year 2000.

Pension experts in London say they are pleased that the bill will not entirely scrap SERPS, as was originally proposed by the government, and that the provisions will be phased in gradually.

The Assn. of British Insurers said that it "welcomes the announcement by the government that the State Earnings-Related Pension Scheme will be modified rather than abolished as was originally proposed and that the implementation date for these important pension changes has been deferred until 1988."

Others are generally pleased with the proposals.

Ted Tilly, pension director at Legal & General Group. P.L.C., Britain's largest pension insurer, says "These measures for simplifying and improving the pensions system will be helpful for employees, employers and pension suppliers without adding to the total pensions bill."

Malcolm Ballisat, a senior consultant in London for The Wyatt Co., calls the the legislation "extremely clever."

"The freedom is there, but no one will be forced to do anything until 1988," he said.

Mr. Ballisat, who has conducted several seminars on the new legislation for U.S. multinationals, also

Continued on next page

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Employers told to be smart health care buyers

By DONNA DiBLASE

ROSEMONT, Ill.—Employers must become competitive purchasers of health care through selection of cost-efficient providers and careful data analysis, participants at a recent business conference were told.

"Employers need to have a purchasing policy that says 'we want to buy high-quality services and care at a minimum reasonable price, and we are willing to not do business with some of the available suppliers,'" said James Mortimer, president of the Midwest Business Group on Health.

Competitive health care purchasing was the emphasis of the group's sixth annual conference here Feb. 18-19. The Chicago-based organization has about 160 employer-members in Illinois, Indiana, Iowa, Michigan, Minnesota, Missouri, Nebraska, Ohio and Wisconsin.

Mr. Mortimer outlined the group's model competitive health care purchasing system in which the "employer takes the initiative to redesign the health care provider contract." The system is one of the coalition's largest health care management projects.

Under the system, employers:

- Purchase health care services from selected providers who meet and comply with certain quality and efficiency requirements.
- Can obtain comparative performance data on providers.
- Impose financial incentives for both employees and providers.
- Monitor utilization and quality of health care services on an ongoing basis.

"In this system, the employer is the wholesale client whose role is to get the best health care for the employee, who is the ultimate client," he said.

Other sessions included case studies that illustrated the system discussed by Mr. Mortimer.

For example, three companies in Rockford, Ill., have proposed a purchasing system in which selection of providers, negotiation of prospective rates and management of utilization review are performed by a program administrator chosen and evaluated by area employers.

"Our goals in the Rockford Competitive Health Care Purchasing System are to control cost, emphasize quality of care and improve utilization management," said Steve Symes, manager of compensation programs and benefit design for Sundstrand Corp.

In the system, employers individually contract with the program administrator for selection of providers, utilization review, and data analysis.

Employers are also responsible for offering incentives in their benefit programs for using preferred providers, as well as managing the risks of their programs.

Within the employer community, an Employer Policy and Evaluation Committee will be established, which will set policy, evaluate the system and the administration, and recommend changes, he said.

The program administrator's job will be to select providers, negotiate annual prospective rates, approve claims, subcontract data management and utilization review, and monitor care quality.

Data management and utilization review will be performed by the Rockford Council on Affordable Health Care and the Blackhawk Area Health Care Review Organization, respectively.

Hospitals must rate on a per diem basis for most cases, and on a per case basis for others. They must also perform delegated reviews and report on cost shifting. Physicians must rate on a negotiated fee schedule.

The system is the result of a 1985 feasibility study conducted by Sundstrand and two other employers—Ingersoll Milling Machine Co. and Barber-Colman Co.—and MBGH. In addition, Truman Esmond & Associates Inc.—a health care financial consultant—and the law firm of Thomas Keeling & Moore assisted by providing financial and antitrust advice.

The task force reviewed utilization data of the three major area hospitals compiled by the Rockford Council on Affordable Health Care —a data coalition—and the American Hospital Assn., said Mr. Symes. He said a program administrator has not yet been chosen, but Mr. Mortimer added that a bid conference was held on Jan. 16.

"Eleven different organizations came to the bid conference, including HMOs, PPOs, etc.," Mr. Mortimer said.

Another speaker, Iris Masotti, project director of the MBGH's HMO task force, discussed selection of HMOs for benefit plans.

"There are dramatic variations among and within HMOs," she said. "When selecting non-federally qualified plans, the employer needs to make sure that he is prepared to handle the monitoring and liability involved."

One way employers can avoid risks is hold-harmless clauses in HMO contracts, she said. ■

U.K. pension plans

Continued from previous page

noted that the bill allows the formation of defined contribution plans. He notes this fits in with the trend in the United States toward defined contribution rather than defined benefit plans.

He also supports the provision that allows employees to opt out of employer-sponsored plans and set up their own personal plans.

"Why not accept personal pension schemes will exist? Britain has been slow in allowing this freedom, so why not allow it?" he asked.

However, other groups have serious reservations about the changes.

The National Assn. of Pension Funds, for example, has written a 50-page report dissecting the problems of the new legislation clause by clause.

The association, which represents about 95% of British employer-sponsored pension funds, is particularly concerned about the 2% incentive rebate from the government to newly established employer-sponsored and personal plans. The NAPF calls the rebate a "bribe" to entice employees to leave employer-sponsored pension funds and set up personal plans.

The NAPF also notes that the 2% rebate is unfair because it is not offered to employer plans that have already been established.

In addition, the NAPF is also concerned that the bill forces employers to allow employees to contribute extra funds to employer-sponsored plans, adding to plan administration expense.

"The bill is so confusing," said NAPF Director General Henry James. "Can individual companies provide all the arrangements?"

Administrative cost also is a concern of John White, an official at Legal & General. He wonders whether employers should be forced to administer additional voluntary contributions from employees. He also says it is not clear from the legislation whether employers can make additional contributions to an employee's personal plan and receive a tax deduction.

"Do we as a company want to run rebate-only pension plans?" asked Mr. White, referring to plans based solely on SERPS contributions. ■

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Photo: AP/Wide World

The break in the Linda levee flooded neighboring towns.

Levee liability

Continued from page 3

Some observers say that landowners are likely to try to file suits against both the Reclamation District and municipalities in the area.

Donald Neudeck, chief of flood operations for the state Department of Water Resources in Sacramento, predicts litigation from the flooding also will name the state of California.

The Department of Water Resources is the state agency responsible for inspecting the levees; Mr. Neudeck says the levee that broke had an "outstanding" maintenance rating for the past eight years.

However, litigation against government entities can take four or five years to reach trial or serious settlement discussions, notes Jeffrey W. Pettegrew, risk manager of Contra Costa County Municipal Risk Management Insurance Authority.

Some of Contra Costa County's 16 cities were sued after flooding in 1982, and trial dates only now are being set in those suits, Mr. Pettegrew notes.

The levee that broke had an 'outstanding' maintenance rating for the past eight years, according to Donald Neudeck, chief of flood operations for the California Department of Water Resources in Sacramento.

In these cases, which "could affect our cities to the point of driving them into bankruptcy," property owners' allegations include that the city inadequately maintained drainage systems, Mr. Pettegrew says.

In addition to litigation, many victims of the present flooding are expected to take advantage of various forms of federal assistance, including low-interest loans, grants and temporary housing.

Virtually all commercial and residential property insurance policies exclude flood as a named peril, although they usually cover property damage caused by wind-driven rain.

And, many of these property owners did not have insurance through the National Flood Insurance Program, even though most of the property involved is in designated flood-risk areas and owners were eligible to purchase the federal flood coverage.

The NFIP says it has only 148 policyholders in Yuba County. And, the National Flood Insurance Program estimates that only one in six California homes or businesses in high-risk flood areas is covered under the program.

The NFIP reports 90,000 flood insurance policies currently in effect in California, down from 125,000 in January 1984.

Eligible commercial entities in California can purchase limits of up to $250,000 for a building and up to $100,000 for contents. Other eligible entities, like schools, can purchase up to $200,000 for the structure and up to $100,000 for contents.

Eligible homeowners can purchase up to $185,000 for their homes and up to $60,000 to insure contents.

Two of the largest commercial losses in Yuba County are believed to have been suffered by K mart Corp. and J.C. Penney Co., both of which had stores in a Linda shopping mall that was still under water late last week.

K mart is self-insured for flood damage but is partially insured for damage to clothing owned by its K mart Apparel Corp. subsidiary, reports Debra Cerre, K mart's attorney/risk manager in Troy, Mich.

That coverage is part of a property contents policy written by Protection Mutual Insurance Co., part of the Factory Mutual System, and is "more than adequate" to cover the losses, says Al Presky, insurance manager in North Bergen, N.J.

The company's preliminary estimates of the covered loss is $350,000 to $400,000.

Penney was uncertain of the extent of damage last week, but Carl Seaholm, Penney's risk financing manager in New York, estimated it could reach $1 million.

But, even if the loss is that high, it would be "entirely self-insured," Mr. Seaholm says, because it would be within the deductible on Penney's difference-in-conditions coverage.

Both K mart and Penney leased their store space.

Any losses for structural damage to the stores will be sustained by the landlord of the shopping mall, who could not be reached for comment last week.

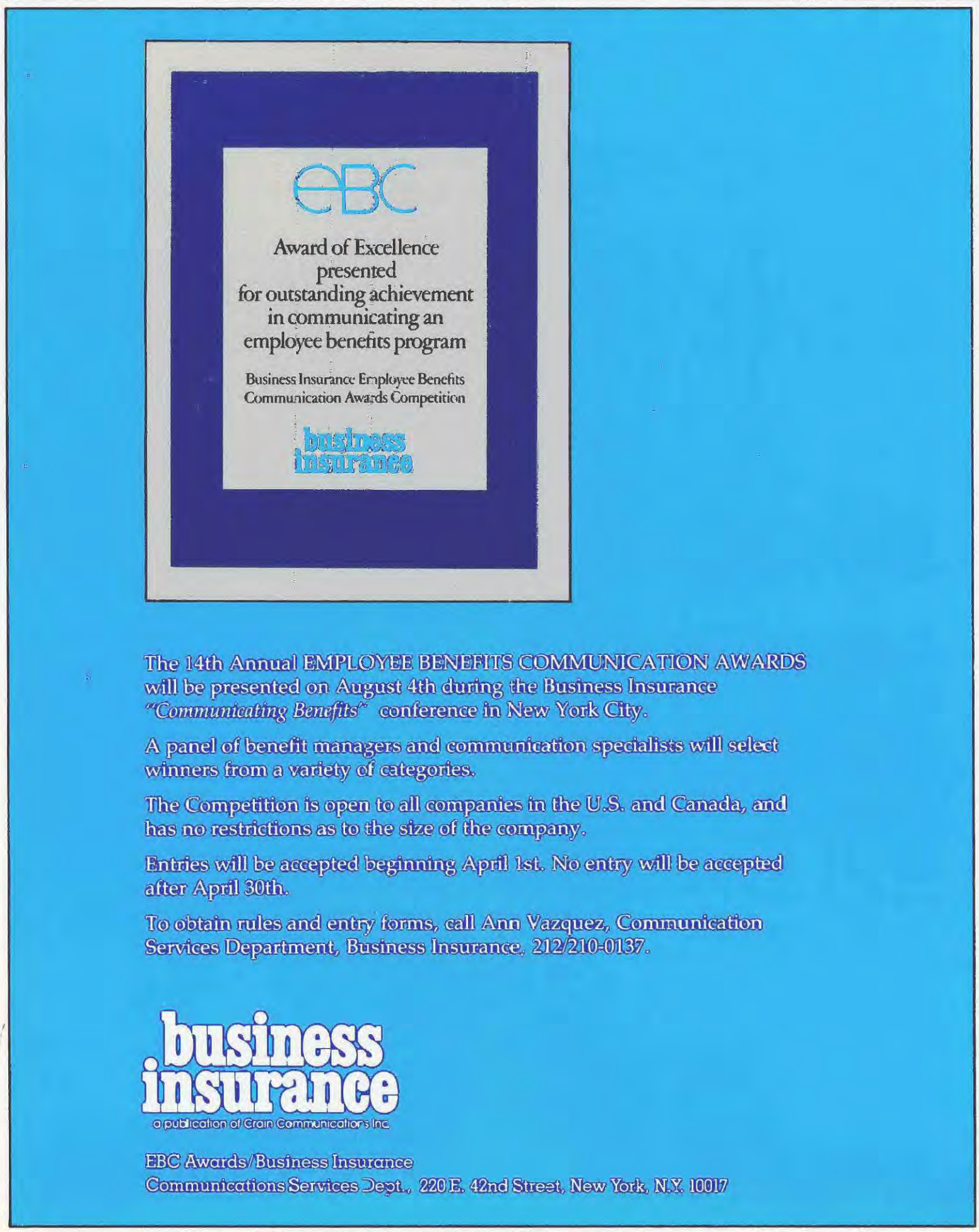
In all, 29 counties in Northern California sustained a total of approximately $322 million in property losses from the storms that raged over several days last month, according to the state Office of Emergency Services.

Of that, $210 million represents losses to private property and $112 million reflects losses to public property.

In that 29-county area, about 185 businesses were destroyed and an additional 776 were damaged.

The storms killed 13 and injured at least 67.

The break in the levee on the Yuba River was repaired by the Army Corps of Engineers with $563,000 in federal funds. ■



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New insurer

Continued from page 2

Aug. 5, 1985).

But Mr. Freestone noted that, unlike Financial Security, Dryden will not insure securities that already are rated by Standard & Poor's and Moody's.

Securities that are rated and previously have been actively traded are already efficiently priced on the market, Mr. Freestone said. "We believe there is a better price opportunity" when securities have not been rated, he said.

The cost of Dryden's insurance, he said, will be tied to the yield of the securities to be covered.

Dryden represents Prudential's first entry into the direct financial guarantee insurance market, he said, although another Prudential company, Prudential Reinsurance Co., does reinsure some financial guarantee business.

Pru Re already owns an excess/-surplus lines insurer, Gibraltar Casualty Co. A Pru Re spokesman said it was decided to create Dryden rather than use Gibraltar to write financial guarantee business because Gibraltar "is now in the process of running off its business, and we may want to do some other things with Gibraltar."

'We perceive most of our opportunity' in the corporate market, Mr. Freestone says.

Gibraltar, which was managed by Dryden & Co., a managing general agency owned by Prudential, stopped writing in the summer of 1984 (*BI*, Sept. 17, 1984).

"It's still, of course, an active entity. But at this time, we just want to keep options open," the spokesman said. ■

Brokerages covered in alleged stock fraud

By MICHAEL BRADFORD

MIAMI—Securities brokerages involved in the case of a Miami stockbroker charged with falsifying account statements have adequate insurance to cover any settlements, attorneys say.

Leslie Roberts, 23, was arrested Feb. 14 and charged with three counts of mail fraud for attempting to cover up trading losses in accounts he handled for his great-uncle, Frank Gory. The losses allegedly took place while Mr. Roberts worked as a broker for E.F. Hutton & Co. in 1984 and 1985 and for Merrill Lynch & Co. since late last year.

The U.S. Attorney's Office in West Palm Beach charged that Mr. Roberts intercepted statements that detailed legitimate trading losses and issued false records that showed Mr. Gory had accounts worth $55 million when the actual value was around $8.5 million.

A spokesman for Robert D. Hertzburg P.A., the Miami law firm representing Mr. Roberts, said his client would "benefit from the insurance of the company" where he worked during the alleged violations. Both Hutton and Merrill Lynch "have enough to cover any claim" that might arise from the case, he added.

Neither Merrill Lynch nor Hutton would comment on the case or about any insurance they might have to cover settlements. Johnson & Higgins in New York said it is Hutton's broker, but declined to reveal any coverage information.

The spokesman for Mr. Roberts' law firm said that while the brokerages have not discussed their coverage with the law firm, the firm has handled similar cases involving other brokerages and on that basis believes Hutton and Merrill Lynch have adequate insurance to cover any settlements.

And, industry experts say Merrill Lynch and Hutton probably have coverage against illegal acts by an individual stockbroker under a brokers blanket bond. Sources estimate Merrill Lynch and Hutton probably carry $50 million to $75 million in coverage, which are about the highest limits available.

One source said deductibles for the coverage are high, probably more than $1 million for Hutton and Merrill Lynch.

As of the middle of last week, no lawsuits had been brought against either of the brokerages or Mr. Roberts.

Attorneys for Mr. Gory could not be reached for comment.

Meanwhile, the Florida Office of the Comptroller has frozen Mr. Roberts' assets, and he was being held last week in Dade County's Metropolitan Correction Center. ■

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NATURAL DISASTERS

During the Past Few Years, Business and Industry Worldwide has suffered hundreds of millions of dollars of weather-related losses due to arctic freeze, floods, hurricanes, snow overload, tornadoes, windstorm. In addition, earthquakes have contributed their share of damage. For many years, much has been written about controlling man-made losses—arson, operator error, inadequate training—but how about natural disasters? Can anyone develop a program to manage natural emergencies, or is this just so much wishful thinking?

At Industrial Risk Insurers we feel our OVERVIEW management program for loss prevention and control can be used to minimize damage caused by a natural disaster. OVERVIEW may not be able to control the emergency itself (how can you really control a hurricane or tornado?), but the **before** and **after** situations can be anticipated, prepared for, and implemented as appropriate. For example:

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Snow Overload. When a snow or ice storm is on the way, the facility's emergency coordinator should begin monitoring storm advisories, decide when to activate the Emergency Control Center, and assign the tasks of plowing, shoveling, and installing snow fences and markers at hydrants and fire protection control valves. **During** and **after** a storm the coordinator should make sure that snow is continually removed from roofs and that ice is dislodged from roof drains. Otherwise, the roof might collapse.

Spring Floods. Although some of the most disastrous floods have occurred in July and August due to heavy rains or hurricanes, many people associate flooding with springtime. And for good reason, because thawing temperatures in the snow fields and April showers result in abnormal runoff. Rampaging waters are only part of the threat, however, since floods can spread flammable liquids, isolate facilities and disrupt fire protection measures. All too often, what floods leave behind is consumed by fire. Be sure to review the potential flood threat to properties located near bodies of water and plan ahead.

Each of the above situations is discussed in OVERVIEW, IRI's total management program for loss prevention and control. For assistance, contact your servicing IRI loss prevention consultant, or ask Mrs. P.A. Sasso for a complimentary copy of the OVERVIEW brochure: IRI, 85 Woodland Street, Hartford, CT 06102, area code (203) 525-2601.

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Roosevelt Island tram

Continued from page 3

about 15 years ago.

Mr. Viola notes the tram's insurance problems began in October, when some of the excess insurance policies began expiring.

To maintain coverage, the operating authority began having to pay premiums at an annual rate of about $1.2 million.

But as additional insurers either dropped out or cut back on their limits, it became impossible to hold together a program any longer, says Mr. Kaye.

In an effort to have service resumed, New York Gov. Mario Cuomo has proposed legislation under which the tram's liability exposures would be self-insured by the state.

The legislation was passed by the state Assembly, but was rejected by the Senate on a 28-26 vote last week.

The main objection to the legislation, said a spokesman for Senate Majority Leader Warren Anderson, R-Binghamton, is that it meant giving "special consideration" to Roosevelt Island residents while other muncipalities "can't get liability insurance for themselves," even though the tram is owned by a state agency.

The main objection to the legislation is that it means giving 'special consideration' to Roosevelt Island residents while other muncipalities 'can't get liability insurance for themselves,' says a spokesman for Senate Majority Leader Warren M. Anderson.

There was also the sentiment, he says, that the entire issue of insurance for municipalities should be dealt with all at once. "You've got to deal with the whole problem," says the spokesman.

In addition, says the spokesman, there is concern that legislation would be unconstitutional because the tram is actually run by a private operator under contract with the state.

However, a spokesman for Gov. Cuomo noted the state also already assumes liability risks for ski lifts at state parks that are operated by private companies.

The spokesman added that there is a "distinct difference" between the Roosevelt Island situation and those of other municipalities, entitling it to the special legislation.

Late last week, the spokesman for Sen. Anderson said the Senate would vote today on a bill that would permit the state to self-insure the tram, but only until June 1. This "sunset provision," he said, will provide the time to work out a solution to the municipal insurance problem that will help all state residents, not just those on Roosevelt Island.

If that bill is approved by the Senate, it will then go to the Assembly and, if approved there, to the governor. It would take effect as soon as it receives his signature.

A spokesman for Gov. Cuomo said he would prefer not to see the sunset provision in the bill, but will not necessarily oppose it.

In the meantime, most Roosevelt Island residents are now being bused at state expense to the subway in Queens, which takes about 30 to 40 minutes. Schoolchildren and the handicapped are bused directly into Manhattan.

The tramway is usually a 10-minute trip to Manhattan. The tramway and subway each cost $1. ■

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Sub-total 22,354
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Government, unions and educational institutions 1,252

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Dyna Span

Continued from page 1

The Florida department also issued show-cause orders to New England International Surety Inc. —a Panamanian company acting as Dyna Span's reinsurer—and to three of the reinsurer's agents.

New England International—which is not related to New England Reinsurance Corp., a unit of Hartford Insurance Group—is not authorized to do business in Florida, the department says.

Walter F. Souto, an executive with New England International, said the insurer is not licensed in any state, though it is applying for a license in California.

A.R. Johnson, Dyna Span's president, counters that state regulators are harassing his company, which is operating within the bounds of the federal act.

"We are in compliance with the law. The problem is, they just don't know what the law is," Mr. Johnson said, referring to state regulators.

He added, however, that to avoid "hassles" with state regulators, Dyna Span plans to place its programs with a licensed insurer rather than continue to issue policies itself.

Mr. Johnson said that Dyna Span has reached an "agreement in principle" with a licensed company—which he would not name—and that this insurer will also reinsure the Dyna Span business with New England International.

Meanwhile, Dyna Span will ignore the Michigan cease-and-desist order, Mr. Johnson said.

"I'll ignore it because they have no right to do that," Mr. Johnson said. "They have no right to try to circumvent that federal law."

The Product Liability Risk Retention Act provides for the formation of two types of entities:

- A risk retention group, which must be chartered or licensed as an insurance company in at least one state and is authorized to act as an insurer in any state. Such companies also could have been licensed in Bermuda or the Cayman Islands until Jan. 1, 1985, as long as the offshore companies were certified as meeting the capitalization requirements of at least one state.
- A purchasing group, defined as any group that "has as one of its purposes" the purchase of product liability or completed operations liability insurance.

Insurance is defined in the act as primary, excess or surplus lines insurance or reinsurance or "any other arrangement for shifting and distributing risk which is determined to be insurance under applicable state or federal law."

Dyna Span was formed in Delaware in 1980 as Family Home Warranty Corp. and changed its name to American Builders & Remodelers Assn. Warranty Corp. in 1983. During its first few years of operation, the company provided real estate and construction warranty coverage.

In 1984, the Delaware Insurance Department recognized the company as a purchasing group under the Risk Retention Act, according to Mr. Levinson.

Dyna Span adopted its present name last June, and since September has been issuing product liability, errors and omissions and liquor liability policies, says Grahame Sanders, an independent marketing representative for Dyna Span.

In January, Dyna Span began marketing its programs through agents in states other than Florida, including Michigan, New Jersey and North Carolina, Mr. Sanders said.

A Dyna Span newsletter provided by Mr. Sanders notes that the company is represented in 26 states and plans to be represented in all 50.

Dyna Span currently has between 750 and 1,000 policyholder members and is writing premiums totaling $150,000 to $200,000 per month, Mr. Sanders explained, adding that premiums written since September total nearly $1 million.

Under the basic Dyna Span program, policyholders carry deductibles of $1,000 per occurrence for legal expenses and $5,000 per occurrence for claims, according to Mr. Sanders.

Dyna Span itself carries an additional deductible of $4,000 per occurrence, and retains a portion of the premium to cover losses within its deductible, he said.

New England International then provides coverage of $990,000 excess of the $10,000 retentions, Mr. Sanders explained.

New England International, described in the Dyna Span newsletter as a "strong, worldwide company," reported assets of $301 million at the end of last year, up from $82.6 million at year-end 1984, according to a copy of the 1985 annual report provided to *Business Insurance* by Mr. Sanders.

The dramatic increase in assets resulted from a transaction in which New England International acquired title to Brazilian real estate worth more than $250 million, according to the annual report.

The real estate was acquired from a Brazilian company, Rio Branco Holdings, in return for 20-year bonds in the amount of $200 million issued by New England International and stock equal to about 35% of New England International's outstanding shares, according to Guillermo Patterson, a Panama City accountant who audited the insurer's annual report.

New England International—whose insurance business to date has consisted of performance bonds and reinsurance of New Zealand and Australian trucking risks—reported earned premiums of $2.3 million and a pretax underwriting profit of $465,000 in 1985, according to the annual report.

Dyna Span has offered its claims-made coverage at rates substantially below market levels, sources say.

One surplus lines broker in Michigan reported that the going rate for liquor liability insurance with a $500,000 limit is about 7% of the policyholder's gross receipts. But, Dyna Span is offering $500,000 limits for less than 1% of gross receipts, according to Ron Monette, an agent representing Dyna Span in Troy, Mich.

The premium for $500,000 of coverage for a policyholder with gross receipts of $1 million would be $8,450, Mr. Monette said. For a limit of $250,000, premiums would range from $1,750 for a policyholder with gross receipts of $100,000 to $6,250 for one with receipts of $1 million, he added.

Mr. Monette said that the rate schedule for insurance agents' E&O coverage is exactly the same as that for liquor liability, though he said he has not sold any E&O policies. He would not comment on how many liquor liability policies he has sold, but said his volume in a single month has been "substantial."

Competing agents in Michigan question whether Dyna Span is actually underwriting the risks it accepts, one saying that business is being bound on a "take-anycomer" basis.

Dyna Span's Mr. Johnson, however, says that underwriting is careful, and that the rates for liquor liability and E&O are the same because the two lines are expected to produce similar losses.

The Florida department started questioning Dyna Span's operations in late January, and on Feb. 20 sent show-cause letters to the company and two agencies marketing its products, HTL & Associates Inc. and American Group, both based in Deerfield Beach, Fla.

The letters say that Dyna Span is not authorized to conduct insurance business in Florida and may thus be in violation of state insurance law.

While exceptions to state regulation are granted under the Risk Retention Act, the letters say, "Dyna Span does not appear to qualify since it is not 'chartered or licensed as an insurance company' or 'authorized to engage in the business of insurance under the laws of any state.' "

Although Dyna Span says it is a purchasing group—and as such is not required to be licensed as an insurance company—the Florida department says the company is acting as a risk retention group and must be licensed according to the federal act.

Dyna Span is issuing policies in its own name—the policies are headed, "Dyna Span Corp., A Risk Retention Group"—and is keeping a portion of each risk it writes, "which makes them a risk retention group," according to Hal Beasley, an insurance analyst with the Florida department.

Dyna Span's letterhead also describes the company as "A Risk Retention Group."

"They say they are a purchasing group. We say that they are a risk retention group and that they are acting as a risk retention group without meeting the requirements of federal law," Mr. Beasley said.

The Florida department has ordered Dyna Span to explain within 14 days under what authority it is holding itself out as a risk retention group, and has ordered the two agencies to explain under what authority they are representing Dyna Span.

After receiving replies, the Florida department will decide whether to issue a cease-and-desist order against Dyna Span, Mr. Beasley said.

In issuing his own cease-and-desist order last week, Michigan Commissioner Coleman also concluded that Dyna Span is operating as a risk retention group but without proper authority.

According to Robert Klein, a Michigan department analyst, Mr. Coleman's letter to Dyna Span says, "Your corporation is chartered in Delaware. The Delaware Insurance Department informs me that you do not have authorization as an insurer in its state. Consequently, the act only authorizes you to purchase product liability insurance from a licensed insurer on a group basis for your members."

Delaware Commissioner Levinson's memo to the other state insurance commissioners echoes this conclusion.

"In our opinion, Dyna Span's recognition as a purchasing group in Delaware would not permit that company to retain any risk or purchase insurance coverages beyond those enumerated in the Risk Retention Act," Mr. Levinson says in the memo. "It cannot issue insurance. A purchasing group can only purchase insurance from an authorized insurer."

Dyna Span's Mr. Johnson, however, says that the company is not acting as an insurer.

"We aren't retaining anything," Mr. Johnson said of Dyna Span's $4,000 per occurrence share of each risk. "It's just another deductible."

While Mr. Sanders said that Dyna Span retains a portion of each policyholder's premium to cover losses in this deductible, Mr. Johnson said that this represents a management fee and not a premium.

Mr. Johnson said that Dyna Span is a purchasing group that has purchased reinsurance from New England International, as it is allowed to do under the federal act. He added that under the act, New England International is also exempt from state regulation, including any requirement that it be licensed.

Last week, Mr. Johnson sent an angry letter to George Love, surplus lines administrator of the Florida department, defending Dyna Span and accusing the department of harassment.

"You have unjustifiably damaged the reputation of Dyna Span and I hereby demand that you cease your assault on this company," the letter reads.

Meanwhile, the Florida department is waiting for replies to another set of show-cause letters sent to New England International and three of its agents, including Mr. Sanders, American Group and Barnhardt Marine Insurance Inc., based in Jacksonville, Fla.

The letter to New England International—noting that the company is reinsuring risks for Dyna Span and Nautical Management Assn. of Tampa, Fla.—says that New England International is not authorized to accept reinsurance risks in the state.

Mr. Sanders—who the Florida department says has identified himself as the sole U.S. representative of New England International—secured the reinsurance on behalf of Dyna Span and Nautical Management, according to the Florida department's letter to Mr. Sanders.

Mr. Sanders, however, denies that he is a New England International representative.

In addition, the letter to New England International notes that the insurer maintains an office at 800 Park View Drive in Hallandale, Fla.—a residential condominium—and has distributed information identifying American Group as an agent for the company.

Florida statutes forbid unauthorized insurers from setting up offices or designating agents in the state, the letter says.

New England International's Mr. Souto, reached at the Hallandale office, said that he only represents the company in South America, and that the policies written for Dyna Span and Nautical Management were issued by New England International's office in Brussels, Belgium.

"We are not allowed to do any insurance business here," Mr. Souto said.

The Florida department's Mr. Beasley, however, said that the origin of the policies does not affect the department's contention that New England International has violated state law by setting up the Hallandale office and designating American Group as an agent.

The letter to Barnhardt Marine, meanwhile, notes that the agency has placed marine coverage with New England International for Canaveral Deep Sea Fishing Boats Inc. of Merritt Island, Fla., and Winston S. Silver Inc. of Wanchese, N.C.

Frank E. Barnhardt, the agency's owner, said the Canaveral policy was canceled from inception and the premium returned, and that the Silver policy is still in force.

Mr. Barnhardt would not comment further on the New England International coverage. ■

update

Supreme Court upholds MPPAA

Continued from page 2

The justices last week unanimously rejected arguments the withdrawal provisions in the Multiemployer Pension Plan Amendments Act of 1980 are an unconstitutional taking of private property.

"Appellants' submission—that such a statutory liability to a private party always constitutes an uncompensated taking prohibited by the Fifth Amendment—if accepted—would prove too much," said Justice Byron White, who wrote the decision.

The law was challenged by Woodward Sand Co. of Santee, Calif., which was hit with a $200,000 withdrawal liability claim in 1980 (*BI*, Oct. 21, 1985).

Accountant liability expanded

SANTA ANA, Calif.—A California appellate court has ruled accounting firms can be sued for negligence in connection with audits relied on by third parties, like lenders and investors. The decision expands the liability of accounting firms and is contrary to a decision last year by the New York Court of Appeals (*BI*, July 29, 1985).

The California decision came in a suit by International Mortgage Co. of Los Angeles against John P. Butler Accountancy Corp. of Irvine, Calif. The accounting firm was sued after another mortgage company defaulted on a $475,000 note. Butler had given the defaulting firm a clean opinion.

Attorneys said Butler was considering whether to seek review from the state Supreme Court. One attorney said a "major flaw" was that the opinion ignored the fact the audit was prepared only for the U.S. Department of Housing and Urban Development, which should have barred suits by other parties.

Also recently, Arthur Andersen & Co. filed suit in state court in Los Angeles against Financial Corp. of America, alleging it fraudulently misrepresented its financial condition to its auditors.

Andersen says that if it had known of the financial condition of FCA subsidiary American Savings & Loan during 1982 and 1983, it would not have issued auditors' reports without substantial qualification or perhaps not at all.

FCA dismissed Andersen in 1984, after the Securities and Exchange Commission forced FCA to restate results downward for the second time in two years. Andersen is a defendant in several class-action suits filed in connection with FCA's restatements.

FCA recently agreed in principle to settle the suits for a minimum of $32 million. Andersen's suit seeks $100 million in actual and $100 million in punitive damages.

School asbestos suit dismissed

CHICAGO—A consolidated lawsuit brought by 34 Illinois school districts, including Chicago's, seeking reimbursement for the removal of asbestos from school buildings was dismissed last week by Cook County Circuit Court Judge Richard L. Curry, who said the districts had not shown a significant health threat existed.

Attorneys for the Chicago Public Schools called the opinion "erroneous" and are considering their next action.

More than 75 defendants were named in the case. In its motion to dismiss, attorneys for the defendants said there was no evidence that breathing asbestos at the "low level" found in schools was harmful, said Chicago attorney Patrick Lamb, representing defendant GAF Corp. of Wayne, N.J.

Continued on next page

update

School asbestos suit dismissed

Continued from previous page

The Illinois Asbestos Abatement Act requires school districts to remove friable asbestos materials from their educational facilities.

Reinsurer adds to reserves

NEW YORK—North American Reinsurance Corp.'s parent, Swiss Reinsurance Co., is boosting its incurred-but-not-reported loss reserves by $50 million. A spokesman says the company had to re-evaluate its IBNR formulas, especially for excess casualty lines, because the period before ultimate loss costs are known continues to lengthen.

North American Re reported a $14.9 million operating loss for 1985. With the reserve boost, the reinsurer had a 130.6% combined ratio, compared with a 129.5% ratio for 1984, says the spokesman.

To offset the reserve strengthening, North American Re also plans to boost its policyholder surplus by $50 million by a method "not yet determined," says the spokesman, who added, "that will not be done by discounting reserves."

N.Y. changes accounting rule

NEW YORK—Insurers in New York state now have access to a new method for taking credit in their statutory annual statements for reinsurance recoverable from unauthorized companies under an amendment to a state Insurance Department regulation.

The amendment to Regulation 20 allows the non-insurer parent of an insurer to contribute funds to its subsidiary as security for reinsurance recoverable from unlicensed reinsurers. Such funds could then be treated by the ceding insurer as an admitted asset in statutory filings, effectively boosting policyholders surplus.

Previously, state regulations allowed credits for unauthorized reinsurance only to the extent that the ceding company withheld funds from the unauthorized reinsurer.

The amendment was promulgated as an emergency measure to allow insurers to take advantage of it in 1985 statutory filings.

Under the new amendment, non-insurer parents can include insurance holding companies, a department spokesman said.

A principal beneficiary of the amendment will be American International Group Inc., whose insurance subsidiaries cede extensively to unauthorized reinsurers, the spokesman said. AIG officials could not be reached for comment.

Manville fee motion is denied

NEW YORK—The bankruptcy judge in the Manville Corp. reorganization proceedings denied a motion by a shareholders group to limit contingent fees plaintiffs' attorneys may receive under a proposed $2.5 billion to $3 billion settlement with asbestos victims.

Some sources estimate plaintiffs' attorneys could receive $1 billion in fees, although the attorneys deny this. Several recently indicated they would voluntarily limit fees (*BI*, Feb. 17).

Continental files for stock sale

NEW YORK—Continental Corp. has filed a registration statement with the Securities and Exchange Commission for the public offering of up to 5.75 million shares of common stock, including a possible 750,000-share overallotment.

Continental's stock was selling at $48.75 a share last week. At that price, the offering could generate as much as $280.3 million.

Proceeds would be used for "general corporate purposes," with a "substantial portion" used to provide equity capital for the company's insurance subsidiaries, said a spokesman. Underwriters on the offering would be Salomon Bros. Inc. and Goldman Sachs & Co.

Rogers & Wells

Continued from page 1

enormous expenditure of time that would be required over years of trials, indicated that a settlement was the prudent course of action and would cause no adverse effect on the firm or its partners," he said.

Neither Mr. Kinnaird nor plaintiffs' attorneys would comment on the specific conditions of the settlement, which is subject to a confidentiality order by San Diego Superior Court Judge Ben W. Hamrick.

The court still must hold a hearing on whether the settlement was concluded in good faith. A finding of good faith would cut off some cross-claims against Rogers & Wells for contribution and indemnity by other defendants, attorneys say. However, Rogers & Wells would still be able to pursue cross-claims against remaining defendants.

The first trial of the many lawsuits, which involves six of the investors and the remaining defendants, is scheduled to begin May 13.

According to one of the complaints filed in the litigation, Mr. Dominelli proclaimed himself a "genius" in the foreign exchange interbank and futures markets and formed his own group of companies to specialize in currency speculation.

From 1979 until 1984, Mr. Dominelli and the companies enjoyed great popularity among influential members of San Diego society, the complaint says, with millions of dollars entrusted to his companies for investments.

"All remaining funds are now lost," says the complaint filed last summer.

The complaint charges that Mr. Dominelli's trading was carried out by many "J. David" companies that he owned and controlled and were structured to make tracing of assets difficult and evaluation of performance complicated.

The investment contracts entered into by plaintiffs were never registered or qualified in accordance with the laws of California or the United States, it alleges.

The complaint also charges that various false representations were made to investors involving Mr. Dominelli's success in past trading history, how the funds were traded and the profits generated.

The suit also charges that the lawyer defendants, including Rogers & Wells, aided and abetted the conduct of Mr. Dominelli and J. David companies by, among other things, drafting legal documents, brochures and written management agreements for investors, providing information directly to new investors on the mechanics of J. David investments, and negotiating or assisting in the negotiation of new investments.

In addition, Rogers & Wells knew well before Mr. Dominelli went bankrupt that he had been involved in the unlawful sale of securities, charged plaintiffs' attorneys.

'This is a good settlement for investors," says attorney Michael Aguirre.

Moreover, the firm continued to represent him when many partners may have known he had broken the law and one partner knew he was continuing to break the law, attorneys contend.

Investors alleged that Rogers & Wells engaged in fraud, negligence and violations of the California corporation law.

However, Mr. Kinnaird, representing Rogers & Wells, said in a prepared statement that the firm had repeatedly advised Mr. Dominelli that investments offered through his Interbank operation could not be sold without registration in the United States.

The firm insisted that the Interbank operation be thoroughly audited and, in June 1983, formally refused to represent J. David & Co. in an Interbank transaction, he added.

"Nothing Rogers & Wells did encouraged any plaintiffs to invest in Mr. Dominelli's operation," Mr. Kinnaird said.

"The scope of the deception which Mr. Dominelli orchestrated made victims of a number of firms who, like Rogers & Wells, had been assured that the J. David organization complied with all applicable laws," he said.

Investors also alleged that RBH of Northern California aided and abetted the conduct of the J. David companies.

This included issuing certificates of insurance on behalf of the J. David companies that certified the existence of a $10 million bankers blanket bond and representing that the policies would not be issued unless the J. David companies were completely honest and well managed, one complaint said.

It also charged RBH represented to potential J. David investors that RBH and Federal Insurance Co., which underwrote the bond, had performed a thorough analysis of the financial status of the J. David companies and found their status to be excellent.

An attorney for RBH, however, disputed this, saying the broker's actions were essentially no different than informing bank depositors their deposits are guaranteed by the Federal Deposit Insurance Corp.

RBH never audited J. David companies and merely acted as a conduit for certain underwriting information provided to Federal Insurance Co., said RBH attorney Shand S. Stephens with the San Francisco firm of Bronson, Bronson & McKinnon.

Mr. Stephens said two separate trial judges and a court of appeals have stated there was no evidence RBH had any liability and that the company only agreed to guarantee the $1.8 million because it believed the chances it would have to pay on that guarantee were slim.

"The $1.8 million was a reasonable sum given the estimate of defense costs and, since it was a guarantee arrangement, the probability was it would not have to be paid due to the expected liability of the other parties," Mr. Stephens said.

"As far as we're concerned, RBH never should have been sued in the first place," he said.

Rogers & Wells has challenged the RBH settlements and has asked the state Supreme Court for a review of earlier court decisions approving them.

But, plaintiffs are satisfied with the Rogers & Wells settlement.

"This is a good settlement for investors," said Michael Aguirre, a San Diego attorney for investors in the litigation.

He said the settlement should also encourage settlements with other defendants.

"I think it will," he said. "Rational people looking at the problem will conclude a settlement is better than going to trial."

"This is an excellent settlement for all parties," said Joseph W. Cotchett, an attorney for the largest group of investors with the San Mateo firm of Cotchett & Illston.

Not only can investors still pursue claims against others, but the settlement also is good for Rogers & Wells, Mr. Cotchett added, since it relieves the firm of going to trial and facing a larger compensatory verdict and also a large punitive damages verdict.

Punitive damages are not covered by insurance in California, he added.

Meanwhile, other defendants are intent on fighting the litigation.

A spokesman for the Philadelphia-based accounting firm Laventhol & Horwath, for example, said the firm never performed any auditing services or issued any financial reports for J. David Banking, which was the entity in which investors lost money.

"Millions of pages of documents produced and depositions taken in the case show conclusively that no investor ever received any report or financial statement which even mentioned the name of Laventhol & Horvath with respect to J. David Banking or the Interbank Fund," the spokesman added.

"So far as we are concerned, we have been brought into this matter only as a deep pocket. We are continuing in our preparations to bring the matter to trial where we are confident our position will be sustained." ■

Brokers' results

Continued from page 3

reflects the a $110 million pretax charge resulting from unauthorized investment activities (*BI*, June 25, 1984).

For the fourth quarter, gross revenues at M&M rose 28% to $361.7 million from $282.8 million in the fourth quarter of 1984. The brokerage's net income jumped 38% to $36.7 million from $26.6 million in the fourth quarter of 1984.

Marsh & McLennan is "showing good momentum in almost all of their operations," said Leonard M. Wilson, special limited partner with L.F. Rothschild, Unterberg & Towbin in New York.

"We promoted Marsh & McLennan to our priority selection list because of their strength in 1985 earnings for their operations as a whole. I'm looking for strong growth at M&M in 1986," added John E. Keefe, a financial analyst with Drexel Burnham Lambert Inc. in New York.

Mr. Rosencrants agreed. "Marsh & McLennan continued to expand its market share dramatically and moves into 1986 with substantial new business development. Its other operations continue to be strong," he commented.

M&M's other operations include reinsurance broker Guy Carpenter & Co. Inc. and employee benefit consultant William M. Mercer-Meidinger Inc., both leaders in their fields.

New York-based Corroon & Black Corp.'s 1985 gross revenues rose 29% to $263.5 million from $204.2 million in 1984. Its 1985 net income totaled nearly $28 million. That compares with a $7 million loss in 1984 primarily due to an $8 million operating loss from its now-discontinued Underwriting Management Group and a $16.36 million loss on disposal of those discontinued operations.

For the fourth quarter of 1985, Corroon & Black's gross revenues jumped 32% to more than $72.5 million from $54.8 million in 1984. The brokerage's net income for the fourth quarter was $7.5 million, in contrast with a $13.8 million loss in the corresponding period of 1984 due to the discontinued underwriting operations.

Although the brokerage admits to "continuing uncertainty" regarding potential future charges related to discontinued underwriting operations, it is very satisfied with its 1985 performance, as are analysts.

"We had an excellent year. Our end results were in line with the analysts' expectations," said Mr. Crane.

"The most gratifying aspect of the year was our 29% increase in revenues. At least half of

Continued on next page

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Brokers' results

Continued from previous page

that increase was attributable to new business efforts," he added.

"Their year's results were quite strong," said Mr. Keefe. "Some of their programs, such as their public entities program and their mass marketing efforts, were very successful in 1985. They should see better results in their reinsurance area in 1986," he added, pointing out that those operations were "profitable but flat" in 1985.

Mr. Rosencrants agreed that Corroon & Black's reinsurance brokerage business "remains depressed and needs a more successful new business effort," but added: "Corroon's numbers are very good, particularly in new business development on their primary brokerage operations."

"Overall, their results were very good," said Mr. Wilson. "In the fourth quarter there was an escalation in their expenses that shaved their earnings figure in the fourth quarter a bit, but that is not something that would endanger expectations for 1986."

Corroon & Black announced in January that it acquired Olliver/Pilcher Insurance Inc., based in Phoenix, Ariz. Olliver/Pilcher, with $8.6 million in revenues, was ranked 35th in *Business Insurance's* 1984 U.S. broker ranking. The acquisition of Olliver/Pilcher greatly increases Corroon & Black's market share in Arizona.

The Crump Cos. Inc., based in Memphis, Tenn., produced the largest revenue increase of any of the publicly held reporting brokers. Gross revenues jumped 40.7% to $98 million from $69.6 million in 1984. And, Crump's net income for 1985 soared 82.7% to $9 million from $4.9 million in 1984.

For the fourth quarter, Crump's gross revenues rose 44.4%, to just less than $27.1 million from $18.7 million in the final quarter of 1984. The brokerage's fourth-quarter net income for 1985 skyrocketed 129.6% to more than $2 million from $886,000 in the last quarter of 1984.

"Crump had another outstanding quarter. Things for them continue pretty much on track," Mr. Rosencrants said.

"I think several things came together in 1985 for Crump," said James M. Power, Crump's president and chief operating officer.

Mr. Power cited hardening market conditions; pulling together all Crump's offices throughout the United States to achieve common goals; Crump's strength in the excess/surplus lines market; and a new presence in several regions due to acquisitions.

Crump announced last month that Reliance Insurance Cos., which holds 37.4% interest in the brokerage, is seeking a purchaser or purchasers for its more than 3.27 million shares (*BI*, Feb. 17).

Mr. Rosencrants said: "I'm sure Reliance will have little difficulty in selling its interest in Crump."

Arthur J. Gallagher & Co. reported a 27% increase in gross revenues in 1985 to $81.6 million from $64.2 million in 1984. Gallagher's 1985 net income was $9.9 million, up 57% from $6.3 million in 1984.

Fourth-quarter 1985 gross revenues were $21.9 million, a 28% increase over $17.1 million in the fourth quarter of 1984. Gallagher's fourth-quarter net income was $1.9 million, a 55% increase over $1.2 million reported for the corresponding period in 1984.

Gallagher's marketing approach—to structure an insurance program complete with risk management and loss control techniques, and usually involving some sort of self-insurance—is paying off in this market, observers say.

"As specialists in risk management in this environment—with coverage difficult to find and capacity at a real crunch—we have the ability to deliver products and services to our clients. We bring alternative solutions to their insurance problems," said Vp-Finance Michael J. Cloherty.

Mr. Rosencrants agreed that "the company has been very well-positioned in the tight insurance market to add market share because of its risk management capabilities."

"Gallagher's fees were up sharply, as was its commission income. This extra dimension to its business is certainly a factor in its growth," Mr. Wilson said.

Donald J. Krutek, a Gallagher vp, said that the brokerage created two new products that are helping clients address the hard market.

One is a risk management program designed for businesses that generate between $300,000 and $500,000 in premiums.

The program for each business incorporates a self-insured retention, excess insurance and loss control and claims information services provided by Gallagher Bassett Insurance Service, Gallagher's service facility.

"We are taking concepts designed for larger risks and,packaging them so medium-sized risks can have some control over their costs," Mr. Krutek explained.

The other product is a customized service package for clients that are unable to obtain any coverage. Gallagher helps these businesses set their self-insured reserves, manage their claims and issue payments and provides them with loss control and claims information services as well, Mr. Krutek explained.

Poe & Associates Inc. in Tampa, Fla., reported gross revenues grew 26% to $28.7 million in 1985 from $22.8 million in 1984.

Poe reported net income of $2.9 million, compared with a $642,000 loss in 1984 due to losses and writeoffs from discontinued underwriting operations: Whiting National Insurance Co., a Poe subsidiary specializing in professional liability coverages, and Stetzel Thomson & Co. Ltd., a London-based underwriting manager in which Poe held an 80% interest.

For the fourth quarter of 1985, Poe's gross revenues rose to $7.6 million, up 41% from $5.3 million in the fourth quarter of 1984. Poe's fourth-quarter net income totaled $743,000, compared with a $1.7 million loss in the fourth quarter of 1984.

This month Poe announced that it plans to increase its number of authorized shares through a 3-for-2 stock split, pending shareholder approval in April.

"We felt that if we increased the amount of shares, we might create interest among institutional buyers and increase our value," said William F. Poe, the company's chairman.

However, so far, most stock analysts are not tracking Poe.

Mr. Poe said he is very pleased with the brokerage's results. "We had trimmed our expenses over the last couple of years so that if and when increased rates and sales occurred a good portion of our revenue would drop to the bottom line," he explained.

Poe & Associates acquired two agencies in Florida during the fourth quarter, one in Orlando with a specialty program for wreckers and one in Miami specializing in international insurance for American interests overseas. The acquisitions were made on a purchase basis, and the offices were incorporated into existing facilities.

Only partial financial results are available for another national broker, Chicago-based Rollins Burdick Hunter Co. Parent company Combined International Corp. reports only consolidated net income. However, Combined said that brokerage commissions and fees, principally from RBH, rose 25% to $133.2 million from $106.5 million in 1984.

Of the three publicly held brokers that have not yet reported, A&A recently announced that it expects to post a $31.9 million loss on discontinued underwriting operations in the fourth quarter of 1985 after bolstering loss reserves.

The brokerage also reported that its operating results in the quarter will be affected by non-recurring charges related to its July 1985 acquisition of Toronto-based Reed Stenhouse Cos. Ltd.

"Their announcement was the last in a series of adverse developments for the brokerage," observed Mr. Rosencrants. "Investors have become quite tired of the stories from A&A management that their problems are behind them. This latest announcement does nothing to alleviate the fear among investors," he said.

Commenting on the additional expenses involving Reed Stenhouse, Mr. Rosencrants added: "It is disconcerting to know that additional expenses will be recognized in the fourth quarter of 1985. The expenses related to the merger were supposed to all be reported in the second and third quarter of 1985."

Mr. Wilson, however, is more upbeat about A&A. "Notwithstanding the charges to discontinued operations and the impact on continuing operations from the Reed Stenhouse acquisition, A&A's outlook for 1986 is pretty positive," Mr. Wilson said.

And Drexel Burnham's Mr. Keefe does not expect A&A's latest announcement to "hinder A&A's going forward in its brokerage operations. This should be a relatively good year for them."

Discontinued operations also could reduce profits at Frank B. Hall, which announced in January that its fourth-quarter 1985 results may include further writeoffs for two of its discontinued operations: Jartran Inc., a truck-leasing subsidiary that Hall is trying to sell, and Global Surplus Insurance Services Inc., a managing general agency that wrote business for Protective National Insurance Co. of Omaha, Neb. (*BI*, Feb. 3).

At a special stockholders meeting on Feb. 21, Hall requested and received approval to increase authorized shares of common stock to 50 million from 20 million; increase authorized shares of preferred stock to 10 million from 500,000; and ratify transactions between Hall and Reliance Insurance Co. through which Reliance can invest up to $75 million in additional funds in Hall.

Reliance currently owns 20.5% of Hall's stock and also has provided the brokerage with loans.

More than one analyst speculates that the brokerage needed stockholder approval to issue additional shares of stock so that it would have sufficient funds to meet the minimum tangible net worth requirements in loan agreements it currently has with Reliance and a group of banks.

John F. McCaffrey, chairman and chief executive officer of Hall, said: "We needed additional shares for several reasons, including financing. We ran out of shares." He said 19 million shares were outstanding out of the 20 million authorized.

But, Mr. McCaffrey pointed out that if Hall takes a writeoff in the fourth quarter of 1985, it might not have to sell shares. It will depend on the size of the writeoff, he stressed.

"I'm requesting some hard, detailed and very final numbers" from Hall's auditors, Mr. McCaffrey added, explaining that was the reason results for 1985 have not yet been released.

Mr. Rosencrants said that although some Hall shareholders and others within the insurance industry have criticized the role Reliance is playing in Hall, "The financial support and commitment from Reliance has been essential to the broker for it to continue to operate without severe difficulty from its creditors."

Mr. Keefe added: "It looks as though there is a mutual agreement between Hall and Reliance that they will work together. If Reliance walked away now, Hall would be in a lot of trouble because it wouldn't be able to meet its loan obligations, and Reliance would lose some of the value of its investment."

Mr. Keefe pointed out that Hall's new management likely will help the brokerage restore some of its market share, although the damage from its discontinued operations and Jartran-related losses will take some time to repair. ■

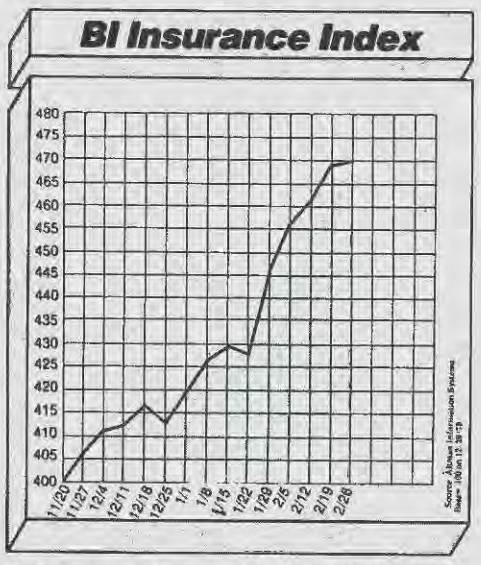
BI Industry Stock Report

February 26, 1986 **2/20/86 thru 2/26/86**

Brokers		Price	% Chg.	P/E	$ Div.	% Yld.	High	Low	Vol.(000)
Alexander & Alexander Svcs	NYSE	34.13	-3.5	0.0	1.00	2.9	36.13	34.13	600.9
Baldwin & Lyons Inc	OTC	76.25	0.3	16.8	0.80	1.0	76.25	76.00	3.3
Corroon & Black Corp	NYSE	63.50	-1.2	20.2	1.00	1.6	63.50	61.75	163.6
Crump E H Cos Inc	OTC	25.00	2.0	23.8	0.25	1.0	25.00	24.50	199.3
Emett & Chandler Cos Inc	OTC	17.88	0.0	30.8	0.00	0.0	17.88	17.88	20.3
Gallagher Arthur J & Co	OTC	55.50	-1.8	25.2	0.40	0.7	56.50	55.50	6.5
Hall Frank B & Co Inc	NYSE	20.63	7.8	0.0	0.00	0.0	21.38	20.38	787.7
Marsh & Mclennan Cos Inc	NYSE	96.00	-1.0	21.5	2.70	2.8	98.50*	95.50	228.2
Poe & Assoc Inc	OTC	18.25	1.4	0.0	0.80	4.4	18.25*	18.00	3.0
AGENTS/BROKERS	AVERAGE			75.1		1.7			
Conglomerates & Holding Cos.									
American Express(Fireman's Fd)	NYSE	65.00	5.9	18.3	1.36	2.1	65.13*	63.13	3,894.5
Anderson Clayton(Ranger/PanAm)	NYSE	54.75	-0.5	31.3	1.32	2.4	55.38	54.75	145.9
Areco Inc	NYSE	11.25	5.9	0.0	0.00	0.0	11.38	10.50	1,208.3
Berkley W R Corp	OTC	45.25	2.8	141.4	0.32	0.7	45.25	43.50	154.9
CIGNA Corp	NYSE	68.25	-3.4	0.0	2.60	3.8	70.88*	68.25	1,001.5
CNA Finl Corp (CNA)	NYSE	69.75	1.8	23.2	0.00	0.0	71.50*	69.50	148.5
General Re Corp	NYSE	117.25	0.2	84.7	1.76	1.5	119.88*	115.50	420.0
ITT (Hartford Group)	NYSE	44.00	7.3	23.3	1.00	2.3	44.00*	41.13	3,999.0
Sears Roebuck & Co. (Allstate)	NYSE	43.13	2.7	12.2	1.76	4.1	43.63*	42.88	5,044.3
Teledyne Inc (Argonaut)	NYSE	348.25	6.3	7.5	0.00	0.0	349.63*	346.50	286.8
Transamerica Corp (Occidental & Fred S. James)	NYSE	38.00	2.4	17.7	1.68	4.4	38.25	37.88	749.0
CONGLOMERATES/HOLDING COS.	AVERAGE			17.9		1.3			
Insurers									
Aetna Life & Cas Co	NYSE	59.25	-2.3	15.4	2.64	4.5	61.38*	59.25	1,919.2
American General Corp	NYSE	39.75	-3.0	12.3	1.12	2.8	41.00	39.25	1,040.8
Amern Heritage Life Invt Co	NYSE	39.50	0.6	14.8	1.20	3.0	39.63	39.25	1.4
American Indty Finl Corp	OTC	22.25	-7.3	0.0	1.12	5.0	24.00	22.25	17.3
American Intl Group Inc	NYSE	122.75	0.5	30.6	0.44	0.4	124.50	120.13	622.2
Aneco Reins Ltd	OTC	0.94	7.2	0.0	0.00	0.0	0.94	0.94	18.5
Avemco Corp	NYSE	34.00	-0.4	13.4	0.60	1.8	36.00	34.00	66.5
Business Mens Assurn Co Amer	OTC	29.50	4.4	13.7	1.10	3.7	29.50	28.50	244.8
Chubb Corp	NYSE	63.88	-1.5	0.0	1.56	2.4	65.38	63.88	314.6
Combined Intl Corp	NYSE	59.00	-0.8	12.2	2.16	3.7	60.13*	59.00	185.6
Continental Corp	NYSE	48.75	-1.0	0.0	2.60	5.3	50.63*	48.75	629.4
Crown Life Ins Co	OTC	245.00	-2.0	14.8	0.00	0.0	250.00	245.00	1.1
Durham Corp	OTC	43.25	1.8	11.9	1.36	3.1	43.75	42.50	4.4
Farmers Group Inc	OTC	81.25	0.3	13.7	2.00	2.5	82.00*	81.25	240.2
Fairmont Finl Inc	AMEX	20.13	0.0	16.8	0.00	0.0	20.13	19.63*	120.8
Fireman Fd Corp	NYSE	35.63	-0.3	0.0	0.30	0.8	37.25	35.63	913.2
Fremont Gen Corp	OTC	29.63	-0.8	0.0	0.48	1.6	29.88	29.50	285.4
Great West Life Assurn Co	OTC	490.25	0.0	4.9	18.00	3.7	490.25	490.25	0.0
Home Group Inc	AMEX	25.75	-3.7	0.0	0.00	0.0	27.25	25.75	356.8
Hanover Ins Co	OTC	62.75	-0.8	65.4	0.56	0.9	64.25*	62.75	39.2
Hartford Steam Boiler Inspctn	OTC	69.50	0.0	12.8	2.00	2.9	70.00	69.50	41.1
Kans City Life Ins	OTC	30.00	1.7	11.8	0.87	2.9	30.00	29.50	44.2
Kemper Corp	OTC	94.75	-1.8	20.5	1.80	1.9	99.75*	94.75	415.9
Liberty Corp S C	NYSE	35.50	2.2	14.9	0.72	2.0	35.50*	35.00	15.4
Lincoln Natl Corp Ind	NYSE	58.00	-0.4	13.4	2.00	3.4	60.50*	58.00	352.7
Mission Ins Group Inc	OTC	2.75	0.0	0.0	0.00	0.0	2.75	2.75	630.5
Monumental Corp	OTC	35.50	0.0	12.0	1.40	3.9	35.50	35.25	31.5
Mac Re Corp	OTC	38.00	-2.6	0.0	0.00	0.0	38.63	37.75	95.2
Nobel Ins Ltd	OTC	16.25	0.0	21.4	0.25	1.5	17.00*	16.25	25.2
Northwestern Natl Life Ins	OTC	27.88	0.0	13.8	0.80	2.9	27.88	27.13	257.6
Ohio Cas Corp	OTC	85.00	-1.4	24.9	3.00	3.5	86.00	84.25	108.0
Old Rep Intl Corp	OTC	41.75	2.8	11.3	0.74	1.8	41.88*	40.88	406.7
Orion Cap Corp	NYSE	34.00	-0.4	0.0	0.76	2.2	34.50	34.00	110.7
Protective Corp	OTC	24.75	-1.0	9.2	0.66	2.7	25.50*	24.75	151.2
Provident Life & Acc Ins Co	OTC	29.88	2.1	10.3	0.76	2.5	29.88*	29.13	315.3
St Paul Cos Inc	OTC	91.75	-1.9	40.6	3.00	3.3	94.00*	91.75	273.7
Safeco Corp	OTC	54.50	-0.7	16.6	1.60	2.9	56.00*	54.38	228.5
Sri Corp	OTC	18.75	-2.0	0.0	0.80	4.3	19.13	18.63	78.9
Seibels Bruce Group Inc	OTC	21.50	-1.1	11.9	0.80	3.7	21.75	21.50	95.3
Statesman Group Inc	OTC	6.50	2.0	0.0	0.05	0.8	6.63*	6.38	345.2
Tokio Marine & Fire Ins Co	OTC	252.75	0.6	47.6	1.05	0.4	252.75*	243.50	11.1
Torchmark Corp	NYSE	29.88	7.7	13.8	0.60	2.0	30.75*	27.63	1,248.2
Travelers Corp	NYSE	52.75	-1.9	13.2	2.16	4.1	54.63	52.75	782.6
United Fire & Cas Co	OTC	32.50	0.8	15.2	0.80	2.5	32.50	32.50	4.5
United States Fid & Gty Co	NYSE	40.13	-2.4	0.0	2.20	5.5	41.00	40.13	1,512.4
Uslife Corp	NYSE	40.75	2.2	9.2	1.12	2.7	41.75	40.75	216.8
Washington Natl Corp	NYSE	29.75	4.4	10.3	1.08	3.6	30.25*	29.13	205.9
Zenith Natl Ins Corp	OTC	32.00	0.0	0.0	0.68	2.1	32.00	31.50	421.1

System design: Altman Information Systems

BI Insurance Index



The *Business Insurance* stock index inched upward 0.1% to a new record high of 469.6 on Feb. 26, up 0.5 point from the previous high of 469.1 on Feb. 19. In all, 22 stocks were up, 28 were down and nine were unchanged. The biggest gainers were: Frank B. Hall & Co. Inc., up 7.8%; Torchmark Corp., up 7.7%; Aneco Reinsurance Co. Ltd., up 7.2%; Business Mens Assurance Co. of America, up 4.4%; and Washington National Corp., up 4.4%. The biggest losses were posted by: American Indemnity Financial Corp., down 7.3%; The Home Group Inc., down 3.7%; and Alexander & Alexander Services Inc., down 3.5%. Other market indicators outpaced the *BI* index: The NYSE composite rose 1.8%, the Standard & Poor's 500 rose 1.9% and the Dow Jones 30 Industrials climbed 2.3%.

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Q. The Hartford—you mean the company with the moose?
A. It's a stag. I've got an option with my Hartford policy that replaces lost income for as long as a year.
Q. No kidding?
A. Yep. It can even pay the expenses of starting up again.
Q. Sounds great. How long have you been insured by The Hartford?
A. Ever since I got started in shoelace cleaning thirty years ago.
Q. And just how did you get started?
A. I pulled some strings.

PIA

Year after year, you'll like doing business with The Hartford, the insurance people of ITT.

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