MARCH 5, 1984

business insurance®

Reporting weekly for corporate risk, employee benefit and financial executives/$1.50 a copy; $52 a year

update

Supreme Court ruling allows Agent Orange trial to proceed

WASHINGTON—The Supreme Court last week rejected a plea by manufacturers of Agent Orange to overturn a federal court decision authorizing a class action composed of plaintiffs who are claiming they suffered injuries from exposure to the defoliant.

The Supreme Court's refusal to hear the case means that a May 7 trial in U.S. District Court in Brooklyn for

Continued on next page

Market Alert

Look out below

Rates for excess and special risks increasing as much as 10% to 25%

By RHONDA L. RUNDLE

LOS ANGELES—Risk managers who must soon renew coverage for large or unusual risks should roll up their sleeves, sharpen their pencils and get set for some steely negotiating.

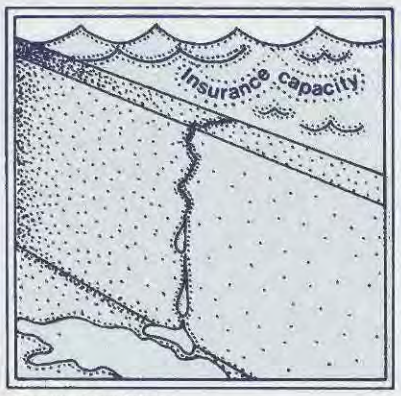
For the first time in years, some corporate insurance buyers are starting to face premium increases of 10% to 25%—and even higher—to renew excess and special risk coverages. It's also getting tougher to find new markets to quote these risks.

"Spotty" and "sporadic" are the words most often used by industry insiders to describe the price increases and other changes they see rippling through the excess and surplus lines markets—traditionally the first to tighten when insurers start to pull in their horns.

The clearest price increases and market withdrawals are hitting certain classes of professional liability, errors and omissions, energy, earthquake, trucking and excess and umbrella property/casualty coverages. Aviation and satellite coverages also are shooting up as previously reported (*BI*, Feb. 13, Jan. 10).

Market seers who have predicted an upswing in insurance cycles during the past three years have wiped egg off their faces so many times that they are understandably reluctant to risk another prognosis. But, the $64,000 question is on everyone's mind:

"Is the market finally turning?"



Graphic: Amy Palmer

An informal survey of the nation's top excess/surplus lines markets conducted during the past month suggests that the overwhelming answer is a clear-but-cautious "yes."

These markets say the pressure on

Continued on page 33

Tightening reinsurance capacity catching many insurers off guard

By RHONDA L. RUNDLE

LOS ANGELES—Late last year reinsurers started gagging on red ink, and now their underwriting appetites are no longer big enough to stomach all the business offered by direct insurers.

Some reinsurers are cutting back on the volume of risks they accept by raising rates or adding highly restrictive terms to their contracts. Others are bowing out of certain treaties or facultative agreements.

Since the emphasis has switched to "disciplined underwriting" and away from "increased production," some reinsurers are trimming costs and tightening controls by consolidating operations and closing down branch offices in other cities.

This change in the reinsurance markets crystallized in December, catching many direct insurance markets off guard, industry insiders say. Accustomed to a bountiful and cheap supply of reinsurance, these markets were surprised when their reinsurers balked at renewing treaties on old terms—or at all.

Several major excess/surplus lines markets that had not nailed down reinsurance treaties by Dec. 31 had to seek extensions through the end of February. And, in some cases, the deadlines may have passed without contract renewal or substitution of a new reinsurance treaty.

The insurers, underwriting managers and managing general agencies in this predicament that do not wish to increase their own risk retentions will have to cut back underwriting or buy facultative reinsurance on a risk-by-risk basis.

Either way, they are likely to be rais-

Continued on page 34

Congressmen join offensive against FSAs

By JERRY GEISEL

WASHINGTON—Employers that hope Congress will rescue flexible spending accounts from an assault by the Internal Revenue Service may come up empty-handed.

Employers and their consultants had hoped to find support from members of the House Ways and Means Committee in their battle to force the IRS to withdraw a news release that implied that most forms of FSAs are invalid (*BI*, Feb. 20, Feb. 27).

Flexible spending acounts—also called flexible reimbursement accounts, employee spending accounts, benefit banks or flex funds—are individual accounts that let employees spend pretax dollars on certain non-taxable benefit expenses.

Employers and consultants extolled what they said are the virtues of reimbursement accounts—health care cost containment and benefit diversity—at a Feb. 28 Ways and Means Committee hearing on tax shelters.

They warned the committee that the IRS news release, if allowed to stand, would destroy virtually all FSAs and that congressional action is needed to prevent the IRS from implementing these changes.

But, committee members were unmoved by those pleas. Not one member of the Ways and Means Committee defended flexible spending accounts, and several were hostile about their use during the two-hour hearing.

Rep. J.J. Pickle, D-Texas, said employers and consultants promoting FSAs seem more interested in the "tax-avoidance" features of the accounts than cost containment.

Before a hushed audience, Mr. Pickle read a January 1983 bulletin by benefit consultant William M. Mercer Inc. that explained how employees can cut their Social Security and federal income taxes by allocating pretax dollars to an FSA.

"You have emphasized tax avoidance," Mr. Pickle said, noting that the bulletin did not even once mention the words "cost containment."

Grapic: Amy Palmer

"You put (tax avoidance) in bold letters. . . .When that happens we lose" lots of federal income tax revenues and Social Security loses lots of revenues, Mr. Pickle said.

Lloyd Kaye, a principal at Mercer, who said an accompanying brochure did mention cost containment, told the committee that it would be difficult to get people to participate in FSAs without tax breaks.

That argument "leaves me cold," responded Rep. William Thomas, R-Calif. He said employers had no

Continued on page 30

Tax committee proposing other drastic benefit changes

By JERRY GEISEL

WASHINGTON—The long-awaited congressional attack on employee benefit programs is about to roll.

A blueprint, prepared by the influential Joint Committee on Taxation, is targeting benefit plans as part of its war on tax shelters.

In the 109-page report, the Joint Committee suggests several proposals that, if enacted by Congress, would force employers to again make sweeping changes in their employee benefit programs.

(Meanwhile in the House and Senate, the search for extra tax revenues also has prompted a proposal to limit deductions on self-insured reserves for workers compensation and liability claims. See story, page 32.)

The benefit proposals, discussed in detail for the first time at a House Ways and Means Committee hearing last week, include:

- A new definition of "hardship" to make it more difficult for employees to withdraw contributions from 401(k) salary reduction

Continued on page 30

NEWSPAPER

INSIDE:

update

Agent Orange class upheld

Continued from previous page

10 representative Agent Orange cases should begin as scheduled.

The original decision by U.S. District Judge Jack Weinstein was affirmed by the 2nd U.S. Circuit Court of Appeals in January. Defendants then filed a petition for a writ of certiorari with the high court asking it to consider the lower-court decision.

About 15,000 plaintiffs exposed to Agent Orange are now part of the class action, and some estimate that eventually the class will include 75,000 people.

Pilot's widow gets $4 million

CHICAGO—McDonnell-Douglas Corp. must pay $4.15 million in damages to the widow and son of the pilot of the American Airlines DC-10 that crashed near a Chicago suburb in May 1979 in the worst aviation disaster in U.S. history, a federal jury ruled last week.

The five-member U.S. District Court jury awarded $4 million to Lora Lux, the widow of pilot Walter Lux, and $150,000 to the couple's son Michael.

McDonnell-Douglas Corp., the sole defendant in the case, manufactured the jumbo jet. The family could not sue the airline because such suits are barred under workers compensation laws.

The trial was held solely to determine the amount of damages after McDonnell-Douglas agreed to not contest liability. Plaintiffs had sought $14.8 million, while defendants suggested $1.3 million.

The National Transportation Safety Board and the Federal Aviation Administration had determined that the principal cause of the crash was a crack in an engine pylon that caused an engine to fall off upon takeoff.

At the time of the accident, McDonnell-Douglas had $450 million in product liability insurance, about 80% of which was placed in the London market.

Utility covered for mudslide

CHICO, Calif.—San Francisco-based Pacific Gas & Electric Co. says it is "more than adequately protected" for damage caused by a mudslide that hit one of the company's hydroelectric power sites.

The slide nearly buried a powerhouse on the company's Feather River hydroelectric system that produces 120,000 kilowatts of electricity. It also forced PG&E to shut down two nearby powerhouses, destroyed a 230,000 volt switchyard and damaged a 65-foot stationary crane.

PG&E has a $2.5 million deductible on an all-risk property insurance package, notes Bill Noone, PG&E's manager of insurance. The coverage is spread over at least 10 layers and more than 100 insurers, he adds, describing the limits as "very, very high." The company has a $2 million self-insured retention on its third-party liability coverage, he says.

Damage estimates were unavailable late last week.

Jetliner damage undetermined

LONDON—Underwriters are waiting for a Scandinavian Airlines System DC-10 jetliner to be pulled from Jamaica Bay near New York's Kennedy International Airport before determining how much claims from the Feb. 27 accident will cost.

The jetliner will be considered a total loss if repair costs exceed 75% of its $34 million insured value, said Alan May, claims director for Stewart Wrightson (Aviation) Ltd. in London, the broker for SAS. Teams from SAS, the National Transportation Safety Board and McDonnell-Douglas Corp., the DC-10's manufacturer, were surveying the damage to the aircraft late last week, he said.

The airline's hull and liability coverage is led by Orion Insurance Co. P.L.C. in Great Britain. However, 25% of the risk is underwritten by Guernsey-based Polygon Insurance Co. Ltd., which is owned by SAS, KLM Royal Dutch Airlines and Swissair.

The airliner slid off a runway at Kennedy into about 10 feet of water after landing in a winter storm. Ten of the 177 people on board the flight from Oslo, Norway, suffered slight injuries.

Mercer, Meidinger finish merger

NEW YORK—Benefit consultants William M. Mercer Inc. and Meidinger Inc. are now doing business as William M. Mercer-Meidinger Inc. as a result of a merger completed Feb. 29.

The new corporation, a unit of Marsh & McLennan Cos. Inc., operates 92 offices worldwide and has 2,750 employees, according to M&M, which previously owned Mercer. The two companies reported combined estimated gross revenues of $170 million in 1983 (*BI*, Dec. 19, 1983).

Under the terms of the merger, Meidinger shareholders received M&M common stock valued at about $30.2 million, M&M said.

index

Vol. 18, No. 10—*Business Insurance* (ISSN 0007-6864) is published weekly at 740 Rush St., Chicago, Ill. 60611. Second-class postage is paid at Chicago, Ill., and at additional mailing offices. Postmaster: Send address changes to *Business Insurance*, circulation department, 740 Rush St., Chicago, Ill., 60611; 312-649-5221.

Insurer insolvency victims can't count on reinsurance

By STEPHEN TARNOFF

LOS ANGELES—Insurance buyers cannot count on recovering claims from reinsurers if their direct insurer is unable to pay, a state appellate court says.

The decision by the California 2nd District Court of Appeals also says that a group of reinsurers did not act in bad faith or violate the state's unfair practice law by failing to affirmatively act to settle a lawsuit against a ceding company's policyholder.

The Feb. 16 decision in Duber Industrial Security Inc. vs. Allendale Mutual Insurance Co., one of the first of its kind in the nation, also says that a reinsurer's right to participate in a settlement does not constitute a duty to participate.

Moreover, it holds that a direct insurer is not an agent of its reinsurers, adding that reinsurers are not vicariously liable for a ceding company's wrongful conduct.

A policyholder might be able to recover from a reinsurer if the reinsurer takes an active part in claims settlement, though that did not occur in this case, the court added in upholding a lower-court ruling.

The decision marks the first time a California appellate court has ruled on these issues, said David J. Prager, the attorney with the Los Angeles firm of Fisher & Prager who represented about a dozen reinsurers in the case.

And, it is only the second decision nationwide in which a court has ruled that reinsurers are not covered by a state's unfair practice law, Mr. Prager said.

However, the decision currently cannot be used as a precedent in California because it has not been published. Mr. Prager said he has asked the appellate court to publish the ruling. If it does not, his request automatically goes to the state Supreme Court.

As many as two-thirds of all California appellate court decisions are unpublished and, thus, don't have the impact of precedent, attorneys say.

The case began in 1976 when Duber Industrial Security Inc. sued its primary liability insurers, Signal Insurance Co. and Imperial Insurance Co., two related companies known as Signal-Imperial.

Two years earlier, the insurers had refused to settle a wrongful death action against Duber for $100,000, the limits of Duber's coverage with Signal-Imperial. A jury then assessed a $275,000 award against Duber, which had no excess insurance.

After the trial, Signal-Imperial paid its $100,000 limit to Duber, but the policyholder sued to recover the additional $175,000, citing the insurers' failure to settle for the lower amount.

In 1978, however, Signal-Imperial was declared insolvent by a California court. Duber then sued Signal-Imperial's reinsurers, contending they were liable for

Continued on page 29

James loses RTD negotiating rights

By STEVE TARAVELLA

LOS ANGELES—The Southern California Rapid Transit District will reopen the bidding for an insurance administration contract for the city's proposed $3.4 billion Metro Rail project.

After a closed session Feb. 23, the RTD board of directors announced that negotiating rights for the contract, awarded in January to Fred S. James & Co. of California, would be rescinded and that the entire bidding procedure would begin anew.

A revised request for proposals is expected to be distributed in about a week. Negotiating rights to the contract should be awarded about a month later.

The decision is a victory for broker Alexander & Alexander Inc., which alleged that the bidding process for the insurance contract was handled improperly. A&A said that Metro Rail Insurance Administrators, a joint venture in which A&A is the major party, should have been selected to administer the owner-controlled insurance project, not James.

James of California, an affiliate of Fred S. James & Co. Inc., says that it "regrets the decision" to rescind its negotiating rights and maintains that its proposal was the best presented to the RTD.

"We believe that all proper procedures had been followed by the RTD. James followed those procedures and prevailed in a fair, open, competitive environment and won the award," said a joint statement from John R. Patchett, chairman of James of California, and V. Wallace Ryland, president of James' corporate government services division.

The broker that wins the RTD contract will assume many responsibilities during construction of the 18.6-mile subway system, including the placement of as much as $85 million in property and liability coverages over a seven-year period (*BI*, Feb. 20).

An RTD official said the board reopened the bidding process because it feared the project would be seriously delayed if A&A carried its protest to the Urban Mass Transportation Administration, the federal agency that supervises the allocation of funds for public transit projects.

"We were concerned about the possibility that the insurance package could be substantially delayed and have an adverse effect on the whole project," explains John W. Richeson, the RTD's assistant general manager. "That's a very lengthy process to sort out."

A&A's protest, which was presented orally to the RTD board at the Feb. 23 meeting by the broker's Los Angeles attorney, Willard Z. Carr Jr. of the firm of Gibson, Dunn & Crutcher, focused largely on the significance the RTD claimed it would attach to the results of an 80-point grading scale used to evaluate the bids.

Mr. Carr pointed out that the RTD's request for pro-

Continued on page 4

Self-insurers not affected by state law on health plans

By CAROL CAIN

MILWAUKEE—Self-funded benefit plans operated by Wisconsin employers are subject to federal ERISA regulations, not state law, according to a U.S. District Court.

Wisconsin employers that self-insure their health plans went to court in November, arguing that the state's 1983-85 Budget Act included two provisions that attempted to regulate self-insured plans under state law (*BI*, Dec. 12, July 25, 1983).

U.S. District Court Judge Thomas Curran signed a consent judgment Feb. 23 that says the two provisions of the act are not enforceable in the case of self-insured plans, though his ruling does not apply to employers whose health plans are underwritten by commercial insurers.

The two provisions, which the employers went to court to block, mandate:

- That employers with more than 250 workers offer at least two health care plans, one of which must be a preferred provider organization or a health maintenance organization if such a plan is available in the area.
- That employers, including self-insurers, offer their laid-off employees and dependents an opportunity to continue receiving health care coverage at group rates for 18 months.

The state adopted a similar "continuation and conversion" law in 1980, but it only required employees to have the option of receiving health care coverage at group rates for 12 months. Self-insurers were included in that law initially, but were later exempted by a 1981 U.S. District Court ruling.

Self-insurers had thought that the previous ruling, in which the court said that self-insured plans were better-regulated under the federal Employee Retirement Income Security Act than under state law, would have

Continued on page 6

errors & omissions

- Industrial Insurance Management Corp. of Richmond, Va., was inadvertently omitted from the list of the largest independent risk management consulting firms published in the Feb. 20 issue. The company, which maintains three offices, reports gross revenues of more than $1.5 million and some 230 clients. It has 30 professional staff members. *Business Insurance* regrets the error.

Playing the numbers game

Coalition sponsoring data collection

By SALLIE J. DRURY

CHICAGO—The collection and application of reliable utilization data is a high-priority health care cost-containment tool, benefit experts say.

"Data is a key part of a group (of employers) acting together at the community level," said James D. Mortimer, president of the Midwest Business Group on Health, an employer cost-containment coalition.

Mr. Mortimer notes that data can illustrate claims activity, can be used for special benefit studies, can be pooled with other employers for comparisons and can be used to target areas of a benefit plan that need to be changed.

Benefit managers attending the MBGH's annual meeting in Chicago last month agreed that data collection and application was indeed an important cost-containment tool. The importance of data was a recurring theme in reports from MBGH chapters and in the strategic planning projects to be undertaken by the group.

"Application of data is the most difficult part," noted Mr. Mortimer. "If you think finding good data is hard, using it is even harder."

But, despite the challenge, member employers have not been dissuaded from collecting and using data to aid in their cost-containment strategies.

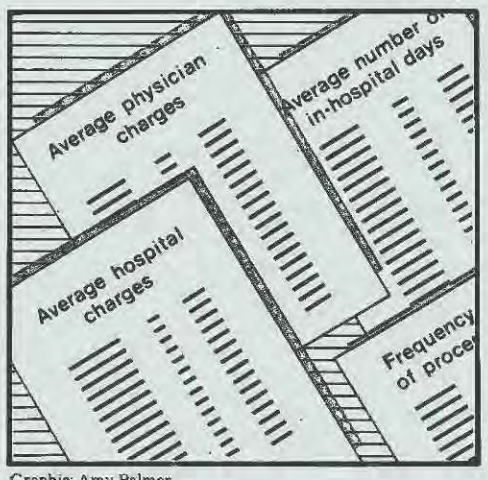
The MBGH has keyed in on two data collection and analysis projects, undertaken by the Iowa and Chicago chapters, which may provide a model for other chapters to emulate. They are:

- The Iowa Management Information Project, which is a statewide health care data base. Employers will soon be able to consult reports generated by the project to determine the most efficient health care providers in their area.
- The Chicago Health Economics Council, a hospital utilization review program that Chicago employers will be able to tap in a few months.

The Iowa Management Information Project sprang from a 1982 report by a health care cost commission appointed by former Gov. Robert D. Ray. That report made some 80 recommendations for specific health care cost-containment action. Among them were suggestions for the formation of a data commission to gather and disseminate utilization data.

To collect the data needed, legislation was passed that mandated the release of hospital-

Continued on page 26



Graphic: Amy Palmer

Employers say utilization reviews work

By SALLIE J. DRURY

CHICAGO—Two Illinois employers say they find that just collecting health care utilization data helps trim costs, even before the findings are acted upon.

Caterpillar Tractor Co. and the state of Illinois, both of which have concurrent utilization review plans, report they're the beneficiaries of this "sentinel effect." They say providers improve their efficiency simply because they are being watched.

Peoria-based Caterpillar, which has been reviewing its hospital admissions since 1978, has cut its number of hospital days per thousand employees by one-third, to just fewer than 700 in 1983 from more than 1,000 in 1978.

And, the state of Illinois' review, along with plan design changes, has cut its number of non-acute hospital days—days of hospitalization when no acute care is given—from 23% of total hospital days to 9% over a two-year period.

Representatives of both employers explained the successes of utilization reviews at the annual meeting of the Midwest Business Group on Health in Chicago last month.

"I think concurrent review helps reduce non-acute days because it gets rid of frivolous weekend admissions, for one thing," said Ronald A. Hurst, manager of health care planning for Caterpillar.

The type of review Caterpillar uses is called "non-delegated" because the hospital itself does not track the information. Instead, the company hires a peer review organization to conduct investigations.

"We prefer non-delegated review. Eighty percent of our hospital admissions are reviewed by a PRO," Mr. Hurst said, explaining the company uses six PROs to review utilization for its 58,000 employees at various locations.

Although Caterpillar has many union employees, it has had no problem introducing the concept of utilization review to the United Auto Workers, Mr. Hurst said.

"Our rationale was: We have a medical necessity clause in our benefit agreement. We simply said we are going to hire the PRO to make sure of medical necessity," he said.

"Concurrent review was just never a problem. It could be if you introduce it in a dictatorial style. It all depends on how you communicate it."

Because of the delicacy of benefit negotiations with unions, the ability to save money through utilization review without making

Continued on page 27

Little relief

Broker gains not a result of rate improvements

By LEN STRAZEWSKI

Several of the publicly held insurance brokers are reporting improved results in the final quarter of 1983, but the gains don't necessarily indicate a rebound in commercial insurance rates.

Most of the gains were a result of improvements in reinsurance brokerage and extraordinary investment transactions, rather than increased commissions and fees due to higher direct insurance rates.

And, in spite of the positive signs reflected in the fourth-quarter financial results, brokers and analysts agree that there were no clear-cut winners among the group.

"The brokers are getting a little more optimistic about their performance, but with the exception of Marsh & McLennan whom we recommend, our purchase recommendation for brokerage stock is still neutral," remarks Leonard Wilson, a special limited partner with L.F. Rothschild, Unterberg & Towbin in New York.

"Corroon & Black and Frank B. Hall did about as we expected. There are still no major indications that price competition is abating."

With results yet to come from Alexander & Alexander Services Inc. of New York, Emett & Chandler Cos. Inc. of Los Angeles and Poe & Associates Inc. of Tampa, Fla., the brokerage company with the best 1983 results so far is a newcomer to the public broker scene, Arthur J. Gallagher & Co. Inc.

According to the prospectus for its initial public offering filed last month, Gallagher generated $53.4 million in gross revenues in 1983, up 10.1% from about $48.5 million in 1982. Net income grew about 32.7% to $4.3 million from about $3.2 million in 1982. Earnings per share grew to $1.25 from 95 cents in 1982 (*BI*, Feb. 13).

Gallagher did not report quarterly results.

Among the brokers that have traded publicly for some time, E.H. Crump Cos. Inc. of Memphis, Tenn., shows the best earnings results while Frank B. Hall & Co. Inc. of Briarcliff Manor, N.Y., brings up the rear.

For the full year, Crump generated $55.1 million in gross revenues, up about 6% from $51.9 million in 1982. Net income for the year grew 15% to just less than $3 million from about $2.6 million in 1982. Per-share earnings increased to 75 cents from 66 cents.

In the fourth quarter, gross revenues grew 20.5% to more than $13.2 million from about $11 million, and net income more than doubled to $451,000 from $176,000. Earnings per share increased to 11 cents from 4 cents in the fourth quarter of 1982.

New business, rather than significant rate increases, helped boost revenues, company officials say.

"These results reflect an improvement in the operating performance of our insurance agency/brokerage offices," explained Crump Chairman Sidney A. Stewart Jr. "Revenues from insurance commissions and fees are up 17%, while expenses are being carefully controlled."

Net income, however, was affected both positively and negatively by a variety of factors not directly related to insurance sales, he noted.

"A combination of unusual events increased the net income of the company in 1982 and reduced it in 1983.

"We had large gains from the sale of certain agency/brokerage operations in 1982, which were partially offset by writedowns of non-insurance investments and the disposition of a group of securities, primarily low-interest bonds," he said. "In 1983, after a thorough review, we concluded that the likelihood of continuing losses at a brokerage in which we had a minority interest outweighed the prospect of future gains. We therefore disposed of this investment at a large loss."

The loss, however, was offset by the continuing sale of Crump's real estate investments, which boosted fourth-quarter earnings by 4 cents per share and annual earnings by 6 cents per share.

Without this extraordinary income, Crump's net income

Continued on page 35

Year-end broker results
(in millions of dollars)

	Gross revenues	% change	Net income	% change
Corroon & Black	$172.1	0.0%	$18.0	7.7%
E.H. Crump	55.1	6.1	3.0	15.0
Arthur J. Gallagher	53.4	10.1	4.3	32.7*
Frank B. Hall	365.2	-2.0	12.5	-48.5
Marsh & McLennan	968.0	4.7	123.5	2.6

* Presently in registration with Securities and Exchange Commission.

Amex sued over Fireman's reserve swap

By STEVE TARAVELLA

NEW YORK—American Express Co. is being sued by shareholders who charge they paid too much for the company's stock because it fraudulently reported profits after Fireman's Fund Insurance Cos. swapped loss reserves with another insurer.

The civil suit alleges that shareholders "were induced" to purchase American Express common stock at artificially inflated prices between March 3, 1983, and Nov. 28, 1983. It maintains that a series of loss portfolio transactions between Fireman's Fund and Insurance Co. of North America enabled American Express to report a profit that really wasn't there.

Fireman's Fund, based in Novato, Calif., is a wholly owned insurance subsidiary of American Express.

The company knowingly included false or misleading information in its financial reports and public statements to the financial community, creating a "false market climate" for investors, the suit alleges.

The action also says that the company's reported profits were misleading because American Express did not disclose that, beginning in late 1982, Fireman's Fund assumed new insurance business without adequately reserving for future losses. The insurer later added $230 million to its reserves in the fourth quarter of 1983, resulting in about a 10% decrease in American Express' 1983 earnings (*BI*, Dec. 10, 1983).

The shareholder class action was filed Jan. 24 in the U.S. District Court of the Southern District of New York. The suit, captioned *Julius Levine vs. American Express Co. and Fireman's Fund/American Express Inc.*, estimates that several hundred of the company's 46,000 shareholders were misled. The attorney for the shareholders is Jules Brody of Stull, Stull & Brody of New York.

Anthony F. Phillips of the New York-based firm of Willkie, Farr & Gallagher, which represents American Express, says, "It is the intention of the company to vigorously defend the case.

"We don't believe there is any merit to the case," added an American Express spokeswoman.

The action asks that New York-based American Express and Fireman's Fund pay an unspecified amount in damages, plus interest, to persons who bought American Express stock between March 3, 1983, and Nov. 28, 1983. It also asks for reimbursement of legal and accounting costs and any other relief the court sees just.

The suit alleges that American Express and Fireman's Fund entered into the reinsurance agreement with INA, a CIGNA Corp. affiliate, "knowingly and with intent to defraud" American Express shareholders.

Continued on next page

Amex sued over Fireman's reserve swap

Continued from the previous page

The companies did not disclose that $66 million of Fireman's Fund's approximately $374 million in reported profits for the second half of 1981 and for fiscal year 1982 was the result of the reinsurance transactions between Fireman's Fund and INA, the suit says.

The transactions "increased reported profits but served minimal business purpose, if any," the suit claims.

And because the companies did not make the transactions known to investors, American Express shareholders "suffered substantial losses" on stock purchased during these nine months, although the exact amount is not known, the suit says.

Stockholders had no reasonable means of finding out about the sale of loss reserves until the incident was reported by national media on Nov. 28, 1983, the suit claims. In fact, a portion of the complaint that describes the reserve swap was taken virtually verbatim from an account of the transaction that appeared in Fortune magazine on that date, written by Carol J. Loomis

That section reads: "Fireman's Fund and INA sold each other reserves that had been stated at their full, undiscounted value, but then put the reserves they acquired on their respective balance sheets at lower, discounted values. The difference between the undiscounted and discounted value was accounted for as profit.

"If the companies had simply discounted the life-pension business on their books without swapping, they would, without question, have had to disclose the accounting change."

The reserves were to pay workers compensation benefits.

In a sale of loss reserves, which is a reinsurance transaction, the insurance company selling reserves pays another insurer to assume the reserves and the attendant liabilities.

Typically, the seller of the reserves pays the buyer less than the amount in reserve because the buyer anticipates earning investment income to pay the future claims and make a profit.

The company selling its reserves reports as pretax income the difference between what it pays to sell the reserves and what it had reserved.

Fireman's Fund paid INA a premium of $43 million to assume an estimated $109 million in workers compensation loss reserves. The $43 million was an amount INA thought adequate to invest to eventually pay claims at a profit, the suit says. Fireman's Fund then treated the remaining $66 million —previously earmarked as reserves—as taxable income.

INA, in turn, ceded workers compensation reserves of $116 million to Fireman's Fund for a premium of $40 million, reporting a total pretax profit of $76 million in 1981 and 1982, the suit says.

Insurance companies, under pressure in recent years to improve earnings, have occasionally turned to selling loss reserves to other insurers—a controversial business practice, but one that is increasing nonetheless.

The transaction, in essence, allows for the disocunting of loss reserves. If an insurer discounts its loss reserves instead of reinsuring them, it must reveal the discounting.

As many as 40 such transactions may have taken place last year, one reinsurance executive told *Business Insurance* in October 1983. ■

Transit board reopens bidding

Continued from page 2

posals clearly states: "A proposer must achieve minimum individual criterion ratings and a minimum total rating to be considered for award of a contract."

A&A claimed it was the only one of the three bidders that met or surpassed the scale and, therefore, was more qualified to serve as insurance administrator than was James.

Marsh & McLennan Inc. also submitted a bid.

"Once you have set forth certain procedures, then you are committed to follow the procedures," Mr. Carr said.

The RTD had contended that the rating standard was to be used only to weed out truly unqualified candidates and that "when only three proposals were received from firms of such international reputations as those we received, (the scale) could not be applied in an absolute or arbitrary fashion."

In its decision, however, the RTD board conceded "an obvious ambiguity" in the language of its request for proposals. Mr. Richeson acknowledged that the request did leave room for "two equally compelling and reasonable interpretations."

He also confirmed that A&A was, in fact, the only broker to pass the 80-point scale, adding that the RTD has not yet decided if the revised request will include such a scale.

"We really need to assess whether or not it is beneficial to the final selection," he explained.

Mr. Carr also expressed to the board A&A's frustration at not being selected, particularly since it was the only candidate that was asked to perform an audit of fixed costs, a procedure usually asked of bidders that have already won negotiating rights.

"That was initiated earlier than it should have been," Mr. Richeson acknowledged.

A&A's bid received the strongest recommendation from a committee of RTD officials that reviewed the proposal, a synopsis of the committee's evaluations shows. The committee forwarded its findings to the RTD board of directors, which selected James Jan. 26.

"All the work engaged in by this (proposal review) committee was simply overridden, set aside and ignored," Mr. Carr said.

The RTD has maintained that the board's actions are not bound by recommendations from the review committee. James, whose affiliates have served as insurance administrator on nine of 11 other major metropolitan transit projects, was chosen because of its extensive experience with owner-controlled insurance programs, the RTD says.

In its protest, A&A also alleged that its bid included a plan, as set forth in the request of proposal, for surety bonding of minority and disadvantaged businesses participating in the project, and that James had no such plan.

Mr. Richeson acknowledges that the proposal James submitted included no specific provisions for surety bonding. However, James' Mr. Ryland contends that its bid included a bonding plan that met the requirements.

Both James and A&A intend to pursue the Metro Rail contract and, in statements released shortly after the hearing, each expressed confidence that it will win the contract.

Marsh & McLennan, the only other broker that submitted a bid, is waiting to examine the new request for proposals before deciding whether it will participate in the new procedure, says Robert L. Peretti, managing director of M&M's Los Angeles operations. ■

Why sign up for an ordinary IRA when one stands out?

If you think all IRA's are the same, we beg to differ.

Wausau's Individual Retirement *Annuity* can help you glean the most from your tax-deductible and tax-deferred plan.

First of all, we guarantee your rate of return for twelve months. The rate is adjusted annually and guaranteed for the year to follow.

And, unlike most IRA plans, Wausau can guarantee a lifetime income for you and your spouse.

We also have an option that makes your IRA contributions for you if you're disabled for more than six months.

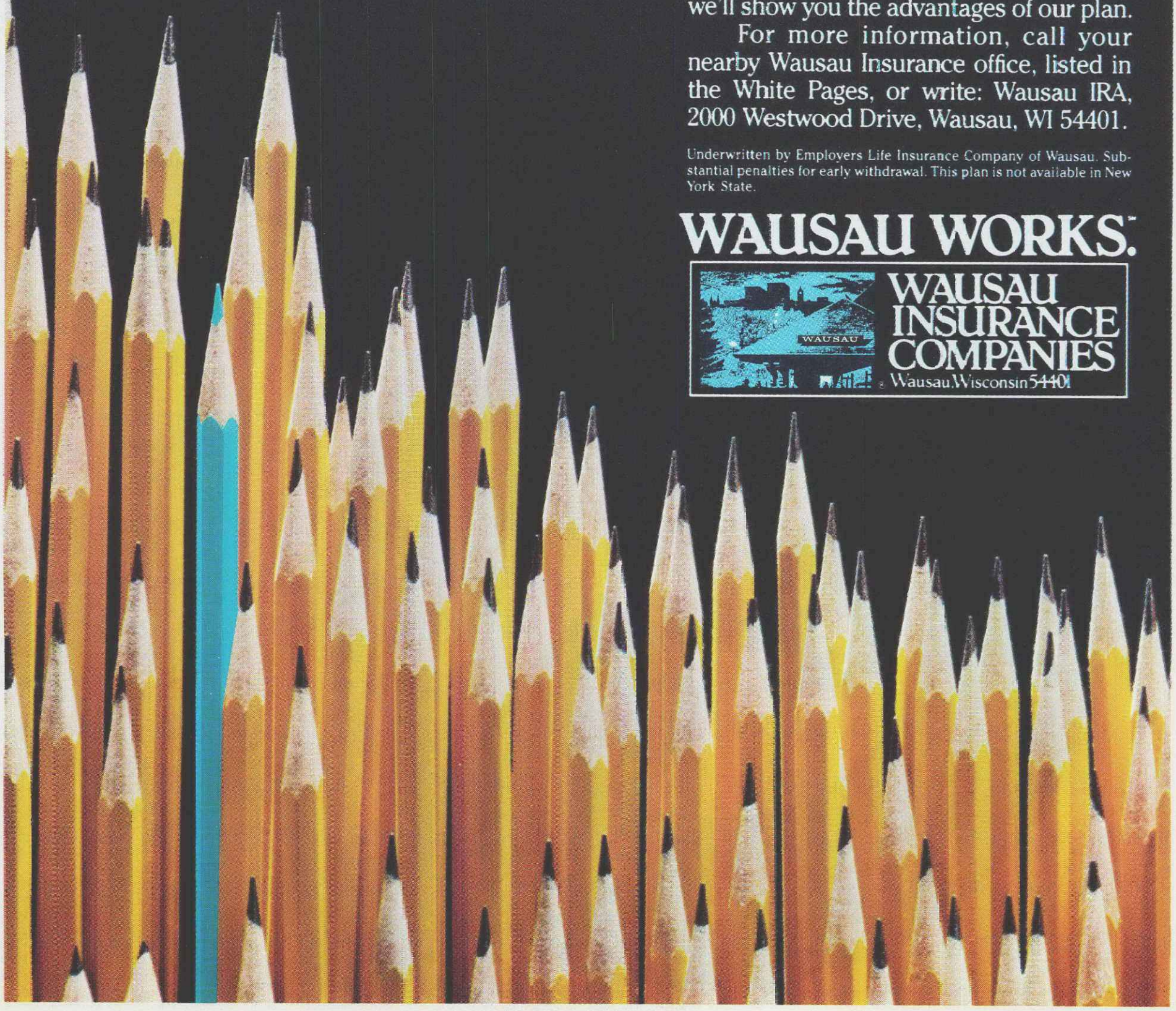
And to make things simple, talk to your company about making your IRA contributions on a Wausau payroll deduction plan. If you currently have an IRA, we'll show you the advantages of our plan.

For more information, call your nearby Wausau Insurance office, listed in the White Pages, or write: Wausau IRA, 2000 Westwood Drive, Wausau, WI 54401.

Underwritten by Employers Life Insurance Company of Wausau. Substantial penalties for early withdrawal. This plan is not available in New York State.

WAUSAU WORKS.™

WAUSAU INSURANCE COMPANIES
Wausau, Wisconsin 54401



Hull insurers still writing Persian Gulf coverage

By STACY SHAPIRO

LONDON—The recent escalation of the fighting between Iraq and Iran is not prompting hull war risk insurers to stop writing coverage for the region, though they have initiated some restrictions.

Worries about the safety of tankers in the Persian Gulf escalated last week after Iraq claimed to have attacked Iranian oil terminals on Kharg Island, while Iran threatened to block the Straits of Hormuz, the only entrance to the gulf.

Much of the oil produced by Mideast nations like Saudi Arabia, Kuwait and Iran is shipped through the Straits of Hormuz. A blockade could strand 50 to 60 major ships.

Underwriters have been stung already with huge claims arising from the Iranian-Iraqi conflict. They are still paying about $400 million in claims for 72 vessels that were trapped in the Shatt-al-Arab waterway, which separates Iran and Iraq, following 1980 fighting between the two nations (*BI*, Sept. 13, 1982).

Last week, leading Lloyd's of London underwriters announced that hull war risk rate quotes would be binding only for seven days—instead of the previous 14 days—for tankers sailing in the Persian Gulf. And underwriters now will issue quotes only 48 hours before a voyage begins.

However, a leading U.S. marine underwriter, the New York-based American Hull Insurance Syndicate, said that it would continue to give 14-day quotes for ships headed to non-Iranian Persian Gulf ports.

In fact, Allen Schumacher, chairman and president of the syndicate, a pool of about 50 U.S. insurers, says that recent events are no more worrisome than what has transpired in the region over the past several years.

"It is no more dangerous in the gulf than it has been in the last year," Mr. Schumacher said. "The Iranians have been threatening to close down the straits before. But we take the U.S. government's posture that the straits will remain open."

Some London underwriters say that although they have not boosted hull war risk rates for ships sailing in the Persian Gulf, a rate hike could be in order.

"I would certainly want more premium," said Richard Outhwaite, chairman of the Joint Hull Committee, an organization composed of Lloyd's and other British underwriters. However, Mr. Outhwaite says he has not quoted any Persian Gulf risks for some time.

Generally, London hull war risk insurers demand a surcharge of 75 cents per $100 of insured value for tankers bound for Kharg Island 7.5 cents per $100 for ships bound for other Iranian ports and 3.75 cents per $100 for ships headed toward ports on the western shore of the Persian Gulf.

The surcharge is added to the normal hull war risk rate of 10 cents per $100 of insured value for other areas of the world.

Court strikes Wisconsin law

Continued from page 2

made the message clear to legislators—at least until last year's budget act was adopted.

According to the law enacted last year, businesses that did not follow either of the requirements would lose their state income tax deduction for health insurance premiums paid. Private, non-profit employers that did not comply would lose their tax-exempt status, while local governments would lose 5% of state aid.

In his ruling, Judge Curran ordered defendants Thomas Fox, the Wisconsin insurance commissioner, and Michael Ley, the state secretary of revenue, not to enforce these provisions as they relate to self-funded plans, since those plans fall under ERISA regulation, explained William J. Mulligan, a Milwaukee attorney with the firm of Mulcahy & Wherry, which represented the plaintiffs.

The continuation and conversion provision went into effect Jan. 1, but not for self-insurers since they won a preliminary injunction in December. The PPO/HMO requirement is slated to take effect July 1, 1985.

If self-insurers would have been forced to comply with the new provisions, it would have meant additional costs, though no one could put a dollar figure on those costs.

The continuation and conversion provision would have allowed former employees to continue to be covered for the 18-month period, and therefore be able to file large claims with their employer, said John Honer, controller with Zwicker Knitting Mills in Appleton, one of the plaintiffs.

Zwicker, which has about 700 employees, doesn't offer HMOs or PPOs, he explained. The provision in the law that would have required them to do so would have increased the company's paperwork, Mr. Honer said.

Even though self-insurers are now excluded from this state regulation, they will have to abide by federal HMO regulations, Mr. Mulligan said. The HMO Act of 1973 requires, among other things, that employers with more than 25 employees must offer their workers an opportunity to join an HMO if a federally qualified plan is operating in their area and approaches the employer (*BI*, Dec. 19, 1983).

In addition to Zwicker Knitting Mills, other employers that filed the initial lawsuit against the state officials are Fort Howard Paper Co. of Green Bay and Wisconsin Packing Co. Inc., Milwaukee Tallow Inc., Robert W. Baird & Co. Inc. and Advance Transportation Co., all of Milwaukee.

They were joined later in litigation by Manitowoc Co. Inc. in Manitowoc, Snap-on Tools Corp. in Kenosha, Gold Bond Ice Cream Inc. and ShopKo Stores Inc. in Green Bay, Regal Ware Inc. in Kewaskum, Consolidated Papers Inc. in Wisconsin Rapids and Peck Meat Packing Corp. in Milwaukee. ■

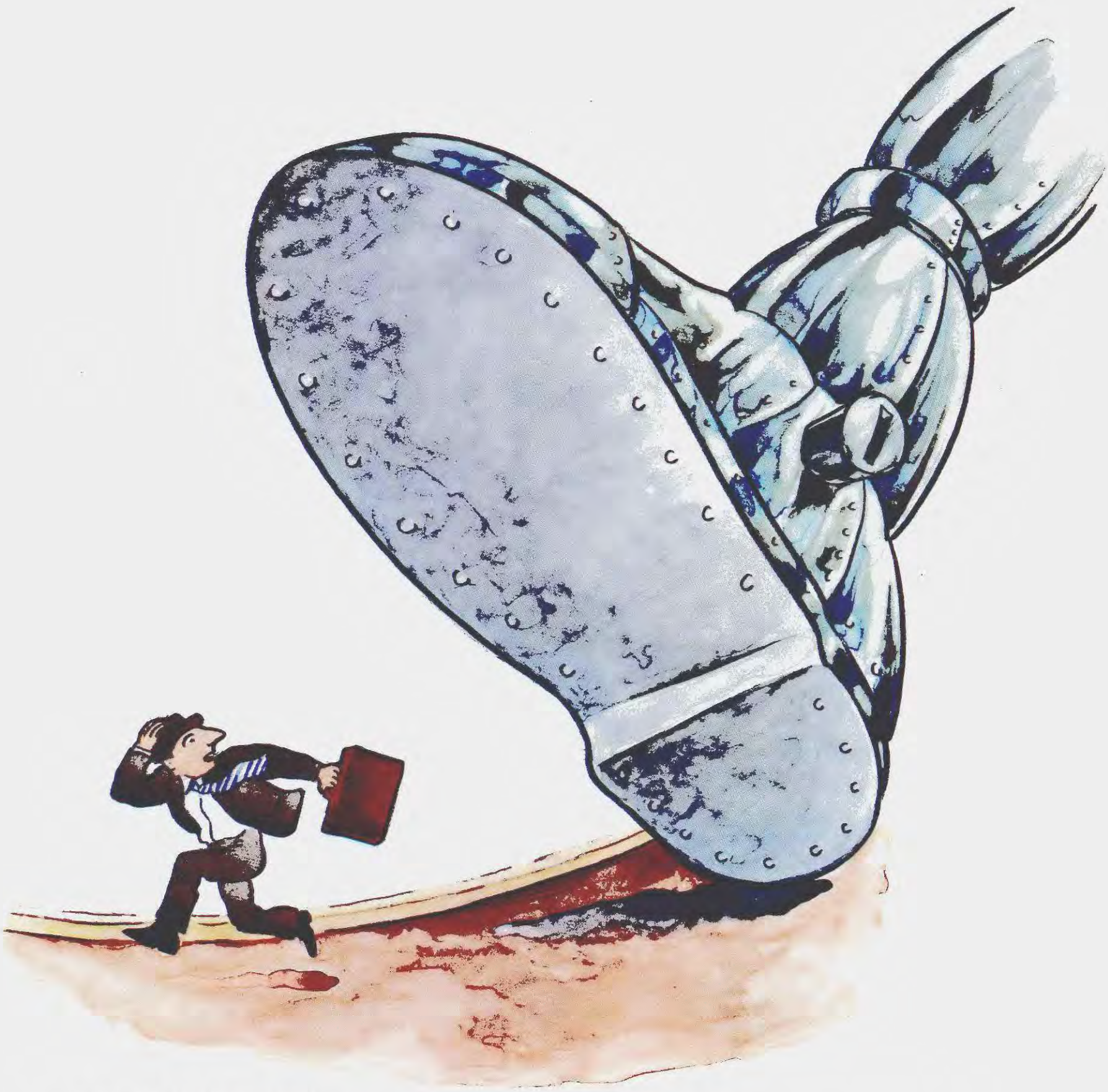
California storms to cost $30 million

NEW YORK—Insured losses from windstorms that affected portions of California in January are estimated at $30 million by the American Insurance Services Group Inc.

The heaviest damage took place in the Southern California counties of San Luis Obispo, Santa Barbara, Ventura, Kern, Los Angeles, San Bernardino, Riverside and Orange.

The storm was assigned Catastrophe No. 27 by Insurance Services Office. ■

Have risks grown too big even for reinsurers?



In today's risk-filled world, potential exposures are rising geometrically.

Not only in industries like chemicals and high-tech, but even in traditional risks such as shopping centers and high rises.

And some of today's undiscovered claims won't become apparent until the next century.

North American Re has withstood every kind of loss, man-made and natural, for almost a century.

And in the future we plan to continue to stay a step ahead of disaster.

NORTH AMERICAN RE

We Take Your Risk Out Of Reinsurance.

NORTH AMERICAN REINSURANCE CORPORATION 100 EAST 46TH STREET NEW YORK, NEW YORK 10017 TELEPHONE 212-907-8000

opinions

A case for structured settlements

STRUCTURED SETTLEMENTS should be part of every risk management and defense strategy, whether a company is insured or self-insured.

While more self-insurers are structuring settlements now than ever before, we believe there are plenty of other opportunities to structure settlements that are lost.

These opportunities should not be ignored, as was clear from the series of articles on structured settlements by Associate Editor Stephen Tarnoff (*BI*, Feb 20). Savings of as much as 40% in settlement costs were reported by self-insured companies that agreed to pay plaintiffs a settlement over time. Savings in litigation costs from settling the case sooner also were reported. And, a structured settlement guarantees a more secure financial future for plaintiffs.

While these savings derived from structuring settlements have been known longer by insurance companies, self-insurers also are finding that structuring settlements can generate tax savings, reduce excess insurance costs and, in workers compensation cases, cut administrative costs.

Even the plaintiffs' attorneys who at first opposed structured settlements are finding that they, too, can benefit in tax savings from accepting their fees over a period of time.

A structured settlement, of course, is not going to generate these benefits in every case, but we believe this alternative should be explored routinely. A claim that on its face looks too small to warrant a structured settlement offer may not be too small. A plaintiff that appears adamantly opposed to accepting a structured settlement may accept it when it is properly explained, or at least accept a smaller lump sum.

While we heartily endorse the growing use of structured settlements, we do want to emphasize that companies should be very careful when buying annuities to cover the settlement cost.

The issuer of the annuity must be around to pay in the coming years, or the defendant will be stuck paying the promised money.

Companies that structure many settlements would be prudent to buy annuities from various financially strong insurers just in case an insurer that looks financially strong today goes broke in the future. And, self-insurers should consider as an additional precaution assigning their obligation to pay if the insurer goes broke to a third party.

Otherwise, there are no risks—only benefits—to be reaped from structuring settlements. We can only conclude that settlements would be structured more often if defendants showed more initiative and imagination.

Fee freezing may be bad medicine

THE AMERICAN MEDICAL ASSN. Board of Trustees is to be congratulated for stepping forward and suggesting how doctors can help control the rising cost of health care.

The trustees voted last week to ask the nation's 390,000 practicing physicians to freeze their fees for one year. The chairman of the board predicts that 85% to 90% of the doctors will comply with this request, although only 65% are members of the AMA.

We hope so. But, we already have heard some doctors complaining that they can't really afford to do this. They say their medical malpractice insurance premiums are going up, or the rent for their office space is going up, or the cost of equipment is rising, or the salaries and benefits they must pay nurses and other staffers are rising.

These rising costs, some doctors say, must be passed onto the patient regardless of the fee-freeze movement.

This kind of talk poses the danger that the fee freeze will be hardly a chill.

We also see another danger in doctors freezing their fees. Those doctors who freeze their fees in response to peer pressure but want to maintain their current income could merely increase the number of times they see patients.

What would be the savings if a doctor freezes his fees but sees his patients 20% more often? None. And, such an increase in visits to the doctor will be more than counterproductive to efforts to control excessive use of the medical system.

Therefore, employers and insurers should carefully monitor not only doctors' fees during this voluntary fee freeze but also utilization of doctors' services.

Indeed, we think a fee freeze is a great idea, but we don't want to see employers snowed under by an increase in frequency of claims because of it.

letters

Article tells the story of smaller consultants

To the editor: Though Charles McAlear's Perspective article, "Picking a consultant," is easily the highlight of your Feb. 20 issue, Douglas McLeod, Rhonda L. Rundle and Len Strazewski, et al., are also due a hearty "job well done." Ms. Rundle's article on small consulting firms was excellent.

Based upon my personal experience, I believe that studies acquired, developed, closely managed and implemented by the smaller firms produce consistently superior results to similar studies conducted by the major risk management consulting firms.

Few of the smaller firms truly operate as "one-man shops." Those of us in the Dallas-Plano, Texas, area frequently share specific product knowledge and past experience and provide the peer review required.

Further, since many of us were employed by larger firms at one time or another, we have developed a mutual respect and trust that allows for the sharing of diverse solutions and often the frank criticisms of one another's work. This is not a luxury available to the larger firms that must, of necessity, emphasize the achievement of profit motives required by their owners.

I've split my 10 years of experience in risk management consulting between the larger corporations and smaller firms, and I want to echo the sentiments expressed by my risk management comrades in Ms. Rundle's article: "Bigger isn't necessarily better."

Business Insurance would do well to increase solicitation of opinions from the smaller consulting firms instead of depending upon the same small group of major consultants for information on industry trends and issues.

It was a very enjoyable issue. Keep up the good work.

Ronald J. Jones
President
Permian Risk Management
Plano, Texas

Fine print may reveal an "exculpatory" clause

To the editor: The Feb. 13 article on the recent loss of two satellites is a most unusual story and very interestingly written. However, in the very last three paragraphs of the story, the writer comments on the likelihood of the parties involved suing the others, which could confuse readers.

The story reads: "Under a hold-harmless clause in the launch agreement, NASA and satellite owners cannot sue each other for damages to the shuttle or the satellites during a shuttle launch and the deployment of payloads."

My criticism is directed to the use of hold-harmless clause as the identity of the contract provision. The author should have described it as an exculpatory clause. It would not be a mistake to call it a hold-blameless clause, but many people confuse the devices for shifting the burden of a loss. Even lawyers get the two confused, so we cannot be too harsh in our criticism—but there is a difference!

Stephens G. Croom
Consultant
Baumhauer-Croom-Insurance
Mobile, Ala.

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.

business insurance®

Reporting weekly for corporate risk, employee benefit and financial executives

Publisher: Alfred Malecki *(New York)*

Editor: Kathryn J. McIntyre, A.R.M. *(Chicago)*
Managing Editor: Lorrie Gibson *(Chicago)*
Assistant Managing Editor: James M. Burcke *(Chicago)*
Senior Editor: Len Strazewski *(Chicago)*
CHICAGO: Carol Cain *(Associate Editor)*, Sallie J. Drury *(Associate Editor)*, Stephen Tarnoff *(Associate Editor)*, Pamela DeFiglio *(Agent/Broker Topics Associate Editor)*, Claudette Dampier *(Assistant Copy Editor)*, Merrill S. Saltzman *(Graphics Editor)*, Amy Palmer *(Graphic Artist)*, Dorothy Parr Riesen *(Proofreader)*, Diane Kastiel *(Editorial Assistant)*, Marilou Jones *(Directory Editor)*
LONDON: Stacy Shapiro *(Associate Editor)*
LOS ANGELES: Rhonda L. Rundle *(Bureau Chief)*, Steve Taravella *(Associate Editor)*
NEW YORK: Douglas McLeod *(Bureau Chief)*
WASHINGTON: Jerry Geisel *(Washington Editor)*
Corporate: Todd E. Fandell *(Corporate Editor)*, Joe Faraci *(Corporate Art Director)*

Advertising Director: Donald A. Walsh *(New York)*
Midwest Sales Manager: Robert L. Niesse *(Chicago)*
CHICAGO: Deborah D. Neale *(District Manager)*, Beverly J. Kluxdal *(District Manager)*, Fran Prybylo *(Production Manager)*
LOS ANGELES: Sue Eisenberg *(District Manager)*
NEW YORK: Charles A. Horvath *(District Manager)*, Jack Forrest *(District Manager)*, Nancy Ellen Zelman *(District Manager)*, Marianne J. Dueweke *(Financial Advertising Manager)*

Director of Communications: Ronnie I. Drachman *(New York)*

EDITORIAL: Chicago: 312-649-5398; London: 01-404-4228; Los Angeles: 213-651-3710; New York: 212-210-0100; Washington: 202-662-7200
ADVERTISING: New York: 212-210-0133; Chicago: 312-649-5276; Los Angeles: 213-651-3710
COMMUNICATIONS: New York: 212-210-0132
CIRCULATION: Chicago: 312-649-5221

Published by Crain Communications Inc., Chicago
G.D. CRAIN JR. Founder (1885-1973)
MRS. G.D. CRAIN Chairman
KEITH E. CRAIN Vice-chairman
S.R. BERNSTEIN Chairman/executive committee
RANCE CRAIN President
MARY KAY CRAIN Treasurer
MERRILEE P. CRAIN Secretary
JAMES M. FRANKLIN Vp/finance

Published weekly at 740 Rush St., Chicago, Ill. 60611. Offices: 220 East 42nd St., New York, N.Y. 10017; Suite 814, National Press Building, Washington, D.C. 20045; 6404 Wilshire Blvd., Los Angeles, Calif. 90048; 20-22 Bedford Row, London WC1R 4EB, England. $1.50 a copy. $52 a year in U.S. Canada and all other foreign add $14 for surface mail. Europe and Middle East only add $44 for air delivery. First-class mail to U. S. and Canada only, add $50. Bermuda only, $97 per year expedited delivery. WILLIAM STRONG, *vp-circulation*. ROBERT FIORITO, *circulation manager*. ROGER DiGREGORIO, *fulfillment director*. Four weeks' notice required for change of address. Send subscription correspondence to Circulation Dept., Business Insurance, 740 Rush St., Chicago, Ill. 60611 or phone 312-649-5221. Telex 25-4248; Cable CRAINCOM. Microfilm copies are available from University Microfilms, 300 Zeeb Rd., Ann Arbor, Mich. 48013. Microfiche copies available: Bell & Howell, Micro Photo Division, Old Mansfield Rd., Wooster, Ohio 44691. Portions of the editorial content of this issue are available for reprint or reproduction in other media. For information and rates to reproduce in general circulation media, contact: ART MERTZ, The Crain Syndicate, 740 Rush St., Chicago, Ill. 60611, 312-649-5303. For reprints or reprint permission contact: Reprint Dept., Business Insurance, 220 E. 42nd St., New York, N.Y. 10017, 212-210-0229.

BPA Member of Business Publications Audit of Circulation ABP

In order to become America's number one E&S Insurer, we had to perfect a variety of underwriting techniques.

If one insurer won't handle a piece of business for you, you can try another. And another. And when you get to The Lexington, you can stop.

Because we can handle your business no matter what it is.

Even if we have to create a new product on the spot.

Since 1969, in fact, we've been bending over backwards, moving mountains—whatever it takes to help brokers find underwriting solutions to difficult insurance risks.

For example, we've created specialty departments to build underwriting experience in tricky areas like space, special liability risks, and high technology industries.

We've fostered long-term relationships with the world's most prestigious reinsurers to have the world's capacity within easy reach.

And most important, we've continually broadened our product lines.

To the point where now, we have more products to offer than any E&S insurer this side of the Atlantic... or even the other!

Can such a free-wheeling, "can do" company offer your clients security, too?

Emphatically yes.

The Lexington consistently maintains a Best's rating of A+.

And is the biggest underwriter of E&S insurance in America.

So if you want underwriting solutions, call The Lexington.

Because we have the one underwriting technique that works every time—

Sheer determination. The best technique of all.

THE LEXINGTON
Insurance Company

FOR MORE INFORMATION, CONTACT MR. BOB JEAL, VICE PRESIDENT. TELEPHONE (617) 956-4200. TELEX 94-0164.
THE LEXINGTON INSURANCE COMPANY 100 SUMMER STREET BOSTON, MASSACHUSETTS 02110

Proposal would hike employers' health costs

By JERRY GEISEL

washington

WASHINGTON—A congressional committee wants to shift more health care costs onto employers.

The Senate Finance Committee has recommended that companies be required to offer group health insurance coverage to some non-working spouses of employees.

Under the provision, a non-working spouse between the ages of 65 through 69 would be given a choice of sticking with the federal Medicare program or enrolling in the employer's health care plan for dependents.

Under current law, non-working spouses age 65 and over must be given the option of enrolling in the employer's health care plan, but only if the employee is over 65, too. The proposal would extend dependent health care coverage in cases where the employee is not yet 65.

It is likely that most non-working spouses would opt for employer coverage since corporate plans, even those offered to dependents, are more generous than Medicare, which has high deductibles and coinsurance requirements.

The proposal would go into effect Jan. 1 and would apply to companies with 20 or more employees.

If the proposal is enacted, it would be second time in less than two years that Congress has forced employers to provide more health care benefits to older workers.

A section of the Tax Equity and Fiscal Responsibility Act of 1982 requires employers to give their workers between ages 65 and 69 a choice of enrolling in the corporate plan or sticking with Medicare.

Unisex rating study

Employers and insurers would be hit with billions of dollars in new costs if Congress passes legislation that would retroactively eliminate the use of sex as an insurance rating factor, says the General Accounting Office in a draft report.

For employers, the major impact of the legislation, S. 372, introduced by Sen. Robert Packwood, R-Ore., and now pending in the Senate Commerce Committee, would be on their retirement programs.

For example, companies with defined contribution pension plans would have to retroactively boost benefits to retired female employees who select annuity options that pay smaller monthly benefits than those received by male retirees.

A retroactive increase in pension benefits could result in unfunded liabilities of between $7.7 billion and $15.1 billion, according to several studies that the GAO analyzed.

The Supreme Court last summer barred the use of sex as a rating factor in retirement plans, but the decision only mandates sex-neutral benefits for contributions made after Aug. 1, 1983 (*BI*, July 11, 1983).

Some life insurance companies could face insolvency if the unisex bill is enacted in its current version, according to the report.

Life insurance companies, among other things, would have to top up the cash value of whole life insurance policies purchased by millions of women so that they equal the value of policies purchased by men (*BI*, May 16, 1983).

This, in turn, "could cause some disruptions, such as insolvencies of insurance companies," the GAO said.

The unisex rating bill has also been introduced in the House of Representatives as H.R. 100 by Reps. James Florio D-N.J., and John Dingell, D-Mich.

Health benefit tax

Taxing employer-paid health insurance premiums could raise billions of dollars in new federal revenues, the Congressional Budget Office says.

The federal government would collect $1.3 billion in income taxes and $500 million in Social Security payroll taxes next year if employees paid taxes on that portion of an employer-paid premium that exceeds $80 a month for individual coverage and $200 a month for family coverage, according to the CBO, a congressional research organization.

The tax, which would affect about 20% of workers who participate in group health insurance plans, would also result in income tax increases of $17.5 billion and new FICA revenues of $6.4 billion between 1985 and 1989.

The tax-free status of health insurance benefits has led "to what many consider to be overly extensive health insurance coverage, which has expanded use of health care services unnecessarily and, consequently, driven up their prices," the CBO said.

The Reagan administration has proposed taxing health insurance premiums that exceed $70 a month for individual and $175 for family coverage.

Education benefits

The Treasury Department will not oppose legislation to extend the tax-free status of employer-paid educational assistance programs.

"We are not going to fight over its extention," John Chapoton, the Treasury Department's assistant secretary for tax policy told the Assn. for Advanced Life Underwriters.

Employees have not had to pay income taxes on tuition benefits since 1978, but the law governing these benefits expired Dec. 31, 1983 (*BI*, Jan. 23)

Several bills have been introduced in Congress to continue the tax-free status of education benefits, and Mr. Chapoton said the department recognizes that Congress will pass an extension.

Flood insurance

Employers and residents of Tarpon Springs, Fla., once again can purchase flood insurance from the federal government.

On Feb. 21, the National Flood Insurance Program reinstated Tarpon Springs, a city of about 13,000 on Florida's West Coast, after a two-month suspension.

The city was suspended from the program because it was not enforcing flood plain management measures, according to the Federal Insurance Administration, which runs the program. The suspension meant that residents were not allowed to purchase flood insurance.

The suspension was lifted after the FIA determined that the city had begun to address deficiencies in its flood plain management program. ■

In certain parts of the world, if the powers that be don't like the way you do business, they do more than send you nasty letters.

No long treatise is needed to convince you how perilous it can be operating internationally these days. Sudden changes in local laws, riots, nationalization, civil insurrection, even the whims of foreign governments can all have serious effects on your business.

They can also put you out of business.

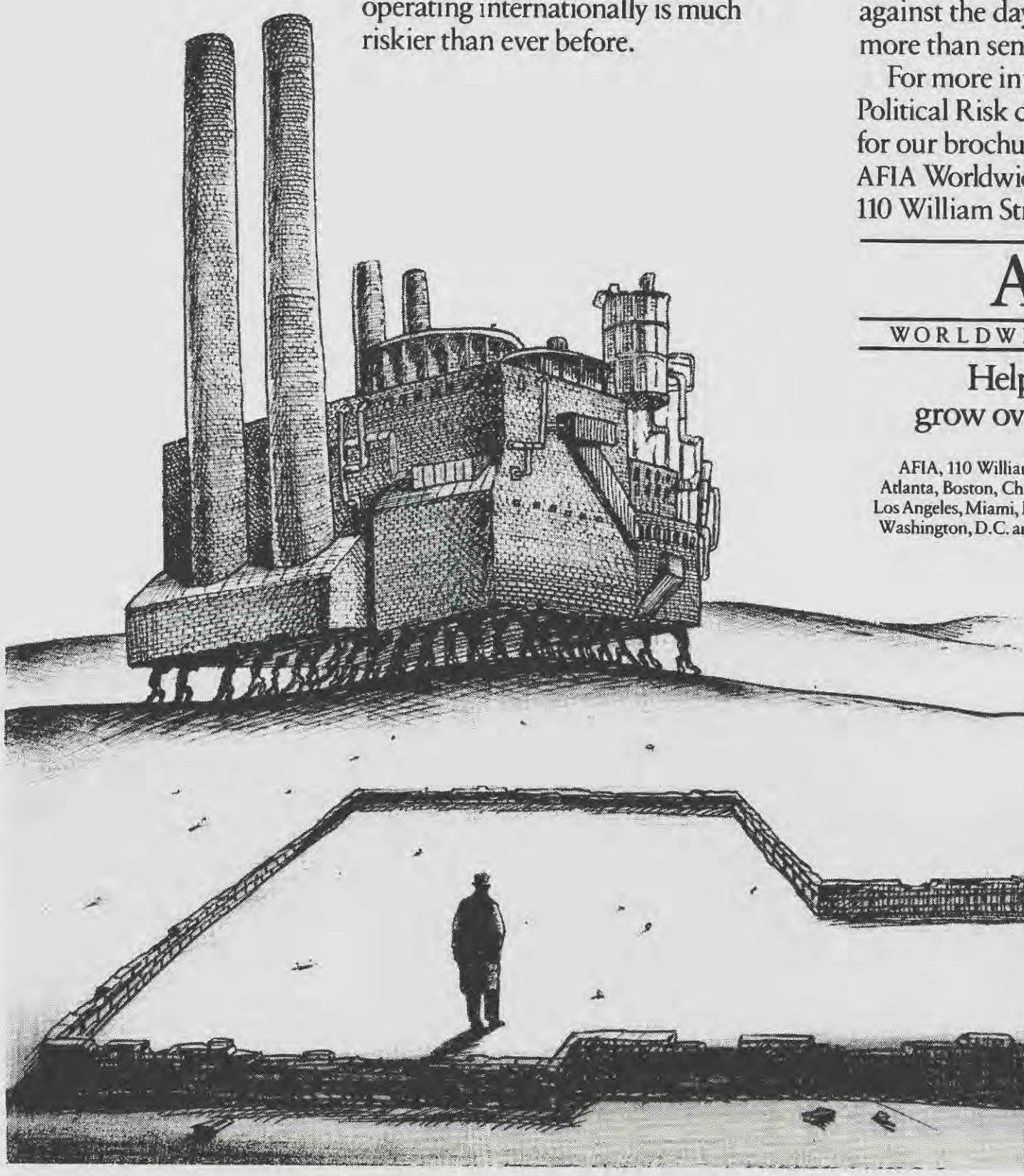
Even in times of worldwide stability, political risk has accounted for some uncertainty in foreign ventures. Today, the situation is even worse. Unexpected political and economic change has created an environment in which operating internationally is much riskier than ever before.

More than ever before analyzing political risk demands an intimate and expert knowledge of political and economic conditions all over the world. Just keeping a watchful eye on potential developments where you do business is simply not enough anymore.

At AFIA, we've been watching the world for a long time. Since 1918, to be precise. Our international experts have the experience, knowledge and imagination to provide the political risk and credit insurance for your company.

Give us a call. We're ready to protect your company's financial security against the day the powers that be do more than send you a nasty letter.

For more information on our Political Risk capabilities, write for our brochure, to Dept. B, AFIA Worldwide Insurance, 110 William Street, NY 10038.



AFIA

WORLDWIDE INSURANCE

Helping business grow overseas since 1918.

AFIA, 110 William Street, New York, NY 10038
Atlanta, Boston, Chicago, Cleveland, Dallas, Houston, Los Angeles, Miami, Minneapolis, San Francisco, Seattle, Washington, D.C. and 230 other cities around the world.

comings & goings: buyers

Julien joins General Tire as insurance manager

Denis A. Julien, 38, is now manager of corporate insurance for The General Tire & Rubber Co. in Akron, Ohio. Mr. Julien will serve as risk manager for the rubber company. He previously was corporate risk manager at Republic Steel Corp. in Cleveland. He succeeds **Donald Stevens** who retired. Mr. Julien has a bachelor of arts degree from Rhode Island College in Providence, R.I. He earned his master of business administration from Georgia State University in Atlanta. He holds the Chartered Property & Casualty Underwriter, Associate in Claims, Associate in Risk Management and Associate in Loss Control Management designations. He reports to Tress Pittenger, vp-legal at General Tire.

* * *

John S. Surabian Jr. was elected vp at Hilton Hotel Corp. in Beverly Hills, Calif. Mr. Surabian now is responsible for all insurance and claims for the company. He had been director of risk management at Hilton. Before joining the hotel chain in 1981, he was with Coca-Cola Bottling Co. of Los Angeles, serving in financial and risk management positions. Mr. Surabian earned his bachelor's degree from Fresno State University in Fresno, Calif., and his master of business administration degree from the University of California at Los Angeles. He is a Certified Public Accountant. Mr. Surabian reports to John V. Giovenco, executive vp of the company's finance department.

* * *

Robert D. Finney, 26, is now risk manager for Esmark Inc. in Chicago. He is responsible for worldwide property/casualty insurance, risk financing and management of loss-control and loss-prevention activities. He had formerly been associate risk manager for Esmark. He succeeds **Kerry Clem,** who joined Frank B. Hall & Co. of Illinois. Mr. Finney holds a bachelor of business administration degree in risk management and insurance and a master in business administration from the University of Georgia in Athens. He reports to Bill Carmichael, vp of taxes and insurance.

* * *

Mary Lou Emmert, 37, is now risk manager for the county of Monterey, Calif. Ms. Emmert is responsible for property/casualty insurance, loss control, employee benefits and workers compensation for the county. She replaces Al Prevost, who resigned. Ms. Emmert previously was the risk manager for the city of Arvada, Colo. Before that she worked in the Arvada personnel department handling both risk management and personnel duties. Ms. Emmert received her bachelor of science in marketing degree from Fresno State University in Fresno, Calif. She earned her master of public administration degree at the University of Colorado in Denver. She also holds an Associate in Risk Management designation. Ms. Emmert reports to Paul Angelucci, deputy county administrator.

* * *

Michael R. Anderson, 37, is now risk manager at Centel Corp., a telecommunications company based in Chicago. He will coordinate Centel's property/casualty insurance. He had formerly been the casualty insurance administrator at CF Industries Inc. in Long Grove, Ill., a Chicago suburb. Mr. Anderson received a bachelor of science degree from the University of Wisconsin in Stevens Point, Wis. He earned his master of business administration degree from the University of Wisconsin in Madison and has received the Associate in Risk Management designation. Mr. Anderson reports to Frank C. McGrath, assistant vp for taxes and risk management at Centel.

•

Business Insurance would like to report on staff changes in your company's risk management, safety or employee benefits department. Just drop a note to Claudette Dampier, Assistant Copy Editor, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611, or call 312-649-5282. Please send a photograph, too.

"Sure it's frightening. You sit down at your desk one morning and you're staring at a piece of computer equipment you didn't know existed the day before. You bet I want help!"

With Wang, you'll get all the help you need and more. Help from people who know the office environment better than anyone because they've been in office automation longer than anyone.

WANG

The Office Automation Computer People.

BI 9

New firm specializes in financial guarantees

A new company, Financial Risk Underwriting Agency Inc., has been formed in New York to create financial guarantee bond programs for real estate investment partnerships.

The financial guarantee bonds are designed to cover future payments by investors in limited partnerships. The investors pay only part of the cost of their subscription up front, spreading the rest of their contributions over a number of years to increase their tax write-offs.

The new agency, headed by Robert Ungerleider, who was formerly general counsel for American International Group Inc., will work with insurance brokers, bankers, real estate companies and equipment leasing firms to develop bond programs.

The agency is located at 40 Exchange Place, New York, N.Y. 10005; 212-514-9600.

markets

Branch operation

Insurance Co. of North America, a subsidiary of CIGNA Corp., will convert its Danish subsidiary into a branch operation, effective July 1. CIGNA also has appointed Erritzoe Assurance of Copenhagen, Denmark, to serve as managing general agent for the branch operation.

"We felt this arrangement would be a more economical way of doing business," a CIGNA spokesman said. "We've done this (appointed managing general agents) in a lot of countries where the market is small."

Erritzoe also acts as managing general agent for other multinational insurers, including Federal Insurance Co. of Short Hills, N.J.; Gothaer Insurance Co. of New York; and several British insurers.

Erritzoe will not be obligated to take over the operation's entire portfolio of business. It reportedly will focus on larger risks, particularly those with export interests.

INA's current Danish staff, numbering about 20, is expected to continue with Erritzoe, though Claus Bache, who served as the operation's managing director since its inception, has resigned.

The decision to transfer control of the INA Danish office was made before CIGNA International acquired AFIA Worldwide Insrance earlier this year. AFIA also has operations in Denmark, the CIGNA spokesman noted.

CIGNA has not decided whether Erritzoe will also be appointed MGA for AFIA's Danish operation, the spokesman said.

New name

Two New York insurance agencies that merged last October are operating under a new name. The Coughlin-Larchmont Agency of Larchmont, N.Y., and the Garriques Agency of Tarrytown, N.Y., now are known as members of The Coughlin Group.

Joins ISU

Ulrich Voorhees Warner Associates, an insurance agency based in Somerset, N.J., has joined ISU/InsurersGroup Network, a nationwide franchise group of independent agents and brokers.

Acquisitions

E.H. Crump Cos. Inc. has reached a preliminary agreement to acquire **Atkins & Roberts Enterprises Inc.** of Orlando, Fla., for $5.76 million in cash and stock. Atkins & Roberts' subsidiaries provide insurance agency and self-insurance claims administration services in Florida and Louisiana.

Crown Financial Services Inc. of Toronto has acquired an 80% interest in **North Canadian Trust Co.** of Edmonton, Alberta. Crown is a subsidiary of **Crownx Inc.**, whose holdings include **Crown Life Insurance Co.**

Chubb Corp. has agreed in principle to acquire **Volunteer State Life Insurance Co.** of Chattanooga, Tenn., from **Monumental Corp.** The purchase price will be $82.2 million in cash, $22.2 million payable at the closing and the rest in two equal installments in 1987 and 1988. Monumental will retain Volunteer's credit life and health insurance business.

Dun & Bradstreet Plan Services, a subsidiary of Dun & Bradstreet Corp. engaged in marketing and administering third-party small group insurance plans, has acquired **Financial Planning Software,** a producer of computer software based in Peoria, Ill.

Bob D. Libby has acquired a majority interest in **S.I.S. Inc.,** a managing general agency and surplus lines brokerage based in New Orleans. Mr. Libby was formerly an executive vp with **Early American Insurance Co.** and a director of **Western Preferred Corp.** of Fort Worth, Texas.

New offices

J. Gordon Gaines Inc., a managing general agency based in Akron, Ohio, has opened a Dallas regional office at 511 E. John W. Carpenter Freeway, Suite 310, Irving, Texas 75062; 214-263-7265.

Professional Design Insurance Management Corp. has moved its office to 7321 Shadeland Station, Suite 220, P.O. Box 509147, Indianapolis, Ind. 46250; 317-845-7400.

Shand, Morahan & Co. Inc., which plans to move to its new headquarters this summer, has changed its mailing address to Shand, Morahan Plaza, Evanston, Ill. 60201. ■

NO EXTRA CHARGE FOR DELIVERY.

At CIGNA Healthplan every member pays a fixed monthly premium.

After that, they're covered for all authorized medical expenses, with just a small copayment.

When an expectant mother needs care, it's covered.

When her child has the mumps, it's covered.

When any eligible family member needs medical care, it's covered.

Your employees never pay an authorized bill from a doctor or a lab. Not even from a specialist.

With one single monthly premium, every one of your employees can easily budget their annual medical expenses. That way they know exactly what to expect.

And as one of the nation's leading health maintenance organizations, we understand the enormous financial pressures that medical expenses can put on a family.

We also realize that affordable health care has to be quality health care. So we provide competent doctors, nurses, and support staff.

And we make sure they have the equipment and supplies they need. Either on premises or nearby.

We even make our medical director and senior physicians available for consultations.

Again, at no additional charge.

These are some of the ways we provide high quality health care.

And quality health care has always been important to CIGNA, our parent corporation, whose companies provide insurance and financial services around the world.

Call us collect at 214-934-4404. Or write to Vice President, Marketing, CIGNA Healthplan, Inc., 7616 LBJ Freeway, Suite 303, Dallas, TX 75251.

We'll answer any question. And there's no extra charge for that.

CIGNA Healthplan, Inc.
a CIGNA company

CIGNA

U.N. group debates ways to fight marine fraud

By JOHN PARRY

GENEVA, Switzerland—Maritime fraud and piracy are costing insurance companies, shipowners and customers an estimated $1 billion a year, and the sum is constantly increasing, according to a recent United Nations-sponsored conference.

But the meeting, organized by the U.N. Conference on Trade and Development (UNCTAD), shied away from taking any concrete action to battle fraud. Instead, it called for governments to tighten their own national legislation against maritime fraud and commissioned the UNCTAD secretariat to conduct further studies of how fraud can be tackled on an international scale.

A proposal by the UNCTAD secretariat that an international convention be drafted to bind nations to work together against maritime fraud was blocked by the United States and other Western countries on the grounds that it would interfere with their internal affairs.

Third World countries had been solidly behind the idea of a convention.

The Western nations instead called for increased aid to the private sector's fight against fraud.

A proposal, put forward to the conference by the Netherlands, stressed the important and crucial role that self-regulation by commercial and industrial interests can play in combating and minimizing maritime fraud

One of the major points stressed by the Western countries in the proposal was the need for establishing a central registry of bills of lading. Chase Manhattan Bank has been working with the International Assn. of Independent Tanker Owners to develop a model for this register, and the UNCTAD meeting agreed that work on this register should be accelerated (*BI*, Sept. 19, 1983).

Falsification of bills of lading is the largest type of maritime fraud, the conference agreed.

Under the proposal to adopt a central registry, all bills of lading would have to be deposited in the registry as soon as they were issued. The registry would also note all changes in the contracts.

Keeping track of bills of lading is important, according to an UNCTAD report prepared for the meeting, because they serve not only as a receipt but as proof of the transport contract and ownership of goods.

Bernard S. Wheble of the International Chamber of Commerce, however, challenged the notion that bills of lading are central to the control of maritime fraud.

"We are trying to devise a document which by virtue of its makeup is difficult to forge," he said. "But, even when you have a secure bill of lading, there are always other ways of defrauding the customer."

Mr. Wheble said the fight against maritime fraud should focus on more quickly identifying those responsible for the crimes rather than trying to totally eliminate fraud. He also warned against government-sponsored control measures that he said might hamper honest trade as well as reduce fraud.

Although costly, fraud represents only a fraction of 1% of the total volume of world trade, he pointed out.

To prevent financial fraud, UNCTAD had proposed that banks set up a detailed system to double-check details of transactions before issuing letters of credit. The banks would act together with their clients and outside inspection agencies to ensure that cargos contracted for are actually loaded before money is paid.

The conference agreed to study this idea further.

The UNCTAD secretariat report prepared for the conference noted that marine insurance frauds are "quite diverse," involving both hull and cargo insurance and include:

- The scuttling of ships.
- The filing of false cargo insurance claims.
- The filing of claims for loss and/or damage of cargo based on survey certificates either fraudulently made or resulting from overstatement of the loss involved.

Scuttling could be cut back considerably if ships were not registered under flags of convenience by companies with, apparently, no visible means of support, the report said. It noted that 80% of the ships involved in suspicious sinkings in Asia during 1980 were registered under flags of convenience, principally the Panamanian flag.

Tightening the rules governing flags of convenience should have a substantial effect on the number of ships scuttled, the UNCTAD report said.

Elimination of covert dual registration would also make it more difficult for ships to disappear, the report noted.

It also advised that to minimize the extent of exaggerated or fraudulent cargo claims, insurers should cross-check the accuracy and validity of all supporting documents with the approriate surveyors and port authorities, especially in cases where suspicious claims are suspected.

On the question of cargo loss prevention, UNCTAD suggested that governments, particularly in developing countries, should consider establishing a special domestic agency to supervise cargo loading, unloading, shifting and port storage operations.

The UNCTAD talks are scheduled to resume in Geneva in the spring. However, the United States, the world's largest shipping nation, and the two major flags of convenience, Liberia and Panama, are boycotting the talks. ■

CPCU to publish research projects

LOS ANGELES—The Los Angeles Chapter of the Society of Chartered Property & Casualty Underwriters is conducting an "All-Industry Call for Research Papers."

Proposals for insurance-related research projects must be submitted by March 15. Industry experts will review each entry and notify authors by April 1 whether their projects have been accepted.

Authors will have until June 15 to finalize their papers, after which they will be published by the Los Angeles CPCU chapter. Cash awards will be presented for research excellence.

Authors will be invited to present their papers at a technical conference and seminar to be hosted by the Los Angeles CPCU Chapter in late June.

For more information contact the Society of CPCU, 553 N. Hoover, Los Angeles, Calif. 90004; 213-664-9574. ■

info

• M.F. Bank & Co., an independent salvor and appraiser for insurance companies, has published an eight-page brochure on the 1982 **Northwestern Bank Building fire in Minneapolis.** The brochure describes, in both text and pictures, the salvaging and subsequent reconditioning of the building's stock. For a free copy, write M.F. Bank & Co., Marketing Division, 3955 Pleasantdale Road, Suite 108, Atlanta, Ga. 30340.

• Copies of the **1983 Employee Benefits Symposium proceedings** are available from the International Society of Certified Employee Benefit Specialists. The subjects discussed in this 113-page book include private and public pension systems, benefit planning, health care cost-containment measures and solutions to Social Security's financing problems. Cost is $8 for members and $12 for non-members. Write International Society of Certified Employee Benefit Specialists, P.O. Box 209, Brookfield, Wis. 53005.

• "Global Risk Assessments: Issues, Concepts and Applications" is the first book in a series on **political risk analysis** published by Global Risk Assessments Inc. The 175-page volume contains 12 essays by contributors from Gulf Oil Corp., Ford Motor Co. and Texas Instruments Corp. and from various international scholars. Send $19.95 to Global Risk Assessments, Publications Division, 3638 University Ave., Suite 215, Riverside, Calif. 92501.

• "Reinsurance: A Practical Guide" is a 40-page comprehensive guide designed to give readers a **basic understanding of the reinsurance industry.** The volume also contains a complete glossary of reinsurance terms. To order send $9.95 to Interstate Service Corp., P.O. Box 1725, Oklahoma City, Okla. 73101.

• The relative costs of **insuring low-rise, non-residential buildings** are examined in "Insurance Costs—the Bottom Line," a four-page brochure from the Metal Building Manufacturers Assn. The brochure includes a 20-year cost-comparison analysis of different types of construction. It also includes a pie graph showing a breakdown of costs of new construction. To order send $1.50 to the Metal Building Manufacturers Assn., 1230 Keith Building, Cleveland, Ohio 44115.

• "Actuarial Fundamentals for Multiemployer Plans," a 122-page book, covers the **role of the actuary in the establishment and operation of joint labor-management employee pension funds.** The book is structured to help trustees understand the language, tools and guiding principles of the pension actuary. Copies are available to members of the International Foundation of Employee Benefit Plans for $6; copies for non-members cost $10. To order, write the foundation's Publications Department, 18700 W. Bluemound Road, P.O. Box 69, Brookfield, Wis. 53005.

• "The Captive Insurance Company" is an 80-page book discussing **offshore insurance**, particularly in Bermuda and the Cayman Islands. It provides information on formation, management and administration of a captive, along with tax information. Send $12.95 to Interstate Service Corp., P.O. Box 1725, Oklahoma City, Okla. 73101.

• "Cargo Loss Prevention Recommendations," a 79-page **guide to preventing and minimizing losses to cargo** in transit, covers all segments of the transportation of goods. It also includes recommendations for shipments of cargo by air and discusses the problem of maritime fraud. To order, send $3 to the American Institute of Marine Underwriters, 14 Wall St., New York, N.Y. 10005.

•

Have a new report, booklet or promotional brochure you'd like to send to buyers of insurance? Business Insurance will describe material costing less than $20 as an editorial service in the weekly Info for Buyers column. Simply send us a short description of the material to be offered, along with the cost of the item and a mailing address. Please address all contributions to Info for Buyers, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611.

Pools seek accreditation from California group

SACRAMENTO, Calif.—At least six of the state's more than 100 public agency self-insurance pools are expected to seek accreditation this year from the California Assn. of Joint Powers Authorities.

The Redwood Empire Municipal Insurance Fund, based in Sonoma, Calif., became the first JPA to be accredited under the new program. REMIF received its accreditation in December for its self-funded liability, property and workers compensation programs.

Its accreditation was presented to CAJPA members at the organization's January meeting, held in conjunction with the third annual Public Agency Risk Managers Assn.

CAJPA's accreditation program is believed to be the only one in the nation.

CAJPA was formed in February 1982 by a small group of public risk managers seeking to establish accreditation standards for joint pooling arrangements (*BI*, Feb. 1, 1982). The accreditation program, which is completely voluntary, was finalized in August 1983 after which the organization's approximately 50 members were invited to seek review.

"The primary purpose of accrediting a JPA is to satisfy the risk manager and board of directors that their operations are consistent with the performance of their peers in the state of California," explains Jeffrey W. Pettegrew, CAJPA vp and risk manager for the Contra Costa County Municipal Risk Management Insurance Authority.

"It's also a statement to the insurance industry of their commitment to excellence," he adds. "Assuming the accreditation process takes off and is well-received by the risk management community, it may become a model for underwriters, brokers and others to assess the effectiveness of a JPA."

Currently, three programs of a JPA are eligible for accreditation: liability, property and workers compensation. Health care programs are not yet eligible. And only programs in which risks have been self-funded for at least three years will be considered, Mr. Pettegrew explains.

He expects six to 10 JPAs to seek accreditation this year.

When a JPA seeks accreditation, a team of three CAJPA members is appointed to review the pool on six standards, which Mr. Pettegrew describes as "pretty rigorous." The JPA must pass the following criteria:

- The JPA must conduct an annual actuarial study by independent consultants to determine adequate reserve levels.
- The officers or employees of the JPA who handle cash or investments must be insured with fidelity bonds, and employees and board members must have directors and officers and/or errors and omissions coverage.
- The JPA regularly must conduct some sort of claims audit by an independent source to ensure viability of funding.
- The JPA must conform to appropriate legal restrictions regarding investment of agency funds.
- The JPA must conform with all filing and reporting requirements as mandated by California law.
- The JPA must comply with its governing documents, agreements and contracts.

In addition, the risk management and loss prevention services of the pool are assessed.

The review results in one of three decisions: accreditation, failure or conditional accreditation. Mr. Pettegrew explains that the latter label is given to those programs with a problem deemed "correctable." The JPA is then given 30 to 60 days to adjust the situation before final accreditation is given. ■

Public entities interested in risk management

SACRAMENTO—Interest in public entity risk management and loss control appears to be growing.

Attendance at the third annual conference of the Public Agency Risk Managers Assn. held here recently was up more than 50%.

About 265 risk managers, other administrators and consultants discussed such topics as professional liability coverage for public officials and property coverage for public agencies.

Other topics included effective ways to incorporate a risk management program into public agencies that have limited resources and current trends in public agency liability. PARMA is a group of risk managers from about 250 California public entities.

Storm damage totals $18 million

NEW YORK—Insured losses resulting from windstorms, hail, tornadoes and flooding in five states from Feb. 11 through 14 are estimated at $18 million by C.E. Hermanson, vp of property claims services at American Insurance Services Group Inc.

States affected by the severe weather were Texas, Louisiana, Mississippi, Alabama and Georgia. Tornado damage was sustained in the Louisiana cities of New Orleans, Baton Rouge, Lake Charles and Houma, and in Palestine and Normangee, Texas.

Estimates do not include damage covered by the National Flood Insurance Program. The storm was assigned Catastrophe No. 28 by the Insurance Services Office. ■

Eliason to retire as Armco president, CEO

comings & goings: industry

William M. Berry, chairman of Armco Insurance Group Inc. in Milwaukee, will reassume the post of chief executive officer when **Frans R. Eliason** retires as president and CEO effective April 1.


Mr. Eliason

Mr. Eliason, who will assume a new title of vice chairman, had been president and chief operating officer of NN Corp., which merged with Armco's insurance operations in 1980. He became chief executive officer of Armco Insurance Group the next year.

Mr. Berry, who had been chairman and CEO of NN Corp. before the merger with Armco, served as chairman and chief executive officer of the new company until Mr. Eliason assumed the CEO's position.

Other insurer changes:

John H. Walton named president and chief executive officer of Calvert Insurance Co. in New York. Mr. Walton had been senior vp-underwriting of KCC Syndicate Managers on the New York Insurance Exchange. The Calvert Insurance Co. is wholly owned by Stewart Wrightson Group.


Mr. Walton

James A. Even elected vp and deputy director of the claims department at Hartford Insurance Group in Hartford, Conn. Mr. Even previously was staff assistant to the chairman. He joined the Hartford group in 1962 as a claims representative.

George F. Berg joined The Home Insurance Co. in New York as vp-field claim operations. He is responsible for implementation and control of claims policiesand practices. Mr. Berg had been assistant vp at Chubb Insurance Group.

Richard G. Adams named vp of North River Insurance Co., a unit of C&F Underwriters Group in Parsippany, N.J. He will manage the company's insurance operations for north and central New Jersey. Mr. Adams had been a branch manager with North River.

William H. Buttner, Jerome F. Czekalski, John M. Griffin, John V. Heher and **Donald J. Leeder** named resident vps at C&F Underwriters Group in Basking Ridge, N.J. Mr. Buttner continues to manage the group's Boston office, while Mr. Czekalski continues to head the Cincinnati office. Mr. Griffin manages the Philadelphia office, Mr. Heher is responsible for the Pittsburgh office and Mr. Leeder heads the Syracuse, N.Y., office.

Brian Jarman elected president of Aegis Insurance Services Inc. in Jersey City, N.J. He had been senior vp at Ideal Mutual Insurance Co. Aegis is a wholly owned subsidiary of Associated Electric & Gas Insurance Services Ltd. in Bermuda.


Mr. Jarman

Raymond J. Sibiga Jr. elected vp-insurance services at Philadelphia Manufacturers Mutual Insurance Co. in Valley Forge, Pa. He had been an assistant vp at the insurer, which he joined in April 1983.

Louis J. Rampino promoted to vp of the special risks and services division of Fremont Indemnity Co. in Los Angeles. Mr. Rampino has been managing the division for 15 months as assistant vp. He has been with Fremont since 1977.

James G. Carlson named vp of Prudential Health Care Plan Inc. in Orlando, Fla. Mr. Carlson also heads PruCare of Orlando, a health maintenance organization. Mr. Carlson had been executive director of PruCare of Orlando. PruCare is a wholly owned subsidiary of Prudential Insurance Co. of America.

Reinsurers

Peter A. Bengelsdorf appointed senior vp of Buffalo Reinsurance Co. in Woodland Hills, Calif. Mr. Bengelsdorf, who joined the company in 1982, was vp, treasurer and chief financial officer before he was promoted to this newly created position. Buffalo Re writes treaty and facultative reinsurance.

Agents/brokers

Ray E. Nelson appointed vp and senior account executive of Fred S. James & Co. of Utah Inc. in Salt Lake City. Mr. Nelson had been acting vp and regional manager of California Western States Life Insurance Co.

Kerry Clem joined Frank B. Hall & Co. of Illinois in Chicago as vp and casualty department manager. Mr. Clem formerly was director of risk management at Esmark Inc. in Chicago.

Excess/surplus

Lonnie L. Steffen promoted to senior vp/treasurer at L.W. Biegler Inc. in Chicago. Mr. Steffen will continue to head premium/loss/reinsurance and financial accounting for the managing general agency. He was most recently vp at Biegler. ■

APP-SP (3/83)

INDEX OF SPECIAL PROVISIONS

Coverage under Section I is required for this Policy to be in effect and specified coverages for Section I shall be indicated elsewhere in the Policy. Coverage under Sections II, III and IV are optional and shall be indicated by an "X" in the appropriate box.

SECTION I		
GENERAL PROPERTY		
A. Amount of Insurance	_____	
B. Limits of Liability	_____	
C. Deductible	_____	
D. Contribution Clause	_____	
E. Business Interruption	☐ YES	☐ NO
F. Extra Expense	☐ YES	☐ NO
G. Broad Flood Coverage	☐ YES	☐ NO
H. Broad Earthquake Coverage	☐ YES	☐ NO
I. Repair or Replace	☐ YES	☐ NO
J. Brands and Labels	☐ YES	☐ NO
K. Automotive Vehicles	☐ YES	☐ NO
L. Credit for Existing Insurance	☐ YES	☐ NO
M. Valuable Papers and Records	☐ YES	☐ NO
N. Accounts Receivable	☐ YES	☐ NO
O. Electronic Data Processing	☐ YES	☐ NO
SECTION II		
BOILER AND MACHINERY	☐ YES	☐ NO
SECTION III		
FIDELITY	☐ YES	☐ NO
SECTION IV		
OCEAN CARGO	☐ YES	☐ NO

APPLICABLE TO ALL COVERAGES

JOINT LOSS DEDUCTIBLE: When this Policy covers more than one location, the deductible amount(s) shall apply against the total loss or damage covered by this Policy in any one occurrence.

If two or more deductible amounts provided in this Policy apply for a single occurrence, the total to be deducted shall not exceed the largest deductible amount(s) applicable unless otherwise provided in this Policy.

If this Policy insures against both Property Damage and Business Interruption losses, the deductible amount as shown in this Policy shall apply to the combined loss of Property Damage and Business Interruption unless indicated otherwise.

perspective

HEAVY-DUTY COVERAGE

Municipal lease policy protects investors and governments

By Raymond K. O'Neil

CITIES AND counties have found equipment leasing an increasingly attractive way of providing for their short-term capital needs.

Voter resistance to bond financing, an urge to avoid the complexities of bond transactions and a desire to spread costs over several budget periods are all factors that have encouraged equipment leasing.

Until recently, banks and well-informed individuals have been the principal sources of funds for lease financing.

This market, in part, was able to absorb the supply within its needs for tax-exempt income. But, often, the complexities of lease financing provided a deterrent to many private investors.

Leases usually are subject to annual appropriations or renewals, the lessor often retains title to the property until final payment is made and the obligation to pay rent is waived if the property ceases to function or is destroyed.

These conditions usually apply, but not always, and one or more may not pertain in a given situation. These inconsistencies have been a factor in making leases difficult to market to the broad spectrum of individual investors.

And yet, the demands of municipalities for equipment and the need for funding are growing at a rapid pace. The annual municipal lease market is estimated at $2 billion and growing.

By mid-1982, it was apparent that an insurance product that would protect investors against some of the vagaries of municipal lease investment would perform a useful function.

In addition to the confidence the product would inspire in investors, it would be of interest to at least four other groups. Those groups are:

- Investment bankers acting as the source of financing for leasing companies that provide the equipment for the government entities.
- The leasing companies.
- Vendors or manufacturers of equipment that have substantial sales to governments.
- Banks that might own portfolios of equipment leases to governments.

The development work was intense. Very few municipal leases had been previously insured by anyone, so it was necessary to develop the product and a complete set of guidelines and procedures for its use.

Those proprietary guidelines and procedures set standards for evaluating both a municipality's credit and the strength of a lease. They also established the manner in which municipal lease insurance managers should review and process applications for coverage and set forth the extent to which the manager could underwrite without further review.

The program works this way. A government agency needs new equipment, but does not want to or is unable to float a long-term bond to pay for it. The agency goes to an equipment leasing company to meet its needs.

The leasing company approaches an investment banker or a broker to obtain funds to purchase the equipment the city wants to lease. Up to now, nothing is different from the way leases were originally financed.

It's the next step that introduces the change.

The investment banker or securities broker next contracts an insurance broker or municipal lease insurance manager. That person provides assistance in developing the financial offering to investors. He or she works with an insurer to qualify the prospect and determine whether the type of equipment proposed is acceptable for lease insurance.

To qualify, the equipment must be essential to the operation of the government and have a life that will allow it to perform that function for the term of the lease and beyond. Resale value is a factor in rating a lease.

With highly specialized equipment, an evaluation is made to determine how essential a part of the operation it is and how it fits in with other city equipment and overall operations.

Insurance is available for leases on unique equipment if the purpose of that equipment is necessary to operations. Otherwise, the equipment must be something that can be resold or readily reused.

The most popular items obtained through municipal leases are motor fleets; other rolling stock used in maintenance; pumps, motors and control systems; computers; and communications systems.

There are several reasons for investor uncertainty about leases. The fact is that most leases are for five years while governments usually appropriate funds for a year at a time attracts the most attention.

Yet, leases ordinarily provide that if the government agency acts in good faith, but is unable to appropriate funds or cannot make payment for any reason, it can cancel the lease and return the equipment to the leasing company.

The municipal lease insurance guarantees the investor payment of invested principal and interest, up to the time of any default, and the return of any principal still unpaid at termination of the lease. Individual lease contracts, pools of leases and unit investment trusts all are eligible for the coverage.

Delivery of the equipment, its performance and residual value are not covered under the basic policy form.

This new line of insurance will make lease financing more marketable to the private investor. And the growing need for lease financing makes it imperative that the capital pool be expanded and that the individual investor make a contribution to that pool. This insurance program will encourage those individual investors.

Recently, we were involved in a landmark case. The Assn. of Bay Area Governments, a regional government organization in the San Francisco Bay area, put together a pool of leases from four of its member cities.

The California cities of Alameda, Concord, Hayward and Union City pooled $4 million in equipment leases, with Kelling & Co. of San Francisco and Merrill Lynch Capital Markets of Los Angeles as investment bankers.

The pool, because of the lease insurance, was rated AAA by Standard & Poor's, the first lease pool ever rated by that firm. We believe this transaction will be the prototype for many others.

Most of our insurance so far has been on individual leases held by banks. Yet unit investment trusts, we believe, will be employed increasingly in 1984.

It is this vehicle that pools leases for sales to individual and private investors. The trust is attractive to investors because it provides tax-exempt insured interest generated by the lease contracts for investments of as little as $3,000.

Raymond K. O'Neil is a senior security analyst at Fireman's Fund Insurance Cos. in Novato, Calif.

perspective

CROCODILES, CAPTIVES AND COVERS

International brokers learn the fine art of satisfying clients both at home and abroad

By Charles H. Bechtold Jr.

international issues

HAVE YOU EVER tried to explain to the general manager of the Brazilian subsidiary of a U.S. multinational that he must move his insurance program to another insurer so that the home office can benefit fully from its newly negotiated worldwide captive insurance program?

Or, has a broker ever told you that you had better consider remarketing your local workers compensation coverage in Borneo because loss experience has been adversely affected by the eating habits of the resident crocodile population?

These are just two types of problems risk managers and international brokers face in handling worldwide insurance programs at the local level.

Managing a worldwide risk management program requires a number of specialized functions, but few risk managers understand fully just what the international broker really does at the local level.

The primary responsibility of any broker is to analyze a client's exposures, structure a program that effectively protects those exposures and place the insurance in that program with sound markets at the lowest price.

A properly designed international insurance program generally will include a combination of local policies and worldwide "master" policies to fill in the gaps.

A skilled international broker can achieve price efficiencies in a total program by carefully balancing admitted (local) and non-admitted (offshore) coverages.

The real test of the international broker's expertise comes in designing the admitted program, because it must work creatively within the restrictions imposed by local tariffs or market conditions and yet maintain the integrity of the master program agreed on with corporate headquarters.

Once a program is designed, the international broker must consider not only local premium cost, but also the insurance company's service orientation. Underwriter flexibility regarding tariff interpretation, loss-control performance and responsiveness in claims handling can have important bottom-line consequences.

Premiums are only part of the equation in evaluating a worldwide program.

The risk manager, in assessing the cost effectiveness and security of a worldwide program, must rely on the knowledge and marketing skill of both the international and local broker affiliate that services the subsidiary.

The risk manager must take into account not only the sum of the component premiums but the tax treatments, financial arrangements, claims-settlement practices and reinsurance controls operating in the country.

For instance, in Brazil, the proliferation of financing arrangements means that premium quotations have little to do with competitiveness; notwithstanding the strict tariff, the final cost can vary as much as 40% depending on the attractiveness of financing proposals.

In much of the world, insurance market practices follow traditional British tariff rules.

It is in developing countries that the greatest improvements in the insurance industry remain to be made. Policy forms, rating methods and premium payment terms often appear archaic when compared to current American and European market practices; market sophistication in these countries lags substantially behind Western standards.

The international broker contributes to change by imaginatively applying to such local markets the risk management techniques developed elsewhere. Even such an unsophisticated risk management technique as risk retention through deductibles is not universally accepted.

Fifteen years ago, business interruption coverage on gross earnings forms did not exist outside the United States. Nor was there any acceptance of the concepts of highly protected risk or blanket coverages.

Today, the broker serves as the agent of change in the market. At the same time, it must help reconcile the often divergent goals of a local client with "first-dollar" mentality and a U.S. risk manager attempting to implement a coherent strategy of risk assumption.

The international broker with local affiliates is ideally positioned to bring these new ideas to the multinational subsidiary management.

Outside of the United States and a few European countries, few multinationals employ professional risk managers or even a true insurance specialist to oversee local insurance programs. A risk manager based at corporate headquarters can do only so much from long distance.

The local broker often has an expanded role in the risk evaluation normally handled in-house by firms in the United States.

If a multinational's worldwide program involves a captive, the risk manager should look for an international broker with the ability to market and administer captive programs and provide local service to subsidiary management.

The administrative capability to monitor cash flow, premium payments, retrocessions and constriction of reinsurance flow in problem areas, etc., can make the difference between a successful captive program and one that founders.

Engineering expertise and service capability necessary for effective loss-control programs are available abroad only on a limited basis. Some international brokers provide these services.

Technical input from the broker during design and construction of a new facility, knowledge of protection requirements and recommendations of improvements in existing facilities are the responsibilities of an international broker overseeing subsidiary operations for the multinational client.

The broker's loss-control staff often has to rationalize the sometimes diverse interpretations presented by the National Fire Protection Assn., the underwriter's highly protected risk guidelines, local tariff specifications and the local building codes.

The broker must work to ensure that proposed loss-control solutions maximize local rate credits and protection without causing excessive loss-control costs.

In strict tariff markets, the broker must be heavily involved in the insurance pricing process, since approvals of protection discounts and special rating treatment require the presentation of technical reports and applications to rating authorities. In non-tariff markets, loss-control input is also a prime determinant of the final insurance cost.

Claims specialists are a vital part of an international broker's office. In many countries, documentation and negotiation of claims, other than the most routine cases, are time-consuming.

In handling more complex losses, the broker specialist assists in preparation of claims documentation in order to avoid lengthy delays in claims settlements. In countries with high inflation, a delay in claims settlement can translate into substantial real losses.

Reducing losses abroad requires a combination of technical know-how and appreciation of local conditions.

For example, the key to improving the marine loss ratio of a company exporting cars to Chile turned out to be the discovery that stevedoring crews in Santiago expected to be paid approximately $10 per car to guarantee that the cars would be landed on the dock right side up.

Effective communication between the American broker and its international office is essential to the functioning of a dynamic international insurance program, whether the program is meant to cover an existing facility, a new acquisition or a new product line.

The overseas broker needs to receive explicit guidelines from headquarters. These should include a general policy statement containing:

- The coverage required by the parent to insure the local operation properly.
- The desired balance between local and master coverage.
- The acceptable degree of self-assumption or risk by the subsidiary.
- The commitment to loss control and protection vis-a-vis insurance.
- The degree of option afforded to subsidiaries regarding choice of markets and brokers.

The risk manager should update the guidelines regularly in consultation with the broker.

Reporting requirements and procedures, as well as specific instructions for claims reporting, also should be laid out in detail. If a non-admitted insurance company is responsible for providing any services or inspections at the local level, the local broker should be told to monitor these activities.

The guidelines for local insurance programs should identify the risks to be insured, define the method of property valuation, establish corporate policy on insuring business interruption losses and state corporate policy or self-insurance.

An international broker must provide a number of individualized services, both at the corporate and the subsidiary level.

An understanding of the challenges and opportunities of international risk management, technical and communications skills and the ability to organize diverse geographic and functional components into a cohesive worldwide program—these are prerequisites for international insurance brokers to function well.

Whether the risk is exotic, such as hungry crocodiles preying on the local workforce, or as mundane as a local building in need of fire extinguishers, the local broker must be available on the spot to make sure that a worldwide program is implemented to the full desires of the corporate client. ■

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

Product liability poses problems for Brazilian exporters

PURCHASING of adequate limits of product liability insurance to cover export sales has been problematical for Brazilian exporters.

Policies were only available in cruzerios (the Brazilian currency) and the extremely high inflation rate in Brazil in recent years caused the real value of the policy limit to erode substantially in terms of dollars.

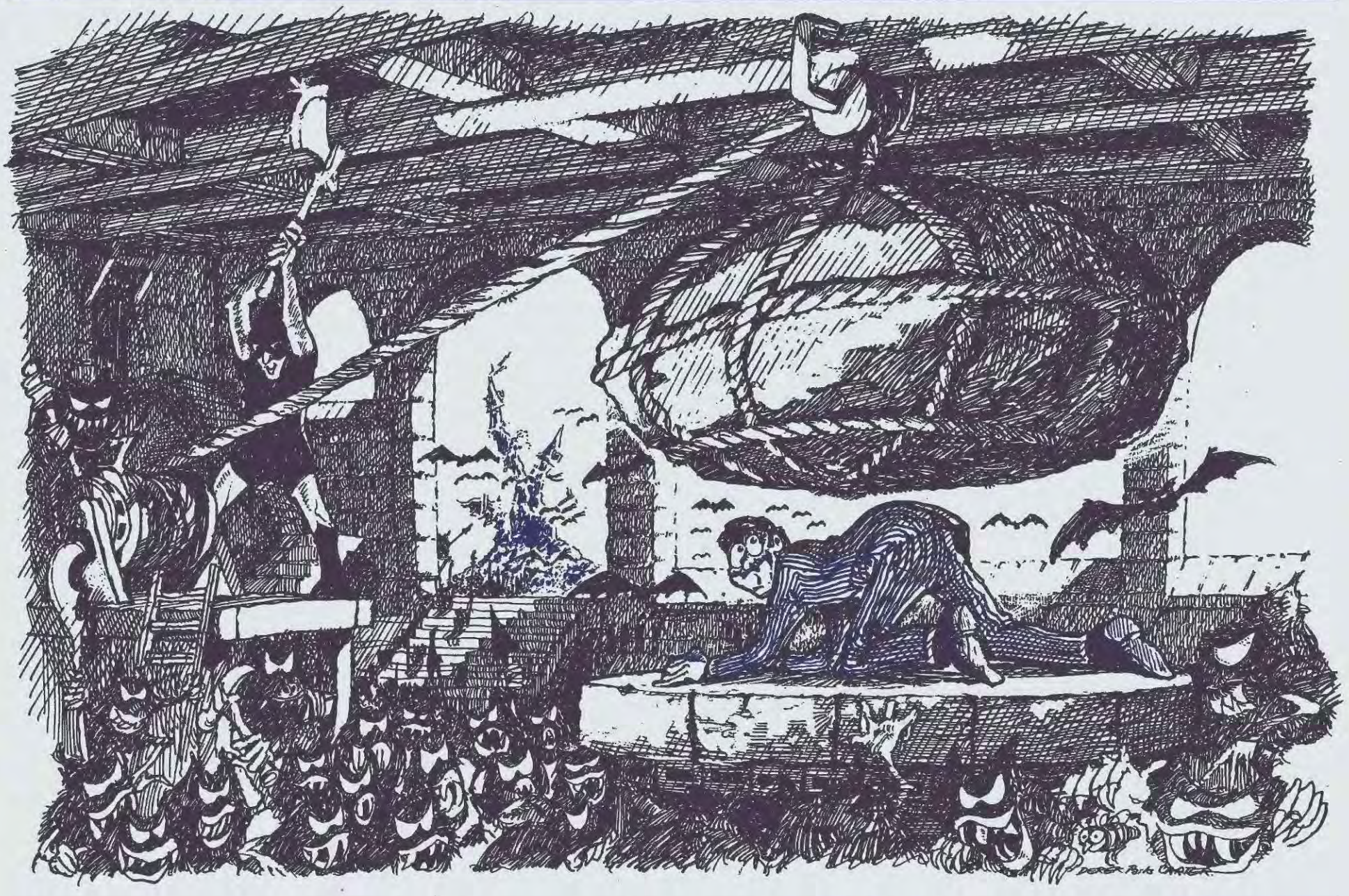
This is a particular problem given the long tail on product liability claims.

The IRB, or Brazilian Reinsurance Institute, recently authorized product liability insurance limits linked to government treasury notes (ORTN), which increase in value with the official inflation rate. Indexing continues indefinitely with ORTNs reconverted to cruzerios at the time the loss is paid.

—From Johnson & Higgins/UNISON UPdate.

agent/broker topics

A regular editorial section exclusively for agents and brokers



CAUGHT BETWEEN A ROCK AND A HARD PLACE

Agents must detect troubled insurers; the question is, how?

By PAMELA DeFIGLIO

Agents and brokers who discover they're dealing with a financially unsound insurer are "damned if they do and damned if they don't."

For instance, the insurer can sue agents and brokers for slander and libel if they pass their observations along to their colleagues—even if the insurer is indeed in financial trouble.

On the other hand, if agents aren't aware that an insurer is about to fail, clients may sue them for placing business with a shaky insurer—when they should have known better.

To top it all off, agents and brokers say that obtaining reliable, up-to-date information about an insurer's financial health is practically impossible.

They say they can't depend on state insurance departments to give them the lowdown because regulators often try to protect troubled insurers by withholding information, so agents and brokers won't try to switch good risks to other markets.

Neither can they rely on insurer rating services, like A.M. Best Co. Inc., because the information is often too old.

Reginald Beane, vp of government affairs for the Independent Agents of America, says that insurer insolvencies are a double-edged problem for agents.

"The agent is held to a high degree of responsibility on behalf of the client. At the same time, he is expected to make a decision on where to place the business; however, he has difficulty in obtaining the financial information he needs to make that determination.

"He may have a potential errors and omissions liability, but he can't get the information he needs to make a knowledgeable decision," Mr. Beane comments.

About the only resource an agent can use to locate weak insurers, besides trial and error and the rumor mill, is the National Assn. of Insurance Commissioners' Early Warning Test, better known as IRIS.

The NAIC releases IRIS information only to insurance commissioners, but it will sell a user guide that tells how an agent can compute the IRIS test on his own by using financial information available in insurer annual reports or from state regulators.

(The manual is available by sending $10 for either the life insurance or the property/casualty insurance version to NAIC Publications Department, 1125 Grand Ave., Kansas City, Mo. 64106.)

However, Patricia Borowski, director of administration for government and industry affairs for the National Assn. of Professional Insurance Agents, discounts IRIS as a resource, noting that the annual financial information used in the test is often too old to be reliable.

Many brokers note that slow claims service sometimes indicates that an insurer is in dire straits, but it could just as easily indicate something else.

"Usually the carrier has a good reason for delays—they're just expanding, or getting new computers," says Don Jordan, executive director of the National Assn. of Insurance Brokers, noting that it can be presumptuous to conclude that service delays mean financial trouble.

Indeed, most producers say that they are very careful about repeating potentially damaging rumors about insurers' finances.

"I think brokers are very careful about whispering to others about insurers," says Mr. Jordan. "Unless you knew for certain, it would be very inappropriate to convey that kind of information."

"I don't think agents have overreacted in response to innuendo— they have acted reponsibly," says Richard Kasyjanski, vp of agency services for the IIAA. "About two years ago, there was a rumor going around about a certain New York insurer, and we got a lot of calls checking on it. The agents didn't pull their business out, and today the insurer is solvent."

But, at least one state regulator thinks that it is important that the agents who hear rumors of insurer impairment pass the information along to state insurance departments.

"We're trying to get a statute passed for immunity so that agents and brokers could come forward and tell the commissioner's office any rumors they hear," says Richard Carlson, assistant director of the Illinois Department of Insurance. The statute would at least

Continued on next page

Agents caught in the middle by insolvencies

Continued from previous page
allow producers to speak freely, without fear of recrimination.

Although Mr. Carlson says he wants to help agents and brokers identify impaired insurers, trade organizations blame much of the damned-if-you-do, damned-if-you-don't syndrome on state regulators. The associations say regulators often are insensitive to the producers' plight.

However, the groups say they are working with regulators to try to correct these problems.

For instance, the PIA representatives chair an advisory subcommittee to the NAIC's Rehabilitators and Liquidators Task Force. Representatives from the IIAA, the NAIB and the National Assn. of Casualty & Surety Agents also are on the panel, which will make recommendations to the task force (see story, below).

To help illustrate agents' problems to the regulators, the PIA, with the assistance of its attorneys, drafted a case study (see story, page 22G) that illustrates the disastrous effects that an insurer insolvency can have on agents and brokers.

Ms. Borowski notes that some regulators scoff at the idea that an agent could be sued by clients for writing business with an unsound insurer. Although she admits it is not a frequent problem, Ms. Borowski says that some agents were sued by their clients following the 1979 insolvency of Chicago-based Reserve Insurance Co.

Courts threw out those suits, explaining that monitoring the insurers' financial health falls under the regulators'—not the agents'—domain, she says.

"But we'd never seen the likes (of such a suit) before, and the judicial climate changes every day," Ms. Borowski comments. "It seems to be moving in one direction—the direction that the individual agent and broker is being held to a higher degree of responsibility to the client than ever before.

"So we're saying that these kinds of suits *are* possible," she says.

Indeed, the increased likelihood that a client could file a professional liability suit against an agent has increased agents' perceptions of themselves as the representative of the policyholder.

"Commissioners now view agents more as consumer representatives than company representatives," says the IIAA's Mr. Kasyjanski.

Agents have two strong reasons to be the protectors of their insureds: the potential liability exposure and the need to maintain good business relationships with their clients. Even if an agent handles an insurer insolvency with the greatest of care, it could cost customers.

Looking after the customer's best interest sometimes means the agent has to help dig the unstable insurer's grave by shifting business away from the insurer, Ms. Borowski says. And, because of this, many regulators charge agents and brokers with causing the insurer's downfall.

"They say, 'You hear rumors, move the book of business and push the companies into insolvency,'" she explains.

"The point we tried to make is that everyone else is considered (during an insolvency) except the agent and broker. When they *are* thought of, they're treated as company agents. We're trying to drive home the point that independent agents and brokers should be considered independent," she emphasized.

And, she adds, moving business from a shaky insurer protects the policyholder to whom their allegiance lies.

However, some regulators do indeed adopt the view that agents are attached to companies. For instance, when Mr. Carlson of the Illinois department was asked if any agents were sued by their clients for liability in an insurer insolvency, he replied, "That would be more the case with a broker than an agent, since an agent represents the company."

> '(State insurance) commissioners now view agents more as consumer representatives than company representatives,' says the IIAA's Mr. Kasyjanski.

Mr. Kasyjanski notes, however, that the NAIC has been more responsive to agents' and brokers' position in the past two years, as evidenced by the fact there is more agent representation on NAIC subcommittees than before.

"We're a viable part of the insurance mechanism. I think agents have become more influential in each state by the lobbying they have done," he comments.

Jo Storey, supervisor of receivership in the Missouri Division of Insurance's liquidation department and a member of the NAIC Rehabilitators and Liquidators Task Force, agrees.

The task force is "willing to study and consider the agents' and brokers' situation," she says. "I can't speak for all of us as to what we'll come up with, but we'll definitely be willing to listen and consider suggestions."

Even if regulators recognize the agents' status, it's not a solution to the problems agents face when an insurer goes out of business.

For example, when an insurer is declared insolvent, the policyholder has a specified time period—usually 30 days—to file claims, and Ms. Borowski contends that 30 days is not enough for an agent to shop the market for new coverage.

She also notes that, in the case study prepared by the PIA, the policyholder sues an agent because the insured could not collect on his claim, which was filed after the cutoff date.

The problem of caps on the amount a claimant can receive from a state guaranty fund is a related worry. For example, Ms. Borowski notes that California's guaranty fund has a $500,000 cap. What happens if the client has a $1 million claim? Can he sue the agent for the remainder?

The shabby, disorganized state of some insolvent insurers' records represents yet another problem for agents and brokers.

"Sometimes the insurer keeps such poor records that the regulator must go to the agents and brokers for information on who's insured for what," Ms. Borowski says. "Sometimes the companies' mismanagement and filing problems are unbelievable!"

Regulators oftentimes attempt to piece together missing insurer records from information gathered from agents and brokers, though this process means the producers must spend hours of time unpaid time complying with regulators' requests.

"I guess I feel agents' complaints (about searching through records) are validated, but I don't know how they can be alleviated," says John Clark, director of financial services for the NAIC in Kansas City, Mo.

He adds, "Sometimes brokers are the only source of information, and the commissioner has to order them to go through the files to get the names and addresses of insureds."

Finally, agents are often trapped between the requests of regulators in different states, Ms. Borowski notes.

When an insurer goes broke, a squabble usually breaks out over who has control of its remaining assets, Ms. Borowski says, explaining that the domiciliary state—the state in which the insurer is domiciled—is usually in charge of liquidating the insurer.

> 'I think brokers are very careful about whispering to others about insurers. Unless you knew for certain, it would be very inappropriate to convey that information,' Mr. Jordan says.

But sometimes ancillary states—other states in which the insurer is licensed to do business—enter the fray, she explains. Ancillary states, which often require an insurer to put up a deposit before it can do business within their borders, often seize that deposit and any other assets found in the state if the insurer fails.

In addition, ancillary states may ask agents in the state to turn over unearned premium they hold.

However, these same assets are also demanded by the liquidator in the domiciliary state.

While these two states are slugging it out, the policyholders aren't having their claims paid, and the agent may be unable to use the unearned premium he holds to place new coverage, Ms. Borowski notes.

And the agent is faced with the problem: Until the court decides the issue, with which state should he deal?

She also says agents are hurt when states demand unearned premiums be sent to the liquidator, since producers will not be able to take a commission on these funds. This is especially troublesome since the insurer insolvency will create more paperwork for the agent—without any compensation whatsoever.

Ms. Borowski does point out that some states do allow agents to keep unearned commission.

"But we don't feel agents and brokers should have to depend on the benevolence of insurance commissioners," she explains. ■

Producers pleased with Texas statute

Texas has been experimenting with a law that could make insurer insolvencies less traumatic for agents and brokers.

Traditionally, the liquidator of an insolvent insurer's estate seizes all unearned premium held by agents to maximize the insurer's assets. This meant that the policyholder simply lost that amount, and the agent could kiss the commission on the unearned premium good-bye.

However, a unique Texas statute allows agents to hold unearned premium should an insurer be liquidated. The agent can either refund it to the policyholder or use it to secure new coverage.

Patricia Borowski of the National Assn. of Professional Insurance Agents says the statute was strongly supported by agents when it was passed in 1973 and says they are pleased with the way it has worked.

However, Tony Harris, the liquidator-receiver for the Texas State Board of Insurance, says he sees both positive and negative aspects to the statute.

"Statute 2111-2 is not our favorite—but it's a way of getting money to the policyholders quickly," he says.

"It makes the accounting a nightmare for the receiver's office. It means we have to audit every policyholder." Ordinarily, he explains, the receiver would only have to audit agents.

"The agent must apprise us right away of what he did with the money, or the policyholder will make a claim on the estate. I think most agents try to get new coverage right away, but they are often hampered by the fact that the insolvent insurer has very poor records.

"Sometimes the agent can't even find out what he owes and, of course, he doesn't want to pay more than what he owes," Mr. Harris comments.

"There are several practical problems, but not conceptual problems, with the statute. But I think they're correctable, especially when insurers start using (electronic data processing systems) and records can be kept up on the computers."

Christopher Maisel, the deputy Texas liquidator, says there's another potential problem with the statute.

"If the agent pays the insured, but the insured files a claim saying he hasn't received the money, it's theoretically possible for the insured to get paid twice (from the agent and from the guaranty fund)," he says.

Associations propose solutions to problems

Although the problems that agents and brokers face when an insurer fails will never be eliminated, producers' trade associations say they have some solutions.

The associations, members of an advisory subcommittee to the National Assn. Insurance Commissioners' Rehabilitators and Liquidators Task Force, are working with state insurance regulators to ease the problems producers face when an insurer is declared insolvent.

According to Patricia Borowski of the National Assn. of Professional Insurance Agents, possible solutions that will be discussed by the subcommittee include:

- Extending the period in which claims must be filed after an insurer is declared insolvent. Agents and brokers may be sued if a policyholder cannot collect on a claim because it is filed too late.
- Increasing the per-claim limits the state guaranty will pay to policyholders of an insolvent insurer. Some policyholders may not have claims fully paid because their losses exceed these limits.
- Designing a method to compensate agents and brokers for time they spend digging through records after an insurer fails. Often, the insolvent insurer's records are incomplete, and regulators ask agents and brokers to supply information on policies written and premiums collected.
- Barring ancillary states from seizing an insolvent insurer's assets, upsetting the domiciliary state's liquidation proceedings.
- Allowing agents and brokers to use unearned premium collected for a failed insurer to pay for new coverage placed for a policyholder.
- Asking regulators to be more sensitive to agents' and brokers' complaints about poor service from insurers. This could be an early tipoff to both agents and regulators that an insurer is experiencing financial difficulties.
- Asking regulators to realize that agents and brokers have primary responsibility to clients, not insurers, and that shifting coverage from an impaired insurer is often in the policyholder's best interest.

The advisory subcommittee hopefully will present suggestions and recommendations to the June NAIC meeting, says Ms. Borowski, the PIA's director of administration for government and industry affairs.

"I expect we'll have NAIC support, but I don't know if it will be on all of the recommendations," she says.

Besides dealing with the NAIC, the PIA also plans to draft guidelines to help individual agents and state associations cope with insurer insolvencies.

"We'll try to tag the problem to the situation in their state. For example, if they have this problem, here's the solution; and if they have this other problem, here's how they can deal with that," she says.

The issue of insurer insolvencies is important for all agents, not just those that have been involved in insolvencies, and Ms. Borowski says the PIA plans to develop seminars and mailings to educate its members.

"Agents have to become more aware of what they must do in an insolvency. Many agents of the past went through their entire careers without ever experiencing this, but now, more and more agents are finding themselves involved in something they know nothing about."

Insurer insolvency teaches agency lesson

By PAMELA DeFIGLIO

ALBUQUERQUE, N.M.—"Every agent in the world should take an interest in their insurers, so they don't have to go through what happened to me," says an agent who was stung by an insurer insolvency.

Forty-one clients of Insurance Exchange Inc., an independent agency in Albuquerque, were left without coverage when Proprietors Insurance Co. of Delaware, Ohio, was declared insolvent by an Ohio court on Aug. 5, 1981, says Carl Frilling, the agency's president.

Proprietors, a C-rated insurer by A.M. Best Co. Inc. that specialized in package policies for bowling alleys, tire dealers and auto dealers who sold extended warranties, wrote about $165,000 in premiums through the agency, which at the time generated about $1.5 million in premium volume.

Although Mr. Frilling says he had little trouble dealing with his clients after Proprietors failed, he says he had some rough dealings with the Ohio Insurance Department, the domiciliary liquidator.

The Ohio regulators requisitioned the agency's unearned premium during its liquidation of Proprietors, but Mr. Frilling didn't give it to them. Instead, he says he used that money to roll over his clients' policies to new insurers.

"We worked out a deal with other carriers—Commercial Union Insurance Co. and a couple others—to get binding coverage on bowling alleys and tire dealers for the couple of months left on the policies," Mr. Frilling notes. "I didn't have any of my customers lose one dime. The state of Ohio threatened to sue me, but hasn't yet."

The New Mexico guaranty fund would have covered any of his client's claims, Mr. Frilling notes, but it would not have covered the money they would have lost in unearned premium. Since two-thirds of the year had expired when Proprietors was formally liquidated, he figures that $55,000 of the premium volume placed with the insurer was unearned and would have been lost if he had turned it over.

"Technically, the Ohio Insurance Department told me that I had no liability (to policyholders) and that the unearned premium was just lost. But that leaves me, as an agent, with a credibility gap, and I felt a moral obligation to my insureds because they paid their premiums in good faith."

Mr. Frilling says he cleared all his actions, including his refusal to turn over unearned premium, with the New Mexico Insurance Department, which he says was very helpful.

He first called the New Mexico department when he heard rumors about Proprietors' financial condition in January 1981, about seven months before the insurer was declared insolvent. He was particularly concerned because most of the renewals with the insurer were coming up.

However, the department, as well as other sources Mr. Frilling checked, said that Proprietors was experiencing some financial disruption, but that it was nothing serious.

"I didn't have any complaints or problems with the service they were giving me," he notes, adding that he did not check published ratings of Proprietors' financial condition.

When the insolvency finally occurred, Mr. Frilling says he was aware that the liquidator could have sued him to recover the unearned premium, but he says it was worth the risk to be sure his clients were treated fairly.

Mr. Frilling and his partner, Chris Krahling, the agency's vp, then traveled the length and breadth of New Mexico to reassure clients that the agency had found new coverage for them.

Before Mr. Frilling contacted the policyholders, he says they had only received telegrams from the Ohio regulators that informed them that the insurer was insolvent and that they no longer had coverage.

Later, he says the Ohio department sent them follow-up documents, written in very technical language. Policyholders were told to fill out the forms, have them notarized and return them if they wanted to claim their unearned premium.

However, most of the policyholders were unable to decipher the legalese on the forms, Mr. Frilling says, adding that they only confused and worried the insureds. Requiring the forms to be notarized only made them more intimidating to the policyholders, he claims.

"It was ridiculous that these forms were sent to the insureds—they should have been sent to us," he says. "And there was nothing that really needed to be notarized."

Mr. Frilling says he found his clients worried—but not panicky—about Proprietors' demise.

"They were wondering what exactly was happening, but I told them that I was taking care of everything, and they really appreciated that. I had their coverage in a binder at the time," he says.

None of the policyholders questioned the agency's wisdom in placing coverage with Proprietors, though Mr. Frilling admits he was surprised at the lack of criticism.

"I thought they would say something, but perhaps one of the reasons they didn't is because Proprietors was endorsed by the Bowling Proprietors Assn.," Mr. Frilling comments. He says all 41 of the affected policyholders remained clients of the agency.

Besides incurring the costs of Mr. Frilling's travel around the state, the fallout suffered by Insurance Exchange from the insolvency exacted a great deal of human effort. It kept Mr. Frilling, Mr. Krahling and their wives working 18 hours a day for four weeks, going through records and replacing coverages.

"It was a tremendous expense for us," he says. "The only good that came of it was that today I have a lot of loyal insureds who really appreciate what I did for them. At least that made me feel better about the situation.

"We don't represent any insurance companies anymore that don't have an A-plus rating from Best's—and still I can't be sure that it won't happen again."

The existing methods by which producers can glean data on insurers from regulators is sorely inadequate, Mr. Frilling says. "Regulators almost feel offended if you ask for information about an insurer."

But, he adds, "In defense of state insurance departments, I think they're underfunded and understaffed—especially in smaller states.

"I'm not really sure that there's an answer to this problem." ■

Glossary of terms used in insolvencies

Insurance has a language of its own, agents and brokers know. However, the lingo that accompanies an insurer insolvency may be unfamiliar to many producers.

Many industry analysts, citing low commercial insurance rates and high levels of reserve deficiencies, say that it's inevitable that more insurers will become financially impaired in the coming year, which will create headaches for the agents and brokers who place coverage with these markets.

To help producers understand the problems created when an insurer is declared insolvent, here is a glossary of terms used in discussing insurer's financial difficulties:

• **Ancillary state**—Any state in which an insurer does business other than its domiciliary state.

• **Cap**—The maximum amount that a state guaranty fund will pay the claimant of an insolvent insurer.

For instance, if a policyholder guaranty files a claim for $1 million with a fund that has a $250,000 cap, $750,000 of the claim would be left unpaid.

• **Cutoff date**—The deadline for filing claims with a state guaranty fund or a state liquidator. Claims filed after this period—which is as short as 30 days after the liquidation order in many states—are not honored, and policyholders have been known to press suits against agents in such cases.

• **Domiciliary state**—The state in which an insurer is chartered and which usually serves as liquidator should the company become insolvent.

• **Guaranty funds**—A fund established to pay policyholders' claims and/or unearned premium in the event of an insurer insolvency. The fund administrators assess all admitted insurers in the state to finance the fund's operations.

• **Insolvency**—Insurers declared by a court to be insolvent usually are not subject to federal bankruptcy law. Instead, its rehabilitation, receivership or liquidation is administered by a court-appointed official, most often a staff member of the state insurance department or a person designated by the department.

• **Liquidation**—The act of disbursing an insolvent insurer's assets to its creditors, including policyholders.

• **Liquidator**—The person appointed by a court to direct the liquidation of an insolvent insurer within a particular state.

• **Preference statutes**—Laws that determine the order in which creditors will be paid should an insurer be declared insolvent. Policyholders are normally the first creditors in line.

States other than the domiciliary state (which usually liquidates an insolvent insurer) often seize deposits, unearned premium held by agents and other in-state assets of an insurer. When that occurs, the ancillary state is most likely seizing assets that are also being requisitioned by the domiciliary state.

This upsets the domiciliary state's preference statute, agents point out, and can sometimes trigger a court dispute between the two states.

• **Receiver**—A court-appointed official who serves as a custodian for an impaired insurer and attempts to protect its remaining assets. In most cases, following the period of receivership, the state insurance department will petition a court for an order of liquidation against the insurer.

• **Unearned commission**—That portion of of unearned premium (see below) that an agent or broker would normally collect as part of his or her commission.

• **Unearned premium**—That portion of premium that the policyholder has paid in advance for a coverage that has not yet been provided. When an insurer is declared insolvent, agents and brokers often hold premium that would have been applied to the remainder of the policy period.

For example, a policyholder pays in advance $1,000 for a one-year policy that commences on Jan. 1. The insurer is declared insolvent on July 1. The policyholder is entitled to $500 of unearned premium —premium paid for coverage that has not yet been provided.

Many states order agents and brokers to turn over any unearned premium they hold when an insurer is declared insolvent, though producers say it would be advantageous to the policyholder if they were allowed to use the unearned premium to place new coverage or immediately refund it. ■

"Choosing Insurnet has given us the edge we need to compete today."

–Roger M. Pike, Treasurer, Kinney Pike Bell Conner, Inc.

Like most agency principals who are choosing in-house computers, Roger Pike of Rutland, VT put a lot of time into his decision to automate and chose the system that worked best for his agency –Insurnet.

"I spent three years visiting all the vendors in the market before ultimately going with Insurnet.

"I really wanted to increase my agency's efficiency by putting all policy details on the system.

"Aside from all the other benefits, such as word processing and accounting, the most important reason we chose Insurnet is its Customer Information System. CIS is probably the most advanced policy file and retrieval system on the market today.

"We needed outstanding marketing capabilities–a system that would let us write letters directly from a customer's file. With CIS, we can monitor our customer's insurance needs and find the appropriate products to meet those needs. This makes our staff more efficient and allows us to serve our customers better.

"I believe the system has helped us increase our profits without increasing our staff. Whenever our staff has had any problems, we've found Insurnet personnel to be extremely responsive in helping us iron them out.

"I recommend Insurnet to other independent agents because it provides the best support for an agency. You can do so much with the system and it grows with you. In fact, we're still finding new ways to use it.

"In today's competitive environment, it's important to have a system you can depend on and to help you compete most effectively. That's why we chose Insurnet."

Here are a few more reasons why you should consider Insurnet.

Marketing System
You can personalize mass communications directed to the markets that have the most potential. The marketing system also helps you produce profiles, automate your diary system and market business to companies.

Accounting & Financial Management System
Invoices–statements–ledger cards–aged accounts receivables–producer and broker reports–can all cause headaches and mountains of paperwork. The Insurnet system can streamline these areas for you. You can improve your productivity and concentrate on generating new business.

InsurLink™
InsurLink™ is a new software program to introduce "value added services" to Insurnet. Phase I allows you to tie your IBM Personal Computer into Insurnet and use it like other system terminals. You get twice as much use out of your PC and you expand the capabilities of your Insurnet system at the same time.

Training and Support
Insurnet offers training and responsive service and when you have a problem, you can rely on the support of your Insurnet Professional Service Rep–an important "PS" in your automation program.

For more information or a personal Insurnet demonstration, call toll-free: (800) 227-0698. In California: (800) 227-3079. Or write: Dan Carhart, Insurnet, Inc., 1900 Powell Street, Emeryville, CA 94608.

Insurnet™

Stability more important than price: ISO official

NEW YORK—Agents and brokers should thoroughly investigate insurers' financial stability before placing business with them, advises an executive with the insurance industry's advisory ratemaking organization.

"Producers should seek out stable and consistent insurers. Producers know that the premiums many companies charge are too low," says Fred R. Marcon, senior executive vp and chief operating officer of the Insurance Services Office.

"They should place their clients' business with financially sound insurers—insurers that will be around to take that business year after year," Mr. Marcon explains. "Saving your client every last dollar of premium may be less important in the long run than the solidity and consistency of your insurers.

'Producers must build solid long-term relationships with financially healthy insurance companies—the fewer, the better,' Mr. Marcon says.

"Producers must build solid long-term relationships with financially healthy insurance companies—the fewer, the better."

Mr. Marcon, though, admits that determining whether an insurer is a stable market is no easy task.

He advises producers who want to check out their insurers that they should evaluate the service they receive from them, paying special attention to how quickly claims payments are made.

"If they're stretching out their claims payments, that may indicate a cash-flow problem," he says.

"Insurers usually establish a regular pattern of claims payments, and a deviation from that pattern could indicate some disruption. Also, if an insurer that had kept its claims litigation to a minimum suddenly starts dragging claimants into court, that could mean trouble, too."

Another warning signal is if A.M. Best Co. Inc. lowers an insurer's rating, he notes.

Also, agents can ask their state regulators about insurers' complaint ratios—the number of complaints about the company received by underwriters compared with the volume of business the insurer writes in the state.

Although some states are hesitant to release information about complaints because they fear producers will yank business—and thus the last breath of life—from troubled companies, Mr. Marcon says at least two states, New York and Illinois, go so far as to publish insurers' complaint ratios.

Ratings from Best's and the National Assn. of Insurance Commissioners' Early Warning Test are also good indicators of insurers' financial stability, he adds.

Some critics charge that these reports are not totally useful since they are often soon outdated, but Mr. Marcon notes that Best's and NAIC data are the most recent available (see story, page 22A).

Producers can also check insurers' filings with the Securities and Exchange Commission and they can listen to word-of-mouth commentary, he says.

But, he advises agents not to take stock in a commonly held fallacy: that large, national insurers are more stable than smaller, regional underwriters. Mr. Marcon emphasizes that a producer cannot equate financial soundness with size.

"There are many well-managed smaller companies that offer fair, if not lower, prices," he says. "National insurers are not necessarily any safer; they can be in the same precarious position as smaller companies."

Since these smaller companies often concentrate their business in a particular specialty or geographic area, they can minimize their expenses. Many agents have traditionally been attracted to these underwriters because of lower costs and the possibility of better service.

Besides looking for problems, agents can look for insurer strengths, Mr. Marcon adds. For instance, one sign of stability is if an insurer has recently increased its loss reserves, he notes.

A recent ISO study concluded that the industry's loss reserves were more than 10% lower than they should have been at the end of 1982, Mr. Marcon says. Although the final 1983 results have not yet been tabulated, Mr. Marcon says that reserves were not adequately fortified last year.

With continuing questions about the adequacy of reserves and the effect of continued commercial lines rate-cutting, will more insurers become insolvent in 1984 than in previous years?

"I don't know," Mr. Marcon replies. "But I'm concerned about inadequate pricing in commercial lines. It may contribute to more insolvencies."

To show how relatively low commercial insurance rates are, Mr. Marcon compared ISO advisory rate increases with the rates that insurers actually charge.

From 1980 to 1983, for instance, ISO advised boosts of 47% for commercial auto coverage, 37% for commercial multiperil and 18% for commercial liability. However, commercial auto rates have risen just 2%, commercial multiperil rates have risen just 5% and liability rates have declined 13% in the same period.

"That kind of pricing makes further insolvencies very possible," he comments. And, he doesn't hold much hope for change in the immediate future.

"I'd be happy if those rumors about a hardening market come true, but I just don't see it coming soon. You might see a turnaround, though, by the fourth quarter of 1984 or the first quarter of 1985."

Surprisingly enough, fewer insurers were declared insolvent in 1983 than in other years, according to statistics cited by Mr. Marcon and compiled by the National Committee on Insurance Guaranty Funds. The committee reported two insolvencies in 1983, compared with an annual average of 6.2 from 1969 to 1982.

—By Pamela DeFiglio

Agents among victims of insurer's insolvency

The following case study was prepared by the National Assn. of Professional Insurance Agents for the Rehabilitators and Liquidators Task Force of the National Assn. of Insurance Commissioners. It documents how an insurer insolvency and resulting actions by regulators can affect agents and brokers.

THE HONORABLE Insurance Co. (HIC), domiciled in the state of Red, is licensed in 25 states including Red and is an approved surplus lines insurer in all other states. During the early part of 1982, HIC appeared to be experiencing some financial difficulty.

Bob Jones is a principal of the State of Red Insurance Agency, and Mary Smith is a principal of ERA Brokers Inc., which is located in the state of Green. HIC is not licensed in Ms. Smith's state. Mr. Jones and Ms. Smith met at an agents and brokers convention during August 1983 and discussed problems they had recently experienced with HIC's claims handling and return premium practices.

Mr. Jones and Ms. Smith agreed that HIC, which is more than 60 years old, had an exemplary record of service until 1982.

About five years ago, HIC expanded its markets substantially. Mr. Jones and Ms. Smith believed that this expansion led to financial disaster for HIC. They each noted that during January 1982, HIC's services seemed to deteriorate. Claims payments and return premium refunds often were delayed.

Mr. Jones and Ms. Smith became especially concerned by August 1983 because claims payments had been running as much as 90 days late for several months. Ms. Smith even covered some claims out of her agency account.

Both Mr. Jones and Ms. Smith discussed this problem on numerous occasions with their underwriter at HIC. They were told that HIC had installed new computers to handle its expanded activities more efficiently and that this was the cause of the problems.

HIC is Mr. Jones' primary source of business and, for a time, he was satisfied with the excuse for the delay. He did not believe that HIC was having financial difficulties, but after several months of deteriorating service from HIC, he began to move the book of business to improve service for his clients. He succeeded in moving the prime business, but was unable to transfer the undesirable risks.

Ms. Smith, the broker, was concerned about her exposure to liability (under the state of Green's insurance code) for placing business with a company that could be on the verge of insolvency.

Two months earlier, in June 1983, she had asked the deputy commissioner of the Red Insurance Department (since Red was HIC's domicile) whether he knew of any problems at HIC. The deputy commissioner provided no substantive response; he merely implied that he had heard of recent inquiries about HIC's claims settlement practices, but that the department had no pending actions against HIC.

Ms. Smith also checked the most recent Best's report, which gave HIC an A rating. She also called three associations to which she belonged. Two associations said they had heard nothing about HIC, but the president of Surplus Agents Assn. (SAA) said, "The word is out on HIC. It expanded too fast and, off the record, it seems to me that it is in financial trouble."

Neither Mr. Jones nor Ms. Smith secured the IRIS (early warning test) results for HIC, which were filed in states where HIC was licensed.

As a result of this information, Ms. Smith, during the latter part of June, began placing business she had been producing to HIC with her other companies. Much of the business she had placed with HIC involved medical malpractice coverage. Knowing that this was long-tail business, she wanted assurance that it was secure. If HIC were declared insolvent, her clients would confront a cutoff date for contingent liabilities and would be exposed to a situation where their liabilities might not be covered.

The reduction in Ms. Smith's

Continued on next page

Insolvency affects agents, too

Continued from previous page

placements at HIC prompted an HIC underwriter to call. She told the underwriter that an SAA officer had suggested that HIC's financial condition was precarious. The underwriter assured her that these rumors were untrue.

The following day, HIC's general counsel called the SAA and demanded a public retraction and that it publish a positive report on HIC in its next journal.

In June, at the same time Ms. Smith had called the Red Insurance Department, the department received several complaints from HIC insureds and inquiries from HIC producers. The examiner's office, which is understaffed, commenced a review of HIC.

However, none of this was reported to Ms. Smith. She later learned that at the time of her inquiry, HIC had the second-highest complaint ratio in the state.

The examiner's review revealed that HIC was grossly underreserved and could be in serious financial condition. On July 1, the department issued an administrative letter to HIC demanding that it increase its reserves. However, compliance would have caused HIC to suffer an impairment of capital and surplus.

On Aug. 10, the commissioner requested an informal meeting with HIC's chairman, president and general counsel to discuss remedying the impairment by increasing capital and surplus without placing HIC in an insolvent condition.

As an independent company, HIC had no immediate source of new capital, and HIC and the department were unable to reach a settlement. HIC disputed the department's position on reserves and capital. The department gave HIC until Sept. 30 to comply.

The department retained outside auditors to review HIC's books and records to ascertain whether an alternative to receivership was possible. The auditors reached a negative conclusion, and on Oct. 5, 1983, the department petitioned the court for an order placing HIC in receivership or for an order of rehabilitation, which was granted Oct. 19.

Throughout this entire period, the department was anxious not to take any action that would further impair HIC. Therefore, as complaints from policyholders and agents accelerated, the department believed it inappropriate to inform complainants of its own actions.

However, one conscientious regulator in the department's complaint bureau advised several policyholders and brokers that HIC was experiencing financial difficulty and was under department scrutiny. This, of course, resulted in an increased transfer of business from HIC to other insurers.

The department undertook a diligent effort to rehabilitate HIC. In its efforts to do so, the department urged agents to renew risks, especially good ones, with HIC.

Agents and brokers were torn between their duties to their clients and the importance of cooperating with the Insurance Department. The agents' and brokers' legal duties to clients were sufficiently clear for them to conclude they could not continue to place risks with HIC.

As a result, the rehabilitation efforts failed. On Dec. 16, the department petitioned the court for a liquidation order, which was granted Dec. 26. Tom Smart was appointed special deputy liquidator.

Six days earlier, on Dec. 20, the insurance commissioner of the state of Green commenced an ancillary proceeding against HIC. The insurer had deposited funds in a general account, in accordance with the state's surplus lines laws. The commissioner secured an order of attachment against the deposit and against earned and unearned premium held by Green's surplus lines licensees. The Green Insurance Department also demanded payment of unearned premium from agents in that state.

However, on Dec. 28, Mr. Smart, the deputy liquidator for Red, sent notices to all agents and brokers demanding that they remit earned and unearned premium, as well as unearned commissions, to the state of Red as domiciliary liquidator.

The liquidator commenced actions against both Mr. Jones and Ms. Smith to recover unearned premium that they had either taken as a set-off against commissions due from HIC or which they had used to replace coverage for their customers before the order of liquidation was entered.

Continued on facing page

Continued from facing page

The state of Red's guaranty fund board also met Dec. 28 to determine what action it should take to assure payment of all outstanding claims. To complicate an already difficult situation, the board of the guaranty fund in state of Yellow, another state in which HIC was licensed, met Dec. 29 to determine what action it should take to guarantee payment of all outstanding claims against HIC. As of Dec. 28, agents in Yellow held $200,000 in earned premium and $100,000 in unearned premium. HIC owns a regional office in Yellow that is worth $2 million. In addition, HIC financed 12 agents in Yellow and is owed $500,000 by these agents.

The guaranty fund of Yellow said it would assert priority over HIC's assets located in Yellow.

HIC's records were in disarray, making it impossible for the liquidator to marshal assets and determine HIC's liabilities. The only reliable records were those maintained by the agents and brokers. They devoted considerable time in assisting the liquidator in organizing HIC's accounts.

Unfortunately, these were unproductive hours for the agents and brokers because they were not compensated for their efforts.

But that wasn't all of the problem for agents. In June 1983, after the president of the SAA had advised Ms. Smith that HIC was experiencing financial difficulty and after SAA declined to publish any retraction, HIC's general counsel commenced an action against the SAA alleging tortious interference with contractual relations and defamation. Ms. Smith later was joined as a defendant when it was learned that Ms. Smith had repeated the SAA's opinion to colleagues.

HIC's suit against Ms. Smith was merely the watershed for legal difficulties that she was to experience.

Three subproducers, each located in different states, commenced actions seeking indemnification from Ms. Smith's brokerage after they were sued by policyholders whose claims were not paid by HIC. The amount due these policyholders in some instances exceeded the amount payable under their state's guaranty funds. In other instances, policyholders were foreclosed from collecting on their claims because of cutoff dates for filing claims, and some policyholders in states where HIC was not licensed had no access to their state's guaranty fund.

In addition, four of Ms. Smith's clients sued to recover return premium due from HIC and two sued to recover legitimate losses that were not paid by HIC.

Ms. Smith's clients alleged she was negligent and had breached her contractual duties in failing to determine HIC's financial condition before placing coverage. They also alleged she knew that HIC was insolvent when she placed their coverage.

Mr. Jones was sued on similar grounds.

Mr. Jones and Ms. Smith contacted associations to which they belong to seek advice on how to deal with their respective problems. They were advised by each that the associations are working with NAIC task forces and committees to develop solutions to the problems confronting agents and brokers in the face of insurance company insolvencies. ■

Regulators could help troubled agents

The intent of the National Assn. of Professional Insurance Agents' case study was to establish a framework for discussion between regulators and producers on the problems encountered by agents and brokers when an insurer is declared insolvent.

Some of the issues that the PIA says are raised by the case study include:

- The duties and liabilities of agents and brokers are governed by legislation and principles established at common law. State insurance laws and common law principles distinguish the obligations of company agents, independent agents and brokers.

  Regulators generally fail to recognize these distinctions and the conflict faced by agents and brokers when demands of regulators may be inconsistent with duties imposed at common law upon agents and brokers.

  Conduct, such as the transfer of business or use of unearned premium to purchase other coverage just before a company is declared insolvent, is objectionable to many regulators. But producers may legitimately perceive that they have a common law duty to protect their clients.

- Agents and brokers often are aware of complaints regarding an insurer's market conduct before regulators are. Poor servicing of claims and processing of documents often provide early warning that an insurer is experiencing financial difficulties. However, written or oral publication of an insurer's market conduct problems by agents and brokers exposes them to liability for libel, defamation and tortious interference with contractual relations.

- Agents, brokers and regulators risk exposure to liability for oral or written publication concerning the solvency of companies. This impairs cooperation and a flow of information that would protect all policyholders.

- Agents and brokers have difficulty with conflicting domiciliary and ancillary rehabilitation and liquidation statutes regarding unearned premium. State insurance regulators should be more sensitive to this issue when making demands upon producers that could expose them to action by other state regulators.

- Insurance departments and guaranty associations frequently rely upon agents and brokers to supply necessary accounting records of premium and losses attributable to insolvent companies, yet agents and brokers are not compensated for providing these services, which they are under no legal obligation to offer. Their sole duty is to supply copies of records; they are not required to assist in reconciling accounts. ■

Students learn insurance sales skills

By PAMELA DeFIGLIO

OAKLAND, Calif.—Ambitious Oakland high school students are selling insurance at lunchtime and after school.

They're part of the Project InVEST program at Skyline High School, in which students study insurance and then set up their own mock insurance agencies to sell personal lines "policies" to fellow students, school administrators and family members.

Of course, the students aren't selling *real* policies, but the mock coverages they peddle and their sales techniques are as realistic as possible.

For instance, the Project InVEST classroom is modeled like a business environment instead of a schoolroom. Students occupy their own two-person "agencies" inside the classroom, complete with a telephone and typewriter.

The student teams get a feel for what it's like to work for an insurance company, too, by taking turns working at the headquarters of an imaginary insurer. The insurer, which students pretend is in Hartford, Conn., is actually located in a room next door to the classroom that contains the agency offices.

Project InVEST began in 1970 at Hollywood High School in Southern California as a joint project by the Los Angeles Unified School District and the Los Angeles Independent Insurance Agents & Brokers Assn.

In 1972, Skyline High started the nation's second InVEST program. Numerous others have been initiated since in 27 states, including Alabama, Delaware, Maine, Maryland, Florida, Mississippi, New Hampshire, New York, North Carolina, Texas and Wisconsin.

The Independent Insurance Agents of America adopted InVEST as a national service project in 1972 and administered the program until 1978, when The College of Insurance in New York took over its administration.

The Skyline High program got off the ground with the help of the Oakland Assn. of Insurance Agents, an agents association that is also licensed as an insurance agency to handle the insurance needs of area public entities.

Ed Baldwin, president of the OAIA and an account executive for Dealey, Renton & Associates in Oakland, explains that the 80-agency, 500-member association wanted to give something to the city in return for the public business it received.

The OAIA approached the Oakland Board of Education with the idea of starting a Project InVEST program and Larry Mattal, a business teacher at Skyline High School, agreed to try teaching the class.

He's been doing it ever since.

More than 400 students have completed the Skyline High program, and many have gone on to careers in insurance.

Mr. Mattal currently teaches an introductory class for juniors and two classes for seniors.

"The classroom is set up like an office to give students a feeling of working in a business environment," Mr. Mattal explains. "There are two students to an agency. But they can't sit there for nothing. They have to earn money.

"We loan them $1,500 from the (imaginary) bank to get started. Then they must pay for rent, electricity, phones and supplies. They also have to mail the insurance applications to the insurer in Hartford."

When the students open their agencies, they must fill out a loan application from the program's bank, although Mr. Mattal says the bank will grant the loans in all cases.

"Their credit rating is OK until they go bankrupt," he says, adding that it's difficult for students to go broke in the class, though a few have managed.

Mr. Mattal

The students must repay their bank loans on a monthly basis at a declining rate of interest. One student acts as the banker, a role that is held for the entire year, unlike the other roles in the program, which rotate regularly.

When students sell automobile or homeowners policies to policyholders, the policyholders must sign a simulated check for the proper amount. This check then goes through the bank, and student agents earn a 15% commission on the policies they sell.

Selling a policy is more difficult than running into the cafeteria and signing up all your friends, however. Mr. Mattal requires students to spend at least 25 minutes with their potential customers, explaining what the policy covers and helping fill out applications.

Most of the policies sold are automobile coverages, Mr. Mattal explains. High school students, who are just learning to drive, are interested in automobile insurance, and the members of the insurance class teach their student clients a little bit about the insurance market while they're learning how to sell personal lines.

The student producers bear the responsibility for computing how many policies they have to sell to make a profit.

In case the student salesperson makes a mistake on an application or in the premium to be charged, as they often do, Mr. Mattal has orchestrated a system of checks and balances. He pits class against class to see who can write the most insurance, and allows underwriters in one class to review the other class's applications.

"Because the two (senior) classes are competing, the underwriters check the other class's applications out very thoroughly. Sometimes there's a feeling of antagonism," Mr. Mattal says.

There are other safeguards. One student in each class is assigned to the role of executive secretary, and must log in every document that comes into the office, so students can't claim a document was lost.

Selling personal lines isn't the only skill that students learn. While one partner of the two-person agency is out selling, the other partner works in the mock insurer's office. They switch periodically so each student can get experience in both agency and insurer work.

Mr. Mattal rotates students so they can try all the positions in the insurer's office, including switchboard receptionist; executive

Continued on facing page

Continued from facing page

secretary (who is also in charge of mail and supplies); underwriter; policy writer; payroll clerk (who must learn about tax deductions in order to process payroll), and accountant.

He also appoints two students to positions as supply company president and banker, and they hold these positions for the duration of the school year.

And every year, he picks six promising students out of his junior class and appoints them officers for the two advanced senior classes, each of which has an an executive vp, an office manager and a personnel manager. The two executive vps spend part of the summer before their senior year working at local insurers and agencies to get "real world" experience. Come September, each of them is responsible for helping teach one of the senior classes, though Mr. Mattal stands by to correct them.

For instance, during one afternoon class, Steve Grevious, one of the executive vps, was explaining how to use an Insurance Services Office rating manual, teaching students how to rate insurance according to types of cars and the areas in which clients live.

"The program's very comparable to a real insurance agency," said Mr. Grevious. "Nothing's too different, except there's no computers, and we're getting those soon.

"Kids come in, and they see it's a real business setup—it's clean, neat and orderly looking—and they think, 'If I can make it here, it could be good experience for me.' I've known whole families of kids to come through here and then go on to business."

Besides teaching, the executive vps must review all policy applications the students complete to make sure they are correctly filled out.

A second senior serves as personnel director for the class. For instance, class members who will be absent from school for a day must call the personnel director.

The personnel director's other duties include making sure that the students are actively selling—not loafing—and that the agencies' bills are paid on time, their files are up-to-date, their policy applications are submitted properly and their bank statements are reconciled.

The third student officer, the office manager, is in charge of the insurance company office. At the beginning of the year, the office manager teaches students the various jobs at the insurer, but as these positions rotate, each student must teach the job to the successor. The office manager observes how well each student teaches and assigns a grade accordingly.

The executive vp, personnel director and Mr. Mattal also grade each student independently and those grades are averaged to reach a final grade.

One student who got glowing grades in Project InVEST and then went on to work in the industry was John Protopappas. He graduated from Skyline High School in 1976 after serving as an executive vp in his senior year.

When he entered the class, he said, he really had no career plans, and Project InVEST showed him concrete, practical aspects of a career opportunity.

After high school, Mr. Protopappas attended the University of California at Berkeley, majoring in economics, then worked in an insurance agency that specialized in financial services. After about a year, he opened his own agency, Private Ledger Financial Services, which has two offices in California, and is about to open a third.

"He credits all that he's doing today to Project InVEST," Mr. Mattal says.

Ron Loman, another Skyline High graduate who took the Project InVEST class and is now an insurance agent in Emeryville, Calif., also has high praise.

"The ratings procedures and submissions to companies are all just like they are in the industry. The students who take this program and go to work in the industry never pick up the bad habits that many new employees pick up."

Nicholas Caputi, Skyline High's principal, also is enthusiastic about Project InVEST.

"It's not a note-taking course. The students are actually involved and doing things," he says. "When they sell you insurance, they treat you like the most important person in the world, and give you coffee and cookies afterward."

Although a high percentage of Skyline graduates go on to college, Mr. Mattal feels they can enter the insurance industry even if they don't elect higher education. "With the knowledge and training they get, these students are employable at the end of the year," he said. ■

It took 18 months to settle injury liability in the Hyatt skywalk case...

...and only 18 seconds to look it up in BI's Editorial Index.

With the BI Editorial Index, it takes just seconds to research events and issues that unfold over months, or even years. When you need to pinpoint specific articles in BI that will give you crucial facts — to guide you in your decision-making or, simply, to satisfy your curiosity — you'll find exactly what you need *quickly*.

The Index conveniently lists information by subject, persons quoted and companies mentioned.

All the **Business Insurance** news and features on a host of topics are catalogued in this indispensable Editorial Index: risk management, employee benefits, property/casualty, legislation, financial developments, market trends, losses and claims settlements, and much more.

You'll never again spend valuable time wading through a pile of back copies to find what you're after!

The 1983 Annual Editorial Index is available now ... and there's a copy that belongs in *your* office. Or in *your* corporate library. And you can still grab up one of a limited number of copies of the 1981 and 1982 Annual Indexes. These handsomely bound volumes sell for $100 each.

For you and everyone in your corporation who must keep abreast of the constant changes in the world of commercial insurance and employee benefits, the complete 1984 Index service is a *must*. The 1984 Editorial Index service provides three quarterly reports, followed by a hardcover cumulative Annual Edition. The cost for the complete service is only $100.

And to make certain that you'll have *continuous* access to information, your Index service allows you to use the Crain Information Centers in New York and Chicago between publication of quarterly reports.

Send in the coupon at the right *now* and make sure that vital information will be within your reach whenever you need it.

"Our past . . . *fast!*"

business insurance

A Publication of Crain Communications Inc.

New York: 220 East 42nd St., NY 10017 (212) 210-0133
Chicago: 740 Rush St., IL 60611 (312) 649-5275
Los Angeles: 6404 Wilshire Blvd., CA 90048 (213) 651-3710

Business Insurance Editorial Index BI 2/27
220 East 42nd Street, New York, NY 10017

Please send me the following Index(es):

Annual Index Only: ☐ 1981 ☐ 1982 ☐ 1983
☐ 1984 Full Index Service
@ $100 each. Foreign postage additional; will be billed.

PAYMENT MUST ACCOMPANY ORDER

☐ Visa ☐ MasterCard ☐ Check Enclosed

Account #_____ Exp. Date_____

Signature _____

Name_____ Title_____

Company_____

Address_____

City_____ State_____ Zip_____

Phone _____

products & services

Health insurer introduces employee self-audit plan

Employees' verifications of their own hospital bills are part of the Self-Hospital Audit Reward Program introduced by American Hardware Mutual Insurance Co.

Employees with American Hardware group health coverage are encouraged to review their hospital bills and verify service and supply charges. Any errors found are reported to the hospital and a new bill is requested.

The insurer will reimburse the patient for 50% of any savings found through a self-audit, with a limit of $250 per hospital stay.

Other cost-saving features of American Hardware's group health insurance program include:

- Waiving deductibles for outpatient surgery.
- Fully paid second surgical opinions.

For more information, contact James E. Danielson, Vp-Group Department, American Hardware Mutual Insurance Co., 3033 Excelsior Blvd., Minneapolis, Minn. 55416; 612-920-1400.

Contractors policy

A new labor reimbursement coverage is part of CNA Insurance Cos.' Encompass policy for air conditioning contractors.

The insurance program, endorsed by the Air Conditioning Contractors of America, provides labor reimbursement for normal and customary labor charges incurred for the removal and replacement of a defective heating and cooling product if a covered contractor originally installed it.

Property, general liability, commercial auto, workers compensation and optional umbrella coverage also are offered.

The comprehensive property insurance covers buildings, contents, improvements, crime, inland marine and fleet exposures.

Comprehensive liability covers on-premises and completed operations as well as product liability.

Limits for the comprehensive property and liability coverage can be written to policyholder specifications. Umbrella limits range up to $5 million.

The program, available in the continental United States, is underwritten by the American Casualty Co. and Transportation Insurance Co., both CNA affiliates.

For more information, contact Roger Meyer, CNA Insurance Cos., CNA Plaza, Chicago, Ill. 60685; 312-822-7137.

Oil lease policy

Errors and omissions coverage for independent oil landmen and lease brokers is now available from Landmark Management Corp., a managing general agency.

The policy is designed specifically for oil landmen who search for land titles and purchase oil leases on behalf of clients.

Each named insured can be covered for up to $500,000.

The program is underwritten by Guaranty National Insurance Co. and is available through independent insurance agents nationwide.

For details, contact Charles C. Caldwell, Landmark Management Corp., Box 676, Oklahoma City, Okla. 73101; 405-521-9911.

Golden parachutes

NAS Insurance Services is offering legal expense insurance for corporate executives with "golden parachute" employment contracts.

The coverage provides reimbursement for legal expenses to executives who contest denials of golden parachute benefits following a takeover of their company.

Golden parachutes provide executives with pre-agreed benefits if they lose their jobs, generally in an acquisition or takeover.

The insurance, underwritten by syndicates at Lloyd's of London, is available on a group basis and to individual employees. Limits up to $250,000 are available, with an optional 5% or 10% deductible.

For more information, contact NAS Insurance Services, 225 Santa Monica Blvd., Santa Monica, Calif. 213-451-5988. ■

datebook

MARCH 27-30. 1984 Risk Management and Insurance conference in Cambridge, England, sponsored by the Assn. of Insurance & Risk Managers in Industry & Commerce; $492 plus value-added tax; discounts for AIRMIC, AEAI and RIMS members and for more than one registant from the same organization. AIRMIC, Plantation House, 31/35 Fenchurch St., London EC3M 7DX.

MARCH 28. One-Day Health Care Cost Containment seminar in Portland, Ore., sponsored by the International Foundation of Employee Benefit Plans; $140 for members; $165 for non-members. Also **March 29** in Los Angeles; **June 6** in St. Paul, Minn.; **June 7** in Rosemont, Ill.; **Sept. 6** in Boston; **Sept. 7** in Tarrytown, N.Y.; **Sept. 17** in Dearborn, Mich.; **Sept. 18** in Cleveland; and **Sept. 19** in St. Louis. IFEBP, 18700 W. Bluemound Road, P.O. Box 69, Brookfield, Wis. 53005; 414-786-6700.

MARCH 28-30. Sixth Annual Energy Security conference in Denver, sponsored by the American Society for Industrial Security; $530 for members; $395 for non-members. Lewis Schneider, American Society for Industrial Security, 1655 N. Fort Myer Drive, Suite 1200, Arlington, Va. 22209; 703-522-5800.

MARCH 29-30. Introduction to Communications Safety seminar in New York, sponsored by the Computer Security Institute; $545 for members; $575 for non-members; group discounts available. Also **June 21-22** in Atlanta. Computer Security Institute Educational Resource Center, Department ERC, 43 Boston Post Road, Northborough, Mass. 01532; 617-845-5050.

MARCH 30. Right to Know: Illinois Toxic Substances Disclosure Act of 1983 conference in Chicago, sponsored by the Illinois State Chamber of Commerce; $80 for members $120 for non-members. Also **April 10** in Chicago, **April 11** in Springfield, Ill. Illinois State Chamber of Commerce, Center for Business Management, 20 N. Wacker Drive, Chicago, Ill. 60606; 312-372-7373.

APRIL 1-6. Workers' Compensation college in Tempe, Ariz., sponsored by the International Assn. of Industrial Accident & Insurance Boards & Commissions; $300 for members; $390 for non-members. J.T. Noblin, International Assn. of Industrial Accident & Insurance Boards and Commissions, P.O. Box 79109, Jackson, Miss. 39236; 601-366-4582.

APRIL 1-6. 22nd Annual Risk & Insurance Management Society conference in New York; $520 for members; $620 for non-members. RIMS Conference Department, 205 E. 42nd St., New York, N.Y. 10017; 212-286-9292.

APRIL 2-3. Industrial Hygiene and Safety Applications of Microcomputers course in Los Angeles, sponsored by the University of Southern California; $375. University of Southern California, Institute of Safety and Systems Management, Office of Extension and In-Service Programs, Los Angeles, Calif. 90089; 213-743-6523/6524.

APRIL 3. Surety Claims '84, Contract Bond Claims—"The Options" conference in Chicago, sponsored by CMA Consulting Group; $295. Arlene D. Brower, CMA Consulting Group, 170 E Hanover Ave., Box 2287R, Morristown, N.J. 07960; 201-267-7171.

APRIL 5-6. 14th Annual Employee Benefits institute in New York, sponsored by the Practising Law Institute; $350. Nancy B. Hinman, Practising Law Institute, 810 Seventh Ave., New York, N.Y. 10019; 212-765-5700.

APRIL 5-7. Insurance Consultants Society Spring Educational conference in New York; $75. Barron S. Wall, P.O. Box 2326, South Hackensack, N.J. 07606; 201-343-8833.

APRIL 6. New Approaches to Increasing the Profitability of Your Offshore Insurance Company conference in New York, sponsored by Executive Enterprises; $495. Executive Enterprises, 33 W. 60th St., New York, N.Y. 10023; 212-489-2680.

APRIL 9-11. Planning an EDP Disaster Recovery Program seminar in Chicago, sponsored by the Computer Security Institute; $750 for members; $795 for non-members; group discounts available. Also **June 18-20** in Atlanta. Computer Security Institute Educational Resource Center, Department ERC, 43 Boston Post Road, Northborough, Mass. 01532; 617-845-5050.

APRIL 9-12. Inspector Training seminar in Houston, sponsored by the International Safety Academy; $490. International Safety Academy, 1600 Arch St., P.O. Box 8527, Philadelphia, Pa. 19101; 1-800-231-3147 or 215-241-5800.

APRIL 9-12. Seventh Annual Conference on Prevention, Behavior, Cleanup of Spills and Waste Sites sponsored by the Bureau of Explosives, the Chemical Manufacturers Assn., the U.S. Coast Guard and the U.S. Environmental Protection Agency; $200; $150 for early registration. 1984 Hazardous Material Spills Conference, 1629 K St. N.W., Suite 700, Washington, D.C. 20006; 202-887-1209.

APRIL 9-13. Advanced Instruction in Retirement Plans for Bank Trust Personnel seminar in Winston-Salem, N.C., sponsored by Booke & Co.; $775. Also **Sept. 24-28** in Winston-Salem. Booke & Co., P.O. Box 66, Winston-Salem, N.C. 27102; 919-748-1120.

APRIL 9-13. Loss Control Management seminar in Atlanta, sponsored by the International Loss Control Institute; $625. Richard Jump, International Loss Control Institute, P.O. Box 345, Loganville, Ga. 30249; 800-544-6001; 404-466-6001.

APRIL 10. Public Employees workshop in St. Paul, Minn., sponsored by the International Foundation of Employee Benefit Plans; $140 for members; $165 for non-members. Jordan Fox, IFEBP, P.O. Box 69, Brookfield, Wis. 53005; 414-786-6700.

APRIL 12-13. 1984 National Workers Compensation seminar in Atlantic City, N.J., sponsored by Workers' Compensation Monthly; $195. Workers' Compensation Monthly, Box 829, East Falmouth, Mass. 02536.

APRIL 12-14. 1984 Employee Benefits Communications institute in Miami, sponsored by the International Foundation of Employee Benefit Plans; $420 for members; $495 for non-members. IFEBP, 18700 W. Bluemound Road, P.O. Box 69, Brookfield, Wis. 53005; 414-786-6700.

APRIL 16-17. 10th Annual Public Utilities workshop in Rosemont, Ill., sponsored by the American Society for Industrial Security; $270 for members; $360 for non-members. Lewis C. Schneider, ASIS, 1655 N. Fort Myer Drive, Suite 1200, Arlington, Va. 22209; 703-522-5800.

APRIL 18-20. End Crisis Management: Designing and Managing an In-House Retirement Planning Program workshop in St. Louis, sponsored by Retirement Advisors; $425. Discounts available for early registration. Also **May 16-18** in New York; **June 20-22** in Chicago; **Oct. 17-19** in Ft. Lauderdale; **Nov. 28-30** in Dallas. Miriam Nacmanie, Retirement Advisors, 919 Third Ave., New York, N.Y. 10022; 212-421-2400.

APRIL 23-24. Captives: Making Optimum Use of the International Risk Management Tool seminar in New York, sponsored by the World Trade Institute; $570; discounts for subsequent registrants. World Trade Institute, One World Trade Center, 55W, New York, N.Y. 10048; 212-466-3162.

APRIL 24-25. 54th Annual Michigan Safety conference in Lansing, Mich., sponsored by the Michigan Safety Conference; $11 for one day, $16 for both days before April 14; $13 for one day, $18 for both days thereafter. John Sweeney, Michigan Safety Conference Headquarters, 3338 Christine Drive, Lansing, Mich. 48910; 517-882-3225.

APRIL 24-25. Managing Risks in the Electronic Data Processing Environment conference in New York, sponsored by the Institute for International Research; $750; group discounts available. Institute for International Research, 310 Madison Ave., Suite 1105, New York, N.Y. 10017; 212-883-1770.

APRIL 25-26. Physical Security: Technology and Practice seminar in New York, sponsored by the American Society for Industrial Security; $295 for members; $385 for non-members. Lewis Schneider, ASIS, 1655 N. Fort Myer Drive, Suite 1200, Arlington, Va. 22209; 703-522-5800.

APRIL 29-30. Public Employees conference in San Francisco, sponsored by the International Foundation of Employee Benefit Plans; $400 for members; $495 for non-members. IFEBP, P.O. Box 69, Brookfield, Wis. 53005; 414-786-6700.

APRIL 29-MAY 2. Third Annual Employee Benefits symposium in Hershey, Pa., sponsored by the International Society of Certified Employee Benefit Specialists; $450 for members; $525 for persons holding CEBS designation. International Society of Certified Employee Benefit Specialists, P.O. Box 209, Brookfield, Wis. 53005; 414-786-8771.

APRIL 30. Using the NIOSH Guide to Manual Lifting seminar in Philadelphia, sponsored by the International Safety Academy; $145. International Safety Academy, 1600 Arch St., P.O. Box 8527, Philadelphia, Pa. 19101; 800-231-3147 or 215-241-5800.

APRIL 30-MAY 4. Assets Protection II—Practical Applications course in Boston, sponsored by the American Society for Industrial Security; $650 for members; $695 for non-members. Susan Melnicove, American Society for Industrial Security, 1655 N. Fort Myer Drive, Suite 1200, Arlington, Va. 22209; 703-522-5800.

MAY 1-4. Risk Financing conference in Dallas, sponsored by International Risk Management Institute; $575 for three days; $450 for two days; $195 for one day. International Risk Management Institute, 10300 N. Central Expressway, Building III, Suite 208, Dallas, Texas 75231; 214-363-9656.

MAY 2. Action on Health Care Cost Management seminar in Philadelphia, sponsored by Martin E. Segal Co.; free. Mary L. Feldman, Martin E. Segal Co., 730 Fifth Ave., New York, N.Y. 10019; 212-586-5600, ext. 315.

MAY 3-4. EDP Physical Security seminar in New York, sponsored by the Computer Security Institute; $545 for members; $575 for non-members; group discounts available. Computer Security Institute Educational Resource Center, Department ERC, 43 Boston Post Road, Northborough, Mass. 01532; 617-845-5050.

MAY 3-4. Legal Aspects of Occupational Safety and Health course in Los Angeles, sponsored by the University of Southern California; $375. University of Southern California, Institute of Safety and Systems Management, Office of Extension and In-Service Programs, Los Angeles, Calif. 90089; 213-743-6523/6524.

MAY 3-5. Radiation Safety Officers' workshop and refresher course in Banff, Alberta, for graduates of five-day RSO training program, sponsored by Applied Health Physics; $550. Also **May 10-12** in Washington. Robert Gallaghar, Applied Health Physics, 2986 Industrial Blvd., Box 197, Bethel Park, Pa. 15102; 412-563-2242.

MAY 6-9. Aviation Insurance Assn. annual convention in Nashville, Tenn.; $75 for members; $250 for non-members. John Leigh, Aviation Insurance Assn., Airport 17, Penthouse, 377 Route 17, Hasbrouck Heights, N.J. 07604; 201-353-1400.

MAY 6-9. The Employee Benefits Institute: Executive Program for Human Resources Managers in Waltham, Mass., sponsored by Brandeis University; $850. Nan Adams, Heller Graduate School, Brandeis University, Waltham, Mass. 02254; 617-647-2925.

MAY 7-11. Recognition of Occupational Health Hazards course in Los Angeles, sponsored by the University of Southern California; $650. University of Southern California, Office of Extension and In-Service Programs, Institute of Safety and Systems Management, Los Angeles, Calif. 90089.

MAY 9. Corporate One-Day Health Cost Containment seminar in Birmingham, Ala., sponsored by the International Foundation of Employee Benefit Plans; $500 for members; $575 for non-members. IFEBP, 18700 W. Bluemound Road, P.O. Box 69, Brookfield, Wis. 53005; 414-786-6700.

MAY 9-11. Fundamentals of Insurance course in Boise, Idaho, sponsored by the Risk & Insurance Management Society; $445 for members; $545 for non-members. Claudia Shnider, RIMS Continuing Education Program, 205 E. 42nd St., New York, N.Y. 10017; 212-286-9292.

MAY 13-19. Fourth Third World Insurance Congress in Casablanca, Morocco, sponsored by the Assn. of Insurers of Developing Countries; $274 for members or delegates; $550 for others. John D. Thomas, John David Thomas Inc., 401 E. 80th St., Suite 10F, New York, N.Y. 10021.

MAY 14-16. International Foundation of Employee Benefit Plans 1984 Trustees and Administrators institute in Las Vegas, Nev.; $420. Also **July 23-25** in Monterey, Calif.; **Aug. 13-15** in McAfee, N.J. Public Relations Department, IFEBP, P.O. Box 69, Brookfield, Wis. 53005.

•

The Datebook is compiled from notices sent to Business Insurance. Notices should be sent at least eight weeks in advance to Datebook, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611. Business Insurance reserves the right to select meetings of most interest to its readers and cannot guarantee that notices will be printed.

Reinsurer tracks catastrophes worldwide

By STACY SHAPIRO

LONDON—No wonder underwriters around the world want to hike rates in almost every class of business.

Take a look at the catastrophe losses that insurers covered last year and you'll see why.

In the United States alone, insurance companies paid a record $1.9 billion in insured losses caused by tornadoes, hurricanes, storms, blizzards and flooding.

In Australia, bush fires may cost insurers another $194 million.

And, that's not to mention the $446.1 million in claims incurred by the aviation insurers, the $336 million paid by marine insurers or the $910 million paid by property insurers for fire-related losses.

The toll taken by these catastrophes is reported by Swiss Reinsurance Co. in its Sigma report on natural disasters and other major losses in 1983.

Each year, Swiss Re compiles a list of the major natural catastrophes that hit insurers in the previous year, plus the major marine, fire and aviation losses.

This year, the company has listed 174 major losses from 1983 that caused thousands of people to lose their lives and billions of dollars in damage. Listed according to dates, the report notes location of the disaster, the cause of the loss, the number of victims and the amount of damages.

Many of the disasters in the 1983 report were caused by a record wave of natural catastrophes.

"The United States, Northwest Europe, the Middle and Far East, Latin America and the Pacific area were again hit by natural catastrophes involving damage of so-far rarely known dimensions," says the Swiss Re report.

"According to provisional estimates, loss payments of private insurance companies in the United States in connection with natural catastrophes (tornadoes, hurricanes, storms, flooding) have reached a new record level at almost $1.9 billion dollars."

The previous natural disaster record, according to the insurer, was set in 1979 when U.S. weather damage reached $1.7 billion.

Hurricane Alicia, which hit the Texas Gulf Coast last year and killed 20 people, was the most costly U.S. catastrophe, with an estimated $675 million in insured damage.

Alicia is the third-largest insured loss caused by a hurricane, according to the report, following Hurricanes Betsy in 1965 ($715 million) and Frederic in 1979 ($752 million).

The year-end cold wave that hit most of the nation was the second-largest weather-related disaster in North America in 1983. Counting damage in the United States, Canada and Mexico, insurers are faced with $510 million in claims because of the freeze.

Swiss Re lists 12 other natural disasters that hit North America last year, each of which caused more than $10 million in damage, including tornadoes that swept across the Gulf states, causing $62 million in damage.

Although North America was hit hard last year, other areas of the world also reported major losses.

According to the report, natural disasters in the rest of the world caused more than $1.7 billion in total losses, although only $360.9 million of that damage was insured. And, the damage from scores of other disasters in faraway places could not be quantified.

The largest losses detailed in the Swiss Re report include:

- Heavy storms that swept Denmark in January 1983, causing $35.6 million in insured damages.
- Last February's massive bush fires in the Australian state of Victoria, causing $194 million in insured losses (*BI*, Jan. 30).
- Also in February, Hurricane Oscar hit the Fiji Islands, causing $45 million in insured losses.
- Storms and flooding in France during April and May that caused $600 million in overall losses.
- An earthquake and tidal wave that hit Oga, Japan, in May, causing $25.9 million in insured damage.
- August storms and flooding in the Basque region of Spain, causing a $223 million overall loss.

Aviation insurers fared no better than property underwriters, according to Swiss Re's report.

In fact, according to a Swiss Re spokesman in Zurich, the reinsurer is predicting 20% to 60% increases in aviation rates because of last year's loss record.

Total aviation hull and liability losses last year soared to $446.1 million. About $347.3 million were hull losses and $98.8 million were liability losses, according to Swiss Re. Although hull losses were sharply up in 1983, liability losses were less than half of the previous year's "because last year there were not as many crashes in the United States," a Swiss Re spokesman pointed out.

In fact, there were only four major American-related aviation losses and only 24 people were killed. They were:

- The fire that broke out June 2 aboard a $6.4 million Air Canada DC-9. Twenty-three people were killed, and liability losses are estimated at $7 million.
- The $5 million partial hull loss of a Japan Air Lines Boeing 747, which hit a truck while landing in Anchorage, Alaska. One person was killed.
- The $6 million hull loss of an Ozark Airlines DC-9, also on Dec. 20. The plane hit a snowplow while landing in Sioux Falls, S.D.
- The downing of the Korean Air Lines Boeing 747 off the Soviet coast Aug. 31. The hull loss totaled $35 million and liabilities are estimated to be $39 million, due to the many Americans aboard.

The largest aviation hull loss of the year—$52 million—was the Avianca Boeing 747, which crashed in Madrid Nov. 27.

The only insurance sector that seems to have had a quiet year in 1983 is the marine market, according to the Swiss Re report.

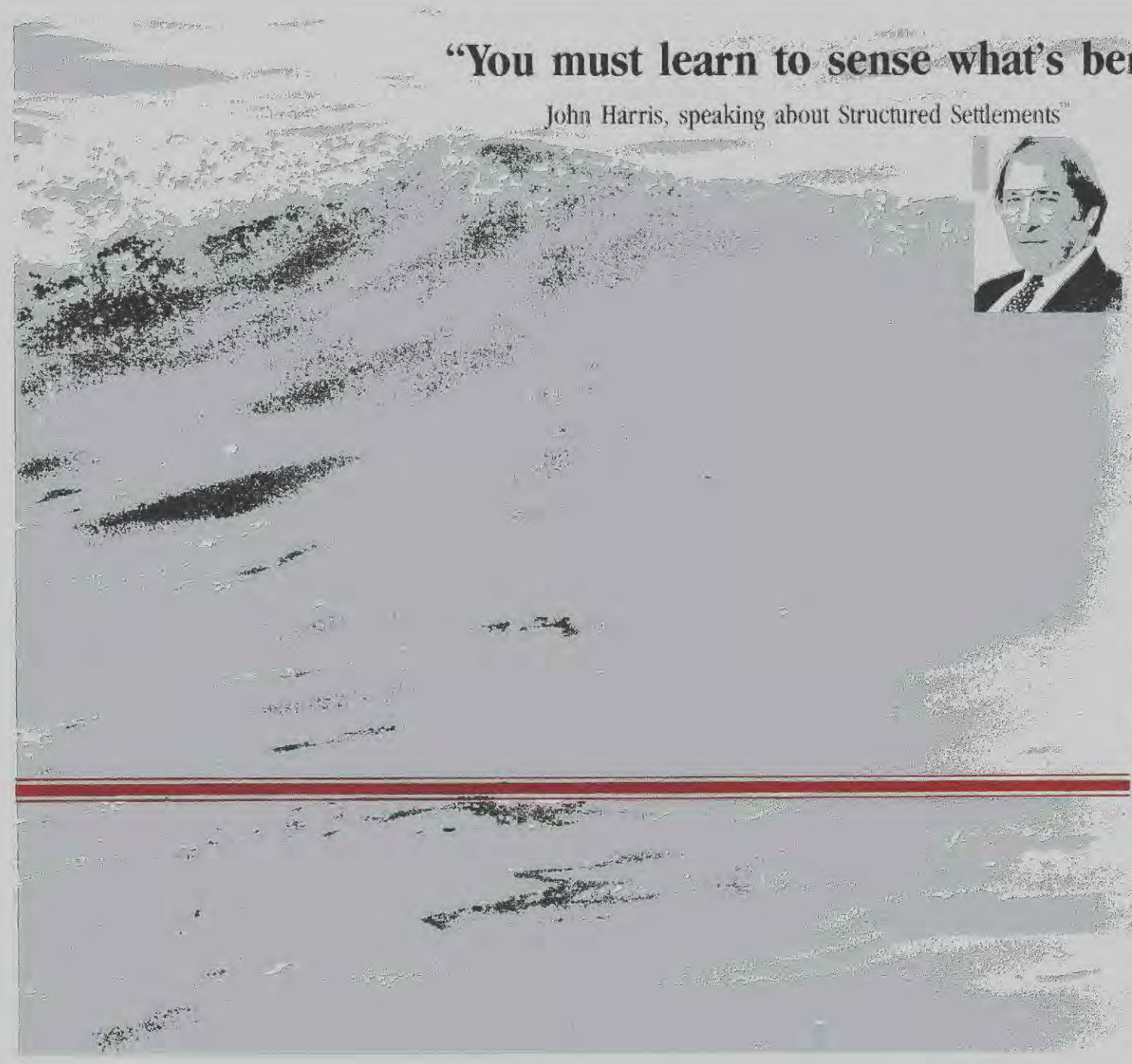
Marine insurers paid $336 million in claims last year, of which $52.8 million was paid in cargo losses.

"In marine insurance, the loss frequency and the extent of the loss were in line with those of the previous years," it says.

In fact, one of the marine insurers' largest losses was not a loss at sea. Marine underwriters paid the bulk of the $38.4 million loss after thieves stole gold and diamonds from a warehouse near London's Heathrow Airport last November.

The largest marine hull loss in 1983 occurred in August off the coast of South Africa when the $65.3 million tanker Castillo de Beliver caught fire and broke apart.

Other large marine losses include the sinking of the $50 million oil rig Key Biscayne off the west coast of Australia in September and the loss of the $29.5 million oil rig Glomar Java Sea in October in the South China Sea. ■



Utilization data

Continued from page 3

and physician-specific data from all Iowa third-party payers, including self-insured companies.

Health Policy Corp. of Iowa, a health care research coalition, will collect, analyze and publish the data, with the aid of a grant from the CIGNA Foundation.

Although some companies bristle at the "interference" of legislators in health care, HPCI President Paul Pietzsch said the legislation has solved many of the problems.

"For the kind of information for which we were looking for decision making, there would be all kinds of issues on confidentiality," he said. "The legislation allowed us to collect that kind of data."

"The governor's report suggested the need for a data clearinghouse and said we would need legislation to make it happen," noted Gene McCracken, vp of policy and research for HPCI. "It recognized that there is a serious lack of data."

Once the legislation was passed, a uniform billing form was developed so all hospitals and third-party payers would report information uniformly throughout the state by July 1, 1984.

At that point, HPCI will begin collecting and analyzing the data it gathers from commercial insurers, the Medicare and Medicaid program, Blue Cross/Blue Shield and self-insured companies.

"We'd like to get about six months of data for the first reports, which should be available about a year from now," he said.

Those reports will track about 30 or 40 common procedures, accounting for about 75% of hospitalization costs, Mr. Pietzsch said. For each procedure, dollar-specific, hospital-specific and physician-specific information will be listed.

The reports will include the doctor's name; address; frequently-performed procedures and the number of times performed; average charge per procedure; and the average charge per hospital.

The reports will, however, maintain patient confidentiality. "We will use a scrambled ID number for each patient, which will be unique, but not identifiable," Mr. McCracken said. Also, the report will not list a case which is so infrequent that a patient might be inadvertantly identified.

"But we don't protect the confidentiality of hospitals and physicians. We name them."

The data will be used primarily by employers and labor leaders to determine the most efficient providers, Mr. Pietzsch said.

"At this point a company (will not be able to) ask us for a report on its (employees), unless it's self-insured and thus a payer itself."

"But, companies can ask their carriers to collect data for their group, which they could analyze against our report. That would be most useful and that is our goal," said Sal Bognanni, HPCI's director of health policy development.

Besides employers and unions, hospitals and physicians will also be interested in the data. "They will want to know how they stack up against their peers," Mr. Pietzsch said.

"The hospitals and physicians who have been doing (an efficient) job so far are going to be interested as well," Mr. McCracken added. "They are tired of taking the heat for their less cost-effective peers."

One of the common inefficiencies that Iowa hopes to attack with its program is excess overhead.

"We have twice as many hospital beds in Iowa as we need," Mr. McCracken said. "We have some major institutions with 400 to 500 beds that are running at 45% to 50% occupancy today.

"We started out way above the national average," he continued, "and now we recognize that the national average is way high. Being on par with the national average isn't acceptable.

"But it's not just excess beds we are dealing with. It's all kinds of excess overhead, such as the debts a hospital carries. It's a much more complex issue than beds."

Iowa is proud of the strides it is making toward cost containment, Mr. Pietzsch noted.

"The options for health care cost management are regulation, community action and market forces. If those are our options, we in Iowa have chosen two of them: community action in conjunction with market forces.

"We are getting the people that are paying the bills in this community together. The purchasers had said it is our money and our data, the insurers have it and we want to put it in the public domain. That's what we've helped accomplish."

The other project, the Chicago Health Economics Council, hopes to accomplish many of the same goals as the Iowa project.

On June 1, the CHEC will initiate its concurrent review system for private payers. The program is voluntary, rather than state-mandated.

The council is composed of three representatives of various groups, including employers, third-party payers, hospitals and physicians.

Companies that sign up with the CHEC program will have all their employee hospital admissions reviewed for appropriate utilization (at participating hospitals). They also will receive data on their group and a compilation of data on all CHEC participants.

The information CHEC will provide will be hospital- and dollar-specific, although it will not name or provide an ID number for individual patients or physicians.

The style of review CHEC will use is known as "delegated," which means each hospital will conduct its own research. However, Health Review Systems, a peer review organization, will audit the work of each hospital.

At present, 32 hospitals representing 50% of Chicago's beds have signed up for the program, and CHEC has received letters of intent from several more hospitals.

Fifteen corporations, five insurers and one Taft-Hartley Trust, representing a covered population of 700,000, also have signed up. Based on the letters of intent received, that number will be doubled, a CHEC spokesman said.

To participate in CHEC, each company that signs up before June 1 is charged $28 per reviewed case. Those signing up after June 1 will be charged $32 per case.

"Although the charge for cases seems high, it really represents less than 10% of the cost of an average admission," said Thomas E. Parfitt, a vp with Harris Bank in Chicago, an employer member of the council. "At that rate, you need only eliminate 14 admissions to break even. Chances are excellent that you'll save money with CHEC."

Mr. Parfitt listed four main motivating factors for joining CHEC:

- The opportunity to receive group utilization review data.
- The opportunity to have that data analyzed against a larger group and have trends followed.
- Having the CHEC act as a communications vehicle between providers, insurers and buyers.
- The opportunity for smaller companies to collectively exert an influence on the market.

Besides the Iowa and Chicago projects, other chapters of the Midwest Business Group on Health reported that data collection tops their priority lists.

The Racine, Wis., chapter, for instance, has formed two committees: one to pool data the chapter already has among its various insurers and members, and another to deal with utilization reviews.

The Rockford, Ill., chapter is working with the Rockford Coalition for Affordable Healthcare to put together a utilization review program. ■

Illinois employers say reviews help contain health care costs

Continued from page 3

any immediate design changes is appealing to unionized companies like Caterpillar.

But, the company has not stopped with just collecting data; it is putting that data to use.

"We have done something quite unique with our utilization data," Mr. Hurst said. "In cooperation with the medical societies of Peoria and Will and Grundy counties, we have agreed to form a third-party committee to enable companies like Caterpillar that have good, reliable data to come with the problems they believe exist (in health care delivery).

"The medical societies have been very cooperative and responsible in contacting physicians (that were found to be inefficient providers). The third-party committee has been very, very successful."

Mr. Hurst said other companies have asked him about Caterpillar's concurrent review project, "but mostly they're interested in becoming involved in the third-party committee. The problem is that they have to get the data first, and the larger, self-insured and self-administered companies are the ones that have access to the information. The insurers of smaller companies are not always equipped to provide it."

Caterpillar recently extended its utilization review program to include nursing home care. "We've found it to be very effective there also," he said. "We're also trying to figure out a way to apply concurrent review to cover ancillary services, but we're not there yet."

Caterpillar is sharing its data-collection experience in other ways. Mr. Hurst serves on the technical advisory panel for Illinois S.B. 495, a bill that would set up a prospective payment system for all payers in the state (*BI*, Feb. 20).

"Since the panel started meeting, we've discovered there are a lot of related issues to prospective payment," he said. "One of the things we're specifically recommending is that Illinois pass legislation as Iowa did to support its employers in data collection" (see story, page 3).

Meanwhile, the state of Illinois began its utilization review program in 1981, at the same time the state compiled a list of 67 medical procedures that employees must have performed on an outpatient basis to receive coverage.

By 1982, the percentage of non-acute days of hospitalization had dropped from 23% to 15% of total hospital days. Although the state did not know how much of this drop could be attributed to benefit plan design changes and how much to utilization review, it did know it was moving in the right direction, said Cal Skinner Jr., manager of the bureau of benefits for the state Department of Central Management Services in Springfield.

By 1983, non-acute days had dropped to 9%.

However, Mr. Skinner notes, some hospitals showed a lot more improvement than others.

For example, St. John's Hospital in Springfield reduced its percentage of non-acute days to 5% in 1983 from 21% in 1981. However, Humana Hospital in Springfield reduced its number of non-acute days to only 22% from 27%.

". . .If our numbers at St. John mean something, and I think they do, how low can we get the number of non-acute days? Before I saw these numbers, I was willing to settle for 10%."

Like Caterpillar, the state uses the non-delegated review. It contracts with four independent peer review organizations to investigate admissions for employees in portions of central and northern Illinois, said Mr. Skinner, explaining that about 40% of the hospital admissions of about 117,000 of its employees are reviewed.

However, when the state first embarked on its utilization review project it had not contracted with a review organization. Instead, it asked Blue Cross of Illinois, the state's health insurer, to provide it with utilization information for Springfield-area employees.

"But after four or five months of not getting the information from Blue Cross, we turned to the Central Illinois Physician Review Organization," Mr. Skinner said. "They were able to give us some very useful information. Blue Cross still hasn't provided us with the data."

Although some say a non-delegated review is somewhat antagonistic toward the hospitals since an outsider is sent in as an investigator, "the hospitals in Springfield have been extremely cooperative," Mr. Skinner said.

He added that he is very optimistic about the usefulness of utilization review in containing health care costs, especially as a way to cap hospitalization costs without negotiating new benefit plans.

"Maybe, if we can get the Chicago Health Economics Council to do that in Chicago, we could get utilization to decline all over the state without all this labor-management stuff," he said. ■

Coalition has long list of plans for '84

CHICAGO—Four years after it was founded, the Midwest Business Group on Health has come of age.

The employer coalition, established in 1980 to promote better health among employees at lower costs, now boasts 128 members in eight states, up from its 15 charter members. And, the group's recent annual meeting in Chicago drew a record 150 members and guests.

Business initiative has been the thrust of the MBGH since its beginning and will continue to be "business as usual," said MBGH President James D. Mortimer.

"Business as usual in 1984 means working with members to establish more chapters.

"It means working with other coalitions to supply information to the feds for the federal peer review regulations.

"Management information and user groups will continue to be a larger and larger activity. More groups are getting organized and additional interest in the area of utilization review data in a user group context is growing.

"We will continue to focus on communication, with a call for more generics and sharing of audiovisual material.

"We will probably update the survey done last year on plan design. We will update our 1982 health statistics for an overall utilization review and cost statistic trends.

"We will continue to be active on legislative issues, such as Illinois S.B. 495 (a prospective payment bill), and we will be looking at malpractice—can this be aided by legislative initiative from the business community?"

In addition, Mr. Mortimer told the members that the group is in the black for the first time.

At the meeting, Mr. Mortimer named two new projects to be undertaken in the next year.

The group hopes one of the them, a data collection project in Iowa, will pave the way toward more competitive pricing for health care (see story, page 3).

Also, the group intends to develop a strategic plan for its activities over the next several years. "We're not unlike any other business group that plans its directions and strategies for the next three to five years. Now, we're going to do that."

Mr. Mortimer also said the Midwest Business Group on Health would like to see other chapters or even other new coalitions formed in communities, and suggested the following steps be followed if companies wanted to form such a group:

- Identify the nucleus of corporations and key individuals, and determine their level of interest.
- Form a planning group and identify the leaders who will sketch out the group's direction.
- Establish a consensus on the corporation's role in improving health care in the community.
- Define the business group's role in assisting corporations.
- Clarify the role of the group compared with other organizations in the community.
- Approve a statement of purpose.
- Initiate a liaison with providers and with other organizations.
- Open the business group to potential members.
- Identify options for providers and assess resource needs and potentials for each.
- Select providers by consensus and community resources.
- Approve a strategic plan.
- Delegate responsibility for particular duties and projects.
- Review your results after six months and at frequent intervals thereafter. ■

New chief 'integrating' Howden with A&A

By STACY SHAPIRO

someone you should know

LONDON—"When I dealt with London in the past, I never used Howden as a broker," says Richard M. Page, the new chairman and chief executive officer of Alexander Howden Group P.L.C.

In his former job as executive vp of Alexander & Alexander Inc., Mr. Page notes, he often paid visits to Sedgwick Group P.L.C., Hogg Robinson Group P.L.C. and other brokers that A&A used.

"I think I came here (to Howden) once before when I visited London, but that was only a social call."

Now, Mr. Page is priming Howden to become the main London broker for business placed by A&A, Howden's parent company.

"My job is to integrate Howden into the A&A network and to develop the potential of this group to the maximum extent possible.

"I am not here to Americanize the (Howden) group. They know their business, but we need someone who understands how A&A works and how Howden can work best with them.

"A&A pours hundreds of millions of dollars into London, but right now Alexander Howden doesn't have much of A&A's business. However, over time, the London market will see a significant portion of A&A's business poured into Howden, though not all," Mr. Page explains.

If a client does not want to move its London business to Howden, A&A, of course, will respect his wishes, Mr. Page says. Or, if another London broker is better for a client's needs because of a specialization, A&A will use that broker.

But, Mr. Page assets, a risk manager shouldn't shy away from Howden just because of its unfortunate history.

Mr. Page says that almost all he knew about Howden before he took its helm in January was what he had read in acquisition papers given to A&A by Howden when the two companies merged in 1982, the subsequent discovery by A&A of $55 million allegedly misappropriated by four ex-Howden directors and the ensuing scandal (*BI*, Sept. 26, 1982).

"I knew little about the people here," Mr. Page comments.

"But now, I have gone to every division of the company...and I have found a group of fine dedicated professionals who believe they are good people—far different from the famous four—and they have unjustly had to bear the brunt of the ridicule."

Howden excels in several types of retail brokerage, he notes, including jewelers bloc and aviation risks. And its reinsurance staff, particularly those dealing with marine risks, is well-known.

To boost Howden's efficiency, Mr. Page is in charge of restructuring Howden so that it fits better with A&A's worldwide operations.

By the time the restructuring is complete, there will be three Howden divisions:

- Alexander & Alexander Ltd., which will provide retail brokerage services for British companies and British-based multinationals.
- Alexander Howden Reinsurance Brokers Ltd., which assumes all of the company's reinsurance brokerage activities.
- Alexander Howden Ltd., which will assume all wholesale brokerage and contact with overseas clients. It will initially be headed by Mr. Page.

"This is evolution, not revolution. This way we will be in the best interest of both companies and develop Howden as A&A is developed in the United States."

Besides restructuring its brokerage activities, Howden is discussing how it will divest its Lloyd's of London underwriting management subsidiary, Alexander Howden (Underwriting) Ltd.

Under the Lloyd's Act of 1982, Howden must sell off its underwriting agency by July 1987, though it must submit plans for doing so by July 1986. Mr. Page says he expects A&A will decide on how it will sell Howden Underwriting within the next year.

He admits that spinning off the underwriting subsidiary will hurt Howden's revenues, "but it won't be a major blow. (Also,) we intend to keep our member agency," which manages the affairs of individual Lloyd's members.

Employees at Howden say the are welcoming the changes—and Mr. Page's arrival.

"Mr. Page's appointment by his parent company is a sign for these worried employees that the worst is over and A&A is committed to a future with Howden," says one Howden employee. "Mr. Page being here gives us a sense of security. After not having a central leader for so long (nearly 20 months), it is a relief and a pleasure to have someone like Mr. Page."

Nevertheless, Mr. Page and his employees admit that it may be tough to polish Howden's image, especially since the publicity surrounding the scandal will be increasing in the coming months.

On May 14, A&A, Howden and the four former Howden officers will begin arbitration proceedings in Howden's attempt to recover the missing assets.

Although the arbitration sessions will be closed to the public, A&A and Howden say they want to issue public summaries of the proceedings on a day-to-day basis, though the for ex-officers must agree to this, explains Howden Chief Executive Officer Ronald J. Berardi.

Also, A&A and Howden are still pressing a lawsuit against another former officer accused in the scandal, underwriter Ian R. Posgate.

Lloyd's could hold disciplinary proceedings against the officials, and the British Department of Trade and the City of London Fraud Squad are still investigating.

The new Howden chief says that hard work is the best way for the company to offset the bad publicity. "I will talk to anyone who will listen about the Howden story," said Mr. Page, "but the proof of our potential will be in our performance and proving our capability." ■

Page quickly learns London is different

LONDON—Richard M. Page says he's receiving a crash course in the subtle differences between doing business in Britain and doing business in the United States.

"I thought I knew a lot about the London marketplace, but there has been a tremendous depth of knowledge not in my brain. And, there is a long learning curve ahead," says the new chairman and chief executive officer of Alexander Howden Group P.L.C.

For example, Mr. Page says he now realizes how important it is in London to conduct business in person, instead of using the telephone as he did in the United States.

"It is so much a people business here and it is so refreshing to meet the underwriter in person as he says 'Yes, I will' or 'No, I won't,' looking you straight in the eyes."

And, Mr. Page is learning the uncanny way the British seldom reveal exactly what they think while still being extremely polite.

"I have had to learn the ways in which decisions are taken here," he said. "Here, they are the masters of understatement and diplomacy. But, they have their own way of giving you the bad news."

The new Howden chairman also says he is getting a quick course in the different ways the insurance business in conducted at Lloyd's of London and the rest of the British market as compared with the U.S. insurance industry.

Although Mr. Page admits it will still take some time before he totally adjusts to his new working environment, he says he's already learned how to spot an American doing business in London.

"Americans are so blunt. They walk in and say, 'OK, who's in charge here?' But in England, that is not so important." ■

PRIMA to honor risk managers

WASHINGTON—Outstanding risk managers for public entities will be honored at the Public Risk & Insurance Management Assn.'s annual conference in May.

Officials of all PRIMA members are eligible to win one of four awards, but nominations need not come from PRIMA members. Awards will be presented both to winning individuals and their affiliated entities.

The awards will be given in the following areas: health care cost containment; workplace safety; self-insurance programs; and loss prevention in pool administration.

Entries must be received by April 6.

Each nomination should include a description of the program implemented by the individual, demonstrating both innovative concepts and effective problem solving.

The description should detail the program's purpose; method of implementation; its content, scope and cost; and evidence that the program has resulted in a favorable change within the community.

Nominations also should describe how programs have furthered the risk management profession; features that make the activity unique or innovative; the nominee's role in its development; and prospects for the activity's continuation, including funding.

Nominations should not exceed 20 pages. Supporting documents also may be submitted. Nomination forms can be obtained from PRIMA, 1120 G St. N.W., Suite 707, Washington, D.C. 20005. ■

No recovery from reinsurers, court rules

Continued from page 2
the direct insurers' actions.

The reinsurers had assumed 50% of Signal-Imperial's comprehensive general liability and auto liability losses under an excess-of-loss reinsurance treaty.

In its suit against the reinsurers, Duber alleged that they had violated Section 790.03 of the state's unfair practice law, which says insurers must attempt in good faith to "effectuate prompt, fair and equitable settlement" of claims.

Duber argued that the reinsurers directed or participated in a breach of Section 790.03, along with Signal-Imperial, by participating in the settlement negotiations in the wrongful death suit. In addition, it alleged that the reinsurers were vicariously liable for Signal-Imperial's wrongs.

Duber also contended that the reinsurance pact between Signal-Imperial and the reinsurers gave the reinsurers a duty to participate in the settlement negotiations.

The court rejected all of Duber's arguments, however. It said that the reinsurers were not vicariously liable for Signal-Imperial's actions because Signal-Imperial was not the agent of the reinsurers.

"Signal-Imperial did not represent respondents (reinsurers) in handling Duber's claims," the court said. "Rather, respondents simply agreed to partially indemnify Signal-Imperial for claims by Duber."

The court added that for an agency relationship to exist, the reinsurers would have had to have the right to control Signal-Imperial, which they did not.

"Although the reinsurance agreement gave respondents the right to participate in settlement negotiations along with Signal-Imperial," the court said, "it did not make Signal-Imperial a puppet depending from respondents' strings."

Moreover, since there was no vicarious liability on the part of the reinsurers, they could not be liable if Signal-Imperial violated Section 790.03, the court said.

It added that if a reinsurer voluntarily participates in settlement proceedings with a direct insurer, it would be held to a good-faith standard, but that Section 790.03 does not impose a duty on a reinsurer to pursue such a settlement.

"The only source of such a duty in this case would be the contract between Signal-Imperial and respondents," the court said. "That contract created no duty to participate in settling claims but only the right to do so."

Furthermore, in analyzing the facts of the case, the court said that the reinsurers did not at any time become a coinsurer of Duber with Signal-Imperial or undertake any of Signal-Imperial's responsibilities to the policyholder.

"The contract at issue is a 'First Layer Casualty Excess of Loss Reinsurance Agreement,'" the court added later in the decision. "In it, respondents agree to indemnify Signal-Imperial for specified losses. The reinsurers are not responsible to the original insureds."

Attorneys connected with the case said the decision was significant for reinsurers, noting that it did not advance the cause of insurance buyers that are unable to recover from their direct insurers.

Duber's attorney John C. McCarthy of Claremont, Calif., said the decision will hurt companies that are seeking to recover from reinsurers in cases where the direct insurer is unable to pay.

"This situation will exist whenever insurance companies become insolvent or unable to pay claims," he said. "If reinsurance companies are calling the shots on claims handling even without insolvency, why shouldn't they bear responsibility for that?

"It (the decision) permits the cloak of secrecy on the involvement of reinsurance companies in claims denials," he added. "It effectively insures reinsurers from their own wrongdoing."

Mr. McCarthy added the decision was wrongly decided on both the legal issues and the facts. In particular, he said, there was evidence that reinsurers participated in the settlement negotiations in the wrongful death suit and actually blocked the proposed settlement, though the court ruled the reinsurers did not participate.

In addition, Mr. McCarthy said that the "Court of Appeals opinion was so narrow that it protects the reinsurance industry from liability for its conduct as an insurer."

The reinsurers' attorneys agree the case issignificant.

"Until this opinion there was a real question whether reinsurers could be held liable for failing to settle or by violating Section 790.03," said Mr. Prager.

The decision, he says "clears that up," but he points out it will be necessary for the decision to be published for it to have its full impact.

"It's significant," added Richard J. Brooks, counsel to the Reinsurance Assn. of America, which submitted briefs in the case on behalf of the reinsurers.

"It gives an indication of the appellate court's leaning that the trade practices law is not designed for a reinsurer that does not become involved in claims-handling activity."

The decision is consistent with prior law both in California and the rest of the country, noted Jonathan F. Bank, a Los Angeles attorney specializing in reinsurance law with the California firm of Buchalter, Nemer, Fields, Chrystie & Younger.

"It is consistent with well-established principles and virtually all recent case law that refused to apply principles of agency to the relationship between reinsurers and ceding companies," Mr. Bank said.

Mr. Bank explained that according to the decision, the application of Section 790.03 is premised on a duty owed to the insured by the insurer. If there is no duty to participate in the settlement process, as the court said was the case with the reinsurers, and there is also no participation, there can be no liability.

Where this premise might not apply is when the reinsurer takes charge or becomes actively involved in the settlement process, Mr. Bank said. In that case, the reinsurer could be liable for violations of Section 790.03. But, he noted that such a situation is "very atypical."

The decision gives further credence to the proposition that in the event of insolvency, reinsurance proceeds will not be made available to policyholders, he added.

Mr. McCarthy, the attorney representing Duber, said the company will file a petition for rehearing with the appellate court and, in the event it is turned down, it will file a petition for review with the state Supreme Court. ■

FSAs attacked

Continued from page 1

one to blame but themselves for high health care costs because they have refused to curb the growth of their benefit programs.

FSAs also were attacked by other witnesses who testified before the committee.

Daniel Halperin, an assistant secretary at the Treasury Department during the Carter administration, labeled one type of FSA—the zero balance reimbursement account, or ZEBRA—as "an abuse, a scam."

ZEBRAs benefit the highly compensated because they can most afford to have their pretax salaries reduced to pay for a wide array of tax-exempt benefits, he said.

But Mr. Halperin reserved his strongest criticism for the use of FSA funds for dependent child care, which employers and consultants say is one of the most socially useful features of an FSA.

Mr. Halperin, now a professor at Georgetown University Law School in Washington, noted that some employees in FSA plans are having their salaries reduced by thousands of dollars—in some cases by more than $20,000—to send their children to expensive summer camps.

"That is not what Congress intended" when it added Section 125 to the Internal Revenue Code in 1978 that allows employees to choose between taxable and nontaxable benefits, Mr. Halperin said.

By contrast, an individual who is not covered by an FSA and enrolls a child in a qualified day care center is entitled to a maximum tax credit of $1,440 under the Economic Recovery Tax Act of 1981.

"If we don't give those kinds of (tax) breaks to individuals," why are such benefits available to those who participate in reimbursement accounts? Mr. Halperin asked.

The hostility toward FSAs was so intense that one consultant remarked after the hearing: "We are in a lot of trouble."

Mercer's Mr. Kaye said support probably couldn't be expected from the Ways and Means Committee, whose job includes finding new revenues to reduce massive federal deficits.

It will be up to employers and consultants to get support from other members of Congress to rescue the FSAs, Mr. Kaye added.

The hearing came 2½ weeks after the IRS issued a news release Feb. 10 that was aimed at ZEBRAs, which comprise about 10% of all FSAs.

Under a ZEBRA plan, an employee submits statements for uncovered benefit expenses to his employer. The employer then deducts the payment from the employee's paycheck so that he is not taxed on that portion of income. The employer then issues a second check to the employee, with no taxes withheld, to reimburse him.

As a result, the employee has spent pretax dollars on his uncovered benefit expenses.

The plans are called "zero-balance" because the employee never really has money in an "account." ZEBRAs are most often found at small professional companies with highly compensated employees.

The IRS news release on FSAs said two elements must be present for reimbursement arrangements to be valid: The employee must prospectively choose between benefits and cash and the employee must forfeit any cash or benefits remaining at the end of the year.

This definition of a valid FSA not only rules out ZEBRAs, but also apparently invalidates two of the most popular FSA arrangements—employer prefunded accounts and positive balance accounts.

Employer prefunded plans, for example, are often set up by a company that implements a new health care plan with a high deductible that opts to funnel some of the money it saves into an employee spending account.

If all the money is not spent by the employee on tax-exempt benefits, the excess can be rolled over into a 401(k) savings plan or the employee can take the excess as cash and be taxed on it.

In positive balance accounts, an employee's salary is reduced every pay period, without taxes being taken out, to pay for uncovered benefit expenses.

The money taken out of the paycheck is transferred to a special account from which the expenses are withdrawn as they are incurred.

If any money is left in the account at the end of the year, the employee can collect the balance in cash that will be taxed or roll the excess into a 401(k) plan.

Employers and trade association officials told the committee if employees have to forfeit excess money remaining in an FSA at the end of the year, they will lose the incentive to use health care services efficiently and might, in a last-minute spree, abuse health care services just to spend all their funds.

If an employee, for example, with $500 in an account, is told he will lose the money that has accumulated in the FSA, he might on Dec. 15 spend $415 on designer eyeglasses for his family, said William Chip, a Washington attorney representing the Employers Council on Flexible Compensation.

"If the employee is told that these dollars must be used for medical expenses or forfeited, the employee will have no reason not to spend the money," said Susan Koralik, a partner in the New York office of consultant Hewitt Associates.

The "use it or lose it" approach, which the IRS wants, is unfair to companies that already have introduced FSAs. Those companies, Ms. Koralik noted, reached an agreement with their unions and employees based on an assumption that the money in the FSA was non-forfeitable.

"It seems unfair to change these agreements in midstream," Ms. Koralik said.

While congressmen at the hearing criticized employers for stimulating the demand for health care services by offering overly generous benefit programs, Ms. Koralik said companies would have risked strikes by unions had they tried to cut benefits.

Setting up FSAs, as part of a cost-containment program, has made unions accept much higher deductibles and coinsurance requirements, experts say.

Charles Rogers, director of compensation and benefits at Pepsico Inc. in Purchase, N.Y., and chairman of the Employers Council on Flexible Compensation, said the forfeiture requirement is "without any foundation in the law."

An attempt to enforce such a requirement will be resisted by employers resulting in years of litigation, Mr. Rogers said.

"In the meantime, the goal of health care cost containment in this country will take a dramatic leap backward since most employers will not be willing to expose their employees to the hazards of litigation during a period of uncertainty," he said.

Mr. Rogers noted the IRS in 1982 rejected a request for a ruling sought by Honeywell Inc. on whether its reimbursement account was a valid plan under Section 125.

The IRS, according to Mr. Rogers, told Honeywell that it could not supply a ruling until it issued regulations.

"As your (Ways and Means) committee knows, we are now in 1984 and there are still no regulations. . .After six years of refusing to speak a word about cafeteria plans, it is grossly unfair for the IRS to announce and attempt to enforce belatedly discovered rules that will require employees to forfeit benefits promised to them by employers," Mr. Rogers said.

Other witnesses urged Congress to step into the FSA controversy. Mr. Kaye and Donald McKinnon, also a principal at Mercer, suggested that Congress pass a moratorium to prevent the IRS from issuing any proposed regulations, rulings or announcements on Section 125 until federal legislators complete their study of the issue.

And, all the employer and consultant witnesses said at a minimum IRS regulations on FSAs should be prospective.

The IRS news release said that employees and employees who have taken advantage of the FSA's tax savings are retroactively liable for additional taxes, interest and possible penalities.

"It is patently unfair to impose penalities on employers who acted in good faith," said Mr. Rogers. ■

Other benefits targeted

Continued from page 1

plans before they retire or reach age 59½.

Although final Internal Revenue Service rules defining hardships have not been published, employers have been allowing employees to withdraw 401(k) contributions for such "hardships" as purchase of a primary residence, payment of educational expenses and payment of extraordinary medical expenses.

Under the Joint Committee's proposal, the term "hardship" would be limited to "substantial and unforeseen financial hardships, such as large uninsured medical expenses."

That definition would rule out withdrawals to pay for, among other things, a child's college education or the purchase of a home.

- Restrict funding and benefits offered by tax-exempt 501(c)(9) trusts in several ways. First, the Joint Committee proposes that trust reserves could not exceed 50% of the average annual benefits paid under the plan during the previous three years.

In addition, no more than 25% of benefits provided annually by a 501(c)(9) trust could go to members who are officers, owners or highly compensated employees.

- Reverse the order of pre-retirement withdrawals of contributions from pension and other retirement programs that require employee contributions.

Currently, in a contributory plan, an employee is allowed to first withdraw his own contributions. Since these contributions are made with aftertax dollars, the employee is not taxed again when he withdraws his funds.

Under the Joint Committee's proposal, an employee would first receive his employer's contributions, which are taxable, before withdrawing his own money.

Tighter withdrawal rules are needed to prevent pension plans from becoming "checking accounts" rather than retirement savings vehicles, the committee says.

The Joint Committee's proposals are likely to find support among members of the Ways and Means Committee, who over the years have become increasingly concerned that tax-free benefits are eroding the tax base.

"Benefits are a way to avoid taxes. The (benefits) industry is living off the tax code," said Rep. Sam Gibbons, D-Fla., a member of the Ways and Means Committee. "What is the justification for your (benefits) industry other than to avoid taxes?"

It was less than two years ago that Joint Committee staffers played a major role in drafting what became the Tax Equity and Fiscal Responsibility Act, the 1982 law that made benefit changes in more than a dozen areas. Among other things, TEFRA mandated faster vesting for small pension plans and shifted older workers' health care costs away from the Medicare program and onto employers.

And, the latest round of benefit changes—courtesy of the Joint Committee—may be near. Late last week, the Ways and Means Committee began voting in closed sessions on a $50 billion deficit reduction package that could include some of the benefit proposals.

"Benefits are going to be a target," predicted Lloyd Kaye, a principal at William M. Mercer Inc., a New York-based benefit consultant.

At last week's Ways and Means Committee hearing, lobbyists pleaded with congressmen to devise a national policy regarding benefit programs, rather than making ad-hoc changes every few years.

"Congress can't every two years change the rules and expect stability in these (benefit) programs," said Ed Davey, executive director of the Assn. of Private Pension & Welfare Plans.

Employers and consultants are most worried about the Joint Committee's proposal to limit hardship withdrawals from 401(k) plans to unforeseen substantial expenses, like an uninsured hospital bill.

Without reasonable access to their contributions, significant numbers of employees would not participate in 401(k) plans, said Robert Peters, manager of compensation and benefits at Mobil Oil Corp. in New York, who testified on behalf of the ERISA Industry Group, a benefits lobbying group.

"Many rank-and-file employees, at all ages, would find it impossible to set aside amounts under a cash or deferred arrangement unless the flexibility to withdraw for these traditional hardships were available," added Peter Hutchings, a partner at benefit consultant Kwasha Lipton in Fort Lee, N.J.

Broad-scale participation in 401(k) plans is necessary in order for the plans to pass anti-discrimination rules set by the Internal Revenue Service (*BI*, Dec. 13, 1982).

Focusing on the foreseeability of a particular expense creates artificial distinctions concerning employees' needs, one employer said.

"Why should the cardiac patient who is overweight and who smokes tobacco be treated more favorably than the employee who is forced to move to a larger house because another child is born into the family?" asked Charles Rogers, director of compensation and benefits at Pepsico Inc. in Purchase, N.Y.

Other witnesses criticized the Joint Committee's proposal to restrict reserves held by a 501(c)(9) trust to 50% of the average benefits paid over the previous three years.

Such a reserve does not, among other things, take into account increases in medical costs and the administrative costs of a plan.

"If the current proposal were left as it is, the result would be a flow of disgruntled patients with unpaid bills," said Robert Swanke, chairman of Swanke Inc., a Minneapolis third-party administrator.

In testimony submitted to the committee, Engler, Zoghlin, Mann Ltd., a consulting actuary and plan administrator in Wilmette, Ill., said the proposed test that would prevent trusts from providing more than 25% of benefits to officers, owners or highly compensated employees does not exist in law nor in IRS regulations.

The rule could quickly disqualify some trusts. For example, if the owner of a 10-employee company with a trust incurred $100,000 in medical bills and the other nine employee didn't incur bills, the 25% rule would be violated and the trust would be disqualified.

Concerning the proposals for pre-retirement withdrawals from pension and retirement plans, if employees were required to first withdraw their employers' contributions and pay taxes on those contributions, the expectations of rank-and-file employees would be radically altered, said Mr. Hutchings of Kwasha Lipton.

"Moreover, the record-keeping problems for plan sponsors associated with such a change would be horrendous," he said.

Photo: Index/Stone International, Inc.

IMPACT

In today's fiercely competitive business environment, the effectiveness of your advertising message depends more than ever on impact.

Impact like dominant advertising messages ... in the hard-hitting business publication that serves your market - **Business Insurance.**

Impact that lets you hit the mark with the buyers of your products and services.

So when you take that leap forward in **Business Insurance,** you'll land squarely in front of the decision-makers.

Advertise where the leaders are. Where you'll find the largest and most influential audience in the risk management and employee benefits field.

Business Insurance. Where your ads are sure to go the distance.

Publishing Dates	Advertising Opportunities	Closing Dates
Mar 19		Mar 7
Mar 26		Mar 14
Apr 2	**RIMS Preview/Captives Offshore** Highlights: announcement of Risk Manager of the Year; review of insurance markets, focusing on captives in Bermuda; reports on captives in U.S., Cayman Islands and Europe; annual directory of captive managers.	Mar 20
Apr 9	**RIMS Report #1** Reports on benefit sessions.	Mar 27
Apr 16	**RIMS Report #2** Reports on property/casualty sessions.	Apr 3

business insurance
The game plan that works.

New York: 220 East 42nd Street, NY 10017 (212) 210-0133
Chicago: 740 Rush Street, IL 60611 (312) 649-5276
Los Angeles: 6404 Wilshire Blvd., CA 90048 (213) 651-3710

A Publication of Crain Communications Inc.

Congress may ban deductions for comp reserves

By DOUGLAS McLEOD

WASHINGTON—Congress is considering a Reagan administration proposal that would bar tax deductions for reserves established by self-insurers of workers compensation risks.

If adopted, the proposal would effectively nullify the recent 9th U.S. Circuit Court of Appeals decision allowing Kaiser Steel Corp. to deduct reserves for uncontested workers compensation claims.

It could also eliminate the tax advantages of structured settlements covering workers compensation and general liability awards.

In testimony against the measure, self-insurers said that employers may be forced to return to commercial coverage of work comp risks if the tax advantages of self-funding are eliminated.

The proposal, one of a package of revenue-raising ideas prepared by the Treasury Department, is now being considered by the Senate Finance Committee and the House Ways and Means Committee.

Committee action on the proposals is expected shortly, though observers are divided over the likely fate of the measure if it reaches the House and Senate floors.

The proposal would change the rules for accrual tax accounting, replacing the "all-events" test currently used with a so-called "economic performance" test.

Under the two-pronged all-events test, a self-insured employer is entitled to take a tax deduction for workers compensation reserves if:

- All events governing the fact of the employer's liability occur during the tax year.
- The amount of the liability can be determined with "reasonable accuracy."

In its decision in the Kaiser Steel case, the 9th Circuit ruled that Kaiser met both parts of the all-events test, and that aggregate reserve accuracy—rather than accuracy on a case-by-case basis—is sufficient to meet the requirement.

Under the proposed economic performance test, a tax deduction couldn't be taken until the employer's liability is actually discharged by the payout of the reserve funds.

Howard A. Young, director of taxes for Consolidated Freightways of Palo Alto, Calif., called the proposed change "unwise and unwarranted" in a statement submitted to the House committee.

Consolidated self-insures its workers compensation risks covering 18,000 employees as part of a broad corporate self-insurance program, according to Mr. Young.

"Workers compensation liabilities are not a tax shelter nor (a) tax-motivated abuse," Mr. Young said in the statement, noting that current Internal Revenue Service regulations allow immediate accrual of disability benefits, medical expenses and other related payments.

He added that current deductions do not include amounts for contested claims and do not represent "contingent liabilities."

Mr. Young suggested that, if changes are made, accrual of reserves for workers compensation payments to be made within five years should be allowed. More than 85% of workers comp liabilities are paid within four years, he said.

Despite the revenue-raising intent of the proposal, Mr. Young said the government will probably gain little because many self-insurers will switch to buying the coverage from a commercial underwriter.

The employer would then deduct its premium payments, while the insurer would add to the reserve deductions it is allowed, he said.

The Risk & Insurance Management Society agreed with Mr. Young's view, testifying that many self-insured companies may shift all or part of their work comp exposures to commercial insurers.

The Treasury won't generate much additional revenue by eliminating the deduction, even if most employers continue to self-insure, suggested James McIntyre, a former director of the U.S. Office of Management and Budget, who testified on behalf of RIMS.

"At best, the Treasury will get a one-shot acceleration of revenue flow as the timing of deductions claimed by self-insured corporations is postponed to coincide with actual payment or accrual of losses," Mr. McIntyre said.

Observers also warn that the proposal could eliminate the tax advantages of structured settlements, in which companies pay the full amount of the settlement into a trust or annuity for ultimate payment to the recipient over a defined period of time.

Currently, companies in some situations may take a deduction for the entire amount of the settlement in the year the agreement is reached (*BI*, Feb. 20).

Application of the proposed economic performance test would mean that deductions would be limited to amounts actually paid to the plaintiff, however.

Although the proposal in its current form doesn't specifically mention structured settlements, the language is probably broad enough to include them, experts say.

"It's kind of hard for the government to go in and say, 'We need this legislation,' when they wouldn't even take the Kaiser case to the Supreme Court," says former Justice Department attorney Marc Levey of the government's Feb. 6 decision not to appeal the 9th Circuit ruling.

Mr. Levey represented the government against Kaiser at the trial-court level, but now represents self-insurers as a member of the law firm of Baker & McKenzie in San Francisco.

Observers are also uncertain about the proposal's chances as part of an overall revenue bill.

"Were it not an election year, I think there would be a lot of activity," said Harold Dankner, a vp with the accounting firm of Coopers & Lybrand in Washington.

He added, though, if the measures are not adopted this year, they will probably be reintroduced in 1985. ■

classified advertising

RATES AND CLOSING TIME:

Rates: Display classified is $65.70 per column inch, minimum of one inch. Straight classified is $6.00 per line, minimum of 5 lines. Count 34 characters per line (include each space and punctuation as a character). Additional $12.00 charge for blind box ads. Responses to blind box ads must fit into business size envelope. Responses are forwarded daily.

Closing: Published every Monday. Copy must be in written form by noon Tuesday, 6 days preceding publishing date. No verbal phone copy accepted. Prepayment required. Mail ads to Beverly Kluxdal, Classified Advertising, 740 N. Rush St., Chicago, IL 60611. For more information call 312-649-5340.

SURETY BOND PRODUCER

Entrepreneurial-oriented individual with three to five years' agency or company experience for Palm Beach County, Florida, branch office of State's leading surety agency.

Excellent salary and benefits, with opportunity for equity position for proven performance.

Please contact Greg Glover at 305-591-2220.

IMMEDIATE NEED CONTROLLER
GENERAL AGENCY PHOENIX, AZ

Local agency with 3 branch offices. Small premium finance company needs experienced controller with exposure to computers. $30,000 to $40,000.

Lasher-Cowie Agency, P.O. Box 13058, Phoenix, AZ 85002 602-258-3421

WANTED INSURANCE COMPANY SEEKING ALTERNATE DISTRIBUTION SYSTEM

National Marketing Organization being formed to sell to upper income homeowners seeks insurer for L-H and P-C product portfolio. Write

Box 1152, Business Insurance 740 Rush St., Chicago, IL 60611

JOIN E. & C. THE WINNING TEAM

EMETT & CHANDLER IS EXPANDING!!

OPENINGS HAVE BEEN CREATED BY OUR REMARKABLE GROWTH

E. & C. producers and account managers are extremely successful because of the quality and quantity of our support. In order to further expand our growth, we are looking for proven broker professionals. If you are now a resident of the New York metro area and want to join a winner, send your resume including earning history to:

Mr. Ken Wallace
Vice President—Administration
Emett & Chandler New York, Inc.
529 Fifth Avenue,
New York, N.Y. 10017

Salary incentive plan and expenses provided.

BI Classifieds assure top quality results!

INSURANCE SALES PROFESSIONALS

One of northern New England's oldest, largest regional insurance agencies has several challenging positions available for individuals interested in growth opportunities.

Producers—Several openings exist at various branch offices in Maine and New Hampshire for those with an insurance-related background who can demonstrate sales success and/or ability. These positions will be of particular interest to individuals with a desire to have sales results translated into personal growth and career opportunity in an expanding agency. Applicants should possess some knowledge of the commercial casualty-property business and be interested in continuing education and training.

JOIN THE PROFESSIONALS AT THE DUNLAP AGENCY.

Send resume to: Catherine D. Thorpe
Vice President—Human Resources
The Dunlap Agency
P.O. Box 40
Auburn, Maine 04210
(Telephone: (207) 783-2211, Ext. 204)

Business Insurance

Circulation Breakdown*

Commercial Consumers

Administrative Management: owners, presidents, vps, etc.	5,638
Financial Management: chief financial officers, vps of finance, secretaries, treasurers, etc.	10,202
Insurance Management: vps, directors, managers of insurance, risk, benefits, compensation, safety, security, etc.	6,604
Associations	1,133
Government, Unions, Educational Institutions	799
Commercial Consumers Sub-total	**24,376**
Insurance Agents & Brokers	9,655
Insurance Cos.	5,461
Financial Institutions	441
Actuaries, Attorneys, Adjusters, Appraisers & Consultants	2,977
Others allied to the field	1,083
TOTAL	**43,993**

*Source: Business/Occupational breakdown of qualified circulation, November 7, 1983 issue, as submitted to BPA for December 1983, BPA Publisher's Statement.

NEWLY FORMED NEW JERSEY INSURANCE COMPANY SEEKS FINANCIAL PARTNER FOR SUBSTANTIAL GROWTH VENTURE.

Box 1117 Business Insurance 740 Rush Street Chicago, IL 60611

SURETY EXECUTIVE

Medium size suburban east coast insurance company seeks individual with minimum 10 years surety experience to develop and operate newly formed surety division specializing in small to medium sized surety bonds, principally general performance, construction, license and permit, misc., etc. Individual selected will be part of top management team with tremendous growth opportunities with dynamic growing specialty company. Excellent opportunity. Salary commensurate with experience.

Box 1151, Business Insurance 740 Rush St., Chicago, IL 60611

Assure yourself top quality employees—Advertise your openings in the Business Insurance Classifieds.

LEGAL NOTICE

The Chicago Housing Authority will accept proposals on their Umbrella Excess Liability Insurance. Proposals will be publicly opened and read aloud on March 20, 1984, at 10:00 a.m., Local Time at the office of the Purchasing Department, Chicago Housing Authority, the following minimum requirements must be met by any agent to be eligible for consideration:

1. Licensed in the State of Illinois.
2. Five years in business as a firm or at least two principals or account people, each with a minimum of 5 years' experience in commercial lines *or* a CPCU or ARM designation; located in the Chicago area.
3. Annual premium volume of the office servicing the Chicago Area: $500,000 excluding Personal Lines, Life, and Accident and Sickness.
4. Evidence of Insurance Agents Errors and Omissions insurance with a minimum of $1,000,000 per occurrence.

The Chicago Housing Authority reserves the right to reject any and all proposals and to waive any informalities in bidding.

Contact Mr. R. A. Zadenetz (312) 791-4741 for information.

The contract shall be subject to the applicable compliance standards and procedures of Executive Order No. 11246, as amended; Equal Employment Opportunity, and other provisions as specifically set forth in the Specifications.

EASTERN

MANAGER GROUP INSURANCE ADMINISTRATION

Eastern Airlines currently has an opening at its Miami base for a Manager of Group Insurance Administration. This position requires an individual with extensive experience in the administration of large corporate group insurance plans (dental, life and medical). Applicants should have a college degree and a proven record in development and implementation of innovative insurance cost containment procedures. Previous supervisory experience is a must since this individual will manage a group of 30 employees.

At Eastern, we offer attractive salaries, exciting career growth opportunities, company-paid family health benefits, including dental insurance and travel anywhere on the Eastern Airline system for a current charge of only $6.00 plus tax for the employee, spouse, children and parents.

Please send detailed resume, including salary history to:

EASTERN AIRLINES
Management Recruiting
Department LI
International Airport
Miami, FL 33148

An Equal Opportunity Employer M/F

Excess, specialty covers rising as much as 25%

Continued from page 1
rates is coming from a pronounced tightening in the reinsurance markets in December and from the withdrawal of some reinsurance and specialty underwriters from the scene (see related story).

Like a stack of dominoes, the tightening first struck the retrocessional, then treaty, then facultative reinsurance markets. Now, many observers say it is hitting the direct excess/surplus lines markets. Since these markets are unregulated, they can react more swiftly to rate increases.

"It's not turning like it did in the mid-1970s, but it's happening," says Earl H. Lanning, vp in charge of surplus lines at E.H. Crump Cos. Inc. in Memphis, Tenn.

"I just got back from a tour of our offices in Seattle, San Diego and other places in the country, and I see definite evidence of a tightening," he emphasizes.

The strongest impact he has noticed is in the long-haul trucking market where rates across-the-board are up about 15% to 25% this year. During the past 15 months, more than 15 markets have dropped out of this business, he notes.

Mr. Lanning also sees evidence of higher prices for large property risks, certain product liability lines —especially for chemical and pharmaceutical manufacturers—professional liability coverages and hotel umbrellas.

Marketers are increasingly forced to place big property schedules with facultative reinsurance because direct markets have experienced a drop in capacity, says Mr. Lanning.

Earlier, many people thought the MGM Grand Hotel or Hyatt Regency Hotel disasters would push up the market for high excess umbrellas. But, it didn't happen until January, according to Mr. Lanning.

He estimates that for limits above $25 million, underwriters are now demanding $1,000 in premium per $1 million in coverage, compared with about $300 per $1 million last year.

"They want that price, no matter how high the layers," says Mr. Lanning.

Errors and omissions liability insurance rates for architects and engineers, lawyers, accountants and insurance agents also are on the rise.

If the policyholder has had no semblance of a claim, then renewals may be level, says Mr. Lanning. However, if a claim—or even an incident that could turn into a claim—has been reported, then renewal quotes are running from 25% to 50% higher, he notes.

Professionals do not like to switch E&O insurers because of concerns about coverage continuity so Crump has been able to put through increases of that magnitude, says Mr. Lanning. Some Crump E&O placements go back 15 years, he says.

Douglas Dolan, vp-technical services at Victor O. Schinnerer & Co. Inc., a Washington-based unit of Marsh & McLennan Inc., confirms that architects and engineers professional liability insurance, one of Schinnerer's specialties, has started to tighten.

"We've seen the hard side of the soft market for the past two to three years because we've been the high-priced program," says Mr. Dolan. "Now, we're starting to see other markets raise prices—some are making drastic corrections."

"There's no doubt about it; the market is in a state of change," agrees E.L. "Mac" Calhoun, president of underwriting manager Shand, Morahan & Co. Inc. in Evanston, Ill., a unit of Alexander & Alexander Services Inc. But, he terms the rate tightening as "spotty —not an overall trend."

"It's not the freight-train effect we saw in 1976-1977," he says. "And, I don't think the magnitude of the withdrawals or the price increases will be as great."

He says that's because today there's much more capacity to absorb insurance demand than in the mid-1970s. Also, the stock market has boosted shareholder equity during the past 16 months, whereas equity was dropping during the last insurance squeeze. And, finally, interest rates remain relatively high, helping to offset underwriting losses and prolong the availability of insurance bargains.

Architects and engineers and lawyers professional liability are the most dynamic coverages; rate increases accelerated six weeks ago, says Mr. Calhoun. Restrictive underwriting and higher prices in those lines are especially evident in California.

This may be partly because of two rate increases implemented last year at Design Professionals Insurance Co., a major architects and engineers professional liability market in Monterey, Calif. The most significant rate hike was a 10% across-the-board increase in August, a company officer confirmed.

Mr. Calhoun also thinks that rates for physicians and surgeons medical malpractice and bankers blanket bonds may be shooting upward. He also sees sporadic signs that fidelity coverage rates are increasing 25% to 35%.

"The problem with this spottiness in the market is that a few new entrants continue to play at prices that older markets won't accept anymore," says Mr. Calhoun. But, he says the influx of new markets onto the scene has slowed markedly.

Shand, Morahan started raising rates in the first six months of last year and lost a significant amount of business to more aggressive markets (*BI*, Aug. 22, 1983). Now, however, Mr. Calhoun says the company is starting to see business coming back because other markets are disappearing, reducing underwriting or upping prices.

Some markets have started to withdraw from upper-layer umbrella coverages, he notes, adding that underwriters aren't giving away the high layers anymore. But, rather than pay more for those high excess layers, many risk managers may opt to reduce catastrophe limits or retain the amount spent last year.

The Ranger Insurance Co. in Houston is an example of an umbrella market for national accounts that started to retrench last summer. Regional offices in Atlanta, Denver and Kansas City, Mo., have been closed and business consolidated in the corporate office.

And, last week, Puritan Excess & Surplus Lines Insurance Co. in Providence, R.I., an affiliate of General Electric Co., announced that it had stopped accepting new business on Feb. 7.

Puritan was not a major player in the excess/surplus lines business, with only about a 3% share of the $3 billion market. The company wrote slightly more property than casualty risks, says a spokesman.

Even though the Puritan's excess/surplus market participation was small, its withdrawal is another sign of which way the wind is blowing.

Still, not everyone thinks the big turnaround is at hand.

Robert P. Keul, president of Montgomery & Collins Inc. in Los Angeles, is unconvinced that the market is tightening. He thinks that excess capacity is still keeping the market firm.

Montgomery & Collins, a unit of CIGNA Corp., is a major market for umbrellas.

"There are still a lot of underwriters doing crazy things out there," he says. "We're holding the line on rates, but not increasing them. I think the market is changing so slowly we need to see more than the 1983 year-end results.

"Something's happening," he admits, but he still thinks many of his colleagues are overly optimistic in thinking the market is tightening. "I hope I'm wrong."

Another skeptic who "doesn't see anything really happening yet" is Martin E. McConnell, president of Stewart Smith Holdings Inc. in New York, a unit of Lloyd's of London broker Stewart Wrightson Group P.L.C.

The year-end tightening in the reinsurance market did not heavily impact the direct market, with two exceptions: commercial aviation and satellite insurance, he says.

Apart from these two lines, insurers had already made their commitments, so the Jan. 1 reinsurance tightening hasn't translated into the direct market, he believes. A contraction may be felt by May or June prior to July 1 renewals, however.

But the scales are tipping toward those who think the market is turning.

Asked whether he thinks the market is turning, Swett & Crawford President Mac Henderson, doesn't hesitate. "Yes I do," he declares. Swett & Crawford is a Los Angeles-based wholesale brokerage unit of The St. Paul Cos. Inc.

Mr. Henderson expects this change to become more pronounced around May 1. "By then, insurers' first-quarter results will be in, and they will confirm 1983 results.

"There's already been a distinct firming—more predominant on the property side—since the start of the year. It has gotten much more difficult to place high-capacity property risks," he adds.

Although Mr. Henderson declined to identify property markets that appear to be reducing underwriting, other industry sources mentioned Baccala & Shoop Insurance Services Inc., a Corroon & Black unit in Newport Beach, Calif.; First State Insurance Co., a Hartford Insurance Group affiliate in Boston; INA Special Risks, a CIGNA unit; and Northbrook Excess & Surplus Insurance Co. in Northbrook, Ill., an affiliate of Sears, Roebuck & Co.

Mission National Insurance Co., the largest issuing insurer used by Sayre & Toso Inc., is "starting to feel price improvement," said a spokesman. Sayre & Toso, the largest U.S. underwriting manager, and Mission National are both units of Mission Insurance Group.

Another large excess/surplus lines market, Lexington Insurance Co. in Boston, an affiliate of American International Group Inc., sees higher rates for casualty lines, a spokesman says.

In January, AIG President and Chief Executive Officer Maurice H. Greenberg stated publicly that insurance rates are starting to head upward again (*BI*, Jan. 30). More recently, AIG is demanding and getting rate increases on casualty risk renewals 100% of the time and on property risk renewals 60% of the time, said a spokesman in Los Angeles.

"I would agree there has been a slight turning of the market, and I sense it is gaining momentum," says Roy B. Oddy, chairman of MacLean, Oddy & Associates Inc., a wholesale marketer in Dallas.

"I don't think we'll get back to the hard market of 1973-1976, but within the next three to six months there could be a capacity crunch on some of the tougher lines," he notes.

The lessening of capacity started with large property accounts and within the past two weeks has begun to affect casualty coverages, says Mr. Oddy. The most dramatic changes are originating with British commercial markets and, in some cases, with Lloyd's syndicates as well.

"Investors are withdrawing from the insurance market because of red ink," he says.

The marketing department at MacLean, Oddy has noticed the withdrawal of certain London and domestic underwriters from oil industry operators' extra-expense insurance, which includes the cost of well control, seepage and pollution coverages, he adds.

Many California marketers are noticing a reduction in capacity for earthquake insurance. Baccala & Shoop, Northbrook and Mission National all are increasingly selective markets for risks requiring extremely high capacity, they say.

Bud Bennett, assistant vp of Alexander & Alexander Inc. in Los Angeles, estimates that worldwide earthquake capacity on a single jumbo risk has dropped to $600 million from $700 million last year.

The reduction in capacity is attributable in equal parts to U.S. and London underwriters, he says. Withdrawal of certain London underwriters is probably temporary, but they will not reappear without "incremental rate increases," sums up Mr. Bennett. ■

Conglomerate hit with $9.3 million award

By CAROL CAIN

CHICAGO—General Signal Industries Inc., a conglomerate based in Stamford, Conn., must decide this month whether to appeal a $9.3 million jury verdict stemming from a 1981 accident involving an employee driving a company truck.

A Cook County Circuit Court jury delivered the verdict—the second-largest personal injury award in Illinois history—in favor of John R. Block, 31, a former DePaul University law professor. He was rendered a mute quadriplegic as the result of the accident.

Mr. Block was injured on a Kendall County, Ill., road when a truck driven by Norman Jarvis, an employee of Ceilcote Co. Inc. in Carol Stream, Ill., a subsidiary of General Signal, collided with his car. Mr. Block's grandmother, who was riding in his car, was killed, as was Mr. Jarvis' wife, who was riding in the truck.

Mr. Block's attorney, Philip Corboy of the Chicago firm of Corboy & Demetrio, charged negligence and introduced testimony revealing that Mr. Jarvis was reading a road map at the time of the accident.

General Signal had $100 million in general liability coverage by several insurers at the time of the accident, said Brian Fetzer, an attorney with Johnson, Cusack & Bell, the Chicago law firm representing General Signal.

The Travelers Insurance Co. was the primary insurer, writing $1 million in coverage with no deductible, according to Mr. Fetzer. Northbrook Excess & Surplus Insurance Co. covered the next $5 million and Gilbraltar Casualty Co. provided $5 million excess of $6 million, he said.

General Signal had made a $9 million settlement offer prior to the trial, but Mr. Corboy rejected the offer and pressed his suit for $36 million, Mr. Fetzer said.

At trial, Circuit Judge Charles Durham allowed the defense to introduce testimony regarding how much it would cost to buy annuities to ensure adequate medical care for Mr. Block for the rest of his life.

"The purpose of our testimony was to show the jury that there was another value method (apart from the plaintiff's) to provide for medical care," Mr. Fetzer said. In that testimony, a consultant from broker Johnson & Higgins said it would cost $3.3 million to purchase an annuity to ensure adequate care. The plaintiff had argued that medical care would cost $11 million to $18 million.

Either side may appeal the verdict, though it is doubtful whether General Signal will, since the verdict virtually matches its settlement offer, Mr. Fetzer said.

Mr. Corboy could not be reached for comment. ■

Study compares benefits in United States, Canada

WILLOW GROVE, Pa.—The level of benefits provided to middle-management employees in the United States remained stable during 1983, but benefits increased substantially in Canada, according to a new study.

The Administrative Management Society's 1984 Guide to Management Compensation reports that more than half of the U.S companies surveyed continued to pay the full cost of insurance benefits—like group life, hospitalization, surgical, major medical, accidental death and dismemberment, and long-term disability coverages—for middle managers.

There was little change in any of the categories compared with 1982.

In Canada, though, the percentage of companies paying all coverage costs is increasing.

For instance, the portion of companies providing fully paid group life coverage increased to 63% in 1983 from 56%, while the percentage providing full accidental death and dismemberment coverage rose to 60% from 53%.

The full cost of major medical insurance was paid by 62% of Canadian companies in 1983, compared to 53% in 1982. And, 57% of the Canadian firms paid the full cost of hospitalization coverage in 1983, compared with 49% during the previous year.

Also, 63% of the surveyed U.S. companies paid all costs of middle managers' pension plans in 1983, while only 18% of Canadian employers shouldered all pension costs.

Most U.S companies will give middle management employees nine paid holidays in 1984, compared with 10 in Canada, the survey reported.

•

Copies of the survey are available to non-AMS members for $90 by writing to 1984 AMS Guide, Administrative Management Society, 2360 Maryland Road, Willow Grove, Pa. 19090; 215-659-4300.

Reinsurance crunch catches insurers off guard

Continued from page 1

ing—or trying to raise—the rates they charge retail brokers and their commercial insurance buyers.

In turn, this has started to put upward pressure on commercial insurance rates, industry sources note. But, this pressure is offset by the continued willingness of "innocent capacity"—newcomers to the reinsurance market or a particular class of business—to rush in where cooler heads now fear to tread.

Therefore, the big question in many minds is whether the withdrawal of reinsurance capacity, closer attention to underwriting criteria and the demand for higher rates will tip the scales, or whether new risk bearers will succeed in keeping prices low and the market soft.

"I'm afraid there is still so much capacity out there that it's a little like taking a bucket of water out of the ocean," suggests Robert P. Keul, president of Montgomery & Collins Inc., a Los Angeles-based wholesale brokerage unit of CIGNA Corp.

"The true story is where the market will be in March," suggests David Anderson, president of Anderson & Murison Inc., a wholesale brokerage firm in Pasadena, Calif. By that time, insurers with holes in their treaties will have filled them or know that they are not going to be able to do so.

The specialty insurers and MGAs that have traditionally relied heavily on reinsurance to build capacity are the companies tending to have more problems, Mr. Anderson comments.

"We've seen reinsurers asking for more adequate rates, especially in the property area," he notes. "The market is tightening somewhat, but school is still out as to whether this is a blip or a trend."

Some players are more optimistic about the prospects for change than others. But almost everyone agrees that there are definite signs of tightening in the reinsurance markets. They seem to see more evidence of a crackdown among treaty than facultative reinsurers. Both property and casualty reinsurance seem to be feeling the pinch.

> 'We've seen reinsurers asking for more adequate rates, especially in the property area. The market is tightening somewhat, but school is still out as to whether this is a blip or a trend,' explains Mr. Anderson.

"The reinsurance treaty market has tightened up extremely," says Frederick D. Easty, vp-underwriting for Insurance Corp. of Hannover in Los Angeles. It started in October with negotiation for the Jan. 1 renewals, the date when 60% to 70% of the world's reinsurance business was renewed, he estimates.

"Another slug of renewals rolls around July 1," he points out. "Those will be even tougher than the Jan. 1 renewals."

And, he expects that next October will bring a much more dramatic upturn in pricing for Jan. 1, 1985, treaties.

So far, the tightening is taking the form of stricter underwriting, reduced commission terms for ceding companies, emphasis on excess-of-loss rather than quota-share treaties and small price increases.

"There are a few greedy people out there overreacting," complains Mr. Easty. "You can't recover for past mistakes overnight," he adds. Those are the exceptions, however, and overall he estimates that treaty price increases are broadly running at about 10%.

One of the most talked-about signs of a change in the reinsurance market is the dramatic loss of one or more property treaties by Baccala & Shoop Insurance Services Inc., a Newport Beach, Calif., unit of Corroon & Black Corp. and one of the 10 largest excess/surplus lines marketers.

Baccala & Shoop's underwriting capacity on large property risks has shrunk to $500,000 from at least $9 million and perhaps as high as $20 million, sources estimate. Company executives declined to answer numerous telephone calls for comment.

In August, however, Chairman William P. Baccala told *Business Insurance* that the company had substantially increased its property writings last year to about 40% of its estimated $120 million in 1983 gross revenues, or about $50 million.

Baccala & Shoop is a major retail and wholesale brokerage market for multimillion-dollar property and casualty risks, which it places with two Hartford Insurance Group affiliates: Nutmeg Insurance Co. and Twin Cities Fire Insurance Co.

The underwriting manager also has been a major market for California earthquake insurance, but this could be changing.

"The reinsurance market for earthquake coverage has shrunk by about $100 million since the first of the year," estimates Bud Bennett, assistant vp of broker Alexander & Alexander Inc. in Los Angeles. Mr. Bennett specializes in placing earthquake coverage for some of the nation's largest corporations.

Last year, the worldwide capacity on a single earthquake risk was about $700 million, compared with about $600 million today, he continues. The capacity started to shrink with the renewal of property reinsurance treaties this year, he explains.

Prices for the coverage are firm —neither up nor down, he reports.

Mr. Bennett believes that earthquake coverage could be a bellwether for market behavior in other lines of coverage because it reflects the psychological attitude of risk bearers. Unlike other property lines, earthquake insurance and reinsurance is virtually loss-free until calamity strikes.

The fact that reinsurers are cutting back on earthquake coverage shows they are getting nervous, he points out. Also, the collection of loss-free premium for earthquake insurance and reinsurance has tended to bolster industry loss ratios for property lines, which otherwise would be much higher.

During the past five years, earthquake coverage has often been included in all-risk policies, so that underwriters, regulators and the industry overall really have very little idea of how much earthquake coverage is written, notes Mr. Bennett.

The reluctance of some underwriters to write earthquake coverage could presage a resurgence in popularity of difference-in-conditions policies, which specifically cover perils like earthquakes that may be excluded in other property contracts.

Cravens, Dargan & Co. Pacific Coast in San Francisco and Global Surplus Insurance Services Inc. in Los Angeles are two other excess/surplus lines markets that have reduced property underwriting capacity because of reinsurance treaty changes.

Last month, Cravens Dargan had already put its casualty treaty to bed, but was still in the process of renewing its property treaty. This was proving to be tougher than expected.

Although the company's underwriting capacity next year will be less than in 1983, this will not hinder business objectives, reports Raymond Karnofski, a long-time executive at Insurance Co. of North America who became president of Cravens Dargan in August.

Cravens Dargan, a CIGNA Corp. unit, as is INA, reported gross revenues of $39.2 million on premium volume of $140.1 million in 1982, ranking it among the 10 largest U.S. excess/surplus lines marketers. However, revenues in 1982 were flat compared with 1981, and premium volume was down 9.6%.

"We have restructured our 1984 objectives and we do not need as much capacity as we had before. Why pay for it if you don't need it?" asks Mr. Karnofski.

Cravens Dargan also closed its marine facility in November.

The tightening of reinsurance capacity and intense competition for large property risks is causing some marketers to switch gears and turn their attention to smaller accounts.

For example, Global Surplus Insurance Services, a unit of broker Frank B. Hall & Co. Inc., is primarily a casualty-oriented operation that had expanded its property business in recent years due to the availability of cheap reinsurance.

During the past three years, Global Surplus had been writing excess property insurance layers with multimillion-dollar limits for large accounts like hotels and aircraft manufacturers. Since the underwriting was a sideline and not its main business, Global Surplus did not provide engineering or other backup services to its policyholders.

"Our reinsurers became very conscious of losses and began asking for inspection reports," says Hermann P. Schlander, manager of Global's property department. Subsequently, the MGA's property treaty capacity was reduced to $1 million.

"I think our loss of capacity has been good for us," says Mr. Schlander. "We have had to search our souls and clean up our act."

Global Surplus does not expect to reduce its property underwriting, but it's shifting energies into the business it knows best: small commercial property risks—especially apartment buildings—characterized by less than $10,000 in premium.

For large risks requiring limits of more than $1 million, Global Surplus can still put a program together using facultative reinsurance markets, stressed Mr. Schlander.

Global Surplus is also one of many excess/surplus lines markets to feel the impact of underwriting and staff cutbacks in the commercial reinsurance operations of Allstate Insurance Co., a Sears, Roebuck & Co. subsidiary.

Allstate plans to eliminate 73 jobs, or 21% of about 350 employees, in its reinsurance operations across the country. The company is closing facultative reinsurance operations in its Dallas, New York, Los Angeles and downtown Chicago offices.

Both property and casualty facultative operations will be closed in all of these branches except in Los Angeles, which will retain only its property arm. The Chicago operation will be moved to Allstate's commercial lines headquarters in South Barrington, a Chicago suburb.

"The changes will not have an impact on our treaty reinsurance business," said an Allstate spokesman. Allstate does not report its reinsurance underwriting volume separately from other underwriting revenues, he added.

Gerling Global Reinsurance Corp. also is in the process of closing offices in San Francisco and Boston and is moving files to its U.S. headquarters in New York.

Previously, the reinsurer had consolidated its Los Angeles branch with the San Francisco office.

The decision to centralize U.S. operations in New York was reached about a year ago, reports Fred Kallrath, president of Gerling Global Offices Inc., manager of the U.S. branch of the West German parent corporation.

"Years ago, it made sense to have many branches to be the recipient of local facultative business," he explains. But today, reinsurance brokers and the advent of computers have eliminated this need, he says.

"Because of this structural change in the market, we don't need to have local offices to have access to business," he stresses. Also, Gerling Global will be able to reduce operating costs and exercise more control over underwriting through centralization. The bulk of Gerling Global's business is treaty reinsurance.

"The more underwriting outlets you have, the more difficult it is to have a uniform approach," says Mr. Kallrath.

Despite Gerling Global's reported intention to centralize rather than to reduce its facultative reinsurance underwriting, its office closures are being seen in the market as another sign of reinsurers' retrenchment.

"I disagree that you can do it as well from New York," said one industry insider. "It's like any business that depends heavily on personal contacts. You can do it better if you can reach out and touch someone."

As previously reported, Scor Reinsurance Co. is another foreign reinsurer that has recently undergone top management and marketing changes in its U.S. operations (*BI*, Oct. 31, Oct. 10, 1983).

In order to be closer to major production sources and other reinsurers, the company has decided that it will move its headquarters to New York from Irving, Texas, pending approval of a license application to the New York Insurance Department.

Also, the company closed its Atlanta branch office and reduced staff in the Irving, Chicago, and Hartford, Conn., branch offices.

Scor Re says it plans to concentrate in the future on specialized, larger facultative risks where its expertise can be put to the most effective use. ■

British fire losses increase 45%

LONDON—British fire losses hit a five-year high in 1983, the British Insurance Assn. reports.

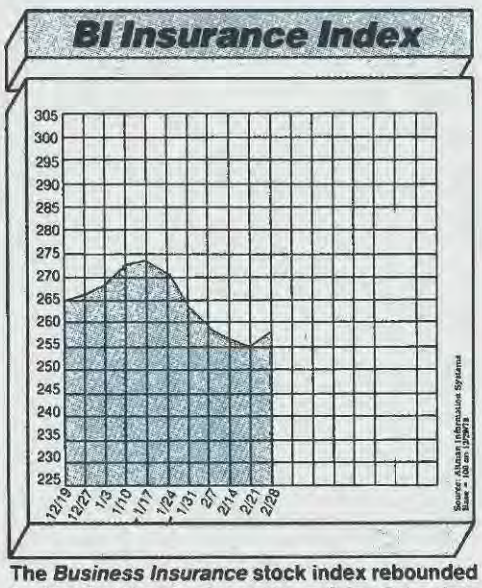
The 565.6 million pounds ($797.5 million) of losses reported last year was a 45% increase over the 390.7 million pounds ($550.9 million) reported in 1982, the group notes.

However, much of the huge increase can be attributed to a fire causing 165 million pounds ($232.7 million) of damage at an army ordnance depot. The loss was not insured, the BIA says.

In addition, 40 other fires caused more than 1 million pounds of damage apiece, the group reports. Three fires, including the depot blaze, caused more than 10 million pounds in damage.

"The current scale of losses continues to underline the urgent need for widespread commitment to effective fire safety management," said Ian Rushton, chairman of BIA's fire insurance panel.

"Renewed and sustained attention to this activity is essential and we, as insurers, are determined to play our part in the provision of technical services aimed at promoting it." ■



The *Business Insurance* stock index rebounded for the first time in six weeks, gaining 3.1 points to 258.2 during the trading period ending Feb. 28 from 255.1. During the latest trading period, 32 insurance industry stocks closed up, 15 were unchanged and 14 issues were down. The largest gains were tallied by Great West Life Assurance Co., 14.8%; American Bankers Insurance Group, 13.5%; Fremont General Corp., 10.1%; CNA Financial Corp., 8.8%; and General Reinsurance Corp., 5.5%. The largest losses were posted by Carolina Casualty Insurance Co., 14.3%; Zenith National Insurance Corp., 3.7%; USLIFE Corp., 3.4%; Corroon & Black Corp., 3.2%; and Jefferson National Life Insurance Co., 2.5%. The *Business Insurance* index posted a 1.2% increase although the index was outperformed by the Dow Jones 30 industrials, which reported a 1.6% increase for the five-day trading period.

British Issues

28 Feb Companies	Price pence	P/E	Div. pence	Yield %	1 Week High—Low pence	pence
Comml Union	173	N/A	16.86	9.7	173—	172
Genl Accident	445	13.1	26.43	5.9	446—	443
Gdn Royal Exch	513	13.2	30.71	6.0	516—	513
Phoenix	465	20.2	26.00	5.6	466—	463
Royal	508	13.0	39.28	7.7	512—	506
Sun Alliance	1413	16.2	78.57	5.6	1413—	1400
Brokers						
CE Heath	323	8.1	22.86	7.1	335—	320
Hogg Robinson	172	13.2	9.43	5.5	173—	164
JH Minet	140	10.8	7.57	5.4	140—	137
Sedg Grp	216	10.8	11.43	5.3	220—	216
Stew Wrightson	307	10.2	22.57	7.4	308—	298
Willis Faber	660	13.8	30.00	4.5	678—	660

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

Brokers' year-end gains not caused by higher rates

Continued from page 3

for 1983 would have increased only slightly more than 6%.

New York-based Corroon & Black Corp. also reported increased earnings in 1983, but showed mixed results overall. C&B's gross revenues grew by only $17,000 in 1983, hovering at about $172.1 million. Net income increased 7.7% to $18 million from about $14.8 million in 1982. Earnings per share increased to $2.22 from $2.09.

The income gains, however, were strongly influenced by the sale of equity securities, according to the company's financial statement; net income before securities transactions fell 22.7% to $12.9 million from $16.7 million.

Fourth-quarter operating results also were a mixed bag. Revenues increased 2.2% to $42.2 million from $41.3 million. However, net income, which was not buoyed by securities transactions as it had been in previous years, dropped 39.4% to $2.6 million from $4.3 million. Earnings per share fell to 32 cents from 54 cents in 1982.

However, if income from securities transactions in the final quarter of 1982 were excluded, C&B's net income would have increased slightly in the fourth quarter of 1983, and per-share earnings would have increased 1 cent.

Fourth-quarter earnings, the company notes, also were reduced by 7 cents per share because of expenses incurred in connection with the ongoing investigation into alleged improprieties at Lloyd's broker Minet Holdings P.L.C., in which C&B owns a 20% stake. However, fourth-quarter earnings were boosted by 3 cents per share because of reductions in C&B's corporate incentive compensation awards.

"We made some progress by increasing revenues and earnings in the second half of 1983 vs. the depressed first half," noted C&B Chairman Robert F. Corroon in a prepared statement.

"Furthermore, we are encouraged that certain recent developments, particularly a firming in the reinsurance market and some strengthening of industry loss reserves, point to the stabilization in primary insurance markets later this year."

C&B's biggest gains, however, came from reinsurance rather than direct insurance sales, said Stephen Crane, senior vp and chief financial officer.

"Reinsurance brokerage was much stronger, particularly in the second half," he explained. "There is definitely some significant firming in the reinsurance markets."

Reinsurance also is making up a larger portion of C&B's earnings, he added.

"In 1981, there was a general balance between our four basic business divisions: brokerage services, reinsurance brokerage services, employee benefits and underwriting management. None of the categories generated more than 35% of our profits and none contributed less than 15%.

"Now reinsurance is clearly the biggest contributor to profits."

Underwriting management, which generally lags during competitive markets, improved only slightly during 1983, despite a strong effort to develop new market relations and new products, Mr. Crane said.

The most stable of the publicly held brokerages and the favorite among investment analysts like Mr. Wilson is Marsh & McLennan Cos. Inc., the largest of the brokers.

Although generally known for a balanced book of business that includes direct and reinsurance brokerage, employee benefits consulting and investment management, M&M also is not immune to changes in the market. And, like other brokers, it's also noting a strong increase in reinsurance results.

In 1983, M&M's gross revenues grew 4.7% to $968 million from $924.3 million. Revenues from insurance services, however, declined slightly to $707.5 million from $710.5 million.

Net income increased 2.6% to $123.5 million from $120.4 million, while earnings per share increased to $3.49 from $3.36.

In the fourth quarter, Marsh & McLennan's gross revenues increased almost 9% to $238.7 million from about $219 million. Revenues from insurance services increased to $171 million from $161.8 million, but direct insurance sales increased only slightly, according to a company spokesman, while reinsurance sales increased 8%.

Net income in the fourth quarter grew 9.9% to $28.1 million from about $25.6 million, and earnings per share increased to 80 cents from 74 cents.

Frank B. Hall & Co. Inc. showed the worst results among the brokers that have reported so far.

Hall's 1983 gross revenues shrank about 2% to $365.2 million from about $372.6 million in 1982. Net income fell 48.5% to about $12.5 million from about $24.3 million, and earnings per share fell to $1.02 from $2.05.

Like those of most of the other brokers, fourth-quarter results were slightly improved with gross revenues increasing 3.1% to about $93 million from $90.2 million. Commissions and fees, however, gained 8% to $83.4 million from $76.4 million.

Most of the gain in commissions and fees was due to an aggressive new business plan, a rebound in the economy and some increase in reinsurance sales—not rate increases, noted Chief Financial Officer Stanley Martinez.

"We have noticed the firming in the reinsurance markets, but reinsurance sales is just not as strong a factor for us as it is for some of the other brokers. Our biggest sign of improvement is in commissions from coverage related to inventories and payrolls, which increased late in the year," he said.

However, Mr. Martinez warned that improvements linked to the nation's economy could be misleading since inventories generally increase before Christmas, though they seemed to have increased more than usual in 1983.

Although revenues rose in the fourth quarter, Hall's earnings, influenced heavily by the weakness of the British pound against the dollar, declined significantly in the fourth quarter. Net income fell by about 53% to about $1.5 million from $3.1 million, and earnings per share fell to 12 cents from 26 cents.

"In general, 1983 was a bad year and we are glad it's behind us," Mr. Martinez said.

In fact, even officials at Arthur J. Gallagher, which posted the best results of the brokers reporting so far, admit that 1983 was not a banner year for brokers, and they say they aren't expecting any big changes in 1984.

"We were very satisfied with 1983, but it still was a difficult year for all brokers," remarked President Robert Gallagher Sr. "We are saying that we are seeing signs of rate firming, but not really. Changes are nearly imperceptible."

Gallagher's impressive revenue gains, he said, were the result of a massive new-business effort that focused primarily on the brokerage's service specialties: risk pooling for governmental bodies, self-funded employee benefit plans and trade association risk and employee benefit plans.

"But it's still an awful time for brokers," Mr. Gallagher said. "There may be some gradual firming of retail property/casualty rates, but we won't see the results until 1985, I'm sure." ■

BI Industry Stock Report

FEB. 28, 1984 2/22/84 THRU 2/28/84

Insurance Cos.		Price	% Chg.	P/E	$ Div.	% Yld.	High	Low	Vol. (000)
Aetna Life & Cas Co	NYSE	34.75	3.0	11.4	2.64	7.6	34.88	33.63	957.4
American Bankers Ins Group	OTC	13.63	13.5	9.6	0.50	3.7	13.63	11.75	136.0
American General Corp	NYSE	20.38	0.6	6.8	0.90	4.4	20.50	20.00	1,650.1
American Indty Finl Corp	OTC	21.00	0.0	18.3	1.12	5.3	21.00	21.00	1.4
American Intl Group Inc	OTC	57.00	0.9	9.5	0.44	0.8	57.00	54.25	942.4
American Natl Ins Co	OTC	22.38	1.1	6.9	0.96	4.3	22.38	22.13	40.7
Aneco Reins Ltd	OTC	3.00	0.0	21.4	0.00	0.0	3.00	3.00	2.9
Avemco Corp	AMEX	18.50	-2.0	12.0	0.58	3.1	19.00	18.50	4.3
Banks Iowa Inc	OTC	50.50	0.0	18.8	1.52	3.0	50.50	50.50	4.7
Bitco Corp	OTC	17.00	4.6	0.0	1.33	7.8	17.25	16.50	5.0
Carolina Cas Ins Co	OTC	4.50	-14.3	0.0	0.00	0.0	5.00	4.25*	2.5
Chubb Corp	OTC	67.50	2.3	9.9	3.12	4.6	67.50	65.25	420.3
Combined Intl Corp	NYSE	32.75	3.1	8.5	2.00	6.1	33.00	31.38	433.5
Continental Corp	NYSE	27.25	0.5	143.4	2.60	9.5	27.25	26.75	421.5
Crawford & Co	OTC	15.50	0.0	11.0	0.66	4.3	15.50	15.25	8.7
Crown Life Ins Co	OTC	120.50	0.0	7.9	3.20	2.7	120.50	120.50	0.5
Employers Cas Co	OTC	32.00	0.0	7.2	1.20	3.8	32.00	32.00	5.6
Equifax Inc	NYSE	26.38	2.9	10.5	1.60	6.1	26.38	25.63	27.2
Farmers Group Inc	OTC	40.38	-0.6	10.0	1.52	3.8	40.38	39.13	342.6
Foremost Corp Amer	OTC	24.00	2.1	11.1	0.88	3.7	24.50	23.50	143.3
Fremont Gen Corp	OTC	13.63	10.1	123.9	0.48	3.5	13.63	12.50	255.0
Great West Life Assurn Co	OTC	310.00	14.8	11.2	12.00	3.9	310.00*	310.00	0.0
Hanover Ins Co	OTC	50.25	2.0	6.4	0.88	1.8	50.25	48.25	15.7
Hartford Steam Boiler Insptn	OTC	50.00	0.0	8.6	3.00	6.0	50.00	49.00	4.1
Jefferson Natl Life Ins Co	OTC	39.00	-2.5	16.1	0.76	1.9	40.00	39.00*	4.5
Kemper Corp	OTC	38.00	0.7	8.1	1.80	4.7	38.00	37.75	119.1
Lincoln Natl Corp Ind	NYSE	30.50	0.0	8.8	1.68	5.5	31.25	30.00	143.9
Mission Ins Group Inc	NYSE	20.75	-0.6	0.0	0.50	2.4	21.00	20.75	161.7
Nationwide Corp Ohio	OTC	41.75	0.0	15.3	0.70	1.7	0.00	DID NOT TRADE	
Northwestern Natl Life Ins	OTC	37.75	1.3	9.4	1.50	4.0	37.75	37.25	148.7
Ohio Cas Corp	OTC	44.50	2.3	9.2	2.68	6.0	44.50	42.75	341.6
Old-Rep Intl Corp	OTC	33.63	3.9	7.2	0.90	2.7	33.63	33.25	130.0
Orion Cap Corp	NYSE	25.63	0.5	12.3	0.76	3.0	25.88	25.13	21.4
Preferred Risk Life Ins Co	OTC	20.00	1.3	7.6	0.67	3.3	20.00	20.00	1.8
Provident Life & Acc Ins Co	OTC	69.50	0.0	7.3	2.60	3.7	69.50	69.00	17.4
St Paul Cos Inc	OTC	58.75	-0.6	9.1	3.00	5.1	58.75	57.25	342.1
SAFECO Corp	OTC	59.25	-1.0	8.3	2.60	4.4	59.88	58.75	402.0
Sri Corp	OTC	16.75	-1.5	8.4	0.68	4.1	16.75	16.25	87.0
Seibels Bruce Group Inc	OTC	18.88	0.0	12.3	0.80	4.2	18.88	18.50*	11.6
Statesman Group Inc	OTC	8.00	4.9	7.0	0.15	1.9	8.00	7.75	50.1
Tokio Marine & Fire Ins Co	OTC	112.25	-1.5	22.7	0.96	0.9	114.00	112.25	23.8
Travelers Corp	NYSE	32.63	4.4	8.0	1.92	5.9	32.63	30.88	806.3
United Fire & Cas Co	OTC	29.50	0.9	10.5	1.60	5.4	29.50	29.25	6.0
United States Fid & Gty Co	NYSE	56.75	2.7	9.4	3.84	6.8	57.00	55.38	117.2
United Svcs Life Ins Co	OTC	25.00	0.5	7.8	1.00	4.0	25.13	24.50	45.3
Uslife Corp	NYSE	24.63	-3.4	7.0	0.96	3.9	25.13	24.63	200.8
Washington Natl Corp	NYSE	22.75	0.6	12.1	1.08	4.7	22.75	22.00	42.8
Zenith Natl Ins Corp	OTC	13.00	-3.7	8.8	0.60	4.6	13.00	12.75	46.6
INSURANCE COMPANIES	AVERAGE			10.3		3.9			
Agents/Brokers									
Alexander & Alexander Svcs	NYSE	20.75	1.2	0.0	1.00	4.8	21.00	20.38	45.0
Baldwin & Lyons Inc	OTC	37.00	0.0	15.4	0.80	2.2	37.00	37.00	0.0
Corroon & Black Corp	NYSE	23.00	-3.2	10.4	1.00	4.3	23.13	22.75	19.4
Crump E H Cos Inc	OTC	10.75	0.0	15.6	0.40	3.7	11.00	10.75	7.3
Emett & Chandler Cos Inc	OTC	10.00	2.6	27.0	0.00	0.0	10.00	9.75	0.5
Hall Frank B & Co Inc	NYSE	20.63	-1.8	21.7	1.35	6.5	21.50	19.75*	613.5
Integrated Res Inc	AMEX	25.13	4.7	8.1	0.00	0.0	25.25	24.63	444.4
Marsh & Mclennan Cos Inc	NYSE	44.13	-1.7	12.6	2.20	5.0	44.88	44.13	220.8
Poe & Assoc Inc	OTC	5.25	0.0	0.0	0.00	0.0	5.25	5.25	0.0
Reed Stenhouse Cos Ltd	OTC	12.00	0.0	14.6	0.60	5.0	12.00	12.00	35.3
AGENTS/BROKERS	AVERAGE			15.5		3.5			
Conglomerates/Holding Cos.									
American Express(Fireman's Fd)	NYSE	29.38	2.6	11.6	1.28	4.4	30.50	28.00*	2,439.0
Anderson Clayton(Ranger/PanAm)	NYSE	30.38	6.6	34.1	1.32	4.3	30.38	29.00	20.5
Armco Inc	NYSE	18.63	-2.6	0.0	0.40	2.1	19.63	18.50	400.0
Baldwin Utd Corp	NYSE	2.25	0.0	0.0	0.00	0.0	2.38	2.25	227.4
CIGNA Corp	NYSE	41.25	5.4	7.8	2.60	6.3	41.25	39.25	1,128.5
City Investing Co. (Home Ins.)	NYSE	34.88	3.3	8.6	1.80	5.2	35.50	32.88	530.6
CNA Finl Corp (CNA)	NYSE	24.63	8.8	6.1	0.00	0.0	24.88*	23.63	91.1
Control Data (Comml. Credit)	NYSE	36.75	4.3	8.7	0.66	1.8	39.00	35.38	1,032.3
General Re Corp	NYSE	57.63	5.5	12.2	1.44	2.5	59.00	54.38	474.7
ITT (Hartford Group)	NYSE	40.25	1.3	9.0	2.76	6.9	41.00	38.88	1,290.7
Optimum Mldg Corp	OTC	5.00	0.0	38.5	0.00	0.0	5.00	5.00	1.2
Sears Roebuck & Co. (Allstate)	NYSE	34.25	-1.4	9.0	1.76	5.1	35.50	34.00	2,169.9
Teledyne Inc (Argonaut)	NYSE	161.75	2.9	10.9	0.00	0.0	163.75	159.38	568.9
Transamerica Corp (Occidental & Fred S. James)	NYSE	23.13	-5.6	8.3	1.56	6.7	24.00	23.00	940.1
CONGLOMERATES/HOLDING COS.	AVERAGE			13.5		2.9			

*Record high/low since Jan. 1, 1983

System design: Altman Information Systems

Financial briefs

St. Paul

The St. Paul Cos. Inc. has increased its regular quarterly dividend by 5 cents to 75 cents per share, payable April 17 to shareholders of record March 30.

Frank B. Hall

Frank B. Hall & Co. Inc. has declared a quarterly dividend of 25 cents per share of common stock, payable May 8 to shareholders of record April 17.

Cincinnati Financial

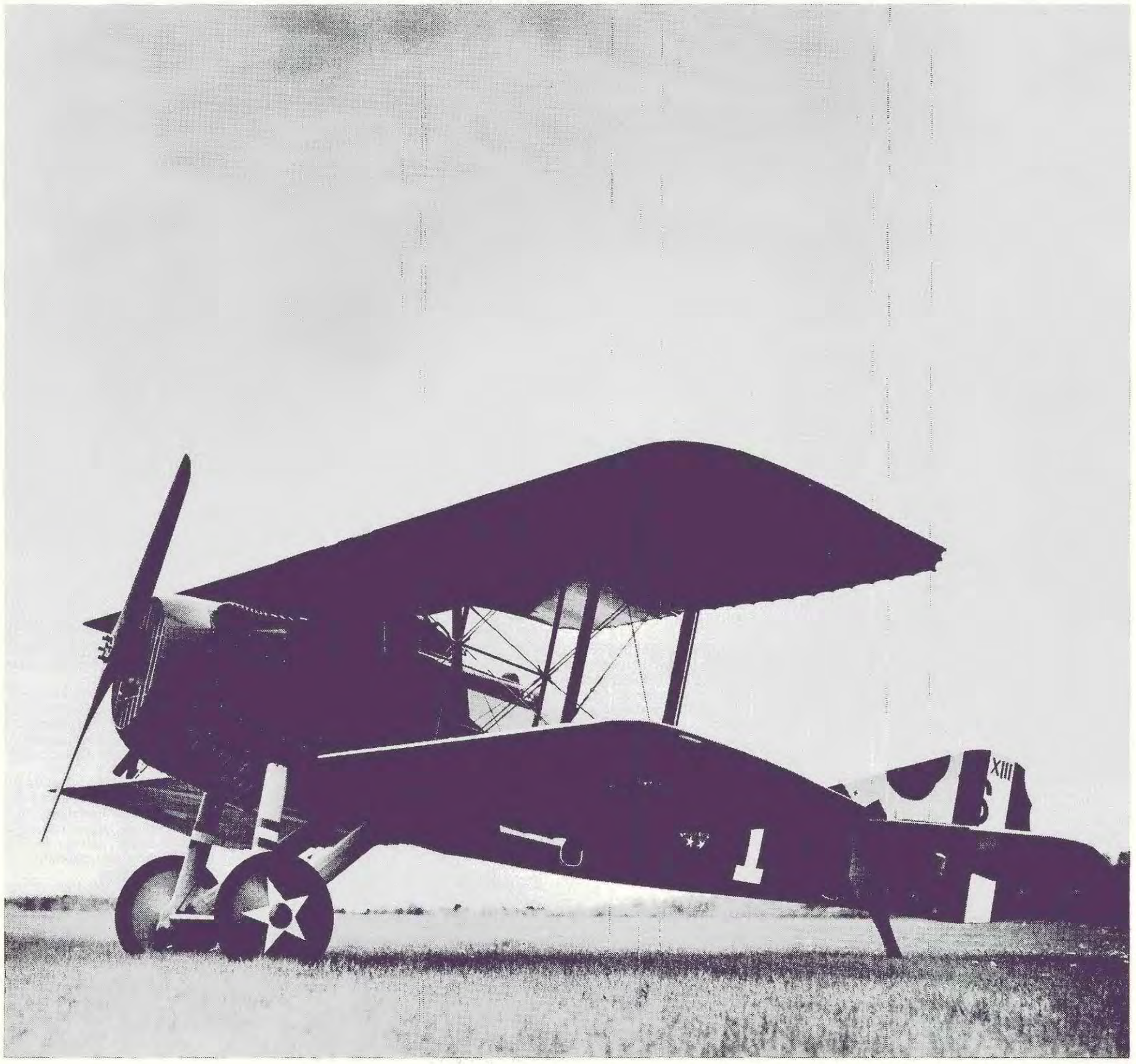
Cincinnati Financial Corp. has increased its quarterly dividend by 5 cents fo 55 cents per share of stock. The company has also declared a 5% stock dividend.

Both dividends are to be paid April 16 to shareholders of record March 23. However, the cash dividend will only be paid on existing shares.

The insurance holding company also reported 1983 earnings of $46.8 million, up from $42.5 million in 1982. Per-share earnings rose to $6.64 from $6.61. ■

If you were restoring this 1917 SPAD XIII, you'd go to an expert.

Why buy Workers' Comp. any differently?



Location courtesy of the Owls Head Transportation Museum, Owls Head, Maine.

You don't have to go far to find a Workers' Compensation program for your business. But finding the expertise to make it work for you is another matter.

At American Mutual, nearly 70% of our business is in Workers' Comp. So we know more about it than almost anybody. And we apply what we know to what you need. With programs as individual as you are.

And we can also tailor general liability and commercial auto insurance plans for you. With the same know-how we're known for.

So if you value your business, shouldn't you be talking with the experts?

American® Mutual

INSURANCE COMPANIES, WAKEFIELD, MASS. 01880