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business insurance®

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update

Aetna's American Excess stops underwriting operations

NEW YORK—Aetna Life & Casualty Co. announced last week that its New York-based American Excess Insurance Co. affiliate would cease underwriting. It attributed the decision to conditions in the excess/surplus market.

American Excess, a subsidiary of American Re-Insurance Co., wrote about $15.2 million in gross premiums during 1982, all of it excess casualty

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MET business aided Iowa insurer's demise

By JERRY GEISEL and LEN STRAZEWSKI

DES MOINES, Iowa—The first collapse of a licensed domestic health and life insurance company in Iowa could leave thousands of policyholders with millions of dollars in unpaid medical bills.

While the failure of Iowa State Travelers Mutual Assurance Co. of Des Moines is directly linked to the failure of its reinsurer, the underlying cause of its demise was its entry into the multiple employer trust health insurance market, state regulators say. Insurance departments in three states are now sorting out the pieces.

Late last month, the Iowa Department of Insurance took over Iowa State Travelers after determining that the 101-year-old company was insolvent.

The department also obtained a court order that bars the insurer from doing any new business or renewing business.

Graphic: Amy Palmer

In California, where Iowa State Travelers insured at least two and possibly three multiple employer health insurance trusts, the California Insurance Department issued a cease-and-desist order barring the company from removing any assets from the state or writing or renewing business.

And in Illinois, where Iowa State Travelers directly underwrote group health and life insurance rather than work through a MET, the state Insurance Department won a conservation court order Feb. 25 that gives it the authority to attach assets to pay an estimated $1 million in outstanding claims for nearly 32,000 Illinois policyholders, according to Assistant Insurance Director Richard W. Carlson.

The Iowa Insurance Department is trying to find a buyer for Iowa State Travelers, which has about $11 million in assets and $23 mil-

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Asbestos defendants to go after government

By STEPHEN TARNOFF

WASHINGTON—Defendants in asbestos litigation are reassessing their legal battle plans in light of a Supreme Court decision that makes it easier for them to recover damages from the federal government.

The high court's Feb. 23 decision in Lockheed Aircraft Corp. vs. the United States will likely prompt the defendants to press thousands of lawsuits against the government that were previously barred, attorneys say.

The 7-2 decision could change the course of asbestos litigation and could force the government to play a larger role in compensating victims of asbestos-related diseases, they contend.

Graphic: Jim Bakasetas

In addition, the decision could have a great impact on litigation involving other toxic substances as well as on tort suits against companies filed by injured federal civilian employees where government responsibility is alleged.

Already some asbestos defendants and insurers say they will file more cross-claims against the government as a result of the decision.

"We're going to do it, that's for sure," said an insurance company attorney who asked not to be identified.

"It is a very important decision and every manufacturer must look at it very carefully," said Jerold Oshinsky, an attorney for Keene Corp. with the Washington firm of Anderson Baker Kill & Olick. "A major barrier has been removed."

Companies like Keene, Manville Corp. and Commercial Union Insurance Co., which have been leading the drive to make the government share liability for asbestos claims, have all indicated the decision could be an important step in getting the government to contribute.

The Lockheed decision, defense attorneys say, specifically permits companies that are sued by federal civilian employees in tort cases to seek contribution or indemnity from the federal government. Prior to the decision, such companies seldom could successfully sue the government because almost all federal judicial circuits interpreted the Federal Employees Compensation Act to preclude such suits.

Although the case did not concern asbestos suits, attorneys contend it is particularly applicable in asbestos claims where thousands of former government employees have sued asbestos companies for injuries they contracted through on-the-job exposure to asbestos.

According to one estimate, as many as 8,000 of the

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Old worries still haunting public brokers

By LEN STRAZEWSKI

Competition, expense control and corporate upheaval are following the public insurance brokers into 1983.

With Fred S. James & Co. Inc. and Rollins Burdick Hunter Co. reporting results through their new corporate parents (*BI*, Nov. 15) and Alexander & Alexander Services Inc. delaying release until this week, only five publicly held brokers have so far issued their year-end and fourth-quarter financial data.

And the tale the reports tell, with few exceptions, is a story filled with economic pressure and disappointment.

"Certainly the fourth quarter was disappointing for all the brokers, with the exception of Marsh & McLennan Cos. Inc.," observes Thomas Rosencrants, brokerage industry analyst for William Blair & Co. in Chicago. "Marsh said it would increase earnings in the fourth quarter and it did."

Other large brokers, however, continue to show signs of corporate trauma.

For example, although he said Corroon & Black Corp. "didn't do too badly," it's not yet known what effect the problems at Lloyd's brokerage Minet Holdings P.L.C., in which C&B has a 20% stake, will have on the U.S. broker's profits.

Lloyd's of London and the British government are investigating alleged improprieties in reinsurance contracts arranged by two of Minet's underwriting subsidiaries (*BI*, Dec. 13). The problems are similar to the better-known troubles at A&A's British subsidiary, Alexander Howden Group P.L.C.

C&B isn't the only U.S. broker with nonbrokerage problems, Mr. Rosencrants points out, explaining that Frank B. Hall & Co. Inc.'s year-end results were hurt by the "expense levels and costs related to its battles with Ryder System Inc." Ryder had sued Hall over the broker's 1981 acquisition of Jartran Inc., another truck-leasing company.

In addition, some of the problems suffered by brokerages aren't showing up in public, he points out.

Year-end broker results (in millions)

	Gross revenues	% change	Net income	% change
Corroon & Black	$172.1	8.6	$16.7	14.1
E.H. Crump	52.1	61.6	2.6	68.6
Frank B. Hall	364.9	3.2	24.0	-21.1
Marsh & McLennan	924.3	9.1	120.4	0.2
Poe & Associates	25.8	33.3	1.4	11.9

"Knowing the business of Fred S. James and RBH, I doubt that they could have had a good fourth quarter, either."

Aside from the outside forces, the pressure exerted on the brokers by the competitive commercial insurance market is continuing unabated, Mr. Rosencrants says.

"There are still no real signs that the commercial insurance pricing situation has changed, so for 1983, expense control will be the real issue for the brokers," Mr. Rosencrants points out.

That doesn't mean that 1982 wasn't a year for expense control.

Despite tight internal reviews, selected layoffs of internal service personnel, a new

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update

Aetna closes American Excess

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policies, according to Kevin J. McGuinn, a home office senior casualty staff underwriter who was among those fired.

An American Excess official said that American Re was trying to absorb as many American Excess employees as possible and would be as "helpful and generous as possible with the remainder," who he estimated at about 50 workers.

Aetna acquired American Re and American Excess in 1979 during the excess/surplus market boom.

The closing of American Excess, which took effect Feb. 28 and applies to its Am-Re Brokers unit, will not affect any outstanding quotes, said T. Darrington Semple Jr., secretary and resident counsel. He added the insurer would continue to service existing policies.

"It's an unfortunate decision, but you know how the excess market has been," Mr. Semple said.

Age discrimination barred

WASHINGTON—State and local governments generally cannot force their employees to retire before age 70, the Supreme Court ruled last week.

The court ruled 5-4 that Congress was within legal bounds when in 1974 it extended the Age Discrimination in Employment Act to include public employees. That law bars age discrimination against workers until they reach age 70.

Panel OKs Social Security bill

WASHINGTON—The House Ways and Means Committee last week approved legislation to shore up the Social Security program, but only after agreeing to impose FICA taxes on some employee benefit plans. The measure now goes to the House floor where a vote is possible this week.

The committee voted to make contributions to salary reduction and flexible benefit plans subject to Social Security taxes, to tax a portion of Social Security benefits for middle-class and well-to-do retirees and to accelerate future payroll tax increases.

In addition, it voted to expand coverage to all non-profit employers and new federal employees. Local and state governments would also not be allowed to drop out of the program.

Bermuda drops tax proposal

HAMILTON, Bermuda—Bermuda-based insurers breathed a sigh of relief last week when Finance Minister David Gibbons announced he will drop plans to impose a 5% payroll tax on foreign companies.

Announcing a $165.5 million balanced budget, Mr. Gibbons told Parliament that the plan, included in last year's budget, would affect Bermuda's competitiveness with other offshore domiciles and was "not advisable."

Washington comp law upheld

WASHINGTON—The District of Columbia has the right to enact its own workers compensation law, the Supreme Court says.

The high court last week declined to review—and thus let stand—a federal appellate court decision that affirmed the city's right under home rule legislation to pass a workers compensation statute.

The case dates back to 1980 when labor groups went to court to overturn the city's new work comp law. Opponents said the city lacked the authority to amend its then-current work comp system, which had provided benefits identical to those set by the federal Longshoremen's and Harbor Workers' Compensation Act.

The District of Columbia law, which went into effect last year despite the challenge, reduced the maximum weekly benefit to injured workers to $396 from $496 and capped benefit increases at 5% a year. City officials say the new law will save employers $50 million this year.

South Dakota passes bank bill

PIERRE, S.D.—Gov. William Janklow has until mid-March to decide whether to sign a bill that empowers state-chartered banks in South Dakota to enter the insurance business as underwriters and brokers (*BI*, Feb. 28).

The bill, bitterly opposed by the insurance industry, was approved by the state Legislature Feb. 28.

The measure's opponents, including the Alliance of American Insurers and the Independent Insurance Agents of America, warn that banks may be inadequately regulated if they act as insurers and say the South Dakota proposal violates the federal Bank Holding Company Act.

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Photo: Wide World

Last week's tornado tore a gaping hole in the roof of the Los Angeles Convention Center.

L.A. twister damage insured

By RHONDA L. RUNDLE

LOS ANGELES—Property insurance will cover the estimated $2.5 million in damage to the Los Angeles Convention Center caused by a freak tornado that ripped through a two-mile stretch of downtown Los Angeles last week.

Although the twister tore a 10,000-square-foot hole in the structure's roof, separate business interruption coverage is expected to pay about $125,000 for a temporary roof to enable the Convention Center to host two large exhibitions scheduled later this month.

A permanent roof will be constructed in the spring, as soon as the weather permits.

The rush repair job should hold down the size of the Convention Center's business interruption claim, said Ed Kossart, risk manager for the city of Los Angeles. The revenues from the two March shows will bring in about $1.2 million, he says.

The facility is insured by Philadelphia Manufac-

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Kenilworth won't seek premiums

By LEN STRAZEWSKI

CHICAGO—Kenilworth Insurance Co., now being liquidated by the Illinois Insurance Department, is dropping more than $20 million in claims against London insurers for contested reinsurance premiums.

William C. Allen, a consultant to the special deputy liquidator appointed by the department in the Kenilworth case, says it would simply be unprofitable for Kenilworth to collect the premium, allegedly owed by London insurers who purchased reinsurance from Kenilworth through its former underwriting agency, B.F.G. Toomey & Associates.

"Due to the nature of the book of business—high-risk ocean marine trucking and medical malpractice coverage—we feel that there is no substantial return likely from the London market," Mr. Allen explains.

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Minnesota to consider comp fund, wage-loss

By CAROL CAIN

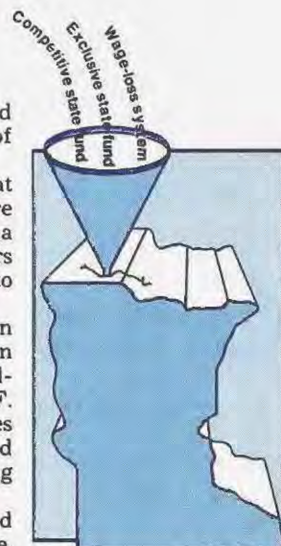
ST. PAUL, Minn.—State legislators will try again this session to establish a state fund for workers compensation insurance and a wage-loss system for work-injury benefits.

Similar proposals last year were either vetoed by the governor or failed to receive approval of both houses of the Legislature.

So far, three bills have been introduced that specifically call for a state fund and more are expected, but a senator who does not believe a state fund is the answer to Minnesota's workers compensation problems has introduced a bill to establish a wage-loss system.

For the past four years, Minnesota has been criticized for its high workers compensation rates, says State Rep. Wayne Simoneau, D-Fridley, who is sponsoring one of the measures, H.F. 24. It calls for a competitive state fund, changes in permanent partial disability benefits and workers compensation insurance pricing changes.

Eighteen states already have established funds to sell workers compensation insurance. In six of those states that have exclusive funds, only the state sells the coverage. In the other states that have competitive funds, commercial insurers are allowed to market coverage, too.



Graphic: Jim Bakesetas

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Airlines studying liability rulings

By BILL DENSMORE

NEW YORK—Risk managers of U.S. airlines that fly overseas are studying two federal appellate court rulings that affect the legal limit on their liability for cargo losses and passenger death claims.

The first ruling could affect the federal government's liability in air cases but could also raise airlines' limits of liability, while the second threatens to remove the current cap on airlines' liability.

The two decisions in unrelated cases, which are also being studied by shippers' and airlines' brokers and insurers, attack provisions of the Warsaw Convention, the international pact among nations that specifies maximum damages in crash deaths or cargo losses.

The court decisions also inject new urgency into a long-simmering debate in the Senate over ratification of Montreal Protocols 3 and 4, which would increase to $117,000 from $75,000 the international passenger liability limit, but would also give the airlines added liability protection by strictly enforcing that cap.

The protocols also clarify the method of calculating cargo losses and eliminate gold as the standard for determining cargo value.

The Montreal Protocols, so named because they emerged from a conference of airlines in Montreal, are scheduled for a Senate floor vote this week.

The Warsaw Convention and its various amendments—also called protocols—currently limit airlines' crash liability to $75,000 per U.S. passenger on overseas flights that stop or originate in the United States.

In the first of the court decisions, involving a 1974 Pan American World Airways crash near Bali, Indonesia, the 9th U.S. Circuit Court of Appeals in San Francisco ruled late last summer that the $75,000 passenger liability limit might constitute an unconstitutional "taking" of property from the estate of a deceased pas-

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Packages cover both property, liability risks

By DOUGLAS McLEOD

NEW YORK—If you've ever wondered why you can't insure all your company's exposures—both property and liability—with one single all-risk policy, put your mind at ease.

You can.

Several brokers are developing and some have begun marketing packaged policies that cover a broad range of exposures over an agreed-upon aggregate retention.

The brokers claim these policies offer not only premium and other cost savings, but represent a more stable and comprehensive form of insurance than the dozen or more separate policies they replace.

Critics of the concept, however, question the value of such programs, especially in light of the highly competitive state of the insurance marketplace.

New York-based Johnson & Higgins has already begun advertising its so-called "Combined Aggregate Protection" program, development of which was completed in early 1982.

The CAP policy has a broad spectrum of coverages including property, general liability, marine cargo and hull, workers compensation, directors and officers liability, fiduciary liability and errors and omissions. It also covers more recently recognized exposures like products recall, political risks and environmental impairment liability.

However, the policy does exclude war risks, nuclear risks and inherent vice.

The policy is open-ended with no expiration date and may be canceled by either side only after 365 days' notice. Premium rates are locked in for a one-year period.

Coverage under the CAP program is basically excess, with the insured maintaining an aggregate retention that is meant to pick up recurrent—or anticipated—losses in all the lines covered.

The aggregate retention level is set after an analysis of a company's losses for five or more years. If, for example, recurrent losses in all lines ranged between $500,000 and $1 million per year over the five years, an aggregate retention might be set at $750,000. The company would then pay all losses up to the $750,000 mark, with all further losses being picked up under the CAP policy.

Sublimits might also be agreed upon, limiting the policyholder's liability for certain types of claims. For example, a sublimit of $8,000 might be set for the policyholder's liability for any automobile direct damage loss.

In addition, a deductible that might range from $200 to $2,000 would be applied beyond the retention mark to eliminate nuisance claims and control administrative costs.

J&H also requires the policyholder to pay a deposit to cover claims-handling costs. The deposit, which might amount to about $50,000, would be refunded in the unlikely event that no losses occur in a given year.

The standard limit for all exposures covered under the CAP program is $100 million, although this can be amended upward or downward depending on the client's needs. Additional coverage can be added for particular lines, like general liability.

For U.S.-based risks, J&H has placed the program with Lloyd's and a "handful" of domestic insurers, including Continental Corp., according to William S. Jennings, a J&H vp. In Canada, J&H Willis Faber Ltd. has placed the program with nine insurance pools and 10 reinsurance groups.

Placing reinsurance was one of the major problems in developing the CAP program, since most reinsurance treaties are written on a line-by-line basis, Mr. Jennings said, adding that J&H had to coordinate reinsurance placement as well as direct coverage for the program.

Mr. Jennings says that policies for about a half-dozen companies are currently in the implementation stage.

J&H is not the only major broker developing this kind of program. Corroon & Black Corp. started looking into CAP-type policies for some of its "very large" accounts three

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Cox leaving CIGNA 'to do what I want'

By BILL DENSMORE

NEW YORK—At age 51, John R. Cox says he is like many people who wish to follow their own interests. Unlike many, he's doing it.

The flamboyant, cigar-chomping Mr. Cox, who has been an insurance industry executive since the 1950s, will leave CIGNA Corp., the nation's second-largest stock insurer, on June 1. He has already officially resigned as executive vp-property/casualty as of March 1.

Mr. Cox

"I don't think there's any big thing here," he says. "I want to do what I want to do and I have the luxury of doing it. That's the critical issue. . .I didn't want to run the property/casualty group or whatever else they offered me in the CIGNA situation."

For years, Mr. Cox has been among the property/casualty industry's most willing—and sometimes most critical—spokesmen. That won't change, he says, and neither will his keen interest in the business.

Although Mr. Cox is quitting a job that paid him at least $400,000 in cash and benefits during 1982, he is believed to have accumulated supplemental retirement benefits. A proxy for the Connecticut General Corp.-INA Corp. merger shows he also had a nest egg of CIGNA stock worth approximately $840,000 in the current market and options worth about another $160,000.

Mr. Cox also accumulated substantial assets in more than a decade as a senior executive at American International Group Inc.

Notwithstanding long-running rumors of alleged friction between him and his CIGNA associates, Mr. Cox said last week in an interview, the decision is entirely his own.

"It's totally my decision. . .there were no disagreements. . .there was nothing rash about this decision at all."

Mr. Cox says he decided during December that he had completed his role in managing the integration of the two giant insurers—Philadelphia-based INA and Bloomfield, Conn.,-based Connecticut General—and doesn't want what's left of the job anymore. He says he had long planned to retire from CIGNA no later than age 55, although he says he might stay longer at a new job.

"In the year 1982, there was a very strong need for somebody to put the Aetna (Connecticut General's property/casualty subsidiary) and the INA together. I had the experience previously in knowing how to do that. I was one of the original four officers of American International Group and so I knew how to do that. That job was finished by the end of 1982.

"That kept my interest alive. To do the same thing over and over again and look toward

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Campaign for '84 convention

Cities promising coverage

By DANIEL BRIGHAM

The five cities vying to host next summer's Democratic National Convention say they'll assume the liability for almost anything that could go wrong, including an inability to reach a consensus.

The cities of Chicago, Detroit, New York, San Francisco and Washington met the Jan. 28 deadline for filing bids with the Democratic National Committee. They found, however, that the committee's specifications for insurance coverage are overly specific in some areas, lacking in specifics in others and downright contradictory in some, brokers and risk managers say.

But despite broad insurance specifications laid down by the committee, the risk manager for one of the cities submitting bids found an underwriter willing to price coverage for the convention at less than $200,000.

The preamble to the specifications states that the host city must provide evidence of liability insurance naming as additional insured the Democratic National Committee, its staff and anyone else connected with the convention committee. The host must also defend and settle any claims on behalf of the DNC "and hold DNC harmless to the full extent of all coverages described herein."

The first requirement in the specifications is comprehensive general liability coverage of no less than $1 million per person and $10 million per occurrence. The specifications also call for property damage limits of $1 million per occurrence and must include paper and records insurance and office contents coverage for office equipment owned and rented by the DNC.

The host city must also buy fire insurance with limits no less than $150,000 per occurrence "with a deductible satisfactory to the convention facility owner."

In addition, the DNC requires the host city to buy comprehensive general automobile liability coverage of "not less than $1 million for bodily injury. . .and $1 million in property damage."

Other coverage that the DNC wants the host city to buy, without detailing how much should be purchased, are:

- Incidental medical malpractice insurance for nurses and paramedics staffing first-aid stations.
- Independent contractors liability insurance to supplement general liability insurance "to protect against suits arising from independent contractor negligence."
- Product liability insurance "to protect against claims such as food poisoning and liability from electrical equipment."
- Host liability/liquor liability coverage.
- Burglary and robbery insurance.
- Accidental death and dismemberment and accidental medical payment insurance for volunteers.

Besides the coverages that the DNC requires the host city to buy, the city must make sure others working on the convention site are also insured.

The specifications set forth seven additional points headed by the statement: "The host. . .is also responsible for requesting any of the contractors it uses for convention work to provide a certificate of insurance to show they carry general liability insur-

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Injured workers more likely to quit: Study

SAN FRANCISCO—One of every three employees who suffers a serious injury or permanent impairment from a job-related accident will permanently drop out of the workforce, a recent study suggests.

Only 65% of the California workers who sustained serious industrial injuries in 1976 are in the labor market six years later, according to preliminary results of the study.

One of every six workers whose 1976 job injury resulted in permanent impairment never returned to work. Nearly an equal number of the injured workers re-entered the job market after the accident, but by 1982 described themselves as "unemployed and not looking for work."

These are the initial findings of a study sponsored by the California Workers Compensation Institute, which tracks loss trends for the state's workers compensation insurers. The research is designed to measure the economic and social consequences of industrial injuries.

CWCI General Manager Alan Tebb stresses the tentative nature of the findings. Although job injury was a significant factor in many workers' decisions to leave the job market, others left for unrelated reasons like retirement and subsequent non-industrial injuries and illnesses, he points out.

The next phase of the research will determine how many injured employees leave the workforce solely because of job-related accidents. Researchers also will try to learn to what extent economic losses caused by industrial accidents are compensated.

In addition to measuring post-injury wage loss, the study also will furnish data on duplication of workers compensation benefits by other public and private welfare programs.

The causes of litigation and the effectiveness of vocational rehabilitation will be among the topics covered in a series of reports to be published upon completion of data analysis. The first report in the series probably will be published in April, according to the CWCI.

The study is based on the results of structured personal interviews with 1,076 California workers conducted early last year by Field Research Corp., a San Francisco-based opinion research firm. The interview subjects were scientifically selected from 1976 workers compensation claims filed with both self-funded and insured California employers.

Interviews with a group of California workers who were not injured during the 1976 to 1981 period permit comparisons between injured and uninjured workers on the basis of earnings, employment history, job mobility and other variables.

About one-fourth of the injured workers in the preliminary study were offered vocational rehabilitation and, of that number, 70% accepted counseling. Those who refused vocational rehabilitation services were typically older, white, male and with some college education.

Three-quarters of the workers who received rehabilitation counseling said the service did not help them find a job, although the majority of respondents rated the quality of the service as satisfactory. These results are rather surprising, since 46% of those who completed a rehabilitation program were

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Benefits not affected by new steel pact

benefit beat

Employee benefits for hourly workers represented by the United Steelworkers of America will not be reduced under its new 41-month contract with seven major steel companies despite union concessions.

The contract, which will run from March 1, 1983, to July 31, 1986, calls for temporary wage reductions and reduced cost of living adjustments. It also provides incentives for early retirement and eliminates one paid holiday and some vacation time.

However, it does not include any reductions of medical, dental or other insurance-related benefits, according to a union spokesman.

The contract's early retirement incentive will pay $400 to supplement Social Security and pension benefits for early retirees who are at least 60 years old and have at least 30 years of service. The payments will begin after the fourth month of retirement and continue for a year or until the worker is age 62, whichever is later, with a maximum payout time of 21 months.

This retirement offer extends from March 1 until May 1 and will affect about 10,000 steelworkers.

Health promotion

Some 30,000 employees at The Travelers Corp. are learning how to stay healthy and use medical facilities more effectively through a new program called Contain.

The program, which The Travelers is implementing at its nationwide offices, was begun in the Hartford, Conn., home office in November 1982.

Employees were given information on improving dietary and exercise habits and practical steps to reduce dependence on medical care through noontime concerts, videotapes, company newsletter articles and luncheon speakers.

Also, free copies of "Take Care of Yourself," a book on self-care, were distributed to employees.

The Contain program also emphasizes cost-saving features in the company's health insurance package including second surgical opinion, ambulatory surgery and pre-admission testing options. All employees' health coverage is underwritten by The Travelers.

The plan, for example, pays the full cost of obtaining a second opinion. After the opinion is received, the plan pays 100% of the surgical, physician and related costs to $2,500, less a $100 deductible. It then pays 80% of fees until an out-of-pocket limit of $500 per person or $1,500 per family is reached. The plan then again pays all the costs.

However, if the employee doesn't elect to use the second surgical option, the plan pays 100% of the first $2,500 and the employee must pay 20% of the remaining amount with no out-of-pocket limit.

The voluntary second surgical opinion provision can be used by employees seeking various forms of surgeries like gall bladder, bunion, cataract, hernia, prostate, knee, mastectomies and tonsillectomies.

The pre-admission testing program covers 100% of all test costs. The plan's payment schedule under this option is the same as under the second surgical opinion option.

The ambulatory surgery provision pays 100% of all eligible procedures after a $100 deductible.

The Contain program's start-up costs were in the high five figures, says Joseph T. Bilich, second vp-compensation and benefits division at The Travelers. Total costs cannot be estimated since it's an ongoing program, he says, adding, however, the program is an investment and that it's intended to "make the issue of wellness a way of life."

Dental coverage

Eight-five percent of the 141 large companies recently surveyed by Towers, Perrin, Forster & Crosby offer dental coverage to employees, compared with 60% in a 1979 study.

Currently, 79% of the companies' dental plans cover orthodontic treatment, the study found, compared with 66% in 1979.

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Benefit beat keeps insurance and employee benefit managers informed on what other companies are doing and of current developments in the employee benefit field. We'd like to know if you've made any changes. Write Claudette Dampier, Assistant Copy Editor, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611; 312-649-5282.

THIS IS THE WRONG TIME TO FIND OUT YOU DON'T HAVE THE RIGHT INSURANCE.

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THE MORE-THAN-ONE-COMPANY INSURANCE AGENT.

Kenilworth won't seek premiums

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"If we sought this premium from London insurers, they would be entitled to offsets for losses they have already sustained on the business. Those claims could easily be more than the premium we feel we are entitled to."

Illinois investigators say Kenilworth was driven into insolvency more than six months ago when convicted fraud artist Jack V. Goepfert brought the insurer a large book of high-risk direct and reinsurance business produced through layers of brokers and intermediaries who received excessive commissions (*BI*, Dec. 6, 1982).

As part of the scheme, Kenilworth also began underwriting insurance and reinsurance in London as a replacement for Beacon Insurance Co., which was also represented by B.F.G. Toomey.

London insurers, including Lloyd's of London syndicates, later canceled the reinsurance agreements after reviewing Kenilworth's financial security.

"We still feel, on the advice of counsel, that London insurers had no right to cancel the business flat without permission from Kenilworth," Mr. Allen says. "However, though we believe we are owed from $20 million to $40 million in premium, the losses we would be liable for would be at least that much."

Although Lloyd's and other London insurers have generally been reluctant to honor contracts that they believe were legally canceled, Mr. Allen says the underwriters have cooperated in investigating and documenting claims.

Kenilworth is still pursuing a variety of financial claims against its own reinsurers and previous agents, Mr. Allen adds.

"If we succeed in collecting agents' balances owed to us, we think the company could be made whole," he says. ■

The STRIPE is here!

23 major private health insurance carriers are distributing the card with the blue stripe.

All 23 members of National Electronic Information Corporation are now distributing identification cards with a blue stripe. These carriers represent 70% to 75% of all private health care inpatient claims. The cards represent their unified efforts to lower costs in handling those claims.

Each card follows the same data format, allowing hospitals throughout the country to quickly and simply prepare claims for electronic submission of "paperless" claims. This includes large chains, such as Sisters of Charity, and hospitals associated with such services as Shared Medical Systems and Mc-Auto. The hospitals will use the cards for ID verification, preparation of claims, and will submit them electronically to the N.E.I.C. clearinghouse in a highly economical batch form—tape or telecommunications. Claims are automatically edited for common mistakes, coding, etc. Then they are forwarded electronically to the proper carrier.

Participating hospitals will reduce verification time, eliminate errors, speed up receipt of claims by carrier . . . and eliminate their own mail room headaches. All that means lower internal costs . . . and faster payment.

Over 1.5 million blue STRIPES have been given out and millions more will be distributed in the next six months. Now's the time to get ready. Those hospitals that prepare now will be the first to be able to process outpatient claims . . . and in many cases, Medicare claims!

Look for the card.
Get ready for it. Use it.

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opinions

And yet another lesson

CHALK UP ANOTHER LESSON about insuring group health benefits with a multiple employer trust and another blow to the image of METs.

What many experts said would never happen has happened: Members of an *insured* MET may not get their medical bills paid. The insurer has been declared insolvent (page 1).

We have reported, commented and editorialized on the financial problems and risks associated with joining self-funded multiple employer trusts for going on seven years now. Essentially, some unsophisticated and sometimes unscrupulous third-party administrators have set up some of these self-funded trusts and charged too little for the insurance, paid too much in commissions and reserved too little to pay claims. The result: Bankruptcy and unpaid claims.

Whenever we advised our readers to carefully analyze a MET before joining one and did not specify that we were referring to *self-funded* METs, insured METs would cry out indignantly that we were unjustifiably maligning them also when the problem was with self-funded trusts.

We don't intend to unjustly malign either kind of trust. Clearly there are well managed and well financed self-funded METs and there are well managed and securely insured METs.

The problem, it is clear, is with any insurance mechanism that charges too little for the product and reserves too little to pay future claims and/or lacks secure reinsurance.

Every employer today is desperately trying to at least control if not reduce the cost of group health benefit plans, but all employers and their agents or brokers must carefully analyze the value of the insurance. Will the policy provide for the payment of claims in the future or will it become a worthless piece of paper?

That question has to be asked of every insurance policy, although it has been applied more often in the property/casualty insurance and reinsurance business. Every professional risk manager today is spending more time analyzing the stability of property/casualty insurers and reinsurers before buying a policy. The employee benefits manager should be doing the same.

And that means not only analyzing the policy-issuing company but also analyzing its reinsurers.

Sure, everyone wants a good buy in the insurance marketplace, but a good buy is one that affords security to the policyholder and enough income to the insurer to maintain that security. That analysis must be performed by every insurance buyer or trust member with the appropriate guidance and counsel of agents, brokers and consultants.

Come on, frequent flyers—give it a try

LEAVING ON A JET PLANE?

You should be enrolled in the frequent flyer programs that are available.

We were surprised to find in our research for our story last week on use of frequent flyer programs how few risk and benefit managers are enrolled. It encouraged us to present the guide to these programs to show you what a good deal you may be missing.

Yes, we know: The last thing you need is something else to remember or deal with before leaving on a business trip.

But in this case, the hassle might be worth it. At least it is worth considering.

Using these programs can give you a better value for your frequent travels, and even give you a chance to make a trip with a free ticket—a trip that otherwise would have been skipped because of budget constraints.

If you aren't worried about the cost of travel, at least consider the programs as a chance to offer yourself and employees a bonus in these times of diminishing corporate perks.

What employee—including yourself—wouldn't appreciate a chance to earn free vacation transportation just by doing his job?

At the very least you can look forward to a free upgrade to first-class accommodations after conducting some first-class work.

letters

A fruitless comparison

To the editor: I feel that the article in your Feb. 14 issue, "Claims administration costs more in insured plans: Study," was very misleading. This is another example of an apples-oranges comparison.

Typically, retention charges for self-funded programs do not include the same elements as retentions for traditional fully-insured plans. For example, such items as printing, reports, actuarial services and conversion charges are often not included in retention charges for self-funded groups, but instead must be purchased separately if desired.

However, the most glaring omission in the article was the component of risk. Obviously, under a traditional fully insured program, the insured is paying the insurer to assume the element of risk; the cost of the risk is built into the premium as part of the retention charge. If the administrator of a self-funded plan assumes any part of the risk, this is usually not included in retention but instead priced separately under the category of reinsurance.

Our corporation sells both self-funded and fully isured programs, but we try hard not to contribute to the great volume of misleading information being circulated in the industry about self-funding.

John W. Fraser
District manager
Blue Cross/Blue Shield of Florida Inc.
St. Petersburg, Fla.

Choosing a 'minority' part

To the editor: I would like to applaud your "Snuffing out smokers" editorial (*BI*, Jan. 17). I am delighted to find the "minority" group of smokers has one haven left in this non-smoking society.

We no longer are going to be able to choose for ourselves whether or not we smoke. I suppose next we will be "ordered" to eat only specified foods, belong to specified churches, join only specified political parties, shop in specified stores, etc.

I was reared in the belief we lived in a society where we had freedom of choice. Evidently I was wrong.

Virginia Morris
Houston

Doesn't want to read unmeasured feelings

To the editor: You do your readers a disservice with stories like "Some cost-containment efforts may save little" (*BI*, Feb. 7).

The chart accompanying the story was labeled "Effectiveness of cost-containment techniques." We found hospices at 4.0, indicating significant net savings to a plan. When we delved through all the words, we found that 94 employers were asked their opinions, but only four employers tried hospices and only one measured the success of the program.

With each benefit mentioned, the story said virtually no one measured results. I suggest that such stories be labeled, "Unmeasured feelings of some benefit managers." That way anyone interested in how people feel could entertain themselves. Meanwhile, the rest of us can get on with the job of containing health care costs.

Robert F. Geagan
Employee benefit chief
State of Vermont
Montpelier, Vt.

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. Send your comments to Letters to the Editor, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611.

Recognizing the dangers

To the editor: After reading the Jan. 17 issue of *Business Insurance*, I was glad to see American industry is finally recognizing the problems and potential dangers of allowing employees to smoke in the workplace.

I was happy to have had the opportunity to read about the experiences of other companies where smokers and non-smokers worked.

I hope you will continue to publish such timely articles to keep the insurance and related industries well-aware and up-to-date on this important and controversial subject.

Victor Horowitz
Plainview, N.Y.

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Reporting weekly for corporate risk, employee benefit and financial executives

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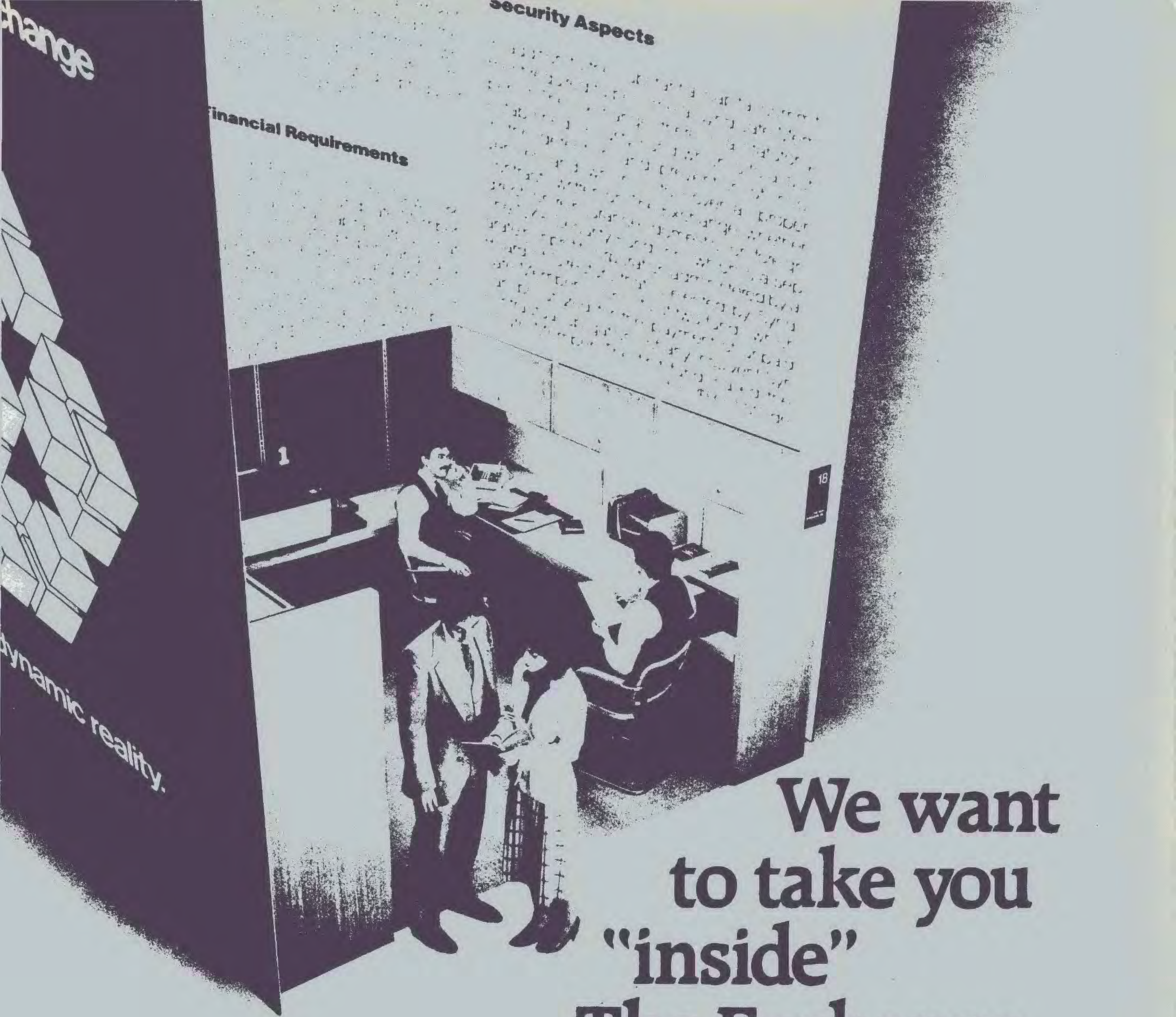

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Mandatory retirement not necessary: Report

By JERRY GEISEL

washington

WASHINGTON—Employees should not be forced to retire at age 70, the Labor Department says.

The Age Discrimination in Employment Act should be overhauled to eliminate mandatory retirement for most employees, according to the department. "It is time that older employees be evaluated on their performance and not on the arbitrary basis of age," it said in a report to Congress.

When Congress amended ADEA in 1978, raising the retirement age to 70 from 65, it asked the Labor Department to analyze whether the law should be further liberalized.

While recommending the end of mandatory retirement for most employees, the department recommended that a current provision in ADEA that allows companies to retire top executives when they reach 65 be retained.

The executive exemption "is very important in predicting retirement patterns, assuring promotions and changing top management," the department said.

In addition, retirement at age 70 should be retained for tenured college and university faculty members.

"An abrupt elimination of the mandatory retirement age altogether could impose unpredictable cost and hiring consequences on colleges and universities, requiring rapid budgetary and personnel adjustments," the department told Congress.

Workplace injuries

Some 16,000 workers lost fingers, hands or arms in 1980, according to a new study released by the Occupational Safety and Health Administration.

Seventy-five percent of the injuries involved a single finger. The index finger was most likely to be injured at work, according to the study.

About one-third of the injured workers were wearing protective equipment at the time of the accident.

In fact, about 25% of workers attributed their injuries to the protective equipment, such as a glove getting caught in machinery.

Copies of "Work-Related Hand Injuries and Upper Extremity Amputations" can be ordered from the Government Printing Office, Washington, D.C. 20402. The cost is $4.50.

Benefit tax plan

The Reagan administration last week officially asked Congress to enact legislation that would tax a portion of an employer's contributions toward health care benefits.

Under the administration's plan, employees would pay taxes on employer health insurance contributions that exceed $2,100 a year for family coverage or $840 for individual coverage (*BI*, Feb. 7). About 30% of the nation's employees would have to pay a tax if the measure is approved by Congress.

Because health insurance benefits now are tax-free, employees "tend to overuse doctor and hospital services," which increase health care costs, the president said.

The proposal faces an uphill battle in Congress. A broad coalition of employers, insurers and unions have banded together to lobby against the legislation's enactment of such a benefit tax plan.

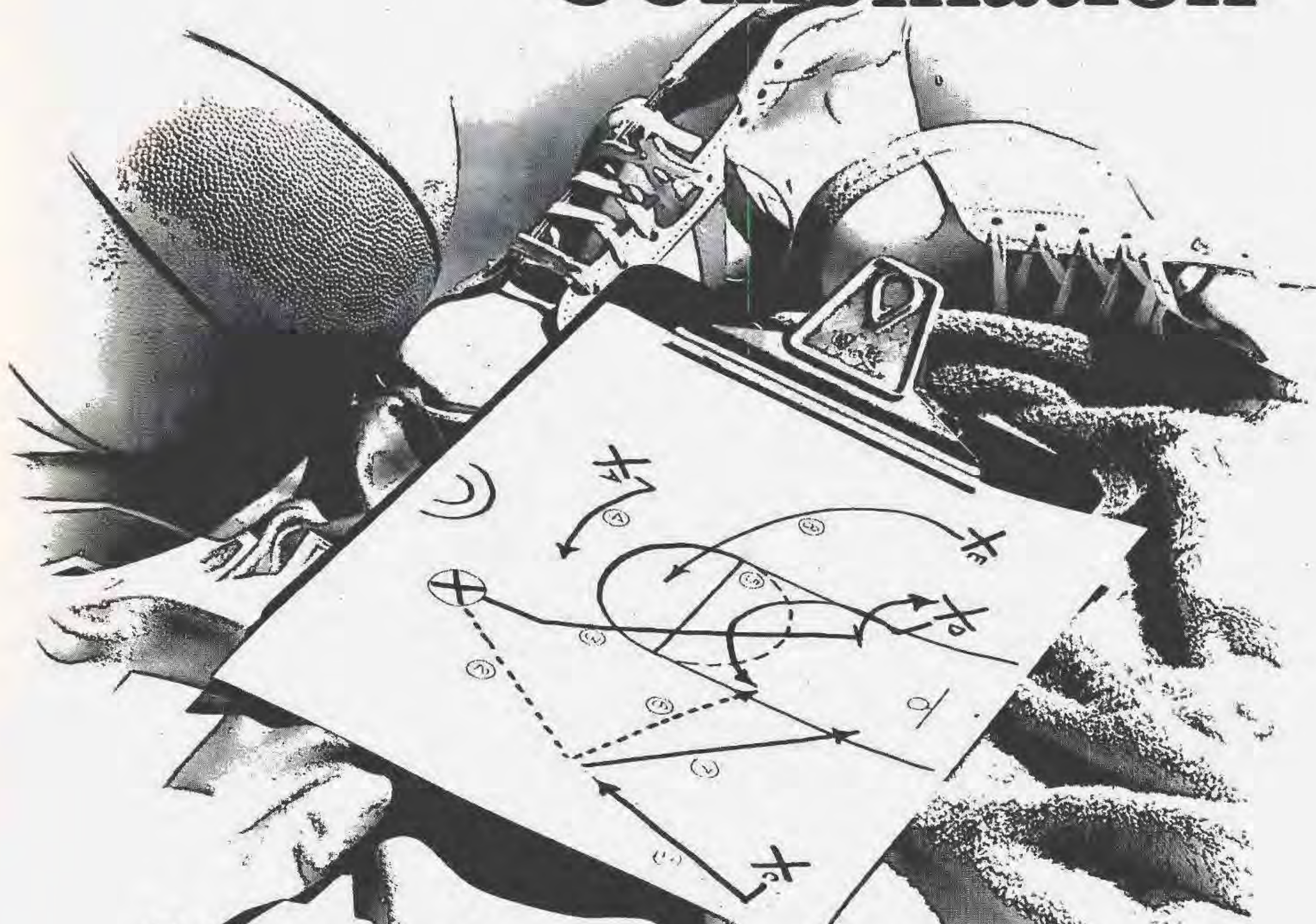
PBGC penalties

The Pension Benefit Guaranty Corp. has proposed that employers that leave multiemployer pension plans and don't make withdrawal liability payments on time be hit with penalities based on the prime lending rate.

Under the PBGC proposal, the interest rate for late withdrawal liability payments would be the average prime rate on short-term commercial loans as published by the Federal Reserve Board.

Under the Multiemployer Pension Plan Amendments Act of 1980, an employer that withdraws from a multiemployer pension plan is liable for a share of the plan's unfunded vested benefits. ■

The Winning Combination



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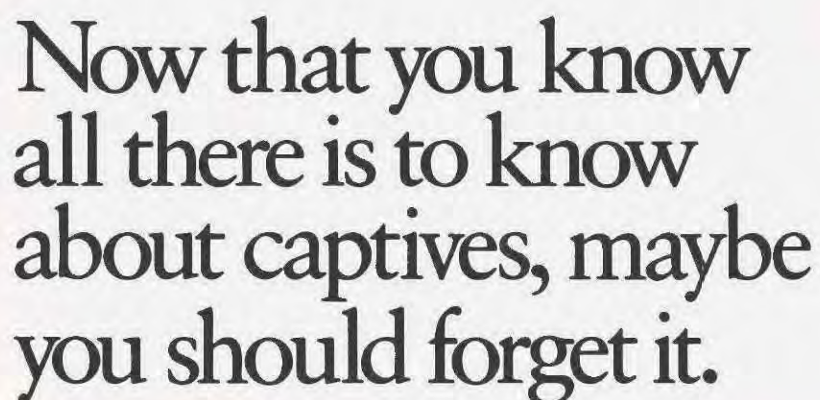

Now that you know all there is to know about captives, maybe you should forget it.

A successful Captive program, as many of the world's top multinational companies have discovered, can be an excellent tool. A tool that provides for prompt cash flow, control, capacity and flexibility.

Captives cannot, however, perform magic for everyone. The overhead incurred in running a captive, for example, may simply make it not worth your while. Or, perhaps because times have changed, your needs may have changed.

And so you may need a new solution. A solution that offers you the benefits of a captive without the necessity of forming a captive.

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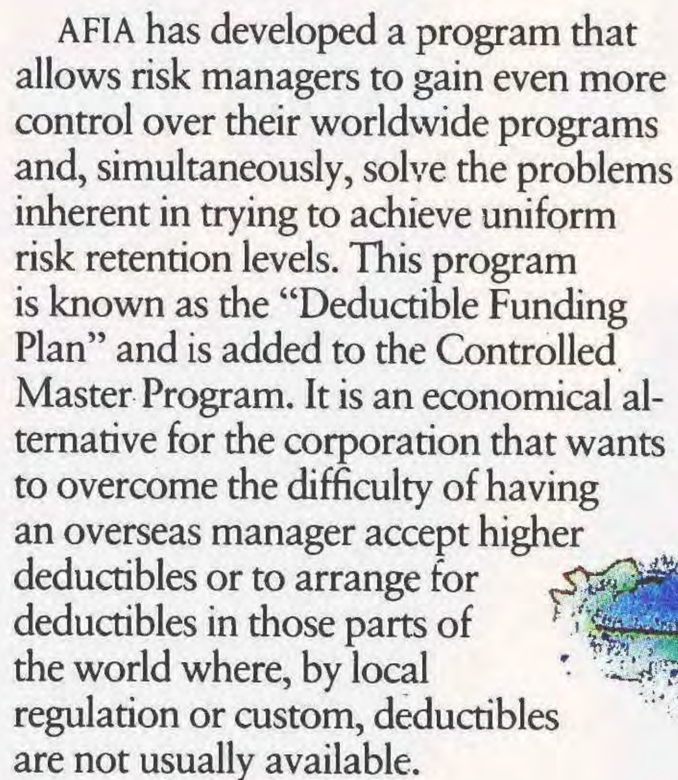
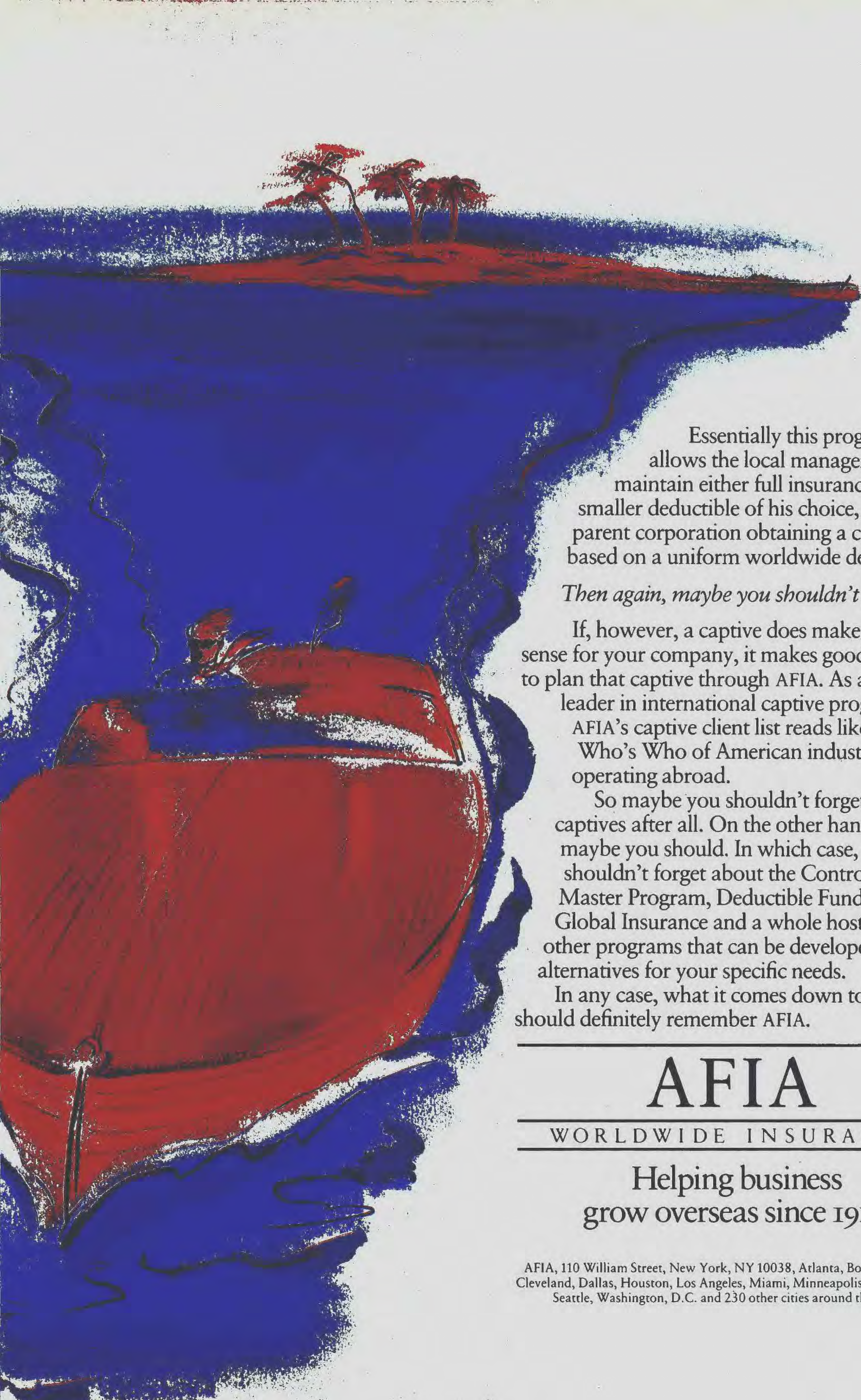
A Controlled Master Program (admitted policies issued abroad combined with a Master Contract issued in the United States) offers numerous benefits. Premiums paid abroad, for example, are tax deductible to a United States company's foreign subsidiary. Admitted policies meet each country's legal requirements and can play a role in demonstrating good citizenship on the part of the insured. It enables the insured to avoid unnecessary taxes that are frequently levied on loss payments when those payments are made first to the United States parent and then transferred to the overseas subsidiary. The Master Contract offers broader coverage, eliminating gaps that can occur from country to country due to variances in local coverages. It brings control of the entire program to the risk manager in the United States. It allows for one underwriter worldwide rather than a different one in every country. And it avails the insured of AFIA's worldwide capabilities and capacity.

AFIA adds a wrinkle.



AFIA has developed a program that allows risk managers to gain even more control over their worldwide programs and, simultaneously, solve the problems inherent in trying to achieve uniform risk retention levels. This program is known as the "Deductible Funding Plan" and is added to the Controlled Master Program. It is an economical alternative for the corporation that wants to overcome the difficulty of having an overseas manager accept higher deductibles or to arrange for deductibles in those parts of the world where, by local regulation or custom, deductibles are not usually available.



Essentially this program allows the local manager to maintain either full insurance or a smaller deductible of his choice, with the parent corporation obtaining a credit based on a uniform worldwide deductible.

Then again, maybe you shouldn't forget it.

If, however, a captive does make good sense for your company, it makes good sense to plan that captive through AFIA. As a world leader in international captive programs, AFIA's captive client list reads like a Who's Who of American industry operating abroad.

So maybe you shouldn't forget about captives after all. On the other hand, maybe you should. In which case, you shouldn't forget about the Controlled Master Program, Deductible Funding, Global Insurance and a whole host of other programs that can be developed as alternatives for your specific needs.

In any case, what it comes down to is, you should definitely remember AFIA.

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Hartford forms reinsurance subsidiary

The Hartford Insurance Group is establishing a new independent subsidiary called Hartford Re Management Co.

Hartford Re will assume treaty reinsurance, something The Hartford had done infrequently in the past, according to Charles Beach, an assistant vp at Hartford Re. He added that the subsidiary was formed primarily to assume reinsurance treaties, although it will also manage Hartford's ceded reinsurance programs, as well as its participation in insurance pools and associations.

Hartford Re will underwrite risks on behalf of The Hartford Fire Insurance Co.

Lyman J. Baldwin Jr., formerly senior vp-casualty underwriting at The Hartford, has been elected chairman of the new unit, while John F. Donahue, formerly vp-property/casualty underwriting, will serve as president of Hartford Re Management.

The new subisidiary will be based in the Hartford, Conn., home office.

MGA formed

A new managing general agent, Entertainment Risk Management Inc., has been formed to handle motion picture, television, theater and special events property and liability risks.

Entertainment Risk Management will act as a managing general agent for Ideal Mutual Insurance Co. and will write business only through brokers.

The firm is located at 919 Third Ave., New York, N.Y. 10022; 212-644-5775.

markets

CIGNA headquarters

CIGNA Corp., which announced last year that it would establish its headquarters in the New York area, now says it will be based in Philadelphia.

CIGNA, the product of the merger between INA Corp. of Philadelphia and Connecticut General Corp. of Bloomfield, Conn., cited a variety of reasons for the decision, including lower costs in Philadelphia, better travel access and a more favorable regulatory climate.

CIGNA President Robert D. Kilpatrick also said the company was unable to find a suitable location in suburban New York and that locating in Manhattan would cost twice what the company estimates it will cost to establish the Philadelphia headquarters.

The company will be headquartered in One Logan Square, an office complex now under construction in which CIGNA owns a 47.5% stake.

New agency

A new insurance agency, Wyatt-Leavitt Insurance Agency Inc., has been formed in Las Vegas. The new agency, which will write both commercial and personal lines, is part of The Leavitt Group, an association of almost 50 agencies throughout Utah, Nevada, Arizona and Idaho.

Wyatt-Leavitt is located at 823 South 6th St., Las Vegas, Nev. 89114; 702-383-0840.

Franchisor investment

Marketforce International Inc., an independent agent franchisor based in Kansas City, Mo., has received a financial shot in the arm from Metropolitan Property & Liability Insurance Co. The Warwick, R.I., subsidiary of Metropolitan Life Insurance Co. has invested more than $1 million in the yearold company, which currently has 38 franchisees.

For its investment, Metropolitan & Liability recieved a bond that may be converted to Marketforce stock in the future. The personal lines underwriter hopes to receive direct exposure to commercial property/casualty business through its association with Marketforce, according to Samuel F. Fortunato, MPL's president and chief executive officer.

Benefit administrator

A new employee benefit plan designer and administrator, Claims Administration Services Inc., has been formed in Palatine, Ill. Claims Administration Services will specialize in self-insured benefit plans for groups of 50 or more workers.

The new firm is located at 662 First Bank Drive, Palatine, Ill. 60067; 312-934-7772.

Acquisitions

John P. Tilden Ltd., a New York-based insurance broker, adjuster and employee benefit consultant, has acquired **Philip D. Jonas & Co.**, another New York-based broker. Jonas' operations will be moved to Tilden's headquarters.

Meidinger Inc., a benefits consulting firm based in Louisville, Ky., has acquired **Health Risk Management Inc.**, a Minneapolis-based health care cost-containment company.

Associated Reinsurance Management Corp. of Atlanta has acquired **U.S. Facultative Management Corp.**, a property facultative reinsurance manager with offices in New York and Atlanta, from **Willcox, Baringer & Co. Inc.**, a subsidiary of **Johnson & Higgins.**

Cincinnati-based **Kreidler-Shell Inc.**, a subsidiary of Cincinnati Equitable Insurance Co., has agreed to acquire **Pension & Group Consultants Inc.** of Cincinnati, an actuarial and benefit consulting firm.

Firstmark Corp. of Buffalo, N.Y., has completed its $32.5 million acquisition of **INA Standard Life Insurance Co.**, a subsidiary of **CIGNA Corp.** INA Standard Life writes both individual and group life insurance and annuities.

New offices

Milliman & Robertson Inc., one of the nation's largest actuarial consulting firms, has opened a branch office at 75 State St., Suite 1511, Albany, N.Y. 12207; 518-463-0932.

Fireman's Fund Insurance Cos. has moved its Eastern home office division to new quarters at One World Trade Center, Suite 8501, New York, N.Y. 10048; 212-466-6400.

Max Insurance Market Place Inc., an excess/surplus lines brokerage firm, has moved to new offices at 3345 Wilshire Blvd., Suite 500, Los Angeles, Calif. 90010; 213-738-0141.

P.G.A. Ltd., a reinsurance underwriting subsidiary of New York-based Pearson & Georgi International, has moved to new offices at 312 Syngrou Ave., Athens, Greece. ■

Woman named to Texas insurance panel

AUSTIN, Texas—Gov. Mark White has appointed former Austin Mayor Carole McClellan as the first woman member of the State Board of Insurance.

In addition, Lyndon L. Olson Jr., former president of the National Assn. of Insurance Commissioners and one of the three members of the state board, was named chairman of the panel.

Mr. Olson will replace William P. Daves Jr., a former Dallas banker, who will continue to serve on the three-person board with Ms. McClellan and Mr. Olson.

Ms. McClellan, whose appointment is subject to confirmation by the Texas Senate, is slated to succeed Durwood Manford, whose term expired Jan. 31 and was not re-appointed by the new Texas governor.

Ms. McClellan, who served as Austin's mayor for six years and is the only woman ever to hold that position, readily concedes having no background in insurance regulation. She has indicated she would serve as a policyholder advocate. ■

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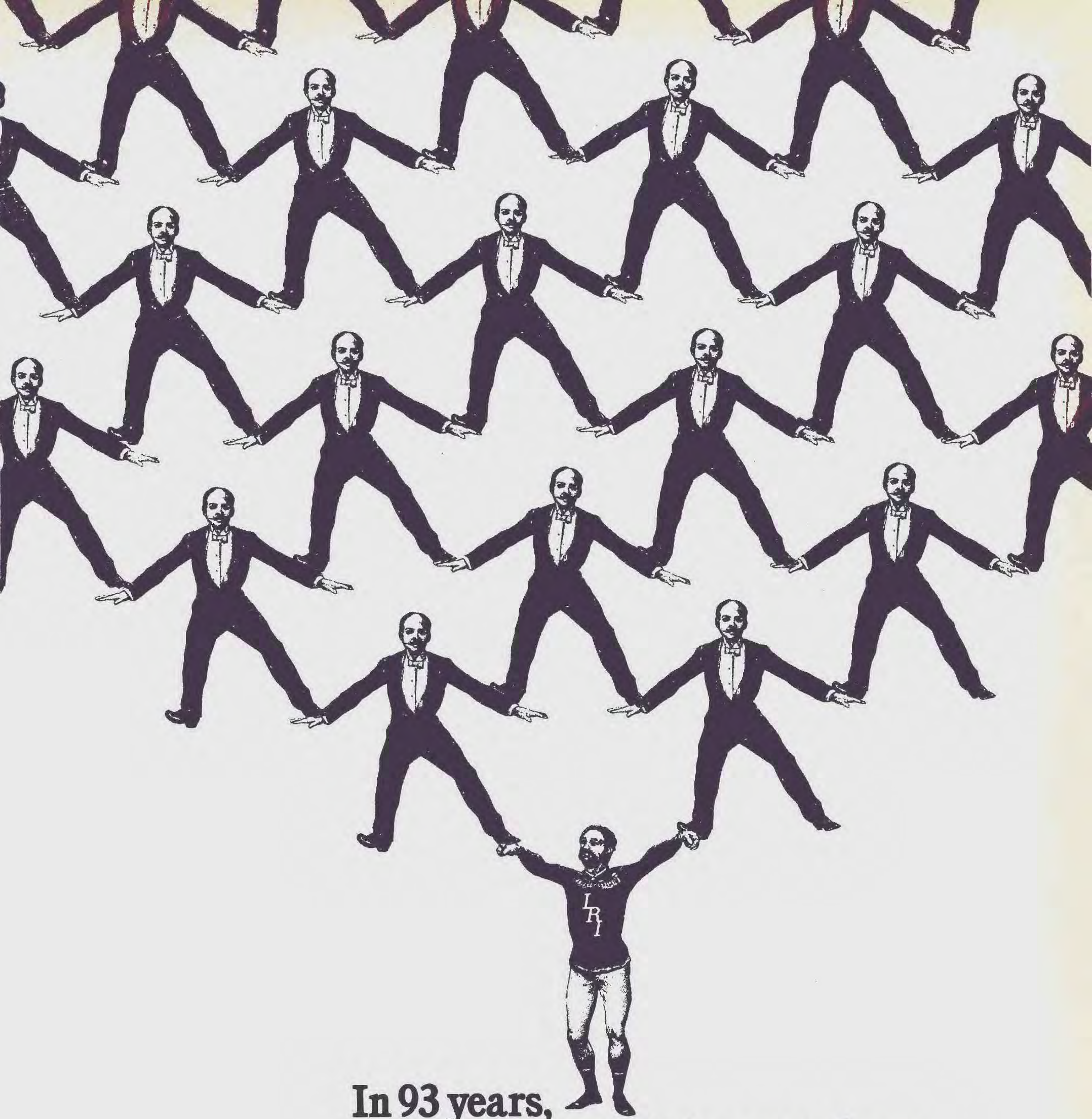

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Industrial Risk Insurers

Textron names Morse risk management vp

comings & goings: buyers

John L. Morse, 50, is now vp of risk management and insurance at Textron Inc. in Providence, R.I. His new position is an expansion of his previous duties as assistant vp. He formerly served as a principal at D.A. Betterley Risk Consultants Inc. of Worcester, Mass., and president of Frank B. Hall of Rhode Island. He received a bachelor's degree from the University of Rhode Island in Kingston. Mr. Morse is director of the Rhode Island credit bureau, a deputy member of the Massachusetts and Barrington, R.I., Risk & Insurance Management Society chapters, and a member of the town of Barrington's insurance committee. He reports to senior vp and general counsel Thomas D. Sutter.

* * *

The Department of Risk Management of the Commonwealth of Virginia in Richmond has expanded to include two program managers, **Alfred Kaulfers Jr.** and **Sheila Vanada.** Mr. Kaulfers will manage the statewide auto fleet insurance program, the Tort Claims Act, and the state government's all-risk liability and specialty liability programs. He was previously president of Commercial Insurers of Virginia in Richmond. He received a bachelor's degree from Rider College in Lawrenceville, N.J., and a master of business administration from Fairleigh Dickenson University in Madison, N.J. Ms. Vanada will manage the state's property insurance program. She served eight years with INA Corp. in Norfolk, Va., and Los Angeles as a multiline underwriter. Both Mr. Kaulfers and Ms. Vanada report to Charles F. Scott, director of the office of risk management.

* * *

Nancy L. Reppert is the new risk manager of the city of Dallas and will institute the city's first risk management program. Ms. Reppert was formerly municipal risk manager in Liberty, Mo., and Ames, Iowa. She received legal assistant certification at Rockhurst College in Kansas City, Mo. She also attended the University of Arizona's risk management program and the University of Missouri-Kansas City's public management program. Ms. Reppert also writes and lectures on the subject of municipal risk management. She reports to city Finance Director Winston Evans.

* * *

Michael Losey, 44, is the staff vp of compensation and employee benefits, a new position at Sperry Corp. in New York. He will manage the company's worldwide compensation and benefit programs. He reports to executive vp of personnel and organization, F.D. Sweeten. Mr. Losey had been with the Sperry New Holland Unit of Sperry Corp. in New Holland, Pa., for 18 years, most recently as personnel vp. He received a bachelor and a master of business administration degree from the University of Michigan in Ann Arbor.

* * *

Bill F. Tronnier, 46, was promoted to vp of corporate risk management at Parker Drilling Co. in Tulsa, Okla. He joined the company in 1979 to develop a risk management program and now supervises all property/casualty and group life/health insurance, as well as loss control and safety. Before joining Parker, Mr. Tronnier was with Phillips Petroleum Co. in Bartlesville, Okla., for 23 years. He received a bachelor's degree from the University of Tulsa and is president of the Oklahoma Chapter of the Risk & Insurance Management Society. In his new position, Mr. Tronnier reports to J. Roger Collins, senior vp of administration.

* * *

Marlyn Meyer, 56, is the manager of workers compensation and safety training for Jewel Food Stores in Melrose Park, Ill. In his new position, Mr. Meyer is responsible for helping the temporarily disabled return to work and spearheading the employee safety training program. Mr. Meyer was most recently West-area personnel manager with responsibility for 42 stores. He has been with the company for 32 years. He received a bachelor of science degree in business administration from North Central College in Naperville, Ill., and a master of business administration degree from the University of Chicago Graduate School of Business. Mr. Meyer reports to John Haugabrook, vp of training and college relations.

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We'd like to report on staff changes in your risk management or employee benefits department. Just drop a note to Sallie J. Drury, Editorial Assistant, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611, or call 312-649-5398.

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	MAR 7	Feb 23
EMPLOYEE BENEFITS: CONTROLLING COSTS	MAR 14	Mar 1
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Chicago 'I' Day features talk on wage loss

CHICAGO—The 47th Annual Chicago Insurance Day program, to be held April 28, will feature a discussion on whether a wage-loss workers compensation system could succeed in Illinois.

The special afternoon session entitled "Workers Compensation Wage-Loss: Will It Work in Illinois?" will feature Fredrick Karl, vp of the Florida Assn. of Insurance Agents and one of the architects of the Florida wage-loss law.

In addition, another program entitled "An Industry in Transition" will feature a discussion of insurance developments and trends.

The topic will be discussed by a panel of key industry people, moderated by Mr. Karl and including Gary K. Cubbinson, corporate risk and insurance manager at Square D Co.; Frans R. Eliason, president and chief executive officer of Armco Insurance Group Inc.; Richard L. McClelland, vp-investments at Kemper Group; Mavis A. Walters, senior vp of the Insurance Services Office; Jeffrey M. Yates, executive vp and general counsel of the Independent Insurance Agents of America; and a yet-unannounced representative from Lloyd's of London.

The program is sponsored by the Chicago Insurance Assns. Council and the Chicago Board of Underwriters.

Tickets are $40 in advance and $45 at the door. To order contact the Chicago Board of Underwriters, 101 N. Wacker Drive, Suite 230, Chicago, Ill. 60606; 312-236-4888. ■

Court to rule whether to extend comp benefits to many illnesses

By RHONDA L. RUNDLE

SAN FRANCISCO—Almost any non-occupational injury or illness requiring a doctor's release before the patient returns to work could be compensable under California workers compensation law if the state Supreme Court reverses a lower-court ruling.

California employers are awaiting the high court's ruling in a case involving a nurse's assistant who suffered adverse effects and temporary disability from treatment for suspected tuberculosis. The plaintiff claims her employer is responsible for her illness because she underwent the treatment to meet a hospital's requirement for employment.

If the court rules too broadly in this case, it might create a difficult choice for employers, stresses David Lister, a Los Angeles attorney who has filed a brief in the case on the behalf of three employer groups.

Employers, he says, may decide not to hire handicapped people rather than face the consequences of possible liability if they ask the applicant to seek treatment.

"This is the first time this specific situation has come to the courts," adds Merle Rabine, the Santa Ana, Calif., attorney representing plaintiff Carol A. Maher.

The Supreme Court has until mid-April to render its decision.

The case is unusual because Ms. Maher does not claim that her job caused or aggravated a disease, but that the treatment for suspected tuberculosis made her sick.

Ms. Maher was given a tuberculin skin test as part of a routine pre-employment medical examination on her first day as a nurse's assistant at San Clemente General Hospital in San Clemente, Calif. The test results were positive, and the hospital asked her to see a doctor to certify that her condition was non-communicable.

Three months after receiving treatment for the illness—which proved to be chronic bronchitis instead of tuberculosis—she was admitted as a patient to San Clemente General with what was diagnosed as a neurological condition. Ms. Maher claims this condition and her subsequent temporary disability would not have arisen if her employer had not sent her for treatment in the first place.

If Ms. Maher wins her appeal to the high court, the case will be returned to the Workers Compensation Appeals Board for a determination of benefits to be paid by her former employer, San Clemente General.

She is seeking 30 weeks of temporary disability benefits worth about $3,600 and reimbursement for unspecified medical expenses.

The principle, not the benefits, is the issue in this case, points out Leonard Silberman, a Santa Ana attorney representing Insurance Co. of North America, which provides the hospital's workers compensation insurance.

None of the elements of causation or aggravation are present to classify Ms. Maher's condition as an industrial injury, he argues.

"It's a Catch-22 situation for employers," points out Susan Cavazos, manager of employee benefits for the California State Chamber of Commerce. In many industries employers are required by state law to perform pre-employment medical testing. If the tests give evidence of illness, employers must obtain a physician's release before the employee can return to work.

"Should an employer be held liable for following the mandate of the law and at the same time for being charitable in continuing to offer employment to an infirm employee?" asks Ms. Cavazos.

"If the (appeal) prevails, we feel the result will be a chilling effect upon the employment of those who are handicapped or who suffer disease," says Mr. Lister, the attorney who has filed a friend-of-the-court brief on behalf of the state Chamber of Commerce, the California Self-Insurers Assn. and the California Manufacturers Assn.

The California Workers Compensation Institute, representing the workers compensation insurers operating in the state, also has filed a friend-of-the-court brief with the high court.

Last July, an appellate court affirmed the Workers Compensation Appeals Board ruling that Ms. Maher's injury is not employment-related and therefore not compensable. Oral arguments in the case were heard by the state Supreme Court on Jan. 12. ■

Storm estimates

NEW YORK—Insured property damages caused by wind, hail, tornadoes, snow and ice that swept the East Coast Feb. 10-14 are estimated at $10 million by the American Insurance Assn.

The storm was assigned Catastrophe No. 85 by the Insurance Services Office. ■

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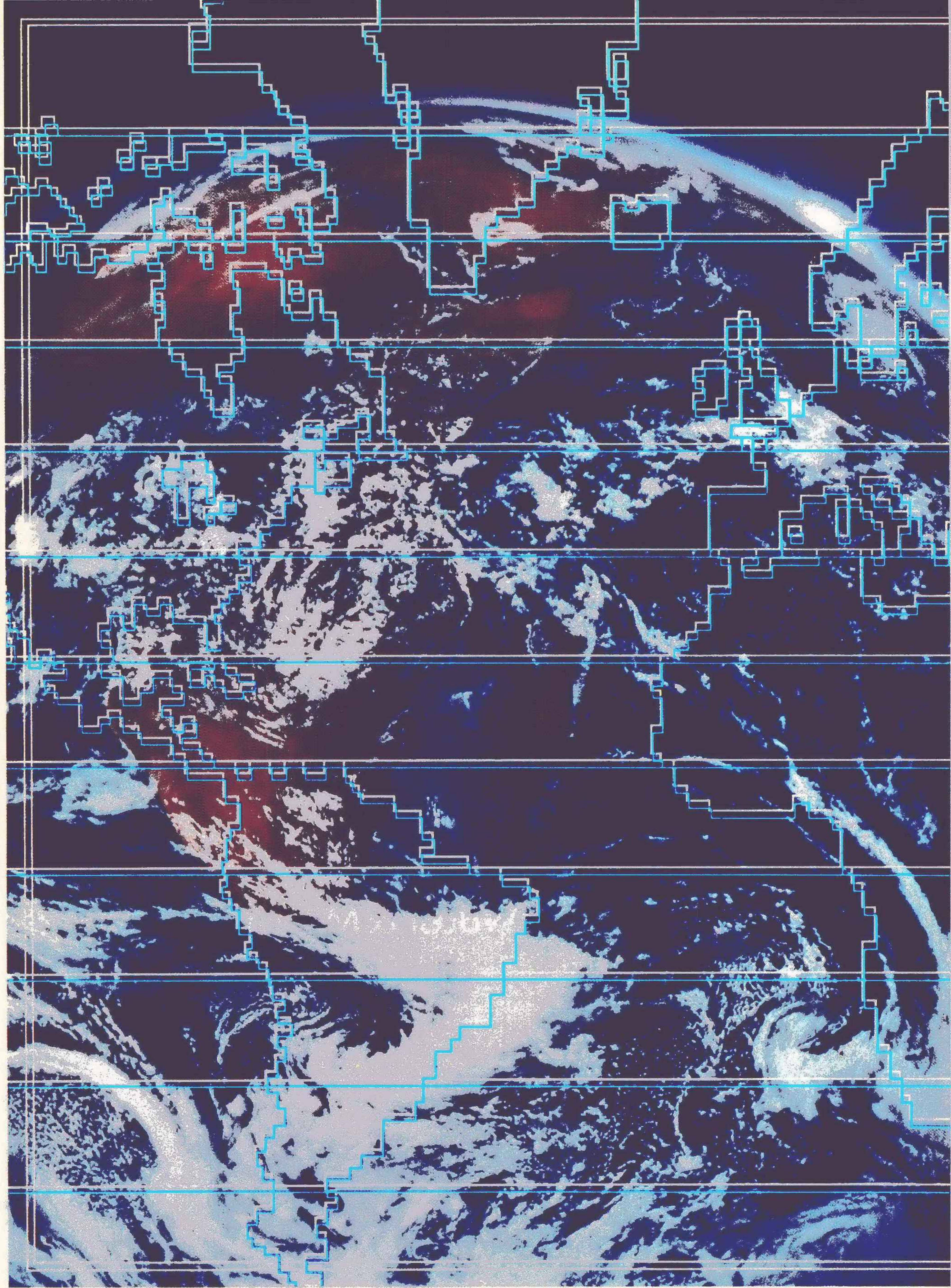

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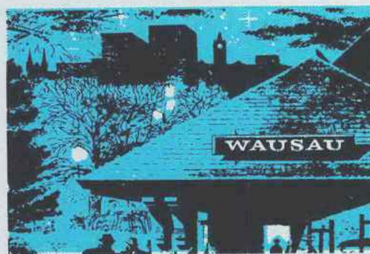

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perspective

STEPS TOWARD SECURITY

Justifying a program's cost is a start in the right direction

By Jay R. Dixon

EVERY ORGANIZATION in the world competes with other organizations for resources, including groups within those organizations. Internal competition is often so fierce, in fact, that social scientists have developed behavioral models designed to deal with conflict among groups that compete for scarce resources.

Security managers must compete for resources with managers of other departments of their corporations. Because security departments do not produce revenue in the usual sense, they often encounter rough sledding when attempting to get their share of the budget. That some security managers are not able to justify, by cost, a loss-prevention program or concept only exacerbates the situation.

The inability to deal effectively with cost justification is not entirely their fault. It is difficult, though not necessarily impossible, to measure the cost effectiveness of loss control when there is no loss. Because it is difficult, organizations frequently measure other things instead: arrests, recoveries, rate of inventory shrinkage, their losses against those of their competitors, employee morale and other trends.

Shoving the issue of cost justification under the carpet, though, is ignoring a ticking time bomb. Sooner or later someone is going to ask you to justify the expense of your security program.

It would be nice if there were a lot of literature to help you. Unfortunately, practitioners who turn to security literature for help in cost justification most often find, instead of firm data, an array of estimates or opinions. Those statistics that are cited are often based on guesswork and estimates frequently use previous guesses as their basis.

In 1971 the Rand Corp., chartered by the U.S. Department of Justice to study the security industry, found that readily available published data about the industry were "incomplete, fragmentary, generally highly aggregated or exhoratory in nature." The Task Force on Private Security of the National Advisory Committee on Criminal Justice Standards & Goals found comparatively few books, articles or scholarly treatises about security.

If few scholarly works have been written regarding security, less has been written about financial justification for security programs. While, for example, the National Institute of Law Enforcement & Criminal Justice bibliography on private security contains abstracts of 107 publications, none deal directly with economic justification for security programs and only a handful even mention cost effectiveness.

Since there isn't a wealth of data about the economics of a security program, security managers must collect and analyze their own data to justify a program.

There are sources that may be useful in laying a foundation. Publications like "The Cost of Crimes Against Businesses," published by the U.S. Department of Commerce, and "Security and the Small Business Retailer," published by the National Institute of Law Enforcement & Criminal Justice, include estimates of the cost of crimes against businesses. The Federal Bureau of Investigation publishes periodic reports that include numbers of crimes against businesses and dollar losses reported to law enforcement agencies. Other sources of information include trade organizations, government entities and insurance companies.

Senior managers who measure department activities, including security, measure them in terms of cost effectiveness. Cost effectiveness may mean doing things the least-expensive way, or at the lowest cost consistent with prescribed standards or assuring that what is spent produces the best return for the expenditure.

In their "Protection of Assets Manual," T.J. Walsh and R.J. Healy define cost effectiveness as a combination: Spending the least possible consistent with required results and assuring that each item of expense is fully justified as the best available way to commit funds.

The security department must be able to show that its efforts in crime reduction or loss avoidance justify its expenditures. Two questions, therefore, must be answered:

- Does the security organization do anything that can be quantified and can justify the funds expended?
- Are the methods used by the department the most effective for the dollars spent?

Historically, security organizations have tended to view their missions as preventing crime, investigating incidents or making recoveries. While the latter activity may easily lend itself to economic qualification, the first two may be positively measured only if some dollar value can placed on them and shown to the parent company.

Put another way, the security department must produce a return on the parent company's investment. It must demonstrate that it produces more dollars than it uses or that without it, the parent's cost would be greater than the amount spent to operate the department.

If prevention is the primary goal of the security program, its cost can be justified only by showing that probable losses that can be quantified in dollars would likely not occur if the program were implemented.

The first step in justifying the security program is to make sure the its goals are consistent with the company's needs. Security managers will never have unlimited budgets with which to protect their companies. They must assign priorities in order to reduce risk where it is highest, or where the reduced risk will provide the greatest benefit.

A system of risk analysis not only assures a more effective security program, it also helps justify the program, for it persuades senior managers that the department is concentrating its efforts on the most significant risks.

A current example of what happens when one attempts to avoid all risks, rather than those that are imminent or would cause the greatest loss, comes from the Senate Permanent Subcommittee on Investigations. The subcommittee recently commented that, by trying to keep the Soviet Union from getting any of our high-technology secrets, the United States finds itself virtually unable to protect anything. By trying to guard against all such risks, our resources are spread so thin that there is no effective protection against any risk.

Risk analysis is a term often loosely used to describe nothing more than a subjective ranking of priorities, but good risk analysis is much more than that. It begins by systematically classifying and arranging those tasks that fall within the parameters of the security program.

There are a number of ways to do that. One might simply list natural disasters and other hazards that could physically damage assets. Under natural disasters we might find earthquakes, flood, hail, storms, tidal waves, volcanic eruptions, wind and similar calamities. Other hazards might include accidents, chemical leaks, explosions, fires, radiation, structural collapse and water damage.

Another category of risk could be losses caused by human failure, such as theft and violence. Under theft one might list bad checks, burglary, embezzlement, extortion, forgery, fraud, hijacking, larceny, robbery, shoplifting and wiretapping or eavesdropping. Violent acts might include anarchy, arson, assault, bombing, kidnapping, murder, riot, sabotage and vandalism.

Since people are usually a company's most valuable asset, another category might be one of risks to personnel. Those could include absenteeism, alcoholism, death, disability, drug abuse, labor unrest, psychological problems and conflicts of interest—bribery, espionage and kickbacks. The risks must be those that affect your organization and should be classified in a manner that is useful to you.

Once events that could create a loss are identified, the next step in the risk analysis process is to determine the probability of an event occurring in a given time period. In many instances, probability can be predicted by mathematical formula based on prior events.

Where that is not a possibility, levels of probability can be separated by subjective valuation. For example, an event's probability can be placed under one of four broad headings: certain to occur, likely to occur, might occur and unlikely to occur. While this method is rudimentary, it is better than randomly concentrating on risks or attempting to treat all risks equally.

Once probability has been determined, the next step is to evaluate how critical, in dollar losses, the occurrence of an event might be. All costs must be considered: permanent replacement, including purchase price, freight, labor, materials and financing; temporary replacement; lost time; money; lost opportunity; and the lost time value of money.

When those two steps are resolved, each event may be given a priority ranking. What you will have is a recipe that tells which risks to expect, how often and what the cost to the organization will be if the event occurs. You will know, therefore, where to concentrate your protection efforts and will have a rationale for how much to spend on those efforts.

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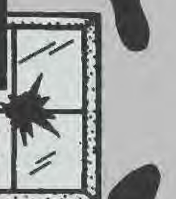


perspective

Management should keep pace with the growing value of benefits

By Kenneth P. Shapiro

management

AS THE VALUE OF employee benefits continues to become a greater percentage of salary (see chart), more and more companies are re-examining the structure of their benefits departments. The growing importance of benefits demands a benefits unit with broad, rather than narrow, specialized responsibilities. Glaring deficiencies in the organization and the emphasis of many benefits departments include:

- Control vs. counsel. Typically, the benefits department is an agent of control whose main objective is to administer benefits programs in an efficient manner. Too often, this efficiency translates into smooth "paper flow." Certainly reports, claims and analyses all are important parts of the function. But this administrative emphasis often precludes entry into the important employee relations area.

Kenneth P. Shapiro is a vp at Hay Huggins & Co. in Philadelphia. His column on management appears regularly in Business Insurance.

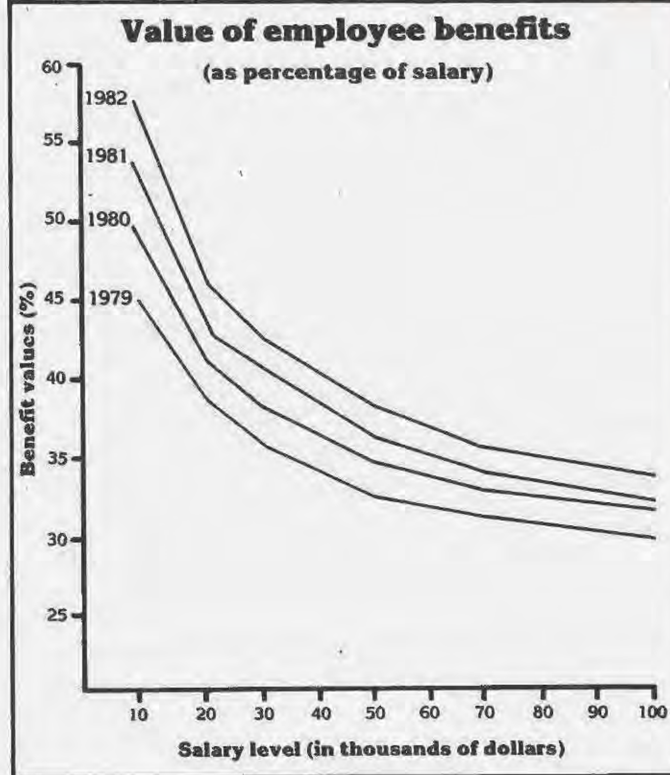
Employees need ongoing counsel on how to use their benefits. What health care option is best for them? Exactly what is covered by the company dental plan? Should they choose the company's supplemental life insurance program?

The benefits department must take on the responsibility of communicating with employees. Benefits are expensive. Not only should employees know how to use what they have, they also should understand the value of their benefits plans. Benefits, like cash compensation, can help attract, motivate and retain employees. Many companies lose this valuable internal public relations potential by not gearing up their benefits departments for this effort.

- Benefits vs. total compensation. Historically, benefits have been considered separately from salary and bonuses. But benefits levels are a large portion of salary. There are no longer "fringe" benefits; rather, they have moved into the very fabric of compensation design. Still, the benefits department often remains apart from the compensation department, with none of the overlap that would be appropriate.

To emphasize the problem, let's look at an actual company that allowed its compensation and benefits programs to grow with no coordination. Salaries in this organization were in the 70th percentile when compared to a similar industry group. But benefit values were in the 40th percentile.

Although the company had no problem attracting young talent at the higher levels, it did not get the basic supervisory and middle-level management people it needed long-term—even though, when taken together, its benefits and compensation program ranked in the 60th percentile for its industry group. This organization should have looked at its benefits/compensation mix as compared to a total compensation policy. But that exercise was not done because the compensation and benefits departments did their analyses separately.



Source: Hay Huggins Non-cash Compensation Comparison

- Broader responsibility. Traditionally, the benefits manager is an administrator, not really influencing policy or design. The benefits manager may have little involvement in financing and communications issues. But the importance, complexity and the very size of benefits programs demand that this role be expanded. In most organizations, the position of benefits manager should be a bigger job, or a more highly placed position, than it is today. ▪

The first major step in a security program

Continued from previous page

Cost avoidance and reduction are also major variables in any financial justification for a security program. Cost avoidance refers to avoiding future costs, while cost reduction means spending less than you currently spend. While cost avoidance has been traditionally thought of in terms of crime or fire losses, there are other valuable, but less obvious, measures of cost avoidance and reduction.

As an example, let's look at a multifacility company that has an alarm system in each of its facilities. While a single proprietary alarm system tying each of the firm's facilities into one network would require a significant capital expenditure, that expenditure could be offset by a reduction in operating expenses. That reduction might include alarm monitoring and telephone line charges, service call fees for alarm equipment, false alarm penalties and a reduction in personnel in each of the facilities.

The firm might also find additional uses for the system that would help pay for it. In an era of high energy costs, consideration must be given to the costs of turning on or off the lights, equipment and heating and cooling systems. Such a system might provide protective measures not available with existing equipment. If it could be shown that the new system would prevent losses more effectively and those prevented losses could be quantified, the resulting savings become a cost avoidance benefit.

There are some events which, if not sensed and acted upon, could create substantial losses. If a boiler

Jay R. Dixon is vp and manager of general services of Crocker National Bank in San Francisco, Calif.

> Shoving the cost justification issue under the carpet is ignoring a ticking time bomb. Sooner or later someone is going to ask you to justify the expense of your security program.

temperature rises unnoticed until the boiler ruptures, not only could the rupture cause severe damage to the facility housing it, there could also be injury or death to employees, customers or passersby.

Those secondary events could result in costs in employee downtime, workers compensation claims and lawsuits. There also would be the cost of repairing or replacing the boiler, facility repair, plant downtime, increased insurance premiums and product loss as well as costs associated with lost sales, lowered employee morale, loss of goodwill in the community and the marketplace and the lost opportunity cost. Each of those potential costs can be quantified and those costs justify the expense necessary for periodic inspection of the boiler.

A useful format with which to demonstrate the financial impact of a security program or project is the income and cash-flow statement. On the positive side of the security income statement is the revenue produced, if any, for each program or project year, plus the cost reduction or avoidance benefits by year. It is important to think of cost reduction and avoidance as income, since expenses saved go directly to the company's bottom line as income.

From these benefits are subtracted the start-up and ongoing costs, and depreciation or amortization costs by year. The result is the gross income (or loss) your effort will produce. With the cash-flow statement, one may calculate return on investment, net present value (to take into account the real value of money in inflationary or deflationary years) and the rate of return, which tells the company how this investment stacks up against other investments. Although your chief financial officer may challenge the assumptions upon which your figures are based, he won't be able to successfully challenge your logic.

The decision tree and PERT chart analyses are other useful tools for determining the cost effectiveness of alternative methods. Decision trees are used to calculate the expected value of alternative courses of action and rely on probability estimates.

The PERT chart lays out the steps of a program and shows the relationship between the key steps and all tasks to be performed. It also shows the time to complete each step and what approximate cost would be. The PERT chart companion, critical path, may be used to determine the length of time, earliest date to complete all tasks and cost of complex projects or the cost of crash programs combining steps.

Besides collecting and analyzing data, engaging in risk analysis, determining cost effectiveness and outlining cost avoidance and reduction benefits, one must present the security program to senior management in the same manner a consultant would sell services to the company.

Too often, managers expect that decision makers will vicariously or intuitively understand and accept a program's merits. The best cost justification available is of little value if it is not accepted, and it will not be accepted if it is not properly presented.

The advantage of having compiled a financial justification rather than a subjective one is that your program can be sold with logic rather than snake oil. You'll have your ducks in a row and when challenged, you won't have to fumble for answers. As a result, you'll get your share of the resources within your company more often.

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For details on Crown Life's Edge program, contact Bruce Somers, Senior Group Underwriter, Crown Life Insurance Co., 120 Bloor St. E., Toronto, Ontario, Canada M4W 1B8; 416-928-4595.

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The condo package offers broad automatic coverages, as well as optional features.

The basic package offers blanket property coverage with a single limit that can be determined by the number of condominium units in one or more buildings. Coverage can be purchased for a minimum of three condominium units, with a maximum of 60 units in one building or 300 units in a complex.

The basic package covers all property, including fixtures and improvements, whether they're owned by the association or the developer. Also, coverage for the cost of replacing damaged property and loss of income is included.

Comprehensive general liability coverage with a $1 million single limit and employee theft coverage of up to $25,000 are also included in the package.

Optional coverages include condominium directors and officers and errors and omissions liability with a $1 million annual aggregate limit; heating and cooling equipment with a limit that also can be determined by number of units; and garaged autos liability with a $10,000 to $100,000 comprehensive and collision limit.

For more information on the condominium association package policy, contact Van Priest, Commercial Union Insurance Cos., Commercial Lines Department, One Beacon St., Boston, Mass. 02108; 617-725-7598. ■

Coming Up! Specialty Risks

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• A self-study booklet, "Simplifying Loss Control," from the International Safety Academy is designed to **improve efficiency and reduce accident losses.** To order, send $14.95 to CIGNA Loss Control Services Inc., Attn. ISA, 12 Tower, 1600 Arch St., Philadelphia, Pa. 19101.

• Free copies of the 1983 Underwriters Adjusting Co. national service locations directory are available from UAC. The state-by-state directory lists more than 450 **claims adjusting offices,** maps and toll-free numbers for Dial-A-Claim. To order write UAC Marketing Department, 80 Maiden Lane, New York, N.Y. 10038.

• A selection of Dayliter **fire and explosion vents** is described in a 12-page catalog from APC Corp. The vents help reduce smoke and gases inside a building, while helping firefighters locate the fire from outside a building. For a free copy, write APC Corp., P.O. Box 515, 50 Utter Ave., Hawthorne, N.J. 07507.

• GAB Business Services Inc.'s "Little Red Book" is a pocket-sized directory of GAB's offices in the U.S. and the Caribbean. GAB offers **investigation, inspection, appraisal and adjustment services** to insurers, agents, brokers, government and industry. For a free copy, write Al Peters, GAB Business Services Inc., 123 William St., New York, N.Y. 10038.

• Literature describing ENCON Underwriting Agency's **builder risk program** for construction design errors is available free. To order, write ENCON Underwriting Agency Inc., 2001 Bryan Tower, Suite 872, Dallas, Texas 75201.

• A catalog from the American Insurance Assn. describes its 1983 **seminars for property claims administration training.** For a free copy of the "1983 Seminar Planning Guide," write Education & Training Unit, Property Claim Services, AIA, 700 New Brunswick Ave., Rahway, N.J. 07065.

• How much is **back injury** costing you? You're paying in lost time, long-term disability and workers compensation. The booklet, "Backs, Bucks and Business" by Joseph J. Hartnett, provides statistics and suggests solutions to back injury problems. To obtain a copy, send $12.95 to J.J. Hartnett, 869 Delaware Ave., Buffalo, N.Y. 14209.

• Employee health programs can more than pay for themselves through reduced absenteeism, increased productivity and fewer medical claims. HealthWorks Northwest offers a booklet for employers **establishing a health program.** For a copy of "Employee Health Promotion: A Guide to Starting Programs at the Workplace," send $15 to HealthWorks Northwest, Puget Sound Health Systems Agency, 601 Valley St., Seattle, Wash. 98109.

• What's the difference between ESOPs, PAYSOPs and TRASOPs? If you would like a detailed comparison of **employee stock ownership plans,** write Greg Martin, Hewitt Associates, 100 Half Day Road, Lincolnshire, Ill. 60015. Copies of the research paper are $25 each.

• The National Council on Compensation Insurance has a 25-page booklet examining the new Rhode Island **workers compensation law** and its ramifications. The new rate-filing procedures, benefit provisions and alternative employment concept are all explained. For a copy, send $10 to NCCI, Information Office, One Penn Plaza, New York, N.Y. 10119.

• A **bibliography for employee benefit managers** lists information on 94 benefit subjects, all available from the International Foundation of Employee Benefit Plans. For a free copy, write Information Services, IFEBP, 18700 W. Bluemound Road, Box 69, Brookfield, Wis. 53005.

• A free brochure from William M. Mercer Inc. describes a **flexible spending account,** or cafeteria-type plan, "for people who hate cafeteria plans." The 16-page booklet shows the plan's tax advantages and how it meets employees' changing needs. For a copy, write William M. Mercer Inc., Box 99, 1211 Ave. of the Americas, New York, N.Y. 10036.

• An **exercise guide for VDT and word processor operators** from Verbatim Corp. can help relieve the strain and fatigue of video display terminal operators. Free copies of the illustrated guide are available from Verbatim Corp., Tone Up at the Terminals, 323 Soquel Way, Sunnyvale, Calif. 94086.

• Get the facts straight on the National Electrical Code when evaluating your **fire exposures.** The National Fire Protection Assn. is offering a 178-page question-and-answer guide on the code. Copies are $7.50 each and can be ordered from Publications Sales Division, NFPA, Batterymarch Park, Quincy, Mass. 02269. Please cite catalog number NEC-QUE.

• Meidinger Inc. has published "Taking the Teeth Out of the Tax Bite." The brochure weighs the **pros and cons of 401(k) plans.** To order write Corporate Communications, Meidinger Inc., 2600 Meidinger Tower, Louisville, Ky. 40202.

• General information on various **dental benefit plans** and plan designs are in a free packet from the American Dental Assn. Write Ted Moravec, Assistant Secretary, ADA, 211 E. Chicago Ave., Chicago, Ill. 60611.

• The **occupational health consultation** services of O.H. Consultants Inc. are described in a free brochure. For a copy, write Anita Schill-Arner, 4281 N. 30th St., Boulder, Colo. 80301.

• The importance of a **fiduciary bond** in protecting the beneficiaries of an estate is explained in a brochure by the Surety Assn. of America. For a free copy, write SAA, 100 Wood Ave. S., Iselin, N.J. 08830.

• The latest American National Standards Institute catalog can help you keep up to date with the more than 10,000 **standards for materials, equipment and products.** The 192-page catalog and 1983 supplements are free to ANSI members; the catalog and supplements are $10 for non-members. To order, write Sales Department, ANSI, 1430 Broadway, New York, N.Y. 10018.

• NATLSCO Rehabilitation Management Inc. offers a brochure describing its **rehabilitation services.** For a free copy, write NRM, K-3, Department B, Long Grove, Ill. 60049.

• Lists of **eye and face protectors and hard hats deemed safe** for industrial use by the Safety Equipment Institute are available. The SEI certification list includes manufacturer and brand names and model numbers. For free copies, write SEI, 1901 N. Moore St., Arlington, Va. 22209.

• "Judging the Fire Risk" is a 59-page booklet that dicusses **fire protection and prevention,** exposure hazards and building construction. To obtain a copy, send $4.75 to the Loss Control Department, Alliance of American Insurers, 20 N. Wacker Drive, Chicago, Ill. 60606.

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riskwatch

Libel coverage gives executives at Mobil retaliatory strike ability

By LEN STRAZEWSKI

NEW YORK—If you've never understood how nuclear arms buildups, bigger defense budgets and military aid to various Third World countries are going to eventually lead to world peace, you won't understand a brand new insurance policy.

But, if you've always believed in peace through deterrents, respect through weaponry—or if you own a law firm—I've got a story and a new insurance coverage for you.

Wherever Mobil Corp. has top executives, the eyes of personal injury lawyers who specialize in libel and slander law are lighting up like the eyes of Pentagon generals with new funding for MX missiles. What they see is a new kind of insurance that actually will pay an executive's legal costs if he believes he has been defamed and wants to file a libel suit.

On top of the recent development of an insurance policy that covers a corporation's costs of suing its insurers for coverage, we've got policy proliferation that results in insurers helping policyholders get money from other insurers.

Proponents call the latest policy purchased by Mobil "anti-defamation" insurance, but it might also be called legal combat coverage. It's interesting that the innovator is Mobil Corp., since its president recently won a libel suit against The Washington Post. Mobil also has attacked the press for its irresponsible view of business in a series of corporate image advertisements.

Mr. Strazewski

While the decision against The Washington Post is on appeal, Mobil has purchased this libel litigation insurance for its fewer than 100 top executives—a coverage most insurance industry executives describe as a completely new idea.

The new policy, brokered by Marsh & McLennan Inc. and underwritten by National Union Fire Insurance Co. of Pittsburgh, Pa., a unit of American International Group Inc., provides up to an annual aggregate of $5 million to cover the legal costs of Mobil executives who wish to sue others for libel and slander.

The coverage, according to Mobil, costs less than $100,000 and is subject to 5% coinsurance and a $10,000 deductible.

Although Mobil Public Affairs Vp Herbert Schmertz who publicly announced the new coverage last week would not return calls to *Business Insurance* to discuss the coverage or how Mobil would administer its use, public statements made by Mobil executives show that the coverage has one purpose: to keep the press at arm's length with the threat of lawsuits funded by insurance coverage.

Is this hypocritical in light of the insurance industry's traditional complaints about excessive litigation and its effect on insurance costs? Not according to M&M and AIG.

"Mainly the coverage is an outgrowth of Mobil's attitude toward protection of its directors and officers," explains Albert Salvatico, an M&M vp. "Designing and placing the coverage is just a natural development in the chain of events surrounding directors and officers."

Corporate officials generally lack the funds required to defend themselves from public defamation, Mr. Salvatico says, and the AIG policy is essentially a protective plan that gives individuals the power to fight back and deter press attacks.

"It's not all that different from the defense and judgment coverage being offered by the London market, except that instead of paying defense costs for businesses that are sued, it pays the costs of defending a reputation with a suit."

Joseph DeAlessandro, president of National Union, agrees.

"We don't perceive it as encouraging litigation, but rather as a part of directors and officers liability coverage. When the Employee Retirement Income Security Act became law, AIG was one of the first to offer fiduciary liability and directors and officers liability insurance.

"In those cases, the coverage provides officers with the ability to defend themselves from lawsuits. The Mobil coverage also is designed to defend officers from attacks to their reputation—still a kind of countersuit."

Both the broker and the insurer expect the demand for this kind of insurance product to grow, even though Mobil's coverage was underwritten with the buyer's long-standing relationship with the insurer in mind. Both AIG and M&M report they have received inquiries from other large corporations since the coverage was announced.

The broker and insurer would not take the concept of litigation insurance any further than libel and slander issues—yet. But we will.

Can we expect group sue-your-doctor insurance to be offered as a benefit in addition to group health insurance to pay for suits by dissatisfied patients? If we get group auto insurance, can we expect another policy to cover the cost of suing the auto insurer if a claim is denied?

A personal lines insurer could get really creative and sell insurance to employees that would cover their costs of suing their employers for injuries outside the workers compensation system.

That's not the same thing, say Messrs. Salvatico and DeAlessandro.

The Mobil policy is under strict corporate control and all suits must be approved by corporate lawyers who will decide whether they should do what they have been trained to do—sue.

I'm sure glad the Pentagon can't declare war without Congress' approval.

Hansmeyer named president of Allianz

Herbert H. Hansmeyer has been elected president and chief officer of Allianz Insurance Co. in Los Angeles.

Mr. Hansmeyer

Mr. Hansmeyer succeeds Frank E. Raab, who remains chairman of Allianz.

Mr. Hansmeyer had been liaison officer and coordinated German-linked business between Allianz and its parent company, Allianz Versicherungs-AG of Munich, West Germany. He was in charge of Allianz's activities in Europe, the Far East, Iran and Africa before joining the company's U.S. branch.

Mr. Sheppard

In addition, **William J. Sheppard** has been elected executive vp at Allianz. Mr. Sheppard joined the company in 1979 after serving as commissioner of the Pennsylvania Insurance Department.

Other insurer changes:

Greer F. Henderson elected vice chairman and chief financial officer of USLIFE Corp. in New York. Mr. Henderson will continue with his responsibilities as treasurer, controller and corporate planner for the parent company, USLIFE Corp. He was previously executive vp-finance at USLIFE.

John Jones Jr. elected senior vp for claims at Wausau Insurance Cos. in Wausau, Wis. Mr. Jones replaces **Mike Tillisch**, who is retiring. Mr. Jones had been vp of government affairs at Wausau.

Charlie Bancroft promoted to chairman and chief executive officer of California Mutual Insurance Co. in Monterey, Calif. Mr. Bancroft also retains his position as president of California Mutual.

Frank J. DeFini appointed senior vp of the Transoceanic division of American International Underwriters, American International Group Inc.'s foreign general insurance marketing arm. Mr. DeFini was mostly recently AIU's vp and line manager for foreign general casualty insurance.

Roy E. Pierce joined Interstate Underwriting Agencies Inc. in Miami as senior vp. Interstate is a division of Universal Insurance Group. Mr. Pierce had been with North East Insurance Co. as senior vp.

Jerold C. Heiken named vp-loss control at Argonaut Insurance Co. in Menlo Park, Calif. Mr. Heiken had been president of a consulting firm specializing in loss-control education.

Excess/surplus

Henry G. Lyle elected executive vp of Southern Underwriters Inc., a subsidiary of Ryder System Inc. in Miami. He will head the casualty, bond and surplus lines departments. Mr. Lyle was previously vp of Southern Underwriters.

Mr. [illegible]

Richard A. Adler elected [illegible]rance marketing [illegible]han & Co. Inc. in [illegible] was formerly in [illegible]einsurance pro[illegible]rahan.

[illegible] appointed vp for the excess and special risk operations for Fireman's Fund Insurance Cos. in Novato, Calif. Mr. Brett had been in charge of nationwide excess and special risk operations at Fireman's Fund.

comings & goings: industry

Reinsurers

Hugh M. Sinclair elected president of Affiliated Reinsurance Assns. in New York. Affiliated is an administrative manager of pools and joint underwriting associations. He replaces **Donald A. Darr**, who is retiring.

Philip W. Mitchell and **Edwin W. Raynolds** elected vp of Towers, Perrin, Forster & Crosby, international reinsurance intermediaries and consultants. Mr. Mitchell is based in the North Central Treaty department of the reinsurance division in Philadelphia. Mr. Raynolds is manager of the reinsurance division branch office and Western treaty department in San Francisco.

Franklin D. Haftl promoted to executive vp of Metropolitan Reinsurance Co. of New York. Mr. Haftl is responsible for all underwriting activities. He was most recently senior vp of Metropolitan Re

Charles J. Crawley Jr. promoted to vp of ERG Management Corp., a division of Duncanson & Holt in New York. ERG is the manager for Extended Reinsurance Group, which provides airline reinsurance.

Robert P. Cole elected vp of Sentry Reinsurance Management Inc. in New York. Mr. Cole is a treaty reinsurance underwriter. He was formerly with Tokio Re Corp.

Agents/brokers

Michael P. Dinstein promoted to president of the financial research and planning division of New York-based Fred S. James & Co. Inc. He previously served as the division's New York manager and technical advisor to the chief financial officer.

In addition, **Ronald J. Kutella** was appointed manager of James' Portland, Ore., profit center and executive vp of Fred S. James & Co. of Oregon. He previously was senior vp and senior producer in the Portland office. **James R. Parry** was named Detroit profit center manager. He previously was senior vp-marketing operations in the Detroit office.

Joseph L. Lombardo named executive vp of Reed Stenhouse Inc. of New York. He was senior vp and director of Schiff Terhune International Inc. when the firm was acquired by Reed Stenhouse Inc. last year.

John G. Kneafsey named senior vp of Marsh & McLennan Inc. and head of the the Tulsa, Okla., office.

Sharon K. Sorrell named vp of the Harry A. Koch Co., an independent insurance agency in Omaha, Neb. Ms. Sorrell previously was officer manager and assistant vp. ■

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Data base to allow firms to gauge health costs

By DONNA LEIGH YANISH

WALNUT CREEK, Calif.—Employers will soon be able to gauge how their health care costs and hospital utilization rates stack up against other employers'.

The Health Research Institute, a non-profit health research group, has designed a system for gathering health care cost and utilization information from participating companies around the country.

Each participant in the National Statistical Data Base would then be able to compare its data with statistics from other companies, both nationwide and within its region.

Until now, employers couldn't make comparisons on any level—national, regional or even local—says HRI Director William E. Hembree. "Even the largest employers (because of decentralization) can't develop adequate comparison data within their own workforce."

The National Statistical Data Base will fill the data gap, he says. The HRI hopes the data base will:

- Allow individual employers, employer coalitions and entire industries to determine, evaluate and compare health care costs and utilization data.
- Identify and monitor changes and trends.
- Measure changes resulting from cost containment and health promotion activities.
- Create uniform reporting and analysis procedures.
- Allow employers to change insurers or administrators without losing historical data.
- Allow specific, uniform comparisons of insurers' and/or administrators' performances and efficiency.
- Allow the creation of preferred provider plans based on providers' demonstrated performance.

The data base should accomplish all its objectives in a cost-effective manner, Mr. Hembree adds.

The HRI will develop the data base from statistics that the participating employers will supply to the research group. Participants will obtain their own cost and utilization data on computer tapes from their insurers or administrators following instructions written by the HRI, Mr. Hembree explains.

Those instructions are very general, he adds. "We tried to make the system as easy to use as possible. (Participants) can give us the information in just about any (computer) format and we'll put it into the right format through a conversion."

Insurers and administrators generally charge a few hundred dollars to supply the information needed to participate in the program, he says.

Once enough information is fed into the data base to provide comparisons, participants may order standard, optional or tailored reports.

The 12 standard reports include an executive summary; administrative efficiency/savings monitoring; utilization by type of service; hospital utilization profiles on both an inpatient and outpatient basis; and weekly hospital admissions and discharges.

Two optional reports, which analyze why hospital stays are overly long and detail ineligible hospital charges, will also be available. HRI also expects that some participants will request tailor-made reports to meet their needs.

In the early stages of the program, before adequate comparison statistics are available, participants will be able to order standard reports that compare the participants' own experience with standard external data or specified group data, Mr. Hembree adds.

How soon an employer will be able to obtain comparison data depends on where it is located, he explains, since the statistics are geographically oriented.

Companies located in areas that have few major employers would receive results much quicker than, for example, companies based in a large city with many employers.

In some geographical areas, participating companies could receive comparison data in three or four months, Mr. Hembree says. "In other areas, we're looking at upward to a year. It depends on the number of employers in the area."

Several hundred participants will be required before comparable data will be available on a national basis, he adds.

Because many of the comparisons require statistics from nearby companies, employer participation is a key to the NSDB's success. As of the first of the year, about 10 employers had joined the system and about 40 had signed letters of intent, according to Mr. Hembree.

The data base is geared toward larger employers that have enough employees to make comparable data relevant. "We think a company with under 500 employees is not a good candidate," Mr. Hembree says.

The size of an employer's workforce, as well as the number of years of data recorded, are among the factors in determining how much an employer will pay to obtain comparative data, Mr. Hembree explains.

Although he says cost estimates are difficult because of the number of factors involved, Mr. Hembree estimates that an employer with from 2,000 to 4,000 employees with a fairly average cost and utilization record would pay a few thousand dollars for the standard reports. ■

datebook

MARCH 20-22. Group Insurance: Survival & Profitability seminar in Dallas, sponsored by The Hay Group; $450; $400 for additional registrants from the same company. Robert F. Vehec, Huggins & Co. Inc., 229 S. 18th St., Philadelphia, Pa. 19103; 215-875-2377.

MARCH 21-23. Techniques of Risk Management conference in Atlanta, sponsored by the Risk & Insurance Management Society; $345 for members; $445 for non-members. Editorial Department, RIMS, 205 E. 42nd St., New York, N.Y. 10017; 212-286-9292.

MARCH 21-24. Reasoning Reinsurance seminar in Dallas, sponsored by the University of Dallas; $445. Bruce Evans, University of Dallas, Reinsurance Management Institute, Irving, Texas 76061; 214-721-5360.

MARCH 21-25. Property Conservation course for agents and brokers in Long Grove, Ill., sponsored by the Kemper Group; $400. W.P. Thomas, Kemper Group, NID (HPR) A-1, Long Grove, Ill. 60049; 312-540-3380.

MARCH 21-25. Fundamentals of Industrial Hygiene Monitoring course in Long Grove, Ill., sponsored by National Loss Control Service Corp.; $425. John Garis, NATLSCO, Long Grove, Ill. 60049; 312-540-2026.

MARCH 22. Comparative Negligence seminar in Oak Brook, Ill., sponsored by the Chicago Board of Underwriters and the Casualty Adjusters Society of Chicago; $30. Miriam Hein, CBU, 101 N. Wacker Drive, Suite 230, Chicago, Ill. 60606; 312-236-4888.

MARCH 23. Public Employee Benefit Plans workshop in New York, sponsored by the International Foundation of Employee Benefit Plans; $130 for members; $155 for non-members. IFEBP, 18700 W. Bluemound Road, Box 69, Brookfield, Wis. 53005; 414-786-6700.

MARCH 23-25. Captive Insurance Companies Establishment, Operation & Management course in London, sponsored by the Risk Research Group Ltd.; $350 pounds, plus value-added tax. Sue Moore, RRG, Bridge House, 181 Queen Victoria Street, London EC4V 4DD, England; 01-236-2175.

MARCH 25-26. Product Liability Law program in Chicago, sponsored by Professional Education Systems Inc.; $165; $150 for additional registrants from the same organization. Professional Education Systems Inc., 409 Galloway St., Box 1428, Eau Claire, Wis. 54701; 715-836-0060.

MARCH 28-31. An Ergonomic Approach to Materials Handling seminar in Houston, sponsored by the International Safety Academy; $375. ISA, 10575 Katy Freeway, Box 19600, Houston, Texas 77224; 713-932-9400.

APRIL 5-6. Hazardous Waste Management conference in Arlington, Va., sponsored by The Energy Bureau; $695. Peggy Chase, The Energy Bureau Inc., 41 E. 42nd St., New York, N.Y. 10017; 212-687-3178.

APRIL 7-8. Competitive Strategies special topic meeting in Philadelphia, sponsored by the Society of Actuaries; $115 for society members, American Statistical Assn. members and local actuarial club members; $57 for SOA retirees; $145 for others. Society of Actuaries, 208 S. LaSalle St., Chicago, Ill. 60604; 312-236-3833.

APRIL 10-13. Corporate Benefits Management conference in New Orleans, sponsored by the International Foundation of Employee Benefit Plans; $470 for members; $545 for non-members. IFEBP, Box 69, Brookfield, Wis. 53005; 414-786-6700.

APRIL 10-13. Public Employee Health Plan Administrators Cost Containment conference in Chicago, sponsored by Martin E. Segal Co.; $90. Mary L. Feldman, Martin E. Segal Co., 730 Fifth Ave., New York, N.Y. 10019; 212-586-5600.

APRIL 10-13. National Assn. of Independent Insurers' 29th annual meeting in Washington, D.C.; $175 for members; $275 for non-members. NAII Convention Office, 333 N. Michigan Ave., Suite 1632, Chicago, Ill. 60601; 312-782-2958.

APRIL 11. Confined Space Entry Safety workshop in New Orleans, sponsored by Loss Prevention Associates; $185. Loss Prevention Associates, Box 59888, Dallas, Texas 75229; 214-241-0396.

APRIL 11-12. Health Care Cost Containment workshop in Dallas, sponsored by the Health Research Institute; $395. HRI, 49 Quail Court, Suite 200, Walnut Creek, Calif. 94596; 415-676-2320.

APRIL 11-15. Basic Safety Management seminar in Houston, sponsored by the International Safety Academy; $570. ISA, 10575 Katy Freeway, Box 19600, Houston, Texas 77224; 713-932-9400.

APRIL 13-14. Dental Insurance seminar in New York City, sponsored by American Dental Examiners; $500; $450 for additional registrants from the same company. Milliman & Robertson Inc., 150 Strafford Avenue, Wayne, Pa. 19087; 215-687-5644.

APRIL 13-15. Association of Insurance & Risk Managers in Industry & Commerce international conference in Oxford, England; 130 pounds plus value-added tax (approximately $240) for insurance buyers. 1983 AIRMIC International Conference Secretariat, c/o ConEXion, Banda House, Cambridge Grove, Hammersmith, London W6 0LE, England; 01-741-4741; telex 896778.

APRIL 14-16. American Society of Safety Engineers' Western States Development conference in Santa Clara, Calif.; $225 for members; $250 for non-members; $75 for students; non-member reservation received with member reservation from same company will be processed at member rate. Kenneth Geiser, c/o Dinner Levison Co., Box 7669, San Francisco, Calif. 94120; 415-391-5422.

APRIL 15. Workers Compensation & Employers Liability Policy seminar in Chicago, sponsored by the National Council on Compensation Insurance; $25 for members; $30 for non-members. Patricia Lapham, NCCI, 1 Penn Plaza, New York, N.Y. 10119; 212-560-1095.

APRIL 18-20. Insurance Claims and Litigation Supervisors seminar in Nashville, sponsored by the Defense Research Institute; $210 for members; $240 for non-members. Insurance Claims and Litigation Supervisors' Seminar, The Defense Research Institute, 733 N. Van Buren St., Suite 650, Milwaukee, Wis. 53202; 414-272-5995.

APRIL 18-20. Labor-Management Trustees and Administrators institute in Las Vegas, sponsored by the International Foundation of Employee Benefit Plans; $390 for members; $465 for non-members. IFEBP, 18700 W. Bluemound Road, Box 69, Brookfield, Wis. 53005; 414-786-6700.

APRIL 18-22. Occupational Respiratory Protection course in San Diego, sponsored by the University of Southern California; $500. USC, Institute of Safety & Systems Management, Office of Extension & In-Service Programs, Los Angeles, Calif. 90089; 213-743-6523.

APRIL 18-22. Total Loss Control Management seminar in Houston, sponsored by the International Safety Academy; $585. ISA, 10575 Katy Freeway, Box 19600, Houston, Texas 77224; 713-932-9400.

APRIL 19-21. Industrial Explosion Prevention and Protection workshop in New Orleans, sponsored by Du Pont Co.; $795. Explosion Protection, Du Pont Co., Room X-39700, Wilmington, Del. 19898; 302-999-3699.

APRIL 20. Risk Management Information Systems conference in St. Louis, sponsored by Corporate Systems; $50. Also **April 21** in Kansas City, Mo. Matt Davis, Corporate Systems, Box 31780, Amarillo, Texas 79120; 806-376-4223.

APRIL 24-29. Risk & Insurance Management Society's 21st annual conference in Los Angeles; $520 for members; $620 for non-members. RIMS Conference Department, 205 E. 42nd St., New York, N.Y. 10017; 212-286-9292.

APRIL 25-26. Principles of Petroleum Insurance workshop in San Francisco, sponsored by Professional Development Institute; $395. Also **April 28-29** in Los Angeles. PDI Accounting & Insurance Center, Box 13288, NT Station, Denton, Texas 76203; 817-565-3383.

APRIL 25-29. Identification, Sampling and Evaluating Airborne Asbestos Dust in Los Angeles, sponsored by the University of Southern California; $500. USC, Institute of Safety & Systems Management, Office of Extension & In-Service Programs, Los Angeles, Calif. 90089; 213-743-6523.

MAY 2-3. Principles of Petroleum Insurance workshop in San Antonio, Texas, sponsored by Professional Development Institute; $395. Also **May 9-10** in Houston, **May 16-17** in New Orleans and **May 26-27** in Dallas. PDI Accounting & Insurance Center, Box 13288, NT Station, Denton, Texas 76203; 817-565-3383.

MAY 2-4. Recognition of Accident Potential in the Workplace Due to Human Factors course in Los Angeles, sponsored by University of Southern California; $300. USC, Office of Extension & In-Service Programs, Institute of Safety & Systems Management, Los Angeles, Calif. 90089; 213-743-6523.

MAY 8-11. Washington Legislative Update seminar, sponsored by the International Foundation of Employee Benefit Plans; $390 for members; $465 for non-members. IFEBP, 18700 W. Bluemound Road, Box 69, Brookfield, Wis. 53005; 414-786-6700.

MAY 9. Confined Space Entry Safety workshop in Dallas, sponsored by Loss Prevention Associates; $185. Loss Prevention Associates, P.O. Box 59888, Dallas, Texas 75229; 214-241-0396.

MAY 9-11. 1983 Electrical Safety conference in Madison, Wis., sponsored by the University of Wisconsin; $395. Victor P. Janule, Department of Engineering and Applied Science, University of Wisconsin-Extension, 432 N. Lake St., Madison, Wis. 53706; 608-263-7429.

MAY 9-13. Property Conservation course for property owners in Long Grove, Ill., sponsored by the Kemper Group; $400. W.P. Thomas, Jr., NID (HPR) A-1, Long Grove, Ill. 60049; 312-540-3380.

MAY 10-11. Managing Latent Occupational Disease Liability conference in Arlington, Va., sponsored by The Energy Bureau Inc.; $695. Linda Doren, The Energy Bureau, 41 E. 42nd St., New York, N.Y. 10017; 212-687-3178.

MAY 10-13. Hazardous Materials Safety seminar in Nashville, Tenn., sponsored by the Hazardous Risk Advisory Committee of Nashville; $135 before May 9; $150 thereafter. Hazardous Risk Advisory Committee, Seminar Registration Desk, Metro Civil Defense, 2060 15th Ave. S., Nashville, Tenn. 37212; 615-385-8575.

MAY 11-12. Health Care Cost Containment workshop in New York, sponsored by the Health Research Institute; $395. HRI, 49 Quail Court, Suite 200, Walnut Creek, Calif. 94596; 415-676-2320.

MAY 11-13. Employee Stock Ownership Assn. sixth annual conference in New Orleans; $350 for members; $400 for associate members; $450 for non-members; discounts available for additional participants from the same company. ESOP Assn., 1725 DeSales St. N.W., Suite 400, Washington, D.C. 20036; 202-293-2971.

MAY 11-13. Property Conservation seminar in Wilmington, Del., sponsored by the International Safety Academy; $275. International Safety Academy, 10575 Katy Freeway, Box 19600, Houston, Texas 77224; 713-932-9400.

MAY 12-13. Evaluation of Structural Failures program in Madison, Wis., sponsored by the University of Wisconsin; $275. Rolf T. Killingstad, University of Wisconsin Extension, 432 N. Lake St., Madison, Wis. 53706; 608-272-3748.

MAY 16-19. Inspector Training seminar in Houston, sponsored by the International Safety Academy; $490. ISA, 10575 Katy Freeway, Box 19600, Houston, Texas 77224; 713-932-9400.

MAY 16-20. Fundamentals of Industrial Hygiene Monitoring course in Long Grove, Ill., sponsored by the National Loss Control Service Corp.; $425. Also **May 25-26** in Chicago. John Garis, NATLSCO, Long Grove, Ill. 60049; 312-540-2026.

MAY 18-20. National Safety Management Society annual conference in Arlington, Texas; $230 for members; $275 for non-members; $20 additional for registration after April 1. David M. Wassum, NSMS, P.O. Box 170174, Arlington, Texas 76003; 214-631-6070.

MAY 22-27. American Industrial Hygiene conference in Philadelphia, sponsored by the American Industrial Hygiene Assn. and the American Conference of Governmental Hygienists; $65 for members; $90 for non-members; $15 additional for on-site registration. Stephanie Beidler, AIHA, 475 Wolf Ledges Parkway, Akron, Ohio 44311.

MAY 23-25. Employee Benefits symposium in San Francisco, sponsored by the International Society of Certified Employee Benefit Specialists; $420 for members; $495 for non-members. ISCEBS, Box 209, Brookfield, Wis. 53005.

MAY 23-25. Fundamentals of Industrial Exhaust Ventilation course in Long Grove, Ill., sponsored by the National Loss Control Service Corp.; $350. John Garis, NATLSCO, Long Grove, Ill. 60049; 312-540-2026.

MAY 23-25. Techniques of Loss Control conference in New York City, sponsored by the Risk & Insurance Management Society; $345 for members; $445 for non-members. Editorial Department, RIMS, 205 E. 42nd St., New York, N.Y. 10017; 212-286-9292.

MAY 23-27. Basic Safety Management seminar in Atlantic City, N.J., sponsored by the International Safety Academy; $570. ISA, 10575 Katy Freeway, Box 19600, Houston, Texas 77224.

MAY 24-27. Ergonomics seminar in San Jose, Calif., sponsored by the International Safety Academy; $375. International Safety Academy, 10575 Katy Freeway, Box 19600, Houston, Texas 77224; 713-932-9400.

MAY 25. Insurance Accounting & Stati- Assn. conference in Detroit; $135. Inte- Office, IASA, Mutual Plaza, Durhar 919-683-2356.

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agent/broker topics

A regular editorial section exclusively for agents and brokers

Who's in control?

Can agencies that accept financial help from insurers really be independent?

By DONNA LEIGH YANISH

Some agents and brokers are merrily moving through the highly competitive marketplace with a little extra help—financial assistance from insurers.

But does owing an obligation to an insurer in return for financial help make an agent a puppet on a string for the insurer to control?

Some industry watchers warn agents and brokers that tying themselves to insurers can bundle up their independence. But proponents of the programs counter that agents can avoid losing independence if they carefully choose the right program.

Agents looking for help soon discover a whole smorgasbord of programs for financial assistance, ranging from simple loan guarantees by an insurer in return for maintaining a particular premium volume to major commission increases for becoming a virtual one-insurer agency.

Many of the programs offer agents direct low or no-interest loans for specific projects like agency acquisitions, production staff expansion or automation in return for volume commitments.

There's not a comprehensive list of all the deals struck between agents and insurers, notes Lawrence Carr, president of Carr/White Insurance in Mason, Ariz., and co-chairman of a task force on agency perpetuation sponsored by the Independent Insurance Agents of America.

Many insurers publicize formal programs to agents who can meet specific requirements, Mr. Carr says. "But there's more to this octopus than the two legs we see. Some arrangements are being made on a case-by-case basis. We know there are private relationships being developed."

There's nothing necessarily sinister about the quiet arrangements, Mr. Carr adds. Some insurers just don't want to offer financial assistance to everyone, but they will negotiate with an agent whose book of business is profitable for the insurer.

Philadelphia's Reliance Insurance Co., for example, will negotiate with agents on an individual basis, according to a spokesperson for the Philadelphia-based insurer. "We aren't going to turn anyone away. We'll listen to what an agent has to say and decide on specific cases."

The Travelers Corp. in Hartford, Conn., also assists agents on a case-by-case basis, says Lawrence Sundram, second vp for corporate marketing. "We're willing to help add salespeople, buy agencies or purchase computers. If (the agent) has a sound business proposition, we'll evaluate the agency loan request."

Other insurers are promoting formal financial assistance programs whose benefits for the agents are offset by standard responsibilities, usually some form of volume commitments.

Although no two insurers' programs are alike, they can be grouped by the type of assistance they offer. An insurer may, for example, offer one program for agents looking for assistance so they can add a producer and another for agents seeking funds for a major purchase, like a computer or another agency.

New-producer programs are one of the oldest and most widely offered assistance programs. Hartford-based Aetna Life & Casualty Co. began its new-producer program in 1977, notes Gregory M. Bivona, manager-agency development and relations.

Last year about 76 agencies financed new producers through the program, which is designed to help train inexperienced producers and assist agencies in paying the salespeople before they generate income.

Aetna's loan program spans three years, Mr. Bivona explains. The insurer helps pay the new producer's expenses for the first 18 months, while the agency repays the interest-free loan over the next 18 months.

In return for the loan, the agency usually agrees to give Aetna right of first refusal for the business generated by the new producer, Mr. Bivona says. However, agents who don't want to tie themselves to that scheme can suggest alternative forms of compensating the insurer, he notes, like placing a certain percentage of the new producer's business with Aetna.

In addition, agencies hiring a producer that brings a book of business to the firm have offered to place a portion of that business with Aetna, he says.

"We haven't formalized a percentage or a dollar amount. We're looking for a fair share of the business," Mr. Bivona says. What constitutes a "fair share" varies with the total premium volume of the agency as well as the new producer's book of business.

Although some agents balk at giving an insurer right of first refusal, that requirement isn't unique to Aetna.

Hartford Insurance Group requires a first chance at the new business generated by producers participating in its solicitor-support program, according to Marketing Vp David M. Klein.

The requirement lasts for the three-year duration of the program. Like Aetna, Hartford contributes to the agency for 18 months, while the agency must pay back the interest-free loan during the next 18 months.

Hartford has financed between 150 to 200 new producers through the program, Mr. Klein adds.

A new-producer program from Commercial Union Insurance Cos. comes with a twist. The insurer offers a special program for the sons and daughters of agency or brokerage principals, says George Frazier, former senior vp for agency relations at CU (A/BT, Feb. 1, 1982).

Mr. Frazier is returning to his agency, Anderson-Frazier Insurance Agency Inc. in Hope, Ark., after an almost three-year leave

Continued on next page

Insurers offer agents many forms of assistance

Continued from previous page
of absence to serve as Commercial Union's liaison with independent agents.

In the producer offspring program, sons and daughters of principals become employees of the insurer for a designated period while they learn CU's side of the industry, Mr. Frazier explains.

Each trainee follows a program tailor-made by the student, the parent and the insurer. The programs are based on one of four modules covering personal lines, commercial lines, claims or risk management.

The training takes from one to 1½ years, Mr. Frazier explains. After that, the student goes back to the agency or brokerage.

Commercial Union doesn't expect a right of first refusal for business generated by the new producer, Mr. Frazier says, but it does want to be one of the agency's top insurers.

The producer offspring program is part of a comprehensive assistance program offered by Commercial Union called CUDAP, or Commercial Union's Design for Agency Perpetuation.

All the assistance plans in the CUDAP program—including loans for acquisitions, computerization, advertising and public relations—are separate, Mr. Frazier explains. An agent can participate in any or all of the plans. How many agents have used the programs is hard to gauge, he notes, because they are implemented at the local level.

St. Paul Cos. Inc. in St. Paul, Minn., expects about 300 agents to participate in its new-producer program this year, says Jerry Haug, senior marketing officer (see story, page 24D).

Financing a new producer is just a part of the insurer's program, he explains. Agents receive help in recruiting, testing, training and financing new sales representatives.

St. Paul insists on a standard repayment formula in its program. But agencies that meet specific volume commitments can reduce the principal on the loan, Mr. Haug says.

"An agency can gain 50% forgiveness for the loan if the new producer places $100,000 in new business premium volume with the insurer," Mr. Haug explains. In addition, the agency as a whole must place $250,000 above the amount established in a base period. For example, an agency places $150,000 during the 12-month base period with St. Paul. The agency then has one more year to place $400,000 with St. Paul in order to obtain 50% forgiveness of the loan.

St. Paul also expects certain things from the agents participating in its loan program for acquisitions, Mr. Haug continues. Under that program, agents can borrow interest-free money for acquisitions if they place new business with St. Paul equal to the amount of the loan.

For example, assume an agency that currently places $100,000 in premium volume with St. Paul borrows $100,000 to acquire another agency. If the combined sales force produces $200,000 worth of premium volume for St. Paul the first year, the agency wouldn't pay any interest on the loan, Mr. Haug explains.

After that the agency must increase its premium volume with St. Paul by at least 15% annually to keep from paying interest on the loan for the duration of the loan.

Although growth is important to qualify for Aetna's acquisition loan program, agents must give strong evidence of their financial strength to qualify, stresses Richard E. Earley, director of agency development and marketing. The insurer provides 9% acquisition loans for agents who place from 18% to 30% of their business with Aetna, he says.

"Agents must have a defined program for the money. We'll help finance mergers or acquisitions or perpetuation plans, but we won't loan money for working capital.

Mr. Frazier

"We review the cash flow and debt-to-equity ratio," Mr. Earley says, adding that Aetna isn't looking for specific numbers. "But we expect the agent to have something at stake. We don't take the full load."

The investment financed by the loan should fit into a well-defined, long-range plan for the agency, Mr. Earley says. An agent who wants to finance a new acquisition, for example, may not have the internal systems needed to process a larger volume of business.

In that case, an acquisition, made possible by a loan, may hurt rather than strengthen the agency. "We don't think we're doing an agent a favor if we loan him money to help him make a financial mistake," Mr. Earley says.

Some agencies are surprised when Aetna asks to review its books, he says. They say other insurers with similar programs haven't asked to see the books.

An agency that Aetna turned down for a loan because it was technically insolvent received funds from another insurer, Mr. Earley notes.

One agent who says he went shopping for financial assistance from insurers also noted that several didn't ask for financial statements. However, most agents would balk at opening their books for an insurance company, he adds.

Agents who look to banks and other lending institutions generally have to prove their financial strength. But many banks don't understand the insurance agency

Continued on facing page

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Continued from facing page
business, Mr. Earley says. Many don't recognize what agents say is one of their major assets—goodwill.

Some agents are fortifying their financial strength in the bankers' eyes by providing financial guarantees from insurers. Aetna has provided some guarantees, Mr. Earley says. Those cases were unique and not really publicized, he notes, but the insurer is currently creating a more formal program for loan guarantees.

Agents can participate in Aetna's various loan programs without making significant changes in their operations. Some insurers' programs, however, affect many aspects of the agency's business and may require it to meet more than just volume commitments.

Some assistance plans include more than just loans.

Participants in Chicago-based CNA Insurance Cos.' High Performance program must agree to a business plan negotiated by the agency and the insurer, according to a CNA spokesperson. Included in that plan is a commitment to provide CNA with up to 40% of the eligible business produced by the agency in commercial and personal lines, including life insurance.

"The requirement (to produce life insurance) has probably kept some agents out of the program. We have found that's one of the tougher selling points," the spokesperson admits. "But we feel selling all lines is a much more efficient way to sell insurance."

In return for meeting CNA's requirements, agents have access to perhaps the widest variety of assistance programs.

First, agents can choose either a five-year or three-year plan. The five-year plan, called Tier I, involves a non-cancelable contract guaranteeing a market in all major lines. Agents participating in Tier I also receive a more favorable profit-sharing agreement than other CNA agents.

Agents participating in the three-year plan, Tier II, receive a non-cancelable contract also assuring them a market in all major lines, but they receive the standard profit-sharing agreement.

The program also includes low-interest loans for perpetuation, expansion, automation and general agency operation.

CNA will also subsidize several insurance agency consultant services, including Holgate & Associate's 25 PLUS programs, a management efficiency service; Insurance Marketing Services Inc.'s Nordhaus Marketing/Management Systems; and Hales & Associate's Planning Sales Perpetuation Manual.

Although the subsidies for consulting services are attractive, one agent notes that market guarantee is the High Performance program's greatest appeal.

"There's an opportunity there to get more money into our door. We don't have to worry about markets drying up," says Ernest Hauser, president of The First Agency in Baytown, Texas. Mr. Hauser expects over the next three years to place 40% of the agency's business with CNA, which he says is probably the agency's No. 1 insurer.

But, he says, CNA doesn't expect High Performance agents to stop representing other insurers. "They're realistic. They know someone can't just represent them. Their program is probably tighter (than other insurers'), but they're giving us more."

CNA claims it hopes other insurers offer as broad an assistance package as the High Performance program, according to the CNA spokesperson. "We could see an agent having two or three other (similar) programs in place."

'There's an opportunity there to get more money into our door. We don't have to worry about markets drying up,' Ernest Hauser, president of The First Agency in Baytown, Texas, says of the CNA program.

Other insurers say they aren't alarmed when agents join programs offered by competitors unless the premium volume they receive falls sharply. In that case, one insurer noted, it would probably recommend terminating their own agency/insurer agreement.

CIGNA Corp., though, requires agents in its Compar (Company/Agency Relations) program to sign an exclusive market agreement (see story, page 24F).

"The program has been around for about 10 years," says John P. Grady, head of distribution management for CIGNA, "but it has grown dramatically in the last 18 months. We started 1982 with about 105 agents and ended the year with about 150. We expect to finish 1983 with about 200 Compar agents."

Many agents are drawn to the Compar program because it can cut their agencies' internal cost by 30%, Mr. Grady says. Agency personnel need only know one insurer's manuals and policies and one set of underwriting rules, claims procedures and billing instructions. Agents have more time for selling because they aren't tied up with paperwork, he says.

Qualifying agents can also receive underwriting and pricing authority, Mr. Grady adds.

Other benefits in the Compar program include advertising, public relations and sales promotion.

Although agents trade their ability to contract with whatever insurers they choose, he says they don't give up their independence.

"Compar agents own their expirations, and the rights to renewal. We both agree to a five-year commitment but after that, participating agents can leave the program." Compar agents can make special arrangements with other insurers for particular products with CIGNA's blessing, notes Dick Chazal, president of Chazal-Blair-Wade-Noland Insurance Agency in Ocala, Fla. That helps the agents maintain their independence.

Safeguarding the independence of independent agents is a task that both the two major agent associations—the Independent Insurance Agents of America and the National Assn. of Professional Insurance Agents—have undertaken (see story, page 24E). Yet, while agents want to preserve their independence, they also want to strengthen their markets. Some may need the insurer assistance just to stay alive in the highly competitive marketplace.

And, the market for assistance programs is competitive, too.

"With all the loans and loan guarantees available, some agents are pitting one insurer against another," Hartford's Mr. Klein points out.

"We get into matches with other insurance companies. Some agencies have two, three, or four major markets, some with less than 25% of the agency's book of business, and the agency is pitting us against each other. There is a point where it just isn't worth it." ■

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St. Paul wants 'fair share' in return for loans

Does an insurer that loans you money always become your agency's No. 1 insurer?

Strengthening market share is a prime motivation behind insurers' financial assistance programs, many agents agree. Insurers often tie volume commitments to loans to position themselves in one of the top spots in an agency.

Some insurers even require a right of first refusal for business generated by a loan.

Other insurers including The St. Paul Cos. Inc. of St. Paul, Minn., say although they don't expect to fill the top spot on the agency's insurer list, they want a "fair share" of the agency's business in return for a loan.

As two agencies participating in St. Paul's new-producer program show, these requirements may or may not put an insurer into the No. 1 spot.

St. Paul became the agency's top insurer from fourth or fifth of eight after The Insurance Connection in Minneapolis joined its new-producer program, says President Douglas L. Schultz. The insurer is helping finance five new producers in the agency, he notes, adding that a sixth newly hired producer left the insurance business before completing the program.

Along with lending financial assistance, St. Paul helps recruit, test and train new producers.

The number of salespeople in the new-producer program helps explain St. Paul's move up the agency's insurer list.

"We had to multiply our new producers' commitment by five," Mr. Schultz explains.

St. Paul requires participating agencies to place $100,000 of each of the new producer's premium volume with the insurer over 18 months. The agency also must place roughly $250,000 in new business with St. Paul. In return, half the loan will be forgiven.

Multiplying the $100,000 commitment by five and adding $250,000, the Insurance Connection must place about $750,000 of new business with St. Paul to have half its loan forgiven. The agency's current total premium volume is about $2.5 million, Mr. Schultz says.

Four offices in the St. Paul/Minneapolis area with a total of 12 producers currently generate that premium volume, Mr. Schultz notes, and two of the new producers will open additional branches.

"We're just now beginning to see real results. We have noticed a few elements missing in the training program.

"One (missing element) is education for the agency principals to learn what to do with the new producers when they get here. We need help setting up goals and marketing strategies," Mr. Schultz says.

The training program for new producers was an initial problem for Insurors & Investors Agency in Salina, Kan., which writes about $2.5 million in premium volume, says President Dean Groves.

The agency's new producer was a direct writer before joining Insurors & Investors, Mr. Groves explains. "Insurance wasn't new to him, and he didn't need the first program (St. Paul) had scheduled for him." The producer's training had to be tailored to his specific needs, he says.

St. Paul's training concerned the the insurance industry in general, Mr. Groves notes. "They didn't attempt to make him an exclusive St. Paul agent.

"We do have to submit to St. Paul the results of how much the new producer sells of each insurance company's products."

St. Paul is one of only four major insurers in the agency, Mr. Groves notes, adding that a consolidation effort more than a year ago reduced the number from six. Before the consolidation, St. Paul ranked about fifth in the agency, but he says it will probably climb to the No. 3 spot.

"I don't think they'll ever be No. 1. We have one company (which has given the agency underwriting authority) that approaches 35% of our business; St. Paul is closer to 10%. We haven't felt the need to transfer business (to St. Paul), especially with the (other insurer's) underwriting program," he says.

Mr. Schultz

The agency also has underwriting authority from St. Paul. Although that authority, along with the new-producer program, didn't give St. Paul the top spot in the agency, it did help save the insurer from the consolidation ax.

"St. Paul was one of the insurance companies we decided to give up," Mr. Groves admits. But St. Paul's offer of the underwriting authority caused the agency principals to change their decision, as well as to ask about the new-producer program.

Underwriting authority is very important for the agency, Mr. Groves notes. "We have had a problem getting service from insurers. Our problem was really one of visibility in the (insurers') Kansas City branch offices." Salina is about 150 miles west of Kansas City.

The ability to underwrite risks makes servicing policies easier and "there's something habit-forming in the ease of doing business," Mr. Groves says.

While business ease may help direct policies to various insurers, volume commitments do not, he contends. "Some (types of risk) could go to St. Paul, but it won't be because of volume commitments."

The new producer placed most of his business with St. Paul during his first six months with the agency and that put him over the required $100,000 mark, Mr. Groves says. The agency hasn't met its $250,000 requirement yet to have 50% of the loan forgiven.

But the new producer, financed with the help of St. Paul's program, has pushed all the agency's producers to increase their new business volume, he says. Since he started, all the producers have been bringing in new accounts. ■

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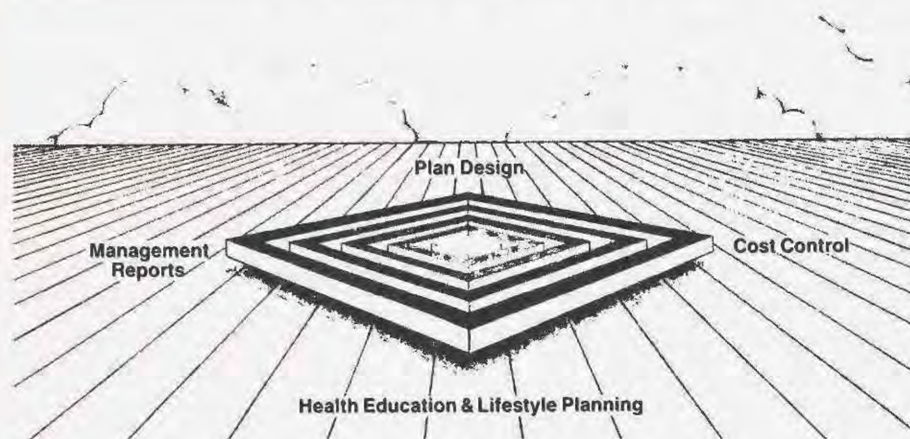

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A special Cost Control unit has been set up at Pilot which concentrates on reviewing unusually large claims, auditing charges of hospitals where services seem inconsistent with treatment, or where costs seem out of line. They are in constant contact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

HEALTH EDUCATION & LIFESTYLE PLANNING

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

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

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

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IIAA president noting 'experiments' by insurers

PALOS HEIGHTS, Ill.—Agents and brokers guard their policy expirations with the fervor of knights keeping watch over the realm.

Whoever owns the expirations owns the agency, agents and brokers stress.

Rumors of agents with close ties to an insurer cause the guardians of the agency system to carefully investigate who owns the policy expirations—a sign of whether the ties are a help or a hindrance. But although expiration ownership is an indication of who controls the agency, that control isn't as clear-cut as it was in the past.

Insurers are experimenting with their distribution system, notes Jack Payan, president of the Independent Insurance Agents of America and president of Payan/Stitt Insurance Corp. in Palos Heights, Ill.

The experiments aren't necessarily bad for agents, he says, noting that the IIAA board of directors last year endorsed the belief that agents and insurers must experiment with innovative programs and cooperative relationships in response to a changing marketplace.

Mr. Payan

While IIAA accepts the idea of experimentation, it keeps an eye on the form those experiments take. "We investigate (close agent-insurer ties) very carefully. We want to know if insurers are overtly purchasing agencies," Mr. Payan explains.

The picture some agents draw of dragonlike insurers gobbling up defenseless independent agents just isn't real, he emphasizes. Yet, some agents' ties to insurers are closer than the traditional independent relationship between the insurance provider and the distributor.

Examples of agreements that violate the traditional independent agent/insurer relationship include rights of first refusal for the business the agency generates, computer ties that limit the agency's ability to represent other insurers and selling equity interest in an agency to an insurer.

Long-term insurer ownership of agencies sends shivers up the spines of many independent agents.

They stess, however, that their opposition is to long-term arrangements. Agents generally applaud insurers who are willing to buy out a desperate agency owner to keep the firm active while looking for a way to return the agency to the independent system.

"That's warehousing and we think it's great," Mr. Payan says, adding that those agencies must be returned to an independent status as soon as possible.

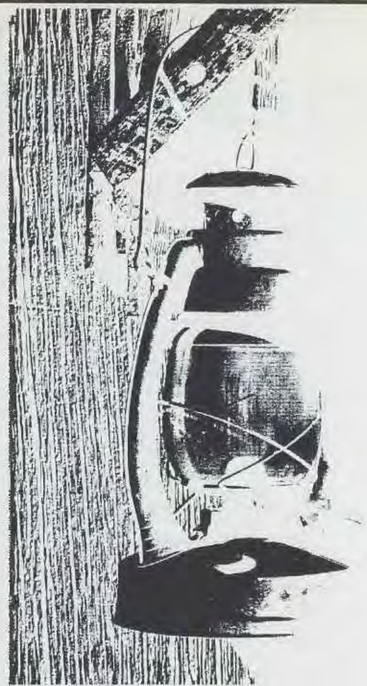
Although most insurers deny they own agencies other than under warehousing agreements, they haven't convinced agents. "Every insurance company probably owns an agency or two," Mr. Payan comments.

But, he adds, most will probably divest themselves of those agencies rather than use them as a base for a captive distribution system.

Insurers agree that no insurance company can afford to buy a distribution system by purchasing individual insurance agencies, Mr. Payan says. The business just isn't profitable enough for the insurers.

"But I've recently visited the top 35 (insurance) companies. They're concerned about the distribution system. In fact, that's probably the No. 1 concern running through insurance companies."

The distribution system is evolving, he says, adding that "the system of independent production isn't going to go away." ■



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One-insurer agencies claim advantages

Representing only one insurer has advantages over the traditional multi-insurer system most independent agents use, say some agents who should know.

"Having only one insurer contract is much more efficient. We used to have 21 accounts current. Now we don't drown in paper," says Dick Chazal, president of Chazal-Blair-Wade-Noland Insurance Agency in Ocala, Fla.

The agency has participated in CIGNA Corp.'s Compar (Company/Agency Relations) program for almost a year, Mr. Chazal says. In that time, it has reduced the cost of producing and servicing its $10 million premium volume by 10%, he adds.

Another agent notes that Compar agents drastically reduce or eliminate the expense for agents' errors and omissions coverage under CIGNA's program. Compar agents receive $1 million in E&O insurance at no cost, he says.

Income for Chazal-Blair is also higher than under the multi-insurer system, Mr. Chazal says. "With commissions, plus fees for undertaking rating and underwriting responsibilities, we're a couple of points higher in income for the same book of business. By the second year, we expect to be 15% more profitable."

The rating and underwriting authority available through the Compar program were two drawing cards, Mr. Chazal says.

"We wanted to be rewarded for individual efforts (rather than just for production). If we could prove we were effective and efficient (in rating and underwriting), we wanted to do it and get paid for it.

"We knew we could perform some services better" than the insurer, Mr. Chazal says, adding CIGNA was receptive to the plan.

Mr. Chazal first heard about the program in 1973 while serving on a Florida Assn. of Independent Agents committee studying alternative methods of producing insurance.

The program was sponsored by INA Corp., which merged last year with Connecticut General Corp. to form CIGNA.

Compar wasn't refined back then, Mr. Chazal contends. "It was originally designed for smaller agents and didn't contain exactly what we wanted. Our agency decided that offering total financial services was the way to go."

Although the agency wasn't prepared to commit all its efforts to INA back then, Mr. Chazal adds, the insurer was a major market for the agency.

Chazal-Blair took a second look at the program about seven years later.

Negotiations lasted about 18 months before the agency and insurer formalized the agreement, Mr. Chazal explains. "We were sold on the idea, but we had to sell it to the people in the agency."

The agency principals told their employees about the plan when negotiations begun, Mr. Chazal says. "The biggest problem was with the producers. They were getting paid strictly by commission and some would talk about sales they would have made" if they sold multiple insurers' products.

CIGNA salespeople helped sell the agency's producers on the program, Mr. Chazal says during a trip to CIGNA's Philadelphia office.

The program embraces the concept of target marketing. "We concentrate on selling products we know well," Mr. Chazal explains. "Target selling is much easier for the producers. We used to have the problem of keeping all the coverages straight. Now we know our products and its much easier to train people.

"We'll be much better insurance people. Now all the salesmen are convinced that this system works."

Selling the concept to the agency's clients wasn't as difficult as convincing the salespeople, Mr. Chazal says. "The majority of our clients buy from us rather than from the insurance company."

Rather than emphasizing that the agency only sells CIGNA products, producers tell prospective clients that they'll place the risks with CIGNA for specific reasons, he adds.

Mr. Chazal

CIGNA, however, didn't want to underwrite all of the agency's policyholders, Mr. Chazal says. "They let us see we were writing business we shouldn't have been writing. And while you're doing that, you're not out selling."

And in some cases, the agency made special arrangements with CIGNA to keep policyholders with their current insurer, he adds.

Carlisle-Andrews Inc., an agency in Alexandria, Minn., also received CIGNA's blessing to sell specialty products through another insurer after joining the Compar program in 1975, according to President Lloyd E. Andrews.

St. Paul Cos. Inc. is the primary market for medical malpractice insurance in the area, he explained, and the agency negotiated a contract to retain St. Paul as the market for the coverage. Other coverages, however, are all placed with CIGNA, Mr. Andrews says.

The insurer's monopoly on the agency's business, while yielding benefits, can also be a disadvantage, he notes.

One of the program's drawbacks is its isolating effect on member agents, Mr. Andrews says. When agents don't shop the marketplace, they lose track of the competition. "You learn too slowly that you don't have the best price. You have to rely on the knowledge of the underwriter."

Agents in the Compar program must also know the underwriter well to know by what standards risks are being evaluated, Mr. Andrews continues. Compar agents learn to evaluate risks according to CIGNA's standards, he says, adding that "you must seek business that (CIGNA) wants." ■

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IMS convention: Consolidation can offer the advantages of a merger without pitfalls, agent says

NEW ORLEANS—Don't merge, consolidate, advises John Pryor, vp of communications of KIA Insurance Associates Inc. in Bakersfield, Calif.

Mr. Pryor, who helped form KIA from five other agencies in 1971, shared his experience last month with agents at the 10th annual convention of Insurance Management Services Inc., which supplies marketing tools to member agents.

Consolidation offers agents some of the advantages of a merger while avoiding some of the disadvantages, he explained.

Mr. Pryor distinguished the two forms of combinations by describing the end result. After a merger of two or more entities, the original firms cease to exist, having been replaced by a new entity.

After a consolidation, the original entities don't lose their identities; they just add a top layer of operation. Participants create a separate corporation that functions in conjunction with the individual member agencies, Mr. Pryor said.

KIA Insurance Associates (whose named was changed Jan. 1 from Kern Insurance Associates Inc.) is the name of the upper level of the consolidation. Most of the member agencies stress that name rather than their own, notes Mr. Pryor, who owns John Pryor Insurance Agency Inc.

Despite the common name, however, "The upper level must be kept separate from the individual agencies," he says. "And the consolidation must be equally beneficial for all member firms."

Like mergers, the major benefit of a consolidation is increased bargaining power with insurers, Mr. Pryor noted. The upper level contracts with the insurers. Each agency then carries the clout of the premium volume of all member agencies combined.

The two methods of combining forces have other common advantages as well, Mr. Pryor continued. Member agencies can mix their advertising budgets to give all members greater media exposure.

Other group purchases, including computer equipment, can also be accomplished with economies of scale, he said.

Both mergers and combinations can supply an individual agency an avenue for perpetuation when the principals leave the firm. But easy perpetuation of the entity may be an advantage consolidations offer that mergers leave behind, Mr. Pryor said.

"There's a great deal more flexibility to a consolidation (than to a merger); the entity isn't traumatized when a member agency leaves the group."

Splitting up is easier, he notes, because members in the consolidation don't mix their books of business. Unlike a merger, consolidated members retain total and separate ownership of expirations, he said.

Consolidated agency principals have more control over production, expenses and administration than do principals of merged agencies, he added.

Despite the advantages, consolidations do have some disadvantages, Mr. Pryor told his audience. Admitting that consolidations are less-formal arrangements than mergers, Mr. Pryor said the members' diversity can make planning difficult. "The decision-making process can also be intolerably slow."

To ease this disadvantage, KIA Insurance Associates minimizes the number of decisions made at the upper level, Mr. Pryor said. The function of the parent corporation, operated by the member-agency principals, includes contracting with insurance companies, coordinating advertising and preparing the corporation's strategic plan.

Member agencies must use the same accounting system because the parent corporation must supply current consolidated accounts to each insurer, Mr. Pryor notes. Right now, however, the group doesn't have a common computer.

Acquiring a system is one of the objectives established in the strategic plan, he said. The planning system is divided into five areas, including automation, with each member agency principal responsible for one area.

The agency principals who formed KIA Insurance Associates didn't want to share some duties and privileges, Mr. Pryor pointed out. The agency principals can use their own criteria to judge who will make a good producer since each agency recruits and trains sales staff. Managing service staffs, as well as procedures to service accounts, are also left to the individual agencies.

Member agencies each make their own acquisition decisions, Mr. Pryor says.

Some member agencies in the consolidation may grow faster than others, Mr. Pryor notes, or they may be different sizes from the outset. In that case, profit-sharing is distributed proportionally, he said.

KIA equally allocates overhead costs, which include the price for maintaining one staff person at the upper level, between the members, Mr. Pryor says. Each member agency pays $120 per month for expenses associated with maintaining the consolidation.

Producing business is usually an individual effort for each agency, but the consolidation maintains an iron-firm rule, Mr. Pryor notes. "You do not take someone else's account." ■

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Agency attributes growth to many factors

NEW ORLEANS—Can you say that the premium volume in your agency or brokerage has mutiplied by eight in the last eight years?

Martin A. Lebson can, and he told a group of agents at last month's Insurance Management Services Inc. annual convention just how he and his partners at Popkin, Lebson, Bergstein Inc. Insurance stimulated that growth.

Mr. Lebson attributed the agency's success to several factors:

- A series of mergers in 1974 that combined the three agency principals' forces.
- The agency's purchase of a computer system with equipment manufactured by Wang Laboratories Inc. and software developed by Redshaw Inc.
- A life insurance sales department the agency began six years ago.
- A comprehensive advertising campaign that helps communicate the agency's sales and service message.
- The principals' willingness to take chances.

Taking a chance on merging three small firms not only gave the agency a larger premium volume and therefore more clout with insurers, but other benefits, too, Mr. Lebson said.

Combining three agencies eliminated problems of agency perpetuation. One of the new principals brought with him two sons eager to learn the agency business, Mr. Lebson noted. By planning ahead, the principals could structure the sons' income to help them buy the current partners' share of the business when they retire.

The merger also enabled partners to specialize, he noted. For example, when Chubb Group offered Popkin Lebson a chance to be a pilot agency for a computer interface project, one agency partner freed himself from other responsibilities to specialize in automation.

Popkin Lebson discovered that computers can help the agency grow. Account servicing can become more efficient with a computer, Mr. Lebson said, noting that service representatives can rate by computer through Chubb's system.

The agency also has a computer link to Hartford Insurance Group, he added, but Hartford's system doesn't have the rating capability.

Popkin Lebson's principals believe in pioneering new techniques. "Don't wait until something is perfected before you try it," he advised.

Establishing a sales center in an insurance agency is another concept that hasn't been perfected through years of refinement. Popkin Lebson, however, started a sales center two years ago, Mr. Lebson said.

The agency hired a part-time employee to call potential prospects and set up appointments for producers to follow with a visit. "At first I was skeptical. What businessman is going to make an appointment with a woman who calls? Lots."

Last year, the efforts by two part-time employees resulted in $100,000 of property/casualty sales, Mr. Lebson said. The agency paid the employees $4 per hour plus $10 commission on each appointment they established, for a total cost to the agency of $4,800.

The cost of selling life insurance is much less than selling property/casualty coverage, Mr. Lebson notes. "We aren't general agents of any life insurance companies, we have no obligation to anyone."

The agency solicits life insurance through direct mail and at pension seminars. Over its six-year experience with life coverage, the agency's volume has grown to $120,000 in life premium volume from $30,000, he added.

"Life insurance helps us keep accounts, and sometimes we get into new accounts that way as well."

Getting and retaining accounts is easier with a strong advertising program, Mr. Lebson said. Several years ago the agency hired an advertising consultant to develop a campaign.

The consultant, trying to develop a symbol for the agency, asked about unusual risks Popkin Lebson had placed.

The result was a campaign using a hippopotamus with the slogan, "A company that can insure homes, business, life and even your hippos."

The advertising campaign has been successful, Mr. Lebson said, adding that it was the result of the agents' effort to seek advice. Outsiders can be helpful, he said—use them.

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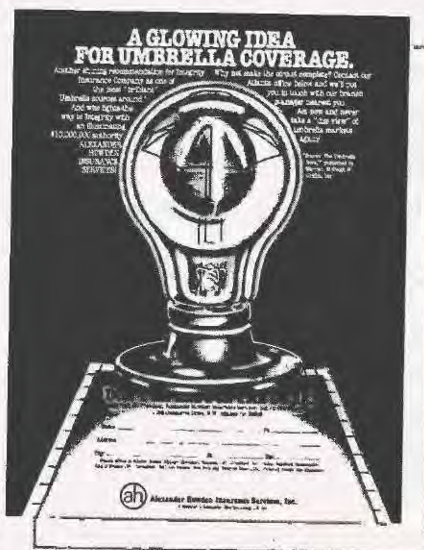

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Insurance World ends operations

DENVER—Competition, poor sales and lawsuits have forced the shutdown of Insurance World, the Denver-based agency franchise group, the company announced.

Insurance World shareholders, including Lincoln National Corp. of Fort Wayne, Ind., which owns about 90% of the stock, approved a plan last month to suspend operations pending a review of the company's finances and a re-evaluation its prospects.

The franchise group, which began operations in 1981 and was purchased by Lincoln National in February 1982 for about $9 million, reported about 29 members at year-end.

The membership growth, however, had virtually ceased in recent months, leading to failing finances.

"It's clear that a combination of factors led to the decision," explained J. Michael Keefer, associate general counsel for Lincon National. "Insurance World lost a lot of money, mostly due to the intense competition in the field.

"Secondly, the change in ownership that occurred when we purchased the company led to serious personnel turnover."

Lawsuits involving founder and former Chief Executive Officer Michael Shinn and other franchise groups also took their toll on the company, Mr. Keefer added.

"A fledgling company can't really stand any litigation, but Insurance World was involved in several suits, which I understand is rather common in the franchise business," Mr. Keefer said.

Although the suit filed by Mr. Shinn had been settled for an undisclosed sum, other cases involving franchise territories and other former employees are still outstanding.

President Reno Forsythe was unavailable for comment on the shutdown, but the Denver offices remain open pending negotiation with the regional franchises.

Minnesota considers comp fund, wage-loss

Continued from page 2

Advocates say state funds hold down the cost of workers compensation insurance because they don't need to make a profit like commercial insurers do, says Eric Oxfeld, an attorney specializing in employee benefits for the U.S. Chamber of Commerce.

Proponents in Minnesota also believe a state fund could cure other problems in Minnesota, including a workers compensation litigation rate that is about 10% higher than neighboring states and an inequity of benefits.

Basically, H.F. 24 is the same bill that was vetoed last year by the then-Gov. Al Quie, a Republican. But with a new Democratic governor—Rudy Perpich—running the state, observers say the climate appears favorable this session for passage of this legislation.

"The governor (Mr. Quie) was adamantly opposed to the creation of the state fund," Rep. Simoneau said, "and there basically was a strong difference of opinion between the conservatives (the governor) and the liberals (the Democrat-controlled Legislature)."

Several amendments also were tacked onto last year's bill, including some unemployment compensation provisions, which also led to the veto, said Rep. Simoneau.

The specifics of H.F. 24, introduced in January, are still being worked out. It will serve as a vehicle for several workers compensation changes, he added. "We probably have 30 to 40 amendments stacking now."

Additional hearings on the bill are scheduled throughout this month.

If Rep Simoneau's bill does not make it, it does not necessarily mean the concept of a state comp fund in Minnesota will die.

On the contrary, nearly every major workers compensation bill introduced this session will have some provision for a state fund, said Ken Dan-Schmidt, counsel for the House Labor-Management Relations Committee.

Two already have been introduced in the Senate. S.F. 371, introduced Feb. 22, calls for an exclusive state fund. And S.F. 6, introduced in January by Sen. Florian Chmielewski, D-Sturgeon Lake, calls for a competitive state fund, a one-year extension of health care benefits for injured workers and a schedule for disability benefits to be applied objectively in disputed cases.

S.F. 6 was introduced to initiate discussion of workers compensation coverage options, said Tim Michaels, administrative assistant to Sen. Chmielewski.

A major objective of the bill is to reduce workers compensation insurance costs by weeding out inefficiency in claims-processing time, the handling of contested cases and the delivery of medical services to injured workers.

The real crux of cutting costs for employers, according to Mr. Michaels, lies in equity of benefits. Schedules of temporary total disability, permanent partial disability and total disability will be studied.

"We've got some quirks in our system. . .Injured workers can make more money on disability than while working," he said.

The bill, along with almost a dozen others on workers compensation introduced in the Senate, have been assigned to the Employment Committee, chaired by Sen. Chmielewski. Hearings should begin in March.

Sen. Chmielewski also is waiting for recommendations from the workers compensation advisory council of the state Department of Labor and Industry.

However, another senator does not believe establishing a state fund will solve Minnesota's problems. Instead, Sen. James Ulland, R-Duluth, proposes a wage-loss system similar to the one Florida has instituted.

> 'In Minnesota, we've had great difficulty in changing our current, very high-cost system in any way. The alternative is to adopt someone else's way,' explains James Ulland, a Republican state senator.

The AFL-CIO successfully blocked passage of a bill last year that would have adopted provisions of Florida's 1979 wage-loss law, said Sen. Ulland, sponsor of S.F. 387, this year's wage-loss bill.

"In Minnesota, we've had great difficulty in changing our current, very high-cost system in any way. The alternative is to adopt someone else's way," he says.

The wage-loss system Florida adopted replaces permanent partial disability benefits, except for extreme impairments, with benefits given only for proven lost wages after an accident. The state says workers compensation rates have fallen 54% since the introduction of the wage-loss system.

Wage-loss, in effect, takes away a worker's right to receive compensation beyond time off work unless the employee can prove the injury caused a loss in wages when he returned to work.

"I don't think you can take another state law, apply it to Minnesota, and have success. There are too many variables," says Paul Hyduke, deputy commissioner of the Department of Labor and Industry.

But Sen. Ulland believes wage-loss is a better way to attack Minnesota's problem of "stacked" benefits than a state fund.

Employers complain that a worker who receives an individual scheduled workers compensation benefit for each separate injury he might suffer in an accident can end up making more money by receiving workers compensation than working.

"They've (state funds) been rejected by (labor groups). The Legislature will be unable or unwilling to run those funds," Sen. Ulland said, explaining that if such a fund were started, it ultimately would be unfunded and eventually collapse.

"Oh sure, you can lower premium costs, but price control will never work," the senator said. "Minnesota business folks are not fooled."

Only two states—Florida and Louisiana—have wage-loss laws.

A spokesman from the Minnesota AFL-CIO said that group considers wage-loss as a radical measure that "serves to gut the benefit structure." ∎

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Asbestos defendants to go after government

Continued from page 1

16,500 plaintiffs suing Manville were exposed to asbestos when working in government shipyards or in private shipyards under contract to the government during World War II.

Asbestos defendants have long maintained that the government bears substantial responsibility for the injuries and should pay a portion of the claims.

"It's one of the most significant rulings in all of asbestos litigation so far," says H. Keith Jarvis, senior attorney for Manville Corp. in Denver. "It could be a turning point in the litigation."

> 'It's one of the most significant rulings in all of asbestos litigation so far. It could be a turning point in the litigation,' says H. Keith Jarvis, senior attorney for Manville Corp.

The decision could add impetus to the drive for a legislative remedy to the asbestos problem, Mr. Jarvis says, and could also have a substantial impact on settlement and trial strategy in asbestos cases.

Within the next few months, companies will seek to have the government included in thousands of asbestos cases and possibly to pay for portions of cases that have already been settled, he predicted.

James Ralston, corporate counsel at Eagle-Picher Industries Inc. in Cincinnati, called the decision "good news."

Eagle-Picher, which is facing more than 13,500 suits, "as a matter of course" files claims against the government whenever a case against the company is filed by a worker at a government shipyard or a private shipyard that was under government contract, he said.

However, the company has always anticipated that at some point it would have to deal with the government's argument that the claims should be thrown out because they were banned under FECA.

Now, however, this barrier has been removed. "It gives us a lot of encouragement," Mr. Ralston says.

But an attorney for a major insurance company warns that although the ruling means more suits will be filed against the government, it does not mean the government will automatically contribute to compensating asbestos victims.

"This does not establish government liability one way or the other," emphasized the attorney, who asked not to be identified.

The attorney estimated, however, that the decision could "probably double the amount" of suits currently pending against the government.

He added that his company will file third-party claims against the federal government as a result of the litigation.

According to Kenneth Feinberg, a Washington attorney for asbestos defendant Raymark Corp. of Trumbull, Conn., and a spokesman for the Committee for Equitable Compensation, a group of asbestos defendants, the decision is "one more slow, evolving step eroding the government's long-standing traditional immunity in tort.

"It's one more nail in the coffin," he said, adding that it will increase the momentum to force the government to contribute to asbestos claims both through the courts and legislatively.

There are several different ways to interpret the Lockheed decision, says Robert E. Vagley, an attorney with the Washington firm of Preston, Thorgrimson, Ellis & Holman.

One view sees the decision as truly having significant and positive implications for companies attempting to recover from the government, he explains.

"But it is not illogical to read it as a positive—but not necessarily significant—contribution to the law," says Mr. Vagley, whose firm represents Commercial Union on various legislative issues.

Although the ruling says asbestos defendants can sue the government as a third party, Mr. Vagley points out that many states do not allow defendants to press cross-claims against a plaintiff's employer, and such state laws could be applied to block individual suits against the government.

But Mr. Vagley emphasizes that, in his own view, the decision is very broad, goes beyond asbestos to other types of toxic tort litigation and could possibly encourage legislation that would indemnify government contractors in certain situations.

"My view is that it sweeps very broadly," he says. "It opens up opportunities that didn't exist before. The implications go far beyond asbestos when you have civilian employees."

However, an attorney for the federal government says the ruling should not necessarily increase the likelihood that the government will contribute to asbestos claims, nor will it mean a significantly greater number of suits.

Peter Nowinski, the federal government's lead counsel in asbestos litigation, says the decision might result in more suits against the government, but they will likely be unsuccessful.

"They already tried in the 4th Circuit and lost," he said, referring to the only judicial circuit that has allowed companies to sue the government as a third party before the high court ruling. However, Manville failed to convince the court that the government was liable for workers' injuries, Mr. Nowinski said, adding there is no reason to believe that asbestos companies could prove such claims now.

While Mr. Nowinski acknowledges that the decision "opens the door" to trying more asbestos cases, there will likely be "no deluge of cases," partly because thousands of suits are pending in state courts, where the federal government can't be brought in.

In addition, the government has already been brought in as a third party in many federal cases, Mr. Nowinski says. Asbestos companies have filed more than 1,200 cross-claims involving more than 13,000 plaintiffs in various federal courts, but many have been thrown out of court and the others have not been successful.

"It's a significant opinion by the court. It is a profound change in social policy," he adds. "But over the long haul, it won't have that much effect on asbestos litigation."

At issue in the Lockheed case was Section 8116(c) of the Federal Employees Compensation Act.

FECA, similar to state workers compensation statutes, grants federal employees immediate, fixed benefits for workplace injuries on the condition they give up the right to sue their employer, the federal government.

Courts had previously construed the language of the section, however, to mean that defendants sued by federal employees were also barred from recovering from the federal government even if it were liable for an employee's injury.

Relying on language in Section 8116(c), however, the Supreme Court said only employees and their families were barred from suing the government, not defendants whom the employees sue.

"Section 8116(c) was intended to govern only the rights of employees, their relatives and people claiming through or on behalf of them," said the opinion, written by Justice Lewis Powell. "These are the only categories of parties who benefit from the quid pro quo compromise that FECA adopts.

"Lockheed is not within any of the specified categories."

The Lockheed case involved a civilian employee of the U.S. Navy, who was killed in the 1975 crash of a C-5A aircraft during the evacuation of orphans from Vietnam shortly before the fall of Saigon.

The plaintiff's estate received compensation under FECA and then sued Lockheed as the manufacturer of the aircraft. Lockeed, in turn, sought to sue the federal government as a third-party defendant.

The U.S. District Court for the District of Columbia held for Lockheed, but the U.S. Circuit Court of Appeals reversed, setting the stage for the Supreme Court decision. ■

Package policies cover property, liability risks

Continued from page 3

years ago, according to Senior Vp Kenneth H. Pinkston. Of the roughly nine companies that asked C&B to conduct feasibility studies, three ultimately chose the CAP approach, Mr. Pinkston said.

One of these companies set its aggregate retention level at $25 million, he added.

A year ago, C&B also began developing a CAP program for smaller companies, those with $300,000 to $2 million in standard premiums, Mr. Pinkston said. Aggregate retentions for such clients might range from $300,000 to $1.5 million, he said.

The primary layer of C&B's program has been placed in the London market, but negotiations are continuing with U.S. insurers on excess layers. C&B hopes to begin marketing the program this year, Mr. Pinkston said.

Reed Stenhouse Cos. Ltd., the largest Canadian broker, is also in the process of developing its own CAP program for the "smaller" companies that C&B is aiming at, according to Frank H. Dunne, marketing manager of the brokerage's San Francisco office.

Mr. Dunne, though, would not disclose any details of Reed Stenhouse's program. "The animal does live, but we're not ready to put it on parade yet," he said.

Other brokers—including Marsh & McLennan Inc., Emett & Chandler International and Rollins Burdick Hunter Co.—offer CAP-type programs on a client-by-client basis.

CAP boosters point to a number of advantages that accrue to companies that maintain retentions for recurrent losses.

J&H estimates the coverage can cut a company's total insurance costs by 20% to 50%. C&B offers a more conservative savings estimate of 10% to 20%.

Both brokers point to several areas where savings might be realized, including:

- Premiums. Rates under a CAP program may be reduced up to 30%, according to J&H, because the burden of paying recurrent losses has been removed from underwriters' shoulders. Even greater premium savings may be realized because of the negotiating leverage provided by the sheer size of such an account, J&H adds.
- Cash flow. Because the policyholder keeps a large retention to pay recurrent losses, it can use those funds for investments or other purposes until the losses are paid.

In addition, premiums for many of the coverages encompassed by CAP, if written under separate policies, would have to be paid in full at inception. With monthly or quarterly CAP premium payments, companies are able to hold onto their premium dollars for these coverages for a longer period.

- Loss control. CAP proponents say the program encourages policyholders to make greater efforts to prevent and control recurrent losses, since the policyholders are paying these losses from their own funds.

Proponents add that the quality of a company's insurance program is improved with the CAP approach, which reduces potential gaps in coverage and simplifies claims-handling procedures.

Coverage under a CAP-type program can also be integrated with a policyholder's captive insurance operations, Mr. Jennings adds, explaining that the policyholder could use its captive to fund the retention.

Despite the advantages cited by some brokers, others see potential pitfalls in CAP-type programs and are not pursuing their development as aggressively.

One such potential problem could stem from instability within the team of insurers underwriting the policy, according to Leonard P. Lawrence, chairman of Emett & Chandler International, which has brokered similar package programs on a "very selective" basis, primarily for railroads.

Some excess insurers participating in a CAP-type program may attempt to cancel their participation in such a policy when they see their layers are going to be pierced, Mr. Lawrence fears.

"You could have a real mess on your hands," he said. "The aggregate you thought you were buying may dry up when you need it."

"If the underwriter becomes dissatisfied with an account, you've got a problem," said Henry A. Revzan, a vp with Rollins Burdick Hunter.

But Mr. Revzan added that the problem might be solved with stringent cancellation provisions.

The most frequently voiced observation from the critics is that large retentions do not make sense given today's cheap insurance rates.

"I cannot conscientiously recommend that someone take a high self-insured retention when they can buy insurance for half of what their losses are," said Earl Lanning, an executive vp with broker E.H. Crump Cos. Inc.

"Many people want to have the control that (segregated) purchasing gives them," Mr. Lawrence added.

But J&H's Mr. Jennings said the competitive market will work to CAP's advantage because underwriters are trying to write new business to increase their market share.

He conceded, though, that J&H is using improved quality of coverage rather than premium savings as its main selling point for the CAP program. ■

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Cox to leave CIGNA post

Continued from page 3
doing it for the next four years—of running the property/casualty group and going here to make a speech and going there to make a speech and there to talk to a customer and so on—I just said, 'I've done enough of that, I don't want to do that.'"

Mr. Cox, who joined INA in May 1975, says he won't consider what he'll do next until after June 1, but he adds: "I won't vegetate."

He says he'd love to consult for businesses with serious problems or would consider something in education. He says he might capitalize upon his years of business travel for INA and AIG by considering a non-political position in government or international trade.

"I'm sure he'll land on his feet," says B.P. Russell, chairman of Crum & Forster, which was acquired by Xerox Corp. last year.

"I have no idea what happened behind the scenes. That's none of my business," added Mr. Russell who used words like "drive, energy, moxie and street-smart" to describe Mr. Cox.

Observers are betting that Mr. Cox will stay in the property/casualty insurance industry, but probably will want to remain based near his Livingston, N.J., home. They say he is likely to be actively courted because of his reputation as an industry spokesman.

One possible landing spot, several analysts agree, is Fireman's Fund Insurance Cos., a subsidiary of New York-based American Express Co. Fireman's Fund, a growing player in the commercial insurance market, has recently lost some key executives.

"That's interesting; that could be a fit," says one stock analyst.

"American Express does have a history of getting flamboyant people on its board—one more wouldn't hurt," another analyst adds. "It's an interesting thought."

However, one key industry executive who knows Mr. Cox well said he expected him to opt for something more entrepreneurial—perhaps the formation of a new insurer with outside backing or the expansion of a captive insurer.

The executive, who did not wish to be named, described Mr. Cox as "sort of a George Patton-type" who functions best in an environment less-structured than the one emerging at CIGNA.

Mr. Cox says he talked about his decision to leave CIGNA during February with CIGNA President Robert D. Kilpatrick. "We talked about it a few days and I was asked to reconsider certain things and I thought of it for a couple of days and I said no, my decision was firm," he says.

The CIGNA board was told of his decision on Feb. 23 and it was announced publicly two days later.

Stock analysts and industry observers tend to agree Mr. Cox probably wasn't forced out, but they also say his departure is probably not viewed as a devastating loss by CIGNA's top management.

Mr. Cox is a manager who cultivates subordinates by logic and hard work rather than by force of personality, one analyst says, adding that type of manager can usually be replaced. Others note that Mr. Cox's replacement, Wilson H. Taylor, is as sharp as the man he succeeds.

"Taylor is clearly one of the go-getters in the industry," says an observer at one of CIGNA's competitors. Mr. Cox calls him a "very fine, bright young man."

Mr. Taylor, 39, took charge of CIGNA's property/casualty operations March 1, keeping his title as executive vp. He had been CIGNA's chief financial officer and held that post at Connecticut General Life Insurance Co.

Mr. Taylor offered only general comments about his plans in a meeting last week in New York with financial stock analysts. But most wager that Mr. Taylor will continue, for the time being, Mr. Cox's thrust of emphasizing CIGNA's talents in special risks underwriting and attempting to forge growing links with commercial brokers while trying to keep existing agents happy.

"I think Mr. Taylor will let them go on doing what they're doing," says Robert V. Brokaw Jr., a senior analyst at Mabon, Nugent & Co. in New York. "At this point, he doesn't have a credible alternative."

Mr. Cox's departure isn't necessarily bad for CIGNA, adds Mr. Brokaw, who says most of the insurer's property/casualty underwriting expertise came from the INA side of the marriage.

"If his leaving makes them all look for jobs, then it is a blow for CIGNA," says Mr. Brokaw. "If it doesn't, then it isn't."

The Feb. 25 announcement of Mr. Cox's resignation and Mr. Taylor's reassignment appeared to have been hastily conceived in at least one respect: No announcement was made about Mr. Taylor's successor as chief financial officer. Company officials say an announcement will be made soon.

Mr. Cox says rumors about friction between him and Mr. Taylor—especially over CIGNA's decision to add about $150 million to reserves last spring, a move that severely depressed earnings—are just rumors.

"Put some nails in that coffin. He's got enough trouble to pick up and get on with this job without having to fight that kind of nonsense," Mr. Cox adds.

Mr. Cox says that outsiders believed that Mr. Taylor "was the theoretical successor to Kilpatrick at CG and I was the theoretical successor to (CIGNA Chairman Ralph D.) Saul at INA. In both cases that's a bunch of nonsense because the people who decide who the successor is going to be is the board that's in power at the time they have to make the decision."

Mr. Cox says he favored the combination of INA and CG, which was described at the time as a "merger of equals," and he still believes in it today. "The business is changing. INA and CG could not make it alone."

The merger made sense, Mr. Cox explains, because INA, CG and the entire property/casualty industry remains burdened by too much cost in administration and production of business.

"The temptation with a better economy to not address the inefficiencies is probably the biggest problem that this industry will face over the next 18 months," he warns.

If insurers see now-competitive rates starting to rise, Mr. Cox fears, they will be tempted to add people and services instead of trimming.

"And that would be a serious mistake, because if we continue down the road that we've been going as an industry, we will reach the point where we will be capital short."

Despite Mr. Cox's resignation, the post-merger flow of power in the merged company among former Connecticut General and INA executives remains unclear.

One analyst suggests, though, that CG's methodical, theoretical underwriting approach appears to be gaining favor over the less constrained, market-oriented approach followed by Mr. Cox and his INA associates.

But that trend has not been affirmed yet. Recently, for example, CIGNA announced it will move its headquarters—located temporarily in New York since the merger—to Philadelphia (see story, page 12). The move could be viewed as a tip toward the INA forces. ■

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Campaign for convention includes coverage

Continued from page 3

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Other required coverages include "operations/premises liability insurance and contractors protective liability insurance on the operations of all subcontractors, completed operations, contractual liability—designating the indemnity provisions of this agreement—and automobile liability—owned and not owned."

> 'I don't think they care how it's done. They want assurances that they can hold the convention, walk away when it's done and not have any claims following them,' Keith Grant says.

Yet, despite the enormity of the insurance specifications issued by the DNC, "there are definitely some gaps in the specifications," says June Oliver of the Huntington T. Block Insurance Agency in Washington, which analyzed the specifications for that city.

Some of the required coverages have no stated limits, Ms. Oliver notes, and others are contradictory. For instance, contractors are required by one section of the specifications to provide $500,000 in liability coverage, but $10 million elsewhere in the specifications.

And she and the agency's president, Huntington T. Block, wonder if $10 million in liability coverage is sufficient. "By 1984, I wouldn't be at all surprised that coverage of a convention of that size could be upward to $50 million to $100 million," Mr. Block says.

Besides the normal exposures in hosting a huge convention, the specifications pose some hidden but huge risks for whichever city is selected. The host city would be responsible for any extra costs incurred should the convention last longer than the expected four days. For example, the city would have to pick up the tab if the delegates are unable to agree on a candidate.

Despite the problems, the District of Columbia says it won't have any trouble meeting the specifications, says Pauline Schneider, director of intergovernmental relations. "In certain areas, we are prepared to do more than is required."

A spokesman for the DNC said the problem of any coverage "gaps or inconsistencies" in the specifications do not now concern the committee since the specifications are merely guidelines for the cities to be aware of.

Any problems in the specifications will be worked out after a host city is selected, she said, adding that the specifications were virtually unchanged from 1980's.

Keith Grant, risk manager for the city of San Francisco, who says he did discuss some of the specifications' gray areas with DNC officials, claims his city won't have any problem meeting the specifications. He characterizes DNC officials as flexible, adding, "I don't think they care how it's done. They want assurances that they can hold the convention, walk away when it's done and not have any claims following them."

Mr. Grant has taken the proposal to some brokers as a program separate from the city's regular insurance needs.

"I wouldn't want a loss from that activity jeopardizing our continuation of insurance," he notes, adding that insurance for the convention would not be as costly if the DNC were included in its regular coverage as an additional insured.

Mr. Grant said that underwriters "aren't going to be too definite in quoting a price for the coverage. For example, the political climate could change in the next year, raising the possibility that the convention could trigger riots, as it did in 1968." Also, he adds, the commercial insurance market could turn by next summer.

Despite all of this, Mr. Grant says that one underwriter said the coverage would cost San Francisco "a heck of a lot less than $200,000," but he did not disclose the insurer that made the bid.

The convention coverage could be a good risk for the insurer that finally ends up writing the policies.

Hadley Gold, a member of the New York corporation counsel's office who handled the insurance details for the 1976 and 1980 conventions held in Madison Square Garden, says he is "aware of no claims in 1980 and only one claim in 1976.

"I think one of the wooden state signs that delegates hold may have hit somebody," he says.

Hosting a political convention can raise different coverage problems for self-insured New York, which unlike San Francisco and Washington, does not own a convention facility.

Gulf & Western Industries Inc., owner of Madison Square Garden, was "not happy with (our self-insurance) and so we bought a policy," recalls Mr. Gold. "I think we paid between $210,000 and $220,000 for the insurance." ■

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Insurance Management: vps, directors, managers of insurance, risk, benefits, compensation, safety, security, etc.	5,299
Government, Associations, Unions, Educational Institutions	1,034
Commercial Consumers Sub-total	**22,954**
Insurance Agents & Brokers	9,771
Insurance Cos.	5,217
Financial Institutions	352
Actuaries, Attorneys, Adjusters, Appraisers & Consultants	2,603
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Insured MET claims may not be covered

Continued from page 1

lion in liabilities.

If a buyer can't be found to purchase the company for around $15 million, the Insurance Department will liquidiate it.

This leaves the future of the California METs in doubt because they would no longer be insured. Involved are Multiple Benefit Trust, administered by Variegated Insurance Marketing Concepts of Van Nuys and National Health Insurance Trust, administered by National Health Insurance Administrators of Huntington Beach.

Under a 1982 California law, self-funded METs are automatically subject to state insurance laws unless they receive a certificate to operate from another government agency, like the U.S. Department of Labor, which certifies employee benefit plans. Few self-funded METs can meet California insurance code requirements and are forced to close.

Another option for Multiple Benefit Trust and National Health Insurance Trust would be to find a new insurer to underwrite their risks and pick up the outstanding claims left unpaid by Iowa State Travelers.

But if this isn't possible, it could mean that thousands of people in California will not get their medical bills paid. Some 10,000 people, many of them employees at firms with fewer than 100 companies, may be enrolled in the two California METs insured by Iowa State Travelers.

Like many states, California does not have a health and life insurance guaranty fund to aid policyholders when an insurer collapses and can't pay claims.

However, in Illinois, Iowa State Travelers policyholders do not have to worry. Illinois has such a fund and money received by the Illinois department on behalf of Iowa State Travelers will be paid into it to pay all outstanding claims.

The guaranty fund is financed through regular assessments of life and health insurers licensed in Illinois, so even if there are not enough assets from Iowa State Travelers to cover outstanding claims, the fund will pay them.

"Based on the records we've received from Iowa State Travelers' local administrator and data processing company, we have documented about 1,700 open claims files representing at least $1 million in claims," said Mr. Carlson.

"It's pretty hard to tell exactly what's going on because there may be problems with the records," Mr. Carlson added. "When we seized the records, we also found what we think are most of the claims records for the California business."

The coverage the insurer wrote in Illinois was managed by claims administrator Bruce J. Hepner & Associates of Lake Bluff, Ill., but most of the records were maintained by a Glenview, Ill., data processing company, James Computer Co., which is owned by Stanley E. Sumner.

Mr. Sumner, according to the Iowa Insurance Department, was also president of Iowa Travelers' defunct reinsurer, Lincoln Security Life Insurance Co. of Phoenix, Ariz.

Mr. Sumner had previously administered claims for multiple employer trusts in Illinois. On June 16, 1981, he surrendered his Illinois agent's license at the request of the Illinois Insurance Department and promised not to sell or administer multiple employer trust policies in the future, said Mr. Carlson.

Sources involved in the investigation say that Iowa State Travelers' sales in Illinois grew rapidly shortly after Mr. Sumner purchased Lincoln Security less than two years ago and entered into the reinsurance agreement with Iowa State Travelers.

It was the failure of Lincoln Security that directly caused the collapse of Iowa State Travelers, say the Iowa Insurance Department and company executives.

On Feb. 7, the Arizona Insurance Department assumed control of Lincoln Security, which owes Iowa State about $6.5 million. Lincoln Security has a total of about $10 million in debts, according to Arizona Insurance Commissioner Michael Low.

But the underlying reason for Iowa State Travelers' failure was the company's decision about two or three years ago to enter the multiple employer trust health insurance business, Iowa regulators say.

Multiple employer trusts, which are often organized by individuals with insurance sales backgrounds, pool the health risks of small employers and individuals to cut administrative costs and, thereby, reduce the cost of insurance.

Many self-funded METs have gone broke since 1977 because they were mismanaged by third-party administrators. Low rates were set to lure small employers, but eventually the METs collapsed when claims exceeded reserves.

METs insured by licensed, admitted insurance companies have had a better track record.

But the collapse of Iowa State Travelers illustrates that if an insurance company doesn't keep close tabs on the operation of the METs it is underwriting, it, too, can fail, said Fred Haskins, an Iowa assistant attorney general.

Iowa State Travelers's problems began when, in a bid to boost premium income, it entered the MET business and turned over control of much of its business to third parties, according to Sidney Adams, who retired as company president in 1979 but is a board member.

"When you delegate authority to outsiders, you lose control," said Mr. Adams. "The company was a little naive, a little gullible."

And the company wasn't sure, in every case, about the backgrounds of the people with whom it was placing business. For example, Bruce Schulte, who administers National Health Insurance Trust, one of at least two California METs insured by Iowa State Travelers, was associated with METs that failed in 1979 and 1981.

Mr. Schulte was the marketing director of American Federation for Labor & Business Employer Benefit Trust, a Texas-based self-funded MET that filed for bankruptcy in 1981 with assets of $54,000 to pay medical claims of more than $2.5 million (*BI*, Sept. 14, 1981).

Mr. Schulte also was apparently involved with National Business Conference, which filed for bankruptcy in 1979 in Portland, Ore., according to a 1981 *Business Insurance* interview with Rufus Garrett, a Fort Worth, Texas, attorney appointed by the U.S. Justice Department to act as AFLB's bankruptcy trustee.

Richard Terp, a vp with Iowa State Travelers, told *Business Insurance* that he was not aware of Mr. Schulte's association with other self-funded METs that failed.

Iowa and Illinois insurance regulators question how rates were set for the METs and the other group health business Iowa State Travelers wrote.

"The MET business was run on an open-end basis. No underwriting was done. They (Iowa State Travelers) didn't even have a list of policyholders," said Mr. Haskins of the Iowa Department of Insurance.

Usually an insurer looks at loss experience data to set rates, but Iowa State Travelers did not assess the risks, he said.

In Southern California, where health care costs are among the highest in the nation, National Health Insurance Trust apparently charged rates that were a third less than rates charged by major health care providers.

For example, according to a November 1982 rate sheet obtained by *Business Insurance*, National Health Insurance Trust charged small companies $40.19 a month for individual coverage for persons 19 to 23 years old.

By contrast, a 25-employee company based in Los Angeles would pay about $127 a month per employee for individual comprehensive coverage with Blue Cross of California.

Rates also were low in Illinois where Iowa State Travelers directly issued group policies.

According to the Illinois Insurance Department and an insurance agent who reviewed an Iowa State coverage quote, the insurer was offering group health coverage for less than $70 per person per month, but was planning to raise rates to $85 per person per month.

These rates are significantly lower than generally available to small employers with 1,000 or fewer employees and comparable to premium rates offered to large corporate policyholders.

The low rates attracted employers that were more interested in price than the stability of their insurer, said one California insurance agent. National Health Insurance Trust has been writing $1.5 million in new business a month, said to Mr. Terp of Iowa State Travelers.

Jack Tohill of the John Statton Insurance Agency in Fullerton, Calif., said he lost an account with an annual premium of $100,000 after he advised the company not to join National Health Insurance Trust.

The company, based in Costa Mesa, Calif., signed up with NHIT because its rates were $58 a month for individual coverage, compared with a quote of $102 for coverage with Confederation Life, a Canadian insurance company.

In Illinois, employers insured with Iowa State Travelers include the Arlington Heights, Des Plaines, Park Ridge and Oak Lawn Chambers of Commerce and Gingiss Formalwear dealers. The sizes of these groups range from 90 to 1,100 employees.

In the wake of Iowa State Travelers' failure, insurance experts say agents and employers need to pay more attention to the financial resources of insurers.

"Searching the insurance marketplace on the basis of price alone is unwise. It is up to the buyer to ascertain the insurer will be around for the long-term," said James Harrington, supervising investigator with the California Insurance Department.

Other experts say buyers should be wary when they receive an unusually low quote.

"If a company is charging $40 a month for comprehensive coverage in Southern California, it better have lots of capital and reserves because with a rate like that it is not going to last very long," said Claude Dorais, an attorney with the firm of Dorais & Wheat in Los Angeles and a nationally known expert on METs.

At least one state regulator said more controls are needed on the METs' third-party administrators.

"The problems are with the administrators," said Mr. Low of the Arizona Insurance Department. "You see the same people (administrators) jumping from state to state.

"Unfortunately, insurance companies can be naive and be taken in by administrators," added Mr. Low, who will ask the National Assn. of Insurance Commissioners to study the issue.

In California, one government official said the link between Iowa State Travelers' financial condition and the activities of MET administrators is one issue under examination. ■

Damage to convention complex covered

Continued from page 2

turers Mutual Insurance Co., an affiliate of the Factory Mutual System. The separate property and business interruption policies each contain $10,000 deductibles.

Revenue bonds issued by the city and county to finance the Convention Center require that property insurance be maintained on the building, noted Julianne Reeves, senior administrative assistant in the Municipal Auditorium Department, which operates the complex.

"We are still trying to determine the total amount of the loss," said Ms. Reeves. Besides the roof damage, some boats owned by exhibitors were damaged. Several employees' cars were also wrecked when pieces of the center's sign fell on them.

Miraculously, no one was seriously injured or killed in the March 1 tornado, which whipped through a 20-square-block area of south central Los Angeles. About 50 small businesses and homes were damaged or destroyed by the twister. City officials estimate total damage will hit about $15 million.

Orthopaedic Hospital in downtown Los Angeles reported 18 broken windows and severe damage to a 70-foot decorative spire that towered above its roof. Two nurses on the sixth floor of the hospital suffered minor cuts from shattered glass.

Hospital administrators hired a giant crane to lower the spire after it was damaged by the storm and threatened to topple off the roof onto the street below. The hospital does carry property insurance, but "I don't know if the crane rental would be included in that," said a hospital spokesman.

At least five piers in Santa Barbara, Santa Monica, Seal Beach, Huntington Beach and San Clemente were badly damaged from heavy seas and huge waves that accompanied California's latest wild winter storm.

Pounding surf smashed away a 400-foot section of the Santa Monica pier and dumped two cranes and a large refrigerator truck into the sea. City officials estimated damage to the pier at $3 million, on top of $2.5 million caused by storms earlier this season.

In Santa Barbara, high tides and surging seas tore out pilings at Stearns Wharf, a recently renovated historic area. Damage to harbor facilities and the wharf was estimated at $2 million.

An oil drilling island off the coast of Orange County was heavily damaged, spilling small quantities of oil into the stormy seas. ■

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Airlines studying court rulings on liability

Continued from page 2

senger if the estate's right to compensation actually exceeded $75,000.

However, the court also concluded that the government—not the airlines—may be liable for any amounts exceeding $75,000.

The three-judge panel based its reasoning on a Supreme Court case involving assets frozen after the Iranian hostage crisis. In that case, another court concluded the government was responsible for reimbursing Middle Eastern interests for their frozen assets because they were taken without due process.

But whether the government actually would pay any claims exceeding $75,000 under the current Warsaw protocol would be decided by the U.S. Court of Claims, which hears monetary claims against the government.

If that court did not decide that the government was liable, the airlines involved would have to pay the full claim, no matter how high it was.

However, before plaintiffs in the Pan Am case can take their case to the U.S. Court of Claims, they must exhaust all appeals in the original case. Those appeals are pending.

But the threat raised by the Pan Am case has airlines and their insurers worried.

"If you're a risk manager for an airline, you have got to anticipate that you're going to have to pay full damages in any international case," says Robert L. Alpert, a senior vp and claims attorney with United States Aircraft Insurance Group Inc. of New York, one of the nation's largest commercial aviation insurers.

In the second court decision, issued Sept. 28 in a case involving Trans World Airlines Inc., the 2nd U.S. Circuit Court of Appeals in New York found the Warsaw Convention's method of calculating the value of a passenger's or shipper's claim in his own nation's currency —based on the value of gold—is unenforceable by U.S. courts.

"The plain but highly troublesome fact is that by international agreement and United States domestic legislation, gold has now lost its monetary functions and no longer has an official price," the court said in a 23-page opinion written by U.S. Circuit Judge Ralph W. Winter Jr.

Since the court says the formula used to fix claims under the Warsaw Convention is based on a nonexistent standard, the Warsaw Convention cannot be enforced in a U.S. court. What that means, the airlines fear, is that there is no longer any limit on cargo liability. They could be found liable for any size cargo claims—and possibly any size passenger claim.

Depending on who is doing the figuring, based on their interpretation of the Warsaw formula for fixing cargo values, airlines and shippers argue that the Warsaw limitation on cargo liability can be anything from $9 to $90 a pound.

The TWA decision involved a 1979 claim by the Franklin Mint Corp. against TWA for the unexplained disappearance of 714 pounds of precious medallions and other objects valued by the mint at $250,000.

The objects were being shipped via TWA from the United Staes to England.

Using the last official U.S. price of gold under the Warsaw limitation, the airline's cargo insurer, Lloyd's of London, is obligated to pay only $6,476 for the loss, a lower court found. The appeals panel affirmed that ruling, but said the gold standard cannot be used in future cases.

It pointed out, depending on whose calculations the court accepts, TWA liability could have ranged from "less than $6,500 to more than $400,000."

"I think this case means that in the short term there will be a great deal of confusion in the airline cargo insurance industry," says John N. Romans, an attorney with the New York firm of Curtis, Mallet-Prevost, Colt & Mosley, which represents TWA. "There is also concern as to whether this decision affects passenger liability."

Under the Warsaw Convention, the gold-based formula for figuring the value of a cargo loss is the same as that used for figuring passenger death claims.

"This is a case where a court has abrogated a treaty on a basis other than constitutionality and that's never been done before," adds Mr. Romans.

In December, the Court of Appeals rejected TWA's request for a rehearing. Mr. Romans has now asked the U.S. Supreme Court to hear the case and the Supreme Court is considering the request.

"The logical conclusion of shippers (from the TWA case) is that there is no longer any limit of liability for future losses," says William J. Augella, executive director and general counsel of the Shippers National Freight Claim Council Inc. of Huntington, N.Y., a shippers' and insurers' trade group. "But the airlines are not going to go along with that."

USAIG's Mr. Alpert and others agree the two court decisions may affect this week's Senate action on Montreal Protocols 3 and 4, which are backed by airlines and the Reagan administration. But they don't all agree on what the impact will be.

Supporters of the protocols say the two court cases bolster their case for immediate Senate action. Opponents, chiefly lawyers who represent crash victims, say the two decisions highlight flaws in the package before the Senate.

"It is a very strong message to the Congress and the executive branch to do something favorable or unfavorable about the $75,000 limitation," says Michael G. Lowe, an attorney with the San Francisco law firm of Hanna, Brophy, MacLean, McAleer & Jensen. Mr. Lowe's firm represents airlines and their insurers in workers' compensation claims filed for deceased cockpit crew members.

"The courts really dramatize the need for prompt ratification of the Montreal Protocols," says James E. Landry, a senior vp and general counsel of the Air Transport Assn. of America, which represents airlines and supports the proposals.

"My general reaction when I heard about the (TWA cargo) case is that it reinforces the reasons for going ahead with the proposals because the TWA case is close to a judicial denunciation of the existing treaty," says Frank K. Willis, deputy assistant secretary for policy and international affairs in the Department of Transportation.

Instead of using the value of gold as the basis for the formula to determine liability for passenger or cargo losses, the protocols employ an international monetary unit called a "special drawing right." The value of a single special drawing right is established by the International Monetary Fund based on the values of key Western currencies.

"We can't limp along with the present system," says Fred S. Tipson, chief counsel to the Senate Foreign Relations Committee, which passed Montreal Protocols 3 and 4 to the Senate floor in 1977 and again last month.

Lee S. Kreindler, a respected New York crash victims' lawyer who opposes the Montreal Protocols, sees it otherwise. He says the Pan Am case shows the Justice Department ought to be concerned about the government's potential liability for claims over the limit.

Mr. Tipson said there had been a "hold" on bringing the protocols to a Senate floor vote last fall because of objections from Sen. Ernest F. Hollings, D-S.C. However, the senator last week agreed to drop his plans for a filibuster in return for a guaranteed six hours of debate today on the protocols. The vote is now scheduled for Tuesday morning.

Part of the reason for the intense debate over the protocols, which have been before the Senate since 1977, is a section that closes a loophole through which crash victims' lawyers have been able to pierce the current $75,000 liability limit.

The Warsaw pact allows this if an airline is proved to have caused a crash by "willful misconduct." The protocols would eliminate this exception.

The protocols have always been backed by the Air Transport Assn. of America, the trade association of U.S. airlines. The American Bar Assn. also has backed the protocols, arguing that failure to ratify some sort of limitation treaty will provoke chaos in international aviation.

Vincent H. Zimmerer, a Los Angeles-based managing director of the aviation and aerospace services unit of broker Marsh & McLennan Inc., also backed the protocols in a May 28, 1982, letter to Sen. Charles H. Percy, chairman of the Senate Foreign Relations Committee.

An unbreakable liability limit "should result over a reasonable period of time in lower insurance costs for airlines than would be the case if there are no limits," he wrote. And, he pointed out that the protocols also will substantially increase payments paid to injured passengers through a proposed supplemental compensation plan.

The Montreal Protocols 3 and 4 would allow individual international travelers to purchase $200,000 in excess liability insurance through a $2 round-trip ticket surcharge. The supplemental compensation package, approved by the Civil Aeronautics Board, would be underwritten by Prudential Insurance Co. by agreement with the airlines.

The supplemental compensation package and the new $117,000 compensation cap proposed in the protocols would be paid to a passenger without proof of liability on the part of the airline, although the passenger would have to prove the monetary value of his claims. The package also includes unlimited payments for medical costs in crash injury cases.

But, the trial lawyers say no limitation of liability is needed. They say approval of the package would mean some international travelers with legitimate claims exceeding $317,000 would have nowhere to turn for compensation unless they have personal life, accident or health insurance.

Trial lawyers, of course, include aviation plaintiffs' lawyers who make a living at least in part from contingent fees, which are based on a percentage of any injury or death awards a client receives.

John Brennan, president of United States Aviation Underwriters Inc., says claims data from the 1979 crash of an American Airlines' DC-10 near Chicago's O'Hare International Airport show the *average* settled claim exceeds $317,000.

Plaintiffs' lawyers argue additionally that not to extend such liability limits to manufacturers also is discriminatory. They say if airlines' liability is limited, claims instead will be filed against aircraft manufacturers like Boeing Co., McDonnell-Douglas Corp. and Lockheed Corp.

"It seems somewhat presumptuous for international air carriers to insulate themselves at the expenses of their suppliers," says John J. Kennelly, a Chicago air crash plaintiffs' attorney. "Why should there be any treaties which single out airlines for indefensible preferential treatment?"

The Aerospace Industries Assn. of America Inc., which includes airframe manufacturers, engine makers and parts suppliers, originally supported only a limited extension of the liability ceiling for airlines.

Recently, the manufacturers flip-flopped and now say they "interpose no objection" to adoption of a permanent limit. But James L. Mitchell, a Washington attorney who lobbies for the manufacturers, acknowledges he isn't "working the Hill" in favor of the protocols, either. ■

Study shows injured workers likely to quit

Continued from page 3

working in their planned occupation at the time of the interview.

Other preliminary findings show that permanently disabled workers are generally older, have more job experience, are less-educated and more likely to be married than the general workforce. Every eighth injured worker has an English language handicap.

Nearly three-quarters of all permanent disability claims are litigated in California, and the tendency to litigate increases with the severity of the injury. Litigation tends to be more prevalent among workers employed by large companies: The larger the employer, the greater the tendency of injured workers to contest workers compensation benefits.

Among litigating employees, 40% were dissatisfied with their attorney's handling of the claim, but 83% said they would retain an attorney "if I had it to do over again."

The study strongly confirms a widely held belief among workers compensation claims administrators that prompt response to the concerns of an injured worker after an accident can reduce subsequent litigation.

Affirmative intervention and timely information within a week of the injury may reduce litigation by as much as 65%, especially for relatively minor permanent partial disabilities, the study shows.

Employers supplemented temporary disability payments in 31% of the claims, but this additional compensation had no effect on the worker's decision to litigate. Temporary disability benefits provided under workers compensation statutes typically provide injured workers with 67% of their pre-injury wages, which were supplemented to the 80% to 100% level by some employers.

More than half of the injured workers who are currently employed are still working for their 1976 employer, nearly identical to the experience of uninjured workers. Forty-two percent of the employed injured workers have changed occupations since 1976, compared with 45% of the uninjured workers.

But injured employees do not earn as much as their uninjured counterparts. Average annual income of injured workers who are currently employed increased 49% to $19,400 in 1981 from $13,000 in 1976. The average annual income of uninjured workers increased 64% to $20,800 from $12,800 during the same period.

Three of every four injured workers received benefits from public or private insurance in addition to workers compensation payments. The most common sources of these benefits were employer-union pension and welfare funds and salary continuation plans. Only 8% of the injured workers reported receiving Social Security disability payments.

Twelve percent of the injured workers had filed a prior workers compensation claim. Among those who returned to work after the 1976 injury, 19% had a subsequent claim.

●

Further information concerning the study may be obtained from the California Workers Compensation Institute, 120 Montgomery St., Suite 715, San Francisco, Calif. 94104; 415-981-2107.

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BI Insurance Index

The *Business Insurance* stock index again set a record high, closing at 247.1 for the week ending March 1, up 4.7 points from the record of 242.2 set on Feb. 22. Forty-one issues posted gains, 13 declined and 10 were unchanged. The leading gainers were Alexander & Alexander Services Inc., 11.9%; Hanover Insurance Co., 11.6%; Old Republic International Corp., 9.8%; Fremont General Corp., 8.9%; and CNA Financial Corp., 8.7%. The largest losses were posted by Crawford & Co., 7.4%; Gulf United Corp., 4.5%; Frank B. Hall & Co. Inc., 4.3%; Aneco Reinsurance Co. Ltd., 3.3%; and The Travelers Corp., 2.7%. The *BI* index 1.9% increase was outpaced by the 4.7% average increase in the Dow Jones 30 industrials average.

British Issues

1 Mar Companies	Price pence	P/E	Div. pence	Yield %	1 Week High—Low pence pence
Comml Union	133	40.3	16.86	12.7	135—133
Eagle Star	378	15.1	21.43	5.7	378—365
Genl Accident	434	15.0	23.21	5.3	434—428
Gdn Royal Exch	426	12.2	25.00	5.9	426—418
Phoenix	304	16.0	24.00	7.9	304—300
Royal	515	13.3	37.86	7.4	515—506
Sun Alliance	1000	16.7	61.43	6.1	1000—980
Brokers					
CE Heath	335	9.6	18.71	5.6	335—330
Hogg Robinson	104	8.0	8.57	8.2	106—101
JH Minet	112	10.2	5.43	4.8	112—101
Sedg Grp	205	11.7	8.57	4.2	211—202
Stenhouse Hldg	110	10.3	7.86	7.1	110—108
Stew Wrightson	252	9.0	18.57	7.4	252—250
Willis Faber	542	13.5	21.43	4.0	542—522

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

Old worries still haunt brokers

Continued from page 1

finance-minded president for its brokerage division and a sound fourth quarter, Marsh & McLennan Cos. Inc. posted only mediocre overall results for 1982.

M&M's 1982 operating revenues grew only 9.1% to $924.3 million from $846.8 million the previous year, well off the double-digit growth rate of the past several years. Net income grew less than 1% to $120.4 million from $120 million. Earnings per share, however, increased a bit more to $3.36 from $3.27.

Taxes dragged a bit on income as the brokerage company's tax rate grew to 51.7% from 50.1% in 1981, when a change in British law generated a $6.4 million tax benefit.

However, the last three months of 1982, as Mr. Rosencrants indicated, was a happier period for M&M. Although fourth-quarter operating revenues grew only 6.4% to $219 million from $205.8 million for the corresponding period in 1981, net income grew 16% to $25.6 million from $22 million. Earnings per share for the fourth quarter grew to 74 cents from 60 cents.

All of the company's operating departments posted revenue gains, points out Chairman John M. Regan Jr.

"M&M's largest area of activities, insurance services, produced an operating revenue increase of 3% in the fourth quarter of 1982 and was up 8% for the full year," he says. "Employee benefits services reported a 13% revenue increase for the fourth quarter and a 15% gain for all of 1982."

Investment management, sometimes the forgotten aspect of M&M's business, grew 28% in the fourth quarter and 9% for the full year, Mr. Regan noted.

The news wasn't nearly as good at Frank B. Hall & Co. Inc., the third-largest broker overall and the second-largest to report so far. Gross revenues for all of 1982 grew only 3.2% to $364.9 million from $353.5 million last year, and net income fell 21.1% to $24 million from $30.5 million. Earnings per share fell sharply to $2.07 from $2.65 in 1981.

Fourth-quarter results were even worse. Gross revenues for the quarter dropped 5% to $88 million from $92.6 million, while net income fell 47% to $3 million from $5.6 million. Earnings per share dropped to 26 cents from 49 cents in the final quarter of 1981.

Despite the dismal picture, Stanley Martinez, Hall's senior vp of finance, points to several positive indicators.

"In the fourth quarter of 1982, salaries and benefits as a portion of our operating expenses grew only 4%, the first bite of our salary review and head-count expense-control programs. I expect the program to show positive results throughout 1983," he says.

Other operating-expense components at Hall actually dipped during the fourth quarter. Expenses other than salaries and interest on loans fell to about $35.5 million from $36.2 million in the fourth quarter of 1981.

The fourth quarter also marked the first reporting period in a year in which Hall was not fighting Ryder's lawsuit over its purchase of Jartran.

Corroon & Black Corp., still pursuing its internal business development goals built around its divisional reorganization of two years ago, reported significant year-end gains in 1982. However, those gains tapered off during a mediocre fourth quarter.

Year-end gross revenues at the sixth-largest U.S. broker grew 8.6% to $172.1 million from $158.4 million, as net income increased 14.1% to $16.7 million from $14.6 million. Net income results, however, were padded by some securities transactions that, if eliminated from the results, would have left only a 4% gain. Earnings per share grew to $2.09 from $1.82 in 1981.

"We were generally satisfied with our overall performance in 1982," notes Chairman Robert F. Corroon. "The year-to-year increase in earnings, in the face of unfavorable industry conditions and a weak economy, is largely attributable to the balance we have achieved in our operating groups.

"While continued softness in property and casualty premium rates depressed the earnings of our brokerage services group, we made great strides in our benefits and underwriting management operations. The reinsurance group performed satisfactorily despite a substantial increase in expenses, which were related to the planned expansion of our G.L Hodson unit," he says.

Fourth-quarter results, however, were not as impressive. Gross revenues in the last three months of 1982 grew only 5.6% to $41.3 million from about $39 million in 1981. Net income increased less than 1% to $4.34 million from $4.32 million. Earnings per share increased a penny to 54 cents from 53 cents.

The disappointing fourth-quarter figures also did not reflect any damage that could be inflicted by the Minet scandal. In notes to its year-end report, C&B points out that "the outcome of the investigations and their effect, if any, on (C&B's) equity in the earnings of Minet and the corporation's investment in Minet cannot be determined at the present time."

Although E.H. Crump Cos. Inc. reported the best overall financial results among the public brokers, its revenue and income figures reflect the purchase of three large insurance agencies in 1981 and 1982 and the sale of one subsidiary in last year's third quarter.

Crump, the ninth-largest U.S. broker according to *BI's* 1982 survey, saw its annual gross revenues grow a tremendous 61.6% to $52.1 million from $32.3 million in 1981, as net income increased at a similar pace, up 68.6% to $2.6 million from $1.5 million. Earnings per share grew to 70 cents from 51 cents in 1981.

Fourth-quarter revenues grew 15.8% to $11.4 million from $9.9 million, while net income rebounded to $176,000 from a net loss of $89,000 in the same period of 1981. Earnings per share rose to 5 cents in the final quarter of 1982 from a loss of 2 cents in 1981.

Poe & Associates Inc. also reported solid, but somewhat deceptive financial results for 1982.

Simultaneous with the release of its financial results, Poe announced the spinoff of Whiting National Insurance Co., a wholly owned property/casualty insurer. Whiting, whose results had been a drag on the brokerage operations, will become a new and separate public company owned by the same shareholders as Poe. Its financial results will be reported separately in the future, the company says.

In 1982, Poe's gross revenues grew 33.3% to $25.8 million from $19.3 million. Net income, without adjustment for a 3-2 stock split, grew 11.9% to $1.4 million from less than $1.3 million in 1981. Including the split, income grew only about 9%. Earnings per share grew to 50 cents from 46 cents for continuous operations.

Whiting National as a discontinued operation posted a 34-cent loss in earnings per share, representing a total $986,000 loss in 1982.

The combined earnings for the two operations produced net income of only $459,000, down from $1.6 million in 1981 and earnings per share of 16 cents, down from 58 cents per share in 1981.

Fourth-quarter gross revenues at the 16th-largest U.S. broker grew 17.1% to $6.3 million from $5.4 million in 1981, while net income from continuing operations more than doubled to $237,000 from $116,000. Fourth-quarter earnings per share for the brokerage operations grew to 8 cents from 4 cents.

As a result of increases made to Whiting National's loss reserves, the net loss from discontinued operations amounted to $1.2 million, representing a per-share loss of 41 cents, compared with a 16-cent earnings gain for the same period in 1981.

The combined results of both operations yielded a net loss of $946,000 and loss per share of 33 cents, compared with net income of $566,000 and earnings per share of 20 cents the previous year. ■

BI Industry Stock Report

MAR. 1, 1983 2/23/83 THRU 3/1/83

Insurance Cos		Price	Chg	P E	$ Div	Yld	High	Low	Vol (000)
Aetna Life & Cas Co	NYSE	39.25	5.7	6.8	2.64	6.7	39.25	37.63	1,217.0
American Bankers Ins Group	OTC	14.13	7.6	11.0	0.50	3.5	14.13*	13.13	303.6
American Gen Ins Co	NYSE	65.50	3.6	8.9	2.20	3.4	65.50	63.75	247.3
American Indty Finl Corp	OTC	22.25	0.6	22.0	1.12	5.0	22.25	21.38	19.8
American Intl Group Inc	OTC	78.00	2.6	11.5	0.24	0.3	78.25	76.75	550.2
American Natl Ins Co	OTC	16.50	2.3	6.9	0.84	5.1	16.75	16.38	186.8
American Sts Life Ins Co	OTC	28.50	0.0	8.1	0.88	3.1	28.50	28.50	1.3
Aneco Reins Ltd	OTC	3.63	-3.3	45.3	0.00	0.0	3.75	3.63	22.3
Avemco Corp	AMEX	15.00	-1.6	8.7	0.58	3.9	15.13	14.88	3.2
Banks Iowa Inc	OTC	41.00	2.5	11.5	1.52	3.7	41.00	40.00	5.4
Bitco Corp	OTC	33.50	8.1	5.9	2.00	6.0	33.50	31.50	12.2
Carolina Cas Ins Co	OTC	6.88	-1.8	10.1	0.32	4.7	7.00	6.88	1.2
Chubb Corp	OTC	54.50	-0.5	9.0	2.92	5.4	56.00	54.38	191.2
Combined Intl Corp	NYSE	30.75	1.7	11.6	2.00	6.5	30.88*	30.13	290.4
Continental Corp	NYSE	28.38	2.3	13.9	2.60	9.2	28.63	28.13	889.7
Crawford & Co	OTC	18.75	-7.4	14.0	0.57	3.0	19.50	18.75	22.3
Crown Life Ins Co	OTC	90.00	0.0	5.9	3.10	3.4	90.00	90.00	0.0
Employers Cas Co	OTC	34.25	3.0	7.2	1.20	3.5	34.25	33.25	7.7
Equifax Inc	NYSE	28.88	4.1	18.5	1.40	4.8	29.13*	28.25	25.4
Excelsior Ins Co	OTC	11.50	0.0	0.0	0.70	6.1	11.50	11.50	0.3
Farmers Group Inc	OTC	39.38	2.3	10.9	1.36	3.5	39.38	38.38	377.4
Foremost Corp Amer	OTC	42.25	3.0	13.4	1.24	2.9	42.25*	41.00	15.3
Fremont Gen Corp	OTC	16.88	8.9	31.2	0.48	2.8	17.13	15.75	581.2
Great West Life Assurn Co	OTC	189.00	2.2	15.4	10.00	5.3	195.00	189.00	0.0
Hanover Ins Co	OTC	41.00	11.6	6.0	0.88	2.1	41.00*	37.25	61.9
Hartford Steam Boiler Insptn	OTC	45.50	1.1	10.1	2.80	6.2	45.50*	44.75	21.0
Jefferson Natl Life Ins Co	OTC	44.00	1.1	11.4	0.76	1.7	44.00	43.50	15.3
Kemper Corp	OTC	40.00	4.6	7.5	1.80	4.5	40.00	38.50	69.3
Lincoln Natl Corp Ind	NYSE	50.25	4.7	9.0	3.00	6.0	50.25*	47.50	116.4
Mission Ins Group Inc	NYSE	35.75	2.1	8.9	1.00	2.8	37.63*	35.38	170.9
Nationwide Corp Ohio	OTC	41.00	0.0	12.1	0.70	1.7	41.00	41.00	2.6
Northwestern Natl Life Ins	OTC	29.88	1.3	20.9	1.50	5.0	30.75	29.50	34.8
Ohio Cas Corp	OTC	48.63	2.6	9.9	2.52	5.2	48.63	47.25	79.4
Old Rep Intl Corp	OTC	28.00	9.8	6.8	0.92	3.3	28.00*	25.38	83.1
Orion Cap Corp	NYSE	19.25	3.4	11.2	0.66	3.4	19.25	18.63	83.2
Preferred Risk Life Ins Co	OTC	25.00	-1.0	7.4	0.92	3.7	25.25	24.50	16.6
Provident Life & Acc Ins Co	OTC	56.50	1.8	7.9	2.44	4.3	56.50*	55.50	13.5
St Paul Cos Inc	OTC	65.00	3.8	6.7	2.80	4.3	65.25*	63.13	226.5
Safeco Corp	OTC	53.75	5.4	9.4	2.40	4.5	53.88	51.88	235.6
Sri Corp	OTC	44.00	0.3	8.9	1.12	2.5	44.25	43.50	118.2
Seibels Bruce Group Inc	OTC	25.38	-3.3	12.5	0.80	3.2	25.88	25.38	35.5
Statesman Group Inc	OTC	7.13	-1.7	6.3	0.15	2.1	7.25	7.13	2.7
Tokio Marine & Fire Ins Co	OTC	105.00	1.4	16.8	0.92	0.9	107.00	102.50	16.8
Travelers Corp	NYSE	26.88	-2.7	7.3	1.80	6.7	27.38	26.13	651.5
United Fire & Cas Co	OTC	30.50	0.0	8.2	0.88	2.9	30.50	30.50	0.7
United States Fid & Gty Co	NYSE	47.25	-2.6	11.9	3.60	7.6	48.50	47.25	181.4
United Svcs Life Ins Co	OTC	21.13	0.0	6.3	1.00	4.7	21.25	21.00	20.7
Uslife Corp	NYSE	23.88	2.7	5.2	0.88	3.7	24.00	23.25	448.6
Washington Natl Corp	NYSE	23.63	0.0	11.4	1.08	4.6	24.00	23.50	123.0
Zenith Natl Ins Corp	OTC	18.50	0.0	9.2	0.80	4.3	18.75	18.50	10.9
INSURANCE COMPANIES	AVERAGE			9.7		4.0			

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Agents/Brokers		Price	Chg	P E	$ Div	Yld	High	Low	Vol (000)
Alexander & Alexander Svcs	NYSE	24.75	11.9	11.1	1.00	4.0	24.75	22.38	454.2
Baldwin & Lyons Inc	OTC	40.50	-2.4	7.3	0.80	2.0	41.50	40.50	1.8
Corroon & Black Corp	NYSE	29.50	3.5	14.1	1.80	6.1	29.50	27.75	37.1
Crump E H Cos Inc	OTC	10.00	0.0	16.9	0.40	4.0	10.13	10.00	21.6
Enett & Chandler Cos Inc	OTC	11.00	2.3	35.8	0.00	0.0	11.00	10.75	2.8
Hall Frank B & Co Inc	NYSE	30.25	-4.3	14.6	1.70	5.6	31.25	29.75	210.6
Integrated Res Inc	AMEX	37.38	1.0	11.3	0.00	0.0	37.75	36.88	98.2
Marsh & Mclennan Cos Inc	NYSE	43.25	6.8	12.9	2.20	5.1	44.13*	41.00	210.0
Poe & Assoc Inc	OTC	10.00	2.6	9.8	0.40	4.0	10.00	9.75	2.9
Reed Stenhouse Cos Ltd	OTC	16.00	0.0	15.2	0.60	3.8	16.00	15.75	36.2
AGENTS/BROKERS	AVERAGE			11.7		3.5			

Conglomerates/Holding Cos.		Price	Chg	P E	$ Div	Yld	High	Low	Vol (000)
American Express(Fireman's Fd)	NYSE	59.13	11.6	13.1	1.80	3.0	59.13*	55.00	2,108.5
Anderson Clayton(Ranger/PanAm)	NYSE	25.88	-7.2	10.7	1.32	5.1	27.38	25.88	178.9
Armco Inc	NYSE	18.13	3.6	0.0	0.80	4.4	18.13	17.63	429.5
City Investing Co. (Home Ins.)	NYSE	28.75	7.5	7.9	1.70	5.9	29.25	27.75	353.1
CNA Finl Corp (CNA)	NYSE	18.75	8.7	7.7	0.00	0.0	18.75*	17.38	37.6
Control Data (Comml. Credit)	NYSE	50.50	6.9	12.3	0.60	1.2	50.50*	47.63	1,653.0
General Re Corp	NYSE	62.50	1.6	13.4	1.28	2.0	62.88	61.75	343.5
Gulf Utd Corp	NYSE	26.75	-4.5	8.6	1.32	4.9	27.88	26.75	254.5
Cigna Corp	NYSE	44.88	-1.6	6.5	2.48	5.5	46.25	43.00	1,709.8
ITT (Hartford Group)	NYSE	33.38	6.0	7.5	2.76	8.3	33.38	32.00	1,877.7
Optimum Hldg Corp	OTC	9.00	2.9	8.7	0.00	0.0	9.00	8.75	2.7
Sears Roebuck & Co. (Allstate)	NYSE	33.63	15.0	13.7	1.52	4.5	33.63*	29.50	4,573.9
Baldwin Utd Corp	NYSE	36.38	19.8	7.1	0.88	2.4	36.38	31.63	600.0
Teledyne Inc (Argonaut)	NYSE	155.50	4.3	12.3	0.00	0.0	155.50*	152.50	738.1
Transamerica Corp (Occidental & Fred S. James)	NYSE	23.38	0.0	8.2	1.50	6.4	23.75	23.25	274.1
CONGLOMERATES/HOLDING COS.	AVERAGE			10.6		2.9			

*Record high/low since Jan. 1, 1983

System design: Altman Information Systems

Financial briefs

Continental

Continental Corp. has declared a regular quarterly dividend of 65 cents per share of common stock and a dividend of 62.5 cents per share of the corporation's Series A and Series B $2.50 cumulative convertible preferred stock. Both dividends are payable March 15 to shareholders of record Feb. 28.

Frank B. Hall

Frank B. Hall & Co. Inc. has declared a regular quarterly dividend of 42.5 cents per share of common stock, payable May 9 to shareholders of record April 15.

CIGNA

CIGNA Corp. announced that it had registered with the Securities and Exchange Commission a proposed public offering of about $250 million of adjustable-rate preferred stock.

The 2.5 million shares will have a liquidation value of $100 each. The initial dividend rate and the offering price have not yet been determined. ■

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