

business insurance

update:

South Tucson ordered to begin paying judgment

SOUTH TUCSON, Ariz.—The city of South Tucson will appeal a superior court judge's order that it pay former Tucson policeman Roy Garcia more than \$4.5 million in five equal annual installments, says an attorney representing the city (BI, May 3).

Ruling on a petition filed by Mr. Garcia's attorney, Judge Robert Royston said the

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

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Hospitals exit Social Security

Does withdrawal hurt employees?

By JERRY GEISEL

WASHINGTON—For John F. Kennedy Memorial Hospital in Lake Worth, Fla., opting out of Social Security is its key to controlling soaring employee benefit costs.

By using the right it has under federal law to withdraw from the program, the non-profit hospital no longer will have to pay the steadily rising Social Security FICA payroll tax for its 1,100 employees.

This could reduce payroll costs by more than \$300,000 a year at the southern Florida hospital, according to William Moses, the hospital's finance director. And that savings comes after the cost of adding an alternative employer-paid retirement plan.

Because so much money is involved, it is prudent for hospitals to consider whether it makes sense to withdraw, says John O'Callaghan Jr., executive vp of Health Enterprises Inc., a Phoenix, Ariz., consulting firm that advises hospitals on their withdrawal options. And the number of hospitals considering such a move is rapidly increasing as more than 300 have notified the government.

But a growing number of experts aren't so sure opting out of Social Security is a prudent move for hospital employees, and it certainly is not a good thing for the financially strapped Social Security system that cannot afford the cut in tax revenue.

For employees, a hospital's withdrawal from Social Security can mean an immediate 6.7% increase in take-

home pay since they no longer have to pay their share of Social Security taxes.

But the long-term effects on retirement income are disastrous, several benefit experts warn.

They say workers who frequently change jobs may never reap the benefits of a private retirement plan that often demands five to 10 years' employment to vest; they lose the protection against inflation that the Social Security formula offers; and they may lose eligibility for Medicare and other Social Security-related benefits.

Unions are recognizing some of these pitfalls and are throwing up a red flag.

"Workers are losing what can't be replaced," says Cathy Schoen, special assistant to the president of the Service Employees International Union, an AFL-CIO affiliate that represents about 250,000 health care employees.

Employers do not have to tell their employees if they



Graphic: Amy Palmer

Employers say leaving system improves benefits

WASHINGTON—Critics of non-profit hospitals that withdraw from the Social Security program charge that employees are being deprived of benefits, but the hospitals disagree.

Holy Redeemer Hospital in Meadowbrook, Pa., says it is providing its 1,400 employees with even better retirement benefits since it opted out of Social Security in April 1980.

"There has been a substantial improvement for our employees," said Floyd Kinkead, the hospital's director of fiscal affairs. "They just weren't getting anything before (under Social Security)."

Under the savings plan the hospital set up after opting out of Social Security, employees contribute 6% of salary, up to a wage base of \$29,700, while Holy Redeemer contributes another 4%. These contributions are used to purchase tax-sheltered annuities for employees. The annuities currently are earning more than 16%, according to Mr. Kinkead.

The savings plan offers immediate vesting, an important feature in the high-turnover health care industry.

In addition, Holy Redeemer contributes another 2% of wages into a

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Drilling companies study war risk coverage

By RHONDA L. RUNDLE and STACY SHAPIRO

HOUSTON—A handful of U.S. and foreign offshore oil drilling companies with rigs in Argentine and Chilean waters west of the Falkland Islands are studying their war risk insurance policies with acute interest.

No drilling was underway within the 200-mile war zone surrounding the disputed islands when the Argentine-British crisis erupted last month. But a few drillers have been operating in the nearby Strait of Magellan and off the eastern coast of Tierra del Fuego at the tip of South America.

A jack-up drill owned by Sonat Offshore Drilling Inc. in Houston may have been the rig closest to the Falklands when hostilities broke out. Sonat has since moved the rig out of the area up the eastern coast of South America into Brazilian waters.

Although the rig is insured against war risks, the company was unsure whether Lloyd's of London would continue coverage. A Sonat executive pointed out that the British Parliament put pressure on Lloyd's to cancel reinsurance coverage for an Argentine airline (BI, May 3).

"All war risk policies are subject to a cancellation clause," noted a Houston broker

with many offshore oil industry clients. Insurers also can come back with higher rates during the policy term if a peaceful situation turns into a hostile one, he added.

"We want to know when, where and under what conditions our war risk insurance takes care of us or fails to do so," said Jack Aldred, executive vp at Diamond M Drilling Co., a Houston company with two rigs operating in Chilean waters of the strait. Diamond M is drilling for Empresso Nazionale de Petrola, the Chilean government oil company.

Mr. Aldred said the two rigs are operating as usual and are in no immediate danger. But he is trying to find out if his Lloyd's war risk insurance covers expropriation, capture, loss of income from interrupted operations and other risks besides

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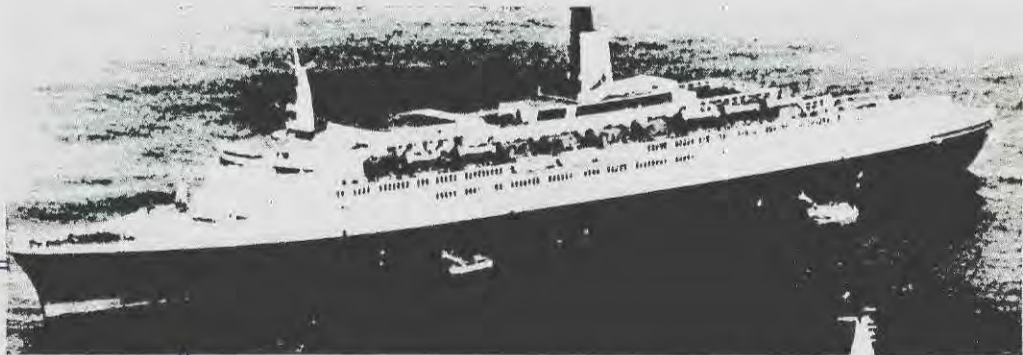


Photo: Wide World



Map: Amy Palmer

QE2 covered for lost profits

By STACY SHAPIRO

LONDON—The luxury liner Queen Elizabeth 2 may not be safe from harm when it sails to the Falkland Islands carrying British troops, but its owner is covered for sinking profits while the ship is in government service.

Cunard Lines Ltd., anticipating the QE2's call to service as the Queen Mary was during World War II,

bought "loss-of-profits-against-requisition" insurance last month, two weeks before the liner was requisitioned by the Ministry of Defense.

"This is the most profitable season for her on trans-Atlantic cruises," said Gerard Kinally, Cunard's financial director, "and if we lost those profits, it would be a disaster."

Losses for canceled cruises may top \$4 million before the end of the

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South Tucson ordered to pay

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city must pay Mr. Garcia even if it means taxing its citizens. Mr. Garcia, paralyzed by a South Tucson police officer's bullet during a mutual-aid response to a 1978 shootout, won a \$3.6 million judgment against the city in 1980. South Tucson, which had only \$100,000 in liability coverage, has failed in its appeals of the judgment.

With interest, the city may now be forced to pay Mr. Garcia more than \$4.5 million, says William Walker, South Tucson's attorney.

Mr. Garcia's attorney, Richard Grand, could not be reached for confirmation of reports that his fee amounts to 45% of the judgment. But Mr. Walker says, "When I told him I thought he would be getting 40% to 45%, he said I was in the ball park."

Mr. Garcia last week turned down the city's settlement offer of 30 annual \$50,000 payments and three parcels of city-owned land, worth an estimated \$450,000.

Rhode Island comp law signed

PROVIDENCE, R.I.—As expected, Gov. J. Joseph Garrahy has signed legislation that mandates competitive rating for workers compensation insurance on Sept. 1 (BI, May 3).

S.B. 2427 will force work comp insurers with more than 2% of the market to file rates individually for approval by the state. The insurers currently agree on a set rate and file together through the National Council on Compensation Insurance. It's hoped that those insurers, which account for 70% of the state's business, will lower rates to remain competitive.

Insurers with less than 2% of the market still will be allowed to file rates through the NCCI.

Oregon and Kentucky have passed open rating laws slated to take effect July 15; Rhode Island will follow Sept. 1; and Michigan and Minnesota will begin open rating next year.

A competitive rating bill is on its second reading in the Illinois Senate and sources say it may be signed as early as this week.

Canadian firm wants Keene rule

WASHINGTON—A Canadian asbestos mining company is asking a federal court to grant it the broadest possible interpretation of insurance coverage for long-latent disease claims.

Brinco Mining Ltd. of Vancouver, B.C., is asking a U.S. District Court in Washington to decide how its insurer should pay claims for injuries allegedly caused by exposure to asbestos.

The suit filed against Federal Insurance Co. of Short Hills, N.J., which provided Brinco with a comprehensive general liability and an excess liability policy between 1974 and 1975, wants the court to apply the District of Columbia Court of Appeal's Keene ruling, which says all of a manufacturer's insurers from the time a claimant is exposed to asbestos through diagnosis of an injury are liable for damages (BI, Oct. 12, 1981).

According to the suit, Federal only is willing to pay or defend claims for injuries that manifested themselves during the policy period.

Amoco Cadiz trial begins

CHICAGO—A federal court in Chicago is now determining who is liable for the wreck of the supertanker Amoco Cadiz, which triggered what has been regarded as the worst oil spill in history.

Standard Oil Co. of Indiana and several subsidiaries, the government of France and the ship's builder, Astilleros Espanoles S.A. of Spain, are among the parties to the litigation that will first address liability, leaving the question of damages for later.

Billions of dollars could be at stake in the trial, which began last week and could last for months. Issues include whether Standard maintained the vessel properly and whether the French government took action to prevent the accident.

A default judgment has been entered against the Spanish company, which failed to appear in court.

The tanker ran aground in March 1978 spilling 58 million gallons of crude oil over more than 200 miles of coastline.

P&G wants decision reversed

CEDAR RAPIDS, Iowa—Procter & Gamble Co. has filed a motion in the U.S. District Court asking Judge Edward McManus to reverse a jury decision rendered against the tampon manufacturer last month (BI, April 26).

P&G also is asking the court for a retrial if its reversal motion is not granted.

The company believes that insufficient evidence was presented at trial to link its Rely tampon with the illness that caused a woman to die of toxic shock syndrome.

The jury awarded \$300,000 in compensatory damages to the dead woman's husband and two children but turned down a plea for punitive damages.

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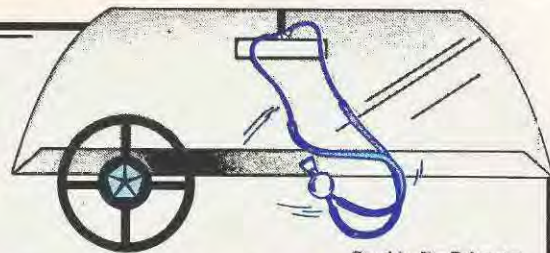
Lee Iacocca's better idea?

By JAMES C. LAWSON

DETROIT—Chrysler Corp., whose ads urge consumers to "Buy a car and get a check!" is trying the same concept on doctors who treat its employees.

The No. 3 automaker, hoping to reduce some of its rising health care costs, is offering doctors in southeastern Michigan certificates worth \$500 to \$2,500 toward the purchase of a new car if they agree to cut medical, surgical and other fees to employees, retirees and dependents by 10%.

The program is the first of its kind in the troubled auto industry. If successful, Chrysler says it will be extended to administrators and trustees of hospitals and other medical and surgical providers in Michigan, and possibly to health care providers in other states where Chrysler maintains manufacturing facilities. Chrysler has more than 147,000 active employees nationwide.



Graphic: Jim Bakasetas

Participating providers must agree to grant per-line discounts on their itemized bills. In exchange, they are given a certificate that entitles them to a rebate, the amount of which depends upon the size of car they purchase. The certificate is redeemable at local Chrysler-Plymouth and Dodge dealerships.

The rebate offer has been extended to more than 4,000 southeastern Michigan physicians, dentists, podiatrists, chiropractors and other providers who routinely treat a specified number of Chrysler employees, retirees and dependents.

The program is administered by Blue Cross/Blue Shield of Michigan, which underwrites Chrysler's health coverage for employees and retirees in Michigan.

The company hopes to convince at least half of the eligible providers to participate. If so, the plan could help the automaker trim about \$5 million

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Illinois residents sue SCA for \$225 million over landfill

By JOHN W. MILLIGAN

WILSONVILLE, Ill.—SCA Services Inc., one of the nation's largest waste disposal firms, is being sued for more than \$225 million over a controversial landfill it operated for less than two years.

Complaining of headaches, nausea and exposure to cancer-causing agents, more than 150 of the 700 residents in this farming and mining community 60 miles northeast of St. Louis have filed a class-action suit against Boston-based SCA and its subsidiary Earthline Corp.

The plaintiffs charge that pollutants from the Earthline landfill, which was closed in 1978, are damaging their property and causing health problems.

Located on a 130-acre tract adjacent to the Wilsonville village limits, the controversial Earthline facility was closed by court order in August 1978 after a 104-day trial. The court further ordered SCA to exhume the entire site, even though it had been receiving wastes for less than two years.

SCA recently submitted its plan for this exhumation

project and will start with one trench that company officials acknowledge is leaking industrial solvents from an estimated 8,000 drums buried there.

Hazardous wastes alleged to have been buried at the Earthline site in steel drums or paper bags include polychlorinated biphenyls (PCBs), solid cyanide, paint sludge, asbestos, pesticides, mercury and arsenic.

In their class-action suit, Wilsonville residents seek \$75 million in compensatory damages for property loss, an unspecified amount for personal injuries and \$150 million in punitive damages.

An SCA spokesman says the company has sufficient liability insurance to cover "any documented injury claim or documented property claim."

In their complaint, filed in Macoupin County Circuit Court, residents claim they have suffered damages in excess of \$75 million to their homes, farms, real property and residences due to SCA's "construction and operation" of the Earthline site.

Included are past and future damage to crops, residences and underground water supplies, the complaint

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IRS to decide captive cases on local level

By BILL DENSMORE

NEW YORK—If you can convince your local Internal Revenue Service agent that your captive is really in the insurance business, you can stay out of trouble with the IRS.

A recent memorandum to a local IRS agent does not specify how much unrelated insurance business a captive must underwrite to be considered a bona fide insurance company for tax purposes. It says each captive must be reviewed individually.

And, it is within the local agent's power to determine if the captive qualifies as an insurance company, providing the parent company with tax deductions for premiums paid to the captive.

Tax attorneys say the memorandum only further muddies the issue of how much unrelated business a captive must underwrite to be considered an insurance company. The IRS admits in its memo that its previous rulings on tax deductions for premiums paid to captives have "left a large gray area."

In the new memo, the IRS says a parent company may not necessarily be permitted to deduct premium expenses when its captive is insuring 51% unrelated risk. But, neither does the IRS say what is too little to qualify for premium deduction.

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Mixing ingredients cuts Pillsbury's comp costs

By EILEEN NORRIS

MINNEAPOLIS—At Pillsbury Co., less dough is being paid out for its workers compensation program.

The cost-cutting recipe included switching insurers, getting more control in managing claims and communicating the importance of "disability management" to the company's hundreds of operations.

By switching insurers, Pillsbury was able to reduce its costs by \$1 million to \$14 million this year from \$15 million in 1981.

As of Jan. 1, Pillsbury moved its workers compensation coverage for 58,000 workers from Wausau Insurance Cos. to The Travelers Insurance Cos., apparently to save money.

Pillsbury stresses it didn't change insurers out of any dissatisfaction with Wausau.

Pillsbury has a fronted self-insured—or paid-loss retro plan—with The Travelers, according to Insurance Manager Cheryl S. Hibbard, who outlined the company's program at a session at the Risk & Insurance Management Society Conference last month.

But switching insurers to save money wasn't the only ingredient in the plan to corral workers compensation costs.

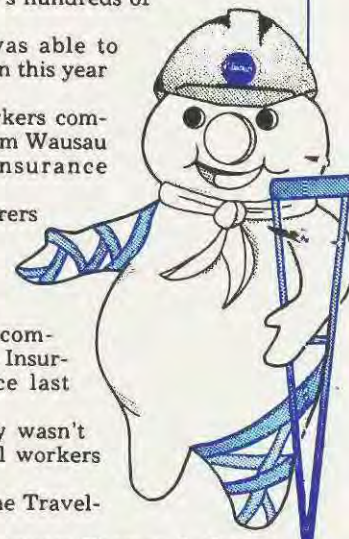
Pillsbury was able to negotiate with The Travelers on how it wanted its claims handled.

The Travelers' Director of Special Accounts Thomas S. Owens admits it was able to offer a "flexible attitude" for the employer, which is now one of the insurers' largest policyholders.

But even before changing insurers in January, Pillsbury was working hard to communicate the importance of reducing workers compensation costs to its hundreds of operation managers.

Through the efforts of Ms. Hibbard, who started with Pillsbury in 1979, the workers compensation program covering several hundred

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Graphic: Jim Bakasetas



Looking ahead

Industry tries to ensure future success

PHILADELPHIA—The insurance industry is concerned about its future, especially its global future in a world of changing societal, political and economic structures.

Never before has that been more apparent than at the unprecedented gathering of nearly 1,100 top insurance industry leaders from around the world for the World Insurance Congress.

They came from more than 80 countries to try to assess the present state of the insurance industry, predict what's ahead and map out strategies for managing that future in the changing world.

The audience, nearly three-quarters of whom held the title of vp or higher, listened to futurist Alvin Toffler, British politician Denis Healey, academicians and scores of insurance industry leaders who advised them to prepare for more decentralized societal structures, to help shape more international cooperation and to respond to consumer demands for economical products.

The global nature of the insurance business also was more apparent than ever. Besides the obvious international mix of the registrants—40% came from abroad—the messages at the four-day event April 25-28 from speakers from around the world echoed similar problems and often called for international cooperation among insurers and governments to solve them.

Foremost in the minds of insurance executives was how to deliver a product that the public—both corporations and individuals—will continue to buy. And they were concerned with opening up world markets to their products.

Risk managers at the Congress focused on what the insurance industry leaders are contemplating about the future. "This is essential for long-term strategic planning," commented Burton J. Carbino, senior vp of Irving Trust Co. in New York.

Many who attended the Congress privately admitted the intellectual stimulation of predicting the future was secondary to the goals of seeing old friends, renewing acquaintances and making new contacts.

Those goals certainly were attained during the coffee breaks between sessions and during the elegant social events. Registrants attended a performance of Puccini's opera "La Boheme" starring Luciano Pavarotti and a ball aboard the Queen Elizabeth 2 luxury liner just before it was called into war service by the British government.

"You never know the value of this kind of meeting until years later and then you aren't even sure it was the contact at

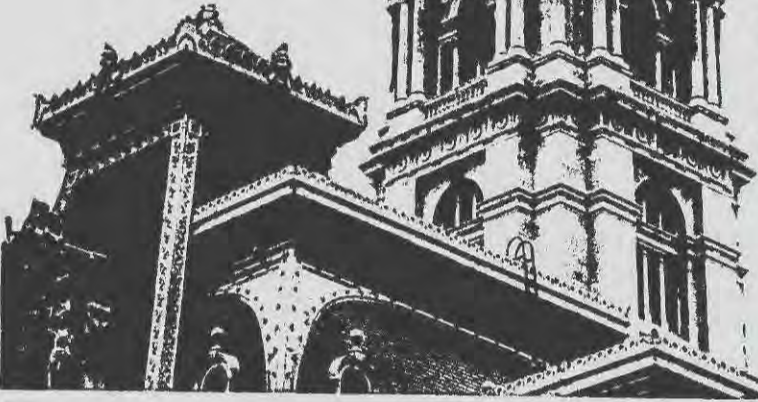
that very meeting that led to the particular development," said one top insurance industry official from London of the congress.

The sponsors of the World Insurance Congress, however, are preparing to publish a summary of the proceedings that they hope will serve as guidance to others and help shape the future of the insurance industry around the world.

John R. Cox, chairman of CIGNA Corp.'s Insurance Co. of North America, declared in his closing remarks that the congress provided the industry with a "road map to credibility and excellence." He also complimented the registrants for participating. "Our industry is very fortunate that it has determined its own importance, its own sense of where it wants to go."

Mr. Cox's comments and those of other speakers at the World Insurance Congress are reported in this special report, which continues through page 29.

—Kathryn J. McIntyre



Arab insurer will overcome obstacles: Chief

By KATHRYN J. McINTYRE

PHILADELPHIA—The commercial insurance business couldn't stop the development of captive insurance companies and it won't stop the development of the Arab Insurance Group, the president of ARIG warned insurers and reinsurers attending the World Insurance Congress.

Charging that the worldwide reinsurance industry is trying to keep ARIG out of the business like insurers tried to keep captives out of business by withholding technical expertise and controlling underwriting, Ali M. Al-Bedah vowed ARIG would succeed anyway.

ARIG, based in Bahrain with \$3 billion in capitalization, "is absolutely committed to acquiring the technical expertise...to satisfy the current and growing demand in the Middle East and worldwide for the same insurance technology that exists in the United States and Europe," he said in one of the most strongly worded speeches delivered during the three-day congress.

He stopped only short of saying point-blank that commercial insurers could lose their market in the Middle East as they have lost market share among major industrials in the United States that have formed captives.

"The successful multinational insurance organizations of the future are those that decide to facilitate and not impede the sharing of information and common advancement of technology for the benefit of insurance buyers in every country in this world," he said.

Instead of trying to dominate the business by withholding their insurance expertise, insurers should "develop a true partnership...in particular in the Middle East," Mr. Al-Bedah advised.

The partnership is needed, he said, *Continued on page 25*

World register of reinsurers should be established: Briton

By BILL DENSMORE

PHILADELPHIA—Alarmed by the growth in the supply of reinsurance from small, new firms, the managing director of one of the world's oldest reinsurers proposes that an international register of "admitted" reinsurers be established to aid buyers.

Authorities in each nation could base examination of the capital, reserves and markets of reinsurers operating within their boundaries upon some uniform code of practice, suggests Julius A.S. Neave, managing director of The Mercantile & General Reinsurance Co. Ltd.

"If such a formula could be agreed and accepted sufficiently widely by supervisory authorities, then an international register of 'admitted' reinsurers could be established," Mr. Neave said. "Those reinsurers unable to meet the criteria would be with-

out licenses and would suffer the penalties of non-admitted status in all territories, including their own."

Mr. Neave made his recommendations in a paper he delivered at the World Insurance Congress during a session entitled "Changes in Risk Bearing Capacity—The Impact of Reinsurance Strategy." Also speaking at the session were Rodrigo Vasquez, president of Reaseguradora de Colombia in Bogota, Colombia, and Henry G. Parker III, senior vp and director of Chubb & Son Inc. of New York.

"It would, of course, be idle to imagine that such a register would prevent all future reinsurance collapses," Mr. Neave said. "The causes of such failures are many and various, but it would demonstrate some determination that is presently lacking on the part of the auth-

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Mr. Neave

U.S. buyers unlikely to accept insurance monopoly: American

By JAMES C. LAWSON

PHILADELPHIA—The results are enough to make any insurer envious.

The company's domestic premiums last year jumped 80% to \$300 million, the number of branch offices grew 250% to 700 and future prospects look even brighter for the multiline insurer as domestic and international operations expand.

But there's a catch. The Chinese government owns the People's Insurance Co. of China, and the company has a virtual monopoly on mainland insurance markets, according to PICC's Guohua Song.

Such performance isn't likely to be matched by the U.S. insurance industry because buyers expect the wide choice of products and services insurers offer, a top U.S. insurance executive told the World Insurance Congress in Philadelphia.



Mr. Guohua

"Our public is spoiled," Robert F. Froehke, president of the American Council of Life Insurance, told an audience of international insurance industry experts who attended a congress session on the role of government as a supplier of insurance and financial services.

"They (insurance buyers) want a variety of products. They want a variety of distribution systems and they want a variety of services."

Mr. Froehke, the lone American among the three panelists, defended the competitive U.S. insurance industry, saying supply adequately meets the demand for coverage, unlike China where insurance still is a relatively recent phenomenon.

Supporting Mr. Froehke's contentions, Linus Silva, president of the Insurance Institute of Sri Lanka, said that nationalization of the Ceylonese insurance industry

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It's David vs. Goliath over indemnity law

By STEVE SHERWOOD

BATON ROUGE, La.—The one side says David has beaten Goliath again; the other says the government is just sticking its nose into the oil industry's business.

The focus of the debate is the Louisiana Oilfield Indemnity Act, which prohibits indemnity clauses in master service agreements between oil producers and the contractors they hire. Such clauses spell out which party will be liable for deaths or injuries on the Louisiana oilpatch.

The law, which was passed last fall after intensive lobbying by

small contractors based in Louisiana, rules out use of one of the oil industry's traditional risk transfer methods: the hold-harmless clause.

On one side of the debate are the oil producers and large drilling contractors that say they can negotiate their own contracts without government help. On the other side are the small contractors—drilling mud suppliers, supply vessel owners, rig construction companies—that say they have been unfairly saddled with liabilities in the past as a condition of getting the job.

"I represent a group of 500 service companies in Louisiana that have been pressured for years to

accept liability for the negligence of others," says Randy Haynie of the Louisiana Oilfield Contractors Assn. in Lafayette. He was instrumental in getting the original bill off the ground.

"Anytime someone has to accept someone else's liability, he will try to find a way to pass it off," he says. "The problem is, I represent the people on the bottom rung who take on the negligence of huge corporations and can't pass it on."

Opponents say the law has been billed as a victory by the "little guy" subcontractors over the "big guy" oil producers in the risk transfer game, but the issues cut deeper.

They say the law is a good example of a lack of knowledge of oil industry dealings and an unwarranted government interference in private contracts.

As attorneys for several large offshore drilling companies point out, the law destroys positive reciprocal indemnity clauses in which each party assumes responsibility for injuries to its own employees.

Such reciprocal clauses, however, have been most common between the oil producers and the powerful offshore drilling companies that can successfully convince the oil producers to share liability because the drillers' services

are in demand.

"It wipes out a long and traditional way of doing business in the oil industry," says one New Orleans attorney. "It may be a good thing for small contractors subjected to onerous agreements in the past, but I think the law goes a little too far."

Although Texas, Wyoming and New Mexico all have laws restricting the use of indemnity clauses in oil field contracts, the Louisiana law appears to be the toughest.

Mr. Haynie agrees that the best parts of the other state's laws—from a small contractor's viewpoint

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Future holds many challenges for insurers: Cox

By KATHRYN J. McINTYRE

PHILADELPHIA—The insurance business must be cost-efficient, listen to the consumer, innovate and perform, concluded INA Chairman John R. Cox in closing remarks at the World Insurance Congress.

This is the "road map toward credibility and excellence" the congress speakers and registrants drew, he said.

Even with this map, however, the industry faces challenges to its survival, he added, noting the possible competition from other financial service providers.

The first signpost of cost efficiency is easily followed, he suggested, by capitalizing on the efficiencies provided by computers.

"Access to the computer and the blossoming of the managerial sciences have given the industry unparalleled ability to instantaneously manipulate information," he said.



Mr. Cox

Electronic fund transfers also offer the opportunity in the future to deliver an insurance policy on a single computer disk, he added.

"It will allow us to develop standardized contracts within easy reach of the cost-conscious consumer. It will allow the individual buyer to comparison shop, and it

will make for increased efficiencies and increased professionalism in our distribution system."

Mr. Cox credited today's risk manager with speeding this development in commercial insurance.

With the aid of a computer, a risk manager "can go well beyond the pure insurance-buying practices. He can fit insurance costs into a financial matrix that considers the need for improved cash flow, total return and the availability of a large number of negotiable options.

"The corporate buyer has been able to develop in partnership with the insurance company alternative means of asset protection such as paid-loss retros, excess risk transfer and captive insurance companies. Costs are stabilized during a time of rampant inflation—almost an un-

precedented accomplishment for this day and age," he said.

Any consumer of insurance today "will only buy an insurance product or any financial service when it is perceptibly offered on a convenient or equitable basis," he observed, stressing the importance of listening to the consumer.

Many of the speakers alluded to the point, he noted, that "as inflation, consumerism and state intervention have impinged on our efforts, we can no longer be content with products and techniques that were created for conditions now 30 or 40 years behind us."

The insurance industry hasn't been incapable of innovations, he said. "It's just that we never took the question seriously enough to proceed on a unified basis.

"Now we have no time to lose," he said.

Such innovations may include the packaging of various types of coverages throughout a group large enough to reduce the price of insurance, he said. "Our experts tell us that an increasing number of property/casualty coverages will be added to employee benefit packages, thereby widening the range of new products and satisfying the consumers' thirst for convenience," Mr. Cox said.

"Suppose, for instance, you added auto insurance to the typical benefit package," he suggested. "The consumer would be attracted by the comfort of the plan. He would see his disposable income enhanced and part of his personal paperwork eliminated. The insurer would benefit from the classic trade-off between entirely different types of coverage, since the old would subsidize the young in auto insurance and vice versa when it comes to pensions."

The insurance industry must pursue such innovations, Mr. Cox said, because more competition for insurers is on its way.

"The prospects of deregulation in the banking industry may mean that insurance companies could acquire banks and banks could gobble up insurers. Securities firms, of course, could acquire both insurers and banks."

Such a bank-securities broker-insurer combination could approach corporate clients, he noted, with a lending proposal, counter with a property/casualty policy and conclude the deal with an interesting acquisition or venture capital plan.

Although current banking and insurance regulation make the insurer/commercial banker merger difficult to achieve, "ingenious businessmen have a way of making things happen," he said.

The advanced computer technology that will simplify the basic operations of insurance also will give underwriters, brokers and other financial institutions the ability to "grab each other's markets," he predicted.

The insurance industry will survive this kind of revolution and thrive, "only if we are successful in introducing new products. And, a new era will dawn only if we can structure a truly cost-efficient way of marketing revolutionary products."

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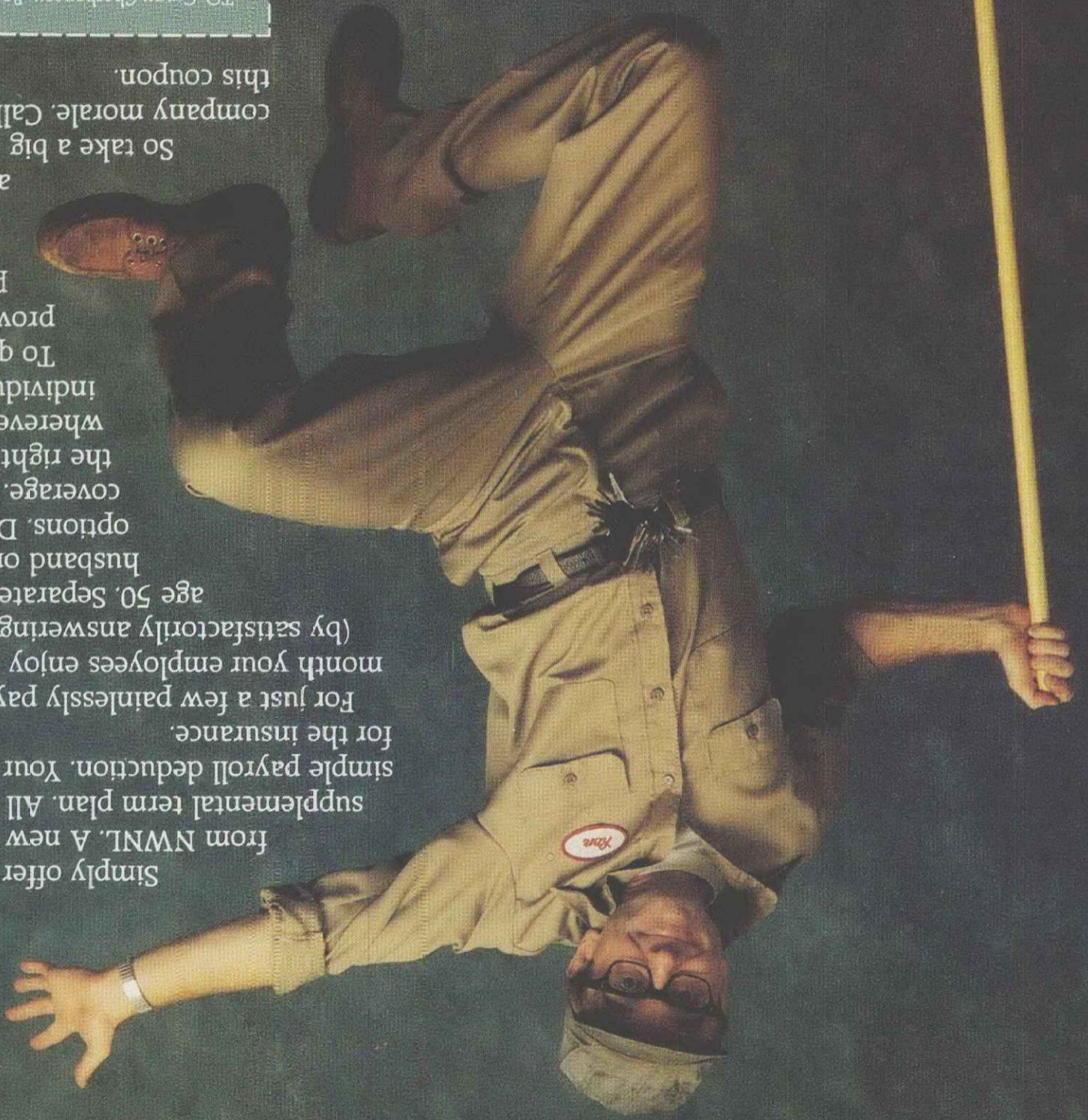
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editorial opinions

Making Social Security messier

IT LOOKS LIKE A nice deal for the hospitals, but we don't endorse the practice of non-profit hospitals pulling out of the Social Security system.

We don't like it theoretically and we aren't sure of its practical merits for the employees.

We don't believe any employer—non-profit or governmental—should be exempt from participating in the Social Security system. As a federal program designed to provide minimum retirement benefits for workers, it ought to encompass all workers. We think this is particularly important as we face the prospect of federal income tax dollars being used to shore up the system. If we all have to shore it up, we all ought to be contributing to it from the beginning.

Lest anyone forget, we have advocated in the past that federal workers be covered by the system. They often end up reaping its benefits from a second career in the private sector.

We especially don't approve of hospitals being allowed to pull out of the system while their current retirees continue to get the benefits of the system. Social Security is funded on a pay-as-you-go basis, so today's private sector employees are carrying the load of the benefits for retirees of non-profit hospitals who have pulled out of the system. The system's financial troubles are bad enough as it is.

One can argue with the pay-as-you-go system, but its existence is another argument for universal participation in Social Security.

As for the potential benefit or harm to employees of non-profit hospitals that are pulling out of the system, we share the concerns of those who fear the harm outweighs the benefits.

What happens to the hospital worker who moves from one non-profit hospital to another that has pulled out of the system and never stays in one institution long enough to vest in the pension plan?

Will workers at institutions that don't participate in the system really save this portion of their salary for their retirement?

Will these workers lose eligibility for Medicare and other Social Security-related benefits?

We also find it disturbing that hospitals won't tell

their employees of their intention to pull out of the Social Security system. What do the hospitals fear? That they will be less competitive employers with that announcement? If that's the case, they had better think through this ramification to the day their withdrawal takes effect.

And hospital executives should prepare to answer the massive protests that could erupt once employees understand what benefits they have lost.

Doing it yourself

SOPHISTICATED RISK managers often write at least portions of their insurance policies, and sometimes manuscript entire policies, but few share the fruits of their labors with their colleagues.

The exceptions deserve to be noted.

Burton J. Carbino, senior vp at Irving Trust Co., was instrumental in the development of the Lloyd's computer crime policy (*BI*, Nov. 16, 1981). That policy now is available to others and also has spurred the development of new forms by markets in the United States.

Spencer J. Traver, director of risk management at BFGoodrich Co., has developed a broader property insurance policy he has sold insurers and is giving others ideas by talking about it. (*BI*, April 19).

Denis Julien of Republic Steel Corp. and Gene Heskett of Hanna Mining Co. wrote what they considered to be the ideal environmental liability policy for a steel and mining company (*BI*, May 3). Although their policy has yet to be accepted in the marketplace, we compliment them for both their innovation in developing it and their willingness to share it with others at the Risk & Insurance Management Society meeting.

The efforts of these four men also should stand as examples to others who can't find what they are looking for when they go shopping for insurance.

If it isn't on the rack, try designing it yourself. You just might find an insurer who will agree to provide it. You not only will be improving your own risk management program, but also could contribute to the development of better insurance products for others.

letters

Orange County safety efforts

To the editor: My congratulations to George Pierce and Orange County for their accomplishments in the field of safety since 1977 (*BI*, April 19). But, I do feel that some of the implications touched upon in the article should at least be briefly responded to.

Perhaps my sensitivity is showing, since I was the safety consultant for Employers Insurance of Wausau servicing Orange County for a number of years before 1977. I left in January 1976.

Orange County was a typical government operation, run by a board of commissioners with other private interests—besides politics—and they probably did what they thought necessary under the pressures of the times. But, one area they did not give appropriate attention to was the county's loss-control efforts. My contacts were capable people, concerned with safety and loss control, doing the best they could with the limited backing they had.

The article is correct: The county's "safety department" consisted of two people, both with good backgrounds in safety work. But at that time Orange County was growing fast, developing into a completely different area than before: Walt Disney World, a new college, road systems that needed upgrading, police and fire protection in the county areas and de-

velopment, both residential and commercial, galore.

Constantly and consistently we kept recommending management control: a single person we could contact who could implement the controls needed and see to their enforcement, a key and vital point for any operation. This simply did not come about.

The losses in injuries continued to climb, with both the county safety people and myself nurturing our occasional small successes, accomplished by and through individual operation supervisors. Overall, it was a frustrating experience.

What prompted Orange County to finally get moving and to recognize that insurance programs, including loss control, are important seems to be the same motivator as with anything else: money. The losses apparently got so high, they finally got someone's attention (the news media's, perhaps?).

Again, my congratulations to Mr. Pierce for taking charge and to Orange County for giving a professional safety manager a chance and for finally starting to listen.

Dale G. Smart
Regional manager
Loss-control services
Wausau Insurance Cos.
Minneapolis

Golfer's nightmare

To the editor: After reading with considerable interest your reports of the

Gonzales vs. National Rifle Assn. legal fiasco (*BI*, Feb. 22), I have come to a terrifying conclusion:

Should a thief break into my home or auto and steal my golf clubs and subsequently bludgeon to death some hapless person with my 5-iron, thus becoming, I presume, a mashie mashee, I am liable for a large pecuniary damage sum to the family of the victim. Or my baseball bat, or my tire wrench, or my trombone, or my...

F. William Button
House counsel
Darin & Armstrong Inc.
Southfield, Mich.

Well-deserved award

To the editor: I would like to second the nomination of Gene Marsh to the Risk Management Honor Roll (*BI*, April 19). I worked with Gene Marsh at Gencon for three years. He is the most organized, efficient, dedicated individual I've ever seen, and the recognition is well deserved.

Richard J. West
Manager of insurance operations
Fluor Corp.
Irvine, Calif.

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.

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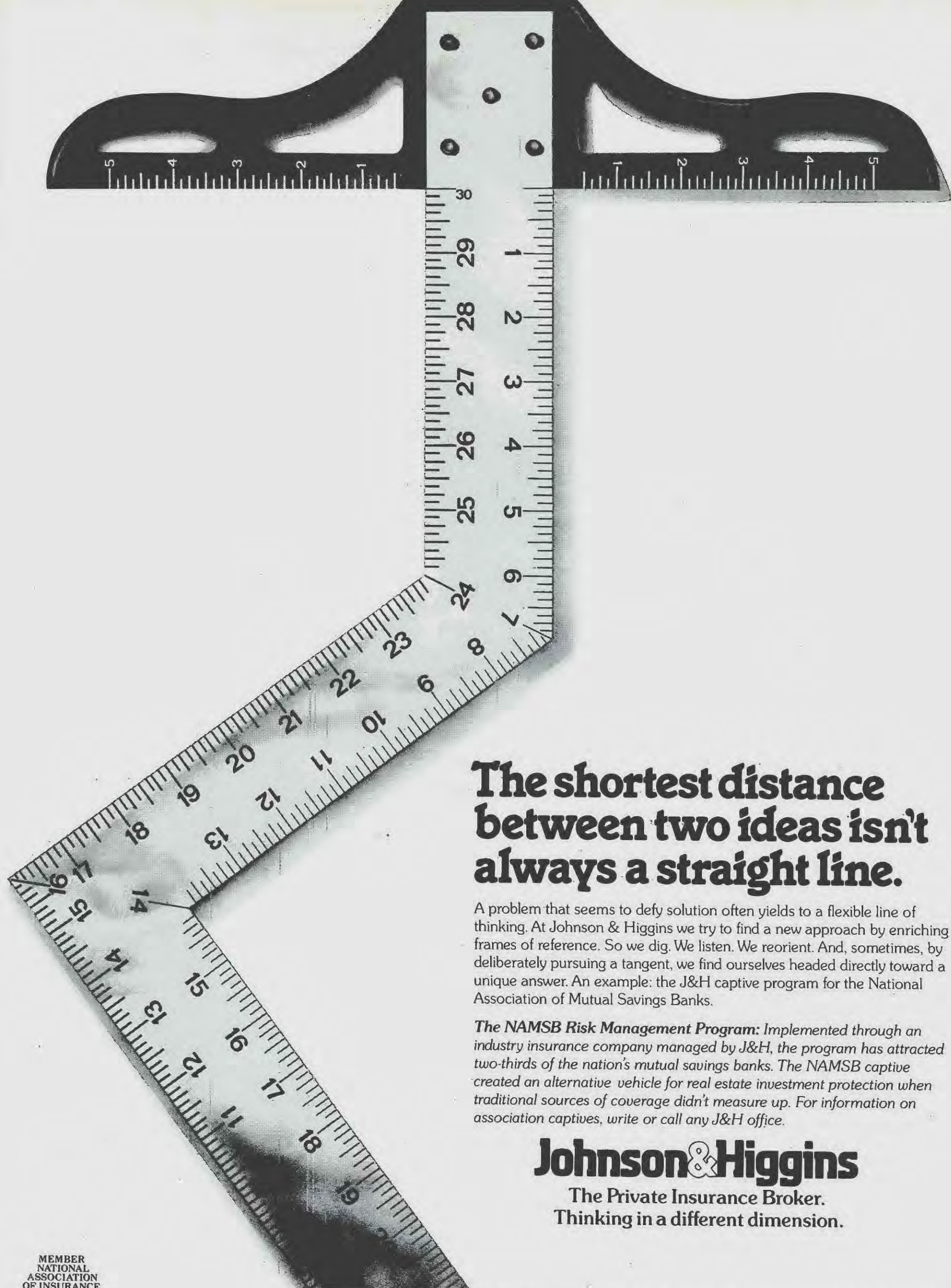
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Japan's pension system has problems, too

By KATHRYN J. McINTYRE

PHILADELPHIA—The Japanese equivalent of the U.S. Social Security system is facing an equally difficult financial future.

"Our biggest problem is the financial difficulties of the state pension," Kiyoshi Murakami, director of Nippon Dantai Life Insurance Co. Ltd. in Japan, said at the World Insurance Congress.

Other aspects of the Japanese retirement system—employer-sponsored plans and individual savings—differ somewhat from practices in the United States.

The state pension, or welfare pension insurance, covers private sector employees and was modeled after the pre-1957 West German state pension program.

Under present law, it is funded

20% by general revenues, 40% by employers and 40% by employees. The employers and employees equally share the 10% tax on covered earnings.

This year, however, the government reduced the program's general revenue financing to 15%. The government said the cut is temporary and it will restore the reduction with interest.

"However, benefit payments are snowballing every year," Mr. Murakami said.

The Japanese population is aging, he explained. Although people over age 65 make up only 9% of the total Japanese population, the percentage is expected to increase to 15% by the year 2000 and 20% by 2020.

"Under these circumstances, will it be possible to pay back or main-

tain only partial general financing without a radical increase in taxes?" he asked.

The program is not yet mature, he noted. Today, the number of beneficiaries is relatively small compared with the number of contributors, he said, but when the program matures, 1.5 contributors will support one beneficiary.

The current contribution rate of about 10% of covered earnings will have to rise to as much as 35%, assuming 20% general revenue financing, Mr. Murakami said.

The national pension system, which covers mostly self-employed people, also faces maturity problems, Mr. Murakami said. The flat-rate contribution of today, the equivalent of about \$250 dollars, would have to be tripled to pay promised benefits, he said. Al-

though that is "impossible," cutting benefits or raising taxes are "politically difficult."

Although there have been proposals to solve the problems, "politicians, as well as the general public, are quite reluctant to take any substantial measures either to cut benefits or increase contributions," Mr. Murakami said.

"If reform cannot be successfully accomplished, someday the government will have to pay huge amounts of pensions without adequate financing," he predicted.

The financial problems of the state pension are encouraging some employers and unions to push company pension plans to supplement the retirement income of workers, who are retiring more often at 60 now than 65.

Traditionally, Japanese employ-

ers have rewarded the custom of lifelong employment with a lump-sum payment at retirement of 30 to 40 times final monthly pay.

Now, the trend is to change the lump sum to an annuity, Mr. Murakami said.

And employers are starting to pre-fund benefits, which are 100% tax deductible, instead of using the book-reserve system. The increasing amount of benefits due and the reduction in the tax-free maximum limit on book reserves from 100% to 40% are encouraging the change, he noted.

The brightest spot in Japanese retirement trends is the continuing high savings by Japanese workers. "The average family saves 20% of its annual income," Mr. Murakami noted.

"It's traditional to save in Japan," he explained. "The income growth has exceeded the spending growth," he told an audience composed primarily of Americans who were surprised to hear it.

Also, the difference in income within the total population is small. "With a little bit of effort, everyone can attain a lifestyle equivalent to or better than those of other people," he said.

Institutes break ground for building

MALVERN, Pa.—The American Institute for Property & Liability Underwriters and the Insurance Institute of America broke ground for a new building in conjunction with the World Insurance Congress in nearby Philadelphia.

As part of the ceremony, the institutes held a reception and luncheon April 25 for more than 200 guests on their 122-acre campus in Malvern.

The ground-breaking ceremony featured youngsters aged from 1 to 4, children or grandchildren of employees, complete with shovels.

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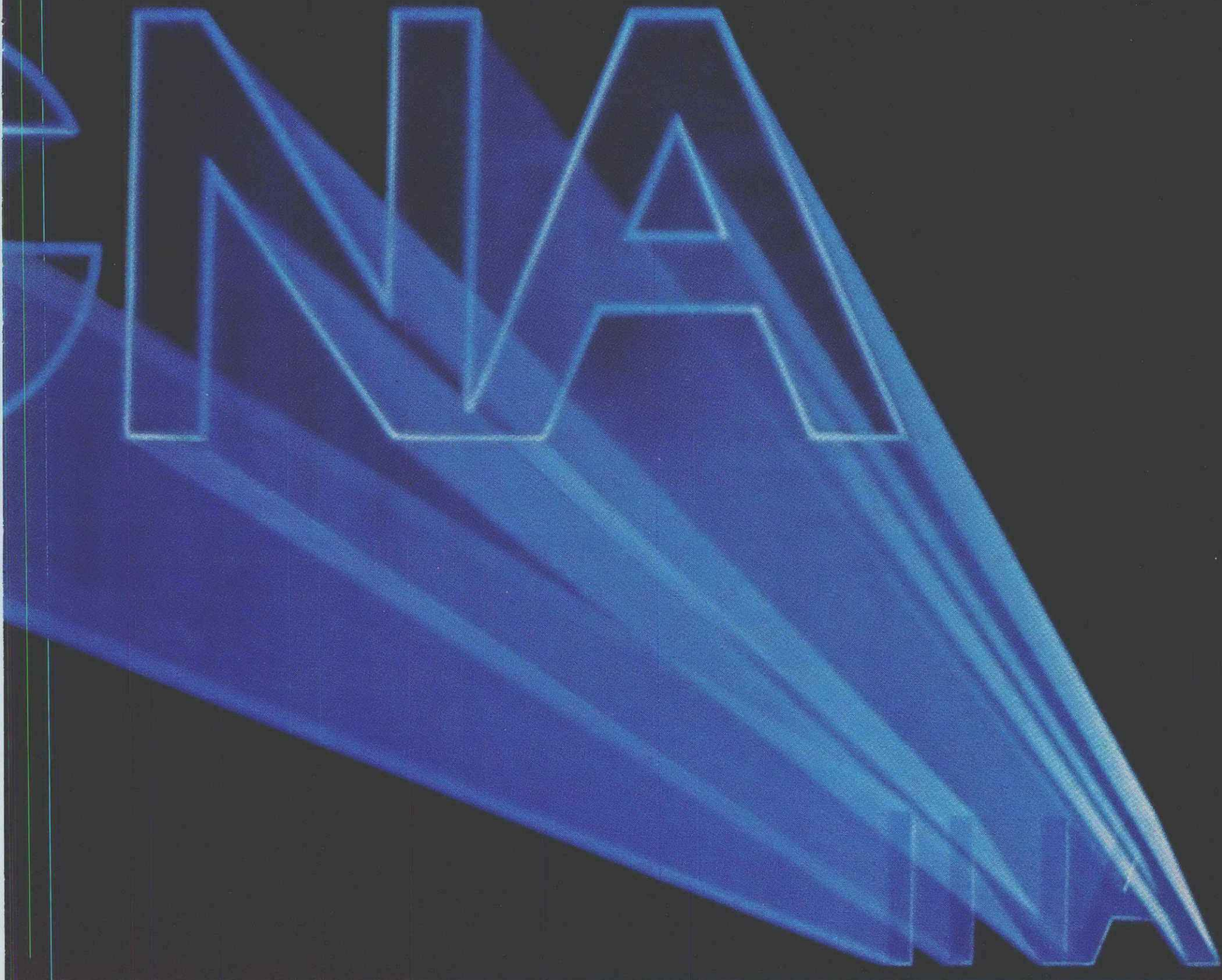
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More multinationals seek political risk cover

By BILL DENSMORE

PHILADELPHIA—International political risk coverage, although offered by relatively few private insurers, is becoming an increasingly popular coverage among multinational companies.

"We expect the 1982 (private) premium is well over \$80 million and we expect it to be \$150 million in 1983," said Julian G.Y. Radcliffe, president of Commercial & Political Risk Consultants Ltd. of London, an affiliate of the Hogg Robinson Group.

Political risks are defined as those potential actions by a foreign government that could damage a corporation's assets and are either arbitrary or discriminatory, Mr. Radcliffe said during a seminar on "Social and Political Unrest—Catalyst to a World Insurance Pool?" at the World Insurance Congress.

The premium growth is the result of at least four factors, Mr. Radcliffe said, including:

- Increased world political instability and difficulty in predicting where the next upheaval may occur.

- Growth in the size and complexity of international projects and investments.

- Emphasis on corporate requirements for steady earnings growth despite unexpected occurrences.

- Availability of more sophisticated risk management techniques and insurance coverages.

The operations, sales and legal departments of a multinational corporation are all involved in managing political risks, said Mr. Radcliffe. Such risks generally apply to

sources of supply, export sales and personnel.

David Mitchell, a vp in the Geneva, Switzerland, office of Business International Corp., a London-based company that researches worldwide business conditions for multinationals, said a corporate risk manager should keep in mind that only about 30 governments provide for transfer of power without the use of force.

Mr. Mitchell warned of unrest in one nation and economic trouble in one region:

- In the Republic of South Africa, "we can expect serious unrest where the lower economic sector, the Bantu, is really hurting" because of falling worldwide prices for gold, which South Africa supplies.

To cope with declining revenue, the government will impose economic restrictions, economic growth will slow and per-capita income among lower-income groups will decline.

- In Latin America, preliminary estimates by the Inter-American Development Bank show the region last year suffered its worst economic setback in 20 years.

Economic growth for the region as a whole slipped to 1% in 1981, compared with 5% in 1980. However, he made no predictions about unrest there.

In the United States, four private insurers offer political risk coverage, according to Frank A. Southard, a former U.S. executive director of the International Monetary Fund: American International Group, the Insurance Co. of North America unit of CIGNA Corp., Chubb & Sons Inc. and The Conti-

mental Corp.

Government organizations write political risk coverages in 13 nations, including most major U.S. trading partners, and a regional market handles the coverage for 12 Arab states, said Mr. Southard of Chevy Chase, Md.

The U.S. Overseas Private Investment Corp. is the oldest and largest of the national agencies. Begun in 1948, it issued \$1.9 billion in coverage from 1978 to 1980, according to Mr. Southard. It settled 111 claims totaling \$373 million from 1948 to 1980.

But efforts to form an international investment insurance agency or facility as an umbrella over the national agencies have failed, Mr. Southard said, because of a lack of strong support from the industrialized countries that already write political risk coverage on their own.

"Any such agency would have to have the right of subrogation to assume the rights of investors in cases where claims were paid," said Mr. Southard. "Many developing countries, especially in Latin America, strongly resist this."

In his talk, Mr. Mitchell outlined what he described as "the factors of stability" and the "catalysts for change" that are present in varying degrees in each nation. Although his firm compares the business climates in various nations based upon these factors, it does not compile any single "list" of overall worldwide rankings, he said.

It is the gradual, large-scale buildup of signals that should worry a risk manager more than static evidence of discontent like terrorism, Mr. Mitchell said.

And sometimes, he said, competitive risks may be more severe than political ones.

"For a European company, the risks and dangers involved in committing resources to a turbulent area of Africa are frequently less than those involved in doing the same in the United States, where the competition ensures that there are none but the quick or the dead," Mr. Mitchell said.

The factors of stability cited by Mr. Mitchell include:

- The legitimacy of the government, as perceived by the populace itself.

- A reasonable distribution of wealth. In nations with a disproportionate number of poor, improvements in education and communications may render a government unstable.

"The ease of communication is an effective destabilizer or weapon for those who wish to take over power," Mr. Mitchell wrote in a paper accompanying his talk. "A major element of the shah's removal (in Iran) was the cassette recordings the Ayatollah Khomeini made when he was in exile in Paris and then circulated in Tehran."

- Acceptance of the status quo by the populace, which is also resigned to no hope of change. "This used to be the case in many Latin American and Asian areas, but because communication and education were ignored, this vacuum was filled by influences whose rapid spread was made possible by communication."

- Ethnic and religious coherence.

"When there is any large group within a population that can be

identified easily and is a minority, there is always the potential for instability," Mr. Mitchell said, adding such conditions exist in Northern Ireland, Israel, South Africa, the Middle East and among the Moslems in the Soviet Union.

Examining the potential for instability in a nation depends first upon checking these four basic factors, then checking to see if any of another set of five "causal factors" exist, Mr. Mitchell said. The third step "is the recognition of early warning signals which presage major change."

The five causal factors are:

- A decline in per-capita income of the lowest economic group.

- The drift of population to cities and towns in developing countries, which degrades agricultural performance, leads to food imports and creates what Mr. Mitchell termed a "jobless proletariat" vulnerable to "populist ideas."

- Bars to emigration. As developed nations slide into recession, they impose economic or political barriers to immigration by low-wage workers from developing countries. This leaves a surplus of workers in those nations, like Mexico, Turkey, Spain and Portugal.

- Changing demographics. Either a surge of workers or a surge of retired workers can create political problems.

In France, Mr. Mitchell noted, one person in five is being supported in retirement by Social Security, and by 1990, the figure could be one in three.

- Unemployment, which threatens the social consensus in some highly developed nations like Great Britain.

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Disaster could wipe out some insurers: Panel

By BILL DENSMORE

PHILADELPHIA—Technology, more than inflation, is driving up the limits on catastrophe coverages to the point that some insurers won't survive the next billion-dollar disaster, says a prominent British underwriter.

"The quality of financial stability is weakening daily," Derek J. Martin, a director of North American underwriting for London-based Willis Faber Ltd., told the World

Insurance Congress.

Reinsurers that don't have enough financial strength are being used often, he said.

"Thus, when the next really large natural disaster occurs, there will be failures and red faces in high places."

Mr. Martin said technological advances on a heretofore un contemplated scale are coming. He cited the emergence of smaller and smaller computer microprocessor chips that he said will bring unparalleled benefits, capabilities and coverage limits.

In 1968, when the Intelstat III satellite was launched, its insured value was \$4.5 million, Mr. Martin said. In December, 1979, when RCA's SATCOM III disappeared from radar screens after it was launched, the loss was pegged at

\$77 million, he added.

Currently, a communications satellite plus its radio transponders may be insured for \$80 million to \$90 million, he said.

"... Inflation has only marginally affected the enormous increases in value, most of which have been absorbed by the (insurance) industry," said Mr. Martin. "Technology has, undoubtedly, been the main factor (in the growth of insured values)."

The largest offshore oil drilling rigs, worth up to \$1.5 billion, currently can be insured for full value, Mr. Martin said. "But there are bigger structures in prospect and the replacement cost of some existing structures is rising to the levels where full insurance is not possible."

Moreover, he warns, it would

take up to three years to replace a major platform, with the insured losing net profits of more than \$1 billion during that period.

Mr. Martin and two other speakers addressed the topic, "Insurance Frontiers—Massive Risks." Among the most problematic risks they cited were those involving energy exploration and pipeline projects, nuclear power plants, earthquakes and satellites.

"Today the worldwide nuclear risk remains...unprecedented and grossly underinsured," declared Burt C. Proom, president of American Nuclear Insurers, a 150-member insurance pool based in Farmington, Conn.

Mr. Proom said that the nuclear insurance pools and other sources can offer \$630 million in coverage for on-site property damage to nu-

clear plants and hope to boost that limit to \$1 billion. But, he added that a new, 1,000-megawatt plant with multiple reactors presents an exposure in the vicinity of \$2 billion to \$4 billion.

As a result of the 1979 incident at the Three Mile Island plant in Middletown, Pa., he noted, the pools probably will pay their entire limit of \$300 million while the actual probable total loss will be around \$1.3 billion.

The reasons for the limited capacity, according to Mr. Proom: "Nuclear power is mysterious, and nuclear power is controversial." The media misunderstand or fail to report accurately such concepts as the effects of radiation exposure, he said, and the public, which accepts auto, airline and oil-rig deaths, "apparently cannot bring itself to accept the hazard of a nuclear power plant."

Mr. Martin encouraged insurers to assume greater technological risks as part of their traditional role, and he cited Mr. Proom's pool as an example of what he means:

● In 1982, ANI's property capacity totaled \$455 million. Of that figure \$209.1 million, or 46%, came from U.S. insurance pools; \$47.2 million, or 10.4%, came from Lloyd's of London syndicates; and \$198.7 million, or 43.6%, came from other sources.

● Based upon these figures, U.S. pools have committed just 0.2% of the U.S. non-life insurance premium total of \$99 billion to nuclear risks, while Lloyd's has committed more than 1% of its estimated \$5 billion in non-life premium income.

"By assuming the same percentage of their total premium income as Lloyd's, the (U.S.) capacity would quintuple," Mr. Martin said.

Echoing a comment made by several other speakers at the Philadelphia gathering, Mr. Martin urged insurance buyers and their brokers to pay closer attention to the "security" of their insurers and reinsurers in an era of expanding capacity and competition.

The seminar's third speaker, an independent consultant in Mexico, suggested it may be time to set a limit on the amount of earthquake coverage that may be sold in that country.

Ricardo Toledo estimated insured property values in Mexico City at \$22 billion and said a major quake in that city would create demands that insurers just couldn't meet.

He said figures like that lead some to ask whether worldwide insurers really have the resources to provide the insurance capacity they are writing. "I ask myself," he told seminar participants, "is this really overcapacity or do we have 'over-offer'?"

Mr. Toledo—who left his post as Latin American and Caribbean region technical director of the Skandia Insurance Co. Ltd. three years ago to undertake an insurer-funded study of earthquake premiums, capacity and risk—said after the seminar, "We have to start thinking about limiting our liability by restricting the sales of this type of coverage."

"What would happen if you had a large catastrophe and a delay in payment?"

Mr. Toledo said he has obtained aggregate premium figures from many Latin American earthquake insurers and is concerned by the disparity between the risks retained by larger insurers as opposed to smaller ones.

"If the big guys took the big chunks and the little guys took the small chunks—maybe (it would be all right)," he said. "But the problem is some of the little guys are taking big chunks." ■

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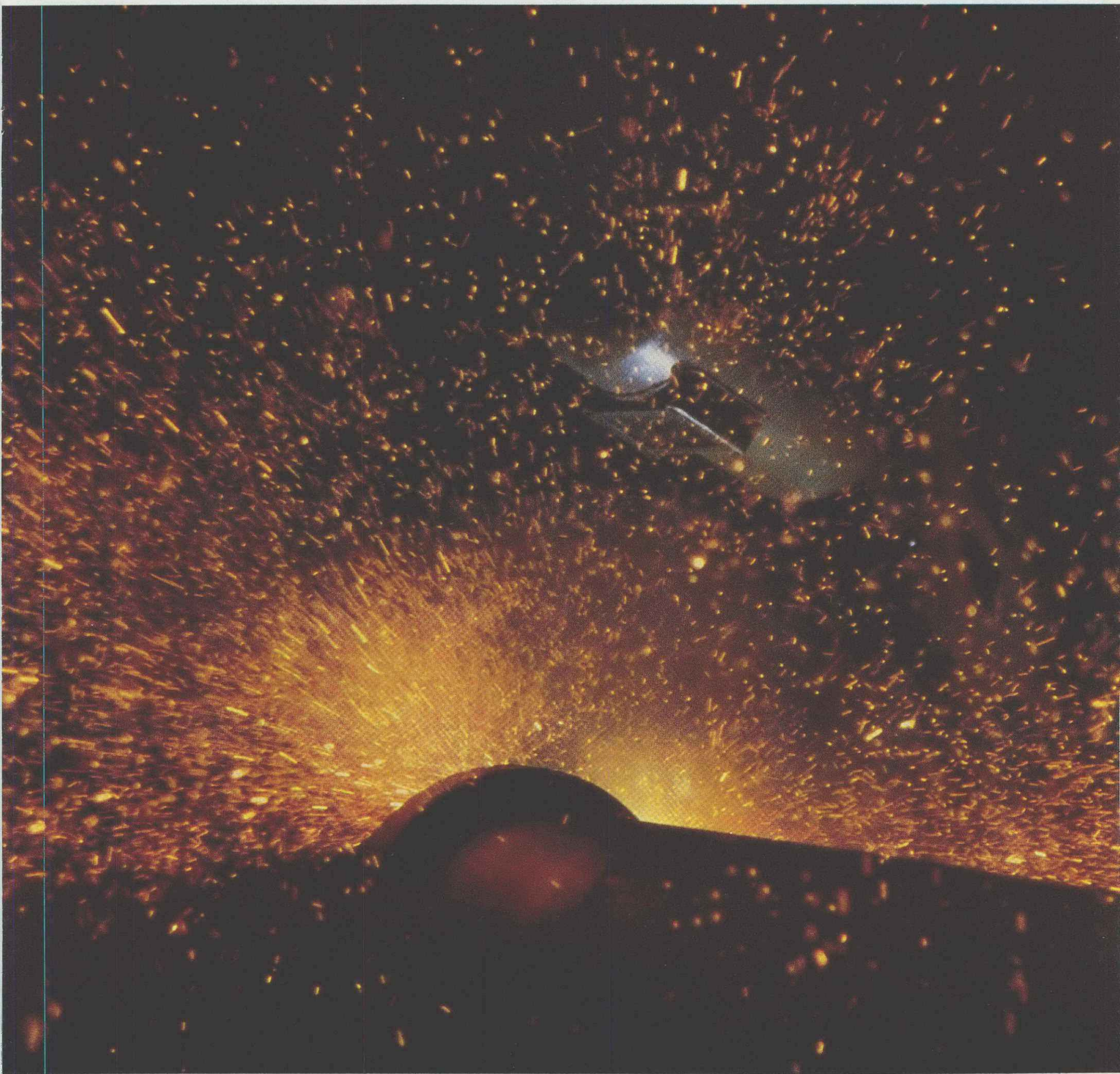
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Solve existing problems: Jackson

PHILADELPHIA—The insurance business is coping with new risks, but it is not solving problems related to risks it already has underwritten, contends Lloyd's of London underwriter Robin Jackson.

Lloyd's, for example, has responded with a policy to the new risks created by electronic fund transfers, he said in a speech addressing "Insurance Frontiers—Risks Without Precedents" during last month's World Insurance Congress.

But the industry is not solving

the problems created by underwriting liability insurance for asbestos manufacturers, said the director of Merrett Syndicates Ltd.

"Look at the way we are arguing and fighting among ourselves," he said of the current litigation over coverage for asbestos claims. Some underwriters contend policies should respond that were in force when the claimant was exposed to asbestos and others contend policies should respond that were in force when the asbestos-related disease developed.

While the insurers argue, the

judges give the consumer what he wants, Mr. Jackson observed, referring to the court decision in the Keene vs. INA in which the court said all insurance purchased from the time of exposure through manifestation of the disease should cover claims.



Mr. Jackson

"Can we not get together and agree on a policy wording?" he asked.

Mr. Jackson would prefer that a new general liability policy provide coverage for claims made during the policy period.

"The problem will not go away," he warned. The insurance industry cannot, he contended, keep offering \$200 million of liability insurance limits every year while the basis of the coverage can be disputed.

"We have to get back to basics," he said. "We have to look at the policy wording. What are we writing?"

The insurance business also should be concerned about the solvency of reinsurers, Mr. Jackson advised. "The potential insolvency of reinsurers in the world is the biggest unprecedented risk," he said, predicting there will be more insolvencies in the next two to three years.

Meet the goals of host nations: AIG president

PHILADELPHIA—Are you operating overseas or thinking about it?

American International Group President Maurice R. Greenberg has some advice for you, equally applicable to industrial as well as insurance concerns operating overseas.

"A multinational business must bring something to a country," he told the World Insurance Congress, suggesting it be a new technology, additional opportunities for employees or training not normally available within the country.

It's also very important to make a long-term commitment to the country, he said. "Do not seek instant solutions or quick profits as a substitute for this commitment."

Drawing on the international experience of AIG, whose roots are in the Orient, he also suggested that multinationals' investment programs, wherever possible, supplement the goals of the host country.

"Avoid disrupting the market. Be a good corporate citizen, just as we expect others to work in this fashion in the United States," he said.

Other points to consider, he suggested:

- Treat foreign operations as importantly as domestic. Do not impose a single policy and strategy globally. What works in the United States will not necessarily work abroad and will be confusing to local staffs who will believe that their sense of values and judgments have been ignored.

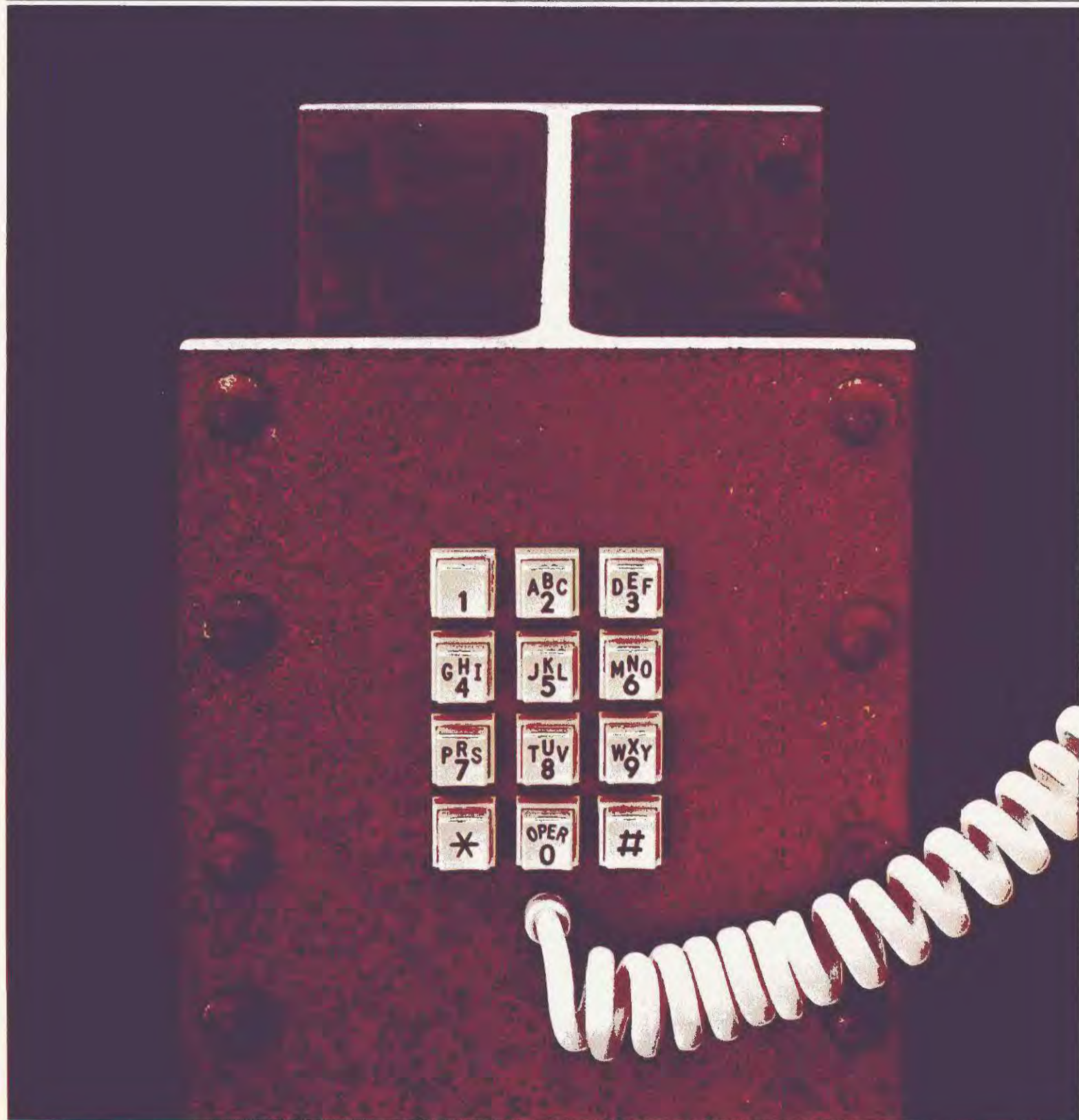
- Carefully choose managers for foreign management, not only for technical skills but for their global outlook.

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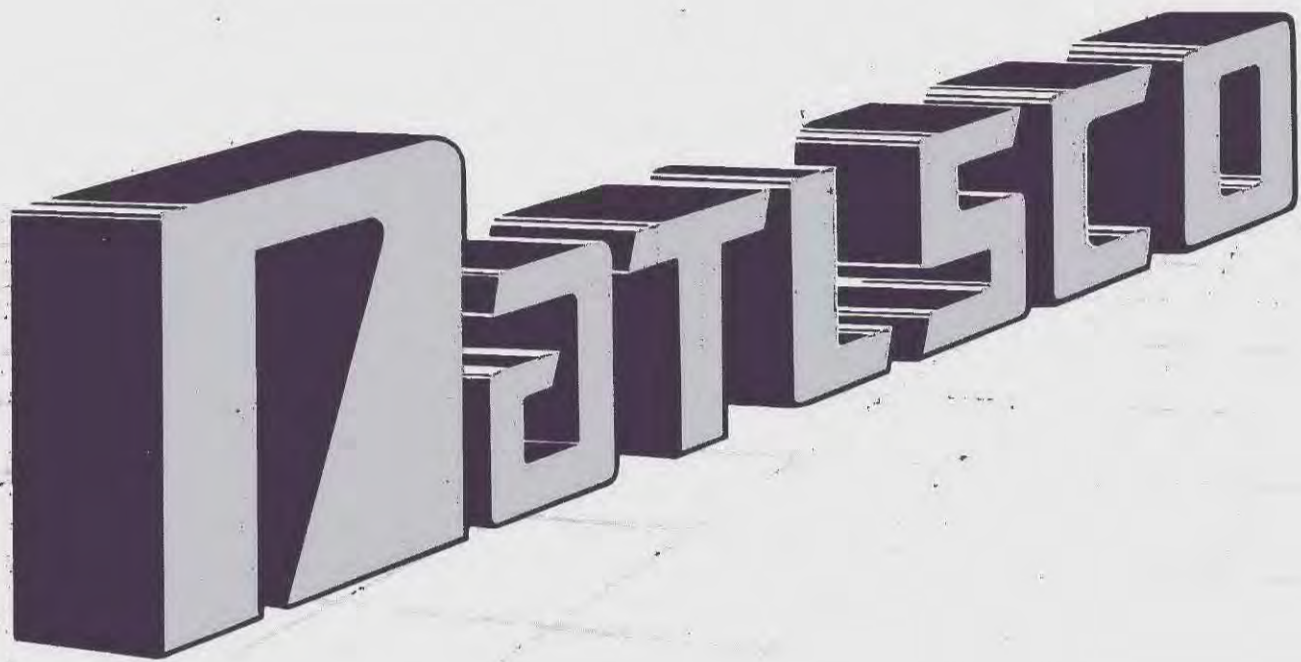
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Insurers must change to meet needs: Healey

By JAMES C. LAWSON

PHILADELPHIA—A contracting market and a wave of mergers will result if insurers in a changing world economic order fail to meet the "new needs" of buyers, says Denis Healey, a member of the British Parliament and former chancellor of the exchequer.



Mr. Healey

Mr. Healey was one of three speakers who addressed some 600 delegates on "The Future—A Radically Changing

World" at the World Insurance Congress last month. He forecasted a shift in economic and political power in the United States and warned the business community to help plan for the nation as it would for its own business operations.

Mr. Healey was joined by John R. Cox, president of the Insurance Co. of North America of CIGNA Corp., and Alvin Toffler, the author and educator, who predicted the breakdown of the world industrial system.

Proper planning, active investment and industrial development could help U.S. firms supply the needs of a rapidly changing economic system, the speakers suggested.

Failure to do so could mean "the entire Western financial system will be at risk," Mr. Healey said.

Economic policy worldwide is in total confusion, he said. As a result, banks are being overly taxed by loan and financial service demands by Eastern and Third World countries and by troubled industries like airlines, he said.

Part of the changes, Mr. Toffler told the delegates, will come when the "second-wave," or industrial, nations begin transforming their economies to keep up with a technological, or "third-wave," system.

The shift, the speakers indicated, will create new markets and needs

'There will be a need for more custom-tailored products,' Mr. Toffler predicts.

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that some insurers and financial services firms may be hard-pressed to meet.

"I believe we're passing through the first phase of a global restructuring," he said. "I believe we're witnessing a breakup of the system—the world industrial system."

The restructuring, Mr. Toffler explained, includes the transformation of second-wave industrial societies that depend upon fossil fuels, mass distribution, development of a mass education system, mass production and mass communications to third-wave societies that will depend more upon the demassification of energy, production and communications systems.

The second-wave industries like automobile, steel, apparel and textile manufacturers that currently are experiencing difficulties may never regain their former strength, Mr. Toffler said. Third-wave industries like computer manufacturing and economic and agricultural development of ocean resources will become the industries with a future.

"The economy is becoming more differentiated," Mr. Toffler told the delegates. "We need a new economic theory. There will be a need for more custom-tailored products."

A new economic theory is necessary, Mr. Toffler explained, because "there's a belief that second-wave workers will pop up in third-wave jobs. It isn't realistic. Second-wave workers are not prepared to take third-wave jobs."

And while second-wave countries struggle to meet the challenge of a new wave of development, first-wave Islamic, Hispanic and other Third World societies could face even more problems, he said. Some, however, may not fare too badly, especially since they already have decentralized governmental, economic, educational and manufacturing systems, he said.

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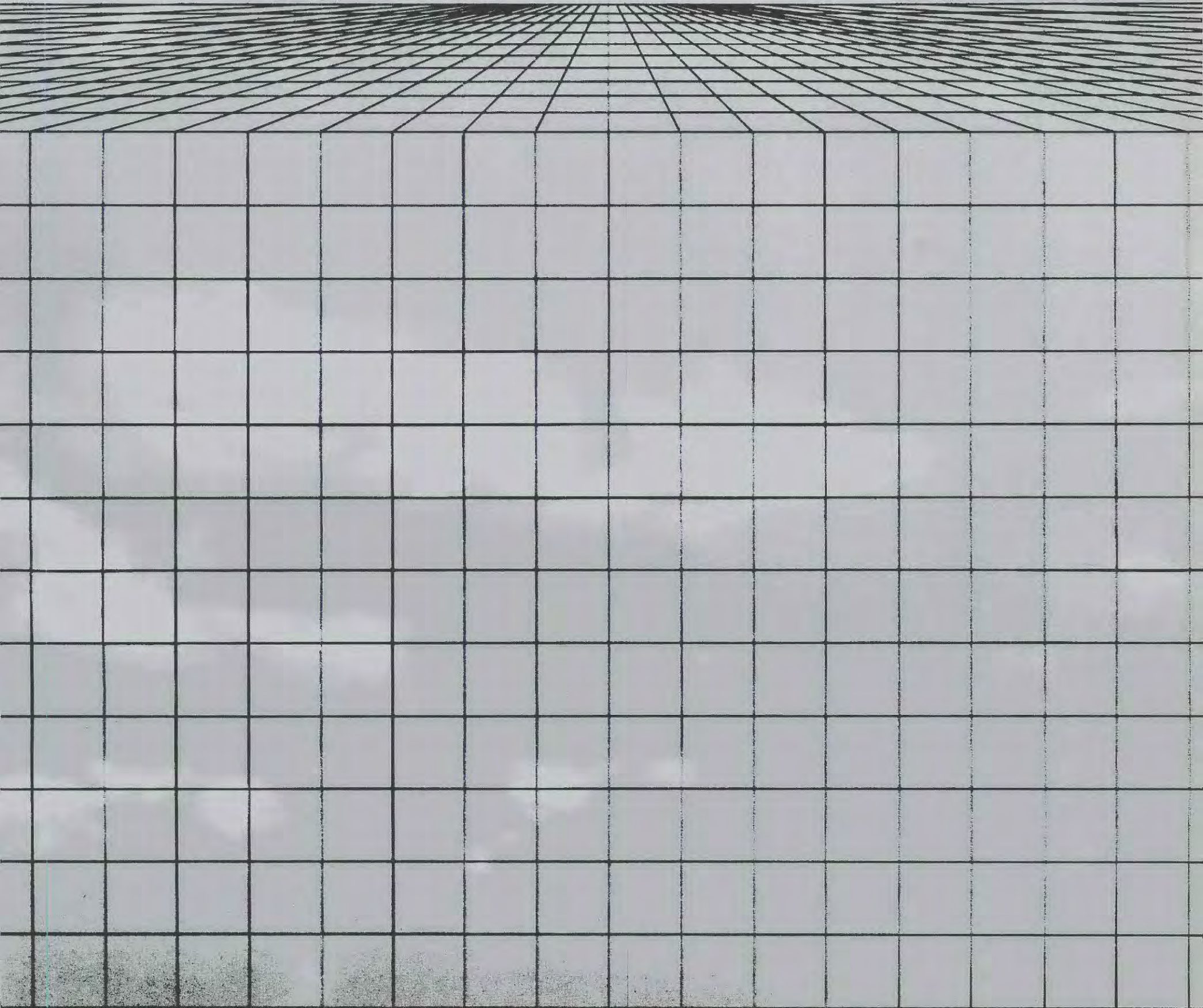
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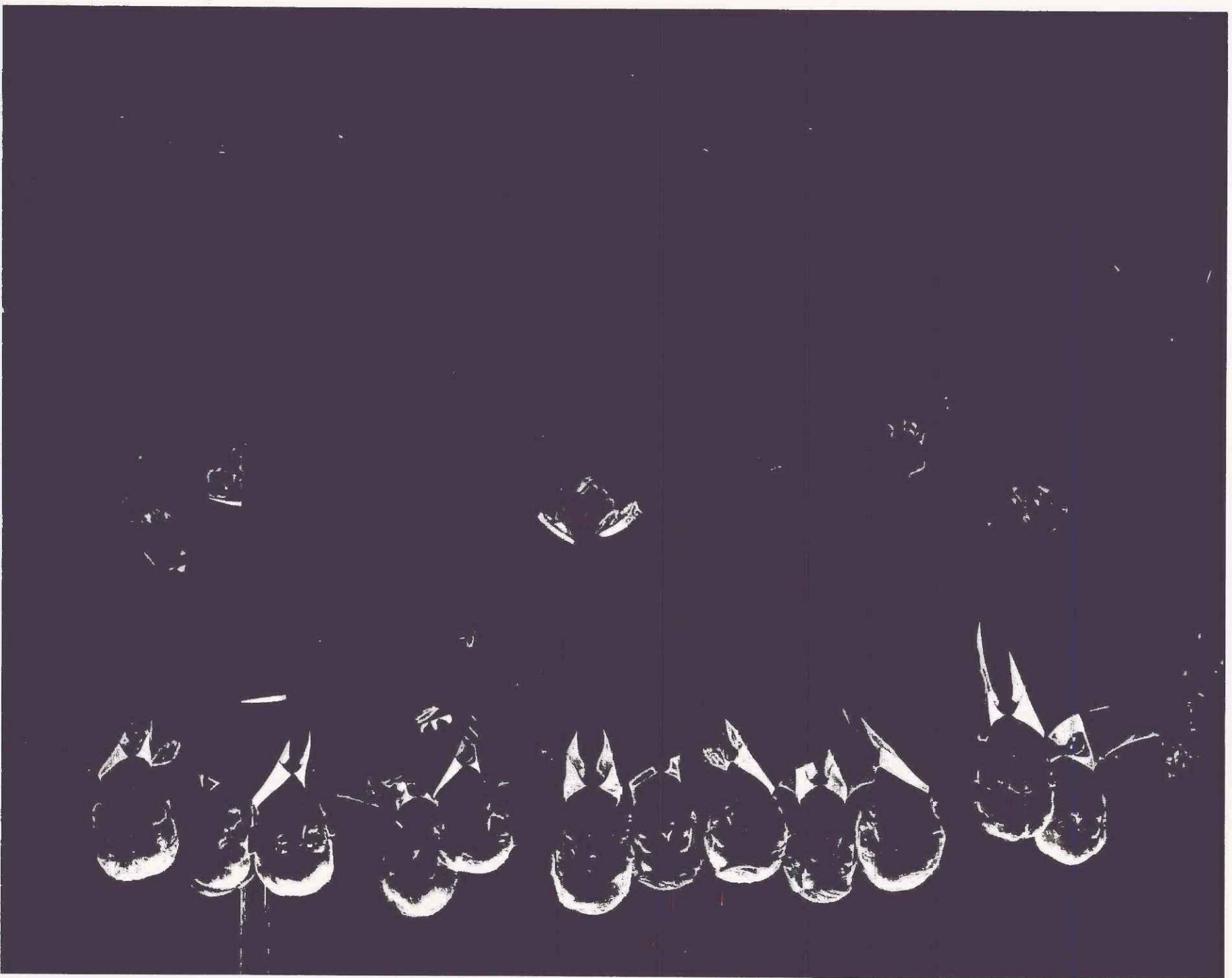
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An interview with Larry Lance, Senior Vice President, Group Department, The Hartford.

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Q. What are some examples of flexibility and responsiveness?

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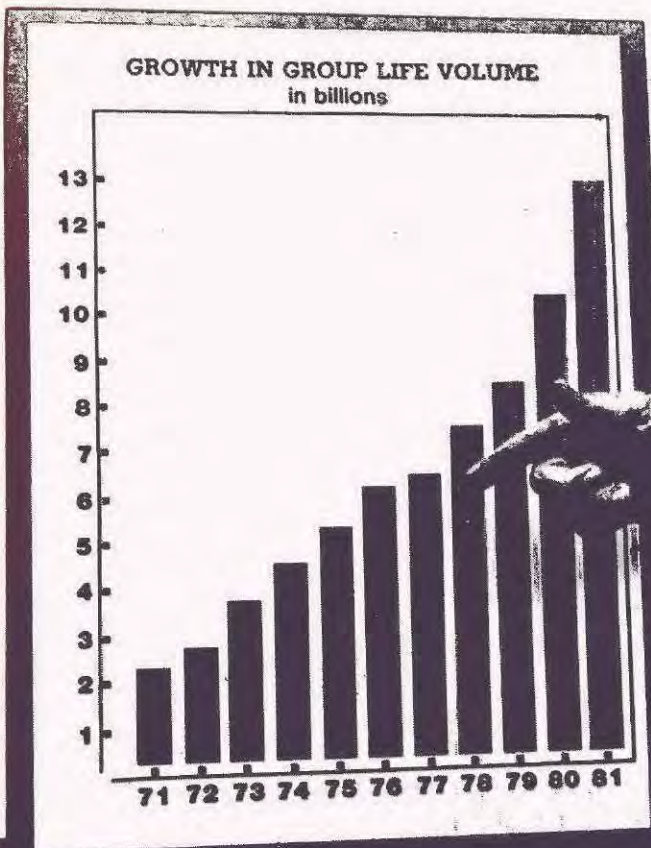
A. Our field staff and underwriters can help tailor Group coverages to each customer's needs. In addition, we've implemented a computerized claim handling system and are also developing a computer system which will automate pricing, proposals and policy issuance.

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ASBESTOS INJURY CLAIMS

Occurrence, manifestation or triple-trigger: Which theory is the best for buyers?

By John Foley
and Richard Merbaum

WHILE NO ULTIMATE decision over how to allocate the spiraling costs of asbestos injury claims has yet been made, recent litigation has resulted in three distinct court-supported theories as to how insurance policies affecting asbestos claims are to be triggered: manifestation, exposure and what has been dubbed the triple-trigger theory in the Keene decision (*BI*, Oct. 26, 1981).

Now that the U.S. Supreme Court has decided not to review any of these asbestos decisions, insureds and insurers in different jurisdictions face the prospect of continuing to follow conflicting theories of insurer liability.

Therefore, until a viable alternative to the current claims situation has been created, it is critical for insureds with known or potential asbestos and other long-latent disease problems to understand how the current theories apply, as well as the issues involved in their implementation.

We will examine how each of the theories can be applied to a given hypothetical situation.

According to the manifestation theory, a claim is assigned in full to the policy year in which the injury was discovered. Generally, it is the year when the disease was first diagnosed or when death occurred.

The "injurious exposure" theory prorates the cost of a given claim evenly over the number of years during which a claimant alleged inhalation exposure to asbestos products. Certain difficulties in the interpretation of how limits would apply under the exposure theory have been "solved" by the courts. Some of the solutions are:

- The total liability on any given claim for any insurer on the risk over the exposure years cannot exceed the highest per-occurrence limit offered by that insurer during any one of its policy years.

- Annual aggregate limits remain fully available, minus any prior payments under the policy, until the total amount of claim dollars prorated for any given year has exceeded that year's annual policy aggregate limit.

- The presumption of the courts is that the excess layers will respond once any year's aggregate limits have been exhausted after prorating. Likewise, "prior insurance" clauses are not expected to cause problems in the application of the exposure theory.

- If an insured purchased little or no insurance or was self-insured during any portion of the exposure years, it would be expected to pick up a pro-rata portion of the liability, including defense costs.

Under the Keene decision, any point in the "injurious process" triggers coverage. Therefore, available policy years include all the years of inhalation exposure or "exposure in residence"—the period between last inhalation exposure and first manifestation—and first manifestation: a triple trigger.

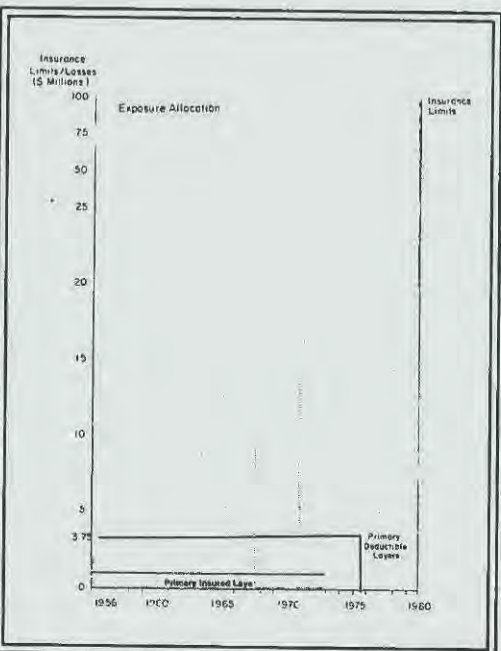
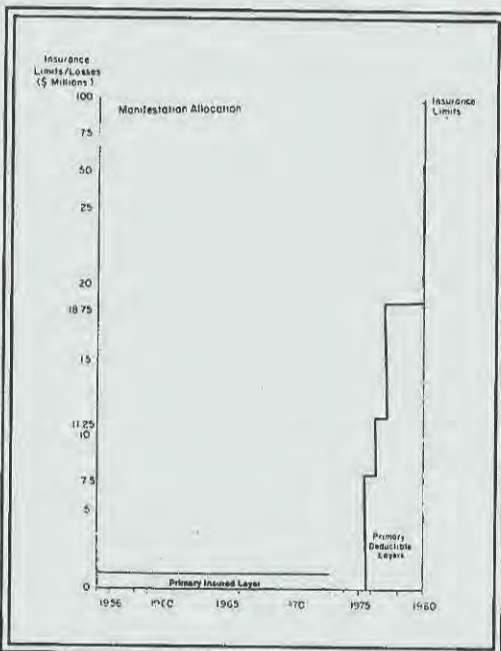
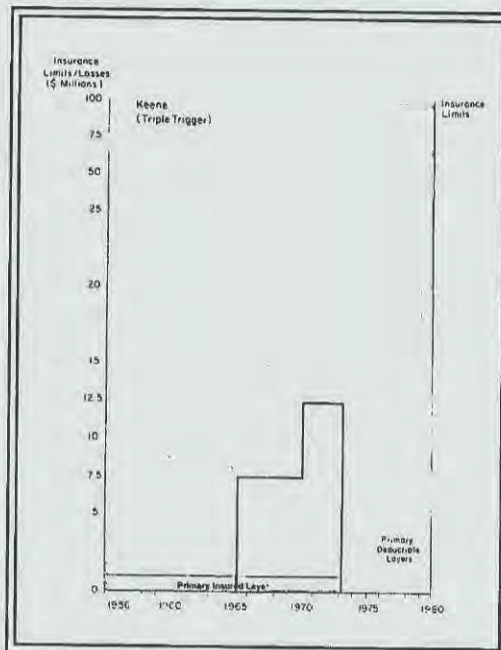
Unlike the exposure theory, under the Keene ruling any claim must be assigned in full to a single policy year.

But, on the other hand, by permitting the insured to choose the policy year to which to assign each claim, the Keene decision helps insureds to minimize the chance that claims will be allocated to periods where they self-insured or purchased low limits.

Coverage is subject only to two restrictions: no "other insurance" clauses and no "stacking" of policy limits.

We have chosen a realistic, though fictitious, example to illustrate how the different theories of insurer liability apply.

Asbestos Inc. began producing asbestos products in 1955. The combination of insured limits and self-insured retentions/deductibles follows a pattern familiar to many insureds (see table, page 24).



During the earlier years, Asbestos Inc. purchased readily available first-dollar coverage. Undoubtedly because of little or no expected inflation, a perceived slight risk and, perhaps, lack of higher available limits in the marketplace, Asbestos Inc. carried limits of only \$2 million per occurrence/\$2 million aggregate during the first five years. No more than \$15 million was carried between 1956 and 1971.

In 1971, Asbestos Inc. began to increase its upper limits rapidly. These rose from \$25 million in 1971 to \$100 million by 1978.

Concurrently, however, Asbestos Inc.'s insurers began to see the trickle of asbestos claims, as well as public and medical concern, begin to build. Its primary and excess insurers forced Asbestos Inc. to assume increasingly large deductibles. Between 1973 and 1981, Asbestos Inc.'s aggregate asbestos products liability deductible rose from \$1 million to \$20 million aggregate, and the per-occurrence deductible increased to \$2 million, beginning in 1974.

On the assumption that claimants average 20 years of exposure to Asbestos Inc.'s products, uniformly distributed over the period 1956 to 1975, the accompanying charts depict how the claims would be allocated on both exposure and manifestation bases. A possible Keene allocation is also displayed. During that time Asbestos Inc. purchased primary insurance programs from three insurers, A, B and C.

Between 1976 and 1980, 10,000 claimants named Asbestos Inc. in more than 2,000 suits filed around the country. Since Asbestos Inc. is only one of 10 to 25 co-defendants named in any one of these suits, we estimate that, on the average, its per-claim share of the suits filed in those years will be \$7,500. Total ultimate expected cost is \$75 million.

This situation illustrates the general point that, for any given asbestos insured, mounting claim dollar problems have been generated for the most part by the large frequency of claims rather than by a limited number of severe claims. Just the reverse may be true for other third-party disease problems, both for defense as well as indemnity costs.

By showing the claims allocation over the 1956 to 1980 insurance limits, it is easy to see that available coverage for claims to date is significantly more advantageous to Asbestos Inc. under the exposure theory than under manifestation. Coverage is correspondingly superior under Keene as long as the insured can allocate claims effectively to the middle exposure years.

The table shows how allocations under the three theories would apply under the simplifying assumption that, for all claims reported between 1976 and 1980, the dollar distribution of plaintiffs' exposures was uniformly distributed over the 20-year period, 1956 to 1975. Additionally, it has been assumed that 1,000 claimants were diagnosed in 1976, 1,500 in 1977 and 2,500 in each of the years, 1978 to 1980.

Finally, although \$7,500 per claim represents an overall average, we assume that the average also holds in each of the manifestation years and that no single claim will approach the applicable per-occurrence limits in any one year.

In reality, it is possible that claims based upon exposures dating from the 1940s might penetrate a small insured's primary per-occurrence limit in the early years. But unless limits remained low over a long period of time, it is unlikely to have significant impact because of the 20- to 30-year period over which any claim is normally prorated. For example, a \$1 million claim covering a 30-year exposure period would amount to a \$33,333-per-year exposure allocation.

The assignment of claims under Keene is not fixed by formula but under the insured's control, and would normally be a function of his preference among insurers, as well as the

Continued on next page

perspective

Risk managers' bright ideas plug into management decisions

By Elliot E. Cohen

RISK MANAGERS know the basics of the risk-management process: identification of risk, evaluation of exposures and determination of the best methods of handling risk. Risk managers can also add what they know to the decision-making process. They can speak up and make contributions in many instances.

If the subject is new construction, major alterations or other involvement with contractors, the risk manager can speak authoritatively about hold-harmless agreements, owner-controlled insurance programs and risk transfer to the general contractor and subcontractors.

His input will enable the decision maker to understand insurance costs and what can be done to reduce the expense through the application of risk-management techniques. Consultation with architects and engineers before the start of construction can develop effective loss-control devices that will eliminate or minimize problems that may arise in the

Elliot E. Cohen is risk manager at Fisher Brothers in New York.

future.

Owned property leased in whole or in part to others involves lease agreements prepared by attorneys. The risk manager can assist with indemnification clauses, tenants' liability insurance to include interest-of-owner, waiver-of-subrogation, escalation provisions and rent-abatement conditions.

Every business at some time will lease equipment. It may be automobiles, data processing equipment, typewriters or aircraft. When the risk manager is involved early, he can present money-saving ideas.

For example, on automobiles, who should carry liability insurance? To what limits? Where will cars be garaged? Is collision coverage necessary? Should there be driver restrictions?

The risk manager may not know whether a new product will succeed. He can, however, alert the decision maker to a danger in the product. He can warn against exaggerated advertisements. He can suggest quality-control procedures that will help during defense, should a product liability suit arise. He may even try to dissuade management from

introducing the product at all.

It is unlikely that a decision maker would think about protecting his investment in a young superstar, considering possible disability, kidnapping or death. A risk manager, if made aware, would consider the possibilities and suggest methods by which the company could protect its investment.

Top management, in many instances, looks on the risk manager as an insurance buyer. They are aware of his presence when it's time to formulate the budget or when there is a sizable loss. Very often, though, the chief executive officer has few or no dealings with the risk manager.

For example, a middle manager arranged to lease a portion of the company's basement garage to an auto rental company, provided two gasoline pumps were installed. The risk manager learned of the deal when the fire insurance rate on the entire building was increased, almost wiping out the gross rental income. The installation met building code requirements, but was non-standard for fire-rating purposes.

A risk manager of a large apparel manufacturer became aware of a

potentially disastrous situation when he was having coffee with two executives. A special-order fabric was en route from Belgium to Hong Kong where the garments were to be manufactured and shipped to New York. The anticipated profit was estimated in excess of \$1 million. But, there was no insurance coverage on the goods. The risk manager put together a program under tremendous pressure, at a price double the normal rate.

A company negotiated the takeover of a competitor. The risk manager was instructed to check out its insurance coverage. Through sources available to him—insurance companies and claims adjusters, among others—he determined that there could be a multitude of incurred-but-not-reported claims. When management became aware of the implications, a contingent provision was added to the agreement to mitigate potential uninsured claims.

Once top management understands that the risk manager can make a significant contribution to the decision-making process, they will appreciate the risk-management function and utilize the risk manager's knowledge and experience to the advantage of the company. ■

Asbestos claims trigger three liability theories

Continued from previous page
availability of limits. In the example that we have presented, all other things being equal, Asbestos Inc. would probably seek to exhaust its early limits with its earliest reported claims. Likewise, because of high deductibles, it would seek to avoid assigning any claims to the latest policy years as long as possible.

However, in assigning claims to any one year, the insured would probably seek to preserve a "cushion" between the expected ultimate value of the claims and the available limits. This is important especially in the uncertain legal environment surrounding asbestos litigation.

In our example, we have allocated all claims to insurer B's years under the assumption that these were relatively early coverage years, insurer B provides the best defense expertise and there are adequate limits to protect Asbestos Inc. in case of adverse loss development.

In selecting our example, we have deliberately simplified the real-world situation in a number of ways. Under the exposure theory, actual claims are rarely uniformly distributed so that each year would absorb the same overall dollar allocation. On the other hand, the exposure distributions should be statistically identifiable over a period of a

John W. Foley is senior vp of the national services office and Richard Merbaum is senior consultant in the risk management services department at Marsh & McLennan Inc. in New York.

year.

Furthermore, while it has been advantageous for our purposes to sharply separate exposure from manifestation years, they inevitably overlap in the real world, although this is not true necessarily for other latent diseases.

Finally, in many cases the reporting of claims has occurred over a longer period of time in the past and will continue to occur well into the future. Therefore, the preference by an insured for exposure,

manifestation or Keene will be affected by actual and anticipated future claims experience and available insurance.

It is impossible to say in advance which approach to insurance contract liability is most favorable to an insured. Each insured has particular concerns and relationships with its insurers that complicate any straightforward choice. Nor should the example chosen be regarded as directly applicable to any actual insured.

For example, while the Keene ruling is in many respects attractive to insureds, a number of primary and excess insurers have been cooperating with their insureds either in following exposure or permitting a choice between manifestation or exposure on an interim basis. In the process, significant amounts of cash are released to pay claims and reimburse insureds without, however, prejudicing each party's ultimate choice of which theory to pursue. ■

Asbestos claims/limits allocation (\$ millions)

Year	Primary policy limits (P.O./aggregate)	Annual aggregate excess limits	Total original limits	Exposure theory allocation			Manifestation theory			Keene Assignment of claims
				Exposure ¹ allocation	Uninsured loss	Remaining limits	Manifestation allocation	Uninsured loss	Remaining limits	
INSURER A										
1956-60	.5/5	1.5	10 ²	18.75 ³	8.75	0				
1961-63	.5/5	4.5	15	11.25	0	3.75				
1964-65	.5/5	9.5	20	7.5	0	12.5				
INSURER B										
1966-70	1/1	14	75	18.75	0	56.25				37.5
1971-73	1/1	24	25	11.25	0	63.75				37.5
1974-75	2/2 Deductible	48	48 x / s 2 per year	7.5	4	92.5				
1976	2/5 Deductible	45	45 x / s 5	0		ALL	7.5 ⁴	5	42.5	
INSURER C										
1977	2/5 Deductible	45	45 x / s 5	0		ALL	11.25	5	38.75	
1978	2/10 Deductible	90	90 x / s 10	0		ALL	18.75	10	81.25	
1979	2/15 Deductible	85	85 x / s 15	0		ALL	18.75	15	81.25	
1980	2/20 Deductible	80	80 x / s 20	0		ALL	18.75	18.75	80 x / s 1.25	
TOTALS				75	12.75		75	53.75		75

1 — \$3.75MM/Year

2 — B+C x A

3 — 3.75 x A

4 — No. claims reported: 1,000 (76) 1,500 (77) 2,000/Year (78-80)

Arab Group will overcome many obstacles: President

Continued from page 3
 "because of the unique imbalance between technological and capital resources," with the established community in control of the technological resources and ARIG in control of large capital resources. ARIG was formed for the same reason U.S. industrials formed captive insurers: The insurance industry was not providing economical insurance, in this case to the Middle East, he said.

Insurers and reinsurers have been more interested in protecting their market share than in bringing effective insurance products to the Middle East, he contended.

"In the Middle East and developing countries, insurance and reinsurance has meant the same thing as dominance—not effective risk transfer, not technologically more precise underwriting, not effective cash-flow management."

ARIG could bring these effective programs to the developing industries of the Middle East and other regions, because at the same time the area developed enormous needs for risk protection, it also developed financial resources, he said.

The international reinsurance market, however, is reacting to ARIG "in a typical parochial fashion," he complained. "They persist in setting primary and reinsurance terms and requiring heavy proportional reinsurance in all but the worst lines of business. The current share of non-Middle East suppliers on Middle East exposures—direct and reinsurance—is approximately two-thirds of the total premium."

Mr. Al-Bedah asked the commercial insurance industry to stop trying to retain control over business in the Middle East, and instead "let us participate in the worldwide market rationally."

Admitting that ARIG "has challenged you with capital," he added, "we do not desire, nor do we believe we can dominate."

Instead, he said, ARIG will continue to make its large capacity available on a "follow-the-lead" basis of knowledgeable underwriting. When its management and technologies are in place and fully operational, it will operate in all segments of the international insurance and reinsurance market, where legally permissible, he said.

"But we will place first emphasis on the demand for insurance and reinsurance in the Middle East and developing countries."

The Middle East and developing nations are a large enough market to feed ARIG's growth, he said.

The entire Third World insurance market, including the Middle East, currently accounts for only 5% of the world gross premium volume, he admitted, but it could grow as Japan has grown, he said. In 1965, Japan constituted only 4% of the total world insurance market and today it ranks second only to the United States, with a market share of almost 12%.

"Could it be that the Third World nations will mirror this growth pattern over the next 15 years?" he asked.

"The relative growth in insurance premiums in these countries vs. their growth in gross national product indicates that this is potentially the case," he said.

The demands of industry in the Middle East are the same as those in the United States, he said. Business is asking, he said:

- Are my coverages packaged in the most cost-effective way?
- Is proper credit given to the better-than-average risk?
- Am I overinsured? Should I have higher deductibles?
- Can better engineering/inspection assistance from the insurer

help cut losses and insurance costs?

- Why do insurer profit margins seem so high?

The primary insurer, meanwhile, is asking ARIG:

- How can I retain more of the cash flow for investments?

- Why are terms dictated by one or two reinsurance markets?

- Why do reinsurers complain about property losses but demand quota-share reinsurance of up to 85% of this business and pay such large ceding commissions?

- Why do my reinsurers tell me what I must do without sharing the technology to tell me why I have to do it?

"Our collective challenge in developing countries is to satisfy these demands," he said.

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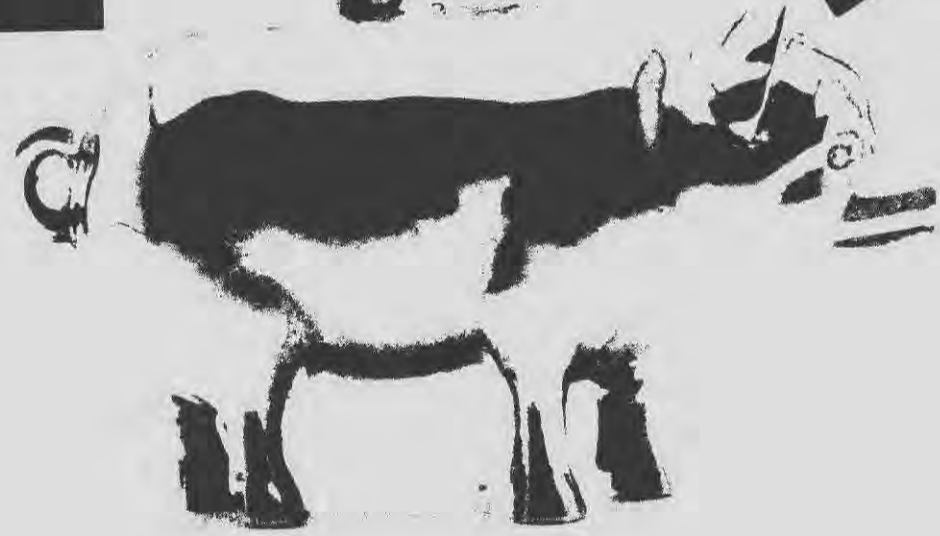
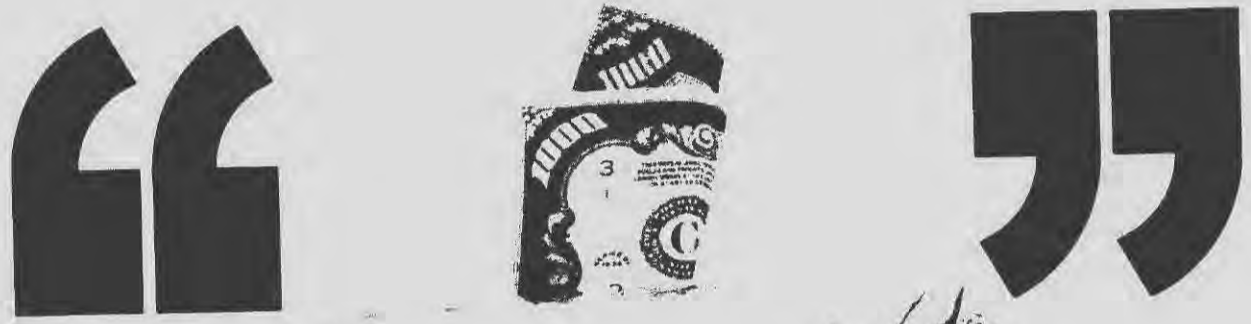
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Uniform product liability law needed, British insurer says

By JAMES C. LAWSON

PHILADELPHIA—U.S. product liability insurance rates will go through the roof unless federal legislators establish a strong, legal foundation to anchor them, a British insurance company official says.

"Product liability rates (in the United States) are about 20 times what they are in Europe," Thomas W. Marriott, legislation manager of the Norwich Union Insurance Group of Norwich, England, told delegates to the World Insurance Congress. "And rates vary between seven and 40 times what they are in Britain."

Mr. Marriott spoke at a session on "Competitive Advantage—Disparate Responsibilities for Product Safety."

U.S. product liability rates are higher than in other nations, Mr. Marriott said, partly because insurers set rates on a national basis, instead of varying rates by state according to each state's tort law.

The highest product liability judgment ever awarded in En-

gland, Mr. Marriott said, was 375,000 pounds (approximately \$660,000), far less than some judgments in the United States.

Mr. Marriott also attributed high U.S. product liability rates to:

- Higher jury awards that in turn are due to economic inflation.
- "Social inflation" that has prompted the public to be more litigation-minded.
- Lawyers who encourage more suits and charge high contingency fees.

"A huge amount of money has been made by lawyers," said Mr. Marriott. "The cost of litigation is enormous because of lawyers' contingency fees."

The inclusion of medical fees in the awards also attributes to high rates, Mr. Marriott added.

"There's a great deal of pressure to pick up medical fees," explained Mr. Marriott. "You don't have that pressure in Britain because hospital costs are picked up by the Social Security system. In the case of an accident, medical fees are taken care of."

Several bills that propose a nationwide product liability standard that would supersede state tort laws have been drafted and await legislative action. The measures would for the most part beef up manufacturers' defenses and, thus, help keep product liability insurance rates down.

Draft legislation sponsored by Sen. Robert W. Kasten, R-Wis., would bar product liability suits involving major capital goods 25 years after the product was delivered. It also would make the plaintiff identify the manufacturer, would exempt wholesalers from many product liability suits, would

reduce awards by the extent a plaintiff was negligent and would make manufacturers responsible only for the "useful safe life" of a product.

Another bill, H.R. 5261, sponsored by Rep. John J. LaFalce, D-N.Y., establishes a statute of limitations for suits, puts the burden of proof on the plaintiff and provides that damages be diminished when workers compensation benefits have been paid.

A third bill, H.R. 5214, sponsored by Rep. Norman Shumway, R-Calif., would bar most product liability suits from being filed 10 years after the product is first sold, but would extend that time limit to 15 years in cases where injury is sustained by prolonged exposure to a product. It would also limit the amount of punitive damages a plaintiff could collect to twice the amount of actual damages, not exceeding \$1 million.

Meanwhile, the lack of a uniform product liability law in the United States also makes it more difficult for foreign manufacturers to make products that meet all U.S. products standards, Mr. Marriott said.

A product that meets the differing requirements of the states will often be too highly priced to sell in other countries, he explained.

A product that may be adequate for a Third World market may not be considered adequate in the United States or in a European country, he said. For example, a contraceptive manufacturer might find Third World consumers more interested in obtaining a low-cost product at a level of safety lower than what is necessary in industrialized countries.

Register reinsurers worldwide: Neave

Continued from page 3

panies internationally to monitor the security of the reinsurance chain."

In pessimistic reinsurance quarters it has been estimated that in a "severely catastrophic situation" about 25% of the reinsurers on a given risk could fail to settle their obligations, Mr. Neave asserted.

"While accepting the possible accuracy of this estimate in the worst circumstances, I do not share its broader pessimism," he added.

There are 417 specialist, or professional, reinsurers in worldwide markets, Mr. Neave said, and of those only 3% have been operating for more than 100 years. About 2% of the companies, by his estimates, have been in existence 75 to 100 years and about 8% are 50 to 75 years old. He said 12% have existed 25 to 50 years and the rest—75%—are less than 25 years old.

He said 234 of the specialist reinsurers—about 60%—are capitalized by direct insurers. Geographically, he added, Europe and Britain house the greatest number of reinsurers with 174. North America accounts for just less than 80.

He said the stock of just six of the world's top 20 reinsurers is publicly quoted and of those six, three are the "biggest and amongst the oldest-established of all reinsurers...."

"Apart from one Japanese company, none of the top 20 are from outside Europe or the United States," he added. "Eleven are owned by direct insurers and six are independent or have non-insurance ownership. Only one is

government-controlled."

The other two are operated by market pools or consortia.

Weak and unstable currencies and the lack of well-developed capital markets in Third World nations make it hard to form reinsurance companies in those countries, according to Mr. Vasquez, who heads a private reinsurer based in the Colombian capital.

"Exchange control is very strict and there are very few countries that allow reinsurance companies to invest part of their funds in overseas markets," Mr. Vasquez added. "That would be a good solution for these companies as they would be able to invest funds in hard currencies."

Among other handicaps for Third World reinsurers, Mr. Vasquez explained, are lack of expertise and tax laws that fail to allow deductions for incurred-but-not-reported loss reserves. However, some Latin American nations do allow favorable tax treatment for loss reserves for earthquakes, he added.

Mr. Parker, who is a director of Chubb's international operations, reported that some reinsurers are offering to double excess-of-loss policy limits upon renewal for the same premium. This leverages the books of the reinsurer and reduces cash flow, he noted.

Mr. Parker endorsed Mr. Neave's suggestion that reinsurers be internationally registered, but he noted that "realistically, it's difficult or impossible to achieve this sort of licensing procedure over the near term."



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Help hike deductibles, insurers told

By BILL DENSMORE

PHILADELPHIA—Insurers will have more capital to finance world development and to assume catastrophic risks if they work with risk managers to encourage higher deductibles and greater self-retentions, the new president of the Risk & Insurance Management Society says.

"By reducing the demand for this capital at the lower, predictable and supportable levels of risk exposure, more of it will be available for application to the catastrophic risks and for constructive investment pending the need to respond to catastrophe," Jim Spivey told participants in a seminar at the World Insurance Congress last month.

Mr. Spivey, executive director of the Insurance & Risk Management Agency of Charlotte-Mecklenburg in Charlotte, N.C., spoke at a session entitled "Reducing Demand for Risk Capital—A By-Product of Risk Management."

Insurance has an obvious and a not-so-obvious purpose, according to Mr. Spivey. The obvious one is to finance potential catastrophic losses.

"The second, and at least equally important purpose, is the accumulation of capital," he said. "This second purpose is obviously a vital function in supporting the global economy."

As insurance buyers hesitate to carry large deductibles, the insurer must tie up greater reserves and incur greater claims expenses to cover routine instead of catastrophic losses, Mr. Spivey suggested. The insurers, in turn, have often discouraged higher deductibles by inadequate rating recognition, he added.

"In both respects, this is uneconomic and inefficient application of the assets of an entire segment of the financial community," he said. "It is also unrealistic because it has tended to make the insurance mechanism less able to respond to the needs it should be fulfilling."

Current trends in risk management are encouraging a move toward greater handling of catastrophic rather than routine losses by insurers—a role that they have traditionally performed best, Mr. Spivey added.

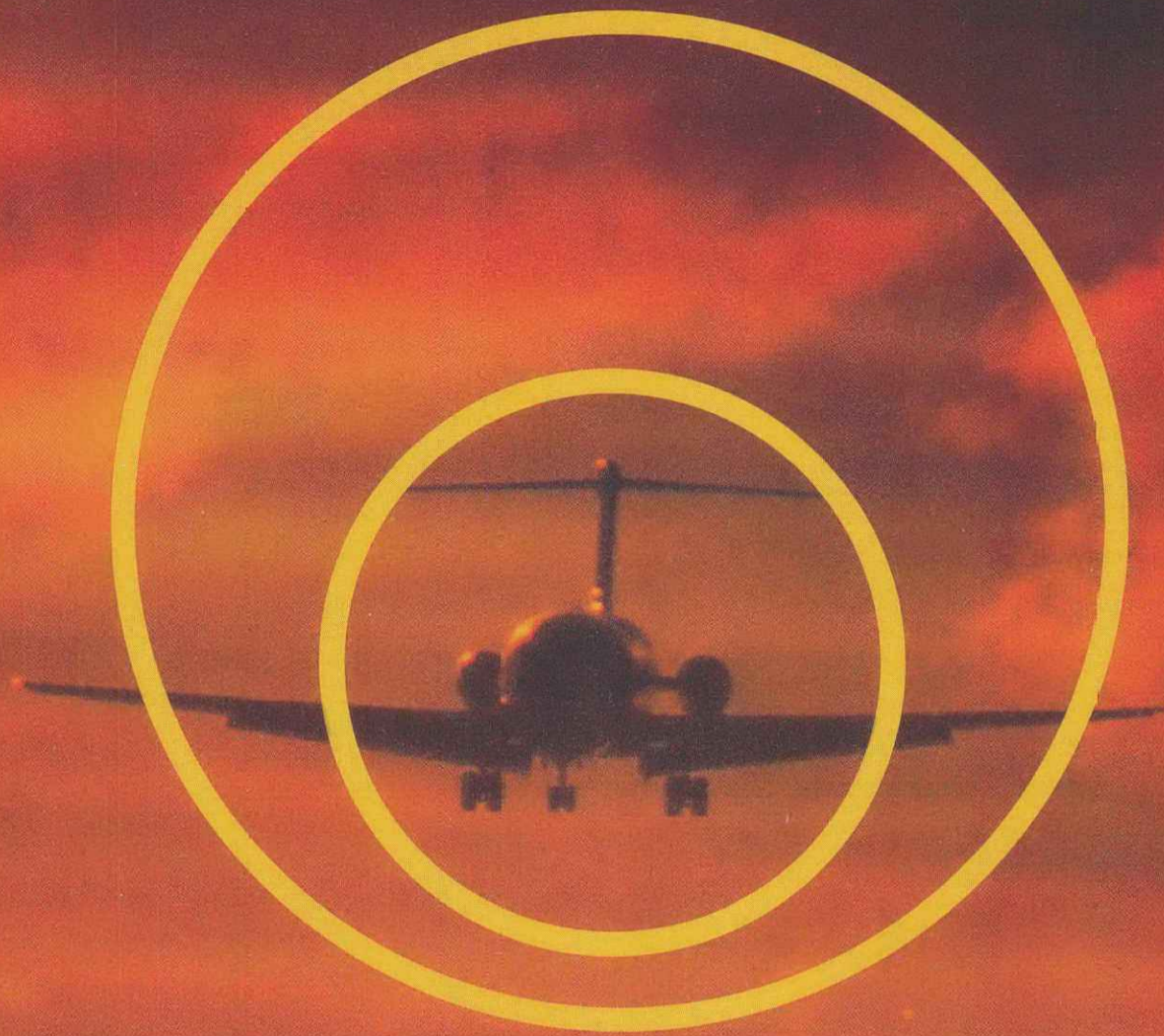
"Developing countries and developed countries alike are seeking to bake a bigger economic pie," he said. "They cannot do it without capital, and, properly recognized and secured, the capital of the insurance industry can serve a tremendous function in bringing about economic growth essential for both prosperity and political stability."

Two other suggestions for reducing the amount of money tied up in small-risk financing and expenses were offered at the same session by H. Felix Kloman, president of the Risk Planning Group Inc. of Darien, Conn.

Mr. Kloman estimated that brokers, agents or other intermediaries that are able to "float" premiums paid by policyholders before tendering them to insurers cost buyers and sellers an estimated \$1 billion annually.

Secondly, Mr. Kloman said, the commission system generally is an anachronism which, if eliminated and replaced by a fee-based system, would increase the capacity of insurers to handle risk.

He also estimated there is a current market exceeding \$1.3 billion for "unbundled" risk management services that could be offered by insurers without assuming any risks. ■



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Third World to need other services: Nigerian

By KATHRYN J. McINTYRE

PHILADELPHIA—More risk-conscious and sophisticated businesses in Third World countries soon will start asking their insurers for risk management and other support services, a Nigerian reinsurance company executive predicts.

Currently, insurers only provide primary insurance protection in Third World countries, said Chief J. O. Irukwu, managing director of the Nigeria Reinsurance Corp. "With increased sophistication, insurers in the developing markets will be required to give risk management and other support and secondary services to their policyholders in the handling of risks and in overall loss prevention measures," he told the World Insurance Congress.

The social, economic and technological development in Third World countries is increasing the size and changing the character of risks. "More complex and very large risks are being introduced re-

quiring very high technological knowledge in their handling and demanding a lot of skill and knowledge on the part of insurers and other risk handlers," he said.

"Insurance managers in the past did not require a lot of skill and general knowledge and could go through their careers with fairly basic insurance knowledge," Mr. Irukwu said. "These changes in technology, size and nature of risks available for insurance are bound to make more demands on insurers and risk managers in the developing countries. The insurance manager of the future in the developing countries will have to be more knowledgeable than his predecessors."

Other factors are changing the insurance and risk management business in Third World countries, he said, including the effects of industrialization on society, government intervention, changing philosophies of people and courts, new business attitudes and consumer protection associations.

As developing countries industrialize, the extended family that cared for relatives' needs weakened and people became more conscious of the benefits of life insurance and pensions, he explained. Interestingly, he noted, Africans "do not believe in death until it occurs" so life insurance policies are endowment policies.

The governments of developing countries are encouraging the development of the insurance business by requiring workers compensation and employers liability insurance over the last 10 years. Almost every developing country has introduced compulsory auto insurance, Mr. Irukwu said.

Some governments are focusing on other lines of insurance, too. Nigeria, for example, in 1976 passed legislation making it compulsory for all insurance on imports to be underwritten by insurers registered in Nigeria.

"This law raised the gross marine premium income of the market by almost 500%," he noted.

People have different attitudes toward insurance and lawsuits now. "Twenty or 30 years ago, it was regarded as immoral for a person to claim from an insurance company for death or bodily injuries arising from a motor accident," Mr. Irukwu said. The belief that one should not profit from misfortune has been replaced by a new awareness of legal rights, he explained.

"This change in attitude has increased the demand for all forms of liability insurance such as product liability, public liability and different types of professional indemnity policies," Mr. Irukwu said.

The courts, too, "are now much more generous in the awards they



Photo: World Insurance Congress

Mr. Irukwu addresses a session of the World Insurance Congress.

make in all liability claims," he added.

Formerly accepted personal guarantees and bank guarantees are no longer acceptable in business. Now bonds, fidelity and credit guarantees are required.

Consumer protection associations, which demand the best products and services for consumers, also are springing up in Third World countries. "This has greatly

increased the scope of product liability insurance in developing countries," Mr. Irukwu explained.

He cautioned that despite all these factors encouraging the growth of the insurance industry in Third World countries, "insurers will have to become more consumer-oriented and less strictly profit-oriented to service in a society that would be dominated by consumer protection associations." ■

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U.S. is not likely to duplicate China's insurance monopoly

Continued from page 3

also could present problems, especially since premium dollars become part of the national treasury.

Mr. Silva said his country experienced such problems two decades ago when premiums were invested in government securities.

"Premiums are a sacred trust," Mr. Silva said.

"What happens if the money is needed for war? What happens to the policyholders?" he asked.

In 1962, Sri Lanka, then called Ceylon, tried to nationalize its insurance industry but economic pressures forced it to relent, Mr. Silva said.

In China, however, the government has no intention of welcoming competition from private domestic insurers.

PICC, formed in 1949, began marketing property, life, travel, livestock and accident insurance as well as establishing an international business.

However, it suspended domestic operations in 1959 in the wake of China's internal upheaval, the Cultural Revolution.

Domestic operations were resumed in 1979 and since have become a major part of the company's growth, Mr. Guohua, the company's deputy general manager, told the delegates through an interpreter.

PICC's \$300 million in domestic premiums represents a new strong insurance marketing effort, he said. In addition, last year the company generated about \$144 million from its international insurance operations and \$220 million from its reinsurance operations.

While some insurance experts debate whether PICC's premium revenues are kept separate from other Chinese government funds, he contends the PICC is an independent economic entity that relies on its accumulated financial strength instead of a re-allotment of funds from the Chinese government.

"It is provided in China that the insurance fund be utilized for no other purpose than compensating financial losses arising from calamities and accidents as to safeguard the interest of the insureds who, in the event of a casualty, will receive early compensation," Mr. Guohua explained.

He said the Chinese government is developing the insurance company to:

- Centralize the nation's insurance system.
- Organize a financial compensation system.
- Minimize losses resulting from accidents, thereby improving the Chinese people's social welfare.
- Accumulate funds for the country.
- Support the country's modernization drive.

In the United States, however, federal and state governments have little involvement in the insurance industry now nor plan additional involvement in the future, Mr. Froehlke told the congress delegates.

"We have plenty of available supply from the private sector and I don't see where there's much demand for an additional insurance supplier."

The public sector, Mr. Froehlke said, should only be an insurance supplier when:

- A segment of the population, such as Medicaid and Medicare recipients, is unable to afford insurance coverage.
 - There's an undercapacity of coverage such as in the area of nuclear insurance.
 - States establish insurance funds for workers compensation coverage.
- The public sector shouldn't supply insurance, Mr. Froehlke explained, because "it's not fair for the state regulator of insurance to sell insurance. The state tends not to underwrite and the (existing) insurance funds tend to be subsidized." ■

Insurance alternatives changing market: Saul

By **BILL DENSMORE**

PHILADELPHIA—Large commercial buyers, employing a variety of risk management techniques, are becoming insulated from insurance price increases and are fundamentally affecting the marketplace, says the chairman of newly formed CIGNA Corp.

"It is estimated that by 1984, the total commercial marketplace will be 40% greater than premiums (written by traditional insurers) would indicate," Ralph S. Saul, chairman of the nation's second-largest publicly held property/casualty insurer, told more than 600 at the World Insurance Congress. The lost premiums, he said, will be made up of premiums paid to captive insurers and loss reserves.

With commercial buyers turning to captives and self-retention, Mr. Saul said, the remaining markets are subject to intensified price competition. This will prolong the current industry cycle, he said.

Mr. Saul delivered a keynote address at the congress on "A World in Transition—New Patterns of Risk and Uncertainty." Sharing the podium with him was banker Ahmed Abdul-Latif, deputy governor of the Saudi Arabian Monetary Agency in Riyadh, Saudi Arabia.

Mr. Saul described a marketplace where insurers increasingly will provide risk management services on a fee basis rather than accept risks themselves for an uncertain reward. And, Mr. Saul said, brokers will be caught up in this trend toward fee-based services, pitting brokers and insurers against one another at times.

At a different congress session, the head of the nation's third-largest property/casualty insurer reinforced his competitor's comments of a day earlier.

The trend toward risk retention is one of the "most significant events" since the development of insurance, declared Edward H. Budd, chairman and chief executive officer of The Travelers Corp.

"It is not only real, it is permanent," added Mr. Budd, and it will provide "a host of new opportunities with regard to services."

In traditional markets, "the discipline to raise prices has not reappeared" and insurer earnings will suffer as stronger companies fight for market share in a war that will keep prices stable, he said.

"The Darwinian process of business survival will function," Mr. Budd concluded. "Companies will fail and customers and their brokers will have to worry about the security of their market."

In Mr. Budd's view, insurers that survive will have to focus their underwriting expertise on the "true risks" that can't be handled by retention. He cited as examples nuclear power, space development, robotics in manufacturing, computers and information processing.

In his speech, Mr. Saul said banks already have learned they have to advise their depositors how to make their money work, not just accept money for storage. As a result, banks are becoming money brokers instead of money holders.

In effect, he added, so are insurers.

A variety of technological or service advances like automatic tellers, discount stock brokerages and two-way cable television systems are forging electronic links among banks, brokers and insurers in a process of convergence that "could change totally the way financial services are delivered to individuals," he said. For instance, "there appears to be little need for direct selling of personal lines."

As investment bankers followed their clients overseas, so, too, will insurers in the years ahead, he pre-

dicted. But just as corporate treasurers, risk managers will not eliminate insurers, he concluded.

In his talk, Mr. Abdul-Latif said the volatility of financial markets is a worldwide phenomenon that sends the international investor in search of "safe havens" for his capital. Like a risk manager, the investor must balance and diversify his portfolio to reduce risk.

Mr. Abdul-Latif's prescriptions for avoiding international investment risk include seeking:

- "Freedom from" expropriation, sequestration or freezing of assets.
 - "Freedom from" foreign exchange controls.
 - "Freedom from" unfair taxation.
 - "Freedom from" breaches of confidentiality.
 - "Freedom to" buy and sell different investment instruments, including currencies, at all times.
- "The investor must consider the effect of the size of his investment in relation to the financial markets

and also its effects on the social sensitivities of the host countries," he said. "Certain sectors like real estate, media or defense-related stocks can be especially sensitive."

In the United States, some observers have questioned whether foreign investors should be permitted to acquire prime farmland or commercial real estate.

Mr. Abdul-Latif said it is a mistake to believe that investments in the United States by the Organization of Petroleum Exporting Countries could be manipulated to "cre-

ate havoc in the U.S. foreign exchange and security markets at will."

"Those who propagate that fallacy tend to forget that as soon as an investment, whether OPEC or non-OPEC, crosses its domestic border, it surrenders its sovereignty and its destiny to the host country," said Mr. Abdul-Latif. "There is no power that can influence its direction or help repatriate it at will except with the consent and blessing of the host government."

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Exchange of Americas to open with \$100 million capacity: Teale

markets

International insurance and reinsurance buyers will find an innovative market with a \$100 million minimum underwriting capacity when the Insurance Exchange of the Americas opens in October, exchange President Alan Teale says.

"It looks as if we should achieve our \$50 million capitalization goal," he says, adding this would give exchange syndicates, now numbering 36, an underwriting capacity of at least \$100 million.

"I'm terribly conservative," Mr. Teale said at a seminar sponsored by International Risk Management Institute of Dallas April 30. "Our syndicates probably will write business at a 3-1 or 4-1 underwriting to capital surplus ratio."

He estimates about 35% to 40% of the exchange's business will come from the Caribbean or South America.

In describing the exchange's plans, Mr. Teale stressed its possibilities, flexibility and innovation.

"Unlike other parts of the world, we are fortunate in having great flexibility," he said of Florida.

The 1979 state legislation that permitted the creation of the exchange allows syndicates to write business in all lines except those restricted to admitted insurers, Mr. Teale explained.

"The product each syndicate sells is between it and the brokers," he said. "This allows for innovation and inventiveness."

Eleven of the enlisting syndicates are forming a "syndicate agency" that will oversee administration and loosely bind them together, but leave them free to underwrite, he says.

"We're recommending others go under such agencies because they reduce administrative costs, share the risk and allow syndicates to get reinsurance more effectively."

There are now 76 syndicate applications outstanding, Mr. Teale said, adding that 197 applications are outstanding for broker membership. Of these, 23 firm applications have been received.

Florida's insurance laws now allow out-of-state brokers to participate in the exchange by entering into a joint venture or partnership with existing Florida insurance agents, Mr. Teale said. Florida

agents can now become brokers, severing direct ties to insurers.

"The freedom this brings for innovation will be beneficial," he says. "Quite a number of offshore brokers are coming in, bringing expertise that will bolster that of indigenous brokers."

Malpractice insurer

The Indiana State Medical Assn. and three medical malpractice insurers in neighboring states are forming a stock property/casualty insurer to write medical malpractice coverage in Indiana.

It also will provide liability coverage for office premises, homeowners and automobile liability insurance for an estimated 8,000 medical association members.

The company will be a joint venture by Physicians Insurance Co. of Ohio, Physicians Insurance Co. of Michigan and Kentucky Medical Insurance Co. Total capitalization will be \$3 million, with the Ohio and Michigan insurers each purchasing \$1.45 million in stock and the Kentucky company buying \$100,000.

Joseph K. Gilmore, president of Physicians Insurance Co. of Ohio, cites the opportunity for physicians to be actively involved in the settlement of malpractice claims as the "most important" reason for forming such a company.

While stressing that doctors do not want to take over the claims settlement function completely, Mr. Gilmore says most physicians feel they can better determine whether malpractice exists than claims personnel for commercial insurance companies.

Participating Indiana doctors will have the option to purchase the \$3 million in stock owned by the three insurers, giving them ownership of the company.

Reinsurance

San Francisco Reinsurance Co. is providing reinsurance coverage for Latin American insurance companies through its new Coral

Gables, Fla., branch office.

A recently formed subsidiary of Fireman's Fund Insurance Cos., San Francisco Re provides Latin American markets with treaty and facultative property/casualty reinsurance.

The manager of the new office is Steven L. Redlich, an assistant vp, who most recently was a vp of ARMCO Financial Services for Latin America. The new office is located in the Douglas Centre Building, Suite 307, 2600 Douglas Road, Coral Gables, Fla. 33134; 305-446-7018.

Claims consulting

Tillinghast, Nelson & Warren Inc., international managerial and actuarial consultants to the insurance industry, has formed a claims management consulting division with locations in Boston and Hartford, Conn.

Services provided include consultation on casualty and health claim operations, case handling, reserving practices, expense control, group health claims and medical cost control.

Binding authority

Chicago-based insurance brokerage Geo. F. Brown & Sons Inc. now has binding authority with Zurich American Insurance Co. of Illinois on a broad range of primary casualty, property and special multiperil coverages.

The first wholesale brokerage to be chosen for such a relationship with Zurich American, Brown can provide immediate quotations and coverage for product liability, special events, contractors equipment, difference in conditions and all-risk property, including flood and earthquake.

Acquisitions

Kirke-Van Orsdel Insurance Services Inc., based in Des Moines, Iowa, has acquired **Witmer-Kauffman-Evans Inc.**, another Des Moines insurance brokerage. ■

Harvey Bardell promoted at Esquire

comings & goings: buyers

Harvey Bardell has been promoted to director of risk management and employee benefits at Esquire Inc. in New York, a new position. Mr. Bardell was formerly risk manager. He now is responsible for all insurance and self-insurance for the corporation, including safety management for Esquire's manufacturing companies and a fleet of more than 200 vehicles. In addition, he is in charge of the personnel department. Before joining the firm in 1974 as assistant insurance manager, Mr. Bardell held insurance, accounting, underwriting and claims positions with the New Jersey Fair Plan in Newark, N.J., and Hanover Insurance Co. in New York. He received a bachelor of arts degree from Rutgers University in New Brunswick, N.J., and has earned an Associate in Risk Management designation. He is also a licensed broker in New York state and a deputy member of the Risk & Insurance Management Society. Mr. Bardell reports to Robert W. Shields, vp and treasurer.

James Kroviak, 32, has been named director of risk management for Dillingham Corp. He is based in the company's Walnut

Creek, Calif., office. Mr. Kroviak will be responsible for the company's insurance and self-insurance activities, as well as captive management. He previously served as director of insurance at Sunbeam Corp. in Oakbrook, Ill., a position that was phased out as a result of Sunbeam's merger with Allegheny International. Mr. Kroviak was also director of insurance at Greyhound Corp. in Phoenix, Ariz. He received a bachelor of science degree in business, insurance and risk management from Ohio State University in Columbus and a master of business administration degree in finance from Arizona State University in Tempe. He is also a Chartered Property & Casualty Underwriter. Mr. Kroviak replaces Ray Stevens, now with Frank B. Hall & Co. Inc., and reports to the company treasurer.

Crown Zellerbach Foundation in San Francisco has appointed Gary D. Goerz, 39, risk control and insurance manager. He is responsible for property protection and secu-

rity for the firm, as well as insurance, self-insurance and captive management. He was previously risk and insurance manager for Fairchild Camera & Instrument Corp. in Mountainview, Calif. Mr. Goerz was also assistant insurance manager with Guy F. Atkinson Co. in San Francisco. He received a bachelor of science degree from San Jose State University, a master of business administration from the University of Southern California and a juris doctor degree from Golden Gate University in San Francisco. Mr. Goerz is also a Chartered Property & Casualty Underwriter and a member of the California Bar. He replaces Martin Seaney, who will retire July 1, and reports to Mike McCafferty, acting treasurer.

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

PBGC is assuming liabilities of more private pension plans

By JERRY GEISEL

WASHINGTON—The Pension Benefit Guaranty Corp. is taking over more private pension plans.

During the fiscal 1981, the PBGC became the trustee for another 145 pension plans with 16,200 participants.

Those takeovers mean the PBGC is now the trustee for 659 pension plans with 71,200 participants, according to the federal agency's latest annual report.

These PBGC takeovers are mandated by federal law. Under the Employee Retirement Income Security Act of 1974, the PBGC becomes a pension plan's trustee if the plan terminates with insufficient assets to pay promised benefits.

Pension plan terminations have risen as more companies close their doors during the current economic downturn.

And more terminations are expected. During fiscal 1981, the PBGC received 4,949 notices of intended pension plan terminations from employers, an increase from the 3,933 termination notices it received in fiscal 1980.

Not all those terminations, though, will result in PBGC takeovers. The federal pension agency does not take over terminated plans that have enough assets to pay vested benefits.

But with the number of underfunded pension terminations increasing, the PBGC will find itself short of funds in a few years to pay for the benefits of participants in

washington

plans for which the agency is trustee.

For example, last year the PBGC's deficit swelled to \$190 million, an increase of \$87 million from fiscal 1980. The PBGC now has \$526 million in assets, but it is liable to pay \$715 million in benefits to plan participants.

To reduce that deficit and assure that plan participants get their promised benefits, the PBGC this month will ask Congress to increase annual termination insurance premiums to \$6 per plan participant from \$2.60.

Hearings on the increase are set for May 10 by the Senate Labor subcommittee. The hearing is expected to begin at 9:30 a.m. in Room 4232 of the Dirksen Senate Office Building in Washington.

Truck inspections

More than 140 investigators from the Bureau of Motor Carrier Safety will be fanning the nation's busiest highways this week to conduct a massive safety inspection of thousands of commercial trucks.

Around-the-clock inspections will take place in 25 locations in 15 states where truck traffic is heavy. States in which inspections will be made are Arkansas, Arizona, California, Idaho, Illinois, Louisiana, Massachusetts, Missouri, New Jersey, New York, Pennsylvania, Virginia, Washington, Wisconsin and

Wyoming.

Commercial trucks that are found to be unsafe or operated by unqualified drivers will be pulled out of service until the violations are corrected.

Tort reform

The Reagan administration wants to apply a cost/benefit analysis to federal product liability legislation.

The administration says that before it will take a position on whether to endorse a uniform federal product liability law, it wants to know what economic savings would result from its enactment.

Some experts are skeptical whether the advantages of federal product liability legislation can be expressed in dollars and cents.

"How do you put an economic price tag on restoring balance to the legal system?" one insurance industry lobbyist asked.

It is unclear at this time what the administration will do if supporters of federal product liability cannot compute a cost/benefit analysis.

To date, the administration has refused to support federal product liability legislation, like a proposal by Sen. Robert Kasten, R-Wis. The administration has argued that a federal product liability law would run counter to its goal of turning over more power to the states. ■

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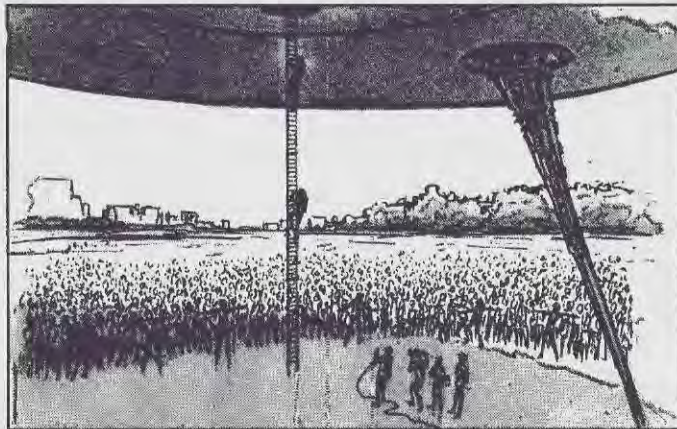
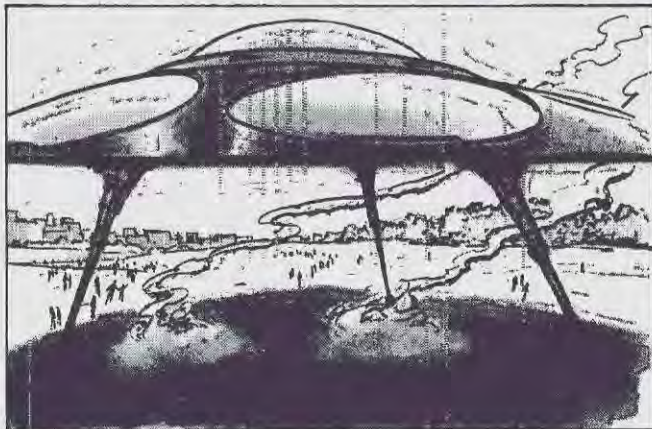
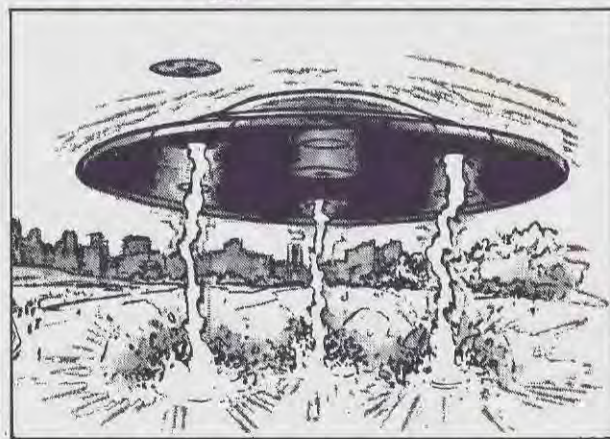
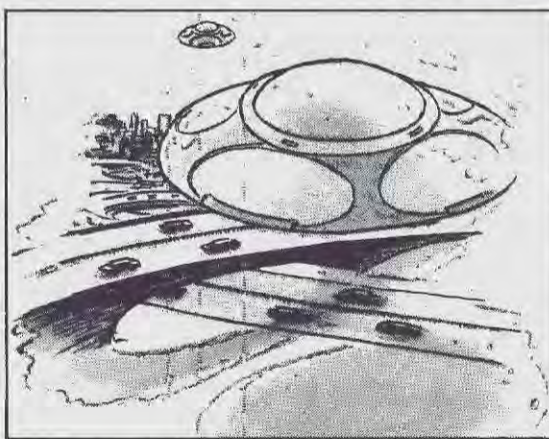
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Lloyd's launches probe of Qantas policy renewal

By STACY SHAPIRO

LONDON—Lloyd's of London is investigating the recent renewal of Qantas Airways' aviation insurance, and the airline's broker, Alexander Howden Group Ltd., is none too happy about it (*BI*, April 26).

"I have never heard of anything so stupid," Howden Chairman Ken Grob said he told Lloyd's Deputy Chairman Tim Brennan, who is heading the investigation.

"It has nothing to do with the Committee (of Lloyd's)," he said.

Mr. Grob says he will seek damages if the inquiry hurts Howden's business and has contacted Howden's lawyers.

"The American lawyers are also

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being consulted," said Mr. Grob, referring to Alexander & Alexander Services Inc.'s recent acquisition of Howden.

But under the new Lloyd's of London self-regulation bill, Howden could not sue for damages, Mr. Grob points out. The bill, which Howden is petitioning against in the House of Lords, would restrict members of the Lloyd's community from suing the Corp. of Lloyd's.

"Right now, I can say that if you dare damage my company, I'll take you to court," says Mr. Grob. "But what happens if I don't have this redress?"

The Lloyd's Committee set up a subcommittee to look into the Qantas renewal after various "representations" came to the committee's attention, a Lloyd's spokesman said.

Aviation underwriters refused to follow Lloyd's marine underwriter Ian Posgate's lead on the coverage, which would have cost the airline \$500,000 less than aviation insurers were willing to quote, confirmed Mr. Grob.

Orion Insurance Co., which eventually led the slip, "said it would only agree to the terms if everyone got the same premium and we did not put Posgate on the slip," said Mr. Grob.

Mr. Posgate now has 2% of the policy, although he does not lead it, Mr. Grob says.

"The market ganged up because Posgate was the leader," said Mr. Grob, and this problem was brought about "by a cartel of aviation insurers," he says.

When Howden, which underbid Bain Dawes, Qantas' broker for 20 years, had to settle for the aviation insurers' terms, it paid the \$500,000 difference in policy price out of its own pocket.

"We pay the difference. There's nothing unusual about that," said Mr. Grob, adding that Qantas is happy about the outcome.

"Qantas is delirious, but they think the London aviation market is a cartel and (commits) restraint of trade," he said.

Mr. Posgate, a member of the Committee of Lloyd's was not present when the committee decided to launch an investigation into the renewal.

British fire losses

Fire losses in Great Britain rose 37% in the first quarter of 1982 compared with last year's corresponding period, the British Insurance Assn. says.

Almost 113.5 million pounds (approximately \$204.3 million) of commercial property went up in smoke in the first quarter of this year, including a pharmaceutical warehouse in London valued at 3.3 million pounds (\$5.94 million).

Last year's first-quarter fire losses totaled 82.9 million pounds (\$149.2 million).

"The figures include both insured and uninsured damage, but do not take into account consequential loss, lost production, lost orders and exports," the association said.

Comp seminar

NEW YORK—The costs and benefits of workers compensation insurance is the subject of a May 14 seminar in New York sponsored by the National Council on Compensation Insurance.

For more information contact the NCCI Public Affairs Office at 212-560-1026.



About the Speaker

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

Seminar Dates

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

Agenda

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

It's a case of David vs. Goliath over Louisiana indemnity law

Continued from page 3
—were rolled together in the Louisiana law and the loopholes in the other laws were closed.

All agree the law's ultimate effect and scope will be defined by court action, but a few things appear relatively certain:

- Louisiana oil field contractors that have assumed broad personal injury liabilities as a condition of getting a job contract can now shift the risk back to the hiring party. The contractors generally assumed the liability through indemnity clauses, waivers of subrogation or the inclusion of oil producers or drilling contractors as named insureds on policies.

- Small contractors' insurers may end up paying fewer claims. Under the old indemnity system, insurers often not only paid workers compensation claims for a contractor's injured workers but also for any liability judgments the employee won against the oil producers, sources say.

- Those hiring service contractors in Louisiana may need to reduce how much liability risk they self-fund and buy more liability insurance since they can no longer count on indemnity protection.

Attorney Michael Maginnis of New Orleans believes the Oilfield Indemnity Act only applies to contracts involving land-based rigs and stationary offshore platforms. Moveable rigs are governed by maritime law.

Whether this is true depends on future court decisions, he says. In the meantime, indemnity agreements involving mobile drilling rigs appear to be secure.

Most of the International Assn. of Drilling Contractors' 1,000 members opposed the act when it was passed, an IADC spokesman says. "Our people felt they were in a position to negotiate their own contracts and didn't need government assistance."

Thomas Bowersox, general counsel for Zapata Drilling Corp. of Houston, echoes this. "We as a business are more capable of entering into contracts and allocating risk than any legislature is."

He says the law, combined with Louisiana statutes applying the doctrine of strict liability in tort cases, makes drilling operations in that state "extremely risky."

It may also mean oil producers and drilling contractors will avoid, wherever possible, contracts with service companies there, he notes.

"We're not particularly happy with the law," Mr. Bowersox says. "I would feel more threatened if we had land drilling operations in Louisiana, but we do not."

He laments the law's prohibition of reciprocal indemnity clauses, saying, "It is a lot more effective financially for each company to be responsible for its own people. You can more safely insure against the risk that way because you can quantify it."

Charles Howe, vp of insurance for Ocean Drilling & Exploration Co. of New Orleans, says, as a drilling contractor, ODECO finds itself in both strong and weak contrac-

tual positions, depending on whether it is hiring service contractors or being hired itself by oil producers.

"Sometimes we're the David and sometimes the Goliath," he says. "In the oil business, it's the consumer—whoever is buying—who has all the power. Let's fact it. Anytime you have a customer-vendor relationship, the customer is king."

But the idea of the "little guys" always being on the painful end of an indemnity agreement is not accurate, he says, adding that oil producers are often smaller than the contractors they hire.

"If the contractor knows what he is getting into, he can protect himself," Mr. Hower says. "A good analogy is war risk insurance on a drilling barge," Mr. Hower says. "If an oil company wants us to go into a war zone and we buy insurance to cover the risk, we pass it back to the producer as part of the cost of doing business."

Another offshore drilling contractor's attorney says "no one is forcing anyone to sign indemnity agreements. You have to be able to negotiate a fair contract and be able to tell the other guy to go to hell when you have to."

But offshore drilling companies are in a better bargaining position with oil companies than land-based rig owners or service contractors, Mr. Haynie stresses.

"The big offshore drilling contractors are in strong demand and can get reciprocal indemnity clauses from oil producers," he says. "But service companies have to agree to accept sole liability for the other parties' negligence if they want to work."

Likewise, intense competition in recent years has made it impossible for many suppliers to pass back to oil producers the increased costs they incurred through hold-harmless agreements, he says. Increasing bid prices by adding such costs may cost them the contract.

Some of the old indemnity agreements also have circumvented the 1914 Louisiana Workers Compensation Act that protects employers against personal injury lawsuits from employees, Mr. Haynie says.

"Suppose my own man is injured and I pay workers compensation benefits to him, then he sues the production company," he says. "Since I've been forced to indemnify the producer, my insurer has to defend the suit and pay any damages to my employee."

"Technically, I should be reimbursed if there is negligence on the production company's part, but since I've signed a waiver of subrogation, I can't even sue to get back the workers compensation benefits I've paid."

Before the indemnity act was passed, "the bottom line was if you don't sign, you don't work," Mr. Haynie says. "This has evened things out."

An insurer of oil field service contractors and supply vessels says application of the law is still unresolved, but his clients indicate they are favorably impressed.

"The old contractual indemnity agreements saddled smaller contractors with liabilities for which they were not at fault," says William V. Trufant Sr., president of G & M Marine Inc. of New Orleans. "They didn't let fault fall with the wrongdoer."

Contractors many times sign such agreements but are unable to buy insurance to cover them, Mr. Trufant says.

"In effect, this makes insurers out of them. They are working but at the same time assuming liabilities they haven't the financial strength to afford."

If nothing else, the Louisiana law has called attention to unfair indemnity provisions and helped equal the bargaining positions of oil, gas and exploration companies and their service companies, the general counsel for a large oil rig contractor says.

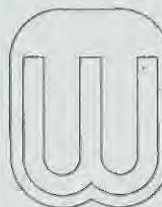
"In general, we're glad to see the law, but I don't think anybody's sure what it will do for us yet," says the insurance buyer for a well service company in southern Louisiana, who asked not to be identified to protect her company's contracts with oil companies. "Somebody's going to have to be the guinea pig."

In the meantime, attempts are being made to resolve differences and heal wounds caused by the controversy over the law, says Mr. Haynie.

"We were asked to prove our strength in the Legislature," he says of the small contractors. "Now it is time to work together as an industry." ■

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New PBGC head appointed

WASHINGTON—Former New York attorney Edwin M. Jones this week will become the new executive director of the Pension Benefit Guaranty Corp.

As a partner in two law firms, Mr. Jones, 65, has specialized in legal, insurance and investment problems associated with the Employee Retirement Income Security

Act.

He also was an attorney and officer with New York Life Insurance Co.

Mr. Jones, the agency's fifth executive director since it was created in 1974, replaces Robert Nagle, who had been with the PBGC since September 1979. The post is a political appointment. ■

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Illinois residents sue SCA over landfill

Continued from page 2
states, as well as "substantial diminution" of property values.

Wilsonville residents realize that hazardous wastes must be disposed of somewhere, says plaintiffs' attorney Richard Verticchio of Gillespie, Ill. "But we don't think it was handled properly here, and that's our position."

The residents' concerns, according to the complaint, include:

- Migration of toxic wastes from certain trenches at the disposal site and the permeability of land under the site, which exceeds by 10 times the limit allowed by the Illinois Environmental Protection Agency.

- Contamination—or the threat of contamination—of some residents' drinking water and water used for livestock.

- Potential for "explosive interaction" between certain substances buried in the landfill, resulting in "explosions, fires and emissions of poisonous gases. . . ."

- "Noxious odors" that emanate from the site, causing "burning eyes, running noses, headaches, nausea and shortness of breath. . . ."

SCA officials say that trench No. 24, which will be the first trench to be removed in its exhumation project, is leaking "very low levels" of industrial solvents into the surrounding ground.

Yet this seepage is confined to the site's property, an SCA spokesman claims, and has not contaminated Wilsonville residents' drinking water, most of which is brought



Photo: Dave Beatty Studios

This is an aerial view of the Wilsonville, Ill., toxic waste site, which local residents say has harmed their health and property.

in from the outside.

The Earthline site was chosen because it was located over an abandoned underground coal mine, the spokesman says, which already had contaminated the area's groundwater.

SCA attorneys tried to move the case, which was filed Feb. 2, into the federal courts, but were rebuffed by a federal judge who said it properly belonged in state court.

Mr. Verticchio is pleased with this decision, not because it might

result in a more sympathetic judge, but because it eliminates his fear that a favorable judgment could be overturned by later findings that the case belonged in state court all along.

For SCA, the Earthline disposal facility has been a source of controversy almost from the very beginning.

SCA purchased the facility from James D. Andrews, a former manager of the state EPA's permit division, who started the facility through a company called Earthline Corp. Mr. Andrews, according to Richard Cosby, first assistant at-

torney general for Illinois, sold the facility to SCA shortly after receiving an operating permit in late 1976.

Mr. Cosby was heavily involved in much of the litigation that would subsequently involve the disposal site.

The Earthline landfill received hazardous wastes for disposal from November 1976 to October 1978. Wilsonville residents were upset when they realized the types of wastes being disposed of in the site and exerted considerable pressure to have the site closed, Mr. Cosby said.

The state attorney general's office filed a suit in their behalf, and a 104-day trial that followed ended with a court order that the site be closed.

SCA now expects the exhumation of the entire site to take several years. It will take six months alone for the first trench. SCA will not estimate exhumation costs, but Mr. Cosby says they will be high.

SCA will have to open each barrel in the trench to determine contents, Mr. Cosby says, and that alone will drive up the cost.

"It's going to cost a fortune just for the chemistry," he says. ■

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Local IRS agents to review captive cases

Continued from page 2

Finally, says the IRS' Washington headquarters, regional IRS offices have the discretion to decide a captive tax matter themselves.

"... (I)t is possible for a point to be reached at which an insurance company that is a wholly owned subsidiary of a policyholder has enough unrelated policyholders to achieve economic risk-shifting through funds provided by a sufficient number of unrelated insureds," the IRS says. "This is essentially a factual determination to be made on the basis of all relevant facts and circumstances."

The effect of the latest opinion, contained in a memo from the IRS to one of its regional directors and involving the case of an unidentified corporate taxpayer, is not to have any standards that might give companies a safe harbor in which to anchor their captive programs, acknowledges John L. Crawford, chief of the IRS' corporate tax branch.

"Normally in a situation like this, you'll get more requests for advice and more technical memos until you kind of stake out an area," he says.

The National Office Technical Advice Memorandum (Letter No. 8215066) is dated Nov. 25, 1981, but under IRS confidentiality rules, it was not released to the public until last month. The memo deals with a real case, but the names of the taxpayer and its captive are deleted.

Parent Corporation M's wholly owned Bermuda-based captive, Corporation N, issued casualty and property insurance and reinsurance using customary underwriting standards according to Bermuda law, says the memo.

In its early years, the captive wrote exclusively the risks of M Corp. and M's domestic and foreign subsidiaries. However, N Corp. has gradually increased its insurance, or reinsurance, on risks for third

parties unrelated to M Corp. and its subsidiaries.

"For the years 1974 and 1975, N Corp. earned 28% and 51%, respectively, of its net premium income from the reinsurance of third-party risks," says the memo written by the IRS branch headed by Mr. Crawford.

"From these facts alone, we are not prepared to conclude that the requirements for deductibility of the premiums paid by M Corp. were satisfied," the IRS says.

The service then advises the regional director in the memo that it is within his discretion to decide the deductibility issue based upon whatever other facts are relevant, such as whether the third-party risks involve any cross-insurance.

"The IRS has now succeeded in confusing the law more than ever," says Sidney R. Pine, an attorney with the New York-based law firm of Trubin Sillcocks Edelman & Knapp, whose practice includes advising many clients on their captive taxation concerns.

"Apparently, it refuses to face the issue it created or to establish intelligent, understandable guidelines."

Mr. Pine made two additional points:

- The memo shows the IRS now accepts in principle that a shareholder can "insure" with its own subsidiary insurance company under some circumstances although those circumstances aren't yet precisely defined by the agency.

- The memo, by declining to lay out a standard, gives courts greater latitude in appeals by insureds, passing the buck on the percentage question to the courts.

A second lawyer who has represented at least one major group captive before the IRS says the memo shows tax authorities were not prepared to say that a majority of unrelated risk will always estab-

lish a captive as an "insurer" for the purpose of deducting premiums.

"There obviously comes a point somewhere between 0% and 100% where the required risk-shifting is reached," says Walter C. Cliff, a partner with the New York firm of Cahill, Gordon & Reindel. "And our cautious friends down in Washington are not about to get out on that limb and say where it is."

A third attorney, this one a lawyer who helped Carnation Corp. in its unsuccessful appeal of a tax court order rejecting a deduction for premiums paid to its captive, says the latest IRS memo will be "marginally helpful" for firms with captive tax problems.

"One interesting thing about it is they did not say that 28% was always bad," says Frederick H. Robinson, a member of the Washington, D.C., law firm of Miller & Chevalier.

In Carnation, the 9th U.S. Circuit Court of Appeals in San Francisco agreed with a tax court that premiums Carnation paid to a traditional insurer—American Home Assurance Co.—could not be deducted as business expenses. American Home had reinsured 90% of the risk with the Carnation captive, Three Flowers Assurance Co. Ltd.

The landmark IRS statement on captives until now has been Revenue Ruling 77-316, in which the IRS postulates three common captive arrangements and then concludes that in none do the captives sufficiently spread risk to qualify as insurance companies under rulings of the U.S. Supreme Court.

In none of those, however, did the IRS postulate any third-party risk and so various attorneys and captive experts have speculated about what might constitute enough outside risk to convince the IRS to regard the captive as an insurer for tax purposes. ■

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Pillsbury cuts comp costs

Continued from page 2

plants was pulled together and the corporate insurance philosophy was shared with local plant managers, who were actually handling the day-to-day claims.

By communicating a new get-tough mentality down to the plant operations level, Pillsbury was able to reduce claims costs in just one year: Claims dropped to \$5.6 million in 1981 from \$6 million in 1980.

To accomplish this, Pillsbury instituted an educational program for operations people on the cost savings that could come with an effective workers compensation program.

A 12-page informational Workers Compensation Disability Management/Cost-Containment Program was given to the safety administrator, personnel manager or operations manager who administered the workers compensation program at each plant.

It contains pre- and post-loss control tips, recommendations on

selecting physicians, an outline for managing an employee's disability and some easy-to-understand questions and answers about workers compensation.

And it's now important to the local plants to understand workers compensation and how an effective program can save money. The corporate insurance philosophy was revised to make every location "loss responsive."

"Each division pays its own way. We act as an insurance company to the various plants," said Ms. Hibbard.

The company, which has \$4 billion in annual sales and owns Green Giant and 450 Burger King restaurants in addition to the Pillsbury line of products, had very little claims management at the local level, she said.

Ms. Hibbard found "alarming" permanent total disability trends, minimal communications between local management and the insurer and "rampant" lump-sum settle-

ments on claims.

In one case, she found an Illinois plant that had an astonishing number of claims for its size.

It was discovered that 60% of the workers had been on the payroll for 25 years or more and were likely supplementing their retirement income by filing workers compensation claims.

"We found our local manager had a lack of confidence about their knowledge of workers compensation so we had to educate operations people on the cost implications and savings that could come with an effective work comp program," Ms. Hibbard told RIMS members.

"If you let your insurer or servicing company manage your workers compensation cases, you're missing the boat," she told the audience.

"They tell you they have incentives, but they don't. An employer is just one of the file," she added.

The Travelers' would probably

dispute that point.

"Our general business philosophy meshed nicely with Pillsbury," said Mr. Owens of The Travelers. "We knew we couldn't evade workers compensation costs, but we could try to control them," he said.

"They (Pillsbury) wanted a flexible attitude and a cooperative relationship from us, and we were able to agree to be guided by their input on claims management," said Mr. Owens.

"The customer is paying the losses and they have every right to be involved with it," Mr. Owens said.

Some of that flexibility The Travelers was able to afford Pillsbury is "occasionally doing it their way," he said.

"For instance, Pillsbury has a lawyer it was working with to control claims in that Illinois plant. Although the attorney wasn't one that The Travelers chose, we plan to work closely with him in litigating claims," said Mr. Owens.

Employers are indeed beginning to demand to get a lot closer to claims management, he conceded, adding that Pillsbury also re-

quested that the insurer have a field liaison person on call in Minneapolis, where the company is located, should Pillsbury need immediate help.

The Travelers also put together special account instructions for its claims staff, informing them of the new rules the insurer was playing by with Pillsbury.

"It took us 1½ months to get everything together, but it was a surprisingly smooth transition," said Mr. Owens, who is personally in contact with Pillsbury's corporate insurance department by telephone at least once a week.

"Their philosophy that claims be handled on the local level and paid from our local claims' offices is how we see workers compensation being handled best," he added.

On that point, Ms. Hibbard told the RIMS conference participants:

"We now have stringent insurer case-handling requirements that outline settlement authority and mandates communications with local and corporate management, including notice of all hearings and notice of rehabilitation and job placement." ■

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Hospitals opting out of Social Security

Continued from page 1
are going to withdraw. And it is difficult for an employee to find out if his employer has filed an intent-to-withdraw letter. The IRS says the information is tax-related and, therefore, confidential.

However, the service employees union has filed suit under the Freedom of Information Act to try to obtain the names of hospitals that have filed notification letters.

For employees at hospitals that withdraw from Social Security, "the probability of getting a (retirement) benefit may be near zero," says Sylvester Schieber, research director of the Employee Benefit Research Institute. "Every actuarial study conducted has shown that pulling out of Social Security is a bad deal for employees," he adds (see related story).

Some experts predict massive protests will erupt once employees understand what benefits they have lost. "Within 10 years, there will be a tremendous outcry once employees find out what happened," one Social Security official

warns. Despite the disagreement on who wins or loses when an employer does leave the Social Security system, the number of hospitals that want to opt out is growing rapidly.

This year as many as 63 non-profit hospitals could leave the Social Security program. And 302 non-profit hospitals have notified the federal government that they intend to leave Social Security in 1983. A hospital must give a two-year notice.

"It has become an epidemic," says Bert Seidman, director of Social Security for the AFL-CIO. "The program is hemorrhaging."

Some 546 non-profit employers, including the 302 hospitals, have filed notifications that they intend to withdraw from Social Security in 1983.

Because of the huge number of workers employed in the labor-intensive health care industry, Social Security officials say the withdrawal of hospitals poses the greatest threat to Social Security.

For example, the 365 non-profit

hospitals that have withdrawal notices on file employ about 260,000 workers.

If all these hospitals actually withdraw, Social Security will lose at least \$400 million in payroll taxes in just the first year following the hospitals' withdrawal, according to Social Security officials.

And that figure would increase substantially in the years ahead as mandated increases in the FICA tax, which is paid in equal shares by employers and employees, go into effect.

This threat of a massive loss of revenue comes when Social Security is having a tough time meeting its current obligations. Social Security trustees say the program could run out of money next year unless changes are made.

If the system is caught even shorter by the withdrawals, the payroll tax burden on other employers that cannot, by law, opt out the program could increase to make up for lost income.

Until recently, Social Security

officials weren't very concerned—at least not publicly—about non-profit hospitals trying to leave the program.

In fact, the Social Security Administration doesn't even know how many non-profit hospitals have actually taken advantage of the loophole in the Social Security Act that allows them to leave the system. It is believed, however, that only 50 to 100 have left so far.

The law allows non-profit employers, known as 501(c)(3) organizations, to withdraw two years after they notify the Internal Revenue Service of their intentions. Once an employer withdraws, it cannot return to the program.

Social Security officials say there are several reasons why so many hospitals now want to opt out:

- Concern about the cost of rising payroll taxes. The FICA tax, now 6.7%, is to rise to 7.65% by 1990.
- A loss of confidence in the Social Security system. A high percentage of workers believe that Social Security, because of its finan-

cial problems, won't be around by the time they retire.

• Aggressive marketing by consultants, brokers and insurers that tell hospitals they can slash payroll costs by opting out of Social Security and setting up alternative retirement plans.

• A fear that Congress may close the loophole that allows non-profit organizations to withdraw.

In fact, Rep. J.J. Pickle, D-Texas, already has introduced legislation H.R. 3204, that would bar non-profit organizations that had not filed withdrawal notices as of March 25, 1981, from opting out of Social Security.

While no action is expected this year on the bill, support for the proposal could pick up steam if more hospitals leave and the strain on the system grows.

Critics say withdrawal hurts employees

WASHINGTON—Critics of Social Security alternative plans say few employees in the high-turnover health care field would ever be entitled to a pension, even under a five-year vesting schedule.

"Mathematically, I'd say one nurse in a 100 will vest," contends David Schnabel, field services director for the 40,000-member Federation of Nurses & Health Care Professionals.

"You have to compare the promised benefit with the probability of getting a benefit," adds Sylvester Schieber, research director of the Employee Benefit Research Institute. "They are not the same thing."

A 1978 survey by the Bureau of Labor Statistics found that the average health care industry employee had been at the job just 2.7 years at the time of the survey.

"This is a field where a nurse may change jobs and go to another hospital every other year or so," said Cathy Schoen, special assistant to the president of the Service Employees International Union. "Employees may never vest."

By contrast, Social Security's greatest strength is that benefits are portable, its supporters note. Benefits continue to accrue throughout an employee's working career re-

gardless of how often the employee changes jobs.

But Dale Richmond, vp of human resources for the Sisters of St. Joseph Hospitals in Wichita, Kan., says even if employees don't vest, they can use their extra take-home pay to funnel money into an Individual Retirement Account or a money market fund to create an additional source of retirement income.

However, while Social Security benefits are tax-free, money market fund dividends are taxed as ordinary income, while income from an IRA is taxed once an employee begins to make withdrawals.

Critics of retirement plans set up in lieu of Social Security also say the plans don't provide the same level of protection against inflation as Social Security.

For example, some of the alternative plans offer automatic 4% cost-of-living increases for benefits, with additional increases at the discretion of a board of directors.

None of the plans, though, are known to offer automatic benefit increases that match increases in the Consumer Price Index, another major strength of Social Security.

This automatic indexing, which has come under attack by some members of Congress as

too costly, resulted in Social Security benefit increases of 14.3% in 1980 and 11.2% last year. Benefits will rise by another 7.4% on July 1 to make up for another year of inflation.

Robert Kalman, a benefit consultant with William M. Mercer Inc. in Washington, D.C., worries that hospitals considering opting out of Social Security may not be taking into account all considerations.

For example, those who advocate pulling out say that many female employees working for hospitals that leave Social Security will still earn a spouse's benefit because their husbands will remain covered through their jobs.

But Mr. Kalman notes that the increase in single working women decreases the chances that a woman will be entitled to a spouse's benefit.

In addition, to shore up Social Security's financial problems, some members of Congress recommend an infusion of funds from general revenues.

"In that case, those who opt out still would have to pay for the benefits through higher income taxes, but they wouldn't be able to receive any of the benefits," Mr. Kalman says.

"Once you're out, you're out. You can't get back in," Mr. Kalman warns.

Employers say benefits improved

Continued from page 1
501(c)(9) trust to fund disability and survivors' benefits.

Under a 501(c)(9) trust, named for that section of the Internal Revenue Code authorizing them, the contributions to the trust are tax-deductible, while the assets and interest earned aren't taxable.

Mr. Kinkead says female employees with working spouses are the greatest beneficiaries of the hospital's decision to withdraw from Social Security and set up a new savings plan.

Social Security discriminates against working married women, Mr. Kinkead contends, a point some women's groups agree with.

Under Social Security rules, working women do not always get full credit for their own work. For example if a man was entitled to a \$600 monthly Social Security benefit, his wife would receive 50% of his benefit, or \$300 a month spouse's benefit.

Even if the wife worked and had earned a \$300 benefit based on her own work, she still would only receive \$300, the same amount as if she hadn't worked.

Under the Holy Redeemer plan, each employee gets credit for his or

her own years of service, Mr. Kinkead notes.

The Sisters of St. Joseph Hospitals, a multihospital system based in Wichita, Kan., opted out of Social Security in January 1980 and set up a new retirement plan because "we felt we could provide better benefits at half the cost," according to Dale Richmond, vp for human resources.

The new retirement plan, which offers five-year vesting and supplements another plan providing 10-year vesting, is designed to match benefits previously offered under Social Security.

An employee who spends an entire working career with Sisters of St. Joseph Hospitals would receive the same retirement benefit from the new pension plan as he or she would have had if the hospital chain remained under Social Security.

But for employees who spend part of their working years at the hospitals, the retirement plan will provide a benefit equal to what the worker lost because the hospitals are not covered by Social Security, assuming the employee had vested.

For example, an employee who worked for several employers over a 40-year period may be entitled to a \$600 monthly Social Security benefit. Because 10 of the those years were with Sisters of St. Joseph Hospitals, the employee may only get a \$400 Social Security benefit, reflecting his years of non-covered employment.

In such a case, the Sisters of St. Joseph retirement plan would provide a benefit of \$200 a month to make up for the reduction in Social Security benefits, if the employee had vested.

Samaritan Health Service of Phoenix, Ariz., looked down the road and determined that its employees were going to put a lot more money into Social Security than what they were going to get back.

The 6,000-employee health care organization thought it could do a better job of providing retirement benefits than Social Security could, according to John O'Callaghan, executive vp of Health Enterprises Inc., a Samaritan subsidiary.

So, Samaritan withdrew from Social Security in January 1980 after it notified its employees and

set up a new retirement plan with the payroll taxes it no longer had to pay to Social Security.

Samaritan pays the full cost of the plan, which provides first and full vesting after five years of service. As a result, employees' take-home pay jumped 6.7% since they no longer have to pay Social Security FICA taxes.

Under the plan, Samaritan automatically boosts benefits 4% each year.

In addition, the board of directors, at its discretion, can raise benefits even more.

Since 1980, benefits to retirees have been increased 25.3% to match the increases Social Security has given to its beneficiaries.

Samaritan has been able to offer these increases because its plan is funded in advance, compared with the pay-as-you-go Social Security system.

"Through advance funding and sound money management, costs can be reduced," says Mr. O'Callaghan.

Samaritan has used the money it has saved by withdrawing from Social Security to add other new employee benefits, including a group dental insurance plan.



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Drilling companies study war risk cover

Continued from page 1
physical damage.

The French oil company Total also is believed to be drilling off Tierra del Fuego.

Exxon had a project there until about six months ago, said a company spokesperson in New York. "We drilled more than a dozen exploratory holes and found minor traces of hydrocarbons—but not enough for commercial production."

Most, if not all, oil drillers

operating in the area are insured against war risks, brokers in Houston agree. Although the Falklands outbreak came as a surprise, Chile and Argentina have been waging a cold war in the region for many years. Also, banks and other financial institutions usually insist on the coverage before they will finance a project.

"But you'd be surprised how recalcitrant some buyers are about war risks coverage," pointed out a broker who asked not to be identi-

fied.

"This fight over two rocks in the South Atlantic goes to show you can't feel safe anywhere in the world."

U.S. drilling contractors have tended to shy away from war areas anyway, he noted.

"We do have some American interests down there," said Stephen Merrett, chairman of Merrett Syndicates Ltd. and lead war risk insurance underwriter at Lloyd's. Some companies with movable off-

shore oil rigs in the Strait of Magellan have war risk insurance, he confirmed.

There are no stationary platforms in the area because drilling around Argentina is exploratory, notes Dick Waters, senior vp of Alexander & Alexander and chairman of a committee in the broker's national energy division. Hydrocarbons are suspected in the area and there is a possibility of discovery.

But a fixed platform cannot be insured against war, Lloyd's sources say, because a fixed platform, which cannot move, is considered a land risk. Under the Marine Insurance Act of 1906, underwriters cannot insure land risks against war, said a Lloyd's broker. "You cannot buy war risk insurance for pipelines either," he added.

But a U.S. broker in Houston told *Business Insurance* that he has seen the coverage written despite the law. "It's not supposed to be done, but it is occasionally," he said.

Drillers in Argentine and Chilean waters are using jack-up and semisubmersible drills. Jack-ups, valued at \$25 million to \$35 million, typically operate in shallow water, from 65 to 80 feet. Long legs stick up into the air when the rig is in transit and are lowered onto the ocean floor to anchor the drill. Semisubmersibles, valued at about \$50 million, are used in deeper water, up to 1,000 feet.

Jack-ups and semisubmersibles can be towed out of harm's way pretty quickly, notes Mr. Waters. Even with war risk coverage, the primary concern of drillers in a region of hostilities is the safety of personnel and equipment, he stressed.

War risk insurance can be purchased for the full value of mobile offshore drilling rigs, reports Roy Williams, president of AIG Oil Rig Inc., a managing general agency owned by American International Group that represents about 260 insurers of offshore petroleum properties.

Mr. Williams says AIG Oil Rig does not currently underwrite rigs operating in Argentine waters but that war risk coverage for operations there is still available. Rates have not been raised since the Falklands war began. But due to chronic tension between Argentina and Chile, rates are much higher than in tranquil waters of the Gulf of Mexico, for example.

War risk coverage for rigs operating near Argentina would run between 50 cents and \$1 per \$100 of insurance, said Mr. Williams. Drillers in the Gulf of Mexico might pay 2½ cents to 5 cents

for the same basic coverage.

The London market appears less amenable to underwriting war risk coverage in the area of hostilities. Companies seeking the coverage now may run into trouble finding a reasonable rate, said Mr. Merrett. Some insurers have increased their rates, he said without commenting on his own rates.

The standard war risk policy covers property damage to a vessel or movable rig caused by acts of belligerency like aircraft attacks, bombs, torpedoes and floating mines. Drillers in the North Sea buy the coverage to insure against World War II mines that break loose from the ocean floor during a storm, said AIG's Mr. Williams.

In addition to physical damage coverage, war risk insurance can be written to include the perils of confiscation and expropriation. Very few operators purchase loss-of-use coverage arising out of war because of the high cost.

"There was a flurry of interest about 18 months ago until rates rocketed upward again," said one broker.

War risk insurance covers business interruption if there is physical damage to the rig or vessel and revenue is lost during repairs, said Mr. Merrett.

But there are other forms to insure against contingent loss of income. Even if the policyholder does not sustain direct damage due to war, contingent coverage is available to pay losses caused by interrupted operations, says John T. Cook, vp of Johnson & Higgins of Texas Inc.

"You couldn't get it today, of course, but you could have gotten it before things heated up," he said.

Other support industries could lose business if fighting escalates outside the 200-mile war zone and disrupts drilling operations in the Straits of Magellan. Catering companies provide food to drilling personnel, crew boat companies ply back and forth from shore to rotate crews and helicopter services are used to transport emergency parts and medical aid.

The largest and best-known U.S. market for war and political risks coverage, a government agency called Overseas Private Investment Corp., has not written any risks in Argentina since 1970, said a spokesperson. Human rights issues in Argentina may be the reason, he said.

All projects underwritten by OPIC must be reviewed by the U.S. State Department.

OPIC does underwrite a handful of U.S. business risks in Argentina that date back to the 1960s, however. None of these are offshore oil industry projects.

QE2 owner covered for lost profits

Continued from page 1

month. A Mediterranean cruise, fully booked with 1,750 passengers, was called off. And a trans-Atlantic cruise from London to New York will most likely be canceled before its May 16 sailing.

However, the loss-of-profits policy will help ease these losses. The policy, written by Lloyd's of London underwriters and brokered by Willis Faber, will pay up to 6 million pounds (approximately \$10.8 million) in lost profits after a "six-figure" deductible is exhausted, Mr. Kinally said.

The 375,000-pound (\$675,000) premium that Cunard paid, however, is relatively cheap considering the policy was bought at the height of war tensions.

The Lloyd's underwriters who accepted the risk may believe the British government eventually will pick up the tab for Cunard's lost profits, Mr. Kinally said.

"Anything that is paid by the government is credited to our account and noted by underwriters," said Mr. Kinally. "The two (government compensation and insurance) are not mutually exclusive.

They are complementary, which may help to explain why the premiums are so low."

But some Lloyd's underwriters, like marine underwriter Stephen Merrett, wouldn't touch the policy.

And some say the Lloyd's underwriters that wrote the risk may have been overly optimistic. The government could refuse to compensate the owners of the 40 requisitioned and chartered vessels for their loss of profits while the ships are in government service (*BI*, April 19).

The government also is dragging its feet on indemnifying the requisitioned vessels for war risks.

Some shipowners have been unsuccessful in securing war risk indemnification from the British government, said Mr. Kinally, whose company has had at least three other ships requisitioned for the task force.

Cunard also may attempt to purchase war risk insurance before the QE2 reaches the battle zone around the Falklands. Normally, Cunard self-insures the 67,000-ton liner for war risks. The line also carries a 50 million-pound (\$90 million) hull and machinery insurance policy on the vessel, plus unspecified liability coverage through the Liverpool & London Assn. Property & Indemnity Club.

"If she goes to war, however, we would expect the replacement cost, with regard to depreciation value, to be \$200 million," said Mr. Kinally. "So, if the government doesn't agree to pay for war risk, then we will take out insurance."

Mr. Kinally was discussing compensation and indemnification matters with the British government last week. They also discussed how many of the QE2's 1,500 crew members would sail with the troops to the Falklands.

Both Cunard and the government also will talk with maritime workers' unions about life insurance coverage for crew members who must sail with the troops to the South Atlantic.

California court rules child can sue for 'wrongful life'

SAN FRANCISCO—A child has the right to sue for "wrongful life" and claim special damages, the California Supreme Court has ruled.

A California couple, Donna and James Turpin, claim they would have never conceived a second child, who was born deaf, had they known their first child was already deaf and have sued a doctor they claim gave an erroneous diagnosis.

The couple says their first child, Hope, was taken to the Leon S. Peters Rehabilitation Center at Fresno Community Hospital about a year after her birth to have her hearing checked. Dr. Adam Sortini said then that the child's hearing was normal, according to the couple's attorney, Joseph P. Stretch.

The couple then had a second child, Joy, he said.

When Joy was diagnosed as being totally deaf, Hope was retested and also found to be deaf, the suit alleges.

Mr. Stretch says the birth of a second deaf child was a reasonable medical probability and the couple would have never had another child had they known that Hope was deaf.

The court ruled that the child is eligible for special damages to cover, for example, the added costs of special schooling and medical care. However, the court said the child could not collect general damages because the pain and suffering of an impaired life vs. no life at all would be impossible to measure.

In the original suit against Dr. Sortini, the couple sought unspecified general and special damages for both them and their children.

Dr. Sortini's attorney, Daniel O. Jamison, pointed out that the high court did not rule that the Turpins' allegations are indeed true but only stated that a child could sue for wrongful life. The case will be reheard by the trial court.

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Chrysler swaps rebates for doctor discounts

Continued from page 2
from the \$300 million it currently pays toward employee health benefits, or about \$325 for every car it manufactures, a Chrysler spokesman says.

The rebate program is one of several measures Chrysler is using to reduce health care costs, the spokesman says. For example, it is also participating in the BC/BS Maximum Allowable Cost Program, which requires local pharmacists to dispense a generic equivalent for 47 commonly prescribed drugs in order to receive reimbursement from Blue Cross/Blue Shield.

Chrysler's health care bill, fueled by inflation and new labor agreements that have given employees more first-dollar medical coverage, is 200% higher than it

was in 1977, when the firm employed more workers, says a company spokesman.

"The company is trying to keep its medical costs down to a minimum," explains the spokesman. "We'll do whatever it takes to do that."

The program, Chrysler officials say, so far has received "good response" from the medical community and has prompted some providers to begin examining what they charge.

"It's gotten dialogue going in the medical community about finding solutions for high charges," a Chrysler spokesman says.

While Chrysler is optimistic the offer will help cut some medical bills and produce more sales, the feeling isn't mutual in the medical community.

"I don't know of anyone who is interested in taking Chrysler up on the deal," says Roger Mechum, president of the Wayne County Medical Society, which represents many Detroit-area physicians. "Most of the reaction from doctors is, 'This program is a joke.' It's an interesting approach, but I don't know if any physicians will accept it."

The offer, Mr. Mechum says, poses several problems.

"We wonder what the Internal Revenue Service will think. We wonder if they think of this as bartering?"

"An employer like Chrysler can have problems with health care costs, especially in a plan where they don't have deductibles and co-payment arrangements. With those kinds of plans, people may tend to use the benefits more."

Cutting costs helps brokers, but rate relief still is needed

By **LEONARD M. WILSON**
Special to Business Insurance

APRIL IS THE month for first-quarter earnings reports. It may not be the cruelest month, as March is, but the first-quarter reports by the publicly held insurance brokers were not especially cheerful. Given the state of premium rate competition, the generally lackluster results came as no surprise. Moreover, operating progress for the next two quarters may not be a great deal better.

Quarterly reports, though, provide more than a look at latest operating results. They also provide insight into companies' directions and emergent trends and have a degree of predictive value. Since stock prices often discount positive developments before they become widely discernible, looking behind the quarterly numbers is a necessary exercise.

Take the subject of expenses. The public brokers' costs have been buffeted by inflationary pressures for several years. With only modest growth in commissions and fees, rising expenses have produced a painful squeeze on profit margins. But, if the rate of inflation is in fact easing, cost pressures may have already begun to abate.

Coupling a lower inflation rate with stringent cost-control measures provides a positive scenario for brokers' profit margins down the road. Add the ingredient of rising premium rates and the potential for marked earnings growth becomes plausible.

There was some encouraging evidence on cost control in the first-quarter reports. Fred S. James, for example, recorded only a 3%



Mr. Wilson

Leonard M. Wilson, a vp of L.F. Rothschild, Unterberg, Towbin in New York, specializes in insurance brokerage stocks. He is a member of the New York Society of Security Analysts.

BI ticker

increase in expenses over last year's first quarter. It is true that the performance of the dollar against the British pound helped, since Wigham, Poland is now consolidated within James. But even taking this into account, the slackened pace of cost escalation was a notable improvement over 1981.

A broker's mix of business was also meaningful in influencing its performance. Reinsurance brokerage tended to grow more rapidly than retail or direct brokerage. Reinsurance rates are very soft, but primary insurers are seeking more coverage, improving the market.

Also, employee benefits tended to outstrip property/casualty gains. Foreign brokerage, excluding currency transactions, realized generally superior growth compared with domestic brokerage.

In dissecting a broker's mix of revenue, it seems clear that diversification away from pure retail brokerage has helped cushion the adverse effect of lower premium rates on retail business. In the future, diversification, as a positive goal, may be used to iron out the volatility of the insurance cycle.

So much for the broad picture. Here are some specifics on the performance of the individual brokers by size:

• Marsh & McLennan reported earnings of 94 cents per share, compared with 93 cents in last year's first quarter. Standout gains were generated by C.T. Bowring's reinsurance operations and the company's foreign affiliates. Indeed, were it not for the increased international flavor of Marsh & McLennan revenues, earnings probably would have declined. U.S. brokerage continued to suffer from the effects of soft premium rates.

• Alexander & Alexander's report included, for the first time, figures from its recent acquisition, Alexander Howden Group Ltd. A&A reported earnings of 73 cents per share against first-quarter 1981's 81 cents per share. Soft premium rates domestically were a major factor in the earnings decline.

The effect of the Howden acquisition on future earnings momentum remains to be seen. To the extent that Howden is a beneficiary of the rising demand for reinsurance, its inclusion could lift A&A's earnings.

• Frank B. Hall posted earnings of 81 cents per share, a narrow gain over the 80 cents per share posted in the first quarter of last year. New business and wider acceptance of its risk management services enabled Hall to register a 10% rise in revenues. Leslie & Godwin also performed well, but the British subsidiary's contribution was diluted by the conversion into dollars from pounds.

• Fred S. James' earnings declined to 51 cents per share from 55 cents per share in last year's first quarter. Tight expense control helped to contain the earnings shortfall, but the impact of soft premium rates caused profits to drop.

• Corroon & Black provided the greatest surprise by reporting a 33% increase in earnings at 60 cents per share, compared with 45 cents per share in the first quarter of 1981. A recovery in surplus lines coupled with solid gains in most other activities produced a 12% increase in billings. This could be an indicator of stronger performances in upcoming quarters.

• Rollins Burdick Hunter's quarterly earnings fell to 47 cents per share from 55 cents per share. Soft rates were the culprit, but expenses rose only 4.6% from the first quarter of last year. The slowing in cost increases reflects productivity gains, even as spending on new programs continues.

Results for the first quarter may represent a pattern for the second and third quarters. Certainly, the public brokers have tightened their belts, but an easing in rate competition is needed to produce better bottom-line performance.

Accordingly, it is too soon to expect generally better earnings comparisons.

Financial briefs

Poe & Associates

Poe & Associates Inc. has declared a quarterly dividend of 20 cents per share of common stock, payable May 21 to shareholders of record May 14.

AVEMCO Corp.

Avemco Corp. has reported record first-quarter earnings of \$1.34 million, or 54 cents per share, up 18% over \$1.14 million, or 46 cents per share, in the first quarter of 1981.

AVEMCO's major subsidiary, AVEMCO Insurance Co., reported record first-quarter written premiums of \$10.1 million, up 18% over the \$6.9 million written in last year's first quarter.

AVEMCO is a national aviation insurance, financial services and product marketing organization.

Hartford Steam Boiler

The Hartford Steam Boiler Inspection & Insurance Co. has reported reduced earnings in the first quarter.

Net income declined 27%, to \$3.9 million from \$5.3 million, in the first quarter of 1981. Earnings per share declined to \$1.08 from \$1.48.

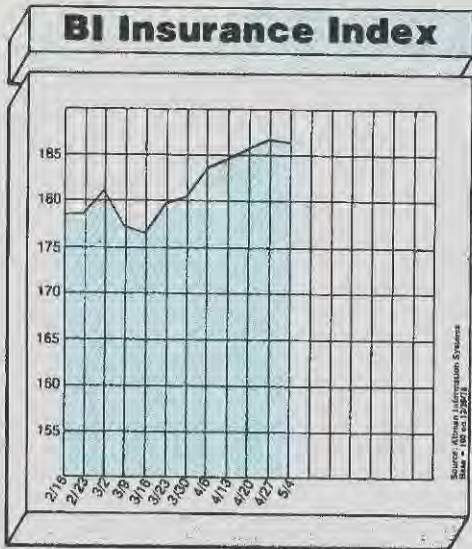
The company blamed the poor performance on last winter's storm-related losses and the nation's economic downturn.

American General

American General Corp. has declared a quarterly dividend of 55 cents per share of common stock and a quarterly dividend of 81 1/4 cents per share of \$3.25 convertible junior preferred stock.

Both dividends are payable June 1 to shareholders of record May 10.

The company also reported that first-quarter earnings had increased 19.5% to \$45.4 million from \$38 million.



Insurance industry stocks ended six weeks of gains as the *Business Insurance* stock index closed May 4 at 186.5, down 0.2 points from 186.7. Twenty-seven issues gained, 24 stocks declined and 17 were unchanged. The largest increases were posted by: Crawford & Co., 7.4%; PennCorp Financial Inc., 6.6%; Equifax Inc., 6.4%; Farmers Group Inc., 4.2%; Statesman Group Inc., 4.2%. The largest losses were suffered by: Crum & Forster: 7.5%; USLife Corp., 7.1%; Armco Inc., 5.5%; Hanover Insurance Co., 5.1%; American Indemnity Financial Corp., 4.7%. The *BI* index lost 0.1%, which was smaller than the 0.4% decline in the Dow Jones 30 Industrials average and the 0.5% decrease in the NYSE Composite index.

British Issues		1 Week			
4 May	Price	P/E	Div. Yield	High—Low	
Companies	pence	pence	%	pence pence	
Comml Union	129	10.8	16.86	13.1	131—127
Eagle Star	362	12.3	21.43	5.9	368—360
Genl Accident	298	6.6	23.21	7.8	298—294
Gdn Royal Exch	286	6.9	25.00	8.7	286—282
Phoenix	242	7.9	24.00	9.9	242—234
Royal	333	8.1	36.07	10.8	333—325
Sun Alliance	812	9.7	61.43	7.6	812—802
Brokers					
CE Heath	318	9.2	15.71	4.9	322—313
Hogg Robinson	111	8.5	8.57	7.7	111—108
JH Minet	175	10.9	8.14	4.6	175—171
Sedg Grp	168	10.8	8.57	5.1	169—166
Stenhouse Hldg	113	8.2	7.28	6.4	114—112
Stew Wrightson	252	9.0	18.57	7.4	252—250
Willis Faber	473	11.8	21.43	4.5	480—466

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

BI Industry Stock Report

Insurance Cos.	MAY 4, 1982				4/28/82 THRU 5/4/82				Price	% Chg.	P/E	\$ Div.	% Yld.	High	Low	Vol (000)			
	Pnce	% Chg.	P/E	\$ Div.	% Yld.	High	Low	Vol (000)											
Aetna Life & Cas Co	NYSE	43.25	0.0	7.0	2.52	5.8	43.25	42.75	992.0	United Fire & Cas Co	OTC	29.75	0.0	7.8	0.88	3.0	29.75	29.75	0.5
American Bankers Ins Group	OTC	8.50	1.5	7.1	0.48	5.6	8.50	8.38	49.7	United States Fid & Gty Co	NYSE	44.13	-0.8	7.9	3.60	8.2	44.13	43.50	209.9
American Gen Ins Co	NYSE	41.25	-1.8	6.0	2.20	5.3	41.63	41.00	122.7	United Svcs Life Ins Co	OTC	15.75	-3.1	5.8	1.00	6.3	16.25	15.75	9.5
American Indty Finl Corp	OTC	15.25	-4.7	8.9	1.12	7.3	16.00	15.25	8.8	USLife Corp	NYSE	19.75	-7.1	4.1	0.84	4.3	19.88	19.25	483.9
American Intl Group Inc	OTC	69.50	-1.8	11.5	0.48	0.7	70.50	69.50	146.5	Washington Natl Corp	NYSE	19.38	-3.1	6.9	1.08	5.6	19.50	18.75	94.1
American Natl Ins Co	OTC	15.63	-2.3	5.8	0.75	4.9	16.00	15.25	87.6	Zenith Natl Ins Corp	OTC	17.00	1.5	8.1	0.76	4.5	17.25	16.75	57.5
American Sta Life Ins Co	OTC	17.00	0.0	5.4	0.80	4.7	17.50	17.00	1.6	INSURANCE COMPANIES				AVERAGE					
Aneco Reins Ltd	OTC	1.75	0.0	0.0	0.00	0.0	1.75	1.75	5.3										
Avemco Corp	AMEX	11.63	-1.1	7.2	0.54	4.6	11.75	11.63	1.6										
Banks Iowa Inc	OTC	39.50	1.3	6.8	1.48	3.7	39.50	39.00	2.8	Agents/Brokers									
Bitco Corp	OTC	29.50	3.5	4.4	1.92	6.5	29.50	29.50	6.2	Alexander & Alexander Svcs	NYSE	27.75	-4.7	9.6	1.94	7.0	28.75	27.75	321.0
Carolina Cas Ins Co	OTC	6.75	0.0	6.3	0.32	4.7	6.75	6.75	1.5	Baldwin & Lyons Inc	OTC	35.50	1.4	6.6	0.80	2.3	35.50	35.00	0.7
Chubb Corp	OTC	42.25	0.9	5.3	2.92	6.9	42.25	41.38*	114.6	Corroon & Black Corp	NYSE	20.63	0.0	10.7	1.76	8.5	21.00*	20.38	35.3
Combined Intl Corp	NYSE	21.38	-1.2	5.8	1.80	8.4	21.38	20.75	273.3	Crum & Forster	OTC	8.25	3.1	17.6	0.40	4.8	8.25	8.00	9.9
Continental Corp	NYSE	27.63	-2.2	7.7	2.60	9.4	28.00	27.00	161.5	Crump E H Cos Inc	NYSE	28.88	0.4	10.9	1.70	5.9	28.88	28.63	99.5
Crawford & Co	OTC	14.50	7.4	10.9	0.56	3.9	14.50	13.50	3.7	Hall Frank B & Co Inc	NYSE	14.75	-3.3	5.2	0.00	0.0	15.00	14.75	9.2
Crown Life Ins Co	OTC	85.00	0.0	6.2	3.10	3.6	85.00	85.00	0.5	Integrated Res Inc	AMEX	21.38	-0.6	10.2	1.60	7.5	21.63	21.38	9.9
Crum & Forster	NYSE	27.75	-7.5	4.9	1.64	5.9	30.00	27.75*	788.9	James Fred S & Co Inc	NYSE	34.50	-1.4	10.5	2.00	5.8	34.50	34.25	127.4
Employers Cas Co	OTC	31.00	0.8	6.7	1.20	3.9	31.00*	30.75	3.4	Marsh & McLennan Cos Inc	NYSE	8.13	6.6	6.3	0.16	2.0	8.13*	7.63	524.7
Equifax Inc	NYSE	33.38	6.4	10.0	2.60	7.8	33.38*	31.75	28.4	PennCorp Finl Inc	OTC	9.25	1.4	11.1	0.00	0.0	9.25*	9.13	2.5
Excelsior Ins Co	OTC	17.25	0.0	10.8	0.70	4.1	17.25	17.25	0.6	Pinehurst Corp	NYSE	9.00	0.0	10.1	0.80	8.9	9.00	9.00	0.0
Farmers Group Inc	OTC	37.00	4.2	10.5	1.24	3.4	37.00*	35.50	291.8	Poe & Assoc Inc	OTC	12.25	2.1	10.0	0.60	4.9	12.25	12.13	22.6
First Colony Life Ins Co	OTC	66.25	0.8	18.8	1.02	1.5	66.25	65.75	6.0	Reed Stenhouse Cos Ltd	OTC	18.50	0.0	12.2	1.32	7.1	18.50	18.50	13.6
Foremost Corp Amer	OTC	30.00	1.7	8.4	1.12	3.7	30.00	29.50	114.2	Rollins Burdick Hunter Co	OTC								
Great West Life Assurn Co	OTC	210.00	0.0	6.2	10.00	4.8	210.00	210.00	0.0	AGENTS/BROKERS				AVERAGE					
Hanover Ins Co	OTC	32.50	-5.1	4.0	0.88	2.7	34.25	32.25	14.3										
Hartford Steam Boiler Insaptn	OTC	41.50	1.2	7.7	2.80	6.7	41.50	41.00	5.0	Conglomerates/Holding Cos.									
Jefferson Natl Life Ins Co	OTC	42.50	1.2	13.0	0.76	1.8	42.50*	42.00	3.7	American Express (Fireman's Fd)	NYSE	49.38	1.3	8.8	2.20	4.5	49.38	47.25	684.0
Kemper Corp	OTC	33.50	0.0	5.4	1.80	5.4	33.63	33.38	22.8	Anderson Clayton (Ranger/PanAm)	NYSE	31.50	-3.8	6.4	1.32	4.2	31.88	31.00	75.4
Lincoln Natl Corp Ind	NYSE	42.50	0.0	6.9	3.00	7.1	42.75*	42.50	74.6	Armco Inc	NYSE	19.00	-5.6	4.8	1.80	9.5	19.88	19.00	1,156.2
Mission Ins Group Inc	NYSE	27.00	1.4	7.0	0.80	3.0	27.00	25.50	61.8	City Investing Co. (Home Ins.)	NYSE	24.38	0.5	7.6	1.70	7.0	24.38*	23.75	616.6
Nationwide Corp Ohio	OTC	26.75	0.0	7.8	0.70	2.6	26.75	26.75	1.2	CNA Finl Corp (CNA)	NYSE	14.00	0.9	5.8	0.00	0.0	14.00	13.50	43.8
Northwestern Natl Life Ins	OTC	27.88	0.0	5.8	1.50	5.4	27.88	27.75	5.5	Control Data (Comm. Credit)	NYSE	30.63	-0.8	6.9	0.55	1.8	30.75	30.50	501.1
Ohio Cas Corp	OTC	43.13	-0.9	6.4	2.36	5.5	43.50	43.00	67.5	General Res Corp	NYSE	87.00	-2.2	10.2	2.16	2.5	88.63	87.00	252.9
Old Rep Intl Corp	OTC	18.88	-3.8	4.5	0.92	4.9	19.38	18.88	36.2	Gulf Utld Corp	NYSE	18.13	2.1	6.1	1.32	7.3	18.13	17.75	85.6
Preferred Risk Life Ins Co	OTC	21.50	-2.8	6.2	0.92	4.3	21.75	21.25	3.7	ITT (Hartford Group)	NYSE	47.75	-3.0	6.0	0.00	0.0	49.00	47.63*	750.8
Provident Life & Acc Ins Co	OTC	46.00	-2.1	5.7	2.44	5.3	47.00	46.00*	5.9	Optimum Hldg Corp	OTC	9.25	0.0	7.1	0.00	0.0	9.25	9.25	5.3
Ryan Ins Group Inc	OTC	20.50	-1.2	8.7	0.16	0.8	20.75	20.50	3.2	Sears Roebuck & Co. (Allstate)	NYSE	19.75	0.0	9.4	1.36	6.9	19.75	19.38	1,442.7
St Paul Cos Inc	OTC	46.38	1.9	6.2	2.60	5.6	46.38	45.13	290.5	Baldwin Utld Corp	NYSE	69.75	-0.4	10.0	1.60	2.3			

Put A&A's environmental risk planning to the acid test.

Alexander & Alexander's special National Environmental Action Team can help safeguard your company's assets. We view financial risk through your eyes. Look beyond the treatment, transportation and storing of hazardous wastes to the entire spectrum of pollution liabilities — from generation to disposal.

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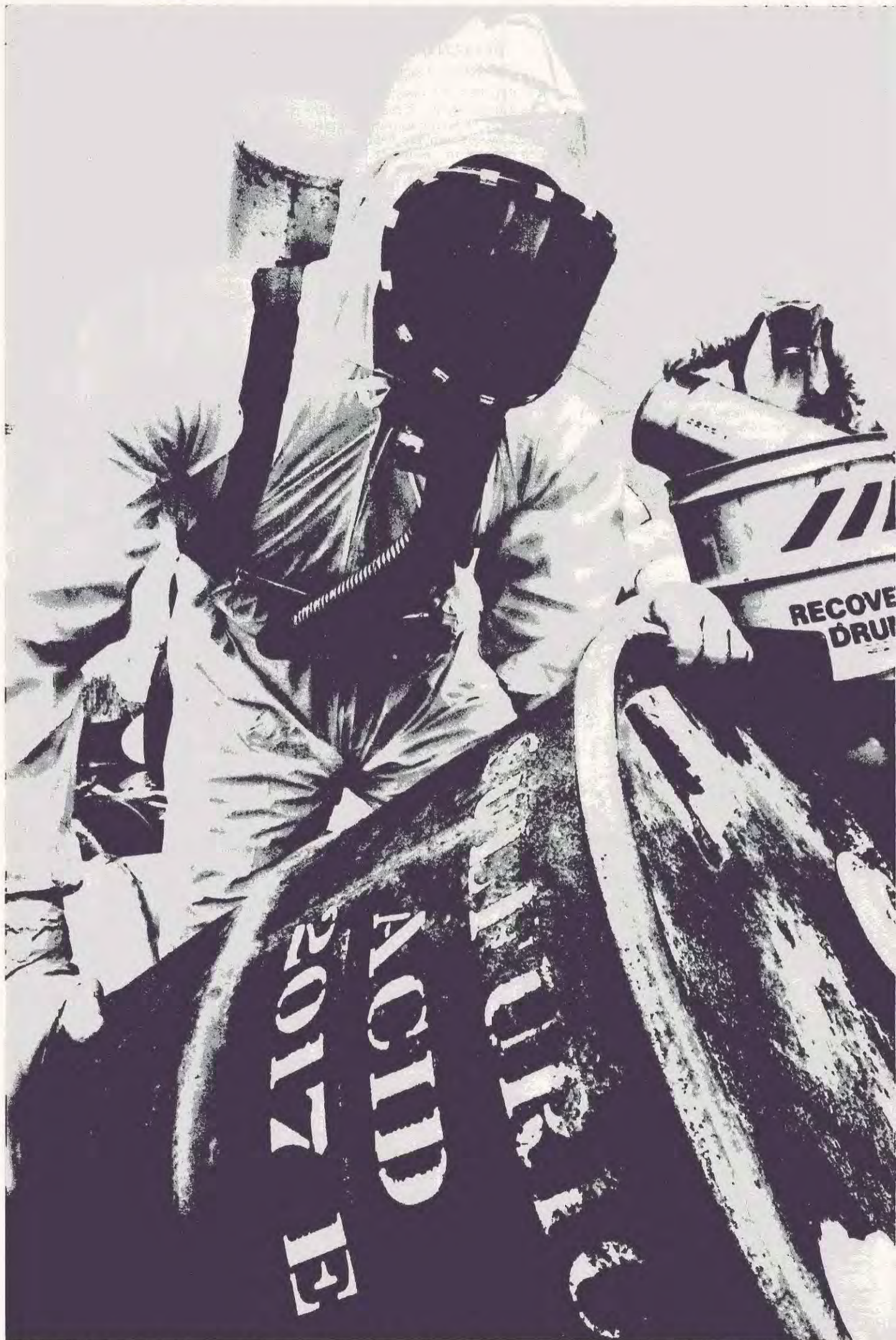
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Experts from Advanced Environmental Technology Corp. of Morris Plains, New Jersey, cleaning up improperly handled hazardous wastes.

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