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update

Manville settles with Peerless in California asbestos litigation

SAN FRANCISCO—Manville Corp. has settled with another of its liability insurers with which it is in litigation in a California court.

Manville said last week an "agreement in principle" was reached with Peerless Insurance Co. of Keene, N.H. Peerless wrote excess insurance for Denver-based Manville "generally in the 1950s," according to Manville Vp and General Counsel Richard B. Von

Continued on next page

Profit rebound

Brokers' earnings increase, but problems still remain

By LINDA J. COLLINS

The long-predicted profit rebound for the publicly held insurance brokers is finally here, brokers and analysts agree.

However, analysts are quick to point out that despite rising commercial insurance rates, which should hike brokers' revenues and profits, the brokers' problems are not yet behind them. Increased effort to place clients' coverages—and sometimes the inability to find the policy limits sought—could put a dent in the brokers' recovery.

"This is a very difficult market for brokers. It is chaotic," explained Joan Zief, vp at Merrill Lynch Capital Markets in New York.

"Brokers can't get the coverages they need in many cases, they must deal with cancellations, and they have to work very hard," she explained.

Leonard M. Wilson, special limited partner at L.F. Rothschild, Unterberg & Towbin in New York, echoed Ms. Zief's statement: "It's hard to know exactly how all of this will shake down. There is some leakage of the system. Rate increases can have a negative effect through loss of some business—it's not a one-way street."

But, Mr. Wilson added: "Big brokers gain market share in a tight market. The first-quarter results set a pattern. We should see strong results for the rest of the year."

Brokers admit they are concerned about finding the coverage their clients desire, but, in general, they say the tightening market provides them with an opportunity to display their skills and their clout to clients and prospects.

"Market strength is becoming the key (survival) skill," said Peter Densen, chief financial officer for Alexander & Alexander Services Inc. "We are well-positioned as one of the larger players in the market."

"We are very optimistic about the next 2½ to three years with regard to the operating environment for insurance brokers as a whole," said a spokesman for Marsh & McLennan Inc.

All eight publicly held brokers reported revenue gains in the first quarter.

"Overall the trends were quite good, and the brokers continued to excel in revenues progress," said Thomas G. Rosencrants, director of research and general partner of Conning & Co. in Hartford, Conn.

In addition, all of the brokers—with the exception of Frank B. Hall & Co. Inc.—reported increased net income in the first quarter.

Hall's income from continuing operations was up; however, the

Continued on page 4

First-quarter 1985 broker results
(In thousands of dollars)

	Gross revenues	% change	Net income	% change
Marsh & McLennan	$322,200	14.5%	$43,500	N/M
Alexander & Alexander	148,700	9.4	10,700	24.4%
Frank B. Hall	102,684	8.5	2,007	-47.8
Corroon & Black Corp.	56,732	22.0	4,270	20.6
Crump Cos. Inc.	20,274	36.6	1,973	43.0
Arthur J. Gallagher	19,332	22.9	3,125	47.6
Emett & Chandler	10,473	23.8	728	313.6
Poe & Associates	6,087	1.7	519	0.2

N/M-Not meaningful

Losses from warehouse fire could reach $200 million
Page 3

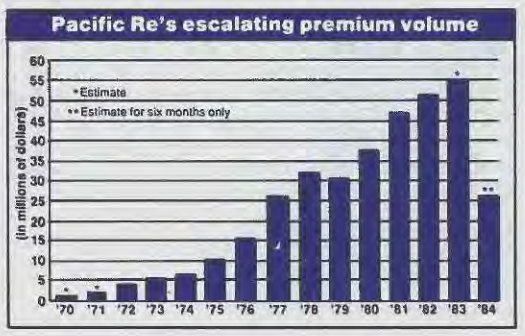
Mission audit qualified pending suits' outcome

By STEVE TARAVELLA

LOS ANGELES—After pulling off a quick infusion of capital two months ago that rescued it from near-death, Mission Insurance Group now is laden with a qualified audit statement.

Accountant Coopers & Lybrand qualified Mission's 1984 financials, citing the uncertain outcome of two lawsuits charging that a Mission Insurance Group subsidiary mismanaged a reinsurance pool.

"The absence of such a clean statement has placed a cloud over the group's head," according to court papers filed May 6 by Mission Insurance Group.



Coopers & Lybrand informed Mission Insurance Group in late March that the company's year-end 1984 financial statement would have to be qualified because of the contingent liability created by the lawsuits.

Mission Insurance Group, its underwriting management subsidiary Pacific Reinsurance Management Corp., and its insurance subsidiary Mission Insurance Co. were sued in February in two separate actions by Ohio Reinsurance Corp. of Celina, Ohio, and Federated Reinsurance Corp. of Piscataway, N.J.

Both companies are suing the Mission companies to rescind the reinsurance contracts in which they participate through a pool managed by Pacific Reinsurance Management. Mission Insurance Co. fronted certain reinsurance policies for some pool members and also retroceded risks to other companies.

The lawsuits seek to rescind from inception management, reinsurance and retrocession agreements involving more than 100 reinsurers and Pacific Reinsurance Management and Mission Insurance Co.

The suits also seek damages and legal costs.

The 15-year-old reinsurance underwriting pool ceased underwriting in mid-1984 with estimated ultimate premiums of $350 million. Over its 15 years, the pool entered into more than 2,000 reinsurance agreements with about 1,500 ceding companies, according to court papers.

The pool had 30 to 40 members each year, but the members changed often.

The management agreements between Pacific and the seven plaintiffs in the Ohio Re suit were in force, collectively, for 38 years.

If the retrocession plaintiffs win contract rescission, Mission Insurance Co. could be liable for the reinsurance policies it issued.

And, if reinsurance policies written by Pacific on behalf of other reinsurers in the pool are rescinded, those that purchased this reinsurance would lose their coverage. Their recourse could be suits for damages against Pacific and perhaps Mission Insurance Group.

Mission Insurance Group—MIG—contends in literally thousands of pages of answers to the Ohio Re and Federated Re complaints that it should not be held liable for the activities of Pacific Reinsurance Management. And, Pacific and Mission Insurance Co.—MIC—argue that any disputes should be submitted for arbitration and not litigated.

In March, MIG orchestrated a $75 million capital infusion from American Financial Group, which owned 49.9% of MIG's stock (*BI*, March 18). The additional capital will increase MIG's 1984 year-end statutory surplus

Continued on page 43

Aetna fires back at Gen Re with suit over asbestos losses

By STEPHEN TARNOFF

HARTFORD, Conn.—Aetna Casualty & Surety Co., hit with a lawsuit by General Reinsurance Corp. claiming that it does not have to pay reinsurance claims for an Aetna policyholder's asbestos losses, now is suing Gen Re.

In a suit filed in Connecticut state court April 19, Aetna contends that Gen Re breached reinsurance certificates with Aetna by refusing to reimburse it for losses paid to asbestos defendant Owens-Illinois Inc.

Aetna contends that the reinsurer "repudiated and continues to repudiate its obligations" to pay Owens-Illinois asbestos claims, which it reinsured from 1960 to 1977.

Aetna also argues that it complied with all of the terms and conditions of the reinsurance certificates issued by Gen Re and is, therefore, entitled to reimbursement.

The suit asks the court to award unspecified damages to reimburse Aetna for the money owed under the reinsurance contracts; interest on any payments Aetna makes to Owens-Illinois for any liability that the reinsurance contracts require Gen Re to assume; and the costs of the suit.

The Aetna lawsuit comes more than two months after Gen Re filed its suit on Feb. 8 against Aetna in state court in New York.

The Gen Re suit asks for a declaratory judgment that it does not owe Aetna any reinsurance payments under the facultative reinsurance certificates, because Aetna failed to promptly notify it of asbestos claims against Owens-Illinois.

Gen Re's suit asks the court to rescind the last two years in the series of reinsurance contracts because it contends Aetna, during 1975 and 1976 renewal negotiations, withheld information about claims it had already received from Owens-Illinois of Toledo, Ohio (*BI*, March 4).

Besides filing its own suit in the Hartford court, Aetna also filed a motion in the New York state court seeking dismissal of the Gen Re suit, contending that New York is not the proper forum for the litigation.

The separate seven-page Aetna suit filed in Hartford asserts that from Sept. 1, 1960, through Sept. 1, 1977, General Re contracted to reinsure portions or dollar amounts of Aetna's policies with Owens-Illinois through facultative reinsurance certificates.

The certificates provided that with respect to the dollar amount or portion of the policies Gen Re would assume, General Re would "follow that of (Aetna) and except as otherwise specifically provided. . .be subject in all respects to all the terms and conditions of Aetna's

Continued on page 44

update

Manville settles with Peerless

Continued from previous page

Wald. He declined to reveal the amount or other terms of the settlement until final details are worked out.

The agreement is conditional upon final approval of a reorganization plan for Manville, which sought reorganization in August 1982.

Manville already has settled with six of its primary and excess insurers for approximately $426 million in coverage and cash. Manville and other asbestos producers are currently litigating with about 20 insurers in California Superior Court in San Francisco.

Also, in the first verdict in the California case, the jury found Pacific Indemnity Co. issued a policy to Fibreboard Corp. in 1956 and that the policy limit was $500,000 per person and $1 million per occurrence and there was no aggregate limit on bodily injury.

Pacific Indemnity, a Chubb Corp. unit, had claimed the policy never existed, while Fibreboard had claimed it was issued for 1956.

The Fibreboard case is one of several disputes in the trial's first phase, which addresses in part whether policies actually existed.

"The company is very happy" with the decision, an attorney for Fibreboard said. An attorney for Pacific Indemnity said the company is "considering all post-judgment options."

Agent Orange suits dismissed

NEW YORK—A U.S. District Court judge has dismissed a lawsuit against the U.S. government by seven companies that manufactured Agent Orange seeking to have the government contribute to last year's $180 million settlement of a class action suit (*BI*, May 14, 1984).

And, in a separate decision last week, Judge Jack Weinstein also dismissed the claims of about 280 Vietnam veterans who did not participate in that settlement.

In the suit against the government, Judge Weinstein said it was within the government's right not to contribute to the settlement. An attorney for one of the chemical companies said an appeal of the decision dismissing the suit against the government is likely.

In his ruling on the veterans' claims, Judge Weinstein said the veterans did not demonstrate a link between their exposure to Agent Orange and any health problems they claim to have suffered. The veterans opted out of the class to pursue their individual cases.

An attorney for Monsanto Co., one of the chemical companies, said the veterans' attorneys have already indicated they will appeal.

The chemical companies participating in both suits were Monsanto of St. Louis; Dow Chemical Corp. of Midland, Mich.; Diamond Shamrock Corp. of Dallas; Uniroyal Inc. of Middlebury, Conn.; T.H. Agriculture & Nutrition Co. of Kansas City, Mo.; Hercules Inc. of Wilmington, Del.; and Thompson Chemical of Newark, N.J.

Wellington deadline extended

NEW YORK—A May 29 sign-up deadline by which a group of insurers and policyholders were to unconditionally endorse an agreement to establish an asbestos claims-handling facility has been extended until June 19. The original deadline was Sept. 13, 1984, and the deadline has been extended several times since then.

A spokesman for members of the group that have conditionally signed what is known as the Wellington agreement said the deadline was extended because all paper work is not completed.

The agreement would establish a out-of-court facility to handle asbestos claims and would resolve most of the disputes between asbestos defendants and their insurers (*BI*, April 9, 1984).

Fireman's Fund pension dispute

NEWARK, N.J.—Fireman's Fund Insurance Co. will pay $5.2 million to 1,600 participants in the pension plan of an insurer Fireman's Fund bought in 1964, ending a 10-year legal battle.

Last week, U.S. District Court Judge Dickinson Debevoise approved the settlement, calling for payment of $400 to $38,000 to each of the participants. The average payment will be about $3,000.

The dispute began after Fireman's Fund purchased American Insurance Co. of Newark. Fireman's Fund froze American's pension plan, which had a small surplus, and transferred the participants to Fireman's Fund's plan. Litigation developed in 1975 when Fireman's Fund said it wanted to terminate the American plan. The plan's surplus by then had grown to $11 million. The plan participants sued, contending the money belonged to them.

After payment of the $5.2 million to the participants and various other fees and payments, the American plan may have a surplus of $28 million to $30 million, which Fireman's Fund will collect, said Irvin Freilich of Hannoch Weisman, a Roseland, N.J., law firm representing Fireman's Fund.

Novato, Calif.-based Fireman's Fund, though, believes the remaining surplus is substantially less, a spokesman said.

The settlement is independent of Fireman's Fund's decision to terminate its own pension plan to recover $120 million (*BI*, May 6).

index

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Ideal policyholders facing assumption deal deadline

By JUDY GREENWALD

NEW YORK—Ideal Mutual Insurance Co. policyholders have until Wednesday to reach any assumption agreements with the New York Insurance Department so that their claims can bypass state guaranty funds, a department spokesman says.

Talks are continuing between major policyholders who essentially self-insured their risks and the department on possible assumption agreements, under which other insurers would take over Ideal's outstanding liabilities.

The only agreement so far to be finalized was with The Great Atlantic & Pacific Tea Co. in February (*BI*, Feb. 4).

Some observers doubt there will be any to follow the A&P agreement, but Andrew A. Alberti in the New York department says there is "a good possibility that we may be able to conclude and effectuate one or two of these by that deadline."

Mr. Alberti is special counsel to Joseph A. LaMonte, who is special deputy superintendent of insurance.

Meanwhile, the Illinois Insurance Department continues to negotiate assumption agreements with policyholders of the Ideal Mutual affiliate in Illinois, Optimum Insurance Co., after reaching an assumption agreement with Dart & Kraft Inc.

And, at least three state guaranty funds have begun assessing insurers to cover claims by Ideal Mutual policyholders in their states, despite a plethora of problems and uncertainties in handling Ideal Mutual claims facing all guaranty funds.

Ideal Mutual was put into liquidation in February, after the New York Insurance Department found the insurer was $155 million short of meeting its liabilities (*BI*, Jan. 14, 21, 28; Feb. 4, 11).

Many of the policyholders whose coverage provided for reinsurance with a captive insurer or reimbursement of Ideal Mutual under paid-loss retrospectively rated insurance policies have sought to transfer remaining liabilities from their prior programs to other insurers and avoid claims payment by state guaranty funds.

The New York department had intended its agreement with A&P to become the standard for such agreements. But, each policyholder's arrangement with Ideal differed—from retro plans to fronting for captives with

Continued on page 40

Court tells California comp fund to pay millions to municipalities

By ROBERT A. FINLAYSON

LOS ANGELES—About 365 California cities and counties should be reimbursed by the State Compensation Insurance Fund for millions of dollars in benefits paid to disabled firefighters and police officers, according to a California judge.

The decision came in a class-action suit filed by 11 cities and counties on behalf of all California cities and counties whose workers compensation risks were insured by the state workers compensation fund.

Plaintiffs' attorneys estimate the fund owes compensatory damages of at least $78 million, plus punitive damages. Attorneys for the fund, however, say that figure is far too high.

A hearing on damages has not yet begun.

The suit claimed the state fund was required to pay full salary benefits for up to one year to disabled firefighters, police officers and other safety workers injured on the job. The fund had been paying only a temporary disability payment to such injured employees. Those payments covered only a portion of the injured workers' salaries, with the municipalities making up the difference.

After a two-week trial, Los Angeles Superior Court Judge Eli Chernow ruled last month the fund was liable for reimbursement of the full-salary continuation benefits paid by the cities and counties to injured firefighters, police officers and other safety workers.

Athough the fund has paid only temporary disability payments for

Continued on page 40

Firms settle blast claims for $30 million

By MEG FLETCHER

DEDHAM, Mass.—Four defendants will pay $30.2 million to settle litigation stemming from a 1981 fire and explosion at an aerosol can plant that killed five workers.

The plaintiffs had originally requested $68 million, including $15 million in punitive damages, on behalf of four of the five production employees who were killed and 14 others who were injured.

The accident occurred at a Holbrook, Mass., plant operated by Aerosal Research Lab Inc. and owned by Amadel Corp., affiliates of Holbrook-based Barcolene Co.

The explosion occurred when a highly flammable propellant used in aerosol cans, isobutane gas, allegedly leaked during the installation of a 20-year-old can-filling machine made by Kartridge Pak Co. of Davenport, Iowa.

Continued on page 44

New Hampshire acts on captive bill

By JERRY GEISEL

New Hampshire may join its neighbor Vermont as a domicile for captive insurance companies.

And, a bill that would make Hawaii a domestic tropical island domicile for captives rivaling foreign islands will be carried over to the next legislative session.

So far, five states authorize captive insurance companies: Colorado, Tennessee, Vermont, Delaware and Virginia.

The New Hampshire House of Representatives last month approved legislation that is closely patterned after Vermont's captive statute, the most liberal of any domestic captive law.

"I'm very positive about the captive legislation," said Rep. B.P. Smith, R-Amherst, the author of H.B. 696.

"There is no reason why we can't do as well as Vermont," which is the fastest-growing domestic domicile, Rep. Smith said.

Although H.B. 696 was scheduled for a hearing late last week in the Senate Insurance Committee, Rep. Smith was not sure what kind of a reception the bill would get. "The Senate is unpredictable," he said.

But, Rep. Smith believes New Hampshire is a natural captive domicile because of its proximity to the Boston financial market and the low cost of doing business in the state.

Across the Pacific, the Hawaii House of Representatives did not take any action on captive legislation that also is modeled after Vermont's landmark 1981 captive law.

The Hawaii captive bill, H.B. 1136, introduced by Rep. Mitsuo Shito, D-Waipahu, automatically carries over to next year's legislative session.

The legislation is designed to build Hawaii's position as a leader in the world financial market, Rep. Shito told the House of Representatives.

Continued on page 33

EBC contest entries

Only one week remains to submit entries to the 13th annual Employee Benefits Communications Awards competition sponsored by Business Insurance.

All entries must be received by May 20 to qualify for the competition, which recognizes outstanding employee benefit communications programs in five categories: booklets, personalized communications, audiovisual programs, total communication programs and special projects.

Awards in each category will be presented Aug. 5 during the *Business Insurance* "Communicating Benefits" conference in New York City.

The competition is open to all U.S. and Canadian employers with no restriction on size. To obtain entry forms and rules for the competition or information on *BI's* upcoming conference, contact Ann Vazquez, Communication Services Department, *Business Insurance*, 220 E. 42nd St., New York, N.Y. 10017; 212-210-0137.

errors & omissions

- The sample letter that appeared in the April 29 Perspective section concerning the taxation of employee benefits was drafted by Personnel Research Associates of Verona, N.J. The Perspective article wrongly credited Pension & Group Services Inc. in Kalamazoo, Mich. Donald G. Lightfoot, a vp at Pension & Group Services and author of the Perspective article, regrets that credit for the sample letter was not properly attributed in the Perspective article.

Warehouse fire losses may hit $200 million

By MICHAEL BRADFORD

PORT ELIZABETH, N.J.—Dozens of insurance companies, adjusters and tenants are still tallying the damage from a February fire at a 500,000-square-foot warehouse that may be the worst fire loss at a single site in U.S. history.

Unofficial estimates have put losses at between $100 million and $200 million. If losses top $100 million, the Feb. 21 fire at the 15-year-old structure would be the largest fire loss at one building in U.S. history, according to the National Fire Protection Assn.

A 1982 fire that destroyed a K mart Corp. distribution center in Morrisville, Pa., resulted in a $100 million loss of property and merchandise (*BI*, July 19, 1982).

But, no one expects a final damage tally to be completed soon at the New Jersey warehouse, which was owned by a partnership that leased space to three major tenants, which in turn subleased space to some 50 other companies.

"It will be a long time before there is a reliable indicator of how much was lost," said Norman Sade, an attorney with Bud Larner, Kent, Gross, Picillo, Rosenbaum, Greenberg & Sade in Short Hills, N.J., the law firm that is representing the owners of the warehouse, MTM Partners Ltd.

"We've heard from $100 million to $200 million," Mr. Sade said, referring to estimates of the loss. "There was a lot of ocean cargo and Japanese products, some of it quite expensive," he said.

One attorney investigating losses for an insurance company called litigation in the accident "a lead-pipe cinch." Another said, "I think we will eventually see the most complex litigation ever in the New Jersey courts."

Continued on page 42

UPI / Bettmann Newsphotos

The fire, which destroyed the massive Port Elizabeth warehouse, burned out of control for 14 hours and smoldered for days.

'The system's a mess'

State regulations muddy work comp waters: Self-insurers

By CAROL CAIN

CHARLESTON, S.C.—Employers and state regulators agree the workers compensation system for self-insurers is a mess and say everyone must share the blame.

"Unless you have gone through trying to get a company self-insured. . .you won't realize what a screwed-up mess it is. Nothing is done the same way twice," said John J. Molloy, manager of workers compensation for K mart Corp. in Troy, Mich.

"I've called two states to ask for the requirements and they asked: 'What do you think they should be?'. . . .I've had states ask me: 'What do you think the excess (insurance) should be?'" said Mr. Molloy, noting that K mart self-insures its workers compensation risks in just about every state.

Self-insurance of workers compensation risks is regulated by individual states. The problems of dealing with those various state regulations were discussed by Mr. Molloy and other speakers during the annual meeting of the National Council of Self-Insurers, held April 28-May 1 in Charleston.

In order to self-insure, an employer usually must post a security deposit—generally in the form of a surety bond or letter of credit—with the state. And, the employer must have excess insurance, but the amount of the deposit and the excess insurance required vary from state to state. Employers also must supply various financial data to the state and often have to pay taxes and assessments.

The regulation and administration of these self-insurance requirements usually is handled by the state workers compensation commission or bureau, which often is part of the state Department of Labor or Department of Commerce. In less than a dozen states, however, self-insurance of workers compensation is regulated by the Department of Insurance.

Two state workers compensation administrators—the current president and the immediate past president of the International Assn. of Industrial Accident Boards & Commissions—also spoke at the NCSI's annual meeting, giving the regulator's side of the story.

"We've got problems within the system," admitted Will S. Defenbach, president of the IAIABC and chairman of the Idaho Industrial Commission in Boise.

He noted that the docket of disputed claims is getting crowded, cases are becoming more complicated and the value of claims has gone up by "hundreds and hundreds of percent."

Part of the problem, he said, is the increase in workers compensation litigation.

"For a claimant to have a good lawyer, most of the time is to the advantage of the claimant," said Mr. Defenbach, himself an attorney. "But we're seeing more and more protracted

Continued on page 14

State and federal issues affecting employers that self-insure their workers compensation risks were among topics discussed at the annual meeting of the National Council of Self-Insurers, held April 28-May 1 in Charleston, S.C. Some 165 people attended the event, at which state work comp regulators explained their problems to the self-insurers. Meeting coverage continues on pages 10-22.

New rate system for workers comp set in three states

By CAROL CAIN

A new system of computing workers compensation rates for construction job classifications is slated to go into effect July 1 in Oregon, Illinois and Maryland.

Employers in other states and in non-construction industries are expected to keep an eye on the new rating system, since some believe it might be adopted by other states that then may use it to calculate rates in all job classifications.

Some of these other states already are considering the concept for the construction industry and may have it in effect by year-end, while others are looking at either of two other options:

- Capping the amount of payroll used to compute work comp rates.
- Basing rates on the number of hours worked by employees.

The plan approved by insurance departments in Oregon, Illinois and Maryland—known as the Loss Ratio Adjustment Program (LRAP)—allows for the use of an additional credit or debit factor on top of experience modification credits or debits when an employer's workers compensation premium is calculated.

An employer's loss ratio from the three previous years is used to figure both the credit and debit factors.

Under LRAP, total premiums collected in the state would remain the same. However, employers with a good loss experience would presumably pay lower premiums, while those employers with a bad experience record would pay higher premiums, said Robert L. Hilton, senior vp with the National Council on Com-

Continued on page 38

Employers rally workers to fight benefit tax

By DIANNE LYNN KASTIEL

Employers are starting to call out the troops—namely thousands of their employees—to help defeat proposals to tax employee benefits.

"We're urging our employees to write to their senators and as many representatives as they can," said Jerry Murbach, manager of benefits planning at First Interstate Bankcorp in Los Angeles.

"We want to have the people who would be the most affected be the ones to write to Congress. We thought (they) would be the most eloquent voices to be heard in Congress," Mr. Murbach said.

A small, but growing, number of employers—including First Interstate, FMC Corp. and Tenneco Inc.—are organizing their own grass-roots effort to dissuade the federal government from taxing employee benefits.

And employers that want to launch an employee lobbying effort on their own can use already existing programs designed by benefits organizations and insurer trade groups to spread the word among employees.

Although these programs take varied approaches, all have the same goal: to convince congressmen to vote against proposals to tax benefits.

For instance, as part of its plan to overhaul the Internal Revenue Code, the Treasury Department has proposed taxing employees on employers' health insurance contributions that exceed $70 a month for individual coverage and $175 a month for family coverage.

The Treasury plan also would tax employees on employer contributions for term life insurance, dependent child care, van pooling and group legal benefits, as well as wipe out 401(k) salary reduction plans and tax-free cafeteria benefit programs (*BI*, April 8; Dec. 3, 1984).

First Interstate's effort began a few months ago when the company's senior personnel executive, Jerry Shott, wrote letters to the chairmen of each of the company's 35 affiliates. The executives were urged to write their U.S. senators and U.S. representatives and voice their opposition to taxation of employee benefits.

Then, the company's 36,000 employees also were asked to write their legislators, and were provided by the company with three sample letters upon which they could model their own.

The company is planning a follow-up message in its newsletter, Mr. Murbach said, "just to remind people to write if they haven't already."

Having embraced a "strength in numbers" philosophy, the company is considering involving its retirees in a future letter-writing campaign. It also may launch another campaign solely in opposition to the proposed elimination of 401(k) plans.

"We're just doing our bit to keep benefits as untaxed as possible," Mr. Murbach said.

Chicago-based FMC Corp. conducted a letter-writing campaign similar to First Interstate's in January. The company's 16,000 salaried employees were sent letters, signed by FMC Chairman R.H. Malott, asking them to make their views on benefit taxation proposals known to their representatives.

Continued on page 39

Brokers' results

Continued from page 1

broker's bottom-line profitability was damaged by a $2.95 million loss attributable to Jartran Inc., Hall's truck leasing subsidiary that recently emerged from Chapter 11 reorganization proceedings.

At Marsh & McLennan, the largest of the brokers, gross revenues rose to $322.2 million in the first quarter of 1985 from $281.3 million in 1984, a 14.5% increase. The broker reported net income for the first quarter of $43.5 million, compared with a $28.3 million loss in the first quarter of 1984. That loss was attributable to unauthorized investment activities that triggered a $110 million unusual first-quarter 1984 charge (*BI*, June 25, 1984).

Herbert E. Goodfriend, securities analyst for Prudential/Bache Securities Inc. in New York, said that "as a consequence of their very strong first quarter, we have raised our estimates for Marsh & McLennan for the year."

"On the insurance services side," an M&M spokesman said, "there was a gradual increase in earnings beginning in the fourth quarter of 1984. Now there is dramatic upward movement, although this is somewhat offset by the limited market capacity in some lines for the large risks we are trying to place."

He said capacity problems have forced M&M to redirect much of its efforts to the location of markets for certain risks. But, in spite of this shift in focus, M&M is still experiencing strong new business growth, he said.

Alexander & Alexander reported gross revenues of $148.7 million for the first quarter of 1985, up 9.4% from $135.9 million in 1984. The broker's net income rose to $10.7 million in the first quarter, a 24.4% increase over the $8.6 million A&A reported in first-quarter 1984.

"Alexander & Alexander's earnings were up, but we were disappointed in them" said Mr. Rosencrants of Conning & Co. "Their earnings improvement didn't meet my expectations because of their weak revenue growth."

However, Mr. Goodfriend of Prudential/Bache Securities said: "A&A was in line with our expections. Their slower gains are understandable because they are more decentralized, and it takes longer for improvements to show. I expect improvements in their results over the rest of the year."

A&A's Mr. Densen said: "Our first-quarter results indicate very strong operating results, in line with our expectations."

He said A&A is continuing to see rate increases and is having "more difficulty in completing coverages," which delays placement.

Hall's gross revenues increased 8.5% to about $102.7 million in the first quarter of 1985 from $94.7 million in the first quarter of 1984. However, the broker's net income dropped 47.8% in the first quarter of 1985 to slightly more than $2 million from the previous year's $3.85 million first-quarter figure, due to losses from Jartran.

In contrast, Hall's income from its insurance services operations for the first quarter was up 26.5% to almost $5 million in the first quarter of 1985 from nearly $4 million in first-quarter 1984.

Stanley Martinez, Hall's senior vp of finance, said: "We are pleased with the insurance services results and feel that those results speak to the improvement of conditions in our industry." He would not comment on Jartran, saying it was too early to make predictions on the subsidiary's future performance.

Analysts had mixed reactions to Hall's first-quarter report.

"Hall had the only low earnings results," Mr. Rosencrants said. "They were disappointing and caused me to lower my estimate."

He said Hall "is no longer a pure brokerage play. Management is spending a lot of time on Jartran. Hall is now a hybrid insurance broker. When classifying insurance brokerage firms, you might want to put Hall in a separate category."

According to Mr. Wilson, the "first quarter of 1985 was a fairly satisfactory quarter for insurance brokerage revenues for Hall."

Corroon & Black Corp.'s first-quarter revenues jumped 22% to $56.7 million for first-quarter 1985 from $46.5 million in 1984. Its net income increased 20.6% to $4.27 million in the first quarter of 1985 from $3.54 million in 1984.

The broker realized this first-quarter gain despite declaring "an estimated loss on disposal" of nearly $2 million stemming from the decision of Minet Holdings P.L.C., the Lloyd's broker in which C&B holds a 20% interest, to dispose of its Lloyd's underwriting agencies (see story, page 34).

"I would be very surprised if the momentum that seems to be building would reverse itself before the end of the year. We expect to see continuing improvements in our operations," said Stephen Crane, senior vp and chief financial officer for Corroon & Black. "We've done a good job of soliciting new business, and now it's paying off for us. Our results were in line with our expectations."

The Crump Cos. Inc. reported first-quarter 1985 gross revenues of about $20.3 million, a 36.6% jump from $14.8 million in 1984. Crump's net income for the quarter was nearly $2 million, a 43% increase from $1.4 million in 1984.

James M. Power, Crump's president and chief operating officer, said that one of the reasons for its gain is that two agencies it acquired in the second quarter of 1984 boosted the brokerage firm's 1985 first-quarter income.

"This large of an increase probably won't hold true for the rest of the year. . .but we will have a good strong year," he said.

He said other strong contributors to earnings are its excess/surplus and reinsurance operations.

Arthur J. Gallagher & Co. had an increase in gross revenues of 22.9% for the first quarter of 1985, to $19.3 million from $15.7 million in 1984. Its first-quarter net income increased 47.6% to $3.1 million in 1985 from $2.1 million in 1984.

"Gallagher showed a husky pace of gain," observed Mr. Goodfriend.

Patrick Gallagher, the firm's vp, said, "We're extremely satisfied with our results. I think they speak well of the position we are in. We have been talking about the need for risk management and self-insurance when the market hardened," he said.

Mr. Gallagher added, "We offer one product that most of our competitors do not—the ability to help our clients establish self-insured funds. When there is no insurance available, someone still has to step in and handle claims, tell them how to fund a self-insured plan, etc."

Gross revenues for Emett & Chandler Cos. Inc. increased 23.8% to $10.5 million from $8.5 million in 1984. Its net income soared 313.6% in the first quarter to $728,000 from $176,000 in 1984.

Lawrence H. Patton, vp and chief financial officer for Emett & Chandler, said: "All of our start-up operations are now beginning to mature. We are seeing the results in our income as these operations begin to come into their own."

Poe & Associates Inc. reported only minor increases in net income and gross revenues for the quarter. Its gross revenues rose to slightly more than $6 million in 1985 from slightly less than $6 million in the first quarter of 1984. Its net income rose to $519,000 in first-quarter 1985 from $518,000 in 1984.

A spokesman said Poe's actual experience was better this year, but "two or three extraordinary items inflated last year's first quarter results. We expect improvements through the rest of the year." ■

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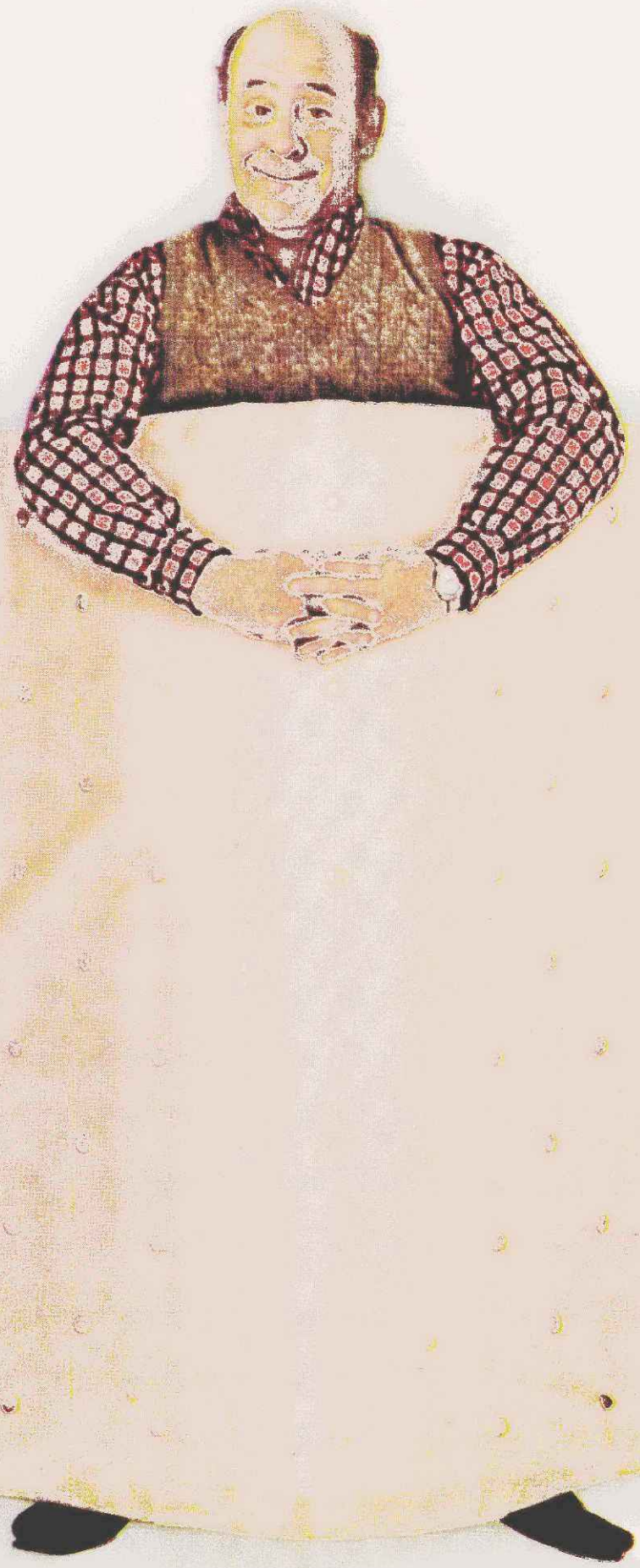
A FEW WORDS ABOUT OVERTREATMENT.



Sometimes it seems that there are more tonsillectomies in this world than tonsils.

It would be laughable except that overtreatment helps drive up medical costs, which, as any employee benefit manager knows, is no laughing matter.

At Connecticut General, a CIGNA company, we're not simply wringing our hands and raising our rates. We're doing something to help contain costs.

Our Medical Management Information system pinpoints overtreatment through DRG-based analysis. For example, are your employees exceeding the expected length hospital stay for their diagnosis? Which providers routinely admit on Friday for Monday surgery? Is there an excess of short hospitalizations that could have been outpatient procedures?

Information like this, along with utilization review programs and employee education, helps our clients hold down their costs. We have instituted a hospital preadmission certification program in many areas around the country, with more on the way. That's a great step in cost containment because we are examining treatment plans before charges are incurred.

If you'd like to know how we can help reduce your company's costs or want more information, call your broker, your local Connecticut General representative, or call Chip Sharkey, Marketing Vice President, at (203) 726-8500.

Benefit costs won't be contained by providing bigger and bigger bandages, but by finding the correct programs for your company's needs.

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CIGNA

opinions

Don't pass up this opportunity

MOST EMPLOYEE BENEFIT MANAGERS are passing up a one-time snap opportunity to influence public policy and to shine in front of their management and employees.

They aren't informing their employees about proposals to tax employee benefits and ways to lobby for the preservation of tax-free employee benefits.

They should be—for the cause and for themselves.

Everyone agrees that congressmen listen most to their constituents: the voters. To convince Congress that employee benefit plans should remain tax-free will take an outpouring of lobbying by the people who send the members to Congress.

Employee benefit managers are in the best position to inform the public on the issue.

Employee benefit managers who act not only will help influence public policy on benefit taxation, but also will promote their own interests.

Developing a program for employee lobbying and taking it to top management will enhance the visibility of an employee benefit manager. And it won't be in the context of reporting the bad news on higher benefit costs or with a hand out for more money for a new benefit plan. A benefit manager who proposes such a program will be exhibiting proactive management, an esteemed trait.

We can't imagine any corporate management refusing such a proposal.

Starting the program also will polish the employee benefit department's image with employees, an image becoming somewhat tarnished with successive benefit cuts and a harder line on medical claims payments.

Informing employees about the benefit taxation issue and helping them lobby against it with suggested letters will help rebuild the benefit department's image as management that cares about employees and the value of their benefit programs.

But, as we report this week, so far only few benefit managers are seizing this opportunity. Frankly, this inertia surprises us.

Benefit managers are generally pretty organized folks. So, it can't be that the benefit managers don't know how to develop a program to encourage employees to lobby.

Benefit managers also are generally pretty good communicators, since communicating employee benefits is part of their jobs. So it can't be that they don't know how to present a lobbying proposal to management or how to develop the program for employees.

So there's really no excuse for any benefit manager not to act. Unless, of course, you're a benefit manager who wants benefits taxation.

letters

'Quick answer' on waste-site cleanup is flawed

To the editor: Speaking only for myself, the editorial on Superfund called "A Quick Answer Is Needed" (*BI*, April 22) contains one serious flaw. It suggests that the insurance industry should "cover their policyholders' share of the cleanup costs." If so, the suggestion is neither equitable nor sensible.

Most of the costs involved arise because insureds for years have been dumping the wastes that are generated by their normal operations. Their conduct lacks the element of fortuity that is an essential element of insurance. Moreover, it has long been clear that the insurance industry did not intend to cover such exposures in their general liability wordings. To require these insurers to pay the costs of cleaning up pollution generated by their insureds' normal operations is hardly right.

It is also not very sensible. If successful, the effort would drain substantial sums from the liability insurers' already depleted surplus. (One current estimate suggests that about one-third of the entire property/casualty industry's surplus would be needed merely to clean up EPA's 1,800-site "baseline".) Moreover, the result would be to transfer the liabilities of thousands, or tens of thousands, of polluters to a much smaller number of insurers. Surely, this is the antithesis of insurance.

Worst of all, this exercise is potentially self-defeating. Insureds can doubtless dragoon their general liability insurers into defending them in hazardous-waste site cleanup cases. However, this will only complicate and delay the process of cleaning up the sites. Preliminarily, it becomes the insurers' duty to provide a vigorous defense, typically under reservation of rights because there are serious coverage issues.

Experience also suggests that the presence of the insurers shifts the focus from arriving at a sensible cleanup plan to the much more complex and contentious issues of whether the cost is covered by insurance, and, if so, whose and in what measure. This is likely to necessitate protracted and costly litigation over the cleanup of every one of the thousands of sites identified or to be identified as containing hazardous waste.

Two likely results will be to delay cleanup of existing sites and to discourage the establishment of the financial responsibility system for hazardous wastes contemplated by the Congress. Your proposal for apportionment of the cleanup costs for all hazardous-waste sites appears to overlook these fundamental difficulties.

James A. Greer II
New York

■ *Editor's note. The author is a partner with LeBeouf, Lamb, Leiby & MacRae in New York but he stresses that these views are his own and not necessarily those of his firm or the firm's clients.*

Insurers simply cannot afford to pay for hazardous-waste cleanup

To the editor: The proposal in your editorial (*BI*, April 22) that the insurance industry should have to cover its policyholders' share of the so-called cleanup costs of many of the nation's hazardous-waste sites is certainly a quick answer. However, as with many quick answers, it is not a particularly good one!

You are careful to omit under which type of coverage these huge potential costs should be met. This is only to be expected. The most likely candidate to foot the bill is the comprehensive general liability policy. There is no justification for attributing these costs to a general liability policy any more than costs of car maintenance should be met by an auto policy.

The question is not "Who should pay?" but "How can the money be put together?" You correctly judge the cost as billions of dollars. Unfortunately, it is considerably more billions than the surplus of the U.S. property/casualty industry.

If those who, like you, should know better add encouragement to a system that is already intent on finding coverage where none was given and then spreading coverage over sufficient years to satisfy its own inflationary demands, it is inevitable that major U.S. insurers will either file Chapter 11 to protect themselves or become insolvent.

In either event, they will not be able to fund these costs while they collect the billions needed through increased premiums.

In the end it does not matter whether the money comes from the taxpayer's pocket or the consumer's pocket, since these pockets are in fact the same and it is from this pocket that the money must eventually come.

The problem is a fair-seeming method of collection. The fatal flaw with your suggestion is that it cannot work and may bankrupt the U.S. insurance industry.

Dr. R.M. Aickin
Director
ERAS (International) Ltd.
London

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Experience rating available for small groups

To the editor: Richard C. Mattingley of Ruland & Mattingley in his letter (*BI*, Feb. 11) feels that experience rating is not available to groups of 50 lives or so and that cost-containment measures will not benefit employers.

First of all, I'd like to mention that Manufacturers Life (an A-plus Best-rated company) and U.S. Administrators of California have recently launched a multiemployer trust for 3 to 99 lives in which we use the group's past experience to calculate the group's renewal premium (without using experience refunds). Also, we will use the experience of smaller groups to a more limited extent to derive their renewal premiums.

Also, cost-containment efforts of any insured plan do ultimately benefit employers. These features lower the insurer's loss ratio, which eventually filters down to the employer in lower-than-average rate increases. This is the essence of the Manufacturers/U.S.A. Patient Precertification Protection Plan.

Jerry Loterman
Associate Actuary
Group & Pension Benefits Division
The Manufacturers Life Insurance Co.
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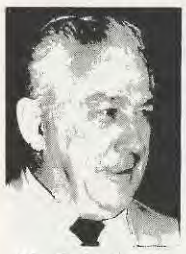
Regulators, self-insurers diagnose system's ills

Continued from page 3

hearings. . . .Some of these lawyers are driving these cases for financial gains.

"But not all the blame rests with the claimant's bar. Some insurance companies and some self-insured employers have contributed to the problems by treating claims as tort claims, rather than as workers compensation claims," according to Mr. Defenbach.



Mr. Defenbach

And, he admitted, some of the problems may be the fault of the administrators themselves.

"Perhaps we've been too slow," he said.

But, another state workers compensation administrator notes that some of the caution on the part of state regulators is caused by the recent rash of bankruptcies of self-insurers.

"Insolvency and bankruptcy—these words strike fear in the heart of all of us," said James C. Pullin, secretary-treasurer of the Georgia State Board of Workers' Compensation in Atlanta.

"My main concern is that self-insurers and insurers pay claimants' benefits in timely and legal amounts, and that they have the money to do so," Mr. Pullin explained.

Mr. Pullin said he favors an "insolvency pool" or guaranty fund for self-insurers "to be used if needed."

"We are approached by those (employers) that want to self-insure. . . They think they will see an immediate savings in dollars, but they don't see the liability," Mr. Pullin said.

He also would like to see regulations that would require third-party administrators of self-insured plans to make state administrators aware of any financial difficulties of the employer.

Mr. Pullin

"Many times we don't know there's a problem until claimants start calling," Mr. Pullin said.

Mr. Pullin added, however, that most states don't have adequate personnel to audit or monitor self-insured accounts.

Mr. Molloy and other self-insurers agree.

"But self-insurers themselves. . .don't even have adequate administrators. We're going to have to start policying (third-party administrators). They should be certified. If we don't start doing it, (state regulators) will do it for us," Mr. Molloy said.

Mr. Pullin said that state regulators should push for adoption of the IAIABC's model set of rules and regulations for workers compensation administrators. The model rules were adopted by the association in 1980.

The model calls for setting several requirements an employer must meet in order to self-insure. Those requirements are in several areas, including:

- Ratio of tangible net worth to annual self-insurance retention.
- Ratio of current assets to current liabilities.
- Ratio of debt to tangible net worth.
- Profit and loss history.
- Organizational structure and managment background.
- Compensation loss history and proposed excess insurance coverage.
- Ratio of net worth to annual compensation premium.
- Guarantee of the parent company that the parent will be responsible for the liabilities of its subsidiary.
- Surety bond or other security.
- Claims administration.
- Safety engineering program.

However, some self-insurers said that it is impossible to set arbitrary prerequisites for self-insurers, as the IAIABC model suggests.

For instance, the financial ratios in the food industry are not the same as those in manufacturing, but workers compensation administrators do not consider those differences when drafting regulations, noted Douglas F. Stevenson, a Chicago attorney who represents the Illinois Manufacturers Assn. Mr. Stevenson also is executive director of the NCSI.

Mr. Minnick

"States are trying to come up with blanket standards for ease of administration," said Daniel Minnick, who is an attorney with LTV Steel Co. in Cleveland and the outgoing president of the NCSI.

But, Mr. Minnick said states should review the financial situation of each employer that is seeking to self-insure. And, if the employer's financial condition is found to be adequate, then that employer should be granted the privilege to self-insure, Mr. Minnick said.

"If there's a problem, then additional securities could be required," he noted.

But, Mr. Minnick and other employers echoed Mr. Molloy's call for employers to become active in the area of self-insurance regulation now, instead of waiting for new regulations to be handed down or for the responsibility of administration of self-insured programs to be shifted to state insurance departments.

Mr. Molloy

"They're starting to apply insurance rules to self-insurance already," Mr. Molloy said.

"And there's a movement afoot to put this regulation under insurance departments, to be regulated like insurance," he said.

He suggests self-insurers set up a program of reserves using a loss development factor. Loss development factors are used to predict the ultimate cost of workers compensation claims.

Loss development factors help account for the fact that liability loss reserves are estimates and that these estimates are likely to differ from actual final losses. The loss development factors are based on the historical difference between estimated loss reserves and actual losses paid.

This type of reserving should provide for the injured worker and satisfy regulators, according to Mr. Molloy.

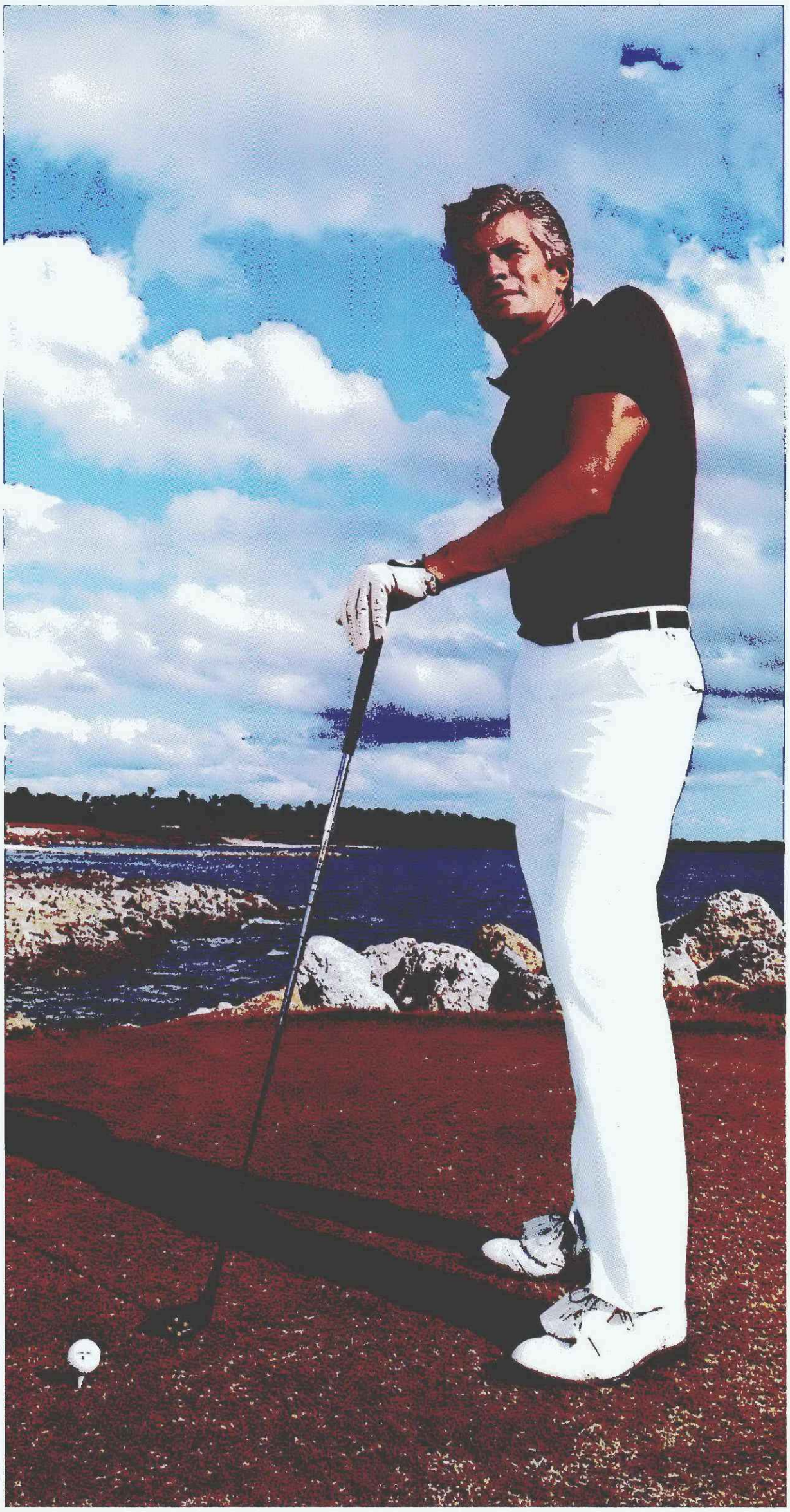
"Loss development factors will be the coming thing," predicted Mr. Molloy, explaining that this loss reserving method is based on empirical actuarial data rather than on a company's individual case experience.

But the main problem in setting up such a reserving program is finding an actuary that knows about self-insurance "and won't reserve like an insurance company," Mr. Molloy said. He added that the National Council on Compensation Insurance—the New York-based workers compensation ratemaking, research and statistical organization—helped him in setting up K mart's work comp loss reserving program.

Both the NCSI and the IAIABC are continuing to work together to develop regulations for self-insurance.

"A lot of these problems are (self-insurer's) problems, for failing to participate (in the regulatory process)," said Joseph E. Burns, manager of workers compensation for Aluminum Co. of America in Pittsburgh. Mr. Burns also is the NCSI's new president.

Mr. Burns encouraged employers and self-insurers to discuss workers compensation with state administrators in an effort to develop fair and workable regulations. ■



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• Free copies of the 1985 **directory of claims service locations,** published annually by Underwriters Adjusting Co., are now available. The directory has a state-by-state listing of all UAC branch, service, drive-in and franchised claims adjusting offices throughout the United States. State maps outline areas covered by each office, and toll-free numbers are given for UAC's 24-hour Dial-A-Claim service. To order, write UAC Marketing Department, 2 Corporate Place South, Piscataway, N.J. 08854.

• A free reprint of **"Benefit Basics: Health Care Cost Containment,"** published in the monthly newsletter of the International Foundation of Employee Benefits, is now available. Aimed at those who are new to the field of employee benefits, the article explains current efforts to contain the rising cost of health care, including health maintenance organizations, preferred provider organizations, wellness programs and health care coalitions. Order from the Public Relations Department, IFEBP, P.O. Box 69, Brookfield, Wis. 53008-0069.

• The new 1984 "Medicare Directory of Prevailing Charges" provides information that can aid physicians and Medicare patients in determining the **average costs of health care services** in their area. Published by the Department of Health and Human Services, the 291-page directory displays 1984 Medicare reimbursement data based on physician charges submitted during calendar year 1983. Prevailing charges are listed for 29 medical services provided by general practitioners and for 100 services provided by medical specialists. Charges for seven durable medical equipment items, such as wheelchairs, walkers and hospital beds, also are included. The directory costs $9. Order by stock number—017-060-00161-5—from Department 36-LS, Superintendent of Documents, Washington, D.C. 20402.

• Educate your employees in **how to recognize stress-inducers** with a new guide from Krames Communications. The 16-page illustrated booklet shows employees how to differentiate between negative and positive stress, balance stress reactions and practice relaxation techniques. Tips for maintaining a positive attitude and lifestyle with exercise and nutrition are also included. For a free sample copy, write Krames Communications, Department STR 31, 312 90th St., Daly City, Calif. 94015.

• Industrial Risk Insurers is offering an **information kit** which, in observance of IRI's 95th anniversary, contains a history of IRI from 1890 to 1985. A discussion on IRI's Active Loss Prevention program; a six-page brochure describing OVERVIEW, IRI's management program for loss prevention and control; and a copy of The Sentinel, IRI's quarterly magazine of loss prevention, also are included. For a free copy of the kit, contact Ms. P.A. Sasso, Industrial Risk Insurers, 85 Woodland St., Hartford, Conn. 06102.

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NCSI members get update on individual states

By CAROL CAIN

CHARLESTON, S.C.—The National Council of Self-Insurers says one of its goals for this year is to encourage dialogue among workers compensation self-insurers in different states.

And, such a dialogue took place at the NCSI's annual meeting, held last month in Charleston. Representatives from Ohio, Texas, Michigan, New Jersey, Washington, Louisiana and California discussed self-insurance developments in their states.

The NCSI hopes such discussions will keep its members up on what is going on in other states and help them dealing with changes in their home states.

Ohio

Although the Ohio Legislature has not adopted any significant legislation since January 1977, the state Supreme Court has been active, especially in the past five months, noted Richard D. Schafstall, who is director of safety and environmental health with the Cincinnati Gas & Electric Co. and president of the Ohio Self-Insurers Assn.


Mr. Schafstall

In the 1984 general elections, two Democratic judges on the Ohio Supreme Court were replaced with Republican judges. The Ohio Self-Insurers Assn. was instrumental in the election of the Republican judges, Mr. Schafstall said.

But before the new judges were sworn in, the old court handed down several decisions that "dealt severe blows to employers in the area of workers compensation," Mr. Schafstall said (*BI*, Feb. 25).

And, he added, the court's latest decision, which was written April 17 by one of the new Republican members, is not much better for employers.

The case, *Oswald vs. Connor*, involved a zookeeper at the Cincinnati Zoo whose ailment began with wrist pain that later was diagnosed as carpal tunnel syndrome. The injured worker also developed severe respiratory problems and, although he admitted to having been a heavy smoker, he attributed the problem to an extremely rare disease called atypical avian tuberculosis, Mr. Schafstall said.

The zookeeper also had diabetes, high blood pressure and coronary artery disease.

When he died of a heart attack in 1976, his widow filed for death benefits, claiming the death was caused by occupational disease under the workers compensation law. She argued that her husband's heart attack had been caused by the frustration of not having his physical problems properly diagnosed. And, she said, the stress, anger and resentment were repressed, causing continuing depression and burnout. She said that led to significant chronic stress, accelerating his coronary artery disease and ultimately causing his death, Mr. Schafstall said.

The majority of the Supreme Court justices held there appeared to be "a chain of direct and proximate causes demonstrating that death was directly and proximately accelerated by the occupational disease" because the acceleration would not have occurred "but for" the disease and the worker's reaction to it, Mr. Schafstall said.

Other employer groups in Ohio, including the Ohio Manufacturers' Assn., believe this new ruling "completely rewrites the state's workers comp law" and will have "far-reaching and costly implications for employers."

In addition to dealing with the Supreme Court rulings, the self-insured community also is waiting for the Ohio Bureau of Workers' Compensation to complete its new self-insurance audit rules and for the Industrial Commission of Ohio to complete its new operating guidelines and security requirements for self-insurers.

"Obviously, there is much activity in Ohio, and we certainly are not out of the woods yet," Mr. Schafstall said.

Texas

The Lone Star State is one of only three states that prohibit private employers from self-insuring their workers compensation exposure, but a 3-year-old group—the Texas Self-Insurers Assn.—is working to change that.

The Texas Legislature currently is considering two bills that would allow workers compensation self-insurance.

One bill, H.B. 1430, permits employers to become self-insured and requires self-insurers to post a minimum of security deposits. Administration of self-insurers would fall to the Texas Industrial Accident Board. The bill is in the state's House Committee on Business and Commerce.


Mr. Keady

The bill is identical to one drafted in 1983, said Richard C. Keady, an insurance representative with Shell Oil Co. in Houston, who is on TSIA's board. The TSIA helped draft the bill, he said.

The sponsor of H.B. 1430, Rep. Bob Leonard, R-Fort Worth, also introduced H.B. 1785, which Mr. Keady said was drafted by the insurance industry.

H.B. 1785 contains several eligibilty requirements that severely restrict the number of employers that could self-insure, Mr. Keady said.

For instance, an employer must have a combined worth of at least $3 million; have average net profits of at last $300,000 per year for at least three of the preceding five years; have a net working capital of 2½ times the amount paid for workers compensation insurance for the last full policy year; and have an average Texas payroll during the two most recent accounting years that would result in a manual rate premium of at least $500,000.

The bill also requires self-insur-

Continued on next page

State roundup

Continued from previous page

ers to participate in an assigned risk pool. No other state requires self-insurers to participate in such a pool to provide coverage to high-risk employers, Mr. Keady said.

H.B. 1785, which currently is in the House Committe on Insurance, also calls for the establishment of a self-insurers guaranty association.

The Texas Legislature meets every other year and is scheduled to adjourn May 27. Since no hearings have been set for either bill, it appears they will die at the end of the session, Mr. Keady said.

The TSIA is working with the Risk & Insurance Management Society and the Texas Assn. of Business to draft a workable bill for the 1987 legislative session. The bill would have to be filed next year, and Mr. Keady is hoping other interests, including insurers and labor representatives, will help the TSIA put together a self-insurance bill. A drafting meeting is scheduled for July, Mr. Keady said.

And, he said, in addition to drafting legislation, the TSIA and others interested in workers comp and self-insurance also must educate legislators.

Michigan

The self-insurance scene in Michigan is "pretty healthy," according to attorney Thomas P. Chuhran, executive secretary of the Michigan Self-Insurers' Assn.

Mr. Chuhran

The workers compensation picture also has improved for Michigan, in sharp contrast to the situation just a few years ago, he reported.

"In 1978-79, we were seeing a drain of Michigan business leaving the state," he said. But the plight of Michigan businesses became a hot issue in the press and ultimately workers compensation reforms were drafted and passed.

Now business is coming back, Mr. Chuhran noted.

He advised employers in other states who want or need workers compensation reform to "take full advantage of the press" and for business coalitions to press for changes.

New Jersey

A compromise between New Jersey employers and the state AFL-CIO five years ago apparently cinched lower workers compensation premiums, and self-insurers are hoping judicial review will uphold the intent of those changes.

"Five years ago, New Jersey made extensive revisions to its law. The stated purpose of its changes was to make available additional dollars for benefits to seriously disabled workers, while eliminating, clarifying or tightening awards of compensation in order to provide genuine reform and meaningful cost containment for New Jersey employers," said J.J. Purtell, department chief of benefit administration with AT&T Technologies Inc. in Newark, N.J.

Mr. Purtell

Among changes in the law were increases in the maximum total disability benefits to 75% of the state average weekly wage, from 66.7%; and an increase in funeral allowance to $2,000 from $500.

But the reform also set a limit on attorneys' fees in cases where the employer made a bona fide offer of compensation; established requirements for determining compensability for heart and stroke claims; and created a new definition of permanent total disability, which required a 75% physical and mental impairment before other factors such as age and education can be considered.

The past four years have seen a significant decline in workers comp premiums, and some balance has been restored to the system, Mr. Purtell said.

Washington

Self-insurers in Washington may be forced to go back to the commercial workers compensation insurance market because brokers are reporting that security bonds for self-insurers are scarce, reported Gail Kelly, personnel specialist in charge of safety, workers compensation and group health benefits for Whatcom County, Wash.

The Washington Department of Labor & Industries requires a minimum $200,000 bond, securities or escrow deposit for self-insurers in the state.

Meanwhile, employers in this Pacific Northwest state are wondering what will become of the "literally thousands" of vocational rehabilitation firms that poured into the state since 1982, when a mandatory vocational rehabilitation law was adopted.

That law has since been repealed, and new rehabilitation regulations are being drafted.

Louisiana

Self-insurers are teaming up with trial attorneys in Louisiana to beef up the security deposit requirements for self-insuring in the state, said Ray Fredlund, president of the 1½-year-old Louisiana Self-Insurers Assn. Mr. Fredlund also is a senior administrative speacialist with Dow Chemical Co. in Plaquemine, La.

Currently, the state requires proof of immovable property assessed at $25,000 or more, or a $25,000 surety bond or Treasury bond.

Self-insurers and trial lawyers have tentatively agreed on a "modest" bond of $200,000, the creation of a post-assessment fund in case of insolvencies and a temporary advisory board, Mr. Fredlund pointed out.

California

A post-bankruptcy assessment fund is up and running in California in the wake of the bankruptcies of three self-insurers, reported Joseph E. Markey, legislative advocate for the California Self-Insurers Assn., one of the directors of the California Self-Insurers Security Fund (*BI*, April 15).

Mr. Markey

Now self-insurers are embroiled in a class-action lawsuit brought by forensic physicians against the self-insurers, insurers and third-party administrators in the state.

The suit charges there was a lengthy delay in the payment of bills submitted by people who provide services during compensability hearings—people like physicians, interpreters and photocopying businesses (*BI*, April 1).

And on still another front, self-insurers are working with other employers and other interest groups in California to develop workers compensation reform legislation that would base benefits on actual lost wages rather than an arbitrary schedule of benefits.

Such a wage-replacement system work comp is now used in Florida and Louisiana. ■

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AND AFFILIATED COMPANIES

Speak out about legislation, NCSI official tells employers

CHARLESTON, S.C.—Workers compensation managers must be more vocal in letting lawmakers know how pending legislation may affect their business, says a longtime board member of the National Council of Self-Insurers.

"You've got to let your legislative people know in your company exactly how you feel," M. Russell Guy, legislative chairman of the NCSI and workers compensation counsel with Bethlehem Steel Corp. in Bethlehem, Pa., said during the NCSI's annual meeting in Charleston last month.

Both federal and state work comp programs are subject to legislative change and employers should monitor legislation, he said.

The NCSI and the Risk & Insurance Management Society have been and will continue to be a strong lobbying force, but individual employers also must establish links with Congress and their state legislatures, Mr. Guy said.

For instance, the 1984 Deficit Reduction Act, which prohibits employers from taking a tax deduction on workers compensation reserves, overrules the victory self-insurers attained in the *Kaiser Steel Corp. vs. United States of America* decision, Mr. Guy said.

Referring to DEFRA, he said, "The IRS was very slippery in this deal. . .it didn't even mention workers compensation."

This year, the issue is taxing workers compensation benefits received by injured workers, Mr. Guy said. If a tax is approved, he said, labor unions will pressure state legislators to increase benefit levels to offset the tax.

"This will increase employers' costs," he said, adding some type of tax reform during the current session is "a good possibility."

He noted employers have two strong allies in Washington: Sen. Bob Packwood, R-Ore., chairman of the Senate Finance Committee, and Rep. Charles Rangel, D-N.Y., ranking member of the House Ways and Means Committee.

These are just two of the federal lawmakers employers and their representatives should contact regarding pending or needed work comp legislation, Mr. Guy said.

Some bills on workers comp and occupational disease already are before Congress and more are expected this year, according to Bruce C. Wood, Republican labor counsel for the House Committee on Education & Labor.

For instance, S. 100, introduced by Sen. Robert W. Kasten Jr., R-Wis, would establish a federal product liability law.

"The bill reverses the drift toward a no-fault (workers compensation) system by reincorporating negligence as the standard of liability, restricting punitive damages and, essentially, better segregating workers compensation and tort by eliminating subrogation, indemnification and contribution, and by reducing the amount of a third-party award by the amount of workers compensation benefits paid or payable," Mr. Wood said.

Although it won't relieve the asbestos producers of their current product liability litigation burden, Sen. Kasten's bill would benefit them in the future, Mr. Wood said. While it may have some impact on a plaintiff's ability to win tort cases, the greatest significance for asbestos producers from S. 100 is its segregation of workers comp benefits and tort award, he said.

"The bill does not force-feed the workers compensation system, but in reducing a third-party award regardless of whether workers compensation benefits have been awarded, it does reduce the incentive to file a tort suit to the exclusion of a workers compensation claim.

"To the extent the workers compensation system awards benefits for asbestos disease, the primary cost of disease will revert to employers—where it should be—and that shift will concomitantly relieve asbestos producers of this additional liability, as is appropriate," he said.

In his remarks, Mr. Wood also pointed out that Sen. Christopher J. Dodd, D-Conn., has proposed an amendment to S. 100. The amendment calls for an alternative compensation plan that would make it easier for victims to receive payment for damages in cases where it is difficult to prove whether the manufacturer or consumer is at fault (*BI*, April 1). ■

these claimants differed significantly from those to which all busy trial lawyers, judges and insurance adjusters are exposed," Mr. Marks said. ■

WCRI names officers, announces plans

By CAROL CAIN

CAMBRIDGE, Mass.—A corporate director of risk management will join forces with two insurance industry officials to lead the Workers Compensation Research Institute, a 1½-year-old independent long-term research organization.

J. Burns Smith, director of risk management and insurance for McDermott International Inc. in New Orleans, is the new vice chairman of the organization.

Ian R. Heap, a senior vp with Crum & Forster Corp. in Morristown, N.J., is the new chairman of WCRI. He replaces John L. Eavenson, WRCI's first chairman, who recently retired as vice chairman of the board at Liberty Mutual Insurance Co. in Boston.

And, Rodger S. Lawson, senior vp with the Alliance of American Insurers in Schaumburg, Ill., is the secretary/treasurer.

The WRCI, created in October 1983, is in its first year of gathering workers compensation research. It is currently tackling three projects, and is planning to conduct three more, according to the institute's first annual report.

The three studies underway are:

- "Multiple Benefit Programs: Income Replacement by Workers Compensation and Other Programs."
- "Resolving Occupational Disease Claims: The Use of Medical Panels."
- "Asbestos-related Claims: Factors Affecting the Use of Workers Compensation Systems."

According to the WCRI, injured workers are eligible not only for state workers compensation benefits but also for a variety of other public and employer-paid income benefit programs, including Social Security, mandated state disability insurance, private long- and short-term disability insurance and group health and life insurance.

In the study on multiple benefit programs, which is due to be completed in September, the institute will attempt to determine whether there are any significant gaps or overlaps among these benefit programs, and the amount of combined benefits provided to injured workers from these programs.

The results of the study are expected to provide data for assessing the adequacy of workers compensation benefits in light of other available income benefits; for evaluating the effect of multiple programs on the incentives to return to work; and for understanding the opportunities for improved coordination among these programs.

Another study undertaken by WCRI will examine occupational disease claims and the use of medical panels in these cases.

"Recent years have witnessed an increase in the number of long-latency occupational disease claims and a growing concern in many quarters about the future increase in these types of claims. These disease claims present many difficult evidentiary problems for claimants, defendants and adjudicators," according to WCRI's annual report.

Diagnosis of occupational disease —whether the disease can be directly linked to the employee's job and whether the person's disability is total or partial—will be examined in this study.

It also will assess the potential of medical panels to improve the handling of occupational disease claims in workers compensation systems.

The results, due in June, will guide those who advocate the broad use of medical panels, as well as others who design legislation to create panels or improve existing ones, the report notes.

The study on asbestos-related claims will zero in on the Massachusetts workers compensation system and the federal Longshoremen's and Harbor Workers' Compensation Act.

It also will examine the decisions of asbestos claimants and their attorneys nationwide to use a workers compensation system in place of or in addition to the other major sources of compensation available to them, such as the tort system, Social Security or private disability and health insurance.

This study also will attempt to determine whether state workers compensation systems are failing asbestos claimants, and will evaluate the need for and likely impact of a federal occupational disease compensation system.

In addition, WCRI also plans to examine the causes of workers compensation-related litigation, the cost-effectiveness of rehabilitation and the effect of American Medical Assn. guidelines on permanent partial disability benefits.

WCRI also is building a central data bank for information on the viability and operations of the various state and federal workers compensation systems.

Such data is available piecemeal from insurance rating bureaus, insurers, self-insurers, state and federal agencies and throughout the research community. However, it will be in a more usable form once it is compiled for the data bank, the WCRI report notes.

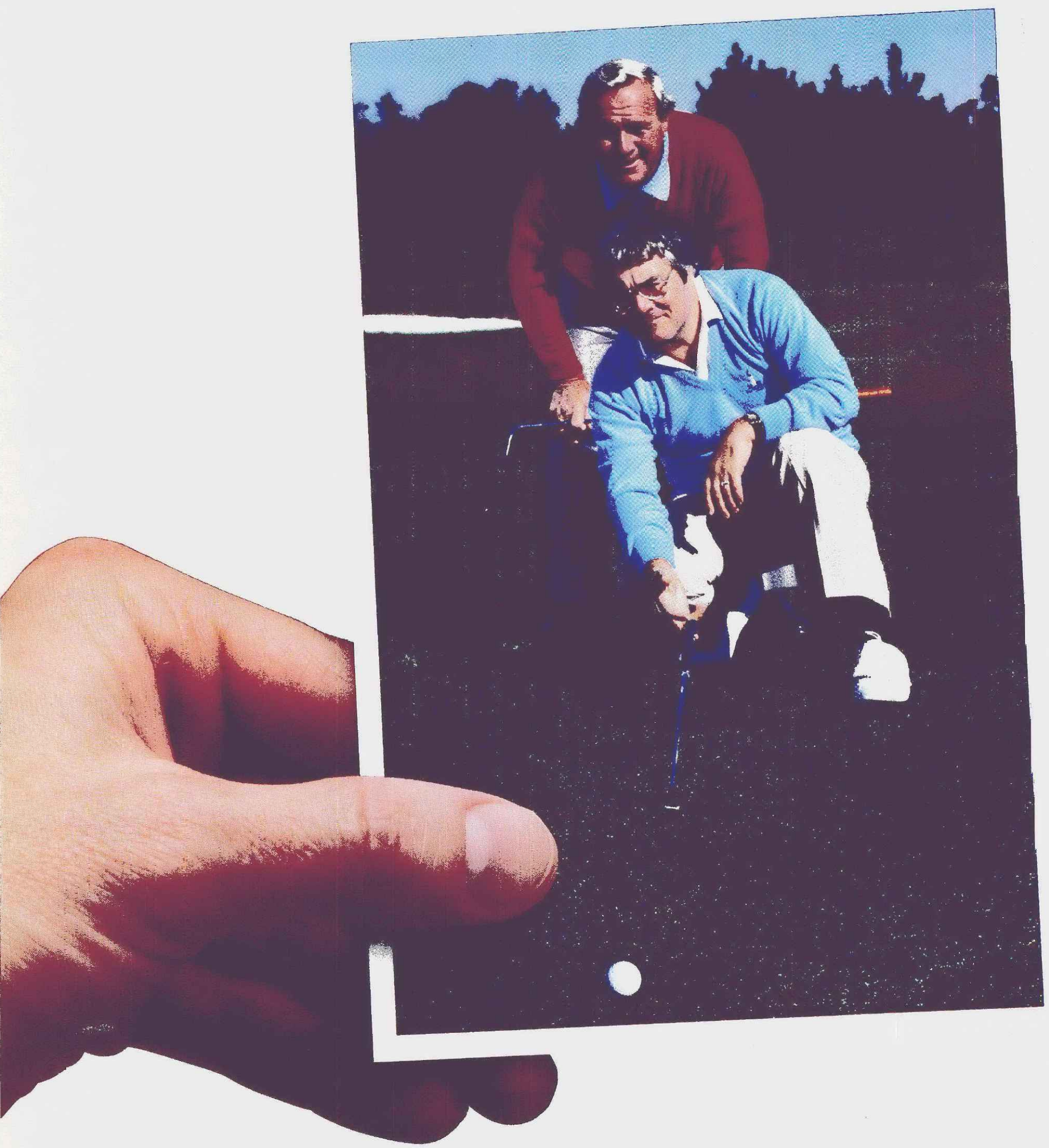
Membership in WCRI is open to employers, insurers and employer and insurer associations. Members occasionally are asked to contribute their expertise and data to the institute research activities.

As of last month, WCRI had 41 members, reflecting an increase of almost 50% since its founding.

Annual membership assessments are based on company size, and can range from $500 to $10,000 for employers and from $500 to $50,000 for insurers. Associations are assessed $30,000 a year.

Information about WCRI is available from Executive Director, Richard B. Victor, 245 First St., Suite 402, Cambridge, Mass. 02141; 617-494-1240. ■

"Last fall, Arnie taught



me how to read a green."

Jerry Silver Miami

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Last year Jerry Silver teamed up with golfing great Arnold Palmer at the Unionmutual Seniors Golf Classic. For Jerry and other insurance professionals, it was the chance of a lifetime — playing side-by-side with golf's legendary Seniors.

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The Travelers

Fairness is good business

ENTERPRISING LOOK AHEAD

Unless insurance industry acts now, grim future may not be science fiction

By John R. Dunne

LET ME START with a confession. I watch television, all the old series reruns that come through the night. I've done it on the road in hotels and motels and other hostelries in Albany and Washington and other places where the legislative business has taken me.

This confession is no idle muttering of guilt. For, the electronic images of one recent night showed me a nightmare that I and many others involved in insurance regulation long have feared might someday be very real.

Here's what happened:

As the odd but familiar shape of the starship Enterprise floated through the darkness of space, I could hear Captain Kirk make his log entry. What got my attention were not the words of "Trekky" talk, like "star date," "energize," and "beam down," but more familiar terms like "insurance," "state regulation," "annual statements," "quarterly reporting"—what was going on?

Here's how it went:

KIRK: Star date, April 1, 2085. The damage from Klingon sabotage is severe. Our engine generates no thrust. The Enterprise continues to drift. I have asked Spock to investigate and report.

Mr. Spock approaches the captain.

SPOCK: With the captain's permission, I believe we've found the real trouble. The main burner is down and must be replaced. We need to be towed to a friendly planet to effect repairs. But, the problem, it seems, is not mechanical but financial.

KIRK: How's that?

SPOCK: It seems, sir, that no one will tow us. And, even if they did, no service station will repair our engine.

KIRK: Impossible!

SPOCK: No, it's quite the reality. Let me explain to the captain. When we signaled for the tow, they asked if we had insurance. We signaled back with our group policy number, the one all starships have as proof of insurance in case they have an accident and need to pay for repairs while on a mission. Well, Captain, when we did, they told us that Light Year Mutual, the insurance company that covers the Enterprise and all the other starships, was not able to cover any claims—that, sir, as I believe you Earthlings used to say, the company had gone "belly up."

KIRK: Ridiculous, Spock! I know the Star Fleet risk manager personally. We were at the academy together. She'd never let this happen. And, what happened at the Federation Insurance Department? Those lads are supposed to be on top of things like this.

SPOCK: I knew the captain would have questions. That's why I sent our Chief Engineer Scott to investigate. He was beamed down to a nearby service planet and has just returned.

Scott, his brow furrowed, approaches the captain.

KIRK: Well, Scotty, what's this about our not having any insurance money to buy our way out of this pickle?

SCOTT: Aye, Captain, it's true. We dinnah have insurance, ni a bit. And, if we dinnah have it, we cannah pay, so they dinnah want to help us.

KIRK: Spock, have you confirmed all this?

SPOCK: Affirmative, Captain. It is all very logical. No insurance, no repairs.

KIRK: Can't anyone help us? What about Star Fleet Command?

SPOCK: Negative, Captain. They said that without any coverage, they can't risk sending another starship to rescue us. All they gave us was the 800 number of the Federation Insurance Department—they're in charge of this sort of thing.

KIRK: Well, have someone call that number.

SPOCK: We have, sir. No answer—the phone just keeps ringing.

KIRK: There must be someone on the service planet who can help us.

SCOTT: Aye, sir, the fellow who runs the towing place gave me this card. It tells you to call when you have an insurance problem.

KIRK: Good work, Scotty. Let's beam down there, see this guy and get to the bottom of things.

The three appear again, seated in what seems like a reception area of a small office.

KIRK: What do you make of this place, Spock?

SPOCK: Very Earthlike furnishings, captain. Antique, the type used in America around the year 2000.

Just then the door opens and a man in a three-piece pin-stripe suit and a 10-gallon hat appears and motions the three visitors into his office. He introduces himself as Mr. Brokerman and asks them what brought them to his office, and they tell their story. Mr. Brokerman listens knowingly and seems to be weighing carefully what to tell them. He leans forward over his desk blotter before he speaks.

BROKERMAN: Well, I sure would like to help you dudes, but it may be too late. Your insurance company might have been big, but it can't help you now. It's gone plumb to Boot Hill.

SPOCK: Such a statement requires an explanation.

BROKERMAN: Well, I'm just the man to give it to you. You see, I've been in this business all my life, and I've had a chance to study up real good on what was going on. The trouble started long before your ancestors were born, way back in the days long before the Federation, before my own great-great-grandpappy came out here and opened an insurance office.

SPOCK: Indeed. I remember learning of those days in school on Vulcan. It was the time when Earth people were most emotional and short-sighted.

BROKERMAN: Indeed they were. That is why they lost lots of good things, and that's why you boys are stuck here on this service planet.

KIRK: What do you mean? What good things?

BROKERMAN: One of the good things was that they kept all the insurance companies under real close watch, in tiny little jurisdictions. They called 'em states. Yep, state regulation was what they called it. It wasn't perfect. But, compared to the way things are now, it worked damn well.

People who had problems when their companies went belly up got help real fast. And, hardly any companies went belly up.

The folks that did the regulating were real proud about the job they were doing. They did such a good job that the big-time financial wheeler dealers had to use all kinds of tricks to outfox 'em. They had to get real smart lawyers to form holding companies. Then they moved money all over the place, from company to company and from state to state, and

Continued on next page

perspective

Transport Indemnity a needless sacrifice

By Timothy Morton

speaking out

I HAVE JUST RECENTLY witnessed, lived through and survived the death of an insurance company. Not, I regret, as an heir, but rather as the downstairs butler who has been omitted from the will.

I'm referring to the early demise of Transport Indemnity Co. (*BI*, May 6) It should be everybody's concern as to why it met its untimely end, even though it represents only a drop in the ever-shrinking bucket of capacity and regardless of the 200-plus bodies who have been and are being dumped on the street with a couple of days vacation pay and a week's severance for every year worked, compliments of American Financial Corp. of Cincinnati, Transport's ultimate parent.

American Financial, needing a fast infusion of cash to patch up another insurer in its stable—Mission Insurance Group, whose hull has been mortally pierced—is in the process of raiding Transport's larder and moving all its assets over to Mission (receiving a 13.5% interest-bearing note in the bargain), leaving a smoking shell and an awful lot of bodies. Sadly, they also have not shown the slightest interest in assisting any of these newly unemployed with inter-company moves, job searches, etc., but merely dumped them out the door.

Going down the drain with Transport Indemnity Co. also are all its carefully negotiated treaties—in force, intact and in operation. They are consigned to that place across the River Styx where all good treaties finally end up, which is a pity in today's market, when valuable and viable capacity is so greatly needed in the industry. Dumping it is like discarding your filled canteen in Death Valley.

The tears would not flow quite so heavily if this had all come about because of shoddy underwriting and heavy financial losses; if treaties were having difficulties being renewed; and if Transport had been one of the price cutters now paying for its sins.

But, the fact is that the company was in sound condition—despite some parental dipping into its surplus—and on the verge of a good year. The excess and special risk property/casualty book in Los Angeles, for example, ended 1984 with a pure loss ratio of under 30% on business written during that year. And, 1985 was expected to be an excellent year.

The question should be raised as to whether a relatively small but fairly successful company should be sacrificed *in toto* for another concern that, in this case anyway, apparently had not been well looked into or after by its parent, American Financial.

If last summer, when they were hungering for more of Mission's stock, American Financial had taken a closer look at Mission's writings, had any sort of feeling for sensible pricing or checked out what the marketplace was doing, they might have corrected this situation a lot more satisfactorily.

They could, in fact, have questioned the first bag lady they met on Wilshire Boulevard about the state of the market, and she, along with practically everybody in the industry, could have told them to look beyond the gross writings. Mission not only was one of the leaders in price cutting, it was largely responsible for its continuance. It did not take a very high IQ to tell where such irresponsible rate cutting would end for those indulging in it.

Talk to a trucking underwriter who was at Transport Indemnity during the last few years and ask him who largely helped to drag the truck rates down to the bottom of the dumpster, to such an extent that there is practically no truck market left. You will find it was one of the Mission companies that hopped into the fray at the sight of those big premiums and cut the heart out of them, at a time when they didn't know a Peterbilt from a Honda.

As a result, another specialty truck company leaves the market, one more of a dying breed, at a time when such a specialty is greatly needed. Unfortunately, Mission's rebirth will not plug up that vacancy, for the losses suffered by the truck underwriters in the last few years—due largely to rate cutting by inexperienced newcomers such as Mission—have resulted in a greatly restricted capacity for those insurers that know what they are doing, and complete withdrawal by those that don't. The closure of one more specialty insurer in Transport Indemnity is just one more kick in the pants to the trucking industry—and one that Mission's possible new lease on life will not ameliorate.

I certainly do not mean to knock the underwriters at Mission, who are as capable and experienced as any, and probably a lot more than most, as they have proved in the past. They, too, have had their production pressures from the top. They, too, have heard the screams to "loosen up the pen."

The departments of insurance apparently are powerless to put their foot down when they see some money moguls buy up a local company and siphon off the cash—thereby often lowering the company's rating.

Some attempt, though, should be made by the regulatory bodies to discourage those who hungrily eye all that exposed cash on the table.

After all, our industry does not deal in a commodity line like hot dogs or bananas, but in promises and financial security, and is therefore vulnerable to those who have no interest in its products.

Continued plunder and mismanagement hurts both us who work in this profession and also us who require its financial security for the benefit of growth in this country.

Timothy Morton is the former underwriting manager for Transport Indemnity Co. in Los Angeles.

Enterprising look at future offers lesson for present

Continued from previous page

pretty soon even the furthest corners of their planet Earth.

Those were great days to be in the insurance business, fellahs. The way I heard it, interest rates were so high you could make money just by stashing it in the bank.

The insurers wanted to get their hands on money so bad they started cutting their prices. For a while, everyone was happy. In fact, everyone—banks, stockbrokers, oil drillers, even one piano company—got into the insurance business. The insurers and the wheeler-dealers that had entered the business got computers and a lot of electronic equipment, which some of the regulators thought were "Star Wars" gimmicks. Well, things got to happening so fast that these state regulators just couldn't keep track of things.

SPOCK: There must have been a reason.

BROKERMAN: The state regulators were mainly poking into what insurers were doing, reviewing annual statements and trying to figure out whether companies had the money to pay claims. But, they were using stale data—the annual statement stuff—that was just too old. Without even 20th century equipment and working with outdated intelligence, they got way behind in their work.

Some folks said the companies should give them financial statements every three months. Lots of the insurers pleaded poor-mouth, saying that some states couldn't afford the computers and people needed to handle all that data every three months. Meanwhile, companies started losing lots of money because of the low prices. The piano company went bankrupt, and the state had to take over the insurers it owned.

There were some folks in a place called Kansas City who tried to help. They got some computers and started analyzing data and succeeded in speeding things up a lot.

SPOCK: It seems to me I recall that people began to focus on the idea of more centralized, more efficient ways to monitor insurers.

BROKERMAN: Not bad. But, what really happened was that the individual states were just too gosh dang content to buck off their responsibilities to some centralized operation. They failed to pay enough attention to the need for more timely information and for their own analysis of it. They just didn't really understand that it was their responsibility to regulate insurance, and no way could they delegate that responsibility.

But, there were others who coveted the role of nationwide monitor. You see, in those days, on what must have been a real big planet called Washington, there were government folks who never liked the idea of little states regulating a big worldwide business like insurance. They said, "Hell, these guys are admitting they can't do the job. Rather than do their best on their own to keep track of what's going on, they're farming out their work to the Kansas City Volunteers. We're bigger than they are. Let's take their job."

And that, fellahs, was the end of state regulation. It was also the end of the way states permitted lots of little insurance companies to pool their information. They couldn't do that under the feds. Soon, there were fewer and fewer small companies. But, the big ones flourished and got so big that when one went bust, the fallout hurt everyone. So, what happened was the Federal Insurance Department got bigger and bigger.

SPOCK: And that agency was the forerunner of the Federation Insurance Department?

BROKERMAN: You've got it.

SCOTTY: But, sir, how does that affect us?

BROKERMAN: Well, for that part of the story, you'll have to come with me. It will take some time, but then, you fellahs ain't going nowhere soon.

It just so happens that the Federation Insurance Department has one of its 10,000 branch offices only two planets from here. C'mon, we'll take my Toyota spacemobile.

The foursome next appear at the foot of what seems like a large, endless stairway. There is a long queue of people, all pushing and shoving, Mr. Brokerman directs the Enterprise officers to a small machine.

BROKERMAN: Just reach in and get a ticket; it gives you a place in line.

Kirk nodded for Scott to take a ticket.

SCOTT: It makes us number 701,637 in line.

KIRK: There must be somewhere else to go.

BROKERMAN: Not in this universe, Captain. The Federation Insurance Department is all there is.

KIRK: But, look at that line. What about my crew, my ship?

BROKERMAN: They have to wait, Captain. Just thank your lucky starships that you're early. Wait till you see the line tomorrow, after word gets 'round about what's happened to Light Year Mutual.

All its policyholders could show up. I've got millions of 'em. Placed lots of 'em myself. Made big commissions, too.

KIRK: Tomorrow? How long will it take?

SPOCK: More than five years, according to my calculations in regard to the length of the line, Captain.

KIRK: There must be a shortcut.

BROKERMAN: This is the shortcut. This is the line for big group clients like the Star Fleet captains.

I guarantee the line for individual policyholders is longer. You're just lucky you met with a broker who knows the ropes.

That's where the chapter ended. But, I keep remembering it. If only we could make state regulation work better now, we could really accomplish something.

Come to think of it, we could even save Captain Kirk—and maybe even ourselves. And all we have to do is get busy now.

John R. Dunne is a New York state senator from Garden City, N.Y., and chairman of the New York Senate Judiciary Committee.

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ASK A BENEFIT MANAGER

War on taxing benefits can—and must—be won

Q **I am the director of personnel for a manufacturer of consumer products, and for the last several years the major part of my responsibility has been to cope with increased government regulation in the area of employee benefits. I understand that there is further legislation affecting employee benefits proposed by the administration (e.g. the Treasury Department's Report to the President) and several bills pending in the Congress. How do you account for this continued effort to regulate employee benefits, and can you suggest any strategies that would help us to manage these changes?**

A Since the Employee Retirement Income Security Act was enacted in 1974, nine more major bills affecting employee benefits have been signed into law. Obviously, the dollars spent on voluntary tax-favored employee benefits—estimated by the U.S. Chamber of Commerce to be more than $45 billion in 1983—has led to the increased interest on the part of the federal government over the last 10 years in this benefits area.

This is because the federal government perceives employee benefits as being the largest single "tax expenditure" or "tax subsidy" in the federal budget, and the apparent size of this subsidy has captured the attention of the current administration and Congress.

The first concern of the government, of course, is the search for more revenue to help reduce the federal budget deficit.

This deficit is a serious economic problem: It is projected to reach $200 billion in fiscal 1986, an increase of more than $30 billion from the administration's previous projection made last summer.

In fact, it now takes one-third of all the federal income taxes paid by individuals and corporations to pay the interest on the national debt.

The size of the national debt forces interest rates up, results in less business investment at home and is one of the reasons for last year's record trade deficit of $123 billion.

Viewed against this background of tremendous deficits, the government estimates that it will lose more than $75 billion in taxes for voluntary and government-mandated employee benefits in fiscal 1985. And, it estimates it will lose more than $120 billion in fiscal 1989.

The government measures tax expenditures on a cash flow basis, with the taxes deferred for employee benefits offset by the taxes paid by the recipients of the benefits. These government estimates probably overstate the amount of tax benefits by failing to distinguish between taxes deferred and taxes permanently lost to the Treasury Department.

But, even if the government's estimates are overstated by as much as 50%, employee benefits are certainly a significant source of potential tax revenue.

Tax simplification or tax equity is the second force drawing the government's attention to the area of employee benefits.

For example, the tax reform proposal put forth by the Treasury Department is built on the following premise: "The present U.S. income tax is complex, it is inequitable and it interferes with economic choices of households and businesses."

The Treasury Department claims that the changes it proposes for basic tax reform generally affect special tax treatments that are not used by a majority of individual taxpayers. And, ignoring the wide application of benefits to lower- and middle-income employees, the Treasury Department is seeking to achieve a tax system with "economic neutrality."

Favorable tax treatment for employee benefits is, the Treasury claims, in direct contravention of this goal of "economic neutrality."

In addition, proponents of taxing employee benefits argue that the tax benefits that are derived from the existing tax preferences on benefits are not fairly distributed among U.S. taxpayers, because the Internal Revenue Code directs a disproportionate share of such tax preferences to individuals who are able to participate in employer-sponsored benefit plans.

In other words, there is no so-called "horizontal" equity in the existing tax code, because employees that work in strong industries have better benefits than those in weak industries, where employers cannot afford to provide the better benefits.

Members of the 99th Congress are focusing on all these issues as a result of the Treasury Department's tax proposal.

The Treasury proposal, one of several so-called "modified flat-tax" proposals, would eliminate or consolidate about 65 provisions of the current law and would remove or limit the tax-favored status of most employee benefits.

'What is lacking in (the Treasury) proposal—and in the government's focus on employee benefits—is a clear definition of what public policy should be regarding employee benefits.'

What is lacking in this proposal—and in the government's focus on employee benefits—is a clear definition of what public policy should be regarding employee benefits.

Currently, the structure of programs designed to provide economic security for workers in the United States includes: government-mandated programs that provide a basic level of income protection, such as Social Security and workers compensation programs; employment-based voluntary programs that supplement the basic protection of mandated programs, such as pensions, and health and life insurance plans; government-encouraged individual savings efforts; and employment-based voluntary programs designed to achieve certain social objectives, such as educational and child-care assistance.

Compared with other countries, this structure of public and private programs has been successful, not only in terms of its range, but also in terms of its flexibility and cost-effectiveness.

For example, more than 162 million people at all income levels participate in voluntary programs, and more than 50% of new retiree households receive employer-provided pension income.

In addition, millions of workers and their families are covered by employer-sponsored health care plans worth $100 billion at a "tax subsidy" cost to the government of less than $30 billion.

To promote the role of the private sector in this structure, tax preferences for employee benefits were deliberately built into the tax code. If these preferences are eliminated, private industry's sponsorship of these programs will be severely restricted and the federal government will find itself making additional revenue expenditures on a less cost-effective basis to meet these social needs.

Over the long-term, such an occurrence would have a dramatic impact, not only on the financial well-being of your company's employees, but on your company as well.

The first step I would advise you to take in addressing these issues, therefore, is to thoroughly inform yourself and your senior management about the details of the various proposals that currently are before Congress, such as the Treasury proposal, the Bradley-Gephardt bill and the Kemp-Kasten bill.

The Employee Benefit Research Institute, a non-profit research organization based in Washington, is an excellent source for this information, particularly their January 1985 "Issue Brief" No. 38.

The second step would be to formulate a company policy on the issue of the taxation of employee benefits and, as appropriate, to have your senior management (for example, the chief executive officer) make this policy known to the Reagan administration and to members of Congress.

Your employees also should be informed about the various benefit issues before Congress and encouraged to express their individual views to their representatives and senators.

The third step is to evaluate the basic objectives of your company's life, disability, health, savings and pension plans.

Over the years, the government's tax policy coupled with inflation has made employee benefits extremely cost-effective as a form of compensation, and companies have redesigned their plans to maximize this cost-effectiveness.

The basic purpose of these plans, however, still remains to provide an employee and his or her family with economic security in the event of retirement, death or illness.

By identifying the basic purposes of your benefit plans and understanding the reasons for their current design, you should be able to reposition these programs in a meaningful way for your employees, even though the government may restrict or eliminate the tax preferences for them.

I know that many benefit professionals—with a stoicism born of 10 years of intense government regulation in the employee benefit area—are passively waiting to see how the next round of tax legislation will affect employee benefit plans.

I firmly believe, however, that we are at a crossroads in the history of employee benefits.

Since 1921, the government has encouraged the development of employee benefit plans. But there is every indication that it is now attempting, for the reasons noted above, to reverse this policy.

Complicating this fact are the increased cost pressures on our businesses at a time of intense international economic competition and the changing demographics of our workforce, which has complicated both the design and communication of our employee benefit plans.

I know it will be a tough challenge to proactively manage the employee benefits area during these changing times, but it must be accomplished if we are to maximize our companies' earnings by preserving the current cost-effective system of employee benefits. ■

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

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

Mr. Duva

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

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

Mr. Duva's and Mr. Perry's columns appear alternately on the second Monday of each month. Mr. Duva's next column will appear in July.

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

New Blues health plan ties rates to CPI

Blue Cross of Greater Philadelphia is marketing a new group health insurance program that equates changes in premium rates with changes in the Consumer Price Index and gives refunds to groups that reduce their health care utilization.

The new "CPI" program will be available July 1 to groups of 30 or more subscribers. It guarantees that a group's annual rate of premium increase or decrease will be equal to the increase or decrease in the Consumer Price Index.

To encourage participation in CPI, Blue Cross will reduce the premium of groups already insured by the Blues by 5% during the first year of participation in the program. After that, premium increases or decreases will depend solely on the change in the Consumer Price Index.

David S. Markson, president of Blue Cross of Greater Philadelphia, said the CPI program is made possible through the plan's Quality Care Admissions Review program, which is included in the CPI program. Under this program, employees must obtain pre-certification for all non-emergency hospital admissions and second surgical opinions for certain procedures, such as hysterectomies and knee surgery.

Utilization review also is performed on all hospital admissions.

Mr. Markson said several clients have reduced their hospital utilization rates significantly using programs similar to the Quality Care review program, including Honeywell Inc. in Minneapolis, whose utilization decreased 28% from 1983 to 1984, and Bell of Pennsylvania in Ardmore, whose utilization decreased 19% from 1983 to 1984.

Participating groups also will receive a refund equal to 10% of their annual premiums for each year that their health care utilization is 10% less than it was the year they joined CPI, Mr. Markson said.

For more information, contact Blue Cross of Greater Philadelphia, 1333 Chestnut St., Philadelphia, Pa. 19107; 215-448-5795.

Ransom coverage

MacLean, Oddy & Associates Inc. now offers kidnap and ransom insurance with limits of up to $20 million per occurrence.

The Dallas-based insurance wholesaler places the broad-form extortion coverage with Lloyd's of London syndicate Cassidy Davis Ltd. If an incident were to occur, policyholders would have access to security and management services provided by Control Risks Ltd. in London at no additional cost.

The coverage will respond to: ransom paid after the actual or alleged kidnapping of an insured person; extortion paid after a threat to kill, injure or abduct an insured person; and extortion paid after a threat to contaminate or pollute raw materials and/or products manufactured by the policyholder or a threat to cause physical damage to the insured's property.

The policy requires that the insured not reveal the terms or conditions of the coverage.

For more information, contact Lafay Westbrook, MacLean, Oddy & Associates, 2121 San Jacinto, Suite 1818, Dallas, Texas 75201; 214-969-0090.

Electronic equipment

North American Managers, an American International Group Inc. company, says it has introduced electronic equipment insurance that provides coverage beyond the standard risks.

The insurance, which is tailored for the protection of telecommunication systems, data processing

products & services

equipment, measurement control facilities and medical systems, among others, also protects against negligence, improper handling, clumsiness, human error, over- or under-voltage and willful acts by a third party. None of these is usually covered, according to the company.

North American says coverage also can be expanded to cover risks including changes in the room temperature where the equipment is kept, condensation or corrosion damage and mistakes in inventory. The coverage is available through the Birmingham Fire Insurance Co. of Pennsylvania, another AIG affiliate.

Computer crime coverage and errors and omissions coverage also can be provided through the National Union Fire Insurance Co. of Pittsburgh, an AIG company.

Deductibles and limits vary according to the type of equipment. For instance, coverage for private branch telephone exchanges can range from $2,300-$3,300 for small installations, to $36,000-$180,000 for large ones.

For further information, contact Jeffrey Lejfer, North American Managers, 99 John St., New York, N.Y., 10038; 212-770-8350.

Reinsurance books

Oklahoma City-based Interstate Service Corp., has published three books: "Reinsurance: A Practical Guide," "The Captive Insurance Company" and "Reinsurance and Reinsurance Management."

"Reinsurance: A Practical Guide," is a 40-page softbound publication written by Andrew J. Barile which provides an overall view of the reinsurance market and of what goes into designing a comprehensive reinsurance program. The publication, which is $9.95 postpaid, includes a glossary of reinsurance terms.

"Reinsurance and Reinsurance Managment," which was compiled by Mr. Barile and Peter R. Barker, has more than 100 articles written by leading insurance and reinsurance professionals worldwide over the past 25 years, according to Interstate.

Topics covered include treaty and facultative concepts, the role of the reinsurance intermediary and buyer and the reinsurance agreement. The 600-page looseleaf binder costs $75 in the United States and $90 elsewhere.

"The Captive Insurance Company," written by Mr. Barile, discusses offshore locales for captives, the reasons for forming them, their management and administration, how they can become a profit center, and tax information.

Included is a list of more than 650 captives in existence, their owners and where they are domiciled. The 80-page softbound book is $12.95 postpaid.

The books can be purchased from the Interstate Service Corp. at P.O. Box 1725, Oklahoma City, Okla. 73101. ■

datebook

JUNE 2-5. 1985 National Operations and Automation conference in Dallas, sponsored by the American Bankers Assn.; $555 for members; $735 for non-members. Registrar, ABA Banker Education Network, 1120 Connecticut Ave., N.W., Washington, D.C. 20036; 202-467-6738.

JUNE 2-5. 1985 Corporate Benefits Management conference in Williamsburg, Va., sponsored by the International Foundation of Employee Benefit Plans; $500 for members; $575 for non-members. Also **Aug. 18-21** in Lake Tahoe, Nev. Registrar, IFEBP, 18700 Bluemound Road, P.O. Box 69, Brookfield, Wis., 53005-0069; 414-786-6700.

JUNE 3. Michigan Surplus Lines Assn.'s Educational seminar in Troy, Mich.; $30 for members; $35 for non-members. Thomas Bloom, president, Michigan Surplus Lines Assn., P.O. Box 3701, Troy, Mich 48007-3701; 616-642-8000

JUNE 3-4. Asset/Liability Management: Profitability and Risk in a Time of Change conference in San Francisco sponsored by Peat Marwick and Darling & Associates; $675. Also **July 22-23** in Boston. Registrar, Executive Education Department, 810 Seventh Ave., 28th Floor, New York, N.Y. 10019; 1-800-762-3932.

JUNE 4-6. Utilities Fire School in Marinette, Wis., sponsored by Ansul Fire Protection; $650. Also, **July 30-Aug. 1 and August 27-29**, all in Marinette. Sara Lambrecht, Ansul Fire Protection, 1 Stanton St., Marinette, Wis. 54143.

JUNE 6-7. Quantitative Techniques for Risk Management seminar in Chicago, sponsored by The College of Insurance; $495 for sponsoring participants; $535 for all others. Also **Oct. 3-4** in New York. Registrar, Professional Development Programs Division, The College of Insurance, One Insurance Plaza, 101 Murray St., New York, N.Y. 10007; 212-962-4111.

JUNE 9-12. Risk Management '85, The Turning Tide conference in San Diego, Calif., sponsored by the Public Risk & Insurance Management Assn.; $400 for members, $325 for additional registrants from same company; $450 for non-members, $375 for additional registrants; $220 for PRIMA government registrants; $320 for non-member government registrants. Registrar, PRIMA, 1120 G St. N.W., Suite 737 Washington, D.C. 20005; 202-737-7556

JUNE 10-14 Industrial Ventilation Fundamentals course in Los Angeles, offered by the University of Southern California; $650. Registrar, University of Southern California, Institute of Safety and Systems Management, Office of Extension and In-Service Programs, Los Angeles, Calif. 90089-0021; 213-743-6523/6524.

JUNE 10-14. Loss Control Management seminar in Atlanta, sponsored by the International Loss Control Institute; $695. Registrar, ILCI, P.O. Box 345, Loganville, Ga. 30249; 1-300-554-6031, 404-466-2206.

JUNE 11-13. Petroleum/Chemical Fire School in Marinette, Wis., sponsored by Ansul Fire Protection $650. Also, **June 24-26, July 16-18, Aug. 20-22, Sept. 10-12 and Oct. 1-3**, all in Marinette. Sara Lambrecht, Ansul Fire Protection, 1 Stanton St., Marinette, Wis. 54143.

JUNE 11-14. The Supervisory Management Program in New York, sponsored the The College of Insurance; $540 for college sponsors; $620 for others. Ronnie Kranis, Professional Development Programs The College of Insurance, One Insurance Plaza—101 Murray St., New York, N.Y. 10007; 212-962-4111.

JUNE 13. Second Annual Competition for Outstanding Performance luncheon in New York, sponsored by the National Assn. of Insurance Women—New York City; $60. Joan Rizzo, Cigna Bond Services, 127 John St., New York, N.Y. 10038; 212-440-6393.

JUNE 13. Structured Settlements and Risk Management seminar in Minneapolis, sponsored by Settlement Planning Inc.; $95. Dave Terwilliger, Settlement Planning Inc., 6800 France Ave. South, Minneapolis, Minn. 55435; 300-922-6830, 612-920-6166.

JUNE 17-18. Health Care Cost Containment workshop in New York, sponsored by Health Research Institute; $395. Workshop Coordinator, Health Research Institute, 49 Quail Court, Suite 200, Walnut Creek, Calif. 94596.

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

JUNE 18. Defending Insurance Claims for Hazardous Waste Damages seminar in New York, sponsored by The College of Insurance; $295. Ronnie Krannis, Professional Development Programs, The College of Insurance, One Insurance Plaza—101 Murray St., New York, N.Y. 10007; 212-962-4111.

JUNE 18-20. Industrial Fire School in Marinette, Wis., sponsored by Ansul Fire Protection; $650. Also **Aug. 6-8, Sept. 17-19 and Oct. 7-9**, all in Marinette. Sara Lambrecht, Ansul Fire Protection, 1 Stanton St., Marinette, Wis. 54143.

JUNE 19. Long Island Update: Cost Containment Through Benefits Design and Administration seminar in Plainview, N.Y., sponsored by The New York Business Group on Health; $10 for members; $25 for non-members. Registrar, The New York Business Group on Health Inc., 1633 Broadway, 46th floor, New York, N.Y. 10019; 212-397-1260.

JUNE 19. Advanced Cost Containment workshop in New York, held by Health Research Institute; $195. Workshop Coordinator, Health Research Institute, 49 Quail Court, Suite 200, Walnut Creek, Calif. 94596; 415-676-2320.

JUNE 19. Third-Party Administrator workshop in New York, sponsored by Health Research Institute; $395; $195 for subsequent registrants from same company. Workshop Coordinator, Health Research Coordinator, 49 Quail Court, Suite 200, Walnut Creek, Calif. 94596; 415-676-2320.

JUNE 19-21. Fourth Annual Workers Compensation seminar in Orlando, Fla., sponsored by the Florida Assn. of Self Insurers; $150 for members; $175 for non-members. Keylon Patch, executive director, FASI, P.O. Box 4850, Winter Park, Fla. 32793; 305-657-9574.

JUNE 20. Medical Directors workshop in New York, sponsored by the Health Research Institute; $195. Registrar, Health Research Institute, 49 Quail Court, Suite 200, Walnut Creek, Calif. 94596; 415-676-2320.

JUNE 20-21. Perinatal Risk Management: Understanding and Preventing the Multimillion Dollar Claim seminar in Houston, sponsored by the American Society for Hospital Risk Management and The Structured Settlements Co.; $175 for ASHRM members; $235 for non-members. Also **Sept. 30-Oct. 1** in San Francisco. Registrar, American Hospital Assn., Division of Education, 840 N. Lake Shore Drive, Chicago, Ill. 606.1; 312-280-6083.

JUNE 20-21. Labor/Management conference in New York, sponsored by Health Research Institute; $195. Workshop Coordinator, Health Research Institute, 49 Quail Court, Suite 200, Walnut Creek, Calif. 94596; 415-676-2320.

JUNE 20-21. The Brief Course in Reinsurance in New York, sponsored by The College of Insurance; $145. Laura McKeon, Professional Development Programs, The College of Insurance, One Insurance Plaza—101 Murray St., New York, N.Y. 10007; 212-962-4111.

JUNE 23-27. The Advanced Course in Reinsurance in New York, sponsored by The College of Insurance; $825 for college sponsors; $950 for others. Laura McKeon, Professional Development Programs, The College of Insurance, One Insurance Plaza—101 Murray St., New York, N.Y. 10007; 212-962-4111.

JUNE 23-28. The Management Program in New York, sponsored by The College of Insurance; $825 for college sponsors; $950 for others. Russel Fershleiser, Professional Development Programs, The College of Insurance, One Insurance Plaza—101 Murray St., New York, N.Y. 10007; 212-962-4111.

JUNE 24-26. Wellness Strategies conference in Trenton, N.J., sponsored by the National Wellness Institute; $250; $25 discount to members. Registrar, National Wellness Institute, South Hall, University of Wisconsin-Stevens Point Foundation, Stevens Point, Wis. 54481; 715-346-2172/2572.

JUNE 26-28. Successful Retirement Planning Programs workshop in Chicago, sponsored by Retirement Advisors Inc.; $450. Also **Oct. 16-18** in Kansas City, Kan., and **Nov. 6-8** in New York. Registrar, 919 Third Ave., New York, N.Y.; 212-421-2400.

JUNE 27. Stress Management: Sharing Japan's and America's Experiences conference in New York, sponsored by The New York Business Group on Health Inc.; fees to be announced. The New York Business Group on Health Inc., 1633 Broadway, 46th floor, New York, N.Y. 10019; 212-397-1260.

JULY 15-19. Occupational Respiratory Protection course in Los Angeles, sponsored by the University of Southern California; $750. Registrar, Office of Extension and In-Service Programs, Institute of Safety and Systems Management, University of Southern California, Los Angeles, Calif. 90089-0021; 213-743-6523/6524.

JULY 16. Preparedness for Chemical Emergencies conference in Chicago, held by Illinois State Chamber of Commerce; $90 for members; $135 for non-members. Carol Jensen, ISCC, 20 N. Wacker Dr., Chicago, Ill. 60606; 312-372-7373.

JULY 17. Health Care Cost Containment conference in Chicago, sponsored by Illinois State Chamber of Commerce; $90 for members; $135 for non-members. Carol Jensen, ISCC, 20 N. Wacker Dr., Chicago, Ill. 60606; 312-372-7373.

JULY 17. Plan Design conference in Chicago, sponsored by the Illinois State Chamber of Commerce; $90 for members; $135 for non-members. Registrar, ISCC, Center for Business Management, 20 N. Wacker Dr., Chicago, Ill. 60606; 312-372-7373.

JULY 21-27. National Wellness conference in Stevens Point, Wis., sponsored by the University of Wisconsin—Stevens Point; $325 for the week; $75 per day; members of the National Wellness Assn. receive $15 discount on full registration; organizations with three or more attendants receive special discounts. Registrar, National Wellness Conference, South Hall, UWSP, South Point, Wis. 54481; 715-346-2172/2572.

JULY 22-26. Sampling and Evaluating Airborne Asbestos Dust course in Los Angeles, sponsored by the University of Southern California; $675. Registrar, Office of Extension and In-Service Programs, Institute of Safety and Systems Management, University of Southern California, Los Angeles, Calif. 90089-0021; 213-743-6523/6524.

JULY 29-31. Industrial Hygiene Sampling Strategies course in Los Angeles, sponsored by the University of Southern California; $425. Registrar, Office of Extension and In-Service Programs, Institute of Safety and Systems Management, University of Southern California, Los Angeles, Calif. 90089-0021; 213-743-6523/6524.

AUG. 1-2. Ergonomics course in Los Angeles, sponsored by the University of Southern California; $375. Registrar, Office of Extension and In-Service Programs, Institute of Safety and Systems Management, University of Southern California, Los Angeles, Calif. 90089-0021; 213-743-6523/6524.

AUG. 5-7. Recognition of Accident Potential in the Workplace Due to Human Factors course in Los Angeles, sponsored by the University of Southern California; $425. Registrar, Office of Extension and In-Service Programs, Institute of Safety and Systems Management, University of Southern California, Los Angeles, Calif. 90089-0021; 213-743-6523/6524.

AUG. 8-9. Legal Aspects of Occupational Safety and Health course in Los Angeles, sponsored by the University of Southern California; $375. Registrar, Office of Extension and In-Service Programs, Institute of Safety and Systems Management, University of Southern California, Los Angeles, Calif. 90089-0021; 213-743-6523/6524.

AUG. 11-14. 1985 Communications Institute program in Monterey, Calif., sponsored by the International Foundation of Employee Benefit Plans; $420 for members; $495 for non-members. Registrar, IFEBP, 18700 W. Bluemound Road, P.O. Box 69, Brookfield, Wis. 53005-0069; 414-786-6700.

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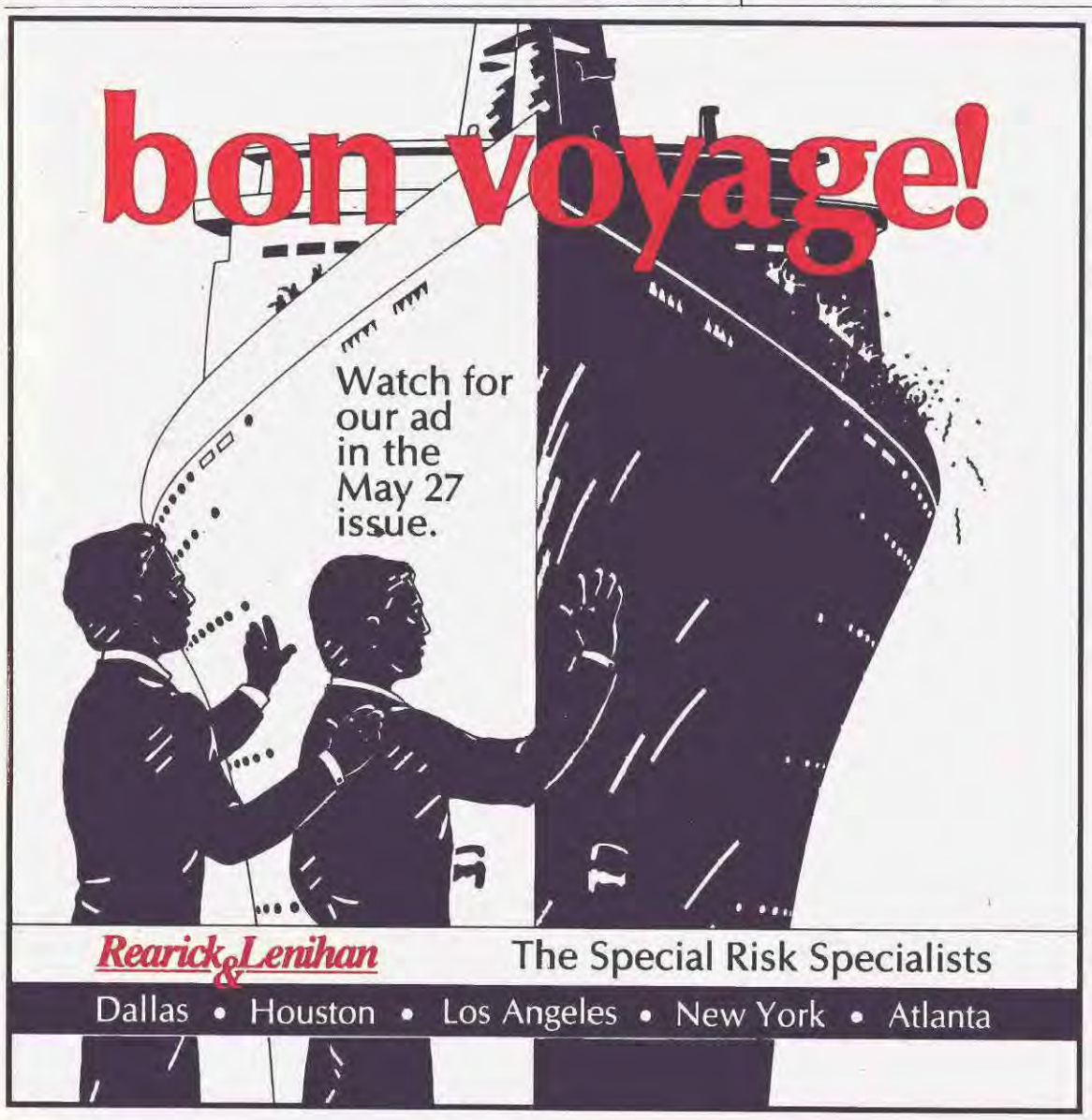

New Hampshire House OKs captive legislation

Continued from page 2

"Additionally, Hawaii will find itself as a unique resource to the captive insurance market with its natural ties to Asia. Clearly, competing locales such as Vermont and Tennessee cannot offer the affiliation Hawaii has long enjoyed with such markets in Japan, Hong Kong and Singapore," Mr. Shito said.

Several provisions in the New Hampshire and Hawaii bills are identical to Vermont's captive statute. They include:

- Capitalization and paid-in surplus requirements of $250,000 for single-parent captives and $750,000 for association captives.
- Simplified reporting requirements for single-parent captives.
- Freedom from prior rate and form approval.
- Freedom to underwrite third-party reinsurance.

There are some differences, however, between the two bills and Vermont's captive law. For example, the New Hampshire and Hawaii bills allow captives to directly write all commercial property/casualty lines, including workers compensation. Vermont bars captives from directly writing workers compensation risks, though captives can reinsure work comp coverages written through a fronting arrangement.

In addition, a special group captive arrangement, known as an industrial insured captive, is allowed under Vermont's statute and the Hawaii bill. The New Hampshire bill does not call for such an arrangement.

In Vermont and under the Hawaii proposal, an industrial insured captive is required to have $500,000 in capital and paid-in surplus, compared with the $750,000 requirement for an association captive.

The New Hampshire bill calls for a 1% premium tax, the same as the Vermont captive statute.

In Hawaii, captives would pay the same premium taxes as commercial insurers: 0.8775% on ocean marine gross underwriting profits and 2.9647% on premiums written in other property/casualty lines. Hawaii's premium tax, though, would be phased in over a five-year period.

The introduction of the New Hampshire and Hawaii captive bills follows a trend of rising state interest in attracting captive insurance companies after years of indifference or hostility.

In 1972, Colorado became the first state to pass a captive law. Tennessee followed in 1979, and later liberalized its statute in 1982. Colorado now has 23 licensed captives, while Tennessee has attracted seven.

Virginia, which enacted a captive law in 1980, still is waiting for its first captive.

In Vermont, 24 captives have been licensed—including two captives set up this month by Toyota Motor Sales U.S.A. of Torrance Calif., and Charter Medical Corp., a Macon, Ga.-based hospital chain—since the Green Mountain State passed its pacesetting statute in 1981.

Delaware, which passed captive legislation in 1984, could become the home of several captives later this year, state insurance department officials say.

Employer groups are cheering this recent move by states to remove barriers to the formation of captives.

"With the market crunch coming up, we are going to need as many financing mechanisms in as many states as possible," said Jon Harkavy, director of governmental affairs for the Risk & Insurance Management Society in New York.

"States see captives as a revenue source and a way to attract and retain corporate business," Mr. Harkavy added. ■

Storm damage set at $15 million

Wind, hail and tornadoes caused an estimated $15 million in insured property damage in parts of the Midwest on March 26-29, according to C.E. Hermanson, vp of the Property Claim Services division of American Insurance Services Group Inc.

The heaviest damage, an estimated $5.5 million, occurred in Texas.

The storm was assigned Catastrophe Number 62 by the Insurance Services Office. ■

Beckett to explain huge losses to members

By STACY SHAPIRO

london line

LONDON—Officials at Richard Beckett Underwriting Agencies Ltd. are scheduled to meet today with up to 1,500 members of Lloyd's of London syndicates it managed to explain why the members must pay up to 60 million pounds ($74.4 million at recent exchange rates) in syndicate losses.

The agency already has advised members to contact their individual stop-loss insurers to see if those policies will cover any of their debts. And, the agency has told members that a special steering committee to look into the matter has been formed by the members.

Members of the beleaguered syndicates also have contracted with accountant Price Waterhouse to audit the syndicates' accounts.

"We will do everything we can to help the names of these syndicates," said Graham White, managing director of Richard Beckett. "But, to the names, the message is, 'keep calm.' This is not a moment for hysteria."

The syndicates managed by Richard Beckett—formerly called PCW Underwriting Agencies Ltd.—have suffered the largest losses in Lloyd's history. Mr. White said a total of eight syndicates lost the 60 million pounds over a four-year period between 1979 and 1982, the year just ending under Lloyd's three-year accounting system (*BI*, May 6). That's larger than the $42 million loss suffered by the Sasse Syndicate in the late 1970s (*BI*, May 30, 1983).

In addition, Beckett's parent, Minet Holdings P.L.C., has announced it will close the agency by the end of the year and run off its business.

The syndicates affected are marine syndicates 810, 618, 869 and 948 and aviation syndicate 859—all of which suffered moderate losses—and non-marine syndicates 918, 940 and 157—which suffered severe losses.

Except for the aviation syndicate, all these syndicates ceased underwriting last year under these syndicate numbers.

Worst hit is syndicate 918, whose 350 names may have to pay up to 51,800 pounds ($61,642) each for every 10,000 pounds ($11,900) of premium volume they wrote.

The syndicate's results from 1983 and 1984 are not known yet under Lloyd's three-year accounting system, but Beckett's preliminary estimates are that those losses will not be as great.

If the agency has over-reserved to pay current and future losses, the members may get some money back in the future. But, if the losses are greater than anticipated, they may have to pay again.

The losses stem from "bad underwriting," and not from any alleged misappropriation of syndicate funds, Mr. White said. According to a letter sent to syndicate members, the main losses were on American liability business.

"Particularly hit have been such coverages as product liability, pollution, medical malpractice and personal injury, all of which have produced substantial settlements and outstanding reserve increases," the letter says. "In addition, there is an increase in asbestosis liability claims.

"American liability business contributed over 50% of Syndicate 918's total premium volume during the period from 1973-1982, which did not alter materially for the years 1983 and 1984. As is apparent from the results of other syndicates now being reported, this general class of business is now, with benefit of hindsight, recognized as an area where, ignoring the effect of investment income, underwriting profit is difficult to achieve."

The losses are in addition to the 38.9 million pounds in losses that resulted after reinsurance premiums allegedly were diverted between 1973 and 1981 to offshore companies to benefit former PCW and Minet officials. About 90% of the members last year accepted an agreement with Minet and Alexander Howden Group P.L.C. to pay most of those losses in exchange for the members agreeing not to sue (*BI*, July 2, 1984).

Lloyd's has extended the compliance with its solvency requirements to July 31 from the normal May 31 deadline. But, the members must pay their share of the losses to Richard Beckett by June 30 to meet this deadline.

Under Lloyd's rules, the members are unlimitedly liable for the losses. "Inevitably, certain people will not be able to pay," Mr. White said.

Any valid claims that cannot be paid by the members will be paid by the Lloyd's Central Fund.

"Clearly, the losses reported to you above will be of grave financial consequence to you," Richard Beckett said in the letter to names. "Nevertheless, it is our duty in the interest of the protection of policyholders who have paid premiums on Lloyd's policies to comply with the audit procedures laid down by Lloyd's and approved by the Department of Trade."

Meanwhile, Minet has announced that it will close the agency and run off its business by the end of the year. As the business is being run off, Minet will consider what to do with three profitable syndicates the agency managed.

The closure "will ensure that as far as possible, the interests of our shareholders, employees and the members of the syndicates are pro-

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tected," Minet said in a statement.

"The company has received firm legal advice that it has no liability for the PCW affair nor the underwriting losses now faced by names and will vigorously defend any suit brought against it," Minet said.

Minet has reported an 8.3 million pound ($9.9 million) extraordinary charge in its 1984 results stemming from the Beckett losses.

Last week, Lloyd's Chairman Peter Miller said if Minet closes the agency by the end of the year, Lloud's will make sure an agent is appointed to oversee members' affairs and complete an orderly run-off.

"It is the duty of the Council of Lloyd's to ensure that all names have a competent agent to act for them," he said. "We shall monitor this aspect very closely in the coming weeks and months.

Sphere Drake loss

Sphere Drake Insurance P.L.C., the largest of Alexander Howden Group P.L.C.'s ill-fated underwriting subsidiaries, reported an aftertax loss of nearly 12 million pounds ($14.3 million) in 1984, compared with a profit of 969,000 pounds ($1.2 million) in 1983.

Howden's parent, Alexander & Alexander Services Inc., announced earlier this year that it would boost the reserves of Sphere Drake and other Howden underwriting units and planned to sell off the subsidiaries.

The losses were attributed to "a number of factors, the major ones being a high incidence of new asbestosis losses advised during the latter part of the year, an unexpected deterioration in certain excess-of-loss non-marine accounts and a high frequency of loss on the now terminated U.K. property and overseas facultative accounts," Sphere Drake announced.

Sphere Drake is more optimistic about the future, however, now that its loss reserves have been strengthened by A&A to 122.7 million pounds ($146 million) from 99.5 million pounds ($118.4 million), the company said.

Sphere Drake, however, will continue to underwrite until A&A disposes of the company (*BI*, March 11).

'Matter of disgrace'

It is a "matter of disgrace" that suspects accused of misappropriating millions of dollars at Lloyd's of London have not been prosecuted, Lloyd's Chief Executive Ian Davison told the International Reinsurance Law conference in London recently.

So far, no criminal indictment has been brought by the Department of Public Prosecutions, which would bring such charges, against any of those accused of misappropriating money at Lloyd's, Mr. Davison noted.

"I believe it is a grave indictment of the British Constitution that shoplifters are regularly given six weeks, but those who lift larger sums seem to be able to escape without prosecution," Mr. Davison said.

However, he stressed, such cases of misappropriation of funds have been few at Lloyd's. And, in these cases, money has been recovered for members and "in no case were policyholders affected," he said.

Mr. Davison admitted that Lloyd's, too, has delayed final action on investigations into syndicates once managed by Alexander Howden Underwriting Ltd. and PCW Underwriting Agencies Ltd. But, he said, the delay has been caused by those people accused testing Lloyd's authority in the civil courts.

And, he said, "There will be no kangaroo courts. . . .There will be no cover-up. . . .And the results (of any investigation) will be made known and clear."

In his luncheon speech at the reinsurance law conference, Mr. Davison said that, before he came to Lloyd's, he did not realize "what an extraordinarily litigious market this is."

Mr. Davison said three things have been done during his tenure to prevent "dubious" underwriting practices.

Lloyd's members now must be informed of any personal interest underwriters or their relatives have in any related business. Underwriters also must disclose their reinsurance arrangements in their annual reports. And, the Council of Lloyd's has banned any syndicate reinsurance with companies in which underwriters or their relatives have any personal interest.

In addition, Mr. Davison said, the council plans to ban managing agents from owning reinsurance companies or placing business with a brokerage in which the agent or a relative has an interest. ■

Asbestos litigants eye decision apportioning costs among insurers

By STEPHEN TARNOFF

SANTA ANA, Calif.—In a decision that could affect insurance litigation between asbestos producers and their insurers, a state appellate court says five insurers must share payment of a policyholder's defense costs for litigation over property damage that occurred over a 10-year period.

In *American Star Insurance Co. vs. American Employers Insurance Co.*, the California Court of Appeal for the 4th District held that there was an "occurrence" in each policy period and that $60,000 in defense costs should be apportioned among all of Kennedy Mechanical Contractors Inc.'s liability insurers.

The litigation against Kennedy stemmed from "pinhole" leaks caused by defective pipe that was installed in 1971. The leaks continued at least until 1981. The Kennedy case did not involve asbestos.

But, because the decision defines "occurrence" in CGL policies and spreads the liability among the insurers, some say it could be a precedent in litigation between asbestos producers and their insurers currently taking place in a state court in San Francisco (*BI*, March 4).

In that litigation, five asbestos producers, including Manville Corp., and scores of insurers are fighting over what should trigger coverage for long-latent bodily injury and property damage claims pending aganst the asbestos producers.

Since the decision, insurers in the San Francisco litigation have filed an amicus curiae brief with the California Supreme Court asking that the American Star decision be reversed or that it be decertified so that it cannot be cited as precedent.

The dispute in American Star was between various primary insurers that insured Kennedy from 1971 through 1980 under comprehensive general liability policies.

American Employers wrote coverage for Kennedy from Jan. 1, 1971 until Dec. 31, 1972; Northern Assurance Co. of America from Jan. 1, 1972, until Dec. 31, 1972; American & Foreign Insurance Co. from Dec. 31, 1972, to Dec. 31, 1973; American Star from Dec. 31, 1973, to April 15, 1976; and Gulf Insurance Co. from April 1976 to April 1980.

Kennedy had entered into a subcontract with a general contractor to install water and gas pipes in a building project. The pipes were installed in 1971 and 1972.

From 1973 to 1981, various "pinhole" leaks occurred in the pipes; however, the defective pipes that caused the leaks were not reasonably discoverable until 1974, the court said.

After the suits were filed against Kennedy, it first requested a defense from Gulf, which declined.

American & Foreign, however, accepted the defense under a reservation of rights and spent $2,100 on defense. American Star subsequently picked up the defense.

Kennedy was eventually found not to be negligent in installing the pipes.

In 1980, American Star filed a declaratory judgment action to recover defense costs and indemnity from the four other insurers.

The Superior Court held for American Star, finding there was continuous damage from installation of the defective pipe up to the time of trial and that all of the insurers whose policies covered only a portion of the period were jointly and severally liable.

The court also found that American Star paid $60,294 for defense costs, which the other insurers would have to share.

American Employers, Northern Assurance, American & Foreign and Gulf then appealed this part of the judgment.

Relying on a 1983 case, *California Union Insurance Co. v. Landmark Insurance Co.*, the appellate court affirmed the trial court's decision apportioning the defense costs among the insurers.

"We agree with the conclusion reached by the trial court," said the appellate court. "There was an 'occurence' in each policy period, hence each insurer was liable for the costs of Kennedy's defense."

The court noted there were two "crucial facts" upon which it based its decision. One was that the damage was caused by pipes that were defectively manufactured.

"The resulting damage was, in a very real sense, preordained from the time the pipes were installed," the court said.

The second "crucial fact" was that the damage occurred during each policy period.

"It was occurring from the time the pipes were installed and placed in use. This was a continuous degenerative condition," the court added.

"In our view, under these circumstances, it would be arbitrary to select some finite point, or points, to fix liability."

"We are called upon to determine whether there was an 'occurrence' during each policy period," the court added. "We believe there was."

The court said that American Employers and Northern Assurance would also be liable even though they insured Kennedy in 1971 and 1972, before any leaks were observed.

"...Damage was occurring from the time the pipe was installed and put to use," the court said.

"Since we view this damage as one continuing occurrence result-

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ing in property damage, it necessarily follows there was an 'occurrence' within the meaning of the American Employers and Northern Assurance policies with Kennedy."

"The fact the damage had not manifested itself in leaks does not compel a contrary result. The very nature of this progressive sort of damage usually means it will occur before it becomes apparent."

For the same reason, American & Foreign, which insured Kennedy when several leaks were discovered in 1973, is liable even though the cause of the leaks was not discovered until 1974.

"The presence of leaks during AFIC's time at risk demonstrates the process of deterioration was in motion," the court said. "Thus, an 'occurrence' was taking place during AFIC's coverage period, and it too is liable."

Donald H. Moore, an attorney for American Employers, said the insurer has filed a petition for a hearing with the state Supreme Court that had yet to be ruled upon.

The petition asks that the high court either grant certiorari or decertify the case so that it cannot be cited as precedent, according to Mr Moore.

'We don't want to restrict Judge Brown in his decision,' said attorney Jeffrey Kaufman.

Mr. Moore of the Santa Monica firm of Bolton. Dunn & Moore, said that among the arguments by American Employers is that product liability and work product exclusions in the policies negated coverage.

Those issues were not addressed in the appellate court.

Some insurers have also expressed concern about the potential impact of the decision in the California asbestos litigation.

According to Jeffrey Kaufman, who represents Fireman's Fund Insurance Cos. in that litigation, one concern is that the American Star decision defines "occurrence" in a general liability policy, which is central to the asbestos insurance litigation in San Francisco.

Such a decision has the potential so that others will argue that it is analogous to bodily injury cases as well, Mr. Kaufman said.

Moreover, if a California appellate decision, like the American Star ruling, is viewed as analogous to bodily injury cases, others could construe it to be binding on a trial judge, he said. That might restrict Judge Ira A. Brown in his decision in the California asbestos litigation, said Mr. Kaufman of the firm Hall, Henry, Oliver & McReavy.

"We don't want to restrict Judge Brown in his decision."

He said the record before Judge Brown was far more complete, and contained more testimony and a thorough analysis of the issues than in the American Star case.

According to William Skinner, who represents Armstrong World Industries Inc., an asbestos producer involved in the California litigation, the case is "one more example of a growing number of cases across the country" that are rejecting restrictive coverage theories in favor of a "cumulative injury" approach.

"It's one more of an overwhelming trend of recent cases," that have come to similar conclusions, said Mr. Skinner of the Washington firm of Covington & Burling.

But, he added he does not regard it as an overwhelmingly significant case because it is "not a new departure in California," and the California Union case cited by the court in the American Star decision comes to a similar conclusion.

Attorney Eugene Anderson, who represents asbestos policyholders in disputes with insurers, said the decision was significant in part because it applies the broad coverage trigger handed down in *Keene Corp. vs. Insurance Co. of North America* in a property damage case.

The Keene decision said that insurers must defend and indemnify insureds if the insurers were on the risk at any time from the time of a plaintiff's exposure to asbestos through manifestation of the disease, including an intermittent latency period.

The American Star decision could have an impact on coverage for companies that are sued by owners of public buildings and school districts for the costs of ripping out and removing asbestos from those buildings, said Mr. Anderson of the firm of Anderson Russell Kill & Olick in New York.

He added that the American Star decision was also significant because the suit did not involve policyholders but was a dispute involving only insurance companies. ■

Incentives help Blues cut maternity cost

Blue Cross/Blue Shield plans across the country are reducing maternity costs by as much as $785 by offering incentives to new mothers who shorten their hospital stays. These savings will help reduce group health care rates, according to BC/BS.

A spokeswoman for the Blue Cross/Blue Shield National Assn. said at least 16 plans offer incentives ranging from home nursing care coverage to up to $200 cash.

Blue Cross/Blue Shield of New Hampshire pays $200 to new mothers who leave the hospital within 24 hours after delivery. The mother also receives three visits by a registered nurse and nine hours of homemaker services.

The program produces net savings of about $618 on the average maternity stay, a spokesman for BC/BS of New Hampshire said.

Seven of New Hampshire's 27 hospitals participate in the incentive program by identifying candidates and coordinating the home health care. To take advantage of the program, which is offered as part of the plan's regular hospitalization coverage, a woman must stay in a participating hospital.

Blue Cross/Blue Shield of Rhode Island does not offer a cash incentive, but it supplies up to 14 days of free home care to mothers who leave the hospital within 24 hours after delivery. This includes three visits by a registered nurse, one visit by a pediatrician and up to 20 hours of health aid services.

These incentives also are offered to women who deliver by Caesarean section and leave the hospital within four days after delivery.

The Rhode Island plan is included in its regular hospitalization coverage and saves $517 on Caesarean sections and $785 on routine deliveries, a spokeswoman said.

Blue Cross/Blue Shield of Central Ohio is testing an early maternity discharge program with two local employer groups. The Ohio program pays new mothers $200 if they leave the hospital within 24 hours after delivery and $100 if they leave within 48 hours after delivery. An evaluation of the program showed a savings of "at least $400 a case," said Molly Michael, director of cost containment.

In January, Blue Cross/Blue Shield of New Jersey began offering an incentive program as part of its regular coverage. It provides three visits from a registered nurse and one visit from a home health aid for mothers who leave the hospital within 48 hours after delivery.

Cost savings figures were not available yet, a spokesman said. ■

Three states to test new comp rate system

Continued from page 3

pensation Insurance.

The plan was developed by the NCCI, a New York-based workers compensation ratemaking and research organization, in response to growing concern by employers in the construction industry that the present workers compensation rating system is inequitable.

Every state—except Washington—figures workers compensation rates by multiplying a job classification rate by $100 of payroll.

However, building and construction companies that employ high-wage or unionized workers say they are paying higher-than-average workers compensation premiums, even though they have better safety programs and, therefore, better loss experience than companies with lower-paid employees.

They have convinced state legislators to introduce bills that would base work comp rates on the number of hours worked by employees, as is now done in Washington.

Illinois, Maryland, Pennsylvania, Nebraska and Oklahoma considered similar legislation last year. Legislation was introduced again this year in all of these states except Oklahoma. Similar legislation has also been introduced this year in California and Montana.

The Montana and Maryland measures, which called for the conversion to a man-hour-based system in the construction classifications only, were studied and subsequently killed in committee. However, the measures in Illinois, Pennsylvania and Nebraska are still under consideration.

In Illinois, H.B. 159 calls for the use of a man-hour-based system in all classifications, while H.B. 160 calls for the man-hour-based system to be used just in calculating rates for construction classifications. Both bills are in the House on second reading.

The NCCI is working with the sponsors of the Illinois legislation in an attempt to have the bills withdrawn since the Illinois Insurance Department already has approved the use of LRAP. But, a co-sponsor of H.B. 159, Rep. William Shaw, D-Chicago, said he saw no reason why the Legislature shouldn't still consider the bills calling for a man-hour system.

The NCCI is compiling data to determine how much construction companies in Illinois would pay in premiums under the current system, compared with those under LRAP and a man-hour-based system. That study is expected to be completed in early June.

A similar study was conducted last year in Oregon. The results of that study supported the contractors' claims of premium inequity (*BI*, Sept. 24, 1984). The conclusions of that and a subsequent study convinced a special workers comp task force in Oregon to recommend to the insurance commission that LRAP be approved in that state (*BI*, Nov. 26, 1984).

"We're following the recommendation of the governor's task force; at least for now," Oregon Insurance Commissioner Josephine M. Driscoll said (*BI*, Feb. 4).

In California, A.B. 2119, which calls for a man-hour-based system for construction classifications, has been assigned to the Assembly Finance and Insurance Committee for study. It currently is considering amendments to the bill.

In Nebraska, L.B. 485 calls for a man-hour-based system for all classifications. It has been assigned to the Business and Labor Committee. Observers say the bill probably will be held over to next year, because the Legislature is set to adjourn next month.

In Pennsylvania, S.B. 369, which calls for a man-hour-based system for construction classifications only, has been assigned to the Senate Banking and Insurance Committee.

Because the Pennsylvania Legislature is looking at a major work comp reform package this session, backers of S.B. 369 believe their measure doesn't stand a chance.

"They want us to trade off for benefits (reductions), and we won't accept that," said Tom Miller, president of the Pennsylvania Building and Construction Trades Council.

Meanwhile, legislation to cap the amount of payroll currently used to calcuate work comp rates was introduced in California, Oklahoma and Massachusetts.

The California measure, S.B. 267, calls for a cap tied into an employee's minimum earnings rather than total payroll. The bill has been assigned to the Senate Industrial Relations Committee.

In Oklahoma, a measure calling for a $200 cap on payroll used to calculate premium was defeated early in the session.

And, in Massachusetts, the use of a payroll cap is one of several major work comp reform proposals introduced last month (*BI*, March 11).

The NCCI has studied all of the work comp proposals being considered by the states, and has given the highest marks to LRAP, said Michael Camilleri, NCCI's assistant vp and director of national affairs.

Mr. Camilleri and other NCCI representatives have presented the LRAP concept to the National Assn. of Insurance Commissioners and to employers and trade groups in several states, including Nebraska, Virginia and Massachusetts.

"I think the key states that have been scrutinizing this issue would like to see how LRAP works," Mr. Camilleri said.

He noted that the bottom line—the amount of premium collected by a state that uses LRAP—probably would be unchanged.

"LRAP is just a redistribution of collected premiums," said NCCI's Mr. Hilton. It rewards those employers with good loss experience by giving them a larger experience modification rating credit, and penalizes those with bad loss experience, he explained.

For example, an employer that pays $100,000 in premium and sustains $50,000 in losses may receive an initial 15% experience modification credit, reducing the premium to $85,000. However, under LRAP, a maximum credit of 45% could be added, reducing the premium even further, Mr. Hilton said.

The same principles are applied using debits for those employers with poor loss ratios.

The NCCI is responsible for calculating both the initial experience modification factor and the LRAP factor, Mr. Hilton said.

"An important feature of the program is that there is no additional work for the insurer or employer," Mr. Camilleri said. "It's an automatic program." ■

Lobbying effort

Continued from page 3

That letter, and a sample letter employees could send their congressmen, were enclosed in employees' annual benefits statements. Employees were also asked to send the company photocopies of their letters to legislators.

"We've received copies of over 4,000 letters in response from employees who wrote to their congressmen or senators," said Kenneth J. Morrissey, manager of employee benefits. "And it's still going on—every day we get more. We'll probably get 5,000 before this is over."

He said some union members at several company locations have taken a cue from the salaried employees and started their own letter-writing effort.

The flurry of activity seems to have captured the sought-after attention in Washington.

"Our Washington office has heard from some representatives who are wondering what's going on," Mr. Morrissey said. "So it's given us an opportunity to talk to some legislators about the taxation question."

He said FMC led the campaign because it felt its employees' letters would have more impact than letters on the corporate letterhead.

"It's much more effective for employees to do this than it is for corporations to do this," he said. "Unless employees can convince their representatives that this is against what the people want, these benefits may very well be taxed. And if employees don't want them taxed, they'd better let their representatives know it."

FMC continues to publish articles in its in-house newsletter that explain the employee benefit taxation proposals and remind employees to contact their representatives. Sample letters are printed in the newsletters, along with the names of senators and congressional representatives in employees' districts.

For most companies, such grass-roots political organizing is unusual. For many, it is a first.

"I don't remember the company ever encouraging its employees to become involved in any legislative lobbying," First Interstate's Mr. Murbach said.

"It's a deviation from our normal practice," agreed Howard Mead, manager of benefits-finance for Tenneco Inc. in Houston. "Normally, we have been very low-key, (but) we felt like these benefits were under attack. . .(and) it's time to be proactive rather than reactive. If you aren't proactive, you're going to miss the boat."

In February, Tenneco sent the 800 salaried employees at its Houston office a notice alerting them to the proposals in Washington to tax benefits and eliminate 401(k) plans. To make sure the notices got the employees' attention, they were enclosed with their paychecks.

The notice, which included a sample letter, referred employees to Tenneco's personnel office for the names and addresses of their representatives.

"Please read everything you can on this critical public policy issue, think about it and act on it," the notice said. It urged employees to write to their senators and representatives, the Senate Finance Committee and the House Ways and Means Committee.

Since February, Tenneco has expanded its letter-writing campaign to include the rest of its 35,000 workers. The company also plans to ask its retirees to join in, Mr. Mead said.

Several industry associations and organizations are helping companies mobilize their employees in grass-roots campaigns. For instance, the National Employee Benefits Institute's March meeting focused on such lobbying.

Clyde Manning, director of legislative affairs for BellSouth Corp. in Washington, which sponsored the meeting, called grass-roots lobbying efforts "absolutely vital."

"Employees are constituents as well as employees, and this is a situation where congressmen are particularly interested in finding out what their constituents think," he said. "Six or seven congressmen spoke to us in that (NEBI) meeting and everyone asked us to get our employees involved in this issue because they need to be sure of our views on these issues—they want and need that grass-roots input.

"It's always been my philosophy that anything but the grass-roots constituents that speak to congressmen or senators are a stand-in for the grass roots. The most effective input to the congressmen is for them to receive grass-roots input directly on an issue," he added. ■

Industry groups offer arsenal of aids in war on benefit tax

Ready-to-use materials encouraging employees to lobby for the preservation of tax-free employee benefits are available to employers.

The Health Insurance Assn. of America and the American Council of Life Insurance have put together an "Employee Action Kit," which is available free of charge to any company that wants it.

The kit contains educational and support materials, including samples of letters from a company official asking employees to write their representatives; sample letters by employees to their representatives; sample letters to the editors of newspapers and magazines; and names and addresses of representatives.

The kit includes graphics materials that can be reprinted in company newsletters. One headline says, "It's Time to Say 'No' to New Taxes on Employee Benefits." A graphic illustrating the hand of Uncle Sam forcing money out of a wallet briefly explains the tax proposals and encourages employees to write their representatives.

Several articles on benefit taxation that are "camera-ready"—easy to duplicate for use in an in-house publication or as hand-outs or payroll "stuffers"—also are contained in the kit, as well as a prepared speech that can be delivered verbally or reprinted in a newsletter or handout.

The HIAA and the ACLI also have made a 12-minute videotape called "The Worst Little Horror Story in Taxes," which discusses employee benefits taxation and urges employees to write their representatives.

Dracula introduces the video, saying, "In my role as a husband and father, I see something that *really* frightens me."

The video features representatives from the federal government, the insurance industry, the U.S. Chamber of Commerce, organized labor and the general public, all of whom address the issue of benefits taxation.

Pamphlets titled "What You Can Do About the Threatened Tax on Employee Benefits," which supplements the video, are 5 cents each. The cost of the video ranges from $40 to $70, depending on the type of tape needed, but it also can be borrowed and taped by groups free of charge.

The HIAA and the ACLI are both located at 1850 K St. N.W., Washington, D.C. 20006. The HIAA's phone number is 202-862-4124, while the ACLI's is 202-862-2284.

The Association of Private Pension & Welfare Plans in Washington also is developing an information kit similar to one prepared by HIAA and ACLI. A spokeswoman said APPWP's goal is to educate employees on the issue of benefits taxation and encourage them to take action.

"What we want to do is get into the hands of employees materials that will explain to them exactly what is happening in Congress," the spokeswoman said. "We want to generate a large flow of mail. Our philosophy is, 'Contact your representative early and often.'"

For information, contact the APPWP at 1201 Pennsylvania Ave. N.W., Washington, D.C. 20004; 202-737-6666.

The National Employee Benefits Institute also is compiling a package of information on employee benefits taxation and suggestions on organizing a grass-roots campaign. Mr. Manning said the kit will be free to NEBI members and may be available to non-members.

For more information, contact NEBI, 2550 M. St. N.W., Suite 785, Washington, D.C. 20037; 800-558-7258. ■

California comp fund told to pay millions

Continued from page 2
more than 40 years, attorneys say the state's four-year statute of limitations probably will prevent the cities and counties from collecting damages prior to January 1976—four years before the lawsuit was filed.

Nonetheless, attorneys for the plaintiffs say they may ask for reimbursement of benefits paid prior to 1976 by some of the cities and counties.

The judge based his ruling on the policy language, the California Labor Code and several prior decisions.

According to the ruling, the language of the fund's policies requires the fund to pay policyholders for all workers compensation benefits required under the California Labor Code. And, Section 4850 of the Labor Code states that publicly employed firefighters, police officers and other safety workers are to receive full salary for up to one full year if they are disabled as a result of a job-related injury.

The court has not yet ruled on the issue of damages, but before the trial, plaintiffs estimated they paid $78 million in benefits that the fund should have paid.

The plaintiffs are asking for reimbursement with interest for the benefits they paid, that the fund should have paid, and for payment of court costs and attorneys' fees. They are also seeking an unspecified amount of punitive damages.

An exact determination of damages will involve an examination of the historical records of each plaintiff, explains Robert P. Mallory, an attorney with the Los Angeles law firm of Pettit & Martin, who represented the plaintiffs.

But, another plaintiffs' attorney said that, with interest and court costs, the amount could top $100 million.

Attorneys for the fund say even the $78 million estimate is far over-stated.

Alan Halkett of the Los Angeles-based firm of Latham & Watkins, which is representing the state fund, says he does not know how much the fund will utlimately have to pay under the ruling. But, he said he doesn't believe it will be "anything near" the $78 million estimate.

Officials of the State Compensation Insurance Fund could not be reached for comment.

The fund reported written premiums of $606.3 million and policyholder surplus of $494.2 million in 1984.

Attorneys for both sides will meet with the judge later this month to discuss how any damages ultimately awarded should be calculated and divided among the plaintiffs.

And, that issue could be litigated separately if they cannot reach agreement, Mr. Halkett says.

The fund has not yet decided whether to appeal Judge Chernow's decision, according to Mr. Halkett. But, sources say the fund's board of directors will meet today to decide how to proceed.

Under California law, public entities must either self-insure their workers compensation risks or insure them through the fund.

Ideal policyholders face deadline

Continued from page 2
various retentions by Ideal. Therefore, no two assumption agreements could be the same, according to Mr. Alberti.

The assumption agreement reached between A&P and the New York Insurance Department provided for payment by A&P of all premiums due Ideal; and for National Union Fire Insurance Co. of Pittsburgh, an American International Group Inc. unit, to assume all liabilities related to A&P.

The agreement also says that Ideal assigns to National Union reinsurance related to A&P's account. However, A&P further agreed to release reinsurers of their obligations and is not obtaining any return premium, according to a reinsurer on the account.

A major concern of the New York Insurance Department is that none of Ideal's creditors be given the "preferential utilization of Ideal's assets," according to Mr. Alberti.

The A&P agreement met these conditions for several reasons, he explained. National Union issued new insurance policies to cover the period previously insured by Ideal. A&P's plan also was essentially a retrospectively rated plan and, as a result, retaining the A&P business would not benefit Ideal. Much of A&P's business was reinsured with A&P's captive insurer, and A&P agreed to assume Ideal's retention, which was about 5% to 6%.

Hospital Corp. of America in Nashville, Tenn. is among Ideal Mutual policyholders that have been unable to negotiate an assumption agreement with the New York department.

"I don't know what is holding it up," says Robert A. Reeves, who is in charge of risk management for HCA.

"It's just dragging on, and on, and on," he said.

HCA is willing to do "anything reasonable," he added. "So who do you think is holding it up?" he asked rhetorically.

A New York Insurance Department spokesman responded that the department does what is necessary for the good of policyholders and creditors, and "well-intentioned people" might disagree on what that means.

Archer-Daniels-Midland in Decatur, Ill., had essentially reached an agreement in principle with the New York Insurance Department over a month ago.

However, "all of a sudden" the department informed the company that it was re-evaluating the concept, said David Spector, a partner with Isham, Lincoln & Beale in Chicago, which is representing ADM.

Since then, despite dozens of phone calls, Mr. Spector says he has been unable to re-establish contact with the department.

Lack of an agreement with the New York department also is preventing ADM from finalizing an agreement with the Illinois department regarding Optimum, he added.

Mr. Alberti counters that the New York department has had to deal with more than just hammering out assumption agreements in managing the Ideal Mutual liquidation.

These assumption agreements require a "tremendous effort," and are being handled on a first-come, first-serve basis, he added. A&P was the first in the door.

Another Ideal Mutual policyholder who asked not to be identified said he had submitted to the New York department a proposal for an assumption agreement but was refused.

"They were not interested in our proposal," he said. "I don't think they want to discuss it."

In the meantime, his company is paying claims within its retention of $150,000 per workers compensation claim and $100,000 per general liability and auto liability claim.

Any assumption agreement will have to resolve how reinsurance will be handled, says Anne A. Sharp, a vp in Chicago for Kemper Reinsurance Co., one of Ideal Mutual's reinsurers (*BI*, April 29).

Kemper Re had a number of involvements with Ideal, including a 75% share of a $750,000 excess-of-loss treaty that covered business written jointly by Ideal and Optimum. The two companies retained $250,000 per risk, she said.

Ms. Sharp said she has been contacted by policyholders because "apparently someone indicated" that Kemper Re was an obstacle to making progress on assumption agreements.

Some of the policyholders, she said, have suggested that Kemper Re return to them their share of any reinsurance premiums paid if they had no losses. But, Kemper Re's premiums were based on the entire book of business, Ms. Sharp said, and returning premiums under individual assumption agreements would leave Kemper Re with a much smaller book of business, and much higher losses.

"We went in for an apple, and we don't want to carry out an orange," she said.

In addition, "It simply is not the kind of reinsurance agreeement that lends itself, conceptually and practically speaking, to being segmented out," she said.

Policyholders should consider that they may never have to draw on Kemper Re's reinsurance, she said.

In Illinois, the agreement between the Illinois Insurance Department and Dart & Kraft provides for Aetna Casualty & Surety Co. of Illinois, a subsidiary of Aetna Life & Casualty Co., to assume Optimum's liabilities for Dart & Kraft's workers compensation, automobile and general liability policies (*BI*, April 29).

Aetna will pay all reported and unpaid liabilities under the policy as well as unreported claims related to the policy period.

The agreement also provides for the cancellation of three 1983 letters of credit with a total value of $4.4 million.

Dart & Kraft had an essentially self-insured program, with a $2 million deductible per claim for its workers compensation and general liability insurance program. The biggest claim the company has ever faced is $900,000 (*BI*, Jan. 14).

Further, the Illinois department has reached an agreement in principle with Quaker Oats Co. in Chicago and has sent a proposal to Atlanta-based Diversifoods Inc.

In the meantime, at least three guaranty funds are starting to assess insurers doing business in their state to cover the unpaid claims of Ideal Mutual policyholders in their states.

Minnesota is sending out an initial assessment of $10 million, says Ralph F. Fenske, managing secretary of the Minnesota Insurance Guaranty Assn. He estimates that Minnesota insurers ultimately will be assessed $20 million to $30 million. About $13 million of Ideal's $200.1 million in direct premiums in 1983 were written in Minnesota.

Mr. Fenske, whose association has already started paying a variety of claims, said he also expects to hire additional staff and has already appointed legal counsel to represent the association in Ideal cases that are approaching trial dates.

In Wisconsin, where Ideal wrote about $6 million in 1983 premiums, an assessment of $2 million is being levied on insurers, says James R. Fox, general manager of the Wisconsin Insurance Security Fund.

The Indiana Insurance Guaranty Assn., which expects to assess its insurers a total of $3 million, is making a "first call" for $1 million, says an employee.

With the exception of the guaranty fund in New York, which is prefunded, state guaranty funds are funded by assessments on insurers doing business in each state.

Not all guaranty funds are paying Ideal Mutual claims yet because of procedural problems, the most troublesome of which is locating Ideal's files.

Guaranty fund officials estimate that about 90% of the files are scattered in various locations around the country, many with claims adjusting companies.

"We've got a disease in the guaranty fund industry today. It's called 'Ideal-itis,' and it's bad. It's curable only through patience and understanding," says E.L. Peterson, managing secretary of the Indiana Insurance Guaranty Assn. in Indianapolis.

Normally, the liquidator sends guaranty funds files from the liquidating company's headquarters.

The Texas Insurance Department, which administers that state's guaranty fund, has been able to obtain only a small percentage of the files so far. "We're touching the very tip of the iceberg," says Barbara Tacker, a department official.

Further complicating the situation, says Mr. Peterson, is that it appears Ideal was not informed of claims of less than $5,000 before they were settled.

Mr. Peterson added that the situation has been made more confusing for the guaranty associations because they must adjust so many different types of claims.

"It's the worst I've ever seen. It's a nightmare," he said.

Another complication is that some major policyholders have been paying their claims, particularly workers compensation claims, notes David Bowers, chairman of the National Committee on Insurance Guaranty Funds.

The administrator for one guaranty fund also complained that when he told one claims adjusting firm to continue paying claims on a Hospital Corp. of America policy, he was told it was already doing so on HCA's orders. "You really feel you're sort of walking on Jello," he said.

Mr. Reeves of HCA confirmed some of the firms' hospitals are proceeding on their own to pay their workers compensation claims, although he could not identify how many because the company is decentralized.

"What would you do as an employer," he asked, if faced with unresolved discussions with the New York Insurance Department on an assumption agreement, as well as questions from employees about why their workers comp claims had not been paid. "The problems are just falling in on us," he said.

HCA is aware it might be hit twice on some claims if its payments are not recognized as satisfying the claims, but "that's the risk you take," Mr. Reeves said.

Louis Blankenbaker, director of risk management and employee benefits for Diversifoods, confirmed his company is also paying all its claims, while it continues to negotiate assumption agreements with Illinois and New York.

ADM is paying hardship workers compensation claims. Spokesmen for other major Ideal policyholders, which include Quaker Oats and New York-based Philip Morris Inc., could not be reached for comment as to whether they were paying their workers compensation claims. ■

Photo: Index/Stone International, Inc.

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Warehouse fire

Continued from page 3

However, no litigation stemming from the fire was known to have been filed as of last week.

Although the cause of the fire has not yet been officially determined, investigators believe an electrical problem may have sparked the fire. Aerosol paint cans spread the blaze from the point where the fire started.

A spokesman for the Federal Bureau of Alcohol, Tobacco and Firearms, which is investigating the blaze, said electrical problems apparently caused the warehouse sprinkler system to malfunction.

The loss of the building will be covered by about $17 million in property and business interruption insurance written for MTM Partners, the warehouse owner, by Great American Insurance Co. of Cincinnati, says a Great American spokesman. He said the coverage was fullly reinsured with Industrial Risk Insurers of Hartford, Conn.

An MTM spokesman would not estimate the value of the building, but said the policy would be sufficient to cover the loss.

The policy will also cover an estimated $1.5 million in rental income MTM will lose during the 14 to 18 months it takes to rebuild the warehouse, Mr. Sade said.

IRI officials commented the cause of the fire was still under investigation.

MTM rented space in the warehouse to three major tenants: New York Bronze Powder Co. of Port Elizabeth; Meiko Warehousing Inc. of Port Newark, N.J.; and Van Brunt Packaging Inc., also of Port Newark.

New York Bronze Powder Co. stored its own product—the aerosol paint—at the Port Elizabeth facility. The other two tenants are warehousing companies that do not manufacture goods but supplied warehouse space to some 50 firms.

The fire apparently began in the section of the warehouse occupied by New York Bronze Powder, according to attorney Gerard Harney of the law firm Cozen, Begier & O'Connor in Westmont, N.J. Mr. Harney said his firm was hired by Mission Insurance Co. to investigate the accident.

Mission wrote $10 million in property coverage for the goods stored by New York Bronze in the warehouse, Mr. Harney said. Mission confirmed that it wrote coverage for a warehouse tenant.

Mr. Harney said New York Bronze has a "fairly substantial" amount of liability coverage, but wouldn't comment on the limits or underwriter. New York Bronze officials couldn't be reached for comment.

Mr. Harney explained that New York Bronze stored aerosol paint in the warehouse for distribution to retailers across the country.

Property insurance covering the merchandise in the Van Brunt and Meiko sections of the warehouse was purchased individually by the companies that stored their products there, according to officials at the two warehousing firms.

Van Brunt officials would not comment on their insurance coverage. Officials at Meiko could not be reached for comment.

The Van Brunt and Meiko sections of the warehouse were stocked with merchandise that included motorcycles, canned food, home electronic equipment, kerosene heaters and office equipment. One tenant said it stored "general merchandise" that included almost anything that could be found in a department store.

Most of the firms that stored merchandise in the Port Elizabeth warehouse are Japanese importers that used the facility to house goods for distribution to U.S. retailers.

Sanyo Business Systems Inc., American Honda Motor Corp. and Ricoh Corp. are among the companies that are currently determining exactly how much was lost.

A spokesman for Honda at its Gardenia, Calif., headquarters said the company lost motorcycles valued at around $10 million in the fire. The loss was covered by a policy written by Tokio Marine & Fire Insurance Co. Ltd., according to the spokesman. An official at Tokio in New York confirmed the insurer wrote coverage for Honda and noted that the motorcycles were stored in the Meiko section of the warehouse. He also said the insurer wrote around $4 million of coverage for other tenants.

A source monitoring loss figures said Sanyo lost an estimated $21 million in electronic equipment and Ricoh lost $13 million in office equipment. Neither company would confirm the figures or release insurance information.

Attorneys and others involved in determining fire losses say there are 30 to 50 insurers involved, many of them Japanese companies.

Several insurers confirmed they wrote coverage for warehouse tenants, but wouldn't identify them.

Ron Moore, assistant vp of claims at Yasuda Fire & Marine Insurance Co. of America in New York, said the fire caused "probably our largest loss, it involved so many accounts."

He wouldn't disclose the number of tenants that Yasuda insured or the amount of claims it faces, except to say: "It is a very large loss. Thank heavens for reinsurance."

According to A.M. Best Co., Yasuda retains a maximum of $120,000 per property risk.

"We were involved, but we didn't have a big bite," said a spokesman for Chubb & Son Inc. in Warren, N.J. He added that after reinsurance, Chubb's exposure was "maybe a half million."

Chubb wrote coverage for "quite a few small firms with limits from $25,000 to $50,000," he added.

An official at St. Paul Fire & Marine Insurance Co. said St. Paul provided coverage for two unnamed tenants. The limit of one of the policies was $100,000, while the other had a $70,000 limit.

Atlantic Mutual Insurance Co. of New York has already paid claims to the two warehouse tenants it insured, according to a spokesman for the insurer, who added, "They were so small they didn't even make our large claims list."

Talbot, Bird & Co. Inc. in New York, an underwriting manager, also wrote coverage on behalf of a pool of insurers for tenants of the warehouse. A spokesman for Talbot, Bird would not disclose the amount of coverage written by the pool or the names of the pool members, but said it was spread throughout all of the approximately 10 members.

Investigators say the fire apparently was caused by an electrical problem at the point where power lines entered the building. Electrical service for the warehouse was provided by Public Service Electric & Gas Co. in Newark.

Public Service Electric & Gas officials wouldn't comment on speculation that the fire was caused by electrical problems, or on the utility's liability coverage.

The ATF spokesman said the agency determined the blaze to be accidental and agreed that a faulty electrical system could be the cause. He added that no electrical safety code violations were found during the investigation.

Mr. Harney, Mission's attorney, said experts hired by his law firm have determined the fire started at the part of the building where electrical lines entered the warehouse.

Investigators have pointed out that exploding aerosol paint cans helped spread the fire to other parts of the warehouse.

The ATF spokesman said the main power switch that controlled the sprinklers' pump was tripped to the "off" position, indicating an electrical problem. The switch may have been tripped by an unusually heavy surge of power, he added.

Since the disabled pump could not supply adequate water pressure to the sprinklers, water could only fall from the sprinklers into a small area of the fire, he said.

Belden Menkus, a fire protection consultant in Middleville, N.J., said local firefighters might not have been aware of the type of merchandise that was stored in the warehouse and were not adequately prepared to fight the kind of fire that erupted. ■

Mission companies fight lawsuits

Continued from page 1

to $118 million from $43 million, improving the company's premium-to-surplus ratio and enabling it to continue underwriting.

For 1984, the new capital improves the company's premium-to-surplus ratio from an unacceptable 10-to-1 ratio to an acceptable 3.6-to-1. In 1985, Mission projects premiums will drop 21% to about $340 million, for a 2.9-to-1 ratio if surplus remains at $118 million.

(On a generally accepted accounting basis, before the capital transfusion, MIG's assets exceeded its liabilities by $8.5 million at year-end 1984. MIG said it could not state the comparable figure after the capital infusion.)

While claiming in court that it is not responsible for Pacific's business, officials from MIG, Pacific and MIC over the past six weeks have initiated at least three group meetings with various members of the Pacific Reinsurance Management reinsurance pool.

Those discussions took place on or about March 25 in New York, March 28 in Los Angeles and April 3 in London.

One source described the London meeting as "pretty acrimonious."

The Ohio Re suit, filed Feb. 21 in U.S. District Court for the Southern District of New York, names MIG, MIC and Pacific. Federated Re's suit, filed Feb. 19 in the same court, names only MIG and Pacific.

Ohio Re was a retrocessionaire of MIC and had a management agreement with Pacific. Federated Re only had a management agreement with Pacific.

The Ohio Re suit was filed on behalf of more than 100 pool members that had management contracts with Pacific and retrocessionaires of MIC. It charges that Pacific "improperly manipulated" loss-reserve development; failed to reserve for property losses that had been incurred but not reported; reported as property treaties certain risks that were actually long-tail casualty risks; and withheld specific information about the risks being underwritten.

Federated Re charges that Pacific "negligently and intentionally" breached management agreements; manipulated reserves; improperly classified policies and lines of business; concealed material changes in the nature of risks assumed; misallocated premiums and losses; and failed to perform proper claim audits of ceding companies.

In addition to rescission of the contracts, Ohio Re is demanding unspecified damages on behalf of all pool members and retrocessionaires from each of the three defendants. Federated Re demands $10 million from Pacific and $10 million from MIG.

Both the Ohio Re and Federated Re suits allege that MIG—as Pacific's parent company—was in complete control of Pacific's operations and was the company's financial support, and therefore responsible for any damages caused by Pacific.

Ohio Re calls Pacific "the alter ego" of MIG and MIC. Federated Re alleges Pacific operated as "a mere department" of MIG.

On March 15, five other Pacific pool participants and one retrocessionaire of MIC joined Ohio Re's suit as named plaintiffs in an amended complaint filed in the U.S. District Court for the Southern District of New York.

The additional pool participant plaintiffs are Abeille-Paix Reassurances in Paris, France; Hamburg International Reinsurance Co. in Hamburg, West Germany; Hassneh Insurance Co. of Israel Ltd. in Tel Aviv; Seguros America S.A. in Mexico City; and Caja Reaseguradora de Chile in Santiago, Chile.

Also joining the action was Walton Insurance Ltd. in Hamilton, Bermuda, which had reinsured MIC.

However, Caja Reaseguradora de Chile wired Ohio Re's New York attorneys, Kroll, Pomerantz & Cameron, on March 21 that it declined to act as a co-plaintiff.

A copy of Caja Reaseguradora's telex has been filed in court, and the three Mission companies allege that "Caja expressly rejected their offer of representation (but) plaintiffs' counsel still have made wholly unauthorized representations in Caja's name."

MIG, Pacific and MIC filed their responses to the Ohio Re and Federated Re suits on April 30 and May 6.

They all ask that the Ohio Re class not be certified and that the court grant a summary judgment on the Federated Re suit.

The Mission companies seek to have the class certification denied chiefly because the court had been convinced by Ohio Re that the Ohio Re and Federated Re suits should not be consolidated because common questions of law and fact did not exist.

Thus, the Mission companies reason, Ohio Re's case cannot be a class action because Federated Re would have to be a member, too.

On May 6, the three Mission defendants filed a cross-motion in New York to stay all claims in the Ohio Re suit that fall within arbitration agreements, pending the outcome of an arbitration petition filed by Pacific and MIC. That petition was filed three days previously in U.S. District Court in Los Angeles.

If arbitration is ordered, the Mission defendants ask that all claims—except those seeking to hold MIG responsible—be stayed pending the outcome of arbitration.

MIG apparently believes it can succeed in its motion to have claims against it dismissed.

The three Mission defendants also claim plaintiffs' allegations are invalid because the statute of limitations for such claims has expired. The statute of limitations for contract claims in New York, where both suits were filed, is six years.

Some contracts in dispute go back as far as 1970, the inception of the pool.

In addition, all three MIG units claim that throughout the period of their management agreements, each plaintiff was completely aware of Pacific's business practices yet none ever objected, never asked Pacific to change them, nor terminated the management agreements.

Therefore, the reinsurers have waived their right to complain about those practices now, the Mission companies contend.

MIG asserts in its response to the Ohio Re suit that although Pacific is a wholly owned subsidiary, its operations have always been entirely independent of the parent.

It says Pacific has always functioned as a separate and distinct corporate entity, a "stand-alone" operation at arm's length from MIG.

MIG states in affidavits and court papers:

- MIG was not a party to the management agreements between Pacific and the plaintiffs.
- Pacific's assets have never been comingled with those of any other MIG unit.
- Pacific's operating officers and staff have been separate from those of MIG.
- Pacific had its own computer and performed its own data processing functions, unlike all other MIG affiliates. Employees at other MIG units did not even have password access to the Pacific system.
- Pacific maintains all its bank accounts separate from MIG accounts.
- Checks issued by Pacific did not have to be countersigned by any MIG representative.
- Pacific prepared its own federal tax returns and its own financial statements.
- Neither Pacific's premises nor property were used by MIG. Pacific even maintained its own telephone and telex numbers.
- Pacific was charged by MIG for its share of the cost of insurance policies, taxes and other business expenses. Pacific even maintained its own errors and omissions liability coverage, with current limits of between $30 million and $50 million.
- Pacific purchased its own supplies from vendors not patronized by other MIG units; arranged for its own printing, unlike all other MIG affiliates, which used MIG's print shop; and used its own travel agency, unlike the other MIG units, which used an agency supplied by MIG.
- Pacific implemented its own dress code and, unlike any other MIG affiliates, required employees to use a time clock.

Numerous affidavits written by current and former MIG and Pacific officials cite an insistence by Ronald C. Bengston, Pacific's president and general manager until January 1983, that Pacific be run entirely independent of MIG.

"In all my interactions with Mr. Bengston, he left no doubt that he was running the show at PRMC and that PRMC would conduct its affairs in whatever way he wanted," according to sworn statements by Richard D. Silver, a former MIG director. Mr. Silver is now the chief financial officer of Westwood Savings & Loan Assn. in Los Angeles.

In fact, Pacific ignored a 1983 recommendation by MIG's director of internal auditing that Pacific's data processing system be coordinated with MIG's system, according to court papers.

"I was personally unhappy with the extraordinary degree of autonomy which PRMC has had, an autonomy which permitted PRMC's management to dismiss our recommendations as it saw fit," says the affidavit of David L. Elsebush, the auditing official.

Westley M. Heyward, who until three months ago was executive vp of MIG, recalls in his affidavit that in July 1982 he was asked by E.R. DeRosa, then MIG president, to help oversee Pacific's operations.

"I was surprised at Mr. DeRosa's request since PRMC had been run by Ronald Bengston... as one of the most isolated and autonomous insurance holding company subsidiaries I have ever encountered," said Mr. Heyward, who is now senior vp at Zenith Insurance Co. in Encino, Calif.

Mr. Heyward participated in May 1983 in the selection of a new president of Pacific.

MIG and Pacific's reponses to the Federated Re suit are similar to their responses to the Ohio Re suit.

Over 15 years from mid-1970 to mid-1984, Pacific's annual written premiums grew to a high of an estimated $55 million in 1983 with about 30 participants annually. MIG stopped reporting separately Pacific's premiums in its annual reports, instead consolidating them with other Mission reinsurance operations.

Mr. Bengston said recently in an interview that the risks Pacific wrote comprised "a real vanilla book, nothing really exotic. In the mind of the management at the time, it was just a routine type of business."

Mr. Bengston, who says he had "a very fine working relationship" with Mission management, left Pacific about two years ago to set up a similar operation in Pasadena, Calif., called Continuity Reinsurance Management Corp.

Several pool participants are reportedly preparing to conduct an audit of Pacific, which would take place in Los Angeles.

In a recent letter to certain pool participants in response to that pending audit, which was read to *Business Insurance*, Lawrence G. Becker, MIG vp and corporate general counsel, wrote, "If the audit shows that business which was intended to be excluded was nonetheless ceded to pool members, PRMC will seek to produce a fair and equitable solution to put the parties as nearly as possible in the same position as if that business had not been ceded."

At year-end 1984, MIC reported $89.6 million as reinsurance recoverable from Pacific on unpaid losses.

Pacific has errors and omissions insurance with a combined limit of $30 million to $50 million, court papers show. For that coverage, placed through Sayre & Toso—MIG's wholesale subsidiary—Pacific paid $125,845 between 1980-84.

Pacific's current net worth, according to affidavits, is about $2.7 million.

If the reinsurers are successful in rescinding the treaties written by Pacific, then Mission Insurance Co.—which fronted virtually all of the pool's risks in its last years of operation—would be responsible for all the attending liabilities, some observers say.

Several reinsurers cite parallels between the suits filed against Pacific and a 1980 court ruling that rescinded four reinsurance treaties issued to Unigard Mutual Insurance Co. of Seattle by Central National Insurance Co. of Omaha and Calvert Insurance Co. of New York (*BI*, Dec. 8, 1980).

That October 1980 decision by the U.S. District Court in Omaha, Neb., was upheld by the Eighth Circuit Court of Appeals in St. Louis.

The trial court said Unigard deliberately misled the two reinsurers about the way the risks were initially underwritten, and that it did not clearly explain to them the role and scope of its managing general agent, Allen-Miller & Associates in San Francisco. The reinsurers returned premiums received from Unigard, which was forced to assume the liabilities.

If the contracts are rescinded in the Mission company cases and MIC is forced to assume the liability, one reinsurer suggests the result will be like "getting blood out of a stone." Having to assume those liabilities would put Mission "in more trouble than it is now," he says.

But, most of the reinsurance community does not see the Mission companies on the losing end when all is said and done.

"If Pacific Re adhered to the philosophy of using the cedant's reserves (as a standard to set their own) and never going below that, I think they have some protection. Assuming they posted the reserves the reinsured did, the suit has little chance for success," said one U.S. reinsurance underwriting manager.

"These pool participants are all big boys. They went into this with their eyes open," observes Jack Buettner, president of American Intermediaries Inc. in Los Angeles.

Leonard J. Meredith Jr., president of NWNL Reinsurance Co., agrees. He says that in today's "buyer-beware" market, reinsurers must select their business partners carefully and then be willing to accept responsibility for that decision.

He adds that NWNL was once asked to participate in the Pacific pool, but decided against it. "I can't imagine why anyone would come to a contrary decision," he says.

Many predict the case will trigger similar disputes.

"Anyone who's an underwriting manager would be interested in seeing what the parameters are for holding someone responsible," observes W.E. (Gene) Taylor, chairman and CEO of John F. Sullivan Co., a subsidiary of Fred S. James & Co. Inc.

If either the Ohio Re or the Federated Re suit is successful, "It will trigger a ton of others," predicts Mr. Meredith of NWNL, a subsidiary of Northwestern National Life Insurance Co. in Minneapolis.

Earl Lanning, vp at The Crump Cos. Inc. in Memphis, says, "It sounds to me like something that's going to be happening quite a bit."

Without referring to either of the suits against the Mission companies, Mr. Lanning said such types of suits are "like grasping at straws—when you're going down the tubes, you'll grasp at anything you can.

Reinsurers, he explains, are even more under-reserved than direct underwriters.

Also not commenting on these suits, Douglas King, chairman of Frank B. Hall (Reinsurance) Holdings Inc. in New York, said "I think there are going to be a lot more (such disputes). A lot of reinsurers are finding very substantial negative results and are attempting to delay payment or renege on agreements."

The Mission defendants are represented in Los Angeles by Buchalter, Nemer, Fields, Chrystie & Younger and in New York by Miller, Singer & Raives. Ohio Re is represented by Kroll, Pomerantz & Cameron, and Federated is represented by Rein, Mound & Cotton, both in New York. ■

Ohio Re reports pool losses

Ohio Reinsurance Corp. was insolvent by $500,000 on the basis of generally accepted accounting principles, according to the 1984 financial statement of its parent, Celina Insurance Group.

However, the insurer reports to the Ohio Insurance Department on its statutory annual statement a surplus of $3.4 million, due to a loss portfolio reinsurance transaction effective Dec. 31, 1984. Reserves of $7.2 million and assets of $3.1 million were transferred to the reinsurer, the company said. The reinsurer was Pinnacle Reinsurance Co. Ltd. in Bermuda, according to Ohio Re's attorney.

"Since the treaty included a schedule for the reimbursement of losses, it has been recorded as a financing arrangement" in the company's GAAP statement, the company said.

An actuarial review during 1984 of Ohio Re's accounts resulted in the addition of $8.5 million to reserves. Of that, $7.2 million was applicable to 1983 and prior underwriting years caused by "the discovery that larger volumes and more long-tail casualty coverage were written by certain ceding companies than were previously reported to Ohio Reinsurance Corp.," the company said.

Although Celina doesn't name Mission Insurance Group in its statement, it says: "Ohio Reinsurance has initiated two legal actions, one of which is a class-action suit," which apparently refers to the suit against Mission Insurance Group and two MIG subsidiaries (see related story).

The other legal action involves a 1983 action against Bellefonte Underwriters Insurance Co., British National Insurance Co. Ltd. and British National Life Insurance Co. Ltd., three Armco Insurance Group units for which Ohio Re wrote reinsurance. That dispute is now before an arbitration panel in London.

Ohio Re says it has recorded $26.1 million in losses on $21.9 million of earned premium related to the litigated treaties.

Aetna sues Gen Re

Continued from page 1

policies."

Aetna's suit contends that General Re has failed to live up to this obligation.

"Although the certificates provide that General Re's liability thereunder shall follow Aetna's in all respects, General Re has repudiated and continues to repudiate its contractual obligation to pay Owens-Illinois asbestos claims. . .," the suit charges.

"General Re's repudiation of its obligation to pay its share of any liability. . .constitutes a breach of the reinsurance certificates."

Aetna also contends that General Re's repudiation of its obligations is final.

Last week, an attorney for Aetna said the insurer filed the suit against Gen Re in Connecticut because that is the more appropriate forum.

"Aetna thinks it is a dispute between two Connecticut companies involving Connecticut law and, therefore, the appropriate forum is Connecticut," said Thomas Groark, an attorney for Aetna with the Hartford firm of Day Berry & Howard.

Mr. Groark also said that Aetna had conformed to all of the requirements of the reinsurance certificates and did not make late claims or withhold proper information, as General Re alleges.

"We gave the notice required under the terms of the contract," said Mr. Groark. "We gave them what we were required to under the terms of the contract."

How much General Re could ultimately owe Aetna, if the Aetna suit were successful, hinges on Aetna's appeal of a November 1984 court decision that granted Owens-Illinois broad coverage for asbestos-related claims.

The decision by the U.S. District Court for the District of Columbia said that the manufacture and sale of asbestos by Owens-Illinois constituted a single occurrence. Asbestos injury claims, therefore, were subject to a single deductible rather than each claim being treated as a separate occurrence that would trigger the deductible, as Aetna contended, the decision said.

The decision also said that all policies written by Aetna for Owens-Illinois are triggered from the time an asbestos victim is first exposed to asbestos to manifestation of an asbetos-related disease—including the latency period. (*BI*, Jan. 7).

As a result of the decision, Owens-Illinois stands to obtain about $350 million in coverage from Aetna. In turn, Gen Re would be on the line for the reinsurance it provided for Owens-Illinois' asbestos risks, if Aetna's suit against it is successful.

Aetna attorneys declined to reveal how much was at stake in the lawsuit or how much Aetna is seeking to recover from General Re.

However, John F. Shea Jr., Aetna senior vp and claim counsel, said the amount Aetna is seeking is an "ongoing figure" that changes from month to month due to the funding arrangement worked out between Aetna and Owens-Illinois.

Mr. Shea said that amount potentially owed by Gen Re is "cumulatively substantial" over the 17 years covered by the Gen Re reinsurance contracts. But, Aetna is currently only reimbursing Owens-Illinois for claims paid since the decision was handed down last November in the Owens-Illinois/Aetna dispute.

Owens-Illinois is handling the cost of paying and defending these claims and is billing Aetna monthly for the expenses. Aetna then is filing claims with Gen Re under its reinsurance contracts.

Pending the outcome of Aetna's appeal of the Owens-Illinois decision, Aetna is not reimbursing for claims Owens-Illinois paid before the November ruling.

(As of late last year, Owens-Illinois reportedly had paid more than $60 million in out-of-pocket expenses for asbestos injury litigation.)

If Aetna wins its appeal of the Owens-Illinois decision, Owens-Illinois will have to reimburse Aetna under terms of the funding arrangement, Mr. Shea added.

Attorneys for General Re could not be reached for comment. An Owens-Illinois official declined comment. ■

Gen Re faces second asbestos suit

By STEPHEN TARNOFF

LOS ANGELES—Besides its dispute with Aetna Casualty & Surety Co. over reinsurance for asbestos losses, General Reinsurance Corp. is embroiled in a similar dispute with another insurer.

Transamerica Insurance Co. sued General Re in April 1984 in U.S. District Court in Los Angeles seeking to recover approximately $2.5 million in reinsurance it contends is owed. Transamerica also seeks $2.5 million in punitive damages.

That suit, since referred to arbitration, involves Transamerica's settlement of asbestos injury claims against GAF Corp.

General Re wrote reinsurance treaties for American Surety Co., which subsequently merged with Transamerica. American Surety from 1951 to 1953 insured Rubberoid Co., which has since merged with GAF.

Transamerica was among a number of insurers named in a 1978 suit filed by GAF that asked a court to determine the coverage it was owed by its liability insurers.

In its complaint against General Re, Transamerica says it initially fought GAF's claims for coverage, but concluded by February 1982 that it should settle the dispute.

Transamerica says it then began negotiating with General Re on the effect of the proposed settlement on its reinsurance coverage.

"At first General Re was cooperative and encouraging; but soon, claiming difficulties with its retrocessionnaires, it ceased to acknowledge and act reasonably or promptly upon Transamerica's communications, and failed even to provide Transamerica with an explanation for its continued refusal to acknowledge reinsurance coverage for Transamerica's settlement plans," the suit says.

Transamerica says it notified General Re in April 1982 of its need for a prompt response to its request for reinsurance coverage.

The suit says that, in June 1982, General Re finally denied Transamerica's request for reinsurance coverage for claims to be paid under the proposed settlement, although General Re offered a "loan" on unreasonable conditions, Transamerica says.

Thereafter, General Re remained intransigent so that Transamerica was forced to resolve the GAF asbestos claims on its own, the suit alleges.

Transamerica says it finally negotiated a settlement with GAF in January 1983. Its provisions included that Transamerica would:

- Pay GAF a total of $900,000 in indemnity payments under the American Surety policies and also concede certain defense obligations.
- Reimburse GAF $100,000 for part of GAF's defense costs it incurred from the time GAF notified Transamerica of its asbestosis claims until the settlement.
- Reimburse GAF $966,899 for a portion of GAF's coverage litigation costs. Transamerica also waived an approximately $20,000 claim for attorney's fees that had been awarded to Transamerica during the course of the coverage litigation.

The suit contends that after the settlement was finalized, Transamerica filed a formal claim against General Re.

However, General Re failed to honor the claim and waited approximately six months before even providing the insurer with a "cryptic and factually inaccurate" explanation of its denial of coverage, the complaint says.

The suit charges General Re with breach of reinsurance treaties and common law and statutory bad faith. It also seeks a declaratory judgment that Transamerica is owed 83.5% of defense costs it paid in defense of GAF for asbestos claims.

An attorney for General Re declined to comment on the suit.

At the time the suit was filed, Transamerica claimed General Re owed it:

- $247,500, which stems from General Re's 90% share of the $300,000 indemnity payment for policy year 1951 above Transamerica's $25,000 retention.
- $275,000, which stems from General Re's 100% share of the $300,000 indemnity payment for policy year 1952 above Transamerica's $25,000 retention.
- $250,000, which stems from General Re's 100% share of the $300,000 indemnity payment for policy year 1953 above Transamerica's $50,000 retention.
- $83,500, which stems from General Re's 83.5% share of a $100,000 payment by Transamerica to GAF for asbestos claim defense costs.
- $807,360.71, which stems from General Re's 83.5% share of the $966,899 payment made by Transamerica to GAF as partial reimbursement for GAF's coverage litigation costs.
- $821,858.55, which stems from General Re's 83.5% share of Transamerica's litigation costs of $984,261.74.

The total amount in reinsurance payments sought by the suit was approximately $2.5 million. In addition, Transamerica seeks $2.5 million in punitive damages.

Since the suit was filed, "the numbers have increased dramatically," said Michael J. Murtaugh, outside counsel for Transamerica with the Santa Ana, Calif., firm of Murtaugh, Hatcher & Miller.

This is because Transamerica has subsequently paid additional defense costs for GAF. Mr. Murtaugh estimated Transamerica has paid a total of $3.5 million in defense costs, and that is still increasing.

General Re has paid Transamerica, "not a nickel," he said.

Discovery in the arbitration is almost concluded and the arbiters will then set a time and place for the arbitration hearing, he added. ■

Blast claims settled for $30 million

Continued from page 2

The machine injects propellant into an aerosol can and then seals the can, said Kartridge Pak attorney John A. Donovan Jr. of the Boston firm of Burns & Levinson.

The propellant was accidentally ignited and created "a fireball" that blew the roof off the plant.

The proposed settlement was reached last week during the first day of a jury trial in Norfolk County Superior Court in Dedham. Judge Robert V. Mulkern will review the settlement, which requires court approval, at a May 20 hearing.

The settlement agreement had not been drawn up late last week, so it was not known whether or not it would include a statement asserting that defendants were not liable in the accident, said Barcolene attorney Joel Pierce of Morrison, Mahoney & Miller in Boston.

While attorneys have agreed not to comment on their clients' share of the settlement or their insurance coverage, sources connected with the case provided some details of the settlement:

- Kartridge Pak will pay the bulk of the settlement. Kartridge Pak has $1 million in primary liability coverage written by Continental Insurance Co. and at least $100 million in excess coverage, primarily written by Lloyd's of London underwriters.
- Barcolene and its affiliates will pay $1.4 million, the limit of their coverage. The companies' primary liability coverage was written by Pawtucket Mutual Insurance Co. of Pawtucket, R.I., and the excess coverage was written by Peerless Insurance Co., a unit of Nationale-Nederlanden U S. Group.
- Deublin Co. of Northbrook, Ill., will contribute an unknown amount to the settlement. Deublin manufactured a valve-like device that connects the supply of aerosol propellant to the machine that fills the cans.

Deublin has $500,000 in primary liability coverage and $5 million in excess coverage. The underwriters are not known.

- ITT Corp., parent of Leiman Brothers Inc., which manufactured a portion of a vacuum pump used in the process, also will contribute to the settlement.

The $68 million plaintiffs sought included $53 million in compensatory damages and $15 million in punitive damanages. It was the largest demand ever made in Massachusetts history, said ITT attorney Tom Porter of Melick & Porter in Boston.

The plaintiffs' suit charged all of the defendants, with the exception of Aerosol Research, with breach of warranty and negligence. Aerosol Research was charged only with negligence.

The 18 plaintiffs will individually receive between $160,000 and $3.95 million, less what they have received in workers compensation benefits. An additional $125,000 will be used to reimburse plaintiffs' attorneys' out-of-pocket costs and to pay financial advisers to advise the plaintiffs, according to a plaintiffs' attorney Michael Mone of Esdaile, Barrett & Esdaile.

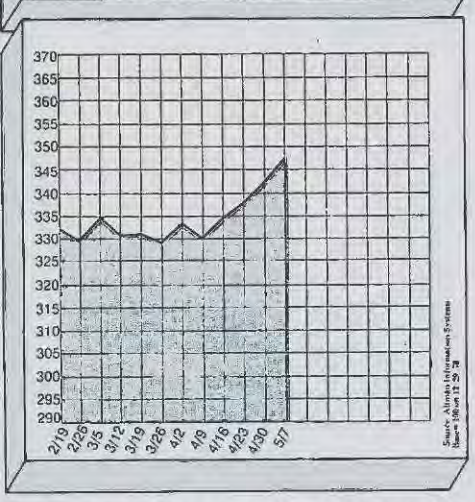
Valve may have triggered salmonella

CHICAGO—A valve that connects a tank containing raw skim milk with pasteurized milk tanks at Jewel Food Stores' Hillfarm Dairy may have played a part in the recent Midwest salmonella epidemic, according to a preliminary report.

The valve, which may have allowed the blending of salmonella-tainted raw milk and pasteurized milk, was among 13 "observations" being evaluated by the U.S. Food and Drug Administration, a state health official said.

Jewel is facing more than 100 lawsuits seeking more than $200 million in connection with the epidemic (*BI*, April 15, 29). ■

BI Insurance Index



The *Business Insurance* index of insurance industry stocks set a record for the fourth consecutive week. The *Business Insurance* index closed at 347.7 points on May 7, which was an increase of 3.5 points from the previous record high of 344.2 points set April 30. A total of 33 stocks were up, 15 stocks were down, and nine stocks were unchanged. The biggest gains were posted by Emett & Chandler Cos. Inc., up 14.1%; Mission Insurance Group Inc., up 12.9%; General Re Corp., up 9.1%; Baldwin & Lyons Inc., up 7.7%; and CNA Financial Corp., up 7.4%. The largest losses were posted by Protective Life Corp., down 12%; SRI Corp., down 8.4%; USLIFE Corp., down 7%; Kansas City Life Insurance Co., down 6.5%; and Frank B. Hall & Co. Inc., down 5.3%. The *Business Insurance* index rose 1% for the trading period, outperforming the New York Stock Exchange index, which rose 0.06%, the Standard & Poor's 500 index, which rose 0.09%. The *BI* stock index also outdistanced the index of the Dow Jones 30 industrials, which dropped 0.4% during the same trading period.

British Issues

7 May Companies	Price pence	P/E	Div. pence	Yield %	1 Week High—Low pence	pence
Comml Union	214	N/M	16.9	7.9	218—	214
Genl Accident	565	95.8	28.6	5.1	568—	565
Gdn Royal Exch	688	19.9	37.1	5.4	690—	685
Royal	585	N/M	33.9	5.8	587—	583
Sun Alliance	447	21.5	21.1	5.0	448—	445
Brokers						
CE Heath	563	9.6	30.0	5.3	565—	563
Hogg Robinson	283	16.2	11.6	4.1	287—	283
JH Minet	227	14.8	8.9	3.9	245—	227
Sedg Grp	358	15.7	14.3	4.0	365—	358
Stew Wrightson	595	15.6	25.7	4.3	597—	585
Willis Faber	658	22.5	18.6	2.8	658—	638

Source: Philip Olsen/Alan Clifton, Insurance Industry Specialists Kitcat & Aitken Stockbrokers, London

Brokers' annual reports more subdued than usual

By LEONARD M. WILSON

Special to Business Insurance

IT IS THE season of annual reports. A close reading of a company's annual often provides insights into the direction of the firm or the industry.

This year's crop of insurance brokerage reports is quite varied in style, content and tone, and more subdued than usual. The common denominator, in our view, seems to be a sense of relief at having survived the worst cycle in recent memory.

Mr. Wilson

Marsh & McLennan Cos. Inc. chose to highlight key staff contributors to various disciplines within its far-flung organization. While not explicitly emphasizing specific directions, the company's annual report provided some interesting insights.

In one vignette, the industry-group concept is cited as an important contributor to client services. Marsh & McLennan has organized industry teams, and in this instance, describes an undertaking of the chemicals and pharmaceuticals client group. The industry team reinforces the knowledge of market conditions and client needs.

In another instance, the firm's nuclear group supported the efforts of a Canadian team devising an insurance program for an Argentinian nuclear reactor. This was accomplished due to the internationalization of Marsh & McLennan and the ability to deploy knowledge across an international spectrum.

Alexander & Alexander Services Inc., on the other hand, eschewed the usual gloss of annual reports for a no-nonsense account of the realignments and financial dislocations involved in extricating the firm from recurring underwriting losses.

The report reads much like a 10-K filing, but that proves effective in conveying that Alexander & Alexander is near the end of a long and difficult road.

Leonard M. Wilson, a special limited partner at 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.

Frank B. Hall & Co. Inc., in contrast, highlighted the capabilities of virtually every office in its system. For example, turn to page 18 and read about the catalogue of skills embodied at Frank B. Hall of San Francisco.

No public broker, in our memory, has furnished so illuminating an account of its organizational skills office-by-office. Any reader would be impressed with the sheer versatility of the firm, perhaps representative of today's international broker. In our view, for other brokers, public or private, Hall's profile is must reading.

Corroon & Black Corp., in a more straightforward approach, describes some of its current initiatives. The firm's computer system is almost on-line with a coast-to-coast integrated network that will support client services and lead to many sophisticated initiatives.

In another direction, Corroon & Black is expanding its participation in health services. In some instances, the firm serves as broker for needed coverages. But, an increasing thrust toward services including consulting and administration of health maintenance organizations and preferred provider organizations promises to generate important growth.

The Crump Cos. Inc., one of the few public brokers to have escaped the mine fields of underwriting, is preparing to increase the written premium of its small but well-capitalized and profitable underwriting subsidiary. Cautious in soft markets, the unit stands to benefit from the current turn in pricing.

Crump also is aiming at what might be characterized as a full-service concept at most offices. This means expanding volume at existing offices to support a larger coterie of professionals. Geographic expansion is likely to continue, along with growth in specialty areas such as surplus lines brokerage, an area in which the company is well-situated despite earlier problems created by the soft market.

Arthur J. Gallagher & Co., the new boy on the block, issued its first annual report as a public company. The narrative of its corporate history offers interesting insights into key programs that have spurred an unusual growth record. The company's philosophy of management, captioned "The Gallagher Way," conveys a sense of disciplined creativity and enlightened entrepreneurship.

Top billing is also given to the company's risk management information system, dubbed RISX-FACS. Based on the roster of services, this sophisticated software system has few gaps. It clearly is aimed at differentiating Gallagher from the competition.

Notably absent from most annuals is any forecast for prices on commercial lines. At the time the reports were being written, it was clear that premium rates had turned. Managements may have felt no need to belabor the obvious, or we might add, express even quiet jubilation over the profit implications of the firm market for the insurance brokerage business. That can wait for next year's reports. ■

Tribunal hears Posgate appeal

By STACY SHAPIRO

LONDON—Former Lloyd's of London underwriter Ian R. Posgate should not be expelled from Lloyd's for life and "deprived of his livelihood" as an underwriter, his attorney says.

In addition, Robert Alexander, Mr. Posgate's counsel, told a Lloyd's appellate hearing last week that Mr. Posgate should not have been found guilty by Lloyd's of accepting gifts that swayed his underwriting decisions.

"We shall suggest both that he should not be found guilty of misconduct and certainly, in any event, should suffer no penalty more grievous than the 2¾ years for which he has already been suspended," Mr. Alexander said.

Mr. Posgate, former chairman of Alexander Howden Group P.L.C.'s underwriting affiliate, Alexander Howden (Underwriting) Ltd., was suspended by Lloyd's in 1982 after a suit was filed by Howden and its parent, Alexander & Alexander Services Inc. The suit alleged he and four other former Howden officials misappropriated as much as $55 million in Howden funds (*BI*, Sept. 27, 1982).

Mr. Posgate currently is appealing two charges on which he was earlier found guilty by a Lloyd's disciplinary committee, whose hearings were not open to the public.

Mr. Posgate requested that the appellate hearing be opened to the public.

The Lloyd's disciplinary committee had acquitted Mr. Posgate of six other charges, among them that he dishonestly misappropriated Howden funds and used Howden funds to capitalize Southern International Re Co. S.A., a Panamanian company.

According to Peter Scott, an attorney for Lloyd's, the disciplinary committee found Mr. Posgate guilty of:

- Accepting gifts from former Howden Chairman Kenneth Grob, another defendant in the A&A suit, knowing they were intended to influence his underwriting. The gifts were a Pissarro painting valued at $90,000 and a 10% share of the Banque du Rhone et de la Tamise, a Swiss bank allegedly controlled by Mr. Grob and other former Howden officials.
- Failing to contradict a statement made by Mr. Grob to a Howden general meeting regarding the ownership of the Banque du Rhone.

At the meeting, Mr. Grob told members that no Howden directors owned shares in the bank after it was sold by Howden to undisclosed shareholders who included Mr. Posgate and other Howden directors, Mr. Scott said.

Disciplinary committee findings against Mr. Grob and former Howden Director Ronald C. Commery, also named in the A&A suit, have not been made public.

Lloyd's proceedings against the two other defendants, former Howden Director Jack Carpenter and former Treasurer Allan J. Page, were dropped because the men are in ill health, said Mr. Alexander.

Another public proceeding to hear charges against former Minet Holdings P.L.C. Chairman John Wallrock was scheduled for last week. However, late last month Mr. Wallrock decided to request a closed hearing, which began last week, said a Lloyd's spokesman. ■

BI Industry Stock Report

May 7, 1985 **5/1/85 thru 5/7/85**

Brokers		Price	% Chg.	P/E	$ Div.	% Yld.	High	Low	Vol.(000)
Alexander & Alexander Svcs	NYSE	27.63	1.4	0.0	1.00	3.6	27.63	27.13	560.8
Baldwin & Lyons Inc	OTC	70.00	7.7	12.7	0.80	1.1	70.00*	65.00	2.4
Corroon & Black Corp	NYSE	45.75	2.8	0.0	1.00	2.2	46.00	44.63	32.7
Crump E H Cos Inc	OTC	28.63	2.2	21.5	0.44	1.5	28.75*	27.75	34.5
Emett & Chandler Cos Inc	OTC	20.25	14.1	96.4	0.00	0.0	20.25*	17.75	12.9
Gallagher Arthur J & Co	OTC	41.75	0.6	25.0	0.28	0.7	41.75	41.50	29.0
Hall Frank B & Co Inc	NYSE	24.50	-5.3	0.0	1.00	4.1	25.00	24.50	279.8
Marsh & Mclennan Cos Inc	NYSE	65.25	-1.1	40.3	2.40	3.7	65.75	64.75	283.5
Poe & Assoc Inc	OTC	8.00	0.0	0.0	0.00	0.0	8.00	8.00	12.0
Reed Stenhouse Cos Ltd	OTC	20.00	0.6	26.0	0.60	3.0	20.00	19.88	210.6
AGENTS/BROKERS	AVERAGE			55.2		2.1			
Conglomerates & Holding Cos.									
American Express(Fireman's Fd)	NYSE	43.88	1.7	15.0	1.28	2.9	43.88	41.88	2,582.6
Anderson Clayton(Ranger/PanAm)	NYSE	36.00	-2.0	18.6	1.32	3.7	37.00	36.00	64.5
Armco Inc	NYSE	7.50	-1.6	0.0	0.00	0.0	7.75	7.50	372.8
Berkley W R Corp	OTC	15.38	6.0	0.0	0.32	2.1	15.38	14.50	144.9
CIGNA Corp	NYSE	53.88	4.9	489.8	2.60	4.8	54.25	50.75	788.3
City Investing Co. (Home Ins.)	NYSE	36.88	-2.0	3.6	0.00	0.0	37.00	36.50*	958.0
CNA Finl Corp (CNA)	NYSE	41.50	7.4	16.0	0.00	0.0	41.50*	38.25	234.0
General Re Corp	NYSE	80.75	9.1	50.5	1.56	1.9	81.00*	73.75	473.4
ITT (Hartford Group)	NYSE	33.63	0.4	11.3	1.00	3.0	34.38	33.63	2,785.3
Optimum Hldg Corp	OTC	0.50	0.0	0.0	0.00	0.0	0.50	0.50	0.0
Sears Roebuck & Co. (Allstate)	NYSE	34.25	1.1	8.5	1.76	5.1	34.25	33.25	2,238.3
Teledyne Inc (Argonaut)	NYSE	244.00	0.2	5.2	0.00	0.0	244.00	242.50	164.7
Transamerica Corp (Occidental & Fred S. James)	NYSE	30.00	0.8	14.7	1.64	5.5	30.00	28.75	615.0
CONGLOMERATES/HOLDING COS.	AVERAGE			10.1		1.7			
Insurers									
Aetna Life & Cas Co	NYSE	44.00	3.8	22.3	2.64	6.0	44.25*	42.13	1,482.9
American General Corp	NYSE	32.13	3.2	10.4	1.00	3.1	32.13	31.13	1,314.1
Amern Heritage Life Invt Co	NYSE	31.00	2.1	9.3	1.20	3.9	31.25	30.13	6.9
American Indty Finl Corp	OTC	19.88	0.6	0.0	1.12	5.6	20.25	19.75	9.2
American Intl Group Inc	NYSE	78.38	3.6	18.4	0.44	0.6	78.75	73.25	471.4
Aneco Reins Ltd	OTC	1.50	0.0	0.0	0.00	0.0	1.50	1.50	5.2
Avemco Corp	NYSE	27.25	2.8	12.6	0.60	2.2	27.25	26.50	17.5
Business Mens Assurn Co Amer	OTC	54.75	-5.2	6.9	2.08	3.8	58.00	54.75	69.3
Chubb Corp	NYSE	68.25	2.8	17.2	2.20	3.2	69.38*	66.00	226.1
Combined Intl Corp	NYSE	45.25	2.0	9.1	2.16	4.8	45.25	44.38	199.8
Continental Corp	NYSE	44.13	2.6	22.9	2.60	5.9	44.25	42.63	839.7
Crown Life Ins Co	OTC	135.00	0.0	14.0	5.00	3.7	135.00	135.00	0.5
Durham Corp	OTC	39.75	2.6	7.7	1.28	3.2	39.75	39.00	22.6
Farmers Group Inc	OTC	58.88	-0.2	10.7	1.76	3.0	58.88	58.13	370.2
Fremont Gen Corp	OTC	28.13	0.4	0.0	0.48	1.7	28.13	27.75	195.4
Great West Life Assurn Co	OTC	366.00	0.1	9.4	14.00	3.8	366.00	365.50	0.2
Hanover Ins Co	OTC	38.50	-1.3	35.6	0.56	1.5	39.00	38.25	74.6
Hartford Steam Boiler Insptn	OTC	85.00	0.6	37.9	3.00	3.5	85.00	84.00	22.3
Kans City Life Ins	OTC	78.50	-6.5	9.0	2.88	3.7	83.00	78.50	6.5
Kemper Corp	OTC	54.13	0.0	31.5	1.80	3.3	54.13	53.63	475.3
Liberty Corp S C	NYSE	30.38	-2.8	14.6	0.72	2.4	31.00	30.25	12.0
Lincoln Natl Corp Ind	NYSE	39.38	-0.9	10.4	1.84	4.7	39.63	39.13	481.6
Mission Ins Group Inc	NYSE	8.75	12.9	0.0	0.00	0.0	8.75	7.75	82.0
Monumental Corp	OTC	31.75	3.3	23.3	1.30	4.1	31.75*	31.00	54.9
Northwestern Natl Life Ins	OTC	32.38	-4.8	7.5	0.80	2.5	33.25	32.38	147.2
Ohio Cas Corp	OTC	56.00	3.0	20.7	2.80	5.0	56.00*	53.88	101.3
Old Rep Intl Corp	OTC	39.38	-1.9	7.6	0.88	2.2	39.38	38.75	79.6
Orion Cap Corp	NYSE	25.00	0.0	0.0	0.76	3.0	25.00	24.50	39.3
Protective Corp	OTC	21.13	-12.0	7.2	0.62	2.9	23.25	20.75	367.2
Provident Life & Acc Ins Co	OTC	100.50	2.0	7.2	3.38	3.4	100.50*	98.00	73.9
St Paul Cos Inc	OTC	68.75	3.6	0.0	3.00	4.4	68.75*	65.50	838.9
SAFECO Corp	OTC	40.00	6.3	14.3	1.60	4.0	40.00*	37.50	394.6
Sri Corp	OTC	17.75	-8.4	30.1	0.68	3.8	18.75	17.75	190.7
Seibels Bruce Group Inc	OTC	20.88	-6.2	0.0	0.80	3.8	22.00	20.88	47.5
Statesman Group Inc	OTC	5.50	0.0	0.0	0.15	2.7	6.00	5.38	168.4
Tokio Marine & Fire Ins Co	OTC	164.00	1.7	28.4	0.00	0.0	164.00	161.75	6.7
Torchmark Corp	NYSE	48.00	1.6	10.6	1.00	2.1	48.00	46.75	119.5
Travelers Corp	NYSE	44.75	4.7	10.9	2.04	4.6	44.88	42.13	766.6
United Fire & Cas Co	OTC	21.00	0.0	0.0	0.80	3.8	21.00	21.00	1.1
United States Fid & Gty Co	NYSE	33.50	0.0	36.0	2.20	6.6	33.50	32.25	3,628.0
Uslife Corp	NYSE	36.50	-7.0	8.3	1.04	2.8	38.25	35.88	430.2
Washington Natl Corp	NYSE	25.25	-4.7	7.8	1.08	4.3	26.00	25.25	29.5
Zenith Natl Ins Corp	OTC	13.00	-1.9	0.0	0.68	5.2	13.25	13.00	9.2
INSURANCE COMPANIES	AVERAGE			15.8		3.3			

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