

business insurance

update

Early retirement incentives to appear on balance sheets

NEW YORK—"Sweeteners" offered to employees as incentives for early retirement will have to be shown immediately as liabilities on a company's balance sheet, according to new rules voted on by the Financial Accounting Standards Board.

FASB, the rule-making body of the accounting profession, has voted unanimously to require lump-sum payments, continuing salary payments

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Engine failure may cost Eastern Air Lines \$4 million

By BILL DENSMORE

MIAMI—A seemingly minute goof by mechanics checking routinely for metal chips in jet engine oil may cost Eastern Air Lines Inc. or its insurers as much as \$4 million in engine damage.

An Eastern L-1011 Tristar jetliner carrying 172 passengers was almost forced to land in the Atlantic Ocean May 5 when all three of its engines shut down during midflight on a 150-mile trip from Miami to the Bahamas.

The mechanics' failure to pop oval-shaped, rubber gaskets onto three oil plugs before takeoff is blamed for the shutdown of the wide-body aircraft's three Rolls Royce engines. After a harrowing glide to less than 4,000 feet above the Atlantic Ocean, pilots coaxed one of the engines back to life on the third try.

After a safe landing in Miami, officials discovered all three engines lost their supply of oil through the leaking plugs that were not properly protected because of the missing gaskets.

Eastern's total cost for the engine damage will depend on the engine deductible on its hull and liability policy—which the airline won't discuss—and the extent of the damage to the two engines which lost their oil.

Two of the three Rolls Royce RB-211 engines seized for lack of oil during the flight and the re-started engine was reported to have been smoking as the aircraft landed.

If the engines are declared a total loss, they would have to be replaced at an estimated cost of \$3.4 million. However,

Rolls Royce and insurance sources say it is likely only portions of the two engines that never restarted will need replacement. They estimate that could cost \$1 million to \$2 million per engine. The NTSB said the third engine that was restarted may have been relatively undamaged.

Although Eastern declines to discuss its current hull and liability coverage, industry sources say it had a \$400 million hull and liability policy last year.

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Photo: Wide World
Gaskets were missing on the L-1011 oil plugs.

Unisex rates expensive for employers, insurers

By JERRY GEISEL

WASHINGTON—Legislation barring sex as a factor in determining insurance premiums and benefits would have a devastating effect on employers and insurers.

Two bills—S. 372 and H.R. 100—that have been introduced in Congress would retroactively eliminate the use of sex as an insurance rating factor. H.R. 100 is already headed for a House committee showdown.

Under the legislation, introduced by Sen. Robert Packwood, R-Ore., and Rep. John Dingell, D-Mich., whenever there is a difference in benefits between men and women, the benefit of the disadvantaged sex would have to be "topped up." The legislation would:

- Require most of the nation's employers to overhaul their pension plans to boost benefits for women or men at a tremendous cost.

For employers sponsoring defined contribution plans that provide different levels of benefits to men and women through annuities that typically pay women smaller amounts per month assuming they will live longer, women's monthly benefits would have to be raised to equal men's benefits.

For example, if a woman received \$300 a month in pension benefits and a man \$350, the women's monthly benefit would have to be raised to \$350.

Employers with defined benefit plans would have to amend any differing joint and survivor benefit provisions, increasing pension benefits to male retirees who choose the option. This would be the only effect on defined benefit plans, but it would be expensive.

The cost of retroactively topping up benefits to retired workers and future retirees under either defined contribution or defined benefit plans would be staggering.

The U.S. Department of Labor, in a study released in January, put the annual cost at \$1.7 billion, an estimate some industry experts believe is conservative.

For example, during the next 10 years, New York City alone would have to spend \$82 million each year to top up benefits, according to Mayor Edward Koch.

That huge payout probably would force the city to reduce essential services, like police and fire protection, Mayor Koch told a Senate committee.

- Force life insurance companies to top up benefits for millions of policyholders.

Women, for example, pay less for whole life insurance than men because women generally live longer.

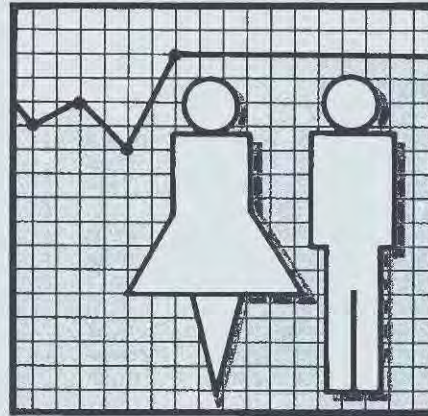
For example, a 25-year-old woman pays about \$555 a year for \$50,000 of whole life insurance, while a man the same age pays \$596.

Because her premiums paid for the policy are smaller, the cash value of the woman's policy would be smaller than the man's. After 20 years, the cash value of the woman's life insurance \$50,000 policy would be \$12,525, while the man's policy would have a value of \$13,711.

The Packwood-Dingell bill would require insurers to top up the cash value of the woman's benefit so that it equaled the man's.

Even though insurers would charge women higher premiums in the future for this higher coverage, the

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Graphic: Jim Bakasetas

Manville's proposal excludes trial courts

By STEPHEN TARNOFF

NEW YORK—Manville Corp.'s proposed reorganization plan would give asbestos claimants a choice of systems through which to resolve claims but would not give them the right to a court trial.

The "basic structure" of the long-awaited plan, unveiled by Manville last week, calls for either a no-fault defined benefit system or an arbitration scheme for resolving claims, while creating a new Manville Corp. that would be shielded from any asbestos liability.

The plan would use the same compensation mechanisms for both current and future claimants if the bankruptcy court rules that future claims can be considered in the company's reorganization.

In short, the proposal spells out in more de-

tail what Manville has always sought in the past: to take the asbestos problem out of trial court and rid itself of present and future asbestos liability in a more defined manner than random jury verdicts.

"The plan Manville proposes to file is intended to provide for an efficient and equitable resolution of asbestos-related health claims without the inconsistent results and expense and delay of the tort litigation system," the company said in the May 12 announcement.

However, representatives of co-defendants and plaintiffs' attorneys blasted the proposal last week in bankruptcy court, saying it represented little progress and would have a tough time winning acceptance.

Manville, the world's largest asbestos producer filed for reorganization under Chapter

11 of the Federal Bankruptcy Act last Aug. 26, citing its inability to handle overwhelming asbestos claims.

When it filed for bankruptcy, the company faced 16,500 claims and projected it would face a total of 52,000 asbestos suits by the end of the century. Its minimum asbestos liability would be \$2 billion, it said at the time.

The proposed reorganization plan, presented in U.S. Bankruptcy Court for the Southern District of New York last week, will only come into play if a negotiated consensual plan with plaintiffs and creditors cannot be reached, Manville emphasized.

Negotiations are continuing in an effort to arrive at a consensual plan that would settle asbestos injury claims as well as the claims of lenders and trade creditors, Manville Senior Vp G. Earl Parker said (BI, April 4).

However, if a consensual plan cannot be worked out, the reorganization plan would have to be approved by various creditors' committees, including asbestos plaintiffs and general creditors, as well as receive approval from the New York bankruptcy court.

The reorganization plan outlined by Manville does not include how much money would be available to asbestos plaintiffs or how payments to claimants would be timed.

"Specifics about exact amounts and timing of payments to asbestos-health claimants under the 'no-fault' system (included in the reorganization plan) are not yet available pending completion of detailed studies," Mr. Parker said.

The unique aspects of the plan include:

- A new company (referred in Manville's
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Baltimore Orioles insure profits against rainouts
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Profit-pinched brokers focusing on controlling costs
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update

FASB on early retirement perks

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and supplementary income payments to be reported immediately as liabilities, regardless of when they are paid.

The new rules also will require any increased pension benefits associated with an early retirement plan to be reported immediately as liabilities. Presently, unfunded pension liabilities are only reported in notes to financial statements, not on the balance sheet itself.

FASB's early retirement rules will take effect for fiscal years beginning after April 15, 1983.

The rules are seen by some as an indication of how FASB might act on another set of proposed rules that would move all unfunded pension liabilities for defined benefit plans out of a financial statement's notes and onto the balance sheet.

The proposed rules have sparked protest from many who feel that the adverse impact of such a change will force many companies to drop their defined benefit plans.

Although its vote on early retirement sweeteners was unanimous, FASB has not agreed on how to treat the long-term gains to pension accounts that result from early retiree no longer accruing benefits.

A final statement by FASB on the early retirement rules is expected this summer.

St. Paul hikes Minet holding

LONDON—The St. Paul Cos. Inc. has assured Lloyd's of London Chairman Peter Green that it will remain a minority shareholder in Minet Holdings P.L.C., Minet's board announced last week.

The guarantee came after St. Paul earlier this month increased the percentage of Minet stock it owns by 1% to 26%.

Last month, after St. Paul boosted its Minet holdings to 25% from 20%, Sir Peter warned that Lloyd's could rescind Minet's standing as a Lloyd's broker if St. Paul bought any more Minet stock (*BI*, May 2). However, the new purchase will not affect Minet's status at Lloyd's, Sir Peter told Minet Chairman and Chief Executive Officer Ray Pettitt.

Douglas W. Leatherdale, St. Paul's executive vp, said the insurer increased its Minet holdings to 26% to achieve equity accounting treatment for Minet in St. Paul's accounts.

Funds found at P.C.W.

LONDON—The new management at P.C.W. Underwriting Agencies Ltd., a subsidiary of Minet Holdings P.L.C., says it has discovered about 23 million pounds (about \$36.1 million) that it believes belongs to Lloyd's of London underwriting syndicates.

Some of the amount found in an internal audit is cash and some is in the form of other assets that have been controlled by overseas trusts set up in Gibraltar, according to a letter issued to Lloyd's members by P.C.W. Chairman Richard Beckett.

About \$26 million in funds was located in the Banque du Rhone et de la Tamise, a Swiss bank whose shareholders included five ex-directors of Alexander Howden Group P.L.C. and two ex-chairmen of P.C.W. Underwriting.

Both Minet and Howden are under investigation by Lloyd's, the Department of Trade and the City of London Fraud Squad following allegations that former officials directed syndicate funds into offshore reinsurance companies they secretly owned.

It is not known if any of the assets discovered were funds allegedly funneled into the reinsurers (*BI*, Nov. 8, 1982).

MGIC under added scrutiny

MADISON, Wis.—MGIC Investment Corp. must give Wisconsin insurance regulators 30 days' notice before any significant financial transactions with its parent, Baldwin-United Corp.

Wisconsin Insurance Commissioner Thomas P. Fox said MGIC and its subsidiaries, which write surety bonds, directors and officers liability and mortgage guarantee insurance, haven't experienced any financial difficulties. But he says he wants to ensure that MGIC's assets remain of high quality.

Insurance commissioners met two weeks ago in Little Rock, Ark., where two of Baldwin's life-insurance subsidiaries are based, and extracted a promise from the troubled parent that it will gain their prior approval of all material financial transactions (*BI*, April 18; Jan. 10; Nov. 1, 1982).

A National Assn. of Insurance Commissioners task force assigned to study Baldwin's troubles appointed a committee to work with Baldwin, its insurance subsidiaries and its bank group. The group is chaired by the insurance commissioner of Indiana and includes officials from Illinois, Arizona, Arkansas, California and Texas, according to NAIC President Roger C. Day of Utah.

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Payments to bankrupt company covered by bond, Chicago says

By STEPHEN TARNOFF

CHICAGO—The city of Chicago says "advances" it paid to a now bankrupt construction company to complete a rapid transit project will be covered under the contractor's performance bond.

However, surety experts say the fact that the city made those advances at all is highly unusual.

Top city officials, including former Mayor Jane Byrne, approved two transactions in March and September 1982 to provide \$2.5 million to the suburban Chicago firm, V.N. Deprizio Construction Co., to complete the Chicago Transit Authority's rapid transit line to O'Hare International Airport.

This March, Deprizio filed for reorganization under Chapter 11 of the Federal Bankruptcy Act. The project is not completed, and the construction company still owes the city more than \$1.5 million of the advances, the city says.

State and federal agencies are trying to determine if the city's advances to the construction company involved any misuse of taxpayer funds or violations of state or federal laws.

Some say the motive behind the advances was to make sure the project was completed before the city's Feb. 22 primary election, which Mayor Byrne subsequently lost. A spokesman for the city denied that charge, saying, "We were just trying to help them out."

City officials say that under no circumstances will the city have to pay more than the \$13.3 million contract price when the project is finally completed.

The surety bond underwriter, Insurance Company of North America, a CIGNA Corp. unit, agreed at the time the advances were being negotiated to perform on the bond and complete the project even if the city did advance money to Deprizio, the city says.

"Regardless of whom finishes the job, that (the contract price) is all the city has to pay," said Richard F. *Continued on page 24*



Photo: Sheila O'Donnell

Deprizio's bankruptcy has delayed work on the Chicago rapid transit project.

Sallie J. Drury promoted at BI

CHICAGO—Sallie J. Drury has been promoted to staff reporter in *Business Insurance's* Chicago bureau, Editor Kathryn J. McIntyre announced.

Ms. Drury, who was formerly editorial assistant at *Business Insurance*, joined the magazine's staff in January 1982.

Ms. Drury received a bachelor of arts degree in journalism and English at Ohio Wesleyan University in Delaware, Ohio.



Ms. Drury

While still at Ohio Wesleyan, Ms. Drury participated in a summer internship program sponsored by the American Society of Magazine Editors and worked at *Guideposts* magazine in New York City.

As a staff reporter, Ms. Drury will cover a wide variety of risk management and employee benefit topics. She can be reached at 312-649-5352.

Arbitrator to decide if comp or liability policy should pay

By CAROL CAIN

LAKE BUENA VISTA, Fla.—An arbitrator will decide whether Walt Disney Productions Co.'s and subsidiary Walt Disney World's excess liability or excess workers compensation coverage will help pay a \$4.2 million settlement to an injured band member.

The entertainment companies have already agreed to the settlement for the claim, which stems from a 1982 accident.

Disney officials contend that the claim falls under the jurisdiction of the Florida workers compensation law but, in an effort to settle quickly, they have paid it as a liability loss with the coverage question to be determined by an arbitrator, said Bert Schecter, Disney's director of risk management.

A ruling that the claim should be paid by workers compensation insurers would be beneficial to Disney, since it has a smaller self-insured retention under its workers comp coverage than under its liability program.

Disney has a \$500,000 self-insured retention under its liability coverage and a \$250,000 retention for workers compensation.

The company has a \$500,000 layer of excess liability coverage with Fireman's Fund Insurance Cos., while it has a \$750,000 layer of excess workers compensation coverage with St. Paul Fire & Marine Insurance Co.

Granite State Insurance Co. provides both excess liability and workers compensation coverage for claims exceeding \$1 million, up to a maximum limit of \$24 million excess of \$1 million.

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Ex-official says fronting rule not needed

By LEN STRAZEWSKI

PHILADELPHIA—The New York Insurance Department's controversial proposal to prohibit unapproved captive fronting arrangements should be dumped, says a former department official who conducted hearings on the proposal.

But a current high-ranking department official says he thinks proposed Regulation 82 is still a good idea, though some amendments could be made.

Linda Lamel, former New York deputy superintendent of insurance, says that proposed Regulation 82, which requires Insurance Department approval whenever a broker or policyholder arranges for a licensed insurer to front for an unlicensed captive, was "an important political and regulatory document" last year.

But, she told a reinsurance symposium sponsored by the Society of Chartered Property & Casualty Underwriters, the proposal is probably not necessary now. Ms. Lamel, who left the department when former

Superintendent Albert Lewis was not reappointed by New York Gov. Mario Cuomo, moderated two public hearings at which more than 20 insurance, legal and risk management representatives testified against the controversial regulation. No one spoke in its favor (*BI*, Jan. 10, Feb. 7).

The insurance industry's arguments, she said, were persuasive and convinced her that a new regulation was needless and that Insurance Department concerns about unlicensed reinsurers could be eliminated by revising existing reinsurance rules.

"If I was still with the department, my recommendation as hearing officer—if they asked—would be to drop Regulation 82. Looking at what we were trying to do in publicizing our concerns about unlicensed insurers and the potential for fraud in New York, what we sought could be accomplished by expanding Regulation 20," she said.

Regulation 20, New York's rule on reinsurance re- *Continued on page 21*

Reciprocal failure leaves truckers looking for cover

By JERRY GEISEL

SAN BERNARDINO, Calif.—More than 1,000 California trucking companies have to find new liability and property insurers following the collapse of a trucking insurance reciprocal.

Western Carriers Insurance Exchange, which insured about 1,200 small, independent owner-operators and large fleet operators, was shut down last month by the California Insurance Department after the reciprocal racked up mounting losses due to underwriting of substandard risks, intense price competition and high expenses, the department said.

"Right now things look pretty bleak," said Joe Morton, a California Insurance Department official who has been appointed conservator of the San Bernardino-based reciprocal.

A reciprocal is an unincorporated company owned by policyholders who insure each other. It is managed by an independent company known as the attorney-in-fact.

According to the Insurance Department, Western Carriers Insurance Exchange, the first trucking reciprocal to fail in California's history, has assets of about \$8 million and liabilities of \$11 million. It wrote \$9.7 million in commercial automobile and physical damage policies for truck drivers in 1982.

Because of Western Carriers' big liabilities, the department intends to liquidate the 6-year-old reciprocal. However, policyholders will get their claims paid.

Outstanding claims that fall within the reciprocal's \$50,000 liability retention will be covered by the California Guaranty Assn., a state fund financed by insurers that aids policyholders when an insurer collapses and can't pay claims.

Bigger liability claims will be covered by the reciprocal's excess insurers. Western Carriers purchased excess liability coverage from Universal Reinsurance Corp., part of Armo Insurance Group Inc. of Milwaukee, to cover claims between \$50,000 and \$1 million and from Lloyd's of London for losses between \$1 million and \$2.5 million.

The reciprocal also retained the first \$75,000 of physical damage losses. The next \$950,000 of that risk was reinsured by Kemper Re and Lloyd's of London; Kemper Re has a 15% share and Lloyd's an 85% share.

Although claims will be paid, the California Insurance Department doubts the reciprocal has enough assets to reimburse investors that contributed more than a \$1 million to start the reciprocal in June 1977. Those investors received certificates that paid 6% interest in exchange for their contributions.

In addition, policyholders that paid a deposit equal to 25% of their annual premium as a contribution to the reciprocal's surplus also may not get those contributions back, said Richard Roth, chief casualty actuary for the California Insurance Department in Los Angeles.

Mr. Roth said a major reason the reciprocal failed was underwriting of substandard risks. "They (the reciprocal's manager) wanted to keep premiums coming in so they let up on their underwriting (standards)," he said.

The acceptance of substandard risks led to higher losses, Mr. Roth said. As a result, reserves were not adequate to pay losses, he said.

But officials with the reciprocal's management firm, Western Carriers Underwriters, which administered the program for a fee of 10% of premiums, say underwriting was prudent. For example, the safety records of the trucking company's drivers were considered in ratemaking, they point out.

Instead, it was intense price competition from bigger, stronger insurance companies that could afford to slash rates that led to the reciprocal's collapse, said David Cranmer, underwriting manager at Western Carriers Underwriters in San Bernardino, Calif.

"We were a victim of price competition," Mr. Cranmer said. "Western Carriers had a lot of loyal policyholders," but the reciprocal could not compete with other insurers whose rates were as much as 50% less than the

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Graphic: Amy Palmer

Insurance guarantees rain won't dampen baseball club's profits

By DOUGLAS McLEOD

BALTIMORE—Most birds can stand a little rain, but apparently not the Baltimore Orioles.

The American League baseball club is so worried about getting wet that it has bought an insurance policy to save for a rainy day.

The policy—cancellation insurance—is designed to reimburse the Orioles for revenues lost if a game scheduled at Baltimore's Memorial Stadium is rained out.

The Orioles, which last won the American League pennant in 1979, decided to buy the coverage after seven rainouts last year washed away "significant" profits from ticket and concession sales, according to Lon Babby, an associate with the Washington law firm of Williams & Connolly.

The firm's senior partner, Edward Bennett Williams, owns the Orioles.

Mr. Babby said he didn't know exactly how much money was lost because of the unusually large number of rainouts in 1982.

Losses might range from \$50,000 for a game where only 10,000 tickets are sold to \$250,000 for a game when the 52,800-seat stadium is filled to capacity, according to Joseph Hamper, the Orioles' vp for finance.

The Orioles' policy, written by Lloyd's of London underwriters through managing general agent American Sports Underwriters Inc. of Woburn, Mass., insures against cancellations due not only to "inclement weather" but also a number of other causes, including power failures; strikes; physical damage to the stadium; bomb threats; kidnap, ransom or extortion; and sickness or injuries that keep-



Graphic: Jim Bakasetas

either the Orioles or their opponents from fielding a full nine-man team.

"(But) the insurance is really intended to cover against games that are rained out," Mr. Babby said.

The cancellation policy is not to be confused with so-called "pluvius insurance," one London broker pointed out. Under a pluvius policy, insurers will pay an agreed-upon sum if a certain amount of rain falls on a sporting event between certain hours. Cancellation of the event is not necessary, the broker said, adding that the policy is about as common as a successful triple steal.

In the event of a rainout, the Orioles' cancellation policy will pay claims based on both advance ticket sales and on the Orioles' estimate of the number of "walk-up" tickets they would have sold that day, Mr. Babby explained.

Ticket sales are not the only area of potential loss, though. As the old song goes, fans want "peanuts and Crackerjack," not to mention hot dogs, beer, soft drinks and ice cream.

Thus, the estimated total attendance for a rained-out game is used to determine how much the team would have earned from its share of food concessions and parking receipts, Mr. Babby said. This all adds up to the team's total loss.

Rainouts are usually rescheduled as a portion of a doubleheader, meaning the team completely loses ticket and parking receipts for one game.

Orioles' officials would not comment on the pol-

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Muppet movies' producer halts insurance activities

By STACY SHAPIRO

LONDON—The new owner of the British entertainment company that produced both the films and the television series featuring the Muppets is cutting its ties to risk management and the insurance industry.

In the six months since Associated Communications Corp. was sold to the The Bell Group, an Australian company, ACC has:

- Dismissed its risk manager, Ron Muckleston, and decided not to replace him.
- Closed down its British insurance subsidiary, Marbarch Insurance Services Ltd., which was also run by Mr. Muckleston.
- Shut down its Bermuda underwriting and captive management agency, ACC Insurance Services Ltd., and stopped paying claims.
- Shut down its Bermuda captive, Marbarch Insurance Co. Ltd.
- Sold its Gibraltar insurance captive, Marbarch Insurance Co. (Gibraltar) Ltd. to an undisclosed party.

ACC was sold to Bell by its former owner, Lord Lew Grade, because it suffered losses when several expensive films, including "Raise the Titanic," flopped at the box office.

The new owner decided to streamline the company when they took over, and one of the first things to go was ACC's insurance division, said ACC Treasurer

Derek Williams. Bell has also sold off ACC's movie theater chain, shares in a British television station and a hotel in Los Angeles.

The new owner is retaining only ACC's music publishing division, television distribution company, movie production unit and the video and audio cassette divisions.

"These are the wishes of the new owners of ACC," said Mr. Williams. "I do not know whether or not they will sell parts of the insurance division or whether they will just run off the business. But the new owners want to streamline the business to the entertainment side."

Apparently, jettisoning ACC's risk management department and captives doesn't bother Bell Group.

"This is also part of the philosophy of our new owners," said Mr. Williams. "They do not want any insurance activity or risk management."

Instead, ACC's insurance decisions will be made by Lloyd's of London broker Stewart Wrightson Group P.L.C., Mr. Williams said.

However, ACC's risk management worries and the premiums it will have to pay will not be as great now since the new owner has sold off much of the company.

ACC used to pay about 1 million pounds in premium to its captives to insure the company's assets, said Mr. Williams. "Now I guess the premium will be about 400,000 pounds."

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Photo: Wide World

Pinched brokers focus on cutting costs

By LEN STRAZEWski

Layoffs, salary cuts and other serious expense-control measures could all be part of beleaguered Alexander & Alexander Services Inc.'s efforts to halt its falling profits, executives say.

A&A was the biggest loser among the publicly held insurance brokerages during the first quarter of 1983, continuing a financial slide that began last summer with the announcement of reinsurance and underwriting problems as well as corporate management upheaval at Alexander Howden Group P.L.C., A&A's British subsidiary.

The company's net income fell 64.5% to about \$6.7 million in the first three months of 1983 from more than \$18.8 million for the same period in 1982. Gross revenues also

dropped, though at a slower pace, falling 4.9% to \$143 million from \$150.3 million in 1982. Per-share earnings dropped to 27 cents from 73 cents the first quarter of last year.

Amidst rumors of massive layoffs and across-the-board salary reductions in some A&A offices, brokerage executives blamed the disappointing performance on the U.S. economy and competition in the insurance marketplace. But the company's management did confirm that greater expense control was needed, even if it meant staff and salary reductions.

"I can't really confirm or deny any of those tactics in any specific A&A offices," William Farley, A&A's senior vp and chief financial officer, told *Business Insurance*. "But layoffs or pay cuts are possible in any of the offices."

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First-quarter broker results (in millions)

	Gross revenues	% change	Net income	% change
Alexander & Alexander	\$143.0	-4.9	\$6.7	-64.5
Corroon & Black	42.0	-5.1	3.2	-33.0
E.H. Crump	13.1	4.4	0.9	-5.0
Frank B. Hall	93.0	-2.9	7.0	-26.2
Marsh & McLennan	257.7	2.6	36.5	4.7
Poe & Associates	5.7	-6.1	0.2	-60.9

Illinois may cut workers' health benefits

Illinois officials say they may have to cut health benefits for the state's 127,400 workers unless a state income tax increase is approved this year.

The state had earlier planned to pay for an estimated \$14 million health insurance premium increase for Illinois state employees by passing the increase onto the workers. But that plan failed to win approval in the Legislature (BI, April 18).

Under Illinois law, the state must pay the entire health insurance premium for its employees.

"At this point, without additional revenue, no further options are available other than to lower the insurance coverage to meet the proposed budget," said Louis J. Giodana, director of the Illinois Department of Central Management Services.

benefit beat

Elimination of a \$1,000 stop-loss provision that caps employee medical expenditures is one area that may be cut, Mr. Giodano said.

Establishing a maximum payment of \$125 per day for hospital rooms is another option. Currently, the state plan pays the full hospital room charged, which averages \$320 in Chicago and \$190 in Springfield.

The state also is considering raising the employee deductible to \$200 from \$100, after which employees pay 20% of medical costs until the cap is reached.

The state was prepared to accept a proposal from Blue Cross & Blue Shield that included the \$14 million increase until the Legislature failed

to pass the bill. Earlier this month, it decided to bid for the coverage.

Universal life

Mead Corp. in Dayton, Ohio, is offering its 8,000 employees a new universal life insurance program through Liberty Life Insurance Co. of Greenville, S.C.

The program, called "The Answer," was introduced Feb. 28 to Mead employees in Dayton and coverage began within 60 days of the program's introduction. Other Mead employees around the country are currently receiving program information.

Universal life insurance is much

like whole life coverage, except that it pays a high yield on the cash value of the policy, has an adjustable face value and allows the policyholder to adjust premium payments to suit his or her ability to pay (BI, Aug. 24, 1981).

Mead employees can purchase as little as \$10,000 of life insurance and up to two times amount of salary, but the policy value cannot exceed \$50,000. The life insurance is paid for solely by the employees through payroll deductions.

The program currently offers an interest rate of 11% on the cash value of the coverage, with 4.5% guaranteed for the policy life. A minimum 10% interest is guaranteed for the remainder of 1983.

Employees can increase or decrease the amount of coverage, subject to administrative and contract

limits and the amount required to keep a specific policy in force. By increasing or decreasing amounts, employees can change the amount of protection or change the rate of cash-value growth.

Partial and total withdrawals can be made from the cash value without interest charges. However, an employee making a partial withdrawal is charged a \$25 fee.

The program continues coverage to retirees until they reach age 70. The guaranteed value for retirees from 66 to 70 years of age is \$10,000. Retirees are covered directly through Liberty Life.

Dependents coverage can be arranged directly with Liberty Life, not through Mead's employee payroll deduction program. Billing for dependent coverage is sent directly to the employee's home.

Mead also offers its employees group term life insurance, paid for by the company, and a stock purchase option, for which employees pay through payroll deductions.

Attaining substantial growth is never easy . . . particularly during a period when many insurers and risk managers are retrenching. Yet that's precisely what Aneco Risk Management Company and its parent—Bermuda's only publicly-owned reinsurer—have done.

Our record over the past two years speaks for itself.

We ended 1982 with more than \$42 million in assets—more than double what we had in 1980.

We realized \$23 million in annualized premiums at the close of 1982 for our Insurance Profit Center operations. That reflects a 100 percent renewal rate, and compares to slightly under \$4 million a scant two years ago.

We increased annualized premiums for our excess and surplus lines operations more than twofold.

We multiplied the number of client companies served many times over.

We augmented our staff to provide full administrative services to the growing number of firms interested in forming Bermuda-based insurance and reinsurance companies.

We extended our various programs to serve not only large U.S. corporations, but also trade associations, insurance agencies and existing captives.

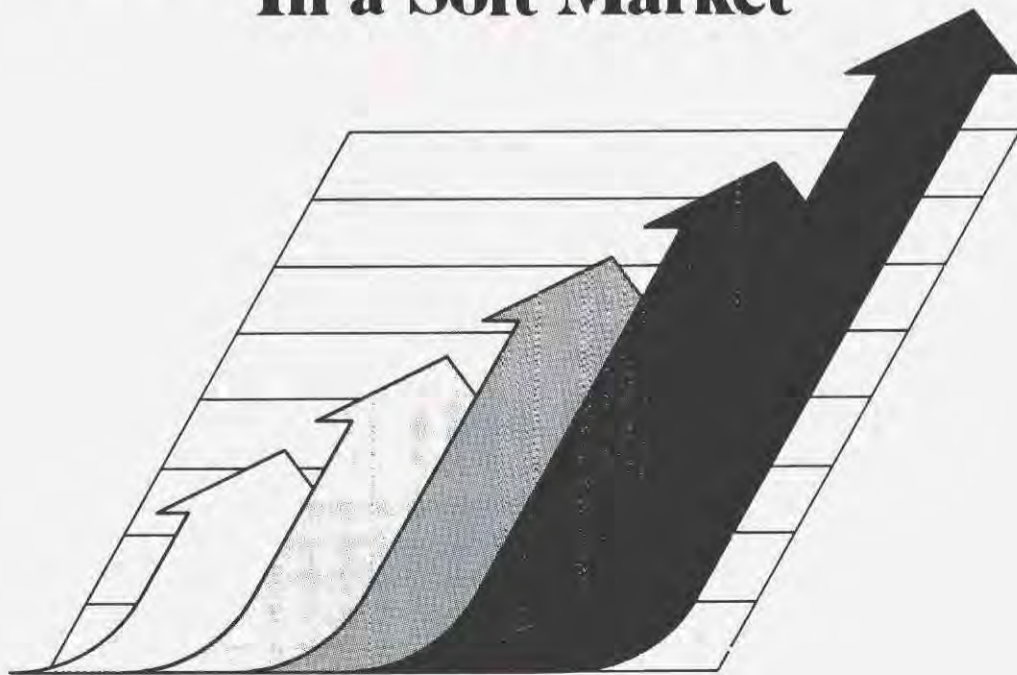
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Canadian benefits

U.S. employers provide managers with more favorable benefits programs than comparable Canadian firms, according to a management salary and benefit study.

The AMS Guide to Management Compensation study, conducted in September 1982 by the Administrative Management Society in Willow Grove, Pa., reports that more than 50% of U.S. companies pay the full cost of pension plans and other benefits, like group life, hospitalization, surgical, major medical, accidental death and dismemberment and long-term disability for management executives.

On the other hand, about the same number of Canadian firms pay only group life, accidental death and dismemberment and major medical coverages for their executives.

According to the study, 58% of companies pay the full cost of hospitalization coverage; 56% pay in full major medical, surgical and accidental death and disability insurance; and 52% completely fund long-term disability coverage.

Only 49% of Canadian firms in the survey fully paid hospitalization benefits for executives; 53% paid all major medical costs; 42% fully funded surgical benefits; 53% paid the full cost of AD&D coverage; and 45% paid all long-term disability insurance costs.

However, the survey points out that Canadian provincial governments do provide socialized medical care, which influences how Canadian companies share health care costs with employees. Some companies also offer supplemental plans whereby employees pay the government for health care and the employers then reimburse employees.

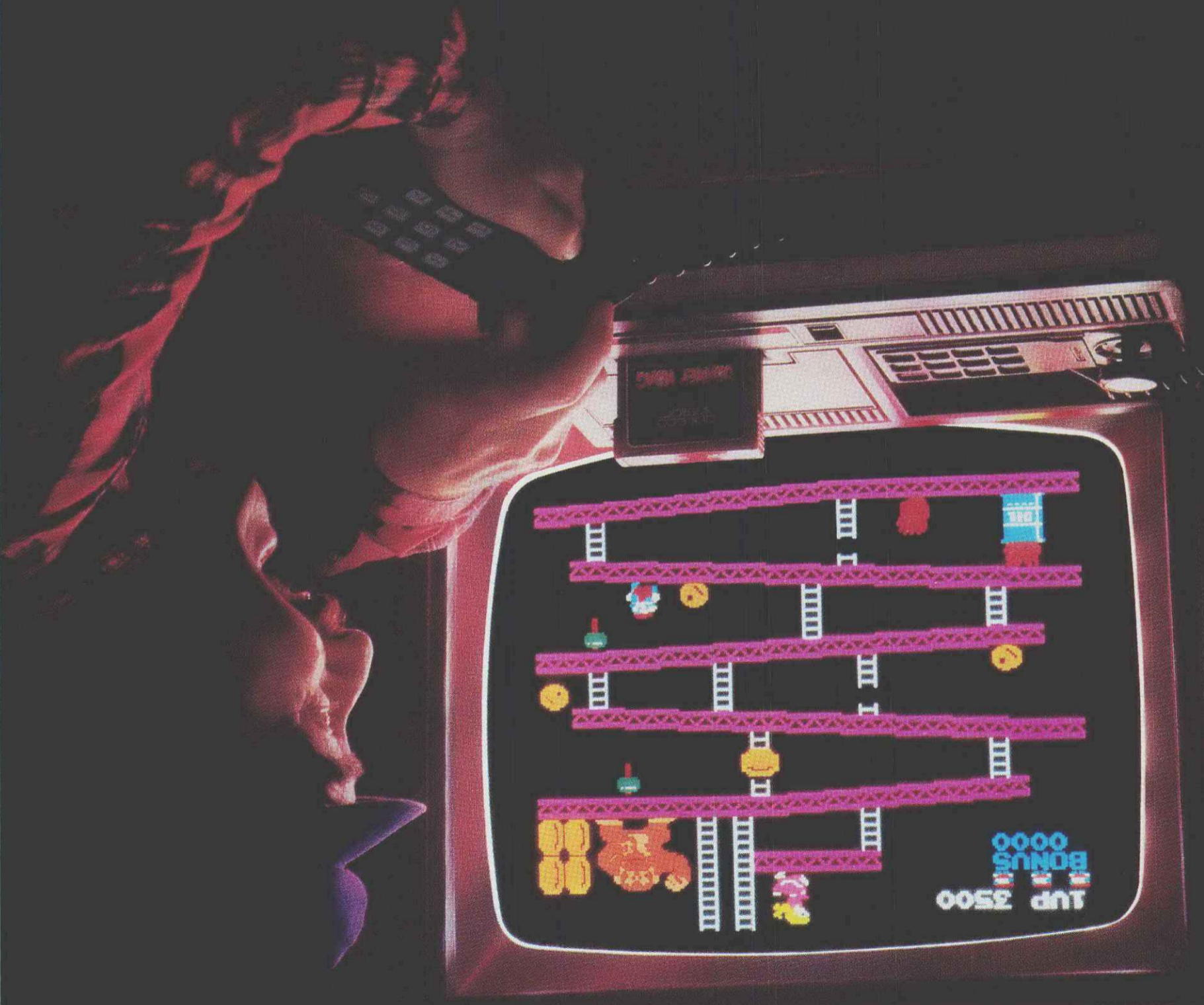
Sixty-three percent of the U.S. companies surveyed paid the full cost of management pensions, while only 19% of the Canadian companies did the same.

The survey covered 20 different middle-management positions found most often in all types of business. Individual statistics were also reported for 113 North American cities.

The AMS Guide to Management Compensation is available for \$60 to Administrative Management Society members and \$90 to non-members by writing "1983 AMS Guide," Administrative Management Society, 2360 Maryland Road, Willow Grove, Pa. 19090; 215-659-4300.

We'd like to know if you've made any changes. Write Claudette Dampier, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611; 312-649-5282.

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opinions

Answer all the questions first

IS UNISEX INSURANCE rating a civil rights issue or an insurance issue?

That is the basic question that Congress must answer in deciding whether to impose unisex rating on the insurance industry and employers' pension plans.

And, it is the basic question insurance professionals must answer in formulating their own opinions and courses of action on this pending legislation.

The Civil Rights Act of 1974 says all persons are to be treated as individuals and not as members of a class. Insurers treat people as members of classes. And, according to insurers, sex is one of the biggest differentials across most lines of insurance. Women and men have different life spans, they use the health care system differently and they have different driving records.

Is the Civil Rights Act inapplicable because insurers have the statistics to prove that men and women should be rated differently?

Although sex-related rating affects purchasers of personal lines insurance more than employers and their employees covered by group benefit plans, there are issues for employers to consider.

Is it fair that under some defined contribution plans a woman who works the same number of years in the same job as a man receives a lower monthly pension benefit because she, as a woman, is expected to live longer and therefore over time receive the same amount as a man?

Is it fair that a man in a defined benefit plan who wants to provide for his wife's income in later years should he die take a smaller monthly benefit under the joint and survivor option than a woman wanting to provide for her husband's continued income should she die early in retirement years?

Does it appear fair when one considers that about 84% of all women and men have the same longevity?

If we say no, it is not fair, then is mandating unisex insurance rating the answer? Will all women support unisex rating in order to force equal benefits under certain defined contribution pension plans when they discover that this is an issue for only a small group of

women—primarily educators covered under defined contribution university pension plans and civil servants covered by municipal plans. When younger women understand that unisex rating will immediately cost them higher premiums for auto insurance, will they want it?

There are other solutions, at least for employers.

Defined benefit pension plans, under which pension benefits for women and men are determined under the same formula for years of service and average pay, could replace defined contribution plans.

Recognizing, however, that employers for many reasons will not want to abandon defined contribution pension plans, they could abandon the annuity option and only pay lump sums upon retirement.

Regarding joint and survivor benefits, some employers already are applying the same reduction for men and women.

This is a very serious issue, for men and women, the insurance industry and employers. It deserves more study and more debate than has been given to it so far before Congress acts.

Congress must understand the impact of the legislation on the financial strength of insurance companies and public and university pension plans before mandating unisex rating. Rather than endorse or oppose unisex rating, we suggest the issue needs more thought, study and debate than has occurred to date.

And, if enacted, it must be practical. Universities and public entities with defined contribution plans that fund their own benefits say forcing unisex rating retroactively and requiring lower benefits to be increased will be a financial disaster. "Topping-up" pension benefits to women could bankrupt insurers and public pension plans because they have not reserved enough money to cover the higher benefits.

If unisex rating is to be mandated, it must start at some point in the future, providing time—and money—to implement it.

One must ask, however, if unisex rating is adopted, what is next? Outlawing age-related rating?

letters

Risk doesn't always have to be something negative

To the editor: It's interesting that seven out of 10 definitions of risk (BI, April 4) had a negative viewpoint only, while definitions No. 3 and No. 5 focused on uncertainty and definition No. 1 (my own favorite) focused on blame. (Actually, "depressing" is a better word than "interesting").

Whatever happened to risk as a tradeoff between the negative and positive potential in a situation?

People "take risks," people "run risks," people have something "at risk"—the implication is always that there is a willingness on the part of the people involved; that people made an active decision rather than a passive one; and that people consciously entered into the process of accepting risk.

Why would people take risks if risks are always negative?

We know that the corollary to risk is opportunity, for there will be no risk takers without a reward (positive) considered equal in scope to the penalty (negative). Risk, by and of itself, isn't negative or positive, but neutral.

It is only the individual's belief or knowledge in the extent and likelihood of success vs. failure that makes for a "good risk" or a "bad risk."

Differing perceptions of the future's spectrum, with its range between the positive (their wildest dreams) and the negative (their worst nightmares), shape the amounts and types of risk people are willing to assume.

"Risk" doesn't focus on where you want to be (positive) or where you don't want to

be (negative) on the spectrum, but rather on the exposure you took to get to a point on the spectrum. Risk is reality's variable which governs where—and if—you will end on the spectrum of your expectations. Whether or not a particular risk pays off is immaterial to the nature of the risk. A particular risk requires only enough potential to warrant your undertaking the venture (e.g., "the perfume of the premium masking the stench of the risk.")

It is only when we look back at the cost

California work comp law

To the editor: The article "Insurers learn to deal with open rating" (BI, May 2) incorrectly mentioned California as a state whose laws permit open rating. That is not the case.

California regulations require insurers to comply with its minimum rate law. Rates higher than the minimum are permitted, under appropriate conditions, but rates lower than the authorized minimums are prohibited.

In addition, California has addressed the control of cash-flow plans mentioned elsewhere in the article. Insurers are required to charge and collect interest on the premium deferred.

The rate of interest to be charged is also subject to a specified minimum, factored on the current prime lending rate that is charged by a designated major California bank.

Richard C. Beeler
Managing consultant
Chapin Associates
Lafayette, Calif.

or worth of a risk that we consider the discrepancy between where we wanted to be and where we actually ended up. Everyone has 20/20 hindsight, but it should be remembered that the exposure we underwent appeared to be worthwhile or we wouldn't have chosen to accept it in the first place. Instead, we could have ignored the inherent potential that went with the exposure and made a different choice.

Michael R. Cartwright
Calgary, Alberta

Disregard for safety?

To the editor: The Cameron & Colby advertisement (BI, March 28) depicts a callous disregard for safely operating a wood-turning lathe: no eye protection on either observer or operator and no protection for the open drive belt.

Cameron & Colby may have true working knowledge of special-purpose risks, but their ad does not depict much safety knowledge. Perhaps BI should police advertising submitted for publication.

William H. Elliott Jr.
Vp
Crain, Langner & Co.
Rocky River, Ohio

■ Cameron & Colby says it appreciates Mr. Elliott's comments on safety concerns.

Business Insurance welcomes letters from its readers. Please keep your comments as brief as possible. We reserve the right to edit letters for clarity or space. Send your comments to Letters to the Editor, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611.

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Insurers not too sure about Liz and Dick

By STACY SHAPIRO

LONDON—The non-appearance insurance covering the reunion of Elizabeth Taylor and Richard Burton in Noel Coward's play "Private Lives" is costing the show's producers more than usual, Lloyd's of London underwriters say.

"The odds of them both turning up (for the entire run) of their new Broadway show are high and the play cannot work without them," said a Lloyd's underwriter who wrote the coverage for the show. "The play is a mirror image of themselves."

"Private Lives" is the story of a divorced couple that falls in love again.

"So we charged a high premium in case one or the other does not show up," the underwriter said, adding that it took underwriters eight different attempts before they could correctly word the non-appearance policy.

"It is a big occasion and a big risk," said the underwriter. The producer of the show paid about \$250,000 for the \$3.25 million non-appearance policy, the underwriter said. Lloyd's is insuring 50% of the coverage with various European insurers picking up the rest.

A non-appearance policy pays for the lost revenue if a show is canceled because its stars cannot perform. It also pays for the cost of casting an understudy should something happen to a covered actor or actress.

The broker of the coverage, R.A. Boyar Inc. of New York, would not confirm how much was paid for the non-appear-

ance insurance, but brokerage President Robert A. Boyar confirms that "it was substantial."

Ms. Taylor's and Mr. Burton's past illnesses and injuries did not make placing the insurance any easier, he said.

Lloyd's underwriters still vividly remember the \$1.2 million non-appearance claim they had to pay when Mr. Burton suffered a pinched nerve and missed the last six weeks of the American tour of "Camelot" several years ago.

"But there was no criticism of Burton from the underwriters," said Mr. Boyar. Mr. Burton pinched his nerve at the beginning of the tour during a sword fight on stage, but he continued to perform until the last six weeks of the tour, when Richard Harris took over.

"We paid for the rehearsals and the time lost and all sorts of other things," the Lloyd's underwriter said. "Camelot" was fraught with difficulty.

Lloyd's underwriters also had to pay about \$300,000 in non-appearance claims when Ms. Taylor became ill during the run of "The Little Foxes" in 1981 (BI, June 1, 1981).

"She had two claims with Lloyd's," said Mr. Boyar, who also brokered the non-appearance insurance for that production. "She had upper respiratory problems, but she did not extend her period of recuperation as she could have," he said.

Miss Taylor also tore ligaments while performing "The Little Foxes" in London. But rather than not show up, Miss Taylor played her part in a wheelchair.

"You have to give her credit for being a trouper," said Mr. Boyar.



Photo: Wide World

"Private Lives" tells the story of a romance much like Elizabeth Taylor's and Richard Burton's.

"Private Lives" is insured for non-appearance risks while it continues its 10-week stint on Broadway and also for its performances in Los Angeles and Washington.

The producers of the show also bought a production insurance package—including property, business interruption and commercial liability coverage—from Chubb Group for a premium of \$25,000, Mr. Boyar said.



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23% of benefit managers in Bay area poll earn \$50,000

By SALLIE J. DRURY

SAN FRANCISCO—Some 23% of the benefit managers from the top 100 corporations in the San Francisco Bay area earn \$50,000 or more a year.

The survey, conducted by consultants Coates, Herfurth & England Inc., showed that another 46% earn more than \$35,000 a year.

The breakdown shows 21% earning \$35,000 to \$39,999; 11% earning \$40,000 to \$45,000; and 14% earning \$45,000 to \$49,999. Only 2% earned less than \$20,000; 12% earn \$25,000 to \$29,999; and 11% earn \$30,000 to \$34,999.

The benefit managers, however, do not often receive bonuses, the survey shows.

Some 65% receive no bonus at all; 7% receive a bonus of less than 10% of salary; 17% receive between 10% and 20% of salary; and 10% receive 20% to 35%.

Most of these respondents believe their compensation is comparable to that of others with similar responsibilities. Almost 60% of the respondents say their salary is "about the same" as others in the field; 21% say it is lower and 17% say it is higher.

The survey, which had a 56% response rate, was intended to reach the person with the highest direct authority for employee benefits plans. Some 81% reported having titles containing the word "benefits," and 54% reported to a director or vp of human resources or personnel. A little more than 5% report directly to the company president.

Fifty-six percent of the respondents were women, which CH&E says is a "surprising finding since nationwide surveys of benefit managers show there are many more men than women in these positions."

Almost all of the respondents are older than 30 and younger than 60. Some 54% are in the of 30- to 39-year-old range; 25% are 40 to 49 years old; and 14% are 50 to 59 years old. Only 5% are 29 or younger and only 2% are over 60.

Some 56% of the benefit managers have undergraduate college degrees and 25% have master's degrees. A slim 5% have doctoral degrees and only 4% have no college education.

Most of the respondents—49%—have been in their current positions one to three years and another 26%

have held their current posts three to six years. Almost two-thirds of the respondents have a total of more than six years' experience in the benefits field.

More than 28% of the benefit managers have annual departmental budgets of \$400,000 or more. But almost as many—23%—had annual budgets of less than \$100,000. Another 35% have budgets of \$100,000 to \$249,000.

Even in large corporations, the benefit departments are relatively small. Almost a third of the respondents directly supervise only one or two persons. Another 40% supervise three to five employees. Only 9% supervised 10 or more staffers.

When asked to list the personal issue of most concern to them in the coming year, the greatest number of respondents—26%—cited "dealing with top management. Some 23% are concerned about the quality or quantity of their department staffers; 17% worry about dealing with a superior; and 16% worry about learning their job."

Only 12% cited "reaching adequate pay level" as a concern.

All of the the respondents say they enjoy their jobs, with some variances in the degree of enjoyment. Some 53% say they just plain enjoy the work they do, while 47% say they enjoy it very much.

Seminar to focus on computerization

HARTFORD, Conn.—The impact of computers on insurance and risk management is the topic of the fourth annual conference of the Connecticut Valley Chapter of the Risk & Insurance Management Society.

The conference will be held June 1 in Hartford.

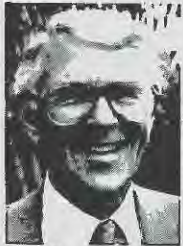
It will begin with an overview of computers' effects on business and people. Then, Spencer Traver, assistant treasurer of The BFGoodrich Co. in Akron, Ohio, and Mitchell Cole of Risk Management Group Inc. will answer questions on the effect of computerization on risk management.

An industry panel will discuss computers and their impact on insurers, agencies and benefits.

For more information and reservations contact David Heileman at Rogers Corp. at 203-774-9605.

AMFAC promotes Ralph Perry to vp

Ralph F. Perry Jr., 56, was promoted to vp and director of risk management at AMFAC Inc. in San Francisco. The promotion is in recognition of Mr. Perry's department's expanding efforts. He will continue to oversee the property/casualty insurance and loss-control



Mr. Perry

programs for the company's seven divisions with more than 500 locations. Mr. Perry has been with AMFAC since 1975, most recently as assistant vp and director of risk management. He received a bachelor of arts degree from the University of Vermont in Burlington, as well as the Chartered Property & Casualty Underwriter, Chartered Life Underwriter and Associate in Risk Management designations. He continues to report to Tom L. Braje, AMFAC's vp and treasurer, and Richard M. Brooks, the company's chief financial officer.

Marcia Lewis, 38, was promoted to vp of personnel at Northwest Industries Inc. in Chicago. Ms. Lewis, who has been with the company since 1974, will oversee all human resources functions including compensation, benefits and labor relations. During Ms. Lewis' nine years with the company, she has held various benefits positions. Most recently she was director of compensation and benefits. She replaces **Edward W. Freher,** who is no longer with the company. Ms. Lewis received a bachelor's degree from the University of Pittsburgh and a master of business administration degree from the University of Chicago. She reports to Executive Vp Richard P. Strubel.

Gerard R. Boyce, 28, is manager of pension finance administration at Allied Corp. in Morristown, N.J., a new position. Mr. Boyce will handle all financial and tax aspects of the corporation's pension plans. He has been with the company since 1975 in the tax and investments departments, previously as senior analyst in international taxes. Mr. Boyce received a bachelor of sci-

Hospital days down, but costs still up

ST. PAUL, Minn.—Even though the number of total hospital days are decreasing, the cost of billed charges is increasing, reports a Blue Cross & Blue Shield of Minnesota study.

In 1982, hospitalization charges statewide rose 17.1%. This increase is the result of a 20.6% rise in the hospitals' average billed charges per day, along with the increased severity of patient illnesses and cost-shifting from other payers. But it also includes a 2.9% drop in hospital days per 1,000 BC/BS subscribers.

In contrast, the average billed charges per day increased 20.9% in 1981 and hospital days declined 4.5%.

Room and board charges in Minnesota rose 16.1% in 1982 and 15.8% in 1981, the report noted. Room and board charges account for 39% of average daily billed charges, or \$153.90 per day in 1982. The remaining 61% of average daily charges, or \$237.67 per day, is for ancillary services, including diagnostic, laboratory and operating room services.

Outpatient care costs in the state jumped to 21.5% of total hospital costs in 1982 from 20.2% in 1981. ■

comings & goings: buyers

ence degree in accounting from Fairleigh-Dickinson University in Madison, N.J., a juris doctor degree from Seton Hall University in South Orange, N.J., and is a certified public accountant. He reports to Benefits Director Bill Mason.

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



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Sen. Nickles sponsors PBGC reform bill

By JERRY GEISEL

WASHINGTON—Sen. Don Nickles, R-Okla., wants to overhaul the Pension Benefit Guaranty Corp.'s insurance program.

Sen. Nickles, chairman of the Senate Labor subcommittee, has introduced legislation, S. 1227, that would make it tougher for companies to dump their underfunded pension plans onto the PBGC.

Under the legislation, a company would be allowed to terminate an underfunded plan only if the PBGC determined that the continued operation of the plan would force the company out of business.

Currently, any employer can dump an insufficiently funded plan onto the PBGC. If it does so, the PBGC then has the right to take up to 30% of the company's net worth to pay for benefits promised to workers and retirees but not funded.

However, companies with little or no net worth may have few assets that can be taken by the PBGC.

As a result, the PBGC must bear the cost of the firm's pension benefits without getting anything in return, a factor in the federal agency's \$333 million deficit.

washington

That deficit must be made up through increases in the PBGC's pension termination insurance program, which is funded by mandatory contributions from employers with pension plans.

The PBGC termination insurance premium is now \$2.60 per plan participant per year. Sen. Nickles' bill would raise the premium to \$6, but even a \$6 premium may not be sufficient unless changes are made in the PBGC insurance program, the senator said.

The legislation also would generally make employers who sell subsidiaries contingently liable for their units' pension benefits for up to 15 years after the sale.

That would remove another loophole in the PBGC insurance program that now allows employers to transfer their pension liabilities to a weak company, which then terminates the plan and leaves the PBGC stuck with the unfunded liabilities.

Hearings on Sen. Nickles' legislation, which is supported by the Reagan administration, will begin on June 6.

Aviation deaths

The nation's skies are becoming safer, the Transportation Department reports.

Four people died in jet airline accidents during the first three months of 1983, compared with 80 fatalities during the corresponding period last year. Most of the fatalities during the first quarter of 1982 occurred in the Jan. 13 crash of an Air Florida B-737 jet in the Potomac River in Washington, which killed 78 people.

In other aviation categories, Transportation Department statistics show:

- Nine persons died in commuter airlines accidents during the first three months of this year, down from 21 fatalities during the corresponding period of 1982.

- Some 181 persons died in general aviation accidents during the first quarter of 1983, down from 259 in 1982.

Trucking safety

Congress should pass legislation

imposing mandatory federal standards for training drivers of large trucks, the National Transportation Safety Board says.

"Considering the loss of life in accidents involving large vehicles, (drivers) should be adequately trained and required to demonstrate through a comprehensive examination their ability to operate large vehicles... before being licensed to drive," the NTSB said.

The safety board noted that 85% of drivers involved in commercial vehicle accidents had no formal truck driver training.

In addition, drivers with less than two years of experience were involved in 49% of large truck accidents.

Trustees sued

Three trustees of a Fort Myers, Fla., profit-sharing plan unlawfully enriched themselves by more than \$1 million at the expense of plan participants, the Labor Department alleges.

In a suit filed in U.S. District Court in Tampa, Fla., the department said trustees of Harper Brothers Inc. Employees' Profit Sharing Plans & Trust violated their fiduciary responsibilities to the plan.

According to the suit, the trustees acted imprudently when they failed to properly value 236 acres of unimproved real estate and other assets owned by the plan.

The trustees terminated the plan in July 1979 and proceeded to pay lump-sum benefits to all participants but themselves, based on the improper valuation of plan assets.

The department contends the trustees, by their conduct, unlawfully enriched themselves at the expense of the participants by more than \$1 million in violation of the self-dealing provision in the Em-

ployee Retirement Income Security Act.

The trustees named in the suit are Daniel R. Harper, Quinton B. McNew and Curtis W. Bostick.

The suit asks the court to require the trustees to reimburse the plan participants for any losses and profits resulting from their alleged fiduciary breaches and to appoint a receiver to handle termination of the plan and distribution of its assets.

Comp cost increase

The federal government's workers compensation costs have increased more than 850% since 1966 even though the size of the federal workforce has declined.

Last year, the federal government paid \$650 million in workers compensation benefits, up from \$75 million in 1966, according to a report prepared by the President's Private Sector Survey on Cost Control.

This massive increase in benefit payouts occurred even though the size of federal workforce decreased to 2.8 million in 1982, down from about 3 million in 1966.

Much of the increase, according to the report is because "claims office philosophy and practice is driven by the requirement to pay claims quickly with little emphasis on controlling potential abuse."

The report noted that the federal government does not require verification of the medical credentials of a physician certifying disability as a prerequisite to the payment of a claim.

In addition, the government does not check wage earnings to identify individuals who may be working at another job while collecting workers compensation benefits from the federal program.

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International risk managers to gather again in Monte Carlo

MONTE CARLO, Monaco—The casinos won't be the only place in Monte Carlo this fall where risks are carefully weighed.

Risk and insurance managers from around the world will be sharing information about risk and their losses away from the gaming tables at the International Risk Management Conference, which convenes Oct. 16.

The conference, co-sponsored by the Association Europeenne des Assures de L'Industrie and the Risk & Insurance Management Society, is the second such meeting to be held. The first, in 1981 also in Monte Carlo, attracted 500 participants from 17 countries.

The theme of the conference is "Risk Management's Response to a Risky World" and will focus on how natural, social, economic and political environments affect risks.

Eckart Russell, manager of foreign exchange at Alcan Aluminium Ltd. in Montreal, and Jean-Claude Cusset, head of the risk department at ELF Aquitaine in Paris, co-chair the program committee which is composed of delegates from participating countries.

The program is highlighted by keynote speaker Hans Konig, secretary general of the International Chamber of Commerce, who will speak on Monday morning.

The program includes two general sessions, concurrent sessions, mini-seminars and industry sessions. Participants are given the opportunity to select the programs and speakers that best suit their own risk management needs. Sessions will either be translated into French, German, English and Ital-

ian or presented in all four languages.

Two general sessions are scheduled. The first, on Monday Oct. 17, is entitled "Environmental Impairment: Risk Management in a Polluted World." The second general session, "Freedom of Trade in Services," to be offered Wednesday Oct. 19, will evaluate the effects of liberalization of trade law on risk management and international insurance.

The conference will be held in the Monte Carlo Convention Center and the Loews Monte Carlo hotel. The registration cost is 4,200 French francs (approximately \$575) for risk managers; 5,200 French francs (approximately \$700) for insurance industry personnel.

For a brochure contact RIMS Conference Department, 205 E. 42nd St., New York, N.Y. 10017; 212-286-9292. In Europe, contact SOCFI, 7 Rue Michel Ange, 75016, Paris, France; 647.92.57; telex 620808F.

The Association Europeenne des Assures de L'Industrie is made up of six risk management associations in Europe: Groupement des Assures du Commerce et de L'Industrie in France; Associazione Nazionale Responsabili Assicurazioni in Italy; Verband Industrieverbunder in West Germany; Groupement des Assures de L'Industrie Vereniging der Verzekerden Van de Industrie in Belgium; Assurantie Overlegorgaan Grootondernemingen in the Netherlands; and the Assn. of Insurance and Risk Managers in Industry and Commerce in Britain.

products & services

AIIG affiliates to provide products security cover

Product security protection is now available from American Home Assurance Co. and National Union Fire Insurance Co. of Pittsburgh, Pa., both units of American International Group Inc.

Although the products protection has not been officially announced by AIIG, a brochure on the coverage was available at the AIIG booth at the Risk & Insurance Management Society's annual conference in Los Angeles last month.

Products security protection guards against product tampering or a tampering threat that could result in loss of net profits, extra expenses like recall or withdrawal, product inspection, inventory destruction, package redesign and production and advertising expenses.

The product security coverage also can be tailored to meet specific manufacturers' needs. Extortion demand coverage, for instance, is available as an endorsement to the policy.

Currently, a \$50 million limit is offered.

The policy is designed to accommodate companies on a worldwide basis.

For more information about the product, contact American Home/National Union, Department A, 70 Pine St., New York, N.Y. 10270.

Hospital liability

Shand, Morahan & Co. Inc. has introduced a professional liability policy for hospital committees.

The policy is designed mainly for hospitals with large self-insured retentions or for hospitals that are members of a hospital trust and may only have medical malpractice coverage.

The coverage is intended for hospital committees that are involved with infection control, peer review, staff privileges and other similar issues. Financial committees, or directors and officers acting in a financial capacity, cannot be covered under this policy.

The coverage is written on a claims-made basis. Limits up to \$10 million are available. Staff physicians who are not employed by the hospital also may be insured if they are named on policy.

The policy is written on a surplus lines basis.

For more information contact Amy Andersen or Bob W. McDonald, Shand, Morahan & Co. Inc., One American Plaza, Evanston, Ill. 60201; 312-866-2800.

Policy directory

The Financial Times London Policy Guide is a monthly analysis of insurance policies available in the United Kingdom.

The policy guide analyzes hundreds of policies, including coverages like product liability, theft, computers, group medical expenses and all risks.

The policies analyzed are written both by Lloyd's of London and other British underwriters.

The analyses detail coverage, policy exclusions, territorial limitations and exclusions, required disclosures, endorsements and extensions, claims procedures and requirements, cancellation, renewal, discharge of insurers' liability and interest and assignment. A coded list of policy titles as well as insurers' names and addresses also are given.

An analysis and report will be delivered each month during the


two-year subscription period. The report summarizes the coverages offered by London insurers in particular classes of business.

Copies of individual analysis are available by topic.

The cost of the two-year subscription is 385 pounds (approximately \$608) for overseas delivery. For individual copies the cost is 24 pounds (\$38).

To subscribe or to obtain more information contact the Subscription Department (LPG), Financial Times Business Information Ltd., Minster House, Arthur Street, London EC4R 9AX.

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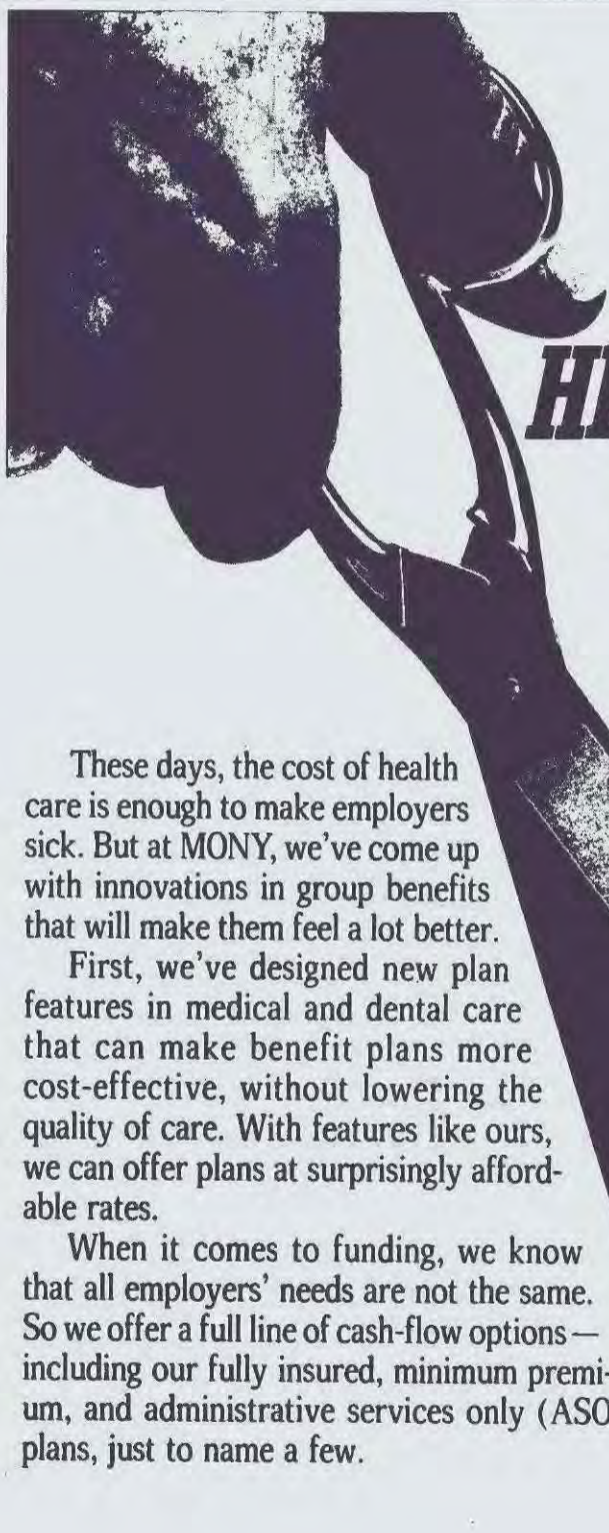
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Consultant stresses second surgical opinions

A new consulting firm is specializing in designing and helping companies implement second surgical opinion programs.

The firm, Second Opinion Consultants, was formed by Daniel R. Miller, who was a consultant with Frank B. Hall & Co. Inc. for the last two years.

Although many corporations now include second surgical opinions in their health care cost-containment programs, they don't go far enough, Mr. Miller said.

"They're not successful because they leave the employees on their own," he said.

Second Opinion Consultants not only will design a program, it will help coordinate it, communicate it to employees, and gather and analyze data.

"People (employees) are running

markets

around like chickens with their heads cut off. They don't know where to go for another opinion or how to handle it," Mr. Miller explained.

"We'll have a toll-free number for employees (of clients). We will screen and will make a second opinion consultation for them with a board-certified physician," he said. The new firm will make the appointment, do the paperwork and communicate the opinion back to the administrator of the program.

"It's something I truly believe in. I'm convinced of the importance of second opinions," he said, noting there have been numerous studies

and debates on the necessity of certain surgical procedures.

"We'll be recommending a mandatory second opinion program for 12 to 18 surgical procedures," he said, noting that prostatectomies and hysterectomies will be among the procedures that should require a second opinion for a health plan to pay full benefits.

Studies have noted that one of three prostatectomies or hysterectomies is unnecessary, he said.

Prior to joining Hall, Mr. Miller was a public health intern with a self-insured, self-administered welfare fund. In that position he worked with Cornell New York Hospital in the last year of an

eight-year study of second surgical opinions.

Second Opinion Consultants is located at 1319 Second Ave., New York, N.Y. 10021.

Consultant formed

A new consulting firm, Compensation & Benefits Management Inc., has been formed to provide personnel management services.

The services offered by the company include analyses and audits of existing employee benefit programs; design of new programs; ensuring regulatory compliance; employee communication programs; and automating personnel information systems.

CBM's offices are located at 2900 S. Abingdon St., Arlington, Va. 22206; 703-578-1136.

New name

Healthplans Corp., the nation's second-largest manager of health maintenance organizations, has changed its name to HealthAmerica.

The firm currently runs 19 HMOs serving about 325,000 members in 10 states.

Agency incorporates

Glossop Insurance Agency Ltd. of Birmingham, Mich., has recently incorporated, naming Donald V. Glossop as president and treasurer, Thomas V. Glossop as vp and Valerie A. Hamm as secretary.

John C. Aldrich and David A. Webb have joined the agency as account executives.

The firm is the Michigan member of Affiliated Insurance Services, a nationwide network of independent agencies.

Consolidation

To further streamline its operations, Scottish & York International Insurance Group, based in Princeton, N.J., has announced it will merge its underwriting, marketing and regulatory departments into a single unit to be known as the production operations unit.

Name changed

Emett & Chandler Texas Inc., a Houston-based insurance brokerage specializing in energy, real estate and entertainment insurance products, has changed its name to Lester Eckert & Co.

Formed in 1980, the brokerage is wholly owned by Lester Eckert and until now has used the Emett & Chandler name under a franchise agreement, a spokesman said.

"At this point in our growth, the time has come to call ourselves by our actual name and continue business as usual," Mr. Eckert said.

Acquisitions

The Dunlap Agency, an insurance agency based in Auburn, Maine, has merged with another agency, **Blake, Barrows, Brown & Higgins**, based in Bangor, Maine. The new firm's name will be **The Dunlap Agency-Blake, Barrows, Brown & Higgins**.

A subsidiary of **The Home Insurance Co.** has acquired a one-third interest in a Bermuda-based captive management firm, **Cedar Hill Management Inc. Home Group Risk Services Inc.** is now an equal partner with the captive manager's two other owners, **Hogg Robinson Group P.L.C.** of London and **Republic Steel Services Group** of Cleveland.

Torchmark Corp., a financial services holding company based in Birmingham, Ala., announced the acquisition of **Evaluation Associates Inc.**, a pension investment consulting firm located in Westport, Conn.

New offices

Johns Eastern Co. Inc., an independent insurance adjusting firm, has moved to new corporate offices at 330 S. Pineapple Ave. in Sarasota, Fla.; 813-957-3041. The firm's mailing address remains the same: P.O. Box 4175, Sarasota, Fla. 33578.

R/I Inc., a reinsurance intermediary based in Burlington, N.C., has opened a New York branch office at One World Trade Center, Suite 2547, New York, N.Y., 10048; 212-432-0280.

AFIA Worldwide Insurance has opened a new Korean branch office at 53-5, 4-Ka, Chungang-Dong, Chung-ku, Pusan, Korea. The telephone number is 44-2416. ■

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UPCOMING ISSUES

	ISSUE DATE	AD CLOSING
	MAY 23	May 11
EMPLOYEE BENEFITS: CONFRONTING THE FUTURE	MAY 30	May 17
Employee Benefits Board Survey	JUN 6	May 24
	JUN 13	Jun 1
	JUN 20	Jun 8
AGENT/BROKER PROFILES	JUN 27	Jun 14
	JUL 4	Jun 22
	JUL 11	Jun 28
LOSS PREVENTION: PROTECTING PEOPLE	JUL 18	Jul 6
LOSS PREVENTION: PROTECTING PROPERTY	JUL 25	Jul 12
	AUG 1	Jul 20
Risk Management Board Survey	AUG 8	Jul 27
	AUG 15	Aug 3

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Chinese insurer writes international risks

By LI CHENG

PEKING—When 40 cars belonging to foreign embassies in Peking were damaged by a hailstorm last July at a National Day reception at the French Embassy, the People's Insurance Co. of China paid the damage claims in two weeks.

PICC, the largest of three insurance companies in China and the only one writing domestic and foreign risks, has recently been doing more domestic and foreign insurance and reinsurance business, mirroring China's economic progress.

According to Song Guohua, general manager of PICC, the company's total domestic premium income in 1982 was about 750 million yuan (\$382.56 million).

PICC's foreign business has kept pace with the increase in China's foreign trade relations and economic cooperation. Total premium income from foreign business was \$147 million in 1982, a 6.5% rise over 1981 when PICC had direct foreign business premium income of about \$133.3 million. Meanwhile, \$53.55 million was paid out in losses and damages claimed by the foreign clients for the same year.

Mr. Song explained that PICC has introduced new types of coverage to meet the growing number of Chinese-foreign joint ventures, like cooperative projects, offshore oil exploration projects, overseas contracts and labor service agreements. All joint ventures and cooperative projects now operating in China have insurance through PICC.

Mr. Song expects a particularly substantial income from insurance for shipbuilding, oil exploration, overseas contracts and labor service agreements. PICC began insuring overseas shipbuilding orders with more than 500,000 tonnage in 1981.

Foreign companies engaged in offshore oil exploration, including British Petroleum, TOTAL and Elf-Aquitaine of France, Atlantic-Richfield Corp. and Santa Fe Industries Inc. of the United States and the Japan-China Oil Development Co. and Chengbei Oil Development Co. of Japan, also have purchased policies written by PICC.

Mr. Song said that PICC maintains direct or indirect reinsurance relations with some 1,000 companies abroad (BI, May 3, 1982; May

10, 1982).

PICC's cedes marine cargo, marine hull, aviation, fire, oil and 14 other types of risks. The gross premiums ceded by PICC was about 120 million yuan (\$61.5 million) in 1981.

Gross premiums for reinsurance risks it accepted were 261 million yuan (\$113.8 million) for 1981. It is expected that the amount of reinsurance ceded and accepted will increase when 1982 figures become available.

About 40% of the reinsurance risks PICC accepts comes from the London and other European markets, 30% from the United States and Canada and 30% from Asia, Africa, Latin America, Hong Kong and Macao.

Mr. Song emphasized that PICC was particularly prudent in its re-

insurance underwriting because cut-throat competition has kept rates low.

He said that PICC has more than 300 cargo and ship survey and claims settling agents in more than 100 countries. Losses of cargo and ships insured by PICC can be redeemed by the agents in any country or port in the world. At the same time, PICC is the cargo and ship surveying agent in China for more than 80 insurance companies.

In 1964, China joined the Federation of Afro-Asian Insurers & Reinsurers and became a member of its non-life reinsurance pool.

In 1979, PICC joined the Asian Reinsurance Corp. In 1980, American International Group Inc. and PICC collaborated to form the China-America Insurance Co. in

Bermuda to underwrite worldwide reinsurance and business related to Chinese interests in North America.

The formerly private Chinese insurance industry was taken over by the Chinese government in the 1949 revolution, and PICC was formed in the early years after the founding of the People's Republic.

The domestic arm of PICC was suspended in 1958 during the "Great Leap Forward." Domestic business was resumed in 1979.

However, the present per-capita spending on insurance in China remains very low, at less than 100 yuan per annum.

Currently, there are three insurance companies in China: China Insurance Co. Ltd., Taiping Insurance Co. Ltd. and PICC. Of these, only

PICC handles both domestic and foreign business in China; the other two exclusively write overseas business.

To put China's insurance activities on a clear legal basis, Chinese legislators are now drafting a formal insurance law.

At present, 18 clauses on insurance are in force including clauses on aircraft insurance, aircraft war, hijacking and other risks, motor car insurance, ships, ships' war risks, ocean marine cargo war risks and air transportation cargo insurance.

Other investment (political risk) insurance clauses relate to war and warlike operations, insurrections, strikes and riots, confiscation of property or expropriation and the transfer of remittances under conditions of government restrictions. ■

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College to close Los Angeles unit

LOS ANGELES—The College of Insurance's board of trustees has decided to close the college's Western Division in Los Angeles, effective May 31.

The Western Division of the college opened in the spring of 1979 at the request of the Southern California insurance industry, which said at the time there was a severe shortage of qualified underwriters, claim representatives and other insurance specialists.

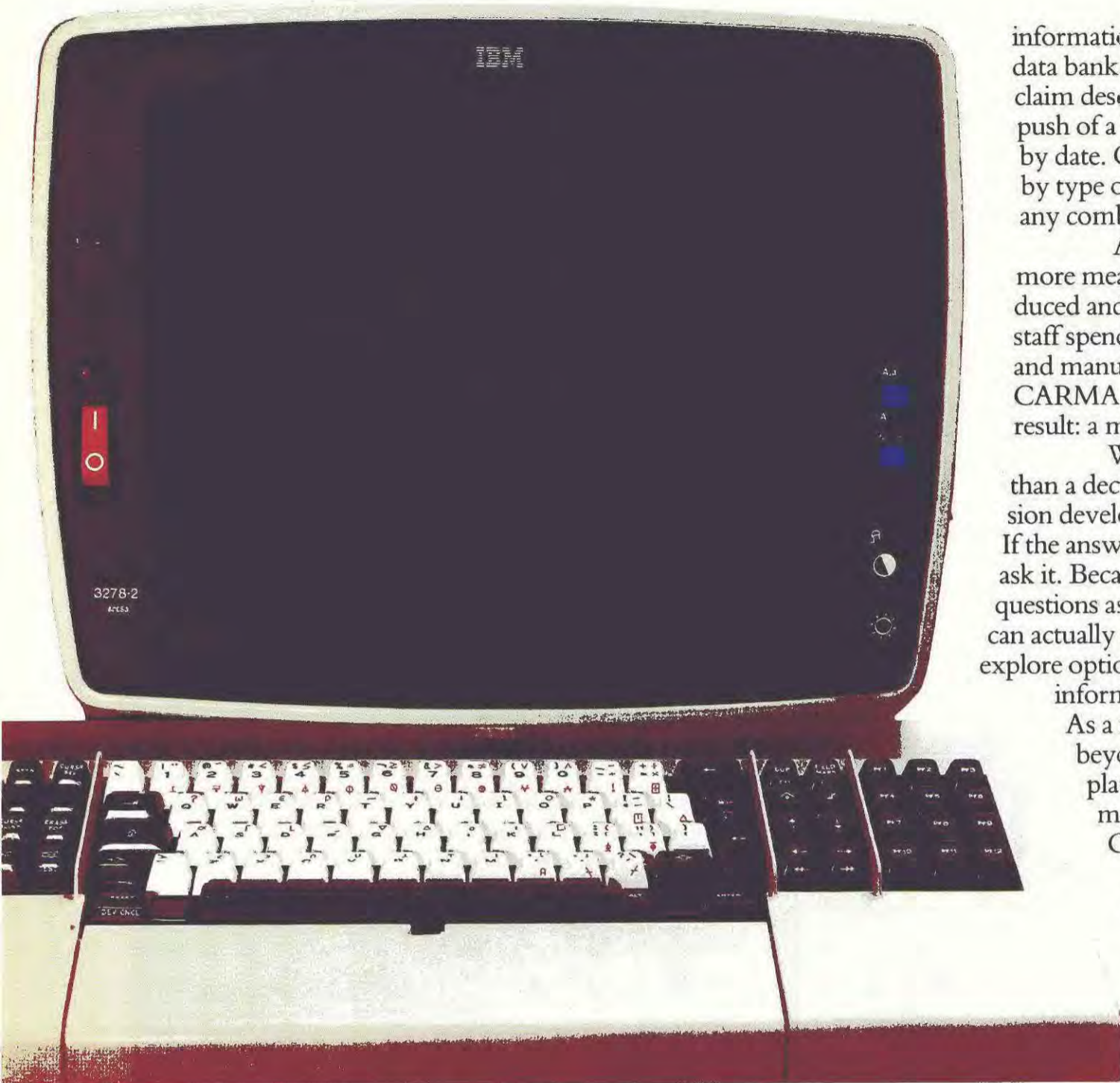
The college initiated a nine-month program to educate primarily college graduates to fill these personnel needs.

By the time the current classes end, more than 100 diplomas will have been awarded by the division.

The decision to close the Western Division, according to the college, was triggered by the insurance industry's recent poor underwriting results, which necessitated personnel cutbacks and a reduced need for new hiring.

Enrollment at the Western Division had also dropped to the point where continued operations were not practical, it added. ■

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TAGGING TRENDS

Planners get clues to the future by watching the marketplace

By Paul Ingrey

WHILE EVERYONE anticipates a change in insurance pricing, there are trends in the marketplace with which observant planners should come to grips. In addition to the broad underlying trends of open competition and the use of investment income in the ratemaking process, the following are specific trends I have observed.

Competition. The rampant increase in competition has stopped. Eventually, the number of independent players in the insurance business will diminish. This has already begun on the agency side and will initiate itself on the company side as financial difficulties mount. Structural changes fostered by competitive aspects and backed by application of the latest technology will absorb business from those competitors too weak to compete on the fast track. Unbelievably, many of these companies operate today like Lil' Abner used to with the Dogpatch ham fastened on a tree outside his abode. Every time he wanted something extra to eat, he simply came out and sliced off a piece; there was always more.

Pricing. There is an increasing dichotomy between the decision makers in insurance and reinsurance companies and the underwriters actually doing the pricing. The pricing problem is not unrelated to the third trend, which involves technical skills becoming more important. In the competitive commercial marketplace, strict control over price is impossible; can you imagine an underwriter being told to price for a 5% bottom-line return?

We will have to reduce overhead and become commercially efficient. Overheads will fall, as a ratio, as prices increase. But this is not enough. We must stop eating quiche and start paring expense build-ups, long term. In the near future, pursuit of price increases will force more commercial clients into captives and self-insurance programs. This is precisely why it is necessary to begin moderate price increases immediately—if we do not, we will dislocate our clients as well as our own balance sheets.

Company skills. If we look around us at the chief executive and the executive office of the major insurance or reinsurance companies, we see they are becoming increasingly staffed by professionally skilled people who do not have marketing or underwriting backgrounds. These would include

actuaries, lawyers, accountants, financial experts and claims people. This is a positive trend unless a gulf develops between the "tower" and the people underwriting and producing the business. As this business becomes ever more complex it is increasingly important to compensate professionals, particularly the risk takers, but especially the people who produce and underwrite the business.

Services. Increasingly, insurers and reinsurers are attempting to divest themselves from the reliance on the risk insurance business. To a large extent, this includes selling services such as claims, data processing and engineering. Many large insurers are now willing to unbundle their services from the risk insurance products they offer to large buyers.

Financial reinsurance. One of the major current trends in reinsurance is the movement into financial reinsurance. This includes surplus relief in a classic quota-share sense, funded excess covers, both on a catastrophe and per-policy basis, modified coinsurance contracts where life company assets are moved into a property/casualty balance sheet and discounted reserves or loss portfolios. Reinsurance in these areas will have a significant tax impact and again will involve a series of different types of expertise; the producers, the financial and tax experts and the actuary must all work together. This business has already seen significant competitive pressure in North America. Margins are historically at a low point, which makes it imperative that each particular deal must be analyzed, negotiated and priced correctly.

Gross lining. The ability of a company to write gross lines and heavily cede or retrocede them is increasingly popular today. However, because of the increased unprofitability of the business and the relative inability to write much more business from the Dogpatch ham, competitors in the next cycle will have to absorb larger net retentions, either by design or by the inexorable force of the retrocession market shrinkage.

Captives. The current competitive marketplace is so severe that it has actually inhibited the growth of captives. The pure captive today has difficulty competing in price with the commercial insurance sector. A recent Conning & Co. study projects the captives' share of the commercial insurance marketplace to grow from 2% in 1974 to 30%. Within three years, pure captives and self-insurance programs will be aided by dramatic price increases in the commercial sector.

All current appearances indicate that captives will continue to be "encouraged" to do outside reinsurance. This means that the individual captives will have to give special attention to selecting their business partners. As a general rule, captives looking for outside business should seek those situations where the company sharing the business is also risking its own bottom line.

The next "up" cycle should see a real growth in the number and types of association captives and organizations such as Corporate Insurance & Reinsurance Co. Ltd. It should also see a trend toward non-controlled foreign corporations, especially as these NCFCs can play a role in financial insurance or reinsurance.

Large claims—property. There is a dramatic growth in the frequency and severity of property claims exceeding \$5 million. This also shows the effects of inflation on a fixed excess attachment point.

Large claims—casualty. It is imperative that we keep abreast of changes in the legal climate and the benefits being provided. For example, in 1977, New York state workers compensation benefits increased 50% at three consecutive intervals for the most serious injuries. Insurers were given only a 7% rate increase. An excess reinsurer with more than \$100,000, with a 7% rate increase, would get 0.49% additional reinsurance premium and almost all of the additional exposure on these losses.

In 1977, Anne Dunne, then one of our reinsurance trainees, reviewed our loss records and those of several reinsurers who provided some information. In the 1960s, it was extremely unusual to find a casualty loss in excess of \$1 million. In this study, she identified 270 such casualty losses occurring in the first six years of the 1970 decade.

Over the past year, I have been collecting information on large casualty losses in excess of \$5 million and have identified 70 such claims, not counting asbestos. These claims are totally unpredictable in terms of cause, variety and legal disposition—the common thread being the quest for the deepest pocket available.

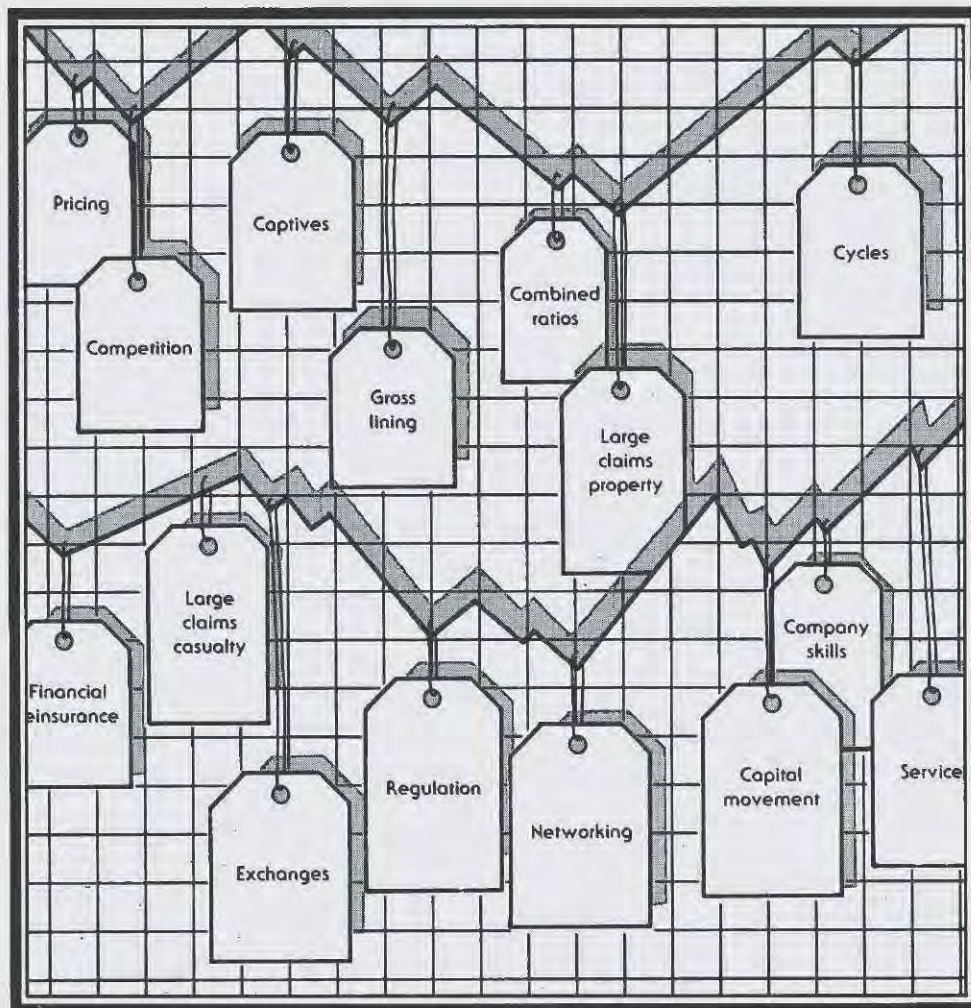
Regulation. Regulatory tools will have to be developed to cope with mergers, insolvencies and a business which seems to be extremely vulnerable to scams that are not even particularly well thought out. If New York state is any example, we can expect Insurance Departments to search for and implement increased regulatory powers.

Both Best's and the National Assn. of Insurance Commissioners will be hard-pressed to keep up with changes in insurer/reinsurer solvency. When the ratings of the A.M. Best Co. based on 1982 results come out in the summer, we are going to see a record number of companies with significant drops in ratings.

We can expect the Securities and Exchange Commission and the Internal Revenue Service to take a deeper interest in the taxation impact of reinsurance "deals," especially as a consequence of financial reinsurance trends, like the MGM retroactive, stop-gap legislation based on modified coinsurance and Aetna's 1982 tax filing.

Exchanges. The concept of the reinsurance exchange as initiated in New York, and followed in Illinois, Florida and perhaps Toronto, will undoubtedly succeed and will become a viable source of both capacity and profit. To do this, the exchanges and their owners will need staying power. They will also have to face up to the same, or perhaps even tougher, solvency demands. They have the

Continued on next page



Paul B. Ingrey is senior vp of Prudential Reinsurance Co. in Newark N.J. This article is adapted from a speech Mr. Ingrey delivered at The International Insurance and Reinsurance Forum held in Bermuda in March by Risk Planning Group.



Popular and painful: The story of fast-growing dental coverage

"Dental Insurance: The What, the Why and the How of Dental Benefits"

By Eric Bishop

McGraw-Hill, 1221 Ave. of the Americas,
New York, N.Y. 10020
225 pages; \$29.95

By Z'ev Kronish

IT WAS ONLY 10 years ago that glowing reports appeared about dental insurance coming into its own as coverage approached 18 million participants. Today, 80 million people have some kind of coverage and it has earned a reputation as the fastest-growing employee benefit plan. The story of how this came about—and the pain involved—makes Mr. Bishop's account anything but dull.

Books on insurance by major general publishers are still an "event." This detailed examination of dental

Z'ev Kronish, who holds an M.B.A. degree from The College of Insurance, has handled corporate risk management and benefits administration. He is now in the claims department at National Health & Welfare Mutual Life Insurance Assn. His reviews of management books appear regularly in *BI*.

books & ideas

coverage—written in a lively style—adds to the growing literature that risk and benefit managers will find worthwhile. The author has represented dental interests for many years. His inside view of the early difficulties and recent trends gives us a rare glimpse into the nature of benefit strategy from the providers' perspective.

In the light of the phenomenon of high patient anxiety—stark fear of being hurt by the drill—prepayment plans hold the promise of propelling regular care. Mr. Bishop observes that dental disease differs from other health disorders—it's practically a losing battle from the start because of its "inexorable" trait. To keep teeth healthy requires a superhuman effort.

According to "Dental Insurance," the insurance industry was slow to respond to the cry for action. As demand for this coverage picked up steam, insurers still weren't sure if they should handle this type of risk. Except for early entrants like Occidental of California and Connecticut General, the insurers "were skittery,"

lacking some foresight and basic good judgment.

It took time for the interests of insurers, benefit administrators and dental groups to mesh. Progress came slowly. After its introduction on the West Coast by enthusiastic union leaders in 1954, it took 20 years for dental coverage to take root. Dental benefits didn't get off the ground until benefit managers aggressively demanded action, Mr. Bishop writes.

The special problems of dental coverage were not readily grasped by administrators who took things for granted because of their successful handling of medical benefits. This led to false assumptions and many foul-ups. As an example, Mr. Bishop cites the move to exclude reimbursement for surgical treatment of the gums. When dentists protested, insurers retreated.

Efforts to trim dental costs have brought administrators into frequent conflict with dental associations. Sensitive to pressure by insurers, the dental groups sometimes urge their members to balk at requests for X-rays and patient records. Some

compromise is called for, Mr. Bishop writes, to reduce mutual distrust.

Part of the problem in controlling costs is the gap between dentists and administrators in interpreting justifiable procedures. In the past, complications arose because insurers were occasionally in a fog over the special characteristics of dentistry, but he also blames dentists for their double-talk.

Mr. Bishop is optimistic over future harmony but, in fact, the discord is likely to go on because because dentists are unlike other medical professionals.

The dentist is caught in a bind: Prepayment plans spur patients to seek care on a regular basis, which is good, but then the squeeze by insurers and employers to cut costs is upsetting because it is likely to undermine proper care. Mr. Bishop catches the dentist's dilemma: He's sympathetic, critical and, above all, a keen observer.

Levels of care can be added or lopped off, making it possible to tailor a plan to meet budget requirements. This is the easy part of controlling cost. But when deductibles, exclusions and copayments are applied, they play havoc with sound principles of dental care, Mr. Bishop contends.

Making human resources, strategy paths meet

By Kenneth P. Shapiro

IN TOO MANY companies, human resources planning and business strategy are like parallel lines—they run in the same direction, but never meet. The missing link is a process to identify, define, manage and monitor the elements of human resources costs that have the largest impact on business performance. This allows for the budgeting of appropriate costs in relation to specific business goals.

According to Dr. Robert H. Rock, partner in charge of the strategic management group of Hay Associates, one such process is HURCOS—Human Resource Cost Strategy.

"HURCOS allows companies to manage their workforce costs in the widest context rather than in isolation from the strategy and direction of the organization," says Dr. Rock.

HURCOS uses a combination of models and analytic techniques as well as various data bases. To develop its human resource costs strategy, a company can use HURCOS to:

management

- Classify its businesses and establish their performance.
- Analyze the competitiveness of each business in relation to its human resource costs.
- Identify human resource cost elements.
- Determine which significant human resource cost elements are not competitive.
- Find the cost elements that are inconsistent with the company's goals or culture.
- Formulate a plan to make non-competitive human resource cost elements more competitive.
- Monitor human resource investments to prevent unwarranted costs.

The results of the HURCOS process can be the establishment of a fundamental approach to improve the competitiveness of human resource costs and thus help companies achieve more competitive business performance levels.

Once such a system is in place, controls can become an ongoing process—not just an ad-hoc reaction to worsening economic conditions such as the current plethora of layoffs, pay freezes and early-retirement programs.

Then, with controls in place, human resource policies can be responsive to the economy, both on the upswing and downswing. The time to address these issues is before they become essential to corporate survival.

Watching the market for clues

Continued from previous page
advantage of a common marketplace and centralized, shared internal functions, which should reduce overheads.

Networking. There is a significant trend today to control relationships and/or business. This would involve either strengthening a position a company already has or building a network using other disciplines or businesses. General Re's recent purchase of the USAIG Group is a case in point. The insurance business is able to use the same set of assets more than once; in pursuing acquisitions, this can be especially important. As the captive movement expands, it will establish partnerships with commercial insurers and reinsurers and will often exchange good business reciprocally. Successful networking will demand good information flow through state-of-the-art systems, especially in data processing.

Capital movement. Acquisitions of property/casualty companies and brokers are likely to continue for two reasons:

- As a part of the networking process for major corporations.
- The tax shelter that a property/casualty company can provide because of its chronic underwriting losses. Many large insurance companies today can no longer take full advantage of their underwriting losses because of an upswing in unprofitability and because a large portion of their

investment portfolio is in tax-exempt bonds. Reinsurance capital movement can be expected to continue and to become more international in nature.

At the present time, cash is slowly being squeezed out of the system. This helps explain the continued downward trend in prices and the movement into liability lines. More insurance and reinsurance companies are being faced with a negative cash flow from operations. It is only investment income cash flow that is bridging the gap.

Combined ratios. In 1980, Richard Stewart, former New York state insurance commissioner, wrote an article entitled "Requiem for a Ratio." In this article, he prophetically comments on lack of relevancy of the combined ratio as a measuring stick in view of the heavy investment returns and trend toward cash-flow underwriting. The combined ratio performs a very useful function, or discipline, just as the tennis net does in the game of tennis. Take it down and chaos results. That is where we are now. When the effect of investment income on companies' operating results is diminished, the discipline will return.

Cycles. Cycles will continue because the market-correcting mechanism is permanent. It is subject to management vagaries, the interaction of supply and demand and, in the private sector, dominance of short-term earnings objectives. Expect, as Alvin Toffler said in "Future Shock," that each succeeding cycle will be steeper.



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

Lloyd's to closely examine syndicates' premium limits

By STACY SHAPIRO

london line

Co. P.L.C. paid directly or indirectly about \$21.6 million to SIR as premiums for purported reinsurance policies effective as of Dec. 31, 1981. Sphere Drake also recovered about \$18.8 million in claims, leaving a net payment to SIR of about \$2.8 million.

• A Howden broking subsidiary paid to SIR on behalf of Howden-managed Lloyd's of London syndicates about \$2.6 million as net settlements for purported reinsurance policies placed with SIR.

In return, that Howden subsidiary recovered from SIR more than \$1.6 million in claims payable minus the premiums still owed. ■

LONDON—Lloyd's of London is introducing an "early warning" system to detect syndicates that exceed their premium limits.

Lloyd's announced that under the system, an examination of all syndicates' premium income will be carried out at regular intervals. Projections of annual volume will be made during the examinations based on a pre-determined formula provided by each syndicate.

The examinations will begin during the 1984 underwriting year, Lloyd's officials say.

"The purpose of monitoring is to ascertain whether syndicates have kept within their total allocated capacity for the year of account concerned," said Lloyd's Chairman Peter Green in a letter to all active Lloyd's underwriters, underwriting agents and panel auditors.

Also, commencing next year, all syndicates' premium limits will be based on gross premium written; the amount of business reinsured will not be considered when reviewing premium limits.

Sir Peter noted that this may cause a reduction in Lloyd's capacity.

Lloyd's regulation

The British government is "extremely pleased" with the way Lloyd's of London has handled its affairs since the new Lloyd's self-regulation act took effect at the beginning of the year, Minister of Trade Gerard Vaughan said.

After allegation of improprieties at Lloyd's surfaced last year, several members of Parliament questioned whether Lloyd's had the ability to police itself and suggested that the government should take a stronger role in regulation at the insurance market.

However, the Statutory Instrument Committee of the House of Commons recently reviewed the progress of self-regulation at Lloyd's and has decided not to alter the self-regulation act, adding that the new Council of Lloyd's is working efficiently.

Howden funds

Although the headlines concerning the allegations of fraud and mismanagement at Alexander Howden Group P.L.C. have largely disappeared, details of how much money was lost by the Lloyd's brokerage are still being discovered.

Last month, Alexander & Alexander Services Inc., Howden's parent company, sent a letter to its stockholders detailing how much money flowed from some Howden subsidiaries to reinsurance companies and banks allegedly controlled by ex-Howden directors (BI, Sept. 27, 1982; Oct. 4, 1982).

Two suits filed against the former directors, including former Howden Chairman Kenneth V. Grob, allege that at least some of the defendants secretly owned or controlled Southern International Re S.A., a Panamanian reinsurer, and Banque du Rhone et de la Tamise S.A (BDR), a small Swiss bank, the letter from Alexander & Alexander noted.

However, A&A says in the letter that it did not learn that the former Howden directors had links to these enterprises until last August.

In addition, the letter states that:

- Various Howden subsidiaries paid approximately \$1 million directly or indirectly to Southern International Re as purported premiums on one or more purported "contingency policies" issued by SIR.

- Predecessors of Howden subsidiary Sphere Drake Insurance

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AIRMIC members meet

OXFORD, England—More than 200 members of the Assn. of Insurance & Risk Managers in Industry & Commerce met last month under the ancient arches of Christchurch College at Oxford University to learn more about how risk management can grow in Britain.

Lectures were few but lessons were plentiful, as the insurance and risk managers went from one classroom to another to partake in discussion groups and smaller seminars.

For three days, risk managers, insurers, reinsurers and brokers from 11 countries shared their experiences, swapped stories and talked of new innovations.

They discussed the risks of mergers and acquisitions and new technologies, like computers. They also shared techniques for communicating with top corporate management.

Business Insurance listened in on the discussion groups, but was asked not to mention any specific names of risk managers or companies—except for group leaders—so participants could be candid.

AIRMIC is still, in some ways, in its infancy, some of its council members admit. Until now, the 500-member organization has been run by risk managers with full-time jobs who juggle AIRMIC responsibilities with job responsibilities.

The group, however, is in the process of recruiting a secretary general to run AIRMIC on a full-time basis to better serve British risk managers.

British risk managers want to expand responsibilities

By STACY SHAPIRO

OXFORD, England—British risk managers want to stretch beyond the bounds of simply handling insurance for their companies.

They want to be responsible for loss prevention.

They want to work with health and safety programs, which are strong in British industry, and spread that information throughout their companies.

They want upper management to take notice of their ideas. They want to advise management on mergers and acquisitions before they occur and inform management about the risks at new building sites and projects.

Too often, however, British risk managers are stuck as insurance clerks because upper management has not yet recognized the importance of asset protection, said participants at the Assn. of Insurance & Risk Managers in Industry & Commerce conference in Oxford last month.

"Risk management is not going to succeed unless someone at the top is pushing it down," said one industrial risk manager.

"Risk management can only work in this country if there is a commitment in the senior area of the company," said another risk manager.

"The orders have to come from

the top, from the chairman who is committed to risk management; otherwise, it does not work."

It seems, however, that several executives of major British companies still believe that risk management is expendable. They do not yet see that a good risk manager can save the company money, risk managers say.

At least one British company closed its risk management department last year and is not hiring another risk manager.

Associated Communications Corp., which produced the television series and the films featuring the Muppets, fired Risk Manager Ron Muckleston last December and is now in the process of closing down its risk and insurance management division, which included two captives—Marbarch Insurance Co. (Gibraltar) Ltd. and Marbarch Insurance Co. Ltd. in Bermuda.

ACC has hired Lloyd's insurance broker Stewart Wrightson Group P.L.C. to place its risks in the direct insurance market.

ACC's new owner, The Bell Group of Australia, decided to streamline the company when it took over, and one of the first things to go was ACC's insurance division. The Bell Group has also sold off ACC's movie theater chain, shares in British Station Central Television and a hotel in Los Angeles.

In other British companies, risk management staff was laid off because of the poor economy.

"There is a trend here in Britain to use outside consultants—insurers, brokers and the like—instead of keeping on staff because you can get rid of outsiders more quickly and at less cost than employees," said another risk manager. "Insurance departments are no different from any other departments" when it comes to layoffs.

However, British risk managers are confident that the worst is over, and the risk management profession may begin to grow in Britain.

"We lost people in our department, but now the people at the top are talking about the future confidently," said one risk manager.

"Certainly, some risk management departments closed down and some people were laid off. But this is not a trend," said Hugh Loader, chairman of AIRMIC. "I am hopeful of the future."

One of Britain's largest industrial conglomerates, Rio Tinto-Zinc, recently opened a risk management department for the first time. With the help of consultant Risk Planning Group Inc. in Darien, Conn., RTZ's board of directors decided to coordinate all loss-prevention efforts under one department, run by new Risk Manager Michael Bowack.

RTZ is just beginning to disseminate information about loss prevention through the group and evaluating the risks involved, said Mr. Bowack.

The international division of Toronto-based Moore Business Forms Ltd. in London is also gearing up its risk management program, according to Risk Manager Graham Trapnell.

Moore Business Forms believes strongly in the concept of risk management and supplies an ample budget to educate its overseas subsidiaries, he said.

Mr. Trapnell is now in the process of producing a film of some of the companies' best and worst risks to give employees an idea of what risk management is about. ■



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Formal policy can hinder risk management

By STACY SHAPIRO

OXFORD, England—A formal risk management policy that is signed and approved by a board of directors can be a burden to a multinational corporation's risk manager.

"We have a risk management statement from our board of directors in Toronto that has the full backing of our corporate board and is backed by all the employees of the Toronto groups (divisions)," said Graham Trapnell, risk management manager for U.K.-based Moore Business Forms Ltd.

"But it highlights the difference in thinking between the U.S. and the U.K. I have never used this power or waved the policy under the noses of our overseas subsidiaries because the day I do, some employees will get their backs up. Sometimes, it is just as bad as not having a program," he said.

Instead, Mr. Trapnell finds that he has to deal diplomatically with employees in foreign subsidiaries to get things done.

"Whatever is on paper, you must gain the trust of employees by persuasion," he said. "So far, we have not come across a problem in understanding for what we want to achieve."

However, there are quite a few advantages to having a board-approved risk management policy,

according to Mr. Trapnell and others who participated in a discussion group at the Assn. of Insurance & Risk Managers in Industry & Commerce conference in Oxford last month.

With the board's approval, more money can be budgeted to risk management, for instance.

Mr. Trapnell, who handles Moore Business' overseas risk management, has a large budget to work with. And, so far, he has spent money on a range of services, from installing new sprinklers to producing films on risk management.

"But we can show the board bottom-line savings," he said, not just in premium but in overhead costs and unseen expenses like employee absenteeism.

"The corporation will put money where its mouth is, and I have never had money refused," he said.

"A risk management program is not going to succeed unless someone at the top is pushing the concept," added another risk manager.

However, very few British risk managers have a formal risk management policy, like Moore Business, agreed most of the 25 risk managers in the discussion group. Most said only 30% of British companies even have some kind of risk manager. Of the AIRMIC members, only about 15% have "risk" in their

titles.

"Risk management is understancable in a hazardous industry where if you do not keep risks down, premiums go up," said one discussion group member. "But in another kind of company, a brilliant risk management program may not be needed."

Many times management is more concerned with profit margins and results than in the long-term invisible savings that risk management can provide, the discussion group admitted.

British insurance managers also often clash with the health and safety managers in their companies.

Corporations in Britain are required by law to have health and safety managers, and these managers operate very well-developed divisions within their own companies. Rarely, however, do they work with the risk or insurance manager or coordinate loss prevention with insurance.

"Each business has a safety officer instituting a yearly reporting system," said one risk manager for a transport company. "We are trying to arrange a meeting with them, but safety employees do not report to the risk management department. They report elsewhere, so I do not think we will have much success."

"Safety people do not want to be

involved with risk management," said another risk manager.

Some British risk managers have overcome this animosity, however, and have introduced informal programs to their companies. They gather information from all departments on loss-control methods. They check for themselves where their companies need to protect their assets.

But whether risk management is approved by the board or unofficially accepted, it still takes the will

of everyone in the company to make it work, the risk managers said.

"It said on a notice board at our company in Flough (in Surrey) the other day that an outside payroll firm was no longer going to be doing the payroll, but that the payroll was going to be done internally. No one told me this, I just happened to pass the notice board on an inspection," said a risk manager of a multinational mining company. ■

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Patrick G. Finnegan, CLU
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Risk managers can lessen exposures in acquisitions

OXFORD, England—A good risk manager can head off a disastrous merger or acquisition if top management consults with him before the purchase, British risk managers say.

He can evaluate the target company's risks, see if there will be any back-dated liabilities and, if there will be, evaluate if his company can afford to assume them.

A risk manager can check the quality of the acquisition's assets and see if litigation and losses might be prohibitively expensive in the future.

He also can:

- Check insurance contract wording to see what binders his company is taking on.
- Check insurance records to see what past loss history was.
- Examine the other company's risk management program—if any—to see how losses were prevented.
- Check exposures.
- Evaluate loss-control techniques.

In this way, the risk manager can see if litigation, losses and unknown exposures will be too expensive for his company in the future, said risk managers at the Assn. of Insurance & Risk Managers in Industry & Commerce conference in Oxford last month.

"Our company considered an acquisition that would have included a range of products that we didn't like, and we told them (management) not to buy the company, so they didn't," said one risk manager during a conference discussion on mergers and acquisitions.

But many times risk managers are the last in a company to hear about a merger or acquisition, said most of the 25 risk managers in the discussion group.

"One of the problems in the acquisition area is getting information from a board," said Michael Ward, managing director of Risk Management Ltd. on the island of Guernsey. "A merger or purchase is the board's biggest secret, so you

hear about it when a press release is thrown on your desk.

"The first problem to overcome is to find out what's going on because people are so secretive."

But risk managers must still deal with acquisitions or mergers whether or not they know about them beforehand. They must make the transition of one company into another as smooth as possible.

"Make three telephone calls when you find out about an acquisition," Mr. Ward said. "Call the person in your own company dealing with the purchase and get the number of the acquisition's insurance brokers. Then phone the brokers to get the company's insurance history. And, finally, phone your own brokers, tell them the situation and ask for help."

Risk managers should also call the person in charge of insurance and loss prevention in the target company to gather further details.

After all that, said Mr. Ward, "go look at the risks yourself and get the feel of them. It is easier and more complete than looking at the data."

The biggest problem may be taking on past liabilities. At an early stage in a corporate purchase, risk managers should suggest to their companies' lawyers that a waiver of past liabilities be put into the purchasing contract. This way, the purchasing company will not pay for the acquisition's past mistakes.

"We restructured the assets in the agreement so we wouldn't get the past liabilities," said one risk manager.

"In an acquisition with an American corporation, we agreed goodwill would be acquired but past liabilities would remain with the purchased company.

In a subsequent product liability claim, the loss went to the previous owners," said another British risk manager.

"But I now have a 1973 machine product liability claim where we bought assets and liabilities. The writ is issued against us and not against the previous owners." ■

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● Risk Science International, the environmental consulting unit of Frank B. Hall & Co. Inc., has published a free brochure entitled "Environmental Law Summary." The folder contains brief descriptions of federal environmental laws, including the Clean Water Act, Clean Air Act and Resource Conservation and Recovery Act. In addition, the brochure contains a checklist for companies with possible pollution exposures. For a copy contact Risk Science International, 1101 30th St. N.W., Suite 103, Washington, D.C. 20007; 202-342-2206.

● Need to hire a safety or health specialist? The International Institute of Safety & Health has published a new "Directory of Leading Certified Hazard Control Specialists," which lists nearly 800 certi-

fied professionals in 55 occupational, environmental and product safety classifications. The name, address, experience, education and certification of each expert is listed. The experts are classified by specialty. To order, send \$22 to "Directory," International Institute of Safety & Health, 5010 Nicholson Lane, Rockville, Md.

● A checklist of safety and loss-control inspections for restaurant owners is available from Finch Associates, a consulting firm. The checklist covers safety for workers, patrons, products and property. For a copy of the checklist, send \$2 to Leta Finch, Finch Associates, Box 224, Collamer Circle, Shelburne, Vt. 35482.

● A new booklet on "How to Obtain an ASME Code Stamp" has

just been released by The Hartford Steam Boiler Inspection & Insurance Co. The booklet explains the steps necessary to complete requirements for an American Society of Mechanical Engineers' boiler and pressure vessel code certificate of authorization. The booklet also contains tips on how to avoid delays and how to increase the chances of passing a joint review the first time. The publication is available at no charge by writing Special Inspection Service Division, The Hartford Steam Boiler Inspection & Insurance Co., One State St. Hartford, Conn. 06102.

● The "1983 Fire Protection Reference Directory" is now available from the National Fire Protection Assn. The directory is a 240-page reference and buyer's guide for industrial and municipal fire protection specialists. More than 1,000 manufacturers of fire protection or prevention products and equipment are listed alphabetically

by product. The book also contains annual statistics compiled by the National Fire Protections Assn., reference material on fire codes and standards and U.S. firefighter death and injury statistics. The directory costs \$11.25 for NFPA members and \$12.50 for non-members. To order write Publication Sales Division, National Fire Protection Assn., Batterymarch Park, Quincy, Mass. 02269. Ask for catalog No. FPRD-13.

● "Hazard Control Information Handbook" is a new publication from the International Institute of Safety & Health that lists essential sources of information on all aspects of accident protection, including occupational, product and environmental safety and health. It includes listings of data bases, books, journals, standards, federal and state agencies, professional organizations and continuing education courses. The handbook costs \$19, plus \$2 for postage and han-

dling, and may be ordered by writing the International Institute of Safety & Health, 5010 Nicholson Lane, Rockville, Md. 20852.

● The Defense Research Institute maintains a bank of approximately 6,000 legal briefs. If you would like information on DRI's brief bank, write for a free copy of the supplement to its Brief Bank Index. Write Defense Research Institute, Public Relations Department, 733 N. Van Buren, Suite 650, Milwaukee, Wis. 53202.

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Thompson heads Seaboard Surety

George F. Thompson has been elected president and chief executive officer of Seaboard Surety Co. in New York.

Mr. Thompson succeeds Robert P. Scaglione, who was elected vice chairman. Seaboard is part of the St. Paul Cos. Inc.

Other insurer changes:
Stephen McMahon named executive assistant to James J. Meenaghan, president of Fireman's Fund Insurance Cos. in Novato, Calif. Mr. McMahon, a vp, has been in charge of personnel at Fireman's Fund since 1981. He joined the company in 1977.

Reinsurers

John D. Dunn Jr. joined San Francisco Reinsurance Co., a subsidiary of Fireman's Fund Insurance Cos., in San Francisco as senior vp. He is responsible for the company's domestic reinsurance operations. Mr. Dunn had been senior vp at Buffalo Reinsurance Co.

Agents/brokers

Kevin D. Gallagher named manager of Alexsam, the Alexander & Alexander unit that handles special and surplus lines. Mr. Gallagher had been vp and manager of the property department in the A&A New York office.

George V. Kane, has been elected chairman of Rollins Burdick Hunter Agency of Texas Inc. He previously was president of the Rollins Burdick Hunter Co. subsidiary, which is the insurance brokerage arm of Combined International Corp. Ben A. Reid succeeds Mr. Kane as president of the brokerage, which he joined after leaving Alexander & Alexander of Texas Inc. where he was a senior vp.

William G. Lauffer Jr. named executive vp of Fred S. James & Co. of New Jersey in Short Hills. He previously was senior vp and profit center manager.

Charles H. Patterson appointed senior vp of Fred S. James & Co. of Illinois and assistant profit center manager of the Chicago office. He previously was president and profit center manager of Fred S. James & Co. of Nebraska.

Other suppliers

Douglas G. Hoffman and Thomas J. Wander have been promoted at Risk Planning Group Inc. in Darien, Conn. Mr. Hoffman was named senior consultant. He joined RPG in 1979 as staff consultant. Mr. Wander was elected a vp. He joined RPG in 1978.

Grant McMurry joined William M. Mercer Inc.'s Detroit office as an

comings & goings: industry

asset management consultant. Before joining Mercer, Mr. McMurry had been president of McMurry-Michaels Inc.

Peter L. Hutchings named a partner at Kwasha Lipton in Fort Lee, N.J. Mr. Hutchings had been a senior vp and chief financial officer at Blue Cross & Blue Shield of Greater New York.

Lawrence M. Franklin named

manager of Buck Consultants Inc.'s Dallas office. Mr. Franklin was previously with the New York office of Buck.

Donald G. Lightfoot has been named vp-special products at Pension & Group Services Inc., an actuarial consulting firm in Kalamazoo, Mich. He will be responsible for various cost-containment services.

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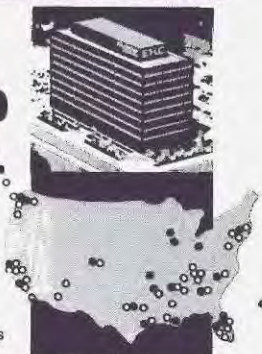
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CONSOLIDATED STATUTORY SURPLUS OVER \$47,000,000

Engine failure may cost Eastern \$4 million

Continued from page 1

Eastern reported to the Civil Aeronautics Board earlier this year that the coverage is placed 40% with Lloyd's and London companies, 30% with La Reunion Aérienne of France, 10% with United States Aircraft Insurance Group, 10% with Associated Aviation Underwriters and 10% with Insurance Co. of North America, an affiliate of CIGNA Corp.

Eastern's hull and liability insurance is brokered by Frank B. Hall & Co. Inc. with claims handling contracted to Southeastern Aviation Underwriters Inc. of Atlanta, Ga., an Alexander & Alexander Services Inc. affiliate.

The National Transportation Safety Board has scheduled public testimony this week from mechanics, flight crew and other officials involved in the Eastern incident. It is seeking to determine why the "O-rings," or oval-shaped rubber gaskets, were not refitted on the oil plugs after maintenance.

Typically, an "O-ring" is supposed to be slipped around the throat of an engine's metal oil plug that screws into one of the engine oil lines. The extended tip of the plug is magnetized and is designed to collect metal shavings from the engine oil system.

Mechanics unscrew the magnetized "chip detectors" on a routine basis because the presence of metal shavings in the oil can indicate premature wear of bearings or other engine parts—a problem that plagued the RB-211 engine when it was introduced in the early 1970s.

At Eastern, says an NTSB spokesman, mechanics pull the oil plugs—one per engine—and give them to a supervisor for analysis. The supervisor will either clean the plugs and return them to the mechanics for reinstallation or send them to a lab area for analysis if they appear to have collected metal chips.

On May 5, however, a supervisor apparently ran out of cleaned plugs

and a mechanic went on his own to a stock area to pick up three replacements. Unfortunately, the NTSB says, the replacements did not include the rubber "O-ring" gaskets.

All three oil plugs were installed without gaskets, permitting oil to leak once oil pressure built up after engine ignition.

The NTSB says it is checking whether the mechanics performed a required "motoring" of the engines after the procedure—turning them over without fuel to build up oil pressure—to check for leaks.

The NTSB says it is also checking why one mechanic initialed an inspection sheet certifying that the "O-rings" were installed on the plugs.

While Eastern and other airlines refused to discuss measures they take to monitor how safely and effectively airline mechanics perform their jobs, it is apparent that it is the airlines that are responsible for such checks and balances.

Aviation insurers are not involved and the Federal Aviation Administration appoints the airlines' own supervisory employees to monitor mechanics' work for the FAA.

"The insurance carrier really is not part of that (mechanics' safety) process," says John B. Galipault, president of the private, non-profit Aviation Safety Institute of Worthington, Ohio. "Most of that is delegated to the airline."

"All the underwriter can do is guesstimate what rates to charge. It's such a cutthroat business that all he can do is charge the best rate he can and hope for the best."

Underwriters, on the other hand, say they do look at airline maintenance and safety programs, but not necessarily before every policy renewal.

They say they can't afford to hire the experts necessary to do regular technical reviews.

Such underwriter visits are "random in terms of the time sequence," says Charles A. Tarpley, a senior vp with the Dallas-based Aviation Office of America Inc., a Crum & Forster subsidiary that underwrites airline coverage.

Mr. Tarpley says AOA might request an inspection if it intends to increase its participation in an airline's insurance program or take a share of a new risk.

Lloyd's of London, according to one major aviation broker, does the least in the way of safety-related inspections of an airlines' operations and maintenance, leaving it up to U.S. domestic underwriters sharing the risk to police themselves.

A Lloyd's spokesman says Lloyd's has two aviation "surveyors and adjusters" who usually are asked to check an airline's operations "just before renewal, often when there has been a bone of contention and the check is to see that it has been cleared up."

But such surveys are only or-

dered in about 5% of policy renewals, says the spokesman.

When and if to inspect is decided by each insurer, who subjectively evaluates the policyholder and the limits involved, says James M. Fitzsimons, a partner with the New York law firm of Mendes & Mount. Mr. Fitzsimons' firm is often retained by Lloyd's underwriters to represent aircraft manufacturers after a crash.

"The insurers that I represent have not wanted to go in there and take over a safety-auditing function because they are insurers, not manufacturers or operators."

A consultant affiliated with one U.S. domestic underwriter says the quota-share system of insuring airline risks is partly responsible for the lack of loss-control inspection by underwriters.

"The problem is, which one of the insurers on the risk is responsible for sending in an outside consultant to do the inspecting?" says Joseph R. Bailey, president of Aerospace Management Services International Inc. of Arlington, Texas, a subsidiary of USAIG.

Mr. Bailey says his firm has never been hired by a large airline for safety consultation. "The airlines have much of a 'we do that ourselves' attitude," he says.

Mr. Galipault of the Aviation Safety Institute also worries about the Federal Aviation Administration's system of appointing the airlines' own supervisory personnel to check on mechanics as FAA "designated representatives." It forces the the supervisors to "wear two hats," he says.

"The FAA's got a shortage of people who are capable and qualified to go out and check maintenance," he says.

The FAA says the "designated representative" system works well because it affords oversight checks that the government could never afford to provide itself. ■

Award stings air crash defendants

By BILL DENSMORE

NEW YORK—Less than two weeks before the fourth anniversary of the nation's worst air disaster, defendants American Airlines Inc. and McDonnell Douglas Corp. are smarting from a \$7 million jury verdict.

The award will be appealed, said an insurer-hired attorney for American who handled the defense. U.S. District Judge Robert W. Sweet can reduce or overturn the award if he thinks it was excessive.

The U.S. District Court jury awarded \$7 million in compensatory damages and \$10,000 in damages for pre-impact pain and suffering to the family of a Rochester, N.Y., neuro-radiologist killed in the May 25, 1979, crash of an American DC-10 near Chicago's O'Hare International Airport.

Dr. Shuren Lin, 42, had four children, ages 1 through 15, at the time of his death.

Four years after the crash, which killed 273 people, a total of 207 claims have been resolved and a total of \$90 million paid by defendants, or an average of about \$437,000 per claim, say lawyers.

Other large passenger-claim verdicts have been for \$4.2 million and \$2.2 million, but they were reduced to \$2.8 million and \$1.7 million respectively.

Under a secret agreement among American, McDonnell-Douglas and their insurers, American is paying 75% of passenger claims and McDonnell-Douglas is paying 25%.

Federal investigators blamed the crash on an American maintenance procedure that cracked an engine mount and allowed it to tear from the wing. It also said the plane's design contributed to the crash.

Shutao Lin, brother of Dr. Lin, said after the verdict that he remains angry at the airline's insurers—United States Aviation Underwriters Inc.—for offering him \$250,000 the day after the crash in exchange for signing a release settling claims for his brother's death.

"I read the release and it indicated I would give up my right to sue," Mr. Lin said in an interview.

Mr. Lin is a senior master agent and pension sales specialist with Equitable Life Assurance Society in Red Bank, N.J. He says he could not have misread the release form because of his familiarity with insurance company claims practices.

USAU says the first offer was made on July 30, 1979. The underwriter does acknowledge, how-

ever, that it offered to settle the Lin case for \$2.4 million shortly before the three-week trial began.

The insurer says it does sometimes offer air crash victims limited sums after a crash to help with immediate family expenses. But it says next-of-kin are still free to pursue legal claims later. It says it doesn't offer to settle legal claims for at least 60 days after a crash.

USAU's post-crash practices have angered plaintiffs' attorneys, who accuse the insurer of attempting to steer next-of-kin away from hiring attorneys (*BI*, Aug. 9, 1982).

The Lin verdict—said by attorneys to be the largest jury award so far in the DC-10 crash and one of the largest ever in an aviation disaster—is unusual in that it in-

cludes an amount judged by the jury to be compensation for the 15- to 30-second period that Mr. Lin and other passengers on Flight 191 watched an engine tear from the wing and their craft plunge.

Many crash cases are pending in a U.S. District Court in Chicago, where two federal judges ruled that "pre-impact pain and suffering" damages would not be allowed.

In the Chicago court, Judges Hubert L. Will and Edwin A. Robson sided with American and McDonnell-Douglas and ruled that, since all aboard died, it was too speculative to consider such losses.

The Lin verdict thus raises the possibility that such damages may be allowed in other cases tried outside the federal court in Chicago. ■

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Chicago says payments covered by bond

Continued from page 2

Friedman, assistant corporation counsel for the city.

Mr. Friedman said that INA "was consulted and made aware of all the arrangements with Deprizio," he said.

City records refer to the transactions as "advances" and also record that they were approved and signed by INA personnel.

One provision of an agreement says that INA participated extensively in discussions leading to execution of the agreement and by their formal consent approved and ratified its terms.

INA would not comment on the matter.

Since the advances were contract payments, and not separate loans, the city would not have any loss, Mr. Friedman stressed.

The agreements also note that

the city is to retain 10% from each payment of the contractor to the city to apply to the the principal of the money advanced.

He said the city required the construction company to pay interest on the advances because the city would have earned interest on the money had the advances not been made.

The interest rate charged by the city was half of a percentage point above the average annual rate of interest that the city earns on cash investments.

An attorney representing INA in Chicago said the insurer has not been yet asked to perform on the bond contract, adding that Deprizio may still finish the job.

Vincent P. Reilly of the firm Peterson Ross Schloerb & Seidel said it will first have to be determined through bankruptcy court proceed-

ings whether the construction firm can finish the job.

Although the city says it and INA agree that INA will cover the city's advances through the performance bond, various surety bond experts say that the city's advances to Deprizio were highly unusual. They say an owner of a public project rarely if ever provides money to a construction company.

Lending or advancing money is more of a responsibility of the surety bond underwriter, they say. However, they say much depends on the nature of the bonding contract and any additional agreements the city and INA may have made.

"It's a very rare bird where the city of Chicago advances the funds to a construction company," said Thomas R. Wiley, vp for Schwartz Brothers Insurance

Agency Inc. and former president of the National Assn. of Surety Bond Producers.

"But if they were advance payments and were consented to by the surety, the surety could be in the tank for it," Mr. Wiley added.

"For a public body to lend money to a contractor is highly unusual," agreed a spokesman for a major insurer who asked not to be identified. Generally, the surety has the option of lending money to the original contractor or hiring another contractor for the project.

Who would be liable, however, would depend on what the bond contract says along with any changes or amendments, he adds.

The spokesman said it would be more likely for the contractor to go to the bonding company rather than the city for help. "Why wouldn't the bonding company

make the loan?" he asked. "That's why they've got a bond. Why didn't the contractor go to the bonding company?"

"It's fairly unique," a spokesman for Hartford Insurance Group added. "In a situation like that with a performance bond, you would look for the surety company to solve the problem. The surety company would finance it or find another contractor. Generally, the surety company would take the responsibility."

Quentin Lerch, vp of the Surety Assn. of America, said that its not unusual for private owners to make advance payments, but "most public owners don't make advance payments unless they have additional protections."

No work is now being done on the project, which had been scheduled to be completed by October. ■

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Insurance Management: vps, directors, managers of insurance, risk, benefits, compensation, safety, security, etc.	5,299
Government, Associations, Unions, Educational Institutions	1,034
Commercial Consumers Sub-total	22,954
Insurance Agents & Brokers	9,771
Insurance Cos.	5,217
Financial Institutions	352
Actuaries, Attorneys, Adjusters, Appraisers & Consultants	2,603
Others allied to the field	937
TOTAL	41,834

*Source Business/Occupational breakdown of qualified circulation, November 1, 1982 issue, as submitted to BPA for December 1982, BPA Publisher's Statement.

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Movie producer stops insurance activity

Continued from page 3

ACC's new stance toward risk management was made known last December, when Mr. Williams fired Mr. Muckleston and most of his staff and announced that the company would close Marbarch Insurance Services, Mr. Muckleston recalls.

"But there was no provision for our third-party clients, which numbered about a thousand," said Mr. Muckleston. "We said you cannot clump the clients on the head and forget about them."

Since the announcement, Mr. Muckleston has set up a new company called Mortgage & Insurance Services Ltd., based in Sussex, and he says he has picked up all but one of Marbarch's former clients.

In the meantime, ACC and a skeleton staff remaining from Marbarch are running off Marbarch's business.

The runoff of the Bermuda underwriting agency's business appears to be more complicated, though, because ACC claims that one of the captives it managed owes it millions of dollars for claims payments and management fees. ACC had hired five Lloyd's brokers to help it straighten out the problems.

ACC and the five brokers—Minet Holdings P.L.C., C.E. Heath P.L.C., C.T. Bowring & Co. Ltd., Hogg Robinson Group P.L.C. and Leslie & Godwin (Holdings) P.L.C.—have stopped paying claims or accepting new business for the Bermuda affiliate, ACC Insurance Ser-

vices Ltd., until the runoff is organized, Mr. Williams said.

Although Mr. Williams would not say how much ACC paid for the agency, formerly called Cockburn Agency No. 1, when it bought it in 1979, he did say that it was a losing proposition. "It will be a big loss at the end of the day," he said.

"When we bought it, Cockburn Agency No. 1 was underwriting considerable volumes of business," he said. "But we cut it down so that by 1982 it was only writing about 5 million pounds of business."

The agency had managed, at one time or another since its founding in 1974, five captives: Marbarch Insurance Co. Ltd., ACC's captive; Concorde Reinsurance Co. Ltd.; Centaur International Insurance

Co. Ltd., owned by Borg-Warner Corp.; Beneficial Insurance Co. (Bermuda) Ltd., a subsidiary of Beneficial International Insurance Co.; and Shasta Reinsurance Co. Ltd., a subsidiary of Itel Corp.

The agency also had underwriting authority for a pool of retrocessionaires called the St. George's Treaty Group, which consisted of more than 50 companies that wrote reinsurance for the five captives, a spokesman for ACC Insurance Services in Bermuda said.

Running off the agency's business has been complicated by the financial problems of Shasta's parent, Itel, Mr. Williams said.

Mr. Williams said Shasta owes about \$4 million to ACC Insurance

Services for unpaid claims and services provided by ACC between 1974 and 1976, adding that ACC went to arbitration in Bermuda to recover this money from Shasta and won the arbitration.

"The problem is Shasta is not paying," he said. "As an agency, we are not willing to pay anyone else's claims."

David Kessaram, an attorney at the firm of Cox & Wilkinson that represents Shasta in Bermuda, would not comment on the arbitration, and David Kolovrat, an attorney for Itel in San Francisco, was unavailable for comment.

A spokesman at Itel did say, however, that any debts owed by Shasta would probably be resolved in Itel's Chapter 11 bankruptcy

procedures, which has been pending since 1981.

Itel suffered financial reverses when the value of the computers that it leased to other businesses dropped and lessees canceled their leases. Itel recovered some of its loss from Lloyd's of London, which insured the anticipated lease value of the computers over the lower resale value (BI, July 5, 1982).

Shasta and ACC Insurance Services in Bermuda did not underwrite any computer leasing insurance, said the spokesman at ACC in Bermuda.

Mr. Williams does not know whether the agency will be sold in the future after claims payments are sorted out. "It depends on if anyone is interested," he said. ■

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Arbitrator to decide cover issue

Continued from page 2

Mr. Schecter said both Fireman's Fund and St. Paul are contributing toward the settlement pending the arbitrator's decision.

Victor Powell, 21, filed the claim after being injured at Walt Disney World in Lake Buena Vista in October 1982. Mr. Powell was one of about 500 students from bands across the country at the amusement park for a special event for high school bands.

The students were being lifted onto a roof during a rehearsal when a walkway slipped from the roof and hit Mr. Powell, Mr. Schecter said, leaving the Mississippi student a paraplegic.

Because Disney paid for the accommodations of the students, the company considered the band members as its employees and wanted to settle Mr. Powell's claim as a workers comp case, Mr. Schecter said.

Florida case law holds that such an injury would be considered work-related, he said.

But, apparently, attorneys for Mr. Powell indicated that they would apply to a Florida Circuit Court to waive their client's workers compensation rights in order to press a liability claim against Disney, Mr. Schecter said.

Future medical claims cannot be settled under Florida workers compensation law, he explained.

Attorneys for Mr. Powell had asked for a settlement of about \$39 million, Mr. Schecter said, basing the request on a life expectancy of 72 years.

In reaching the \$4.2 million settlement, Disney agreed to pay two annuities to Mr. Powell and a third to his attorneys, Mr. Schecter said. ■



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Unisex rates costly for employers, insurers

Continued from page 1

cost of retroactively topping up life insurance benefits would be more than the industry could bear, it says.

The American Council of Life Insurance found, in a survey of 147 companies, that a retroactive equalization of life insurance benefits would cost \$13.4 billion. Some 21 companies would become insolvent, while 50 life insurers would have their reserves cut in half, according to the ACLI.

Bankers Life Co., which has a net worth of \$311 million, says if the Packwood-Dingell bill became law it would have to boost its reserves by \$346 million.

"We would be wiped out," says Robert Houser, chairman of the 103-year-old Des Moines, Iowa, company.

And Prudential Insurance Co. of America of Newark, N.J., the nation's largest health and life insurance company, would have to increase reserves by \$1.7 billion, an amount that would "substantially eat up our surplus," says Robert A. Beck, board chairman.

If many life insurance companies, which also often provide a wide range of other benefits, were forced out of business or were severely crippled, employers would have fewer companies from which to purchase their group benefit programs.

Other provisions in the unisex legislation also would have significant effects. For example, the legislation would require all employers to provide equal pregnancy benefits coverage in their group health and disability plans.

Currently, under the Pregnancy Discrimination Act of 1978, only firms with more than 15 employees are required to offer equitable pregnancy benefits.

The cost of adding equitable pregnancy benefits could boost small employers' annual health care costs by \$230 million, estimates George K. Bernstein, a former chief of the Federal Insurance Administration and now a Washington attorney.

This increase would occur as small firms are trying to cope with health care premium rises of up to 60% over the last two years (BI, Aug. 13, 1982).

"An expensive product could become unaffordable," warns Mavis Walters, a vp with the Insurance Services Office in Washington.

And the legislation, if it became law, would dramatically increase auto insurance premiums for young female drivers, who now pay lower rates than males the same age because they are involved in many fewer accidents, statistics show.

Under the bill, insurers could not use differences in accident rates based on sex in setting auto insur-

ance rates. Men and women would have to be charged the same rates.

The switch to unisex auto insurance rates would mean, for example, that a 23-year-old Baltimore, Md., woman would pay between \$246 and \$429 more a year for insurance, according to John Hatch, counsel for Aetna Life & Casualty Co. in Hartford.

Despite the enormous impact of the Packwood-Dingell bill, particularly on corporate retirement plans, few employers and their trade associations have taken an active role in the debate.

That could be because many employers are confused about the legislation, or believe—incorrectly—that it would only affect the insurance industry, said Aetna's Mr. Hatch.

There was some justification—until recently—for that indifference. For years, the introduction of unisex legislation in Congress produced a lot of talk, but not much else.

But things quickly changed this year. With last year's defeat of the Equal Rights Amendment, women's rights groups, such as the National Organization for Women, expanded their efforts to get unisex legislation passed.

The lobbying effort by women's groups had an impact. The Packwood-Dingell legislation now has more than 100 co-sponsors. Last month, the House version, H.R. 100, sailed through an Energy and Commerce subcommittee. The full Energy and Commerce Committee could approve the bill this week.

While no one can say for sure whether Congress will approve the bill in its current form, the battle lines are clearly drawn.

Women's groups do not deny that there are sex-related mortality differences. But the real issue is individuals must be treated as individuals, not as group statistics, according to attorney Amy Jo Götler, who represents an Arizona woman whose challenge of the use of sex-based mortality tables to determine annuity benefits is pending before the Supreme Court (BI, Oct. 18, 1982).

While females as a group may outlive men as a group, there is no guarantee that an individual woman will outlive a man, women's group argue. And they note that under the Civil Rights Act of 1964, people must be treated as individuals, not as members of a class.

But insurers say the very nature of insurance involves differences or fair discrimination. For example, an employer that has installed sprinklers in its factory will pay a lower property insurance rate than an employer lacking sprinkler protection.

"The whole concept of insurance

is based on group experience," said Lawrence Margell, chief actuary for consultant Towers, Perrin, Forster & Crosby in Philadelphia.

If sex differences no longer can be considered, other differences also may be eliminated. "Tomorrow, it may be age differentials in life insurance that are criticized or the use of territories in automobile insurance. Next it may seem that a blow for equality can be struck by prohibiting the use of fire resistance materials in setting homeowner insurance rates," said Mr. Bernstein, the former Federal Insurance Administration chief.

Some experts question whether the legislation really will give women more benefits.

For example, men covered under defined benefit plans would gain far more pension benefits than women if the bill became law, experts say.

The vast majority of workers and retirees are covered by defined benefit plans in which men and women receive equal benefits. That's because the benefit is based on salary and length of service.

However, there are sex-related differences when male and female retirees covered under defined benefit plans purchase joint and survivor options; a joint and survivor option provides a portion, usually half of the retiree's pension benefit, to a spouse when the retiree dies.

Men must pay more for a joint and survivor option than women because they are likely to die sooner, triggering the option feature. In addition, a surviving female spouse will collect benefits

over a longer period of time than the husband of a female retiree who dies.

For example, a 65-year-old male who retired with a \$400 a month benefit would have his benefit reduced by about 15% to \$340 if he selected a 50% joint and survivor option.

By contrast, a 65-year-old woman, who also retired with a \$400 a month pension, would have her benefit reduced by about 3% to \$368 if she selected the same 50% joint and survivor option.

Under the Packwood-Dingell bill, the male employee's monthly benefit would have to be topped up to the female's level. As a result, in this example, the male's benefit would be increased to \$368.

It is the topping up of male benefits that would cause the biggest cost increases in defined benefit plans. Of the \$313 million increase in benefit costs that the New York State Teachers' Retirement System would incur if the Packwood-Dingell bill became law, about 80% would go to topping up male's benefits, said Mr. Bernstein, who represents the plan.

Only in a small percentage of defined contribution plans, concentrated at the nation's universities, would women's benefits be boosted. In the plans involved, men and women retire with identical accumulated benefits.

The employer then offers the employee a choice of purchasing an annuity with the accumulated plan benefit. For example, Nathalie Norris, the Scottsdale, Ariz., woman who is suing her employer

over the used of sex-based mortality tables, was told by the state government that if her contributions continued at a steady level, the total value of her account at age 65 would total \$53,890. At that time, she could purchase a monthly annuity of \$320.11. A man who contributed the same amount as Ms. Norris would receive a monthly payment of \$354.07.

Under the Packwood-Dingell bill, Ms. Norris's benefit would be boosted to \$354.07.

If the bill became law, other problems could crop up. For example, it isn't clear whether the employer or the insurer would have to pay for topping up a benefit if an annuity option was offered as part of a group pension plan. The uncertainty would result in extensive litigation, said Dominick Cardace, a consulting actuary and partner with Kwasha Lipton in Fort Lee, N.J.

Some experts believe unisex benefits are inevitable. A growing number of employers, for example, offer unisex joint and survivor benefits.

"This is something that should have been done 10 years ago," said Paul Jackson, a consulting actuary at The Wyatt Co. in Washington.

But Mr. Jackson believes such a change must be prospective. The cost of a retroactive increase is simply too great, experts say.

Furthermore, Mr. Jackson points out a retroactive change would have social consequences. "If you can't rely on a contract (like a life insurance policy), then you have lost an element of security," he says.

Manville plan excludes trial courts

Continued from page 1

plan as "M2") that would be created to assume all of Manville's non-asbestos businesses. Current and future asbestos liability would remain with the old Manville, which would retain its liability insurance, a portion of Manville's cash and certain asbestos-related assets.

• Giving claimants a choice between a no-fault, defined benefit compensation system or a settlement/arbitration compensation system. According to Manville's statement, all plaintiffs would have to decide to accept one or the other of the systems.

If claimants decide they would rather be compensated through the no-fault, defined benefit system, categories of asbestos-related impairment would be established and a compensation value would be assigned for each, according to the plan. However, categories could be adjusted for individual factors.

There would be no limit to the number of times a claimant could apply for benefits if he or she develops a more severe asbestos-related physical impairment as long as at least two years had passed since the claimant's last application for benefits.

In addition, if this system is adopted, Manville says it would give up certain legal defenses it has used against asbestos claims in the past, though it did not say which defenses it would drop and pointed out that it will maintain others.

If the plaintiffs vote under the reorganization plan to adopt the settlement/arbitration hearing system, Manville would ask the bankruptcy court to set up a three-phase plan for liquidating claims.

First, an attempt would be made to settle all claims through a claims settlement facility, which could also be used by co-defendants. If an agreement cannot be reached between this facility and the plaintiff, the claim would then be submitted

to a non-binding, expert arbitration panel that could hold informal hearings and review medical and other information.

If still no agreement is reached, the plan calls for special masters appointed to the bankruptcy court to hear and report evidence to the court for the purpose of liquidating the claims. The bankruptcy court would make the final award.

A jury trial would not be allowed under either of the two schemes.

The plan says that future claimants—those who were exposed to asbestos but had not yet manifested a disease or filed a claim before Manville filed for bankruptcy—would be treated the same as present claimants if the bankruptcy court rules that future claims can be included in the plan.

Manville has filed a class-action suit with the bankruptcy court seeking, among other things, that future claimants be included in any reorganization plan (BI, April 25).

If future claimants are included, their representative would be given the opportunity to decide, along with the current plaintiffs, which of the two compensation systems to adopt.

If the bankruptcy court rules that future claimants cannot be included, the plan, of course, would not apply to them. However, Manville said last week that these claimants would only be allowed to sue the old Manville, not the new, distinct company that emerges from reorganization.

Also, Manville plans to ask the court as part of the plan that no punitive damage claims be allowed. However, if punitive damages are allowed, the company will ask the court to determine one lump-sum punitive award so that it cannot be "punished" more than once.

If the plan is adopted, the newly formed company—"M2"—would have no liability for asbestos claims and would be a separate entity

from the current Manville.

However, the new company, according to the proposal, would make payments to the old Manville to provide sufficient funds to satisfy the old Manville's anticipated liabilities, including asbestos health claims, as they are liquidated.

Payments from the new company could go directly to the old company or to insurers for the purchase of retroactive, claims-made insurance, the plan says.

Manville said last week that its plan is a viable solution to the asbestos litigation crisis.

"We've structured a plan that we believe works," said Michael Cramas, a Manville bankruptcy attorney with the New York firm of Levin, Weintraub & Cramas.

He said that the company has proposed a plan that could achieve acceptance and confirmation, adding there are ways to accommodate most—if not all—of the parties to the litigation.

But co-defendants and plaintiffs' attorneys took an opposite view.

"Manville is precisely as arrogant as they have ever been. The leopard in our view has not changed its spots," said one plaintiffs' attorney.

"This document does not in any way represent what any reasonable person involved in this would characterize as progress," said an attorney for Owens-Illinois Corp.

"There has been no progress in this case. If there has been any party obstructing resolution of this process, it's Manville," he said.

Arthur Olick, an attorney for co-defendant Keene Corp. with the New York firm of Anderson Russell Kill & Olick, called the proposal "insidiously clever—a blueprint for litigation."

He said that everything initially objected to by various parties in the litigation is part of the plan. He called it a "masterful case of keeping Manville in Chapter 11" for three to five years.

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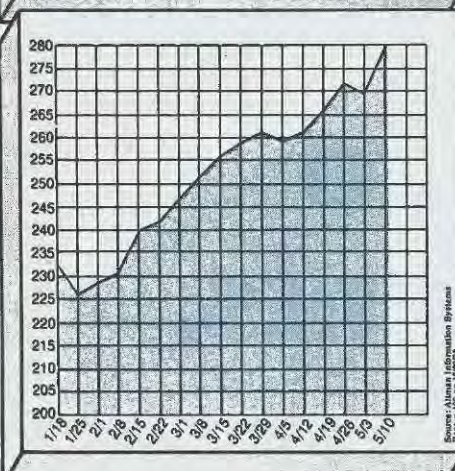
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BI Insurance Index



Brokers try to cut expenses to bolster their sagging profits

Continued from page 3

"We are examining all of our less-profitable operations to see what can be done to decrease the drag on profitability, and we have contacted all our office managers and have asked them to take whatever steps are appropriate to control expenses."

Some of those appropriate steps may have involved firings or—in lieu of staff reductions—across-the-board pay cuts for all employees in a specific office, Mr. Farley pointed out.

A&A Chairman John A. Bogardus Jr., in announcing the brokerage's first-quarter results, also cited the recently instituted expense-control measures and noted that corporate expenses grew only 5.3% during the first quarter.

"Further actions are being taken to reduce expenses throughout the remainder of the year," Mr. Bogardus said. "And with our operating costs firmly managed and a vigorous new business effort in place, we are hopeful for improved financial results as the year progresses."

However, Mr. Farley pointed out that expense control isn't A&A's biggest or only problem. The first-quarter results were more influenced by market competition, continued poor underwriting results at Howden and foreign exchange.

"There was very little good news in our first-quarter results and though there were no more extraordinary expenses related to Howden, its underwriting results were not very good," Mr. Farley notes. "Howden's brokerage operations aren't doing exceptionally well, either. . . Though they may have been up a little in the first quarter, the weakness in sterling exchange rates makes them down relative to corporate results."

A&A was not alone in its laments. With the exception of Marsh & McLennan Cos. Inc., the other publicly held commercial insurance brokers continued last year's performance slide through the first quarter of 1983.

Poe & Associates Inc., the smallest of the publicly held brokers, also had a disappointing first quarter and posted the next worst financial results, despite its plan to spin off its underwriting subsidiaries into a separate company.

Poe's gross brokerage revenues in the first quarter of 1983 fell 6.1% to \$5.7 million from

\$6.1 million in 1982, and net income sunk 60.9% to only \$227,000 from \$580,000 in 1982. Per-share earnings dropped to 8 cents from 20 cents in 1982.

Pending regulatory approval of the spinoff of its Whiting National Insurance Co. operations, Poe's earnings for discontinued operations dropped to \$17,000 from \$44,000 in 1982.

Poor results, however, do not appear to be a function of either internal management problems or size. Corroon & Black Corp., Frank B. Hall & Co. Inc. and E.H. Crump Cos. Inc. also experienced earnings decline.

C&B's net income, for example, fell by 33% to \$3.2 million from \$4.8 million in 1982, while gross revenues dropped 5.1% to about \$42 million from \$44.2 million. Earnings per share fell to 40 cents from 61 cents.

"Declining interest rates, lower contingent commissions and a reserve established by our 20% owned affiliate, Minet Holdings P.L.C., along with continued softness in the insurance market, produced disappointing first-quarter results," remarked Chairman Robert F. Corroon. "Although timing differences and some non-recurring items in 1982 rendered the comparison difficult, the quarter was nevertheless below our expectations and clearly unsatisfactory. However, we expect earnings improvement as the year progresses."

Corroon & Black also confirmed that a growing number of suitors are interested in acquiring the brokerage, even though top management maintains the company is not for sale.

To support the management position and protect shareholders, the company instituted an anti-takeover measure that was approved by shareholders at the company's April 28 annual meeting, according to Chief Financial Officer Stephen A. Crane.

The new corporate rule requires that major business combinations be approved by holders of at least 80% of all voting shares and that such action can be taken only at a meeting of shareholders, Mr. Crane says.

"This super-majority measure is something that several companies have adopted in recent years," he explains. "It's primarily designed to protect shareholders from getting a raw price deal from other companies who may want to acquire 51% of our stock at a proper price and then buy the remainder at a

depressed price when they have control.

"However, I want to make clear that this is not a scorched-earth policy toward acquisitions. We are not interested in being acquired nor are we for sale in any way, but we realize that we have a fiduciary responsibility to shareholders to listen to any reasonable offer from a responsible suitor."

C&B shareholders also approved the creation of a new class of 2 million shares of preferred stock that Mr. Crane says is not another anti-takeover move.

"The approval was designed to give management a little more financial flexibility. We'll probably never issue the preferred stock," he says.

Frank B. Hall, whose takeover battles with Ryder System Inc. made news last year, also reported disappointing financial results for the first three months of 1983. Gross revenues fell 2.9% to about \$93 million from \$95.8 million in 1982 as net income dropped 26.2% to \$7 million from \$9.5 million last year.

Per-share earnings dropped correspondingly to 59 cents from 82 cents during the first quarter of 1982.

E.H. Crump, whose acquisitions of several medium-sized insurance agencies in 1981 and 1982 buoyed revenues throughout last year, showed only slight revenue gains while it posted moderate earnings declines. Gross revenues grew 4.4% to \$13.1 million in the first quarter from \$12.5 million last year, while net income fell about 5% to \$887,000 from \$934,000 last year.

Earnings per share dropped by 1 cent to 24 cents.

Only Marsh & McLennan reported both earnings and revenue gains for the first three months of 1983, though both advances were slight. M&M's operating revenue grew 2.6% to \$257.7 million from \$251 million in the first reporting period of 1982. Net income increased 4.7% to \$36.5 million from \$34.8 million, and per-share earnings grew to \$1.03 from 94 cents in the same period last year.

However, "Insurance services' operating revenue decreased 2%, compared to the prior year, reflecting a decrease in interest income on fiduciary funds of 27%, while commission and fee revenue increased 1%," noted M&M Chairman John M. Regan Jr. "Employee benefits services increased 18% and investment management revenue grew 41% during the first quarter. Expense growth was limited to 3%."

Securities analysts who specialize in brokerage stocks termed the quarter "disappointing" and predicted no major changes for the second quarter unless insurance market competition decreases.

The Business Insurance stock index surged ahead during the week ending May 10 after a decline the week before. The index rose 9.4 points to 279.3, up from 269.9 points set on May 3, shattering the previous record of 271.8 set on April 26. Forty-five issues closed up, nine were unchanged and 10 lost ground. The leading gains were posted by Hanover Insurance Co., 20.6%; Statesman Group Inc., 19.5%; Fremont General Corp., 19.2%; USF&G Corp., 13.9%; and Foremost Corp. America, 13.0%. The largest losses were reported by Bitco Corp., 5.1%; Corroon & Black Corp., 2.3%; Emmett & Chandler Cos. Inc., 2.3%; Jefferson National Life Insurance Co., 2.2%; and Optimum Holding Corp., 1.5%. The BI index outperformed the Dow Jones 30 industrials with a 3.5% increase for the period.

British Issues

10 May Companies	Price pence	P/E	Div. pence	Yield %	1 Week High—Low pence
Comml Union	160	48.5	16.86	10.5	160—152
Eagle Star	412	16.4	24.29	5.9	415—405
Genl Accident	430	13.7	24.29	5.6	438—430
Gdn Royal Exch	440	11.7	27.86	6.3	457—440
Phoenix	326	17.8	25.00	7.7	334—326
Royal	530	13.7	37.86	7.1	535—530
Sun Alliance	1212	16.6	68.57	5.7	1212—1175

Brokers	Price pence	P/E	Div. pence	Yield %	1 Week High—Low pence
CE Heath	315	8.8	18.71	5.9	330—315
Hogg Robinson	117	9.0	8.57	7.3	120—117
JH Minet	127	12.1	6.50	5.1	135—126
Sedg Grp	231	13.2	10.00	4.3	235—231
Stenhouse Hldg	123	11.5	7.86	6.4	124—122
Stew Wrightson	280	10.2	20.43	7.3	280—277
Willis Faber	545	14.4	25.00	4.6	560—545

Source: Philip Olsen/Alan Clifton, Insurance Industry Specialists, Kitcat & Aitken Stockbrokers, London

BI Industry Stock Report

MAY 10, 1983

5/4/83 THRU 5/10/83

MAY 10, 1983

5/4/83 THRU 5/10/83

Insurance Cos.	Price	% Chg.	P/E	\$ Div.	% Yld.	High	Low	Vol. '000	Price	% Chg.	P/E	\$ Div.	% Yld.	High	Low	Vol. '000			
Aetna Life & Cas Co	NYSE	42.13	1.2	7.4	2.64	6.3	42.13	40.88	933.0	NYSE	32.63	4.4	8.7	1.80	5.5	33.00	32.13	938.0	
American Bankers Ins Group	OTC	15.38	4.2	12.0	0.50	3.3	15.63*	14.75	436.1	OTC	31.00	0.0	10.2	0.88	2.8	31.00	31.00	1.3	
American Gen Ins Co	NYSE	70.75	2.9	9.0	2.40	3.4	70.75	68.63	214.2	NYSE	52.13	13.9	12.2	3.84	7.4	52.38*	48.25	723.5	
American Indty Finl Corp	OTC	21.38	9.6	15.8	1.12	5.2	21.38	19.88	21.3	OTC	26.25	2.9	7.8	1.00	3.8	26.25*	25.50	16.7	
American Intl Group Inc	OTC	76.50	8.9	13.6	0.44	0.6	76.50*	69.50	483.1	NYSE	25.50	-0.5	7.0	0.88	3.5	25.88	25.38	240.3	
American Natl Ins Co	OTC	19.63	4.7	8.2	0.84	4.3	20.63*	18.88	242.9	NYSE	32.00	2.4	15.5	1.08	3.4	32.38	30.63	190.6	
American Sta Life Ins Co	OTC	29.00	0.9	8.1	0.88	3.0	29.00*	28.75	2.1	OTC	23.25	9.4	11.3	0.80	3.4	23.25*	21.50	33.4	
Aneco Reins Ltd	OTC	3.63	0.0	90.6	0.00	0.0	3.63	3.63	26.2	AVERAGE			10.6		3.6				
Avenco Corp	AMEX	16.38	4.0	9.8	0.58	3.5	16.38	15.88	24.5	Agents/Brokers									
Banks Iowa Inc	OTC	42.00	0.0	11.1	1.52	3.6	42.00	42.00	0.9	Alexander & Alexander Svcs	NYSE	22.13	1.7	0.0	1.00	4.5	22.50	22.13	481.2
Bitco Corp	OTC	37.00	-5.1	7.7	2.00	5.4	38.50	37.00	4.5	OTC	41.50	0.0	7.6	0.80	1.9	41.50	41.50	0.7	
Carolina Cas Ins Co	OTC	7.75	0.0	10.2	0.32	4.1	7.75	7.75	1.2	NYSE	26.00	-2.3	13.8	1.80	6.9	26.13	25.88	57.4	
Chubb Corp	NYSE	59.00	7.0	9.2	2.92	4.9	59.25	55.38	446.6	OTC	11.75	-1.1	17.0	0.40	3.4	11.88	11.63	9.3	
Combined Intl Corp	NYSE	36.00	7.9	12.2	2.00	5.6	36.00*	33.38	289.3	OTC	10.50	-2.3	0.0	0.00	0.0	10.75	10.50	12.0	
Continental Corp	NYSE	34.13	-1.1	18.9	2.60	7.6	34.63	33.38	354.5	NYSE	32.50	1.6	18.5	1.70	5.2	33.25	32.13	324.1	
Crawford & Co	OTC	20.25	0.0	14.7	0.60	3.0	20.25	20.00	8.6	ANEX	36.88	3.5	15.3	0.00	0.0	36.88	35.38	268.4	
Crown Life Ins Co	OTC	110.00	2.8	7.2	3.10	2.8	110.00	100.00	0.0	NYSE	45.25	3.1	13.1	2.20	4.9	45.25*	44.13	192.9	
Employers Cas Co	OTC	39.75	1.3	8.2	1.20	3.0	39.75*	39.75	16.8	OTC	6.75	0.0	0.0	0.40	5.9	6.75	6.75	2.0	
Equifax Inc	NYSE	33.38	1.5	15.2	1.40	4.2	33.38	32.63	52.8	OTC	16.88	6.3	16.1	0.60	3.6	16.88*	16.00	18.9	
Excelsior Ins Co	OTC	12.00	9.1	0.0	0.70	5.8	12.00*	11.00	8.5	AVERAGE			16.5		3.6				
Farmers Group Inc	OTC	48.00	2.1	13.0	1.36	2.8	48.00	47.38	186.2	Agents/Brokers									
Foremost Corp Amer	OTC	56.50	13.0	17.3	1.24	2.2	56.75*	49.75	30.7	Integrated Res Inc	NYSE	65.75	5.0	13.9	1.28	1.9	67.75	63.00	646.0
Fremont Gen Corp	OTC	29.50	19.2	983.3	0.48	1.6	29.50*	26.13	641.9	NYSE	28.25	2.3	8.8	1.32	4.7	28.25	27.75	788.4	
Great West Life Assurn Co	OTC	198.00	0.0	10.7	10.00	5.1	198.00	198.00	0.1	NYSE	49.50	1.0	7.4	2.48	5.0	50.13	49.50	1,578.9	
Hanover Ins Co	OTC	57.00	20.6	8.5	0.88	1.5	57.00*	48.50	44.3	NYSE	40.88	2.2	8.6	2.76	6.8	42.00*	40.00	2,886.1	
Hartford Steam Boiler Inaptn	OTC	54.50	1.9	12.0	3.00	5.5	55.00*	54.00	9.1	Conglomerates/Holding Cos.									
Jefferson Natl Life Ins Co	OTC	44.00	-2.2	13.8	0.76	1.7	44.50	44.00	11.6	American Express(Fireman's Fd)	NYSE	69.63	7.1	14.5	1.80	2.6	70.13*	66.00	1,781.7
Kemper Corp	OTC	50.25	0.2	9.4	1.80	3.6	50.38	50.00	109.6	NYSE	31.75	-3.4	13.1	1.32	4.2	32.75	31.75	45.4	
Lincoln Natl Corp Ind	NYSE	51.25	2.5	9.4	3.00	5.9	53.13	51.25	58.5	NYSE	19.00	10.9	0.0	0.40	2.1	19.00	17.00	725.4	
Mission Ins Group Inc	NYSE	37.75	0.3	9.4	1.00	2.6	38.50	37.75	145.2	NYSE	34.75	12.6	8.3	1.80	5.2	34.75*	32.50	479.0	
Nationwide Corp Ohio	OTC	41.75	0.0	15.3	0.70	1.7	0.00	0.00	0.0	NYSE	20.38	-0.6	8.1	0.00	0.0	20.63*	20.25	162.3	
Northeastern Natl Life Ins	OTC	34.13	1.5	23.9	1.50	4.4	34.13	34.00	39.9	Control Data (Comal. Credit)	NYSE	53.50	12.6	13.4	0.60	1.1	53.50*	47.88	2,485.9
Ohio Cas Corp	OTC	55.88	3.7	10.6	2.52	4.5	55.88*	54.00	75.5	NYSE	65.75	5.0	13.9	1.28	1.9	67.75	63.00	646.0	
Old Rep Intl Corp	OTC	32.25	-0.4	7.9	0.92	2.9	32.63	31.25	92.0	NYSE	28.25	2.3	8.8	1.32	4.7	28.25	27.75	788.4	
Orion Cas Corp	NYSE	26.50	10.4	14.1	0.66	2.5	26.63*	24.50	195.6	NYSE	49.50	1.0	7.4	2.48	5.0	50.13	49.50	1,578.9	
Preferred Risk Life Ins Co	OTC	34.50	1.5	9.3	1.00	2.9	34.50*	34.50	9.3	NYSE	40.88	2.2	8.6	2.76	6.8	42.00*	40.00	2,886.1	
Provident Life & Acc Ins Co	OTC	65.50	3.1	9.3	2.60	4.0	65.50	62.50	47.2	Optimum Hldg Corp	OTC	8.00	-1.5	7.7	0.00	0.0	8.13	7.88	12.5
St Paul Cos Inc	OTC	68.63	6.2	7.0	2.80	4.1	68.75	64.88	281.6	NYSE	41.38	3.1	15.2	1.52	3.7	41.88*	40.25	2,729.2	
Safeco Corp	OTC	58.88	3.3	12.3	2.40	4.1	58.88*	57.38	141.9	NYSE	9.63	4.1	4.6	0.00	0.0	9.75	9.00	863.7	

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A Division of Northbrook Property and Casualty Insurance Company
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