

# business insurance

## St. Paul wrote liability cover for Jersey amusement fire

JACKSON TOWNSHIP, N.J.—St. Paul Fire & Marine Insurance Co. is the primary liability insurer at risk for the May 11 fire in the Haunted Castle attraction at Great Adventure Amusement Park in Jackson Township, N.J. The fire killed eight people and injured seven.

The park is operated by Six Flags Corp. of Los Angeles, a unit of Bally Manufacturing Corp. of Chicago.

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## Asbestos pact offers comprehensive coverage

By STEPHEN TARNOFF

SAN FRANCISCO—Asbestos producers will receive comprehensive insurance coverage and virtually unlimited defense coverage if an agreement between the producers and their insurers is adopted.

The agreement was outlined at a hearing in San Francisco Superior Court last week.

The asbestos producers, in turn, will not seek punitive damages from the insurers they have sued over coverage for asbestos injury claims. The producers also have agreed to a cap on insurers' liability on policies that have no aggregate limits.

The agreement, which was first announced last month (*BI*, April 9), will end more than 20 current coverage lawsuits between asbestos producers and insurers. It would also establish a claims facility for handling asbestos claims.

Although the agreement was finalized last week, it must still be signed by both the insurers and producers that participated in the negotiation of the agreement, as well as others that did not, if the settlement is to be put into effect.

E. Judge Elderkin, an attorney for producer Fibreboard Corp. who played a lead role in the negotiations, told Superior Court Judge Ira Brown that both sides made substantial concessions under the agreement.

Insurers conceded complete comprehensive coverage and recognized a continuing duty for primary insurers on pre-1966 policies to defend even if policy limits have been exhausted, he said.

The coverage provided under the agreement "is greater than Keene," Mr. Elderkin said, referring to a landmark asbestos coverage case, *Keene vs. INA*, that provided Keene Corp. with broad insurance coverage.

In addition, under the agreement asbestos producers give up valid punitive damage claims and agree to a cap on policies that have no aggregate limits, Mr. Elderkin said.

Each insurer's liability will be based on a formula that will con-

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## Fidelity bond underwriters hiking rates, deductibles

By STACY SHAPIRO

LONDON—U.S. and London fidelity bond underwriters, faced with rising losses and tightening reinsurance markets, are raising rates and boosting deductibles for financial institutions that buy the bonds.

And, brokers and underwriters add, financial institutions may have to settle for lower limits, too.

"Overall, we see everyone tightening their belts," remarks Peter Battle, Lloyd's of London underwriter for the non-marine syndicate managed by Merrett Syndicates Ltd.

"We are seeing a tightening week by week in the U.S. market. There are now higher deductibles and higher premiums," Mr. Battle says.

According to risk managers, brokers and underwriters on both sides of the ocean, U.S. financial institutions purchasing fidelity coverage are facing:

- Rate increases of up to 50% upon renewal.
- Higher deductibles. For example, a financial institution that now maintains a \$250,000 deductible on its fidelity coverage may be forced to increase that deductible to \$1 million. And, large banks may see deductibles increased from \$1 million to possibly \$5 million.
- The possibility of decreased limits. Underwriters and brokers say, for example, that it soon may be difficult, though not totally impossible, to place more than

\$100 million in fidelity coverage in the world insurance markets, which is less than some major banks now purchase.

"We have been tightening underwriting and pricing for well over a year now, and though we have not seen this as a general rule in the market, we expect that it will take place soon," notes James Wyllie, vp for CIGNA Bond Services in Radnor, Pa.

"There has been a decided change—a tightening—in the last six months because there has been a poor loss experience," notes William Haggerty, a vp of Manufacturers Hanover Corp., a giant New York bank holding company.

"I am reevaluating the whole American portfolio," says David Newman, deputy underwriter for Lloyd's of London syndicates managed by K.F. Alder (Underwriting Agency) Ltd. "It does not take many losses to empty out the kitty."

"Fidelity bond" is a generic term for different types of all-

risk theft coverages for banks, insurance companies, savings and loans and other financial institutions. The bond, usually placed on a three-year basis with an annual review, covers companies against employee dishonesty and theft on or off the premises, including holdups and robberies.

The most common type of fidelity bond is the bankers blanket bond, but there are also bonds for stockbro-

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Graphic: Amy Palmer

## Tax bill threatens benefit experience rating

By JERRY GEISEL

WASHINGTON—Tax legislation soon to be considered by a congressional conference committee would discourage employers from using experience-rated plans to cover long-term benefit obligations, experts say.

A restriction in the tax bill approved last month by the House of Representatives that could virtually eliminate the use of tax-exempt 501(c)(9) trusts to fund long-term benefit exposures also threatens the experience-rated benefit plans used by thousands of employers.

Under an experience-rated plan, so named because the employer's final premium is based on its loss experience, the premium charged to an employer is also designed to give the insurer an adequate reserve to pay long-tail claims, like long-term disability claims.

The tax bill restriction says that if reserves held by "funded welfare benefit plans" ex-

ceed 75% of average claims paid out over a company's most recent two years, the employer would not receive a tax deduction for contributions to the plan exceeding the 75% limitation.

"Funded welfare benefit plans" apparently include experience-rated insurance plans as well as 501(c)(9) trusts.

As a result, employers would not be allowed to take a tax deduction for premiums paid for experience-rated plans to fund reserves exceeding the 75% limitation.

In turn, employers would shun experience-rated plans and would be forced instead to turn to conventional indemnity plans, where there is no opportunity to receive dividends based on good loss experience. Or, employers might self-insure on a cash-flow basis, which could mean less secure benefits for employees.

Experts had initially warned that the 75% limitation in H.R. 4170 would kill the use of 501(c)(9) trusts to fund benefits like long-

term disability and post-retirement health care coverage (*BI*, April 23).

Consultants explain that the long-term nature of benefit exposures, like LTD coverage, require prudent employers to maintain reserves of between 500% and 900% of the previous year's benefits, compared with the limit in the House bill of 75% of the average benefits paid out over a two-year period.

And, just as employers need to keep large reserves in self-insured 501(c)(9) trusts to provide adequate funding for future claims payments, insurers need adequate reserves to ensure that incurred claims under an experience-rated plan can be paid.

For example, in an experience-rated LTD plan, the premium charged should produce a reserve that is at least five times greater than the amount of claims paid out in one year, insurers say.

Little attention has been focused on how the House bill could affect experience-rated plans, though that is starting to change.

New York-based Metropolitan Life Insurance Co., in a special "urgent" legislation bulletin sent to its clients, warned that the reserve limitation in the House bill is far broader than initially believed.

"The proposal is not limited to funding of the benefits through a 501(c)(9) trust, and apparently would apply to the funding of life, health and disability benefits under traditional experience-rated group insurance policies used by most U.S. corporations," Metropolitan said.

"These rules would in many cases not permit adequate funding of certain benefits such as long-term disability, and apparently would bar any pre-funding of post-retirement life and health insurance benefits," the letter added.

In addition, four major trade associations—the U.S. Chamber of Commerce, the Assn. of Private Pension & Welfare Plans, the National Assn. of Manufacturers and the ERISA

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## Fireworks factory blast to cost \$2 million

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## update

## St. Paul on amusement park risk

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A Six Flags spokesperson confirmed that St. Paul underwrites the primary layer of liability coverage that will respond to the Haunted Castle fire, but refused to elaborate.

New Jersey state law requires amusement parks to provide at least \$100,000 in liability insurance for each mechanical ride or "gravity conveyance," like a water slide.

While the Haunted Castle was not subject to this regulation because it was a walk-through attraction, officials believe it was insured for at least \$100,000, and perhaps as much as \$1 million.

The source of the fire is still under investigation, and the Ocean County prosecutor's office says arson has not been ruled out.

A press hearing was called for May 18 to discuss the park's compliance or non-compliance with the state's Uniform Construction Code Act of 1977. The Haunted Castle was constructed in 1978.

## Insurers to pay pier damage

SAN FRANCISCO—Insurers will pay the vast majority of the \$15 million in damage caused by a fire earlier this month that destroyed two piers along the city's waterfront.

The city and county of San Francisco, which own the piers and waterfront property, must satisfy a \$250,000 retention, according to Keith W. Grand, the city's risk manager.

Los Angeles-based Mission Insurance Co. wrote the bulk of the first \$10 million in all-risk coverage on a quota-share basis with Federal Insurance Co., a subsidiary of Chubb Corp., and Industrial Underwriters Insurance Co., a Dallas affiliate of Industrial Indemnity Co., Mr. Grand says. St. Paul Fire & Marine Insurance Co. wrote a \$5 million excess of \$10 million layer.

If losses exceed \$15 million, the city will tap another \$60 million excess policy underwritten by Fireman's Fund Insurance Cos.

## Robins charges misconduct

ST. LOUIS—A.H. Robins Co. and three of its top officers have filed misconduct charges against the U.S. District Court judge who castigated the company for not recalling its contraceptive product, the Dalkon Shield.

Judge Miles W. Lord, who had supervised several cases involving the contraceptive device, had accused company officials of engaging in callous and disreputable practices to the detriment of thousands of women (BI, March 12).

Robins complains that Judge Lord improperly handled the case.

Chief Judge Donald P. Lay of the 8th U.S. Circuit Court of Appeals in St. Louis has appointed a committee of five judges, including himself, to hear Robins' complaint on July 9. If the panel finds Judge Lord improperly handled the case, they could reprimand him or request that he resign from the bench, says a court spokesman.

## Persian Gulf rates hiked again

LONDON—Increased attacks by both Iraq and Iran on oil tankers in the Persian Gulf have caused Lloyd's of London underwriters to sharply increase war risk rates for ships bound for ports in the United Arab Emirates, across the Gulf from Iran.

As of late last week, eight vessels in the Persian Gulf had been attacked by either Iran or Iraq, said Stephen Merrett, chairman of Merrett Holdings P.L.C. and a leading Lloyd's war risk underwriter. Claims could top \$100 million, he added.

Minimum cargo war risk rates for ships bound for the United Arab Emirates were increased to 5 cents per \$100 of insured value, up from 2.75 cents, Mr. Merrett said. Minimum hull war risk rates were increased to 25 cents per \$100 of insured value from 7.5 cents.

Earlier last week, insurers increased war risk rates for ships bound for the Iran's Kharg Island (see story, page 12).

## Armco spurned; Home sought

NEW YORK—Armco Inc. is looking for new buyers for its insurance operations following Allianz Versicherungs A.G.'s announcement that it will not purchase the units as planned (BI, Feb. 6).

After a review of the operations, Allianz said last week that the Armco companies don't "fit our plans to consolidate and expand our insurance activities in the United States."

Armco said discussions with others interested in Armco's insurance operations would be resumed.

Meanwhile, Miami financier Victor Posner has proposed a \$2.4 billion leveraged buyout of City Investing Co., the New York-based parent of The Home Insurance Co.

The offer comes a week after another group of investors, led by Merrill Lynch Capital Markets, offered \$2.3 billion to acquire the company.

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## Louisiana work comp rates could rise sharply under bill

By CAROL CAIN

BATON ROUGE, La.—Workers compensation insurance costs would increase a minimum of 40% if a labor-written measure backed by the governor is passed by the Legislature, predicts the leading employer group in the state.

"The additional cost will be tremendous; it will force an export of jobs in Louisiana," said Clark Cosse, general counsel with the Louisiana Assn. of Business & Industry, which has 5,500 member companies.

The measure, S.B. 1099, repeals almost all of the provisions of a 1983 workers compensation reform law that introduced the wage-loss concept and created the Office of Worker's Compensation Administration (BI, May 7).

The bill was introduced April 30 and has been assigned to the Senate Labor Committee for hearings yet to be scheduled.

However, the bill will do more than just revert Louisiana's workers compensation system to the way it was before the wage-loss law, said one of the drafters of the 1983 workers comp reforms.

"This bill is more than simply a return to the old law. They (drafters of S.B. 1099) have maintained the expensive provisions of the reform bill...but then went into the benefits section and cut into the cost savings," said Denis Juge, an attorney with the New Orleans firm of Sutherland & Juge.

For instance, the bill keeps the vocational rehabilitation provision of the reform law, "but only the parts of it they like," said Mr. Juge, who also teaches workers compensation classes at Loyola University School of Law in New Orleans.

S.B. 1099 removes the requirement that injured

workers participate in a rehabilitation program, he explains. Currently, if an employee refuses to participate, benefits are decreased by 50%.

The new bill would also dismantle the wage-loss system, which in Louisiana is called "supplemental earnings benefits."

The 1983 reform law did away with scheduled benefits for permanent partial injuries, in which an insured worker suffers less than a 50% loss of use of a body part. Instead, it provided for compensation of proven lost wages.

The concept was introduced in Florida in 1979 and Louisiana is the only other state to adopt this type of payment system, though several other states, including California, are studying wage-loss proposals (BI, Feb. 27; Oct. 10, 1983).

"(Drafters of S.B. 1099) go back to the old act and eliminate the 50% threshold," Mr. Juge said. For example, a worker who loses only 1% use of his leg would receive an \$11,000 payment, even if he returns to work.

Specifically, the legislation redefines temporary, permanent and partial disability by setting out a new schedule of benefits that spans almost five pages of the 26-page bill.

S.B. 1099 also removes all references to the Office of Worker's Compensation Administration, in effect eliminating the office.

The agency was created under the reform package last year. Prior to 1983, Louisiana was the only state that lacked an administrative office to handle and track its workers compensation claims.

The office provides rehabilitation information, conducts safety inspections and reviews physicians' charges, in addition to mediating disputed claims.

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## M&amp;M trading losses wipe out profits

By DOUGLAS McLEOD

NEW YORK—Marsh & McLennan Inc.'s massive bond trading losses translate into a \$28.3 million first-quarter loss at the brokerage. In addition, M&M says it will restate its 1983 results to reflect additional losses.

M&M said last week that it is charging \$110 million of the total \$165 million in pretax trading losses to its first-quarter earnings. The remaining \$55 million in losses will be applied to 1983 earnings, reducing those earnings by 24%.

The company also announced that it had delayed until June its annual meeting, originally scheduled for last Wednesday, so it can prepare audited restatements of its 1983 financial results.

Putting aside the impact of the bond trading debacle, analysts say M&M performed as expected, suffering a slight drop in operating income despite increased revenues.

The world's largest insurance broker announced last month that one of its investment managers—since suspended—accumulated intermediate and long-term government bond positions amounting to more than \$2 billion starting in 1983. The bonds, bought on margin and against company rules, have been sold for an after-tax loss of about \$90 million (BI, May 7).

The company is still investigating whether client

premium funds were used either to make margin payments or to purchase bonds.

The bond position amounted to about \$1.2 billion as of last Dec. 31, and about \$55 million of the pretax losses will be ascribed to 1983, Chairman John M. Regan Jr. said in a letter to shareholders.

After accounting for taxes and related investment gains of \$11.4 million, the charge will cut 1983 earnings to \$93.8 million from \$123.5 million, a 24% decline. Per-share earnings will drop to \$2.65 from \$3.49.

The restated 1983 net income figure represents a 22% slide from the \$120.4 million in net income generated in 1982.

The remaining \$110 million charged to 1984's first quarter reduces pretax operating and other income of \$70.2 million to a net loss of \$28.3 million after taxes, according to unaudited statements released by the company. This translates to a loss of 78 cents per share.

After-tax net income for the first quarter of 1983 was \$36.5 million, or \$1.03 per share.

M&M says it may recover some of the losses from insurance policies or from other third parties, but it hasn't included possible recoveries in its income statements. Chubb Corp. is apparently among M&M's insurers, but neither Chubb nor M&M will comment on the type of policy involved or the extent of the broker's

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## PBGC, auto parts company renegotiate pension debt

By JERRY GEISEL

TULSA, Okla.—An Oklahoma-based automotive parts manufacturer may no longer have to risk turning over a share of its future profits to a federal agency to settle a pension debt.

Facet Enterprises Inc. and the Pension Benefit Guaranty Corp. this month agreed to revise an August 1982 settlement that allowed Facet to shift an underfunded pension plan to the PBGC in exchange for giving the PBGC about \$14 million over a 10-year period as well as a share of future profits (BI, Aug. 30, 1982).

Under the new agreement, which is contingent on Facet obtaining the necessary financing, Facet will pay the PBGC \$11.9 million in cash and give the federal pension agency 90,000 shares of stock. Facet stock, which is traded on the New York Stock Exchange, has been hovering around \$10 a share in recent weeks.

The latest settlement will wipe out Facet's remaining obligations to the PBGC, the federal agency that guarantees workers' basic pension benefits.

Charles Tharp, PBGC executive director, described the settlement as a fair deal for Facet and the PBGC.

"The PBGC will receive immediate compensation for Facet's obligations, and Facet will be relieved from various long-term obligations to the PBGC," Mr. Tharp said.

Facet, which began discussions with the PBGC earlier this year to revise the 1982 agreement, also said the settlement benefits both parties.

By paying off the debt now, PBGC liens on Facet assets are removed. Those liens made it difficult for the company to secure the financing it needs to grow, a Facet spokesman said.

In addition, Facet no longer faces the possibility of having to pay as much as \$35 million, depending on the size of Facet's future profits, to settle the PBGC debt.

Last year, Facet's net income was \$4,153,000. However, Facet, which lost \$19 million during the second quarter of the current fiscal year ending March 31, is expected to be in the red this year. The company expects to be profitable in 1985, a spokesman said.

The 1982 agreement, which settled a 3-year-old lawsuit Facet filed against the PBGC, stipulated that Facet would immediately pay the PBGC \$1,662,000. In addition,

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# Fireworks factory blast to cost \$2 million

By DOUGLAS McLEOD

NEW YORK—Property and liability insurers expect to pay more than \$2 million in claims from last November's fatal explosion at a Long Island fireworks plant owned by the famous Grucci family.

First State Insurance Co., which wrote primary and excess general liability coverage with combined limits of \$6 million, expects losses to hit \$1.5 to \$2 million, according to Executive Vp Ralph J. Palmieri.

Meanwhile, Fireman's Fund Insurance Cos., which insured the inventory housed in the destroyed complex under a warehouse endorsement to an ocean marine policy, is still working with the Gruccis to determine the exact amount of the loss.

Estimates range from \$300,000 to \$500,000.

Fireman's Fund insured the Grucci family's New York Pyrotechnic Products Co. under a program established for the 130-member American Pyrotechnics Assn., a group of fireworks manufacturers and distributors.

Soon after the blast, however, Fireman's Fund canceled coverage for the Gruccis and the 50 other APA members it had insured, according to Gerd W. Rosenow, a vp with Roanoke International Agency Inc. in New York, which managed the Fireman's

Fund program.

APA members that were canceled by Fireman's Fund can go to several other major markets to place fireworks risks, though they may face higher rates, several industry experts note.

The Gruccis have since taken both their property and liability risks to Balboa Insurance Co. of Newport Beach, Calif., which underwrites a fireworks coverage program managed by Allied Specialty Insurance Inc. of St. Petersburg, Fla.

The Nov. 26 explosion at the Gruccis' 13-acre site in Bellport, N.Y., killed two employees, including James Grucci, son of the company's founder, Felix Grucci Sr. (BI, Dec. 5, 1983).

The explosion also demolished 12 buildings at the Grucci factory and damaged hundreds of homes and automobiles in the surrounding community. The Gruccis self-insured the 12 buildings, valued at less than \$1 million, that comprised their sole manufacturing and storage facility. Construction recently started on a new fireworks factory in Center Moriches, 10 miles east of Bellport.

First State, the Boston-based excess/surplus lines affiliate of Hartford Insurance Group, provided primary liability coverage with a \$1 million per occurrence and an-

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Photo: Wide World

A 1983 explosion destroyed the New York Pyrotechnic Products Co. in Bellport, N.Y.

## Simulator allows seamen to get feet wet on dry land

By JUDY GREENWALD

NEW YORK—As jet planes zoom into the skies above New York's La Guardia Airport, huge ships below collide, run aground and break spectacularly apart—or so it seems.

In an abandoned hangar at the airport, MarineSafety International, a marine training facility based in New York, operates four simulators that vividly re-create almost any disaster that could befall a ship. About all that is missing, in fact, is the tangy smell of sea air and a rolling deck.

The simulator training program is intended to teach seamen to respond correctly when a real emergency occurs at sea, said F. Eugene Guest, MarineSafety's director and a graduate of the U.S. Merchant Marine Academy. "We build up the mariner's decision-making muscles."

MarineSafety, started in 1974, is a subsidiary of Flight Safety International Inc. of New York, which operates similar simulated training for airplane pilots (BI, July 12, 1982). The only other commercial marine simulator facility in the United States is operated by Ship Analytics Inc., which runs two simulators at its North Stonington, Conn., facility.

The government operates simulator training programs for its servicemen, and some unions have programs for members.

MarineSafety and Ship Analytics draw their students from companies—both large and small—

that maintain fleets.

Marine Safety trains 300 to 400 mariners annually, and Ship Analytics trains 100 seamen annually.

The recent U.S. District Court ruling in the Amoco Cadiz case will spur shipping companies to improve the training of their mariners, Mr. Guest predicted.

In that case, U.S. District Judge Frank J. McGarr ruled that Standard Oil Co. (Indiana) is liable for the damages that occurred when the supertanker ran aground on rocks in Brittany in 1978 and caused a massive oil spill.

In his decision, Judge McGarr said that Standard Oil, known as Amoco, had negligently failed to maintain the supertanker and had failed to instruct the crew on emergency procedures to be followed in case of a breakdown of the hydraulic steering system (BI, April 30).

Most human errors that cause shipping disasters occur because of the mariners' inexperience in dealing with a threatening situation, Mr. Guest said. The mariner may spend years at sea without having to deal with a crisis, and, therefore, has no wealth of experience upon which to draw.

According to the New York-based American Hull Insurance Syndicate, \$35.8 million in hull claims were filed in 1982 for 608 casualties worldwide. About 80% of these accidents were caused by human error, said John Hickey, deputy manager

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MarineSafety International's simulator helps seamen learn how to deal with problems.

Photo: Marine Safety International



## PBGC bill staggers under amendment

By JERRY GEISEL

WASHINGTON—The debate over who is entitled to surplus pension plan assets—employers or the plan participants—could kill legislation that would overhaul the federal insurance program that protects workers' basic pension benefits.

Employers that have given their support to legislation that would shore up the financial base of the Pension Benefit Guaranty Corp. are now threatening to withdraw that backing if an amendment proposed by Sen. Howard Metzenbaum, D-Ohio, is added to the bill by the Senate Labor and Human Resources Committee.

The committee vote on the bill, S. 1227, which would almost triple the pension termination insurance premiums employers pay, should come within the next two weeks.

Under the Metzenbaum amendment, employers would have to provide plan participants with automatic cost-of-living increases before terminating an overfunded pension plan.

In addition, employers, which amended their plans to make it clear that excess assets would revert to the employer, could no longer keep the entire surplus after the plan was terminated. Instead, participants would be entitled to the excess assets that accrued prior to the adoption of such an amendment, while the employer could keep the surplus assets that accrued after the plan was amended.

But, if a pension plan lacked a provision that spells out exactly who is entitled to excess assets, the participants would be entitled to the entire surplus, under the Metzenbaum amendment.

The amendment is aimed at stopping employers from inserting a provision that gives a company full rights to excess assets shortly before a plan is terminated.

For example, in July 1981, trustees of a pension plan for employees of the Washington Star approved a provision that all surplus assets would revert to the Star if the plan were terminated.

About a month later, Time Inc., which owned the Star, closed the newspaper and said that it was entitled to the pension plan's \$4 million in excess assets. A federal appellate court earlier this year upheld Time's right to these assets (BI, Feb. 27).

Sen. Metzenbaum's concerns about the reversion of excess pension assets, however, now threaten the PBGC reform bill. Business groups, which endorsed the legislation after several controversial amendments were changed, are again threatening to oppose the legislation.

"The (Metzenbaum) amendment by itself... will kill the bill," said Michael Romig, director of employee benefits at the U.S. Chamber of Commerce in Washington. "The employer community, without question, will withdraw support."

The PBGC is trying to convince Sen. Metzenbaum to drop his amendment. Charles Tharp, the agency's executive director, notes that the issue of who is entitled to excess pension plan assets is extremely complicated and should not be dealt with at this time.

But David Starr, an aide to Sen. Metzenbaum, said reversion of excess assets is an urgent issue that must be dealt with now.

"Hundreds of thousands of participants are losing benefits they are entitled to. Soon, there won't be anything left to protect if we wait," Mr. Starr said.

For instance, The Great Atlantic & Pacific Tea Co. is expected this week to notify the PBGC that it intends to terminate its 36-year-old defined benefit plan for salaried employees to recapture \$275 million in excess assets. That would be one of the largest reversions of excess pension assets ever.

Montvale, N.J.,-based A&P earlier agreed to give the plan's 30,000 par-



Sen. Metzenbaum

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# Fireworks blast claims to hit \$2 million

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nual aggregate limit, plus \$5 million in excess coverage.

A total of 444 property damage claims have been filed against the insurer, mainly for damages to nearby homes and autos, according to Mr. Palmieri. Seventy-nine of these have been paid for a total of \$230,000, and payment of the remaining 365 awaits the claimants' submission of proof of loss, he said.

Thirty-six bodily injury claims were filed, of which 22 have been settled for a total of \$14,000, he said.

The company expects that insured property damage and bodily injury claims will eventually add up to between \$1.5 million and \$2 million.

First State has reserved a total of \$3 million to cover claims pay-

ments from the explosion, but it expects that it will have to pay only about 50% of that.

After the explosion, the insurer set up a \$150,000 fund and gave GAB Services Inc., which is handling claims, settlement authority of \$5,000 per case. The fund has been replenished along the way. The largest claim paid to date has been \$9,300, Mr. Palmieri said.

The Gruccis' liability policy was canceled after the explosion, and First State has no other fireworks risks now, Mr. Palmieri said.

"We have no plans to expand activity in that area," he noted.

Fireman's Fund is still trying to assess the value of the inventory destroyed in the explosion, but the claim will probably be between \$300,000 and \$500,000, Roanoke International's Mr. Rosenow said.

The stock was covered under an ocean marine policy warehouse endorsement, which insures against all risks of physical loss or damage to goods in storage or domestic transit, he explained.

The Gruccis' policy was written as part of an APA-endorsed ocean marine program that Fireman's Fund took over in May 1983 from Insurance Co. of North America, a CIGNA Corp. unit. Fireman's Fund had acted as a reinsurer of the program while INA was the lead, Mr. Rosenow said.

But in January, Fireman's Fund canceled the warehouse portion of the coverage for the approximately 50 participating APA members, and it canceled the entire program on March 1.

The Grucci explosion was not the

sole reason for the cancellation, though it may have been "the straw that broke the camel's back," Mr. Rosenow said.

The loss ratio on the APA program, excluding a few very large losses, was probably about 100% in 1983, Mr. Rosenow said. Including the major losses—the largest of which was \$950,000—the loss ratio may have been between 400% and 500%, he said.

Fireman's Fund received about \$200,000 in premiums during the eight months in 1983 that it acted as primary insurer on the program, and may have received about \$50,000 to \$100,000 more in reinsurance premiums for the four months it reinsured INA, according to Mr. Rosenow.

A spokesman for Fireman's Fund confirmed that the company

had canceled the APA program, but would not comment further.

The only insurance program now endorsed by APA is a product liability program written by Lloyd's of London underwriters and managed by Drayton Insurance Brokers of Birmingham, Ala.

Individual APA members must find other property and liability coverages on their own, notes APA Executive Director John Conkling.

Roanoke retained the accounts of 14 of the 50 companies in the Fireman's Fund program, placing them with another market that Mr. Rosenow declined to name. Some of the 14 APA members purchased ocean marine coverage with a warehouse extension, while others have just the marine coverage, which covers fireworks while they are in transit from a foreign manufacturer to a U.S. distributor.

The 1983 loss ratio on these 14 companies ranged from 10% to 25%, and most were able to bind coverage with the new insurer at the same rate they'd had with Fireman's Fund. One company was hit with a 30% rate hike, Mr. Rosenow said.

More comprehensive insurance packages for fireworks risks are offered by The Home Insurance Co. through Frank B. Hall & Co. Inc. and by Balboa Insurance Co., a subsidiary of Avco Financial Services Inc., through Allied Specialty.

Neither is an association-endorsed program, though, and each risk is separately underwritten.

The Frank B. Hall package, available since April 1983, covers marine, property, general liability, product liability and workers compensation risks, according to Maury Rutch, an assistant vp with Hall's San Antonio, Texas, office.

Included among the liability coverages is display liability, which insures against bodily injury and property damage caused by a fireworks show; vehicle liability, which covers damages caused during truck shipments of fireworks; and vendor's risk for fireworks distributors, which covers the defense costs of an insured's buyer if the buyer is sued for damages done by the insured's product.

Hall has been able to put together packages with combined limits of up to \$15 million using The Home and other insurers, Mr. Rutch said.

The Allied Specialty program, available since the company was formed in July 1983, covers a similar range of exposures, according to David Smith, a former Frank B. Hall employee who now works for Allied.

According to Mr. Smith, the Gruccis are now insured through Allied with a package that includes primary and excess general liability insurance; display, products and vehicle liability coverage; and property and ocean marine insurance.

Both Hall and Allied have about 100 fireworks accounts each, not all APA members, the companies say.

Those familiar with the APA disagree about the difficulty and cost to members of replacing the Fireman's Fund program.

"It hasn't been difficult at all" for APA members to find coverage, said Hall's Mr. Rutch. He added, however, that The Home has been firming rates in all lines of its package since February.

The APA's Mr. Conkling says Fireman's Fund offered "very, very attractive" rates and did very little inspecting of individual risks before binding coverage. Members are finding other underwriters much more "selective," he said.

Mr. Rosenow said that some APA companies are paying "substantially higher" rates, sometimes two to three times what they had paid previously. ■

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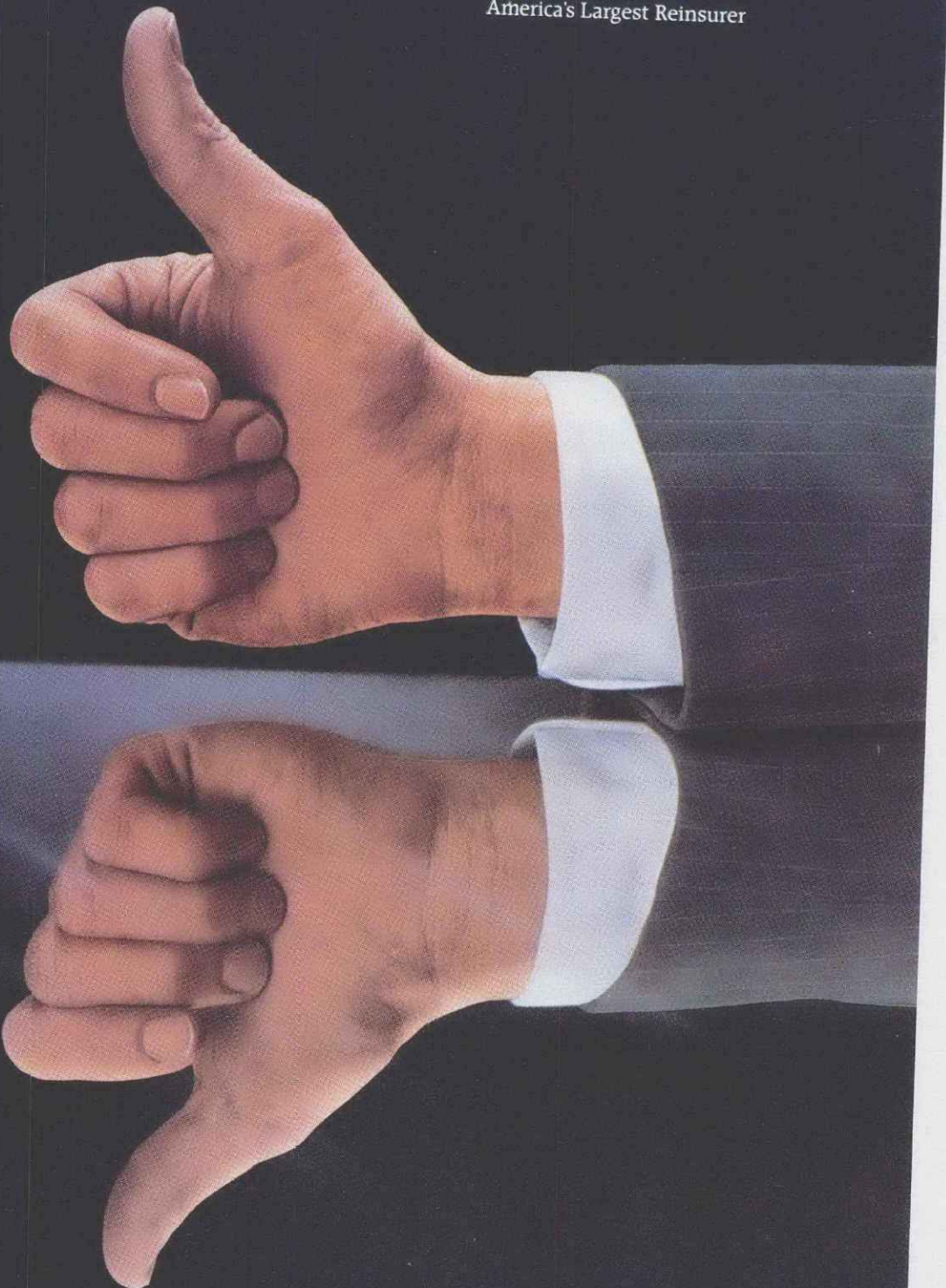
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## opinions

# Toxic torts can be settled

THE PLAINTIFFS' ATTORNEYS and the defendants in the 5-year-old Agent Orange litigation, and the judge who recently took over the case, are all to be commended for settling the litigation.

The plaintiffs' attorneys, who settled the case on behalf of the Vietnam veterans who are claiming injuries caused by exposure to Agent Orange, could have dug in their heels and refused to settle. They had poured so much time and effort into preparing their case that they must have dearly wanted to try the case. We are frankly surprised that these plaintiffs' attorneys could overcome what must have developed into a near messianic compulsion to try to prove their case against the chemical companies.

As for the chemical companies, they could have been equally persistent in their determination to avoid making any payments to the veterans claiming injuries. They certainly have the resources to have continued the litigation to the last appeal.

U.S. District Judge Jack B. Weinstein, of course, deserves the most credit for leading the parties into settlement discussions and artfully showing both sides how much they risked by continuing the litigation. He warned the plaintiffs that their evidence that Agent Orange caused injury to the veterans and their families ultimately might not be strong enough to win their case. And, he warned the defendants that no jury was likely to agree with their arguments.

Judge Weinstein also stuck to a May 7 trial date, refusing to allow either side to stall the trial for more time to prepare.

We can't speak to the fairness of the settlement amount. We will allow the plaintiffs' and defendants' agreement on the settlement speak for it.

There are, however, new controversies to be settled before the Agent Orange litigation is concluded.

There must be a determination on how the \$180 mil-

lion that is earning interest daily is to be awarded to veterans and their families who are claiming injuries.

And, the chemical companies and their insurers must reach agreements on how much insurance—and from which policy years—is going to cover the companies' contributions to the fund.

Finally, there is the chemical companies' intention to pursue their claims against the government as the responsible party for ordering the production of the defoliant to government specifications.

Having reached a settlement with the defendants on the amount of the fund, we think that the plaintiffs' attorneys will be able to agree on how the money should be allocated.

Insurers and their chemical company policyholders that are disagreeing over insurance coverage for the contributions to the fund would be wise to also quickly settle their disputes. Some may have indeed settled already, although we have confirmation of only one settlement, as we reported in last week's issue.

The chemical companies' litigation against the government is the most unlikely of the disputes to be settled. If the chemical companies simply give up their claims against the government, they will be giving up an opportunity to strengthen the government contractors' defense as well as the potential of recovering from the government.

If the government pays anything to the chemical companies, it would be an admission that the government knew more about the hazards associated with Agent Orange than the chemical companies. The government has steadfastly maintained that it knew less.

These existing disputes, however, should not diminish the praise for the settlement and all the parties who made it possible. Perhaps at least this phase of the Agent Orange litigation will stand as a model for handling massive toxic tort litigation.

## letters

### A new breed of problems in the industry

To the editor: While I regret the experience of most reinsurers and appreciate the dilemma (*BI*, April 30), it is evident that the entire industry has gone beserk. The business today is in no manner comparable to when I started 34 years ago. As a matter of fact, if you are 60, as I am, you are a reject or retard unless you are fortunate enough to be an executive officer, but this is no assurance for security.

Basically, the primary insurers have gone out of the business of selling insurance and instead are buying accounts. Over the years with appreciation and inflation, insurance is one of the products where the cost in reality has gone down.

The industry has a new breed of underwriters whose life objective is to climb the ladder of success as fast as possible. On the property side, these underwriters have practically no experience in loss

### Benefit pocket-picking

To the editor: Sorry, but I do not believe that shifting the burden from workers compensation to Social Security is innovative, savvy or unique (*BI*, April 30).

I personally am not willing to subsidize the poor loss-prevention or loss-control experience of any one company, or any industry, with funds that I have placed into the system so that they will be there when I want or need them.

If these persons who become qualified for Social Security were injured at the workplace, then the employer has absolutely no right to ask society as a whole to shoulder their legal and moral responsibilities. If you injured them, then you pay for it; but please, keep your hands out of my pockets.

**Bruce A. Lepore**  
Hayward, Calif.

prevention, safety, claims handling, etc.

The industry operates like a pack of lemmings following a leader to their eventual destruction by the insatiable appetite for premium dollars. The underwriter has to work both sides of the street. On Monday, he is lambasted to exercise due diligence on all new submissions and renewals, and on Friday, he is criticized for the lack of production. So the underwriter continues to "buy" accounts. The fruits of these questionable marketing practices are passed onto the treaty reinsurers.

The facultative reinsurance market also buys business. It is not unusual for coverage to be written without inspection

### Commissions are 'antiquated throwbacks'

To the editor: The editorial, "The Real Cost of Broker Services" (*BI*, April 30), was close to the mark, but not dead center.

The entire system of compensating the insurance broker by a commission payable by the insurance company is an antiquated throwback to the days when the broker was strictly a salesman for the insurance company. If the consumer is to have any confidence in his broker, then he should be the one to pay him. Until we eliminate the conflict of interest caused by being paid by someone other than the buyer, the problem will continue.

What is the difference between a bonus commission and a full commission? All brokers are compensated differently from company to company, and today most companies are offering bonus commissions. So, it is no longer a question of which company has the better bonus plan, but which company has the best overall commission plan.

or engineering reports, financial reports or even prior loss experience. In recent times, the most important question on submissions tends to be, "What is the premium?"

What will be required, regardless of the class of business involved, is getting back to the basics. For more than 25 years of my employment in the industry, relying on simple basic requirements such as inspection reports (not those that are made for window dressing), follow-up on recommendations, working with the claims, financial reports, did not deter production or growth.

**H.P. Schlander**  
Pasadena, Calif.

New York state law prohibits a broker or agent from favoring a company because of commission income. The broker is obligated by law to place the business with the company that is best for the insured. If you believe this is not being done because of the bonus commission effect, then why do you believe that the broker is any more altruistic when it comes to biting the hands that feed him?

**Joel J. Sterling**  
President  
Sterling & Sterling Inc.  
Great Neck, N.Y.

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# WHO IS SERVING THE CUSTOMER?

A glance behind recent headlines reveals a grim scenario unfolding within the insurance industry. Reports of non-insurance companies buying insurance companies, management shake-ups, and the start of withdrawals from the insurance marketplace indicate that a lot is going on. And much of it is bad.

Bad because there is destructive competition among a number of insurers with no better orientation than a short-term interest in cash flow. This, inevitably, leads to the discarding of sound underwriting standards in favor of price-cutting to attract new customers and retain current business.

In the long run a fixation with lower prices at any cost will hurt buyer and seller alike.

Meanwhile, the entire industry's governing principles and stability are being compromised as more and more insurers, unable to make an underwriting profit, strain to make up for underwriting losses with investment income-or worse-financial wizardry.

Who, then, is serving the customer?

Certainly not those whose fascination with short-term gain hampers their ability to safeguard their customers' best interests.

Insurance is a business that cannot function without trust and confidence. The customer must believe that his legitimate claims will be paid. But how much confidence can insurance buyers really have today?

It is crucial that we return to a more stable

and responsible insurance marketplace. And it is you, the customer, who must lead the way. How?

- By trusting the reliable agent or broker, not the one merely chasing a bargain.
- By demanding products and services tailored to your needs and accepting nothing less.
- By insisting that the insurer to whom you entrust your present and future security has a firm commitment to sound underwriting.

There is no other way to be certain of the continuity and security you are paying for.

At American International Group, we have long recognized that it takes years to build a responsive, stable insurance organization. It cannot happen overnight.

We also recognize there is no shortcut to sound underwriting practices. No easy way to keep pace with customer needs. It takes a team of dedicated professionals. And hard work.

That's why our underwriters have to be the finest in the industry. It's why AIG has grown to be one of the world's largest and most successful international insurance organizations. And why we can offer comprehensive, coordinated coverages nearly anywhere in the world.

We know today's problems call for new solutions. And we will have them because of our one fundamental philosophy:

Serve your customers imaginatively and thrive. Serve your customers or else.



American International Group, Inc.  
Corporate Headquarters, 70 Pine Street, New York, New York 10270

# Tax bill threatens benefit experience rating

Continued from page 1

Industry Committee—noted in a recent newspaper ad that the 75% test applies to both 501(c)(9) trusts and experience-rated benefit plans.

This added attention now from powerful insurance companies increases the chances that the conference committee will reconsider the 75% limitation.

However, not all experts agree on what types of plans fall in the category of "funded welfare benefits."

Herbert Hickman, associate actuary and vp at Prudential Insurance

Co. of America in Newark, N.J., says he is not sure if experience-rated plans would fall under the limitation in the House bill.

"The legislation is not carefully worded," adds Ray Welnicki, an actuary with Aetna Life and Casualty Co. in Hartford, Conn.

The language in the bill is so confusing that "it will take years to figure out" how far the reserve limitation applies, observes Harry Don, a consultant with The Wyatt Co. in Cleveland.

But, employers and benefit con-

sultants do not have much time to figure out how the reserve limitation will apply. The conference committee will meet soon to resolve differences between the House and Senate tax bills.

The Senate bill, H.R. 2163, does not contain reserve restrictions on either 501(c)(9) trusts or experience-rated plans.

Experts are puzzled about why experience-rated plans appear to be on the House's chopping block. Such plans have been used for years, generally by employers with

more than 1,000 employees.

Although experience-rated plans may vary considerably in their operations, they are based on one principle: An employer should be rewarded for better-than-average claims experience.

For example, an insurer may calculate a \$12 million annual premium for an experience-rated LTD plan.

Under the agreement, the employer may pay the insurer \$1 million a month. If at the end of the year expenditures to pay for re-

serves, claims, administrative costs and the insurer's profits are less than \$12 million, the employer may receive a dividend or an adjustment on next year's premium.

However, if the insurer has to pay out more than \$12 million, the employer may owe the insurer an additional premium.

The possibility of receiving a dividend is why an employer that believes its experience will be better than average should consider an experience-rated plan, says Donald McKinnon, a principal with William M. Mercer-Meidinger Inc., in Stamford, Conn.

House tax committee staffers contend that limits need to be placed on the reserves held by benefit plans because an employer should not receive a tax deduction now for a benefit that won't be paid until sometime in the future.

But experts say it is sound benefit and public policy to encourage the pre-funding of benefits so that assets are available to pay claims if an employer goes out of business.

For instance, when Congress approved the Employee Retirement Income Security Act of 1974, it was concerned that companies were going out of business without funding their pension plans.

To combat that problem, one of ERISA's major provisions is a minimum funding standard that requires companies to set aside assets to pay for future benefits.

It is ironic, Mercer-Meidinger's Mr. McKinnon notes, that at a time when ERISA's minimum funding standards for pension plans have been accepted, Congress is considering a bill that would damage the security of other benefits.

"Employers will have tax impediments to fund benefits. They will have a disincentive to fund benefits," Mr. McKinnon says.

"At a time when Social Security is in trouble because of a lack of pre-funding, Congress should not be discouraging the pre-funding of benefits," says Charles Morgan, assistant general counsel at Prudential.

If more companies decide to self-insure their benefit exposures, like long-term disability coverage, because of restrictions on experience-rated plans, employees will be the losers, insurers contend.

They note that if a self-insurer went broke, there would be no guarantee that disabled workers would continue to receive LTD benefits. By contrast, under an insured plan, benefits would continue to be paid to currently disabled workers even if the employer went out of business. ■

## Vermont's governor signs open rating bill

MONTPELIER, Vt.—Vermont will become the ninth state to allow workers compensation insurers to compete by establishing their own rates.

H.B. 639, which establishes competitive rating for workers compensation insurance—as well as auto, homeowner and fire coverages—was signed by Gov. Richard A. Snelling on May 15.

Provisions of the new law take effect July 1.

The law will create a "use-and-file" system under which workers comp insurers may establish their own rating formula or use advisory rates filed by the National Council on Compensation Insurance. Similar laws are in effect in Georgia, Minnesota, Arkansas, Oregon, Kentucky, Rhode Island, Michigan and Illinois.

Proponents of open rating in those states say that competitive rating has lowered work comp rates. ■



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# Kemper unit ends work comp service

NATLSCO Rehabilitation Management Inc., a Kemper Group unit, is discontinuing its workers compensation rehabilitation services, but maintaining its health care cost-containment consulting operations.

In the reorganization, NATLSCO will close branch offices in Santa Fe Springs, Calif.; Atlanta; Long Grove, Ill.; Braintree, Mass.; and King of Prussia, Pa.

About 120 employees will be terminated. The firm is providing assistance services and severance pay

## markets

based on years of service.

NATLSCO said its rehabilitation business was shrinking due to a decline in referral cases from insurers and stiffer competition.

### Work comp attorneys

Seven attorneys who had been with the workers compensation department of the Chicago firm of

Rooks, Pitts, Fullagar & Poust are now operating out of their own firm: Stevenson, Rusin & Friedman.

The new firm will specialize in the defense of employers in workers compensation and civil cases arising out of workplace accidents and employment practices.

Douglas F. Stevenson is also the executive director of the National

Council of Self-Insurers and counsel to the Illinois Manufacturers Assn. He and Michael E. Rusin are currently working with employers on a special business/labor committee that is attempting to reform Illinois laws regarding workers compensation.

Stephen J. Friedman has authored parts of the OSHA handbook of the Illinois Institute of Continuing Legal Education.

Other members of the new firm include Kenneth Marshall, Michael Fezekas, John Maciorowski and

Robert Hess.

The new firm is located at 10 S. Riverside Plaza, Suite 1530, Chicago, Ill. 60606; 312-454-5110.

### Limited partnerships

Connecticut General Management Resources Inc., a CIGNA Corp. unit, has introduced a real estate limited partnership program for tax-exempt investors such as qualified pension and profit-sharing plans, IRA and Keogh accounts.

The partnership, Connecticut General Equity Properties-I, will acquire, manage and eventually sell a portfolio of mainly commercial real estate.

The program will consist of 50,000 partnership units valued at \$1,000 each. A minimum stake of three units is required of all investors except IRA plans, which may acquire a minimum of two units.

Individual investors also may participate, but they must have a net worth of at least \$30,000 and a minimum annual income of \$30,000.

The program provides investors with diversification, current income from the properties and long-term capital appreciation. Because all the properties will be acquired for cash, deductible mortgage interest isn't a feature of the program.

### Audit service

The Gulf Insurance Group of Dallas and Mission Insurance Group of Los Angeles have subscribed to the Premium Audit Advisory Service of American Insurance Services Group Inc. This brings to 267 the number of property/casualty insurance company members in the service, which audits insurer operations.

### Fremont subsidiary

In an effort to diversify, Fremont Indemnity Co. has formed an excess and surplus lines brokerage subsidiary.

The subsidiary, Lemac and Associates, is headed by President William Newton and is located at 3200 Wilshire Blvd., Suite 510, Los Angeles, Calif. 90010. Telephone: (213) 380-7451.

### Acquisitions

Policyholders have approved the merger of two New York mutual insurers, **Exchange Mutual Insurance Co.** of Buffalo and **Saratoga County Mutual Fire Insurance Co.** of Round Lake. The new entity will operate as Exchange Mutual.

**USLIFE Corp.** has agreed in principle to sell its two title insurance subsidiaries to an investor group for \$28 million in cash. The investor group, led by Houston lawyers Bill E. King and Charles T. Phillips, will buy **USLIFE Title Insurance Co. of New York** and **USLIFE Title Insurance Co. of Dallas**.

### New offices

**Employee Benefit Management Corp.** has moved to new offices at 4789 Rings Road, Dublin, Ohio 43017; 614-766-5800.

**Western Employers Insurance Co.** of Newport Beach, Calif., has opened a new branch office at 1080 Woodcock Road, Orlando, Fla. 32803; 305-898-0722. The new office will handle marketing and underwriting business, while claims and loss control are managed by Hewitt, Coleman & Associates, a Western Employers affiliate in Orlando.

**Universal Brokerage Corp.** has moved to new offices at 6 Becker Farm Road, Roseland, N.J. 07068; 201-533-0099.

## Architect's project insurance. A concept that's taking off.

More and more, owners of construction projects are requiring their architectural design team to obtain project professional liability insurance. This coverage applies to the individual project and is separate from the architect's general practice coverage.

An example of how Shand, Morahan is able to help put together a highly complex project policy program can be seen in the current reconstruction and expansion of a major international airport. In this case, a wholesale broker, Bryson & Associates, was called in by the project's insurance agent. Jim Bryson in turn called the professional liability specialists at Shand, Morahan. Together we set to work to address the owner's requirements and the requirements of the various design team firms: companies of different sizes, disciplines and insurance needs.

Working closely together, we satisfied the various requirements (which included substantial limits, duration of exposure, scope of coverage, deductible modification and other elements of coverage) and developed a project policy specifically tailored to the needs of this airport project. After reviewing the proposal, the project owner recommended the Shand, Morahan program.

The successful resolution of this complex insurance problem is a good example of how the liability professionals at Shand, Morahan can work with you whenever a project professional liability policy is required.

You can be sure we will respond with enthusiasm, intelligence and the experience and knowledge that has made Shand, Morahan the leading professional liability insurance source in America today.

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# BEFORE THE DOCTOR EXAMINES THE PATIENT, WE EXAMINE THE DOCTOR.



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We consider where the doctor has graduated from medical school. We consider whether the doctor has completed postgraduate training. Whether the doctor is Board Certified. Whether the doctor has had high caliber clinical experience. And we consider the quality of the doctor's bedside manner.

Once a physician is hired at CIGNA Healthplan, we appraise his or her performance after the first 3 months.

After the first 6 months.

After the first 12 months.

And every year after that.

We even make our medical director and senior physicians available for consultations. At our expense, not your employees'.

These are just some of the ways in which we're working to provide high quality health care. Of course, we also realize that quality health care is of no value unless your employees can afford it.

And making health care affordable has always been of prime importance to our parent, CIGNA Corporation, whose companies provide insurance and financial services around the world.

If you think your employees would be interested in CIGNA Healthplan, call us at 214-980-8925. Or write to Vice President, Marketing, CIGNA Healthplan, Inc., 7616 LBJ Freeway, Suite 303, Dallas, TX 75251.

We'll answer any questions you have about CIGNA Healthplan. That way you can examine us, before we examine you.

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**CIGNA**

# Letter brings bad news about P.C.W. affair

By STACY SHAPIRO

LONDON—Members of Lloyd's of London syndicates formerly managed by P.C.W. Underwriting Agencies Ltd. are learning more about the reinsurance transactions that sparked a scandal at Lloyd's.

And, they're also learning that

## london line

they will probably suffer substantial losses because of the alleged wrongdoing.

J.R.K. Beckett, chairman of Richard Beckett Underwriting Agencies Ltd., which now manages the syndicates, has sent a letter to the P.C.W. members, as well as members of syndicates managed by W.M.D. Underwriting Agencies Ltd., an associated company. The letter outlines his investigation into the P.C.W. affair.

Former officials at P.C.W. and its parent, Lloyd's broker Minet Holdings P.L.C., have been accused of misappropriating funds paid to offshore reinsurers of the P.C.W. syndicates (BI, Dec. 13, 1982; May 7).

"The essence of what has been revealed is that some aspects of the business of the syndicates were

conducted in an irregular manner," Mr. Beckett wrote the syndicate members.

"Specifically, quota-share reinsurance was placed on behalf of syndicates underwritten by P.C.W. and by W.M.D., via other insurance or reinsurance companies, from which the former P.C.W. and W.M.D. officials and other individuals received an improper personal benefit," he said.

Mr. Beckett noted in the letter that P.C.W. members can expect "profoundly disappointing" results for the 1979-1981 accounting years, which all have been left open on Lloyd's three-year accounting system. An investigation into the P.C.W. affair is being conducted by Beckett Underwriting, Lloyd's and the British Department of Trade & Industry.

Mr. Beckett would not say how substantial P.C.W. members' losses will be. "I have, however, to report that the deficiencies... would appear to be most serious on the non-marine and aviation syndicate groups, which will show substantial net losses," he said.

The losses on the marine syndicate will be softened by some syndicate funds that have been recovered in Gibraltar, he pointed out.

W.M.D. members will not suffer losses because of the reinsurance transactions, he noted.

The reinsurance that triggered the losses was placed in a series of complicated transactions involving the incorporation and formation of more than 150 companies or trusts in at least seven different countries, Mr. Beckett reported.

The letter says that between 1970 and 1976, reinsurance for the syndicates was placed through brokers Housley Heath & Co. Ltd. with a Guernsey company called Regal Excess.

In 1978, these contracts were retroceded to one, or in some cases two, companies in the Isle of Man, Mr. Beckett said. Then, in 1979, the bulk of the funds in the Isle of Man was transferred to Gibraltar companies.

In addition, according to the letter, more reinsurance for the syndicates was placed between 1975 and 1980 through Lloyd's broker Alexander Howden Insurance Brokers Ltd. The premiums paid for this reinsurance ultimately flowed to Swiss companies, Mr. Beckett told the members, until substantial funds were transferred from Switzerland to Gibraltar in 1982.

Also, Mr. Beckett explained, other reinsurance was purchased

from Hong Kong and Bermuda companies, and these funds, too, were transferred to Gibraltar.

The total cost for these reinsurance transactions was 38.9 million pounds (\$56.4 million). Beckett Underwriting, the letter notes, has gained control of 26.2 million pounds (\$38 million) of funds found in Gibraltar.

However, Mr. Beckett noted, the Gibraltar recoveries "will fall considerably short of the net sum paid out."

The letter notes that Beckett underwriting has filed suit against several people, including two former P.C.W. chairmen, Peter Dixon and Peter Cameron-Webb; former Minet Chairman John Wallrock; former P.C.W. Directors David Hill, Adrian Hardman and Anthony Oldworth; former W.M.D. Director Colin Davies; Alan Sampson, a former director of P.C.W.'s service company; and Barry Newman, a business associate of Mr. Dixon.

In addition, Mr. Hardman and Mr. Hill have filed a lawsuit against Mr. Beckett for wrongful dismissal.

The syndicate members will soon be informed of their exact losses and any tax problems that could arise, Mr. Beckett said.

"I am sure that you will find the contents of this letter disturbing, but it is obviously important that you should be provided with as many facts as possible regarding the investigation at this stage," he wrote.

In a related development, Beckett Underwriting has appointed Ralph Bailey as active underwriter of non-marine syndicate No. 918. He replaces Michael Jackson, who has resigned.

Subject to the approval of the Council of Lloyd's, Mr. Bailey will become a director of the company. He is currently chief non-marine underwriter of Terra Nova Insurance Co. Ltd.

## War risk rates

Iraqi attacks on tankers sailing in the northern section of the Persian Gulf are prompting hull and war risk underwriters to increase rates even further.

Both hull and war risk underwriters last week were quoting rates of \$3 per \$100 of insured value for vessels bound for Iran's Kharg Island oil terminal or other Iranian ports, sources at Lloyd's of London say.

Underwriters will only guarantee their rates for seven days, and a spokesman for the Institute of London Underwriters noted last week that "rates are fluctuating daily."

In addition, the Joint Cargo War Risk Rating Committee in London last week extended the area of the Persian Gulf in which vessels are quoted war risk rates on a "held-cover" basis, meaning underwriters can charge any rate they choose. Now, the entire northern section of the Persian Gulf is rated on a held-cover basis. Before, only ships headed to and from Kharg Island were rated on this basis.

The latest changes in war risk rating follow reports that Iraqis have attacked and damaged at least five tankers in the northern part of the Persian Gulf. Two of the tankers are owned by Saudi companies, while the other three are owned by companies in Kuwait, Iran and Panama.

## British theft losses

Theft claims are up in Britain, but the increase is not as great as in previous years, the British Insurance Assn. reports.

In 1983, commercial theft increased only 3% to 53.6 million pounds (\$76.11 million), compared

to increases of up to 41% in the past three years, the BIA reported.

Total theft claims, including personal losses, increased 17% from last year to 275.6 million pounds (\$364.9 million), the smallest increase in 10 years, the BIA announced.

"Despite the encouragement of the news, the losses are still severe and we cannot afford to relax the fight against crime," reported John Simpson, chairman of the BIA's crime prevention unit.

## Tanker salvage

The London Salvage Assn. is trying to recover oil from the Spanish tanker Castillo de Bellver, which broke in two after it exploded off the South African coast in August 1983.

The Castillo de Bellver's hull and cargo were insured for about 45 million pounds (\$67.5 million). It was fully loaded with about 252,000 tons of crude oil when it exploded.

The Salvage Assn. announced its attempt to recover the oil on behalf of the Spanish underwriters, which insured the ship and the cargo, as well as London reinsurers.

## Satellite recovery

Although underwriters and the Indonesian government have agreed to attempt to recover the Palapa B-2 satellite lost on a February space shuttle mission, satellite insurers are still paying the claim (BI, May 7).

Underwriters will pay the \$75 million claim for the Palapa B-2 into a trust fund, confirmed Stephen Merrett, chairman of Merrett Holdings P.L.C. This money will then go toward paying for the construction of a new satellite, the Palapa B-3, which will replace the B-2 if it cannot be recovered.

If the Palapa can be recovered and repaired, however, underwriters will receive whatever is left in the trust fund after the new probe is built. Then, the new satellite will be sold to another party, with the sale price going to the underwriters, Mr. Merrett confirmed.

## Oil risk pool

International Oil Insurers, a London-based underwriting pool that writes oil, gas and petrochemical risks on land, is warning that its current underwriting surplus of 5.7 million pounds (\$8.7 million) "could easily be wiped out at any time in a single loss of less than catastrophic dimensions."

IOI noted that it suffered an underwriting loss of 129,000 pounds (\$178,000) in 1983, mainly because of a series of industrial claims. That compares with an 8.3 million pound (\$6.92 million) underwriting profit in 1982.

In addition, the IOI noted that it formed a new pool last year to cover U.S. risk, which was immediately hit with a \$2.1 million claim.

In its nine-year history, IOI—which includes British, French, Norwegian and Danish underwriters—has produced a total underwriting surplus of \$8.7 million, equal to 5.9% of written premiums.

This is regarded by the pool's management as a creditable achievement at a time when many commercial insurers have found it hard to make any type of underwriting profit because of overcapacity and low rates.

But, while a 5.9% return over nine years would normally be treated as satisfactory in a high-volume class of risk with a more predictable loss occurrence, it provides the IOI with little margin for a big catastrophe, the annual report notes.

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HB4

# Robinson, Hinkley are named to new positions at Trenwick



Mr. Robinson

**Angus Robinson Jr.** has been named president and chief operating officer of Trenwick Ltd., the Bermuda-based parent company of Trenwick Reinsurance Group. He had been a

senior vp.

In addition, **Mark W. Hinkley** was promoted to executive vp from senior vp.



Mr. Hinkley

Messrs. Robinson and Hinkley are both founders and directors of Trenwick Ltd., and both were previously officers at General Reinsurance Corp.

**James F. Billett Jr.** remains

chairman and chief executive officer of Trenwick. He had also held the title of president.

## Insurers

**Barry S. Gilvar** and **Christopher C. Mansfield** named vps of Liberty Mutual Fire Insurance Co. at the home office in Boston. Both also are vps of Liberty Mutual Insurance Co. Mr. Gilvar joined the companies in 1965 as an attorney and was elected vp of Liberty Mutual Insurance Co. in 1981. Mr. Mansfield joined the companies in 1975 as an attorney and was elected vp of Liberty Mutual Insurance Co. in 1983. Both also are assistant general counsel for both companies.

**Paul W. Sult**, chairman of Stewart Smith Mid America and a senior vp and director of Stewart Smith Holdings Inc., has taken early retirement. He will continue as a consultant under contract. His duties have been assumed by Stewart Mid America President **Tom O'Brien** after the merger of Wrightson & Co. and Stewart Smith Mid America, both wholly owned subsidiaries of Stewart Smith Holdings Inc.

**Andrew J. Hendricks** named regional vp for Mission Insurance Co. He will be responsible for Mission operations in Jacksonville, Fla.; Atlanta; Oklahoma City; and Texas. He joined Mission Insurance in 1978 and most recently had been Atlanta branch manager.

**Klaus G. Dorfi** named senior vp of commercial lines for The Atlantic Cos. He joined Atlantic in 1970 and most recently had been assistant vp of the metropolitan (New York City) region. Also, **John D. Macarell** named vp of commercial lines for Atlantic. Mr. Macarell joined the company in 1979 and had been manager of the Atlantic region.

**William E. Commack** named vp and division manager of the Liberty Mutual Insurance Co. at the Southwest Division headquarters in Dallas. He replaces **Glenn R. Garner**, who retired.

## Agents/brokers

**Robert J. Isacsen** elected vp of Reed Stenhouse Inc. of New York. In his new position, Mr. Isacsen will concentrate on new business production in the Reed Stenhouse New York office. Mr. Isacsen began his career at Alexander & Alexander Services Inc.

**Peter M. Densen** named senior vp of finance and chief financial officer at Alexander and Alexander Services Inc. He had been president and chief executive offi-

## comings & goings: industry

cer of Anistics Inc., an A&A subsidiary, and also had been a senior vp of A&A.

### Excess/surplus

**Louis W. Biegler**, chairman of L.W. Biegler Inc., will retire in early 1985. He will remain as chairman and chief executive officer until that time, and will be succeeded by **Richard E. Stone**, vice chairman.

**Joilou M. Wilson** named executive vp of American Agency Profit Systems Inc., a Dallas managing

general agency. She had been a senior consultant with Robert Hughes Associates Inc. in Dallas.

### Other suppliers

**Peter A. Gold** joined Buck Consultants Inc. in New York as a benefit consultant. He most recently had been employee benefits attorney at Union Carbide Corp.

**John H. Hettrick** joined the Michigan Hospital Assn. Service Corp. in Lansing as senior director of the Benefits and Insurance Group.



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# Employers advertising against 501(c)(9) bill

By JERRY GEISEL

WASHINGTON—Employers are taking out ads to urge Congress not to place funding restrictions on tax-exempt 501(c)(9) benefit trusts.

Four major trade associations—the U.S. Chamber of Commerce, the Assn. of Private Pension & Welfare Plans, the National Assn. of Manufacturers and the ERISA Industry Committee—warned in a half-page ad in The Washington Post that the House-approved tax bill, H.R. 4170, threatens the future of the trusts.

Under the bill, a trust's reserves could not exceed 75% of average benefits paid out over an employer's most recent two tax years.

This restriction "would take away incentives for companies to fund future benefits on an ac-

## washington

tuarily sound basis, thus endangering their ability to make good on those benefits," the ad said.

"In effect, the proposal would put corporate benefit plans on a pay-as-you-go basis—exactly the approach that has kept Social Security in continual trouble."

The ad was taken out to heighten interest in the trust issue, said Ed Davey, APPWP executive director.

### Aviation deaths

Deaths from airline accidents in the United States declined sharply in 1983, according to the National Transportation Safety Board.

In 1983, 1,155 people died in avia-

tion accidents, a drop from the 1,355 fatalities in 1982.

The decrease was because of the drop in fatalities involving domestic commercial airlines. Last year, 15 people died in commercial airline accidents in the United States; there were 235 fatalities in 1982.

But, fatalities increased in the commuter and general aviation categories, the safety board said. In 1983, 1,067 people died in general aviation accidents, up from 1,049 in 1982; commuter airline fatalities rose to 73 from 71.

### Office expanded

The Health Insurance Assn. of

America, an industry group, is expanding its Washington office.

The HIAA will add about 75 people to its staff of 16 in Washington by the end of next year. The additional staff will come from the HIAA office in New York, which will close, and from the Chicago office, which will be reduced to about five or six attorneys. The Chicago and New York offices now have about 85 total employees.

President James Mocreffield said the HIAA is beefing up its staff here because of the rapid pace of Washington developments.

"The issues are becoming increasingly complex, and the time frame for dealing with them is often short. Developing strategy and responding quickly with a sharp focus can more easily be established when a staff is together

and not scattered," he said.

### Plan trustees sued

Trustees of a Kansas City, Mo., profit-sharing plan imprudently invested plan assets, the Labor Department says.

Clarence Damon and David Damon, trustees of Damon Alarm Corp.'s profit-sharing plan, violated their duties as plan fiduciaries by investing plan assets in a Mexican bank at a time of economic crisis in Mexico, the department said in a suit.

According to the suit, filed in the U.S. District Court in Kansas City, the trustees failed to diversify plan investments.

Specifically, the department charges, the trustees invested "an excessive proportion of the plan's assets in a single type of investment at one financial institution located in Mexico City."

The plan experienced substantial losses as a result of the trustees' actions, the department said.

The suit seeks to remove the defendants as plan trustees and to require them to reimburse the plan for all losses.

In addition, the Labor Department suit asks the court to permanently bar the defendants from serving as fiduciaries to the profit-sharing plan.

### Pension plan rules

The Pension Benefit Guaranty Corp. says it is working on a number of regulations on the operation of multiemployer pension plans.

Some of the major regulations involve:

- How plans are to notify and collect withdrawal liability payments from employers that leave underfunded plans.
- How plan assets are to be valued when there is a mass exodus of employers from a plan.
- How multiemployer plans can merge.

### Conable proposal

Rep. Barber Conable, R-N.Y., is fine-tuning his proposal to save flexible spending accounts from the Internal Revenue Service.

Earlier this month, Rep. Conable said he would attempt to attach to pending tax legislation a proposal to overhaul Section 125 of the tax code (BI, May 7). That section governs the operations of flexible and cafeteria benefit arrangements.

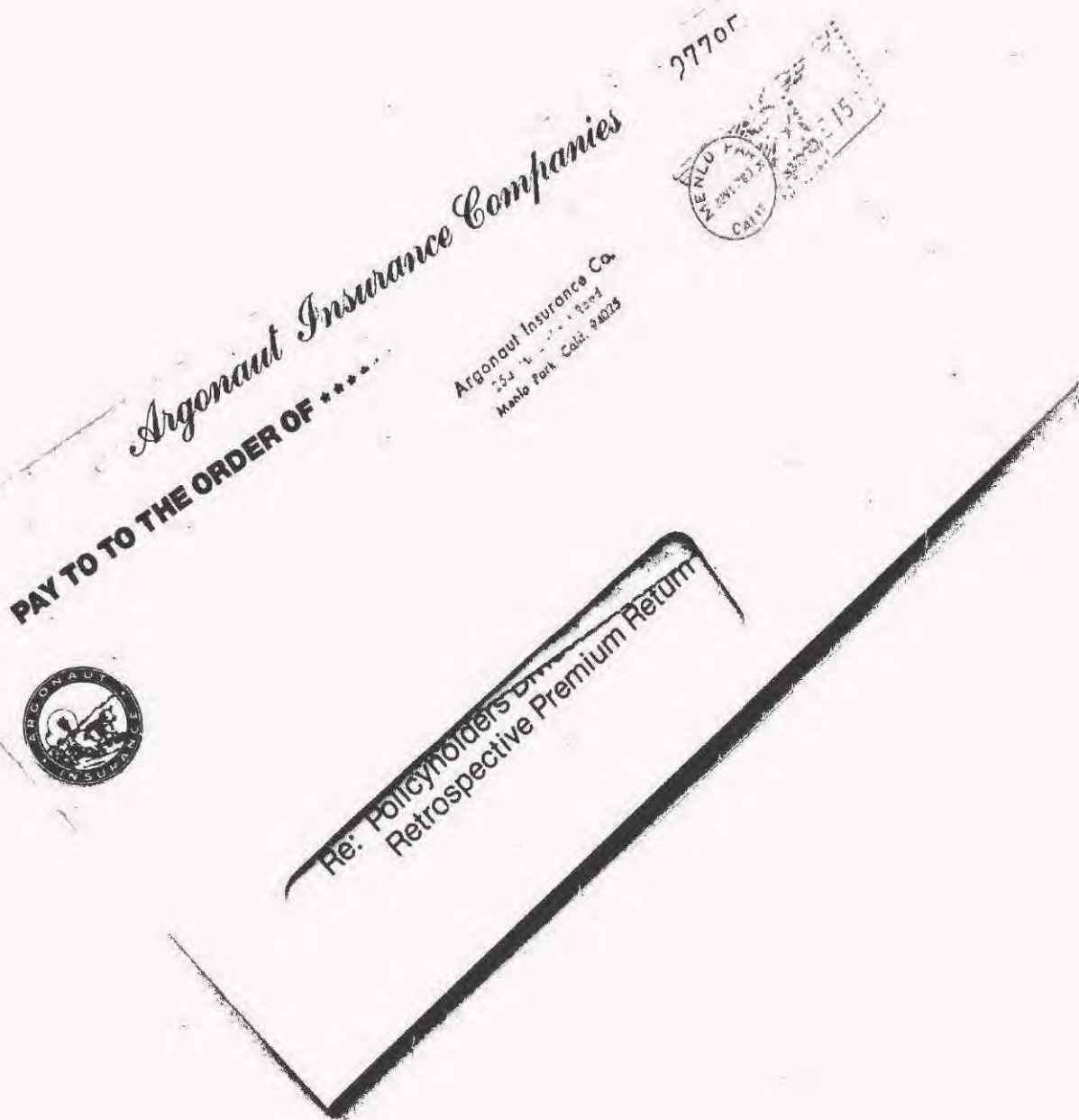
In a recent change, Rep. Conable has altered a "sunset" provision in the proposal. Initially, the sunset would eliminate Section 125 of the tax code Dec. 31, 1987. As a result, unless Congress renewed the section, all Section 125 plans would be invalid at the end of 1987.

Now, Rep. Conable proposes that the sunset only would apply to FSAs. Other Section 125 plans, such as conventional cafeteria benefit plans that lack spending or reimbursement account features, could continue to operate indefinitely.

Rep. Conable believes that a sunset is necessary for FSAs so that there is a mechanism in place to review them after several years.

The Conable proposal, which would overturn proposed Internal Revenue Service rules that retroactively invalidate most FSAs, would require employees participating in FSAs to choose benefits in advance, would place a cap on the value of benefits in an FSA and would require employees to roll over unused benefits in a benefits bank for use the next year.

The proposal would go into effect Jan. 1, 1985, giving employers several months to conform to the new rules.



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# ANCHORING THE ACT

## Longshore changes may benefit employers.

By Lawrence P. Postol

**T**HE LONGSHOREMEN'S and Harbor Workers' Compensation Act was last amended in 1972. Those amendments placed devastating liabilities on employers that for the past several years have been attempting to convince Congress to amend the act and grant the beleaguered maritime industry some fiscal relief.

The 97th Congress came very close to passing such amendments, and now the Senate and the House have passed similar versions of the same bill, S. 3E.

Presumably, the differences will be ironed out in a conference committee and we can expect to see the final

amendments by this summer.

Whether the amendments actually will be a blessing for the maritime industry remains to be seen.

The proposed amendments contain several desirable changes that should reduce the liability of employers that fall under Longshore Act coverage. The elimination of unrelated death benefits and the 5% cap on cost of living increases are long overdue.

The Senate bill, however, is substantially more favorable for employers, containing a Social Security offset, the end of dual state and federal jurisdiction, the hearing loss limitation, mandatory vocational rehabilitation and the creation of a conservator to protect the special fund (also known as the second-injury fund).

Moreover, the amendments contain some provisions that would have a disastrous effect on the liability of employers in the future.

The allowance of a modification for a mistake of fact or change of condition, without a time limitation, is inexcusable. Moreover, the House amendment that allows retirees to recover compensation (as opposed to medical benefits) for subsequently developed occupational diseases is improper under the workers comp wage replacement principle.

In the end, it is not at all clear whether these amendments will be a blessing or a curse for employers.

First, considering the changes desirable to employers, the Senate and House bills both eliminate awards for unrelated deaths currently provided for in Sections 8(d)(3) and 9 of the

act—if a worker is permanently disabled, but dies for reasons unrelated to the occupational disease, then the family will not receive death benefits as they do now. The elimination of the Longshore Act life insurance provision obviously is long overdue.

The Senate and House bills both put a 5% cap on cost-of-living increases in Section 10(f) of the act. Supposedly, this will make longshore liability more predictable and, hence, more insurable.

Yet, the Reagan administration's successful reduction in inflation has made the cap virtually meaningless in the short run. Moreover, if inflation later gets out of hand, there is nothing to prevent a future administration from attempting to increase the COLA cap.

The House bill, but not the Senate proposal, attempts to end the use of appropriations under the act by funding all pre-1972 amendment cost-of-living increases out of the special fund, whereas they now are funded 50% from appropriations and 50% from the special fund.

While this money would have to come from employers that sustain the fund, there are a limited number of pre-1972 injuries left, and thus the increased contribution should be small.

The Senate bill has an extremely useful provision that provides a 50% credit of the employer's contribution for any Social Security payments to the worker. This, of course, removes the windfall that many workers now receive when their retirement benefits are greater than their wages were. However, the House proposal does not have this offset.

The Senate bill in Section 5(a) eliminates the dual state and Longshore jurisdiction created by the Supreme Court's decisions in *Sun Ship Inc. vs. Pennsylvania*, 447 U.S. 715 (1980) and *Thomas vs. Washington Gas Light Co.*, 448 U.S. 261 (1980).

This provision eliminates the costs of defending two workers compensation proceedings and removes the potential for a double recovery. The provision also codifies judicial precedent that the Jones Act and longshore jurisdictions are mutually exclusive. The House bill does not have a comparable provision.

The Senate and House amendments both provide in Section 8(c)(13) of the act that the secretary of labor shall promulgate regulations adopting the American Medical Assn. disability formula for compensating workers for hearing loss.

The AMA uses more realistic lower frequencies than other authorities, such as NIOSH, use. Since occupationally caused hearing loss

occurs at higher frequencies first and more severely, the AMA formula usually provides a lower disability figure.

Currently, administrative law judges are free to use whatever formula they consider best, presumably based on the expert witness testimony presented to them. Both amendments would make proper audiograms a presumptive representation of the worker's hearing loss. The Senate bill makes clear that an employer is only liable for the amount of the worker's hearing loss that the employer caused.

Thus, the employer would not be liable, even under the aggravation doctrine, for a pre-existing hearing loss. The Senate bill thus overrules the court decision of *Newport News Shipbuilding & Dry Dock Co. vs. Fishel*, 694 F. 2d 327 (4th Cir. 1983).

The House bill does not contain a similar provision and thus workers with a pre-existing hearing loss will find it difficult to find work if the House amendment is passed. Moreover, the House amendment extends the time for a worker to file a hearing loss claim until the worker is given an audiogram that indicates the level and cause of the hearing loss.

The Senate bill contains an amendment to Section 8(g) of the act that would make vocational rehabilitation training mandatory.

Moreover, until the worker underwent vocational rehabilitation or was ruled out as an appropriate candidate, the nature of the disability would be considered temporary rather than permanent. For reasons that are not entirely clear, the House bill does not contain a comparable provision.

The Senate and House bills both increase the current 104 weeks of employer liability provided for in Section 8(f) of the act in cases of second-injury fund coverage. The Senate bill increases the deductible to 208 weeks and allows for the appointment of a conservator who can hire counsel to defend the special (second-injury) fund.

In addition, any claim for second-injury fund coverage must be submitted to the conservator initially. The House bill increases the deductible to 312 weeks and does not have a conservator. Any special fund claim must be submitted initially to the deputy commissioner.

Since the problem with the special fund is caused by the secretary of Labor's total failure in defending the fund against claims of workers, the Senate bill would seem to be highly desirable.

Continued on next page

# Amendments could aid maritime industry



Continued from previous page

Indeed, if a conservator is retained, it is not altogether clear that any increase in the deductible is warranted. If the cost is too great, employers will not be motivated to hire or retain the handicapped.

Employers also find that there are some amendments that would prove disastrous. For instance, the Longshore Act in Section 22 has a provision that is extraordinary for an adjudicatory system. Any party, within one year of a compensation decision, can petition for modification of the decision based on either a mistake of fact or change of condition.

The potential for abuse in a claim being tried again and again is obvious.

Currently, the only bar to complete disaster is the one-year limitation for a modification. At least after one year, an employer could be assured that the litigation had ended.

Incredibly, both the Senate and House bill amend the act to eliminate the one-year limitation. Thus, years after a claim had been decided, a worker or the family could petition for a modification of a claim denial.

This one provision has the potential to make all past abuses under the act (and they have been great) seem like kids' stuff. Ironically, this provision was to eliminate the "future effects" provision in Section 3(h), which was used to determine a worker's loss of wage earning capacity.

The drafters of this amendment, however, apparently realized the potential disastrous effects of this provision, and thus provided that the amendment does not apply to black lung claims.

The House bill, presumably at the insistence of Rep. George Miller, D-Calif., contains a "minioccupational disease" bill, modeled after his own proposed occupational disease legislation, H.R. 3175 (BI, May 30, 1983).

Under the amendment of Section 10(e), a worker who develops a disease after retirement would be awarded compensation based on the national average weekly wage, even though the disease obviously did not cause a wage loss since the employee already was retired.

This provision is completely contrary to the concept of workers comp as a wage replacement system and would overrule the court decision of *Newport News Shipbuilding & Dry Dock Co. vs. Director (Hess)*, 681 F.2d 938 (4th Cir. 1982).

In addition, the House amendment of Section 13 would allow a worker to file an occupational disease claim within one year of the onset of disease, the onset of functional impairment caused by the disease, or the onset of a wage loss due to the disease. The Senate bill wisely does not contain a similar amendment.

Some other possible changes include:

- The proposed Senate amendments that contain a major benefit for a very small portion of the maritime industry. Small vessel builders are removed from Longshore jurisdiction if they are covered by state workers compensation and do not receive federal maritime subsidies.

The Senate bill amends Sections 2(3), 2(4) and 3 of the act and excludes from longshore jurisdiction builders and repairers of recreational vessels less than 65 feet long, barges of less than 900 tons; tugboats, fishing vessels less than 16,000 tons; and other vessels except when the workers are actually over navigable waters. The House amendments don't contain these provisions.

- The Senate and House proposed amendments close a potential loophole for

suing shipbuilders. Section 5(b) of the act allows a longshoreman to sue the owner of the vessel the employee was injured on, even if the vessel owner also was the longshoreman's employer.

In *Lundy vs. Litton Systems Inc.*, 624 F.2d 590 (5th Cir. 1980), the 5th U.S. Circuit Court applied this doctrine to a shipyard on the theory that the unfinished hull the worker was injured on was a "vessel."

In any case, the amendment would reverse the decision in *Lundy* by making clear that a shipbuilder or repairer cannot be sued or held liable directly, or in an indemnity action, as the vessel owner.

- The House bill amends Section 2(3) to exclude oil drilling platform builders from longshore jurisdiction if the secretary of labor determines that the burden of the act's costs would cause a bid to go to a foreign company not covered by the act.

- The House and Senate bills both correct a prior drafting error in Section 6(b)(1) and 9(e) of the act. Both apply the same maximum weekly benefit for disability and death claims: 200% of the applicable national average weekly wage. This provision reverses the Supreme Court's decision in *Director vs. Rasmussen*, 440 U.S. 29 (1979), in which the court held that the maximum rate applied only to disability claims and not to death benefits.

- The House and Senate bills contain similar amendments to Section 7 of the act that attempt to create a procedure for allowing employees a free choice of physicians. At the same time, under the Longshore Act, the procedure would bar from practicing certain physicians whose conduct in the past was improper. Unfortunately, the provision is so watered down, it will be of questionable effect.

The amendment states the deputy commissioner must provide a list of physicians who have been convicted of a crime, excluded from other programs,

such as Medicare, knowingly provided a false statement, charged an excessive fee or provided unnecessary treatment under the act. An employee cannot choose, as his initial physician, a doctor on this list.

- Both the proposed House and Senate amendments in Section 8(c)(20) increase the maximum award for disfigurement to \$7,500 from \$3,500. Both amendments also eliminate the unnecessary language in Section 8(c)(21), which allows for the modification of a permanent partial disability award. Section 22 allows for such a modification, and thus the wording in Section 8(c)(21) is duplicative.

- The Senate and House amendments both modify Section 9(a) of the act to increase the maximum allowable funeral benefit to \$3,000 from \$1,000.

- The Senate and House bills amend Section 32 to liberalize self-insurance requirements. The amendment provides that the secretary of labor can consider the employer's financial condition, previous payment record and other relevant factors in setting the bond.

Both the House and Senate bills have elaborate provisions for determining the effective dates of the different amendments. Some are effective based on the date of the worker's injury, and others apply retroactively.

For example, under both bills, unrelated death benefits are eliminated for all future deaths, even if the initial injury occurred before the amendments were passed.

Conversely, under both proposals, the increased deductible for the special fund only applies to injuries and deaths that occur after the amendments are enacted. ■

The Perspective section, which is a forum for readers' opinions, is compiled and edited by Assistant Copy Editor Claudette Dampier. She can be reached at 312-649-5282.



Lawrence P. Postol is an attorney with Jones, Day, Reavis & Pogue in Washington.

## Employee stock ownership can boost results

By Kenneth P. Shapiro

### management

WHEN GIVEN some stake in the company beyond their salaries, employees may not just show more interest in the company's performance, they also may become more diligent about their own performance.

But does this greater stake in the company, employee stock ownership, actually affect productivity and performance? For the answer, we must consider the social/psychological factors.

As we see every day, America glorifies ownership. This is true of homes, cars—and businesses. We treat our own home differently from the one we rent at the seashore. We take better care of our own car than the one that belongs to Hertz.

Employees who own stock, according to this line of reasoning, will care more and be more highly motivated. Potentially, there also will be fewer strikes, reduced union problems, less employee turnover—and greater productivity.

Has research confirmed this opinion?

The first quantitative, rigorous study of employee-owned companies was undertaken for the Department of Commerce in 1977 by the Institute for Social Research at the University of Michigan. By comparing 30 companies with employee ownership with a matched group of similar non-employee-owned companies, this study found that the employee-owned businesses were 1.5 times as profitable as those that were not employee-owned.

Also, the University of Michigan study found that "the single most important correlate of profitability among the aspects of ownerships that were measured is the percent of the company's equity owned by non-managerial employees. The greater the percent, the greater the profitability of the firm."

In addition to the quantitative analysis, the University of Michigan study interviewed management in each company about the effect of employee ownership on productivity and profit. These managerial respondents saw employee ownership as having a positive effect on productivity and profit; they judged the industrial relations climate in these companies as good.

A corroborating study done for the U.S. Senate found that profits increased 155% three years after employee-ownership plans were installed.

Today, more employees are gaining significant amounts of stock through various employer-sponsored vehicles. Consider this data from the 854 companies surveyed for the 1983 Hay/Huggins Benefits Comparison:

- Of the 43% of Hay/Huggins survey participants that offer their employees thrift/savings plans, about half have a company stock fund as an employee investment option.

- Of these thrift/savings plans where the employer retains some investment responsibility, company stock is the most frequently used investment vehicle.

- Of the 20% of survey participants that offer qualified profit-sharing plans, more than one-quarter have a company stock fund as an employee investment option; of those profit-sharing plans where the employer retains some investment responsibility, company stock is the second most frequently used investment vehicle.

- Of the participating stock companies, one-third maintain Employee Stock Ownership Plans (ESOPs) and/or Payroll-Based Stock Ownership Plans (PAY-SOPs), with PAY-SOPs being much more prevalent.

- Of the participating stock companies, 12% offer discount stock purchase plans (generally to all employees, with a 15% discount as the norm).

We look for the trend of employees sharing in company ownership to increase. Any program must be scrupulously planned and evaluated, efficiently installed and effectively communicated. Without this attention, expected returns almost surely will fall short.



Kenneth P. Shapiro is president of Hay Huggins Co. Inc. in Philadelphia. His column on management appears regularly in Business Insurance.

# Delaware hospital offers flexible benefits

Kent General Hospital in Dover, Del., has instituted a flexible benefit plan for its 600 employees that offers choices in medical, life and disability coverages.

Also, the new plan changes the Dover hospital's pension-funding formula to reduce its pension obligation.

"The plan has been fantastically received by employees," reported Marge Bailey, Kent's personnel director. "They get good tax breaks and a choice of benefits they want to take."

Benefits consultant Yaffe & Offutt Associates Inc. of Baltimore helped design the program.

"The hospital wanted to limit its health costs, and they will be the same in 1984 as they were in 1983," said Charles E. Offutt, a principal with the benefits consulting firm.

Under the plan, which took effect late last year, each employee is given \$450 annually in benefit credits that can be used to purchase different kinds of benefits.

Three individual medical benefit plans are offered.

The standard "core" plan costs \$100 a year and includes a \$500 deductible and pays 80% of expenses up to a \$2,000 maximum, after which it pays all costs. The maximum out-of-pocket cost is \$900 per year per employee.

The second plan, which costs \$300 annually, pays all expenses incurred during the first 120 days of inpatient care. There is then a \$100 deductible, after which the plan will pay 80% of expenses to a \$2,000 maximum. The hospital will then pay all further expenses. The maximum out-of-pocket cost is \$500 per employee.

The third plan costs \$450 annually and is identical to the coverage employees received under the old plan. It pays all eligible medical expenses after a \$100 deductible, and 80% of other expenses. The maximum out-of-pocket cost is \$100 per employee, plus 20% of partially reimbursed expenses, such as physician's visits.

If an employee is covered under another benefit program, such as one provided by a spouse's plan, employees can drop their coverage and use their benefit credits for other benefits. About 140 staffers have chosen this alternative, Mr. Offutt said.

"Our workforce is predominantly female," Ms. Bailey said, "and many employees are covered by their spouse's plan."

All employees also receive 10 days of sick leave per year at full salary. Up to eight weeks of sick leave can be accumulated.

Long-term disability coverage, which begins after six months of disability, pays 60% of salary to a \$2,500 maximum. Employees also can purchase short-term disability coverage that will pay 75% of annual base salary from the end of the eighth week through the 26th week of disability. This coverage costs employees 0.5% of base salary per year. About 400 have enrolled.

The plans also provide life insurance and accidental death and dismemberment coverage equal to an

## benefit beat

employee's annual base salary, and 11 vacation days per year.

Additional life insurance and accidental death and dismemberment insurance also are available. The cost is based on the individual's age.

Another benefit employees can purchase is dental coverage at an annual cost of \$50 for individuals and \$175 for families. This protection pays all usual and customary preventive expenses with no deductible. It pays 50% of other eligible expenses after a \$25 annual individual deduction and \$50 family deductible to an annual maximum of \$1,000 per individual covered.

Nearly half the hospital's employees have purchased dental cov-

erage.

Kent's new plan also establishes a tax-sheltered salary reduction savings plan to which employees can contribute unused benefit credits or pretax earnings and receive matching employer contributions.

For employees with fewer than five years of service, the hospital will match 25 cents of each dollar contributed, to a maximum of 2% of base pay or \$250. For employees with more than five years of service, this contribution rises to 50 cents on the dollar with a \$500 maximum.

Employees are vested in the employer contributions after 10 years. About 400 staffers participate in

this plan. Previously, when retirement account deposits were made from aftertax payroll deductions, only 68 employees had participated.

Finally, Kent's pension plan now credits employees with 1% of their average career annual compensation for each year worked.

Previously, employees' compensations had been based on their final five years' average salary, which produced a higher benefit, Mr. Offutt said.

Kent's obligation was further reduced, he said, by a change in the actuarial accounting method.

The hospital had considered adding a provision to its benefit plan that would have established flexible spending accounts, Mr. Offutt said. But those plans are on hold as a result of Internal Revenue Ser-

vice proposed regulation that would make many popular forms of FSAs invalid (BI, May 14).

"We're on safe ground now (without an FSA), and we plan to stay there until there's a reason for us to change," Ms. Bailey says.

Kent's medical and dental plans are underwritten by Blue Cross & Blue Shield of Delaware. Its life insurance coverage is provided by Safeco Insurance Co. of Seattle, Bankers Life Co. of Des Moines, Iowa, administers its pension plan, and Confederation Life Insurance Co. of Toronto writes its long-term disability plan. Kent self-insures its short-term disability coverage.

Made any benefit changes? Write Sal-lie J. Drury, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611; 312-649-5352.

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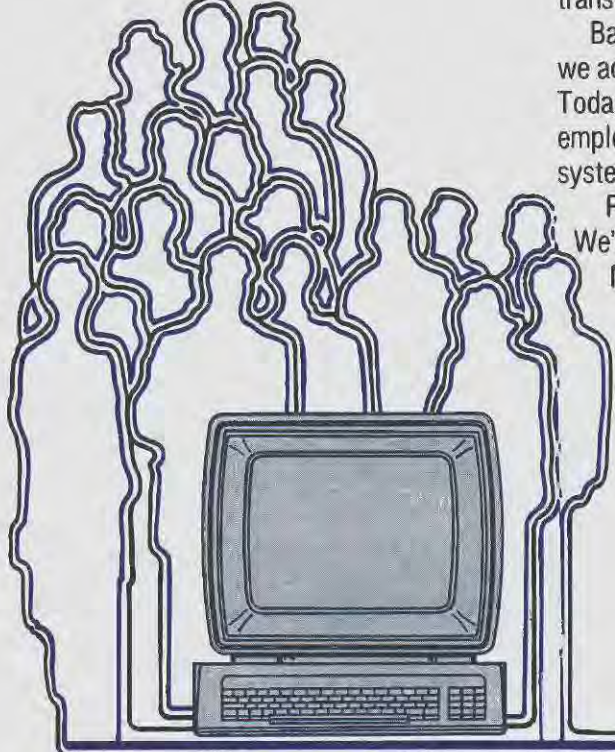
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## Earthquake damage is set at \$10 million

NEW YORK—The preliminary estimate of insured damage in an earthquake that struck the San Francisco Bay area late last month is \$10 million, reported C.E. Hermanson, vp of the Property Claim Services Division of American Insurance Services Group Inc. in New York.

The quake, which struck on April 25, was centered near San Jose, Calif. It was assigned Catastrophe Number 36 by the Insurance Services Office.

# Proposal to hike Maine comp rates killed

AUGUSTA, Maine—Employers in Maine will not be hit with higher workers compensation rates this year.

A proposal for an average 30% rate increase, filed by the National Council on Compensation Insurance, was dismissed May 11 by the superintendent of insurance.

The dismissal was labeled by the NCCI as part of a frustrating pattern.

The NCCI has said that according to its actuarial analysis, an av-

## around the states

erage 100% rate increase is necessary in Maine to fund the workers compensation system (*BI*, July 18, 1983; Feb. 27, 1984).

But data submitted by the NCCI to the Bureau of Insurance did not substantiate assumptions made in the filing, according to the order of dismissal.

Because of this lack of data and

because of other missing information required by Maine's statutes, Superintendent Theodore T. Briggs dismissed the filing.

The NCCI's previous filing in 1982 for an average 27.5% rate increase also had been denied, according to the Insurance Bureau, because the organization did not make projections on investment income and its projected reserves were not reasonable.

The NCCI appealed that 1982 ruling, which was upheld in a Maine Superior Court. Oral arguments in the case were heard earlier this month in Law Court, the state's highest court.

The last increase in workers compensation rates in Maine was an average 25% increase in March of 1981.

The NCCI was meeting last week to consider its options and study the text of the order. No hearings on the filing were ever scheduled and the NCCI expressed its frustration at having the case dismissed on alleged technicalities, rather than on its merits.

Employers and employer groups in the state had intervened in the rate filing, planning to protest the proposed increase. But because the request never went to a hearing, employer representatives were unable to comment on whether the proposed rates and subsequent dismissal were justified.

## Work comp study

PROVIDENCE, R.I.—Rhode Island is joining the ranks of states that are formally studying their workers compensation system (*BI*, Feb. 27).

A bill signed May 1 by Gov. J. Joseph Garrahy calls for the for-

mation of a commission to study the feasibility of a state fund, as well as to study other aspects of the state's work comp system (*BI*, April 30).

Rep. Charles C. Baldelli, D-Woonsocket, who spearheaded the movement behind the study group, said the commission should be appointed within the next month. It will consist of state legislators, citizens, a workers compensation commissioner and a representative from both labor and business.

The commission's preliminary report is due by Dec. 1 and its final report by March 1, 1985.

## Church vs. state

SPARKS, Nev.—The pastor of a Baptist church who refused to purchase workers compensation insurance from Nevada's exclusive state fund is losing his congregation, but he's winning the support of a state legislator.

The Rev. James Hollingsworth, pastor of the 20-member Grace Baptist Church in Sparks, refused to buy workers comp coverage for the church's only employee—himself—from the State Industrial Insurance System, Nevada's state fund (*BI*, March 12).

Nevada is one of six states that operate monopolistic state funds, requiring employers with even one employee to purchase their workers compensation insurance from the fund. Some employers, however, may self-insure their workers compensation risks, and others—those involved in theatrical, domestic and agricultural areas—are exempt from the requirement.

The state took the minister to court, seeking to close the church and its school until the premium is paid.

The Rev. Hollingsworth also went to court, asking that his facilities be allowed to remain open until

the court made a final ruling on the issue. He argued for a separation between state and church.

The court ruled against the Rev. Hollingsworth's motion in March, but before it had a chance to rule on the state's motion for an injunction, the church disbanded.

"We closed down the church. The issue is kind of moot at this point. We lost a lot of people since this started," said Mary Ann Hollingsworth, the minister's wife.

Since the issue surfaced, at least one state legislator has taken an interest in the Rev. Hollingsworth's stand.

Assemblyman James Stone, R-Sparks, said he will introduce a bill when the Legislature goes back into session in January that will exempt churches from the requirement to purchase workers compensation from the state fund.

## New Hawaii regulator

HONOLULU—Mario R. Ramil is planning to use the experience he gained while a deputy attorney general in Hawaii's Department of Labor in his new position as insurance commissioner.

Mr. Ramil, 38, took over the post May 1. He replaces Susan Kee-Young Park, who had been insurance commissioner since July 1982. Ms. Park resigned to return to private law practice and concentrate on writing.

As a deputy attorney general, Mr. Ramil had extensive exposure in workers compensation, temporary disability, prepaid health care and unemployment insurance. He also served in a private practice in Hawaii, specializing in workers compensation insurance defense.

Mr. Ramil, a 1975 graduate of Hastings College of Law in San Francisco, also served on the state House's majority staff for one session.

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**JUNE 14. Risk Financing and Captive Insurance Companies** seminar in New York, sponsored by Risk Planning Group; \$275; \$225 for subsequent registrants from the same company. Also **June 19** in Boston; **June 21** in Denver; **June 28** in Orlando, Fla. Director of Conference, Risk Planning Group, 722 Post Road, Darien, Conn. 06820; 203-655-9791.

**JUNE 14-15. Labor/Management** workshop in New York, sponsored by Health Research Institute; \$195. Also **July 19-20** in San Francisco; **Aug. 9-10** in San Diego. Health Research Institute, Suite 200, 49 Quail Court, Walnut Creek, Calif. 94596; 415-676-2320.

**JUNE 15. ABCs of Self-Insurance for Employee Benefits** seminar in Dallas, sponsored by the Self-Insurance Institute of America; \$125 for members; \$175 for non-members. Also **July 20** in Denver; **Aug. 17** in Seattle; **Sept. 21** in Los Angeles. Marcia Vaughan, Self-Insurance Institute of America, P.O. Box 15466, Santa Ana, Calif. 92705; 714-979-6318.

**JUNE 17-20. 17th Annual Loss Prevention** seminar in Dallas, sponsored by the National Retail Merchants Assn.; \$295 for members; \$435 for non-members. Tomi Block, National Retail Merchants Assn., 100 W. 31st St., New York, N.Y. 10001; 212-244-8780.

**JUNE 18-19. Practical Law & the Security Manager** seminar in Arlington, Va., sponsored by the American Society for Industrial Security, Education & Seminar Programs Department, Suite 1200, 1655 Fort Myer Drive, Arlington, Va. 22209; 703-522-5800.

**JUNE 18-20. 1984 Food Industry Institute Employee Benefits** program in Lake Tahoe, Nev., sponsored by the International Foundation of Employee Benefit Plans; \$420 for members; \$495 for non-members. IFEPP, P.O. Box 69, Brookfield, Wis. 53005; 414-786-6700.

**JUNE 18-20. Planning an EDP Disaster Recovery Program** seminar in Atlanta, sponsored by the Computer Security Institute; \$750 for members; \$795 for non-members; group discounts are available. Computer Security Institute, Educational Resource Center, Department ERC, 43 Boston Post Road, Northborough, Mass. 01532; 617-845-5050.

**JUNE 18-22. Industrial Ventilation Fundamentals** course in San Diego, sponsored by the University of Southern California; \$650. University of Southern California, Institute of Safety and Systems Management, Office of Extension and In-Service Programs, Los Angeles, Calif. 90089; 213-743-6523/24.

**JUNE 18-22. Loss Control Management** seminar in Atlanta, sponsored by the International Loss Control Institute; \$625. Also **Aug. 6-10** in Atlanta. Richard Jump, International Loss Control Institute, Highway 78, P.O. Box 345, Loganville Ga. 30249; 800-554-6001 or 404-466-2208.

**JUNE 19-20. Health Agenda 1984-85: Public and Private Strategies** conference in Washington, co-sponsored by the Washington Business Group on Health and the National Assn. of Manufacturers; \$350 for members, \$450 for non-members. Washington Business Group on Health, 922 Penn-

sylvania Ave. S.E., Washington, D.C. 20003; 202-547-6644.

**JUNE 19-21. Risk Management in Environmental Health and Protection** summer institute in New York, sponsored by the Graduate School of Public Administration of New York University; \$525. Charles Nicolson, Summer Institute in Risk Management in Environmental Health and Protection, Graduate School of Public Administration, New York University, 4 Washington Square N., New York, N.Y. 10003; 212-598-3133.

**JUNE 20. Joint Venture Captives** seminar in Boston, sponsored by Risk Planning Group; \$275; \$225 for additional registrants from the same company. Also **June 22** in Denver; **June 27** in Orlando. Director of Conferences, Risk Planning Group, 722 Post Road, Darien, Conn. 06820; 203-655-9791.

**JUNE 20. Directors and Officers Liability** workshop in Chicago, sponsored by the Society of Chartered Property/Casualty Underwriters; \$80 for members; \$90 for non-members. Also **July 11** in Seattle. Coleen Mulhern, Society of CPCU, Kahler Hall, Providence Road, Malvern, Pa. 19355; 215-251-2735.

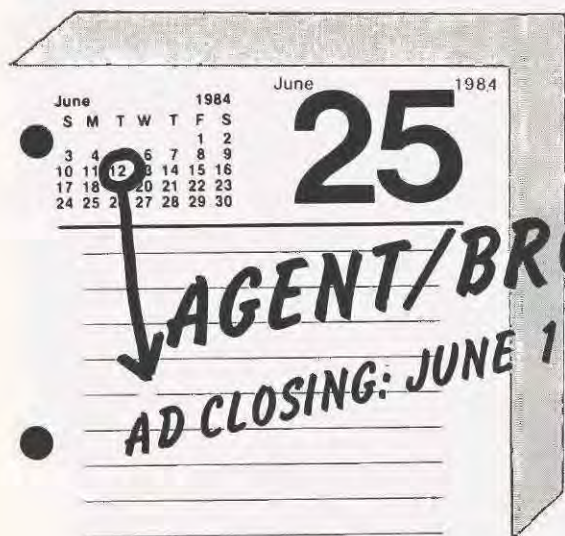
**JUNE 20-22. Florida Assn. of Self-Insurers Third Annual Workers Compensation & Group Medical** seminar in Palm Beach; \$150 for members, \$175 for non-members. Keydon Patch, Florida Assn. of Self-Insurers, P.O. Drawer 4850, Winter Park, Fla. 32793; 305-671-3772.

**JUNE 20-22. Reinsurance Concepts** course in New York, sponsored by Risk & Insurance Management Society; \$495 for members; \$595 for non-members. Also **Oct. 1-3** in San Francisco. RIMS, 205 E. 42nd St., New York, N.Y. 10017; 212-286-9292.

**JULY 30-31. Dollars and Sense of Communicating Employee Benefits**, conference in New York City, sponsored by *Business Insurance*; \$545; 10% discount for additional registrants from same company. Ann Vazquez, Registrar, *Business Insurance*, 220 E. 42nd St., New York, N.Y. 10017; 212-210-0137.

The Datebook is compiled from notices sent to *Business Insurance*. Notices should be sent at least eight weeks in advance to Datebook, *Business Insurance*, 740 N. Rush St., Chicago, Ill. 60611. *Business Insurance* reserves the right to select meetings and seminars of the most interest to its readers and cannot guarantee that notices will be printed.

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One of the highlights of this year's Conference includes the presentation of the 12th annual EBC Awards at a luncheon on July 30. An award winning audio-visual program will be shown as part of this presentation. And, you will also have a chance to review some of the printed communication programs submitted in this year's Competition that will be displayed in the EBC Gallery.

This Conference also offers you the opportunity to collect some of the latest industry information available from consultants and insurance companies - provided in the Benefits Literature Gallery.

### REGISTRATION

The cost is \$545. A 10% discount is offered to additional registrants from the same company. The fee includes sessions, workbook and educational materials plus some meals. For details see brochure. Payment required with registration. Additional tickets for the EBC Awards Luncheon can be purchased separately from the Registrar.

**Special hotel rates and discount airfares will be made available to all registrants. These discounted rates will only be available until July 13.**

For program details, registration forms, hotel and flight information write to:

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# Simulated shipwrecks improve safety at sea

Continued from page 3  
and chief underwriting officer.

The simulator is a laboratory "to try out skills or test things" that can't be tried at sea, said Roger Cook, vp of operations and planning for Ship Analytics.

The simulators also let the participants be exposed to a larger number of dangerous situations in a shorter period of time than would occur at sea, Mr. Cook added.

For example, a ship that takes months to travel from the Middle

East's oil fields to the United States' Gulf Coast might put into port only once or twice. If a particular mariner happens to be off-duty at that particular time, "chances are he won't get the experience (of docking) at all." On the other hand, the simulator gives him the opportunity to dodge port traffic over and over again within a period of hours.

MarineSafety's four computer-operated simulators provide one bridge that trains the mariner on

handling a ship in good visibility, two "blind" bridges that teach how to react in restricted visibility and a control room that trains ship personnel in the transfer of liquid natural gas. The fourth simulator, which creates an engine room and control deck, was just introduced to students in April.

Realism is stressed in all four areas. For example, when a "captain" is standing on the bridge learning about handling a ship properly in good visibility, he sees the St. Lawrence Seaway and New York Harbor, whose landmarks are meticulously reproduced on aluminum panels.

Ship Analytics, which began its training programs about two years ago, has two bridge simulators. The 10-year-old firm had previously functioned as a research facility. Ship Analytics also has a contract to operate another simulator facility for union members that belong to District 2 Marine Engineers Beneficial Assn. and Associated Maritime Officers in Toledo, Ohio, Mr. Cook said.

Both firms manufacture their own simulators. A full bridge simulator costs about \$10 million to \$12 million, Mr. Guest said. Ship Analytics also sells its simulators to the government and unions. MarineSafety does not market its simulators.

The training courses at MarineSafety last one or two weeks, depending on the topic. A general ship handling course for captains and mates, for instance, takes one week, and the engineers' course generally lasts two weeks. Shorter periods of training also can be arranged for spot problems, Mr. Guest said.

The courses, which are tailored to the customers' needs, cost \$2,000 to \$5,000 per week per participant.

A typical course at Ship Analyt-

ics is four days long and costs \$3,000 to \$4,000, Mr. Cook said.

Classroom work precedes the simulator training at both facilities. At MarineSafety, for instance, a staff of eight plus experts from selected fields present students with case studies of actual emergency situations to solve.

Prevention is stressed as well as appropriate action during emergencies, noted Fred Kratt, MarineSafety's engineering training coordinator. Accidents, he said, are often the culmination of a whole chain of events that could be cut short with proper preventive steps.

While marine insurers have encouraged their policyholders to use MarineSafety's facilities, they have not yet offered any monetary incentives to do so, Mr. Guest said. They continue to base rates solely on loss experience.

In this respect, Mr. Guest added, the marine insurers lag behind aviation insurers, which reward simulator training with lower premiums.

American Hull thinks simulators are a "very good, if not super, educational device." But it plans to continue to base its premiums on the loss records, Mr. Hickey said. A mariner could have the "perfect ship with all the perfect equipment and have gone to the right school" but still have someone collide into him, he said.

It's "definitely" a valuable tool, said Edwin Saunders, assistant vp and manager at the Marine Office of America Corp., a Continental Insurance Co. subsidiary. "It should make them better professionals because they've had some actual experience in maneuvering their vessels in some tight spots, but whether they will react the same way when they're under pressure, nobody knows."

Both insurers point out, however, that an improved loss record will eventually mean lower premiums.

Simulator experience probably had reduced premiums for Texaco Inc.'s fleet, said Capt. Thomas Merrell, superintendent of operations for the company's marine department, which owns and operates 48 ships and sends personnel to MarineSafety for training.

"Our safety and overall casualty record has improved over the past several years," he said. "We certainly feel that this (MarineSafety training) is a step in the right direction."

Any precise estimate of premium savings as a result of the better record would be difficult to pinpoint because premiums have gone up overall as a result of other factors, he noted.

Misener Transportation, a St. Catharines, Ontario, steamship company that operates 13 ships, participates in MarineSafety's program along with 13 other Canadian shipping companies via the Ottawa-based Dominion Marine Assn., said Capt. Mark Vogt, director of navigation and safety for Misener.

The DMA plans to formally evaluate its three-year MarineSafety program when it ends next year. With proof of its effectiveness in hand, members will seek lower premiums from their insurers, Capt. Vogt said.

The association is expected to continue to participate in the training program. "The program itself has proved of great value to us," Capt. Vogt said.

Other MarineSafety clients have included Chevron International and Exxon Corp., and mariners from Exxon and Mobil Corp. have gone through Ship Analytics' training program.

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Continued from page 3

participants some \$50 million in added retirement benefits, as well as set up a new defined contribution pension plan (SI, Jan. 9).

The PBGC bill—introduced in the Senate by Sen. Don Nickles, R-Okla., and in the House as H.R.

3930 by Reps. William Clay, D-Mo., and John Erlenborn, R-Ill.—attempts to solve the financial problems the agency has incurred by taking over pension plans that have insufficient assets to pay promised benefits.

A greater-than-expected number of underfunded plan terminations has boosted the PBGC's deficit above \$500 million. Although the PBGC is in no immediate danger of running out of money to pay benefits to the 107,000 participants in terminated plans that have been taken over by the agency, a major financial crisis is on the horizon unless that agency can generate more revenue.

Sen. Nickles' legislation would increase the annual termination insurance premium that employers pay to the agency to \$7 per pension plan participant, up from the current \$2.60, effective retroactive to Jan. 1, 1984.

The bill would also close loopholes in the PBGC insurance program that some say have made it easy for employers to terminate underfunded pension plans and shift the liabilities onto the PBGC.

However, several controversial amendments have been removed from the legislation, Mr. Tharp explained.

For example, the latest version of the legislation does not contain a provision that would have given unions virtual control over whether an employer could terminate a pension plan.

This so-called "union veto" provision would have barred employers from terminating a pension plan unless it received approval from its unions. And, under the provision, a company would have had to wait for two years after a collective bargaining agreement

expired before it could terminate a plan without union approval.

Some trade associations opposed this provision because they said it had nothing to do with the purpose of the bill—to shore up the PBGC's financial base—but was simply a bid to obtain union support for the legislation.

Also, a section of the bill that explains who is responsible for pension liabilities when a company sells a subsidiary has been changed to prevent unintended consequences.

Under the bill, a parent company would be liable for a subsidiary's pension liabilities for up to five years after the subsidiary was sold to another employer.

This portion of the bill is aimed at stopping situations in which a big company transfers the bulk of its pension liabilities to a subsidiary, which is then purchased by a much smaller employer. The small company later goes out of business, sticking the PBGC with the pension liabilities.

However, some pension experts said that this contingent liability section was so ambiguously written in the original draft of the bill that it unintentionally made those acquiring a corporation's subsidiary liable for the parent company's pension liabilities, too.

The section has now been reworded in both the Senate and House legislation to make clear that there is no such "buyer's liability" when an employer buys a subsidiary from another corporation.

Mr. Tharp of the PBGC says that Sen. Nickles' bill, with these changes, should receive bipartisan support from the Senate Labor Committee, assuming that Sen. Metzenbaum's amendment is not attached.



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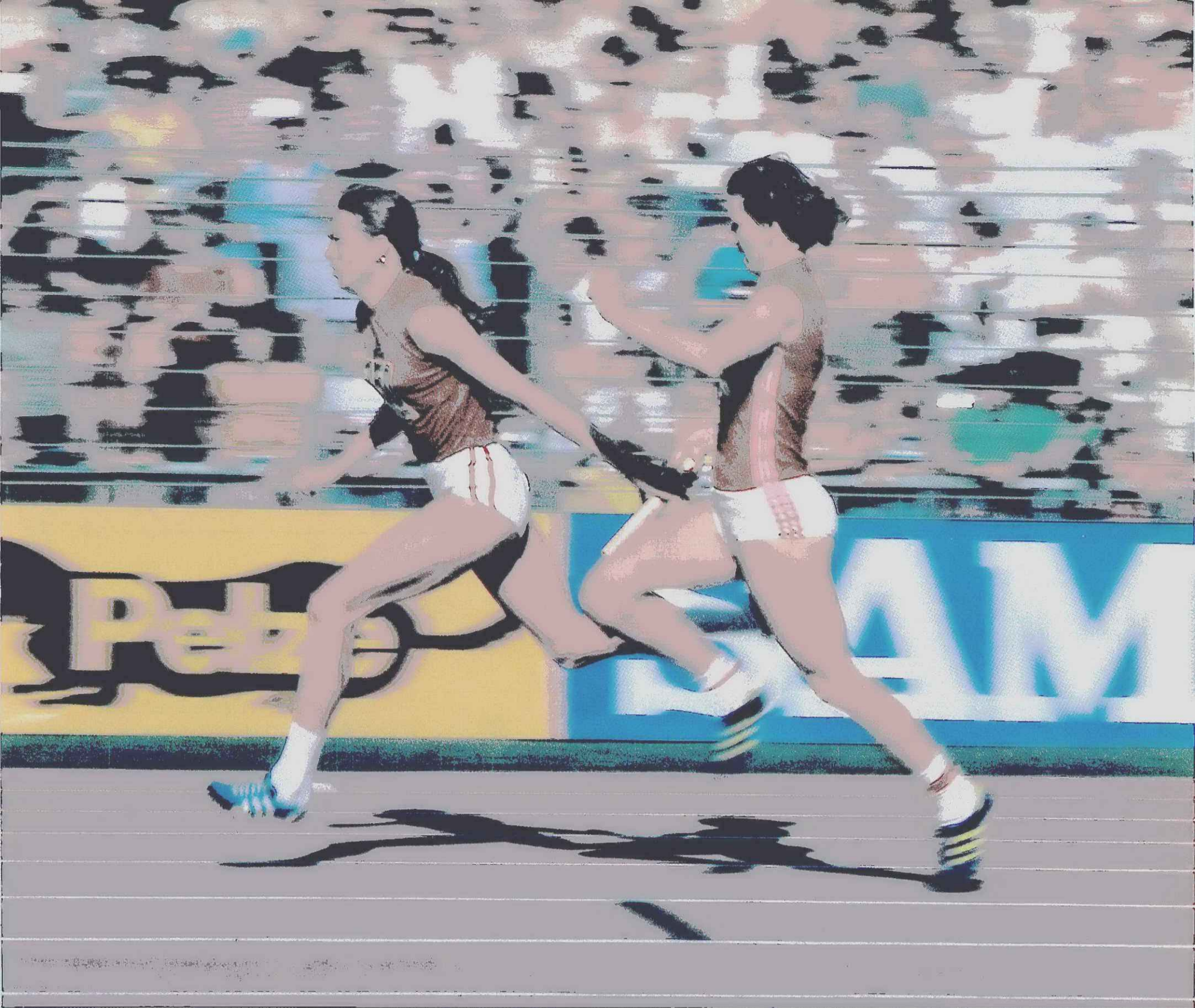


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# Facet, PBGC renegotiate debt

Continued from page 2

tion, Facet agreed to pay the PBGC about \$12.3 million over the next 10 years. Facet, so far, has paid the PBGC \$4 million.

Facet, in 1982, also agreed, beginning in 1986 and continuing through 2003, to give the PBGC a share of its annual profits any time they exceed \$250,000. For every year profits exceed \$2,674,000, Facet agreed to pay the PBGC \$1.2 million. That is the largest payment Facet would ever have to make, no matter how high profits were in any year.

If Facet's profits were more than \$250,000, but less than \$2,674,000, its annual payout to the PBGC would range from \$125,000 to about \$1 million. The exact amount would depend on Facet's profits each year. Supplemental payments wouldn't be required if Facet's pre-

tax profits slipped below \$250,000.

In return for the \$14 million in guaranteed payments and the possible profit payments, which together may have totaled \$35 million, the PBGC took over Facet's pension plan for hourly employees.

The PBGC estimated in 1982 that the Facet pension plan had \$33 million in liabilities. However, the PBGC believed it would be liable to pay out only \$19 million to participants. Under law, the PBGC does not guarantee, for example, recent benefit increases.

The Facet case, which attracted great interest in the pension community, has its origins in a 1974 Federal Trade Commission decision in which the FTC required Bendix Corp. of Southfield, Mich., to reduce its operations in the automotive parts industry on antitrust grounds.

As a result, Bendix set up a new company—Facet Enterprises Inc. of Tulsa, Okla. Bendix shifted \$70 million in pension liabilities onto Facet, but transferred just \$18 million in pension assets.

Facet later sued Bendix and in 1979 Bendix agreed to turn over an additional \$15 million in pension assets to Facet.

But that still left Facet stuck with more than \$30 million in pension liabilities. And Facet said it could not afford to fund those liabilities.

Facet then tried to close the plan, shift the liabilities to the PBGC and start a new defined contribution plan that it could afford.

But the PBGC wouldn't approve the termination, which would have added millions of dollars to its mounting deficit. This deficit is financed by a termination insurance premium the PBGC charges employers with pension plans. The annual premium is now \$2.60 per

plan participant, but the PBGC has asked Congress to raise the premium to \$7 (see story on page 3).

The PBGC said the proposed termination ran afoul of the termination insurance program. That program, which was established as part of the Employee Retirement Income Security Act of 1974, is to protect workers' and retirees' pension benefits, and not to provide financial bailouts for companies, the PBGC told Facet in 1982.

If Facet were allowed to dump its pension liabilities onto the PBGC and begin a new retirement program, other corporations with massive pension liabilities might do the same, the PBGC said.

"The consequences of our acceptance of the type of proposal you are advancing could be either a huge shift of pension costs to PBGC premium payers, or the total collapse of the insurance system," Robert Nagle, then executive director of the PBGC, wrote to Facet's

attorneys.

Facet then sued the PBGC asking a federal court to order the PBGC to recognize the termination.

While the suit was pending, Facet and the PBGC continued to negotiate until an agreement was reached in August 1982.

That agreement, like the current settlement, was beneficial for Facet and the PBGC. Facet was able to escape pension liabilities that it said it could not afford.

At the same time, the PBGC no longer faced the risk of a possible unfavorable court decision that would encourage other employers to dump their underfunded pension plans onto the agency.

Under the latest agreement, Facet has until Sept. 30 to come up with the financing to pay the PBGC the \$11.9 million.

"We are 99.9% sure we will get the financing," a Facet spokesman said.

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**Commercial Consumers**

**Administrative Management:**  
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**Financial Management:**  
chief financial officers, vps of finance, secretaries, treasurers, etc. 10,202

**Insurance Management:**  
vps, directors, managers of insurance, risk, benefits, compensation, safety, security, etc. 6,604

**Associations** 1,133

**Government, Unions, Educational Institutions** 799

**Commercial Consumers**

**Sub-total** 24,376

Insurance Agents & Brokers 9,655  
Insurance Cos. 5,461  
Financial Institutions 441  
Actuaries, Attorneys, Adjusters, Appraisers & Consultants 2,977  
Others allied to the field 1,083

**TOTAL** 43,993

\*Source: Business/Occupational breakdown of qualified circulation, November 7, 1983 issue, as submitted to BPA for December 1983, BPA Publisher's Statement.

# Rates, deductibles up on fidelity coverage

Continued from page 1  
 kers and thrift institutions, as well as commercial or mercantile bonds that cover employee dishonesty at non-financial institutions.

Recent attention in the fidelity coverage arena has focused on the relatively new computer crime insurance, which covers a financial institution for third-party crimes committed by the use of a computer. Sometimes, this coverage is written as an endorsement to a fidelity bond, while in other cases it is written as separate coverage.

However, underwriters and brokers note that computer crime claims are not responsible for the fidelity underwriters' troubles, adding that no significant computer crime losses have been reported so far.

Fidelity bonds are usually placed in primary and excess layers up to \$150 million for large banks and as low as \$100,000 for smaller institutions. While the U.S. insurance market usually caters to smaller financial institutions, London underwriters—particularly Lloyd's—play a major role in insuring the top 300 U.S. financial institutions.

Underwriters, brokers and risk managers agree that the major factor behind the hardening fidelity bond market is a sharp increase in claims.

Most of the losses on fidelity bonds result from employee dishonesty, says Frank LeMunyon, vp of the Surety Assn. of America in New York. "And losses just keep going up, up up," he says.

Due to the sensitivity of such losses, most sources will not comment on major claims or say how high the industry's aggregate losses have risen.

However, the aggregate fidelity bond combined ratio for members of the Surety Assn. of America topped 120% last year, notes Walter Cahill, vp of Chase Manhattan Bank and chairman of the American Bankers Assn.'s insurance committee. And, the insurers' loss ratio for fidelity coverage was 88%, he adds. The SAA has not yet released its official 1983 report.

Last year, A.M. Best Co. reported that the top 20 fidelity underwriters posted an aggregate 76.8% loss ratio in 1982. Best's has not yet reported 1983 figures.

"Claims that have been submitted have been big," says Walter S. Tomenson Jr., head of the services division of broker Marsh & McLennan Inc. in New York.

"We are looking at at least 12 claims in excess of \$5 million and some that are \$20 million to \$30 million. So, you are looking at big bucks," he says.

In addition, there are some huge pending claims that fidelity insurers may have to face. For instance, Marsh & McLennan Cos. Inc., the broker's parent company, says it lost \$165 million before taxes because of unauthorized bond trading by one of its investment managers. The trading losses have caused M&M to post a deficit in the first quarter of 1984, and it is also restating its 1983 earnings to reflect some of the losses (see story, page 2).

M&M may be able to retrieve some of the loss under its insurance, Mr. Tomenson says, "but those circumstances are being looked at by our lawyers and accountants."

Chubb Corp. is apparently among M&M's insurers, but neither Chubb nor M&M will comment on the type of policy involved or the extent of the broker's coverage.

Many of the losses filed under fidelity bonds are connected with loans, notes Chase Manhattan's Mr. Cahill.

"A number of serious losses these days occur in the fidelity area with a dishonest employee. For example,

loans have been made, but they involve the dishonesty of a member of the bank. There are a number of losses in the lending area at the moment," he says.

One of the ways through which underwriters hope to reduce their loss ratios is to increase deductibles. By hiking deductibles, underwriters feel they will no longer be responsible for petty, everyday losses.

"What underwriters want to do is insulate themselves and move away from the everyday kinds of losses," notes Kenneth Padgett, vp and manager of M&M's financial institution department. "Deductibles that were in the \$250,000 to \$500,000 range will now be around \$1 million to \$5 million. The average deductible today for major clearinghouses might be less than

\$1 million, but in a very short time it will be at least \$1 million or higher."

Also, underwriters are trying to recoup losses by boosting rates.

Underwriters and brokers stress that rates are not being increased by a specific amount across the board. Rather, underwriters are individually reviewing each account, focusing on the financial institution's loss experience, its number of employees and branch offices, the number of overseas locations it operates, its current deductibles and how long it has kept its coverage with one insurer.

But, according to M&M's Mr. Tomenson, rates could increase by more than 50% this year.

At the moment, the Surety Assn of America, which represents 560 companies that write fidelity insur-

ance, is reviewing its recommended premium rates for fidelity bonds, says Mr. LeMunyon.

Rate hikes are long overdue, he notes, adding that underwriters' rates have been too low for several years.

"I know of one case where premiums should have been \$2.1 million and it went for \$800,000... and it was a lousy risk," he says.

"(Insurance) companies are in negative cash flow. Interest rates are not 18% to 20% anymore. So, when you get combined loss ratios of 120%-130%, you need a lot of money to offset that."

Fidelity underwriters—like all other property/casualty underwriters—also are suffering from reduced worldwide reinsurance capacity which is forcing them to retain more risk and adding to the

problems caused by rising losses.

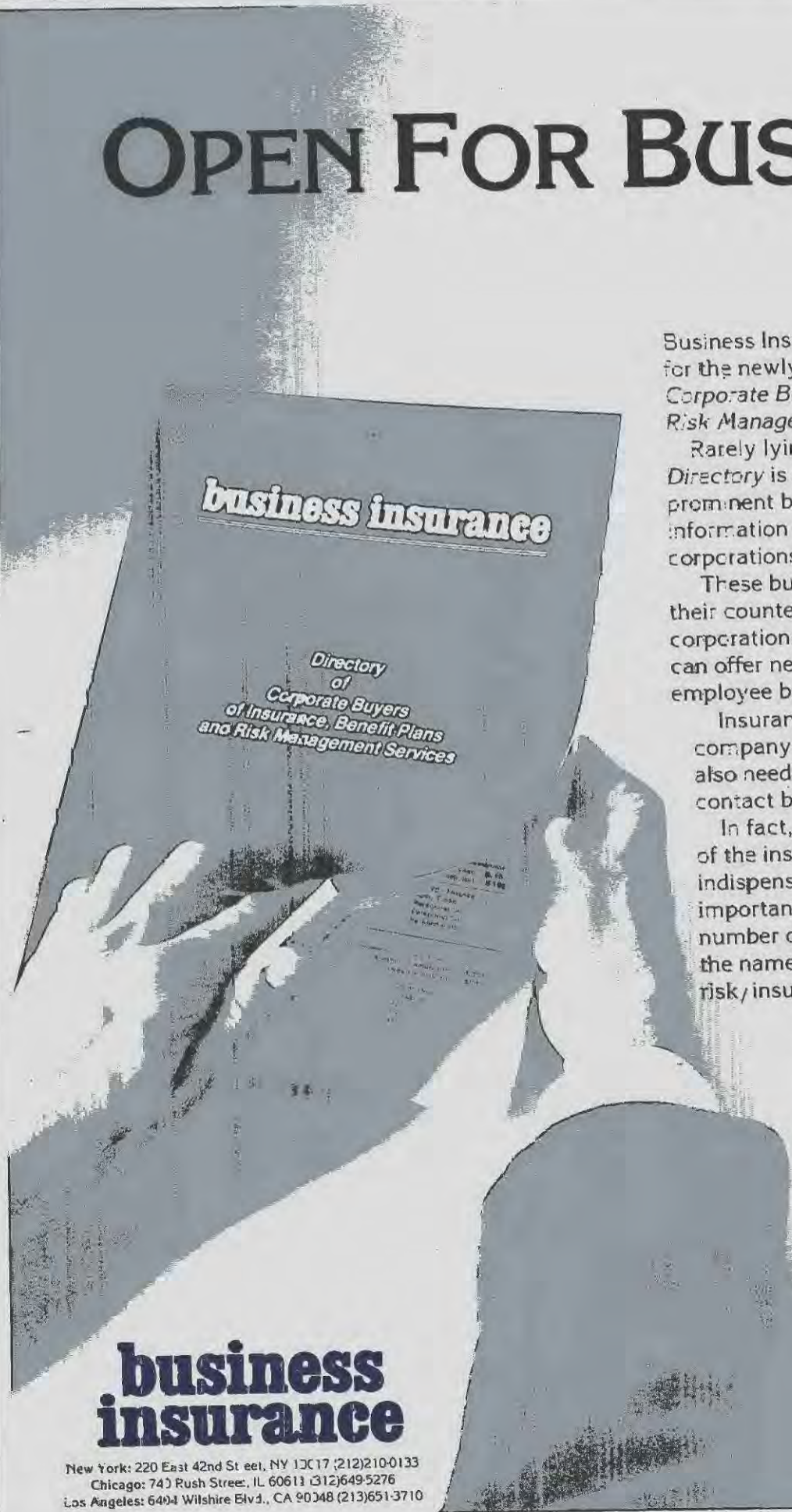
Reduction in capacity may prompt underwriters to reduce their limits, sources say, though at the moment lowering limits is more a threat than a promise.

"Capacity is eroding," Mr. Padgett notes. "Six months or so ago you could find as high as \$100 million or more on bonds. That is still possible, but it is not as easy to do today. There is a greater degree of negotiating."

Underwriters are also studying financial institutions' risks much more carefully before they write a fidelity bond.

CIGNA's Mr. Wyllie, for example, says he'll demand a more detailed analysis of a bondholder's auditing procedures, its other internal controls and its financial health.

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## Revco Drug Stores says E-Ferol suits are 'fully' covered

TWINSBURG, Ohio—Revco Drug Stores Inc. is "fully and adequately insured" against three recent product liability suits that seek more than \$80 million in damages, according to Larry Bell, assistant vp of risk management. However, he would not elaborate on the coverage.

The company was sued for negligence and liability May 9 in separate actions in Honolulu's Circuit Court by two sets of parents whose infants suffered liver and abdominal damage after being treated with E-Ferol, a vitamin E supplement manufactured by Revco's wholly owned subsidiary Carter-Glogau Laboratories Inc. in Glendale, Ariz. The suits each seek \$10 million in compensatory damages and \$30 million in punitive damages.

Carter-Glogau is named in the suits, as is the drug's distributor, O'Neal, Jones & Feldman Pharmaceuticals Inc. in Maryland Heights, Mo.

All three parties are also named in a third suit, a class action seeking unspecified damages.

E-Ferol, which was recalled last month, has been associated with more than 80 serious reactions in premature babies, including 38 deaths. ■

## O'Hara to head chapter

CALGARY, Alberta—Dermot O'Hara of Union Oil Co. of Canada Ltd. has been elected president of the the Southern Alberta Chapter of the Risk & Insurance Management Society.

Other recently elected officers of the Southern Alberta Chapter include S.T. Ashton of Burns Foods Ltd., vp; Michelle Rogers of Turbo Resources Ltd., secretary; John G. Faulds of Ranger Oil Ltd., treasurer; John L. Buysschaert of Trizec Corp. Ltd., education director; Brian Henderson of Dome Petroleum Ltd., program director; Garry McDonnell of Nova Corp., legislation director; and R. Brian Strum, Trimac Ltd., Canadian chapter representative and RIMS director. ■

## Asbestos pact offers broad coverage

Continued from page 1

sider, among other things, how much liability the individual policyholder has for asbestos injuries and what portion of the policyholder's risk the insurer underwrote.

The discussion of the agreement took place May 17 during a hearing in San Francisco Superior Court on litigation involving six asbestos producers and their insurers.

Mr. Elderkin, who noted that Fibreboard was the first company to sign the agreement, said a target date of Sept. 13 has been set to have all necessary signatures.

However, Seth Hufstедler, an attorney for the Travelers Corp., which has said that it cannot agree with the basic principles of the agreement, said the present document has not been approved by Travelers and he doubts that enough parties will sign the agreement to make it workable.

Judge Brown, who has set a March 4, 1985, trial date in the California coverage dispute, said the litigation will proceed while negotiations continue on the settlement.

However, if a sufficient number of participants subscribes to the agreement, it would end all insurance coverage litigation involving claims for bodily injury, Mr. Elderkin said.

In the meantime, producers and insurers are searching for a chief executive officer, chief operating officer and medical officials to staff the claims handling facility, which initially would include a branch on each coast.

Mr. Elderkin estimated the start-up cost for the claims facility at \$15 million to \$20 million.

He said there will not be a schedule of benefits to be paid to asbestos victims, but rather each claim will be evaluated individually.

"It is not a defined benefit plan," he said, emphasizing that the facility will not pay non-meritorious claims. ■

## M&M trading losses kill first-quarter profit

Continued from page 2

coverage. Last week, M&M also acknowledged for the first time that more than one individual was responsible for the losses.

In a 10-Q Form, filed May 14 with the Securities and Exchange Commission, the company attributed the government bond position to "certain personnel within its treasury department." Earlier statements by M&M blamed "an investment manager" for the positions.

Aside from the bond trading losses, the company's first-quarter results produced no real surprises, said June Hoffer, an analyst with Prudential/Bache Securities Inc. in New York.

"The trends are basically what they have been," she said, noting the continuing squeeze placed on brokers' commissions by low property/casualty insurance rates.

M&M's operating revenues increased 9% to \$279.2 million from \$255.9 million in 1983's first quarter. Insurance services produced \$199.1 million of these revenues, up only 1% from \$196.6 in 1983.

Revenues from employee benefits services showed the largest jump, increasing 41% to \$61.7 million from \$43.7 million in 1983. This was due mainly to the February acquisition of Meidinger Inc. by M&M subsidiary William M. Mercer Inc. Excluding Meidinger's contribution, employee benefit revenues in the first quarter would have been up about 15% over 1983.

Investment management services, provided by the company's Putnam and Eberstadt units, produced revenues of \$18.4 million on \$14.9 billion in assets under management, up 18% from \$15.6 million in revenues in 1983's first quarter.

But operating expenses jumped 14% to \$213 million from \$187.7 million in the previous year's first quarter. This produced a 3% decline in operating income, which inched back to \$66.2 million this year from \$68.3 million in 1983.

Besides Marsh & McLennan, two other publicly held brokers have released their first-quarter figures.

Frank B. Hall & Co. Inc., the nation's third-largest brokerage, said that first-quarter net income fell 48% to \$3.64 million from \$7.07 million. Earnings per share dipped to 30 cents from 58 cents in the first quarter of 1983.

Revenues increased by 2% to \$95.6 million from \$93.7 million.

Hall Executive Vp John F. McCaffrey downplays the earnings decrease, noting that "this should be compared to the third and fourth quarters in 1983, not the first

quarter in 1983.

"The first quarter of '83 was the last of (an upward trend), and we made a big drop in the second quarter of last year," he said.

Mr. McCaffrey attributed Hall's poor performance during these quarters to reduced investment income, to the continued competitive property/casualty insurance market and to one-time fees that Hall earned in the first quarter of 1983, artificially inflating results during that period.

"Our first quarter (1984) performance is just a little above what we'd budgeted. Although (net income) is lower than the first quarter of last year, it's higher than the two preceding quarters (third and fourth quarters in 1983).

"We expect to see a continued increase in the second, third and fourth quarters of this year, and have budgeted for increases," Mr. McCaffrey said.

Compared with M&M and Hall, Emmett & Chandler Cos. Inc., the nation's 12th-largest brokerage, posted a strong first quarter. Net income increased to \$176,000 or 10 cents per share, compared with a loss of \$530,000 or a 29-cent-per-share loss in the first quarter of 1983.

Revenues increased 12% to \$8.47 million from \$7.56 million.

"The company's improved operating results reflect substantial new business production, coupled with the positive effect of cost-containment measures," said Robert L. Emmett, chairman of the company. ■

## Alaska regulator to retire in July

JUNEAU, Alaska—Kenneth C. Moore, Alaska's director of insurance, is retiring—again.

Mr. Moore will leave the Alaska post, which he has held since 1979, on July 11 and move to New Mexico, where he served as superintendent of insurance from 1976 until he retired from that office in 1978.

"The climate is a little more fitting in New Mexico. The winter months are a bit harsh in Alaska," the 70-year-old regulator said. He noted that he does not plan to enter business or government during this retirement.

Before becoming the New Mexico regulator, Mr. Moore worked as an adjuster and manager for GAB Business Services Inc.

Besides serving as Alaska's insurance director, Mr. Moore also is chairman of the Surplus Lines Task Force of the National Assn. of Insurance Commissioners. ■

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While the coverage protects earnings, the premium won't hurt earnings, either. Takeover Attempt coverage can be put in place for as little as \$10,000.

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## Louisiana bill would boost comp rates

Continued from page 2

If the office is eliminated, disputed cases would again automatically wind up in court, an expensive proposition, employers contend.

"The return to the court system will bring in attorneys again, which is not only expensive for the employer but also the employee," Mr. Cosse said.

"A number of people have been critical of the (new) administration system. Especially, trial lawyers are upset because workers are not required to seek attorneys," Mr. Juge said.

In the first nine months of its 10-month life, the administration office handled 1,406 disputed claims. Of those that were recommended for settlement, 413 were rejected and probably will go to trial, a claims administrator said. But, he noted that another 457 were settled: "Cases that will not be tied up in the courts."

The elimination of the administration office is supported not only by labor and trial lawyers, but also by Gov. Edwin W. Edwards.

The governor reportedly has told employers that he will not include S.B. 1099 in his main package of bills, but he will testify in favor of its provisions, especially the elimination of the Office of Worker's Compensation Administration.

Capitol observers say that if Gov. Edwards does not include the workers compensation bill in his package, then legislators will be allowed to vote their conscience without fear of reprisal from the third-term governor.

However, the governor's legislative package is still being put together and even the governor's press office says it does not know its contents. ■

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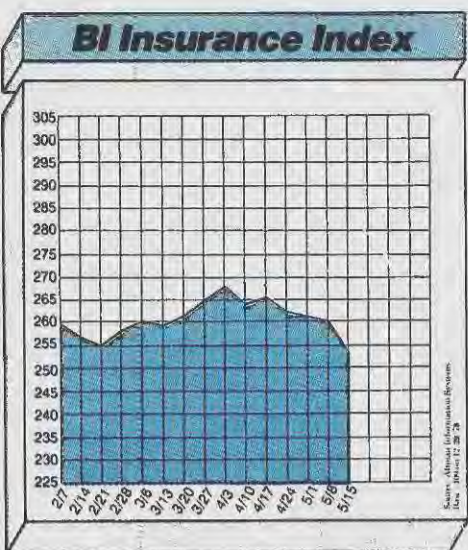


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The *Business Insurance* stock index plummeted for the trading period ending May 15. The index of insurance industry stocks dropped 7.8 points to 253.1 from 260.9 reported May 8, setting a new low for the year. Thirty-seven issues closed down, 13 were unchanged and only 10 issues reported gains. The largest gains were reported by American National Insurance Co., 10.7%; Avemco Corp., 2.1%; Northwestern National Life Insurance Co., 2.0%; Equifax Inc., 1.5%; and Marsh & McLennan Cos. Inc., 1.3%. The largest losses were reported by Carolina Casualty Insurance Co., 17.6%; Aneco Reinsurance Co. Ltd., 17.4%; Orion Capital Corp., 13.4%; Mission Insurance Group Inc., 12.8%; and American Bankers Insurance Group, 11.9%. The *Business Insurance* index posted a 3.0% drop for the trading period, a much more severe loss than that suffered by the New York Stock Exchange composite average, which dropped 1.7% during the same period.

# Ideal's new president says firm back on financial track

By JUDY GREENWALD

NEW YORK—Ideal Mutual Insurance Co. and its publicly held affiliate, Optimum Holding Co., are firmly back on course after straying from their tried-and-true path in 1983, their new president says.

Ideal Mutual and Optimum Insurance Co. of Illinois, an Optimum Holding subsidiary that assumes 49% of Ideal's business, posted a net operating loss of \$5.1 million in 1983, compared with net operating income of \$2.2 million in 1982. Their combined ratio ballooned to 135% in 1983, compared with 106% in 1982.

At first glance, this year's first quarter showed more of the same. The Ideal/Optimum pool reported \$1.1 million in net operating income, compared with \$1.7 million in the first three months of 1983, while the combined ratio rose to 100.6% from 94.4%.

But B. Frederick Becker, who was elected president and chief executive officer of Ideal and Optimum earlier this year, replacing Edward P. Lalley, compares the \$1.1 million first-quarter gain to the \$7.3 million loss the pool suffered in the final quarter of 1983.

Mr. Becker says Ideal, which specializes in workers compensation, has learned from its mistakes and will not repeat them.

For instance, the company has slashed the amount of small-account business written by managing general agencies and is concentrating on brokerage-produced business, Mr. Becker notes.

It is also introducing higher prices, is switching its investment strategy and is entering the financial services area to further bolster its bottom line.

But, Mr. Becker admits, "I don't anticipate making bundles of money in 1984," adding that his primary goal in 1984 is returning the company to financial stability.

To attain this goal, Ideal's first step was to decrease the amount of small-risk business it accepts from MGAs.

Ideal, which had traditionally written mostly large accounts produced by the major brokers, began to accept more and more MGA business, mostly workers compensation risks, to increase its volume.

But, Mr. Becker admits, "we grew more quickly than our system really would allow us to grow," and losses grew along with pre-

mium. The business produced by MGAs "wasn't the kind of business Ideal knows."

Now, Ideal is shifting its focus back to large accounts. "We're pulling in our horns a little bit," Mr. Becker says.

Therefore, he anticipates, Ideal's and Optimum's gross written premiums, which totaled \$200.1 million in 1983, will shrink by \$50 million to \$70 million this year.

Forty-four percent of Ideal's premiums are workers compensation, with general liability accounting for 14%, auto liability for 9%, auto physical damage for 8%, aviation for 9% and miscellaneous lines for 16%.

Although Ideal is again focusing on brokerage-produced business, some traces of Ideal's flirtation with managing general agencies remain. For instance, it will continue to operate National Dealer Services Inc., a Kansas City, Mo.-based MGA that Ideal purchased in September 1982 through Optimum Holding Co. for \$4.1 million in cash and \$1.7 million in Optimum stock. NDS offers a full line of insurance to franchised new car dealers.

"The NDS relationship is a good one," says Mr. Becker, although he notes that "we're backing out of a lot of the NDS book of business as well."

Along with NDS' book of business, Ideal also acquired its administrative and computer systems, which will prove to be a "real advantage" to Ideal over the next year or two, Mr. Becker says.

Ideal has already transferred part of its administrative and computer functions to NDS. "Certain operations can be more efficiently and cheaply done in Kansas City than in New York," he adds.

Besides the MGA relationships, Mr. Becker blames Ideal's poor 1983 performance on competition, explaining that the company was "trying to chase the market, in a sense," attempting to boost its premium volume by offering low rates.

Now, he says, Ideal has started to introduce price increases in its lines. The size of the increases varies, Mr. Becker says, depending upon the line and the size of the account.

"We're seeing our ability to pass on price increases starting to surface," Mr. Becker says. But, he notes, "I don't see the market as a whole firing up because we're being underbid by considerable amounts on renewals

that I've seen the last couple of months."

Ideal will nevertheless stay firm on its price hikes, Mr. Becker says, even if it does mean losing some business.

But, despite price hikes, Ideal doesn't expect to lose many of its longtime customers. "We think the buy decision is not based solely on price. It's based on a lot of other things as well."

Employee benefits and financial services are two growth areas that have been targeted by Mr. Becker, who was president of McDonough Caperton Benefits Group, a unit of broker McDonough Caperton Insurance Group of Charleston, W. Va., before joining Ideal two years ago. He notes that he originally joined the company to put Ideal in the employee benefits business, as well as to develop business in the financial services area.

Ideal already has developed a profitable accident and health business and is now looking to incorporate its accident and health coverages with workers compensation insurance to explore the "24-hour coverage market," he says.

The financial services area, as expected, has been tougher to enter, Mr. Becker says.

Ideal does have a small group of subsidiaries in the financial services field that it has "not done much with," he notes. They include Optimum Capital, a licensed brokerage firm that trades stocks and bonds; Optimum Counseling, a personal financial planning company; and Optimum Resources, a small insurance agency that deals primarily in life insurance and annuities.

For now, Ideal plans to sell financial planning services to corporate clients as a benefit for highly compensated workers.

Besides changing its products and raising rates to increase its profits, Ideal is changing its investment strategy, Mr. Becker says.

During the second quarter of 1983, he explains, Ideal began investing in municipal bonds to avoid paying additional taxes. But, since decreasing its tax burden is no longer a priority given Ideal's low earnings, it has now shifted its funds to higher-yielding taxable investments, he notes.

Mr. Becker notes that he cannot make any projections on 1984 results until the firm completes culling its books. Once this is done, "we'll know to some degree of precision what to expect, but I can assure you it won't look like 1983."

Besides the changes in its operating strategy, Mr. Becker's promotion marks a major management change for Ideal.

Mr. Lalley had served as Ideal's president since it became independent from Kraft Inc. (now Dart & Kraft Inc.) in 1972. When Mr. Becker was promoted to president and chief executive officer from vp and secretary in March, Mr. Lalley stayed on as chairman until last week's annual meeting, when he officially retired.

## British Issues

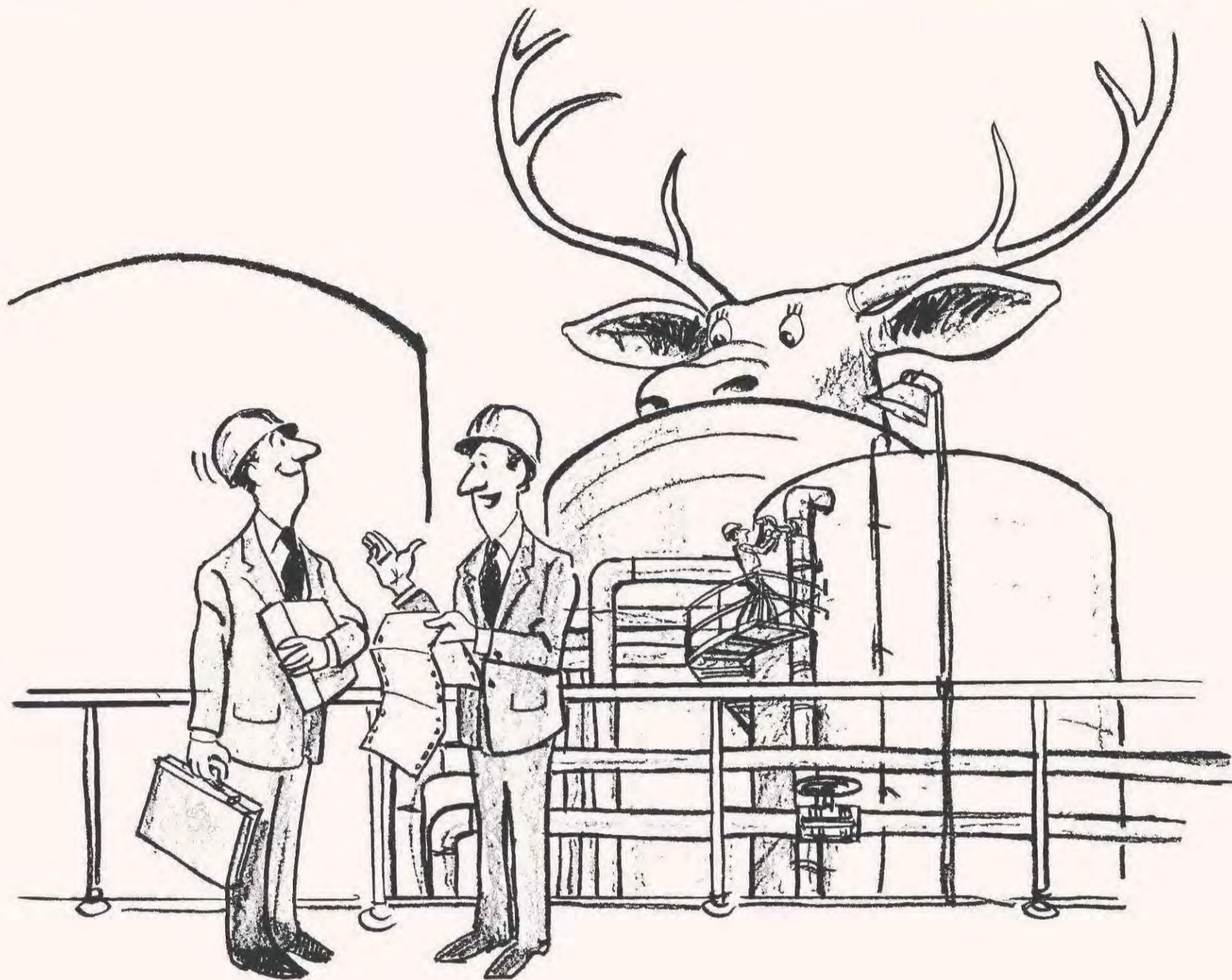
16 May Companies	Price	P/E	Div. pence	Yield %	1 Week High-Low pence
Comm Union	209	N/A	16.86	8.1	209-200
Genl Accident	458	12.4	27.14	5.9	465-450
Gdn Royal Exch	558	13.1	32.65	5.9	565-545
Phoenix	425	15.3	28.29	6.7	435-422
Royal	553	13.0	40.72	7.4	553-535
Sun Alliance	1463	15.7	80.00	5.5	1475-1425

Brokers	Price	P/E	Div. pence	Yield %	1 Week High-Low pence
CE Heath	382	9.6	22.86	6.0	397-382
Hogg Robinson	193	14.8	9.43	4.9	202-193
JH Minet	163	13.1	7.57	4.5	164-158
Sedg Grp	248	13.4	11.43	4.6	263-247
Stew Wrightson	370	12.5	21.43	5.8	385-367
Willis Faber	804	17.1	30.00	3.7	814-798

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

## BI Industry Stock Report

Insurance Cos.	MAY 15, 1984							5/9/84 THRU 5/15/84							MAY 15, 1984							5/9/84 THRU 5/15/84																						
	Price	% Chg.	P/E	\$ Div.	% Yld.	High	Low	Vol. (000)	Price	% Chg.	P/E	\$ Div.	% Yld.	High	Low	Vol. (000)	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	33.25	-1.8	16.3	2.64	7.9	33.75	32.75*	1,029.2	United Fire & Cas Co	OTC	28.75	0.0	21.5	1.60	5.6	28.75	28.75	2.2																									
American Bankers Ins Group	OTC	12.00	-11.9	8.5	0.50	4.2	13.75	12.00	81.3	United States Fid & Gty Co	NYSE	51.38	-0.2	7.8	4.16	8.1	51.38	49.50*	307.1																									
American General Corp	NYSE	21.38	-3.9	7.2	0.90	4.2	21.88	21.25	1,347.7	United Svcs Life Ins Co	OTC	27.88	-1.8	8.1	1.00	3.6	28.63	27.88	32.6																									
American Indty Finl Corp	OTC	17.75	-4.1	126.8	1.12	6.3	18.75	17.75*	5.9	UsLife Corp	NYSE	25.63	-3.3	6.9	0.96	3.7	25.75	24.88	198.8																									
American Intl Group Inc	OTC	60.50	1.7	10.7	0.44	0.7	61.00	59.50	1,227.3	Washington Natl Corp	NYSE	18.68	-5.6	11.0	1.08	5.7	19.50	18.88	51.9																									
American Natl Ins Co	OTC	27.25	10.7	8.0	0.96	3.5	27.25*	25.50	235.4	Zenith Natl Ins Corp	OTC	12.25	-5.8	8.2	0.60	4.9	12.75	12.25*	20.7																									
Aneco Reins Ltd	OTC	2.38	-17.4	7.0	0.00	0.0	2.88	2.38*	11.5	INSURANCE COMPANIES							AVERAGE							11.1							4.1													
Avemco Corp	AMEX	18.38	2.1	11.7	0.58	3.2	18.38	18.00	2.6	Agents/Brokers																																		
Banks Iowa Inc	OTC	51.50	0.0	19.1	1.52	3.0	51.50	51.50	5.8	Alexander & Alexander Svcs	NYSE	20.00	-7.5	0.0	1.00	5.0	21.50	20.00	169.4																									
Bitco Corp	OTC	13.00	0.0	0.0	1.33	10.3	13.00	13.00	6.5	Baldwin & Lyons Inc	OTC	37.00	0.0	616.7	0.80	2.2	37.00	37.00	7.9																									
Carolina Cas Ins Co	OTC	3.50	-17.6	0.0	0.00	0.0	3.50	3.50*	1.6	Corroon & Black Corp	NYSE	23.13	-6.6	14.5	1.00	4.3	24.50	23.13	108.4																									
Chubb Corp	OTC	67.63	-5.4	12.3	3.12	4.6	70.88	66.25	280.5	Crump E H Cos Inc	OTC	12.25	-1.0	15.3	0.40	3.3	12.50	12.25	15.8																									
Combined Intl Corp	NYSE	33.50	0.4	8.6	2.08	6.2	33.75	33.00	162.3	Eaett & Chandler Cos Inc	OTC	8.75	-2.8	125.0	0.00	0.0	9.00	8.75*	21.1																									
Continental Corp	NYSE	28.63	-0.4	0.0	2.60	9.1	29.25	28.63	467.6	Hall Frank B & Co Inc	NYSE	21.75	-4.4	29.4	1.18	5.4	23.00	21.25	154.1																									
Crawford & Co	OTC	15.25	0.0	10.4	0.66	4.3	15.25	15.25	17.3	Integrated Res Inc	AMEX	23.68	-3.5	7.1	0.00	0.0	26.88	23.88	540.3																									
Crown Life Ins Co	OTC	121.00	-6.9	7.9	3.20	2.6	130.00	121.00	0.2	Marsh & McLennan Corp	NYSE	40.00	1.3	11.5	2.20	5.5	40.00	39.25*	792.9																									
Employers Cas Co	OTC	30.75	0.0	7.3	1.20	3.9	30.75	30.75	6.0	Poa & Assoc Inc	OTC	5.00	0.0	0.0	0.00	0.0	5.00	5.00	6.5																									
Equifax Inc	NYSE	26.13	1.5	11.6	1.60	6.1	26.25	26.00	11.9	Reed Stenhouse Cos Ltd	OTC	13.00	0.0	17.0	0.60	4.6	13.25	12.88	54.9																									
Equifax Inc	OTC	40.00	-0.9	9.5	1.52	3.8	41.00	40.00	394.6	CONGLOMERATES/BROKERS							AVERAGE							21.5							3.5													
Farmers Group Inc	OTC	25.25	-1.9	13.8	0.96	3.8	25.75	25.25	46.6	Conglomerates/Holding Cos.																																		
Foremost Corp Am-	OTC	25.25	-1.9	13.8	0.96	3.8	25.75	25.25	46.6	American Express(Fireman's Fd)	NYSE	31.75	0.8	14.0	1.28	4.0	31.75	30.75	2,783.7																									
Fremont Gen Corp	OTC	13.75	-4.3	0.0	0.48	3.5	14.38	13.38	277.5	Anderson Clayton(Ranger/PanAm)	NYSE	27.00	0.0	9.5	1.32	4.9	27.75	27.00	46.9																									
Great West Life Assurn Co	OTC	300.00	0.0	9.6	12.00	4.0	300.00	300.00	0.0	Araco Inc	NYSE	18.50	-2.0	0.0	0.40	2.2	16.63	18.38	234.5																									
Hanover Life Co	OTC	25.00	-8.3	8.3	0.44	1.8	27.25	25.00	65.0	Baldwin Utd Corp	NYSE	1.38	-8.3	0.0	0.00	0.0	1.50	1.38	150.8																									
Hartford Steam Boiler Inspn	OTC	51.50	0.0	12.9	3.00	5.8	52.00	51.50	6.1	Calgon Corp	NYSE	36.75	-6.1	9.0	2.60	7.1	37.00	36.25*	1,805.1																									
Jefferson Natl Life Ins Co	OTC	41.00	0.6	18.6	0.76	1.9	41.00	40.75	3.5	City Investing Co. (Home Ins.)	NYSE	41.88	-2.9	10.0	2.00	4.8	43.00	41.13	5,564.0																									



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