MAY 23, 1983

business insurance®

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

update

Louisiana work comp rates to be cut 20% on July 1

BATON ROUGE, La.—A 20% cut in workers compensation insurance rates, effective July 1, was approved by the Louisiana Insurance Rating Commission last week.

The rate cut is expected to save Louisiana employers $105 million between July 1 and the same time next year, said H.P. Walker, administrator of the commission.

The 20% reduction was mandated

Continued on next page

Average compensation for risk managers

Company sales	Average salary	Average bonus	Average compensation
Less than $200 million	$34,894	$1,783	$36,678
$200 million-$500 million	38,435	2,424	40,859
$500 million-$1 billion	43,801	2,976	46,778
$1 billion-$2 billion	49,011	4,545	53,556
$2 billion-$4 billion	56,097	3,980	60,078
$4 billion-$7 billion	63,356	7,410	70,766
More than $7 billion	81,186	16,532	97,718

Source: Logic Associates' "1982 Risk Management Compensation Survey"

Graphic: Jim Bakasetas

Risk managers receive best pay at large firms

By JAMES M. BURCKE

It pays for a risk manager to work for a big company—in dollars and cents.

Risk managers at companies with more than $7 billion in sales earned average total annual compensation of $97,718 in 1982, according to a new survey by Logic Personnel Associates Inc.

Risk managers at smaller employers earned a much smaller average annual compensation (see chart).

Risk managers at companies with $4 billion to $7 billion in sales said they received average compensation of just $70,766 during 1982. And, risk managers at the smallest companies surveyed—those with less than $200 million in annual sales—reported average 1982 compensation of $36,678, 62.5% less than their colleagues at the large corporations.

The relationship between risk managers' compensation and the size of their employer is one of the trends shown in this year's risk management salary survey by Logic, a New York-based recruiting firm specializing in risk and safety management.

The survey also shows that risk management compensation in some states is much higher than in others, even at similar-sized companies.

But, according to the survey, the industry in which a risk manager's company is engaged does not greatly affect the size of his or her compensation, which is defined as salary plus bonuses.

This year's survey, unlike Logic's survey of 1981 salaries (*BI*, March 1, 1982), did not attempt to compute an "average" salary, bonus or compensation for all risk managers nationwide. Instead, comparisons are only made after noting the size of the companies surveyed.

"By doing this we eliminated the possibility of a risk manager working for a $7 billion company being compared or pooled with a risk manager from a company reporting $200 million in sales," according to the introduction to the study, prepared by Logic's Bill Perry and Richard Meyers.

Logic received responses from 962 risk managers from companies of all sizes, a 42% response rate. The survey was mailed last fall to risk managers based on a mailing list compiled by Logic Associates from a sample of *Business Insurance* subscribers. The results were tabulated this spring.

More than 64% of the risk managers responding represented companies with less than $1 billion in annual sales.

About 54% of the responses came from risk managers in just seven states:

Continued on page 32

Administration support for tort reform weakens

By JERRY GEISEL

WASHINGTON—A deep rift between the Reagan administration and the chief sponsor of federal product liability reform legislation could threaten its passage.

Despite widely publicized statements that the administration supports enactment of a federal tort reform bill, internal Commerce Department memorandums obtained by *Business Insurance* reveal that high-ranking administration officials harbor grave reservations about the legislation.

> 'The administration is divided at this time regarding the specific provisions of a federal product liability bill. (The) OMB and the Domestic Policy Staff retain serious reservations about the general concept and merits of the Kasten bill,' one of the memos says.

Several members of the White House policy staff "are skeptical of the need for federal legislation in an area traditionally left to state law," according to one of the memos.

Furthermore, the administration is deeply split on the general thrust of the tort reform legislation, S. 44, proposed by Sen. Robert Kasten, R-Wis., as well as specific provisions in the bill.

"The administration is divided at this time regarding the specific provisions of a federal product liability bill. OMB (Office of Management and Budget) and the Domestic Policy Staff retain serious reservations about the general concept and merits of the Kasten bill," according to one of the memos.

In a move that could weaken high-level administration support for the bill, one of the memos suggests that consideration of the proposal be shifted from the Cabinet Council on Commerce & Trade, composed of different Cabinet officers and chaired by Commerce Secretary Malcolm Baldrige, to a much lower staff level.

The Cabinet Council "has gone as far as it can go. . . . Many of the differences can be resolved in this process at the staff level, conserving secretarial involvement for critical decisions," one of the memos says.

The two memos were written by H. Stephen Halloway, associate general counsel at the Commerce Department, who has a long involvement in product liability issues. In 1977, as a Senate Commerce Committee staff member, he helped draft the first comprehensive federal product liability bill, S. 403, to be introduced in the Senate.

After President Reagan's election in 1980, Mr. Halloway joined the Commerce Department general counsel's office. He has since become recognized as one of the administration's leading experts on federal product liability issues.

Mr. Halloway told *Business Insurance* that he wrote the memos for Mr. Baldrige to update the commerce secretary on pending federal product liability issues.

The memos were written to help Mr. Baldrige decide how to allocate his time on federal product liability issues, Mr. Halloway said, adding that the secretary hasn't yet responded.

However, the memos already have aroused controversy in Washington. An aide to Sen. Kasten angrily

Continued on page 4

Fired official says BMF tapped premium funds for operations

By BILL DENSMORE

SANTA ANA, Calif.—A former treasurer of Bayly, Martin & Fay International Inc. claims that from 1980 to March 1983 the brokerage financed operations and acquisitions with premium deposits kept in trust for insurers and others.

The former executive, who was fired March 24, also alleges that BMF might have been on shaky financial ground before it allegedly received a cash infusion in March from Baldwin-United Corp., with which it has been affiliated since 1981.

BMF management flatly denies the claims against it contained in an employment discrimination suit filed May 12 in Orange County Superior Court in Santa Ana by William F. Luke, former treasurer of the Newport Beach, Calif.,-based broker and its subsidiaries.

Bayly, Martin & Fay was the seventh-largest U.S. insurance broker in 1981 with revenues of $85.5 million. Its 1982 results have not been released.

In his suit, Mr. Luke accuses BMF management, including Chairman Charles R. Warde and President Joseph N. Tate, of wrongfully firing him after he demanded that the company either cease commingling and using premium deposits or authorize him to report the potentially improper procedure to authorities.

The suit does not claim the practice of using premium deposits for operations to be illegal, nor does it allege BMF ever failed to make payments due to an insurer.

It does allege that BMF was "concentrating" such deposits from all its subsidiaries nationwide—with the exception of premiums from Illinois, New York and California—in a headquarters' account.

"We should consider the legal position of utilizing premium funds to operate our company," Mr. Luke wrote in one alleged internal memo dated Feb. 7 and attached to the former treasurer's suit. ". . .We may have legal restrictions on the funds which prevent such activity. . .presently if we are called upon to repay the funds our sources are generally not liquid."

Continued on page 31

update

Louisiana work comp rates cut

Continued from previous page
by the Legislature in January when it adopted a wage-loss system (*BI*, Jan. 24), which redefined the way permanent partial disability benefits are paid to injured workers. Under the new system, the injured worker is paid only for proven lost wages after an accident.

The new rates will apply not only to all work comp policies that are new or renewed as of July 1, but also to policies in force, said an official at the National Council on Compensation Insurance, which files rates for Louisiana work comp insurers.

AM hopes to terminate plan

CHICAGO—AM International Inc. says it intends to terminate its overfunded pension plan with 14,000 participants and set up two new retirement plans.

AM's 32-year-old defined benefit plan has about $145 million in assets and $95 million in accrued vested benefits. The excess $50 million will revert to the company, which wants to use the funds in its Chapter 11 reorganization.

The company said it intends to replace its pension plan with a profit-sharing plan and an Employee Stock Ownership Plan.

Union Carbide, Du Pont sued

PONTIAC, Mich.—Volkswagen of America Inc. and Lexington Insurance Co., an affiliate of American International Group Inc., are suing two manufacturers for $2.16 million in damages caused when a cloud of hydrochloric acid drifted over VW's stamping plant in South Charleston, W.Va.

The suit, filed May 12 against E.I. du Pont de Nemours & Co. and Union Carbide Corp. in Oakland County Circuit Court, charges the gas escaped from a Du Pont railroad tank car with a defective valve on July 17, 1982. Lexington is seeking to recover $2 million in damages it has paid Volkswagen while the automaker wants to recover an uninsured loss of $198,354.

Lloyd's issues fewer policies

LONDON—Lloyd's of London issued 20,000 fewer policies in 1982 than in 1981, according to its 1982-83 annual report. The Lloyd's Policy Signing Office signed in 1982 some 283,000 marine, aviation and non-marine policies compared with 303,000 in 1981.

IEA considers Cameron-Webb

LONDON—Peter Cameron-Webb, former chairman of P.C.W. Underwriting Agencies Ltd. at Lloyd's of London, is being considered as an underwriter for syndicates at The Insurance Exchange of the Americas in Florida.

Several syndicates have approached the exchange asking if Mr. Cameron-Webb is eligible to underwrite for their syndicates, confirmed Alan Teale, the exchange's chief executive officer. "But we have received no official applications as yet."

P.C.W.'s parent, Minet Holdings P.L.C., is suing Mr. Cameron-Webb along with other former underwriters and officials at P.C.W. and Minet, following allegations that syndicate funds were improperly paid to offshore reinsurance companies for their own benefit (*BI*, Dec. 27, 1982).

MGA awarded $1.3 million

INDIANAPOLIS—A federal court jury awarded a managing general agency $1.3 million in damages for libel and breach of contract after Integrity Insurance Co., a specialty lines insurer, sought to terminate its agency agreement.

Last week's U.S. District Court verdict will be appealed, said a spokesman for Integrity Financial Group Inc. of Paramus, N.J., the parent of Integrity Insurance Co.

J. Yanan & Associates Inc. sued Integrity in 1979 alleging breach of contract. When Integrity group filed for a public stock offering in 1981, the prospectus included a statement about the Yanan suit, prompting Yanan to add libel counts to its original suit.

The jury awarded Yanan $315,500 from the insurer for breach of contract, $261,000 from the parent for libel and $739,000 from the parent for punitive damages associated with the libel count.

Airline says mechanics warned

MIAMI—Eastern Air Lines Inc. told a National Transportation Safety Board hearing last week that it warned mechanics in March to make sure they attached rubber seals to engine oil plugs before installing the plugs (*BI*, May 16).

Earlier this month, an Eastern L-1011 jetliner was almost forced to ditch at sea after all three of its engines stalled because oil had leaked from plugs not equipped with the seals.

A Federal Aviation Administration inspector testified that similar seals had been left off plugs on three other Eastern planes, but in those cases only one of each plane's engines was involved.

index

Vol. 17, No. 21—*Business Insurance* (ISSN 0007-6864) is published weekly at 740 Rush St., Chicago, Ill. 60611. Second-class postage is paid at Chicago, Ill., and at additional mailing offices. Postmaster: Send address changes to *Business Insurance*, circulation department, 740 Rush St., Chicago, Ill., 60611; 312-649-5221.

London underwriters hike pollution coverage prices

By STACY SHAPIRO

LONDON—Companies that buy environmental impairment liability insurance in the London market are paying higher rates.

Leading London EIL underwriters say they have hiked rates by as much as 30% or more since January to offset increasing claims and generate more premium.

The underwriters also say they are rejecting some types of potential policyholders.

The moves came at about the same time the U.S. government started to enforce liability insurance requirements for hazardous waste treatment, storage and disposal facilities (*BI*, Jan. 10).

The trend toward higher EIL rates was led by Clarkson Puckle Group Ltd., which manages ERAS (International) Ltd., the large London EIL underwriter.

"We feel that premium rates have been too low and we have attempted to get the premium rates up," said Conrad Owen, ERAS' director.

ERAS also hiked its rates because of its knowledge of claims history, he said. ERAS has written claims-made pollution coverage since 1974, Mr. Owen noted.

So far, the largest claim that ERAS has paid was only about $500,000, he said, but he noted that one policyholder is facing a pollution lawsuit seeking $500 million.

Continued on page 31

Firms not covered for suits from EPA

By STACY SHAPIRO

Companies that have shipped their toxic wastes to somebody else's dump sites probably now face the uninsured costs of cleaning them up.

If the Environmental Protection Agency decides to sue companies whose wastes at dump sites will be cleaned up under the Superfund program, their environmental impairment liability insurance will not pay the cleanup claims.

"There is no policy to cover that kind of loss," says Alexander Wayne, senior vp of Wrightson & Co., a Chicago underwriting manager. "And it is a growing concern."

"Our policy excludes cleanup costs at hazardous waste disposal sites," said Conrad Owen, director of ERAS (International) Ltd. and deputy chairman of Clarkson Puckle Overseas Ltd. in London, which handles much of the environ-

Continued on page 29

Judge delays Agent Orange trial

By STEPHEN TARNOFF

NEW YORK—Defendants and plaintiffs in the Agent Orange class-action litigation differ on the effect of a ruling dismissing four of the nine defendants and postponing the trial indefinitely.

In a 90-minute oral opinion delivered May 12 in U.S. District Court in New York, Judge George C. Pratt Jr. ruled the first phase of the trial in the class action, which currently contains more than 15,000 plaintiffs, would not begin June 27 as scheduled. Instead, one trial on several issues will be held.

He also dismissed four defendants from the litigation but failed to dismiss three others that had sought dismissal. Two defendants did not seek to be dismissed.

Dismissed were Hercules Inc., Riverdale Chemical Co., Hoffman-Taff Co. and Thompson Chemical Co.

Judge Pratt, however, refused to dismiss Dow Chemical Co., Thompson-Hayward Chemical Co. and Uniroyal Inc., while Monsanto Co. and Diamond Shamrock Corp. did not seek dismissal.

The defendants either manufactured or distributed Agent Orange, a mixture of compounds that contains the highly toxic chemical dioxin. Approximately 2.5 million people, many of them servicemen, were exposed to the substance, which was used as a defoliant during the Vietnam War.

Plaintiffs allege that exposure to Agent Orange can cause skin disorders, liver diseases and several forms of cancer (*BI*, May 2).

Before Judge Pratt's recent ruling, the first phase of the trial would have determined whether the defendants could avoid liability for injuries allegedly caused by exposure to Agent Orange because they manufactured the defoliant according to government specifications.

Known as the government contract defense, a favorable decision for defendants would have absolved them of liability and meant they would not have to defend claims on issues of liability and causation.

At the hearing earlier this month, however, Judge

Continued on page 30

Agents' questionnaires due

Agencies and brokerages that want to be included in *Business Insurance's* annual directory of agents and brokers, to appear in the June 27 issue, should call Sallie J. Drury at 312-649-5398 immediately.

All completed agent/broker questionnaires must be received by *BI* this week to be included.

New rules wouldn't eliminate insurance fraud, experts say

By LEN STRAZEWSKI

PHILADELPHIA—Would new state or federal regulation put an end to insurance and reinsurance fraud?

Probably not, a panel of experts told a reinsurance symposium on fraud sponsored by the Society of Chartered Property & Casualty Underwriters.

But some panelists believe that expanded reinsurance reporting rules might give state regulators the information they need to spot problems and enforce present regulations.

"The essence of the insurance or reinsurance contract is a promise. If that promise is transferred from Party A to Party B to Party C through reinsurance, as a regulator I would want to know about A, B, C and whoever else may be involved," remarked Linda Lamel, a former New York state deputy insurance superintendent.

"I want to know who has the responsibility to keeping that promise to pay and what the chances are that responsibility might fall back to Party A because of someone else's inability to pay."

This information, she added, is essential to enforce current regulations, which are properly aimed at protecting policyholders. "Reinsurance is involved in insolvency. It can't be ignored by regulators. That's why the New York Insurance Department has started to pay attention."

Donald Gabay, the department's current first deputy superintendent and Ms. Lamel's former colleague, agreed with this but added that New York's additional scrutiny is not aimed at regulating business transactions, but rather at monitoring financial responsibility.

"Historically, the Insurance Department and the Legislature in New York haven't been involved in the transfer of risk between sophisticated insurers," he explained. "But fringe and alien reinsurers don't maintain the standards of professional U.S. reinsurers. It appears there is a lapse in this area which should draw regulatory attention.

"Sometimes insurance companies must be prodded to take care of themselves."

New York's proposed Regulation 82, which would allow New York licensed insurers to front for captives and other alien insurers only with the department's consent, is one regulation aimed at this problem, he said (*BI*, May 16).

However, more advanced regulation, such as a separate analysis of the reinsurance contracts entered into by insurers and reinsurers, probably would not eliminate fraud, Mr. Gabay remarked.

Continued on page 27

errors & omissions

• Carr & Associates is an environmental consulting firm with offices in New York and Wilton, Conn., not a Washington-based law firm as reported in a story in the May 9 issue.

Insurers reporting stable loss data, but worry remains

By BILL DENSMORE

NEW YORK—Mother Nature, the improving economy and reserve accounting practices are combining to give property/casualty insurers a break from worsening losses, analysts say.

But, they're quick to point out, no one should construe the somewhat encouraging figures to mean that the commercial insurance market is ready to turn, at least not yet.

"I would guess it will continue to be a buyers' market for the rest of the year," says analyst Allerton Cushman Jr. of Morgan Stanley & Co. in New York securities firm.

ticker

First-quarter results from 28 major commercial property/casualty insurers surveyed by *Business Insurance* show their aggregate combined ratio actually declined by one-tenth of a percentage point to 110.2% when compared to the first three months of 1982.

The aggregate aftertax operating income of the 25 surveyed companies reporting that information also rose a surprising 11.1% after four consecutive quarters of decline. But much of the increase was attributable to factors like the lack of severe weather-related losses, an upturn in the U.S. economy and decreased contributions to reserves.

"Excluding the weather, the underwriting results probably deteriorated a bit," says stock analyst Jeffrey Cohen, an assistant vp with Paine Webber Mitchell Hutchins Inc. "In commercial lines, things probably aren't better or worse."

Continental Corp. Chairman John P. Mascotte candidly warned security analysts earlier this month that he sees "no signs of improvement in 1983 in the property/casualty insurance marketplace" and expects a decline in per-share earnings this year.

"There's a good deal of anticipation among (some) insurers that the markets are going to turn," adds Gloria L. Vogel, an insurance analyst with stockbroker Legg Mason Wood Walker Inc. who has just completed a sur-

Continued on page 35

Ruling gives Keene more asbestos cover

By STEPHEN TARNOFF

WASHINGTON—The latest ruling implementing the landmark 1981 court decision interpreting insurance coverage available to Keene Corp. for asbestos claims saves the company more than $1.6 million in deductibles and several million dollars in claims-handling charges.

But the opinion, handed down May 13 to further implement Keene Corp. vs. INA, also says the company can't recoup more than $1.1 million spent on suing the federal government and suppliers of asbestos for contributions and indemnity.

Specifics of the 13-page memorandum opinion by U.S. District Judge June L. Green include:

- Keene is not obligated to pay $1.6 million in deductibles for policies it had between 1976 and 1980 with Liberty Mutual Insurance Co. if it can select certain other pre-1976 policies for defense and indemnification of

Continued on page 29

Generous giants

Most large industrial corporations provide pensions that equal more than 60% of a retiree's final salary

By JERRY GEISEL

CHICAGO—U.S. Steel Co. lost more than $360 million last year, but the giant steel producer still provides its salaried employees with the most generous pension benefits of any major industrial company, according to a new survey.

A salaried employee at U.S. Steel can retire at age 65 after 35 years of service and collect pension and Social Security benefits totaling $24,773.

That benefit, which will replace 75.1% of the employee's final salary, is 16.3% greater than the average retirement benefit of $21,306 received by workers at the nation's 50 largest industrial companies who retire at age 65 after 35 years of service and a final salary of $33,000.

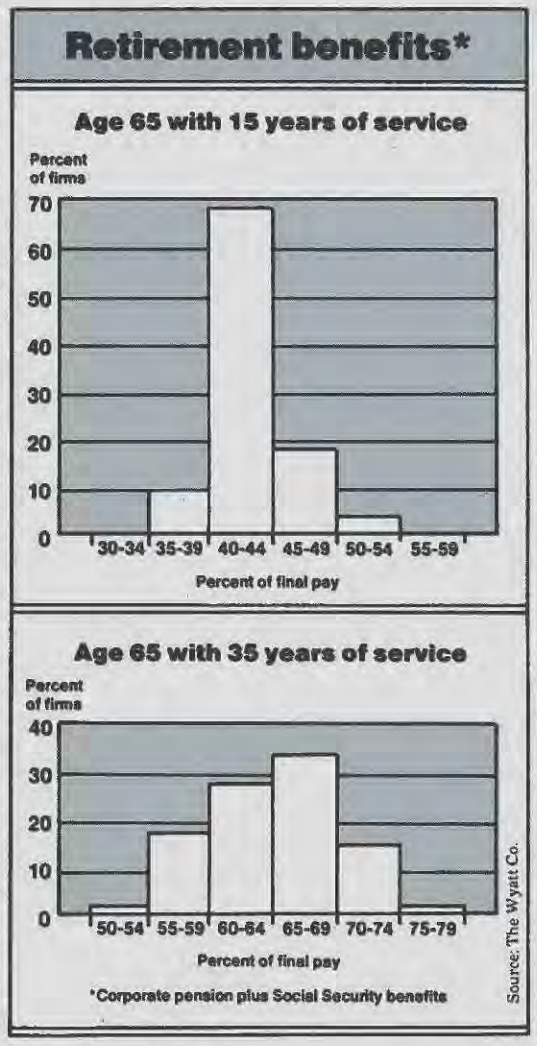
To find out what kind of pension benefits industrials like U.S. Steel provide and how generous they are, The Wyatt Co., a benefit and risk management consulting firm, analyzed the pension programs the 50 companies provide to their salaried employees. The companies are identified and their pension plan provisions are described in detail in the survey.

The survey is an invaluable guide to employee benefit managers who want to see how their companies' pension plans compare with those offered by the largest U.S industrials.

In its survey, Wyatt calculated the pension benefits provided by the 50 companies for employees retiring after 35 years of service by assuming the employee started work with a salary of $3,928 and retired with a final annual salary of $33,000. The Wyatt calculation also assumes the employee retired with an annual Social Security benefit of $8,512.

Using these assumptions, Wyatt found that a 35-year veteran of General Motors Corp. can retire at age 65 with a benefit of $24,380, including Social Security, which will replace 73.9% of final pay.

Other companies where an employee can collect high retirement benefits (Social Security, plus plan benefits) after 35 years include: Tenneco Inc., $23,787; Philip Morris Inc., $23,442; and Monsanto Co., $23,386.



At the other end of the scale, the smallest retirement benefits (including Social Security) were offered by General Electric Co., $17,530; Beatrice Foods Co. and Xerox Corp., $18,233; and Goodyear Tire & Rubber Co., $18,387.

The combination of Social Security and corporate pension benefits replaced an average of 64.6% of final pay for an employee who retired after working for 35 years. Forty-eight of the 50 plans replace between 55% and 74% of pay at retirement for these employees.

Workers, though, who retire at age 65 with 15 years of service naturally receive much smaller benefits than 35-year veterans. For example, a U.S. Steel employee can retire at 65 after 15 years with a retirement benefit of $17,127, compared with the $24,773 that would be received after 35 years.

That's equal to 51.9% of final pay, compared with the 75.1% of final pay a 35-year veteran would receive.

The average combined Social Security and pension benefits provided by the companies equal 43.2% of final pay for employees retiring at age 65 after 15 years, according to the survey. Most of the plans, when combined with Social Security, replace 40% to 44% of pay for 15-year employees.

But, at all of the companies, employees can retire before age 65 and still collect a pension benefit. For example, an employee at Marathon Oil Co. can retire at age 50 if he or she has worked for the company for 10 years.

Big automakers, like GM and Ford Motor Co.,

Continued on page 33

Zenith uses claims data to cut health costs

By SALLIE J. DRURY

GLENVIEW, Ill.—Just three months into a new health care cost-containment program, Zenith Radio Corp. has already cut medical costs 5% and expects to double its savings within the year.

Zenith's health benefit program was revised in several ways, but the major reform is encouraging employees to take an active role in determining their health care and to become better health care consumers with the help of a special advisor.

"In the first month of the new program, we saved nine days of hospital stay that were not necessary," Dr. John Kaminski, corporate medical director for Zenith, said. "We estimate that 5% of medical costs are saved, although it's quite early yet. Blue Cross estimates that we'll save as much as 10%," he explained.

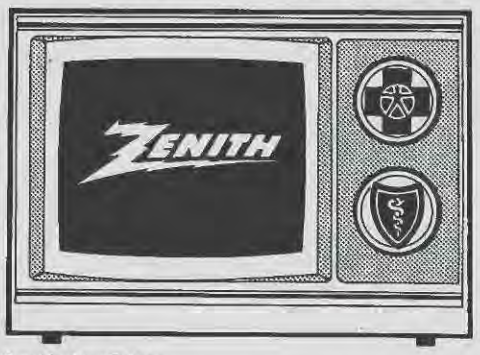
Zenith developed its program from claims data provided by its claims administrator, Blue Cross & Blue Shield of Illinois, under a program begun in 1981 called PROBE, or Performance Reporting of Blue Cross Experience. BC/BS also suggests how employers can solve problems PROBE identifies.

Although using claims data to target problem health care use is not new and many administrators and insurers provide such data, Zenith is the first to take aggressive action of the eight Chicago-area companies originally offered the claims data by BC/BS.

Using claims figures from 1980, 1981 and into 1982 provided by the Blues, Zenith targeted the areas where cost-cutting efforts were most needed. A battle plan was then drawn up: An employee was added to the medical staff, health coverage was modified and communications were planned to inform employees of the new procedures that were to start in January 1983.

Zenith discovered from the Blues' analysis of its claims that lengthy hospital stays contributed most to the company's health care expenditures.

"Chicago-area hospital expenses per inpatient day are among the highest in the nation," a Zenith memo to employees says. "The average cost in Chicago in 1981 was $585 per day. Company expenditures for employee health care in 1981 was over $15 million, of which 60% to 65% was incurred for hospital-room and related room charges. . . ."



Graphic: Amy Palmer

To reduce unnecessary hospitalization, Zenith:

- Hired a medical services advisor for the company's medical department. Although Zenith already staffed one full-time doctor, one part-time doctor and eight nurses, the MSA was specially hired to provide employees with a full-time health care advisor. The MSA also intercedes between employee and provider when necessary.
- Implemented employee cost-sharing. Prior to the 1983 program, Zenith had provided first-dollar coverage for hospitalization expenses with no copayment and no deductible. Now, Zenith pays 100% for the first $2,000, 80% for the next $5,000 after a $100 deductible, and 100% thereafter. For major medical coverage, Zenith increased the deductible to $100 from $50 and retained the 20% copayment.
- Encouraged ambulatory care. Zenith will reimburse employees at 100% of the cost of surgery and testing if performed on an outpatient basis; the company reimbursed at 90% prior to 1983. There is now no copayment and no deductible.
- Made second opinions mandatory for non-emergency surgery for full coverage. Zenith reimburses employees for 100% of the cost of obtaining a second opinion. If an employee does not obtain a second opinion, the company will pay only 80% of all costs incurred.

Zenith considers the Medical Services Advisory Program the key change, not the new benefit formulas.

"The Medical Services Advisory Program promotes employee participation in decisions on health care," says Dr. Kaminski. "When an employee calls the MSA to tell him that the employee's doctor has recommended a medical procedure, the employee must give the advisor certain information.

"He must tell the advisor at which hospital the procedure will be performed, what the diagnosis is, whether or not surgery is planned, when he or she is to be admitted, that is, the day of the week, and the anticipated length of stay," he adds.

"Because our advisor is someone with a medical background, with utilization-review experience and with a knowledge of insurance benefits, he can help the employee get the most appropriate care without paying for unnecessary procedures," Dr. Kaminski says.

When an employee reports the information to Gene Majka, MSA for Zenith, Mr. Majka will inform the employee if a physician is planning non-efficient procedures.

For example, a routine surgical procedure without complications should be performed at the less costly community hospital. Costlier teaching hospitals should be used for complex or unusual cases.

Continued on page 30

Agency can't fine firms failing to report hazards

By JERRY GEISEL

washington

WASHINGTON—The Consumer Product Safety Commission does not have the power to fine manufacturers who fail to report unsafe products, a federal appellate court says.

Instead, the federal safety agency first must go to court to obtain civil penalties from companies that are charged with violating the reporting law, the U.S. Circuit Court of Appeals for the District of Columbia says.

"The commission can decide how much of a penalty to seek. . .but it is the court that decides whether to assess the penalty and the amount to be assessed," said Judge Malcolm Wilkey, who wrote the decision for the three-judge panel.

Commission members say the decision may impede their efforts to negotiate quick recall of defective products from the marketplace.

Investing plan assets

The Labor Department's Advisory Council on Employee Welfare and Pension Benefit Plans will hold a public meeting on June 14 to discuss social investing of employee benefit plan assets.

Speakers at the meeting will include Robert Georgine, president of the AFL-CIO's Building & Construction Trades Department; Eugene Glover, general secretary-treasurer of the International Assn. of Machinists; Roy Schotland, a professor of law at Georgetown University Law Center; and Dallas Salisbury, executive director of the Employee Benefit Research Institute, a Washington-based benefits think-tank.

The meeting will begin at 9:30 a.m. at the Labor Department's main auditorium. The Labor Department is located at 200 Constitution Ave. N.W.

Unisex legislation

The American Council of Life Insurance says it will not oppose legislation requiring unisex insurance and pension benefits if two changes are made in the pending bills.

The ACLI says the bill must be changed so that insurers can continue to sell individual policies in which rates for men and women are based on the experience of each group, such as life expectancy.

In addition, any legislative change must be prospective, the ACLI says. The industry trade group earlier warned that the retroactive "topping up" of benefits could bankrupt some life insurers (*BI*, May 16).

For example, under the legislation, H.R. 100 and S. 372, life insurance companies would have to increase the cash values of millions of life insurance policies sold to women so they equal the values of policies sold to men.

The unisex legislation is supported by a number of women's rights groups; the bills have more than 100 co-sponsors. Its chief sponsor in the Senate is Robert Packwood, R-Ore., while John Dingell, R-Mich., and James Florio, D-N.J., are the key backers in the House.

PBGC premium

The Pension Benefit Guaranty Corp. is reminding sponsors of pension plans that they must pay termination insurance premiums to the federal agency within seven months after the close of the plan's prior fiscal year.

The PBGC says it will mail its 1983 Annual Premium Payment Form, known as PBGC Form 1, to employers 45 days before the expected premium due date.

If the plan doesn't receive the premium payment form from the PBGC, it is the responsibility of the plan administrator to obtain a copy. Copies of PBGC Form 1 can be obtained from the PBGC, OFO/Premium Accounting Section (326), 2020 K St. N.W., Washington, D.C. 20006; 202-254-8450.

The annual premium rates for single employer plans are $2.60 per plan participant and $1.40 per participant for multiemployer plans. ■

This is what you get for sending your business card to Metropolitan

Model results

When it comes to group benefit plans, Metropolitan specializes in delivering model results.

That's why, in exchange for your business card and the completed coupon, we'll give you the Metropolitan model railroad car pictured above. It's our way of letting you know that, for group cases of 50 or more lives, we're interested in engineering plans for you. No matter what size case you usually handle, no matter how often you handle one.

So send us your card and the completed coupon. You'll find that when it comes to life, medical, dental, vision, or any kind of group benefit plan, our ideas are on track.

Metropolitan insures it.

METROPOLITAN REALLY STANDS BY YOU.

Send for your free scale model today

If you'd like to have model results, including the boxcar model above, complete this coupon, attach your business card and mail to:

Metropolitan Life Insurance Company
Group Marketing Division—Model Results
One Madison Avenue
New York, New York 10010

Type of group case you are most likely to handle:

☐ Life ☐ Disability ☐ Medical ☐ Pensions/IRAs
☐ Dental ☐ Vision ☐ Full Package ☐ Creditors

Size of group case you are most likely to handle:

☐ 50–200 lives ☐ More than 200 lives

Frequency of group cases handled per year:

☐ 1 or 2 ☐ 3–5 ☐ 6 or more

Metropolitan Insurance Companies

Group Life/Health Insurance

5 BI 83

DISCLAIMER Offer expires July 31, 1983. Supply of railroad cars limited. Offer available only to group insurance brokers and consultants. Offer not available to employees of Metropolitan Life Insurance Company, its subsidiaries, affiliates, and advertising agencies or previous model railroad respondents.

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

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

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

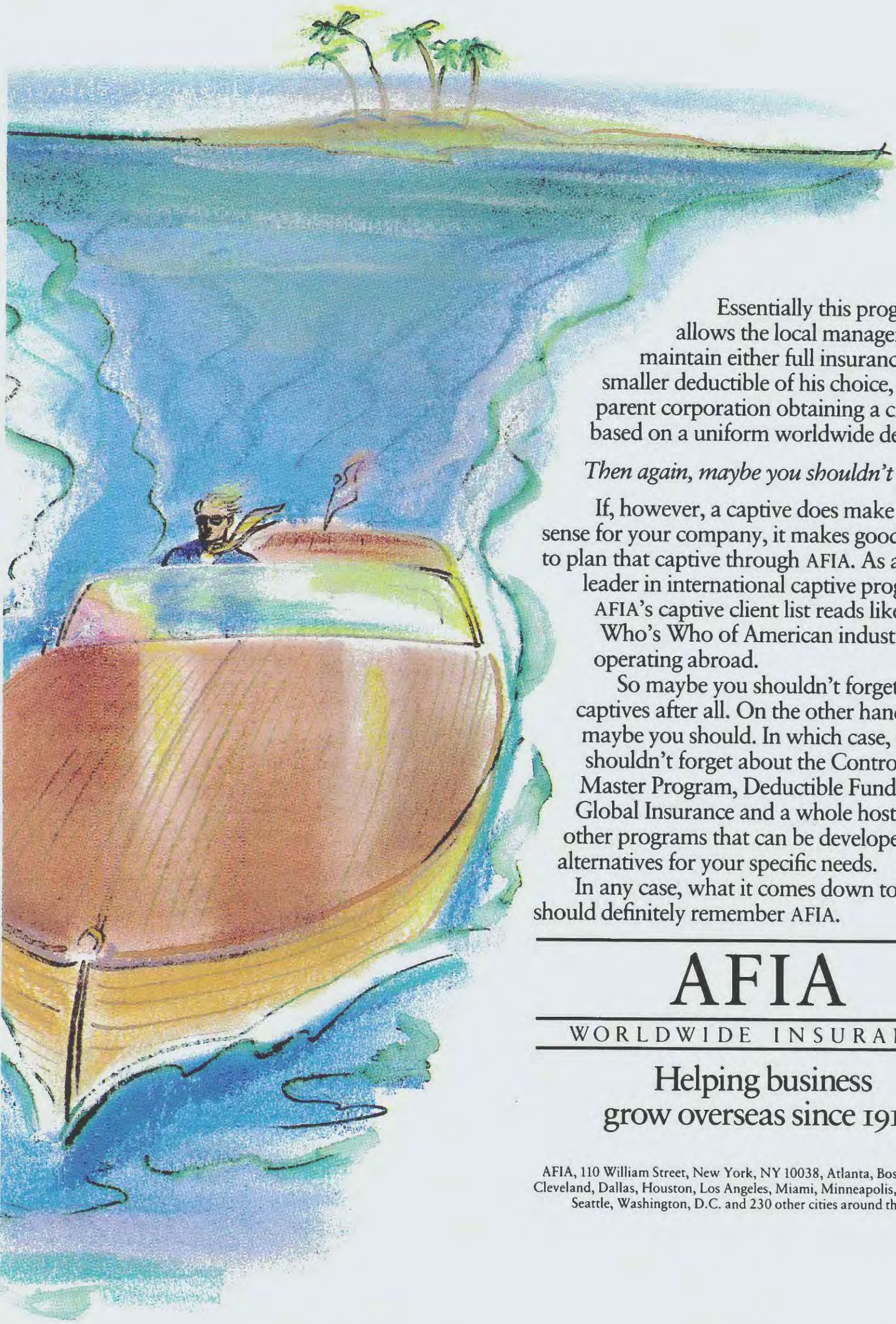
And so you may need a new solution. A solution that offers you the benefits of a captive without the necessity of forming a captive.

Introducing the AFIA solution.

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

AFIA adds a wrinkle.

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



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

Then again, maybe you shouldn't forget it.

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

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

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

AFIA

WORLDWIDE INSURANCE

Helping business grow overseas since 1918.

AFIA, 110 William Street, New York, NY 10038, Atlanta, Boston, Chicago, Cleveland, Dallas, Houston, Los Angeles, Miami, Minneapolis, San Francisco, Seattle, Washington, D.C. and 230 other cities around the world.

There's a direct route to improved cash flow for those who travel with experience.

Getting the most mileage out of your insurance dollar isn't easy. It requires the knowledge, expertise, and foresight that only comes with experience.

The Travelers has been a leader in the insurance industry for over a century. What we've learned has allowed us to anticipate our clients' needs and provide innovative solutions.

As a result, compensating balance plans, paid loss retros, investment credit programs, large deductibles, and captives (including association captives and "Rent-A-Captives") are all specialties of The Travelers. We've mapped out strategies for our clients in each of these areas. We understand how they work and—even more important—for whom they work best.

It starts with our people. They're sophisticated money managers who will analyze your objectives and explore every avenue to meet them. Once a plan has been chosen, they'll fine tune it to your exact specifications. And after it's been put in motion they'll constantly monitor its performance. Should internal or external factors dictate an alternative approach, The Travelers will be glad to accommodate. Along the way, you'll receive the kind of financial and underwriting expertise that assures optimum results.

All the while, we'll be looking down the road at tax implications. The tax treatment of cash flow programs can differ significantly. A plan that reduces your premiums may also increase your taxes. The Travelers will work with your tax lawyers and consultants to establish an insurance program that lets you enjoy the full tax advantages for which you qualify.

But perhaps the best feature of every cash flow plan we offer is The Travelers superior support services. For loss prevention, our clients can draw from a staff of over 500 engineering professionals trained to identify and remedy potential as well as actual losses. When a claim is filed, close two-way communication insures quick, objective handling with the emphasis on flexibility. And in the crucial area of loss reporting, we're accurate, timely and once again, flexible.

Let our savvy and our services show you the route to improved cash flow. Whether your insurance needs are traditional or transitional, you can depend on The Travelers.

For a series of brochures, "Risk Management, A Financial Model," contact: David Patterson, (203) 277-6826, The Travelers, One Tower Square, Hartford, Connecticut 06115.
Or send us the coupon below.

To:
The Travelers
One Tower Square
Hartford, CT 06115

Att:
David Patterson

Please send your series of brochures, "Risk Management, A Financial Model," to:

NAME _____

COMPANY _____ PHONE _____

ADDRESS _____

CITY _____ STATE _____ ZIP _____ BI 5/23

The Travelers

The Travelers Indemnity Company
and its Affiliates
Hartford, Connecticut 06115

Brokers should be paid by fees: Regan

By STACY SHAPIRO

BRISTOL, England—Corporate insurance buyers are being increasingly asked to pay their brokers fees for services rendered rather than by commission, says John M. Regan, chairman and chief executive officer of Marsh & McLennan Cos. Inc.

"The commission system is just one way of getting paid," he told the British Insurance Brokers Assn.'s annual meeting last month.

By charging fees for services they provide, insurance brokerages can stop relying on the value of insurance premium for revenue and instead rely on the value of their own expertise, Mr. Regan explained.


Mr. Regan

The fee system also eliminates controversy over whether a brokerage is working for the client that pays it or the insurer that sets the premium.

"The commission system is a good system overall, but it needs some alterations. So we have to experiment," said Mr. Regan. "I am arguing that change is necessary from our point of view. I am not saying that the client likes it."

Some changes Mr. Regan cannot foresee happening, however, include the elimination of contingency commissions or binding authorities placed with intermediaires.

"I would just as soon not have brokers carry binding authorities," he said. "But I am not Don Quixote. Where you have longstanding practices that work, it would be silly to change something, like contingency commissions. My children will not live long enough to see that happen."

The 350 British brokers attending the BIBA conference gave Mr. Regan, the head of the parent of the world's largest insurance brokerage, a hearty welcome.

"It is a great privilege for me to introduce Jack Regan, chairman of far and away the world's largest broker with 20,000 people in 40 countries," said David Palmer, chairman of Lloyd's of London broker Willis Faber Group P.L.C., who noted his company was one of M&M's competitors and its "errors and omissions broker."

"He is the man for whom megabroker was coined. He is rightly reknowned for his clarity of view and singleness of purpose."

"You do not know how nerve-wracking it is to wake up every morning and wonder if everyone is doing the same thing as they did yesterday," Mr. Regan then told his captured audience.

He said he only hopes that M&M employees get to work every morning at 9 a.m., neatly dressed and give the best possible service to the corporate insurance buyer.

M&M will always specialize in providing insurance broking and other important services to its clients, the large corporate insurance buyers, he said more seriously.

Selling off the underwriting agencies M&M inherited from its subsidiary C.T. Bowring & Co. Ltd. was in line with this strategy, said Mr. Regan (*BI*, Feb. 21).

"We know we are best served by sticking closely to our own areas of expertise," said Mr. Regan. "We have learned to prize and protect the distinct role we perform as intermediaires, and we are more aware than ever of the danger of blurring the lines between industry functions."

Divesting the three underwriting subsidiaries was not an ideological move, however, Mr. Regan said. "It was commercially pragmatic. We do not believe there should be laws on this point (divestment of underwriting operations).

"But we thought that we might be biting off more than we could chew if we kept the insurance companies. We were just dabbling in it and they are not of great importance financially.

Brokers' "psychology is more short-term than insurers'," he said. "So, we decided to get out."

Mr. Regan said that M&M will continue to manage captive insurance companies because they are a risk management tool for M&M clients. But it is a "very dangerous thing" for clients to move away from using the captive as a risk management function and start using the captive as an insurance company writing third-party business, he said, adding that M&M warns its clients to stick to pure captive underwriting.

"We do not want to be inadvertently linked to disaster," said Mr. Regan

Mr. Regan also told the group that he does not believe that M&M will be purchased by a huge financial institution and become part of another financial conglomerate.

"I do not see yet where the synergy is if we become a part of a conglomerate, and it would be disasterous if M&M were bought by an insurance company," he said.

The combination of financial services providers, like insurance brokers, with others can be advantageous in some cases, he said.

Mr. Regan also admitted that one day M&M may itself expand into other service areas, like the advertising, accounting or legal professions. But such a move is still way down the road, he said

M&M is not likely to emphasize selling personal lines coverage, even though the commercial insurance industry is suffering at the moment, Mr. Regan said.

"You do not have to hold your breath about big brokers moving into personal lines," he said.

Although insurance companies may be profiting now by moving into personal lines, M&M probably would not.

"We do not know how to do it. "It is not our field of expertise.

"It is very attractive to look at personal accounts, which make up to 40% of the U.S. insurance premium," he said. "And we have been debating about it but we have never been hot to do it."

At the end of Mr. Regan's speech and a question-and-answer session, Lloyd's Chairman Peter Green broke precedent and asked Mr. Regan a question from his front-row seat.

"After the much-publicized events around Lloyd's," he began, "concerning the rake of the greedy and the very greedy, which has obviously done some damage to Lloyd's, business has not left Lloyd's as a result. How does the U.S. think this affects Lloyd's?"

"I do not think it has any effect on the business coming into Lloyd's," Mr. Regan replied. "The people who use Lloyd's are very sophisticated buyers. Newspaper or commentary may affect how the general public feels, but they do not buy at Lloyd's." ■

Brokers must serve clients only: Attorney

BRISTOL, England—An insurance broker, under British law, is an agent of a client, not an intermediary, a prominent British attorney says.

But, despite this stipulation, some of brokers' practices may conflict with their clients' best interests, says Sir Denis Marshall.

For example, a British broker should really not be compensated by commissions paid by an insurer, Sir Denis told the British Insurance Brokers Assn. conference last month. And, if the brokerage is, it should give the client a full disclosure of what commission it receives.

Also, an insurance broker should not handle claims settlements for insurers, he said, adding that a broker should not be given binding authority by an insurer or act as the reinsurance intermediary on a client's risk if the broker is trying to act in the client's best interest.

"Is it compatible with professional status that a broker may properly act as agent for both sides in the same transaction?" Sir Denis asked. "I do not suggest there is any easy answer to this one. . . .It may well be that the doctrine of strict disclosure of the client should be the factor controlling the broker's conduct."

Sir Denis said that he hoped that the Insurance Brokers Registration Council (see story, page 17) will help add professional conduct to the British brokerage industry if the industry recognizes the council as its regulatory body.

Some brokerages have tried to interfere with the council's role as the industry's disciplinarian even though that role was mandated by Parliament, he added.

"Unfortunately, where complaints have arisen against persons registered as insurance brokers, there has been more than one case of an attempt to intercede on behalf of the council," said Sir Denis, who is the chairman of the council's disciplinary committee.

"I hope it will be understood, therefore, that it is unacceptable that any steps be taken to intercede with members of the council on behalf of brokers who, for one reason or another, are in trouble."

To date, about 15,300 individual insurance brokers from more than 4,500 brokerages have registered with the council, which was set up under the 1977 Insurance Brokers Registration Act.

But despite this significant membership, "I still believe we have many hurdles to overcome before we can justify confidence in our new-found status and our own commitment to professionalism," said council Chairman Francis Perkins.

The council needs total commitment from all British brokers to follow its code of conduct "without unnecessary argument," Mr. Perkins said. So far, he added, one brokerage company has incorporated the council's code of conduct in its conditions of employment.

"The council is well aware that there are still a considerable number of people who are not honorable enough or indeed confident enough to recognize the principles of (registering with the council)," Mr. Perkins said. "I have no doubt the prosecutions are bound to follow in all appropriate cases."

Despite the existence of the council, the British brokerage community must continue to regulate itself to increase its professionalism, he said.

"We are only at the beginning of trying to establish a professional identity and perhaps we have yet to show that we are ready totally to adopt the standing which we had the privilege to have had conferred on us by an act of Parliament. The success of such a venture requires total support from all those directly interested in the future of insurance broking in this country." ■

Can you make the right choice?

BRISTOL, England—How do you, as a risk or benefit manager, rate as a decision maker?

British brokers learned the answer during the preview of a short film at the British Insurance Brokers Assn.'s conference.

In the film "How Do You Rate as a Decision Maker?" John Cleese, one of the stars of "Monty Python's Flying Circus," is standing on a window ledge ready to jump.

"Are you going to jump?" his secretary asks.

"I might," he says. "On the other hand. . ."

Mr. Cleese's character was in charge of an office move, but he made decisions without consulting others or thinking about his decisions. Hence, the crisis.

After returning to his office and making a laborious choice between drinking a cup of coffee and a shot of whiskey, Mr. Cleese imagines facing a panel of judges, including a British World War I general, Queen Elizabeth I, Winston Churchill and Brutus.

When making a decision, they advise him, a manager must:

- Get the facts by deciding what you need to know and then going out and gathering them.
- Consult with the people who will be affected before deciding. Ask opinions and listen to them, even if you do not consider them when making the final decision, because they will at least feel as if they were involved.
- Think all the variables through and then make a decision. If you think you can't decide, toss a coin and stick to that decision.
- Be firm about the decision and persuade people it is right.
- Once you give an order, make sure it is carried out. ■

HOW TO FIND PEACE OF MIND AS A RISK MANAGER.

Talk to an Allendale representative. Because a risk manager's lot can be a worried one.

Did I forget coverage on anything?

Are we insured if that computer has an electrical breakdown?

What about the elevators? A boiler failure? Do our policies protect our equipment during gas pressure tests?

Talk to an Allendale representative, because these and a thousand other nagging concerns are enough to give a risk manager sleepless nights.

That's why Allendale Insurance designed its new FM Comprehensive Property Policy. It removes the possibility of your overlooking any risk you want to be sure is covered, at any property you name.

It does this by the very simple expedient of taking *everything* into account. No property risk is passed over or forgotten. Absolutely none. You don't have to worry about what's included, because any risk that is excluded is specifically named and you know about it.

Uncertainty is a thing of the past. Again, unless an exclusion is specifically named, your property coverage is total. Complete.

Nor can anybody match the vast loss prevention technology resources of the Factory Mutual System coupled with world-respected Allendale Mutual engineering. It's reassuring to know that this expertise comes with the FM Comprehensive Property Policy you get from us.

Call the Allendale office nearest you for more information on this new worry-free one-policy protection.

It could do wonders for your peace of mind.

Allendale Insurance

World leader in loss prevention engineering for commercial and industrial properties, and member of the Factory Mutual System.

Allendale Insurance, Allendale Park, Johnston, RI 02919

Labor Party victory would mean more rules for brokers: Politician

By STACY SHAPIRO

BRISTOL, England—There will be tighter regulatory control on all British insurance intermediaries no matter who wins the next British general election, one member of Parliament predicts.

If Prime Minister Margaret Thatcher's Conservative government wins another five-year term as expected, intermediaries will be controlled by self-regulatory bodies, like Lloyd's of London, that will step up their regulatory powers.

But if the Labour party takes control of Parliament after the June 9 voting, there will be tight statutory regulation over what intermediaries—including Lloyd's brokers—can and cannot do, said Robert McCrindle, a Conservative member of Parliament.

"I predict that in the next Parliament there will be a move toward tighter control of all insurance intermediaries," he told the more than 350 brokers and insurers attending the British Insurers Brokers Assn. conference in Bristol last month.

"It's just a question of whether this will be done under a self-regulatory basis or under statutory control."

Both parties have been watching the recent happenings in the British insurance market, he said. They are aware of the allegations of wrongdoing against Lloyd's of London underwriters, Lloyd's brokers and reinsurance intermediaries.

As a result, insurance regulation to protect the consumer will be "high priority" in this year's electoral campaign and next year's Parliament, Mr. McCrindle told the brokers.

"You want to be left alone no matter what party is elected to the government. But with the consumer protection issue in the election, I cannot guarantee that," he noted.

"Neither (party) will stand completely aside on the insurance issue," he said.

The regulations implemented by a Labor government would probably include stricter controls on brokers and intermediaries through tighter legislation. It would discourage the use of offshore captive insurance companies by including rules that would close tax loopholes for these companies, Mr. McCrindle commented.

Life insurance, commission formulas and certain insurance-related tax deductions could also come under scrutiny, Mr. McCrindle noted, as would Lloyd's of London.

Mr. McCrindle does not believe, however, that a Labor government would implement exchange-control law, as it did in the 1970s, making it difficult to move cash into offshore domiciles or buy insurance in other countries.

The Conservative government, if re-elected, would follow through on insurance-related proposals it has already made, Mr. McCrindle said.

For example, the Conservatives would introduce already-planned legislation that would tax offshore insurance companies as if they were domiciled in Britain unless they conduct third-party business (*BI*, April 25).

"There is an indication that there will be a massive shakeup in occupational pension schemes here" if the Conservatives are returned to power, said Mr. McCrindle. For example, the government may allow workers to transfer their pension benefits when they change jobs, instead of losing their pension when they leave a company, as is the case in Britain now.

"Then there will be no penalty from moving from one company to another," he said.

The Conservative government has no plans to alter the current self-regulation at Lloyd's, though there has been discussion in Parliament about rescinding last year's Lloyd's Act after the allegations of wrongdoing surfaced last year.

"Heaven knows Lloyd's has been the center of controversy in Parliament," said Mr. McCrindle. "But now that the act is on the statute book, at least the governent has decided the best thing to do is to leave Lloyd's to its own affairs. Lloyd's is definitely doing better than it did a year ago.

"And let us remember, when criticizing Lloyd's, to remind ourselves that no claimant has been refused" payment.

Despite assurances from the Conservatives that they will not impose massive new regulation, the insurance industry better put its house in order if it wants to regulate itself, Mr. McCrindle warned.

"Responsibility and prudence are necessary to avoid interference," he said. "The world is watching you and so are the political parties." ■

British brokers' group gives its views

BRISTOL, England—The British Insurance Brokers Assn. is more than just another industry association that holds conferences.

Since it began in 1978, BIBA has been instrumental in building a more professional, supervised insurance brokerage industry in Britain.

BIBA added impetus to recent government legislation to register all people who call themselves insurance brokers with the Insurance Brokers Registration Council. All BIBA members must also be registered with the government.

BIBA has also expressed its views on the government's proposal to tax British offshore companies as if they were operating in Britain itself. As a result of BIBA's imput, the government now proposes to allow offshore companies certain tax allowances if they underwrite third-party business.

Soon, BIBA will set up a security bureau to provide centralized information about the stability of insurance and reinsurance companies, said Michael Morris, BIBA's secretary general.

Representatives of BIBA and British insurance companies are also working together to draft standardized insurance policies for certain risks, Mr. Morris said.

The first forms, to be published soon, will be for automobile insurance, but others may soon be on the way, he said.

"It will be up to individual companies and brokers to decide whether to make use of them," he explained. "We hope they will do so."

BIBA continues to grow in importance, as seen by the impressive turnout at its two-day conference in Bristol last month.

More than 350 brokers and insurers gathered to listen to an impressive array of speakers, including British Defense Minister Michael Heseltine.

Rolling up to the Grand Hotel in Bristol in their Rolls Royces, Jaguars and Mercedes were a host of top Lloyd's of London insurance brokerage executives, including Neil Mills, chairman of Sedgwick Group P.L.C.; David Palmer, chairman of Willis Faber Group P.L.C.; David Rowland, chairman of Stewart Wrightson Group P.L.C.; and many more.

The top echelon of the British underwriting industry, including Lloyd's Chairman Peter Green and Ian Hay Davison, its chief executive officer, also gathered in the packed conference halls.

"You know, if some of these guys whispered to each other during one of the speeches it could change the industry," one broker remarked.

Besides the heavyweights, the conference also attracted small brokers and underwriters who do not work in London.

"We are sometimes challenged by our smaller firms on the basis that far too much of BIBA's efforts goes to help the major brokers," said Mr. Morris. "They, for their part, often suggest that we mainly exist to help the small man. We cannot win."

The discussion in both the conference rooms and in the lounges of the Grand Hotel focused on how to make the British brokerage industry more professional and how to maintain high quality in an industry that has been tarnished by scandal.

"I think what happened at Lloyd's is transitory," said Ivor Binney, deputy chairman of C.T. Bowring & Co. Ltd., the British brokerage arm of Marsh & McLennan Cos. Inc. The allegations that funds were mismanaged at underwriting agencies owned by Lloyd's brokers have had a minimal effect on Lloyd's business, he said.

"Lloyd's is getting its house into order and it does as much business now as in the past, if not more," he said. "In fact, I know that many Lloyd's syndicates for the first time in five years are looking into increasing their premium capacity."

But in the forefront of almost all conference participants' minds is the registration of all insurance brokers and rules against non-registered companies acting as brokers.

"Members have been very concerned about the extent to which unregistered intermediaries continue to describe themselves as insurance brokers," said Mr. Morris. "Some of these are no doubt acting in ignorance or have been lazy in complying with the law." ■

Court to reconsider tax impact on award

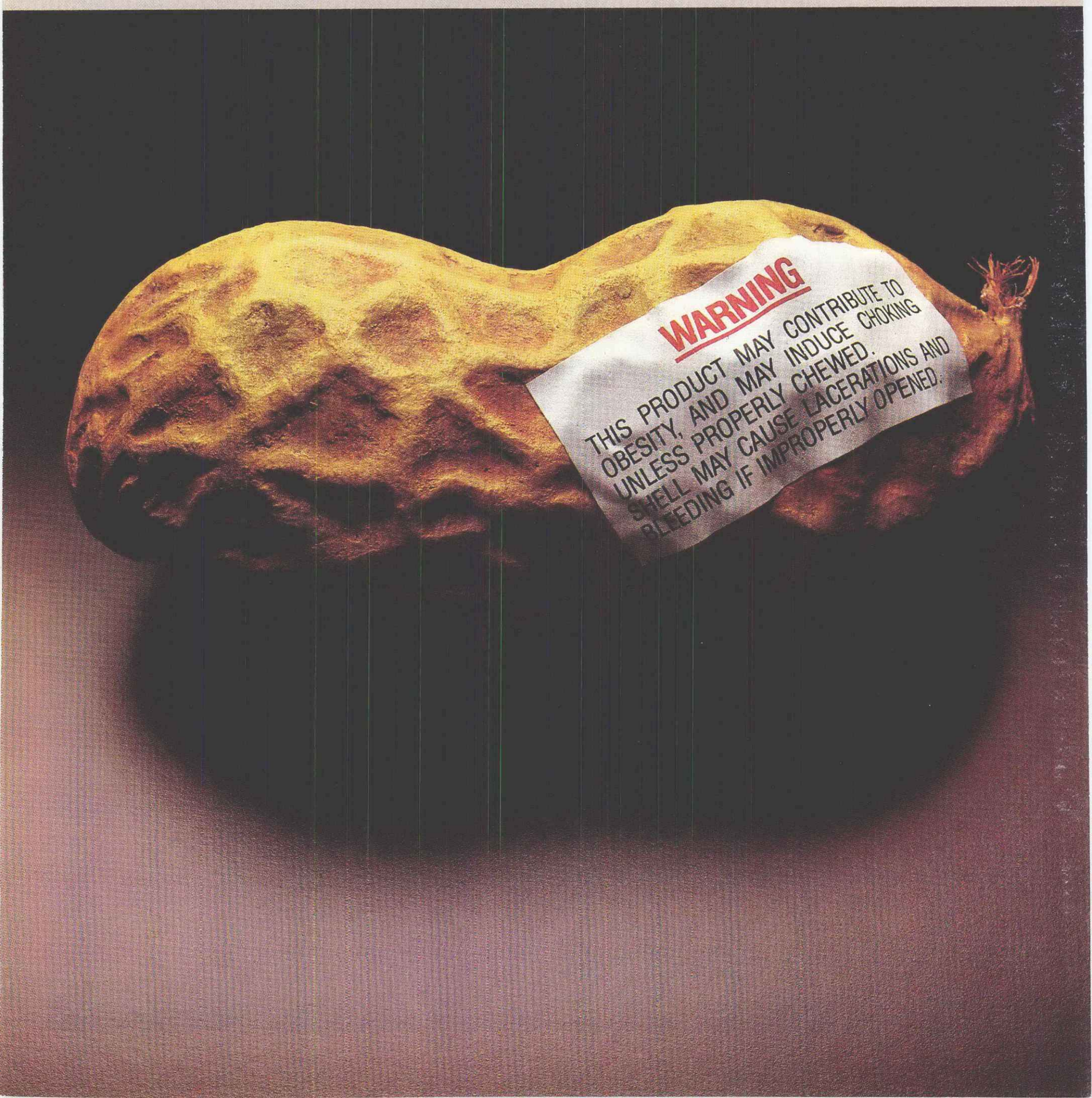
SAN DIEGO, Calif.—A California Court of Appeals will reconsider whether juries should include the effect of income taxes on lost future earnings when deciding how much to award a personal-injury or wrongful-death plaintiff.

The court last month granted a motion by plaintiffs' attorney Ned Good for a rehearing on its decision to upset a $750,000 jury award to Mr. Good's client, Madonna Canavin.

The case stems from the 1979 crash of a Pacific Southwest Airlines jetliner in which Ms. Canavin's husband died. Mr. Good argues the award should have been larger because the trial judge failed to instruct the jury to use Mr. Canavin's lost gross earnings (*BI*, April 25).

The use of gross earnings vs. net earnings can have a significant effect on the size of damage awards. ■

WILL IT COME TO THIS?



Warnings have come a long way since someone had the good sense to put a ☠ on an iodine bottle.

Courts now require warning labels on a whole range of products.

From paint thinner to pajamas.

There have also been rulings on exactly how large such labels should be.

And where they should be.

And what they should say.

And it hasn't stopped at labeling, either.

Requirements relating to all aspects of product safety have mushroomed in recent years.

And while these have been a benefit to consumers, they've often been a problem for manufacturers.

Because even a responsible corporation can face liability by unintentionally overlooking a new regulation or an obscure ruling.

That's why at INA, a CIGNA company, we're prepared to do more than just insure our clients against product liability.

We do everything we can to keep them out of court.

To start with, we have a staff of product liability specialists who can examine every step in the manufacturing and marketing process.

From design to advertising.

And we're not only likely to spot weaknesses people within a company may overlook, we're also more likely to spot weaknesses general and less specialized loss control examiners might overlook, as well.

We even look for problems before they occur.

We'll help design a product recall program, for example, to have in place, ready to quickly implement if the need for it ever arises.

And, needless to say, on an ongoing basis, we monitor legislation, court rulings, and agency regulations that can affect our client's liability.

If you'd like more information on this topic, please write to INA at 1600 Arch St., Dept. RA, Philadelphia, Pennsylvania 19101.

Or, if you'd like to know how we can help protect you against product liability exposures, call your agent or broker.

After all, in an area as complex as this one it's entirely possible a consumer isn't the only one who can benefit from a warning.

CIGNA

Time flies.

A few years ago when this ad ran, 1984 seemed a long way off. But now, late payment or even non-payment of claims is a real issue.

That's why financial stability, prompt payment of claims and personal contact are so important in selecting your reinsurer.

General Re offers a depth of skill, experience and financial resources unsurpassed by any other domestic reinsurer.

For reinsurance you can trust, call General Re today.

General Re

America's Largest Reinsurer

General Reinsurance Corporation, Greenwich, Connecticut

Atlanta, Chicago, Columbus, Dallas, Des Moines, Hartford, Houston, Kansas City, Los Angeles, New York, Philadelphia San Francisco Seattle, Washington, D.C., Montreal, Toronto, and London.

101 RULES OF RISK MANAGEMENT

A GROUP OF NEARLY 100 risk managers and insurance educators with various backgrounds, from here and abroad, developed the 101 rules of risk management. The rules were compiled with the help of Thomas V. Hallett, vp and director of risk management at Frank B. Hall & Co. Inc. in Briarcliff Manor, N.Y., who served as the editor of the project.

This practical list of hints on the philosophical, administrative and technical aspects of risk management was presented by a panel of experts last month at the Risk & Insurance Management Society's annual conference in Los Angeles (*BI*, May 9).

101 Rules of Risk Management

1. An organization's risk management program must be tailored to its overall objectives and should change when those objectives change.
2. If you are in a "safe" business (relatively immune from depression, bankruptcy or shifts in products markets), your risk management program can be more "risky" and less costly.
3. Don't risk more than you can afford to lose.
4. Don't risk a lot for a little.
5. Consider the odds of an occurrence.
6. Have clearly defined objectives which are consistent with corporate objectives.
7. The risk management department, as a user of services, should award business on the basis of ability to perform.
8. For any significant loss exposure, neither loss control nor loss financing alone is enough; control and financing must be combined in the right proportion.

Risk identification & measurement

9. Review financial statements to help identify and measure risks.
10. Use flow charts to identify sole source suppliers or other contingent business interruption exposures.
11. To more fully identify and assess risks, you must visit the plants and relate to operations people.
12. A reliable data base is essential to estimate probability and severity.
13. Accurate and timely risk information reduces risk, in and of itself.
14. The risk manager should be involved in the purchase or design of any new operation to assure that there are no built-in risk management problems.
15. Be certain environmental risks are evaluated in mergers, acquisitions and joint ventures.
16. Select hazardous waste contractors on their risk control measures and their financial stability or insurance protection.
17. Look for incidental involvement in critical risk areas (i.e., aircraft and nuclear products, medical malpractice, engineering design, etc.).

Risk control

18. Risk control works. It is cost effective and helps control local operating costs.
19. The first (and incontrovertible) reason for risk control is the preservation of life.
20. A property conservation program should be designed to protect corporate assets—not the underwriter.
21. Be mindful that key plants and sole source suppliers may need protection above and beyond normal HPR (highly protected risks) requirements.
22. Use the risk control services of your broker and insurer as an extension of your corporate program. Don't let them go off on a tangent.
23. Quality control should not be a substitute for a full product liability program. Quality control only assures the product is made acording to specifications, whether good or bad.
24. Most of the safety-related "standards" of governmental agencies should be considered as minimum requirements.
25. Duplicate and separately store valuable papers and backup data processing media.
26. Avoid travel by multiple executives in a single aircraft.

Risk financing

27. Risk management should focus on two separate zones of risk relative to the maximum dollar loss the company can survive from a single occurrence:
    - Below this level—optimize the use of insurance relative to current cost.
    - Above this level—transfer risk (usually insurance) to maximum extent possible—cost effectiveness is not a criterion in this zone; survival is.
28. An entity with an unlimited budget can benefit from adopting all risk management measures which have benefits to the entity with an expected present value greater than the expected present value of costs of those measures to that entity.
29. When, for budgetary or practical reasons, an entity must choose between mutually exclusive risk management measures, the entity should choose the measure that offers it the greatest excess of benefits over costs, when both benefits and costs are expressed as expected present values.
30. Competitive bidding which causes market disruption should be avoided.
31. Never depend solely on someone else's insurance.
32. Retrospective rating plans of more than one year hamper flexibility.
33. A tax advantage should be considered a "plus"—not a principal reason for a risk financing decision.
34. Risk taking presents an opportunity for economic gain.

Claims management

35. The risk manager should be notified immediately (within 24 hours) of any major loss or potential loss.
36. Major liability claims should be reviewed for adequacy of investigation and accuracy of reserve.
37. Be careful of local plant involvement in property and liability claims. Local personnel may be too defensive to properly review a major claim.
38. Request early advance payments on large property and business interruption losses.
39. Secure several estimates or an appraisal of self-insured vehicle physical damage losses.
40. Aggressive claims subrogation (insured and self-insured) reduces costs.
41. A claim and disability management program, directed toward getting the employee back to work as soon as possible can save money even though the employee cannot do all phases of the job.
42. Periodically audit claims reserves of insurers and self-insurance administrators.
43. The best claim is a closed claim.

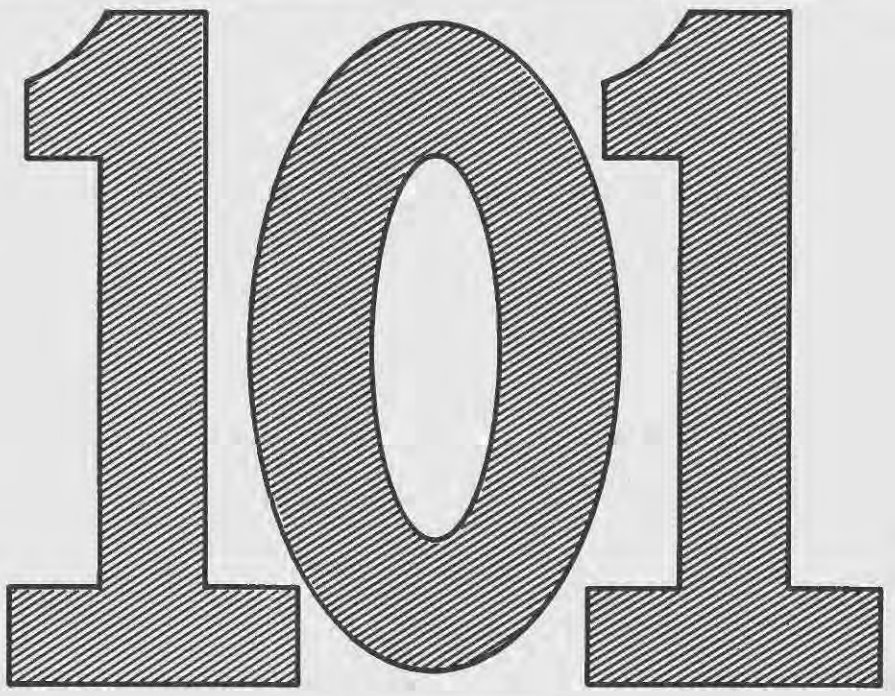
Employee benefits

44. The provisions and costs of employee benefit programs should be clearly and frequently communicated to employees.
45. When installing a new benefit plan, it is harder to reduce benefits than to improve them later on.
46. A poor employee benefit program can generate more employee relations problems than no plan at all.
47. Employee contributions, even small ones, can help you assess the real popularity of a benefit plan.
48. Know the benefit plans of the companies with whom you compete for labor.
49. Benefit consultants and brokers are not efficiency replacements for in-house staff functions.
50. Collective bargaining of employee benefits should involve corporate benefit professionals.
51. Legislation and regulation are intensifying in the employee benefit field. Make your company's opinions known to the government before legislation is enacted.

Pensions

52. The ultimate cost of any pension plan is equal to the benefits paid, plus the cost of administration, less any investment earnings of the fund.
53. For the most part, different actuarial methods and/or assumptions may alter the incidence of cost, but seldom alter the ultimate level of cost.
54. Clearly identify your corporate objectives with respect to your retirement program.
55. Recognize that retirement plans are long-term obligations which will span many political, economic and social environments.
56. Identify the nature and extent of pension liability prior to any acquisition or divestiture.
57. Establish formal investment objectives with respect to your pension funds which define risk, diversification and absolute performance parameters.
58. Monitor the performance of your pension fund in the context of your investment objectives.
59. Identify and monitor your corporate exposure as a result of participation in any industrywide multiemployer pension plans.

Continued on next page



RULES OF RISK MANAGEMENT

Breach of contract liability falls on contractor

DAMAGES TO A building sustained by an owner as the result of a breach of a construction contract due to a general contractor's faulty workmanship and use of defective materials are a business risk to be borne by the contractor and not by his comprehensive general liability insurer, the Supreme Court of Minnesota ruled.

Bor-Son Building Corp. successfully bid on a contract to build a high-rise apartment complex for the elderly. Bor-Son did not do any of the actual work on the project. Instead, it hired 15 different subcontractors to complete the construction. Employers Commercial Union Insurance Co. issued Bor-Son a comprehensive general liability insurance policy.

After the building was turned over to the Housing and Redevelopment Authority, severe water leakage problems developed. Attempts to solve the problems were generally unsuccessful. The housing authority sued Bor-Son for breach of contract. Employers Commercial did not defend. Later, Bor-Son paid its share of a settlement with the housing authority amounting to $100,750. Bor-Son then sued Employers Commercial for reimbursement. The trial court ruled for Bor-Son.

The appellate court noted that there was a distinction between a performance bond and a comprehensive general liability insurance policy that was crucial to the resolution of this case.

Since the alleged building damages were the result of an alleged breach of contract, the court said that there was no duty on the insurer to defend the housing authority's actions nor to indemnify Bor-Son for its contribution toward the settlement of those actions. *Bor-Son Building Corp. vs. Employers Commercial Union Insurance Co.*, Supreme Court of Minnesota, Aug. 20, 1982 (*BI*/01/M.-$5).

These abstracts were prepared by Cases Unlimited Inc. A copy of an entire decision may be obtained by sending a check for $5 made out to Cases Unlimited to Business Insurance, 740 N. Rush St., Chicago, Ill. 60611. List the number for each opinion.

legal briefs

All-risks exclusion

Does the phrase "water below the surface of the ground" in a builders all-risk insurance policy include water from an artificial source? A Texas appellate court ruled it did not.

A general contractor poured a foundation for a warehouse under construction. An underground water main owned by a city ruptured and water escaped and migrated below the surface of the ground and underneath the concrete slab. The water shifted the soil beneath the foundation and caused the slab to subside.

The contractor had to tear out and reconstruct portions of the slab. The contractor was covered under a builder's all-risk policy issued by the National Safety Corp. However, the policy excluded coverage for damages caused by water below the surface of the ground. National denied coverage. The contractor sued but lost in the trial court.

On appeal, National contended that the phrase in issue in the exclusionary clause was not limited to underground water of natural origin but included all subsurface water, including that from an artificial source. But, the court concluded that if the insurance company intended to exclude all water, whatever the source, it would have said so in the policy.

The court interpreted the policy here to limit the exclusionary clause to water from a natural source and, thus, found the contractor was covered for its loss. *Adrain Associates, etc. vs. National Surety Corp.*, Court of Appeals of Texas, June 30, 1982, *rehearing denied* Aug. 16, 1982 (*BI*/02/M.-$5).

Minor's compensation

May minor children of a deceased father, who had been actually dependent upon their mother, recover benefits under the workers compensation law for the father's death? The Supreme Court of Utah ruled that they could.

The Carters were divorced in 1972. Mrs. Carter was awarded custody of their two minor children. Mr. Carter was ordered to pay $15 per week per child support and all reasonable medical and dental expenses.

In 1979 Mr. Carter was killed in an accident during the course of his employment. At that time, Mrs. Carter was employed and provided entirely for the support of her children. Mr. Carter had not paid support for approximately two years prior to his death. Mrs. Carter filed for benefits on behalf of the children. The Industrial Commission awarded her benefits.

On appeal, the employer argued that it was an error to conclude that the children were entitled to benefits on the basis of an irrebutable presumption of whole dependency.

But, the court said that when a non-supporting but legally bound father is the deceased employee under consideration, the minor children may claim the benefit of the statutory presumption of whole dependency. "It does not appear," the court said, "to have been the intention of the legislature. . .to exclude from its protection minor children who have had the misfortune of being neglected by an irresponsible parent." *Rocky Mountain Helicopter Inc. vs. Carter*, Supreme Court of Utah, July 15, 1982 (*BI*/03/M.-$5). ■

The Perspective section is compiled and edited by Assistant Copy Editor Claudette Dampier. She can be reached at 312-649-5282.

The 101 rules of risk management

Continued from previous page

International

60. Multinational organizations should step up to their international risk management responsibilities.
61. Establish a worldwide risk and insurance management program; don't rely totally on a difference-in-conditions approach.
62. A combination of admitted and non-admitted insurance usually provides the best overall international program.
63. Avoid the use of long-term policies overseas.
64. Be sensitive to and don't underestimate nationalism when implementing a worldwide risk management program.
65. Don't ignore local objections to worldwide programs.

Administrative

66. Establish a level of authority via a management policy statement.
67. Prepare and universally distribute a corporate risk management manual.
68. Set up realistic annual objectives with your brokers, underwriters and vendors and measure their accomplishments and results.
69. Verify the accuracy of all relevant information you receive.
70. Read every insurance policy carefully.
71. Keep program design simple.
72. Consolidate—where it makes sense to do so.
73. Develop record retention procedures.
74. Keep intercompany premium allocations confidential.
75. Establish administrative procedures in writing.

Technical

76. Insurance policy provisions should be uniform as to named insured, notice and cancellation clauses, territory, etc.
77. The "notice" provision in all insurance policies should be modified to mean notice to a specific individual.
78. Primary policies with annual aggregates should have policy periods which coincide with excess policies.
79. Joint loss agreements should be obtained from fire and boiler and machinery insurers.
80. Add "drive other car" protection to your corporate automobile insurance.
81. Eliminate coinsurance clauses.
82. Know the implications of and differences between "claims made" and "pay on behalf of" liability contracts.
83. Risks accepted under contracts are not necessarily covered under contractural liability coverage.
84. Add employees as insureds to liability contracts. Use discretionary language to avoid defending hostile persons.

Communication

85. All communication providing or requesting information should be expressed in clear, objective language, leaving no room for individual interpretation.
86. All communications and relationships should be conducted with due consideration to proprietary information.
87. Communicate effectively up and down and avoid management surprises.
88. Don't tell senior management anything—ask them, counsel them, inform them.
89. Communicate in business language; avoid insurance jargon.
90. Obtain letters of intent or interpretations regarding agreements (coverage or administration) which are outside of and/or in addition to actual insurance or service contracts. Never rely on verbal agreements.
91. The immediate supervisor to the risk management function should be educated in the principles of risk management.
92. Communicate every insurance exclusion and non-insurance implication to your management.
93. In competitive bidding situations, advise each competitor that the first bid is the only bid and stick to it.
94. Risk managers should meet with underwriters rather than relying totally on others for market communications.

Philosophical

95. The risk manager (and his corporation) should avoid developing the reputation of a "shopper" or "market burner." This reputation can be detrimental to the corporation's best interests and the risk manager's credibility.
96. Determine your personal level of risk aversion and temper intuitive judgments up or down accordingly.
97. Program design will always be a function of current practicalities tempered by management's level of risk aversion.
98. Everyone is in business to make a fair profit.
99. Long term, good faith relationships are not obsolete.
100. Integrity is not out of style.
101. Common sense is the most important ingredient in risk management.

The 101 Rules of Risk Management were developed by a broad-based group of professional risk managers and insurance educators from the United States and abroad. The rules were edited by Thomas B. Hallett, vp & director of risk management, Frank B. Hall & Co. Inc. in Briarcliff Manor, N.Y.

"It's a powerful system."

George A. Chamberlain, 3d
Vice President and Treasurer
Digital Equipment Corporation

John Hancock®
International Group Program
Flexible · Competitive · Experienced

Cash-flow comp programs rival self-funding: Consultant

By CAROL CAIN

TUCSON, Ariz.—Alternative cash-flow workers compensation insurance programs compare favorably with self-insured plans on a financial basis, according to Richard W. Bureson, senior vp of Corroon & Black Corp.'s Advanced Risk Management Services Division in Nashville, Tenn.

"And the challenge to self-insured plans is growing," Mr. Bureson said at the annual conference of the National Council of Self-Insurers last month.

"If you ever get the government to go along with tax deductibility of reserves, then self-insured (plans) will be tremendous," Mr. Bureson said, noting that he was a supporter of the self-insured approach.

But in the meantime, it's the tax-deductible advantages of alternative plans, like paid-loss retrospective plans, that, if structured properly, make them very competitive with the self-insured approach, he said.

Summarizing the advantages of self-insured plans for workers compensation risks, he said they:

- Maximize cash flow.
- May avoid or reduce overreserving of losses.
- Eliminate arguments with insurers over proper loss reserves.
- Allow the employer to coordinate workers compensation claims with other employee benefits.
- Produce greater motivation to control losses.
- Allow an employer to tailor loss-control and engineering services specifically to its needs.
- Improve management and employee awareness of the importance of loss control.
- Allow the employer to expedite claims payments.
- Improve investigation and defense of questionable claims.
- Develop a company's own claim policies.
- Improve employee relationships.
- Offer potential to reduce overhead expenses.

The buildup of reserves that are not tax-deductible until claims are paid is one of the negative consequences of self-insured plans, but a quick payout pattern can reduce these ramifications, Mr. Bureson said.

Other disadvantages to self-insuring workers compensation risks include:


Mr. Bureson

- Instability of loss costs.
- Increased administrative responsibility.
- Regulatory filing requirements and security requirements.
- The increased administrative work for a company with multistate operations.
- If the company underreserves, the program's stability is impaired.
- Proper accumulation of historical loss and exposure data may require new record-keeping systems.
- Potential employee problems due to loss of insurer as an intermediary in claims disputes.

To compare a self-insured plan with other alternative loss-rated plans, Mr. Bureson suggested starting by looking at the ultimate expected losses for a year.

"You just need a good ballpark figure. No one expects you to be sitting there with a crystal ball," he said.

A statistical analysis of historical trends can be organized by policy year, calendar year or fiscal year. You adjust the first year's losses to the ultimate by using inflationary and benefits factors, Mr. Bureson said. "Then you relate it to some kind of an exposure base, like number of employees or payroll."

If your case-basis reserves don't match expected losses, Mr. Bureson recommended putting up a supplemental bulk reserve adjustment, rather than have a surprise for management at the end of a year.

Determining a payout ratio is the next step in the evaluation process.

"You need to know what your payout trends are so you can determine how much money you're holding," he said.

A factor to consider is today's value of tomorrow's dollar. If the annual interest rate is 10% then $100 at the end of a year is only worth $90.91 at the beginning of the year, he said.

You can use present value tables to come up with these figures or you can divide the principal by one plus the interest rate of one year.

For example, if the annual interest rate is 10% as cited above, you would divide the $100 by 1.10 (1 plus 0.10), which would equal $90.91.

"However, to determine the present value of a self-insured program requires that you calculate a cash-flow stream," Mr. Bureson said.

If you receive $100 per year for the next 10 years, and the annual interest rate is 10%, what is the present value of this cash-flow stream?

To figure it out you can use annuity and present value tables, Mr. Bureson said. ■

Handle claims consistently: Attorney

TUCSON, Ariz.—A consistent procedure for handling claims is essential in any effort to reduce workers compensation-related litigation, according to an Illinois attorney.

"Uniformity and consistency are the cornerstone. . .there's nothing more detrimental than to have identical occurrences treated differently," says Thomas D. Nyhan, an attorney with the Chicago law firm of Pope, Ballard, Shepard & Fowle.

Mr. Nyhan discussed techniques for reducing litigation at the annual conference of the National Council of Self-Insurers last month.

The responsibility to make the workers compensation system simpler, speedier and less costly will fall on employers, who will need a change in attitude, Mr. Nyhan said.

A little effort and a little good faith, plus educated personnel and the developing of and following procedures, are ingredients for a successful self-insured work comp program, he said.

A study in Illinois showed that workers compensation programs, insured and self-insured, were being administered by personnel who didn't understand the basis or parameters of liability, he said.

If these administrators don't understand workers compensation, how can they explain the program to injured workers, Mr. Nyhan asked.

Employees who are entitled to workers compensation should get it—promptly.

"If the benefit is due, pay it. Our research shows that most employees don't like lawyers or suing their employers," Mr. Nyhan said.

"Information about employees' rights should be available at any time," said Mr. Nyhan, who is also executive secretary of the Illinois Self-Insurers Assn.

He stressed that the relationship with an injured employee should be informative, rather than secretive and adversarial, if litigation of workers compensation claims is to be avoided.

When the employer-employee relationship is secretive "and employees learn about their rights from other employees, then litigation abounds," Mr. Nyhan explained.


Mr. Nyhan

But, claims that are not legitimate should be litigated "vigorously," he said.

When developing procedures for dealing with workers compensation claims, a timely and thorough investigation of every case is paramount, Mr. Nyhan commented.

"I cannot overemphasize the importance of investigation, even in obvious cases," he said, citing several examples of "faked" claims that were uncovered through investigation or claims that could have been denied if there had been more investigation.

For example, in one workers compensation incident that allegedly occurred on an icy parking lot, no one bothered to check if there was ice on the lot at the time of the accident.

The focus of the investigation should be to establish that an accident occurred and to determine what has to be done to avoid a recurrence, Mr. Nyhan said.

And objectivity is an important element in the process, he noted. The investigation should be based on the information at hand. "Suspicion or rumor never should be a basis to pay or not to pay," Mr. Nyhan said.

A final technique to reduce litigation is to maintain control of a case, he explained.

"We've found that employers relinquish control to doctors or lawyers," he said.

Employers should select injured employees' health care providers if possible, according to Mr. Nyhan, and review their medical bills. This control also includes control of rehabilitation programs, he said, noting the term is misunderstood.

"In the (old) days, we merely referred to it as getting someone back to work. It wasn't sophisticated or expensive.

"When we speak of returning employees to work, I would strike from the English language 'light duty also known as light work'. . .that phrase is not found in the dictionary," he said.

When an acute stage of an injury has passed, Mr. Nyhan said not to ask a physician, "Can the employee return to work?" but rather, "What kind of work can he do?

"And when you need outside rehabilitation, get the best; it's cheaper in the long run," he commented. ■

Educate workers about health costs: Expert

By CAROL CAIN

TUCSON, Ariz.—The real villian in the scenario of rising health care costs is OPM: "Other People's Money."

That's the message from Daniel R. Miller, now president of Second Opinion Consultants in New York and a former consultant with Frank B. Hall Consulting Co. of New York.

"Often there's no incentive to cut costs. What has to change is this serious misconception that patients don't pay because it's OPM, other people's money," Mr. Miller explained during last month's annual meeting of the National Council of Self-Insurers.

"Communications is the key to controlling medical costs," he said.


Mr. Miller

A communications campaign will arm employees with sufficient information to make choices, he noted.

Cost containment and quality medical care are not two separate issues, Mr. Miller said, but companies have to provide employees with a range of alternatives.

"The bias is to go into the hospital," he said, citing that a typical plan design pays first-dollar coverage in the hospital—100% of all costs.

Given this health care plan, where do you think people are going to go when they're sick? Mr. Miller asked.

"The objective is behavior modification and the most effective way to achieve it is a comprehensive communications program," he said. "Unfortunately, the only way to change people's behavior is to tie in some financial incentive.

"Provide alternatives and at the same time provide some type of motivation for the patient/employee to select an alternative that's less costly," Mr. Miller explained.

"If something is provided free, people will use it wastefully," Mr. Miller said.

He used a cocktail party as an example. "When the drinks are paid for at the end of the cocktail party, look at how many half-filled drinks you'll find around the room. Go to the same cocktail party, where it costs $2.50 for a drink, and see how many empty glasses you'll see."

The same example can be applied to surgery, and implementing mandatory second opinions for surgery is one way to control the cost of unnecessary surgery, Mr. Miller said. But the program must be mandatory, he stressed.

When the second surgical opinion program is voluntary, the utilization rate is a maximum 3%, but if it is mandatory, the utilization rate is 85%, he said.

Communicating the program to employees is vital, Mr. Miller said. Announcements telling employees how to go about getting a second opinion, why the company is using the program and who to call with questions can make the difference, he added.

Having employees ask their doctor to suggest another physician for the second opinion may make the program costly, Mr. Miller said. In some cases, doctors apparently team up with other doctors who refer patients back and forth to each other.

"Control which doctor they (the employees) use," Mr. Miller commented.

This type of information becomes part of a communications campaign. In planning that program, Mr. Miller said the medium to convey the message should be selected with care.

According to one study, different types of communications material were used with employees, who were quizzed later to see how much information was retained.

It was found that after three days, employees remembered 16% of what they read if they were sent only reading material, like a pamphlet. If a visual medium was used, like a poster, employees remembered 20% of what they saw, and they remembered 30% of what they heard when an audio form of communication was used.

If there was an audiovisual presentation, like a slide show, employees remembered 50%, but if there was an audiovisual presentation with a question/answer session and a follow-up, employees remembered 90%.

Negotiating fees with physicians, using preferred provider organizations and reviewing medical claims were other methods suggested by Mr. Miller to control health care costs.

"Physicians admit to floating their fees," Mr. Miller said.

As a public health intern with a self-insured, self-administered welfare fund, Mr. Miller worked with the Cornell New York Hospital in the last year of its eight-year study of second surgical opinions. During that time, he reviewed surgical claims and found that they never came in for $1,185.

"It was always $1,200, $1,500, $2,500, all nice round numbers," he said.

To eliminate the slack, a fee schedule was developed and when a claim came in that was at least $50 higher than the procedure on the schedule, the fee was negotiated with the physician, Mr. Miller said.

"Seventy percent of the doctors we notified agreed to lower their fees," he said.

In another company, physicians were retained to monitor claims higher than a set amount, or claims for unusual procedures, Mr. Miller noted.

"The scrutinizing of physician costs by other physicians is where the key lies," Mr. Miller explained.

"You can't stop with a plan design. You have to follow through," he said.

For instance, in reviewing claims, some companies give the claims back to the patient/employee to review. For each overcharge error employees find, they receive 25 cents on the dollar—an incentive to find mistakes, Mr. Miller said.

In another company, physicians were invited into the plant for a day to see what employees do. The experience helped physicians determine the treatment after an illness or workers compensation injury.

Redesigning health care programs to offer alternatives and communicating those alternatives to employees will make a difference in eliminating the inefficiency in the delivery of health care, Mr. Miller said. ■

Self-funders should analyze federal comp legislation: Panel

By CAROL CAIN

TUCSON, Ariz.—Proposed federal legislation to compensate workers suffering from occupational diseases is the topic of the day for self-insurers, says Ralph Adams, director of unemployment and workers compensation at General Motors Corp. in Detroit.

Mr. Adams was the host of a session on federal workers compensation legislation during the National Council of Self-Insurers' annual meeting last month. Speakers presented their views on pending or potential legislation that, if adopted by Congress, would affect self-insured work comp programs.

"I'm here to warn you. You should be aware of what's going on," said James Strader, an attorney with U.S. Steel Corp. in Pittsburgh.

"You should analyze what is happening and what these proposals are and, with others in your company, analyze what impact they will have on your company and on the workers compensation system in the United States today," he said.

The way in which Congress perceives occupational disease also should figure into an employer's analysis, other speakers said.

"Congress has not yet refined its thinking on the issue, but the array of proposals suggests that (it) perceives occupational disease as a serious problem," said Bruce C. Wood, Republican counsel for labor issues for the House Education and Labor Committee.


Mr. Strader

"Occupational disease is not an ideological issue nor is it a party issue," he said.

One proposal, discussed at the conference and expected to be introduced in Congress this month by Rep. George Miller, D-Calif., would create a federal workers compensation-style program for workers suffering from asbestos-related diseases. The federal approach would be the sole remedy for these workers, superseding state work comp programs and barring third-party liability suits against asbestos companies, Mr. Wood said.

Under a version of the bill introduced by Rep. Miller last year, an injured worker's last employer would be responsible for providing all compensation to the victim. If the employer employed the victim for less than two years, compensation would come from an excess liability fund to be financed by asbestos manufacturers, importers and employers that use asbestos products (*BI*, April 18).

Workers with asbestos diseases are not filing claims with state workers compensation systems, Mr. Wood said. "It's been suggested that for every workers compensation claim filed, there are 10 product liability claims. Does this mean workers compensation is a failure? George Miller thinks so, but it isn't necessarily so," he said.

Mr. Strader believes Rep. Miller's proposal will be somewhat like the federal black lung compensation program, which has been criticized by employers as being overly generous and too costly.

"The writers are veterans of the black lung program. It's a dangerous bill. . .it (has) presumptions that will cost an awful lot of money."

"Bruce (Wood) does some disservice to the Miller bill," said Kenneth Feinberg, a Washington attorney, who cited some pluses to Rep. Miller's proposal.

The no-fault exclusive remedy wipes out future asbestos claims, Mr. Feinberg said, "and it's the only game in town right now."

The creation and drafting of federal presumptions also run the risk of triggering a flood of "successful" claimants, Mr. Feinberg said, which could quickly deplete the pool of money available for compensation, so that nothing would be left for future worthy claimants.

"The disease controversy, particularly the asbestos brouhaha, really reduces itself to one fundamental issue: cost allocation," Mr. Wood said. "It's not a question whether employers, insurers, manufacturers and the government are to pay—they currently are paying—but how those costs are to be apportioned and, secondarily, what delivery system should be employed."

He said he believes the interplay of incentives and disincentives among workers compensation, product liability and Social Security disability compensation systems have combined to produce the asbestos litigation explosion.

Among reasons for the vast amount of litigation, Mr. Wood said: "To the extent workers compensation claims are filed, I'd suggest employers themselves—and I include the federal government—have encouraged tort filings through pursuit of their subrogation liens.

"In fact, the Federal Employees' Compensation Act, the workers compensation law for federal employees, authorizes the government to deny benefits if the claimant fails to file a third-party claim in those cases where another party might share liability."

Resolving the asbestos compensation issue will define the federal government's liability, he said.

Agreeing with Mr. Wood's assessment of the explosive extension of the product liability system was Andre Maisonpierre, senior vp at the Alliance of American Insurers in Washington. He suggested that in attempting to resolved these problems, "We do not throw our workers compensation laws out of whack.


Mr. Wood

"That does not mean that we should close our minds to the fact that better accommodations between our liability and workers compensation systems can probably be devised. We must recognize that any such change, however, will bring about cost shifting," he said.

Despite differences of opinions, there's great interest in a federal solution to occupational disease compensation problems, according to the speakers.

"Do not underestimate the power of those out there who are trying to fashion some type of reform group. You must develop some alternatives," Mr. Feinberg said.

Mr. Wood suggested that self-insurers join with the commercial insurance industry and its clients in coming up with innovative means to resolve the strains in the compensation structure.

"Employers should understand that there is no escaping the cost of occupational disease," he said. "Failure to correct system deficiencies through legislation merely invites an expansion of liability through judicial action. Perhaps this is the real significance of the attacks on exclusivity."

For those who support the concept of state workers compensation systems, Mr. Wood said the choice is simple: "You must act to assure its continued viability or you most certainly will lose it to some perversion foisted on you by the federal government.

"I doubt any of us believes that road will be any cheaper and the overall result more equitable to all parties." ■

Self-insurers stress need for education

TUCSON, Ariz.—Daniel Minnick, an attorney with Jones & Laughlin Steel Corp. in Pittsburgh, is the new president of the National Council of Self-Insurers.

Some 139 persons attended the group's conference last month, including self-administrators, third-party administrators, attorneys and doctors.

In addition to Mr. Minnick, other new NCSI officers are Paul Bayer, corporate manager of workers compensation at Crown Zellerbach Corp. in San Francisco, vp; Donovan J. Jones, director of safety and compensation at Talley Industries of Arizona in Mesa, Ariz., secretary; and Joseph Burns, manager of workers compensation at Aluminum Co. of America in Pittsburgh, treasurer.

Mary Ann DeSanto will continue as administrator.

Representatives from two new companies were added to the board of managers. They are T. Neal Norman of American Telephone & Telegraph Co.-Long Lines and Vincent Jones of Sears, Roebuck & Co.

Arthur Fitzgerald, outgoing president of the group, said members were facing a vast area of uncertainty—a "fuzziness"—in workers compensation.

In order to survive, Mr. Fitzgerald, who is manager of compensation for Union Oil Co. of California in Los Angeles, suggested that business must devote more time in the selection and education of personnel.

"We need people with intelligence, combined with a bucketful of common sense," he said.

The National Council of Self-Insurers was organized in 1945 to serve as a national forum for the self-insurers associations of the various states.

Representatives from 19 state associations serve on the council's board of managers.

"Our orientation is primarily directed to the federal level. The state associations call on us for help," Mr. Fitzgerald said. The council doesn't hire any lobbyists, instead "the members themselves lobby," Mr. Fitzgerald said.

Council members are aggressively pursuing development of a workers compensation program that protects and adequately compensates the individual with a job-related disability while simultaneously recognizing the just limitations of an employer's responsibility.

Next year's conference is slated for May 20-23 at the Hyatt Regency Hotel in Louisville, Ky. Information about that conference is available from the National Council of Self-Insurers, 118-21 Queens Blvd., Forest Hills, N.Y. 11415. ■

Regulations may not stop fraud: Experts

Continued from page 2

"I don't know what good it will do. Does it specifically address insurance fraud? Knowing the identity of all retrocessionaires may or may not be helpful. Besides, the New York Insurance Department already analyzes reinsurance (based on information contained in Schedule F of the standard insurer financial statement)."

William Allen, consultant to the special deputy liquidator for the Illinois Insurance Department, agreed that more reporting alone won't stop fraud.

"I can't see (convicted insurance fraud artist) Jack Goepfert filling out a schedule. If he did, it would all be phony anyway. By the time you get new regulations passed, the real fraud artists would have found a way around them."

Mr. Allen has his own suggestions for limiting insurance fraud that involve tougher enforcement of current laws and an international data base of suspects (see story, page 28).

"The real question is one of enforcement of present regulation," agreed James Koehnen, retired president of American Re-Insurance Co. and former president of the Reinsurance Assn. of America. "It is still possible to control the use of reinsurance through licensed insurers and the credits they're allowed for reinsurance."

Regulators should more carefully monitor reinsurance reports and approve full credit against surplus for reinsurance purchased from licensed insurers or approved foreign insurers (companies licensed in other states), he said.

However, credit should be given for alien (completely unlicensed) reinsurance only if the reinsurer posts valid letters of credit or allows the licensed insurer to withhold loss reserves from the reinsurance premium, he added.

Regulators, though, should avoid harsh changes in regulation that might tend to limit the use of alien insurers for special cases, he remarked.

"We still need the alien markets for risks that require $100 million or more of coverage," Mr. Koehnen noted.

Although some state regulators have suggested that additional regulations might focus on reinsurance intermediaries, one reinsurance intermediary said that intermediary licensing laws, like those in New York and Texas, will not eliminate fraud.

"Many regulators would have you believe that reinsurance intermediaries are responsible for all the illegal activities in the insurance industry. Nonsense," remarked Warren O. Hart, president of W.O. Hart & Co. Inc., a reinsurance brokerage based in Stamford, Conn.

"I will not have us all treated like the 1% of the business that has broken the law."

The best defense against fraud is information, not regulation, he says. "Know the people you are doing business with," he advises, "and ask for references."

Check out the risks involved, too, Mr. Hart says. "Question any business, risks or clients that come to you unsolicited. If there's a problem, it will smell a little.

"If you make mistake, forget your pride and blow the whistle right away before the situation gets too far out of hand. We have had cases in which insurers have come to us looking for reinsurance for bad business. As soon as we knew that there might be some misrepresentation or fraud involved, we resigned the account and let everyone know we did."

Mr. Hart recommends that the insurance and reinsurance industry become more actively involved in seeking strong criminal laws to deter white-collar crime and become more aggressive in communicating their needs to state regulators.

"If you are doing business properly, you don't need regulation. But if you are incompetent, sloppy or willing to commit fraud, regulation might help. If state regulation is the industry's desire, we should work for some uniformity on a state-by-state basis to prevent excessive licensing fees or administrative burdens."

John C.S. Lepine, chairman of Norwich Winterthur Reinsurance Corp. and former chairman of the London-based Reinsurance Offices Assn., agreed. The only international representative on the panel, Mr. Lepine extolled the virtues of self-regulation as maintained by groups like the British Insurance Brokers Assn.

Although reinsurance is nominally regulated by the British Department of Trade, reinsurers "have kept open lines of communication" with the department and maintained the "sensible view" that the industry should help regulators develop rules that are meaningful for the industry at large.

"The industry should help regulators and not just be purely reactive," he advised.

Even enlightened regulation, however, probably won't stop fraud. "Regulation is more likely to define fraud rather than stop it. Fraud is generally committed by desperate men and I doubt any amount of regulation would dredge up all those interested in committing insurance fraud." ■

Reinsurance data stymie regulators

PHILADELPHIA—Most state insurance departments aren't ready to analyze all of an insurer's or reinsurer's complex financial transactions, says a former New York Insurance Department official.

Linda Lamel, a former deputy superintendent of insurance, told a reinsurance fraud symposium sponsored by the Society of Chartered Property & Casualty Underwriters that her former department "would have to fire two-thirds of its accountants and hire investment, security and reinsurance accounting experts" to do its job properly.

"The insurance regulatory process is woefully behind the times," Ms. Lamel remarked. "During our review of the Baldwin-United acquisition of MGIC (Investment) Corp., we could barely pronounce the words 'leveraged financing' let alone analyze its use in an insurance company acquisition.

"We were lucky that some bright people in our property insurance bureau took the time and effort to learn what they needed to know in order to do the job," she said.

The regulatory process can be made effective, Ms. Lamel suggests, if insurance commissioners realize that their departments need a different kind of personnel with expanded skills and then pay their employees well enough to care about their work. ■

Regulators react slowly after insurers' fall

By LEN STRAZEWSKI

PHILADELPHIA—Federal investigators and state regulators are generally refusing to act on information gathered by the liquidators of three insolvent Illinois insurers, a consultant to the Illinois Insurance Department says.

William Allen, consultant to the department's special deputy liquidator, says he has little reason to believe that any additional wrongdoers involved in the 1982 fall of Kenilworth Insurance Co. of Illinois and other insurers currently being liquidated by the state will ever be prosecuted.

Although two men involved in Kenilworth's problems, John V. Goepfert and Allan Assael, have been convicted of fraud involving other insurers and are now in prison, at least 20 other agents, brokers, intermediaries and underwriters who contributed to the insurers' demise may never be charged, he said.

Mr. Allen spoke to a symposium on reinsurance fraud sponsored by the Society of Chartered Property & Casualty Underwriters.

"My frustration, if anything, has grown since December," said Mr. Allen, the author of a controversial insurance fraud case study delivered to the National Assn. of Insurance Commissioners that month "As we continue to liquidate Kenilworth, Security Casualty Insurance Co. and Main Insurance Co. in Illinois, we have come to believe that the extent of the frauds committed were far more pervasive than we ever believed."

Kenilworth—a private automobile insurer that tried to expand underwriting to include surplus lines and reinsurance but wound up in a tangled web of confused reinsurance agreements, copious intermediaries and missing premiums—was declared insolvent by the Illinois Insurance Department in April 1982 (*BI*, Dec. 6, 1982).

An investigation by the liquidators, CRL Group of Chicago, revealed that many of the agents, reinsurers and intermediaries who had flocked to Kenilworth in its final days also had done business with Main Insurance Co. and Security Casualty Insurance Co., which also are now in liquidation.

Further research in cooperation with regulators in New York, Texas, Florida, Pennsylvania and other states later revealed that the same people had been involved with insolvencies with at least four other insurers in the past 10 years.

Yet, despite cooperation from insurance departments, individual intermediaries and investigators, little official action has been taken. Not only have no criminal charges been filed, but most individuals involved still have licenses to sell insurance, Mr. Allen said.

"I now believe it will take something of a major disaster to motivate the National Assn. of Insurance Commissioners and other regulators and law enforcement bodies to weed out the crooks in the insurance industry," he said. "Law enforcers would much rather have a nice clear truck hijacking to work on. They don't understand insurance fraud and aren't really interested."

State insurance departments are also lagging in investigating fraud, he said, explaining they are often hampered by shrinking budgets.

"Budget constraints in the insurance departments are limiting investigations and whatever momentum was generated by our report in December has now succumbed to the daily drudgery."

Mr. Allen also says he knows of cases in which department investigators have been intimidated by the "gun-toting bodyguards" of subjects under investigation.

"It's clear that organized crime is pulling the strings in many of these cases. I have seen reports of individuals who are selling guns from the trunk of their car and insurance from the front seat," he said.

Echoing his closing remarks at the Dallas NAIC meeting, Mr. Allen says fraudulent activities continue and contributed to the insolvency of the Amherst Insurance Co. early this year.

To combat the ongoing fraud, Mr. Allen recommends:

- An international data base that would list the names of individuals connected, by law, with insurance fraud activities. The names of companies and individuals would be drawn from criminal and civil court documents, he said, and could be maintained by the NAIC.
- An industrywide effort to seek recognition of insurance fraud by law enforcement bodies and ongoing communication with the federal Justice Department.
- Fraud bureaus in every major insurance department.
- Re-evaluation of regulations controlling managing general agencies. The delegation of administrative and underwriting powers to an MGA essentially creates a new insurance company, Mr. Allen says, adding that MGAs should be regulated as such.
- New reinsurance reporting rules requiring a list of retrocessionaires on volatile business.
- Better control over dealing with the London "fringe market" of insurers. Although Lloyd's of London is effectively self-regulated, domestic and foreign companies underwriting or maintaining contact offices in London lack the controls of Lloyd's, he said.

Mr. Allen added that lots of new regulation would not be needed if insurance departments and law enforcement officials increase their awareness of insurance fraud and enforce present regulation. ■

Some 'frauds' aren't crimes: Auditor

PHILADELPHIA—Most forms of commercial insurance fraud aren't really "fraud" at all, a reinsurance auditor says.

Uncollectable insurance or reinsurance, premium overcharges and excessive commissions are frequently the result of sloppy insurance industry practices and questionable accounting techniques that are manipulated by agents, brokers, intermediaries and insurers looking for a quick buck.

"Fraud is almost always a sideline to legitimate activities and occurs because the insurance industry lets individuals get away with it," says Norman Reitman, president of Norman Reitman Co. Inc. in New York, which specializes in auditing reinsurance treaties.

"The industry must recognize that it does certain things that allow fraudulent activities to go on. Many people who are allegedly involved in insurance or reinsurance fraud are not really involved in that at all. They just put their business where they shouldn't have."

Although he said he has seen "25 new fraud ideas in 25 years," Mr. Reitman told a symposium on reinsurance fraud sponsored by the Society of Chartered Property & Casualty Underwriters that commercial insurance fraud frequently falls into one of several categories. They include:

- Improperly reduced premium. Insurance buyers, brokers and intermediaries need to ask themselves if an honest premium is being paid, Mr. Reitman said. If an insurance or reinsurance premium is too low to be believed, the premium may not be reaching the underwriter at all.
- Illegally adjusted premium. One classic technique for bilking buyers and insurers out of premium involves listing additional values or locations on flexible master policies, passing the overcharge to the buyer and then deleting the additions to generate a return premium that is never returned.

Brokers can also artifically lower premiums to obtain business by not listing some exposures or by not reporting losses being adjusted.

Some brokers or intermediaries have also manipulated premiums by billing buyers according to the date they requested coverage rather than by the effective date of the policy, generating a slightly larger premium that the buyer is unlikely to notice.

Some other techniques that may contribute to a fraud are unscrupulous but legal, Mr. Reitman noted:

- Late or commingled premiums. Some states still do not require agents to maintain premium trust accounts, he said. This allows unscrupulous agents and managing general agents to commingle premiums with personal funds and delay premium payment while sorting out the accounting.

The reinsurance business is particularly susceptible to this practice, Mr. Reitman noted. A reinsurance intermediary who manages an international pool of reinsurers usually receives premium paid to a fronting insurer and can then take an excessive amount of time distributing it to retrocessionaires.

- Excessive commissions and fees. Insurance industry practices continue to allow companies to form several subsidiaries to do the work once performed by one company and negotiate separate commissions and fees. This allows intermediaries to skim off a major portion of the premium before any funds reach an underwriter.
- Offset accounting. Sometimes premiums never reach an underwriter at all, but are used by managing general agents to offset claims they have allegedly paid on the insurer's behalf.

Although the practice is legal and common in the industry, Mr. Reitman said it creates an accounting "mess" and allows some MGAs to divert premium indefinitely.

Although fraud can be committed by anyone within the chain of risk, MGAs have posed a particular problem, he noted.

The administrative and limited underwriting authority granted to MGAs allows them to collect premiums and hold them for periods, as well as to manipulate policies and information to the detriment of a buyer or insurer.

He recommended the industry tighten its informal accounting practices and regularly audit brokers, managing general agents and reinsurers for safety. ■

Ruling gives Keene more asbestos cover

Continued from page 3
asbestos claims.

- Keene is entitled to reimbursement for claims-handling charges it has had to pay stemming from the post-1976 policies. The costs are to be spread among all the company's insurers.
- Keene is not entitled to reimbursement of $1.1 million from its insurers for claims against the U.S. government and asbestos suppliers for indemnification and contribution.

The opinion marks another step forward toward implementing the landmark Keene Corp. vs. INA decision rendered by the District of Columbia Circuit Court of Appeals in October 1981.

That decision said all insurers on Keene's risk from the time a claimant was exposed to asbestos through manifestation of the injury, including an intermittent latency period, were liable for damages. The decision also said that Keene could select the policy under which to be indemnified.

Defendants in the case and Keene's insurers between 1961 and 1981 include Insurance Co. of North America (December 1961-August 1968); Aetna Casualty & Surety Co. (August 1968-August 1971); Hartford Accident & Indemnity Co. (August 1971-October 1974); and Liberty Mutual Insurance Co. (August 1967-August 1968 and October 1974-October 1980).

Spokesmen for Keene consider the decision very favorable, generally giving the company what it wanted, except for coverage for the cost of claims against the government and suppliers.

"It is a very, very significant opinion," said Jerold Oshinsky, Keene attorney with the Washington, D.C., firm of Anderson Baker Kill & Olick. "It resolves in Keene's favor one of the central remaining issues in the case raised by the insurance companies."

The decision confirmed Keene's position that insurers would be solely responsible for indemnifying Keene and that they could not get around it through the other insurance clauses, he said.

"It establishes a blueprint for the future and entitlement to reimbursement for the past," Mr. Oshinsky said, adding insurers now know how they must allocate costs of defense and indemnification.

"This decision of Judge Green's puts the losses into the period when there was real insurance coverage," added Eugene R. Anderson, another Keene attorney with the New York office of Anderson Russell Kill & Olick.

Insurer attorneys play down the impact of the decision, contending there are more issues to be resolved before the Keene decision is fully implemented.

"It's significant only in that it is one more step toward a final resolution," said Christopher Mansfield, assistant vp for Liberty Mutual Insurance Co. "I don't characterize it as good or bad."

Some insurers are more concerned with obtaining a final determination on how the decision is going to be implemented, he said.

Still unresolved, he noted, is the role excess insurers will play if pre-1976 policies are used up and whether Keene could draw on pre-1976 excess policies or have to rely on post-1976 primary policies.

John P. Arness, an attorney for Hartford with the Washington firm of Hogan & Hartson, said the ruling "cuts both ways" in that it helped both sides.

He emphasized that there are a number of other issues that must be resolved by trial before the 1981 decision is fully implemented.

Still to be resolved are Keene's assertions that it is entitled to reimbursements for settlements and judgments, local defense costs, national defense costs, other defense efforts, other Keene defense expenses, Keene employee expenses and other consequential damages.

Discovery and a formal hearing or trial are required on these issues, Judge Green said, but she did not set a date.

The three issues resolved in the recent opinion had been argued before Judge Green in March.

The deductibles at issue in the recent opinion were the $25,000 and $50,000 deductibles on policies issued by Liberty Mutual between 1976 and 1980. Liberty Mutual contends that Keene owes it $1.6 million under the policies.

In her opinion, Judge Green noted that the 1981 Court of Appeals decision did not absolve Keene from paying deductibles if it selects post-1976 policies to be applied to asbestos claims.

"However, Keene is not obligated to pay these deductibles if it selects one of the pre-1976 policies under which it is to be indemnified," the court said.

Moreover, if Keene chooses to be indemnified by pre-1976 policies, it would not be obligated to pay the deductibles under the "other insurance" provisions of the policies as the insurers had argued.

To illustrate the insurers' contention, one insurer cited the example of a person exposed to asbestos in 1970 and who showed symptoms of an asbstos-related disease in 1980.

Under the 1981 Keene ruling, all 10 policies are triggered and, under the "other insurance" clauses, the various insurers would contribute to indemnify the claimant.

The insurers, however, wanted Keene to contribute a certain amount for those post-1976 policies that had deductibles.

Judge Green's decision says Keene won't have to pay.

"The Court of Appeals decision would be controverted if Keene selected a pre-1976 policy under which to be indemnified but was then assessed a share of the liability through the 'other insurance' clauses based on the deductible provision in the post-1976 policies."

The "other insurance" provisions provide a scheme for apportioning insurers' liability and not Keene's, she added.

If Keene selects a post-1976 policy, Judge Green said, the deductible provisions should be worked out with Liberty Mutual after the loss is prorated among all insurers.

Keene also could seek to recover the deductibles through any excess coverage it might have, the opinion added without explanation.

In the second issue regarding claims-handling charges under the post-1976 policies issued by Liberty Mutual, the court ruled they are essentially defense costs which the insurers and not Keene should pay.

Called "deductible handling expenses" in the policy, Keene was to pay an additional 34% for these charges in addition to premium.

Keene argued, however, that it was entitled to reimbursement for the charges because they were really defense costs that would not have been incurred if Keene had been properly defended under pre-1976 policies.

The insurers contended, however, that the language of the post-1976 policies obligated Keene to pay these deductible-handling expenses and that they were part of the premium.

Judge Green agreed to treat the deductible-handling expenses as defense costs, however, saying that liability should be apportioned among all of Keene's insurers under the 1981 Keene opinion.

"Although the post-1976 Liberty policies describe these charges as 'deductible-handling expenses,' the Court will treat them as defense costs," she said. "Liability is to be apportioned among all of the insurers whose policies are triggered.

"Although the other insurers did not defend Keene, they must assume responsibilty for the costs of defending these suits by Liberty," she added. "All of the insurers had a duty to defend Keene and should not be allowed to profit at the expense of Liberty."

In the third issue, the judge did not classify as defense costs about $1.1 million Keene has spent bringing claims against the government and suppliers of asbestos.

Keene has sued suppliers of asbestsos fiber that were included in Keene's thermal insulation products. It has also sued the government as supplier, specifier of asbestos in thermal insulation products, employer of insulation workers and promulgator of health and safety standards.

Judge Greene said that the policies require insurers to defend or resist a claimant's suit, but do not require insurers to prosecute affirmative suits on Keene's behalf.

"The Court finds that the defendants' duty to defend Keene does not include the duty to pursue or pay for indemnity claims on behalf of Keene," the court said. "The duty to defend cannot be arbitrarily intended to encompass affirmative lawsuits." ■

Policy won't cover EPA suits

Continued from page 2
mental impairment liability coverage coming to London.

Although the government has announced plans to clean up the toxic waste sites using money from the Superfund, it will try to recover the funds spent by suing the companies connected with the dumping (*BI*, May 9).

A company's liability to such a government claim will not be covered under its environmental impairment liability insurance policy, the underwriters say.

"The owner of the site is responsible for the financial cleanup, but say he does not have the money to clean up," Mr. Owen explains. "The next stage—like the EPA is doing—is to identify who put what in the site and levy the bills to the companies.

"When these companies get the bill, I'm pretty certain they would not have insurance."

EIL policies will pay claims if a third party, like a local government or a property owner, is endangered by gradual pollution from a waste site. "But the EPA is not a third party," Mr. Owen explained.

Some EIL policies will cover cleanup at company-owned sites if the insurer is satisfied that the cleanup is needed to avert or reduce an off-site third-party loss, the underwriters agree. But they will not pay for the cleanup of toxic wastes at non-policyholder owned sites.

Policyholders in the past have attempted to have their insurers pay for these cleanup bills, but the underwriters have refused, Mr. Owen said.

"Some companies notify us that they have these bills, but we say that it is not covered by the EIL policy," said Mr. Owen. "There has been some dialogue, but they understand in the end."

So far, no insurer has been sued by a policyholder for refusing to pay cleanup claims, he added. ■

Zenith uses claims data to cut costs

Continued from page 3

If an employee's surgeon planned to perform, say, a hernia operation in a teaching hospital, Mr. Majka may advise the employee to ask his or her surgeon whether that surgeon has privileges to perform the operation at a community hospital.

"Many times, once he is aware of the company's benefit program and the employee's concern over cost, the physician will be happy to work with the patient at a community hospital," said Ronald D. Osborne, vp of health services research and analysis for Blue Cross & Blue Shield of Illinois.

Mr. Osborne named other areas of "benefit abuse" that an MSA can help employees avoid:

- Friday and Saturday admissions, except in trauma cases. Since operating rooms and laboratories are usually closed to non-emergency cases during the weekend, Friday and Saturday admissions mean two to three extra days of hospital stay while an employee waits until Monday.
- Inpatient admissions for procedures that can be accomplished in a physician's office or on an outpatient basis.
- Prolonged inpatient recuperation period. Through an analysis of claims data, the Blues have determined the normal length of stay for a particular diagnosis. For example, the normal hospitalization period for delivery without complications is three days. An MSA can tell an employee the expected length of stay for his or her diagnosis; the employee can then, in turn, question the physician's recommendation.
- Duplication of benefits. An MSA can work with an employee to coordinate benefits when the employee is covered on a spouse's policy or when the employee has two jobs and two benefit plans.

Zenith wants more employees to consult with the MSA, "but we're still educating people" says Michael Kaplan, director of personnel and industrial relations for Zenith.

Zenith introduced the benefit modifications and the MSA program to employees by sending out a four-page supplement to the benefit handbook with a cover letter to the 3,000 salaried employees it planned to include in the program. This first mailing went out in fall 1982 to announce the new program and prepare employees for the changes to come in January.

The mailing also introduced Mr. Majka to employees and included a card with his name and phone number for employees to carry in their wallets.

As an ongoing communications effort, Zenith's three company publications—one is weekly and two are monthly—contain health news. The company monthly runs a column called "Ask the Doctor," wherein Dr. Kaminski addresses common health questions. And in 1982 Zenith began producing another monthly newsletter totally devoted to health matters.

While first-quarter savings is one company's story now, other businesses in the Chicago area could enjoy lower medical costs as a result of Zenith's program, BC/BS says. In theory, Zenith's method of making employees better consumers of medical services would heighten market competition and area providers would compete by providing lower cost and more efficient care.

Theoretically, if consumers patronize hospitals and physicians who provide more efficient care while avoiding unnecessary treatment, all hospitals will improve efficiency to compete in the marketplace.

With hospitals and physicians already hungry for business, the PROBE program aims to put that hunger to work for the consumer and not against him.

It could work against consumers because as Medicare and Medicaid are cut, hospitals and doctors are inclined to make up for fewer patients by charging more for services.

"The cost of health care is a function of price times utilization," Mr. Osborne of Blue Cross & Blue Shield explains. "If a cost-containment program reduces utilization only, a provider will increase price to make up for the lower utilization."

BC/BS is confident that competition created by consumers looking for efficient care will lower area health care costs, but only if more employers participate.

"My personal objective is to get 25 companies in the next two years on (the MSA) program," Mr. Osborne says. "You will then see hospitals competing on a price-by-diagnosis basis."

Under the BC/BS program, a PROBE report can be produced for an individual account, as it was for Zenith in targeting cost-containment areas, or it can be produced in aggregate, as it was in determining the Chicago-area norms for length of stay, cost of procedure, etc.

Each PROBE report analyzes hospital claims data in 12 different ways, including by type of service, by hospital used, by day of week admitted, day of week discharged, by diagnosis, by age and by length of stay. Six of the 12 analyses are applied to outpatient as well as inpatient care.

In addition to PROBE I reports on hospital performance, the Blues will provide PROBE II to analyze physician treatment. PROBE II has been completed in design but has not yet been provided to groups.

PROBE III, which is still on the drawing board, will tie together claims data from individual physicians and hospitals.

Even if the ripples PROBE has created do not reach as far as hoped, Zenith's savings cannot be ignored.

"We feel the program has been very successful," says Mr. Kaplan. "The program certainly seems to be paying for itself. We need increased utilization, but we're very pleased." ■

Agent Orange defendants, plaintiffs disagree on ruling

Continued from page 2

Pratt said that liability and causation issues should be combined with the government contract defense phase of the trial, adding that a trial on all the issues would be postponed indefinitely.

According to several attorneys, the purpose of Judge Pratt's decision was to avoid duplication and to save time and money.

Judge Pratt determined that the facts underlying the government contract defense, any negligence by the defendants and proof of a cause-and-effect relationship between Agent Orange and various diseases overlapped, the attorneys said.

"The government contract defense and the failure-to-warn issues arise out of the same operative facts," said Albert J. Fiorella, chairman of the management committee for the Agent Orange plaintiffs.

Arvin Miskin, the government's lead counsel in the litigation, said Judge Pratt believed there was "significant overlap" of facts in the different phases of the trial.

Attorneys for plaintiffs and the companies named in the suits differ on who benefitted from the decision.

An official at St. Louis-based Monsanto, which had not sought dismissal, called the decision "very favorable."

"The indefinite postponement of the trial gives the defendants the opportunity to continue to develop facts relating to the government contract defense issue and is consistent with our earlier petitions to delay the trial so that further information can be obtained," said Dr. Louis Fernandez, the company's vice chairman.

Dr. Fernandez said it has been difficult obtaining information from the government but that recently the company has discovered "significant new information" and obtained revealing depositions from government officials active in the Agent Orange program.

Dow Chemical Co. of Midland, Mich., which has sought but failed to gain dismissal, said it was disappointed by the decision but was confident it would be vindicated at trial. The company is considering an appeal of the judge's ruling, it said.

An attorney for Cleveland-based Diamond Shamrock said several motions it sought were granted, including a delay that will give it more time to pursue discovery against the government and others.

"We lost nothing and gained a couple of things, by the decision," said Wendell B. Alcorn Jr., a partner in the New York firm of Cadwalader, Wickersham & Taft.

Mr. Fiorella, a plaintiff's attorney, however, said the decision favors the claimants and puts a greater burden on the defendants.

"I think it's a serious problem for the defendants," said Mr. Fiorella. "There is a down side that they didn't have before."

Before the judge's decision, defendants had "three bites of the apple," explained Mr. Fiorella, referring to the scheduled phases of the trial.

For example, if the defendents lost the portion on the government contract defense, they might still have been able to prove they were not negligent. And if they subsequently lost on the negligence issue, they might haved prevailed in a decision on whether there is a causative relationship between Agent Orange and various diseases.

"The defendants had three opportunities to win," he said. "Now they must win the whole case."

Mr. Fiorella said that two of the defendants dismissed from the case, Hoffman and Riverdale, were "not really involved," but that plaintiffs were "somewhat disappointed" with Hercules' dismissal. Plaintiffs have not decided whether they will appeal that company's dismissal, he added.

In the meantime, the parties in the case have been meeting with a special master appointed by the court in an effort to discuss various discovery matters such as how many documents and witnesses will be required and how much time it will take to produce them.

Last week, the master indicated that the trial could be held "substantially before" June of next year, Mr. Fiorella said, though Judge Pratt has not set a court date. ■

Comp injuries drop

SAN FRANCISCO—Frequency of lost-time injuries continued to decline in California during the first quarter of 1983, reports the California Workers Compensation Institute.

The frequency, which is an economic activity indicator, is expected to increase, however, following an upturn in insured payroll reported by workers compensation insurers. The CWCI uses data from the State Division of Labor Statistics and Research.

Disabling work injuries, accounting for one or more lost work days, totaled 67,000 from January to March, down from 80,906 in the first quarter of 1982. However, the division's preliminary estimates are usually understated.

There is no reduction in the number of stress claims being submitted. The number of claims jumped in 1982 to 2,644 or 0.8% of the total disabling injury claims from 0.5% or 1,844 in 1981. ■

Former official sues BMF

Continued from page 1

Brokers generally are expected to maintain separate trust accounts with each insurer with which they do business. Customarily, they are permitted to retain investment income earned from those premiums as supplemental compensation in addition to any commissions.

Some states have laws that require a broker to segregate premiums held in trust from funds in operating accounts and to keep them within that state, where they can be supervised by state insurance regulators.

Mr. Luke's suit seeks $10 million in punitive damages, $500,000 in legal costs and unspecified other damages for civil conspiracy, defamation, breach of good faith and fair dealing, emotional distress and refusal to pay legal expenses.

Among other things, it argues that BMF's directors and officers liability insurance should have paid for his hiring of outside counsel to research the legality of using premium reserves for operations after management refused to do so.

In an alleged memo to Mr. Tate, dated March 18, Mr. Luke writes that a pro-forma BMF balance sheet dated Dec. 31, 1982, "reflects a deficit working capital."

"Technically under some measures we are bankrupt. We are bankrupt with a deficiency in fiduciary funds," the memo continues.

"You're telling me we're out of money," Mr. Luke alleges he was told by Mr. Tate after the BMF president read a Feb. 7 memo detailing the broker's financial situation. That memo, and a second document detailing Mr. Tate's purported comment, are attached as exhibits to Mr. Luke's lawsuit.

BMF officials decline to comment specifically on Mr. Luke's allegations, but released a statement last week denying them all and vowing to "vigorously defend" the brokerage's position in court.

"We are not going to engage in a public debate over this situation," said Lawrence C. Becker, BMF's vp and general counsel.

"The use of premium funds is subject to certain restrictions imposed by the insurance code of some states," BMF management said in the statement. "Sufficient fiduciary assets have always been and continue to be available to satisfy all past, current and ongoing fiduciary obligations."

The BMF statement emphasizes that the broker, following a transaction with Baldwin-United late last year, is now owned by BMF's senior management.

Baldwin-United is the troubled, Cincinnati-based financial services conglomerate whose transactions have come under the scrutiny of state insurance regulators.

Under a plan first disclosed in a Sept. 15, 1982, Securities and Exchange Commission filing, a Baldwin affiliate was to have sold BMF for up to $99 million. Up to $40 million was to be paid in cash and the remaining $59 million was to come in the form of a promissory note guaranteed by the management partnership buying the broker. Baldwin intended that the transaction be part of the refinancing of its heavy debt (*BI*, Nov. 1, 1982).

In papers filed with the suit, Mr. Luke alleges that this transaction with the Baldwin subsidiary—completed Dec. 30—ultimately consisted of the payment of just more than $92 million, consisting of $92 million in notes, most of them at 10% interest, and $100,000 in cash.

The acquiring management group ultimately took the form of a corporation called Newco, according to a section of Baldwin's 1982 Form 10-K filed with the SEC.

Newco paid $92 million for all of BMF's stock: $60 million in cash, a $19 million Newco debenture and a $13 million Newco demand note, according to Baldwin's 10-K. However, it continues, the $60 million in cash was raised through a separate transaction with another Baldwin affiliate, National Equity Life Insurance Corp. of Honolulu.

Newco gave the life insurer debentures and warrants in exchange for $60 million in cash from the insurer's portfolio, the 10-K says.

The warrants issued to Baldwin subsidiaries by Newco are also exchangeable for 79% of Newco's stock, it says.

"Pursuant to generally accepted accounting principles," the 10-K entry concludes, "this transaction has been treated as a financing transaction rather than a sale." In the filing, Baldwin describes BMF as the company's insurance brokerage "operations."

According to the BMF statement responding to Mr. Luke's suit, BMF "has been operating independently of Baldwin-United" since the Dec. 30 transaction, which it described as an "acquisition" of BMF.

Baldwin said it would answer questions about the BMF transactions this week.

Attached to the suit are documents identified as a Dec. 31, 1982, BMF balance sheet prepared as part of the Dec. 30 transaction.

It shows the broker had liabilities of $193 million, including $90.9 million in accounts payable to insurance companies, $5.3 million in other accounts payable, an unspecified demand note payable of $10.6 million, accrued liabilities of $7.0 million and "debentures payable—10%" of $79 million.

The balance sheet lists stockholders' equity as $100,000.

It includes assets of $32.3 million in cash, $70.2 million in receivables and $10.2 million in property, equipment and equity in unconsolidated subsidiaries, plus $80 million in "intangible assets."

Mr. Becker declined to confirm the accuracy of the purported balance sheet.

Mr. Luke says in his suit that his allegation "involves Bayly, Martin & Fay taking millions of dollars in insurance money it holds in trust as a fiduciary and using it for internal operating expenses and acquisitions, and the resulting liquidity crises when monies which were due to be paid out to insurance companies were no longer there.

"...In 1983, the situation became extremely precarious," the suit continues. "BMF's bank line of credit was withdrawn. The trust fund was depleted. Baldwin-United was reported to have its own financial difficulties."

Mr. Luke's suit says that on March 27, three days after the treasurer was fired, he received a telephone call from a "Lawrence Proctor" (Baldwin's assistant vp-auditing), saying that "Baldwin-United had wired money to cover BMF's overdraft (in its concentration account) and requested that plaintiff wait and give 'us' (i.e., defendants) some time to work out arrangements." ■

Pollution coverage rates increasing

Continued from page 2

"And there are a lot of class actions levied against industrial concerns," he explained.

"If you looked at the claims paid, we would show a substantial profit. But if you added in the potential claims outstanding, we would show a substantial loss. In reality, we are somewhere in between.

"To say we are pricing ourselves out of the market is not true," he said. "I do not think we want to insure every U.S. company. We do not have the staff, for a start, to handle all those companies."

Mr. Owen said not all ERAS policyholders have seen their rates climb substantially since the beginning of the year. For example, a low-risk manufacturer with only one site has seen a relatively small increase, he noted.

But there are other types of business that ERAS will hardly consider, he added. "On a chain of petrol stations, we would be much higher than anyone else."

ERAS recently paid a claim for more than $500,000 for a leaking underground gasoline tank at a Canadian service station, he noted.

Mr. Owen also said he suspected that other EIL insurers were facing huge claims. "In New York, a tank leaked and they had to evacuate a block of flats because there could have been an explosion. I do not know how many millions that cost."

Besides service stations, there are other risks that Mr. Owen tries to avoid. "We do not like lead," he said, explaining that materials containing lead can be highly carcinogenic. "Like asbestos, there is a growing awareness of the damage to someone's health (from lead)."

Despite the rate hikes, ERAS' coverage has not change much. Written in the United States through International Insurance Co. and The Hartford Steam Boiler Inspection & Insurance Co. and reinsured through Clarkson Puckle by London underwriters, the claims-made policy includes limits of $30 million per occurence and $60 million aggregate.

Like most other EIL policies, the limits include defense costs.

ERAS for the first time is including coverage for genetic damage in the policy. That coverage was specifically excluded before.

Mr. Owen says if ERAS decides it is losing too much quality business because of its rate increase, it will consider cutting prices.

"We are watching the matter closely, however, and monitoring what business we lose. But right now, we do not envisage any change."

Stiff competition is coming from U.S. pollution underwriters, he admits, particularly from underwriting manager Shand, Morahan & Co. Inc. of Evanston, Ill., and Great American Surplus Lines Insurance Co. through underwriting manager Wrightson & Co. in Chicago.

"After Jan. 1 we know that London companies had their EIL treaties revamped and underwriters charged large rate increases," said Alexander Wayne, a Wrightson senior vp. "So people went out shopping and we saw a lot of residual business from London."

Great American's rates are probably on par with those in London, he said. However, its EIL policy offers wider coverage for a less-hazardous class of business than ERAS does.

"We were the first to include on-premises cleanup; we are silent about insuring punitive damages—meaning we do not exclude it—and we do not exclude automobiles, product liability, airports or genetic damage."

Mr. Wayne admits that there are other insurers who will include these exposures at an extra premium.

But, "these are standard on all our forms."

Great American insures less-hazardous risks than those placed in the London market, he said, like electronics companies or office-intensive businesses. "We go after the large Fortune 500 companies with low exposures. We might write in the gas station area, but not companies in waste management or the chemical industry."

Next month, the insurer will offer higher limits: $25 million per occurrence and $50 million aggregate, compared with the current $15 million per occurrence and $30 million aggregate. Retentions will still average from $10,000 to $25,000.

Richard Kropp, vp of underwriting at Shand, Morahan, says risk managers are taking increased interest in the EIL his company underwrites. But he says that interest is due to government insurance requirements and publicity about toxic wastes, not because of higher rates in London.

"We have seen some business from London, but there is not a wholesale stampede," he says. Besides, he continues, Shand's coverage has always been more expensive than that of most other underwriters.

Shand has not substantially altered its coverage or rates this year, he says, explaining that it rates each risk individually and that it continues to stress risk assessment.

Shand offers limits similar to London's: $30 per loss and $60 million aggregate, with deductibles varying from $5,000 to $5 million. ■

Large firms pay risk managers more: Study

Continued from page 1
California, Illinois, New Jersey, New York, Ohio, Pennsylvania and Texas.

Despite any bias toward risk managers from these industrialized states, it is clear from the survey that the size of the company strongly affects how much compensation a risk manager receives.

For example, the 28 risk managers in the largest category surveyed —more than $7 billion in sales—reported an average base salary of $81,186 and an average bonus of $16,532 for average total compensation of $97,718.

The 73 surveyed risk managers in the next-largest category—between $4 billion and $7 billion in sales—reported an average base salary of $63,356, almost 22% smaller than their colleagues at the larger companies. Risk managers in this category also reported an average bonus of $7,410, 55.2% smaller than the average bonus garnered by those working for companies with more than $7 billion in sales.

The risk managers in the $4 billion-to-$7 billion category received average total compensation of $70,766 in 1982, 27.6% less than those in the larger categeory.

This trend holds true in each of the five other categories for average risk management salary, bonus and total compensation, except for one aberration: risk managers at companies with $1 billion to $2 billion in sales earned a larger average bonus ($4,545) than those at companies with $2 billion to $4 billion in sales ($3,980).

Mr. Perry at Logic said he was not sure why this disparity exists, but suggests that several risk managers in the $2 billion-to-$4 billion category may have received no bonuses, which would reduce the aggregate bonus received by the group.

Despite this exception, it is especially interesting to note that while the average salary of $34,894 earned by risk managers in the smallest category (less than $200 million in annual sales) is 57.4% less than the average salary earned by small-company risk managers' average bonus of $1,783 is 89.2% less than the average bonus for those at the corporate giants.

In addition to the correlation between the size of a company and the average compensation a risk manager receives, there also is a correlation between the state in which he or she works and average compensation. According to the results of the survey, risk managers in the Northeast and in Texas are generally higher-paid than their colleagues in the South, Midwest and West.

For instance, the average compensation received by a New York-based risk manager working for a company with $201 million to $500 million in sales was $43,168 in 1982, the survey notes. Risk managers in New Jersey at companies of similar size reported average compensation of $45,650, while those in Connecticut said their average compensation totaled $47,443.

Risk managers at the same size corporations based in the Midwest earn a lot less, according to the study. For example, the average Illinois risk manager at a company with $201 million to $500 million in sales had compensation of $38,519. Ohio risk managers at a similar-sized company reported average compensation of $38,300, while those in Michigan fared even poorer with average compensation of $34,233.

Risk managers in the category who work in the South earned less than those in the industrial Northeast, too. Risk managers at Kentucky companies with sales between $201 million and $500 million reported average compensation of $35,450, while those in North Carolina earned an average of $33,333.

Even companies in California could not match the salaries paid in the Northeast. California risk managers working at companies in this category reported average compensation of $36,896.

However, Texas risk managers at companies with $201 million to $500 million in sales reported extremely high compensation: an average of $50,714.

This vast difference between salaries in the Northeast and elsewhere holds true in virtually all other company categories. And in most other categories, the salaries paid to Texas risk managers are not as high as those paid by Northeastern employers.

For instance, New York companies with annual sales between $2 billion and $4 billion paid average compensation of $69,929 in 1982. New Jersey companies paid an average of $65,278, while the average compensation in Connecticut was $61,457.

Again, salaries in the Midwest were a bit lower. For instance, Ohio risk managers at companies with $2 billion to $4 billion in sales reported average compensation of $55,343, and Michigan risk managers reported an average of $57,500.

California risk managers at companies of similar size reported average compensation of $52,509, but this time Texas risk managers' compensation was closer to those in the West and Midwest, reporting an average of $54,650.

This trend toward higher compensation in the Northeast backs up the results of last year's survey, which reported that average risk management compensation was higher in Connecticut and New York than the rest of the country. Last year's survey, however, did not differentiate among companies of varying sizes.

While geography has a great effect on risk managers' compensation, the type of industry in which a company is engaged does not.

Risk managers responding to the survey were placed in different categories according to the type of industry in which their employer was a member. The categories were chemicals, conglomerates, consumer products, drugs/pharmaceuticals, manufacturing, non-profit, oil/petrochemical, service, transportation, utilities and miscellaneous.

The miscellaneous category included risk managers from various industries whose representation was so small that comparisons with other groups could not be made.

In only one industry—the service industry—did the average compensation exceed the average for all industries in four different company-size classifications: $201 million to $500 million, $500 million to $1 billion, $1 billion to $2 billion and $2 billion to $4 billion.

And, no industry reported average compensation less than the aggregate compensation for all industries surveyed in all four size categories.

(Only these four size categories were used to compare industry compensation because they were the only categories in which a significant number of responses were filed by all industries.)

It is also interesting to note that extremely high risk management compensation is offered by a number of industries.

For example, in Texas alone, risk managers in three different industries reported compensation exceeding $100,000.

A risk manager for an oil/petrochemical firm reported receiving $145,000 in compensation in 1982 ($130,000 in salary and $15,000 in bonuses); a risk manager for a conglomerate reported compensation of $121,000 ($96,000 in salary and $25,000 in bonuses); and a risk manager of a company in the service industry reported receiving $115,000 in compensation ($89,000 in salary and $26,000 in bonuses).

Besides surveying risk managers on how much they made, the Logic study also asked risk managers to describe their duties and the makeup of their companies' risk management departments. A report on that section of the survey will appear in next week's edition of *Business Insurance*.

•

Copies of the "1982 Risk Management Compensation Survey" are available for $35 each, including postage and handling, from Logic Personnel Associates Inc., 170 Broadway, New York, N.Y. 10038; 212-227-8000.

College settles pension suit

WASHINGTON—A North Carolina university will repay more than $55,000 to the school's pension plan to settle a lawsuit, the Labor Department says.

The department had charged in a lawsuit that Stanley Smith, president of Shaw University in Raleigh, N.C., and William Love, the university's business manager, with violating the Employee Retirement Income Security Act by failing to remit on time employee contributions to the school's pension plan.

The university officials also allegedly diverted pension plan funds to Shaw University's general account, the Labor Department said.

Under ERISA, pension plans are barred from lending money or transferring assets to the plan sponsor unless the Labor Department grants an exemption.

Under the consent order, the defendants are required to provide assurance to the Labor Department by May 25 that all money needed to compensate the plan for losses has been paid.

The defendants also agreed to give the Labor Department full access to university financial records.

The consent order was filed May 2 in U.S. District Court in Raleigh, N.C. The department's suit was filed March 3 in the same court. ■

classified advertising

RATES AND CLOSING TIME:

Rates: Display classified is $60.00 per column inch, minimum of one inch. Straight classified is $5.50 per line, minimum of 5 lines. Count 34 characters per line (include each space and punctuation as a character). Additional $11.00 charge for blind box ads. Responses to blind box ads must fit into business size envelope. Responses are forwarded daily.

Closing: Published every Monday. Copy must be in written form by noon Tuesday, 6 days preceding publishing date. No verbal phone copy accepted. Prepayment required. Mail ads to Beverly Kluxdal, Classified Advertising, 740 N. Rush St., Chicago, IL 60611. For more information call 312-649-5340.

Business Insurance Circulation Breakdown*

Commercial Consumers

Administrative Management: owners, presidents, vps, etc.	6,483
Financial Management: chief financial officers, vps of finance, secretaries, treasurers, etc.	10,138
Insurance Management: vps, directors, managers of insurance, risk, benefits, compensation, safety, security, etc.	5,299
Government, Associations, Unions, Educational Institutions	1,034
Commercial Consumers Sub-total	**22,954**
Insurance Agents & Brokers	9,771
Insurance Cos.	5,217
Financial Institutions	352
Actuaries, Attorneys, Adjusters, Appraisers & Consultants	2,603
Others allied to the field	937
TOTAL	**41,834**

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

Risk Management
GOOD TIMES ARE COMING!
CONSULTANTS
RISK MANAGEMENT
PROPERTY & CASUALTY AND LIFE
Send resume or call
MARTY HODES, ARM
(212) 225-4935 (516) 487-4992
RM **IRM Assoc. Ltd.**
505 Northern Blvd.
Great Neck, N.Y. 11021

BI Classifieds assure top quality results!

Interested in purchasing property and casualty insurance agencies in Lancaster and Berks Counties, Pa. Please respond to:
Box 682, BUSINESS INSURANCE
740 N. Rush St., Chicago, Il. 60611

WANTED
LIFE CO.—ADMITTED IN CA., TEXAS, FLA., ILL., INDIANA, KANSAS, OHIO. DOMICILED OUT OF CA. A MUST. RESPOND P.O. BOX 8849 CALABASAS PARK, CA. 91302

SCHOOL DISTRICT LIFE & LTD
We offer stable and competitive group life and LTD markets for school districts and government units. Flexible plan design. Brokerage inquiries are invited.
GROUP BENEFIT PLANS
28200 Orchard Lake Rd.—#107
Farmington Hills, MI 48018
(313) 851-8535

GROUP HEALTH UNDERWRITER

Fast growth public company in health care field. This position requires B.S. degree plus 5+ years group health underwriting experience. Position reports directly to Sr. Vice President of Marketing in matters of selection, qualifying prospects, contract control, loss ratios.

This opportunity provides excellent salary and benefits package.

Resumes in confidence to Personnel Director:

United States
Health Care Systems Co.
2500 Maryland Road
Willow Grove, PA 19090

For a *Concise* and *Logical* Approach to Risk Management Recruiting

LOGIC
Associates, Inc.
170 Broadway
New York, N.Y. 10038
(212) 227-8000

RISK MANAGEMENT ANALYST

Detroit area manufacturer has an immediate need for a Risk Analyst. Candidates will be able to administer a self-insured retro-rated P&C program and be experienced in accounting. Strong communication skills with experience in the preparation of procedure manuals, underwriting and loss control are desired. This is a challenging position requiring a solid risk management professional who can be immediately productive. College degree preferred. Excellent salary and benefits. send resume and salary requirements to:

Box 679, BUSINESS INSURANCE
740 Rush St., Chicago, IL 60611

Equal Opportunity Employer

NOTICE: The State of Wisconsin Group Insurance Board is seeking Administrative-Services-Only (ASO) bid proposals on the Group Health Insurance Program for state employes.
The current contract is self-insured and renewed annually on Jan. 1. The plan covers approximately 48,000 active and retired employes plus 77,000 dependents. The plan includes: hospitalization, professional services and major medical. Proposals must be submitted for self-insured (ASO) claim processing services.
Companies determined to be capable of handling claims processing for an account of this size will be furnished copies of the specifications.
For further information write or call: Wis. Group Insurance Board, Room 171, 201 East Washington Ave., Madison, WI 53702. Telephone: 608-266-0207. Bid proposals will be accepted through Friday, June 24, 1983.

Industrials provide generous pensions: Study

Continued from page 3

allow an employee to retire at any age after 30 years of service under the so-called "30-and-out" provision. Alternatively, auto workers can retire at age 55 after only 10 years on the job.

But employees who retire before age 65 pay a price for early retirement in the form of smaller pension benefits. For example, at Standard Oil Co. (Indiana), accrued benefits are reduced 5% for each year a worker retires prior to age 60. The accrued benefits at Shell Oil Co. are reduced 5% per year for retirement prior to age 62.

On the other hand, some 68%, or 34 of the 50 companies surveyed, consider salary earned by an employee who stays on the job after age 65 in calculating older workers' pension benefits.

The big companies use a variety of formulas to calculate employees' retirement benefits. For example, 18 companies base the benefit on an employee's highest three years of salary during the last 10 years of employment. Industrial employers that use this formula include Ashland Oil Inc., Atlantic Richfield Co. and Cities Service Co.

In addition, 15 companies base pension benefits of an employee's highest five years of salary during his final 10 years. Among the employers that use this formula are Armco Inc., Bethlehem Steel Co. and Caterpillar Tractor Co.

Some 40 of the 50 companies offer 10-year cliff vesting schedules, in which an employee must work for 10 years before being entitled to a pension.

However, a few companies use other vesting schedules. For example, under Standard Oil Co. of California's pension plan, an employee becomes 25% vested after five years. The employee then vests at the rate of 5% per year until 50% is vested after 10 years, then vests at the rate of 10% per year until 100% is vested after 15 years of service.

More companies are boosting benefits to help their retirees keep up with inflation. Some 39 of the surveyed employers have increased post-retirement benefits at least once since 1979.

For example, last year Goodyear increased retirees' monthly benefits by $6 for each year they worked for the tire and rubber company, while R. J. Reynolds Industries Inc. increased benefits by $1 per year of service (up to 40 years) in 1975, 1977, 1979 and 1981.

Of the 50 pension plans sponsored by the surveyed companies, 38 are fully paid by the employer while 11 require employee contributions. For example, RCA Corp. requires employees to contribute 3% of pay exceeding $9,000, while Westinghouse requires employees to contribute 3% of pay exceeding $14,700.

The remaining plan, Atlantic Richfield's, allows—but does not require—employee contributions.

The surveyed employers also offer 39 thrift or savings plans.

The most common maximum employer contribution to a thrift/savings plan is 3% of pay, according to the survey.

All of the thrift/savings plans offer at least two investment alternatives for employee contributions. Funding vehicles include company stock, equity funds, diversified funds, fixed income funds, government securities, savings bonds and guaranteed income funds.

However, a growing number of thrift/savings plans limits the investment vehicles for employer contributions. Some 21 plans restrict employer contributions to company stock, up from 17 plans last year, according to the Wyatt survey.

Nine of the companies have added 401(k) salary reduction features to their thrift/savings plans.

In addition, 33 surveyed employers offer Tax Reduction Act Stock Ownership Plans, Payroll-Based Stock Ownership Plans or Employee Stock Ownership Plans, while 25 maintain supplemental pension plans.

•

Copies of "A Survey of Retirement, Thrift and Profit Sharing Plans Covering Salaried Employees of 50 Large U.S. Industrial Companies as of Jan. 1, 1983" are available free from The Wyatt Co., 233 S. Wacker Drive, Suite 5600, Chicago, Ill. 60606; 312-876-2000.

Buyers report they'd switch, not pay more

NEW YORK—Nearly two-thirds of risk managers would switch insurers rather than accept sharply higher premium rates in the coming year, a survey by a stock analyst shows.

And better than 19 of every 20 respondents to the survey said that premium rates on at least some coverage they handle had been cut within the last year while, at the same time, policy limits were increased.

A total of 60.6% of the buyers said they had changed insurers on some coverage in the last year and 33.9% had changed brokers.

"They were getting more coverage for less money," says Gloria L. Vogel, a vp of institutional research and an insurance analyst in the New York office of Legg Mason Wood Walker Inc., a securities brokerage.

Ms. Vogel sent written questionnaires in December to 650 risk and insurance managers at the nation's largest companies. About 25% responded, most during January, she says.

"The general feeling was that the market will continue to be soft, but that there may be selected areas of hardening," she says.

The buyers responding said they see signs of slight increases in property insurance rates, says Ms. Vogel.

She said the buyers also expected to see insurers press in the coming year for more cost-containment efforts in group health insurance programs.

According to Ms. Vogel, when asked what they would do if confronted with sharply higher insurance rates:

- 85.7% of respondents said they would increase levels of self retention.
- 81.2% said they would not form a new captive insurer.
- 85.1% said they would not change their insurance brokers or agents.
- 64.6% said they would change insurers.

"They seem to feel there is a better deal around somewhere from another insurer," says Ms. Vogel. "It does show a sensitivity to price increases." ■

Summary of major property/casualty insurer 1983 first-quarter results

(All figures in thousands of dollars)

(Ranked by change in operating income)

	Corporate				Property/casualty operations							
Rank 1983	Consolidated revenues 1983	Aftertax[1] operating income 1983	Aftertax[1] operating income 1982	Percent change 1982-1983	Combined[1] ratio 1983	Combined[1] ratio 1982	Net premiums written 1983	Percent change 1982-1983	Pretax underwriting income (loss) 1983	Percent change 1982-1983	Pretax net investment income 1983	Percent change 1982-1983
1 SAFECO Corp.	408,647	30,487	19,494	56.4	100.6	105.5	215,044	7.0	(1,266)	(88.8)	24,259	6.1
2 American General Corp.[3]	960,300	70,400	45,400	55.1	106.3	102.3	238,800	22.2	(11,500)	187.5	32,300	11.4
3 CIGNA Corp. (pro forma)	2,922,874	76,651	57,694	32.9	113.1	116.4	924,878	(4.4)	(123,247)	(21.7)	131,280	(7.8)
4 Ohio Casualty Corp.	217,532	18,488	14,288	29.4	102.1	105.6	207,708	4.9	(5,119)	(52.1)	21,376	2.0
5 USF&G Corp.	571,136	43,772	35,048	24.9	108.6	110.2	509,445	(2.6)	(53,178)	9.7	74,310	8.0
6 The Chubb Corp.	384,100	24,600	19,700	24.8	104.5	107.6	306,600	9.8	(14,600)	(34.5)	30,900	1.6
7 Old Republic Int'l. (inc. life)	94,700	10,800	8,800	22.7	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
8 Aetna L&C Co.	3,706,900	119,000	101,000	17.8	108.0	117.1	925,400	0.4	(71,200)	(54.6)	123,700	(1.3)
9 American International Group	903,451	115,436	100,248	15.2	97.5	95.6	624,164	6.4	8,742	(38.7)	78,471	9.0
10 CNA Financial Corp.	837,500	36,361	31,938	13.8	118.7	112.4	392,000	(12.8)	(83,300)	20.6	91,800	2.0
11 The Travelers Corp. & subs.	3,076,993	76,002	67,686	12.1	108.2	109.5	825,309	(5.1)	(83,662)	(16.3)	64,919	8.2
12 Kemper Corp.	493,721	20,683	18,596	11.2	106.2	107.9	232,119	(10.6)	(16,655)	(14.9)	18,037	(5.6)
13 General Re Corp.	377,604	52,650	48,177	9.3	102.4	99.0	209,143	(6.9)	(6,812)	338.1	45,323	15.0
14 Fireman's Fund Ins. Cos.	895,694	63,404	58,055	9.2	108.0	104.4	748,485	11.6	(52,283)	95.2	93,056	23.0
15 The St. Paul Cos. Inc.	554,593	44,642	41,205	8.3	109.0	107.0	407,062	8.8	(34,563)	36.8	66,469	3.8
16 Hartford Steam Boiler	52,576	3,856	3,730	3.4	97.6	99.8	42,081	(8.2)	860	1,016.9	3,965	(1.9)
17 Crum & Forster Inc.	507,100	35,200	34,500	2.0	110.0	112.0	448,300	8.7	(34,000)	10.7	75,000	(1.7)
18 The Hartford Ins. Group	1,227,578	45,755	44,866	2.0	113.2	111.5	774,097	(2.7)	(104,971)	2.2	111,316	(4.4)
19 Reliance Ins. Co. & subs.	310,375	18,000	18,733	(3.9)	107.5	103.5	273,601	7.3	(19,559)	230.6	41,860	(2.8)
20 Royal Group (U.S. subs.)[2]	N/A	(6,000)	(7,700)	(22.1)	117.9	115.2	338,500	2.4	(63,500)	11.5	41,500	7.8
21 The Continental Corp.	893,317	26,957	37,901	(28.9)	112.4	110.4	641,138	(5.0)	(73,752)	(5.0)	73,275	(3.7)
22 Mission Ins. Group Inc.	11,5296	8,149	12,908	(36.9)	108.6	99.0	99,332	10.5	(7,576)	—	11,598	(3.2)
23 The Home Group Inc.	729,900	20,900	39,600	(47.2)	117.7	113.3	416,523	(7.9)	(72,421)	24.7	72,864	2.3
24 Fremont General Corp.	125,599	187	5,412	(96.5)	120.9	107.6	58,355	(17.2)	(12,898)	157.9	10,407	20.7
25 Armco Ins. Group Inc.	163,165	(4,584)	4,651	—	114.1	112.4	140,725	(2.3)	(20,090)	10.3	17,196	(0.9)
— Commercial Union Ins. (U.S.)[2]	N/A	N/A	N/A	N/A	114.3	115.8	400,900	1.7	(65,500)	(8.7)	46,900	8.3
— Wausau Insurance Cos.[2]	N/A	N/A	N/A	N/A	129.8	120.1	230,779	(1.9)	(48,409)	64.2	59,001	25.8
— Liberty Mutual Ins. Co.[2]	N/A	N/A	N/A	N/A	112.3	112.2	807,770	(4.3)	(60,687)	(5.2)	128,537	13.7
— Sentry Ins. Cos.[2]	108,798	2,126	(2,948)	—	110.1	113.2	204,970	1.0	(27,311)	(12.2)	21,975	(3.3)
Cumulative	20,635,682	954,012	859,082	11.1	110.2	110.3	11,643,221	(0.2)	(1,158,537)	(2.7)	1,611,594	4.0

[1]After dividends [2] Statutory [3]1982 results as reported prior to merger with NLT Corp. N/A—Company did not provide data

Insurers mask 1982 operating losses

NEW YORK—The nation's largest commercial property/casualty insurers, already accustomed to multimillion-dollar commercial lines underwriting losses, are facing a new phenomenon: pretax *operating* losses on commercial lines.

A review of 1982 insurer results shows at least seven of the top 25 stock property/casualty insurers reported razor-thin or no pretax operating profits on commercial business, despite strong investment income gains at year-end.

In most cases, the effect of tax credits and other accounting provisions allowed the companies to report net profits to their shareholders. But operating losses at property/casualty operating units—the first in recent memory for major insurers—underscore the severity of underwriting losses when coupled with declining investment returns.

According to recently released corporate annual reports or statistical supplements:

- The Travelers Corp. posted a $35.8 million pretax operating loss on its commercial property/casualty operations and a $62.3 million pretax operating loss on its personal lines property/casualty operations. But the effect of taxes turned the commercial lines loss into a reported $26 million profit for Travelers and reduced the personal lines loss to $21.5 million.
- Fremont General Corp. reported a $10.4 million corporate-wide operating loss before realized gains and tax credits, compared with a $23.6 million profit a year earlier. Fremont, however, was able to convert that 1982 loss into a $5.6 million profit after income tax benefits. Losses in property/casualty operations totaled $16.9 million pretax.
- The five U.S. property/casualty subsidiaries of Commercial Union Insurance Cos. reported to state insurance regulators a consolidated statutory pretax operating loss of $73.6 million for 1982, compared with a profit of $5.9 million a year earlier. CU is owned by British-based Commercial Union Assurance P.L.C.

CU's reported U.S. property/casualty loss would probably be considerably less if it were able to use accounting methods similar to U.S. stock insurers. However, it cannot because of its British parentage.

- Continental Corp. reported it suffered a $49.9 million pretax operating loss on property/casualty insurance before realized capital gains.
- Although Aetna Life & Casualty Co.'s corporate pretax operating results remained positive, its commercial insurance division suffered an $18.8 million pretax operating loss last year, compared with a $10.5 million profit for 1981. In 1978, the industry's last banner year, Aetna reported $315.5 million in profits on a similar basis.

Aetna's statistical supplement shows that its six property/casualty companies and one reinsurance company posted a consolidated pretax operating loss of $87.5 million in 1982, compared with a loss of $15.6 million a year earlier.

- ITT Corp.'s Hartford Insurance Group posted a $500,000 pretax operating loss on commercial property/casualty operations, excluding unallocable investment income, compared with a $65 million profit in 1981 and a $179 million profit in 1980. Hartford's personal lines, however, flipped from a $14 million loss in 1981 to a $1 million profit in 1982.
- Kemper Corp.'s property/casualty operations, which are largely personal lines, suffered a $9.7 million pretax operating loss, compared with a $26.1 million profit in 1981. Underwriting losses of $86.9 million, up from $47.1 million in 1981, were not offset by $77.2 million in pretax investment income, which rose at a below-industry average rate of 5.4%.

Other insurers are coming close to losses on their property/casualty business:

- CIGNA Corp., the nation's largest stock property/casualty insurer in terms of assets, managed an insignificant $12.7 million pretax operating profit in 1982 for its Property & Casualty Group with $3.9 billion in premiums. The group posted a pretax operating profit of $258.9 million in 1981.
- USF&G Corp.'s pretax operating income on property/casualty operations fell from $137.8 million in 1981 to $7.9 million in 1982.
- Chubb Corp.'s pretax income from property/casualty insurance operations plunged to $8.1 million in 1982, compared with $90.7 million a year earlier and $106.7 million in 1981.

The outlook for operating profits in 1983 isn't good, executives say.

"I expect the industry to record a pretax underwriting loss this year that will exceed pretax investment income," Frans R. Eliason, president and chief executive of Armco Insurance Group Inc. told a meeting of underwriters in New York.

If that is the case, Mr. Eliason told the group, then any profits registered by property/casualty insurers "would be illusory, totally from taking down tax credits, not from our basic business operations."

—By Bill Densmore

Average combined ratio holds at 110%

Continued from page 3

vey of insurance buyers (see story, page 33). "My personal conclusion is that there are great expectations out there, but very little evidence that anything has really changed."

Ms. Vogel says her research suggests that risk managers "won't stand for" severe rate increases, and will instead increase the amount of self-insurance, switch insurers or even switch brokers.

Mild winter weather was one of the major factors behind the insurers' relatively good first-quarter showing. In the first three months of 1983, catastrophe storm losses totaled a mild $120.6 million, according to C.E. Hermanson, vp-property claims service for the American Insurance Assn. The industry racked up $411.7 million in storm-related losses in the first quarter of 1982.

"The thing that really jumps out at you is the importance of weather in the industry's results," says Claus W. Hirsch, a senior vp and analyst with the Lehman Management Co. affiliate of Lehman Brothers Kuhn Loeb Inc., a Wall Street stockbroker. "It is a major, major factor."

Even if catastrophe losses in the first three months of 1983 had been similar to 1982's, the aggregate combined ratio would still have been just little more than a point above the ratio in the first quarter of 1982, a relatively modest increase after the almost four-point jump in the 1982 calendar year.

Mr. Cohen at Paine Webber says the economy is aiding insurers' results in at least two ways. For one, he says, premiums for workers compensation and other payroll-related coverages will begin to naturally increase as factories begin to increase capacity.

The Federal Reserve Board reported last week that U.S. factories were operating at 71.1% of capacity during April, the highest rate in more than a year.

Also, Mr. Cohen says, insurers whose premiums are increasing in a recovering economy may become more willing to forego some renewals rather than underwrite the business at what they consider inadequate rates.

"As the economy produces natural growth, underwriters will be more willing to give up a piece of business," he says.

Other analysts note that the insurers' reserve practices may be partially behind the good results.

Insurers appear to be trimmming the size of their contributions to loss reserves, they say, using the funds to boost their sagging bottom lines.

Analyst Gordon D. Luce of Brown Brothers Harriman & Co., who tracked contributions to loss reserves made by 11 of the biggest stock property/casualty insurers, found a correlation between decreased earnings and decreased reserve contributions.

Mr. Luce found that in 1980, when the 11 companies reported pretax operating earnings of $1.6 billion, they added $2.7 billion—or 59% of earnings—to their loss reserves. In 1981, as the underwriting cycle worsened, their additions to loss reserves equaled 54.5% of pre-tax earnings. By 1982, reserve contributions equaled 44.3% of earnings.

Loss reserves are tax-deductible accounts that are supposed to represent an insurer's actuarial estimate of what it needs to set aside now to pay expected future claims. The reserves must be, at a minimum, large enough to satisfy state regulators concerned about an insurer's solvency and, at a maximum, not so large as to attract the interest of the Internal Revenue Service as a potential tax dodge.

Judgment reigns in the area between those two relatively obscure extremes. During profitable periods, an insurer may boost reserves above what it really needs to avoid paying taxes. Ideally, it can then reduce those reserves to more reasonable levels in leaner periods, like now.

Myron M. Picoult of Oppenheimer & Co. Inc., who has just completed a comparison of first-quarter reserve movements among 13 large property/casualty insurers, notes differing reserve practices among insurers.

"Some companies added to reserves and others actually took money out," he says.

The largest withdrawal, according to Mr. Picoult, was by Aetna Life & Casualty Co., which took $30 million from reserves via a reinsurance transaction and thus improved its bottom line. During the first-quarter of 1982, Mr. Picoult says, Aetna added $129 million to reserves.

Aetna reinsured a big block of its future medical malpractice liabilities with Fireman's Fund Insurance Cos. (*BI*, May 9). The transaction helped Aetna boost aftertax operating earnings by $48.3 million, a 17.8% jump.

Among other companies that made small withdrawals from reserves were USF&G Corp., SAFECO Corp. and Kemper Corp., Mr. Picoult says. Significant reserve additions were made by Chubb Corp. ($15 million), Crum & Forster Inc. ($59 million), The St. Paul Cos. Inc. ($53 million) and The Travelers Corp. ($118 million).

Fireman's Fund added $40 million to reserves, including reserves for the reinsurance transaction with Aetna, and in the process lost a few notches on the *BI* survey of operating results to finish No. 14 on the survey behind General Re Corp.

American General Corp., sparked by its acquisition-driven growth, added $29 million, but still managed a 55.1% gain in aftertax operating income because of results from merger partner NLT Corp. that were not reported during last year's first quarter.

SAFECO attributed its stellar 56.4% rise in first-quarter operating results almost exclusively to the lack of any severe winter weather in the Pacific Northwest, where much of its underwriting is concentrated, and moderate weather elsewhere in the country.

SAFECO also benefited from its heavy concentration in personal lines, which most underwriters and analysts feel are beginning to yield higher rates for multiline insurers.

Analysts partially discount CIGNA's 32.9% rise in operating income, saying that between $12 million and $13 million of the increase is attributable to the sale of some venture capital subsidiaries and a small life insurer.

Without the two gains, the analysts say, CIGNA's aftertax operating earnings would have been up only about 10%, close to the average gain of the insurers surveyed.

At the other end of the chart, bottom-ranked Armco Insurance Group Inc. said the tax effect of continuing losses at its steel-industry parent forced it to absorb a larger measure of its underwriting loss. Its $4.6 million first-quarter aftertax operating loss compares with a $4.7 million operating profit a year earlier.

The insurance group's pretax net income was actually a loss of only $4,985, compared with a gain of $360,361 for the first three months of 1982, a spokesman said.

Two other companies posting operating declines, Fremont General Corp. and The Home Group Inc., cited general underwriting conditions. Both companies reported declines in first-quarter written premiums that far exceed the aggregate 0.2% decline posted by the 27 reporting companies.

Big declines in written premiums were also reported by Kemper Corp. and CNA Financial Corp. The biggest gains were posted by American General Corp. (because of the addition of NLT), Fireman's Fund and Mission Insurance Group Inc.

Fireman's Fund has told analysts that it attributes its 11.6% premium growth to a shift of business by agents towards larger, more secure companies and away from smaller or shaky insurers.

General Re and American International Group Inc.—two insurers that have consistently posted better operating results than their competitors for the past year—dropped to the middle of the pack in the first quarter.

No. 13-ranked General Re, which ranked No. 3 in the first quarter of 1982 with $48.2 million in operating earnings, principally reinsures liability risks. It was not hit as hard as general insurers by last year's weather losses, and so was high on the chart. But, better weather this year isn't helping much and so the fall. Its $52.7 million in first-quarter, aftertax operating earnings is still a respectable 9.3% gain.

AIG's No. 9 ranking is also a sharp fall from its No. 1 position at the end of last year's first quarter, even though it posted a healthy 15.2% earnings increase. Like Gen Re, AIG is not benefiting as much as other insurers from the absence of weather-related losses. Of AIG's 1982 net premium of $2.3 billion, for example, only $279 million was related to commercial property risks.

Wausau Insurance Cos. reported the highest statutory combined ratio—129.8%—for the first quarter, up from 120.1% last year. The company says it always incurs a disproportionate share of claims and expenses in the first quarter and a disproportionate share of premiums in the last quarter.

As a result, Wausau's combined ratio can show a spread from six to 10 points from the beginning to the end of the year, the company added. ■

British Issues

17 May Companies	Price pence	P/E	Div. pence	Yield %	1 Week High—Low pence	pence
Commi Union	161	48.8	16.86	10.5	163—	161
Eagle Star	407	16.2	24.29	6.0	410—	405
Genl Accident	423	13.5	24.29	5.7	425—	420
Gdn Royal Exch	420	11.1	27.86	6.6	433—	420
Phoenix	326	17.8	25.00	7.7	328—	326
Royal	490	12.7	37.86	7.7	515—	490
Sun Alliance	1175	16.1	68.57	5.8	1212—	1175
Brokers						
CE Heath	305	8.5	18.71	6.9	315—	303
Hogg Robinson	115	8.8	8.57	8.1	120—	114
JH Minet	124	11.8	6.50	5.2	128—	124
Sedg Grp	218	12.5	10.00	4.6	229—	218
Stenhouse Hldg	120	11.2	7.86	6.5	122—	120
Stew Wrightson	262	9.5	20.43	7.8	275—	262
Willis Faber	523	13.8	25.00	4.8	543—	523

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

BI Industry Stock Report

MAY 17,1983 5/11/83 THRU 5/17/83

Insurance Cos.		Price	% Chg.	P/E	$ Div.	% Yld.	High	Low	Vol. (000)
Aetna Life & Cas Co	NYSE	41.88	-0.6	7.3	2.64	6.3	42.00	41.88	777.9
American Bankers Ins Group	OTC	14.50	-5.7	11.4	0.50	3.4	15.38	14.50	355.1
American Gen Ins Co	NYSE	23.00	-2.5	8.8	0.80	3.5	23.50	23.00	699.0
American Indty Finl Corp	OTC	20.75	-2.9	15.4	1.12	5.4	21.00	20.75	9.0
American Intl Group Inc	OTC	73.50	-3.9	12.7	0.44	0.6	77.25*	73.50	326.1
American Natl Ins Co	OTC	19.25	-1.9	8.0	0.84	4.4	19.50	19.25	66.7
American Sts Life Ins Co	OTC	29.00	0.0	8.1	0.88	3.0	29.00	29.00	0.2
Aneco Reins Ltd	OTC	4.00	10.3	100.0	0.00	0.0	4.00	3.75	71.6
Avemco Corp	AMEX	15.75	-3.8	9.4	0.58	3.7	16.00	15.75	8.5
Banks Iowa Inc	OTC	42.50	1.2	11.2	1.52	3.6	42.50	42.00	3.4
Bitco Corp	OTC	36.50	-1.4	7.6	2.00	5.5	37.00	36.50	1.5
Carolina Cas Ins Co	OTC	8.25	6.5	10.9	0.32	3.9	8.25*	8.25	1.0
Chubb Corp	OTC	55.25	-6.4	8.6	2.92	5.3	57.63	55.25	343.2
Combined Intl Corp	NYSE	35.75	-0.7	11.9	2.00	5.6	36.25*	35.50	152.2
Continental Corp	NYSE	29.75	-12.8	16.4	2.60	8.7	32.00	29.75	845.8
Crawford & Co	OTC	21.75	7.4	15.8	0.60	2.8	21.75	20.50	30.8
Crown Life Ins Co	OTC	115.00	4.5	7.5	3.10	2.7	115.00*	110.00	0.0
Employers Cas Co	OTC	39.75	0.0	8.2	1.20	3.0	39.75	39.75	6.4
Equifax Inc	NYSE	32.13	-3.7	14.6	1.40	4.4	33.25	32.00	79.1
Excelsior Ins Co	OTC	12.00	0.0	0.0	0.70	5.8	12.00	12.00	6.7
Farmers Group Inc	OTC	42.63	-11.2	11.4	1.36	3.2	48.50*	42.63	1,042.9
Foremost Corp Amer	OTC	54.00	-4.4	16.6	1.24	2.3	57.25*	54.00	43.4
Fremont Gen Corp	OTC	28.38	-3.8	945.8	0.48	1.7	32.13*	28.13	861.3
Great West Life Assurn Co	OTC	198.00	0.0	10.7	10.00	5.1	198.00	198.00	0.0
Hanover Ins Co	OTC	57.00	0.0	7.1	0.88	1.5	59.00*	56.50	45.3
Hartford Steam Boiler Inspctn	OTC	55.00	0.9	12.1	3.00	5.5	55.00	54.00	13.7
Jefferson Natl Life Ins Co	OTC	46.00	4.5	14.4	0.76	1.7	46.00	44.50	5.2
Kemper Corp	OTC	49.50	-1.5	9.3	1.80	3.6	50.50	49.50	46.3
Lincoln Natl Corp Ird	NYSE	50.25	-2.0	9.2	3.00	6.0	51.75	50.25	91.8
Mission Ins Group Inc	NYSE	34.00	-9.9	9.4	1.00	2.9	37.25	34.00	171.8
Nationwide Corp Ohio	OTC	41.75	0.0	15.3	0.70	1.7	0.00	0.00	0.0
Northwestern Natl Life Ins	OTC	34.63	1.5	22.9	1.50	4.3	36.00	34.50	95.5
Ohio Cas Corp	OTC	55.63	-0.4	10.5	2.52	4.5	56.00*	55.63	105.5
Old Rep Intl Corp	OTC	32.13	-0.4	7.8	0.92	2.9	32.13	31.50	42.4
Orion Cap Corp	NYSE	26.50	0.0	14.1	0.66	2.5	27.50*	26.25	91.4
Preferred Risk Life Ins Co	OTC	34.25	-0.7	9.4	1.00	2.9	34.75*	34.25	2.3
Provident Life & Acc Ins Co	OTC	63.00	-3.8	8.9	2.60	4.1	65.00	63.00	23.8
St Paul Cos Inc	OTC	66.38	-3.3	6.8	2.80	4.2	68.75	66.38	140.6
Safeco Corp	OTC	58.88	0.0	12.3	2.40	4.1	59.63*	58.88	106.7
Sri Corp	OTC	45.25	-7.7	8.4	1.12	2.5	49.00	45.25	65.3
Seibels Bruce Group Inc	OTC	26.75	0.5	14.6	0.80	3.0	26.75	26.38	46.4
Statesman Group Inc	OTC	11.13	-3.3	7.5	0.15	1.3	11.50	11.13	44.5
Tokio Marine & Fire Ins Co	OTC	104.25	-3.0	16.7	0.92	0.9	107.13	104.25	4.1

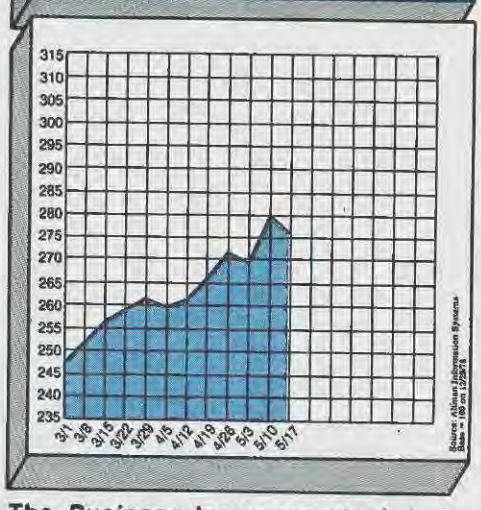
MAY 17,1983 5/11/83 THRU 5/17/83

		Price	% Chg.	P/E	$ Div.	% Yld.	High	Low	Vol. (000)
Travelers Corp	NYSE	31.50	-3.4	8.4	1.80	5.7	32.50	30.75	862.2
United Fire & Cas Co	OTC	33.00	6.5	9.8	0.88	2.7	33.00*	31.00	6.9
United States Fid & Gty Co	NYSE	53.38	2.4	12.5	3.84	7.2	53.38*	50.88	687.9
United Svcs Life Ins Co	OTC	25.00	-4.8	7.5	1.00	4.0	26.25	25.00	30.8
Uslife Corp	NYSE	25.13	-1.5	6.9	0.88	3.5	25.50	25.00	306.3
Washington Natl Corp	NYSE	33.88	5.9	16.4	1.08	3.2	33.88*	31.88	235.3
Zenith Natl Ins Corp	OTC	22.50	-3.2	10.9	0.80	3.6	23.25	22.50	70.4
INSURANCE COMPANIES	AVERAGE			10.4		3.7			
Agents/Brokers									
Alexander & Alexander Svcs	NYSE	21.00	-5.1	0.0	1.00	4.8	22.25	20.50	383.3
Baldwin & Lyons Inc	OTC	41.50	0.0	7.6	0.80	1.9	41.50	41.50	0.0
Corroon & Black Corp	NYSE	25.50	-1.9	13.6	1.80	7.1	25.63	25.38*	41.3
Crump E H Cos Inc	OTC	11.75	0.0	17.0	0.40	3.4	11.88	11.63	19.7
Emett & Chandler Cos Inc	OTC	10.38	-1.2	0.0	0.00	0.0	10.50	10.38	1.7
Hall Frank B & Co Inc	NYSE	33.13	1.9	18.8	1.70	5.1	33.13	30.50	420.4
Integrated Res Inc	AMEX	36.75	-0.3	15.2	0.00	0.0	36.88	35.25	175.1
Marsh & Mclennan Cos Inc	NYSE	46.50	2.8	13.5	2.20	4.7	46.50*	44.88	298.6
Poe & Assoc Inc	OTC	6.50	-3.7	0.0	0.40	6.2	6.75	6.50	45.0
Reed Stenhouse Cos Ltd	OTC	16.25	-3.7	15.5	0.60	3.7	16.75	16.25	3.4
AGENTS/BROKERS	AVERAGE			16.4		3.6			
Conglomerates/Holding Cos.									
American Express(Fireman's Fd)	NYSE	67.38	-3.2	14.0	1.80	2.7	68.13	66.88	1,149.9
Anderson Clayton(Ranger/PanAm)	NYSE	30.75	-3.1	20.5	1.32	4.3	31.13	30.75	30.7
Armco Inc	NYSE	18.75	-1.3	0.0	0.40	2.1	19.50	18.75	617.1
City Investing Co. (Home Ins.)	NYSE	34.75	0.0	8.3	1.80	5.2	35.50*	34.38	469.8
CNA Finl Corp (CNA)	NYSE	21.38	4.9	8.5	0.00	0.0	21.38*	20.25	105.9
Control Data (Comml. Credit)	NYSE	55.38	3.5	13.9	0.60	1.1	56.00*	54.00	1,960.7
General Re Corp	NYSE	62.00	-5.7	13.1	1.28	2.1	64.00	61.25	606.7
Gulf Utd Corp	NYSE	28.00	-0.9	8.7	1.32	4.7	28.25	27.88	481.2
Cigna Corp	NYSE	47.38	-4.3	6.8	2.48	5.2	48.38	47.00	1,358.9
ITT (Hartford Group)	NYSE	40.00	-2.1	8.6	2.76	6.9	40.00	38.75	1,501.3
Optimum Hldg Corp	OTC	8.00	0.0	13.1	0.00	0.0	8.00	8.00	6.0
Sears Roebuck & Co. (Allstate)	NYSE	40.50	-2.1	14.8	1.52	3.8	40.63	40.00	2,322.3
Baldwin Utd Corp	NYSE	11.25	16.9	5.4	0.00	0.0	12.50	9.38	2,395.2
Teledyne Inc (Argonaut)	NYSE	143.50	-1.0	12.4	0.00	0.0	143.50	142.38	481.8
Transamerica Corp (Occidental & Fred S. James)	NYSE	30.13	3.9	9.9	1.50	5.0	30.50*	29.88	636.9
CONGLOMERATES/HOLDING COS.	AVERAGE			13.1		2.6			

*Record high/low since Jan. 1, 1983

System design: Altman Information Systems

BI Insurance Index

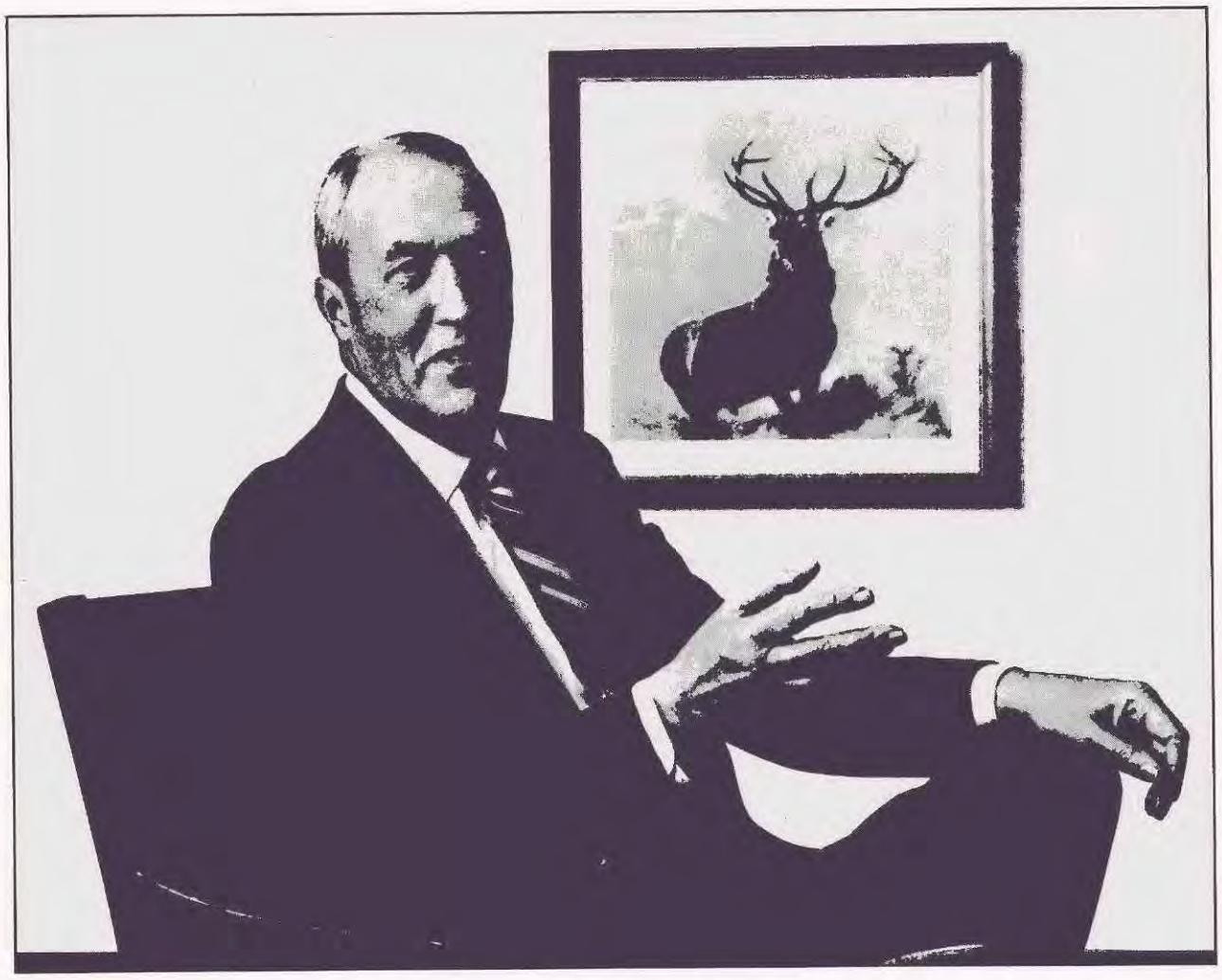


The *Business Insurance* stock index dropped 3.5 points during the week ending May 17, to 275.8, after surging to a record high of 279.3 for the period ending May 10. Fourteen insurance industry issues were up, 11 were unchanged and 39 closed down. The largest gains were reported by Aneco Reinsurance Co. Ltd., 10.3%; Crawford & Co., 7.4%; Carolina Casualty Insurance Co., 6.5%; United Fire & Casualty Co., 6.5%; and Washington National Corp., 5.9%. The biggest losses were reported by Continental Corp., 12.8%; Farmers Group Inc., 11.2%; Mission Insurance Group Inc., 9.9%; Avemco Corp., 8.5%; and SRI Corp., 7.7%. The *BI* index, which lost 1.3% during the period, fared better than the Dow Jones 30 industrials average.

How The Hartford helps reduce insurance costs.

"Our Claims know-how kept a $170,000 loss from turning into a million-dollar loss."

Claude Glaser, Senior Vice President, Claims Department, explains how The Hartford's fast, expert Claims service can minimize the size of a loss and cut insurance costs.



Q. How can The Hartford's Claims capability help reduce a company's insurance costs?

A. The lower a company's losses, the lower its insurance premiums. And at The Hartford, we have an impressive track record for minimizing losses. One example involved an explosion at a California oil refinery. A corrosive substance spewed into the air and covered some 2,000 automobiles. If it wasn't removed quickly, all 2,000 cars would have needed repainting at a cost of $500 each–a potential million-dollar loss.

Our Claims people responded quickly and decisively. They had the substance analyzed and authorized its immediate removal with a special cleaning process. The cost? Just $85 per car for a total of $170,000–less than one-fifth the loss that would have resulted from routine claims handling. That minimized the impact of the loss on the refiner's premiums.

Q. Why is The Hartford able to respond to a claim more quickly and effectively than other insurers?

A. Unlike many insurance companies, we handle about 99% of our claims with our own staff. We have over 200 fully automated Claims offices and some 4,200 Claims personnel–including experts in a wide range of specialized loss areas, and a countrywide staff of registered nurses who work full-time for the medical, social, psychological and vocational rehabilitation of claimants. So we have the people in place, ready to respond. And there's no add-on charge for outside claims service.

Q. How can effective rehabilitation cut insurance costs?

A. It can speed up the return of injured employees to productive work. In a recent case, a heavy-equipment operator suffered a severe back injury which prevented him from returning to his job. We arranged for his medical treatment and also coordinated and helped finance his retraining as a meatcutter. We even advanced him funds to open his own retail butcher shop. He became productive and self-sufficient once again. And our insured was spared the negative impact that some $300,000 in anticipated disability payments would have had on its premiums.

Q. Can I use The Hartford's Claims expertise even if I self-insure?

A. Sure. Through our subsidiary, Hartford Specialty, we're currently providing "unbundled" claims service to some of the country's largest corporations. You can get any level of claims service you need, independently of insurance coverages. You can also get OSCAR℠, the revolutionary up-to-the-day, on-line claim reporting system that lets you break out claims on the spot using criteria you select on the spot.

Q. How can I put The Hartford's Claims capability to work for my company's benefit?

A. Just contact a broker or an independent agent who represents The Hartford.

Don't make a decision on any business insurance without a quote from The Hartford.

BUSINESS
HOME
AUTO
LIFE

Let us protect your world. THE HARTFORD

The Hartford Insurance Group, Hartford, Connecticut 06115.