

business insurance

update:

Insurer's former officials, accountant named in suit

CHICAGO—Twelve former officials of the now-insolvent Security Casualty Co. and its accounting firm, Coopers & Lybrand, are named in a damage suit filed by the Illinois Department of Insurance alleging violations of state insurance laws.

The suit, filed May 18 in Cook County Circuit Court, accuses officials of the Chi-

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

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Hard times, creative times

From concrete spires to amber waves of grain, Illinois business enfolds a diverse mix of risks and insurance resources, some independent and others intimately linked to industries in both the East and West.

But unlike some booming areas of the country, the Land of Lincoln is feeling the stress of hard times as the costs of business rise and income falls.

With workers compensation loss control, health care coalitions, proposed legislation, new markets and general belt-tightening, the Illinois market is fighting back and making a stand.

Hard times are creative times: A special report.

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MARKET
REPORT
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Braniff benefits

Others may pay for pensions

By JERRY GEISEL

WASHINGTON—Retirees of shut-down Braniff International Corp. will get most of their pensions, but other employers may have to kick in to pay the fare.

Braniff, which terminated operations May 12 and filed for protection from creditors under federal bankruptcy law, hasn't put aside enough money to pay benefits to the 6,000 vested participants in its four pension plans.

As a result, the Pension Benefit Guaranty Corp., the federal agency that guarantees workers' pension benefits when corporations fail, would have to make up as much as \$70 million of the funding shortfall if Braniff terminates its pensions plans.

In turn, the financially strapped PBGC will have to pass this bill onto other employers in the form of higher premiums for federal pension insurance mandated under the Employee Retirement Income Security Act.

The PBGC warned in a special study exclusively obtained by *Business Insurance* last month (BI, April 19) that it could be swamped with billions of dollars in pension bills as the economy threatens the livelihood of several major corporations with huge unfunded pension liabilities, like International Harvester Co.

The PBGC in its report says it would have to pay out \$4.4 billion in benefits if 34 financially ailing firms with large underfunded pension plans collapse.

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Workers on own for health cover

By STEVE SHERWOOD

DALLAS—While Braniff International Corp. employees' retirement benefits won't sink with the ship, it's a different story for employee health benefits.

Except for the pilots and flight attendants, whose unions may help them continue to purchase health care insurance at lower group rates, the rest of Braniff's 9,500 employees are on their own for health insurance.

The only options now for the unemployed workers are to go without health insurance or to purchase their own at tra-

ditionally higher individual rates for less coverage, with no employer contribution.

Connecticut General Life Insurance Co., Braniff's group health insurer, will pay all claims incurred until May 13 by Braniff employees.

Originally, Connecticut General had said it would cover any claims incurred before May 1, which represented the last date coverage was in effect based on premiums paid.

However, Connecticut General was granted permission May 20 by the U.S.

Bankruptcy Court in Fort Worth, Texas, to continue group coverage through May 13, the day Braniff filed bankruptcy. Details of the arrangement were not available.

Connecticut General, a subsidiary of Connecticut General Insurance Corp., which merged with Insurance Co. of

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Photo: Wide World

Analysts' fears mount over insurer losses

By BILL DENSMORE

NEW YORK—Major property/casualty insurers, reeling from a one-two punch of historic winter storm losses and a continued buyers' market, are reporting sharply lower operating results and paltry cash flow for the first quarter.

The newly formed CIGNA Corp. took the worst beating, with results from the property/casualty businesses dominated by the INA Corp. side of the merged company contributing nearly two-thirds of a 49.3% decline in operating income.

Analysts' fears are mounting that insurers soon will be paying out more money in claims than they are collecting in new premiums and investment income, resulting in negative cash flow (see story, page 53).

"The first quarter was horrible," says Gerald E. Lewinsohn, a vp and analyst at Merrill Lynch Pierce Fenner & Smith Inc.

who tracks the results of major property/casualty insurers. "If it continues, they will be selling bonds at 60 cents on the dollar to pay claims."

"The point is that cash flow is down from what it was a year ago," says Samuel G. Liss, an industry analyst with the securities brokerage firm of Salomon Brothers Inc.

Among the 20 insurers reviewed by *Business Insurance*, aftertax operating income declined by 11.6% to \$808.2 million, or 4.5% of revenues, compared with 5.4% of revenues in the first quarter of last year. Revenues were up 6.8% to \$17.8 billion from \$16.7 billion for first-quarter 1981.

The average combined ratio, computed on the basis of generally accepted accounting practices and after dividends to policyholders, rose to 108.4%, up 5.2 points from 103.2% in the first quarter of 1981. The average combined ratio for the full year ended Dec. 31 was 105.3%.

Pretax underwriting losses stood at just more than \$1 billion, up from \$572.6 million in the first quarter a year earlier, a 77.6% increase. But investment income attributable to property/casualty operations rose 16.3%, to \$1.9 billion from about \$1.7 billion. Property/casualty earned premiums grew a scant 3.8%, to \$9.1 billion from \$8.7 billion.

Industry figures tell the story of insurers' catastrophic losses that fed these results.

Figures compiled by the American Insurance Assn. and released by the Insurance Information Institute tally catastrophe losses during the first three months of 1982 at \$404.2 million, the largest since the statistic was first recorded in 1949. The previous record for the first quarter was \$208.7 million set in 1979. Last year, first-quarter catastrophe losses totaled \$103.5 million.

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Workers get new assignment: hold down health care costs
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Insurer's ex-officials sued

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cago-based insurer of failing to keep accurate records, unnecessarily delaying payouts of claims and failing to keep proper reserves. It accuses Coopers & Lybrand of failing to discover the company's insolvency or its inadequate reserves.

Security Casualty, a stock property/casualty subsidiary of Security America Corp., was declared insolvent Dec. 4 by an Illinois judge after an Oct. 1 state-ordered report by another accountant found the company had "an estimated stockholders' deficit of approximately \$42 million" and an investment portfolio whose market value was \$10 million less than was reported to the state.

Penthouse wins libel suit

COMPTON, Calif.—Penthouse magazine did not libel Rancho La Costa in a 1975 article linking the San Diego County resort to organized crime, a Compton Superior Court jury recently ruled.

The resort co-founders who brought the \$522 million lawsuit against Penthouse will appeal the decision in the 7-year-old case, said a spokesperson for Louis Nizer, their attorney.

Penthouse is appealing a \$26.5 million libel judgment awarded to a former Miss Wyoming by a Cheyenne, Wyo., federal court jury last year (BI, March 2, 1981).

Statute of limitations stands

WASHINGTON—The Supreme Court last week declined to review, and thus let stand, New York's statute of limitations that makes it difficult for people to recover damages when they develop injuries years after being exposed to a hazardous product.

Under New York law, personal injury victims must file suit within three years of the time they are first exposed to a product that causes harm. However, in the case of long-latent diseases like asbestosis it may take years for the disease to manifest itself.

Several Brooklyn Navy Yard workers or their survivors challenged the three-year statute of limitations in a suit against several asbestos manufacturers. But the New York State Court of Appeals tossed the suit out, stating that any change in the statute of limitations should be made by the Legislature, not by the courts.

Refinery damage not yet known

KILGORE, Texas—Adjusters from GAB Services Inc. sifted through twisted wreckage at the Shore Inc. petroleum refinery in Kilgore last week to determine the amount of damage caused by an explosion and fire at the \$2 million facility.

The May 18 accident left two workers dead when a spark from a welding machine ignited fumes in a storage tank, says Lowell Weekley, Shore's controller.

"About a third of the refinery was destroyed, but the adjusters seem to be positive about rebuilding," Mr. Weekley says, adding there is as yet no accurate estimate of damages.

Insurance Co. of North American insures Shore's property risks, he says. Peterson & Associates of Houston placed the refinery's workers compensation insurance through the Texas Oil Marketers Group, an industry association.

Lloyd's bill delayed again

LONDON—The Lloyd's of London's self-regulation bill's slow journey through Parliament has been detoured again.

The House of Lords may close hearings and vote on the measure this week, but no matter what action it takes, the bill will return to the House of Commons.

Lloyd's has relented and now concedes that members should be able to sue the proposed Council of Lloyd's for damages if they think they have been libeled by Lloyd's. In the bill's original immunity from liability clause, a member could not bring any legal action against Lloyd's. The House of Commons must approve this change before the bill can become law.

UNR could liquidate

CHICAGO—UNR Industries Inc. said at its annual meeting recently that it and other companies fighting thousands of lawsuits by asbestos disease victims could face liquidation if the suits continue unabated for the next five years.

President David Leavitt said government legislation that would shift the burden of liability in asbestos cases may be required to save UNR and other companies involved in asbestos litigation.

The company has paid out more than \$6.6 million in settlements and costs from asbestos litigation relating to its subsidiary, Unarco Industries Inc., which has not been involved in the manufacture of asbestos products for more than 20 years.

By the end of 1981, UNR was named as co-defendant in about 6,500 asbestos disease lawsuits.

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Dead miners' families sue coal firms for \$53 million

By STEVE SHERWOOD

WHITWELL, Tenn.—Five wrongful death lawsuits seeking \$53 million from two coal mining companies are sparking a debate over the right of employees or their families to sue employers.

The lawsuits focus on alleged safety violations the plaintiffs claim led to a Dec. 8, 1981, methane gas explosion in the Tennessee Consolidated Coal Co. No. 21 mine near Whitwell, which killed 13 Grundy Mining Co. employees.

But a key charge in each of the lawsuits is that Grundy Mining, the mine operator, did not have workers compensation insurance at the time of the explosion and was not qualified with the state to self-insure its workers compensation risks.

The suits, filed in Marion County Circuit Court and the U.S. District Court in Chattanooga, Tenn., on behalf of survivors of five mine disaster victims, say the lack of workers compensation insurance excludes Grundy Mining from the protection of the exclusive remedy provisions of the state workers compensation laws.

Like the laws of other states, Tennessee statutes say workers compensation benefits are the only source of compensation to an em-



Photo: The Chattanooga Times

William B. Allison, chairman of Tennessee Consolidated Coal, visited the disaster site last year.

ployee injured on the job and lawsuits against employers are prohibited. But since Grundy Mining, in violation of state law, did not have workers compensation insurance and was not a qualified self-insurer, it is open to employee damage suits, the lawsuits charge.

But Grundy Mining and a state insurance official say the company was covered under the workers compensation program of its parent, Tennessee Consolidated Coal Co. The suits, however, say that Grundy Mining and Tennessee

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British consider claim changes

By STACY SHAPIRO

LONDON—A bill recently introduced in the House of Lords may open the door for larger and more prolonged liability lawsuits in Great Britain.

The legislation, called the Administration of Justice bill, will allow some workers who are injured on the job to reopen a claim even after a court has made an award.

The legislation could affect U.S. companies that operate British subsidiaries. However, most employees seriously injured at a worksite owned by a U.S. employer try to press their claims in U.S. courts, where judgments are usually much greater.

Until now, British courts, which do not allow jury trials for civil cases, have awarded specific judgments for specific workplace injuries. For example, a lost eye has been worth approximately 11,000 pounds (approximately \$20,000) and a brain injury could be worth up to 70,000 pounds (approximately \$110,000).

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J&H booze ban creates a stir

By LEN STRAZEWSKI

NEW YORK—The television cameras came expecting to record the Wall Street battle of the swizzle sticks, but all they found were some sober-faced Johnson & Higgins executives.

"It all started with Liz Smith, the gossip columnist for the Daily News here," explains Seth Faison, J&H vp for corporate affairs at the nation's fourth-largest insurance brokerage.

"She got wind of an in-house memo and took the story to her 'Alive at Five' television show. Then the other TV stations picked it up."

It was big news all over town: the Johnson & Higgins New York office was on the wagon, barred from drinking during the workday, including lunch hours. Another defeat for the "three-martini lunch" crowd.

"Actually, it's rather long-standing policy here," Mr. Faison says. "Our directors stopped drinking at lunch some years ago as an example to employees and most offices adopted an informal no-drinking policy over the years."

James Harlow, recently appointed managing director of the J&H New York office, made the informal policy official last week with a memo to staff that noted how an alcoholic drink or two at lunch cuts down on productivity in the afternoon.

"The account executives are supposed to ask what their guests would like. If luncheon guests want to have a drink, that's fine. But the J&H executive really doesn't need to have one with the guest," Mr. Faison says.



N.Y. may change pollution cover rules

By JOHN W. MILLIGAN

NEW YORK—Hazardous waste handlers in New York state will be able to purchase pollution liability insurance for gradual occurrences from domestic insurers if one of three bills legalizing such sales makes it through the state Legislature.

State Sen. John R. Dunne, R-Long Island, has introduced the most recent bill that would allow New York insurance companies to market this coverage, which they have been banned from selling since 1971. Other efforts to legalize environmental impairment liability insurance include a bill introduced by State Sen. Donald M. Halperin, D-Long Island, and a measure forwarded by New York Gov. Hugh Carey.

New York insurers have not been able to sell liability insurance against gradual incidents since 1971 when state legislators banned the coverage, fearing that it might encourage some companies to commit willful acts of pollution.

However, New York insurers may sell coverage for sudden pollution accidents, and nothing in the state's law prohibits an out-of-state or foreign insurer from selling coverage for gradual occurrences, so markets are available to New York buyers.

Sen. Dunne's bill, announced during an address at the American Insurance Assn.'s 1982 annual meeting May 11 and 12, would legalize EIL coverage by deleting prohibitory language in the state's current law.

This will bring New York in line with the rest of the nation, the senator said, since New York is the only state that does not allow insurers licensed to write insurance there to market EIL coverage.

"The time has come for New York to reject this anachronistic restriction and restate our public policy so that it will conform with public reality," Sen. Dunne said.

The most important benefit of the legislation, he said, is the mechanism it provides to compensate private in-

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Teacher's arthritis ruled a workplace disease

By EILEEN NORRIS

HARLINGEN, Texas—A \$48,000 workers compensation check is in the mail to a Texas schoolteacher who convinced a jury that 27 years of prolonged standing and walking left him permanently disabled.

Junior high school teacher Jimmie D. Werner, 51, will also have his future medical expenses paid for by his employer, a Cameron County jury ruled May 13.

Mr. Werner, who taught history to eighth graders at Harlingen Consolidated Independent School District in this town some 20 miles from the Mexican border, filed for benefits under the occupational disease portion of the workers compensation statute, claiming his disease was a result of his job.

The Texas Industrial Accident Board awarded the teacher 300 weeks of disability, but that was appealed to the court by both the school district, which said the teacher's condition was related to the natural aging process and not compensable, and the teacher's attorney, who wanted the maximum benefits

for his client.

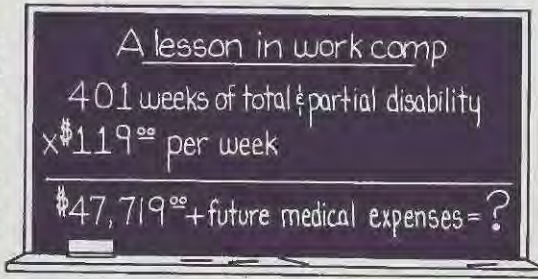
The history teacher's plight won the favor of the jury when it went to trial the first week of May.

The jury awarded him 401 weeks of full disability at \$119 a week, the maximum length and amount allowed under Texas law.

His employer also was ordered by the court to pay for Mr. Werner's future medical expenses associated with degenerative arthritis, a diagnosis the defense attributed to the aging process.

Two doctors testified during the trial and diagnosed Mr. Werner's condition as traumatic degenerative arthritis, said the teacher's attorney, Alex Huddleston.

"Each of the doctors testified that Mr. Werner's occupation was in large part re-



Graphic: Amy Palmer

sponsible for his condition," said Mr. Huddleston, "and agreed he was totally and permanently disabled."

Mr. Werner, who hasn't taught since last January, must use a cane to walk and has a nerve stimulator that he carries on his belt to interrupt the pain cycles in his back, hips, knees and ankles, said his attorney.

The Harlingen Consolidated Independent School District argued during the recent trial that the teacher's condition was a congenital disease of aging that affects about 40% of the population in later life.

"Our argument was that his condition may have been aggravated by his job, but it wasn't produced by his teaching," said Ronald Raskich, risk management director for the Texas Assn. of School Boards, of which the Harlin-

gen School District is a member.

"Our medical information said that degenerative arthritis is a fact of life for many," he added. "The workers compensation law can be interpreted liberally in favor of the plaintiff here," he said.

In Texas, occupational disease is defined to include "repetitious physical traumatic activity extending over a period of time that arises out of or in the course of employment," says George W. Hatch, director of workers compensation for The Travelers Insurance Cos., which is the second-largest workers compensation insurer in Texas.

"That phrase gives rise to the possibility (of a claim)," he said, adding that cumulative injury claims are definitely increasing in many states, not just Texas.

Michigan and California have recognized cumulative trauma injuries as compensable under their workers compensation laws.

"There should be a way to differentiate between a disease of the aging process vs. the work environment," said Mr. Hatch.

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AMC workers give up pay but gain benefits

By JAMES C. LAWSON

SOUTHFIELD, Mich.—Hourly workers at American Motors Corp. are granting the automaker some costly concessions but, in return, will gain some new employee benefits.

Along with a new legal services plan, the new contract between the United Auto Workers union and AMC also provides extended health benefits for some laid-off workers, an important benefit in light of the auto industry's troubled condition.

To win the new benefits, however, the 14,000 UAW workers at AMC are giving up six quarterly cost-of-living increases, 3% annual pay increases through 1985 and other salary concessions. The money will be repaid to the autoworkers, with 10% interest, starting in 1985 if the company turns a profit.

AMC will fund the new legal services plan from some of the funds loaned to the company by the workers. The contribution is expected to amount to about \$40 per year per employee, said Richard T. MacCracken, AMC's vp for industrial relations.

The legal services plan, to be administered by the UAW and underwritten by a private insurer or a prepaid legal services firm, will become effective April 1, 1984.

The program, which has not yet been formally designed, will cover em-

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Chicago federal judge rejects challenge to multiemployer act

By JERRY GEISEL

CHICAGO—Employers, who haven't had much luck convincing Congress that it ought to change the Multiemployer Amendments Act, aren't doing any better in court.

In a sweeping 90-page opinion handed down in Chicago May 14, U.S. District Court Judge Susan Getzendanner upheld the constitutionality of the 1980 law that gives multiemployer pension plans power to demand enormous withdrawal liability payments from employers leaving a plan.

In dismissing a suit filed by four motor carrier associations and the Local 705 International Brotherhood of Teamsters Pension Fund, a multiemployer plan with big pension liabilities, Judge Getzendanner said Congress decided to impose withdrawal liability penalties on employers to prevent a collapse of multiemployer plans.

"Congress need not wait for actual disaster to strike before attempting a cure," the federal judge said.

The "disaster," in some pension experts' view, was allowing em-

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Oregon union to hold line on health costs

By CAROL G. BLITZER

SALEM, Ore.—It's not in their job descriptions, but beginning Aug. 1 Oregon state employees will have a new responsibility to hold down their own health care costs.

State employees who do not comply will receive reduced benefits under a new plan worked out by the Oregon Public Employees Union and its group health insurer, Continental Assurance Co., a unit of Chicago-based CNA Financial Corp.

Key elements of the plan include pre-authorization of hospital admissions for elective surgery, mandatory second surgical opinions, elimination of reimbursement benefits for a plan participant's first two doctor visits in the same year and concurrent hospitalization and ambulatory review.

The employee union was hit with a 47% premium increase by Continental earlier this year before the plan design changes were adopted. The union did not have funds to pay the higher cost, but was reluctant to slash benefits.

"We have run out of money," said Tom Gallagher, execu-

tive director of the union and a member of the Bargaining Unit Benefits Board, the state agency charged with buying health care benefits for 18,000 state employees.

The union faced some tough choices: institute employee contributions to plan costs through paycheck deductions, cut benefits or reduce utilization. The proposed solution actually does all three, but with an emphasis on controlling costs through lower utilization.

Many state agencies give lip service to cutting costs, but the Oregon employees union is doing something and doing it publicly, notes Ted Wood, assistant vp at Johnson & Higgins of Oregon, the benefit board's insurance consultant.

"This is a pretty revolutionary package and we got a significant rate concession from the carrier for doing this," adds Mr. Wood.

A key to the program's evolution appears to be the close relationship between the benefits board, consultant and insurer.

Continental took over the Oregon Public Employees Union

group health insurance benefits an employee can receive on a tax-free basis.

Premium costs for the union will rise 15% to \$97 from \$84 per employee. Dependent coverage will increase by 10%, funded through \$10-a-month employee paycheck deductions or higher deductibles.

If that additional premium does not wipe out Continental's losses on state employees' health care business by November 1983, the benefits board will kick in as much as \$1 million to make up the difference, reports Mr. Gallagher.

"We're banking that medical costs will drop by 6% to 7% this year," says Mr. Gallagher.

He noted that 10,000 to 12,000 state employees will be covered by the program. The rest are enrolled in health maintenance organizations.

A panel of physicians will review proposed hospital admis-

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Pension problems

Changes needed in PBGC program: Nickles

WASHINGTON—An influential senator warns he will block an attempt to increase the premiums employers pay to the Pension Benefit Guaranty Corp. unless basic changes are made in the PBGC insurance program.

Sen. Don Nickles, R-Okla., chairman of the Senate Labor subcommittee, which has jurisdiction over pension legislation, says the proposed hike in PBGC termination insurance premiums to \$6 per participant from \$2.60 should not be enacted until loopholes in the insurance program are closed.

Speaking before the Assn. of Private Pension & Welfare Plans conference in Washington, Sen. Nickles said a flaw in the PBGC insurance program that allows companies to dump their underfunded pension plans on the PBGC and begin new retirement programs has to be corrected.

Now, the PBGC is entitled to only 30% of a company's net worth to pay for workers' pensions if the company folds an underfunded pension plan.

Companies with large underfunded pension plans and little or no net worth are discovering that it could be cheaper to terminate their plans and begin new ones rather than fund existing plans.

As more companies take advantage of this loophole, PBGC insurance premiums, which all employers with pension plans must pay, will soar.

Sen. Nickles says that loophole must be closed. "We are going to stop that," he told APPWP members.

The solution is to make employers 100% liable for their pension plans, the freshman senator said.

Even if that loophole is closed, Sen. Nickles warned that major increases in the PBGC insurance program can be expected. "If we have major employers fail (with large pension liabilities), we are talking about a large increase in a short period of time," he said (see story, page 1).

Turning to another pension area, Sen. Nickles

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Sen. Nickles

Trade group issues recommendations

WASHINGTON—The Assn. of Private Pension & Welfare Plans, a leading benefits trade group, brought together about 180 employee benefit managers, consultants, attorneys, pension plan sponsors and actuaries to its Washington conference May 12-14 to discuss benefit issues.

Recommendations made by the 600-member group, which represents employer interests, include:

- Employers not be required to offer a certain number of health insurance plans.
- No limits be placed on the tax deductibility of group health insurance costs for employers.
- No caps should be placed on the amount of

group health insurance benefits an employee can receive on a tax-free basis.

• Legislation should be enacted to bar employers from dumping their underfunded pension plans on the Pension Benefit Guaranty Corp. and then starting new retirement programs.

• The federal government should simplify the Employee Retirement Income Security Act by reducing various reporting requirements.

• Employers shouldn't be required to offer automatic cost-of-living adjustments to the pension benefits of their retirees. "Rather, inflation, the root of the problem, must be solved," the group said.

Denver hikes firefighter health benefits

The city of Denver will increase its contributions to the health plans covering local firefighters, possibly eliminating any additional contributions employees will have to make toward the coverage next year.

The increased contributions, won by Denver Firefighters Local 858, start Jan. 1, the same date health plan rates are scheduled to increase by 20%. The city's new contribution, however, is expected to more than cover the proposed rate increase, city and union officials said.

Under the new schedule, the city will contribute up to a maximum of \$65 per month for single coverage, \$130 for two-member family coverage and \$190 per month for full-family coverage.

Currently, the city contributes \$50 monthly for single coverage

benefit beat

while firefighters must pay \$5.06 a month. The city's current two-member family contribution is \$100 with firefighters paying \$10.12 monthly. The city's full-family contribution is \$140 monthly with the employee paying \$19.20 monthly.

Under the new contribution schedule, the city will pay \$1.6 million annually to provide health coverage to its firefighters. Currently, the plan, including employee contributions, costs \$1.7 million annually, says Richard Clark, the city's director of finance.

The contributions will be made to the Denver Police & Fire Health & Welfare Fund, which manages

the self-funded basic health plan utilized by the bulk of the firefighters, and to the Kaiser Foundation, a prepaid medical services company.

Both health plans provide employees with 100% coverage. Employees opting for the basic plan, however, must have medical and surgical services performed by a panel of local practitioners.

New dental plan

The 1,434 members of Hotel & Restaurant Employees Local 17 have won a new dental plan through a one-year contract with 22 hotels in Minneapolis-St. Paul.

The new benefit, which became effective May 1, provides employees with individual coverage only.

It provides 100% coverage, with no deductible, for diagnostic and preventive services.

The plan also pays 80% of all restorative services, with the exception of gold restorations and cast crowns, which are covered at 50%. The plan also pays 50% of all prosthetic services. Employees pay an annual \$50 deductible for restorative and prosthetic services.

The annual maximum on benefits is \$1,000. The plan is underwritten by Delta Dental Plan of Minnesota, a prepaid dental services firm based in Minneapolis.

Generics only

Hoping to reduce its staggering

health care costs, Chrysler Corp. is offering its 60,000 employees and retirees living in Michigan a prescription drug plan that requires pharmacists to dispense only generic equivalents for the 47 most commonly prescribed drugs.

The Maximum Allowable Cost Program, part of a Blue Cross of Michigan pilot program designed to reduce drug costs across the state, will allow financially strapped Chrysler to continue offering employees a benefit the United Auto Workers won in 1969. The drug program was extended to retirees in 1971.

Under the plan, employees pay only a \$3 per-purchase deductible.

Chrysler officials said they have not determined how much the program can save, but the new prescription drug plan is part of an overall company effort to help reduce some of its health care costs.

Currently, the nation's No. 3 automaker pays \$300 million annually for health costs. That amounts to about \$325 for every car the company manufactures.

IRA opportunity

Members of the United Auto Workers union at three McDonnell Douglas Corp. plants may soon be able to place portions of their contributions to their Layoff Benefit and Savings Funds into Individual Retirement Accounts.

The plan will go into effect as soon as government approval is granted, the union said.

Under the proposal, an employee can withdraw money once a year from funds he contributes to his Layoff and Benefit Savings fund, which funds benefits for the employee in case of a layoff. The maximum amount that can be withdrawn and deposited into the IRA is governed by the IRA regulations in the Economic Recovery Tax Act of 1981.

Workers contribute \$3 to \$12 per week into the fund, the union says.

The proposal would cover about 10,000 UAW members employed by McDonnell Douglas in Long Beach, Calif., Tulsa, Okla., and Melbourne, Ark.

Benefit beat keeps insurance and employee benefit managers informed on what other companies are doing and of current developments in the employee benefit field. We'd like to know if you've made any changes. Write James Lawson, Associate Editor, Business Insurance, 220 E. 42nd St., New York, N.Y. 10017; 212-210-0143.

New reinsurance book available

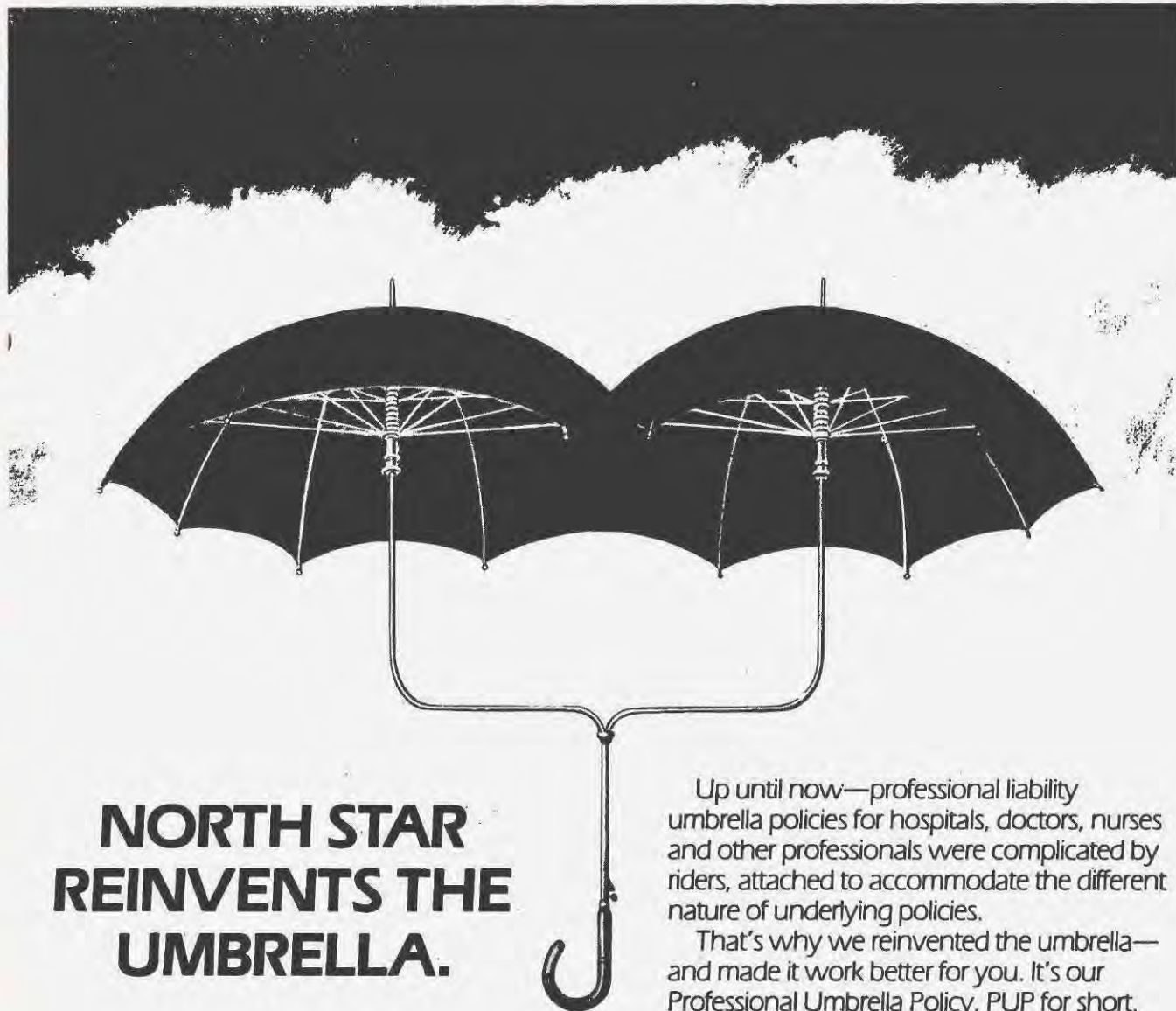
NEW YORK—The dean of The College of Insurance has compiled a new reinsurance workbook for newcomers to the field.

"Reinsurance Practices—A Workbook With Cases," edited by Dr. Robert W. Strain, is designed to be used with the textbook "Reinsurance," written by Dr. Strain in 1980.

The two books provide the basis for in-house training programs on reinsurance.

The workbook includes outlines for each chapter of the textbook, study questions and review cases relevant to textbook subject matter. Nineteen prominent insurance industry officials contributed material to the workbook.

"Reinsurance Practices" costs \$35, plus shipping, and the two volumes cost \$74. For more information contact the The College of Insurance Bookstore, 123 William St., New York, N.Y. 10038.



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Public pension reforms being considered

By JERRY GEISEL

WASHINGTON—Public pension reform may be just ahead.

The House Education and Labor Committee has approved legislation, H.R. 4228 and H.R. 4229, that would set federal reporting, disclosure and fiduciary standards for the nation's 7,000 state and local government pension plans.

Unlike ERISA, the 1974 federal law governing private pension plans, the Public Employee Pension Plan Reporting and Accountability Act, or PEPRA, would not set funding, vesting or participation standards for public plans.

"Such requirements probably would not be constitutional," said the legislation's sponsor, Rep. John Erlenborn, R-Ill., while speaking before the Assn. of Private Pension

washington

& Welfare Plans conference here.

"We want only to expose public plans to the light of day and then let the states keep their own houses in order," Mr. Erlenborn added.

Under PEPRA, public plans would be required to disclose their unfunded liabilities. Plan participants would have to be supplied with a description of plan provisions and, upon request, other information on benefits and vesting.

Taxpayers, plan participants and other interested parties would have to be given access to financial statements, plan asset holdings and other plan documents.

The federal reporting and disclosure standards would not apply to

plans in states where the governor certifies that state law contains substantially equivalent provisions.

Insurer aid

It may be the first bill introduced in Congress that is entitled "For the Relief of Aetna Insurance Co. and Other Insurance Companies."

Rep. George Hansen, R-Idaho, is the author of H.R. 6209, introduced April 28, which would make the federal government reimburse Aetna, a subsidiary of Connecticut General Corp., and more than 40 other insurers for their losses when the Teton Dam collapsed in 1976 in Idaho causing extensive property

damage.

An aide to Rep. Hansen explained the legislation, which was drafted by an attorney representing insurers, would provide more than \$10 million to insurance companies that insured property that was destroyed when the dam collapsed.

The aide noted that the federal government already has provided about \$400 million to people who didn't have insurance at the time the dam collapsed on June 5, 1976, and suffered property losses.

Federal investigators have concluded that the federal government, through submitting faulty designs, was to blame for the dam's failure, Mr. Hansen's aide said.

The aide noted that relief legislation is needed because of the difficulty insurers would face in suing

the federal government.

If the legislation passes, the biggest winner would be Appalachian Insurance Co. of Johnston, R.I., which has a \$3.7 million claim against the government in connection with the accident.

A companion bill, proposed by Sen. James McClure, R-Idaho, is pending in the Senate.

Respirator rule

The Occupational Safety and Health Administration is taking another look at its 10-year-old regulations governing the use of respirators by workers to protect against inhalation of toxic substances.

In a notice published in the May 14 issue of the Federal Register, OSHA said it wants employers to supply answers to these questions:

- Do feasible engineering controls always provide better protection of employee health than respirators?

- In what manner should allowance be made for the degeneration of respirator filters due to humidity?

- What is the aggregate cost, if any, of productivity losses resulting from the use of respirators?

Comments on the proposal should be submitted by Sept. 13 to the Docket Officer, Docket No. H-049, Room S6212, OSHA, 200 Constitution Ave. N.W., Washington, D.C. 20210; 202-523-7894.

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Gulf, Hartford start venture

HARTFORD, Conn.—The Hartford Insurance Group and Gulf Oil Corp. have established a joint underwriting venture that will pursue a "full array" of excess/surplus lines insurance risks.

A recently formed Gulf subsidiary, Transinsco Inc., based in Stamford, Conn., will be the managing general agent for two as yet unnamed Hartford Group insurance companies. A portion of all risks will be reinsured through Gulf's Bermuda-based captive, Inso Ltd.

The Hartford Specialty Co., a Hartford Group subsidiary, will provide loss-control services, handle claims and assist in data processing management.

Joseph F. Quinn, president of Hartford Specialty, says his company entered the new partnership because "we're always interested in getting some profitable business."

Gulf sought The Hartford Group hoping to expand its insurance underwriting activities with an "A-plus" company, Mr. Quinn says.

The Hartford brings to this relationship its experience in loss control, claims handling and expertise in underwriting, he continues, while Gulf brings its "reputation for good work" and desire to expand into the U.S. insurance market.

In the joint venture, Transinsco will issue policies in the name of the two Hartford insurance subsidiaries, Mr. Quinn says. All policies will "automatically" be reinsured 50% through Inso Ltd.

Transinsco will insure a "full array of risks" in the excess/surplus market as well as some facultative reinsurance business.

The Hartford will provide both an admitted and non-admitted company for Transinsco to use. While these markets have yet to be chosen, Mr. Quinn says, they will not be any of those used by the insurer's current managing general agent subsidiaries.

Transinsco is currently hiring underwriting talent, he says, and by year-end will open a second office in Los Angeles.



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editorial opinions

An unsettling practice

We always cringe when we hear that any lawsuit is settled just because it's easier to settle than fight.

We cringed last week at the headline on our top story about shareholder suits and two companies saying they were settling suits to avoid the legal costs of continued litigation but were not admitting any liability or guilt.

We can't pass judgment on these specific cases, but they remind us that there is a tendency among policyholders and certain employees of insurers to settle cases to avoid litigation costs and the possibility of losing the case anyway.

Those are bad reasons to settle.

You should settle a case when the plaintiff's suit has merit and you and the plaintiff can reach what you both agree are equitable terms to compensate the plaintiff for an injury or loss. It's a simple concept, but we believe it is violated too often.

Too often companies settle claims just to avoid the legal expense of fighting them, deciding that what it would cost to defend the case is more than it would cost to settle it. That's reasonable in the short-term, but in the long-term, a company is setting itself up as an easy mark to would-be plaintiffs and is inviting more lawsuits. True, litigation costs are sizable, but the cost

shouldn't be weighed against the case at hand. The cost also should be weighed against the cost of increased litigation against you as you become pegged as a company quick to settle.

Insurers, who have a lot of influence if not control over the settlement of cases, also deserve criticism.

Too often their employees settle cases with their own personal self-interest in mind. Claims people often want to litigate cases that certainly should be settled so as not to increase the losses under their names. Then the legal department wants to settle cases that ought to be litigated rather than risk a lost case on its record.

Too often both policyholders and insurers when they do fight claims don't spend enough money to get the best legal talent available to meet the increasingly tough and sophisticated personal injury lawyers who are handling cases today.

Not all policyholders and insurers operate this way all the time, but a judge we know who presides over personal injury cases says he sees more and more examples of these problems.

Our advice: Settle the cases when you are at fault, fight the cases without merit and when you fight, pay the money to get a good attorney.

letters

Alarming ignorance

To the editor: David Mitchell, a vp at Business International Corp., is reported in "More multinationals seek political risk cover" (BI, May 10) as stating that a major element in the removal of the Shah of Iran was the ease of communications for those who wish to take power. In this case, Mr. Mitchell was talking about cassette recordings made by Ayatollah Khomeini in Paris.

I can't help getting the feeling that we are missing the forest for the trees. We in the West interact with the countries of the Third World with an alarming ignorance of their cultural and political realities; and this ignorance is a major cause of unrest in the world today.

In the case of Iran, for instance, we ought to consider that Iran is a multiethnic nation. Twenty percent or more of Iran's population of 30 million belongs to a Turkish tribe. Iran's Persian minority is linguistically and ethnically more closely related to the English than to these Turks.

Sometime Iran's many tribes are in conflict. For instance, some Kurdish tribes have warred with each other for centuries, often within the same village.

Maybe this will give us a feeling of what Islam and the Khomeini mean to Iran. What gives Iran its national cohesion is Islam and its institutions. Islam, then, is as essential to Iran as the flag, the Constitution and the legal system is to America. That American governments have failed to recognize this basic fact is a tragic insult to the sensibilities of the Iranian people and may explain the seemingly incomprehensible Iranian anti-Americanism.

We rather identified the Persian nation with the institution of the shah. This compounds the tragedy because here at home we are so careful to limit and circumscribe the role of government in our national life.

Had American governments taken into consideration that the institution of the shah was but one institution in the dynamics of the Persian national life, with its own system of rather intricate checks and balances, our position in Iran would be different today and, I am sure, resolving the hostage crisis would have been a rather minor affair. Instead, we had to put all our eggs into one basket and when

the shah was out, we were out. In addition, we ran the unpleasant prospect of the occupation of Iran by Soviet troops, coming into Iran under the pretext of freeing American hostages.

So, Mr. Mitchell, let us add another destabilizing factor: Western ignorance of cultural and political realities of the developing world. Somehow, I think we should consider this point more closely before we bemoan that a Third World leader got hold of a cassette recorder.

Martin J. Kotowski
Senior underwriter
American Condor Insurance Services Inc.
Los Angeles, Calif.

Louisiana Indemnity Law

To the editor: Despite your awful headline "It's David vs. Goliath over indemnity law" (BI, May 10), your article managed to achieve a balance in touching on some of the key concerns about the Louisiana Indemnity Law.

I view the oilfield contractors and producers as having done a pretty good job of holding down legal and insurance costs. They did this by allowing a kind of "voluntary no-fault" system to evolve whereby responsibility for negligence is assigned by contractual agreement rather than by an inefficient and expensive adversary system involving the various courts and many, many lawyers.

It is hardly a "David & Goliath" situation since many of the service contractors are quite large or are subsidiaries of larger conglomerates and many of the producers are relatively small by comparison. Not all of the producing companies are large oil companies and not all of the large oil companies try to drive a hard bargain in their negotiations with contractors.

The implications of the Louisiana legislation are particularly disturbing. It is the only state that has gone so far in attempting to prohibit insurance and waiver-of-subrogation agreements to the extent that it would encourage a huge increase in litigation by workers compensation insurers and it would prevent the contracting parties from determining the most efficient use of the insurance industry's financial and service resources.

William T. Howard Jr.
Director of corporate insurance
Forest Oil Corp.
Bradford, Pa.

'Attractive nuisance'

To the editor: I read Len Strazewski's column on prospect and client entertainment at the annual Risk & Insurance Management Conference (BI, May 3) with pride in our industry. Entertainment has evolved from benefit into the realm of abuse through expectation and competition.

The column indicates that insurers, brokers, consultants and buyers are all reaching the reality simultaneously that premium loading is the end result of unnecessary or unnecessarily extravagant entertainment, which may more properly be called an "attractive nuisance."

When new-business and client-retention expenses are budgeted, let's have our industry keep the old adage, "It takes money to make money," in its proper perspective—20% for entertainment and 80% new product research to better serve the buyer.

B. Lee Garro
Corporate insurance administrator
Safeguard Scientifics Inc.
King of Prussia, Pa.

Self-insurance tax equity bill

To the editor: Your May 3 editorial on self-insurance tax equity was right on the mark. As a board member of the Loss Reserve Deduction Committee, the National Assn. of Insurance Brokers has been working hard with its colleagues to achieve this much needed reform. Rep. Frenzel's bill is an important first step in building awareness of tax equity.

To have the prestige of *Business Insurance* behind LRDC's efforts is a tremendous boost to our cause. I hope it encourages readers to make their voices heard in Washington in favor of legislation that recognizes that our tax laws should be in line with today's insurance marketplace.

Donald L. Jordan
Executive director
National Assn. of Insurance Brokers
Washington, D.C.

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

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The Illinois Industrial Training Program (ITP) just committed \$100,000 to train 80 new Gandalf employees.

While the High Impact Training Program (HITS) is spending over \$54,600 for the made-to-order educational program in cooperation with a local junior college.

State cooperation like this has helped Gandalf Data grow from 16 employees to well over 300 in six years. And it's state cooperation like this that will continue to help companies that are expanding or relocating in Illinois.

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Governor Thompson invites you to learn more about Illinois'

job training programs—and some other very good reasons to consider Illinois. Call Peter Fox, toll free at 800-637-8000. In Illinois call 800-252-2923. Or write him at the Illinois Department of Commerce and Community Affairs, 310 S. Michigan Ave., Chicago, Illinois 60604.



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In fact, the superModem was developed by Gandalf in cooperation with the University of Illinois and is used in a variety of applications by the State of Illinois.

Their stock recently began trading to the public via the OTC market and Gandalf is looking forward to continued future growth.



Announcing the \$154,696 Illinois state funding for the Gandalf Data employee training program are William Howard, Dir. of Continuing Education at Harper College; Governor James R. Thompson and Alan Melkerson, President, Gandalf Data, Inc.

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Hard times

Economy forces risk managers, suppliers to try out new ideas

By LEN STRAZEWSKI

Hard times.

It's more than the title of a book about the Great Depression by Chicago author Studs Terkel.

It's what Illinois business is living through right now, from Caterpillar Tractor Co., the state's biggest employer based in Peoria, to the corner grocery store on the South Side of Chicago.

Unlike seemingly recession-proof areas of the country like Texas, which is still riding high on the energy business, or California, aglow with high technology, Illinois is recession-sensitive.

As the nation's link between the East and West, Illinois is a transportation and distribution center that thrives when manufacturers ship a steady stream of products and farmers produce bumper crops of foodstuffs.

But when retailers, packagers and manufacturers feel the pinch of a sluggish economy, Illinois's diverse mix of light and heavy industry, agribusiness and transportation feels the pinch, too, in shrinking profit margins, surprising property losses and rising workers compensation and medical claims.

What defines Illinois risk and employee benefit managers is that employers, brokers and insurers are doing something about hard times, with a variety of property and workers compensation loss-control, benefit cost-containment and general expense-control tactics:

- Risk managers are watching workers compensation claims carefully, looking to head off telltale increases that mark a recession. They are also monitoring plants and property shut down by layoffs to prevent vandalism (see story, page 12).

- Employee benefit managers are taking their companies into coalitions and other cost-containment programs to control rising costs (see story, page 13).

- Agents and brokers are shrinking their own profit margins and developing services designed to improve loss forecasting (see stories, page 20).

- Insurers are broadening their product base to increase efficiency and profits (see stories, page 36).

- Regulators are asking the Legislature to open the state to competitive rating for workers compensation and are approving growing new markets for insurance, like the Illinois Insurance Exchange (see story, page 44).

Hard times are creative times for "conservative" Illinois business.

"When times get tight, you put more of an emphasis on good, basic management," explains Arthur P. Bostwick, risk manager for Stone Container Corp., a Chicago-based packaging manufacturer.

"You need to focus, more than ever, on loss prevention and risk avoidance. The last thing you need right now is a major property loss and a losing adjustment. You get tougher when times get tough."

Although Stone Container is "holding its own" and avoiding plant shutdowns and serious layoffs, Mr. Bostwick is beefing up property conservation and workers compensation loss control.

"The more time buildings are unoccupied, the more they are exposed, so it pays to make sure property protection is adequate. And it's an old observation, but when times get hard, workers compensation claims go up. If you are laying off workers, you can count on an increase in claims right before the layoff," he says.

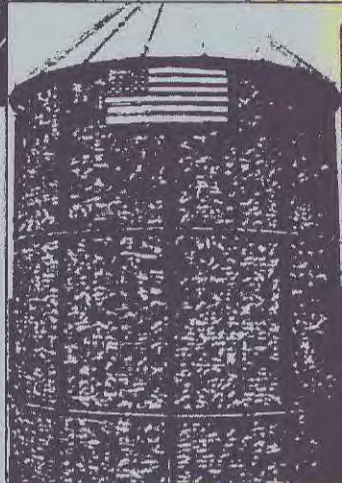
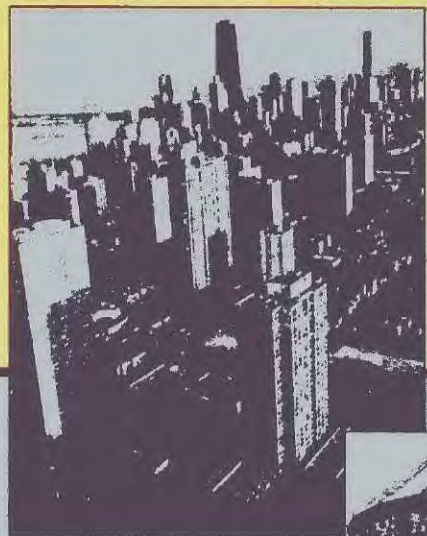
Companies must also re-examine their insurance programs, Mr. Bostwick advises.

"Cash-flow programs are good—if you are in a good cash position. If not, a traditional insured program may be better. If interest rates are high and insurance inexpensive, an insured program may also help your position on borrowing."

Claims control is also important at Walgreen Co., the drug and sundries retailer based in Deerfield, Ill. About 25% of the company's \$2 billion in annual sales comes from Illinois. Insurance for the company's approximately 900 stores and restaurants costs from \$7 million to \$10 million annually.

"Controlling claims, both in workers compensation and major medical, is absolutely essential," says Craig Ames, director of

Continued on page 12



ILLINOIS MARKET REPORT



Photos: Mary Cairns, Ray Hillstrom, Ill. Dept. of Commerce & Community Affairs, Council of 100.

Economy tests risk management ideas

Continued from page 11

risk management at Walgreen and president of the Chicago Chapter of the Risk & Insurance Management Society.

"With major medical costs rising at an estimated 20% a year and workers compensation rates going up about 12% a year, you have to be aggressive in loss control."

For many companies, risk-funding techniques have been taken for all the cash advantage they can provide, and corporations are "left with nothing else to squeeze" in their insurance budgets, Mr. Ames notes. "That's another reason why preventing and reducing losses has become so important.

"It similar to what we have seen with energy conservation. Corporations took a number of austerity steps to reduce energy consumption: limiting hours for air conditioning, reducing lighting in non-essential areas. But after a while, the energy conservation committee found that they had gone as far as they could and there was nothing left to conserve.

"By analogy, that's what's happening in Illinois."

The new important questions in risk management, according to Mr. Ames, are: "How do you change the behavior pattern of an organization? How do you develop a risk management program to fit and

alter corporate behavior?"

For practical risk management, Mr. Ames recommends a firm policy that puts pressure from the top down to contain costs. Responsibility for loss control and accountability for expenses must be placed with profit center managers.

"Accident prevention is a by-product of good management," he says.

The insurance marketplace also bears watching, Illinois risk managers advise. If corporate profit margins slip, buyers may be overly anxious to negotiate grandly lower rates that may increase sharply when the market hardens.

"If the market is soft, you may want to be more aggressive in terms of renewals," agrees Eugene Baker, G.D. Searle & Co.'s director of risk management and benefit funding. Searle has more than 16,000 employees nationwide, with facilities in Skokie, Mount Prospect and Park Forest South, Ill.

"But you cannot simply buy on price. A risk manager cannot afford to completely lose continuity in competition," he says.

Risk management departments must also watch their internal budget, he adds. "Trips for risk management staff members, use of consultants, all the items on a risk management department budget must be reviewed."

What workers comp losses?

CHICAGO—While many Illinois risk managers are pointing to rising workers compensation claims as an indicator of the recession, Philip J. Saturnino, Inland Steel Co.'s corporate insurance manager, says the opposite may be true this time.

"Loss control and the economy may be having a reverse effect on the old trends," Mr. Saturnino says. "Some of my colleagues and I have noticed a decrease in both frequency and severity of losses and we really don't know what to make of it. There seems to be no explanation."

The strange trend is playing havoc with loss forecasting, Mr. Saturnino adds.

"I know of one company that projected \$5 million in losses and ended the year with \$1 million. The loss forecastings suddenly seem less credible."



Photo: Fiat Allis

Industrial layoffs create a greater workers compensation exposure.

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Midwest employers join to control health costs

By LEN STRAZEWSKI

CHICAGO—As the cost of employee benefits tops 40% of payroll and health care costs rise 20% a year, Illinois and other Midwest employers are beginning to feel overwhelmed.

But employers working together can do more than one company working alone, says James D. Mortimer, director of the Midwest Business Group on Health, adding the coalition concept is already making its presence felt.

Only 2 years old, MBGH has more than 70 Midwest employers as members, including several major Illinois companies like FMC Corp., Caterpillar Tractor Co. and Esmark Inc. (see box, next page).

The group anticipates 100 members by next year, all working to control the cost of health care and slow the growth of employee benefit expenditures.

"Data is our No. 1 priority right now," explains Mr. Mortimer. "We want to help members in working with their insurance companies or administrators to receive reports on what they are paying for. An em-

ployer should be able to see—by diagnosis, treatment, hospital and physician—just what it is paying and how that varies within the company.

"This kind of data is fundamental to communication between employer and health care provider and to cost management in general."

Member companies agree. A survey of MBGH members placed management information as the top goal for 1982, according to a third-year work plan approved last week by the group's steering committee. The group plans to start nine "user groups" of members that will meet with their insurers to define and arrange medical cost reports from claims data.

The new groups will be modeled after four committees that have already negotiated such reports from health insurers like Illinois and Iowa Blue Cross, Prudential Insurance Co. and CNA, according to the plan.

Other MBGH targets, as suggested by members, include:

- Utilization reviews. Member companies are seeking specifica-

tions for health care reviews that can be used to audit current programs.

- Pricing alternatives. The employer group voted to establish a special task force on pricing to review programs like preferred provider discounts at hospitals and statewide hospital rate setting.

- Employee education. Thirty-four MBGH members requested guidelines for programs that would help educate employees and their families about the high costs of health care and alternative providers and coverages.

- Disability management. The group is planning a miniconference on managing the payment of disability benefits, a priority ranked high by 45% of its members, according to the group's work plan.

- Community chapters. Chicago and Rockford, Ill., MBGH members already have united into local community chapters to discuss common goals and ideas.

The Chicago chapter has already approved its own charter and "statement of mission" and will "work to establish and maintain a consensus in the business commu-

Continued on next page



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Coalition fights cost hikes

Continued from previous page
nity on local health care policy issues," among other objectives.

MBGH is planning to expand this concept and help organize groups in cities like Springfield, Ill., and Minneapolis.

• Trustee communication. Seminars and ongoing communication programs with hospital and other health care trustees was one of the MBGH's first projects and will continue as a "medium-priority" project, according to the work plan.

A formal trustee communication and education program is already underway in Rockford.

"We've already got about 90 hospital and health care trustees in the Rockford area active in meeting every six to eight weeks. Our objective with these programs is to provide education and information to these business executives sitting on hospital boards and help them represent their companies and business in the best way they can," Mr. Mortimer explains.

Although executives participate on hospital boards as individuals, they still represent the perspective of employers and thus deserve the direct support of employer groups, he says.

"There's lots of background needed in general knowledge of health care, but also in the ways in which the health care providers work together with the community. We want to see trustees take a larger role in long-term planning," Mr. Mortimer says.

The payoffs achieved by such techniques "will be subtle at first," Mr. Mortimer says, "but overall, we will begin to see hospitals making better attempts at their own cost management and management in general, which will be to everybody's advantage."

The changing world of health care is forcing both providers and consumers to look at several cost-control possibilities at once, Mr. Mortimer adds. Employers, coalitions and providers must review all areas of hospital management including professional resources, capacity of facilities, pricing and community relations.

"The financial picture of health care is changing," he says. "The government is becoming less willing to pay for health care programs and companies are working to limit their own costs. Innovative payment schemes, such as prepayment and discounts for fast payment, are being negotiated. Health maintenance organizations are negotiating funding arrangements with hospitals."

"There's a whole lot of work and data needed."

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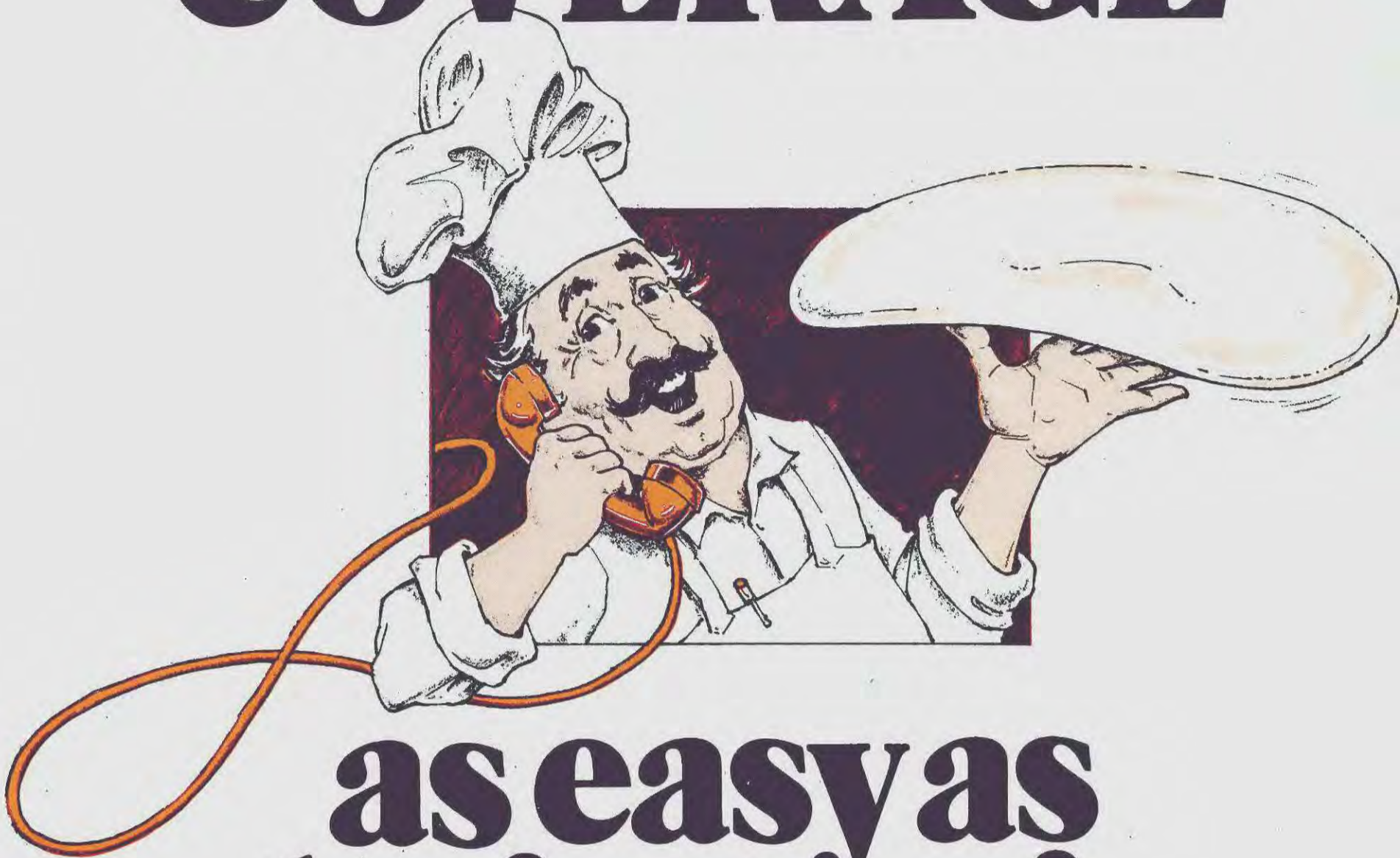
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Illinois businesses face many battles over work comp

By EILEEN NORRIS

CHICAGO—The future cost of workers compensation insurance in Illinois rests in the hands of the state Legislature and courts, employers agree.

They're just hoping the business community wins its share of the upcoming battles.

The Illinois Chamber of Commerce, joined by the Associated Employers of Illinois and the Illinois Manufacturers Assn., is pushing hard for three pieces of legisla-

tion aimed at giving employers some relief from workers compensation expenses.

"Illinois is way the heck up the line in workers compensation benefits," says Leonard Day, manager of labor relations for the Chamber.

The bills must be approved before the current legislative session ends on June 30 or employers will have to wait until next year.

H.B. 2274, introduced by Rep. Fred Tuerk, R-Peoria, would change the formula for maximum workers compensation benefits to 80% of take-home pay rather than 66⅔% of gross wages, which would in effect reduce benefits.

H.B. 2443, sponsored by Rep. Virginia Macdonald, R-Arlington Heights, would require the Illinois Industrial Commission to give credit for pre-existing injuries or conditions when granting workers compensation awards.

Both bills are pending on the House floor.

The third bill, one of the most important pieces of pending legislation for employers, would set up a competitive rating system for workers compensation insurance.

Under S.B. 1496, introduced by Sen. Aldo DeAngelis, R-Olympia Fields, workers compensation insurers in Illinois would have to file rates individually, rather than en masse under a rating organization.

Competitive rating, supporters say, will set up an environment where insurers will have to compete on price for business, probably forcing rates down for employers, who by law are required to have workers compensation coverage.

Supporters hope the bill will get a needed shot in the arm from hearings that the state Insurance Department is holding to determine if employers have been overcharged for workers compensation insurance.

Insurance Director Philip R. O'Connor estimates Illinois employers could have saved at least \$50 million in premium costs last year with competitive rating.

Closely tied to competitive rating, which many insurers and insurance trade groups oppose, is a case in which the state Supreme Court is scheduled to begin hearing oral arguments May 25.

At issue is \$1.1 billion in premiums that state workers compensation insurers were ordered to return to some 170,000 employers. The amount represents a 23.8% rate increase—plus 9% interest—that was approved by the insurance director in 1979.

The ruling came in a class-action suit filed in Cook County Circuit Court in August 1979 by the Associated Employers of Illinois and the state chapter of the AFL-CIO asking that the rate hike be overturned. The groups charged that the insurers' estimates for incurred but not reported losses increased the expected loss ratio, supporting the need for a greater increase.

At the time the rate increase was granted, the Insurance Department did not consider insurers' investment income in determining rates. However, since 1980 the department has considered investment income in ratemaking.

Another major legal battle shaping up in Illinois is scheduled to be decided in the September term of the state Supreme Court.

Unless the high court reverses a lower court opinion, all Illinois employers that own their business

Continued on page 18



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Comp battles loom

Continued from page 16
sites will be open to lawsuits from injured workers who want to collect damages in addition to workers compensation benefits.

An appellate court in Sharp vs. Gallagher found that employers that own their worksites can operate in a dual capacity as employer and landowner, and, therefore, can be sued by injured employees as a negligent landowner (*BI*, March 15).

This ruling circumvents the exclusive remedy provision of the workers compensation system, which was designed to pay benefits to injured workers without determining fault.

The dual-capacity doctrine, which has been narrowly applied in Illinois, permits employee suits when the employer and the em-

ployee step out of those roles and into another relationship.

Employers and business groups have filed briefs with the state Supreme Court predicting economic doom for all employers if the decision in Sharp vs. Gallagher is upheld.

"By holding that an employer who owns land may be sued in common law by any employee injured on the land, the appellate court has greatly expanded the potential liability of employers," says Stanley J. Davidson, attorney for the defendants.

The net result, he says, is that all Illinois employers will face greater potential liability because they will be faced with an increasing number of lawsuits brought by their employees.

Employers already are leaving the state, taking their business to states that have cheaper workers compensation rates, and expanding an employer's liability could only accelerate the exodus, according to employers and business groups that filed briefs in the case.

"By opening one door to multiple liability in addition to workers compensation, the courts may be closing the door to this state's continued commercial and industrial well-being," said Terrence E. Flynn, an attorney for U.S. Steel Corp.

About a fifth of all the cases going to the state Supreme Court involve workers compensation, Mr. Day of the Illinois Chamber of Commerce said. "I think it's atrocious for the high court to have to decide disability cases," he said.

The feeling among employers, regulators and insurers is that something has got to give—and soon.

"The number of cases and delays all contribute to the inefficiency of the system," says Jack Doyle, legislative analyst for the Alliance of American Insurers. ■

Old Republic sets earnings record

CHICAGO—Despite a long coal miner's strike and continued losses from black lung disease claims last year, Old Republic International Corp. set earnings records in 1981, executives say.

But Chicago-based Old Republic International, parent of Old Republic Insurance Co., one of the nation's largest coal industry workers compensation insurers, also saw its sales volume slip as insurance industry competition and labor trouble in the coal business slashed premium income.

Old Republic International also sells life, title and mortgage guaranty and specialty insurance products through other subsidiaries.

"We feel we had an exceptionally good year in light of the generally bad economic conditions," said A.C. Zucaro, president and chief financial officer. "Though revenues were down slightly, the bottom line was up a solid 15% and claims were down somewhat."

Net operating income grew to \$41.2 million from about \$35.9 million in 1980, while net revenue from premiums and fees fell 18.8%, to \$289.5 million from \$356.6 million, in 1980. Per-share earnings grew to \$4.22 from \$3.67 in 1980.

The shrinking premium was offset by solid investment income gains, executives noted. Investment income grew 21.6% to \$68.9 million from about \$56.7 million in 1980.

"Though we would prefer to see revenues rise each year, there were sound reasons for the decline and it did not seriously affect operating income growth," Chairman William Stover told shareholders in the company's annual report. ■

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Lawyers say Illinois firms face growing liability threat

By STEPHEN TARNOFF

Call the Illinois legal climate stormy:

• Peoria attorney Richard E. Quinn wasn't defending any physicians in medical malpractice suits 10 years ago. Today, 75% of his time is devoted to malpractice cases.

• Belleville attorney Robert Schmieder says legal malpractice is the next big liability trend as more lawsuits against lawyers are filed and lawyers become less reluctant to testify against one another.

• Chicago attorney Michel A. Coccia, president of the Illinois Bar Assn. and a member of the law firm of Baker & McKenzie, predicts product liability defendants will find it tougher to defend claims.

The consensus, these legal experts say, is that Illinois businesses and professionals are facing more product and professional liability lawsuits, higher jury awards and tougher settlements.

"Businesses face astronomical insurance rates, a very litigious type of employee and quite a number of days in litigation, both in court and outside of court, due to discovery," says Mr. Schmieder of the law firm of Wagner, Bertrand, Bauman & Schmieder.

"We've seen more and more medical malpractice lawsuits and more and more frivolous lawsuits. We're now finding attorneys more and more willing to testify against each other."

But while some attorneys predict more suits and higher awards, others say the direction of the law, which they believe has favored plaintiffs, may be changing.

"I don't think it's getting any worse," Orville Bergren, president of the Illinois Manufacturers Assn., says of the legal climate for product liability suits. "It has passed the high point of being totally against the defendant."

"It has been said that Illinois is a tough state. It certainly is not the world's best state for a defendant to be sued in."

"It won't get any worse in the next five years, but it did worsen in the last five years," adds Edmund Sinnott of the Chicago law firm of Pope, Ballard, Shepard & Fowle Ltd. "I think it is evening out."

Plaintiffs' attorneys don't think defendants are hurting, however.

"There's been a good deal of stability in product liability law," says Thomas F. Londrigan of the Springfield firm of Londrigan & Potter.

When it comes to product li-

ability, most attorneys believe that except for slight nuances, Illinois law is consistent with product liability law throughout the country.

However, these nuances—like the laws concerning punitive damages, state-of-the-art defense and comparative negligence—are worth fighting over.

During every legislative session, interest groups like the IMA or the Illinois Trial Lawyers' Assn. descend on Springfield, the state capital, to try to tip the balance for defendants or plaintiffs.

Some of the legal issues in which the lobbyists are currently interested include:

• Product liability. Among legislation pending in the Illinois General Assembly is a bill, H.B. 1317, to modify existing product liability law to favor defendants and another designed to modify the state's comparative negligence law.

The bill, which recently passed the state House of Representatives, would force plaintiffs to prove that an alternative formula or design was available at the time the product was manufactured, the formula would have prevented the injury, it was known by the manufacturer and it was feasible.

The comparative negligence legislation, H.B. 1894, would prevent the plaintiff from recovering damages if he or she is more than 50% negligent, Mr. Bergren says.

The current theory of comparative negligence allows a plaintiff to recover from a defendant even if he is 99% negligent and the defendant only 1% negligent.

The Legislature, however, has rarely taken an active role in creating remedies in product liability law, remarks Mr. Londrigan.

• Medical malpractice. Among the pending bills concerning medical malpractice is one, H.B. 1155, that would make it easier for doctors to countersue attorneys and plaintiffs for frivolous lawsuits.

This bill would mean doctors could recover damages if suits are unreasonable in the eyes of the court. Current law requires attorneys to be malicious or use bad faith before a physician can recover.

According to one medical industry source who asked not to be identified, the "situation is deteriorating here as elsewhere" with regard to medical malpractice.

"The amount of awards is increasing," he says. "We're steadily heading up the same problems we had in 1974 and 1975."

Another problem for Illinois professionals is design liability. Great numbers of claims are filed in Illinois against design professionals like architects and engineers because of the Illinois Structural Work Act, says defense attorney Thomas M. Crisham of the Chicago law firm of Hinshaw Culbertson Moelmann Hoban & Fuller.

Virtually every other state re-

quires that negligence be shown against such professionals to win a claim. In Illinois, the statute precludes the necessity of proving the defendant was negligent and also does not permit the defendants to use the injured party's contributory negligence as a defense.

While in most instances they are not found to have violated the law, "it (the law) makes a big difference in the number of claims and entails very substantial costs," he says.

Illinois manufacturers and other employers also are very concerned about high jury awards, which they say set precedents for higher settlements in other cases.

Also, the site of a trial can have a significant effect in the amount awarded. Several attorneys told *Business Insurance* that juries in urban areas are more likely to award more money to plaintiffs than juries in rural areas. Cook County, which includes Chicago, and the downstate counties near St. Louis generally give higher awards (see related story).

Mr. Quinn of the Peoria law firm of McConnell, Kennedy, Quinn & Johnston says juries in central Illinois have become more conservative in recent years and are handing out more defense verdicts.

"There's been a change in the way juries have reacted here," he says. "The trend wasn't recognizable a few years ago."

By contrast, Mr. Sinnott of Chicago says that in recent weeks there have been some "startlingly high verdicts" in that area. ■



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Size of judgments growing

A recent study by the Rand Corp. of civil jury trials in Cook County, Ill., indicates a significant increase in the number of product liability and medical malpractice cases and in the size of the damage awards.

However, the total number of civil trials in Cook County decreased between 1960 and 1979.

In product liability suits, the average judgment increased substantially with half of the plaintiffs receiving more than \$82,000 by 1979. But while the number of trials and the number of judgments in this category increased, plaintiffs still lost more than 60% of the time.

The study also reported that malpractice awards in Cook County increased tremendously during the 20-year period with the average malpractice award reaching \$377,000 in 1979.

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Chicago brokerages search for business

By LEN STRAZEWSKI

CHICAGO—Hard times for Illinois employers mean hard times for Chicago brokerages, which are scrambling to expand their business base while maintaining a steady quality of service to their large corporate clients.

Many brokers, including the largest brokerage in Chicago, Marsh & McLennan Inc., are turning their sales personnel loose on small to medium-sized commercial risks, agribusiness and even once-shunned personal lines.

"I'm sure you've heard this all before, but it's a tough market out there. For the big risks, it's be-

tween the large publicly held brokers and Johnson & Higgins," says M&M Managing Director Donald Davidson, in charge of both the 380-person Chicago office and much of the Midwest region.

"We're all beginning to give more attention to the non-risk management clients, the smaller risks that don't require as sophisticated a service," he says.

M&M also is beginning to pursue agribusiness, especially the large commercial farms that spread throughout Illinois, Michigan, Wisconsin and Indiana. "It's not significant yet, but there is potential for growth," he explains.

With the premium volume from most individual accounts shrinking, the national brokers are hard-pressed to pay for the additional services the clients demand. Some are negotiating extra fees for services or comprehensive brokerage fees that pay more than commission, but most are grinning and bearing while anxiously seeking new areas for growth.

Most of the national brokers now offer computerized data-base services, which they hope will attract new clients and provide data to firms expanding their risk-management expertise for a fee. M&M calls its system RIMSTAR and Alexander & Alexander, the second-largest brokerage in Chicago since its acquisition of R.B. Jones & Co. in 1978, sells ARIS, a similar product. Fred S. James & Co. and Rollins Burdick Hunter & Co. are also developing systems.

Personal lines, including homeowners policies, automobile insurance and life insurance, is also an expanding business, though one brokerage, Johnson & Higgins, doesn't bother at all. J&H focuses on big risks and is developing its pollution loss-control expertise.

But its competitors don't agree personal lines should be neglected.

"We've developed a strength in the personal lines," remarks Bruce P. O'Neil, president of Corroon & Black of Illinois. "We've got two subsidiaries, one in Downers Grove and another in Aurora (see related story, page 34), that handle predominantly personal lines and we see that as a solid growth area."

About 8% to 10% of revenues generated by the more than 260 Chicago-area C&B employees comes from personal lines, 20% from employee benefits and the remainder from commercial property/casualty risks.

C&B also administers the self-funded workers compensation pool sponsored by the Illinois Manufacturers Assn. and is marketing several new insurance products developed by the brokerage.

"We've discovered that we cannot just sell products the insurers offer. We have to stay in touch with consumer needs and develop what they need," Mr. O'Neil says. "We have been working on new forms for malpractice and have developed a new kind of additional expense/business interruption form that covers zoning changes, among other things."

Rollins Burdick Hunter, the largest national brokerage based in Chicago since Fred S. James moved its executive offices to New York earlier this year, also stands the consumer watch, according to Vice Chairman George Burrows. RBH has 1,400 employees nationwide and about 225 in Chicago, where it ranks fourth in the competition, according to local estimates.

"Bad times economically tend to reduce the demand for services overall," he says. "The greatest em-

Continued on page 22

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There are a number of markets offering D&O coverage. Some (quite understandably from a bottom line view) prefer to deal only with large, very large or gigantic companies. A smaller prospect—especially if it is burdened by any problems—often gets short shrift, a fast shuffle or a flat turn-down.

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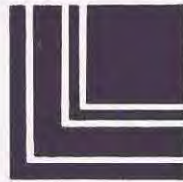
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Brokers scrambling to expand business

Continued from page 20

phasis is on cost reduction and, of course, separate fees for risk management services are significant under these circumstances. But more often, we just see a reduction in our margins."

While most of the larger national brokers have reported revenue gains consistently in the double digits, RBH tended to increase sales at just 10% a year, but slipped from that pace in 1981. Gross revenues grew only 6%, to \$76.8 million from \$72.6 million, in 1980.

Also based in Chicago, but falling behind such brokers as Arthur J. Gallagher & Co., Johnson & Higgins of Illinois and Frank B. Hall of

Illinois, is the Ryan Insurance Agency Group, an amalgam of a banking specialty brokerage, Scarborough & Co., and three general commercial brokerages including two with main offices in Chicago. James S. Kemper Co., acquired more than a year ago, and Youngberg-Carlson, a regional firm with long roots in Chicago, give the company a formidable presence in the marketplace.

Other divisions of the Ryan Group sell coverage underwritten by Ryan insurers directly to the personal lines and automobile dealer markets.

With large national brokerages pressing down from the top and direct writers like Allstate and State Farm Mutual pressing from the bottom, Chicago independent brokers are a beleaguered bunch struggling to keep the significant share of major risks the firms have maintained for years, as well as to develop new business.

In general they are not doing well, with a handful of exceptions. Two notable standouts are a real estate specialist, Near North Insurance Agency (see related story, page 24), and Mack & Parker Inc., which developed an employee benefits specialty into insulation from the intense property/casualty rate competition.

M&P, with about 65 employees, was able to boost revenues nearly 16% over 1980, according to President Edward Mack III. Although about 35% of the firm's more than \$3 million in revenues is derived from employee benefits, property/casualty business is up, he says. In 1981, new business rose 30% for a 10% revenue increase.

"Industry research says that one-half of the present independent agents and brokers will be out of business in five years. I can't disagree, but as agencies merge or go out of business, Chicago customers will start shopping around. We expect to be in business and get more than our share of the moving accounts."

A member of Assurex, the national independent brokerage support group, M&P also serves some national and international accounts, an area which Mr. Mack expects to expand as local corporations grow.

Chicago suburbs are not without their own brokerage powerhouses. In Rolling Meadows, Arthur J. Gallagher & Co., the nation's 10th-largest brokerage, ranks among the top five area brokers, according to local estimates.

A classic case of a local firm making good, Gallagher met the trend toward self-insurance with a subsidiary, Gallagher-Bassett Inc., that administers claims for large self-insured entities including Beatrice Foods Co. and the Roman Catholic Archdiocese of Chicago.

Gallagher, with more than 800 employees nationally, earned more than \$38 million last year.

Most other suburban brokers mix small to medium-sized commercial risks with a liberal dose of personal lines coverages. However, some of the small agents have developed strong business reputations that have launched their executives into local and national leadership roles.

In Palos Hills, for example, Jack Payan of Payan-Stitt is the new president of the Independent Insurance Agents of America.

In Oak Park, another local leader is Timothy Cunningham, president of the James H. Cunningham Agency and president of the Chicago Board of Underwriters, a metropolitan group of independent agents and brokers. ■

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Most risk managers need help on construction risks: Broker

By LEN STRAZEWSKI

CHICAGO—"I've got \$1 billion in construction projects on my books right now, ready to go," says Michael Segal, president of Near North Insurance Agency.

"But for 1983 and 1984, there's nothing at all on the drawing board."

Near North is a Chicago real es-

tate and construction specialist, brokering coverage for many of the major contractors and developers in the state.

From the construction risks on the Sears Tower, the world's tallest building, to the renovation of Comiskey Park, home of the Chicago White Sox baseball team, the agency is involved in some aspect of the insurance for most of the

area's major real estate projects.

Although the buildings aren't rising as fast as they used to, those that are do keep a risk manager on his toes, says Mr. Segal.

The construction industry has been one of the businesses in the Midwest hardest hit by the recession, creating both difficult times for contractors and pressure for careful risk management in a complex field, he says.

Even companies with strong, sophisticated risk management departments have to turn to a broker for construction expertise, he says.

"A risk manager in a home office working with a property/casualty master policy just can't perform as well as a local broker with a construction specialization. Unless the risk manager has worked for a major construction company or developer, this exposure is a new experience," he explains.

"And the alphabet houses have a lot of experts, but not usually in the construction field. If we were asked to handle a multinational client, I'd probably have to say we couldn't do it. But we can handle construction risks for the biggest firms."

Only about half of a good construction risk broker's job involves placing insurance and obtaining a policy, he says. Near North account executives are expected to function as part-time risk managers and are required to spend a half-day a month in a client's office reviewing policies and exposures.

"Much of our time is spent reviewing contract language and hold-harmless agreements, long-term leases, mortgage agreements and other documents," he says.

Although clients probably need a lawyer for legal agreements, most lawyers don't have practical insurance experience, he notes. And it's practical insurance design and claims handling experience that risk managers need now, Mr. Segal says, as the recession spurs property losses and contract disputes.

Owners and contractors can count on more and more "mysterious disappearances" of equipment from worksites, which means claims problems, and owners, contractors and developers will continue to disagree on who will pay.

"Most builder's risk policies, covering both owner and contractor, involve some sort of deductible. But it is rarely clear who is responsible for that deductible. If we do our job well, we can pre-empt many disputes between contractors and owners on the basic, expected damage claims," Mr. Segal says.

Building owners also require re-evaluation of their liability limits in light of the series of hotel disasters in the last two years.

"Even the small hotel chains that we have as clients are dramatically increasing umbrella liability limits," he says. "The companies that carried \$5 million to \$10 million are moving up to \$50 million to \$100 million, which luckily they can easily obtain in this soft market."

Near North, with 87 employees, has long, strong political roots. George Dunne, president of the Cook County Board of Commissioners and former chairman of the Democratic Party in Cook County, shares ownership with Mr. Segal, but the firm is becoming less political each year, diversifying its business into areas not easily linked to political clout, Mr. Segal says.

The agency manages an association medical malpractice program for 800 podiatrists underwritten by CNA and also brokers coverage for several food distributing and wholesaling clients.

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perspective

THE ILLINOIS MARKET

Favorable-business climate lures insurers

By James S. Kemper III

WITH 286 domestic property/casualty insurance companies, Illinois ranks ahead of all the other states in the number of domestic insurers. Its 1980 premium volume of more than \$5.6 billion, excluding life insurance, was the fourth-largest of any state.

Business paid \$2.9 billion of that amount for lines like workers compensation, comprehensive general liability, multiperil and automobile. Businesses also purchase the bulk of group accident and health insurance. In 1980, Illinois insurance companies paid more than \$2.4 billion in salaries to the 145,020 people they employed directly.

Illinois is one of the strongest insurance and risk management centers in the world. Why? Largely because it is a good place for any type of business.

Illinois is among the most highly industrialized states and is the only industrial state to maintain a triple-A bond rating. Almost one-third of the total gross national product is produced within a 300-mile radius of Chicago. Chicago's Cook

James S. Kemper III is central division president of Kemper Group in Long Grove, Ill.

County is the nation's leading county and it's the leading metropolitan market in terms of industrial buying power.

This makes Illinois a fertile area for risk management expertise. The necessity for large companies to tailor insurance to their particular operations requires risk managers to know their subject well and to be alert to changing insurance needs and innovative coverages. In turn, insurance companies operating in Illinois must be ready to respond.

New products are generally well received by the Illinois Insurance Department. And Illinois is unique in that it does not have rating laws, except for workers compensation. Both buyers and insurers benefit from a market that generates adequate, non-discriminatory and competitive prices.

Illinois also offers an incentive for insurers to locate in the state. A 2% tax on premiums written by non-domiciled companies was enacted in 1899 and subsequently declared unconstitutional. It was re-enacted in 1919 and has not been significantly changed since then.

The incentive worked. Many have the opinion that the tax should not be passed on to domestic companies, as is being considered, to raise an additional \$80 million in tax revenue. Doing so would

remove the advantage domestic companies enjoy, thereby retarding future growth of the insurance market here.

Illinois insurance companies currently pay the same taxes that other corporations in the state pay. Many of the companies also pay large real estate taxes and various local taxes. During the fiscal year ending June 30, 1980, the Illinois Insurance Department collected a variety of taxes and fees totaling nearly \$98 million from the industry while spending about \$6.4 million in regulating it. Moreover, any premium tax increase would be passed on to Illinois policyholders.

Illinois is headquarters for some of the largest insurance companies in the world. In addition to the factors already mentioned, the Illinois companies' successes can be traced back to the guidance of several pioneering individuals. Illinois' present prominence in insurance is due in no small degree to the creativity of such historical figures as:

- General Robert E. Wood, regarded by most as the builder of the modern-day Sears, Roebuck & Co., who founded Allstate Insurance Co. in 1931 as a Sears subsidiary. Allstate now is the world's largest stock company auto insurer and a leader in other insurance fields.

- John D. MacArthur, who bought the

small, financially-troubled Bankers Life & Casualty Co. of Chicago in 1935 for \$2,500. By 1941, Bankers' assets totaled \$500,000. Shortly before his death in 1978, assets had grown to more than \$1 billion.

- W. Clement Stone, now famous for his positive mental attitude concept, who founded Combined International Corp. in 1940. Stone geared his health and accident policies to middle- and lower-income markets and utilized an aggressive direct-marketing sales force to sell the low-priced policies.

- George J. Mecherle, who founded State Farm Mutual Automobile Insurance Co. in 1922 in Bloomington, Ill., when he was 51. By 1941, his company ranked as the nation's largest auto insurer, a position it has held since.

- James S. Kemper, who as a young insurance agent in 1912 recommended that Chicago lumbermen form an insurance mutual. He served as president of the new company, Lumbermens Mutual Casualty Co. It was the first of the Kemper Group companies. Since that time, Kemper has expanded to a full range of insurance coverages and financial services.

Innovative companies and individuals, effective regulation and strong industrial growth: All have helped insurance and risk management thrive in Illinois.

Recent law allows self-insurance pools to grow

By Ronald F. Wiser

SELF-INSURANCE pools to cover workers compensation risks can now be formed under the laws of more than 15 states. It is interesting to note that legislation permitting this form of coverage has been on the books of some states for nearly 70 years. Yet only in the past decade has there been a substantial and growing interest in implementing self-insurance pools.

The motivation for the recent increase in the use of self-insurance mechanisms in

Photo: Mary Cairns

the property/casualty insurance industry is the opportunity to take advantage of the cash-flow benefits and the reduction of insurance costs that they offer.

In the past, self-insurance has only been feasible for the large company that could afford to assume the risks involved.

Currently, however, companies that are not large enough to self-insure alone or take advantage of a specifically designed program like a

retrospective rating plan can join together to assume that risk. A number of such employers with similar risk characteristics can agree to pool their workers compensation liabilities and contribute a fair share of the expected claims to the pool each year.

Consequently, the ultimate cost of workers compensation coverage to each participant would reflect only the claim experience of the pool and need not be tied to the claim experience of the commercial insurers in the state.

It is essential that small and medium-sized companies understand not only the merit of self-insurance pools, but also the substantial risks that are involved. Proper actuarial guidance can help to determine whether this approach is advisable and feasible for the individual company and, more specifically, can help

to set up the financial guidelines to assist in structuring the pool.

To enter into a pool without the professional guidance of legal, accounting and actuarial counselors can, and probably will, lead to serious future complications.

The most recent legislation affecting self-insurance pools was passed in Illinois and went into effect early in 1981. An Illinois trade association or other employer group wishing to take advantage of this legislation must comply with very specific regulations set by the Illinois Insurance Department in Rule 29.01. Among these requirements are the following:

- Members must have similar risk characteristics.
- Members must meet a size requirement of at least 20 employees and \$250,000 gross annual payroll.

Continued on next page



perspective

Self-funded comp pools growing in Illinois

Continued from previous page
or five employees and \$62,500 gross annual payroll if actively in business at least five years.

- Excess insurance protection must be purchased limiting individual losses to a maximum of 20% of total pool premium with an option of limiting combined pool losses to no more than 110% of total premium.

- The Illinois insurance director must approve each employer's application to participate in a pool.

- Annual audited financial statements are required.

- At least \$10 million annual gross payroll is required for the total of pool members.

The complete text of both the legislation and the rules established by the Insurance Department should be obtained and thoroughly understood by any prospective pool participant.

An association of small to medium-sized businesses in Illinois can now legally hire service organizations for the purposes of premium collection and billing, claims adjusting, loss control and risk management and actuarial advice.

This complete unbundling of the services that make up the standard insurance product has been available to the largest employers for some time. Now, in Illinois, small and medium-sized businesses together can "package" these services to meet their workers compensation needs. Clearly, this is done to effect a significant saving from the workers compensation premiums charged by insurance companies. These savings should flow from:

- Better-than-average management attitudes toward safety.

- An effective loss-control program.

- Investment income earned on pre-funded claim liabilities.

- Industry characteristics that may generate lower workers compensation costs that are not fully recognized in normal classification rates.

- The potential for economies of scale.

- A savings in the acquisition and operation expense components of the insurer's premium.

But these savings carry with them the risk that the actual costs of the pool can be substantially higher than expected.

The possible benefits and risks of participation in risk-sharing pools will be well-explained by various brokers, risk managers, self-insurance administrators and loss-adjusting service companies.

The potential pool participant must be also aware of a number of unique implications of pool membership that are probably foreign to his everyday business experience. Unless all pool participants and the administrator understand and address these issues, the pool applicant should be wary about the potential risks of pool participation.

By choosing to be a pool member, the participants are also exposed to the business risks and issues faced by commercial insurers. These include the possibility of insolvency of the pool, its members or other pools; the unexpected increase in required contributions because

of past inadequate loss reserves; new legal theories of compensable injuries; investment portfolio risk; actuarial issues of equity in setting adequate rate levels; and ownership and distribution of any surplus funds. Let's examine some of these issues individually.

All claim liabilities of the pool must be pre-funded. This is not a pay-as-you-go plan such as Social Security. The employer simply pays his full premium to fund all claim liabilities to the pool instead of to an insurance company. Participants do not have the option of holding onto their cash and then contributing to the pool only when claims are paid. The Illinois legislation is very specific about this basis for funding the pool. The funds set aside at year-end to provide for all accrued claim liabilities are referred to as loss reserves.

Employers choosing to participate in a pool should realize that the claims-adjusting organization hired by the pool will estimate a value for each workers compensation case reported. However, the sum of these individual cases will not represent the true cost of providing workers compensation for three reasons:

- First, it can take several years for all workers compensation claims to be reported to the employer. And until they are reported, the claim adjusting firm cannot put a case estimate on the liability of the pool. Thus, there must be a provision in the financial statement for the liability for claims incurred but not reported.

- Second, given a group of reported claims not yet settled, the ultimate cost of settling these claims will usually be greater than the sum of the case estimates because of the development over time of more information about the nature of the serious claims.

- Third, loss reserves must be set aside for the possibility of a closed claim being reopened years later.

Clearly, until all claims are settled, there will be some degree of uncertainty concerning the ultimate costs.

Pool participants must pay in the current year for the estimated deficiencies of prior years. The actual amount of the deficiency can only be estimated when old claims are settled. The ultimate liability for workers compensation could easily take five to 10 years to be estimated with a high degree of confidence.

A pool in existence for five years, for example, could have accumulated very large claim-reserve deficiencies. Actuarial estimates of required loss-reserve levels will usually increase one's confidence in the amount of unpaid liabilities.

The participant who has enjoyed the benefits of the underfunded years and withdraws before underfunding becomes apparent, does so at the expense of the remaining participants. While the regulations explicitly make a participant liable for assessment of the total fund for at least three years after he withdraws, this may not be sufficient to protect the ongoing participants' interests if loss reserves are not established correctly.

If it is suspected that a pool has a serious reserve deficiency, the state insurance director can order the pool to file an independent actuarial opinion as to the sufficiency of the loss and loss-adjustment expense reserves established. According to

regulations, an independent actuarial opinion means the opinion of a member of the American Academy of Actuaries or the Casualty Actuarial Society. The amount of any deficiency can then be assessed against the pool members.

The current membership of the pool (plus any members withdrawing in the past three years or more) will have to bear the assessment. It is to the benefit of the pool's long-run viability and in each participant's interest to establish both the premium and the loss reserves using some objective actuarial expertise, as is done by most large workers compensation insurers.

If any member of a pool becomes insolvent, the other pool members must supply the insolvent member's share of any financial liability. If an entire pool becomes insolvent or is unable to fund its liabilities, all Illinois pools may be assessed to resolve the deficiency.

Once the employer joins a pool, there is no longer a source of claim statistics from a commercial insurance company that will continue to serve as a basis for calculating the usual experience modification.

Moreover, the claim statistics from an employer's last insured year would not appear in the experience modification calculation until two years after the start of that year. Pool participants need not continue operating under this lag in using their own claim experience in determining contribution levels. And there is some question as to whether pool participants should continue to use the industry experience-rating formula.

It should be recognized that any such formula modification is a compromise between two conflicting objectives: high recognition of an individual employer's claim experience vs. a complete pooling or sharing of the claim costs.

There are no restrictions in the legislation to prevent a pool from having its actuary tailor its own experience-rating formula. This could be done to fit the pool members' particular needs and attitudes toward risk and safety incentives.

The employer will also have to consider the question of excess insurance. Workers compensation benefits are determined by the state and are unlimited as regards medical expense and rehabilitation. However, excess insurance can only be purchased in finite amounts or layers. So there will always be some danger to the pool of a claim that can exhaust the excess insurance limits. The uninsured portion of the claim would have to be picked up by the pool participants. Actuarial studies of the pool's prospective distribution of claims by size can be used to help select appropriate limits of excess insurance to minimize the risk.

A pool is allowed to discount its full reserve liabilities, but is limited to using a 5% investment income assumption. If it is determined the pool is subject to federal income tax as a mutual insurance company, the members of the pool may decide not to discount all of its unpaid claims and liabilities. If they do, then this means that the actuary for the pool must estimate the payout pattern of loss reserves (which can easily extend over 10 years). These payments can be discounted at no more than a 5% investment rate to establish the discounted loss reserve liabilities for the pool.

Since current investment opportunities are much greater than the 5% assumption that exists, this introduces an element of conservatism in the initial funding requirements.

Moreover, this ability to discount loss-reserve liabilities at 5% might be taken into account in determining the initial premium of pool participants. Depending on the pool's expected payment pattern of losses, the effect of the 5% discounting provision alone can amount to a 9.5% savings from the workers compensation premium.

Let's reiterate that the pools are not meant to be cash-flow plans. Participants must fully fund the amount of discounted loss-reserve liabilities. To do otherwise could expose the pool participants to a heavy assessment to fully fund all past liabilities out of current assets of the participants.

There is a significant difference between participation in a pool and purchase of insurance. The ratemaking procedures of the insurance industry are designed by actuaries to predict the total claims of the next policy year. They are not explicitly intended to recoup any losses the insurers may have suffered in past years. This is a business risk that must be borne by the insurers' surplus account.

However, a pool may have no surplus. If last year's premium is not adequate to fund last year's losses, the deficiency must be recouped this year from the pool participants. Because of this, the amount of an employer's contribution and potential assessment for past deficiencies will be determined by the actual claims suffered by all the pool members.

Clearly, selection of pool participants will be of the greatest interest to the other participants. A pool member could find itself bearing the costs of other participants with poor loss history, no effective loss control or no pool policy toward safety matters.

A pricing system that carefully considers individual loss records may guard against this. In addition, thorough screening of pool applicants should be considered a standard procedure in the admission process.

The pool enters into a higher risk situation than most insurers if it merely adopts bureau rates. The pool writes only one line of insurance in one state and probably in a limited number of classes. The adequacy of filed rates for a particular class standing by itself cannot be assumed. The workers compensation rate approval process is subject to many pressures and the classification ratemaking process is highly complex.

While the insurer can diversify the risk of inadequate rate levels over many classes, lines of insurance and states, the pool does not have this ability. Many prudent self-insurance plans will begin with an independent assessment of the adequacy of classification rate levels to be used in determining funding levels.

While there is a real potential for savings in workers compensation for employees as a result of this new legislation, it is not without its risks. There are major risks involved in any self-insurance plan. It must be appropriately managed to avoid unnecessary exposure to pool participants.

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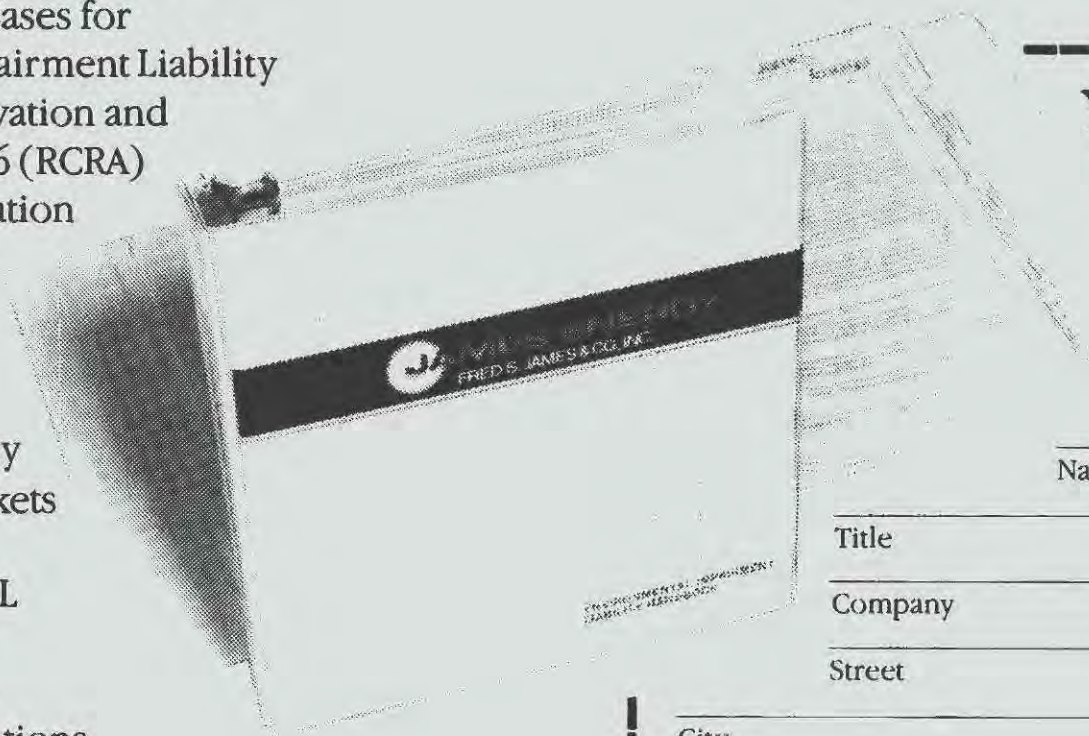
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Economy, rate cuts reducing service state agents provide

By DAVE GALANTI

As economic conditions deteriorate, Illinois agencies are trying to retain small to medium-sized risks, including clients that have been on the books for years.

With even long-term clients shopping and moving their insurance, agents outside of the Chicago metropolitan area are finding themselves spending more time just marketing coverage and less time providing the personal services that were their trademark.

Buyers might be obtaining lower prices, agents say, but unless they are a major client, service from both insurers and agents is falling accordingly.

Agents say several devastating factors have combined to ensure that 1981 will not be a banner year.

Inflation is hiking claims payments and loss ratios. Insurers' rate cuts are affecting commissions. The depressed economy is lowering payrolls, insurance needs and premiums. And many Illinois agents are hurting.

The John H. Camlin Co. in Rockford, Illinois' second-largest city, is seeing the same conditions as almost everyone else: All bad.

"My volume was down about 7% to 8%, primarily because of the price cutting," says the agency's principal, Sherwin E. Johnson. "We have a good amount of construction risks and those are going very badly right now. Payrolls are down, and that affects the workers compensation premiums as well as other things.

"Our customers also read their trade magazines, which tell them to shop around. We were able to retain a hotel that we have been handling for 25 years, but we had to cut the premium 40% to do it."

Mr. Johnson says he is expanding personal lines business to add stability, but otherwise he has no choice but to ride out the storm.

"I don't know if the bottom is coming soon or what," he says. "Even if we are at the bottom, I don't know how long it will last. But nearly everyone is hurting, and we just have to go in with our best shot and try to gain business while not losing what we have."

"I think you'll find the situation is universal, and not just for the past year," agrees Gerald Butts of the Oak Leaf-Butts Agency in Moline, a Mississippi River city of 45,000. "In the commercial lines area, it's been unbelievable. The premiums have been cut to nothing."

Price cutting has left Illinois agencies in "absolute turmoil," Mr. Butts adds. "We have one account for which I wrote a \$5 million umbrella liability policy for \$40,000 in January 1979. In 1980, I renewed it for \$25,000; it went down to \$13,500 in 1981. This year when I renewed it again, the premium was \$6,500.

"With those kind of price cuts, I've lost every ounce of credibility I have with my clients. They keep wondering why my premium quotes were so high before.

"And it's also bad for us in another way. Prior to 1979, I had a pretty good idea of what price a renewal could be placed at. Today, the insurers are so erratic that no one knows what value they will get.

"The result is that I have to bid on every account and the work load is enormous. Clients think they have achieved heaven on earth and everyone is shopping," Mr. Butts says.

About 20% of the Oak Leaf-Butts agency's business is in consulting, and that has helped it keep its head above water as buyers attempt to keep costs at a minimum.

Price is the name of the game for almost all clients. This hits hard on Illinois independent agents that do not have a consulting business buffer because they have always sold service over price.

"Because of the terrible economic situation, there is more

Continued on page 34

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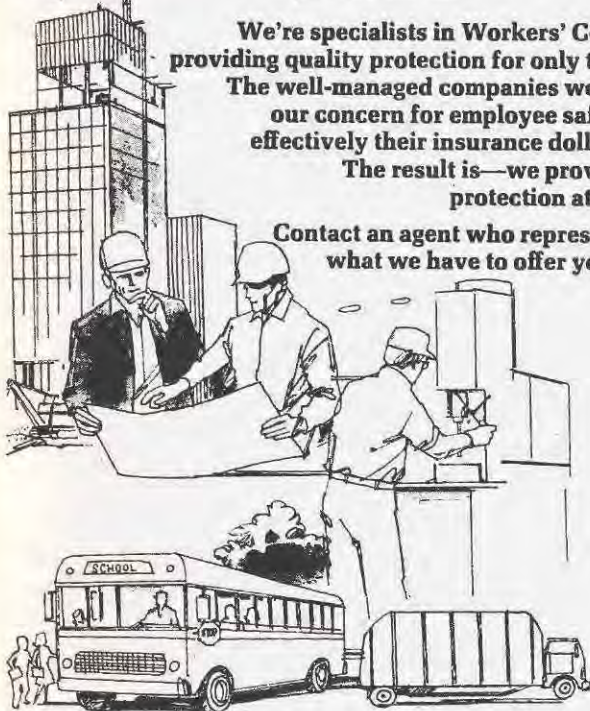
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Many independent agents hurting

Continued from page 32

pressure on my clients to go with price," Mr. Butts says. "Take one account we have had for 20 years. This year, we came in with a bid of \$22,100. Another agent said he could do it for \$21,600. The difference was only \$500, but it took that client three days to decide to stay with us. That really hurt. Our ego would have liked them to say right away the extra \$500 was worth it."

"I've been in the insurance business for 21 years, and I never thought I would have to think about selling only price," says Bruce Osenberg of the William F. Wiltberger Co. in DeKalb, a city of 35,000 in the northern Illinois.

"We still don't sell only price, but that's sure all our clients are buying," Mr. Osenberg says. "As agents, we've so educated them to price cutting that that's all they want. I cut one risk from \$1,500 to \$750 and my client was mad that I didn't cut it further."

DeKalb is the home of Northern Illinois University and the presence of students keeps the economy more stable in bad times than elsewhere in the state, Mr. Osenberg says. Even so, commercial business is "blah."

"Last year we had a slight increase in commission income and probably a slight increase in premium volume (to about \$3 million). But the construction business is horrible, auto dealers in general are in bad shape although we have a couple of healthy ones, and we've had a few retail stores go out of business."

The Wiltberger agency is relying on its life and health insurance business to help carry it through hard times. Life and health risks accounted for about 9% of business until recently; today it is about 13%. In addition, the firm is expanding east toward Chicago to Aurora and the Fox River Valley.

"The life and health area is one

of our few bright spots," Mr. Osenberg says. There, it is not unusual to see 30% to 40% premium increases."

Until recently, many independent agents were not interested in personal lines coverages because of the paperwork involved and relatively small premiums. Today, however, the tables have turned. Mr. Osenberg says he sees great opportunity for his agency in the personal lines area.

Steve Tyler of Tyler, Fletcher, Fink & Peterson Ltd. in Champaign, however, says he will stick to commercial lines.

"Recently, a lot of agencies have gone into personal lines to build business," Mr. Tyler says. "We haven't, and maybe we're missing the boat. But we want to stick with what we know best."

The Tyler agency, located in the same city as the University of Illinois in the central part of the state, writes about \$4 million in premium from a wide variety of commercial risks, Mr. Tyler says. But despite the stabilizing effect of the university, he terms 1981 a bad year.

"We hung in there with our volume, but our profits were down—partly because of some major capital expenditures such as a phone system," he says.

"We were more fortunate than others. The economy is not in good shape, which hurts us. And there is also competition from all over. There used to be about four or five agents around here that you had to worry about. Now you have self-insurance and association plans of all kinds."

The result is often undeserved egg on his agency's face, Mr. Tyler adds.

"Our customers think we're absolutely bonkers," he says. "On one risk we bid on recently, we had premium ranges of \$13,000 to \$3,000 in my office alone. As a result, clients that have never shopped before shop now. One account we have served for 18 years decided to shop and left us. They thought we had been gouging them all these years."

Agents selling association plans don't have it easy, either. Mr. Butts of the Oak Leaf-Butts agency says he got the following response to a mass-marketing mailing:

"We had sent out a mailing on a certain program, and potential clients were supposed to check one of several boxes to tell us if they were interested or not. We got one card back from a firm that checked the 'interested' box but wrote on the side, 'I'm not interested in changing plans, but I need to know what coverages and prices are available.'"

While price cutting may be good for corporate consumers, many agencies admit that the service end of their business may have to take a back seat, at least for the smaller risks.

"We have to be quite frank with our clients," Mr. Tyler says. "You get what you pay for and on many accounts today, we just don't make enough from the risk. Our producers still service their own accounts and we think that helps us maintain our level of service to our clients. But when you have to spend so much time out on the street, it's hard to spend as much time servicing the account as you would like."

"Service from many insurers stinks today," adds the Wiltberger agency's Mr. Osenberg. "The price cutting has really affected service from our companies as well. They quote a lot of risks, but their hit ratio is low, so morale is terrible. And the adverse effect of that filters down to us and the clients."

Mr. Butts of the Oak Leaf-Butts Agency is concerned about that.

"We're still trying to present that

level of service we have presented in the past," he says. "But service takes time. Our problem is that if we don't find the time somehow, the clients get upset and we're more likely to lose them."

"For us, the smaller accounts tend to be the losers. We have taken our accounts that pay us less than \$5,000 a year and assigned them to one woman. We told her to run with them and do the best she can. If a major problem arises, she can come to us. But we have to concentrate on the big accounts and going out to get new business."

"At one time our hit ratio on new business was 90%. Now we just spin our wheels."

Realizing that it is the agencies themselves that have educated their clients to shop around and seek the lowest price, Illinois agents put much of the blame for their current plight on the insurance companies.

Rampant price cutting and reliance on investment income to offset underwriting losses have decreased agency commissions and dried up profit-sharing and contingency income, they say.

However, Tim Nicould of Troxell & Co. in Springfield says his agency, with \$6 million in revenue, had an excellent year in 1981, better than the previous one.

Those results partially came as a result of negotiations with his insurers that paid off in extra dollars.

"Profit-wise, 1981 was the second-best year we have ever had," says Mr. Nicould. "This year is even better. I don't want to put a hex on us, but we're very happy right now."

"Like everyone else, our clients are looking for the most coverage for the least dollars," he says. "But we haven't had any problem getting our risks priced right, and that's the key."

"We've also renegotiated our agreements with many of our insurers and that has resulted in increased commissions and bonuses in some instances. We've also arranged with some insurers to make payments to them later than we ordinarily would."

"We're telling our insurers that we'd like to have a higher commission level, especially if we give them new business," Mr. Nicould adds. "The company won't do it for you, but if you work with them you can change the contracts. We got a 2.5% commission increase across the board, except for workers compensation, from one of our markets. Our loss ratios have been good, and that helped us in our negotiations."

Illinois' only big-broker representative outside of Chicago, McWethy Brothers of Aurora, owned by Corroon & Black Corp., specializes in estate planning and employee benefits. However, it also focuses on farm business, which compared with other commercial risks, has been fairly stable lately, says Dick McWethy.

Mr. McWethy, who has been producing farm business for more than 35 years, says farm risks in the past year has been extremely competitive, but not subject to the price cutting of other commercial lines. It's hard to cut premiums of less than \$2,000, the average Illinois farm premium.

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Soft market, economy hurting CNA's results

By STEPHEN TARNOFF

CHICAGO—Rate competition among insurers and a weak economy are taking their toll on CNA Financial Corp.

Coming off what it calls a "generally satisfactory" 1981, the multi-line insurer, one of the largest based in Illinois, was hit with deteriorating underwriting results in both property/casualty and life insurance subsidiaries.

As a result, CNA executives are planning to cut expenses and increase efficiency to prepare for the possibility of bleaker days while expanding its sales force and increasing its number of insurance products.

Even those changes and a slight improvement in the first quarter of this year, however, do not mean there will be continued improvement this year, Chairman Laurence A. Tisch told CNA shareholders recently.

Many of CNA's problems are reflections of the property/casualty insurance industry as a whole, which experienced its worst underwriting year in 1981, he said.

"The insurance business is changing in many ways," he noted. "There is a great deal we will have to do to adapt."

CNA senior executives would not elaborate on the insurance group's marketing plans and requests for interviews by *Business Insurance* were denied.

CNA's property/casualty subsidiaries, including Continental Casualty Co., sell commercial and personal lines through approximately 40,000 independent agents and brokers.

During 1981, CNA says it increased its support for underwriting and servicing large accounts and also for stimulating life insurance sales from property/casualty agents.

Commercial insurance products include workers compensation, general liability and professional liability coverage, specialty risk and reinsurance.

CNA's life insurance operations market individual and group insurance products primarily through Continental Assurance Co., using about 25,000 licensed agents.

The corporation also has a consumer finance operation, General Finance Corp., which makes direct installment loans to individuals and acquires automobile finance contracts from automobile dealers.

In 1981, CNA Financial Corp. net income dropped to \$74.9 million from \$98.3 million in 1980 while premium volume increased from \$2.38 billion to \$2.47 billion. Investment income rose from \$410 million to \$493 million.

The overall combined ratio for property/casualty insurance operations was 111.7%, among the highest of the major property/casualty insurers.

Net operating income from property/casualty income was up approximately \$33 million, primarily due to higher net investment yields, although underwriting results have continued to deteriorate in recent years, according to the 1981 annual report.

Earnings, however, did improve slightly for CNA during the first quarter of 1982 as revenues started to slide.

Net income grew to \$39.3 million from \$25.5 million for the same period in 1981. Consolidated revenues were down \$1.2 million, to \$787.9 million from \$789.1 million.

Premiums for the first quarter were down from \$626,000 to \$619,000 while investment income was up from \$112,000 to \$131,000.

Overall, Mr. Tisch painted a gloomy picture for the insurance industry. "There's tremendous competition out there," he said.

Edward J. Noha, chairman, president and chief executive officer of the CNA Insurance Cos., said that the market competition will continue and that he doesn't foresee a turnaround in the near future.

"But it has to change sometime," he explained, adding that the market for underwriting may be better when investment yields decline.

Approximately 84% of CNA's voting shares are owned by Loews Corp. of New York. Mr. Tisch said at the annual meeting there are no plans for Loews to acquire the balance of the shares.



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POLICY PERIOD: 10-1-80 TO 10-1-81 AS OF 2-28-81

CLAIM NO. OFFICE	INJURY DATE TIME	LOC	ACC SOURCE	CLASS	SER DEPT	MOS AGE	DESCRIPTION OF ACCIDENT	DESCRIPTION OF INJURY	DAYS LOST	PAID THIS PERIOD	TOTAL CASH PAID	ESTIM ADDIT COST	ESTIM MED/IND COST	ESTIM TOTAL COST
7716582 SAC	12/23 10:20	CHANI, MARTY	23	8033	208	2	HIT BY FORK LIFT	ANKLE FRACTURE	143	0	1920	1261	3181	9191
7801455 SM	1/23 10:30	MICHAEL, JOSEPH	20	8017	3	23	UNLOADING TRUCK	BACK STRAIN	143	0	3146	2884	6010	101
7801927 PDX	2/2 22:00	ENSON, JACK	22	8033	47	1	CGHT BTWN BOXES	FINGERS CONTUSED	8	11	54	0	215	54
7803048 SAC	3/1 16:00	THROWER, LYNN	24	8033	3	23	TRUCK ACCID. HIT WINDSHLD	LACER/ABRAS. RT SHLDR. HIP	8	0	0	0	0	215
7808467 SJ	4/12 09:45	SMELAND, CHRIS	24	8033	3	23	PULLING PALLET JACK	CHEST STRAIN	56	0	0	0	0	30
7809850 SJ	6/1 10:30	SMELAND, CHRIS	24	8017	104	2	GET OFF FORKLIFT	BACK STRAIN	42	0	0	0	0	87
7814081 SAC	6/6 10:15	WILKINS, KEN	31	8017	88	3	LIFTED BALE	HERNIA IN NAVAL	42	0	0	0	0	30
7817792 SAC	6/18 10:00	MICKELSON, ROSS	20	8810	6	26	STRUCK BY STEEL BEAM	FINGER CONTUSION	21	0	0	0	0	87
7815028 SD	7/18 13:15	MINDERLER, ANN	50	8810	2	61	STRUCK BY STEEL BEAM	RT ANKLE SPRAIN	14	0	0	0	0	2132
7817023 SAC	8/31 11:30	FRUTCHEV, TOM	30	8017	1	35	TWISTED ANKLE	RT ANKLE SPRAIN	14	0	0	0	0	2874
7816961 SAC	9/7 10:30	STOCKTON, HERB	20	8017	107	2	LIFT DOCK LEVELER	RT ARM & SHOULDER STRAIN	14	0	0	0	0	0
LOCATION TOTALS										PAID THIS PERIOD	TOTAL CASH PAID	ESTIM ADDIT COST	ESTIM MED/IND COST	ESTIM TOTAL COST
NUMBER OF INJURIES: MEDICAL 5										\$10.55	\$5,759.17	\$1,261.28	\$3181.00	\$7,020.45
INDENMNITY 6										\$308.00	\$6,248.00	\$2,884.00	\$6010.00	\$9,112.00
TOTAL 11										\$318.55	\$12,007.17	\$4,125.28	\$9191.00	\$16,132.45
COMPANY TOTALS										PAID THIS PERIOD	TOTAL CASH PAID	ESTIM ADDIT COST	ESTIM MED/IND COST	ESTIM TOTAL COST
NUMBER OF INJURIES: MEDICAL 25										\$281.90	\$8,811.05	\$7,059.88	\$15,835.73	\$21,926.00
INDENMNITY 15										\$1,115.38	\$9,559.80	\$10,366.20	\$19,926.00	\$35,761.73
TOTAL 40										\$1,397.28	\$18,370.85	\$17,425.88	\$35,761.73	\$57,697.73

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Kemper boasts wide array of services

By LEN STRAZEWSKI

LONG GROVE, Ill.—Property insurance capacity, highly protected risk engineering, captive management, self-insured services and environmental laboratories make the Kemper Group of insurers the risk manager's choice in Illinois, according to Kemper Corp. Chairman Joseph E. Luecke.

Located on a multiacre campus northwest of Chicago, Kemper

Group and Kemper Corp., the investor-owned portion of the group, is not the largest insurance institution in Illinois. It is significantly smaller than State Farm and Allstate, the personal lines giants.

And it only ranks 13th in the nation in property/casualty insurance premiums written.

But as the founder of National Loss Control Service Corp., one of the first insurer subsidiaries to unbundle traditional insurance company services, and owner of one of two HPR fire protection laboratories in North America (Factory Mutual owns the other), Kemper has earned a special reputation in Illinois as a risk manager's partner.

In the past year, more than 20 risk managers toured the insurance group's famous HPR lab and sev-

eral more observed environmental testing in the NATLSCO industrial hygiene facility. It is not known how many golfed at the Kemper Lakes, a separately managed golf course also on the Kemper campus.

The campus has virtually every resource a policyholder needs and Illinois provides virtually everything the insurer needs by way of rating freedom and business climate, Mr. Luecke says.

"Oh sure, we're concerned about the insurance premium tax Gov. James Thompson has been kicking around, and we also have the same concern for the workers compensation situation. We are not sure open rating is a good idea for comp. But Illinois is absolutely the best place for us to be in business.

"By way of regulation, we don't have a rating law for commercial lines. For commercial lines, we can be flexible in both price and form."

President James Harding agrees. "The business climate is good. The regulators generally stay out of our way on commercial lines and competition sets the price. If you believe in the free enterprise system, that's the way it should be."

In 1981, the Illinois climate nurtured nationwide Kemper Group sales of \$2.7 billion, up about 25% from around \$2.2 billion in 1980. Lumbermens Mutual Casualty Co., a large commercial and personal

mutual insurer and the largest of the group, reported a 1981 premium volume of \$752.2 million, up 3.5%.

And as predicted by Mr. Luecke in 1980, life insurance sales from the group's three life companies continued to grow, increasing 128% (BI, Dec. 29, 1980).

Kemper Corp., which is 56% owned by Lumbermens, reported results also buoyed by the life insurance gains. Sales, including premium volume and financial services revenues, grew to \$1.9 billion, up 40% from \$1.3 billion in 1980. Operating earnings, however, dropped about 4%, from \$83.1 million in 1980 to only \$80 million last year. Earnings per share slipped similarly to \$6.09 from \$6.57.

Net investment income, though, grew 40.7% to \$165 million.

Property/casualty lines including private automobile, which make up 60% of Kemper's business, were the hardest-hit by intense insurer competition. Kemper Corp. property/casualty subsidiaries earned only \$39.5 million in 1981, down from \$50 million in 1980, even though net premiums grew almost 5%, to \$820.6 million from \$784.6 million.

In spite of the intense rate competition, Kemper Group, consisting of 14 property/casualty and life insurers, a self-insured services company and a financial services divi-

sion, has no plans to abandon its aggressive commercial and personal lines posture, but it is planning on continued diversification.

As with Allstate, financial services may soon command a larger portion of attention at Kemper. Building upon last year's acquisition of Loewi Financial Cos. and its financial operating division, Kemper Financial Services, the group will join others trying to establish one-stop financial shopping centers.

The Kemper approach will be less grand in scale than Sears/Allstate's, however, Mr. Luecke says.

"I won't hold out to you that we will be a countrywide chain," he explains. "We've got to try this technique primarily as a defensive measure. We've no grand plan for a national network."

"Personally, I think the demands of the disciplines involved—real estate, securities, life and property/casualty insurance—are so demanding that I do not foresee someone coming to one spot to buy all these services.

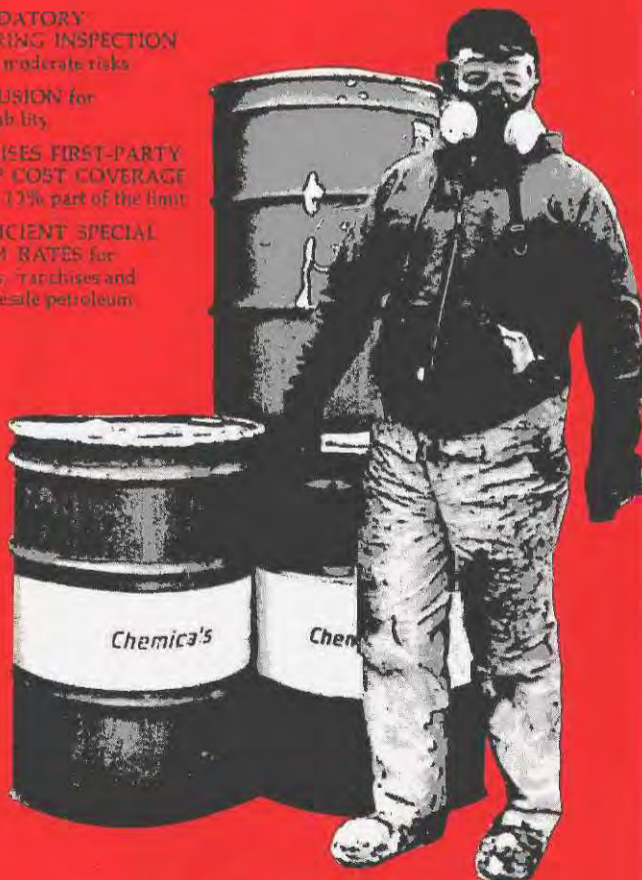
"One-stop financial services will involve investments, real estate and life products, but I don't foresee stockbrokers dealing with property/casualty risks. I don't think we will see any of this coming together in any really big way, in spite of others' predictions."

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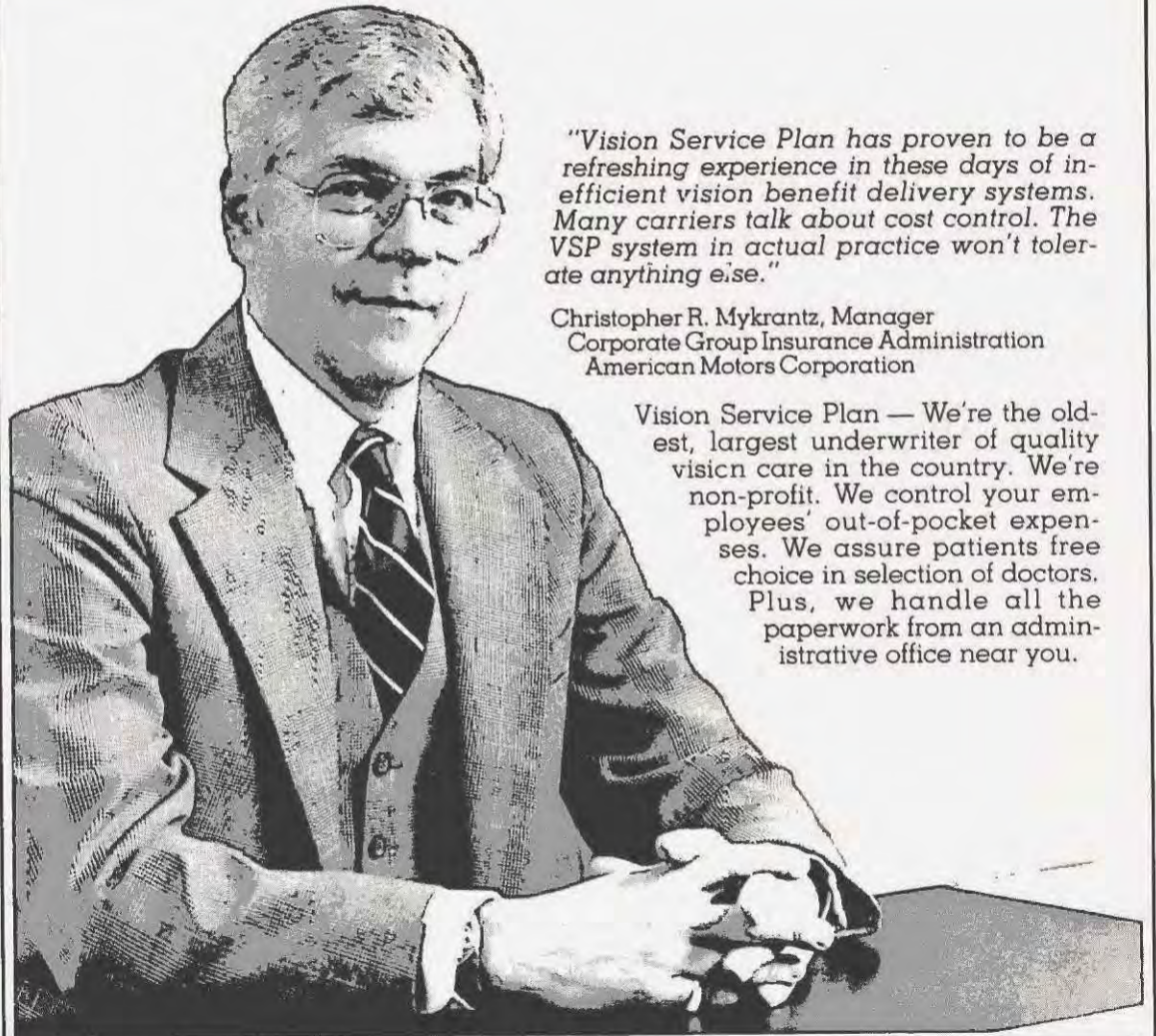
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Will Allstate downplay commercial business?

By **LEN STRAZEWSKI**

NORTHBROOK, Ill.—The "good hands" of Allstate Insurance Cos. are folded and waiting as its parent Sears, Roebuck & Co. plots a marketing strategy based on one-stop financial shopping.

Sears, which also owns real estate broker Coldwell Banker and securities broker Dean Witter Reynolds, is expected to parlay the in-store retail strategy that made Allstate into a household name to an even more impressive program that provides almost all personal consumer financial services.

Will Allstate, the second-largest insurance institution in both Illinois and the nation behind Bloomington-based State Farm Mutual, be lost in the reshuffling?

That's not likely, insurance industry sources say, though the group's 4-year-old commercial lines venture may lose the limelight to Sears' more personal lines-oriented plans.

Although Allstate executives, including new Chairman Donald F. Craib Jr. and President Richard Haayen, refused to discuss the insurance group's future or its role in the proposed Sears financial ser-

vices strategy, Allstate is expected to remain a favorite of new Sears President Archie Boe, formerly chairman of Allstate.

Wither goest Sears, so goes Allstate.

Or maybe the other way around. In 1981, the cash-rich insurance group contributed \$190 million to its parent company from net income of more than \$406 million, following a similar-sized contribution in 1980.

Although last year's income was down about 10% from the more than \$450 million earned in 1980, overall premium volume grew 10% in 1981 to \$6.8 billion from \$6.2 billion in 1980.

Investment income also grew, rising more than 18% to \$510 million in 1981, according to Sears' 1981 annual report, helping to offset growing losses and expenses that drove the insurer's combined ratio for property/casualty lines up to nearly 107% from about 102% in 1980.

Life insurance in force rose \$5.4 billion during 1981 to \$34.3 billion,



and life and health insurance premium, including some corporate employee benefit coverages, rose \$120.2 million to \$625.3 million.

The commercial lines portion of the Allstate financial picture, however, is not quite so huge or dramatic.

Allstate, since 1978, has been attempting to carve as strong a niche in commercial lines as it has in personal lines with Northbrook Property & Casualty Insurance Co. and Northbrook Excess & Surplus Insurance Co.

However, it has never quite succeeded.

The Allstate Group received only \$210.7 million in net commercial premium in 1981, with \$135.6 million in small commercial packages and automobile coverages sold under the Allstate name dominating.

Northbrook Excess & Surplus wrote only \$29.8 million in net premium, down significantly from 1978 when it ranked second among excess/surplus insurers in the U.S.

Last year, also, Northbrook Excess & Surplus was involved in at least one major disaster, the Hyatt Regency Hotel skywalk collapse in Kansas City, Mo. Northbrook provided some \$25 million in coverage, retaining about 10% of risk. Exactly how much the insurer actually will pay rests on the results of a series of lawsuits over the coverage.

Norpac, as executives call the primary commercial insurer, managed to write only \$45.3 million in net commercial premium by targeting office buildings, condominiums and apartment complexes.

The most recent addition to the Allstate group, it also was considered a prime market for commercial automobile fleet risks, according to Illinois brokers, but part of that premium volume came from commercial fleets that had been carried on the Allstate division's books.

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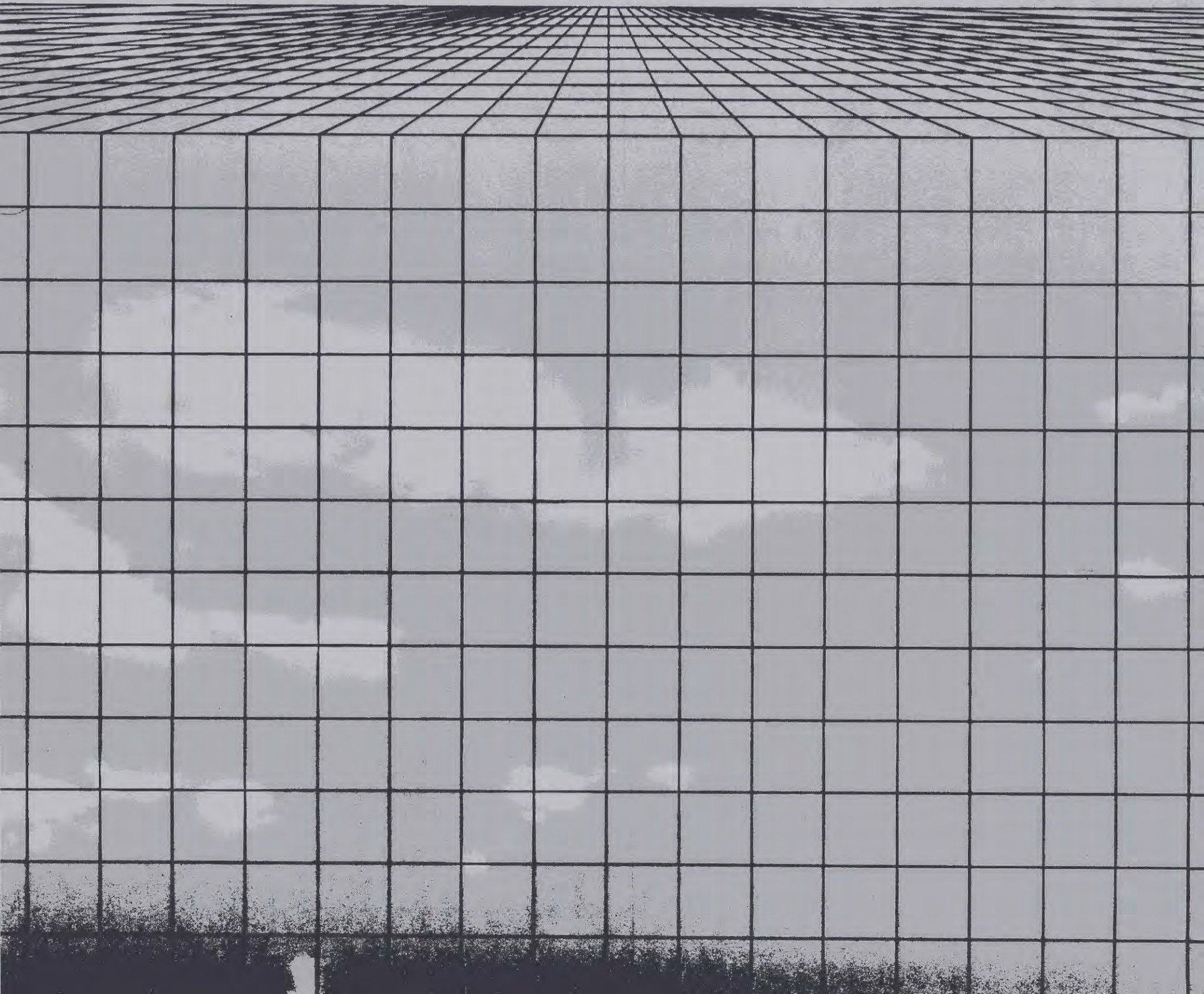
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Most commercial rates in state unregulated

By EILEEN NORRIS

CHICAGO—Illinois may be considered a wide-open place to buy insurance because it doesn't have a rating law for most commercial lines.

But that doesn't mean the state has a lax regulatory environment. Regulators say employers and insurers doing business in the state share the best of both worlds.

In Illinois, the buyer has to know how to go out and shop around for the best insurance buy, says Ken Smith, a deputy director of the Illinois Insurance Department.

The department's job is to make sure that those selling insurance play by the rules of the game so that employers don't wind up being insured by an insolvent company,

Mr. Smith adds.

"Most buyers know how to go out and shop on price, but the insured cannot know if a company is solvent," he says.

"The buyer has the best of both worlds in Illinois. There's competition on price and decent protection. Illinois rates are very competitive and probably cheaper than most other states."

However, not all Illinois insurance regulation is as liberal, he cautioned. "We have some of the tougher laws around," he says.

All insurers that are domiciled in the state must be licensed to do business here, says Mr. Smith, though non-admitted insurers can apply to get on an approved list of excess/surplus insurers.

To qualify for that list, an insurer

must file financial data and an annual report that the Insurance Department reviews to see if the company is in good financial standing.

"If the company is not on the list, the insured has to sign a consent form that they're aware of that fact and the policy gets a big fat stamp that says, 'This policy is issued by an insurance company not authorized to do business in Illinois and not backed up by a guaranty fund should it become insolvent.'"

The Insurance Department also employs market conduct examiners who make sure insurers keep to certain standards such as issuing the policy on time, paying claims within a reasonable amount of time and not discriminating against a policyholder for any reason.

"The consumer pays for insur-

ance and we make sure the insurance company is paying the claims," said Mr. Smith.

"Illinois is only relaxed from the standpoint of price. There is not a need for a rating law. Our market conduct examiners do find problems when they go over an insurance company's book of business and sometimes money is returned to the consumer."

Even as licensed insurers compete openly with price and broad coverage, the excess/surplus market stands ready to fill in any gaps. The regulatory environment allows for fast movement and creative pricing.

One of the major underwriters in the state agrees that Illinois has a healthy regulatory environment.

"We have a super thing going for us here," says Thomas F. Sheehan, president of Thomas F. Sheehan Inc., an excess/surplus underwriting manager in the Chicago suburb of Schaumburg.

"I applaud the fact that Illinois doesn't require rate approval for commercial and personal lines of insurance. In fact," he says, "the Insurance Department will not accept filing of rates. We tried to do it once and they were sent back to us."

Insurers in Illinois are required to file policy forms, an application to do business and any applicable endorsements with the Insurance Department for approval, but that's where the process usually begins and ends.

The only exception would be if the insurer changed a policy form. Then the company would have to get the department to approve

whatever changes it filed.

Illinois' lack of a rating law, except for workers compensation, makes it a desirable and competitive marketplace for the buyer and seller, adds Mr. Sheehan.

"The market makes the rates in Illinois," he says. "The market is the best regulator, regardless of control."

The environment isn't the same in neighboring states.

Wisconsin, for example, has a use-and-file system for rate filings, but the Insurance Department has the authority "to pull the rug out from under you if they don't agree with your rates," Mr. Sheehan says.

Indiana has no prior approval for insurers, but the company must file the rate being charged and the Insurance Department has the option of taking issue with the rate, he adds.

Illinois wasn't always such an open market.

Before 1969, Illinois had one of the most stringent "prior approval" laws on the books, Mr. Smith says.

That year, the General Assembly approved a two-year experiment that temporarily wiped the prior approval system off the books.

When the experiment concluded in 1971, prior approval wasn't renewed and Illinois became a progressive state with no rating law for any insurance line except workers compensation.

The current insurance director, Philip R. O'Connor, is urging the General Assembly to approve a competitive rating bill for workers compensation so insurers wouldn't be required to file rates for approval (see related story, page 16). ■

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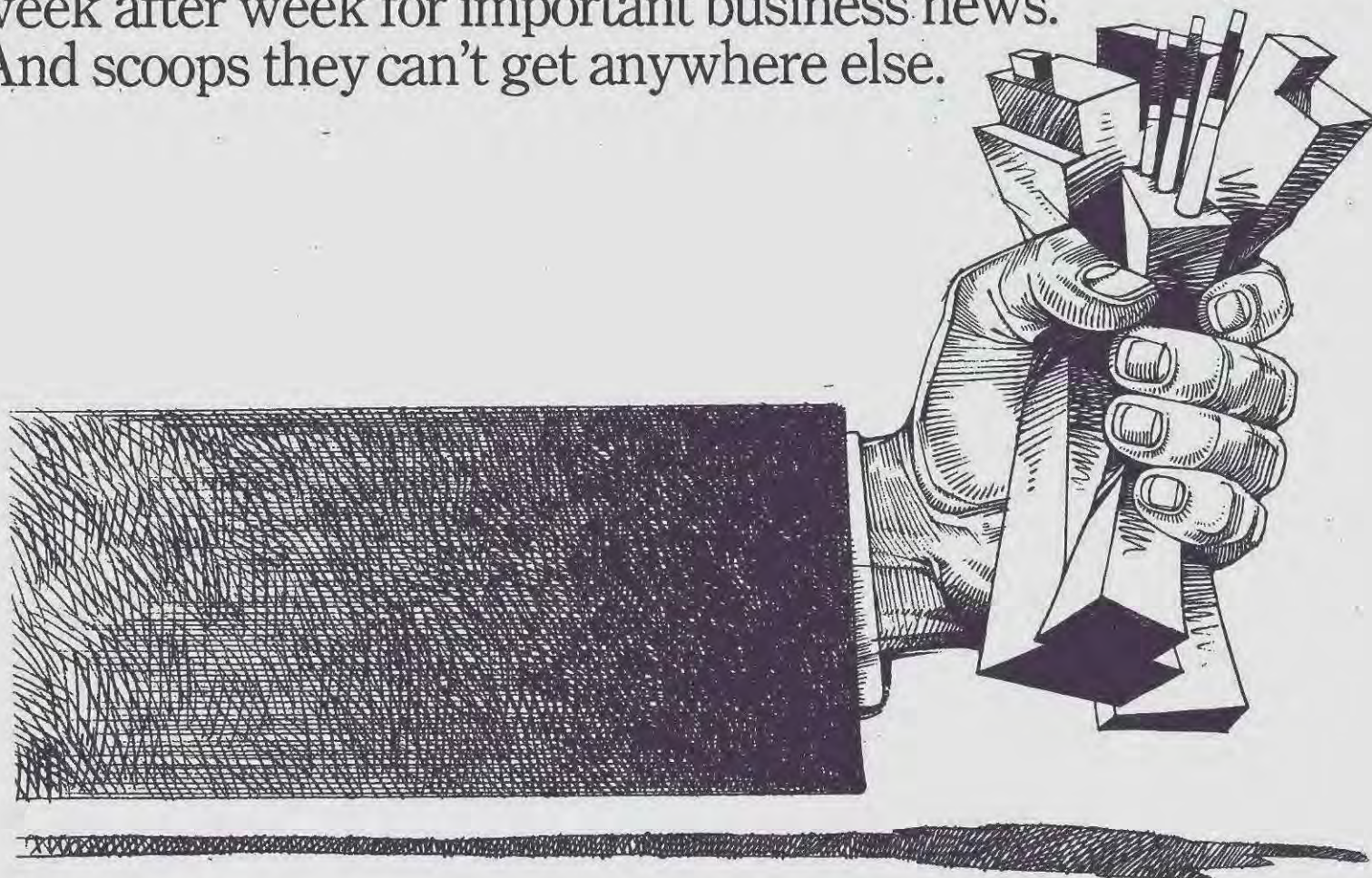
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Illinois exchange expanding its capacity

By STEPHEN TARNOFF

CHICAGO—After more than six months of operation, the Illinois Insurance Exchange appears ready to take off.

Although the marketplace still has a long way to go, Executive Director James M. Skelton says the time is not far off when Illinois will boast of a competitive central insurance market where brokers can rapidly place major risks with stable underwriting syndicates.

The exchange's backers cite advantages open to underwriters and brokers that use the exchange rather than usual underwriting procedures.

For underwriting syndicates, the exchange could mean less overhead, less regulation, lower capitalization costs and escape from pre-

mium taxes.

For brokers, it could mean placing insurance more efficiently in one central location, more competitive premiums and lower administrative costs.

Mr. Skelton says several things must occur before the exchange becomes a major excess/surplus and reinsurance underwriter.

- Syndicates will need sufficient capitalization to underwrite major risks.

- The exchange will have to illustrate to buyers and brokers that it is a secure market.

- There must be enough broker members to bring in business.

So far, three syndicates are actively underwriting. Two more will be active by July and four others have been approved by the exchange board of trustees, an exchange spokesman said.

In addition, 23 brokers have signed up with the exchange.

Each of the active syndicates is a subsidiary of a major U.S. insurance group, and the total capitalization of the trio is \$8.55 million.

Two of the syndicates that have been approved to underwrite ex-

change business have accumulated enough capital to bring the total to more than \$13 million.

In addition to established insurers, syndicates also may be formed by individuals, partnerships, corporations, associations or limited partnerships. A syndicate must have a minimum of \$2 million in capitalization to be approved.

The minimum premium on a direct risk on the exchange is \$50,000, but the minimum can be waived if a broker files an affidavit that insurance can't be bought from state-authorized insurers. A syndicate can write up to 13% of its capitalization on a single risk.

Although the exchange has been in the formative stages for several years, it did not become operational until Nov. 20, 1981, when it was issued a certificate of authority by the Illinois director of insurance.

One reason for the delays in beginning operations was the soft insurance market, which has made it easy for brokers to place difficult risks with insurers that would ordinarily reject them.

In addition, syndicates that might have joined the Illinois exchange

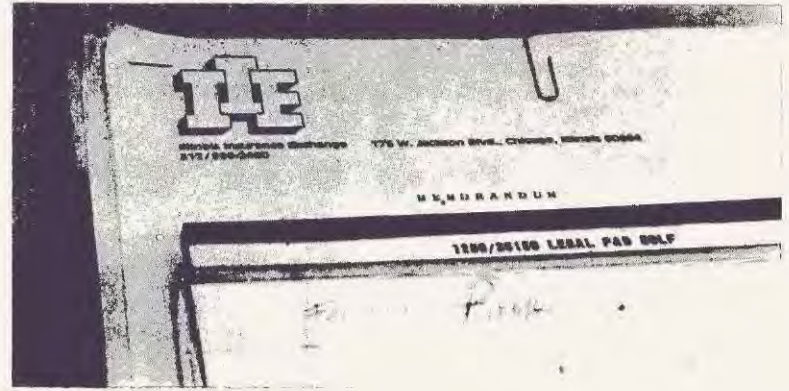


Photo: Mary Cairns

were already committed to the New York Insurance Exchange, Mr. Skelton says.

"It doesn't happen overnight," he says of the difficulties in bringing in business. "Problems in the industry have hampered the development of the exchange."

"We see it as an ideal time for laying the groundwork to build markets."

Ultimately, the exchange will underwrite major, hard-to-place risks associated with industries like gas and oil exploration, coal liquefaction, and robotics, he says.

"There isn't enough capacity for sophisticated risks," he says. "These risks are very difficult to place. The growth of these requires tremendous amounts of insurance. As we develop capital and underwriting talent, these will make the Illinois Insurance Exchange."

"Our job is to advertise the exchange to brokers to go out and get markets," he adds.

Although Mr. Skelton declines to disclose the amount of premiums the exchange has written, he says about 40 contracts have been written so far, mostly reinsurance treaties. The risks include satellites, railroads and utilities plus excess insurance for the Tribune Co. and the Roman Catholic Archdiocese of Chicago (BI, Nov. 30, 1981).

Although none of the syndicates as yet specializes in underwriting any particular risks, Mr. Skelton fully believes that such specialization will be an important function of the exchange.

One way the exchange is seeking to expand markets and obtain more brokers is through the ability to do business in all states.

The exchange has applied to become an approved reinsurer and a non-admitted insurer in every state and already meets the qualifications in at least 15, he says.

It is "somewhat surprising" that the exchange so far has primarily underwritten reinsurance, Mr. Skelton says, and he expects that eventually the bulk of the business will be excess/surplus coverages. However, reinsurance is easier to write, he admits.

In addition to Lloyd's of London and the New York Insurance Exchange, the Illinois Exchange will have to compete with the Insurance Exchange of the Americas in Miami when it opens for business later this year.

Mr. Skelton believes the Illinois exchange will be a superior alternative, in part because of the state's more favorable regulatory climate.

In New York, the state insurance code applies to the New York Insurance Exchange unless the exchange is specifically excluded from it, Mr. Skelton says. But in Illinois, the insurance code does not apply to the exchange unless it is specifically stated.

The distinction is important because it frees the Illinois exchange and its brokers from unnecessary regulation, Mr. Skelton says.

Illinois also has less restrictive capitalization requirements for syndicates, fewer limitations on the placement of direct insurance and no restriction on the broker ownership of syndicates.

"There's less hassle, no free trade zone and no Regulation 41," Mr. Skelton said. "Regulatory requirements are not that necessary."

In addition, there is no Illinois premium tax on risks placed with the exchange.

While regulations will be kept to a minimum, the exchange does provide guarantees for buyers against syndicate insolvency.

Mr. Skelton believes inclusion of such guarantees will be an important selling point for the exchange.

Continued on facing page

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Continued from facing page

A guaranty fund was originally included in legislation setting up the exchange, but it was subsequently changed to an Immediate Access Security Fund.

A syndicate must contribute 50% of its capital to the fund. If the syndicate becomes insolvent, only the funds contributed by the insolvent insurer would be used to pay the policyholders, unlike a guaranty fund where contributions by all participants are used for payouts.

However, the setup is now being reviewed by an exchange task force, and Mr. Skelton says the exchange might revert to a traditional guaranty fund.

The exchange also once had grand plans for an elaborate computer system, but they have been placed on the back burner.

Conceivably, with the proposed computer system, brokers and underwriters could transact business from remote places through data-

processing terminals.

Although such a system ran counter to the idea of a central market, the exchange initially favored the proposal. However, "It was a blessing in disguise we didn't use it," he says. "We further found that underwriters probably wouldn't want it. Until the technology is exposed to all potential players, it probably won't happen."

Where is the Illinois Insurance Exchange headed?

Mr. Skelton is reluctant to make projections on the premium volume or number of syndicates and brokers it will eventually attract. Earlier projections of \$200 million in premiums, 75 brokers and 25 syndicates have been toned down.

Although he isn't counting on those projection, he hasn't ruled them out, either. "It's not far-fetched, yet it hasn't happened."

"I've learned until you get them on the dotted line, you don't have them."

Illinois exchange OKs 23 brokers, nine syndicates

CHICAGO—The Illinois Insurance Exchange has 23 broker members and has approved nine underwriting syndicates.

A syndicate may be formed by an individual, partnership, corporation, association or limited partnership. It must have and maintain minimum capitalization of \$2 million, 75% of which may be in the form of acceptable letters of credit.

Any licensed Illinois broker, resident or non-resident, or reinsurance intermediary can apply for a broker membership by submitting an application to the exchange. The annual fee is \$1,000.

The three syndicates already operating on the exchange are:

- Midwest General Syndicate Inc., operated by Reliance Insurance Co.

- LWB Syndicate Inc., operated by International Surplus Line Insurance Co.

- Sentry Syndicate/Illinois Inc., operated by Sentry Insurance Co.

Six other syndicates have been approved by the exchange, but have not begun underwriting:

- Travelers No. 2 Syndicate, operated by Constitution State Management Co.

- RCA Syndicate, operated by Reinsurance Co. of America.

- First Management Syndicate, operated by The Bliss Group Cos.

- Lincoln Union Syndicate, operated by INA Trading Corp.

- Nutmeg Syndicate, operated by The Hartford Insurance Group.

- Northbrook Syndicate, operated by Northbrook Excess & Surplus Insurance Co.

The broker members are:

- James S. Kemper & Co.
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Support for pension insurance program appears to wane in new political climate

WASHINGTON—Congress may cut pension benefit guarantees now promised by the federal government as costs continue to rise, a former congressional staffer warns.

"There is less confidence that a pension insurance system is affordable," says Steve Sacher, former general counsel of the Senate Labor and Human Resources Committee.

Speaking before the Assn. of Private Pension & Welfare Plans conference in Washington, Mr. Sacher said support for a pension insurance system, as set up in 1974 under the Employee Retirement Income Security Act, has eroded in the new political climate in which individuals are expected to assume more risk.

"We may see continued cutbacks in PBGC guarantees for plans," Mr. Sacher said.

The Pension Benefit Guaranty Corp. is a federal agency that guarantees workers' pension benefits

through an insurance program.

Looking ahead, Mr. Sacher, now an attorney with Pepper, Hamilton & Scheetz, said the possible removal of the mandatory retirement age—currently 70—will trigger battles over whether workers who stay on past a firm's normal retirement age will be able to accrue pension benefits.

Benefit accruals can now cease at age 65.

The pension attorney also predicted that employees will be given more opportunities to choose from a variety of employee benefits. Unions and employers will shed their role as "locus parentis," Mr. Sacher said.

Mr. Sacher urged employers to take a more active role in benefits lobbying.

"Don't be afraid to get your hands dirty in the political process. You have to play hardball.

"If you are not serious, you might as well forget about it," he said.

Sen. Nickles urging changes in PBGC laws

Continued from page 3

said one of the most important provisions in the Economic Recovery Tax Act of 1981 allows workers covered by pension plans to set up their own Individual Retirement Accounts.

"It was a positive change...to get away from the concept that the government should be the provider from cradle to grave," he said. "IRAs are a boost to the private system."

Sen. Nickles also said Congress can't afford to wait much longer to put the financially troubled Social Security program back on its feet. "The sooner we do it (make changes), the better it will be. We shouldn't wait until a crisis situation."

Mr. Nickles said Congress will have to consider pruning Social Security sacred cows like the automatic indexing of benefit increases to hikes in the Consumer Price Index.

"We have to touch the untouchables as we put our fiscal house in order," he said. "We have to live within our means."

Sen. Nickles also urged benefit managers to get more involved in the political process as Congress considers changes in Social Security and the Employee Retirement Income Security Act.

"Ninety percent of people in the Senate and House know very little about ERISA. That is why we need your help," he said.

Cap on benefits is risky: Expert

WASHINGTON—The Reagan administration's plan to reduce health care inflation by limiting the tax-free benefits an employer can provide may backfire, a benefit expert warns.

A cap on tax-free health insurance benefits "could turn the clock backward," says Stan Jones, a vp in Blue Cross/Blue Shield's Washington office.

Speaking before the Assn. of Private Pension & Welfare Plans conference in Washington, Mr. Jones said a cap on benefit tax breaks would not achieve cost-containment goals.

Supporters of the so-called pro-competition approach, like David Stockman, director of the Office of Management and Budget, say that tax-free health insurance benefits have fueled the tremendous inflation in medical costs.

Since these employer-sponsored plans cover almost all health expenses, employees have little incentive to control costs, boosting the demand for health services and placing mounting inflationary pressures on the health care delivery system, pro-competition advocates say.

By limiting the amount of tax-free health insurance that an employer could provide and giving employees tax incentives to choose low-cost plans with high deductibles and coinsurance, employees would have a greater personal stake in controlling health care costs, according to their argument.

But Mr. Jones doubts that would happen. As deductibles are raised for office visits, employees might seek more care in high-cost hospitals, he said.

And the pro-competition approach, like barring employers from taking deductions on premium payments exceeding \$150 a month for employees with family coverage—an idea recently endorsed by a Reagan administration task force (BI, Dec. 14, 1981)—could pose new administrative burdens for corporations, Mr. Jones said.

For example, employers who fund group health insurance programs through retrospectively rated plans, in which the premium is adjusted based on the firm's experience, would have difficulty measuring premium costs at the beginning of a fiscal year.

At the same health care session, Dr. Robert Rubin, assistant secretary for planning and evaluation at the Department of Health and Human Services, said the unveiling of the administration's pro-competition proposals has been delayed by the current stalemate over the federal budget.

At the moment, President Reagan has not taken a formal position on pro-competition proposals, Dr. Rubin stressed.



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Social Security loophole dangerous: Svahn

WASHINGTON—Social Security, which already is skating on thin ice, could be hit with enormous new financial problems if more employers take advantage of a loophole in the law and opt out of the program, an expert warns.

If all non-profit organizations and state and local governments withdraw from Social Security, as allowed by current law, the program would lose \$18 billion a year in payroll taxes, says John Svahn, commissioner of the Social Security Administration.

Because of this potential massive loss, Mr. Svahn said he wouldn't be

surprised if a special Social Security commission set up last year by President Reagan recommends universal Social Security coverage.

In addition, Mr. Svahn told those attending the Assn. of Private Pension & Welfare Plans conference in Washington that Congress might amend the Social Security Act to bar non-profit organizations from leaving the Social Security program.

In fact, Rep. J.J. Pickle, D-Texas, already has introduced legislation, H.R. 3204, that would prohibit non-profit organizations, like hospitals, that had not filed withdrawal notices as of March 25, 1981, from opting out of Social Security (BI, May 10).

While Mr. Svahn is optimistic that Social Security's short-term financial problems—caused by higher-than-expected inflation and unemployment rates—can be solved, he is worried about the program's fiscal stability over the long haul.

Major problems will begin after the turn of the century when the baby-boom generation of the 1950s and 1960s retires and has to be supported in the pay-as-you-go program by the baby-bust generation of the 1970s.

"The depletion rate (in trust funds) after 2010... makes the depletion rate now look like child's play," Mr. Svahn warned.

Mr. Svahn laid part of Social Security's financial problems at Congress's doorstep. "Mention Social Security and members of Congress turn tail and run. They are not writing 'Profiles in Courage' on Capitol Hill," he said.

Right now there are only two steps Congress can take to shore up Social Security: raise payroll taxes or cut benefits.

Benefit cuts are nothing new, Mr. Svahn pointed out to those who say that only the Reagan administration wants to reduce benefits. For example, 1977 amendments to the Social Security Act reduced benefits by about 25% to workers who were born after 1916, the Social Security commissioner explained.

Mr. Svahn said President Reagan set up a bipartisan commission last winter to draft long-term solutions to overhaul Social Security after the administration's proposals to cut benefits ignited a political firestorm and had to be withdrawn.

"We caught a lot of flak and the president pulled back," Mr. Svahn said. The National Commission of Social Security Reform was created to hammer out solutions "so we don't have to talk about Social Security going bankrupt every two years," he explained.

President Reagan's Social Security commission is expected to release its recommendations after the November congressional elections.



Mr. Svahn

El Salvador, Iran most risky: Study

NEW YORK—El Salvador and Iran are the two riskiest nations in which to invest, a recently released political risk survey says.

The F&S Political Risk Letter, prepared monthly by Frost & Sullivan Inc., ranks El Salvador and Iran as the most risky nations in all five of their criteria.

Those categories are: probability of business loss from political turmoil, financial risk, manufacturing and extractive risk, exporting risk and a five-year overall outlook.

The current rightist government in El Salvador has a 60% chance of staying in power for the next 18 months, the survey says. Ayatollah Ruhollah Khomeini only has a 55% chance of retaining control in Iran, it says.

According to the survey, the 10 nations that pose the greatest risks (in descending order) in each of the five categories are:

- Political turmoil—El Salvador, Iran, Bolivia, Libya, Zaire, South Africa, Zambia, Israel, Iraq and Mexico.

- Financial risk—El Salvador, Iran, Bolivia, Costa Rica, Egypt, Nigeria, Zaire, Zambia, Pakistan and China.

- Manufacturing and extractive risk—Iran, El Salvador, China, Iraq, Nigeria, Bolivia, Libya, Nicaragua, Zimbabwe and Yugoslavia.

- Export risk—El Salvador, Iran, Libya, Bolivia, Egypt, Zambia, Zaire, Nicaragua, China and Nigeria.

- Five-year outlook—Iran, El Salvador, Bolivia, Nicaragua, Zambia, Pakistan, Iraq, Zaire, Egypt and Libya.

The F&S survey includes 68 nations. Most Communist regimes are excluded.

Tax hikes not the cure: Romig

WASHINGTON—Raising Social Security payroll taxes is not the solution to the public retirement program's financial ills, a benefit expert says.

When Congress approved a series of major FICA tax hikes in 1977 amendments to the Social Security Act, some politicians thought funding problems were solved.

But despite those hefty payroll tax increases, Social Security is in worse shape than ever. Higher taxes "didn't work in 1977 and they won't work again," according to Michael Romig, director of employee benefits at the U.S. Chamber of Commerce.

Speaking before the Assn. of Private Pension & Welfare Plans conference in Washington, Mr. Romig said the best way to shore up Social Security's fiscal base is to stop the overescalation of benefits.

Mr. Romig said one reason Congress has been reluctant to tamper with Social Security benefits has been the fear of arousing the anger of one of the nation's most politically powerful voting blocs: the elderly.

But Mr. Romig said retirees may be a lot more willing to accept Social Security benefit cuts than Congress believes. "It is a myth that older workers won't accept benefit reductions," he said.

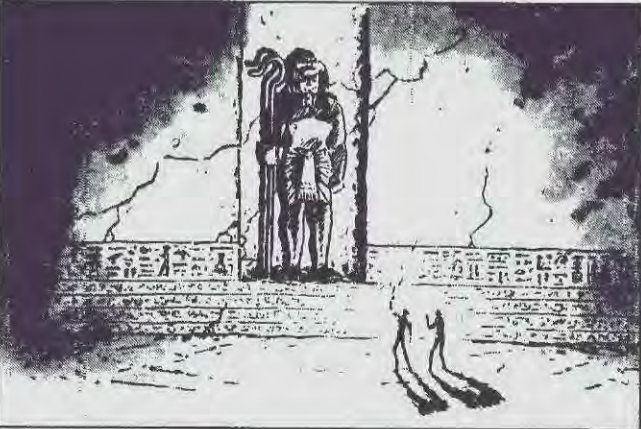
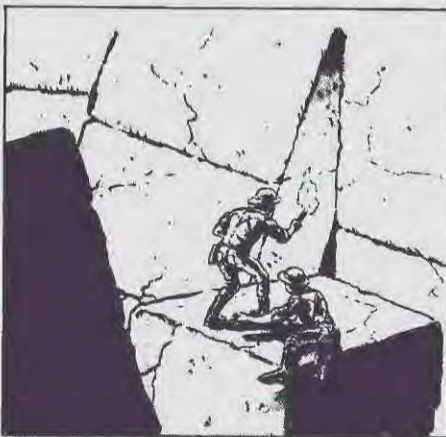
For example, a recent Gallup Poll revealed that only a third of older people surveyed said they would vote against a congressman that supported the elimination of automatic cost-of-living increases in Social Security benefits, Mr. Romig said.

"Retirees are willing to accept COLA reductions," he said.



Mr. Romig

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Federal judge upholds multiemployer law

Continued from page 3

employers to walk away from a multiemployer plan and not have to pay for a single dollar promised to participants as long as the plan did not collapse within five years after the employer left.

Employers, meanwhile, fought to keep their contributions to the plans low, while union trustees tried to win higher benefits.

As a result, some of the plans racked up enormous liabilities. If the 200 multiemployer pension plans experiencing financial trouble were to collapse by 1988, the Pension Benefit Guaranty Corp., the federal agency that guarantees benefits, would be swamped with billions of dollars in liabilities.

To pay for those liabilities, the PBGC would have had to raise termination insurance premiums to

extremely high levels that would have discouraged membership in multiemployer plans.

The "cure" to this dilemma, as embodied in the 1980 law, was to make employers that left the plans pay for the promised benefits. Since employers knew they could be hit with big claims, it was believed they would take a more active role in the plans and keep contributions in line with benefits.

Such a provision protects "the interlocking interests of the PBGC, its premium payers, the non-withdrawing employers and the vested employees," Judge Getzendanner said.

"It does so at the expense of the withdrawn employers, the parties whose conduct threatens the harm," the judge added.

Judge Getzendanner also re-

jected arguments that Congress exceeded its constitutional limits when it imposed withdrawal liability penalties retroactively.

President Carter signed the Multiemployer Pension Plan Amendments Act on Sept. 26, 1980, but the law applies to withdrawals after April 28, 1980.

The judge said withdrawal liability had been discussed ever since the PBGC recommended it to Congress in July 1978.

In addition, several congressional committees by early 1980 had approved multiemployer legislation that would have imposed withdrawal liability as of Feb. 27, 1979.

"These facts, taken together, clearly temper the employers' claims of surprise," the judge said.

In addition, if withdrawal liabil-

ity had not been imposed retroactively, "opportunistic" employers would have been encouraged to leave the plans while Congress was still debating the legislation, the judge said.

Such a surge would have saddled even greater liabilities on employers remaining in the plans, Judge Getzendanner added.

Mitchell Strickler, the PBGC's deputy general counsel, says the decision is so thorough and well-researched that other federal judges tackling similar challenges to the Multiemployer Amendments Act will find it very persuasive.

"In our view, it will be difficult to poke holes in the decision," Mr. Strickler said.

Other experts say that employers that want to challenge the law in court better think again. "Employ-

ers that think they can get the courts to declare the act unconstitutional may be barking up the wrong tree," said Jeff Hart, executive director of the Assn. of Private Pension & Welfare Plans.

In addition, congressional staffers on the Senate Labor and Human Resources Committee say Congress is not likely to make any changes to withdrawal liability rules during the current session.

The International Brotherhood of Teamsters' Local 705 and the four employer groups that challenged the Multiemployer Amendments Act have not decided whether to appeal the decision, their attorneys say. The employer groups include Illinois Motor Truck Operators Assn., Illinois Trucking Assn. Inc., Cartage Exchange of Chicago and Motor Carriers Labor Advisory Council.

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About the Speaker

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

Seminar Dates

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

Agenda

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

Oregon union

Continued from page 3

sions for elective surgery to determine whether the procedure could be performed on an outpatient basis. The plan will pay only 50% of hospital charges when outpatient care is deemed appropriate, compared with 80% when admission is pre-authorized.

"There's been a lot of publicity about Friday admissions for Monday surgeries. We'll get control over that. This will be an educational process to direct people to be more cost-efficient," says Jae Wittlich, a CNA vp.

Continental will pay for second opinions for proposed surgeries and for a third opinion if there is disagreement between the first two. The plan covers 80% of elective surgery costs up to \$2,000 and pays for 100% of excess charges for patients who receive second opinions.

But if the patient proceeds with an elective surgery with only one opinion, the entire cost will be paid at the 50% rate. Failure to seek a second opinion could cost an employee many thousands of dollars.

"There are ample studies showing that mandatory second opinions are more effective than voluntary programs," points out Mr. Wittlich.

"Too many second-opinion programs don't have teeth," adds Mr. Wood. "Here the benefit is reduced if the employee doesn't get it. That gets his attention. If he doesn't know how the plan operates, he'll lose his benefit."

Coverage for a plan participant's first two doctor visits each year was eliminated to cut down on the "sniffles" business supported by employees who run to their doctor for every little ache, Mr. Gallagher said. After the first two visits, coverage is subject to a \$100 deductible and a 20% co-payment.

Hospital charges and long-term outpatient care bills that exceed \$2,500 will trigger concurrent hospitalization or ambulatory review under the new plan. A panel of physicians and nurses will check the appropriateness of the patient's length of hospital stay or treatment, ancillary services and prescriptions.

A \$60 benefit for annual physical examinations has been added to the Continental plan to offset the cut-back in coverage for routine doctor office visits. Wellness programs for stress reduction and physical fitness also are being offered to state employees. Portions of the stress reduction program will be offered during the workday.

To educate employees about the plan changes, a publicity campaign is proposed that will include union newsletter articles. Open enrollment will be held during August to permit employees currently using HMOs to join the Continental plan. ■

Braniff pensions guaranteed

Continued from page 1

To pay for these benefits, the PBGC would have to seek a series of premium increases until the premium reached \$40 to \$80 per pension plan participant.

The folding of the Braniff plans, which would hit the PBGC with what could be its largest claim ever, could be the start of this cycle.

Braniff, along with subsidiaries Braniff Airways Inc. and Braniff Realty Co., has just \$130 million in pension assets to pay promised benefits. The PBGC would take over these assets if Braniff terminates its plans, but the assets would not cover the whole bill. The PBGC estimates it would cost \$180 million to \$200 million to guarantee retirement benefits to Braniff workers and retirees. As a result, the PBGC would have to pay \$50 million to \$70 million from its coffers.

This huge claim—almost 70 times larger than the \$1.02 million average claim the agency incurred last year—comes at a time when the PBGC is running short of money to guarantee benefits.

The PBGC already has run up a \$190 million deficit to pay the pension benefits of workers whose companies collapsed and terminated their pension plans.

To cover this debt alone, the PBGC is asking Congress to raise the termination insurance premium to \$6 a year per participant from \$2.60.

But that increase won't be enough if the PBGC gets swamped with jumbo claims in the next few years.

"In general, the \$6 premium is not designed to

cover claims of unprecedented size," said Edwin M. Jones, the PBGC's new executive director.

For example, if the PBGC set up a reserve of \$1 billion, which would just about cover its costs if financially ailing International Harvester collapsed and terminated its underfunded pension plan, the premium would have to rise to about \$12.

As more companies with large underfunded pension plans fail, "the PBGC will be like a utility, coming back for increase after increase," warns Jeff Hart, a former high-ranking PBGC official and now executive director of the Assn. of Private Pension & Welfare Plans.

Whether the PBGC will get the money it needs through higher termination insurance premiums remains to be seen. Its latest proposal to raise premiums already has run into a buzz saw on Capitol Hill.

Sen. Don Nickles, R-Okla., chairman of the influential Senate Labor subcommittee, has announced his opposition to the premium hike unless the termination insurance program is overhauled (see story, page 3).

And as premiums edge higher, employers that have fully funded their plans could rebel, arguing that they shouldn't have to pay for pension shortfalls of failing corporations.

More companies may decide to fold their pension plans and set up other retirement programs, like savings plans. This would shift still more liabilities onto the PBGC and eventually could lead to the collapse of the PBGC insurance system.

"No one has come to grips with the pension liabilities that will build and build," Mr. Hart says.

Health coverage in doubt

Continued from page 1

North America last month to form CIGNA Corp., is listed as one of Braniff's creditors.

Employees who apply before June 18 also can convert group life and medical insurance to individual coverage, the spokesmen say.

However, dental, vision care and disability benefits covered by the group policy will not be offered to individuals. Maternity benefits will be paid for employees who conceived before May 1.

"This continuation of benefits is an important feature of an insured employee benefit plan," says C. Robert O'Brien, senior vp in charge of group insurance operations at Connecticut General in Hartford, Conn. "Had Braniff self-insured its employee benefits, it is likely that no claims payments would have been made after the bankruptcy filing."

Although Connecticut General would not say how much it would cost an individual to convert from the group plan, an underwriter for a major health insurer says conversion nearly always means fewer frills and higher premiums for the policyholder.

"Suppose Braniff were paying \$150 a month for each employee and the employee paid another \$60 to \$70 a month for dependents," the underwriter says. "Chances are the employee now would have to turn around and pay that entire amount, plus a little more under a conversion policy."

Increased administrative costs for billing each individual as opposed to one billing for an entire group, plus age-rating of the individual, would tend to drive up rates, he says.

At the same time, benefits are generally far less comprehensive, he adds.

"You might have a semiprivate hospital room and all ancillary costs paid under group coverage while you get a \$50-a-day room allowance and 80% of ancillary costs paid by a conversion policy."

Under Braniff's group policy, employees paid for dependent coverage while the airline picked up premium payments for employees themselves, sources say. It was estimated that the average payment per employee with two dependents was just more than \$200 a month.

Exact health insurance benefits differed from union to union, but the basic major medical policy paid 80% of hospitalization and medical expenses up to \$3,500, then 100% up to the lifetime maximum of \$1 million, a Connecticut General official says. Deductibles also varied.

Pilot and flight attendant unions are exploring alternatives to Connecticut General conversion coverage, their officials say.

The Airline Pilots Assn., which represents 1,200 active and 800 furloughed Braniff pilots, is making its own plans to keep benefits intact, says a union spokesman in Washington, D.C.

"We're looking at the concept of keeping pilots together as a bargaining group. This way, they would still have to pay premiums individually, but might be able to get group rates."

"We're working on various alternatives with Connecticut General," says Helen Schaefer, a benefits analyst with the Assn. of Flight Attendants in Washington. "Individual conversion is generally not the best way to go since it gets expensive and benefits are reduced."

The AFA represents about 2,000 Braniff flight attendants.

With the filing of a Chapter 11 bankruptcy petition, Braniff hopes to step out from almost \$800 million in corporate debt and renew operations as a much smaller airline, Braniff officials have said.

Under provisions of bankruptcy law, all contracts, including insurance policies, are reviewed by the court to see if they should be renewed.

Employees were told on May 12 not to return to work, but about 225 management employees will be kept on, if the court allows, to hold the airline together and hopefully complete the reorganization.

AMC workers give up pay, but win some new benefits

Continued from page 3

employees, retirees and their dependents. The plan will cover legal consultation and litigation services provided by a panel of attorneys for:

- Social Security claims.
- Veterans benefits claims.
- Food stamp and other public assistance claims.
- Traffic violations.
- Misdemeanors.
- Juvenile offenses.
- Divorce, separation, annulment, maintenance and child support proceedings.
- Probate proceedings.
- Wills and trusts.
- Adoptions.
- Name changes.
- Non-support and alimony.
- Insurance claims or loss of coverage.
- IRS audits and administrative proceedings.

For laid-off workers with at least 15 years' service, the company will extend health, dental and prescription drug coverage for two years,

up from the previous 12 months.

Only workers laid off since Nov. 1, 1981, will qualify for this extension.

The AMC health plan, according to Chris Mykrantz, manager of corporate group insurance administration, is underwritten by Blue Cross/Blue Shield United of Wisconsin as part of the auto industry's Auto National Account Program.

The health plan, fully funded by AMC, covers 100% of reasonable and customary hospitalization, home care, outpatient and ambulatory care charges. The health plan also includes a voluntary pre-admission testing program. Employees pay no deductible.

The plan also pays 100% of in-hospital and outpatient care for nervous or mental disorders. In addition, it pays 100% of the first five office visits for a mental or nervous condition, 90% of the next five visits and 75% of additional visits up to a \$1,000 lifetime maximum.

The dental plan pays 100% of diagnostic and preventive care, 90% of X-rays and restorative care and 50% for bridges and plates up to an

annual maximum of \$1,000. The plan also pays 50% of orthodontic services up to a lifetime maximum of \$800. Employees are not required to pay a deductible for dental coverage.

The prescription drug program covers all prescription expenses less a \$2 per-purchase deductible.

In addition, Mr. Mykrantz says AMC union employees also have the option of joining a dental maintenance organization, DentaCare, which covers the full cost of all dental procedures, except orthodontics. Employees' orthodontic expenses are capped at \$495.

AMC, which lost \$137 million in fiscal 1981, reached agreement on the new contract with the UAW in mid-April. Hourly workers at the company's Milwaukee and Kenosha, Wis., facilities ratified the contract earlier this month, while workers in Toledo rejected it once before they finally approved it last week.

The new contract will run for 34 months at the two Wisconsin plants and for 42 months at the Toledo plant.

Teacher wins work comp award

Continued from page 3

In the Texas case, the jury chose to disregard the superintendent's offer to relieve Mr. Werner of duties that required him to stand, says Mr. Rakich of the Texas Assn. of School Boards.

"Mr. Werner contended he needed to move around in the classroom to teach," he said.

The school board brought in four other teachers, handicapped by varying degrees, to try to prove that a teacher needn't be mobile to be effective, but that piece of evidence "backfired," according to the plaintiff's attorney.

"I think the jury perceived that (evidence) as trying to humiliate or embarrass Mr. Werner," said his attorney. "He was ordered not to teach by his doctor."

The Texas Assn. of School Boards and the school district Mr.

Werner worked for agreed not to appeal the case any further because it didn't see any reversible errors in the proceeding, said Mr. Rakich.

"Cumulative trauma is an issue of real concern, but it's a gray area with a relative scarcity of case law. There is no clear definition of traumatic arthritis or repetitive physical trauma," he added.

The teacher's attorney suggested that the board didn't appeal the decision because it didn't want to advertise the case any further in fear that other teachers with similar ailments would file for workers compensation.

"If this case went to a higher court and it were affirmed, then there would be a precedent," said Mr. Huddleston.

"To the best of my knowledge, there is not any other case like

this," he added. "But I think it is of value because it shows that the occupational disease statute is subject to interpretation."

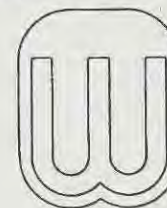
The Harlingen Chamber of Commerce says the success of the teacher's claim "opens up all kinds of possibilities. We're truly amazed that Mr. Werner was successful," said Jonathon Opelt, the Chamber's executive vp.

Unlike most employers in Texas, schools, counties and other governmental entities can self-insure workers compensation.

The school board association's workers compensation self-insurance fund, to which 870 school districts in the state contribute, will pay the \$48,000 lump-sum award from the \$30 million contributed into the fund annually, said Mr. Rakich.



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Dead miners' families sue coal companies

Continued from page 2

Consolidated are two separate entities, inferring that the parent's workers compensation insurance does not apply to employees of the subsidiary.

Tennessee Consolidated self-funds the first \$200,000 of its workers compensation risks and purchases excess insurance from General Reinsurance Co. of Greenwich, Conn.

Because the plaintiffs contend that Tennessee Consolidated was not the employer, they also are suing it for negligence as a third-party defendant also not protected by the exclusive remedy provisions of the state's work comp laws.

If the court should rule that Grundy Mining did have workers compensation insurance, the plaintiffs say the miner's families are entitled to full death benefits of just

more than \$50,000. Even if such benefits were paid, they say they would continue damage actions for negligence against the parent, Tennessee Consolidated.

Nashville attorney William Brooks filed lawsuits of \$12 million each for Joyce Ann Layne Rolins and Barbara G. Myers, whose husbands Darrell Glenn Rollins, 28, and Charles Ronald Myers, 34, died in the explosion.

Mr. Brooks says Grundy Mining "never filed anything in its history with the state of Tennessee's workers compensation bureau" demonstrating it had workers compensation insurance or qualifying it as a self-insurer.

He also said he believes the court will rule that Grundy Mining employees were not covered by Tennessee Consolidated's workers compensation program.

"The workers compensation statute says that every employer shall file evidence of coverage," he pointed out.

The lawsuits say Tennessee Consolidated and Grundy Mining are separate and distinct legal entities. Grundy Mining was "created and operated separately for the express purpose of defeating the efforts of the United Mine Workers to organize Tennessee Consolidated mines," the suit adds.

"Grundy Mining was the employer and did not provide workers compensation coverage," says Steve Greer, a Dunlap, Tenn., attorney who has filed separate \$12.5 million lawsuits for Glenda and Mable Cooley for the deaths of Glenda's husband Danny, 27, and Mable's son Larry Cooley, 28.

Although Tennessee Consolidated had made some attempt to cover its subsidiaries, it was not the employer, he says. "There is some question as to whether Tennessee Consolidated filed for Grundy Mining in 1981. It is our position that they didn't."

A suit filed on behalf of Sherrie Elaine Wilbourn, 8, of Dolton, Ill., and Regina Michele Hairel, 7, of Rock Springs, Ga., the daughters of deceased miner Franklin E. Wilbourn, 27, makes similar charges. The suit seeks damages of \$2 million for each child.

Mr. Wilbourn was an employee of Grundy Mining, not of Tennessee Consolidated, the suit says. It adds that Grundy Mining failed to comply with the workers compen-

sation law, either by purchasing insurance or by self-insuring.

But Newton Black, superintendent of the Tennessee Insurance Department's self-insurance division, says he believes Grundy Mining is covered as a self-insured risk under Tennessee Consolidated's workers compensation program.

"Of course, it is and always has been covered as far as this department is concerned," Mr. Black says. "I've given depositions to that extent. We wouldn't allow Tennessee Consolidated to self-insure and leave part of its holdings uninsured."

In reporting its payroll, posting the required \$125,000 bond and making annual filings with the self-insurance division, Tennessee Consolidated has included all of its operations under the coverage, he says.

"If Grundy Mining had come to us separately to apply, we would simply have asked Tennessee Consolidated to self-insure in Grundy Mining's name," Mr. Black says, adding that as far as his department is concerned, this was done.

He adds, however, that the final determination as to whether Grundy Mining is covered under its parent's program likely will be made in court.

The lawsuits also charge that both Grundy Mining and Tennessee Consolidated violated a number of state and federal mine safety laws. These alleged violations, they say, were a direct cause of the 13 deaths.

According to the lawsuits, alleged violations by Grundy Mining include:

- Failure to provide and maintain an adequate ventilation system in the mine to dilute or carry away methane gas.

- Failure to provide accurate maps showing the close proximity of an adjacent mine that contained dangerous levels of methane gas and to prevent its employees from cutting into the mine.

- Failure to provide a safe place to work.

- Failure to evacuate the contaminated area and utilize only certified, properly trained people to make repairs.

According to the lawsuits, alleged violations by Tennessee Consolidated include:

- Failure to provide and maintain a safe place for men to work, as owner of the property.

- Failure to provide properly trained supervisory and safety officers to insure that required pre-shift, on-shift and weekly inspections were made.

- Failure to seal off the abandoned mine effectively and prevent miners from cutting into it and releasing its pent-up methane gas.

A spokesman for Tennessee Consolidated Coal Co. declined comment on the lawsuits.

The explosion occurred some 1,200 feet from the mine entrance about noon on Dec. 8. A day earlier, a coal mine explosion killed eight miners in an Adkins Coal Co. mine near Topmost, Ky.

ILU head crosses Atlantic

LONDON—The chairman of the Institute of London Underwriters, Tony Nunn, will be in North America the next several weeks to meet with underwriters, claims managers and other industry officials.

Mr. Nunn, who has been chairman of the institute since January, will represent the London marine insurance market at the annual general meeting of the Canadian Board of Marine Underwriters May 27 and 28 in Gray Rocks, Quebec.

Later in his visit, he will address

groups of insurance agents on the West Coast.

Mr. Nunn is a director, manager and underwriter for Malvern Insurance Co. Ltd. in London, a director of Sirius Insurance Co. (U.K.) Ltd. He also has ties to Polaris Assurance A/S of Oslo, Norway, and Groupe Des Assurance Nationales of France.

To kick off his visit to North America, Mr. Nunn visited the American Institute of Marine Underwriters and the American Hull Insurance Syndicate in New York last week.

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N.Y. may change coverage law

Continued from page 2

dividuals "who are injured or sick or whose property has been damaged because of someone else's pollution—gradual or otherwise."

Sen. Dunne made it quite clear that the intent of his bill was to compensate victims, not to "indemnify and protect polluters whose spills or leakages cause damage that will endure for generations to come."

Criminal sanctions against polluters, as outlined in the state's Penal and Environmental Conservation Law, will remain in effect, the senator said, including fines up to \$100,000, prison terms up to seven years and full assessment for pollution cleanup costs.

"And if experience proves these penalties inadequate," Sen. Dunne warned, "we can always make them tougher."

Sen. Dunne criticized the other two pending measures that would legalize EIL pollution.

Sen. Halperin's bill would eliminate the distinction between sudden and gradual pollution liability insurance and instead prohibit coverage for "willful and intentional" acts.

This measure gets "bogged down in its own quagmire of definition" as to what constitutes an intentional act, Sen. Dunne said, and misses the "widely acknowledged point of common law that felonies—such as intentional pollution of the environment—are not covered under any insurance policy."

Nor does Sen. Dunne like the approach favored by Gov. Carey, in a bill sponsored by two Democratic state assemblymen, Assembly Speaker Stanley Fink and Maurice Hinchey. This measure would only allow New York insurers to sell liability coverage for gradual incidents to owners of hazardous waste storage and treatment facilities.

This measure is too narrow, Sen. Dunne said, since New York insurers still could not sell coverage to hazardous waste generators and other parties that routinely handle such wastes.

In a subsequent interview, an aide to Sen. Dunne says he does not expect the same opposition to gradual pollution liability insurance this time as occurred in 1971.

Adopt legal strategy: Attorney

NEW YORK—Companies involved in legal action over a pollution accident should adopt some legal loss-control strategies, one attorney suggests.

Randy M. Mott, a member of the Washington-based law firm of Zuckert, Scoutt & Rasenberger, said during an address to the American Insurance Assn.'s annual meeting that companies embroiled in pollution litigation should take specific steps to keep the litigation from getting out of control.

Mr. Mott, who has represented several major hazardous waste generators and disposers in various actions, suggested these strategies:

- Realize that "no one decision maker holds the fate of your case," and concentrate on the "opinion leader" if more than one defendant is involved. Pollution litigation often involves a combination of local, state and federal agencies, and Mr. Mott advises that companies concentrate on the most prominent plaintiff and "brief the others."

- Take control of all technical issues in a case, realizing that "the party that controls the facts will win the case." Companies should move quickly to establish as many factual issues in a case as possible, and should be able to do this faster than most government agencies.

For example, drinking water should be tested as soon as possible to demonstrate at the outset that it has not been polluted by an accident.

- Try to eliminate third-party lawsuits that might follow some government action by "doing a good deed up front." This might include replacing damaged property, an action which Mr. Mott said promotes good will among the public and is not an admission of guilt.

Mr. Mott also cautioned that motions to dismiss by defendant companies are rarely granted by judges, even though the case may involve a hazardous waste generator whose waste was involved in a later incident at a disposal site.

Even though this defendant might consider itself to be an innocent party without blame for the subsequent release of pollutants, the attorney said, few judges are willing to dismiss "the only deep pocket" without lengthy pretrial discovery.

The senator's staff already has held discussions with several environmental groups, the aide said, all of whom agree that coverage is needed to protect the public.

"Everyone realizes that what started in 1971 just won't make it today," the aide commented.

The aide also is optimistic that Sen. Dunne's bill will pass, hopefully by the end of the year.

If New York companies cannot buy EIL insurance from insurers in their home state, they will soon have to find the coverage somewhere else.

After considerable delay, the federal Environmental Protection Agency last month issued pollution liability requirements for both sud-

den and gradual occurrences (BI, April 5).

Under the rules, hazardous waste treatment, storage and disposal facilities (TSDFs) must purchase liability insurance against sudden pollution incidents by July 15.

More importantly for some New York companies, however, is an additional requirement that operators of a hazardous waste landfill, surface impoundment or land treatment facility also must purchase coverage for gradual pollution incidents.

This requirement will be phased in over a three year period, with firms having annual sales of \$10 million or more required to purchase it by Jan. 1, 1983.

Britain studies compensation changes

Continued from page 2
\$127,000).

But under the legislation, claimants would be able to reopen a case if further injuries manifest themselves after compensation is awarded by the court.

"Say someone loses an eye. There is still a 5% risk that the other eye sympathetically goes blind down the line," says Geoff Meyer, litigation executive for the Prudential Assurance Co. P.L.C. in London.

The court, though, only compensated the plaintiff for partial blindness. "Under the bill, he will be able to reopen the claim," Mr. Meyer explains.

However, the plaintiff must announce that he could reopen the case during the original trial, says Denis Marshall, senior partner of the law firm of Barlow Lyde & Gilbert and president of the Law Society of England, the British equivalent of the American Bar Assn.

"Say the doctor says that the plaintiff will get arthritis in 10 years' time. The courts will be given the power to give the right to come back to court if he develops arthritis," Mr. Marshall says.

In addition, the legislation would allow fixed damages for "loss of society" claims, says Mr. Marshall, who supports the bill. Such an award would be "a form of compensation for wholly non-economic

loss," he says.

British courts can now only award damages for a proven loss, like loss of earnings, or for injuries for which a specific compensation has been devised.

A court, for example, cannot measure the worth of a mother to her child if she dies. The bill would allow courts to award compensation in such cases to help pay the expenses of raising the child.

The bill, which could be amended as it goes through the House of Lords and then the House of Commons, incorporates some of the suggestions given by the Pearson Commission, which investigated British compensation practices in the late 1970s. Although the commission, which included lawyers like Mr. Marshall, examined the issue for five years, none of its suggestions has been implemented yet, he says.

The commission was formed after the public outcry about deformed children of women who used thalidomide during pregnancy. The manufacturer of the substance, Distiller's Co. Ltd., eventually set up a fund to compensate the deformed children until they reached 18, but there was no British legal precedent for it to do so.

The legislation's consequences may be even more pronounced

since there is a growing awareness of industrial disease in Britain. Claims for industrial deafness and cancer-related diseases are increasing, says F.W. Collins, assistant group claims manager for the Eagle Star Group, and the future doesn't look any brighter.

"Speaking of the future, I have always been gloomy," Mr. Collins told a recent seminar sponsored by the Reinsurance Offices Assn. "The substances that are used in industry today are likely to cause cancer tomorrow, and it seems that industry just doesn't learn from its mistakes, even after an industrial disease has been identified.

"Roman physicians, for instance, learned about lead poisoning and wrote about its dire effects. But 2,000 years have elapsed and they (employers) haven't done much," he said.

The most widespread industrial disease in Britain today is industrial deafness. The frequency of such claims, however, was reduced by an agreement between insurers and British labor unions called the "Boilermaker Agreement," under which labor and industry agreed on specific compensation for certain industrial injuries.

But that agreement has recently been suspended, "which will inevitably increase claims," Mr. Collins said.

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Insurer losses increase analysts' fears

Continued from page 1

AIA figures show catastrophe losses so far in 1982 escalated to \$760.5 million through May 17, compared with \$715 million during all of 1981. The record for full-year losses was \$1.7 billion set in 1979, according to the AIA figures.

"And you haven't even started the hurricane season," notes an Insurance Information Institute spokesman.

What all the figures mean for insurance buyers appears uncertain. Many insurance company executives, commenting on their results, talk of firming rates and even insolvencies.

Analysts, however, continue to expect that only a decline in interest rates to spur insurers to raise rates significantly.

"The end of the down cycle has not yet been reached," said Edward H. Budd, Travelers Corp. chairman and chief executive officer. "There are some signs that the price-cutting in property/casualty commercial lines is bottoming out but that price increases are still insufficient to generate improvement in results over the near term."

Travelers reported a 18.9% decline in first-quarter operating income. Property/casualty underwriting losses surged to \$100 million in 1982 from \$56.4 million in the first three months of 1981, primarily attributable to losses in personal lines rather than commercial lines. At the same time, investment income related to property/casualty operations rose just 8.3% to \$81.3 million.

"I think things are going to get pretty bloody in the next 18 months to two years, and I'm talking insolvencies," B.P. Russell, chairman and chief executive officer of Crum & Forster, said at a recent meeting of the American Assn. of Managing General Agents.

"The only thing that ends a cycle is fear and the only thing that creates fear is underwriting losses.

And the losses are mounting at an alarming rate."

Crum & Forster led all other major insurers in the rate of deterioration of its reported quarterly combined ratio with an increase of 11.3 points, to 112% this year from 100.7% last year. Its 29% decline in operating income was the third-worst of 20 insurers reviewed. Analysts noted, however, that Crum & Forster had an exceptionally good first quarter in 1981.

While industry executives talk about rate hikes and insolvency fears in public, in private meetings with security analysts the companies are blaming their first-quarter wounds on the weather and discounting them, says June I. Hoffer, a research associate with Bache Halsey Stuart Shields Inc.

Ms. Hoffer says she and her colleagues have attended numerous meetings with insurers in recent weeks "and not a single one has said they see a change coming (in market conditions)."

Robert V. Brokaw, senior analyst with Mabon, Nugent & Co., a New York-based institutional stock brokerage, said he expects property insurance rates to start rising "fairly slightly" during the next quarter and there will be few renewal rate cuts. "But I don't think the end-of-the-year renewals will have any significant rate increases over inflation," he adds.

Declining operating results are affecting stock prices more quickly than insurance prices.

CIGNA's stock tumbled six points on the New York Stock Exchange after it posted a first-quarter decline in operating income of 49.3% to \$61.2 million, and stock analysts reduced their estimates of the company's 1982 earnings. CIGNA's combined ratio of 115.9% was an eight-point jump over the same quarter a year earlier, based on a pro forma combination of the results of INA and Connecticut General Corp., which merged

First-quarter property/casualty insurer results (in thousands of dollars)

	Aftertax operating income	Percent gain (loss)	Consolidated revenues	Pretax underwriting income (loss)	Combined ratio
Winners					
American Int'l. Group Inc.	100,248	22.6%	829,900	14,270	95.76
CNA Financial Corp.	31,938	20.9%	787,855	(69,100)	113.9
General Re Corp.	48,177	20.1%	379,559	(2,900)	99.0
American General Corp.	45,400	19.5%	655,000	(4,000)	101.5
Mission Ins. Group Inc.	12,908	10.0%	109,037	49	99.9
Losers					
CIGNA Corp.*	61,249	(49.3%)	2,832,400	(157,996)	115.9
The Continental Corp.	37,901	(35.9%)	835,994	(77,727)	109.9
Crum & Forster	35,618	(29.0%)	482,456	(49,085)	112.0
The Hartford Ins. Group	44,866	(28.2%)	1,257,249	(104,313)	111.5
USF&G Co.	35,048	(23.8%)	578,518	(61,016)	110.2

*Pro forma comparison to prior year, when INA Corp. and Connecticut General Corp. were separate. Figures provided by CIGNA Corp.

March 31. Last week the stock was trading at less than \$43 a share, down from a high of \$55.38 on April 8.

The company blamed the decline on increasing claims in personal and commercial lines, particularly among smaller, standard risks. Property/casualty operating income declined to \$22.3 million in the first quarter of 1982 from \$61.2 million in the first quarter of 1981. But a higher-than-expected rate of policy lapses in the direct individual life business added another \$9.7 million to the overall earnings decline, CIGNA said.

"I don't think we really know what's going on at CIGNA because the deterioration was so bad from a year ago," says Mr. Lewinsohn, the Merrill Lynch analyst. "They claim they weren't strengthening reserves for prior periods, that it was just the bad losses."

Mr. Lewinsohn added, "I don't think INA is in any financial difficulty, don't get me wrong."

Increasing insurance rates to protect future operating income can cost an insurer premium volume, which appears to be happening at Aetna Life & Casualty Co., the second-largest stock property/casualty insurer.

Aetna, which announced last year an end to rate cutting by its underwriters, appears to be suffering the consequences. Its 5.5% decline in earned premiums to \$930.2 million in 1982 from \$984.2 million in the first quarter of 1981 was by far the largest drop of any major property/casualty insurer reviewed by BI. Its premium income in commercial insurance dipped 15%, Aetna said.

But operating earnings rose 5.3% on the strength of a healthy 18.3% boost in aftertax investment income and a relatively modest 14.4% hike in underwriting losses to \$157 million. And the 3.1-point deterioration in Aetna's quarter-to-quarter combined ratio—to 117.1% from 114%—was smaller than most of its competitors.

"They had a terrible quarter last year," notes Theodore J. Newton Jr., a consultant with Blyth Eastman Paine Webber Inc. Aetna strengthened reserves last year for incurred-but-not-reported losses from latent diseases, Mr. Newton and other analysts added.

"Keep in mind that Aetna's strategy of aggressively raising rates was fully implemented during the third quarter of 1981, suggesting that most of its price-sensitive business may have departed by June 30," Mr. Callaghan, the Dean Witter Reynolds analyst says in his analysis of Aetna's first-quarter results. "The potential combination of a slowdown in reserve increases

and erosion in market share in commercial lines should produce a decline in Aetna's combined ratio and a sharp increase in property/casualty income."

Other insurers are posting impressive operating income gains now.

American International Group led the large property/casualty insurers with a 22.6% increase in operating income to \$100.2 million in the first quarter of 1982. CNA Financial Corp. reported a 20.9% gain to \$31.9 million for the second-best results among major companies.

On the losing side, between CIGNA with the worst results and Crum & Forster with the third-worst showing, was The Continental Corp., which posted a 35.9% decline in operating income to \$37.9 million. The Hartford Insurance Group turned in the fourth-worst results with a 28.2% decline in operating income to \$44.9 million, and USF&G Co., with a 23.8% decline to \$35 million, was fifth-worst.

Looking at combined ratios, besides Crum & Forster, other big combined-ratio slides were posted by Royal Group Inc., the U.S. subsidiary of Britain's largest insurer, and USF&G Co. Royal's combined ratio rose 10 points, to 115.2% from 105.2%, and USF&G's rose 8.5 points to 110.2% from 101.7%.

AIG was alone among the

10-largest property/casualty insurers in reporting an underwriting profit. Its 95.8% combined ratio produced a slender \$14.3 million, down from \$19.1 million in the first quarter of 1981.

Mission Insurance Group Inc., the Los Angeles-based company that primarily writes workers compensation, turned in the most slender of underwriting profits—\$49,000 for a combined ratio of 99.9%.

Full first-quarter results are not available from some well-known property/casualty insurers, including Royal and Commercial Union Insurance Cos., whose British parents do not report their subsidiaries' operating results.

Commercial Union, the U.S. subsidiary of Britain's No. 2 insurer, according to statistics filed by law with state regulators, produced the second-highest percentage growth in earned premiums of any large property/casualty insurer operating in the United States, up 21% to \$340.1 million from \$281.1 million. Only Royal's U.S. operations topped that rate with a 22% gain to \$286.5 million from \$234.9 million, based upon statutory figures.

Two large property/casualty insurers did not report first-quarter results to *Business Insurance*. They were Home Group Inc., a subsidiary of City Investing Co., and Old Republic International Corp., the Chicago-based holding company. ■

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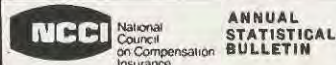
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Property/casualty insurers teetering on disaster's edge

By MYRON PICOULT
Special to Business Insurance

AS WE REVIEW the wreckage from the first quarter, in terms of both operating results and the recent performance of property/casualty stocks, we are reminded of the phrase, "Everybody loves a magic show until the money disappears."

In general, the first-quarter results were no better than expected and in some instances, like CIGNA Corp.'s, considerably worse.

Some observers (including insurance company managements) have noted that if one were to exclude catastrophe losses, underwriting results would have been more palatable. That is like saying the patient survived the operation, but died in the recovery room.

The insurance business is a risk-taking venture. Sometimes the wind blows and sometimes it does not. Catastrophe losses may water down good underwriting experience and exacerbate poor underwriting results at what is normally an inopportune moment. However, catastrophe losses do not excuse inbred deficient pricing.

Looking ahead to the second quarter, operating earnings are not likely to be materially improved relative to the lackluster first quarter. While there may be some diminution of catastrophe losses relative to the first quarter for some companies, although losses in April continued to be heavy, the basic trend in underwriting is down and the investment income offset continues to shrink.

We have commented many times in this column about the dangers of "cash-flow un-

Myron M. Picoult is a vp and senior insurance analyst with Oppenheimer & Co. in New York. He is the past president of the Assn. of Insurance & Financial Analysts and a member of the New York Society of Security Analysts. His column for Business Insurance appears the fourth Monday of every month.



Mr. Picoult

BI ticker

derwriting." Our latest review of the industry's operating posture shows that the stock companies will have virtually no cash flow to invest in 1982, with many companies actually falling into a negative cash mode, referring to operating cash flow and excluding investment income.

When an insurance company actually begins to eat into investment income to obtain operating cash flow, it is violating one of the basic tenets of the business, which is to attempt to make a profit on an underwriting risk. This is ultimately self-destructive.

The 14 companies we survey account for about 40% of the stock property/casualty industry's premium volume. For the first quarter, we found the following:

- Written premiums for the three months ended March 31 rose 4.2% above the year-earlier quarter and earned premiums edged up 3.1%. Of the companies surveyed, eight posted below-average increases (an average decline of 0.7%), while the remaining six recorded an average increase of 10.9%.

- Pretax investment income from property/casualty operations rose only 13.4%. This is the smallest average quarter increment in some years.

- The combined ratio (after policyholder dividends) expanded to 107.3% from 103.1%. The expense ratio rose to 30.4% from 29.6%, while the loss ratio bounced up to 76.9% from 73.5%. Seven companies's ratios were better than average and seven were worse. Only American International Group and GEICO Corp. posted combined ratios less than 100%. Also of interest was that four of the companies that produced better-than-average combined ratios also posted below-average premium increases for the quarter.

- Operating earnings from property/casualty operations declined 11.4%, while consolidated operating earnings fell 11.1%.

For the year, our present industry earnings model shows a 9% decline in industry earnings based on a 4% gain in written premiums, a 3% rise in earned premiums and a 10% increase in investment income. Our combined

ratio assumption is 109.5%, which will produce a mind-boggling underwriting loss of \$6.8 billion, up from 1981's \$4.3 billion loss.

Looking ahead to 1983, some improvement in operating results—up to a 15% gain—is possible with only a minimal improvement in the combined ratio, about 108.5%, if the companies act soon and get their houses in order.

The property/casualty industry is at a critical juncture at this time. We believe managements must begin to correct the pricing deficiencies that exist in the commercial area, and not at the expense of what has and must continue to be accomplished in the personal lines field.

Stories still abound about further rate cuts in commercial pricing, which in fact may be last gasps by some of the cash-flow boys to stay afloat. Others imply no further cuts but some sense of stabilization, while still other observers indicate some small rate increases are in the works. The real problem is that too many companies do not know where they are on a pricing scale and, thus, have no point of reference.

While a meaningful change in commercial rates will have only a slight impact on 1982's written premiums (nothing will flow down to earnings), it will place the second half of 1983 on firmer footing.

If the industry continues to waiver and avoid its pricing responsibilities, investors will lose interest in the industry and ignore it when the underwriting cycle finally does turn. It could be a recovery that no one cares about, and that would be appropriately reflected in both the absolute and relative performance of insurance stocks. As a consequence, we would expect to see some key insurance executives take "early retirement" and some simply end up "on the beach."

There is no excuse for undermining the integrity of a company's basic book of business. Neither policyholders nor shareholders benefit.

Britain's Royal, CU report losses

LONDON—It could be a long and difficult year for British insurance companies after a hard winter bit into their profits.

The bottom line has already plunged into the red for the top two British insurance companies, The Royal Insurance Co. and Commercial Union Assurance Co.

"The only hope is that results will get so bad with weather losses, tornados and such, that there will be a shrinkage in capacity," said Cecil Harris, chief executive of Commercial Union.

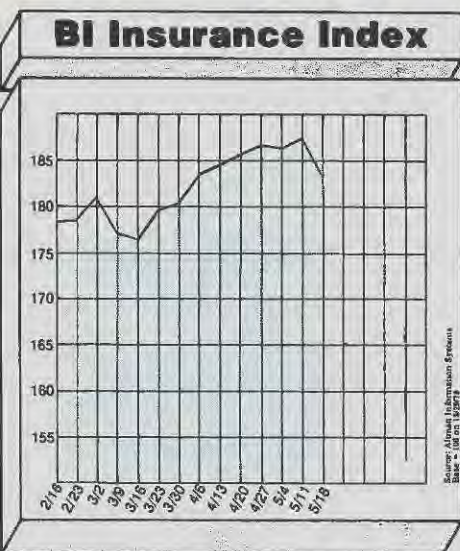
"There is no evidence to say that, but there will be a lot of red ink floating about," he said.

It's already flowing at Commercial Union. For the first quarter, CU reported a net loss of 1.2 million pounds (approximately \$2.16 million), as opposed to a profit of 12.6 million pounds (\$22.7 million) in the first quarter of 1981.

The Royal did even worse. Britain's largest insurance company reported a net loss of 3.5 million pounds (\$6.3 million), compared with net income of 26.7 million pounds (\$48.1 million) in the first quarter last year.

Both companies have blamed the severe winter on both sides of the Atlantic for their miserable showings. About 30 million pounds (\$54 million) of The Royal's 64.1 million-pound underwriting loss (\$115.4 million) was attributed to storm losses in Britain. And CU estimates that 21 million pounds (\$37.8 million) of its 63.6 million-pound (\$114.5 million) underwriting loss in the first quarter came from weather damage in Britain and the United States.

Other factors besides the weather contributed to the losses at CU and The Royal. Both companies cited overcapacity and cutthroat rate competition as continuing problems, despite gains in premium income.



Insurance industry stocks fared poorly during the five-day period ending May 18 as the *Business Insurance* stock index lost 3.4 points, falling to 183.8 from 187.2. Ten stocks posted gains, 42 posted losses and 16 remained unchanged. The largest increases were reported by Aneco Reinsurance Co. Ltd., 28.6%; American States Life Insurance Co., 6.1%; Rollins Burdick Hunter Co., 2.7%; Avemo Corp., 2.1%; and Statesman Group Inc., 2.0%. The biggest declines were reported by CIGNA Corp., 12.7%; Farmers Group Inc., 9.8%; Crown Life Insurance Co., 9.4%; Corroon & Black Corp., 9.2%; and SRI Corp., 9.1%. The BI index lost 1.8% during the period, less than the declines in the major stock market averages.

British Issues

18 May	Price	P/E	Div.	Yield	High—Low
Companies	pence	pence	%	%	pence pence
Comml Union	131	11.9	16.85	12.9	137—131
Eagle Star	369	12.5	21.43	5.8	369—365
Genl Accident	290	7.5	23.31	8.0	302—288
Gdn Royal Exch	270	6.5	25.00	9.3	294—270
Phoenix	236	7.9	24.00	10.2	256—236
Royal	337	8.7	36.07	10.7	346—337
Sun Alliance	770	9.1	61.43	8.0	816—770

Brokers	Price	P/E	Div.	Yield	High—Low
Companies	pence	pence	%	%	pence pence
CE Heath	333	9.1	18.71	5.6	345—331
Hogg Robinson	104	8.0	8.57	8.2	109—104
JH Minet	195	12.2	8.14	4.2	195—174
Sedg Grp	169	10.9	8.57	5.1	171—165
Stenhouse Hldg	115	8.4	7.28	6.3	117—114
Staw Wrightson	241	8.6	18.57	7.7	252—241
Willis Faber	466	11.6	21.43	4.6	482—466

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

BI Industry Stock Report

Insurance Cos.	MAY 18, 1982				5/12/82 THRU 5/18/82				MAY 18, 1982				5/12/82 THRU 5/18/82						
	Price	Chg	P/E	S Div	Yld	High	Low	Vol (000)	Price	Chg	P/E	S Div	Yld	High	Low	Vol (000)			
Aetna Life & Cas Co	NYSE	40.13	-5.0	6.5	2.52	6.3	42.00	40.13*	1,062.9	United Fire & Cas Co	NYSE	29.50	0.0	7.7	0.88	3.0	29.50	29.50	0.4
American Bankers Ins Group	OTC	8.50	1.5	6.7	0.48	5.6	8.50	8.38	170.5	United States Fid & Gty Co	NYSE	43.00	-3.6	7.7	3.60	8.4	45.25	43.00	240.1
American Gen Ins Co	NYSE	40.00	-5.0	5.9	2.20	5.5	41.88	40.00	49.9	United Swcs Life Ins Co	OTC	16.13	-0.8	6.0	1.00	6.2	16.25	16.13	17.8
American Indty Fintl Corp	OTC	14.63	-2.5	8.5	1.12	7.7	15.00	14.63	10.5	Unifile Corp	NYSE	19.13	-3.2	4.0	0.84	4.4	19.88	19.13	147.7
American Intl Group Inc	OTC	66.50	-3.3	10.6	0.48	0.7	68.25	66.25	233.0	Washington Natl Corp	NYSE	18.88	1.3	7.9	1.08	5.7	19.63	17.75	87.1
American Natl Ins Co	OTC	14.50	-4.1	6.3	0.76	5.2	15.13	14.50	23.8	Sanith Natl Ins Corp	OTC	15.75	-4.5	7.5	0.76	4.8	16.25	15.75*	18.1
American Sta Life Ins Co	OTC	17.50	6.1	5.6	0.80	4.6	17.50	16.50	0.6	INSURANCE COMPANIES				AVERAGE	6.8	4.6			
Aneco Reins Ltd	OTC	2.25	28.6	0.0	0.00	0.0	2.25	1.88	9.7	Agents/Brokers									
Avemo Corp	AMEX	12.13	2.1	7.5	0.54	4.5	12.13*	11.75	3.6	Alexander & Alexander Svcs	NYSE	26.13	-6.3	9.0	1.94	7.4	27.25	26.13	201.4
Banks Iowa Inc	OTC	39.50	0.0	6.8	1.48	3.7	39.50	39.50	3.9	Baldwin & Lyons Inc	OTC	35.50	0.0	6.6	0.80	2.3	35.50	35.50	0.2
Bitco Corp	OTC	29.50	0.0	4.5	1.92	6.5	29.50	29.50	6.1	Corroon & Black Corp	NYSE	19.75	-9.2	10.2	1.76	8.9	21.50	19.75	11.1
Carolina Cas Ins Co	OTC	6.75	0.0	6.3	0.32	4.7	6.88*	6.75	3.7	Croup E H Cos Inc	OTC	8.50	0.0	18.1	0.40	4.7	8.50	8.50	5.0
Chubb Corp	OTC	43.75	-1.7	5.4	2.92	6.7	44.50	43.75	105.8	Hall Frank B & Co Inc	NYSE	28.88	-1.7	10.9	1.70	5.9	29.25	28.75	158.2
Combined Intl Corp	NYSE	22.00	-4.3	5.9	1.80	8.2	22.88	22.00	236.1	Integrated Res Inc	AMEX	14.38	-1.7	5.4	0.00	0.0	14.75	14.38	26.1
Continental Corp	NYSE	26.63	0.0	7.5	2.60	9.8	27.00	26.63	90.3	James Fred S & Co Inc	NYSE	21.50	-2.8	10.2	1.60	7.4	22.25	21.38	40.8
Crawford & Co	OTC	14.75	1.7	11.1	0.56	3.8	15.00*	14.50	5.3	Marsh & McLennan Cos Inc	NYSE	32.50	-6.5	9.9	2.00	6.2	34.50	32.50	418.5
Crown Life Ins Co	OTC	81.50	-9.4	6.0	3.10	3.8	90.00	81.50	0.0	Pennocp Fincl Inc	NYSE	8.25	-4.3	6.4	0.16	1.9	8.75*	8.25	399.6
Cum & Forster	NYSE	28.13	-3.4	5.0	1.64	5.8	29.25	28.13	393.9	Pinehurst Corp	OTC	8.88	-1.4	10.0	0.00	0.0	9.00	8.88	16.6
Employers Cas Co	OTC	32.75	0.0	7.1	2.30	3.7	32.75	32.75	4.2	Poe & Assoc Inc	OTC	9.00	0.0	10.1	0.80	8.9	9.00	9.00	1.6
Equifax Inc	NYSE	31.63	-1.2	9.5	2.60	8.2	32.25	31.63	8.6	Reed Stenhouse Cos Ltd	OTC	11.75	0.0	9.6	0.60	5.1	11.88	11.75	11.6
Excelsior Ins Co	OTC	16.75	-1.5	43.6	0.70	4.2	17.00	16.75	0.6	Rollins Burdick Hunter Co	OTC	19.25	2.7	12.7	1.32	6.9	19.50	19.25	135.7
Farmers Group Inc	OTC	33.25	-9.8	9.3	1.24	3.7	35.63	33.25	701.8	AGENTS/BROKERS				AVERAGE	9.0	5.4			
First Colony Life Ins Co	OTC	66.25	0.0	18.8	1.02	1.5	66.50	66.25	147.0	Conglomerates/Holding Cos.									
Foremost Corp Amer	OTC	31.50	-0.8	8.8	1.12	3.6	31.75	31.50	64.0	American Express (Fireman's Fd)	NYSE	46.13	-7.3	8.2	2.20	4.8	49.50	46.13	1,012.5
Great West Life Assurn Co	OTC	210.00	0.0	6.2	10.00	4.8	210.00	210.00	0.0	Anderson Clayton (Ranger/PanAm)	NYSE	29.13	-2.9	5.8	1.32	4.5	30.13	29.13	16.6
Hanover Ins Co	OTC	28.75	-8.0	3.9	0.88	3.1	31.00	28.75*	20.6	Armo Inc	NYSE	18.38	-2.6	4.6	1.80	9.8	19.13	18.38*	447.7
Hartford Steam Boiler Insptn	OTC	41.50	0.0	7.7	2.80	6.7	41.50	41.50	4.7	City Investing Co. (Home Ins.)	NYSE	23.75	-5.5	7.4	1.70	7.2	24.88	23.75	188.8
Jefferson Natl Life Ins Co	OTC	39.00	-4.9	10.7	0.76	1.9	40.50	39.00	5.0	QNA Fintl Corp (QNA)	NYSE	13.75	-2.7	5.4	0.00	0.0	14.00	13.75	6.4
Kemper Corp	OTC	34.00	-1.1	5.5	1.80	5.3	34.38	34.00	36.4	Control Data (Comm. Credit)	NYSE	27.63	-4.7	6.3	0.55	2.0	28.88	27.63*	936.1
Lincoln Natl Corp Ind	NYSE	43.00	-2.3	7.0	3.00	7.0	44.38	43.00	124.4	General Re Corp	NYSE	86.38	-0.1	10.2	2.16	2.5	86.75	86.00	71.4
Mission Ins Group Inc	NYSE	24.75	-2.9	6.3	0.80	3.2	25.50	24.75	60.6	Gulf Utid Corp	NYSE	19.13	-1.3	6.7	1.32	6.9	19.38	19.00	146.4
Nationwide Corp Ohio	OTC	26.75	0.0	7.8	0.70	2.6	26.75	26.75	5.2	Cigna Corp	NYSE	42.00	-12.7	5.4	2.30	5.5	45.75	41.13*	2,773.7
Northwestern Natl Life Ins	OTC	25.75	-5.5	5.3	1.50	5.8	27.00	25.75	32.1	ITT (Hartford Group)	NYSE	25.38	-1.5	5.6	2.68	10.6	25.63	25.38	796.6
Ohio Cas Corp	OTC	41.00	-3.8	6.1	2.36	5.8	42.38	41.00	56.7	Optimum Hldg Corp	OTC	9.25	0.0	7.0	0.00	0.0	9.25	9.25	3.1
Old Rep Intl Corp	OTC	19.38	0.0	4.6	0.92	4.7	19.38	19.38	33.9	Sears Roebuck & Co. (Allstate)	NYSE	19.75	-1.9	9.4	1.36	6.9	20.50*	19.75	2,875.4
Preferred Risk Life Ins Co	OTC	21.38	1.2	6.1	0.92	4.3	21.38	21.13	6.3	Baldwin Utid Corp	NYSE	67.75	-4.6	8.5	1.60	2.4	71.25	67.75	132.3
Provident Life & Acc Ins Co	OTC	47.75	0.5	6.0	2.44	5.1	47.75	47.50	40.9	Teledyne Inc (Argonaut)	NYSE	119.25	0.2	6.1	0.00	0.0	119.25	117.50	305.4
Ryan Ins Group Inc	OTC	20.00	-0.6	8.3	0.16	0.8	20.38	20.00	7.0	Transamerica Corp (Occidental)	NYSE	20.00	-3.6	5.9	1.40	7.0</			

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