

business insurance

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update:

FM to soon change premium deposit plan

NEW YORK—The Factory Mutual System of insurers soon will change its expensive premium deposit plan in favor of a system that allows policyholders to earn interest on their money, *Business Insurance* has learned.

The change could mean a smaller or shorter-term deposit or just a change in the

Continued on next page

Medical malpractice crisis: Part 2

By MARGARET LeROUX

The nation's doctors once again face a malpractice insurance crisis.

This time it's a cost crisis that threatens to affect every patient and corporate buyer of health-care plans.

Unlike their last bout with insurance problems in the mid-1970s, doctors can still buy insurance from markets flush with underwriting capacity.

Reminiscent of the last crisis, however, is the soaring price of insurance. Recent rate increase requests are as high as 71% in New York. Rate increases in effect this year range from a low of 7.5% in Colorado to 20% in California.

Like the last time around, purchasers of health care, including corporate sponsors of health insurance plans, can expect to pick up a bigger tab.

The reason for another jump in medical malpractice insurance rates is an increase in the number of claims and an even bigger increase in the cost of claims. Insurers are reporting 1980 loss and expense ratios far exceeding the losses reported during the last medical malpractice insurance crunch. (See chart.)

"It's horrendous," lamented one medical malpractice insurance underwriter.

Although some insurers, such as Aetna Life & Casualty, say increased investment income reduces the impact of the big combined ratios, others aren't so optimistic.

Stuart B. Menist, president of Norcal Mutual Insurance Co. in San Francisco, compared the increased cost of malpractice claims to a sudden increase in a patient's temperature: "When that happens, you know there's trouble ahead."

The rising cost of a single claim is scaring insurers the most.

But, they say, this second medical malpractice insurance cost crisis partly results from the side effects and ineffectiveness of two treatments administered to correct the first crisis in the mid-1970s:

- Losses are coming home to roost under the claims-made insurance forms.
- More claims are being filed as legislated restraints on malpractice suits are being eroded by judges.

These two factors combined with the rising cost of claims drove up the combined loss and expense ratio for medical malpractice insurance in 1980 to a record 153% for insurers reporting results to A.M. Best Co., the industry statistical organization in Oldwick, N.J.

That combined ratio, which reflects only a slight increase in the expense ratio to 14.7% in 1980 from 13.7% in 1976, is more than 42 points higher than the 110.2% combined ratio in 1976 that drove many insurers out of the medical malpractice insurance business.

But insurers aren't running scared yet this time. They expect investment income on the 1980 premiums of \$1.1 billion and reserves to make the business profitable despite the high loss ratio.

"As interest rates increase, there's still a potential to make money on malpractice," said Robert E. Grimes, director of commercial underwriting at Aetna Life & Casualty Co., which insures about 13,000 doctors in 19 states.

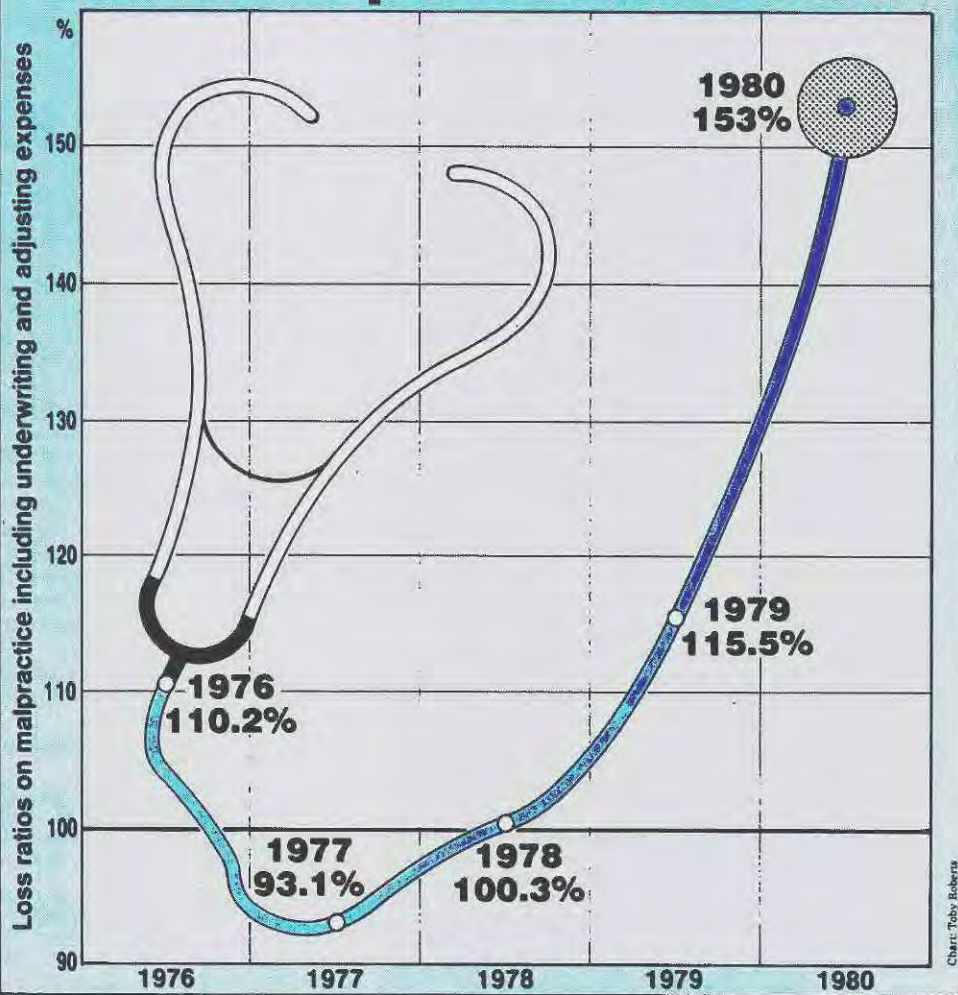
The 153% loss ratio "doesn't sound bad," he commented, but wouldn't compare it to Aetna's experience.

And insurers expect that rate increases will stop a cost crisis from turning into a market crisis.

"Unlike others in the industry, I don't see a repeat of the crisis of 1975 unless we hold

Continued on page 25

Insurers report record losses



Reagan plan could hike pension costs 7%

By JERRY GEISEL

WASHINGTON—Employers' pension costs could jump 7% if Congress enacts the Reagan administration's plan to slash Social Security benefits.

The Reagan cutbacks will hurt employers that offset corporate pension benefits by subtracting the amount of Social Security benefits from the target amount promised retirees.

Thousands of employers around the country integrate Social Security and corporate pension benefits, but the president's plan will cut Social Security benefits for future retirees by about 10%.

"In a typical offset plan, we could be talking about annual in-

The cost of early retirement

	Now	Under Reagan
Final average salary	\$12,000	\$12,000
Social Security pays	\$ 4,300	\$ 2,750
Private pension base	\$ 6,000	\$ 6,000
-50% Social Security offset	\$ 2,700	\$ 2,500
Employer pays	\$ 2,640*	\$ 2,800*
Employee gets	\$ 6,940	\$ 5,550

Example assumes a defined benefit pension plan paying 50% of final average pay after a reduction of 50% of the Social Security benefit payable at age 65. Example also assumes a 20% reduction in the private pension for early retirement at age 62.

creases of between 5% and 8%," said Robin Holloway, senior actuary at Towers, Perrin, Forster &

Crosby in Chicago. "The possible reduction in employers' Social Security payroll taxes would not

even come close to making up that cost."

Companies that do not use offset arrangements to reduce corporate pension benefits will feel pressure too when employees demand increased pension benefits to compensate for the sharp reduction in Social Security benefits for workers retiring at age 62.

Employers who have encouraged their employees to retire at an early age to make room for younger workers or help cut payroll during the depressed economy will have to boost pension benefits to encourage workers to retire early, consultants said.

The pressure on employers' pension plans is the result of two key elements in the administration's

Social Security proposal:

- Changing the current formula used to calculate a worker's Social Security benefit at retirement. The new formula will reduce benefits for future retirees by about 10% over five years. For an average worker, Social Security will replace 38% of salary compared to a wage replacement ratio of about 41% now.

- Slashing early retirement benefits. A worker retiring at age 62 would receive 55% of the benefit due at 65 instead of the current 80%.

The massive reduction in early retirement benefits could force a dramatic restructuring of supplemental pension plans offered by

Continued on page 29

INSIDE:

Offsetting of pensions
by comp benefits allowed
Page 2

Money market funds
not all that risky
Page 3

Amendment would cut abortion cover

WASHINGTON—Federal employees and their dependents would lose health insurance coverage for abortions under an amendment passed by the House of Representatives.

The amendment, proposed by Rep. John Ashbrook, R-Ohio, and tacked onto an appropriations bill by a 242-155 vote, bars federal group health insurance plans from covering abortion.

The amendment has to be approved by the Senate. Last year, the Senate killed an identical amendment by Rep. Ashbrook. But the proposal fares a better chance this year because of the more conservative makeup of the Senate.

The health coverage restriction could force federal employees and their dependents to spend at least \$10 million annually to pay for

benefit beat

abortions now covered under their group health insurance plans.

In recent years, about 20,000 abortions have been performed annually under federal employee health insurance programs. The average claim cost last year was about \$550.

The amendment was passed after being denounced on the House floor by Rep. Millicent Fenwick, R-N.J.

"With amendments such as this, you are putting people's heads on the block," Rep. Fenwick said. "There is something very ugly in denying help through money to those who ask for a procedure which is legal for the rich."

Rep. Ashbrook said the federal government should not be in the business of subsidizing abortions for federal employees.

The National Abortion Rights League warns that adoption of the amendment would deprive a "staggering number of women" access to abortion as "an affordable health option."

If the Ashbrook amendment is approved by Congress, it could be a precedent for states to pass legislation restricting abortion coverage in health insurance plans, said Suellen Lowry, legislative director at the abortion rights league.

Some federal health insurance plans, such as Blue Cross/Blue Shield, which covers about 2 million employees, pay 100% of expenses for all abortion. Other plans only pay for medically necessary

abortions.

The federal health insurance program has about 10 million participants including retirees, with 440,000 female employees under age 40.

Sick leave

Qualified employees at the member companies of the Ashford Holding Corp. in New York are receiving longer sick leaves.

The program is aimed at providing employees, who may experience a serious illness such as a heart attack and require more recuperation time, with additional sick leave beyond the 30 long-term days normally allotted.

Under the program, which applies to employees who have completed at least one year of service

with an Ashford member company, a disabled worker receives 60% of his or her salary for a maximum of six months during the disability period, said Andrew R. Sallans, benefits administrator of Midland Insurance, an Ashford member.

The company also will pick up the employee's share of any group insurance premiums during the period.

Ashford Holding Corp. is composed of nine member insurance companies located in New York City.

Benefits increased

Employees at the Mueller Brass Co. in Port Huron, Mich., will receive increased life insurance and pension benefits under a new three-year contract.

Under the new contract, about 780 employees, members of Local 44 of the United Auto Workers, will receive a \$1,000 increase in life insurance and accidental death and dismemberment benefits, moving the annual figure up to \$11,000, said Miles Coleman, vp of industrial relations at Mueller Brass.

Accidental death and dismemberment insurance coverage will be based on the severity of the dismemberment.

Beginning April 1, 1982, future retirees with more than 10 years of service will receive an additional \$500 annually under the new pension plan. Retirees with 10 to 20 years of service will receive \$2,000; retirees with 20 to 25 years will get \$2,500; and those with more than 25 years of service will get \$3,000, Mr. Coleman said.

The new contract expires April 1, 1984.

Sick leave

Brewers, bottlers and drivers at the Pittsburgh Brewing Co. have accepted a new three-year contract that provides for an average increase of \$3.06 per hour in wages and benefits, including a 46-cents-an-hour increase in sick leave and pension benefits.

Pittsburgh Brewing, the nation's 12th-largest brewer, had threatened to dissolve its operations unless a new contract was signed.

The unions originally asked for a \$3.81 increase in wages and benefits, while the company offered \$2.76.

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61 people receive CEBS designation

Sixty-one people have been named Certified Employee Benefit Specialists (CEBS) by the International Foundation of Employee Benefit Plans and the Wharton School of the University of Pennsylvania.

The new specialists qualified for the professional designation by passing a series of 10 college-level national examinations on employee benefits subjects and meeting standards of business and professional conduct.

The graduates—insurance brokers and agents, corporation benefits employees, government officials, attorneys, banking officers and others—will be honored at a ceremony at the foundation's 27th Annual Education Conference in Acapulco, Mexico, in December. ■

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business insurance

INSURANCE SERVICES GUIDE:

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turn to page 34

Nevada names acting chief to fill top insurance position

CARSON CITY, Nev.—Patsy S. Redmond has been named Nevada's insurance commissioner after serving as acting commissioner since the resignation of Donald W. Heath last month.

Ms. Redmond was employed in a family-owned warehouse business before entering the insurance field 2½ years ago. Her salary as commissioner is \$30,000.

The new commissioner says she

around the states

will continue to work within the state Commerce Department to attract private industry to Nevada. "We are embarking on an in-depth review of the previous tax struc-

ture," she said.

The insurance division is also planning a consumer information project focusing on automobile and homeowner coverages. Ms. Redmond said she is especially interested in explaining insurance to young, divorced women.

The new commissioner is studying for a bachelor of arts degree in business administration and managerial science at the University of Nevada at Reno. She also has studied at the University of Colorado.

Judgment upheld

PROVIDENCE, R.I.—The state Supreme Court has ruled that a Massachusetts woman is entitled to collect workers compensation for psychological injuries stemming from job-related stress.

Beulah Seitz of Oxford, Mass., quit her job as an office manager and executive secretary for Palco Products in 1975 after she supervised that company's move from Worcester to Slatersville, R.I. Mrs. Seitz claimed that the stress of starting up a new plant and dealing with new employees who were supposed to be under her direction badly upset her. The move was accomplished in only one weekend.

Mrs. Seitz has been diagnosed as having an obsessive compulsive personality disorder that has prevented her from returning to work, and she still sees a psychiatrist once every two weeks.

Although the Supreme Court was deadlocked 2-2, it upheld an earlier ruling by the state Workers Compensation Commission that Mrs. Seitz is entitled to workers compensation benefits. The decision also affirms a 2-1 decision by an appellate commission.

Attorneys for the insurer, Industrial Indemnity, a subsidiary of Crum & Forster, have asked for another hearing. One justice did not participate since he was not a member of the court when the case was argued.

Fire ratings

LANSING, Mich.—The Department of Licensing & Regulation of the state Insurance Bureau rejected a proposal to begin a new fire suppression rating system recommended by the Insurance Services Office (ISO, March 23).

"The state insurance bureau had decided that building codes, electric codes and fire prevention laws had not been given credit in the proposal," said William E. MaGee, the state's director of property and liability. He said that the 1974 fire suppression rating system will be continued.

Public hearing

NEW YORK—The state insurance department has scheduled a public hearing at 10 a.m. May 28 on a proposed regulation on the department's authority to suspend the licenses of insurance agents, brokers, adjusters, excess line brokers, insurance consultants, reinsurance intermediaries and professional bailbondsmen.

Currently, Section 401(3) of the State Administrative Procedure Act allows state agencies to issue summary suspension orders. The proposed regulation establishes procedures and guidelines in the issuance of such summary suspension orders and safeguards the rights of licensees.

The hearing will be in Hearing Room A of the New York State Insurance Department, 26th Floor, Two World Trade Center, New York, N.Y. 10047.



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editorial opinions



Solving the crisis

The latest surge in physician's medical malpractice insurance costs is going to hurt everybody. Doctors will be hit first, then their patients who must pay more for service and finally the employer who pays the bill for the group health plan.

Doctors certainly won't absorb the increased cost. They will pass it on to the consumers just like any business passes on increased costs of production.

Employers, who sponsor health-care plans covering 90% of all Americans under 65, will find their efforts to control the rising cost of health care undermined, if not thwarted, by this additional cost tacked on to medical bills.

How frustrating.

There are obvious responses to the problem of the rising cost of medical malpractice claims reported by *Business Insurance* correspondent Margaret LeRoux on Page 1.

One is to call for restraint by plaintiffs and their attorneys in their demands for awards, a plea we suspect falls upon deaf ears. Another is to suggest legislators change laws to fairly protect doctors against outrageous claims and awards, a movement that slowed as the mid-1970s malpractice insurance crisis eased. And it's appropriate to call on judges to rule fairly on the constitutionality of these reforms, which are being dismantled in too many states.

The less obvious response, but possibly the most effective, is to demand insurers use structured settlements whenever possible to settle malpractice cases.

We've reported over the last few years on

the use of periodic payments or structured settlements to pay claimants. The advantages of the practice were demonstrated by two articles in the May 11 edition.

A young boy who suffered brain damage when he nearly drowned in a swimming pool in downstate Illinois is being compensated under a structured settlement that could be worth as much as \$2.3 million if he lives to age 67, but the upfront payment is only \$51,000 to cover legal expenses.

Coleco Industries Inc., the swim pool manufacturer, and its insurer, The Travelers, settled the claim for much less cost than the hospital and doctors involved in another medical malpractice case reported in the same issue.

A woman rendered a quadriplegic by improper care during a cosmetic surgery operation was awarded \$9 million by a Cook County, Ill., Circuit Court jury. The award, now being appealed, is to be paid in one lump sum.

The doctors and their insurers refused the opportunity to settle the award for \$4 million. Whether recognized by the plaintiff and defendants or not, they also had the opportunity to negotiate a structured settlement to care for the woman's needs.

Policyholders should demand that in all cases where liability exceeds \$1 million the insurer try in good faith to settle with a structured settlement. Jury awards should be subjected to periodic payments.

Periodic payment of awards will save insurers, policyholders and customers money in the long run.

letters

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. Please send your comments to Letters to the Editor, *Business Insurance*, 740 N. Rush St., Chicago, Ill. 60611.

Clarifying Kansas tort law

To the editor: The article on tort reform in your May 4 issue did not correctly describe the provisions of S.B. 165, the new Kansas law.

In the section dealing with "useful safe life," the act provides a defense upon proof by a product seller that the harm was caused after the expiration of the product's useful safe life. This defense can be asserted at any time.

After a product is 10 years old, the act creates a presumption that the product's useful safe life has expired, and the burden is then on the plaintiff to rebut this presumption by "clear and convincing" evidence. If it is established that a product is within its "useful safe life," the plaintiff still has the burden of proving the product was, in

fact, defective.

The Kansas act also clarifies the effect of compliance with legislative or administrative standards, provides a defense for compliance with mandatory government contract specifications, defines the extent of the responsibility of a manufacturer or seller of a product to warn or protect against dangers or hazards that could or did arise in the use or misuse of a product and provides a defense for non-manufacturing sellers in most instances where there is no basis for independent liability.

Larry E. Sanford
Staff attorney
Hesston Corp.
Hesston, Kan.

Definitely on wrong track

To the editor: It was a pleasure to read what my contemporaries consider outstanding restaurants in San Francisco, and I was happy to be a contributor to the comments in "Feast yourself on fine dining during RIMS" (*BI*, April 6).

However, I take strong objection to the fact that you described one of my favorite restaurants, The Big Four on Nob Hill, as "named for California's robber barons."

It is named for California's rail-

road barons, who are, for your information, Leland Stanford, C.P. Huntington, Charles Crocker and Mark Hopkins.

I would appreciate a correction so I can once again return to one of my favorite restaurants.

Bon appetit!

Dick Soper
Director of risk management
Levi Strauss & Co.
San Francisco

A sensitive, moving tribute

To the editor: Your fine and sensitively written obituary of Joe Blades (*BI*, May 4) was highly complimented at Crum & Forster's monthly management council meeting in Morristown, N.J., on May 5. Our chairman, Bob Russell, and everyone else felt that you had paid a fine tribute to a truly remarkable human being.

On behalf of the Crum & Forster family, I would like to thank you again for a sensitive and movingly accurate portrait of one of our most beloved members.

Leslie Cheek III
Vp of federal affairs
Crum & Forster Insurance Cos.
Washington, D.C.

Check financial reports, too

To the editor: There is no question that a serious problem exists for jewelers block insurance (*BI*, April 27, May 11). I would not be at all surprised if the jewelry industry turned to the captive concept.

Some of the answers proposed by various underwriters are questionable, although I do not have an answer either. We see increased rates and deductibles and expensive, sophisticated alarm systems that fail because of the low priority the law-enforcement authorities give to responding to burglar or holdup alarms along with the manpower shortage.

Nevertheless, I believe after re-

viewing numerous large losses that a majority of the incidents were "setups" designed to alleviate some financial problems of the insured. The practice within the insurance industry requires annual submission of a proposal, but how many insurers require financial reports?

I pass this on because years ago when the food-service field was a losing class of business, those underwriters that wrote the risk on the basis of a financial report found the class to be profitable.

H.P. Schlander
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Social Security plan draws fire

By JERRY GEISEL

WASHINGTON—House Democrats have stepped up their attack on the Reagan administration's plan to slash Social Security benefits by \$46 billion.

House Speaker Thomas P. O'Neill, D-Mass., labeled the cuts "despicable" and vowed to "fight them all the way."

Rep. James Shannon, D-Mass., said Social Security is part of the nation's "safety net" to protect the elderly. "He (President Reagan) has gone too far. It's time we stood up."

Rep. Richard Gephardt, D-Mo., attacked the heart of the administration's package—reducing bene-

washington

fits for workers who retire early. A worker retiring at 62 would receive 55% of the benefit due at 65 instead of the current 80%.

Such a cut would be "bordering on the unethical," he said.

Criticism also came from House Republicans. The cuts are "too much and too fast," said Rep. S. William Green, R-N.Y.

In the Senate, however, Sen. William Armstrong, R-Colo., chairman of a Social Security subcommittee, praised the package and promised to hold hearings on the proposals soon.

Meanwhile, Health and Human Services Secretary Richard Schweiker denied rumors that the administration plans to delay until October the 11.2% cost-of-living increase the nation's 36 million Social Security beneficiaries are to receive in July.

The Office of Management and Budget reported that the administration was considering the three-month delay this year. It would cost the average beneficiary about \$111 in 1981, according to the Social Security Administration.

Mr. Schweiker said the Reagan administration does intend to move for a three-month delay of the benefit increase set for July 1982. This recommendation is part of the massive Social Security cuts the administration proposed earlier this month. (BI, May 18).

Library relocated

The President's Commission on Pension Policy's library will have a new home now that the commission has disbanded.

The library, which was established in January 1979 to meet the research and policy needs of the commission, will be transferred to the Office of Administration, Executive Office of the President.

The collection will be housed in the EOP Information Center, Room G102 of the New Executive Office Building, 726 Jackson Place.

The Information Center is open to the public between 10 a.m. and 4 p.m. on weekdays.

The library has 1,500 volumes and 100 subscriptions to periodicals and business services covering private and public pensions, Social Security, disability and other retirement issues.

Mandatory pensions

Congress should veer away from proposals for mandatory private pension plans for all employers, an industry expert says.

Mandatory pensions would result in financial hardships for some employers, said Frank David, vp and associate actuary with the Prudential Insurance Co.

Speaking on behalf of the American Council of Life Insurance before a Senate Finance subcommittee, Mr. David warned that employers might have to cut back on other employee benefits if pension plans were mandated.

Mr. David urged the Subcommittee on Savings, Pensions and Investment Policy to pass legislation that would allow employees to receive tax deductions for their contributions to employer sponsored pension plans.

The subcommittee is considering legislation, S. 243, introduced by Sen. John Chafee, R-R.I., that would allow an employee to deduct up to \$2,000 annually from income taxes for contributions made to a group pension plan.

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Market may delay exchange's debut

LONDON—If the underwriting cycle is still depressed, the Insurance Exchange of the Americas may not open in the fall of 1982 as planned. This is the prediction of Alan Teale, who will become chief executive officer of the Insurance Exchange of the Americas in Florida on June 1.

The green light will shine, however, if sanity returns to the insurance industry, as Mr. Teale says he expects.

He says he is convinced that there will be room next year for the Florida exchange to stand alongside the New York Insurance Exchange, and another exchange being set up in Illinois.

"The latter part of the '80s will

see enough demand for excess and surplus lines to support no less than six exchanges in the United States," says Mr. Teale, former secretary of the British Insurance Brokers Assn.

But before leaving for Miami, Mr. Teale has been trying to raise the interest of London brokers in the Florida market. At least 30 London and Lloyd's brokers are looking for a "positive role" in the Florida exchange, Mr. Teale points out.

Broker members of the new exchange will have to be licensed Florida insurance agents and pay an initiation fee of \$5,000. Associated brokers will only be permitted to place insurance through a broker member and will be limited to direct business only.

If the exchange has a successful start, there could be 40 to 50 syndicates with an underwriting capacity of \$500 million by the end of the first year of operation, Mr. Teale says.

But he says it is more likely that 20 syndicates will be operating with a minimum capitalization of \$3 million and thereafter maintaining a policyholder surplus of \$2 million.

The syndicates, however, will be allowed to write a maximum of eight times their capital. This is likely to be voluntarily restrained to a 4-1 ratio during the early years of operation.

Thus there would be an average underwriting capacity of \$250 million during the first year, Mr. Teale says. But he says its likely only \$60 million will be written in the first year, based on past exchange experiences.

Specialist underwriting agencies are to be set up for syndicate services, which will be composed of both corporations and wealthy individuals. Four British underwriters have so far indicated a commitment, he says.

No decision has been made yet on whether broking members could also be underwriters, a controversy now brewing in the oldest exchange, Lloyd's of London. But Mr. Teale says he favors separation.

Florida is not a soft market with hints of organized-crime involvement, Mr. Teale says. He sees Miami as the business crossroads of the Western Hemisphere with more than 50 international banks available to back the new venture.

"Local exchanges cut costs, bringing the strength of insurers together under one roof," he says.

Florida's legislative and tax climate—or rather lack of them—also attracted Mr. Teale, who was first approached for the new post in December. Exchange business will not be subject to any state or local taxes other than premium tax.

But self-regulation will be strict, like the British fraternity in which he had worked, Mr. Teale says, meaning a minimum of legislative involvement and interference. The role of the Florida's insurance commissioner will be restricted to watchdog duties, he says.

The exchange's board will include Dana Roehrig, chairman of the board and licensed state insurer; local attorney Stephen Arky; former Florida Gov. Farris Bryant, owner of Voyager Insurance; Fred Karl of the Florida Insurance Agents Assn.; Nick Cross, manager of the Miami branch of Lloyd's Bank International; Bill Poe, a Tampa insurance broker; and Allan McCorkel of Fortune Insurance Group in Jacksonville.

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Employers fear standard retirement age

By STACY SHAPIRO

LONDON—A new European Economic Community pension fund organization will fight for sex discrimination, its chairman says.

The EEC is examining a directive to eliminate differences in the retirement age between men and women employees. If it is passed, companies in the 10 Common Market countries would have to adjust their pension plans to accommodate the new age limit.

Government pension plans, however, would not be affected because the commission has no direct authority over governments.

The result for British and Belgian employers—where retirement ages are different for men and women—could be chaos.

"For us it would be disastrous,"

london line

said Maurice Oldfield, chairman of the National Assn. of Pension Funds, at a London conference.

Female employees in Britain retire at 60, while men work until 65. Employer contributions to pensions are adjusted accordingly. If the ages were changed, then the contributions might change. But employer contributions for federal plans, which are part of the company plans, would stay the same.

Therefore, two sets of retirement ages would be used to adjust employers' contributions to pensions.

This is just one of the issues the new European Federation for Retirement Provision will be looking at in the future, said Mr. Oldfield,

who is the new agency's chairman.

The first conference of the EFRP, set for September, will focus on the interchange of ideas from different European pension programs, says Henry James, director general of the National Assn. of Pension Funds. The organization also will discuss how to transfer employee pensions from companies in different countries.

The EFRP, which came into existence March 31, consists of 10 delegates from five countries plus observers from France.

"Our principal aim is to be the automatic focus point for any perspective (pension) directives," Mr. Oldfield said.

The organization will look into any new EEC directives, including those that have to do with pension fund investment.

Dental plan

A dental insurance policy is now being offered to private and corporate buyers of the Private Patients Plan, the second largest medical insurer in the United Kingdom.

After one oral examination each year, Dentalplan will pay for 75% of the costs up to 500 pounds per year for other examinations, said Rod Fisher, marketing services manager for PPP.

But those 500 pounds have to cover other amenities as well, he says. It pays for 70% of orthodontics and only 15% of other items such as cleaning teeth and X-rays.

Overseas subscribers can also take advantage of the plan for emergency treatment, says Mr. Fisher. Dentalplan will pick up 75% of the cost, up to 150 pounds.

Dentalplan's biggest competitor, however, is the British government, which offers all British residents dental service under the National Health Service for a nominal fee. A wisdom tooth extraction can cost as little as \$1 under the NHS.

"It's a question of having a good dentist under the National Health Service," Mr. Fisher said. "My dentist is good and it doesn't cost me much at all."

The policy, however, is designed to assist those employees who haven't had good service under the NHS or whose dentists have moved into private practice.

"It's geared to the private patient going to the dentist. That's why we've set up the scheme. More and more dentists are going out of the National Health Service and into private practice," he said.

It will be up to the company to decide how to split the premium cost between employer and staff, Mr. Fisher said.

But the premium—whoever pays—will be 47 pounds per employee, 43 pounds per spouse and 25 pounds per child.

Brokered by Burgoyne Alford and PPP, the plan will be largely underwritten by Lloyd's of London's syndicates specializing in dental insurance.

Bowring changes

C.T. Bowring Co. Ltd. has gone through many changes since Marsh & McLennan Inc. took it over. Now the Lloyd's brokerage announces a restructuring of its insurance and reinsurance broking activities, to be completed by July 1.

Bowring is "creating an organization more clearly reflecting the needs of its clients and providing a continuing improvement in service to them," the company said.

Three new companies will be formed to handle different branches of broking: C.T. Bowring (U.K.) Ltd., C.T. Bowring & Co. (Insurance) Ltd. and, subject to approval of the name by the Department of Trade, C.T. Bowring & Co. (Reinsurance) Ltd.

Airport liability

The British Airport Authority cannot force airlines to pay for damages brought against the authority, a high court judge has ruled.

The authority, which operates seven airports including Heathrow, brought a "friendly action" against British Airways and 78 other airlines to test their conditions of use.

The BAA's rule that airlines indemnify the airports for any loss or damage on the premises is unlawful, the judge said. No other airport authority requires their users to do so, he said.

Forcing airlines to pay for damage claims against an airport authority overrides the Warsaw Convention, which allows an airline to prove its negligence, said a British Airways attorney.

"BAA doesn't have the authority to alter the statutory defenses of the air carrier," said the British Airways attorney. "If BAA is held liable, they will not be able to recover from the airlines."

However, the court ruled that BAA is not liable for loss or damage to aircraft unless the authority knew that damage would or could occur before the act. Airlines are also responsible for any damages while aircraft are taking off or landing.

The BAA is expected to appeal. ■

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Entries will be judged for creativity and effectiveness in five categories: booklets, personalized correspondence, audiovisual presentations, special projects and total communications program.

First-, second- and third-place awards will be presented at the *Business Insurance* Employee Benefits Communications Conference in Chicago Nov. 16 and 17.

Last year, 139 entries were received. Twenty-seven employee benefit consultants who helped prepare programs for their clients were represented in the contest.

Miller Brewing Co. of Milwaukee won first place in last year's contest in the total communication program division. Baxter Travenol Laboratories Inc. of Deerfield, Ill., won first place in the booklets competition.

The audiovisual winner was Northern Natural Gas of Omaha, Neb.; American Can Co. of Greenwich, Conn., took first-place honors in the personalized correspondence division. And S.C. Johnson and Son Inc. of Racine, Wis., won first place in the special projects competition.

Judges are needed for this year's contest. Directors of corporate communications, public relations people and employee benefits managers are invited to apply.

Judges for the 1980 competition were Mary Beth Gibbons, benefit analyst for Monroe, The Calculator Co.; James M. Franklin, vp of finance and administration at Crain Communications Inc.; Thomas D. Meisner, benefit planning consultant for Merrill Lynch, Pierce, Fenner & Smith Inc.; George Tuccio, partner and co-founder of Weltman Augay advertising agency.

Also Barabara A. Bauer, director of corporate communication for American International Group; Margaret M. Gagliardi, vp of employee benefits/U.S. at American Express Co.; Jane E. Sayers, manager of domestic benefit policy, communications and training for Mobil Oil Co.; Susan Jacobs, manager of employee communications at North American Phillips Co.; Robert J. Davis Jr., personnel director of the Bergen Evening Record Corp.

And Kenneth H. Rabin, associate professor of public relations at American University; George W. Wallace, director of trade relations and merchandising for Reader's Digest; Paul E. Wish, head of corporate communications for the Atlantic Cos.; Robert Rickner, specialist in advertising and sales promotion for Chubb Group Insurance

NAIB names staff

The National Assn. of Insurance Brokers has consolidated its Washington offices and named a staff. Donald L. Jordan is the executive director and Robert P. Jursch is the director of operations. The office is at 311 First St. N.W., Suite 700, Washington, D.C. 20001.

Co.; and David Bart, manager of employee benefits for Avon Products.

Entries for the 1981 competition will be accepted July 1 through Aug. 15. For information about the contest or to become a judge, contact Ronnie I. Drachman, director of communications, *Business Insurance*, 220 E. 42nd St., New York, N.Y. 10017; 212-210-0100.

For information about the Employee Benefits Communication Conference, contact Crain Educational Division, 740 Rush St., Chicago, Ill. 60611; 800-621-6877. ■



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Continental opens Peking liaison office

The Continental Corp. has opened a liaison office in Peking.

Authorized by the People's Bank of China last December, Continental is one of only three foreign insurance companies licensed to operate a liaison office in the People's Republic of China.

The office will represent the corporation's subsidiaries—The Continental Insurance Cos., Marine Office of America Corp. and Continental Reinsurance Corp.—in insurance and reinsurance transactions with the People's Insurance Co. of China.

The Peking office also will service international accounts of Continental and its affiliated companies.

Donald J. McGraw will head the new office as resident representative. He formerly was interna-

markets

tional representative at Continental's Columbus, Ohio, branch.

Treaty reinsurance

Lawrence C. Magnant Jr. is operating a treaty reinsurance company, Magnant Reinsurance Intermediaries Inc.

The new company has offices in Stamford, Conn., and Jericho, N.Y. Mr. Magnant formerly was senior vp of John F. Sullivan Co., a treaty reinsurance company in Seattle, Wash.

Risk consulting

Robert W. Lazarus has estab-

lished an independent risk management consulting firm, Robert W. Lazarus & Associates, in Dallas. The company will offer counseling and other services in risk and insurance management.

Joins exchange

Andrew Edwards & Co. and Gordon Werner have joined the New York Insurance Exchange as associate brokers.

Broker members Hammond & Regine Inc., Thomas E. Leeds Co. and Weisman & Weisman Inc. have changed their status to associate brokers, and associate broker Bell Nicholson Henderson (USA)

Inc. has become a full broker member.

Associate brokers pay lower fees to belong to the exchange, do not have voting privileges and can only place business on behalf of their own accounts.

Another broker member, Wohlreich & Anderson Ltd., has changed its name to Alexander Howden Services Inc.

Loss prevention

The Process Safety Group is offering a variety of specialized loss-prevention services for complex industrial facilities including oil, chemical and petrochemical risks.

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neering firms, insurance consultants and insurance brokers.

Among the other services are loss estimate studies, unconfined vapor cloud estimates and analysis, area classification reviews, relief and blowdown surveys, boiler and machinery risk evaluations and documentation of process safety features of existing facilities.

The Process Safety Group is located at 1743 Bay Blvd., Point Pleasant, N.J. 08742; 212-483-0635 or 201-295-4121.

New headquarters

The Continental Corp. has opened its new property/casualty division headquarters in Piscataway, N.J. at 2 Corporate Plaza South.

The opening of the new headquarters was marked by an open house on May 8. Senior corporate officials, including Continental Chairman John B. Ricker Jr., attended.

Bond protection

Rosenthal & Co. and Collins Commodities Inc. have signed an agreement with General Financial Insurance Corp., making Rosenthal and Collins the first brokers to offer segregated fund bond protection to its customers.

The segregated fund bond may be purchased by commodity customers from their clearing broker to insure the value of the cash, securities or other properties held in segregated funds.

Segregated funds bonds do not protect customers against losses resulting from market risk or business risk loss.

In addition to Rosenthal and Collins, representatives from both Goodman-Manaster & Co. and Miller-Jesser Inc. have signed with General Financial to offer the bond.

Segregated fund bonds are available for up to \$50,000 of coverage.

U.S. home office

Confederation Life Insurance Co. of Toronto will open a home office in the United States to administer business in this country and the Caribbean.

The company is licensed in all 50 states, the District of Columbia and Puerto Rico. The new office, to be located in Atlanta, will employ about 250 people.

Acquisitions

Corroon and Black Corp. has acquired Flenniken Insurance Services Inc., an insurance brokerage and agency in Knoxville, Tenn.

Charles M. Griffith Inc. in Chicago has acquired the insurance firm of R. A. Napier & Co. of Clarendon, Ill.

New offices

Miller & Gilbert Inc., claims adjusters, has opened a new office at 12600 S.E. 38th St., Suite 200, Bellevue, Wash. 98006; 206-643-7400. Charles M. Darrow, an attorney, will manage the office that will serve the states of Washington and Oregon.

IWest Insurance Managers Inc. has moved its Orange County, Calif., office to 4440 Von Karman St., Suite 390, Newport Beach, Calif. 92660; 714-851-5982.

Sayre & Toso Inc. has opened an office at 55 Morris Ave., Springfield, N.J. 07081; 201-376-2871.

Railroad Insurance Brokers Inc., INA's new surplus lines brokerage, is headquartered at 3807 Wilshire Blvd., Los Angeles, Calif. 90010.

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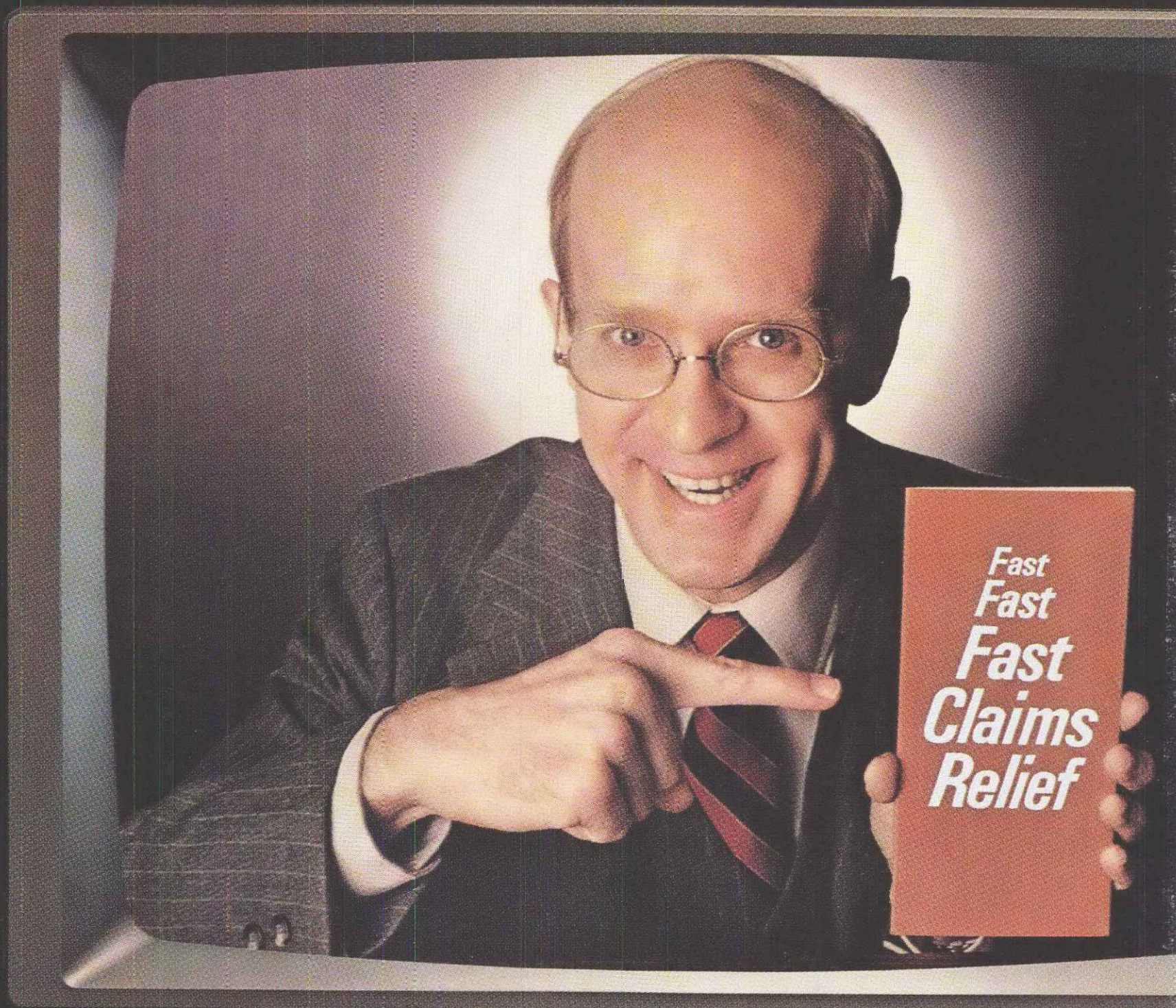
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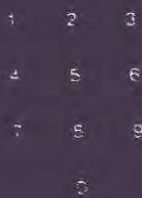
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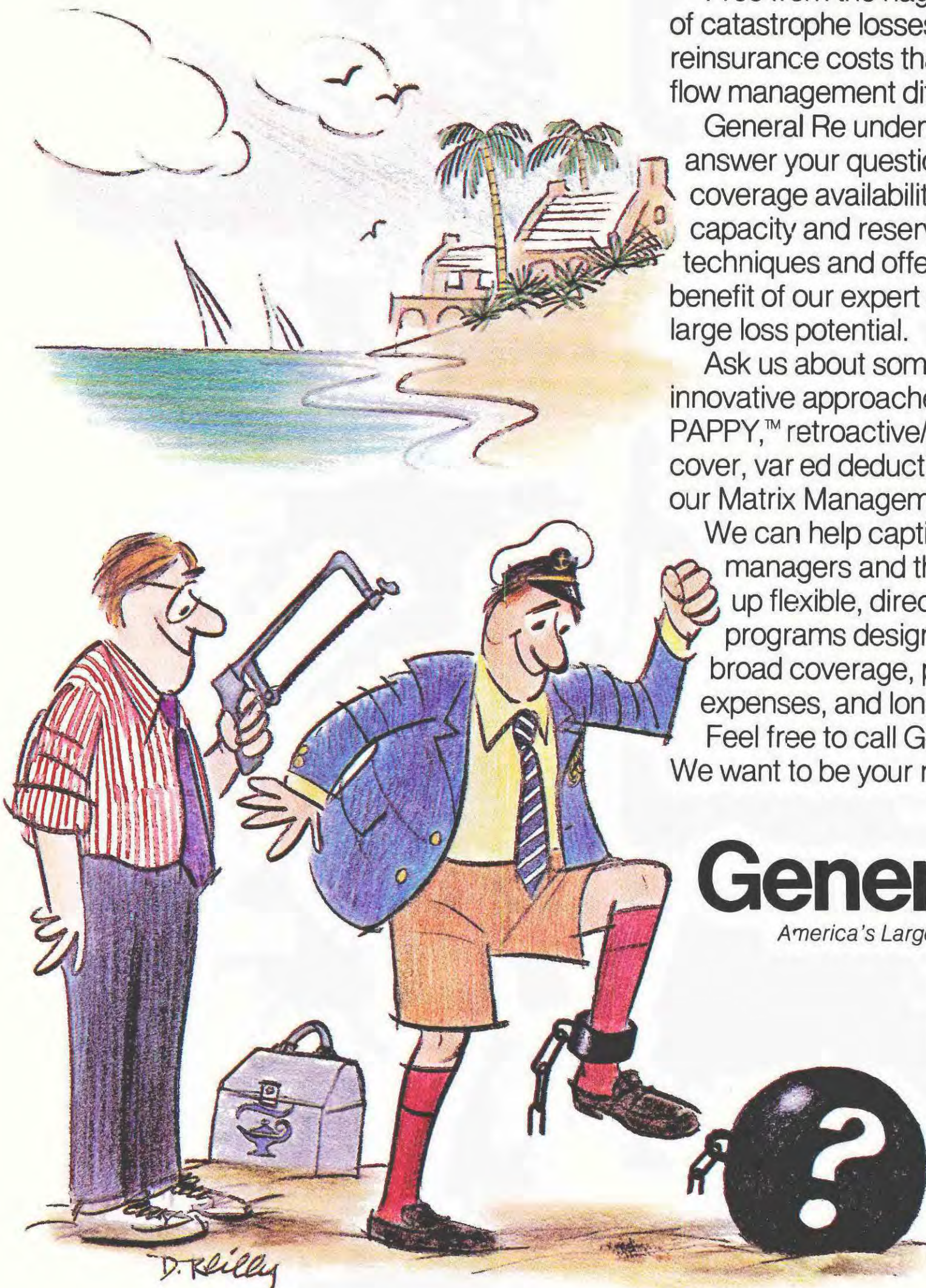
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perspective

Maritime industry seeks benefit relief

By Lawrence P. Postol

EVER SINCE the 1972 amendments to the Longshoremen and Harbor Workers' Compensation Act, maritime employees have received generous compensation benefits that have been detrimental to the competitive position of the U.S. maritime industry.

This has come about from the expansive nature of the amendments as well as their liberal construction by the courts. Recent events indicate, however, that the tide may be turning both in the courts and, more importantly, in Congress.

In *Potomac Electric Power Co. vs. Director* (Dec. 15, 1980), the U.S. Supreme Court broke with past liberal interpretations of the act and provided a conservative and restrictive reading.

At issue was whether an injured worker could recover compensation in excess of the act's schedule of benefits when the worker's injury caused a wage-earning capacity loss greater than the scheduled benefit. For example, for a loss of a leg, the act provides for 288 weeks of compensation whereas the loss of a leg in a particular case may cause a loss of salary ex-

ceeding the scheduled benefit.

The Supreme Court noted its past statements on the act must be "construed in light of its humanitarian objections." The court went on to state, however, that the act was also designed to protect employers by providing a certain, predictable level of liability. It noted that "like most workers compensation legislation, the act represents a compromise between competing interests of disabled laborers and their employers."

The court thus held that, except for totally disabled workers, employees who sustained an injury within the scope of the schedule of benefits are limited to that schedule in the amount of compensation they may recover.

It is difficult to determine whether this decision will provide a new trend of conservative interpretations of the act. In any case, the decision is helpful in that the high court recognized that the act was designed to protect not only employees, but also employers.

In particular, employers' liability for scheduled injuries is limited to the scheduled benefits unless total disability can be shown. This, of course, puts a premium on hiring a vocational expert to demonstrate that an injured employee has some residual earning capacity and thus is limited by the schedule.

More important than the Supreme Court decision is a recently proposed bill to amend the act. Rep. John Erlenborn, R-Ill., introduced sweeping legislation in January that would eliminate many of the

act's provisions that have proved so troublesome to employers.

Its highlights:

- The bill greatly reduces the coverage of the act. Not only would the scope of the act be essentially confined to the water's edge, but very conservative definitions of longshoremen and shipbuilders would be enacted. For example, a shipbuilder is defined as an employee who works on navigable water or a floating dry dock. Thus, an employee who works on new construction, which normally will take place in a building, will not be covered until the ship is launched. Similarly, only those injured seaward of the initial shoreside point of rest of cargo are covered.

- The bill increases the burden on employees to demonstrate that they are entitled to compensation. The presumption that an injury is work-related would be eliminated. In addition, if an employee does not notify his employer within 30 days of a work-related injury, the claim would be barred unless the employer has actual knowledge of the injury and knows that it is work-related.

Vocational rehabilitation would be mandatory and actual wages, including sheltered employment, are conclusive evidence of a wage-earning capacity. Thus, an employee suffering no actual loss of wages cannot be compensated.

Finally, an employee would be judged permanently and totally disabled only if he can prove "by substantial evidence" inability to work.

The bill also restricts the amount of compensation employees can recover. Compensation would be provided for up to 80% of after-tax earnings. Moreover, any award would be reduced by Social Security disability and pension benefits.

In addition, temporary total and permanent partial compensation would only be received up until the employee reaches the normal industry retirement age. Death benefits would only be provided for employees whose death is caused by a work-related injury, and such claims would be settled.

Finally, the cost-of-living increases under the act would be limited to 3% per year.

The bill restructures the administration of claims under the act. Power to investigate claims would be restricted to presentation of evidence, and the claims commission would be required to recommend disposition of the case within 180 days. Disputes would be referred to administrative law judges who would be directly under the authority of the benefits review board. The judges would have to render a decision within 30 days of a hearing.

The board members would be appointed by the president for six-year terms and the secretary of labor would be permitted to participate in all proceedings. An advisory committee would be formed to review the administration of the act.

These changes are clearly designed to eliminate the long delays that presently exist under the act.



Lawrence P. Postol is an attorney in the Washington, D.C., law firm of Seyfarth, Shaw, Fairweather & Geraldson.



Photo: BEI Services Inc.



Photo: Connecticut General

perspective

Surviving the '80s

Brokers change with the times

By Irv C. Keightly Jr.

THE OPTIMIST'S APPROACH to survival in the '80s is to innovate. This is true not only from the company standpoint but also for brokers. Those who do not adapt to changing times will not be able to keep pace with rapid changes.

One must examine what is taking place today to examine the future. As we are well aware, the insurance industry is in the midst of a cash-flow underwriting cycle, and although 1980 underwriting results were disastrous, profitability still exists through investment income. Just how profitable these results will be in the mid-1980s, when the inadequacy of rates, IBNR and the development of claims takes their toll, remains to be seen.

Although a dramatic change in the cycle is not expected in the near future, we are witnessing the formation of many interesting concepts.

Countless companies have created new facilities to become profit centers for the handling of risks labeled as national accounts, associations, program and specialty accounts. These ventures are geared to provide claims-handling and loss-control services and related statistical data units, which are supported by the latest electronic systems.

There are many options that include groups of risks for which protection is provided from the ground up or by use of moderate deductibles, self-insurance retentions at various levels, reinsurance placements in conjunction with captive formations and, in some cases, pooling arrangements.

What is needed is the creation of a totally functional unit composed of risk identification and management, marketing, underwriting, loss control, claims handling and actuarial and statistical analysis through data processing.

The purpose is to make this unit innovative, flexible and immediately responsive to the needs of the marketplace.



Irv C. Keightly Jr. is president of Program Research and Management Corp. in Princeton, N.J.

Consultants are now active in this field, identifying the unique characteristics of an association or other body and assessing whether its insurance objectives can be served best by their risk management and research facilities.

They first will analyze the prospective program, association or group concept from a detailed underwriting approach. After historical data is accumulated and all exposures are evaluated, alternatives from the underwriting, market placement and financial aspects are explored.

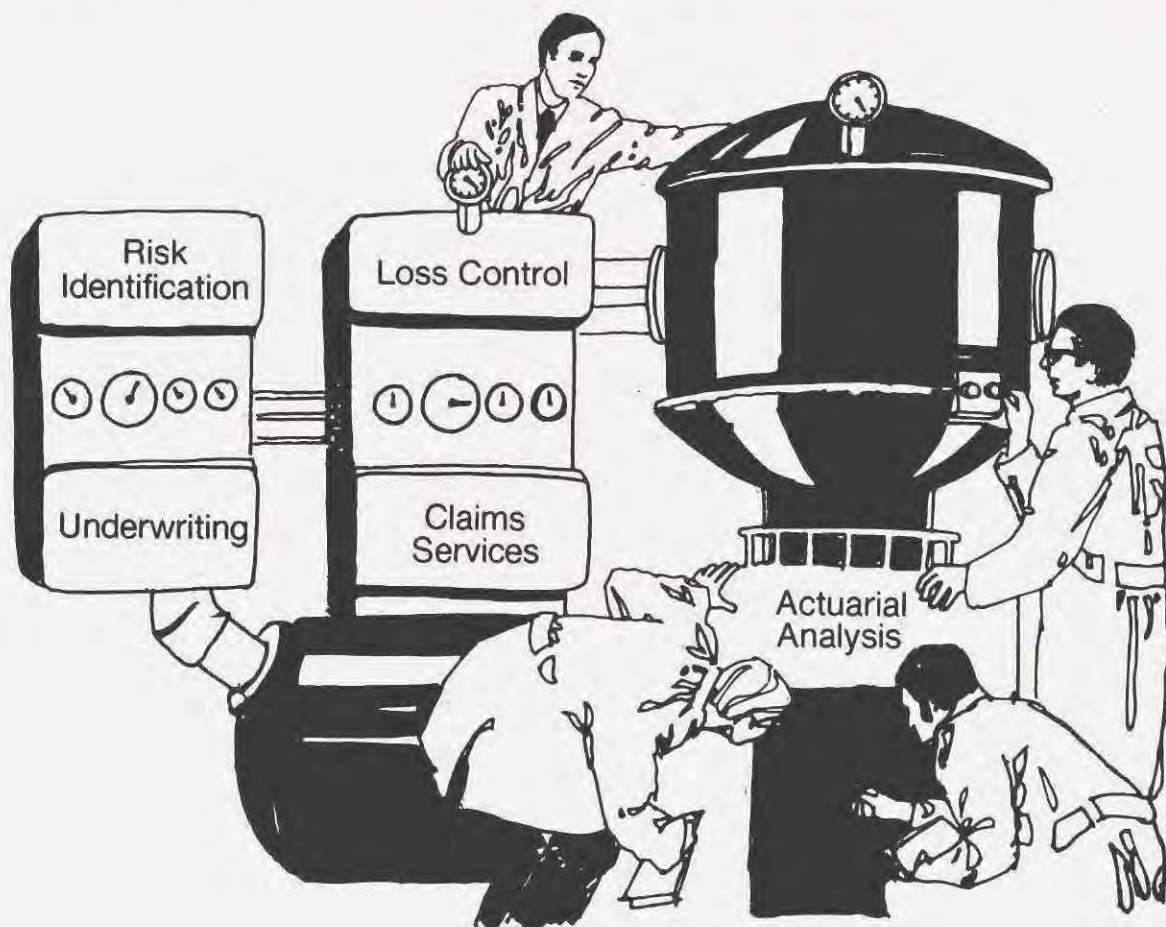
Before seeking a market, many factors are weighed in determining the direction:

- Is the risk suited best for a primary or excess program?
- If primary, should the requirement be an admitted or non-admitted market?
- With the implementation of an effective claims-handling service along with an ongoing loss-control program, can the prospect, from a financial viewpoint, become a viable risk bearer by virtue of a self-insured retention or a deductible?

Once these questions are analyzed, researched and answered, the direction has been determined. The selection of markets is attuned to the need of the program, regulatory filings, company facilities and availability of services. Another major point is determining the needed capacity and arranging for the placement of reinsurance where required.

In keeping up with the times it is necessary for the innovative producer to be versed in marketing, underwriting, administration, risk management, reinsurance, captive planning and the recording and transfer of data. Because of this diversity of roles and the complexity of requirements, the relationship between brokers, companies and consultants will become stronger and more closely knit than ever before.

It is a prospect to which insurance people may look with keen expectation as a challenge to our industry. Yet it should be considered as a concept that complements the existing roles in the marketplace as a sensible and responsive adjunct to the total science of risk research, analysis and program management. ■



Do liability policies cover punitive damages?

DOES A PERSONAL injury liability insurance policy indemnifying a company for "all sums which the insured might become legally obligated to pay" include coverage for punitive damages? The Oklahoma Supreme Court ruled the policy did provide the coverage, but that such coverage was contrary to state law.

The policy was issued to a company by American Mutual Liability Insurance Co. The company was sued by a customer for actual and punitive damages for her false arrest by a company agent. American refused to pay the punitive damages. The company paid them and sued to recover the amount of the damages from American. A federal court asked the Oklahoma Supreme Court to clarify the state law.

The court agreed that the policy language provided broad coverage including

legal briefs

punitive damages. However, the court said that public policy prohibited an insurance company from absorbing punitive damages that are to serve as a punishment.

But, the court also said that most courts waive such policy when liability is imposed strictly on an employer for an employee error. *Dayton-Hudson Corp. vs. American Mutual Liability Insurance Co.*, Supreme Court of Oklahoma, Dec. 23, 1980 (BI/01/Ju.-\$5)

Business interruption

A federal appellate court said "external causes" in a business interruption policy excluded three types of losses from cover-

age: those resulting from owner's negligence, normal wear and tear and internal deterioration of the insured property.

A corporation sought compensation for business interruption and property damages under an all-risks policy issued by American Home Assurance Co. The policy required loss to occur from an external cause, but excluded coverage from errors in design, unless there was a collapse of the property or some part of it.

The company operated an ammonia production plant that involved a chemical reaction process that occurred in a series of large connected structures. On Dec. 7, 1972, a collapse in the refractory lining of one unit caused a breakdown and rupture of steel piping. The plant was closed until Dec. 21 and operated at a reduced rate until March 14, 1973. American Home

denied coverage and the company sued, recovering a judgment of \$500,000.

One key issue on appeal was whether the design errors here were externally caused as required by the all-risks insurance policy. The court said they were because the loss resulted neither from the negligence of the owner nor wholly as a result of normal wear and tear. *N-Ren Corp. vs. American Home Assurance Co.*, U.S. Court of Appeals for the 8th Circuit, May 1, 1980 (BI/03/D.-\$5).

These abstracts were prepared by Cases Unlimited Inc. Copies of entire decisions can be obtained by sending a check for \$5 made out to Cases Unlimited, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611. Please list the number for each opinion.

Molbeck named Blades president

John N. Molbeck Jr., 35, has been named the new president of The Blades Group of Cos. Robert Quinn, 57, who was president, has been named chairman following the death of Joseph H. Blades on April 25.

G.F. Burke, who was formerly vp at Blades, was named executive vp.

Other excess/surplus changes:

Ray Stocker appointed general manager of marketing, underwriting and claims at the Cambridge General Agency.

Peter A. Wilkens joined the New York office of the Swett and Crawford Group, a Los Angeles-based firm, as eastern regional manager.

comings & goings: industry

vp of William M. Mercer Inc.'s New York consulting office and Thomas A. Rowley named vp of the firm's New York region consulting office.

Reinsurers

Constitution Reinsurance Corp. in New York, appointed William F. Davis, Donald O. Meyer and Oystein Nasset as assistant corporate secretaries.

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Insurers

R.M. Trafton, president and chief executive officer of SAFECO Corp., Seattle, Wash., has been elected chairman of the board. He replaces retiring Chairman Gordon H. Sweany, who will continue as a director of the company and as chairman of its executive committee.

Bruce Maines, president of the SAFECO property/casualty companies, elected president and chief operating officer.

Agents/brokers

Donna B. Elste named director of pension services for Indianapolis Life Insurance Co.

David J. Sullivan appointed special accounts consultant for UniCare Insurance Co. in Irvine, Calif.

Robert Dockendorf named vp of the El Paso office of Penn General Agencies of Texas.



Sullivan

W. Dean Dingman elected vp of the New York Metropolitan region of the U.S. Insurance Group, which is headquartered in Morristown, N.J. Mr. Dingman previously served as the company's Philadelphia branch manager.

Edward W. Ebersole appointed assistant vp and loss-control special services executive at Fireman's Fund Insurance Cos. in San Francisco. George Ronald Wheeler joined Fireman's Fund as assistant vp and director of international insurance activities.

Wayne Davis joined Executive Life Insurance Co. in Beverly Hills, Calif., as annuity department manager.

Al Yavorski named staff superintendent for the inland marine division at Zurich-American Insurance Cos. in Schaumburg, Ill.

Other suppliers:

Danny L. Struble appointed managing principal of the Tulsa office of A.S. Hansen Inc.

E. Warren Bessler elected president and chief operating officer of St. Paul Risk Services Inc. in St. Paul, Minn.



Struble

J.V. (Jeff) White elected president of international business at Equifax Inc. in Atlanta. He had been executive vp. Edward D. DeVaney named vp and secretary.

Franklyn J. McGrath named

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Malpractice insurer very wary of trusts

JACKSONVILLE, Fla.—Five years ago, Florida responded to the medical malpractice insurance crisis by allowing doctors to form self-insured trusts without capital or surplus requirements.

Of the 10 trusts created, seven for physicians and three for hospitals, all but one are "alive and well," according to the head of the trust that converted into a reciprocal insurance company.

"We're very glad to be out," said Dr. James Walker, president of Physicians Insurance Management Co., the management company for the Florida Physicians Insurance Reciprocal, formerly Florida Medical Assn. Professional Liability Insurance Trust.

After a year as a trust, the medical association group converted into a reciprocal with \$4 million in capitalization. Today the company insures 6,500 doctors and has a surplus of \$6 million.

Dr. Walker is an outspoken critic of legislation enabling the establishment of trusts even though it was to the advantage of doctors during the last malpractice crisis.

When the backers of similar legislation in Texas contacted him, "I told them it was a terrible idea," Dr. Walker said. "It makes it look easy for anybody to get into the insurance business."

Dr. Walker objected to the assessability feature of trust legislation: If the company can't meet its claims, it has to assess the amount needed from its members.

"It was the assessability feature that converted us to a (non-assessable) reciprocal," he said.

Besides approving the malpractice trusts, the Florida Legislature passed other innovative laws. While some are proving to be more substantial solutions to the malpractice problem, others are likely to be nullified by the courts.

Florida is the first state with a recovery-of-cost bill that requires the loser in malpractice lawsuits to pay court costs. "We wanted it to apply to all tort actions," Dr. Walker said, "but the measure was amended to apply only to malpractice. Now it's only a matter of time till the courts challenge it."

Another malpractice-related law applies the same statute of limitations to lawsuits involving children as applies to adults, requiring an suit to be filed within four years of the event or discovery.

Florida's law requiring mediation panels for malpractice lawsuits was struck down and with it went a valuable cost savings for the state's malpractice insurers, Dr. Walker said.

The cost of a case heard by a mediation panel made up of a circuit court judge, an attorney and a doctor is about \$7,000, he said. A court trial for the same case would cost \$17,000 to \$18,000, he said.

"We saved \$1.96 million on cases heard by mediation panels and had 92% of the decisions in our favor."

Cost-cutting has been an important feature in the survival of the Florida Physicians Insurance Reciprocal. The management of PIMCO makes the company stand up to the tough competition it has from commercial underwriters.

"We run a staff of 52, including \$1 million in computer equipment, on 6.15% of our premium dollars, less than a commercial carrier would pay an agent as commission," Dr. Walker said.

The number of claims filed with PIMCO was down 8% for 1980, he said. "We're the only doctor-owned company I know that can say that," he added.

But, like other malpractice insurers, the Florida reciprocal sees the cost of individual claims rising, which required a 20% increase in rates in 1981. It was the first rate increase in the five-year history of the company.

"Although we've done very well in our investments, our emphasis has been on claims prevention," Dr. Walker said.

He uses the term medical claims prevention rather than risk management to differentiate the reciprocal's programs from those of commercial malpractice insurers.

"Their risk management programs are shallow," he said. "The commercial insurers don't want to solve the malpractice problem, they just want to insure it."

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Medical malpractice rates soar again

Continued from page 1

back on premium increase," said Rueben Dalbec, president of Southern California Physicians Insurance Exchange, which insures about 6,600 doctors in a seven-country area.

Responding to the increased cost of losses, the exchange recently increased rates 20% for its policyholders, the first increase in the five-year history of the company.

New insurance company capacity to underwrite medical malpractice insurance created by doctors forming their own insurance companies also maintains the market for doctors despite the huge losses. Doctor-owned companies underwrite about 42% of premiums for physicians, according to the American Medical Assn.

"There's little problem of capacity and availability in the market today," said Robert Westin, president of Physicians & Surgeons Insurance Exchange in Los Angeles, a 5-year-old company owned 50% by Fremont Indemnity Co.

Not immune

But even the doctor-owned insurers, which boast of specially tailored loss-control programs, aren't immune to bigger losses.

All insurers agree the rising cost of single claims is the strongest force driving up insurance rates.

That is what led to the 71% increase requested by Medical Liability Insurance Co., the New York doctor-owned insurance company, said John Fiori, vp of Donald Fager & Associates, manager of the physicians' captive insurance company.

"Our actuaries also were concerned about the projected cost of claims," Mr. Fiori said. "We're looking at projections that show a claim closed now at \$60,000 costing \$250,000 eight and a half years from now."

Norcal, a 5-year-old doctor-owned company that insures about 6,000 Northern California physicians, says an average 17.5% rate increase this year is caused by an increase in the cost of claims. "We write a claims-made policy and the increase in frequency we've experienced is pretty much on target for what we'd expected," said Mr. Menist, the company's president. "What we didn't expect was the increase in severity."

Norcal's \$82 million in reserves at the end of 1980 are sufficient to pay its losses, Mr. Menist said.

Even companies whose 1980 combined ratios show underwriting profits on medical malpractice insurance are afraid of the projected increases in claim costs.

Rising costs

The largest commercial malpractice insurer, The St. Paul Insurance Cos., ended 1980 with a 99.7% combined ratio for all medical malpractice. But the cost and number of claims against doctors are rising 15% a year, said Walt Marquis, St. Paul's senior underwriting officer for general casualty.

St. Paul's 1980 underwriting figures show physicians malpractice "in the red," Mr. Marquis said, "but the claims-made policy we write enables us to respond rapidly."

St. Paul is raising rates for physician's medical malpractice 15% to

20%.

The claims-made policy form was broadly introduced during the last malpractice insurance crisis when insurers said they couldn't adequately rate in one year the medical malpractice exposure extending years into the future under the occurrence policy form.

The claims-made form, which provides coverage for claims occurring during the policy period, allows insurers to match rates to the current risk exposure.

St. Paul now writes only claims-made policies, as do most of the doctor-owned malpractice insurance companies. A major exception is in New York where occurrence policies are mandated by state law.

Many say wide use of the claims-made insurance form masked the need for premium increases for the last five years. With age, this form costs as much as an occurrence form.

In the first few years a risk is written on a claims-made form, many of the reported claims are actually covered under previous occurrence-form policies, reducing the liability of the claims-made insurer. The rate charged reflects this reduced liability.

Generally the rate for the first year of coverage under a claims-made form is 30% of the rate needed to underwrite an occurrence form.

Now the claims-made insurance forms have been around long enough for losses to develop and the exposure to equal that under an occurrence form. Doctors who have been insured under the claims-made form for about five years and are being sued for accidents that occurred a few years ago only have coverage under the claims-made form. As the liability of the companies writing claims-made policies has grown, rate increases are needed, insurers say.

14.1% increase

Physicians & Surgeons Insurance Exchange raised rates 14.4% this year on its claims-made policies held by 4,500 doctors.

Mr. Westin described the increase as making up for reductions in 1977. "Now we're back to the same rates we charged in 1977-78 for second- and third-year policies," he said.

Five years ago legislative reforms also were touted as solutions to the malpractice crisis; today state supreme courts have rescinded or changed much of those reforms.

According to the American Medical Assn., state supreme courts have thrown out limits on awards in Illinois and North Dakota. Pretrial screening panels were banned in Florida, Illinois and Missouri. Limitations on physicians' individual liability were thrown out in Kentucky and North Dakota.

There have been some victories, too, the AMA says. Pretrial screening panels were declared constitutional in Arizona, Indiana, Massachusetts, Nebraska, Pennsylvania and Wisconsin. Limitations on overall awards were declared constitutional in Indiana and Nebraska.

Challenges to more definitive statutes of limitations were defeated in Delaware, Illinois, Indiana, Ohio, Tennessee and Utah.

Limitations on physicians' individual liability were upheld in Indiana, Nebraska and Wisconsin.

A. John Smither, president of the Pennsylvania Medical Society Liability Insurance Co. with 5,500 doctor policyholders, is very concerned about the erosion of medical malpractice reforms.

"I'm concerned there is still a trend from the courts and state legislatures to broaden the arena for plaintiffs' attorneys," Mr. Smither said. "Almost every legislature in the U.S. has bills pending right now that would increase the pressure on companies like us."

At Medical Liability Insurance Co. in New York, Mr. Fiori said, "Legislative relief is the only long-term solution to the malpractice problem."

"There was nothing optimistic

about the future of doctor-owned malpractice companies when they were formed five years ago. They were intended to be a stop-gap measure."

Others in the malpractice insurance industry would disagree.

"Doctors have probably learned more about insurance in the last five years than they ever wanted to know," said Dr. James Walker, president of Professional Insurance Management Co., the agency managing the Florida Medical Assn.'s malpractice captive. "And as a result they're probably better physicians for the experience."

The loss-prevention seminars given by most doctor-owned companies contribute to the prevention of malpractice claims, Dr. Walker said. "And as part of a physician-owned company, doctors have

much more input than they would being insured with a large multi-line company."

"The doctor-owned companies met the challenge during the last malpractice crisis," the AMA's Mr. Layton said. "They're here to stay."

So far, the reinsurance markets aren't reacting to the increased cost of malpractice losses. Of the 25 doctor-owned malpractice insurance companies started by state medical societies, 14 are reinsured through AMARCO, the AMA's reinsurance company started in 1966. AMARCO currently has a policyholder surplus of \$10 million.

Richard Layton, AMARCO president, described the reinsurance market for malpractice as "soft as can be. We're getting much better terms than in 1976," he said.

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business insurance

CPCU group holds workshop

The Indiana Chapter of The Society of Chartered Property & Casualty Underwriters will hold a workshop, "Analyzing Alternatives to First Dollar Coverage," on June 16.

The seminar will identify vari-

ous alternatives, including deductibles, retention levels, retrospective programs, self-insurance and cash-flow programs.

It will be at Stouffer's Indianapolis Inn. The fee is \$30. Contact James A. Roe at 317-547-9612.

Few brokers know cash flow: Insurer

By STEVE SHERWOOD

DALLAS—Chances are about 1 in 20 that the broker coming to call with an insurance proposal is competent in presenting the crucial cash-flow considerations, a Ranger Insurance Co. official says.

Too few brokers understand finance, and finance is what cash-flow technique is all about, said Ranger officials during a seminar they sponsored to teach brokers cash-flow concerns.

"Many agents and brokers feel they understand finance," said Lee Balkum, senior vp of Ranger's special risk division. "Some do, but the vast majority don't."

"Brokers tend to break down into three categories," Mr. Balkum said. "Those who know little of the financial aspects of cash flow and

money handling; those who have a basic understanding from handling their own investments—they can understand the concept but are not able to sit down and calculate the cost of a five-year cash-flow plan—and those who have already become involved in risk-funding arrangements."

Although reluctant to estimate how many brokers and agents fit into each category, he did say, in ballpark figures, that less than 5% are competent in the cash-flow area, 10% to 15% understand the concept and the balance have not been exposed to it.

Ranger's seminar, held May 13 in Dallas, was attended by 44 area agents and brokers accepting Ranger's invitation to learn about cash-flow insurance plans.

The five-hour seminar provided a primer on the programs: why they are the future trend, how and why they developed and an explanation of the essential element in determining the cost of a cash-flow plan, which is the value of money over time.

The expertise to analyze cash-flow plans will be needed even more in the future, Mr. Balkum said. He recalled the prediction that by 1984 captives and self-insurance plans will command 27% of the commercial insurance market, according to a Conning & Co. survey (BI, Dec. 15, 1980).

Another shake-up in the insurance market sending rates soaring and underwriters into hiding would also drive more would-be insurance buyers to form captives, self-insure and use cash-flow

plans, he predicted.

The thrust of the day's teaching seemed to center on this principle: If a cash-flow plan is the marriage of insurance and finance, then the bond is the time value of money.

When setting up a cash-flow plan for a risk, the only way to determine the true cost is to take this time element into consideration, the insurance specialists said.

"When you talk cash-flow programs, you're not talking insurance, you're talking risk finance," explained Chris Launey, market development manager for the special risk division.

Understanding the time value of money is essential: Today's money cannot be compared with money to be spent in the future without considering the interest today's money

could earn during the intervening years.

"To reflect the true cost of anything, you need to state that cost in today's value of money," Mr. Launey said. If a company wants to finance the expenditure of \$1 million in five years, it must discount the future payment to determine how much of today's money must be invested at a particular interest rate to end up with the \$1 million after five years.

Multiplying the \$1 million by a discount rate that takes into consideration the amount of interest the money is earning and the number of years it is accrued provides the answer.

Richard Beard, senior account manager, explained the different types of cash-flow programs and tied the insurance aspects to the financial.

"It is very crucial to a cash-flow demonstration that you can predict the future," he said. "Claims incurred this year will be paid out in future years." The analysis must predict when the claims will be paid. For example, it is often figured on five years, predicting losses of 30% paid in the first year, 20% paid in each of the next two years and 15% paid in each of the final two years.

Cash-flow programs were not suddenly born, Mr. Beard said. "From first-dollar coverage, the first evolution was to the deductible, which is now outdated," he said. Deductibles, which allow insureds to assume part of the risk, cut the insurance premium and produce cash flow.

More elaborate cash-flow programs evolved.

The traditional incurred-loss retrospective rating (retro) plan, in which the premium is adjusted to reflect losses, varies in cost from agreed-to percentage under the predicted losses to a percentage over the predicted losses. The plan assumes the policyholder believes there is a chance that losses will be kept to a minimum and the lower premium charged.

Under a paid-loss retro plan, the policyholder pays an administrative premium and signs a promissory note to the insurer for the amount of predicted losses incurred that year. This allows the policyholder to hold what would be loss reserves until the insurance company pays the claims.

The delayed full premium/loss payment gives the policyholder the use of the money until losses are paid.

The depressed pay-in retro plan, like the traditional retro, is based on incurred losses. But instead of paying the forecast premium, to be adjusted later as under a traditional retro, the policyholder pays a premium adjusted to anticipated losses and keeps the difference in hand. That's more immediate cash flow.

A compensating balance plan involves accounts held in the same bank by both the insurer and insured. The policyholder pays the insurance company a premium and the cost of incurred losses. The insurer then deposits the loss reserves in its own account with the stipulation that the policyholder's account be compensated for an equal amount. Policyholder money previously tied up in compensating balance requirements is freed for other use.

With all these techniques, the important thing is that money has been freed for the use of the insured, which can be invested to earn interest. This interest also can go to pay losses.

To illustrate the importance of cash-flow techniques, Mr. Beard

With hotels, casinos and marinas in Nevada, resort hotels in Arizona and California, and marinas in Arizona and Utah, Del E. Webb Corporation has assumed a top position in these leisure areas.

We are also heavily involved in real estate activities, principally with our resort-retirement communities near Phoenix, Arizona: Sun City and Sun City West.

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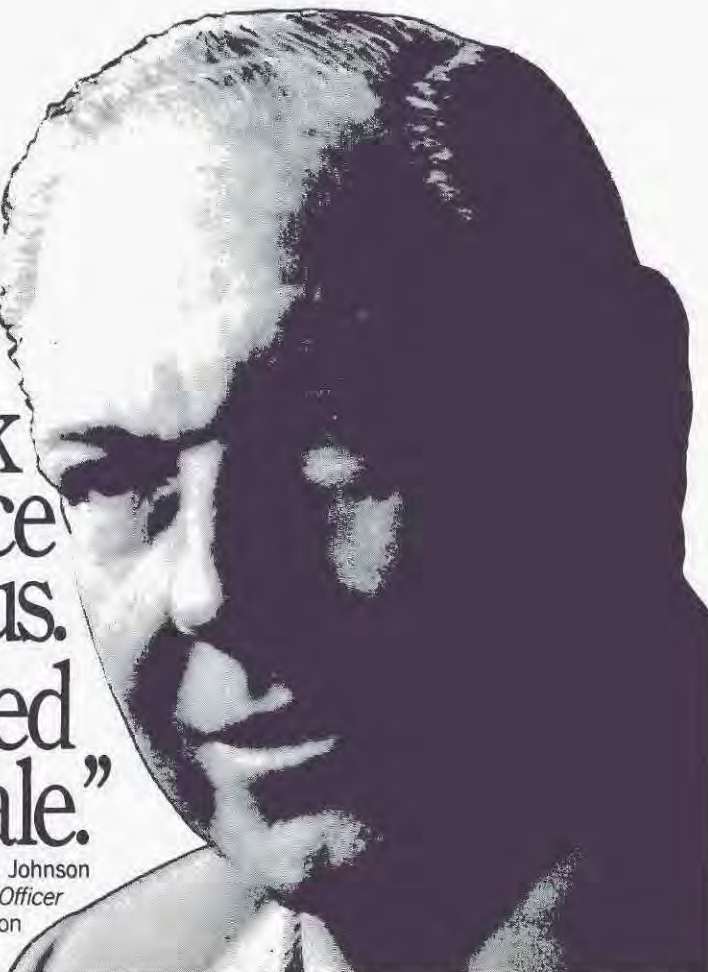
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"All Risk property insurance is important to us. We picked Allendale."

Robert H. Johnson
Chairman and Chief Executive Officer
Del E. Webb Corporation



staged what he called "a test for the best."

In the test, three hypothetical brokers were called upon to present the risk manager of a fictitious company with cost comparisons of each of the plans described above: the traditional incurred-loss retro; the paid-loss retro, the depressed pay-in retro and the compensating balance plan.

The company, called Launey Inc., paid an annual insurance premium of \$2 million and incurred annual losses of \$1.3 million. In figuring costs of the various plans the brokers considered a basic premium factor of 12.5%, a loss conversion factor of 10% and a state tax rate of 4%.

Broker A's proposal showed that he could undercut total costs to \$1.75 million under all plans except the paid-loss retro, which would cost slightly more due to letter of credit expenses of \$20,000.

Broker A did not include either

the premium tax credit or the time value of money in his calculations.

Broker B included Launey Inc.'s 46% tax credit and was able to discount the on-paper premium cost to \$943,000 for all plans other than the paid-loss retro, which once again was slightly higher because of credit costs. Broker B did not consider the time value of money.

Broker C did consider the time value of money as well as the tax aspects and presented the Launey Inc. risk manager with costs well below the other estimates.

With time value of money figured in, Broker C showed that under the traditional incurred-loss retro, the company would have to set aside \$869,000, by the depressed pay-in retro \$857,000, by the paid-loss retro \$695,000 and by the compensating balance plan \$686,000.

"If you were the risk manager, which broker would you choose?" Mr. Beard asked. "This was not a test for cash-flow plans, but a test for brokers."

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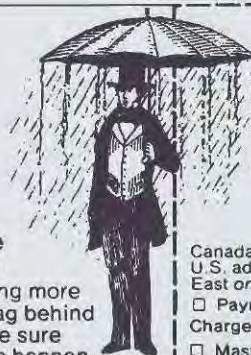
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TTE

Private firms pay \$57 billion for health care

WASHINGTON—Private health insurers paid \$57.3 billion in benefits in 1979, according to the Health Insurance Institute.

That was a 12.8% increase over the amount of benefits paid in 1978. The increase was due mainly to the rising cost of medical care, expansion of benefits and higher utilization, according to the 1980-81 edition of the Source Book of Health Insurance Data published by the institute.

More than 183 million Americans had some form of private health insurance in 1979, some 85% of the civilian, non-institutional population, the institute reports. Some 169 million people under the age of 65—nearly 90% of this age group—were covered by private health insurance, it says.

Also, 14 million, or 60%, of Americans over 65 had some type of private health insurance policy, the institute says.

More than 1,200 private insurance companies in the United States were writing individual and/or group health insurance policies at the end of 1979, covering more than 104 million people, the institute says. More than 86 million people belonged to a Blue Cross/Blue Shield or other medical society plan at the end of that year.

Private health insurers received \$66.1 billion in premiums in 1979, a 10.1% increase over the previous year, according to the institute. Americans spent the equivalent of 4.07% of their disposable income (income less personal taxes) for health insurance premiums in 1979, compared with 4.12% in 1978, the institute says.

Other statistics cited by the Source Book include:

- Some 84 million people, about 80% of the nation's civilian workers, had some form of disability income program.

- More than 70 million people were protected by dental insurance. They received more than \$2.8 billion in benefits.

- Some 236 health maintenance organizations with 9.2 million subscribers were operating in mid-1980, up from 33 HMOs with 3.6 million subscribers in 1971.

- As of July 1980 the national average daily cost for a semiprivate hospital room was \$134.49. The highest average rate was in the West at \$152.91 per day. The lowest rate was in the South at \$107.33 per day.

Single copies of the 1980-81 Source Book of Health Insurance Data are available for free from the Health Insurance Institute, 1850 K St. N.W., Washington, D.C. 20006.

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Ask Geri Pangaro.

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"Experienced administrators, flexible underwriting, competitive cost. That's what our clients look for. It's our job to be sure they get it."

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Basically, our job is to give behind-the-scenes support to the Sales and Service staff and our network of Associate Insurers to help keep our clients' programs running smoothly and efficiently.

HOW CAN YOUR TECHNICAL TEAM HELP IGP SALES AND SERVICE?

By providing specialized research and development. For example, take just two of the innovative products we've recently introduced to keep pace with clients' needs. Overall catastrophic coverage and limits on the charging of very large single claims. And small group pooling that offers multinationals economies of scale even while their pool is small.

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IGP administration is performed by a specialized international team that's geared to the intricacies of international programs. So we contribute an extra dimension of service that other networks cannot equal.

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In lots of ways. For one, we develop fast, accurate and in-depth data on plan performance. In fact, we are now expanding computer capabilities to monitor our programs even more closely. For another, we work

with our Associate Insurers to maintain our programs' cost effectiveness. A good example is the cost containment program we recently set up with an Associate Insurer. By applying sophisticated, U.S.-style claims control and approval procedures, we were able to help a client succeed in bringing their disability claims into line.

HOW DOES IGP HELP CLIENTS TRACK THEIR PROGRAMS' PERFORMANCE?

That's where we really excel. Take our comprehensive International Experience Report. It's broken down by country, subsidiary and coverage, and it tells the client exactly what's being spent overseas. But details alone aren't enough. The facts have to be timely so important decisions can be made and carried out. That's why IGP guarantees delivery of reports to the client within 90 days of the international year end...or we pay a penalty. Consistently delayed reporting can waste a lot of client money.

HOW WOULD YOU SUMMARIZE YOUR DIVISION'S CONTRIBUTION TO IGP?

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Boston, Massachusetts

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Computerized claims processing offered

Control Data Corp. has developed a new computer-based claims processing service designed to reduce claims costs and improve management of health insurance programs.

The service will be offered through the company's Dallas division, Systems Resources Co.

For more information contact Control Data Corp., Box O, Minneapolis, Minn. 55440; 612-853-3326.

Lock unveiled

Brammall Inc. has unveiled its newest transport security design, the Cone Bolt Loc. A third-generation version of the company's Bolt Loc, this new design combines a high tensile strength tapered pin and self-locking fastener that makes its virtually tamper-proof.

products & services

The pin of the Cone Bolt Loc is made of a cold-rolled grade of steel flexible enough to withstand bending and twisting without breaking off. For information contact Brammall Inc., 1100 Wohler St., Angola, Ind. 46703.

Surety bonds

MacCready & Gutmann Insurance Services Inc. has formed a new underwriting facility to provide surety bonds for workers compensation self-insurers.

Bonds are offered on a non-colateralized basis to approved self-insurers at competitive rates. Bonds will be issued by The Balboa

Insurance Co. The Balboa is a licensed surety company in 49 states.

For details contact MacCready & Gutmann, 220 Sansone St., San Francisco, Calif.; 415-738-0281.

Security system

A small, self-contained, computer-based life-safety and security monitoring system that is easy to operate has been developed by ADT, a leading supplier of electronic protection systems.

The CentraScan 1 system is the simplest and least-expensive model in ADT's computer-based systems product line. It can be installed as part of a new system or attached to

existing life-safety and security systems.

A microcomputer permits more precise alarm reporting and response in a wide range of commercial and industrial security applications including retail and general warehouses, light industrial buildings, institutions, banks, department stores and hospitals.

Contact ADT, One World Trade Center, 92nd Floor, New York, N.Y. 10048; 212-558-1100.

Hazard control

Boiler and machinery hazard-control service is now available from M & M Protection Consultants, a Marsh & McLennan Inc. technical service.

The new program includes a variety of services designed to mini-

mize hazards associated with boiler and machinery operations.

Contact Nolan Russell, Marsh & McLennan Inc., One Financial Plaza, Hartford, Conn. 06103; 203-278-1400.

Police liability

A new police liability package with broad terms is being offered to agents and brokers by IWest Insurance Managers.

Coverage for jailers, moonlighting policeman, dispatchers, clerks and others who work in police facilities is included.

The special coverage is available only to agents and brokers in Oregon and Washington. For information contact Robert A. Stahl, Box 4648, Portland, Ore. 97208; 503-641-1976.

Computer cover

American States Insurance Company has introduced a minicomputer policy that provides all-risk coverage on equipment up to \$250,000 at a single location. Hardware (data processing machines, word processors and minicomputers) will be insured on a replacement-cost basis and will be covered while in transit.

The new policy is designed to fill needs not met by package policies, which generally do not provide adequate coverage for minicomputer systems. For details contact American States Insurance Co., 500 N. Meridian St., Indianapolis, Ind. 46207.

Stop-loss

Bluewater Insurance Ltd. is writing personal stop-loss reinsurance for underwriting members of Lloyd's of London, covering account years beginning with 1981. This stop-loss reinsurance helps protect U.S. companies from exposure to unlimited liability from their syndicate participation.

Bluewater offers a three-year, non-cancelable policy that provides straight excess of loss coverage with indemnity in each case equal to 30% of the member's allocated premium excess of 110% of allocated premiums. During the policy period, the indemnity limit and excess point increases and decreases with any change in the reinsured's allocated premium limits.

In accordance with Lloyd's regulations, stop-loss reinsurance for the 1981 underwriting year must be in effect before June 30, 1981. The program is offered through Lloyd's underwriting agents in London or contact W. Stacy Branum, P.O. Box 624, Vienna, Va. 22180; 703-827-8260 for information.

Loss analysis

St. Paul Fire & Marine Insurance Co. is promoting a loss-analysis program as a free service for its business insurance policyholders.

The program, History of Insured Losses, provides individual and comprehensive loss reports to small or large businesses.

The system produces monthly reports, including a comparison of current-year losses with the last two years' experience, analysis of current losses by cause of loss and a brief description of individual losses. The reports also show the number of claims, amounts paid and the outstanding reserves, the company reports.

The reports are only available to St. Paul policyholders. For more information contact Reed Hildreth, The St. Paul Cos. Inc., 385 Washington St., St. Paul, Minn. 55102; 612-221-7173.

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SOCIETY OF CERTIFIED INSURANCE COUNSELORS

Reagan's plan could cost employers

Continued from page 1

America's major automakers.

Members of the United Auto Workers are covered under pension plans that allow a worker to collect a full benefit after 30 years of service.

A supplemental or bridge plan also is offered. This plan pays a second benefit to tide the worker over until Social Security benefits are paid at age 62. The supplemental benefit then stops.

If Social Security benefits are slashed for workers retiring before 65, the UAW might demand that the supplemental plan be extended until a worker reaches 65. That way a worker could wait until he or she reached 65 before accepting Social Security and avoid the early retirement penalty, said Janet Shepherd, a partner at Hewitt Associates in Lincolnshire, Ill.

A UAW spokesman said the union would demand extending the supplemental benefit to age 65 in the 1982 contract negotiations if the Reagan Social Security plan becomes law.

Collective bargaining

Bert Seidman, director of Social Security for the AFL-CIO, said that unions will try to fill the pension benefit gaps through collective bargaining. "We will negotiate to change pension plans," Mr. Seidman said.

While the administration proposal initially attracted support for its bold move to save Social Security from running out of cash next year, experts now are blasting the package as a quick fix that doesn't address Social Security's long-term problems.

Severe flaws

The plan has severe design flaws, Ms. Shepherd said. By slashing early retirement benefits for those retiring after Jan. 1, the Reagan plan could cause a "run on the bank." This will aggravate Social Security's immediate fiscal crisis as workers scramble to retire now to avoid the early retirement penalty in seven months.

To avoid a possible stampede to retire now, the administration should have phased in the penalty for early retirement. "The cutback is too sharp and too sudden," said Lloyd Kaye, vp at William M. Mercer in New York.

By slashing early retirement benefits, the administration wants to discourage workers from retiring before 65. By staying on the job, workers will continue to pay FICA payroll taxes, boosting Social Security revenues in the short term.

But experts say early retirement should not be discouraged now because room is needed in the workforce for employees born in the "baby boom" generation of the 1950s and 1960s.

What the administration should have done was propose a gradual increase in the Social Security retirement age from 65 to 68, consultants say.

A higher retirement age around the year 2000 will be needed as the workforce shrinks when the baby boom generation retires and the "baby bust" generation enters the workforce.

"I'm not sure we should be encouraging people to work later for the next five years (as President Reagan suggests)," said A. Haeworth Robertson, vp with William M. Mercer in Washington. "But we should encourage people to retire later starting in the next 25 years. There will be a need for workers to work longer then, not now."

The administration said it de-

cided to stick with 65 as the age at which a worker collects full Social Security retirement benefits because of a commitment that President Reagan made on the campaign trail.

Experts also assailed the administration's decision to remove the retirement earnings test that bars some older workers from receiving Social Security benefits.

Currently, a retiree under 72 who earns more than \$5,500 a year has his Social Security benefit reduced by \$1 for every \$2 in he

makes in salary.

Under the Reagan plan, the retirement earnings limit would be raised to \$10,000 in 1983, \$15,000 in 1984, \$20,000 in 1985. After 1985, the earnings limit would be eliminated.

The administration concedes the phase-out of the retirement earnings test would cost the Social Security system \$6.5 billion over the next three years.

"It's real fuzzy thinking," said Kenneth Keene, senior vp with Johnson & Higgins in New York.

"On the one hand, they are saying there is a big, big Social Security problem, yet they are proposing a big drain," Mr. Keene explained.

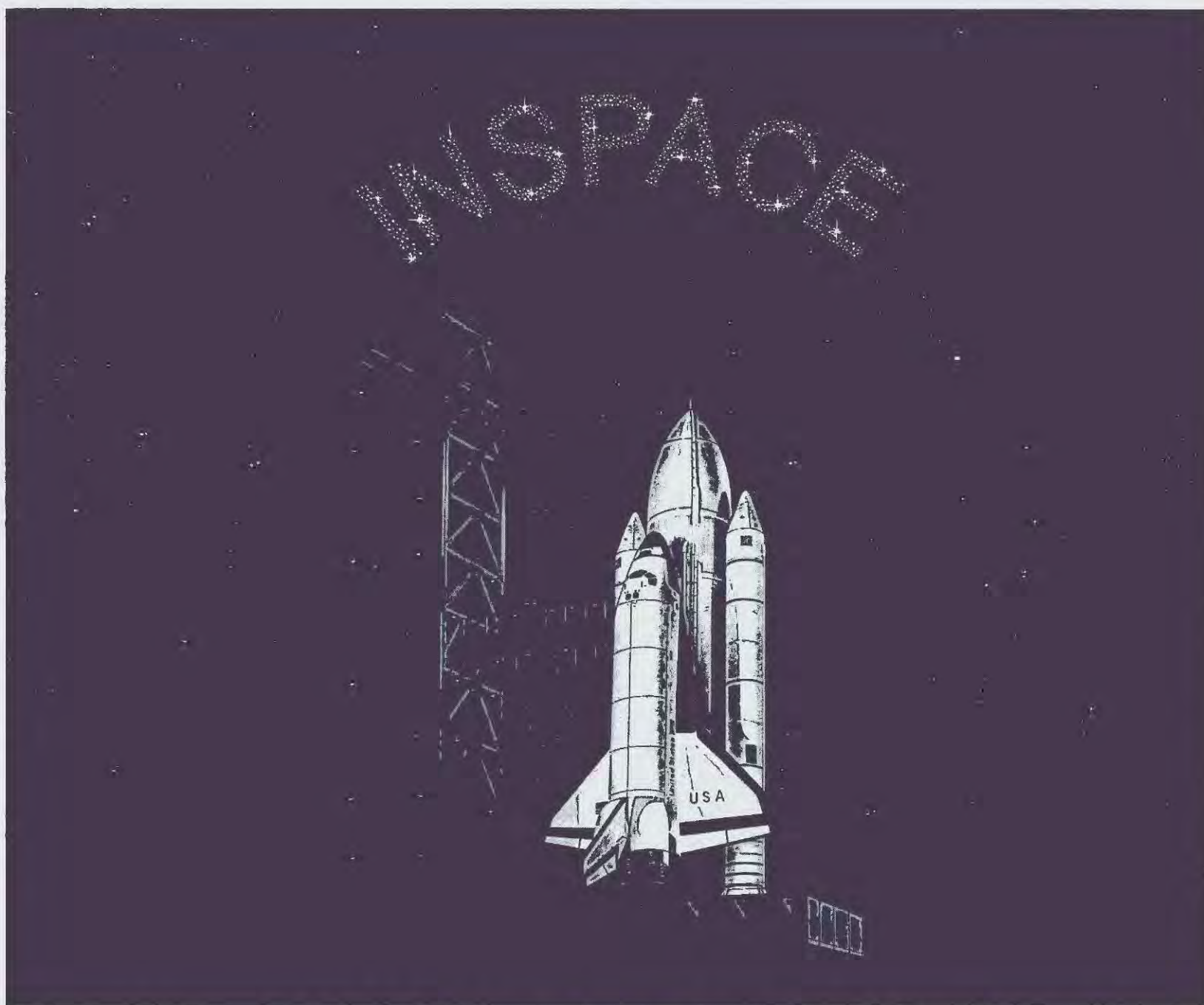
Schweiker's support

Health and Human Services Secretary Richard Schweiker said the administration backs the removal of the retirement earnings test because it believes older workers shouldn't be penalized for continuing to work.

The Reagan administration could have pared billions of dollars in Social Security costs during the next few years by recommending that annual benefit increases could not exceed the rise in the Consumer Price Index or wages, whichever is less.

"That would have been a fair approach," Mr. Holloway said.

The administration, though, decided to stick to indexing with the Consumer Price Index because of campaign commitments, Mr. Schweiker said.



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Policy covers legal costs

Continued from page 3

pride in their work and expect to win legal action against them.

But if a company is insured, the policy deductible may leave the business holding the bag for thousands of dollars in attorney fees before the coverage begins.

As an attractive alternative, they are seeking first-dollar insurance for legal fees only: business legal defense insurance.

After five years testing this new product in California, Chicago-based NAS Ltd., an excess/surplus lines brokerage company, is offering it in all states except Massachusetts. Lloyd's of London is the underwriter.

"The spectrum of claims it pays is very broad," points out Sydney Aronson, NAS chairman. It is designed to protect the small com-

mercial or professional enterprise against all kinds of business-related legal expenses.

A sample of recent claims paid on the policy illustrates the types of legal expenses reimbursed and the businesses that are benefiting from the coverage:

- A bioengineering firm filed a claim in excess of \$10,000 when its principal directors and officers were sued for misappropriation of trade secrets by a former employee.

- A plumbing contractor filed for \$10,000 in legal costs spent to defend a breach of implied contract suit filed against him by a condominium developer.

- Legal costs to defend a consulting engineer against a suit blaming him for a sidewalk that collapsed ran to \$4,598.96—just short of the \$5,000 deductible under the firm's professional liability policy.

To qualify for the basic coverage, business must employ 100 or fewer employees, Mr. Aronson says. Larger businesses may be able to obtain insurance if Lloyd's underwriters approve.

Business legal expense insurance provides first-dollar coverage with limits ranging from \$5,000 to \$50,000. Annual premiums start at \$500 and rise to \$3,500.

Because lawsuits are like bombs that can go off at any time, there are no prior acts restrictions on covered suits, Mr. Aronson says. Such a suit might surface today over something that occurred 10 years ago.

If a policyholder knows of a circumstance that could give rise to a claim at the time the coverage is written, however, it is excluded.

Although NAS emphasizes that the coverage protects against most unforeseen business legal defense costs, brokers and buyers contacted by *Business Insurance* stressed its use in lieu of liability insurance or to provide first-dollar coverage beneath a policy deductible.

However, NAS is not permitted by Lloyd's to write medical malpractice legal defense insurance.

"A large number of professional liability claims result in no expense except legal expense," says Nigel A. Renton of Dealey, Renton & Associates, an insurance consulting firm in Oakland, Calif., that specializes in professional liability insurance for consulting engineers and architects.

Mr. Renton's company has sold close to 100 business legal expense policies and is adding to that number. "Most clients see it as first-dollar legal expense coverage they can't get through a professional liability policy," he says.

Some clients opt for legal defense instead of professional liability insurance. These professionals fall into three groups, he says:

- There's the young company of modest means that can't afford professional liability insurance and thinks legal defense coverage is a good alternative.

- Some very small companies—sometimes with just one professional—have supreme confidence in their abilities and insist they don't need professional liability insurance.

- In some esoteric fields of engineering there is no market for professional liability insurance. Because there is so little spread of risk, underwriters are reluctant to offer coverage.

The three business legal policies marketed by Thomas B. Kennedy, president of the Kennedy Insurance Agency in San Jose, have been to companies that do not want to pay for product liability insurance.

One policyholder is a used machinery retailer with sales under \$1 million who does not believe he needs products liability insurance. Like many small business people, he thinks "these suits only happen to the other guy," said Mr. Kennedy.

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Nuclear cover limits raised

Continued from page 2

can provide that coverage."

Under the nuclear insurance industry proposal, a primary layer of \$450 million of property coverage would be available.

In addition, each reactor operator would participate in a secondary layer of protection in which the utility would be responsible for a retrospective premium to pay for a loss above the primary layer.

A total of \$350 million of capacity would be available in the second layer to pay for a single loss, assuming a maximum retrospective premium of \$5 million for each accident from each of 70 reactors.

If fewer companies agree to the retrospective program, the maximum retrospective premium might have to be increased.

Payment of the retrospective premium would be delayed until the funds are needed to pay losses.

The pools also would offer a third layer of \$200 million of guaranteed cost excess insurance above the primary and retrospective layers.

Premium costs are now being developed by pool actuaries, Mr. Proom said. "Costs will go up because much more coverage is being offered. But the increase will be reasonable."

Pool officials will explain the program to utility companies' chief executive officers.

"I can't see any utility not going for increased coverage," Mr. Proom said. The investment community, he said, wants utilities to beef up protection of assets and reduce corporate exposures.

Money market funds aren't all that risky

Continued from page 3

zles funds, the banker's blanket bond would pay the loss.

Also, the vast majority of funds are run by the nation's largest stock brokerage and investment banking houses whose multimillion-dollar blanket bonds doubly protect the funds. Independent funds are more likely to carry low limits.

"All mutual funds including money market funds must have insurance against larceny and embezzlement—it may be an individual bond for each covered individual or a blanket bond," says Noel Goldberg, director of the division of investment management at the SEC in Washington.

The required amount of the bond is tied to the fund's gross assets and increases on a sliding

scale from \$50,000 to a maximum of \$2.5 million for funds with assets of \$2 billion or more.

Fund directors also must decide each year whether the bond should be increased, Mr. Goldberg adds. Errors and omissions coverage is not required by the SEC.

According to William E. Donoghue, publisher of Money Fund Report in Holliston, Mass., there are now 115 money funds with combined assets of \$118 billion.

"Our fidelity bond is for \$7 million and we look at it every six months," says Paul Robertson, president of Capital Preservation Fund in Palo Alto, Calif. He also carries directors and officers and errors and omissions coverages to protect against potential charges of investment adviser negligence.

"We have a highly controlled op-

eration with layers of controls to prevent employee fraud," he says. But he does not believe Capital Preservation or any other money market fund is impervious to employee embezzlement.

"There's no question in my mind that we have an exposure. Someone might transfer funds into a bogus account—there's probably someone smart enough to pull it off."

First Variable Rate Fund in Washington, D.C., paid \$18,000 for its \$1 million fidelity bond underwritten by Federal Insurance Co. "That seems awfully high," says Wayne Silby, treasurer, after double-checking the premium. E&O coverage with a \$1 million limit costs about the same, he adds.

Fidelity bonds are cheaper for

the funds run by the big stock brokerage houses. That's because they are written on an accommodation basis by the same underwriter who is getting a big premium for a high-limit stockbrokers blanket bond, says Mike McAteer, assistant vp in the financial division of Marsh & McLennan Inc.

A typical cash management fund operated by a major stock brokerage house might carry a \$1 million bond with no deductible as stipulated by the SEC, says Mr. McAteer. But the fidelity bond also could tie into a \$50 million stock brokers blanket bond with a \$500,000 deductible.

The Investment Company Act of 1940, Section 17g1, does not permit acceptance of the stock brokers blanket bond in lieu of the so-called Registered Management In-

vestment Co. bond. But the blanket effectively increases the limits coverage. The RMIC bond in this kind of package costs between \$1,000 and \$2,000, Mr. McAteer says.

These bonds are closely scrutinized by money market managers, he says. "We get a lot of questions about them—and are frequently asked to explain them to outside directors. They take them seriously."

Other funds not tied to stock brokerage houses also carry higher limits of fidelity coverage than the SEC requires. Federated Investors Inc. in Pittsburgh, which operates several funds, carries a \$20 million bond and \$10 million in errors and omissions insurance.

The Dreyfus Corp. carries a \$25 million fidelity bond, said a spokesman for the company.

Funds consider guaranty cover

LOS ANGELES—Fidelity bonds protect money market funds against criminal losses, but they're clearly no match for guaranty insurance ready to respond against any kind of loss.

That's what the Federal Savings and Loan Insurance Corp. provides to S&Ls and the Federal Deposit Insurance Corp. provides to banks.

But even this security may be within the grasp of money markets in the not-too-distant future, industry sources say. The insured fund's investments would have to be subjected to close scrutiny.

"We think it is there for the asking," declares Wayne Silby, treasurer of the First Variable Rate Fund in Washington, D.C. But because First Variable Rate Fund invests in government securities, Mr. Silby doesn't see any need for it.

"It might create more fears than it would allay," he says, because investors might question the strength of U.S. securities.

But for funds that invest in commercial paper and other short-term securities, there is demand for guaranty insurance. Among major fidelity insurers, Fireman's Fund Insurance Cos., Aetna Casualty & Surety Co. and Mortgage Guaranty Insurance Corp. all say they have been asked to write it.

"We have been approached frequently for guaranty insurance," says John Jackman, vp of product development at MGIC in Milwaukee.

MGIC has given it serious consideration and decided against it because it would create a tremendous problem for the insurer's primary customers who are savings and loans and banks, he says.

"It's not a difficult risk to underwrite," he says, because there is not a serious risk of a liquidity or solvency crisis. "Such a collapse would mean a bank run, and if that happened, money market funds would be the least of our worries."

"We perceive a need for it and the question of private guaranty insurance has been bandied about here from time to time," admits an executive in a major insurance company's bond department. "In 12 months' time, I wouldn't be surprised to see someone offering it," he predicts.

Even if they do, brokers and fund managers say the price would probably be prohibitive.

"We looked around at this five or six years ago and were turned off by the staggering price," recalls Eugene Maloney, who handles risk management responsibilities at Federated Investors Inc. in Pittsburgh. "The cost would effectively erode investment yields."

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Insurers try to stunt growth of state funds

Continued from page 3

viding workers compensation insurance, can give employers the breaks in workers compensation costs that they are clamoring for. State funds give back to the employers the percentage of savings that private insurers normally skim take for profit, backers say.

Sometimes, says the American Assn. of State Compensation Insurance Funds in Denver, as much as 30% can be saved by a state fund.

However, state funds have been riddled with scandals and problems since the early 1900s—ranging all the way from poor, but greedy, administrators to haphazard claims services. Monopolistic state funds also have less incentive to scrutinize employee injury claims, opponents charge.

While the debate over which workers compensation market—monopolistic or competitive—is best for employers, specific action has been proposed in some states:

• In Ohio, the mudslinging has started. Opponents of the state fund, namely the Ohio Committee for Free Enterprise Competition (a group that represents the insurance industry), contends Ohio's state fund hasn't changed much in its 68 years of existence.

"There is an overconcentration of power in the monopoly," says Fred Roberts, Jr., campaign manager for the group.

A legislative study on workers compensation has been proposed by a state representative who is deadly opposed to opening up the market, Mr. Roberts says. That study may be researched and written by the staff of the state fund

for distribution two weeks before the Nov. 3 referendum on the monopolistic state fund, he said.

Just last July, *Business Insurance* reported that the Ohio state fund lacked \$540 million for workers compensation claims and that outside auditors found the fund's books to be in pretty bad shape (BI, July 21, 1980).

Finances improve

But Neil Webner, executive secretary of the Ohio Industrial Commission, now says things are looking up for the state fund.

"The auditors tell us we're within \$100 million of being solvent," he says. "From all indicators, it looks like we're getting back on score here. Our deficit has not been at the expense of employers, either. We're using investment income to offset premiums."

Insurers that want to move into the state market also are critical of Ohio's safety factor, which they say is the highest in the United States for workplace accidents and second for workplace deaths.

Still, the Ohio Manufacturers Assn. and others are working to keep the monopoly intact.

"Private insurers are only interested in good risks," says Joe Krabach, director of the labor problems department at the association. "Ohio has a lot of small, high-hazard businesses that need the coverage the state provides them at a reasonable cost."

• In Maine, passage is expected of a House bill that would create a state fund for workers compensation insurance that would have

rates about 15% lower than the private insurance market. Currently, workers compensation is insured through assigned risk pools.

• In Pennsylvania, Rep. Roland Greenfield, D-Philadelphia, is planning to introduce legislation that would freeze private insurers out of the presently competitive market in the state. The state fund now only has about 10.4% of the workers compensation premium, according to statistics compiled by the Alliance of American Insurers.

The Greenfield bill, which is still in draft form, is being patterned after the "Ohio Plan," an aide says.

"We're pointing to Ohio as an exclusive state that works and keeps the premium down for workers compensation insurance," says the spokesman, who adds that private insurance companies make a profit of about 15 cents to 25 cents off of every workers compensation dollar in the state.

• In Oregon state Rep. Jim Chrest has just withdrawn a bill that would have eliminated the option of private insurance for workers compensation risks. "The insurance industry did its job well and there was just no support for it," says Rep. Chrest of H.B. 2600.

Current system

The state currently has a three-way workers compensation system. Employers have the option of being insured by the state fund or private insurers or, if they are large enough, self-insuring their own workers compensation risks.

• Legislators in Washington state earlier this month defeated a

bill that would have broken a 70-year monopoly of the state's workers compensation fund and allowed private insurers to write the risk.

H.B. 31 failed by only one vote in the Senate, but the strong labor community rallied in the weeks before the vote to strip the bill of its intended effect.

Meanwhile, the exclusive state fund in West Virginia seems to be out of reach from competitors—at least for the moment. The United Mine Workers issued a statement in 1977 saying the fund had reached an "all-time low, from an administrative standpoint."

But a UMW spokesman says the problems have been righted about "360 degrees" since that statement was issued. He did say, however, that claim payments are still delayed and take anywhere from 30 days to two months to receive.

The legal director of West Virginia's state fund tells quite a different story. Don Hall says the fund rules on 89% of its claims within a 24-hour period and if found to be compensable, a check goes out to the employee within one to five days.

Other states are looking at the state fund concept as a means of cutting workers compensation costs, says Glen Adams, president of the American Assn. of State Compensation Insurance Funds.

The group doesn't call its exclusive state members monopolistic, he says, because of the negative connotation from the term "monopoly."

"The primary difference between the private insurers and the state funds is economics," Mr.

Adams says.

"The state fund can give rate discounts because we don't break down into a 60% losses and 40% expenses category, like insurers. We don't need 40% for expenses—we only need about 7%."

State funds in states that don't allow discount rates can give employers a break in year-end dividends, Mr. Adams says. He counters insurers' accusations that state funds don't adequately contest claims by saying: "State funds wouldn't be solvent if they didn't contest claims. Insurers sell the employer whatever they think it wants to buy."

That philosophy is not at all shared by the Alliance of American Insurers, which opposes the establishment of any state fund, whether monopolistic or competitive.

Fiscal and administrative problems and the failure of state funds to match the services of private insurers are most often mentioned by the Alliance as reasons why they're opposed to state funds.

That view is shared by Eric Oxfield, associate director of employee benefits for the U.S. Chamber of Commerce in Washington, D.C.

"There's a question in my mind as to whether a state should be in the business of selling insurance," he says. "The mood today is of a decreased role for government intervention, especially when the private sector is doing an adequate job."

"State funds could be looked at as anarchism. It's extremely unrealistic and backward thinking for 1981."

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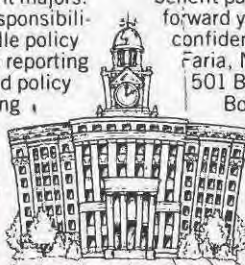
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Open-rating fight in Illinois continues

Continued from page 3
all insurance companies writing workers compensation coverage to report loss information to the National Council of Compensation Insurers, squelching the argument that independent rate filings ruin the data base needed for rating, he said.

"Competition is the best regulator of price," he said. "To have a system where all the sellers get together and determine what prices they will charge is counter to everything our economic system should be."

The open competition bill, sponsored by State Sen. Aldo DeAngelis, is bogged down in the Senate Labor and Commerce Committee, but there is talk of reviving action on it.

Its slow movement is due to the failure of its backers to argue the bill convincingly, Mr. O'Connor said.

"Business and labor have not been able to impress the Legislature with the importance of moving to this type of system," he said.

But failure to pass the bill in Illinois will not blunt efforts here or in other states to pass similar legislation, said Mr. O'Connor, who headed a subcommittee drafting a

model open rating bill for the National Association of Insurance Commissioners.

Minnesota passed an open-rating law less than two weeks ago, a move that was long overdue, said Insurance Commissioner Michael Markman. The measure was defeated on the first try last year but passed this year without opposition from the state's insurers, he said.

The system will be phased in for full operation by July 1983, Mr. Markman said. Rules must be drawn up and insurers need time to retool their operations to fit the new system, he said.

Similar laws are being considered in Kansas, Wisconsin and Oregon while Arkansas and Georgia require workers compensation insurers operating in those states to file rates individually even though they are subject to state approval.

The largest Illinois workers compensation insurers are divided over the merits of the proposed bill.

Wausau Insurance Cos., an opponent of the bill, thinks the state should maintain its system of administered pricing. The open competition system may look good in theory but would be difficult in actual practice, said Don Ternus, director of workers compensation.

The data base used in determining rates is "very necessary" and would be more difficult to maintain under open rating.

"The competition among companies could be fierce, which could hurt the small suppliers," he said. "Possibly in the long term, prices could rise."

Kemper Insurance Cos. also favors the state-administered pricing system, said George H. Kassbohm, vp of underwriting.

Also opposing the bill is Stewart Cutting, district manager for the Chicago office of Liberty Mutual. Mr. Cutting said open rating will price the small insurers out of the business.

He also predicted that if the state starts cutting rates, "as close to the bone as they are now," many companies will either cut back or stop writing workers compensation coverage in Illinois, he said.

Aetna Life & Casualty, however, supports the open-rating concept. "We think open rating will have advantages for the marketplace," said Tim Campbell, assistant vp for government relations. "It basically results in a better marketplace."

He said there is some concern in the industry over keeping the centralized data base intact, but he

said the bill would require insurers to continue report to data bureaus.

"It's a fine bill and we hope it passes," said H.P. Carmichael, president of Casualty Insurance Co. of Chicago, another major workers compensation insurer in Illinois.

Approval of the bill would be the "best thing for the insurance-buying public" and would promote the growth of different products and services among insurers to obtain new businesses and keep policy-

holders, he said.

Business also supports the bill, but its impact on overall corporate costs will not be that great, said William Shaw of the Illinois Manufacturers' Assn.

"Competition almost by definition holds down costs and brings down costs. What we have is almost a monopoly now," he said. "Almost all the insurers use the same classification codes and they all file the same amount—they're not competing on costs."

Minnesota passes open-rating bill

Continued from page 3
sure with little industry opposition whereas it failed in 1980 as an independent proposal because of "general discomfort with moving into it too quickly," he said.

He speculated that insurers did not actively oppose the bill because "lobbying against it may have made its passage that much more likely." It does not mean they endorse it, he added.

But insurers and industry associations say they are more upset with the 15% rate reduction ordered as part of the larger bill.

In fact, St. Paul Fire & Marine Insurance Co., a Minnesota-based insurer and a large work comp underwriter in the state, says it can live with the open-rating concept.

"We're more concerned about the rate-cutting by the Legislature, which is a dangerous precedent," said a spokesman.

Robert Johnson, vp of the Insurance Federation of Minnesota, said the it is urging a gubernatorial veto of the bill because of the rate reduction, not open rating.

Some members even favor open rating because it will allow rates to

be set without government approval to overcome "rate inadequacy."

Concern was raised by John P. Hildebrandt, president of the Minnesota Compensation Rating Bureau.

"We're concerned about the classification and the ability to check the accuracy of the data insurers submit for ratemaking," he said.

But Mr. Markman said data base integrity is a "red-herring issue" because the law doesn't regulate rating bureaus and lets the industry devise a uniform system.

Court upholds pension offset

Continued from page 2
regulate pension terms ... pension terms themselves have become expressions of federal law, requiring pre-emption of intrusive state law," the court said.

The retirees, in their court brief, argued that an employee's right to a vested pension benefit is not subject to any forfeitures, except for situations described by ERISA.

"A plan provision causing loss of pension benefits already earned through long years of service simply because the employee is injured or maimed on the job is plainly an example of precisely the circumstance 'beyond a worker's control' which causes him to feel 'robbed' and which Congress intended to prohibit," the retirees said in their brief.

While Congress, in passing ERISA, set time limits in which a pension benefit must become vested, it did not bar integration or offset formulas, the court said.

"Congress was well aware that pooling of non-pension retirement benefits and pension funds would limit the total income maintenance payments received by individual employees and reduce the cost of pension plans to employers," the court said.

"Indeed, in considering this integration option, the House Ways and Means Committee expressly acknowledged the tension between the primary goal of benefiting employees and the subsidiary goal of containing pension costs," the court added.



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THE SPECIALISTS

Cost-control steps do work: Researcher

Continued from page 3

Computers are vastly underused, Mr. Hembree said. Many smaller companies and even a few Fortune 500 companies still use manual systems for claims data, which makes utilization review impossible.

"Insurance companies are very, very uncooperative about providing data for utilization review. They say, 'It's not available. We can't program it. It doesn't fit in with our standard procedures.'"

"Persist," he continued. "You almost can't pay too much to get the utilization data."

An employer should get utilization and savings reports from his plan administrator or insurer.

The utilization report should indicate the average length of hospital stay and, on an absolute and per-thousand basis, the hospital days used, admissions and discharges and physician, outpatient and emergency room visits.

"That's just the first pass," Mr. Hembree said. Further computer runs can isolate different conditions, such as psychiatric treatment or appendectomies, and break patients down by age.

The savings report shows the savings from different cost-control procedures. It should be broken down to show savings from coordination of benefits, subrogation, cutbacks on reasonable and customary charges, second opinions, pre-admission testing, ambulatory surgery, eligibility determination, and duplicate billing, he said.

A well-managed cost-control system also should be a quality-control system, Mr. Hembree said. A doctor with a high complication rate for standard procedures will be flagged if his patients have longer hospital stays.

It also make sense to administer claims in-house since that provides immediate access to claims data, Mr. Hembree said.

The worst way to pay an outside supplier for claims administration is as a percentage of claims since that cost goes up as fast as medical-

care costs, Mr. Hembree said. It's better to pay a fixed charge per claim, claimant or employee, he said.

Most companies attempt to minimize payouts through coordination of benefits, but Mr. Hembree said that they don't use this technique enough. In the Health Research Institute's survey, coordination of savings averaged 6.2%, but Mr. Hembree said such savings should be closer to 12% to 15%.

The employee's supervisor usually knows whether the spouse is employed so the simplest control is to ask the supervisor, he said. There are also certain flags—a large, non-assigned claim that the employee pays directly or photocopies of bills or employee requests to the hospital for duplicate bills. Mr. Hembree recommended the hospital notify the employer whenever an employee asks for a duplicate.

As another cost-containment step, employers can negotiate lower fees with hospitals. Hospitals often give Blue Cross a discount of 5% to 15% for immediate payment, and "an employer can get the same thing," Mr. Hembree said.

But short-term savings by reducing the cost of medical treatment is not really the answer to controlling health-care costs, he said. He said that the big, long-term savings are going to have to come from outside the medical-care delivery system.

"We've got to go to prevention, early detection, health promotion and self-care," he said. The employee's lifestyle—including cigarette and alcohol consumption and diet—have a much greater effect on health than medical care, he says.

To reduce the expense of treating cardiovascular disease, for example, a company should provide low-cholesterol food in the employee cafeteria, he said.

To make his point, Mr. Hembree provided a pile of oranges, apples and pears for refreshments at the workshop.

Companies quizzed on their techniques

William Hembree knows that he needs proof to substantiate his recommendations to cut health-care costs.

Mr. Hembree, president of Health Research Institute, a consulting firm based in Walnut Creek, Calif., says keeping employees healthy is the most effective way to control health-care costs. Such cost controls as coordination of benefits or alternative-funding techniques, while somewhat effective, treat the symptoms but not the cause, he complains.

To get the proof he wants, HRI is again surveying corporations on their experience with cutting health-care costs using various measures ranging from the routine coordination of benefits to the less used measures of offering health incentives for employees who lose weight or quit smoking.

The 11-page questionnaire delves into efforts to control costs through plan design, administrative/claims cost controls, community/government involvement and health promotion/prevention. It also tries to read corporate attitudes toward health costs/controls and gather statistics on costs.

HRI conducted a similar survey two years ago, but a small response didn't yield enough statistically credible figures to satisfy Mr. Hembree. The 402 respondents did reveal they believed the following procedures cut the costs of health claims by these amounts:

- Second opinions on surgery, 1.5%.
- Coordination of benefits, 6.2%.
- Subrogation, 1.7%.

This year's survey, sent to the nation's 1,300 largest corporations, is expected to draw a larger re-

sponse, Mr. Hembree said. He said he hopes his eight-employee firm is now better known, and the survey will attract more attention.

He also hopes the results of the survey, to be ready in July, will convince employers that they have to deal with the root problem of unhealthy employees to cut health-care costs, not just the symptoms of high medical bills to be reduced by alternative-funding methods and other after-the-fact cost control procedures.

"One of our purposes is to provide industry with a no-cost, in-depth, complete and regularly conducted survey that will provide information both on the prevalence and effectiveness of health-care cost-containment issues," he said.

HRI intends to conduct the survey every other year at no charge to survey participants, who receive the results and are invited to meetings to discuss them.

The survey was sent to the companies on the Fortune 1,000 industrial list and the Fortune 50 list of the largest banks, life insurance companies, diversified financial corporations, retailing companies, transportation companies and utilities. Another 200 surveys have been sent to smaller companies requesting the questionnaire.

Businesses with at least 1,000 employees who have not received the questionnaire and would like to participate should write Health Research Institute, 49 Quail Court, Suite 200, Walnut Creek, Calif. 94596. The deadline for returning the completed questionnaire is June 19.

Reinsurers hurt by competition

Continued from page 2

If General Re and Prudential Re were last year's winners, Tokio Marine & Fire and Aetna Re were probably the big losers.

Tokio's combined ratio was a whopping 116.9% on \$37.9 million of net premiums written. Aetna Re wasn't far behind with a combined ratio of 115.1% on \$34.9 million of net premiums written.

Employers Re was the second-largest reinsurer in the nation last year, with \$383.3 million in net premiums written and a combined ratio of 105.9%.

The other U.S. reinsurers filling out the survey's top 10 were:

- North American/Swiss Re with \$382.1 million in premiums and a combined ratio of 109.3%.
- American Re with \$376.1 in premiums written and a combined ratio of 111.8%.
- Prudential Re with \$322 million in net premiums written and its ratio of 96.9%.
- INA Re with \$287.6 million in net premiums written and a combined ratio of 99.8%.
- Skandia Group with \$179 million in net premiums written and a combined ratio of 100.9%.
- Munich Re Group with \$174.8 million in net premiums written and a combined ratio of 107.2%.
- National Re with \$165.1 million in net premiums written and a combined ratio of 107.2%.
- Kemper Re with \$124.1 million in net premiums written and a combined ratio of 103.3%.

Overall, U.S. reinsurers wrote \$6.9 billion in net premiums in 1980, according to the RAA study. They suffered \$5.2 billion in loss and adjustment expenses and had underwriting expenses of \$2 billion.

Large reinsurers tended to do comparatively well in terms of underwriting profitability. Five of the 10 largest reinsurers also were included in the list of the 10 most-profitable major reinsurers.

After Prudential Re and General Re, the large reinsurers with the lowest combined ratios were:

- Continental Casualty with a combined ratio of 99.3% on \$79.1

million in net premiums written.

- INA Re with a combined ratio of 99.8%.
- Buffalo Re with a combined ratio of 99.9% on \$68.9 million in premiums.
- USF&G Group with a combined ratio of 100% on premiums of \$63.4 million.
- Skandia Group with a combined ratio of 100.9%.

- American Union with a combined ratio of 102.2% on premiums of \$41.6 million.

Two small players had the lowest combined ratios of the 112 reinsurers listed in the survey. Lyndon Insurance Group had a combined ratio of 53.9% on premiums of \$7.4 million. Geico Corp had a ratio of 55.7% on premiums of only \$438,000.

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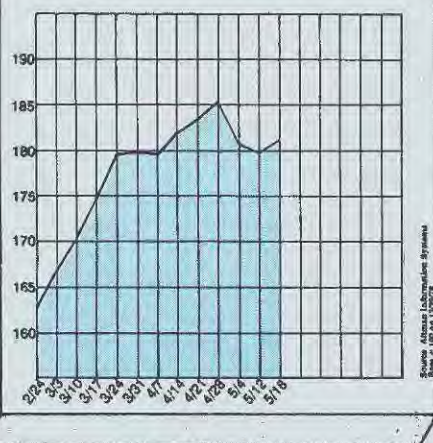
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BI Insurance Index



Insurance industry stocks rallied slightly last week with the Business Insurance stock index rising 1.9 points to 181.8 from 179.9. Thirty-three stocks rose, 19 declined and 20 remained the same. Largest increasing stocks were: General Re Corp., 9.9%; First Colony Life Insurance Co. 7%; Fred S. James & Co., 5.9%; Travelers Corp., 5.8%, and INA Corp., 5.8%. Biggest declines were: Banks Iowa Inc., 4.7%; SRI Corp., 3.9%; Equifax Inc., 3.6%; Ryan Insurance Group Inc., 3.5%, and Frank B. Hall & Co. Inc., 3.3%. The 1% index increase fell short of the performance of three major market indicators.

British Issues

1 Week						
Companies	Price	P/E	Div.	Yield	High—Low	
Comml Union	161	10.9	15.43	9.6	166—161	
Eagle Star	235	7.8	15.00	6.4	242—235	
Genl Accident	308	7.4	19.29	6.3	324—308	
Gdn Royal Exch	308	7.2	22.14	7.2	322—308	
Phoenix	258	7.6	21.29	8.2	270—258	
Royal	373	10.4	34.29	9.2	383—370	
Sun Alliance	793	7.9	47.14	5.9	816—793	

Brokers						
CE Heath	255	10.0	15.00	5.9	255—248	
Hogg Robinson	125	9.5	8.14	6.5	124—119	
Alex Howden	127	9.0	10.00	7.9	127—122	
JH Minet	115	14.4	6.50	5.6	117—111	
Sedg Grp	132	12.6	7.14	5.4	134—128	
Stenhouse Hldg	94	8.9	6.64	7.1	94—90	
Stew Wrightson	226	15.0	17.14	7.6	235—227	
Willis Faber	328	12.4	17.14	5.2	328—317	

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

Insurers' financial problems may mean negative cash flow

By MYRON PICOULT

The property/casualty companies' first-quarter earnings were better than expected and combined ratios were not as poor as projected. Net investment income expanded at a somewhat higher than expected level and, as a result, earnings were only down about 10%.

Data for the first quarter shows that net written premium growth continued to slow. On the average, written premiums were up 1.4%. This compares to average increases of 9.1%, 6.8%, 5.3% and 2.5% registered in the first, second, third and fourth quarters of 1980 over the comparable 1979 periods.

Interestingly enough, of the 16 insurers studied, eight posted premium gains above the average and eight were below.

No real common threads were evident. For example, of the eight companies that recorded combined ratios below the average, four posted above-average premium growth and four posted below-average premium growth.

Relatively moderate catastrophic losses early this year compared with last year's experience aided combined ratio comparisons. In some instances, large loss experience was also quite favorable. The combined ratio for the representative group of insurers (after policyholder dividends) was 103.4% up from 100.3% in the first quarter of 1980.

Most of the swing, as expected, came in the loss ratio, which rose to 73.4% from 70.9%. The expense ratio reached 30% compared to

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Picoult

BI ticker

29.4% in the first quarter of 1980.

Only Crum & Forster and Fireman's Fund showed improved combined ratios and only AIG, Geico and SAFECO posted ratios below 100%. The award for the worst ratio went to Aetna Life & Casualty with 114%.

Pretax investment income rose 15.8%; the average was moderated by the below-par gains posted by Continental Corp. and Geico and the miniscule decline recorded by SAFECO.

Nonetheless, for many companies, property/casualty investment income proved to be an effective, albeit diminishing, offset to underwriting losses. The growth in investment income for the quarter was heavily influenced by the larger portion of assets in short-term liquid instruments this year compared to last year. It is interesting that some insurers planned this shift while others apparently fell into it by not knowing where to put their cash.

In the commentaries included with earnings releases and in various analyst presentations, company executives continue to bemoan the competitive rate environment. Accordingly, the premium gains should be scrutinized. Any company that has a premium increase above the norm should have a good explanation because it is very easy to conclude that the company was reaching for volume simply to get the cash to invest.

The term "negative cash flow" will be uttered repeatedly in coming quarters. It is becoming increasingly obvious that as the growth in premium income flattens and paid claims increase, negative cash flow will result for many insurers. Negative cash flow can be defined as a lack of new funds for investment. When this occurs, a return to fundamentals will be noticeable.

Many insurers are commenting on cash flows and in some instances are noting that they are considerably below last year's levels. Of note was SAFECO's virtually flat property/casualty investment income in the first quarter. While this was partially the result of the diversion of funds to the non-insurance area, it must be noticed because

SAFECO traditionally is a precursor of trends.

The seeds of destruction in cash-flow underwriting were sowed a long time ago. Unfortunately, there are still some in the industry that have not recognized the perils of such a posture.

It will be very interesting to see how insurers approach this problem. Either they will take what Warren Buffet has aptly referred to as the "asset management" approach whereby they simply write business to get cash in to keep the ship afloat, or others may take a more fundamental approach and attempt to get their house in order and raise rates.

One way or another, whether it be pressures from shareholders or the merchant bankers who may accumulate blocks of stock, managements who do not recognize their responsibilities may not have any companies to manage at the beginning of the new underwriting cycle.

Financial briefs

Colonial Penn

Colonial Penn Group Inc.'s net income plummeted to \$3.9 million in the first quarter from \$16.7 million a year earlier. The company reported first-quarter revenues of \$310.6 million against revenues of \$190.7 million in the first quarter of last year.

Included in the earnings results is a write-off of \$3.2 million of the company's health insurance deferred acquisition costs. The write-off occurred after the National Retired Teachers Assn. and the American Assn. of Retired Persons selected another company to underwrite their group health insurance.

The property/casualty division had a combined loss ratio of 98.2% on net premiums written of \$69.3 million.

Washington National

Washington National Corp. reported first-quarter consolidated net income of \$10.5 million, a record, compared with \$9.3 million in the corresponding period of 1980. Sales of group life policies almost doubled to \$438.5 million from \$242.8 million a year earlier.

Ryan Insurance Group

Ryan Insurance Group Inc. reported first-quarter net income of \$1.96 million, down from \$2 million in the corresponding period of 1980. Total revenue before reinsurance declined to \$38.1 million from \$45.8 million.

The company announced a regular quarterly dividend of 3 cents per share payable May 20 to stockholders of record April 20.

Illusion of profit

The reported profits of the property/liability insurance industry are an illusion, according to a study by Allstate Insurance Co.

The industry's actual gains, when adjusted for inflation, are really half of what they appear to be, the study says.

The average profit margin of a property/liability insurer in the 1970s was reported as 7.2%. But Laurence S. Liu, research associate at the Allstate Research and Planning Center in Menlo Park, Calif., said that figure is misleading.

"After inflation adjustment, the real profit margin was only 3.8%. That's a drop of 3.4% on the margin, or a whopping 47% drop from total reported profit," he said.

The basic cause of overstated profit is that stocks and bonds, which are an insurance company's primary assets, are losing purchasing power as a result of inflation, he said.

The study's findings are in direct conflict with the common perception that insurers, while losing money on underwriting operations, are earning record profits because of investment income, Mr. Liu said.

Mr. Liu spoke at the 27th Annual Workshop of the National Assn. of Independent Insurers in San Diego.

BI Industry Stock Report

MAY 18, 1981										5/13/81 THRU 5/18/81										MAY 18, 1981										5/13/81 THRU 5/18/81									
Insurance Cos.																																							
		Price	% Chg.	P/E	\$ Div.	% Yld.	High	Low	Vol. (000)			Price	% Chg.	P/E	\$ Div.	% Yld.	High	Low	Vol. (000)			Price	% Chg.	P/E	\$ Div.	% Yld.	High	Low	Vol. (000)										
Aetna Life & Cas Co	NYSE	38.00	4.8	6.4	2.32	6.1	38.00	36.38	397.6	Tokio Marine & Fire Ins Co	OTC	174.00	0.3	19.2	1.03	0.6	178.50	171.00	207.9																				
American Bankers Ins Group	OTC	7.38	0.0	11.7	0.94	6.0	7.50	7.38	70.8	Travelers Corp	NYSE	47.88	5.8	5.6	2.88	6.0	47.88	45.38	240.4																				
American Gen Ins Co	NYSE	43.13	3.9	6.7	2.00	4.6	43.50	41.75	78.0	United Fire & Cas Co	OTC	38.50	0.0	10.1	1.00	2.6	38.50	38.50	0.4																				
American Indty Finl Corp	OTC	15.38	-1.5	6.2	1.12	6.8	16.75	16.38	8.0	United States Fid & Gty Co	NYSE	43.00	5.5	5.7	3.20	7.4	43.00	41.25	56.9																				
American Intl Group Inc	OTC	86.00	4.6	11.0	0.60	0.7	86.00	83.00	76.9	United Svcs Life Ins Co	OTC	15.63	3.3	6.5	1.00	6.4	15.63	15.13	21.1																				
American Natl Ins Co	OTC	14.00	-1.8	6.3	0.68	4.9	14.25	14.00	73.0	USLife Corp	NYSE	30.25	3.9	7.4	0.76	2.5	30.25	29.75	69.5																				
American Sts Life Ins Co	OTC	17.50	0.0	5.8	0.72	4.1	17.50	17.50	0.4	Washington Natl Corp	NYSE	25.75	-0.5	7.6	1.08	4.2	25.88	25.75	88.5																				
Aneco Reins Ltd	OTC	4.25	0.0	0.0	0.00	0.0	4.25	4.25	6.6	Zenith Natl Ins Corp	OTC	17.25	0.0	10.1	0.50	2.9	17.25	17.25	32.4																				
Appalachian Natl Corp	OTC	2.25	5.9	6.4	0.05	2.2	2.25*	2.13	5.9																														
Avemco Corp	AMEX	10.38	2.5	8.8	0.50	4.8	10.50	10.25	9.3	INSURANCE COMPANIES										AVERAGE		8.3		3.8															
Banks Iowa Inc	OTC	30.50	-4.7	5.0	1.44	4.7	31.00	30.50	3.5	Agents/Brokers																													
Bitco Corp	OTC	41.50	-1.2	5.0	2.16	5.2	42.00	41.50	12.4	Alexander & Alexander Svcs	OTC	33.50	-0.7	11.1	1.84	5.5	33.50	33.50	94.3																				
Carolina Cas Ins Co	OTC	8.75	0.0	5.6	0.32	3.7	8.75	8.75	0.0	Baldwin & Lyons Inc	OTC	34.25	0.0	5.9	0.80	2.3	34.25	34.25	0.6																				
Central Natl Finl Corp	OTC	10.38	0.0	3.8	0.65	6.3	10.38	10.38	0.4	Corroon & Black Corp	NYSE	23.00	0.0	10.7	1.76	7.7	23.50	23.00	18.3																				
Chubb Corp	OTC	47.25	0.8	5.7	2.68	5.7	47.25	46.63	61.9	Crum & E H Co Inc	OTC	10.75	1.2	9.9	0.40	3.7	10.75	10.50	14.8																				
Combined Intl Corp	NYSE	21.88	3.6	6.2	1.60	7.3	22.25	21.25	73.0	Hall Frank B & Co Inc	NYSE	26.00	-3.3	9.6	1.60	6.2	26.00	25.75	27.1																				
Connecticut Gen Ins Corp	NYSE	52.25	4.8	33.9	1.76	3.4	52.25	51.25	71.8	Integrated Res Inc	AMEX	16.00	-0.8	7.3	0.00	0.0	16.00	15.63	62.2																				
Continental Corp	NYSE	25.50	-2.9	6.9	2.40	9.4	26.63	25.50	78.0	James Fred S & Co Inc	NYSE	24.88	5.9	11.0	1.60	6.4	25.25	23.63	21.0																				
Crawford & Co	OTC	17.75	0.0	13.9	0.52	2.9	17.75	17.75	2.9	Marsh & McLennan Cos Inc	NYSE	35.88	1.8	11.8	2.00	5.6	35.88	35.00	116.2																				
Crown Life Ins Co	OTC	116.00	2.7	9.7	2.80	2.4	116.00	111.00	0.0	Pennacorp Finl Inc	NYSE	5.75	0.0	6.5	0.16	2.8	5.75	5.75	129.5																				
Cum & Forster	NYSE	35.25	0.7	6.1	1.44	4.1	35.50*	34.88	179.1	Poe & Assoc Inc	OTC	11.00	0.0	9.7	0.80	7.3	11.00	11.00	0.2																				
Employers Cas Co	OTC	36.75	0.7	5.6	1.20	3.3	36.75*	36.50	8.2	Reed Stenhouse Cos Ltd	OTC	12.00	1.1	11.4	0.56	4.7	12.00	12.00	4.1																				
Equifax Inc	NYSE	23.63	-3.6	7.3	2.40	10.2	24.13	23.63	3.9	Rollins Burdick Hunter Co	OTC	23.75	1.1	12.4	1.24	5.2	23.75	23.50	13.7																				
Excelsior Ins Co	OTC	16.00	0.0	32.7	0.70	4.4	16.00	16.00	0.4	AGENTS/BROKERS										AVERAGE		9.4		5.0															
Farmers Group Inc	OTC	31.88	-0.8	10.0	1.12	3.5	32.25	31.88	207.1	Conglomerates/Holding Cos.																													
First Colony Life Ins Co	OTC	46.00	7.0	15.1	0.80	1.7	47.00*	43.00	25.1	American Express(Fireman's Fd)	NYSE	45.00	6.2	8.5	2.00	4.4	45.00	42.13	811.4																				
Foremost Corp Amer	OTC	27.50	-0.9	8.5	0.80	2.9	27.75	27.50	4.2	Anderson Clayton(Ranger/PanAm)	NYSE	22.00	2.3	6.0	1.20	5.5	22.50	21.25	31.5																				
Great West Life Assura Co	OTC	250.00	0.0	10.3	10.00	4.0	250.00	250.00	0.0	Armo Inc	NYSE	34.75	-1.1	8.9	1.64	4.7	34.88	34.63	275.7																				
Hanover Ins Co	OTC	28.75	1.8	3.6	0.72	2.5	28.75	28.25	10.4	City Investing Co. (Home Ins.)	NYSE	28.00	3.7	7.8	1.60	5.7	28.25	28.00	490.6																				
Hartford Steam Boiler Inspnt	OTC	48.50	1.0	9.6	2.60	5.4	48.50*	48.00	2.6	CNA Finl Corp (CNA)	NYSE	16.13	3.2	6.3	0.00	0.0	16.50	16.13	11.9																				
Jefferson Natl Life Ins Co	OTC	38.00	-2.6	34.2	0.64	1.7	38.50	38.00*	2.1	Control Data (Comml. Credit)	NYSE	77.38	6.4	9.1	0.90	1.2	77.38	73.00	337.6																				
Kemper Corp	OTC	33.50	2.3	5.2	1.60	4.8	33.50	33.13	33.3	General Re Corp	NYSE	72.00	9.9	9.8	1.76	2.4	72.00	68.50	277.1																				
Lincoln Natl Corp Ind	NYSE	41.50	0.0	5.9	3.00	7.2	42.25	41.50	25.4	INA Corp (Ins. Co. of NA)	NYSE	43.50	5.8	6.1	2.40	5.5	43.50	42.50	145.7																				
Migle Inv Corp	NYSE	36.88	5.4	9.9	1.28	3.5	37.13	34.88	408.5	ITT (Hartford Group)	NYSE	31.88	-5.2	6.3	2.60	8.2	33.13	31.88	1,096.4																				
Mission Ins Group Inc	NYSE	46.63	1.6	8.8	1.00	2.1	47.25*	46.38	51.8	Reliance Group Inc	NYSE	78.75	-0.3	6.5	3.00	3.8	79.00	78.50	3.3																				
Nationwide Corp Ohio	OTC	24.00	0.0	6.8	0.70	2.9	24.00	24.00	0.9	Sears Roebuck & Co. (Allstate)	NYSE	20.00	6.0	10.4	1.36	6.8	20.25	19.75	2,362.3																				
Northwestern Natl Life Ins	OTC	30.00	-0.4	7.4	1.25	4.2	30.13	29.88	28.1	S & H Co. (Bayly Martin & Fay)	NYSE	33.88	1.9	14.5	1.00	3.0	33.88*	33.25	7.9																				
Ohio Cas Corp	OTC	39.88	3.6	6.9	2.04	5.1	39.88	38.75	36.4	Teledyne Inc (Argonaut)	NYSE	150.75	2.4	9.3	0.00	0.0	150.75	148.00	153.4																				
Old Rep Intl Corp	OTC	16.50	1.5	4.5	0.92	5.6	16.50	16.25	77.5	Transamerica Corp (Occidental)	NYSE	22.88	10.9	6.2	1.28	5.6	22.88*	21.00	911.4																				
Pinehurst Corp	OTC	6.38	0.0	0.0	0.00	0.0	6.38	6.25	8.0	CONGLOMERATES/HOLDING COS.										AVERAGE		8.1		3.1															
Preferred Risk Life Ins Co	OTC	20.13	3.2	6.3	0.80	4.0	20.13*	19.88	4.8	*Record high/low since Jan. 1, 1981.																													
Provident Life & Acc Ins Co	OTC	44.50	-1.1	6.5	2.20	4.9	44.50	44.00	12.4	System design: Altman Information Systems																													
Republic Natl Life Ins Co	OTC	28.50	0.0	17.2	0.70	2.5	0.00	0.00	0.0																														
Ryan Ins Group Inc	OTC	20.50	-3.5	8.2	0.12	0.6	21.25	20.25	12.6																														
St Paul Cos Inc	OTC	43.25	-0.9	8.1	2.32	5.4	43.50	43.25	60.0																														
Safeco Corp	OTC	38.63	2.3	7.2	2.00	5.2	38.63	37.88	20.3																														
Sri Corp	OTC	24.75	-3.9	5.6	0.80	3.2	26.00*	24.75	19.1																														
Seibels Bruce Group Inc	OTC	20.88	-1.2	11.2	0.80	3.8	20.88	20.88	30.5																														
Statesman Group Inc	OTC	6.13	4.3	4.7	0.15	2.4	6.13	6.00	21.7																														

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