

business insurance

update:

Senate panel approves longshore compromise

WASHINGTON—The Senate Labor and Human Resources Committee last week unanimously approved compromise legislation, S. 1182, to overhaul the federal Longshoremen's and Harbor Workers' Compensation Act.

Under the compromise, future benefit increases under the Longshore Act would be

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No relief from rate hikes

Health plan insurers factor in runaway medical care costs

By RHONDA L. RUNDLE

Inflation as measured by the national Consumer Price Index is abating, right?

So employers can expect some relief from high group health insurance costs, right?

Wrong.

Renewal rate increases for group medical insurance this year are as high or higher than the average 30% hikes reported by major health insurers in 1981 (*BI*, Jan. 26, 1981).

"Whether they know it or not, employers have had a bargain," said an insurance company actuary. "Health insurers over the past two years have sustained losses in the many millions of dollars in this business."

Rate increases this year are highest for small groups of under 50 lives. Although a couple of insurers say hikes of only 20% are possible, most concede that increases are much greater, ranging up to 100%.

Large employers can minimize the size of a rate increase through company campaigns that promote wellness and reduce health care utilization. But most companies that insure their medical benefits are seeing increases in the 25% to 40% range. Hikes of 50% to 60% are not uncommon.

* % of increase from April 1981-April 1982
Source: U.S. Department of Labor, Bureau of Labor Statistics
Illustration: Amy Palmer

way down that health care costs must be dropping, too," said Thomas Ferguson, vp and actuary of The Equitable Life Assurance Society. But the medical care component is leading the pack, he pointed out.

The overall CPI increased only 6.6% over the 12-month period ended April 1982. But the medical care component during that time surged ahead at a 12.1% clip, according to U.S. Bureau of Labor Statistics.

Nor does the CPI medical care component fully reflect the forces driving up health insurance costs.

The index only measures unit cost changes, such as the price of an aspirin today vs. the charge a year ago. It does not measure increases in utilization of health care. So the average increase in surgical fees for appendectomies is included, but the rapidly accelerating demand for major heart surgery is not.

Medical care cost shifts to private from public patients is another pressure on insurance rates that is not captured by the CPI, say insurers. Since Medicare and Medicaid programs do not fully reimburse providers for treatment, they are making up the shortfall through higher charges to private patients.

And the gap is growing. This year the private sector will subsidize public patients to the tune of about \$5.8 billion compared with \$4.8 billion in 1981, estimates the Health Insurance Assn. of America, an industry trade group in Washington.

Continued price inflation in hospital costs, higher health care utilization and cost shifting to private patients do not

give buyers of health insurance much hope for price relief in the foreseeable future. In addition, insurers show a new determination to get the premium they need to make their business profitable.

Several companies told *Business Insurance* their rates this year include catch-up provisions for losses sustained in 1980 and 1981. "Many of us badly misguessed what we would need to get the business on a self-supporting basis last year," said one company executive.

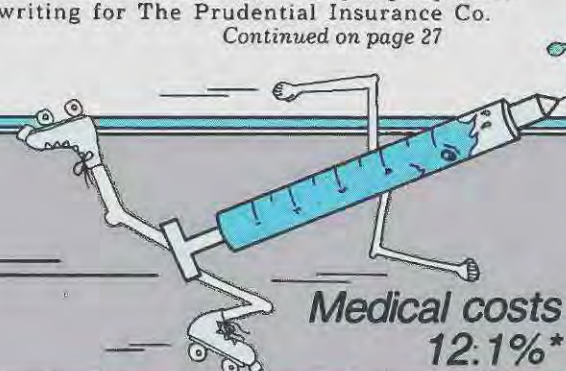
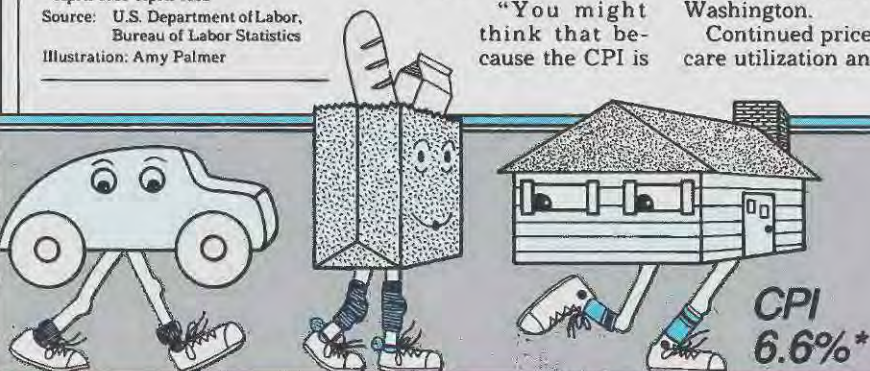
The Penn Mutual Life Insurance Co. in Philadelphia announced last month that it is throwing in the towel on group health and life insurance. It will phase out existing contracts by the end of the year.

"Because of inflation and decisions by the federal and state governments, a greater proportion of health care costs have been shifted to insurers and patients," the company explained in a prepared statement.

Although Penn Mutual's withdrawal is not expected to significantly impact the group health insurance market, it dramatizes the inability of many insurers to turn a profit in health products. Penn Mutual ranks 18th among the nation's top life insurance companies with \$19.4 billion of insurance in force.

"I'm afraid medical care is not following the downward trend in inflation. There has been practically no abatement at all," observed John Wickens, vp of group underwriting for The Prudential Insurance Co.

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Product liability claim or pollution loss?

By JOHN W. MILLIGAN

NEW YORK—Your idea of a covered product liability claim could be your insurer's idea of an excluded pollution loss. Just ask Anti-Hydro Waterproofing Inc., a New Jersey-based chemical manufacturer.

Until Anti-Hydro Waterproofing's risk management consultant and broker clarified the terms of its comprehensive general liability policy with its former insurer, a product liability claim Anti-Hydro

Waterproofing reported to Canadian Universal Insurance Co. was considered a gradual pollution incident, excluded under the CGL coverage.

Although the policy interpretation was quickly clarified once the facts were laid out, the incident raised a red flag for the consultant, James Capell, president of Capell/Industrial Risk Management in Princeton, N.J., and Anti-Hydro Waterproofing's insurance broker, who asked not to be identified.

They say the wording of the

gradual pollution exclusion in the Insurance Services Office standard CGL policy form, used by many casualty insurers, could be used to deny legitimate product liability claims for the gradual emission of toxic fumes or vapors from a finished product.

To counter the possibility of other clients facing a similar coverage gap, they have, after months of negotiations, convinced six other insurers to include a "clarifying endorsement" in their CGL policies.

The controversy started last fall

when Canadian Universal, a Providence, R.I.-based excess and surplus lines insurer, said it would not cover a potential product liability loss of Anti-Hydro Waterproofing, which manufactures a chemical additive for concrete.

The Anti-Hydro Waterproofing product was used by a construction contractor who was pouring concrete, recalls Mr. Capell. Fumes from the liquid were inhaled by a woman working nearby, who later sued the contractor, alleging that vapors from the chemical caused

her physical injury.

The contractor then brought Anti-Hydro Waterproofing into the suit as a third-party defendant, and Anti-Hydro Waterproofing turned to Canadian Universal. Settlement of the woman's lawsuit is still pending.

Canadian Universal, which uses the ISO standard comprehensive general liability form, cited the policy's gradual pollution exclusion in saying it would not honor such a product liability claim under Anti-

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limited to 5% a year. Currently, benefits are boosted every October to match the increase in the national average weekly wage.

The measure also would overturn a 1979 Supreme Court decision that widows are entitled to two-thirds of the deceased workers' weekly wages without an upper limit. The bill would limit survivors' benefits to 200% of the national average weekly wage, subject to a maximum of \$496.

Other provisions would narrow the act's jurisdiction, increase funeral benefits to \$3,000 from \$1,000 and eliminate death benefits to survivors of injured employees who die from causes unrelated to an on-the-job injury.

The bill, proposed by Sen. Don Nickles, R-Okla., is expected to be considered by the full Senate in late June or early July, insurance industry sources say. A similar bill is pending in the House Education and Labor Committee.

Firms dismissed from suit

BLOOMINGTON, Ill.—A McClean County Circuit Court judge has dismissed four U.S. companies from a case involving 54 former workers at Unarco Industries Inc. or their survivors. The workers allegedly had contracted asbestos-related diseases.

Judge James A. Knecht granted a summary judgment May 20 in favor of Unarco, Johns-Manville Corp., Johns-Manville Sales Corp. and North American Asbestos Corp.

Each company had been sued, along with Cape Industries Ltd. of Great Britain and two subsidiaries, as part of a class action by the plaintiffs (BI, Feb. 15).

But because the plaintiffs were awarded damages in a separate trial against Cape last January, they were barred under Illinois law from recovering from the four other defendants, the judge ruled.

Even though the plaintiffs were awarded \$56.8 million from Cape at the January trial, it is uncertain whether they will recover anything. Cape has contested the court's jurisdiction and refused to appear at any of the proceedings.

Another defendant, Raybestos-Manhattan Inc., also sought dismissal, but its request was denied because it was not named in the original class action, an attorney involved in the litigation said.

Open rating advances in Illinois

SPRINGFIELD, Ill.—A bill that would force workers compensation insurers in Illinois to compete for risks has passed the state Senate and is under consideration in the House.

S.B. 1496, introduced by Sen. Aldo DeAngelis, R-Olympia Fields, requires insurers to file workers compensation rates individually, rather than en masse through a ratemaking organization.

The Senate approved the bill May 25 by a 54-1 vote.

Open rating for workers compensation insurance, proponents say, forces insurers to compete on price and results in lower rates for employers. Rhode Island, Oregon, Kentucky, Michigan and Minnesota have already passed competitive rating laws, and several other states are considering similar legislation.

Court delays hearing on refund

SPRINGFIELD, Ill.—The state Supreme Court has delayed oral arguments in an appeal of a lower court order that requires workers compensation insurers to refund \$1.1 billion in premiums to state employers, who contend they have been overcharged since 1979.

The case had been scheduled to begin May 25, but the Supreme Court clerk's office said the court had decided to delay arguments and no new date has been set, but declined to give a reason.

If the Illinois Supreme Court upholds the original order by a Cook County Circuit Court judge, about 170,000 employers in the state stand to benefit from the refund of a 23.8% rate increase approved in 1979, plus 9% interest.

The National Council on Compensation Insurance, the organization that files for rate increases on behalf of the state's 250 workers compensation insurers, filed the appeal.

The NCCI, employer groups charge, did not include investment income when they calculated the 1979 rate proposal. As of September 1980, however, Illinois law was changed to include investment income in ratemaking.

Last year, employers and insurers attempted to settle the dispute out of court (BI, July 27).

Oil rig slip limits to rise

LONDON—Lloyd's of London will increase the limits on its master oil rig slip to \$850 million from \$750 million, London sources say.

The slip, which covers thousands of oil rig operators around the world, has not been increased for several years. The coverage is currently up for renewal.

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Court invalidates cover for controllers' walkout

By BILL DENSMORE

NEW YORK—A New Jersey-based medical lab is going to New York's highest court in its fight for coverage under a \$3 million strike

insurance policy purchased before last year's air traffic controllers' walkout.

Metpath Inc., which had bought the insurance to cover extra expenses of delivering lab results to

clients if there were a strike, is seeking less than \$1 million in damages in its appeal to the New York Court of Appeals.

The state's Supreme Court May 13 nullified the coverage and also ordered the premium returned.

The coverage controversy hinges on whether the strike was still a "strike" after President Reagan fired the controllers (BI, Sept. 7, 1981).

The Supreme Court said it wasn't a strike and the claim for extra expenses incurred by Metpath in transporting its medical lab results was correctly denied. It also ordered the insurer, Birmingham Fire Insurance Co. of Pennsylvania, to refund the \$170,000 advance premium Metpath paid for the coverage.

The court, by a vote of 5-2, said that President Reagan's action nullified the coverage placed with the AIG affiliate. The strike was only a strike for three days, until Presi-

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Agents: Time is running out

• Agents and brokers: You have several more days to be included in this year's *Business Insurance* directory of agents and brokers.

Your completed questionnaire must be in our Chicago office by June 4 to be included in the directory that will be published in the *Agent/Broker Profile* issue June 28.

If you have not received a questionnaire, contact Sallie Drury today at 312-649-5398.

• Excess/surplus brokers, managing general agents, underwriting managers and surplus lines insurers should be on the lookout this week for a *Business Insurance* questionnaire. Our annual directory of surplus lines professionals will be published Aug. 9, but to be included your completed questionnaire must be received by July 5.

If you are a surplus lines professional and do not receive a questionnaire by June 4, contact Ms. Drury.

Insurers have change of heart on NBC claim

By STACY SHAPIRO

LONDON—Could the U.S. boycott of the 1980 Olympics in Moscow be considered a war risk?

Some of the U.S. insurance companies that paid a portion of a \$76.5 million claim to NBC on a cancellation insurance policy after the United States boycotted the games because of the Soviet invasion of Afghanistan believe the loss could have been a war risk. They apparently are having second thoughts about paying it.

And the questions they have raised already have influenced the market for cancellation insurance for the 1984 Olympics.

The insurers involved in the NBC claim from 1980 have called for arbitration in that coverage dispute, says Ralph Palmieri, executive vp for the First State Insurance Co. in Boston, a subsidiary of The Hartford Insurance Group.

"Yes, we are involved in this and certain elements about the claim will be arbitrated," said Mr. Palmieri, although he wouldn't give details.

NBC, however, is not directly involved in the arbitration because its claim was paid in full in 1981, says Dorothy Calvalcante, NBC's director of insurance.

"We were reimbursed for the entire loss," she said. "We received payment a short time after the claim was made."

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BART loses in first trial arising from '79 fire

By RHONDA L. RUNDLE

OAKLAND, Calif.—A recent \$50,000 jury award to a man who claims he suffered severe psychic injuries in a Bay Area Rapid Transit train fire three years ago is the first trial decision arising out of the accident.

The rush-hour fire occurred Jan. 17, 1979, in the underwater transbay tube linking San Francisco to the East Bay. One fireman died and 46 people were injured (BI, Feb. 5, 1979).

Plaintiff Donald E. Montgomery, a 56-year-old electrician, claims he could not return to work for six months after the fire because he developed a phobia for electrical equipment. He sought \$175,000 in compensatory damages.

Riding in the last car, Mr. Montgomery had a clear view of the fireball and burning cars. He apparently feared the underwater tunnel would cave in. The train was stopped for more than 40 minutes before passengers were evacuated.

BART officials do not believe that Mr. Montgomery's emotional and personal problems were caused by the fire. But the transit system's attorneys have not yet decided whether to appeal the Alameda County Superior Court decision, reports Jordan Tolchin, who became BART's insurance manager last September.

If BART pays the \$50,000 award, it will be the largest payment it has made for fire-related claims. Thirty-two others have been settled in amounts averaging about \$1,000. Nine passenger claims are still pending and could come to trial if settlement negotiations are unsuccessful.

BART has refused to settle any of the 28 lawsuits filed by firefighters, including claims brought by the dead fireman's family. BART says the firefighters' recovery should apply that prohibits recovery of damages for job-related injury or death. The issue is pending in a state appeals court.

Also pending are three claims filed by ambulance attendants injured after the accident. "These are in limbo—I expect everybody is waiting to see what happens with the firefighter claims," he said.

All liability losses from the fire have been paid by BART, which self-insures its first \$5 million of liability exposure. A multimillion dollar excess liability insurance program is underwritten by a number of U.S. and British insurers.

Property claims resulting from the fire were \$6.3 million as reported earlier (BI, Aug. 25, 1980). BART self-insured the first \$1 million of exposure and carried \$50 million in property insurance spread among U.S., Lloyd's of London and British underwriters.



Photo: Wide World

One man died in the July 1979 rapid-transit fire.

errors & omissions

• The U.S. Environmental Protection Agency only requires those hazardous waste generators that store wastes on-site for 90 days or more to purchase liability insurance against sudden pollution incidents. The agency does not require all generators to purchase such insurance, as stated in the May 17 issue. Also, the agency's liability insurance requirements apply only to hazardous wastes as defined by the EPA, not all toxic substances, and take effect July 15.

Fund may pay punitive damages in Hyatt disaster

By BILL DENSMORE

KANSAS CITY, Mo.—A proposal is being hammered out to establish a \$23.5 million fund to resolve punitive damage claims filed in the Kansas City Hyatt Regency Hotel skywalk disaster.

The settlement proposal involves attorneys for the plaintiffs, defendants and insurers involved in a class-action lawsuit but would only tap the insurance available to the five defendants involved in the construction of the hotel and not the insurance of Hyatt Corp., which operated the hotel, or Hallmark Cards Inc., whose subsidiary owned the hotel.



M&M backs CU in cover debate

KANSAS CITY, Mo.—Marsh & McLennan Inc. is lining up against Northbrook Excess & Surplus Insurance Co. in complicated legal maneuvering over the order in which insurers are liable for the claims in the Kansas City Hyatt Regency Hotel disaster.

M&M, broker for both major defendants in the skywalk collapse suits, asserts in recently filed court papers that Northbrook fails to recognize the intent of the policyholders and ignores its own policy provisions when it argues that Commercial Union Insurance Co. should respond to the millions of dollars in claims.

M&M urges the state court to deny Northbrook's request that CU be declared an underlying insurer and ordered to pay its full limits of \$11 million toward claims settlement costs borne by Northbrook.

Northbrook wrote a \$25 million umbrella policy excess of the \$1 million primary layer purchased by Hyatt Corp., operator of the Kansas City Hyatt Regency Hotel, part of \$201 million in coverage for Hyatt hotels nationwide.

Commercial Union wrote a \$1 million policy. *Continued on page 26*

The proposed settlement has been hammered out in at least four closed-door meetings with U.S. District Judge Scott O. Wright in Kansas City over the last two months and during an all-day meeting May 21 among chiefly insurer-hired attorneys at the Chicago law offices of Perry L. Fuller, the attorney for Columbia Casualty Co., one of the CNA Insurance Cos. and an excess insurer on the third layer of the Hyatt line of insurance.

However, continuing disputes among some of the 25 insurers involved in the litigation have delayed an agreement. Judge Wright was told last week that an agreement, if possible at all, will take weeks to conclude.

Earlier this month, Judge Wright ordered depositions and other discovery in the class-action suit halted after he was told a settlement appeared near.

On May 24, however, the judge ordered deposition taking resumed. The testimony of Hallmark Cards Inc. President Donald J. Hall is now scheduled to begin June 10.

Under an order of Judge Wright, the deposition is to be taken privately. However, under Federal Rules of Civil Procedure, the transcript of the deposition must be filed publicly with the court clerk within 30 days after it is delivered to the attorney of the person who testified.

So far, no depositions in the Hyatt case have been filed in compliance with the rule.

All attorneys involved refuse to discuss the proposed punitive damage fund, citing mutual agreements and a request from Judge Wright.

However, it is understood that Irving Younger of the Washington, D.C., law firm of Williams & Connolly, the lawyer appointed by Judge Wright to represent the victims in the suit, originally sought a punitive settlement of \$50 million. It also is reported that the principal defendants, led by Hallmark, may have countered with an offer of \$10 million to \$15 million.

Now, several sources familiar with the negotiations say, \$23.5 million is the amount on the table. That figure represents approximately the amount of insurance coverage available to a group of five defendants—other than Hyatt. *Continued on page 26*

Sisters file \$12 million claim against Hilton one day after fire

By STEPHEN TARNOFF

CHICAGO—The first lawsuit claiming damages in the May 23 fire at the Conrad Hilton Hotel that killed four people and injured 23 others names Hilton Hotels Corp. as the sole defendant.

One day after the fire, sisters Gwendolyn Hurley, 42, and Nancy Downs, 40, filed suit in Cook County Circuit Court seeking \$12 million in damages from the hotel chain. They say the hotel was negligent in notifying guests of the fire and helping them escape.

Hilton's estimated \$400 million in liability insurance and \$200 million in property coverage should be substantially more than enough to cover losses. Property damage from the fire is estimated at \$3 million and business interruption at \$2 million.

Both of the plaintiffs in the lawsuit were staying at the hotel while attending a National Restaurant Assn. convention, whose registrants had crammed Chicago area hotels. Both plaintiffs suffered from smoke inhalation.

They, along with many of the victims, were staying on the 22nd floor when the blaze broke out about 9 a.m. The fire was confined to that floor but quickly spread thick smoke throughout the upper floors in the 25-story hotel.

One of the four persons killed was Abdelaziz Belal, a city official from Casablanca, Morocco, who

was touring the United States.

Preliminary investigations into the cause of the fire indicated that it may have started after smoking materials ignited a mattress. The fire flashed out of control, spreading thick smoke through the upper floors.

Chicago police last week also were looking into the possibility of arson. They were hoping to find and get information from a woman with a record of prostitution who was alone in the room where the fire started. She had had an argument with the room's occupant, police were told.

The hotel has no smoke detectors and its sprinkler system is installed only on exhibition hall floors on the lowest levels, a spokesman for the Chicago Fire Department said.

There was no audible fire alarm for guests on the 22nd floor. The only manual fire alarm box on the floor sends a silent signal to the hotel switchboard and the engineering department.

Hotel personnel warned some of the guests by telephone while fire department personnel began warning others to evacuate after they arrived, according to a Hilton spokesman.

Hilton has about \$400 million in liability insurance to cover any losses, according to Hilton counsel Timothy Applegate. "Obviously, there is adequate coverage." *Continued on page 30*



Photo: Wide World

A Hilton waiter serves soft drinks to firefighters.

Despite losses, coverage plentiful

By BILL DENSMORE

Despite four hotel catastrophes in 18 months before the recent Chicago Hilton fire, there is plenty of property and liability insurance around for hotels, sometimes at falling prices.

After 249 deaths, nearly 800 injuries and hundreds of millions of dollars in losses in the five hotel catastrophes, underwriters are still flocking to share in the juicy premiums and large-scale liability and property risks of major hotel operations, a *Business Insurance* survey shows.

The major impact of the deaths, injuries and losses may be to make hotel managements more safety conscious and insurers more aware of the millions of dollars they have at risk, say those surveyed.

Cash-flow underwriting via rock-bottom rates and availability of cheap reinsurance are cited as the main reasons for an abundance of insurance to cover the nation's 2.25 million hotel and motel rooms.

"You're talking about lots of dollars and people are chasing dollars," says the director of facultative property underwriting at a major U.S. reinsurer.

"I've noted hardly any real change at all," says an executive at one of the nation's principal reinsurance intermediaries. "The market seems to have an unending willingness to take punishment."

Anywhere from 30 to 40 reinsurers can be expected to express interest in the lower-limit layers of a hotel chain master package, the intermediary said.

"Most hotel owners, however, are running scared and would be pressing their brokers to buy as much as they can," he added.

Some subtle changes in the insurance market for hotels and motels emerged in conversations with insurers, reinsurers, intermediaries, brokers and risk managers:

- Some excess insurers are beginning to spread their capacity between low-layer and high-layer participation. They prefer to take, say, a \$5 million rather than a \$10 million chunk at lower levels but then will come in for another bite at the very high excess levels, says an underwriting manager for one of the excess insurers involved in coverage for the Hyatt Corp.

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Bill would let states close problem METs

By JERRY GEISEL

WASHINGTON—If Congress moves quickly, state regulators soon could have the power they want to close down poorly managed self-funded multiple employer trusts before they dump unpaid medical claims on small employers.

Rep. John Erlenborn, R-Ill., introduced on May 21 legislation that would force the self-funded trusts, which provide comprehensive medical benefits, to abide by state insurance laws, including reserve and contribution requirements.

Giving the states this clear-cut power will fill a regulatory vacuum that has allowed mismanaged self-funded METs to operate for years outside of state or federal supervision.

The collapse of self-funded METs has become a national scandal as the trusts, which are supposed to bring the advantages of group health insurance to small employers, failed, often leaving behind millions of dollars in unpaid medical bills.

And regulators say the most recent failures may only be the beginning of a new round of

self-funded MET insolvencies.

But the chances of congressional approval of the Erlenborn bill are unclear. Although the measure has bipartisan support through its co-sponsor, Rep. Phillip Burton, D-Calif., chairman of the House Labor Management Relations subcommittee, time may work against the bill because Congress is behind on its work on the federal budget.

For more than five years, state insurance departments have been fighting for the power to shut down mismanaged METs, saying they are unauthorized insurance operators. But the administrators of the self-funded METs say the trusts are employee benefit plans protected from state regulation by the Employee Retirement Income Security Act.

And when state regulators have gone to court seeking permission to examine a MET's books or to force them out of business, the

METs have said the states have no authority to do so because ERISA pre-empts state law.

While these legal battles were being waged, the METs continued to operate. By the time the U.S. Labor Department or a court ruled whether a MET really was an ERISA benefit plan, the MET in many cases had gone bankrupt, leaving policyholders with unpaid medical and hospital bills.

Under Rep. Erlenborn's bill, H.R. 6462, a MET still could apply to the Labor Department for ERISA certification, but even if it were granted, the trust still would be subject to any state rules on reserves and contribution levels.

And while Labor Department approval is pending, the MET still would have to meet all state insurance regulations or the state could force it to get out of business. Under the bill, a self-funded MET is presumed not to be an ERISA plan until it receives a favorable ruling.

The legislation states that the Labor Department's decision could not be appealed in court unless the ruling was "arbitrary and capricious."

For the Labor Department to recognize a self-funded MET as a bona fide employee benefit plan, the MET must prove, among other things, that it is controlled by participating employers, not a third-party administrator. Few self-funded METs can meet this test.

Those that do are not approved by the department would be subject to all of a state's rules governing insurance operations. Few can meet those now and would be forced to close.

The provision in the bill that would allow a state to close down a MET even while it is awaiting certification as an ERISA plan will greatly cut down on the number of policyholders stuck with unpaid medical bills when METS collapse, supporters of the legislation say.

And allowing the states to quickly step in will eliminate the problem of poorly managed self-funded METs continuing to operate by taking their case to court and then using delaying tactics to prolong a decision.

For example, the Idaho Insurance Department. *Continued on page 28*



Rep. Erlenborn

District raises premium contributions

The Bismarck, N.D., School District has agreed to increase its contributions toward employee health insurance premiums to cover a proposed 20% rate increase.

Starting Oct. 1, the school district will pay up to \$120 a month for an employee's health care coverage. This will especially help workers who have family coverage.

Currently, the district contributes \$105 per month for family coverage, while employees pay \$5 per month through payroll deductions. However, if the rate is increased 20%, the new monthly premium will be \$132; the school district now would pay \$120 of that.

The district also pays the full cost of single and dependent coverage, which currently is \$44 and \$67 a month and will remain well within the district's contribution

benefit beat

even after a 20% rate hike.

Under the new contribution schedule, won by the Bismarck Education Assn. during recent contract negotiations, the school district will contribute \$750,000 annually to employee health insurance costs. It currently pays \$675,000.

The basic health plan, underwritten by Blue Cross/Blue Shield of North Dakota, covers all costs for plasma, dental and medical emergencies and diagnostic services. It also pays a maximum of \$100 for ambulance services. Employees pay only a \$25 per-claim deductible for basic medical care and a \$50 per-family annual de-

ductible for their hospitalization charges.

The major medical portion of the plan covers 80% of all charges up to a lifetime maximum of \$500,000. Employees must pay a \$.00 annual deductible.

The school district also will add a new vision care program for its 535 employees if income received from the state is sufficient.

401(k) plans

Salary reduction plans, also known as 401(k), or deferred contribution plans, are gaining in popularity, according to a study by Buck Consultants Inc.

In a recent survey of 150 major employers, 101 said they plan to provide, are likely to provide or are favoring salary reduction plans for their employees.

At least 20 of the companies—all with 5,000 or more employees—said they would offer a salary reduction plan as an optional feature in an existing company retirement program.

Many benefit managers said they would match employee contributions in whole or in part. Some said they would include loan provisions with their plan.

Salary reduction plans, made possible last year through provisions in Section 401(k) of the Internal Revenue Code, now allow employees to convert up to 10% of their taxable salaries into tax-deferred retirement savings.

Retiree benefits

More companies are expanding benefit programs to their retired workers, but they aren't setting aside funds to pay for them.

In a survey of 143 pension plans, New York-based benefit consultant William M. Mercer Inc. found that 84% of the plans offered medical benefits to retirees, while 78% provided death benefits.

However, just 18% of the plans that offered death benefits and 5% of the plans that provided medical benefits to retirees used some form of actuarial funding or "expense recognition" to cover future costs.

The Financial Accounting Standards Board is considering whether there should be guidelines on how to report the future costs of paying for Other Post-Retirement Benefits, or OPRBs.

Due to the growing number of retirees, "companies at this time should, minimally, examine their OPRB situation and, where necessary, calculate advance funding costs and accrued liabilities," says Barnet Berin, managing director and chief actuary at Mercer. "The promise being made to employees and retirees should be very carefully reviewed."

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

WHEN IS MERGER THE ANSWER?

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We will explore the Agent's Dilemma in terms of the latest product-market matrix. We will explore the role of the agent as "family financial counselor" and teach what he must do to compete against the new marketing giants—themselves the product of merger. You will learn organization in terms of the strategic and tactical necessities of today's marketplace. And relate that to the decisionmaking process. Then we will examine the "tech-

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Justice Dept. okays policy purchase

WASHINGTON—The Justice Department has given Southern Railway Co. the green light to buy liability insurance from Harbor Insurance Co.

The Justice Department had been asked by Marsh & McLennan, the Washington-based railroad's insurance broker, and Continental Corp., Harbor's parent company, whether Southern would violate antitrust laws by buying a Harbor policy, which M&M recommended after receiving bids from several insurers.

Continental and Southern have one common director. As a result, Southern was concerned that buying insurance from Harbor, the Continental subsidiary, would violate Section 10 of the Clayton Antitrust Act.

Section 10 bars dealings without competitive bidding between common carriers and other companies that share the same officers and directors.

Although the same person sits on both the Southern and Continental boards of directors, Southern does not share officers or directors with Harbor.

M&M was hired to make an objective recommendation on what insurance policy best met Southern's needs, the Justice Department noted.

"Based on these considerations, should Southern decide to accept an insurance package set up by Marsh with coverage by Harbor, the Department of Justice has no present intention to institute enforcement proceedings under Section 10," said William Baxter, assistant attorney general in the antitrust division.

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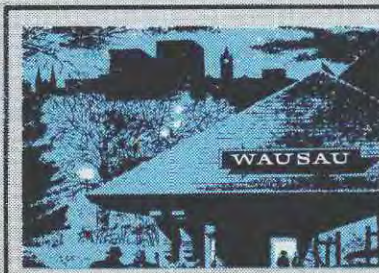
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editorial opinions

If you can't stand the heat . . .

Workers compensation experts long have warned that claims for occupational disease will be the biggest workers compensation problem of tomorrow. Most experts, however, have focused their concerns on occupational diseases related to continued exposure to hazardous substances, such as asbestos.

Now we have a teacher in Texas getting workers compensation benefits for injuries caused by standing in front of the classroom (*BI*, May 24).

We don't doubt that the teacher's arthritis was indeed aggravated by standing in front of the classroom. But, up to what point are we as a society going to compensate professionals and craftsmen for the wear and tear related to their jobs?

Should we pay workers compensation benefits to business people whose jobs require a lot of wining and dining? Should their deteriorating physical fitness be compensable? (Maybe Johnson & Higgins in New York had this in mind when it told its brokers to stop imbibing at lunch time.)

Should we pay workers compensation benefits to a chef who contends his illnesses are worsened by a weight problem that clearly is related to the amount of fattening foods he prepares and must taste?

Can you imagine a claim for deformity from secretary/typists who argue that their middle-age spread is really caused by being tied to their chairs all day?

Or how about the risk manager whose blood pressure is affected by the constantly changing quotes and conditions of the insurance marketplace?

Does he or she have a compensable occupational disease?

Or the morning anchor person who suffers from insomnia from fretting about rising at 3 a.m. to prepare the morning news show?

Farfetched? Maybe. But we raise these examples to suggest that there are risks in every profession and craft that are obvious and within the control of the employee. They have been referred to with a chuckle as "occupational hazards" and accepted with a degree of macho pride for the ability to endure them.

We are not, of course, suggesting that miners should gleefully accept black lung or chemical workers con-

sent to sloppy conditions and exposure to hazardous substances.

We are suggesting that there needs to be a reasonable balance struck, especially when the so-called injury is obvious and its effects can be mitigated by the employee, both on and off the job.

The winers and diners can control their appetites. The chef can stop tasting as much food or move to a low-calorie restaurant. The typists can exercise regularly. The risk manager can get control of the insurance program. The morning anchor person can switch to evening news shows. The teachers can sit down more often.

An employer must provide a safe working environment. But employees also must recognize that there are risks that come with the turf. When an "occupational injury" is related to these conditions, we disagree with liberal interpretations of occupational disease compensation laws.

It's worth trouble

Next time you jump to question the effectiveness of a cumbersome loss control measure, think of child-proof bottle caps.

Most of us have complained bitterly more than once when on a particularly painful morning after a particularly late night, we've had to focus on lining up a tiny arrow with a practically invisible dot to get the lousy aspirin out of the bottle.

You can still complain, but we expect you'll agree with us that it's a small inconvenience to pay for the results achieved.

The national Centers for Disease Control announced recently that since child-proof bottle caps were introduced on containers 10 years ago, deaths from medication poisoning have dropped 41%. It occurs to us some of that decrease can be attributed to better product labeling and safer storage of medicines, but it is still an impressive statistic.

We think the lesson here is that the inconvenience associated with a loss prevention measure is often worth it.

letters

Pulling out of Social Security

To the editor: In your May 10 editorial, "Making Social Security messier," you made the statement: "We also find it disturbing that hospitals won't tell their employees of their intention to pull out of the Social Security system."

I do not feel you have conducted very detailed research on the various procedures a hospital would have to go through before they could make a final decision to withdraw from the Social Security system.

From all the education programs I have attended and hospitals that have given consideration to withdrawing, one of the most critical points stressed was communication to employees. This communication involved the detailed calculation and review with the employees as to how they would have been affected on an individual basis.

In the majority of cases, it had been recommended that a survey of employees be taken to determine if they would be in favor of withdrawing from the system. Even though the hospital would not be bound legally to honor such a determination by the employees, I have heard of no instances where a contrary decision was made.

I do agree that this is a very difficult

decision for a hospital to make and has to be evaluated very carefully as the decision could vary from one hospital to another, based on employee mix and other factors.

John A. Hickam
President
Southern Illinois Hospital Services
Carbondale, Ill.

Women's benefits

To the editor: Your story "Employers say leaving system improves benefits" (*BI*, May 10), gives an erroneous impression on Social Security benefits for women in the system.

You state "under Social Security rules working women do not always get full credit for their own work." However, a married woman may take advantage of whichever benefit is to her advantage—either her own Social Security benefit or the benefit to which she is entitled under her husband's benefits.

Her husband pays the same rate as a single man or woman, so a married working woman in reality gets a greater benefit in many cases than she would from her own working record.

True, she is not entitled to both her own benefit and that to which she could be entitled under her husband's plan, but nothing additional was paid under her husband's plan for the spouse's benefit over what a single employee has to pay for himself.

The working wife then may choose whichever gives her the greater benefit when she reaches retirement age if she is eligible to receive benefits both from her husband's plan and from her own working record.

Eliene Mitchell
Parkersburg, W. Va.

The cruelest month

To the editor: The month of March proved fatal to Julius Caesar, but it is not the cruelest month, as is suggested in Leonard Wilson's May 10 *BI* Ticker column. April has that distinction.

T.S. Eliot's "The Wasteland" begins with these lines:

*April is the cruelest month, breeding
lilacs out of the dead land, mixing
memory and desire, stirring
dull roots with spring rain.*

Thus, it is fitting that the cheerless first-quarter reports, which are the subject of the column, were released in cruel April.

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Traver tells insurers what he wants

By JOHN W. MILLIGAN

SKYTOP, Pa.—Insurers better know what they're talking about before they try to sell a policy to Spencer J. Traver.

Mr. Traver, assistant treasurer at The BFGoodrich Co. in Akron, Ohio, is one man who has the sci-

ence of risk management down to the last computer printout.

Insurers should not, for example, try to sell him coverage at 45 cents per \$1,000 of coverage when he knows that his losses are a lot less.

And they shouldn't base their underwriting decisions on old wives' tales instead of cold, hard

empirical data.

Mr. Traver, in an address to the Inland Marine Underwriters Assn. annual meeting earlier this month, put the insurers on notice that he wants property insurance coverage with broad policy forms and premiums with no fat.

Mr. Traver, first runner-up in the 1982 *Business Insurance* Risk Manager of the Year competition, can be a tough man to do business with, according to personal accounts.

One underwriter for a Philadelphia-based property/casualty insurer, who attended the IMUA's annual meeting, commented privately that it's very hard to make any money on Mr. Traver. He knows too much.

In a conference session on difference-in-conditions coverage, Mr. Traver said he wants only two property insurance policies in his file: primary fire and DIC.

DIC coverage is a distinct class of inland marine insurance combining fire and other property coverages at the catastrophe level. Nick Creatore, senior vp at American Home Insurance Co. and another conference speaker, described the coverage as "all risk" in nature, with the exception of exclusions like earthquake, flood and collapse.

Mr. Traver said he wants only three exclusions in his DIC coverage: nuclear, war and gradual deterioration. "From our perspective, we want them all covered," he said regarding risks like earthquake and flood, suggesting that insurers offer such coverages as "buy-backs."

High-level coverage for earthquake and flood risks will be in greater demand in the future, Mr. Traver said, and told the inland

marine insurers they should not be afraid of including them in DIC policies.

Using earthquake risks as an example, Mr. Traver said insurers could underwrite a risk of such high magnitude by dividing the country into several geographic regions and then restricting the exposure to a prescribed limit per region, spreading the risk.

The ability of insurers to take a number of perils and combine them in one DIC form is "the salvation of the risk manager," he said.

One thing Mr. Traver said he dislikes is an underwriting decision not based on empirical data. According to his internal studies at BFGoodrich, such hard data accounts for only 15% of a premium quote.

Mr. Traver said he was quoted a premium for one BFGoodrich risk of 45 cents per \$1,000 of value, which was described by the underwriter as a "special deal." But Mr. Traver said he knew his losses were only running at 22 cents.

Too many underwriters do not know how to rate a risk "scientifically," he said, and rely instead on factors that are not based on actual experience.

"I beg you to unlearn all the old wives' tales not based on empirical data," he said.

Buying coverage is easier at Goodrich than many companies since Mr. Traver has conducted detailed loss trends on all its exposures, a task that took three years. This loss data, Mr. Traver said, makes it easier to ask for "better covers."

Smaller companies that do not have the resources to develop adequate loss data must forge a "partnership" between buyer and underwriter, he said.

Mr. Traver admitted that the type of underwriting he prefers requires greater contact between the buyer and underwriter than most insurance brokers like.

Insurers should "insist" on buyer contact when underwriting questions arise, he suggested, and should not allow a broker to "muzzle the buyer. You're the one paying the damn losses, the broker isn't," he said.

"Insist on it!"

Mr. Traver also said insurers must strive to lower their expense ratios, making more money available to pay losses.

"If I must bust my tail to reduce expenses in my firm, I think insurance companies should do the same."

Insurance law program offered

WASHINGTON—The Center for Legal Studies of the Antioch School of Law is offering an advanced degree program with a concentration in insurance law for insurance professionals who are not lawyers.

The program teaches students the decision-making abilities and legal skills needed to work effectively throughout the claims process, to anticipate and avoid claims problems and to assess property and liability claims negotiations and settlements.

The fully accredited program, which is taught by practicing attorneys, emphasizes developing competence in understanding the law of insurance, the basic principles underlying the various fields of insurance and the basis of tort and contract liability.

For more information contact the Center of Legal Studies, Antioch School of Law, 1820 Jefferson Place, Washington, D.C.; 202-463-0725.

Underwriters want satellite loss data

SKYTOP, Pa.—The Inland Marine Underwriters Assn. is requesting that rating bureaus add statistical codes to their data systems so they can record loss experience for satellite-related exposures.

Loss data for this line of business is not being collected now.

While it is not defined as an inland marine class in the National Assn. of Insurance Commissioners' Inland Marine Definition, satellite insurance is a property line written by inland marine, aviation and ocean marine insurers.

The line provides property coverage for satellites launched into orbit around the earth, an IMUA spokesman says. It also may cover liability exposures during ground transportation prior to orbit.

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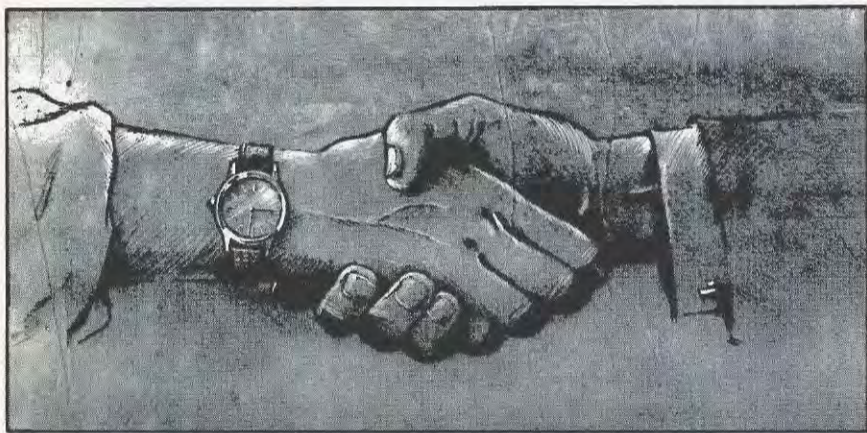
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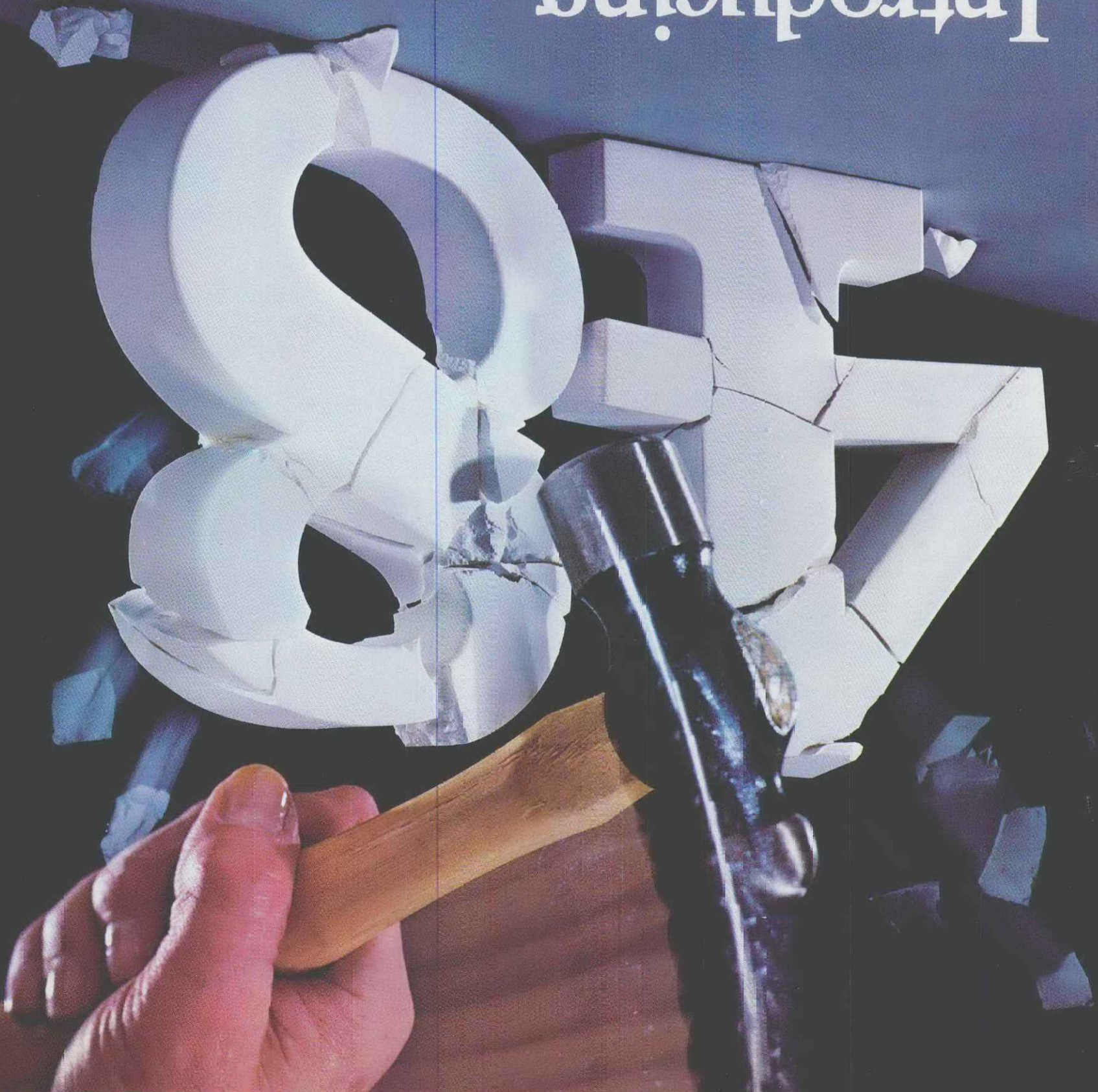
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St. Paul acquires two E/S companies

markets

The St. Paul Cos. Inc. is expanding further into the excess/surplus lines business with the recent acquisitions of two E/S companies.

In the last two months, St. Paul has acquired John H. Crowther Agency Inc., a Minneapolis-based managing general agent and excess/surplus lines wholesaler, and underwriting manager IWest Insurance Managers Inc., based in Stockton, Calif.

Crowther has 11 offices located throughout the Upper Midwest and Pacific Northwest, while IWest has 12 offices along the West Coast.

A new management company—National Insurance Wholesalers—will be formed to oversee the operation of Crowther and IWest. Jack Crowther, president of the Crowther firm, will be named president of National Insurance Wholesalers.

A St. Paul official cited the company's "corporate strategy" to become more involved in insurance-related acquisitions as the reason

for this move.

"These guys fit in very nicely with that," he says.

St. Paul, the official says, does not foresee any "too direct" joint ventures between the E/S firms and St. Paul Fire & Marine Insurance Co., St. Paul's main insurer. This arrangement was adopted to suggest an "arm's-length relationship" with St. Paul Fire & Marine, the official explains.

Australian venture

Robert Hughes Associates has

formed an Australian subsidiary—Robert Hughes (Australia) Proprietary Ltd.—to conduct risk management conferences and seminars.

The Dallas-based risk management consulting firm is starting operations in Australia in reaction to a "growing demand for more professional risk management information and services" in Australia and New Zealand, notes President Robert Hughes.

Located in Sydney, the operation also will provide the Hughes organization with a base for further expansion in the Southern Hemisphere.

West Coast growth

Betterley Consulting Group, the Boston-based risk management consulting division of Tillinghast, Nelson & Warren, has a presence on the West Coast now.

Robert E. Ford has joined the Tillinghast, Nelson & Warren Los Angeles office as vp and a member of the professional staff of Betterley Consulting Group.

Mr. Ford has 15 years of management and consulting experience.

For the last six years he has been a risk management consultant, most recently with Ebasco Risk Management Consultants Inc. He was also a risk manager and an insurance agent for nine years.

Mr. Ford will be involved in client consulting and extending the consulting activities of the Los Angeles office, which so far have been focused on employee benefit and casualty actuarial work.

E/S emphasis

Scottish & York International Insurance Group is placing a greater concentration on speciality and excess/surplus lines business as part of its long-range strategy.

While the Princeton, N.J.,-based insurer is not dumping its standard insurance lines business, it is continuing a "streamlining effort" begun last year to emphasize speciality and E/S markets where the company feels it is the strongest.

New name

Bila/Rigg Inc. has changed its name to Terramar Insurance Managers Inc. and moved to 4615 Post Oak Place Drive, Suite 250, Box 56028, Houston, Texas 77256; 713-626-3220.

Reinsurer formed

Aneco Reinsurance Underwriting Ltd. is a new reinsurance company formed by Aneco Reinsurance Co. Ltd. to accept the assets and liabilities of the parent company's treaty reinsurance business.

Located in Bermuda, the new market has paid-in capital of more than \$10 million. It will be directed by Jonathan J. Crawley, a member of Aneco's board of directors.

Acquisitions

Western Preferred Corp. has purchased Texas-based United Fidelity Life Insurance Co., a subsidiary of The Liberty Corp., for \$70 million in cash and notes.

The Travelers Corp. has reached an agreement in principle to purchase Securities Settlement Corp., the securities clearinghouse unit of Moseley, Hallgarten, Estabrook & Weeden Inc., a New York-based securities firm. The deal will cost The Travelers an estimated \$2.5 million.

New office

Employers Mutual Cos. has opened a branch office at Suite 170, 23441 S. Point Drive, Laguna Hills, Calif. 92653; 714-770-1451.

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An interview with Tony Lubimir, Senior Vice President, Office of Underwriting, The Hartford.

Q. The Hartford is known for the quality of its underwriters. Why is that?

A. Our whole approach to the market depends upon developing and keeping outstanding underwriters. That's why we give top priority to specialized training and career incentives that make underwriting both challenging and rewarding. For example, we created the position of Executive Underwriter for our most experienced professionals. They have broad underwriting and pricing authority coupled with production responsibility. The position may be unique in the industry.



Q. How do insurance buyers benefit from the specialized training of Hartford underwriters?



A. Their insurance needs are addressed by an underwriting professional with in-depth experience and expert knowledge of the particular type of coverage involved. That high level of underwriting expertise is just what brokers and agents tell us

they need to help their clients—especially in the current business environment, where *quality* of protection is as important as price.

Q. How does that underwriting expertise help insurance buyers get high-quality, cost-effective protection?

A. The more underwriters know about available programs, the better they can put together a plan that is truly responsive to a particular situation. This is especially true in complex areas such as Workers' Compensation, where a superficial approach may not produce a program that works in a buyer's best long-term interest.

Q. What happens when insurance buyers need specialized underwriting help on both the Property and Casualty sides?

A. They get it. The Hartford has a well-coordinated team approach that gives brokers and agents unlimited access to specialized underwriting and loss control assistance—in effect, our best corporate underwriting resources—when called for.

Q. Do Hartford underwriters in the field have adequate authority to accept or reject risks without consulting the home office?

A. Because of the superior training and experience of our underwriters, we're able to give them significant authority within which to operate. In fact, over 95% of underwriting decisions are made in our regional offices. Of course, our field underwriters are encouraged to utilize all corporate resources to develop the best approach to a given situation.



Q. Is The Hartford consistent in its underwriting program?

A. It is our policy to be. We don't cover a particular type of risk one year and drop it the next. This will become an even more important factor as the market starts to respond to adverse underwriting results.

Q. How can insurance buyers take advantage of Hartford underwriting capability?

A. By contacting a broker or independent agent who represents The Hartford.



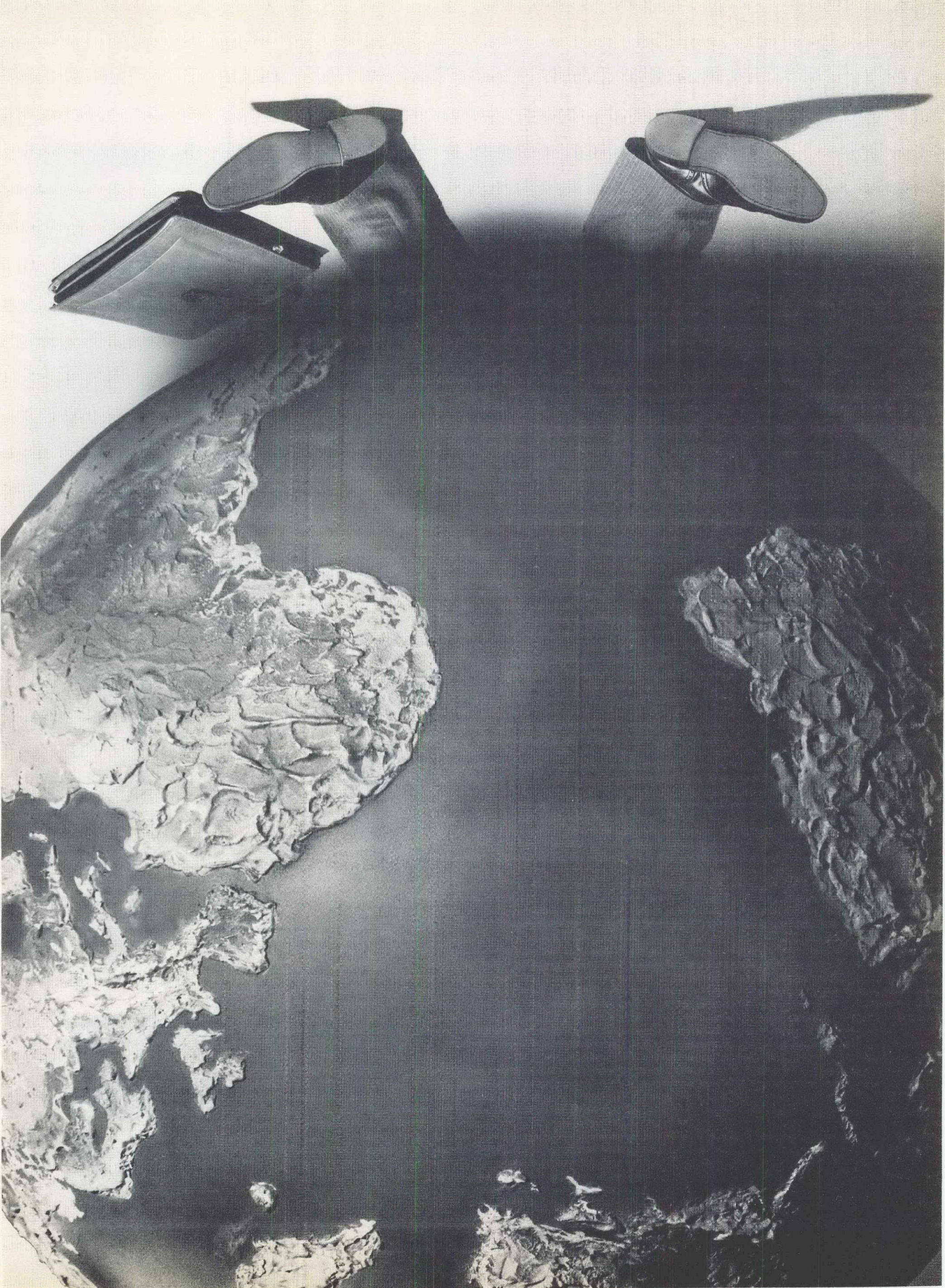
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Colt names Wieschenberg risk management director

Peter H. Wieschenberg, 44, has been appointed director of risk management at Colt Industries in New York. His duties include safety and loss prevention, industrial hygiene, claims management and insurance purchasing. Mr. Wieschenberg most recently served as director of risk management and safety at Rayonier Inc., a division of International Telephone & Telegraph Corp. in Stamford, Conn. He also was director of loss control for the New York department of Hartford Insurance Group, also a division of ITT. Born in West Germany, Mr. Wieschenberg received a bachelor's degree in industrial engineering at the University of Hannover. He also received a bachelor of science degree in manage-

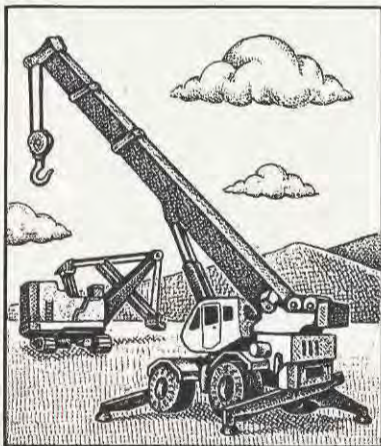
comings & goings: buyers

ment and a master of business administration degree in international business operations from Fairleigh Dickinson University in Madison, N.J. He belongs to the Fisk & Insurance Management Society, the American Society of Safety Engineers and the National Fire Protection Assn. He reports to Dr. Andrew C. Hilton, senior vp and director of administration. Mr. Wieschenberg replaces **Joseph G. Hulwerda**, now director of risk management with Dart & Kraft Inc. in Chicago.

At Rayonier Inc., **Robert C. Elinskas Sr.**, 38, has been named manager of risk management and safety, replacing Mr. Wieschenberg. Mr. Elinskas was previously regional loss-control director with CNA Insurance Cos. in Chicago. He also has held loss-control positions with Hartford Insurance Group, another division of ITT. He received an associate of science degree from Becker Junior College in Worcester, Mass., and a bachelor of science degree in industrial relations and master of business administration degree from the University of Bridgeport in Connecticut. Mr. Elinskas reports to company treasurer Samuel E. Everitt for his risk management duties and to Carl W. Peacock, vp of administration, for his safety management duties.

We'd like to report on risk management or benefit staff changes. Contact Sallie Drury, Business Insurance, 746 N. Rush St., Chicago, Ill. 60611, or call 312-649-5398.

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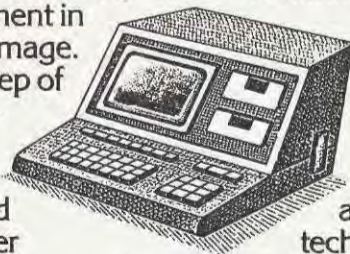
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IRS wants taxes withheld from pensions

By JERRY GEISEL

washington

WASHINGTON—The Internal Revenue Service wants employers to start withholding federal income taxes from their retirees' pensions.

The IRS believes it may be losing as much as \$2.8 billion a year in tax revenue because retirees aren't reporting their pension income.

And the problem of underreporting pension income is expected to grow as more workers retire and private pension plans expand.

To ensure that pension income is reported, taxes should be withheld from pension checks just as taxes are now withheld from salary, according to IRS Commissioner Roscoe Egger Jr.

"In much the same way that initial institution of the withholding system was viewed as a service to wage earners, we believe institution of a similar system for pensioners can be viewed as a benefit, enabling them to continue meeting their tax obligations on a pay-as-you-go basis," Mr. Egger told the House Ways and Means Committee.

But George Cowles, senior vp at Bankers Trust Co. of New York, warned the committee that the cost of starting and maintaining a withholding system for pensions could, in the long term, result in reduced retirement benefits.

Mr. Cowles, who spoke on behalf of the Assn. of Private Pension & Welfare Plans, also said an automatic system "would inevitably result in hardship to recipients because of the likelihood of overwithholding."

Federal tort law

Another insurance trade group has thrown its support for a federal product liability law.

The National Assn. of Casualty & Surety Agents says the growing uncertainty and confusion in the tort arena make a uniform federal law necessary.

"The widening disparities in state tort laws and court decisions dealing with product liability, and the enormous cost to all parties of product liability litigation under the present system led us to the hard reality that a federal reform statute is necessary," said John Doetzer, chairman of NACSA's legislative committee.

Other insurance trade groups that now support federal product liability legislation include the Alliance of American Insurers and the American Insurance Assn.

PBGC premiums

Congress should act quickly to approve increased pension termination insurance premiums to stave off even larger increases in the future, says Edwin M. Jones, the new executive director of the Pension Benefit Guaranty Corp.

The PBGC, the federal agency that guarantees workers' vested pension benefits, wants Congress to approve legislation that would raise the annual premium that companies with pension plans pay to the agency to \$6 per plan participant from \$2.60, effective Jan. 1, 1983.

If the increase's effective date is delayed by just one month, the premium would have to be hiked to \$6.56 to raise the same income as the proposed increase, according to Mr. Jones.

Mr. Jones told the Senate Labor subcommittee that the premium increase is needed to eliminate a \$192 million deficit already confronting the federal agency.

PBGC insurance premiums for single employer plans were last increased on Jan. 1, 1978, when the premium jumped to the current

\$2.60 from \$1.

Tax on employers?

The maximum pension benefit an employer could provide to employees and still receive a tax de-

duction for the contribution would be slashed under legislation, H.R. 6410, proposed by Rep. Charles Rangel, D-N.Y.

A participant in a defined benefit plan would be allowed to receive a maximum annual pension of

\$90,000, down from the current maximum of \$136,425.

In addition, employers sponsoring defined contribution plans or profit-sharing plans could contribute up to \$30,000 per participant to the plan, down from the current \$45,475 limit.

Under the Pension Equity Tax Act of 1982, these maximum benefits could not be adjusted upward to

match inflation.

"I believe that the \$30,000 and \$90,000 amounts for tax-deductible pension plans are entirely rational and defensible limits for government involvement in employee plan development," Rep. Rangel said.

The House Ways and Means Committee will begin hearings on Rep. Rangel's proposed legislation on June 8.

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-Corroon & Black's
Richard A. Loughlin

"Project Orbis first caught Chairman Robert F. Corroon's attention in 1974," says Richard A. Loughlin, executive vice president of Corroon & Black Company of New York. "It was an ambitious plan to build an ultra-modern eye care hospital inside a DC-8, which would fly worldwide and spread the latest in ophthalmological science and surgical techniques."

Now, with Project Orbis literally off the ground, Corroon & Black handles its complex insurance program. "The project," notes Loughlin, "demands an international carrier able to do it all: aviation, malpractice, property, casualty, bond, benefits, war risk. That's why we chose INA."

"Not only is INA truly international, it has specialists in virtually every insurance area, and just as important, the ability to coordinate these experts on an account underwriting basis. They've worked with us on the design

and implementation of the program over an eight year period, through widely fluctuating market conditions, constantly updating the coverage as our projections change."

INA Special Risk, formed in 1977, carries the program now, "which makes it even easier for us to obtain the services we need from a variety of INA people. That's important when you're putting together a risk protection program for the world's first flying medical teaching hospital.

"INA's dedication," he concludes, "has matched that of Project Orbis' creators in making this exciting humanitarian concept a reality."

Several years ago, PPG Industries, a multinational manufacturer of chemicals, glass, fiberglass, and coatings and resins products, took a hard look at its overseas liability coverages.

"Based on our domestic experience with third party and product liability exposures," says Lawrence Call, director of risk management for PPG, "we were concerned that our foreign subsidiaries, which account for about 20% of our total net sales, might be underprotected."

***Meeting
international
challenges
with domestic
experience.***

-PPG Industries'
Lawrence Call



"Buying all the necessary insurance through the home office could have caused tax disadvantages. Besides, it wouldn't have meshed with our local profit center orientation. So instead, we encouraged our subsidiaries to purchase local coverage from admitted carriers at the recommended limits in those countries."

Many of these local carriers were INA International companies, and INA was also involved with PPG back home. "To bring the various policies up to U.S. terms and conditions," explains Call, "we purchased a blanket excess and Difference-in-Conditions policy from INA which unified and strengthened our entire program."

According to Call, INA has helped reconcile PPG's risk management program with its international financial objectives. "INA International's participation has allowed us to broaden coverage, reduce costs, improve our tax position and absorb expenses locally."

"We once relied heavily on retrospectively-rated insurance policies," says Larry Gabriel, manager of pension funding and general insurance for Clark Equipment Company. "But that approach made it impossible for us to accurately predict what our annual insurance costs would be."

The multinational manufacturer of axles, transmissions, material handling and construction equipment moved to solve this problem in 1979 by forming a captive insurance company. Today, with INA as the primary underwriter, the captive reinsures Clark's domestic general liability and workers' compensation coverage, and its foreign property insurance.

According to Gabriel, the captive operation has yielded benefits beyond the initial goal of cost containment: "We now have direct access to worldwide reinsurance markets."

Dealing directly with these markets has enabled Clark to negotiate both single and multiple occurrence loss limits on its foreign property and general liability coverages. These limits help protect Clark against the possibility of a catastrophic loss—as do the company's extensive loss control efforts.

"Our profit center managers know that the captive's fiscal health affects our overall corporate balance sheet, so they're eager to control losses," notes Gabriel. "This has been especially important in the area of workers' compensation, where the cost of benefits increases yearly."

Clark has also improved its cash flow by going the captive route. Explains Gabriel: "At today's high interest rates, our reserves are generating income that will help finance our continued expansion around the world."

***Reaping the
benefits from
a move
offshore.***

-Clark Equipment's
Larry Gabriel



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JUNE 7-8. The Captive of the Future seminar in New York, sponsored by the American Management Assns.; members, \$560; non-members, \$645. AMA, 135 W. 50th St., New York, N.Y. 10020; 212-246-0800.

JUNE 7-11. Basic Safety Management seminar in Houston, sponsored by the International Safety Academy; \$535. Also **July 12-16** in Houston. International Safety Academy, 10575 Katy Freeway, Box 19600, Houston, Texas 77024; 713-932-9400.

JUNE 7-11. Reinsurance Practice course in Warwick, Bermuda, sponsored by Risk Research Group; 630 pounds (approximately \$1,109); 560 pounds for each additional participant from same company (approximately \$986). Course Coordinator, Risk Research Group Ltd., Bridge House, 181 Queen Victoria St., London EC4V 4DD.

JUNE 8-10. Financial Analysis for Risk Management Decisions seminar in Washington, sponsored by Cozzolino Associates Inc.; \$685, plus \$50 registration fee per company. Cozzolino Associates Inc., 12 Chippenham Drive, West Berlin, N.J. 08091; 609-784-7105.

JUNE 8-10. Industrial Fire Brigade seminar in Columbus, Ohio, sponsored by Mead Loss Control Consultants Inc.; \$300. Mead Loss Control Consultants, Courthouse Plaza N.E., Dayton, Ohio 45463;

513-223-1300, ext. 240.

JUNE 8-10. Risk and Insurance Management in Banking seminar in Philadelphia, sponsored by the American Bankers Assn.; \$385 for members, \$480 for non-members. Registration limited to 70 participants. Shelly Davis, Registrar, American Bankers Assn., 1120 Connecticut Ave. N.W., Washington, D.C. 20036; 202-467-4047.

JUNE 9. Risk Management Information Systems seminar in Tulsa, Okla., sponsored by Corporate Systems; \$50. Matt Davis, Corporate Systems, Box 31780, Amarillo, Texas 79120; 806-376-2223.

JUNE 9-11. Advanced Safety Management course in Atlanta, sponsored by International Loss Control Institute; \$350. ILCI, Box 345, Loganville, Ga. 30249; 404-466-2208.

JUNE 14. Analytical Approach to Risk Management seminar in New York, sponsored by *Business Insurance*; \$435. Also **June 16** in Chicago. Beth Levine, *Business Insurance*, 220 E. 42nd St., New York, N.Y. 10017; 212-210-0229.

JUNE 14-15. The Mine Safety and Health Act conference in Denver, sponsored by The Energy Bureau Inc.; \$650. Jane Marsik, The Energy Bureau, 41 E. 42nd St., New York, N.Y. 10017; 212-687-3178.

JUNE 14-16. 1982 Washington Legislative Update program in Washington, sponsored by the International Foundation of Employee Benefit Plans; members, \$390; non-members, \$465. IFEBP, 18700 W. Bluemound Road, Box 69, Brookfield, Wis. 53005; 414-786-6700.

JUNE 14-16. Techniques of Risk Management course in Hartford, Conn., sponsored by the Risk & Insurance Management Society; members, \$345; non-members, \$445; \$195 for each additional participant from same company. Claudia Shneider, RIMS Schools Administrator, 205 E. 42nd St., New York, N.Y. 10017; 212-286-9292.

JUNE 14-18. Recognition of Occupational Health Hazards course in Los Angeles, sponsored by the University of Southern California, Institute of Safety & Systems Management; \$475. USC, Institute of Safety & Systems Management, Office of Extension & In-Service Programs, Los Angeles, Calif. 90007; 213-743-6523/6524.

JUNE 16. Managing the Problem Employee seminar and workshop in San Francisco, sponsored by Golden Gate University's Center for Professional Development; \$150; 10% discount for Golden Gate University alumni or organizations enrolling more than one person. Center for Professional Development, Golden Gate University, 536 Mission St., San Francisco, Calif. 94105; 415-442-7248.

JUNE 16-18. Techniques of Finance and Accounting course in Nashville, Tenn., sponsored by the Risk & Insurance Management Society; mem-

bers, \$345; non-members, \$445; \$195 for each additional participant from same company. Claudia Shneider, Risk and Insurance Management Society Schools Administrator, 205 E. 42nd St., New York, N.Y. 10017; 212-286-9292.

JUNE 16-19. Corporate Benefits Management conference in Stateline, Nev., sponsored by the International Foundation of Employee Benefit Plans; members, \$470; non-members, \$545. IFEBP, 18700 W. Bluemound Road, Box 69, Brookfield, Wis. 53005; 414-786-6700.

JUNE 17. Controlling Runaway Legal Costs for Workers Compensation workshop in San Francisco, sponsored by Golden Gate University's Center for Professional Development; \$150; 10% discount for Golden Gate University alumni or organizations enrolling more than one person. Center for Professional Development, Golden Gate University, 536 Mission St., San Francisco, Calif. 94105; 415-442-7248.

JUNE 17-18. Structuring and Managing Association Captives conference in New York, sponsored by Conning & Co.; \$495. Robert Brian or Lynn Prunkl, Conning & Co., 41 Lewis St., Hartford, Conn. 06103; 203-527-1131.

JUNE 17-19. Corporate Benefits Management conference in Stateline, Nev., sponsored by the International Foundation of Employee Benefit Plans; members, \$470; non-members, \$545. International Foundation of Employee Benefit Plans, 18700 W. Bluemound Road, Box 69, Brookfield, Wis. 53005; 414-786-6700.

JUNE 20-23. Group Health Institute conference in Detroit, sponsored by the Group Health Foundation, an affiliate of the Group Health Assn. of America Inc.; members, \$345; non-members, \$395. Conference Office, Group Health Foundation, 624 Ninth St. N.W., Washington, D.C. 20001; 202-737-4311.

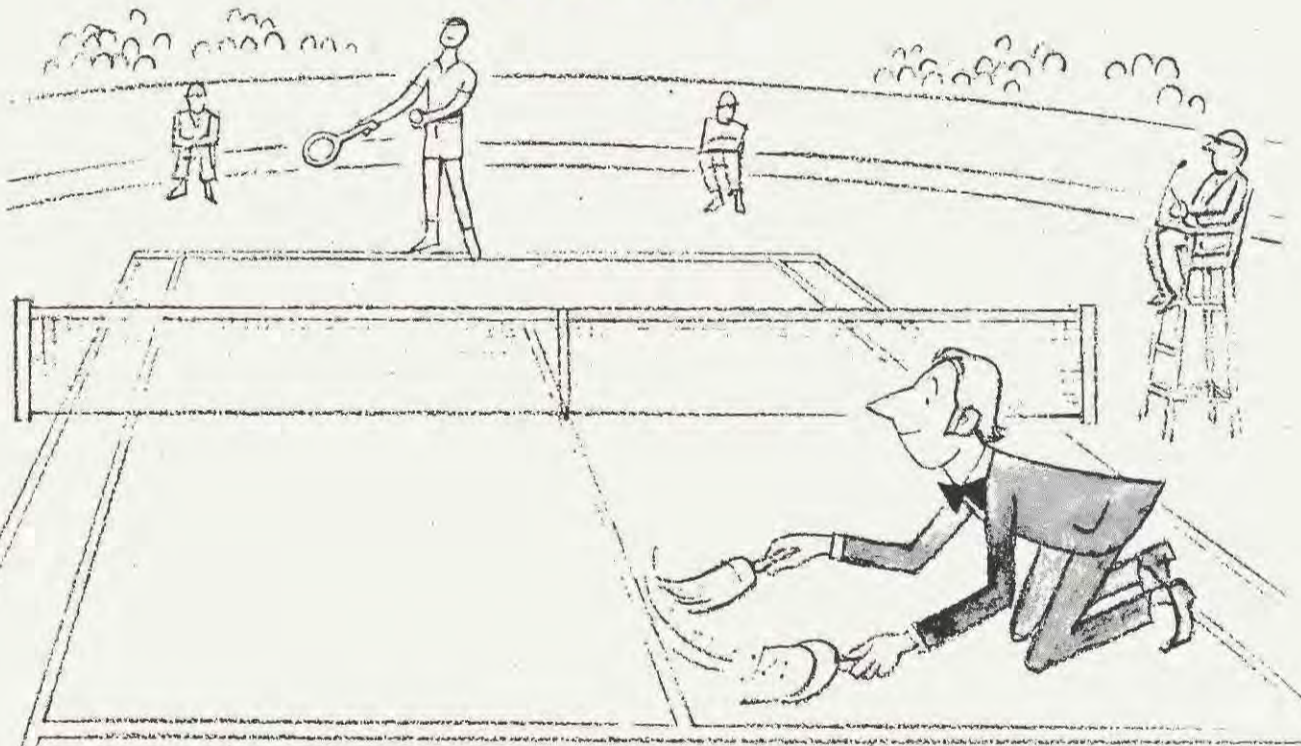
JUNE 21-23. Accident Potential in Workplaces Due to Human Factors course in Los Angeles, sponsored by the University of Southern California, Institute of Safety & Systems Management; \$260. USC, Institute of Safety & Systems Management, Office of Extension & In-Service Programs, Los Angeles, Calif. 90007; 213-743-6523/6524.

JUNE 21-24. Inspector Training seminar in Houston, sponsored by the International Safety Academy; \$490. International Safety Academy, 10575 Katy Freeway, Box 19600, Houston, Texas 77024; 713-932-9400.

JUNE 21-24. Captive Insurance Companies: Establishment, Operation & Management course in Bermuda, sponsored by Risk Research Group Ltd.; 525 pounds (approximately \$935); 500 pounds (\$900) for each additional participant from the same company. Risk Research Group Ltd., Bridge House, 181 Queen Victoria St., London EC4V 4DD, England; 01-236-2175; telex 8811636.

JUNE 24-25. Disability Insurance-Emerging Opportunities seminar in Washington, sponsored by the Health Insurance Assn. of America; free. Health Insurance Assn. of America, 1850 K. St. N.W., Washington, D.C. 20006; 202-862-4066. ■

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- A guide to risks and safety procedures in handling chemical materials, "Precautions for the Proper Usage of Polyurethanes, Polyisocyanurates and Related Materials," has been published by Technomic Publishing Co. This reference book describes the risks related to urethanes, isocyanurates and the chemicals used to make them, including fire, explosion, spills, eye and skin contact, inhalation and ingestion. It also explains required safety steps. It is available in hardcover for \$19.50 per copy. To order write Technomic Publishing Co. Inc., Box 913, Westport, Conn. 06881.

- The National Council on Compensation Insurance has made available two new booklets. The first, "Workers Compensation Expense Program," reviews the **fundamental principles of the work comp expense program**. "Rate-making... The Price of Workers Compensation" presents the **formulas and methods for establishing rates**. To order, send \$2 for each copy to NCCI, Box 6585, Church Street Station, New York, N.Y. 10249.

- Bayly, Martin & Fay has prepared a four-page report also describing the **Risk Retention Act of 1981**. A free copy is available by writing Samuel Alcorn, Senior Vp, Bayly Martin & Fay International Inc., 660 Newport Center Drive, Newport Beach, Calif. 92660.

- A pamphlet for financial institutions listing **sources of information on worldwide terrorist activities and related security measures** is available from the Bank Administration Institute. "Terrorism" is available in quantities of 10 for \$7 by writing Keith D. Marshall, Security Research Manager, Bank Administration Institute, 60 Gould Center, Rolling Meadows, Ill. 60008.

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perspective

NEW TECHNOLOGY

Communications, computers changing the insurance distribution process

By Harold H. Hines Jr.

THE COMMERCIAL insurance distribution business, currently dominated by national and regional brokers, will initiate continuing changes in operating functions and management style. Stimulated by an emerging communications revolution, these changes will redirect actions managements take to gain competitive advantages.

The far-reaching impact of the age of computers, information storage devices, terminals and communication links will influence organizational structure and reorder processes that determine how insurance distribution organizations get things done. As work becomes computer- and telecommunications-mediated, issues managements consider important also will change. So will the corporate demographics of insurance enterprises, the skills distribution professionals possess and the demands customers make as they shape future broker roles.

Understanding operating and management changes can best be approached by examining the history of national and regional brokers. Study of the reasons today's large insurance distribution firms were created and the path of their development will confirm how amenable they are likely to be to forces of new technology.

National and regional companies evolved from the relatively few local agents skillful enough to win substantial commercial customers. Talented local agents, situated in large metropolitan centers with concentrations of headquarters companies, grew successfully because they were able to invent new products, add new services and influence client decisions. As they differentiated their operations from their competitors', they became the foundations upon which today's national and regional brokers were built.

The large majority of successful commercial lines local agents were single-city, single-owner enterprises; a few were multicity aggregations of cooperative entrepreneurs who transacted business as "common identity" partnerships. All were small compared with current national and regional firms, and all had similar organizational structures and management styles.

Because organizational success depended on the ability of the owner or partners to create and hold customers, the size of local agents was limited, the authority of those in control was absolute and the dependence on several represented insurance companies was mandatory. The local agent was subject to the then-inscrutable dictates of insurance

economics and related, seemingly capricious reactions of his insurers.

The owners of local agencies were dedicated to one fundamental task: management of the key people in their client companies who made insurance purchase decisions. Successful entrepreneurs managed their organizations by nurturing personal relationships with existing or prospective customers, and by controlling their support staffs to remove friction between staffs and customers. Simple feedback systems were constructed to be sure all knowledge gained about client attitudes was presented to owners for evaluation and action. All remedies for problems and all realization of opportunities flowed down from above. By juggling the internal contradictions of their businesses—the imperatives of control of customers and countervailing regulation of employees—commercial lines local agents prospered. Customer confidence and employee commitment made their companies work. Productivity was synthesized from the beneficial spirit of intimacy—called personal service—that bound owners, employees and customers in satisfying functional and emotional unions.

The price of intimacy was high, and it became higher as the demands of customers became more complex. The explosive post-World War II business expansion made huge national and industrial companies from previous regional enterprises and multinational giants from former nationally oriented businesses. Mergers and acquisitions accelerated the pace of industrial development, softening the local agent's competitive position and decreasing his productivity.

Tender loving care was no longer the key to satisfactory results. It was overwhelmed by unprecedented need to gather and organize capacity for clients experiencing extraordinary growth. Deficiencies in service to customers with unexpected geographic dispersion



Harold H. Hines Jr. is president of Chicago-based Ryan Insurance Group Inc., whose subsidiaries include brokers and insurance companies. Mr. Hines delivered this address last month to the World Insurance Congress in Philadelphia.

challenged the principle that local agent success could be maintained by managing client personnel who made insurance-buying decisions.

The anachronism was reinforced by the dependence local agents built on the few insurance companies they represented. Because of the volatility of insurance economics brought about by industrial expansion, and because of expensive new interpretations of social justice, insurers no longer provided their local agents with all the capacity and services required. Precipitous price increases or capacity refusals damaged the local agent's ability to satisfy customers.

While use of versatile excess and surplus lines brokers partially alleviated these problems, customer confidence—the Holy Grail of the local firm—began to erode. Erosion was abetted by the aggressive sales actions of direct writers and the few broad-based insurance distribution partnerships whose sophistication and geographic reach gave them competitive advantages over most local agents.

While industrial growth ushered in the age of the national and regional broker, the catalyst for fast change was local agent willingness to join larger distribution organizations in order to retain principal customers. Multicity national partnerships added successful local firms to create more placement power and geographic spread. Leading commercial local agents in New York, Chicago, California and Texas began to acquire desirable firms in other parts of the United States. These quick-moving events established today's national insurance distribution organizations that, financed by public-stock offerings, accumulated revenues sufficient to foster transformations needed to build a secure industry. National and regional broker organizations were free from the specific insurance company dependencies that plagued local firms, and they were sophisticated enough to solve capacity and price problems.

Aided by a period of stock market optimism and their own good performance, the securities of national brokers rose to provide price earnings multiples that supported ambitious purchases of additional revenues through acquisitions of many more local agents. Burgeoning economic and social inflation, allies of insurance industry growth, provided the accelerating profits that fueled the final stages of "the creation" of present national and regional brokers.

As these large distribution organizations were assembled, the need for strong chief executives became clear. Local agent parts of new companies had to be unified rapidly into effective integrated structures. Weak CEOs would have been serious threats to stability and to performance; the need for control and conformity was compelling. Leaders of the new industry deserved accolades for socializing their companies with a high degree of congruity plus loyalty and the sense of internal identity required to build cohesive winning strategies. Top management needed impressive short-term results as antidotes to the natural rivalries and apprehensions of their associates. Harnessing aggregate skills in these new companies for instant success obliged leadership to develop mechanisms to gain fast feedback about ongoing results in order to promote managers able to mold people to fit incipient corporate amalgamations.

National and regional brokers grew because they engineered these socializing effects and because of votes of confidence received from existing clients and from new customers won in battles with local agent and direct writer competitors. Once integrated, big brokers concentrated on managing the functions they performed for their customers. Dramatic market share progress happened when leaders changed management goals from the local agent's exclusive concern with managing client people to new preoccupation with gaining control of the operating parts of comprehensive distribution systems.

Change from past to present began with the institutionalization of client relationships, the breaking down of what remained of the personal control past-generation entrepreneurs had over customers. New awareness of the value of organizational relationships had to be carefully constructed. Customers with new needs had new beliefs that no longer accepted dependence on forceful personalities, but relied instead on the promise of functionally managed organizations.

National and regional brokers added
Continued on next page

perspective

Computers, communications changing distribution process

Continued from previous page

functions of risk management plan design, claims administration and loss prevention and pension consulting to the traditional insurance distribution function of competitively gathering and organizing insurance capacity. In time, actuarial consulting, financial analysis and information retrieval were added as activities to be managed by distribution firms. Commitments to provide these functions over wide geographic areas required pyramid organizations of managerial and professional skills so that functions could be sold to customers as separate or as integrated products or services, all managed to meet acceptable standards. Hierarchical top-down organizations were developed to manage functions for quality outcomes plus ambitious profit objectives.

Centralization was necessary to track employees, profits and client satisfaction and to communicate results to leaders far removed from the fields of day-to-day competition.

Programming systems to obtain reliable information was essential to measure achievement. Leaders learned that it was the systems of an organization, not its pronouncements of strategy or its periodic revisions of organization charts, that told what management really cared about, what vital signs signified progress. Broker executives established systems to verify key operating facts, to tell them if their perceptions of certainty and standards of perfection were happening.

By asserting tight control over those few variables that defined progress, managers were able to advance their companies and to capitalize on the unique circumstances that favored the insurance industry with increasing shares of the gross national product.

Searches for progress in sales growth and profit margins made national and regional brokers anticipate their customers' desires of what products and services ought to be offered and how they should be priced.

These growing companies fought competition by challenging their prospects' tolerance for the status quo and they, therefore, gained their expanding market shares from those less adroit at satisfying customer expectations. National and regional brokers owed their success, to a large extent, to defining price as what the customer paid for a function rather than what he paid for insurance. And, of course, the customer saw the broker as providing functions, not insurance.

When they thought about functions instead of insurance, brokers learned that some customers enjoyed significant bargains where broker costs to provide desired functions exceeded earnings gained from risk transfer placement commissions. To correct these deficiencies (and equally unfair excessive commission rewards), brokers offered fee-for-service arrangements that charged customers for the time and

expense to render services. Fees for service permitted the customer to purchase only what he wanted and the broker to receive compensation commensurate with profit margins needed to secure and advance his company. Fee-for-service compacts forced productivity improvements. National and regional brokers found that divisions of labor, formed by separating functions, opened avenues to better performance and higher margins.

By purifying standards of work output and by preparing contingency procedures

customers want, other organizations will have the vision and the energy to encroach on the insurance distribution domain. Returns on innovation will be slow and uncertain, but they will be worth the investment, because they will result in survival and progress.

To meet the future with certain success, national and regional brokers will re-evaluate the wisdom of continuing to manage functions in the neat triangle of strategy, structure and systems that evolved as mutations of their local agent heritage. Opposition to

'Clients are demanding reduced service and placement costs plus more effective communications, and new technology creates conditions conducive to achieving this step.'

to meet deviations from expected results, large distribution companies were able to monitor functions to be sure wanted outcomes happened.

The tight controls that emanated from central management did not impair productivity at the extremes of organizations; in fact, brokers learned that inefficiency's greatest ally was loose direction and that exercises of authority over margin expectations actually enhanced productivity. In their quest for improvement, brokers encountered a widespread dilemma concerning the promotion of very productive people.

Because the best people in each functional area were either promoted to management jobs in their own companies or recruited to management positions in competitor firms, brokers were rarely staffed with an abundance of very qualified people. Brokers sometimes suffered from inadequate leadership in key geographic and functional places. This remains the price new industries pay when there are many near-equal competitive units and when each can easily copy the ingenuity of its competitors by simply hiring its competitors' people.

Brokers are still "follower companies" that watch expenses to avoid the high costs of innovation. Insurance brokers allow outsiders to develop ideas that might conflict with certain vested interests. But ideas, once tested and proven reliable, are immediately adopted by the brokerage industry.

Examples of "follower strategies" can be observed in the property captive insurance movement of the 1960s and in information retrieval developments of the 1970s. These valuable innovations were invented by firms outside the brokerage industry. To meet the future with the same success they enjoyed at their beginning, national and regional brokers will have to become more innovative, more prone to assumptions that existing products and services may become obsolete. If the brokers fail to fill gaps between what they offer and what

change will be as natural as regression to strategies and structures that dominated the commercial local agent's most prosperous period. Creation of account managers to coordinate functions for client buyers will continue to be a widespread approach to progress that has its genesis in two basic facts: memories of past successful solutions and knowledge that most factors that differentiate one national or regional firm from another are disappearing.

Follower strategies have made most brokers the same as their competitors. This reality has motivated some companies to try to dominate customer insurance purchase decision makers in the local agent mode. This strategy works where competition is ineffectual or unbalanced. Other firms have developed international organizations or relationships to expand where opportunity may be greater or competition weaker.

In time, balance will be achieved by all surviving competitors, balance that will offer few differences in functions performed and prices charged. Such balanced competition will reduce profit margins while it enhances customer satisfaction.

Breaking away from today's situation, where most national and regional brokers offer the same services and generally find the same risk placement solutions, will challenge the ingenuity of the industry's best leaders. Some will conclude that consulting functions with large "value-added" components and no implementation-costs are what they wish to provide; most will decide to fight the tough market share battles associated with implementation of risk placement plans and service programs.

For the majority who choose implementation rather than consulting, the future will be full of conflict with insurance industry underwriters and service suppliers. Those who select consulting will not find an easier road, for they will be competing with facile financial institutions and management

consulting companies outside the insurance industry, businesses that are already expanding their expertise to become involved in risk management and insurance issues.

In both scenarios, attention will be directed to redundant costs in all parts of the risk management and insurance process. Customers are questioning why there are such long chains of transactions and so much friction in the conduct of the commercial insurance business. National and regional brokers will have to give more attention to the management of process to survive and prosper.

The managing process will require controlling and accounting for all costs and events that begin with risk management analysis and plan design, extend through every external and internal service support function and conclude with the broad spectrum of risk transfer and risk spreading mechanisms.

It is instructive to reiterate that management concern in the insurance distribution business has changed from close attention to client people management to consuming care for service functions.

Insurance brokers are now ready to move to process management because clients are demanding reduced service and placement costs plus more effective communications, and because new technology creates conditions conducive to achieving this next step in the evolution of insurance distribution. By managing process, national and regional brokers will more directly influence the organic workings of the entire commercial insurance industry.

Process management will attack the inefficiencies of the insurance industry, which is clogged with excess paperwork, too many salesmen churning placements at very high cost and too many support personnel in line and staff roles that impair internal operations and aggravate external relations.

There must be dramatic reductions in labor cost components of all premiums in order to deliver what customers want. Commercial insurance prices currently allocate an average of 25% of each premium dollar to cover distribution, underwriting and service support expenses. Buyers want relief; they are asking that more of their premiums go to pay losses.

Technological building blocks are available to allow brokers to address these issues. Brokers can manage process by redesigning organization structure and work practices. Computers, information storage devices and communication links can be used to integrate risk management planning and risk transfer transactions through on-line manipulation of assembled data at terminals close to customers, brokers and underwriters.

Networks of interacting telecommunications systems can form

Continued on facing page

Continued from facing page the infrastructure of the future insurance distribution business, a business that will become oriented to deliver on-line responses to perpetual client inquiries. A sustained dialogue will monitor moving perceptions buyers and underwriters have of risk content and risk pricing. By uninterrupted monitoring of fluctuations in the financial and operating facts of his company, the risk manager will be able to evaluate the dynamics of his company's ability to assume or transfer risks. Brokers will possess the machinery and the systems to facilitate these evaluations and transmit them to underwriters along with moving requests for coverage and price reactions. Underwriters' reactions will be supported by equally fluid reinsurance commitments, so that terms and conditions of coverage will become wire or radio wave transfers of related agreements stored in information banks accessible to all transaction parties and subject to fast mutually agreeable modifications.

Telecommunications networks of buyers, brokers and underwriters will move commercial insurance industry documentation from the static ad hoc contracts of today to the transitory, cybernated agreements of the new era. Tomorrow's systems will set up new connections between buyers and underwriters that will improve the flow of information to better articulate risk content and better appraise transfer pricing.

Collection and conversion of information to facilitate risk content and risk pricing decisions will be a distribution system responsibility that will not impinge on buyers' or underwriters' prerogatives. Placements will be based on stored knowledge with proprietary access for all parties who use collected information to create the knowledge to support decision making.

Only by managing the process of risk management decision making and risk transfer pricing will brokers—the collectors, convertors and storers of knowledge—have a place in the communications era. Risk transfer terms and prices will still be set by underwriters, and buyers will always be able to choose what they wish to buy.

The substitution of electronic media for paper processing will make the distribution business more abstract; handling paper has been more concrete whereas using "floating data" will be very intangible. Paper is the costly enemy of insurance industry efficiency. When work currently done on paper is conducted through word processors, electronic message centers, facsimiles and microfilm, machines will replace paper and files.

Accelerating labor costs will be replaced by diminishing machine costs. Communications networks that link machines will make insurance work like money, an abstraction that is both real and intangible; centrally allocated by underwriters and decentrally used by buyers; tied together by a distribution system that makes buyers and underwriters interactive.

New coordination will shift communications between risk transfer transaction parties from cause and effect relationships to feedback and feed-forward systems. Using computers to design, place and store insurance coverage will lower the cost of protection

and the cost to bring transaction parties together. Efforts by brokers to manage process will push the entire spectrum of risk management and insurance activities closer to the customer by bringing the customer inside the industry's workings.

These practices will improve customer satisfaction and arrest trends of the past decade which have made buyers more remote from certain mainstream underwriting. Some buyers have become too distant from the intrinsic nature of insurance, which operates at the commercial level through a combination of individual buyer losses, aggregate insurance industry losses, the expenses to service both and the value of the difference between monies collected and monies paid out.

The new infrastructure will improve returns for all transaction parties as it encourages more effective trade and discourse between transaction parties.

The insurance industry will be very reluctant to change traditional ways of handling responsibilities and ordering relationships. Inertia is best illustrated by the unsuccessful efforts some progressive insurers and reinsurers made to implement a well-planned electronic reinsurance exchange (REX). Use of current technology allowed insurers and reinsurers to communicate information and responses by wire. Fast interactions between insurers and reinsurers had the potential of reducing the cost to spread commercial insurance risks in the United States and eventually throughout the world.

Resistance to REX was prompted by the violence the concept did to traditional person-to-person negotiations that nourish trust and feelings of usefulness. By avoiding the pleasure and security of customary face-to-face discussion between insurers and reinsurers, REX caused resentments which made a good idea fail.

Human resistance will always oppose technological progress, and it will

use of pertinent vital signs data will allow managements to test hypotheses before new control ideas are introduced.

Analysis will determine not only what operating events happened, but whether they occurred for reasons anticipated.

Applications of technology will enable the insurance distribution business to overcome lack of economies of scale which the insurance business shares with most other service enterprises. As the volume of risk transfer and service transactions increased from the time of the local agent's transition until the present, there has been a proclivity for control based on coordination and administration activities.

Hierarchy and occasional bureaucracy have grown up to damage pursuit of maximum efficiencies. Brokers will shift customers from secondary users of electronic products (who receive reports, invoices and confirmations) to primary users with access to stored data, to underwriters and to comparative responses.

This fundamental change will reorder how things get done in the insurance industry. Finding ways for customers to directly use data will overcome troublesome lack of economies and greatly enhance brokers' abilities to manage process. All commercial insurance transactions, including difficult association and franchise dealings, will be favorably affected by these anticipated improvements.

Internal broker communications networks will be as important to future successes as the networks that link customers and underwriters. In-house linkages will change distribution business organization structures by eliminating the time and distance constraints which have circumscribed organizational arrangements since national firms were created. Because of time and distance, brokers have developed pyramids of power in which position is defined by hierarchical status and horizontal function.

'The computer, already used for risk management planning, will be given commercial sales responsibilities for prospect identification, prospect research and proposal design.'

certainly fight the heirs to REX that will be born in the years ahead, as brokers manage the process to please customers already motivated to want the efficiencies the communications era promises.

Builders of future systems will understand how necessary it will be to involve the people affected by procedural change. Engendering work environments that take employees' habits and satisfactions into account will cause employees to develop an interest in and desire for progress. As the instrument of change, the new technology will help the brokerage industry find unaccustomed ways to improve effectiveness by producing increasing revenues from satisfied customers and efficiency by perfecting internal management controls.

The computer, already used for risk management planning, will be given commercial sales responsibilities for prospect identification, prospect research and proposal design in order to lower selling costs and to improve new business results. Refinements in identification and

Future organizations, structured around electronic communications networks, will reconcile the centralization vs. decentralization dichotomy that has troubled broker managements. Centralization sacrifices time to gain control; decentralization sacrifices control to gain time.

By fostering centralization to gain control through message switching and information pooling, brokers have accumulated some superfluous staff and multilayer reporting relationships. Telecommunications will allow much lower cost coordination of widely separated units—units spread throughout the United States and eventually the world—to gain the dual advantages of increasing the decentralized unit's autonomy and the central organization's knowledge of progress and problems.

Next-generation distribution businesses will be systems for processing information, not hierarchical mechanisms for asserting authority. There will be no space constraints on the organization's ability to mobilize relevant

information.

Communications networks will be more than conduits for information flows; they will become the organization's collective intelligence. Networks will alter the way organizations function by changing the way group problem solving works, by substituting procedural thinking for memory dependent judgments.

Changes in organization structure will also influence how power is accumulated and used in insurance distribution companies. Unequivocal assumptions of power and conspicuous use of power were the prerequisites of early socialization and control. In the communications era, management styles will be altered to encourage voluntary cooperation. Managers will get things done without close supervision and they will promote use of imagination.

People who use the powerful machines of the new age will have to be creative, motivated by opportunities for independent as well as team action, and able to clearly articulate complex, machine-managed inputs and outputs. Since insurance distribution people will have to connect what customers want with what underwriters can deliver, the need for communications skills will remain exceedingly important. Sales will still have to be made if tomorrow's technology is going to be put to work.

In the communications era, machines will replace most clerical workers. Futuristic skills will be contributed by people who can construct comprehensive relevant data bases and by people who can program useful information relationships. These will be the dominant talents of accomplished insurance distribution firms.

Machines will not replace managers; in fact, the need for leaders will be intensified by the organization's obligation to create participatory work environments that will bring diverse communications era skills together in a harmony that helps national and regional brokers mediate between buyers' demand and underwriters' supply.

Brokers will actually be closer to underwriters and to customers because the insurance distribution system will be custodians of disaggregated data stored at detail level for customer and underwriter inquiry and response.

The most successful communications era insurance distribution companies will be able to achieve their essential mediation tasks by managing the process to bring together for constructive purpose information or parties at variance, by reconciling disparities of perception and commitment. Through the resources of new technologies, distribution organizations will be fulfilling their historic insurance industry roles.

Using the new infrastructure to connect buyers with underwriters will permit national and regional brokers to mediate electronic discourse and electronic trade. When the communications era brings changes described, there will not be discontinuities of mission.

The mediating purpose of yesterday's local agent, today's national or regional broker and tomorrow's risk management and insurance process manager will endure. The evolution of operating functions and management style will not alter the commercial insurance broker's responsibility to manage communication. ■

Cheap rates threaten industry: Lloyd's officer

By BILL DENSMORE

WHITE SULPHUR SPRINGS, W.Va.—Insurers that cut rates and disregard underwriting standards simply because they can obtain cheap reinsurance are imperiling the industry, warns a deputy chairman of Lloyd's of London.

"It may feel good to be able to offer huge gross lines and impeccable security on the back of cheap reinsurance," says Walter N.M. Lawrence. "But what sort of hero do we look (like) to our clients when, say, one-third of the security on which those gross lines are based suddenly one day is no longer there?"

Mr. Lawrence was chief speaker at a breakfast panel discussing "Our Industry: The Next 10 Years" during the annual meeting of the

American Assn. of Managing General Agents earlier this month.

He was joined on the panel by B.P. Russell, chairman and chief executive of Crum & Forster, and by Bernard L. Webb, a professor of actuarial science and insurance at Georgia State University and author of the "Oracle Report" on the future of the industry.

Mr. Lawrence described the insurance market as suffering from overcapacity and an abundance of cash-flow underwriting. He also forecast that losses from a major catastrophe might cause a turnaround in rates.

"But we should be realistic and honest with ourselves and admit that we are going through what is probably an unprecedented situation in our experience and it could, just could, go on for quite a bit yet

before the upturn occurs," he added.

Mr. Lawrence said excess/surplus underwriters, like Lloyd's and many of the managing general agents in the audience, are under increasing pressure from admitted insurers "all too eager to find some way of turning surplus-line business into licensed business in the name of that great god, cash flow."

"Your premium volumes are bound to suffer and profit commissions inevitably are hard to come by, while expenses have a way of remorselessly increasing," he added.

Mr. Lawrence attempted to define the line between what he termed acceptable and unacceptable reinsurance, and he also warned that regulatory authorities around the world will seek controls

over reinsurance if they see a wholesale collapse of reinsurance relationships.

"Once we lose sight of or discard gross-line underwriting integrity, I believe we are lost," said Mr. Lawrence. "If we were to lose this integrity, we would simply become a wheeling-and-dealing market which would never know what continuity it could offer because it would be totally dependent on the availability of reinsurance."

Mr. Lawrence said the future prestige of the insurance industry depends in two ways upon how it reacts after what he called "the next big bang," or catastrophic loss:

"First, the speed with which our clients are funded their claims by us, regardless of whether we have been, or ever will be, reimbursed by our reinsurers," said Mr.

Lawrence.

"And second, the degree to which we are able to stand up and be counted for our same gross lines when we may have lost a considerable percentage of our own reinsurances."

In Britain, noted Mr. Lawrence, auditors approved by the Committee of Lloyd's require each Lloyd's underwriting agent to value all of its qualifying assets—including government bonds—at market value. In the United States, regulations of the National Assn. of Insurance Commissioners allow valuation of most bonds at amortized value—currently much higher than market value.

Because of the U.S. valuation standard, Mr. Lawrence said in an interview following his talk, "if something started to go wrong, you could get a domino effect that would wipe out a lot of capital."

Lloyd's Chairman Peter Green was scheduled to address the managing agents, but had to cancel his visit to testify before the House of Lords on the Lloyd's self-regulation bill. Mr. Lawrence addressed the conference in place of Mr. Green.

Capacity glut may endure: Economist

WHITE SULPHUR SPRINGS, W. Va.—In the last month, top executives of at least three major property/casualty insurers have bemoaned their underwriting losses so far in 1982 and at least one of them forecasts a tightening of rates.

But will the tightening really occur or is that wishful thinking by insurers that are beginning to see their profits squeezed by the triple threats of slackening premium growth, larger losses and slipping investment income?

The market just may not tighten, says Barbara D. Stewart, former corporate economist for the Chubb Group of insurance companies, who last year formed a consulting firm with her husband, Richard E. Stewart, who quit as chief financial officer of Chubb.

Their firm, Stewart Economics Inc., is based in New York City.

"Overcapacity in insurance markets is not likely to go away soon," Mrs. Stewart said in a May 10 speech to members of the American Assn. of Managing General Agents here. "Insurers' belief that the cycle will end, their desire to be there when it ends and their need to meet fixed overhead costs in the meantime, all suggest there is an increasing chance that the competition will turn more vicious before it is over."

She cites two reasons for her view:

- Despite combined ratios in the 108% range, the total profitability of insurers remains better than the national all-industry average, she says. The industry's aftertax return on sales was 7.5%, and she predicts that figure will be 6% this year.

- "Before the market turned in 1975, the industry's total return was nearly zero," she adds. "Then, the impact of zero profits was reinforced by distress about reserves and surplus."

The industry's average return over the past 30 years has been 4.7%, so it is still performing at an above-average rate.

- "The second reason the underwriting cycle is not likely to turn this year," Mrs. Stewart says, "is that many people are expecting it

Continued on page 24

Peter G. Leitch, President and CEO of Reed Stenhouse Inc. (foreground) and Frank Schiff, Chairman of Reed Stenhouse Inc. of New York.

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Times are changing for managing agents

WHITE SULPHUR SPRINGS, W.Va.—When more than 900 managing general agents and their spouses get together with excess/surplus insurers, they do so in style.

Last year it was in Florida, next year in Hawaii.

For their 1982 annual meeting, the more than 200 members of the American Assn. of Managing General Agents chose The Greenbrier, a mortar-and-marble testimonial to the one-time wealth of America's railroads.

Built originally by the Chesapeake & Ohio Railway Co., the resort hotel and its three golf courses continue to be maintained impeccably by the railroad's successor, CSX Corp.

For many of the AAMGA's members, their organization appears to function as an old-boy network to find E/S markets and to link with local agents or buyers. Although much older than the National Assn. of Professional Surplus Lines Offices Ltd., which shares some membership, the AAMGA was just incorporated in the last year.

The organization, founded in 1926, still encourages black-tie formality at the banquet celebrating the election of the year's officers.

This year, things were different for the old-boy network, however. AAMGA's membership has chosen their first woman president-elect: Marie E. Welch, president of the Oklahoma General Agency Inc. in Oklahoma City, Okla., who will become AAMGA president at next year's meeting.

Mrs. Welch says she doesn't regard her election as any great milestone. She says she has always advised women executives to "let their actions be conservative, not ladylike."

"The most important thing is to figure that you've got a job to do and do it," says Mrs. Welch, who defeated Browne B. Bolton, president of Bolton & Co. of Louisville, Ky., for the office.

Ray R. Johnston, vp of The Gulf Agency Inc. of Montgomery, Ala., stepped up to the presidency of AAMGA at the conference.

Robert C. Quirk, secretary/treasurer of Quirk & Co. of San Antonio, Texas, was named AAMGA's chairman on the joint legislative liaison committee formed by AAMGA and NAPSLO.

Efforts by state regulators to extend guaranty fund protection to policyholders of non-admitted companies is a key legislative concern of the two groups. AAMGA has designated "key men" in each state to watch such legislative developments.

A total of 120 E/S insurers, 16 brokers, nine reinsurers and 12 vendors (most sellers of rating- and claims-processing computer equipment) solicited business from the AAMGA members, with about half of them taking booth space in an exhibit hall at The Greenbrier.

Insurers at the conference sought managing general agents for programs running the gamut of property/casualty coverages, but most of the programs seemed focused on the needs of smaller businesses likely to be the bread-and-butter customers of local agents who work with the MGAs.

Among the most exotic programs were two offered by the Columbus Insurance Co. of Columbus, Ohio, which was seeking MGAs for ultra-light aircraft and legal defense coverages.

The ultra-light coverage is for single-seat aircraft with engines of less than 20 horsepower that can be

purchased for less than \$4,000 in kit form.

The legal defense policy offers first-party indemnity for attorneys' fees and expenses up to coverage limits of \$5,000 or \$10,000, for professionals like doctors whose errors and omissions coverage includes a high deductible.

"There was a great deal of interest from the standpoint of people not having seen anything like this before," said John J. Zuccaro Jr., Columbus' executive vp.

"We had takers from California, Arizona—right down to Florida."

Other companies promoted coverage for such things as race horses, halfway houses, ambulance attendants and building demolition firms.

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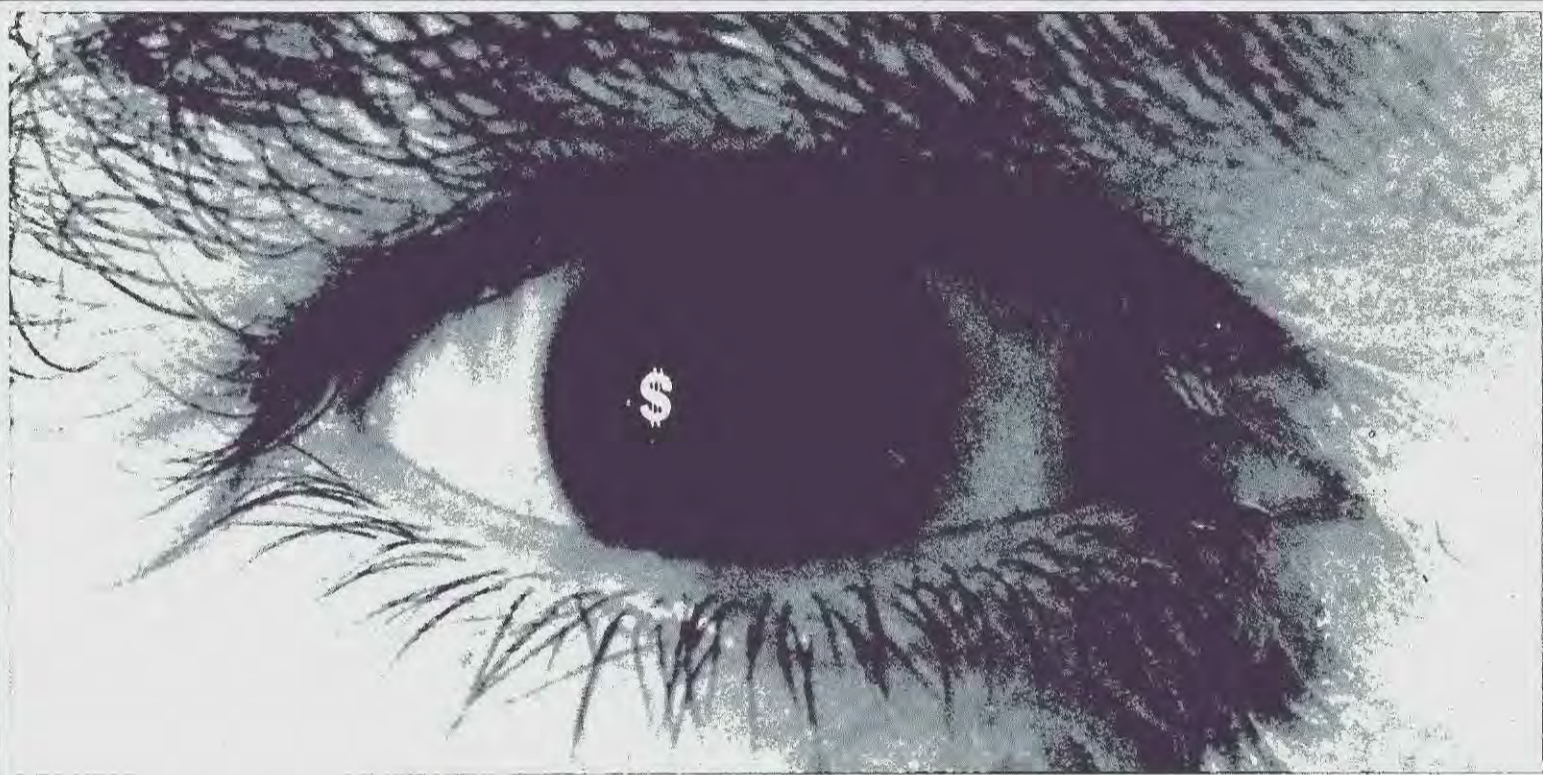
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Underwriting talent needed: Russell

WHITE SULPHUR SPRINGS, W.Va.—A shortage of underwriting talent is crippling the insurance industry's ability to handle unusual risks, says the chairman and chief executive officer of Crum & Forster.

"The one thing this industry is really coming up short on is underwriting talent," B.P. Russell told members of the American Assn. of Managing General Agents during a panel discussion May 11. Mr. Russell, himself a former MGA, joined other panelists in discussing the future of the insurance industry.

"I think this matter of underwriting and underwriting talent is really drifting too far to the back of the scene," he added.

Mr. Russell, in a later interview, issued a warning

to risk managers and other insurance buyers.

"If you want to do your readers a service, write that now is the time to check and double-check your security," Mr. Russell said.

Earlier, he warned managing general agents: "If I had to guess, I would say that every person in this room has a pretty good idea of the financial situations of the companies you're dealing with. The only thing you have to do is pay attention to those situations."

It is in the so-called "judgment-rated" classes of business where the most price competition exists among insurers, Mr. Russell said, including the higher layers of property coverages and technology-related risks where no statistics exist to back up pricing.

Ward appointed CEO of Commercial Union

Howard H. Ward has been named chief executive officer of Commercial Union Insurance Cos. in Boston. He is also president and chief operating officer.



Mr. Ward

Mr. Ward succeeds Lawson L. Swearingen, who is retiring as chief executive officer in

August.

Other insurer changes:

John P. Mascotte has been named chairman and chief executive officer at Continental Corp. He was previously president of the company. Before joining Continental early last year, Mr. Mascotte was executive vp at Mutual Benefit Life Insurance Co of Newark, N.J. He succeeds John B. Ricker Jr., who is retiring.

Also at Continental Corp., Richard A. Simon named senior vp of Continental Insurance and chairman of Underwriters Adjusting Co. Mr. Simon was most recently vp and manager of the Continental Eastern regional office.

Robert W. Carey elected senior vp of underwriting at John Hancock Mutual Life Insurance Co. in Boston, Mass. He was formerly vp of the new business department. Mr. Carey succeeds Charles A. Ormsby, who is retiring.

William P. Condon elected chairman and chief executive officer at AVEMCO Corp. in Bethesda, Md. Mr. Condon will retain his position as president of the corporation. He succeeds Arnold H. Johnson, who is retiring.

comings & goings: industry

Prudential Re announced a series of promotions. Peter R. Greene elected vp of facultative underwriting. He succeeds James E. Dwane, who was named vp in charge of the treaty department. Edward B. Hodge named vp for treaty underwriting. He is responsible for all special and financially oriented treaty underwriting.

Peter M. Wallner promoted to vp of treaty underwriting for Scor Reinsurance Co. in Irving, Texas. He was formerly an assistant vp.

Agents/brokers

Rodney D. Day III named president of Johnson & Higgins of Pennsylvania Inc. and manager of the Philadelphia office. He was previously executive vp of J&H Carolinas. Mr. Day succeeds Edwin L. Knetzger Jr., who is now J&H president. Mr. Day is succeeded by Brooke L. Williams, who was named executive vp of Johnson & Higgins Carolinas and manager of the Charlotte, N.C., office. He was most recently manager of business development for the Charlotte office.

Lawrence W. Burkhardt promoted to senior vp of Fred S. James & Co. Inc. He was previously Midwest regional director and profit center manager of the Chicago office. Quill O. Healey also promoted to senior vp. In addition, William S. Weiland promoted to vp of administration in the Chicago office. He was formerly assistant vp of administration.

Three others, Charles R. Botts, Thomas W. Hobbs and Robert L. Young, promoted to corporate vps at James. Mr. Botts is president of James' national aviation division, headquartered in Dallas. Mr. Hobbs is a senior vp of the broker's national sales and service division. Mr. Young is senior vp of the national self-insurance division.

Market capacity may endure, economist says

Continued from page 22

to turn, and because they will act accordingly, it won't."

As insurers face greater underwriting losses and negative cash flow, Mrs. Stewart believes they will become more competitive as they hope to ride out the cycle without having to shed market share by raising prices before everybody else.

"The combined ratio would have to go to 123% for current obligations to eat up investment cash as well," she says. "At that point, insurers would still have money-market instruments and common stocks to liquidate before they had to sell underwater bonds."

"A cash squeeze, then, won't necessarily cause capacity to leave the market," she concludes. "Rather, it could set off an even worse round of competition as companies struggle for cash to meet obligations."

Mrs. Stewart says similar behavior has been exhibited recently by the U.S. airlines, caught in a squeeze of overcapacity and rising costs. Their response has been to follow smaller carriers' price-cutting schemes.

"Of course, it is possible that a cash squeeze could cause enough companies to leave the market for competition to ease," she says. "If the companies pulling out intended to come back in when prices started to rise again, then active capacity would just have been turned into shadow capacity. When the com-

panies came back into the market, prices would be driven down again."

In the last 10 years, property/casualty insurance has changed from a sellers' market to a buyers' market, says Richard Stewart, and the traditional product orientation of insurance companies is better suited to a sellers' market than to a buyers' market.

Because speciality companies and managing general agents have a buyer orientation, Mr. Stewart told the AAMGA audience, they will be successful in the next decade.

Storm damage estimated at \$25 million

NEW YORK—Tornadoes, hail, flooding and severe winds that hit portions of Texas, Oklahoma and Kansas May 9-14 caused an estimated \$25 million in property damages, according to C.E. Hermanson, vp of property claims services at

the American Insurance Assn.

The estimate does not include damage insured under the National Flood Insurance Program.

The storm was assigned Catastrophe No. 58 by the Insurance Services Office.

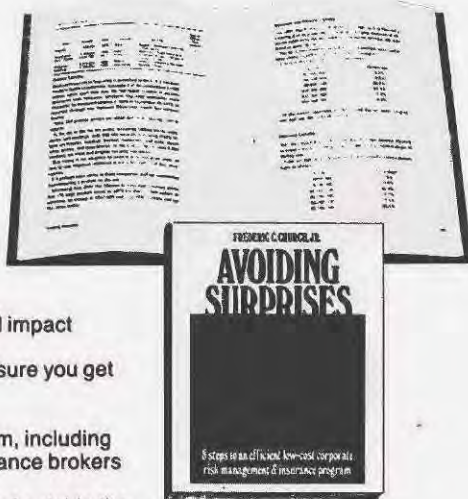
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Lab appeals decision on strike coverage

Continued from page 2

dent Reagan's firing order, the court said.

Under the policy terms, no benefits were payable until the strike reached its seventh day.

A three-judge majority of the panel also said that even if the policy language were considered ambiguous, it should be decided in favor of the insurer because the policy was drafted by Metpath's broker, Johnson & Higgins, at Metpath's direction.

In ordering the premium be returned, the court said the policy was "rescinded by the occurrence of the unexpected action of President Reagan in terminating the strike. Birmingham, whose further liability is excused by reason of supervening impossibility, is nevertheless liable to Metpath for what

the latter has paid in premium under the terms of their agreement."

The appeals court decision came in a Metpath appeal of an interim decision by a lower state court, which rejected requests by both parties for summary judgment in the coverage controversy.

Earlier, a federal court declined to hear the case, citing lack of jurisdiction (*BI*, Oct. 26).

Metpath of Teterboro, N.J., says it spent an extra \$50,000 to \$70,000 a week to charter planes to carry blood and other medical specimens while airline schedules and air traffic were in disarray during the early days of the strike that began in August. The company does testing in New Jersey for hospitals, pharmaceutical companies and industry in 36 nations.

Extra expenses, which had totaled \$550,000 by mid-September, slowed through the end of the year for a total claim of less than \$1 million.

Under the policy terms, Birmingham earned the \$170,000 premium even if no strike occurred during the policy's one-year term. Metpath was required to pay another \$170,000 if a strike did occur.

Neither side will say whether the second \$170,000 was paid by Metpath or whether it was returned by Birmingham once paid.

"Under the circumstances here presented, the insurance policy came to an end, rescinded by the occurrence of the unexpected action of President Reagan in terminating the strike," says the majority opinion written by Justice Sidney H. Asch.

To reach that conclusion, the majority cites the finding of a U.S. District Court in Washington, D.C. In *U.S.A. vs. PATCO*, the federal court terminated daily contempt fines against the 16,500-member Professional Air Traffic Controllers Organization effective with Mr. Reagan's firing order.

"When an employer has terminated employees and has stated that it will not permit them to return to work, there is, by definition, no longer a strike," the federal court ruled.

In the Metpath case, a two-judge minority led by Justice Samuel J. Silverman, disagreed with their three colleagues and with the federal court.

Justice Silverman's dissent argues that part of the J&H-drafted policy language covered extra ex-

penses incurred by Metpath for disruption of its business "caused by or resulting from strike or slowdown of air traffic controllers because of failure to reach agreement and ratification of a collective bargaining agreement.

"We take judicial notice of the fact that the employees continued to picket and, at least for some period, were unwilling to return to work. The whole country knew there was an air traffic controllers' strike and that it was not just a three-day matter."

The majority opinion, however, points to a second section of the policy which defines "extra expenses" as "the excess (if any) of the total cost incurred during the period of a strike or slowdown chargeable to the operation of the assured's business."

Olympics claim

Continued from page 2

When NBC's cancellation insurance policy on the Moscow Olympics was first issued by Lloyd's of London and other insurers, it excluded war risks, said Stephen Merrett, chairman of Merrett Holdings P.L.C. and the lead underwriter on the \$50 million London portion of the policy.

There were two underwriting slips on the risk, though the wordings were identical. One was placed in Lloyd's and London companies through C.T. Bowring Ltd. and the other in the United States through Marsh & McLennan Inc.

But some time later, NBC decided it wanted war risks included in the coverage and offered to pay insurers to include it. Some U.S. insurers, however, refused to include war risks in the coverage.

Although NBC eventually took out a separate war risk insurance policy, NBC claimed on the original cancellation policy, not the war risk policy, when the United States boycotted the Olympics, said Mr. Merrett.

"NBC claimed on the original policy and put in notice on the war risk policy, but they did not claim on it," said Mr. Merrett.

All the insurers on the original cancellation policy, including Lloyd's underwriters, First State and others like American International Group, paid NBC's claim promptly.

But now the insurers that refused to amend the coverage to include war risks wonder if they should have paid up.

"Some underwriters looking back at the claim think that it was not a straightforward risk, and now they are wondering whether it was a war risk or an abandonment risk," said a Lloyd's broker.

The outcome of the arbitration could set a precedent for future claims of this type. And it already has influenced the cancellation insurance market, he added.

Capacity for insuring the 1984 Olympics in Los Angeles has almost completely dried up and most insurers are excluding boycott risks from their policies, he said.

But insurers may have to face the coverage question even before the next Olympics.

The war in the Falkland Islands may force cancellation of this year's World Cup soccer tournament in Spain. The tournament's organizer, the Federation of Football Assns., is insured for 40 million pounds for abandonment by Lloyd's through Adams Bros. Contingency Ltd.

Although boycott and war risks are specifically excluded from the policy, Lloyd's will have to decide whether it will pay any loss suffered by the organizer because of the Falklands dispute.



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Broker supports CU in cover debate

Continued from page 3
million primary and a \$10 million umbrella excess policy for Hallmark Cards Inc., parent of the hotel's owner, Crown Center Redevelopment Corp., part of Hallmark's \$101 million coverage.

Northbrook contends that CU breached its duty to defend its policyholder since it has not defended or paid any claims on behalf of Hallmark. In doing so, Northbrook argues, CU breached its policy contracts and is obligated to pay all settlement costs to date up to its \$11 million limit (*BI*, March 29).

CU contends it has not been formally asked by Hallmark or Hyatt for any claims settlements.

M&M's comments on the controversy over which insurers are primary and which are excess to cover the estimated \$100 million in liability losses for the disaster are significant because it served as broker for both Hyatt and Hallmark.

The M&M brief, filed by John W. McCullough, an attorney with the Chicago law firm of Peterson, Ross, Schloerb & Seidel, is another addition to the litigation brought before Jackson County Circuit Judge Timothy D. O'Leary by Hyatt to determine its coverage for liability losses in the disaster.

The collapse of the skywalks in the Kansas City Hyatt killed 114 people and injured at least 200 others. Northbrook already has paid about \$18.3 million in settle-

ments with plaintiffs, picking up after Occidental Fire & Casualty Co. of North Carolina exhausted its \$1 million primary limit.

"... (T)he circumstances surrounding the placement of the two lines of insurance demonstrate that the parties intended that the Occidental line would provide primary coverage followed by the excess coverage of the Commercial Union line," Marsh & McLennan says.

Northbrook argues only the policy language should be used to determine coverage and that the language of all the policies, read together, requires that CU provide defense to Hallmark before Northbrook and after Occidental.

M&M counters that the language in the Northbrook and CU policies makes it clear the CU coverage is excess.

M&M argues that Northbrook ignores the language of its own policy's excess clause, which, according to M&M, "clearly and unambiguously requires" that the intentions of the parties be taken into consideration when determining coverage disputes. M&M says the clause requires that the reasons for the purchase of "other insurance be inquired into and determined."

"The other insurance clause," M&M's brief states, "says if other collectible insurance with any other insurer is available to the insured covering a loss covered hereunder, except insurance purchased to apply in excess of the sum of the retained limits or the underlying limit, the insurance hereunder shall be in excess of, and not contribute with, such other insurance."

M&M also cites Endorsement No. 18 to Commercial Union's umbrella policy. The endorsement was added as part of the negotiations between Hallmark and Hyatt and, according to M&M's brief, it reads:

"It is understood and agreed that Hyatt Corp. is added as an additional insured as respects coverages provided by this policy... this endorsement is excess over any other valid and collectible insurance."

M&M also argues that the endorsement was written with the knowledge of all the parties that Hyatt's line of insurance existed.

"If, then, this language of the Commercial Union policy is properly recognized as establishing that it was 'purchased to apply in excess' of the Hyatt line of coverage, the resulting coverage structure is that the \$201 Occidental line responds first and, on its exhaustion, the \$101 million Commercial Union line would respond," says the Marsh & McLennan brief.

Commercial Union argues in court papers that the correspondence among Hyatt, Hallmark and M&M prior to the collapse shows that Hyatt Corp. took responsibility for obtaining liability insurance for the hotel operations in Kansas City through an endorsement to its master policies (*BI*, May 17).

Among CU's key arguments from a brief filed May 11:

- Occidental and Northbrook were paid in a single policy year more than \$1.1 million in premiums for liability coverage on Hyatt hotels, including the Kansas City Hyatt. Northbrook's premium, according to the CU brief, was a minimum of \$91,500 on the basis of 9 cents per \$1,000 of gross receipts of the covered hotels.

- CU, on the other hand, charged no additional premium for addition of Hyatt as a named insured to its policies, Commercial Union's brief says, and it was Hyatt's insurers that paid all minor liability claims arising from operation of the hotel prior to the July 17 disaster.

- "Once construction was complete, it is absolutely clear that Hyatt was no longer to be insured under the Hallmark policies," says the 109-page brief signed by Stephen A. Cozen, a Philadelphia attorney for CU, "and coverage was to be effective only for accidents arising out of construction activities during such period."

- Further evidence of the intent of Hyatt and Hallmark, says Mr. Cozen's brief, is contained in the Sept. 30, 1977, management agreement between the two companies governing operation of the Kansas City hotel. The agreement, attached to Mr. Cozen's brief, contains a whole section on insurance.

- The agreement required Hallmark to maintain property and liability insurance prior to the hotel's opening date as well as thereafter. Hyatt was required to maintain workers compensation insurance.

- In a key provision, however, the agreement requires Hallmark to get a bid from Hyatt for all or part of the coverage required after opening of the hotel.

- An indication that both Hyatt and Hallmark saw potential difficulties with overlapping coverage is contained in another document, stamped "Confidential" and attached to the CU brief.

- The file memo written by Richard Heydinger, Hallmark's risk manager, describes a June 27, 1980, risk management meeting among officials from Hyatt, Hallmark, M&M and other officials. It discusses what Mr. Heydinger terms "agreements" reached during the meeting.

- The first notation by Mr. Heydinger reads: "Bob Duty, Hyatt, is to write Heydinger confirming that there will be no subrogation activities against Hallmark for workers compensation or general liability claims arising out of the operation of the hotel." Robert Duty is Hyatt's risk manager.

- The final notation by Mr. Heydinger reads: "J. Whittaker was advised by Heydinger of the needed changes in the proposed agreement to eliminate subrogation exposures." Judith Whittaker is Hallmark's associate general counsel.

- The documents do not indicate whether the subrogation issue was resolved.

—Bill Densmore

Hyatt punitive damage fund rumored

Continued from page 3
and Hallmark—that were involved in construction of the hotel.

This includes the architects, structural engineer, steel fabricator, project manager and general contractor.

Their insurance totals \$30.5 million, according to *BI* estimates, but the amount available to contribute to a fund would be reduced by the amount of fees and expenses incurred in litigation so far.

In addition, Mr. Younger's law firm and the other class attorneys would receive a one-time fee for their legal efforts and expenses of \$3.5 million. This would reduce the amount available to compensate plaintiffs to \$20 million.

Under the proposed agreement, sources say, the victims' lawyers would agree to dismiss all claims against the five construction defendants and pursue only compensatory claims (for actual injuries or loss-of-income) against Hyatt and Hallmark.

In the end, the jury awards or settlements each plaintiff receives would be increased by his share of the punitive damage fund. Each person's share would be based on the compensatory damages he won.

Most likely, the \$20 million fund would remain untapped until the legal deadline has expired for filing lawsuits in the skywalks collapse and all valid compensatory damages have been paid. ■

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Employers get little relief from health costs

Continued from page 1
of America. "Our premium increases are slightly higher this year than in 1981," he said.

Rate increases that went into effect in the first quarter averaged close to 30% for groups of more than 50 lives with a range of 10% to 100%, he reported. Increases for smaller groups jumped to about 40%.

Prudential's rates are constantly monitored and can be changed at any time. "Last year we changed our minds four times," said Mr. Wickens. The rate formula includes three elements: a trend factor for expected claims, administrative expense and a claim fluctuation margin.

If claims are less than expected for a particular experience-rated group, then a dividend may be paid back at the end of the policy period, Mr. Wickens explained. Close to one-third of the large groups underwritten by Prudential last year did receive a dividend in 1981.

"Although hospitals report room and board charge increases of about 15% to 16%, we find that the total hospital bill is higher by about 22% or 23%," said Mr. Wickens. More tests and more costly treatments appear to be the reasons.

Physicians' and surgeons' fees are not accelerating quite as quickly as they were a year ago, Mr. Wickens says. But the types of procedures sought by patients are

more expensive today. "The number of surgeries is flat, but there are more heart bypasses and fewer tonsillectomies."

Prudential and other insurers report an enormous increase in the number and speediness of small claims submissions. People are acutely conscious of even minor expenditures in tough economic times.

"The number of transactions we handle and consequently our administrative costs have jumped significantly," said Mr. Wickens.

"The story isn't much different this year than last year," sums up Charles T. Bell, actuary in the Western home office of Aetna Life & Casualty Insurance Co. "We saw a higher rate of deterioration in the fourth quarter."

Small groups of fewer than 50 lives will see rate increases of about 24%, estimates Mr. Bell. There is more fluctuation in the renewals of large experience-rated groups. "I would be surprised to see them less than 20% and not surprised to see them more than 30%." Hikes of 40%, 50% and 60% are the exception.

Rates were dropping slightly at the end of last year but now they are starting back up again, reports Richard Sleezer, director of group life, accident and health actuarial at The Travelers Insurance Co.

"Renewals of baby groups were running at 25% at the beginning of 1981 and declined to the upper teens by the beginning of this year. But medical care inflation is climbing up again. Renewals in the second quarter are at over 20% and

those in the third quarter are over 25%."

The same trends are impacting rates on larger groups, but not as dramatically, said Mr. Sleezer. He noted that hospital charges measured by the CPI climbed to 16.6% during the 12-month period ended April 1982, up from 14% during the preceding 12 months.

Provident Life & Casualty Insurance Co. in Chattanooga, Tenn., is raising rates on small groups of fewer than 150 lives by about 27%. But that is not enough money to get the business on a profitable basis, said a spokesperson. There will be plenty of increases in the 40% to 60% range, too.

Premium increases will be about where they were a year ago—running in the 20% to 30% range, said Mr. Ferguson at Equitable. Some

increases will be more than 30% for groups of more than 200 lives. There is some catch up involved due to inadequate rates charged last year, he added.

The average small group rate increase will be 20% with a range of 10% to 30%, reports Gerold W. Frey, vp & actuary in the group department of New York Life Insurance Co. Increases for large groups will average 28% with many groups renewing with hikes of 50% or more.

"We are still catching up from price increases that were too low in 1980 and 1981," said Mr. Frey. There has been virtually no let up in medical care inflation and utilization is accelerating due to new technologies and an increase in supply of physicians and hospitals, he noted.

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About the Speaker

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

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June 21	San Francisco	The Fairmont

Agenda

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

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Cullen promoted

TALLAHASSEE, Fla.—Spencer L. Cullen Jr. has been appointed deputy Florida insurance commissioner.

He has been director of the division of insurance company regulation since 1979. He joined the state Insurance Department in 1960.

Mr. Cullen replaces James Hanna, who died last year.

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Bill would allow states to close problem METs

Continued from page 3

ment in 1977 tried to gain jurisdiction over the Boise-based National Assn. of Independent Businesses, a self-funded MET that had 6,100 participants.

That legal battle was still going on three years later when the MET filed a petition for bankruptcy, leaving behind possibly hundreds of thousands of dollars in unpaid medical and hospital bills (BI, Sept. 7, 1981).

Under the Erlenborn bill, fully insured METs, like those marketed

by licensed insurers, would continue to be regulated by the states. In addition, employee benefit plans offered by employers or plans provided through collective bargaining agreements still would be covered under federal law.

State regulators who have been eager to gain control over the self-funded METs saluted the Erlenborn bill.

"It gets us on the right track," said Allan Katz, Florida's assistant insurance commissioner. "It is an important step to take now before

there is a national crisis."

The National Assn. of Insurance Commissioners said the measure is a step in the right direction to control the METs. "It will help a lot," said Beth Kravetz, the NAIC's Washington counsel.

But Claude Dorais, a Los Angeles attorney and ERISA expert, who has represented some self-funded METs during their legal battles, said the bill was legislative overkill that will put "those self-funded METs that have been doing a good job of providing benefits for more

than five years" out of business.

Mr. Dorais acknowledges that an increasing number of self-funded METs have collapsed, often due to the third-party administrators charging inadequate rates and paying high commissions to agents. But he says this problem could have been solved by requiring METs to file statements from qualified actuaries certifying that reserves and rates were adequate.

By trying to put all self-funded METs out of operation, small employers will lose another health in-

urance option while insurers will face less competition, a factor that will drive up costs even more for small firms, Mr. Dorais said.

However, state regulators say small firms and the self-employed have been among the biggest victims of MET failures.

With profits slipping during the current recession and health care costs rising, they are attracted to self-funded METs that charge lower premiums than commercial insurers.

Many small firms lack the sophistication to know if a self-funded MET is properly managed, or if premiums paid that are supposed to cover claims are instead going to pay for inflated administrative expenses and high commissions.

Self-funded MET problems emerged in 1977 with the collapse of several trusts. But by 1979, the problem abated as some states began to battle the METs while insurers started to aggressively court smaller firms with new health insurance plans.

But the MET problem became evident again during the last year with MET failures reported in Illinois, California, Texas and other states.

And some regulators say that unless legislation is passed to curb the METs more failures are inevitable. The problem is "like a balloon that is ready to burst," said Florida's Mr. Katz.

"The problem could get a lot worse" if federal legislation is not enacted, said Philip O'Connor, Illinois' director of insurance.

Pennsylvania tort reform jeopardized

HARRISBURG, Pa.—Is half a loaf better than none?

The failure of two major Pennsylvania business groups to agree on the answer is jeopardizing passage of state product liability reform legislation.

The Pennsylvania Chamber of Commerce and the Pennsylvania Manufacturers Assn. agree that the bill approved by the state Senate—S. 784—is weaker than tort reform legislation approved in some other states. But that is where the agreement ends.

The manufacturers association says the bill is so weak that the group can't support it. It believes that if the bill is passed, the Legislature will drop its efforts to find a comprehensive solution to product liability problems.

"If you pass a weak bill, the monkey will be off the Legislature's

back," said Bill Danneberg, vp at the PMA. "They will think they have solved the problem and won't touch it next year."

But the chamber, which admits the bill is far from perfect, favors its passage because the measure will lay the foundation for enactment of future, more comprehensive legislation.

"It may not be perfect, but if you start with nothing, you end up with nothing," said Tim Holt, manager of workers compensation and property/casualty insurance for the chamber.

He says House legislators won't touch the bill unless business groups present a united front. A move to patch up those differences will have to be made soon since the Legislature is expected to adjourn this month.

Some provisions in the pending

bill do favor the manufacturer. For example, the legislation would bar product liability lawsuits based on strict liability theory against wholesalers and retailers. Under strict liability, a plaintiff only has to prove that the product was defective; he doesn't have to prove that an employer was negligent in producing the product.

The measure also would give a manufacturer a stronger defense if its products were altered or modified without its consent and the alteration caused the accident.

In addition, plaintiffs would have a tougher time proving that a product was defective if it conformed to the state of the art at the time of manufacture.

However, the statute of limitations the bill would place on lawsuits is not as favorable to business. In the case of consumer goods,

product liability suits would be barred 12 years after a product is made, but a 30-year limitation would apply in the case of non-consumer goods, such as printing presses.

It is that 30-year statute of repose—the bill originally proposed a uniform 12-year cutoff for all products—that most concerns the PMA's Mr. Danneberg.

But Mr. Holt of the chamber argues that a bill with a weak statute of repose is better than no bill at all because it will lead to better legislation next year.

"If nothing is passed, the Legislature will get tired of the issue and give up," he said.

But Mr. Danneberg believes that if a bill doesn't pass now, there will be renewed pressure on the Legislature next year to pass comprehensive reform legislation.

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compensation, safety,
security, etc. 5,791

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Unions, Educational
Institutions** 1,001

**Commercial Consumers
Sub-total** 23,000

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Insurance Cos. 4,735
Financial Institutions 303
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Others allied to the field 776

TOTAL 40,763

*Source: Business/Occupational breakdown of qualified circulation Nov. 2, 1981 issue, as submitted to BPA for December 1981, BPA Publisher's Statement.

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Product liability claim or pollution loss?

Continued from page 1
Hydro Waterproofing's \$500,000 CGL policy that was in effect from April to July 1979.

When interpreted literally, Mr. Capell admits, the pollution exclusion can apply to product liability claims when the gradual or long-term emission of fumes or vapors are the cause of injury.

The standard exclusion (to which Mr. Capell added special emphasis to highlight his concern) states that coverage does not apply to:

"...bodily injury or property damage arising out of the discharge, dispersal, release or escape of smoke, vapors, soot, fumes, acids, alkalis, toxic chemicals, liquids or gases, waste materials or other irritants, contaminants or pollutants into or upon land, the atmosphere or any water course or body of water..."

A literal reading of the pollution exclusion would eliminate a number of product liability claims and could leave manufacturers whose products have toxic vapors or fumes without coverage, says Mr. Capell, who represents several chemical and petrochemical companies in New Jersey and surrounding states.

Not only would this interpretation hurt a company like Anti-Hydro Waterproofing, whose chemical additive was used in final product form, but also producers of chemicals used in the manufacture of other products, he said.

The exclusion, if literally interpreted, also could be applied to asbestos, a substance that causes bodily injury through the release of irritants into the atmosphere.

In Canadian Universal's case, the literal interpretation was a mistake, a company official admits. Walter McCue, Canadian Universal's vp of claims who was not involved with the Anti-Hydro Waterproofing case, said the policyholder never should have been told its claim would be denied on the basis of the exclusion.

"I personally can't imagine why anyone would feel it was a pollution exclusion," he says in retrospect. "It's obviously not."

Anti-Hydro Waterproofing's attorney Robert Marmonstein of Hackensack, N.J., said Universal quickly settled the confusion after a letter pointed out that the pollution exclusion had been wrongly interpreted.

Mr. Marmonstein says an "absolutely honest mistake" on the part of an inexperienced claims person led to the confusion.

"As soon as they realized a mistake was made, they took care of it," he says.

Neither the persons involved in this incident nor other brokers and consultants contacted by *Business Insurance* know of any product liability claims denied based on the pollution exclusion, but Mr. Capell and Anti-Hydro Waterproofing's broker have taken precautions anyway.

Over the past several months, they have approached several casualty insurers on their clients' be-

half, requesting their position in advance of any claims on the issue of product liability coverage vs. the gradual pollution exclusion.

As a result, six insurers have added clarifying endorsements to their CGL policies for some of their clients. The endorsement, drafted by Mr. Capell, states:

"In consideration of the policy premium, it is hereby agreed and understood that Exclusion I (gradual pollution) shall not be interpreted by this Company as applying to any product liability claim made against any insured under this policy."

However, some insurers have said they will wait until such a product liability claim occurs before making a decision on coverage, Mr. Capell admitted.

Problems do occur when insurers

are asked for an advance commitment without a full explanation of the issues involved, Mr. Capell said.

"Where we've had a full opportunity to disclose what we want, we haven't had a problem," the broker added.

In other cases, some brokers are afraid to ask the insurer about the coverage, fearing their inquiry may raise a red flag over an issue the insurer hadn't considered, Mr. Capell said.

An executive at National Union Fire Insurance Co. of Pittsburgh, Pa., said the issue boils down to "process vs. product."

If the substance causing harm is a byproduct of a manufacturing or production process, then it usually is an example of gradual pollution,

he said.

A good example is smoke from a factory that results in a liability claim, he said. Since the smoke itself is not a commercial product and results from a steady state of operation, it is a case of gradual pollution.

Contrasting this, however, are injuries caused by vapors or fumes from a "finished product" that is sold commercially, he said. For example, an injury caused by continued (and hence gradual) spraying of an aerosol pesticide inside someone's home would fall into the category of product liability in most instances, he says.

Mr. McCue at Canadian Universal basically agrees with this differentiation but cautions against any interpretation being made before an incident occurs.

"It's almost on an individual basis, case by case," Mr. McCue cautions.

ISO will not comment on how its pollution exclusion should be applied.

Policy interpretation, including the pollution exclusion, is up to the individual insurer, an ISO spokesman notes. "The words speak for themselves and are determined by the company."

ISO also would not say if two new CGL policy forms being written to replace the current form contain pollution exclusions with the same language.

Located in New York, ISO is an organization of property and casualty insurance companies whose functions include the development of standard policy forms for various insurance lines.



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Machine shops receive dividend

LOS ANGELES—Fremont Indemnity Co. has declared a 25% dividend for qualified members of the Western Employers Metal Assn. workers compensation safety group.

The dividend is the 14th that Fremont has paid to WEMA members. Previous payments have averaged more than 20%.

WEMA membership is open to any machine shop operator. Annual membership dues are \$12.

Despite disasters, hotel coverage plentiful

Continued from page 3

"We thought we'd see some increase in pricing after the first major catastrophes," said the Hyatt-line underwriter, "but it just didn't happen."

In the high excess layers of a hotel package—over \$25 million—coverage typically costs \$1,000 per million, and can be less than \$500 per million for the third \$25 million layer, pointed out Joseph G. Daubert, casualty and facultative manager at Towers, Perrin, Forster & Crosby Inc., reinsurance intermediaries.

"There's still substantial capacity at \$500 per million," he says.

"I would say there are 50 companies we could go to that would have interest at various levels."

• Insurers are taking more time to assess the risks.

Underwriters are looking more carefully at the size and construction of individual hotels within a chain for possible loss-control problems, including the building's age, housekeeping, management, exits, fire protection and proximity to fire services, Mr. Daubert noted.

At renewal time, some insurers may require large motel-type operators to upgrade individual units that now have substandard fire-protection systems, said a claims executive at one U.S. insurer.

• Older high-rise hotels built before fire codes required sprinklers or fire-retardant materials that are not part of larger chains may have to resort to specialty markets for coverage, says Ray-

mond C. Ellis Jr., director of operational services and research for the American Hotel and Motel Assn.

Alternatively, says Mr. Ellis, those hotels may refurbish with sprinklers or fire-retardant furnishings. All can find insurance in the current soft market, he says, but not necessarily at the price they would prefer.

In some resort areas with small municipal water systems, "we're getting into situations where sprinklers will not be the answer because the water requirements and backup would be the community's entire water use for a week," adds Mr. Ellis.

• Large chains with well-protected facilities are taking advantage of the market and may find their premiums going down despite the recent fire losses.

"We have written several substantial hotel chains the last year and on the property risk there was a substantial reduction in premiums," says Thomas V. Hallett, vp and director of risk management for Frank B. Hall & Co. Inc. of Briarcliff Manor, N.Y.

"One even went down on the liability side, too, when the limits went up."

Mr. Hallett and others say the major hotel chains are carrying liability limits of at least \$200 million. For these liability limits and to cover their substantial property values, the chains' premiums may range in the low to medium seven figures annually.

Hyatt Corp.'s premiums to cover

more than 70 hotels in the United States and overseas have been in the million-dollar range for years, says Robert T. Duty, director of risk management for the Rosemont, Ill.,-based chain.

"Basically, we haven't seen much change at all (in insurance costs)," since the series of hotel losses began in late 1980, says Mr. Duty.

The collapse of two suspended skywalks last July 17 at the Kansas City Hyatt Regency, which killed 114 people and injured more than 200, is the worst loss among the string of hotel disasters and the only one that wasn't fire-related.

The disaster at the Hyatt-operated hotel in Kansas City represents outstanding liability of \$60 million to \$75 million on top of the more than \$18 million in claims already paid, lawyers familiar with the injury and death cases say. Hyatt has at least \$201 million in liability coverage.

However, not all of that loss will necessarily fall upon Hyatt's insurers. Crown Center Redevelopment Corp. and a series of defendants involved in the construction of the hotel—which the Crown Center subsidiary of Hallmark Cards Inc. owns—are defendants in litigation, too. And the insurers are fighting bitterly over who should pay.

The property and business interruption losses in the Hyatt collapse were not available.

The other hotel disaster losses, which have been reported previously in *BI*, were:

• The Nov. 21, 1980, fire at the MGM Grand Hotel in Las Vegas, Nevada, in which 85 people were killed and 268 others admitted to hospitals.

The hotel claims property and business interruptions losses at the 2,076-room hotel-casino totaled \$221 million.

Estimates of the likely ultimate liability loss still vary, but MGM increased its liability insurance to cover the loss to \$200 million.

• The Dec. 4, 1980, fire at the Stouffers Inn in White Plains, N.Y., in which 26 people were killed and at least 40 injured.

Attorneys estimate the ultimate liability cost at anywhere from \$25 million to \$50 million. But it could go even higher because of the unpredictability of jury awards or settlements in death cases involving 13 executives of Arrow Electronics Inc. of Greenwich, Conn., killed in the blaze.

Stouffers has at least \$100 million in liability coverage led by American Mutual Liability Insurance Co. of Wakefield, Mass., with an additional \$30 million in property cov-

erage from Lloyd's of London.

• The Feb. 10, 1981, fire at the Las Vegas Hilton Hotel in which eight people were killed and 242 others were injured and property damage was estimated at \$14 million.

Hilton Hotels Corp., the Beverly Hills, Calif.,-based chain, carried \$200 million in liability coverage and combined property and business-interruption coverage of \$250 million.

The corporation already has disclosed that \$14.1 million of the revenue from its Las Vegas operations during 1981 came from insurance payments for business interruption losses.

• The March 6, 1982, fire at the 507-room Westchase Hilton Hotel in Houston, which killed 12 people and injured at least a dozen others. Suits seeking at least \$5 million have been filed as a result of the fire, which caused an undetermined amount of damage.

Westheimer Hotel Joint Venture, the owner, obtained a franchise from Hilton Hotels Corp. and carried at least \$50 million in applicable insurance.

The hotel's insured value was \$14.5 million.

• The May 23, 1982, fire at the Conrad Hilton Hotel in Chicago (see story, page 3).

Hilton facing suit from Chicago fire

Continued from page 3

coverage," he said.

The corporation is self-insured for the first \$150,000.

The coverage was remarketed and increased after the Las Vegas Hilton fire in February 1981 that killed eight persons.

According to sources in the industry, Hilton has property coverage of \$200 million as of this May 1. Of the primary layer of \$100 million, \$25 million is with the Mission Insurance Group. There is a \$250,000 deductible.

Insurance Co. of North America insures on a pro rata basis up to 80% of the \$100 million in excess property coverage. Marsh & McLennan is the company's broker.

The lawsuit against Hilton brought by the two women alleges that Hilton was negligent in failing to notify the guests of the fire and failing to provide for their evacuation, according to attorney Thomas Demetrio, of the Chicago firm of Philip H. Corboy & Associates.

Mr. Demetrio contends that the hotel failed to notify the guests of the fire, to sound an alarm, to give adequate instructions, to supply adequate egress and to supply sprinkler and detector systems.

Although the city of Chicago does not require that hotels built before 1975 have smoke detectors or sprinklers, past experience of hotel fires and the nature of the hotel business required the Hilton to provide them, Mr. Demetrio argues.

The Conrad Hilton was built in 1927.

"People were relying on the Conrad Hilton to take care of them," he said.

Mr. Demetrio emphasized that the basis of the suit was Hilton's negligence in responding to the fire and not the cause of the fire, which is still under investigation.

"Forget the cause," he said. "It was the way in which the hotel handled the situation." His two clients were not notified by the hotel of the fire and did not receive word until firemen banged on their door, he said.

Other counts could be added to the suit depending on the outcome of the investigations into possible violations, he said.

The \$6 million sought per plaintiff is more for purposes of letting the public know the serious nature of the fire rather than reflecting the actual nature of the injuries, Mr. Demetrio said.

"This was to let the word go out that this is a very serious matter," he said. The two women were released from the hospital one day after the fire.

The suit was filed only one day after the fire to permit attorneys to get a court order that would permit

their own fire expert to examine the premises. A suit had to be filed to get the court order, Mr. Demetrio said.

Hilton also is conducting its own investigation with outside fire and safety experts, Mr. Applegate said. The company will retain outside defense counsel, he added.

Last week, claims people were interviewing employees who had direct involvement in the fire and were "still putting together the pieces of the completed picture," a spokesman for Hilton said.

Minnesota physician charges rise

ST. PAUL, Minn.—Minnesota physicians increased their charges for services provided to Blue Cross & Blue Shield of Minnesota by 10% last year, BC/BS reported.

That increase is less than the 11% hike in physician charges reported in 1980.

In addition, the amount of services physicians provided to BC/BS subscribers increased by 2%, compared with a 4% rise in 1980.

The higher charges and the increase in services accounted for an overall cost increase of 12.2% last year, down from a 16.2% hike in 1980, BC/BS of Minnesota said.

The Consumer Price Index

showed an 11% increase in nationwide physician charges in 1981, compared with a 10.9% increase in 1980.

Among common charges, the median cost of an office visit for an established patient rose 10.1% to \$15.75 from \$14.24; the median cost of an office visit for a new patient rose 11.1% to \$25 from \$22.50; and the median cost of a single-view chest X-ray rose 11.7% to \$19 from \$17.

The median cost for a single-artery coronary bypass rose 9.9% to \$2,830 from \$2,575, and the median cost of a normal delivery rose 14% to \$439 from \$385.

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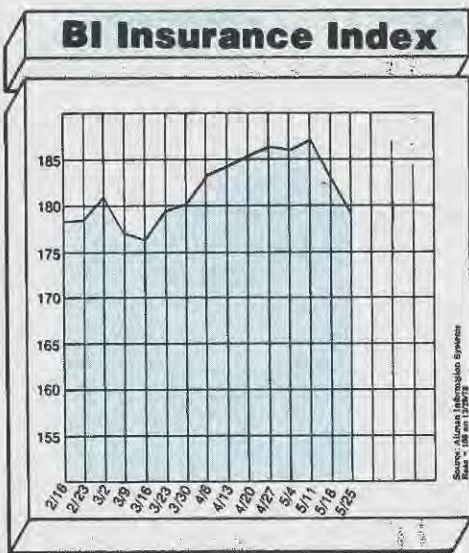
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Half of IMC purchased by three of its executives

By LEN STRAZEWSKI

THREE KEY EXECUTIVES of Insurance Management Corp., the Richmond, Va.-based insurance brokerage ranked by *Business Insurance* last year as the 12th largest in the nation, have purchased about half of the company from parent Continental Financial Services Co.

The three executives—Robert H. Hilb, president of IMC; Alvin Rogal, president of Royal Co. Inc., IMC's largest agency, based in Pittsburgh; and David W. Hamilton, executive vp of IMC—paid slightly more than \$17 million for the retail property/casualty agency system that earned between \$17 million and \$18 million in 1981, Mr. Hilb told *Business Insurance*.

The purchase, however, excludes Hewitt, Coleman Associates, a self-insured claims management firm; IFCO, a premium financing company; and H&W Insurance Services Inc., an Encino, Calif.-based excess/surplus lines brokerage. These three subsidiaries helped the company earn \$32.4 million in 1980.

Without those subsidiaries, IMC is likely to slip to 17th or 18th in the *BI* annual ranking of the top 20 insurance brokers, which will be published June 28.

"Although the property/casualty insurance business remains in a very soft down cycle, the opportunity to purchase IMC was too attractive for us to pass up at this time. The company is ideally positioned to take quick advantage of the market's expected upturn," notes Mr. Hilb, who heads a new holding company, Hilb, Rogal & Hamilton Co.

Continental Financial Services Co., a division of the Richmond-based Continental Group, decided to divest IMC as part of a strategy to focus the diversified company's underwriting activities in Western Employers Insurance Co., a Santa Ana, Calif., workers compensation insurer.

Western Employers will absorb H&W; Hewitt, Coleman; and the other insurance-related service firms.

"The proportionately larger contribution of Western Employers to property/casualty division earnings was a consideration in

BI ticker

making the sale," affirmed Continental Financial Services Co. President James F. Betts.

CFSC also owns The Life Insurance Co. of Virginia, Lawyers Title Insurance Corp., SEC Computer Co. and Investors Mortgage Insurance Co.

The Continental Group, which also owns Continental Can Co. and a variety of energy and forest-product companies, is also putting additional emphasis on its energy-related business, including a giant joint venture with Allied Chemical Co.

According to the survey, the industry's combined ratio zoomed to 110.2% last year from 107.3% in 1980.

The industry reported net reinsurance premiums written of about \$6.7 billion. Loss and loss-adjustment expenses totaled \$5.5 billion for a loss ratio of 80.9%. Underwriting expenses were reported at \$2 billion for an expense ratio of 29.3%.

Year-to-year industry figures are not available in these categories because of a change in the number of companies reporting and in the information requested by the RAA.

According to the report, the largest reinsurer posted one of the best underwriting performances. General Re, which reported \$784.7 million in net reinsurance premiums written, posted a combined ratio of 99.1%.

Financial briefs

Corroon & Black

Reliance Finance Services Corp., a subsidiary of Reliance Group Holdings Inc., has purchased 360,000 shares of Corroon & Black Corp. common stock valued at \$7.9 million.

The acquisition, termed an investment by Reliance officials, was made through stock purchases from Jan. 5 to May 11. It gives Reliance a 5% interest in C&B, the sixth-largest U.S. insurance brokerage, according to *Business Insurance*.

A company spokesman said Reliance will consider increasing or decreasing its holdings depending upon the stock's future market value.

Reliance becomes the second insurance company in six weeks to purchase shares of Corroon & Black. In April, Old Republic Insurance Co. of Chicago announced it had increased its interest in the New York broker to 5.07%, or 394,400 shares.

Old Republic also owns about 5% of Rollins Burdick Hunter Co., the seventh-largest U.S. insurance brokerage.

Reinsurers' results

The reinsurance industry's underwriting results showed continued deterioration last year, according to a report by the Reinsurance Assn. of America.

Insurance industry stocks fared poorly last week as the *Business Insurance* stock index lost 4.4 points, dropping to 179.4 from 183.8. Nine stocks posted gains, 46 posted losses and 13 were unchanged. The biggest declines were reported by Hanover Insurance Co., 10.4%; Washington National Corp., 9.3%; Old Republic International Corp., 7.7%; USF&G Corp., 7.3%; and Statesman Group Inc., 6.9%. The largest increases were reported by Corroon & Black Corp., 5.1%; Integrated Resources Inc., 3.5%; PennCorp Financial Inc., 3.0%; Marsh & McLennan Cos. Inc., 2.3%; and Alexander & Alexander Services Inc., 1.4%. The *BI* index lost 2.4% during the period, exceeding the losses of the major market averages.

British Issues

May 25 Companies	Price pence	P/E	Div. pence	Yield %	1 Week High—Low pence
Commi Union	133	12.1	16.86	12.7	133—128
Eagle Star	366	12.4	21.43	5.9	366—348
Genl Accident	266	7.4	23.21	8.1	266—262
Gdn Royal Exch	268	6.5	25.00	9.3	268—262
Phoenix	238	8.0	24.00	10.1	238—228
Royal	330	8.5	36.07	10.9	330—322
Sun Alliance	754	8.9	61.43	8.1	754—744

Brokers	Price	P/E	Div.	Yield	1 Week High—Low
CE Heath	325	8.9	18.71	5.7	326—322
Hogg Robinson	100	7.7	8.57	8.6	109—99
JH Minet	198	12.1	8.14	4.2	195—174
Sedg Grp	168	10.8	8.57	5.1	169—165
Stenhouse Hldg	112	8.8	7.28	6.5	114—112
Stew Wrightson	245	8.8	18.57	7.6	245—235
Willis Faber	472	11.8	21.43	7.5	472—462

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

BI Industry Stock Report

Insurance Cos.	MAY 25, 1982				5/19/82 THRU 5/25/82				Price	Chg	P/E	S Div	Yld	High	Low	Vol (000)			
	Price	Chg	P/E	S Div	Yld	High	Low	Vol (000)											
Aetna Life & Cas Co	NYSE	38.63	-3.7	6.3	2.52	6.5	39.63	38.63*	1,558.6	United Fire & Cas Co	NYSE	29.00	-1.7	8.3	0.88	3.0	29.50	29.00	1.1
American Bankers Ins Group	OTC	8.00	-5.9	6.3	0.48	6.0	8.50	8.00	106.2	United States Fid & Cty Co	NYSE	39.88	-7.3	7.1	3.60	9.0	42.50	39.75	191.1
American Gen Ins Co	NYSE	40.38	0.9	5.3	2.20	5.4	41.63	40.38	628.2	United Svcs Life Ins Co	OTC	15.50	-3.9	5.7	1.00	6.5	16.00	15.50	16.1
American Indty Finl Corp	OTC	14.38	-1.7	8.4	1.12	7.8	14.63	14.38	5.7	USLife Corp	NYSE	18.75	-2.0	3.9	0.84	4.5	19.38	18.75*	159.7
American Intl Group Inc	OTC	64.00	-3.8	10.2	0.48	0.8	66.25	64.00	447.7	Washington Natl Corp	NYSE	17.13	-9.3	7.2	1.08	6.3	18.00	17.13	84.6
American Natl Ins Co	OTC	14.00	-3.4	6.1	0.76	5.4	14.00	14.00	192.0	Zenith Natl Ins Corp	OTC	15.00	-4.8	7.2	0.76	5.1	15.25	14.50*	31.4
American Sts Life Ins Co	OTC	17.00	-2.9	5.4	0.80	4.7	17.00	17.00	1.8	INSURANCE COMPANIES				AVERAGE	6.8	4.7			
Aneco Reins Ltd	OTC	2.25	0.0	0.0	0.00	0.0	2.25	2.25	3.1	AGENTS/BROKERS									
Aveco Corp	AMEX	12.13	0.0	7.5	0.54	4.5	12.13	11.88	9.5	Alexander & Alexander Svcs	NYSE	26.50	1.4	9.1	1.94	7.3	26.50	25.38	176.0
Banks Iowa Inc	OTC	37.00	-6.3	6.4	1.48	4.0	39.50	37.00	8.1	Baldwin & Lyons Inc	OTC	35.00	-1.4	6.5	0.80	2.3	35.50	35.00	10.2
Bitco Corp	OTC	29.50	0.0	4.5	1.92	6.5	29.50	29.50	3.2	Corroon & Black Corp	NYSE	20.75	5.1	10.8	1.76	8.5	20.75	20.00	24.3
Carolina Cas Ins Co	OTC	6.75	0.0	6.3	0.32	4.7	6.75	6.75	0.4	Crum & Forster	OTC	8.63	1.5	18.4	0.40	4.6	8.63	8.50	13.3
Chubb Corp	OTC	42.88	-2.0	5.3	2.92	6.8	43.75	42.88	196.7	Hall Frank B & Co Inc	NYSE	27.00	-6.5	10.2	1.70	6.3	28.00	26.88	151.1
Combined Intl Corp	NYSE	21.13	-1.0	5.7	1.80	8.5	21.88	20.75	82.0	Integrated Res Inc	AMEX	14.88	3.5	5.6	0.00	0.0	14.88	14.38	30.1
Continental Corp	NYSE	25.50	-4.2	7.1	2.60	10.2	26.50	25.50	201.8	James Fred S & Co Inc	NYSE	20.38	-5.2	9.7	1.60	7.9	21.38	20.25	27.4
Crawford & Co	OTC	18.50	-1.7	10.9	0.56	3.9	18.50	18.50	0.8	Marsh & McLennan Cos Inc	NYSE	33.25	2.3	10.1	2.20	6.6	33.63	32.63	193.5
Crown Life Ins Co	NYSE	81.50	0.0	6.0	3.10	3.8	81.50	81.50	0.0	PennCorp Finl Inc	NYSE	8.50	3.0	6.6	0.16	1.9	8.63	8.25	308.4
Cum & Forster	NYSE	27.00	-4.0	4.8	1.64	6.1	27.63	27.00*	202.8	Pinehurst Corp	OTC	8.25	-7.0	9.3	0.00	0.0	8.75	8.25*	6.8
Employers Cas Co	OTC	31.50	-3.8	6.8	1.20	3.8	32.75	31.50	4.4	Poe & Assoc Inc	OTC	9.00	0.0	10.1	0.80	8.9	9.00	9.00	0.1
Equifax Inc	NYSE	30.88	-2.4	9.3	2.60	4.0	31.13	30.88	7.6	Reed Stenhouse Cos Ltd	OTC	11.75	0.0	10.1	0.60	5.1	12.13	11.75	26.4
Eroelsior Ins Co	OTC	16.75	0.0	43.6	0.70	4.2	16.75	16.75	0.1	Rollins Burdick Hunter Co	OTC	18.50	-3.9	12.2	1.32	7.1	19.25	18.50	5.4
Farmers Group Inc	OTC	32.50	-2.3	9.1	1.24	3.8	33.63	32.50	279.5	AGENTS/BROKERS				AVERAGE	8.9	5.5			
First Colony Life Ins Co	OTC	66.25	0.0	18.6	1.02	1.5	66.50	66.25	0.0	CONGLOMERATES/HOLDING COS.									
Foremost Corp Amer	OTC	31.00	-1.6	8.7	1.12	3.6	31.50	31.00	32.5	American Express(Fireman's Fd)	NYSE	46.25	0.3	8.2	2.20	4.8	46.38	45.38	653.0
Great West Life Assurn Co	OTC	210.00	0.0	8.0	10.00	4.8	210.00	210.00	0.0	Anderson Clayton(Ranger/PanAm)	NYSE	28.88	-0.9	5.7	1.32	4.6	29.00	28.13	12.2
Hanover Ins Co	OTC	25.75	-10.4	3.2	0.88	3.4	28.50	25.75*	40.0	Arauco Inc	NYSE	17.25	-6.1	4.3	1.80	10.4	18.00	17.25*	507.7
Hartford Steam Boiler Inapnt	OTC	40.50	-2.4	7.5	2.80	6.9	41.50	40.50	9.2	City Investing Co. (Home Ins.)	NYSE	24.00	1.1	7.5	1.70	7.1	24.00	23.75	392.5
Jefferson Natl Life Ins Co	OTC	38.50	-1.3	10.5	0.76	2.0	39.00	38.50	0.5	CNA Finl Corp (CNA)	NYSE	13.38	-2.7	5.3	0.00	0.0	13.75	13.38*	7.0
Kemper Corp	OTC	33.25	-2.2	5.4	1.80	5.4	33.88	33.25	216.9	Control Data (Comm. Credit)	NYSE	25.75	-6.8	5.8	0.55	2.1	26.63	25.75*	1,615.9
Lincoln Natl Corp Ind	NYSE	42.75	-0.6	7.0	3.00	7.0	43.38	42.63	60.7	General Re Corp	NYSE	81.25	-9.9	9.6	2.16	2.7	86.50	81.25	72.5
Mission Ins Group Inc	NYSE	24.25	-2.0	6.2	0.80	3.3	25.00	24.25	29.5	Gulf Utld Corp	NYSE	19.38	1.3	6.8	1.32	6.8	19.38	18.88	135.3
Nationwide Corp Ohio	OTC	26.75	0.0	7.8	0.70	2.6	26.75	26.75	1.6	Cigna Corp	NYSE	39.50	-6.0	5.1	2.30	5.8	41.25	39.38*	1,366.1
Northwestern Natl Life Ins	OTC	25.75	0.0	5.3	1.50	5.8	25.75	25.50	11.5	ITT (Hartford Group)	NYSE	25.13	-1.0	5.5	2.68	10.7	25.38	25.13	736.1
Ohio Cas Corp	OTC	38.38	-6.4	5.7	2.36	6.1	40.50	38.38*	62.8	Optium Hldg Corp	OTC	9.25	0.0	7.0	0.00	0.0	9.25	9.25	2.6
Old Rep Intl Corp	OTC	17.88	-7.7	4.2	0.92	5.1	19.38	17.88	72.7	Sears Roebuck & Co. (Allstate)	NYSE	19.50	-1.3	9.3	1.36	7.0	19.75	19.50	1,447.9
Preferred Risk Life Ins Co	OTC	20.75	-2.9	6.0	0.92	4.4	21.38	20.75	5.7	Baldwin Utld Corp	NYSE	66.88	-1.3	8.4	1.60	2.4	67.75	66.13	97.3
Provident Life & Acc Ins Co	OTC	48.00	0.5	6.0	2.44	5.1	48.00	48.00	11.4	Teledyne Inc (Argonaut)	NYSE	109.50	-8.2	5.6	0.00	0.0	118.63	109.50*	527.7
Ryan Ins Group Inc	OTC	19.50	-2.5	8.1	0.15	0.8	20.00	19.50	8.5	Transamerica Corp (Occidental)	NYSE	20.00	0.0	5.9	1.40	7.0	20.13	19.88	221.9
St Paul Cos Inc	OTC	43.25	-5.7	5.8	2.60	6.0	44.50	43.25*	233.0	CONGLOMERATES/HOLDING COS.				AVERAGE	6.6	3.7			
Safeco Corp	OTC	35.88	-5.9	6.5	2.20	6.1	37.50	35.88*	80.1										
Srl Corp	OTC	19.75	-1.3	4.4	1.00	5.1	19.75	19.75*	25.9										
Seibels Bruce Group Inc	OTC	23.13	-2.6	12.3	0.80	3.5	23.75	23.13	45.0										
Statesman Group Inc	OTC	5.50	-6.9	4.7	0.15	2.7	5.91	5.50	25.3										
Tokio Marine & Fire Ins Co	OTC	99.00	-3.2	7.9	1.00	1.0	10												

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