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update

Pinnacle loses bid to block suit by Mentor's liquidators

HAMILTON, Bermuda—Bermuda Supreme Court Judge Gerald Collett last week threw out Pinnacle Reinsurance Co. Ltd.'s request for a declaration that liquidators of Mentor Insurance Ltd. lack legal standing to sue Pinnacle in federal court in New Orleans.

Ruling that "it cannot be shown from the available evidence that they (the liquidators) have acted

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Many renewals find softer market

By DOUGLAS McLEOD

Risk managers renewing property/casualty insurance policies this spring are finding higher limits and sometimes lower rates than a year ago.

"It's much better than it was last year," said Horace Holcomb, senior vp with Alexander & Alexander Inc. in New York, of the property/casualty insurance market. "In most lines of business, the situation has significantly improved."

"Capacity has dramatically increased and pricing has dramatically decreased in both (property and casualty) lines," said Frank A. McDougald, senior vp and national marketing director for Fred S. James & Co. Inc. in New York.

"All signs point to a downward trend in pricing," added James Davis, vp with Corroon & Black Corp. and director of the brokerage's Advanced Risk Management division in Nashville, Tenn.

The property insurance market in particular has softened rapidly since the beginning of the year, with buyers generally finding as much capacity as they need for most types of property coverage, except earthquake coverage, at rates lower than at last year's renewal.

Combined property and liability package policies also are being renewed at lower rates.

Furthermore, casualty insurance capacity has started to expand as insurers increase their per-risk limits.

But, while some observers report limited price competition for certain types of liability business—including high-layer umbrella risks—no broad decline in liability rates is yet discernable.

Some commercial insurance buyers are finding marginally lower rates on casualty renewals, but underwriters are granting the decreases only on a selective basis for good risks, observers say.

And, the market for tough casualty risks, like chemical and pharmaceutical manufacturers, has not improved significantly since last year, some brokers and insurance buyers note.

The growth in property and casualty insurance capacity among U.S. insurers, meanwhile, is drawing business away from the London market.

London underwriters, who continue to insist on the claims-made form for liability risks, still provide a market for difficult casualty risks, but on a claims-made business only. However, London underwriters say they are letting other property/casualty business return to U.S. markets, rather than trying to match the rates quoted by U.S. insurers.

Reinsurance industry sources also note that any increase in available property and casualty insurance capacity is not a result of an expanding reinsurance market, but is instead largely the result of insurers assuming larger net lines.

The treaty reinsurance market is still tight, though some sources note that some competition has emerged for property facultative and some casualty facultative risks.

Overall, "underwriters are now concerned about maintaining business they have written in the last two to three years," said Robert Kerekes, senior vp for casualty brokerage with Johnson & Higgins in New York. "I don't think underwriters are prepared to lose business."

"In general, the market is easing up. It's not the kind of hell it was during the early part of last year," said George Klink, vp with The Kornreich Organization, a New York-based brokerage.

However, observers cautioned that buyers should not expect major price-cutting in casualty lines in the near future.

"Everybody is so cautious about a new cycle," noted Mr. Kerekes. "I think the underwriters have learned their lesson. I think disciplines are in place to keep that from happening again."

While underwriters generally are more willing to negotiate on terms and conditions than they were a year or two ago, "I don't want to leave you with the impression that we are back in the euphoric days of the early '80s. We are far from that," asserted Jack Sinnott, executive vp with Marsh & McLennan Inc. in New York.

"We're going through a correction, but I don't see a real slide towards softening," observed Bob Dorgan, senior vp with the brokerage and special operations group of Continental Insurance Co. in New York. "I think we'll get to a plateau that'll last for a year or so, at least."

Mr. Dorgan noted that the insurance industry's new period of profitability has not been long enough to allow the industry to recover from its losses during the previous soft market. Insurers can't afford to get into another competitive cycle so soon, he maintained.

Some risk managers also are not optimistic that the improved financial condition of insurers will create another soft property/casualty market.

"I always inform management not to be lulled by the information they read in the trade press that just because insurers are making money that we are going into a soft cycle," said James Harrington, corporate insurance manager at Bausch & Lomb Inc. in Rochester, N.Y.

While there are indications that some prices are flattening or dropping in some coverage areas, "there is absolutely no softening" for risks that underwriters still perceive to be difficult to make a profit on, Mr. Harrington noted.

"We don't hear as many horror stories as

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Chandler to seek retiree health trust

By JERRY GEISEL

WASHINGTON—Employers would be given a powerful tax-effective way to prefund their post-employment health care and long-term care benefit plans under legislation now being drafted by Rep. Rod Chandler, R-Wash.

Rep. Chandler

Rep. Chandler says he will propose an amendment to budget reconciliation legislation that would allow employers to take immediate tax deductions of up to $2,000 per employee annually for contributions to special retiree health care trusts. The proposal also would require, however, that employees be vested in any contributions made to the trusts.

The budget legislation is expected to be taken up by the House Ways and Means Committee next month.

Rep. Chandler, who unveiled his proposal last week at a benefits forum in Washington sponsored by the Employee Benefit Research Institute, said prefunding would help employers keep their promises to provide post-employment health care benefits.

Already, business groups and consultants are welcoming Rep. Chandler's approach, though they are holding off full-fledged en-

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College of Insurance struggles with debt
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Trial pits Manville vs. feds over asbestos claim liability

By STEPHEN TARNOFF

WASHINGTON—Asbestos producers hope that the outcome of a trial beginning today will mean a significant step toward ending much of their asbestos liability woes.

The first trial in which an asbestos producer seeks to recover from the federal government the compensation it has paid to former shipyard workers with asbestos-related diseases commences today in U.S. Claims Court in Washington.

With potentially billions of dollars at stake, Denver-based Manville Corp. is seeking to shift the burden of its asbestos liability to the federal government, claiming the government played a key role in harming workers at government-owned and controlled shipyards during World War II.

'It's a case all producers will be watching closely,' says attorney Peter Kalis.

The case is vitally important to Manville and to many other asbestos producers because as many as one-half of the 40,000 to 50,000 pending asbestos claims against them involve former shipyard workers.

A finding by the court that the government is liable could go a long way toward relieving Manville and other asbestos producers—which also have cases pending against the government—of liability for asbestos claims. For example, such a ruling could allow Manville to recover up to $1 billion, according to a company spokesman.

"We feel it (the trial) is very important," the spokesman said.

However, other asbestos producers note that while a Manville victory would help their cases, a finding for the government would not doom them, because evidence in their cases is different from Manville's.

The Manville case is "important to the extent that certain background information will be entered into the record regarding the relationship between the government and its contractors during World War II," said an attorney for an asbestos producer who asked not to be identified.

"But my clients' facts are so fundamentally different than Manville's and rely on evidence not introduced, and will not be introduced between Manville and the government, that it certainly will not be conclusive of any issue in our case."

Nevertheless, the attorney said a judgment in favor of Manville would be very encouraging.

"It's a case all producers will be watching closely," said Peter Kalis, an attorney for H.K. Porter Co. with the Pittsburgh firm of Kirkpatrick & Lockhart. However, he also noted there are major differences between the Manville case and others.

Besides the Manville trial, a trial that will pit Eagle-Picher Industries Inc. and UNR Industries Inc. against the government is set for August in the Claims Court.

Also, GAF Corp., Keene Corp., H.K. Porter Co. and Fibreboard Corp. are among the companies with cases pending that involve claims arising out of contracts between the producers and the government.

Manville also has filed two other lawsuits against the government to recover payments it has made to asbestos victims who worked in shipyards during time periods other than at issue in the current case.

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update

Judge denies Pinnacle request

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either in excess of or in abuse of power," Judge Collett ruled "it follows that this originating summons (from Pinnacle) is in my judgment almost incontestably bad and that if it should go to trial the result must be that it would surely fail."

In addition, Judge Collett ruled that Pinnacle's Jan. 21 request for declaratory relief from the Bermuda court was "frivolous, vexatious and an abuse of the process of this court."

"In my judgment this court is no more empowered to grant the declaratory relief which this originating summons seeks than it is to make an award of damages against the liquidator of whose conduct it might disapprove. Pinnacle has fallen foul of procedural difficulties which are fatal to its application quite regardless of the merits."

Pinnacle sought the ruling from the Bermuda court after Mentor's liquidators sued the reinsurer and others in federal court in New Orleans charging them with fraud in the connection with the insolvency of Mentor (*BI*, April 20).

Pinnacle's grounds for an appeal will be heard on Thursday.

Jewel to fund claims facility

CHICAGO—Jewel Food Stores Inc., parent American Stores Co. Inc. and plaintiffs' attorneys have agreed to establish a claims facility to pay compensatory damage claims filed by victims of salmonella-tainted milk produced by Jewel's dairy in 1985.

Former Cook County Circuit Judge Walter P. Dahn has been appointed to oversee claims filed by salmonella victims. The victims have until Aug. 15 to file a seven-page form with the facility.

Claim forms will be mailed to about 24,000 persons who complained to authorities of injuries, even if they did not receive medical confirmation of the bacterial ailment. Claim payments will be individually negotiated.

In addition, Jewel and American Stores have agreed to notify other potential claimants of the facility by buying more than $100,000 in television, radio and newspaper advertisements, said Michael Pope, an attorney with Phelan, Pope & John Ltd., who represents the companies. He declined to estimate how much the companies may have to pay to settle the claims.

Claimants who do not agree to settle through the facility can have their cases reviewed by a judge, according to the agreement.

A jury hearing a class-action lawsuit decided in January that the companies were not liable for punitive damages stemming from the tainted milk (*BI*, Jan. 26). However, plaintiffs' attorneys have asked the Cook County Circuit Court to rehear a lawsuit seeking punitive damages.

Jewel and American Stores are litigating with their insurers over coverage for the salmonella incident. American Stores said it had $70.9 million in liability insurance at the time of the poisonings.

Connecticut eyes joint liability

HARTFORD, Conn.—The Connecticut Senate last week unanimously approved legislation that restores the doctrine of joint and several liability for economic damages in personal injury cases.

The measure—S.B. 1015—approved by a 35-0 vote, significantly weakens the joint and several liability reform the Connecticut Legislature enacted last year as part of a sweeping tort reform bill.

Under the 1986 law, which applies to both economic and non-economic damages, if an amount owed by one or more of the defendants is uncollectible each other defendant pays only a percentage of the uncollectible amount equal to its own degree of liability.

Under the legislation passed last week, the 1986 formula for apportioning uncollectible amounts would continue to apply for non-economic damages, business lobbyists said.

The measure, though, is not as damaging to business interests as an earlier version that would have virtually gutted the 1986 joint and several liability reform (*BI*, April 20).

The bill now goes to the Connecticut House.

Health care bill taps employers

BOSTON—Employers would have to finance more than half the cost of a proposed program that would provide health insurance to Massachusetts residents without such coverage, according to a bill being considered by the state Legislature.

Under the bill sponsored by Sen. Patricia McGovern, D-Essex/Middlesex, employers would contribute $340 million in payroll taxes to the $675.6 million program; the state would contribute $265.6 million; employees would contribute $50 million based on a percentage of their income; and other sources would contribute $20 million.

A spokeswoman for state Human Services Secretary Philip W. Johnston, who opposes the legislation, said the bill does not specify how much coverage would be provided to individuals.

Transit MGA denies charges

DALLAS—Carlos I. Miro, a former managing general agent for Missouri-domiciled Transit Casualty Co., denies fraud and racketeering allegations leveled against him in a complaint that Transit's liquidator is seeking to file.

The proposed amended complaint also accuses others of common law fraud and violations of the federal Racketeer Influenced and Corrupt Organizations Act in their handling of business for Transit. The liquidator seeks to file the amended complaint in U.S. District Court for the Northern District of Texas in Dallas.

"It appears that the liquidator and former Transit officials have decided to attempt to make Mr. Miro, Miro & Associates Risk Management Inc. and a former vp of M&A scapegoats for the disastrous results sustained by Transit," says a statement released

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Former insurer exec faces new indictment for fraud

By DOUGLAS McLEOD

PHILADELPHIA—Former New York insurance executive Louis Mazzella is facing new federal charges that he defrauded American Centennial Insurance Co. of $2.4 million in reinsurance premiums.

The indictment, returned by a federal grand jury in Philadelphia last Wednesday, charges that Mr. Mazzella diverted premiums ceded by ACIC to Colonial Assurance Co. of Elkins Park, Pa., for reinsurance covering Associated Electric & Gas Insurance Services Ltd., a utility industry captive insurer (*BI*, April 29, 1985; May 6, 1985).

Mr. Mazzella

Colonial, which Mr. Mazzella owned through two holding companies, was ordered liquidated by the Pennsylvania Insurance Department in March 1984.

Mr. Mazzella was indicted on essentially the same charges in April 1985, but a federal judge later dismissed those charges at the request of the U.S. attorney for the Eastern District of Pennsylvania. The U.S. attorney's motion for dismissal also notified the court that the charges might be re-filed at a later date (*BI*, June 24, 1985).

Assistant U.S. Attorney Michael R. Lazerwitz declined to comment for the record on whether the withdrawal of the earlier indictment resulted from an agreement between prosecutors and Mr. Mazzella.

Mr. Mazzella—who said he would plead not guilty to the current charges at his arraignment Thursday, also declined to comment on whether there was an agreement, as did Mr. Mazzella's lawyer, Thomas J. Puccio of New York.

"We believe that there was no criminal intent on his part at all," Mr. Puccio said of Mr. Mazzella.

The indictment, charging Mr. Mazzella with two counts of mail fraud and three counts of wire fraud, alleges that Mr. Mazella carried out a scheme between August 1978 and June 1982 to defraud ACIC on reinsurance placements with Colonial and that he attempted to conceal Colonial's reinsurance deals from the Pennsylvania Insurance Department.

Colonial reinsured ACIC on portions of the AEGIS risk under five facultative reinsurance certificates, according to the indictment. The indictment also notes that the reinsurance was brokered by The Placers Inc., a Morristown, N.J., intermediary owned by John A. Kraeutler, who also owned an ACIC managing general agency.

Separately, ACIC is suing Mr. Kraeutler, four of his companies and others in U.S. District Court in Newark, N.J., alleging that the defendants defrauded ACIC on the AEGIS program (*BI*, Oct. 29, 1984).

Mr. Mazzella is not named in ACIC's civil complaint.

According to the criminal indictment, Mr. Mazzella diverted $2.4 million in reinsurance premiums by in-

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Deadlines approach for two directories

Deadlines are rapidly approaching to be listed in two *Business Insurance* directories.

The deadline to be listed in *BI's* first directory of property loss control consultants and engineers is May 11; the deadline to be listed in the 16th annual directory of agents and brokers is May 18.

The directory of property loss control consultants and engineers will be published in the June 1 issue, which will include a Spotlight Report on specialty risks.

If you have not yet received a questionnaire, request one immediately by calling 312-649-5398.

The 16th annual directory of agents and brokers will be published in the June 22 issue. This issue also will contain a ranking of the 100 largest U.S.-based agents and brokers and profiles of the 20 largest brokers in the nation and worldwide.

Commercial lines agents and brokers that wish to be listed must complete a questionnaire supplied by *Business Insurance*. If you have not yet received a questionnaire, contact Marilou Jones, Directory Editor, *Business Insurance*, 740 N. Rush St., Chicago, Ill. 60611; 312-649-5279.

Business Insurance publishes the directories as an editorial service; there is no charge to be included.

Indiana approves tort, insurance bills

By LINDA J. COLLINS

INDIANAPOLIS—Gov. Robert D. Orr is expected to sign three tort and insurance reform bills approved by the Indiana Legislature late last month.

Two of the bills are tort reforms: One would would cap prejudgment and post-judgment interest at 10%, and the other would cap damages in wrongful injury or death suits involving a child as well as limit which parties may file such claims.

Graphic: Amy Palmer

The third measure, an insurance reform bill, would limit insurers' ability to cancel policies, increase insurers' reporting requirements and modify agent licensing requirements.

Tort reform proponents said they are disappointed with the relatively minor tort reforms passed by the Legislature.

"The business community in Indiana has to be terribly disappointed," said Ernest T. Williams, coordinator of the Indiana Forum for Civil Justice.

He said none of the tort reform measures backed by the Forum in the 1987 session was adopted, including a $250,000 cap on most non-economic damages, limits on punitive damages and various product liability reforms.

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- A survey by employee benefit consultant Hewitt Associates finds first-dollar medical coverage is becoming a thing of the past, while flexible benefits appear to be the wave of the future. **PAGE 19**
- In this month's International Issues column, Jerome Karter of Johnson & Higgins advises that a comprehensive policy purchased from a U.S. insurer offers better coverage for a multinational corporation's boiler and machinery risks than locally purchased policies. **PAGE 29**
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Liability rates may rise in Florida

By MICHAEL BRADFORD

TALLAHASSEE, Fla.—The Florida Supreme Court's decision to strike a cap on non-economic damages contained in the state's controversial tort and insurance reform act may lead to higher commercial liability insurance rates in the state.

In upholding most of the Tort Reform & Insurance Act of 1986 late last month, the court emphasized that the Insurance Department must allow insurers to adjust rates, based on their expected additional costs, if any provision of the act were overturned.

In addition, insurers may ask the court to rehear their challenge to insurance regulatory aspects of the law, which was enacted last June. Commercial insurers that write business in Florida were scheduled to gather late Friday to decide their next step.

In a 4-3 decision, the court affirmed most of Leon County Circuit Judge Charles E. Miner's ruling last October that upheld most of the law's provisions.

The decision is the culmination of 10 months of legal wrangling by insurers fighting the insurance reform and plaintiffs' attorneys fighting the tort reforms.

Lawsuits were filed by the American Insurance Assn., the National Assn. of Independent Insurers, the Alliance of American Insurers and individual insurers challenging the constitutionality of the insurance reform aspects of the law (*BI*, Nov. 3, 1986; July 7, 1986; June 16, 1986).

The state Supreme Court's decision upheld as constitutional most of the insurance and tort reform measures contained in the law. Those measures, among other things:

- Grant new authority to the Insurance Department to control rates. Insurers are required under the law to notify the department of rate deviations such as surcharges and discounts. Previously, the department could reject rates only if it found there was a lack of competition. The new law provides additional grounds for rejecting rates, such as past and projected losses both within and outside of the state.

Under temporary authority granted by the Supreme Court last year, Florida Insurance Commissioner Bill Gunter slashed the rate requests of several insurers. But even though insurers' initial requests are being denied, they have obtained rates that are higher than 1986 levels (*BI*, Dec. 15, 1986).

- Limit joint and several liability. If a damage award is greater than $25,000, joint and several liability applies only to economic damages and only when the fault of the defendant is found to be equal to or greater than the fault of the plaintiff. Joint and several liability remains in effect for all economic damages and non-economic damages of less than $25,000.

However, a sunset provision in the law would end the modification to joint and several liability in 1990.

- Limit punitive damages in some cases to three times the amount of compensatory damages.
- Reduce damage awards by amounts plaintiffs recover from collateral sources, such as medical insurance, unless the defendant has subrogation rights against those sources.
- Discourage frivolous lawsuits by requiring the losing party to pay the attorney fees of the prevailing party.
- Allow the Insurance Department to create a joint underwriting association that guarantees the availability of commercial property/casualty coverage to any business

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Contractor may face suits from apartment collapse

Photo: AP/Wide World

Workers continue the search the rubble after a 13-story apartment complex under construction in Bridgeport, Conn., collapsed on April 23.

By JUDY GREENWALD

BRIDGEPORT, Conn.—One of the general contractors on the apartment project that collapsed last month killing at least 22 workers could be vulnerable to lawsuits because of the complicated legal structure of the development deal.

Ordinarily, under workers compensation laws, a general contractor would be immune to lawsuits involving injured or killed workers, and surviving family members could collect only state-mandated benefits.

But, in this case, because the general contractor, Darien, Conn.-based TPM International, also is an investor in the project, it conceivably could be susceptible to a lawsuit, observers say.

Meanwhile, at least one attorney said he is investigating the possibility of filing a lawsuit in the case.

L'Ambiance Plaza, a 13-story apartment and parking garage complex in downtown Bridgeport, Conn., was about halfway completed when it suddenly collapsed April 23, burying 28 workers and injuring another dozen. As of late last week, workers were continuing to search the rubble for bodies and any possible survivors.

The project used the lift-slab construction method, which involves lifting pre-formed concrete floor slabs into place after a steel skeleton is erected.

A stack of slabs was being lifted at the time of the accident, and there has been speculation that a slab slipped, causing the collapse. Another theory is that the ground upon which the structure was built could not support the project's weight. Late last week, another theory was reported: a possible failure to brace steel columns—as required by engineering plans—may have contributed to the collapse.

Construction of the project was a joint venture of TPM and George F. Macomber Co. of Boston. The architect was a TPM subsidiary, TPM Architects Inc.

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Outhwaite syndicate refusing more claims

By STACY SHAPIRO

LONDON—At least 10 Lloyd's of London syndicates and two insurance companies may be suffering from "Outhwaititis," the term used by Lloyd's members to describe underwriter Richard Outhwaite's refusal to pay asbestos-related claims on runoff reinsurance policies.

Already, at least six underwriting agencies have told Lloyd's members they are having trouble collecting claims on runoff reinsurance policies placed with incidental non-marine syndicate 661, managed by R.H.M. Outhwaite (Underwriting Agencies) Ltd. (*BI*, Feb. 16).

Mr. Outhwaite

As a result, most of these agencies say their syndicates will have to keep their accounts open for 1984, the year now closing under Lloyd's three-year accounting system.

Altogether, Mr. Outhwaite says he is either actively disputing losses, questioning reinsurance contracts or making preliminary inquiries about potential losses from 10 Lloyd's syndicates and two insurance companies. He will not identify all of the syndicates or insurers.

However, *Business Insurance* has learned that the syndicates include those managed by Murray Lawrence & Partners, whose chairman is Lloyd's Senior Deputy Chairman Murray Lawrence; Edwards & Payne Underwriting Agencies Ltd., a subsidiary of Sturge Holdings P.L.C., Lloyd's largest underwriting group; and M.H. Cockell & Partners.

Some observers accuse Mr. Outhwaite of using stalling tactics to delay payment of asbestos-related claims because the claims are being filed much more quickly than he expected. The claims accelerated after the June 1985 signing of the Wellington Agreement, which settled coverage disputes between asbestos producers and insurers and created an out-of-court mechanism for settling claims.

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Insurance college struggles with debt

By JUDY GREENWALD

NEW YORK—The College of Insurance is struggling to make arrangements to repay almost $19 million in debt it incurred to construct its new facility, its president says.

"We hope it's coming now. But it ain't there yet," said College of Insurance President Linda H. Lamel.

Ms. Lamel denies conflicting industry rumors that the college is closing, or that its financial crisis has been totally resolved.

However, she noted that "a lot of progress" has been made toward alleviating the college's financial difficulties, and she expects a plan to be completed by this summer.

The college's financial problems stem from a $15 million loan it secured in the form of a bond from the New York State Dormitory Authority to help finance a new 10-story facility.

The college, whose board of directors approved the construction in 1981 based on the recommendations of a consultant, moved into its new quarters in downtown Manhattan in August 1984.

But, because of cost overruns, the college did not have the funds to repay the bond when it came due in February 1985. And, with the onset of the hardening insurance market, the college had "very limited success" in raising additional capital from insurance companies, explained Ms. Lamel, who joined the college in late 1983.

As a result, a letter of credit backing the loan, which had been obtained from the Bank of New York, was drawn down. Interest on the $15 million itself, as well as on the letter of credit, has increased the total owed to $18.8 million, Ms. Lamel said.

However, the College of Insurance has only a $5 million operating budget, she pointed out. In light of that, almost $19 million is "more debt than the institution can handle," Ms. Lamel said.

"It takes an awful lot to come out from under that debt," she observed.

The college's board of trustees, led by Chairman L. Patton Kline, vice chairman of Marsh & McLennan Inc., now is investigating ways the college can repay the debt in manageable increments. Most of the board, which fluctuates between 25 and 35 members, is connected to the insurance industry, Ms. Lamel noted.

Among the approaches being explored are attempts to restructure the debt and solicit gifts, said Ms. Lamel, who said she could not be more specific.

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Photo: Arnie Adler

The College of Insurance's 10-story building in lower Manhattan, which opened in 1984, has put the institution $19 million in debt.

Mazzella indicted

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structing The Placers to forward premiums due Colonial to Mr. Mazzella at Sentinel Facilities Ltd., a Great Neck, N.Y., broker he owned.

Instead of passing the premiums on to Colonial, Mr. Mazzella "kept the premium payments for his own use," depositing them in an account at Astoria Federal Savings & Loan Assn. in Greenvale, N.Y., the indictment says.

Mr. Mazzella opened the Astoria account in Colonial's name using the forged signatures of two Colonial officers, the indictment alleges.

Mr. Mazzella concealed the alleged premium diversions from ACIC and The Placers, the indictment alleges. He also concealed the premium payments and the existence of the Astoria Federal account from officers and employees of Colonial and from the Pennsylvania department, according to the indictment.

When Colonial officials asked Mr. Mazzella about the status of premium payments under the certificates, Mr. Mazzella falsely told a Colonial officer that the certificates had been canceled, the indictment alleges.

In a July 14, 1981, phone conversation, Mr. Mazzella told Catherine R. Fetterman, Colonial's secretary and treasurer, that the reinsurance covering ACIC had been canceled, the indictment says. He also caused Ms. Fetterman to send him a telex confirming the policies had been canceled, according to the indictment.

Mr. Mazzella informed Colonial of the alleged cancellations "knowing this false misrepresentation would cause Colonial to misrepresent its financial condition to the Pennsylvania Insurance Department," the indictment says.

As a result of the alleged premium diversions and misrepresentations about the reinsurance certificates' cancellation, Colonial did not maintain adequate loss reserves on the business, as required by state law, Mr. Lazerwitz said.

Part of Mr. Mazzella's alleged scheme was to cause Colonial to misrepresent its annual statements to preserve the insurer's Pennsylvania license, the indictment charges.

The indictment does not specify what happened to the $2.4 million allegedly diverted. Mr. Lazerwitz would say only that the money was not paid to Colonial nor repaid to anyone from whom it was taken.

In a 1985 interview, Mr. Mazzella said that more than $2 million of the money was used to pay AEGIS-related claims. But in an interview last week, he referred questions about the money to Mr. Puccio, who declined to comment.

Mr. Mazzella said last week that he never booked the AEGIS-related premiums into Colonial because he suspected fraud in the handling of the reinsurance program, including misrepresentation of AEGIS loss experience.

He also said that prior to 1982, he notified officials of Beneficial Corp., ACIC's parent company, of the fraud he suspected on the AEGIS program. "If Beneficial had listened to me, they would have been a lot better off," he said.

Mr. Mazzella added he informed Mr. Kraeutler in an October 1981 letter that Colonial should be removed as a reinsurer of ACIC on the AEGIS program as of Dec. 31, 1981, because loss experience had been misrepresented.

A lawyer for Mr. Kraeutler could not confirm the letter.

ACIC later agreed to commute its reinsurance agreements with Colonial in return for a $500,000 payment.

When asked about the allegation he had informed Ms. Fetterman in January 1981 that the policies had already been canceled, Mr. Mazzella referred the question to Mr. Puccio, who declined to comment.

If convicted, Mr. Mazzella faces a maximum 25-year prison sentence and a $5,000 fine. ■

Zurich affiliate in Bermuda to stop writing

By ROGER SCOTTON

HAMILTON, Bermuda—The only remaining direct commercial insurance and facultative reinsurance underwriter in Bermuda, Zurich International Insurance Co., will stop underwriting at the end of May.

Zurich International President Peter Jones cited strategic business reasons as one reason the subsidiary of Switzerland's Zurich Insurance Co. will stop underwriting. Zurich International also had been unable to replace a lead underwriter who had been promoted, he added.

After June 1, all U.S. business will be written by Schaumburg, Ill.-based Zurich-American Insurance, which is also part of the Zurich Insurance Group, and all London business will be written by Zurich's London-based Turegum Insurance Co., Mr. Jones said.

"It makes more sense to write London-produced business in London and U.S.-produced business in the United States," he said.

About 90% of Zurich International's gross premiums of $32 million for the year to June 30, 1986, were related to U.S. property and casualty risks and facultative reinsurance, he said. The company wrote only U.S., Canadian or British risks.

Zurich International was the fourth-largest commercially owned Bermuda-based company writing commercial insurance and reinsurance, based on a *Business Insurance* survey (*BI*, March 30). This ranking excludes the large multi-owner insurance companies writing commercial insurance which were formed offshore by U.S. industrial corporations.

About 75% of its business was written directly for policyholders; 25% was reinsurance.

About $20 million of the $32 million was casualty business, $5 million was property and $7 million credit life and other specialty risks.

Zurich International offered casualty capacity of $2.5 million, which in last year was written mostly in the $5 million excess of $20 million layer, and property capacity of $6.8 million, generally excess of $20 million.

In mid-March, Mr. Jones told *Business Insurance* that Zurich International "may shoot for more capacity at the next renewal," (*BI*, March 30). He also said that rumors that the company would stop underwriting were not true.

Zurich International was established in Bermuda in 1977.

The runoff of Zurich International's business will be handled in-house, while Zurich International will continue to manage captive insurance companies.

Zurich International manages 10 captives. Management and consulting fees rose 35% to $443,721 at June 30, 1986, from $328,875 in 1985.

Zurich International posted a net profit of $2.3 million at June 30, 1986, compared with a $1.7 million loss for 1985.

Since the 40's, A. O. Smith and Wausau have put on a lot of miles together.

Much of A. O. Smith's business serves the original equipment markets, including the auto industry.

Insurance Manager James W. Fix says, "We're largely self-insured, but we depend on Wausau for specific services when we feel we don't have the necessary in-house capabilities. Their flexibility in working with us is a big plus. Wausau's claim-handling expertise has special importance to us.

"When you get past the significance of underwriting, the insurance relationship becomes a 'people' matter. Wausau has good people — well-trained people — who are willing to listen and then try to develop alternatives to help us solve our problems.

"Wausau also helps us in developing safer plants. They help us with environmental testing and plant safety consultations so we can minimize our workers compensation exposures. When we begin to get control of our losses, obviously our insurance costs can be reduced. It all helps to contribute to our profitability."

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Asbestos trial

Continued from page 1

In addition, several producers, including Manville, have filed tort claims against the federal government in various federal courts seeking recoveries under the Federal Tort Claims Act.

In the lawsuit that goes to trial today, Manville seeks to show that because of various government actions at the shipyards, the federal government—not Manville—should be held liable for the damages paid to the asbestos-disease victims.

"This case is about the promises made and obligations undertaken by the government during World War II, when it needed Johns-Manville to provide essential asbestos-containing products for the combat and cargo ships at the very heart of the war effort," says a Manville brief filed late last year.

The lawsuit was filed in 1983 by Johns-Manville Corp., now a subsidiary of Manville Corp., and J-M subsidiary Johns-Manville Sales Corp.

"The case concerns the breaking and repudiation of those promises and obligations by the government, in secret during the war, and publicly in recent years when finally confronted with the shipyard asbestos health disaster caused by its wartime acts and omissions," the suit says.

The government, however, contends that Manville is seeking to shift its own liability to the government.

"This litigation is, at bottom, an effort to 'turn indemnity on its head' by holding the consumer responsible for the fault of the manufacturer," the government says in court papers.

And in other court papers, the government says: "Manville seeks in this litigation to free itself from the losses imposed by the tort system as a result of. . .monumental misconduct."

The basis for Manville's lawsuit are the asbestos claims filed by thousands of workers that went to work in government-controlled shipyards in World War II as part of the nation's war effort.

'This case is about the promises made and obligations undertaken by the government during World War II, when it needed Manville to provide essential asbestos-containing products. . .at the very heart of the war effort,' Manville says.

The Manville case against the government involves 15 test claimants who worked at four shipyards during World War II: the Boston Navy Yard, the Philadelphia Navy Yard, the Bethlehem Steel Co. River Shipyard in Quincy, Mass., and the Consolidated Steel Co Shipyard in Orange, Texas.

Asbestos supplied by Manville and other companies was used in the construction, conversion and repair of ships primarily because of its fireproofing and insulating efficiency.

Manville is seeking more than $954,000 in damages from the government: $768,400 it already has paid in settlements and judgments to asbestos claimants, and $185,700 for attorneys' fees, costs and expenses paid in defending these suits. It also seeks an unspecified sum for its increased insurance and business costs and for loss of business and business reputation.

If Manville prevails and is subsequently able to recover its payments to other shipyard workers, it could recover up to $1 billion, a company spokesman says

While Claims Court Judge Christine Cook Nettesheim recently dismissed several of Manville's claims against the government, she let several stand that will be litigated in the trial, which is estimated to take six weeks.

These claims involve:

- Warranties the government allegedly made to Manville regarding the safety of shipyards and asbestos products made to government specifications.
- Whether the government had superior knowledge concerning the safety of shipyards and a duty to disclose that knowledge to shipyard workers.
- Whether the contracts between Manville and the government should be "reformed" or "equitably adjusted" because of the government's alleged actions, which would allow Manville to recover from the government.

If the court rules in favor of Manville on any one of these issues, the asbestos producer will be able to recover from the government in the 15 cases at issue, an attorney for Manville said.

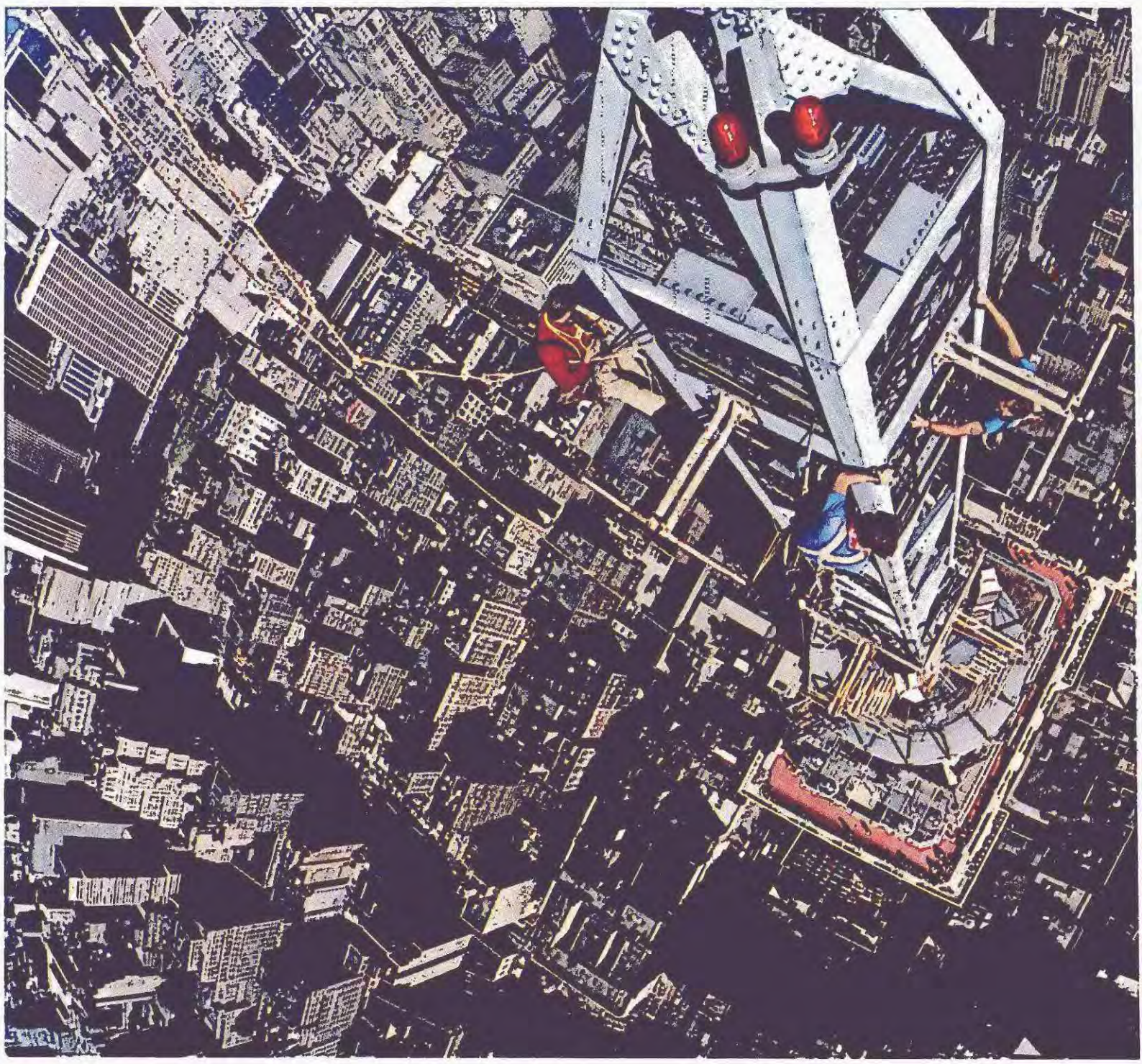
Attorneys for the government would not comment because the matter is in litigation.

However, the government has a $33 billion claim against Manville to offset any amount Manville is able to recover from the government. The claim for an offset stems in part from payments the government has made to asbestos victims under the Federal Employment Compensation Act and sums spent for abatement of asbestos in government buildings.

Court papers filed by Manville and the government depict a stark contrast between what the two sides contend occurred surrounding the wartime use of asbestos.

Manville contends that during World War II, the federal government effectively took over the shipbuilding industry, controlled the asbestos trade, forced compli-

Continued on next page



Continued from previous page
ance with government orders for asbestos at the risk of criminal penalties and assumed responsibility for worker safety.

"All decisions as to specification requirements were made and controlled by the government," Manville contends in court papers.

Manville says that as part of its system of controls, the government maintained certain seizure and requisition powers at that time and forced industry to take the war business that was offered.

"Accordingly, the government took and maintained control over the purchase and importation of asbestos fiber, stockpiled it as necessary, allocated it to manufacturers such as Johns-Manville, restricted the kinds of products which could be manufactured from it, limited the uses to which those products could be put and expanded the capacity of domestic mines and manufacturing facilities," Manville says.

'It is beyond doubt that by the beginning of World War II, Manville had extensive knowledge of both the hazards of asbestos exposure, including low-dose exposure, and of the actual shipyard working conditions,' the government says.

To fulfill its contracts with the government, Manville entered into numerous express and implied agreements with the the government surrounding the supply of asbestos, Manville says.

Among these agreements, the U.S. Navy provided it would reimburse contractors for their uninsured or underinsured third-party liabilities arising from war contract performance, Manville contends.

The asbestos producer also charges the Navy had extensive knowledge about the hazards of overexposing shipyard workers to asbestos and of methods for preventing that overexposure.

"Before the United States entered World War II, the government clearly understood that shipyard workers who were exposed to excessive levels of asbestos dust—without using available respiratory protection—risked serious pulmonary injury," the company contends.

For example, a 1938 study directed by a former assistant surgeon general of the U.S. Public Health Service established that exposure to asbestos should be kept below 5 million particles per cubic foot to prevent asbestosis.

The study illustrates the Navy's knowledge of the potentially hazardous asbestos conditions in the shipyards and that actions were needed to protect workers, Manville says.

Moreover, Manville contends that the Navy was responsible for the health of employees in shipyards and assumed responsibility for working conditions in non-Navy shipyards.

"As a result, the application and use of asbestos-containing products and the health and safety aspects of those operations were under the control and supervision of the government," Manville says.

Nevertheless, the government's asbestos health policies and requirements were not enforced, Manville charges in the court papers.

"Contrary to its stated policy and its public representations, and in violation of its own asbestos work requirements and procedures, the government knowingly failed to correct extremely dangerous asbestos work practices and conditions in the World War II shipyards," Manville contends in its brief.

The asbestos producer claims that the government failed to disclose its knowledge about the dangerous shipyard work conditions involving asbestos, adding that the government's knowledge about those hazardous conditions was vastly superior to that of Johns-Manville.

The federal government vigorously disputes Manville's claims.

"These factual claims are inaccurate, incomplete and, in some areas, more akin to fantasy than reality," the government says.

"In sum, the United States will show at trial that the illnesses of the 15 test claimants were the direct and inevitable consequence of Manville's decision to conceal the dangers of its asbestos-containing products from the United States, as well as others."

Among the allegations by the government is Manville knew that shipyard workers during World War II were endangered by exposure to asbestos dust, since the asbestos producer had participated in studies concerning asbestos and had received the results of other similar studies.

In addition, the government charges that contrary to Manville's contentions, the company's top management believed asbestos hazards were acute in the shipyards and that they had access to the shipyards.

"It is beyond doubt that by the beginning of World War II, Manville had extensive knowledge of both the hazards of asbestos exposure, including low-dose exposure, and of the actual shipyard working conditions," the government's brief says.

Furthermore, contrary to Manville's contention, the government claims that Manville aggressively solicited sales from the government during World War II and profited enormously from the sales. In addition, specifications for the use of asbestos were heavily influenced by Manville and other members of the asbestos industry, the government claims.

"Each of the Manville products alleged to have injured the test claimants was designed and manufactured solely by Manville," the government claims.

"In no case did the government dictate to Manville how the products should be made."

The government also denies that it treated third-party liability losses as reimbursable costs of performance or that the Navy had a policy of self-insurance regarding the risk of third-party personal injury liability in the context of fixed-price contracts.

The government also contends that even though it had no evidence that asbestos-related disease had or would occur in shipyards, it "vigorously" sought to identify asbestos hazards and protect shipyard workers.

"Neither the Navy nor the Maritime Commission was aware of a case of asbestos-related illness in a shipyard employee until December of 1944," the government brief says.

One background issue in the litigation is whether the U.S. Claims Court has jurisdiction over the Manville case because of a federal statute that precludes the Claims Court from ruling on a case when similar cases are pending in federal courts.

Judge Nettesheim recently granted a government motion to dismiss the Manville action in the Claims Court, but stayed the dismissal until it is ruled on by the U.S. Court of Appeals for the Federal Circuit. In the meantime, the trial is going forward. ■

opinions

Cure may be worse than the ill

THE PRINCIPLES underlying the proposed federal High Risk Occupational Disease Notification and Prevention Act are sound risk management principles, but we are concerned that implementing them as currently envisioned will prove more costly than our economy can afford.

As we reported last week, this legislation would create a Risk Assessment Board to identify substances that are likely to cause employees to become ill. That's implementing the risk management principle of identifying risk.

Employers that have exposed workers to substances declared hazardous by this board would be required to notify current and past employees who are or have been exposed to the hazardous substances in the workplace that they should seek medical testing to determine whether that exposure has or is likely to result in illness or disease. This requirement, which would aid doctors in diagnosing patients' illnesses and result in early treatment of illness, clearly implements the risk management principle of loss control.

Loss control also is implemented by the legislation's requirement that employers assign workers who are at risk of illness to a less hazardous job.

Under this risk management analysis, the legislation appears to be entirely appropriate. And, it appears to complement the Occupational Safety and Health Administration, which provides not only for the identification of hazardous substances, but also requires risk reduction and loss prevention through reduction or elimination of exposure to hazardous conditions and substances.

But, some business groups and legal experts are greatly concerned that the High Risk Occupational Disease Notification and Prevention Act, as drafted, will result in billions of dollars in expenses that businesses cannot afford to pay. Employers, for example, would be required to pay for the medical screening required for current employees. "It turns the workplace into a national health system," contends an official with the Alliance of American Insurers.

Further, some legal experts predict a large increase in the number of workers compensation claims and liability lawsuits filed by workers, including work comp claims based on stress created by fear of future illness and liability lawsuits alleging employers should have known years ago about the toxicity of certain hazardous substances. The costs will begin adding up for defense alone, even when liability is not found.

Some observers suggest the proposed act's requirements will drive more U.S. businesses out of the country.

These appear to us to be legitimate concerns that must be addressed by proponents of the bill.

Also of concern to us is the apparent duplication of efforts under the legislation and the OSHA hazard communication standard, also known as the right-to-know standard, which took effect May 25, 1986. The OSHA standard requires many employers to implement an employee hazard communication program that includes container labeling and employee training (*BI*, Sept. 30, 1985).

We support efforts to identify hazardous substances in the workplace, to eliminate harmful exposure to them and to practice early identification and treatment of illnesses. This is morally right. It also is economically sound, since prevention and early treatment should in the long term reduce workers compensation and medical care costs.

However, we have seen other federal programs with good intentions, such as the Black Lung Disability Trust Fund, result in unforeseen costs, requiring amendments to bring costs under control.

The High Risk Occupational Disease Notification and Prevention Act is on a fast track in both houses of Congress and could pass as early as August. The Reagan administration has said the bill would be vetoed, but there is no guarantee that will be.

We don't want to see the whole concept of notification and prevention of illness involving hazardous substances derailed. We do think action on this bill should be slowed down to permit further study and analysis to determine if it is needed, what its costs will be, whether opponents' concerns are legitimate and what additional provisions could be included to satisfy legitimate concerns.

letters

There are two sides to wrap-up insurance programs

To the editor: My fellow risk managers in the construction industry would think me derelict if I did not respond to the Perspective article " 'Wrap-up' Programs —Consolidating Construction Coverages Provides Big Savings" written by L.T. Braucht (*BI*, April 13).

They all are aware of my outspoken opinions regarding wrap-up insurance programs.

I would like to believe that Mr. Braucht's comments are favorable to all parties concerned, but experience over the 17 years tells the other side. While the wrap-up program is normally carried for the benefit of the project owner, there is one ingredient missing.

An owner and a contractor enter into a formal written agreement to have the contractor build a building and to fulfill all obligations through completion of the project. Unfortunately, an insurance company writing a wrap-up program makes no such commitment to continue to insure the risk through completion of the project. In spite of a unified safety program, should losses cause the project to turn "sour," the insurer is very quick to jump off the risk.

Furthermore, when excess liability premiums escalate like they did in 1985-1986, owners are quick to reduce the amount of coverage—thereby exposing their assets to a catastrophic loss—to cover the interest of the contractor and all tiers of subcontractors.

These are just a few examples of the difficulties encountered by all parties, including the owner, in the administration of a wrap-up program. Unless a project owner is made aware of both the pros and cons of such a program, he can easily fall into a financial trap before the project has been completed.

To quote a well-known radio commentator, this is the rest of the story (or at least a part of it).

Sam W. Stone Jr.
Corporate Risk Manager
HCB Contractors
Dallas

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To use our program, an employee simply gives our toll-free number to the attending physician. The physician then calls our medical staff to discuss the case. Together, they determine the appropriate care necessary based on the patient's specific needs, ensuring quality care.

CNA's utilization review program is part of CURE PLUS, our national cost containment network. As a member of Private Healthcare Systems, a partnership of 10 major insurers, we developed a health care network which offers efficient, quality care.

Take the complexity out of your health care benefits. Contact your CNA group representative or insurance broker for more information about CURE PLUS.

CNA

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Coverage provided by Continental Assurance Company, one of the CNA Insurance Companies.

Policy reimburses bank directors' legal costs

products & services

A new program that reimburses outside directors of savings institutions for their legal expenses in defending suits from sources such as shareholders, borrowers, depositors and employees is available from NAS Insurance Services.

The program, which is being marketed to savings institutions like banks and savings and loans with assets up to $250 million, is an extension to NAS's GALEXI plan, which reimburses all directors and officers of savings institutions for their legal expenses in defending suits brought by any governmental entity, said Maurice Sidy, president of the Los Angeles-based underwriting manager.

The program was launched in response to the shortage of D&O insurance, plus the common exclusion in D&O liability insurance policies of coverage for allegations or lawsuits brought by governmental agencies. The exclusion has made it increasingly difficult for savings institutions to attract and retain qualified directors, Mr. Sidy said.

The claims-made coverage, which is underwritten by Lloyd's of London underwriters, covers civil actions and includes successful defense of criminal actions. In the event of a suit, the policy permits directors and officers to choose their own attorneys or law firms to defend them.

NAS offers financial institutions a choice of four plans with varying policy limits and covered perils.

For example, according to Mr. Sidy, the plans available to Independent Bankers Assn. of America members are:

- Plan A, with limits of $50,000 per person per occurrence, up to a $150,000 aggregate for a premium of $3,000 annually.
- Plan B, with limits of $100,000 per person per occurrence, up to a $250,000 aggregate for an annual premium of $5,000.
- Plan A-plus, which provides the same limits as Plan A but covers additional perils, such as suits brought by depositors, shareholders and employees, for an annual premium of $4,500.
- Plan B-plus, which provides the same limits as Plan B but has the same broad coverage as Plan A-plus, for a premium of $7,500 per year.

In addition, NAS offers four similar programs to non-bank savings institutions. For these institutions, Plan A coverage costs $5,000 per year; Plan B costs $7,500 per year; Plan A-plus costs $7,500 per year; and Plan B-plus costs $11,250 per year.

All of the programs have deductibles equal to 10% of the limits and 10% copayments; however, the copayments are not included in the policy limits, Mr. Sidy stressed.

For more information about the coverage, contact Maurice Sidy, NAS Insurance Services, 1800 Ave. of the Stars, Suite 410, Los Angeles, Calif. 90067; 213-277-2112.

Mail-order prescriptions

Connecticut General Life Insurance Co. is offering a mail-order prescription drug benefit program for its clients.

By combining negotiated discounts on the cost of medications with increased generic substitution and fixed dispensing fees, the program offers advantages to both employers and employees, according to a company spokesman.

"Prescription drug charges typically account for 5% to 8% of a company's total medical plan costs. For the most part, cost-containment programs have not addressed this issue and, as a result, prescription drug costs are on the rise," said William H. Sharkey, vp-marketing for the Hartford, Conn.-based insurer.

"A mail-order drug program can enhance a company's cost-containment efforts while providing an attractive benefit for employees at no extra charge," he added.

To provide this savings to both employer and employee, Connecticut General has arranged for National Pharmacies Inc. of Elmwood Park, N.J.—a firm with more than 16 years in the prescription by mail business—to provide maintenance prescription medications by mail order for Connecticut General clients.

Maintenance drugs are defined as the type used on a continuing basis to treat a chronic condition. "As much as 80% of a company's prescription drug plan's total cost consists of maintenance drugs. So, there is great potential for savings in this area," Mr. Sharkey explained.

For no additional cost, employers with group medical or dental coverage from Connecticut General may sign up to have maintenance prescription drug orders filled by mail.

Once an employer has signed up, employees mail their order and prescription to National Pharmacies, which fills the order within 10 days to two weeks. And, because of discounts negotiated by Connecticut General, employees pay a maximum of $3 for each prescription.

As an added cost savings, generic medications are substituted for brand name drugs where permitted under state law, a Connecticut General spokesman noted.

For more information on the mail-order program, contact William H. Sharkey, Vp-Marketing, Connecticut General Life Insurance Co., Station B247, Hartford, Conn. 06152; 203-726-4976. ■

AN OPEN LETTER

TO OUR FRIENDS
AND BUSINESS ASSOCIATES

These are uncertain times; corporate mergers and hostile takeovers are commonplace in today's business headlines. Corporate identities can get lost in the shuffle of new names, logos, products and services. And all too often, personal relationships with friends, associates and clients get lost along the way.

But fortunately, it doesn't always work that way. The acquisition of the Transamerica Occidental Life Group operation by Provident Life and Accident Insurance Company, is, in actuality, a joining of friends. Over the years Transamerica Group employees and Provident employees have shared projects, developed working relationships and established friendships.

Because of the professional and personal respect we have for each other, this transaction promises to be an almost transparent process for our clients and associates. However, one thing you will see, is the substantial and measurable "value added" benefit that this transaction will produce.

Provident Life and Accident Insurance Company, based in Chattanooga, is one of the premier providers of employee benefit plans in the nation with over $2 billion of premium and premium equivalent. As specialists in the large employer marketplace with regional dominance in the east and southeast, they are an ideal complement to our western book of business.

It's true, Transamerica Occidental Life is going out of the Group Life and Health Insurance business, but you'll still be able to find us. We'll be among the people of Provident who, for the last 100 years have exhibited a commitment to providing the best in insurance products.

We think that you're going to like our new friends, and we're looking forward to introducing you to them.

Ronald W. Moreland
Executive Vice President
Group Life and Health
Transamerica Occidental Life

Transamerica Occidental Life

Transamerica Occidental
Life Insurance Company
Transamerica Center

What determines the price of liability insurance?

In an insurance contract, a policyholder is obligated to pay a premium for the protection provided by the policy. The insurer, in turn, is obligated to pay certain covered claims costs and associated expenses should liability be established against the policyholder.

Ideally, the insurance product is priced to allow the insurer to collect sufficient premium to pay for these claims costs and expenses and still make a profit.

When calculating the appropriate price for a policy, the insurer relies upon its ability to estimate probable claims costs. This capability is influenced by a number of factors.

Social and legal factors, such as the type and size of judgments granted by the civil justice system, have a major influence. Recent judicial interpretations creating or expanding theories of legal liability also affect the insurer's ability to accurately anticipate claims payments, and thereby, accurately establish reasonable rates. As this judicial unpredictability continues and increases, the insurer must take this into account when setting rates.

Another influence is the impact of federal and state legislation involving joint and several liability and other civil justice system issues.

The "long-tail" nature of liability risks is yet another factor that adds to

Lawyers Liability

Shand Morahan has been one of the foremost suppliers of lawyers professional liability insurance since the early 1970s. This was one of our original coverages and we have developed a recognizable expertise in this area.

Professional liability coverage is purchased by the law firm and protects the firm, its associates, individual partners, employees, as well as former associates, partners and employees, for services rendered on behalf of the firm.

We are particularly interested in firms of five or more lawyers specializing in: defense, domestic relations, real estate closings, collection, criminal law, plaintiff work, international law, labor relations, and estate planning.

Our extensive experience in this coverage allows us to take a highly responsible approach to underwriting and pricing this type of insurance. And we are willing to work with firms to fit coverage to their individual needs. Ninety percent of our claims service staff are themselves attorneys and highly experienced in working with lawyers claims.

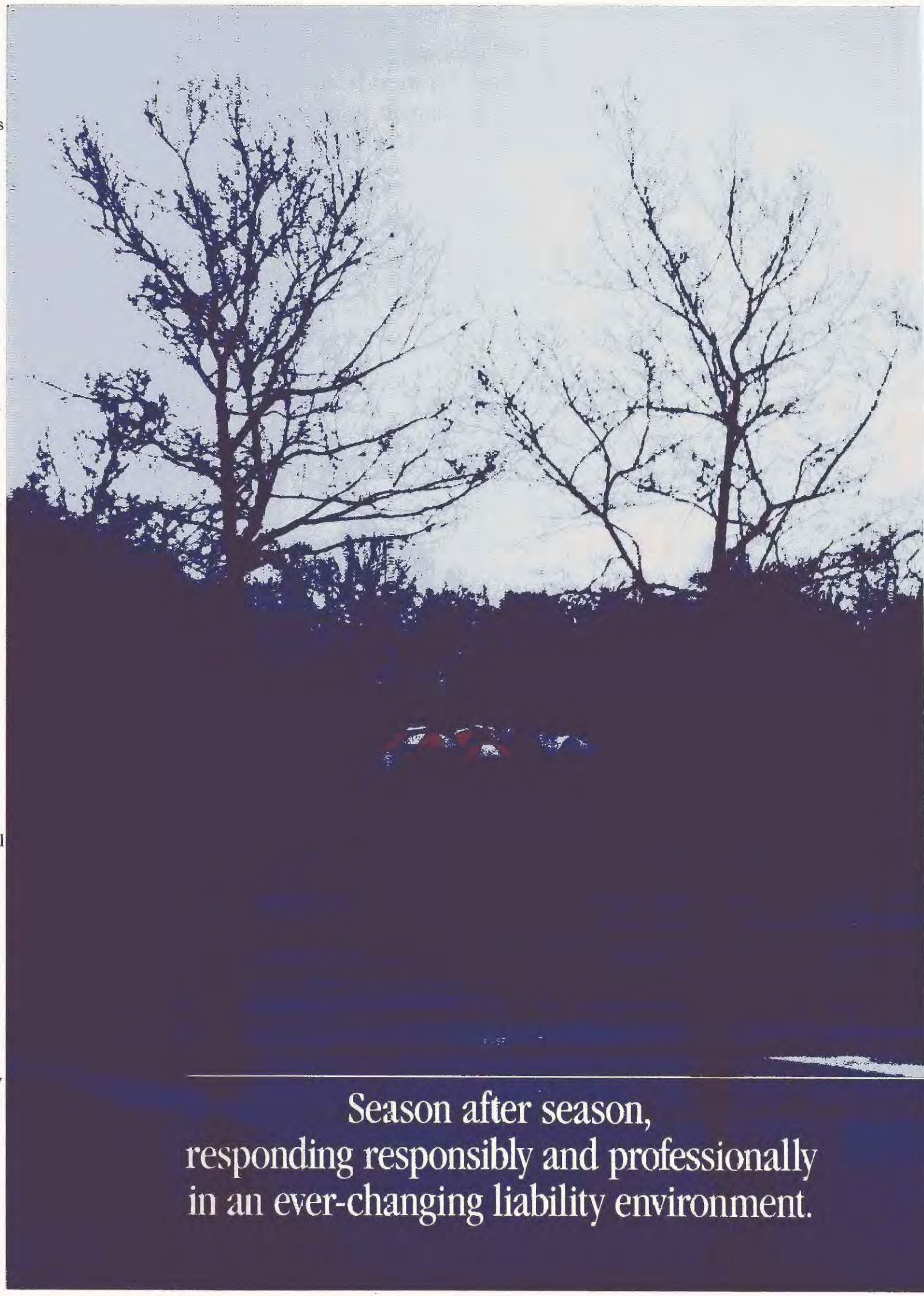
Specified Medical Professions

Under its Medical Malpractice program, Shand Morahan provides professional liability protection to a wide range of medical and paramedical health care providers.

These include therapists, psychologists, RN anesthetists, dental technicians and hygienists, pharmacists, chiropractors, optometrists, opticians, paramedics, physiotherapists, perfusionists, veterinarians, x-ray technicians, to name only a few.

Coverage extends to facilities such as free-standing emergency centers, outpatient surgical centers, mental health clinics, medical labs, medical personnel pools and nurses' registries.

This policy is written on a claims-made basis and coverage is available in most states.



Season after season,
responding responsibly and professionally
in an ever-changing liability environment.

the difficulty of predicting claims costs and estimating reserves for unpaid claims.

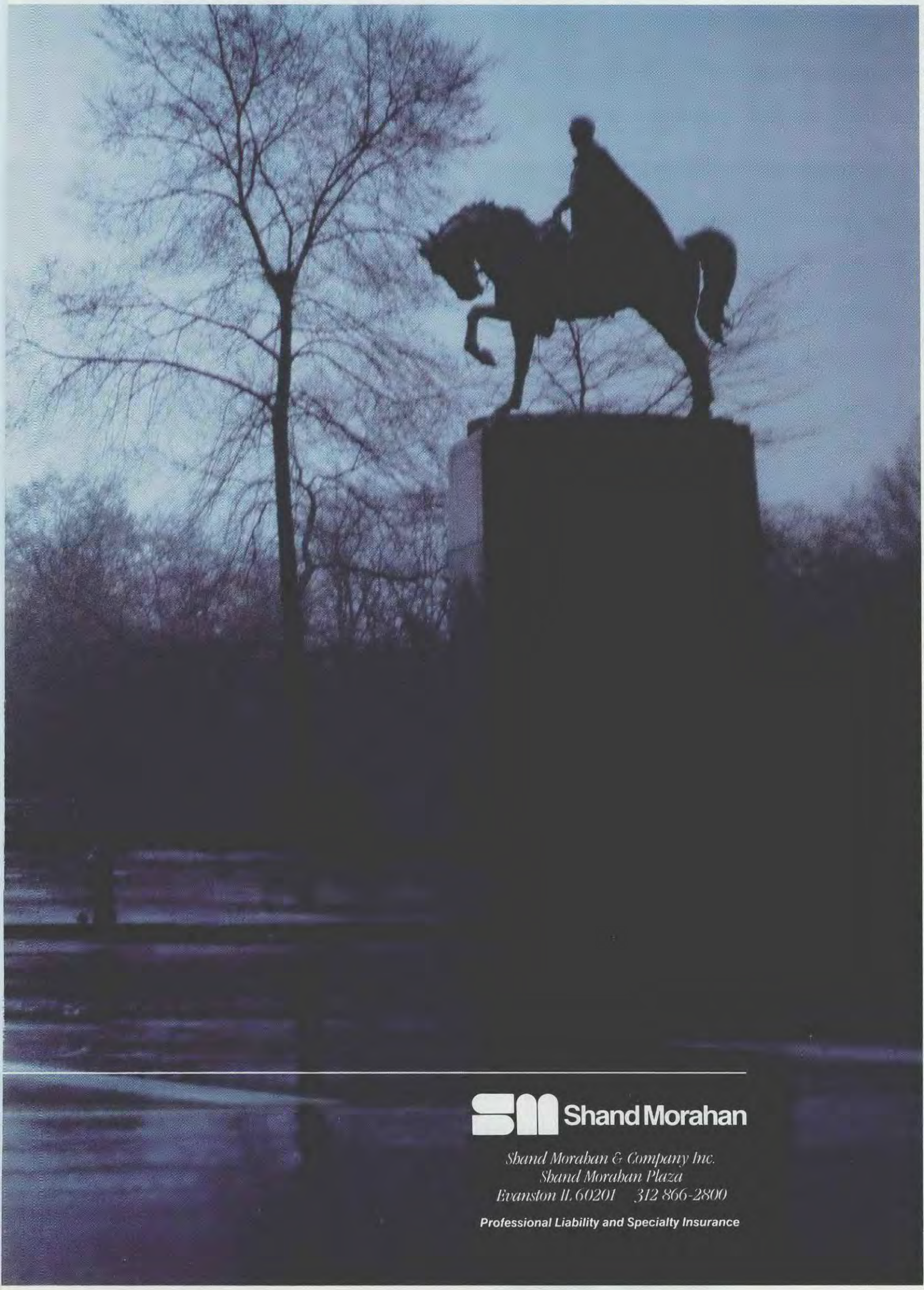
The types of risks placed in the Excess & Surplus marketplace, in particular, present difficulty in pricing due to their unique nature. These include substandard risks, the potential of high claims costs per class of business or per risk, highly specialized classes of business, new classes of business, and classes or segments of business that admitted carriers do not offer or will no longer underwrite.

Trends in claims costs also play a role in setting rates, as does the frequency or number of claims.

Policyholders' surplus or equity capital also plays a role. Reasonable ratios of capital to premium writings and unpaid claims reserves must be maintained.

In pricing a risk, the insurer evaluates these rate-influencing factors to ensure that rates are sufficient to cover all costs associated with claims, underwriting and related expenses. We believe this methodology will result in profitable underwriting.

As always, we welcome your thoughts, comments, questions. Simply write to: Joseph J. Prochaska, Jr., Chairman and Chief Executive Officer, Shand Morahan & Company Inc., Shand Morahan Plaza, Evanston, IL 60201.



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Shand Morahan has underwritten this coverage for eight years for a wide variety of insurance companies, from town and county mutuals to the largest insurers in the business.

Insurance college

Continued from page 3

Mr. Kline would not comment on the restructuring plans.

"He's negotiating with a lot of people," Ms. Lamel noted.

"I wish that we could say it was a bad day and now it's a good day," Ms. Lamel said. "We're saddled by an enormous debt, and now we have to do something about it."

The College of Insurance, with an enrollment of 1,000, provides a complete curriculum leading to bachelor's and master's degrees in business administration and a bachelor of science degree in actuarial science.

Corporate sponsors, generally in the insurance field, pay two-thirds of the tuition plus the cost of books of virtually all of the 150 full-time college students, according to Ms. Lamel.

About 75% of the part-time students work in the insurance field, and many of their employers at least partially reimburse their tuition, she said.

"It's the only institution of its kind," Ms. Lamel noted, adding that it has been of great value to the industry.

The college's current crisis was caused by a combination of ill-conceived advice, poor cost projections and unfortunate timing, according to Ms. Lamel.

A feasibility study conducted before construction was authorized projected that with the attraction of a new facility, the college could double its enrollment, which at that time was 1,500.

But the study was inadequate in several respects, according to Ms. Lamel. For one thing, it failed to take into account the overall decline in the number of college-age students.

It also failed to consider the impact of the insurance industry cycle on enrollment.

Tuition is "one of the so-called soft areas," she noted. As soon as the market turns, it is among the first items to be cut by hard-pressed companies.

At the same time, with hiring levels reduced, companies are less likely to send new people to the college for orientation courses, nor will current employees have much incentive to get their MBAs when they see few opportunities for promotion.

In recommending that the facility include dormitories, the feasibility study also failed to take into account that the college has neither a "national presence" nor the public relations budget to help build one.

"It takes several years, and it takes a lot of money," Ms. Lamel noted. About 75% of its students now are from the metropolitan New York area.

Ms. Lamel would not identify the Big Eight accounting firm that conducted the study.

"They know who they are," she laughed.

Another major factor that led to the college's debt is that despite an original projection of only $13 million to construct the facility, delays and increasing costs hiked the total project cost to $30 million, Ms. Lamel pointed out.

The overruns were caused by accumulating interest and the cost of furniture and equipment for the new building, as well as higher-than-expected construction costs and architect fees.

"If it had been $13 million we could have handled it," she said.

Bad timing was the college's other major problem. Construction proceeded during 1982 and 1983, just when the industry's financial results began to "nosedive," Ms. Lamel said. "We suffered for that."

The college had expected the $15 million bond to be paid off through capital contributions. But during that market, the college could not raise sufficient funds from insurers. "While they were firing people, they couldn't very well be giving away money to the college."

Had the turn in the cycle not been as "hard and deep, we might have been able to weather the storm" of constructing the building, she said. But, as it turned out, "it was a big piece to bite off."

Because of the debt, the college is now operating on a "super-austerity budget," according to Ms. Lamel. "That's become a terrible load for us to carry."

For instance, Ms. Lamel noted that as a result of a combination of layoffs and attrition, the college's administrative staff is now down to 42 people, half of the total at the end of 1983. Two vps, for example, share a secretary, while the college is "not spending what it should be spending" on public relations.

In addition, while many colleges today consider it "pro forma" for students to each have their own computers, students share them at the college. "It's what we have to do to provide the basic education program," Ms. Lamel noted.

The budget crisis also has caused the college other problems. "It has been a real obstacle in terms of our enrollment and in soliciting new students," she said. The college's current enrollment of 1,000 is down 33% from a high of 1,500 in 1980-81.

Those who knew about its financial situation, including guidance counselors and others who advise students on their choices of colleges, became concerned the college was not a viable long-term option, Mr. Lamel noted.

And even those with little knowledge about the college's financial situation picked up inaccurate rumors and tended to discourage students Ms. Lamel noted that at one meeting, the guidance counselor superintendent for Manhattan's public schools said the college had closed. While he was eventually corrected, "that hurt us like hell," Ms. Lamel said.

Ms. Lamel noted there is intense competition among educational institutions for good students. "Everyone wants essentially the same 100 students, and we're fighting for them, too," she said.

The fact that the college is not as well known as some of its competitors—which include the University of Pennsylvania's Wharton School of Business—combined with reports of its financial difficulty, put it at a disadvantage, she said.

Students already enrolled also have expressed concern about the situation, she noted.

However, some of the anxiety has been relieved by keeping the students closely informed of the situation on an ongoing basis, and student morale is now good, according to Ms. Lamel. "I think that's one of the most positive things that has happened in the past couple of years."

The college also has lost some faculty members, who have been difficult to replace. There are now 14 full-time faculty members, compared with 17 in December 1983, Ms. Lamel noted.

The number of adjuncts, who teach part-time, also has been reduced to between 60 and 70. At one time, when the college had a bigger student body and offered more courses, there were more than 100 adjuncts, she said.

But the situation is "not without light at the end of the tunnel," she said.

She noted that over the past two years the college's $5 million operating budget, which excludes debt service, has been in the black.

"If we had to do it all over again, I suppose we could have done a number of different options," including moving into an existing facility, Ms. Lamel noted.

But she remains optimistic the debt restructuring will be accomplished.

"We're all going to have one helluva party when it's done." ■

Detroit bank names Edford risk manager

Gregory L. Edford, 43, has been appointed vp-risk management at National Bank of Detroit. In this newly created position, Mr. Edford oversees property/casualty insurance for the bank, the marketing of some consumer insurance products, such as credit life insurance, and will be responsible for the eventual consolidation of the bank's insurance functions. He reports to D.D. Kaylor, second vp and chief financial officer. Previously, Mr. Edford served as risk manager for Burroughs Corp.—now Unisys—in Detroit. He received bachelor of arts and master of arts degrees in economics from Eastern Michigan University in Ypsilanti. In addition, Mr. Edford is a deputy member of the Risk & Insurance Management Society and a member of the Machinery

comings & goings: buyers

Allied Products Institute Risk Management Council.

* * *

Thomas L. Potter has been promoted to vp-benefits administration at The Marley Co. in Mission Woods, Kan. In this position, he will oversee administration of employee benefit programs, including pension and 401(k) plans, as well as group health coverage and related benefits at the diversified manufacturer. He reports to Errol P. Mitlyng, senior vp-finance and treasurer. Previously Mr. Potter, who joined Marley in 1980, was assistant vp and assistant treasurer. He holds a bachelor of science degree in business administration from Drake University in Des Moines. He is a deputy member of the Risk & Insurance Management Society.

Mr. Potter

* * *

Geraldine A. Clark has been promoted to vp-personnel at Beaver Pacific Corp. in San Francisco. In this position, she is responsible for personnel administration including employee benefits, wage and salary administration. She reports to William T. Waste, president and chief executive officer of Beaver Pacific. Ms. Clarke most recently served as assistant vp of personnel services. She is a member of the Northern California Human Resource Council and the Insurance Personnel Management Assn.

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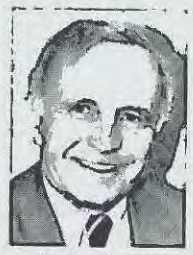

Mr. LaCrosse

John L. LaCrosse has been appointed vp-risk management for the Eastern division of First National Supermarkets Inc. in Windsor Locks, Conn. In this newly created position, he is responsible for the creation and implementation of all risk management functions for the supermarket operator. He reports to Kenneth S. Betuker, chief financial officer and treasurer. Previously, Mr. LaCrosse served in a risk management capacity at Fluor Corp. in Irvine, Calif. He holds a bachelor's degree from Boston College School of Management.

* * *

Glenn Venturini, 32, has been named administrator of corporate wellness at The Penn Mutual Life Insurance Co. in Philadelphia. In this newly created position, he oversees a preventive medical program as well as wellness programs provided by the company's health bureau. He reports to Donna A. Tschoepe, director of human resources. Mr. Venturini most recently served in the company's fitness center. Prior to joining Penn Mutual, he worked in the health and fitness program at Westinghouse Electric Corp. in Pittsburgh. Mr. Venturini holds a bachelor of science degree in education from the University of Oklahoma in Norman and a master of science degree in exercise physiology from the University of Pittsburgh. He is certified as an exercise specialist by the American College of Sports Medicine in Indianapolis.

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We'd like to report on staff changes in your company's risk management, safety or employee benefits department. Just drop a note to Paul Winston, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611, or call 312-649-5442. Please send a photograph, too.

McCarran-Ferguson 'unnecessary': FTC chief

By JERRY GEISEL

washington

WASHINGTON—In his strongest denunciation yet of the McCarran-Ferguson Act, Federal Trade Commission Chairman Daniel Oliver says the law is anti-consumer and "unnecessary."

Mr. Oliver says it is time to repeal the 1945 law that gives insurers a limited exemption from federal antitrust laws.

"Experience and logic demonstrate that the exemption is adverse to consumers and is unnecessary to protect legitimate industry conduct," Mr. Oliver said in testimony before the Senate Judiciary Subcommittee on Monopolies and Commercial Law last month.

While insurers say their industry is so different and unique that it needs an exemption from antitrust law, Mr. Oliver said many industries make the same argument.

"Virtually every industry has its own problems that can be cited to support special protection from the rigors of competition," he said.

"Fortunately, Congress has rejected many of these special interest appeals. Unfortunately, however, Congress has yielded to many others, granting antitrust immunity not only to the insurance industry," but to a number of other entities as well, Mr. Oliver said.

While insurance industry spokesmen have said that repeal of the McCarran-Ferguson Act would hurt buyers because insurers could not engage in joint activities such as providing coverage through pools, Mr. Oliver disagreed.

"Enforcement agencies and courts are well aware that forms of joint action which enhance rather than restrict competition should be lawful, and are quite sophisticated at distinguishing harmful from beneficial agreements," he said.

In addition, Mr. Oliver rejected insurer arguments that repeal of the McCarran-Ferguson Act would lead to federal regulation or a dual system of federal and state regulation of the insurance industry.

"This argument is largely a phantom. Where is the legislation establishing a federal insurance regulatory agency? Have either Democrats or Republicans pushed such bills or held hearings? Does anyone really think that the Reagan administration would support such legislation?" he asked.

Indeed, Mr. Oliver stressed that he is opposed to federal regulation of the insurance industry.

Mr. Oliver acknowledged that repeal of the McCarran-Ferguson Act would not end all anticonsumer activity affecting insurance buyers; but ultimately, would expose the insurance industry to the "brisk winds" of competition that would benefit consumers.

Risk retention report

Have state regulators tried to unfairly or unlawfully interfere with your risk retention group or risk purchasing group?

If so, the Commerce Department wants to know.

In a notice published recently in the Federal Register, the department said it wants to know the extent to which risk retention groups and risk purchasing groups have been discriminated against under state laws, practices and procedures that are contrary to the federal Risk Retention Act.

Those comments will be incorporated in a September report the department is preparing on the implementation of the 1986 amendments to the Risk Retention Act.

Under the 1986 amendments to the Risk Retention Act, employers, professional organizations and public entities can band together to form special multiowner captive insurance companies known as risk retention groups. After a risk retention group is licensed in one state, it can operate nationwide without having to meet additional licensing requirements. Risk retention groups can provide coverage to member-policyholders for all commercial liability risks except workers compensation. The purchasing group provision allows insurance buyers to purchase commercial liability insurance—except workers compensation—on a group basis.

The report also will explain:

- The extent to which the Risk Retention Act has resolved the problems of unavailability and unaffordability of liability insurance.
- The extent to which the public is protected from unsound financial practices and other abuses involving risk retention groups and risk purchasing groups.
- The causes of any financial difficulties of risk retention groups and risk purchasing groups.

Comments should be sent by Aug. 1 to Edward T. Barrett II, U.S. Department of Commerce, 14th Street and Constitution Avenue N.W., Room 4858, Washington, D.C. 20230; 202-377-2101.

PBGC premiums

The reaction of employers to the Reagan administration's proposal to allow the Pension Benefit Guaranty Corp. to charge so-called variable rate termination insurance premiums will depend on the condition of their pension plans, according to a report by benefit consultant Johnson & Higgins.

Under this variable rate proposal, employers with plans that are at least 125% overfunded would continue to pay the same annual $8.50 premium per plan participant that all employers—regardless of the financial condition of their defined benefit pension plan—now pay (*BI*, March 30).

However, the proposal, among other things, would impose an additional "funding charge" of $6 per plan participant per $1,000 of plan underfunding. However, the administration proposal generally places an annual $100 per participant cap on the maximum premium employers would pay.

The proposal is good news for employers with big pension surpluses, according to J&H.

"These plan sponsors will no longer have to subsidize underfunded pension plans of other employers through ever-increasing PBGC premiums," J&H said.

On the other hand, employers with well funded—but not overfunded—pension plans may believe the proposal is unfair because they could face a funding surcharge even though their plan assets equal plan liabilities, J&H noted.

However, plans that are underfunded will see the new PBGC premiums, which would have to be approved by Congress, as a major financial burden, J&H said. ■

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Sandoz to give shareholders liability estimate

BASEL, Switzerland—Shareholders of Swiss chemical manufacturer Sandoz A.G. will receive more details this week about the impact of last November's toxic chemical spill into the Rhine River, including estimates of Sandoz's perceived liability.

Marc Moret, Sandoz's chief executive, is expected to give more details about the total value of claims filed against the company and the psychological implications of the loss at a shareholders' meeting on May 5, said a Sandoz spokeswoman. "More detailed figures will be given," she said.

Late last month, Sandoz estimated when it published its 1986 annual results that the company's losses from the disaster will reach about 100 million Swiss francs ($67 million).

So far, about 460 claims have been filed with Sandoz, not including claims from governments bordering on the Rhine River. Of these, 350 small, less-complex claims—mostly from Swiss and West German organizations—have been settled for about 10 million Swiss francs ($6.8 million), confirmed Jacob Butler, insurance manager in charge of settling the disaster claims at Sandoz.

Other claims received by Sandoz include an 8.5 million deutschemark ($4.7 million) claim from the West German state of Badenwuertenberg; a 3.5 million deutschemark claim ($1.95 million) from the West German state of Rheinland-Pfalz; and a claim totaling 5 million guilders ($2.5 million) from the Dutch government.

However, Sandoz still has not heard from the French government, which plans to file a damage claim stemming from the incident, Mr. Butler said. He believes, however, that it will be far less than the figure of 252 million French francs ($42.1 million) that French Environmental Minister Alain Carignon presented at a meeting of European officials in Rotterdam last December (*BI*, Dec. 29, 1986).

Mr. Butler is confident, however, that including the French claim, the losses will not be more than 100 million Swiss francs.

Sandoz has close to 500 million Swiss Francs in general and product liability insurance, including coverage for pollution incidents (*BI*, Nov. 27, 1986; March 23).

—By Stacy Shapiro

Greek quake cover

ATHENS, Greece—More earthquake insurance should be bought in Greece, Europe's most earthquake-prone country, the nation's largest insurance company says.

Only a few factories had purchased earthquake coverage before the devastating earthquake last September in the southern port of Kalamata, which killed 20 people and injured another 300, according to Paul Nikolaidis, general manager of Ethniki Insurance Co. Also, no Kapamata homeowners bought earthquake coverage.

Damage in Kalamata, most of which was not covered by earthquake insurance, surpassed 80 billion drachmas ($615 million). Eighty percent of the buildings in the town of 40,000 residents were declared unsafe after the quake.

"I believe that insurance against earthquake damage in this country, which is an earthquake-active country, should be obligatory," said Mr. Nikolaidis.

Greece's Socialist government has not ruled out making it mandatory for homeowners to buy earthquake insurance, according to Evangelos Kouloumbis, the Greek environment, town planning and public works minister.

In Greece, property insurance

worldwide

premiums are divided into three danger zones, depending on the frequency of earthquakes:

- Zone A has a premium of 1.5% of the value for earthquake-proof buildings, 3% for other buildings and 1% for factories.
- Zone B, which includes Kalamata, has premiums of 3% of the value of earthquake-proof buildings, 7% for other structures and 1.5% for factories.
- Zone C has premiums of 5% for earthquake-proof buildings, 15% for other structures and 2.5% for factories.

"When someone asks for insurance coverage for earthquakes, the insurance company asks for certification that the (building) did not have damages from previous earthquakes," said Costas Vertopoulos, an official in charge of property insurance at Ethniki.

Greek insurance companies can withstand the amount of claims filed after an earthquake because they are reinsured, noted Mr. Nikolaidis.

—By Louis Economopoulos

Swedish tax

STOCKHOLM, Sweden—A one-time-only tax on occupational and personal life insurance and pension plans imposed by the Swedish government last year is being fought strongly by Skandia Life Sweden.

Skandia Life, a unit of parent Skandia Insurance Co. Ltd., is appealing to the European Commission on Human Rights to test the legality of the Swedish government's tax in the European Court of Justice. Skandia Life questions whether the tax is allowed under the European Convention.

Skandia Life hopes to present its case to the European Commission by June 22, said Olle Lifvergren, deputy managing director. If the Commission accepts the case, it will file legal action against the Swedish government.

"This tax is unique in economic terms and raises major questions of principle," said Bjorn Wolrath, Skandia's managing director in a statement. "We believe it is vital that these questions are fully tested at the highest level in the interest of our policyholders."

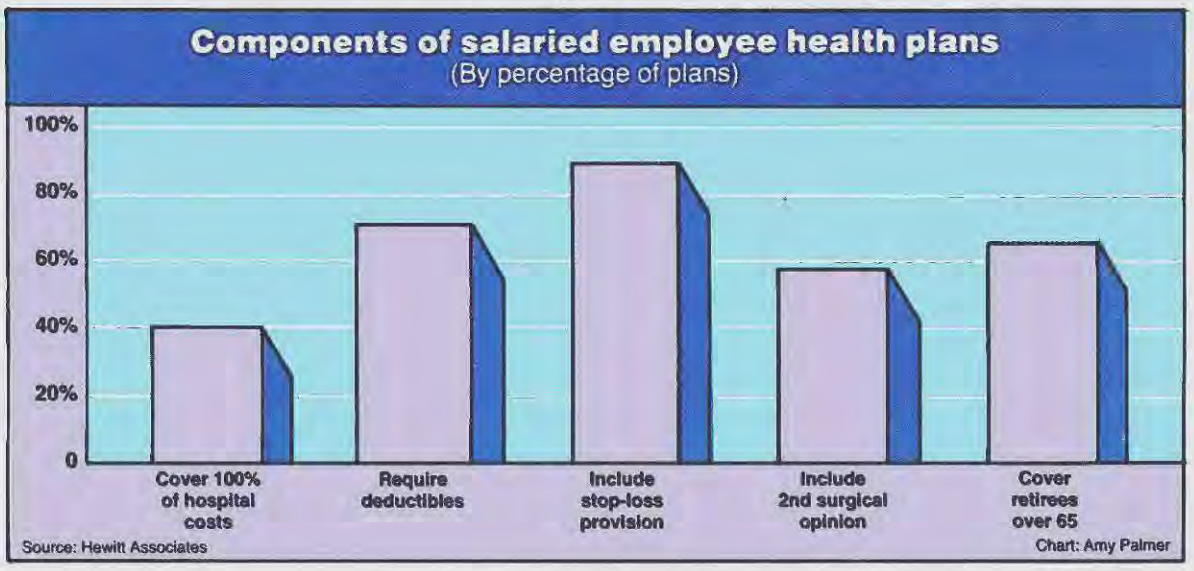
The Swedish government decided last year that all private pension plans and group and personal life insurance programs will be taxed at the end of 1986, although they have not been taxed before and will not be taxed again. The value of pension funds were taxed 7%, and the value of life insurance funds were taxed 6%, said Mr. Lifvergren.

Skandia believes the tax will cost its clients 2.8 billion Swedish kroners ($448 million), and overall will cost 15 billion Swedish kroners ($2.4 billion).

The new tax, however, is not being imposed on the Swedish government's social security fund.

—By Stacy Shapiro

Cost shifting, flex plans increasing: Study



By ALISON KITTRELL

Employees are being asked to shoulder more of their benefit costs, but they also are being allowed to make more of their benefit decisions, according to a recent survey.

The survey of 812 major U.S. employers shows that first-dollar medical coverage is becoming a thing of the past, while flexible benefits appear to be the wave of the future.

The survey, called "Salaried Employee Benefits Provided by Major U.S. Employers in 1986," was conducted by Lincolnshire, Ill.-based consultant Hewitt Associates,

"Benefits are shifting toward employees in the area of responsibility for paying for them," says Tim Meinken, manager of Hewitt's Denver office.

"First, there is a continuing movement away from first-dollar medical plans," Mr. Meinken says.

For example, 64% of the companies surveyed required a front-end deductible for medical expenses in 1986, compared with 54% in a comparable group surveyed for 1985.

And, coinsurance was applied to surgical charges in 62% of the plans surveyed and to hospital room and board charges in 45% of the plans in 1986.

"It is surprising that we are still seeing movement" in the area of increased cost-shifting for medical plans, Mr. Meinken said. He attributed the trend to a reduction in the strength of labor unions.

He explained that several years ago, unions negotiated rich medical coverage for their members, and that coverage often was extended to salaried employees. But unions, spurred by problems in the manufacturing sector and by companies reacting to increasing health care inflation, are becoming more willing to give up some aspects of their medical coverage. That trend is carrying over to salaried employees as well, Mr. Meinken says.

It is in the area of medical care that the shifting of benefit costs to employees is most evident. Although all of the companies surveyed offered medical coverage to their salaried employees, only 40% covered 100% of reasonable and customary hospital room and board coverages, whether or not there was a deductible. Some 36% of the plans covered 80% of reasonable and customary hospital charges, and the rest covered some other amount.

And, 64% of the plans charge a deductible that is applied to hospital room and board charges as well as to other medical expenses.

Only 30% of the plans do not include a front-end deductible, and the deductibles for the remaining plans depend on the plan or the treatment chosen by the employee.

The most-common deductible—required by 32% of the plans—is $100 per year. The deductible is $150 per year for 16% of the plans, $200 per year for 12% of the plans, and depended on the medical coverage option chosen by the employee for 16% of the plans.

Most of the companies do cap the employee's liability for medical expenses. Some 89% of the companies include a stop-loss feature, and 55% of the plans limit the employee's liability to $1,000 or less, excluding the deductible.

In addition, many of the health care plans surveyed include cost-containment features. The most common cost-containment features include incentives for second surgical opinions, offered by 57% of the plans; incentives for outpatient surgery, offered by 54% of the plans; and incentives for having testing done on an outpatient basis, offered by 51% of the plans.

Most of the plans extend coverage into retirement. Some 92% extend medical coverage to employees who retire before they reach age 65, and 85% coordinate with Medicare to extend coverage to employees who retire after age 65.

While making employees share the cost of medical coverage, more employers also are letting employees choose the types of benefits they want.

According to the survey, 18% of the companies had some sort of flexible benefit plan in 1986.

"Now that companies are saying, 'You're going to be more responsible for paying for your benefits,' they also are saying, 'We're going to give you a choice,' " Mr. Mein-

Continued on next page

Benefits survey

Continued from previous page

ken said.

Mr. Meinken says that Hewitt has seen an "explosion" in employer interest in flexible benefit plans since last fall, when Congress passed the Tax Reform Act of 1986.

Many companies were "sitting on the fence," waiting to see what actions Congress would take affecting benefits, he says. Now that Congress has acted, they are rushing to implement flexible benefit plans, he says.

The most common benefit areas in which employees can make a choice are health care, offered by 84% of the flexible plans; death benefits, offered by 63%; and disability benefits, offered by 24%.

And, 89% of the plans contain a flexible spending account option.

Most of the interest in flexible plans "is because of cost-containment changes," according to Mr. Meinken.

Many companies were 'sitting on the fence,' waiting to see what Congress would do about benefits, Hewitt's Tim Meinken says. Now that Congress has acted, they are rushing to implement flexible benefit plans, he notes.

Mr. Meinken also notes that flex plans often help employers keep medical costs down because employers are not committed to providing a certain level of coverage, but instead are committed to providing a specific amount of money, which employees decide how to spend.

Mr. Meinken also says the growth in flex can be attributed to changes in workforce demographics.

The traditional household, in which the husband works and the wife stays home to care for children, increasingly is being replaced by: households in which both spouses work, single-parent households and single people. This has made flex plans more attractive, because employees can can tailor their benefit plan to their individual needs, Mr. Meinken observes.

Other survey findings include:

- Almost all—91%—of the companies surveyed offer a defined benefit pension plan. In most cases, the pension benefit is based on final average pay.

And, 93% require no employee contribution for their pension fund.

For 80% of the respondents with a defined benefit pension plan, the pension benefit is based on the final three to five years' pay.

In 64% of the companies, employees are eligible for early retirement after they reach age 55 and have completed 10 years of service.

But, 95% of the companies surveyed do not provide automatic post-retirement cost-of-living benefit increases.

- Ninety-six percent of the companies surveyed offer at least one capital accumulation plan, such as a 401(k) or a profit-sharing plan.

Some 76% of the respondents provide a savings plan with an employer match, and 68% offer a 401(k) salary deferral plan. Nine percent offer an unmatched savings or thrift plan.

Some 51% of the respondents offer a payroll-based employee stock ownership plan (PAYSOP), and 19% offer a deferred profit-sharing plan.

Other types of capital accumulation plans offered include subsidized stock purchase plans, offered by 10%; employee stock ownership plans (ESOP), offered by 2%; stock bonus plans, offered by 1%; and tax-deferred annuity plans, offered by less than 1%.

Many of the companies offered more than one type of capital accumulation plan.

"Any new money going into pensions is going into defined contribution plans," such as 401(k) plans with an employer match or profit-sharing plans, Mr. Meinken says.

He explains that such plans are a more visible benefit for the employer, and they also usually vest more quickly, making them more portable for employees. This is especially important for today's employees, who are likely to change jobs more readily than their predecessors.

- All of the companies surveyed offer group life insurance. For 15% of the companies, the coverage is completely employer-paid; for 11%, it is paid solely by the employee; and for 74%, the cost of the coverage is shared by the employee and the employer.
- Ninety-nine percent of the companies offer both long-term and short-term disability programs.
- Dental coverage, offered by 89% of the companies surveyed, is by far the most popular of the "ancillary" health care benefits.

In contrast, only 21% of surveyed employers provide vision care plans, and only 6% provide coverage for hearing care.

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Copies of the survey, "Salaried Employee Benefits Provided by Major U.S. Employers in 1986," are available for $25 from Cathy Schmidt, Hewitt Associates, 100 Half Day Road, Lincolnshire, Ill. 60015; 312-295-5000.

Surplus brokers must monitor insurers' stability: Regulator

By LINDA J. COLLINS

CHICAGO—Surplus lines brokers must take pains to place clients' business with financially secure insurers, warns a state regulator.

For example, under Public Act 83-1300 of the Illinois Insurance Code, which went into effect in 1985, Illinois surplus lines producers are responsible for monitoring the financial condition of the insurers with which they place their clients' business, noted Richard Rogers, deputy director in the consumer division of the Illinois Department of Insurance in Springfield.

Under the provision, the insurers must meet the financial criteria spelled out in the insurance code, he said.

According to Mr. Rogers, this rule has changed the role of surplus lines brokers in Illinois dramatically.

"The responsibility, if something goes wrong, falls back to the surplus lines broker. I suggest you take that responsibility very seriously," he warned.

Mr. Rogers addressed surplus lines producers attending the annual meeting of the Surplus Lines Assn. of Illinois, held April 21 in Chicago.

Premium volume produce by surplus lines brokers 'will decline somewhat,' Mr. Rogers says.

Not only are surplus lines brokers being held more closely responsible for choosing financially healthy insurers with which to place their clients' business, they also are finding themselves placing more classes of business than ever before, Mr. Rogers said.

"The surplus lines market was originally designed to fill in areas where there was no capacity to write business," distressed lines of business and specialty business, he explained.

However, he added, within the past three years, the surplus lines market has been called on to write all types of commercial property/casualty business.

Mr. Rogers encouraged surplus lines producers to maintain their diligence in monitoring the condition of the insurers with which they place business.

Mr. Rogers said that if the surplus lines insurance market continues to grow and producers do not carefully monitor the health of surplus lines insurers, state insurance departments may be forced to step in and regulate the surplus lines market.

And, such regulation would destroy the flexibility on which the surplus lines market is based, he pointed out.

Changes in surplus lines producers' responsibility and scope of operations also make it important for surplus lines agents to carefully examine market conditions, Mr. Rogers added.

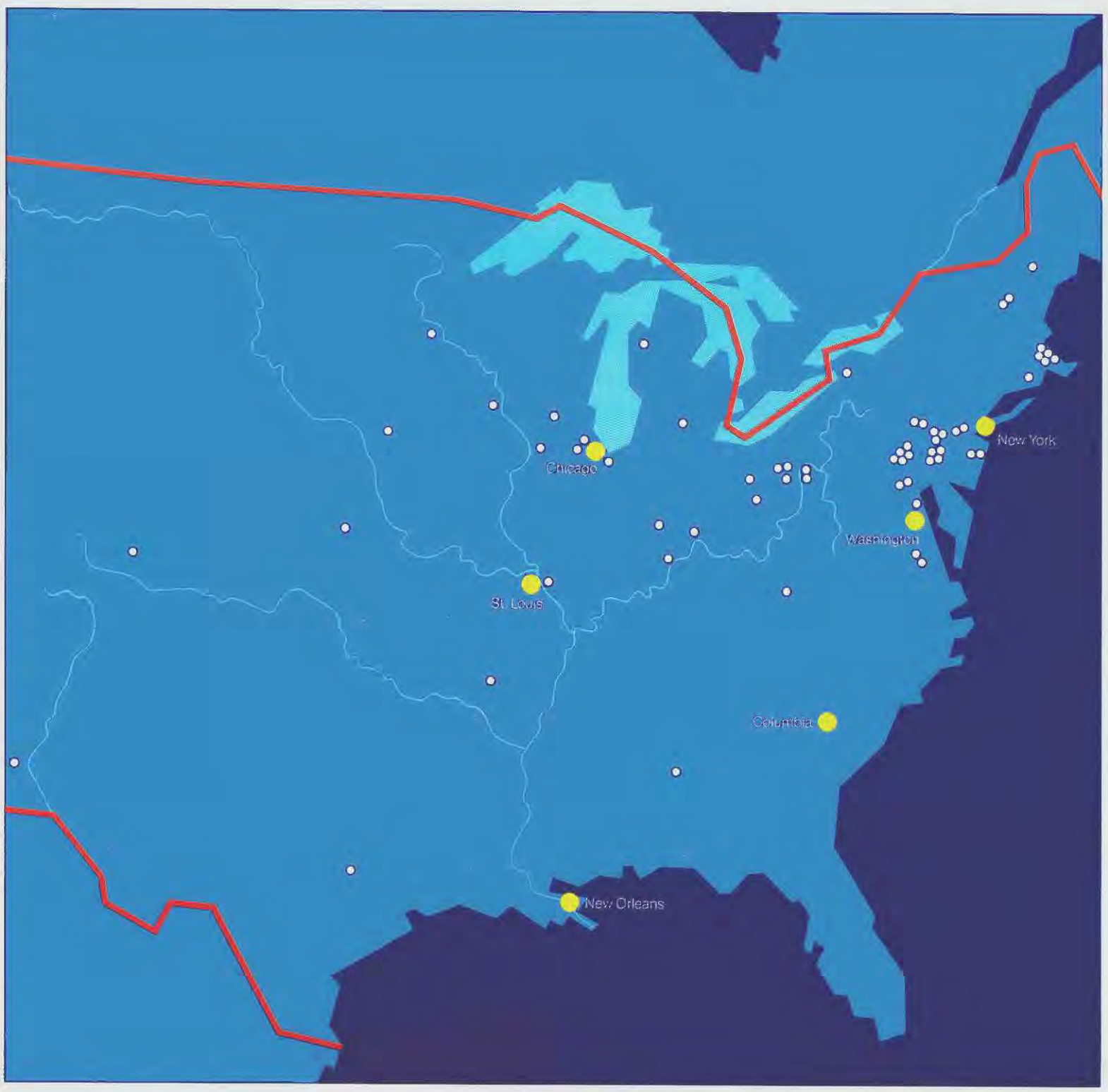
"We're going to have to understand the market better—brokers, companies and associations. We have to be in a position to anticipate" changes in the marketplace before they occur, Mr. Rogers explained.

And to better understand industry trends and better attempt to control the cost of insurance, the industry as a whole "needs to get serious with data collection," he said.

For example, better data collection would help industry representatives determine the actual cost reductions, if any, brought about by the tort reform measures that have been enacted in various states, according to Mr. Rogers.

Increased data collection also could help members of the insurance community pinpoint areas of the marketplace where problems are developing and the direction in which the market is moving, he said.

Mr. Rogers predicted that as the property/casualty insurance market begins to soften, the volume of business written through surplus lines producers "will decline somewhat, but not to the extent it has in the past." ■



Spring renewals

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we used to," said Katherine A. Dupree, risk manager for Atlanta-based MetroVision Inc., However, she added that a bona fide soft market cycle has not arrived.

If the property insurance market is not at the height of a soft cycle, it has improved significantly since late last year, sources note.

"In the property area, capacity is no problem and the market is soft. It's softened very rapidly," observed A&A's Mr. Holcomb.

James' Mr. McDougald said he has seen "outrageous" competition on property business, with 60% to 70% rate reductions for some risks.

"I wouldn't call it soft, but it's a lot better than it was," said Norman Barham, senior vp and property department manager in J&H's New York office.

Rates are down 10% to 20% for good property risks, though earthquake coverage is still "pretty firm," Mr. Barham reported.

Nevertheless, capacity has increased for earthquake risks: Where $75 million to $100 million in limits were available a year ago, the market now offers $100 million to $150 million, he said.

"It's where we thought we would be at the end of the year, and we're here at the beginning of the year," Mr. Barham said.

Insurers are still insisting on tough loss control engineering but are willing to offer deductible options and to consider manuscripted policy forms, he said.

Underwriters also are stressing that insured properties be sufficiently valued, said Lawrence Greenfield, president of The Kaye Group Inc. in New York.

Property valuations for insurance purposes have increased 20% to 40% for some policyholders, Mr. Greenfield said.

A worst-case scenario for property risks would be a renewal at expiring rates and limits, and most accounts are renewing at significantly lower rates, Mr. Holcomb said. In some cases, policyholders are obtaining smaller deductibles, lower rates and broader coverage in the same renewal.

"They have had the best of all worlds in the last couple of years: high premium rates and no losses," Mr. Holcomb said of property insurers.

Underwriters are more willing to manuscript policy forms and are offering clients more policy options, including additional coverages that were not offered during the past two years.

Conflicting business strategies adopted by some property insurers has driven several accounts into the market for quotes, according to Mr. Holcomb. He explained that some underwriters are attempting to renew property accounts at expiring rates while offering lower rates for new business.

"Word has gone out to brokers: You had better shop your property risks around to get the best deal," he said.

Austin Hocklander, vp of insurance and claims at Yellow Freight Systems Inc. in Overland Park, Kan., noted "some softening in price" by April 1, when the company renewed its fire coverage and extended property damage coverages, including tornado, flood and windstorm damage.

Rates for the fire coverage and extended coverages, which are all written under one policy, were 15% to 20% lower than those paid last year, Mr. Hocklander said.

"There was an easing of the renewal process," he observed.

Charles M. Armstrong Jr., manager of corporate risk management at Xerox Corp. in Stamford, Conn., said that his company was able to double the limits on its earthquake coverage and reduce the cost by around one-third at its April 15 renewal.

However, Mr. Armstrong added that the company's success in the earthquake market isn't reflective of the property/casualty market as a whole.

"I do not take that as an indication of a major trend," he said. "It's encouraging, but that's a specialty line of coverage."

Although there will be some softening in other lines later this year and at the beginning of 1988, "it will continue to be tough," Mr. Armstrong predicted.

Surplus lines insurers also report competitive conditions in the property insurance market.

Property rates "went downhill really fast" because underwriters experienced so few 1986 catastrophe losses, said Nicolas Yuschenkoff, vp and secretary at California Union Insurance Co., a CIGNA Corp. unit.

Current property market conditions present "a double-positive" for risk managers, pointed out Donald K. Sherwood, president of Sherwood Insurance Services in San Francisco. "They're able to cut their premium substantially, and will also be able to buy higher limits."

Risk managers may pay 25% to 50% less at July renewals for property coverage at the same terms and conditions as last year—and while possibly obtaining even higher limits, Mr. Sherwood said.

The premium reduction may be even greater depending on the policyholder's industry. For example, Silicon Valley software manufacturers are more likely to receive a 75% premium reduction than are canneries and lumber companies, he observed.

But Mr. Sherwood also cautioned risk managers not to expect such great reductions if their property insurance contains earthquake coverage, the pricing of which continues to be relatively tight.

Meanwhile, London underwriters expect that about 5% of the London non-marine market's property insurance premium volume may move to U.S. insurers because rates cuts offered by U.S. insurers are greater than the 15% to 20% rate reductions that London underwriters are offering.

"Last year, the London market was not the only game in town, but it was predominant," said Stephen Matanle, executive director specializing in property for Lloyd's of London broker Bowring Non-Marine Ltd. "A lot of that business is now going back to the U.S."

London brokers and underwriters believe that property rates are dropping much faster than casualty rates because more capital has been injected into U.S. companies writing property business rather than casualty risks.

In addition, last year was the peak of the hard market and underwriters earned tremendous profits in the property insurance lines since there were no significant losses from earthquakes or hurricanes.

As a result, U.S. property underwriters are offering rates which are 10% to 50% less than rates in London for "bread-and-butter" U.S. property risks that were solely written in the London market last year, Mr. Matanle said.

There is now pressure on London property underwriters to follow the rates down to retain the business, he noted.

But, London underwriters are offering only 15% to 20% rate reductions on property business, said Terry Mann, deputy chairman and managing director of Lloyd's broker Price Forbes Ltd., the North American brokerage subsidiary of Sedgwick Group P.L.C.

"We are seeing a heavy downward trend in premiums (and) London is often not willing to absorb these rate decreases. They would rather see the business go," Mr. Mann observed.

The London market is retaining the more complex U.S. property

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risks it has traditionally underwritten, brokers in the London market say.

This business "will not have suffered as much in the hard market as those which moved from one market to another," Mr. Matanle explained. "The aim by London is not to have huge swings up or down and London achieves this basically on these accounts."

While the casualty insurance market may not be "soft" like the property market, it is softening.

Insurers writing casualty coverage have developed additional capacity since last year, brokers and underwriters report, and coverage is becoming slightly less expensive for certain risks.

Casualty insurance capacity available from U.S. insurers has increased 25% to 50% since last year, J&H's Mr. Kerekes estimated. He added that most of this new capacity is coming from insurers that have increased the lines they will write. For example, an insurer that offered a $5 million line a year ago may now offer $10 million.

Mr. Kerekes said that certain casualty risks have seen modest rate reductions, but he added he has seen no broad decline in rates yet.

To put together a $20 million umbrella placement may have required the participation of four insurers last year, noted Sam Alcorn, senior vp with Bayly, Martin & Fay International Inc. in Fort Worth, Texas. This year, those same limits can be obtained from just two insurers.

"That leaves the other two competing to get a piece of it," he explained.

Mr. Alcorn predicted the market will become increasingly competitive this year, but he said prices will decline only gradually.

Not only are insurers reducing rates for larger accounts, but many smaller accounts are also benefiting from the general softening in the market, Mr. Alcorn said. For example, BMF recently renewed a casualty package policy for a church at 35% off last year's premium.

Professional and pollution liability coverages continue to be expensive and capacity in these lines is still very limited, according to Mr. Alcorn.

"We're not seeing anybody jumping into pollution liability," Mr. Alcorn said. He noted that insurers are continuing to stay away from lines of insurance they "feel they can't evaluate."

Rates on desirable casualty business—especially when it is combined with property business in a package policy or with umbrella coverages—are down anywhere from 10% to 25%, A&A's Mr. Holcomb said.

New alternative facilities like X.L. Insurance Co. Ltd. and American Excess Insurance Assn. provide blocks of capacity in the $25 million to $100 million layer, and the first $25 million in limits is no longer difficult to complete, he said.

"Most buyers will frankly not be facing any of the problems, the anxieties, that we both faced last year," Mr. Holcomb observed. "I would be very surprised if it did not continue on this course for at least this year and next year.

"This year and next year should be unusually good for the buyer," he observed.

One major real estate client of James saw a 40% to 45% reduction in the premium for a recently renewed umbrella package that included onwers, landlords and tenants liability coverage, Mr. McDougald said.

For some buyers, capacity was available even during the tight market but was too expensive to use.

"The assureds invariably bought less occurrence capacity than was available in the market because of price," said Mr. Klink of The Kornreich Group. "They are (now) buying more limits than they had been."

For example, one Kornreich client that bought $100 million in liability limits three years ago and only $50 million last year is buying $75 million this year for about the same premium paid for the $50 million, Mr. Klink said.

"We are absolutely seeing pricing come down in the excess," Mr. Klink noted, adding that the reductions have been in the high rather than the low excess layers.

Where underwriters may have sought a premium of $8,000 to $10,000 per $1 million in coverage excess of $40 million, they now are seeking only $5,000 to $7,000 in premium, he said.

Corroon & Black's Mr. Davis noted that the casualty insurance market has become segmented.

For companies with heavy product liability exposures, like chemical and pharmaceutical manufacturers, "1987 looks a lot like 1986" as these companies continue to face both availability and affordability problems, he said.

However, light manufacturing and service companies are benefiting from some competition among casualty insurers, Mr. Davis said. He noted that these less hazardous risks can expect premium reductions in the range of 5% to 10%

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Spring renewals

Continued from previous page
compared with last year's rates.

A similar two-tier market has developed with respect to the policy form that underwriters are willing to provide.

Difficult, long-tail casualty risks continue to be offered predominantly claims-made coverage—particularly in the London market—while lighterrisks are able to find occurrence-based coverage, Mr. Kerekes noted (*BI*, Feb. 9).

Domestic insurers are making occurrence forms increasingly available, says Dan Colacurcio, a vp in Swett & Crawford's national marketing division in Los Angeles. Construction contractors and businesses with a moderate product liabilty exposure are two examples of buyers that will probably find occurrence coverage available today that would not have found it a year ago, he says.

Risk managers report varying experience in attempts to renew casualty coverages.

Yellow Freight's Mr. Hocklander said he saw "some slight softening in price but not a relief in high-limit availability" when the company renewed its general liability coverages at the beginning of this year.

"There is some light at the end of the tunnel, but the tunnel is still pretty long," he observed.

Thomas Lewison, director of risk management for Rorer Group Inc. in Fort Washington, Pa., said he is seeing "no softening" for his company's pharmaceutical exposures.

Although rates have stabilized for product liability coverage for pharmaceutical risks, prices are not falling and lower excess layers remain a problem to complete, Mr. Lewison said.

New excess liability facilities like A.C.E. Insurance Co. Ltd. and X.L., however, have "helped considerably in catastrophic areas," Mr. Lewison said.

While brokers describe a softening market for some casualty risks that includes rate reductions, several insurers say they are continuing to get modest increases for casualty coverage.

Don Chapman, vp-commercial lines at Seattle-based SAFECO Corp., said there has been a "significant moderation of prices" since Jan. 1 and that the company is now getting rate increases of about 9% on its renewal business.

"Normal" competition has returned to the industry for mainstream, Main Street-type business, said John Bowdish, commercial lines underwriting officer at the Kemper Corp. He defined a normal competitive environment as one in which underwriters price each risk on its own merits, with better risks receiving a commensurately better price.

Les Baumer, executive vp-insurance operations for Wausau Insurance Cos., said that except for workers compensation insurance, "the casualty business is pretty realistically priced right now."

Mr. Baumer said rate hikes of 8% to 10%, which would cover the cost of increased claims severity, are "a reasonable expectation for this marketplace. I think most people in the industry would agree with this."

"There seems to be plenty of capacity and appetite around for the standard-type business," said Brian Scott, senior vp-product development and underwriting for Aetna Life & Casualty Co.'s commercial insurance division.

However, he added that Aetna is still seeking price increases for all of its casualty lines coverages and most of its property business, although hikes are more modest for property risks.

The London market, meanwhile, is expecting to lose casualty business to U.S. competitors that are willing to provide coverage on an occurrence form rather than a claims-made basis.

At least 10% of London's U.S.-based casualty premium volume will return to U.S. insurers offering coverage on occurrence forms. Nearly all London underwriters will write only U.S. liability risks on the Lloyd's excess liability claims-made form or the H.S. Weavers (Underwriting) Agencies Ltd. claims-made form.

Much of the business moving back to U.S. insurers came to London last year when U.S. buyers stampeded into London to search for capacity they could not find in the U.S. insurance market, London brokers and underwriters say.

However, London underwriters do not seem concerned enough about the loss of business to cut rates below those offered by U.S. insurers or to offer liability insurance on an occurrence basis.

"We will lose some (business), but I would rather lose it than keep it," said Robin A.G. Jackson, Lloyd's of London non-marine underwriter and director of Merrett Holdings P.L.C. "I see no justification for price reductions. And, anyone who writes casualty on an occurrence form needs her head examined."

"London won't chase the rates down," said Simon Harrup, chairman of the North American division of Lloyd's broker Stewart Wrightson Holdings P.L.C.

"The London market is holding prices, with marginal reductions. There can be 5% to 10% rate increases or 15% downwards. But, price-wise, there is not a lot you can do. This is a philosophical difference (between the U.S. and London markets) between claims-made and occurrence," Mr. Tyndall explained.

Some London brokers are encouraged by the new capacity offered in London following the establishment of Anglo-American Insurance Co. Ltd.

CalFed Inc. announced earlier this month that it had formed London-based Anglo-American with $80 million in capital and surplus to write excess liability risks (*BI*, April 3).

Weavers, the leading underwriter of U.S. casualty risks in the London market, announced that Anglo-American will underwrite 33.42% of Weavers' line slip, increasing Weavers' premium capacity by 50%.

As a result, Weavers can now write up to 100% of the first $5 million excess liability layer, up from 80%; 87.5% of the next $15 million excess of $5 million layer, up from 62.5%; and participate on a $30 million excess of $20 million layer (*BI*, April 20).

"Capacity-wise, London is looking good for the first $20 million," said Charlie Pearch, director of the casualty division of Lloyd's broker Alexander Howden Ltd., adding that there may actually be too much capacity within the first $20 million liability insurance layer.

However, Weavers' move may not be sufficient to attract U.S. buyers back to London, other brokers say.

The return of some competition to U.S. property/casualty markets has been sparked by the improving financial health of insurers produced by two years of rate increases and coverage restrictions, brokers and risk managers agree.

However, many observers—including insurers—do not expect a quick return of ferocious price wars.

Arthur F. Evans, executive vp with Royal Insurance Group, noted several factors that will deter another round of price cutting, including:

- The ongoing tight market for casualty reinsurance.
- The impact of tax reform measures, including mandated discounting of loss reserves.
- Continuing low interest rates, which discourage a return to cash-

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flow underwriting.

- The cost to surviving insurers of other insurer and reinsurer insolvencies.
- Problems with occupational disease claims like asbestosis.

"Overall, I think it's too soon for the companies to go back to underpricing their business," said Fred Themmes, senior underwriting officer in the St. Paul Cos. Inc.'s commercial insurance division.

"I think it's going to stay relatively stable over the next year," agreed Aetna's Mr. Scott.

"I think some lessons were learned" during the last soft market, agreed Yellow Freight's Mr. Hocklander. "Insurers are using better underwriting judgment."

Whether the market returns to the cutthroat competition of the early 1980s depends on whether the insurers "believe their own rhetoric" about the need for careful underwriting, Corroon & Black's Mr. Davis observed.

Noting that the insurance industry is highly competitive, Mr. Davis says it would take only one or two insurers to "break ranks" to start another major price cutting cycle.

Because of last year's improved results—and continuing good results expected for 1987—many insurers are becoming more concerned about maintaining market share, BMF's Mr. Alcorn noted.

"That term market share is starting to creep back into the vocabulary," he pointed out.

Whatever softening has occurred in the property/casualty insurance market has not resulted from any significant improvement in the reinsurance market, brokers and reinsurers report.

Treaty reinsurance capacity generally remains tight and rates are steady, though some competition has emerged in the facultative area, observers say.

"The most positive element is that reinsurers now take the time and have their houses in order to really study and write business," said Willis King, chairman of Willcox Inc. Reinsurance Intermediaries in New York. "It's painfully slow still, but at least you don't get the door slammed in your face because reinsurers don't have the time to talk to you."

"Our price levels have been reasonably stable," said Ward B. Gordon, chairman of Intere Intermediaries in New York.

Reinsurers are not placing as much emphasis on sunset clauses, and claims-made forms are not a factor, though London continues to provide a claims-made market for tough casualty risks that should be written on that type of form, Mr. Gordon said.

"Because we have not had a big blow for a long time," property facultative reinsurance "has become very, very competitive," said G. Michael Fitt of Employers Re. He added there is also competition for casualty facultative business.

"What we see is the phenomenon of large Eastern primary companies retaining a much larger piece of the exposure themselves," leaving smaller pieces of the business for facultative underwriters and thereby creating competition, he explained.

Competition in the facultative market will probably spread to the treaty area, possibly by July 1 and certainly by next Jan. 1, Mr. Fitt predicted.

In London, reinsurance market observers say competition in the reinsurance market will not be really prevalent until year-end renewals in December.

"I think the market will be static in July, and pressure will not begin until year-end," said Keith Gillies, chairman of Lloyd's reinsurance broker Golding Stewart Wrightson Ltd.

"We see the type of casualty (treaty) business coming to London holding the rate which we imposed last year," said Victor Blake, chairman and chief executive of CNA Reinsurance of London Ltd.

"On the facultative side, we see some competition reawakening. But, we are resistant to any downward movement," Mr. Blake added. "We see more of a trend and a competition, but we are willing to see the business leave London."

Some London underwriters are supporting ceding companies that are writing general liability business on an occurrence basis, admitted Hady Wakefield, deputy chairman and chief executive of the North American division of Lloyd's largest reinsurance broker, C.T. Bowring Reinsurance Ltd.

"But it isn't much," Mr. Wakefield said.

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Also contributing to this story were Judy Greenwald in New York; Robert A. Finlayson and Steve Taravella in Los Angles; Michael Bradford in Dallas; and Stacy Shapiro and Carolyn Aldred in London.

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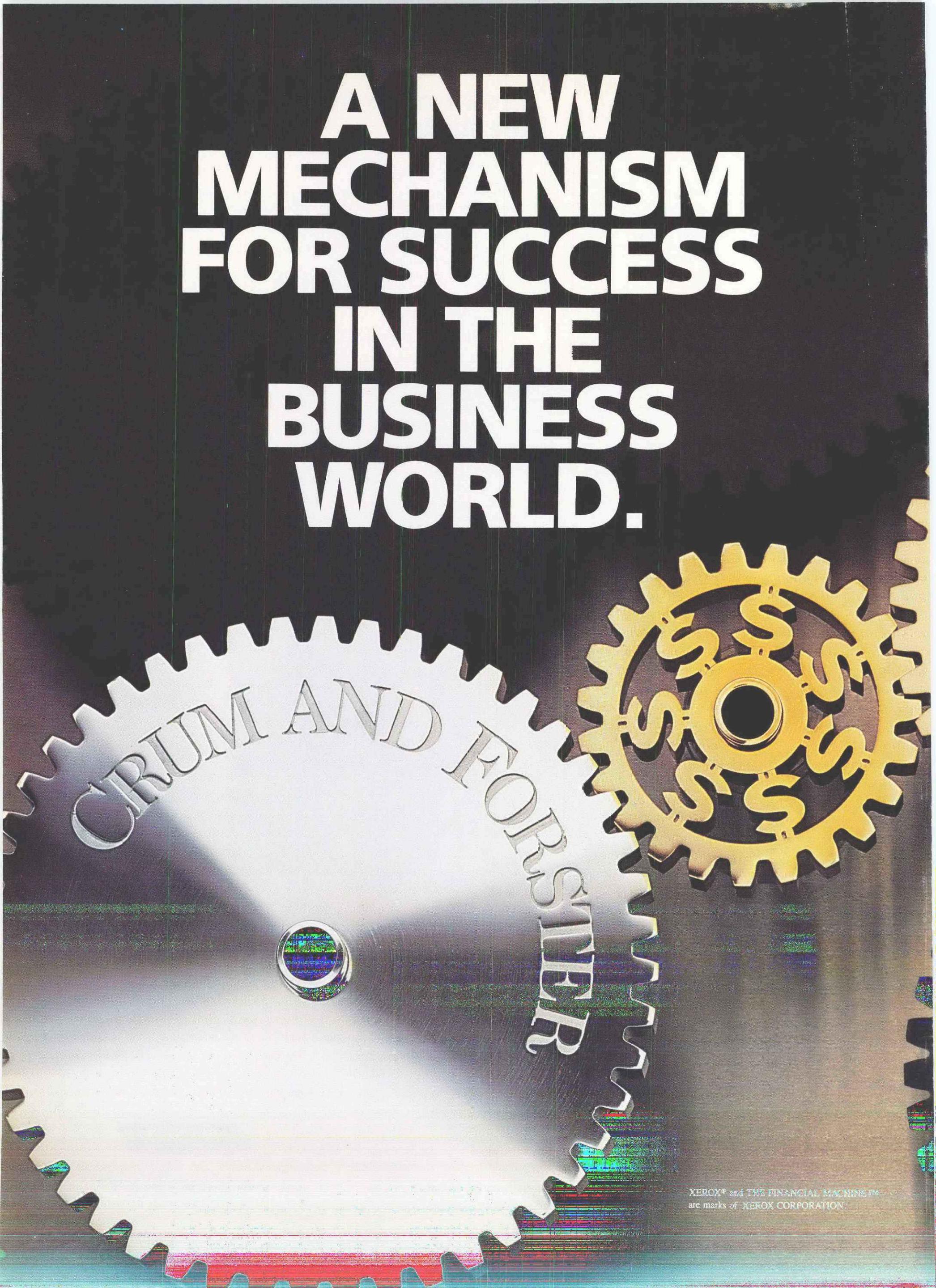

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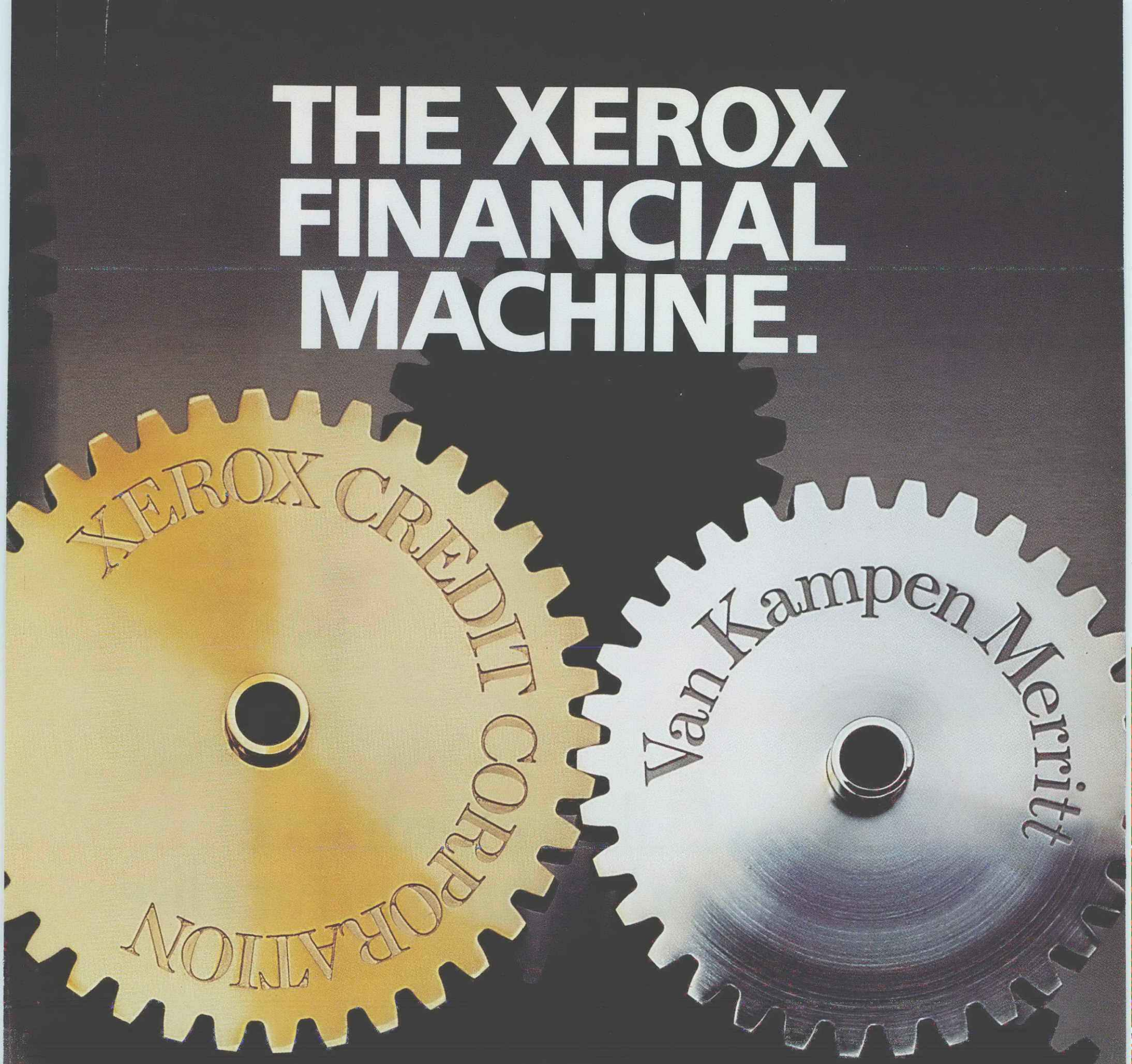

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SHAKE, RATTLE & ROLL

Comprehensive policy is best cover for boiler and machinery risks

By Jerome Karter

IN INSURANCE INDUSTRY lingo, the term "shake, rattle and roll" idiomatically identifies a comprehensive boiler and machinery policy because shakes, rattles and rolls can idle machinery and cause serious financial loss.

Almost all U.S. multinationals have some exposure to boiler and machinery loss. Any business that operates pressure vessels or machinery can suffer both direct and indirect loss arising out of machinery breakdown or rupture or explosion of boilers or other pressure vessels.

The most obvious hazard is explosion due to the pressure contained within boilers, steam turbines or other pressure vessels. But further damage usually follows the initial rupture because of the expansive force of the vessel's contents. A boiler policy will indemnify loss or damage caused directly by explosion, collapse or rupture of air tanks, refrigerating and air conditioning systems, kettles, steam pipelines, separately-fired superheaters and water heaters.

Machinery objects, on the other hand, are subject to sudden and accidental breakdown resulting from improper use or maintenance, electrical malfunctions, inherent defects, metal fatigue, rust or overheating. Fortunately, the broad definition of "accident" in most comprehensive policies includes nearly all types of breakdown.

Lastly, a comprehensive boiler and machinery policy also affords coverage for electrical injury or disturbance that can idle electrical machinery such as transformers, motors, generators, circuit breakers and switchboards.

Fortunately, the broad definition of "accident" in most comprehensive policies includes nearly all types of breakdown.

Essentially, U.S. multinationals with far-flung foreign facilities can easily insure their worldwide boiler and machinery exposure under a comprehensive policy. Yet, despite the availability of comprehensive boiler and machinery coverage, many U.S. risk managers fail to provide a broad program of catastrophe coverage for their worldwide subsidiaries. Instead, they allow local line managers to place coverage on an "as needed" basis.

Why? In practice, many U.S. multinationals opt to absorb the absorbable loss by insuring only those machinery objects that are critical to bottom-line profitability. Theoretically, local line managers are expected to exercise good judgment when insuring key pieces of machinery. But the fallacy in this approach is that locally placed boiler and machinery policies often provide limited or insufficient loss recovery.

In fact, locally placed policies usually provide more restrictive terms and conditions than their more comprehensive counterparts.

U.S. parent insurers, through their worldwide networks, offer comprehensive boiler and machinery policies that cover the following direct damage exposures:

- Property damage to equipment owned or operated by the policyholder, as well as to equipment under the policyholders' control.
- Expediting expenses.
- Property damage liability.
- Bodily injury liability.
- Defense, settlement and supplementary payments.
- Automatic coverage of machinery objects at newly acquired locations as long as they are materially different in character than those already insured under the policy.

Overseas, the most popular foreign boiler and machinery policy is the European form that is widely used in the United Kingdom, Western Europe, South Africa, Australia, South America and many East Asian countries. Unfortunately, the European form does not automatically provide the broad direct damage coverage that is available under a comprehensive policy.

For example, the European form only covers property damage to objects that are scheduled on the policy. The policy must be specifically endorsed, for an added premium, to cover additional exposures.

In further contrast is the blanketing feature of the comprehensive policy that allows the policyholder to schedule equipment by classifications known as blanket groups. All pieces of machinery that meet the blanket group description can be included under the policy without the need to separately schedule each object. Equipment that does not meet inspection standards is listed as uninsured until such a time as it meets insurable standards.

The European form, on the other hand, provides coverage on a "specific" basis only. That is, each insured object must be scheduled along with an individual loss limit or sum insured. Alternatively, the European form is sometimes written on a first loss basis. Each object still must be specifically scheduled and valued, but the listed objects are grouped together in order to develop an overall first loss limit.

The valuation clause offers another distinction between the two forms. A no-frills comprehensive boiler and machinery policy provides loss adjustment on an actual cash value basis, although most comprehensive policies are endorsed to provide repair or replacement coverage.

Under the European form, however, the scheduled property damage limit for each item is normally equivalent to replacement value new, even though the policy usually contains an average clause that limits a policyholder's recovery for a total loss to actual cash value. Moreover, in some countries the average clause is replaced by a decreasing limit clause that ultimately eliminates any loss recovery.

international issues

Also, a policyholder must carefully establish property damage limits under a foreign-placed boiler and machinery contract because the policy wording usually does not define "accident" and "object" in the same broad terms as a comprehensive policy. Ordinarily, the foreign-placed policy will describe a machine or vessel in common language usage.

For example, the term "No. 1 boiler" is commonly construed to mean the object as well as all auxiliaries and controls that are normally installed with the unit. This practice can easily lead to an uninsured loss, unless the value of the pumps, motors and controls are included within the scheduled loss limit for each boiler.

A worldwide boiler and machinery insurer can provide local inspection services for clients that opt to have this benefit. . .

Like any insurance contract, both types of boiler and machinery policies contain perilous exclusions. Thus, both types of policies normally exclude indemnity for losses arising from war or nuclear hazards. But force majeure exclusions in a foreign-placed boiler and machinery policy will often restrict recovery, without modification, for the perils of flood, earthquake and wind.

Coverage differences also extend to indirect loss recovery. In principle, boiler and machinery business interruption coverage provides payment of continuing fixed charges and indemnifies the policyholder's loss of profits due to a shutdown as a result of any accident. U.S. parent insurers generally rate worldwide boiler and machinery business interruption coverage on a "class of object" basis. Hence, they will apply a single rate for all machinery objects within a blanket group classification.

But use and occupancy coverage under a foreign-placed policy will apply only to scheduled objects since blanket limits are not available. In addition, foreign-placed policies are usually written on a loss of profits basis only, although underwriters will allow discounts for indemnity periods of less than one year.

For an additional premium, a foreign-placed business interruption policy can be extended to cover extra expense, consequential damage and power interruptions. Yet, a manuscript comprehensive boiler and machinery policy ordinarily provides these coverage extensions automatically.

Finally, a major underwriting difference occurs in the way that insurers set policy limits and deductibles. A foreign insurer will err on the side of caution when setting a policy limit but will, in turn, provide both direct and indirect loss recovery in excess of a minimal local dollar deductible. The minimum acceptable deductible usually is determined by tariff rates, the size and type of equipment operated and the policyholder's ability to retain losses.

In contrast, a distinguishing feature of a comprehensive policy is its substantially large retention in the form of a dollar deductible on property damage losses and a waiting-period deductible on business interruption losses. Basically, a large deductible is intended to keep premium costs within acceptable limits by eliminating coverage for maintenance items that can be self-insured.

As a trade-off, the insurer will provide the policyholder with a catastrophic loss limit that parallels the corporation's overall property damage and business interruption exposure. Clearly, the high deductible/high limit philosophy makes sense for multinationals that want to insure shock loss and retain frequency losses.

In addition to broader coverage, a worldwide comprehensive boiler and machinery program can provide two indirect, but important, benefits.

First, U.S. multinational subsidiaries will be afforded the benefit of local advice and assistance from experienced insurance company personnel after an accident occurs. Oftentimes, insurance company personnel are aware of equipment that may be substituted locally while damaged machinery is being repaired.

Secondly, a worldwide boiler and machinery insurer can provide local inspection services for those clients that opt to have this benefit rated into their program. Overseas, statutory inspections are intended primarily for personnel safety purposes. These inspections, however, are not intended to provide technical feedback or early warnings of a serious business interruption loss.

To be sure, there are many benefits to be derived from a worldwide comprehensive boiler and machinery program. So why not investigate the cost to insure your foreign subsidiaries on a worldwide basis *before* a shake, rattle or roll idles your machinery and causes serious financial loss.

Jerome Karter is vp and manager of the New York International Department of Johnson & Higgins. His column appears the first Monday of every month.

ASK A CASUALTY ACTUARY

What is real acid test for feasibility studies?

Q **Recently we received quotes from several consulting firms to perform a feasibility study for our proposed risk retention group. We were surprised when the fees quoted varied widely. Clearly, these different firms were not offering the same level of service. How can we decide what quality of feasibility study we need and be able to discern what we will be getting?**

A The real acid test of a feasibility study is the level of assurance that the consulting firm ascribes to the prospective financial statements.

While no one can provide clear assurance that anticipated results will be achieved, forecasts of future financial results can vary widely in terms of the extent that the consulting firm signs off on the reasonableness of the assumptions on which the financial statements are based.

The type of sign-off typically falls into one of three categories:

- No stated opinion.
- The assumptions have not been examined.
- The assumptions provide a reasonable basis for the financial forecast.

Clearly, a high level of assurance will be critical in meeting the needs of your proposed risk retention group for a favorable reception from regulators in the state of domicile, regulators in non-domiciliary states where the group will be writing business, individual investors that will be insured by the risk retention group, reinsurance underwriters and, in some instances, banking officers who will be reviewing an application for a letter of credit.

At present, two of the leading domiciles for risk retention groups—Delaware and Vermont—require that the feasibility study be prepared by an actuary. Neither the Casualty Actuarial Society nor the American Academy of Actuaries has developed any specific guidelines or standard wording for an actuarial feasibility study and the forecasted financial results it would contain.

The American Institute of Certified Public Accountants has issued very specific standards and wording that most likely would apply to feasibility studies. Because a feasibility study provides a presentation of many key elements of future financial statements, which most likely will be available for public distribution, the AICPA standards would probably apply to feasibility studies performed by actuaries associated with CPA firms.

Since there is no set of standards that specifically applies to all actuaries who would conduct a feasibility study, it is likely that there will be a great deal of variation in the depth of analysis and form of assurance provided by different consultants. Any request for a feasibility study should ask the prospective actuarial consultants to provide sample wording of the level of assurance that may be provided and under what circumstances such wording may or may not be provided.

The proposed cost of the feasibility study should also be an important, although not always accurate, indicator of the quality of the study.

As in any area of life, you generally get what you pay for.

It is not at all uncommon for a feasibility study to merely present a set of projections of financial statements with no comment being made about the basis for and the reasonableness of the underlying assumptions. Sometimes only a few of the key assumptions will be described.

Explanation of the three types of sign-off follow:

- The "no-opinion" study.

While this form of feasibility study may be inexpensive, it is unlikely to satisfy any of the above-mentioned audiences. With such an absence of comment, it would not be unreasonable for the client or other parties to assume that the consultant was taking full responsibility for the assumptions, since it is his report.

The consultant's errors and omissions exposure in this case is obviously substantial and usually unbearable.

Because of the public nature of feasibility studies for risk retention groups, actuaries associated with CPA firms are, by and large, precluded by AICPA standards from performing no opinion reports for RRGs.

- The compilation report.

Many actuarial reports contain wording that states that the report was intended for internal use only and should not be distributed without the written permission of the consulting firm.

Such statements are intended to limit the E&O exposure of the consultant, which is substantially increased when third parties rely on the analysis.

Other caveats will focus on the high level of variability of the projections and that no assurance can be given that the projected results will be achieved.

Not infrequently, little comment will be made regarding the reasonableness of the underlying assumptions. It may be expected that this type of report will be of limited value in satisfying regulators, reinsurers, investors and policyholders.

At present, two of the leading domiciles for risk retention groups—Delaware and Vermont—require that the feasibility study be prepared by an actuary.

In AICPA terminology, a somewhat similar type of report (although not necessarily restricted as to usage) is called a compilation.

A compilation report would state that the underlying assumptions have not been examined and contain a caveat that all prospective results may not be achieved.

Although this report results from basically an assembly service, the AICPA reporting standards require that all significant assumptions be disclosed and that standardized assumptions be employed. However, it is not clear that this type of report can be utilized for a feasibility study.

- The examination report.

One set of guidelines that is directly applicable to RRG feasibility studies is the "Statement on Standards for Accountants' Services on Prospective Financial Information," which was released by the AICPA in October 1985. These standards are likely to have a strong, if not controlling, influence on the type of language needed in a feasibility study for a couple of reasons.

One, the AICPA standards make a great deal of sense in view of the need of all interested parties for a greater level of assurance about the findings of feasibility studies. And, two, the standards were developed by professionals whose primary activity is providing public documents regarding the financial condition of proposed or existing enterprises.

It is, of course, quite possible to obtain a study similar to an examination report from a consulting actuary who is not associated with a CPA firm.

Other forms of reporting are possible that would adhere to high standards, but the client would be left on his own to assess the degree of quality.

The AICPA standards require that "all factors expected to materially affect the operations of the entity during the prospective period" be identified and that suitably supported assumptions be developed with respect to all such factors. In determining whether the assumptions have been suitably supported, it should be demonstrated that: sufficient pertinent sources of information about the assumptions were considered, the assumptions are consistent with the sources from which they are derived and are consistent with one another and, most importantly, that "the historical financial information and other data used in developing the assumptions are sufficiently reliable for that purpose."

Frequently, one of the most difficult problems to be overcome in the formation of a risk retention group is the collection of recent loss experience and exposure information that will be directly relevant to the proposed risks to be insured. Often, this information is not available from the prospective policyholders and reliance ends up being placed on countrywide and/or external loss data.

To bring a consultant to the point where he will be willing to sign off on the reasonableness of the key assumptions, it will probably be necessary to present the consultant with a clearly defined set of target policyholders, marketing plans and underwriting standards so that the consultant can determine if relevant external loss information is available.

Such information can frequently be obtained from a variety of sources, including specific state filings.

One of the more serious problems to be faced is that of assessing the impact of adverse selection. For any group of prospective policyholders, the better risks are more likely to find a different source of coverage.

As a result, the actual group of risks that will end up being a part of a risk retention group will most likely include fewer of the better risks than originally contemplated.

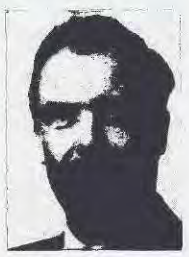
Because of the degree of assurance provided by an examination report, in a number of instances it may not be feasible to issue an examination report pursuant to the AICPA standards.

In the current environment where regulators in many states are concerned about the formation and operation of risk retention groups and many potential investors/policyholders and reinsurers are reluctant to make a commitment, a feasibility study that meets the standards of an examination report should prove to be a significant factor in the potential success of the group.

Would you like advice from an experienced colleague on a risk management, benefit management or actuarial problem? Four features in the Perspective section of Business Insurance can give you some answers.

Ask A Casualty Actuary, Ask A Benefit Actuary, Ask A Benefit Manager and Ask A Risk Manager answer written questions from readers on risk and benefit management issues and actuarial problems.

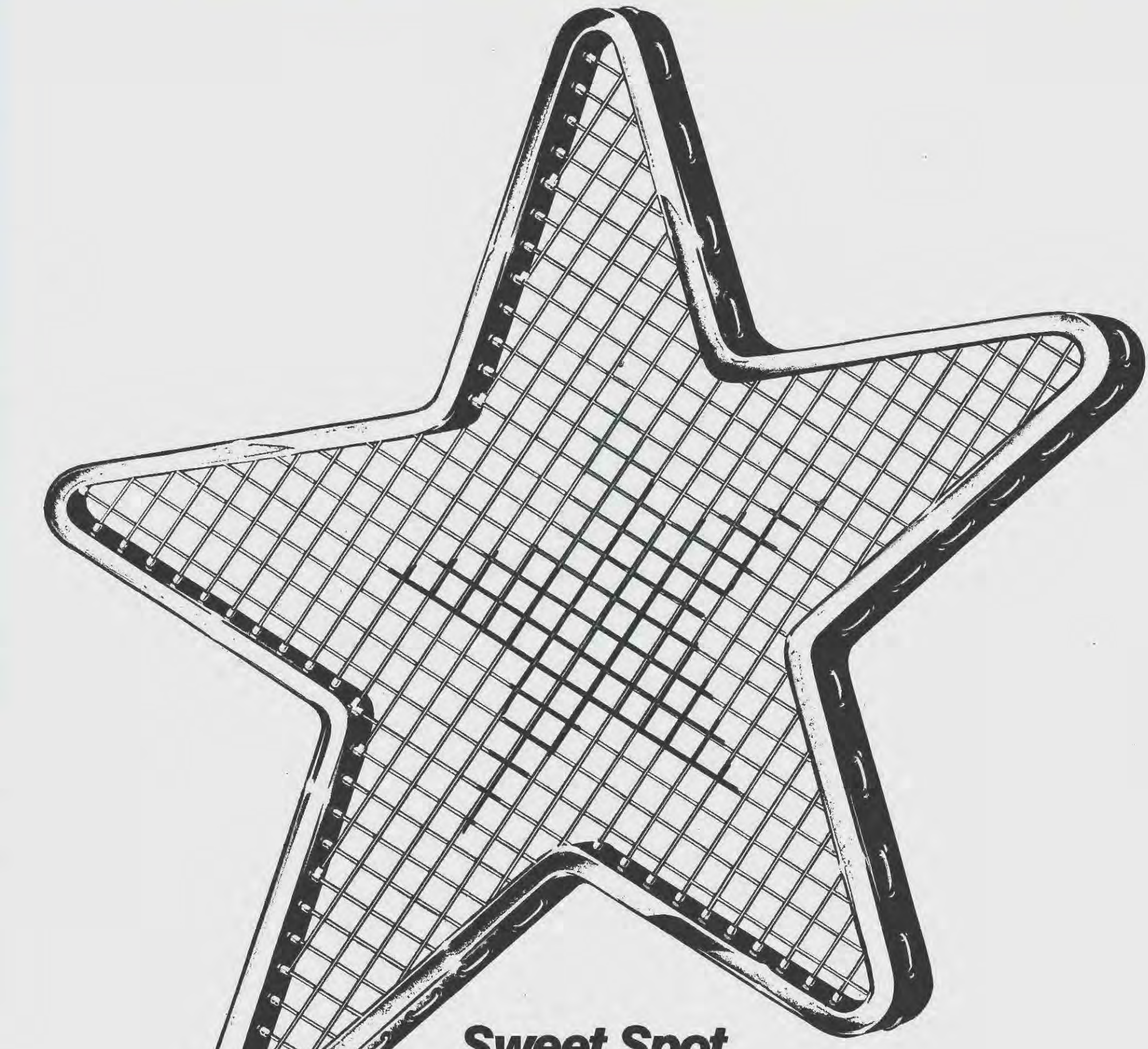
This month's column, on actuarial issues in the casualty field, is written by Richard E. Sherman, a principal with Coopers & Lybrand in San Francisco. William J. Miner, an actuary with The Wyatt Co. in Chicago, answers actuarial questions in the benefits field. Ralph F. Perry Jr., vp and director of risk management at Amfac Inc. in San Francisco answers risk management questions. And, Joseph W. Duva, director of employee benefits at Allied-Signal Inc. in Morristown, N.J., answers benefits management questions.



Mr. Sherman

Mr. Sherman's and Mr. Miner's columns appear alternately on the first Monday of each month. Mr. Duva's and Mr. Perry's columns appear alternately on the second Monday of each month. Mr. Sherman's next column will appear in July.

Address your questions to ASK, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611. Please give us your name, title and employer; however, Business Insurance will consider unsigned letters.



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MAY 10-13. Casualty Actuarial Society Spring Meeting in Orlando; $230 for CAS members; $5250 for non-members. Edith Morabito, Casualty Actuarial Society, 1 Penn Plaza, 250 W. 34th St., New York, N.Y. 10019; 212-560-1018.

MAY 11. Employee Benefit Plans seminar in Chicago, sponsored by the Illinois State Chamber of Commerce Center for Business Management; $90 for ISCC members; $135 for non-members. Carol Jensen, Illinois State Chamber of Commerce, 20 N. Wacker Drive, Chicago, Ill. 60606; 312-372-7373.

MAY 11. Insurance Tax Update: 1987 seminar in Atlanta, sponsored by Peat Marwick Mitchell & Co.; free. **Also May 13** in Dallas. Peat Marwick Executive Education, 201-307-7999.

MAY 11. Developing and Managing a Basic Safety and Health Program course in Long Grove, Ill., sponsored by the National Loss Control Service Corp.; $650. Tommy Thomas, National Loss Control Service Corp., 800-323-9585; 312-540-2027.

MAY 11-12. Health Care Cost Containment workshop in Houston, sponsored by the Health Research Institute; $495. **Also June 1-2** in Chicago; **June 22-23** in Philadelphia; **July 27-28** in Honolulu; **Aug. 17-18** in San Diego; **Sept. 14-15** in Cleveland; **Oct. 5-6** in Boston; **Oct. 26-27** in San Francisco; **Nov.9-10** in New York; and **Dec. 7-8** in Chicago. Health Research Institute, 1600 S. Main Plaza, Suite 170, Walnut Creek, Calif. 94596; 415-676-2320.

MAY 11-12. Strategies for Effective Cost Control conference in Washington, D.C., co-sponsored by the Washington Business Group on Health—Institute for Rehabilitation and Disability Management and Thomas L. Jacobs & Associates; $350 for WBGH members; $450 for non-members. Washington Business Group on Health, 229½ Pennsylvania Ave S.E., Washington, D.C. 20003; 202-547-6644.

MAY 12. Growth Strategies for Insurance Companies conference in Chicago, co-sponsored by Ernst & Whinney and Skadden, Arps, Slate, Meagher & Flom; free. Cathy White, Skadden, Arps, Slate, Meagher & Flom, 212-735-3000.

MAY 12. Questions on the New CGL and CP Policies? Ask the Claims Department! workshop in St. Louis, sponsored by the Society of Chartered Property & Casualty Underwriters; $80 for society members; $95 for non-members. Mari Jennings, Society of CPCU, Kahler Hall, 720 Providence Road, CB#9, Malvern, Pa. 19355; 215-251-2741.

MAY 12. Risk Retention Groups: New Challenges and Opportunities conference in Rolling Meadows, Ill., co-sponsored by the Suburban Chicago Chapter of the Society of Chartered Property & Casualty Underwriters and the Insurance School of Chicago; $100. Insurance School of Chicago, 330 S. Wells St., Suite 202, Chicago, Ill. 60606; 312-427-2520.

MAY 13. Health Improvement/Wellness workshop in Houston, sponsored by the Health Research Institute; $250. **Also June 3** in Chicago; **July 29** in Honolulu; **Aug. 19** in San Diego; **Oct. 7** in Boston; **Oct. 28** in San Francisco; **Nov. 11** in New York; and **Dec. 9** in Chicago. Health Research Institute, 1600 S. Main Plaza, Suite 170, Walnut Creek, Calif. 94596; 415-676-2320.

MAY 13. Moving Toward Managed Care: Controlling Your Claims and Benefits Costs seminar in Bloomington, Minn., sponsored by the International Rehabilitation Institute; $85; $95 after May 6. International Rehabilitation Institute, 5353 Wayzata Blvd., Suite 312, Minneapolis, Minn. 55416; 612-546-7944.

MAY 13. Women in Insurance seminar in Schaumburg, Ill., sponsored by the Insurance Women of Suburban Chicago; $35 for IWSC members; $45 for non-members. Insurance Women of Suburban Chicago, P.O. Box 936, Lake Zurich, Ill. 60047; 312398-7060, ext. 348.

MAY 13. Advanced "Post Graduate" Cost Management workshop in Houston, sponsored by the Health Research Institute; $250. **Also June 3** in Chicago; **June 24** in Philadelphia; **July 29** in Honolulu; **Aug. 19** in San Diego; **Sept. 16** in Cleveland; **Oct. 7** in Boston; **Oct. 28** in San Francisco; **Nov. 11** in New York; and **Dec. 9** in Chicago. Health Research Institute, 1600 S. Main Plaza, Suite 170, Walnut Creek, Calif. 94596; 415-676-2320.

MAY 13. Fundamentals of Insurance course in San Diego, sponsored by the Risk & Insurance Management Society; $540 for RIMS members, $640 for others. Fran Jordan, Risk & Insurance Management Society, 205 E. 42nd St., New York, N.Y. 10017; 212-286-9292.

MAY 13-14. How to Use the Risk Retention Act of 1986 symposium in Chicago, sponsored by the Society of Chartered Property & Casualty Underwriters; $20 for Society members; $250 for non-members. Julie Ann Juliana, The Society of CPCU, Kahler Hall, 720 Providence Road CB#9, Malvern, Pa. 19355; 215-251-2735.

MAY 13-14. How to Use the Risk Retention Act of 1986 symposium in Chicago, sponsored by the Risk Management Section of the Chartered Property & Casualty Underwriters; $200 for society members; $250 for non-members. Julie Ann Juliana, The Society of CPCU, Kahler Hall, 720 Providence Road, CB#9, Malvern, Pa. 19355; 215-251-2735.

MAY 13-15. Techniques of Loss Control course in New York, sponsored by the Risk & Insurance Management Society; $540 for RIMS members, $640 for others. **Also June 3-5** in Honolulu. Fran Jordan, Risk & Insurance Management Society Inc., 205 E. 42nd St., New York, N.Y. 10017; 212-286-9292.

MAY 13-15. The 1987 Health Law Update meeting in New Orleans, sponsored by the National Health Lawyers Assn.; $400 for NHLA members and applicants; $450 for non-members. National Health Lawyers Assn., 522 21st. St. N.W., Suite 120, Washington, D.C. 20006; 833-1100.

MAY 14. ISO Commercial General Liability Policy workshop in Philadelphia, sponsored by the Insurance Society of Philadelphia and Delaware Tech; $105 for members; $120 for non-members. Insurance Society of Philadelphia, 737 Public Ledger Building, Philadelphia, Pa. 19106; 215-627-5306.

MAY 14. Claim Abuse/Fraud Seminar in Chicago, sponsored by the Self-Insurance Institute of America Inc.; $95 for SIIA members; $125 for non-members. **Also June 11** in Los Angeles. SIIA, P.O. Box 15466, Santa Ana, Calif. 92705; 714-261-2553.

MAY 14. Health Care Cost Containment workshop in Indianapolis, sponsored by the Indiana Chamber of Commerce and Health Research Institute; $155 for Indiana Chamber members; $200 for non-members. Frank McAllister, Indiana Chamber of Commerce, 1 N. Capitol, Suite 200, Indianapolis, Ind. 46204; 317-264-6884.

MAY 14-15. Brief Course in Reinsurance in New York, sponsored by The College of Insurance; $165. The College of Insurance, 1 Insurance Plaza, 101 Murray St., New York, N.Y. 10007; 212-962-4111.

MAY 14-15. Health Management Conference: Case Management in San Diego, Calif., sponsored by the National Assn. of Employers on Health Care Alternatives; $395 for NAEHCA members; $300 for additional registrant from same NAEHCA organization; $495 for non-members; $400 for additional registrant from same non-member organization. National Assn. of Employers on Health Care Alternatives, 304 Executive Building, 104 Crandon Blvd., Key Biscayne, Fla. 33149.

MAY 14-16. The Business of Occupational Medicine: The Nuts and Bolts of Making it Work Today conference in Colorado Springs, Colo., sponsored by the Medical Group Management Assn.'s Occupational Medicine Assembly; $280 for MGMA members; $320 for MGMA affiliate; $400 for non-members. Medical Group Management Assn., 1355 S. Colorado Blvd., Suite 900, Denver, Colo. 80222-3331; 303-753-1111.

MAY 15. An Upfront Look at Head Injury Recovery and Resources seminar in Benton Harbor, Mich. sponsored by the International Rehabilitation Institute in Michigan; $30. International Rehabilitation Institute, 4341 S. Westnedge, Atrium Suite 1110; Kalamazoo, Mich. 49008; 616-381-3265.

MAY 17-20. Eighth Annual Public Risk & Insurance Management Assn. Conference in Seattle; $265 for PRIMA member governments; $330 for non-member governments (includes 1987 membership); $475 for PRIMA industrial affiliates; $525 for private-sector non-members. Public Risk & Insurance Management Assn., 1120 G St. N.W., Suite 400, Washington, D.C. 20005; 202-626-4650.

MAY 18-20. Product Safety and Liability Prevention: Successful Defense of the Products Liability Lawsuit course in Madison, Wis., sponsored by the University of Wisconsin-Madison College of Engineering; $650. Engineering Registration, The Wisconsin Center, 702 Langdon St., Madison, Wis. 53706; 800-262-6243; 800-363-3020 in Wisconsin.

MAY 19. National Insurance Women's Week Recognition Breakfast in Chicago, co-spon-

Continued from previous page

of Insurance Women; $20. IDEA Recognition Breakfast, Diane Barton, Insurance School of Chicago, 330 S. Wells, Chicago, Ill. 60606.

MAY 19. Emergency Planning and Community Right To Know of Superfund conference in Springfield, Ill., sponsored by the Illinois State Chamber of Commerce Center for Business Management; $90 for ISCC members; $135 for non-members. **Also May 26** in Chicago. ISCC Center for Business Management, 20 N. Wacker Drive, Chicago, Ill. 60606; 312-372-7373.

MAY 19. Risk Analysis Training Program in Arlington, Va., sponsored by International Security Technology Inc.; $750. Jack Linden, International Security Technology Inc., 11250 Roger Bacon Drive, Suite 11, Reston, Va. 22090; 703-471-0885.

MAY 19-20. Marine Insurance Issues 1987 seminar in New York, sponsored by the American Institute of Marine Underwriters; $150. Valerie Moffat, American Institute of Marine Underwriters, 14 Wall St., New York, N.Y. 10005; 212-233-0550.

MAY 20-21. Head Injury Rehabilitation: Joining Together to Meet the Challenge seminar in Southfield, Mich., co-sponsored by the Southfield Rehabilitation Hospital and the National Brain Trauma Institute; $150; $75 residents, interns, full-time students, family members, survivors. Lynn Chynoweth, Southfield Rehabilitation Hospital, 22401 Foster Winter Drive, Southfield, Mich. 48075; 313-423-1458.

MAY 20-22. Hull and P&I Insurance seminar in New York, sponsored by the World Trade Institute; $815; $730 for additional registrant from the same organization. World Trade Institute, 1 World Trade Center, 55W, New York, N.Y. 10048; 212-466-3158.

MAY 21. National Assn. of Insurance Women, New York City Annual Awards Luncheon; $65 for individuals; $600 for table of 10. Charlene Hamrah, American International Group Inc., 99 John St., New York, N.Y. 10038; 212-770-9431.

MAY 26-29. Reinsurance Contract Wording seminar in Tarrytown, N.Y., sponsored by Robert W. Strain Seminars Inc.; $1,295 (includes lodging and meals). Robert W. Strain Seminars Inc., P.O. Box 1000, Wingdale, N.Y. 12594; 914-832-9384 or 212-677-5974.

MAY 28-29. Employee Benefit Plans in Corporate Transactions After Tax Reform seminar in Los Angeles, sponsored by the American Bar Assn. Section of Corporation, Banking and Business Law, the ABA Section of Real Property, Probate and Trust Law, the ABA Section of Taxation and the ABA Division for Professional Education; $350 ABA sponsoring section members; $375 ABA members; $400 non-members. American Bar Assn., Division for Professional Education, Department N1457, 750 N. Lake Shore Drive, Chicago, Ill. 60611; 312-988-6200.

JUNE 1-2. New York State Public Sector Coalition on Health Benefits' First Annual Conference in Albany, N.Y.; $95 NYSPSC members; $150 non-members. New York State Public Sector Coalition on Health Benefits, P.O. Box 15, Albany, N.Y. 12260; 518-473-6217.

JUNE 1-2. Utilizing, Negotiating and Litigating Letters of Credit and Trust Agreements in the Insurance Industry conference in New York, sponsored by Executive Enterprises Inc.; $875; $775 for each additional registrant from the same organization. Executive Enterprises Inc., 22 W. 21st St., New York, N.Y. 10010-6904; 800-223-0787.

JUNE 1-2. Preparing and Analyzing Property and Casualty Statutory Financial Statements conference in New York, sponsored by Executive Enterprises Inc.; $875; $775 for each additional registrant from the same organization. Executive Enterprises Inc., 22 W. 21st St., New York, N.Y. 10010-6904; 800-223-0787; 800-831-8333 in New York.

JUNE 1-3. Employee Benefits: Concepts, Planning and Administration course in Atlanta, sponsored by the Risk & Insurance Management Society; $540 for RIMS members, $640 for others. Fran Jordan, Risk & Insurance Management Society, 205 E. 42nd St., New York, N.Y. 10017; 212-286-9292.

JUNE 3-4. Insurance Industry Mergers and Acquisitions: Financing, Negotiating, Valuing conference in New York, sponsored by Executive Enterprises Inc.; $875; $775 for each additional registrant from the same organization. Executive Enterprises Inc., 22 W. 21st St., New York, N.Y. 10010-6904; 800-223-0787; 800-831-8333 in New York.

JUNE 3-5. Techniques of Finance and Accounting course in Philadelphia, sponsored by the Risk & Insurance Management Society; $540 RIMS members, $640 others. Fran Jordan, Risk & Insurance Management Society, 205 E. 42nd St., New York, N.Y. 10017; 212-286-9292.

JUNE 4. Assessing Vendors (HMOs, PPOs, Utilization Review Firms, etc.) workshop in Chicago, sponsored by the Health Research Institute; $250. **Also June 25** in Philadelphia; **July 30** in Honolulu; **Aug. 20** in San Diego; **Sept. 17** in Cleveland; **Oct. 8** in Boston; **Oct. 29** in San Francisco; **Nov. 12** in New York; and **Dec. 10** in Chicago. Health Research Institute, 1600 S. Main Plaza, Suite 170, Walnut Creek, Calif. 94596; 415-676-2320.

JUNE 4. Cost Containment Through Communications and Education workshop in Chicago, sponsored by the Health Research Institute; $250. **Also June 25** in Philadelphia; **July 30** in Honolulu; **Aug. 20** in San Diego; **Sept. 17** in Cleveland; **Oct. 8** in Boston; **Oct. 29** in San Francisco; **Nov. 12** in New York; and **Dec. 10** in Chicago. Health Research Institute, 1600 S. Main Plaza, Suite 170, Walnut Creek, Calif. 94596; 415-676-2320

JUNE 4-5. Labor/Management Cost Containment workshop in Chicago, sponsored by the Health Research Institute; $495. **Also June 25-26** in Philadelphia; **July 30-31** in Honolulu; **Aug. 20-21** in San Diego; **Sept. 17-18** in Cleveland; **Oct. 8-9** in Boston; **Nov. 12-13** in New York; and **Dec. 10-11** in Chicago. Health Research Institute, 1600 S. Main Plaza, Suite 170, Walnut Creek, Calif. 94596; 415-676-2320.

JUNE 4-5. The 100th Congress: Mandated Health Care Coverage and Employee Benefit Reforms meeting in New York, sponsored by the National Employee Benefits Institute; free to NEBI members; $395 non-members. NEBI, 2550 M St. N.W., Suite 785, Washington, D.C. 20037; 800-558-7258.

JUNE 4-5. 1987 Workers Compensation Academy—Medicine and Law for the Defense course in Boston, sponsored by Defense Research Institute Inc.; $370 for DRI members; $395 for non-members. Defense Research Institute Inc., 750 N. Lake Shore Drive, Suite 500, Chicago, Ill. 60611; 312-944-0575.

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London insolvency seminar

Insurers' financial woes place brokers in sensitive situation

By CAROLYN ALDRED

LONDON—Insurance brokers often are put in a very sensitive position when an insurance company runs into financial difficulties, particularly in the London market where brokers often "fund" the payment of claims, according to two London brokers.

The broker's position in an insurer insolvency was outlined by Stephen Melcher, a director of Lloyd's of London broker C.T. Bowring & Co. (Insurance) Ltd., and Keith Salway, finance director of C.T. Bowring Reinsurance Ltd., at the April 23-24 Insurance and Reinsurance Insolvency seminar organized by Longman Group U.K. Ltd.

"London brokers. . . may often pay claims to their clients before they actually collect from some of the insurers—i.e., they fund," explained Mr. Melcher. "Most of us are probably also aware of the risk that if a broker does fund a claim without informing his client, then the broker may not have a right to recover this funded money from his client if it eventually becomes uncollectible from the insurer."

More importantly, non-disclosure of such funding can arguably amount to a breach by the broker of his duty to keep his client informed about his market, Mr. Melcher added.

However, the logistical and administrative problems of notifying a client whenever a claim is funded by a broker are "overwhelming," he said.

Also, "when the broker is collecting claims from the insurer by offsetting against premiums owed, funding becomes even more difficult to identify," he added.

"It is specifically this market practice (of funding) which breeds the broker's problems during the twilight period prior to a liquidation of the insurer," Mr. Melcher said.

To cope with the funding problem, many brokers fund claims under guidelines that take into account the financial soundness of the insurer, the size of the claim and the relationship with the client.

In addition, the credit control and accounting function of a brokerages often concentrates on trying to determine when funding for particular insurers should cease, Mr. Melcher noted.

"However, this determination involves more than merely checking the insurer's position against preset financial guidelines, since the broker's activities could affect the actual chances of an insured's recovery," he said.

"By funding, London brokers, particularly those of significant influence in the London and international market, tend to act as the grease—some may argue the grit—to the cash flows in the insurance market."

As a result of their commercial position, London brokers face two difficult dilemmas in their day-to-day trading, Mr. Melcher noted. These are: When does a broker stop funding claims on behalf of an insurance company? and When does a broker stop placing risks with the insurance company?

If a broker does stop funding for an insurance company, "inevitably the name of the slow-paying insurer will be divulged" to the policyholder.

"This information will have an additional negative impact upon that company's reputation in the market and consequently on its ability to attract new premiums. . . necessary to pay ongoing claims," said Mr. Melcher.

During the twilight period before liquidation, "after the financial condition of the insurer has deteriorated significantly, but before it is clear that liquidation is inevitable," the broker can have great influence over the fate of the insurer, he said.

During this period, the conscientious broker must struggle with four important questions:

- What are the chances that the underwriter will go under?
- Which clients will be affected?
- What are the potential costs to the brokerage?

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minimize the damage to clients and the brokerage?

"To answer these questions, a broker must typically wade through a maze of misinformation and disinformation and be alert to discrete signals regarding the insurer's changing financial status," he said.

The London market practice of net settlements—offsetting claims due to one client against premiums paid by another—between a broker and insurance company often camouflages the ability of that insurer to pay its claims, he noted.

"When the cash flow to an insurance company is negative, there are all sorts of tactics which may be employed by the insurance company to preserve their cash. . . .The clever broker, however, should be able to evaluate whether such excuses for non-payment are legitimate or represent a more serious underlying problem," he added.

Other problems faced by the broker include:

- Finding and notifying each client that uses the troubled insurance company. "Just imagine how difficult it would be to notify all assureds that a company, which wrote long-term product liability risks, is no longer paying its claims promptly," he said. "Such problems did occur as a result of the asbestosis catastrophe. Brokers had to review their files going back over 40 years on a risk-by-risk basis, which could easily number in the tens of thousands, to see whether a particular company had a line on each risk."
- If a slow-paying reinsurance company has written balance-of-account type business, such as proportional treaty contracts, should the broker bill his client for the full premium knowing that the reinsurer will not pay its proportion of any credit balances or claims?
- When the insurer's financial position becomes grave, does the broker cease to use that insurance company for new or renewal business?

"Although you may think the obvious answer is yes, in times when capacity is tight, brokers are under tremendous commercial pressure to use all available markets to fill orders," Mr. Melcher noted.

Also, by ceasing to use a company, the larger broker can greatly hasten its demise.

This "clearly would be contrary to the best interests of (the broker's) existing clients whose business has already been placed with that company," he added.

In addition, by ceasing to use a company, the broker could increase its own financial exposure from that of a funded position to one of a potential bad debt.

"By not using the insurer, the broker has no premium flow to use as an offset against claims due from the slow-paying company," said Mr. Melcher.

However, by continuing to use the troubled insurance company in an effort to support its cash flow, the broker could "be merely postponing the inevitable liquidation of the company and could run the risk of being deemed in retrospect to have placed those new risks with inadequate security," he added.

"I believe. . . that a broker cannot guarantee to his client that the companies used as his insurers will remain solvent, but the broker has a duty to his client to use his best efforts to avoid using financially unsound companies," he said.

However, it is the differing views on the care actually exercised by brokers in performing this duty "which might give rise to an errors and omissions suit," he added.

Mr. Salway agreed that the broker's position is a sensitive one.

"It's a very difficult time for brokers who are having to set aside larger sums for bad debts and errors and omissions insurance cover," he said.

Brokers must be alert to signals regarding insurers' changing financial status, says Mr. Melcher.

In particular, the reinsurance broker's position presents a dual exposure, he noted.

"Between a third and a half of my time in the past few years has been spent dealing with insolvent companies," he noted.

The whole industry is learning from experience how to handle reinsurance company liquidations, he said.

"However, I do not believe we are getting to grips with the burden of work that is going to grow over the next few years," he warned. ■

Rules don't address reinsurer worries: Expert

By CAROLYN ALDRED

LONDON—Reinsurer insolvency is a growing problem worldwide, yet there are few jurisdictions with legislation that applies specifically to reinsurance companies, according to a Bermuda-based reinsurance liquidator.

"Until the 1980s the incidence of reinsurance insolvencies was very, very small—now that has all changed," said Peter Mitchell of the Bermuda accounting firm of Cork Gully, a subsidiary of Coopers & Lybrand, during a recent seminar on Insurance and Reinsurance Insolvency organized by Longman Group U.K. Ltd.

"Yet legislation in the U.K., for example, doesn't address the particular problems of a reinsurance company," Mr. Mitchell said.

The current spate of reinsurance insolvencies, he noted, has occurred for several reasons:

- A spectacular growth in the reinsurance industry.

"We have gone from the existence of one or two professional companies to over 10,000 reinsurance companies located in all continents," he said.

For example, new companies have been set up by Third World governments that regard reinsurance as a good method of attracting hard currency, Mr. Mitchell noted.

"Also, many (property/casualty) insurers have seen (reinsurance) as a way of increasing their capital base," he added.

- The hard insurance market of the 1970s resulted in the formation of many captive reinsurers, and several of these discovered the "profit of rubbish insurance business," Mr. Mitchell noted.
- Many small reinsurance companies suffered from bad management and fraud, he added.

"There are now some 130 reinsurance companies currently in liquidation in the U.S. alone."

Once a company is in liquidation, the liquidator's first task is to make a list of creditors, said Mr. Mitchell. "The list of creditors provides the primary basis on which a liquidator may work."

However, lack of documentation and other factors often make that job very difficult.

"The information available to establish a creditors list is often very sketchy. Usually the liquidator is given the name of the lead insurer only, and companies may also have given away the pen," he noted.

Creditors can make the liquidator's life easier by providing him with detailed information at the creditors meeting, including:

- The amount of losses incurred, including those already paid at the date of liquidation and those unpaid.
- The contract numbers of each policy.
- Estimation of contingent claims.
- Estimation of how long it will take to run off the business.

"The liquidator will be grateful for any information he is given," Mr. Mitchell said.

Creditors can tell how well the liquidation is progressing when the liquidator asks for proof of debts, Mr. Mitchell advised.

"The advertisement by the liquidator for proof of debts should be a guide to the speed of the liquidation. If you see early calls for proof, that's a good sign that progress is being made," he noted.

However, 10 to 15 years is the standard length of time for a reinsurance company liquidation.

"Today's proliferation of claims for product liability and environmental pollution means interim dividends can be a long way off," Mr. Mitchell warned.

One way to accelerate the progress is for the liquidator to negotiate commutations, or cut-offs, with creditors. A cut-off is a termination provision of a reinsurance treaty stipulating that the reinsurer shall not be liable for loss as a result of occurrences after the termination date.

"These can be achieved on a voluntary basis, and the more that can be affected, the greater administration costs can be reduced," he said.

However, an alternative method of achieving commutations is currently being applied by the liquidators of Cambridge Reinsurance Ltd. in Bermuda, David E.W. Lines of Coopers & Lybrand Bermuda and Gerry A. Weiss of Cork Gully (*BI*, March 16).

"The liquidators can seek protection of a court to seek cut-offs using a formula which has been agreed by the court. Such a proposition, bold as it may seem, is the only logical approach to an impossible solution," said Mr. Mitchell.

"Liquidators of reinsurance companies will increasingly seek to take advantage of the courts to put a value on contingent claims," he predicted.

The British Insolvency Act of 1986 makes offsets mandatory if both the credit and debt occurred before insolvency. In addition, a ruling in the High Court of London in June 1986, in a case involving Charge Card Services Ltd., determined that offsets in an insolvency should be extended to embrace claims that are contingent at the date of liquidation, noted Mr. Mitchell.

This ruling could help speed the progress of reinsurance liquidations, but it is "important for brokers to be cooperative in such a situation," Mr. Mitchell said.

Brokers have great power in the marketplace both before and during liquidation, he added.

"Brokers are usually the first to see the writing on the wall when a company's solvency margins tighten and claims become paid more slowly," he said.

In the London market, brokers commonly "fund" the claims themselves, so that the ceding company may be unaware that the reinsurance company is having problems, Mr. Mitchell explained.

"In this way, brokers can help prolong the life of a company and even help it ride through the lean times. However, brokers, if bonded together as a group, can also destroy companies. Word of mouth is very harmful in this business," he added.

Liquidators also face a dilemma when dealing with pools that have ceded business to the insolvent reinsurance company, Mr. Mitchell said.

"Pools usually consist of foreign and undersized companies which have banded together to underwrite. These companies often give the pen away to an underwriting agent," he said.

"Although the liquidator has to be equitable to all creditors, does it make better sense to deal with all the pool members on an individual basis, or to deal with one company as a representative of all of them?" he asked. ■

Liquidation not sole answer for troubled underwriters

By CAROLYN ALDRED

Several alternatives to liquidation are available to troubled insurers, says Mr. Schrauwers.

LONDON—Liquidation is not always the answer for financially troubled insurance companies, one expert says.

In British jurisdictions, for example, several alternatives are available, such as a moratorium, a scheme of arrangement or a voluntary arrangement, Cees A.M. Schrauwers, a director of Coopers & Lybrand Insurance Services Ltd., told delegates at the recent Insurance and Reinsurance Insolvency seminar organized by Longman Group U.K. Ltd.

About 90% of all insurer liquidations are caused by management failure, according to statistics compiled by the British Department of Trade and Industry.

According to Mr. Schrauwers, bad management can result in poor underwriting of risks; inadequate controls within the company; poor security; and undercapitalization of the company.

An insurance company also can become insolvent as a result of inadequate internal systems, such as poor processing and bad record keeping systems, he said.

External factors, such as a major catastrophe, market overcapacity, loss of reinsurance and fraud also can trigger insolvency, he added.

When a company's expenditures exceed its income, the company will suffer a depletion of reserves, which affects cash flow and inevitably results in a loss of the company's goodwill, Mr. Schrauwers explained.

"Loss of goodwill results in debtors delaying payments, resulting in a further reduction in income. And, when the winding-up of the company is eventually announced, there is the additional problem of key staff leaving," he added.

However, even if a company is suffering from a cash shortage, the lack of qualified staff, poor records and unprocessed transactions, liquidation may not be the answer, Mr. Schrauwers said.

"A liquidation restricts the action of management, costs money, takes a lot of time and is bad P.R. for parent companies," he noted.

One alternative to liquidation is a moratorium.

"This is equivalent to Chapter 11 proceedings in the U.S. and is quick, flexible and relatively cheap," Mr. Schrauwers explained.

However, a moratorium has no legal standing in British jurisdictions and could leave the company vulnerable to predators, he added.

Another vehicle for the potential rehabilitation of an insurance company is a scheme of arrangement, which is generally used to discontinue business.

"This arrangement means the company is protected from precipitate action by creditors and provides for an orderly realization of assets," he said.

However, under British law, the scheme manager does not have to be an authorized insolvency practitioner, which leaves "lots of room for cowboys," Mr. Schrauwers warned.

Also, the specific objectives of the scheme have to be formally presented in a constitution that must be approved by 75% (in value) and 50% (in number) of all classes of creditors, he added.

"This makes a scheme of arrangement expensive, time-consuming and inflexible because of the limitations put on the manager by the creditors," he said.

Generally, scheme of arrangements are time-consuming to install and not very productive. "The track record of schemes of arrangements is not very good," Mr. Schrauwers noted.

However, British-based insurance companies now have a "more modern and efficient alternative to a scheme of arrangement," known as a voluntary arrangement, he said.

A voluntary arrangement, incor-

Continued on next page

Alternatives

Continued from previous page

porated in the British Insolvency Act of 1986, is binding on creditors and allows for an orderly distribution of assets. It also does not require a highly detailed constitution.

In addition, a voluntary arrangement has to be approved only by 75% of the creditors who attend the creditors' meeting, allowing the manager to act quickly and giving him more flexibility, Mr. Schrauwers said.

Also, a voluntary arrangement must be coordinated by a supervisor who is an authorized insolvency practitioner.

Other alternatives include:

- Runoffs. "There are now specialist runoff agencies who will handle the runoff of an insurance company, making it a relatively cheap and easy option," Mr. Schrauwers noted. A runoff also helps maintain the reputation of the company's parent, if it has one, he added.

A runoff also helps maintain the reputation of the company's parent, Mr. Schrauwers says.

However, runoffs take a long time, provoking a loss of confidence in the company and leading to debtor resistance and cash-flow problems, he noted.

- Portfolio sale, under which creditors must be satisfied in full to get 100% tax loss benefits. In addition, approval by the British Department of Trade and Industry may be necessary, he added.
- Recapitalization of the company, which can be achieved by a cash injection from shareholders or creditors. ■

Monitoring insurer solvency advised to avoid problems

By CAROLYN ALDRED

LONDON—The problem caused by the collapse of insurers and reinsurers can be avoided by accurately assessing the solvency of a reinsurer, an accountant says.

"The process of selecting insurers willing and able to meet their commitments—and of monitoring insolvency—demands a number of skills," John Holloway, a partner with Coopers & Lybrand in London, told participants at the recent Insurance and Reinsurance Insolvency seminar sponsored by Longman Group U.K. Ltd.

According to Mr. Holloway, these skills include:

- A general awareness of the characteristics of insurance.
- The ability to categorize insurers into categories by potential for failure.
- Knowledge of current world affairs and politics.
- An understanding of domestic, foreign and international insurance and reinsurance practices.
- An awareness of legal implications of different contract forms, foreign jurisdictions and of transacting business through insurance brokers and other intermediaries.
- The ability to interpret financial information published by insurers.

Also, in the case of direct insurance companies, it is important to:

- Evaluate the reinsurance underwriter's ownership, domicile, management, reputation, retrocessions to other reinsurers and continuing financial stability.
- Devise and place a reinsurance program on the basis of an approved list of insurers.
- Obtain reasonable assurance as to the accuracy, completeness and validity of the information reported.

It also is important for ceding companies to note that in some parts of the world, reinsurance companies are not subject to statutory supervision by regulatory authorities, Mr. Holloway added.

"For example, in parts of Europe. . .ceding companies will have a special need to satisfy themselves as to the management and creditworthiness of reinsurers," he said.

It also is important to remember that the solvency of insurance companies can be jeopardized by defects in its reinsurance program, he said.

Lloyd's of London reminded Lloyd's brokers last year that a failure by a client to collect on a valid claim from an insurer or reinsurer can arise from several causes, including:

- Absence of coverage.
- Technical defects in coverage.
- Defective security.
- Fraud and dishonesty.
- Improper binding authorities.

"The insurance broker or other intermediary placing insurance cover has a pivotal role to play in identifying unsatisfactory insurers," said Mr. Holloway.

Concern has grown in recent years about the increase in size and frequency of errors and omissions insurance claims made against Lloyd's brokers and the consequent increase in E&O premiums and coverage restrictions.

Hence, there is "the need for better management controls so as to minimize errors and omissions likely to give rise to a claim against brokers," he added.

Mr. Holloway pointed out that the analysis of an insurance company's security is made difficult because of the different ways financial data is presented worldwide.

For example, "in the U.K., there are, as yet, no codified and generally accepted accounting principles for insurance companies."

However, the first step to correct this situation has been taken by the Assn. of British Insurers, which published a statement of recommended practice on accounting for insurance business in December 1986, he added.

"Elsewhere, the standard of reporting also differs widely so that, for many jurisdictions, the task of evaluating the financial position of an overseas insurance company is very difficult," he said.

Although insurance companies in Britain and elsewhere must file detailed financial accounts with regulatory authorities, detailed financial data is not always available to the public.

For example, British insurance companies, when preparing audited accounts for shareholders, do not need to:

- Quantify changes in reserves.
- Disclose the market value of investments.
- Disclose certain information and analysis relating to assets, liabilities, income and expenditures.

"With a lack of comparability in our own back yard, it is not surprising that there is a lack of disclosure and consistency in available, often out-of-date, financial information worldwide, which bedevils any assessment of security," Mr. Holloway concluded. ■

comings & goings: industry

Empire BC/BS names Cardone chairman, CEO

Albert A. Cardone has been appointed chairman and chief executive officer of Empire Blue Cross & Blue Shield in New York.

Mr. Cardone joined Empire BC/BS in 1985 after spending most of his professional career with the accounting firm of Deloitte Haskins & Sells, where he was a partner and national industry director of health care services.

Mr. Cardone succeeds **Edwin R. Werner**, who is retiring after spending 48 years with BC/BS in New York.

Empire BC/BS was formed in May 1985 after BC/BS of Greater New York and Blue Cross of Northeastern New York merged. The company has more than 10.5 million policyholders.

In other insurer changes:

Bill D. Wymore elected executive vp-insurance services of Wausau Insurance Cos. in Wausau, Wis. Mr. Wymore will provide direction and coordination of the Gates, McDonald & Co. and Beaver Pacific Corp. units. Gates, McDonald provides services to employers that self-insure workers compensation exposures, while Beaver Pacific writes workers compensation insurance in California.

Stanley Freese joined Compass Insurance Co. of Dallas as executive vp-claims. Previously, Mr. Freese was senior vp-claims at Gulf Insurance Co. in Irving, Texas.

David C. Bramer named vp-group benefits at Nobel Insurance Group in Canonsburg, Pa.

At Chubb & Son Inc.: **Roger D. Trachsel**, **Alan R. Riley**, and **Regis Henckler Jr.** elected vps in Tulsa, Okla., Phoenix, Ariz., and Milwaukee, respectively.

Ronald G. Thornton appointed vp and assistant regional manager at Marine Office of America Corp. in New York. Previously, Mr. Thornton was vp-ocean cargo underwriting.

Agents/brokers

At Rollins Burdick Hunter of Kansas Inc., **Alvin C. Burton** named chairman and chief executive officer, and **James P. Bayne** named president and chief operating officer. Previously, Mr. Bayne was president and CEO of RBH of Oklahoma.

Thomas L. Mays named executive vp-insurance division at The Pomerleau Agency in Burlington, Vt. Mr. Mays will oversee finance, operations and administration. Previously, Mr. Mays was a director with MCI Telecommunications Corp. in Washington, D.C.

At Corroon & Black Corp. in New York: **Robert Kalbell, Craig Sutherland, Diane Askwyth, Marygrace Cicchelli** and **Brad Hart** promoted to vps from assistant vps. Mr. Kalbell handles large accounts in the property/casualty division. Mr. Sutherland manages all lines in the aviation/aerospace division. Ms. Askwyth is vp-professional development. Ms. Cicchelli works in employee benefit consulting. Mr. Hart works in the technical service/engineering unit.

At C&B in New Jersey: **Mark Hemschoot** and **Shelley Hoot** were promoted to vps from assistant vps in the brokerage services division.

At Corroon & Black/Fairfield & Ellis Inc. in Boston: **Robert P. Fitzgerald, Carol Ottaviani, Renwick M. Severance** and **Gary T. Stitham** were promoted to senior vps from vps.

Eric P. Hein has moved from the Nashville office of Corroon & Black, where he worked in the research and development unit, to C&B of Illinois, where he was named vp and senior consultant.

Also at C&B of Illinois, **Richard DeCoster** joined the risk management services division as a vp and property insurance specialist.

Other suppliers

Brad Hepp elected a principal at the Minneapolis risk management consulting firm of Brandow, Howard, Kohler & Rosenbloom Inc. ■

Robin Jackson to retire at end of 1988

By CAROLYN ALDRED and STACY SHAPIRO

london

LONDON—Robin A.G. Jackson will retire as underwriter for one of Lloyd's of London's largest non-marine syndicates at the end of 1988.

Mr. Jackson

Mr. Jackson, who last year was chairman of Lloyd's Non-Marine Underwriters' Assn., will continue to be a director of Merrett Holdings P.L.C., whose subsidiary manages Mr. Jackson's syndicate, until his 55th birthday in September 1989.

"I've always said that I would retire earlier than later," Mr. Jackson told *Business Insurance*.

"I think 12 years is pretty much the length of time to run a Lloyd's syndicate, and I've reached that," he added.

"Besides, there are other things to do in life than insurance. . . .It's silly to do those things when you are 65 and too old to enjoy them."

Mr. Jackson was managing director of Unionamerica Insurance Co. Ltd. for five years and an underwriter for General Reinsurance Co. in the United States for 11 years before replacing Leslie Dew as Merrett's non-marine underwriter in 1977.

Mr. Jackson's syndicate is known as 799, although it now also includes syndicates 772, 774 and 943, syndicates previously underwritten by Mr. Dew.

Last year, syndicate 799's stamp capacity totaled 154.3 million pounds ($227.6 million at year-end 1986 exchange rates).

About 84% of the syndicate 799's business is derived from North American risks (*BI*, Sept. 1, 1986).

When Mr. Jackson retires, the syndicate will be divided into three new syndicates, which will be headed by Mr. Jackson's current deputy underwriters:

- Ken Barrett, who writes property treaty reinsurance and medical malpractice coverages.
- Richard Lawrence, who writes directors and officers liability insurance.
- Stephen Burnhope, who oversees financial institution coverage.

Syndicate 799 will cease to exist.

Mr. Jackson has been a leader in many North American casualty and Lloyd's market issues since he began working at Lloyd's. He has said that people always want to know Lloyd's opinion, so he gives it to them.

While he points out that he will be around the insurance industry for another 3½ years, Mr. Jackson says he has no qualms about retiring. "I think it's great," he says.

Stewart Wrightson

Lloyd's of London broker Stewart Wrightson Holdings P.L.C. plans to expand its employee benefits business by merging its benefit consulting subsidiary with consultant Martin Paterson Associates.

The merger is expected to be completed by the end of the month and the new company, which will be a subsidiary of Stewart Wrightson, will be called Paterson Wrightson, said George Boden, deputy chairman of Stewart Wrightson Ltd. and a director of the holding company.

"Benefit consultancy is a very fast-growing business in the U.K. at the moment," according to Mr. Boden.

"As legislation changes and pensions become more complex, companies need more and more advice," he added.

Also, the business is based on a fee basis rather than commissions, so is not susceptible to the cycles of the insurance market, according to Mr. Boden.

Martin Paterson and Stewart Wrightson Benefit Consultancy Ltd. are similar in size.

Both expect to have 1987 fee income of approximately 3 million pounds ($5 million), said Mr. Boden.

Tax controversy

Members of Lloyd's of London are hoping Prime Minister Margaret Thatcher will call a national election in June forcing the government to drop a clause in the Finance Bill that could "seriously damage the future of Lloyd's."

The Finance Bill, which is due to go before a Parliamentary committee Tuesday, includes a proposal to treat for tax purposes funds the Lloyd's syndicates set aside to cover future claims similarly to insurance companies' loss reserves.

This means the funds, known as reinsurance-to-close premiums, would be subject to review by the Inland Revenue and would only be tax-deductible if they are based on adequate evidence or data.

As a result, Lloyd's members could face higher tax bills, which Lloyd's fears could lead to a reduction in membership and a decrease in market capacity.

Indeed, the new tax requirement could force Lloyd's to stop underwriting long-tail liability risks altogether, according to the Lloyd's Underwriting Agents' Assn. (*BI*, April 13).

However, if Mrs. Thatcher calls a June election, as is widely believed, the government may be forced to abandon the tax proposal in order to get the rest of the bill through Parliament quickly, sources say.

Meanwhile, senior members of Lloyd's now are discussing with the British Inland Revenue and the Treasury Department proposed changes in the tax treatment of reinsurance-to-close premiums.

The talks are "well under way on a constructive basis," Treasury Secretary John MacGregor told members of the House of Commons last month.

In addition, Lloyd's underwriters and underwriting agents are actively lobbying members of Parliament to make them aware of the possible consequences of the proposal, sources say.

"The way forward is for us to address Treasury ministers and the Inland Revenue to explain that Lloyd's works differently from an insurance company. However, communication is the problem to the answer," said Michael Wade, managing director of Holman Wade Ltd., a specialist insurance brokerage subsidiary of Lloyd's broker Horace Holman & Co. Ltd.

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Holman Wade specializes in arranging insurance for 27,000 of Lloyd's 32,000 members, including stop-loss cover.

People must question whether Lloyd's could continue writing business if the funds became subject to tax, he added.

"Seventy-five percent of Lloyd's business is from overseas, and a major proportion of that is overseas liability. Lloyd's cannot trade properly unless it can adequately cover outstanding liabilities," said Mr. Wade.

John Reed, a partner in the accounting firm of Arthur Young & Co. in London, agreed that the proposal would have an immediate impact on the market.

"Members will vote with their feet and resign their membership," he said.

A spokesman for the Treasury Department, however, denied that Lloyd's members would resign as a consequence of the tax law changes.

"The membership of Lloyd's has been expanding rapidly in the last few years and this has occurred despite of heavy underwriting losses," he noted.

Channel collision

Sealink U.K. Ltd. has set up an internal inquiry to discover who was responsible for the collision of two vessels in the English Channel that killed three French fisherman late last month.

A 65-foot French trawler sank after colliding with a Sealink cargo ferry in the outer harbour of the French port of Boulogne.

Three men aboard the trawler drowned, but five of the remaining crew were rescued from the sea, according to a spokesman for Sealink.

The cargo ferry, which was undergoing a routine maneuver when the trawler hit it, was not damaged and none of its crew or 47 passengers was harmed, the spokesman added.

Sealink, a ferry company, has unlimited liability coverage for all its cargo ferries with The Britannia Steam Ship Insurance Assn. Ltd., said a spokesman from the protection and indemnity club.

However, no claim will be filed unless Sealink is found to be liable, according to a spokesman for Sealink.

Meanwhile, the maximum compensation for sea passengers under British law is to be increased to about 80,000 pounds ($132,000), effective June 1, and will be kept under review, the British Shipping Minister Michael Spicer announced in the House of Commons late last month.

The increase, from a current limit of about 38,000 pounds ($62,700), follows the Zeebrugge ferry disaster, in which 182 people are so far known to be dead, when a Townsend Thoresen ferry capsized off the Belgian coast in March.

Last week, an official British public hearing commenced to discover what caused the ferry disaster.

Newspaper reports say the hearing opened with trial lawyer David Steel, representing the secretary for state for transport, accusing Townsend Thoresen of sloppy practices on the part of the crew and owners.

Comings and goings

Robin Romer-Lee, chairman of Sedgwick Associated Risks Ltd., and **Richard Titley**, chairman of Sedgwick International Ltd., have been appointed directors of Lloyd's of London broker Sedgwick Ltd. Both men will retain their present positions.

Charles Jacob has been appointed a director of London United Investments P.L.C, the parent company of H.S. Weavers (Underwriting) Agency Ltd.

Lloyd's of London broker Alexander Howden Ltd. has combined the aviation and aerospace division of Alexander Stenhouse Ltd. and the aviation division of Alexander Howden Ltd. and has appointed **Tony Ashby** chairman of the combined division. This move follows the departure of Howden aviation Chairman **Michael Hughes**, who recently joined the aviation division of C.E. Heath P.L.C.

Bell Insurance & Management Services Ltd. has appointed **Michael Davie** a director. Mr. Davie moves from Hogg Robinson Overseas Ltd., where was an executive director.

Leslie Doherty has been appointed managing director of Bowring Tyson (I.O.M.) Ltd. on the Isle of Man.

Ken Croly has been appointed manager of the fire department for Gerling-Konzern General Insurance Co. in London. ■

RBH acquires Jardine's TPA affiliate

Rollins Burdick Hunter Co. is expanding its third-party claims administration business by purchasing the assets of San Francisco-based Jardine Emett & Chandler Inc.'s claims administration operations.

Chicago-based RBH purchased the assets of Jardine Claims Management Inc. and its subsidiaries: Laverack & Haines and R.L. Kautz & Co.

The terms of the sale were not disclosed, and Jardine officials had no comment on the sale.

RBH will incorporate the Jardine operations into its TPA unit, Self-Insurers Services Inc. of Chicago, according to Ralph M. Wilson, president and chief executive officer of SIS.

Mr. Wilson said that RBH was looking to expand SIS into a nationwide claims administrator and that the Jardine's TPA operations were a perfect fit.

"SIS had an excellent presence in the Midwest and wanted to strengthen its position and market share on the East Coast and West Coast " Mr. Wilson explained. He noted that the Jardine operations were particularly strong in both California and on the East Coast.

Jardine Claims Management served 588 self-insured clients in 1986 and paid $9.5 million in claims on behalf of self-insurers. Sixty-five percent of the claims administered by the company were workers compensation claims; 24% were health insurance claims; 6% were general liability claims; 4% were automobile claims; and 1% were property damage claims.

SIS reported 120 self-insured clients last year and paid $57.8 million in claims for self insurers. Seventy-eight percent of the claims administered by SIS were workers compensation claims; 15% were general liability claims; 3% were professional liability claims; 2% automobile liability claims; 1% bonds; and 1% miscellaneous.

As a result of the acquisition, SIS will add seven offices—for a total of 17 offices—and will pick up a number of prestigious Fortune 500 clients that had beer. serviced by Jardine Claims Management, as well as a large book of public entity business, including the city of Los Angeles, according to Mr. Wilson.

Mr. Wilson said there is very little overlap between the two operations. Consequently, most of the Jardine employees will be retained by SIS.

With the acquisition of Jardine's TPA operations, SIS now can provide a complete line of products and services for self-insured organizations, according to Mr. Wilson. These products and services include loss control, claims service, and electronic data processing equipment and services.

SIS is a wholly owned subsidiary of RBH, which is a unit of Chicago-based Aon Corp., formerly Combined International Corp.

SIS is located at 55 E. Monroe, Suite 1630, Chicago, Ill. 60603; 312-782-8320.

markets

New York brokerage

MLW Services Inc. has been formed in New York to broker large commercial industrial accounts nationwide.

"We offer the boutique approach: highly specialized and personalized," said Andrew Marks, president and chief executive officer.

The company already has $50 million in premium volume. And, according to Mr. Marks, annual commission revenue will be $3 million. There are 25 employees on the staff.

And the top four executives previously held senior management positions with large brokerages: Mr. Marks previously was chief executive officer of Reed Stenhouse Inc. of New York in New York and senior vp-business development with Reed Stenhouse Inc.; Bert Linder, executive vp and chief operating officer, was chief administrative officer with Reed Stenhouse Inc.; Silvana Vlacich, senior vp-marketing, was a vp with Alexander & Alexander Services Inc. in New York; and Charles Weisblum, chairman and director of the company's underwriting operations, ran Irving Weisblum & Co. of New York for 25 years.

The brokerage is located at 100 William St., New York, N.Y. 10038; 212-797-9600.

Houston consultant

The Sentinel Group has been formed in Houston to offer turnkey risk analysis and risk management services to employers in the United States and abroad.

The staff includes engineers, industrial hygienists, safety professionals, economic and financial analysts, lawyers, insurance specialists, political scientists and security/anti-terrorism experts. They help clients analyze project risks, existing operating risks and acquisition-related risks. They also assist in the development of emergency response procedures and crisis management.

The Sentinel Group offers clients "a single-source organization that can properly assess and manage the increasingly uninsurable risks present in today's business, political and financial environments," said R. Eric Miller, chairman and chief executive officer.

Fees can be arranged on an hourly or case basis.

The company is located at 3 Riverway, Suite 1776, Houston, Texas 77056; 713-963-0060.

Travelers expansion

Travelers Corp. has expanded its preferred provider network into Boston.

Travelers Preferred-Boston has 20 hospitals and 510 physicians in its provider network.

In addition, the PPO offers members the Patient Advocate utilization review programs and the Taking Care wellness program.

Further information is available from Marcia Radosevich, 20 University Road, Suite 525, Cambridge, Mass. 02138; 617-876-5100.

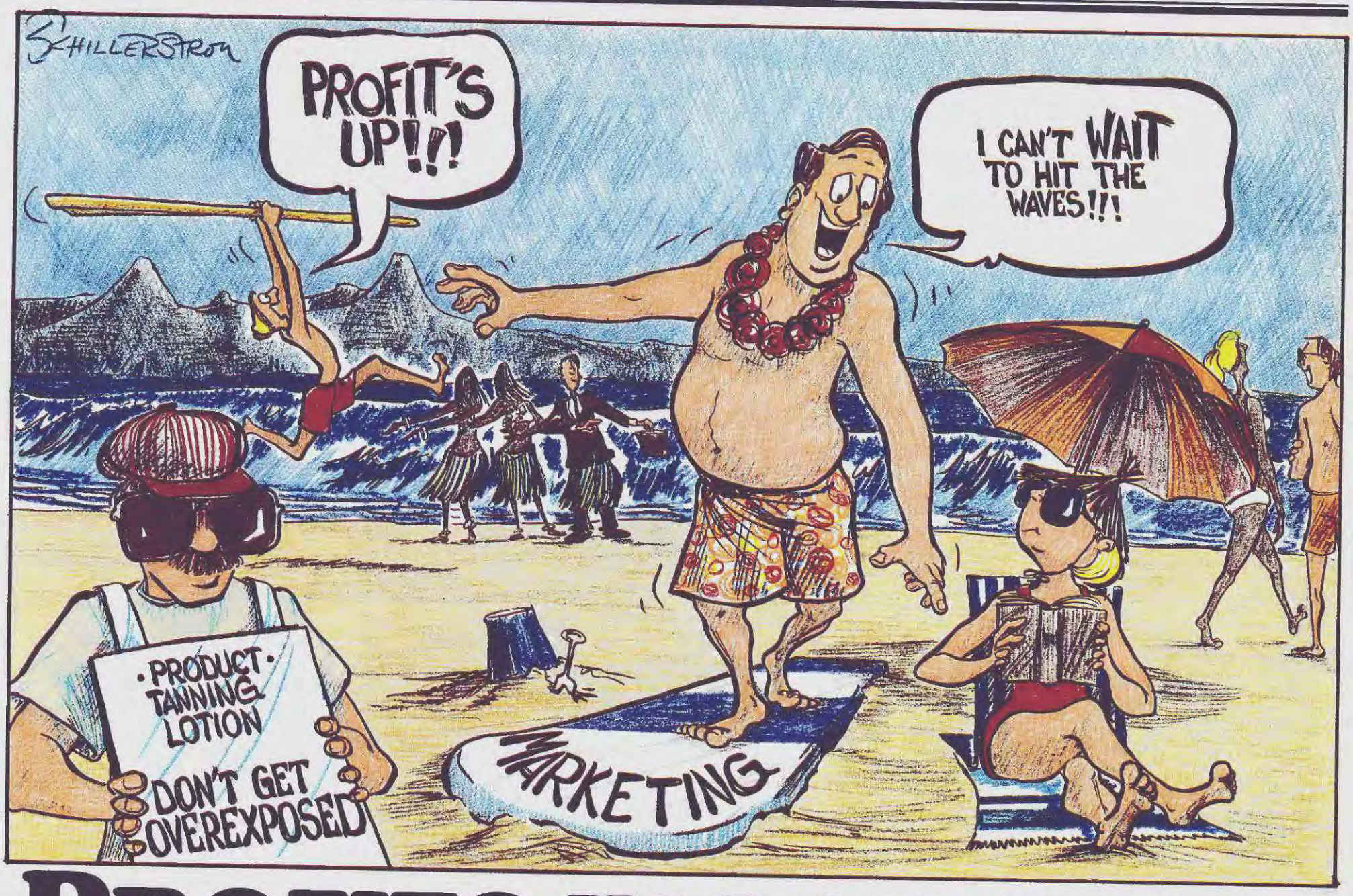
New offices

Gresham & Associates Inc., a Morrow, Ga.-based excess/surplus lines broker, has opened a branch office at 3300 PGA Blvd., Suite 410, Palm Beach Gardens, Fla. 33410; 305-694-6800.

Crump Re Inc. has relocated to Hartford Square North, 10 Columbus Blvd., Hartford, Conn. 06106; 203-727-9727. ■

agent/broker topics

A monthly editorial section sent exclusively to agents and brokers



PROFITS IN PARADISE

Success requires innovation

By LINDA J. COLLINS

MAUI, Hawaii—Independent agents and brokers are losing market share in personal lines and small commercial lines, according to George Nordhaus, president of Insurance Marketing Services in Santa Monica, Calif.

Mr. Nordhaus addressed U.S. and Canadian agents and brokers attending IMS's 14th annual convention, held at the Maui Marriott Resort last month. The convention offered sales, marketing, motivational and organizational tips to IMS members.

Producers can attribute their loss of market share in personal and small commercial lines to direct-writing agents, as well as to direct-mail solicitations, telemarketing programs and other marketing campaigns that offer the "ability to reach more people than you and I can reach," Mr. Nordhaus told the agents.

He speculated that in coming years, agents will see more mass merchandising of small commercial lines risks. "There's a mass-marketing program for everyone out there," Mr. Nordhaus explained.

The time and expense generated by personal visits makes it unprofitable for agents to call on small commercial prospects face-to-face. Mass marketing programs can target those businesses in a much more cost-efficient manner, Mr. Nordhaus pointed out.

In order to compete effectively against other insurance distribution mechanisms, independent agencies and brokerages should avoid handling their small commercial accounts like commodities, without taking time to tailor the product to the client's needs. "You need to differentiate your product. If you allow products to be commodities, you deserve what you get," he warned.

To maintain or gain market share, agents and brokers should emphasize their professionalism and their ability to provide for their clients' overall needs, according to Mr. Nordhaus.

But changes in the property/casualty insurance industry span beyond those involving marketing techniques, Mr. Nordhaus said. He sees a "tremendous narrowing of the number of companies represented by agents. Company/agency exclusives are catching on now. . .and agents are choosing up sides," he said.

Agencies can lower account acquisition costs and increase their efficiency by representing fewer insurers, especially if they communicate with those insurers electronically, Mr. Nordhaus said. In addition, insurers usually offer better contract terms and more services to their 'preferred agents' in return for higher premium volume commitments.

"I don't like the preferred agent concept in a lot of ways, but I can understand the advantages from a company perspective," Mr. Nordhaus added, explain-

Continued on next page

IMS seminars teach sales, marketing tips

By LINDA J. COLLINS

MAUI, Hawaii—Blue skies and gusting trade winds greeted approximately 700 member agents, their guests, vendors and other insurance industry representatives who met at Kaanapali Beach in Maui, Hawaii, from March 31 to April 4 for the 14th annual convention of Insurance Marketing Services.

Aptly titled "Profits in Paradise," the convention featured 14 speakers and an exhibition area with 20 vendors providing products or services for agents and brokers.

Lucky visitors even caught occasional glimpses of humpback whales cavorting off the coast.

Santa Monica, Calif.-based Insurance Marketing Services provides a number of marketing, sales and personnel development services to independent agent and broker members across the United States and Canada.

The convention began with an educational and entertaining program led by psychologist and organizational expert Dr. Gerald Faust, president of consulting firm Faust Management Corp. of San Diego.

Dr. Faust used graphs and questionnaires to show agents how to determine where their agency was on the organizational life cycle, and how they could modify management structure to achieve bet-

Continued on next page

Hire only 'winning' producers: Consultant

By LINDA J. COLLINS

MAUI, Hawaii—"Winners are winners from the start and losers tend to stay losers," says a marketing strategist/consultant and an expert in hiring producers.

Thus, it is crucial for agencies and brokerages to properly pre-screen prospective producers before they are hired, warns Jim Cecil, president of The West Coast Marketing Group in Bellevue, Wash.

It is equally important, he adds, to look for early warning signs after hiring a new producer to indicate whether the producer will be successful.

And, if the agency or brokerage sees signs that a new producer is not working out, he or she should be dismissed quickly. "Often we stay with the wrong people too long," Mr. Cecil says.

The real problem is not that agencies and brokerages don't know how to hire properly, he explains. "The problem is that when we make a mistake, we try to hope it through, and of course it never gets better."

Mr. Cecil provided agents and brokers attending the 14th annual Insurance Marketing Services convention in Maui with tips on what to look for when interviewing new producer applicants and how to quickly determine if a new producer will succeed.

First an agency or brokerage should attempt to attract a large number of applicants, he said.

"If you write an ad narrowly," specifying exactly what the position entails and the type of educational or business experience sought, "you'll never get to meet the right people," Mr. Cecil cautioned.

"Your ad should be designed to present you with as many people as possible" for two reasons, he said. First, many potentially successful producers will not have previous industry or sales experience and might not respond to an ad seeking such experience. Secondly, many people who look for jobs in the newspaper have already failed in previous positions, he said.

"Winners do not usually look for jobs in the newspaper because they get more job offers than they can handle already," Mr. Cecil explained.

He suggests that in order to draw the largest number of respondents and increase the chances of hiring a successful producer, ads should begin something like this: "Local affiliate of international company seeks salesman for products in demand by business." He noted that an agency does act as an affiliate for the insurers it represents.

The agency or brokerage may also find it helpful to use a fictitious contact name in the ad, Mr. Cecil said. By using a fictitious contact name, the person answering the phone can immediately determine if a person is calling in reference to the ad.

And Mr. Cecil cautions, "The ad does not need to sell the candidate on your company, it just needs to sell the candidate on calling you."

According to Mr. Cecil, "The best people are the hardest to get in for an interview. The agency should write a script for the person handling phone inquiries that is designed to pull people in, and should also make sure the interviewer is committed to the mission."

When a candidate phones in a response to an ad, the person handling the calls should provide the caller with a little more information about the position, without being overly specific. Information that can be furnished to the caller at this time includes: the potential earnings range for the position; that the position will involve calling on business executives; and that a new employee will go through a training program.

According to Mr. Cecil, the interviewer should then attempt to interview applicants as quickly as possible, or the best candidates could be snatched up by another firm.

"Aggressive people can't stand being out of a job. Get them into your office immediately, or they will find a job before the interview," he stressed.

In the initial interview, the interviewer needs to determine if the candidate is bright, quick, alert, willing and persuasive, according to Mr. Cecil.

The interviewer should also take note of an applicant's appearance during the interview, Mr. Cecil said. People will usually look their best for an interview, he pointed out, so if they look unkempt or unprofessional in the interview, it is a bad sign.

Mr. Cecil suggests interviewers refrain from trying to sell candidates on the position too early. He suggests interviewers begin by asking the applicant a set of prepared questions that provide clues to the applicant's personality and sales potential.

Questions to ask include:

- Could you tell me about your business background?
- What was your favorite position and what did you enjoy most about it?
- If you have had previous sales experience, what did you enjoy selling the most?
- When did you decide to be a salesperson and what do you or would you like most about sales?

"By the third or fourth question, you will know if the person is not right for the position," Mr. Cecil said. If the candidate is unsatisfactory, the interview should be terminated at that point, he stressed.

Sometimes it is helpful to focus less on applicants' verbal responses and more on their physical behavior, he added.

Mr. Cecil suggests that when contacting an applicant's former employers, the agency or brokerage should ask if the candidate would be eligible for rehire and in what position. Then, the caller should ask what the applicant's strong points and weak points are.

If the past employer identifies the candidate's deficiencies and those deficiencies are not insurmountable, "then the agency can work to correct the problem," he said.

After the interviewer has determined that a candidate would make a desirable employee, "then you have to sell the person on your company," said Mr. Cecil.

He suggests that interviewers hire good prospective producers quickly. "Within 30 days you will know if they are a success," he explained.

An agency or brokerage that plans on hiring a new producer should locate three to five candidates for the sales position, according to Mr. Cecil.

"If you need one salesperson, hire three, then boil it down within 30 days," he suggested. "There's nothing wrong with turnover unless it doesn't happen quickly enough."

Hiring three people rather than one can be beneficial because "While you can test for quick, bright, alert and persuasive, you cannot test willingness. You have to hire them and watch" for this quality, Mr. Cecil said.

Some clues to a new producer's success potential are easy to spot, he explained. For example, if the new producer is out actively making calls, negotiating contracts and solving problems for clients, it is a positive sign. Someone who spends a lot of time in the office shuffling papers and making excuses will not succeed, according to Mr. Cecil.

He also suggests that the agency or brokerage look for unwillingness in the new producer as a sign that the person is unsuited for the job. These people, he said, will try to blame problems on someone else.

But Mr. Cecil cautions that new producers must receive proper sales and technical training to be successful in their positions.

And, in addition to providing adequate training tools, the agency or brokerage should attempt "to create a climate where people can see the cause and effect measures of what they do. Measure how many people they've talked to, how many proposals they've made and how many clients they've gained," Mr. Cecil stressed.

"Visibility requires a person to acknowledge what his job is every day. Don't punish a bad day, but don't downplay trends," he said. "With losers, you will start hearing statistical rationalization."

And if a new producer is not meeting an agency or brokerage's expectations, it should "move boldly and swiftly" to terminate the person. "There is no reason to keep a poor salesman, unless your agency has a death wish," he concluded. ■

Marketing tips

Continued from previous page

ing that it costs insurers less to deal with fewer agents who supply a more significant business volume.

The primary disadvantage of preferred agent contracts is that the agency can offer fewer market options to its clients, he said.

Because of the realignment and consolidation taking place in the property/casualty industry, "We will see bigger agencies and brokerages emerging," Mr. Nordhaus predicted. He also foresees an increase in market specialization among agents, since the needs of clients differ significantly.

Mr. Nordhaus

However, all agents and brokers will find it increasingly necessary to develop risk management services for their clients. With the "tremendous shift out of insurance programs and into self insurance, retention groups, captives, broker-sponsored insurance companies and pools," agents and brokers will find it necessary to offer risk management support in order to serve their clients' needs properly, Mr. Nordhaus said.

He also urged agents to explore the option of broadening the scope of their client services into the financial services area. "There will be an extension of the financial services offered by agencies and everyone else in sight," he predicted.

However, the future is bright for agencies and brokerages that take advantage of all the opportunities before them," Mr. Nordhaus contends. "Capacity is up, we're able to place more types of business, the industry has returned to profitability and tort reforms have been passed in 34 states." ■

IMS seminars

Continued from previous page

ter results.

Following his overwhelming success as the final speaker at IMS's 1986 convention in Los Angeles, Dr. Faust was asked by IMS to speak every morning during this year's convention.

Other seminars featured: mass marketing to target industries; branching into other financial service fields, such as real estate and leasing, to solidify client relationships; recruiting and hiring new producers; planning for an agency's future.

In addition, there were programs on premium financing; how to set up computerized sales centers; methods through which rural agents can generate additional profits by telemarketing and by providing financial services; maintaining and increasing market share in a depressed economic setting; and understanding the impact of life cycles on agencies and their principals.

Lest conventioneers fret about all work and no play, IMS held an opening night reception, a late-night toga party on April 2, and a closing outdoor dinner party that began with native exhibitions, including basket weaving and coconut carving, and ended with a stage performance by Hawaiian dancers and singers. ■

IMS members forming new life reinsurance company

By LINDA J. COLLINS

MAUI, Hawaii—Santa Monica, Calif.-based Insurance Marketing Services is assisting its members and other interested agents in forming an agent-owned life reinsurance company.

IMS plans to capitalize Independent Agency Life Insurance Co. with at least $1 million in contributions from 35 member-owners, said Jon Giacomelli, executive vp of IALIC.

Under federal securities law, "we cannot have more than 35 non-accredited investors in a private placement," he pointed out. A non-accredited investor is one who fails to meet one of several Securities and Exchange Commission criteria such as an annual income of $200,000 and a total net worth exceeding $1 million.

However, once IALIC is operating, other agents "will have a chance to get involved in subsequent offerings as we are able to invite more people in," he predicted.

How the company will be formed and what types of business it will reinsure was discussed by Mr. Giacomelli during IMS's annual meeting here March 31-April 4. IMS is soliciting its member agents to participate in the project, although participation is not limited to IMS members.

The reinsurer is being "developed primarily for property/casualty agencies, but that does not preclude us from letting life agents into the company," Mr. Giacomelli explained.

Giving property/casualty agents the opportunity to own their own life insurance underwriter "gives them the impetus to get more involved in (selling) life insurance. . .which adds greatly to an agency's bottom line," Mr. Giacomelli pointed out.

Ownership in IALIC will "allow them to participate in the risks and profits of the business they submit through the fronting companies," he said. Policies will be issued by fronting companies, two of which already have been selected.

The primary fronting company for IALIC will be United Presidential Life Insurance Co. of Kokomo, Ind., and the secondary fronting insurer will be Provident Life & Accident Insurance Co. of Chattanooga, Tenn.

Only member-owners will be able to place reinsurance business with the reinsurer, which will be domiciled in Arizona.

IMS President George Nordhaus will own 25% of Independent Agents Holding Group, the holding company for the reinsurer, and participating agents will own the remaining 75%.

The minimum premium volume participating agents will be required to produce each year will vary, based on the size of their initial investment.

"Agents who buy into IALIC, based on their investment levels, have minimum production guidelines annually," said Mr. Giacomelli, explaining that the production guidelines "insure that the project works, since it is primarily premium-driven."

Through United Presidential Life, IALIC will reinsure universal life, single premium whole life and excess interest whole life policies, Mr. Giacomelli said, adding "we expect to expand into term insurance" in the future.

Provident Life & Accident at first will write primarily payroll deduction life business, Mr. Giacomelli said. However, "We plan to expand writings later" through the Chattanooga-based insurer.

IALIC will reinsure one-half of any risk up to $100,000. For larger risks, the reinsurer will retrocede the portion of the risk greater than $100,000 back to the fronting company.

Mr. Giacomelli explained that IALIC's contract with United Presidential Life calls for the reinsurer's premium volume "to be up to $3 million a year in three years, and we plan to write $1 million in business in 1987."

In early June, IMS will hold seminars targeting prospective shareholders in five Eastern states: New York, New Jersey, Vermont, New Hampshire and Connecticut, he said. IALIC plans to complete the initial stock offering and start writing business by June 30.

IALIC officers, in addition to Mr. Giacomelli, will include: Mr. Nordhaus, who will serve as chairman, president and chief executive officer of IALIC; and Gary Gevisser, IMS executive vp and chief financial officer, who will serve as chief financial officer of IALIC.

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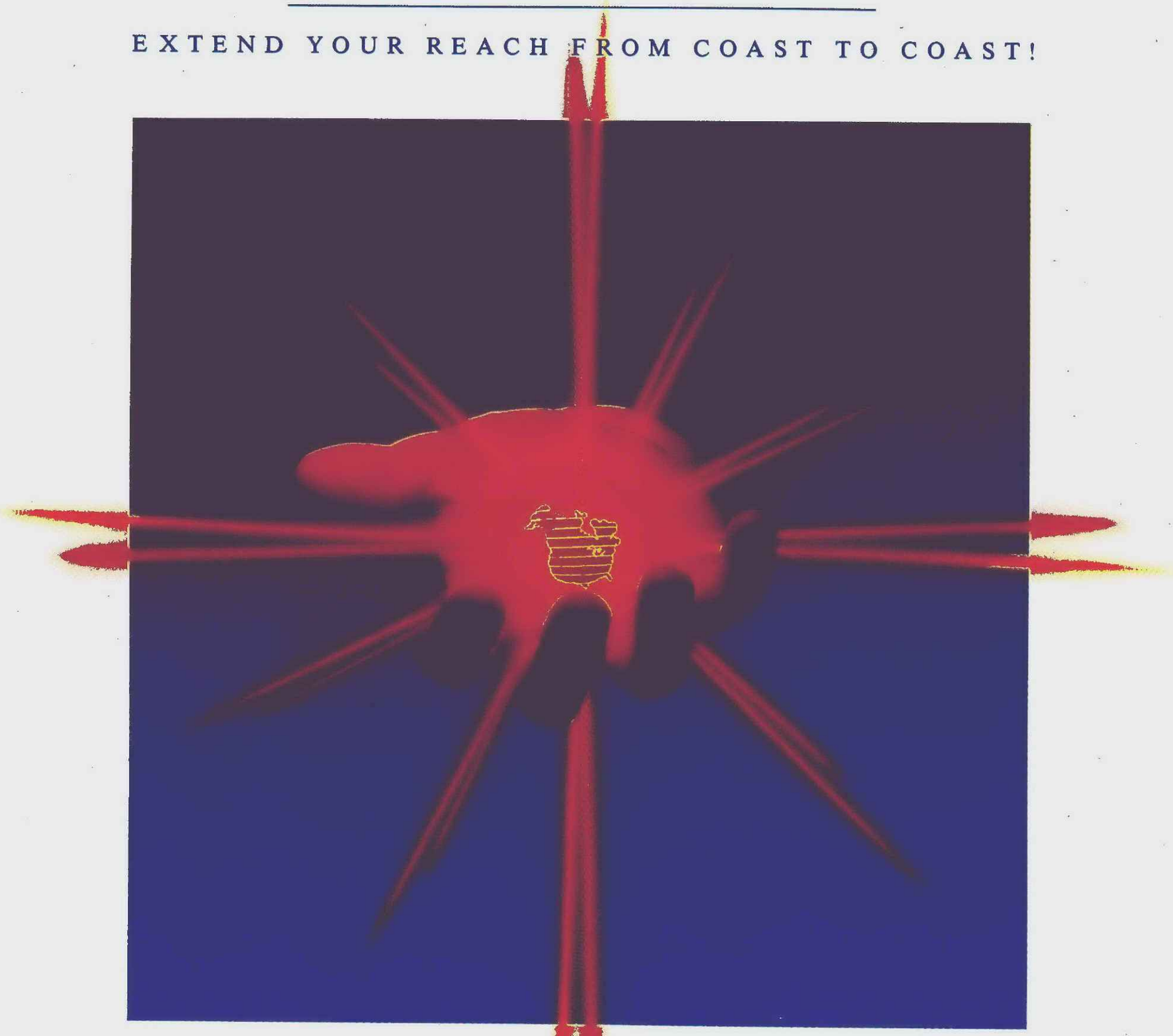

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Experts outline elements of mass marketing plans

By LINDA J. COLLINS

MAUI, Hawaii—Balance and cooperation between all parties are the key ingredients of a successful mass marketing program, two agent administrators of mass marketing programs say.

"Where most of these programs fail, one of the parties gets greedy. . .they all have to work as equal partners," said Bruce Cochrane, president of Cochrane & Porter Insurance Agency Inc. in Wellesley, Mass.

Mr. Cochrane and Douglas Somerville, general manager of the agency, shared their perspectives on the advantages of commercial mass marketing with agents attending the 14th annual Insurance Marketing Services convention, held March 31-April 4 in Maui.

Cochrane & Porter administrates two mass marketing programs designed for the printing and drycleaning industries.

"I came into this business looking for a handle with which I could distinguish myself from other agents," Mr. Cochrane explained.

Mr. Cochrane

The agency identified the insurers through which it wanted to write business and then looked for an industry that was prevalent enough in the area to generate the premium volume to support a mass marketing program, he said.

For example, "when we looked through our Chamber of Commerce listings, we saw that printers offered a big potential market," Mr. Cochrane said.

After finding a good potential market, the agency went to its insurers to find an underwriter that was willing to help it structure a mass marketing program.

Several key elements are necessary to ensure a successful mass marketing program, Mr. Cochrane noted.

First, the program must have a large homogeneous group of exposures that would generate similar premiums, he said. The group should represent substantial profit potential—both in terms of the number of prospects and the potential premium per account—and the target industry should be one "that does not really swing with swings in the economy," he said.

To remain successful, the administrating agency should restrict marketing efforts to "a manageable geographic area," Mr. Cochrane warned. "National mass marketing programs usually don't work. The administrating agency usually can't control underwriting and marketing efforts properly and ends up getting adverse selection" in the program, he said, stressing that it is better to stick with local or regional programs that are easier to monitor.

Successful mass marketing programs also need to be sponsored by a strong, recognizable and well-regarded association or franchise in the target industry, Mr. Cochrane said. The sponsor must be "committed and actively involved. If the sponsor can't bring that strength to the table, it won't be a strong program," he added.

And the insurer that writes the program must be supportive and committed "over the long haul" if it is to remain successful, Mr. Cochrane said.

In addition to having the commitment of the sponsor and the insurer, the administrating agency needs a well-thought-out and effective marketing plan. A successful mass marketing program must have "a professional, active administrative agent. This is the catalyst," Mr. Cochrane stressed.

Then, once the program has been launched and is generating business, the administrating agency should constantly accumulate "effective and timely statistical information" to monitor the program's progress.

The advantages a commercial mass marketing program can bring to administrating and participating agents include:

- An additional income source. Agents gain access to several pros-

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pective clients when they target specific industries. And the "administrating agencies also receive an override on all business written," Mr. Somerville explained.

- Pre-identified prospects who usually are conditioned to look into programs sponsored by their association or franchise. The associations or franchises usually furnish agents with membership lists to make it easier for them to contact these prospects.
- The ability to offer prospects a program that is customized for their business needs.
- More market and rate stability without the severe pricing and availability swings associated with placing individual accounts.

Due to the number of participants in a mass marketing program, insurers can more easily arrive at "the best pricing levels for the group," Mr. Somerville said. And if the group's loss experience is particularly good, there is also "the potential for dividends."

Mr. Somerville

- An improved sales "hit ratio" with prospects because the program is customized. "We're writing 70% of the accounts we quote right now," Mr. Somerville stressed.
- Better client retention at renewal. This is especially the case when the mass marketing program pays dividends for superior loss experience, Mr. Somerville said. He added that his agency has "retained 97% of its renewals over the last 10 years" regardless of the prevailing market cycle.
- The luxury of developing an expertise in a given market. "Clients like to see someone who really understands their business and talks their language," Mr. Somerville pointed out.

The administrating agency also is the recipient of an expanded marketing area. "Most agents develop business within 25 to 50 miles of their office. Administrating a mass marketing program enables them to write business that would normally be beyond their marketing area," he said.

The insurance company that writes the mass marketing program also benefits in a number of ways, Mr. Somerville said, including:

- An additional profit source. "Most companies do not specialize, and so they do not know which segments of the marketplace best maximize their profits. With a mass marketing program, you can see the profit sources," Mr. Somerville explained.
- A book of business that is more manageable. "Insurance companies are not very good at managing broad books of business," Mr. Somerville pointed out.

"Most companies want to improve market share in classes of business that are bringing them profit," he said. "If you can identify those classes," they will be willing to write additional business.

- Improved market penetration with a higher hit ratio and a higher renewal retention. At the same time, an insurer's expenses are reduced, because much of the administrative burden is shouldered by the administrating agency.

The third member of the mass marketing troika—the sponsoring association or franchise—also can gain in several ways from a mass marketing program. Potential advantages to the sponsor include:

- The program is viewed as an added benefit to its members.

Most associations or franchises compete with others for members, Mr. Somerville explained, and the "one with the best benefits will attract the most members. A sound insurance program can be a tremendous benefit. . .that increases the strength of the association in the eyes of its members," he said.

- A possible additional source of revenues for the sponsor beyond the dues structure.

First of all, the sponsoring association or franchise can be reimbursed for its time and effort in promoting and assisting in administration of the program, said Mr. Somerville. In addition, the sponsor can retain a percentage of any dividends before distributing the rest to individual members.

- The development of a base of members and a statistical base from which to switch to an alternative funding mechanism, such as a captive or self-insurance program, if it later finds the mass marketing program no longer to be the best risk-funding device.

Continued on next page

Seven tips to ensure agency survival

LINDA J. COLLINS

MAUI, Hawaii—Seven basic principles govern the survival and success of an insurance agency, says an agency principal.

"There are no magic formulas for success," Ralph Borneman, president of Body-Borneman Associates Inc. in Boyertown, Pa., told agents attending Insurance Marketing Services' 14th annual convention in Maui earlier this month.

"Seven cardinal principles of survival" will help an agency weather market cycles and competition," Mr. Borneman said. However, he cautioned, "making money is not easy. It takes hard work and a lot of time and effort."

The first principle of survival is agency planning, Mr. Borneman said. He suggests agents ask themselves such questions as: "What do you want your agency to be? Are you in the lines of business you want, or did you get them shoved down your throat by your insurance companies?"

He said that points to consider include:

- The lines of business agencies concentrate on should be lines that are profitable in their geographic marketing area.
- Agencies shouldn't commit themselves to write business that they are not equipped to handle. "You get deeper and deeper in the pit," warned Mr. Borneman.
- Agencies should know their strengths and weaknesses. For example, if the agency finds that it cannot compete effectively or profitably in the personal lines market in its area, "don't try," Mr. Borneman cautioned.
- Agencies that want to offer life insurance products to their clients should "hire life producers or people who understand the life insurance business." Mr. Borneman stressed that agencies can often negotiate with life insurance companies to engage their support in marketing life products.

The second principle of agency survival is for agency principals to carefully examine and evaluate the insurance companies their agency represents, Mr. Borneman said. For example, they should determine how supportive their commercial lines insurers were during the recent hard market and then focus on cultivating relationships with those companies that were the most cooperative during that period. The evaluation of companies should be "based on claims service, promptness, stability, commission schedule" among other things, he said.


Mr. Borneman

The third principle is to thoroughly evaluate agency personnel and encourage their growth within the agency, Mr. Borneman explained. His agency keeps a personnel inventory, which helps him determine who will be able to grow within the agency and when they need to go outside of the agency to fill a position.

Mr. Borneman also sets weekly goals for his producers. "I want to know how many policies are sold per week in accordance with our plan and how many claims are settled. We set the goals higher than they can reach" so that the producers always have motivation to achieve.

"Don't ever criticize your employees, because you don't get at the cause, you get at the effect," Mr. Borneman cautioned. He said it is very important for management to study and implement good management principles—"to direct, not criticize." And he added: "You have to educate your people" to get the best results.

Sales expertise, as opposed to order processing, is the fourth principle of agency survival. Many agencies simply take orders, Mr. Borneman said. Producers "need to learn how to sell."

The fifth principle for agency survival is a focus on service. Agencies are in the service business and should concentrate on serving the needs of their clients, Mr. Borneman explained.

Commitment is the sixth principle of agency survival, according to Mr. Borneman. Commitment "is not a bunch of baloney. This business is done on friendship and trust," he said.

In addition to making commitments to clients, "Make commitments with your companies," he urged. However, he cautioned, "Don't let them tell you what commitment to make. You can negotiate with them."

The seventh principle for agency survival is the cultivation of personal creativity and strength. "In this business, many of us have lost spirit of the heart. We have got to become creative people and get back to being human," warned Mr. Borneman.

According to Mr. Borneman, some of the reasons agencies fail include:

- Insufficient capital, debt, inadequate financial planning or improper cash management.
- Emphasis on sales volume rather than return on equity.
- Too liberal credit policies or poor billing systems.
- A misunderstanding of outside economic barriers. An agency must understand the economic climate of the community and develop a broader range and market, he said.
- Excessive optimism. According to Mr. Borneman, an agency should look at things three ways: "optimistically, pessimistically and realistically."
- Fear of failure. "It's a numbers game," he said. "Go after enough people, use the right approach and the agency will sell."
- Inability to change. "It is financially unsound to grow old. Agency principals have to understand that they must change their way of thinking to survive," said Mr. Borneman.
- Improper organizational structure, failure to delegate responsibilities or poor management systems.
- Lack of planning for perpetuation of the agency upon the retirement, death or disability of a principal. ■

Mass marketing

Continued from previous page

Mr. Cochrane warned agents looking for a sponsoring association or franchise that these sponsors usually want to offer a mass marketing program exclusive to their members. He said that agents need to point out to potential sponsors early on in their negotiations that, by law, property/casualty insurers must "allow all those who meet its eligibility and underwriting criteria to participate in a mass marketing program."

"Legally speaking, the insurer cannot say that the applicant must be a member" of an association or franchise, he stressed.

However, Mr. Cochrane added that by carefully structuring the underwriting criteria and by carefully advertising to reach only the target prospects, the parties can effectively skirt this requirement. "You need to know who to talk to and not to talk to."

In addition, a well-designed and administered mass marketing program also can offer several advantages to its policyholders, Mr. Somerville added. Those potential benefits include: customized coverages and flexibility; more stability in product availability and cost; more attractive pricing because of collective purchasing power and the potential for dividends as a reward for lower loss ratios; and better loss prevention and control programs adapted to address the problems of that specific industry. ■

Consulting firms launch operations in San Francisco

SAN FRANCISCO—Two new consulting firms providing services to agents and brokers have opened in the San Francisco area.

John H. Jaques Inc. offers consulting expertise in the areas of business and financial management, ownership transfers and sales and marketing planning. Its founder, John H. Jaques, is a published author and recognized lecturer on agency m2nagement and financial planning. He was previously head of the agency development services division of Fireman's Fund Insurance Cos. in Novato, Calif.

Mr. Jaques' firm will provide assistance in agency ownership transfers. It also offers agencies and brokerages the option of obtaining ongoing services from the consulting firm by paying an annual renewable retainer. The firm assists agencies and brokerages in developing and monitoring a tailored sales and marketing program.

To obtain additional information, contact John H. Jaques Inc., 823 Grant Ave., Suite A, Novato, Calif. 94947; 415-898-2501.

The other consulting firm, MacDonald & Associates, specializes in providing financial advisory services to insurance firms. It was founded by Thomas K. MacDonald, who has 14 years of experience in the industry, including six years as vp of a large San Francisco-based consulting firm.

Financial advisory services offered by the firm include: internal perpetuation planning, agency performance evaluations, employee stock option plan feasibility studies, merger and acquisition assistance and valuation of purchased insurance policy expirations.

The firm is located at 525 Brennan, Suite 204, San Francisco, Calif. 94107; 415-495-3840.

Consultants merge

CLEVELAND—Insurance industry consultants Marsh, Berry & Co. Inc. and The Middleton Group, insurance agency management consultants, have merged.

The new entity will be based in Cleveland. It will operate under the Marsh, Berry & Co. Inc. name and will provide expanded services in the areas of agency and brokerage valuation, mergers and acquisitions, perpetuation planning, internal development, strategic planning and financial management.

Lawrence J. Marsh, former president of Cleveland-based Marsh, Berry & Co., and Carol A. Hammes, former president of Naperville, Ill.-based Middleton Group, are partners of the merged operations. They have been joined by a third partner in the San Francisco area, Catherine Oak. Ms. Oak previously was an agency financial and operations management consultant.

The Middleton Letter, a monthly management newsletter with 1,700 subscribers, will maintain its current name. The Agency Owner, a bimonthly financial newsletter with approximately 1,000 subscribers that is published by Marsh, Berry & Co., also will maintain its name.

The new Marsh, Berry & Co. Inc. has 21 employees and offices in Cleveland, Chicago and San Francisco. For further information, contact the main office at 5970 Heisley Road, Mentor, Ohio 44060; 216-354-3230.

a/bt briefs

Crop insurance

ALEXANDRIA, Va.—The National Assn. of Professional Insurance Agents is urging agents to advise clients who own farms and prospects to purchase federal crop insurance. The advice is in response to a recent decision by the government to stop providing low-

Continued on next page

a/bt briefs

Continued from previous page
interest disaster loans to farmers who qualify for federal crop insurance as a method of encouraging them to purchase the coverage.

Federal crop insurance is available for all crops formerly covered by disaster payments. There is no limit to the amount of coverage available through the federal crop program, and the premiums are tax-deductible as a farm business expense.

Yield guarantees are based on the farm's average yield, rather than an average yield for the geographic area, the association explained.

The PIA stressed that agents have a duty to alert farm owners about the need for crop coverage as a part of their client's risk analysis.

Agents who desire additional information on the federal crop insurance program can contact their local Federal Crop Insurance Corp. or Agricultural Stabilization and Conservation service. Those offices will answer technical questions or refer agents to insurers who write crop insurance, according to the PIA.

NAIB board meeting

WASHINGTON—In a speech before the board of directors of the National Assn. of Insurance Brokers' at their quarterly meeting, Rep. John LaFalce, D-N.Y., said that his top priority for the 100th Congress is to repeal or modify the McCarran-Ferguson Act.

Rep. LaFalce, who is also chairman of the House Small Business Committee, said that there is broad support for changes to the act from such parties as the White House Conference on Small Business, the National Governors' Assn., the Federal Trade Commission and the Reagan Administration.

Rep. LaFalce said that if the act were changed, it would not necessarily bring about federal regulation of the insurance industry. In fact, he said that there is little support in Congress for federal regulation at this point, although that does not mean that some type of federal involvement might not develop later.

Rep. LaFalce said his two priorities for this Congress are to permit the FTC to investigate the insurance industry and to set up a nationwide system for collecting data on the industry. The data collection system could be established in cooperation with the National Assn. of Insurance Commissioners, he added.

C&F producer plan

BASKING RIDGE, N.J.—Crum & Forster Personal Insurance is now offering a special Producer Development Program to qualifying CFPI agencies.

The agency must be located in one of the personal lines insurer's key target market areas and should have an existing and growing book of business with CFPI. It must also be able to support a new producer, which CFPI will help determine. Some regions may have a volume requirement for agency participation based upon local goals.

CFPI is putting its local agency sales managers through a sales development training program to teach them how to assist agencies in selecting, training and managing new producers. After completing the training, the CFPI representatives can offer the program to qualifying agencies in their geographic area.

After the producer is selected, the CFPI representative assists an agency's personal lines manager in developing a training program for the producer, incorporating product knowledge, prospecting methods and sales techniques.

CFPI launched the program to improve agency production, perpetuate the independent agency system and better compete against direct writers, explained Paul LaPerriere, assistant vp-marketing.

The program requires a two-year commitment between the agency and insurer. CFPI will also provide financial support for the new producer for a maximum of two years if the producer meets a validation agreement, based upon a graduating scale of applications brought in each month. However, producers are not restricted to personal lines sales activity.

To determine if the agency is capable of supporting a new producer, CFPI has developed a flexible income projection model. It forecasts net agency income and potential producer income through computer software that can be used on any personal computer that can run Lotus 1-2-3 software developed by Lotus Development Corp. of Cambridge, Mass.

To find out more about the producer development program, contact a local CFPI representative or contact Mr. LaPerriere at Crum & Forster Personal Insurance, 211 Mount Airy Road, Basking Ridge, N.J. 07920; 201-953-3493.

Tax coup suggestion

ALEXANDRIA, Va.—States should use part of the windfall they will gain from federal tax reform to bolster "understaffed and under-budgeted" insurance departments, according to Nicholas A. Verreos, president of Nick Verreos & Co. Insurance Brokers Inc. in Brisbane, Calif. and president of the National Assn. of Professional Insurance Agents.

Mr. Verreos told viewers of Nation's Business Today, a cable TV news program, that most insurance departments "lack the muscle they need to protect insurance buyers." He added that when insurance companies go under, it results in higher premium costs to consumers, unstable markets and lower company profits.

Mr. Verreos urged states to put more financial backing into their insurance departments, both from the extra expected revenues from tax reform and from the premium taxes they collect.

PIA scholarships

ALEXANDRIA, Va.—The Insurance Foundation, an independent industry research and education group founded by the National Assn. of Professional Insurance Agents, is offering two scholarships for prospective insurance students—one to the PIA's three-week Insurance School and one to its one-week Commercial Lines School.

The scholarships cover tuition, room and board, books and other class materials. The Insurance School normally costs $995 and the Commercial Lines School is $695.

The top criteria for both foundation scholarships is financial need. Other criteria includes prior educational experience, agency experience and contributions to the independent insurance agency system. Applicants are also asked to outline, in 50 words or less, their future goals in the industry.

Applications for scholarships must be received by May 15 for the one week commercial lines school and June 1 for the three week basic insurance school. They are available from the PIA National Education Dept., 400 N. Washington St., Alexandria, Va. 22314; 703-836-9340. ■

Indiana reforms

Continued from page 2

The Indiana legislative session ended April 29.

It is likely that Gov. Orr will call a special session to deal with the state's education budget, during which other bills could be reintroduced, though Mr. Williams is not hopeful that tort reform legislation would be approved during a special session.

"The momentum is not there" for tort reform this year, Mr. Williams said.

In Indiana, "the trial lawyers won the day. Business community zero, trial lawyers 10," Mr. Williams added.

"We are disappointed that the legislation backed by the Indiana Forum for Civil Justice didn't get any further than it did. It would have represented some improvement in the civil justice climate in Indiana," agreed Charles Stonehill, regional manager for the Alliance of American Insurers in Schaumburg, Ill.

One of the bills passed by the Legislature, S.B. 375, would cap post-judgment interest at 10% from the date of the verdict.

However, if the judgment is reached against the state or a state board, commission, agency or official, post-judgment interest would not exceed 8% and would begin accruing 45 days following the date of the verdict.

Although the bill, if signed, would not take effect until Jan. 1, 1988, the provision on post-judgment interest would apply to any part of an existing judgment that remains unpaid after Dec. 31, 1987.

Prejudgment interest under the bill would not be less than 6% and not more than 10% for a stipulated period not to exceed 48 months.

However, under the bill, a court could not award prejudgment interest for punitive damage awards.

The bill says a court also cannot award prejudgment interest if:

- After a claim is filed, a defendant makes a written offer of settlement to the plaintiff.
- The offer includes payment within 60 days after acceptance.
- The amount of the settlement offer was at least two-thirds of the amount of the judgment award.

S.B. 375 also contains a provision stipulating that if a defendant engages in "subsequent remedial remedy" by repairing an item alleged to have caused a plaintiff's injury or death, the repair constitutes an admission of guilt that the item was defective.

"We are not at all pleased with S.B. 375, and we are asking the Governor to veto the bill," the Alliance's Mr. Stonehill said.

"The bill will not help court congestion, and it punishes a defendant for delays he might not be responsible for," he explained.

The Indiana Forum for Civil Justice also opposed the prejudgment interest legislation, "and when the subsequent remedial remedy amendment was put in, we (voiced) even stiffer opposition," said Mr. Williams.

Under another bill, S.B. 2, damages recoverable for the wrongful death or injury of a child include loss of services, loss of love and companionship and expenses incurred for health care, hospitalization, funeral services and burial.

The legislation places a $100,000 cap on amounts recoverable for loss of of a child's love and companionship, and requires courts to make a separate finding before awarding these damages. A jury would not be informed of the cap, and any adjustments to an award that exceeds the cap would be made by the judge.

A sunset provision removes the $100,000 cap on loss of love and companionship on Nov. 1, 1990, but the cap would apply to any incident occurring during the period in which the cap was in effect.

Also under S.B. 2, damages for the death or injury of a child canbe recovered by one or both parents, a divorced parent who has custody of the child, custodial grandparents or a legal guardian.

The legislation, if signed, would pertain to children up to age 20, or up to age 23 if the victim is a college student. The bill would become effective upon Gov. Orr's signature.

The Alliance and the Forum both initially opposed S.B. 2. But Mr. Stonehill said that, following some revisions in the bill, the Alliance came to a "reluctant agreement" on the legislation.

The third bill, H.B. 1273, would limit insurers' right to cancel liability policies and increase insurers' reporting requirements.

Under H.B. 1273, an insurer could only cancel a casualty insurance policy for non-payment of premium; substantial change in the risk insured; fraud or misrepresentation; failure of the policyholder to comply with reasonable safety recommendations; or cancellation of reinsurance backing the policy.

'The business community in Indiana has to be terribly disappointed,' says Ernest T. Williams.

Insurers would have to give 10 days' written notice if cancellation is for non-payment, misrepresentation or fraud and 45 days' written notice if cancellation is caused by one of the other reasons.

Also under H.B. 1273, if an insurer refuses to renew a liability insurance policy, it must provide the policyholder with written notice at least 45 days before the expiration date, or 45 days before the anniversary date of a full year of coverage if the policy spans more than one year.

Under the reporting requirements contained in the legislation, insurers that write municipal or liquor liability coverages would be required to report separately the direct earned and written premiums and the direct paid, incurred and unpaid losses during the preceding year for each of these lines.

This information would be in addition to information furnished to the state by insurers in their annual statements.

After 1990, insurers that write child care liability coverage, public entity liability coverage, errors and omissions liability coverage, directors and officers liability coverage or liquor liability coverage in Indiana must also report certain statistics about these lines annually:

- The number of jury awards paid for each line and the total amount of the awards.
- The number of other court awards paid for each line and the total amount of the awards.
- The number of negotiated settlements paid for each line and the total amount of the settlements.

H.B. 1277 also stipulates conditions under which the insurance commissioner can suspend, revoke, or refuse to continue, renew or issue agent licenses and would require insurers to report to the insurance commissioner the names of all agents with whom they have contracted for representation within Indiana. Insurers must include a $2.50 fee for each agent reported.

The Alliance's Mr. Stonehill noted that other than the provisions concerning agent licensing, H.B. 1277 is "onerous" to the insurance industry. But the "language is livable for the industry after it was modified at our request," he added.

Since H.B. 1277 did not deal with tort reform, the Forum did not take a position on that bill, Mr. Williams explained. ■

Outhwaite disputes

Continued from page 3

The Wellington Agreement was signed by Robin A.G. Jackson, underwriter for syndicates managed by Merrett Underwriting Agency Management Ltd., on behalf of Lloyd's underwriters that face asbestos-related insurance claims.

But, Mr. Outhwaite denies that he is stalling, explaining that he will refuse to pay claims on the runoff policies until he receives more information about the underlying policies that covered asbestos risks. He adds that he is questioning the validity of the reinsurance contracts and the amount of the losses for which the syndicate is legally liable.

"The whole question is what information was given (to us) at the time the contracts were made," Mr. Outhwaite said. The ceding underwriters should have given "the effect of known and projected asbestos losses. The underwriters would have known this. . . . We are talking about the quality of information."

Altogether, the Outhwaite syndicate faces outstanding losses of at least 127.1 million pounds ($211 million) from runoff reinsurance policies, according to the Outhwaite's agency's 1985 report for the 1982 underwriting year. Including incurred-but-not-reported losses, the syndicate reported total losses of 201 million pounds ($333.7 million).

About 125 million pounds ($207.5 million) of the outstanding asbestos runoff policy losses are under a series of special reinsurance policies known as time-and-distance policies. These policies pay lump-sum payments on specified dates until 2005, according to the agency's report.

The Outhwaite syndicate already has reserved for the remaining 75.9 million pounds ($126 million) in expected losses.

Lloyd's syndicates and insurance companies often reinsure long-tail liability risks to close their annual accounts. The ceding underwriters and the runoff reinsurers estimate the amount of outstanding liabilities, and the reinsurers establish a premium based on that estimate.

As of February, members of three Lloyd's syndicates had been told by underwriting agents that the Outhwaite syndicate was refusing to pay claims on runoff policies. They are:

- Marine syndicate 17/16/18, underwritten by J.A. Oliver, and non-marine syndicate 15, underwritten by D.A. Barker. Both are managed by Stewart & Hughman Ltd. Lloyd's members estimated that the refusal to pay claims may cost the syndicates 6.8 million pounds ($10.8 million) of a total of 45.5 million pounds ($69.2 million) in asbestos losses.

As a result, Stewart & Hughman has postponed its plan to go public this year and plans to leave its syndicate accounts open for 1984.

- Non-marine syndicate 179, underwritten by Ron Hampton and managed by Anton Underwriting Agencies Ltd., which is 40% owned by Merrett Holdings P.L.C. The syndicate is negotiating for payment on claims filed last year under the runoff policies. In the meantime, sources say that the 1984 underwriting year will be kept open.
- Marine syndicate 764/763, underwritten by Norman P. Compton and managed by Philip N. Christie & Co. Ltd., which filed a lawsuit in High Court against the Outhwaite syndicate in January. The court denied Mr. Compton's request for a summary judgment to receive $627,094 that Mr. Compton claims Outhwaite owes on a $5 million runoff policy.

Between March and April, at least three more underwriting agencies informed their syndicate members that the Outhwaite syndicate is refusing to pay losses.

One of the agencies, which sources say may be hardest hit, is non-marine syndicate 570/347, managed by M.H. Cockell & Partners and underwritten by Michael Cockell.

In 1981, syndicate 570/347 placed reinsurance, with no aggregate limit, to cover all liabilities exceeding $12 million for the years up to and including 1970, according to a letter to members from a Lloyd's members' agency. Last November, the syndicate filed its first claim, for $1.47 million, after it had reached the $12 million attachment point.

However, the Outhwaite syndicate asked for proof of loss and reserved its right to question the validity of the policy. The Cockell syndicate subsequently has pressed the Outhwaite syndicate to pay the claim, but it has refused, the letter says. As a result, the 1984 account will be left open "until the issue is resolved," the letter says.

Although Mr. Cockell confirmed that he had placed reinsurance with the Outhwaite syndicate, he would not comment on the dispute.

On March 26, the R.A. Edwards non-marine syndicate 219, managed by Edwards & Payne and underwritten by Charles Skey, also told its members the Outhwaite syndicate was denying claims under a runoff policy.

In mid-1982, R.A. Edwards syndicate placed with the Outhwaite syndicate through Lloyd's broker Winchester Bowring Ltd. 50% of its runoff reinsurance for the years 1956 to 1967 in excess of $2.86 million, Mr. Skey said in a letter to members. The other 50% was placed with a "large American reinsurance company," which Mr. Skey did not name.

In mid-1986, the R.A. Edwards syndicate met with Outhwaite representatives to validate systems and procedures because claims were about to reach the reinsurance contract's attachment point. "This was done to their satisfaction and neither then nor at any previous time was any suggestion made that the policy would not be honored," Mr. Skey said.

A formal claim for $447,091 was then submitted. "I regret to say that, most surprisingly, Mr. Outhwaite has indicated that he proposes to deny liability on the ground of alleged non-disclosure of information at the time the contract was placed, and he has now purported to void the policy on this basis," Mr. Skey said.

However, the American reinsurer "has responded to the claim in full," he said. As a result, Mr. Skey will enter arbitration with Mr. Outhwaite to recover the claim and validate the contract. In the meantime, syndicate 219 will leave its 1984 account open until the matter is settled, Mr. Skey said.

R.A. Edwards' law firm, Simmons & Simmons, has advised that Mr. Outhwaite's grounds for refusing to pay are "totally without validity," Mr. Skey said. In a letter attached to Mr. Skey's letter, Simmons & Simmons takes exception with several points that have been raised by Mr. Outhwaite. According to the letter:

- The syndicate disclosed all material facts. The allegations of non-disclosure, "are vague in the extreme."

"What 'very substantial information. . .regarding asbestos related-claims' was available to syndicate 219?" the letter asks. "Is it asserted that such information was not available to the market generally and to (Mr. Outhwaite) in particular as one of the leading underwriters writing business of this type?"

- It is too late for the Outhwaite syndicate to void the reinsurance contract, since R.A. Edwards has supplied Mr. Outhwaite annually with figures for settled and outstanding losses. "Since February 1984 he has been on notice of a very substantial potential claim."
- The R.A. Edwards syndicate signed so-called "market settlements" that sources believe include the Wellington agreement. Mr. Outhwaite told the R.A. Edwards syndicate it should not have participated in market settlements "relating to asbestos-related claims," said the lawyers' letter.

"This is another suggestion which (with respect) we have difficulty in taking seriously: (Mr. Outhwaite) has known throughout of such settlements, and has himself participated in some of them. He has never suggested that syndicate 219 ought not to participate in them. He is well aware that the settlements in question have substantially reduced the amount of the liability which would otherwise ultimately have to be met. . . ."

Mr. Outhwaite admits that one of his syndicates pays claims under the Wellington agreement. But, he contends there is a difference between being an insurer that pays claims under Wellington and a reinsurer of other syndicates that pay claims under Wellington. As a reinsurer, the Outhwaite syndicate is under no obligation to pay all the asbestos-related claims that come through the facility, Mr. Outhwaite said.

Neither Mr. Skey nor Simmons & Simmons would comment on the dispute or the letters.

Marine syndicate 28, managed by Murray Lawrence & Partners, and marine syndicate 363, managed by Birrell Smith Underwriting Agencies Ltd.—both underwritten by J.J.S. Birrell—are the latest syndicates to dispute claims with Mr. Outhwaite. Sources say the two syndicates have filed a joint claim for $35,000 on their joint Outhwaite runoff reinsurance policy, which covers years up to and including 1970.

The 30-day limit to pay the claim has just ended, confirmed Paul Archard, managing partner of Murray Lawrence & Partners.

"It puts into question whether he will pay other claims," Mr. Archard said. "The total losses could be quite large. . .but not massive."

Among other underwriters that have placed runoff policies with the Outhwaite syndicate but have not yet sought claims are English & American Insurance Co. Ltd. and Lloyd's syndicate 448, managed by Wellington Underwriting Agencies Ltd. and underwritten by David Beaumont.

"There is no reason to believe he (Mr. Outhwaite) won't pay," said Mr. Beaumont, who noted he had just reached the attachment point on the policy, which covers the runoff for years up to 1978. "I haven't put in a claim yet, but there is no reason to assume we won't be paid."

The syndicate's runoff policy, placed in 1981, covers all losses exceeding $16 million for the years up to and including 1978. ■

Retiree benefits

Continued from page 1

dorsement until they see all the details.

"We would welcome the opportunity to prefund post-employment health care benefits on an ongoing, tax-effective basis," said Mark Ugoretz, executive director of the ERISA Industry Committee, a Washington-based benefits lobbying organization representing large employers.

"This is the first congressional recognition of the problem of unfunded retiree health care liabilities and the need to give employers a tax-effective way to prefund those benefits," noted James Klein, manager of pensions and employee benefits at the U.S. Chamber of Commerce in Washington.

"The Chandler proposal could become a rallying point to those who want to do something about prefunding," said Edward J. Davey, a vp with Johnson & Higgins in New York.

And, experts agree that just as Congress has given employers tax incentives to prefund pension benefits, it is time that legislators encourage the prefunding of retiree health care benefits.

"There is no money standing behind these (retiree health care) promises. Retiree medical plans should have the kind of financial security" that pension plans have, said Don Fuerst, a principal in the Los Angeles office of William M. Mercer-Meidinger-Hansen Inc.

While Rep. Chandler's staffers say many details of the proposal remain to be worked out, they stress that employer contributions would be voluntary and that employers would not be required to establish retiree health care plans.

Rep. Chandler said that the maximum annual contribution an employer could make to a retiree health care trust would be $2,000 per employee or 25% of compensation, whichever is lower. In addition, this $2,000 maximum would be indexed to annual increases in the medical care component of the Consumer Price Index.

However, the actual amount employers contributed would be based on such actuarial factors such as the age of the employee and the level of benefits offered under the retiree health care plan. Employers would use a "target benefits" approach using actuarial estimates of the cost of a benefit package to determine annual contribution levels.

The voluntary contributions would be held in special retiree health care trusts and would earn tax-free interest.

In addition, the contributions would be portable so that when employees change jobs, the accumulated contributions and interest could be rolled over into trusts established by the new employer.

If an employee's new employer does not offer a retirement health care plan, contributed assets would remain with the former employer, where they would continue to earn tax-free interest. The employee would not be allowed to take the contributed funds in cash at any time.

When an employee retires, the trust assets would be used by his or her employer to pay premiums for health insurance coverage for the retiree. Or, if the employer self-funds its retiree health care benefits, the trust assets would be used to pay retiree health care claims.

If the retiree dies before accumulated funds are exhausted, the remaining funds would be used to provide retiree health care coverage for a surviving spouse. If there is no surviving spouse, the funds would be distributed to the accounts established to pay for other employees' post-retirement health care expenses.

In no case would the contributions revert to the employer.

In addition, Rep. Chandler's proposal would allow employers to transfer—without paying federal excise or income taxes—surplus pension assets into retiree health care trusts.

In exchange for these new tax incentives—long sought by business groups—employees would have to be vested in the contributions made on their behalf under one of two vesting schedules: 100% vesting after five years of service or 20% vesting after three years of service, with vesting continuing at a rate of 20% annually until a worker is 100% vested after seven years.

Those schedules are the same vesting rules laid down for pension plans by the Tax Reform Act of 1986. The new pension vesting rules generally go into effect in 1989 (*BI*, Aug. 25, 1986).

Some benefit lobbyists said they are concerned about applying those relatively rapid vesting schedules to retiree health care benefit contributions. However, sources say that employers have to recognize that they will have to agree to provide benefit security in exchange for a tax break.

Other experts note that the only chance that Congress will approve tax-effective prefunding of retiree health care benefits is by setting vesting standards.

"The link between vesting and prefunding would be one hard to break," said J&H's Mr. Davey.

Rep. Chandler and benefit experts acknowledge that the proposal clearly faces an uphill battle to win approval in Congress.

Assistant Treasury Secretary Roger Mentz has said on several occasions that the Reagan administration opposes tax incentives for prefunding retiree health care benefits because of the potential loss of tax revenue.

But Rep. Chandler says he intends to build support, especially from the business community, for the proposal in the coming weeks before it comes up for a vote.

Rep. Chandler and his staff also say Congress has become increasingly concerned about providing new security to retiree health care benefits in the wake of the temporary cessation of 60,000 LTV Corp. retirees' post-employment health benefits following last summer's bankruptcy filing by the Dallas-based manufacturer of steel and aerospace components.

Employers have been clamoring for a tax-effective way to fund retiree health care benefits since Congress passed the Deficit Reduction Act of 1984.

Under DEFRA, employers still can take tax deductions for contributions to Voluntary Employee Beneficiary Assns., also known as 501(c)(9) trusts, but investment income earned on VEBA assets held to pay retirees' health care benefits is taxed.

In the wake of DEFRA, employers also have become increasingly concerned about the costs of retiree health care benefits programs.

"Companies didn't fund the benefits in the past because they didn't know how big the commitment was. Now, companies understand the size of their commitment, but can't tax-effectively fund the benefits," noted Richard Fay, a partner in the law firm of Reed, Smith, Shaw & McClay in Washington.

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3-5 years of Annual Statement preparation. Reinsurance Accounting a plus. Personal Computer experience necessary. Send resume and salary requirements to **Ormond Re Group, 140 South Atlantic Avenue, Ormond Beach, Florida 32074.**

NOTICE

IN THE CIRCUIT COURT OF COOK COUNTY, ILLINOIS COUNTY DEPARTMENT, CHANCERY DIVISION IN THE MATTER OF THE LIQUIDATION OF PINE TOP INSURANCE COMPANY) NO. 86 CH 5898

NOTICE

PLEASE TAKE NOTICE, that on January 16, 1987 an Order of Liquidation with a Finding of Insolvency was entered against Pine Top Insurance Company ("Company") by the Honorable George M. Marovich, Judge of the Circuit Court of the Cook County, Illinois. John E. Washburn, Director of Insurance of the State of Illinois is the statutory and court appointed Liquidator of the Company.

TAKE FURTHER NOTICE that pursuant to the Order of said court, all rights and liabilities of the Company and of its creditors, policyholders and all other persons interested in its assets are fixed as of January 16, 1987, unless otherwise provided by such other Order of the Court.

FURTHER, any and all persons having or claiming to have any accounts, debts, claims or demands against the Company or claiming any right, title or interest in or to any funds or property in the possession of the Liquidator are required to file a Proof of Claim with the Liquidator on or before 4:40 p.m. C.S.T., January 17, 1988. Any person who has a cause of action against an insured under a liability policy issued by the Company shall have the right to file a claim with the Liquidator. Any insured under a liability policy issued by the Company against whom a claim has been asserted or is anticipated, should file a Proof of Claim on or before the aforementioned date. All such claims, called contingent claims, shall not allowed unless such claims are liquidated or fixed on or before 4:30 p.m. C.S.T. January 16, 1989.

TAKE FURTHER NOTICE, that the form of and required content of all Proofs of Claim are described in the Ill. Rev. Stat., Ch 73, Par 821. Proofs of Claim, together with supporting documents, if any, are to be filed with and may be secured from the Special Deputy Liquidator, Pine Top Insurance Company, In Liquidation, 446 East Ontario Street, Suite 700, Chicago, Illinois, 60611. Filing shall occur upon the receipt of Proof of Claim by the Liquidator. The Liquidator reserves the right to require such additional information with respect to any claims as he may deem necessary. All Proofs of Claim must be duly sworn to before an Officer authorized to take oaths.

THE LAST DATE OF THE FILING OF PROOFS OF FIXED OR LIQUIDATED CLAIMS IS JANUARY 17, 1988. NO PERSON HAVING OR CLAIMING TO HAVE ANY CLAIMS AGAINST PINE TOP INSURANCE COMPANY, SHALL PARTICIPATE IN ANY DISTRIBUTION OF THE ASSETS OF THE COMPANY UNLESS SUCH CLAIMS ARE FILED WITH THE LIQUIDATOR ON OR BEFORE JANUARY 17, 1988. NO PERSON HAVING OR CLAIMING TO HAVE ANY CONTINGENT CLAIM AGAINST THE ASSETS OF THE PINE TOP INSURANCE COMPANY, SHALL PARTICIPATE IN ANY DISTRIBUTION OF THE ASSETS OF PINE TOP INSURANCE COMPANY UNLESS A PROOF OF CLAIM HAS BEEN TIMELY FILED WITH THE LIQUIDATOR AND THE CLAIM IS LIQUIDATED OR FIXED ON OR BEFORE JANUARY 16, 1989.

Frank J. Csar, Special Deputy Liquidator, Office of the Special Deputy, 446 East Ontario, Suite 700, Chicago, Illinois 60611 (312) 915-4700.

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Retiree benefits

Continued from page 45

"Many companies now would jump at the chance to prefund," Mr. Fay adds.

So far, the only major proposal that would allow employers to prefund retiree health care benefits—unveiled in February by the Reagan administration—falls far short of addressing, in any meaningful way, the problem of funding retiree health care benefits, experts say.

The administration proposal, part of a major package that also addresses pension plan funding problems, would allow employers to transfer surplus assets—on a tax-free basis—from their overfunded defined benefit pension plans into special retiree health care VEBAs (*BI*, Feb. 23).

However, assets could be transferred to cover only current retirees' health care expenses. As a result, the proposal would not help employers that lack big pension surpluses and have lots of current employees.

"At best, the administration proposal is a short-term fix. It takes advantage of the current situation—the jump in pension plan assets because of the bull market," said John Hickey, a partner with benefit consultant Kwasha Lipton in Fort Lee, N.J. But those pension plan surpluses could dwindle if the stock market declines substantially, which would leave employers unable to turn to their pension plans to fund even current retiree health care benefits.

By contrast, Rep. Chandler's proposal allows employers to prefund retiree health care benefits while an employee is at the company. Plus, the portability of the contributions would help assure—assuming an employee worked for a company or several companies that offered retiree health care coverage—that a substantial sum of money was available to pay health care benefits when the employee retires.

While there is strong employer interest in Rep. Chandler's proposal, there are some concerns about the Washington Republican's strategy to attach the proposal to the budget reconciliation bill.

Employers have been burned by recent budget reconciliation bills, which implement through specific provisions general federal budget targets set each year by Congress.

For example, a provision tacked onto the 1985 budget reconciliation law, known as the Consolidated Omnibus Budget Reconciliation Act, requires employers to extend their group health care plans to former employees and employees' divorced, separated and widowed spouses. COBRA's health care continuation provisions never received congressional hearings.

Business lobbyists say benefit issues—because of their complexity—should be considered outside the scope of budget legislation.

In fact, Rep. Willis Gradison, R-Ohio, may attempt to attach a proposal to the Ways and Means Committee budget reconciliation bill that would require states to establish employer-subsidized pools to provide health care coverage to high-risk uninsured individuals. Last year, a similar proposal advanced by Rep. Gradison and Rep. Fortney (Pete) Stark, D-Calif., was tacked onto another budget reconciliation bill passed by the House, but the pool proposal later died in a conference committee.

However, Washington sources say the budget reconciliation approach for the prefunding proposal is appropriate because the proposal is budget-related. In addition, Rep. Chandler notes the need to do something to address retiree health benefit funding is urgent.

Other observers say that attaching the prefunding proposal to a budget reconciliation bill makes good political sense because such legislation has an almost sure chance of passage. ■

Chubb operating income rises 74.5%

Chubb Corp.'s operating income rose 74.5% in the first quarter to $78.7 million, compared with $45.1 million in the first quarter of 1986.

The company said 1987 operating earnings reflect lower income tax expense, including a tax benefit of $7.2 million relating to the "fresh start" provision affecting loss reserves included in the Tax Reform Act of 1986.

Net income, which includes realized investment gains, totaled $87.3 million in the first quarter, up 47.5% from $59.2 million in the first quarter of 1986.

Property/casualty underwriting income in the first quarter totaled $11.7 million, compared with a $10.4 million underwriting loss in the first quarter of 1986. The first-quarter 1987 combined ratio was 97.9% after policyholder dividends, compared with 101.2% in the first quarter of 1986.

Chubb's net written premiums rose 10.8% to $638.9 million in the first quarter.

Aftertax investment income, not including life/health operations, totaled $54.9 million, up 32% from $41.6 million in last year's first quarter.

financial briefs

U.S. Facilities

U.S. Facilities Corp., a Costa Mesa, Calif.-based reinsurance holding company, reported 1986 revenues of $26.3 million, up 126% from $11.7 million in 1985.

Net premiums earned in 1986 were $19.5 million, compared with $3.8 million in 1985.

Likewise, net income in 1986 increased 164% to $2 million from $763,000 in 1985.

Net operating income in 1986 was $1.5 million, up from $971,000 in 1985.

"Our company is now well positioned to take advantage of facultative property and casualty reinsurance opportunities, as well as continuing as a leader in the excess group medical stop-loss market," said George Kadonada, chairman and chief executive officer.

Hanover Insurance

Hanover Insurance Cos. in Worcester, Mass., reported net aftertax operating income of $68 million in 1986, compared with $10.5 million in 1985.

Net income in 1986, including realized capital gain and extraordinary expense, was $97 million, up from $23.3 million in 1985.

The combined ratio in 1986 was 101.8%, improved from 110.6% in 1985.

The company reported that net premiums written in 1986 increased 31.4% to $1.2 billion from $882.4 million in 1985.

In addition, the company's stock has split 2-for-1. The split increases the number of authorized shares to 20.9 million from 10.4 million with a par value of $1.

Phoenix Re Corp.

New York-based Phoenix Re Corp. raised $35.75 million in its initial public offering on March 25, selling 2.75 million shares at $13 a share.

The underwriters exercised their option to sell 250,000 additional shares.

After fees and commissions, the company received net proceeds of $33.3 million.

The company's stock is traded over the counter.

HealthCare COMPARE

HealthCare COMPARE Corp. of Chicago has filed with the Securities and Exchange Commission to offer 1 million shares in an initial public offering.

If approved shares will be traded over the counter.

The company operates utilization review and cost management services.

Metropolitan Life

New York-based Metropolitan Life Insurance Co. had a record year in 1986, reporting an almost 10% increase in net investment income and a 10% increase in revenues.

Net investment income rose to $7.2 billion in 1986 from $6.8 billion in 1985, while revenues jumped to $20.8 billion from $19 billion.

Total assets rose to $103.2 billion from $94.1 billion.

Pan Atlantic Re

Pan Atlantic Re Inc. of White Plains, N.Y., reported operating income for 1986 of $2 million, up 33.3% from $1.5 million in 1985.

Net income in 1986 was $3.9 million, up from $2.6 million in 1985. Net income in 1986 included a $1 million realized investment gain and a tax credit of $919,000.

Guaranty National

Guaranty National Corp. of Englewood, Colo., had a record first quarter, reporting operating income of $2.7 million, as compared with $1 million in the same quarter last year.

Likewise, net income in the first quarter of 1986 increased to $5.1 million from $4 million in the year-earlier quarter.

"We are extremely pleased with the first-quarter results, which were the highest in the history of the company," according to Chief Executive Officer Roger Ware.

"On an annual basis, net income reflects a 40% return on average shareholders' equity," Mr. Ware said.

Guaranty National reported a first-quarter combined ratio of 98.2%, compared with 104.1% at the end of the first quarter in 1985.

Houston Casualty

Marine and aviation specialists Houston Casualty Co. raised $9.5 million in a private offering of its common stock.

According to Chairman and President Stephen L. Way, "With capital and surplus in excess of $18 million. . .we will be in a position to further expand business and continue the success achieved during our first six years of operation."

The investor group was led by Morgan Capital Corp. of New York and included Kleinwort Boston Ltd. of London.

Lawrence Group

Lawrence Insurance Group of Albany, N.Y., reported 1986 revenues increased 71% to $56.3 million from $32.9 million in 1985.

Likewise, earnings increased 103% to $6.1 million.

In addition, the Lawrence Insurance Group announced a cash dividend of 6 cents per share to stockholders of record on April 13, payable May 15. ■

info

• The Menninger Foundation has published a report titled, **"Predicting Which Disabled Employees Will Return To Work: The Menninger RTW Scale."** Of interest to claims benefits managers and rehabilitation coordinators, this scale not only indicates who is likely to return to work, but also identifies those individuals who should benefit from rehabilitation services. The report—TMF-P008-18—is available for $10 from the Menninger Foundation, Research and Training Center, Jayhawk Tower, Ninth Floor, 700 Jackson, Topeka, Kan. 66603.

• **"Cocaine In The Workplace"** is the title of a new booklet designed to dispel more than a dozen myths surrounding the drug and highlight its dangerous side effects. The 16-page illustrated booklet from Krames Communications encourages supervisors to focus on performance issues and shows them how to draw up a contract with affected employees to require increased performance by a fixed date. Company managers or supervisors can obtain a sample copy of the booklet by sending a request on company stationery, or by attaching their business card to their request, from Krames Communications, 312 90th St., Daly City, Calif. 94015-1898.

• A new videotape explaining the hows and whys of the **Texas Workers' Compensation Assigned Risk Pool** is now available to agents and their clients. "A Workable Solution: An Introduction to the Texas Workers' Compensation Assigned Risk Pool" describes how the pool is organized and funded, why some businesses are rejected in the voluntary market and what services the pool offers to help employers prevent future losses. "A Workable Solution" is available for loan in VHS and ¾-inch video formats from the Insurance Information Institute, 800 Brazos, Suite 4220, Austin, Texas 78701; 512-476-7025.

• An introductory brochure on **alternative dispute resolution** methods has been published by the American Arbitration Assn. The descriptive brochure defines arbitration, mediation, the minitrial and other alternatives in easy-to-understand language. It lists the steps in arbitration and mediation processes as practiced under the AAA rules. The 18-page brochure is available for $1 prepaid from Betty Berry, American Arbitration Assn., 140 W. 51st St., New York, N.Y. 10020.

• **"Computer Automation of Manual Functions Within Risk Management"** is the title of a 90-page book from Softec Inc., which details recent seminars conducted by the company. Included s information on automation of general claims, medical malpractice, workers compensation and incident tracking. The book is available in two versions: general industry and hospital. Copies are available for $4 from Softec Inc., 33063 Schoolcraft Road, Livonia, Mich. 48150; 313-261-4440.

• An analysis of the legislation and regulation affecting health maintenance organizations is available for $20 from the Group Health Assn. of America. "GHAA's Legislative and Regulatory Digest" reviews **federal and state issues that influence the way HMOs operate.** To order the digest, contact the Group Health Assn. of America, Order Department, 1129 20th St. N.W., Suite 600, Washington, D.C., 20036.

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update

Transit MGA denies charges

Continued from page 2
last week by J. Albert Kroemer, a Dallas attorney for Mr. Miro.

Mr. Kroemer contends in the statement that the liquidator has focused on M&A and Donald F. Muldoon & Co. Inc.—another Transit MGA that granted binding authority to M&A—because of the MGA's "large" errors and omissions coverage. No details of the coverage were provided.

The statement also says that there is "no evidence" to support the RICO charges and that Mr. Miro also specifically denies an allegation that he converted $3 million in Transit funds to his own use.

In addition, the statement denied an allegation that a former M&A officer, Gerald Murphy, forged a cover note to conceal M&A's alleged failure to place a layer of reinsurance for Transit.

A hearing on whether the court will allow the liquidator's proposed amended complaint is scheduled for Thursday.

Dalkon Shield claims estimated

RICHMOND, Va.—A.H. Robins Co. estimates that the total aggregate value of Dalkon Shield claims ranges from $710 million to slightly more than $1 billion, according to a financial statement filed last week with the U.S. Bankruptcy Court.

Also last week, Robins, representatives of Dalkon Shield claimants and the court-appointed examiner in the case filed a motion asking that $15 million in emergency funds be made available to certain victims who used the intrauterine device.

In addition, Robins said it has agreed to "significantly change" the claims resolution facility that is part of the reorganization plan filed on April 16.

Under the plan, claimants could choose from several options in which to obtain compensation from Robins. These include settling for as little as $100, receiving higher amounts where injury and proof of use can be demonstrated and also proceeding through the claims resolution facility, arbitration or a jury trial.

Robins reorganization plan calls for creation of a $1.75 billion trust fund for Dalkon Shield claimants (*BI*, April 20).

Illinois pulls 2 insurer licenses

SPRINGFIELD, Ill.—The Illinois Insurance Department revoked the licenses of Western Employers Insurance Co. and the Insurance Corp. of Ireland Ltd. last month because their financial conditions allegedly deteriorated. Both insurers have requested departmental hearings to contest the action.

The license of Santa Ana, Calif.-based Western Employers was revoked April 20 because its surplus decreased 86% during 1986, said Kenneth Smith, deputy director of the department's property/casualty division. Western Employers received $962,000 in premiums from Illinois policyholders in 1986, about half of which was for workers compensation coverage, he added.

In addition, the Illinois department revoked the Insurance Corp. of Ireland's license April 13 because it reported it was insolvent by more than $400,000 at the end of 1986, Mr. Smith said. The company, which acted as both an insurer and reinsurer, wrote little Illinois business in 1986, he added.

Although ICI had a deficit in its policyholder surplus at the end of last year, it received a $3 million capital infusion from its parent company in March, said Philip Cook, who manages ICI's North American operations from New York and Toronto.

ICI was taken over by the Irish government in 1985 when ICI's parent company, Allied Irish Banks Inc., discovered "major losses" for 1984 (*BI*, March 25, 1985).

Bond insurers form new bloc

NEW YORK—The six major monoline financial guarantee insurers are forming an association that expects to insure securities ba ked by loans the federal government plans to sell, said a spokesm[illegible]/for Municipal Bond Investors Assurance Corp.

Under legislation passed by Congress last year, certain federal agencies are scheduled to sell portions of their loan portfolios to raise about $5 billion by Sept. 30.

The insurance will unconditionally guarantee payment of principal and interest on the securities.

Besides MBIA, other members of the association, called the American Loan Guarantee Assn., are Ambac Indemnity Corp., Bond Investors Guaranty Insurance Co., Financial Guaranty Insurance Co. and Financial Security Assurance Inc., all in New York, and Capital Guaranty Insurance Co. in San Francisco.

Briefly noted

American International Group Inc. President **Maurice R. Greenberg** ranked as the seventh highest-paid U.S. executive last year, with earnings from salary, bonuses and long-term compensation totaling $4.6 million, according to a Business Week survey. **William M. McCormick**, chairman, president and chief executive officer of Fireman's Fund Insurance Cos., ranked 24th with total 1986 compensation of $3.2 million. . . .Lloyd's of London broker **Hogg Robinson Group P.L.C.,** parent of U.S. broker Republic Hogg Robinson Inc., may sell its insurance brokerage operations but retain its more profitable travel and financial services division, reports a London newspaper. Hogg Robinson Financial Director Andrew Alers-Hankey refused to comment. . . .**United Air Lines'** pilots will continue their bid to buy the airline through an employee stock ownership plan, despite rejection of the offer by parent Allegis Corp., formerly UAL Inc. . . .Citing improved insurer results and state tort reform, Georgia Insurance Commissioner Warren D. Evans is asking insurers to extend their one-year **rate freeze for another year** and warns any proposed rate hikes will be evaluated thoroughly and challenged if not adequately documented.

Florida law

Continued from Page 3
that is required by law to have insurance but cannot obtain it in the conventional market. The JUA also would accept some risks that are unable to find insurance but are not required by law to obtain insurance.

The Supreme Court also agreed with Judge Miner that insurance premium rebates contained in the law are constitutional but could be applied only to policies written after July 1, 1986—not all policies written last year.

The law originally called for insurers last Oct. 1 to give policyholders a 40% refund or credit on premiums due or paid for liability coverage for the remainder of 1986. The credit actually would have amounted to a 10% premium rollback for a 12-month policy.

The law also allows an insurer to present evidence that it should be exempted from the rebate provision.

In striking down the $450,000 cap on non-economic damage awards, the court said: "It is uncontroverted that there currently exists a right to sue on and recover non-economic damages of any amount and that this right existed at the time the current Florida Constitution was adopted.

"Even if we assume that the cap of $450,000 is of importance to the insurance industry and its clients, the fact remains that the remaining portions of the act enable the industry to obtain insurance premium rates commensurate with the risk inherent in uncapped damages for non-economic injuries," the court ruled.

And, the elimination of the cap could mean insurers will have another argument for filing higher rates.

The Supreme Court's opinion emphasizes that the tort and insurance reform act "provides that if any tort reform measure is held unconstitutional, the Department of Insurance shall permit an adjustment of rates to reflect the impact of such holding."

Therefore, the opinion continues, the Insurance Department "is directed to take into consideration the elimination of the cap."

A spokeswoman for the Insurance Department said insurers have the right to refile rates at any time, but the department does not anticipate companies will resubmit rates based on the elimination of the limit on non-economic damage awards.

Stephen I. Martin, a vp with Hartford Insurance Group, confirmed her expectation. "Theoretically, we could refile, but we expect to do our rate review on a normal basis. At that time, we will factor in the absence of the cap and we would reflect that change when we make our next regular filing," he said.

While other insurers expressed disappointment over the elimination of the cap on non-economic damages, none had determined how they might adjust rates to account for its absence in the law.

The court's decision to strike the cap on non-economic damages while upholding the rebate provision is one of the key "technical problems" with the ruling, according to Frederick Karl of the Tallahassee firm of Karl, McConnaughhay, Roland, Maida & Beal, which represented the industry associations.

He noted that legislators included the rebate provision in the act because they were convinced that the $450,000 cap would result in savings that could be passed along to policyholders in the form of a rebate. "The record shows that the 10% rebate was in there because of the tort reform provision relating to the cap," Mr. Karl said.

Therefore, if the cap were declared unconstitutional and no savings would be realized, the special credit should have been removed as well, he reasoned.

Mr. Karl said his law firm is recommending that the insurers file a motion for a rehearing on the insurance reform issues, including the rebate requirement and the increased regulatory authority of the department.

The 'decision holding unconstitutional the premium rebate on policies written before July 1, 1986, was significant,' says Aetna counsel Thomas Strohmenger.

If the insurers agree, a filing likely will be made this week, he said.

Thomas C. Strohmenger, counsel for Aetna Life & Casualty Co. of Hartford, Conn., said in a prepared statement that his company was "examining the opinion closely, and we will be considering a number of options, including a motion for rehearing."

Mr. Strohmenger voiced support for the Supreme Court's decision to uphold the ruling regarding the rebates. "We believe the lower court's decision holding unconstitutional the premium rebate on policies written before July 1, 1986, was significant. And we're pleased that the Supreme Court upheld this portion of the law."

But, he added, "We are disappointed, however, that the Supreme Court did not address some of the other issues presented in the appeal."

Although some insurers are considering pursuing their challenge to the law, not all are continuing the fight.

Mr. Martin of Hartford said his company would not participate in the meeting of insurers interested in pursuing the case.

"We were not banking on a complete win," Mr. Martin noted. "It has been our expectation all along that we would be able to work out our more serious problems with the Insurance Department."

While the Supreme Court's decision has not changed Hartford's plans for operating in Florida, Mr. Martin admitted that the insurer does "have concerns."

Hartford is concerned by a provision in the law that calls for excess underwriting profits in some cases to be returned to policyholders and other provisions that give the Insurance Department broader authority to regulate rates, he said. "But we're hopeful that we can work our way through those problems with the commissioner," Mr. Martin said.

Franklin Nutter, president of the Alliance of American Insurers in Schaumburg, Ill., said he is not optimistic that there will be a further appeal of the court's decision.

He said the AAI would "advise our companies to assess the marketplace in Florida" and decide whether the regulatory environment is acceptable.

"It's been a long process—first the legislative one, then the court's decision," Mr. Nutter observed.

"We are disappointed. There is a sense of resignation that we are going to have to accept the court's decision," he said.

Fran Everett, a senior vp with Frank B. Hall & Co. of Florida in Coral Gables and vice chairman of the Florida Assn. of Insurance Agents, said agents in the state are disappointed by the ruling as well.

Agents are concerned by the rebate and rate regulation provisions contained in the law, she explained. And, the Supreme Court's decision not to allow the $450,000 cap on non-economic damages "struck a serious blow to tort reform," she added.

Insurance buyers, like insurers, were studying the opinion last week, and most were reserving comment.

"It's obviously a very comprehensive and complicated law," said Howard Taylor, risk manager for the city of Lakeland and president of the Central Florida Chapter of the Risk & Insurance Management Society.

Continued on next page

Florida law

Continued from previous page

While he acknowledged last week that he had not had time to study the ruling, Mr. Taylor said he does not anticipate the law will create any serious insurance-related problems for the city.

James Matthews, risk manager at Knight-Ridder Newspapers Inc. in Miami, said he thinks the long battle to overturn the law has taken its toll on insurance buyers.

"I think we're all kind of numbed by it," he said, adding that risk managers are now in a position to just "wait and see what happens."

But Richard Hinds, risk manager for Florida Power & Light Co. in Miami, hailed the court's decision as a positive one overall.

"It certainly gives us a better way of dealing with joint and several liability," Mr. Hinds said.

While he expressed disappointment that the cap on non-economic damages was overturned, he said "other than that, most of the bill was upheld, and properly so. Generally, it is a positive bill. It deals with a lot of areas of concern."

'I think we're all kind of numbed by it,' says Mr. Matthews, adding that risk managers are now in a position to 'wait and see what happens.'

However, the court's decision to strike the cap pleased plaintiffs' attorneys.

Stephen Masterson, executive director of the Academy of Florida Trial Lawyers in Tallahassee, called the cap "a piece of fiction that never should have been entertained in the first place."

"Our position last year was that if the crisis to be fixed was the cost of insurance and the alleged solution was a limitation on non-economic damages, shouldn't somebody tell us how much would be saved? The question was asked but it was never answered," Mr. Masterson said.

He also noted that rate increases granted earlier this year to insurers doing business in Florida indicated that the anticipation of a cap on non-economic damage awards did not contribute to rate relief for insurance buyers.

And, the tort reforms retained were praised by the Washington-based American Tort Reform Assn. Executive Director Blair Childs called the law "a very good step in the right direction."

While he said the Florida legislation was not one of the strongest tort reform laws passed in the last two years, Mr. Childs did note that it should eventually lead to lower insurance rates.

He also said the law is "just one more example that tort reform is happening. It's going to happen now, or it's going to happen later." He said the court's decision "would not influence any more, or less, what is happening elsewhere" in terms of tort and insurance reform. ■

Construction disaster

Continued from page 3

The developer was L'Ambiance Plaza Ltd., a limited partnership, according to Nick Paindiris, a Bridgeport attorney who worked on the project's zoning change. L'Ambiance Ltd.'s general partner was Del-Tech Development.

Del-Tech, in turn, was a partnership of TPM and Delwood Development International Inc., a Davie, Fla.-based company, said Mr. Paindiris.

Under Connecticut workers compensation law, survivors and injured workers are entitled to a maximum weekly benefit of $408 per family, with an annual cost-of-living adjustment, said John Arcudi, chairman of Connecticut's Board of Workers' Compensation Commissioners. Survivors also receive a $3,000 burial allowance.

Fireman's Fund Insurance Cos. of Novato, Calif., USF&G Corp. of Baltimore and CIGNA Corp. of Philadelphia acknowledged that they provided workers compensation insurance for several of the companies working on the 13-story project.

Hartford Insurance Group wrote some coverage for some of the subcontractors, a spokesman said, adding, "beyond that, we're still waiting for everything to sort itself out."

Aetna Life & Casualty Co. of Hartford, Conn., provided liability coverage to several of the subcontractors, a spokesman said.

Royal Insurance Group of New York underwrote a builders risk policy for "the limited partnership, the contractor and a number of the subcontractors," a spokesman said. The policy was placed by Marsh & McLennan Inc.'s Hartford office.

Business Insurance also has learned that Washington-based Victor O. Schinnerer & Co. underwrote engineers and architects professional liability insurance on behalf of CNA Financial Corp. of Chicago for at least one of the firms involved in the project. An observer said a $1 million policy would have been likely for a project the size of the 13-story L'Ambiance Plaza.

A TPM spokesman could not be reached for comment.

A spokesman for Macomber, TPM's joint venture partner int he construction of the project, said Macomber essentially was an investor in the project with TPM in charge of on-site construction management. He would not comment on insurance coverage.

Mr. Paindiris, who in September 1985 helped obtain the zoning change that permitted the project, did not know the names of other partners in L'Ambiance besides Del-Tech. It could not be determined whether the partners included Macomber as well.

A spokeswoman for the Connecticut secretary of state would say only that the limited partnership was formed Aug. 27, 1985, and attorney John W. Beck of Schiff & Zangari in Hartford was its agent. Mr. Beck could not be reached for comment.

Because L'Ambiance Plaza Ltd. is a separate entity from TPM, it could be found liable in the accident, assuming it exerted any control over the project and negligence was determined, said John Lewis, an attorney and workers compensation consultant.

It is possible that TPM's "immunity as contractor would not flow into their role as a member of the partnership," said Mr. Lewis.

Mr. Lewis added that even if TPM were immune, he does not believe other partners in the limited partnership, including Delwood, would be immune.

"It could very well turn out in the long run there are potentially liable partners out there without immunity," he said.

Michael Camilleri, general counsel for the National Council on Compensation Insurance in New York, said whether the employees' survivors could sue in this instance "would have to be determined under state law."

Mr. Arcudi said while he could not comment on the particular circumstances of the Bridgeport accident, "it sometimes is possible to sue the development company if, in fact, the development company is sufficiently separate from the general contracting company."

However, Arthur Larson, a law professor at the Duke University law school in Durham, N.C., and author of the standard treatises on workers compensation, said that considerably more information would be needed before this can be determined.

"When you start going into partnerships, you've got to know exactly what the relationship is," he said. "You've got to know all kinds of details as to how they conducted the business, and how separate they were in practice as well as in theory."

Mr. Lewis also said that because TPM Architects is a separate subsidiary, it also could possibly be found liable if its actions are discovered to have contributed to the accident.

Mr. Larson agreed. "Corporate separation is a little bit more clear-cut than partnership relationships," he said. "If the architect was a separate legal entity, it might very well be suable as a third party, even if it was affiliated in some way" with TPM International.

Normally, he said, a court will decide if the parent and subsidiary had previously decided to operate as two separate subsidiaries, "and now cannot deny the corporate separateness when it is to their advantage."

Mr. Arcudi said according to Connecticut's general statutes, in order for the architectural firm to be successfully sued, it first must be determined whether the work it did was "part or process in the trade or business of the principal employer."

Michael P. Koskoff, a Bridgeport attorney who has been retained by the families of two of the victims, said suing the development company is a possibility. Other possibile defendants, he said, include other subcontractors, any product suppliers, product manufacturers and testing companies.

TPM may have obtained liability coverage in the surplus lines market.

It failed, for example, to obtain coverage from Travelers Insurance Cos. of Hartford. A Travelers spokesman said it had recently turned down a submission from Johnson & Higgins for a general liability insurance policy for TPM. "It was something we had not had an awful lot of experience with," he said.

A spokesman for Royal said the insurer recently "non-renewed" a commercial liability insurance policy for a policyholder involved in the project that had been handled by J&H's Stamford, Conn., office, but did not name TPM.

Spokesmen for J&H and M&M had no comment.

Fireman's Fund provided workers compensation for subcontractors Four Star Drywall Co. of Waterbury, Conn., and B-G Mechanical Contractors of Holyoke, Mass., according to Edward Jones, assistant claims manager in its Farmington, Conn., office.

Fireman's Fund also provided Four Star with liability coverage, said Mr. Jones, who could not provide additional details.

A USF&G spokeswoman said the insurer provided workers compensation, liability and possibly other coverages to San Antonio-based Texstar Construction Corp., which also operates under the name Continental Lift Slab Corp.

A CIGNA spokesman said, "We provided liability coverage and/or workers compensation" coverage to three of the companies working on the project.

Mickey Stern, vp of Leake & Nelson in Bridgeport, said his firm provided structural steel columns on behalf of Lift Frame Builders, based in Elmsford, N.Y., which was a subcontractor on the project. He said his firm had coverage with Aetna.

Other subcontractors included Fairfield Testing Laboratories, in Stamford and Peter Szilagyit & Associates, a Stamford mechanical and electrical engineering firm. Company spokesmen would not provide details of insurance coverage. ■

Reinsurance must be scrutinized

By MYRON M. PICOULT

Special to Business Insurance

LAST YEAR AT this time we addressed the topic of reinsurance recoverables and noted that it was something that could sidetrack the property/casualty insurance industry's underwriting recovery (*BI*, May 5, 1986). The jury is still out on the subject, but evidence continues to mount that reinsurance recoverables could become a gnawing problem.

Mr. Picoult

Reinsurance recoverables represent a significant portion of the property/casualty industry's financial underpinnings. Data provided by the Insurance Services Office shows that at the end of 1985, reinsurance recoverables accounted for approximately 96% of statutory surplus for the industry as a whole and about 113% for professional reinsurers.

Many managements appear to have taken a lackadaisical attitude toward this problem as it relates to their companies. The old adage, "It won't happen here; the problem is over there," could have a hollow ring.

In March, Integrity Insurance Co., of Paramus, N.J., was declared insolvent (*BI*, March 30). The inability of one of its reinsurers, Mission Insurance Co., to meet its obligations was the primary reason given for Integrity's liquidation.

Our study of reinsurance recoverables this year covered 23 major insurers. Data for 17 commercial lines insurers appear in the chart.

We reviewed the consolidated convention blanks for the companies and sought out data on both paid and unpaid reinsurance recoverables. In addition, we reviewed incurred-but-not-reported liabilities as well as the estimated unearned premium reserves.

As expected, the figures were very high for several of the insurers. On average, for all 23 companies in the study, reinsurance recoverable for paid losses equaled 9.8% of statutory surplus, for unpaid losses 56%, for IBNR losses 38.5% and for estimated unearned premium reserves another 24.2%. All told, recoverables aggregated 128.5% of statutory surplus for these 23 underwriters.

Myron M. Picoult is senior vp and senior insurance analyst with Oppenheimer & Co. in New York. He is the past president of the Assn. of Insurance & Financial Analysts and a member of the New York Society of Security Analysts.

Leading insurers' reinsurance recoverables*
(In thousands of dollars)

	Statutory surplus	Reinsurance recoverables on: Paid losses	Unpaid losses	IBNR losses	Unearned premium reserves	Total reinsurance recoverables	Total recoverables as % of surplus	Recoverables due from affiliates	Recoverables due from affiliates as % of total recovery
Aetna Life & Casualty	$3,546,619	$179,510	$684,073	$538,942	$298,307	$1,700,832	48.0%	$89,082	5.2%
AIG	2,912,185	587,357	3,430,458	880,676	1,364,386	6,262,877	215.1	—	—
Chubb Corp.	982,134	40,032	473,305	561,474	318,830	1,393,641	141.9	—	—
CIGNA Corp.	1,531,125	523,481	2,402,862	2,107,795	606,774	5,640,912	368.4	558,746	9.9
CNA	1,838,181	203,508	646,503	251,817	193,167	1,294,995	70.4	—	—
Continental Corp.	1,378,035	215,890	1,270,056	317,870	691,467	2,495,283	181.1	1,034,648	41.5
Crum & Forster	1,142,481	261,564	1,370,661	778,531	609,612	3,020,368	264.4	—	—
Fireman's Fund	1,310,210	323,787	856,657	744,833	660,561	2,585,838	107.4	—	—
General Re	1,840,258	100,920	333,149	279,166	56,566	769,801	41.8	14,205	1.8
Hartford Group	2,356,988	637,534	1,812,982	822,662	262,320	3,535,498	150.0	—	—
Home Group	770,177	136,794	830,898	476,600	193,470	1,637,771	212.6	124,008	7.6
Kemper	610,495	13,928	1,089,841	530,532	491,900	2,126,201	348.3	—	—
NAC Re	152,466	1,176	38,822	13,800	697	54,495	35.7	—	—
SAFECO	622,374	4,996	51,399	15,423	44,903	116,721	18.8	—	—
St. Paul	942,167	43,163	483,130	304,500	235,247	1,066,040	113.1	310	0.0
Travelers	2,937,098	164,259	1,261,743	574,616	354,811	2,355,429	80.2	3,408	0.1
USF&G	1,241,215	48,302	725,737	122,718	153,515	1,050,272	84.6	—	—

*As of Dec. 31, 1986 Sources: Company annual statements; Oppenheimer & Co. Inc. Chart: Amy Palmer

There is a very wide variance between insurers. Among the insurers surveyed, recoverables ranged from a low of 18.5% of surplus for American General Corp.'s property/casualty operation to a high of 368.4% for CIGNA Corp.'s property/casualty subsidiaries.

Theoretically, the paid recoverable figure should not be a problem because such recoverables are normally paid within a 30- to 90-day period. However, depending upon the type of contract written and whether or not there is a foreign entity involved, payments could be delayed several quarters. Figures for unpaid losses, the IBNR and the estimate of unearned premiums on ceded reinsurance are more difficult to assess. Recoverables due from affiliates should be sacrosanct.

We have begun to see companies set up the equivalent of "bad-debt" reserves for questionable reinsurance recoverables. If there is enough of a question on the recoverables to be placed in such a fund, then there is sufficient reason for the balance sheet reserve to be adjusted.

As was the case last year, the review basically illustrates the fact that large buyers of reinsurance tend to be insurers with heavy exposure to the commercial side of the business where values are higher. These companies also tend to own specialty operations.

At the lower end of the spectrum are the underwriters that are primarily engaged in the personal lines or small commercial segment of the business, where dependency on reinsurance is materially less.

If recoverables are a high percent of statutory surplus, it is not necessarily an outright negative. Such a relationship should encourage investors to obtain additional information. This would include who the reinsurers are, where they are domiciled, to what extent payments are late, whether there are any letters of credit or similar instruments involved and what portion of the recoverable may be coming from various "pools."

One also should be cognizant of the fact that primary insurers always owe their reinsurers some money and this tends to be an offset to uncollectible items.

Given the magnitude of the numbers and question about the quality of reinsurance recoverables, a more diligent effort should be made by accountants, regulators and even the Securities and Exchange Commission to prod insurance companies to provide a more accurate picture of their recoverables. Most shareholder annual reports almost ignore the issue and the insurers' convention statements appear to treat the issue indirectly.

Recognition of the problem is both poor and, at times, weird. Reinsurance with a major foreign insurer that is not registered within the state of domicile of a given company may not be recognized unless there is a letter of credit or fund offsets involved. However, recoverables due from a financially troubled domestic entity requires no recognition until it goes belly up.

Given the magnitude of the numbers and the paltry information currently available, some changes are clearly in order. For example, companies should be forced to report gross losses, reinsurance recoverables and their net IBNR.

In addition, one wonders whether recoverables should be taken out of the liability side of the balance sheet and placed on the asset side where their magnitude would be clearly evident and available for a more thorough perusal. And, some recognition of slow and late payments should be made.

It is interesting to watch investor's paranoia mount as interest rates fluctuate considering the differential between the amortized and market values of bonds is negligible relative to the inherent risk in reinsurance recoverables for many insurers. ■

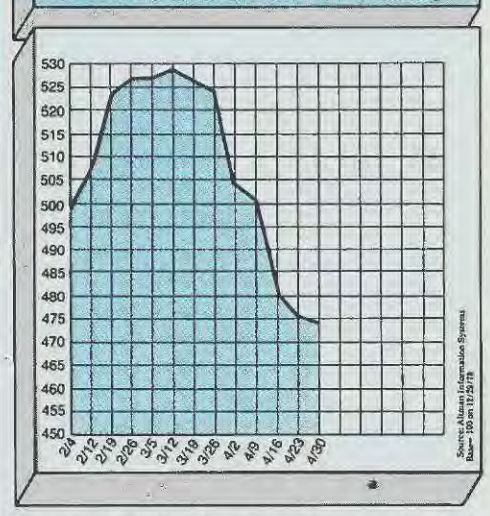
BI Industry Stock Report

April 30, 1987 4/24/87 thru 4/30/87

		Price	% Chg.	P/E	$ Div.	% Yld.	High	Low	Vol.(000)
Brokers									
Alexander & Alexander Svcs	NYSE	26.25	-2.8	25.2	1.00	3.8	27.00	26.00	863.0
Baldwin & Lyons Inc	OTC	21.00	0.0	9.1	0.20	1.0	24.00	21.00	1.5
Corroon & Black Corp	NYSE	28.88	-1.3	12.8	0.84	2.9	29.50	28.63	502.9
Gallagher Arthur J & Co	OTC	19.75	-3.7	15.2	0.40	2.0	19.75	19.50*	179.1
Hall Frank B & Co Inc	NYSE	13.00	0.0	0.0	0.00	0.0	13.13	12.25*	234.1
Marsh & Mclennan Cos Inc	NYSE	61.13	-0.8	16.7	1.90	3.1	61.13	60.00	1,738.6
Poe & Assoc Inc	OTC	13.25	0.0	16.8	0.40	3.0	13.25	13.25	2.9
AGENTS/BROKERS	AVERAGE			15.0		2.8			
Conglomerates & Holding Cos.									
Anderson Clayton(Ranger/PanAm)	NYSE	65.63	0.0	18.8	0.00	0.0	0.00	0.00	0.0
Armco Inc	NYSE	10.50	5.0	0.0	0.00	0.0	10.88	10.25	1,711.1
Berkley W R Corp	OTC	28.25	1.8	11.8	0.24	0.8	28.25	27.75	356.4
Berkshire Hathaway Inc Del	OTC	3330.00	-2.1	227.8	0.00	0.0	3390.00	3330.00	0.3
CIGNA Corp	NYSE	59.88	1.5	9.4	2.80	4.7	59.88	58.63	1,033.9
CNA Finl Corp (CNA)	NYSE	50.25	0.0	12.5	0.00	0.0	50.75	49.63	302.1
General Re Corp	NYSE	55.25	0.7	20.2	1.00	1.8	55.25	53.50	4,610.1
ITT (Hartford Group)	NYSE	55.50	0.0	14.2	1.00	1.8	56.13	53.75	5,376.3
Sears Roebuck & Co. (Allstate)	NYSE	52.88	-0.7	13.7	2.00	3.8	53.63	52.00	5,237.7
Transamerica Corp (Occidental)	NYSE	33.38	0.0	7.5	1.76	5.3	33.38	33.00	954.7
CONGLOMERATES/HOLDING COS.	AVERAGE			81.4		0.2			
Insurers									
Aetna Life & Cas Co	NYSE	57.75	1.5	8.8	2.76	4.8	57.75	55.88	2,239.4
American General Corp	NYSE	39.13	5.7	10.9	1.25	3.2	39.13	36.38	2,202.7
Amern Heritage Life Invt Co	NYSE	45.50	6.6	15.7	1.44	3.2	45.50*	42.75	8.4
American Indty Finl Corp	OTC	16.25	-1.5	0.0	1.12	6.9	17.00	16.25	26.9
American Intl Group Inc	NYSE	66.25	1.5	16.4	0.25	0.4	66.50	63.88	2,325.4
Aneco Reins Ltd	OTC	2.25	-21.7	9.0	0.00	0.0	2.88	2.25	19.9
Avemco Corp	NYSE	41.75	-0.9	15.1	0.50	1.2	41.75	39.88	38.1
Business Mens Assurn Co Amer	OTC	25.88	-3.3	0.0	1.10	4.3	26.50	25.75	39.4
Chubb Corp	NYSE	58.75	6.1	9.3	1.68	2.9	58.75	54.88	1,579.8
Combined Intl Corp	NYSE	50.25	2.0	9.1	2.40	4.8	50.25	48.50*	106.0
Continental Corp	NYSE	44.25	-0.3	12.2	2.60	5.9	44.25	43.13	735.2
Crown Life Ins Co	OTC	310.00	0.0	10.7	6.40	2.1	310.00	310.00	0.5
Durham Corp	OTC	48.00	-0.5	16.1	1.36	2.8	49.50	48.00	4.5
Farmers Group Inc	OTC	43.50	1.8	14.1	1.20	2.8	43.75	42.25	2,360.0
Fairmont Finl Inc	AMEX	18.13	0.0	12.5	0.00	0.0	18.13	17.88	141.8
Fireman Fd Corp	NYSE	36.00	1.1	12.4	0.40	1.1	36.00	35.50	816.9
Fremont Gen Corp	OTC	16.25	-6.5	0.0	0.48	3.0	16.50	16.00	238.3
Great West Life Assurn Co	OTC	700.00	0.0	14.4	18.00	2.6	0.00	0.00	0.0
Home Group Inc	AMEX	21.00	4.3	7.3	0.20	1.0	21.13	19.75	342.1
Hanover Ins Co	OTC	64.00	-1.5	9.7	0.72	1.1	64.50	63.00	67.4
Harleysville Group Inc	OTC	17.00	-4.9	5.5	0.40	2.4	17.50	17.00	27.1
Hartford Steam Boiler Insptn	OTC	62.25	-2.7	14.0	2.00	3.2	62.75	62.00	165.8
Kans City Life Ins	OTC	27.00	-0.9	10.4	0.96	3.6	27.00	26.75	24.5
Kemper Corp	OTC	33.00	6.5	13.1	0.60	1.8	33.00	30.25	1,014.1
Liberty Corp S C	NYSE	38.63	0.7	13.6	0.72	1.9	38.75	38.38	56.5
Lincoln Natl Corp Ind	NYSE	47.38	0.0	10.4	2.16	4.6	47.38	46.13	346.4
Mission Ins Group Inc	PAC	1.75	0.0	0.0	0.00	0.0	4.38	0.69	76.0
Monumental Corp	OTC	55.63	0.0	18.8	0.00	0.0	55.63	55.63	1.1
Nac Re Corp	OTC	26.75	2.9	41.2	0.00	0.0	26.75	25.50	58.6
Nobel Ins Ltd	OTC	14.50	5.5	10.9	0.37	2.6	14.50	14.00	61.7
Northwestern Natl Life Ins	OTC	25.25	1.5	7.6	0.96	3.8	25.50	24.63	584.1
Ohio Cas Corp	OTC	41.25	5.1	11.7	1.68	4.1	41.25	39.25	311.7
Old Rep Intl Corp	OTC	24.38	-3.5	10.2	0.80	3.3	24.38	23.75*	296.7
Orion Cap Corp	NYSE	23.00	-4.2	0.0	0.76	3.3	23.50	23.00	78.6
Protective Corp	OTC	14.50	-7.9	9.4	0.70	4.8	15.75	14.50*	225.7
Provident Life & Acc Ins Co	OTC	21.50	3.0	10.0	0.84	3.9	21.63	20.88	320.0
St Paul Cos Inc	OTC	45.75	8.3	13.3	1.76	3.8	45.75	41.50	1,225.7
SAFECO Corp	OTC	53.25	7.0	9.9	1.70	3.2	53.25	49.25	842.9
Scor U S Corp	OTC	13.50	-1.8	21.4	0.00	0.0	13.75	13.25	78.3
Setbels Bruce Group Inc	OTC	16.00	1.6	0.0	0.80	5.0	16.25	15.50	59.0
Selective Ins Group Inc	OTC	24.25	2.1	11.2	0.92	3.8	24.25	23.75	84.7
Statesman Group Inc	OTC	5.13	2.5	5.9	0.05	1.0	5.25	5.00	195.1
Tokio Marine & Fire Ins Co	OTC	90.63	0.0	101.8	0.17	0.2	90.63	90.63	9.8
Torchmark Corp	NYSE	27.75	-3.9	9.9	1.20	4.3	27.88	26.75	1,351.1
Travelers Corp	NYSE	44.63	-1.1	10.0	2.28	5.1	45.00	44.00	2,681.7
Trenwick Group Inc	OTC	14.50	0.0	37.2	0.00	0.0	15.00	14.50	5.6
United Fire & Cas Co	OTC	26.75	-0.9	10.3	0.80	3.0	27.00	26.75	28.6
United States Fid & Gty Co	NYSE	38.50	1.0	10.7	2.48	6.4	38.50	37.88	2,168.8
Unum Corp	NYSE	21.38	-1.7	0.0	0.40	1.9	21.88	21.38*	917.9
Uslife Corp	NYSE	37.50	-3.2	9.6	1.20	3.2	38.25	37.50	212.4
Washington Natl Corp	NYSE	25.25	5.8	12.0	1.08	4.3	25.25	24.00	45.1
Zenith Natl Ins Corp	OTC	19.38	-6.6	14.8	0.80	4.1	20.25	19.38*	231.8
INSURANCE COMPANIES	AVERAGE			12.6		2.6			

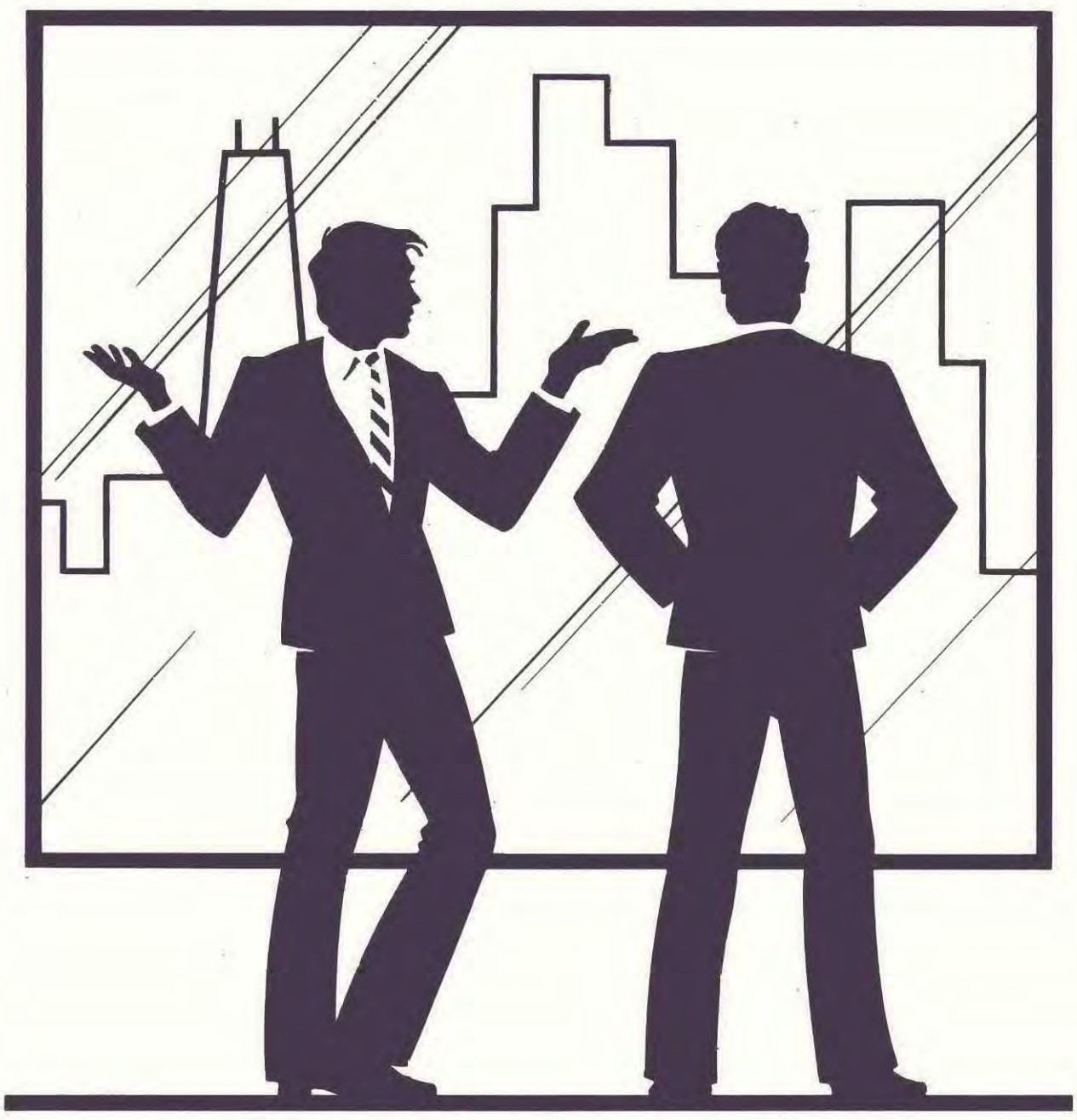
System design: Altman Information Systems

BI Insurance Index



Insurance stocks faltered again last week as the *Business Insurance* stock index dropped 0.8 points to 474.1 on April 30 from 474.9 on April 23. Twenty-seven stocks declined, 25 issues posted gains and 11 were unchanged. The largest gains were reported by The St. Paul Cos. Inc., up 8.3%; American Heritage Life Investment Corp., up 6.6%; Kemper Corp., up 6.5%; Washington National Insurance Co., up 5.8%; and American General Corp., up 5.7%. The largest declines were suffered by: Aneco Reinsurance Co. Ltd., down 21.7%; Protective Life Corp., down 7.9%; Tokio Marine & Fire Insurance Co. Ltd., down 7.6%; Zenith National Insurance Corp., down 6.6%; and Fremont General Corp., down 6.5%. The *BI* index declined 1.0%, underperforming the market as a whole.

"Help build your property business? Well, perhaps if I knew your market, maybe we could, uh...



You won't hear that from Zurich-American. What you will hear are solid ideas on how to help build your property insurance business.

Zurich-American has special territorial and account management teams that know about your marketplace—and know how to help you reach it. And because we're committed to writing property business, Zurich-American can help you make the most of a wide range of products—from commercial packages to boiler and machinery through excess property and large lines.

Which is just one more creative approach to better insurance. And one you can depend on. From Zurich-American.

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American Creativity. Swiss Dependability.

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