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update

IRS lifts sanctions, extends deadline to alter pensions

WASHINGTON—The Internal Revenue Service is pulling back a notice that retroactively imposed sanctions on thousands of employers that failed to amend pension and savings plans to comply with three federal laws.

In February, the IRS said in Notice 86-3 that employers would lose part of their tax deductions for plan contributions if they didn't meet an IRS

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Banks check coverage of borrowers

By JUDY GREENWALD

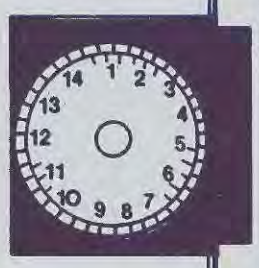
NEW YORK—Lending institutions are taking a harder look at businesses' property/casualty insurance coverage before extending them loans or lines of credit.

And, bank loan officers warn that their scrutiny is likely to intensify.

Banks are paying especially close attention to the insurance coverages of loan applicants with marginal financial resources, because they may not be able to handle rising insurance rates and uninsured losses.

Financial institutions are concerned that if an underinsured borrower suffers a catastrophic loss, the borrower may not be able to repay its loans, and that the banks might even be drawn into subsequent lawsuits in the event of bankruptcy.

A loan applicant's inability to secure adequate coverage is an indication that "maybe there's something there we're not seeing on our credit statements," pointed out Ed Weiss, risk manager at First of America Bank Corp. in Kalamazoo, Mich.



"Liability insurance is a factor, clearly, in a company's ability to repay debts that it incurs, and that simply is something one shouldn't be ignoring today," said a spokesman for the Morgan Guaranty Trust Co. in New York.

"We've perked up our ears," he added.

Officials at some banks contend that examining a loan applicant's insurance coverage before approval is not new.

"It's no more, nor less, than we did before," said James Coffey, vp-risk and insurance at Chase Lincoln First Bank NA in Rochester, N.Y.

But, officials at several other lending institutions acknowledge they are taking a serious look at the insurance covers of loan applicants for the first time.

"In the past, I think we took it for granted that a prudent businessman would have enough" property/casualty coverage, said Michael G. Sweeney, executive vp and manager of the banking division at NBC Bank-San Antonio.

But now, the bank not only wants to ensure that a loan applicant has insurance, but also that it has an "appropriate amount" of coverage, Mr. Sweeney said.

"In the past, it has not been a very significant point" to investigate a loan applicant's insurance coverage, agreed Ray Williams, senior vp in credit administration at Citizens & Southern National Bank in Atlanta.

Like NBC Bank, Citizens & Southern now is looking closely at a loan applicant's insurance coverage, the impact of rates on the applicant's income statements and the degree to which the applicant is self-insured.

At some lending institutions, risk managers, who are

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Regulators move to liquidate Optimum Insurance Co. of Illinois
Page 2

Reagan support may give tort reform push in Senate

By JERRY GEISEL

WASHINGTON—The Reagan administration's unveiling of federal product liability legislation—the first time the executive branch has drafted such a proposal—significantly increases the chance that the Senate will pass a reform bill this year, observers say.

The administration last week proposed its own legislation to establish a uniform federal product liability law, which was immediately introduced in the Senate by Sen. Robert Kasten, R-Wis., as an amendment to S.100.

"This puts a lot of steam in the reform locomotive," said James Coyne, president of the American Tort Reform Assn. in Washington. Mr. Coyne now labels as "excellent" the chances that the Senate could pass a bill this year, compared with less than 50-50 without an administration bill.

But even with active administration support, observers say there is very little chance that the House could pass a bill because of insufficient time and more opposition in that body.

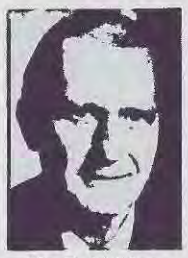
Senate passage, though, could set the stage for House enactment next year if the momentum generated by the administration can continue, supporters say.

The administration's bill would restore new balance to the legal system by curbing current abuses, supporters say. Among other things, the measure would virtually eliminate the doctrine of joint and several liability in product liability cases; place a $100,000 cap on awards for non-economic damages; and reduce product liability awards by other compensation received by a plaintiff, including workers compensation and employer-provided health insurance.

To discourage frivolous lawsuits and to ensure that accident victims receive a higher percentage of compensation awarded in judgments, the measure would place limits on contingent fees that plaintiffs' attorneys could collect.

In addition, manufacturers no longer could be held liable for failure to warn of obvious dangers or for injuries resulting from the unforeseeable use or alteration of a product.

In contrast to the low-key support the administration has given to product liability issues in the past, top officials—including Attorney General Edwin Meese III and Commerce Secretary Malcolm Baldrige—unveiled the legislation at a news conference last Wednesday.



Mr. Baldridge



Mr. Meese

"We feel the need for tort reform is recognized now," said Mr. Meese.

"The inability to obtain product liability insurance at an affordable price . . . has reached crisis proportion," Mr. Baldrige said. "The excesses of our product liability system have been a major factor in creating this crisis. That is why we place such a high priority on product liability reform."

The business community, which has been lobbying with little success for the last five years to convince Congress to pass federal product reform legislation to replace varying state statutes, is enthusiastically welcoming the administration's new proposal.

"It has all the elements of reform we'd like to see. We certainly support it," said Pat Rowland, chairman of the government relations committee for the Coalition

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Organizers find coverage for nationwide human chain

By MICHAEL BRADFORD

NEW YORK—The organizers of "Hands Across America" won't be financially blistered should any of the 6 million people expected to form a 4,000-mile human link from Los Angeles to New York on May 25 be injured.

Coverage for liability exposures stemming from the ambitious demonstration to help the hungry and the homeless will be written by National Union Fire Insurance Co. of Pittsburgh, Pa., an American International Group Inc. unit.



The insurance, which has limits of $10 million per occurrence with no aggregate limit above a self-insured retention, provides coverage for general liability, automobile liability, personal injury and directors and officers liability exposures.

It also includes workers compensation coverage that meets the requirements of 16 states and the District of Columbia.

The coverage was purchased by United Support of Artists for Africa, the non-profit foundation formed in 1985 to distribute proceeds from the "We Are the World" recording and other projects to benefit the underprivileged in Africa.

Hands Across America is the latest project sponsored by USA for Africa, and organizers say they expect pledges from volunteers who will form the human chain to generate from $50 million to $100 million to fight hunger and homelessness in the United States.

While assembling enough people to stretch hand-in-hand across the continent is a hard job, finding insurance for the project was almost as tough.

Michael W. Karl, vp and senior client executive at Jardine Insurance Brokers Inc. in Schenectady, N.Y., said the coverage was "the most challenging I've yet encountered," in 20 years of developing "sophisticated and unusual" insurance programs for large corporations and entertainment clients.

"This is probably the best possible year to have an event like this from the standpoint of patriotism, but it was the worst from the insurance standpoint," he said.

To make it more attractive to an insurer, "we employed high retentions at all levels," he explained. However, he would not disclose the retention.

Besides covering USA for Africa, the event's organizers note that any of the approximately 525 municipalities along the route of the human chain can be listed as additional insureds on the general liability policy simply for the asking. It was not known last week how

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update

IRS extends pension deadline

Continued from previous page

deadline to comply with the Tax Equity and Fiscal Responsibility Act of 1982, the Deficit Reduction Act of 1984 and the Retirement Equity Act of 1984 (*BI*, March 3). The deadline for most companies was Nov. 1, 1985, though it was later for others.

But in Announcement 86-60, which will be published May 12 and revises Notice 86-3, the IRS is extending the earliest compliance date for amending plans to June 30. Companies that fail to meet the new compliance dates will face loss of tax deductions for pension plan contributions.

The IRS offered no explanation for its new, more liberal compliance date. However, employers and consultants had mounted a vigorous lobbying campaign, complaining that the the original IRS deadline to amend plans was too short and impossible for many companies to meet.

NAC Re files registration

NEW YORK—NAC Re Corp. registered a $45 million convertible debenture offering with the Securities and Exchange Commission last week.

NAC Re recently raised about $50 million from a 2.2 million-share offering last October (*BI*, Sept. 23, 1985). The price of its stock was originally $22 per share and is now trading at $35 per share.

The new offering is being made to raise additional capital for North American Co. for Property & Casualty Insurance, a licensed insurer in all 50 states that principally reinsures general liability, automobile, workers compensation, commercial property and personal property risks. Its GAAP capital and surplus at March 31 was about $82 million.

Judge trims Kemp award

ATLANTA—A federal district court judge reduced to $400,000 from $2.3 million the punitive damages a jury awarded to a former University of Georgia professor who lost her job for refusing to give passing grades to athletes who did not earn them.

U.S. District Judge Horace Ward said the original award to Jan Kemp was "shockingly excessive and oppressive." However, he left untouched $279,682 awarded in compensatory damages, including $200,000 for mental distress, $79,681 in lost wages and $1 for loss of professional reputation.

Ms. Kemp, whose contract was not renewed by the university, has 20 days from the date she received the order to agree to it or request a new trial on the punitive damage issue.

The $400,000 in punitive damages Judge Ward allowed consists of $200,000 each against Leroy Ervin, the university's assistant vp for academic affairs and director of developmental studies, and Virginia Trotter, vp of academic affairs.

About $820,000 of a total $1 million from two self-insurance funds is still available to pay judgments and costs, according to Patrick McKee, assistant Georgia attorney general. The other $180,000 has already been spent for legal fees, he said.

Arkansas OKs comp bills

LITTLE ROCK, Ark.—Arkansas employers will foot the cost of July 1 increases in workers compensation benefits to injured workers, but employers' costs for legal fees will go down, according to provisions in a work comp reform bill adopted by the Arkansas General Assembly in a special four-day session last week.

A second work comp bill, giving municipalities of more than 70,000 residents the option of self-insuring their workers compensation risks, also was adopted. The city of Little Rock, which lobbied for the measure, expects to save between $500,000 to $700,000 by self-insuring and is already designing such a program.

Gov. Bill Clinton was expected to sign both measures.

Fremont adds to surplus

LOS ANGELES—Fremont General Corp. last week completed the sale of $75 million in convertible subordinated debentures, $50 million of which will be added to the surplus of its property/casualty units, said James A. McIntyre, president of the Los Angeles-based company.

Fremont General's year-end 1985 policyholder surplus of $122.9 million was down from $138.9 million in 1984. The company reported a 1985 underwriting loss of $146.4 million on earned premiums of $433.7 million and a 1985 reserve deficiency of $33.3 million, primarily on workers compensation business.

Fremont's premium-to-surplus ratio on domestic business increased to 4.4-to-1 in 1985, compared with 2.4-to-1 in 1984.

Mr. McIntyre said the insurer's financial picture will substantially improve by 1987, with marginal improvement in 1986.

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Regulators sue AIG affiliate over Ideal's D&O coverage

By JUDY GREENWALD

NEW YORK—The New York Insurance Department is suing an American International Group Inc. unit in a dispute over a $25 million directors and officers liability policy written for the insolvent Ideal Mutual Insurance Co.

Meanwhile, the Illinois Insurance Department is asking a Cook County Circuit Court for permission to liquidate Optimum Insurance Co. of Illinois, a subsidiary of Ideal Mutual's downstream public holding company, Optimum Holding Corp.

The Illinois department estimates Optimum of Illinois is insolvent by at least $10.3 million.

Optimum of Illinois has been in voluntary rehabilitation under the aegis of the Illinois Insurance Department since January 1985, when Ideal Mutual was put into rehabilitation by New York (*BI*, Jan. 14, 1985; Feb. 4, 1985). Ideal was liquidated shortly thereafter.

The New York department, Ideal's liquidator, has filed suit against National Union Fire Insurance Co. of Pittsburgh, Pa., claiming that the AIG unit has refused to grant a one-year discovery period on Ideal Mutual's claims-made D&O policy beyond its original expiration date of April 9, 1985.

The department says in papers filed in New York Supreme Court that under the policy's terms, if National Union cancels or refuses to renew the policy under its discovery clause option, Ideal Mutual nevertheless has the right to the extended coverage if it pays an additional premium of 25% of the three-year premium already paid.

But National Union effectively refused to renew the policy by not responding to the department's request for a renewal quotation, the court papers say. The insurer later returned the department's check for $14,838, which is 25% of the three-year premium of $59,359, the court papers said.

However, National Union, through broker Alexander & Alexander Inc. in Denver, said in April that it would extend the policy period for one year if the department paid a $189,000 premium and if the discovery clause in the original policy was omitted, the court papers said.

The department alleges National Union made this offer "in bad faith" and "as a sham in the expectation that the offer would not and could not be accepted."

Subsequently, according to court papers, National Union twice more returned the Insurance Department's $14,838 check and disclaimed coverage under the discovery clause option.

National Union officials could not be reached for comment.

The department is seeking to stop National Union from denying coverage under the policy as well as asking for compensatory and punitive damages of at least $2,000, plus attorney's fees.

Meanwhile, on April 3—six days before the discovery period the department says it is entitled to would have expired—the New York department mailed letters to Ideal Mutual's former directors and officers stating that they may be responsible to the department for "breach of trust, breach of fiduciary duty, waste of corporate assets, negligence and other wrongful acts and omissions in the performance of your duties."

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Insurers argue over coverage for Jewel stores

By MEG FLETCHER

CHICAGO—Attorneys are attempting to resolve a coverage dispute among some of American Stores Co.'s five insurers in the wake of thousands of claims pending from tainted milk that its Jewel Food Stores subsidiary produced last year.

Conferences were scheduled late last week to work out two major issues, says Patrick E. Maloney, an attorney representing American Insurance Co. The issues are:

- Whether defense costs are included within the limits of some of the policies.
- If production of tainted milk should be considered one occurrence or at least two.

If production of the salmonella-contaminated milk is considered to be more than one occurrence, additional claims may be filed against policies that have no annual aggregate limit.

In addition, a controversy exists between Jewel and its insurers as to whether punitive damages are covered by some of the policies, ac-

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This year's royal wedding will cost more to insure

By STACY SHAPIRO

LONDON—Vendors trying to cash in on this summer's royal wedding will pay more for insurance than they did in 1981 when Prince Charles and Lady Diana were married.

Reduced capacity for contingency insurance and the increasing age of royal family members both contribute to higher rates for the July 23 wedding of Prince Andrew to Sarah Ferguson.



Prince Andrew and Sarah Ferguson

As they did five years ago, souvenir manufacturers, hoteliers, caterers and publishers are looking for abandonment or postponement insurance for promotion connected with the royal wedding.

Sun Alliance & London Insurance P.L.C., a leading British contingency insurer, is quoting rates equal to 3.5% to 4% of policy limits this year. That compares with average rates of just 1.5% to 2.5% for cancellation or postponement coverage on Prince Charles' 1981 wedding (*BI*, March 30, 1981).

"Five years ago, there were lots of people underwriting this business," said Douglas Mills, abandonment underwriter for Sun Alliance.

"Now, there is limited capacity. A 2 million-pound limit could easily be placed five years ago, but now the brokers may find it

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Attorneys search for St. Eustatius assets

By DOUGLAS McLEOD and STACY SHAPIRO

NEW YORK—Lawyers representing the liquidator of the insolvent St. Eustatius Insurance Co. N.V. are investigating the insurer's activities in an attempt to find out—among other things—what happened to premiums paid to the company.

St. Eustatius, domiciled in the Netherlands Antilles and operating out of an office in Amsterdam, was found insolvent and ordered liquidated by a judge in the High Court of Justice in Amsterdam Jan. 28.

The winding up order does not specify the amount of the insolvency.

However, an Amsterdam attorney appointed as St. Eustatius' liquidator said in a letter to a U.S. lawyer that the insurer's estate does not have sufficient assets to cover the cost of legal action in the United States to recover funds that could be used to pay St. Eustatius policyholders.

L.P. Broekveldt, an attorney with the Amsterdam firm of Van Doorne & Sjollema, who was named liquidator of St. Eustatius, said in an interview that the insurer has 25,000 gilders ($10,246) in a bank in Amsterdam and that he expects several million gilders in losses from business written in Great Britain and the United States. He also said he believes there is no reinsurance to cover these losses.

Mr. Broekveldt last month granted another lawyer, Ronald L.M. Goldman of Marina Del Rey, Calif., power of attorney to act on behalf of the insurer's estate in the United States.

In a March 14 letter to Mr. Goldman—a copy of which was obtained by *Business Insurance*—Mr. Broekveldt said that action "is urgently required" in the United States to obtain "all kinds of information, data and documents from the persons and/or companies involved in this matter. . .so that it can be ascertained what was done with the money (premium payments) and where it has gone."

The letter says that this action should be focused in New York, where Countach Intermediaries Ltd.—the major producer of U.S. business for St. Eustatius—was headquartered.

Countach's reinsurance intermediary license expired last August, and its phone number has since been

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Contradictory conclusions

Cost of nation's tort system growing at 'alarming' rate

By STEPHEN TARNOFF

NEW YORK—The nation's tort system costs between $15 billion and $20 billion a year to administer, and that figure is likely to increase rapidly in the near future, a new study estimates.

The study warns of an "alarming" increase in costs since 1983 that, if not checked, will result in an "explosion" of administrative costs in the years ahead.

If current rates of growth continue, by 1990 the cost could be between $31 billion and $38 billion just to administer the system, the study says.

The study, called "The Cost of the Tort System," was directed by Professors Andrew Schotter and Janusz Ordover at New York University's C.V. Starr Center for Applied Economics. It was funded by insurer American International Group Inc.

"One alarming fact that arises from these estimates is that the rate of increase of these administrative costs has risen suddenly since 1983. . .rising from an average of 9.9% in the five previous years to 35% in 1984," the study says.

"These increases portend trouble since, if they are not checked, we can expect an explosion in the administrative costs of the system in the years ahead," according to the report.

These administrative costs, based on data from 1979-1984, include the sum of all fees paid to attorneys and expert witnesses; insurance company non-legal loss adjustment expenses; court costs such as for judges, bailiffs and stenographers; and income foregone by jurors, witnesses and litigants while away from their jobs.

Adinistrative costs do not include settlements or awards resulting from a tort suit, nor economic costs such as higher medical expenses that result from malpractice suits.

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Tort filings in state courts

Trend	Number of court systems 1978-81	1981-84
Filings increased significantly more than the population	8	5
No significant difference between the changes in population and filings	5	5
Filings increased at a rate slower than the population	1	1
Filings decreased during this period	5	8
Comparable data not available for the period	2	2

Source: National Center for State Courts
Chart: Holly Seguine, Amy Palmer

9% increase in tort litigation not enough to be 'explosion'

By STEPHEN TARNOFF

WILLIAMSBURG, Va.—A 9% increase in tort lawsuits filed in state courts between 1978 and 1984 does not qualify as a "litigation explosion," according to a recent study by the National Center for State Courts.

Of the four types of civil lawsuits studied—tort, real property, contract and small claims—only the 9% increase in tort suits outpaced population growth, which totaled 8% from 1978 to 1984, the study says.

However, insurance industry officials contend the study does not refute evidence of an increase in tort suits nor does it refute the contention that certain types of tort claims, like medical malpractice and product liability claims, are increasing significantly.

The study conducted by the Williamsburg, Va.-based National Center for State Courts, an independent organization, found there was not a "litigation explosion" when the number of tort, contract, real property and small claims cases filed are examined.

In fact, it found that civil suit filings in a "significant number" of state courts actually decreased between 1981-1984 (see chart).

Furthermore, states in which significant increases in filings have occurred also are states in which population has significantly increased, which may represent the reason for the increase in litigation, the study adds.

"A careful examination of available data relating to tort, contract, real property rights and small claims cases from a representative group of state courts provides no evidence to support the often-cited existence of a national 'litigation explosion' in state trial courts during the 1981-1984 time period," said Dr. Robert Roper, director of the center's Court Statistics and Information Management Project.

However, even though there was no significant increase in the number of suits filed from 1981-84, the study notes that a substantial increase in litigation did peak around 1981.

Increases in filings were so large between 1978 and 1981 that the percentage changes from 1978-1984 still show moderate increases, despite declines in the 1981-84 period, the study adds.

But the increase in the number of tort suits from 1978 to 1981 was relatively minor compared with the increase in all types of lawsuits studied.

Twenty states, including 29 statewide limited and general jurisdiction court systems, reported data to the center concerning lawsuits filed in 1978, 1981 and 1984.

The data revealed a 14% increase in the total number of lawsuits filed between 1978 and 1981, while litigation decreased 4% between 1981 and 1984.

The study shows that tort case filings increased only 2% between 1978 and 1981, while the population in the states studied grew 4% during the same period.

Between 1981 and 1984, tort case filings increased 7%, compared with a 4% increase in population.

For the entire 1978-1984 period, tort filings increased 9% while the population increased 8%, the study shows.

Continued on next page

Work comp rates need to be hiked another 10%: NCCI

By CAROL CAIN

BOCA RATON, Fla.—Workers compensation rates will need to increase an average of at least 10% before they stabilize, even though rates jumped an average of 10% nationwide last year, the National Council on Compensation Insurance says.

In addition, rates increased an average of 15.4% last year in the more than 30 states in which the NCCI files rates on behalf of its insurer members.

"We'll need yet another round of steep increases in 1986 and substantial increases in 1987 if we are to return our business to an even keel," said Nicholas F. Miller, Jr., vp and an actuary with Aetna Casualty & Surety Co. and outgoing NCCI chairman.

"NCCI actuaries are projecting a 1985 countrywide combined ratio of 122%, which is only a slight improvement on the disastrous results of 1984. The effects of rate increases granted in 1985 are expected to lower the 1986 combined ratio to 116%.

Anthony Grippa, senior vp of the NCCI, said the organization believes another 10% average nationwide rate increase is necessary in 1986.

However, despite the increases, it is unlikely that workers compensation insurance will become a profitable line for another two years because rates are still inadequate, Mr. Miller said.

Convincing state regulators to agree to workers compensation rate increases, particularly in states where substantial rate hikes were sought last year, will be difficult, Mr. Miller said.

He told insurers it was up to them to explain to regulators the reasons for the heavy losses of the past few years. These facts should help justify rate increase requests, he said.

The reasons for the losses, Mr. Miller said, include:

- A failure to recognize that claims costs were increasing and loss reserves were not increased enough to keep pace.
- Health care inflation of 9% per year.
- Occupational disease coverage becoming more of a concern.
- The workers compensation system becoming a supplement to unemployment insurance in certain parts of the country that were particularly affected by the recession.

However, Mr. Miller cited some promising trends:

- A sharp drop in the general inflation rate.
- A slowdown in wage increases that should check the rise in the level of indemnity benefits.

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New York Insurance Exchange finds home with room to grow

By KATHRYN J. McINTYRE

NEWYORK—Occupying its first owned-headquarters with plenty of expansion space, the 6-year-old New York Insurance Exchange is poised to grow, its president says.

"Our goal is to make this place grow for buyers, brokers and syndicates," said Joseph Fahys, who was elected the exchange's president on Jan. 1.

Rising insurance rates are generating increasing interest among potential investors in the exchange, noted Mr. Fahys, who previously was a managing director of Marsh & McLennan Inc.

Under the right market conditions, the exchange's gross written premium volume could grow to $1 billion in five years from 1985 gross written premiums of $309.5 million, Mr. Fahys added.

And, he hopes $100 million will be invested before year-end in the exchange, where policyholder surplus totaled $194.1 million at the end of 1985.

The exchange showed off its new home as of April 1 at the corner of Fulton and William streets in New York's financial district with a reception on April 29 attended by more than 700 people.

Mayor Edward I. Koch cut a symbolic red ribbon and wished the exchange success, noting, "I am available" if the exchange wants his support for any legislation that might be needed to remove any obstacles to its ability to compete.

The mayor apparently was referring to the requirement that New York-based primary and excess risks first must be offered to insurers licensed in the New York Free Trade Zone before they can be shown to exchange syndicates.

While New York exchange brokers and many syndicates privately object to the requirement, Mr. Fahys said during an interview that the exchange—which is primarily a reinsurance market—has not taken an official position on this issue.

"With the market what it is, brokers are not as inhibited by the hurdles of the Free Trade Zone," Mr. Fahys observed.

However, Mr. Fahys commented, many people believe that certain risks—such as large umbrella risks, day-care centers and municipalities that desperately need capacity—should have access to the exchange without first being rejected by Free Trade Zone insurers.

The exchange's new building, formerly the Aetna Casualty & Surety Insurance Co. building, houses the 12,770-square-foot trading room in the east wing of the first floor. Twenty-eight of the 40 available boxes are now occupied by managers of the exchange's 46 current syndicates.



Photo: Kathryn J. McIntyre

Watching Mayor Ed Koch cut the ribbon were, from left: Harrison Goldin, city comptroller; David Sherwood, chairman of the NYIE; Mercedes Davis, vp-North Atlantic Treaty Managers Inc.; and Maurice Greenberg, president of American International Group.

A 5,200-square-foot area in the west wing is slotted for additional underwriting boxes.

The exchange's previous trading room in rented space at John and William streets provided less than half the available trading room space of its new building.

The second and third floors of the seven-story building accommodate the exchange's computer facilities and administrative offices. Offices on floors four through seven are available for rent by the exchange's syndicates, their managers, the 74 broker members and 33 associate brokers.

The purchase of the 190,600-square-foot building and needed renovations are costing the exchange about $24 million.

"We are confident we will attract a significant amount of

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Cost of torts

Continued from previous page

"In short, between 19.7% and 26% of all premiums earned were spent by plaintiffs and defendants to resolve disputes arising from tortious conduct," the study says, based on administrative costs of $15 billion to $20 billion a year and $76 billion in earned premiums reported by U.S. non-captive insurers.

"Also, for every dollar paid in awards and settlements, between 25 cents and 34 cents is paid just to administer the system."

The study says there is sufficient reason to look for alternatives to the present system of tort liability because so much is being spent to currently administer it.

"A less administratively expensive system, even if it provided weaker incentives for accident avoidance, might still be beneficial," the study says.

The authors used four different methods for calculating the administrative costs of the tort system, and these calculations produced different estimates of the cost. However, the study says an estimate of between $15 billion and $20 billion best represents the total resources allocated each year to adjust and litigate various claims made by injured parties.

While there are drawbacks to the current system, there are some benefits as well, the study emphasizes. These include that those guilty of tortious conduct have to pay for it, and that this financial accountability creates incentives to take greater care.

"It is still true that the present system does create incentives to take significant levels of care (albeit perhaps too great) and the accidents avoided by this care are a benefit to society," the study says.

A spokesmen for the Alliance of American Insurers declined to comment on the study. A spokesman for the Assn. of American Trial Lawyers was unaware of it. ■

No 'explosion'

Continued from previous page

"This is the one case type, of those studied in this section, where the aggregate number of cases increased over both time periods evaluated," the study says.

However, the study notes that the increase in tort filings cannot be considered an "explosion" since the population increased at approximately the same rate.

Overall, the study cites two reasons for the "often cited myth" of a continuing upward trend of civil lawsuits in state courts. These include:

- Intensive media focus on the enormous size of awards in a few selected and well-publicized civil cases.
- An increased workload in the courts that is not caused by increases in the rate of civil lawsuits but by more complex cases and perhaps fewer resources available to the courts that result in larger backlogs.

In addition, the study says possible explanations for the leveling off or decrease in the number of civil suits filed in recent years can be attributed to:

- A change in public attitude resulting in people less likely to sue because of concerns over costs and delays in litigation.
- An increase in litigation several years ago to test and interpret new legislation and judicial rules may have run its course.
- Insurance companies and attorneys may be increasingly settling conflicts before cases reach the courts.

"Whatever the explanation, there is no evidence to support the notion of a nationwide increase in lawsuits in the state trial courts between 1981-1984," the study says.

However, a spokesman for the Alliance of American Insurers questioned some of the study's conclusions based on the data collected.

Greg Heidrich, staff economi for the Alliance, said the study based on incomplete data, that may mask increases in lawsuits certain tort areas and that it ind cates wide variations in lawsu patterns in various states that th study does not adequately analyze

For example, the study does n delve behind the general tort filir figures it cites and may actuall mask a boom in medical malpra tice and product liability claims i individual states, Mr. Heidrich sai

"They've only presented us wit the aggregate number and yo can't get behind the numbers to se what's going on in individua areas," he said.

"The study has drawn broade conclusions than the data warrants Mr. Heidrich added.

An official at the Insurance Info mation Institute also said the nun bers did not refute the notion th certain types of tort suits, like med cal malpractice and product liabili cases, are increasing significantly.

"There's nothing in the Nation Center for State Courts' data that troublesome to us in terms what's causing commercial liabilit problems," said Warren Levy, th III's vp of field services.

The study does not answe what's wrong with the commerci liability system but instead gives statistical report to what's happer ing in the state courts, he added.

The data "fundamentally under scores the things we have been say ing," he said.

The survey's director, Dr. Rope conceded last week that it is poss ble there may have been large jumps in medical malpractice an product liability claims than th overall number of tort claims ind cates.

"It could be. We just don't kno though. It's an interesting researc question," Dr. Roper said, addin that many state legislatures ar considering tort reform legislatio even though they have inadequat data.

The National Center for Stat Courts' main purpose is to hel state courts better serve litigant and the general public. Among i projects are studies of ways to re duce delays in the litigation proces and automation of court operation and personnel administration, a well as the training of court manag ers and judges.

No more picnics for Braves fans

ATLANTA—Fans will have t do their picnicking in the stand during Atlanta Braves games thi year because liability worries hav led the team and the Atlanta-Fu ton County Recreation Authorit to close the picnic areas near th outfield foul poles.

The picnic areas, where for nin years fans have been able to vie the games while eating or sittin around picnic tables, were close because officials feared a potentia large claim could arise from a fa being struck by a foul ball, accord ing to stadium manager T. Herma Graves.

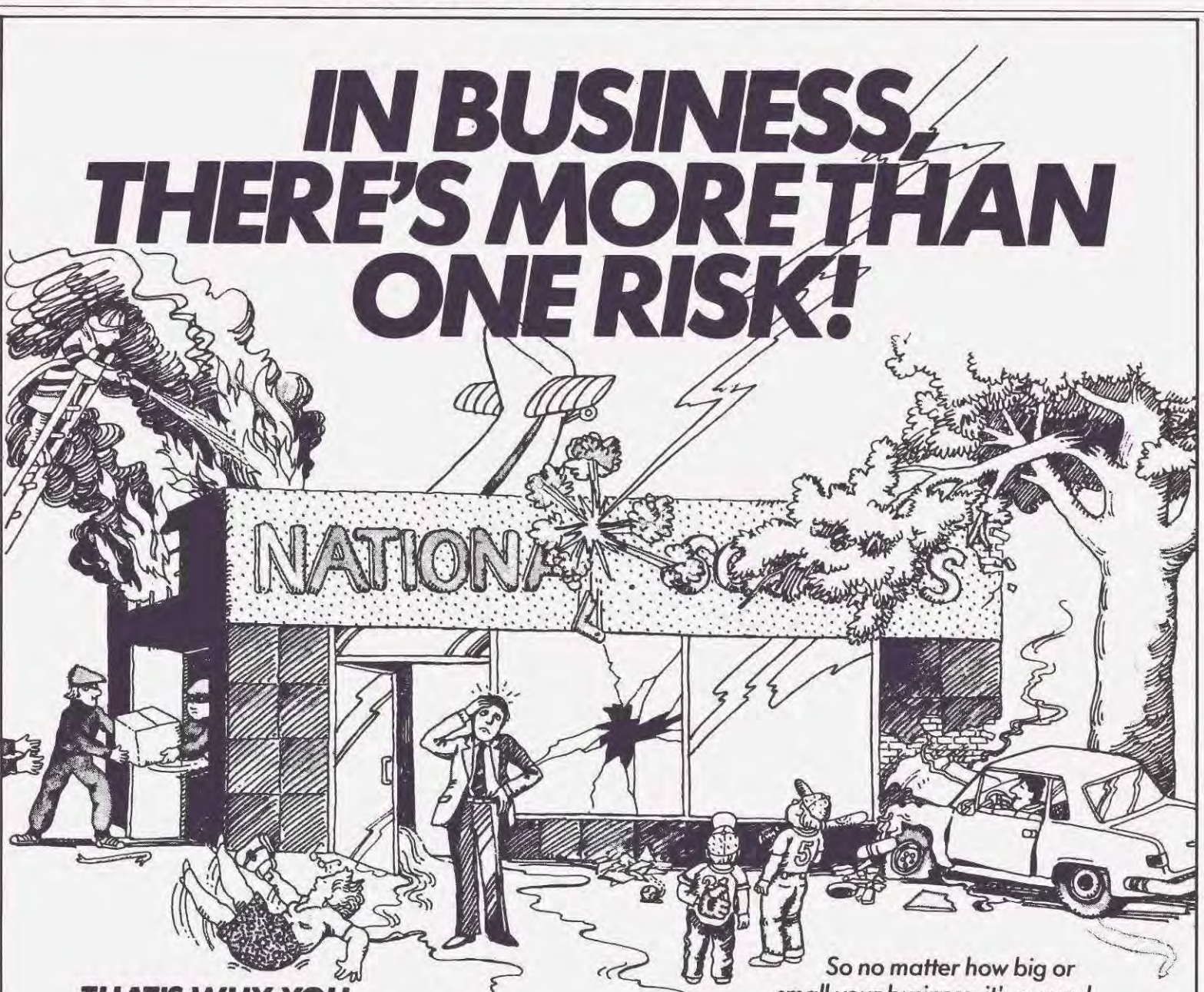
One suit originally askin $500,000 has already been settle for $15,000 by the Braves' insure Home Insurance Co., and Royal In surance Co., the underwriter fo the stadium authority at the time o the incident, Mr. Graves said.

The case involved an 8-year-ol boy who was struck by a batte ball, he said.

The decision to close the picni areas was not made because of in surers' demands, according to M Graves.

"We felt it was in our best inter est to eliminate the areas because o the way they were being utilized, Mr. Graves said.

"People were walking aroun and not watching the game an could be struck by a ball while no looking toward the field," he said.



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Jury Verdict's data 'misleading,' Nader says

WASHINGTON—Data produced by Jury Verdict Research Inc. is "fundamentally misleading" and not useful for supporting claims of any trend in jury verdicts, an analysis by Ralph Nader says.

Mr. Nader called the Solon, Ohio-based firm's data "confused" and "unreliable" because they do not reflect inflation, do not include settlements and verdicts lowered on appeal or bench verdicts and do not include verdicts for defendants.

He also criticized the media for uncritically using JVR data in tort reform debate.

JVR puts out various publications that track verdicts across the country.

Among Mr. Nader's criticisms include JVR's method of collecting data and assessing jury awards; its use of "average verdicts"; its "year-to-year comparisons" of awards; and its failure to consider reductions of jury awards.

For example, he said year-to-year comparisons of medical malpractice and product liability verdicts are impossible to make with the limited information it provides. "The 'average' verdicts JVR computes in these categories are never adjusted for inflation to express a relationship in constant dollars.

"Yet JVR continues to publish unadjusted figures from which charts and graphics have frequently been adapted," he said.

Virginia Hermann, president of Jury Verdict Research, disputed Mr. Nader's contentions. "Mr. Nader does not understand the focus of our business," she said.

Ms. Hermann emphasized that its purpose is to track current award trends by analyzing jury verdicts over a 10-year period.

It doesn't consider settlements or defense verdicts because that isn't its purpose, she said, but added that is done in other JVR studies.

"We are simply collecting data and reporting it as we find it," she said. "We are not trying to weight any particular side of this issue."

She also emphasized that JVR has a repr sentative sampling from all levels of U. courts and believes its data includes 98% all personal injury awards.

Some in the media, however, have misr presented or don't understand some of t tables, she said. She added that a consum price index is included so that there is a w to adjust for inflation.

"It's not our purpose to evaluate claims a cording to current dollar value," Ms. He mann added. "We are not trying to make statement, just collecting data and repo what we find."

Jewel claims

Continued from page 2

cording to a declaratory judgment action filed March 24 by American Insurance Co.

Salt Lake City-based American Stores Co. has about $65 million in coverage remaining to respond to 1,100 individual and class-action food poisoning-related claims. Insurers have paid about $6 million of the company's $71 million in coverage to settle claims with about 7,000 individuals or families and to pay defense costs (*BI*, April 7).

Already paid is $900,000 in primary liability coverage written by The Home Insurance Co. above American Stores' $100,000 retention. A $5 million excess of $1 million layer written by Mission National Insurance Co. also has been paid.

Now being tapped to pay claims and defense costs is a $5 million excess of $6 million layer from Granite State Insurance Co., an American International Group Inc. unit.

That layer is followed by a $30 million excess of $11 million layer written by Federal Insurance Co., a Chubb Corp. unit, while a $30 million excess of $41 million layer is written by American Insurance Co., a unit of Fireman's Fund Insurance Cos.

In its recent declaratory judgment action, American Insurance asked a Cook County Circuit Court to find that:

- Mission National and Granite must provide for defense costs in addition to their liability limits and that their obligation to provide a defense does not end when those insurers have paid out the limits of their policies.

Both Mission National and Granite State contend that defense costs are included within policy limits, according to attorneys.

- Tainted milk was produced in two separate occurrences—March 20 and 30, 1985—so American Stores must again pay its $100,000 SIR for the second occurrence and Home should pay a second $900,000 because its policy has no annual aggregate.

American has asked American Stores and Home to pay their share of the alleged second occurrence, but neither has, court papers say.

Mission National's policy has an annual aggregate, according to court papers. Consequently, no additional money is being sought from that insurer.

- Punitive damages are not insurable under the policies issued by Mission, Granite, Federal and American.

It is American Stores' position that coverage is provided under these policies for punitive damages.

Coverage for punitive damages would depend upon policy wording and whether applicable state law permits coverage. Which state's laws apply to a particular case can depend upon several factors, including where the policies were signed and the premium paid.

Jewel's ultimate liability for the injury caused by more than 16,000 cases of salmonella poisoning will largely depend on whether punitive damages are assessed. ■



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Work comp rates

Continued from page 3

• A growing movement on the part of the federal government and state governments to support health care cost-containment measures.

Mr. Miller made his remarks during the NCCI's annual meeting, which was held last month in Boca Raton, Fla.

Rising workers compensation costs were one of the main concerns discussed at the annual meeting.

During a panel discussion, a Rutgers University professor told insurers that a simple formula for holding the line on workers compensation costs is competition.

'You have an industry with 1,500 firms competing for business. You don't have to monitor that industry as closely as an industry with one or two firms in the business,' says John D. Worrall, an economics professor at Rutgers University.

"The best cost-containment policy is to let the market work, let competition work," said John D. Worrall, an economics professor at Rutgers in Camden, N.J. Mr. Worrall previously was a vp and director of economic and social research at the NCCI.

"You have an industry with 1,500 firms competing for business. You don't have to monitor that industry as closely as an industry with one or two firms in the business," Mr. Worrall said.

In the workers compensation segment of the insurance industry, "government is a key factor," Mr. Worrall explained.

"Government sets benefit levels, government regulates prices, government regulates solvency, government monitors contracts and clients, government acts as a monopolist in some markets and prohibits the exercise in a free enterprise system," he said.

"Big Brother regulating adds to the cost of doing business," Mr. Worrall said.

Government intervention in workers compensation, however, is a key to a number of proposals supported by organized labor.

For instance, the use of exclusive state funds is one of the ways to make the workers compensation system more efficient, said James N. Ellenberger, another member of the panel and assistant director of occupational safety, health and Social Security for the AFL-CIO in Washington.

Exclusive state funds exist in six states, where only the fund is allowed to sell workers compensation insurance, blocking out competition in the marketplace.

"We believe exclusive state funds can deliver benefits more efficiently and at less cost," Mr. Ellenberger said.

Other routes to cost containment and an efficient workers compensation system include several congressional proposals, Mr. Ellenberger said.

Those measures, which the AFL-CIO supports, include:

• H.R. 3090, which would establish a new federal occupational disease compensation program. The measure was introduced by Rep. Pat Williams, D-Mont., and is pending in the House Committee on Education and Labor.

• H.R. 1309, the High Risk Occupational Disease Notification and Prevention Act of 1985, which would establish a system of identifying, notifying and preventing illness and death among workers who are at increased or high risk of occupational disease. The legislation was sponsored by Rep. Joseph M. Gaydos, D-Pa.

After five hearings held jointly by the House Education and Labor Committee's subcommittees on labor standards and health and safety, the bill is scheduled to be discussed by the subcommittees on May 14 (*BI*, Sept. 30, 1985).

The AFL-CIO also would like to see more states adopt the 19 minimum standards that were recommended in 1972 by the National Commission on State Workmen's Compensation Laws, a presidentially appointed panel.

And, the AFL-CIO would like to see more involvement by business and labor in the ratemaking process.

Two other speakers on the panel believe that any discussion of workers compensation cost containment must focus on medical costs.

Louise M. Firth, manager of the economics and regulation unit of Arthur D. Little Inc., a Cambridge, Mass.-based consulting firm, sees an increase in the use of "managed care" as a primary cost-containment method.

In managed care systems, all parties involved in a workers compensation claim—including the injured worker, employer, insurer and health care provider—interract until the worker is totally rehabilitated.

Ms. Firth urged workers compensation underwriters to expand close monitoring and management of serious injury cases to other types of cases as another cost-containment measure.

The use of preferred provider organizations for workers compensation injuries was advocated by Clark C. Havighurst, a professor at Duke University School of Law in Durham, N.C.

He believes that a major reason for the high cost of workers compensation claims is that state laws allow injured workers to choose their physician.

Mr. Havighurst urged insurers to work toward having state workers compensation laws amended to remove an injured worker's exclusive freedom of choice in selecting a physician.

With the use of PPOs, injured workers would have the option of choosing their own physician and paying some of the medical costs of the work-related injury, or using a physician selected by the insurer and not paying any of the costs, he said.

But the AFL-CIO's Mr. Ellenberger said: "From our perspective, we would have a difficult time swallowing that." ■



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opinions

Expect an inquisition

RISK MANAGERS AND employee benefit managers should be briefing their corporate directors on important issues stockholders are likely to raise at annual meetings this year.

The liability insurance crisis and changes in employee benefit accounting rules are well known to investors, who will want to know how their companies are responding to these important developments. As a result, corporate directors can expect more questions on insurance and employee benefit issues this year than in the recent past.

Risk managers and employee benefit managers should provide their corporate directors with written questions and the appropriate answers on hot issues. This is critical for corporate directors who have not been well-briefed on risk management and employee benefit issues throughout the year. Corporate directors who have been well-briefed throughout the year on these issues probably will be prepared to answer questions, but it won't hurt to help the directors bone up for the meeting.

Each corporation's risk manager and employee benefit manager should be able to anticipate questions that his or her company's stockholders are likely to raise. But, there are many general questions on risk management and employee benefit issues that stockholders are likely to ask at almost all annual meetings.

A booklet, "Questions at Stockholders Meetings-1986," published by the accounting, auditing, tax and consulting firm of Deloitte Haskins & Sells contains many of these general questions.

Among the risk management-related questions that probably will be asked, according to the booklet, are:

- Has the company experienced unavailability of certain types of insurance coverage? Is self-insurance used for any risks?
- Has the company been able to maintain adequate directors and officers liability insurance? If not, what effect has this had on attracting and retaining management and directors?
- Has the board considered forming a committee on safety, health and environmental safeguards?
- What has the company done to minimize the possibility of a hazardous material disaster similar to the tragedy in Bhopal, India?
- What has the company done to promote plant safety and accident prevention? Were there any serious injuries to employees or customers during the year?
- What is the nature and current status of any material litigation pending against the company?
- Has the company been a victim of computer fraud, unauthorized computer access or other criminal or illegal activity by employees or others during the year?

Among the employee benefit-related questions that probably will be asked, according to the Deloitte Haskins & Sells booklet, are:

- What effect will the implementation of FASB Statement No. 87 (Employers' Accounting for Pensions) have on the company? Will the company have to record a liability? If so, how much?
- Is there an unfunded liability for post-retirement health and life insurance benefits? If so, what is the amount?
- Does the company plan to cancel its pension plan in a pension fund reversion in order to withdraw the plan's excess funds?
- Has the company considered establishing an employee stock ownership plan? Would the plan purchase shares of stock on the open market or from the company?

letters

Public doesn't know enough to make judgments

To the editor: Insurance companies don't pay claims. The public pays claims through the premiums collected by the insurance companies. Therefore, the "perception" of the amount of premiums needed to pay claims when due, with sufficient profit left over to justify the capital invested, should be left to the industry best qualified.

Even though this industry undercharged its insureds in the past, it does not now warrant the imposition of price controls or artificial or cosmetic solutions by governmental authorities. With 1,600 property/casualty insurance companies in the nation, a competitive market does not exist that negates any chance of collusion or gouging. What is deemed a "crisis" by the public is in reality the market forces belatedly reacting to the litigious nature of society and the ever-increasing trend of jury awards and settlements.

If society wishes to reduce claims, it needs to first be aware of claims' components. Claims contain: payment to claimants, which includes about 30% to 40% of the payment going to plaintiff's attorneys; the cost of claim investigation and administration by the insurance companies; and the cost of defense attorneys hired by the insurance companies.

Since the premium dollar contains the cost of "delivering" the claim, add another 50% of the total claim cost to make up the premium bill of John Q. Public. Put another way, for every dollar the actual injured party receives net, the public ends up paying almost $3 to get that one dollar to the injured party. Hardly an effective way to compensate an injured party.

Many different ways exist to lower the cost of claims, which in turn will directly reduce premiums. For example: compulsory arbitration, no-fault programs, nonpayment of punitive damages by insurance companies, caps on pain and suffering awards, imposed structured settlements, no joint liability and improved comparative negligence statutes, caps on attorneys' fees in settlements and judgments, speedier court calendars, elimination of contingent fees (except in cases of indigent plaintiffs with court approval) and penalties for frivolous lawsuits.

What should not be permitted is thwarting by the legal profession of many of these remedies through its inordinate influence in the legislatures. A "referendum" should be considered that would express the will of the premium payers rather than the will of the attorneys as legislators.

The public through legislation has the right to change the laws. If it is frustrated in its endeavor to reduce claims, it should not be misdirected into blaming the insurance industry. The free-market forces within the insurance industry will negate any possibility of excess premiums.

Martin Beitler
President
Homestead Insurance Co.
Philadelphia

Is RIMS proposal really a free lunch?

To the editor: I suppose it had to happen: A proposal by the Risk & Insurance Management Society to open the ultimate deep pocket, the Treasury of the United States, to the tender mercies of the insurance and legal fraternities (*BI*, April 21; April 28).

Perhaps this project can be funded by the money saved due to the curtailment of school lunch programs.

Craig A. Carter
Albany, N.Y.

Business Insurance welcomes letters from its readers. Please keep your comments as brief as possible. We reserve the right to edit letters for clarity or space. We will not publish unsigned letters. Send your comments to Letters to the Editor, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611.

Mr. Greenberg 'puts it all in perspective'

To the editor: It was again most interesting to read Maurice R. Greenberg's candid comments on the current state of the property/casualty industry in Judy Greenwald's article entitled, "Insurers Must Share Blame" (*BI*, March 31).

It is refreshing to find the head of such a colossal U.S.-based international premium writer take a share of the blame for the current restricted market conditions. Mr. Greenberg is a man of vision. He has worked hard to establish his international presence and to promote investment incentives at home. He puts it all in perspective when he adds to the capacity problem those of insufficient capitalization, reserve deficiencies and the quality and availability of reinsurance.

The industry will need maybe six to eight times more capital than what can be expected in its normal growth pattern to 1990. As we witness the deregulation movement, especially in the banking industry of both of our countries, it becomes clear that legislatures must introduce incentives for both Canadians and Americans to privately invest in the insurance industry with the expectancy of a fair return on their investment. Much is left to be done to raise real capacity and hopefully the assertiveness of industry leaders, such as Mr. Greenberg, will give us all a little more control over foreign reinsurance market conditions.

Louis J. Gosselin
Vp
Symons General Insurance Co.
Toronto

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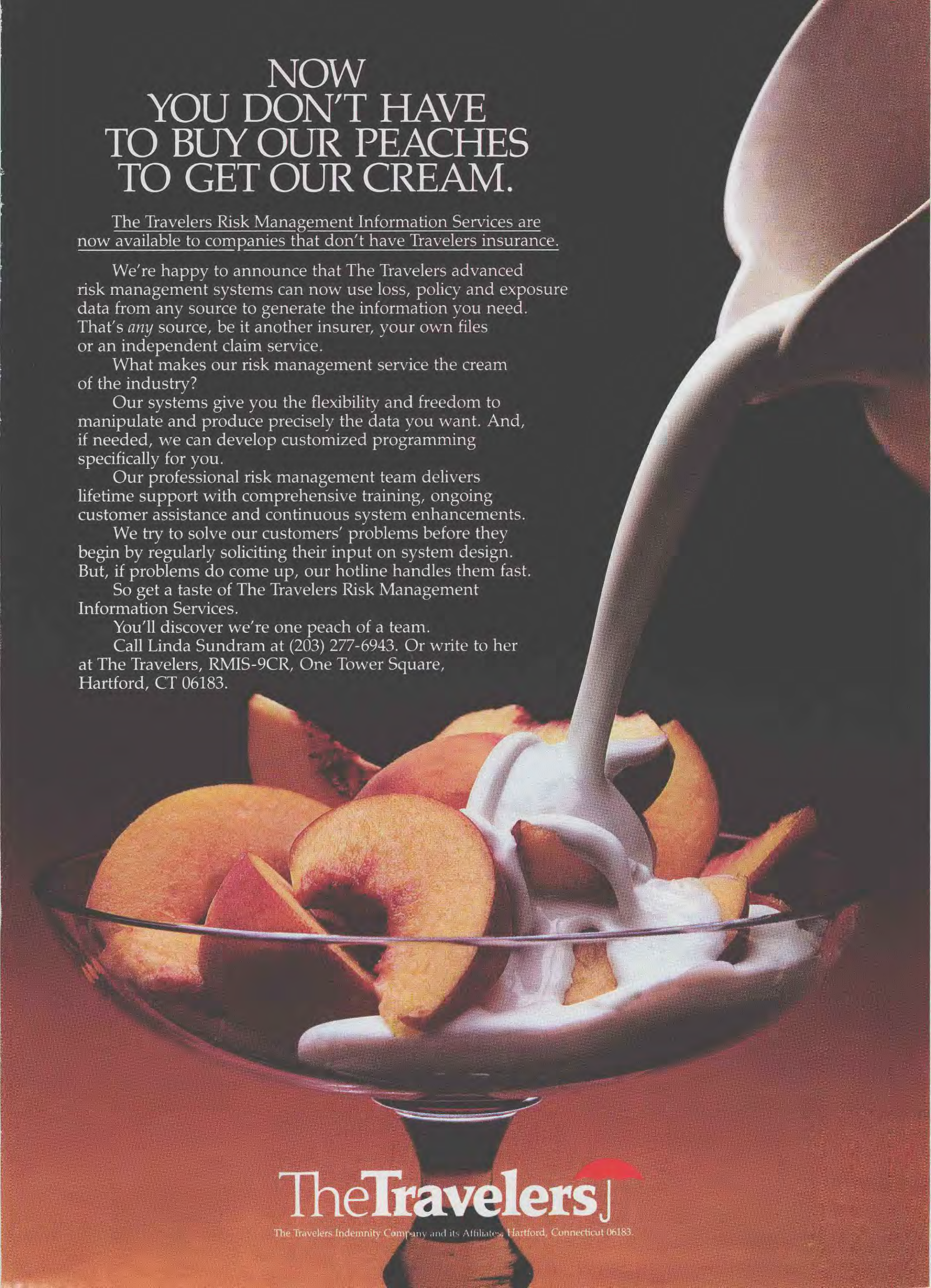
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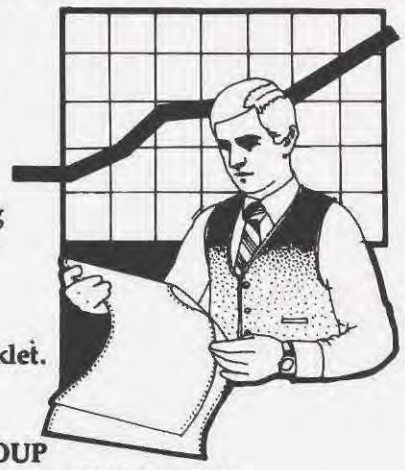
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NCCI program to save Illinois panel time, money

By CAROL CAIN

SPRINGFIELD, Ill.—The Illinois Industrial Commission expects to expedite more workers compensation cases this year—and save more than $100,000—thanks to a new computer program from the National Council on Compensation Insurance.

Last month, Illinois became the first state to begin using the Notification of Coverage program. The NCCI expects to have it in place in 20 more states by year-end.

The program, an enhancement of the NCCI's Policy Issue Capture System, is just one of the many new projects undertaken by the national workers compensation ratemaking and research organization.

Basically, the program provides the IIC with notices and terminations of workers compensation policies.

"Virtually every state requires insurers to notify its industrial commission when a work comp policy goes in force or is terminated," said Anthony J. Grippa, an NCCI senior vp. They require such information to make sure that employers in the state have covered their workers compensation risks, he said.

"At the same time, insurers also are required to send a copy of their policies to the NCCI," he said, explaining that the NCCI wants to make sure the policies are properly written.

"We believe the reporting of this data, via the NCCI, to the Industrial Commission will streamline the whole process, saving both our member carriers and the Industrial Commission time and money," said Robert L. Hilton, an NCCI senior vp.

The IIC has been given direct access to the coverage information stored in the NCCI's data base in the state capital, Mr. Hilton explained.

"A terminal, set up at the Industrial Commission's office, links it with our data base. The direct access provides coverage or termination information immediately to the Industrial Commission and enables them to make inquiries of our system," Mr. Hilton said.

"From our standpoint, it alleviates us the cost of collecting the information from insurers, and the headache of collection," said Rich Charts, information systems manager for the IIC in Chicago, noting that other information also is available through PICS.

The IIC usually receives some 160,000 documents annually from insurers, which require a large staff and other expenses, Mr. Charts said.

"Since the NCCI already was doing that and carriers were required to report to them as well as to us, this program saves us money, as well as the insurers," Mr. Charts said, noting that the IIC expects to save more than $100,000 this year because of the program.

"Now we can concentrate on what we were legislatively set up to do—verify whether employers have coverage, instead of collecting," Mr. Charts said.

With the extra time and money, the IIC will be "able to enhance our other services and be able to complete work, like expediting cases," Mr. Charts said.

Staff members that formerly collected data on coverage have been reassigned to the caseload system, Mr. Charts said.

Although PICS has been available at the Industrial Commission for more than a year, it wasn't until last month that it finally satisfied all the legal requirements of the state, Mr. Charts said.

Tailoring the program to the requirements of each state is the next step, Mr. Hilton pointed out. He added that the International Assn. of Industrial Accident Boards & Commission, which endorsed the program, is helping with this step.

"Perhaps the best measure of the value of this program is the fact that there are many other states anxious to come on board," Mr. Hilton said. "Discussions have already begun with several of the interested states and, beginning in July, NCCI will be ready to provide services similar to what is being offered in Illinois."

The NCCI does not charge the industrial commissions for the information. ■



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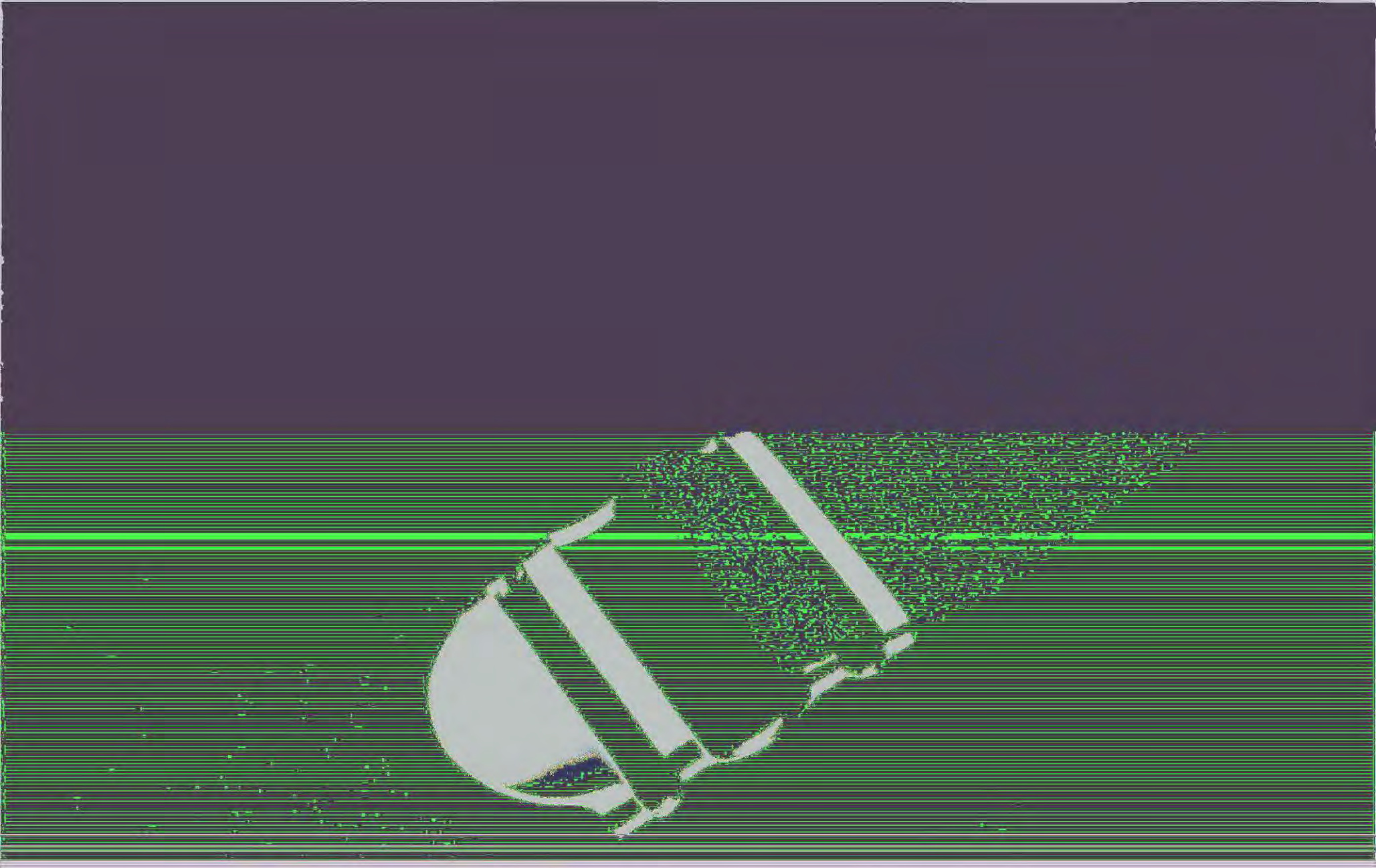
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NCCI services include more than ratemaking

By CAROL CAIN

BOCA RATON, Fla.—The National Council on Compensation Insurance does more than just set workers compensation rates.

Historically, the NCCI has gathered workers compensation claim and loss experience data to compute rates that its 740 member and subscriber insurers use for determining the premiums they charge employers.

The NCCI prepares and administers rates, rating plans and systems for workers compensation insurance in 32 states and provides similar assistance in about half of the remaining states.

Thirteen states have independent rating bureaus, but a handful of those also use the NCCI's data.

The NCCI's employees—some 1,209 at last count—collect and process data, inspect and administer its detailed classification system and disseminate information through publications and speeches.

But, although quantifying and setting workers comp rates continues to be the NCCI's primary mission, it has expanded its operation to include several additional administrative functions.

It now administers workers comp assigned risk plans in 24 jurisdictions, involving nearly 200,000 policyholders and more than $1 billion in annual premiums. It also performs administrative services for automobile assigned risk plans in two jurisdictions.

NCCI-generated data is also now used for a variety of purposes besides ratemaking.

Information supplied by the NCCI is used by state lawmakers when they draft amendments to their workers compensation laws. The NCCI also uses its data to project how much the provisions of a law would cost if adopted by a legislature. And workers compensation scholars and researchers often base their studies on NCCI data.

In addition, the NCCI is becoming a prolific publisher. Recently, it issued reports on "Emotional Stress in the Workplace" and "VDTs and Office Safety."

Last winter, it unveiled a bimonthly magazine, "Legal Insight," which carries news items and essays on current issues in the workers compensation legal arena.

"The role of the NCCI has been changing. In the early 1970s it was a very small outfit," remarked Lena Chang, an actuary and president of Chang & Co. Inc. in Boston. Ms. Chang often testifies on the actuarial soundness of workers compensation rates.

She noted that the call for changes in state workers compensation systems in 1972 by the presidentially appointed National Commission on State Workmen's Compensation Laws generated a lot of activity for the NCCI.

In particular, the NCCI had to prepare new statistics on which reform measures were based.

Since then, Ms. Chang said she's watched the NCCI change from simply a ratemaking body to an organization that serves the workers compensation community as an educational and information resource.

Others have also noticed the change.

"One of the faults the NCCI had for a long time was that it strictly did an actuarial exam, a standardized procedure. They had done a pretty good job at this narrow job, but they weren't stepping back and taking a look at the broader issues. But they have in the last decade," said John F. Burton Jr., a professor of labor relations at Cornell University in Ithaca, N.Y.

Mr. Burton often relies on NCCI data as a basis for his studies.

"For the foreseeable future, the NCCI is likely to be a visible part of the workers compensation system," said J. Howard Bunn Jr., vp of workers compensation for the National Assn. of Independent Insurers in Des Plaines, Ill.

"But what its role might be 10 years from now depends on state rating laws at the time," Mr. Bunn said.

Others agree the NCCI may be forced to change and expand its role to stay in business.

In recent years, several states have adopted open rating laws, under which insurers must individ-

Continued on page 14

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NCCI services

Continued from page 12

ually file rates. Some have predicted that if more states adopt such laws, the need for NCCI data would diminish.

NCCI officials and others say, however, that the ratemaker's data is more necessary than ever. With state laws requiring individual insurers to file their own rates, insurers need more information and the NCCI is the organization that has that data, said NCCI President Kevin Ryan.

"It would be difficult to imagine the workers compensation system without the NCCI. . .they have the data base on which we all rely. . .they are the people with the information," said Eric Oxfeld, senior congressional officer with the U.S. Department of Labor and formerly in charge of the workers compensation and employee benefits department with the U.S. Chamber of Commerce.

While workers compensation observers see a need for the NCCI, they don't agree with all its recommendations.

Several state insurance regulators admit they have had struggles with the NCCI throughout the years, though they add they are generally satisfied with the NCCI's performance.

"My experience has been positive. There are times when I have been frustrated; I have explained that to them and they went out of their way to rectify my frustrations," said Lyndon Olson Jr., chairman of the Texas State Board of Insurance.

"They have been giving us data that has been immensely helpful," Mr. Olson said, noting that the department's staff verifies some of the data supplied by the NCCI.

Another regulator, who asked to remain anonymous, said sometimes working with the NCCI is a struggle, because the organization represents insurers' interests, while the regulator must protect the buyers' interest.

"I look at what I'm getting from them very closely, because I know it's coming from the insurance industry and is supporting the insurance industry's views. But I don't think they've ever done anything to try to mislead us," the regulator said, adding there have never been any major flaws in the data.

"It's an actuarial science. There will be areas where we disagree," the regulator said.

Others contend that there occasionally is a credibility problem with NCCI data, but they add that it is usually an error in the information itself, which is supplied by insurers, not in the NCCI's handling of the data.

The NCCI has 'been giving us data that has been immensely helpful,' says Lyndon Olson of the Texas Board of Insurance.

Another criticism is that the data often is national in scope, rather than specific to the state where the filing was made.

Most recently, Iowa Insurance Commissioner Bruce Foudree initially rejected a rate filing for a 25.2% rate hike until the NCCI provided data showing specific Iowa loss experience (BI, Jan. 20; Feb. 17; April 7).

Maine Insurance Superintendent Theodore T. Briggs has had similar problems, saying the NCCI in the past has not given its Maine filings the necessary individual attention.

"Anytime a business that large is in so many states . . . dealing with a delicate issue like workers compensation . . . it can't tailor to particular states," Mr. Briggs said.

The Maine Chamber of Commerce & Industry, like business associations in several other states, also has had the opportunity to use NCCI data.

"We have found the NCCI to be helpful in the past . . . to evaluate the impact of workers compensation legislation," said Stephen Clarkin, director of government relations for the Maine Chamber.

"On the other hand, NCCI has represented the insurance industry in workers compensation rate cases and employers have intervened in most of those cases to make sure the rates were justified. We disagree with them at times, but that's all part of the process," Mr. Clarkin said.

To prevent some of this criticism from continuing, one of the NCCI's goals this year is the startup of an internal quality assurance program.

This quality control unit will be separate from the other NCCI operations, Mr. Ryan said. A specific quality control plan will be developed for every aspect of the operation, he added. ■

NCCI more than 60 years old

BOCA RATON, Fla.—The roots of the National Council on Compensation Insurance go back to the early days of the U.S. workers compensation system.

In 1911, Wisconsin became the first state to adopt a workers compensation law, and by 1920 all but eight states had enacted work comp statutes. This movement prompted the need for a systematic determination of costs and a more uniform approach to workers compensation.

The National Council on Workmen's Compensation Insurance was established in 1919 at the urging of the National Convention of Insurance Commissioners, which was the predecessor of the current National Assn. of Insurance Commissioners.

The NCCI itself was organized three years later and became operational the next year, replacing the workmen's compensation insurance council.

During 1924, its first year of operation, the NCCI established rates for insurers writing workers compensation insurance in some 10 jurisdictions.

Today, the NCCI's primary functions are the preparation and administration of rates, rating plans and systems for workers compensation insurance in 32 states, and the provision of similar assistance in about half of the remaining states.

Once each month, insurers affiliated with the NCCI submit information pertaining to policies that were initiated 18 months earlier.

Insurance companies also submit four subsequent reports annually on each policy for which there are any open claims.

These reports include information on the employer's total payroll for the policy period, the amount of premium that was paid for each work comp policy and the cost of claims that were paid on each policy.

Claims information is broken down by NCCI-affiliated insurers according to the kind of injury, indemnity and medical costs and job classification.

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Ex-judge succeeds Neff as Tennessee regulator

around the states

NASHVILLE, Tenn.—A former trial judge who took over as Tennessee commissioner of commerce and insurance late last month is calling for the appointment of a task force to study commercial liability insurance problems.

William Inman, 59, assumed the commissioner's post April 21 replacing John C. Neff, who resigned to start a company to own and manage nursing homes.

The "crisis in the commercial market" is a priority, Mr. Inman said, explaining that he asked the governor to prepare an executive order creating a task force to study the problem and report before the General Assembly reconvenes in January 1987.

He hopes the task force will look at ways to generally and specifically reform tort law. Mr. Inman favors the abolishment of the doctrine of joint and several liability, as well as the reinstatement of absolute sovereign immunity for government entities.

Mr. Inman had been serving as counsel to Gov. Lamar Alexander when he was selected to succeed Mr. Neff. Before then, Mr. Inman was a state trial judge for 12 years, during which time he also served four years as presiding judge of the Tennessee Court of the Judiciary.

Mr. Inman also practiced general law for several years in eastern Tennessee.

Mr. Inman has an undergraduate degree in foreign languages from the Cumberland University in Tennessee, and also is a graduate of the university's law school.

The new commissioner replaces Mr. Neff, who has held the post since 1979. From 1973 through 1976, Mr. Neff was president and chief executive officer of the Hospital Corp. of America.

Work comp pools

ANNAPOLIS, Md.—Private employers in Maryland will be able to form self-insurance pools to insure their workers compensation risks, under a measure adopted by the Maryland General Assembly before it adjourned last month.

The bill has been sent to Gov. Harry R. Hughes, who has not indicated whether he will sign the bill.

H.B. 239 allows private employers to form workers compensation self-insurance pools after July 1. Previously, employers were permitted to individually self-insure their work comp exposures, but only if they were large enough to meet financial requirements.

Only public entities currently are allowed to group self-insure workers compensation risks in Maryland.

The Maryland Chamber of Commerce favored the measure, but the Chamber wanted the bill to include a provision requiring self-insurers to pay a premium tax, similar to the 2% tax employers pay when they purchase work comp coverage in the commercial market. That 2% tax goes to the Insurance Division for general administrative costs.

However, H.B. 239 does not include a premium tax provision.

And, in another change under the bill, group work comp self-insurers will be regulated by the Maryland Insurance Division. Currently, work comp self-insurers are regulated by the state Workmen's Compensation Commission.

The Insurance Division also supports the implementation of workers compensation group self-insurance, according to Deputy Commissioner Thomas Barbera.

Wyoming regulator

CHEYENNE, Wyo.—The manager of the insurance section of the Wyoming Department of Administration and Fiscal Control recently was named the state's acting insurance director.

Monroe Lauer, 36, was appointed by Gov. Ed Herschler to replace Robert W. Schrader, who resigned in March.

Mr. Lauer has been with the DAFC—the state's purchasing department—since 1978. In his position as manager of the insurance section, he purchased property/casualty insurance for the state and handled claims.

Prior to holding that post he was a manager of an Arby's restaurant in Cheyenne.

Mr. Lauer, a South Dakota native, admitted he has no insurance training. He agreed to serve only as acting commissioner and noted that Gov. Herschler is not seeking reelection, which means the new governor will make his own permanent appointment.

Mr. Schrader could not be reached for comment on his reasons for his resignation from the insurance commissioner's post.

Municipal liability

CHARLESTOWN, W.V.—The survival of West Virginia cities may hinge on a legislative solution to the insurance crisis, says the president of the West Virginia Municipal League.

West Virginia municipalities and other government entities that have been having difficulties in obtaining liability insurance are hoping that legislation will be adopted this month to give them some relief, said League President Art Ashley, who also is mayor of the city of Nitro, W.Va.

Gov. Arch A. Moore Jr. said he will call a special session of the Legislature later this month to deal with several insurance issues, including municipal liability.

The regular legislative session adjourned March 8 without adopting any legislation to ease the availability/affordability problems in the municipal liability market.

"The Legislature should have never left unless they addressed this problem," Mr. Ashley said.

Several tort reform bills were introduced during the Legislature's regular session, but only one was adopted dealing with medical malpractice insurance (BI, April 14). Insurers say the new law would restrict their underwriting ability, and five of them say they will cancel all types of professional liability insurance in the state (*BI*, April 28).

Gov. Moore's call for a special session will deal not only with correcting the problems of the malpractice bill, but also with municipal liability, Mr. Ashley said.

The cities and other government entities would like to see several provisions in reform legislation:

- Creation of a competitive state fund for liability insurance.
- Caps of $1 million on awards for non-economic damages.
- A limited level of sovereign immunity. ■

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Wedding coverage

Continued from page 2
difficult to place."

However, according to Geoffrey Fox, director of Lloyd's of London broker Adam Bros. Contingency Ltd., "the market has not really changed."

"The cause of cancellation hasn't changed. Only the insurance aspect has between the two weddings in that everyone (in the royal family) is older," Mr. Fox pointed out."The Queen Mother is now 86 and then she was 81. You are talking about more elderly people and rates have hardened due to . . . age," he said.

"So there is change to the rating due to the increased age of the royal family, since the major risk is a death in the royal family," Mr. Fox explained.

"Royal wedding insurance" is actually contingency insurance for businesses that depend on the July 23 royal wedding going off according to plan.

Cancellation because of terrorist threats is highly unlikely, says Mr. Fox.

The insurance covers disposal and redesign of inventory that bears the royal wedding date or other lost revenues due to a cancellation or delay.

The most likely reason for any royal occasion to be canceled or postponed would be the death of a royal family member. Other risks include damage to Westminster Abbey, where the wedding will be held, or if "Sarah Ferguson comes down with the measles," said Mr. Fox.

Underwriters also are aware of an additional risk this year—terrorism related to the U.S. bombing of Libya last month. Some of the jets that carried out the raid are based in Britain and Libyan leader Moammar Khadafy has vowed revenge.

But cancellation because of terrorist threats is highly unlikely, Mr. Fox says.

"There won't be cancellation of the wedding due to a terrorist threat," Mr. Fox noted.

"The queen was walking all over the place on her 60th birthday. They ignore Khadafy—thank God. They arrive in open carriages. When have you heard the last time that the royal family canceled because of a terrorist threat?" Mr. Fox said.

In fact, the last time any royal family member canceled or postponed an important engagement was in 1901, when King Edward VII became ill for the original date of his coronation.

The coronation was rescheduled a month later.

"I wasn't around then," said Sun Alliance's Mr. Mills. "But a postponement could happen this time, especially considering the bridegroom's profession." Prince Andrew is a lieutenant in the Royal Navy.

At the last royal wedding, the leading market for cancellation or postponement insurance was a line slip put together by Adam Bros. Coverage with limits of 7 million to 8 million pounds was found at an average rate of 2.5%, said Mr. Fox. There were no claims submitted, he pointed out.

Adam Bros. has just begun putting together a line slip for the 1986 royal wedding because of the late announcement of the wedding date.

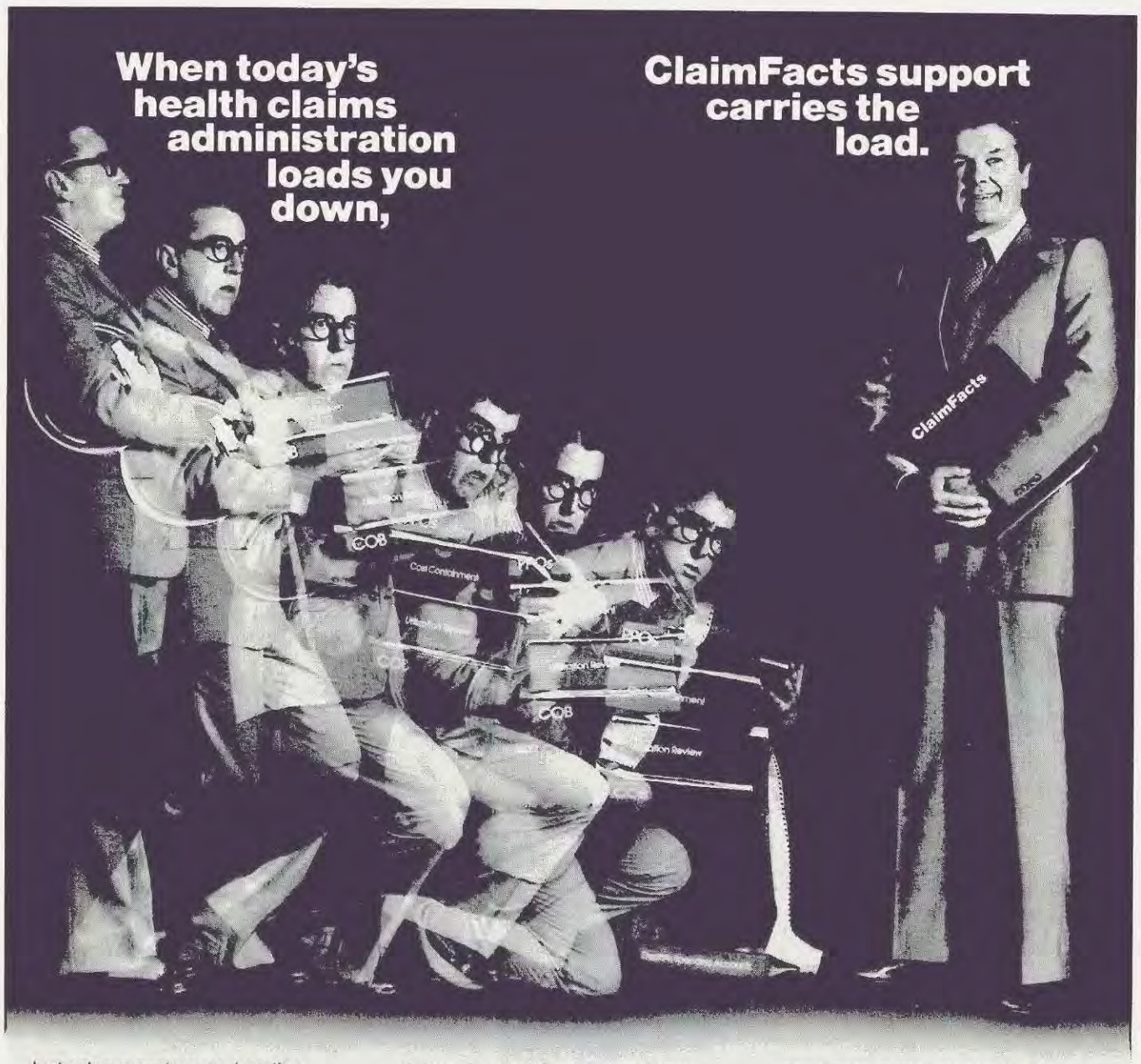
Adam Bros. is trying to line up 10 million pounds ($15 million) of coverage for the line slip, which probably will be led by a Lloyd's underwriter, said Mr. Fox.

So far, however, fewer clients are seeking coverage than in 1981, he said, perhaps because Prince Andrew's wedding will not be as commercialized as was that of Prince Charles, who is first in line of succession to the British monarchy.

Sun Alliance, which was not a big contingency insurer in 1981, this year is offering royal wedding insurance backed by major reinsurance companies like Fireman's Fund Insurance Co. and Munich Reinsurance Co., said Mr. Mills.

Sun Alliance will insure a risk of up to 4 million pounds ($6 million), and can find more capacity if necessary, said Mr. Mills. So far, the group has received a few inquiries and one firm order from a publisher that is coming out with a book on the royal wedding.

The group's coverage excludes losses due to cancellation or postponement as a result of civil war, insurrection or rebellion, "but terrorism is not excluded," said Mr. Mills. "It takes a lot to stop us." ■



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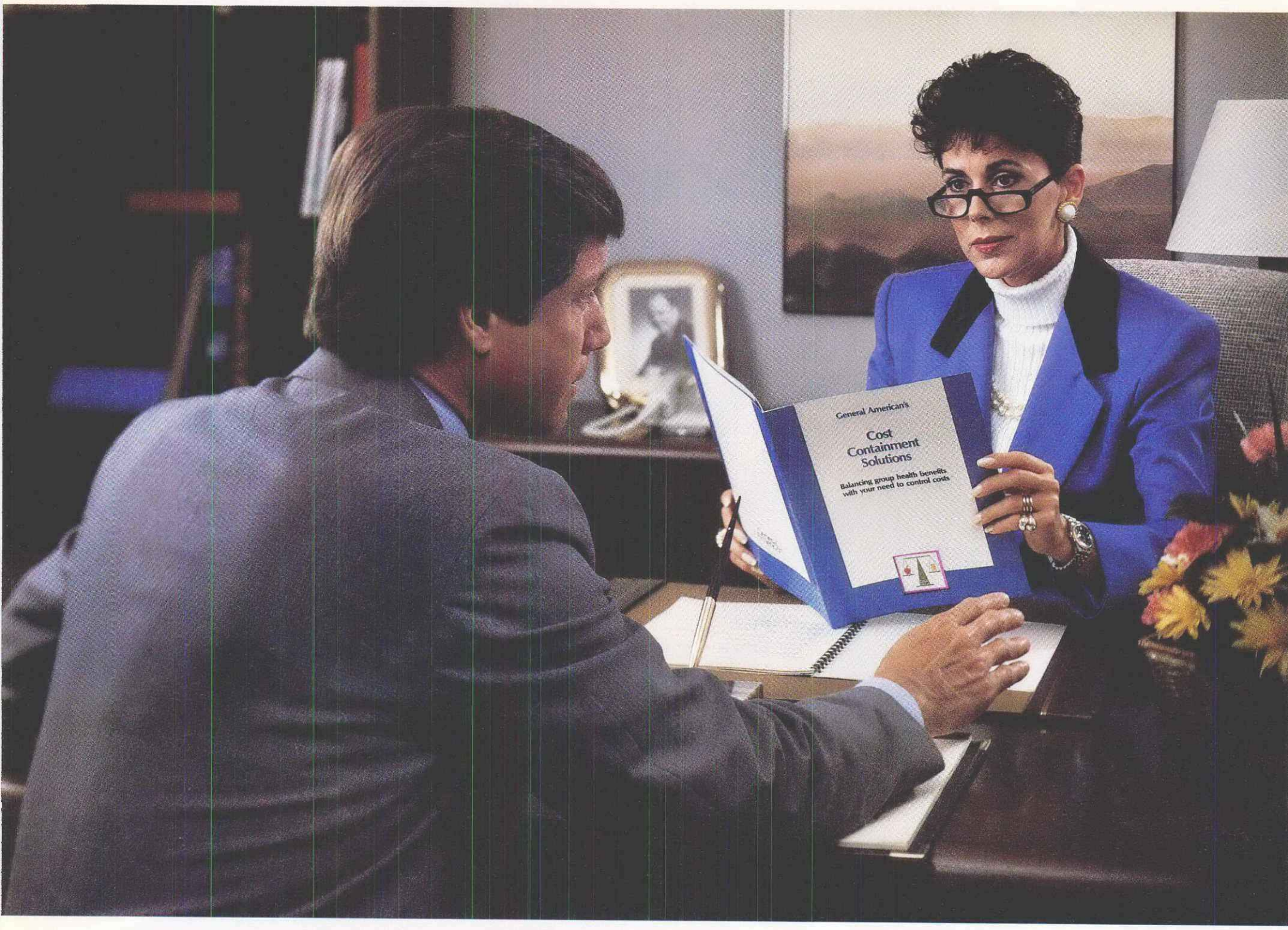
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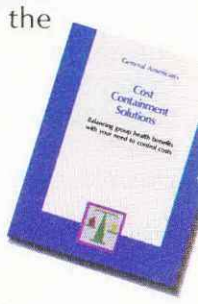
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CONSOLIDATION COURSE

Pooling of premiums increases buying leverage, reduces costs

By Jerome Karter

IT'S A SMALL, small world for U.S. multinationals that sail the seas of coordinated cargo programs.

By charting the course of consolidation, many U.S. risk managers have reduced worldwide cargo premiums, broadened coverage and improved controls.

Additional economic benefits often are realized when U.S. multinationals reinsure consolidated transit premiums to an existing offshore captive.

In recent years, many U.S. multinationals have favored the controlled program approach to insuring foreign property and casualty exposures.

But, the apparent advantages of a controlled foreign cargo insurance program sometimes are overlooked.

A controlled foreign cargo program can provide the following benefits:

- Worldwide coverages negotiated with a single underwriter on broad terms.
- Pooling of worldwide premiums to increase buying leverage and reduce costs.
- Uniform global cargo claims, data processing and loss-control services.
- Easier compliance with local insurance regulations.
- Increased feasibility of captive involvement.

Since most cargo programs involve major premium expense, let's look more closely at some of the benefits of a controlled cargo program.

A consolidated cargo program written through a worldwide insurer offers broader coverage than the more-fragmented local underwriting approach.

Underwriters classify cargo as under-deck or above-deck, and as general (a variety of goods shipped by one or more interests) or full (a single commodity shipped by one interest).

Under a decentralized cargo program, a local insurer will underwrite each of these classifications separately. Local underwriting criteria also will include diverse elements, such as type of packaging and seaworthiness of a vessel. Vessels over 15 years of age often are charged a surcharge.

Under a consolidated cargo program, however, the worldwide insurer will issue a global master all-risk contract covering any goods or merchandise incidental to the policyholder's business, whether on-deck, under-deck or by air, and throughout the transit exposure, including connecting inland movements, until the goods are in place at their final destination.



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

In most cases, the master all-risk contract will be substantially broader than any local cargo policy, with fewer obligations imposed on the policyholder.

Where legally permissable, the master all-risk policy can be duplicated at the local level, thereby diminishing both excess and difference-in-conditions exposures under the master insurance program.

In addition to broadened peril coverage, a controlled cargo program will provide uniform worldwide policy wording.

With few exceptions, standard ocean cargo forms are not required by law. Instead, each insurer is free to use its own policy wording or manuscript broker forms.

While most cargo forms are worded similarly, insuring customs often vary from country to country. Special attention must be paid to local endorsement wording, which is generally held to represent the specific interests of the policyholder.

If a coverage dispute arises at the time of loss, local policy wording will be interpreted according to the established custom of the country.

Under a controlled cargo program, however, uniform master all-risk policy clauses will apply worldwide, whether coverage is locally admitted or non-admitted.

Another objective of a well-designed controlled cargo program is streamlined rating.

Under a decentralized cargo progam, a local policyholder will pay market rates for each cargo classification. In the event of a catastrophic loss or a series of shock losses, the local insured may suffer a drastic rate increase or cancellation of coverage.

The "pooling" concept of a controlled cargo program, however, allows the U.S. parent insurer to mandate worldwide rates, since all premium and loss experience is treated as one book of business.

In theory, a controlled program operates like a captive, but the insurer accepts all premiums and losses.

The U.S. parent insurer may develop individual rates for the risks of ocean or air; DIC/contingency/guarantee collectibility; and war and strike, riots and civil commotion.

These individual rates then can be applied to all shipments reported under the non-admitted master all-risk cargo contract, and to all shipments reported in countries where the master all-risk contract can be legally issued.

For a fronting fee, the U.S. insurer's overseas network issues the all-risk cargo contract at worldwide rates (in legally permissible countries). All remaining premium is reinsured to the U.S. parent insurer. Losses are shared proportionately.

In addition to the "pooling" concept, a controlled program allows declaration on either an individual shipment or bulk reporting basis.

Sensitivity to service is another fundamental component of a controlled cargo program, especially in the areas of global claims-handling, data processing and loss-control services.

Although there are advantages of scale to be gained through service consolidation, a well-designed controlled cargo program should respond to the service needs of both the foreign subsidiary and the corporate parent.

While consignees initially fear that the centralized claims administration will delay processing, experience has shown that loss payments actually are accelerated.

Centralized U.S. claims administration also eliminates settling agent fees, which can add as much as 20% annually to a policyholder's gross claims.

The consignee pays an overseas surveyor to prepare a claim report detailing the cause and extent of loss or damage. The documentation is forwarded to the U.S. control point for "turnaround" payment.

international issues

Consistency of data is a more obvious benefit of program consolidation.

When raw claims and recovery data are compiled and manipulated by a central control point, the resulting statistical and graphic analyses can be used to monitor claim trends as well as the underwriter's performance.

Data collection, simplified by using one worldwide insurer, serves as the design basis for electronic data processing programs that record and analyze losses by vessel, subsidiary, nature of loss and size of loss.

A well-designed controlled cargo program also will provide loss-control services that inform the policyholder of current international port conditions and recommend port facilities, shipping methods, packaging plans and cost control.

While economies of scale are available through premium pooling and coverage consolidation, additional benefits often are gained when worldwide transit premiums are reinsured to an existing offshore captive.

But, before involving an existing offshore captive in a controlled cargo program, premium and loss information should be reviewed to determine exactly how much captive participation is desirable.

If the U.S. multinational does not wish to retain 100% of the cargo exposure, quotations should be obtained from a worldwide insurer or reinsurer willing to participate in the program.

Some options for captive participation in a controlled cargo program include:

- Quota-share arrangements. The offshore captive assumes an agreed percentage of liability for each and every loss. Net premiums are shared proportionately.
- Deductible buy-backs. When a commercial insurer is providing admitted coverage and first-dollar claims services, the offshore captive can be used to reimburse the commercial insurer in amounts equal to the agreed deductible amount.

Substantial premium credits, available at optimum buy-back deductible levels, become the captive's share of net premium income.

- Midlevel aggregate plans. Under this type of program, the global insurer pays all losses up to a fixed percentage of annual premium and the offshore captive reinsures a midlevel loss amount subject to an annual aggregate.

Under this plan, the captive's income is equal to the annual aggregate loss amount.

To protect the captive's underwriting profits from depletion, the commercial reinsurer will step back in and pay all losses in excess of the captive's annual aggregate.

An offshore captive usually will enjoy a cash-flow advantage from any of these participation options, since claims payments generally lag well behind receipted premium cessions.

However, an existing offshore captive that reinsures consolidated transit premiums must maintain essential services that are not normally provided by a captive.

These services, which can be purchased from commercial facilities or provided by participating insurers, include:

- Premium assessments to consignees.
- Loss surveys.
- Loss adjustments.
- Claim payments.
- Subrogation against negligent third parties.
- General average guarantees.
- Comprehensive statistical information.
- Certification of insurance.
- Loss-control and loss-prevention services.

With or without captive involvement, any U.S. multinational can have a successful controlled cargo program if it has:

- Risk management personnel who are authorized to coordinate the consolidated program with all foreign subsidiaries.
- Support for the program obtained by making both corporate and local management aware of the specific advantages of program consolidation to each.
- An underwriting facility that is experienced in transit risks and is capable of providing admitted coverage with flexible claims service.
- An insurance broker with worldwide marine expertise and a strong international network to provide global claims handling, data processing and loss control.

A quick review of your worldwide cargo coverage may show that it is time for your corporation to chart the course of consolidation and learn what many U.S. risk managers already know: It's a small, small world!

ASK A CASUALTY ACTUARY

There are options for public entities

Q **Are there any viable solutions for public entities that cannot obtain liability insurance at any cost? We can self-insure the lower layers, but what about excess coverage?**

A The answer to your question could well be yes, subject to the laws of the jurisdiction that would apply in your circumstances.

There are three dimensions to the potential solution:

- Establishing a mechanism to spread the risk sufficiently among a group of public entities.
- Setting up a financial vehicle to make your cash flow for excess losses more predictable, and thus manageable.
- Providing the necessary capital for a viable self-insurance entity.

We will discuss each dimension in turn.

In many states, public entities have the authority to self-insure various casualty exposures. Self-insurance can be a very cost-effective means of managing losses up to a reasonable retention, such as $100,000 per claim for smaller public entities and $500,000 and $1 million or more for large public entities.

Problems arise, however, in managing losses in layers immediately above reasonable self-insured retentions. In this area, the most effective solution—apart from reasonably priced excess coverage—is a pooling mechanism.

California is a pioneering state in this area. There are more than 100 joint powers authorities, or JPAs, in the state that pool losses among their members, which might be counties, cities, school districts or water districts.

A prime example of such a pool is the Excess Insurance Authority of the County Supervisors Assn. of California. Member counties self-insure their workers compensation losses up to a selected retention, which may vary from $100,000 to $500,000.

Losses in the layer between the individual county's retention and $500,000 are pooled among members. Above $500,000, losses are covered by an excess policy, the price of which has been favorably affected by the group purchasing power of more than 25 counties.

With current conditions making excess liability insurance unavailable for many municipalities and other public entities, the need for a mechanism to self-insure liability losses up to very high levels—$10 million to $50 million or more—is now critical.

By their very nature, excess losses in these high layers are very high and very infrequent. This poses unique problems in attempting to self-fund such liabilities. Large amounts of "capital" would be needed to sufficiently prefund a high-level excess liability self-insurance mechanism.

Currently, several JPAs in California are proceeding to establish such mechanisms and fund them through the sale of certificates of participation, or COPs. These certificates are similar to municipal bonds. Since most state laws do not authorize public entities to issue bonds for the purpose of funding self-insurance vehicles, this similar investment instrument has been designed.

If interest on COPs were to qualify for exemption from federal taxation, a lower yield would be sufficient to attract investors. It is conceivable that COPs might survive pending tax reform legislation that would end tax-exempt interest for municipal bonds.

An investor in a COP would be securing an interest in a stream of premium payments from participating public entities into the excess pool. These premiums would be established at a level such that there will be only a small probability—say 1% or 5%—that premiums and subsequent interest earned will not be sufficient to cover losses over the term of the COP.

If, due to generally adverse experience or to one or two extremely large claims, premiums are inadequate, the following options would be available:

- If large losses are paid early in the term of the COP, the premiums paid by the participating public entities can be increased to a level sufficient to recoup the amount of the large loss over the remaining term of the COP. Premium levels also may be increased to reflect initial adverse experience. It may be necessary to issue another series of COPs to replenish the JPA's reserves.
- If large losses are paid near the end of the term of the COP, they may be paid through the prior accumulation of excess funds or, if necesary, through the issuance of a new set of COPs.

Let us look at an example. Twenty cities form a JPA. Each city has a self-insured retention of $250,000. Losses in the $750,000 excess of $250,000 layer are pooled.

The JPA is in a position to offer coverage of $19 million excess of $1 million by means of capitalizing itself through the issuance of $50 million of COPs. Total initial offering expenses are $1.5 million, leaving $48.5 million as the net proceeds. Interest at the rate of 8% is paid to investors in the COPs. Fund balances also earn 6% per annum.

Typically, there are two segregated funds. Fund I holds the proceeds from the COPs and uses these funds to pay liability losses and to make principal and interest payments to COP holders.

Premiums from JPA members go into Fund II, which is used to build up loss reserves and cover JPA expenses. The need for two segregated funds may arise from certain legal requirements.

First-year premiums paid to the JPA are $2.1 million ($105,000 per city), which consists of $2 million for loss funding and $100,000 for JPA expenses. These premiums escalate at 15% per year.

Total principal and interest payments to COP investors from the JPA are $5.1 million per year for each of the 20 years of the term of the COP.

If the market for excess insurance becomes soft in another three or four years, the JPA may wish to purchase excess coverage for as many years as commercial coverage is available at a favorable price.

If loss experience has been average, or better, during the hard market, the JPA members may not need to make additional premium payments to the JPA. Principal and interest payments to COP investors would be made from initial COP proceeds and accumulated interest, and claim payments would be made from self-insurance reserves.

Several comments are in order about COPs:

- COPs appear to be an effective method of managing the cash-flow aspects of an excess liability self-insurance program. Cash flow becomes more predictable and manageable.

What remains uncertain is the length of time before another series of COPs will need to be issued to protect the financial condition of the JPA. If loss experience is very good, it may never again be necessary to market another series of COPs. If it is very poor, an additional series of COPs may need to be issued early in the life of the program. Intermediate scenarios could be handled by raising or lowering premium levels.

- By themselves, COPs will not achieve any spread of risk. Pooling mechanisms such as JPAs or superpools are needed to limit the exposure of any one public entity to manageable levels.
- The feasibility of this approach is dependent on establishing the initial fund of adequate size in relation to the layers covered; the maintenance of adequate premium levels; organizational provisions that address unique features of statutes affecting the authority to self-insure and to issue bonds; the tax exemption of interest paid to COP investors; and professional marketing of the COPs to investors.

Clearly, a team of professionals in the areas of self-insurance, law and municipal financing, as well as actuaries, are needed to organize and manage excess liability funds.

While the approach outlined above is relatively new and has not yet stood the test of time, it appears to offer promise when compared with other alternatives, such as superpools and mutual insurance companies. ■

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



Mr. Sherman

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 Duva, director of employee benefits and compensation at SCM Corp. in New York, answers benefit management questions.

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.

Group policy doesn't cover 'grandchild': Court

legal briefs

A group medical insurance policy that covered an insured, members of his family and his newborn children did not cover a son born to the insured's 16-year-old unmarried daughter, the Arkansas Supreme Court ruled.

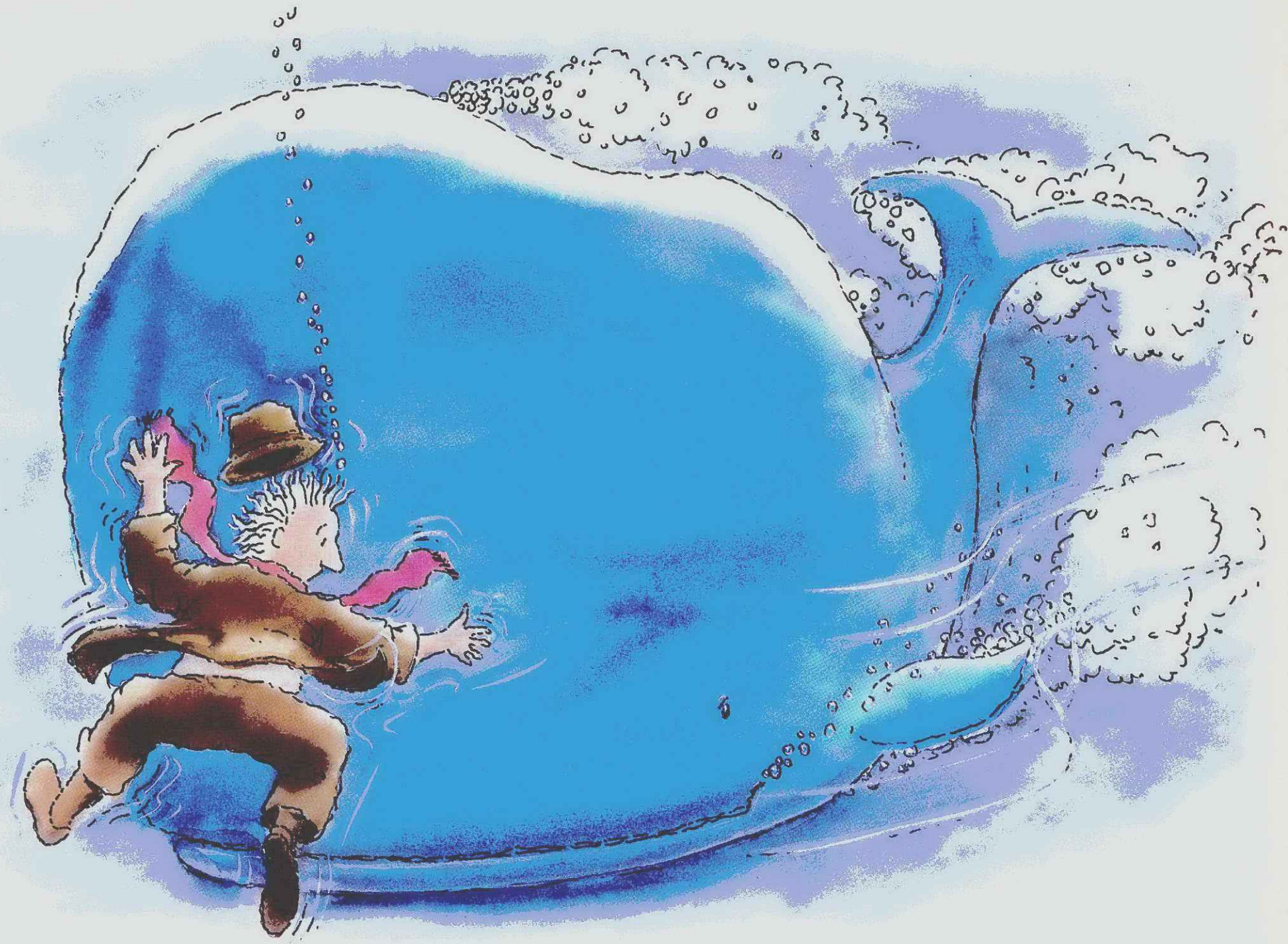
Randolph Lane and his family were insured by Blue Cross/Blue Shield under his employer's group medical policy. Mr. Lane's unmarried daughter bore a son with a congenital heart problem.

The policy did not provide for coverage of the infant. But a state law required every medical insurance contract that covers an insured and his family to include the insured's newborn children.

Mr. Lane admitted that the group policy did not explicity provide coverage here, but said that coverage was required by state law. BC/BS denied coverage. Mr. Lane sued. The trial court held that the law did not mandate coverage.

The appellate court said that the intent of the state law cited by Mr. Lane was to provide coverage for Mr. Lane's newborn child, but not to the newborn child of his unmarried 16-year-old daughter. *Lane vs. Arkansas Blue Cross & Blue Shield*, Supreme Court of Arkansas, April 1, 1985 (BI/05/A.—$5). ■

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



Change a whale-size risk into a manageable minnow.

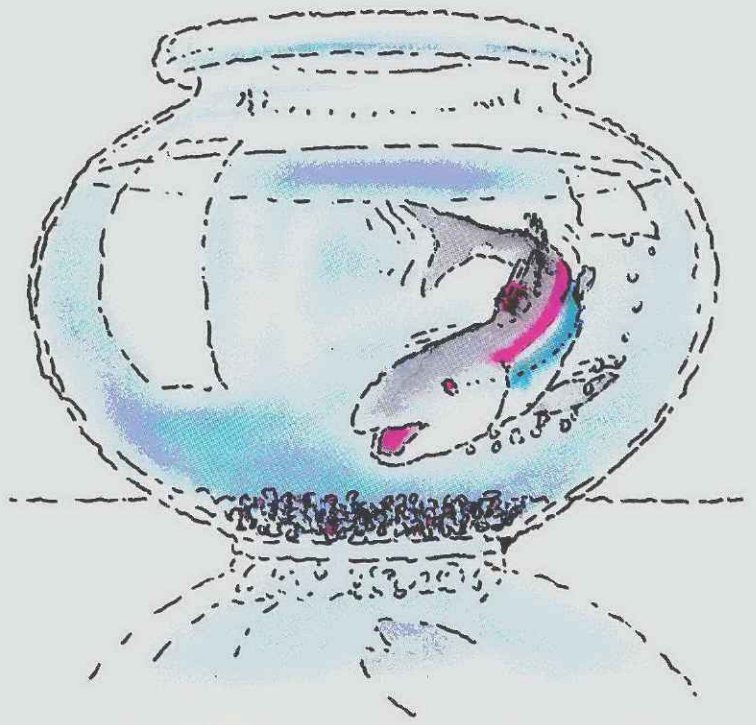
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london line

Merrett Holdings buying 40% of two underwriters

By STACY SHAPIRO

LONDON—One of Lloyd's of London's largest underwriting agency groups, Merrett Holdings P.L.C., is buying 40% of two underwriting agencies with the option to purchase the remaining 60%.

Merrett Holdings confirmed last month that it is buying 40% of Anton Underwriting Agencies Ltd. from Gibbs Insurance Holdings Ltd., a subsidiary of the Hong Kong and Shanghai Bank Corp., as well as 40% of an independent underwriting agency, Hampton Evens & Berkeley (Underwriting Agencies) Ltd.

Together, the purchase was valued at 945,000 pounds ($1.46 million) with the option to buy the other 60% from the underwriting managers for either a minimum of 2.3 million pounds ($3.57 million) within five years or a price based on a formula of profits, whichever is higher, said Stephen Merrett, chairman of Merrett Holdings.

The purchase was made by Merrett Holdings through its subsidiary, Creechurch Syndicate Managers Ltd., whose managing director, William David Robson, previously headed Anton.

Mr. Robson predicted last year that Creechurch would buy Anton from Gibbs (*BI*, March 11, 1985).

Together, the two agencies acquired by Merrett Holdings manage two marine syndicates and two non-marine syndicates, with a net premium income capacity this year of about 50 million pounds ($75 million).

The syndicates will be merged into one marine syndicate and one non-marine syndicate.

D&O coverage

Financial institutions may have an easier time finding directors and officers liability insurance in the London market if the wishes of a Lloyd's of London broker come true.

Financial institutions since last year have been excluded from a London market D&O line slip with $10 million per-risk capacity.

However, the administrator of the line slip, James Anderson, director of Lloyd's broker Stewart Wrightson North America, is "quietly confident" that financial institutions soon will be covered for the same limit as an "adjunct" to the slip, he said.

"We are trying hard to cope with financial institutions," he said.

The London market's master line slip for D&O coverage was renewed on April 1 at approximately the same limits with the same leading underwriters as last year, confirmed Mr. Anderson.

The line slip for $10 million per risk is led jointly by Lloyd's underwriters Robin Jackson at Merrett Syndicates Ltd., John Wetherell at Bolton, Ingham Underwriting Agency and non-Lloyd's underwriting agency H.S. Weavers (Underwriting) Agencies Ltd.

This year, the slip is administered by Stewart Wrightson. The other three brokerages with access to the slip are Minet Holdings P.L.C., C.T Bowring & Co. Ltd. and J. Besso & Co. Ltd.

Mr. Anderson said the size of policyholders' D&O rate increases will depend on the date on which the policies renew since rates in 1985 did not really start to escalate until March.

So, clients who renewed in January or February of this year probably received 400%-500% increases, those in March saw their rates double, those in May will see their rates increase about 50%, and those in

Continued on next page

We could write a book about the misconceptions people have about mental illness and its treatment.



Do the horrors of the past still exist in psychiatric hospitals? Or–maybe just as bad from a cost standpoint–have they become expensive "country clubs" instead?

A whole lot of misconceptions still persist about the quality of care that patients receive in today's specialty psychiatric hospitals, and especially about the costs of that care. To the individual and his family. To his employer. And to the insurer.

For instance, did you know that all member hospitals of the National Association of Private Psychiatric Hospitals are accredited by the Joint Commission on Accredidation of Hospitals? Or that most of these hospitals provide outpatient, day treatment and partial hospitalization, as well as full inpatient care?

In addition to many levels of care, these specialty hospitals offer programs tailored for children, adolescents, and adults, as well as providing chemical dependence and eating disorder programs.

Some say the cost of that special care is high. But the cost of pretending the problem doesn't exist is much greater. An illness which has been estimated as a $55 billion a year problem for industry is one you can't afford to ignore.

Right now the NAPPH has available a limited number of copies of a study which effectively analyzes the direct and indirect costs of mental health insurance coverage. If there's a chance that this data might help you to better evaluate mental illness benefits for your employees—then you owe it to your company to send for your confidential copy of this study.

There's still a whole lot of ignorance about mental illness. But you don't have to be a victim of it.



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agent/broker topics

A monthly editorial section sent exclusively to agents and brokers



The sales scene

Theatrics teach agents how to make marketing magic

LOS ANGELES—Agents were dazzled by lights, cameras and action during Insurance Marketing Services' 13th national convention and sales congress held at the Century Plaza Hotel on the outskirts of Hollywood March 24-28.

The conference was attended by 520 agency members and guests, who came to learn new marketing and management techniques and meet with fellow agents to discuss industry trends.

Roving magicians entertained registrants with card and sleight of hand tricks during one evening's cocktail reception, and celebrity impersonators mingled with the crowd at the closing dinner as attendees danced to big-band sounds.

Not to be outdone by the entertainers-for-hire, the IMS staff staged its own "Cinematic Sell-A-Bration" production for attendees' amusement. The performance consisted of four humorous vignettes depicting different eras of insurance agency operations—from the 1920s to 2010 A.D. The production was written, directed and performed entirely by IMS staff members.

But entertainment was not the primary purpose of the meeting, and IMS did not neglect the education of its members.

Agents selected from among 25 general sessions and breakout workshops those topics best designed to help them streamline, improve or increase the profit of their agencies.

A full-day advertising and marketing seminar kicked off the week's events. The second day featured two half-day seminars, one providing agents with tips on how to set up, staff and operate an agency telemarketing department and one discussing methods an agency can use to motivate its sales and support staffs.

Breakout and general sessions for the following two days included such subjects as creating an agency business plan; streamlining agency operations; enhancing an agency's community image; increasing personal lines sales; creating a paperless office; and prospecting to increase agency market share.

Also included were sessions on agency clusters; how to market voluntary benefits to existing business clients; account selling; how to mass market and market to associations; external communications; and future technology in agency automation.

Agents stiff from sitting through four days of workshops were able to rid themselves of their kinks by participating in a two-mile fun run Friday morning.

Afterward, an instructional psychologist ended the activities with a discussion of management styles and organizational development, and ways businesses can head off problems before they get out of hand.

During the week attendees could visit the booths of 40 vendors in the convention exhibit area. Exhibitors included 14 hardware and/or software automation vendors, agency support service companies, insurers and consultants.

Santa Monica-based Insurance Marketing Services is a marketing organization with 4,300 members across the United States and Canada.

In addition to its annual convention, IMS offers member agencies and brokerages weekly newsletters; marketing plan manuals and tapes; market placement assistance through a managing general agent subsidiary; regional seminars; agency software programs; access to an electronic news service; and other marketing support.

Some services are provided as part of the annual membership dues, and others are available for an additional charge. ■

Behind the scenes of telemarketing

By LINDA J. COLLINS

LOS ANGELES—Telemarketing is not a random sales process.

Effective marketing by phone "is a planned way of taking a look at who your potential sources are for new business and then methodically going after that business," says Joel Linchitz, president of Joel Linchitz Associates, a telemarketing consultant based in New York.

Mr. Linchitz explained that an effective telemarketing system depends on control of the conversation and a sales plan.

"There's more work involved before you get on the phone than when you're on the phone," Mr. Linchitz told agents and brokers attending the 13th annual Insurance Marketing Services' convention in Los Angeles.

He warned that 50% of all telemarketing operations fail within the first year of operation because they do not have an effective plan or the right telemarketers.

To understand telemarketing, it is important to understand what makes the telephone a distinctive sales medium, Mr. Linchitz pointed out. Among those characteristics are:

- It is audio-only. Because of that, "You can have a script, a presentation guide and all the necessary resources at your fingertips," Mr. Linchitz said. The telemarketer's physical appearance "doesn't matter."
- It summons people. "You can call anyone to the phone," he said, though keeping those people on the phone requires skill.
- It allows you to customize your sales message. The telephone is a dialogue medium, Mr. Linchitz explained, noting that at least 50% of the conversation should come from the prospect.

"You have an opportunity to ask some questions, and if the prospect doesn't like what you're offering, you can change your offer," Mr. Linchitz commented.

He added that since telemarketers can adapt their offer to their prospects' needs, they may still be able to salvage the call even after the initial offer is rejected.

- It demands attention. At least temporarily, the prospect is "isolated in a vacuum," with the caller's undivided attention. "What you do with (that attention) is up to you," Mr. Linchitz added.

These characteristics should be taken into consideration when an agency or brokerage plans a telemarketing strategy, Mr. Linchitz said.

Agents should also remember that their best prospects are among their current client base.

"There is probably a core of about 20% to 25% of your client base that you can sell something else to," said Mr. Linchitz. "These sales are easy, because you already have a relationship with them."

Besides selling new products to current customers, agents can use telemarketing to follow up on leads generated by direct mail response cards or through referrals from other clients.

Or, the telemarketer can make cold calls to gather expiration dates on prospects' existing policies or to set up an appointment for a producer to call on the prospect.

Mr. Linchitz pointed out that although the current client base is a good place to start, agents can expand their marketing efforts by purchasing prospect lists from a variety of sources.

Prospect lists can be a valuable marketing tool, Mr. Linchitz said, explaining that it is important in a telemarketing campaign to "segment your market and develop customized campaigns."

Marketing prospect lists can be obtained in a number of different ways, Mr. Linchitz said.

New York-based Dun & Bradstreet Corp.'s Dun's Marketing Service directories are a good source for commercial lines prospects, Mr. Linchitz said.

But, he stressed that these listings are "expensive," ranging in price from about $500 to $800 per 1,000 names.

The Dun listings are broken down by industry, and include the name of each business' chief executive officer, the number of employees, sales volume and other categorical information, he said.

Skokie, Ill.-based Standard Rate & Data Service prints a "Directory of Mailing Lists," which lists other businesses that publish lists, their phone numbers and the cost of purchasing those lists. SR&D also publishes a "Directory of Associations."

Mr. Linchitz explained that agents and brokers can target their telemarketing efforts through the use of association membership lists.

Some associations sell their membership lists for a fee, and agents or brokers also may be able to persuade an association member to give them a membership list.

In addition, local chambers of commerce usually have listings of area businesses that agents or brokers can use, he added.

Mr. Linchitz said that agents or brokers also can contact local list brokers to do their legwork for them.

These brokers can be found in the Yellow Pages under "Lists."

List brokers are paid a commission by list vendors, he explained, and usually sell the lists to agents or brokers at cost.

Mr. Linchitz stressed that agents and brokers will be much more successful if they combine direct mail campaigns with their telemarketing efforts.

"Tests have proven that it is seven times more effective to use direct mail with telemarketing," he said.

Direct mailings should not be sent all at once, he said.

'There's more work involved before you get on the phone than when you're on the phone,' says Joel Linchitz.

Instead, mailings should be staggered so that telemarketers can follow up the mailings with phone calls within 48 hours, Mr. Linchitz said.

Otherwise, the mailings lose their maximum effectiveness.

When telemarketers have a list of prospects and begin to make calls, the best way they can gain and retain control of the conversation is to use prepared scripts and response guides, Mr. Linchitz said. By using these resources, "you can make a logical presentation 10 out of 10 times.

A script ensures that the telemarketer answers all of a prospect's initial concerns effectively, he explained.

These concerns include:

- Who is calling?
- Why am I being called?
- Can I trust this person?
- What's in it for me?

Mr. Linchitz said the telemarketer should be able to answer these questions within 15 seconds.

"A telephone call is an interruption," he said. "We interrupt people when we call them. We must capture their attention quickly."

The best way to gain and retain control of the conversation is to use prepared scripts and response guides.

A good script will contain the telemarketer's name, company, a request for time, the reason for the call and the initial benefit statement—what's in it for them, Mr. Linchitz said.

But, he cautioned that telemarketers should not compose the script on paper.

"First you want to talk the script into a tape recorder, and then you want to write it down" to make the flow appear more conversational, Mr. Linchitz said.

"Use very simple language. Do not use industry terms and jargon, and know where you're going when you ask a question," Mr. Linchitz added.

And, be prepared for rejection, he warned.

On the phone, even good telemarketers will get rejected nine out of 12 times. That is why a response guide is so important, Mr. Linchitz said.

Telemarketers should write down every objection they hear and then "develop an answer to those responses that makes logical sense."

"It is an aid and a comfort to telemarketers to have these things" available at their fingertips, he explained.

To respond to an objection, telemarketers must make sure they hear the objection clearly.



"You can't answer an objection unless you understand it."

Then he suggested that the telemarketer take the prospect's point of view to defuse any potential arguments. After agreeing with his or her objection, the telemarketer should make the prospect an alternative offer.

Preparation is helpful, but Mr. Linchitz said that to make a sale, the telemarketer must reach the decision maker in the household or business.

When calling on businesses, this can be difficult. If the telemarketer does not have the decision maker's name, he or she should ask the switchboard operator or receptionist for the name of the person in charge of the business' insurance program.

If no one is officially designated to handle insurance, the telemarketer should ask to talk to the president of the operation, Mr. Linchitz said.

"Use the full name of the person you want to reach, and ask for the person in an authoritative tone. An authoritative tone implies that you have spoken to the person before. Use of an assertive tone of voice gets you past the secretary 65% of the time," Mr. Linchitz explained.

When attempting to reach the decision maker, do not volunteer more information than is requested, Mr. Linchitz warned, and answer questions with questions of your own to control the conversation.

"Be polite, but firm," in requesting the decision maker, he said, and if the person is not in, ask for the secretary's name and write it down. That way the telemarketer can address that person by name when returning the call.

Telemarketers should never leave a message and expect the prospect to call them back, Mr. Linchitz warned.

In fact, telemarketers lose control of the conversation if the prospect returns their call, because they no longer can rely on their presentation guides.

Instead, if possible, telemarketers should "pin down a time when they can call the person back," Mr. Linchitz urged.

Since most secretaries or receptionists attempt to screen management's calls and discourage salespeople, he suggested that the telemarketer be obscure when dealing with these people. This, he explained, can be accomplished in two ways.

"You can either be vague and give them very little information, or you can overload them with so much information that they must appeal to a higher authority for help.

"In the second case, you should use all the insurance terminology that you can," Mr. Linchitz continued. "It's your goal to get that person not to understand."

If you can't reach a prospect by the third call, "you're better off calling somewhere else," rather than wasting any more time trying to reach that prospect, he added.

Turning to the subject of selecting a good prospective telemarketer, Mr. Linchitz suggested what to look for when interviewing candidates:

- Previous telemarketing experience. Customer service representatives might not make good telemarketers because they are not used to dealing with rejection and they are used to handling in-coming, rather than outgoing, calls, which require a different set of skills.
- Someone who speaks clearly. "The only tool you have is your voice," he explained. He added that studies have shown that telemarketers are more likely to succeed if they can make themselves sound as if their ages are within five years of the prospect's.

Unemployed or partially employed actors, he added, make great telemarketers, as do graduate school business students. "You want someone who sounds good," he stressed.

- Enthusiasm. "The telemarketer must capture the prospect's attention and build a relationship immediately," he said.

Agents or brokers should interview prospective telemarketers over the phone and tape the interviews, Mr. Linchitz urged. He said that good prospective telemarketers will ask questions during the interview.

The agent or broker also should pay attention to the person's vocal volume and voice inflections.

"A tape will not lie," he said. "I never criticize the person directly."

Mr. Linchitz said that he plays the interview back to the potential telemarketers and asks them to criticize their own performances.

During training, Mr. Linchitz suggests that the agency or brokerages try to furnish telemarketers with product knowledge so that they will be able to answer a prospect's questions more confidently.

"Then do role-playing with them. I get them using the telephone and have them tape their conversations.

"Then I ask them to come back to me with their best telephone conversation," which both listen to and critique, Mr. Linchitz said. ■

The right computer can boost business

By LINDA J. COLLINS

LOS ANGELES—A computer system can help an agency boost its business, but the agency first must identify which tasks it wants the computer to perform, according to an agency automation consultant.

With the right computer, agents can easily boost their account development activities, Harold Emanuel, vp of Fort Myers, Fla.-based Sitkins Group Inc., told agents attending Insurance Marketing Services' annual convention in Los Angeles.

For example, he explained that "90% of the vendors on the market today" have automation packages that can search an agency's client base and list all clients covered under a particular line of insurance.

"You should be able to say to the system, 'I want a list of all my insureds for whom I write auto but don't write homeowners; or for whom I write property/casualty but don't write life, health and group; or for whom I write commercial lines but no business interruption insurance," Mr. Emanuel said.

The agency then can use those lists to sell its current clients additional lines of coverage, he explained.

Mr. Emanuel stressed that account development is crucial to an agency and warned agents that they must insure all of their clients' policy needs.

"If you don't, you're leaving commission on the table, because another agent is writing that line, and that person is going to go after your business," he observed. "You want to make sure you're the only agent surrounding your accounts," he said.

Mr. Emanuel pointed out that while entering all of a client's policy information on a computer may be time-consuming, "putting the data in the system enables agencies to get away from searching through paper files" later.

And, the more information on its prospects and policyholders that the agency has in its computer system, the easier it is to sell additional coverage, Mr. Emanuel added.

He also noted that data entry is necessary only once, because "when a policy is renewed, you will only need to enter the changes."

Once that data has been entered into the computer, the customer service representative has all the information at his or her fingertips every time a client calls, Mr. Emanuel noted.

In addition to the client's coverages and limits, the computer program should allow the agent to call up the client's claim and payment history. Based on that information, the agency can easily determine where coverage is lacking or where coverage limits should be raised, Mr. Emanuel said.

Agencies then can seize the opportunity to sell additional coverages or increase limits of coverage "every time you have a positive contact with one of your insureds," Mr. Emanuel observed.

An agency also can use its computer to generate advance lists of all clients whose policies are up for renewal in a given month, Mr. Emanuel noted. The agency then can contact those policyholders to determine whether any policy changes are necessary. And, the agency will have enough time to market the business to other insurers if necessary, he noted.

Another method to develop business using a computer is storing the expiration dates on policies that clients or prospects currently have with other agencies and soliciting that business as the expiration date approaches, Mr. Emanuel said.

He also suggested that agencies ask their clients and prospects to fill out an application for coverage at the same time the agency obtains the expiration date on their current policies. The application can then be stored in the word processing system.

When the policy comes up for renewal, the agency will be able to send the client or prospect a firm quote rather than just asking the client or prospect for the opportunity to quote on his or her business, Mr. Emanuel explained.

He advised an agency to send the quote and "assume they will give you the business, and often that will work."

Mr. Emanuel also told agents that if they already are automated, they should be using word processors to help them keep their names in front of their policyholders.

"Contact all of your insureds at least three or four times a year using your word processor, whatever the communication might be," Mr. Emanuel urged.

He suggested that agencies personalize the letters printed on their word processors by adding a handwritten note so the correspondence does not look like a mass mailing.

Mr. Emanuel noted that a word processor permits an agency to print professional, well-typed client proposal letters. "Effective proposals are a key to sales," he said.

He added that using boldface type, underlining important words or phrases, changing type fonts or using color in the proposal letter can increase its impact on a client. "And, get the proposal out on a timely basis," he stressed.

A word processor also can be used to document the refusal of a client to purchase coverage that has been recommended by the agency. If the client later experiences an uninsured loss, the agency should be able to use the letter as a defense to protect it from an errors & omis-

Continued on next page



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Small agencies 'cluster' to find coverage

By LINDA J. COLLINS

LOS ANGELES—Many independent agents across the country are forming "clusters" to find coverage in today's tight insurance marketplace.

Insurance agencies that enter into such arrangements usually maintain ownership of their own books of business while also gaining market clout and sharing some of their automation and support staff expenses with other members of the cluster.

Jeff Homes, president of Golden Eagle Group, a "megacluster" of 174 agencies located throughout Florida and Georgia, addressed the topic of clusters at a seminar held during Insurance Marketing Services' annual convention in Los Angeles March 24-28.

"Every single cluster that we have looked at has had its own unique aspects," Mr. Homes said.

"Clusters range in size from two to three agencies on up, but the same basic concepts apply to the small clusters that do to the megaclusters," he noted.

'Clusters range in size from two to three agencies on up, but the same basic concepts apply to the small clusters that do to the megaclusters,' says Jeff Homes of the Golden Eagle Group.

The Golden Eagle Group was founded "out of necessity" when a major insurance company in Florida "pulled out of the state overnight," Mr. Homes explained.

In need of markets in which to place that business, Mr. Homes quickly called a meeting of 21 other agents who the insurer had canceled and asked permission to market all of the business they had placed with that carrier as a single book to other insurers.

Of the agents attending the emergency meeting, 17 agreed to the arrangement, and Golden Eagle Group was formed.

Rather than having all cluster members participate equally in the ownership and management of the cluster, Mr. Homes financed the cluster himself with private capital and a loan from an insurer.

He currently controls 80% of the cluster's Class A stock, and key employees own the remaining 20%. All other employees own non-voting Class B stock.

The employees' stock carries a guaranteed buyout at the current year's asking price, Mr. Homes added.

"One of the biggest reasons for failure of a cluster is that everyone has an equal vote" in management decisions, Mr. Homes stressed.

"It takes too long to get things done."

Mr. Homes maintains that Golden Eagle is a success because one person calls the shots.

"I didn't have to ask everyone for approval of everything that I did," he said.

The cluster has contracts with four insurers—CIGNA Corp., Transamerica Insurance Co. and two regional carriers—and manages a service office.

All business written by those four insurance companies for the entire cluster group flows through Golden Eagle's service office.

Agents also are free to place business with other insurers on their own, Mr. Homes explained.

"We don't ask the carriers for discounted prices," and the cluster predominantly places "Main Street America" accounts, he said.

"We feel we have a strong niche in the farm/agricultural market," he added.

Contractually, Golden Eagle must furnish the four insurers with a combined minimum premium volume of $15 million annually.

Mr. Homes said that this requirement is working to the cluster's advantage, because the insurers have set aside that much capacity for the cluster, while other agents throughout the country are having difficulty locating capacity in the current hard market.

Each cluster member must place 70% of its business in the lines the cluster handles through the cluster, Mr. Homes explained.

However, members of the cluster are free to place their other business with any insurer they want.

For example, Golden Eagle does not have excess/surplus markets, Mr. Homes said.

"They own their own books of business," Mr. Homes stressed.

Of the business placed through Golden Eagle, 64% is commercial lines, including farm policies.

The cluster also places personal lines and group life and health insurance coverages.

"We will also help members place individual life business and will help on individual pieces of property/casualty business if they are having difficulty," he said.

Because cluster members are usually not located in the same marketing territory, they are rarely in competition for the same piece of business, Mr. Homes noted.

If two cluster members were to submit applications for the same account, the first application submitted would be the one accepted, he added.

Insurers identify the business placed by each individual agency through use of a master code for Golden Eagle and a separate subcode listing each agency member's current accounts and year-to-date business written.

He explained that the cluster purposely limited its insurers to four so it would not have to do too much shopping.

Mr. Homes said that in most cases, Golden Eagle has underwriting authority on accounts for up to $30,000 in premium per line.

Although Golden Eagle is designed specifically for 'smaller agents in rural markets,' Mr. Homes quickly points out that the cluster concept can be useful for agencies of any size.

Golden Eagle furnishes each member agency with a noncompete agreement on its book of business, should it leave the cluster, Mr. Homes said.

The cluster also has the right of first refusal to purchase any member agency that decides to sell its business, although so far this situation has not come up, Mr. Homes said.

Mr. Homes said that agencies must furnish Golden Eagle with proof of errors & omissions coverage before joining the cluster.

The agreement between member agencies and Golden Eagle Group can be terminated through mutual agreement or if either party fails to live up to its contractual obligations, according to Mr. Homes.

Mr. Homes added that if members do not perform satisfactorily, Golden Eagle will place them in a cluster-run rehabilitation program before beginning termination proceedings.

The service office, which is located in Lakeland, Fla., processes business for all Golden Eagle cluster members in both Georgia and Florida, Mr. Homes said.

"We require that all applications be sent to us on this business.

"We do the pricing and deliver the quotes . . . and we have our own claims service and adjustment company. We also handle all policyholder information," Mr. Homes said.

In essence, "we're a third-party administrator and act as a clearinghouse between the carrier and the agency," Mr. Homes said.

According to Mr. Homes, the Golden Eagle Group is designed specifically to satisfy the needs of "smaller agents in rural markets," and is not interested in larger or urban-based agencies.

However, he quickly pointed out that the cluster concept can be useful for agencies of any size.

Mr. Homes said that Golden Eagle has a waiting list of more than 300 agencies interested in becoming members.

In selecting agencies, the group employs three marketing representatives who visit the agencies and talk to agents, check their books of business and accounts receivable records, examine their reputation in their communities, and determine whether they have a profitable history.

The composite loss ratio of the Golden Eagle Group is 56%, Mr. Homes said.

The group holds four meetings annually, one concentrating on general business and the others focusing on special products or lines of business and incorporating manuals, kits and other educational materials.

"Agents must attend our schools before they can write a piece of business for us," Mr. Homes said.

Cluster member agencies pay an installation and setup charge of $1,000 initially, plus a monthly service and marketing fee of $65. In addition, Golden Eagle Group gets a service fee, or override, from its insurers.

Mr. Homes explained that the cluster gets this override because it is "providing services to the carriers for a fee that the insurers would normally assume themselves."

Those services include data entry, underwriting and marketing functions.

Golden Eagle Group also collects all premiums from its members and sends one check to the insurers.

Because the service office must collect and issue all premium checks to insurers Golden Eagle enforces strict collection procedures.

"Receivables are aged at three, six and nine days. An agent's binding authority is canceled when premiums are nine days overdue," Mr. Homes explained.

Golden Eagle also has developed a software program specifically for cluster members. Mr. Homes explained that his son, an automation expert, wrote the program, with the assistance of a certified public accountant who also had a background in writing computer software.

The software, called MISKISS, includes letter suspension, accounting and other agency functions.

Golden Eagle will market the program, which costs $2,500, later this year, he said. The current cluster automation network now includes 43 members.

Mr. Homes explained that the service office does data entry for the carriers and then downloads the information into the automated agencies at night.

According to Mr. Homes, the Golden Eagle Group will help cluster members automate by leasing all computer software and hardware to them for $190 per month with an option to purchase.

"We also have our own rating company that makes rates available to agents for 112 companies in the state of Florida—from the joint underwriting authority to excess/surplus carriers," Mr. Homes explained.

The Golden Eagle Group also orders motor vehicle reports for member agencies.

In addition to managing his own cluster group, Mr. Homes acts as a consultant for agencies contemplating forming clusters in other parts of the country. ■

Agency automation

Continued from previous page

sions lawsuit, Mr. Emanuel explained.

An agency also can use its word processors to generate letters that it can mail to policyholders who do not meet the agency's minimum coverage standards, he said.

The letter should inform the policyholder that the agency intends to increase their limits to meet its minimum coverage requirements.

"And, what if they tell you differently?" he asked. In this case he suggested that agents tell the client to take his or her business to another agent.

After an agency determines which tasks it wants automated, it has to shop carefully for the appropriate system, Mr. Emanuel warned.

"If purchasing a system, make sure when talking to the salesman that you find out how the system does what you want it to do. Pin down the vendor," Mr. Emanuel advised.

Mr. Emanuel explained that not all agency automation systems perform every function needed in an agency. And, even when two systems perform similar functions, completing the task on one system may be much more difficult than on the other system.

"Computer systems differ tremendously when it gets into detailed policy data," Mr. Emanuel said. He explained that some systems just list data while others sort it.

The computer system should be capable of sorting customer and prospect lists by personal and commercial lines and by type of business, he advised. "You also want to be able to sort your suspects from your prospects," Mr. Emanuel said.

He added that one of the points that distinguishes a good agency automation system from an inadequate system is its ability to recode a prospect's file automatically when the agency writes an account for the prospect. Some systems store client and prospect data separately and "require you to key in all information over again once you write an account" for a prospect, Mr. Emanuel explained.

But, "if you are going to take the time to put data in on a prospect, you want to be able to convert that prospect to an insured."

If the agency wants to rate policies using the computer, agents should find out before they purchase a rating system whether all of the agency's terminals can be on line simultaneously with the rating package, Mr. Emanuel said.

A rating package is most beneficial "when all people who do rating have access to the system," he said.

He warned agents that they should look for a computerized rating system that provides comparative rates "so that you can look at all of your companies and find out which one is the least expensive."

While he stressed that agencies should never use price alone as a deciding factor, he said that an agency should know if its product is less expensive than its competitor's and which of its own companies is the least expensive on a particular line. A rating package can assist an agency in determining this.

Mr. Emanuel said that comparative rating "allows you to determine, for a particular account, which company is best. It also lets you know if you have a shot at selling the policy."

In keeping agency production records, some systems cannot record a dollar amount as sales compensation, only percentages of premium, Mr. Emanuel noted. So if customer service representatives are paid a flat dollar amount for a sale, the agency will have to convert that sum to a percentage of premium to store the information in the computer.

He added that many systems on the market cannot record both dollar amounts and commission percentages on the same account "if the CSR gets a flat fee for a sale and a producer gets a percentage of commission."

Agencies that record commissions this way should make sure they purchase a system that is capable of recording both figures, Mr. Emanuel suggested.

Mr. Emanuel also discussed other automation capabilities that agencies may desire from their computer systems, including:

- Production reports broken down by producer, item, line and territory.
- Reports stating the amount of business and the lines that the agency places with each of its insurers.
- An accounts receivable analysis that lists clients for whom an agency has not collected premiums due, with a sorting capability to identify which of those clients are repeat offenders.

And, Mr. Emanuel suggested that agencies that are purchasing their first automation system "take advantage of the extra training that vendors offer."

In addition, he encouraged agents to use vendors' toll-free numbers whenever they have any questions about their systems.

Motivated sales staff will pay off: Consultant

By LINDA J. COLLINS

LOS ANGELES—Agencies "are in this business to make a profit," and management should use every possible opportunity to relate that message to its in-house staff, an agency management consultant stresses.

If managers explain how important sales are to the agency's livelihood, employees will begin to understand that "every positive contact with our clients is an opportunity for providing them with new products," said Mary Beth Bolen, vp of Fort Myers, Fla.-based Sitkins Group Inc.

"If you can get your staff motivated, they will make profits for you," she explained.

Ms. Bolen discussed proper management techniques for motivating agency employees and enhancing internal account development at a workshop during Insurance Marketing Services' annual convention in Los Angeles March 24-28.


Ms. Bolen

She told agents that although every contact with clients should be viewed as an opportunity, "it is sad to see that many employees consider client phone calls to be an interruption of their work." After all, "that's what they're there for," she stressed.

To stimulate in-house account development and keep employees productive, agencies must make sure they hire the right people for the job, she explained.

Ms. Bolen suggested that agencies look for applicants who are:

- Highly motivated and have an "internal drive for achievement."
- Committed to the agency's goals. "They have to understand why you're in this business" and how they can help the agency achieve its goals, she said.
- Self-managed. "They can't require a lot of hand-holding or baby sitting," Ms. Bolen stressed.
- Nice. "They have to be automatically nice," because in-house employees generally have more frequent contact with clients and prospects than do producers or principals. If workers exhibit a poor attitude, it can alienate customers, she explained.

But before an agency begins interviewing prospective employees, management needs to sit down and decide where additional help is really needed, then write down a complete job description for the position. "Every step needs to be clearly defined," she said.

The person who will be conducting interviews should collect and review the resumes of all applicants beforehand to determine what questions to ask, Ms. Bolen said.

The interviewer should be an active listener, she added. This will help him or her determine what motivates each applicant. It also will help the interviewer obtain some insight of the prospect's character.

She suggests that interviewers also take notes. Immediately after the interview, the interviewer should jot down his or her initial feelings about the applicant, then set those notes aside. Later, the interviewer can return to the notes and review them more objectively, Ms. Bolen said.

Psychological or aptitude testing also can assist an agency in finding the right employee, according to Ms. Bolen. They may help reveal an applicant's strengths and weaknesses that do not surface during the interview. These tests are available from various sources, she noted (*A/BT*, March 4, 1985).

After the agency has selected a new employee, management should furnish the employee with a written copy of its rules and personnel policies, which should be clearly defined, she added. "Otherwise, supervisors may spend up to 50% of their time just on managing the staff."

The next step is making "a commitment to proper education and training" of personnel, a process that Ms. Bolen says is "crucial" to the motivational process.

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Voluntary benefits market can be goldmine

By LINDA J. COLLINS

LOS ANGELES—Agencies can secure their current client base and increase commission income by entering the voluntary employee benefits market, an expert says.

Eric Belsky, president of Benefit Design Services, told agents attending Insurance Marketing Services' convention in Los Angeles that expanding their services into the area of voluntary benefits can "generate increased profits with very little expenditure."

Benefit Design Services is a Lancaster, Pa.-based organization that designs, implements and administers voluntary employee benefits programs through employer payroll deduction plans. Through arrangements with agents and brokers, the company sells voluntary benefits to the employees of agency clients and then services ensuing business.

"We provide as much or as little service as the agent wants," Mr. Belsky said. Benefit Design's products are written by several insurers.

Mr. Belsky told agents that every insurance agency should have some commercial lines clients with between 50 and 100 employees, which are key candidates for voluntary benefits products.

There are three ways agencies can enter the voluntary benefits market, two of which cost little, he said. An agency can:

- Design, sell and administer voluntary benefits programs itself.
- Sell programs that are designed and administered by an insurance company.
- Engage the services of an organization like Benefit Design Services to assist them in selling and servicing this business.

Mr. Belsky explained that if an agency intends to design and administrate its own plans, it should expect to make an initial investment of about $150,000 for a salesperson, clerical support staff and necessary software.

But, if agents intend to administer these plans themselves, they'd better be good, he warned.

"You need to be able to service this business to the same extent as the business you service now, because you could jeopardize a lot more than the case itself if you jeopardize your relationship with your client."

If an agency doesn't have the proper support staff to administer the plans itself, "hold off on entering this marketplace or else have someone else administer the plans," he suggested.

If an agency wants to sell programs designed and administered by an insurer, agents should select an insurer that has been in this market for some time, Mr. Belsky advised. Doing so ensures that the insurer's administrative capabilities have been tried and tested, he explained.

If the insurer does not service the benefits business to the satisfaction of the agency's client, the client will become disillusioned with the agency, and the agency might lose a valued customer, he warned.

Mr. Belsky pointed out that an agency faces no major expenses if it engages the services of a benefits administrator. These administrators are either reimbursed for their services directly by the insurer, or given a percentage of the agency's commission for administering the business. The agency furnishes the client.

"When the commissions are split, a greater portion of the renewal income goes to agents because the administrator's major expense is incurred in setting up the program," he said.

There are advantages for agents, employers and employees under all of the methods, Mr. Belsky said.

For agents, "the voluntary benefits market provides an opportunity to capitalize on your existing client base and create additional dollars from those clients. You are also protecting yourself with your clients from your competitors," Mr. Belsky explained.

He said that if agents can provide their clients with all of their property/casualty, life and group health coverage needs, they will be far less likely to lose those clients to their competitors.

However, if a client has more than one agent, both agents will be in constant competition for the remainder of the client's business, he explained.

And, Mr. Belsky said that employers usually are enthusiastic about voluntary benefits programs because they allow them to offer additional benefits to their employees at no cost to the company.

Employees are usually equally pleased because they can choose from a variety of optional coverages, Mr. Belsky explained.

"Most plans offered are offered regardless of existing health problems," he added. "Employees can get into these programs no matter what their current or past health history, or insure their spouse without getting into it themselves."

Voluntary benefits plan products are frequently less expensive than similar coverages employees could buy on their own, because of the law of large numbers, Mr. Belsky said. And, these products often are not even available to the public on an individual basis.

Mr. Belsky noted that the products offered in a voluntary benefits program are not aimed at executives, because those higher income employees "have people to address their financial needs."

Rather, the target buyer is the middle- to lower-income individual. "More than 84% of the people who work in this country are in the marketplace that the products designed for this system would address," he stressed.

He said these people may have no benefits coverage other than what is provided by their employer, but "group insurance is only good as long as you work there."

Mr. Belsky explained that even if the employee elects to convert a policy when he leaves an employer and assumes the payments himself, coverage will be rated based on the employee's age at the time of conversion, rather than when he was first covered under the plan.

But, Mr. Belsky pointed out that it is too expensive for agents to attempt to market these products on an individual basis.

"Most agents can't drive across town to see someone who is making $13,000 a year and has $150 in discretionary income to spend," he explained. "If you can visit them where they work, and see 100 people at a time, it becomes a different story," he said.

Products offered under voluntary benefits plans vary but usually include such products as 401(k) plans, cafeteria plans, universal life or other life coverages, flexible spending accounts, and disability income coverage.

"Cafeteria plans are a way of providing to the employees of a company the ability to redistribute employer-paid costs for employee benefits," Mr. Belsky said. He explained that employers like these plans because they put a cap on employer costs for benefits.

He added that flexible spending accounts are an offshoot of cafeteria plans. They allow employees to set up an account with a predetermined amount of pretax income each year and use those funds to pay for stipulated expenses such as orthodontia work or dependent child care.

Funds in the flexible spending account must be used for those expenses each year or else they are forfeited, but the plan allows employees to pay for these expenses with pretax income.

Since employees do not have to pay taxes on that sum, flexible spending accounts create more spendable dollars and may leave the employee in a lower tax bracket. And, the employer saves the Social Security match on that amount, he added.

Mr. Belsky said that employees don't have to participate in these plans, but normally "a very large proportion of the employees do participate, because it's a good deal for them. It's a win-win situation for the employer, the employee and for you."

To be successful, presentations must be made to employees on company time, he stressed. If the presentation is done on the employees' own time, no one will come, "and the reason they won't come is that they are not going to spend their individual, personal time to come in and hear a presentation about insurance," he said.

But, if the employer allows the presentation to be made on company time, employees will come to the meeting, Mr. Belsky said.

He stressed that voluntary benefits are a low-key, non-pressure type of sale. "These products basically sell themselves, which is why they are extremely popular with the insurance community."

The presentation uses a shotgun approach, he said. "The salesman talks about a lot of different benefits. Each employee has his own hot button, and you don't know what it is until you have an opportunity to present the full scope of benefits and what they mean to them. Pass out brochures and let employees take them home to decide what they're going to do."

Following the group presentation, employees can talk with counselors individually. If they decline to participate, agents should persuade employees to sign a waiver stating that they had the opportunity to participate and chose not to, Mr. Belsky urged.

He said that employees can elect to join the program at a later date, "but they won't have coverage available to them no matter what their health is," he said. "You have to have a record of that waiver in your file for your client's protection and the protection of the insurance company," he added.

Mr. Belsky, noting that about 60% of the employees he sees "sign up for something," said this market can be very profitable.

An agency can expect to bring in "about $15,000 to $18,000 in annualized premium for every 100 eligible lives, depending on who is doing the presentation and the products offered by the carrier you represent," Mr. Belsky claimed.

He explained that while commission schedules will vary somewhat, "figure at least 40%, and in some cases, higher." This can become a true agency profit center, he told agents. "If you have 10 clients with 100 employees, then you're looking at $150,000 in (potential) premium," Mr. Belsky said.

These numbers grow, and the agency will have renewals and new enrollments each year, he added.

Mr. Belsky said that the beauty of voluntary benefits plans to a property/casualty agency is that they can be used to open doors for new business opportunities.

Even if an employer is not immediately interested in setting up such a program, "once you get in the door, you can then talk under favorable circumstances about the other programs you want to sell, those that your agency markets the most," he explained.

He added that voluntary benefits are "probably one of the better prospecting tools you can get involved with" and that "current clients may even give you referrals" to other business. ■

Personality plays key role in management

By LINDA J. COLLINS

LOS ANGELES—A business or organization's management team must perform four complementary roles to be successful, an expert says.

"These four roles form a base that is necessary and sufficient for good management," said Gerald Faust, an instructional psychologist and president of Adizes/Faust Associates, a management consulting firm in San Diego, Calif.

The four elements Dr. Faust considers essential are:

- Producer. "To provide the results for which the organization exists."
- Administrator. "To administer the business so that the system produces results."
- Entrepreneur. "To induce an organization to change and adapt to new threats and opportunities."
- Integrator. "To ensure that no one in the organization is indispensible by creating a climate of cooperation." Dr. Faust stressed that "management is too complex for any of us to do it alone. At some point in time, every businessman must understand that he has to manage with some form of a team."

Although having a team with different types of managers will create some conflict, such conflict is "inevitable, healthy and necessary to good management," he said.

Dr. Faust explained that the producer and administrator roles ensure short-term efficiency and effectiveness.

On the other hand, the entrepreneur and integrator roles "ensure the long-term viability and stability of the organization by adapting it to changing client needs and ensuring that no one individual is indispensible," he said.

And, very few managers can be strong in all of these areas because each role, by its very nature, requires different talents. So businesses should attempt to form a management team that will blend all of these abilities, he observed.

The producer role focuses on serving client needs and relies on making things happen, Dr. Faust explained. So, producers "need knowledge of their role in the organization and of the business. They also need drive. A high need for achievement or a high fear of failure will produce the same results."

Administration requires a different type of person, one who is "detail-oriented," he explained. This role focuses on how to perform duties rather than what to do and demands attention to detail, a willingness to make changes and knowledge of the system.



Dr. Faust

The third type, the entrepreneur, "has to be creative and a risk-taker to proactively adapt the organization to change. Entrepreneuring is like driving in a fog," he explained.

The integrator provides direction for new employees, builds organizational teams and sets corporate goals, Dr. Faust explained. Thus, the integrator must be sensitive "to people, moods, climates and group processes," he said.

Any organization that effectively integrates these four functions will be "organic, cooperative and synergetic, with interdependent elements," Dr. Faust explained.

But, a non-integrated company is "mechanistic, individualistic and adversarial, with independent elements," he said.

Such a company's management staff is comprised of "four classic kinds of mismanagers," who display only one of the characteristics vital to good management, Dr. Faust said.

These classic mismanagers are "so focused on one role of management that they make errors," he said. "The degree with which one quality dominates the others will be the clue to mismanagement."

The first mismanager Dr. Faust described is a heavy producer with no administrative, entrepreneurial or integrative qualities. "His behavior is geared to proving what he is and who he is. An alcoholic analogy is a good one," Dr. Faust said.

"For them, work is a constant endeavor and vacation is a place between phones. They delegate only when it is too late. Then they dump things on people," Dr. Faust said. He explained that employees working under this type of a person come in late, leave early and "hang loose" in the office.

The second classic mismanager is heavy on administrative qualities but has none of the other three management qualities, according to Dr. Faust. "He doesn't care what we do, only how we do it. Order and organization are everything."

Dr. Faust described the administrator as someone who always comes to work right on time, always leaves right on time and always maintains a clean desk. He or she is a perfect bureaucrat, he said.

The third classic mismanager, the entrepreneur, "doesn't care what we do or how we do it. His favorite expression is 'Why not?'" Dr. Faust said. He joked that it is exciting to work for this person because you never know where he or she is going.

The fourth classic mismanager he described is the integrator. According to Dr. Faust, this person's management style is, "Where do you want to go? I'll lead you there." The integrator is "so concerned with other people that he won't take a strong position on anything."

Dr. Faust advises businesses and organizations to examine their managerial strengths and weaknesses so they can predict how they will develop and what mistakes they are likely to make. That way, "you're running it rather than it running you," he said. ■

Staff training

Continued from page 24E

Agents need to overcome their staffs' reluctance regarding educational activities by giving them time to obtain that education during the workweek, she said.

If agencies incorporate training programs into their employees' work schedules, they will be met with much less resistance than if the agencies require employees to complete these activities on their own time, Ms. Bolen explained.

Product knowledge helps employees put their jobs in perspective and shows staff members that the tasks they are performing are not just mechanical. Knowledgeable employees help the agency project a professional image, she added.

Such knowledge also gives employees confidence. "Provide them with the constant reinforcement that knowledge is power, and provide incentives to learning in the form of money, recognition and/or greater responsibility."

Employees also should develop good communications skills for dealing with clients and prospects. "Employees must be active listeners, and they should be taught presentation skills—how to tell another person what they want them to know. They must be able to communicate interactively with clients," she said.

They also need to know how to sell, Ms. Bolen noted. "These employees are the clients' partners in uncovering their needs. They are also the agency's partners in explaining how the agency's products and services cover its clients' needs."

And, while employee sales ability, communication skills and product knowledge are important, management also should develop employees' professional image.

Ms. Bolen said that agencies should impress upon staff members that it is very important how they look, how they sound, what they say and "what they do on the job and off. They are at all times a representative of your agency."

If management perceives problems with the physical appearance of employees, one way to avoid direct criticism is to bring in a wardrobe consultant or color analyst who can offer employees tips on how to improve their appearance.

And, to monitor telephone behavior, Ms. Bolen suggested a simple approach. "Have you ever called your agency pretending you were a customer?"

She explained that these spot checks can give management a good indication of the image agency employees are projecting to the public. "Voice tone and the quality of sound are extremely important," as are the employee's attitude and temperament, she said.

To keep agency operations running smoothly at all times, Ms. Bolen recommended cross-training. In this way, the absence of one employee does not handicap operations.

But, after the employees are properly trained to handle their jobs, the responsibility lies on management to make sure employees remain productive and motivated, she said. This depends upon management's ability to:

- Establish clear lines of authority, so that employees "know at all times what is expected of them."
- Departmentalize agency functions.
- Keep track of each employee's daily or weekly production to make them accountable for their actions.
- Recognize and reward good employee behavior either financially or emotionally.

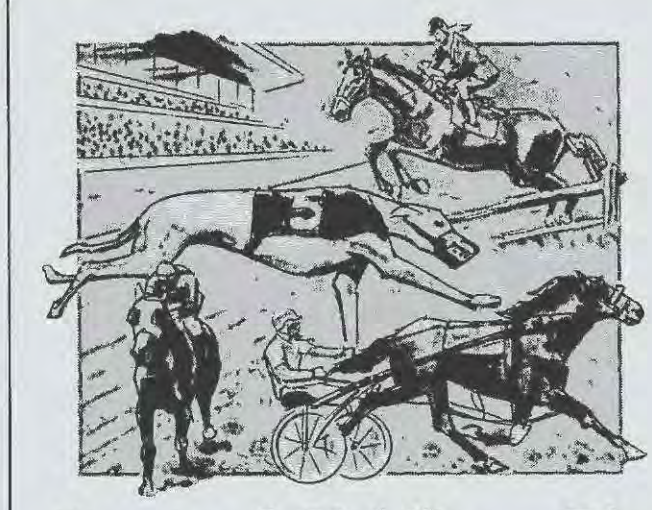
Recognition can be as simple as praise for a job well done, Ms. Bolen explained. "Catch them doing something right" to reinforce positive behavior, she suggested.

But, Ms. Bolen stressed that agencies must pay employees adequately to keep them happy. "Inadequate pay can be a very expensive savings, because it creates constant turnover in an agency," she said.

She also noted that employees need to know how much they can make in the agency, when they are eligible for raises or promotions and on what criteria raises are based.

But most of all, employees need uninterrupted quiet time at the beginning of each day to properly organize and prioritize their work schedule, Ms. Bolen said. ■

'Employees must be active listeners,' says Mary Beth Bolen of Sitkins Group Inc.

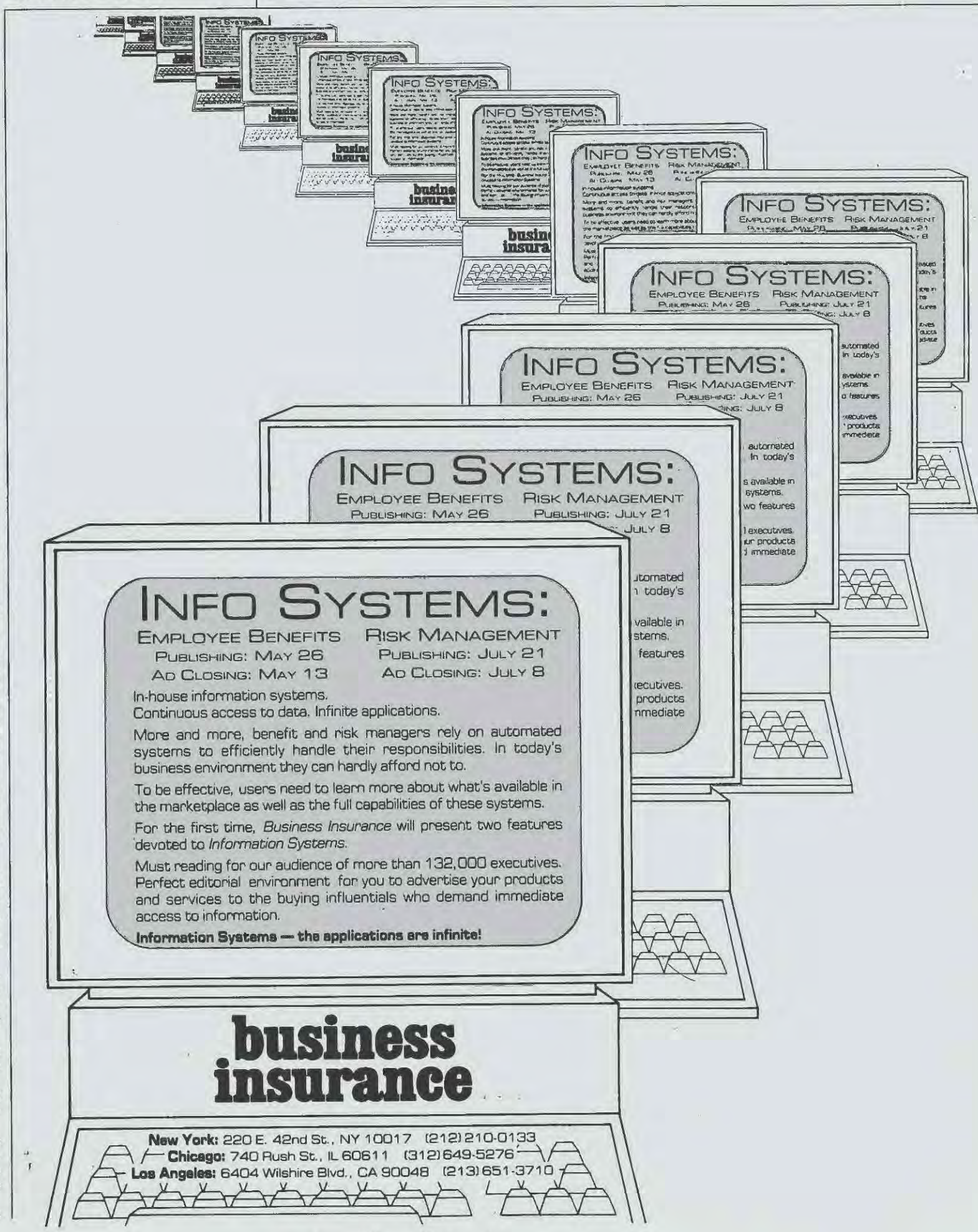


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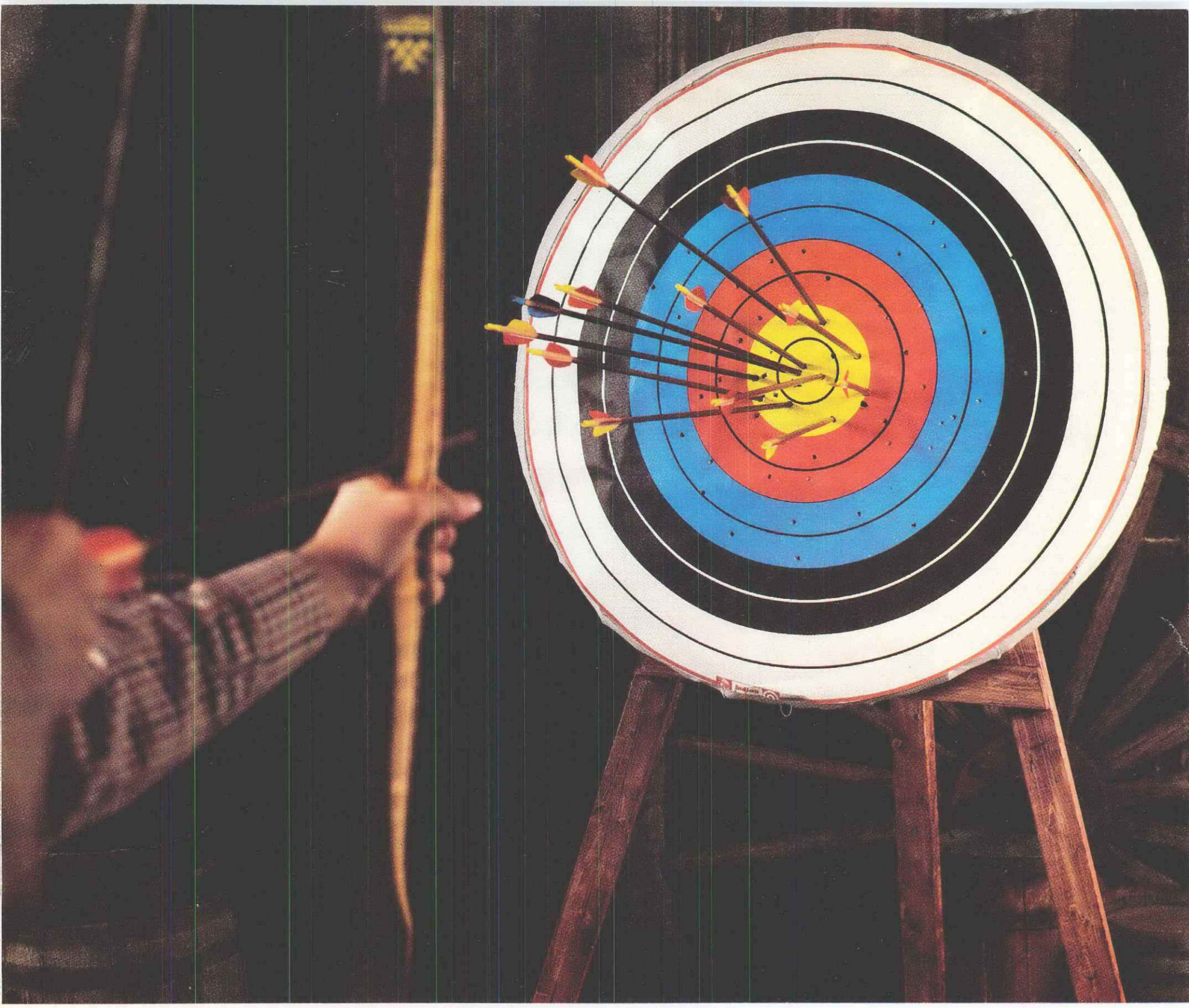


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Continued from previous page
October probably will not see much of an increase at all, he pointed out.

Broker mergers

Lloyd's of London brokers are merging in a reverse takeover to become the seventh-largest insurance broker quoted on the London Stock Exchange.

PWS International P.L.C., which is valued at 18 million pounds, is taking over the Howard Group P.L.C., which is valued at 34 million pounds.

A reverse takeover is one in which a smaller company takes control of a larger firm.

Full acceptance of the offer will involve the issue of around 12.9 million new shares of common stock in PWS, which will represent 64.7% of the group's total capitalization.

PWS is publicly quoted on the London Stock Exchange and specializes in non-U.S. business. The Howard Group, the holding company for two Lloyd's brokers, Anthony Popple & Co. Ltd. and C. Howard Ltd., is not listed on the Stock Exchange, although it is on the London unlisted securities market. It also specializes in U.S. casualty business.

"We have been looking for some time to get a U.S. domestic leg and they (the Howard Group) want a balance in the U.S. market business," said PWS Chairman Malcolm Pearson. "We're putting together two specialist houses."

Mr. Pearson hopes the two merged companies will continue along the acquisition trail.

Together the new broker will be called PWS International P.L.C. and have combined 1985 brokerage and commission revenue of 15 million pounds ($23 million U.S.).

Mr. Pearson will be non-executive chairman of the new company. Ronnie Ben-Zur, managing director of the Howard Group, will be the new group's chief executive, and Ronald Peet, former group chief executive of Legal & General Group P.L.C., will be non-executive deputy chairman.

Working directors will control 70% of the new group's shares.

Sedgwick report

LONDON—Sedgwick Group P.L.C. says in its 1985 annual report that it may have contingent liabilities from the troubles at PCW Underwriting Agencies Ltd.

Sedgwick points out in a note in its financial statements that "claims have been notified against certain subsidiaries of the group, together with a number of other potential defendants, on behalf of names on Lloyd's syndicates formerly managed by PCW Underwriting Agenies Ltd."

The report continues: "The claims are complex and widely drawn but are unquantified and do not include any allegations of dishonesty on the part of those subsidiaries. The directors intend to resist the claims strenuously. On the information at present available to them, they are of the opinion that any ultimate liability of the group is unlikely to be material."

Sedgwick and its subsidiaries are named in a legal action drawn up by PCW members but not yet filed in British court. The lawsuit also lists about 40 defendants, including Lloyd's of London.

The lawsuits stem from alleged misappropriation of PCW syndicate funds.

Heath acquisition

In a move to expand into software products for the insurance industry, Lloyd's broker C.E. Heath P.L.C. has acquired a data processing company in Britain for 8.5 million pounds ($12.9 million).

Heath announced last month that it is acquiring all of the share capital of Peterborough Data Processing Services Ltd., whose principal trading subsidiary is Peterborough Software (U.K.) Ltd.

Peterborough is Britain's leading supplier of packaged human resource management software. The company's specialized systems for pensions and personnel are used by more than 500 British customers.

Heath said the acquisitions will "complement C.E. Heath's existing expertise in developing and marketing software products for the insurance industry."

Eagle Star expands

Eagle Star Insurance Co. Ltd., the insurance subsidiary of tobacco company B.A.T. Industries P.L.C., is establishing an international risks department.

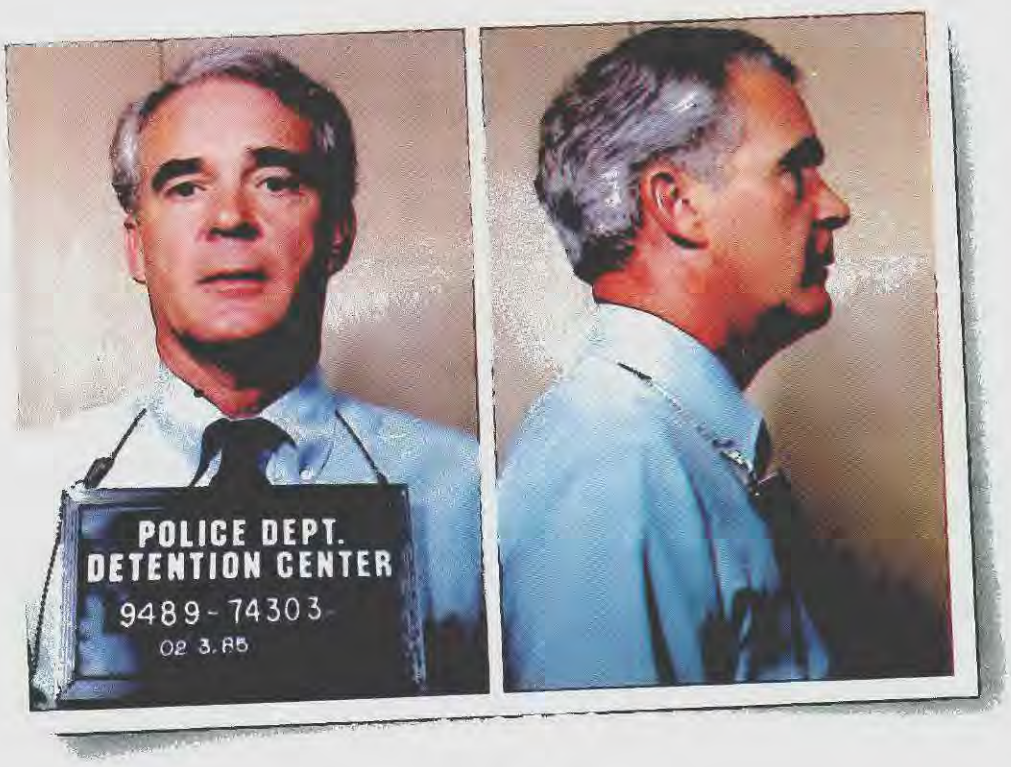
It will be headed by M.J. Giles as manager and R.P. Broadley as assistant manager.

The department will be responsible for underwriting and servicing multinational clients' property and casualty accounts and oversee the underwriting of marine, engineering and life risks, which will be done by other Eagle Star departments.

The new department will be in addition to, and distinct from, Eagle Star's home foreign department, which will continue to write London market business. ■

I, CLAYTON S. PIERCE, hereby retract the statements I made in two letters to GAF CORPORATION, dated July 6 and July 21, 1981, regarding ROBERT S. GYORY, and I apologize for the consequences of those remarks. The letters contained erroneous statements concerning Mr. GYORY, which I regret having made, and I apologize to him for any damage to his reputation and professional standing which were caused by my remarks.
Dated: April 15, 1986

CLAYTON S. PIERCE



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Thompson to take helm at two C&F units

David N. Thompson has been named president and chief operating officer of Crum & Forster Managers Corp. (Ill.), formerly L.W. Biegler Inc., and International Surplus Lines Insurance Co., two Crum & Forster units based in Chicago.

Mr. Thompson will be responsible for the operations of the two units, which were headed by **Richard E. Stone**.

Mr. Stone, who succeeded Louis W. Biegler in March 1985, is resigning to return to the reinsurance business, a C&F spokesman said last week. The effective date of the personnel changes are not known, the spokesman said last week.

Mr. Thompson will report to Robert J. Vairo, chairman and chief executive officer of New Jersey-based C&F Underwriters Group. In addition to his current duties, Mr. Vairo will replace Mr. Stone as chairman and chief executive officer of CFMC of Illinois and ISLIC.

Mr. Thompson was senior vp and chief financial officer of the C&F Underwriters Group. He joined C&F in 1981 as a vp.

Other excess/surplus changes:

J. Larry Vickery and **John D. Richardson** named senior vps and **Helen G. Easley** named vp at Crump London Underwriters, an excess and surplus lines insurance brokerage facility of The Crump Cos. Inc. of Memphis, Tenn. Mr. Vickery wll manage the utility department. Mr. Richardson is the manager of the property department. Ms. Easley retains her duties as head of the commercial automobile insurance department.

comings & goings: industry

Insurers

Eric Shapiro and **Wai-Man Seto** named vps in the risk management department at Financial Guaranty Insurance Co. of New York, a subsidiary of FGIC Corp. Mr. Shapiro, who previously was an assistant vp/analyst in the general obligation, lease and education group, also was named director of the group. Mr. Seto, who previously was an assistant vp/analyst in the education and transportation group, is now in the utility and transportation group.

Robert J. Ambielli and **Raymond C. Cower** elected vps of The North River Insurance Co. of Morristown, N.J., a subsidiary of Crum & Forster. Mr. Ambielli will be responsible for the C&F Underwriters Group service center in Parsippany, N.J. Mr. Cower will be responsible for CFU insurance operations in upstate New York.

Edward P. Facciani and **Cor S. Bregman** appointed to head regions of Farmington, Conn.-based Orion Group. Mr. Facciani, a regional vp, will head the Fresno, Calif., region, and Mr. Bregman succeeds Mr. Facciani as head of the San Jose, Calif., region. Mr. Bregman previously was vp of sales for the Western Division.

Phillip J. Schwarz elected vp of Warren, N.J.-based Federal Insurance Co. and New York-based Vigilant Insurance Co., subsidiaries of Chubb Group. Mr. Schwarz also serves as branch manager of Chubb's Paris office and as the insurer's European financial manager.

Ronald Tonani named vp-workers compensation of Fairmont Insurance Co. of Burbank, Calif., a subsidiary of Fairmont Financial Inc.

Douglas K. Hiler appointed president of Loyal Life Insurance Co. of New York, a unit of Continental Corp. Mr. Hiler previously was senior vp in charge of marketing.

Charles W. Anderson elected executive vp of Allendale Mutual Insurance Co. of Johnston, R.I., a member of the Factory Mutual System. Mr. Anderson, who joined Factory Mutual in 1950, most recently was senior vp-regional operations.

David Hernandez named resident vp-Northern region of Superior National Insurance Co. of Woodland Hills, Calif. Mr. Hernandez will be based in a new branch in San Francisco. Mr. Hernandez previously was Northern regional vp for Insurance Co. of the West.

W. John Munro elected vp-ocean marine underwriting of St. Paul Fire & Marine Insurance Co. of St. Paul, Minn. Mr. Munro previously was an ocean marine underwriting officer.

Michael E. James named president of Golden Eagle Insurance Co. of San Diego. He had been vp of Golden Eagle. Also, **Donald Baldwin** named executive vp. Mr. Baldwin previously was vp of Balboa Insurance Group.

Stephen B. Otte elected president, treasurer and chief executive officer of Florists' Mutual Insurance Co. of Edwardsville, Ill. Mr. Otte previously was a senior vp. He succeeds **Olin Wetzel**, who retired.

Agents/brokers

Robert E. Kuntz named risk management services division representative for the Western region of Fred S. James & Co. Inc. of New York. Mr. Kuntz, who joined James in 1978, previously was the Central region risk management director.

John F. Betz named senior vp and Greenwich profit center manager for Fred S. James & Co. of Connecticut. Mr. Betz has been responsible for the Greenwich operation since it opened as a branch office of James' New York profit center in 1977.

Robert Needle named managing vp of the Philadelphia office of New York-based Alexander & Alexander Inc., a subsidiary of Alexander & Alexander Services Inc. Mr. Needle previously was national marketing director for Alexsis, the risk analysis and management service of A&A.

Also at A&A, **Robert D. Hughes** named managing vp of the Chicago office. Mr. Hughes previously was deputy managing vp in the Chicago office. And, **Phillip Gorchoff** named Northeast regional deputy director and managing vp of A&A's New York state profit center. He previously was managing vp of the Chicago office.

David B. Adams elected president of Adams & Porter Inc. of New York. Mr. Adams previously was executive vp. He succeeds **Edward J. Rock**, who has been elected chairman.

Peter L. Rhulen named executive vp of Rhulen Agency Inc. of Monticello, N.Y. Mr. Rhulen most recently was head of the agency's animal division.

John A. Salaverry named executive vp of Frank B. Hall & Co. Overseas Inc., a unit of Frank B. Hall & Co. Inc. Mr. Salaverry will be responsible for developing and managing Hall's overseas subsidiaries. He most recently was a vp for Marsh & McLennan Cos. Inc. ■

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comings & goings: buyers

Hennes named risk manager at Diversified Energies Inc.

David J. Hennes, 33, has been named director of risk management at Diversified Energies Inc. in Minneapolis. In this new position, he will coordinate the insurance programs for DEI and its seven subsidiaries and also will manage claims administration for Minnegasco Inc., a subsidiary of DEI. Mr. Hennes replaces **Patricia Ann Burke**, who has been named the company's senior attorney, and reports to Dwight H. Oglesby, senior vp and legal counsel. Mr. Hennes previously was insurance manager for Minnegasco Inc. He received a bachelor of arts from the University of Minnesota in Minneapolis and a masters in business administration from the College of St. Thomas in St. Paul, Minn. He holds the Associate in Risk Management designation and is currently pursuing his Chartered Property Casualty Underwriter designation.

* * *

Michael S. Hawkes, 39, has been named director of risk management services at London Regional Transport in London. In his new position, he will be responsible for implementing both risk control and risk financing strategy for the largest urban transport system in the world. Mr. Hawkes will report to B. Dale, board member for finance, and replaces **J.J. Merrett**, who has retired. Mr. Hawkes joined London Regional Transport in 1968, and was assistant risk manager prior to this appointment. He is a Fellow of the Chartered Insurance Institute and a member of the Assn. of Insurance & Risk Managers in Industry & Commerce.


Mr. Hawkes

* * *

Donald D. Batchelor, 31, has been named risk manager at Union Planters Corp. in Memphis, Tenn. He will be in charge of all corporate property/casualty insurance matters for the bank holding company and its principal subsidiary, Union Planters National Bank. Previously, Mr. Batchelor was an assistant vp in charge of accounting policy and quality control. He replaces **Cindy Davis**, who left the company, and will report to Bill Jackson, vp and manager of accounting and control. Before joining Union Planters, Mr. Batchelor was a licensed insurance broker with his family-owned agency. He holds a bachelor of science degree in business administration from Memphis State University and is a Certified Public Accountant.


Mr. Batchelor

* * *

Bruce W. Taylor, 46, has been appointed manager-insurance safety and services at NBI Inc. in Boulder, Colo. In this newly created position, he will oversee maintenance of the company's insurance programs, analysis of new insurance and safety needs, price negotiation with brokers and coordination of various corporate safety systems. Mr. Taylor, who joined the company in 1985, reports to Alfred J. Nielsen, vp in charge of facilities. Before joining NBI, Mr. Taylor was a private risk management consultant to the state of Colorado. He holds a bachelor of arts degree in logic and scientific method from Oklahoma State University in Stillwater. In addition, Mr. Taylor is a Chartered Life Underwriter, past president of the Colorado chapter of Chartered Property Casualty Underwriters and holds the Associate in Risk Management designation.

•

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update

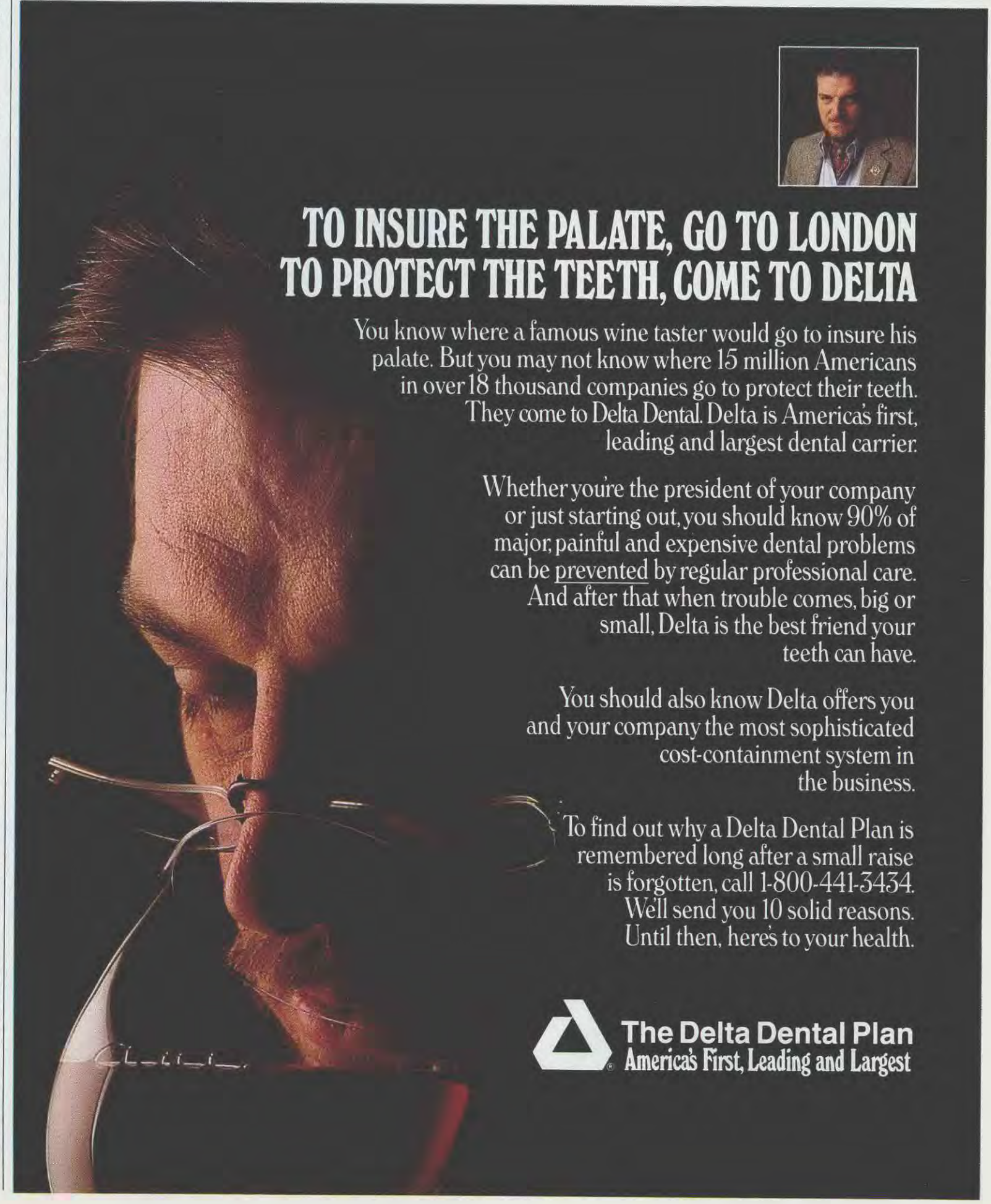
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Bank scrutiny

Continued from page 1

more familiar with insurance than loan officers, are taking an active role in evaluating loan applicants' coverages.

"I've been consulted a number of times on certain transactions," said Walter F. Denz, vp and director of corporate risk and insurance management at National City Corp. in Columbus, Ohio, a holding company for 11 Ohio banks.

Mr. Denz said that before the property/casualty insurance capacity crunch, the bank usually did not consult him on loans.

On the other hand, T. Ronald Casper, executive vp and head of the credit policy department at the Pittsburgh-based Mellon Bank, says Mellon's risk manager is viewed as an expert only on banking risks. "We would not typically go to him," he said.

First of America Bank Corp. has recently implemented a policy under which loan applicants' insurance coverages are methodically examined, Mr. Weiss said, adding that bank credit officers will be specially trained to assess a loan applicant's insurance coverage.

The equipment leasing division at First National Bank in Albuquerque, N.M., which loans money to companies so that they can lease equipment from the bank, is scrutinizing clients' underlying insurance coverages much more closely than in the past, according to Charles R. Murray, assistant vp and property insurance manager.

The leasing agreement between the bank and the company requires that the client has this underlying coverage. The bank has its own errors and omissions coverage in the event that, because of a clerical error or other problem, the client's insurance coverage is not triggered on a claim involving the equipment.

The purpose of this scrutiny is to ensure that the bank's own insurance coverage "can do the job it's supposed to do" and serve as a second layer of coverage, instead of a first layer in event of a claim, Mr. Murray said.

Insurance is only 'one factor that goes into an overall analysis,' Mellon's Mr. Casper says.

"I'm sure the philosophy is going to carry to the other lines of credit. We'll make sure of that before the year is out," Mr. Murray said.

Some banks, following the lead of insurance underwriters, examine the exposures faced by the loan applicant's industry at large, as well as the applicant's financial standing.

Mellon Bank of Pittsburgh attempts to determine whether a loan applicant has adequate coverage for the types of exposures that the applicant's industry faces, explained Mr. Casper.

After Mellon determines the kinds of exposures an applicant's industry faces, it decides how far to go in analyzing its coverage, Mr. Casper explained.

For instance, the bank is unlikely to spend a lot of time analyzing the insurance coverage of a fast-food restaurant, because that industry faces relatively few potentially catastrophic exposures.

The bank would more closely study the insurance coverage of a company that could pollute the air or uses dangerous raw materials in its manufacturing process.

In addition to assessing a loan applicant's insurance coverage, Mellon also analyzes a company's loss-control procedures before approving a loan, Mr. Casper said.

NBC Bank's Mr. Sweeney said his bank also requests copies of a loan applicant's insurance binders to ensure that the applicant's coverage is in line with those of other companies in the industry.

He noted that so far, clients whose policies were canceled have been able to replace them, although at a higher cost.

"It's something new to us, so we're just kind of working our way through it," he said.

And, the extent of tight insurance market conditions, which banking officials discussed at the Risk & Insurance Management Society conference in April, will spur officials at other banks to initiate similar loan policies, Mr. Weiss predicted.

Some banks also are more closely examining the financial stability of the insurers that are writing coverage for loan applicants, according to Raymond A. Pomante, vp in brooker Alexander & Alexander Inc.'s Philadelphia office.

And, some banks are reviewing the coverage of companies that already have been extended loans.

Mr. Sweeney noted that NBC Bank-San Antonio is now reviewing the insurance coverage of current borrowers. He said it is likely many loans that now are unsecured will have to be secured by the borrower's assets, including its accounts receivables and fixed assets.

This means that if the borrower goes into liquidation or bankruptcy following a catastrophic loss, the bank will have first claim to the company's remaining assets.

Wingate H. Lucas, corporate risk manager at Central Fidelity Bank in Richmond, Va., said the bank protects its interests when current customers can no longer find insurance by bringing the companies under the umbrella of one of the bank's floater policies. The bank then passes the cost on to the companies.

"It's something we've been forced into because of the market," he says.

While banks are attempting to protect themselves against bad loans by critically analyzing loan applicants' insurance coverages, they may be lulling themselves into a "false sense of security," warned Ron Boggs, a consultant with The Wyatt Co. in Chicago.

He noted that some banks do not adequately analyze a borrower's uninsured exposures, the exclusions under its policy or the solvency of its insurer.

Just how much a lack of property/casualty insurance capacity may affect lending policies at banks is questionable, according to one observer.

While banks may be looking more closely at their applicants' insurance coverage, "in the final analysis it's not likely it will make a major difference," predicted Alex Kyman, president of City National Bank in Beverly Hills, Calif.

Banks have to make loans, Mr. Kyman pointed out. "Otherwise the banks would be out of business."

But, Mr. Williams at Citizens & Southern disagrees with Mr. Kyman's perspective. He noted that before approving any loan, banks assess the risk involved, and "obviously, that's the same thing insurance helps to cover."

As the element of risk increases, "it certainly starts to have an impact on your lending decision," he explained.

Bank officials say it is difficult to pinpoint a specific case in which a loan was denied because the applicant lacked adequate insurance coverage. Mellon's Mr. Casper says insurance is only "one factor that goes into an overall analysis."

And, at least one observer believes scrutiny of loan applicants' insurance will end when the insurance cycle turns.

"I think that once capacity is there, once there is some stability in the marketplace, the concern will be diminished," said A&A's Mr. Pomante. ■

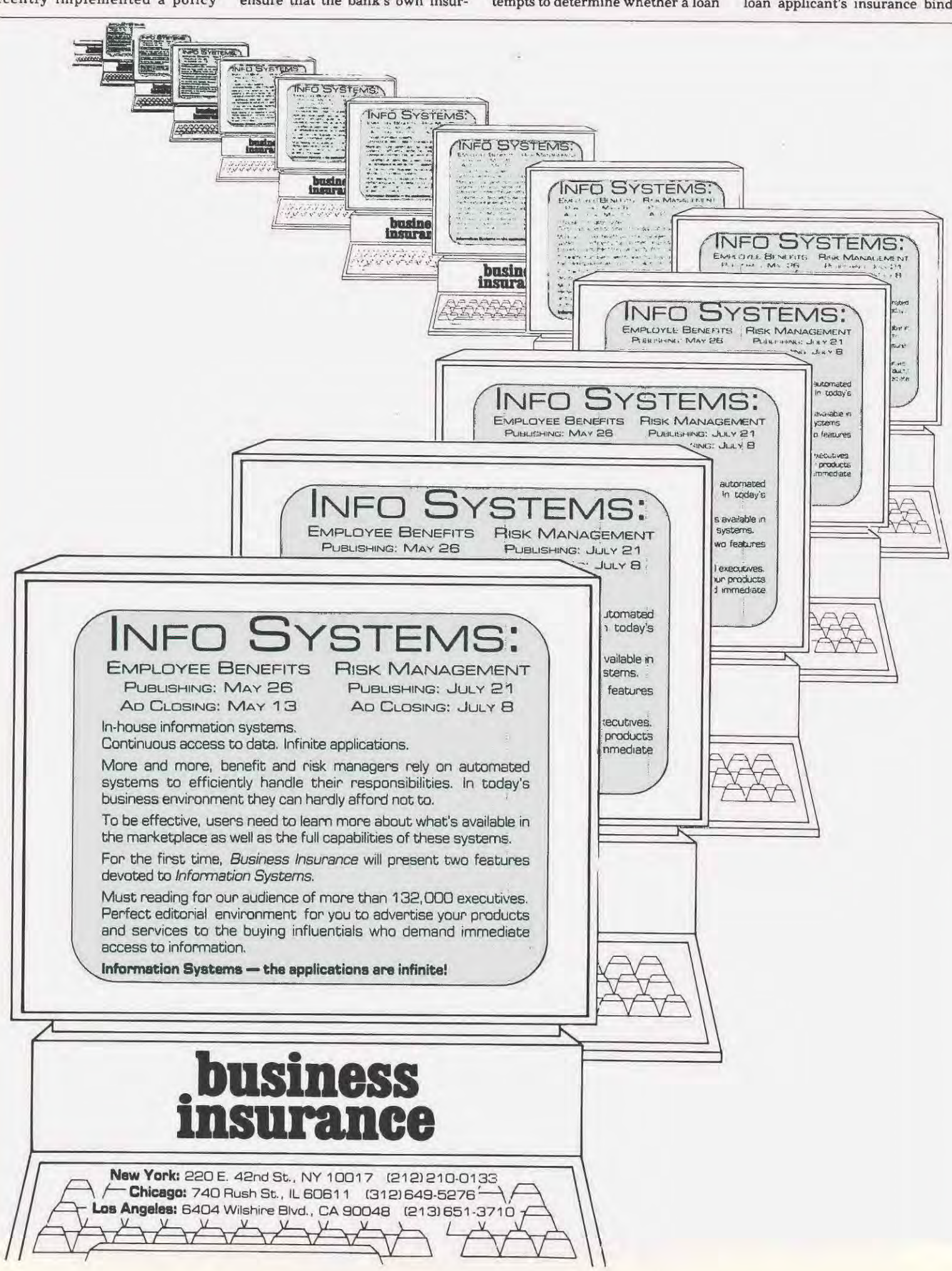




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N.Y. exchange

Continued from page 3

capital," Mr. Fahys said last week.

One new syndicate was formed in the first quarter of 1986—IAT Syndicate Inc.—and three more syndicates are expected by July 1, Mr. Fahys said.

IAT Syndicate was formed in February by a Wall Street investment banker with $5 million in surplus and is managed by Johnson & Higgins Willis Faber (U.S.A.).

"That's the first sign that Wall Street sees the exchange as a way to get into the insurance business quickly," said Craig C. Perry, a vp of Johnson & Higgins. It took only 60 days to form the syndicate, he noted.

Mr. Fahys also predicted that more than one of the many multiowner insurers forming offshore will create a syndicate on the exchange as a subsidiary, as an efficient way to obtain a license to operate in the United States.

A syndicate also could be formed by a single corporation to help solve its insurance problems, Mr. Fahys noted. However, the exchange's security fund does not cover risks written by a syndicate for an affiliate, he noted.



Mr. Fahys

"We do have insurance subsidiaries of major corporations with syndicates, but their purpose was diversification rather than solving their own insurance problems," according to Mr. Fahys.

While most of the capital invested in the exchange to date has come from property/casualty insurance and reinsurance companies, more capital is coming from other sources, Mr. Fahys noted.

Of $23 million in surplus of four syndicates managed by Johnson & Higgins Willis Faber, only $3 million was from the property/casualty insurance industry, said Mr. Perry. He expects another $15 million will be added by year-end through capital contributions to existing syndicates and the formation of a new syndicate.

"There is a parade of investment bankers and foreign investors—two or three a day—coming through here," observed William Urquhart, vp and general counsel of the exchange, who shares with Mr. Fahys the responsibility for meeting prospective investors.

Already, the New York exchange is the third-largest broker-reinsurance market in the United States based on 1985 gross written premiums, Mr. Fahys noted.

The 1985 premiums of $309.5 million, however, were down from $345.6 million in 1984, because at least 20 syndicates stopped underwriting casualty facultative reinsurance during 1985, Mr. Fahys said. Some have since resumed writing the business, he added.

Mr. Perry pointed out the exchange cut the number of risks it wrote in 1985 almost in half—to 8,200 from 15,000 in 1984. "Obviously we're getting approximately double the premium of a year ago," Mr. Perry said.

(A risk is defined as one contract, regardless of how many syndicates participate.)

Overall, the exchange's syndicates suffered a net loss of $42.1 million in 1985 compared with a $35.2 million loss in 1984 based on a 1985 combined ratio of 152.3% compared with a 1984 combined ratio of 137.3%.

'There is a parade of investment bankers and foreign investors—two or three a day—coming through here,' observes William Urquhart, vp and general counsel of the New York Insurance Exchange.

Mr. Fahys stressed, however, that the results of 13 syndicates that were not underwriting at year-end significantly worsened the exchange's overall result. The aggregate combined ratio for active syndicates totaled 137.6% compared with the inactive syndicates' combined ratio of 183.9%.

A few of these 13 syndicates have since resumed underwriting.

"Syndicates that stay the course have a greater opportunity for profitability," Mr. Fahys said, noting that the exchange's first quarter results "will show a very favorable trend."

Mr. Fahys projects that premiums written this year will not exceed $400 million, but he said he believes the exchange could write $1 billion in annual gross premiums in five years.

That growth, however, is dependent upon good business being offered, Mr. Fahys said, and the exchange securing admitted status as a reinsurer in another 10 states.

The exchange is now an admitted reinsurer in 36 states, but is missing 10 formal approvals. In four states, approval is not required by the states.

The exchange is targeting five states this year to obtain admitted status: California, Washington, New Jersey, Illinois and Massachusetts.

Illinois, however, could be a problem because New York has not admitted the Illinois Insurance Exchange, noted Mr. Urquhart. The New York exchange also is not admitted in Florida and the Insurance Exchange of the Americas is not admitted in New York.

About 95% of the premiums written by New York syndicates are for reinsurance contracts, Mr. Fahys noted.

Concerning the financial stability of the exchange, Mr. Fahys pointed to the exchange's stringent regulations governing premium to surplus ratios, its security fund and the oversight responsibility of the New York Insurance Department.

To help the exchange monitor its syndicates' financial health, the exchange recently created the position of manager of financial analysis and control and hired Gary R. Kratzer, formerly senior financial analyst with A.M. Best Co. ■

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Exxon provides early retirement incentives

Exxon Corp. is extending an early retirement offer to about 40,000 employees in its U.S. and foreign operations.

"The offer was made mainly to employees in the United States, but some expatriates who are paid in U.S. dollars were also included," said a spokeswoman for the oil corporation in New York.

Employees have until May 30 to accept the offer, after which time the company will "move into an involuntary phase where employees who have not voluntarily retired will be told that they do not have jobs," she said.

"Retirement dates will vary from individual to individual," she added.

Under the offer, employees who are 50 years of age or older and who have at least 15 years of service are eligible to receive a retirement benefit based on their ages and years of service, she said.

To determine the benefit, Exxon will add three years to both the employee's age and years of service and multiply this by a percentage of final average pay, she added. Retirees will receive the benefit in monthly payments. She would not disclose the multiplier.

And, employees under 50 years of age who have less than 15 years of service will be offered a lump sum payment based on salary and years of service, she said.

In addition, employees who have been with the company for 10 years are eligible to receive benefits from a defined benefit pension plan. They also are eligible to participate in medical, dental and life insurance benefits for one year after retirement. The spokeswoman declined to provide details of those plans.

The early retirement offer is part of a restructuring plan that Exxon plans to have completed by the fall, she said. Other reasons cited for the early retirement offer were the drastic drop in oil prices, intense competition and too large a workforce for the lower demands for oil.

The company also is offering retirement and career placement counseling for employees and a stress management program. ■

Human chain

Continued from page 1

many municipalities will be named on the policy.

But regardless of whether a municipality is named on the coverage, everyone standing in line will be covered under the National Union policy as long as the event is sanctioned in the municipality where they participate.

Most public entities can sanction the event by granting a parade permit or special events permit, officially waiving such a permit or asking Hands Across America organizers to produce proof of insurance, Mr. Karl explained.

Municipalities that are named on the general liability policy are not required to contribute toward the premium, Mr. Karl explained, noting that USA for Africa is paying the full cost.

The D&O coverage, which is written on a separate policy, covers only officials of USA for Africa, Mr. Karl noted.

Although USA for Africa officials would not release the cost of the coverage, Mr. Karl did say that it was far below earlier reports that put the premium at from $6 million to $10 million.

"It was considerably less than that," he said.

In a promotional brochure, Hands Across America notes the Coca-Cola Co., one of the project's sponsors, "made a significant commitment to the project, helping to partially underwrite the event costs." But a spokesman for the Atlanta-based soft-drink company said he was unaware of any payments Coca-Cola may have made toward the cost of insurance.

The general liability policy includes automobile liability coverage for property damage and bodily injury. The auto liability coverage covers all vehicles associated with the event, like buses used to ferry participants to sites along the chain. The coverage attatches at $1 million for non-owned automobiles and $5 milion for non-owned buses.

Mr. Karl said personal injury liability coverage for personnel connected with the event, including entertainers, indemnifies those connected to the event against libel or slander claims.

Designing workers compensation coverage flexible enough to fit regulations that vary in the 17 jurisdicitions through which the human chain will stretch "has been tedious," Mr. Karl remarked.

Sal F. Nociforo, executive vp of AIG Entertainment Risks, a division of AIG Specialty Agencies, explained the workers comp coverage was written with an all-states endorsement and covers employees, officers and directors of USA for Africa.

All of the policies were written on an annual policy term and provide coverage not only on May 25, but also for any events connected with Hands Across America until Feb. 24, 1987.

USA for Africa's risk management program does not end with the purchase of insurance.

To help provide security for the Memorial Day weekend event, which will see people lined along roads during what is one of the busiest travel weekends of the year, USA for Africa has hired J. Mattman Security Inc. of Los Angeles to provide security personnel. Mattman provided security for the 1984 Summer Olympics in Los Angeles.

In addition, organizers are working with local law enforcement agencies and public safety groups to enlist help in policing the route. For every one-tenth mile of the chain, a "citizen segment leader" will be responsible for making sure children are cared for and that litter is disposed of properly, one regional official pointed out.

Mr. Karl said part of the reason that National Union decided to write the coverage for the event was because of "the loss-control measures of the whole organization."

Although at first glance a 4,000-mile chain of humans might appear to be a loss-control nightmare, "it becomes a much more manageable risk" when it is broken into small segments, each with professional security personnel and volunteers with responsibility for monitoring safety, Mr. Karl said.

Organizers say no road closings are planned during the event.

In Texas, where around 820,000 participants are to cover 621 miles, more than in any other state, a Hands Across America spokeswoman said she has received calls from concerned business leaders who are encouraging employees to participate in the chain but want to make sure coverage is in place if someone is injured.

"They are wondering who is liable and whose insurance will cover them because it isn't an employee function," she said. ■

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WAREHOUSE FIRES

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Automotive Supplies. Fire started in the temporary storage of plastic parts and spread to nearby cans of motor oil in cartons, which were palletized and stored in the aisles. Two employees attempted unsuccessfully to put out the fire with a hose stream from a nearby hose station within the building. A few minutes later, the plant fire brigade arrived and tried to fight the fire but was hampered by storage piled in the aisles. Although sprinklers were operating, the available water densities could not penetrate the intense fire plume generated by the burning plastics and oil. A total of 250 firemen fought the blaze, which continued to rage, overwhelming the sprinkler system and destroying about 18 acres of building. Estimated loss: $145 million.

Retail Products. A carton of aerosol cans, containing carburetor and choke cleaner, was dislodged from its storage rack, fell to the floor, and split open. One or more cans discharged their contents which became ignited by a nearby electrically powered lift truck. Fire spread quickly over the 15-foot high palletized storage of aerosols, overpowering the existing sprinkler protection. Flaming, rocketing aerosol cans started fires in adjacent storage that included foamed plastic plates, plastic toys, additional aerosols and motor oil.

Within six minutes, the fire alarm had sounded, four sprinkler risers were flowing, the electric fire pump had started, and the fire department was on its way. In the meantime, the warehouse fire brigade entered the building but in less than two minutes was forced out by thick, black smoke. Within 20 minutes, flames broke through the roof and aerosol cans could be seen rocketing through the air. Some 300 firefighters got the blaze under control nine hours later. Estimated loss: $125 million.

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St. Eustatius

Continued from page 2
disconnected.

Mr. Broekveldt's letter names a number of individuals from whom information on St. Eustatius should be sought, including:

- Lawrence I. Solow, reportedly an executive with Lladium Mines Corp., the Panama-based parent of St. Eustatius. Mr. Solow is being sought by the FBI after jumping a $1 million bond posted in connection with a federal indictment, according to Carl Chandler, an agent in the FBI's New Orleans office. Mr. Chandler would not comment on the nature of the indictment, which he said had been sealed.
- David Skoller of Port Washington, N.Y., former secretary and treasurer of Countach.
- Gary I. Hoskie of Levittown, N.Y., former executive vp of Countach and former vp of St. Eustatius.
- Bernard Hubscher, a New York attorney who has represented St. Eustatius in civil lawsuits.

"It must be established which persons/companies are liable under civil law towards the many injured policyholders (and, consequently, towards the estate)," Mr. Broekveldt's letter to Mr. Goldman reads.

Mr. Hoskie could not be reached for comment; Mr. Skoller's home number is unlisted.

Mr. Hubscher said he has not been contacted by Mr. Goldman and that he no longer represents St. Eustatius in any litigation.

Mr. Goldman said that he "will be pursuing whatever I need to" to draw together assets for the insolvent company's liquidator.

He would not comment, however, on specific steps that may be taken to recoup St. Eustatius' assets.

"The investigation is not completed," Mr. Goldman said. "We are continuing our investigative effort."

Mr. Goldman said St. Eustatius dealt with at least two Dutch banks: Staten Bank, based in The Hague, and H. Albert De Bary & Co. N.V., based in Amsterdam.

However, he also said that he does not have any financial information on St. Eustatius, and does not know the premium volume written by the insurer after its formation in September 1983 with $2 million in capital.

De Bary, Mr. Goldman said, financed the acquisition of the five-story building that St. Eustatius used at 421 Prinsengracht in Amsterdam.

The building was owned by a company called Gurguns Vastgoed, whose directors were the same as those of St. Eustatius, according to Mr. Broekveldt. Gurguns Vastgoed later declared bankruptcy and the bank sold the building, he added.

Mr. Goldman noted that one office in the building was found to contain a two-way mirror, and that authorities discovered expense receipts for video equipment in St. Eustatius' files. Mr. Goldman said he did not know if activities in the office had been taped.

Records found in the building related mainly to business written in Great Britain, according to Mr. Broekveldt, who said that "mainly the U.S. accounts are missing."

"I have contacted Countach and they said that the (U.S.) documents should be in Amsterdam, so I don't know where they are," he said.

Among the U.S. policyholders of St. Eustatius was National Transportation Safety Assn., an association of independent truckers based in Madison, Wis. St. Eustatius insured an accident and health plan for the association that was administered by National Administrative Services, a third-party administrator based in Thousand Oaks, Calif., and represented by Mr. Goldman.

Richard Chandler, chairman of the NTSA, said that St. Eustatius provided limits of $1 million per occurrence over deductibles of $100 or $200 per year for each member.

Mr. Chandler said that the association never had problems with St. Eustatius—which insured the program starting in May 1983—until last December, when it submitted claims totaling about $80,000 to the insurer's Amsterdam office and received no response.

An NAS executive later went to Amsterdam and found that "the people who were there were gone," Mr. Chandler said.

He added that Mr. Hoskie of Countach also reported visiting Amsterdam in late January or early February and finding the St. Eustatius offices empty.

About 1,000 of the NTSA's 4,000 members were covered under the program. Mr. Chandler said that a total of about $4 million in premiums had been paid to St. Eustatius, which in turn had paid a total of about $3.6 million in claims.

"It really was a shock, truthfully, because we had no problems" with St. Eustatius, Mr. Chandler said. "We really do not know yet whether we've been had."

The NTSA may soon file a lawsuit to recover its damages, according to Mr. Chandler.

Other St. Eustatius policyholders in the United States have included:

- Aviation Office of America, a Crum & Forster unit based in Dallas that reinsured some of its business with St. Eustatius. Peter O'Grady, AOA's president, said in an interview last February that the company was no longer using St. Eustatius. Mr. O'Grady added that St. Eustatius had paid claims under its contracts and that no litigation had resulted from the relationship.

Mr. O'Grady said that some of AOA's dealings with St. Eustatius were through R. Ian McGuire of Warlingham, England, who "operated more as a broker."

Mr. McGuire also acted as a broker in the placement of property coverage for Occidental Petroleum Corp. with an apparently non-existent insurer called Phoenix Insurance Co., unrelated to a Travelers Corp. subsidiary of the same name or to Phoenix Assurance P.L.C. (*BI*, Feb. 10; Aug. 26, 1985).

- Western Union Corp., which purchased $500,000 of coverage on it $105 million Westar VI satellite with St. Eustatius through broker Alexander & Alexander of New York Inc.

Westar VI, launched Feb. 3, 1984, was a total loss.

A&A, which assumed Western Union's rights under the policy, sued St. Eustatius in U.S. District Court in Manhattan in April 1985 to recover on the $500,000 claim, which St. Eustatius denied, court papers say.

Mr. Hubscher, then St. Eustatius' lawyer, asked U.S. District Judge Gerald L. Goettel to relieve him as counsel for the insurer. Judge Goettel granted Mr. Hubscher's request last month and ordered the insurer to appear by new counsel before May 7 or face a default judgment.

In a Jan. 24 letter to Judge Goettel, Mr. Hubscher said that St. Eustatius had discontinued its business and that he had no knowledge of its assets.

He added that Mr. Skoller "is the only individual in the United States that I know of who could possibly have information concerning the finances and corporate structure of St. Eustatius."

Mr. Hubscher also said in his letter that he had just learned that Leo Edward Heymann, a director of St. Eustatius, is serving a four-year term at the federal peneitentiary in Fort Worth, Texas.

Heymann was found guilty in U.S. District Court in New Orleans and sentenced to prison in 1985 for a conspiracy to transport forged securities and transportation of forged securities, according to court

Continued on next page

Administration product liability proposal

Continued from page 1
for Uniform Product Liability Law, a Washington-based lobbying group representing more than 400 businesses and trade associations.

"We're excited that the administration is going to push for enactment of a federal bill. We agree with all the provisions," said Sharon Spigelmyer, director of loss prevention and control at the National Assn. of Manufacturers in Washington.

Insurers also welcome the proposal as a key first step to providing more predictability in the legal system and as a result more affordable product liability insurance.

"Enactment of the proposal would go a long way toward improving predictability for insurance underwriters. It would have a positive impact on the product liability insurance marketplace," said David Farmer, vp-federal affairs for the Alliance of American Insurers in Washington.

"Adoption of the proposal would bring some semblance of stability to the market. Common sense would dictate that," added Peter Lefkin, counsel for the American Insurance Assn. in Washington.

But significant roadblocks remain. Both legal and consumer groups are expected to use their influence to try to block enactment of federal product liability legislation.

The 68,000-member Assn. of Trial Lawyers of America, which has successfully lobbied against other federal product liability bills, will oppose the administration bill, arguing that it denies fair compensation to victims.

"There is a total lack of compassion for injured persons," said a spokesman for the Washington-based ATLA. "The proposal comes down on the side of manufacturers and the insurance industry. It is not a balanced approach."

Indeed, Commerce Committee Chairman John Danforth, R-Mo., while recognizing that the administration proposal contains some good ideas, believes it doesn't do enough for consumers, an aide said.

As a result, Sen. Danforth, whose support is vital to the bill's chances for approval, still intends to introduce his own product liability bill that will better balance consumer and manufacturers' rights, the aide said.

But business groups believe that Sen. Danforth and the administration can settle their differences and agree on a single piece of legislation.

"We're hopeful that there will be one bill," said NAM's Ms. Spigelmyer.

The brevity of the administration bill—it totals just 15 pages—will increase its chances of enactment, backers say.

"A short-form bill has a much better chance. The concepts are vital, but easy to understand and explain," said Mr. Rowland of the Coalition for Uniform Product Liability Law.

While the bill is brief, it touches on and provides solutions to the major problems in product liability litigation, said the American Tort Reform Assn.'s Mr. Coyne.

Richard Heydinger, director of risk management for Hallmark Cards Inc. in Kansas City, describes joint and several liability, which the administration wants to eliminate, as "at the top of my hit list."

Under joint and several liability, "You can be a minor player and have to shoulder the burden of the entire award. It is most inequitable," Mr. Heydinger said.

Placing caps on non-economic damages is needed because jury awards have become a kind of "lottery system" that needs to be controlled, said Jon Harkavy, director of governmental affairs and general counsel for the Risk & Insurance Management Society in New York.

NAM's Ms. Spigelmyer says limits on contingent fees are needed to ensure that more of an award goes to the victim and less to plaintiffs' atttorneys.

In addition, Assistant Attorney General Richard Willard said at the news conference that courts have been inflating product liability awards because they know that plaintiffs' attorneys get such a high percentage of the awards.

However, ATLA's Mr. Havel says he hasn't heard of complaints from accident victims about contingent fee arrangements.

Ms. Spigelmyer supports the administration's proposal to shield manufacturers from liability if they don't warn of unforeseeable risks or product alterations.

"Companies can't be expected to warn of risks that are not foreseeable. You can't warn for everything," Ms. Spigelmyer said.

At the news conference, Mr. Willard was asked whether he felt wiping out the McCarran-Ferguson Act, which gives limited immunity from federal antitrust laws to the insurance industry and leaves primary regulation of the industry to the states, would be more appropriate than changes in product liability laws.

He said the administration does not defend the McCarran-Ferguson Act, but that he doubted that its repeal would have made a difference in the insurance crunch, which he blamed on the legal system and cash-flow underwriting.

Mr. Willard also said he doubted the federal government could do a better job of regulating the insurance industry than the states. ■



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St. Eustatius

Continued from previous page
documents.

In an interview, Mr. Hubscher said he had not been paid for services rendered to St. Eustatius.

- Insurance Co. of the State of Pennsylvania, a unit of American International Group Inc., which was reinsured by St. Eustatius for a portion of its participation on a liability program for Global Marine Inc. of Los Angeles.
- Ideal Mutual Insurance Co., which ceded to St. Eustatius 100% of its liabilities on an owners, landlords and tenants liability program written for New York's Long Island Railroad.

Ideal Mutual, which was ordered liquidated by a New York court last year, successfully sued De Bary, St. Eustatius' bank, in 1984 to collect on a $1 million letter of credit after St. Eustatius canceled its reinsurance contract.

'It really was a shock, truthfully, because we had no problems,' Mr. Chandler says.

De Bary had originally refused to honor drafts on the LOC, saying that premiums owed to St. Eustatius—used to collateralize the LOC—were never paid.

A major source of business for St. Eustatius in England was MGM Underwriting & Reinsurance in Wareham, which wrote mainly inner-city fire insurance, according to its director, Colin Youell.

Mr. Youell said that MGM wrote premiums of about 500,000 pounds for St. Eustatius in 1984 and about 750,000 pounds in 1985. St. Eustatius paid claims of about 148,000 pounds in 1985. Mr. Youell said in an interview last January.

MGM was introduced to St. Eustatius by Keith Brooks and Harold (Monty) Bartlett at London-based Faith Services Ltd., which has since acquired MGM, said Mr. Youell and Mr. Bartlett.

MGM clients were notified last January that effective Jan. 21, business placed with St. Eustatius would be transferred to an insurer called Surety & Guarantee of North Africa, domiciled in the West African nation of Djibouti.

Surety & Guarantee of North Africa is not an authorized insurer in the United Kingdom.

Mr. Bartlett, another key producer for St. Eustatius, said he placed business generating premiums of about 100,000 pounds with the insurer through Prosehurst & Partners, of which he is a director.

The British Department of Trade and Industry has discontinued any investigation of St. Eustatius.

However, the New York Insurance Department is continuing its investigation and is also investigating possible links between St. Eustatius and the apparently non-existent Phoenix Insurance Co., a department official said.

A Dutch fraud squad in Amsterdam also is conducting a criminal investigation into St. Eustasius, said Mr. Broekveldt. ■

New management to lead Manville

NEW YORK—W.T. Stephens was named president and chief executive officer of Manville Corp. to succeed J.T. Hulch, who resigned for "personal reasons," a spokesman said.

And, George C. Dillon has been elected to succeed Chairman John A. McKinney, who will retire Sept. 1.

The selection of Mr. Dillon arose out of negotiations with the creditors' committee in Manville's asbestos-related bankruptcy.

Also, Manville shareholders have asked for a stay in proceedings concerning confirmation of the company's reorganization plan. Shareholders oppose the plan because it would substantially reduce the value of their stock. ■

Ideal Mutual

Continued from page 2

These actions resulted, according to the letter, in losses "presently estimated to exceed $100 million."

The letter also describes the dispute with National Union.

The acts and omissions that led to the losses, according to the letter, included "the failure of the directors and officers of Ideal adequately to record and account for the transactions of Ideal Mutual, including the failure to maintain adequate records of risks underwritten, the insurance placed, claims reserves and investments."

Other acts and omissions cited in the letter include:

- The transfer of "several million dollars" in Ideal Mutual funds to Intercontinental Insurance Managers in 1984. Intercontinental is a managing general agent in Schaumburg, Ill., that specializes in workers compensation insurance and was once partially owned by Ideal.

A spokesman for Intercontinental could not be reached for comment.

- Authorizing managing general agents "and the failure and omission of the board of directors and management of Ideal Mutual to monitor the issuance of policies, investment of assets, compliance with underwriting guidelines, collection of premiums, placement of reinsurance and payment of claims."
- Placing reinsurance with Mentor Insurance Ltd., Elkhorn Insurance Co., Northumberland General Insurance Co., Phoenix of Greece General Insurance Co. and Beacon Insurance Co., "which subsequently became insolvent or otherwise failed to perform their obligations."
- Obtaining a "surplus relief" reinsurance treaty and treating it as a reduction in Ideal Mutual liabilities.
- Transferring Ideal Mutual funds to Optimum of Illinois.

"You are hereby called upon to make payment of such losses to the liquidator. In the event of your failure to recompense the liquidation estate of Ideal Mutual for such losses, you could be subject to suit by the liquidator and/or other parties," the letter says.

Enclosed with the letter was a copy of the National Union D&O policy.

A former Ideal director who received the letter described it as an attempt to gain access to the $25 million D&O policy.

It is a "sign of the times," he said. "It did not seem to be any too specific to the situation at hand," he said, adding that any D&O suit would include similar allegations.

Another former Ideal director said the New York department made a "direct frontal attack" on National Union with no success and is now attempting to gain access to the policy indirectly.

A spokesman for the New York department said of the letter, "It's not something we're going to discuss."

The liquidiation bureau is "carrying out its fiduciary function," he said. "We don't want to engage in a public debate over what is a legal matter."

Ideal Mutual's directors and officers, as well as Optimum Holding Corp., Optimum's directors, Ideal Mutual and auditor Arthur Andersen & Co, already were sued last year by an Optimum Holding shareholder in U.S. District Court in New York City on behalf of all shareholders (BI, Feb. 11, 1985).

Catherine Walker, an attorney with Kaufman, Malchman, Kaufman & Kirby in New York, which is representing the plaintiffs, said defendants in the case have filed a motion for summary judgment and are awaiting a ruling.

Meanwhile, Optimum of Illinois' liquidation is expected to be approved by the Illinois court unless objections are filed by today, said an Illinois Insurance Department official.

Eugene F. Conway Jr., Optimum's president and chief operating officer, said he does not expect to dispute the petition to liquidate Optimum.

Optimum, which generated $19.5 million in direct premiums written in 1983, the last year for which figures are available, specialized in workers compensation and was licensed only in Illinois.

According to the balance sheet submitted with the liquidation petition, Optimum of Illinois had $4.5 million in assets and $14.8 million in liabilities as of March 26, leaving a deficit of $10.3 million.

If the minimum $1.3 million in capital and surplus required by the Illinois Insurance Code is added as well, Optimum of Illinois has a statutory impairment of at least $11.6 million. This figure does not include estimates of Optimum of Illinois' incurred-but-not-reported losses.

Among the items also not included in the liquidation petition is known reinsurance premiums payable of about $2.1 million and a claim for $2.37 million by International Harvester Co., now called Navistar International Corp, to obtain a premium refund for the unused portion of a D&O policy written by Optimum.

This amount also does not include as well an indeterminate amount of reinsurance recoverables that may eventually be received from Ideal Mutual.

Ideal and Optimum of Illinois operated under a pooling agreement, under which Ideal Mutual and Optimum shared premiums, expenses and liabilities on insurance written on a 51%-49% basis. The agreement also provided that the "rights and benefits" of reinsurance contracts or treaties written on Optimum business would be assigned by Optimum to Ideal.

A dispute arose last year over the reinsurance recoverable under the pooling agreement, with Illinois contending it should have a share of the reinsurance and New York stating that as Ideal's liquidator it alone is entitled to any reinsurance payments to Ideal and Optimum resulting from the pooling agreement (*BI*, April 19, 1985).

The Illinois and New York departments are now waiting for a federal judge's approval to put the entire matter before an arbitrator, said an Illinois department spokesman.

Even if Illinois ultimately receives its share of the reinsurance recoverable, however, Optimum of Illinois would still be insolvent, the spokesman said.

He noted that when the insurer was placed in rehabilitation, the department estimated it was insolvent by only $3 million and there was a "good possibility" of survival. But, in addition to problems with reinsurance recoverables, "the claims turned out to be a lot more than we originally estimated."

If the insolvency had not been as great, outside investors could have possibly taken over the company, he said.

The fact that Optimum was licensed in Illinois, had agency agreements and was an ongoing entity would have been appealing, the spokesman said, but "those benefits were not enough to overcome the degree of insolvency."

All of Optimum's policies have either expired or been moved to other insurers, said the spokesman. Claims are now being processed and are up-to-date, he said, adding he does not expect any disruption if Optimum is liquidated.

Illinois' guaranty fund, which pays up to $150,000 per claim, will be triggered with the liquidation order, said James Stevenson III, the fund's manager.

Part of the problem leading to the impending liquidation, Mr. Conway said, was New York's refusal to assemble a financial statement based on Optimum's records stored in Ideal's New York office, as well as the disagreement over reinsurance recoverable. "Perhaps with the help of New York, Optimum Insurance could have been saved."

New York had an incentive to help rehabilitate Optimum because of Ideal's ownership in the insurer, Mr. Conway said. Ideal Mutual—and now the New York department as Ideal's liquidator—owns 51% of the stock of Optimum Holding Co., the publicly held company created by Ideal that owns all of Optimum of Illinois. The remainder is held by the public.

Had Optimum remained a viable entity, said Mr. Conway, the department could have profitably sold off its stock.

"For whatever reasons, it didn't work out. I don't know what New York had in mind," he said.

The New York department would not comment on Mr. Conway's remarks.

Robert M. Perkins, who resigned last month as chairman of both Optimum Holding and Optimum of Illinois, said the liquidation of Optimum of Illinois is "just outrageous" and could have been avoided had the Illinois and New York departments cooperated.

Meanwhile, Optimum Holding Corp.'s biggest shareholder apart from Ideal said he is disputing the New York department's decision to retain for Ideal Mutual's estate a $2.4 million tax refund received by Optimum Holding in August 1984. He contends the money should be distributed to all Optimum shareholders.

Joseph B. Gibson of Kansas City, Mo., said the money was transferred to Ideal's account when it was refunded because company officials said it was needed to meet payroll.

Mr. Gibson estimated that if the funds were to be distributed to shareholders, it would amount to about $1 per share after Ideal retains its 51% share.

Mr. Gibson owns about 250,000 shares of Optimum Holding, or about 11.3% of the shares outstanding.

He received the shares as well as $4.1 million in cash in September 1982 when he sold Kansas City, Mo.-based NDS Enterprises, a managing general agency, to Optimum of Illinois.

Mr. Gibson said NDS ceased doing business when Ideal was liquidated.

He bought it back from the Illinois department for an "immaterial" amount and liquidated it as of Dec. 31, 1985, he said. ■

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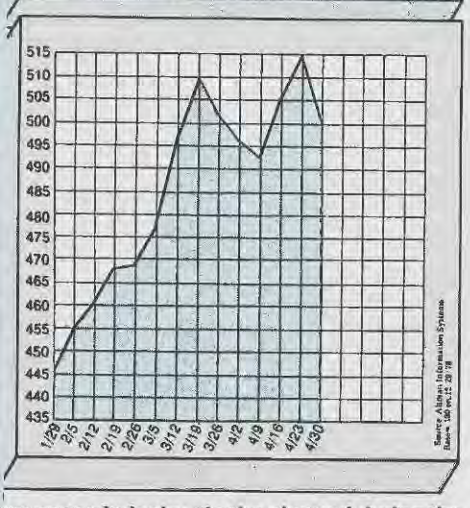
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BI Insurance Index



Insurance industry stocks plunged during the most recent trading period, causing the *Business Insurance* stock index to drop 13 points to 501.0 on April 30 from a record 514.0 on April 23. Only nine stocks posted increases, 35 issues closed down and six stock remained unchanged. The largest gains were posted by Frank B. Hall & Co. Inc., up 12.3%; Durham Corp., up 10.3%; Hartford Steam Boiler Inspection & Insurance Co., up 7.9%; NAC Re Corp., up 4.3%; and Great West Life Assurance Corp., up 3.2%. The largest declines were tallied by The Home Group Inc., down 8.6%; Nobel Insurance Ltd., down 8.6%; American International Group Inc., down 7.9%; Kemper Corp., down 7.7%; and Lincoln National Corp., down 7.2%.

The *Business Insurance* stock index dropped 2.5% during the most recent trading period, which was about on par with other market averages. The Dow Jones 30 industrials dropped 2.5%, while the New York Stock Exchange composite and the Standard & Poor's 500 average both declined 2.6%.

British Issues

29 April Companies	Price pence	P/E	Div. pence	Yield %	1 Week High—Low pence pence
Comml Union	334	30.4	16.9	5.0	334—322
Genl Accident	897	16.3	31.4	3.5	897—862
Gdn Royal Exch	949	20.6	40.7	4.3	949—912
Royal	932	16.9	36.7	3.9	932—912
Sun Alliance	753	25.1	23.6	3.3	753—730
Brokers					
CE Heath	645	8.7	36.0	5.5	645—633
Hogg Robinson	314	10.5	13.4	4.2	323—309
JH Minet	246	9.1	10.7	4.3	246—238
Sedg Grp	357	13.2	15.7	4.3	357—340
Stew Wrightson	405	12.9	15.7	3.8	412—395
Willis Faber	452	16.7	12.5	2.7	460—415

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

Reinsurance recoverables sure to cause discomfort

By MYRON M. PICOULT

Special to Business Insurance

IN OUR LAST COLUMN, we noted that the problem of reinsurance recoverables was something that could sidetrack the rapid underwriting recovery that some observers are predicting for the property/casualty insurance industry.

Success in the reinsurance business is a function of capital, underwriting prowess and a strong infrastructure to support the operation. Ease of entry marked the reinsurance business in the 1970s, while speed of exit has marked the 1984-85 period.



Mr. Picoult

The influx of new participants in the 1970s was a result of both the ease of entry and the perception that the business was like a "layup." The recent exodus is due to record underwriting losses, the demise of cash-flow underwriting and a lack of professionalism.

Reinsurance recoverables have grown from 60% of property/casualty surplus in 1982 to about 87% at the end of 1984, the latest year for which data is available. Recoverables between reinsurers have grown from 65% of surplus in 1982 to 120% in 1984.

Some industry observers have noted that the reinsurers that are or will be in trouble are likely to be smaller companies with which major primary insurers tend to have little exposure. Only time will tell if this theory is valid.

We would add that the price war so dutifully denied by the primary insurers for so many years was clearly facilitated by the availability of cheap reinsurance. Indeed, there were very few primary companies or captives that were not enticed by the wailing of the low-cost reinsurance siren.

To attempt to get a better perspective on where the major exposures lie, we reviewed the consolidated convention statements for 21 major insurers, including reinsurers, some of which appear in the table. We sought out both paid and unpaid recoverables on ceded reinsurance and related these figures to statutory surplus.

We recognize that for all practical purposes, the paid portion of the figure should not be a problem since such receivables are normally paid within a 30- to 90-day period and should be written off if they are not received within a year. However, recent public disclosures by some primary and reinsurance companies that they have set up "bad-debt reserves," as well as some rather explicit private comments from some insurance company managers that they have just started to really review the situation, have caused us to review the total figure.

We also perused what portion of the total recoverable figure was due from affiliated companies as opposed to unaffiliated reinsurers.

On average, for the 21 companies for which we collected data, paid losses represented 9.3% of year-end 1985 statutory surplus, while unpaid losses represented another 73.8% of surplus, for an aggregate total of 83.1%. Furthermore, as to be expected, the bulk of the business was placed with non-affiliated companies. Recoverables due from affiliated insurers approximated 22%.

The study illustrates that large buyers of reinsurance tend to be insurers with heavy exposure to the commercial side of the business, where values are higher and the limits provided are also higher. At the lower end of the spectrum are underwriters that are primarily engaged in the personal lines or small commercial segment of the business, where dependency on reinsurance is materially less significant.

It should be stressed that a high number does not necessarily mean curtains for a company. However, it should encourage investors to probe and get additional information.

For example, one should look to see what portion of the recoverables are due from affiliates. The inability of an affiliate to meet its financial obligations is obviously a red flag.

If a significant portion of recoverables is due from non-affiliates, attempts should be made to see what companies wrote the reinsurance and what type of security, if any, is involved. A letter of credit from the infamous Banco de Rupt is not too helpful.

Furthermore, one should ascertain whether a company has set up a reserve for uncollectable reinsurance, just how large it is and what the funding trend has been.

One also should be cognizant of the fact that the primary companies always owe their reinsurers some money, and this tends to offset uncollectables. Finally, there are always likely to be offsets between what a primary has both ceded and assumed from a particular company. Attempts also should be made to ascertain this data.

If investors are unable to obtain sufficient clarification from either their own interrogatories and/or company responses, skepticism should prevail. We are finding out that there never was any such thing as cheap reinsurance!

In general, it should be stressed that every insurer in the industry, at both the primary and the reinsurance levels, will surely experience some modicum of discomfort from reinsurance recoverables over the next few years. The key is to find the "modicums" and not the "basket cases."

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.

Major insurers' reinsurance recoverable*
(As of Dec. 31, 1985)

	Statutory surplus	Reinsurance recoverable: On paid losses	Reinsurance recoverable: On unpaid losses	Paid and unpaid losses as % of surplus	Recoverables due from affiliates[1]
Aetna	$1,413,500	$134,034	$510,893	45.6%	13.4%
American General	718,511	7,745	104,271	15.6	NM[4]
American Int'l. Group	2,174,178	394,083	3,139,886	162.5	—[2]
Chubb	709,694	29,335	357,260	54.5	—[2]
CIGNA	1,409,000	328,300	2,433,100	196.0	23.7
Continental Corp.	926,947	196,200	1,287,275	160.0	57.8
Crum & Forster	826,812	144,016	1,022,687	141.1	—[2]
Fireman's Fund	1,171,910	332,660	672,225	85.7	—[2]
General Re	1,090,627	66,479	201,949	24.6	1.1
Hartford Group	2,110,253	434,015	1,586,456	95.7	—[2]
Home Insurance	754,579	91,432	802,798	118.5	—[2]
Kemper	477,520	11,977	996,090	211.1	NA[3]
NAC Re	73,966	1,726	43,418	61.0	—[2]
St. Paul Cos.	825,005	38,437	443,169	58.4	0.1
Travelers	1,412,400	101,164	1,093,014	84.5	0.3
USF&G	913,278	55,797	649,566	77.2	49.4

* In thousands of dollars
[1] As a percent of total recoverables
[2] No affiliates
[3] Not available
[4] Not meaningful

Chart: Holly Seguine, Amy Palmer

BI Industry Stock Report

April 30, 1986 4/24/86 thru 4/30/86

Brokers		Price	% Chg.	P/E	$ Div.	% Yld.	High	Low	Vol.(000)
Alexander & Alexander Svcs	NYSE	36.38	-0.7	0.0	1.00	2.7	38.38*	36.38	375.5
Baldwin & Lyons Inc	OTC	98.00	0.0	0.0	0.80	0.8	105.00*	96.00	2.5
Corroon & Black Corp	NYSE	67.75	-3.9	21.5	1.30	1.9	70.13	67.75	131.8
Crump E H Cos Inc	OTC	25.00	-2.9	21.2	0.25	1.0	25.50	25.00	261.0
Emett & Chandler Cos Inc	OTC	18.75	-1.4	26.0	0.00	0.0	18.75	18.50	16.3
Gallagher Arthur J & Co	OTC	51.00	-6.4	22.0	0.40	0.8	53.00	51.00	31.5
Hall Frank B & Co Inc	NYSE	22.75	12.3	0.0	0.00	0.0	23.25	21.00	969.5
Marsh & Mclennan Cos Inc	NYSE	109.75	-2.6	24.6	3.00	2.7	112.00	109.75	209.2
Poe & Assoc Inc	OTC	19.50	-2.5	0.0	0.80	4.1	20.00	19.50	4.3
AGENTS/BROKERS	AVERAGE			158.2		1.7			
Conglomerates & Holding Cos.									
American Express(Fireman's Fd)	NYSE	60.13	-4.4	14.0	1.36	2.3	63.88	60.13	6,497.8
Anderson Clayton(Ranger/PanAm)	NYSE	51.00	-1.9	29.1	0.00	0.0	52.88	51.00*	524.0
Armco Inc	NYSE	10.13	11.0	0.0	0.00	0.0	10.38	9.50	804.3
Berkley W R Corp	OTC	47.25	-5.0	37.1	0.36	0.8	49.50	47.25	312.3
CIGNA Corp	NYSE	62.50	-6.4	0.0	2.60	4.2	66.50	62.50*	1,011.6
CNA Finl Corp (CNA)	NYSE	63.88	-1.9	21.2	0.00	0.0	65.00	63.88	272.5
General Re Corp	NYSE	113.25	-4.4	81.8	1.76	1.6	117.50	113.25	569.0
ITT (Hartford Group)	NYSE	47.13	0.5	25.6	1.00	2.1	49.38*	47.13	3,347.6
Sears Roebuck & Co. (Allstate)	NYSE	43.50	-2.0	12.6	1.76	4.0	45.75	43.50	4,111.7
Teledyne Inc (Argonaut)	NYSE	346.13	-0.2	8.3	0.00	0.0	357.25	346.13	265.3
Transamerica Corp (Occidental)	NYSE	35.00	-1.8	16.7	1.68	4.8	35.50	34.25	1,134.2
CONGLOMERATES/HOLDING COS.	AVERAGE			18.6		1.2			
Insurers									
Aetna Life & Cas Co	NYSE	60.63	-2.6	13.4	2.64	4.4	62.38	60.63	1,816.8
American General Corp	NYSE	38.63	-1.9	12.0	1.12	2.9	39.88	38.63	1,744.6
Amern Heritage Life Invt Co	NYSE	41.38	2.8	15.5	1.32	3.2	41.38	40.13	3.6
American Indty Finl Corp	OTC	21.25	-3.4	0.0	1.12	5.3	22.00	21.25	43.8
American Intl Group Inc	NYSE	119.75	-7.9	24.4	0.44	0.4	128.75	119.75	512.5
Aneco Reins Ltd	OTC	2.88	0.0	0.0	0.00	0.0	3.25*	2.88	29.7
Avemco Corp	NYSE	41.00	0.0	15.2	0.75	1.8	42.50*	40.25	20.5
Business Mens Assurn Co Amer	OTC	28.25	-5.0	13.1	1.10	3.9	29.50	28.25	52.6
Chubb Corp	NYSE	68.38	-5.2	134.1	1.56	2.3	72.88	68.38	559.0
Combined Intl Corp	NYSE	59.75	-4.0	12.3	2.24	3.7	61.63	59.75	154.4
Continental Corp	NYSE	44.25	-5.9	0.0	2.60	5.9	46.25	44.25	1,306.0
Crown Life Ins Co	OTC	300.00	0.0	18.1	0.00	0.0	300.00	300.00	0.5
Durham Corp	OTC	48.00	10.3	13.2	1.36	2.8	49.50*	48.00	637.4
Farmers Group Inc	OTC	79.25	-4.5	14.6	2.00	2.5	83.75	79.25	857.8
Fairmont Finl Inc	AMEX	24.75	-2.5	20.6	0.00	0.0	25.25	24.75	24.3
Fireman Fd Corp	NYSE	37.25	-6.6	0.4	0.30	0.8	39.00	37.25	606.9
Fremont Gen Corp	OTC	27.13	-7.7	0.0	0.48	1.8	29.38	27.13	340.9
Great West Life Assurn Co	OTC	650.00	3.2	6.5	18.00	2.8	650.00*	630.00	0.0
Home Group Inc	AMEX	25.13	-8.6	0.0	0.00	0.0	28.13	25.13	409.4
Hanover Ins Co	OTC	63.50	-3.4	62.3	0.56	0.9	65.50	63.50	78.5
Hartford Steam Boiler Insptn	OTC	78.50	7.9	12.5	2.00	2.5	78.50*	73.00	31.6
Kans City Life Ins	OTC	32.50	3.2	12.8	0.87	2.7	32.50	32.00	9.7
Kemper Corp	OTC	93.00	-7.7	20.1	1.80	1.9	100.75	93.00	435.8
Liberty Corp S C	NYSE	43.38	0.6	18.1	0.72	1.7	43.38	42.63	26.1
Lincoln Natl Corp Ind	NYSE	54.88	-7.2	12.7	2.00	3.6	58.38	54.88	307.9
Mission Ins Group Inc	OTC	4.00	0.0	0.0	0.00	0.0	4.38	4.00	527.0
Monumental Corp	OTC	40.88	-0.3	13.9	1.40	3.4	41.13	40.88	37.7
Nac Re Corp	OTC	35.75	4.4	0.0	0.00	0.0	35.75	35.25	226.6
Nobel Ins Ltd	OTC	16.00	-8.6	21.1	0.25	1.6	17.50	16.00	44.2
Northwestern Natl Life Ins	OTC	27.88	-1.8	13.8	0.86	3.1	28.13	27.75	322.4
Ohio Cas Corp	OTC	80.25	-4.2	18.6	3.00	3.7	87.00	80.25	172.2
Old Rep Intl Corp	OTC	36.75	-7.0	13.3	0.78	2.1	39.50	36.75	183.7
Orion Cap Corp	NYSE	34.25	-6.2	0.0	0.76	2.2	35.50	34.25	43.4
Protective Corp	OTC	23.00	-2.1	13.3	0.66	2.9	23.75	22.50	66.6
Provident Life & Acc Ins Co	OTC	28.50	-3.8	9.9	0.84	2.9	29.75	28.50	288.3
St Paul Cos Inc	OTC	95.75	-3.8	42.4	3.00	3.1	98.75	95.75	347.7
SAFECO Corp	OTC	57.50	-3.0	15.5	1.60	2.8	59.38*	57.50	734.6
Sri Corp	OTC	22.25	-6.3	0.0	0.80	3.6	23.75	22.25	77.1
Seibels Bruce Group Inc	OTC	18.50	-9.8	10.3	0.80	4.3	19.63	18.50	40.3
Statesman Group Inc	OTC	7.00	0.0	0.0	0.05	0.7	7.13	7.00	85.4
Tokio Marine & Fire Ins Co	OTC	325.00	-4.7	61.2	1.05	0.3	343.00	325.00	10.0
Torchmark Corp	NYSE	31.88	-6.6	13.9	0.60	1.9	33.25	31.88	653.8
Travelers Corp	NYSE	49.88	-3.4	12.5	2.16	4.3	51.50	49.88	1,957.4
United Fire & Cas Co	OTC	22.50	-2.2	750.0	0.80	3.6	23.50	22.50	3.2
United States Fid & Gty Co	NYSE	41.63	-0.6	0.0	2.32	5.6	42.88	41.63	1,266.1
Uslife Corp	NYSE	40.75	-5.8	10.9	1.12	2.7	42.75	40.75	256.2
Washington Natl Corp	NYSE	33.88	-3.2	15.4	1.08	3.2	34.63	33.88	81.8
Zenith Natl Ins Corp	OTC	29.00	-4.1	0.0	0.80	2.8	30.25	29.00	162.5
INSURANCE COMPANIES	AVERAGE			10.9		2.2			

System design: Altman Information Systems

Aetna earnings

Aetna Life & Casualty Insurance Co. reported operating earnings of $141 million, or $1.21 per common share, for the first quarter of 1986. That compares with $57 million, or 51 cents per common share, a year ago.

Chairman James T. Lynn cited higher premiums and tighter risk selection as major factors in the improving earnings. But, he said, "substantial further improvement will be necessary to recover from the impact of the severe down cycle." ■

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