

business insurance

update

Lloyd's syndicates report largest losses on record

LONDON—Lloyd's of London syndicates managed by Richard Beckett Underwriting Agencies Ltd., formerly PCW Underwriting Agencies Ltd., face the largest year-end losses in Lloyd's history.

In addition, Beckett's parent, Minet Holdings P.L.C., announced it will close the agency by the end of the year and run off its business.

Eight Beckett syndicates writing
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Reporting weekly for corporate risk, employee benefit and financial executives/\$1.50 a copy; \$52 a year

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'I've done nothing wrong' Ex-agent plans to fight indictment, lawsuits

By DOUGLAS McLEOD

NEW YORK—Indicted for insurance fraud and a defendant in four civil lawsuits charging fraud, negligence or bad faith in the placement of insurance and reinsurance, former New York insurance agent Louis Mazzella says, "I've done nothing wrong."

Mr. Mazzella pleaded not guilty last week to mail and wire fraud charges in a federal indictment that accused him of diverting \$2.4 million in reinsurance premiums (BI, April 29).

And he says he will fight the civil lawsuits "like hell because I've done nothing wrong."

One of those civil suits accuses Mr. Mazzella of a practice similar to that alleged in his criminal indictment: pocketing premiums on a policy that the underwriter thought was canceled but that the policyholder believed was still in force.

Several major brokers—including Marsh & McLennan Cos. Inc. and Alexander & Alexander Inc.—used Mr. Mazzella and his companies in the insurance and reinsurance deals at issue in the civil lawsuits.

The disputed insurance and reinsurance transactions provided coverage for police professional liability, utility and residual value risks.

In addition to the lawsuits, the New York Insurance Department has twice investigated Mr. Mazzella and two of his companies for alleged violations of New York insurance law.

No violations requiring disciplinary action were found after a 1976 investigation, but the Insurance Department revoked the licenses of Mr. Mazzella and one of his companies last December after Mr. Mazzella failed to cooperate with an inquiry into alleged diversions of reinsurance premiums.

Mr. Mazzella's companies include:

- Colonial Assurance Co. of Elkins Park, Pa., 100% owned by Mr. Mazzella through two holding companies. A Pennsylvania Insurance Department examination found Colonial—which reported assets of \$4.8 million as of June 30, 1983—insolvent by \$16.6 million, and the company was ordered into liquidation March 28, 1984.

- Sentinel Facilities Ltd. of Great Neck, N.Y., an insurance brokerage of which Mr. Mazzella was president and 100% owner. The New York Insurance Department revoked Sentinel's licenses last December.

- Agency Facilities Ltd. of Great Neck, N.Y., an insurance brokerage. Lawyers with cases pending

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Little support seen for rumored change in benefit tax plan

By JERRY GEISEL

WASHINGTON—Employers, labor organizations and insurers are denouncing a rumored proposal to tax all employees on a portion of their company-paid health care premiums.

The Treasury Department, according to several reports published late last month, is considering scrapping a key benefit provision contained in the department's original tax simplification plan, which was released in December.

Under that proposal, employees would be taxed on health insurance premiums that exceed \$70 a month for individual coverage and \$175 a month for family coverage.

The tax would affect about one-third of workers and raise about \$34 billion in revenues over the next four years, the Treasury estimated (BI, Dec. 3, 1984; Dec. 10, 1984).

Now, Treasury officials are considering a revised proposal that would tax all employees on a small part—perhaps \$30 a month—of the health insurance premiums paid by their employers, according to the reports, which did not identify their sources.

Treasury Department officials would not comment on whether they are drafting a new health care tax proposal.

The Treasury, according to the reports, is considering the change because its original proposal ran into heavy opposition from Sen. Bob Packwood, R-Ore., chairman of the Senate Finance Committee, and organized labor.

Sen. Packwood has said he opposes any new taxes on health care benefits, while unions contend a tax on health care benefits would hurt their members.

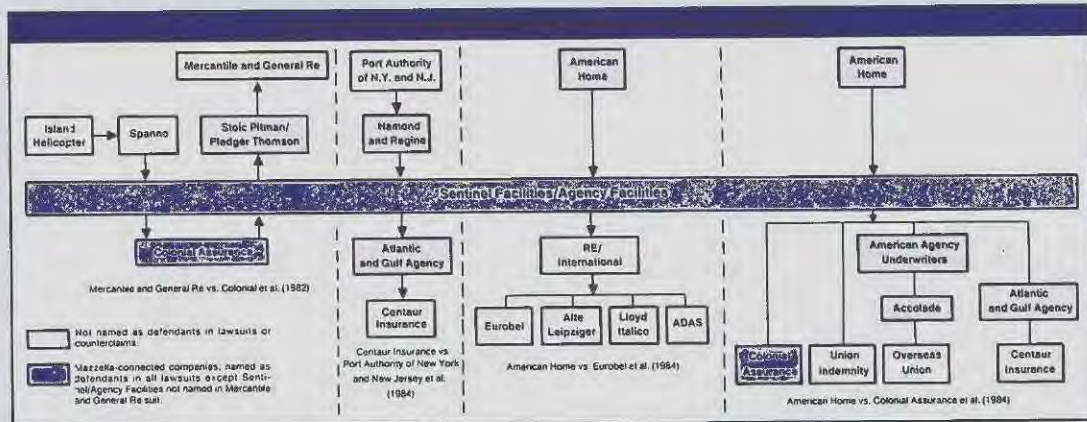
The Treasury hoped the new proposal would appease unions, which feared the original tax cap proposal could restrict their ability to negotiate generous benefit packages, the reports said.

And Sen. Packwood might be satisfied, because the additional taxes a worker would pay under the revised proposal would be relatively small, said an insurance industry lobbyist who has close ties to Sen. Packwood's staff.

The lobbyist explained that even if all employees were taxed on a portion of their employer-paid health care premiums, employees probably would almost break even, because the Treasury tax simplification plan calls for lower basic tax rates in exchange for eliminating many current tax deductions and exclusions.

Sen. Packwood has not seen a health care tax floor proposal and therefore can't comment on it, a Packwood aide said.

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Transport Indemnity cancels thousands of policies

By ROBERT A. FINLAYSON

LOS ANGELES—Thousands of property and casualty insurance policyholders of an American Financial Group insurer are losing their coverage midterm in the wake of the American Financial bailout of Mission Insurance Group.

Transport Indemnity Co., an American Financial subsidiary whose assets are being used to shore up the financially troubled Mission, has unexpectedly canceled midterm thousands of excess property and casualty insurance policies that had been written by its special risk division.

The surprise cancellations could force policyholders to swallow hefty premium in-

creases on replacement coverage and could leave others uninsured.

Transport Indemnity sent notices of cancellation in mid-April to as many as 2,500 property and casualty insurance policyholders, according to estimates by brokers who have received cancellation notices.

Policyholders include large retailers, aerospace companies, major manufacturers, major utilities, public works projects and trucking firms, according to the brokers.

The canceled policies include excess and umbrella property and casualty coverages and insurance for long-haul trucking and earthquake risks.

Brokers say it will be difficult to replace

the canceled insurance in the current marketplace, where capacity is shrinking and rates are rising.

"Much of this coverage will be impossible to replace because capacity has already been exhausted," says Paul Barbour, assistant vp with Swett & Crawford in Los Angeles.

"And, if you can replace the coverage," he adds, "it's going to cost five times as much premium."

The loss of Transport Indemnity as a market for excess and special risk coverages "creates a vacuum that will be tough to fill," observed Robert L. Peretti, managing director of Marsh & McLennan Inc. in Los Angeles.

Transport Indemnity's net premium vol-

ume of about \$43.3 million in 1984 included \$16.5 million in workers compensation coverage, \$11 million in automobile liability, \$8 million in other liability, and \$5 million in automobile/physical damage, according to its 1984 annual report.

The amount of premium canceled could not be learned last week. Transport Indemnity and American Financial officials refused to comment on the policy cancellations.

The cancellation notices were sent only two weeks after officials with American Financial, the parent of Los Angeles-based Transport Indemnity, said they planned to run off the insurer's business.

American Financial announced in February
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NEWSPAPER

update

Syndicates report record loss

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non-marine syndicates lost a total of 60 million pounds (\$74.4 million) from 1979 to 1982, the year just closed under Lloyd's three-year accounting system, according to Graham White, managing director of Beckett. That's larger than the \$42 million loss suffered by the Sasse Syndicate in the late 1970s (*BI*, May 30, 1983).

He said the losses are strictly underwriting losses—particularly from American liability business—and do not involve any alleged misappropriation of funds (see earlier story, page 28).

The losses are on top of the 38.9 million pound loss reported by the syndicates after reinsurance premiums allegedly were diverted between 1979 and 1981 to benefit former PCW and Minet officials. Most members last year accepted an offer by Minet and Alexander Howden Group P.L.C. to pay most of these losses (*BI*, July 2, 1984).

Members will face a cash call by June 30 for the most recent losses. If members cannot pay the losses and are declared insolvent by Lloyd's, the Lloyd's Central Fund will pay valid claims.

North-West rescue opposed

PORTLAND, Ore.—More than 20 parties—including the Oregon Insurance Department and several reinsurers—have objected to a complex rescue plan for North-West Insurance Co., a Portland-based insurer placed in liquidation by the court last Dec. 4 (*BI*, Dec. 24, 1984; Oct. 29, 1984).

A hearing on the objections is slated for Wednesday in Multnomah County Circuit Court in Portland.

The plan was filed with the court March 15 by the Committee of Insureds and Agents, a group of Louisiana employers and insurance agents. It calls for the creation of a new insurer in Louisiana by spinning off North-West's book of business written by Mid-Continent Underwriters Inc., a New Orleans-based managing general agency. A majority of that business—state and federal workers compensation, marine and general liability—was written on a surplus lines basis in Louisiana and several other states.

Both the Oregon Insurance Department and North-West's reinsurers object to provisions in the rescue plan that call for reinsurance proceeds to be turned over to the newly created Louisiana insurer, rather than to North-West's estate.

Reinsurers believe that, to protect themselves from future claims, proceeds must be paid directly to the receiver in the liquidation, said Portland attorney John Holmes, who represents North-West reinsurers Northwestern National Insurance Co., Universal Reinsurance Corp., Fremont Indemnity Co., Transamerica Insurance Co. and San Francisco Reinsurance Co.

The Oregon Insurance Department has filed a 40-page objection, citing ways the new plan differs from provisions agreed to earlier by the Oregon insurance commissioner, who is the receiver, said Kathleen Dahlin, assistant state's attorney for the department.

Both the Insurance Department and the reinsurers also contend there would be insufficient capital under the plan to set up a new Louisiana insurer.

Lloyd's brokers discuss merger

LONDON—Merger discussions are under way between Lloyd's of London brokers Hogg Robinson Group P.L.C. and C.E. Heath P.L.C., the companies announced last week.

The merger, if successful, would produce a brokerage with combined annualized revenues of \$199.7 million as of March 31, 1984, the latest figures available. Britain's largest brokerage is Sedgwick Group P.L.C. and the second-largest brokerage is Willis Faber P.L.C.

Monsanto contests verdict

CHARLESTON, W. Va.—Monsanto Co. was expected to return to U.S. District Court late last week to seek a total victory in a \$28 million lawsuit brought by retirees who claimed their exposure to dioxin and other chemicals caused a variety of medical problems.

A federal jury on April 30 ruled the St. Louis-based chemical manufacturer was not responsible for the illnesses of six of the seven retirees, who each had sought \$2 million in compensatory and \$2 million in punitive damages. But, the jury awarded \$200,000 in compensatory damages to John Hein, who allegedly was exposed to the chemical par-aminobiphenyl, or PAB, and was diagnosed as having bladder cancer.

A trial on awarding punitive damages to Mr. Hein was scheduled to begin May 3. But, plaintiffs' attorneys, who also represent about 135 other employees and retirees from the firm's Nitro, W. Va., plant, said they may ask the punitive damages trial be postponed until the conclusion of the other pending cases. Plaintiffs' attorneys also are expected to ask the judge to overturn the verdict.

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M&M liability insurer proposal triggers risk managers' interest

By STEVE TARAVELLA

GRAND CAYMAN, B.W.I.—Risk managers are interested in—if not yet willing to commit capital to—a new investor-owned offshore insurance company envisioned by Marsh & McLennan Cos. Inc. to write high excess casualty limits.

M&M has been soliciting client interest in the proposed company for the last three months and has already reserved a name—American Casualty Excess Insurance Co. Ltd.—with the Cayman Insurance Department.

The company, to be capitalized by stock purchases by major corporate insurance buyers, would write high excess casualty layers over underlying insurance of at least \$100 million. The facility would only write coverage for its investors, according to M&M's current plans.

While M&M now appears to be focusing its energies on tapping current clients as possible investors, one source says it probably would allow non-clients to invest in the company. "I don't think they'll turn down

anyone," he said.

M&M and Morgan Guaranty Trust Co. of New York are playing "a catalytic role" in organizing the facility, according to an M&M spokesman. However, the broker would not hold an equity interest in the new company.

M&M President Frank Tasco mentioned the facility briefly last month at the Risk & Insurance Management Society conference in New Orleans (*BI*, April 29).

"We've been working with this company for a while, and hitherto it's been pretty much under wraps," explains one M&M official. "It's going forward, though." M&M reserved the name for the facility with the Cayman Insurance Department in February, he notes, although M&M has not yet filed an application to have the insurer licensed. The Cayman Insurance Department confirms that it has not yet received an application from M&M.

"We've been put under some pretty tight deadlines," the M&M official says, noting that lawyers are working at the moment to arrange incorporation for the new

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Tire workers' health plans settled earlier

By DIANE LYNN KASTIEL

AKRON, Ohio—Tire industry observers won't say whether health care benefits already negotiated by two of the Big Four tire makers will influence contract talks with the other two companies.

Two tire companies—Uniroyal Inc. of Middlebury, Conn., and Akron-based BFGoodrich Co.—negotiated special health care contracts with the United Rubber Workers union before attempting to hammer out master contracts with the union.

However, the two largest members of the Big Four—Goodyear Tire & Rubber Co. and Firestone Tire & Rubber Co., both in Akron—have not yet negotiated health benefits with the union.

Last week, the union reached a tentative master contract agreement with Goodrich, which the URW chose as its "model company" after talks with Goodyear reached a stalemate earlier this year.

The union's 36,000 workers at the four companies have been working without contracts since the contracts expired April 20.

Traditionally, the URW uses a "patterned bargaining" approach, picking one company with which to negotiate its first contract and

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Photo: Wide World/AP

This Wells Fargo truck was abandoned by robbers in New York last week after the \$8 million robbery.

Wells Fargo has coverage for \$8 million N.Y. robbery

By MICHAEL BRADFORD and STACY SHAPIRO

NEW YORK—Wells Fargo Armored Service Corp. has sufficient insurance to cover last week's \$8 million robbery of its New York depot, industry sources say.

The Atlanta-based security firm has an estimated \$10 million in primary coverage for the loss written by William H. McGee & Co., a New York-based underwriting manager, sources in the London markets say.

In addition, Wells Fargo has \$40 million in excess coverage, primarily written in the London market, the sources say.

Wells Fargo officials would not comment on their coverage.

McGee writes the primary coverage, written on an inland marine form, for a pool of insurers, which in turn reinsures a large portion of the risk in the London market, according to the sources.

Frank McElhone, superintendent of inland marine insurance for General Accident Insurance Co. of America in Philadelphia, said his

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Colt settles retiree benefit suit

By JUDY GREENWALD

PITTSBURGH—Colt Industries Inc. will pay as little as \$44.8 million or as much as \$90.3 million to settle a class-action lawsuit brought on behalf of a group of retirees who faced losing their medical benefits.

The company, which was sued in January 1984 for allegedly reneging on its obligation to provide medical benefits for 4,200 retirees and their dependents, will continue to provide the benefits through two agreements.

The company had contended it was no longer required to provide retiree medical benefits after it sold its Midland, Pa.-based Crucible Steel division to the LTV Corp. in 1982 (*BI*, March 12, 1984).

The retirees' union, the United Steelworkers of America, took Colt to court, claiming Colt was still obligated to provide retiree benefits as a result of a series of collective bargaining agreements dating from 1974.

However, the suit was put on hold when both sides negotiated an interim settlement that provided for payment of retirees' medical benefits through June 1985.

Under this arrangement, retirees and their spouses have been required to contribute toward the monthly cost of hospital coverage and pay deductibles.

In November 1984, Colt offered every eligible retiree and surviving spouse a lump-sum payment or continuing monthly cash payments. In exchange, Colt would no longer offer the retirees health benefits and would

not pay any pending claims under the plan.

About three-quarters of the retirees—about 3,000—decided to accept the offer, and Colt made a total lump-sum payment of \$30 million. The amount received by each retiree was based on his or her age and marital status, said Mr. Johnson.

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Agent/broker directory

Business Insurance's 14th annual directory of agents and brokers is just around the corner, but to be included in the listing, commercial agents and brokers must return their *BI* questionnaire.

Aside from the directory, which will be published in the June 24 issue, *BI* will also rank the 100 largest U.S. agents and brokers, and the largest 20 will be profiled.

There is no charge to be included in the directory; however, agents and brokers that wish to be listed must complete and return a questionnaire supplied by *Business Insurance*.

If you have not yet received a questionnaire, write Directory Editor, *Business Insurance*, 740 N. Rush St., Chicago, Ill. 60611; or call 312-649-5279.

ODECO won't add more funds to Mentor

By KATHRYN J. McINTYRE

NEW ORLEANS—Ocean Drilling & Exploration Co. is not covering a financial statement deficit of \$12.3 million of its Bermuda-based subsidiary reinsurer Mentor Insurance Ltd.

ODECO "does not intend to invest additional funds in this subsidiary," ODECO said in its 10-K for 1984 filed with the Securities & Exchange Commission.

Instead, New Orleans-based ODECO wrote off Mentor's insurance and reinsurance business on its 1984 financials as discontinued operations and took a \$36.2 million loss for 1984 on the operations.

As a result, if Mentor suffers any additional losses as it runs off 10 years of insurance and reinsurance business, they will not appear on ODECO's financial statement.

But, ODECO maintains that even though Mentor can't expect more money from ODECO, Mentor and its affiliates will be able to pay insurance and reinsurance claims filed against them because investment income

earned on reserves will cover the reported deficit.

Government officials in Bermuda say they are awaiting financial statements to support that contention.

ODECO pulled Mentor out of insurance and reinsurance underwriting in January based on the poor financial results it saw for 1980 through 1983 and announced that the company would run off its business.

Because Mentor is no longer underwriting, ODECO is reporting it as a discontinued operation, said ODECO Controller Ronald Herman.

Mentor's 1984 deficit of \$12.3 million was created by a \$56.6 million underwriting loss in 1984, which included additions to reserves on business written from 1982-1984, and a reduction in Mentor's equity in 1982 and 1983 created by a restatement of the effect of certain reinsurance transactions.

The reduction in Mentor's equity in 1982 and 1983 also forced ODECO to restate its 1983 and 1982 income.

ODECO's \$36.2 million loss on the discon-

tinued operations represents Mentor's retained earnings at year-end 1983 of \$39.969 million and a deferred income tax credit of \$3.8 million as a result of reversing taxes previously accrued on undistributed earnings, ODECO says.

That loss, however, was more than offset by \$45.2 million in net income for ODECO, generated by taking into income in 1984 a 1982 insurance payment in excess of the carrying value of the ODECO drilling barge Ocean Ranger, which was lost in 1982.

ODECO's loss on Mentor and gain on Ocean Ranger carry through to Murphy Oil Corp., which owns 59% of ODECO. Murphy Oil reported a loss of \$21.5 million related to ODECO's loss on Mentor and \$26.8 million in income related to the insurance recovery on the Ocean Ranger.

ODECO's decision to write off Mentor operations as discontinued and not to cover the \$12.3 million Mentor deficit does not change Mentor's previous position that it will be able to meet its liabilities, says Mentor Chairman Clovis H. Steib, who is based in New Orleans.

He stands behind the company's earlier statement that, "It is the company's opinion that with the lengthy runoff there will be adequate funds to satisfy all valid claims" (BI, April 15).

"We can't take interest income into account for GAAP financials," he said to explain the reported deficit. But, the interest income earned on the loss reserves in the coming years will be used to pay losses, he said.

The discontinued insurance operation had assets of \$204.4 million and liabilities of \$216.7 million at year-end 1984.

ODECO controller Mr. Herman also said, "We believe the assets will be sufficient" to cover Mentor's obligations.

Mentor, which stopped underwriting in January after 10 years of building up its property/casualty and marine reinsurance business in Bermuda, had written a large amount of so-called long-tail casualty business, for which claims aren't expected to develop until far into the future. This business

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New Ambassador rehabilitation plan sparks opposition

By MEG FLETCHER

MONTPELIER, Vt.—Ambassador Insurance Co.'s second attempt to avoid court-ordered liquidation by transferring its liabilities to a reinsurer is sparking heated opposition from regulators.

George Bernstein, the court-appointed liquidator for Ambassador, says Ambassador's plan "has no merit on its face."

However, an attorney for several Ambassador policyholders says the proposal is preferable to Ambassador's liquidation.

Ambassador is proposing to pay Bermuda-based Belvedere Insurance Co. Ltd. a premium of \$86.45 million to assume its estimated liabilities of about \$160 million. Belvedere would then pay out \$160 million to cover Ambassador claims over a 15-year period, according to the proposal.

Under the Ambassador plan, Belvedere would begin funding the runoff of outstanding Ambassador claims beginning this fall with a \$22 million payment. Annual installments would follow for 14 years. Then, in 1999, the final year of the runoff, Belvedere would make a \$52 million balloon payment, according to papers filed with the Vermont court supervising Ambassador's liquidation.

Belvedere would charge a one-time premium for the runoff quoted at \$86.4 million in late March, but that premium could change depending upon market conditions at the time an agreement is signed, said Colin O'Connor, vp of finance for Belvedere.

The plan is similar to Ambassador's plan last fall to reinsure \$160 million in liabilities with Cathedral Holding Co. of Bermuda. That plan collapsed when Cathedral's parent, Wigham Poland Holdings Ltd., said it did not want Ambassador's business (BI, Nov. 5, 1984).

Ambassador's latest plan has not yet been formally filed with Vermont Superior Court Judge John Meaker, who last year ruled Ambassador was insolvent and should be liquidated. Ambassador is currently appealing the liquidation order to the Vermont Supreme Court.

However, the plan is detailed in court papers re-

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Ringling up savings NYNEX hoping to cut costs with flexible plan

By DIANE LYNN KASTIEL

NEW YORK—NYNEX Corp. expects to save about \$25 million a year in health insurance costs by the fifth year of a new flexible benefit program that requires salaried employees to pay a larger share of their health care costs.

The flexible plan, dubbed "FlexPlus," is expected to hold the increase in the cost of benefits for the telecommunications company to 10% by 1987, compared with a projected annual increase of 16% under its current plan. Health care coverage currently costs the company \$100 million a year.

The new plan will replace the company's longstanding, traditional health insurance plan on July 1.

"The general direction is to allow the company to get a handle on soaring health care costs and move away from being a sole provider of health care to becoming a contributor along with the employee," a NYNEX spokesman said. "It also gives the employees a chance to tailor their benefits to their needs."

The new plan will affect the 29,000 salaried employees of NYNEX and its eight subsidiaries, which include New York Telephone Co. and New England Telephone Co. The company also may eventually propose to offer FlexPlus to its 67,000 union employees in the future, the NYNEX spokesman said.

The change in the company's benefit plan was announced in January, and the company has been communicating the plan to employees since then, through employee newsletters and meetings held at all regional locations. Employees made their benefit elections last week.

Under FlexPlus, employees will be given "benefit dollars"

that they can use to "buy" the benefits they choose from a menu of options.

Initially, each employee will receive between \$2,000 and \$5,000 in benefit dollars. The exact amount will depend on how many dependents the employee wants to cover and on the cost of medical care in the region where the employee works.

However, over the first 2½ years of the plan, the benefit-dollar differential based on dependents will be phased out. Ultimately, the amount of benefits dollars an employee receives will be based solely on the medical costs in the region.

"In addition to trying to get a handle on the rapidly escalating medical costs for the corporation, we felt that the Flex-Plus approach is more equitable to all our employees," the spokesman said. "Many of them do not have dependents and should not be in a position of subsidizing those who do, as was the case under the previous plan."

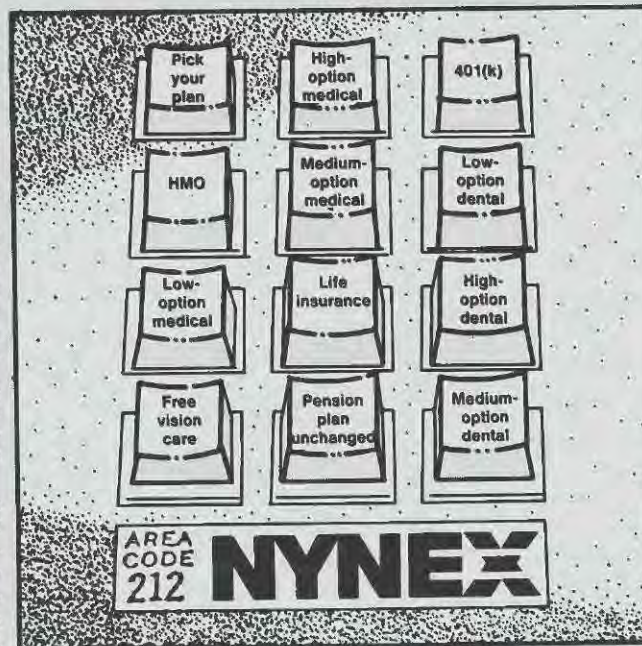
The cost of the various options in the flexible plan also will vary, depending on the number of persons covered by the policy and the cost of medical care in the region.

If the cost of the options chosen by an employee exceeds his or her benefits dollars, the employee pays the difference in pretax dollars. If the cost of options is less than the employee's benefits dollars, he or she receives the difference in cash,

which is taxable income to employees.

Under the flexible program, designed with the help of benefit consultant Hewitt Associates in Lincolnshire, Ill., employees choose from among four medical and three dental plans. Both the medical and dental programs offer high-coverage, medium-coverage and low-coverage options, and the medical

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Graphic: Amy Palmer

Should government shore up EIL insurance market?

By ROBERT FINLAYSON

WASHINGTON—Should the federal government step in and shore up the sagging environmental impairment liability insurance market?

That's the question the Environmental Protection Agency probably will ask the public in a notice that is expected to be published in the Federal Register next month.

The EPA's decision to solicit feedback comes in response to hazardous-waste disposal companies' concerns over meeting a congressionally imposed deadline to comply with federal financial responsibility regulations.

Congress, skeptical that the EPA would fully enforce the financial responsibility rules or would further delay the compliance

deadline, late last year amended the Resource Conservation and Recovery Act to require the agency to revoke on Nov. 8, 1985, the hazardous-waste disposal license of any company that has not met the financial responsibility test or obtained EIL coverage.

The EPA has been phasing in the federal requirements over several years, and all companies with hazardous-waste disposal operations were to have been in compliance by Jan. 15 of this year.

However, EPA officials acknowledge that there are a significant number of companies that have not yet complied with the regulations, partly because of the inability of companies to find EIL coverage.

In response, it announced last month that enforcement action would not be taken against companies that can prove they have

made a good-faith effort to obtain EIL insurance (BI, April 29).

However, this will not spare waste disposal companies from the Nov. 8 congressionally-set deadline. It is mandated by law and can only be changed by Congress.

Under the law, the EPA would have to shut down hazardous-waste disposal operations of companies found in violation of the regulations.

These regulations stipulate that companies that use landfills to dispose of their hazardous wastes or store hazardous wastes in surface impoundments must do one of two things:

- They must certify that they have EIL insurance to cover potential pollution liability claims.

- They must prove to the EPA that they have the financial resources to pay for any

pollution liability claims stemming from their waste operations.

The Federal Register notice EPA is expected to publish next month will seek public comment on several options that would involve the federal government bolstering the ailing EIL market.

Options likely to be suggested by the EPA include:

- Establishing a federally backed reinsurance facility for EIL insurers. Such a facility would help commercial insurers overcome what is perhaps the most significant roadblock to a viable EIL market—the current lack of reinsurance for pollution liability coverage.

- Capping environmental liability in much the same way liability for nuclear power

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Mentor deficit

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included workers compensation and heavy casualty risks.

Over 10 years, Mentor reported earned premiums of \$175 million from 1974 through 1980 and net written premiums of \$150 million from 1981-1983.

For 1984, ODECO reported only Mentor's earned premiums: \$78.8 million.

Mentor wrote both facultative and treaty reinsurance on property/casualty and marine risks in both the United States and abroad.

Mentor's 1984 underwriting loss of \$56.6 million is more than three times its restated underwriting loss of almost \$17 million on earned premiums of \$65.3 million in 1983, ODECO reported in its 10-K.

"In the fourth quarter of 1984, substantial additions were made to the reserve for losses of MIL (Mentor) based on higher than previously estimated loss development

factors relating to the underwriting years 1982 through 1984," ODECO said in its 10-K.

In addition, Mentor's losses and also its equity in 1983 and 1982 were restated to reflect the charged accounting treatment of transactions previously accounted for as reinsurance that are now being accounted for as financing agreements, ODECO said.

"In 1985, the company learned of the existence of unauthorized agreements entered into by MIL (Mentor) which changed the accounting treatment of certain contracts from reinsurance arrangements to financing agreements," ODECO states in its 10-K.

"Accordingly, the company's financial statements and related notes have been restated to give the effect to the error in accounting."

Because the agreements were found to lack risk transfer and therefore are financing transactions, Mentor could not claim reinsurance recoverable under the con-

tracts and had to increase its loss reserves, according to ODECO's controller Mr. Herman. "The effect was about \$35 million," he said.

These loss reserve increases decreased Mentor's equity to \$37.8 million in 1983 from a previously reported \$56 million and to \$46.8 million in 1982 from a previously reported \$57 million.

And, the restatement forced ODECO to reduce its previously reported net income for 1983 by \$7.6 million or 15 cents per common share and for 1982 by \$9.8 million or 19 cents per common share.

Business Insurance learned that Pinnacle Reinsurance Ltd., the Bermuda-based runoff specialist, did have a contract with Mentor. But, *BI* could not confirm that ODECO's references to financing agreements involve any contract with Pinnacle.

Mentor intends to proceed with its plans to move the runoff of its business to New Orleans. An aircraft will be chartered to move

Mentor's computer and active files from Bermuda to New Orleans, Mr. Steib said.

"We want to make it as quick as possible," Mr. Steib said of the move, which is set for June 21.

And, provisions will be made to pay claims during the estimated three weeks it will take to move Mentor—two weeks for packing up its records and at least a week to get its computer up and running in New Orleans—Mr. Steib explained.

"We won't be completely shut down," Mr. Steib said.

ODECO's statement that it does not intend to invest additional sums in Mentor has raised concern among Bermuda government officials.

"We are trying our best to see that Bermuda's image is preserved," said Bala Nadarajah, legal advisor to the Registrar of Companies.

"In our discussions with Mentor, we have been told they have adequate reserves to meet their obliga-

tions," Mr. Nadarajah said. "We are awaiting further information by way of accounts and other sources to justify that statement."

Brokers in Bermuda contacted by *BI* did not comment for publication but privately expressed disappointment at ODECO's statement that it did not intend to make further investments in Mentor.

But, the brokers agreed that the long-tail nature of Mentor's business makes it possible that Mentor's loss reserves could generate enough investment income to cover the reported deficit.

It's important that Mentor's reinsurance clients continue to forward premiums, one broker noted, to maintain Mentor's cash flow.

ODECO was able to more than offset its 1984 loss on its discontinued reinsurance business with the excess of the hull insurance proceeds received on the Ocean Ranger because during 1984 ODECO and its outside counsel determined that ODECO's liability insurance will more than cover any remaining potential liability stemming from the 1982 accident.

On Feb. 15, 1982, the Ocean Ranger sank off the coast of Canada during a severe storm, killing 84 people. ODECO had \$200 million of liability insurance at the time of the accident.

ODECO had recorded the \$52.9 million in excess proceeds from the hull insurance recovery in 1982 as a deferred credit while the company determined its liabilities for the Ocean Ranger loss. The Ocean Ranger had been insured for \$86.5 million, by Oil Insurance Ltd. for \$60 million, and London and U.S. insurers for the remaining \$26.5 million. But, the drilling barge was carried at a value of only \$33.6 million.

Through March 1985, ODECO settled claims involving 46 of the 54 persons killed in the Ocean Ranger accident for whom the company had accepted responsibility in a 1983 settlement with the Mobil Oil of Canada, the lease operator.

These 46 settlements totaled approximately \$15.2 million, ODECO says, which was paid by ODECO and its liability insurers.

The eight remaining claims involve six Americans and two Canadians. However, the suits associated with these claims have been brought on behalf of groups of claimants and the damages sought exceed \$2 billion, ODECO says.

In addition, ODECO notes that its liability insurers have neither admitted nor denied coverage for punitive damages, but that to support claims for punitive damages, the plaintiffs must prove wanton and willful misconduct by ODECO. ■

White Motor, PBGC agree to settlement

WASHINGTON—The Pension Benefit Guaranty Corp. will receive \$15 million in exchange for dropping all claims against White Motor Corp. under an agreement reached last week between the PBGC and a federal bankruptcy trustee.

The PBGC in 1981 took over several underfunded White Motor pension plans covering about 5,000 participants after the Cleveland-based heavy-truck manufacturer filed for bankruptcy.

The agency then filed suit to recover minimum-funding contributions White Motor owed to the plans.

The \$15 million, which will come out of White Motor assets controlled by a bankruptcy trustee, is the largest cash settlement ever received by the PBGC. The agency estimates the termination of the White Motor plans, however, will cost it \$63.3 million in guaranteed benefit payments.

The settlement still must be approved by a federal bankruptcy court in Ohio. ■

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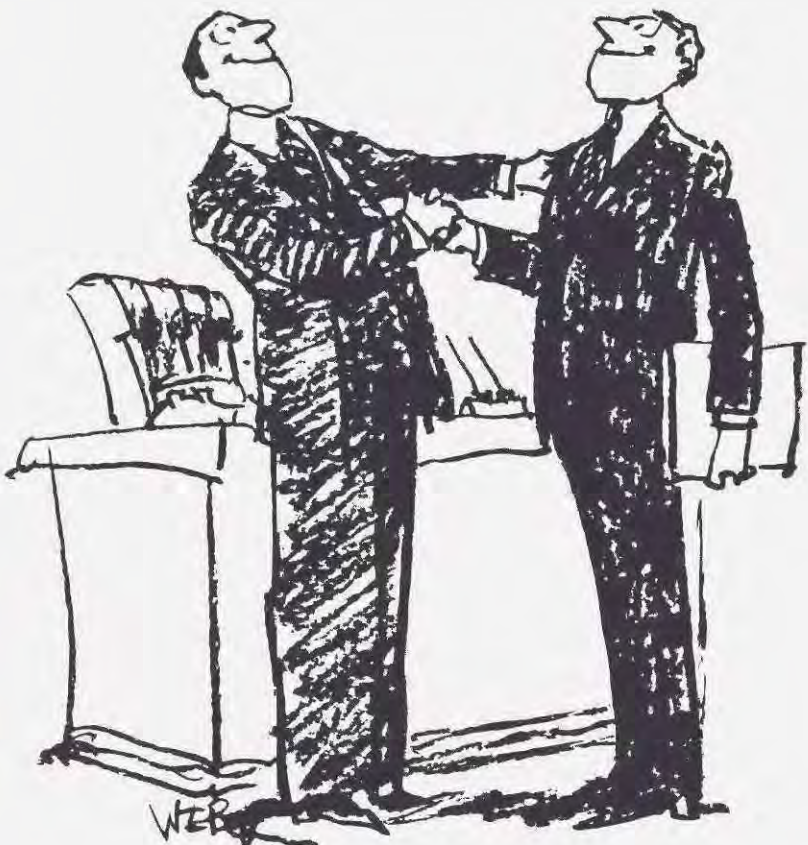
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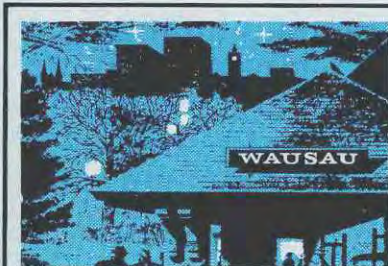
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opinions

Popping a trial balloon

NO ONE WANTS TO CLAIM authorship of the most recent proposal for taxing benefits: a tax on a floor amount of health benefits.

We can see why. It's absurd.

Taxing a floor amount of employee benefits contradicts a progressive tax system and a simplified tax system.

But, somebody decided that taxing all employees on a small amount of benefits would accomplish the goal that is on top of Congress's agenda: Increasing revenues.

At the same time, taxing a floor amount of employee benefits wouldn't disturb organized labor's ability to negotiate big tax-free health benefits and it wouldn't make group insurance products less attractive.

In contrast, the original proposal to tax all health care benefits exceeding a certain limit clearly would make big benefit packages less attractive to workers, who probably would prefer the cash in their pockets to spend as they choose. Unions would lose a big bargaining chip and group insurers could lose business.

Apparently, the proponents of a "floor" tax hoped that unions and insurers would support such an employee benefit tax as a compromise. A floor tax would permit unions to bargain for big tax-free benefits and it would promise insurers a marketplace for their products.

But no union or insurer is coming forward to support this floor tax on benefits. They are standing fast against any tax on employee benefits.

And now no one in Washington will admit to being the author of the idea.

But even though we find the proposal absurd, we'd like to thank its anonymous author or authors. They have succeeded in drawing more attention to the issue of taxing benefits, which is good. And, they have set back the movement to tax employee benefits and to cap the amount of tax-free group health coverage.

The more time that elapses for employees, insurers and concerned employers to lobby against taxing employee benefits, the better.

letters

Claims-made form wrong answer to industry woes

To the editor: While I agree wholeheartedly with Liberty Mutual's Melvin Bradshaw's perception of the problems facing our industry, I do not concur with his suggested solutions (*BI*, April 8).

Mr. Bradshaw, as others before him, clarifies that it is current policy language that has generated the problems and precipitated the many lawsuits that have been filed. Right! So why not address the problem: Amend or substitute current policy language to more precisely state the grant of coverage, not only as to injury or damage, but also as to time and, if appropriate, to place.

Most concur with Mr. Bradshaw that neither underwriters nor their actuaries have crystal balls. If, however, it is the "occurrence" definition, admittedly imprecise, that is precipitating the problems heretofore encountered, why not substitute more-precise terminology to clearly define the drafters' intent? There appears to be no need to change the system, as is currently being suggested.

While I am sympathetic to the allegation that liability rates were 37% below the Insurance Services Office advisory rates, the culpability for that situation rests primarily with the underwriting community. We on the production side of the industry are not without some blame, but we don't enjoy, typically at least, the underwriting pen, and we did not generally share in any of the significant benefits of the huge investment returns earned by insurers during the heydays of the so-called soft market. The adverse effects of imprudent pricing, if that's what

it proves to be, are problems the insurance-buying public should not be asked to share.

Personally, I object to the ISO claims-made proposal because of the apparent effort to lock in a buyer without similarly limiting the insurer's options.

Mr. Bradshaw's observations on "cost of defense" are interesting, partially accurate, but hardly a logical justification for a second or policy aggregate. I, too, am aware of accelerating defense costs that insurers have been obliged to absorb, and I am sympathetic to Mr. Bradshaw's concerns in that regard. Why would it not be adequate to include defense costs within the limit of liability and the definition of ultimate net loss? Presumably, such an approach would address most of the problems with which the industry is concerned and preclude the need for the second aggregate.

As a gratuitous aside, in my judgment the tort system does not have serious structural flaws and has not, generally, been grossly abused. In any legal system that is allegedly based on the concept of equal treatment before the law, how can any group expect to promote or achieve justice when it seeks special treatment under the law? Rather than seeing the current "crisis" in its larger historical and sociological context, some in our industry have chosen to view it as an attack on the "system" led by some scurrilous claimants and unethical lawyers who are simply out to line their own pockets.

No single group should be immune to liability or suits. Yet, in certain jurisdic-

tions, legislation to do so is not only being proposed—it is being enacted. Should the so-called crisis ebb because the state or federal legislators enact statutes that favor or give special procedural and substantive protection to a particular group, our legal system will have been seriously damaged.

More specifically, perhaps, if a particular group of plaintiffs (i.e., those injured/damaged by pollution/contamination) have to overcome additional burdens in order to bring their actions against those who impair the environment, an even greater injustice to our legal system will have been done. Legislatures will have declared, albeit indirectly, that if a single interest group exerts enough pressure, it can insulate itself from attack.

Historically, the insurance industry's image as a concerned and contributing corporate citizen has left something to be desired. Current determined efforts to adopt new commercial general liability policies prior to discussing and resolving what may be justifiable concerns, as well as continuing to press for special-interest legislation, could lead to another formidable blot on the industry's public image... a blot so significant that it could ultimately result in federal control of a business heretofore blessed with relatively little federal intrusion.

John P. McLaughlin
Managing Director
Chairman, Health Care
Industry Practice
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Atlanta

Bad management, employment practices are root of industry troubles

To the editor: Melvin B. Bradshaw's Perspective article (*BI*, April 8) presents an excellent outline of the "insurance industry position" regarding the new "claims-made" liability policy. In doing so, he pinpoints clearly the problems the industry faces on several fronts.

Mr. Bradshaw, Liberty Mutual Insurance Cos.' chairman and chief executive officer, concludes, "If the problems that insurers have encountered have been largely of our own making—and I think they have—then it follows that the insurance industry also has the collective

power to solve these problems."

This is true only if the insurance industry understands why the problems "have been largely of our own making." Unfortunately, there does not appear to be a lot of introspection on this point.

Would it be correct to first define the problem as inability to adjust to a new competitive environment, and to say that failure was directly one of top management?

Next might we ask why top management of our industry failed to make this adjustment? Is it possible that such failure was the result of industry employment practices over many decades? Did the failure to attract top entry-level employees result in both inadequate compensation and advancement opportunities? And, did not the meager compensation of employees frequently result in the early departure of the most talented employees—into either the agency/brokerage ranks or into other industries?

In short, is the insurance industry the victim of "adverse selection" in its em-

ployment practices? If so, has the industry adequately recognized and addressed this fact? Without doing so, does the insurance industry have the collective power to "solve their problems"?

Certainly, there are many cogent reasons supporting the claims-made liability form. However, they will be for naught if the needs and demands of the insuring public are not also considered. Many feel that this has not been the case and that the new form is an overreaction doomed to the same fate as the ill-advised punitive damage exclusion. If this is the case why not take a middle road—retaining the occurrence policy, but with a claims-made cutoff date of, say, five years after policy expiration.

If such an approach were adopted, would it be too optimistic to hope that it might lend support to legislative efforts to limit by statute the open-end definition of "occurrence"?

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Liquidator blasts Ambassador plan

Continued from page 3
 requesting an order to allow Constitution State Service Co. to review Ambassador's claims files in Vermont so Constitution State could estimate the cost of claims handling services should the plan be approved, says Ambassador attorney Walter C. Squire, with the New York firm of Carter, Ledyard & Milburn in New York.

Constitution State, a Travelers Corp. subsidiary, had been permitted access to claims in New Jersey, but was denied access to claims in Vermont after Mr. Bernstein learned of Ambassador's proposal to transfer liabilities to Belvedere.

"There is no point in wasting time and money of the estate in having some adjusting firm running through our offices when they are only doing this in conjunction with a proposal that has no merit on its face," he said.

"This is a desperate act of people

searching for anything to avoid the liquidation, and in the process they are raping the estate," said Mr. Bernstein, a Washington attorney.

Mr. Bernstein notes that, as a result of the delayed liquidation, Ambassador's estate has incurred about \$1.5 million in extra costs, including actuarial charges and attorneys' fees. Those costs include \$190,000 in fees Mr. Bernstein says he has billed since last November.

In addition, Vermont Insurance Commissioner David T. Bard wrote last month in a letter to Ambassador's local counsel: "I am personally outraged at the delay in implementing a proper distribution of Ambassador's assets, a delay which has been caused by... legal tactics."

Mr. Bernstein says the Belvedere proposal is unacceptable because it would not make Ambassador solvent. He contends that the annual payments to be made by Belvedere would not be sufficient to cover Ambassador's long-tail liabilities and that an \$80 million deficit would still exist after all payments were made by Belvedere.

The proposal also doesn't acknowledge any of Ambassador's potential interest obligations, Mr. Bernstein says, explaining that Ambassador could be forced to pay interest to policyholders whose claims have not been paid in the past due to lack of funds.

Ambassador has a deficit of at least \$45 million not including such interest obligations, he says. As of March of last year, Ambassador had roughly \$122 million in assets and \$167 million in liabilities.

Ambassador disagrees that a deficit would exist after the final payment. According to court papers filed by Ambassador, the proposal would produce a statutory surplus of about \$5 million after the runoff is completed.

Mr. Squire said the proposal is accompanied by a financial statement from Ernst & Whinney that says that the transfer would make Ambassador solvent.

Mr. Bernstein's estimate of Ambassador's liabilities is based on excessive estimates of loss adjustment expenses, says Albert B. Lewis, a partner with Cole & Deitz in New York and former New York insurance superintendent. He represents three New York hospitals that were Ambassador policyholders.

Mr. Bernstein denies that the money allocated for loss adjustment expenses is high.

Mr. Lewis said he prefers a portfolio transfer to liquidation primarily because it would improve his clients' cash flow by speeding claims payment.

In addition, Mr. Lewis said, policyholders would have a better chance of having their defense costs covered under Ambassador policies under the proposal.

If Ambassador were liquidated, the hospitals would have to pay defense costs out-of-pocket and would have to submit claims for these costs to the estate, he said.

The proposal to have Belvedere assume liabilities is similar to the earlier plan proposed by Ambassador that fell through.

The proposal called for Ambassador to pay a premium of \$85.8 million to Cathedral. In return, Cathedral would pay \$160 million in 12 annual installments. The largest installment, \$58 million, would not be paid until the 12th year.

The Belvedere proposal differs from the Cathedral plan in that it contains more safeguards, said Jerome Gordon, president of New York-based Lutine Corp., which acted as co-broker for the Belvedere proposal.

The new proposal requires that the company assuming the liabilities be authorized in Vermont, that investments purchased by Belvedere have at least a double-A rating and the assets be held in escrow.



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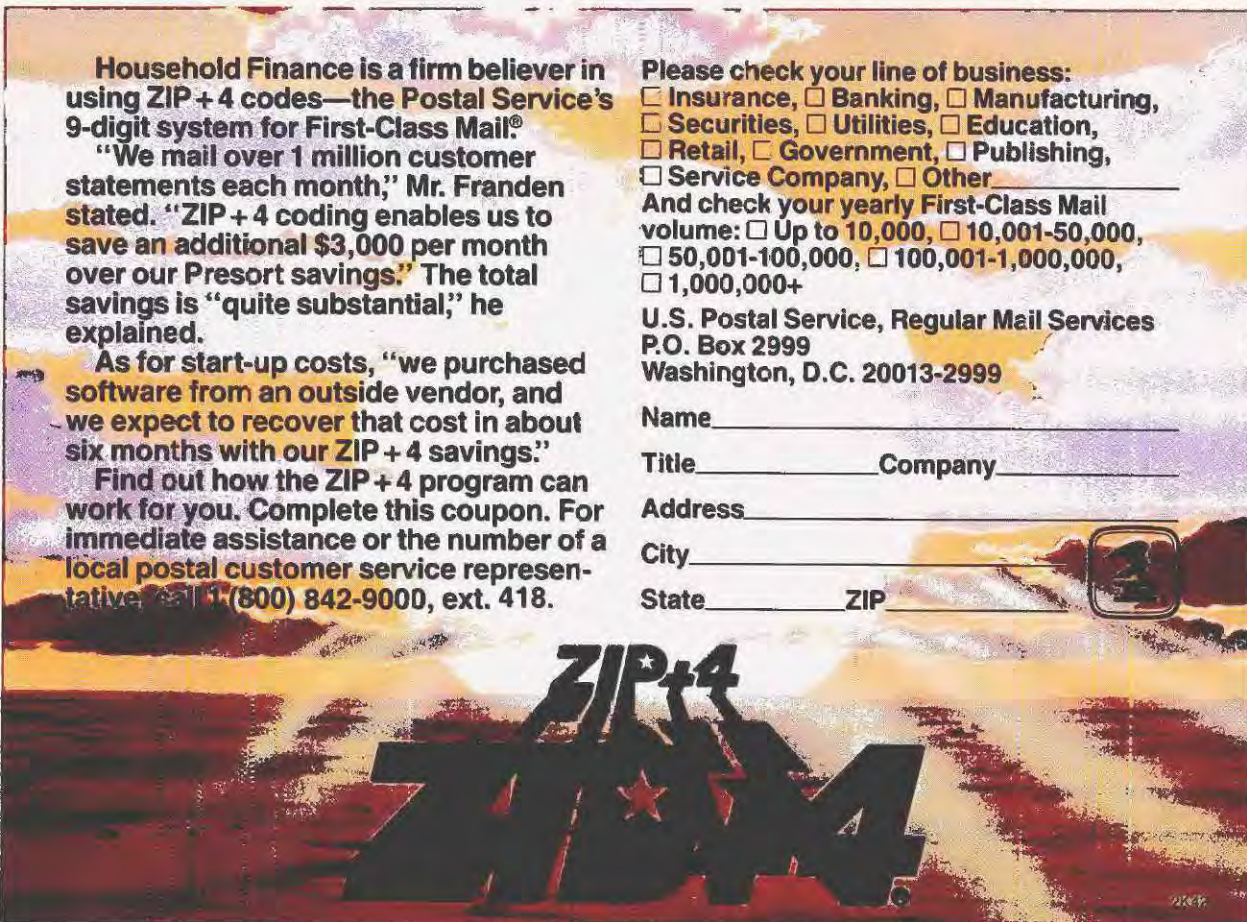
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Montana law gives punitive damage relief

By **STEPHEN TARNOFF**

HELENA, Mont.—A new state law will make it more difficult for plaintiffs to recover punitive damages from Montana businesses.

The law, signed April 16 by Gov. Ted Schwinden, generally limits punitive damage recoveries from businesses to \$25,000 or 1% of a company's net worth, whichever is greater. However, the law places no limit on punitive damages for businesses found guilty of actual malice, which is the equivalent of intentional conduct, attorneys say.

The law also strengthens the burden of proof on those seeking punitive damages and more clearly defines the standard of conduct required of businesses before punitive damages may be awarded.

The legislation was vigorously opposed by the plaintiffs' bar.

Spokesmen for businesses and insurers in Montana say that although the law does not give them everything they wanted, it should limit the threat of punitive damages and help businesses get liability insurance from insurers that, in some cases, were ceasing to do business in the state.

Proponents say that the legislation is an outgrowth of recent state court decisions.

Among them was a case in December in which a Billings man was awarded \$5 million in punitive damages stemming from a bad-faith suit against an insurer. That case is still being litigated.

Also, two years earlier, a Butte car dealer won an \$8 million punitive award in a bad-faith and fraud suit against a bank. That case was subsequently settled.

Backers of the new law contend that the decisions have made it easier for plaintiffs to recover punitive damages, caused an increase in punitive damage claims against businesses and caused greater uncertainty about the standards of conduct businesses will be held to in order to avoid punitive damages.

According to Jack Ramirez, Republican floor leader of the Montana House, during the last few years punitive damages have become a major tool by which plaintiffs and their attorneys have gained higher settlements in cases such as those involving product liability and wrongful termination of employment.

The recent court decisions have also defined "presumed or implied malice" or "oppression" so imprecisely that in every case there might be implied malice, he said.

"It was so vague and indefinite it opened up many, many claims to punitive damages," Mr. Ramirez added. "Businesses didn't know when they were subject to punitive damage claims."

"The decisions broadened application of those terms so that small businesses could stumble into a punitive damages suit without knowing they did anything wrong," said Forrest Boles, president of the Montana Chamber of Commerce.

The new legislation defines "presumed malice" as occurring when a person "has knowledge of facts, intentionally avoids learning of facts, or recklessly disregards facts... which creates a high degree of risk of harm to the substantial interests of another, and either deliberately acts in conscious disregard or indifference to that risk or recklessly proceeds in unreasonable disregard of or indifference to the risk."

The change is intended to make more clear the standard by which companies may be held liable for punitive damages.

The new definition "will make it more difficult for courts to liberally construe what presumed malice is," said Steve Brown, who represented

Blue Cross of Montana in seeking the legislation.

The new law also says that punitive damages no longer can be awarded based only on a "preponderance of the evidence," but rather that the evidence must be "clear and convincing."

Clear and convincing means there is no serious or substantial doubt about the correctness of the conclusions drawn from the evidence, the legislation says.

"It is more than a preponderance of evidence, but less than beyond a reasonable doubt," according to the legislation.

"This (presumed malice and evidence test) significantly changes by legislation the direction the judiciary was taking," said Francis Raucci, vp of Buttrey Food of Great Falls, Mont., a subsidiary of

American Stores Inc.

Supporters of the bill say that it is not the cap on punitive damages, but the higher burden of proof needed for finding punitive damages and the clearer definition of presumed malice that are the more important parts of the bill.

They say that the cap is really for the protection of small businesses, since the 1% figure of a company's net worth can be very substantial for large companies.

"For our company, it (the cap) does not offer any comfort at all," said Mr. Raucci. "It is a small business exemption."

"They (the tighter standards) are the most significant aspects" of the law, Mr. Boles said.

The supporters also say that the new law may help businesses get liability insurance and that in some

cases, insurers were ceasing to write in Montana because of the threat of punitive damages.

Punitive damages are insurable in Montana.

"Businesses have had a problem finding insurance," said attorney Randy Gray, who represented State Farm Insurance Co. and the National Assn. of Independent Insurers in lobbying for the legislation.

"Our hope is that this legislation may encourage companies not to leave the state," Mr. Gray said.

"There were some companies not writing insurance at all as a result of this," said Mr. Boles. "And those that were, were (excluding) the punitive damages segment of the policies."

The law applies only to claims arising after the April 16 effective

date of the law.

Karl Englund, who lobbied against the legislation for the Montana Trial Lawyers Assn., contends that the new law could actually increase punitive damage claims and awards against companies.

"We contended that our punitive damage law as it existed was a significant deterrent in and of itself to outrageous behavior it sought to prevent," said Mr. Englund of the Missoula firm of Sherwood & Englund.

Because people may read the new statute as permitting them to engage in conduct that previously was threatened by punitive damages, it could lead to more claims filed for punitive damages and more awards, he explained.

It is likely that the statute will be challenged in court, he added. ■

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NCCI officials urge increase in comp rates

By CAROL CAIN

NEW YORK—Workers compensation rates must be increased in order to restabilize the work comp marketplace, according to two experts.

The 1934 workers compensation combined ratio of 124%, as estimated by the actuarial staff of the National Council of Compensation Insurance—a New York-based work comp ratemaking, statistical and research organization—is unsatisfactory by any standard," according to NCCI Chairman Nicholas F. Miller Jr.

While Mr. Miller predicted that the combined ratio may drop to 119% in 1985, he added that this figure is still 10 percentage points above an acceptable level.

The worst workers compensation

underwriting results in history were produced in 1984, explained NCCI President Kevin M. Ryan, who along with Mr. Miller spoke at NCCI's annual meeting last month in Boston.

He noted the NCCI estimates a national workers compensation underwriting loss of \$4 billion on a total premium of \$17 billion for 1984.

Even with those losses, workers compensation insurers will show almost a \$2 billion aftertax profit in 1984 due to investment income, according to Mr. Miller, who also is a vp and an actuary with Aetna Life & Casualty Co.

"Farm machinery manufacturers, oil producers and home computer manufacturers would trade the bottom of their cycles for that one," he said.

Poor underwriting results 'cannot be sustained by investment income,' Mr. Ryan says.

One of the major causes of the 1984 losses was an increase in claims frequency, according to Mr. Miller.

And, according to Mr. Ryan, most of these losses came from 15 of the larger jurisdictions, including: Florida, Iowa, Kansas, Louisiana, Maine, Mississippi, Missouri, Montana, New Hampshire, New Mexico, Oklahoma, South Carolina, Texas, Virginia and the District of

Columbia.

"These inadequate underwriting ratio results cannot be sustained by investment income, especially in a period of moderating interest rates," Mr. Ryan said.

"Nor will the return to the more-selective underwriting practices of the past and an abundance of market share growth practices be sufficient," he added.

"The rating end of the equation must bear the burden because the strength of the economy will preclude any substantial lowering of indemnity or medical losses," he said. "Nor does it appear that any rollback of benefit levels is either likely or desirable."

In response to insurers' underwriting losses, some states already have granted rate increases. Employers in some 15 states saw rates

rise this year.

Six states—Florida, Alabama, South Carolina, Oklahoma, Oregon and Kansas—increased their rates at least 10%.

Rate changes that became effective during the first three months of 1985 have increased premiums by \$500 million, or almost 3%, Mr. Ryan said.

And, the NCCI has pledged to its member insurers to do its part in filing for additional rate increases where "conditions warrant further action," according to Mr. Ryan.

"What must be done will be done," he said.

"In addition to filing for larger rate increases, we are attempting to assist our member companies by providing more sophisticated marketplace data and industry comparison data," Mr. Ryan said.

"We're seeking alternative rate-making methods while preserving total payroll as a basis of premium by refining the experience-rating process," Mr. Ryan added.

This pressure to increase rates will put state insurance regulators in "a very uncomfortable position," Mr. Miller said.

"They are concerned with solvency and the health of the insurance business. But, they are also concerned with the health of the business in their state and maintaining jobs as the economy cools," he said.

"They will be under pressure (by employers) to hold costs down. We (insurers) need to give them the courage to resist this pressure and work with them to gain our objectives, if not all in one year, certainly within two," Mr. Miller explained.



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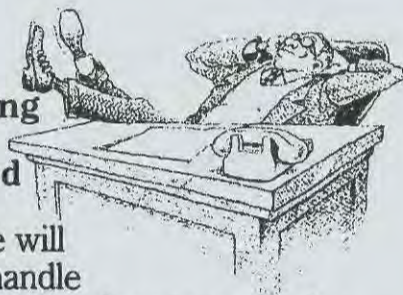
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RBH subsidiary to acquire Sten-Re Cole

Booth, Potter, Seal & Co. Inc., the reinsurance brokerage subsidiary of Rollins Burdick Hunter Co., will acquire Sten-Re Cole Associates, an Edison, N.J.-based intermediary.

The deal will approximately triple the reinsurance revenues of Chicago-based Combined International Corp., the parent of RBH and Booth, Potter, Seal, according to Raymond Skilling, executive vp and chief counsel of Combined.

The joining of the reinsurance operations is expected to be completed following a previously announced merger of Reed Stenhouse Ltd. of Toronto and Alexander & Alexander Services Inc. of New York.

Richard E. Cole, president of Sten-Re, and his partners own around 50% of Sten-Re, with the remainder owned by Reed Stenhouse.

Under a provision in the contract between Mr. Cole and Reed Stenhouse, Mr. Cole and his associates have the right to purchase the other half of the brokerage if Reed Stenhouse should merge with another company, confirmed John Riley, vp in Reed Stenhouse's corporate office in Toronto.

Mr. Riley said the brokerage was aware before the merger negotiations with A&A that Sten-Re had the option of breaking its current ties if the deal is completed.

"It was obvious to us that they would have that option," he said. "We would have been happy to keep them, but we are parting on an amicable basis."

Mr. Cole thereupon agreed to sell the entire firm to Combined, Mr. Skilling said.

The new unit will be called Cole Booth Potter Inc. and Mr. Cole will serve as its president and chief executive officer.

Both A&A and Reed Stenhouse have scheduled boards of directors meetings in mid-May to vote on the proposed merger and the deal could be finalized in late June or sometime in July, Mr. Skilling noted.

Although he wouldn't release specific revenue figures, Mr. Skilling said Cole Booth Potter would have revenues "in the high seven-figures" following the merger.

Sten-Re reported 68 employees and a premium volume of \$125 million in 1983. Booth Potter reported 32 employees at the end of 1983.

Talbot Bird acquired

London-based Guardian Royal Exchange P.L.C. has acquired Talbot Bird & Co., the New York-based insurance management firm that specializes in ocean and inland marine coverages, from Arneo Insurance Group Inc. for an undisclosed amount.

Talbot Bird provides coverages through a pool of insurers that will now be led by the Albany Insurance Co., a GRE company in New York.

Albany Insurance Co. is assuming all the policy liabilities of one of the pool's former lead underwriters, Milwaukee-based Northwest National Insurance Co. The transaction will not affect any Northwestern business written outside the Talbot Bird pool, according to a GRE spokesman.

London-based GRE reported that Talbot Bird wrote approximately \$90 million in coverage in 1984 on behalf of the pools. Talbot Bird has nine offices throughout the United States.

Arneo announced last year that it planned to divest its U.S. insurance operations (SI, May 21, 1984). The company announced last month that it would inject \$66.4 million into Northwestern National and another \$66 million into Universal Reinsurance Corp., a New Jersey-domiciled insurer whose

markets

business is now being run off.

PPO expanded

Select Care, a preferred provider organization marketed by Northwestern National Life Insurance Co., is now available to employers in the Minneapolis-St. Paul area.

There are currently 10 area hospitals and 600 physicians participating in the PPO that is offered by the Minneapolis-based insurer.

Some of the features of Select Care include

- Monitoring of fees to keep them below community averages while providing quality health care.

- Hospital admission reviews to ensure that treatment is appropriate and services are used efficiently.

- Placing new providers on a probationary status until they demonstrate continuing cost effectiveness.

- Centralized claims administration. Claims are checked by Select Care for accuracy and forwarded to the insurer for payment. Workers who submit claims receive a benefit statement listing charges that Select Care pays and those the employee must pay.

Businesses that use the program receive quarterly summaries that include statistics on the number of

claims, services used and charges compared with an estimate of what charges would have been without Select Care services.

More information is available from Northwestern National Life, P.O. Box 20, Minneapolis, Minn. 55440; 612-372-5580.

Placement firm

Harvard Aimes Group, an executive search and placement firm for insurance and risk management professionals, has been formed by James J. Gunther in West Haven, Conn.

Mr. Gunther, a former risk manager for 16 years with Howard Johnson Co. in Boston, said he decided to form the new company "because of a need for someone in the head-hunting business that had been a practitioner."

He will specialize in finding and placing risk managers and insurance professionals for corporations and insurance companies. The Harvard Aimes Group will also place brokerage professionals and underwriting specialists.

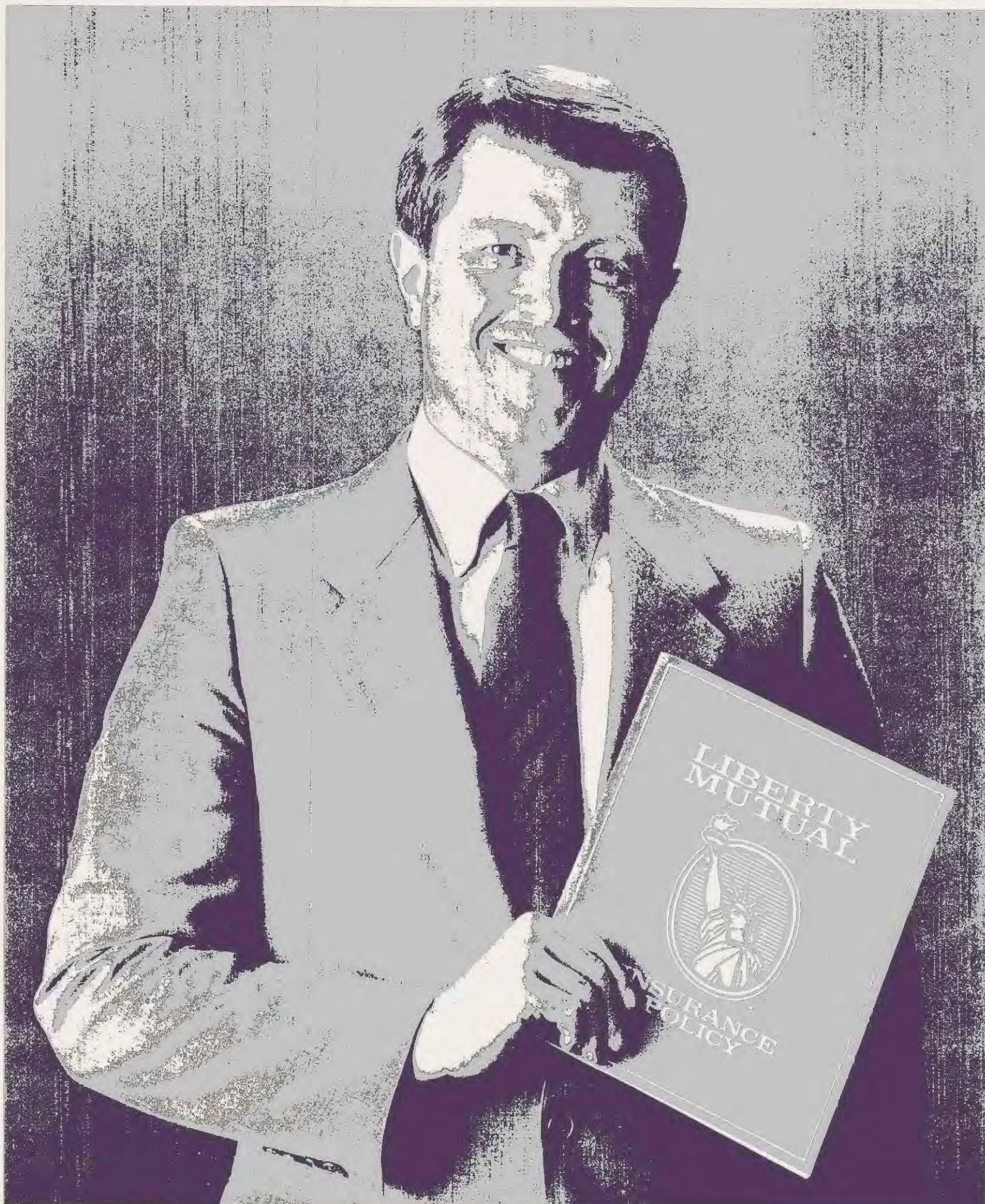
Mr. Gunther said he is expecting to add a staff member soon who will specialize in search and placement of underwriters.

The company operates nationwide from its office at 140 Captain Thomas Blvd., Suite 115, West Haven Conn. 06516; 303-933-1976.

Aviation brokerage

Worldwide Facilities-Aviation has been formed by two Los Angeles insurance brokerages to place aviation coverages.

Continued on next page



Continued from previous page

The joint venture by Worldwide Facilities Inc. and Response Insurance Brokers will place coverages for aviation premises, cropdusters, product liability, excess liability, helicopters, charter operators, workers compensation and other aviation exposures.

The new brokerage has successfully placed large amounts of excess liability coverage in the tightening marketplace, says Chet Zalewski, who is heading the new venture. "We've been offering layers up to \$20 million with no problems."

More information on Worldwide Facilities-Aviation is available from Mr. Zalewski at 3435 Wilshire Blvd., Suite 1600, Los Angeles, Calif. 90010; 213-380-4454.

St. Paul/agency deal

St. Paul Fire & Marine Insurance Co. has said it will assume a minority interest in Birmingham, Ala.-

based McGriff, Seibels & Williams Inc., the 25th-largest agency in the nation based on 1983 revenues.

The amount of the transaction was not disclosed.

"Through our investment in MSW, we saw an opportunity to help safeguard the agency's future growth and profitability during a period when some agency principals were retiring," said Robert J. Haugh, St. Paul chairman and chief executive officer.

He added, "The investment by St. Paul meets our personal objectives and provides capital for continued expansion."

The Birmingham agency has offices throughout the Southeastern United States. It reported gross revenues of \$10.7 million in 1983.

Catastrophe claims aid

Curative Care Inc., based in Rosemead, Calif., has opened Catastrophic Case Management Services to provide claims administra-

tion services for severe injury or illness cases.

Catastrophic Case Management is located in Paoli, Pa., and offers services aimed at assisting insurance companies nationwide in structuring rehabilitation programs for clients who have suffered traumatic injuries or sickness.

L. Ronald Hogg, president of the new firm, said, "The massiveness of the injuries or illnesses that fall within the catastrophic category create immense individual claim losses. . . . We sense there is a growing need for a company which can provide recognizable expertise in the management of catastrophic claims in behalf of insurers and reinsurers."

Catastrophic Case Management is located at 1800 E. Lancaster Ave., Paoli, Pa. 19301; 215-296-0222.

Employees buy stock

Employees of Frenkel & Co., an insurance brokerage based in New

York, have purchased a majority of the company's stock through a stock ownership plan offered by the firm.

Business Insurance ranked Frenkel & Co. as the 26th-largest U.S. brokerage, based on its 1983 revenues of \$8.6 million.

Alan S. Samuels, the agency's president and chief executive officer, said, "While acquisitions of insurance brokerage firms may be in the interest of shareholders, they are not necessarily in the best interest of the clients or employees of these firms. The (employee stock ownership plan) will provide our employees with a growing stake in the equity of the company."

N.J. liquor liability

Allied Fidelity Insurance Co. of Indianapolis has begun offering liquor liability coverage for restaurant and tavern owners in New Jersey.

The New Jersey Department of

Insurance's decision to allow the insurer to write the coverage reflects its concern for the availability of the insurance, says Insurance Commissioner Hazel Frank Gluck.

"The Department of Insurance has been working for some time to find a solution to the problem of availability of liquor law liability coverage," Ms. Gluck said.

"And, our efforts now appear to be rewarded," she said. "Certainly, the outlook is brighter for taverns and restaurants that had been faced with a loss of their insurance coverage."

Mergers/acquisitions

Diamond State Insurance Co. in Philadelphia, a subsidiary of **United National Insurance Co.**, has acquired **Hallmark Insurance Co.** in Middleton, Wis., from **Continental Insurance Cos.** for an undisclosed amount. Hallmark, which in the past has written commercial multiperil and other types of property/casualty coverages, plans to offer property/liability packages and will consider developing coverages for low-value dwellings, its new owner says.

National Con-Serv Inc. has acquired **Loss Control Management Corp.** of Rockville, Md., an administrator of self-insurance programs for municipalities, hospitals and businesses in Maryland, Virginia and Washington.

New offices

The Wyatt Co. is relocating its San Diego office to a larger facility at 9339 Genesee Ave., Suite 300, San Diego, Calif. 92121; 619-458-3900.

Specialized Benefit Plans Inc. is moving to 8149 E. 30th St., Indianapolis, Ind. 46219; 317-897-6969 or 800-223-3972.

Kroll, Pomerantz & Cameron, a law firm specializing in insurance issues, is opening an office at 32 Rue La Boetie, 75008 Paris, France, 563.18.10.

International Insurance Broker Ltd. has relocated its Jamaica office to 59 Half Way Tree Rd., Kingston 10, Jamaica, W.I.; 809-92-93200/9.

Frank B. Hall Consulting Co. is relocating its National Benefits Services Division to its world corporate headquarters at 549 Pleasantville Road, Briarcliff Manor, N.Y. 10510; 914-747-2002.

American International Cos. has moved to 1225 17th St., Suite 2770, Denver, Colo. 80202; 303-295-7111.

Medco Review Inc., a hospital bill auditor, is now headquartered at 7011 Grand National Dr., Orlando, Fla. 32819-0358; 305-345-9421.

Allianz Underwriters Insurance Co. and **Allianz Intermediaries Surplus Line Brokers Inc.** have moved their headquarters to 6435 Wilshire Blvd., Los Angeles, Calif. 90048; 213-658-5000.

Stump, Harvey & Cook, a Maryland insurance brokerage, is relocating to 5 North Park Dr., Hunt Valley, Md. 21030; 301-666-5200.

RIMS sets course in basic insurance

NEW YORK—The Risk & Insurance Management Society's "Fundamentals of Insurance" course will be held June 3-5 in New York.

The course is designed for people who are involved in risk management but have limited exposure to basic insurance concepts.

The registration fee for the course is \$445 for RIMS members and \$545 for others. Participants receive 2.2 continuing education units.

For more information or to register, contact Fran Jordan, Administrator-Continuing Education Program, RIMS, 205 E. 42nd St., New York, N.Y. 10017.

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around the states

Austin attorney joins Texas Insurance Board

AUSTIN, Texas—An Austin attorney has been confirmed by the Texas Senate of his appointment to the state Insurance Board.

David Thornberry, 36, was named to the three-member board April 15 by Gov. Mark White to fill the seat vacated by Bill Daves, who decided not to seek re-election.

Mr. Thornberry is an attorney with Akin, Gump, Strauss, Hauer & Feld, in Austin. He also has practiced law in Houston and was a federal judge's clerk in California. He received a law degree and an undergraduate degree in government from the University of Texas.

Although Mr. Thornberry has no

specific insurance background, he noted that he has represented several clients before the state Insurance Board.

Work comp refund

BATON ROUGE, La.—Nearly half the employers in a retailers' self-insurance fund will share \$100,000 in refunded workers compensation premiums.

The 240 employers are members of the Louisiana Retailers Assn. Self Insurers Fund, a non-profit, self-funded premium pool for workers compensation insurance, said Nick Perez, president of the Baton Rouge based-Louisiana Retailers Assn., the trade association that created the fund in 1980.

The fund has 470 members. The 240 employers that qualified for the June refund must have had a loss ratio of less than 70% and have been members of the pool for the 1982 fiscal year, the loss year in which the dividend is being returned. Each employer's refund will be in proportion to its losses, Mr. Perez added.

With the refunds, the fund's members receive up to a 15% advance discount on their premiums, monthly loss reports and safety engineering services from Lakeland, Fla.-based Summit Consulting Inc., the pool's administrator.

Since the fund's creation, employers have received about \$1.5 million in refunds and advance discounts, Mr. Perez said.

In creating the fund, the association's goal was to "prevent accidents, because when you really get down to it, it (the amount paid to the employee) is really just the tip of the iceberg," he said.

Spousal benefits

SPRINGFIELD, Ill.—Divorced or widowed people will be able to receive the same health care benefits from their former spouses' group health insurance policies without a stiff conversion fee, if the Illinois Legislature approves a bill introduced this session.

S.B. 300, introduced March 6 by Sen. William A. Marovitz, D-Chicago, requires group health insurance policies to offer continued coverage at the group rate for a spouse in the event of an employee's death or divorce. But, the bill probably will be amended to terminate coverage if the spouse remarries, Sen. Marovitz said.

Currently, the bill is in the Senate Judiciary Committee.

The bill will require insurers to provide the same benefits and coverage while the existing policy is in effect, said Dave Menchetti, Sen. Marovitz's legislative assistant.

Although Illinois law already allows for conversion options, it does not mandate the same benefit or premium level, the senator said.

"Getting a conversion and getting a conversion with the same benefits are vastly different things," he noted.

If the divorced or widowed person chooses to continue with the group plan, he or she would have to pay both the employee and the employer portion of the premium, Mr. Menchetti said.

The bill also would require a spouse to pay an additional charge of 20% of the premium for administrative costs, Sen. Marovitz said.

Some 22 other states have some type of conversion provision.

A companion bill, H.B. 600, sponsored by Rep. Woods Bowman, D-Evanston, has been sent to the Insurance Committee.



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Total work comp costs drop slightly: Study

By CAROL CAIN

WASHINGTON—Employers and their insurers paid slightly less in total workers compensation costs in 1982 than in 1981, even though they paid more in indemnity and medical benefits, according to recently released statistics.

The total cost of state work comp programs dipped slightly to \$22.5 billion in 1982, from \$22.9 billion in 1981. These costs include indemnity and medical benefits as well as insurance premiums or administrative costs for self-insured plans.

But, statistics show a 9.2% rise in indemnity and medical benefits from 1981 to 1982 for state workers compensation programs.

These figures exclude benefits paid under federal programs, like programs covering black lung disease, harbor workers, etc.

State program data shows about \$13.6 billion was spent for indemnity and medical benefits in 1982; \$12.4 billion was spent in 1981.

A decade earlier, in 1973, employers spent only \$3.8 billion, or 254.4% less.

The statistics are part of the annual fiscal data report compiled by the National Foundation for Unemployment Compensation & Workers' Compensation, which is the recently created research arm of UBA Inc., a Washington-based, employer-supported lobbying and research group (*BI*, Oct. 15, 1984).

The 1982 statistics are the most recent figures available.

The numbers in the report are based on data from the Social Security Administration and the Department of Health and Human Services, said John M. Matzner, the foundation's research director.

"This is comparative and trend data, the most recent data available," said Charles Little, executive assistant to the UBA president.

The figures for individual states show that, in Oklahoma, total indemnity and medical benefits increased by 30.5% between 1981 and 1982, the largest state increase.

In six other states, total indemnity and medical benefits rose more than 20% between 1981 and 1982: Colorado, 27.2%; Delaware, 24.6%; Hawaii, 23.7%; Montana, 23.5%; Texas, 21.4%; and Utah, 20.5%.

During the same one-year period, indemnity and medical benefits decreased in only three states: Arkansas, 7.4%; Michigan, 2.9%; and Tennessee, 0.5%.

The data used to determine these percentage increases also show the total dollar amount paid in each state in 1982 for indemnity and medical benefits. For instance, in California about \$2 billion was paid in 1982, while in South Dakota, only \$16.7 million was paid. But, Mr. Little stressed the worker population of each state must be considered in looking at these figures.

The report also shows comparative data on the average cost of indemnity and medical benefits per employee. Between 1981 and 1982, the average cost per employee nationwide increased 11.1%, to \$180 in 1982 from \$162 in 1981.

Over the 10-year period from 1973 to 1982, per-employee workers compensation costs tripled, to \$180 in 1982 from \$60 in 1973.

The foundation's report also compared the percentage of indemnity and medical benefits that were paid by commercial insurers, self-insurers and state funds during the 1981-1982 and 1973-1982 periods.

In 1982, commercial insurers paid 63.6% of indemnity and medical benefits, self-insurers paid 20.3% and state funds paid 16.1%. In 1981, commercial insurers paid 63.3%, self-insurers paid 20.4% and state funds paid 16.3%.

While the portion of indemnity and medical benefits paid by com-

mercial insurers increased from 1981-1982, it decreased in the 10-year analysis. Commercial insurers paid 63.6% in 1973, and 63.6% in 1982. Self-insurers paid 15.4% of indemnity and medical benefits in 1973, and 20.3% in 1982, and state funds paid 13.9% in 1973, and 16.1% in 1982.

The report also ranks the states according to how much their total indemnity and medical benefits increased from 1973 to 1982. It shows 36 states had percentage increases higher than the national average of

254.4% for the period.

Wyoming had the greatest jump, rising 1,137%, and New York, up only 122%, had the smallest hike.

The other states and their increases in indemnity and medical benefits from 1973 to 1982 are:

Maine, 803.5%; District of Columbia, 525.7%; Alaska, 510.2%; Colorado, 501.9%; Virginia, 453.5%; Utah, 438.3%; Minnesota, 435%; New Mexico, 422.7%; New Hampshire, 421.4%; Oklahoma, 392.3%; Nevada, 386.6%; Washington, 381.1%; Rhode Island, 377%; Ha-

waii, 374.8%; Georgia, 370.7%; Louisiana, 361.8%; and South Carolina, 352.8%.

Also, Kansas, 350.9%; Iowa, 350.3%; West Virginia, 336.6%; Texas, 332.4%; Kentucky, 319.7%; Montana, 318.2%; Pennsylvania, 315.7%; Vermont, 311%; Maryland, 307.5%; North Carolina, 294.2%; Oregon, 291.6%; Nebraska, 288.1%; North Dakota, 287.3%; Alabama, 277.8%; South Dakota, 277.3%; and Illinois 276.4%.

Also, California, 265.3%; Wisconsin, 264.5%; Connecticut, 247.9%;

Delaware, 241%; Mississippi, 228.6%; Arkansas, 228.6%; Idaho, 210.6%; Tennessee, 207.7%; Massachusetts, 201.6%; Missouri, 194.4%; Ohio, 192.3%; Florida, 184.9%; Arizona, 157.5%; Indiana, 150.2%; Michigan, 146%; and New Jersey, 123.4%.

A copy of the complete report is available for \$5 from the National Foundation for Unemployment Compensation & Workers' Compensation, 600 Maryland Ave. S.W., Suite 603, Washington D.C. 20024.



Changing World Insurance Markets conference

Increasing liability worries risk managers

By STACY SHAPIRO

LONDON—Product liability, occupational disease, environmental impairment liability and punitive damages are among the biggest concerns of risk managers, according to a study not yet released by Marsh & McLennan Inc.

"Many responsible for international organizations told us their concern about the scope of increasing corporate liability," M&M Ex-

ecutive Vp David D. Holbrook said at the Fifth Changing World Insurance Markets conference here recently.

The majority of the 1,500 risk managers surveyed by M&M were concerned about product liability reform, changes in the U.S. tort system and environmental impairment liability risks.

"One observation is that organizations recognize governments will expect them to assume yet greater

responsibility for their activities.

"Another observation is that organizations expect their government to have a role in helping them manage risks which impact society as a whole.

"A third observation is that organizations rely on brokers and insurance markets to help them solve the problem of transferring risk and will expect yet better solutions from us in future years."

Marsh & McLennan will publish

the complete results of the study later this year, Mr. Holbrook said.

In addition to the survey findings, Mr. Holbrook added his own observations about major risk management concerns.

He said that catastrophes like the toxic gas leak in Bhopal, India, and last year's oil refinery fire in Mexico City are raising serious questions about the scope of insurance coverages carried by a multinational corporation—or any major

corporation.

"We are being forced to rethink the kinds of coverage that must be taken into account by any large corporation," he said.

Events that had been considered to be impossible must now be re-evaluated, he said.

In the United States, too, large court awards and settlements in product liability cases are creating financial havoc for big corporations.

"Product liability is a gold mine for plaintiffs, and particularly plaintiffs' attorneys," Mr. Holbrook said.

Therefore, U.S. companies—and European companies that import goods to the United States—are paying more for liability insurance coverages than their European counterparts with only European risks.

"In Europe, a consumer products manufacturer might pay only 15% of his total property and casualty insurance budget for product liability insurance," Mr. Holbrook said. "In the United States, this premium could be equal to—if not more than—what he pays for all other property and casualty insurance."

And, the cost of coverage may be overshadowed by a more serious problem: availability, he said.

"Before we can quickly assert that there will be a sudden rash of insurance products to respond to these new and developing needs, we have to ask another very important question: Will insurance for these exposures be available?" he asked.

Mr. Holbrook said that the insurance market is beginning to harden significantly, with increasing premiums and decreasing capacity. This new, tight market is caused by cycles in the industry and not by new liabilities, he added.

But, because the market had been unusually soft—and coverage unusually cheap and widely available—for several years, some risk managers have not experienced a hard cycle, Mr. Holbrook said. He suggested that they remember the five C's: coverage, capacity, continuity and communication.

He said that, in the future, risk managers will need all their skills to cope with the questions from senior management concerned about the high prices companies must pay for less coverage.

"As coverages, capacity, costs and continuity of risk management programs become more difficult to manage... the risk manager's profile within his or her company changes," he said.

"The risk manager is suddenly making decisions that have a significantly greater economic impact on the future of his or her company. This, in turn, will bring insurance under closer scrutiny by senior management."

Mr. Holbrook said he also expects growth in risk management programs, like safety programs, training and loss control plans to reduce risk, and the unbundling of these services to reduce buyers' costs.

"Another trend we are seeing is the way in which international insurance is placed," Mr. Holbrook said. "Historically, it has been the tendency to arrange insurance with an insurer domiciled in the same country as the insured. Now, with the increasing move toward internalization, there is a growing tendency to involve local markets, both for indigenous risks and for participation in global placings."

Mr. Holbrook concluded his address by quoting Charles Dickens: "It was the best of times... it was the worst of times."

"I might add to his sage observation, it is the most interesting of times," Mr. Holbrook said.

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Multinationals find answer in global plans: Russell

By STACY SHAPIRO

LONDON—Although a global insurance policy is not a panacea for all of a multinational corporation's coverage woes, it can offer some unique advantages, says an officer of a Canadian multinational.

Speaking at the Fifth Changing World Insurance Markets conference in London, Eckart Russell, manager of financial planning and administration for Alcan Aluminum Ltd. in Montreal, also said that not all 200 of the largest multinationals may want to jump on the global coverage bandwagon.

For example, one large computer manufacturer uses as many brokers and insurers as possible around the world "because they are potential customers," said Mr. Russell.

And, he said, some multinationals are so enormous that they can absorb a huge loss.

But, most multinational corporations can benefit from a global insurance plan particularly if it is designed only to protect against a major catastrophe, he said.

Such a global policy consolidates coverage for the worldwide operations of a multinational for losses that exceed the company's deductible or self-insured retention or the limits of its various local policies.

"We want to insure against a billion-dollar loss from, say, pesticides in India, no matter how unlikely it is," he said.

Mr. Russell said that a properly designed global program should:

- Provide all-risk coverage. In property lines, Mr. Russell says the policy should include all-risk coverage for physical damage. If the underwriter does not think there is a serious exposure to a particular risk, like flood, "then let the insurer not charge you for including the exposure," he said.

- And, risk managers should consider a \$1 billion liability limit for global liability exposures, Mr. Russell said, although he admitted that limit might be hard to find in today's harder market.

- Be easy-to-read and understandable, with a minimum of fine print.

- Be fairly and competitively priced.

- Be worldwide in scope.

- Be underwritten by stable and financially sound markets.

- Be administered by experienced insurance brokers familiar with global programs.

Mr. Russell said that there are three major markets for global coverage for multinationals: Lloyd's of London, American International Group Inc. and CIGNA Worldwide Inc. (BI, Oct. 15, 1984).

"Lloyd's have pioneered writing international package programs and are probably still leading, but (Lloyd's) cannot service them internationally," Mr. Russell said. So, when Lloyd's is used, one of the U.S. insurers may be used to front and provide global services, but Lloyd's underwriters write the coverage, he explained.

"AIG has had the most efficient international network," he said. "CIGNA, following the merger with AFIA (Worldwide Insurance), is building a network comparable to that of AIG... and is making a great push" for multinational company accounts, he added.

Other insurers involved in the development of global programs include Zurich Insurance Co. Royal Insurance P.L.C. and Allendale Mutual Insurance Co., said Mr. Russell.

In addition, several other insurers also offer global programs, including Hartford Insurance Group, Chubb Corp. and Continental Corp. (BI, Oct. 15, 1984).

Although Mr. Russell said global programs have grown over the years, it may be tougher to find liability coverage as part of a global package.

"Comprehensive liability programs are in a state of regression. There are restrictive forms tending toward more rather than less market segregation," he said, noting that insurers are increasingly requiring separate policies for coverages like errors and omissions, directors and officers, aviation products, environmental impairment, products and accidental pollution liabilities.

"This helps the insurers, not the (multinationals)," he said. "There is a need for more and more cover with less willingness to underwrite."



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Global programs have pros, cons: Experts

By STACY SHAPIRO

LONDON—Multinational corporations are finding that global insurance programs have their drawbacks, experts say.

A successful global insurance program requires that risk management operations be centralized in the parent company, experts point out. But, many multinationals currently have decentralized risk management operations, making global programs impossible to implement, according to participants in the Fifth Changing World Insurance Markets Conference held in London recently.

Also, risk managers want to purchase global programs that provide coverage for catastrophes, above a company's self-insured retention or the coverage of its local policies, the speakers pointed out. However, most underwriters don't want to accept only the catastrophe coverage, without the lower layer "bread and butter" risks, they said.

In fact, a cornucopia of problems can "make global packaging a nightmare," said Dennis Farthing, risk management adviser to Rio-Tinto Corp. P.L.C. in London.

For example, Mr. Farthing said, insurers may not be able to deliver the global package they say they will. Or, the competence of the brokers may be "patchy." Or, the structure of the corporation itself may not be conducive to a global program, and the corporation's insurance manager may not be able to handle a global package.

"I am uneasy," added Tony Benson, group risk manager for Arthur Guinness Son & Co. Ltd. "The insurance network worldwide may be inadequate (to handle multinational risks).

"We are left with a small number of brokers. It is almost a monopolistic situation at this time. Where will the new companies come from? Banks, perhaps," he said.

However, some speakers say that global insurance programs will become more attractive now that the market is hardening.

"The soft market of the past few years has produced depressed rates conducive to purchasing separate coverages from numerous carriers," said Joseph Smetana, president of AIG Risk Management Inc.

"A shift in the market would produce rate increases throughout the industry, thus making global account underwriting seem more cost effective than under present market conditions," he said.

Mr. Smetana said at the conference that there are other reasons why global programs will become more popular in the near future.

First, he said, more multinational corporations are moving toward centralized risk management structures. Therefore, risk managers are gaining more control over foreign risks.

And, the underwriters are offering global programs for specific lines of risk, which is attractive to risk managers, Mr. Smetana added.

In addition, more and more global programs may be written as more insurers and buyers become aware of the concept, Mr. Smetana said.

Mr. Smetana's company, AIG, was the first insurer to offer "global account underwriting" or global insurance programs to multinationals (BI, Oct. 15, 1984).

Previously, there were only two ways a multinational could insure its risks globally, he explained.

First, it could contract with insurers admitted in each jurisdiction for each of its foreign subsidiaries.

But, "There were problems," said Mr. Smetana. Sometimes the local insurers' policies were not as comprehensive as the multinational wanted, leaving various risks un-

'I am uneasy,' explained Tony Benson, group risk manager for Arthur Guinness Son & Co. Ltd. 'The insurance network worldwide may be inadequate (to handle multinational risks).'

protected.

Also, the corporate risk manager had little control over the negotiation of the policies. And, contracts were written in foreign languages, making administering and understanding them a problem, he said.

The other way multinationals could cover their subsidiaries was to use a non-admitted, tailor-made insurance contract, issued in the host country to cover overseas

perils. This centralized control of risk simplified administration and afforded opportunities for experience rating and reduced cost, Mr. Smetana said.

"But, unfortunately, the non-admitted contract created as many problems as it solved," he said. There were conflicts between the non-admitted contract and foreign insurance requirements. There were questions about where and

how claims should be paid and to whom.

AIG's answer was the "B account" global underwriting package, developed by American International Underwriters, AIG's international subsidiary. "B account" is a term for an accounting system through which foreign premiums and losses can be paid locally under a master contract, said Mr. Smetana.

The B account coverage operates through a single master policy issued to the domestic home office of the multinational corporation. It spells out the terms and conditions of coverages worldwide in one language and in one document.

Then, through affiliated companies, branches and agencies around the globe, individual policies are issued, he explained. These

policies follow the master policy but are admitted in each foreign jurisdiction in conformance with local requirements. Premiums and claims are paid locally.

"Use of a master contract permits issuance of coverages that cannot readily be written in some countries," said Mr. Smetana.

Mr. Smetana admits that in order for global programs to work, they must be implemented by centralized control. "This cannot be done on a decentralized basis," he said.

But, one risk manager commented that it may be more economic for foreign subsidiaries to use local plans. Mr. Smetana agreed, but said that through a global underwriting program, local plans can be used along with a master policy. "This has not been a stumbling block," he said. ■



Bhopal main topic at conference

By STACY SHAPIRO

LONDON—A toxic gas leak that killed about 2,000 people in Bhopal, India, illustrates the many risks multinational companies face, according to speakers at a recent conference on international insurance.

The questions raised by the disaster at the Bhopal plant primarily owned by the Indian subsidiary of Union Carbide Corp., as well as other problems multinationals face in coping with global risks, were the main topics at the Fifth Changing World Insurance Markets conference, sponsored recently in London by City Financial, a division of Kluwer Publishing Ltd.

The conference speakers addressed the question, "Multinationals—Unmanageable Risk?" and more than 140 delegates listened to the replies.

And, many of the comments centered on the incident in Bhopal.

For example, the disaster showed "there are new specters of global disaster and vulnerability to hit the multinational company," said Eckart Russell,

manager of financial planning and administration for Alcan Aluminium Ltd. in Montreal.

Multinationals must insure globally for these kinds of catastrophes, which are rare but very costly, he said.

The Bhopal incident also raises "serious questions... about the scope of insurance coverages a multinational—or any major corporation—carries," said David D. Holbrook, executive vp for Marsh & McLennan Inc. in New York.

"We are being forced to rethink the kinds of coverage that must be taken into account by any large corporation," said Mr. Holbrook. "It is too soon to make any judgment about what the outcome of such an occurrence as Bhopal will be, and what will ultimately be its effect on the world of commercial insurance. But, it does make us rethink our position."

And, Johann Beginn, manager of the international underwriting department of Allianz Versicherung-A.G. in Munich, Germany, said that Bhopal illustrates that risk managers must continue to control exposures in subsidiaries worldwide.

U.N. committee plans study of reinsurance

By JOHN PARRY

GENEVA, Switzerland—The United Nations Conference on Trade and Development will conduct a study of "all the criteria for assuring the security and credibility of reinsurers" to aid the insurance markets in Third World countries.

The reason for the study, as spelled out at a recent meeting of UNCTAD's Committee on Invisibles and Financing, is that insurers in developing countries need reinsurance far more than those in developed countries.

"The solidarity of reinsurance companies is of paramount importance to the Third World," said Gut Levie, head of the insurance sec-

tion of UNCTAD, the U.N. agency that seeks to promote development in the Third World through economic and trade aid.

UNCTAD's study, on which work will begin this summer, is aimed at helping developing countries "avoid the unfortunate consequences of becoming involved with unreliable reinsurers," he said.

The committee meeting approved an UNCTAD report reviewing insurance and reinsurance activities in developing countries during 1982-83.

"A virtual glut of reinsurance capacity has favored cutthroat competition, leading some reinsurers to offer unviable terms, with resulting bankruptcies and liquidations," Alistair MacIntyre, assistant secretary general of UNCTAD, told the meeting.

"It is beyond dispute that every effort ought to be made to strengthen reinsurance markets, by active government support to protect end-users and to ensure greater viability on the part of the reinsurance companies covering these risks."

Speakers at the meeting also urged Third World countries to pay greater attention to the insurance

Reinsurance 'is of paramount importance to the Third World,' says Mr. Levie.

industry, which is sometimes ignored in the nations' rush towards economic development, according to Mr. Levie.

A resolution passed by the committee urged developing countries "to increase local retention and to exert maximum efforts to satisfy the insurance requirements of domestic enterprises, including those of local affiliates of foreign-owned corporations, and not to become mere vehicles for exporting premiums abroad through unwarranted reinsurance, including inappropriate fronting."

At the same time, the resolution said, Third World countries should not overlook the advantages of using international reinsurance markets.

UNCTAD was mandated by the meeting to continue studies on the applicability of modern risk management techniques, including loss prevention and captive insurance companies, to Third World insurance buyers.

Mr. Levie, discussing the usefulness of captive insurance companies at the meeting, said the positive aspects of captives include the possibility of improving or reducing rates due to a better knowledge of the risk. A captive, he said, could contribute to the prevention of accidents, to good risk management and to employee training.

On the other hand, Mr. Levie said, he noted that confidentiality of information in a captive arrangement can be a problem, "especially as regards the financial and accounting relationship between the captive, the assured subsidiary and the mother firm."

Establishment of a captive also means that a developing nation's commercial insurance industry could lose business, Mr. Levie said.

Yet another danger, he pointed out, is doubt about the financial solvency and technical competence of captives. In fact, that's one of the problems that prompted Third World countries to ask UNCTAD to address reinsurance supervision. ■

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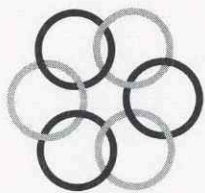
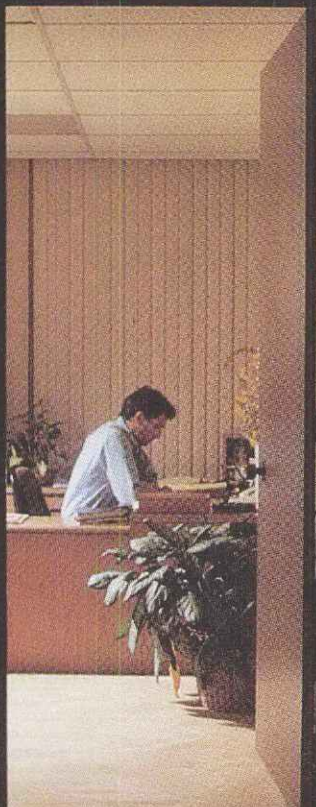
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Developing a game plan for fleet safety

By Adolph A. Neidermeyer

LOSS EXPOSURE from fleet operations is a prominent concern for risk managers.

Loss-control managers can choose from among various approaches in attempting to encourage safe fleet operation. These include loss control through improved hiring practices, continuing education programs, limitation of vehicle use, fleet maintenance control, tailored remuneration programs, establishment of an accident assessment committee and a personnel rotation program.

Risk managers focus on prevention. The easiest preventive measure is to avoid risk. Screening of potential employees is an effective initial step in mitigating insured losses.

An employer should require a potential employee to supply a current driving history on himself or herself, which the potential employee can obtain from the state licensing agency for drivers. The report will provide the employer with an assessment of the risk exposure presented by the potential employee.

The employer also should require completion of a specialized employment application directed toward discovering the extent of the potential employee's experience with commercial vehicles and his or her safety record. Information about the prospective employee's driving history allows the employer to decide whether to hire the applicant for a position that requires operation of a vehicle.

Once employed, the individual should be frequently apprised of the importance of safe vehicle operation. All employees who operate company vehicles should be required to pass a defensive driving course annually. These continuing education programs are available through municipal or state police organizations at minimal cost.

Employers also should publish strict rules of conduct for employees, emphasizing the dangers of drinking or drug use and driving. Automatic termination should follow a violation of these rules, whether or not the violation results in an accident.

The positive, rather than the negative, aspects of a safety program should be emphasized, but particularly dangerous or reckless behavior requires harsh action.

Employers might consider limiting the use of company vehicles operated by employees. In the case of employees given use of a company car, only the employees and their spouses should be permitted to operate the vehicles. This restriction would confine the risk of loss involving a company fleet, and thus reduce insurance premiums.

Employers should inform employees of this restriction, and of the uninsured status of any driver other than an employee or spouse.

Proper fleet maintenance complements safe driving

efforts and screening of employees. Each vehicle should be assigned to an employee who has sole responsibility for its timely maintenance, both preventive and operating.

A vehicle card documenting all expenditures on a vehicle should be maintained on a weekly basis by the employee. This card should contain sufficient space for comments by the driver about any operating shortfalls of the vehicle.

To assure timely completion of the cards, employees could be required to complete the vehicle report cards before receiving their paychecks.

The vehicle report cards would be forwarded to the fleet manager as input to the comprehensive fleet maintenance program. Properly maintained vehicles facilitate implementation of a fleet loss-control effort.

Remuneration programs can have a significant impact on loss control. Placing employees on an hourly status implies that, although you want the work completed, you are willing to compensate employees if additional time is required. On occasion, salaried employees may hurry through tasks in order to save time. For example, a salaried employee might be tempted to drive faster to make up for lost time.

Employers need to relate specific expectations about performance and safe driving.

Employers can emphasize safe driving efforts by establishing incentives for employees. Employees will respond to the possibility of receiving rewards and recognition and to indirect peer pressure to perform well when an incentive program is implemented.

Unless the overall performance record is terrible, only positive reward structures should be used.

One way of rewarding employees is to hold an annual dinner for employees and spouses at which financial rewards are presented to safe drivers within the organization. This, of course, serves as an incentive to those employees to maintain their safety records and encourages others to do the same.

Safe driving can be rewarded in many other ways as well. The employer should offer incentives that he or she believes will motivate employees to perform well, given the structure of the organization.

On the negative side, employees could be suspended without pay for specified safety violations. Employers might also specify that any employee who has three preventable accidents within a stipulated time period will be terminated.

Whether an accident was preventable will be decided by an accident assessment committee. Every employer should form an accident assessment committee, made up of management employees in the company, to determine whether accidents that do occur could have been prevented.

Only preventable accidents should be charged

against an employee. Individuals should not be held accountable for losses over which they have no control. The assessment committee would report to management on each chargeable loss.

The investigating efforts of this committee would depend on the nature of the accident, but members should take all the steps necessary to determine the nature of the accident, including talking to the parties involved and obtaining police reports, claims adjusters' reports, etc.

A final consideration in a loss-control effort could be personnel rotation.

Management can limit potential losses by getting high-risk employees off the road.

If a high-risk applicant or an existing employee has other attributes valuable to the organization, management may want to select a position for him or her that does not involve operating a vehicle for the company.

If an accident does occur, however, those involved should act to minimize losses.

First, of course, anyone injured in the accident should receive emergency medical care.

Second, the parties involved should call legal authorities immediately to investigate the accident.

Inform company personnel to disturb *nothing* at the accident site after the injured are treated. Investigators are at a distinct disadvantage if things are moved at the accident site.

The employee should avoid any confrontation with other parties at the scene of the accident, and discuss the accident only with the police and the company's insurance agent. *The employee should not admit guilt for any aspect of the accident.*

After the accident, the employee involved should file a full report with the company's accident assessment committee.

This internal report, along with the police report, enables the committee to determine if the accident was preventable, and to integrate any revision deemed necessary into the firm's safety program.

The risk manager occupies a dynamic position because the factors determining loss exposures are changing constantly.

But, with an effective loss-prevention program and the support of company management, the risk manager should be able to help the company achieve its goal of "zero accidents."

Adolph A. Neidermeyer, Ph.D., is a professor of accounting at West Virginia University in Morgantown, W.Va.



Brokers are breaking the ice in Scandinavia

By S. Robert Beane

international issues

UNTIL THE END of the 1970s, full-service direct insurance brokers were an anomaly in Scandinavia. With the exception of Norway, where insurance brokerage was utilized on marine lines, most of the Scandinavian markets functioned on a direct or captive-agent basis.

Granted, there were a few multiline agencies in certain countries, but these were more the exception than the rule. Thus, to discuss brokerage in general, we must track the development of the insurance market in each country over the last five to six years.

Prior to its entry into the European Economic Community, Denmark enjoyed the dubious distinction of having the highest tariff rate—or standard, regulated rate—in Europe. The market itself functioned on a captive-agent basis, with several companies controlling the major insurance placement in the industrial and agricultural sector.

There were attempts to establish brokerage houses in Denmark, but most would-be brokers became subsidiary agencies of insurance companies.

The advent of direct insurance brokers coincided with, but was not related to, Denmark's entry into the EEC. Since 1979, three or four major brokerage houses have made an impact on the Danish market. Obviously, the captive agents and their companies have been less than enthusiastic about the possibility of an independent entity working for insurance buyers, but the introduction of brokers has, predictably, given rise to a very competitive market. On July 1, 1981, the tariff market officially dissolved, causing overall rates to tumble anywhere from 20% to 80%.

Although a formal regulatory board for brokers has not been established, a Danish Brokers Assn., headed by John Bonnor of Bonnor & Co., is developing regulatory guidelines to establish

professional broker qualifications.

Thus, multinational companies operating in Denmark now will find qualified, independent brokers who offer a viable alternative to the once-dominant captive-agent system.

As already mentioned, Norway tolerated the brokerage of marine insurance on a direct basis, but agents were used for fire, casualty and other related lines. In the Norwegian market, agents had the authority to represent only two or three companies. Norway, like Denmark, fostered a strict high tariff market, until January 1983, when the tariff rate structure was dissolved.

To date, there has not been a proliferation of brokerage on non-marine lines. However, the existence of marine brokerage and general insurance brokerage houses has caused competition to increase. Many insurers still refer to the tariff as a guideline, but on larger accounts in a competitive situation, more creative underwriting is applied.

Prior to the demise of the local tariff, there were approximately five major insurance companies in Norway that controlled most of the local insurance placements. In 1982, when the largest insurance company bought the third-largest company, other insurers began to cut rates to compete. This, along with competition for indigenous business from outside insurers and brokers, has led to a more flexible market.

Thus, multinational companies now can find some brokerage services in Norway, along with pricing that is more in line with international markets.

Sweden probably has the largest number of industrial exposures in Scandinavia, excluding the offshore oil drilling platforms in Norway. Thus, the Swedish insurance industry was the first to adopt the concept of risk management.

The local market is dominated by a single insurer that operates through a network of captive agents, as do the remaining companies. While there were several general agencies and entities that could be called brokers before World War II, they were bought out by the insurers in the 1940s.

Only one agency—A.B. Matthiessen—remained independent. Matthiessen has binding authority on several insurance lines with the major companies in Sweden and functions as close to a broker as possible.

Until recently, rates in Sweden were determined in accordance with a tariff. Of late, however, the tariff has been so loosely interpreted that ratemaking is on a free-market basis. While the Swedish market is not overpriced in general, insurance buyers without the time or internal resources to monitor their programs may find some overpricing.

The unions representing insurance agents oppose having independent brokers or consultants intercede between clients and underwriters. Thus far, the unions' strength and access to insurer management have limited the growth of brokers.

Whether "brokers" will become a significant force in the Swedish insurance marketplace remains to be seen. In the meantime, insurance companies within Sweden will work with the broker if clients pay the broker a fee or, on certain multinational accounts, they will pay commissions offshore. But, within Sweden, commissions are rarely paid.

Currently, the Swedish government has undertaken a study on the insurance market and the role of brokers. Considering the past and current environment, however, it is doubtful this study will bring any change.

If there is an "odd man out" in Scandinavia, it is Finland. Although there are two languages in Finland—Finnish and Swedish—the Finns tend to stand apart.

The local market functions much like Sweden's: A single company controls a major portion of the business, and an entire network of captive agents operates throughout the country.

One curious development within the market is that a single insurer, the Industrial Mutual, writes all of the business interruption insurance.

Until 1979, a strict tariff market existed in Finland. Since then, the tariff guidelines have been followed as a rule of thumb, but disregarded if competition on large accounts becomes heated.

The limited market size and absence of large multinationals have meant direct brokers have not been a factor in Finland. While a brokerage market may develop, it is unlikely to happen soon. To date, a preference for local companies has made it hard for foreign brokers to get a foot in the door.

What do these developments in the four countries mean to the multinational insurance buyer?

Most simply, there is now an alternative in Scandinavia.

A risk manager no longer needs to rely on his or her local financial director or controller to negotiate insurance coverages or claims directly with the insurance companies. Both local and international brokers are bringing independent services and a more-competitive atmosphere to these previously restricted markets. ■



S. Robert Beane 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.

New COIL almanac is informative, interesting

"The Insurance Legislative Fact Book & Almanac"
Robert E. Mackin, editor and publisher
Published for the Conference of Insurance
Legislators, P.O. Box 217, Brookfield, Wis. 53005;
414-782-4373

\$30 each for one to nine copies, plus \$3 shipping;
volume discounts available
378 pages; softcover

By Alison Kittrell

THE INSURANCE Legislative Fact Book & Almanac, published for the Conference of Insurance Legislators, is a useful handbook for anyone who is interested in following—or influencing—the course of insurance-related legislation.

The largest section of the book—and the reason most people will buy it—is the state directory. The directory lists the address and phone number of each state's governor, insurance commissioner and other individuals and committees responsible for insurance legislation, and it gives short biographies of the major individuals. And, it lists the addresses, phone numbers and officers for the major insurance trade associations.

This directory is the core of the almanac, according to its editor and publisher, Robert E. Mackin.

"These days in any kind of professional endeavor... the telephone is the basic medium in instant human communication," Mr. Mackin says in his

books & ideas

introduction. "Too many of us waste lots of precious time simply because we don't have the right name, telephone number or address at our fingertips."

The almanac, he says, is designed to correct this problem; he calls it "a handbook to save time."

But, the almanac offers more than lists. Mr. Mackin says, "Of course, insurance legislation involves more than the urgent need to communicate. The subject embraces some pretty tough questions of public policy."

The first five sections of the premier edition of the COIL almanac look at these questions of public policy.

For example, the almanac lists the top stories of 1984 in insurance legislation and regulation: 1984 is the worst year ever for the insurance industry; rate increases seen toward the end of the year; bank failures hit a 50-year high; regulators identify more than 300 financially troubled insurers; problems sink Baldwin-United Corp.; the National Assn. of Insurance Commissioners decides to let insurance producers have information on the financial condition of insurers; conflict in the Persian Gulf results in an increase in marine rates; Montana passes a unisex insurance law; New York and other states pass mandatory seat belt laws; Congress acts to raise the drinking age to 21; a COIL report calls for quarterly filing of insurer financial data; and 1984 sees a succession of man-made

and natural disasters.

The book then provides analyses of various insurance issues, including financial services deregulation, reinsurance, tax changes, workers compensation insurance and health insurance. The analyses, while not exhaustive, put each issue into perspective.

In a "special" section, the almanac details the rise and fall of Baldwin United Corp.

Next, the almanac includes four articles written by legislators and regulators: "Legislators, COIL and the Insurance Industry," by Coil President and Arkansas state Rep. Dave Roberts; "Banks in Insurance," by New York Assemblyman Howard L. Lasher; "Guaranty Funds," by California Insurance Commissioner Bruce Bunner; and "Insurers and Holding Company Legislation," by New York state Sen. John R. Dunne.

And, finally, the almanac has a "symposium" on raising the drinking age to 21. The "pro" side is taken by Elaine Liccione, 26, a student at Albany (N.Y.) Law School and New York Senate aide. The "con" side is taken by Brad Daniel Meehan, 22, a junior at Canisius College in Buffalo, N.Y.

People will buy the book for its directory, but they will enjoy these interesting, informative pieces.

As Mr. Mackin says, "If the almanac does its job, it will help readers do their job easier, faster and maybe a little better, and it will help them get to know each other more and maybe have some fun along the way."

london line

Lloyd's plans to regulate binding authority contracts

By STACY SHAPIRO

LONDON—Lloyd's of London plans to regulate the issuance of binding authorities to agents and brokers, Lloyd's deputy chairman and chief executive Ian Davison said last month.

According to a draft version of a bylaw and code of practice, Lloyd's will register all binding authorities in Lloyd's jurisdictions around the world, including the United States. The binding authority will not be legal unless it is registered.

Of the 2,500 or so correspondents with Lloyd's binding authorities, 1,500 to 2,000 of them are in the United States, Mr. Davison said.

Currently, a binding authority is given to correspondents by Lloyd's underwriters, allowing the correspondents to accept risks on the underwriters' behalf. Under the proposed bylaw, the Council of Lloyd's will have to approve the binders.

Mr. Davison hopes the bylaw can be passed in the middle of June.

'Brisk' business

Business is so brisk at the Lloyd's of London non-marine syndicates underwritten by Richard D. Hazell "that we could write 24 hours a day," said Mr. Hazell's deputy underwriter Robert Edwards.

But, like other Lloyd's syndicates, Mr. Hazell and his staff are not writing new business, preferring to reserve capacity for clients that are renewing their insurance and reinsurance programs, Mr. Edwards said.

"We have recently completed our treaty book, and we have not written any new North American treaties," he said. "But, all our old clients are still with us."

Mr. Hazell's Syndicate 190 and the other five syndicates associated with 190 write primarily non-marine property/casualty from North America, Mr. Edwards said. This year, the syndicate has increased capacity by 25% in pounds, to 102 million pounds (\$122.4 million) from 80 million pounds (\$96 million).

But, much of this increase was "eaten up" by the unfavorable exchange rate between the dollar and the pound, he said.

As the U.S. insurance market hardens, a wave of companies are coming to London looking for capacity, but London underwriters say they are being selective about what they underwrite.

"We could underwrite 300% of our income" with all the new business, Mr. Edwards said.

But, the underwriters are imposing tighter conditions and charging higher premiums for their coverage, and the Hazell syndicates are no exception, Mr. Edwards said.

"We reconsider our underwriting policies weekly," he said. "We haven't come out of any particular class...but casualty and physical damage coverages are hardening weekly."

And, he said rates have increased 200% to 300% in some liability classes.

The Hazell syndicates are managed by Three Quays Underwriting Management Ltd., which recently was sold by Sedgwick Group P.L.C. to Cater Allen Holdings P.L.C. for 2.4 million pounds (\$2.9 million). The sale—to comply with the Lloyd's Act of 1982, which says that all Lloyd's brokers must sell their Lloyd's underwriting agencies by 1987—came 24 hours after Sedgwick announced its pending merger with Fred S. James & Co. Inc. (BI, April 8).

Broker censured

The Council of Lloyd's has censured a Lloyd's of London brokerage firm for processing "fictitious claims" for a Lloyd's underwriter who has left the market.

But, the broker says the firm did not know the claims were false and wants to remain a Lloyd's broker.

The Council of Lloyd's charged Lloyd's broker Dashwood, Brewer & Phipps Ltd. with "acts or defaults which were detrimental to the interests of the society and its members."

Continued on next page

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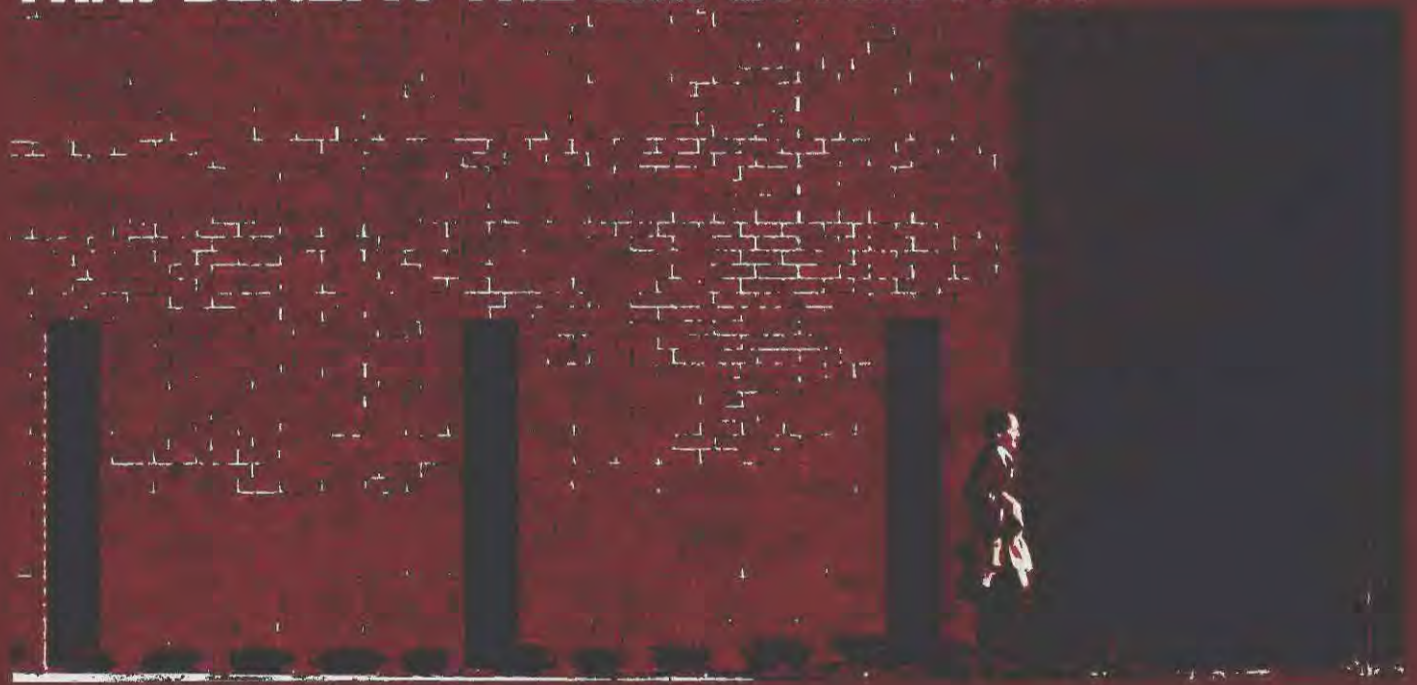
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london line

Continued from previous page

Lloyd's brought two charges against the Lloyd's broker. In the first, Lloyd's claims that between 1977 and 1982, Dashwood, Brewer & Phipps processed "fictitious claims," most of which were really connected with the yacht "L'Obsession," operated by Lloyd's underwriter Peter Coucher. Mr. Coucher, who was then active underwriter for the Yachtsman syndicate, made 28 claims under a policy placed on his behalf by Dashwood. All but the first were processed by the broker.

Lloyd's claims that Dashwood, Brewer & Phipps knew or should have known the claims were invalid.

On the second charge, Lloyd's alleges that another invalid claim, this time on the motor yacht "Lady Cleopatra," passed through Dashwood, Brewer & Phipps to Mr. Coucher. Through various companies, Mr. Coucher had an interest in the "Lady Cleopatra."

Lloyd's found Dashwood, Brewer & Phipps guilty on both charges and ordered that a "notice of censure" outlining the charges be placed in the Lloyd's underwriting room. The firm also was ordered to pay 12,000 pounds (\$14,640) in costs.

"We didn't know the claims were fraudulent," said John Dashwood, chairman of Dashwood, Brewer & Phipps.

He said that, during the time in question, the firm processed thousands of claims and kept accurate records. When Lloyd's asked for information on Mr. Coucher, the broker provided it, he said.

But, he said that if the broker had known the claims were fraudulent, "they would never have been processed."

Mr. Dashwood said that Dashwood, Brewer & Phipps will pay the costs. "We have no alternative. We intend to continue to act as Lloyd's brokers," he said.

Mr. Coucher could not be reached for comment and is thought to be in the Virgin Islands.

Lloyd's also has posted a censure notice and fined a non-working member of Lloyd's for conducting insurance business outside Lloyd's "in a discreditable manner."

In 1983, a lower court in London found Frederick Bradfield guilty of attempting to induce people to buy life insurance contracts with American Life Assurance Co. Inc. by distributing brochures containing statements he knew to be misleading, false or deceptive. Mr. Bradfield was fined 500 pounds (\$610) by the lower court.

Lloyd's censured Mr. Bradfield by posting the charges in the underwriting room, fined him 1,000 pounds (\$1,220) and ordered him to pay Lloyd's 400 pounds (\$488) in costs.

More losses seen

More losses are expected from the Lloyd's of London non-marine syndicates of Richard Beckett Underwriting Agencies Ltd., formerly known as PCW Underwriting Agencies Ltd., the agency has warned syndicate members.

After a preliminary look at Syndicates 918, 940 and 157, the agency believes that for the underwriting years still open, "further substantial provisions by members of these syndicates are likely to be necessary," agency Chairman J.R.K. Beckett wrote to members.

No estimate of the additional losses has yet been established, however, Mr. Beckett said. "Whilst I appreciate your concern, I ask your forbearance," he said.

These members and the members of Richard Beckett marine syndicates have already faced losses of 38.9 million pounds (\$47.5

million) after reinsurance premiums allegedly were diverted between 1979 and 1981 to offshore companies to benefit former PCW officials and officials of parent company Minet Holdings P.L.C.

Members agreed, however, to accept an offer by Minet and Alexander & Alexander Services Inc. to pay 38.17 million pounds (\$46.6 million) of the losses (BI, July 2, 1984).

The new losses at Richard Beckett stem from underwriting losses primarily caused by U.S. casualty risks and not from reinsurance activities, sources close to Richard Beckett say.

Howden censure

Gordon Robert Pope, a former director of broker Alexander Howden Group P.L.C., was censured by

Lloyd's of London recently for failing to disclose the acquisition and subsequent disposal of 10,000 shares of Howden stock in breach of British law.

The Lloyd's disciplinary committee also recommended fining Mr. Pope 2,500 pounds (\$3,050) and requiring him to pay more than 4,000 pounds (\$4,880) in costs. But, Mr. Pope appealed, and the appeal tribunal ruled he had to pay only the costs, not the fine.

Mr. Pope, a member of Lloyd's, received the shares as a gift from former Howden Chairman Kenneth Grob when Mr. Pope was director of Howden in 1975, according to the Lloyd's report. Lloyd's believes the gift was a personal gift from Mr. Grob to Mr. Pope.

The shares were put in a trust for Mr. Pope, the Lloyd's report says.

In 1977, Mr. Pope wanted to buy a house and asked Howden Treasurer Allan Page if there were funds in the trust available to him.

Mr. Page said there were, according to the report, and Mr. Pope received 17,000 pounds (\$20,740), which he believed to be the realization of the 10,000 Howden shares.

But, Mr. Pope failed to tell Howden in writing of the acquisition or disposal of the shares, in violation of the British Companies Act of 1967, the committee said.

In censuring Mr. Pope, Lloyd's placed a notice on the board of Lloyd's underwriting room outlining the charges against Mr. Pope.

The council, under the instructions of the appeal tribunal, made clear that Mr. Pope was not involved in any misappropriation of funds.

"We still feel it is unfair that Mr. Pope should have been censured," said Mr. Pope's attorney, Jane Dickson, assistant solicitor for Reynolds, Johnson & Green.

Ms. Dickson said that the only penalty that should have been handed down in Mr. Pope's case is

a reprimand.

Capacity shortage

The hardening cycle of the insurance market will not last more than two years, predicts Paul Bawcutt, managing director of Risk Research Group, the London-based risk management consulting firm.

"I think the capacity contraction will be stabilized," he said. "I think it will only last two years, and I don't think the turn in the market will be maintained."

Mr. Bawcutt maintains that capacity is still adequate, despite the withdrawal of insurers in several casualty markets. He believes that, as rates go up, this hidden capacity will come to light.

Mr. Bawcutt said figures on capacity shortage being talked about currently are "ludicrous."

"They may not insure asbestos, but companies are out there to insure everything else," he said. ■

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Court tightens standards for bad-faith suits

By **STEPHEN TARNOFF**

PHILADELPHIA—A recent federal court decision makes it harder for excess insurers to prove bad faith against primary insurers that choose to litigate suits against policyholders rather than settle.

In *United States Fire Insurance Co. vs. Royal Insurance Co.*, the 3rd U.S. Circuit Court of Appeals ruled that Royal, as primary insurer for Nordson Corp., did not act in bad faith by not agreeing to a purported \$400,000 settlement offer. Nordson subsequently was hit with a \$1 million jury verdict.

The court said U.S. Fire, Nordson's excess insurer, had to show that Royal was more than negligent in rejecting the settlement offer in order to prove its bad-faith claim.

The court also ruled that Royal

had no direct duty to the excess insurers to settle.

The court said the case is of "considerable importance" to the liability insurance industry and was its first ruling on the duty owed by a primary insurer to an excess insurer under Pennsylvania law.

Last week, an attorney for U.S. Fire said it had filed for rehearing with the full 3rd Circuit. If that fails, U.S. Fire plans to seek review by the U.S. Supreme Court.

The dispute arose following a product liability lawsuit against Nordson, a manufacturer of a solvent that allegedly caused a fire at a Philadelphia food plant.

Royal wrote a \$250,000 primary comprehensive general liability policy for Nordson, and U.S. Fire wrote a \$5 million excess policy above Royal's \$250,000 policy.

According to the court, when the Nordson trial began in May 1981, both Royal and U.S. Fire were confident they would win. Both insurers turned down offers by the plaintiffs to settle for \$1.2 million and \$800,000; also at one point, Royal made a counter offer of \$75,000 to \$80,000.

U.S. Fire, however, began to change its approach after the close of evidence in the trial. Then, the trial judge and the U.S. Fire attorney had the "impression" plaintiffs would settle for \$400,000, the court said. Under such a settlement, U.S. Fire would have paid \$150,000 after Royal paid its \$250,000 limits.

U.S. Fire demanded that Royal tender its policy limits toward the \$400,000 settlement and threatened that it would consider Royal's actions to be in bad faith if it failed to

contribute to the settlement, court records show.

However, the court added, the plaintiff's attorney later testified that his client had never offered to settle for \$400,000 and, in fact, would reject such an offer.

According to the court, Royal—with U.S. Fire in agreement—agreed to a "high-low" settlement plan in which plaintiffs would be guaranteed \$100,000 if they lost the suit at trial, but would get no more than \$1 million if they won.

The jury returned a \$1 million verdict for the plaintiffs. Thus, Royal had to pay its \$250,000 limits and U.S. Fire had to pay \$750,000.

U.S. Fire then sued Royal in U.S. District Court for the Eastern District of Pennsylvania for \$600,000, the difference between the \$750,000 it paid under the verdict and the

\$150,000 it would have paid if Royal had agreed to the settlement.

U.S. Fire charged Royal was directly liable because of negligence in the settlement negotiations and that Royal breached its legal duty to Nordson to exercise good faith in the negotiations.

The District Court jury agreed that Royal acted in bad faith.

The Court of Appeals, however, reversed that decision.

It first held that U.S. Fire had no right to sue Royal for breach of good faith because under the doctrine of "equitable subrogation" U.S. Fire "stands in the shoes" of the insured, which has a right to sue an insurer for bad faith.

In a footnote, the court rejected U.S. Fire's contention that it has a direct cause of action against Royal.

"Fire has cited no Pennsylvania cases creating such a direct duty and no plausible legal or policy basis for so doing," the court said.

The court also noted an insured—or the excess insurer—must prove bad faith by "clear and convincing" evidence. In the Nordson case, the court said U.S. Fire failed to present clear and convincing evidence that Royal breached its duty of good faith or breached an affirmative duty to explore settlement possibilities.

"Fire contends that Royal was obligated to offer \$400,000, the amount the trial judge thought would settle the case," the court said. "However, in no way can Royal's refusal to offer that amount be said to have contributed to the loss ultimately suffered by Fire, because Royal has proven conclusively... that an offer of \$400,000 would have been rejected by the plaintiffs."

"Moreover, Royal demonstrated throughout the trial a willingness to explore settlement possibilities," the court added.

"I think the case is extremely significant," said Stephen Cozen, who represented Royal.

Mr. Cozen, of the Philadelphia firm of Cozen, Begier and O'Connor, emphasized that the court's decision said that there was no basis in Pennsylvania law or policy to put an excess insurer in a better position than the insured. If the insured has to prove bad faith on the part of the primary insurer, so should the excess insurer, he said.

U.S. Fire argued the primary insurer owed a "direct duty" to the excess insurer and the excess insurer can prove bad faith by showing negligence.

"We said they've got to prove bad faith," Mr. Cozen added.

The case is important because it clearly establishes "the standard to judge a carrier's performance in a bad-faith situation," said another source close to the case.

To prove a primary insurer acted in bad faith, it must be proved it willfully chose to avoid a proper settlement, the source said.

James M. McEldrew, who represents U.S. Fire, also agreed the appellate decision was of "utmost importance for the insurance industry." But, he maintained the appeals court should not have overturned the District Court jury.

He said the court in effect reweighed the evidence on the existence of a \$400,000 settlement offer presented before the District Court, which was not its proper function.

He also said the court applied the wrong standard of bad faith. He said the standard is a "preponderance of the evidence," not "clear and convincing" evidence.

He said if the appellate decision is upheld, primary insurers will more often take a chance on winning a case, exposing excess insurers to millions of dollars in losses when such cases are lost.

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comings & goings: buyers

Stangle named risk manager at Anderson, Clayton & Co.

Patrick J. Stangle, 34, has been promoted to manager of corporate risk for Anderson, Clayton & Co. in Houston. In this position, Mr. Stangle is responsible for the company's property/casualty insurance coverage, claims administration, loss control and loss funding. In addition, he will supervise the foreign risk management programs. He reports to Brad Hintz, vp and treasurer, and replaces **Ken Hall**, who left the company. Previously, Mr. Stangle was assistant risk manager; that position is temporarily vacant. Mr. Stangle received a bachelor of science degree from Central Connecticut State University in 1975

and an associate degree in risk management from the Insurance Institute of America in 1982. He is currently studying for a master's in business administration at the University of St. Thomas.

Debra DeCray has joined Nu-Med Medical Inc. in Encino, Calif., as insurance analyst. In this newly created position, Ms. DeCray is responsible for designing and reviewing the company's insurance policies. In addition, she will be responsible for workers compensation and claims administration and will assist in designing loss control and safety programs. Previously, Ms. DeCray was account executive in the risk management department of American International Group Inc.'s Los Angeles office. She is currently studying for the Associate in Risk Management designation.

Mimi Podwell, 44, is the new assistant director of personnel for the Interfaith Medical Center in Brooklyn, N.Y. In this newly created position, Ms. Podwell is responsible for coordinating and implementing employee benefits and workers compensation programs. She reports to Rosita Benson, administrator of personnel services. Previously, Ms. Podwell was assistant director of corporate affairs for Belding Heminway Co. Inc. in New York. She received a bachelor of arts degree in human resource management and development from the New School for Social Research in New York in 1981 and is currently studying for a master of arts designation in the same field at the New School.

Barbara L. Allen is the new assistant vp/director of human resources at RFC Intermediaries Inc. in Los Angeles. In this position, Ms. Allen is responsible for all human resources functions, including the purchase of employee benefits insurance programs, benefits administration and workers compensation. She reports to Pavittar Safir, senior vp/administration and replaces **Robyn Lang**, who is now assistant vp/manager of human resources at Johnson & Higgins in Los Angeles. Previously, Ms. Allen was assistant vp and personnel director of Security Life of Denver in Denver.

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Group life increases

WASHINGTON—Group life insurance in force in the United States reached an estimated \$2.4 billion at the end of 1984, according to the American Council of Life Insurance.

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Marketing's Magic Kingdom

Panel tackles bank/agent deals

By LINDA J. COLLINS

WALT DISNEY WORLD, Fla.—Agents attending the Insurance Marketing Services national convention here will have a lot to think about, after a panel of four insurance agents discussed strategies for forming joint ventures with financial institutions.

No shots were fired, but several eyebrows were raised by what the agents had to say. Bank entry into the insurance business prompts anger and opposition from many agents and brokers. But, these panelists at the IMS convention have found ways to include agents in the banking industry's game plan.

The panel moderator was Ken L. Williams, president of both Alabama Insurance Exchange, an independent agency in Birmingham, Ala., and Banclines Programs Inc., a Birmingham consulting firm that arranges ventures between agents and financial institutions (A/BT, Jan. 7).



Mr. Williams

"We hear an awful lot of adverse press leading people to believe that this controversy (bank/insurance ventures) is not going to happen," Mr. Williams told the agents. "They would lead us to believe that due to current bank problems, 'Humpty Dumpty' is going to fall.

"I subscribe to the theory that (financial institutions) are already in insurance, and more are getting in it every day," Mr. Williams said.

He said that agents have two choices:

- They can recognize banks, savings and loans, and credit unions as providing an opportunity, and find a way to work with them.

- They can recognize these entities as the competition, and be prepared to do something about it.

Mr. Williams suggested that agents read bank trade magazines to learn about the viewpoint of financial institutions. He said these magazines are filled with articles about insurance/bank deals.

Mr. Williams said banks and other financial institutions have three things to offer agents: a customer base with demographic information; credibility; and a premium collection mechanism already in place. But, he added, financial institutions lack the necessary knowledge of the product or the marketing know-how to sell insurance.

"Banks must have help from the insurance fraternity," he said. "They will either get it voluntarily or steal it from you."

A primary goal of financial institutions in forming a venture with an agent, he added, is to generate income from the rental of space, if they can avoid financial risks, regulatory conflicts and customer alienation.

Mr. Williams said that, for astute agents, "Banks are nothing more than a lead development system." Agents can find a wealth of new business leads in a financial institution's customer lists, he said.

The next panelist was Bill Craddock Jr., president of Craddock Co. in Memphis, Tenn. Mr. Craddock's agency is now selling Aetna Life & Casualty Co. insurance products through Memphis branches of First Tennessee Bancorp.

Mr. Craddock said that when he was considering forming a venture with a financial institution, he negotiated with the banks before talking to any insurance companies. After deciding on the bank with which he wanted to do business, Mr. Craddock talked to five insurers before choosing Aetna.

In Mr. Craddock's arrangement, First Tennessee Bancorp provides the customer list and the office



location, and Aetna provides the products and support.

Craddock Co. pays the bank for the customer list and rents space in the branches' lobbies. Under the rental agreement, the bank receives a percentage of the premiums produced by Craddock Co.



Mr. Craddock

The agreement follows regulations set by the state attorney general, which require an "arms-length separation" between the bank and agency; limit the use of the bank's name in Craddock promotional material to telling the location of the agency; and prohibit any potential tie-ins between insurance sold by Craddock and

credit offered by the bank.

Craddock Co. also purchased the bank's customer list, which Mr. Craddock says it has been "laundering" to eliminate cross-references and limit the names to one per household.

The agency has just finished organizing and entering the names on its computer, he said. The agency managed to compile phone numbers for more than half the households to use in its telemarketing efforts, and it has just launched its first target market direct-mail program.

Some of the Aetna products sold through the venture are available to bank customers for reduced rates, Mr. Craddock said, explaining that several factors contribute to the rate reduction.

First, the agency can provide Aetna with a high volume of business because of the number of First Tennessee Bancorp customers it reaches. Mr. Craddock said that the laundered customer list represents 550,000 households.

Continued on next page

IMS convention draws 1,200

WALT DISNEY WORLD, Fla.—Walt Disney World sparks the imagination. And, in keeping with that image, ideas abounded at Insurance Marketing Services' 12th national convention, held in the Disney Contemporary Resort Hotel March 31 to April 2.

Agency marketing and management were the focus of the 2½-day convention, sponsored by the Santa Monica, Calif., consulting firm.

A total of 1,200 people attended the convention, making it one of the largest agent conventions in the country. Attendees included exhibitors, speakers, guests and about 700 IMS members.

For those who arrived early, IMS offered computer workshops March 28-29. Preceding the welcoming reception March 30, IMS held an all-day consumer behavior seminar conducted by Roger Blackwell, professor of marketing at Ohio State University.

Topics covered in the 20 convention sessions included agency/bank arrangements; how to set up a direct mail and telemarketing department; agency cluster arrangements; how to develop an agency five-year growth plan; when to buy, sell or merge an agency; life insurance and financial planning for the property/casualty agent; target marketing tips; and other marketing and agency management issues.

Insurance Marketing Services has approximately 5,000 agent, broker and insurance company members in the United States and Canada. The consulting firm employs 60 people in management, sales, newsletter writing, accounting, computer programming and seminar planning.

IMS sponsors about 170 marketing seminars annually in up to 20 cities throughout the United States.

Services IMS provides as part of its membership include a weekly newsletter; two marketing plan manuals updated bimonthly; bimonthly Trendfact tapes on marketing issues; access to IMS Underwriting Managers, a managing general agency representing more than 20 insurers; and discounts on IMS products, conventions and seminars.

For a fee to members and other agents, the company also offers personalized personal lines, commercial lines and two specialty lines newsletters for agents to distribute to clients and prospects; software; an electronic daily news service; and an electronic insurance exchange.

Joining with banks is profitable: Agency

By LINDA J. COLLINS

WALT DISNEY WORLD, Fla.—In response to the entry of financial institutions into the insurance industry, a Baltimore agency has decided, if you can't beat 'em, join 'em.

The Charter Corp. reports that approximately 20% of its business is through arrangements with financial institutions.

"Bankers view the combination of banks and insurance as a natural synergistic action. Agents do not," said Dennis Doyle, executive vp and chief operating officer of Charter Corp. He said his agency currently has contractual arrangements with nine banks or savings and loans and one major Realtor in Maryland.

Mr. Doyle and Hamilton Schmidt, Charter Corp.'s senior vp and chief marketing officer, discussed how to form a profitable relationship with a financial institution at Insurance Marketing Services' 12th national convention.

Mr. Doyle noted that Maryland law permits these affiliations between insurers and financial service institutions. He stressed that agents should be very familiar with federal regulations and with the laws of their own state before entering any such venture.

Mr. Doyle and Mr. Schmidt said that, in their agreements with financial institutions—primarily savings and loans—the financial institution forms a "paper agency," which is completely managed by Charter Corp. The paper agency is owned by the financial institution, but Charter Corp. controls all the agency functions, including sales and marketing, servicing of business and signing of contracts with insurance companies.

To stress the potential that exists for other agents to make such arrangements with financial institutions, Mr. Doyle pointed out that 30,000 financial service organizations are "chasing the same consumer dollars."

Charter Corp. signed its first management contract with a

'Bankers view the combination of banks and insurance as a natural synergistic action. Agents do not,' says Dennis Doyle, executive vp and chief operating officer of Charter Corp.

financial institution's paper agency 4½ years ago, Mr. Doyle said. The arrangement was so successful for both parties that "other banks and savings and loans asked us to do the same thing," he said.

Charter Corp.'s contractual arrangement with these financial institutions is for an initial five-year term, which can be renewed at the option of either party. Contracts can be canceled only in the case of such "dread diseases" as bankruptcy, said Mr. Doyle.

Accounts developed within the paper agency belong to the bank rather than to Charter Corp., Mr. Doyle pointed out, and the agency information is "kept confidential by both parties."

In "labor intensive" property/casualty lines, Charter Corp. takes 70% of the profit and the financial institution gets 30%. In other lines that require fewer hours on the part of agents to sell and service—like annuities—the split is reversed, Mr. Doyle said.

If the bank chooses not to renew the initial five-year contract when it expires, it can sell the business to Charter Corp. at 1½ times its annual commissions, paid over five years. Charter Corp. is obligated to purchase the business.

If the bank does not want to sell the business, but does not want to continue the relationship, it must pay Charter Corp. a

cash "upset fee," Mr. Doyle said. He said the upset fee is 1.75 times the previous 12 months' commissions.

All of these terms are negotiated up front and included in the contract, he said.

"This is important," he stressed. "At the end of the five years, you don't want to start negotiating buy-out terms."

And, the agency officials said, they are seeing some changes in the type of business they do.

Mr. Schmidt said that Charter Corp. originally planned to sell mostly property/casualty coverages through the paper agencies. But now, he said, they are finding that the sale of "annuities and universal life products is where the profits are."

"By 1990 the trends will change completely, and homeowners and auto policies will be ancillary sales," he said.

He noted that between October 1984 and March 1985, the Charter Corp. has realized \$50,000 in commission income in universal life coverages.

Mr. Schmidt said that Charter initially tries to develop an understanding with the financial institution that Charter needs to work with the institution's customer bases.

For example, if the institution has 2,000 customers with certificates of deposit of \$50,000, Charter will mail a letter on the paper agency's letterhead requesting that the customers drop by the branch and see how much more they could earn for their dollars with an annuity.

"They need only to fill out a one-sheet application, and it's off," Mr. Schmidt explained. This is not a labor intensive sale, and it represents "bigger assets than do property/casualty products."

Mr. Schmidt stressed when the agency is working with such financial services products, producers are told to keep in mind that customers are investing their savings.

"You must go with conservative carriers," he urged.

Panel tackles issue of agent/bank agreements

Continued from previous page

And, Craddock's bank/agency operations are highly automated, which reduces the insurer's processing time.

Finally, Aetna pays Craddock Co. a lower commission rate than that paid under the traditional independent agent contract.

The reduced rates available on some products and the convenience of being able to buy insurance products at the bank are the principal benefits of the arrangement for bank customers, Mr. Craddock said.

The benefits to the bank, he said, include the ability to provide new products for existing customers, attract new customers and gain a fee income from the rental agreement with the agency.

Offering new products to existing customers is important to the bank because it helps it retain these customers, according to Mr. Craddock.

He said financial institutions are interested in making business arrangements with agencies that can offer size, management commitment and an aggressive growth strategy.

Several insurers are interested in arrangements between agents and financial institutions, Mr. Craddock said, but he cautioned that agents should select an insurer with strong financial reserves and a broad product selection.

The "marketing mosaic" of the bank/agency arrangement is comprised of a delicate balance of marketing techniques, products and customers, according to Mr. Craddock.

The first marketing consideration the bank agency faces is to "launder" the financial institution's customer list, eliminating duplication, consolidating names by household and clustering names by account type.

By segmenting markets from the bank's customer list, the agency can profile prospects and design products that are best suited to their needs.

Agency marketing techniques through banks include inserts in

bank statements, direct mail, telemarketing, setting up an office in bank branches and traditional media advertising.

"Statement stuffers are crude, but inexpensive," Mr. Craddock said.

"Direct mail is the most effective in tracking market penetration," he added.

Mr. Craddock said telemarketing is very important to this type of venture, and his agency currently employs between 20 and 25 telemarketers.

Placing an agency desk in a bank branch is most useful in total account selling and in the sale of life insurance products, he said.

Craddock Co.'s sales personnel include telemarketers, licensed agency representatives who handle phone calls and licensed producers in the banks.

Products sold through the Craddock bank venture include auto, homeowners, special risk, universal life and mortgage insurance, and Individual Retirement Accounts.

Customers can pay premiums through automatic checking, credit card or savings withdrawals, through special accounts, or as additional charges to mortgage or installment loans.

And, Mr. Craddock pointed out, "The errors and omissions exposure to agents is much lower through automatic transfer of funds, because you are dealing with a continuous policy."

Agents should not expect such a venture to pay off for at least 18 to 24 months, because it takes that long to get the operation up and running, according to Mr. Craddock.

"It really won't make any money for the first two years. It represents a long-term venture for all parties," he said.

Mr. Craddock said a successful bank/agency venture requires a favorable political and legal climate; having the commitment of a major insurer; competitive pricing of products; a commitment from management of the bank and agency; and competency on the part of the agency.

Dennis Doyle, executive vp and chief marketing officer of Charter Corp., a Baltimore agency that currently has contractual arrangements with nine

banks or savings and loans, said that while his agency's arrangements are similar to the arrangement made by Mr. Craddock, there are major differences (see story, above).

For instance, Maryland savings and loans are permitted to own agencies, while in Tennessee only the leasing of space in banks is permitted, and only under the specific guidelines.

Mr. Doyle said that, in Charter Corp.'s arrangements with financial institutions, the financial institution forms a "paper agency."



Mr. Schmidt

Charter then solicits business, operates and services each paper agency through a service contract agreement. The two entities split the commissions generated by the paper agency; the commission split varies according to the product.

"It is important to tie up a whole range of products. Otherwise the margins aren't there, when you have to split commissions, to make the proposition worthwhile," Mr. Doyle said.

He said that Charter Corp. has agreements with several financial institutions, but the agency has one person in charge of all its business with financial institutions. "We can't have people dealing with three or four managers," Mr. Doyle explained.

Hamilton Schmidt, Charter Corp.'s senior vp and chief marketing officer, said that when an agency approaches a financial institution to negotiate a bank venture, the agent should "tell (bank) management up front that (the agency) will be creating an opportunity to bring more income to their bottom line."

Mr. Schmidt said the agent should warn the financial institution that there are some potential pitfalls, like complaints from customers about being contacted by the agency.

However, he said, the agent should assure the financial institution that if the agency's service is up to par, there should be no complaints.

Marketing methods must change: Expert

By LINDA J. COLLINS

WALT DISNEY WORLD, Fla.—Independent agents must find more cost-effective ways of selling their products if they want to survive in an increasingly competitive marketplace, an insurance marketing consultant says.

Since a number of changes are occurring in the insurance industry, including the entry of new players, independent agents should take a long, hard look at how they fit into the new game plan, said George Nordhaus, president of Insurance Marketing Services, a Santa Monica, Calif.-based agency marketing organization.

Mr. Nordhaus made his remarks in the keynote address at IMS's 12th national convention, March 30 to April 2 in Walt Disney World.

He explained that independent agents now have new competitors in the insurance business, including retail merchandisers and financial institutions.

At the same time, agents are finding changes in the relationships and contracts they once had with their traditional agency companies, he said.

And, several direct-writing companies are breaking with tradition and forming relationships with independent agents, or expressing an interest in doing so.

"Insurance companies are very simply mechanisms designed to sell a product. They will sell it in any way they can," Mr. Nordhaus stressed, in defense of the insurers.

The most successful insurance marketing currently is being done by flexible distribution channels, such as agency-bank arrangements and retail outlets that offer insurance and consumer goods.

He said these channels succeed because they offer the "four Cs": convenience, a customer base, credibility and a collection mechanism.

Mr. Nordhaus said agents, faced with the new competitors and a growing high-tech approach to insurance sales, are wondering, "Is one-on-one selling still a factor?"

"The answer had better be yes, or else we are going to have to change our way of distribution," he said.

For example, he said, if the banking industry is further deregulated and agents become direct competitors with banks, an agent's personal relationship with clients will be even more crucial.

He referred to a survey in Connecticut in which 54% of the respondents said they would trust a banker's advice, while only 5% said they would trust an insurance agent's advice.

But, he said, the responses changed significantly in favor of the agent when those surveyed were asked if they would trust their own agent's advice.

Some effective marketing methods for agents include:

- Seminar selling, in which an agency conducts seminars to address the insurance needs of a specific group of consumers.
- Target marketing to specific industries.
- Purchasing lead lists that can be broken down demographically to reach a desired clientele. These lists are available from a variety of vendors throughout the country.
- Telephone sales.
- Constant contact with existing and prospective clients.

Mr. Nordhaus said that in this new era, no agent will escape the emerging competition. And, he said, agents should learn the basics of these marketing methods so they can compete effectively.

"Ignorance is a voluntary misfortune," he said.



Mr. Nordhaus



Mr. Doyle



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Advice to agents: Build on your strengths

By LINDA J. COLLINS

WALT DISNEY WORLD, Fla.—Agents would do well to heed Shakespeare's famous advice, "To thine own self be true," a consultant says.

"Build your agency the way you want it to be... Try not to commit yourself to something you really don't believe in," Gary B. Holgate, president of Holgate & Associates Inc., a Fort Myers, Fla.-based agency management consulting firm, told agents attending Insurance Marketing Services' 12th national convention.

He said agents are being bombarded by consultants and other experts telling them they must change their operations in order to compete. It is true agents are facing

'Build your agency the way you want it to be... Try not to commit yourself to something you really don't believe in,' advises Gary B. Holgate, president of consultant Holgate & Associates Inc. in Fort Myers, Fla.

new competition and they may have to make adjustments, he said, but they should not lose sight of their goals and strengths in their rush to modernize.

When agents do this, they become frustrated, Mr. Holgate said, and begin to stop doing the things they do well.

He said his consulting firm has adapted its operations to allow for

an agency's individuality. He explained that in the past, he or his associates recommended one course of action to an agent seeking a more-efficient operation. Now, he said, if the agency is uncomfortable with that suggestion, the consultants work with the agent to find a suggestion he can live with.

"Now we are tailoring our consulting program to provide answers

agents like," he said.

But, Mr. Holgate said, there are several common problems plaguing agencies, and agents should take action to remedy them.

For example, he said agents have a problem if:

- Their agency has a computer with a word processing and/or a rating function, and those functions are not being used.

- They do not know how much work comes into the agency and how much is left uncompleted at the end of the week.

- Their agency's personal lines customer service representatives are not obtaining at least two expiration dates per day from incoming telephone calls.

- They are still dictating or hand-writing letters and proposals

for accounts generating less than \$10,000 in annual premium.

- Their agency has not considered automating policy issuance and direct billing of small commercial accounts.

- Their agency does not have a financial and operational plan.

And, he said, agency principals are making a serious mistake if their producers are working on salary rather than on commission.

"This is the second-worst thing I have ever seen in an agency," he stressed. "The worst thing I've seen is an unmanaged salaried producer."

"If a producer is on salary by choice, he or she has no confidence in his or her sales ability."

If employees are working on salary, Mr. Holgate recommended setting up a work distribution center.

"Mail should be bundled in packages of 10," he said, and placed with the supervisor so the employee can only pick up additional work after completing the last bundle, and the supervisor can tell who is doing how much work. This makes employees more accountable.

"With no accountability, you are rewarding the bad performers by giving more work to the best performers," he explained.

Mr. Holgate also said employees must know when they are eligible for their next raise, what the raise will be based on and the maximum amount they will be able to make in their current job or in other jobs in the agency.

"The biggest complaint of employees is that they don't know what is expected of them," he said.

Employees should know how they can grow in their jobs or they will be dissatisfied, he said. Dissatisfaction lowers performance levels and causes turnover.

He added that money is the primary reason people work, and the agency owes it to its employees to "take the mystery out of money. Let the people know how they can earn their money," he urged.

Mr. Holgate said another major problem agencies face is that "30% to 40% of the time you pay employees for is wasted time. You must eliminate wasted effort to improve the productivity of employees."

Much of the wasted time is not the fault of the employees, he explained, but is caused by poor office procedures over which employees have little or no control.

For example, he said, phone messages are a major time-waster. "Messages are a mess—a very costly mess. For every message taken, it takes an average of 2.9 calls to get that person back."

"Messages cause extra work and very upset customers. If you can get your receptionist to answer the phone properly you won't need to take messages," he added. Calls should be given to another available producer if at all possible.

Poor filing is another problem, he said, if the agency employee can't find the necessary file and has to call a prospect or client back.

Producers often waste a customer service representative's time by getting incomplete information from a client or prospect during their visit, he noted.

"Producers should get complete information for bound coverages and not come back to the agency and turn the information they have over to employees, who then have to call back the person," he said.

All agencies should use target marketing, he suggested, rather than a shotgun approach.

By concentrating on particular lines of business for which the agency has already found an insurer, an agency can avoid having to look around for an insurer.

"You can save yourselves a lot of work internally," he said. ■

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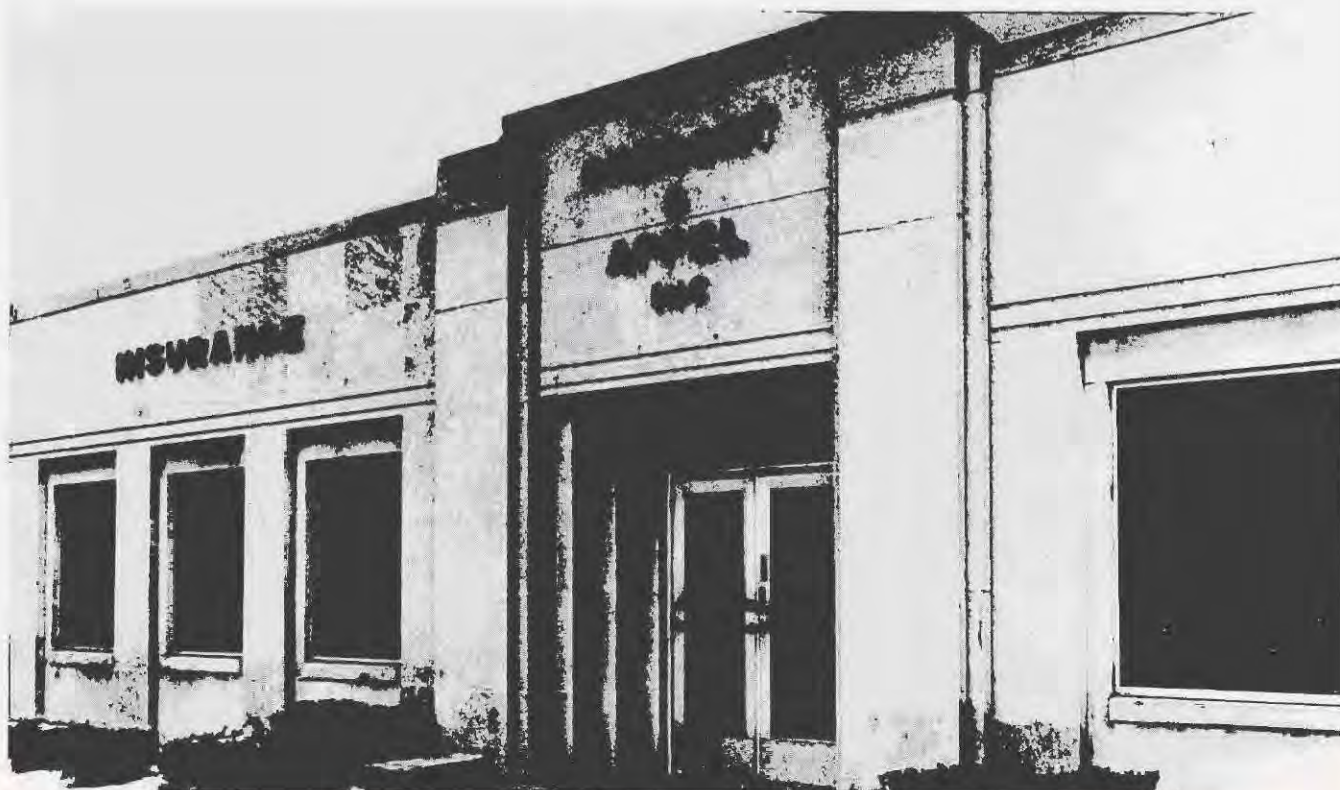
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Telemarketing can ring up big profits: Expert

By LINDA J. COLLINS

WALT DISNEY WORLD, Fla.—Agents can no longer rely on the traditional sources of new business, “relatives, referrals and renewals,” a marketing expert says.

Instead, they should look to telemarketing, Lisa Fleishman, marketing coordinator for Crowder Insurance Inc. in Tampa, Fla., told agents at Insurance Marketing Service's 12th national convention.

The first step, Ms. Fleishman said, is to establish a telemarketing department. She said the department's responsibilities should include determining a target market, generating leads, getting the expiration dates of prospects' existing policies, setting appointments, direct mail activities and reporting to sales management.

Deciding what market to target is an important first responsibility of the department, she said, adding that in the current competitive marketplace, “the ‘shotgun’ approach to prospecting will become far more expensive and ineffective than in previous years.”

The agency should begin its target marketing effort with a clear understanding of the insurer's underwriting concerns for that market and should convey those concerns to its staff, she said.

The agency should then establish a minimum commission for each commercial line account to make sure those accounts are profitable.

Before target marketing a new product line, she suggested the agency examine its potential customers for leads, using its current prospect base, its customer base, company leads and lists purchased through outside sources.

Ms. Fleishman gave agents a formula for determining how many leads the marketing coordinator must pursue each week to set enough new business appointments for each producer.

First, she said, the agency must list all its producers. Ms. Fleishman said each full-time producer should be able to handle six new business appointments per week, part-time producers can handle three appointments, and principals can handle one. These figures should be added together to determine the total number of appointments the marketing coordinator should schedule each week.

Next, the agency should determine the marketing coordinator's average rate of success at setting appointments. The total number of appointments needed should then be divided by the success rate.

Ms. Fleishman said the average coordinator has a success rate of 65%. So if, for example, the agency has arrived at a target figure of 17 new business appointments per week, it should divide 17 by 0.65, the success rate. In this example, the result is 26.15.

The marketing coordinator “will not be able to use approximately one half of the ‘x-dates’ (on) file for any given month” for various reasons, Ms. Fleishman said, so this number should be doubled to get the average number of expiration dates needed to get the desired number of appointments.

According to the example, the marketing coordinator would need 52.3 expiration dates in order to yield 17 actual appointments.

Ms. Fleishman said this figure then should be divided by the marketing coordinator's average rate of success for obtaining expiration dates from prospects—which is usually 80%. So, in the example, the agency should divide the 52.3 necessary expiration dates by 0.80. That comes to 65.38, or the number of prospects that must be contacted by the marketing coordinator each

week to obtain the necessary number of expiration dates.

She said this figure should again be doubled, “because several of the businesses (the marketing coordinator) will be calling on will not qualify as potential prospects.”

The final figure reached is the number of leads the agency must generate each week to arrive at the desired number of appointments.

Ms. Fleishman said that an agency following this formula actually will get more than enough leads, so it can target the most-desirable.

After the agency determines the number of leads needed to schedule enough producer appointments, Ms. Fleishman said the agency should check with a reliable marketing source to see if enough busi-

nesses exist in the agency's territory to support its producers.

She said the agency should determine the average percentage of its appointments that result in quotes. “Fifty percent is a very realistic and attainable goal.”

Of the accounts that the agency has targeted to quote, it should strive to write approximately one-third, Ms. Fleishman said.

Ms. Fleishman also gave suggestions for calling prospects to obtain expiration dates. She said the telemarketer should ask for the business owner. If the owner cannot be reached, the telemarketer should speak to the bookkeeper, she said, because bookkeepers have insurance information and will more readily give out expiration dates.

The only information the tele-

marketer is after on the initial call, she said, is the prospect's expiration dates. But, the telemarketer should ask prospects if they want a quote from the agency. She said this makes the prospects think they have discouraged the telemarketer, and they are more likely to give the expiration dates to get the telemarketer off the phone.

The dates then can be filed in the agency's computer, to be recalled about 100 days beforehand.

Ms. Fleishman said: “After obtaining the x-date, every prospect gets a letter thanking them for their time and saying, ‘Sorry we couldn't help you now. We will be in touch before your policies renew.’”

If the agency can't get the business the first time the prospect's policies

come up for renewal, it should try again the next year, she added.

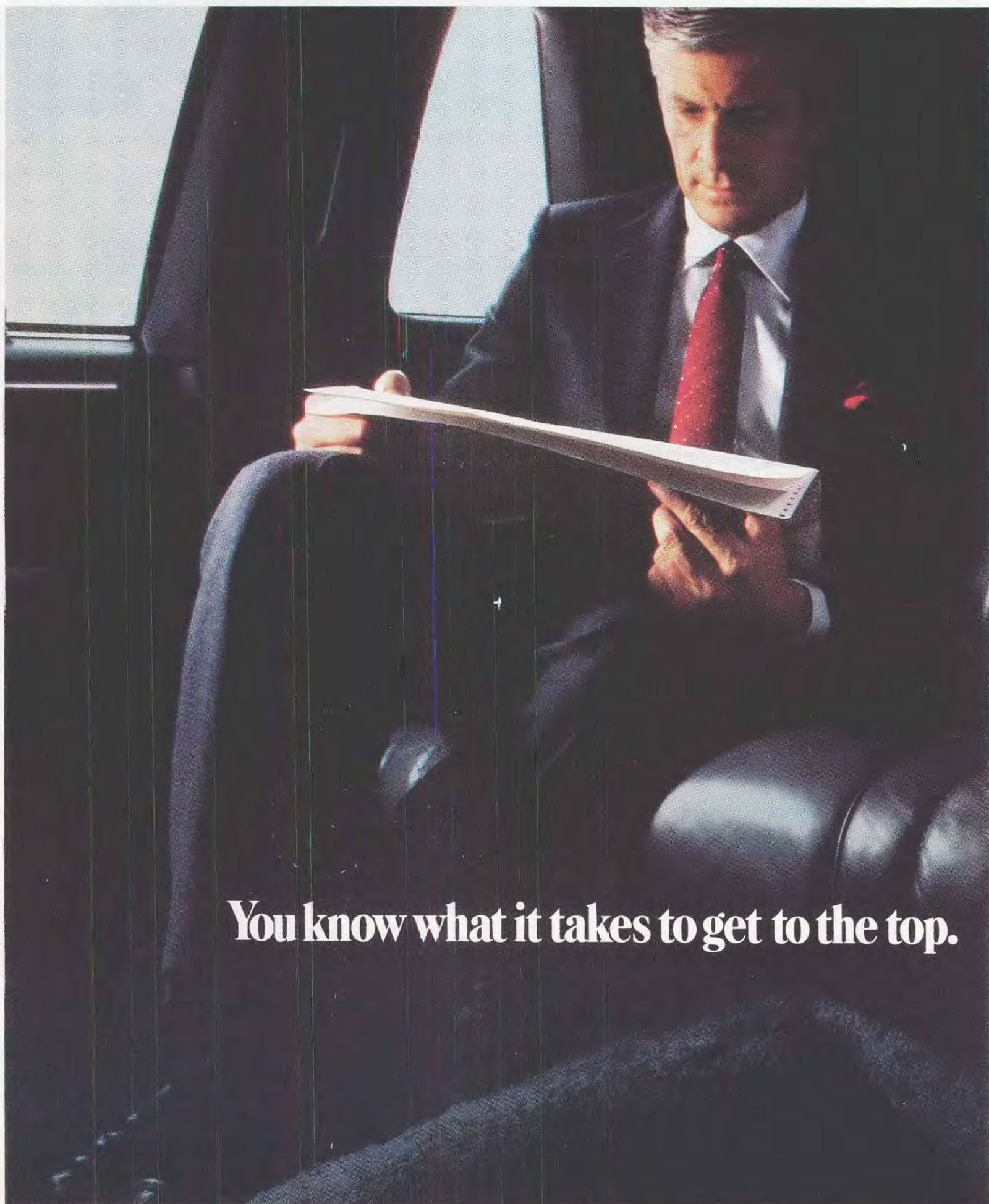
She said that, to avoid burnout, telemarketers should not make calls for more than four to 4½ hours a day. She suggested the following calling schedule:

- Monday: No calls. Prospects do not want to be bothered on Mondays, she explained.

- Tuesday through Thursday: Calls from 9:30 a.m. to 11:30 a.m. and from 1:30 p.m. to 4 p.m.

- Friday: Calls from 9:30 a.m. to 11:30 a.m. Prospects should not be bothered on Friday afternoons, when they are preparing to leave for the weekend, she said.

She said research has shown this schedule is the most effective, both for obtaining expiration dates and for scheduling appointments. ■



You know what it takes to get to the top.

Marketing called vital to agent survival

By LINDA J. COLLINS

WALT DISNEY WORLD, Fla.—A successful marketing approach is the key to the success of an independent agency, a consultant says.

"The purpose of an agency is to create and retain customers. This is accomplished through marketing," Bill Keeler, executive vp of Insurance Marketing Services in Santa Monica, Calif., told agents at IMS's 12th annual convention.

He said direct writers, who have been consistently gaining personal lines market share from independent agents, "will soon top out on personal lines. To get new business, they will turn to the commercial lines 'mom and pop' shops" that represent the bulk of many agencies' business.

Mr. Keeler said the main advantage these direct writers have over independent agents is their image in the minds of consumers, which has been created and reinforced through advertising. So, he said, agents need a solid marketing campaign to compete.

"Marketing is the thinking behind the sale," he said. "The main objective of marketing is to sell more products and to build a positive image in the marketplace."

He said the seven main ingredients of a successful marketing program are:

- Research.
- Product line evaluation.
- Advertising.
- Direct mail.
- Telemarketing.
- Agency brochures.

• Sales discipline.

Research can be conducted through focus groups, interviews with clients or questionnaires, Mr. Keeler said. The agency should collect data on the needs of its customers and prospects, and then base its marketing strategy on that research.

"The object of everything we do is to learn from the customer and to make the product better."

Everyone at the agency should be trained to find out what products the customers have and what they think of the agency, he said.

Product line evaluation also is essential, Mr. Keeler stressed.

"Put your products under a microscope and find out where you want to be in a couple of years. You must think in terms of, 'What prod-

ucts are out there and what should I be marketing?'"

He suggested that an agency establish a formal, ongoing product review system "to decide whether to put more dollars behind a product, or whether to leave a product as is or even to consider dropping an unsuccessful product."

And, he said the agency should consider adding new products, like life insurance products or financial products such as Individual Retirement Accounts or Keogh plans.

Advertising is crucial to the success of a new or existing product, Mr. Keeler said.

"Keep in mind that your budget will determine which media you should use," he said. "Whatever you choose, you must be visible and consistent, or else it is wasted."

Television advertising is expensive, but it may be feasible, especially on a local basis, he said. Cable television is good target marketing.

Possible print advertising media include newspapers, the Yellow Pages and billboards. Also, an agency can target a specific industry by advertising in trade publications, he said.

Radio advertising is good for target marketing, easy to produce and inexpensive, he said.

"It doesn't need to cost anything to produce a radio ad," he explained. "You can write a script, and the announcer will read it."

Newsletters for clients and prospects are also inexpensive and enhance the agency's image, he said.

With the possible exception of radio scripts, Mr. Keeler advised hiring professional advertising people to design their programs.

And, he suggested, test out the ads on the agency staff. If agents find an ad offensive, "it probably is," he said. "It doesn't have to be complex—keep it simple."

Above all else, an advertising campaign should be consistent, both in its content and in the agency's commitment to it, he said.

Direct mail and telemarketing can be effective tools, especially used together, he said.

Mr. Keeler suggested direct mailings be sent once a month. Telemarketing makes direct mail three to five times as effective, he said.

Direct-mail letters should be simple and straightforward, not gimmicky, Mr. Keeler said. And, he said, "First-class mailings increase the response level about 18 times. But, if you can't afford first class, go bulk." Response cards also increase returns, he added.

Brochures are an agency's calling card, he said. "They set a tone and look for everything else you do...but less than one-half of the agencies in the country have them."

He said that brochures should have a simple, clean design; crisp copy that avoids the use of insurance jargon; and a clean layout. They should focus on the agency's background and its principals, its product line, its service and its philosophy.

Color adds to the credibility of a brochure, Mr. Keeler said, but they should be subdued and coordinated.

The final marketing area Mr. Keeler discussed was sales discipline. "First you have to pick the right candidate (for the sales position). Second, you must train him or her properly," he advised.

"Third, you need to arm him or her with the proper sales tools. Fourth, and most important, you must set up a definite sales system. The last step is to review the sales of each salesperson every month."

To give producers the proper sales tools, an agency should pinpoint its specialty areas in commercial lines and target prospects in those lines, he said. Agencies also must stress total-account selling, or selling all a client's coverages, to personal lines clients.

Sales training can be provided in-house, through local schools or association-sponsored programs, or through seminars conducted by outside organizations, he said.

Mr. Keeler said agencies should separate sales from service, perhaps through implementing a sales-center concept. And, he said, they should maintain a disciplined sales force that submits weekly production reports.

He also suggested principals meet with sales staff at the beginning and the end of each week.

"Remember, without a well-thought-out marketing plan, many organizations will flounder." ■

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Expert details steps in business planning

By LINDA J. COLLINS

WALT DISNEY WORLD, Fla.— Setting up a successful business plan is a two-step process, says Kathleen Pasley, president of Market Planning Group in Boston, an agency marketing and planning consultant.

She told agents at Insurance Marketing Services' 12th national convention that the first step is to assess "where you are now."

She said this entails "an overview of your agency's current situation," including analyzing costs and productivity, interpreting financial results and evaluating market and marketing performance.

Ms. Pasley said the measures of productivity include commission income per employee, commission income per producer and commission income per principal. Costs are measured through office and general expenses and sales expenses.

She said agencies should annually "make an objective comparison of your performance with other agencies of a comparable size," using data available from consultants, the results of publicly held brokers or surveys by the Independent Insurance Agents of America in New York or Rough Notes Co. Inc. in Indianapolis.

The agency should use the latest four years of balance sheets and income statements to calculate its financial ratios annually, she said.

The agency's actual ratios can then be compared to benchmarks established by outside entities, like the agency's banker or accountant, or Ms. Pasley's firm. Areas to analyze are liquidity, collections, leverage and profitability.

To evaluate its markets, an agency should look at its trade area objectively, identifying problems and opportunities by compiling demographic data on its area.

Marketing performance can be measured through market share, market growth, the available mix of business and the average account size. Markets should be evaluated every two years, Ms. Pasley said.

After establishing where the agency is, the next step is to determine where it wants to be within the next five years, she said.

This involves setting sales goals, making projections of necessary personnel changes, evaluating insurers, and planning and implementing target-marketing efforts.

"Convert your premium volume goals into new account goals," Ms. Pasley told agents.

She said the agency should determine its five-year volume goal, treating personal lines and commercial lines separately. Then, the agency should estimate how much the average account size will grow and apply its historical attrition rate to arrive at a month-by-month new-business goal.

These goals should be: "specific, measurable, obtainable, deadlined, and committed to writing."

The five-year goals should be adjusted annually, she added.

After establishing these goals, the agency should assess its current staff to determine if any changes are needed, Ms. Pasley said.

She suggested time allocation charts be filled out by each employee, giving how much time they spend servicing, selling and managing; how much time they spend with personal lines and commercial lines; to whom they report and who reports to them.

Using this information, the agency should draw up an organizational chart. Sales goals and industry benchmarks can help determine hiring needs for the next five years. These goals should be updated annually, Ms. Pasley said.

Agents should then annually evaluate insurers, considering their service, marketing support, products, compensation and the agency's general opinion of them.

She said target marketing requires determining prospects and understanding the market.

"Know which are the growing markets" and "each market segment's hot buttons," she urged, adding the market situation should be re-evaluated every two years.

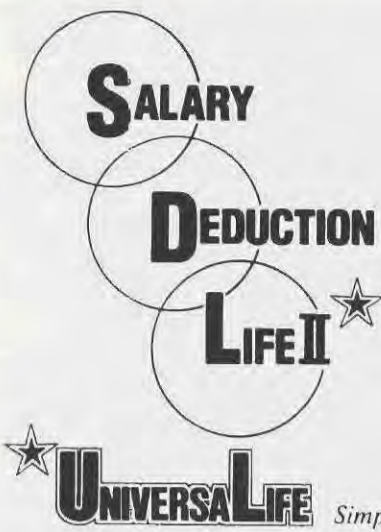
She concluded, "Planning is a little like diet and exercise. A lot of it depends upon you. You get out of it what you put into it."

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PIA means business.

Clustering provides strength in numbers

By LINDA J. COLLINS

WALT DISNEY WORLD, Fla.—Independent agents are finding that, in these days of increased competition, there is strength in numbers, experts say.

Agencies operating on their own are limited to their own resources. But, the agency cluster concept lets agents tap other resources without losing much independence, an agent and a lawyer involved in a cluster arrangement agree.

In a cluster, several agencies band together to deal with insurers and to handle paper work, but each retains its original ownership.

Cluster arrangements were discussed by William N. Anderson, president, and Robert Moir, general counsel of Total Insurance Services Inc. in Pontiac, Mich., the centralized servicing center for seven independent agencies. They spoke at the recent Insurance Marketing Services convention.

"Clustering and other (similar) approaches are new ideas in the industry. They require changes. It is a natural instinct of human beings to resist change," Mr. Anderson said.

Mr. Moir added: "The distribution system is changing or has changed, and those agents who resist that change will go the way of the milkman."

The number of insurers and independent agents will shrink in the future, and those that remain "will be tied together much more closely," Mr. Anderson predicted.

Mr. Anderson reminded agents that in addition to other agents, their competition includes direct writers, financial institutions, brokers and retailers.

And, he said, the relationship between independent agency companies and independent agents has changed considerably. Some insurers are now price-cutting, increasing volume demands, requesting higher contingencies and offering thinner agency support programs.

"We smaller guys were in the second tier, looking for a way to avoid the (agency) disappearance statistics," Mr. Anderson said, explaining TIS was founded by agents looking for ways survive.

First, they examined some existing methods of consolidating an agency's strength. But, they decided acquisitions were too expensive. Mergers were rejected because some agents inevitably would lose their autonomy in a merger.

They considered selling their agencies, but decided against it because "it was a buyer's market."

And, they concluded that automation wasn't the answer because it wouldn't make them "big enough, fast enough."

Finally, Mr. Anderson said, they landed on the cluster concept.

He said a smaller agency can realize several advantages by being part of a cluster: Each agency retains its book of business; each agency can continue to produce business in its own way; and the agency owner is able to hire other producers and buy other agencies.

The advantages of a centralized servicing center, he said, include a consolidated service staff, lower operational expenses and group advertising capabilities.

Cluster members gain leverage through volume, can attain higher commission levels and can gain access to more specialized products, Mr. Anderson added.

But, he cautioned, there are some disadvantages, including some loss of independence and the fact that more players slow down the decision-making process, he said.

"The meetings are time consum-

ing, and since the cluster is a democracy rather than a dictatorship, decision-making takes time."

Since forming the cluster, however, the agencies have reduced their print costs, improved their business balance and increased their average commission level, Mr. Anderson said.

All principals of the cluster agencies are shareholders in the corporate cluster. This requires a shareholders' agreement.

In addition, all member agencies have a service agreement with the cluster corporation's service center.

Mr. Moir said TIS also has begun offering a nationwide service to help set up cluster arrangements. ■

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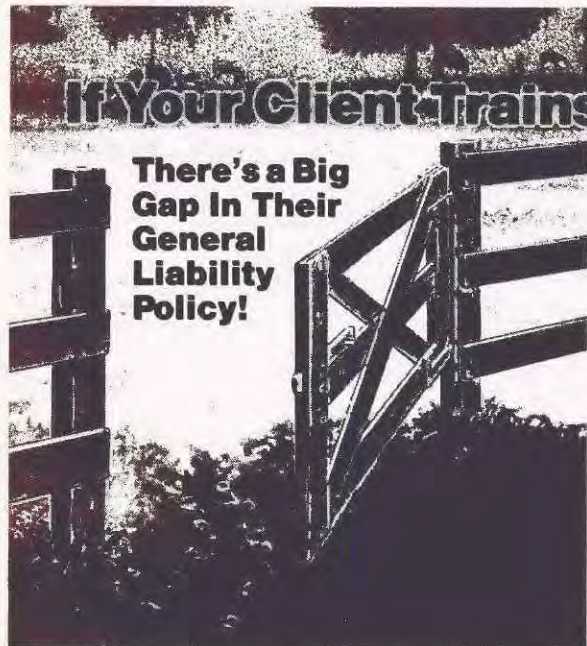
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a/bt info

- The National Assn. of Professional Insurance Agents has published the eighth edition of "Tax Problems Affecting the Operation of Insurance Agents," a **tax manual** designed to help insurance agents understand IRS rules for agencies. Topics include regulations affecting Individual Retirement Accounts, pension and profit-sharing plans, agency sales and purchases, tax shelters and deductions for agency business expenses. The 62-page manual costs \$5.95 per copy, with quantity discounts available. Contact the PIA's Marketing Department, 400 N. Washington St., Alexandria, Va. 22314; 703-836-9340.

- Results of a national study conducted by Rough Notes Co., Inc. on the **costs of running an insur-**

ance agency have been published in a new book, "1985: What It Costs." Data is presented for agencies with \$100,000 to more than \$7 million in annual premium volume. Average income by coverage line, expenses and profit are given in each of the eight categories of agency size. The study also gives miscellaneous information like the number of policies written, the amount of direct billed business, the breakdown of business by companies and the number of full- and part-time employees. Single copies of the book are \$15, and quantity discounts are available. Order from Rough Notes Co. Inc., 1200 N. Meridian St., Indianapolis, Ind. 46204; 800-428-4384.

- The Independent Insurance Agents & Brokers of California will begin distributing a **consumer newsletter for personal lines clients** to its members in June. The newsletter will address issues affecting California consumers, according to the IIABC, and it will be sent to members quarterly with the association's own newsletter, The Insider. Members can reproduce the newsletter on their own letterhead or order custom-printed copies for a fee from the IIABC, 465 California St., Suite 600, San Francisco, Calif. 94104.

- A new "Nebraska State Licensing Supplement" has been published by Pictorial Publishers to provide information on the specialized sections of **Nebraska's life, accident and health, and property/casualty insurance examinations**. The supplement concentrates only on the portion of the exam unique to Nebraska, including the most recent legislative changes, and has been reviewed by the Nebraska Department of Insurance. It includes a sample examination and answer key. The 115-page supplement is available for \$8.50 plus \$2.50 for shipping and handling from Pictorial Publishers, Department 410-8, 8081 Zionsville Road, Box 68520, Indianapolis, Ind. 46268.

- A brochure entitled "Building a Capital Base: A Guide to Personal Financial Planning," is available free from the International Assn. for Financial Planning. The booklet discusses the role of a financial planner, the benefits of having a financial plan, the educational facilities for **financial planning** and professional designations and licenses recognized in the financial services industry. The brochure also includes a glossary of financial terms. For a copy, write IAFFP, Suite 120-C, 5775 Peachtree Dunwoody Road N.E., Atlanta, Ga. 30342; 800-241-2148.

- A new booklet describes the "Insurance Services Office Inc.'s **New Commercial General Liability Program**," including why the program was designed as it was, how the occurrence and claims-made versions differ, and what agents, brokers and buyers should consider when choosing between the two versions. Single copies are available free from ISO, 175 Water St., New York, N.Y. 10038. For information on quantity orders, call 212-487-7714.

- A new listing of the **Insurance Information Institute's publications**, covering books, monographs, research reports, periodicals, leaflets, educational publications, filmstrips, slides and motion pictures, including prices and an order form, can be obtained by sending a self-addressed, stamped envelope to the III, Publications Catalog, 110 William St., New York, N.Y. 10038.

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N.Y. bank, broker sign deal to sell insurance

NEW YORK—Marine Midland Bank N.A. has contracted with a newly formed New York-licensed insurance broker, Mariner Group Inc., giving Mariner exclusive rights to market insurance products to the bank's customers.

Under the terms of the arrangement, Mariner Group is renting space in some bank branches throughout Marine Midland's Rochester, N.Y., region. The lease arrangement does not involve paying the bank a percentage of premium income.

Also, the brokerage is renting Marine Midland's customer list.

Initially, agents will sell insurance products directly only in Marine Midland branches in the Rochester region. Direct-mail and telemarketing efforts will be statewide. The bank has 292 branches throughout New York.

Mariner Group will use direct marketing, telemarketing and offices at bank branches to reach Marine Midland's customers. The brokerage firm will market personal lines life, auto and property/casualty insurance products. In addition, it will provide property/casualty and group life and health insurance coverages for small businesses.

Mariner Group will contract directly with insurance companies. The brokerage firm expects to employ 45 people initially.

According to Marine Midland, the agreement between the bank and Mariner Group "allows for the possibility of" the broker offering insurance products through Marine's correspondent banks.

Non-bank bank ruling

JACKSONVILLE, Fla.—A U.S. District Court judge, in response to a suit filed by the Independent Bankers Assn. of America against the U.S. Comptroller of the Currency C. Todd Conover, has issued a preliminary injunction restraining the comptroller from granting final approval for non-bank banks.

The comptroller, however, was not prohibited from issuing preliminary approval for non-bank banks.

Mr. Conover has appealed the court decision. In his appeal, he is attempting to limit the court's action to non-bank bank applications that are submitted in the state of Florida only.

Judicial intervention was initiated by the IBA because no action had been taken by Congress to close the loophole that allows the formation of non-bank banks, which could sell insurance.

Non-bank banks are institutions that can accept deposits or make loans, but not both.

The judicial action, although halting final approval of non-bank bank applications, does not eliminate the loophole.

In response to the injunction, the Federal Reserve Board has decided to stop approving applications from bank holding companies for non-bank banks, awaiting the outcome of the appeal.

Applications from bank holding companies go through the Federal Reserve Board after being approved by the comptroller.

PIA targets courts

ALEXANDRIA, Va.—The National Assn. of Professional Insurance Agents has adopted a resolution that makes civil justice reform a priority of the association.

The PIA is planning a public awareness educational program and a search for alternatives to provide society with an efficient and fair civil justice system.

To relate the association's concern to the public, PIA President William G. Bailey aired a 90-second broadcast over the BizNet cable television network in April, telling the public of the urgent need to reduce costs, both to businesses and insurers, of lengthy legal battles and large awards. Mr. Bailey emphasized that these costs ultimately will be felt by the public in the form of higher insurance premiums.

The message is scheduled to air again this month.

U.S., U.K. brokers meet

WASHINGTON—Representatives of the National Assn. of Insurance Brokers, the British Insurance Brokers Assn. and the Lloyd's In-

a/bt briefs

urance Brokers Committee met recently to discuss issues facing brokers worldwide.

Key topics of discussion during the meeting were current problems with insurer solvency and the state of the environmental impairment liability market.

Insurer plans growth

BASKING RIDGE, N.J.—Crum & Forster Personal Insurance is engaged in an aggressive expansion campaign. The insurer hopes to increase its premiums by up to 33% and appoint at least 400 new independent insurance agencies nation-

wide by the end of 1985.

CFPI has implemented a number of support programs to aid its independent agency representatives in their marketing efforts, such as target mailings, producer development activities and specialized selling materials.

LIMRA study

HARTFORD, Conn.—A study just released by the Life Insurance Marketing and Research Assn. shows that by the end of 1983, there were approximately 255,000 full-time agents deriving at least 50% of their income from life insurance sales.

This census was based on data received from more than 300 LIMRA member companies. Ordinary,

combination and multiple line exclusive agents were included in the survey.

PIA charity campaign

ALEXANDRIA, Va.—The National Assn. of Professional Insurance Agents, which has adopted the Special Olympics as its official charity, has launched a new public relations program to increase the involvement and visibility of its members in the Special Olympics, a program for handicapped people.

The public relations manual, which includes sample press releases, point of purchase displays, audiovisual presentations and a manual, is designed to help agents become actively involved in the Special Olympics program.

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MAY 21. Unisex Insurance Legislation Breakfast Panel in Chicago, sponsored by the Insurance Distaff Executives Assn.; \$14. Elaine Gamble, IDEA Breakfast Planning Committee, Chubb & Son, 222 S. Riverside Plaza, Chicago, Ill. 60606; 454-4435.

MAY 21-22. The 1984 Life Insurance Company Tax Changes—One Year Later seminar in New York, sponsored by The College of Insurance; \$495 for college sponsors; \$550 for others. Ronnie Kranis, Professional Development Programs, The College of Insurance, One Insurance Plaza—101 Murray St., New York, N.Y. 10007; 212-962-4111.

MAY 21-23. Industrial Fire School in Marinette, Wis., sponsored by Ansil Fire Protection; \$650. Also, **June 18-20, Aug. 6-8, Sept. 17-19 and Oct. 7-9**, all in Marinette. Sara Lambrecht, Ansil Fire Protection, 1 Stanton St., Marinette, Wis. 54143.

MAY 22-23. Fire Protection Systems workshop in Reynoldsburg, Ohio, sponsored by Mead Loss Control Consultants Inc.; \$275. Registrar, Mead Loss Control, Mead World Headquarters, Courthouse Plaza N.E., Dayton, Ohio 45463; 513-223-1300.

MAY 22-24. Hull and P&I Insurance course in New York, sponsored by The World Trade Institute; \$775; \$730 for additional registrants from the same company. Eunice Coleman, Program Manager, The World Trade Institute, One World Trade Center, 55W, New York, N.Y. 10048; 212-466-3170.

MAY 22-24. Michigan Society of Hospital Risk Management annual meeting in Traverse City, Mich.; free for members; \$100 for non-members. John Mucha, seminar chairperson, Henry Ford Hospital, 2799 W. Grand Blvd., Detroit, Mich. 48022; 313-876-2261.

MAY 23. Credit Enhancement Insurance workshop in Miami, sponsored by The Society of Chartered Property and Casualty Underwriters; \$95 for members; \$120 for non-members. Colleen Mulhern, Society of CPCU, Kahler Hall, Providence Road, Malvern, Pa. 19355; 215-251-2735.

May 23-24. Flexible Compensation 1985—Cafeteria and 401(k) plans conference in Washington, offered by the Employers Council on Flexible Compensation; \$375 for members; \$525 for non-members. ECFC, 1700 Pennsylvania Ave., N.W., Suite 600, Washington, D.C. 20006; 202-393-1728.

MAY 23-24. Perinatal Risk Management: Understanding and Preventing the Multimillion Dollar Claim seminar in Philadelphia, sponsored by the American Society for Hospital Risk Management and The Structured Settlements Co.; \$175 for ASHRM members; \$235 for non-members. Also **June 20-21** in Houston and **Sept. 30-Oct. 1** in San Francisco. Registrar, American Hospital Assn., Division of Education, 840 N. Lake Shore Drive, Chicago, Ill. 60611; 312-280-6083.

MAY 28-31. Reinsurance Accounting & Finance for Cedents & Assurers seminar in Crotonville, N.Y., sponsored by Robert W. Strain Seminars Inc.; \$1,245. Also **Sept. 3-6** in Crotonville. Registrar, Strain Seminars Inc., P.O. Box 1000, Wingdale, N.Y. 12594; 914-832-9384.

MAY 30-31. Association Type Captives conference in Grand Cayman, Cayman Islands, sponsored by the government of the Cayman Islands; prices range from \$765 to \$1,213, including registration and three nights of accommodations. Jaqui Mason, Captive Insurance Conference, Transnational Conference Centre, P.O. Box 69, Grand Cayman, Cayman Islands, British West Indies; 7-4666. Telex 4216 transit.

JUNE 2-5. 1985 National Operations and Automation conference in Dallas, sponsored by the American Bankers Assn.; \$555 for members; \$735 for non-members. Registrar, ABA Banker Education Network, 1120 Connecticut Ave., N.W., Washington, D.C. 20036; 202-467-6738.

JUNE 2-5. 1985 Corporate Benefits Management conference in Williamsburg, Va., sponsored by the International Foundation of Employee Benefit Plans; \$500 for members; \$575 for non-members. Also **Aug. 18-21** in Lake Tahoe, Nev. Registrar, IFEBP, 18700 Bluemound Road, P.O. Box 69, Brookfield, Wis.; 53005-0069; 414-786-6700.

JUNE 3. Michigan Surplus Lines Assn.'s educational seminar in Troy, Mich.; \$30 for members; \$35 for non-members. Thomas Bloom, president, Michigan Surplus Lines Assn., P.O. Box 3701, Troy, Mich. 48067-3701; 616-942-8000.

JUNE 3-4. Asset/Liability Management: Profitability and Risk in a Time of Change conference in San Francisco, sponsored by Peat Marwick and Darling & Associates; \$675. Also **July 22-23** in Boston. Registrar, Executive Education Department, 810 Seventh Ave., 28th Floor, New York, N.Y. 10019; 1-800-762-3932.

JUNE 4-6. Utilities Fire School in Marinette, Wis., sponsored by Ansil Fire Protection; \$650. Also, **July 30-Aug. 1 and August 27-29**, all in Marinette. Sara Lambrecht, Ansil Fire Protection, 1 Stanton St., Marinette, Wis. 54143.

JUNE 6-7. Quantitative Techniques for Risk Management seminar in Chicago, sponsored by The College of Insurance; \$495 for sponsoring participants; \$535 for all others. Also **Oct. 3-4** in New York. Registrar, Professional Development Programs Division, The College of Insurance, One Insurance Plaza, 101 Murray St., New York, N.Y. 10007; 212-962-4111.

JUNE 9-12. Risk Management '85. The Turning Tide conference in San Diego, Calif., sponsored by the Public Risk & Insurance Management Assn.; \$400 for members; \$325 for additional registrants from same company; \$450 for non-members; \$375 for additional registrants; \$220 for PRIMA government registrants; \$320 for non-member governments. Registrar, PRIMA, 1120 G

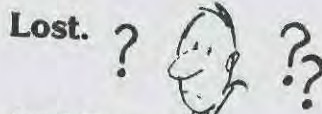
St. NW, Suite 707, Washington, D.C. 20005; 202-737-7556.

JUNE 10-14. Industrial Ventilation Fundamentals course in Los Angeles, offered by the University of Southern California; \$650. Registrar, University of Southern California, Institute of Safety and Systems Management, Office of Extension and In-Service Programs, Los Angeles, Calif. 90089-0021; 213-743-6523/6524.

JUNE 10-14. Loss Control Management seminar in Atlanta, sponsored by the International Loss Control Institute; \$695. Registrar, ILCI, P.O. Box 345, Loganville, Ga. 30249; 1-800-554-6001; 404-466-2208.

JUNE 11-13. Petroleum/Chemical Fire School in Marinette, Wis., sponsored by Ansil Fire Protection; \$650. Also, **June 24-26, July 16-18, Aug. 20-22, Sept. 10-12 and Oct. 1-3**, all in Marinette. Sara Lambrecht, Ansil Fire Protection, 1 Stanton St., Marinette, Wis. 54143.

The Datebook is compiled from notices sent to Business Insurance. Notices should be sent at least eight weeks in advance to Datebook, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611. Business Insurance reserves the right to select meetings of most interest to its readers and cannot guarantee that notices will be printed.



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New officers taking the helm of RIMS

NEW YORK—A slate of nine officers will join President P. Richard Hackenburg in guiding the Risk & Insurance Management Society during the next year.

At the annual RIMS convention last month in New Orleans, Mr. Hackenburg was elected president of the 35-year-old group, the world's largest organization dedicated to the advancement of professionalism in the field of risk and insurance management (BI, April 29).



Mr. Hackenburg

"Our society in the next year year, and the years ahead, will require strong leadership," Mr. Hackenburg said at the conference. "Leadership to continue to plan and implement those plans. Leadership to not be timid in changing directions when such a change seems indicated."



Mr. Mather

Mr. Hackenburg is staff vp and assistant treasurer-risk management and realty services at Allegheny International Inc. in Pitts-

Head injury costs rising, study shows

NEW YORK—Head injuries now account for a smaller portion of all workers compensation indemnity claims, but they are becoming more expensive and subject to longer durations of benefits, a study shows.

"We found the percentage of claims involving head injuries dropped slightly, but steadily," said David Appel, assistant vp with the National Council on Compensation Insurance, a New York-based rate-making and research organization.

For example, head injuries accounted for 3.9% of all indemnity claims during 1983, compared with 4.27% of indemnity claims in 1980, he said.

Claim information released in the NCCI survey was gathered from workers compensation claims filed during 1980 through 1983 in 10 states, he noted.

The decline in the number of head injuries can be attributed to the economy's shift toward the service jobs and away from manufacturing, he said.

"One wouldn't be surprised to find that with the change in the composition of the labor force... there would also be a reduction in workplace injuries associated with (manufacturing)," he added.

But, while the incidence of head injury claims is decreasing, medical and indemnity costs and the duration of claims are rising.

The average medical cost for a head injury jumped 70% during the study period to \$2,953, while other workers compensation costs averaged \$1,927 per injury.

And, indemnity costs for head injuries are also growing, Mr. Appel said. The study shows the indemnity costs for head injuries has increased to \$5,100 in 1983 from \$3,179 in 1980, he said.

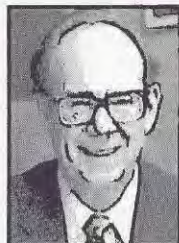
Durations for head injuries also are increasing, he said. The average duration rose to 13.6 weeks in 1983, up from 8.8 weeks in 1980. At the same time, duration of other temporary total has stayed the same at about 13.1 weeks, he added.



Mr. Bostwick



Mr. Stasch



Mr. Winans



Mr. Houston



Ms. Hawkins



Mr. Anderson



Mr. Heydinger



Mr. MacCorkle

burgh.

Other members of the new executive board are:

- First vp: William L. Mather, administrator of risk management at The Gillette Co. in Boston.

- Vp-member affairs and secretary: Arthur P. Bostwick, risk manager at Stone Container Corp. in Chicago.

- Vp-finance and treasurer:

Ronald W. Stasch, corporate risk manager at Federal Mogul Corp. in Detroit.

- Vp-business and industry liaison: Ronald M. Winans, vp of the administrative services group at J.R. Simplot Co. in Boise, Idaho.

- Vp-education: Daniel W. Houston, director of risk management and insurance at NCR Corp. in Dayton, Ohio.

- Vp-research: Cheri J. Hawkins, assistant director of insurance at Weyerhaeuser Co. in Tacoma, Wash.

- Vp-conference: Woodrow B. Anderson, operating vp-risk management at Federated Department Stores Inc. in Cincinnati.

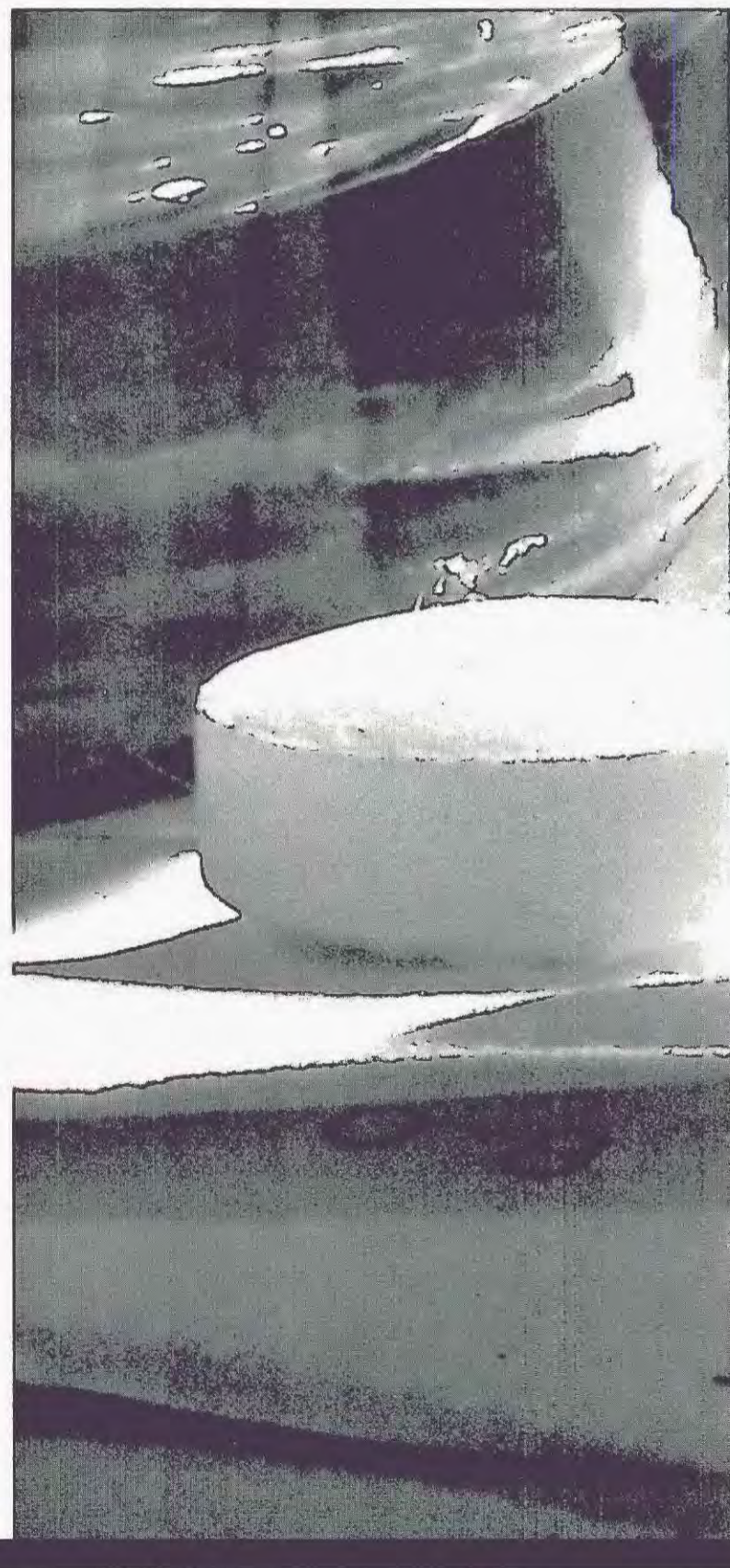
- Vp-governmental affairs: Richard Heydinger, risk management director at Hallmark Cards

Inc. in Kansas City, Mo.

- Vp-communications: Glenn A. MacCorkle, who is risk manager-planning and administration at United Technologies Corp. in Hartford, Conn.

Many of the officers held other positions on the board during the previous year. Mr. Winans and Ms. Hawkins were re-elected to their posts.

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NYNEX says new plan will cut health costs

Continued from page 3

plan also has a health maintenance organization option. In both programs, the more generous the coverage, the more expensive it is.

Under the current, traditional health care plan, employees pay only a small percentage of medical and dental costs, and there is no deductible for most procedures.

For example the company pays 100% of hospital room and board expenses, 95% of surgical expenses, 90% of charges for doctors' care while the employee is in the hospital, 90% of emergency treatment in a doctor's office, and 80% of all other expenses.

Deductibles of \$150 for individual coverage and \$450 for family coverage apply only to a few expenses, such as outpatient psychiatric treatment, prescription drugs

and private-duty nursing care.

The annual out-of-pocket maximum is \$1,150 per person, and there is no lifetime maximum on medical reimbursement for active employees or retirees.

The traditional plan is identical to the broadest—and most expensive—of the three medical plans offered through FlexPlus. The only difference is that post-retirement medical benefits are capped at \$250,000 under FlexPlus.

The least-expensive FlexPlus option applies a \$500 individual deductible and a \$1,000 family deductible to all medical expenses. In addition, it requires employees to pay 20% of all expenses over the deductible, up to an annual out-of-pocket maximum of \$1,500 for individual coverage and \$2,500 for family coverage.

Although there is no lifetime cap on reimbursement for active employees, a \$250,000 maximum is applied to expenses incurred after the employee retires.

The "mid-level" option applies a \$250 individual deductible and a \$500 family deductible to all medical expenses. After that, employees must pay 80% of all expenses up to out-of-pocket maximums of \$1,000 for individual coverage and \$2,000 for family coverage. This option also has no lifetime maximum benefit for active employees, but a \$250,000 lifetime cap for retirees.

In addition, NYNEX employees have the option of enrolling in one of more than 20 HMOs, and the company says it is planning to add more HMO options.

The company's current dental plan requires employees to pay life-

time deductibles of \$50 for individual coverage and \$150 for family coverage.

In addition to the deductible, employees pay expenses that exceed a set schedule of charges for various dental procedures. The plan pays up to \$750 per person, per year, for all expenses except orthodontia. The plan pays a lifetime maximum of \$1,000 for orthodontia.

The new dental program also offers high-coverage, medium-coverage and low-coverage options.

The low-coverage option pays 100% of routine examinations, X-rays and cleanings, up to a maximum of \$250 a year for each covered individual. All other charges are paid by the employee.

The medium-coverage option offers benefits and limits identical to that of the current plan.

The broadest—and most-expensive—dental option also covers various dental procedures. Following payment of the same deductibles in the medium-option plan, the plan pays expenses according to the schedule of charges, or it pays 75% of "reasonable and customary" charges, whichever is greater.

In most cases, the plan reimbursement is greater under the "reasonable and customary" payment schedule.

FlexPlus also offers life insurance options identical to those of the traditional plan. Employees receive company-paid life insurance equal to their salary. In addition, they may "buy" more life insurance, equivalent to up to two times their salary using their benefit dollars.

A 401(k) savings plan also will be introduced along with FlexPlus. Employees will be able to contribute up to 16% of their annual salary to their 401(k) accounts. They may make the contributions on a pretax basis, an aftertax basis, or a combination of the two.

And, the company will match the first 6% of all employee contributions at a rate of 67 cents on the dollar.

The company also has announced that employees who retire before the plan's effective date will be covered under the current, more extensive, health care plan in retirement; employees who retire after that date will be covered under the FlexPlus option they choose.

The spokesman said that, although the company is not looking to reduce its employee population by much, "(the announcement) will accelerate retirement, and that is not an altogether unwelcome phenomenon."

It is not known how many employees have decided to retire as a result of the plan changes, the spokesman said.

The company's insurers under FlexPlus remain the same as under its traditional plan. In New York, the Travelers Insurance Co. underwrites the company's medical and dental coverage, and Blue Cross of Greater New York underwrites its hospitalization coverage.

In New England, Blue Cross & Blue Shield of Massachusetts underwrites both the medical and hospitalization coverage and the Metropolitan Insurance Co. underwrites the dental coverage.

The NYNEX vision care plan, for which the employee does not contribute to the premium, and the company's pension plan are unchanged and are not affected by FlexPlus.

Transit Casualty shares distributed

LOS ANGELES—Beneficial Standard Corp., which is in the process of liquidating itself, has distributed 79% of its property/casualty subsidiary, Transit Casualty Co., to its shareholders as part of a liquidating trust.

The remaining 21% ownership of Transit Casualty was also distributed to shareholders as part of a limited partner interest in Beneficial Holdings, a California real estate limited partnership that will be publicly traded, said a spokesman for the firm.

In the meantime, said the spokesman, the firm is continuing its efforts to sell Transit Casualty, which has been on the selling block for more than a year.

Once it is sold, he said, proceeds will be distributed to Beneficial stockholders.

Beneficial said that Wednesday will be the last day its stock is traded.

In this era of widespread concern over the rising costs of health care, more and more employers are seeking help in their efforts to contain the costs of employee health programs. Provident Mutual is pleased to be among the first to offer a hospital review program especially designed to help you assist your clients in containing costs more effectively.

The purpose of Provident Mutual's **Pre-Admission Certification/Continued Stay Review (PAC/CSR) Program** is both simple and logical: to reduce claim costs *before* they are incurred. Our PAC/CSR Program is designed to help eliminate unnecessary medical and hospital expenses — without sacrificing the quality essential to thorough, effective health care.

Our **Pre-Admission Certification** process examines all potential hospitalizations to ensure that only those that are truly necessary occur. Through our **Continued Stay Review**, your clients will be assured that the length of each hospital stay is appropriate to the diagnosis and treatment involved — and that hospital room and board and other miscellaneous expenses are kept reasonably controlled.

Don't let your group clients suffer the nagging pain of uncontrolled employee health care costs. For effective relief — and a cost containment prescription that will earn you thanks — just call one of our Group Offices listed below.



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Allendale names Carey chief executive officer

John J. Carey has been elected chief executive officer of Johnston, R.I.-based Allendale Mutual Insurance Co. and its subsidiaries. Mr. Carey, 56, succeeds **George R. West**, who remains chairman of the board.

Mr. Carey joined Allendale Insurance, a Factory Mutual System member, in 1979 as senior vp-administration. A year later, he was named senior vp-regional operations. In 1981, he was promoted to executive vp, and in 1982 he was named president and chief operating officer.

Mr. Carey joined the Factory Mutual System in 1954 as a sales representative for Arkwright-Boston Manufacturers Mutual Insurance Co. Before joining Allendale, he worked for FM Insurance Co. Ltd., the London-based international subsidiary owned jointly by Allendale and two other FM member insurers.

Other insurer changes:

James W. Newman Jr. named vp for regulatory policies at CIGNA Corp. in Philadelphia. Mr. Newman previously was senior vp of policy development and research for the American Insurance Assn. in New York.

William Carey Mattox named a vp of The Equitable Life Assurance Society of the United States in New York. Mr. Mattox, who joined Equitable in 1979 as director of federal legislation, is responsible for coordinating Equitable's federal government relations and managing the company's legislative offices in Washington.

comings & goings: industry

James J. Cutro Jr. named senior executive vp of Crum & Forster Inc. and Crum & Forster Corp. in Morristown, N.J. Mr. Cutro, who joined C&F in 1969 and most recently served as executive vp, will continue to be responsible for administration in the areas of information services, personnel, real estate and corporate communications.

William E. Buckley Jr. named chairman and chief executive officer of U.S. Insurance Group, a unit of Crum & Forster in Morris Township, N.J. Mr. Buckley, who had been senior vp at USIG succeeds **William S. Price**, who has been named executive vp-field operations at Crum & Forster Corp.

Jack R. Powell named vp in charge of liability claims at Industrial Indemnity Co. in San Francisco, a Crum & Forster unit. Mr. Powell joined Industrial Indemnity in 1976.

Michael R. Mitchell named vp-underwriting at Westchester Fire Insurance Co. in Basking Ridge, N.J., another Crum & Forster unit. Mr. Mitchell, who joined the company in 1983, previously was assistant vp-business development.

And, **Amedee Freund** named regional vp of Westchester Fire Insurance Co. in Lubbock, Texas.

Dennis Arnold joined Los Angeles-based Transamerica Insurance Co. as senior vp and head of the company's new specialty division. **Dante Vincente**, who had been vp of underwriting, becomes a Transamerica senior vp. And, **Elmo Aghabeg**, who had been underwriting assistant vp, becomes vp of casualty underwriting. Also promoted from assistant vp were **Jerome Stone**, to vp of casualty claims; **William Slothour**, to vp of property claims; and **Willard Heard**, to vp of planning.

Thomas A. Mack named president of Employers Life Insurance Co. of Wausau, a subsidiary of Wausau Insurance Cos. in Wausau, Wis. Mr. Mack, who joined Wausau in 1962 as an investment analyst, previously served as senior vp-risk management systems.

David R. Cole named president of Illinois State Medical Insurance Services Inc. in Chicago, the management arm of the Illinois State Medical Inter-Insurance Exchange. Mr. Cole previously served as senior vp and member of the board of directors and executive committee of The National Property Owners Insurance Co., based in Nashville, Tenn.

R. Blinn McClelland named senior vp of Industrial Risk Insurers in Hartford, Conn., with responsibility for production and underwriting of oil, gas and petrochemical classes as well as overseas business. Mr. McClelland most recently was vp.

Bruce A. Lerner named vp-field operations at The Home Insurance Co. in New York. Mr. Lerner, who joined The Home in April 1981, previously was an assistant vp.

Also at The Home, **Ronald C. Pines** named vp in charge of the company's petrochemical property underwriting. Mr. Pines, who joined The Home in 1982, previously was an assistant vp.

Michael C. Caruso named vp-underwriting field management at Reliance Insurance Co. in Philadelphia.

Mr. Caruso, who has been with Reliance since 1975, most recently was assistant vp.

John G. Di Liberto named director of field claims operations at Utica Mutual Insurance Co. in New Hartford, N.Y., principal member of the Utica National Insurance Group. Mr. Di Liberto, who joined Utica National in 1983, most recently was assistant vp.

Reinsurance

Richard W. Grabowski named vp and branch manager of RFC Intermediaries Inc.'s Hartford, Conn., office. Mr. Grabowski, who joined RFC in 1983, will assume overall responsibility for casualty/property facultative reinsurance.

Michael Mutascio named vp at Aneco Marketing Co. Ltd. in Philadelphia, a subsidiary of Bermuda-based Aneco Risk Management Ltd. Mr. Mutascio formerly was a vp at American International Group Inc.

Richard Di Clemente joins Agnew International Inc. in New York as vp of domestic facultative operations.

Jeffrey J. Hanson promoted to vp at H.A. Enan & Co. Ltd. in San Bruno, Calif. Mr. Hanson, who joined the firm in 1980, will continue his administrative obligations for treaty technical accounting.

Thomas C. Painter named vp of casualty underwriting at Sierra Reinsurance Services Inc. in San Francisco, a subsidiary of Old Republic International Corp.

Michael F. Gregorio joins J.L. Kelley Inc. Reinsurance Intermediaries in Franklin Lakes, N.J., as vp.

Other suppliers

Madeline S. Schneider named executive vp at Liaison Inc. in Dallas, a rehabilitation consulting organization. Ms. Schneider previously was vp.

Booke & Co., a Winston-Salem, N.C. benefit consultant, has made several executive changes. **Sam L. Bookey Jr.**, president, named chairman of the board and chief executive officer. He succeeds **Charles M. Beardsley**, who continues with the firm as vice chairman of the board. Succeeding Mr. Book as president is **Donald C. Ingram**, who has been executive vp and head of the firm's employee benefits consulting division. Promoted to executive vp are **Merwyn A. Hayes**, president of Hayes & Associates, the firm's human resource management and training subsidiary, and **Roger L. Vaughn**, who is in charge of retirement plan operations.

Also in Booke's Winston-Salem office, **R. Lindsey Leonard** named vp in the defined contribution division; **Michael D. Schachet** named vp in the employee benefits division; **Barbara P. Miller** named vp of Booke Communications; and **Terri W. Vaughan** named vp of the technical support group.

In Booke's Charlotte, N.C., office, **Constance L. Tricebock** named vp of McNeary Insurance Consulting Services Inc., Booke's property/casualty/risk management consulting arm. And, in the Columbus, Ohio, office, **Charles C. Patton** promoted to vp. Mr. Patton joined the company in 1982 and had been an assistant vp.

George E. Herchenroether joined Buck Consultants Inc. in New York as director of client sys-

Continued on next page

CAYMAN ISLANDS

ASSOCIATION TYPE CAPTIVE INSURANCE COMPANY SEMINAR

29TH, 30TH AND 31ST MAY 1985

The insurance market is undergoing great changes. Almost weekly we read of another merger—another withdrawal or (less often) another liquidation.

The market is now more unpredictable than ever before. Very few customers can be certain that their renewals will proceed as smoothly in 1985 as they have over the last few years.

As never before in the past decade, for very obvious reasons, the open insurance market is indicating its determination to underwrite for profit.

Basically, this can only be achieved by swinging rate increases on future renewals, and by charging much higher premiums on new business.

Reinsurance underwriters are sustaining even larger losses than the direct writers, and will become even more selective as to which classes of business—and the type of treaty—they choose to reinsure. It is probable they will require ceding companies to demonstrate faith—utmost good faith—in the business being ceded, in part by increased retentions.

A long term solution to these changing conditions **worthy of consideration** is the Association or Group or Agency 'Captive Concept'. Subject to them being established in the most advantageous format for the intended participants, and being properly managed and maintained—they can be of great benefit to clients—producers—agents and reinsurers.

This Seminar will cover all the basic aspects of the Group Captive Concept. All of the panel members are day to day practitioners in this section of the insurance market, and it is the intention of the seminar to impart sufficient information to delegates to enable them to have a clear and concise understanding of who should participate in a Captive, and how they can best be utilised for the benefit of all concerned.

Seventeen experts—all from the U.S.A. or the U.K.—will be giving presentations and answering questions.

Speakers will cover each aspect of (a) the concept, (b) the creation and (c) the care of a Captive.

Each days presentations will be followed by a panel discussion and questions from the floor covering the days presentations.

Full programme details will be mailed to participants during the first week of May. This will include notes concerning each speaker, his subject, speaking time and in which question panel they will participate. This will enable delegates to arrange their own timetable in advance.

Representatives from the Island—including Underwriting Managers—Accountants and Lawyers will be available for consultation throughout the Conference.

Airlines

The national airline—Cayman Airways and the US carrier Republic Airlines connects the Island to the US mainland. Cayman Airways with their 727's fly direct to Miami and Houston. Republic using DC9's flies direct to Miami and then on to Atlanta and Minneapolis.

There are two daily flights to and from Miami by both carriers. The flying time to Miami is 65 minutes.

Price per Delegate is US\$450. This includes all conference material, all refreshments (including lunches), Reception Cocktail Party and Closing Gala Dinner.

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The Conference is being organised jointly by the Cayman Islands Government Insurance Dept. and the Transnational Conference Centre.

Continued from previous page
tems/services. Mr. Herchenroether had been director of marketing for a financial services software and microcomputer company.

Louis C. Kleber joined Advance Retirement Systems Corp. in Thousand Oaks, Calif., as vp. Mr. Kleber had been a consultant for an international audit, tax management consulting firm.

Robert B. Spratt promoted to executive vp at Scott Wetzel Services Inc. in Bremerton, Wash., a provider of claims administration, loss control and statistical services.

William K. Krisher joins Milliman & Robertson Inc. in Seattle as a consulting actuary. He most recently served as a senior vp at Connecticut Mutual Life Insurance Co.

William B. Lichtig joined Yeager and Co. Inc. in Southfield, Mich., as vp of group health operations. He will be responsible for self-funded employee benefit programs.

W. Rodney Smith joins Risk Strategies Inc. in Darien, Conn., a new risk management and insurance consulting firm. Mr. Smith most recently served as a vp and principal of Tillinghast, Nelson and Warren Inc.

Several management changes have been made at New York-based benefit consultant Martin E. Segal & Co. **Phil E. Davidson**, senior vp, named head of the San Francisco office. Mr. Davidson, who joined Segal in 1972, succeeds **Berton Jacobson**, who will continue as a benefit consultant and adviser. **Samuel L. Jenkins**, senior vp and head of the company's Denver office, has also been named regional manager of the North-western Region. Mr. Jenkins, who joined Segal as a benefit consultant in the Phoenix office in 1962, has served as a senior vp of the Western Region. **Maurice Cazaubon**,

senior vp and head of the New Orleans office, has also assumed responsibility for managing the Southeast Region. **Clark Yaggy**, vp, will head the company's Atlanta office.

Thomas S. Petcoff named president and chief operating officer of Summit Consulting Inc., a Lakeland, Fla.-based administrator of self-funded workers compensation and health insurance coverage. Mr. Petcoff was one of the founders of the company, which was formed in 1977.

Robert F. Mastroberti named senior vp of New York-based Underwriters Adjusting Co. and president of United States P&I Agency Inc., UAC's marine liability claims adjusting affiliate headquartered in Piscataway, N.J. Mr. Mastroberti, who has been with the company since 1960, most recently was vp.

Agents/brokers

Bernard A. Basgall joins Fred S. James & Co. of Illinois in Chicago as vp. Mr. Basgall previously was an executive vp at G.A. Mavon & Co.

Ronald D. Pennebaker named executive vp and manager in the Philadelphia office of Fred S. James & Co. Inc. Mr. Pennebaker, who joined James in 1965, had been senior vp and manager of special accounts/sales and service.

Also at James, **James R. Parry** named president of Fred S. James & Co. of Michigan in Detroit. Mr. Parry, who joined James in 1978, most recently was an executive vp.

And, **Richard E. Haines** named vp of the Financial Products Group in the San Francisco office of Fred S. James & Co. Inc.

Raymond S. Sheldon named vp in the risk management unit at Marsh & McLennan Inc. in Seattle. He joined the Seattle office in 1980.

James A. Richmond named chief executive officer and president of Brandow Howard Kohler & Rosenbloom Inc. in Minneapolis. Mr. Richmond previously was senior vp of operations at Hospital Shared Services Inc. of Chicago.

James P. Bayne joins Rollins-Burdick Hunter of Oklahoma Inc. in Oklahoma City as vp. Mr. Bayne most recently was a broker and manager of John Lloyd & Co. Inc.

Industrial Indemnity Financial Corp. in San Francisco, a unit of Industrial Indemnity Co., has named two new senior vps. **John F. Cosgrove** will head the newly formed Contractor Financial Services Group. **Timothy C. Freestone**, who joined IIFC in 1981, will head the Capital Markets' Group.

Excess/surplus

Ron Wartick appointed president and chief executive officer of John H. Crowther Inc., the Minneapolis-based subsidiary of Swett & Crawford Group. Mr. Wartick, who joined Crowther in 1976, most recently was vp of operations. He succeeds **Douglas H. Crowther** and **David W. Crowther**, who have resigned.

Gary G. Kubesch named president of Tower Special Facilities, a division of Fiduciaries Inc., a Pewaukee, Wis., wholesale broker. Mr. Kubesch formerly was vp-marketing at Tower Insurance Co. Inc. ■

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Retirees sue Armco to keep health benefits

By JUDY GREENWALD

MIDDLETOWN, Ohio—Armco Inc. retirees are taking their former employer to court in an effort to keep their current medical benefits intact.

The suit, filed in U.S. District Court in the Western District of Pennsylvania, was sparked by Armco's intent to overhaul its post-retirement medical benefit plan. Retirees were asked to choose between making premium contributions to maintain current benefits or switch to a new, lower-cost comprehensive medical package.

Armco, which had intended to implement the plan changes on Jan. 1, has delayed action pending resolution of the suit.

The retirees are suing to maintain their current health benefits without having to make premium contributions. They also are seeking compensatory damages and attorneys' fees.

The retirees' attorneys are now seeking to have the case declared a class-action suit on behalf of the 11,685 union and non-union retirees and spouses of living and deceased retirees who would be affected by the change in the medical plan.

According to papers filed with the court, Armco does not object to

classifying the case as a class action, but has asked that the retirees be divided into several subclasses based on whether they were union members; what union they belong to; and the date of their retirement.

Michael A. Karaffa, one of the attorneys representing Armco retirees, said the two sides may attempt to reach an out-of-court settlement on how the class should be formed.

Armco officials would not comment on the case.

The comprehensive plan Armco had planned to offer retirees was the same plan that was implemented for active employees in January 1984.

Under the Armco proposal, a retiree who chose to maintain current benefits would have to pay a premium contribution based on the size of his or her pension benefit. The contribution could range from \$5 per month for retirees with monthly pension benefits of up to \$100 to an amount equal to the total monthly premium for employees with monthly pension benefits exceeding \$1,000. Armco has not released the monthly cost of the health plan.

The other option under the proposal, the new comprehensive plan, features aspects that would prove to be more costly or, in some cases, less costly to the retiree:

- Under the current plan, most hospital services, charges and surgical fees are paid in full. Most other types of medical expenses and doctors' fees are 80% once the deductible is satisfied.

The comprehensive medical plan, on the other hand, combines

hospital, surgical and major medical coverages, treating most expenses like a major medical feature. The plan's major medical coverage pays 80% of other medical expenses and doctors' fees once the deductible is paid.

- The current plan features deductibles of \$75 for individual coverage and \$150 for family coverage. The comprehensive plan has higher deductibles of \$200 per person and \$400 per family.

- The current plan has an annual maximum employee out-of-pocket expense of \$5,000 over a two-year period. After the employee pays out \$5,000, the plan pays 100% of expenses for the remainder of that year and the following year.

Under the comprehensive medical plan, the annual maximum out-of-pocket expense was reduced to \$700 per individual and \$1,400 per family.

- The lifetime maximum in the current medical plan is \$250,000, compared with \$500,000 under the comprehensive medical plan.

Armco retirees argue in the suit they were promised they would not have to pay a portion of the premium of their health care plan.

They "were informed orally and in writing that they would receive certain levels of hospital, medical and insurance benefits at no cost to them during their retirement," according to court papers.

Armco has not released any figures projecting how much money it could save by giving retirees the option of making a premium contribution for medical coverage or electing the comprehensive medical plan.

However, Armco maintains in

court papers that implementing the changes is necessary to cut costs. John M. Bilich, vp-human resources for Armco, says in an affidavit submitted in the case that health care costs for Armco, which is self-insured, increased to \$128.7 million in 1984 from \$54.4 million in 1975. During this period, health care costs for active employees doubled, while those for retirees increased seven times over.

"These dramatic increases in health care costs have corresponded with a decline in Armco's revenues and profits," said Mr. Bilich in the affidavit. "Armco's present financial difficulties have made these staggering costs even more difficult to bear."

An Armco spokesman said the company lost \$295 million in 1984, \$672.5 million in 1983 and \$345 million in 1982.

During the first quarter of 1985, Armco lost \$22.5 million, compared with a profit of \$56.3 million in the same quarter of 1984. Sales dropped 5% to \$919.5 million from \$967.8 million during this same period.

Mr. Bilich said in the affidavit that Armco had worked with physicians' groups, hospitals, clinics and health insurers to pinpoint areas where costs could be contained. "This approach, however, did not effectively control health care expenditures and costs continued to escalate," he said.

Armco then decided to analyze its health care plan. "The consensus among health care professionals and industry groups with whom Armco has consulted is that the only way to avoid runaway health care costs is to provide the insured individual with a financial incentive to avoid unnecessary expendi-

tures by asking him to share part of the costs."

Mr. Bilich noted in the affidavit that active employees have been shouldering the burden of increased health costs since January 1984, when they were placed under the comprehensive medical plan. "Armco decided that both groups should share the increasing cost of health care, particularly because the ratio of active employees to retirees is steadily decreasing and the burden carried by the active employees will continue to grow."

The proportion has changed because the average retirement age continues to drop, and many retirees who do not yet qualify for Medicare are receiving health care coverage. Armco's costs also are rising because of inflation; Medicare continues to reduce its coverages; and the company's plan continues to cover surviving spouses after the retiree dies.

The Armco suit is similar to a suit brought against another steelmaker, Bethlehem Steel Co., Mr. Karaffa said. In that case, Bethlehem retirees sued the company when it tried to cut back what had been promised to be lifetime medical benefits. After the company appealed a court ruling in favor of the retirees, the two sides reached an out-of-court settlement. (BI, March 18).

While Bethlehem retirees had a first-dollar plan, Armco retirees have been paying an annual deductible.

The cases also differ in that the Bethlehem class-action suit was filed on behalf of only salaried, non-union retirees, while Armco plaintiffs include former unionized workers.

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Colt settles retiree suit

Continued from page 2

Another prong to the settlement came April 26, when an agreement with some 900 retirees who rejected the company's cash settlement was formally approved by Judge Paul Simmons of the U.S. District Court for the Western District of Pennsylvania.

These retirees had voted 650-258 last month to continue having medical benefits paid for under terms of the interim settlement.

Under the interim settlement, those eligible for Medicare have been paying a premium contribution of \$5 a month for physician and hospital coverage; those ineligible for Medicare pay \$12.50. Those not eligible for Medicare also have been required to pay a first-day hospital deductible of \$100,

plus a \$25 deductible for every emergency room visit. Deductibles have a \$300 annual cap, under the interim settlement.

Under both the original coverage and the interim plan, Colt retirees had to contribute to the cost of major medical coverage, said James Johnson, a representative for the union's District No. 20.

Last month's settlement calls for establishment of a Voluntary Employee Benefit Assn. to pay medical benefits for these 900 retirees. Formation of the VEBA will require approval of the Internal Revenue Service.

A Colt spokesman had no comment on the settlement.

Daniel P. McIntyre, former assistant general counsel to the steelworkers' union and now an attorney in Augusta, Maine, said the union hopes to receive IFS approval by June 1. He added that Judge Simmons has agreed to write to the IRS to expedite matters.

The VEBA will be administered by a Colt representative, a union representative and by one neutral trustee.

Colt has agreed to fund the VEBA with a portfolio of assets and cash totalling \$14.8 million, the estimated amount that would be needed to fund the program for the lifetime of the participants if the health care inflation rate remains below 9%. The settlement does not explain how health care inflation would be measured.

The settlement stipulates that if the cost of medical benefits rises more than 9% and the VEBA becomes underfunded, the company will place in the trust an additional \$6.5 million in 1995, \$13 million in 2005 and \$26 million in 2015.

The plan's trustees can introduce cost-containment measures "which are generally recognized, provided that they do not increase the de-

ductibles or the participants' contributions," according to the settlement.

Up to 25% of the money saved through these measures can be used to reduce participants' contributions to the health plan.

The settlement agreement states major medical benefits "will continue to be provided based solely upon the contributions made for that purpose by the participants."

There is no guarantee that there will always be enough money to meet the cost of the retirees' medical benefits, Anthony Rainaldi, a director of the Steelworkers' District No. 20, warned retirees in a letter sent to them before the vote. "If medical inflation reaches very high levels, the funds could be insufficient 35, 40 or 50 years from now. That is a risk we take under this settlement."

"In the past, your benefits were unfunded and payment rested on the company's financial solvency. That's no longer the case."

Mr. Rainaldi added in his letter that, "The settlement does represent every nickel we felt we could extract from the company. It isn't everything, but the alternative is the uncertainty of litigation."

There is a chance that more litigation will be introduced in the case, notes Mr. McIntyre.

In addition to voting for or against the settlement, retirees were also given the option to "opt out" of the settlement of the class-action suit. If more than 5% of the retirees opted out, Colt reserved the right to back out of the settlement.

However, only 26 retirees decided to opt out of the settlement. While these retirees have the right to file lawsuits individually, they eventually may decide to participate in the settlement, said Mr. McIntyre.

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Treasury proposal

Continued from page 1

In fact, there is considerable doubt about whether there really is a formal proposal to tax all employees on a portion of their health care premiums under a certain "floor."

Trade groups heavily involved in benefits lobbying that were interviewed by *Business Insurance*—including the American Council of Life Insurance, the National Assn. of Manufacturers, the AFL-CIO, the United Auto Workers and the Assn. of Private Pension & Welfare Plans—said they hadn't seen the health care tax floor proposal and questioned its existence.

"The whole idea (that the Treasury has endorsed a tax floor proposal) is poppycock," said Michael Romig, associate general counsel for federal affairs at the American Council of Life Insurance in Washington.

As far as the ACLI has been able to determine, the health care tax floor was only an idea informally discussed between congressional tax committee and Treasury Department staffers, Mr. Romig said.

"They (tax committee and Treasury Department staffers) are using the media to float ideas," said Stuart Brahs, executive director of the APPWP. "That is a hell of a way to develop tax policy."

"I think that it is a trial balloon" to test political waters", said Sharon Canner, director of employee benefits at the National Assn. of Manufacturers.

The proposal also is being shot down by labor and business groups.

"We think it is a terrible idea," said Alan Reuther, associate general counsel at the UAW. "We are just as opposed to a floor tax as to a cap. The entire labor movement will be very negative."

Mr. Reuther said the floor would be especially unfair to low-paid workers, who would be hit with taxes on benefits that always have been provided tax-free.

"We think the proposal ought to be immediately withdrawn if they (the Treasury Department) want our support," said Philip Sparks, director of public affairs for the 1.1 million-member American Federation of State, County & Municipal Employees in Washington.

"This could end up being much worse than the health care tax," said Karen Ignagni, assistant director of the department of Occupational Health, Safety and Social Security at the AFL-CIO.

"We can't ever imagine supporting it," Ms. Ignagni said, noting that under a tax floor, all workers would be taxed on their health care benefits.

Under the original proposal, employees whose employer premium contributions did not exceed the limit would not be taxed.

"The ideas are going from bad to worse," said Mr. Brahs of the APPWP.

"We have a problem any time an attempt is made to tax employee benefits," said James Albertine, director of government affairs for the Washington-based American Society of Assn. Executives.

"All this is an attempt to raise revenue and placate the senator from Oregon (Mr. Packwood)," Mr. Albertine said.

Others, though, while still rejecting a health care tax floor, believe it may be less objectionable than the original health care tax.

For example, if employer contributions exceeding a certain limit are taxed, employers might sacrifice cost-containment features—like coverage for second surgical opinions—in order to keep their contributions to employees' health care premiums below the tax cap, points out Theodore Allison, vp for government and industry relations at the Metropolitan Life Insurance Co. in New York.

This incentive to cut such features—which may add to the

cost of a plan in the short run but can produce long-term savings—wouldn't exist under a health care tax floor, because there would be no way to escape the tax.

In addition, a health care tax cap would discriminate against employees who work in areas of the country where health care costs are high and employers, as a result, are most likely to pay premiums that exceed the cap, said Gerard Talbot, vp and tax counsel at Metropolitan.

Such geographic discrimination wouldn't exist under a health care tax floor in which all workers would be taxed on a portion of their benefits, Mr. Talbot said.

And, observers say, the tax cap proposal would present special problems for employers that self-fund their health care plans. Self-funding employers often don't know what their total health care costs are—and therefore what their per-employee contribution is—until many months after the end of a year because many claims in-

curred at the end of a year are not paid until the next year.

A health care tax floor would not pose such administrative problems, since a self-insured employer would not have to compute its health care costs to determine how much it contributes to each employee's health care coverage. Employees automatically would be taxed on a set amount, which probably would be less than the employer's cost.

But, some of the same problems that insurers and others say are inherent with a health care tax cap also would be present with a health care tax floor.

Under either proposal, some younger, healthy, low-paid workers might reject health care coverage rather than be taxed on benefits they might never use.

That would leave older and less-healthy workers, who expect to need health care, to participate in the plan. Because of that adverse risk selection, a plan's claims expe-

rience would deteriorate and rates would rise, Mr. Talbot said.

In general, experts expect the Treasury's revised tax simplification plan, which may be published later this month or in June, to be less harsh on employee benefits.

The first Treasury plan, called Treasury I, called for taxing employees on employer contributions for group-term life insurance, dependent child care, educational assistance, group legal and van pooling benefits.

The plan also calls for imposing a 10% excise tax on asset reversions from terminated overfunded pension plans and taxing interest on reserves held by Voluntary Employee Beneficiary Assns., also known as 501(c)(9) trusts.

And, in the most stunning change in its original proposal, the Treasury Department called for the repeal of 401(k) salary reduction plans.

"Treasury I was as extreme as you can get," said Ms. Canner of

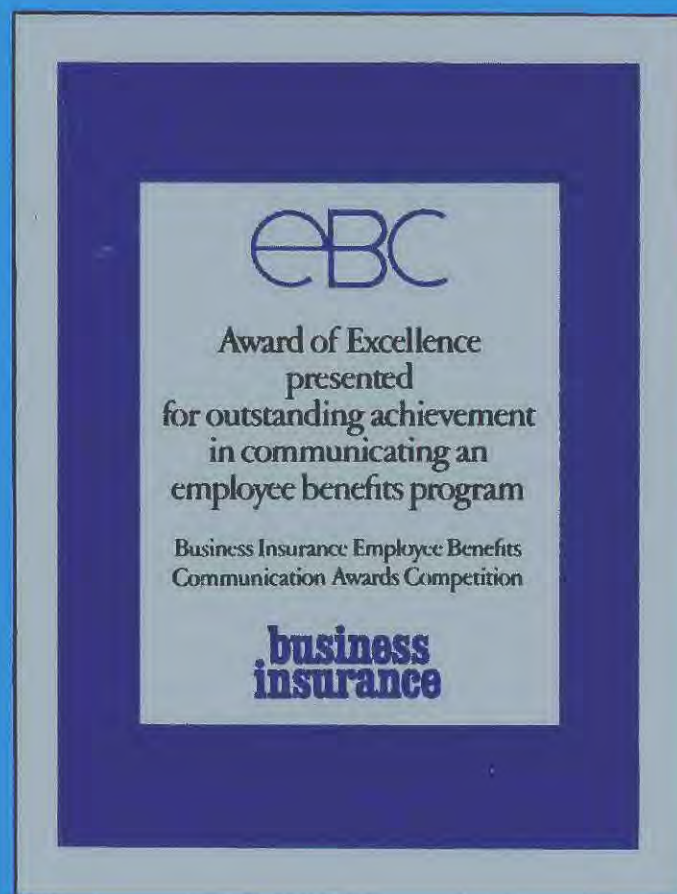
the NAM. "They shot for the moon," she added.

But thanks to employer input, the Treasury may back off on some benefit changes, Ms. Canner said.

For example, Ms. Canner believes employers have made a good case that 401(k) plans should be preserved because employee participation cuts across all salary levels. Treasury Department officials earlier had said 401(k) plans favor the higher-paid.

Now, as reported earlier, the Treasury Department is considering retaining the plans, though with a much lower contribution limit.

Currently, up to \$30,000 can be contributed annually to an employee's 401(k) account. The Treasury is considering a much lower limit—between \$5,000 and \$10,000. This new limit would be further reduced if the employee also contributed funds to an Individual Retirement Account, sources said (BI, April 15). ■



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update

Monsanto contests verdict

Continued from page 2

Monsanto is also asking the judge to overturn the Hein award. If it is not overturned, Monsanto plans to appeal.

Workers injured on the job usually seek benefits through the workers compensation system. However, the West Virginia Supreme Court in 1978 ruled that injured employees who receive work comp benefits may sue employers if it can be shown the employer's "willful, wanton and reckless disregard for safety" led to the injury.

Monsanto insured its workers compensation risks with the state's exclusive Workers' Compensation Fund, from April 1, 1964 through July 1, 1982. It has self-insured since 1982, a fund spokesman said.

Termination yields \$267 million

AKRON, Ohio—Firestone Tire & Rubber Co. says it earned about \$267 million by terminating its defined benefit pension plan for its 25,500 salaried employees and replacing it with a similar plan.

Firestone also bought a \$397 million annuity from Connecticut General Life Insurance Co., a CIGNA Corp. unit, to cover accrued benefits payable under the terminated plan. Firestone filed for the termination with the Pension Benefit Guaranty Corp. in August.

Two sentenced in Salem case

HOUSTON—Frederick E. Soudan has been sentenced to 35 years in prison and ordered to pay \$4.25 million to Shell International Trading Co. and Lloyd's of London underwriters in the 1979 scuttling of the tanker Salem.

Mr. Soudan had been found guilty March 26 by a U.S. District Court of 17 counts of wire fraud, filing false income tax returns, interstate transportation of stolen property and perjury for his part in illegally selling \$56 million worth of crude oil owned by Shell to a South African government-owned company and the scuttling of the tanker, which he owned (BI, May 11, 1981; Oct. 22, 1984).

Mr. Soudan was ordered to forfeit money he holds in bank accounts in Switzerland and the Bahamas.

Mr. Soudan has been ordered to pay \$4.25 million—the money he made on the theft—to Lloyd's and Shell, said Brenda Gross, a Justice Department attorney. Five-sixths of the money will be paid to Shell, and one-sixth will be paid to Lloyd's.

After the theft, the South African government paid Shell \$30.5 million for the oil, and the Lloyd's underwriters paid about \$10 million in claims.

Mr. Soudan's brother-in-law, Abdul Wahab al Ghazal, was sentenced last week in Houston to five years in prison in the case.

Cancellations affect thousands

Continued from page 1

ary that it would transfer about \$34 million in assets now held by Transport Indemnity to financially troubled Mission Insurance Group (BI, March 18). Cincinnati-based American Financial owns 49.4% of Mission.

The asset transfer, coupled with a second transaction valued at \$37.5 million that involves the transfer of Mission's workers compensation liabilities to another American Financial unit, is designed to rescue Mission from financial ruin.

Mission reported a \$198.1 million net loss in 1984 and policyholder surplus of only \$43 million. The American Financial transactions, which have not been completed, are designed to increase Mission's surplus to \$118 million.

In an undated and unsigned letter sent to Transport Indemnity producers around April 16, Transport Indemnity said the decision to cancel "all in-force casualty and property business of our excess special risk division" was made during the week of April 12.

"A runoff of the in-force business, as originally planned, was not compatible with the merger process," the letter says.

According to the letter, 60-day cancellation notices were issued for most of Transport Indemnity's business on April 9. Thus, the cancellation date for most of the policies is June 15.

Policies with expiration dates between June 15 and July 1 will be continued until their expiration, the letter says.

The letter says Transport Indemnity officials will not respond to telephone calls from producers concerning the cancellations, and advises producers seeking more information to contact the insurer by letter or telex.

"Please note," the letter concludes, "there is really no appeal, other than those involving legal considerations."

The letter acknowledges that in most cases insureds were notified of the cancellation before the producers received notice, but says "the urgency of cancellation due to the merger complication mentioned above required certain shortcuts."

Several of Transport Indemnity's brokers, angry over the way Transport Indemnity handled the cancellations, said they spent a considerable amount of time last week fielding calls from clients who wanted to know why brokers had not informed them of the cancellation and arranged other coverage.

"We couldn't get any work done around here last week because the phones were ringing off the hook," says Art Judson, executive vp with Stewart Smith Mid America in Chicago, a major producer of business for Transport Indemnity.

Mr. Judson says that many of the cancellation notices were sent out without regard to specific conditions in some Transport Indemnity policies that required 90 days' notice of cancellation or contained no cancellation clauses.

Stewart Smith produced a "significant" amount of business for Transport Indemnity, according to Mr. Judson, but he says he is not sure of the exact premium volume.

Much of the business Stewart Smith produced for Transport Indemnity involved excess and umbrella coverages on major utilities and Fortune 500 companies, particularly companies involved in the manufacture of automobiles and chemicals, Mr. Judson explained. Transport Indemnity also wrote major property and casualty programs for large public works construction projects.

He says Transport Indemnity had an in-house facility of \$10 million for excess and umbrella coverages but could do as much as \$20 million with facultative reinsurance.

Canceled policies in excess programs create problems for policyholders, Mr. Judson commented. If no new insurer can be found for the canceled layer, other participants or the policyholder must assume liability for the canceled coverage to keep the program from falling apart, Mr. Judson explains.

And, the Transport Indemnity cancellation comes at a time when "most excess carriers are looking to reduce their participation" in these types of excess and umbrella programs, particularly for manufacturing risks, he adds.

Mr. Judson says it will take a "lot of hard work replacing this coverage in a hard market." He says there is "not much enthusiasm for looking at Transport's book of business."

Other brokers that produced business for the insurer agree.

Mr. Barbour at Swett & Crawford says some insureds may be forced to go without insurance. "They may have to prepare for an uninsured loss," he says.

Swett & Crawford placed about \$5 million in premium volume with Transport Indemnity last year, Mr. Barbour says. Most of that business involved excess and umbrella liability coverages on large risks.

Most of the trucking firms whose coverage was canceled by Transport Indemnity have been able to replace the coverage, but at considerably higher premiums, a trucking association official said.

Transport Indemnity wrote hazardous materials trucking risks, including coverage for bodily injury, property damage and pollution liability, said Clifford J. Harvison, executive director of National Tank Truck Carriers Inc. in Washington.

Officials with the Insurance De-

partment in California, where Transport Indemnity wrote most of its business, say they were not consulted by the insurer before the policy cancellations and only recently learned of the action from several of the insurer's brokers.

An Insurance Department spokesman told BI the department was not sure what action it would take in response to the cancellations.

Dion Riley, chief operating officer for Transport Indemnity, refused to explain why American Financial decided to cancel the insurer's policies midterm rather than run it off as originally announced, and he also refused to discuss any other matters regarding Transport Indemnity.

Karen Horrell, vp and corporate counsel for Great American Insurance Co., the lead property/casualty member of the American Financial Group, also refused to comment on Transport Indemnity.

At the time American Financial announced that the assets of Transport Indemnity would be transferred to Mission, American Financial officials said that Transport Indemnity's liabilities would be fully reinsured by Transport Insurance Co. of Des Moines, Iowa, another American Financial unit, for purposes of the runoff.

Transport Indemnity's Mr. Riley, who is also a senior vp and secretary of Transport Insurance, refused to discuss any matters regarding Transport Insurance.

A former underwriter for Transport Indemnity who, along with most of the insurer's employees, was terminated several weeks ago, says that none of the American Financial units wanted to take on Transport Indemnity's book of business because they do not want to increase their premium-to-surplus ratios.

But, Ken Smith, an examiner with the Illinois Department of Insurance, says that even after absorbing Transport Indemnity's book of business, Transport Insurance Co. would have a surplus-to-written premiums ratio of better than 2-to-1.

Mr. Smith says the Illinois department is not aware of any attempt by Transport Indemnity to cancel its policies midterm. He says the department received notification April 2 that all of Transport Indemnity's liabilities were to be transferred to Transport Insurance Co. under a bulk reinsurance arrangement.

According to the information received by the Illinois department, Transport Insurance will receive \$94 million in assets from Transport Indemnity and \$43 million in premium volume.

Mr. Smith says Transport Insurance is "in excellent shape to handle the business."

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Rubber workers' benefits

Continued from page 2

using that contract as a model in negotiations with other companies.

Union members at Goodrich will vote on the agreement over the next two weeks, according to Charles Jones, the company's labor relations director.

Mr. Jones refused to elaborate on changes to non-health care benefits in the tentative Goodrich contract, as did the union and officials at other tire companies that have copies of the proposal.

The Uniroyal health care contract was ratified by union members last September (BI, Nov. 12, 1983), and Goodrich's was ratified in March.

Both contracts preserve the first-dollar hospitalization coverage union workers at both companies have, but add comprehensive cost-containment programs that workers must follow for the plan to pay all charges.

The Uniroyal contract calls for utilization review of all hospital admissions. Pre-certification and mandatory second surgical opinions also are required for all non-emergency surgeries.

Workers who ignore the cost-containment program must attend two "warning" meetings with representa-

tives of the union, the company and the utilization review company. If a worker ignores the cost-containment measures a third time, the health plan will not cover the procedures.

Workers also are given incentives to be frugal health care consumers under the Uniroyal pact. They are given a \$50 cash bonus for surgery performed on an outpatient basis and receive an amount equal to half the overcharges they find in hospital bills.

Under the contract, workers receive all non-emergency drugs from a mail-order drug program that supplies low-cost, generic drugs.

Uniroyal's health care benefits are written by various insurers.

Goodrich's health care contract is "virtually a pattern" of the Uniroyal contract, Mr. Jones said. It requires that hospitalized workers obtain utilization reviews, pre-certifications and second surgical opinions for all non-emergency surgeries. If workers ignore these cost-containment programs, they must pay 20% of their hospital bills, Mr. Jones said.

The Goodrich contract also contains the mail-order drug program but not the bonus incentives, Mr. Jones said. Goodrich self-insures its health benefits.

M&M facility

Continued from page 2 company.

M&M officials in New York would not comment on details of the facility.

M&M is putting out feelers about the facility among risk managers, especially its brokerage clients, and risk managers are interested.

"The total available excess insurance casualty insurance (capacity) in the U.S. doesn't meet our needs. If M&M or any other participant in the insurance market can develop a new facility that can provide extra capacity, we're interested," says Howard T. Weber, director of insurance at Minnesota Mining & Manufacturing Co. in St. Paul.

Mr. Weber says he was contacted about the facility about three months ago by Robert Clements, president of Marsh & McLennan Inc., M&M's retail brokerage unit. M&M places primary casualty insurance for 3M.

Hilton Hotels Corp. in Beverly Hills, Calif., was called by its M&M representative in Los Angeles to see if the hotel chain, which uses M&M for certain property placements, would like to participate.

"No hotel chain has the limits they previously had," says John S. Surabian, vp-risk management.

A major manufacturer in the Midwest reports receiving a letter recently from M&M, announcing plans for the offshore facility.

The company is interested in the facility because it expects capacity to be reduced 25% to 50% when its casualty coverages renew later this year, according to its risk manager, who asked to not to be named.

General Motors Corp. in Detroit, another M&M client, also recently received a letter from M&M alerting the automaker to the proposal. GM officials have made no decision about participation but are considering the idea, a spokesman said.

"I look at it positively and give them credit for surfacing the idea. We ought to be looking at innovative, different new ways of solving our problems," notes Burt Holthus, associate comptroller for Procter & Gamble in Cincinnati. M&M places some casualty coverages for Procter & Gamble.

"Certainly no major broker is going to sit by and watch" clients turn to self-insurance or other risk financing alternatives "without getting in on the ground floor," notes Joseph Carroza, director of risk management at Uniroyal Inc. in Middlebury, Conn., an M&M casualty client.

"I think it's a great idea and am surprised more companies haven't looked into it. I certainly would be interested," says Bert M. Schechter, director of risk management at Walt Disney Productions in Burbank, Calif.

Mr. Schechter, who uses M&M to place Disney's directors and officers liability insurance, says he is currently negotiating renewals of Disney's casualty insurance. Although he hopes to purchase limits of \$250 million, he says he may only find \$150 million.

But, while risk managers are enthusiastic about the facility, they are not committing themselves until it is has been finalized.

"I'm waiting for it to get off the ground before I get too excited," said Jack Christenson, director of insurance at Weyerhaeuser Co.

He said the broker contacted the Tacoma, Wash.-based lumber and paper company, which uses M&M to place property and liability insurance, about the facility about three months ago.

And, many risk managers at major corporations that use M&M as their broker say either they are unfamiliar with the facility or they have only heard rumors.

The facility would appear to offer two major attractions to corporate insurance buyers, one observer says.

First, it will provide an investment opportunity, he says. The company will be an investor-owned insurer, but its stock will not be traded publicly.

Second, it will enable capacity-hungry risk managers to obtain excess liability limits above those currently available.

Sources say the initial capital outlay required of investors may begin at \$100,000 and would vary with the amount of excess coverage they wish to purchase. Some observers say it may be difficult to convince top management to contribute that much money.

The amount of coverage the facility could provide will depend on several factors, including the amount of reinsurance the company can attract, the quality of risks and the capital subscribed.

M&M will have no equity interest in the new facility, sources point out. M&M has divested several underwriting operations over the past several years.

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Some claim handling tips are included in IRI's 12-page PEPlan brochure. See pages 7 and 8 for "Selecting Your Claims Coordinator," "Preparing Your Claim," and "Working with the Claims Adjuster." For a complimentary copy of the PEPlan brochure, contact Mrs. P. A. Sasso, Industrial Risk Insurers, 85 Woodland Street, Hartford, CT 06102 area code (203) 525-2601. A little planning now could help expedite a payment later.



55,000 properties insured worldwide

Wells Fargo has coverage for New York heist

Continued from page 2

company, a member of the pool, was the "insurer of record" for Wells Fargo's primary coverage through 1983.

However, Mr. McElhone said he could not say definitely whether General Accident is still writing the risk.

"We still may be, but I don't know because we don't see the policy" written by McGee, Mr. McElhone said.

"We have an agreement with them (McGee) for certain coverages," according to Mr. McElhone.

"They issue the policies, and they can issue them in the name of any

of the (pool) companies," Mr. McElhone added.

Mr. McElhone declined to identify the other members of the pool.

In addition, officials at McGee would not comment on the coverage.

Officials at Marsh & McLennan in Atlanta said they brokered the coverage for Wells Fargo. However, they would not release any further information on insurance coverage.

In addition to the coverage issued by McGee, London sources say Wells Fargo has \$40 million of excess coverage placed primarily in the London market.

British Law Insurance Co. confirms it is the lead British company on the excess coverage, while a Lloyd's syndicate managed by Janson Green Ltd. is the leading Lloyd's underwriter on the excess coverage, according to Janson Green.

The company's excess coverage in London is placed by C.T. Bowring & Co. Ltd., an M&M affiliate.

According to the brokers that place insurance for armored security companies, the coverage is usually written as an all-risk inland marine policy that protects valuable property from theft or damage while it is in the custody of

the insured.

If the money is not recovered, this would be the largest loss of cash Wells Fargo has ever experienced.

In 1983, a company security guard allegedly made off with \$7 million from a Wells Fargo terminal in West Hartford, Conn. (BI, Sept. 19, 1983).

In the theft last week, the police have reported the robbers smashed their way into the armory with sledgehammers and crowbars during the early morning hours—at a time when there were no guards on duty.

Several hours later, the robbers

surprised guards who arrived and opened the safe.

The money was apparently being stored in the Wells Fargo vault during the weekend until banks opened on Monday, according to reports.

After heisting the cash, the robbers loaded it into a Wells Fargo truck and drove away.

The truck was recovered in New York several hours later.

Loss adjuster Graham-Miller Inc. in New York is investigating the robbery.

A spokesman for that firm would not release details on the investigation.

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Financial:
Chief financial officers and vice-presidents of finance 2,168
Secretaries, treasurers, controllers and other financial personnel 7,167

Risk/employee benefits:
Vice-presidents, directors, managers, and other related department personnel of: insurance, risk, employee benefits, personnel, compensation, pension, safety, security, industrial relations, human resources and employee/labor relations 8,206

Sub-total 22,627
Associations 1,081
Government, unions and educational systems 944

Commercial Consumers

Sub-total 24,652
Insurance agents and brokers 9,524
Insurance companies 5,867
Financial institutions 556
Actuaries, attorneys, adjusters, appraisers and consultants 3,265
Others allied to the field, 1,143

TOTAL 45,007

* Source: Business/Occupational breakdown of qualified circulation, Nov. 5, 1984 issue, as submitted to BPA for Dec. 1984, BPA Publisher's Statement.

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EIL coverage

Continued from page 3

plants was capped under the Price-Anderson Act, which placed a ceiling on the utilities' liability from an accident at a nuclear power facility and provided federal backing for two liability pools to insure nuclear power facilities.

- Developing a federal co-insurance program whereby commercial insurers and the federal government would share EIL losses under a specific loss-allocation formula.

- Facilitating the development of group captive insurance companies that would insure members' environmental liability by providing federal reinsurance or co-insurance for these captives.

Enactment of any of these options would require both congressional approval and a substantial financial commitment on the part of the Reagan administration, which EPA officials admit privately is unlikely.

Insurance industry trade groups are concerned the decline of the EIL market will make it nearly impossible for companies to find coverage by the Nov. 8 congressional deadline, putting many small and medium-sized companies out of business.

Some EPA staffers maintain, however, that EIL coverage can be found by companies with well-engineered and well-maintained disposal sites.

Because a federal bailout of the EIL market probably will not come to pass, two trade groups that represent companies that treat or dispose of hazardous waste are taking matters into their own hands.

Richard C. Fortune, executive director of the Hazardous Waste Treatment Council, and Eugene Wingerter, director of the National Solid Waste Management Assn., told *Business Insurance* their groups have retained consultants to study the establishment of separate group captives to provide EIL insurance for their members.

Meanwhile, James C. Morrow, a vp with Nationwide Mutual Insurance Co. and chairman of the Pollution Liability Insurance Assn., has suggested to both Congress and EPA that a cap be placed on the potential pollution liability of hazardous-waste disposal companies.

The suggestion has generated some interest among congressional staffers, but sources say it is too early to tell how well it would be received by Congress.

Mr. Morrow also has suggested that all liability for hazardous-waste disposal be tied to the operators of waste-disposal sites rather than companies that generated the waste.

And, several EIL markets that had stopped writing EIL coverage say that they may be back in business.

John J. Metelski, vp with Stewart Smith Inc. of Chicago, says his company has nearly completed a new reinsurance treaty that will allow it to offer EIL coverage with limits of \$3 million per occurrence/\$3 million annual aggregate.

And, R. Malcolm Aickin, director of ERAS (International) Ltd., based in London, said recently that his facility may be open for EIL business before the end of the year.

And, the EPA is holding a series of ongoing discussions with several insurance industry trade groups to help the agency determine the state of the EIL market. Insurance industry suggestions made during these discussions may also be included in the EPA's Federal Register notice.

The Risk & Insurance Management Society asked to be included in the discussions. Jon Harkavy, director of governmental affairs for RIMS, said EPA officials and several RIMS representatives were to meet late last week to discuss the availability of EIL coverage. ■

Mazzella company lawsuits

Continued from page 1

against Agency Facilities are uncertain about its ownership, though Mr. Mazzella described himself in 1982 as "senior partner and majority stockholder." Agency Facilities' brokerage license expired in 1983.

- Stockholm Reinsurance Ltd., a Cayman Island company owned at one time by Mr. Mazzella and his wife. Stockholm Re's license was suspended in January 1983 after "communication problems" with Mr. Mazzella, and the reinsurer has since been removed from the Cayman register of companies, according to a Cayman official.

No business was ever placed with Stockholm Re and the company is not a defendant in any of the lawsuits described in this story.

Among those now suing Mr. Mazzella or his companies are:

- Centaur Insurance Co., a Chicago-based unit of Borg-Warner Corp. Centaur accuses Mr. Mazzella, Sentinel, Agency Facilities and others of fraudulently retaining more than \$1 million in premiums owed to Centaur, including \$25,000 paid by the Port Authority of New York and New Jersey for a police professional liability policy that Centaur says was reinstated after cancellation without its knowledge.

- American Home Assurance Co., a unit of American International Group Inc., which filed two lawsuits to recover \$2.04 million in reinsurance claims on a book of utility industry liability risks.

One suit charges that Sentinel, Agency Facilities and Re/International Ltd. of Bermuda—an intermediary that closed its doors in 1982—conspired to defraud American Home on the placement of reinsurance.

The other suit charges Sentinel and Agency Facilities with breach of contract, negligence and misrepresentation in placing American Home's reinsurance with a group of companies, including Colonial.

- Mercantile & General Reinsurance Co. P.L.C. of London, which is asking a New York court to declare that it is not bound by agreements with Colonial and Union International Insurance Co., a subsidiary of Frank B. Hall & Co. Inc., to reinsure 100% of several residual value policies written by the two companies.

M&G, which could be liable for more than \$20 million in claims under aircraft residual value policies, contends that the original policyholder acted in bad faith; that the reinsurance risks were misrepresented by Colonial's London intermediary, Pledger Thomson & Co. Ltd.; and that Colonial and Union International breached their duty of good faith and fair dealing in setting up the deal.

Mr. Mazzella denies wrongdoing in all of these cases. He added that Sentinel and Agency Facilities don't have any assets that could be used to pay judgments in any of the pending lawsuits.

Asked about the possibility that his personal assets might be sought for judgments, Mr. Mazzella—described by one of his lawyers as "a very rich man"—said, "I'm going to fight like hell because I've done nothing wrong."

"We've placed the business in a proper manner," he said.

Mr. Mazzella—who has a home in Boca Raton, Fla., and says he is out of the insurance business now—suggested that the lawsuits against Sentinel and Agency Facilities are not remarkable.

Continued on next page

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AUGUST 1, 1985

Ad Closing Date:

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Mazzella lawsuits

Continued from previous page

"There are many other agencies that went down with many more lawsuits," he said.

Mr. Mazzella pleaded not guilty last Thursday to mail and wire fraud charges in a federal indictment that accused him of diverting \$2.4 million in reinsurance premiums owed to Colonial from American Centennial Insurance Co. of Peapack, N.J. (BI, April 29.)

The premiums related to reinsurance for Associated Electric and Gas Insurance Services Ltd., a utility industry captive insurer.

The indictment charges that Mr. Mazzella directed American Centennial's intermediary, The Placers Inc. of Morristown, N.J., to remit premiums to him to be forwarded to Colonial.

Instead of forwarding the premiums, the indictment says, Mr. Mazzella deposited the premiums in a savings account established in Colonial's name at a New York bank with a signature card bearing the forged signatures of two Colonial officers.

Mr. Mazzella also told a Colonial officer in January 1981 that the AEGIS policies had been canceled when in fact they had not, the indictment alleges.

Mr. Mazzella conceded that the \$2.4 million in premiums were "deposited stupidly by me" in an account at Astoria Federal Savings & Loan in Greenvale, N.Y.

He added that "every penny of the \$2.4 million in funds was accounted for," noting that \$2 million was used to pay AEGIS claims.

Mr. Mazzella says he has the canceled checks to prove that the claim payments were made.

Mr. Mazzella would not comment on the charges that he falsely told Colonial that the AEGIS policies had been canceled and that the Astoria account was opened with forged signatures.

State investigation

Alleged diversions of reinsurance premiums from American Centennial also were the subject of the New York Insurance Department's investigation of Mr. Mazzella and Sentinel last year.

Mr. Mazzella didn't respond to an Insurance Department request for records and also failed to respond to a subsequent subpoena requiring him to appear with his records at the department's offices.

He also failed to appear at a department hearing at which testimony on the alleged premium diversions was heard.

Bernard Hubscher, Mr. Mazzella's lawyer in the case, said that the department failed to provide documents that he had demanded.

In revoking Mr. Mazzella's and Sentinel's licenses, the department cited Mr. Mazzella's failure to cooperate, which it said impeded the in-

quiry and "demonstrated his untrustworthiness to act as an insurance agent."

This wasn't the first time the New York Insurance Department ordered Mr. Mazzella to show cause why his licenses should not be revoked.

A 1976 Insurance Department citation alleged that Mr. Mazzella had caused one of his employees to sign Mr. Mazzella's name to a reinsurance slip purportedly binding Horace Mann Insurance Co. as a reinsurer of Argonaut Insurance Co. on the New York State Medical Society's medical malpractice insurance program.

Mr. Mazzella bound the coverage on behalf of First International Group, an agent of Horace Mann, and the reinsurance slip identified Mr. Mazzella incorrectly as an officer of First International, according to Insurance Department documents.

The citation alleged that Mr. Mazzella knew or should have known that First International did not have authority to bind the reinsurance for Horace Mann.

Mr. Mazzella testified that he relied on the instructions of Warwick Feldman, president of First International—and also president of Re/International—to bind the coverage, and that he had been told earlier by a Horace Mann official that First International was one of the company's agents.

The employee who signed Mr. Mazzella's name on the slip after getting Mr. Mazzella's permission by telephone testified that he did not realize that the slip characterized Mr. Mazzella as a First International officer, insurance department documents say.

The reinsurance never took effect and no premium ever changed hands, the documents say.

While noting that Mr. Mazzella handled the transaction in a "haphazard manner," the Insurance Department's hearing officer concluded that no disciplinary penalty was warranted. He suggested, though, that Mr. Mazzella be "more circumspect in his dealings with insurers."

More recently, Mr. Mazzella's dealings with insurers have produced a number of civil lawsuits alleging fraud, misrepresentation, breach of contract or negligence.

Centaur lawsuit

The Centaur lawsuit, filed in U.S. District Court for the Eastern District of New York in Brooklyn last year, names the Port Authority; Agency Facilities; Sentinel Facilities; Mr. Mazzella and his wife, Anne Mazzella, who is characterized in the complaint as one of the "directors, officers or shareholders" of Agency Facilities; George Zerlanko, former president of Agency Facilities; and Gary I. Hoskie, another former Agency Facilities employee.

Centaur provided a primary police professional liability policy with limits of \$500,000 covering Port Authority security personnel at New York-area airports starting in December 1980.

Hamond & Regine, the Port Authority's broker, placed the coverage with Centaur through Agency Facilities and Centaur's wholly-owned managing general agent, Atlantic & Gulf Insurance Agency Inc. Agency Facilities also placed a \$1.5 million excess policy with Twin City Fire Insurance Co., a unit of Hartford Fire Insurance Co., according to Susan Ellsworth, an assistant vp at Hamond & Regine.

In October 1982, Centaur notified the Port Authority that it intended to cancel the professional liability policy as of Jan. 24, 1983, according to the complaint.

But in December 1982, Agency Facilities mailed a notice to Hamond & Regine purportedly reinstating the policy as of its Dec. 5 anniversary date, and later mailed another notice reinstating the policy as of Jan. 24, 1983, the complaint says.

The reinstatement notices bore the "purported" signature of George McNeill, former general manager of Centaur's Atlantic & Gulf Insurance Agency, according to the complaint.

Ms. Ellsworth says Mr. McNeill's signature is the only signature that appears on the reinstatement notices.

Centaur's lawsuit, however, claims that the insurer never authorized a reinstatement and that the signature of Mr. McNeill—who was "terminated" by Atlantic & Gulf in April 1982—is forged "or was obtained by defendants Agency Facilities, Sentinel Facilities, Louis Mazzella, Anne Mazzella, Zerlanko and Hoskie through unlawful means."

The Port Authority paid premiums of \$25,000 on the reinstated policy to Agency Facilities through Hamond & Regine, but Centaur says it never got the money and didn't find out about the reinstatement until the Port Authority filed claims in 1983.

Centaur is defending the claims while reserving its rights to deny coverage.

The insurer's suit seeks a declaratory judgment that the policy was canceled as of Jan. 24, 1983. If the policy is found to be in force, Centaur seeks a judgment that Agency Facilities and the individual defendants are liable for any payments it has to make.

The Port Authority, which says it acted in good faith, has filed a counterclaim demanding that the Centaur policy be enforced or that it receive a refund of its \$25,000 premium.

If the court does not enforce the policy, the Port Authority also demands that Agency Facilities, Mr. and Mrs. Mazzella and Messrs. Zerlanko and Hoskie indemnify it for any losses that would have been covered by Centaur, and seeks \$25 million in punitive damages from each.

The Centaur complaint also charges that Agency Facilities, Sentinel and the individual defendants "wrongfully, willfully and intentionally" failed to remit more than \$1 million in premiums on other business, and the insurer is demanding that these premiums be accounted for.

In addition, the Centaur complaint charged that Agency Facilities mailed an endorsement extending coverage under a policy for Mobile Aerial Towers Inc. of Fort Wayne, Ind., for one month beyond the policy's September 1982 expiration date, despite the fact that Centaur had specifically denied a request for the extension by Mr. Zerlanko.

The disputed endorsement also bore Mr. McNeill's signature, which was forged or obtained un-

lawfully, the complaint charges.

Mobile Aerial paid a premium of \$18,908 for the extension to Agency Facilities through its broker, Marsh & McLennan, but Centaur never received the money, the complaint says.

The Mobile Aerial claim was linked to charges that the defendants violated the Racketeer Influenced and Corrupt Organizations Act.

The RICO charges were dismissed by a federal judge, but the Mobile Aerial claim may be included as part of Centaur's overall claims for an accounting of premiums, said John Nonna, a lawyer for Centaur.

Agency Facilities, Sentinel, Mr. and Mrs. Mazzella and Messrs. Zerlanko and Hoskie all deny the allegations in the Centaur complaint and offer a number of defenses and counterclaims.

Among the defenses is that Centaur has refused to pay commissions it owes the defendants and that these amounts offset the damages Centaur has claimed.

Commissions owed by Centaur amount to "close to \$1 million," according to Andrew Krinsky, a lawyer with the New York firm of Olnick, Boxer, Blumberg, Lane & Troy, representing all the defendants except the Port Authority and Sentinel.

The defendants also filed a counterclaim alleging that Centaur issued two policies to Agency Facilities in 1981 and 1982 that provided coverage for the agency's professional liability risks.

Mr. Krinsky says he may argue, therefore, that Centaur should be barred from suing the defendants—its policyholders—for damages that may be the subject of claims under the Centaur policies.

However, there is disagreement over whether the policies actually provide errors and omissions coverage.

Gerald F. Murray, Centaur's secretary and counsel, described the policies as "excess personal injury" policies covering liabilities for physical injury, advertising injury and property damage. Mr. Murray said the policies do not specifically provide E&O coverage.

Mr. Krinsky added that the defendants relied on the apparent authority of Atlantic & Gulf to bind Centaur on various risks, and that officials of Atlantic & Gulf may have continued to use Mr. McNeill's name to bind policies after Mr. McNeill had left Atlantic & Gulf.

But, Mr. Murray denies that anyone at Atlantic & Gulf used Mr. McNeill's binding authority after Mr. McNeill resigned, and added that Atlantic & Gulf's records show that the agency specifically declined to reinstate the Port Authority policy.

Mr. Murray confirmed that Centaur has filed claims of roughly \$19 million under two of its parent company's fidelity bonds for losses attributable to Atlantic & Gulf employees, including Mr. McNeill and Leonard Rogers, a former Atlantic & Gulf officer.

Some of the fidelity bond claims involved business produced by Mr. Mazzella's companies.

Mr. Mazzella claimed in an interview that Centaur's cancellation of the Port Authority policy was "defective" because it did not give 90 days' notice.

He added that his companies produced a total of 2,000 to 3,000 policies for Centaur and that the lawsuit specifies problems with only two—the Port Authority's and Mobile Aerial's.

"Only two E&O situations out of 2,000 to 3,000 policies. What's the big deal?" he asked.

American Home suit

In another case, American Home Assurance Co. is suing Sentinel, Agency Facilities, Re/International and four European reinsurers to re-

cover claims totaling \$1.4 million on losses on a book of utility industry liability business.

The public utility risks were part of a liability program organized by Stone & Webster Inc., a New York engineering and construction firm, and brokered by Alexander & Alexander.

The four reinsurers named in the suit, filed in January 1984 in New York State Supreme Court in Manhattan, include Eurobel S.A. D'Assurances; Lloyd Italoico & L'Ancona, Compagnia di Assicurazioni e Riasicurazioni; Alte Leipziger Ruckversicherung AG; and Administration of State Insurances (ADAS), the Romania state insurance company.

American Home's suit charges the four reinsurers with breach of contract for failing to pay reinsurance claims for losses that occurred between 1977 and 1980.

It also accuses Sentinel, Agency Facilities and Re/International—all of which acted as American Home's reinsurance intermediaries—of breach of contract and negligence in placing American Home's reinsurance.

Several sources familiar with the litigation say that A&A assisted with the placement of American Home's reinsurance, including the referral of business to Sentinel and Agency Facilities.

A&A would not comment. Re/International represented that it had authority to bind the four companies when in fact it did not, the suit charges.

If American Home is unable to collect from its reinsurers, the complaint says Sentinel, Agency Facilities and Re/International should be held liable for the reinsurance claims.

The complaint also accuses Sentinel, Agency Facilities and Re/International of conspiring to defraud American Home on the reinsurance placement.

The lawsuit does not provide any details of the alleged conspiracy, and lawyers with the New York firm of Kroll, Pomerantz & Cameron, representing American Home, refused to elaborate.

In their answers to the complaint, Eurobel, Alte Leipziger and Lloyd Italoico all say they never received premiums from American Home on the business.

(ADAS has not yet been served with the complaint and has not filed an answer, according to a lawyer with Kroll, Pomerantz.)

Sentinel and Agency Facilities were served with the complaint, but never filed answers, the lawyer said. American Home has not filed a motion for a default judgment against them.

In a telephone interview, Mr. Mazzella said that he relied on Re/International's authority to bind the European companies, that he paid the American Home premiums to Re/International and that, like American Home, he was a victim of the Bermuda intermediary's collapse.

"They told me they had the authority. They gave me the certificates," Mr. Mazzella said.

"I have over \$4 million worth of canceled checks showing what I paid Re/International," he added, saying that he doesn't know what Re/International did with the premiums.

"If Re/International goes out of business, how can I help it? I got stung, too," Mr. Mazzella reflected.

He said that Re/International placed some of Colonial's reinsurance, and that Colonial also suffered losses as a result.

"If I thought that Mr. Feldman's reinsurance was bad, I never would have used it for my own company," he said.

Second American Home suit

In a separate New York State Supreme Court lawsuit, American Home sued Sentinel, Agency Facilities and four other reinsurers, in-

Continued on next page

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Continued from previous page
cluding Colonial, to recover claims on the same Stone & Webster utility business.

The three other reinsurers named in the suit are Centaur; Union Indemnity Insurance Co. of New York, an underwriting unit of Frank B. Hall & Co. Inc.; and Overseas Union Insurance Co. Ltd. of Singapore.

American Home sought to recover reinsurance claims totaling \$593,170 from the four reinsurers or—if it could not recover from the four companies—from Sentinel and Agency Facilities.

The lawsuit charged Sentinel and Agency Facilities, which acted as American Home's intermediaries, with breach of contract, negligence and misrepresentation in placing the business.

Sentinel and Agency Facilities falsely represented that Sentinel had authority to issue reinsurance certificates on behalf of the four companies, the complaint charges.

Overseas Union, which is fighting the suit on jurisdictional grounds, may argue that one of the managing general agents handling the business did not have authority to bind Overseas Union, according to Joseph Schiavone, a lawyer with Cadwalader, Wickersham & Taft, representing Overseas.

American Home's reinsurance was purportedly placed with Overseas Union through Sentinel and Agency Facilities; American Agency Underwriters of Paoli, Pa.; and Accolade Underwriters in London, said American Home's lawyer.

Neither American Agency nor Accolade are named as defendants in the American Home suit, but Overseas is currently in litigation with Accolade in London over whether the agency had binding authority for the company, Mr. Schiavone said.

Centaur, whose share of the risk flowed through Atlantic & Gulf Agency (which is not named in the suit), is currently arbitrating the dispute with American Home. Union Indemnity has settled the case by agreeing to pay the claims, according to American Home's lawyer.

Sentinel and Agency Facilities never answered the complaint, the lawyer said. American Home never filed for a default judgment.

Mercantile & General suit
Meanwhile, Colonial is involved in another labyrinthine lawsuit

brought in New York State Supreme Court in 1982 by Mercantile & General.

The M&G suit names Colonial; Union International, the Frank B. Hall underwriting unit; Spanno Corp.; and Island Helicopter Corp.

In the declaratory judgment action, M&G asks the court to void agreements under which M&G supposedly reinsured 100% of several residual value risks that Colonial and Union International wrote for Spanno.

In addition to nullifying M&G's reinsurance of Colonial and Union International on two master policies issued to Spanno, the suit also specifically seeks to rescind a certificate issued under the Colonial policy to Island Helicopter. The Island certificate does not involve Union International although certificates issued under the Union policy are the subject of lawsuits in other courts.

According to the court papers in the case involving Island, Spanno—an aircraft appraisal company—that was based in Melville, N.Y.—bought a master insurance policy from Colonial in June 1981 to guarantee its appraisals of aircraft resale values.

In November of 1981, Colonial, through Agency Facilities and its London intermediaries—Stoic Pitman Ltd. and a successor firm, Pledger Thomson & Co. Ltd.—submitted the risk to M&G, and an M&G underwriter signed a slip for a 25% quota-share of the risk.

Three days later, the same underwriter signed another slip for a 33 1/3% quota-share and the next month signed a third slip for 100% reinsurance subject to retrocessions that would reduce M&G's line to 25%, according to M&G's complaint.

All of the slips called for a limit of \$500,000 for any one item of equipment, which could include parts of an airplane.

In March 1982, a Colonial insurance certificate was issued to Island Helicopter under the Spanno master policy guaranteeing Spanno's \$6.1 million appraisal of a plane Island Helicopter was buying.

Under the terms of the guaranteed appraisal contract, Island—which bought the plane for \$5.35 million—immediately exercised its option to require Spanno to sell the plane for the guaranteed amount or to recover the \$6.1 million from Colonial, court papers say.

Spanno made a claim on Colonial

for \$6.1 million in June 1982, and Colonial then tried to collect on its 100% reinsurance with M&G.

M&G is contesting the \$6.1 million Island Helicopter claim and four others Spanno filed under the Colonial and Union International policies for a total of roughly \$15 million, according to Stuart Cotton, a lawyer representing M&G.

In court papers, the reinsurer claims that the risks were falsely represented to the M&G underwriter; that Spanno knew or should have known before the certificates were issued that losses would occur; and that Colonial and Union breached their duties of good faith and fair dealing to M&G in putting the insurance programs together.

In its submission to M&G, Pledger Thomson said that Spanno's practice was to appraise aircraft at a fraction of their "distressed market value," an assertion M&G says was false.

The submission, signed by Robert F. Thomson, a principal of Pledger Thomson, also said there had been no previous losses under the class of business being considered, according to papers filed by M&G.

But M&G argues that the Island Helicopter plane in question had previously been returned to Spanno under another guaranteed appraisal insured by Skandia America Reinsurance Corp. Skandia escaped paying a claim on the return only because Spanno was able to resell the plane to Island using a new, fraudulently inflated guaranteed appraisal backed by M&G, the reinsurer claims.

In addition, M&G argues that the 100% reinsurance of Colonial was never effective because the underwriter's acceptance of the 100% slip and a later 100% cover note for Island was conditioned upon retrocessions reducing M&G's line to 25%.

Mr. Thomson told the underwriter that these retrocessions had never been placed, when in fact they never were, M&G charges.

M&G also objects to the way the appraised value of the Island plane was reported on the Colonial insurance certificate. Though the cover note required "items of equipment" to be listed on separate certificates under the master policy with maximum limits of \$500,000, Colonial issued Island a certificate showing a sum insured of \$6.1 million, M&G contends.

Attached to the certificate were a

number of schedules listing various parts of the airplane, and each schedule was valued at \$500,000 except one, which carried a \$100,000 value.

M&G charges that the values were placed on these parts arbitrarily.

M&G, which calls this a "cynical attempt to convert a \$500,000 insurance policy into a policy with no monetary limit whatsoever," asks the court to rule that if its reinsurance of Colonial is effective, its liability on the Island and other claims is limited to a 25% quota-share up to a maximum of \$500,000 per certificate.

Colonial, Union International, Spanno and Island all deny the allegations in the M&G complaint.

Colonial, represented by Mr. Hubscher, has filed a cross-claim against Spanno and Island demanding that if the M&G reinsurance is found to be void, Colonial's insurance of Spanno and Island should also be declared void.

Union International has filed counterclaims against M&G charging it with bad faith and asking that the reinsurance be declared valid.

Spanno, which says it paid premiums of \$745,358 for the Colonial and Union International policies, has filed a cross-claim against Colonial for payment of its \$6.1 million claim. Spanno also filed a counterclaim against M&G, alleging that a "cut-through" provision on the Colonial cover note allows Spanno to recover claims directly from M&G in light of Colonial's insolvency.

Spanno also asks for a total of \$62.6 million in compensatory damages and \$225 million in punitive damages on two counterclaims charging M&G with breach of its contractual obligations and fraud.

Arthur G. Rosenberg, Spanno's lawyer, described the Island deal as "a short-term transaction where it was contemplated that a quick profit could be made."

"It was all spelled out in papers. There was nothing underhanded about it," Mr. Rosenberg said. "There was nothing kept from anyone."

Island also filed cross-claims against Spanno to recover the \$5.35 million cost of its airplane and against Colonial to recover on its \$6.1 million claim.

Mr. Mazzella defended Colonial's involvement in the Spanno deals, saying that the business had come to him with Skandia's recommen-

ation, and added that a recession in the aircraft resale market was responsible for the losses.

Mr. Mazzella also said that he was not involved in the placement of Colonial's reinsurance of the Spanno business with M&G. Mr. Mazzella said he left Mr. Thomson, a Spanno executive and the M&G underwriter together at lunch in London to work out the details of the program.

"I was just fronting like any other company would do," Mr. Mazzella said. "We took our fronting fee and that's all we took."

He noted that the disputed reinsurance with M&G—which the Pennsylvania Insurance Department regarded as an unauthorized reinsurer—was a principle reason for Colonial's insolvency.

Mr. Mazzella said that Colonial wrote about 15 risks for Spanno, about three of which produced losses.

M&G's attorney, Mr. Cotton, however, says he is not aware of any Spanno certificates other than the five Union and Colonial certificates on which M&G is suing to avoid liability.

In a March 12, 1982 letter to the Melville, N.Y., branch of Chemical Bank, Mr. Mazzella also proposed using residual value insurance backed by M&G to help finance his intended purchase of The North-West Insurance Co. of Portland, Ore.

The letter—a copy of which was obtained by *Business Insurance*—asks Chemical Bank for a loan of \$10 million to buy the company, which would then write residual value insurance for Spanno.

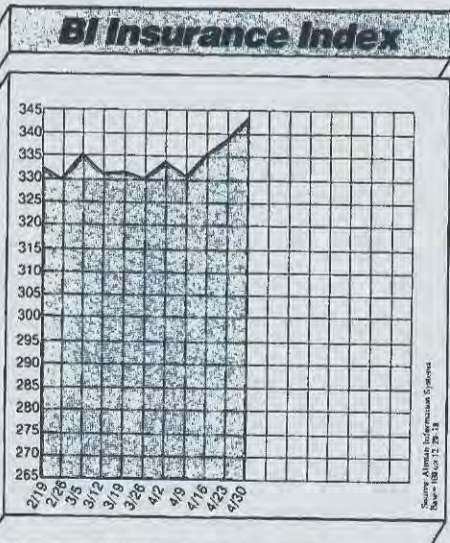
Writing as chairman of the board of Colonial, Mr. Mazzella proposed a financing scheme in which North-West would buy Colonial for \$4 million after Colonial had acquired it. The \$4 million would be turned over to Chemical Bank as partial repayment of the loan.

Mr. Mazzella said that Colonial would also supply Chemical Bank with a \$5 million residual value policy "guaranteed by Mercantile & General."

The remaining \$1 million of the loan would be secured by Manhattan real estate owned by Mr. Mazzella, the letter said.

Mr. Mazzella's letter did not make clear what the subject of the residual value insurance was to be. Colonial's intended purchase of North-West never went through.

An Oregon state court ordered the liquidation of North-West last December (BI, Dec. 10, 1984).



For the third consecutive week, the *Business Insurance* index of insurance industry stocks set a record. The *Business Insurance* index closed at 344.2 points April 30, up 6 points from the previous record high of 338.2 points set April 23. A total of 36 stocks were up, 14 stocks were down, and seven stocks were unchanged. The biggest gains were posted by Baldwin & Lyons Inc., 10.2%; Emmett & Chandler Cos. Inc., 9.2%; Arthur J. Gallagher & Co., 7.8%; Statesman Group Inc., 7.3%; and Mission Insurance Group Inc., 6.9%. The largest losses were posted by Alexander & Alexander Services, 6.4%; Reed Stenhouse Cos. Ltd., 5.4%; Kansas City Life Insurance Co., 3.4%; W.R. Berkley Corp., 1.7%; and American International Group Inc., down 1.5%. The BI index rose 1.8% for the trading period; the Dow Jones 30 Industrials fell 1.6% for the same period.

BI Industry Stock Report

April 30, 1985 4/24/85 thru 4/30/85

Brokers									
Company	Price	% Chg.	P/E	\$ Div.	% Yld.	High	Low	Vol.(000)	
Alexander & Alexander Svcs	27.25	-6.4	0.0	1.00	3.7	29.88	27.25	1,922.0	
Baldwin & Lyons Inc	65.00	10.2	13.8	0.80	1.2	66.50*	62.25	2.8	
Corroon & Black Corp	44.50	-1.1	0.0	1.00	2.2	47.38*	44.50	87.2	
Crumph E H Cos Inc	28.00	2.8	21.1	0.44	1.6	28.00*	27.00	114.6	
Emmett & Chandler Cos Inc	17.75	9.2	84.5	0.00	0.0	17.75*	17.00	123.0	
Gallagher Arthur J & Co	41.50	7.8	24.9	0.28	0.7	42.00*	39.00	45.3	
Hall Frank B & Co Inc	25.88	-0.5	0.0	1.00	3.9	26.88	25.88	231.0	
Marsh & McLennan Cos Inc	66.00	3.7	40.7	2.40	3.6	66.75*	64.25	342.2	
Poe & Assoc Inc	8.00	0.0	0.0	0.00	0.0	8.00	8.00	10.4	
Reed Stenhouse Cos Ltd	19.88	-5.4	25.8	0.60	3.0	21.38	19.88	231.1	
AGENTS/BROKERS			AVERAGE	61.8	2.2				
Conglomerates & Holding Cos.									
American Express (Fireman's Fd)	43.13	-0.9	14.8	1.28	3.0	44.25*	43.13	2,899.7	
Anderson Clayton (Ranger/PanAm)	36.75	0.3	18.9	1.32	3.6	37.50	36.50	18.4	
Arco Inc	7.63	1.7	0.0	0.00	0.0	8.00	7.63	633.7	
Berkley W R Corp	14.50	-1.7	0.0	0.32	2.2	15.25	14.50	46.2	
CIGNA Corp	51.38	-1.0	467.0	2.60	5.1	55.00*	51.38	1,074.2	
City Investing Co. (Home Ins.)	37.63	-2.0	3.6	0.00	0.0	38.50	37.63	4,803.5	
CNA Finl Corp (CNA)	38.63	3.7	16.0	0.00	0.0	38.63	37.25	137.3	
General Re Corp	74.00	-0.7	46.2	1.56	2.1	77.75*	74.00	641.9	
ITT (Hartford Group)	33.50	1.1	11.3	1.00	3.0	34.38	33.50	1,860.8	
Optimum Hldg Corp	0.50	0.0	0.0	0.00	0.0	0.50	0.50	0.0	
Sears Roebuck & Co. (Allstate)	33.88	1.9	8.4	1.76	5.2	34.00	33.13	2,607.1	
Teledyne Inc (Argonaut)	243.50	-0.3	5.2	0.00	0.0	243.75	242.38	65.2	
Transamerica Corp	29.75	3.5	14.6	1.64	5.5	30.38	29.50	868.0	
CONGLOMERATES/HOLDING COS.			AVERAGE	9.9	1.8				
Insurers									
Aetna Life & Cas Co	42.38	3.7	21.5	2.64	6.2	43.13*	41.88	3,031.4	
American General Corp	31.13	0.4	10.4	1.00	3.2	33.25*	31.13	1,569.9	
Ameri Heritage Life Invst Co	30.38	1.2	9.1	1.08	3.6	30.38	29.88*	2.6	
American Indty Finl Corp	19.75	0.0	0.0	1.12	5.7	19.75	19.75	1.6	
American Intl Group Inc	75.63	-1.5	17.7	0.44	0.6	79.75*	75.63	864.4	
Aneco Reins Ltd	1.50	0.0	0.0	0.00	0.0	1.63	1.50	9.2	
INSURANCE COMPANIES			AVERAGE	15.8	3.3				

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