

business insurance

Reporting weekly for corporate risk, employee benefit and financial executives/\$1 a copy; \$40 a year

Entire contents copyright 1983 by Crain Communications Inc. All rights reserved.

Plaintiffs' attorneys to get \$2.2 million in Hyatt case

KANSAS CITY, Mo.—A federal judge is approving more than \$2.2 million in fees and expenses to victims' lawyers in a class-action suit following the Kansas City Hyatt Regency Hotel skywalks disaster.

The suit was settled prior to trial, and 21 individual class members injured or killed in the July 17, 1981, collapse have been paid a total of \$200,000. Six more still are settling.

Continued on next page

Spotlight '83

LOS ANGELES—There were short people, tall people, foreign people, important people and even "mechanical" people at the 21st annual Risk & Insurance Management Society conference last month.

Final figures are not tabulated, but estimates are that about 2,500 persons were registered this year, down from last year's 2,800.

One of the attendees was the robot SICO, a host at the hospitality suite sponsored by Alexander & Alexander Services Inc. SICO represented Anistics Inc., A&A's risk management information systems subsidiary.

SICO, built by International Robotics in New York, cracked jokes with the men and danced with the women at evening parties attended by many of the risk managers after a day filled with sessions on everything from loss forecasting to the use of captives.

Those sessions offered information that could not be obtained from other sources, said Sue Sauer, manager of risk and workers compensation at Container Corp of America in Chicago.

This was the first conference for Ms. Sauer, but she, like many of the veterans, thought the industry sessions were the best.

Others concurred. "You make a lot of contacts here, you get some new ideas in the seminars... you meet people that generally can do something for you, point you in a different direction. The conference is the give-and-take of what's going on," said Ralph Perry, vp and director of risk management at AMFAC Inc. in San Francisco.

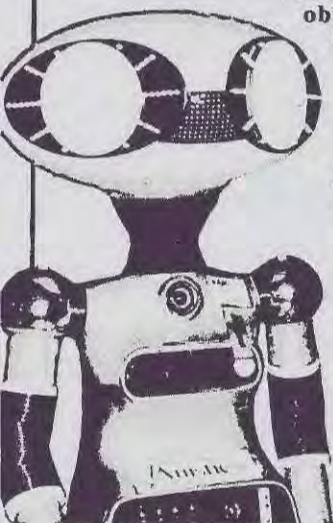


Photo: Carol Cain

MGM Grand to finalize settlement this month

By RHONDA L. RUNDLE

LAS VEGAS, Nev.—MGM Grand Hotels Inc. will formalize on May 20 its settlement of all but a few of the remaining 450 liability lawsuits stemming from a 1980 fire at its Las Vegas hotel.

All but about 40 of the 112 other defendants sued in the fire litigation also are participating in the largest out-of-court tort settlement in U.S. history (*BI*, April 11).

More than 1,350 fire victims and surviving family members will share almost \$140 million paid by MGM Grand and the other defendants into a settlement fund held in a bank escrow account.

"The money isn't all there yet, but that's how much is projected based on actual settlements and settlements in principle," said a spokesperson for the court.

MGM Grand is expected to make a second \$25 million payment to the escrow account 21 days following delivery by the Plaintiffs' Legal Committee of final paperwork on the settlements.

The hotel-casino company will complete its \$75 million contribution to the master settlement with a final \$25 million payment in two years. It made its first payment early this year.

But, plaintiffs will receive checks for 80.5% of their individual agreed-upon settlement amounts beginning in early summer. A court-approved payment schedule calls for additional payouts in September 1984 and September 1985.

As part of the master plan, MGM Grand also has agreed to indemnify the settling defendants against compensatory damages claimed by the few holdout plaintiffs. This will not be necessary if those plaintiffs settle soon, as some legal observers expect.

"All of the death claims have been settled," noted

Wendell Gauthier, the co-chairman of the Plaintiffs' Legal Committee. The holdouts are smoke inhalation cases, he said.

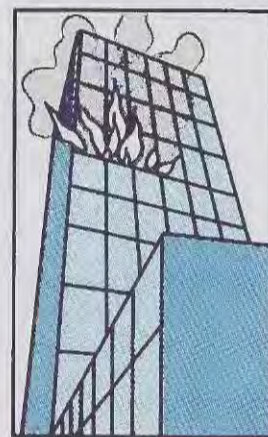
Eighty-five people died and about 700 suffered smoke inhalation and other injuries in the November 1980 fire that started in a hotel restaurant and quickly spread into the adjoining casino area.

The settlement virtually eliminates MGM Grand and the other settling defendants from further legal involvement in an upcoming trial that will decide liability against non-settling defendants.

About 40 defendants will meet a small group of plaintiffs on July 11 in the U.S. District Court in Las Vegas.

"The plaintiffs who have reached partial settlements have the right to conclude their cases before the non-settling plaintiffs are heard," explained Mr. Gauthier.

Among the defendants going to trial are many small companies that furnished plastic products to the hotel. Some of them also are being sued in a sub-



rogation action by MGM Grand's excess property insurer, American Protection Insurance Co., a unit of Kemper Group (*BI*, April 18).

MGM and the settling defendants—although excused from the upcoming trial—could still be dragged into court in a couple of years by the holdout plaintiffs if

Continued on page 70

ISO unveils new property insurance forms

By BILL DENSMORE

NEW YORK—Property insurance buyers will have nine new property insurance forms to mix and match under proposed policy revisions released late last month by the Insurance Services Office.

The forms, which are being circulated to insurance buyers and brokers for their comments, are specifically designed to increase deductibles and limits, clarify coverage and simplify language. They would replace six existing forms, perhaps as early as 1985. It would be the first major revision of the forms in 40 years.

"It is not our intent to broaden or narrow coverage, but rather to redefine coverage," said Michael Fusco, vp of commercial lines for ISO, the industry advisory rate making and policy-writing association.

New versions of the comprehensive general liability insurance policy released by ISO last year, which did reduce coverage, are

being revised after insurance buyers and brokers complained.

ISO acknowledges the new property insurance forms would represent "significant variation from current procedures" if adopted.

To be replaced are the current general property, special building, special personal property, optional perils endorsement, business interruption and extra expense insurance forms.

In their place would be nine new forms drafted in easy-to-read language with common policy conditions plus a choice of coverage and perils-covered sections that may be added or subtracted like building blocks to form a single basic, broad or "special" policy depending on the buyer's needs.

"We've made a major effort to simplify the language and structure of the new forms without making major changes in coverage," says Mr. Fusco.

Of the 1,200 insurer members of ISO, about 800 use its property insurance forms.

ISO mailed the proposed new forms, together with explanatory memoranda totaling 99 pages, to key groups of insurance buyers and brokers in mid-April for comment by June 1. By last week, however, few had formed any opinions.

"Of the forms we have seen presented by ISO of late, these are better than most," says Walter T. Derk, an executive vp of Fred S. James & Co. in Chicago and current president of the National Assn. of Insurance Brokers. Mr. Derk said he was preparing a detailed analysis of the forms. "There are some coverage changes," he added.

At the Risk & Insurance Management Society, which just completed its annual conference in Los Angeles, officials were still mulling which of two committees should review the property proposals.

Under ISO's proposed forms, a property

policy would consist of at least four packets of paper: a new one-page common policy conditions form that lists conditions common to all lines of insurance; a one-page commercial property conditions form that spells out the conditions that apply to all commercial property coverages; one or more coverage forms; and one or more causes-of-loss forms that describe perils insured against and exclusions.

Common conditions form

This one-page form describes "common policy conditions" that would apply to all coverages and all perils insured. Included in this form, which must be attached to the front of all policies, are provisions governing cancellation, policy changes, misrepresentation, examination of books, inspection of property, premiums and transfer of rights.

This form provides that the insurer may

Continued on page 71

INSIDE:

GAF plans could be blocked by asbestos liabilities
Page 2

What is risk? Readers define it
Page 41

update

Plaintiffs' bar to get \$2.2 million

Continued from previous page

Under the settlement, defendants agreed to pay reasonable fees and expenses to plaintiffs' lawyers as determined by the court.

U.S. District Judge Scott O. Wright's May 4 order means that about 10 lawyers will receive from Hyatt Corp., Hallmark Cards Inc. and other settling defendants as much as 10 times what their clients are receiving.

One attorney who did most of the research on the plaintiffs' case, Robert C. Gordon of Kansas City, is to receive \$450,000.

The largest fee—\$725,000—is to be paid to the Washington, D.C., law firm of Williams & Connolly, whose partner, Irving Younger, was lead class plaintiffs' attorney. Other fee awards totaled \$190,000 to attorney William P. Whitaker of Kansas City, and a total of \$405,000 to three other firms and one other attorney.

The judge also approved payment of a total of \$441,000 in legal expenses to Williams & Connolly and to Mr. Gordon, bringing the total fees and expenses to \$2.2 million.

Libel verdict dismissed

WASHINGTON—Insurers for The Washington Post Co. are breathing a sigh of relief after a federal judge threw out a \$2.05 million libel award to Mobil Corp. President William Tavoulaareas.

Richard White, the Post's risk manager, said neither he nor the company's primary libel insurer, Employers Reinsurance Corp. of Overland Park, Kan., would comment on the May 2 ruling.

Mr. Tavoulaareas and his son sued the Post over a Nov. 30, 1979, story that said Mr. Tavoulaareas had allegedly "set up" his son in a shipping concern that did business with Mobil (*BI*, Aug. 9, 1982).

The decision can be appealed.

Trustees to repay \$6.5 million

WASHINGTON—The Labor Department says trustees of the Teamsters' Central States pension and health and welfare funds will repay \$6.5 million to the funds to settle charges of mismanagement.

Under the settlement, the largest ever obtained under the Employee Retirement Income Security Act:

- The trustees will reimburse \$1.78 million to the health and welfare fund for substantial overpayments to firms owned by the late Allen Dorfman. Mr. Dorfman, a Chicago insurance executive, was slain after being convicted of attempting to bribe former Sen. Howard Cannon, D-Nev.

- Trustees will reimburse \$1.84 million to the pension fund for illegal ownership and use of a private jet.

- Trustees will pay a total of \$1.12 million to both funds for improperly paid attorneys' fees.

- The trustees of the pension fund will pay \$1.76 million in defense costs of two former trustees who were found guilty of conspiring to defraud the pension fund.

In addition, the pension fund will have to sell its jet within 75 days. The fund also may not purchase private airplanes in the future. The settlement, which still must be approved by federal courts, is completely covered by insurance, the Labor Department said.

Sasse suits settled

LONDON—Litigation triggered by the fall of the Sasse Syndicate at Lloyd's of London may finally be over after the parties in the final three Sasse suits reached a settlement late last month.

Lloyd's announced the agreement among the parties—including the syndicate's names, syndicate manager Sasse & Turnbull Ltd., Lloyd's broker Brentnall Beard International Ltd. and Lloyd's itself—shortly before a trial was to begin in a London court (*BI*, May 2).

Lloyd's Chairman Peter Green said he would give the details of the settlement among the parties at Lloyd's annual general meeting next month.

Panel approves longshore bill

WASHINGTON—The Senate Labor and Human Resources Committee last week unanimously approved legislation, S. 38, that would overhaul the federal Longshoremen's and Harbor Workers' Compensation Act.

The legislation, proposed by Sen. Don Nickles, R-Okla., would—among other things—cap annual benefit increases at 5%. Currently, benefits are increased every October to match the annual increase in the national average weekly wage.

Lloyd's names must pay more

LONDON—Lloyd's of London names who are members of aviation syndicate No. 862, managed by Oakeley Vaughn (Underwriting) Ltd., will have to pay an additional 17,000 pounds for every 10,000 pounds of premium they underwrote in 1979 because the syndicate could not recover on some of its reinsurance, according to letters the names received from their members' agents.

index

Classifieds	70	insurance (ISSN 0007-6864) is published weekly at 740 Rush St., Chicago, Ill. 60611. Second-class postage is paid at Chicago, Ill., and at additional mailing offices. Postmaster: Send address changes to <i>Business Insurance</i> , circulation department, 740 Rush St., Chicago, Ill., 60611; 312-649-5221. Copyright 1983 by Crain Communications Inc.
Comings & goings: industry	65	
Datebook	68	
Insurance services guide	72	
Letters	8	
Opinions	8	
Perspectives	41	
Ticker	73	
Washington	66	



Photo: Wide World

Firefighters sift through the rubble in downtown Coalinga caused by last week's massive earthquake.

Most damage from quake not covered by insurance

By DOUGLAS McLEOD

COALINGA, Calif.—Most of the estimated \$31 million in damages caused by last week's earthquake that shattered Coalinga are probably not insured, several insurance industry sources say.

In the few cases where businesses did purchase earthquake insurance, losses are probably not serious enough to pierce policy deductibles.

Along with losses suffered by businesses and residents of the rural San Joaquin Valley town of 7,000, an undetermined amount of damage was done to nearby oil and gas wells, pipelines and storage tanks owned by several oil companies.

The quake, registering 6.5 on the Richter scale with an epicenter 10 miles north of Coalinga, lasted 28.5 seconds and was felt from San Francisco to Los Angeles.

Most of the quake damage was confined to the Coalinga area, according to John Gilbert, a spokesman for the Fresno County Department of Health. The eight-square-block downtown area, consisting mostly of masonry buildings up to 60 years old, was virtually wiped out, he said.

The quake destroyed 141 business properties and damaged 73 others, according to joint federal/state assessment teams.

The California Office of Emergency Services has estimated that \$25.1 million worth of damage was done to private property, mostly commercial buildings in downtown Coalinga, while damages to roads, schools and other public property total \$6 million.

Continued on page 72

Barbados passes captive law

By LEN STRAZEWSKI

LOS ANGELES—The Caribbean island of Barbados is joining Bermuda, the Cayman Islands, the Bahamas and other offshore domiciles as a home for captive insurance companies.

The Barbados Exempt Insurance Act of 1983, passed less than two months ago, creates tax-exempt status for foreign-owned insurers and "improves upon captive legislation in such areas as Bermuda, Bahamas and Cayman," says David King, general counsel for the Central Bank of Barbados, the island's reserve banking center.

Mr. King represented the Barbados government and its financial industry as an exhibitor at last month's Risk & Insurance Management Society annual conference.

"We certainly see ourselves as a viable alternative to Bermuda and the Bahamas. As in other domiciles, cap-

tives are exempt from local taxes. However, our fees and capital requirements are generally less demanding and all types of captives, including group or association captives and shelf companies (companies that are not currently doing business), are encouraged," Mr. King said.

Incorporation requirements for captive insurers in Barbados include:

- One local director who must file a written consent to act with the island's registrar of companies.

- An annual government fee of \$5,000 in Barbados currency (about \$2,500 in U.S. dollars)

- Approximately \$4,000 (\$2,000 U.S.) in incorporation, legal and stamp duty fees.

- Minimum capital requirements of \$250,000 (\$125,000 U.S.). A 5-1 premium-to-capital ratio must be maintained to an annual premium volume of \$10 million (\$5 million U.S.), while a 10-1 premium-to-capital

Continued on page 69

GAF's plans could be stalled by potential asbestos liabilities

By STEPHEN TARNOFF

NEW YORK—GAF Corp.'s attempt to liquidate its holdings could be blocked by its potential liability for asbestos claims.

GAF, which is in the midst of a proxy battle with dissident shareholders, has preliminarily agreed to sell off its chemicals division to Allied Corp. for \$410 million.

But Allied, based in Morristown, N.J., has stated there won't be any final agreement unless it has assurance it will not acquire GAF's potential liability to claims from workers who were exposed to asbestos products.

A spokesman for GAF confirmed that the sale of GAF's chemicals business is subject to a "satisfactory resolution" between the two companies of GAF's potential liability for asbestos claims.

"Obviously we're concerned about it," added Arthur Peabody, director of development for Allied. "We feel that a way can be found to reasonably protect us from the problem."

Mr. Peabody declined to elaborate on how such an agreement would be worked out because of the ongoing negotiations with GAF.

One method that has been suggested, however, is retroactive insurance.

About \$50 million of the purchase price would be set aside in an escrow account for non-asbestos claims that could be used for retroactive insurance, according to a report.

Mr. Peabody did say that Allied intends to avoid any potential asbestos liability. "Basically, we want it set up so we will have no meaningful exposure," he said. "We will not assume the liability for asbestos."

Continued on page 72

errors & omissions

• James H. Vaughan will serve as a director of Lloyd's of London broker Hogg Robinson Group P.L.C., not as chairman of its U.S. operations as reported in the April 11 issue.

Spotlight '83

RIMS property/casualty report

Residual value cover protects leased assets

By KATHRYN J. McINTYRE

CONSIDER THE applications of an insurance policy or contract that will guarantee the future value of equipment.

It can allow leasing companies associated with banks to assume higher residual values for equipment under lease than federal regulations otherwise permit. Or, it can allow a corporation to increase the value of an asset carried on its balance sheet (see chart).

It can raise the yield to an investor in leasing or it can lower the implicit interest rate to the lessee—or a combination of both. It can persuade lenders to lend more money to leasing companies and allow manufacturers to book a lease as a sale.

The coverage comes in the form of a residual value insurance policy or a residual value guarantee, and its popularity is growing.

About a dozen markets provide this coverage for a cost of 2% to 20% of the insured residual value—or what the underwriter is guaranteeing the equipment will be worth in the future. The cost of the insurance increases geometrically with the amount of coverage provided.

These markets will garner a conservatively estimated \$15 million to \$20 million in premiums and fees in 1983, excluding the huge policies or loan guarantees for equipment valued at more than \$100 million, such as jumbo jets.

"This is not necessarily an area a risk manager gets involved in, but in the future more of us will have an opportunity to get involved in this area," said W.M. McDonald, risk manager-foreign administration for United Technologies Corp. in Hartford, Conn.

Mr. McDonald, who moderated a seminar on residual value insurance at the annual Risk & Insurance Management Society conference last month, has purchased residual value guarantees—not insurance—from International Capital Equipment in Chicago to guarantee the residual value of helicopters under lease that were manufactured by Sikorsky Helicopters, a subsidiary of United Technologies.

"At first, this wasn't seen as an insurance department function. It was in the treasury department," noted panelist J. Francis Sinnott, a vp in the San Francisco office of bro-

ker Johnson & Higgins who has brokered residual value insurance.

"The new financial-related insurances increased the focus" on residual value insurance as insurance, observed panelist Robert G. Clark, chairman of International Capital Equipment in Chicago, which markets residual value guarantees.

Mr. Clark predicts the premium volume and fees related to these guarantees could double to \$40 million in 1984 as the economy recovers.

Although the morning session on this topic drew just a dozen people, the panel talked to a standing-room-only crowd of about 35 people in the afternoon.

If the words residual value insurance sound somewhat familiar, they should.

Residual value insurance written for computer leasing companies in the late 1970s will cost Lloyd's of London syndicates \$388 million in losses, Lloyd's estimates.

The difference between the ill-fated computer leasing insurance and the residual value insurance underwritten today is the reduced amount of risk underwriters are willing to assume under these contracts and the type of equipment insured, explained the panelists at the seminar.

The assumptions underwriters made on the residual value of the leased computers were "far too optimistic," said Mr. Sinnott of J&H. The underwriters guaranteed far too high a value of the computers and they did not anticipate the technological changes in computers, he said.

When IBM introduced a new line of more advanced computers available at a reduced price and also became more aggressive in leasing, the leases for the old computers were canceled, the value of the computers fell and the Lloyd's underwriters were hit with massive claims.

Douglas G. Morris, president of D.G. Morris Inc. in New York, a subsidiary of Corroon & Black Corp., contends that Lloyd's problems were "more of a case of the underwriters not perceiving the nature of the underlying risk."

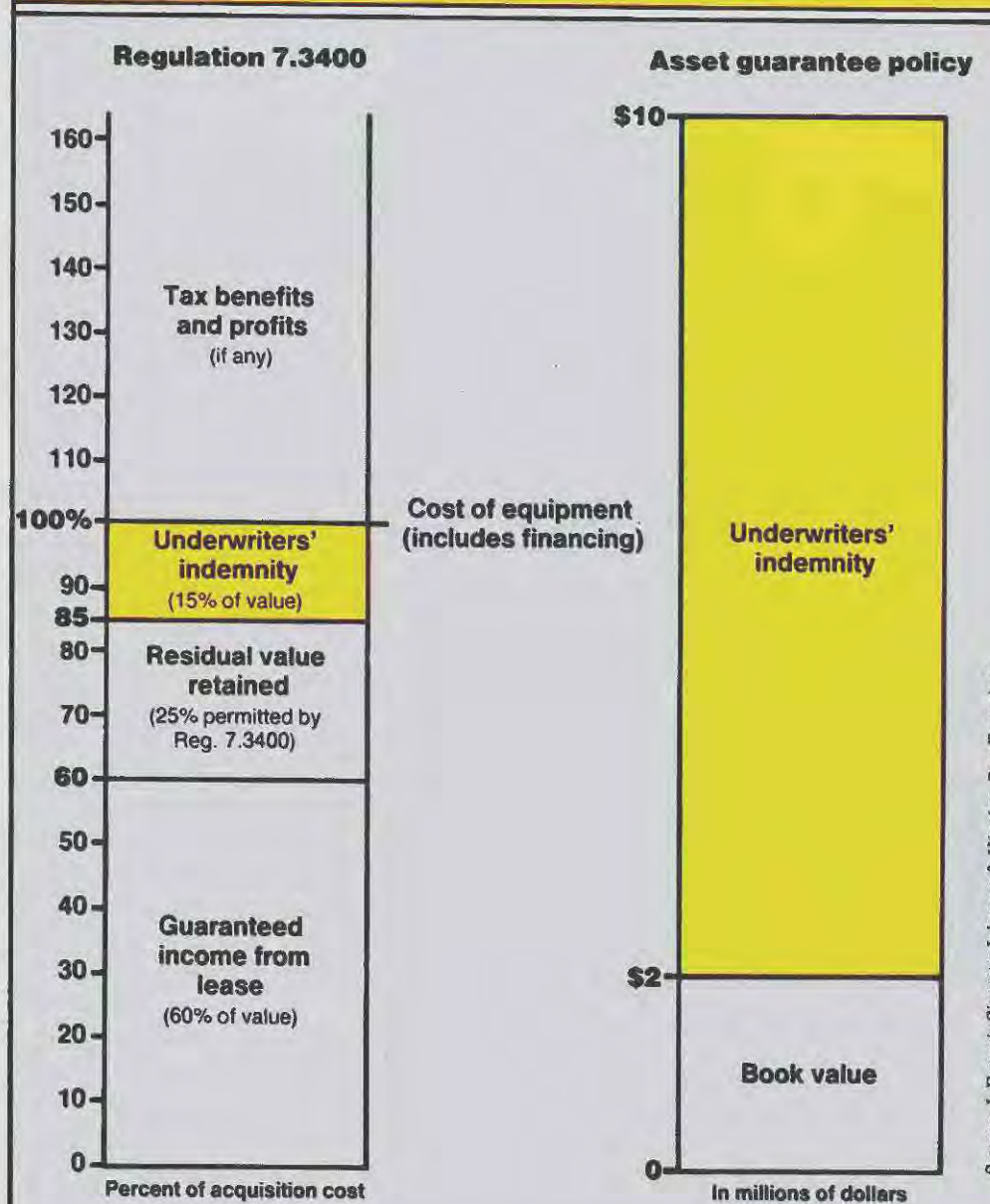
Mr. Morris, who attended the afternoon session, has been involved in underwriting residual value insurance for the last five years.

While Lloyd's losses scared many an underwriter away from residual value insurance, more underwriters are looking for the

Continued on next page

Residual value insurance

How two policies guarantee value of equipment



Source: J. Francis Sinnott, Johnson & Higgins, San Francisco

Policy guards against interest rate increases

By RHONDA L. RUNDLE

REMBER WHEN financial risks used to be uninsurable?

A new insurance coverage designed to protect commercial borrowers against rising interest expenses on variable-rate loans should destroy any lingering belief in that textbook cliché.

"This is the insurance industry response to the need for protection against interest-rate risk," explains Keith T. Darcy, executive vp of Interest-Guard Managers Inc., a joint venture of Frank B. Hall & Co. Inc. and General Reinsurance Corp., based in White Plains, N.Y.

The coverage will compete with financial futures, which can be used to hedge interest-rate risk. However, trading financial futures demands a degree of sophistication that many companies lack—especially if the treasurer shoulders a broad range of other responsibilities.

"The simplicity of the insurance form of

protection may appeal to many companies," said Mr. Darcy, who described the coverage at the Risk & Insurance Management Society's annual conference last month in Los Angeles.

Interest-Guard Managers is targeting its product to medium-sized U.S. corporations in the \$30 million-to-\$125 million revenue range. Eighty percent of the businesses in this group are publicly held and rely solely on bank and finance credit for their financing needs.

"Most lack full-time risk managers or a treasury department with financial futures expertise," notes Mr. Darcy.

The beauty of the interest rate coverage is that it gives the policyholder the ability to accurately predict its maximum daily cost of funds within the limits of protection during the policy period, which is usually one year.

The coverage is geared toward these borrowers whose base lending rate is the prime rate. Interest-Guard provides indemnity protection for up to a 10-percentage-point

rise in rates. The policyholder retains the benefit of lower interest charges if the rates fall.

The borrower must retain at least 1% of the interest-rate risk on the loan amount. For example, if the lending rate is 10% at the time the loan is issued, the policyholder may submit a claim as soon as the interest rate exceeds 11%. Claims will be settled monthly.

For the moment, Interest-Guard is prepared to underwrite the coverage on loan amounts of between \$5 million and \$50 million and will consider loans up to \$100 million.

Because of the newness of the coverage, Mr. Darcy was reluctant to discuss pricing. "The coverage must be consistently priced and yet be flexible enough to respond to the needs of widely varying industries," he said.

The basic pricing variables include the term of protection, the amount of self-assumption of risk and the level of protection. Companies may opt to insure only a portion

of the full amount of a loan above the retention level.

A very general estimate of the coverage cost would range between 1.5% and 2% of the loan amount, said Mr. Darcy.

Interest-Guard protection is available through licensed excess and surplus lines insurance brokers throughout the United States.

The issuing insurers include North Star Excess Insurance Corp., a unit of General Reinsurance Corp.; Safety Mutual Casualty Corp.; and St. Paul Surplus Lines Insurance Co., a unit of St. Paul Fire & Marine Insurance Co.

Interest-Guard is not ruling out the possibility of offering the coverage to major U.S. and multinational corporations.

"We have been surprised by the strength of their interest," says Mr. Darcy.

Large borrowers' loan costs, however, are typically pegged not to the prime rate but to the London interbank-offered rate (LIBOR) or to the 90-day reserve-adjusted CD rate.

Continued on page 6

Residual value

Continued from previous page
business today, panelists agreed.

"It's a reflection of companies looking around for other opportunities because of the soft property/casualty market. And, what happened in the computer business caused a lot of companies to investigate this and they found there are opportunities if you go about it the right way," Mr. Sinnott said.

Insurers today will guarantee the residual value of railroad cars, airplanes, heavy equipment—like earth movers—automobiles and production lines.

"Virtually all types of equipment" qualify for the insurance, Mr. Sinnott says, and there are even "some limited programs being done on computers," but for less values than Lloyd's has insured.

The market to date has provided all the limits requested under this manuscripted and unclassified type of insurance, he added.

Insurers that have issued the coverage, according to Mr. Sinnott, include Clarendon Insurance Co. of Bermuda, owned and controlled by Intermediate Management Group Service Inc. in New York; General Reinsurance Corp. in Greenwich, Conn.; Old Republic Insurance Co. through its Residual Value Management Corp. in White Plains, N.Y.; American International Group in New York; MGIC Indemnity Corp. in Milwaukee; Insurance Co. of North America in Philadelphia; Continental Corp. in New York; and Industrial Indemnity in San Francisco.

Also offering markets are: Dryden & Co., the underwriting manager for Gibraltar Insurance Co., both part of Prudential Reinsurance Co. in Newark, N.J.; and Cravens Lagan in San Francisco, using Central National Insurance Co. as a market.

And, International Capital Equipment provides residual value guarantees (see related story).



The insurer's promise to pay if the value of an asset falls below a specified amount in the future generally is based on a forecast of the future appraised value. The value can be established as a flat dollar amount or a percentage of the appraised value today.

The policy period is negotiated, but if a lease is involved it would be for the period of the lease.

The insurer's promise to pay is virtually unconditional and irrevocable, Mr. Sinnott said. The premium paid is payable up front with no cancellation provisions and no return of premium.

An early demand for residual value insurance was created in the 1970s by federal regulations governing leasing subsidiaries of banks

and bank holding companies.

The government was concerned that the leasing subsidiaries were tying up too much money in leases and establishing high residual values.

The Federal Reserve Board, in governing the leasing subsidiaries of bank holding companies, issued a regulation limiting the assumptions of value of leased equipment at the end of the lease to 20% of the acquisition cost.

Similarly, the controller of the currency, in governing the leasing subsidiaries of banks, issued regulation 7.3400, which limits the residual value of equipment to 25% of its acquisition cost. The regulations, however, specifically allow for third-party guarantees of additional value by institutions financially capable of meeting these obligations.

Without such guarantees, these regulations effectively prohibit banks engaged in leasing and leasing subsidiaries of bank holding

companies from engaging in the more lucrative, but higher-risk, short-term operating lease market, notes Mr. Morris.

Residual value insurance allows them to make residual value assumptions that reflect the values commensurate with the shorter amortization schedule.

The leasing subsidiary of a bank buys what is referred to as a Reg. 7.3400 policy.

If, for example, proceeds from leasing recover 60% of the acquisition cost of the equipment, the remaining 40% is outstanding at the end of the lease term. Under Reg. 7.3400, the bank leasing subsidiary is permitted to assume only 25%. The remaining 15% must be covered by a third-party guarantee in order for the subsidiary to engage in short-term operating lease transaction (see chart, page 3).

Whether or not the 25% or 15% is in the first loss position is up for debate. However, leasing com-

Continued on page 6



Guarantee, cover almost the same

International Capital Equipment in Chicago offers residual value guarantees rather than residual value insurance policies.

"The terms are essentially interchangeable," ICE chairman Robert G. Clark told a RIMS seminar on residual value insurance last month (see story, page 3).

But instead of an insurance policy that promises to pay if the value of an asset at a future date falls below a specified amount, ICE provides a residual value guarantee as a commercial contract.

The contract is a put option under which ICE agrees to buy the equipment under contract at a fixed price in the future at the option of a seller.

ICE then insures the commercial contract with its Bermuda-based insurance company, International Capital Equipment Insurance Ltd.

ICE Insurance Ltd., in turn, reinsures a portion of the risk, which historically has been no more than 75% of the risk, with Employers Reinsurance Corp.

There is a cut-through endorsement from Employers Re to the ultimate customer holding the put option that guarantees Employers Re will pay its portion of the guarantee if ICE cannot perform within 30 days.

Since 1975, ICE has written total commitments of \$96.7 million for total fees of \$7.3 million. Its losses and loss reserves total \$638,000, creating a loss ratio of 8.8%.

The guarantees written by ICE have involved \$400 million to \$500 million in financing with more than 60 banks, financing companies and other corporations, he said.

The fees ICE charges range from 6% to 10% of the maximum risk that ICE agrees to pay or 2% to 4% of the acquisition cost.

ICE has written guarantees on high technology testing and analysis equipment, transportation vehicles such as trucks, trailers, tankers and buses, helicopters and corporate aircraft, flat cars and hopper cars and general purpose computers, mostly made by IBM because "IBM supports the secondary market with maintenance and spare parts," Mr. Clark said.

ICE will not write residual guarantees on large oceangoing tankers, jumbo jets or box cars. "All these markets have been bad at one point or another," he explained.

This higher-priced equipment presents values too large for ICE's retained risk, notes Peter Fazio, executive vp of the parent.

ICE retains on a single unit of equipment no more than a \$3 million risk, but typically closer to \$1 million. If ICE were willing to assume a \$3 million risk and its reinsurance would take 75%, it could guarantee up to \$12 million.



**THIS IS THE WRONG
TIME TO FIND OUT
YOU DON'T HAVE
THE RIGHT INSURANCE.**

It's too late after your business has been struck by disaster.

That's why it's a good idea to consult an Independent Insurance Agent before you buy your business policy. An Independent Agent represents several companies—not just one. So you get

**HOW TO
CHOOSE THE
RIGHT
INSURANCE**



For Your Business

expert, professional advice on how to select the best business insurance coverage at the best price.

And right now your Independent Agent is offering an informative free booklet that can help make choosing the right business insurance a little easier. Get it. Before you need it.

You'll find the Independent Insurance Agent nearest you listed in the Yellow Pages under the Big "I" symbol.



**THE MORE-THAN-ONE-COMPANY
INSURANCE AGENT.**



We know how to find the leaks in your health care benefit program.

The cost of health care continues to go up at an alarming rate. As an employer who provides health care benefits, you're painfully aware of the toll these costs are taking on your business. Because ultimately, they're reflected in the cost of your health care package.

But what can we do? In a system that includes doctors, hospitals, druggists and other independent contributors, how can we hope to control costs?

The first step is to make sure we're doing our part as efficiently as possible. We have to find the leaks that are unnecessarily contributing to your costs. And we have to find ways to plug those leaks.

That's why we provide you with monthly claims analyses and an annual cost reduction summary. These detailed computer reports help isolate your problem areas by type of health care supplier and type of service. We even include a

breakdown by diagnosis, so you'll know what kind of recurring health problems your employees have.

If we discover patterns of usage, we can recommend cost-efficient providers for the treatment of respiratory problems, maternity care or other specific services. Or we might suggest a more efficient HMO option.

Better yet, we can provide our own proven programs for the rehabilitation of disabled employees. We can offer self-funding concepts to deal with cash flow pressures. Or we can set up a wellness program that helps prevent your employees from getting sick in the first place.

To find out whether these programs can help, just mail us this coupon. We'll start by sending you a free information packet called Cost Management Strategies: Solutions for the 80's.

We can't solve all your problems. But

these days, every leak we plug can mean a big difference in your health care costs.

Ginny Charboneau, Box 20, Minneapolis, MN 55440

Please send me your Cost Management Strategies packet.

Name _____

Title _____

Company _____

Address _____

City _____

State _____ Zip _____

Business Phone _____



NORTHWESTERN NATIONAL
LIFE INSURANCE COMPANY

BOX 20 • MINNEAPOLIS, MINNESOTA 55440

BI-5

Residual value

Continued from page 4

panies would anticipate recovering the entire 40% through re-rental or sale of the equipment.

Even leasing companies not subject to these regulations buy the coverage. They may need to satisfy the needs of the banks financing the equipment. Or, they may want to grant better terms to lessees.

As an example of how better terms can be granted, Mr. Sinnott cited a leasing company with a \$1,200 piece of equipment. If it could not guarantee that at the end of an annual lease it could sell the equipment for some value, it would charge \$100 per month to recover the cost of the equipment over the 12-month lease.

If the leasing company purchased residual value insurance that guaranteed to pay 25% of the acquisition cost of the equipment at the end of the year (\$300), the leasing company could reduce the

monthly charge to \$75 per month plus the cost of the insurance.

(This example is simplistic in that it ignores the time value of money.)

The most common use of residual value insurance is in individual leases involving expensive pieces of equipment, Mr. Sinnott noted.

The underwriter believes that the equipment can be sold for whatever residual value it is insuring. But the leasing company, not sure of that, is willing to pay the premium and reduce its profits to reduce its risks.

The coverage also can persuade lenders to lend more money to leasing companies to buy equipment because the cover creates a floor value for the equipment.

Other companies now are becoming interested in the insurance to strengthen their balance sheets by increasing the value of assets.

By purchasing residual value insurance on equipment, companies can carry a piece of equipment at the insured residual value rather



than the normal book value, which generally is lower.

If, for example, a company owned a piece of equipment with a book value of \$2 million but an appraised value of \$10 million, the company could buy coverage insurance for the \$8 million difference.

The Financial Accounting Standards Board, however, has said that residual value insurance alone is insufficient to recognize the higher values. It must be coupled with a financing mechanism to realize the excess value. Zero-coupon notes backed by residual value insurance policies or a sale/lease-back to an unrelated party are two methods used to overcome this obstacle.

Residual value insurance also can be used in so-called "vendor"

programs. Buying the coverage allows manufacturers that are finding it difficult to sell equipment to arrange for it to be leased and yet book the leases as a sale.

More specifically, a manufacturer with a leasing operation wants to account for the transaction as a finance lease in order to account for the profits at lease inception—a sale. To do so, the company must recover at least 90% of the equipment cost from the initial terms of the lease.

Lessees, however, want an operating and not a finance lease in order to avoid capitalizing the lease payments on the balance sheet.

A residual value insurance policy can be used to satisfy the 90% requirement while at the same time providing the lessee with the more desirable operating lease accounting treatment. The lease payments could recover only 60% of the cost of equipment and the residual value insurance policy 30% to 40%.

The policy probably will never

be called upon, he noted. The policy responds only if the lessee doesn't renew, a new lessee can't be found and the equipment can't be sold to cover the unamortized cost.

Mr. Sinnott offered the following advice to risk managers who want to explore residual value insurance:

Use a broker to find the best insurance market, to help explain to the insurer the need for the insurance and the risk and to help locate reinsurance if it is needed. The broker should not write the policy, however, Mr. Sinnott advised. "The lawyers and the accountants for the insurance buyer should write the policy."

The underwriter of a residual value insurance policy should be experienced, financially able to accept the exposure and able to maintain confidentiality, he said.

"If the insurer tells you deals he did for this company and that company, stay away. You don't want your competition to know your financial strategies," he advised. ■



How do you choose a special risk marketing firm?

Price, service, reputation, security and quality are all primary considerations. However, today's fiercely competitive business climate has forced producers to demand more meaningful and measurable results from their special risk broker—and rightfully so. That's why wisdom rests in selecting a firm that consistently gives you your money's worth—AVRECO to be exact!

As one of America's largest and most successful special risk marketing firms, we have enjoyed long and rewarding

relationships with our agents and brokers. We excel in providing professional producers with the finest service and facilities for their business. We also offer innovative programs with the underwriting talent and creativity necessary to solve the most difficult and complex coverage problems.

And, AVRECO comes highly recommended. We place coverage for more than 100 of "Fortune's 500" companies—some of the largest industrial operations in the country.

Why settle for less when AVRECO can give you more? Call us today.



AVRECO, Inc.

PROFESSIONALS IN SPECIAL RISK MARKETING

200 West Monroe Street • Chicago, Ill. 60606
1-312/663-1500 • Telex 02-53553 • Cable CAMGEN

Policy covers lending costs

Continued from page 3

At this time, Interest-Guard cannot use those rates as the basis for its underwriting calculations, he said.

So far, "interest" is the operative word. No policy has been sold. Interest-Guard Managers quietly introduced its policy six weeks ago and about a half-dozen applications have been completed. Others are in the works, Mr. Darcy said.

The company currently has capacity to underwrite coverage on \$500 million in loans. Eventually, this capacity will increase but "we want to get our feet wet first," said Mr. Darcy. The company is still testing its product in the market and expects to make some modifications to enhance its appeal.

During the past decade, debt levels have steadily increased within the consumer, government and business sectors. More recently, this unprecedented societal debt burden has been combined with the most volatile period of interest rate movements in U.S. history.

The vulnerability of corporate profits to these phenomena present potentially large and unmanageable risks, said Mr. Darcy. It was recognition of this environment and the needs of corporate clients that led to the formation of Interest-Guard protection, the company explains in a prepared statement.

Despite the stability of interest rates in recent months, Mr. Darcy said that a number of factors could again push loan costs soaring to the 20%-plus levels of last year.

During the past eight months the money supply has undergone "the longest and highest-sustained growth in monetary history," he said. This expansion has outpaced growth in the gross national product, creating widespread expectations of renewed inflation.

Contributing to this expectation are recent increases in two major components of the Consumer Price Index: food and energy.

Inflationary expectations are translated into higher interest rates in the financial markets.

"We also have a highly stimulated economy fueled by a \$200 billion budget deficit. This Keynesian demand-driven budget will push up prices," said Mr. Darcy.

And heavy government borrowing to fund the budget will crowd out private borrowers. That means financial markets' supply of loanable funds will be squeezed and the price interest rates they charge to borrowers will be higher.

Then there is the global debt problem lingering in the wings, noted Mr. Darcy. Many of the oil-producing and less-developed countries are borrowing money just to meet the interest payments on their outstanding debts, which could cause interest rate swings. ■



CRAWFORD & COMPANY

MEMORANDUM TO: Corporate Risk Managers, Insurance Companies,
Brokers and Risk Management Firms

RE: Risk Management Services
Information Systems

Crawford & Company and Risk Sciences Group merged in 1981.

After a year of strategic and structural planning, Crawford is now supplying the market a coordinated-cutting edge information and claims administration service menu of:

- ... Three tier optional information system
- ... Risk control services
- ... Vocational and medical rehabilitation
- ... Employee assistance programs
- ... Claims administration
- ... Loss fund banking systems

1983 is going to be a year of real advancement and innovative options for your profession. We look forward to the opportunity of presenting you and your associates a truly bottom line oriented menu of services accurately consolidated and interpreted through an advance information system. We welcome the opportunity of making an analysis of your current program, submitting proposals and accompanying quotations.



Barry LaFleur
Vice President

CRAWFORD & COMPANY

**Risk
Management
SERVICES**

opinions

A definition from the authorities

THE DECISION OF THE JUDGES—you, the participating readers—is final.

The official definition of risk, according to the 305 readers of *Business Insurance* who voted (see page 41), is:

"An exposure to potential occurrences that could result in economic loss or human suffering."

The author of the definition, Lee Warburton, is a loss-control consultant at Johnson & Higgins of California in Los Angeles who doesn't agree with the multitude of definitions of risk he must teach students in his CPCU 1 class.

When we broke the news to Mr. Warburton that winning the contest entitles him only to fame and glory, but no fortune, he took solace in the hope that the Society of CPCU might adopt the definition so he can stop teaching all the others.

We hope, however, that the CPCU and others interested in the definition of risk also will remember the second- and third-place winners in the contest.

"The absence of certainty," as submitted by J.D. Jones, risk manager of Newport News Shipbuilding in Newport News, Va., was chosen as the second-best definition.

"Any possible circumstance which possesses the ability to negatively influence one's time, resources, finances or otherwise state of well-being," by Bruce A. Lepore, administrative director of the Back Dynamics Institute in Hayward, Calif., was chosen as the third-best definition.

While we know this contest will not end the continuing debate over the best definition of risk, we are pleased that Karl E. Warming, business vp and risk manager at Berea College in Berea, Ky., suggested we give it a try.

We're also pleased that the definitions selected are so broad. No limitations are imposed on what a manager of risk should be managing.

Congratulations to the winners and thanks to the readers who took the time to participate.

Compensating the tragedies of life

THERE'S GOOD REASON for defining risk as broadly as the winning definitions in our contest.

Consider the risk to the owner of a fast-food restaurant about to be robbed by a shotgun-wielding thief.

The obvious risks are loss of property and injury to employees. Also pretty obvious is that customers injured in the robbery will probably sue—and win—on the grounds that the restaurant owner has a duty to provide a safe establishment.

What's not so obvious, at least to us, is the risk of being held liable for injuries to a customer who willingly runs after the thief.

But, that's exactly what happened to a unit of Ralston Purina Co.

A jury in Van Nuys, Calif., ordered Foodmaker Inc. to pay \$2.9 million to a customer at its Jack In The Box restaurant who ran after a thief in a 1977 robbery and was hit in the face by a shotgun blast.

Attorneys for the injured customer—Keith Forrand of Roosevelt, Utah,—argued that he had chased the 15-year-old shotgun-wielding robber in his auto after a Jack In The Box counterperson yelled, "Stop him."

Lawyers hired by Ralston's insurer, Liberty Mutual

Insurance Co., argued that no employee could remember making such a statement. Besides, the robber, who made off with \$87, had warned Mr. Forrand not to approach, they said.

The Van Nuys Superior Court jury decided 9-3 to award damages to Mr. Forrand. The former auto mechanic is deaf in one ear, partially blind and suffers diminished verbal capacity as a result of his wounds. His lawyers contended he can't work.

We feel sorry for Mr. Forrand, too. But, we think this award is just another good example of digging into the deepest pocket to compensate a victim of a tragic incident on the theory that someone must pay for any tragedy.

Interestingly, an out-of-court agreement with the parents of the 15-year-old thief and an accomplice provided Mr. Forrand with \$50,000. But the payment of \$25,000 by each set of parents under their homeowners' insurance was not revealed to the jury, under California law. If the award is paid, it will be reduced by the \$50,000.

But, an appeal is planned, which we hope will be successful.

letters

Relieving confusion on Extra Strength coverage

To the editor: The Home Insurance Co.'s new, exclusive Extra Strength Product Liability Insurance has generated a great deal of interest, but your article (*BI*, April 11) suggested some confusion about coverage for damage to the product itself.

Actually, the coverage is very clear-cut and simply expressed in the endorsement. As in most policy provisions, the endorsement does rely on common policy definitions including "occurrence" and "product hazard." The explanation and examples that follow should clarify any misunderstanding.

The product must be damaged by an occurrence after the product has been sold and relinquished to others. Damage that occurs before the product is sold is not covered. Let us look at some examples:

- A handle on a portable TV set snaps off and the TV set breaks. This damage is covered even if the handle was defective when the set left the factory—as was correctly stated in *BI*'s article.

- Animal feed is subjected to extreme heat and bursts into flame. The manufacturer did not warn of this hazard. The damage to the feed is covered.

- A food product is not sealed properly. It's sold to a wholesaler that stores in a pesticide-treated warehouse, and some pesticide gets into food product. The damage to the food is covered.

- A flywheel on machine manufactured by our insured breaks off, severely damaging entire machine. The damage to the machine is covered.

We note that there need not be injury

or damage to third parties, other than the damage to the product. If our insured is liable to a third party for unexpected damage to his product after it is sold, our policy will respond.

We do not cover failure to perform. If the product has not been damaged but simply does not work or perform to the buyers' expectations, there is no coverage for damage to the product. Further, if the only damage to the product occurs before it left the insured's possession, there is no coverage.

Do not confuse coverage for damage to the product itself with recall coverage. Under recall coverage, we will pay recall expenses to withdraw dangerous products including products that create a danger through failure to perform.

Harry A. Olmsted
Assistant vp
The Home Insurance Co.
New York

Business Insurance welcomes letters from its readers. Please keep your comments as brief as possible. We reserve the right to edit letters for clarity or space. Send your comments to Letters to the Editor, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611.

There's no application pending here

To the editor: In your directory of risk management consultants (*BI*, Feb. 21), a reference appeared to an Institute of Risk Management Consultants membership application pending for MRM/Multi-Risk Management Inc. of Chicago.

As membership committee chairman for IRMC, I am aware of all the pending

applications and I must advise that no one at MRM/Multi-Risk Management Inc. had an application pending in February 1983.

Thomas E. Gold
Principal consultant
T.E. Brennan & Co.
Milwaukee

business insurance®

Reporting weekly for corporate risk, employee benefit and financial executives

Publisher: Alfred Malecki (New York)

Editor: Kathryn J. McIntyre, A.R.M. (Chicago)

Managing Editor: Lorrie Gawla (Chicago)

Assistant Managing Editor: James M. Burcke (Chicago)

Senior Editor: Len Strazewski (Chicago)

CHICAGO: Carol Cain (Associate Editor)
Stephen Tarnoff (Associate Editor)
Sallie J. Drury (Staff Reporter)
Donna L. Yanish (Agent/Broker Topics Associate Editor)

Claudette Dampier (Assistant Copy Editor)

Merrill S. Saltzman (Graphics Editor)

Amy Palmer (Production Assistant)

Jim Bakasetas (Production Assistant)

Dorothy Parr Snowden (Proofreader)

LONDON: Stacy Shapiro (Associate Editor)

LOS ANGELES: Rhonda L. Rundle (Bureau Chief)

NEW YORK: Bill Densmore (Bureau Chief)
Douglas McLeod (Associate Editor)

WASHINGTON: Jerry Geisel (Washington Editor)

Corporate: Todd E. Fandell (Corporate Editor)
Joe Faraci (Corporate Art Director)

Advertising Director: Donald A. Walsh (New York)

Midwest Sales Manager: Robert L. Niese (Chicago)

CHICAGO: Deborah D. Neale (District Manager)
Fran Prybylo (Production Manager)

LOS ANGELES: Sue Sayre Eisenberg (District Manager)

NEW YORK: Charles A. Horvath (District Manager)

Jack Forrest (District Manager)

Timothy O'Hara (District Manager)

Marianne J. Dueweke (Financial Advertising Manager)

Director of Communications: Ronnie I. Drachman
(New York)

EDITORIAL: Chicago: 312-649-5398
Dallas: 214-528-3561
London: 01-831-9696
Los Angeles: 213-651-3710
New York: 212-210-0100
Washington: 202-638-5300

ADVERTISING: New York: 212-210-0133
Chicago: 312-649-5276
Los Angeles: 213-651-3710

COMMUNICATIONS: New York: 212-210-0132
CIRCULATION: Chicago: 312-649-5221

Published by Crain Communications Inc., Chicago

G.D. CRAIN JR.

Founder (1885-1973)

MRS. G.D. CRAIN

Chairman

KEITH E. CRAIN

Vice-chairman

S.R. BERNSTEIN

Chairman/executive committee

RANCE CRAIN

President

MARY KAY CRAIN

Treasurer

MERRILEE P. CRAIN

Secretary

JAMES M. FRANKLIN

Vp/finance

Published weekly at 740 Rush St., Chicago, Ill. 60611. Offices: 220 East 42nd St., New York, N.Y. 10017; Suite 515, National Press Building, Washington, D.C. 20045; 6404 Wilshire Blvd., Los Angeles, Calif. 90048; 5327 N. Central Expwy., Suite 200, Dallas, Texas 75205; 20-22 Bedford Row, London WC1R 4EB, England. \$1 a copy. \$40 a year in U.S. Canada and all other foreign add \$14 for surface mail. Europe and Middle East only add \$35 for air delivery. First-class mail to U.S. and Canada only, add \$50. Bermuda only, \$85 per year expedited delivery. WILLIAM STRONG, vp-circulation. DIANNE WALSH, circulation manager. ROGER DIGREGORIO, fulfillment director. Four weeks' notice required for change of address. Send subscription correspondence to Circulation Dept., Business Insurance, 740 Rush St., Chicago, Ill. 60611 or phone 312-649-5221. Telex 25-4248; Cable CRAINCOM. Microfilm copies are available from University Microfilms, 300 Zeeb Rd., Ann Arbor, Mich. 48103. Microfiche copies available: Bell & Howell, Micro Photo Division, Old Mansfield Rd., Wooster, Ohio 44691. Portions of the editorial content of this issue are available for reprint or reproduction in other media. For information and rates to reproduce in general circulation media, contact: Art Mertz, The Crain Syndicate, 740 Rush St., Chicago, Ill. 60611, 312-649-5303. For reprints or reprint permission contact: Reprint Dept., Business Insurance, 220 E. 42nd St., New York, N.Y. 10017, 212-210-0229.



Member of Business Publications Audit of Circulation



**J&H thinks the way to
get the best international
insurance service
is to get the best broker
in each country.**

What do you think?

If you think that local experience is vital to risk management programs in foreign countries, we couldn't agree more.

That's the concept that built the J&H international network, the most experienced in the world.

Starting in the 1890's, we enlisted the outstanding insurance broker in each country as our exclusive working partner. Where this wasn't possible, we opened our own J&H offices.

In Europe, our correspondents are now linked in a unique working relationship we call UNISON, a network within our network. Besides offering an unsurpassed grasp of local requirements, UNISON adds new dimensions to our ability to coordinate programs internationally.

Today, the J&H international network is a global organization of 13,000 people dedicated to serving clients with a single standard of excellence.

This is why we're the primary international broker for 33 of the top 100 U.S. multinationals and why 24 more have us on their team.

We'd like to talk with you about this.

Johnson & Higgins
We answer only to you.

Many self-insurers do not reserve: Study

By LEN STRAZEWSKI

LOS ANGELES—How carefully do you calculate self-funded loss reserves?

Many self-insured companies don't reserve at all, according to a Risk & Insurance Management Society research paper on self-insurance loss reserving.

And those companies that do pre-fund claims may be doing so with an inferior data base, according to Ernst & Whinney accountants David L. Holman and Timo-

thy Peterson.

"According to recent surveys, few companies actually set aside a self-insurance fund," the accountants wrote. "Thus it appears that most self-insurers set aside liabilities on their balance sheets and pay claims out of future cash flows of the corporation."

Corporations that choose this method of paying claims probably do so for one of the following reasons, they added:

- A belief that the cash payout pattern of self-insured claims is



reasonably predictable; thus, future cash budgets can reflect these payout requirements without adverse impact on the corporation's liquidity.

- A belief that the corporation's operating return is much higher than what could be earned from in-

vestments in a self-insurance fund.

- A belief that the corporation has adequate short-term borrowing capacity to provide funds for claims should the actual payout pattern deviate greatly from the estimated pattern.

- The fact that the annual transfer to the fund would generally not be tax-deductible.

- The mistaken belief that the balance sheet liability or reserve established actually represents a pool of funds available for the settlement of claims.

Whether or not a company chooses to reserve against future losses, the accountants advise self-insurers to develop "an adequate flexible data base" that includes a variety of statistics that describe a company's own loss history. A good data base, the accountants say, should include the following historical information for at least five years:

- Claims reported.
- Claims settled with and without payment.
- Claims reopened.
- Losses paid.
- Loss adjustment expenses paid.
- Losses outstanding.

- Appropriate exposure data for the line of coverage involved, such as sales dollars, units produced or shipped, number of employees, payroll expense or company vehicles by class or miles driven.

"The data should be captured such that it can be arrayed by accident year and development period and also be stratified into various dollar layers to allow informed decisions on retention layers," the accountants wrote. "It may also be useful to have the data by various segments of the corporate organization."

Although most self-funding experts agree that such historical loss information is necessary for making even the most basic self-insurance decisions, the accountants noted that many corporations have problems obtaining the necessary data for these reasons:

- The corporation has not maintained any loss data.
- The corporation's insurer could not or would not make the data available.

- The data the insurer did make available was inappropriate due to policy years that are different from the corporation's fiscal year, lack of loss data on deductibles and non-covered losses, claims unit information not being maintained or data being available only in gross summary form.

Developing your own data base, the accountants wrote, would allow the corporation to make more accurate decisions about reserves, cash-flow and trends that relate to retention levels. Moreover, a better data base could save your company a qualified audit.

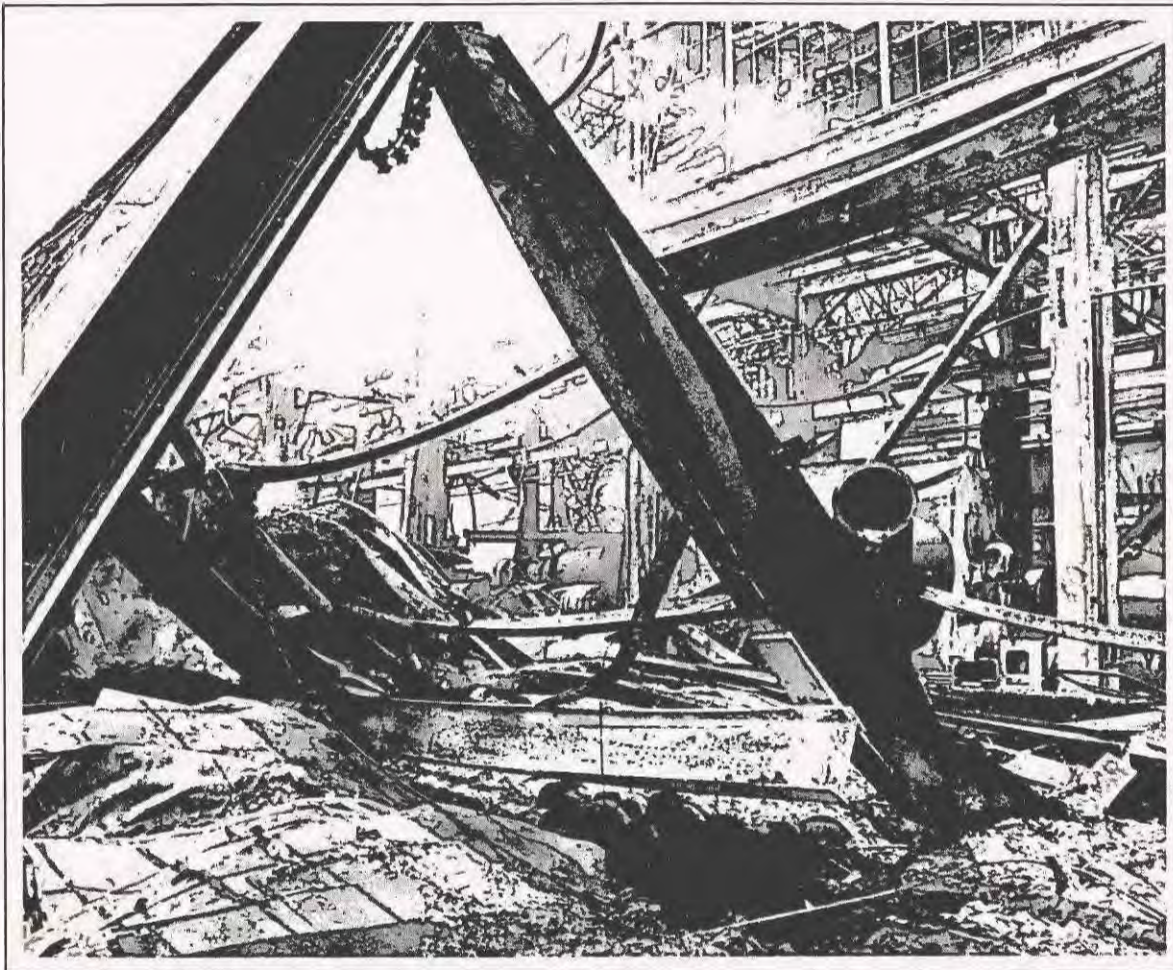
"Auditors have run into problems because this historical company data aren't available," Mr. Holman told RIMS members when the research paper was presented at last month's RIMS annual conference.

"If all the company has available is insurance industrywide data, the auditors may not be able to reconcile the company's reserves properly. And if the auditor can't make clear for himself how the reserves were calculated, he may issue a qualified opinion."

Auditors may also have problems with the way in which the present value of reserves is discounted, especially because accounting guidelines appear contradictory, according to the accountants. Generally Accepted Accounting Principles, as established by the American Institute of Certified Public Accountants, state that a liability is measured as the amount of cash to be paid discounted to the time a liability is incurred. Discounted present values are often used if the obligations require payments that are "relatively far in the future," the accountants point out.

However, Financial Accounting Standards Board Statement No. 60 sets a more specific guideline that says that "the liability for unpaid claims shall be based on the estimated ultimate cost of settling the claims (including the effects of in-

Continued on page 12



"We shouldn't have gone to lunch."

They weren't gone long. Half hour at the most. But they broke a cardinal rule for impairments: Don't stop working until the job is done.

The plant engineer had directed a shutdown of the incoming fire protection water supply to permit an outside contractor to replace two obsolete dry pipe valves. The crew worked all morning, then broke for lunch. Afterward, as the contractor was finishing the connection, someone yelled, "fire!" But there was no water to fight it.

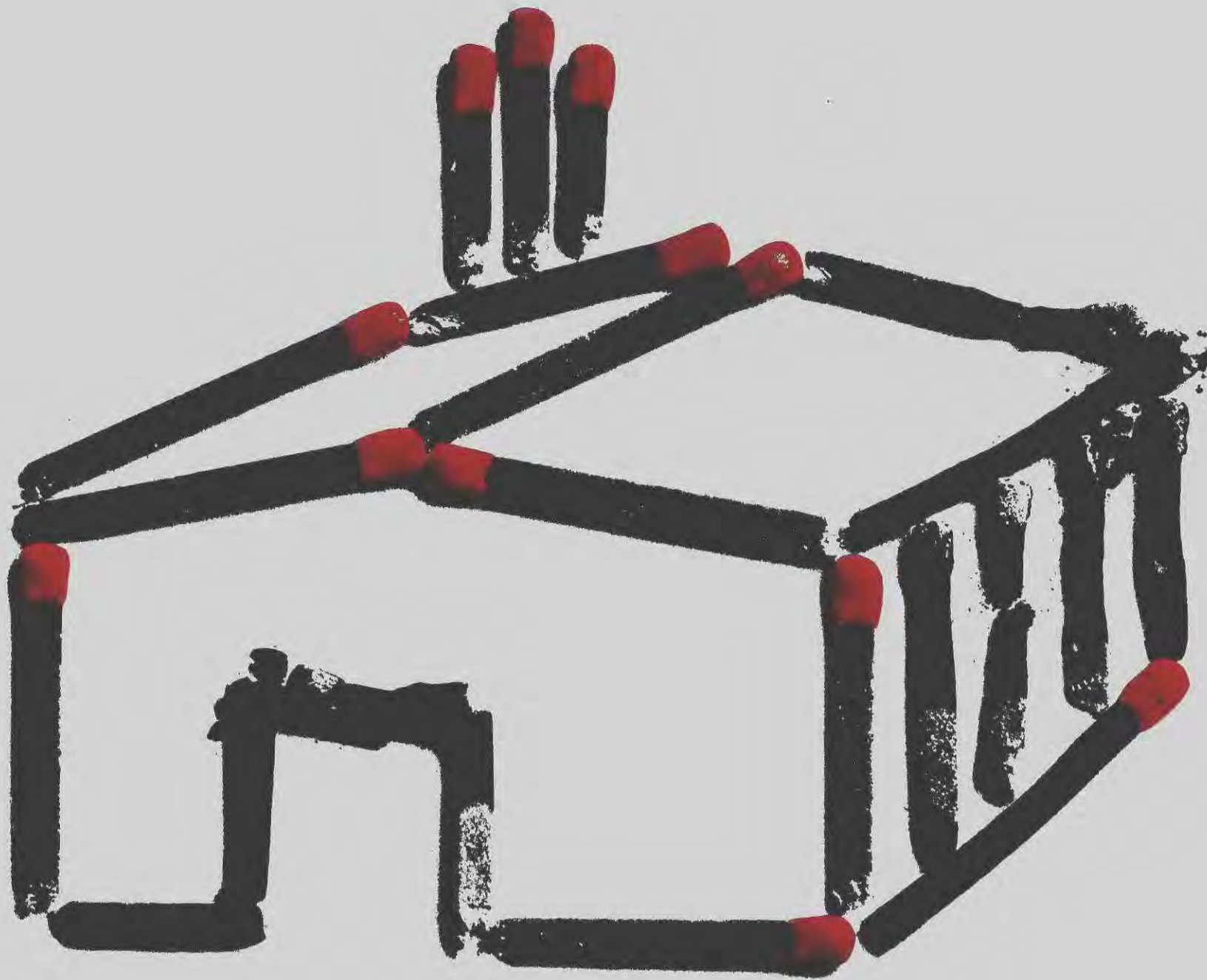
The result was a multimillion dollar disaster that could have been avoided. If the crew had stayed to finish the job. If the connection had been completed earlier. If the main valve could have been opened to allow water through the sprinkler system. If, if, if.

Every day, thousands of impairments put millions of dollars worth of property into jeopardy. Yours too. Be sure your people know how to handle impairments by getting them a copy of OVERVIEW, a new management system from Industrial Risk Insurers. For more than 90 years IRI has been a leader in loss prevention innovation and total property

insurance programs. For a free, six-page brochure describing OVERVIEW, contact your agent or broker, or write to P.A. Sasso, Industrial Risk Insurers, 85 Woodland Street, Hartford, CT 06102.

To err is human. And very expensive.

**Industrial
Risk
Insurers**



We pay our claims!

That shouldn't be news, coming from an insurance company.

But if all you've ever gotten is promised instead of paid, you know how difficult a claims settlement can be.

Not at Allendale. We're not an adversary. We're your partner. When you have a property

loss we want to help you get back in business fast. So we pay fast.

Allendale won't give you a runaround. We give you our word.

Allendale Insurance

World leader in loss prevention engineering for commercial and industrial property and member of the Factory Mutual System.

Allendale Insurance, Allendale Park, P.O. Box 7500, Johnston, RI 02919

Panel on reserves

Continued from page 10

flation and other societal and economic trends and any other factors that would modify past experience.)"

The confusion regarding whether present value or ultimate settlement cost (at a discounted value) is the controlling issue can pose problems for auditors as does the choice of discount rate applied by corporate accountants, the accountants said.

"If the ultimate cost of losses is deemed to represent a significant material uncertainty, the auditors' report on the financial statements will be qualified," they wrote.

Considering the confusion, are there sound reasons for reserving at all? Yes, answered actuary Larry D. Shatoff of consulting firm Towers, Perrin Forster & Crosby, and there are plenty of reasons to have good data base, the participants agreed.

Not reserving could be another cause of a qualified audit, Mr. Shatoff wrote in a separate section of the RIMS research paper.

"The failure to set up a loss reserve as a liability on the self-insurer's balance sheet could lead to a

material misstatement of the company's financial condition," he wrote.

Although reserves calculated according to sound actuarial principles relieve this problem somewhat and properly make loss payments relate directly to the year in which the claims were incurred, the actuarial technique is far from foolproof, he remarked, and limited according to the data used by the actuaries.

"While there are numerous methodologies available for determining incurred loss levels, the basic, underlying assumption of all these methods is the same—that history repeats itself; that is, the patterns of the past are reliable indicators of the future. The problem, of course, is that the environment in which we work is never stable," Mr. Shatoff wrote.

The tax and legal environment of self-insurance is also unstable and "evolving quite rapidly," noted attorney Marc Levey of law firm of Baker & McKenzie, another research paper participant. The recent U.S. District Court decision in Kaiser Steel Corp. vs. U.S., for example, seems to indicate a corporation can now more easily meet Internal Revenue Service standards for fixing liability and deducting workers compensation loss reserves for uncontested workers compensation claims.

Experts divided on when insurance market will turn

By DOUGLAS McLEOD

LOS ANGELES—Many have wondered when today's competitive property/casualty market will turn, but now some are wondering whether it will turn at all.

A panel of experts that gathered at last month's Risk & Insurance Management Society annual conference had divided opinions on whether risk managers should expect a hardening market soon.

F.H. Steffey, a vp with Insurance Co. of North America, a CIGNA Corp. unit, advised risk managers that they should not.

The factors that contributed to the hard market of the mid-1970s have changed and competition is probably here to stay, he said.

"You have to change your ways



of doing business to reflect the fact that hard prices are not coming back."

For example, he said that risk managers should consolidate their insurance policies with fewer insurers and use fewer brokers. Such a consolidation could result in greater savings on insurance costs and greater operating efficiency.

Consolidation would also contribute to the stability of insurers and brokers facing financial pressures exerted by the soft market. Many brokers especially are "grossly undercapitalized" and without the cash they might need to weather a financial storm, he said.

Risk managers should also start examining the financial condition of their insurers more closely to be sure the underwriter will respond when needed.

Mr. Steffey advised risk managers to use tests to determine an insurer's financial strength, such as those advocated by risk managers like Schlumberger Ltd.'s S. Peter Law, Mr. Steffey noted (*BI*, March 21.) Among these tests are:

- The insurer's loss reserves plus policyholders' surplus should be at least 2.5 times annual written premiums.

- Net premiums should not be more than three times policyholders' surplus.

- Net investment income should be greater than 5% of average invested assets.

Risk managers should also take advantage of insurers that have used new computer technology to reduce overhead costs.

The average expense ratio for property/casualty insurers ranges between 33% and 35%, he noted, adding "that money goes up the chimney with no real value for you."

However, Mr. Steffey's premise of a continuing competitive market was not shared by other panelists.

"I find it hard to believe that we won't see some increase in prices in the near future," said Myra Tobin, a managing director of Marsh & McLennan Inc.

She noted that options to traditional insurance that existed in the previous hard market—like captive insurer formation—would not be as attractive if the market were to harden. In fact, many companies are now considering moving coverage away from their captives and back into the marketplace, she said.

In addition, falling interest rates, while not an "overwhelming factor," will produce a tighter market.

"As (insurers) see less investment income to cushion losses, they will have to look at other sources of revenue," she explained.

Yet, any hardening of the market may not be as dramatic today as it was in the last cycle, she said.

For one thing, Ms. Tobin said, insurance companies "learned the lesson of the 1970s," when an unexpected rush of big losses and large awards in lawsuits pushed rates up. Insurers are more fully reserved for incurred-but-not-reported losses than they were before the last crunch, she said.

Dr. Joseph E. Johnson, head of the business administration department at the University of North Carolina, echoed this advice, adding that loss control will become a risk manager's most important job.

"You have great ability to impact the losses your organization has if you integrate yourself into the management structure," he said. ■

INTRODUCING

compu-RISK^{T.M.} software

THE AFFORDABLE ALTERNATIVE IN
MICRO-COMPUTER PROGRAMS FOR RISK MANGEMENT

- Premium Allocation
- Values File
- Policy File
- Claims Program
- Incurred But Not Reported Analysis
- Worker's Compensation Retention
- Vehicle File (available June)
- Retrospective Rating (available July)

Now available on Apple II, Apple II Plus, Apple IIe and Apple III Micro-Computers.

FOR MORE INFORMATION
WRITE TO:

compu-RISK^{T.M.}
software

1326 WILDER STREET
THOUSAND OAKS, CA 91362
(805) 497-6200

UNDERWRITING
SYNDICATE
MEMBERSHIP
UP 35%

BROKER
MEMBERSHIP
UP 13%

AGGREGATE
SURPLUS
UP 26%

PLACEMENTS
UP 70%

PREMIUM
VOLUME
UP 116%

SECURITY
FUND
DEPOSITS
UP 44%

1982

It was a very good year!

Another good vintage year was achieved by The New York Insurance Exchange... despite a climate of soft market conditions in domestic and international insurance and reinsurance.

The premium volume written on The Exchange grew 116 percent. Placements were up 70 percent. Membership levels climbed, strengthening The Exchange's position as a central marketplace. And the Security Fund total rose, by 44 percent, providing greater protection for all Exchange-syndicate policyholders in the event of an insolvency.

With new underwriting syndicates, new broker members and higher aggregate surplus. The Exchange has significantly expanded its ability to serve the insurance industry worldwide.

Nineteen eighty-two was indeed a good year.

If you would like to review The Exchange's 1982 results in detail, use the coupon to send for our annual report.

If you have questions about how The Exchange might help you, contact Donald E. Reutershan, President, The New York Insurance Exchange, 59 John Street, New York, NY 10038, Tel. (212) 791-0700.

NYINSURANCE EXCHANGE

Department JC,
59 John Street, New York, New York 10038

YES... I'd like a copy of your latest annual report.

Name _____
Title _____ Company _____
Street _____
City _____ State _____ Zip _____
Country _____

Risk managers have legislative clout: Paper

By JERRY GEISEL

LOS ANGELES—Risk managers have the power to play a critical role in balancing federal policy and state regulatory objectives, but most risk managers are staying on the sidelines.

Risk managers' potential power derives from their insurance skills and a purchasing power equal to that of the Defense Department.

But despite that clout, risk managers have not realized that they can play a major role in resolving regulatory issues, according to a 51-page issues paper, "Federal/State Regulation Dichotomy: What Does It Mean to Risk Managers?" that was presented at the Risk and Insurance Management Society's annual conference last month.

"Risk managers should get in-

involved early on to make sure that regulations are workable," said Michael Mullen, an attorney with Washington-based Crowell & Moring and one of six members of a special RIMS committee that prepared the paper.

Risk managers should recognize that their actions in the marketplace can be adversely affected when they don't get involved in the regulatory process.

For example, the Interstate Commerce Commission initially prohibited truckers under its regulatory authority to purchase separate layers of liability coverage from different insurers to meet the financial responsibility requirements of the Motor Carrier Act of 1980. The ICC had wanted the insurance to be purchased from just one carrier (*BI*, Sept. 14, 1981).



With federal officials becoming more involved in insurance issues, "It will no longer suffice for the risk management community to react passively on legislative and/or regulatory activity. . . A proactive stance will be required, and it must be taken before legislation is adopted or regulations formalized," according to the issues paper.

Furthermore, with the federal government bent on mandating minimum levels of insurance coverage in several areas, like trucking, "it is incumbent upon insur-

ance suppliers and buyers to cooperate with regulators to shape requirements and make them flexible and workable."

When risk managers, along with brokers and insurers take a "proactive" stance, it can affect the course of regulation, according to the issues paper.

For example, the National Aeronautics and Space Administration withdrew a proposed regulation that would have required each person placing a private payload on the space shuttle to maintain \$500 million in third-party liability coverage after the insurance and risk management community indicated there was insufficient capacity to meet the requirement.

Instead, NASA, which now works closely with brokers and insurers, negotiates coverages for

each shuttle flight.

The issues paper notes that there is no groundswell of support in Congress for federal licensing or solvency regulation of insurance companies.

When Congress does assert its authority, it usually occurs because federal legislators believe that state officials have ignored or side-stepped a problem.

For example, the Risk Retention Act, enacted in 1981 to make it easier for companies to self-fund their product liability exposures or buy product liability insurance as a group, "was a clear statement by Congress that it would act in policy situations where the states did not," the issues paper said.

Legislators felt that state regulations made it unduly difficult, cumbersome and expensive to establish self-insurance programs or captives that could operate on an interstate basis.

There are other insurance-related areas where the federal government might expand its role. Congress, for example, is under increased pressure to set up a trust fund, half financed by the federal government and half financed by the asbestos industry, to compensate victims of asbestos disease.

Furthermore, the Labor Department last year published a study that recommended uniform federal standards to replace state rules on compensating occupational disease victims. The study suggested an employer and/or producer-financed trust fund to pay the benefits.

But the issues paper suggests that an occupational disease trust fund be carefully considered, noting that other federal trust funds have become politicized with costs that have gotten out of control.

On the benefits side, sex discrimination legislation that would require, among other things, employers to provide male and female retirees with the same pension benefits, has received strong bipartisan support and may pass Congress this year.

But it isn't clear whether the sex discrimination legislation represents a congressional attempt to increase its authority on issues that previously were handled at the state level.

"If a bill such as this is passed, does it signal a greater willingness on the part of Congress to take back from the states some of the authority delegated to them under McCarran-Ferguson?" the issues paper asks. Or, perhaps, the sex discrimination legislation is a special situation.

So far, Congress has left responsibility for insurer solvency to the states. But Congress "could be expected to reconsider the wisdom of that delegation if it appears to have been ineptly executed by the states," the issues paper warns.

As a result, it may be time for risk managers to become more concerned about solvency issues.

State regulation, the paper asserts, has worked very well. To keep it running well, state regulators should concentrate on important issues: solvency and the financial strength of the insurance industry.

Aside from Mr. Mullen, other members of the RIMS committee on federal/state regulation dichotomy are: Edith Lichota, vp of Insurance Co. of North America in New York, a member of the CIGNA group of companies; David Bass, risk manager for Sangamo Weston Inc. in Atlanta; Sen. John Dunne, a member of the New York State Senate; Bill McGuinness, assistant treasurer for Gulf Oil Corp. in Houston; and Lyndon L. Olson Jr., a member of the Texas State Board of Insurance in Austin. ■



WILL YOUR OVERSEAS BUSINESS WIND UP PUTTING THE BITE ON YOU?

Not if you protect your clients through Swett & Crawford's expanded Political Risk coverages that provide up to \$40 million limits on any one loss.

Through our private, domestic facility you can write a package of

Confiscation, Expropriation, 100% Nationalization, Deprivation, and Broad Form Terrorist coverages that protect both land-based or offshore operations. Even war risks can be included for offshore business.

And you can provide this security even if a contract's already been signed or an investment's been made. So before you get swallowed up by foreign intrigues, call our office nearest you. You'll be made to feel at home even when your clients' business is oceans away.



Swett & Crawford
a subsidiary of The Continental Corporation

This program marketed exclusively through licensed agents and brokers.



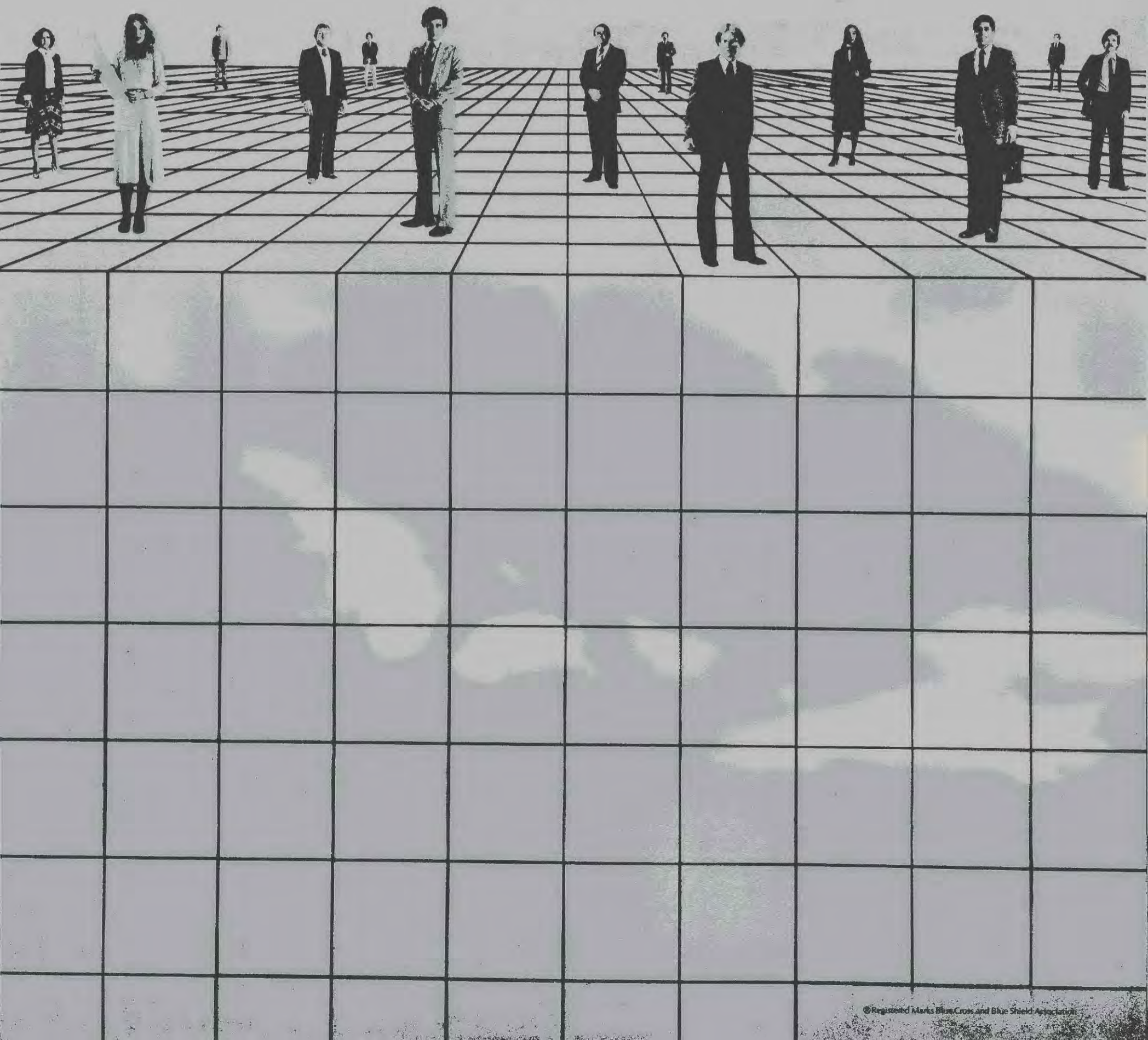
WE'VE JUST CREATED A NEW CLASS OF EXPERTS TO ANSWER YOUR NEEDS FOR THE FUTURE.

Over the years, the task of finding the right health care coverage has become increasingly more complex. To answer this growing concern, the Blue Cross and Blue Shield organizations have established the Certified Health Consultant (CHC) Program.

The first curriculum of its kind, the CHC program provides our Plan representatives with intense training in all aspects of health care financing and delivery. This unique education, combined with decades of Blue Cross and Blue Shield Plan experience, certifies CHC graduates as leaders in their field.

But the CHC Program is only one dimension of our new approach to meeting your specific needs—The Blue Cross and Blue Shield Metamatrix System. With increased benefit flexibility, flexible financing, effective cost containment and paperless claims processing, the Metamatrix System represents the latest innovation in health care protection from the largest, most experienced source.

For more information on America's leader in health care coverage, contact your local Blue Cross and Blue Shield Plan. **AMERICA'S #1 GET WELL CARD.**



'Ultimate risk' different things to different people

By STEVE TARAVELLA

LOS ANGELES—Some of the insurance industry's biggest movers and shakers hold very different opinions on what exactly is the "ultimate risk" they face.

Among the more traditional exposures mentioned most frequently by the members of a study group formed by the Risk & Insurance Management Society to determine the ultimate risk were large computer frauds, political risk exposures, asbestos and earthquakes.

But others noted that current trends in the insurance industry—like the debate over whether some underwriters could pay should a catastrophe hit or the continuing battle over policy wordings—could well represent the ultimate risk.

L.W. Biegler, chairman of L.W.

Biegler Inc., a Chicago-based underwriting manager, cites the possibility of a powerful earthquake in California as a candidate for the ultimate risk.

"I feel the ultimate risk is something shared by the insurance industry and the business world," he said. "We're in this together."

"The whole insurance industry would be in jeopardy," he told a session at last month's RIMS conference.

Peter Methley, deputy chairman of Lloyd's of London broker Leslie & Godwin Ltd., said that should a major catastrophe occur, "In my view you could have a very serious collapse of the insurance market. It is a very real threat that if we had a very major earthquake in California, Japan and Mexico, not all in the same day but in the same year,

I'm afraid we'd have the ultimate risk right before our eyes."

Participants on the panel recommended that earthquakes always be insured separately as a specifically named peril.

"Premiums collected for earthquake would be aggregated over time in separate insurer funds," says an issue paper drafted by the committee. "These, in turn, should receive highly preferential federal, state and local tax treatments—making it more attractive to underwriters and to aid in quickly building sufficient policyholder surplus."

"In addition, total earthquake line authorization can be established and computer-monitored by state regulators or trade associations against surplus to guarantee solvency. Naturally, such a pro-

positional demands taxing authority cooperation and, in the case of line monitoring, greatly increased competency among several regulators."

Some of the panel members did not mention traditional property exposures, like earthquakes, as ultimate risk, but rather stressed more complicated, esoteric notions.

Howard T. Weber, director of insurance at 3M Co. in St. Paul, Minn., says, "My concept of the ultimate risk constitutes those risks which challenge the viability of the company."

Risk is the uncertainty of future results, but also the uncertainty of how insurers will respond to a loss, he pointed out.

"When I admit to top management that I don't know if (our insurance) will cover the risk, or if they (financially) can cover it, or

me that's the ultimate risk," quipped Mr. Weber.

"I don't think it is going to take a doomsday," commented James J. Meenaghan, president of Fireman's Fund Insurance Cos. "The ultimate risk in this business is the inability to collect."

"I believe the ultimate risk is that none of us know what product we're selling," explained Robin A.G. Jackson, director of Merrett Syndicates P.L.C. at Lloyd's. "With asbestos, not only is the insurance industry in arguments with its insureds, but (the insurers) are fighting among themselves. We're still issuing policies, and we're not sure how they should be interpreted."

"Do you actually know what you're buying, and does your insurer know what he's selling?" Mr. Jackson asked risk managers attending the session. "We don't really know what the ultimate risk is, because we don't understand the policies."

Besides identifying the ultimate risk, the working party was asked to evaluate the current state of the industry according to three major criteria: its ability to address unprecedented risk responsibly, its need—or lack thereof—for transactional and solvency regulation and the importance of good faith business relationships in insurance transactions.

All of the committee members say they favor minimal governmental participation in insurance operations, but many did say that there was a need for increased regulation of reinsurance.

"Today, with the proliferation of people entering the insurance arena, it's growing dramatically, and the issue of regulation becomes extremely important," says Peter Nance, a vp at General Reinsurance Corp.

"The real problem may be the vast amount of reinsurance that is ceded to companies that don't fall under the regulatory net," another committee member added in the panel's report.

Mr. Meenaghan said, "I know there's a great concern about the viability of reinsurance... (but) I don't think anyone anywhere has ever been able to regulate responsibility and prudence."

Further regulations, governmental or otherwise, he says, cannot guarantee quality coverage. "You have to deal with quality," he told risk managers. "The dollar that you may save today, you may really regret saving in the long haul."

Mr. Methley agreed. "It's terribly important," he said, "that people realize the cheapest is not always the best."

All the participants conceded that the insurance business is no longer conducted with the good-faith relationship that once existed between buyers and insurers.

"When I started in this business, we used to bind risks over the phone Sunday afternoon, even though the cotton gin burned down on Saturday," Mr. Biegler recalled. "That kind of good faith has escaped our business, and I don't know how we can get back to it."

Mr. Biegler said that change in attitude was caused by competition.

"I just don't understand why continuity of relationships isn't the most important thing we're trying to secure in this world," he wonders. "I, for one, feel that by the end of next year, this competitive situation could change drastically."

"I expect that the insurance market, as it always has, will continue to be reactionary," Mr. Weber said. "The reaction will be the removal of capital from the insurance industry."

"The reaction will be from the investors rather than from the underwriters."

Announcing a 1954 Breakthrough in Multinational Benefits.

SAUDI ARABIA.

Sound like old news? Well, old news can be good news. Because if you have employee benefit needs in Saudi Arabia you'll be pleased to know American Life Insurance Company (ALICO) has been there since 1954, and offers a full range of products. Products backed by full underwriting, claims and administrative capabilities. With facilities fully staffed by *our own employees* in major cities throughout Saudi Arabia.

To find out more, mail the coupon below. Or call Mr. R. W. Redding, Vice President, at (302) 428-3932.

ALICO A member company of American International Group

American Life Insurance Company
Group Department
P.O. Box 2226, Wilmington, Delaware 19899

Please send more information on employee benefit plans in Saudi Arabia. I'm interested in:

<input type="checkbox"/> Group Life	<input type="checkbox"/> Overseas Personal Liability
<input type="checkbox"/> Group Medical	<input type="checkbox"/> Third Country National Coverage
<input type="checkbox"/> International Pension Plans	<input type="checkbox"/> Savings Through Multinational Pooling
<input type="checkbox"/> Group AD&D	
<input type="checkbox"/> LTD	
<input type="checkbox"/> Voluntary Life	

Name _____ Title _____

Company _____

Nature of Business _____

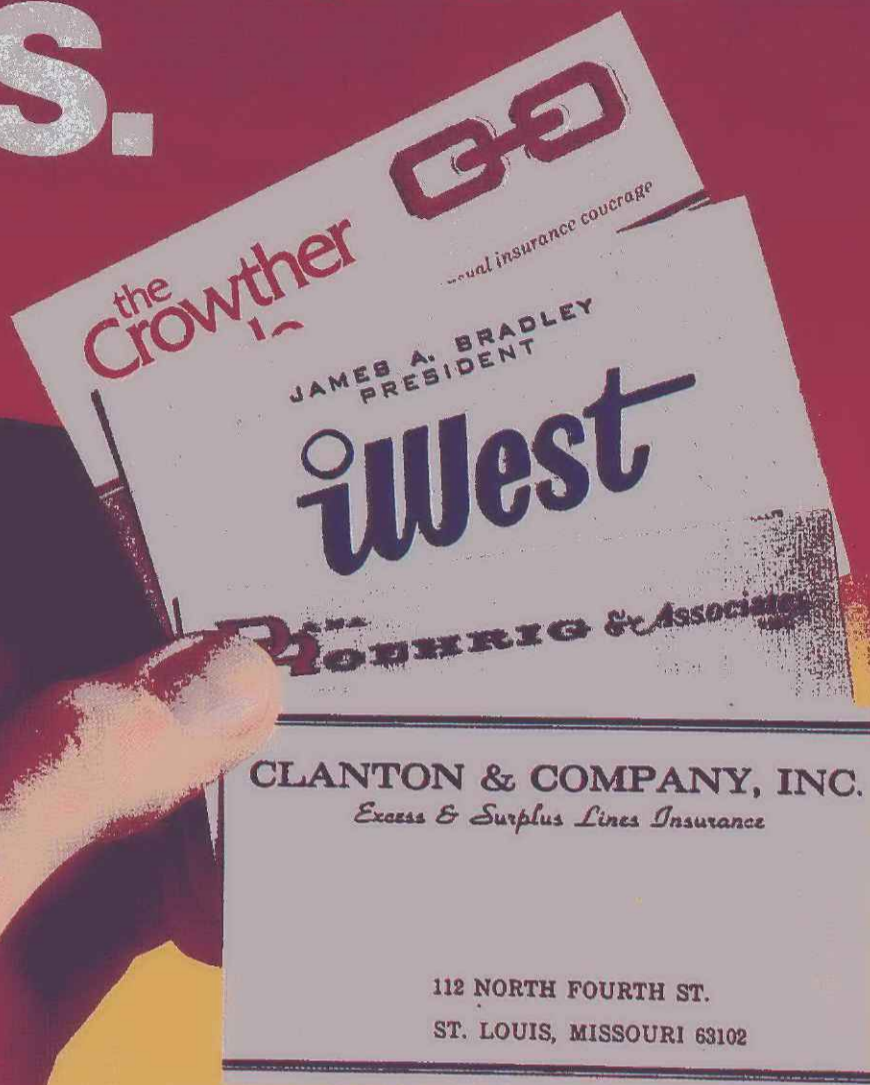
Address _____

City _____ State _____ Zip _____

Telephone () _____

B-5/9

WE'RE STARTING TO PLAY OUR CARDS.



And it's a strong hand we're holding. Four of the nation's strongest, most experienced surplus lines insurance wholesalers have now been integrated into a single powerful team to solve virtually all of your surplus lines insurance needs—from coast to coast. We call it The Network. And as strong and experienced as we are today, you'll find that it's just the beginning of what, we believe, soon will be the most significant integrated network of excess and surplus lines insurance offices in the United States.

So call on us today for professional and effective solutions to all of your surplus lines needs...and watch us tomorrow as The Network grows into an important new force in the insurance industry.

For a brochure describing our growing group of Network companies, write National Insurance Wholesalers, 400 N. Robert St., Suite 802, St. Paul, MN 55101.



NIW

National Insurance Wholesalers

The Network

Your national link to unusual coverages.

Cover your investment tax credits: Insurer

By RHONDA L. RUNDLE

LOS ANGELES—Risk managers could be blamed for falling down on the job if they fail to tell their companies that commercial insurance exists to protect against government recapture of investment tax credits.

"You don't want to be responsible for the negative impact on earnings if your company has to pay back investment credits—especially if you know there is a product to protect against the exposure," says Bruce A. Esselborn, executive vp of North American Managers Inc., a unit of American International Group Inc.

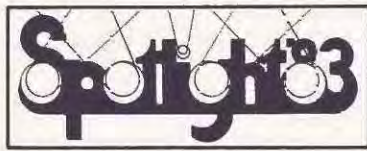
Financial officers view their exposure to recapture by the Internal Revenue Service of investment tax credits as a business risk, Mr. Essel-

born told risk managers at the annual Risk & Insurance Management Society conference.

However, if the underlying cause of IRS investment tax credit recapture is a catastrophic event that destroys the investment property, the risk is insurable.

Businesses need property insurance to protect the investment itself and investment tax credit recapture indemnity insurance to protect the tax credit the company claimed up front in the same year that the investment property was purchased, said Mr. Esselborn.

"It may seem harsh, but if your factory burns to the ground before the end of its economic life, you will owe the government money for the investment tax credit you took when you acquired the asset," explained Star Young, an AIG tax



attorney who also spoke at the RIMS miniseminar.

This recapture will not take place if the property is only partially destroyed and can be repaired. However, if the investment is a total loss, the tax credit repayment will be owed to Uncle Sam.

Tax credits have enormous value to businesses as well as individuals because they are subtracted from the total amount of money that the taxpayer owes the government. Tax deductions are used to reduce taxable income, which is the basis for calculating the total amount of

money the taxpayer owes.

"Those businesses that rely on the tax credit after a major investment would find a great need for this coverage," says AIG in a fact sheet explaining its product. "A period of low corporate liquidity might be matched with the purchase of this coverage."

AIG's product can be written to protect against recapture of tax credits (and can be endorsed to cover tax deductions) that are lost due to theft, fire, storm, shipwreck or other direct physical casualty.

"We introduced the coverage in 1981 after spending a year to put it together," said Mr. Esselborn. "Most of our underwriting activity has come from oil and gas properties in the southwestern United States."

"This is not a financial guaranty-

type insurance, but straight, simple property insurance," he said. The perils insured against and the exclusions are similar to those found in a standard property policy.

Capacity depends on the nature of the underlying property and operations at the location where the property is held, said Mr. Esselborn. Limits of \$20 million to \$50 million are available "if sufficient lead time is given."

Investment tax credit insurance is available to both first-party property owners and to third parties that lease property from an owner. The investment tax credit can be passed through by the lessor to the lessee who would then have a potential loss.

The coverage is underwritten by the several insurers that form part of the North American Managers pool, including Birmingham Fire Insurance Co. of Pennsylvania and the U.S. branches of Societa Assicuratrice Industriale of Italy, Nichido Fire & Marine Insurance Co. Ltd. of Japan, Colonia Versicherung AG of West Germany, Abeille Paix IGARD of France and AG de 1830 Compagnie Belge d'Assurances Generales of Belgium.

So far, AIG has never been presented with a claim on the coverage, said Mr. Esselborn, who pointed out that this is not surprising since the product is still very new and claims have not had much time to develop.

"A business should obtain property and investment tax credit insurance from separate insurance companies," advised Mr. Esselborn. That's because ITC coverage only responds in the event of a total loss. There could be a conflict of interest if an insurer who declares the situation a total loss must pay twice.

Since 1981, the government has started arbitrarily assigning to business property an economic life of three, five, 10 or 15 years, said Mr. Young in an explanation of how the coverage works.

For example, cars are assigned an economic life of three years, computers an economic life of five years and buildings an economic life of 15 years.

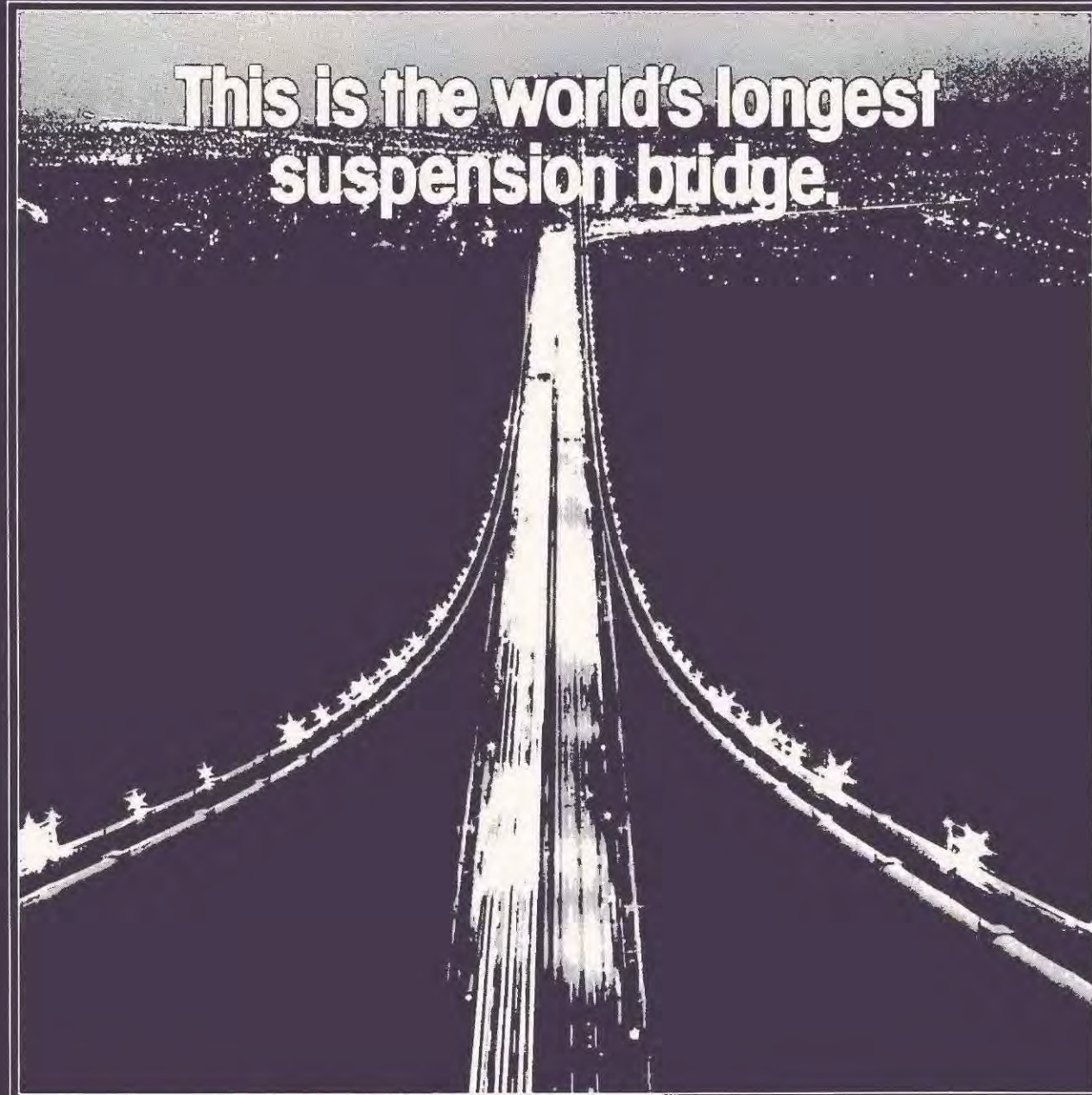
The amount of the tax credit on new property purchased by the business is related to the economic life of the asset. A 6% credit is allowed on three-year property; a 10% credit on five-year property. Therefore, a \$10,000 new car purchased by a business would generate a \$600 tax credit. A \$10,000 computer would generate a \$1,000 tax credit.

But, if the company sells the asset—or it is destroyed in a fire or other catastrophic event—the tax credit must be repaid. Each year the property is held before it is sold or lost, a portion of the credit is vested and, therefore, protected from repayment.

If the business owns the computer for one year before it is destroyed by a fire, then the equipment would be 20% vested. The credit will be 40% vested after two years, 60% vested after three years, 80% vested after four years and fully vested after five years.

Therefore, the business owes the IRS \$800 back if the fire occurs after one year, \$600 dollars back if the fire occurs after two years and so on.

New tax credits cannot be used to offset the amount owed to the government, stressed Mr. Young. For example, if the company goes out and buys a new computer to replace the one that was burned after only a year, it earns a new tax credit. But, the company still must pay back the \$800 it owes the IRS for failure to hold the first computer for the full economic life. ■



And its protection is designed by Rollins Burdick Hunter.

NEW YORK—The Verrazano-Narrows Bridge. Millions of tons of concrete. Enough wire cable to encircle the globe. Twin steel towers so far apart, they were built to conform to the curvature of the earth.

To build the Verrazano, the Tri-Borough Bridge Authority needed the help of building experts. And when they needed a protection plan for everything from tornado to third party

liability, the Authority called in another kind of expert.

The experts of Rollins Burdick Hunter.

Let us put together a team targeted specifically to you and your company's needs. A team that will strive to go beyond the traditional in protecting your assets.

Just like we did on this little job in New York.

**ROLLINS BURDICK
HUNTER**

Taking Risk Out of Risk Management, Worldwide

Headquarters: 10 South Riverside Plaza, Chicago, 60606 312-454-1400

Wholesaling.



We understand the risks, because we understand the business.

Everything works better when an insurance company knows your business.

You get expert help with loss control. Claims are processed more efficiently. And, most important, you get imaginative rating techniques that effectively match your premiums to exposures.

You'd expect an insurance

company to know the insurance business.

We've taken the time to learn the wholesaling business.

As one of the nation's largest insurers, we can design programs for all of your casualty, property, life and health insurance needs.

If you'd like to see the benefits of working with people who understand

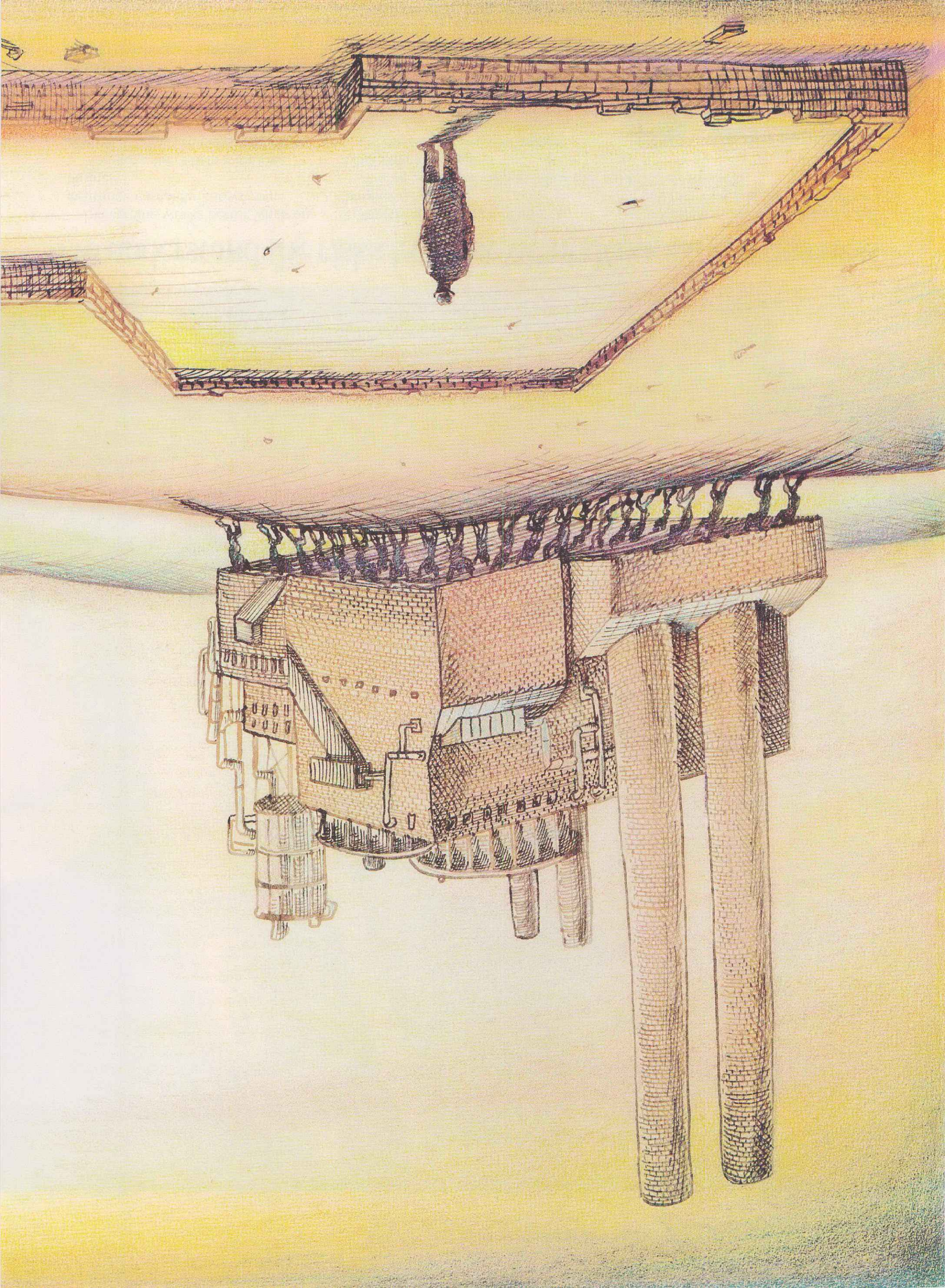
your business, give our business a call.

Call our National Accounts office at 715/346-6863.



Sentry Insurance

National Accounts Department
Sentry World Headquarters
1800 North Point Drive
Stevens Point, WI 54481



In certain parts of the world, if the powers that be don't like the way you do business, they do more than send you nasty letters.

No long treatise is needed to convince you how perilous it can be operating internationally these days. All you have to do is look at the front page or your T.V. Suffice it to say that sudden changes in local laws, riots, nationalization, civil insurrection, even the whims of foreign governments can all have serious effects on your business.

They can also put you out of business.

Even in times of worldwide economic stability, political risk has accounted for some uncertainty in foreign ventures. Today, the situation is even worse. What some people are calling a worldwide recession coupled with unexpected political change—even in foreign countries once considered stable—has created an environment in which operating internationally

is much riskier than ever before. The election in France is a good example. Iran, Iraq, Argentina and Lebanon are just a few more examples of relatively current events that have also caused some nasty surprises.

More than ever before analyzing political risk demands an intimate and expert knowledge of political and economic conditions all over the world. Just keeping a watchful eye on potential developments where you do business is simply not enough anymore.

Can AFIA help you? We think so.

At AFIA, we've been watching the world for a long time. Our international experts have experience, knowledge and imagination.

AFIA will write coverage against expropriation without fair compensation. We will also protect trade and construction contracts against the risk of an embargo, wrongful repudiation, currency inconvertibility and wrongful call of on-demand bank guarantees and bonds.

And we do it in the good old AFIA way—dependably, knowledgeably, expertly. And we combine that with the innovative and young-thinking attitude that is the new AFIA.

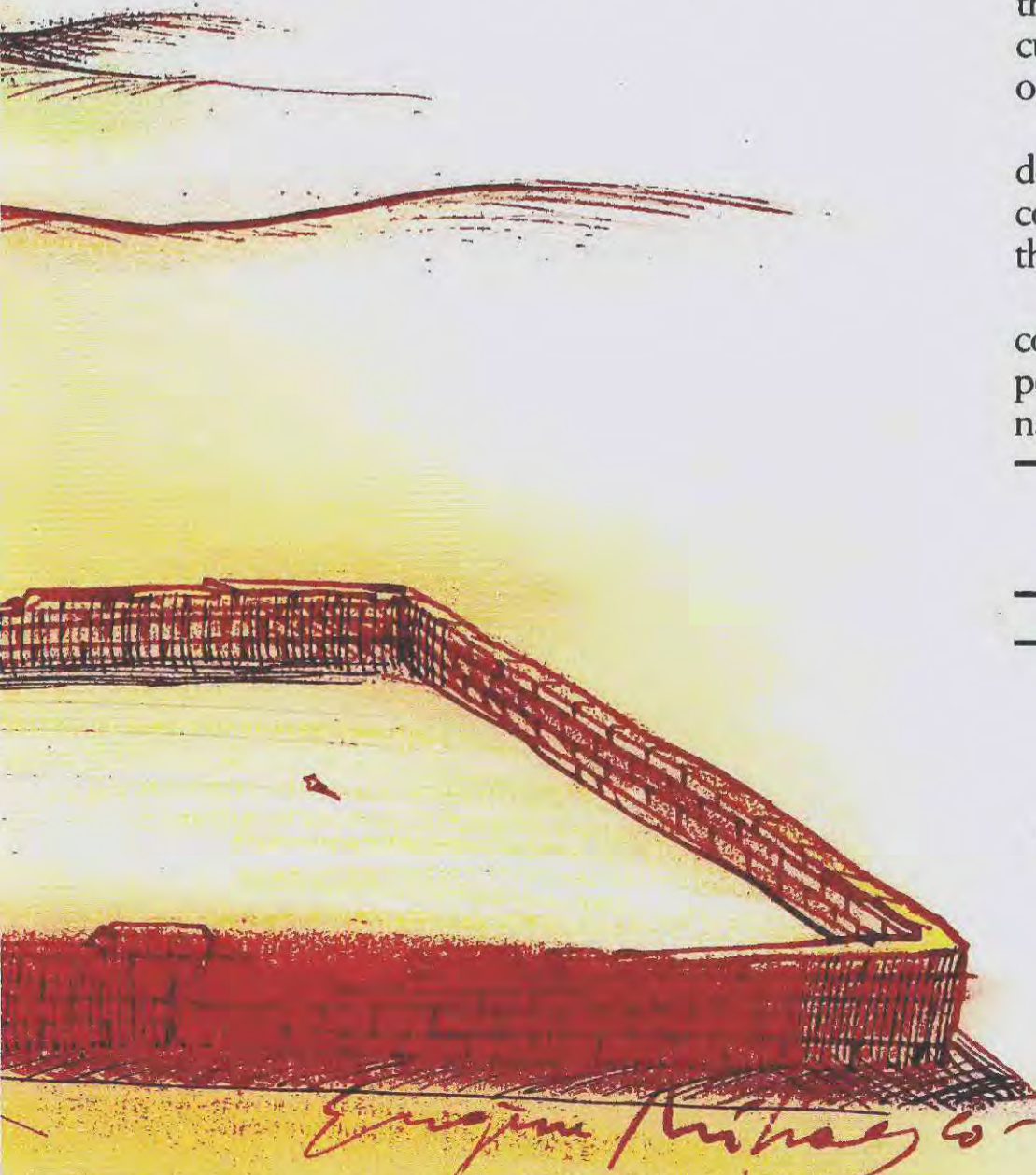
Give us a call. We're ready to protect your company's financial security against the day the powers that be do more than send you a nasty letter.

AFIA

WORLDWIDE INSURANCE

The older we get
the younger we think.

AFIA Worldwide Insurance, 110 William Street, New York, NY 10038
Atlanta, Boston, Chicago, Cleveland, Dallas, Houston, Los Angeles,
Miami, Minneapolis, San Francisco, Seattle, Washington, D.C.
and 230 other cities around the world.



New RIMS' chief stressing communication

By LEN STRAZEWSKI

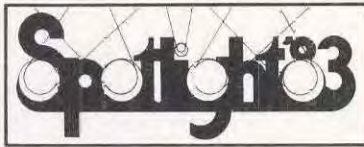
LOS ANGELES—French may be the language that Marc Darby, the new president of the Risk & Insurance Management Society, speaks as director of risk management for Societe de la Baie James in Montreal, but RIMS members should have no problem understanding him.

Clear communication is Mr. Darby's goal for his term of office, which began last month during the RIMS annual meeting (see story, page 57). Although risk management has become increasingly complex and international in its scope, Mr. Darby says that there is no reason RIMS members and their national organization should splinter and lose touch with their professional roots.

"The precepts of risk management—risk and loss analysis, loss avoidance, assumption or transfer of risk—are the same regardless of language or country," Mr. Darby says. "The wrap-up insurance program I designed for the James Bay project can be understood in any language by anyone who practices risk management."

"Risk management is international, and I want my tenure as RIMS president and the fact that I generally work in French in my office to be testimony to that international nature."

Some risk management issues, like a recently reintroduced bill, H.B. 2642, that would allow companies to take a tax deduction for self-insured loss reserves and premiums paid to captive insurers,



may only relate to U.S. RIMS members, but Mr. Darby says they will not lack his personal support or RIMS' attention.

"I am in complete support of the loss reserve deduction act and all other RIMS activities, even though I may not find use for them in Canada," Mr. Darby states. "One never knows when an idea conceived in the United States may prove worthwhile across the border. Legislation, however is difficult to import from Washington because of the very different government style in Ottawa."

Though RIMS will continue to provide information about risk management to legislators, Mr. Darby adds that good communication begins within the organization. RIMS will be re-evaluating all of its internal communication techniques, he notes.

"I want to first improve communications among RIMS members, chapters and the national organization," Mr. Darby told *Business Insurance*. "And to that end, we will be re-evaluating all our methods, including Risk Management magazine and the Rimscope and chapter officers' newsletters to try to come up with improvements if needed."

RIMS will also re-evaluate its member services, including its placement and legislative offices, Mr. Darby adds. "We've done quite a bit in the past few years, but it's

time to examine those services again and ask ourselves if anything can be improved."

Although the state of the economy has increased demand for member services, Mr. Darby says the organization is not yet overloaded.

Membership has stayed about the same over this past year. Despite some risk managers losing their jobs in the difficult economy, "there is still growth in risk management and in our membership."

Part of the service re-evaluation will be a new look at the RIMS annual conference, its format and speakers. Although attendance was down significantly at this year's conference, Mr. Darby says the national organization was neither surprised nor dismayed.

"We just don't have as many members in this part of the country as we do in the East. And considering the cost of a cross-country trip, we expected that attendance would be somewhat less," he said. "When you consider that a member must spend to \$2,000 to attend the RIMS meeting with his or her spouse, we think we did pretty good in our attendance."

Although RIMS "believes in the small-session format and industry meetings," the officers will review evaluation forms submitted by members attending educational sessions and make adjustments as requested, he said.

Keeping the lines of communication open between the society's national structure and local chapters is just the beginning. Mr. Darby plans to continue RIMS' mandate to expand the understanding of risk management within and outside the insurance industry.

"The image of RIMS is now well-perceived by legislatures, brokers and insurers that in the past were closed to us," he said. "But we still have to keep on selling and promoting the risk management movement to certain brokers and underwriters who still don't understand what risk managers and our organization do."

RIMS will also expand its liaisons to other executive organizations, Mr. Darby notes, in hope of improving their understanding of the role of the corporate risk manager.

In the past two years, RIMS has held liaison meetings with most major insurance industry organizations and invited representatives to set up exhibits in the "Association Walk" area at the annual conference. The liaison concept will spread to other financial organizations, too, Mr. Darby says.

"Two RIMS chapters have already begun meetings with the Financial Executives Institute, the national organization of chief financial officers, financial vps and administrative vps. We can expect more meetings of this type."

"Though the respect a risk manager receives in his or her corporate organization is up to the individual risk manager and the way he or she pushes understanding of risk management as part of corporate management, we want to help out in this general area as much as we can," Mr. Darby says.

However, the career success of a risk manager is probably one of the best means of communicating the overall worth of risk management.

"More risk managers are becoming vps or assistant treasurers. Some have even reached the top position in their corporation," Mr. Darby noted.

Maybe we should be called Western Eastern Northern Southern & Central Employers Insurance



Let's face it, sometimes being called Western Employers creates a little confusion. Our name implies that we're only in the west when actually we're all over the country.

We started in the west and quickly grew by providing the finest loss control, rehabilitation and benefits programs for larger companies.

Each account is assigned a complete service team to help reduce accidents and effectively handle losses. Their direct involvement greatly reduces

your administrative time and results in a considerable savings to your client.

Today, Western Employers serves every state from regional headquarters throughout the United States.

We have built quite a name for ourselves. We think we'll keep it.



515 North Cabrillo Park Drive
Santa Ana, California 92702
(714) 973-2813 (213) 588-5151

**THE PHONE RINGS.
YOUR EMPLOYEE'S CHILD HAS BEEN KIDNAPPED.
HER LIFE DEPENDS ON YOUR EVERY WORD.
ARE YOU WILLING TO RISK MAKING A MISTAKE?**

If you are not, you should re-examine your Kidnap/Ransom/Extortion policy in terms of your carrier's emergency crisis capability.

PIA offers you important facts to help you determine the complete adequacy of your policy.

**WHAT DO YOU CONSIDER
MOST IMPORTANT
WHEN BUYING A
KIDNAP/RANSOM/EXTORTION
POLICY?**

- **PRICE**
- **COVERAGE**
- **SERVICE**

Price and coverage are usually the consideration when buying a Kidnap/Ransom policy. However, in the event of an extortion or kidnap, *service* becomes the most important factor.

If your policy forces you to rely upon your local law enforcement agency, you should consider this carefully: law enforcement is often unable to adequately respond to all the sensitive complications of Kidnap/Extortion. Call them and ask about the services they render; you may discover they can only explain the options open to you. At no time will they advise you on what course of action to take.

Extortionists and kidnapers are basically mentally unstable. An inexperienced response to such mentalities can lead to complications that create a life-threatening situation.

FACTS

According to the FBI statistics, in 1981 there were over 200 domestic kidnappings. This record may be incomplete because all kidnapping acts are not a violation of Federal law. There were in excess of 4,700 extortion attempts in the U.S. and over 235 violations of the Hobbs Act.

SERVICE IS PRIMARY

When that critical phone call comes, it must be handled by *experts* who have experience in dealing with extortionists and kidnapers. Most underwriters of K/R policies do not have the resources to supply you with this specialized domestic assistance. This renders their "broad coverage policy" inadequate when you need this specialized *service*.

Question your insurer and broker now, as to the qualifications of their negotiators and ask for details regarding their domestic response capabilities. The answer you get may be very enlightening.

PIA does not deal directly with insureds. For further information, please have your broker contact Albert Van Wagenen, V.P., at PIA for our complete kit with detailed information regarding Kidnap/Ransom/Extortion insurance.

THE PIA ADVANTAGE

PIA Kidnap/Ransom/Extortion Insurance offers the services of the Paul Chamberlain Agency for *domestic* assistance and Lawnwest Ltd. for *international* assistance. The Paul Chamberlain Agency, composed of highly commended former FBI agents now specializing in the sensitive needs of industry, will arrive promptly and conduct the negotiations that bring a victim safely home (or neutralize a terrorist's intent). You, your family, your employees, colleagues and their families can be spared the anguish and possible severe mental and physical damage that could otherwise result. And similar response will come from our international team, Lawnwest Ltd.

There simply is no indemnification high enough to cover such losses. *Price and broad coverage are of no consequence without a specialized negotiating service.* Only PIA Kidnap/Ransom/Extortion insurance can adequately protect you from the rapidly rising wave of Kidnap/Extortion incidents.

Regardless of whether you consider price, coverage or service as the single most important factor in determining where you purchase your Kidnap/Ransom/Extortion coverage, PIA is ranked Number 1 in *all categories* by those who understand the various values of a Kidnap/Ransom/Extortion policy.

Re-read your policy. Then call your agent or broker and have him contact PIA.

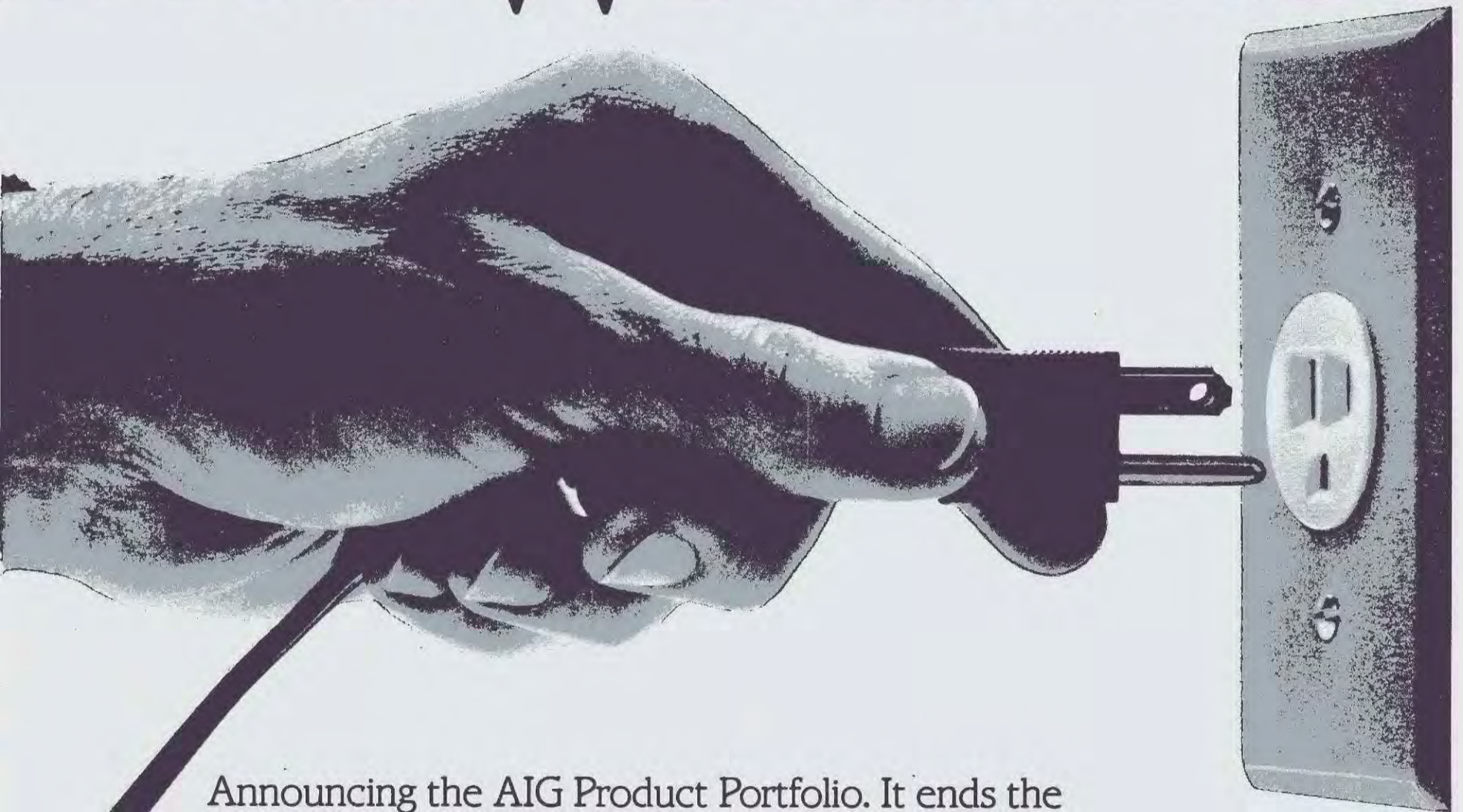


**The Broker's Broker.
Professional Indemnity Agency, Inc.**

409 Manville Road
P.O. Box 130
Pleasantville, N.Y. 10570
(914) 747-1818
Telex: 646929
TWX: 7105722197

ALIG JUSTM
TO MAKE CON

MADE IT EASIER TO CONTACT WITH AIG.



Announcing the AIG Product Portfolio. It ends the guesswork about what coverages are available. Where to go for them. And who can answer your questions.

Now a simple hook-up via ordinary telephone line and any computer terminal provides access to a special AIG data bank. To get the answer, just push a button. You don't have to be a computer expert. The Portfolio tells you what to do.

Each of our products can be rapidly cross-referenced by type of coverage and profit center. The Product Portfolio also includes the name and telephone number of the AIG person to call for more details as well as the location of the American International Group office nearest you. No more searching through out-of-date brochures. No more time wasted on random phone calls.

The AIG Product Portfolio has been designed to make a broker's life a lot easier. To learn more, please mail the coupon or call our special number, (212) 770-7311.

I'd like to learn more about the AIG Product Portfolio and how it can make life easier for me.

Name _____
Title _____
Company _____
Address _____
City _____ State _____
Zip _____ Phone _____

American International Group, Inc.
Dept. A, 70 Pine Street,
New York, N.Y. 10270

BI 5-9-83

ONCE AGAIN THE ANSWER IS AIG.

Now's the time to buy retroactive cover: Broker

By KATHRYN J. McINTYRE

LOS ANGELES—Risk managers who want to plug holes in prior years' insurance programs with retroactive liability insurance should buy it now, a broker advises.

The availability of retroactive liability insurance is a function of the current competition among insurers for premiums as well as high interest rates, noted Alan Middleton, chairman of J.H. Mirex (Canada) Inc.

If either of these conditions change, the product "may not be around as extensively as in the last year," Mr. Middleton told those attending a seminar on retroactive liability insurance at the annual Risk & Insurance Management Society conference.

A three-person panel offered this suggestion and other buying tips to a standing-room-only crowd. The large attendance reflected continuing high interest in retroactive liability insurance, which first gained publicity after it was purchased by MGM Grand Hotels Inc. in 1981 to cover losses stemming from the 1980 fire at its Las Vegas hotel.

Retroactive liability insurance, broadly defined, is any policy that will cover losses arising from events in the past that were at the time underinsured or not insured.

The three most popular types of retroactive insurance underwritten by the London insurance market, according to Mr. Middleton, are:

- Policies to cover incurred-but-not-reported losses stemming from prior years.
- Policies to increase the med-



ical malpractice insurance limits for hospitals, especially for the years in the mid-1970s when insurers refused to provide hospitals with high limits of insurance.

• Policies to cover known losses, like the liability claims arising from the MGM Grand Hotel fire.

The retroactive liability insurance purchased by MGM Grand stirred controversy as some insurance underwriters and brokers questioned the wisdom of breaking traditional insurance practices.

"Known-loss coverage may or may not be available, but IBNR

coverage is no more controversial than a claims-made form with prior acts coverage," noted panelist James W. Macdonald, assistant vp of Munich American Services Corp. in New York, a new consulting subsidiary of Munich Re created to advise insurers.

The three major underwriting leads of retroactive liability insurance in the London market are Merrett Syndicates P.L.C. and R. W. Sturge & Others, both at Lloyd's of London, and H.S. Weavers in London, Mr. Middleton said.

British National Life Insurance Society Ltd., a London-based subsidiary of Armco Insurance Group, will consider a request for retroactive liability insurance if there is a large premium involved, Mr. Middleton added.

In general, London underwriters

prefer to provide retroactive liability insurance when there are big risks and a high premium. "London doesn't want low premium/low hazards," he said.

When searching for an IBNR-type retroactive liability policy, a company can expect to find \$2 million of primary retroactive liability insurance and about 50% of \$3 million excess of \$2 million, he said.

When purchasing retroactive liability insurance to increase existing limits for prior years, a risk manager also may find the underwriters will want the company to assume a self-insured retention between the existing coverage and the new coverage, he noted.

When negotiating the coverage, "be sure everyone knows what is supposed to be done," he advised.

There are no standard forms for this insurance, so each policy must be manuscripted. The insurance buyer, broker and underwriters should negotiate the terms and conditions, making the binder the policy form, he suggested. Legal advice also should be sought in preparing the policy, he added.

Negotiating the coverage is the "hardest and most important" aspect of purchasing this product, agreed Mr. Macdonald. Cancellation clauses and aggregate provisions must be carefully defined.

If an underwriter would underwrite the same risk on a current-year basis, the risk manager is in a better position to insure it retroactively, noted Mr. Macdonald. "In theory, the risk is attractive because it has some experience."

In rating retroactive insurance, the underwriters start with standard rates for the risk today and apply credits based on actuarial predictions of claims development.

The most common reasons for needing retroactive coverage are related to under-insurance or no insurance in previous years, panelists noted. The company may not have recognized the need for insurance, or the marketplace may not have offered adequate limits.

Retroactive insurance may be purchased to increase available limits or to decrease self-insured retentions, noted Keith F. Feickert, vp of Johnson & Higgins in Los Angeles. It may be purchased to provide occurrence coverage for years when only claims-made insurance was available. It can be purchased to replace exhausted aggregate limits from prior years or to fill out an incomplete placement.

Companies also use a form of retroactive liability insurance to reduce the amount of risk retained in prior years, panelists agreed.

A company may close a captive insurer by selling its portfolio of loss reserves and liabilities to insurers and reinsurers, Mr. Feickert said.

Mr. Middleton said a company may want to move its self-insured reserves off its balance sheet and secure a premium tax deduction by selling them to insurers. Or, the company may be concerned that large contingent liabilities could cost it a qualification from auditors.

Risk managers also may want to purchase retroactive liability insurance as a hedge against the insolvency of insurers, he said.

The specific circumstances of the policy request will determine the availability of the coverage.

Mr. Middleton said London underwriters would be reluctant to write a policy that promised to pay in the event an insurer became insolvent because it could be viewed as a "financial guarantee" in which the underwriters were guaranteeing the financial solvency of another insurer.

"It would be easier to do if the insurer already were insolvent," Mr. Middleton said.

LAND...SEA...AIR...and SPACE

For coverage see ...

Wm. H. MCGEE & CO., INC.

MARINE UNDERWRITERS SINCE 1887

Four World Trade Center, New York, N.Y. 10048 • 212-775-1300.

Atlanta • Baltimore • Boston
Chicago • Columbus • Dallas
Detroit • Hamilton, Bermuda • Houston
Los Angeles • New Jersey, Clifton
New Orleans • New York Regional
Philadelphia • Pittsburgh
San Francisco • Seattle • Syracuse
Toronto • Vancouver

Correspondents throughout the World

Satellite Illustration Courtesy of RCA Americom

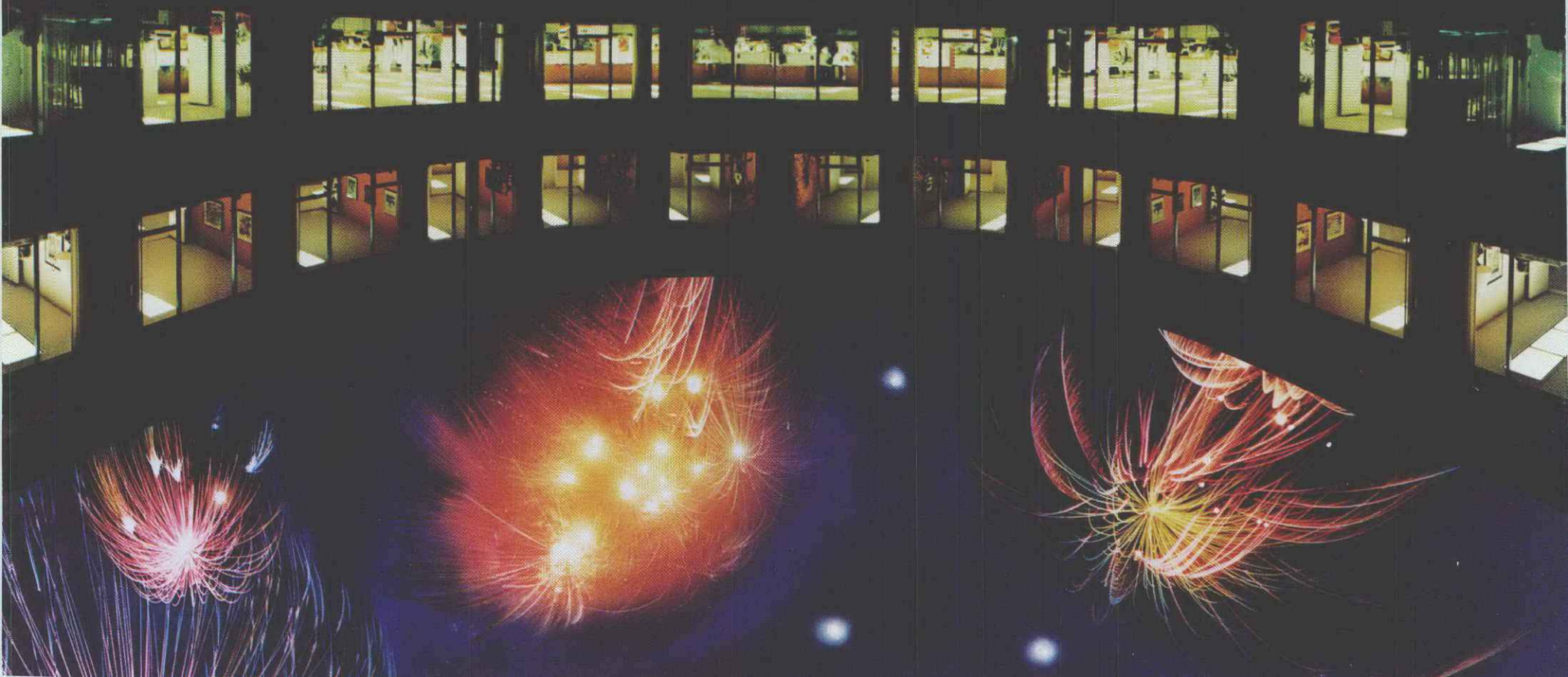
FRANK B. HALL & CO.



The Protection Connection™

In fact, there's never a dull moment at Frank B. Hall, the world's most inventive insurance services firm. We're busy setting the pace, developing new generation protection for the human and financial assets of the corporate community. Insurance can be exciting. If your insurance services firm is progressive. So make Frank B. Hall your Protection Connection™ to the new world of risk management. And share in the excitement.

AT FRANK B. HALL, INSURANCE IS NOT JUST ANOTHER DULL SUBJECT.



Coming Up!

Employee Benefits: Confronting the Future

Issue Date: May 30, 1983
Ad Closing: May 17, 1983

New York:
220 East 42nd Street, N.Y. 10017 (212) 210-0133
Chicago:
740 Rush Street, IL 60611 (312) 649-5275
Los Angeles:
6404 Wilshire Blvd., CA 90048 (213) 651-3710

Reporting weekly for corporate risk,
employee benefit and financial executives.



Discrimination should worry risk management staff, too

By JERRY GEISEL

LOS ANGELES—Companies should treat employee discrimination problems as a corporate and risk management concern, a consultant advises.

"Within companies, there is an attitude that this (employee discrimination) is a personnel problem, not a corporate problem," said Ronald Boggs, a consultant with the Risk Management Services Division of the Wyatt Co. in Chicago.

But the dollars involved in employee discrimination can be so large that employers no longer can afford to relegate discrimination issues to the personnel department, Mr. Boggs said.

Speaking before a Risk & Insurance Management Society annual

conference session April 25-29, Mr. Boggs said while the average back-pay settlements with individual employees is relatively small—about \$4,600 in 1981—a company can be on the line for millions in a class-action discrimination suit.

In addition, aside from being hit with paying a discrimination award—which usually involves the payment of back pay—employers may be ordered by a court to pay the plaintiffs' legal costs.

The possibility of large court awards probably has encouraged more employee discrimination lawsuits.

"The possibility of big awards encourages plaintiffs' attorneys to throw the dice," said Monte Lake, an attorney with Heron, Burchette, Ruckert & Rothwell in Washington.

Many employee discrimination lawsuits, in fact, may be frivolous and are dismissed by courts. However, judges have been reluctant to restrict a plaintiff's access to the courts to file discrimination suits.

As a result, even if a company wins a discrimination suit, it will be very difficult for the firm to file and win a countersuit against plaintiffs and their attorneys to recover legal expenses, Mr. Lake said.

Also, during a soft economy, more suits are filed by middle managers who believe age is the reason they were laid off, Mr. Lake said.

Employee discrimination claims that were filed by the federal agencies have increased substantially despite the election of a new administration that was supposed to be more business-oriented.

For example, federal agencies filed 630 discrimination suits in 1982, up from 450 in 1981, Mr. Lake said.

Yet, if an administration decided to back off filing discrimination suits, the pace of litigation would not ease.

That is because the bulk of discrimination lawsuits are initiated by employees, not by federal agencies. In fact, those agencies are involved in just 7% of discrimination lawsuits.

As a result, it is doubtful whether a change in administrations would have a meaningful effect on the pace of litigation, Mr. Lake said.

Employee discrimination can take several forms, Mr. Boggs and Mr. Lake said. The most common kind of discrimination is intentional. For example, a company may have had a policy of excluding blacks or women from top-level corporate jobs.

A more subtle discrimination is known as disparate, or indirect impact. This can occur when a corporate or governmental policy, which is neutral on its face, discriminates against a class of employees.

One of the most common kinds of unintentional discrimination is height requirements that municipalities set for police officers.

For example, height requirements have been found to discriminate against women and Hispanics.

In addition, companies may face a discrimination exposure for actions of individual employees.

Companies have made great progress in eliminating discriminatory employment practices, but problems still remain, Mr. Boggs said. ■

YOU CAN COUNT ON THE BACKERS



THE BACKERS...helping to keep The Golden Years golden

For more than twenty years, The Backers at Interstate have been providing protection for Retirement Homes, including liability, malpractice, property—all of the coverages that fall under an SMP. Every retirement home needs protection, because even the best administrators cannot foresee the unpredictable: accidents, misinterpreted instructions, equipment malfunctions, or staff errors, any of which can lead to trouble.

If retirement homes with nursing facilities are included in your book of business—or might be—call your nearest Interstate office and talk it over. Our background and experience assure you of quick answers and quotations. And, should the need arise, fast action on claims. Depend on Interstate. We'll back you...all the way.



Interstate National Corporation

Chicago Insurance Company • Interstate Fire & Casualty Company • Interstate Indemnity Company
55 EAST MONROE STREET, CHICAGO, ILLINOIS 60603 • PHONE: 312/346-6400

Interstate National Corporation is one of the Fireman's Fund Insurance Companies.

Diversity helps risk managers move up

By JERRY GEISEL

LOS ANGELES—Risk managers who want to move into the ranks of senior management need to broaden their backgrounds, a top corporate officer advises.

"Those who will advance the furthest will have an expertise in several functions," said Richard Brooks, senior vp and chief financial officer for San Francisco-based AMFAC Inc.

Speaking before about 150 risk managers at a session on job opportunities and career advancement in risk management at the Risk & Insurance Management Society annual conference, Mr. Brooks said risk managers shouldn't concentrate on just risk management functions.

If risk managers are to be contenders for such top corporate slots as treasurer, they must boost their financial skills, Mr. Brooks said.

That financial background would be especially important if risk managers want to broaden their job responsibilities by becoming more involved in areas like loss protection due to interest rates or commodity price changes.

Another speaker, A. Donald Ikle, a partner in the New York office of Ward Howell International Inc., a recruiting firm, advised risk managers to improve their academic and professional credentials. Risk managers should strive for the Associate of Risk Management and Chartered Property/Casualty Underwriter designations, he said.

Other advice Mr. Ikle gives to risk managers who want to move ahead is:

- Stay current on court decisions and legislative changes.
- Be creative. "Understand captives and data processing," Mr. Ikle said. Look at how potential acquisitions can affect your company. For example, if a corporation is considering buying a coal company, the risk manager should be alerting top management to the problems of black lung disease.

- Try to expand areas of responsibility. "Look at security, safety, pension fund management and employee benefits," Mr. Ikle said.

- Promote what you are doing. Risk managers should inform top management of what they are doing to stop losses and how much money they have saved their companies.

It is that last point—how risk managers can become more visible—that concerned several speakers.

"Many risk managers lack visibility even though they are highly competent," said Ron Winans, who moved up through the ranks of risk management to vp-administration at J.F. Simplot Co., a diversified food processing firm in Boise, Idaho.

Mr. Winans said he attracted the attention of top management through a willingness to take on projects that were outside his department.

Risk managers can use an event to increase their visibility within a corporation. For example, after a fire destroyed an unprotected Simplot food

processing plant, Mr. Winans was able to win top management support for his long campaign to have sprinklers installed at corporate facilities.

When a risk manager decides that he or she wants to move on to another company, the Risk & Insurance Management Society can help, explained Hillary Levine, director of the society's Executive Referral Service.

Some risk managers still believe that the services are limited to members of the New York RIMS chapter. But Ms. Levine stressed that the service is available to RIMS members throughout the country.

The service tries to match risk managers who are looking for jobs with companies that are open-



ing up new risk management departments or have vacancies in their departments.

The service operates on a strictly confidential basis. Risk managers file copies of their resumes with the referral service. The service then forwards the resumes to employers that have asked the Risk & Insurance Management Society for help in finding a new risk manager. These companies, once they have received the resumes, then directly contact the risk manager if they are interested in that specific candidate.

The RIMS referral service also can help risk managers prepare their new job resumes, Ms. Levine said.

In preparing resumes, risk managers should stress several points, Ms. Levine said. These include:

- Indicate salary requirements and geographic preference. "Risk managers who are willing to relocate anywhere have a distinct advantage," she said.

- Elaborate on achievements. If a risk manager set up a captive, that should definitely be listed on the risk manager's resume. In addition, the risk manager should be specific about how much money he or she saved the corporations for which he or she worked.

- Emphasize educational background.

- Be specific about functions

performed at former company.

Before the risk manager is interviewed, he or she should find out as much as possible about the company.

For example, the risk manager should read copies of the firm's annual reports and 10-K statements that are filed with the Securities and Exchange Commission.

Despite the soft economy, the RIMS referral service has more than 50 jobs on file. Two of those jobs offer salaries of \$50,000 for No. 2 risk management slots at Fortune 500 companies, while another job offers a \$100,000 salary at a major corporation.

In addition, RIMS recently helped place a risk manager in a job that pays a \$90,000 salary, Ms. Levine said.

The maker of a record-setting business jet on safety and the company plane.

Allen E. Paulson, President and Chairman of Gulfstream American Corporation, builder of the Gulfstream III business jet and Gulfstream Commander Jetprops.



In the interest of safe flying, I firmly believe every corporate pilot should take a regular program of refresher training.

"Corporate pilots have even greater demands on their skills than airline pilots. Instead of just flying from A to B and back to A, corporate pilots frequently fly to unfamiliar fields. Those fields may be smaller and may not be equipped with sophisticated navigation aids—yet the pilots must be prepared.

"Simulators are the best place to practice. Emergency situations that are too

Demands on Corporate Pilots

dangerous to practice in the airplane can be realistically experienced in the simulator. You also save fuel and avoid tying up the aircraft.

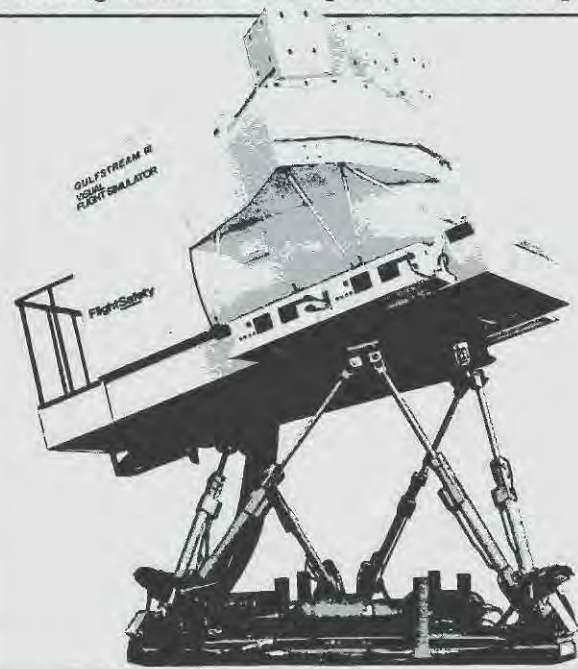
"A Gulfstream III recently set the around-the-world speed record for business aircraft. Before departure the crew practiced all of the planned airport approaches in

FlightSafety's Gulfstream simulator.

"It's a company requirement that our own pilots take FlightSafety simulator refresher training even though they're flying

Simulators: the safety factor

every day. We think other companies should do the same. In fact, initial FlightSafety training is included with every Gulfstream we sell. We want customers to establish professional training habits—to keep their skills sharp."



FlightSafety International® offers simulator training programs for almost every type of jet and turboprop business aircraft. For more information send this coupon or call Jim Waugh, V.P. Marketing at (212) 565-4120 collect.

Name _____

Title _____

Company _____

Address _____

City _____ State _____

Zip _____ Phone _____

Aircraft Type _____

Mail to: FlightSafety International, Marine Air Terminal, Dept. U-053, LaGuardia Airport, Flushing, N.Y. 11371.

FlightSafety
international

Savings can sell safety and loss program

By LEN STRAZEWSKI

LOS ANGELES—Risk managers need to sell safety and loss prevention to top executives, NATLSCO Vp James W. Smirles told an audience at the Risk & Insurance Management Society annual convention April 25-29. And risk managers had better talk savings when they make their pitch.

"It makes very little difference what kind of insurance or self-insurance program you have," he said. "One way or another, you have to pay for the losses. If you self-insure, you will pay the losses directly. If you are insured, the insurer will pay and raise your rates to compensate next year. That's your tool for selling loss control to your employees and top management."

Risk managers must communicate the costs of accidents directly to top management and local plant or subsidiary management in terms they can understand, he added.

"The difference between a very good safety record on the one hand and a very bad safety record on the other can jump insurance costs as much as 400%," he noted. But many employees may not understand how this kind of experience modification works or how much claim dollars mean to operations.

"Tell them how much sales are required to pay for even one accident when all costs, including lost time, paperwork and benefits are paid. If they don't understand how much sales are needed, tell them in terms of the units they manufacture—how many bars of soap need to be made," he said.



Mr. Smirles, the author of the RIMS study program on loss prevention, also recommends risk managers find ways to charge back losses to subsidiaries to emphasize the communications effort.

If the high costs of accidents sell the need for safety, a risk manager or safety manager should design a comprehensive loss-control program, Mr. Smirles said.

"Safety by objectives is no different from management by objectives," he explained. "State your specific goals, state the specific deficiencies and the desired results,

state who is responsible and when the goals must be met."

Once the plan is communicated, a risk manager should follow up to determine the plan's progress and measure the safety accountability.

Sometimes implementing a loss-control program may require special assistance, added Richard E. Dolliver, regional occupational health manager for the CNA Insurance Cos. in Los Angeles. That's where an industrial hygienist may help.

A good industrial hygiene program can reduce workers compensation and related costs, Mr. Dolliver said. "A hygienist should be able to help you reduce some current health problems such as dermatitis, asthma and accident-related problems that can be caused by correctable hazards, but he or

she also should be able to point out future problems caused by varicous job situations.

"We like to think that if we had had industrial hygiene years ago, all the problems we are now having with asbestos would never have happened," he remarked.

A risk manager also can sell industrial hygiene services to his or her company by pointing out that the elimination of even minor hazards can result in improved efficiency, reduced turnover and improved labor relations.

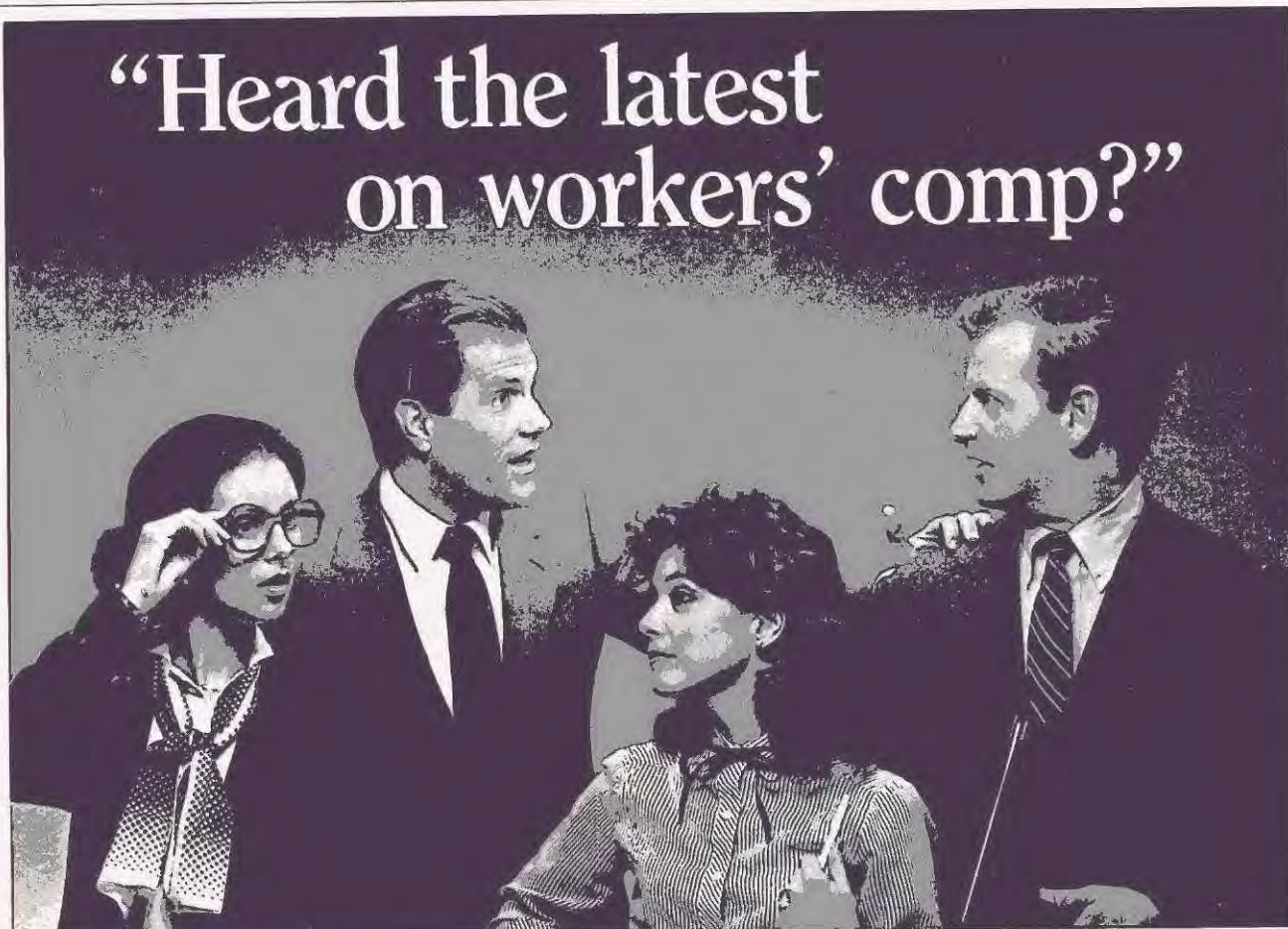
Mr. Dolliver noted, for example, a situation in which solvent fumes were affecting workers stripping parts from damaged machinery.

"At the beginning of the day the workers were hitting the basket with the used parts every time. By mid-day, one out of every five parts fell on the floor. They were being put to sleep by fumes and were operating at 80% efficiency at best," he said. "An industrial hygienist noticed the problem and it was easily corrected."

Long-term disabilities are not easily corrected, added Susan Beamer, vp and executive director of NATLSCO Rehabilitation Management. But risk managers can take steps to limit long-term costs.

"Do you have a trigger that warns you when an injury case has gone too long? You should," she said. "Apparently many companies do not monitor their injury and disability cases carefully enough because, as a consultant, I'm seeing cases now in litigation that involve people who have been out of work two years or more. They should have been in rehabilitation almost immediately after the injury in order to reduce costs and avoid this litigation."

Ms. Beamer recommends risk managers get involved in setting goals for rehabilitating injured workers and tracking lost time to make sure cases are not taking longer than they should. ■



"Heard the latest on workers' comp?"

You need to make only one change for more efficient claim handling. Equifax has changed the rest.

Change #1 — We've added new claim investigations to our existing program, enabling us to offer you a complete line of information services.

Change #2 — We've established an extensive, ongoing training program on workers' compensation which will keep our field investigators up-to-date.

Change #3 — We've redesigned our reports to provide more complete information in the most useful format.

Change #4 — We've developed a staff of highly-trained case supervisors to handle your claims and consult with your people on a one-to-one basis when they need investigative assistance.

Change #5 — We've made a commitment to provide the most comprehensive and professional workers' compensation claim program available from any single source.

These are five very good examples of why Equifax is the leader in the field of insurance-related information services. As a leader, we make it a point to understand and meet the needs of insurance and self-insured companies.

Now one national source offers complete service capabilities, professional investigators trained specifically in workers' compensation, case handling supervision and consultation. And pertinent information reported quickly and accurately.

The system is flexible — you can choose the complete program or select unbundled services, depending on your individual claim requirements.

We tailored our program to our customers' specifications and it's working! No other national company can offer the same full-service capabilities or the same full-service quality.

There's only one thing left for you to do.

CHANGE TO EQUIFAX.

For further details about our complete package of Workers' Compensation Claim Investigations, contact your local Equifax office, or call our Claim Market Center, Atlanta, Ga., at 800-241-1896.

**EQUIFAX
SERVICES**

Claim Market Center
1600 Peachtree St., N.W.
Atlanta, Georgia 30309

From The Reprint Department Of:
**business
insurance**
Reporting weekly for corporate risk,
employee benefit and
financial executives

Do you need to distribute copies of articles appearing in Business Insurance at your meetings or for your mailings?

Business Insurance has expanded its reprint department to meet your needs.

For fast, low cost* reprints of articles appearing in Business Insurance, or to obtain reprint permission for your own copies, call or write:

Reprint Department
Business Insurance
220 E. 42nd St.
New York, N.Y. 10017
212-210-0131
212-210-0229

* New prices effective 1/1/83

Don't be trapped by cheap reinsurance.

Saving a few dollars on reinsurance premiums can be a very tempting but false economy.

Poorly planned reinsurance programs or late payment of claims put a clamp on your company's profits.

That's why financial stability, prompt payment of claims and personal contact are so important in selecting your reinsurer.

General Re offers a depth of skill, experience and financial resources unsurpassed by any other domestic reinsurer.

For reinsurance you can trust, call General Re today.

**General
Re**

America's Largest Reinsurer



General Reinsurance Corporation, Greenwich, Connecticut

© 1983 GRC

Atlanta, Chicago, Columbus, Dallas, Des Moines, Hartford, Houston, Kansas City, Los Angeles, New York, Philadelphia, San Francisco, Seattle, Washington, D.C., Montreal, Toronto, and London

Let CFO know how you run department

By KATHRYN J. McINTYRE

LOS ANGELES—You can make your chief financial officer feel comfortable with your risk management program if you satisfy his three major concerns, says a risk manager who is moving into financial management.

The chief financial officer is concerned that the company has adequate protection against catastrophes, that the risk management department has a financial control system and that there are basic management policies for risk management, says Gary Bausom, assistant treasurer of Esmark Corp. in Chicago.

Mr. Bausom, whose duties at Esmark have expanded beyond the risk management function, also knows of top management's concerns from a 14-week program in management developed at Harvard University.

The chief financial officer is concerned about adequate protection against catastrophes and a financial control system for risk management to protect himself from events that would be embarrassing to him with the board of directors and the chief executive officer, Mr. Bausom explained. He is concerned that there are basic management policies for risk management because that is the method for communicating with senior operating management, he added.

Risk managers should want to satisfy the chief financial officer's concerns because in most companies, the risk management function ultimately reports to the chief financial officer, Mr. Bausom said.

The chief financial officer, however, can't focus on all the details as the risk manager should because the chief financial officer has many other duties and responsibilities, Mr. Bausom observed. Financial planning, accounting and Securities & Exchange Commission filings, budgets, financial controls, investments, auditing and banking and tax issues and policies are probably all under the chief financial officer, in addition to risk management.

To assure the chief financial officer that the company has adequate protection against catastrophes, the risk manager should provide two reports, Mr. Bausom advises.

One is a policy register, which can be presented as a spread sheet, of all insurance coverages. It should list each coverage, the limit purchased, the deductible or self-insured retention, the policy term, the lead underwriter, the broker, the annual net premium and the commission or fee paid for brokerage services.

The other report is a brief memorandum on catastrophic exposures. Describe what the catastrophic exposures are, what the probable causes of such catastrophes would be, what effect a catastrophic loss would have on the company and estimate the magnitude of such catastrophes, Mr. Bausom advised.

These two reports will start to give the chief financial officer a "level of comfort," he said.

The accounting or control system the chief financial officer expects in a risk management department is an accounting system that will compare ultimate net costs with accruals—by year, by line of coverage and by division. This report should be provided on a quarterly basis, Mr. Bausom advised.

"Many times this is neglected because most accounting departments don't understand the basic elements of a risk management program, so they can't set up the basic system," he said. And the risk manager may not know how to set it up or it may not be a priority.

Three management policies are

necessary to be sure that the risk management program is effectively communicated to operating management, Mr. Bausom said.

The first policy statement should define the risk management function, the risk manager's role and responsibilities.

The second policy statement should be a written accounting policy, including a chart of risk management accounts. This is an opportune statement for defining risk management terms that may be used differently by the chief financial officer.

A liability and an expense may be used interchangeably by an adjuster, but when a chief financial officer thinks of an expense he thinks of the income statement and when he thinks of a liability he thinks of the balance sheet, Mr.



Bausom explained.

The written accounting policy also should include a description of how the risk management department acquires its information, when it is due to the department, who uses the information, to whom it is distributed and when.

The formula used for allocating losses to divisions should be included in the accounting policy to allow operating managers to anticipate their costs and to avoid surprises and the potential for disagreements, Mr. Bausom noted.

An information policy statement

also is important, Mr. Bausom said. It should detail information needs—for underwriting, claims management and legal work.

Although risk management departments can be buried by pounds of paper providing needed information, new risk management information systems can reduce the paperwork. Esmark, for example, has used two generations of microcomputers in its risk management department and was able to reduce staff thanks to the new efficiency in handling information.

Besides these essentials, Mr. Bausom recommends that risk managers also provide the chief financial officer with a statement at the beginning of every year on what the risk management department is going to do for the year. This statement should then be reviewed at

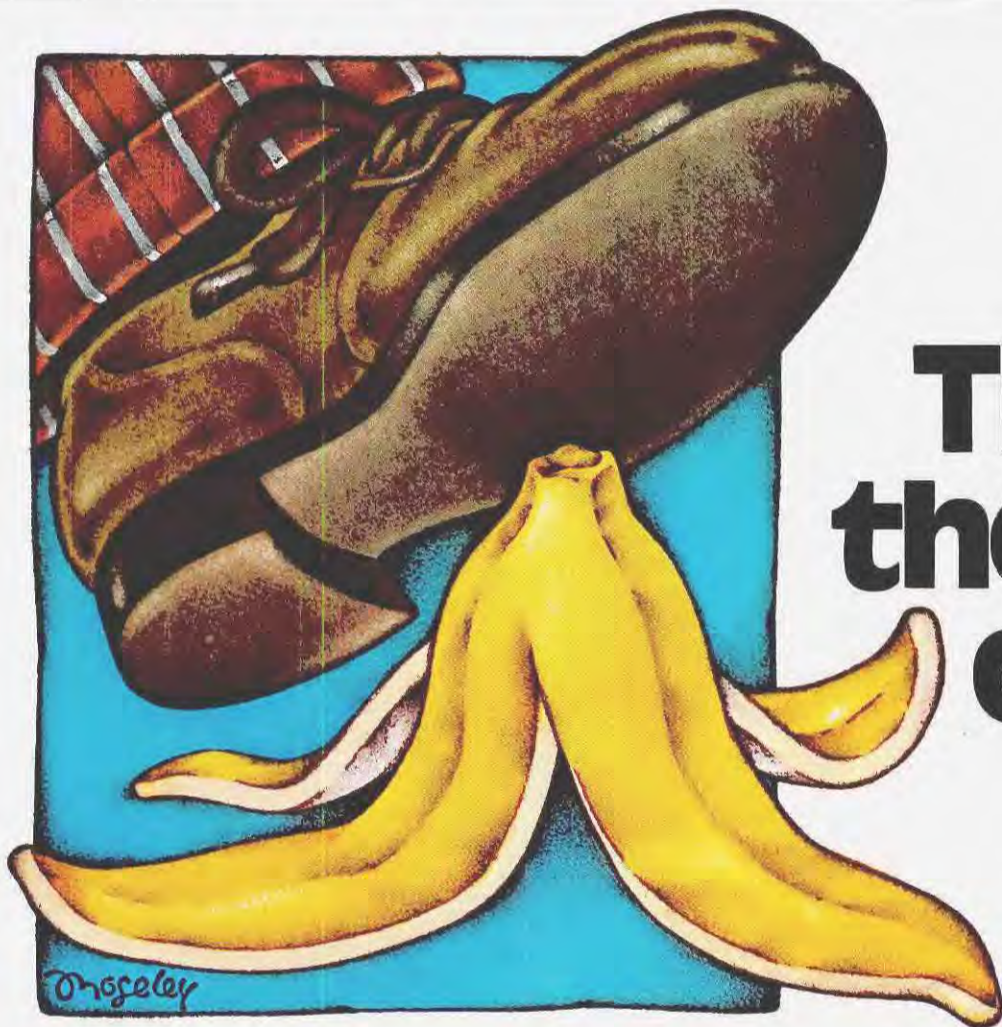
the end of the year against a report on accomplishments.

A risk management annual report also is in order, Mr. Bausom suggested (see story, page 35).

As a helpful hint to communicating with the chief financial officer, Mr. Bausom recommended that risk managers read business and financial literature.

"Read a general business periodical other than the Wall Street Journal," he advised. "And read an accounting or financial journal."

He recommended receiving reports on the insurance industry from William Blair & Co. in Chicago and Drexel Burnham Lambert Inc. in New York. These analyses of the insurance market will provide risk managers with a "different dimension" on the industry, he said.



There's the cost claims

The state of

It could be something as innocent as a banana peel on your company's grounds. Or as devastating as a sudden explosion. In either case, when people are injured on company property, the cost of your casualty insurance is bound to go up.

Not if you put GAB to work for you. Here, people and machines process casualty claims with unusual efficiency.

A prime example is our special network of 3,400 claims professionals, who investigate, settle and handle the payment of claims. Our professional people work out of 650 conveniently located offices and five Claims Administration Centers around the country. They're trained to speed up the settlement of claims so the injured parties aren't subjected to lengthy delays for their casualty payments.

There's another special quality about GAB. When we handle your casualty claims, the 'we' includes a casualty adjuster, a casualty supervisor, a regional supervisor, a team of general adjusters and a territorial supervisor. That way, every claim is given the attention it deserves by trained professionals.

Your company further gains from GAB because we're independent adjusters. Every claim is viewed objectively. And claims are handled fast, nationwide.

We feed data into our on-line computer system daily, so information on claims can be stored and updated. The systems automatically print ten standard reports every

What goes in a risk management report

By KATHRYN J. McINTYRE

Annual risk management reports to top management can be as short as one page or as extensive as the risk manager wants, says a risk manager.

"We vary our report depending upon what is of current interest and our time available to prepare it," said Judi Tornese, director of risk management for Transamerica Corp. in San Francisco.

Regardless of length, the report serves important purposes, Ms. Tornese told risk managers attending a seminar at the Risk & Insurance Management Society annual conference April 25-29.

It's an educational tool to tell top management about the cost, benefits and objectives of the risk management program.

And it is a reference for the risk manager, providing the opportunity to stop and re-

view work, to set priorities and long-term direction.

Reviewing the components of an extensive annual report provided to top management at Transamerica in 1981, Ms. Tornese suggested an annual report could be organized under the following headings:

- Summary of accomplishments in the past year.
- Goals for the coming year.
- Description and functions of the risk management department.
- Organization chart of the department including reporting lines and responsibilities.
- Organization chart of all consultants.
- Financial statement showing the assets and liabilities of the risk management department and the funds under its control.
- A profit/loss statement for the department's activities.

- Claims experience depicted by year and line of coverage, showing cumulative gains or losses from prior years.

- Fees paid by subsidiaries.
- Insurance premiums paid compared with the prior year, segmented by broker and by type of coverage.

- Insurance coverage purchased outside the risk management program if any divisions buy insurance apart from that purchased by the risk management department.

- Joint ventures describing the department's involvement in insurance and risk management for them.

- Uninsured risks.
- Losses by subsidiary and by line.
- Claims management philosophy.
- Review of major claims, excluding workers compensation.

- Costs of self-funding workers compen-

sation.

- Major workers compensation claims.
- Safety and loss-control information.

Ms. Tornese also asks brokers, consultants and adjusters to submit annual statements that are attached to the risk management report. Their statements include descriptions of their companies, accomplishments, fees charged and description of hours spent on assignments.

The first year a risk manager prepares an annual report is the most difficult, Ms. Tornese observed.

The risk manager should involve everyone in the department in preparing the report, with one person who coordinates it.

Using charts and graphs to depict information is very helpful, she noted. Highlighting information that will be of interest to particular executives also will make the report more useful, Ms. Tornese said.

an art to keeping of your casualty from going bananas.

the art is GAB.

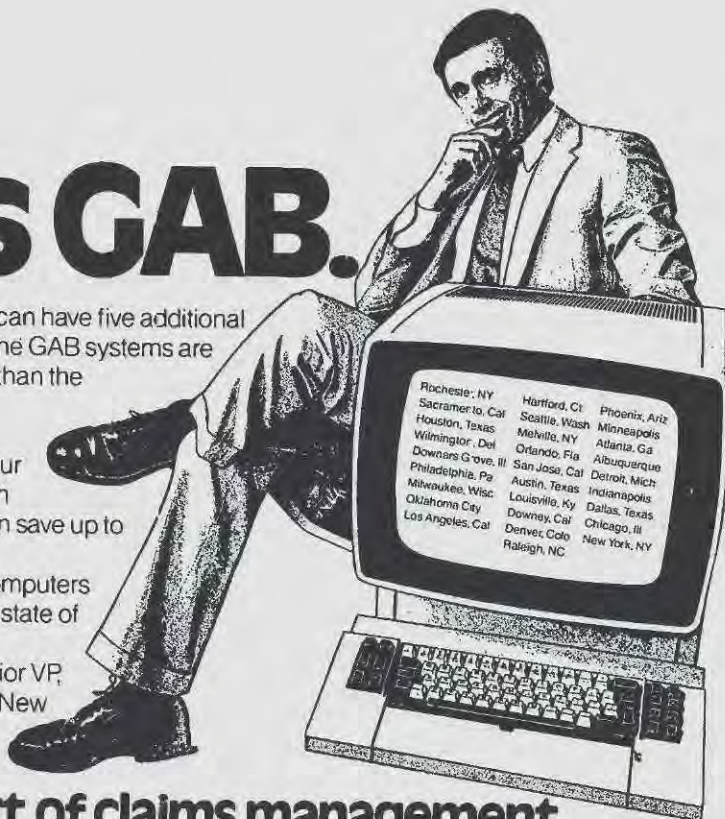
month to help you identify and eliminate risks. Plus you can have five additional reports with custom tailored information. What's more, the GAB systems are highly flexible to meet your needs—much more flexible than the competition's.

Then there's GAB's exclusive Automated Cash Transfer system (ACT), which enables you to reduce your required claim deposit to a minimum; often no more than four days deposit as opposed to two months. So you can save up to 90% on your claim deposit reserve.

Talented people joining forces with advanced computers to bring you streamlined service—that's our definition of state of the art.

For more information, write Paul Dougherty, Senior VP, Claims Management Division, GAB, 123 William Street, New York, NY 10038. Or call him at (212) 306-8390.

GAB The state of the art of claims management.



Five ways to get message across

Risk managers can use five methods of communicating their risk management programs, a risk manager says.

A risk management manual, travel, company publications, training meetings and allocating loss costs to divisions all offer the risk manager an opportunity to communicate the risk management program, says Mark W. Eklund, manager of risk and insurance for Univar Corp. in Seattle.

The risk management manual is the first and foremost communication method used by Mr. Eklund.

The manual includes a corporate policy statement regarding information needs, responsibilities, risk financing strategy and an invitation to make recommendations on the risk management program.

Another section discusses general risk management considerations such as insurance requirements, certificates of insurance and claims.

Five major sections detail insurance coverage and claims procedures.

Mr. Eklund travels with the insurance broker to Univar locations in the United States and Canada to discuss the risk management program with local management. "We try to leave them with a better feeling on how it can save them time, trouble and money."

Traveling to insurance company headquarters to discuss issues also is on Mr. Eklund's itinerary.

Company publications can be used to discuss numerous risk management issues, Mr. Eklund noted.

Articles can relate proper lifting techniques or product liability developments. Whatever the topic, the article should describe how the suggested actions can save time and money.

"Pass these along to your broker and insurers," Mr. Eklund added. It never hurts to show them your efforts.

Training meetings offer risk managers an opportunity to discuss issues of interest to various types of employees. A training meeting for accountants could include a session on trends in the self-insured programs. A training meeting for sales personnel provides the opportunity to warn them not to oversell the product. Personnel managers would be interested in a presentation on workers compensation and plant managers want information on property loss control, Mr. Eklund said.

Allocating the cost of losses to plants and divisions is an effective form of communication, he suggested. "Tie charges directly to behavior you want to discourage. You get attention when you hand them a bill with a 25% increase," he said.

Dealing with a kidnap requires planning

By LEN STRAZEWSKI

LOS ANGELES—It's too late to plan how to handle an executive kidnapping after a victim has been taken, notes Peter Goss, director of operations for Controlled Risk Ltd., a London-based consulting firm that specializes in executive security.

Prevention is a necessity for major corporations, especially those operating overseas, and corporate preparedness is a must in case preventive security measures fail, he told participants at the Risk & Insurance Management Society annual conference April 25-29.

Corporations should begin with a risk analysis to determine exactly how likely a kidnapping is and then "strike a balance between the reality of the threat and the need

for protection," Mr. Goss said.

"It's important to examine the likelihood of a kidnapping," he explained. "And there are plenty of sources of information on the trends in whatever country or area your executive may be visiting. Local law enforcement agencies, the U.S. State Department, the local press and consulting specialists all may be able to fill you in on the possibilities of a criminal or terrorist kidnapping abroad."

Most kidnapping, however, doesn't necessarily involve American executives traveling abroad, though that may be the concern of most corporate risk managers and security directors, he pointed out. Most kidnap victims are local, wealthy executives held for ransom by local criminals or terrorists.

In these cases, an image change



may be the best prevention.

"Perceived wealth is almost always a factor for criminals choosing a victim. Is he or she well-known as a wealthy executive?" Mr. Goss asks.

If the executive appears rich enough to be a worthwhile target, the next consideration is the potential victim's vulnerability.

If an executive never varies the route to work, has a predictable schedule and is often alone for long periods, the potential victim may appear to be a "soft" target that poses little challenge for a kidnaper.

per.

"If the potential victim does not fit this profile, it is unlikely that a kidnapper will make an attempt.

If the best-laid plans of prevention fail, a corporation should be prepared to deal with the crisis.

A corporate crisis management team with defined authorities and membership should have been prepared for action, he advised. Members of the team should probably include the corporation's chief executive, legal counsel, security director or risk manager, finance and personnel representatives and corporate public relations director. Special advisors, including an outside negotiator or security consultant, should be an ad-hoc member of the crisis management team.

"Certainly this team can vary depending upon the crisis, and cor-

porations need not have a special crisis team just for hostage situations. But a corporation should have a prearranged team for dealing with any crisis in order to maintain operations and make decisions," Mr. Goss said.

This team should make the key decisions regarding concessions or rejections offered to a kidnapper, a decision to pay or not to pay ransom, the acceptance of any risk involved and control of any local negotiating team that could be operating at the scene of the crime.

Though Mr. Goss recommends cooperation with local law enforcement he does not necessarily recommend that local authorities, especially foreign law offices, lead negotiations.

"Foreign law enforcement officials may be inept, incompetent or completely corrupt. If the kidnapping took place abroad, the police may have even helped to finger the victim. In the United States, however, the Federal Bureau of Investigation is quite good at hostage situations, probably the best in the world."

If a corporate kidnapping does necessitate calling the FBI, Special Agent Robert McNeal told RIMS members that they could expect complete cooperation, advice and "as many agents as are needed.

"But no FBI help is going to be forced upon you," he emphasized. "The FBI will not force you to do anything, but we will advise you based on our experience and volunteer our services in any way you want them."

The FBI's first response to a kidnapping will be providing a negotiator to work with a corporation's crisis management team. "If more agents are called for, we will bring them in, calling upon other area offices or the nationwide network of offices if necessary," he said.

In many cases, kidnappers find hostages to be more of a burden than they imagined and are willing to return them if an opportunity is presented, he said.

"We will help you get ransom money if you don't have it and we will volunteer to make the drop if you ask us to," Mr. McNeal said. "Too often, citizens see the FBI and other law enforcement groups as only interested in apprehension and the recovery of loot. I want to emphasize one point to you. In these cases, the FBI's number one priority is getting a hostage or victim back safe and sound."

After a hostage is freed and returned to his or her anxious family, the crisis management team will be reviewing bills. That's where kidnap and ransom insurance may save the day, according to Kinsey Carpenter, vp of Stewart Smith West Inc., a surplus lines brokerage that sells kidnap and ransom coverage sold by Lloyd's of London underwriters.

The k&r policy, which indemnifies policyholders for expenses incurred during a hostage crisis, up to the limits of the policy, can be sold to cover both kidnap and ransom and various types of extortion resulting from threats to people, property and product tampering, he said.

"The cost of the coverage has fallen dramatically due to competition in the property/casualty insurance marketplace," he said.

For example, a U.S. corporation with five domestic locations would pay only about \$750 per year for \$1 million in coverage, he noted.

"Factors involved in underwriting the coverage include a corporation's degree of preparedness, number of foreign locations, the extent of foreign travel by executives and the overall profile of a corporation in its community," Mr. Carpenter said. ■

Another exciting innovation from the leader . . .

corporate systems

MINICERO

NEW... A personal risk-decision-making system

CS Micro is your on-site personal computer link to Corporate Systems' huge mainframe data base. With CS Micro, you can produce management reports, analyze statistics, build business graphics and more, right in your office. And all without full-time on-line costs.

For your free brochure on this exciting new innovation in risk management decision making, call toll free in the U.S. and Canada, (800) 858-4351 or (806) 376-4223 in Texas. Or send the coupon below.

corporate systems

Leadership in Risk Information Technology

Tell me more about CS Micro, Corporate Systems' newest advance in risk information technology.
Mail to: Corporate Systems, Dept. BI, P.O. Box 31780, Amarillo, Texas 79120

Name _____ Address _____ State _____
City _____ Phone _____
Position _____ Zip _____
Company _____

CSC 1983

Do you know who your reinsurer is?



How financially stable is
your reinsurer?

Is your reinsurance retroceded?

Do you know where it goes?

Are the details of your
reinsurance readily available
to you?

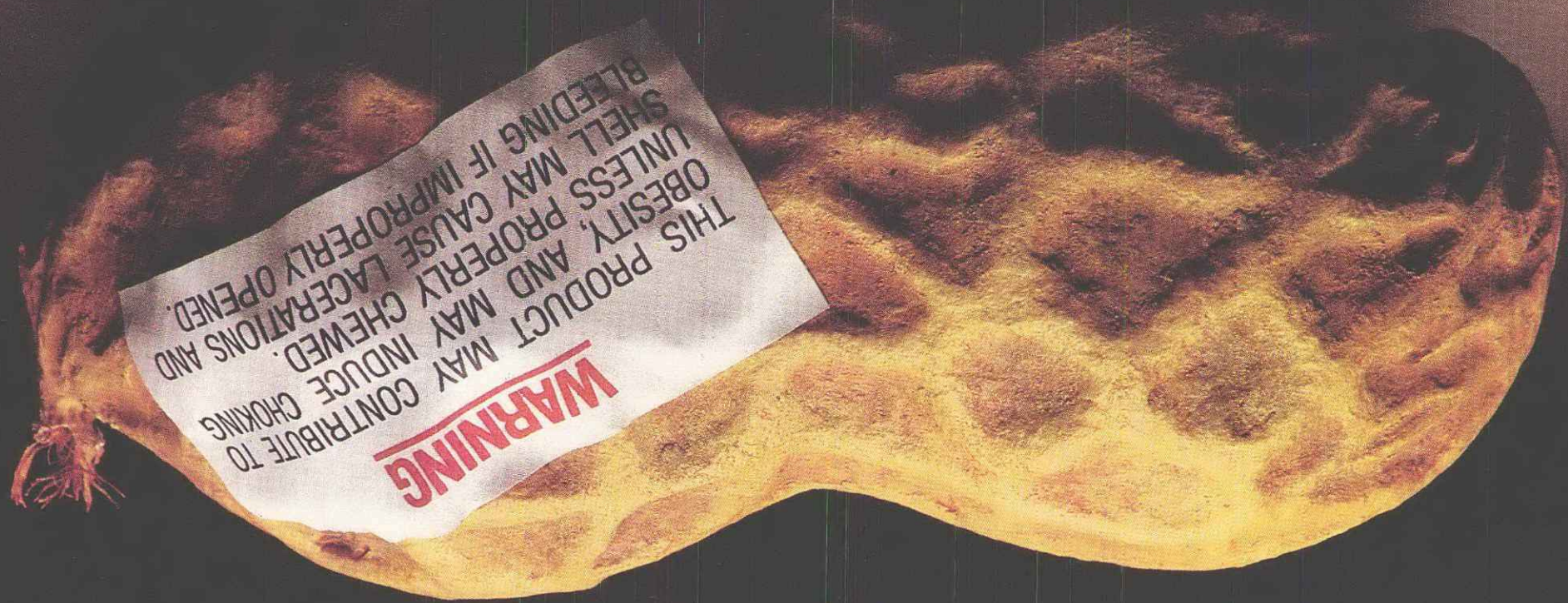
At North American Re, we
believe it's one thing to
think you have reinsurance.

And quite another to know
you have it.

NORTH AMERICAN



In these uncertain times,
it doesn't pay to be uncertain about your reinsurer.



**WILL IT
COME TO THIS?**

A little tax knowledge can go a long way toward preventing capital loss.

Over the past decade or so, a number of alternatives to traditional risk transfer have become increasingly attractive to large corporations. No matter what form these alternatives take, they all have one main objective—increased cash flow. However, savings realized by avoiding or deferring premium payments may be offset (and sometimes more than offset) by adverse tax assessments.

We can also help you pass the “All Events Test.” Or recommend a program that better suits all of your cash flow needs.

Naturally, the type of program you decide upon has a lot to do with determining tax deductibility. Captives, paid loss retro programs, compensating balance plans, and deferred premium arrangements may be taxed differently. By integrating tax planning at the outset, we can

structure a cash flow strategy in a manner that lets you enjoy the full tax advantages for which you qualify.

And you’ll find that we do so with computer accuracy. In fact, we start by using computers to quantify the different ways in which a program can be taxed. Armed with this information, we can then design parameters to enhance the deductibility of the insurance related expense.

Ultimately, only the IRS and the courts can determine questions of tax deductibility. But at The Travelers we

understand how taxes can affect your bottom line. And we make your bottom line our top priority.

Whether your needs are traditional or transitional, you can depend on The Travelers.

For a series of brochures, “Risk Management, A Financial Model,” contact: Bob Sargent, The Travelers, One Tower Square, Hartford, CT 06115. (203) 277-4676. Or send us the coupon below.



At Travelers, we’re keenly aware of the significance taxes can have on the overall cost of risk funding. And we’re ready and willing to work with your own tax experts and counsel to help strengthen your tax position.

Our people receive training in the intricacies of tax regulations. And are kept abreast of changes in the tax laws and new IRS rulings. We’re aware of the importance of “risk transfer” and “risk distribution” from a tax standpoint.

To:
The Travelers
One Tower Square
Hartford, CT 06115

Please send your series of brochures,
“Risk Management, A Financial Model,” to:

NAME _____
COMPANY _____ PHONE _____
ADDRESS _____
CITY _____ STATE _____ ZIP _____

Att:
Bob Sargent

TheTravelers

The Travelers Indemnity Company
and its Affiliates
Hartford, Connecticut 06115

It's the No. 1 choice,
but will Webster's accept it?

THE DEFINITIONS OF RISK

IT'S OFFICIAL. Three hundred and five *Business Insurance* readers sent in ballots for their first, second and third choices for the definition of risk (*BI*, Feb. 21, April 4).

The voting represents risk managers, benefit managers, consultants, safety and loss-control professionals, insurers, agents, brokers and students. Also, international interests were represented with ballots that came in from Canada, Bermuda, Greece and Saudi Arabia.

The ballots were tallied giving first place votes three points, second place two points and third place one point. The definition with the highest cumulative score was deemed the winner. Although the second-place winner got the most first-choice votes, cumulatively it did not score the highest.

From the results, it seems risk and benefit managers, professionals in related fields and students of insurance voted for detail, then brevity.

Here are the top three definitions of risk and their authors, selected by the readers of *Business Insurance*:



Thanks to all who sent in definitions and voting ballots.

The idea to find a "generally accepted definition of the word risk" was suggested to *Business Insurance* by Karl E. Warming, business vp and risk manager at Berea College in Berea, Ky. (*BI*, Feb. 21). Well, Mr. Warming, what do you think?

TOXIC TORT LIABILITY

Companies may find themselves swamped in litigation to come

By Timothy M. Biddle,
Ridgway M. Hall Jr.
and Patrick W. Lee

BANKRUPTCY FILINGS are at an all-time high. Some 2,000 were filed on every business day in 1982. Only a handful of those filings has thus far been attributed to the toxic tort litigation crisis, but there can be little doubt that toxic tort liabilities threaten to sink an increasing number of companies.

Consider what we have learned to date about toxic tort liability. Also consider that the National Institute for Occupational Safety & Health listed some 2,400 substances as suspected carcinogens by 1978. With those things in mind, there is reason to believe that the more than 16,000 pending asbestos disease cases are but a drop in a large sea of future toxic tort litigation (*BI*, April 4, 11, 18, 25, May 2).

Formaldehyde, dioxin, lead, benzene, polychlorinated biphenyls, vinyl and polyvinyl chloride—these are just a few of the substances to which people were widely exposed in the workplace, home or environment before the discovery of their toxic effects.

Although we have only begun to glimpse the emerging contours of the toxic tort liability problem, manufacturers, product sellers and insurers are in a position to take stock of possible control measures. Those who do not, who continue business as usual, may soon have no business to continue.

Before describing an offensive and defensive loss-control measures program, the problem needs to be outlined.

The factors that combined to create this liability problem are grouped into two basic classes: scientific and legal.

The scientific side of the problem is beyond our expertise and we will not dwell on it here. In the past, the lack of scientific knowledge about the toxicity of various substances prevented normal loss-reduction mechanisms from operating to cut off these problems at the start.

Problems in some areas became pervasive before modern epidemiological studies showed the long-latency periods, the cumulating effects and the uncertain causes to connect today's cancer with the intentional or inadvertent ingestion, the inhalation or absorption of a substance years, decades or even generations before.

On the legal side, three principal factors have been and are currently accountable for generating toxic tort liability.

First, the legal bases for recovery are expanding. Courts have been eliminating a variety of substantive and procedural elements traditionally required to make out a cause of action for damages in tort. There is an evolving consensus in some jurisdictions that individuals should not bear the loss caused by exposure to toxic substances without monetary compensation through the tort system, regardless of exposure circumstances.

Whether anyone knew, or could have known, of the risk (*Beshada vs.*

Johns-Manville Corp., 90 N.J. 191, 447 A.2d 539, 1982), the mining company, product manufacturer, wholesaler, distributor, retailer—or all of them—regardless of fault and limits otherwise imposed by workers compensation systems, are threatened with tort liability. They are threatened with this for compensatory damages when a customer, worker or bystander is affected by exposure to a substance that later turns out to have been toxic in that concentration or environment.

This mutation of the tort system into a quasi-conserving system fails to incorporate any of the resource-conserving trade-offs that make true compensation systems socially affordable.

There is another aspect of expansion of toxic tort liability that should be mentioned. The plaintiffs' bar, an entrepreneurial group, has not rested with its success in removing the legal limits to recovery for harm.

There is continuing movement to expand the very nature of the harm for which compensation may be had. An increasing number of cases includes claims for damages for fear of future harm that may, as a statistical probability, result from past exposure to toxic substances. Although these "cancerphobia" claims have not yet met with success, tort liability trends offer little basis for enduring comfort in this movement.

Second, toxic tort litigation is actually being encouraged in various ways. Plaintiffs' lawyers have banded together as never before in promoting and publicizing this litigation complete with canned litigation programs, including evidentiary materials, for prosecuting some types of claims.

Intensive media coverage has caused widespread anxiety about harms from various toxic substances; tort litigation has become a staple of television news. Organized campaigns by unions and activist consumer interest groups, often working in concert with plaintiffs' lawyers, have sensitized their members and the public to expand their boundaries.

Third, legal transaction costs are higher in toxic tort litigation than in other types of cases. Because of their technical complexity and the difficulty of proving, or in some cases disproving, causation in a climate of scientific uncertainty, preparation and trial are more expensive.

A more important cost factor, however, is the multiparty, industrywide nature of most of the litigation. Because a plaintiff may be unable to prove which manufacturer's product or waste caused an injury, or may allege that it was the cumulative exposure to many products or wastes, the plaintiff may sue every company in the industry alleging injury from a chemical "soup" of ingredients.

Consolidation of cases for all or a portion of the proceedings, from discovery on, is increasingly common as a harried court system seeks to ease its workload and management problems. The cost consequences for each industry of each

extra party are enormous and potentially crippling. Moreover, the plaintiffs seek to exploit the potentially conflicting interests of the defendants in discovery and, at trial, to maximize their recoveries.

Although there is not yet a silver bullet to put the beast to rest, there are courses of action and programs for survival.

First, there is the preventive practice of law and risk management. Although it is impossible to know what new toxicity problems medical science will discover, the lawyer and the risk manager can at make certain that their company has covered risks we already know about.

In the past several years, for example, manufacturers have been working to minimize their liability for violations of environmental laws and regulations across the board by means of an environmental audit of the company's operations. This technique can be adapted easily for toxic tort liability control.

The toxic torts audit involves a comprehensive data-gathering effort about operations involving potentially toxic substances and the subsequent preparation of an analytical framework. This framework includes all of the potentially applicable legal sources of toxic tort liability (federal, state and local) to which the company may be subjected, given the nature of these operations.

This would entail identifying the statutes and regulations that control various aspects of a company's operations and those which could impose special duties or standards of care with respect to toxic substances in the company's raw materials, products, workplaces or wastes in addition to common-law bases of liability. This analytical framework is imposed on the company's operations themselves to reveal existing areas of potential vulnerability with respect to each toxic substance.

Second, a major effect can be made in litigation management. Toxic tort cases come in three basic varieties: occupational, consumer product and environmental. The same company may face one, two or all three, depending on its operations. Companies can enhance their effectiveness in achieving a successful outcome, and in minimizing the number of additional claims that are filed, if they coordinate all of these claims.

Although each case has its own distinct aspects and its unique issues, the potential for strategic and substantive interrelationships, helpful and harmful, call for well-coordinated, centrally controlled defense programs. Mistakes in a run-of-the-mill local case can, in toxic tort, adversely affect thousands of cases.

External coordination through a joint defense program with other companies is also essential in terms of both loss reduction and cost savings. A variety of joint-defense approaches has been considered, offering varying degrees of retained control for participating companies. From the extreme of one lawyer chosen to represent all participating companies for all pre-trial

and trial purposes to the other of merely sharing the cost of retaining a common expert, there is a range of joint-defense options that should be considered for appropriate cases.

The cost of a traditional defense has become so great in these cases that insurer and insured alike will have to overcome their reluctance to yield some case control to other parties or to the will of the majority of the joint defense group.

A third possibility is to consider alternatives to traditional claims handling and litigation. Economies can be achieved by alternative approaches to litigation and litigation reforms or even, by alternatives to litigation itself. As for the former, trials that branch into distinct liability and damage phases afford substantial litigation cost-savings when there is a finding of non-liability.

With respect to the latter, various initiatives have proven to be effective ways to avoid a full-blown trial by furnishing the parties with a reasonable basis for settlement.

In the claims area, insurance coverage has become a critical question. The litigation involving coverage has had as much or more significance as the underlying liability legislation. Moreover, the coverage litigation has resulted in an array of conflicting decisions (*Insurance Co. of North America vs. 48 Insulations Co.*; *Keene Corp. vs. Insurance Co. of North America*; and *Eagle-Picher Industries Inc. vs. Liberty Mutual Insurance Co.*) and an unavailability of certain types of coverage for toxic torts.

The corporate risk manager addressing future insurance coverage needs must consider different approaches including the formation of purchasing groups.

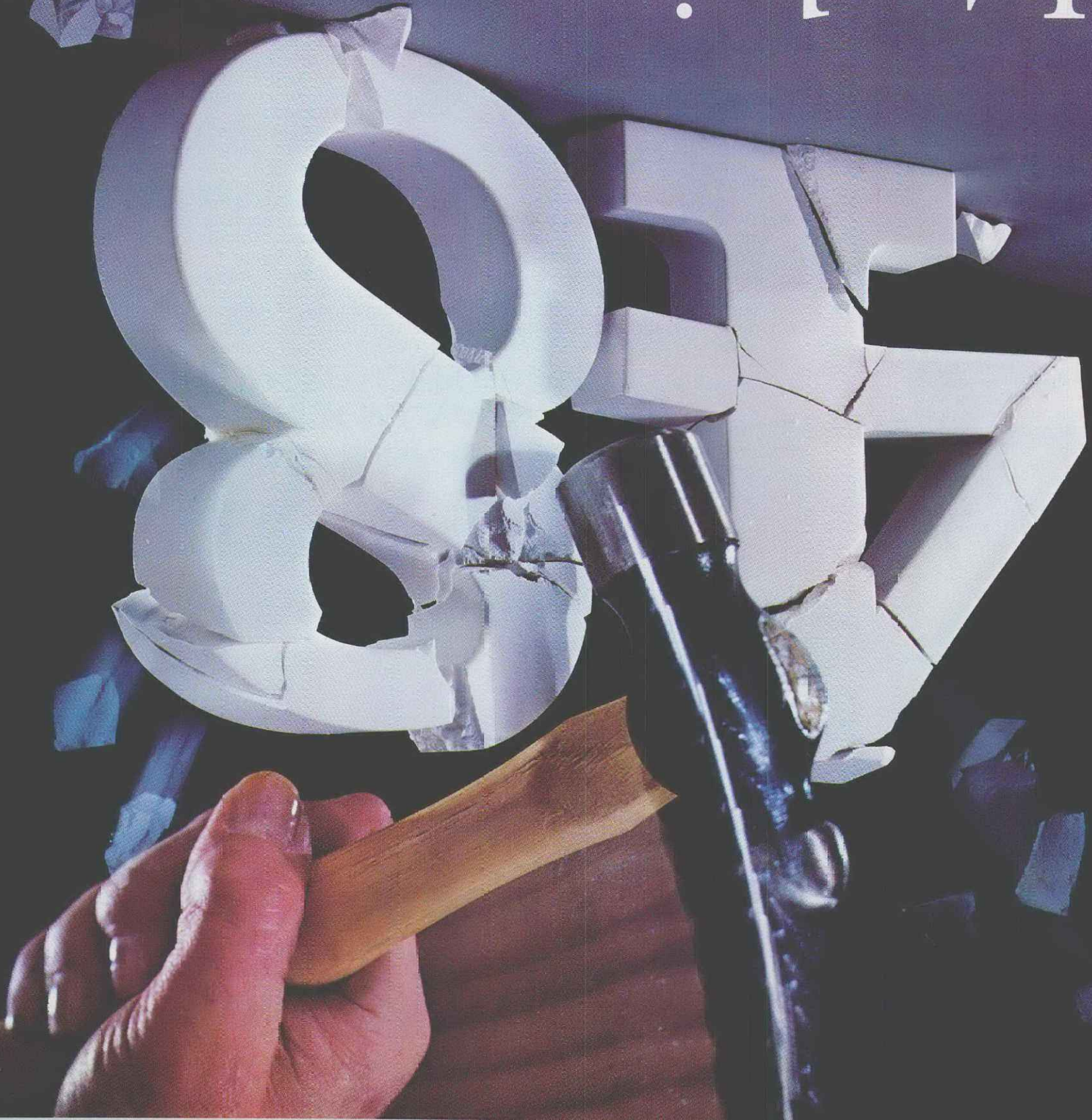
Each company involved in toxic tort litigation should also take a long, hard look at the alternatives to the tort litigation system. There may also be some alternatives found in a legislated solution to the toxic tort liability crisis.

Asbestos claims, which seem particularly well-suited to a legislated solution, have been the subject of several bills in Congress. There also promises to be substantial congressional attention given to a system for compensating victims of toxic wastes generally, as suggested in the report of the Superfund study group pursuant to Section 301(e) of the Comprehensive Environmental Response, Compensation and Liability Act of 1980.

It is in a sense inaccurate to speak of a toxic tort crisis. The issues raised by toxic health injuries affect a broader range of concerns than tort liability alone. The issues include government regulatory, labor-management insurance, government contracting and workers compensation issues as well as tort liability. In-house and outside lawyers counseling a company concerning toxic tort issues need to be ready to address the area on a comprehensive, coordinated basis. ■

Timothy M. Biddle, Ridgway M. Hall Jr. and Patrick W. Lee are partners in the law firm of Crowell & Moring in Washington.

THE POWER BROKERS™



Introducing the 47 hour E & S quote.

Time is money. That's why, when you contact us, we promise to call you back in 47 hours—or less—with a competitive quote. (And that includes quotes on tough placements other brokers won't even touch.) We're the people with the resources to do it. Because The Power Brokers feature: all liability and property exposures; \$100,000,000 liability market; maximum capacity; expert service; and we pay top commissions. So the next time you feel you don't have a second to lose, contact The Power Brokers—the people who broke the 48 hour barrier. Send in an application today. And put time on your side.



GLOBAL SURPLUS

3325 Wilshire Boulevard
Los Angeles, California 90010
Telephone: (213) 386-1200
Outside Calif.: 800-421-9544
Telex: 67-3521 GSIS LSA

100 South Wacker Drive
Suite 1110
Chicago, Illinois 60606
Telephone: (312) 332-1313
Telex: Via RCA 210-108 GSIS SUR

3412 One Union Square
Seattle, Washington 98101
Telephone: (206) 624-9880
Telex: 32-1138 GLOBL INS SEA

127 John Street
17th Floor
New York, New York 10038
Telephone: (212) 509-6700

The Power Brokers is a trademark and service mark of Hallways Advertising, Inc. Copyright © Hallways Advertising, Inc., 1983. All rights reserved.

If you have pollution exposures, watch out

By DOUGLAS McLEOD

LOS ANGELES—Companies with pollution exposures face civil and criminal lawsuits brought not only by federal and state governments but also by groups of citizens, a panel of experts warns.

Companies that deal with materials that could be environmentally hazardous should look closely at what their exposures are and what they can do to protect their assets, the panel told an audience at the Risk & Insurance Management Society's annual conference April 25-29.

Although corporations have always been subject to civil lawsuits on pollution problems, no one really paid attention to the problems until federal and state governments addressed them in the early

1970s, said Hugo Standing, chairman of Alexander & Alexander of California Inc.

Since then, Congress has passed a spate of laws that create liability on the part of corporations that produce or handle hazardous substances.

States have also added many of their own provisions, Mr. Standing pointed out. For example a Louisiana law allows state inspectors to conduct surprise inspections of facilities without search warrants, he said.

The effect of the federal and state laws has been to increase the number of suits, both civil and criminal, brought against corporations not only by governments but also by private parties, he said.

Dozens of corporations have had to settle pollution suits for multi-



million-dollar amounts in recent years and, in the worst cases, corporation executives face fines and jail sentences.

In Maryland, two executives charged with illegal dumping of hazardous waste face prison terms totaling 25 years and fines totaling \$500,000, he pointed out.

Federal enforcement of environmental regulations is likely to get tougher, he added.

"There's been very little enforcement of (these regulations)," he said. "I expect with the appointment of (William) Ruckelshaus,

you will see more stringent application of law relating to the environment." President Reagan appointed Mr. Ruckelshaus as head of the Environmental Protection Agency last month.

Federal and state environmental agencies are not the only government bodies that corporations have to worry about when it comes to hazardous substances, Mr. Standing added.

The Securities and Exchange Commission now requires corporations to detail hazardous waste disposal information in annual reports and 10K forms, he said. The SEC may also refuse to allow a corporation to proceed with a new bond issue if it faces significant financial problems because of non-compliance with environmental laws.

"It's not just a question of en-

vironment, it's a question of financial stability, it's a question of the financial requirements of your company," he explained.

Still, too many risk managers refuse to face up to the potential risks, he said. "Risk management people have to look at these squarely and realize that they have a serious problem."

Environmental impairment liability insurance available from several markets is one solution to the problem of covering non-sudden and gradual pollution risks, Mr. Standing pointed out. Sudden and accidental pollution liability is generally available under current comprehensive general liability policies.

Available limits on EIL policies vary from the \$30 million combined single limit offered by American International Group Inc. to the \$30 million per occurrence/\$60 million aggregate limit offered through Lloyd's of London.

Most of the forms offer coverage on a claims-made basis, though AIG has said it may offer coverage retroactively, Mr. Standing said. Limits in the policies normally include defense costs, though Swett & Crawford offers a separate limit for the costs, he added.

The policies normally exclude nuclear and war risks and most will not insure oil and gas drilling platforms, products and completed operations liability and genetic damage, he added.

Companies should not assume that because they meet the Environmental Protection Agency's non-sudden pollution liability requirements that they are adequately covered, Mr. Standing cautioned.

As of last Jan. 15, EPA began enforcing its requirement that hazardous waste, treatment, storage and disposal facilities have liability insurance with a \$3 million per occurrence limit and a \$6 million annual aggregate limit.

You could be sued for much, much more than the \$3 million and \$6 million limits required by the EPA, he said.

Federal legislation creating the \$1.6 billion Superfund for toxic waste cleanup doesn't get corporations off the hook for cleanup costs, but actually increases liability. Even if the government uses Superfund money to clean up a particular site, it will still try to recover the money by suing anyone connected with the dumping.

The Superfund legislation also created a standard of strict liability for corporations under which the government does not have to prove negligence to collect from corporations for a number of "ill-defined" types of environmental damage, he said.

Robert G. Carr, president of the law firm of Carr & Associates in Washington, also emphasized the seriousness with which environmental laws are being taken. Insurance may not always solve a company's problems, he added.

The federal Resource Conservation and Recovery Act created a new felony "endangerment," defined as creation of a risk of bodily injury or property damage, which carries a maximum penalty for individuals of five years in prison and a maximum fine for corporations of \$1 million.

"We are talking about sending responsible people to jail for one to five years. They're not kidding about criminal penalties. They aren't doing this just to pad an indictment."

No corporation can buy insurance to cover criminal penalties, Mr. Carr pointed out. And high punitive damage awards in civil lawsuits—a "real possibility" in the

Continued on page 46

JAMES IS HERE

PARTNERS IN RISK MANAGEMENT FOR THE WORLD OF BUSINESS

From oil drilling to commercial fishing... from lumbering to heavy construction... wherever there are property and casualty risks to be managed, James is there.

We are one of the largest full-service insurance brokerage firms in the U.S., fully qualified to serve you in virtually every area of insurance and risk-management services on an international scale.

James works for you as conscientiously as a business partner. Your personal James account executive studies your business thoroughly in order to design a program perfectly suited to your needs. And,

because James produces such a large premium volume, we have substantial negotiating leverage with the strongest commercial insurance companies.

In the area of executive and employee benefit and incentive compensation. James can assist you in organizing, funding and administering your plan, and can provide all of the essential services to help it operate cost-effectively.

Perhaps it would be more profitable for you to self-insure your property and casualty risks and employee-benefit plans. James administers more self-

insurance programs than any other broker in the world, and will gladly arrange a study for you at no obligation.

Meanwhile, the best initial introduction to Fred S. James is our 20-page brochure, which describes our comprehensive brokerage services. Please write to: Communications Dept., Fred S. James & Co., Inc., 55 Water Street, New York, NY 10041.

James
FRED S. JAMES & CO., INC.
**YOUR PARTNERS
IN RISK MANAGEMENT**
Member National Association of Insurance Brokers



ever ask yourself

'WHY?'

"Why did that happen?" "Why did he do that?"

These are the most common questions asked after an accident. Answering these questions *after* the accident is called **Investigation**.

Answering these questions *before* an accident is called **Risk Control**.

Investigation is important, but costly. **Risk Control** is essential and a cost saving investment. If you want the answers before losses occur, you need to talk with **CRAWFORD RISK CONTROL SERVICES**.

We address such exposures as Workers' Compensation, Fleet Liability, General Liability, Professional Liability, Property, and Net Income Protection.

For more information contact Mr. Jim Sybert
5620 Glenridge Drive, N.E. P.O. Box 5047 Atlanta, GA 30302

CRAWFORD & COMPANY

**RISK
CONTROL
SERVICES**

(404)256-0830

regional offices in:

ATLANTA CHICAGO DALLAS NEW YORK SAN FRANCISCO WASHINGTON, D.C.

Pollution exposures need to be watched

Continued from page 44

environmental area—are also not covered in several jurisdictions.

On the civil front, Mr. Carr told the audience that citizens' groups are increasingly using information that corporations must file with EPA to bring lawsuits against those corporations.

For example, if a company has not been able to meet the permit standards for water quality under the Clean Water Act, it must file a notice of known non-compliance with EPA explaining why it has failed to meet the guidelines.

Several such failure notices by single companies have led citizens' groups to go to court seeking injunctive relief. They ask the court to tell the company "clean up your act or shut down your plant," Mr. Carr explained.

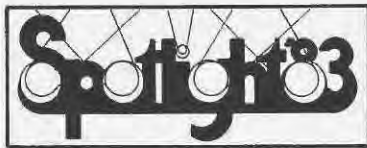
Individual companies stand to lose more under the Superfund legislation, which creates joint and several liability among all parties that handle toxic substances on their way to a dump site, he added. This means that a company that thought it acted responsibly in turning toxic wastes over to a disposal company may be held liable for cleanup costs if the disposal company botched the job.

"Joint and several liability becomes a monster," Mr. Carr said.

He also reminded the audience that enforcement of the laws will become easier for government agencies as closer track is kept of toxic materials.

In order to head off legal problems Mr. Carr recommended the following:

- Companies should try to re-



duce the amounts of toxic wastes they produce, possibly by substituting raw materials in the manufacturing process that will produce wastes that can be more easily recycled or reclaimed.

- Companies should be more careful in choosing their waste disposal firms, making sure the firm is sound and has the right expertise.

- Companies should improve their record-keeping systems so that all toxic materials can be accounted for during any period for which the company could later be liable.

Mr. Carr pointed out that under

the Superfund legislation, government agents are granted access to any corporate documents they need in a given case. "Your records are going to convict you and they are available."

Companies should also conduct environmental risk assessments to determine the ways they could be at risk, said Michael J. Murphy, chief operating officer of Risk Science International, a subsidiary of Frank B. Hall & Co. Inc.

Too often companies conduct such analyses only when buying EIL insurance he said. "From our point of view, insurance is the last thing you should be thinking about. You buy insurance to protect against what you don't know, not what you do know," he said.

That assessment would include:

- An analysis of the potential

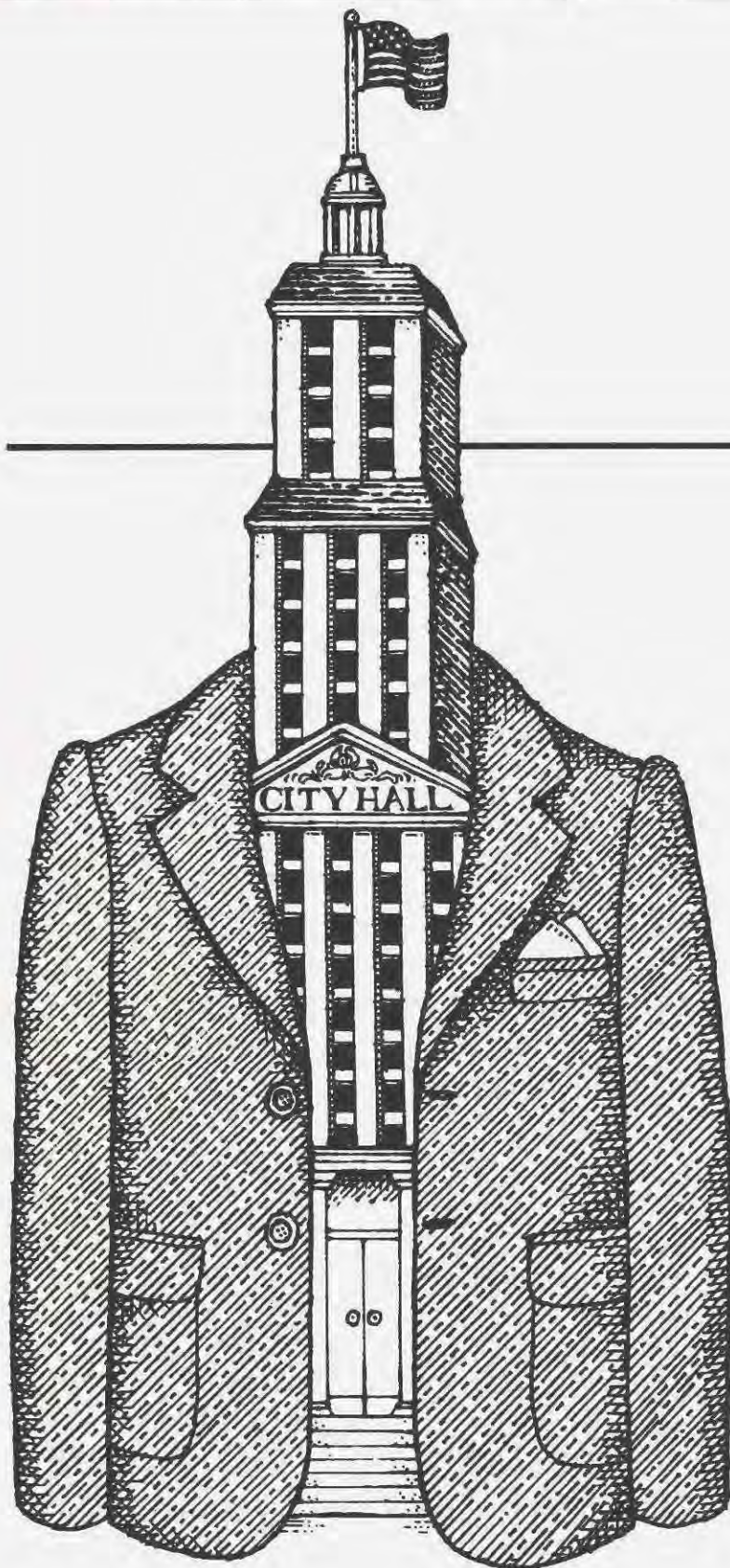
routes by which toxic materials—gases, liquids or solids—could escape from a given site.

- An analysis of the characteristics of the hazardous materials.

- An assessment of what populations might be affected by escaping toxic materials.

- An analysis of the company's current practices in handling, storing and disposing of toxic substances and how those practices could be changed to minimize risk.

Companies can still be sued even if they are meeting the pollution control standards laid out in the law. If any damage to the environment can be traced to a particular company, it can be the subject of litigation whether that company was meeting its permit requirements or not, he said.



Municipal Insurance coverage tailor-made for your clients

You can offer your municipal clients an "off-the-rack" policy ... and alter it with endorsements to fit some of their unique needs.

But why?

When you can give them the only policy completely tailor-made for them?

The Marinco insurance program includes such critically important coverages as police professional liability and third-party coverage.

It is *always* written on an "occurrence" basis — never on "claims made."

Options include public officials' errors and omissions, prior acts, as well as deductibles for the extent of self-insurance.

For more information on America's only custom-made municipal insurance program for public entities, written by specialists in municipal insurance, call or write today:

Marinco

Marinco, Inc. • P.O. Box 17800
San Antonio, Texas 78217 • 800-531-7224
800-531-7205 • In Texas 800-292-5721

Companies need wrap-up policies

By LEN STRAZEWSKI

LOS ANGELES—Corporations need property insurance policies that can wrap all of their manifold risks into one package plan, BFGoodrich Co. Assistant Treasurer Spencer Traver told an audience at the Risk & Insurance Management Society annual conference April 25-29.

Capping a panel presentation on types of property insurance, Mr. Traver said he was "frustrated by dealing with all kinds of forms and policies, none of which are designed for any particular account. But I am pleased to tell you that insurers are now willing to discuss all-risk policies and are even willing to split deductibles according to the types of property risks."

Mr. Traver suggested that risk managers sit down and negotiate their own policies with underwriters rather than labor over the purchase of myriad forms that may not do the desired job.

"We have to put aside the post office syndrome in this country that makes us want to pull a policy out of a pigeon hole and wrap it around us. All of a company's risks are shaped differently. You are an amoeba and should be able to purchase what will wrap around you alone," he said.

Insurer panelists agreed, noting that the property/casualty market competition and an increased understanding of the role of captive insurance companies and self-funding are making underwriters more liberal.

"The wave of the future is the all-risk policy," affirmed Jack Cates, president of Industrial Risk Insurers, which recently made a major push into the all-risk insurance market.

Large firms with overseas property risks should also consider using a captive insurance company, Mr. Traver added. "The captive allows an excellent opportunity for profit, especially for overseas risks," he said. "You can take advantage of premium discounts that other property insurers may be reluctant to offer and recapture premium lost to foreign insurers."

Mr. Traver noted that the difference "is enormous" between the tariff rate charged to overseas risks and the "burning point" at which premiums balance losses.

"We saved \$2 million in four years," he said. "You will also have no tax-deduction problems. Since property insurance has a short tail, your premiums will be deducted as losses paid within 90 days of a claim."

Proposed CGL forms may create problems: Broker

By DOUGLAS McLEOD

LOS ANGELES—The comprehensive general liability policies proposed by the Insurance Services Office may present insurance buyers with a number of problems, including narrower coverage in some areas, several experts say.

ISO distributed draft versions of two new CGL forms last year to insurers, brokers and corporate buyers for comments. All the comments have been received, and ISO is expected to release final policy versions by the end of the year.

ISO scrapped the idea of replacing the CGL's traditional occurrence trigger with a "first-discovery" trigger—under which the policy in effect at the time damage or injury is discovered would provide coverage.

The revised occurrence trigger would include coverage with an unlimited tail, making insurers responsible for losses that occur during the policy period with no limit on the length of the losses' tails.

This provision would continue unless the policy were canceled for non-payment of premium.

The other proposed CGL form would provide coverage on a claims-made basis, he added (*BI*, Jan. 3).

One problem with the new forms, according to Ray Hayes, a senior vp with James S. Kemper & Co., a unit of Ryan Insurance Group Inc., is that there are no guidelines provided for how the coverage would be rated, and that the new coverage could be "priced out of existence" by underwriters.

The forms could also lead to "significant non-concurrence" problems if a primary policy were written on a claims-made basis and excess layers were on an occurrence basis, he told a seminar at last month's Risk & Insurance Management Society conference in Los Angeles.

Mr. Hayes also complained that ISO will release the final version of the forms with no opportunity for industry comment on the changes it made after the first proposals. If the final forms are found to be unsuitable, buyers may well start looking to Lloyd's of London and other markets not bound by the forms, he added.

"We will seek viable alternatives before we bend to the pressure they are trying to exert," Mr. Hayes explained.

Other changes in the language of the present CGL will mean narrower coverage, said Joseph Decaminada, senior vp with The Atlantic Cos.

For example, coverage now provided under the CGL form for liability arising from sudden and accidental pollution incidents will be "severely restricted" under the new form, he said.

The proposed CGL policy will provide pollution coverage only if the occurrence is sudden and causes immediate bodily injury, he said, adding that in most pollution cases, bodily injury is not immediate.

"We think that a lot of companies will deny coverage" on these grounds, he said.

Also, while the present policy excludes coverage for pollution liability unless the incident is "sudden and accidental," the new form would drop the word "accidental," Mr. Decaminada said.

"Knowing ISO, 'accidental' was not accidentally left out. 'Accidental' was purposely left out, and I'm not sure why," he said.

Mr. Decaminada added that coverage of punitive damages under the new form would probably be unchanged: Insurers would be obliged to cover punitive damages unless a court in a particular state

rules that it is generally against public policy for such damages to be insured.

But the new forms could still cause problems because its definition of allowable damages excludes fines and penalties, Mr. Decaminada said.

Some insurance companies may try to deny claims for punitive damages by arguing that they qualify as "penalties," Mr. Decaminada said.

And, litigation is bound to result from the new forms, since changes



in standard policy language usually lead to lawsuits, he explained.

Making sure that umbrella policies follow the new CGL form is not the only difficulty risk managers may have with their umbrella underwriters after the new forms are released, said William E. Brady,

president of Van Camp Insurance, an agency in Los Angeles.

The new CGL form also provides for two basic aggregate limits of liability, he said. The present form only has an aggregate limit applying to product and completed operations liability. The new form contains another, separate aggregate applying to all other coverages under the policy. There would thus be a ceiling on the total amount of damages that liability insurers would be responsible for.

In addition to the clear restric-

tion of the new provision, Mr. Brady said, some umbrella underwriters require insureds to make a "good-faith effort" to buy back from primary insurers any portion of the aggregate that is used up during the policy period by another claim.

Just what constitutes a "good-faith effort" isn't clear and this could cause problems, especially since many primary insurers will not guarantee that insureds will be able to restore expended aggregates, Mr. Brady said.

Your first line of defense against risk.

Kemper offers you the fullest range of risk services you'll find anywhere in the field.

We'll make sure your low hazard properties and better than average risks get the premium savings they deserve.

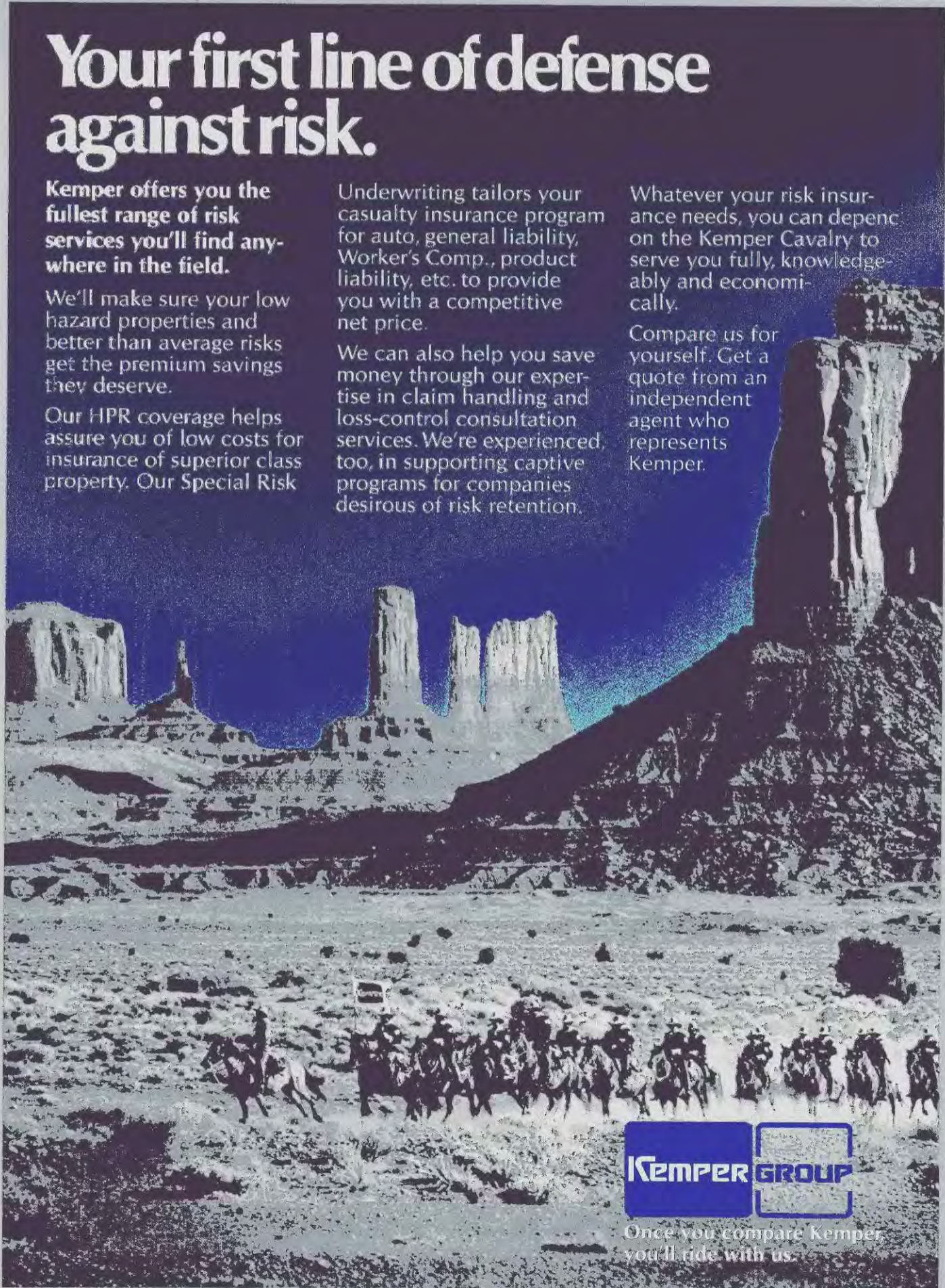
Our HPR coverage helps assure you of low costs for insurance of superior class property. Our Special Risk

Underwriting tailors your casualty insurance program for auto, general liability, Worker's Comp., product liability, etc. to provide you with a competitive net price.

We can also help you save money through our expertise in claim handling and loss-control consultation services. We're experienced, too, in supporting captive programs for companies desirous of risk retention.

Whatever your risk insurance needs, you can depend on the Kemper Cavalry to serve you fully, knowledgeably and economically.

Compare us for yourself. Get a quote from an independent agent who represents Kemper.



Once you compare Kemper you'll ride with us.

AGENTS: What do you do when a client asks about long-term auto leasing insurance?

Be sure—take advantage of our extensive experience with this difficult-to-place business. Designed specifically for the automobile leasing/rental industry, our program saves your time, cuts your costs, satisfies your customer. We do the work, you get the credit!

- Lessors Excess Liability
- Lessors Contingent Liability
- Contingent Physical Damage
- Primary Physical Damage
- Primary Liability coverages
- Interim Car Coverages

We invite your inquiry and your business.
Call or write **Ron Ruane**.



**PAIGE-RUANE, INC.
INSURANCE**

The Irwin Building
460 N. Gulph Road
King of Prussia, PA 19406
(215) 265-4170

Physical Damage by
Motors Insurance



The Insurance People from General Motors

Combined comp, health covers boast both pros and cons: Panel

By **RHONDA L. RUNDLE**

LOS ANGELES—Twenty-four-hour protection plans are touted as a more holistic, less fragmented approach to employee benefits.

Under such plans, which roll workers compensation and group health insurance into a single integrated benefits package, an employer no longer needs to distinguish between work-related and other injuries to provide the medical treatment a sick or injured worker needs.

Today's system forces employers to make artificial distinctions between work-related and non-work-related problems, points out W. Rodney Smith, vp of Risk Planning



Group Inc., a Darien, Conn., consulting firm.

For example, occupational disease and stress claims presented by employees are often denied or defended by employers who argue that lifestyle habits rather than workplace environment caused the individual's condition.

"The no-fault workers compensation system hasn't been very no-fault of late," Mr. Smith added. "We need to rethink that legal bar-

gain."

But, do integrated benefit programs truly streamline administration and reduce combined workers compensation and group insurance costs? Or, do they actually complicate the risk or benefit manager's professional life and diminish the buyer's bargaining power with a broad spectrum of underwriters?

The pros and cons of integrated insurance programs were debated by an alphabet broker, an insurance company representative and two consultants at the Risk & Insurance Management Society annual conference in Los Angeles last month.

Besides Risk Planning Group's Mr. Smith, the speakers included George A. Furbish, second vp at Travelers Insurance Co.; Myra L. Tobin, managing director of Marsh & McLennan Inc.; and Ron Walker, managing director of William M. Mercer Inc.

"We have quoted this approach to many clients, but most of the proposals have not been implemented," reported Ms. Tobin. The exceptions tend to be clients with overseas projects involving 100 to 500 employees who want to put benefits into a single integrated package.

But there is resistance to change among insurers as well as clients, she pointed out.

"It takes a long time to get the lumbering (insurance company) giants to change." In many large corporations, the health benefits and workers compensation decision-makers are different people. A suggestion by one of them to integrate benefits could be perceived by the other as a threat.

Advantages to integrated benefits programs that were identified by the speakers include:

- Elimination of potentially fraudulent and duplicate claims submitted by employees under both workers compensation and group health plans.
- Reduced administrative costs, which create savings for both self-funded and conventionally insured employers.
- Enhanced clout in negotiations with both primary and excess insurance underwriters due to a higher volume insurance purchase.
- Increased clout with local health care providers in the community.
- Potentially better health care coverage for employees.
- Medium-sized employers reach the threshold to self-fund sooner if they combine their benefits coverages.
- Improved loss-control through recognition by employers and employees that good health and safety are not just 9-to-5 problems.
- Improved statistical control over benefits claims.

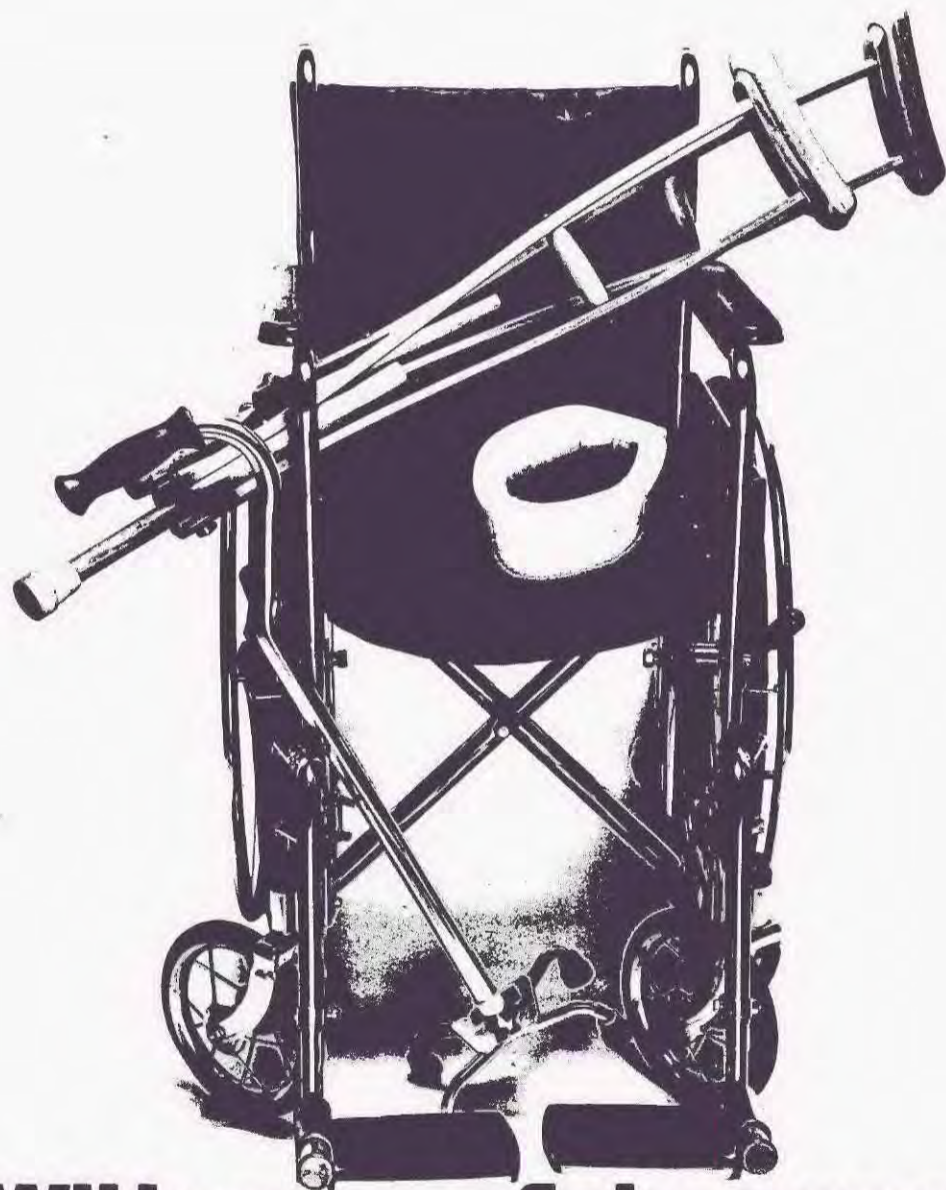
Benefits experts estimate that 1% to 5% of claims costs are spent in duplicate payments to employees. Lots of research still must be done to determine if this estimate is accurate and if integrated benefits plans could eliminate the double-dipping potential, said Mr. Smith.

"Insurers claim that integrated programs save premium dollars, but we have not found any who could quantify that savings," noted Ms. Tobin.

She cautioned benefits managers not to accept claims of volume-purchase savings at face value, but to insist on a line-by-line breakdown of insurance and administrative costs so that they can be compared on an unbundled basis with other insurers' programs.

"Volume buying doesn't necessarily get the best price," she observed.

Continued on facing page



With our safety program you can save more than money.

You can save lives and cut down on accidents. You can eliminate those working conditions that can hurt your people.

Argonaut safety programs have helped protect the health and safety of millions of workers for more than 30 years. We're specialists in Workers' Compensation and Hospital Liability, and offer a wide variety of quality programs in property and other commercial casualty lines as well.

We know what hazards to look for in your company; how to help you make your operation safer.

And the strength of our assets—over \$1 billion—means financial security and peace of mind for the companies who choose Argonaut.

Ask your insurance agent or broker about us. We can help you change a lot more than your balance sheet.



Argonaut.

Where people take your business seriously.

National Specialists in Workers' Compensation and Hospital Liability.
250 Middlefield Rd., Menlo Park, CA 94025 (415) 326-0900

Continued from facing page

Disadvantages of integrated benefits programs include:

- Administrative difficulties of merging workers compensation, whose benefits are mandated by state statute, with other benefits strictly determined by employers and collective bargaining representatives.

- Reconciliation of benefit level differences in various states for a multistate employer. Does the company raise all employees to the most lucrative state levels?

- Removal of workers compensation from the comprehensive general liability program could jeopardize the casualty insurance program if the markets tighten.

- Erosion of long-established loyalties and ties with a broad spectrum of underwriters who may be needed again in the future.

Do you really want all your eggs in one basket? Ms. Tobin asked rhetorically. There may be a risk in consolidating coverages when the markets tighten and casualty coverages are hard to come by.

Also, employers must ask themselves who will pay for an integrated benefits program, she pointed out. Will companies pay the whole cost?

Employers are required to assume the cost of workers compensation benefits, but many of them ask their employees to share the cost of other benefits. This trend toward increased benefits cost-sharing could be reversed by a 24-hour protection plan in which workers compensation and other benefits are combined.

Travelers Insurance Co. is the only company that currently maintains a combined underwriting and marketing department to provide integrated insurance programs, said Travelers' Mr. Furbish.

Although workers compensation and employee benefits coverages contribute most of the premium in the program, a policyholder's property/casualty coverages also are included.

The program began in 1964 at the request of a client, the risk man-

ager of Household Finance Corp. He wanted a single coverage that would provide overall protection to the assets of the corporation. The request presented major problems for the various line departments at Travelers because the underwriters didn't know one another.

A corporate accounts department was formed to act as a catalyst to coordinate underwriting expertise. "The department is sort of a half-way house between by-line coverage and a truly integrated benefit

program," Mr. Furbish explained.

There is no true melding of benefits. Separate policies are issued by line. But, the Travelers' proposal is a financial package that enables the corporate risk manager to sit down and negotiate the bulk of the company's insurance budget for an entire year.

The corporate accounts department oversees 50 to 55 accounts generating more than \$450 million in annual premium volume, reported Mr. Furbish. The participat-

ing companies typically represent more than \$1 million in annual premium volume of which 90% of the book of business is written into some type of cash-flow plan.

The advantages to the customer are cost and leverage, says Mr. Furbish. "If we insure all major lines, the client is a bigger fish in the pond." This could be particularly critical on the casualty side if the market hardens, he noted.

In a combined retrospectively rated plan such as those adminis-

tered by the corporate accounts department, the bulk of a corporation's insurance costs are identified. "This can be helpful in dealing with corporate financial people."

Aetna Casualty & Surety Co. also has quoted combined coverages but the company has not set up a special department to handle the business, noted Mr. Furbish. CIGNA Corp. has the potential to put such a program together and is believed to be considering such a product targeted to small accounts.

How UAC specialists help bring down malpractice fever.



Today, few hospitals and medical professionals are immune from the threat of malpractice claims.

At UAC, we are sensitive to the seriousness and special demands of this type of claim. We are knowledgeable in malpractice laws and medical procedures. We have learned from experience. Fact is: we handle more hospital and professional liability claims than any other adjusting company—including a substantial portion for major hospital organizations in the U.S.

From an administrative standpoint, we know how to keep your costs down. We work hard to provide strong financial controls. Our approach is thorough and practical, and we make regular reviews of our adjusters' files, methods and progress.

At a time when your hospital or your career is vulnerable, UAC malpractice specialists are there to help.

For more information about our professional liability claims services, call or write:

Marketing Vice President,
UAC, 80 Maiden Lane,
New York, NY 10038
(212) 440-2364

UAC[®]

We are where you need us.

From The Reprint Department Of

business insurance

Reporting weekly for corporate risk,
employee benefit and
financial executives

Do you need to distribute copies of articles appearing in Business Insurance at your meetings or for your mailings?

Business Insurance has expanded its reprint department to meet your needs.

For fast, low cost* reprints of articles appearing in Business Insurance, or to obtain reprint permission for your own copies, call or write:

Reprint Department
Business Insurance
220 E. 42nd St.
New York, N.Y. 10017
212-210-0131
212-210-0229

* New prices effective 1/1/83



**Blackmon
Mooring
Steamatic
Catastrophe, Ltd.**

YOUR PARTNER IN LOSS MITIGATION

If you care about loss mitigation, as we do, then let's be partners.

BMS CAT is a company with over 36 years of experience in fire and water damage restoration.

Our specialists are on call 24 hours a day to provide you with a complete line of services after a loss occurs.

For immediate response to fire and water damage including odor control, corrosion control, and contents restoration anywhere in the United States or Canada, call BMS CAT, your partner in loss mitigation.

817-926-5296 24 hour hotline

BMS Catastrophe
National Headquarters
P.O. Box 11370
Fort Worth, TX 76110

Please send me more information about fire and water damage restoration.

Name _____
Title _____
Company _____
Address _____
City _____ State _____ Zip _____



Companies can prevent tort claims: Tye

By JERRY GEISEL

LOS ANGELES—Every accident can be prevented, a British safety expert contends.

"I have never seen an accident that could not have been prevented," contends James Tye, director general of the British Safety Council.

Speaking to a Risk & Insurance Management Society session on product liability, Mr. Tye said employers don't spend enough time setting up safety programs that would prevent accidents.

For example, a corporate safety program could have prevented a recent multimillion-dollar product liability award against a major auto manufacturer that used only one bolt to anchor the front passenger seat to the car floor, Mr. Tye said.

The first step a company should take to improve product safety is to write and distribute to employees a clearly written product loss-control policy. Such loss-control statements are mandatory in England, he said.

In addition, a top-level manager should be assigned to run a company's product loss-control committee. The loss-control committee should include members from these departments: design engineering; manufacturing; quality control; legal; service; advertising; and personnel.

The loss-control committee should pay particular attention to warnings on its products. For example, a label warning of a product hazard must be written in language that can be understood by the intended user. If a company is concerned that its warning may not be understood by potential product users, it also, where possible, should



use diagrams, he added.

Companies that want to improve their safety records should be able to answer "yes" to these questions, Mr. Tye said:

- Are product components marked to show the place and time of production? Such precise labeling can help a company pinpoint a failure in its manufacturing process, Mr. Tye said.

- Are capacity ratings, safety limits, load limits and other essential information shown in a permanent manner on its products?

- Are suppliers told of the final use of materials and are they encouraged to make product improvement suggestions?

- If there is an accident, does the company have the resources to investigate promptly? With the availability of video cassette recorders, companies can make a permanent record of an accident, Mr. Tye said.

However, if a company finds itself ensnared in a product liability lawsuit it will have fewer legal defenses than ever, another speaker noted.

"Twenty years ago, if your product caused an injury, the only way you could be liable was if the plaintiff proved negligence," said Milan Ruzicka, an attorney and managing editor with the Washington-based Product Safety & Liability Reporter, published by the Bureau of National Affairs.

Today, however, the advent of

strict liability in most states has lowered the barriers that blocked a plaintiff from winning a product liability suit, Mr. Ruzicka said. Under the theory of strict liability, a plaintiff only has to prove that a product defect caused the accident; he does not have to prove that the manufacturer was negligent in producing the product.

Mr. Ruzicka said employers can be found liable for not properly warning of product hazards.

"Manufacturers have to be more explicit in product warnings. It isn't enough to label a product 'poison.' You have to be more specific," Mr. Ruzicka said.

For example, a manufacturer lost a product liability case because it did not warn that the product, if improperly used, could cause blindness. The warning simply said that the product could cause eye damage, Mr. Ruzicka said.

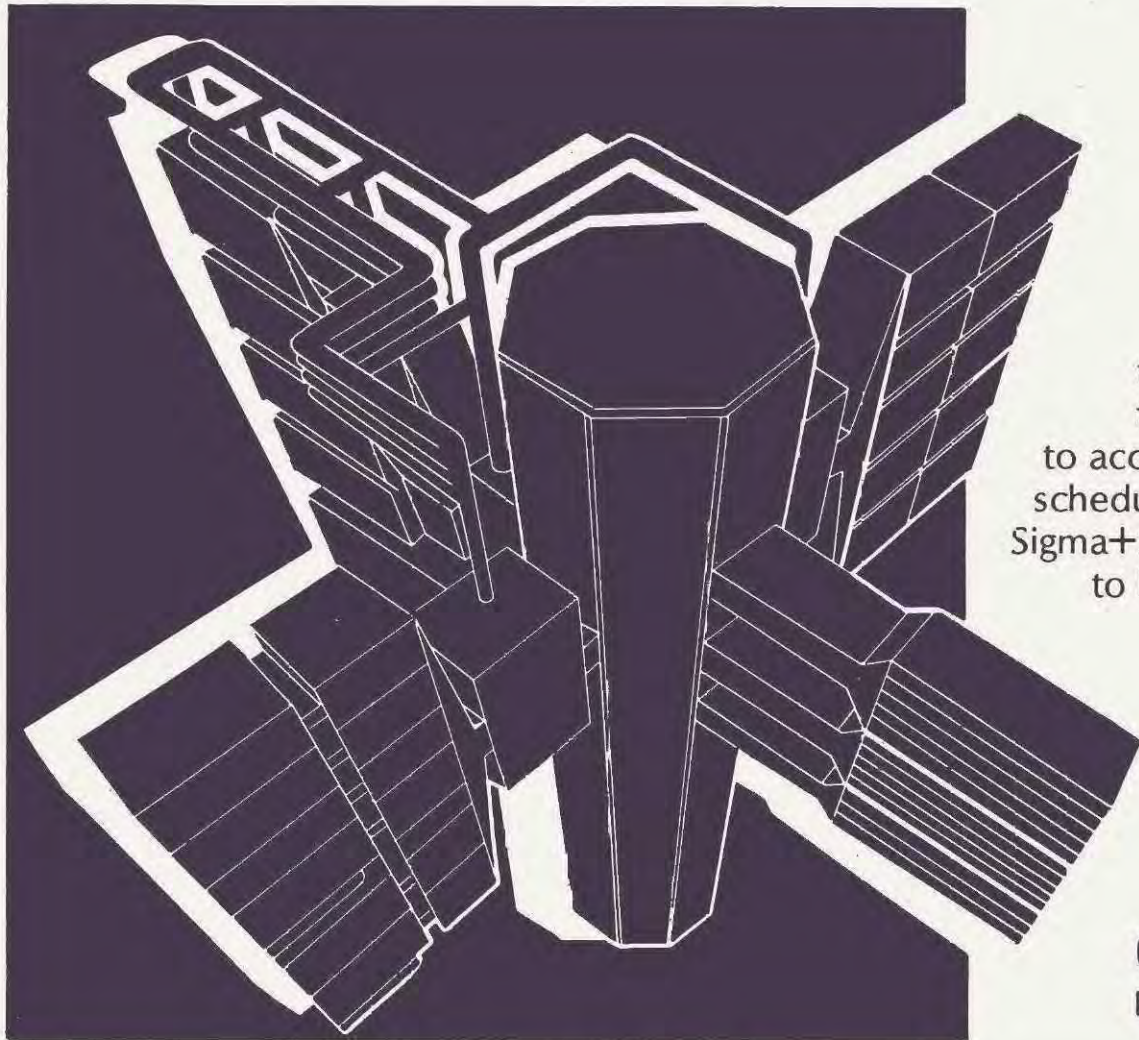
However, companies cannot beef up warnings at the expense of product improvements. "It is not sufficient to improve a warning in lieu of making a product safer," he said.

Mr. Ruzicka said there are attempts to codify product liability law at the federal level. For example, Sen. Robert Kasten, R-Wis., has introduced legislation, S. 44, that would set federal product liability standards in more than a dozen areas of the tort law (B.I., April 11).

However, Mr. Ruzicka is skeptical that the Kasten legislation will win congressional approval soon.

"My guess is that the (Kasten) bill will not pass this year. Possibly, it may pass the Senate, but not the Democratic-controlled House of Representatives," he said. ■

Bringing art & science together through information.



Sigma+System is a sophisticated risk management information service designed for users having little or no training in use of the computer.

This service provides a user with a new generation of data management and analytical capabilities, to complement or replace the voluminous "loss runs" they have received in the past. Much like the terminals utilized by airlines personnel to access vast amounts of data concerning flight schedules, routings, fares, status reports, etc., the Sigma+System allows risk management personnel to have similar access to data concerning the status of claims and loss reserves, claim payments, incident reports, loss control information and exposure data. A user may then perform unit cost allocation, risk analysis, loss forecasting and financial modeling utilizing their own data base.

Sigma+System

Risk Sciences Group²
INCORPORATED

■ 45 Camino Alto ■ Mill Valley, California 94941 ■ (415) 381-0211 ■

Supported exclusively on the National CSS Computer Network.



America's Insurance Policy.

Americans can play a real part in insuring the future of America—by buying U.S. Savings Bonds.

And as this year's Savings Bond Campaign gets under way, business leaders from all over the nation will be playing their parts, too—by conducting Payroll Savings drives in their respective companies.

We at AIG have been asked to head the drive in the insurance industry.

And we're proud to be part of this important national campaign.

Few other peacetime efforts so vividly illustrate the mutual dependence of citizen and nation—

And so effectively enable each citizen to work for the well-being of both.

By buying U.S. Savings Bonds, the individual saver is contributing to America's continued economic security. And, of course, to his own. What's more, he's getting the additional reward of a better bond. As of November of 1982, an act of Congress went into effect and

changed the interest rate structure of the bond from a fixed to a variable one.

Now U.S. Savings Bonds pay market-based rates. And along with the guaranteed minimum yield, there's now no limit on how much interest a bond can earn.

So, with its new variable interest rate making the bond a better personal investment than ever—

And its continued overall importance to the nation as a whole—

Surely we can recruit from among the ranks of our employees the 30,000 new Payroll Savers that have been set as our industry's goal.

And add their number to the 23 million American households already protecting America's future and their own with this form of insurance.

American International Group

Maurice R. Greenberg, President and Chief Executive Officer

The Wetzel Company, Inc. Excess and Surplus Lines Reinsurance, Treaty and Facultative



Only through
Agents, Brokers &
Insurance Companies

P.O. Box 66452
Houston, Texas 77006
713/523-3003 · Telex: 76-2053

More industry integration likely: Study

By DOUGLAS McLEOD

LOS ANGELES—Integration of financial services, like banking and insurance, will continue as regulatory and other barriers that have so far blocked integration fall away, a new study concludes.

"There is, in all of the current market turmoil, a sense of the inevitable. Whether desirable or not, it is probable that financial services will be integrated," says the report, prepared by a nine-member committee appointed by the Risk & Insurance Management Society and presented at the society's annual conference last month.

Integration will spur fierce competition among banks, insurers, brokers and investment firms for consumers' dollars, and despite a period of "disequilibrium," the integration will prove desirable for consumers in the long run, the study concludes.

The financial services pie is becoming larger and various industries' shares are shifting, the report points out.

Assets held by the various members of the financial services industry have grown from \$557 billion in 1960 to \$3.923 trillion in 1981. The share of the assets held by commercial banks has shrunk from 58.3% in 1960 to 55.9% in 1981. But the share held by life and property/casualty insurers has plummeted from 24.6% in 1960 to 17.7% in 1981.

"It is a very big pie and the insurance industry for one reason or another is losing its share, and losing it fairly rapidly," said H. Felix Kroman, president of Risk Planning Group of Darien, Conn., and co-chairman of the study committee.



The conglomeration of financial services is already underway among other companies, the study adds, pointing to Sears, Roebuck & Co., which offers numerous financial services through 851 retail outlets, 420 Coldwell Banker real estate offices, 324 Dean Witter Reynolds stockbrokerage outlets and 4,110 Allstate Insurance Co. offices.

Current regulatory barriers may not stand in the way of further expansion, the study notes.

The Garn-St. Germain Depository Institutions Act of 1982, lauded as a victory by insurance agents trying to keep banks out of the insurance business, may actually represent "tacit approval of eventual bank entry into insurance."

Among several exceptions to the law is one that permits banks to write insurance if the bank has assets of less than \$50 million. Of 3,500 banks under federal jurisdiction, almost 2,300 have assets less than \$50 million, the study notes.

Larger banks may also write insurance if they are chartered in states with laws like one recently adopted in South Dakota allowing banks to function as insurers, the report adds.

The incipient move toward integration is being fueled by a number of factors, the study says.

One important factor is the cost efficiency, contributed to by the growth of computer technology, of a central market for a number of financial products.

"The delivery system of insurance, traditionally through agents and brokers, carries, unfortunately, overhead costs that are, in the eyes of some individual and corporate consumers, too high," the study explains.

A related factor, convenience, is also one of the most important for financial service integration, the study adds. The computerized delivery systems of many large commercial banks and financial services firms like American Express have paved the way for easy addition of new services.

Banks are also in contact with retail consumers six times as often as life or property/casualty insurers, and this may increase to 10 times as often by 1995, it says.

"It will be far more convenient for the consumer to consolidate financial-service purchases with the organization which provides the most frequent contact," it explains.

The Great Depression of the 1930s left first the banking industry and then the insurance industry "saddled with a growing mass of regulations... and a distribution system growing heavier and more expensive year by year," the report says. The explosion of information technology, volatility of inflation and interest rates and generally changing consumer attitudes have "outstripped the ability of the regulators to regulate," leaving the U.S. regulatory environment "at least 10 years behind the marketplace," it explains.

While admitting that some regulation is necessary to prevent anti-competitive or fraudulent activity, the RIMS committee concluded that the least regulation would be the best.

Andrews Publications, Inc.
ANNOUNCES TWO NEW PUBLICATIONS

Aviation Litigation Reporter Toxic Chemicals Litigation Reporter

Andrews Publications, Inc., the pioneer publisher of national journals covering specific litigation subjects, will begin publishing two new journals this month: **The Aviation Litigation Reporter** and the **Toxic Chemicals Litigation Reporter**.

These new publications join the other very successful Andrews Litigation Reporters:

Asbestos Litigation Reporter
Automotive Litigation Reporter
DES Litigation Reporter
Hazardous Waste Litigation Reporter
OB/GYN Litigation Reporter

These twice-monthly journals chronicle significant issues and case developments in all federal and state courts. Active defense and plaintiff attorneys, judges and government agencies take these timely publications to keep informed of the latest national proceedings. We publish texts of orders, noteworthy pleadings and significant documents concerning discovery and other matters regarding the litigation that are only days old. Each issue runs 60 to 100 pages keeping subscribers fully informed of significant events nationwide.

Aviation Litigation Reporter: This new journal will be covering such cases as U.S. v. United Scottish Insurance, in which the Federal Aviation Agency may be held liable for certifying aircraft that crash; the choice of law issues presented in the Air Florida crash in Washington, DC; the negligence and carelessness arguments raised in the World Airways crash in Boston; the U.S. suit against the New York Port Authority in the crash of an Overseas National Airways jet that is blamed on a flock of birds, and scores of other major aviation cases across the country that raise such key questions as insurance coverage, the government's duty to care, collateral estoppel, and negligent entrustment.

Toxic Chemicals Litigation Reporter: This journal will cover the growing personal injury and property damage litigation involving non-therapeutic, toxic chemicals, including formaldehyde, benzene, vinyl chloride, Agent Orange and other herbicides, pesticides and an array of other toxics too numerous to mention. In addition to approximately a score of landmark cases currently in the court system, detailed coverage will be given to the first phase of the Agent Orange trial scheduled to begin next month in New York.

Call or write for more information on the Andrews Litigation Reporter of your interest. If you are involved in any of these subject areas of national litigation, you will quickly find these are **must-read** journals that will save you countless hours of research and, at the same time, give you the security of knowledge of the developing legal issues.

Andrews Publications, Inc.
P.O. Box 200, Edgemont, PA 19028 (215) 353-2565

Uncertainties surround product integrity cover

By DOUGLAS MCLEOD

LOS ANGELES—Product integrity insurance policy terms are still evolving, and it is uncertain how various policies and the underwriters involved will respond in case of a loss, two product integrity underwriters say.

Risk managers attending a product integrity insurance seminar at the annual Risk & Insurance Management Society conference had serious questions about the scope of current policies, which have been the focus of tremendous attention since last autumn's Tylenol tragedy (BI, April 11).

Most of the policies written by Chubb & Son Inc. are manuscripted, and the still-evolving coverage is far from set in stone, said Assistant Vp George T. Van Gilder. He described the terms of product integrity policies as still being "loosey goosey."

"Nobody knows how a company is going to respond in the event of an incident," said Kevin H. Kelly, vp and casualty manager with Lexington Insurance Co., a unit of American International Group Inc. and one of the markets for product integrity coverage.

Mr. Kelly explained that primary insurers can't be sure their reinsurers will be able to back them up in the event of a large loss.

He added, though, that he was sure Lexington's reinsurers would respond, and that a Lexington policy would cover what insured and insurer intended it to cover.

During the seminar, each underwriter described what his firm's policy was intended to cover.

The Chubb policy evolved from kidnap, ransom and extortion policies, Mr. Van Gilder said, and is intended to cover:

- Business interruption expenses and lost earnings due to intentional and malicious tampering with a product or contamination.

- Expenses of recalling a product, either voluntarily or under government mandate.

The policies typically exclude:

- Known conditions.
- Acts, errors or omissions of the insured's officers.
- Bodily injury or property damage.

- Normal market fluctuations that lead to business losses.

- Latent defect or deterioration.

- Losses traceable to the use of ingredients banned by government agencies.

- Extorted payments.

- War risks and nuclear risks, unless a product is deliberately contaminated with a radioactive substance.

Chubb looks at a number of factors while underwriting a particular risk, Mr. Van Gilder added. These factors include:

- The extent to which a company's total revenues depend on a particular product.

- Product mix.

- Packaging procedures.

- The size of the area in which the product is distributed.

- The shelf life of a product.

- The distribution chain for the product: How many hands does the product pass through on its way to the consumer?

- Any previous problems the company has had with tampering or contamination.

Mr. Van Gilder stressed that product integrity policies are catastrophe insurance, and he recommended the assumption of "substantial" retentions by insureds. One Chubb insured is carrying a \$25 million retention, he said.

"We don't want to hear from you again unless you have a really horrendous problem," he said.

Lexington's policies grew out of the more limited product recall

coverage rather than the K&R policy, Mr. Kelly said.

Lexington offers four different forms that have varying provisions for when coverage is triggered, what products are covered and what types of damages are covered. The broadest form covers lost profits, continuing expenses and costs of recall, and is triggered either by actual bodily injury, discovery by the insured that bodily injury may occur or by fear of bodily injury among the general public.

Lexington's underwriting cri-

teria are similar to Chubb's, though Lexington also looks at the insured's employee relations programs, Mr. Kelly said. In addition, Lexington takes a policyholder's quality assurance and crisis management programs into account in determining the rate to be charged for the insurance, he said.

William S. Jennings, a vp with Johnson & Higgins, offered an example of how a product integrity policy might pay off.

In the hypothetical case, a product was contaminated, deaths oc-

curred and the product had to be recalled. The company paid \$10 million in recall expenses; another \$10 million in advertising expenses above what would normally have been budgeted for the product to regain market share; and \$5 million in product rehabilitation expenses, either for removal of a contaminant or repackaging.

That \$25 million would be covered under the typical policy, Mr. Jennings said.

In addition, insurers and insured would look at the total sales the

company had projected before the incident for a given future period, and the actual sales after the incident. The amount of the difference that could be attributed to the contamination would be calculated, and then the amount of lost profits from those lost sales, he said.

If it were determined that the company suffered \$600 million less in total sales because of the contamination, and that \$100 million in profits were lost, the typical policy would pay \$100 million in addition to the \$25 million in expenses, he said.



Risk. There is no substitute for knowledge.

Today, you can't settle for easy answers to your risk management challenges. Nor can you settle for a broker that doesn't offer competitive pricing backed by fast, responsive service and claims settlement. It's no wonder then that our approach to risk management has made Corroon & Black one of the world's top business insurance brokers.

So, call the nearest Corroon & Black office now. You'll get the right answers—and a risk management program that can pass the toughest test. Yours.



CORROON & BLACK
Putting insurance risks into perspective.

Wall Street Plaza, New York, N.Y. 10005 • 212-363-4100

WE'VE GOT WHAT IT TAKES TO TAKE ON BIG BUSINESS.

It takes more than determination to win a major piece of insurance business. Because of the extreme complexity of many large commercial accounts, policies in a standard product range are simply inadequate. Technical backup and specialists with the expertise to design the product are required.

That backup is yours with The Underwriters Alliance. The Underwriters Alliance is a joint venture between Unigard Insurance Group and Mattei-Webber, Inc., to underwrite large specialized accounts.

Get the facts about this exciting new concept. Call Dick Mattei at (206) 682-0991, or write:

THE UNDERWRITERS ALLIANCE

110 Cherry St.
Seattle, WA 98104

Companies' political risks vary with projects: Analyst

By JERRY GEISEL

LOS ANGELES—The risk of investing in a lesser-developed country is largely based on the specific project, a political analyst says.

"Risks are project-specific," according to Roger Nye, senior planning consultant for international affairs at Atlantic Richfield Co. in Los Angeles.

Speaking before a Risk & Insurance Management Society conference seminar last month on political risks, Mr. Nye said many companies only assess the general political stability of a foreign country before deciding whether to invest in it.

That kind of a general analysis is only a starting point, since overseas risks are based on many different variables—not just the political climate in the host country, he said.

For example, the type of industry can be a variable in risk analysis, Mr. Nye said. A U.S. oil company investing abroad will have to measure contract sanctity and taxes, while a service firm will be more concerned about exchange rates and the host country's infrastructure.

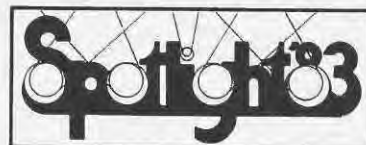
Once a company does decide to invest abroad, there are a number of steps it can take to reduce the risk of a takeover by the host country, Mr. Nye said. These include:

- Allowing local firms to participate in investment projects.
- Demonstrating to the host country that private foreign investment will have a positive effect on economic growth.
- Developing local allies.
- Sharing the risk with other partners.
- Developing skills with host country government officials.

Some companies, however, don't even engage in rudimentary political analysis, an indifference that can prove expensive.

For example, during the late 1970s, many firms relied too much on faulty U.S. State Department analysis of the political situation in Iran rather than assessing the risks themselves, Mr. Nye said.

However, some events fall be-



yond the realm of political analysis, said Robert E. Svensk, president of AIG Political Risk Inc., a unit of American International Group Inc.

For example, National Broadcasting Co. was paid \$67.5 million by its insurers—the biggest individual political risk insurance loss—after the United States pulled out of the 1980 Summer Olympics in Moscow because of the Soviet Union's invasion of Afghanistan.

The possibility that a Russian invasion of another country could trigger a boycott of the Olympics was a risk that simply could not be predicted at the time NBC purchased its political risk insurance with Lloyd's of London underwriters.

Buying political risk insurance is the way more and more companies are choosing to protect their overseas investments.

Political risk insurance can be purchased to provide protection against the risks of war, revolution, civil strife and currency inconvertibility.

However, there are significant differences between the coverage provided by Overseas Private Investment Corp., a federal agency that provides political risk insurance, and the commercial insurance market.

For example, OPIC only will cover new investments abroad, while commercial political risk insurers—which include AIG, AFIA Worldwide Insurance, Continental Corp., Chubb Group, Insurance Co. of North America and Lloyd's—will cover existing investments, explained Felton McL Johnston, vp of insurance at OPIC in Washington.

OPIC insurance also is only available for companies that want to invest in less-developed countries. By contrast, private insurers

do not limit coverage based on the host country's economic status.

Commercial insurers, he said, generally provide up to four years of coverage. OPIC policies provide 20 years of coverage.

Because of the longer length of OPIC policies, OPIC takes longer than private insurers to decide whether it will accept a risk. As a result, companies should not wait until the last minute before submitting an insurance proposal with OPIC, he said.

OPIC and private insurers differ in rating procedures, too. OPIC's rates are based on the project, while rates set by private insurers are more dependent on the supply and demand for coverage.

OPIC will generally provide up to \$100 million of coverage on a single project and has a \$300 million per country limit.

Private insurers, until recently, haven't been able to supply such high limits of coverage. But that may be changing. AIG, for example, recently supplied \$200 million of political risk insurance brokered through Alexander & Alexander Inc., Mr. Svensk said.

As a practical matter, most companies that want to purchase political risk do not need anywhere near OPIC's maximum limits. The average political risk insurance policy sold by AIG has a \$3 million limit, he said.

Mr. Svensk noted that political assessments should be frequently updated. For example, two or three years ago, Iraq, which was flush with oil revenues, was known for prompt payments to Western contractors working on developmental projects.

However, the Iran-Iraq war has put a severe strain on Iraq's economy. As a result, the Iraq government has told at least one Western company that it will delay payments on a project, he said.

In addition, Mr. Svensk said he expects several more South American countries to seek a rescheduling of payments they owe to foreign contractors.

D&O policies aren't workable in joint ventures, broker says

By LEN STRAZEWSKI

LOS ANGELES—If your company is entering into a joint venture with another firm, don't try to adjust your directors and officers liability coverage to include the new company.

Buy a partnership liability policy instead, advises Jack Parent, vp at Johnson & Higgins of Michigan Inc. in Detroit.

"The current D&O policies just don't fit the joint-venture relationship," Mr. Parent told Risk & Insurance Management Society members at the group's annual conference last month.

"The wording just doesn't apply to what is essentially a partnership agreement."

Joint-venture agreements are but one of the D&O problems that occur when two companies enter into a new relationship, RIMS members were told.

When entering into a merger or acquisition, risk managers must be careful to retain coverage for the directors and officers of all present and former companies, including new subsidiaries and past corporate incarnations, Mr. Parent said.

An acquisition in which one company acquires 51% or more of another, for example, creates a new subsidiary that needs to be included

in the parent's D&O coverage or in a separate policy. But don't necessarily try to go back and adjust past coverage, he advised. The best route could be to let the old coverage stand on its own to protect past acts and officers.

Sometimes changes in D&O coverage may not even be needed, Mr. Parent said. If a company acquires only the assets of another company, such as its factory and equipment, but not the company itself, there are no new directors and officers; hence, no adjustments are needed.

Risk managers also need to be wary of changes in what once was a standard D&O policy form, adds Kenneth Wollner, a risk management consultant at The Wyatt Co. Mr. Wollner, who helped research Wyatt's annual study of directors & officers liability insurance, says there is a growing trend toward divergence in these forms.

Changing insurers could disrupt coverage, and risk managers should make sure coverage matches when they switch insurers.

For example, only four of the 14 policies he reviewed in the latest survey now cover the directors and officers of previously owned subsidiaries. Maintaining coverage without a gap while changing insurers could require a negotiated endorsement.

experience...
we stake
our
claims
on it

CLAIMED

Responsible claim management,
auditing and adjustment for
today's industry leaders.

- General Liability
- Professional Liability
- Excess & Surplus Lines
- Products Liability
- Reinsurance

On-site health program cuts medical costs: Nurse

By CAROL CAIN

LOS ANGELES—An on-site health improvement program for Jefferson County, Ala., employees is saving \$7 in medical costs for each dollar spent on the plan, says the occupational health nurse who administers it.

Pre-employment physicals, job injury treatment and follow-up, health evaluations, hypertension screening, primary care nursing and utilization review are all part of the program that began in 1979, said Gloria D. McGhee. She is the occupational health administrator of the program, which is affiliated with the county risk management office in Birmingham, Ala.

Ms. McGhee discussed the program at the Risk & Insurance Management Society annual conference April 25-29 in Los Angeles.

Physicians should not be the hub of medical care, only a part of the team, Ms. McGhee said. The "team" in Ms. McGhee's department consists of two clinical nurse specialists, four general nurses and a secretary in addition to Ms. McGhee.

The nurses are authorized to do several procedures alone and many more with the review or authority of a doctor.

The county has 3,200 employees and 70% of their workplace injuries are handled by one of the nurses. They treat patients or refer them to other providers when necessary.

"We suture, we give time off, we treat anything we can that has symptoms," Ms. McGhee said.

"Our injuries never really leave the job," she said. If a member of the county road crew has a fractured ankle, that person becomes the flagman, she said.

The results? There's an attitude among the county workers that "you don't lose time for work for injuries," she said.

The pre-employment physicals the team handles can be used as defense in certain workers compensation cases. But the exam must be job-specific or it won't hold up in court, Ms. McGhee said.

It costs the county about two-thirds less to do such exams in-house than to send potential employees to outside medical facilities, she said.

But before you can save money, Ms. McGhee believes a company has to know on which health procedures the money is being spent. "Get a listing of where the money is being spent and target programs for the greatest impact."

To track spending, Ms. McGhee suggested classifying employees' illnesses according to diagnostic-related groups, often referred to as DRGs.

This can be done manually or with computers, she said.

"You'll probably find in the top 10 groups, three or four chronic diseases. Those are correctable and controllable," she said.

A worksite health program, or wellness program, can be initiated to control some illnesses and prevent others.

Jefferson County used an all-day health fair last summer to promote wellness. It began with a two-mile fun run and included stress testing and body fat measuring. One booth answered questions about the correct shoes to buy for jogging.

"We pushed aerobics. We don't advocate high-tech (and high-cost) equipment," she said.

Attitude also is important in the wellness aspects of the program.

"You have to remember that up until now, everyone had insurance. No one cared how many dollars were spent (on health care), but now that it's too expensive, you have to stay well," she said.


screening program, there is 95% compliance, Ms. McGhee said. Employees who don't want to comply are told they don't have to; they're not obligated to the program but they are obligated to take care of themselves, she said.

"If they still don't want to, let that one go. There are 20 others."

Trust is an important part of the health program. Employees have learned that they can come to the health department and talk about a problem or seek a referral without injuring their work records. The only time it would go back to the employer is if the matter is job-related, Ms. McGhee said.

Trust has been built up so much that members of employees' families are using the nurses as resource people for medical questions. ■

A MISSED ISSUE IS MISSED INFORMATION



Use this form, or the card in this issue, to enter your subscription to Business Insurance. Or call (312) 649-5221.

Business Insurance
Circulation Dept. 740 Rush Street Chicago, IL 60611

Business Insurance gives you total news coverage of loss prevention, risk financing and benefit management. Every week. Annual subscription (52 issues) in U.S. dollars.

(Check here.) **Surface Mail.** **By Air.**

USA	<input type="checkbox"/> \$40	<input type="checkbox"/> \$90
Canada	<input type="checkbox"/> \$54	<input type="checkbox"/> \$85
Bermuda (Air only)		<input type="checkbox"/> \$75
Europe/Middle East (Air only)		Rates on request.
All other foreign	<input type="checkbox"/> \$54	

new subscription. renewal. payment enclosed.
 bill me. bill company.

name _____ (please print)

title _____

company _____

nature of business _____

business or home address

city _____ state/country _____ zip/postal code _____

Please send information on your special 25%-off group rate for five or more subscriptions.

I prefer not to receive information or advertising by mail from companies not affiliated with Crain Communications.

Mail to: Business Insurance
Circulation Dept. 740 Rush Street Chicago, IL 60611

EMERY

WORLDWIDE

URGENT LETTER

INTRODUCING

THE EMERY URGENT LETTER.

FOUR FULL OUNCES IN A FULL-SIZED ENVELOPE FOR JUST \$11.00.

The new Emery Urgent Letter is the overnight letter that lets you send up to twenty pages or four full ounces desk-to-desk across America for just \$11.00.

Emery also gave the Urgent Letter a specially lined, full-sized 9" x 12" envelope to ensure that your papers

slide easily and safely without folding.

The more important papers you send, the more you need the Emery Urgent Letter. Try it and find out how well it meets your most urgent overnight shipping needs.

Send for your free Emery Urgent Letter shipping kit today.

Mail this coupon to:
Emery, P.O. Box 4030, Woburn, MA 01888.


Name _____

Company _____

Address _____

City _____ State _____ Zip _____

UBI-5-9



© Emery Worldwide 1983

Computers catch risk managers' interest

By LEN STRAZEWski

LOS ANGELES—Risk managers are thinking and talking computers, vendors of risk information systems say.

Although Risk & Insurance Management Society rules forbid vendors from selling products at annual RIMS conferences, exhibitors at last month's meeting say risk managers, brokers and insurers are eagerly seeking hardware and software for their departments.

"We've seen a substantive increase in serious interest from risk managers, brokers and even insurance carriers," noted Guyon Sanders, president of Corporate Systems Inc. of Amarillo, Texas, one of the largest risk information system vendors exhibiting at the RIMS conference. "We are very close to

major sales with one or two insurers who are realizing that they have a real need to be on-line directly with their clients' systems."

Insurers also are discovering that on-line systems are less expensive than the batch storage data-processing systems they are now using for policyholder loss runs.

"If an insurer or broker is on-line with a client, everything moves more efficiently and, in the long run, more cheaply," Mr. Sanders said.

Risk managers were also looking at microcomputer software compatible with larger mainframe information systems, he remarked. "The problem with microcomputers is the need for a place to store all the data. Now we are seeing risk managers who have a mainframe com-



puter system purchase micros and use them for statistical modeling, loss analysis and graphic development with data pulled from the mainframe storage."

Risk managers also are interested in microcomputers because they are portable, he added. "A risk manager with a report to write can pull data summaries from the main computer and manipulate the data at home for his or her report."

Corporate Systems sells three risk management information systems. CS Online provides direct data entry, data search and inquiry

to Corporate System's data base in Amarillo. CS Interact, a relatively recent offering, adds expanded data search and analysis capabilities as well as report writing capability and graphic design programming.

CS Micro, the newest offering, is a software package for microcomputers that features dial-up access to a Corporate Systems computer, data storage and forwarding and high-resolution graphics (BI, Feb. 21).

All of the Corporate Systems' software packages were being demonstrated in the exhibition area at the RIMS conference, creating a steady crowd of risk managers, brokers and insurers, Mr. Sanders noted.

"Many risk managers feel that they at least need to be computer

literate and were working to increase their knowledge by visiting exhibitors," he said.

Eugene Johnson, president of Compu-Risk Software in Thousand Oaks, Calif., agreed. "After four days of exhibiting at RIMS, my voice was pretty well shot. I could have gone on and on without stopping if my voice held out."

Compu-Risk markets a series of risk management software packages on diskettes designed for use with Apple II microcomputers. Programs stored on diskettes, available for \$165 each, include premium allocation, values file, policy file, claims file, incurred-but-not-reported loss-reserving and workers compensation retention calculation.

Although the software was designed primarily for small companies with a one-person risk management staff, Mr. Johnson says he may have miscalculated his market.

"We've been surprised by our reception. Though we designed the system for small companies, we have had Fortune 500 companies interested in the programs and asking us when they will be available on IBM computers. Right now, the programs just don't have the capacity for that kind of use but based on this reception, they will soon," he promised.

"We are leaving RIMS with a stack of requests three inches thick from companies that want these programs on IBM."

Training may be one reason for the interest. Compu-Risk software performs many of the basic risk management functions generally assigned to trainees, Mr. Johnson noted. Companies could use the programs to train new staff and then relieve them of the routine functions as they progress.

Like Corporate Systems, Compu-Risk noted a strong interest by brokers and insurers. "Many agents and brokers were interested, especially smaller firms whose clients are just beginning risk management. They generally can't afford large mainframe systems," Mr. Johnson said.

Although International Business Machines Corp. is the most popular hardware manufacturer for risk information systems, exhibitors agreed, Wang Laboratories provided computer hardware for two exhibitors, SEI Corp. and Dyer, Wells & Associates.

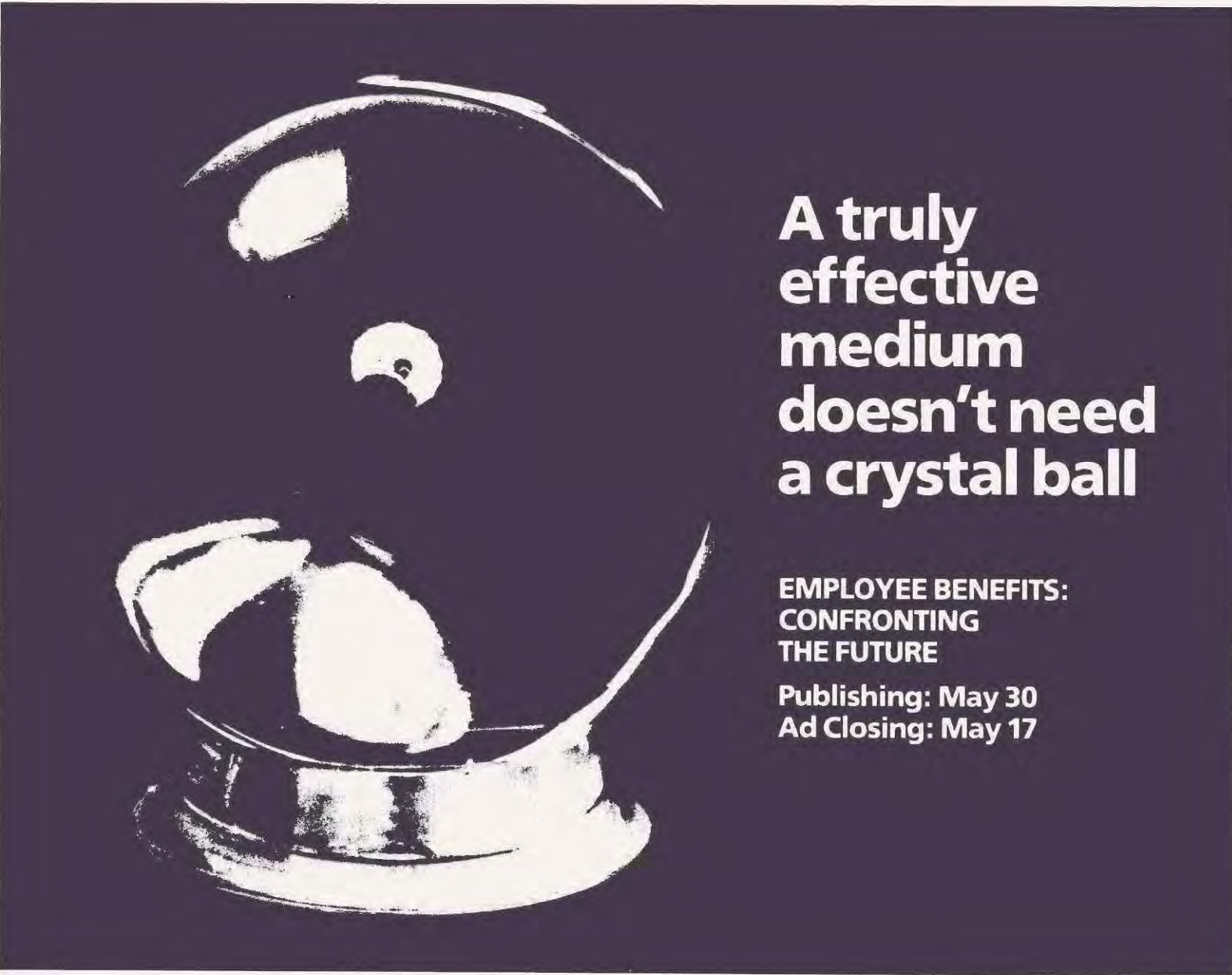
Wang, according to its insurance industry specialist, Kenneth Holmes, is looking to expand into risk management information systems after a successful tenure providing hardware for automated claims-handling systems.

The Risktrac system—marketed by SEI Corp. of Wayne, Mass., and developed through a joint venture between its subsidiary, TMI Systems, and A&S Consultants Inc.—is Wang's major effort in this area. Though SEI has exhibited at the RIMS meeting for the past four years, 1983 produced special interest by very computer-sensitive risk managers, said Nancy Feinstein, systems consultants for A&S Consultants.

The Risktrac system features claims and policy filing as well as loss data analysis capabilities. The software package costs \$350.

Dyer, Wells Associates, Wang's other hardware outlet, generated interest in its Fasttrak VS medical claims software and word-processing systems.

Risk managers who weren't focusing their attention on risk information systems still couldn't avoid automation. New specialty vendors as well as well-known brokers, insurers and consultants all seemed to be demonstrating automated service capabilities. ■



A truly effective medium doesn't need a crystal ball

EMPLOYEE BENEFITS: CONFRONTING THE FUTURE

**Publishing: May 30
Ad Closing: May 17**

On May 30, BI will be the medium that gives readers a glimpse into the future of employee benefits. At the same time, you'll find an advertising opportunity which assures that your products and services will be at the forefront of the marketplace . . . both now and in the future!

Your products and services will be highlighted now as more than 115,000 influential BI readers notice your ad in this exciting feature issue. And if you want to reach the people who actually make the buying decisions, you've come to the right medium! 71% of respondents in a recent BI reader survey indicated responsibility for purchasing employee benefits; 52% indicated responsibility for purchasing employee benefits services.*

And your ad will continue to work for you long into the future. Many *Business Insurance* readers save their copies of BI for future reference . . . "Employee Benefits: Confronting the Future" undoubtedly will be among the "most saved" issues! This issue will focus on trends in such vital areas as pensions, health care cost containment and related legislation. Anyone actively concerned with

employee benefits will be sure to retain this feature issue to consult later on . . . so your advertising message will be reinforced in the buyers' minds over and over again.

Ad closing for "Employee Benefits: Confronting the Future" is May 17. You'll find the phone numbers and addresses for the BI sales offices below. So make your reservations now, and take advantage of the medium that will see to your present and your future . . . without a crystal ball!

business insurance

A Publication of Crain Communications Inc.

New York: 220 East 42nd St., NY 10017 (212) 210-0133

Chicago: 740 Rush St., IL 60611 (312) 649-5275

Los Angeles: 6404 Wilshire Blvd., CA 90048 (213) 651-3710

*An Audience Profile of the B.I. 'Buyer' Reader, 1982

Many familiar faces appear on RIMS board

LOS ANGELES—A new board of directors is taking the reins of the Risk & Insurance Management Society.

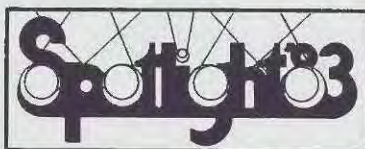
Marc Darby was elected president of the 33-year-old group, the world's largest organization dedicated to the advancement of professionalism in the field of risk and insurance management.

Mr. Darby is director of risk management and insurance for La Societe de la Baie James in Montreal (see story, page 24).

"My global objective is to meet the high standard set by my predecessor," Mr. Darby said during the membership breakfast, referring to C.J. (Jim) Spivey, executive director of the Insurance and Risk Management Agency of Charlotte-Mecklenburg in Charlotte, N.C.

Other members of the new executive board include:

- First vp—Donald T. Browne, group vp and manager of the insurance division at First Atlanta Corp. and president of its credit underwriting subsidiary, First Financial Life Insurance Co. of Atlanta.
- Vp-member affairs and secretary—Thomas A. Duffield, vp of insurance and risk management at Archer Daniels Midland Co. in Decatur, Ill.
- Vp-finance and treasurer—Richard C. Heydinger, risk management director at Hallmark Cards Inc. in Kansas City, Mo.
- Vp-business and industry liaison—William L. Mather, administrator of risk management at The Gillette Co. in Boston.
- Vp-education—Arthur P. Boswick, risk manager at Stone Container Corp. in Chicago.



- Vp-research—P. Richard Hackenburg, staff vp and assistant treasurer-risk management and realty services at Allegheny International Inc. in Pittsburgh.
- Vp-conference—Ronald M. Winans, vp of the administrative services group at J.R. Simplot in Boise, Idaho.
- Vp-governmental affairs—Ronald W. Stasch, corporate risk manager at Federal-Mogul Corp. in Detroit.
- Vp-communications—Woodrow Anderson, director of risk management at the University of

California at Berkeley.

Many of the officers held positions on the board during the previous year and were elected to new posts this year. Only Messrs. Heydinger and Mather were re-elected to their previous posts.

In addition to the officers, 14 students who are majoring in risk management or insurance attended the conference under the society's student involvement program. They were selected on the basis of academic achievement and a demonstrated interest in the profession.

Those students were:

- Michele L. Ball, Illinois Wesleyan University in Bloomington.
- James C. Burt, Michigan State University in East Lansing.
- Dara M. Colter, Georgia State University in Atlanta.

- Robyne Y. Cornell, Howard University in Washington D.C.
- Hollis Ann Dorsey, University of Georgia in Athens.
- Marylu I. Erzen, University of Texas in Austin.
- Karen D. Fisher, Ball State University in Muncie, Ind.
- Gary E. Frohn, Eastern Kentucky University in Richmond.
- Robert E. Hoyt, University of Pennsylvania-The Wharton School in Philadelphia.
- Michael R. Kleine, Indiana University in Bloomington.
- Lee M. Marchfeld, The College of Insurance in New York.
- Peter J. Pappadakes, Ohio State University in Columbus.
- Jon H. Schmieden, University of Wisconsin in Madison.
- James J. Thoen, University of Hartford in West Hartford, Conn. ■

3M's Weber gets top prize from RIMS

LOS ANGELES—Howard T. Weber, director of insurance for 3M Co. in St. Paul, Minn., is this year's recipient of the Harry and Dorothy Goodell Award, the highest honor bestowed by the Risk & Insurance Management Society.

RIMS awarded the honor to Mr. Weber during its 21st annual conference last month for his contribution to risk management and to the society.

In receiving the award, Mr. Weber spoke about the professionalism of risk management and said he was happy and satisfied that he, as well as other risk managers, are treated as professionals because of their knowledge in the field and their performance.

"We have a responsibility to further identify and develop that body of knowledge: risk management," he said.

"And we need more performance in the legislature," Mr. Weber said, noting that Congress was in session "right now," creating bills that would be unwise.

"Part of it (bad laws and regulations) is our fault, because we haven't developed and identified our needs and goals," he said.

Mr. Weber, who has been with 3M for 26 years, is responsible for the company's property, marine, casualty and surety risk management programs throughout the world. He also is responsible for managing two subsidiary insurance companies.

As a past president of the Minnesota RIMS Chapter, Mr. Weber has been active in the national society.

In addition, Mr. Weber was selected in 1978 as the first recipient of the Business Insurance Risk Manager of the Year Award.

Mr. Weber is credited with putting together one of the first centrally controlled and integrated multinational insurance programs and developing and instituting one of the most sophisticated in-house underwriting facilities.

Five students also were cited as scholarship recipients from the Robert S. Spencer Memorial Foundation. The foundation was established in 1979 by RIMS and the Atlanta chapter to honor the late Mr. Spencer, a past president of RIMS and vp of insurance at Fuqua Industries in Atlanta.

Receiving the award were Lee Marchfeld, The College of Insurance, New York; Marylu Erzen, University of Texas-Austin; Barbara Whitehead, University of North Florida, Jacksonville; Dara Colter, Georgia State University, Atlanta; and Cindy Donaldson, University of Georgia, Athens. ■

In business,
it's as important to know
when to respond
as it is to know how.



There is a precise instant in the life of a company when success – indeed, survival – rests on an ability to react. To respond to the moment.

And that moment is now.

In no time since the Depression has our corporate well-being been subjected to such intense economic and competitive pressures.

At Arkwright-Boston Insurance, we believe the time for innovation and bold thought is urgent. For all companies. Including our own.

So we're bringing a new energy to the business of insuring business. A new creativity. And we're doing it now.

Because if we want to get a jump on tomorrow, none of us really has a choice.



Resolve coverage battles out of court: Attorneys

By KATHRYN J. McINTYRE

LOS ANGELES—Risk managers should try to settle disputes over coverage with insurers rather than go to court, three attorneys representing different sides in policy battles agree.

"My advice is disputes should be resolved between insurer and insured because the courts do not resolve the issues—they complicate them," said Malcolm B. Rosow, an attorney with Standard, Weisberg, Heckerling & Rosow in New York, who has represented both policyholders and insurers in various coverage disputes.

"Litigation is a non-productive use of corporate assets and resources," said Christopher C. Mansfield, assistant vp at Liberty Mutual Insurance Co. in Boston. "I would

almost encourage people in large commercial contracts to include an arbitration clause for settling disputes."

Eugene R. Anderson, of Anderson Russell Kill & Olick in New York and counsel for Keene Corp. in its fight for coverage for asbestos claims, agreed that cases should be settled out of court. Keene's chairman personally tried to settle its dispute with its insurers, he said.

All three attorneys addressing a seminar during last month's Risk & Insurance Management Society conference noted that their comments were their personal opinions.

Mr. Rosow cited the three different coverage theories handed down by three different courts in asbestos litigation as the clearest example of how courts complicate rather than



resolve coverage issues.

Conclusions have been reached, but has the dispute been resolved? he asked rhetorically. The same policy issued by Liberty Mutual Insurance Co. has been interpreted three different ways, clearly to provide the best coverage for the individual policyholders, he said (BI, April 4).

Mr. Mansfield of Liberty Mutual suggested that an arbitration clause inserted in an insurance policy for a large commercial account should not be a standard arbitration clause, but one that identifies who would arbitrate the dispute and how.

Inserting an arbitration clause in a commercial insurance policy would not be easy, he admitted, but noted that risk managers for large corporations alter other portions of the standard contract.

He pointed out that such a clause would not be needed in all insurance contracts because few of them are disputed.

Mr. Anderson suggested there are "two enormous economic interests opposing resolution of these

disputes—the lawyers and the casualty insurance underwriters."

Neither plaintiffs nor defense lawyers would want to lose business to out-of-court settlements, he suggested.

Insurers, meanwhile, would not want to do away with the current tort system, he said, because "that would do for casualty insurance underwriting what doing away with death would do for life insurance underwriting."

Once in court, however, large corporate policyholders should not win their coverage disputes under the doctrine of reasonable expectations, suggested Mr. Mansfield and Mr. Rosow.

Under that doctrine, courts generally find the policyholder to have coverage because the policyholder bought the policy with the "reasonable expectation" of being insured for losses.

"The corporation exclaims, 'We had the reasonable expectation that our carrier would do thus and so,'" said Mr. Mansfield.

Using this doctrine is "wholly inappropriate," Mr. Mansfield suggested, because today risk managers are sophisticated insurance buyers and they know what they are buying, he said.

"The day has passed when insurers foist policies on risk managers,"

agreed Mr. Rosow. Risk managers "are dealing as equals with insurers. Each knows what it wants," Mr. Rosow observed.

"Does not the insurer have a reasonable expectation also when issuing the policy?" he asked.

Mr. Anderson countered that all coverage disputes "should not be."

"Risk managers don't buy insurance so that lawyers can resolve differences between one set of court decisions and another."

"The problem is not that courts can't agree. It's that lawyers representing insurers can't agree."

Mr. Anderson argued that the decision in the Keene case handed down by the U.S. Circuit Court of Appeals for the District of Columbia orders insurers to provide exactly the coverage they intended to provide.

That court held that all insurers of a corporation from the time the asbestos was inhaled through the manifestation of injury are liable for asbestos claims.

"That's what the insurers wrote in memos and that's what they said in forums like these," Mr. Anderson said.

He admitted that Keene and the insurers now are waiting for the court to answer the question regarding which insurers pay defense costs first.

THE MONARCH INSURANCE COMPANY OF OHIO

Specialists in Assumed Treaty Reinsurance

As of December, 1982:

Paid Up Capital \$ 3,001,920

Policyholders Surplus \$19,830,570

Directors

R. Einion Holland (Chairman)

Chief General Manager & Director - Chairman Designate, Pearl Assurance p.l.c., London

Robert H. Tullis, Jr.

Past President, The Home Insurance Company

Lothar Sudekum

Past President, Constellation Reinsurance Company
Former Chairman, Reinsurance Association of America

Norman S. Rein

Founder and Former Senior Partner, Rein, Mound & Cotton, Attorneys

Richard A. Lydecker

Past President, Great American Insurance Company
Past Senior Vice President, Crum & Forster Companies

Frederick L. Garner

Chairman - President Designate, Pearl Assurance p.l.c., London

Kenneth W. I. Fletcher

President, The Monarch Insurance Company of Ohio

Robert Denis

Vice President & Treasurer, The Monarch Insurance Company of Ohio

THE MONARCH INSURANCE COMPANY OF OHIO

Incorporated 1864

A Wholly-Owned Subsidiary of
Pearl Assurance p.l.c., London

19 Rector Street, New York, N.Y. 10006
Telephone: 212-422-1850 Telex: 12-6899



Business interruption fights can be limited

LOS ANGELES—Risk managers and insurers can't eliminate the adversarial relationship inherent in settling claims under business interruption policies but they can minimize disputes, a panel of brokers, adjusters and consultants says.

Manuscripting the policy form for the individual insurance buyer, insisting that the risk management department review all claims before submission, keeping the insurance company adjuster informed on changes in the magnitude of the claim and buying property and business interruption insurance from the same insurer can help settle a claim for a loss of earnings more quickly, agreed the panelists at a session at the Risk & Insurance

Management Society conference.

Hiring adjusters to represent the policyholder as well as the insurer and using accountants trained in business interruption claims also can help, panelists said, not hesitating to promote their specialties.

"Take the basic forms and manuscript a policy," advised William F. Foley Jr., vp at broker Johnson & Higgins in New York. The basic form is used for all industries, but each industry is different and its needs should be recognized in the business interruption policy.

"Prior to the loss, tailor the contract to your needs and that will take care of most circumstances," agreed Sidney Greenspan, president of The Greenspan Co. in Los Angeles, which adjusts losses for

the policyholder.

"Many times, coverage isn't tailored as it should be," noted Robert L. Wilkinson, senior consultant with Warren, McVeigh & Griffin Inc. in San Francisco.

A risk management department review of claims before they are submitted is needed, suggested Mr. Foley of J&H, as a basis for negotiation with the insurer.

The risk management department also should keep the insurance company adjuster informed, Mr. Foley advised. "Don't leave the adjuster with a \$100,000 reserve and then submit a \$1 million claim," he said.

It also is "simpler if the business interruption and property policies are from the same insurer," Mr. Foley noted.

Policyholders filing a business interruption claim may want to hire their own adjuster, suggested Mr. Greenspan.

"The adjuster for the insurance company represents the insurer's interest. The policyholder is entitled to representation. We take over the insured's burden to prove loss."

"The way you prove your loss is what makes people stand up and take notice," he added.

R. James Miller, executive vp of Graham Miller Inc. in San Francisco, took issue with Mr. Greenspan. He suggested that independent adjusters like himself who are hired by insurers "are charged with working out a reasonable settlement." Independent adjusters "wouldn't be around" if they couldn't satisfy the risk manager, too, he said.

"An accountant is a necessary evil in most of these situations," said Daniel Grady, an accountant who specializes in aiding insurers to settle business interruption claims through his New York firm.

"We promote that auditors get involved from day one to avoid mistakes that are compounded by the time—weeks, months, years—that is takes to adjust business interruption claims," he said.

"We make order out of chaos, to get information to the adjusters. Most adjusters don't have the time, experience or patience to go through the records as necessary."

BUSINESS OPPORTUNITY

Exclusive franchise in America's most profitable and dynamic industry is being offered for the first time in your area. International company will place qualified individual in "Turn Key" business, train key people, provide inventory, finance your customers, and pay you thousands of dollars "up front" on orders where your customers pay only on future energy savings. Existing customers of our franchisees reads like "Who's Who" of Fortune 500.

If you qualify, you will be flown to Los Angeles for a tour of installations and personal interview. Minimum investment of \$29,500 cash required. Call president at 1-800-323-6556, ext. R-137.

FEDERAL ENERGY SYSTEMS, INC.

Suite 200, 336 N. Foothill Road, Beverly Hills, Ca. 90210

THIS IS NOT AN OFFERING TO SELL

Wrap-up covers can cut costs, but don't work for all projects

By STEVE TARAVELLA

LOS ANGELES—Wrap-up insurance packages can save a property owner lots of money on large construction projects, but he should be aware of the advantages and disadvantages before he decides on consolidated coverage.

"The (property) owner must thoroughly understand what a wrap-up program is and have the full commitment to loss prevention and control beginning in the design phase," Earl K. Novell, vp at McGrief, Siebels & William, a Birmingham, Ala., brokerage, said at the Risk & Insurance Management Society's annual conference.

A wrap-up or consolidated insurance program is one in which the owner of a construction site buys coverage for all the contractors and subcontractors working on the project. Usually, contractors and subcontractors buy their own coverage and factor insurance costs into their construction contract.

When the owner of a site is deciding whether to buy wrap-up coverage or conventional insurance, "It's necessary to examine fully the particulars of each site," Mr. Novell advises. "Don't overlook a viable self-insurance program, but with anything above \$100 million (in insured value), by all means, go wrap-up."

James M. Murphy, executive vp at Fred S. James & Co. Inc., agrees that individual factors at each construction site should be considered when setting up a program.

For example, he suggests that contractors buy their own insurance for a project with the complexity of the New York subway system, but that generally, "for public agencies where downtown areas are concerned, I do think the wrap-up has many benefits."

Mr. Murphy, who helped place the insurance for four rapid-transit projects in the United States, cites the current rapid-transit construction in Baltimore as a wrap-up insurance success story.

The wrap-up policy for the Metropolitan Transit Authority construction, begun in 1976 and set for completion in October, has saved the state of Maryland about \$10 million—what Mr. Murphy calls "a considerable amount of money."

He said the policy includes workers compensation, builders all-risk and comprehensive general liability coverage with an errors and omissions endorsement.

Once a property owner has decided on a wrap-up program, Mr. Novell advises buyers to "determine which national and regional brokerage houses have wrap-up background." Flexibility and creativity in avoiding financing obstacles are important qualities to look for when trying to place consolidated coverage, he says.

"Have broader coverages and higher limits than most contractors carry—never give less," he said.

Ronald E. Strine, corporate risk manager for Aetna Life & Casualty Co., said there are many advantages to wrap-up coverages.

For example, the pricing stability offered under many programs makes them "somewhat immune from ISO or rate increases."

Risk managers may also find they have greater purchasing powers under wrap-ups. Consolidated programs often give the buyer more leverage in negotiating coverage and premiums, he said, citing uniformity and continuity of coverage as another advantage.

Also, Mr. Strine explained, claims handling and loss-control programs can be more efficient under wrap-ups because "there is



an understanding right from the beginning as to whom is in charge."

But, buyers must also be aware of the disadvantages accompanying wrap-up programs, he warned. Among them, there's the possibility of higher-than-expected administrative costs for the project owner since the owner is now responsible for the contractors' insurance.

Also, Mr. Strine pointed out, it may be difficult to get all the contractors to agree to one policy.

Craig Rochette, risk manager for Fluor Engineers & Construction Co. in Irvine, Calif., agreed that wrap-ups benefit the property owner. "The purpose of wrap-ups is always to minimize the cost of insurance to the owners—not to benefit the contractor," he says.

Consolidated insurance programs create several problems for contractors, Mr. Rochette says. Loss information is not always made available to the contractor and claims are sometimes misassigned. "Contractors see more questionable claims under wrap-ups," he says, especially in bad economies.

"Wrap-ups are like baby diapers," he observes. "They sometimes leak under pressure."

AVIATION: A Special Risk that Requires Specific Management

And efficient management dictates comprehensive, cost efficient coverage. Alpha's firmly-rooted aviation background, individually outstanding personnel and prestigious lines give us the edge when designing insurance programs to cover the aviation risk.

Call today for a no-obligation coverage review!



Alpha
Aviation Insurance

800 526-0415
In New Jersey — collect 201-288-4831
Airport 17, 377 Route #17
Hasbrouck Heights, New Jersey 07604

We just took a novel approach to risk management.

We made it more flexible.
We made it more cost effective.
We even cut the paperwork down to size.

You'll find United Pacific/Reliance's coverage program an all-encompassing risk management tool which can be tailored to fit all major casualty, workers' compensation and property coverage needs. It gives your clients broad insurance coverage, loss control and claims administration for most every

liability and property exposure while maximizing their use of capital.

Even the language is clearer in our program. It's a radical innovation in business insurance. But that's not new for United Pacific/Reliance. Our clients know us for a broad line of innovative products and services that anticipate every insurance need.

We understand the needs of business and industry in the

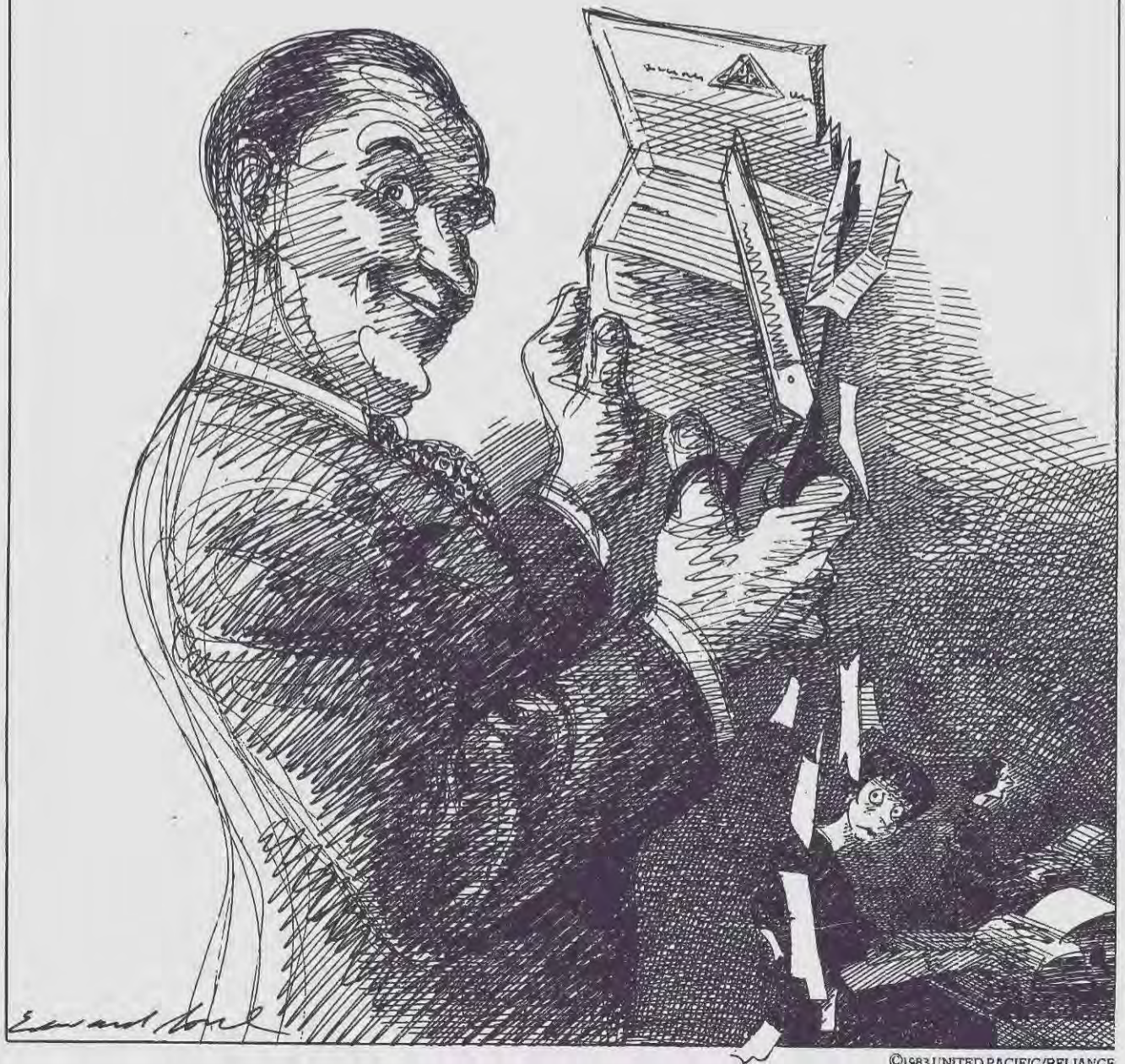
Western states because that's where we're located. Work with a more complete, more concise coverage program from United Pacific/Reliance. Call Mike Croke, vice president, special accounts division, at (206) 952-5000.

Start getting more from your insurance program, without a mountain of paperwork.

**UNITED PACIFIC/RELiance
INSURANCE COMPANIES**



We offer more because we have more.



Comp's exclusive remedy status eroding: Insurer

By CAROL CAIN

LOS ANGELES—Risk managers may not be doing all they can to protect their companies from heavy workers compensation losses, according to the chairman of a leading workers compensation insurer.

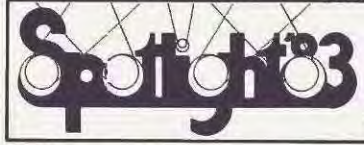
"Many risk managers are bystanders in the grandstand, pointing fingers, and they are not yet down in the area where they're pulling on their oar in the very delicate boat that is workers compensation," said John A. Schoneman, chairman and chief executive officer of Wau-

sau Insurance Cos. in Wausau, Wis. The erosion of the exclusive remedy provision of the workers compensation system was discussed by Mr. Schoneman and others on a panel at the Risk & Insurance Management Society's annual conference last month.

The workers compensation system was developed to provide weekly benefits and medical care for an injured worker and get that person back to work, Mr. Schoneman said.

"But it should be a cost-effective program. That's where we (insurers and corporations) are failing," he said. And, that's why self-insurance is becoming popular, and why states are looking at competitive and monopolistic state funds.

Lawsuits from injured workers account for a major part of a cor-



pany's workers compensation losses. But the people who are going to take advantage of the system are relatively few in number, said William Marquette, vp of Underwriters Adjusting Co. in Piscataway, N.J.

"Remember, lawsuits are not filed by injured workers, but by attorneys," Mr. Marquette said.

"When our actions cause persons to retain an attorney, we are creating unnecessary problems and expenses that can be avoided," Mr. Marquette said.

Uncertainty about weekly benefits, non-payment of medical bills and not having a job to return to are areas that can cause tension among workers and should be watched, he said.

Claims personnel can help with a litigation prevention program, Mr. Marquette stressed. "A claims person must be aware of many and varied methods of treating industrial injuries and actually be in a position to monitor the treatment and offer alternatives," he said.

After an accident, continuing contact must be maintained with the injured worker to let the worker know he or she is not alone, not forgotten and still a member of the workforce, Mr. Marquette said.

Workers also should be offered rehabilitation services.

But in some cases, no matter what steps the employer takes, the case ends up in litigation.

Lawsuits can be filed by an injured employee against other employees, against employers or against insurers, depending on case law in that state

and the particulars of the case, said Merton E. Marks, a Phoenix attorney. He also is chairman-elect of the American Bar Assn.'s committee on workers compensation and employers liability litigation.

"If we know the history and theory of workers compensation, we can put the present problem in perspective," he said.

"In the beginning, of course, there was no workers compensation," he said. The employee's sole remedy was to sue according to common law.

Since the burden of proof was on the employee, the injured worker usually was unsuccessful, Mr. Marks said.

Employers had three potent defenses:

- Contributory negligence, under which the employer need only to show that the claimant was partially responsible for the injurious act to be absolved of any liability.

- Assumption of the risk, which holds that the employee had knowledge of ordinary risk and is paid for assuming such risk and thus cannot recover for an injury.

- The fellow servant rule (abolished in most states now), which prohibited an injured worker from collecting if the injury was caused by another employee.

Some later court decisions have led to statutes and constitutional amendments that protect fellow employees.

In Mississippi, Kentucky and Idaho, injured workers are barred from suing fellow employees, but may sue a third party "not related to the employment."

"In these suits, the co-employee was regarded as an extension of the employer," Mr. Marks said.

In Missouri, Idaho and Wisconsin, such co-employee suits have



Mr. Marks

been allowed, but only in direct torts.

Historically, injured employees were allowed to sue their employer, but only in rare circumstances, Mr. Marks said. For instance, if the employer failed to insure for compensation benefits or if he was found guilty of willful misconduct.

However, the exclusive remedy provisions are being eroded, said Mr. Marks.

A recent case that some consider to be an erosion of the exclusive remedy provision of workers compensation laws is the 1980 California case against the Manville Corp., then called Johns-Manville. The court ruled that an employee who had contracted lung cancer from exposure to asbestos was not limited to compensation only under the workers compensation system but had a cause of action against the employer for alleged fraudulent concealment of product dangers.

The dual-capacity doctrine is another area of erosion of the exclusive remedy provision of the workers compensation law, Mr. Marks said.

Under the dual-capacity doctrine, an employee injured in the course of his employment by a product manufactured by the employer is allowed to sue the employer outside the compensation act in the employer's "dual capacity" not only as an employer, but also as a manufacturer of the product.

A recent California case, according to Mr. Marks, has stretched the dual-capacity doctrine to the point of saying that an employer was liable even when it had not manufactured or marketed the product.

Another area of exclusivity that has been pierced is assaults by executives on subordinates, but again, the case law differs from state to state.

In South Carolina, the court held that an employer was liable when an executive assaulted the employee. And in West Virginia, in a 1978 case, the court ruled that an employer could be sued for lack of safety devices, Mr. Marks said.

Lawsuits against workers compensation insurers is still another area expanding today.

Safety inspections, the furnishing of medical treatment and claims processing are among the areas of attack, Mr. Marks said.

"Claims processing is the most rapidly expanding and hottest area," he said. "We're not talking about negligence of the carrier, but an alleged intentional tort; whether the employee can sue the compensation carrier for alleged bad faith in the processing of a claim."

Trenwick official to address chapter

CHICAGO—Daniel L. Siegel, vp of Trenwick Ltd. in Bermuda, will be one of the featured speakers at the May 19 meeting of the Chicago Chapter of the Risk & Insurance Management Society.

Mr. Siegel will offer a comparison of offshore and domestic captive domiciles.

The dinner speaker will be Hillary Levine, director of RIMS' national Executive Referral Services. She will speak on the services that her department offers.

The meeting will begin at 3:45 p.m. in the 12th-floor main dining room at the Chicago Bar Assn. at 29 S. LaSalle St. in Chicago.

The cost of the meeting and dinner is \$12 for members and \$14 for guests. For reservations call Ann Auerbach at 312-281-8360 or Doris Pearson at 964-1300, extension 516.

Proud of our past / Confident of our future

THE TEMPLETON FUNDS

For more complete information about the Templeton Funds, including charges and expenses, send this coupon for a prospectus. Read it carefully before you invest.

Investing in U.S. & foreign securities since 1954
Total Assets Under Management—
in excess of \$1 1/2 billion.

TEMPLETON GROWTH FUND
A Canadian Mutual Fund (established in 1954)

TEMPLETON WORLD FUND
A U.S. Mutual Fund (established in 1978) investing in U.S. & foreign companies.

TEMPLETON FOREIGN FUND
A U.S. Mutual Fund (established in 1982) investing in foreign companies only.

Institutional Marketing Securities Fund Investors, Inc.
P.O. Box 3942/St. Petersburg, FL 33731

Please send prospectus and other descriptive material.

Name _____ Title _____
C.O. _____ Name of Company _____
Address _____
City, State, Zip _____

EX 15/9/83



Mr. Marquette

You want faster settlement service

...another reason to call in The Periodic Payment ProfessionalsSM



Our professional staff helps resolve your most difficult cases faster and at less cost.

You get faster results because our multi-talented professional staff excels in every aspect of personal injury case settlement: analysis, medical reviews, negotiating strategies, economic projections, plus complete financing packages and closing documentation. With all this flexibility, you get the quick results you want, and that saves costs when you call in The Periodic Payment Professionals.

Benefit Designs, Inc.

The Periodic Payment ProfessionalsSM

4522 Montgomery Road
P.O. Box 12009
Cincinnati, Ohio 45212
513/396-7100

(Outside Ohio: 800/543-4698)

First work comp laws evolved differently

By CAROL CAIN

LOS ANGELES—Wisconsin and Washington were the first of 10 states to adopt workers compensation laws in 1911, but that's where the similarity stops.

Wisconsin adopted an approach used by the British since 1897 that allows corporations to self-insure their risks or purchase coverage from an insurer.

Washington followed the approach of the Germans, who in 1884 instituted a complete government-controlled program—a state fund that excluded insurers from selling workers compensation coverage. Since 1972, Washington also has allowed self-insurance.

There are five other states today that have followed Washington's lead and established exclusive state funds—North Dakota, Wyoming, Ohio, West Virginia and Nevada.

Risk managers discussed the monopolistic system in each of those states last month during the Risk & Insurance Management Society annual conference.

The system is very clear cut in Wyoming or North Dakota, according to Chet Diehl, statutory risk consultant with Marsh & McLennan Inc. in Seattle, Wash.

One item of note in Wyoming is that an employer does not have to cover its clerical staff for workers compensation, he said.

Washington, on the other hand, is very confusing to those who do not operate there, Mr. Diehl said.

The Department of Labor & Industries controls the state fund and has jurisdiction over the self-insurers.

Among the particulars of Washington's system are:

- Permanent total disability cases receive compensation at the same level as those receiving temporary total benefits, and there are "a lot of permanent total cases in the state," Mr. Diehl said.

- There is a 100% employer offset if the employee is qualified for Social Security benefits.

- Benefits are limited to a maximum of 75% of the state's average monthly wage. (The maximum time-loss benefit through June 30 is \$1,053.)

- The industrial insurance premium is experience-rated, based on hours worked. It pays for an injured worker's compensation and disability. The medical aid premium, a separate manual rate for each classification, pays for the injured worker's medical cost.

West Virginia's state fund, enacted in 1913, continues to thrive, said Virginia C. Price, director of technical services for Gates, McDonald, an administrator of workers compensation and unem-

ployment compensation benefits in Columbus, Ohio.

Even though the system in West Virginia is old, it only recently changed the term "workmen" to "workers," Ms. Price said. It also recently changed from a mid-summer fiscal year to a calendar year for experience rating, she said.

Another new change that took effect last year involves the number of classifications allowed under the system. Some 600 to 700 jobs in West Virginia were lumped into 45 classifications, but the number of categories was increased to 63 last July.

Other points about the West Virginia system include:

- An employer does not have to have coverage for temporary employees.

- For death and permanent total disability, a flat \$75,000 is paid; otherwise, there is no maximum on total benefits allowed.

- Self-insurance is allowed. There is a \$1 million security deposit.

Nevada also now permits self-insurance. Prior to Jan. 1, 1980, it was prohibited.

Large hotels and casinos constitute about 75% of the self-insured employers, Ms. Price said.

She also noted that in Nevada:

- The climate is rather informal; almost anybody can go and talk to the people at the state fund.

- The transfer of workers compensation loss experience when a company is bought or sold is prohibited.

Ohio also has had its state fund since 1913 and it also allows for

self-insurance, said Raymond J. Malone, vp of The James B. Oswald Co., an insurance agency and risk management firm in Cleveland.

The average base premium rate is \$2.44 per \$100 of payroll. Employers also pay into DWRF—Disabled Workmen's Relief Fund. Self-insurers pay five cents per \$100 of payroll; others pay 10 cents.

Because of good investment strategies of the state fund, there hasn't been a premium increase in the past four years, Mr. Malone said. All the investment income is "plowed back" into the fund, he said, which now totals \$3 billion.

Employees who live in Ohio, but travel across the state boundaries to work, must sign a form that indicates from which state they want to be covered. ■



ASSUREX... EVERYWHERE

Well, almost everywhere. The dots, 59 of them, show where our current partners are headquartered. In the coming months we'll add partners in areas represented by the squares.

In addition, 64 branch offices (not shown) mean wherever your company has exposure, there's an independently-owned Assurex partner nearby... including affiliates in 14 foreign countries... ready to work for you.

Over 4,000 professionals... experts in reducing your insurance and risk management costs... like the ones below:

DeJARNETTE & PAUL, INC.
307 W. Main Street
Richmond, VA 23220

ANCEL EARP, McELDOWNEY & McWILLIAMS, INC.
125 Park Avenue
Oklahoma City, OK 73102

HAMILTON-DORSEY-ALSTON COMPANY
1380 West Paces
Ferry Road, NW
Atlanta, GA 30327

INSURANCE & RISK MANAGEMENT
Indiana Offices:
Ft. Wayne
Muncie
Indianapolis

LaMAIR-MULOCK-CONDON CO.
907 Walnut Street
Des Moines, IA 50309

ARTHUR A. WATSON & CO., INC.
225 Spring Street
Wethersfield, CT 06109



Assurex

INTERNATIONAL 6480 Busch Blvd. Columbus, Ohio 43229 (614) 888-4869

From The Reprint Department Of:

business insurance

Reporting weekly for corporate risk,
employee benefit and
financial executives

Do you need to distribute copies of articles appearing in Business Insurance at your meetings or for your mailings?

Business Insurance has expanded its reprint department to meet your needs.

For fast, low cost* reprints of articles appearing in Business Insurance, or to obtain reprint permission for your own copies, call or write:

Reprint Department
Business Insurance
220 E. 42nd St.
New York, N.Y. 10017
212-210-0131
212-210-0229

* New prices effective 1/1/83

Risk managers learn rules of the trade

By CAROL CAIN

LOS ANGELES—"Common sense is the most important ingredient in risk management."

That's the last of 101 rules of risk management that a panel of experts presented to a standing-room-only, shirt-sleeved crowd at the annual Risk & Insurance Management Society conference last month.

The practical list of "do's and don'ts" of the philosophical, administrative and technical aspects of risk management was developed with input from about 100 risk managers and insurance educators from the United States and abroad who met periodically last year with Thomas V. Hallett, the list's editor and vp and director of risk management at Frank B. Hall & Co. Inc. in Briarcliff Manor, N.Y.



Mr. Hallett

For example, one of the precepts developed by Mr. Hallett and his team is Rule 14: "The risk manager should be involved in the purchase or design of any new operation to assure that there are no built-in risk management problems."

"Risk is risk, whether it's static or dynamic, or business or non-business, or general or specific, or whatever. It really doesn't make any difference; if it has an impact on the financial statement of the company, it's something that has to be considered," said Matthew Lenz Jr., dean of academic affairs and director of risk management at The College of Insurance in New York.

"The corporate management will reserve to itself the decision making in the financial area, perhaps—the new-product area, that kind of thing—but anything that a risk manager feels (that) has a risk that

he can see and identify and knows will have an impact...he should mention it, whether it's static, business, non-business or whatever," said Mr. Lenz, one of the contributors to the list.

The risk management department at Federal-Mogul Corp. in Detroit has pretty good communication with the planning department, though it often is limited in what it can do, said Ronald W. Stasch, corporate risk manager.

Environmental impact of acquisitions appears to be among the greatest risks during an acquisition, according to Mr. Hallett.

"Lots of firms, even banks that have foreclosed on properties, have bought some environmental risks," he said.

"A lot of managers are not aware of that impact," Mr. Stasch added.



Mr. Lenz



Mr. Stasch



Mr. Holwerda

The chemistry involved in environmental risks is complex and often the effects are still unknown, Mr. Hallett said.

That's one of the reasons that risk management is not a static but a dynamic profession, said Joseph G. Holwerda, director of risk management at Dart & Kraft Inc. in Northbrook, Ill.

"Don't keep your objectives static, but rather dynamic," he said.

Mr. Hallett suggested that a risk manager should start out by asking the chief executive officer how much the company can afford to lose without being embarrassed.

"When they (CEOs) come back with figures higher than you think, what do you do?" asked a risk manager attending the session.

"Get it in writing," Mr. Hallett replied.

Establishing a management policy statement (Rule 66) also was discussed as a method of demonstrating authority for risk management.

"Ours basically is not quite that detailed," said P. Richard Hackenburg, staff vp of risk management at Allegheny International Inc. in Pittsburgh. "It's more a generalized situation that refers to the overall statement of objectives, which the corporation expects to achieve through the risk management program."

"The first statement is basically that the program should be designed for the preservation of assets, the protection of the employment base of the corporation and the design of a program which will enable the corporation to continue to serve its customers, clients, so on and so forth," Mr. Hackenburg said.

"And it does that first through the implementation of sound loss-control and loss-prevention procedures in the area of asset protection and the preservation of life; it does that after protection, after determination of the residual values through loss identification of the all remaining residual risks and...the design of a program which will help reduce the impact of financial loss sustained from those residual risks which it could not either reduce or eliminate."

"We've done it on a broad-based approach like that and then geared it into the constraint of budgetary cash stabilities from year to year," Mr. Hackenburg said.

But the very basis for risk control often is forgotten, hence Rule 19: "The first (and incontrovertible) reason for risk control is the preservation of life."

"Our vision is shortsighted," Mr. Hallett remarked.

About 50% of the 100 or so people attending the session indicated they had a safety and loss-control program.

"You almost can't separate the two," Mr. Holwerda said.

Most government safety standards adopted by business are merely consensus standards written by industry. They should be adopted only as the lowest common denominator for a loss-control program, he said.

That discussion led to Rule 23: "Quality control should not be a substitute for a full product liability-control program. Quality control only assures the product is made according to specifications, whether good or bad."

"It's absolutely true. Quality control is just one of the many factors in product liability. Just because the quality control department says it meets the specs...well, it could still be a bad product," said Mr. Holwerda.

Insurance companies have very little to offer buyers in the area of product liability prevention, he said.

"Would it be fair to say it's far easier to get that cooperation, coordination and information after a disaster has occurred, rather than in a preventative situation?" Mr. Hackenburg asked.

"No one's going to have a product liability program if they haven't had a product liability problem," Mr. Holwerda said.

"They've got to have seen the disaster...have to get burned a little bit," he explained.

He also pointed out Rule 22: "Use the risk control services of your broker and insurer as an extension of your corporate program. Don't let them go off on a tangent."

Risk managers in the audience said their brokers can offer lots of information, but it has to be fitted to the corporation's individual program.

Another area of great interest among the panelists and the audience alike was Rule 26: "Avoid travel by multiple executives in a single aircraft."

"We've spent 20 minutes at breakfast trying to figure out what a 'multiple executive' is," said Mr. Lenz.

"I put through a policy statement on travel: No more than one vp should be on any one aircraft. They (top management) said they didn't want the restraint. Any advice?" asked someone from the audience.

"We tried that, too," Mr. Hackenburg said, adding that the company then went out and bought a small plane that seats 12 people.

Another member of the audience said his company lost several executives a few years ago in a plane crash and now has a policy that limits how many executives fly together.

"We have a track record that's haunting us," he said.

The policy was carried a step further at one company, where executives are even not allowed to drive together en masse, another risk manager in the audience commented.

And still another noted that a limiting travel policy in his family-owned company came down from the top.

Mr. Holwerda cited as an example a company that wanted to send 76 people by plane to a destination a few hundred miles away.

"How many planes to use was a good practical risk management question. The good risk management answer was that one was too few and 76 was too many," he said. The solution was to send six planes, with six people each, making two trips.

The session ended with some additional rules, "on the lighter side," including:

- "When your insurer says you don't need the coverage—ask for it free."
- "When you broker tells you not to worry—worry."

A complete list of the 101 rules of risk management will be printed in the Perspective section of the May 23 issue of Business Insurance.



Our Connections Go Way Back.



RFC

INTERMEDIARIES, INC.
2029 Century Park East
Los Angeles, CA 90067
Phone: (213) 277-3753
Telex: 696184 RFCHQ LSA

RFC can give you a direct line to the international reinsurance marketplace. Our long-term relationships and day-to-day market access are instrumental in linking you with the strongest and most reliable reinsurers.

With solid grounding in underwriting and financial management, our people understand and clearly communicate the interests of all prospective partners. And our successful record presenting, placing, negotiating, documenting and directing sound reinsurance programs means you get maximum facultative and treaty protection.

So tap into RFC's network of nationwide offices. We're ready to go to the wire for you.

Atlanta Boston Chicago Columbus Dallas Hartford Houston
Los Angeles New York Philadelphia San Francisco

Crisis plan crucial to disaster recovery: Experts

By STEVE TARAVELLA

LOS ANGELES—A clearly understood crisis contingency plan tailored to a company's individual needs is absolutely vital to protect against a catastrophic loss, a panel of loss-control experts agrees.

Crisis management preparation could be the "difference between surviving and not surviving" a major catastrophe, says Richard H. Soper, an independent risk management consultant in La Jolla, Calif.

After a severe accident, "You've got to move ahead and that's what this type of pre-planning is designed for," Mr. Soper told an audience at the annual Risk & Insurance Management Society conference last month.

Another panelist, Edwin J. Baker Jr., agreed. "Pre-planning is paramount to the handling of that loss and loss adjustment and should be done whether a staff adjuster is on hand or not," said Mr. Baker, assistant vp at Graham Miller Inc., a San Francisco firm that provides adjusting services for insurers.

A risk manager devising a catastrophe plan should examine all the particulars applying to his or her company, Mr. Soper advised. For example, the loss-control methods used at a factory in a metropolitan area will be different from those employed at a facility in a rural location.

"It's critical that you evaluate the needs and requirements of whom ever you represent," he said.

However, Mr. Soper said some key catastrophe planning guidelines apply to all businesses.

First, he advised, make sure you

have adequate insurance coverage. "The best intentions in the world can still destroy a corporation that doesn't have adequate protection."

Second, business interruption insurance and extra expense coverage are "just critical for getting back in business," he said.

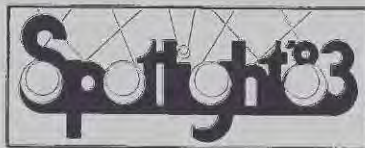
"Obviously, you should have an adjusting firm and home phone numbers (of key adjusters) for evenings and weekends." Keeping these numbers handy could save valuable time if a disaster occurs, he said, explaining that the sooner reconstruction plans can be implemented, the less loss a company is likely to suffer. Mr. Soper also suggests that a risk manager rent mobile pagers for members of his company's crisis management team to ensure communication in an emergency.

"If you have consumer products that are highly susceptible to smoke damage, you should have an agreement with a smoke decontamination firm," he said.

Mr. Soper said many companies may be hesitant to invest in crisis planning because of poor economic conditions, but he added that risk managers need to look beyond the present and establish preparations "so they will be able to function in time of emergency."

Mr. Baker suggested that risk managers consider "cost of proofs" coverage to offset losses due to a catastrophe. This insurance, becoming increasingly popular, provides "coverage for outside accountants or whatever you need to put your claim together," he says.

A typical policy, Mr. Baker explains, might be written to cover "fees incurred by the insured's out-



side representatives, excluding expenses of a public adjuster, for producing, preparing and certifying details of a claim resulting from a loss payable under this coverage provided in this policy."

Normal policy limits are \$250,000 per loss, he said.

Mr. Baker said that adjusting firms frequently are named in the policy as a representative of the company. "The adjuster can be given a copy of the policy, or policies, to become familiar with and get a feeling for the plans," he said.

"It's very important for the adjuster to be notified early on," he added.

Mr. Baker underscored Mr. Soper's advice that risk managers and adjusters exchange their after-hours phone numbers since time is a crucial factor in reducing the potential for loss after a catastrophe. Damage assessment, cleanup and repairs must begin as swiftly as possible, he said.

"It's necessary for the risk manager and the adjuster to meet before the loss," he said. "They can become familiar with one another so they're members of the same team working on the same loss and won't be wondering how they're going to react to one another."

Besides an adjuster, a good risk manager should have other professionals ready to help put a business back together after a disaster, Mr. Baker said. For instance, "If you're

a high-tech company, there may be a need for engineers to assist in establishing the scope of damage and repairs."

Salvage crews, he suggested, can also be important in expediting reconstruction. "There are many good salvors throughout the country who provide a wide range of services," he said, including inventory analysis during which crews can separate unaffected merchandise from that which has been damaged beyond repair and has no further use to the company.

"They can take over damaged stock, put it in the best-possible order and sell it, with the proceeds payable to the insurer," he explained.

Attorneys can be helpful in several ways during a crisis, he said, including taking statements from witnesses to the disaster.

"I think it's always wise for an adjuster to bring in an accountant," Mr. Baker added. "It's good to get one lined up and meet early on with your accounting people to lay some ground rules on how losses will be recaptured."

On a large reconstruction job, perhaps the most important person is the "clerk of the works," someone Mr. Baker describes as "an individual hired by the adjuster for the insurance company to monitor job-restoration costs."

"He's not an adjuster himself, but we've found that on a day-to-day basis, he can probably handle 90%-95% of the problems in the scope of damages," Mr. Baker observed. "He'll set up office on the site and work daily with the adjuster to monitor these costs."

"When you have a large loss, it's

human nature to want to change things," he notes. This man's job "is to separate these changes from the necessary repairs and red-flag them to the adjuster."

Contractors, he said, are especially important in the rebuilding process.

"It's good to get people like that lined up so you know whom you're going to call if you need a roof repaired or debris cleared," he said. "Often in the early stages of a loss you get construction skill to board up windows or fix the roof from the yellow pages. But beyond that, when putting the major restoration process in order, I think you have to go to someone who really has experience in that area."

Bob Mooring, a vp in the catastrophe division of Blackmon-Mooring-Steamatic Catastrophe Inc. in Fort Worth, Texas, a company specializing in reconditioning building interiors, suggested a risk manager get to know a small group of contractors with a wide range of talents.

He acknowledged the importance of salvors, engineers and contractors but he added that it is imperative that one person be in charge of disaster recovery and that the risk manager and adjuster agree ahead of time who that person will be.

The question Mr. Mooring said he is most often asked by risk managers is: "If we were to nail down a contingency program, what could we do to speed up business?"

Pre-planning is the key to getting business back on track, he said.

"A mock accident with your cri-

Continued on next page

"You must learn to sense what's beneath the surface."

John Harris, speaking about Structured Settlements



As one of Structured Settlements Company's most expert negotiators, and as an avid sports fisherman during his leisure hours, John Harris has observed some interesting parallels between his vocation and his avocation.

"In Structured Settlements, as in fishing, you're dealing with an objective that's hidden beneath the surface. You have to learn to sense the mutual goals that are often obscured by conflict and emotion. Using all the available tools of knowledge and communication, you must concentrate on and continue to aim at those goals until a successful resolution is achieved. It's never an easy job, but always a very satisfying one."

THE STRUCTURED SETTLEMENTS COMPANY™

5757 West Century Boulevard
Los Angeles, California 90045
East Coast Office: 800-237-6361
West Coast Office: 800-421-2022
In California: 213-642-1999
In Florida: 813-823-2666

Offices in: Los Angeles • San Francisco
• St. Petersburg • Toronto

Firms told to plan for disasters

Continued from previous page

sis committee is an excellent idea," he explained. Unexpected problems are often encountered during the drill, permitting the risk manager to develop solutions before a crisis really occurs.

"Literally everything can be repaired," he added. "The question is, 'Will the cost of repair exceed the object's value?'" Answering this question now will save time when disaster strikes, he advised.

Providing restoration crews with a list of "do knows" and "don't knows" can also speed the recovery process. For instance, if a risk manager can tell the crew that a certain type of machinery is sitting in the far corner of a room damaged by flood but that he doesn't know how badly the water has affected the machine's operation, examining the machine becomes a priority item.

Before business restoration can begin, Mr. Mooring said, the risk manager must decide what area of his business' operation must be repaired or reconstructed first. Even though a company's computer system may not be the most heavily damaged of its assets, even slight damage could make it a top priority for repair if the company is computer-dependent.

Similarly, if damaged documents are dry, restoration can wait until more pressing repairs are made. But if the catastrophe has left important papers wet, they become a priority matter and should be dried immediately before they become unreadable.

Mr. Baker also recommended that risk managers make periodic visits to loss sites during reconstruction to check on the status of repairs.

Structural and operational repairs are not the only ones to be considered after a catastrophe, Mr. Mooring said. "Cosmetic repairs are important, too. For you, for the morale of your employees and for the morale of people around you, you need to do whatever you can to put that fire (or flood, or earthquake) behind you."

Choosing the right computer and software isn't easy task

By RHONDA L. RUNDLE



LOS ANGELES—Risk management today is the management of information. And computers are the tools modern managers use to manage information.

But picking the right computer, the right software and the right service vendor for the job may be one of the toughest tasks facing risk managers in the next several years.

"The dawn of a new age is upon us," summed up Gary R. Barton, division manager for Corporate Systems, a risk information technology company in Amarillo, Texas.

Mr. Barton and three other risk management information systems specialists talked about the capabilities of their companies' systems and offered tips on systems evaluation during a panel discussion at the Risk & Insurance Management Society annual conference April 24-29 in Los Angeles.

The other speakers were Norman P. Darling, manager of systems planning and development for Arthur J. Gallagher & Co.; G. Theodore Nygreen, senior vp of Anistics Inc.; and R. David Turner, manager of risk management services for Rollins Burdick Hunter Co.

"Information alone is not enough to lower the cost of risk and help you get the job done," pointed out Mr. Darling. In order for a risk management information system to provide effective decision support, it must capture a sufficient level of detail and achieve a substantial measure of accuracy.

The information must be presented in a way that focuses the risk manager's attention on problem areas. "You should not have to spend more time looking for problems than solving them," noted Mr. Darling.

For example, risk managers using an information system should be able to access loss and exposure information in a format that permits easy comparison with insurance policy coverage and service contract provisions.

"If you have a location without any vehicles, you don't want to be insuring them," he explained.

A risk manager should have instant access to data through a terminal in his or her office as well as through an information center that will respond to special reporting requirements within 48 hours of receiving a request, said Mr. Darling.

The system should offer flexibility to the risk manager who wants to view information in varying formats on a terminal screen, microfiche or paper. Letter quality printers are available to print out reports on company letterhead stationery. This could be helpful in generating summary location and value reports for property underwriters, for example.

Expandability is another important consideration. Risk managers should check the compatibility of different mainframe computer systems offered through vendors with microcomputers the company may already own or be planning to acquire.

Microcomputers permit users to download data from a mainframe computer and manipulate or analyze it off-line. This reduces the cost of computer access over telephone lines that connect the risk manager's terminal in his or her office to the vendor's mainframe computer.

Computer technology is changing so rapidly, risk managers will want to retain a systems vendor who will keep pace with technological innovations.

The vendor's human resources should be considered in the selection process, noted Rollins Burdick Hunter's Mr. Turner. Once the information system is up and running, users have a continuing need for technical assistance in generating reports, preparing statistical analysis and other functions.

"Ask vendors, 'Can you support my system?'" advises Mr. Turner.

Typically, the first step in implementing an information system at a company is establishing a computerized data base of up to five years of claims. One of the first questions to ask a vendor is if the system can handle claims information furnished by many different sources, says Mr. Turner.

These sources include microfiche, magnetic tape and other electronic media furnished by insurance companies, third-party claims administrators and adjusters.

An interactive on-line system enables the risk manager to perform "focus interrogation," noted Mr. Turner. This means that the user can search through claims data to retrieve specific claims, or a summary of claims, that meet a defined set of parameters.

For example, the system could retrieve all workers compensation claims above \$10,000 that occurred at a specific division within the past three years. Or the risk manager might ask to view a list of claims filed by new employees within the past two months to evaluate the effectiveness of a new employee safety-training program.

There is no guarantee against security breaches in a computerized data base system, but risk management information systems have been developed with strong security safeguards, panelists agreed.

"One user cannot get into another user's data base," said Mr. Turner. Access can be authorized by line of coverage such as workers compensation or general liability. It can be limited to certain variables and exclude others such as an employee's age or sex. The authorization can be limited to data entry, actuarial analysis, or other functions.

A user password is typically used to gain access to the system. Arthur J. Gallagher's system requires use of a six-digit number plus a password. If the user fails to input the correct combination of digits and password after five attempts, the system shuts down. The user must dial the mainframe computer center to explain the difficulty and request re-activation of the system.

Most information system vendors offer their product on a fee basis, noted Mr. Turner. These companies should be able to give a prospective buyer a general price range based on the number of claims that would be stored in the system, the source of the claims information (manual files, insurance company magnetic tapes) and the specific system capabilities required.

"Know the vendor and the vendor's financial backing," urged Corporate System's Mr. Barton. Identify your own individual needs and what you want the system to do, he urges.

"You may not require the full services of a vendor, but you should be able to fit the system to your needs if the system is available in modules.

"Check with users of a system—call people in a non-pressure environment and ask them what it costs, how long it took to get going and what the user's immediate and indirect cost savings have been," continued Mr. Barton.

Graphics capability is another feature much in demand by risk managers. Before purchasing a system, the risk manager should investigate its compatibility with various software packages that are available in the marketplace. There are enormous differences in graphic clarity and the quality of color reproduction.



Arthur J. Gallagher & Co.

Rolling Meadows, Illinois

is pleased to announce that it has acquired majority ownership in

UIC, Ltd.

a political and commercial risk management consulting firm serving multi-national businesses.

David Avasthi

has been elected President and Chief Executive officer with offices at:

UIC, Ltd.

Suite 7967

One World Trade Center
New York, New York 10048

(212) 524-0832

TLX: 126394 AEGIS NYK

EHCC

E.H. CRUMP COMPANIES, INC.

The Nation's 9th Largest Insurance Broker

*"Join Us At Our Hospitality Suite At
The Los Angeles Bonaventure Hotel April 25-28."*

National Accounts Division

Kindler & Laucci Insurance Brokers

LaBow, Haynes Company, Inc.

Crump/Harris, Inc.

Crump-Godfrey, Inc.

Robert Rossi named president at Jardine

Robert L. Rossi has been named president and chief operating officer of Jardine Insurance Brokers Inc. in San Francisco. He assumes national responsibilities for Jardine retail operations in the United States.



Mr. Rossi

Before this promotion, Mr. Rossi had been president and senior operating officer for the company's Western division. In 1967, he joined Albert M. Bender Co. Inc., the predecessor firm to Jardine. Mr. Rossi reports to Bernard H. Mizel, chairman and chief executive officer.

Other broker changes:

David P. Charnock named vp of Jardine Ter Bush & Powell Inc. in Schenectady, N.Y. He previously was an account executive at the company.

Donald F. Mokrauer joined Fred S. James & Co. of New York Inc. as vp. He will be responsible for all aspects of the New York benefit operation, including claims administration and consulting. Mr. Mokrauer formerly was with William M. Mercer Inc.

Insurers

R. Fred Richardson named president and chief operating officer of The Hartford Insurance Group's Hartford-based life insurance companies. He will retain his position as director of the company's worldwide life operations, which include group and personal lines.

Mr. Richardson's new post was previously held by **DeRoy C. Thomas**, who is now chairman and president of The Hartford Group.

Allan B. Pooler named senior vp in charge of underwriting at Marine Office of America Corp., a unit of Continental Insurance Co. in New York. He had been a vp in charge of ocean marine underwriting and ocean marine operations.

Michael J. Conroy, Albert H. Hayes, James L. Hiney and Stephen G. Stonehouse have been named vps at Chubb & Son Inc. in New York. Mr. Conroy is manager of the national claims administration department; Mr. Hays is branch manager of the Dallas office; Mr. Hiney is eastern branch manager of the New Providence, N.J., office; and Mr. Stonehouse is branch manager of the Chicago office.

John A. Di Falco appointed vp of underwriting for Lansing B. Warner Inc., the newly acquired insurance management subsidiary of Wausau Insurance Cos. Mr. Di Falco will head the underwriting activities.

Raymond E. Luna named manager of the Houston branch office of United States P&I Agency Inc., a division of Underwriters Adjusting Co. Mr. Luna was previously a marine adjuster the USPI Houston office.

Charles Cushner named vp in the business insurance division of California Casualty Group in San Mateo, Calif. Mr. Cushner has been with California Casualty since 1968.

Excess/surplus

Robert Kampa promoted to senior vp-casualty at Avreco Inc. in Chicago. Mr. Kampa had been vp-casualty at Avreco. Also **Edwin Legge, William Yurek and Hank Mueller** were named vps-casualty. Messrs. Legge, Yurek and Mueller were previously assistant vps a Avreco.

comings & goings: industry

Reinsurers

James J. Powers named senior vp/secretary at Constitution Reinsurance Corp. in New York. Mr. Powers will continue to head Constitution Re's claims department and fill the position of corporate secretary.

Rocco J. Buscieti promoted to senior vp-finance, treasurer/secretary at Dominion Insurance Co. of America, a reinsurer in New York. He had been vp-finance, treasurer/secretary.

Bruce Bovenizer, John T. Grush and Dennis B. Williams have been appointed vps at General Reinsurance Corp. in Greenwich, Conn. Mr. Bovenizer will be in the Kansas City, Mo., office, Mr. Grush in Los Angeles and Mr. Wil-

liams in the Seattle office.

Other suppliers

Gary L. Jones named managing director of William M. Mercer Inc. He will be responsible for directing consulting offices in Los Angeles; Orange County, Calif.; Las Vegas, Nev.; Phoenix, Ariz.; and Albuquerque, N.M. Mr. Jones had been a principal and head of Mercer's San Francisco office.

At other Mercer offices, **Larry E. North**, a principal, appointed head

of the Atlanta office. He had been a managing consultant at Mercer. **David F. Hollis** appointed head of the Mercer Nashville, Tenn., office. Mr. Hollis was previously a managing consultant in Mercer's Atlanta office.

Andrew F. Giffin joined Towers, Perrin, Forster & Crosby in Milwaukee. Mr. Giffin will work in TPF&C's life insurance consulting unit. He had been director of management services for the National Assn. of Insurance Commissioners.



Your captive's buck stops here... for just 48-hours*

Our two-day turnaround of captive premiums will boost your cash flow

We can improve the investment return of your captive in a number of ways. And we have national capability as underwriting managers for Northwestern National Insurance Company licensed in all 50 states.

** Note to our current clients: No we're not slowing down. You know we usually do better. J.K.*

For more information have your broker contact Jim Kellogg, Vice President, NN Risk Management Services, 731 North Jackson Street, Milwaukee, Wisconsin 53202, (414) 765-8660.

NN Risk Management Services
Member Armco Insurance Group

Senate panel to examine taxes on insurers

WASHINGTON—The Senate Finance Committee is going to take a look at how the insurance industry is taxed.

The June 13 hearing will examine whether property/casualty insurers are paying their fair share of federal taxes.

Specific insurer issues that the committee will be looking at include:

- How insurance should be defined for tax purposes.
 - Whether certain reserves should be discounted to reflect payment of claims in future years.
 - Whether the tax deferral provided for "protection against loss" accounts is justified.
- The committee hearings could be a prelude to legislation that would raise the industry's tax burden. At a minimum, hearings are needed to

washington

see whether property/casualty insurers are paying equitable taxes, according to Finance Committee Chairman Sen. Robert Dole, R-Kan.

The hearing will begin at 9:30 a.m. in Room SD-215 of the Dirksen Senate Office Building.

Product liability cap

Rep. Norman Shumway, R-Calif., is making a new effort to get the House to pass federal product liability legislation.

The Product Liability Act of 1983, H.R. 2729, proposed by Rep. Shumway and Rep. Barbara Mikulski, D-Md., would cap punitive

damage awards an individual could receive at \$1 million.

Under the measure, manufacturers generally would be liable for the safety of their products for up to 10 years after the date of first sale. However, in the case of products where an injury may not manifest itself until after years of cumulative exposure, a 15-year liability limit would be imposed.

In addition, evidence of post-manufacturing improvements to a product generally would not be admissible in court.

Furthermore, in the case of workplace accidents, a product liability award would be reduced by the amount of workers compensation an injured worker would receive.

Federal legislation is needed because of the "inconsistent and often unfair product liability standards applied around the country," Rep. Shumway said.

A similar bill was introduced by Rep. Shumway last year (BI, March 15, 1982), but the measure died in committee.

Rep. Shumway's bill is backed by a coalition of more than 100 manufacturers that belong to the Coalition for Uniform Product Liability Laws.

Arbitration regulation

The Pension Benefit Guaranty Corp. within the next six months will publish a regulation on how employers can seek arbitration when they have a dispute with a multiemployer pension plan.

Other regulations concerning the operation of multiemployer pension plans that the PBGC says it will publish by the end of the year include:

- How multiemployer pension plans can be merged.
- How multiemployer plans must notify and collect withdrawal liability payments from employers that leave underfunded plans.
- How withdrawal liability is calculated when there is a mass exodus of employers from a plan.
- What the duties of plan sponsors are when the plan is terminated by a mass withdrawal.

Flood program fraud

Two Illinois businessmen attempted to defraud the National Flood Insurance Program the Federal Emergency Management Agency says.

Harold Reskin, chief executive officer of Midland Enterprises Inc., of Elmhurst, Ill., and Tom Stammers, an account executive for Euclid Insurance Agencies, also in Elmhurst, were arrested April 20

by FBI agents on bribery charges.

According to FEMA, the men allegedly paid bribes to an insurance adjuster to submit a flood damage claim of \$86,450.62 when the actual damages were less than \$25,000.

ERISA hearings

The Senate Finance Committee will hold hearings on June 20-21 on legislation, S. 19, that would overhaul the Employee Retirement Income Security Act to give women a greater chance to earn a pension benefit.

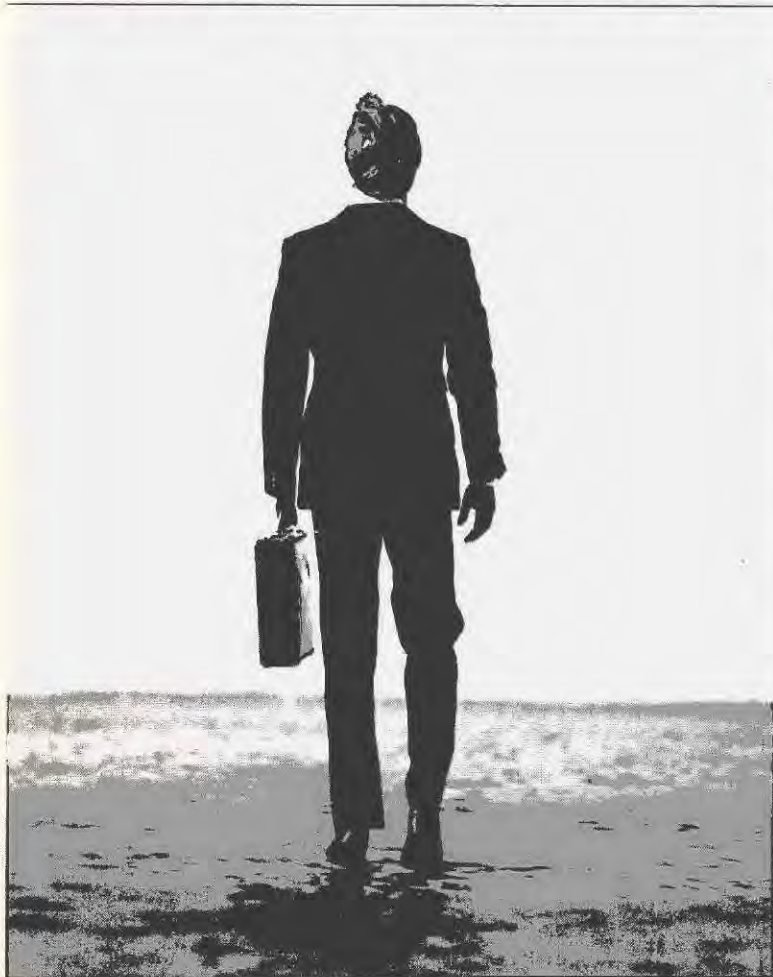
The legislation, proposed by Sen. Robert Dole, would lower to 21 from 25 the age at which employees must be included in a company's pension plan.

In addition, women would get a one-year leave of absence due to the birth of a child without losing pension credits for prior service.

The legislation also would clarify federal law to allow accrued pension benefits to be subject to state community property laws in divorce proceedings.

In announcing the hearings, Sen. Dole noted that under ERISA "some women may be denied the opportunity to fully participate in and enjoy the benefits of employer-provided pension plans."

The hearings will begin at 9:30 a.m. in Room SD-215 in the Dirksen Senate Office Building. ■



It's easy to walk away with marine business when you work with Commercial Marine Group.

Even if you've never before sold marine insurance, our Marine Insurance by the Numbers can make it as easy as 1,2,3.

One. Our simplified application forms for every type of marine insurance are fast and easy to complete.

Two. Once completed, our underwriting marine specialists can usually "rate" your policy right away. Frequently, right over the phone.

Three. We'll service you all the way. Promptly and efficiently. Making sure your clients are neither under-covered nor over-covered. And handling claims, worldwide, without delay.

So let the specialists at Commercial Marine Group help you increase your agency's business without increasing your overhead.

You'll be amazed how easy it is.



**Commercial
Marine
Group**

P.O. Box 530830/9700 N.E. 2nd Ave./Mia Shores, FL. 33153
305/756-8500/Toll-Free 800-327-8793/Telex: 807049

Branch Offices: New York, NY • Encino, CA • Seattle, WA.

INNOVATION

Innovation in conservation of scarce resources.
Specialized loss reserve run-off and surplus relief programmes.
Innovation in reinsurance.

BELVEDERE
INSURANCE COMPANY LIMITED

Bermudiana Arcade, Queen Street
Postal Address: P.O. Box 1643 Hamilton S, Bermuda. Telex: 809-295-3656 - Telex 3592 BELVEBA

Salaried employees' benefits are improving

By JERRY GEISEL

LINCOLNSHIRE, Ill.—Although some financially troubled companies are cutting back employee benefits, most employers appear to be improving the benefit programs they offer to salaried workers, according to a new survey.

For example, more companies are offering salaried workers capital accumulation plans like thrift or savings plans, the study notes, while others are no longer requiring mandatory employee contributions to pension plans.

In addition, employers are beefing up their group insurance plans to increase maximum benefits. At the same time, they are increasing long-term disability payments as well as providing more generous pension plans.

These expansions and improvements of employer-provided benefit programs for salaried workers are evident in a survey of 250 major U.S. employers released this month by Hewitt Associates, a Lincolnshire, Ill., benefits consulting firm.

The survey analyzes the changes that the 250 companies made between 1979 and 1982 in their benefit plans covering salaried employees. The surveyed companies include 60 of the nation's 100 largest industrial corporations.

The percentage of the surveyed companies that offer savings/thrift plans jumped to 72% from 67% during the three-year period. In addition, respondents added more Tax Reduction Act Stock Ownership Plans, with the percent of companies offering TRASOPS climbing to 30% from 24%.

At the same time, the percentage of surveyed firms that do not offer some kind of capital accumulation plan dropped to just 5% in 1982, compared with 10% in 1979.

Employer contributions to those capital accumulation plans are becoming more generous. For example, in 1982, 14% of the companies with savings/thrift plans matched employee contributions on a dollar-per-dollar basis, up from 9% in 1979.

Some companies that offer pension plans that base benefits on average salary during an employee's final years of service are reducing the number of years upon which the benefit is based.

For example, the percentage of employers that offered pension plans in which the benefit is based on average salary over the last five years of service dropped to 76% from 81% between 1982 and 1979. On the other hand, the percentage of plans that based benefits on average salary over a three-year period climbed to 10% in 1982, up from 7% in 1979.

Pension plans that provide three-year averaging usually pay higher retirement than plans with five-year averaging since an employee's average salary tends to increase each year.

In addition, 50% of the surveyed employers in 1982 recognized bonuses when computing an employee's retirement benefit, up from 46% in 1979.

Furthermore, in 1982, just 12% of the salaried employees' pension plans required employee contributions, down from 15% in 1979.

Some 11% of pension plans in 1982 allowed an employee with 30 years of service to retire at age 55, up from 9% in 1979, while the percentage of plans that require a 30-year veteran to stay on the job until age 65 to collect a full benefit declined to 23% from 27%.

Life insurance benefits for salaried workers also improved. In 1982, 34% of the surveyed employers' life insurance benefits for salaried employees were equal to or greater than four times an em-

ployee's annual salary, up from 21% in 1979.

By contrast, the percentage of plans that offered life insurance benefits of less than three times an employee's annual salary slipped to 22% from 31% during the three-year period.

In addition, 10% of the employers offered maximum life insurance benefits of more than \$400,000. At the same time, only 11% of the employers provided less than \$50,000 of employer-paid life insurance benefits in 1982, compared to 16% in 1979.

Employers also improved benefits payable through their long-term disability plans. In 1982, 37% of plans provided a monthly maximum benefit of more than \$4,000. By contrast, just 12% of plans in 1979 had a monthly maximum ben-

efit of more than \$4,000.

Similarly, the percentage of plans that limit monthly LTD benefits to less than \$2,000 declined to 4% in 1982, down from 15% in 1979.

However, there was little change in the amount employees were forced to contribute to LTD plans. In 1982, 44% of LTD plans required employees to pay some or all of the premium, down only slightly from 47% of plans that required employee premium contributions in 1979.

But salaried employees are picking up more health care costs, the survey shows. For example, the percentage of health plans providing 100% reimbursement for hospital room and board expenses dropped to 84% in 1982, down from 89% in 1979.

However, most employers did

not change deductible levels, with a majority of firms continuing to require salaried employees to pay the first \$100 of their annual health care costs.

Employers, though, are increasing the maximum benefits their health care plans will pay. For example, 40% of the employers last year offered maximum lifetime health care benefits of more than \$250,000, up from 13% in 1979.

Other findings in the Hewitt survey include:

- The percentage of companies providing medical coverage for retirees, usually in the form of Medicare supplemental benefits, climbed to 94% in 1982, up from 88% in 1979.

- Some 89% of surveyed companies offered dental insurance plans in 1982, compared with 70%

in 1979. During the same three-year period, the percentage of plans covering orthodontic expenses increased to 84% from 75%.

In addition, 34% of dental plans imposed deductibles in 1982, 39% sometimes waived deductibles for certain services, like preventive care, and 27% never imposed deductibles.

In 1979, 47% of the surveyed dental plans required deductibles while 28% waived them for certain services and 25% lacked deductibles.

Copies of "Salaried Employee Benefits Provided by Major U.S. Employers: A Comparison Study, 1979 Through 1982" are available from Hewitt Associates, 100 Half Day Road, Lincolnshire, Ill. 60015; 312-295-5000. The cost is \$25 per copy.

When you need to identify the influentials, turn to the BI Directory.

The brand new BUSINESS INSURANCE DIRECTORY OF CORPORATE BUYERS OF INSURANCE, BENEFIT PLANS AND RISK MANAGEMENT SERVICES gives you the most comprehensive compilation of vital contacts, company facts and figures. Nowhere else will you find all this valuable information in a single volume!

You'll find alphabetical listings on 1,200 of the largest U.S. corporations ... listings that include sales volume, employee population, company address and phone number.

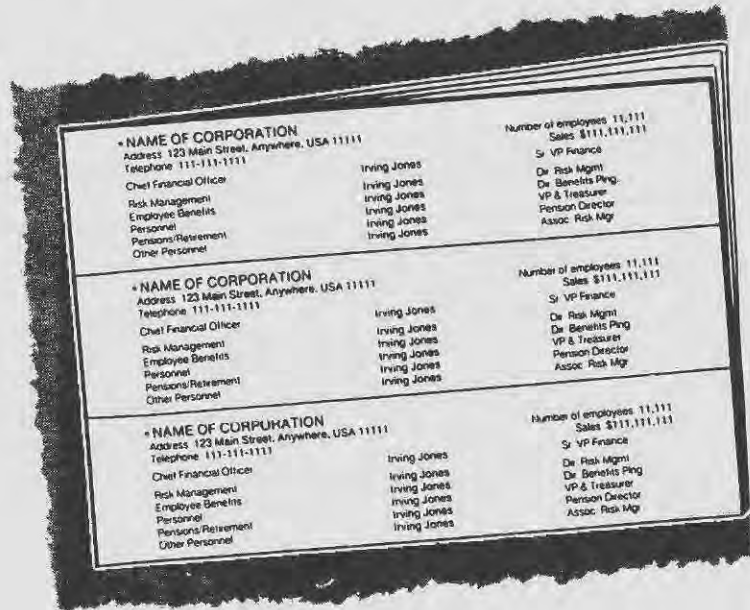
And you'll find the names and titles of the chief financial officers and the executives in charge of risk management, employee benefits, personnel and pension/retirement plans.

To further help you pinpoint the information you need, a special index will list corporations by size, based on number of employees.

Whether you're on the buying or selling end of this exciting business, the BI Directory will make your job easier.

As a "buyer," you'll use this reference tool to identify your professional counterparts - to compare notes on how to handle the responsibilities that come with your position.

As a "seller," you'll find the BI Directory to be the most convenient way to find out who the buyers are and how to reach them.



This easy-to-use 8 1/2" x 11" volume sells for just \$40, with a reduced price of \$35 per copy for quantities of ten or more.

Fill out the coupon now, and send for the new BI DIRECTORY ... a truly unique and indispensable source book.



business insurance

BI Directory, Single Copy Sales
740 Rush St., Chicago, IL 60611
(312) 649-5415

Business Insurance Directory

Single Copy Sales
740 Rush Street
Chicago, IL 60611

Please send me _____ copies of the BUSINESS INSURANCE DIRECTORY OF CORPORATE BUYERS OF INSURANCE, BENEFIT PLANS AND RISK MANAGEMENT SERVICES @ \$40 each; \$35 each for quantity of 10 or more. Foreign postage is additional.

Bill Me Bill Company Payment Enclosed
 Visa Mastercard

Account # _____ Exp. Date: _____

Signature _____

Name _____ Title _____

Company _____

Address _____

City _____ State _____ Zip _____

Phone _____

Changes in law affect malpractice claims

By SALLIE J. DRURY

SANTA MONICA, Calif.—Changes in tort law and accompanying legal defenses were one of the major causes of the medical malpractice claims explosion of the mid-1970s, a new study says.

These legal changes "contributed significantly to the rapid growth in frequency and severity of medical malpractice claims in some states in the early 1970s," the report says.

The study, prepared by the Institute for Civil Justice at the Rand Corp., a California think tank, is based on data from medical malpractice claims closed in 1970 and from 1975 to 1978.

The study was designed to show factors contributing to the flood of medical malpractice claims in the mid-1970s and why awards were so high.

For example, the study said the following factors contributed to the malpractice crisis:

- The abolition in some states of the "locality rule," which judged a physician's competence by local rather than national standards.

- The abolition of the immunity of government and charitable hospitals from malpractice suits.

- The adoption of informed consent standards, which require a doctor to inform a patient of a procedure's risks before the procedure is performed.

- The adoption of "respondeat superior" rulings, which held that an employer is liable for acts committed by employees during the course of their employment.

The study says that states that adopted these four changes from traditional legal standards by 1970 reported medical malpractice claims costs in 1976 that were more than twice the rates in states that had adopted none of these doctrines.

On the other hand, post-1975 tort reforms such as capping awards and offsetting jury awards with other forms of compensation, like Social Security, received by a claimant, helped limit the amount of the awards, the study shows.

Although the study could not measure long-term effects of these reforms, the information from

1975-1978 showed that "mandatory collateral source offset, in effect for two years, is estimated to result in a 50% reduction in (claim) severity."

Another factor that controlled claim costs was the shortening of the statutes of limitations and discovery rules, which most states adopted in response to the 1974-1975 crisis. Long delays in disposition of cases prior to 1975 contributed to higher claim costs in some states, though these time lags generally affect the severity of claims more than their frequency.

However, the study admits that the data from 1975-1978 does not accurately reflect the effect of shortened statutes of limitations on medical malpractice claims.

The study notes that changes in tort law that aided plaintiffs were enacted earlier and to a greater degree in highly urbanized states.

Furthermore, highly urbanized areas generally contain a higher density of lawyers and physicians per capita, though the study notes the number of lawyers does not significantly affect claim frequency. However, physician density and

changes in medical services contribute to diversity and growth in claim frequency, it points out.

Data used in the study shows that an increase of 100 doctors per 100,000 population is associated with an increase of 3.6 medical malpractice claims per 100,000 population.

While it is clear that urbanization figures prominently in malpractice cases, its effect "is a subjective one and almost impossible to measure," said Gustave H. Shubert, director of the Institute for Civil Justice.

"One can speculate that people find it is easier to sue a doctor they've seen once or twice and may never see again than it is for them to sue the small-town doctor they've known all their lives."

Although the study says all of these factors contributed to the great flood of malpractice claims in 1974-1975, it does not explain why the number of claims decreased in 1976-1977, although it suggests the drop in claims could have been caused by fewer injuries resulting from more careful medical practice

and more institutionalized quality control by medical providers.

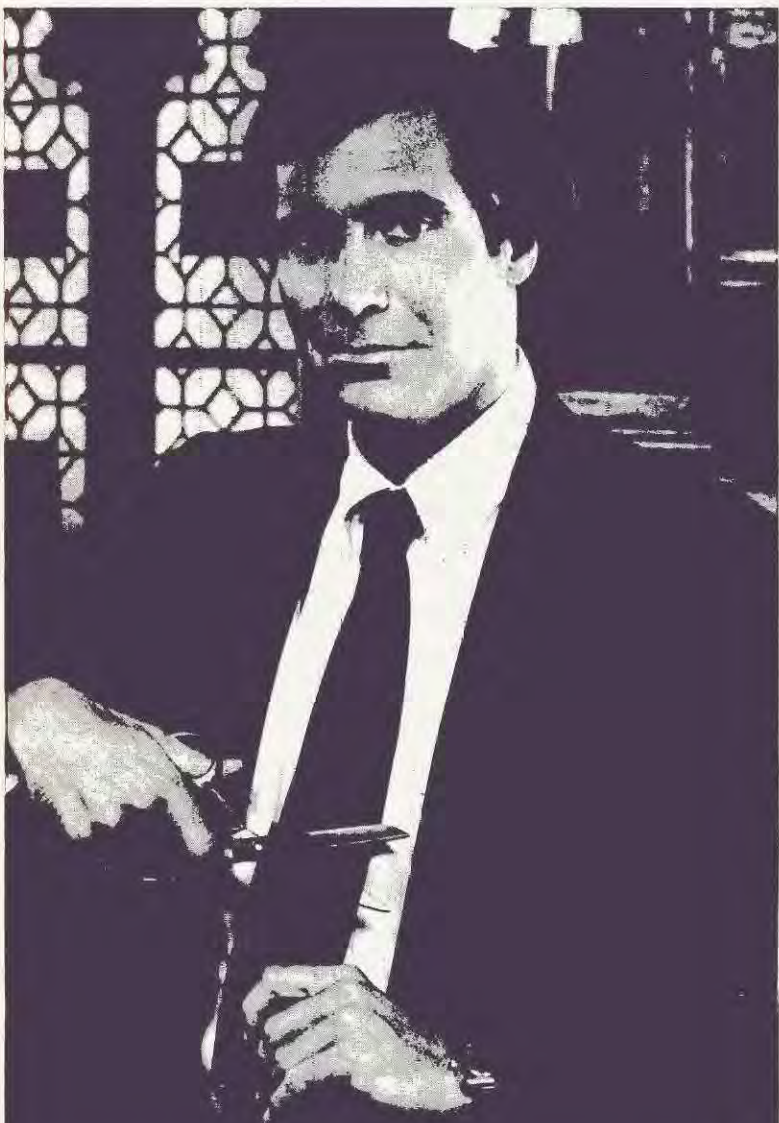
The study also ruled out factors suspected of having a bearing on frequency or severity of claims. The factors ruled out were:

- No-fault automobile insurance laws. At one time, the surge of malpractice litigation was blamed on increased litigation by lawyers who found their business was suffering because of the no-fault laws.

- A high proportion of people over 65. Even though older people have a higher exposure to iatrogenic injury, the data shows they are less likely to sue.

The analysis concludes that significant geographical differences in claim frequency and severity will remain as long as medical resources are unevenly allocated.

Copies of "The Frequency and Severity of Medical Malpractice Claims" are available for \$4 each, and can be obtained by writing Patricia Munch Danzon, Publication Department, Rand Corp., 1700 Main St., San Monica, Calif. 90406. Request report R-2870-ICJ.



"Use the cutting edge"

"People ask me, why Bermuda? We specialize in reinsurance captives, and that's where most of them are. Service? We're open 'til you close. Security? Trenwick has one of the cleanest balance sheets in the industry, and we can provide admitted A + XV property and casualty reinsurance. Know-how? Think we'd cut the old school tie approach to business if we didn't? Get to know us better. Call or write me for information."

Brian O'Hara/Senior Vice President

Trenwick

P.O. Box 462 Trenwick House 9 Church Street West Hamilton S. Bermuda
Bermuda (809) 295-3009/Connecticut (203) 226-8116

datebook

JUNE 1-3. Fundamentals of Insurance conference in Chicago, sponsored by the Risk & Insurance Management Society; \$345 for members; \$445 for non-members. Editorial Department, RIMS, 205 E. 42nd St., New York, N.Y. 10017; 212-286-9292.

JUNE 1-4. Public Risk and Insurance Management Assn. annual conference in St. Paul, Minn.; \$275 for members; \$425 for non-members; \$375 for subsequent non-members registrants from the same organization. PRIMA, 1120 G St. N.W., Suite 707, Washington, D.C. 20005; 202-737-7556.

JUNE 2. Motor Fleet Accident Investigation workshop in Chicago, sponsored by the National Safety Council; \$100 for members; \$125 for non-members. NSC, 44 N. Michigan Ave., Chicago, Ill. 60611; 312-527-4800, ext. 283.

JUNE 2. Risk Management Information Systems conference in Cincinnati, sponsored by Corporate Systems; \$50. Chuck Allen, Corporate Systems, P.O. Box 31780, Amarillo, Texas 79120; 806-376-4223.

JUNE 2-3. Principles of Petroleum Insurance workshop in Denver, sponsored by Professional Development Institute; \$395. Also **June 9-10** in Oklahoma City. PDI Accounting & Insurance Center, Box 13288, NT Station, Denton, Texas 76203; 817-565-3383.

JUNE 2-3. Applied Spill Prevention, Control and Countermeasures seminar in Philadelphia, sponsored by the International Safety Academy; \$150. ISA, 10575 Katy Freeway, P.O. Box 19600, Houston, Texas 77224; 713-932-9400.

JUNE 6-10. Occupational Safety Management course in Chicago, sponsored by the National Safety Council; \$495 for members; \$620 for non-members. Also **Sept. 13-17** in Chicago. NSC, 44 N. Michigan Ave., Chicago, Ill. 60611; 312-527-4800, ext. 283.

JUNE 7. Health Care Cost Containment briefings in Kansas City, Mo., sponsored by the International Foundation of Employee Benefit Plans; \$130 for members; \$155 for non-members. Also **June 8** in Milwaukee, **June 28** in Pittsburgh and **June 29** in Tarrytown, N.Y. IFEBP, 18700 W. Bluemound Road, Box 69, Brookfield, Wis. 53005; 414-786-6700.

JUNE 7. Risk Financing and Captive Insurance Company workshop in Atlanta, sponsored by Risk Planning Group; \$250. Also **June 9** in Seattle; **June 16** in Dallas; **June 21** in Chicago; **June 23** in New York; and **June 28** in Cambridge, Mass. RPG, 722 Post Road, Darien, Conn. 06820; 203-655-9791.

JUNE 7-8. Legal Aspects of Occupational Safety & Health course in Los Angeles, sponsored by the University of Southern California; \$250. USC, Institute of Safety & Systems Management, Office of Extension & In-Service Programs, Los Angeles, Calif. 90089; 213-743-6523.

JUNE 7-9. Risk and Insurance Management in Banking seminar in New Orleans, sponsored by the American Bankers Assn.; \$395 for members; \$595 for non-members. Robin Craighill, ABA, 1120 Connecticut Ave. N.W., Washington, D.C. 20036; 202-467-4047.

JUNE 8-9. Claim Fraud Investigation seminar in Pasadena, Calif., sponsored by the Property Claims Services' Committee on Insurance Fraud Investigation; \$100. Richard Ingegneri, PCS, American Insurance Assn., 700 New Brunswick Ave., Rahway, N.J. 07065; 201-388-5700.

JUNE 8-10. Workers Compensation seminar in Orlando, Fla., sponsored by The Florida Assn. of Self-Insurers; \$150. Stan Tait, 325 John Knox Road, Suite F-233, Tallahassee, Fla. 32303; 904-386-3796.

JUNE 8-10. An Introduction to Insurance Marketing course in London, sponsored by Fisk Research Group Ltd.; 290 pounds plus V.A.T. (approximately \$195 plus tax). Elspeth Jones, RRG, Bridge House, 181 Queen Victoria St., London EC4V 4DD; 01-236-2175; telex 8811636.

JUNE 10. Workers Compensation Cost-Containment seminar in New York, sponsored by the National Council on Compensation Insurance; \$90 for members; \$125 for non-members. NCCI, One Penn Plaza, New York, N.Y. 10119; 212-563-1095.

JUNE 12-15. Loss Prevention 16th annual seminar in Atlanta, sponsored by the National Retail Merchants Assn.; \$275 for members; \$200 or addition registrants from the same company; \$395 for non-members; \$310 for addition registrants from the same company; fee for safety and risk managers' one-day (June 15) attendance, \$75 for members; \$110 for non-members. NRMA, Attn: Operations Division, 100 W. 31st St., New York, N.Y. 10001; 212-244-8780.

JUNE 13-15. Techniques of Risk Management conference in New York City, sponsored by the Risk & Insurance Management Society; \$345 for members; \$445 for non-members. Editorial Department, RIMS, 205 E. 42nd St., New York, N.Y. 10017; 212-286-9292.

JUNE 13-17. Basic Safety Management seminar in Houston, sponsored by the International Safety Academy; \$570. ISA, 1600 Arch St., Philadelphia, Pa. 19101; 215-241-3176.

JUNE 13-17. Safety Training Methods course in Chicago, sponsored by the National Safety Council; \$545 for members; \$680 for non-members. **July 18-22** in Chicago. NSC, 44 N. Michigan Ave., Chicago, Ill. 60611; 312-527-4800, ext. 283.

JUNE 14-17. Insurance Company Education Directors Society 30th annual conference in Delavan, Wis., sponsored by the Society \$150 for members; \$180 for non-members. James Dockett, ICEDS General Chairman, c/o Professional Book Distributors Inc., 555 E. Hudson St., Columbus, Ohio 43211; 614-267-3189.

JUNE 15. An Analytical Approach to Risk Management seminar in Chicago, sponsored by Business Insurance; \$535; 10% discount for additional registrants from the same company. Also **June 20** in San Francisco. Ann Vazquez, Business Insurance, Communications Services Department, 220 E. 42nd St., New York, N.Y. 10017; 212-210-0137.

JUNE 15-17. Advanced Safety Management course in Atlanta, sponsored by the International Loss Control Institute; \$350. ILCI, P.O. Box 345, Loganville, Ga. 30249; 404-466-2208.

JUNE 19-22. Collection of Employer Contributions institute in Lake Tahoe, Nev., sponsored by the International Foundation of Employee Benefit Plans; \$390 for members; \$465 for non-members. IFEBP, 18700 W. Bluemound Road, Box 69, Brookfield, Wis. 53005; 414-786-6700.

JUNE 20-24. Safety Management Techniques course in Chicago, sponsored by the National Safety Council; \$545 for members; \$680 for non-members. Also **July 25-29** in Chicago. NSC, 44 N. Michigan Ave., Chicago, Ill. 60611; 312-527-4800, ext. 283.

JUNE 20-24. Loss-Control Management course in Atlanta, sponsored by the International Loss Control Institute; \$625. ILCI, P.O. Box 345, Loganville, Ga. 30249; 404-466-2208.

JUNE 22-23. Health Care Cost-Containment workshop in Boston, sponsored by the Health Research Institute; \$395. HRI, 49 Quail Court, Suite 200, Walnut Creek, Calif. 94596; 415-673-2320.

JUNE 22-29. Safety for the Oilfield seminar in

San Francisco, sponsored by the International Safety Academy; \$395. ISA, 1600 Arch St., Philadelphia, Pa. 19101; 215-241-3176.

JUNE 24-28. Health Promotion Strategies conference in Portland, Ore., sponsored by Kaiser-Permanente Medical Care Program; \$275; \$250 before May 15; \$200 per person for groups of five or more. Mark Tager, Kaiser-Permanente Medical Care Program, 3600 N. Interstate Ave., Portland, Ore. 97227; 503-280-2050.

JUNE 26-30. International Insurance seminar in Singapore, sponsored by International Insurance Seminars Inc.; \$650. Dr. John S. Bickley, P.O. Box J, The University of Alabama, University, Ala. 35486; 212-570-2338.

JUNE 27-29. Safety for the Oilfield seminar in San Francisco, sponsored by the International Safety Academy; \$395. Also **July 18-20** in Houston. ISA, 10575 Katy Freeway, P.O. Box 19600, Houston, Texas 77224; 713-932-9400.

JUNE 27-JULY 1. Occupational Safety Management course in Chicago, sponsored by the National Safety Council; \$495 for members; \$620 for non-members. Also **July 11-15** in Chicago. NSC, 44 N. Michigan Ave., Chicago, Ill. 60611; 312-527-4800, ext. 283.

JULY 11-15. Total Loss Control Management seminar in Houston sponsored by the International Safety Academy; \$585. ISA, 10575 Katy Freeway, P.O. Box 19600, Houston, Texas 77224; 713-932-9400.

JULY 11-15. Fundamentals of Modern Safety Management course in Seattle, Wash., sponsored by the International Loss Control Institute; \$625. ILCI, P.O. Box 345, Loganville, Ga. 30249; 404-466-2208.

JULY 18-19. Computer Security workshop in New York, sponsored by the Computer Security Institute; \$495. Computer Security Institute, Department IP, 43 Boston Post Road, Northborough, Mass. 01532; 617-845-5050.

JULY 18-22. Basic Safety Management seminar in Chicago sponsored by the International Safety Academy; \$570. ISA, 10575 Katy Freeway, PO Box 19600, Houston, Texas 77224; 713-932-9400.

JULY 18-22. Safety Evaluation for Single Location Personnel conference in Seattle, Wash., sponsored by the International Loss Control Institute; \$625. ILCI, P.O. Box 345, Loganville, Ga. 30249; 404-466-2208.

JULY 21-23. Labor-Management Trustees and Administrators institute in Toronto, sponsored by the International Foundation of Employee Benefit Plans; \$390 for members; \$465 for non-members. IFEBP, 18700 W. Bluemound Road, Box 69, Brookfield, Wis. 53005; 414-786-6700.

JULY 25-28. An Ergonomics Approach to Materials Handling seminar in Houston, sponsored by the International Safety Council; \$375. ISA, 10575 Katy Freeway, P.O. Box 19600, Houston, Texas 77224; 713-932-9400.

JULY 25-29. Fundamentals of Modern Safety Management course in Atlanta, sponsored by the International Loss Control Institute; \$625. ILCI, P.O. Box 345, Loganville, Ga. 30249; 404-466-2208.

JULY 27-29. Risk Management in Environmental Health & Protection summer institute in New York, sponsored by New York University; \$400. Summer Institute in Risk Management in Environmental Health & Protection, Graduate School of Public Administration, New York University, 4 Washington Square N., New York, N.Y. 10003; 212-598-3133.

JULY 27-30. Corporate Benefits Management conference in Monterey, Calif., sponsored by the International Foundation of Employee Benefit Plans; \$470 for members; \$545 for non-members. IFEBP, 18700 W. Bluemound Road, Box 69, Brookfield, Wis. 53005; 414-786-6700.

Barbados wants to lure captive insurers

Continued from page 2
ratio for annual premium volume exceeding \$10 million is required.

- Annual audited financial statements, which are not open to public inspection.

- A register of policies, claims, books and business records to be maintained in Barbados.

Captive insurers need not begin operation within any given time period after receiving a charter and a secrecy provision within the Exempt Insurance Act forbids the registrar of companies from revealing information other than the name of the captive insurer, the address of its registered offices and the names of shareholders appearing on the register of shareholders.

A government-appointed supervisor of insurance oversees domestic insurance regulation.

"What we are trying to do is develop what we see as a serious and responsible financial offshore business center in Barbados. We plan to allow only the most reputable businesses and trading companies," Mr. King said.

Although the island government has set no upper limit on the number of offshore insurers it will allow, Mr. King does not anticipate a rush of new captives or overcrowding, which is sometimes the subject of complaints in Bermuda.

"We are looking for quality, not quantity, among offshore insurers, nor are we seeking any particular size of company. Small companies will not be excluded. Our central concerns are credibility and reliability," he said.

Although no international captive management companies are

yet doing business in Barbados, Mr. King reported that discussions are in progress with several managers that are interested in the domicile. Meanwhile, the Insurance Corp. of Barbados, the government-owned 5-year-old domestic insurance and reinsurance company, is selling its services as a captive manager.

"Since its inception, the Insurance Corp. of Barbados has developed a good track record in domestic insurance and a staff capable of providing management and reinsurance services," Mr. King said.

Founded in 1978, the Insurance Corp. of Barbados first provided coverage to government and statutory institutions in Barbados but soon expanded into various other classes of personal and commercial insurance. In 1981, the insurer began accepting local reinsurance

on a quota-share basis.

ICB estimates its 1983 premium volume at about \$6 million in U.S. currency.

Barbados' Exempt Insurance Act, created with the assistance of Risk Planning Group Inc., a Darien, Conn., risk management consulting firm, is just one more step in Barbados' overall financial growth plan, Mr. King pointed out. Since the mid-1970s, Barbados has been steadily increasing its financial services capabilities.

"We have had offshore banking since 1980 and now eight international banks are doing business in Barbados, including Barclay's Bank of London and the Royal Bank of Canada," Mr. King noted. "Telecommunication facilities are most modern and all the communications services insurers are used to,

such as direct-dialing telephone, telex and so forth, are available."

Barbados also boasts a very literate and well-educated populace who contribute to a stable political climate, Mr. King added.

"The population of Barbados is more than 98% literate and includes as perhaps its greatest resource a skilled and trainable workforce that can contribute to a growing insurance industry. We also have a strong community of attorneys and accountants who can serve the needs of captive parents and captive managers here," he said.

A new airport less than 15 miles from Bridgetown, the island's capital and commercial center, provides direct service to New York (a 4½-hour flight), Miami (a 3½-hour flight) and London (an 8½-hour flight).

info

- In response to growing interest in risk management for banks, Risk Planning Group Inc. publishes a quarterly report called "BankRisk: The Bank Risk Management Quarterly." Among the topics covered by the first issue of this new publication are the risk manager's role in mergers and acquisitions and computer crime insurance. For a free copy of the initial issue, write Douglas G. Hoffman, Managing Editor, BankRisk, 722 Post Road, Darien, Conn. 06820.

- Insurance buyers' checklists, from the International Risk Management Institute, state guidelines to determine whether a company's insurance program is properly structured. Five different checklists are designed for the specific needs of contractors, well servicing contractors, drilling contractors and petroleum products distributors. A copy of each checklist is \$15, and can be ordered by writing IRMI, 10300 N. Central Expressway, Building III, Suite 208, Dallas, Texas 75231; 214-363-9656.

- The Hazard Control Information Handbook, published by the International Institute of Safety & Health, offers information on environmental, product and occupational safety. The handbook lists sources of information including computer data bases, books, journals, standards and courses. To order the book, send \$19 per copy plus \$2 for postage and handling to: IISH, 5010 Nicholson Lane, Rockville, Md. 20852.

- A catalog of wellness films and publications, to enhance or guide your company wellness program, is available from Blue Cross & Blue Shield Assn. The materials in the catalog cover all areas of health and fitness, including the problem of alcohol and drug abuse. For a free copy, write BC&BS Assn., 676 N. St. Clair St., Chicago, Ill. 60611.

- The age of computers has increased productivity... and stress among employees. "Tone Up at the Terminals," an illustrated booklet from Verbatim Corp., illustrates stress-relieving exercises for computer operators. For a free copy, send a stamped, self-addressed envelope to Verbatim Corp., Marketing Department, 323 Soquel Way, Sunnyvale, Calif. 94086.

- A free brochure describing the claims management services of HCM Claim Management Corp. is available from the company. Write Thomas J. Santorelli, HCM Claim Management Corp., 660 Madison Ave., New York, N.Y. 10021.

It took 18 months to settle injury liability in the Hyatt skywalk case... ...and only 18 seconds to look it up in BI's Editorial Index.

With the BI Editorial Index, it takes just seconds to research events and issues that unfold over months, or even years. When you need to pinpoint specific articles in BI that will give you crucial facts—to guide you in your decision-making or, simply, to satisfy your curiosity—you'll find exactly what you need quickly.

The Index conveniently lists information by subject, persons quoted and companies mentioned.

All the **Business Insurance** news and features on a host of topics are catalogued in this indispensable Editorial Index: risk management, employee benefits, property/casualty, legislation, financial developments, market trends, losses and claims settlements, and much more.

You'll never again spend valuable time wading through a pile of back copies to find what you're after!

The 1982 Annual Editorial Index is just off the press... and there's a copy that belongs in your office. Or in your corporate library. And you can still grab up one of a limited number of copies of the 1981 Annual Index. These handsomely bound volumes sell for \$100 each.

For you and everyone in your corporation who must keep abreast of the constant changes in the world of commercial insurance and employee benefits, the complete 1983 Index service is a must. The 1983 Editorial Index service provides three quarterly reports, followed by a hardcover cumulative Annual Edition. The cost for the complete service is only \$100.

And to make certain that you'll have continuous access to information, your Index service allows you to use the Crain Information Centers in New York and Chicago between publication of quarterly reports.

Send in the coupon at the right now and make sure that vital information will be within your reach whenever you need it.

"Our past...fast!"



business insurance

A Publication of Crain Communications Inc.

New York: 220 East 42nd St., NY 10017 (212) 210-0133

Chicago: 740 Rush St., IL 60611 (312) 649-5275

Los Angeles: 6404 Wilshire Blvd., CA 90048 (213) 651-3710

WEEK OF JULY 27, 1981

Hotel cover may top \$300 million

WEEK OF AUGUST 10, 1981

Who will pay Hyatt punitive claims?

Disaster raises questions on architect's insurance needs

By STEPHEN TARKOFF
Hyatt already had insured \$100 million in punitive damages...
SANNAS CITY, Mo. Who will pay the punitive damages...
SANNAS CITY, Mo. Who will pay the punitive damages...
SANNAS CITY, Mo. Who will pay the punitive damages...

WEEK OF FEBRUARY 1, 1982

Hyatt class action allows settlements, but will they go on?

WEEK OF MAY 3, 1982

Settlement talks rumored in Hyatt class action

JANUARY 17, 1983

Skywalk liability set at \$100 million

By BILL DENSMORE
SANNAS CITY, Mo. Liability...
SANNAS CITY, Mo. Liability...
SANNAS CITY, Mo. Liability...

Business Insurance Editorial Index

220 East 42nd Street, New York, NY 10017

Please send me the following Index(es):

- 1981 Annual Index 1982 Annual Index 1983 Full Index Service @ \$100 each. Foreign postage additional.
- Bill me Bill my company Payment Enclosed
- Visa MasterCard

Account # _____ Exp. Date _____

Signature _____

Name _____ Title _____

Company _____

Address _____

City _____ State _____ Zip _____

Phone _____

MGM to finalize settlement this month

Continued from page 1
settlements with them are not reached in the interim.

Seventeen of the 450 lawsuits against the non-settling defendants were selected by U.S. District Court Judge Louis C. Bechtel for the first trial. The court could not hear all of the cases in one trial and these 17 were selected as representative of the others, said the court spokesperson.

The suits going to trial in the first group include a sampling of the victims who were killed or injured in different elevators, stairwells, guest rooms and other locations throughout the hotel and casino. This smattering of cases will enable the court to "get all the issues of liability into the first trial," said the court spokesman.

This approach will create a "res judicata" situation, meaning that the court's judgment will be conclusive upon the parties in subsequent trials involving the same cause of action, a defense attorney explained.

The issue of liability against each defendant will be decided on a worst-case basis in which the most damaging evidence is presented in the first trial.

Once the liability issues are resolved, the cases can be bifurcated into groups to determine damages.

"This approach is fair to both plaintiffs and defendants," said Mr. Gauthier. "If the defendant prevails in the first case, it would be foolish for plaintiffs with weaker cases to proceed against the defendant."

However, a defense attorney whose client settled in the case explained that the court's approach was a high-pressure tactic to settle. Defense attorneys would rather defend the weakest cases first in order to establish favorable precedents in later, tougher cases.

If this trial—and others that may

follow—result in damage awards to plaintiffs against the non-settling defendants, the total amount of money available to pay fire claims will exceed \$140 million. Any money in the fund exceeding \$135 million, which is the minimum amount set by the court to satisfy 1,356 individual claims, will be allocated to plaintiffs on a pro-rata basis.

For example, a smoke inhalation victim whose court-approved award was \$25,000 will receive that sum plus a percent of the amount in the fund above \$135 million based on the size of the victim's court-approved award. The fund already contains nearly \$5 million in pledges above \$135 million.

The amount of each individual settlement was determined by Judge Bechtel who met with plaintiffs' attorneys in private conferences. The attorney would present a demand on behalf of the client and, based on medical information and other evidence, the judge would concur or counter with a lower figure.

Eventually, compromises were reached in all but a few cases based on a principle of parity intended to award comparable amounts to victims with comparable damages.

Although Judge Bechtel, who presided over the multidistrict action, has no jurisdiction over state courts, plaintiffs who filed their suits in Nevada and California state courts also entered into settlements.

MGM Grand's decision to consummate the settlement plan clears the way for final settlement by most of the other defendants.

"It's a very positive development for my client," said Richard L. Hartman, a Los Angeles attorney representing Air Balance Co. Inc. "We can see the light at the end of the tunnel."

For the moment, Mr. Hartman and other attorneys representing settling defendants are waiting to receive the written indemnification document from MGM. The exact form this document will take is still under discussion.

Mr. Hartman believes his client will be dismissed from the litigation altogether within the next few weeks. Air Balance contributed \$500,000 to the settlement fund.

"Our case was defensible but we couldn't afford to go to court," said Mr. Hartman. The legal fees alone would have been a multiple of \$500,000, he said. "So we recommended settlement to the (insurance) carrier."

Air Balance tests the air and water balance for heating, ventilation and air conditioning systems.

"My client's total involvement with the MGM Grand was four days on the job site at the time the hotel was built to water balance the HVAC system," said Mr. Hartman.

As of the middle of last month, the non-settling defendants expected to go to trial are: Adams Elevator Equipment Co.; American Multiplex Systems Inc.; American Society for Testing & Materials; Amfac Distribution Corp., doing business as Amfac Electrical Supply Co. Inc.; Apache Plastics Inc., a subsidiary of Apache Corp. and successor in interest to Kerona Plastic Extrusion Co. Inc. and Kerona Inc.; Bally Manufacturing Corp.; Barber-Colman Inc.; B&M Air Balance; Cadillac Plastic & Chemical Co.; Cohama Inc.; Columbus Coated Fabrics Inc., a unit of Borden Industries; Corona Plastic; C.R. Laurence Co. Inc.; Crystals & Oils Decorators Supply Corp.; Dan Cashdan & Associates; Del E. Webb Corp.; Don Schmitt; Duo-Flex Corp.; and E.I. du pont de Nemours & Co.

Also, Essex Chemical Corp.; Fabbricon Products; Fairfax Elec-

tronics Inc.; Frigitemp Corp., successor in interest to Samsen West Corp.; General Felt Products of California Inc.; General Tire & Rubber Co.; Graybar Electric Supply Inc.; Heitman & Associates, formerly L.H. Antoine & Associates; Imperial Glass Co.; J. Josephson Inc.; Johnson Controls Inc.; Kerona Inc.; Kerona Plastic Extrusion Co. Inc.; Lawless Brothers Inc., doing business as Lawless Detroit Diesel;

3M Co.; Mason Electric Co.; Master Protection Enterprises, successor in interest to Clark County Fire Equipment Inc.; Olson Glass Co. Inc.; Owens-Corning Fiberglas Corp.; Pari Craftsmen Inc.; Ralph Anderson Co.; Rohm & Haas; Sav-Mor Upholstery Supply; Schneider Inc., formerly known as Schneider Sheet Metal Inc.; Simpson Timber Co.; and United States Elevator Corp.

Illinois exchange approves three new broker members

markets

The Illinois Insurance Exchange has approved three new broker members, bringing the total number of exchange brokers to 35.

The new brokers are Illinois R.B. Jones Inc.; Guy Carpenter & Co. Inc.; and International Special Risk Services.

The brokers may place direct insurance and reinsurance risks with the exchange's syndicates, whose capital and surplus now total \$20 million.

HMO formed

A new health maintenance organization, Tampa Bay Health Plan, has been formed to provide prepaid health care services to employer groups in Pinellas County, Fla.

The 11th federally qualified HMO to open in Florida, Tampa Bay Health Plan will offer full hospitalization coverage and other health care services without deductibles or coinsurance.

The new health maintenance organization will operate through the Diagnostic Clinic in Largo and the Suncoast Medical Clinic in St. Petersburg. Its staff totals more than 60 physicians.

Tampa Bay Health Plan is affiliated with Peak Health Plan a 27,000-member HMO in Colorado Springs, Colo.

International push

John F. Sullivan Co., a Seattle-based reinsurance intermediary, has formed a new international division, Sullivan International, to be headed by Victor C. Honore, vp and managing director.

The new division's offices are located at 475 Park Ave., New York, N.Y. 10016; 212-684-3500.

New offices

Donald F. Muldoon & Co. Inc., a New York-based insurance agency specializing in captive insurance services, has opened a West Coast office at 4000 MacArthur Blvd., Newport Beach, Calif. 92660; 714-752-6676.

Rollins Burdick Hunter Co. has opened a new office at 1850 K St. N.W., Suite 1190, Washington, D.C. 20006; 202-293-6414.

classified advertising

RATES AND CLOSING TIME:

Rates: Display classified is \$60.00 per column inch, minimum of one inch. Straight classified is \$5.50 per line, minimum of 5 lines. Count 34 characters per line (include each space and punctuation as a character). Additional \$11.00 charge for blind box ads. Responses to blind box ads must fit into business size envelope. Responses are forwarded daily.

Closing: Published every Monday. Copy must be in written form by noon Tuesday, 6 days preceding publishing date. No verbal phone copy accepted. Prepayment required. Mail ads to: Classified Advertising, 740 N. Rush St., Chicago, IL 60611. For more information call 312-649-5340.

Business Insurance Circulation Breakdown*	
Commercial Consumers	
Administrative Management: owners, presidents, vps, etc.	6,497
Financial Management: chief financial officers, vps of finance, secretaries, treasurers, etc.	9,634
Insurance Management: vps, directors, managers of insurance, risk, benefits, compensation, safety, security, etc.	5,948
Government, Associations, Unions, Educational Institutions	1,004
Commercial Consumers Sub-total	23,083
Insurance Agents & Brokers	9,629
Insurance Cos.	4,944
Financial Institutions	314
Actuaries, Attorneys, Adjusters, Appraisers & Consultants	2,408
Others allied to the field	854
TOTAL	41,232

*Source: Business/Occupational breakdown of qualified circulation, May 3, 1982 issue, as submitted to BPA for June 1982, BPA Publisher's Statement.

"Prestigious insurance agency in Chicago area looking to acquire mid-sized Property & Casualty Agency. Our reputation will assure your current book will be professionally handled. Please contact Russell Dann, (312) 564-8700."

BI Classifieds
assure
top quality
results!

CASUALTY CLAIMS MANAGER

Rollins, Inc. is a dynamic Atlanta-based corporation. We are presently seeking an individual with at least a 2-year business degree and 5-7 years of experience with an insurance company and within a corporate environment; a professional insurance designation in addition to the above is a plus. We are a self-insured and insured in various aspects of our risk management department. Additionally, we require a service-oriented individual, excellent management techniques and an innovative person with good communication skills.

We offer top salary and benefit package and opportunity for growth in a challenging corporate environment. For immediate consideration, send resume to:

Liz Devendorf, Human Resources
ROLLINS, INC.
2170 Piedmont Road, N.E.
Atlanta, Georgia 30324

Equal Opportunity Employer

JOIN THE FUTURE!
New York office of a major U.S. broker has exciting ground floor opportunities to join a young, dynamic, medium-sized team.
If you are:
1) A successful employee benefits producer/account executive or
2) An employee benefits technician or
3) A successful property/casualty producer or
4) A cross-trained property/casualty account executive, send your confidential resume to Box 678, Business Insurance 740 N. Rush St., Chicago, Ill. 60611

Risk Management
GOOD TIMES ARE COMING!
Send Resume for Free Brochure
"Rewarding Careers in Risk Management"
MARTY HODES, ARM
By appointment—NYC or LI
(212) 225-4935 (516) 487-4992
 **IRM Assoc. Ltd.**
505 Northern Blvd.
Great Neck, N.Y. 11021

MANAGER, STAFF BENEFITS
The University of Missouri-Columbia Administration seeks an individual to fill a new position coordinating the operational, financial and personnel activities of the Staff Benefits Office. Responsible for the Retirement Program, LTD, Life, Medical and Dental, Accidental Death and Dismemberment, and Tax Sheltered Annuity. Assist the four campus system with retirement counseling, academic retirement incentives, budget planning, career communications and cost containment. The position is located in Columbia, Missouri. Qualifications include a Bachelor's degree in Accounting or Finance or related area or an equivalent combination of education and experience. Four to five years experience in benefit plans or financial management is necessary.
Salary range: \$19,697-\$31,056.
Please submit resume by May 20, 1983 to:
UNIVERSITY OF MISSOURI-COLUMBIA
PERSONNEL SERVICES
309 Hitt Street
Columbia, MO 65211
AN AFFIRMATIVE ACTION/EQUAL OPPORTUNITY EMPLOYER

WANT TO BUY
Property/Casualty Companies
We have need for several Property/Casualty Companies from bare charters to fully operational companies. Write Box 676, Business Insurance, 740 N. Rush Street, Chicago, IL 60611.

POSITION WANTED
PROVEN PRODUCER OF E&S BROKERAGE BUSINESS, CURRENTLY WITH MAJOR FIRM IN NORTHEAST, LOOKING FOR OPPORTUNITY; EQUITY POTENTIAL DESIRED. ALSO HAVE HEAVY CASUALTY UNDERWRITING BACKGROUND, EXCELLENT TRACK RECORD AND FOLLOWING. WILLING TO RELOCATE. REPLY TO BOX 643, BUSINESS INSURANCE, 740 N. RUSH ST. CHICAGO, ILL 60611.

Insurance Broker/Agent

With gross income of \$500,000 to \$2,000,000 located in Eastern U.S. Wanted by rapidly expanding, through internal growth, private insurance agent/broker who now desires to accelerate growth through acquisition. Please reply to
Box 675, BUSINESS INSURANCE
740 Rush St. Chicago, Ill. 60611

For a
Concise
and
Logical
Approach
to
Risk
Management
Recruiting

LOGIC
Associates, Inc.
170 Broadway
New York, N.Y. 10038
(212) 227-8000

ISO unveils new property insurance forms

Continued from page 1
cancel a policy with 10 days' written notice for non-payment or with 30 days' notice for any other reason. The current standard fire policy provides only five days' notice.

The proposed form also clearly addresses the question: Does an insurer have any legal responsibility for the safety of his insured's premises?

Recently, a manufacturer tried to prove that insurers are liable for the precision of their loss-control recommendations, but eventually dropped the lawsuit (*BI*, Dec. 27, 1982).

The existing property insurance forms also say that the insurer could not be held liable for its safety inspections, but the proposed form says it much more clearly and emphatically. And, the statement is now right up front.

"We have the right, but are not obligated, to inspect your premises and operations at any time," the proposed common policy conditions form says.

"Our inspections are not safety inspections," it stresses. "They relate only to the insurability of the premises and operations and the premiums to be charged. We may give you reports on the conditions we find. Any inspections or reports are for our benefit only and are not an undertaking for the benefit of anyone else."

"We may also recommend changes. While they may help reduce losses, we do not undertake to perform any duty to provide for the health or safety of workers or the public. And we do not state or imply to you, nor do we assume any responsibility, that your premises or operations: 1) Are safe or not harmful to health; or 2) Comply with laws, regulations, codes or standards."

Commercial property conditions form

This one-page form contains the seven conditions that apply to all commercial property coverages—basic, broad or special.

It expands the property coverage to include losses suffered in Puerto Rico and Canada, plus it makes two other important changes from existing forms.

One, clearly favorable to buyers, extends to 24 months from 12 months the time within which an insured may bring a lawsuit against the insurer after the insured "first has knowledge of the loss." The current form starts the clock ticking at the "inception" of the loss, regardless of when the insured learns of it. Mr. Fusco says the extension to 24 months was "a liberalization to the real world. We probably couldn't enforce the 12-month limitation anyway."

The second change is critical to risk managers or insurance buyers who handle multiple, sometimes overlapping lines of insurance written for different entities and/or perils. It is ISO's attempt to unveil a model "other insurance" clause for property coverage.

Overlapping policies may be excess of one another or they may share according to their limits the cost of settling a joint claim.

ISO's draft property policy takes the second approach to allocate coverage where two property policies insure the same risk.

If both policies are written on the proposed new form, they will share losses on a pro-rata basis according to their limits, the new form says.

If only one policy is written on the new form, it automatically is excess to policies written on the existing form.

"I think it is a more defensive move to put us on the same footing

with other policies with similar language," said Mr. Fusco.

Coverage forms

There are three different coverages that can be used separately or in any combination to form an overall commercial property policy. All three are subject to the common policy conditions and commercial property condition forms.

The proposed coverage forms detail terms for building and personal property coverage, builders' risk coverage and business-income coverage.

The first two revised forms are patterned after existing forms and the third replaces a variety of existing "business interruption and extra-expense" forms.

The building and personal property form adds that coverage is for "direct physical loss of or damage to covered property," instead of "direct loss" under the current general property form.

It also:
• Withdraws the option of choosing a "per item" deductible and replaces it with a "per occurrence" deductible only. However, the amount of the deductible is left to be stated in the master declarations. In the current property policy, the deductible is stated as \$100 per item and \$1,000 in the aggregate.

• Refers to "outdoor fixtures" instead of "yard fixtures" as in existing form. Incidental personal property coverage is broadened to include property that services premises, rather than just buildings, such as lawn mowers or snowplows.

• Excludes from all coverage outdoor radio or television antennas, including lead-in wiring, masts or towers. Also excludes outside fences, piers, wharves and docks, retaining walls that are not part of a building, bridges, walks, roadways, walks, patios or other paved surfaces. The current form only specifies that these losses are excluded when caused by windstorms or hail, which is the most common way they are caused.

• Excludes loss of outdoor grain, hay, straw or other crops. The current form excludes these losses only when they are caused by windstorm or hail.

• Extends existing coverage to include windmills, windpumps or their towers, crop silos or their contents, metal smokestacks, outdoor fixtures, outside awnings, indoor fences, outdoor swimming pools and beach or diving platforms.

• Raises to \$250,000 from \$25,000 or \$100,000 (depending on form), the maximum extension of building coverage to newly acquired or newly constructed property.

• Increases to \$1,000 from \$500 the amount of coverage available by extension for the cost of reconstructing records, including computer records, where duplicates exist. Coverage is only for blank materials and labor.

• Eliminates suspension of coverage when an insured loss follows an explosion or riot.

The proposed builders' risk coverage form is designed to replace the current combined usage of the standard fire insurance policy and the builders' risk completed value form. The coverage appears to be slightly narrower than the existing forms in at least two respects:

• The current form covers "builders' machinery, tools and equipment including mobile or prefabricated structures owned by the named insured... while (A) in or on the described buildings; or (B) in the open (including within vehicles), on or within 100 feet of the described premises."

The proposed form drops any reference to "tools" although it does add "fixtures."

In addition, it restricts coverage by adding that the fixtures, machinery, equipment, building materials and supplies are only covered "when intended to become a permanent part of the building or structure described in the declarations."

• Several classes of property that are covered for everything except windstorm or hail damage under the existing form are excluded from the proposed builders' risk coverage, although ISO notes they can be picked up by other policies or by endorsement. They are lawns, trees, shrubs, plants, signs and radio-TV antennas. Also excluded are aircraft, watercraft, autos, trailers, semis and over-the-road vehicles.

The draft business income form is intended by ISO to replace three existing commercial fire/property forms. They are business interruption, combined business interruption/extra expense and rental value insurance coinsurance. Of the three coverage forms, ISO has made the greatest number of adjustments in this one—many of them quite technical.

The proposed business income insurance form drops the "gross earnings" approach and relies on "business income" or "net income plus continuing expenses" to quantify a covered loss. The form clarifies that "net income" refers to pretax profit, also known as income from operations or income before taxes.

Coverage is for "actual and necessary loss of business income" instead of "actual loss sustained" under the present form.

The form also:

• Defines the beginning and end of the coverage period. Coverage begins "with the date of direct physical loss or damage" and ends "when the property at the described premises should be repaired, rebuilt or replaced with reasonable speed and similar quality." The end point represents a change from the existing form, which specifies fixing the equipment with "due diligence and dispatch." The covered time is called the "period of restoration."

• Defines "extra expenses" as those necessary expenses incurred during the period of restoration that would not otherwise have been incurred had there not been a loss. They are categorized, according to ISO, as necessary extra expenses incurred to minimize the interruption of business either: 1) If the insured cannot continue operations; or 2) By continuing operations whether at the described premises or temporarily elsewhere.

• Imposes new burdens upon a policyholder which files a business income loss claim. The proposed policy requires the insured to notify the police if a law may have been broken, to preserve damaged property for examination and "resume all or part of your operations" as quickly as possible. The current form requires only that the insured resume "normal" operations "as soon as practicable."

ISO's description of this coverage change says it would allow insurers "to avoid liability when the insured has either delayed the resumption of operations through inefficiency or lack of interest, or has decided not to resume operations at all."

The draft business expense form extends to 60 days from the present 30 days the amount of time for which an insurer will pay losses resulting from direct physical loss of or damage to electronic data.

• Revises the method for applying coinsurance. The applicable

time period would be the 12 months of the policy year, instead of the 12 months following the loss.

Causes of loss

ISO has arranged the three basic coverages so that the buyer can order them in compact, midsize or Cadillac-like form. It does this by separating the causes of loss—or perils insured—into four distinct modules. They are the basic form, broad form, special form and earthquake form. However, the earthquake form was not released by ISO because it is still being prepared.

One of the most important changes is in the area of contractual liability. Under all three causes-of-loss forms, an insurer would not defend or pay any damages that a policyholder becomes legally liable to pay solely because of a contract or agreement. ISO calls this change a "clarification," although the existing forms are largely silent on the question. It is an apparent effort by insurers to make sure risks they weren't aware of aren't piggybacked onto existing policies.

Here's a brief look at details of the three causes-of-loss forms:

The basic form would cover direct physical property loss from fire, lightning, explosion, windstorm or hail (but not frost, cold weather or ice, snow or sleet), smoke, contact with aircraft, spacecraft or vehicles, riot or civil commotion, vandalism, sprinkler leakage, sinkhole collapse, mine subsidence or volcanic action.

Current exclusions of sonic boom and water hammer are dropped. Bursting of water pipes, electric arcing and rupture or bursting of rotating or moving machine parts due to centrifugal force or mechanical breakdown remain excluded.

The sinkhole and mine subsidence coverages are currently only available by endorsement. Volcanic action applies to the blast, shock waves, ash, dust, particulate matter or lava flow resulting from an eruption, but it doesn't cover earth movements. The current policy only covers broken glass from volcanic action.

The new form excludes coverage for mudslides and mudflow because it is available under a flood policy.

Coverage for a power or utility

"interruption" is updated to extend to a power or utility "failure."

Coverage is broadened, ISO says, by covering losses by fire or combustion explosion that result from the explosions of steam boilers, steam pipes, steam engines or steam turbines owned or operated by the insured. The damage to the boiler itself is not covered.

The broad form adds coverage for breakage of glass, falling objects, weight of snow, ice or sleet, water damage and collapse along the lines of existing forms. Limits of payment for glass coverage are increased to \$250 from \$50 for each plate and to \$1,000 from \$250 for any one occurrence.

The proposed form eliminates coverage for water damage in a case where a policyholder has failed to do his best to maintain heat in a building or has failed to drain the equipment and shut off the water if heat is lost. Currently, those restrictions apply only to vacant or unoccupied buildings.

The broad form adds to mine subsidence coverage the collapse of transit tunnels and covers glass breakage caused by volcanic eruption (as opposed to volcanic action).

The special form covers all risks of direct physical loss and is intended to substitute for four types of existing "all-risks" coverage. The form contains the traditional exclusions for wear and tear, rust, errors in workmanship or design, extremes of temperature or inventory shortages.

Exclusions for loss due to settling, cracking, shrinking or expansion are extended generally to apply to all property, not just pavements, foundations, walls, floors, roofs or ceilings as currently.

A key clause excludes from theft coverage loss of "property that is believed to be missing, but there is no physical evidence to show what happened to it."

Also excluded are dishonest or criminal acts by the insured or the insured's employees, partners, directors, trustees or agents.

The optional theft exclusion form, which would reduce premium, is more restrictive than the current form.

It excludes all loss by theft, regardless of whether the property involved is attached to and made a part of the building. ■

BC/BS of Virginia offering workers cost-control awards

A health insurer is trying to lower its 1983 health care costs by awarding employees with days off and cash.

The nearly 1,000 employees of Blue Cross & Blue Shield of Virginia based in Richmond and other district offices can earn a day off three ways.

First, employees can earn free time by having one of six procedures performed on an outpatient basis rather than in the hospital.

The procedures are dilation and curettage, laparoscopy, tonsillectomy/adenoidectomy, excision of breast cysts or biopsy, myringotomy/typnostomy (eardrum procedures) and arthroscopy of the knee.

Second, if hospital maternity stays for employees or covered spouses are limited to three days, the employee earns a day off.

Third, employees who hit targeted annual medical cost limits will also be rewarded. The targets are \$75 or less for single employees; \$113 or less for an employee and minor dependent; and \$225 or less for a family.

If employees don't participate in any of the incentives, they cannot earn free time, a BC/BS spokes-

woman said.

Under the cash incentive, all BC/BS of Virginia will be eligible for cash awards if the entire plan's cost does not exceed a set amount.

The insurer estimated that employee health care bills could cost it \$2.1 million without employee cost-containment incentives and \$1.9 million with them. If the total 1983 health care bill is less than \$1.9 million the employees will receive 50% of the savings.

As of early April, BC/BS of Virginia had no statistics to gauge how much employees may receive in cash bonuses, she said.

Other plan changes include:

• The addition of a \$35 deductible for each emergency room visit. Previously, employees paid no deductible. There still is no deductible for visits to doctor offices or free-standing emergency clinics.

• The elimination of the dollar-amount cap on outpatient X-rays and laboratory tests. The previous cap was \$150.

• Increasing the major medical limit to \$1 million from \$250,000.

Presently, BC/BS of Virginia employees aren't charged for their first-dollar medical coverage. ■

Potential liability could stall GAF plans

Continued from page 2

Allied has talked to a number of experts familiar with the asbestos problem and has been told there are "no absolutes" in terms of cost and number of claims, but that he hoped something could be worked out.

As of Feb. 28, GAF faced 12,300 lawsuits from asbestos victims, though its defense and indemnification costs are being handled by its insurers and the company says it has enough insurance to pay pending claims.

Despite Mr. Peabody's comments, some observers do not think a deal between GAF and Allied can be reached.

According to Calvert Crary, litigation analyst for Bear, Stearns & Co., a New York investment research firm, it is unlikely an agreement can be reached between the two companies, partly because of the difficulty in getting around the doctrine of transferee liability that says successor corporations are liable for claims.

In addition, because of the uncertainty of the number of asbestos lawsuits that will eventually be brought against GAF, alternatives

such as purchasing retroactive insurance or forming a trust fund to pay claimants may not be feasible, Mr. Crary says.

"I would be amazed if this deal could go through," adds Richard Epstein, a professor of law at the University of Chicago, noting the complicated nature of the transaction and the legal uncertainty of the area.

But an official at Standard & Poor's Corp. says she believes an agreement could be worked out, though she did not elaborate. If the issue is unresolved, however, GAF may have to set funds aside for distribution to asbestos plaintiffs rather than shareholders if it eventually liquidates, says Elizabeth Sargurton, a ratings officer for the securities rating firm.

Plaintiffs' attorneys, meanwhile, are also closely watching the proceedings to make sure the interests of their clients aren't jeopardized.

"I and others (plaintiffs attorneys) are terribly concerned about it," says Thomas Henderson, plaintiffs' attorney with the Pittsburgh firm of Baskin & Sears. "It has occurred to us that it might be an ef-

fort to do through the side door what Manville did through the front door."

Manville Corp. filed for reorganization under Chapter 11 of the Federal Bankruptcy Act last Aug. 26, in part to escape liability from future asbestos claims.

The GAF spokesman, however, denied that the liquidation was a means to avoid liability or that GAF and other asbestos defendants were in similar situations.

GAF is not facing an overwhelming number of claims, the spokesman explained, adding that settlements and indemnifications made so far by GAF represent only about 2% of the total amount paid by all asbestos defendants. And, he pointed out that all GAF's claims have been covered by insurance.

He declined to say how much product liability or general liability insurance GAF has available to pay asbestos claims or to confirm an estimate of the company's potential asbestos liability as \$100 million. But he added that the liability was "well-within" the company's and its insurers' ability to handle the pending claims.

According to GAF's 10-K report

filed with the Securities and Exchange Commission, the company as of Feb. 28 faced approximately 12,300 asbestos lawsuits and had settled 3,900 others.

It is also suing its insurers in California to seek reimbursement for past expenditures as well as defense and indemnification for all present and future asbestos claims. GAF also seeks compensatory and punitive damages for breach of insurance contracts, violations of the California Insurance Code and bad faith from the insurers.

The company is also currently discussing a possible settlement of the litigation with its insurers, the GAF spokesman said.

Only since 1979, Insurance Co. of North America, a unit of CIGNA Corp., and Home Indemnity Co., Home Insurance Co., and City Insurance Co., all units of City In-

vesting Co., have offered to defend and indemnify GAF in asbestos cases pursuant to a purported reservation of rights, according to the 10-K report.

INA, one of GAF's primary insurers, has since been paying all defense and indemnity costs related to asbestos cases and continues to do so, the report added.

GAF believes that its insurance coverage is "substantially in excess of pending claims," the spokesman for the company said.

As part of its liquidation, GAF is also selling 80% of its building materials division to Southwestern General Corp. of Colorado. The GAF spokesman said the deal with Southwestern General differed from the proposed sale to Allied because the Southwestern General sale included only assets, not liabilities.

Most damage from quake not covered by insurance

Continued from page 2

Most of the damages to businesses will not be covered by earthquake insurance, insurance industry sources say.

"Even if they have (property) insurance, the chances that they have earthquake coverage are very remote," said Michael Staring, Fresno field office claims manager for Hartford Insurance Group.

Mr. Staring estimated that Hartford might pay a total of \$50,000 in claims on about 200 commercial fire, homeowners and automobile policies written in the area.

Most of the commercial policies did not include earthquake coverage, he indicated. Because of the nature and age of many of the town's buildings, most property owners probably considered the coverage too expensive, Mr. Staring said.

"I doubt that anyone will get much of anything from insurers. We don't have a lot of exposure there, and most insurers won't," said Chuck LeFay, claims manager for Mission Insurance Co., which expects to pay a maximum of \$150,000 on commercial fire, liability and inland marine policies.

The lion's share of this will be paid to the Coalinga Inn, a downtown hotel that was destroyed by the quake. The hotel did not have earthquake coverage in its property policy, but damage to some of the building's contents in a fire after the quake will be covered, Mr. LeFay said.

"No one expected anything that powerful that close to the built-up town," so most property owners didn't buy earthquake cover, he added.

A spokesman for Fireman's Fund Insurance Cos. said the company may pay roughly \$100,000 in claims on about 90 property policies with earthquake endorsements in the five-county area around Coalinga.

Although some corporations had earthquake insurance covering their properties, losses in Coalinga will probably not be high enough to exceed deductibles.

Practically the only building left standing in the downtown area is

the local Bank of America branch office. Bank of America's properties are covered for earthquake damage, including lost earnings, extra expense and property damage, according to Norm Wintemute, a bank vp.

The Coalinga branch may have suffered some damage to its heating and air conditioning plant and to its reinforced concrete slab roof, but damages will probably not exceed the policy's deductible, said Mr. Wintemute, who did not want to reveal the size of the bank's deductible.

Bank of America has closed the office but is providing banking services from a mobile trailer.

Structural damage to the ceiling and walls of the local Security Pacific National Bank branch would be covered if the loss exceeded the bank's \$1.5 million deductible, but "it's nowhere near that," a Security Pacific spokesman said.

Pacific Gas & Electric Co. suffered several downed power lines in the Coalinga area, as well as damage to its downtown office and a partial collapse of a power substation, said a PG&E spokesman. No damages were reported outside the Coalinga area and power has been restored to "virtually everyone who needs it," the spokesman explained.

PG&E expects losses won't exceed the \$1.5 million deductible on its property policy, he said.

Several oil companies have shut down oil and gas pumping operations in fields near Coalinga while awaiting the results of damage inspections.

For example, Standard Oil Co. of California operates about 1,400 oil and gas wells in the area, producing about 10,000 barrels of oil a day. It also owns two nearby pipelines and several storage tanks, a company spokesman said.

"Relatively minor" damage was sustained in the quake, including cracked storage tanks, broken pipes and shifting of some steam generators off foundations, he said. The company is also looking into the possibility of underground damage to the wells, but company geologists are "not too concerned" about it,

the spokesman added.

All operations have been shut down pending damage inspections, though production will probably resume this week, he said. Damaged tanks will be drained and repaired and activity at individual wells will begin as soon as they are inspected.

Standard of California is self-insured for any property damage or business interruption losses but the losses aren't expected to be significant, the spokesman said.

"I'd be much more concerned about the corner grocery store in Coalinga," he said.

Shell Oil Co., which operates 1,000 area wells producing 13,000 barrels of oil a day, suffered "heavy damage" to buildings in the field, though none of its 70 area employees were hurt, said a company spokeswoman.

Four storage tanks holding crude oil, fuel oil and water were cracked and will have to be drained and repaired, the spokeswoman said.

In addition, a crude oil pipeline connecting the field to Shell refineries near San Francisco and Los Angeles was shut down automatically when the quake hit.

The pipeline is owned by Shell but operated by Getty Oil Co. A Getty spokesman said the 20-inch pipe has been inspected for 60 miles on either side of Coalinga and that no damage has been discovered yet. While the pipeline is shut down, oil will be shipped to refineries by truck, the Shell spokeswoman said.

All of Shell's wells are also shut down for inspections and some are reported to have been damaged underground, she said. The extent of the damage is not known and cannot be estimated, she added.

Shell officials would not comment on the company's insurance.

Union Oil Co.'s 90 nearby oil and gas wells are also shut down for inspections and the company suffered "minor" damage to a storage tank and a wooden warehouse, a company spokesman said. Union will be self-insured for any property losses from the quake, the spokesman said.

insurance services guide

GYORY ASSOCIATES, INC.

PROFESSIONAL RISK MANAGERS
Risk Financing
Insurance-Risk Consulting
Latent Disease Product Liability Management
172 Franklin Avenue, Ridgewood,
N.J. 07450 (201) 445-8350

CASUALTY ACTUARIES, INC.

Robert F. Lowe F.C.A.S., M.A.A.A., F.C.A.
• Loss Reserve and Rate Evaluations for Insurance Companies and Self-insureds.
• Statutory letters of opinion on loss and loss expense reserves.
12300 Olive Boulevard
St. Louis, MO 63141
(314) 878-5002

EMPLOYER'S HEALTH BENEFITS NEWSLETTER

Cost containment, plan design, HMOs, health policy, original research and more. A unique source of information since 1976. \$35.00 per year. FREE SAMPLE:
Personnel Research Assoc.
49 Oakridge Rd.
Verona, N.J. 07044

ATWOOD & CO.

Consulting Actuaries
Claim Reviews
Reinsurance and Reserve Analysis for Captives and Self Insurers
5000 Ambrose Ave.
Los Angeles, CA 90027
(213) 661-9260

FIREMAN & KRAMER

Defense Counsel
All N.Y.C. Area Courts
Contact: Anthony LaBella, Esq.
305 Avenue U
Brooklyn, New York 11223
(212) 996-9600

Insurance Reinsurance Corporate Risk Management Captives

Professional Loss Reserve Financial Management
Specialists Investigators Consultants

John J. O'Connor & Co.

Watch Hill Road
Watch Hill, Rhode Island 02891

Serena M. Casey
Consultant & Principal

John J. O'Connor, Esq.
Consultant & Principal

Phone: (401) 348-8386
(24 Hour Service)

Investigations: Specialized • Fraud • Conflict of Interest
Loss Reserves: Certification and Statement of opinion • Reserve - IBNR analysis & evaluation.
Reinsurance: Audit-Review • Security Analysis & opinion • Investigations • Loss Reserve portfolio Reinsurance • Financial Guaranty Reinsurance.
Claims: Program monitoring & analysis • Management of Claim Administrators and Contract Adjustors • Supervision of Major Litigation & Major Investigations • Major Case opinion • Claim management evaluation • Expert opinion • Audit-Review • Run-off management.
Merger/Acquisition: Analysis of Property-Casualty Insurers, Reinsurers & Captive Insurers • Due diligence investigations.
Regulatory: Management Consulting • Insurance Department Liaison.
Corporate: Special Investigations • Captives • Fronting • Self-Insurance • Reinsurance analysis.
Expert Witness: Insurance & Reinsurance matters • Arbitration.

• Fire Protection Engineering
• Sprinkler System Design
• Underwriting Reports
• Fire and Security Alarm System Design
• Building and Fire Code Consultation
• OSHA—Safety Engineering

Schirmer

SCHIRMER ENGINEERING CORPORATION
707 Lake Cook Road • Deerfield, IL 60015 • 312 272-8340

Information About Software Systems for Claims, Benefits and Risk Analysis.

Call or Write

RESOURCE INFORMATION MANAGEMENT SYSTEMS, INC.
7800 W. College Drive,
Palos Heights, IL 60463
Phone: 312/448-5911

Benefits News Analysis

The magazine for benefits managers
Analysis of corporate benefit practices.
Flexible Benefits Cost Containment
Savings/401 (k) Communication
Systems/Admin. International
Free copy—203/393-2272
Box 4033 New Haven, CT 06525

SMART'S HEALTH & SAFETY MANUAL FOR PUBLIC AGENCIES

• 30 DAY FREE TRIAL •

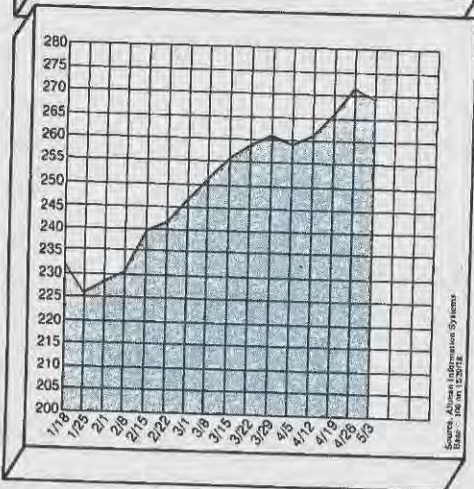
DARRELL HEPPNER, SMART'S
154 Sunnyside Dr., San Leandro, CA 94577

AutoLab—Automotive Engineering Consultants

• Accident reconstruction
• Special Engineering Studies
• Tire failure analysis
• Highway Safety Design
• Fire investigation
• Mechanical testing
• Technical case Review

Division of 212-994-9400
Allen Dahle & Co., Inc. 914-694-1222
65 West Red Oak Lane 516-466-2646
White Plains, NY 10604 203-869-5566

BI Insurance Index



Annual reports offer view of brokers' future strategy

By **LEONARD M. WILSON**
Special to Business Insurance

IT IS ANNUAL REPORT time. We have found that the tone and content of annuals often convey useful insights about how company managements view prospects for the coming year. In the case of the insurance brokers, sober resignation to continued hard times might be an objective representation of the prevailing mood.



Mr. Wilson

No room for Pollyannas might be another way of putting it. Marsh & McLennan Cos. Inc. seemed to be the most expansive of the publicly held brokers. Perhaps the small increase in earnings for 1982 was heartening in light of the general pressure on profitability. That relatively solid performance at M&M also provided a point of departure for citing the year's accomplishments.

Marsh & McLennan continued to emphasize its global capabilities. Retail insurance brokerage has been organized on a worldwide basis to enhance service to large multinational clients. The thrust toward international brokerage will surely be given further impetus in the years ahead.

The smooth integration of M&M's British acquisition, C.T. Bowring & Co., was also underscored in the annual report. Marsh & McLennan wanted to reassure its stockholders that the widely publicized problems in London had not tainted Bowring. In addition, the British subsidiary's creditable operating progress in 1982 deserved comment.

The possibilities for diversification were touched upon briefly. "Specialized professional services" is a phrase that is used to describe other, potentially compatible activities.

Leonard M. Wilson, a vp of L.F. Rothschild, Unterberg, Towbin in New York, specializes in insurance brokerage stocks. He is a member of the New York Society of Security Analysts.

The recent acquisition of NERA, an economic consultant, was a step toward further diversification.

Realistically, though, insurance brokerage will dominate the company's outlook for the indefinite future.

Alexander & Alexander Services Inc.'s annual report stressed the importance of a dedicated staff through a series of vignettes about individuals within the organization. The well-publicized difficulties at its Alexander Howden Group P.L.C. unit and lackluster earnings for 1982 provided A&A with little latitude for accentuating the positive.

In fact, "frustrating and disappointing" was the description for the year used in the letter to the shareholders.

The annual report's people orientation, though, imparted a sense of Alexander & Alexander's broad capabilities in insurance services and ancillary services. This breadth suggests that Alexander & Alexander remains a formidable presence in domestic insurance notwithstanding the poor publicity generated by the Howden affair.

The internationalization of the company is moving forward, as well. France, West Germany and the Netherlands became new arenas of activities for A&A through the acquisition of minority interests in two indigenous insurance brokerages. Two new ventures were also begun in Spain and Portugal.

The thematic concentration of Frank B. Hall & Co. Inc.'s annual report was on function within the insurance brokerage. Indeed, the report was virtually a primer on how insurance brokerage works in its many facets.

When the report dealt more specifically with Frank B. Hall itself, it conveyed the impression of a company bent on pursuing a service organization. We counted about 60 discrete services provided by the firm, as keynoted in a graphic portrayal: The new slogan, "The Protection Connection," reinforces Hall's image as a delivery system for risk management services.

In the realm of operations, the letter to the shareholders chronicles the imposition of strict restraints on expenses for 1983. The program appears to reflect management's determination to maintain earning power in the face of immobile rate competition.

Corroon & Black Corp. also cited a cost-containment program for 1983 in its annual

report. But, the focus of this brokerage's report seemed to deal with the organizational balance of the firm. Activities at Corroon & Black have been grouped within four units: brokerage; benefits and specialties; reinsurance; and underwriting management.

We think this organization along functional lines is an important development stage in the evolution of Corroon & Black. It indicates that the company is now well-positioned to exploit opportunities as well as to cope with a difficult rate environment.

In effect, 1982 was a year of consolidation in a distinctly positive sense at Corroon & Black.

Expectations have clearly become circumscribed for the publicly held insurance brokers as a group. Affirmation of growth potential have yielded center stage to espousals of cost reduction and organizational alignments.

Maybe this is not all bad. If the insurance cycle does not turn in 1984, austerity will be a far better posture than optimism—whether it be cautious or any other kind.

Financial briefs

Reed Stenhouse

Reed Stenhouse Cos. Ltd. has agreed to sell 1.1 million Class A shares though a private placement with institutional investors for approximately \$17 million.

The proceeds of the sale will be used for acquisitions or, in the interim, to reduce borrowing and increase debt capacity.

The company also announced that it is actively exploring acquisition candidates as part of its ongoing strategy.

Armco

Armco Insurance Group Inc. posted an unprofitable first quarter, according to parent company Armco Inc. Without specifying the size of the loss from its insurance operations, Armco blamed the poor results on its inability to offset underwriting losses with tax benefits.

Armco did note, however, that its European property/casualty subsidiaries posted improved earnings during the first quarter and showed a modest profit.

Crum & Forster

Crum & Forster Inc. helped its new parent, Xerox Corp., to a 26% gain in first-quarter profit from continuing operations by posting net income of \$37 million for the quarter, up 51%.

Without Crum & Forster, Xerox's first-quarter profit from continuing operations would have been down by 3.5% to \$98.7 million compared with \$102.3 million for the three months of 1982.

Aetna Life & Casualty

Aetna Life & Casualty Co. reinsured a big block of medical malpractice business to boost its first-quarter operating earnings by \$48.3 million and help make up for the loss of disputed tax benefits, the company says.

Aetna's commercial property/casualty operations recorded a pretax loss of about \$3 million in first quarter, compared with a loss of about \$5 million a year earlier, said Charles T. Bell, Aetna's director of investor relations.

Aetna's first-quarter aftertax operating income rose 18% to \$119 million, including the \$48.3 million generated by the reinsurance transaction with Fireman's Fund Insurance Cos., compared with net income of \$101 million for the first three months of 1982.

Mr. Bell said most of the improvement in Aetna's overall results came from personal lines and group insurance.

The 1982 first-quarter profit figure was aided by \$71 million in future tax credits booked into current earnings. The Securities and Exchange Commission has ruled that Aetna can no longer use the controversial practice and is challenging the insurer's previous financial statements that include the tax credits (BI, Feb. 21).

British Issues

3 May Companies	Price	P/E	Div. pence	Yield %	1 Week High-Low pence
Comm Union	155	47.0	16.86	10.9	157-150
Eagle Star	405	16.1	24.29	6.0	410-405
Genl Accident	445	14.2	24.29	5.5	450-430
Gdn Royal Exch	460	12.2	27.86	6.1	465-460
Phoenix	334	18.3	25.00	7.5	334-328
Royal	540	14.0	37.86	7.0	545-532
Sun Alliance	1175	16.1	68.57	5.8	1200-1175

Brokers	Price	P/E	Div. pence	Yield %	1 Week High-Low pence
CE Heath	330	9.2	18.71	5.7	343-330
Hogg Robinson	115	8.8	8.57	7.4	115-106
JH Minet	131	12.5	6.50	5.0	133-131
Sedg Grp	234	13.4	10.00	4.3	235-234
Stenhouse Hldg	122	11.4	7.86	6.4	124-122
Stew Wrightson	280	10.2	20.43	7.3	280-278
Willis Faber	560	14.8	25.00	4.5	563-560

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

BI Industry Stock Report

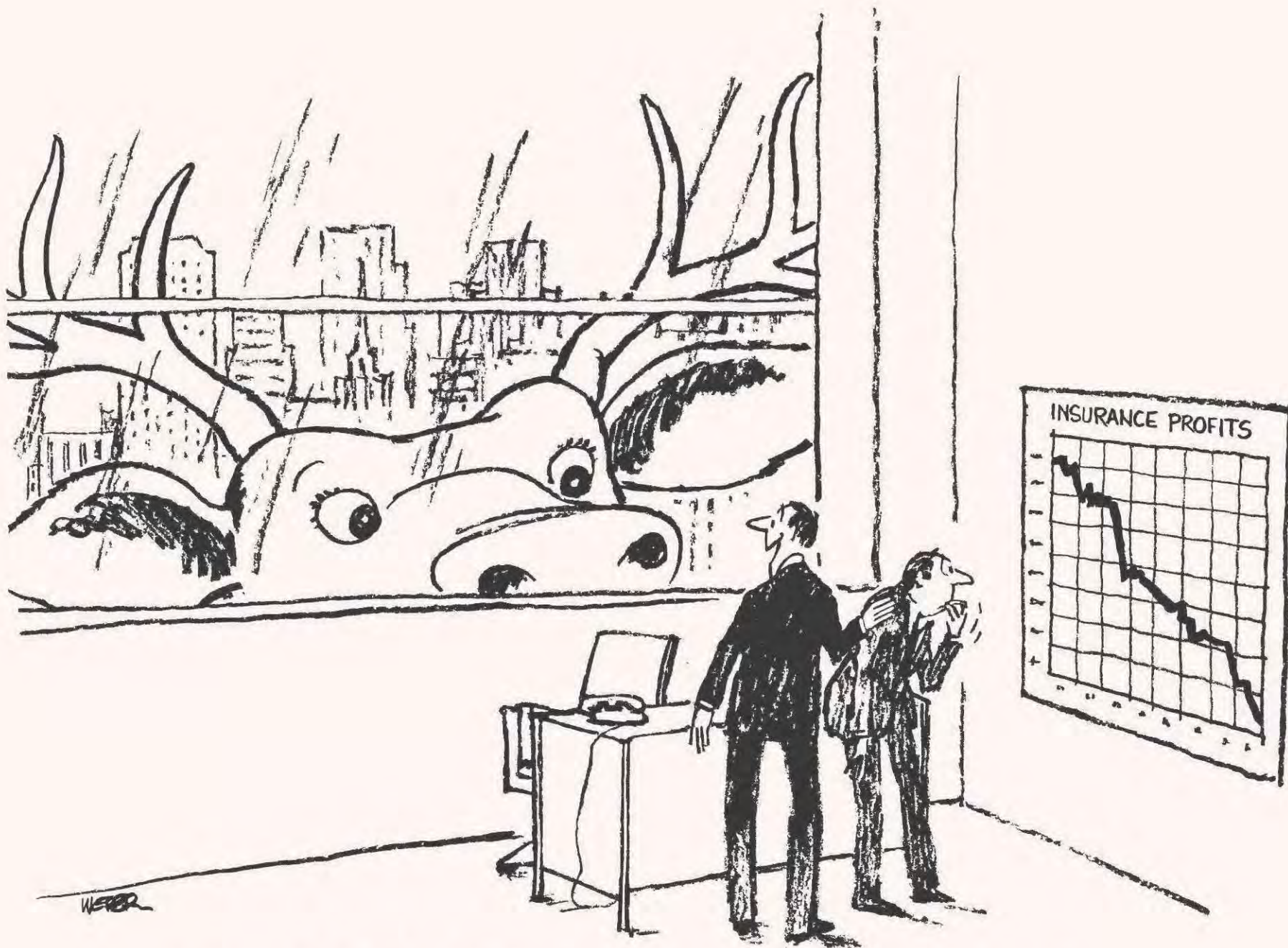
MAY 3, 1983 4/27/83 THRU 5/3/83

Insurance Cos.

Company	Price	% Chg.	P/E	\$ Div.	% Yld.	High	Low	Vol. (000)
Aetna Life & Cas Co	41.63	1.8	7.3	2.64	6.3	42.50*	41.00	1,084.5
American Bankers Ins Group	14.75	6.3	11.5	0.50	3.4	14.75	13.88	450.7
American Gen Ins Co	68.75	-0.7	8.7	2.40	3.5	70.50	68.38	225.0
American Indty Finl Corp	19.50	-3.1	14.4	1.12	5.7	20.00	19.50	21.8
American Intl Group Inc	70.25	-5.4	12.5	0.44	0.6	75.25	70.25	377.1
American Natl Ins Co	18.75	4.2	7.9	0.84	4.5	19.13	18.00	4,296.3
American Sts Life Ins Co	28.75	4.5	8.0	0.88	3.1	28.75*	28.00	1.1
Aneco Reins Ltc	3.63	7.4	90.6	0.00	0.0	3.75	3.50	45.3
Avenco Corp	15.75	-2.3	9.4	0.58	3.7	16.00	15.75	10.4
Banks Iowa Inc	42.00	-1.2	11.1	1.52	3.6	43.00*	42.00	5.0
Bitco Corp	39.00	0.0	6.8	2.00	5.1	39.00	39.00	2.0
Carolina Cas Ins Co	7.75	0.0	10.2	0.32	4.1	7.75	7.75	0.0
Chubb Corp	53.13	-7.7	8.6	2.92	5.3	59.88	55.13	245.4
Combined Intl Corp	33.38	-4.6	11.3	2.00	6.0	35.00	33.38	230.0
Continental Corp	34.50	-1.8	19.1	2.60	7.5	35.25	34.25	443.5
Crawford & Co	20.25	-5.8	14.7	0.60	3.0	21.75*	20.25	73.4
Crown Life Ins Co	107.00	-2.7	7.0	3.10	2.9	110.00	107.00	2.2
Employers Cas Co	39.25	1.3	8.2	1.20	3.1	39.25*	38.75	5.1
Equifax Inc	32.88	-3.3	15.0	1.40	4.3	34.00	32.50	39.2
Excelsior Ins Co	11.00	0.0	0.0	0.70	6.4	11.00	11.00	7.8
Farmers Group Inc	47.00	3.3	12.8	1.36	2.9	48.00*	47.00	238.0
Foremost Corp Amer	50.00	-4.8	15.3	1.24	2.5	52.50	50.00	15.4
Freight Gen Corp	24.75	-0.5	825.0	0.48	1.9	26.00	21.50	784.7
Great West Life Assurn Co	198.00	2.1	10.7	10.00	5.1	198.00	194.00	0.9
Hanover Ins Co	47.25	-4.1	7.1	0.88	1.9	48.50	47.25	16.0
Hartford Steam Boiler Insptn	53.50	1.9	11.8	3.00	5.6	54.50*	53.00	21.7
Jefferson Natl Life Ins Co	45.00	-5.3	11.6	0.76	1.7	47.50	45.00	3.2
Kemper Corp	50.13	1.8	9.5	1.80	3.6	51.25*	49.88	371.3
Lincoln Natl Corp Ind	50.00	-2.4	8.9	3.00	6.0	52.00	50.00	94.4
Mission Ins Group Inc	37.63	-4.1	9.4	-1.00	2.7	39.00	37.50	60.1
Nationwide Corp Ohio	41.75	0.0	15.3	0.70	1.7	41.75	41.75	0.0
Northwestern Natl Life Ins	33.63	-2.9	23.5	1.50	4.5	34.88	33.63	17.8
Ohio Cas Corp	53.88	3.6	10.2	2.52	4.7	53.88*	52.25	144.0
Old Rep Intl Corp	32.38	-1.9	8.3	0.92	2.8	33.75	32.38	169.7
Orion Cap Corp	24.00	0.0	12.8	0.66	2.8	24.63	23.63	121.5
Preferred Risk Life Ins Co	34.00	4.6	9.2	1.00	2.9	34.00*	32.63	10.1
Provident Life & Acc Ins Co	63.50	-2.3	8.9	2.60	4.1	65.00	63.50	19.1
St Paul Cos Inc	64.63	-7.7	6.6	2.80	4.3	70.00	64.63	118.3
Safeco Corp	57.00	4.6	11.9	2.40	4.2	57.00	56.00	132.0
Sri Corp	47.00	-1.1	9.5	1.12	2.4	47.38	47.00	59.3
Seibels Bruce Group Inc	26.50	-4.1	13.1	0.80	3.0	28.25	26.50	86.9
Statesman Group Inc	9.63	-8.3	7.1	0.15	1.6	10.25	9.63	131.4
Tokio Marine & Fire Ins Co	105.50	-1.5	16.9	0.92	0.9	107.50	105.25	17.0

MAY 3, 1983 4/27/83 THRU 5/3/83

Company	Price	% Chg.	P/E	\$ Div.	% Yld.	High	Low	Vol. (000)
Travelers Corp	31.25	-5.3	8.5	1.80	5.8	33.75	31.25	655.8
United Fire & Cas Co	31.00	0.0	10.2	0.88	2.8	31.00	31.00	0.6
United States Fid & Gty Co	45.75	-10.7	11.5	3.84	8.4	50.88	45.75	722.9
United Svcs Life Ins Co	25.50	10.3	7.6	1.00	3.9	25.50*	23.75	49.7
USlife Corp	25.63	-1.0	7.1	0.88	3.4	25.63	25.00	277.2
Washington Natl Corp	31.25	-6.0	15.1	1.08	3.5	31.25	31.00	399.2
Zenith Natl Ins Corp	21.25	-3.4	10.3	0.80	3.8	22.00	21.25	30.2
INSURANCE COMPANIES	AVERAGE		10.2		3.8			
Agents/Brokers								
Alexander & Alexander Svcs	21.75	0.0	0.0	1.00	4.6	22.63	21.63	406.6
Baldwin & Lyons Inc	41.50	0.0	7.6	0.80	1.9	41.50	41.50	2.2
Corroon & Black Corp	26.63	2.4	14.2	1.80	6.8	27.38	26.50	55.5
Crump E H Cos Inc	11.88	8.0	17.2	0.40	3.4	12.38*	11.75	79.3
Emett & Chandler Cos Inc	10.75	-1.1	0.0	0.00	0.0	10.88	10.63	17.8
Hall Frank B & Co Inc	32.00	1.6	15.5	1.70	5.3	32.50	30.88	544.5
Integrated Res Inc	35.63	-2.1	14.8	0.00	0.0	37.13	35.63	407.5
Marsh & McLennan Cos Inc	43.88	-0.6	12.7	2.20	5.0	44.13	43.88	248.6
Poe & Assoc Inc	6.75	0.0	135.0	0.40	5.9	6.75	6.75	0.1
Reed Stenhouse Cos Ltd	15.88	2.4	15.1	0.60	3.8	15.88	15.50	11.1
AGENTS/BROKERS	AVERAGE		15.4		3.6			
Conglomerates/Holding Cos.								
American Express(Fireman's Fd)	65.00	-4.8	13.5	1.80	2.8	69.00*	65.00	1,919.7
Anderson Clayton(Ranger/PanAm)	32.88	-0.8	13.6	1.32	4.0	33.13	32.75	57.7
Armco Inc	17.13	-1.4	0.0	0.40	2.3	17.75	17.00	643.2
City Investing Co. (Home Ins.)	30.88	0.4	7.4	1.80	5.8	31.25	30.63	234.6
CNA Finl Corp (CNA)	20.50	7.9	8.5	0.00	0.0	20.50*	19.25	93.2
Control Data (Comml. Credit)	47.50	-2.1	11.9	0.60	1.3	50.00	47.50	1,457.7
General Re Corp	62.63	-6.9	13.2	1.28	2.0	66.75	62.63	394.4
Gulf Utid Corp	27.63	1.8	8.6	1.32	4.8	27.75	27.38	787.4
Ligna Corp	49.00	-3.0	7.3	2.48	5.1	50.75	48.88	1,245.2
LTT (Hartford Group)	40.00	6.0	8.4	2.76	6.9	40.75*	38.25	2,823.8
Optimum Hldg Corp	8.13	0.0	7.8	0.00	0.0	8.13	8.13	1.4
Sears Roebuck & Co. (Allstate)	40.13							



"Hey, Al. I think I've found an insurer who won't pull the rug out when the market hardens again."

If the handwriting on the wall tells you there's another insurance squeeze coming, Hartford Specialty has reassuring news. Our Special Accounts Insurance Department (SAID) will still be a responsive market when some of our competitors—caught between the rock of increasing underwriting losses and the hard place of declining investment income—will be scrambling to repair poor books of business.

Find out how SAID can give you the insurance protection and stability you need. For in-

formation, write Hartford Specialty Company, Hartford Plaza, Hartford, Conn. 06115.

Don't make a decision on any specialty business without a quote from Hartford Specialty.

**HARTFORD
SPECIALTY**



Performance is our specialty.