

business insurance

update:

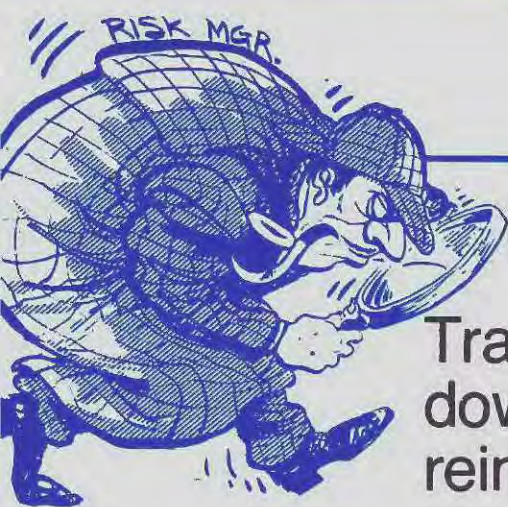
Textile company must pay damages

GREENVILLE, S.C.—Riegel Textile Corp., which appealed a \$1.75 million product liability judgment on the grounds its product met federal safety standards, must pay the damages, the U.S. Supreme Court has ruled.

The ruling signals potentially greater risks for other textile firms whose prod-
Continued on next page

the national newsweekly of loss prevention, risk financing & benefit management/\$1 a copy; \$25 a year

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Spotlight
Report

Tracking down reinsurance

By LEN STRAZEWSKI

Your risks are being divided, bartered and reinsured by your underwriters along a winding trail of international finance. The dollars to pay your losses ultimately may be paid from London, Europe, Bermuda or the Caribbean.

Tracking down the reinsurance on your commercial risks isn't easy, but it could be well worth the effort to confirm for yourself that the security behind your policy is sound and that you are getting the best rates considering the cost of reinsurance.

It takes aggressive buying to open the hidden reinsurance market that the buying public supports. And the trail may be difficult to follow.

The first *Business Insurance* spotlight report on reinsurance describes these winding trails, why they are worth following and what you may find.

Although *BI* has published news of reinsurers, especially in relation to the corporate use of captive insurers and the London market, this is the first look especially at the American reinsurance market in one in-depth package.

Reinsurance capacity and reinsurance pricing, experts agree, are the basic stuff of which commercial insurance rates are sculpted.

If reinsurance prices are low, commercial insurance rates are likely to be low in the following 12 to 18 months. Though some experts suggest the end of competitive insurance markets is around the corner, soft reinsurance markets promise continued competition for the coming year.

The National Assn. of Independent Insurers' annual meeting in New Orleans this week is a good measure of the competition. As insurers meet with reinsurers to plan treaty agreements and discuss the availability of facultative or case-by-case reinsurance, 1981 rates are also being shaped.

Knowing the reinsurance route, buyers may be better prepared to negotiate for their insurance.

They may be better able to predict market trends that could necessitate changes in corporate insurance programs. Knowing the capacity of the reinsurance market also might provide the extra support a risk manager needs to sell the concept of a captive insurer.

Getting the data you want, however, won't be easy. Reinsurers and intermediaries said they usually did not meet with risk managers on normal commercial insurance.

Moreover, most reinsurers and intermediaries said they really did not want to meet with risk managers, even on the large facultative risks when loss probabilities hinge on the care of the safety and risk manager.

Aggressive buyers are even changing that traditional view. Executives at Bell-Riddell, new owner of the football helmet manufacturing concern, are taking their case directly to reinsurers with evidence that football injuries are not aggravated by poor helmet construction.

The trail of insurance begins with the buyer. Now the aggressive buyer is following the path to its end. You can start by turning to page 13, the start of our special report.

When Reagan takes up reins in Washington . . .

By JERRY GEISEL

WASHINGTON—The conservative political wind that blew Ronald Reagan into the presidency and knocked out liberal and Democratic control of the Senate will reroute legislation and regulation affecting corporate insurance.

With pro-business Republicans in charge of Senate committees that control insurance-related legislation and a sympathetic ally in the White House, changes are expected.

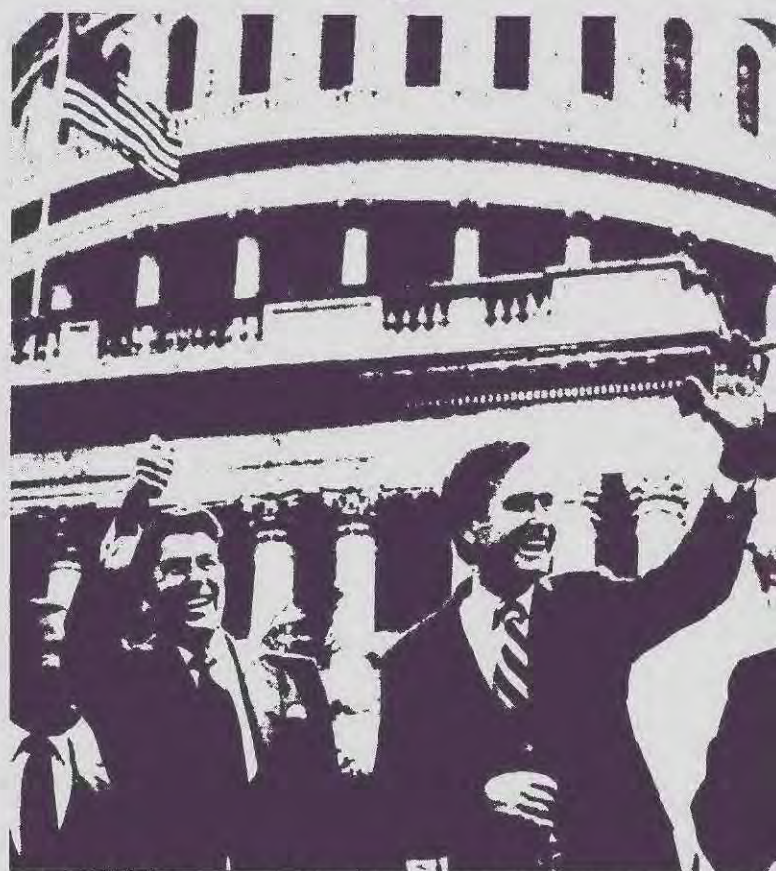
- The Occupational Safety and Health Administration, long cited by conservative Republicans as the classic example of overregulation, will be overhauled.

- The coffin now will be shut on a national health insurance program, long advanced by liberal Democrats.

- The impact of the President's Commission on Pension Policy will be reduced because a new administration will receive the commission's final report in February.

- Federal standards for workers compensation will be among the dead issues in the Senate Labor and Human Resources Committee when a conservative Republican takes control as chairman from a liberal Democrat. The committee

Continued on page 60



With Ronald Reagan and George Bush at the helm, a more pro-business attitude is expected in Washington.

LNG ships are treated as one individual loss

By JOHN MILLER and KATHRYN J. McINTYRE

LONDON—Lloyd's of London underwriters have pegged July 13, 1979, as the date the biggest individual marine loss ever struck the insurance market.

There was no hurricane. No disastrous explosion. No ship lost in turbulent seas.

That is the day the first of three ships built to carry liquefied natural gas failed a sea trial.

Since then all involved have agreed the ships will never be safe to carry LNG. Marine insurance

underwriters have agreed to pay \$300 million to El Paso Co., which ordered the ships (*BI*, Aug. 11).

Lloyd's and U.K. insurers have \$240 million of the loss and American insurers have \$60 million.

The decision of Lloyd's underwriters to treat the loss of the three ships as one individual loss on July 13 will send shock waves through the world's reinsurance markets as direct line underwriters on the risk seek to recover some of their losses under excess-of-loss reinsurance policies.

"There will be calls on reinsurance support in all markets," ob-

served one marine insurance expert.

Marine insurance buyers, however, need not fear any aftershock of this important decision, marine sources say. The glut of reinsurance capacity will preclude any immediate reinsurance rate increases because of this loss, they say.

Indeed, insurance buyers can benefit from this decision because it lessens the blow of the loss on any one insurance company and diminishes the potential for any one company to want to raise rates

Continued on page 57

INSIDE:

Employers, insurers feel pain of stress
Page 3



When something goes wrong, they find out why
Page 54

update:

Textile firm must pay damages

Continued from previous page

ucts meet federal but not state safety standards.

The children's pajamas made by Riegel that caught fire and severely burned a child had met federal regulations for flammable products.

But a Minnesota supreme court ruled that federal compliance alone was not enough; the U.S. Supreme Court upheld that ruling.

Employers Insurance Co. of Wausau, Riegel's primary product liability insurer, will pay \$300,000 of the award and Commercial Union, umbrella liability insurer, has offered \$450,000.

Riegel is suing Commercial Union for the remaining \$1 million in damages, but the insurer is refusing to pay, says Riegel chief financial officer Clayteen Lewis. Commercial Union charges punitive damages are not covered under the umbrella policy.

Frank B. Hall & Co. of New York is the manufacturer's broker.

TSS class actions in works

LOS ANGELES—Two more class-action lawsuits against tampon makers are brewing in Ohio and Pennsylvania.

A \$75 million class action against P&G, maker of Rely tampons, has been filed in a state court in Dayton, Ohio. The complaint seeks \$50 million in compensatory damages and \$25 million in punitive damages for victims of toxic shock syndrome.

The first class action against International Playtex Inc. could be filed in Pittsburgh if a district magistrate and his wife win the right to represent all Pennsylvania women who developed TSS from using Playtex tampons.

The first TSS class action was filed against Procter & Gamble in September in San Francisco district court (BI, Sept. 29).

Utility forms black lung trust

ALLENTOWN, Pa.—Pennsylvania Power & Light Co. has organized the first (501)(c)(21) black lung benefit trust fund to be approved by the Internal Revenue Service.

The tax-exempt trust mechanism permits coal mine operators to establish reserves and accumulate assets to fund long-term black lung liability in a manner similar to pension funds.

State declares MET insolvent

HARRISBURG, Pa.—National Employers Trust of Gibsonia, Pa., a self-funded multiemployer trust with about 1,000 member companies, has been declared insolvent and is under the supervision of the Pennsylvania insurance department.

A department spokesman said claims will be frozen "for a few weeks" while trust administrators and state insurance officials study the cause of the insolvency and try to work out a way to revive the trust without dipping into the state insolvency fund. The trust affects 5,000 employees.

Malpractice award covered

MIAMI—Mount Sinai Medical Center and two physicians named in the largest malpractice verdict in Florida's history are insured by state trust funds.

But the 26-year-old paralyzed plaintiff might have to wait as long as 67 years before receiving the full \$6.7 million awarded to her.

The Physicians Protective Trust Fund insures anesthesiologist Dr. Saul Miller and physician Dr. Robert Bedell for the first \$100,000 primary layer, said a hospital spokeswoman. The hospital is self-insured for the same amount, she said.

The unlimited excess layer of coverage provided by the Florida Patients Compensation Fund insures the hospital and the physicians. By statute, however, the fund has a structured claim system that restricts payment to only \$100,000 per person per year.

The patient, Vikki Lynn Reyes, was almost completely paralyzed by oxygen deprivation during cancer surgery March 30, 1979.

Retiree groups settle suits

WASHINGTON—The American Assn. of Retired Persons and the National Retired Teachers Assn. announced settlements of lawsuits against them and their former group health insurer, Colonial Penn Life Insurance Co., last week.

The lawsuits, filed in 1976 in New York state and federal courts by a group of the associations' members, charged Colonial Penn with dominating the group health plan offered them. The AARP and NRTA have since changed group health insurers as the suit requested, awarding \$270 million in premiums to Prudential Life Insurance Co. (BI, Oct. 6, 1980).

index

Around the states.....	6	Spotlight report.....	13
Benefit beat.....	4	Someone you should know....	38
Benefit tax slants.....	35	Washington.....	9
BI ticker.....	61	Worldwide.....	40
Classifieds.....	58	Vol. 14, No. 45—Business Insurance (ISSN 0007-6864) is published weekly at 740 Rush St., Chicago, Ill. 60611. Second-class postage is paid at Chicago, Ill., and additional mailing offices. Postmaster: Send address changes to Business Insurance, circulation department 740 Rush St., Chicago, Ill. 60611. Copyright 1980 by Crain Communications Inc.	
Comings & goings: buyers.....	48		
Comings & goings: industry.....	49		
Datebook.....	40		
Editorial opinions.....	10		
Info.....	50		
Legal briefs.....	37		
Letters.....	10		
Markets.....	44		
Perspectives.....	35		
Products & services.....	50		
Speaking out.....	37		

Obstetrician, hospital split structured award

SAN FRANCISCO—A 6-year-old boy could receive as much as \$26 million in a structured settlement over a birth injury, but how the doctor and hospital involved will split the bill is still to be decided.

The medical malpractice settlement is the largest ever in California and probably nationwide, be-

lieves James S. Bostwick, a San Francisco attorney representing plaintiff Martin Coyne and his family.

The settlement, which came after a week of trial in a San Mateo County court, has a present value of \$4.6 million, Mr. Bostwick said. But annual payments to the boy through a life annuity could bring

the full value of the settlement to \$26 million.

According to Mr. Bostwick, the doctor and the hospital delayed too long in performing a Caesarean section on the mother after it was discovered the infant's blood supply through the umbilical cord had been cut off.

The resulting brain damage has reportedly left the child with a mental age of 6 to 8 months.

The defendants, Mary's Help Hospital in Daly City and an obstetrician who attended the boy's mother, will pay \$2.15 million to finance the settlement, reports Walter Kohn, the attorney representing Mary's Help Hospital.

The hospital and the doctor, who were sued as separate defendants, have agreed temporarily to each pay 50% of the total settlement and to litigate their differences later.

The Farmer's Insurance Group will pay the first \$100,000 loss above an undisclosed self-insured layer retained by Mary's Help Hospital. The balance will be paid by Lloyd's of London.

The first \$100,000 of the obstetrician's liability will be paid by the Argonaut Insurance Co. The excess insurer, Chicago Insurance Co., will pay the balance.

About \$886,000 of the settlement has been applied to purchase of a life annuity for the boy, providing him with a \$50,000 annual income paid monthly for the rest of his life. The annual payments will be compounded annually at 3%.

Half of the monthly payments are guaranteed for 20 years to the boy's estate if he dies prematurely. At age 21, an additional \$48,000 per year will be paid to the boy each year for the remainder of his life.

If the full settlement is paid in a lump sum, rather than an annuity, the plaintiff requires a larger sum of money to pay for lifetime care and to offset inflation, say personal injury attorneys.

Members accept bill to overhaul Lloyd's operation

By JOHN MILLER

LONDON—A draft bill that would create a 25-member ruling council for Lloyd's of London is on its way to Parliament.

Lloyd's members Nov. 4 overwhelmingly approved the proposal to alter the workings of the historic insurance market.

The bill, altered only slightly from a proposal released last summer, is the first step in implementing changes recommended by the Fisher Report on Lloyd's self-regulating powers (BI, June 30). It will be proposed to Parliament Nov. 27.

If the bill is passed, the new Council of Lloyd's would take office before the end of 1981. It would be armed with rule-making and disciplinary powers now vested in general meetings of Lloyd's membership.

The council membership would be made up of 16 working Lloyd's members elected by the working members, six external members elected by postal ballot of the external members and three out-

siders nominated by the council with the approval of the Bank of England.

With the ability to rewrite Lloyd's bylaws and plan policy, the council could implement other Fisher Report recommendations. These include the elimination of foreign ownership limitations on Lloyd's brokers and the elimination of shareholding links between Lloyd's brokers and managing agencies.

Lloyd's, an underwriter of many large and small U.S. risks, also would adopt new disciplinary and management guidelines designed to protect policyholders.

"It is clear that the present self-regulating power of Lloyd's is inadequate to deal with the problems we have to face," Lloyd's chairman Peter Green told the membership meeting last week.

Only 59 Lloyd's members disagreed. Of Lloyd's 18,552 total members, 13,449 voted in favor of the draft bill in person or by proxy and 5,044 abstained.

Four thousand members at-

Continued on page 60

Rebound in court

Team cries insurer foul

By JOHN MAES

LOS ANGELES—The San Diego Clippers are after a big win, but the points will have to be scored in a law court, not on the basketball court.

The National Basketball Assn. team has filed a \$12.5 million suit here against Lloyd's of London and another British insurer for allegedly denying a claim on a policy covering star center Bill Walton. Mr. Walton's pro career was ended because of a foot injury.

The suit seeks payment of the claim under a \$1.25 million policy and several million dollars in damages, alleging fraud, breach of contract, misrepresentation and bad faith by Lloyd's and The Home Insurance Co., said Stuart Benjamin, attorney for the Clippers.

The American Foreign Insurance Assn., manager and administrator of The Home in England, said Lloyd's and The Home each are at risk for 50% of the first \$750,000 of coverage. The remaining \$500,000 was placed in the Brussels market.

The claim, filed in September, was denied under a policy exclusion for ankle injuries, said Mr. Benjamin.

But Lloyd's says it has not denied the claim, but is awaiting more medical information about Mr. Walton's condition before making a decision, says Alan G. Miller, a Boston attorney for Lloyd's. "I'm waiting for a medical opinion from the Clippers' physician saying that the man will never play again."

Mr. Miller said the policy requires Mr. Walton to be disabled for a year after the injury.

"As far as I can determine, the player played for six weeks from Jan. 29 to March 12 of this year."

The injury that prematurely ended the star's playing career was a fracture to a foot bone called the tarsal navicular, which is not part of the ankle, Mr. Benjamin explained.



The NBA Clippers are suing Lloyd's over a policy covering the injured Bill Walton.

STRESS: Employers, insurers feel the pains of spreading occupational ailment



Costs of executive stress

	Conservative estimate	Ultraconservative estimate
Cost of executive work loss days (salary)	\$ 2,861,775,800	\$1,430,887,850
Cost of executive hospitalization	248,316,864	124,158,432
Cost of executive outpatient care	131,058,235	65,529,117
Cost of executive mortality	16,470,977,439	8,235,488,720
Source: NIOSH	\$19,712,128,338	\$9,856,064,119

By EILEEN NORRIS

CHICAGO—A new ailment is spreading in the U.S. work force, but employers and insurers say they are the ones feeling the pain.

Workers compensation claims for occupational stress are mushrooming. And the number of cases being negotiated out of court by employers leery of taking their chances with the legal system is growing, too.

But the cost of job-related stress to employers cannot be measured strictly by examining claims. In a recent study, the annual cost of executive stress alone in the United States was estimated at \$10 billion to \$20 billion. That figure covers only measurable items such as work-loss days, hospitalization, outpatient care and mortality to executives (see chart). It does not account for ineffectiveness on the job or effects on other employees.

Increases in the cost of health care could drive the cost up to \$80 billion, an expert estimates.

The new wave of stress claims hasn't affected workers compensation insurance rates yet, but the potential is there, industry sources say. Claims of emotional injury on the job are coming not only from former, disgruntled workers, but also from current employees.

"It has truly raised its ugly head," one claims manager said of occupational stress claims.

Consider some pending claims:

- An assembly line worker in the Midwest was the butt of jokes among his fellow employees. Another worker threw a buttered dinner roll at him during lunch, hitting him in the back. The em-

ployee said he was hit with two pieces of buttered steel. His doctor says the incident caused him to suffer a nervous breakdown.

- A Connecticut worker who was asked to give a speech at a training session contended the experience upset him so much he became mentally ill. His doctor agrees the incident disabled him and says the man can never work again.

- An Ohio woman fired from her clerical job for incompetence says the incident caused her to suffer a nervous breakdown. The company, however, says it tried various forms of counseling before terminating her and said she was a hazard to the other employees.

The exact number of stress claims filed in the United States is unknown because statistics-gathering agencies are just beginning to keep such data. These agencies include the California Workers Compensation Institute, the National Council on Compensation Insurance in New York and the Illinois industrial commission.

However, insurers and employers privately would say they fear a "floodgate" of stress claims. Some declined to talk about pending cases because they fear publicity would stir up more claims.

But many confirmed they fear insurance rates will skyrocket to keep pace with the volume of claims being filed.

"It hasn't affected our rates yet," reported James Kinzel, claims manager for INA Corp. in Philadelphia. But he predicts it will.

This type of claim is filed long
Continued on page 58

Workers get cash for high deductible

By CAROL G. BLITZER

LOS ANGELES—It pays to take risks at Orthopaedic Hospital in Los Angeles.

By selecting a higher deductible for major medical insurance, employees with families can get free coverage plus a dividend of \$82 under a plan devised by the Hospital Council of Southern California's Shared Services Insurance Agency.

The premium for the \$400 deductible plan is approximately 30% less than that of the \$100 deductible plan. "At Orthopaedic, we give that back to the employees to get them in the plan," explained Eileen Fein, director of the Shared Services agency.

A new health benefit program offers employees a choice of three

deductibles: \$100, \$250 or \$400. The employee can reduce his or her monthly share of the health insurance premium and reap a cash payment for the difference in premium the hospital pays for the cheaper high-deductible plan and the more expensive low-deductible plan.

The plans offer identical benefits except for the deductible cost and dividend payment.

The hospital isn't saving anything this year because it is giving the employee the premium saved under the higher deductible. But the hospital is betting that in the long run, employees with bigger deductibles to pay will think twice about using the health care system. Employees will see doctors and hospitals less and reduce the

Continued on page 56



Panel readies volcano endorsement

By CAROL G. BLITZER

SEATTLE—A task force representing insurers, agents and brokers is pushing a self-imposed Christmas deadline to develop a special endorsement that will clear the air of confusion over coverage for volcanic eruptions—including ash-related losses.

As Mount St. Helens groans and

grumbles, the state task force on volcano protection insurance is meeting. Formed at the request of Washington insurance commissioner Dick Marquardt, the committee is looking into a special endorsement to directly spell out what a volcanic eruption is and what damage will be insured.

"I would like the endorsement to include definitions of direct dam-

ages," said Scott Jarvis, public defender in the insurance commissioner's office here. "We want to eliminate the lack of clarity over what is covered."

Others prefer more general language, he added.

The endorsement could work in one of three ways, explained John Solon of broker LaBow Haynes
Continued on page 56

Thorny legal case may bankrupt town

By JOHN MAES

SOUTH TUCSON, Ariz.—This little Tucson suburb of 7,500 residents may have to pay \$3.6 million in damages to a police officer employed by the neighboring giant of Tucson, an amount exceeding the town's small insurance coverage and total annual budget.

If forced to pay the damage award and holding only \$100,000 of liability insurance to call on, the town may go bankrupt, be forced to float a bond issue to raise the money, levy a special tax or sell its property. Not even the sale of town property, however, will cover the

amount of the full award.

The case involves a thorny legal question: Can an employee, prohibited by state workers compensation laws from suing his own employer, sue the other employer served in a joint venture performed for the mutual benefit of both?

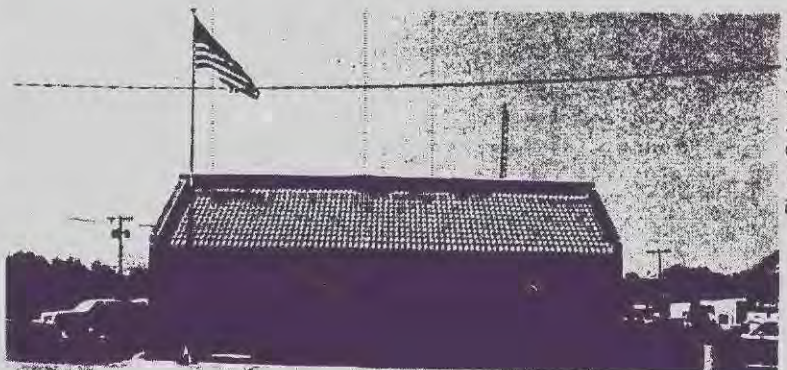
A jury awarded \$3.6 million to Julian Roy Garcia, 30, who was permanently paralyzed Oct. 11, 1978, when a South Tucson policeman inadvertently shot Mr. Garcia during an assault on a barricaded gunman. The 45-caliber bullet shattered the officer's spine.

It doesn't appear that South Tuc-

son will have to empty its coffers anytime soon to pay the award. Attorneys for the municipality have petitioned the court for a reduction of damages or a new trial. They are prepared to take the case to the U.S. Supreme Court, which could delay the award for months if not years.

The jury awarded Mr. Garcia \$2.6 million in damages for lost wages, future medical expenses and catastrophic injuries. It also added \$900,000 for legal fees, which the city's attorney, Robert Murray, calls excessive.

"We'll take the case as far as is
Continued on page 55



Not even the sale of town property would cover the \$3.6 million damage award South Tucson may have to pay.



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MORNING NEWS

USA

N.J. proposes end to rate, form rules

TRENTON—Only conventional commercial insurance policies costing less than \$10,000 a year should be subject to regulation, the New Jersey insurance department says.

A legislative proposal unveiled by the department at the Oct. 20 regional meeting of the National Assn. of Insurance Commissioners would end rate and form regulation on commercial insurance policies costing more than \$10,000 and on all exotic and special risk coverages.

The department would have 30 days to disapprove insurer rate filings made on conventional commercial risks with less than \$10,000 in premium charges. Otherwise the rate filings would be automatically approved.

The proposal is expected to be

around the states

introduced under department sponsorship during the 1981 New Jersey legislative session.

A department spokesman said the proposal would allow licensed insurers in New Jersey to better compete with the surplus lines market and free department personnel to concentrate on personal lines insurance problems.

The proposal reflects the thinking of an industry advisory committee created by the department in July (BI, July 28). It does not call for creation of a Free Trade Zone similar to that in neighboring New York.

New Jersey insurance commissioner James J. Sheeran calls the

New York Free Trade Zone "a cumbersome means of deregulating commercial coverages.

"By exempting Free Trade Zone licensees from rate and form filing approvals only but leaving the underlying substantive requirements, Free Trade Zone insurers will not compete with other specialty markets," he said.

Bypassing panels

HARRISBURG—All medical malpractice claims may bypass arbitration panels and go directly to common pleas courts, Pennsylvania attorney general Harvey Bartle III has ruled in the wake of a recent

state supreme court decision.

Mr. Bartle issued his opinion to clarify a section of a 1975 state malpractice law declared unconstitutional by the high court last month. The law required that all medical malpractice complaints be heard initially by health care arbitration panels before going to appropriate county common pleas courts.

The high court said the requirement of arbitration panels in such cases jeopardized the constitutional right to a speedy trial.

The supreme court ruling coincided with a commonwealth court opinion that said arbitration panels were incapable of providing "prompt determination and adjudication" of malpractice claims, Mr. Bartle said.

About 2,700 medical malpractice cases were pending in the state ar-

bitration system, Mr. Bartle said. Before the supreme court decision, the arbitration system was receiving an average of 120 cases a month.

Mr. Bartle said the arbitration panels could continue to hear malpractice complaints only if all parties agree.

Arthur Frankston, administrator of the arbitration panels for health care, has been directed to notify parties in pending claims of the opinion, to determine whether the cases will proceed before the panels or be forwarded to appropriate courts.

Hazards training

RALEIGH—Establishment of a statewide academy offering fire and rescue training, including instruction in flammable liquids and hazardous wastes, is one of the legislative goals of North Carolina state insurance commissioner John Ingram for the 1981 session.

The cost of the academy would be less than \$2 million, he said.

Other goals of Mr. Ingram are:

- Restoration of the prior approval system of insurance rates (H.B. 658).

- Strengthening of reinsurance facility laws to prevent discrimination caused by arbitrary cancellation (H.B. 1054).

- Abolition of the state rating bureau and replacing it with direct filing of rates with the insurance commissioner and employment of a casualty actuary by the insurance department.

Judges limit DC10 lawsuits

CHICAGO—Two federal judges hearing lawsuits stemming from the May 1979 crash of a DC10 jetliner have ruled families of the Illinois victims cannot collect damages for pain and suffering experienced by crash victims during the last moments of flight.

The families may, however, seek damages for physical pain victims may have suffered between the time American Airlines Flight 191 hit the ground and their deaths, ruled U.S. District Court Judges Hubert L. Will and Edwin A. Robson.

The judges, who are handling 50 lawsuits filed on behalf of Illinois residents, noted the Illinois supreme court has ruled plaintiffs may recover damages for psychological suffering only if it is the result of a physical injury.

The decision affects only Illinois families of Illinois victims, but could influence other cases.

The ruling stemmed from a motion filed by attorneys for the family of Rhonda Ann DeYoung, a 19-year-old college student. They argued the passengers of the ill-fated flight would have suffered severe psychological pain knowing their lives were in danger as the plane went into a steep bank shortly after takeoff from O'Hare International Airport.

Although the judges overruled that argument, they said claims could be allowed for physical suffering in the seconds between impact of the plane and death.

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Asbestos Litigation Reporter

If your company has potential or real liability stemming from asbestos-related death and personal injury claims, the Asbestos Litigation Reporter is a must-read semimonthly journal of record for you and your associates.

This is the national report of asbestos litigation that gives new dimension to the complex proceedings. It gives you complaints, answers, pleadings, orders, depositions, industry letters and editorial coverage of hearings and such important questions as whether the exposure or manifestation theory should determine insurer liability. Call or write for descriptive sample.

Asbestos Litigation Reporter

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Winner, loser both seek retrial in asbestos case

By ELLIS SIMON

CINCINNATI—Both the winner and loser in a precedent-setting decision on insurer responsibility for asbestos claims want the 6th Circuit Court of Appeals here to rehear the case.

The court ruled Oct. 22 in INA vs. 48 Insulations Inc. that insurers writing liability insurance when the claimant was exposed to asbestos are liable for damages, not insurers providing policies when the disease only appeared (*BI*, Nov. 3). It was the first appellate court

ruling on the exposure theory vs. manifestation theory of liability insurance and could restrain future litigation on the issue.

Both INA and 48 Insulations filed requests for a rehearing Nov. 4.

INA, which contends insurance coverage dates to the time when asbestosis is detected or manifests itself in a claimant, wants the court to reverse its ruling favoring the exposure theory. INA insured 48 Insulations from 1955 until 1972.

The court's ruling also does not fully satisfy 48 Insulations. It wants the court to reconsider a part of its ruling that makes insurers responsible for coverage and defense costs only for the years they insured a risk.

Since 48 Insulations can trace its coverage back only to 1955, under the court's ruling it would be responsible for defending claims that involve exposure before 1955, says its attorney, William C.

WE'VE BEEN ACCLAIMED FOR THE WAY WE SETTLE CLAIMS.



Dan Heersema, AAU, Los Angeles

Fred Jenkins, VanorsDale Insurance Sales

It's not every day that a 26-year veteran of the aviation insurance business takes the time to write his underwriter. But Fred Jenkins had a very good reason.

You see, Fred was extremely impressed with the way Dan L. Heersema of Associated Aviation Underwriters handled his client's claim.

In an unsolicited letter, Fred wrote that Dan Heersema is "an outstanding individual who not only is most professional and knowledgeable, but a person who makes AAU a cut above the rest. He makes it easy for us to sell your product."

Why all the praise? Because Dan had put forth the extra time and effort needed to settle a sizeable claim with a customer who had previously experienced problems with other insurance underwriters. As a result, "the customer ended up happy and impressed with Dan's know-how."

"This kind of service," Fred Jenkins concluded, "makes life easy for us."

Here at AAU, agents and brokers have been getting this kind of result for years. Our people are all aviation professionals who really know their job and love their work.

So when you're looking to team up with the most dependable name in aviation insurance, look to AAU.



Associated Aviation Underwriters
90 John Street, N.Y., N.Y. 10038

It is unlikely the Supreme Court will hear the case.

Murphy of Reid, Ohsenschlager, Murphy & Hutt of Aurora, Ill.

If a claimant were exposed to 48 Insulations' product from 1950 to 1959, the firm and INA would share evenly in defense costs on that claim under the court's ruling, he explained.

The 6th Circuit ruling is likely to prevent insurers that participated in the case from contesting the manifestation vs. exposure issue elsewhere because of a legal principle known as collateral estoppel, Mr. Murphy says.

Opinions by the appellate court and a lower court were "well researched" and probably will be a "powerful precedent" affecting insurers in other cases, he says.

It is unlikely the U.S. Supreme Court will hear the case unless a contradicting opinion is issued by another federal appeals court, Mr. Murphy predicts. "This is a question of state law applied by a federal court. There is no outstanding federal question here."

INA's attorney, Michael R. Gallagher of Gallagher, Sharp, Fulton, Norman & Mollison of Cleveland, would not comment on the 6th Circuit ruling other than to say his client is pursuing the case to have its obligation defined and that it will abide by the court's decision.

Without coverage based on the exposure theory, firms like 48 Insulations Inc. would have difficulty obtaining coverage for future claims, Mr. Murphy contends. Insurers know the hazards associated with their products and would write coverage only with high deductibles, he says.

But the exposure theory would require insurers to establish higher reserves for incurred but not reported losses and policyholders would seek higher limits to cover unanticipated claims 20 or more years from now, says product liability law expert Victor Schwartz of Crowell & Moring of Washington, D.C.

"This type of litigation is further evidence of the need for a legislative approach to address the product liability issue," says Mr. Schwartz, the chief author of the model product liability bill. ■

washington

PBGC to develop multiemployer plan regulations

By JERRY GEISEL

WASHINGTON—The Pension Benefit Guaranty Corp. has proposed 19 areas in which it will develop regulations governing multiemployer pension plans, including employer withdrawal liability and allocation of unfunded vested benefits.

The future regulations are to aid the PBGC, the federal agency that guarantees workers' pension benefits, in implementing the Multiemployer Pension Plan Amendments Act of 1980 (BI, Sept. 29).

The law reduces the PBGC's liability in guaranteeing multiemployer pension benefits and makes it tougher for an employer to withdraw from a plan.

The regulations will cover such areas as:

- Arbitration of disputes concerning employer liability.
- Adoption of alternatives for allocating unfunded vested benefits.
- Allocation of unfunded vested benefits following termination by mass withdrawal.
- Interest on withdrawal liability payments.
- Notices of insolvency.
- Actuarial assumptions for computing unfunded vested benefits.

Employers who want to comment on the proposed regulations that appeared in the Oct. 31 Federal Register should write to the PBGC, Assistant Executive Director for Policy and Planning, Suite 7100, 2020 K St. N.W., Washington, D.C. 20006.

Panel appointees

The advisory committee to the Occupational Safety and Health Administration has two new members.

Carol Oppenheimer, a supervising attorney for the Center for Law and Social Policy in Washington, and K. Thomas Rockwell, professor of industrial and systems engineering at Ohio State University in Columbus, have been appointed to the National Advisory Committee on Occupational Safety and Health.

The appointments expire in June 1982.

China coverage

Political risk insurance soon will be available to U.S. corporations interested in investing in the People's Republic of China.

An agreement signed Oct. 30 by Zhang Wenjin, China's vice minister at the ministry of foreign affairs, and Leonard Woodcock, U.S. ambassador to China, paves the way for the federal Overseas Private Investment Corp. to offer political risk insurance to U.S. companies that want to invest in business in China.

OPIC says it has received more than 80 inquiries concerning the availability of OPIC insurance for U.S. companies interested in investing in business in China.

"China represents a huge market potential, but the country is largely unfamiliar to the U.S. business community," said OPIC president J. Bruce Llewellyn.

"With the assurance that the risks involved can be reduced, U.S. companies are in a far stronger position to compete with

their counterparts from other industrialized nations," he added.

Information on OPIC political risk insurance for China can be obtained by writing to the Information Officer, OPIC, 1129 20th St. N.W., Washington, D.C. 20527.

Pension reform

The President's Commission on Pension Policy will meet this month to discuss whether the pension reform law is being administered effectively.

Administrative issues the commission will explore include:

- Whether recent federal efforts to consolidate and simplify ERISA and other federal pension regulations and reporting forms have been effective.

- Whether a single federal agency to administer all public and private retirement programs would be the best long-term answer to improve pension regulation.

The public meeting begins at 10 a.m. Nov. 14 in Room 2010 of the New Executive Office Building, 726 Jackson Place.

'Unwarranted' fees

Former trustees of a Miami laborers union benefit plan paid too much for health care coverage for plan participants, the Labor Department charges.

The former trustees of the Southeast Florida Laborers District Council Dental, Vision and Preventive Care Trust Fund caused the plan to pay unwarranted fees for various services, the Labor Department said in a suit filed in U.S. District Court for the Southern District of Florida.

The suit is the seventh resulting from a special Labor Department task force set up to investigate South Florida employee benefit plans.

The Labor Department could not estimate how much the former trustees may have paid in excessive fees.

'Walkaround' pay

Employers will not have to pay employees for time spent accompanying Occupational Safety and Health Administration officials conducting workplace inspections—for now.

OSHA, in response to a federal court of appeals decision, has rescinded a 1977 rule requiring companies to compensate workers for time spent with OSHA inspectors during inspections of a worksite.

The U.S. Court of Appeals for the District of Columbia had tossed out the "walkaround pay" regulation, ruling OSHA failed to follow federal notice and comment procedures.

Under federal administrative rules, agencies are required to give interested parties a chance to comment on proposed regulations before issuing final regulations. Because OSHA failed to comply with those procedures in issuing the walkaround rule, the court invalidated the regulation.

However, OSHA does plan later this year to issue a new proposal, in accordance with federal procedures, to require workers be paid when accompanying OSHA officials on an inspection.

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editorial opinions

Out of both sides

IT'S A CLASSIC example of the federal government speaking out of both sides of its mouth (a neat trick the feds can pull off best) and hurting the people it purports to protect.

We're referring to the Labor Department's decision to deny U.S. Industries Inc. of New York and now all other companies the right to underwrite their employee benefit plans via reinsurance in Bermuda-based or other offshore insurance subsidiaries.

The Labor Department contends the offshore company is too difficult to regulate and, therefore, unsafe to underwrite employee benefit plans.

Plan participants would be hurt, the Labor Department argues, if a related offshore company held the risk of employee benefit plans.

The Labor Department is ignoring the fact that USI employees have been served well under the plan reinsured in USI's Bermuda captive since 1971.

The Labor Department also is ignoring assessments of the emerging Bermuda insurance market by the Commerce Department and congressional experts. They agree Bermuda adequately regulates insurers to allow group-owned insurers domiciled there writing only product liability insurance for members to qualify as pools under the Risk Retention Act now pending in Congress. The act would grant these pools exemption from many state regulations in lieu of regulating offshore governments.

If the Commerce Department says Bermuda-based insurers are adequately regulated to underwrite product liability risks, why does the Labor Department insist they don't qualify to underwrite employee benefit plans?

The Labor Department didn't even have to issue a blanket acceptance of all Bermuda-based insurers to underwrite benefit plans. USI properly asked for an exemption from the Labor Department's prohibition on the use of offshore insurance subsidiaries to underwrite, directly or through reinsurance, employee benefit plans of the parent company.

USI's subsidiary insurance company, Diversity Insurance Co. Ltd., is among the large, successful insurance companies in Bermuda. Forty percent of its 1980 premium volume of \$16 million comes from

unrelated companies that are putting their trust in Diversity to pay claims.

The Labor Department went overboard in its professed dedication to protecting the benefit rights of employees.

We want to see employees get every dime they are rightfully due under benefit plans promised by employers. But we also believe employers should have the freedom to fund those benefits under the most efficient financially secure method.

Diversity is clearly financially secure.

Companies that considered their captives the most economical way to finance benefit plans now must choose other funding mechanisms considered less efficient.

The more money spent on funding existing benefit plans, the less money companies have to allocate to new benefit plans.

Is that protecting the employees' interests in benefit plans?

A fairer way

WE HAVEN'T heard the last court opinion on the complicated issue of exposure vs. manifestation theories of liability insurance coverage. We hope.

The federal appeals court decision handed down in Cincinnati, which says policies in force at the time employees were exposed to a harmful substance are at risk to pay the claims for injuries surfacing today, seems lacking to us.

But the manifestation theory that policies in force when the injuries appeared also seems to unfairly let off the hook the insurers who had underwritten the risk when the harmful product was in use.

We have to agree with those who argue for prorating liability among insurers at risk during the exposure and when the injury appeared. This method, it seems to us, will spread the risk over the largest number of insurers and provide manufacturers with the most reimbursement for losses.

Isn't the purpose of insurance—to spread the risk and reimburse losses—best served by this alternative theory?

Granted, it was never foreseen that the policies would be applied this way. But were latent claims of the magnitude appearing for asbestos-related illness and DES side effects ever foreseen?

Unusual problems such as these deserve unusual solutions.

letters

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

"We're Number One"

To the editor: In your reporting of "Whom the Fortune 500 turns to for insurance" (BI, Oct. 27) and "Buyers grade top suppliers," you cite a number of discrepancies that appear in the results of the major survey of large corporations.

I am compelled to point out additional discrepancies in either the study or your article.

The Hartford Steam Boiler Inspection & Insurance Co. enjoys an excellent reputation as the leading specialty insurer of pressure vessels and machinery. We also market a range of technical services and perform inspections, not indicated on page 68 of your article. We market our services worldwide. In fact, we are the largest provider of authorized inspection agency services required by the ASME boiler and pressure vessel code.

Through Radian Corp., a wholly-owned subsidiary, we offer specific environmental and energy consulting services encompassing energy resource assessment, pol-

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I hope that you will clarify all of this in a future edition of *Business Insurance*.

Donald K. Wilson
vp marketing
Hartford Steam Boiler Inspection
& Insurance Co.
Hartford, Conn.

■ BI is not in the position to edit the findings of the confidential Harris/Insurance Research Services survey which referred only to "Hartford."

Questionable point

To the editor: A recent article in the Update column (BI, Oct. 27) addressed Revenue Ruling 80-289, in which the IRS reversed its opinion on reassignments by employees under group term life insurance contracts.

Obviously, this is a boon to those doing estate tax planning since it will now not require a re-evaluation of the estate plan every time there is a change in group insurers. Questionable, however, is the comment in the article: "Estates are

taxed at a higher rate than ordinary income accruing to the survivor." The point made seems to speak to the possible ramifications of a lump sum distribution under a qualified retirement plan, and not a group term plan in which normally there are no income tax considerations to the beneficiary. At best the statement was unclear in the story.

Bernhard W. Stalzer
C.L.U.
Ocala, Fla.

They're taking bull by horns



To the editor: I read with interest your article on mechanical bulls ("Insurers hesitate to take bucking bull by horns," Oct. 6).

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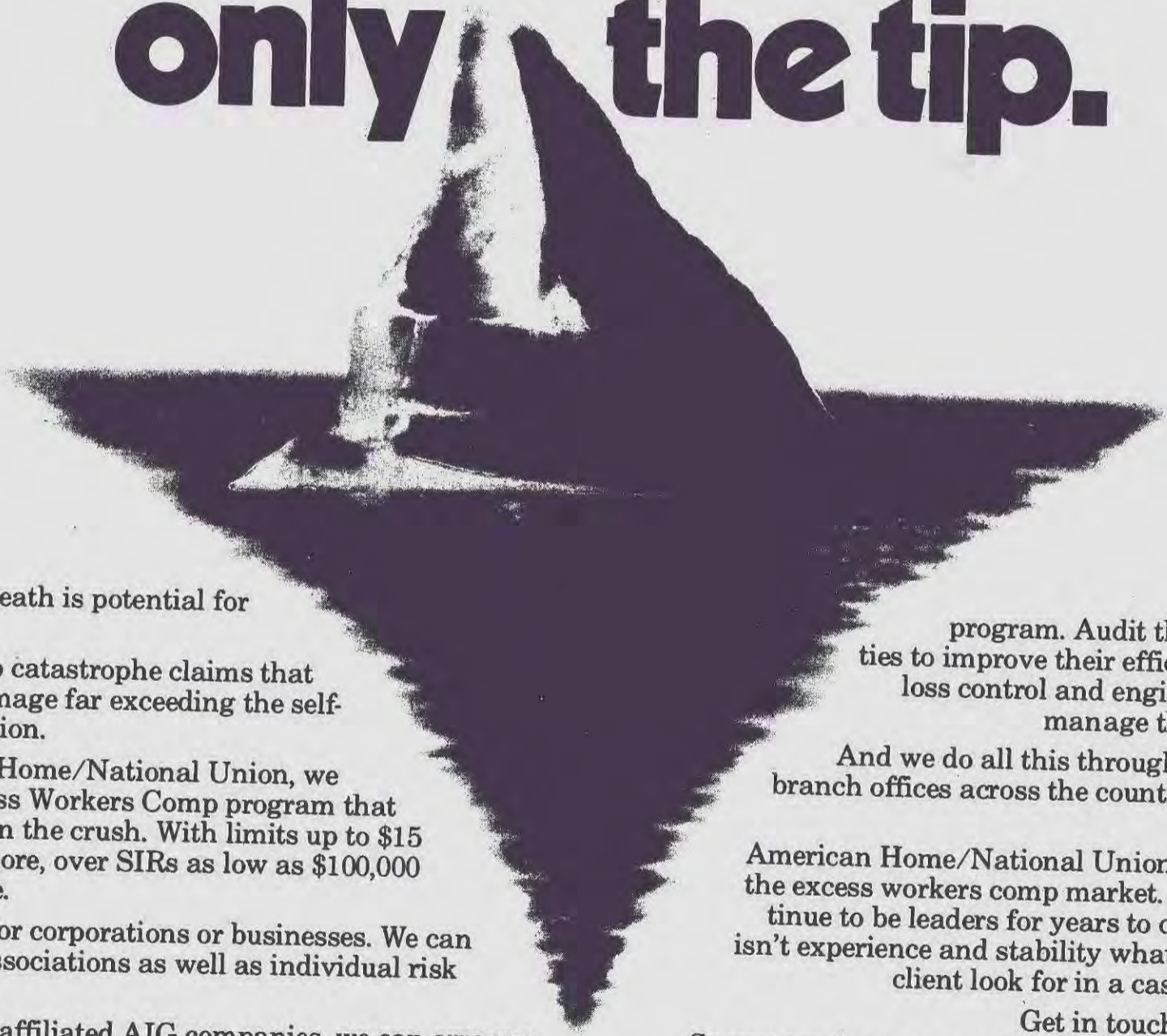
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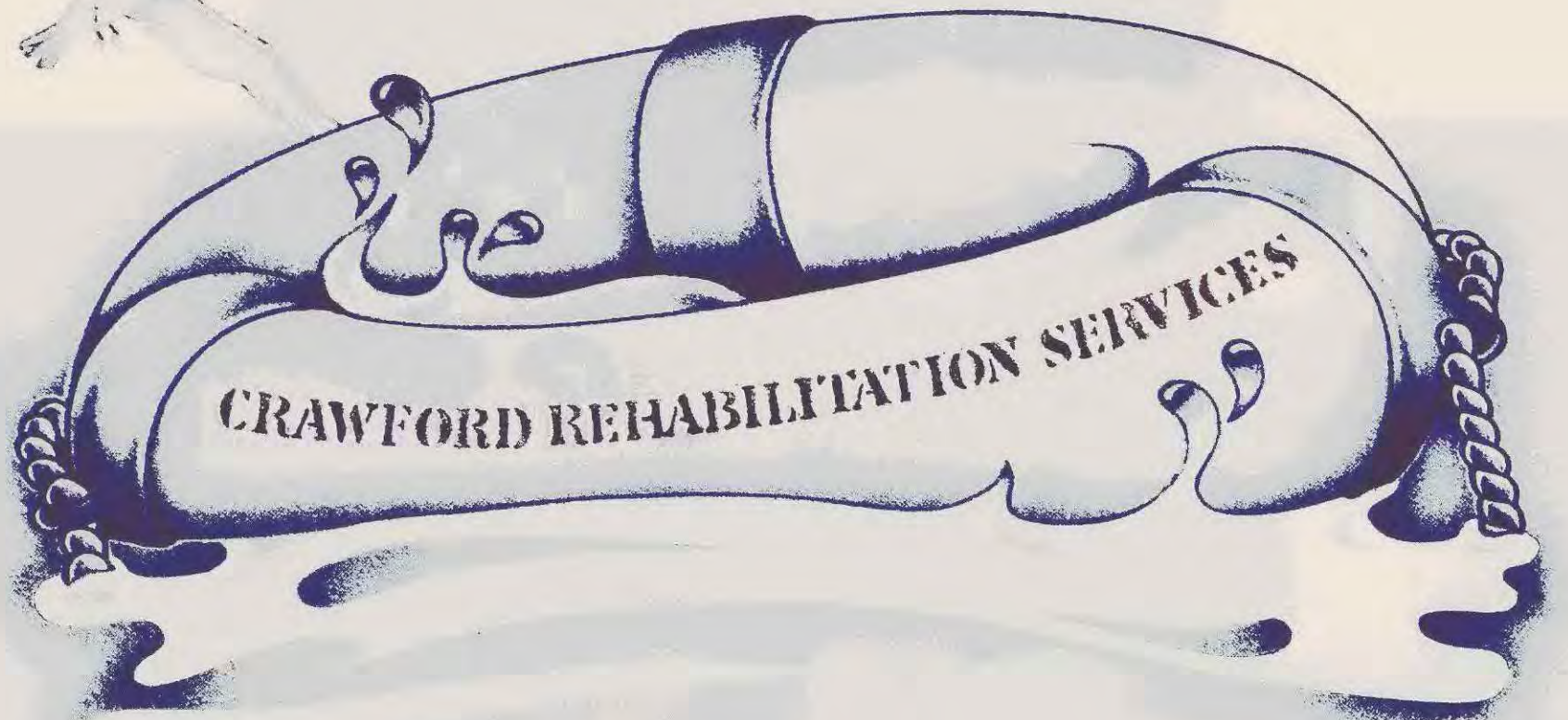
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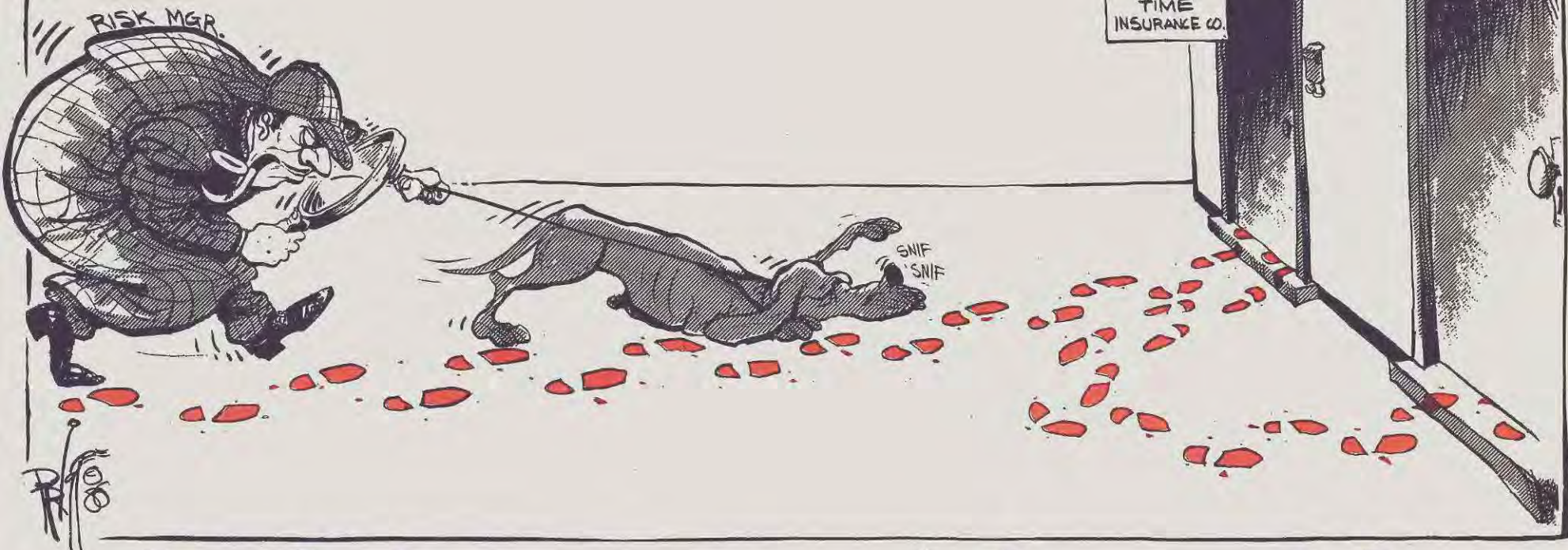
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TRACKING DOWN REINSURANCE



A risk manager's guide

By RHONDA L. RUNDLE

LOS ANGELES—If your risks are insured through Mickey Mouse Mutual or ABC Fire & Casualty, you had better check out the reinsurance behind those companies.

If your insurers are the big boys in the domestic and foreign markets, your time may be wasted checking out reinsurance, prudent risk managers say.

But investigation of the financial security backing up primary insurers is not the only reason commercial policyholders are served by a knowledge of reinsurance. Risk managers of top U.S. corporations check reinsurance for:

- Early warning of a shift in market conditions that facilitates planning of risk treatment programs.
- Understanding of insurance marketing systems that enables them to develop cheaper risk programs.
- Direct purchase and marketing of reinsurance for a captive insurance company.
- Occasional direct purchase of

Check out market for edge on security, bargaining clout

reinsurance above a high self-insured retention.

- Enhanced negotiating ability with primary insurers.

The risk managers who are best informed about reinsurance are those whose employers own captives. But what risk managers learn wheeling and dealing in the reinsurance markets makes them more savvy primary insurance buyers as well.

Insurers resist revealing information about their reinsurance to policyholders, but disclosure is negotiable, points out Emmet Monaghan, director of risk management and real estate for Kaiser Aluminum & Chemical Corp. in Oakland, Calif.

"Now is a good time to start such negotiations," Mr. Monaghan said.

Buyers have some leverage in a soft market, but nobody gets to look behind the primary markets when they are tight, he says.

When to care, though, demands judgment.

"I wouldn't bother with a short-tail property risk," he added. "But if you're looking at a multimillion-dollar risk with claims that mature over a long period of time, that's a different story."

"If your coverage is through Industrial Risk Insurers, you are not much worried about financial security," noted Howard T. Weber, director of insurance for 3M Co. in St. Paul. "You may want to understand IRI's underwriting limitations, however, based on the financial arrangements they have with their reinsurers."

Such knowledge helps risk man-

agers plan ahead and present strategic risk considerations to top management. If the corporation is considering acquisition of a new manufacturing plant, for instance, it wants to know the plant would not qualify as a highly protected risk. That means special—and costly—insurance provisions.

An understanding of insurer marketing systems enables risk managers to put together more cost-effective insurance packages, says Mr. Weber. An insurer that cedes most of its risk to reinsurers may charge its policyholders more, depending on market conditions.

Rather than buying a single excess policy from such an insurer, Mr. Weber explains, it might make more sense to use four excess in-

surers, layer the program and avoid the first company's costs of remarketing.

In today's market, he cautions, that might not be the best approach. There is probably greater competition in the reinsurance marketplace than in excess/surplus lines, so it might pay to let one insurer handle the whole risk.

"It certainly simplifies your life," Mr. Weber added.

Such sophisticated approaches to risk management are more art than science, users agree. But knowing reinsurance market conditions can be useful in negotiating the best possible primary insurance contract and price. That's because the buyer has a better grasp of how much negotiating room actually exists.

When risk managers purchase insurance through an unfamiliar market, they may seek a cut-through endorsement to the reinsurer. If the primary market fails, such an agreement allows the policyholder to collect on a claim directly against the reinsurer.

Continued on next page

INSIDE

A shopper

Gold Kist's Bob Rich shops the insurance markets himself and helps plan reinsurance for his insurers: **Page 21.**

Disaster

Not even a natural disaster is likely to raise reinsurance rates: **Page 22.**

Offshore

New reinsurance markets in Bermuda, the Bahamas and the Cayman Islands lay back and wait for less competitive times: **Page 32.**

Helmet firm pitches reinsurer

LOS ANGELES—Helmet maker Bell-Riddell Inc. is mounting an aggressive offense to block product liability losses and win reduced reinsurance costs for its Bermuda captive.

Executives of the new company, created when Riddell Inc. and Bell Helmets Inc. were purchased from Wynn's International Inc., are putting plaintiff attorneys on notice that new medical evidence discredits the theory that helmets cause spinal cord injuries (see story on page 16).

They are also taking their case directly to Bermuda reinsurers, complete with screening of a radiographic film, presentation of legal defense strategies and full disclosure of losses sustained by Santana Ltd., the company's captive insurer.

Their strategy illustrates how risk managers can negotiate with reinsurance markets. Jim Galbraith, president and co-owner of Bell-Riddell, calls this strategy "the sales pitch approach." The time has come for substantial reductions in product liability insurance for helmet manufacturers, he argues.

"Reinsurers have never lost a dime in losses for Bell or Riddell," he said. "The market is extremely competitive now and looking with much less apprehension at these risks." Wynn's was reluctant to push too hard for fear of losing coverage altogether, Mr. Galbraith notes.

Wynn's liability headaches began after the much-publicized Stead decision more than five years ago in which a Florida jury awarded \$5.3 million to a high school athlete who was paralyzed from a football injury. The award was later settled for \$3 million.

Wynn's had been paying about \$45,000 in product liability premiums for the two companies, Mr. Galbraith says. After the Stead verdict, however, the insurers canceled coverage and Wynn's could not find new markets to write the risk.

Continued on page 16



Bell-Riddell is bolstering its case against helmet product liability with a screening of a radiographic film, says Jim Galbraith.

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Check reinsurance for bargaining edges

Continued from previous page

"Cut-through endorsements are much more sought than granted," Mr. Monaghan noted. They are always part of a specific contract and are never used on a treaty basis.

"There is definitely a value to this agreement," he added. "That means you pay a little more to get them, or you give up something else in exchange.

"Reinsurers are wary of them because they may pave the way to duplicate claims—one from a policyholder and another from the primary insurer," he says.

Although cut-through endorsements are unusual, they are more commonly granted by lesser-known excess/surplus lines insur-

ers than by major U.S. insurers. Risk managers are particularly keen on obtaining such an agreement when most of their risk is ceded to the reinsurance market.

Suppose a risk manager purchases a \$30 million excess cover over a \$5 million retention, Mr. Weber hypothesizes. ABC Fire & Casualty is the primary market, but \$27 million of the risk is actually underwritten by XYZ Reinsurance Co., a facultative market.

Under such circumstances, Mr. Weber says, the risk manager might push for a cut-through endorsement to the reinsurer. He also might be willing to pay more premium in order to place the risk with a major market. It might be worth the higher cost to avoid the headache of a cut-through endorsement, he explains.

"I've only seen one cut-through endorsement, used with a market that was unknown to us," reported Ralph Gentry, insurance manager for Times Mirror Co. in Los Angeles.

"If you are comfortable with the balance sheet of the primary in-

Many Capital Returns

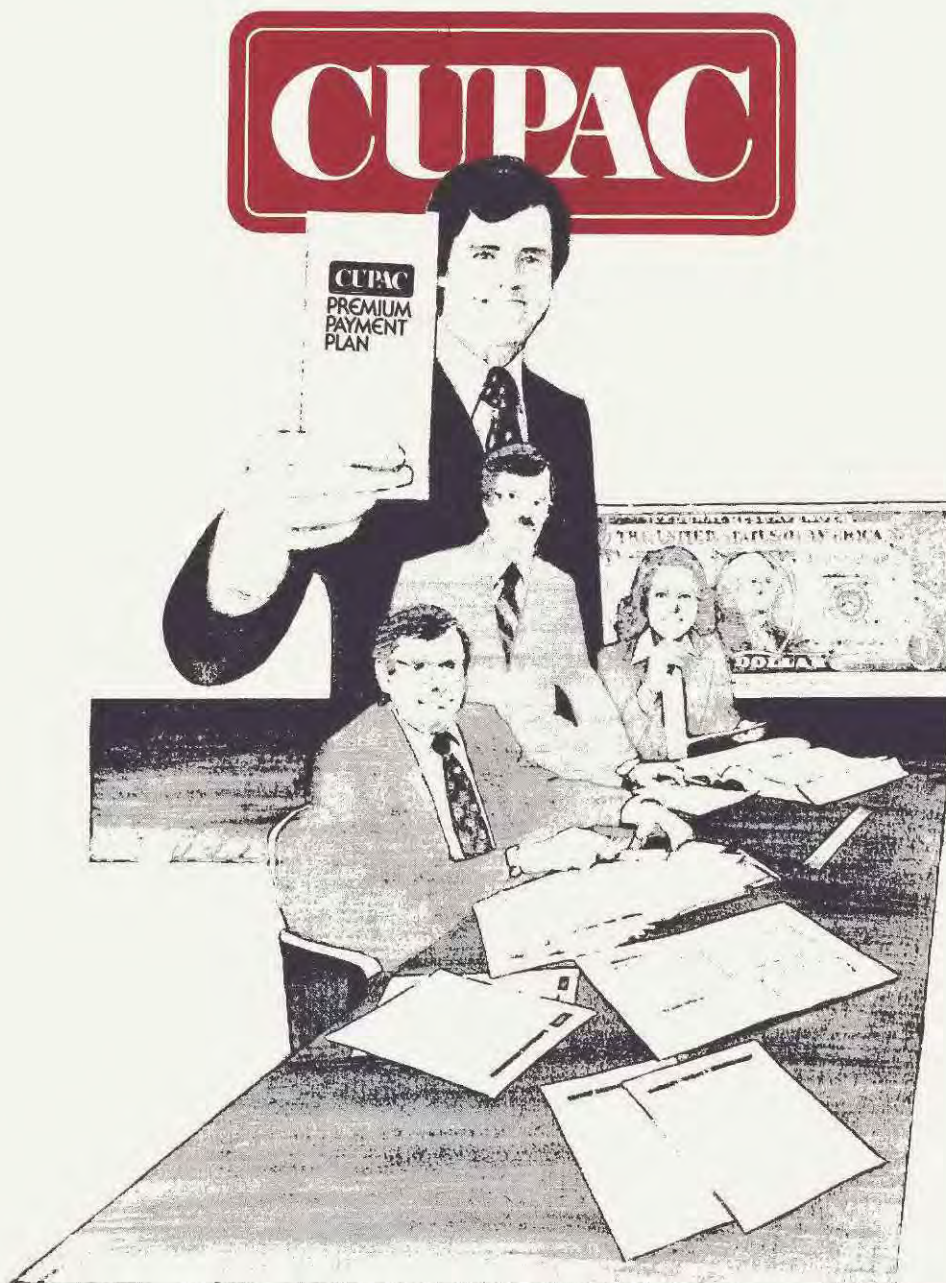
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Ask for a cut-through endorsement, says 3M's Howard Weber.

surer, it's not necessary."

Sometimes buyers can use markets directly on self-insured programs with extremely high retentions, reports John Morse, director of corporate insurance for Textron Inc. in Providence, R.I.

This is rare, but such an approach may be used with a very difficult line of coverage, or one that is unique to the policyholder.

Textron once purchased direct reinsurance, but does not now, Mr. Morse adds. The primary advantage is pricing. Reinsurers may have lower costs of insuring because their premium tax is not as high as that on a surplus lines placement, he says.

Companies sell little stop-loss

Reinsurers providing excess coverage to property and liability self-insurers sell little stop-loss coverage to firms that self-fund benefits.

Two of the major firms, American Re-Insurance Co. and Kemper Reinsurance Co., say they write little, if any, stop-loss coverage for health self-insurers of health benefits.

"We're not heavily into it," said Kenneth Ruckowsky, vp and treaty division head at American Re-Insurance. "It's just not our cup of tea."

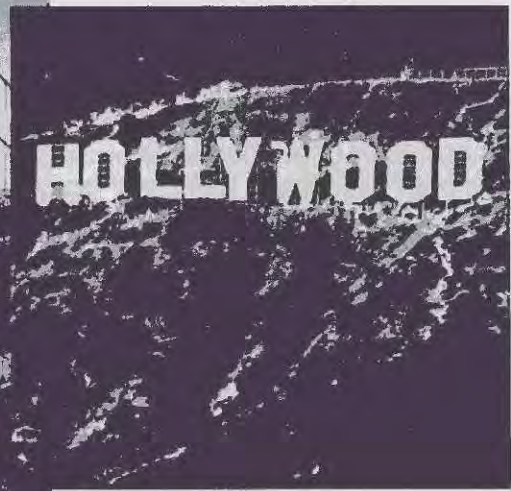
It can be a tricky line of business. Reinsurers must project loss ratios, and unforeseen catastrophic losses can turn a profitable venture into a financial disaster, he said.

"It has in it the inherent problem of projecting loss ratios accurately," he said.

A more personal view of the excess business.

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Radiographic film plays backup

The team doctor for the Miami Dolphins, Herbert W. Virgin, shows a radiographic film that discredits the theory that football helmets cause spinal cord injuries.

The radiograph—a motion picture X-ray—shows that when a player's neck is hyperextended, the anterior rim of the helmet hits his back at the seventh cervical vertebra. In football accidents, spinal cord fractures usually occur between the third and fourth vertebrae.

The film has been used three times by Bell-Riddell defense attorneys to show that these tragic injuries could not have been caused by a karate-like blow from a protective helmet. In each case, the jury has returned a verdict in favor of the defense.

If the film had been available at the time of the Stead trial, the decision would have gone the other way, believes Bell-Riddell's corporate attorney Tom Phillips. That verdict brought a \$5.3 million award against Riddell and led to its continuing liability woes.

In a departure from past trial tactics, the most

recent case against Riddell did not allege that the helmet rim caused the plaintiff's paralysis. In that New Jersey case, Recine vs. Riddell, the plaintiff's attorney argued the helmet should have absorbed more force in the crown. Bell-Riddell won the case.

There is hope that these crippling football injuries may become less frequent since the dangers of butting and spearing tackling techniques have become widely realized by football coaches, players and enthusiasts.

Last year, the National Football League further strengthened the rules against unnecessary roughness that can cause paralyzing spinal cord injuries. A 15-yard penalty is imposed against a team whose player uses the crown of the helmet to tackle a defenseless player.

Young players learning the game watch the big leaguers and model their tackling techniques on those of their heroes.

The results of Dr. Virgin's research have been published in the September/October issue of the American Journal of Sports Medicine.

Helmetmaker takes its defense to the reinsurers

Continued from page 13

That difficulty led to formation of Wynn's captive, Santana Ltd., in March 1977. At the peak of insurers' fears about helmet risks, Riddell paid as much as 10% of gross sales for insurance, Mr. Galbraith reports.

Last month, Mr. Galbraith, accompanied by Bell-Riddell's lead defense attorney, Tom Phillips, journeyed to Bermuda to meet personally with about 25 reinsurers. The four-hour conference was planned to introduce risk

takers to the helmet maker's new management.

"We wanted to reassure them that we will continue—and strengthen—the vigorous defense approach to claims begun by Wynn's International," Mr. Phillips noted. Because the company self-insures the first layer of liability through Santana, it maintains full control over the defense effort.

The conference with reinsurers was followed by a private meeting with Leslie Dew, president of INSCO, Santana's lead reinsurer.

"INSCO will make the decision on pricing in February, prior to our April renewal date," Mr. Galbraith said. Bell-Riddell's reinsurance broker is Willcox, Baringer & Coe Inc. in Bermuda.

In December, Riddell plans its third defense seminar to share the latest, most effective medical, engineering and legal expertise with attorneys from around the



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The NFL has tightened rules against roughness.

country who are defending Riddell lawsuits.

A similar session for Bell was held in Anaheim, Calif., in September. More than 30 attorneys and 10 experts in sports medicine, biomechanics and engineering attended. These periodic meetings are part of a defense strategy originated by Wynn's International.

"Not only do these meetings serve to inform counsel about the best defense strategies, but they impress attorneys with our commitment to fighting these lawsuits," Mr. Galbraith said. "We believe it is in our long-term interest to defend every one of them."

As soon as Bell-Riddell gets notice of a claim, Mr. Phillips says, no expense is spared in getting as much information as possible.

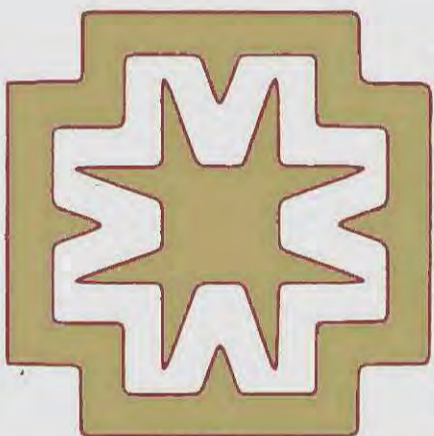
"This data is used to physically recreate the circumstances of the incident, giving us a better grasp of exactly what happened," he said.

There has never been a jury verdict against Bell Helmets, manufacturer of protective helmets for motorcyclists and bicyclists, Mr. Galbraith says. The Stead decision is the only one against Riddell.

Claims settlements in Riddell lawsuits average approximately \$14,600, although that amount is declining. Including four large settlements negotiated by insurers, the average has been only about \$2,000.

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Risk managers check security despite insurers

BI roundup

Reinsurers remain aloof from most corporate risk managers, but smart buyers can still use reinsurance capacity to help negotiate lower premiums, reinsurers say.

A corporate buyer can help hold his or her own costs down and ensure the policy's security by looking at the reinsurance arrangements of the primary insurer and tailoring purchases toward companies with the strongest reinsurers backing them, says Frank Aldrich,

president of Kemper Reinsurance.

The more reinsurance purchased by the primary company, the more "dependent" it is on its reinsurer. Thus, "the second facet of that is what is the quality of reinsurance?"

If the primary insurer is heavily reinsured with a strong, reputable company, the corporation can breathe more easily. But if there is heavy reliance on a reinsurer with an unproven or questionable track record, the buyer may want to take a second look, Mr. Aldrich said.

The tactic, however, is controversial. Most reinsurers prefer to remain distant from risk executives. If a buyer wants to know about reinsurance, he can find out everything he needs from his primary insurer or broker, they say.

A buyer who wants proof about the reinsurance arrangements straight from the reinsurer will meet resistance.

Employers Re does not meet with the risk manager in negotiating facultative risks and suggests risk managers check their primary insurer for security references.

"We don't meet with the risk manager—as a professional reinsurer we deal with primary insurers and rely on that source to develop information we need," said marketing vp Thomas Case.

Risk managers are using reinsurance markets to save money largely by frequently remarketing programs, he said.

Marketing gains, however, are hit-or-miss positions and reinsurers warn against a major investigation into the support of all primary insurers. It just may take too much time for the potential return, they say.

"I don't believe the reinsurance market should be thought of as a way to reduce costs . . . there's no way for reinsurance to be magical and make business better than it is with insurers," said North American Reinsurance president David Thompson.

North American Re wants to remain aloof from the risk manager.

"The buyer should be satisfied that the security of the reinsurance company is good," said Mr. Thompson. It's highly unusual for the reinsurer to meet with a risk manager. This is only done at the request of the primary insurer, he added.

Reinsurance is essentially a way of structuring operations so insurers can operate with a better sense of security, some reinsurers say. Reinsurance should not be thought of as a cost saver.

The corporate insurance buyer doesn't need to be concerned with the reinsurance arrangements of his insurer if the buyer is doing business with a reputable, financially sound underwriter, agrees D. Jay Carbine, senior vp and chief executive officer for Bellefonte Reinsurance Co.

That's because the stronger the insurer, the better are its resources for paying losses, no matter how much or how little reinsurance it has, he said.

"All the risk manager has to know is the insurance company (primary) is there to pay the losses," said William Warren, president of National Re.

A buyer, he concluded, should only be concerned that the primary insurer is solid enough to pay the limit of losses.

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N.Y. exchange will gain clout, officials hope

By ELLIS SIMON

NEW YORK—Despite growing capital, the New York Insurance Exchange is still waiting in the wings for reinsurance demands that reinsurers can't fill.

The call has been small. Since its March 31 opening, the exchange has underwritten more than \$16 million in reinsurance premium. More than \$6 million was for facultative reinsurance.

Membership in the exchange has grown to 20 underwriting members, 50 broker members and

seven associate brokers. Capitalization has doubled to \$100 million.

Yet exchange underwriting has fallen short of its target, says NYIE president Donald Reutershan. The centralized market is under its budget and has held back on hiring additional staff.

The exchange is starting up in a competitive market that makes its progress "remarkable," Mr. Reutershan says. When General Reinsurance Corp. entered the facultative reinsurance business in the 1950s, it took two years to write its first \$1 million in premium, he adds.

Intermediaries and officials agree the exchange has come to stay.

New York superintendent of insurance Albert B. Lewis expects the exchange to realize its projected first-year premium target of \$40 million to \$50 million and double that figure in its second year.

Mr. Reutershan and the exchange board of directors no longer speculate on how much premium the exchange will write, but he agrees it will double its volume in 1981-82.

"The exchange is taking a predictable course," noted Richard Scott, executive vp of Willcox & Baringer, reinsurance intermediaries. "It will become a viable market in time if they move slowly and develop in a natural progression rather than do it at once."

"It took Lloyd's 300 years to get to where they are and if (the exchange) tries to get there overnight, they will fall on their face."

The New York Insurance Exchange is presently part of a "fringe market," notes Keith Smallden, president of Eagle Intermediaries Inc. Mr. Smallden's firm uses the new market frequently. He says he occasionally has been able to place 100% of a risk there.

Mr. Smallden agrees the exchange must develop slowly. First it must develop into a cohesive market, he notes. "Some syndicates don't even speak to each other."

Once the underwriters become cohesive, they'll see more business, he predicts.

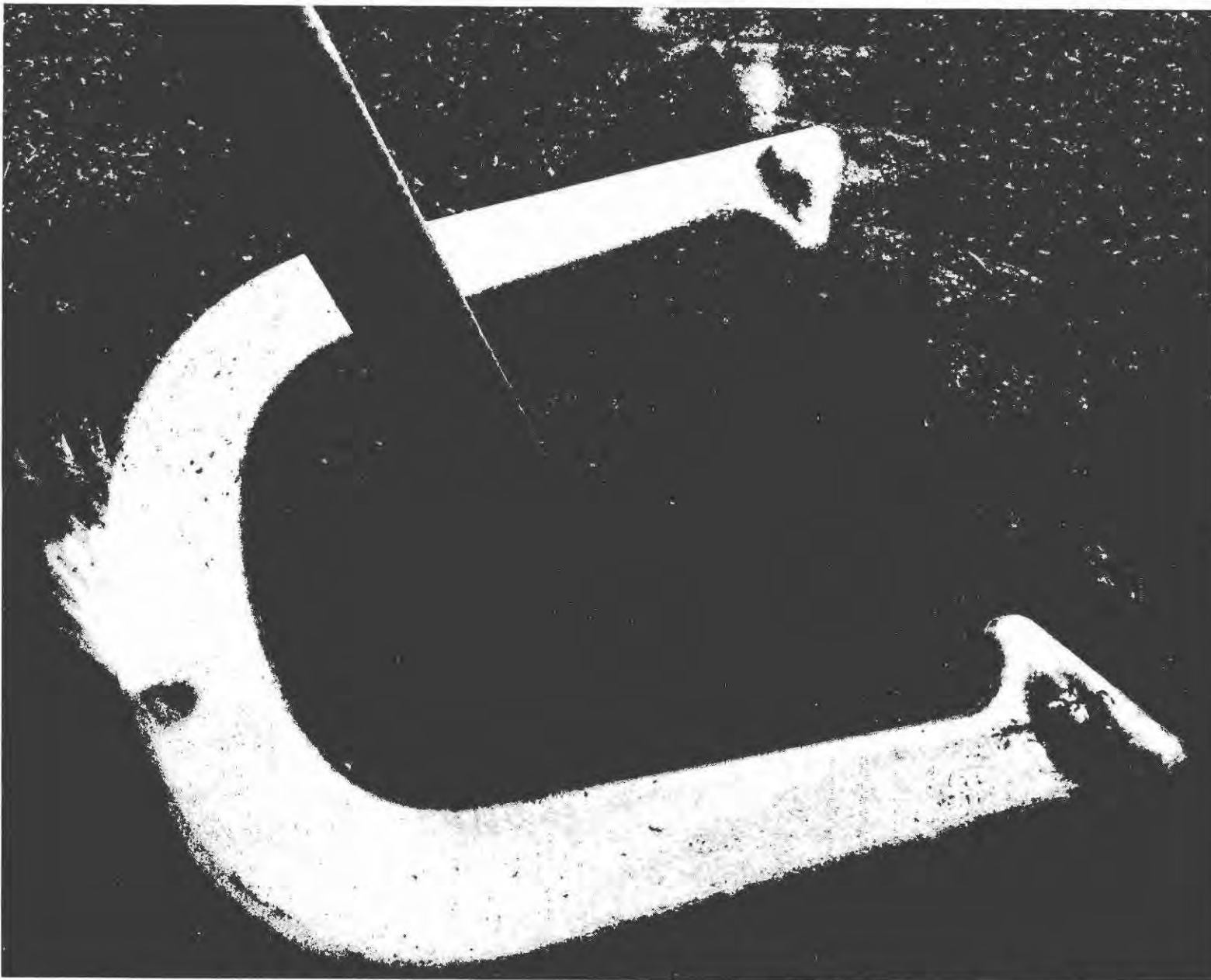
"They'll have to sell themselves to the brokers, who'll sell the exchange to the world," he said.

Lead underwriters are just beginning to emerge, notes Richard C. Weghorn, another broker member.

The exchange will also be in a stronger position against its competitors when capacity tightens, says Marc Willner, casualty facultative underwriter with Burt Management Co., underwriting managers for the First New York and Realex Syndicates.

NYIE also needs to eliminate obstacles, including a 1% premium assessment on brokers to help meet the exchange's expenses.

"There's no incentive to pay a fee for using the exchange if you have other markets available," Mr. Scott said. "Some underwriters feel brokers shouldn't subsidize what is the underwriters' responsibility." ■



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Rapport with reinsurers pays

By ELLIS SIMON

ATLANTA—Get to know facultative reinsurance underwriters willing to participate on your risks. They may help you place coverage when markets turn cranky, says Gold Kist's Bob Rich.

Although risk managers are reaping the benefits of an abundance of reinsurance capacity when facultative reinsurance capacity shrinks, primary insurers respond by raising rates and/or restricting coverage.

When tight markets in 1972-73 hampered Mr. Rich's ability to place some of Gold Kist's property insurance, he was able to persuade friendly reinsurers to participate on the program. Instant capacity.

"It behooves a risk manager to know where the best market for a cover may be and it's important to know which underwriters are imaginative and interested in working on problems and specific covers," said Mr. Rich, director of risk management and insurance for the Atlanta-based farmers cooperative.

"Risk managers should have good rapport with underwriters of all lines."

Mr. Rich's approach to the marketing of his risks is unorthodox. Rather than rely on his broker, he shops the market himself, using contacts he's built up over the years among underwriters and brokers.

He calls underwriters directly. If an underwriter is interested in Gold Kist's coverage, Mr. Rich asks for a meeting. If the underwriter needs additional reinsurance to generate sufficient capacity to underwrite the risk, Mr. Rich lines up reinsurers and/or reinsurance intermediaries for that meeting.

"That way, the story has to be told only once," he said, unlike the traditional flow of information from "risk manager to broker to underwriter to reinsurance intermediary to reinsurer to the telephone." The message can't change each time it's told.

Traditionally, reinsurers and reinsurance intermediaries avoid talking with risk managers who do not run a captive insurance company. Servicing the needs of insurers rather than large corporate buyers is their domain, they say.

But the barriers are breaking down, Mr. Rich maintains. Reinsurance intermediaries find his presence at underwriting meetings helpful because they can get questions answered immediately, he contends.

To meet with the reinsurers and reinsurance intermediaries, the risk manager "must absolutely know all of his exposures inside and out to answer any question they might have," Mr. Rich said.

"With everyone working together, there won't be unanswered questions or stones turned."

A risk manager should know the same information about the security and integrity of his reinsurers as he does for his primary companies, Mr. Rich adds.

When a risk is heavily reinsured, Mr. Rich wants a "see-through" endorsement from his insurer that names all the reinsurers and their participation on the risk.

If insurers refuse to provide this, they should give the risk manager a copy of their placement sheet with the names of the reinsurers and percentages of participation on it.

Gold Kist's non-HPR property account is underwritten by Baccala & Shoop, a managing general agency. Mr. Rich would not identify the primary insurer because its contract with Baccala & Shoop expires in March.

The program is layered with a

\$25 million maximum limit.

Though Georgia law requires Mr. Rich to use a licensed insurance broker or agent to place his risk with Baccala & Shoop, doing his own marketing gives him leverage to negotiate lower fees from the brokers. Service is a key factor in selecting a broker.

Premium savings vary from coverage to coverage, Mr. Rich says. But Gold Kist prefers paying fees rather than commissions.

"Agents and brokers should be experts and should be paid like physicians and attorneys," he added.

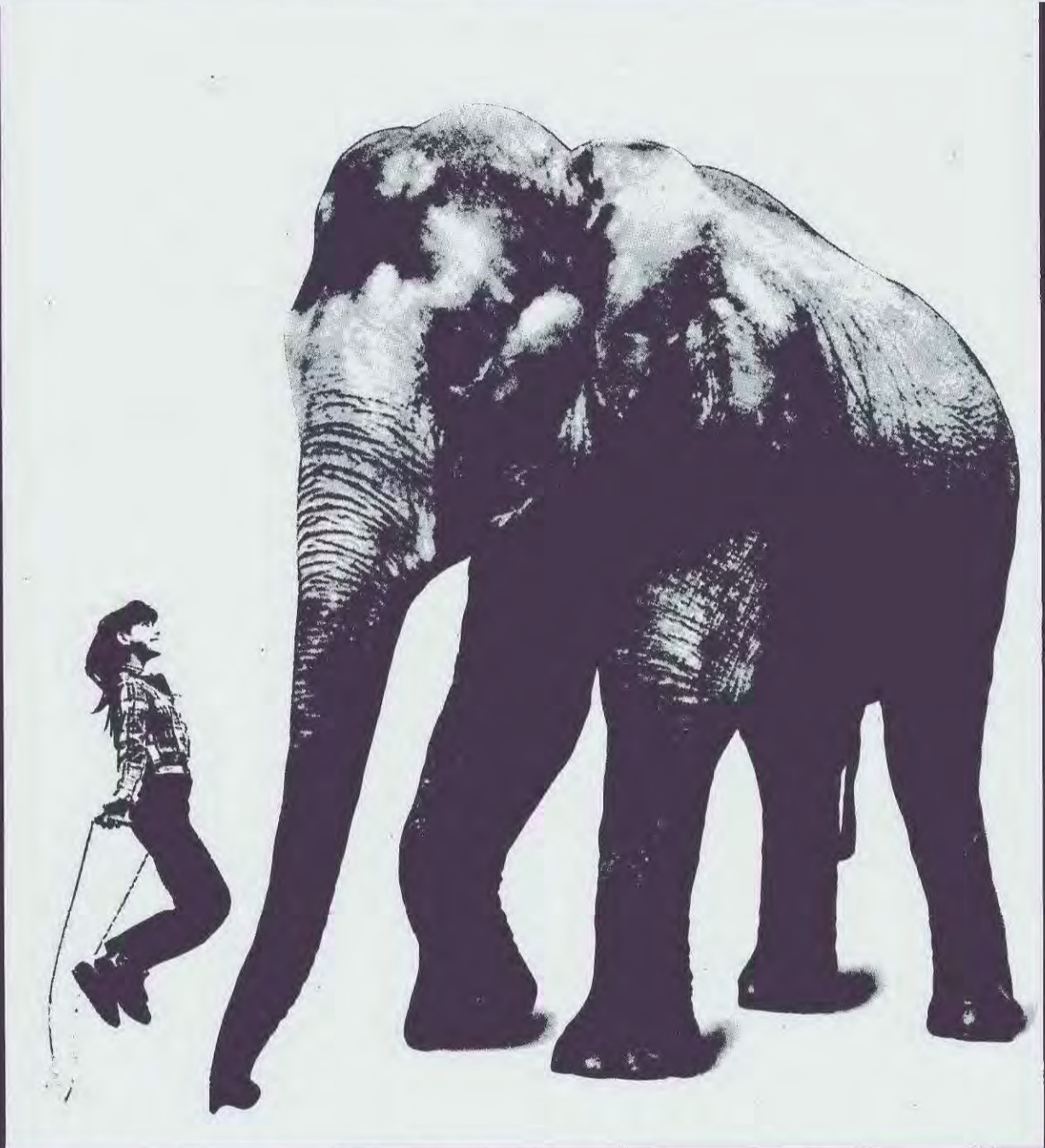
Marketing one's own risks is not suitable to every risk manager, but large firms should take advantage of do-it-yourself shopping, Mr. Rich notes. Size, however, limits what a risk manager can do.

"A risk manager spending \$100,000 on property insurance can't market the way a guy with a \$2.5 million account can," he noted.



Bob Rich of Gold Kist calls underwriters directly.

Photo: Ellis Simon



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Photo: North American Re



Another San Francisco earthquake alone would not cut capacity.

Inflation-catastrophe duo could shrink soft market

BI roundup

Not even another San Francisco earthquake is likely to slow down the flood of reinsurance capacity. But a natural disaster teamed with inflation and high interest rates may slow the flow just a bit, reinsurers say.

Over the past five years, "our capacity has certainly expanded, availability has increased in both facultative and treaty areas," said Employers Re vp Thomas Case. "The area of facultative has increased substantially. From a treaty standpoint, we are able to achieve more capacity."

Although capacity has increased

in the property catastrophe cover area, Mr. Case explained it may not always be used because of the thin market pricing.

Increased capacity has also had some impact on services to clients at Employers Re.

"Where an insurer used to have to fragment reinsurance coverage between two and three reinsurers, we can now provide all that capacity within our own company," Mr. Case said.

"But we are amazed to see it continuing to grow. There's an awful lot of capacity and every day we hear of new entrants into the market.

"A tightening may be too far down the line in the tail of liability losses," Mr. Case cautioned. By the time losses actually prompt tightening, it may be too late. But recent storm losses haven't had the tightening effect they were expected to, he explains.

Net premium written in 1979 was \$365 million. "The steady growth of past years most probably won't be there this year," Mr. Case admitted.

"It has been fashionable for a long time to say a major disaster will cause the market to shrink, but that would have to be larger than any occurrence in the last 20 years in the United States," says North American Re's David Thompson.

He predicts a combination of a very sharp, sudden increase in the inflation rate, along with a natural catastrophe, could shrink the market.

A catastrophe at a time of high inflation and high interest rates might force reinsurance companies to sell bonds to pay losses, he explains.

"It's really impossible to quantify the possibility of this, but it's important that reinsurers should be aware it can happen," Mr. Thompson warned. "If it happens clearly rates would go up.

"Increased capacity has not lowered rates anyway. It has had no effect on that, but it has made us able to accept larger risks," Mr. Thompson noted.

More capacity is a function of two changes, he said: policyholders' surplus increasing significantly and arrangements made by North American Re with sister companies that have resulted in increased capacity.

North American Re is the U.S. company of Swiss Re.

Other reinsurers report capacity only seems to have grown as firms package their willingness to accept risks for various lines.

"Capacity has expanded to a degree but not really enough to discuss," explained William Warren, president of National Re. "Our facultative (capacity) tends to be a little higher than treaty."

In the market generally, direct companies such as National Re which don't deal through brokers have more treaty capacity.

Direct dealers have capacity ranging from \$1 million to \$15 million, but reinsurers that are brokered probably don't even have \$1 million capacity on treaty, Mr. Warren explained.

The capacity difference is attributed to different methods of distribution. When you deal directly you have to write the bulk of an account, Mr. Warren emphasizes. Therefore there is a need for more capacity.

Over the past five years, the market's reinsurance capacity has expanded. "Capacity has kept pace with inflation values. Values have increased, capacity has kept pace and the amount of reinsurance has kept pace," Mr. Warren said.

"It's hard to decide what relationship capacity should have. Reinsurance traditionally had 8% to 10% of the market, but we've grown.

"In the next five years, reinsurance capacity will expand, but the willingness to use it might change."

New players in the reinsurance field will probably be more inclined to use capacity than traditional reinsurers do, Mr. Warren says.

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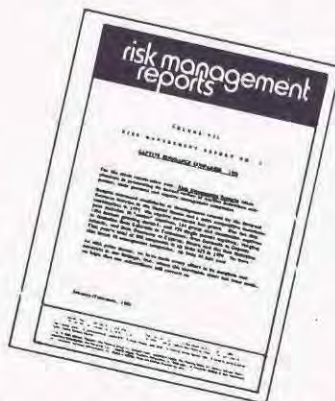
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Exec foresees few newcomers

By JOHN MAES

Most of the expanding reinsurance capacity over the next several years will come from the existing market. There probably will be few new entries into the field, says Frank Aldrich, president of Kemper Reinsurance Corp.

Best's lists about 93 reinsurers with \$1 million or more a year in premium volume, but that's not counting pools and foreign insurers, Mr. Aldrich said.

"We're getting close to the end of the line in terms of new people coming into the market," he said.

"There's a saturation of capacity and the potential appetites have

been pretty well satisfied because the ones that have been thinking about it have already come in."

The conditions have created an extremely competitive market presenting formidable obstacles for anyone starting a new reinsurance venture, he noted.

The reinsurance market has been growing steadily over the last 10 years in response to a capacity crisis created in the late 1960s when losses from Hurricane Betsy in 1965 caused many reinsurers to leave the market.

"But the big influx (of companies coming into the market) is behind us. The future capacity will come from the existing market," Mr. Aldrich said.

Competition, costs of new ventures and the trend toward buyers seeking to hold down their own costs by spending less will make it more difficult for new reinsurers to gain a foothold.

Kemper Re, which wrote \$120 million in premium volume in 1979 and is slightly ahead of that pace this year, has about 500 domestic clients.

The reinsurer, working through reinsurance brokers, usually takes 5% to 20% of risks on a treaty rather than facultative basis.

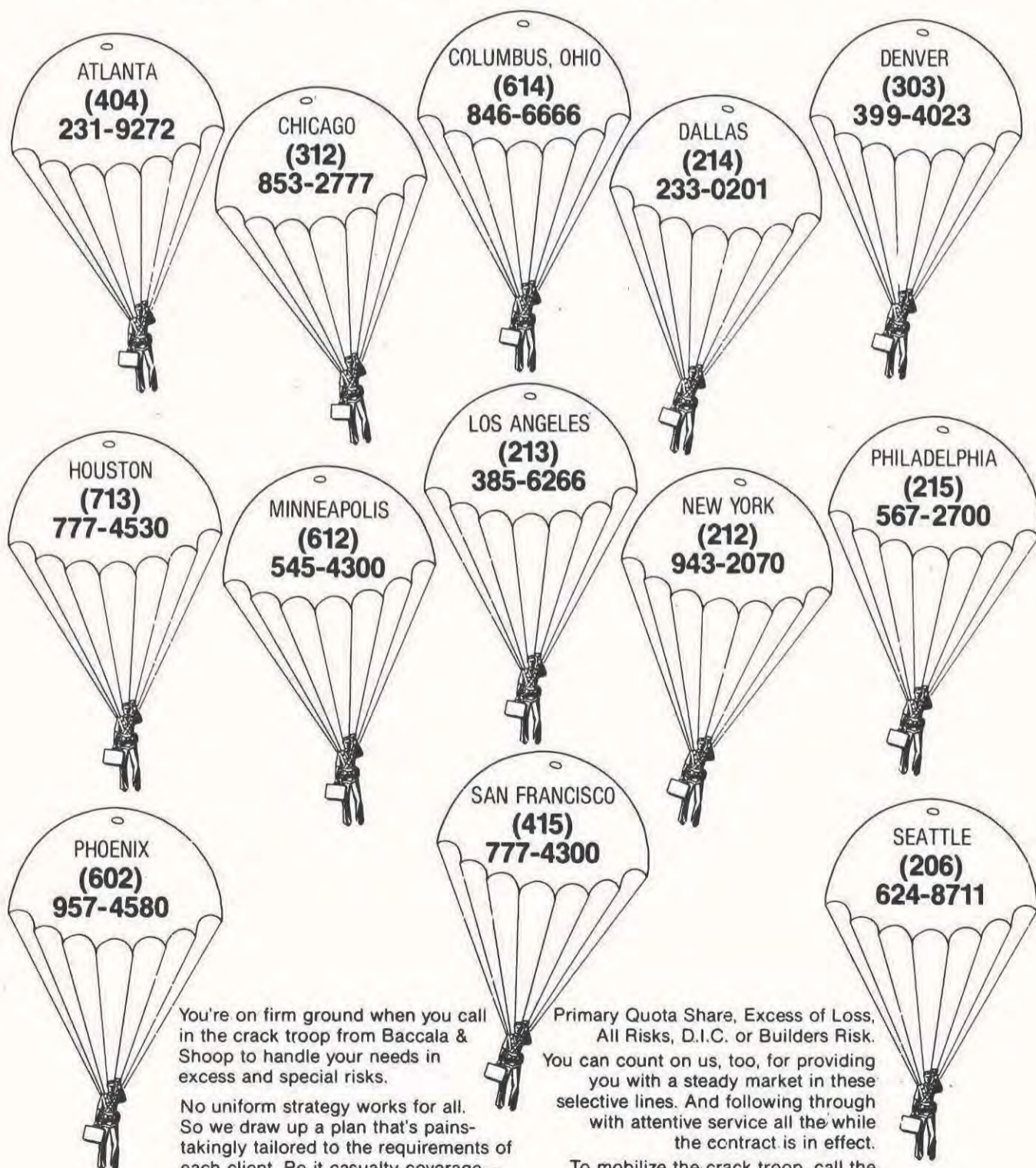
Its own capacity has grown about 15% in the last five years, mostly to keep pace with inflation in property values.

"Our actual capacity has not radically increased in the last four years," he said.

Kemper's growth tracks the capacity growth of the whole reinsurance market, he adds.

When the glut of capacity dries up—it won't be this year or next—the reinsurance buyers will be most affected because they'll face higher prices.

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Insurer E&O not always covered

When a broker makes a big mistake, he calls his errors and omissions insurer. When a primary insurer pays a giant award or punitive damages, he calls his reinsurer.

Sometimes he's covered. Sometimes he's not. Insurers' errors and omissions coverage is philosophically included in nearly every reinsurance contract. The reinsurer just pays the agreed percentage in excess of loss.

But punitive damages and very large awards in coverage disputes are negotiable and aren't on every reinsurance contract, despite the generous nature of reinsurers riding a glut of capacity.

"The innocent and unaware have discovered it exists for punitive damages and excessive judgments. Most professionals have had a method of dealing with it, others just found out about it," said National Re's William Warren.

This type of coverage is negotiated in every reinsurance contract, he cautions.

To fill in coverage gaps, insurers also can purchase errors and omissions coverage reinsurers won't offer. Underwriting manager Shand Morahan offers a program insured by the Evans-ton Insurance Co.

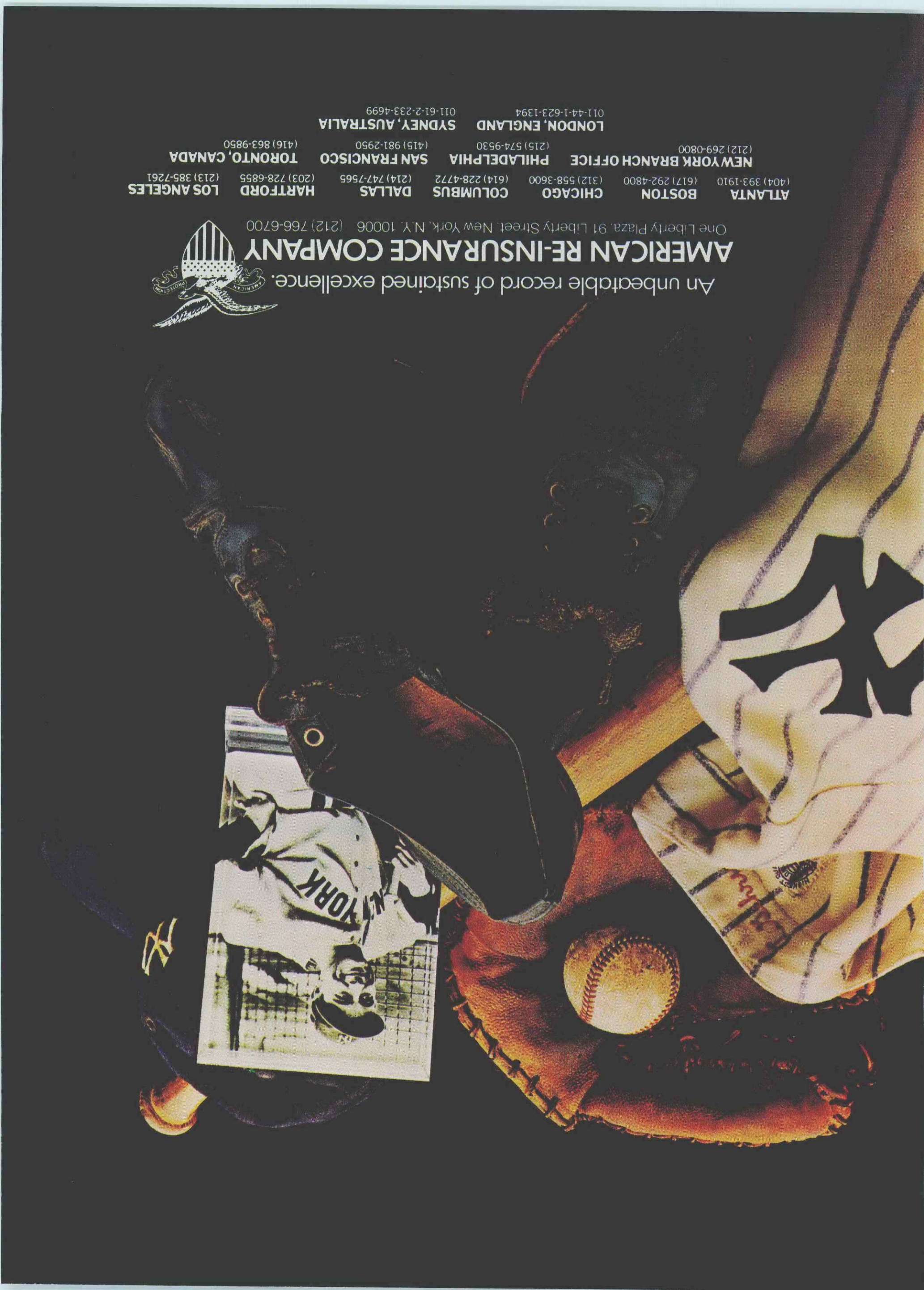
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Insurers play reinsurance risk execs



"Companies are retaining more of each risk," says N. David Thompson.

BI roundup

Insurers play their reinsurance markets the way a savvy risk manager plays the insurance markets: They retain risk when possible to maintain cash flow but lay off risk when the price is right.

High interest rates are encouraging primary insurers to hold on to premium volume and earn record amounts of investment income.

But some cheap reinsurance rates and a glut of their own capacity are pulling insurers in the other direction to lay off more risk with reinsurers.

And the reinsurers are as hungry for primary insurers' business as the primary insurers are for commercial risks.

"In the treaty area we do see a

trend toward higher retentions and also higher limits," said Thomas S. Case, second vp-marketing at Employers Re. "In the facultative area, if we see any trend it would be because of available capacity at extremely low rates, a trend to reinsure more.

"In the total market, insurers are probably ceding more dollars of reinsurance premium," Mr. Case said. This he attributed to the "availability of markets at lower than normal market costs."

Other reinsurers say insurers are handling more of their risk.

"As a general trend, it is fair to say companies are retaining more of each risk than in years past," said N. David Thompson, president of North American Reinsur-

ance Corp.

Primary insurers' surplus is in reasonable shape, giving them the financial ability to retain more, and premium volume in the primary industry is relatively flat, he explains.

The president of another major reinsurer supports the surplus theory.

Insurers currently have a lot of unused surplus. They either invest it or increase their own writings to put it back into circulation.

Otherwise, there's always a chance another company may buy the insurer up, take the unused surplus and declare a substantial dividend to stockholders, he explains.

"There are a lot of new players today," said the reinsurance com-

pany president who asked not to be identified. A constant influx of reinsurers come into the market, suffer losses and pull out, only to be replaced by other ventures, he said.

Many of the new entries are foreign companies that see the opportunity to turn quick, high profits by undercutting the prices of their competitors, he said. "Some companies (primary insurance buyers) can get a program at much lower premium from new entries," said Kenneth Ruckowsky, vp and treaty division head of American Reinsurance Co.

In some cases, the lower rates just aren't justified, he says. Higher jury awards are sending claims to reinsurers that once fell within the primary insurers' retention levels. When reinsurers start getting too many of these "penetration point" claims, they raise rates.

Higher rates can spur primary insurers to tap their own capacity and keep the risks rather than pay higher premiums.

Established reinsurers are also trying to level off from past losses. They have a difficult time matching low prices, he notes. "But new reinsurers are not saddled with the problems the existing companies are. They can afford to gamble. The new company can be more competitive with rates, the new guy doesn't have to make up that kind of ground," Mr. Ruckowsky said.

Many of the new reinsurers are foreign companies.

Foreign ventures have a special incentive: the strength of foreign currency over the dollar, he adds. When a foreign reinsurer comes into the U.S. market and converts its currency to dollars, "it has the ability to do much more than it could have three years prior," he said.

"Since international dollars are relatively cheap, Europeans can invest in the U.S. at a good exchange rate. Since the U.S. is at least 50% of the world's insurance business, reinsurance appears to offer a good way into the business," agreed North American Re's Mr. Thompson.

He cautioned Europeans, however, the U.S. tort system tends to produce far longer tails on casualty business than anywhere else in the world.

U.S. companies may continue to diversify, Mr. Thompson said. "There appears to be little risk in U.S. companies doing it. It's been a recurring phenomenon over the past 20 years—the increasing number usually matched in number by withdrawals."

Eventually, the existing, established companies will win the struggle for survival of the fittest, Mr. Ruckowsky predicts. The newer companies, more daring with their capital and undercutting prices of existing companies, will fall by the wayside eventually.

"After a major problem, the major players will still be here," he said.

Another reinsurance company president notes, "Times like this separate the wheat from the chaff and we'll come out all right. Ultimately, any of the newcomers will be weeded out of the running by not being able to sustain losses proportionate to the premiums they collect."

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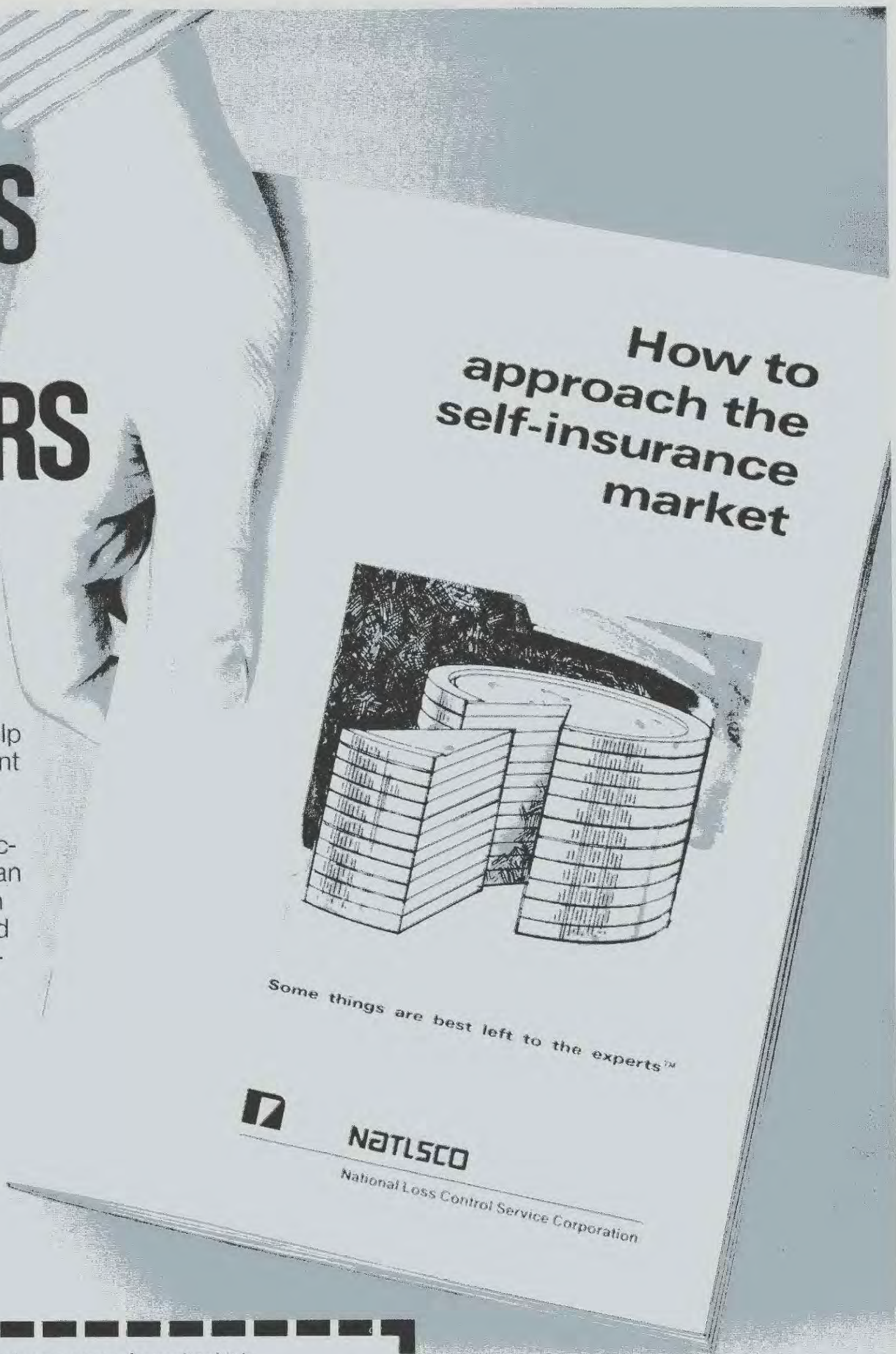
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Catastrophe alone won't raise rates

By ELLIS SIMON

NEW YORK—Dropping interest rates and a major catastrophe will be the one-two punch that will send reinsurance capacity reeling, reinsurance intermediaries report.

But when to duck is anyone's guess, so buyers can expect low rates through 1981. As long as capacity remains plentiful and unbloodied, primary insurers will continue to fight for risks.

Meanwhile, reinsurance capacity continues to exceed the demand, a survey of reinsurance intermediaries reveals. New foreign firms drawn to the U.S. market by the profits made during the 1975-76 capacity shortage have doubled existing capacity.

High interest rates, however, have encouraged insurers to retain more net premium as a percentage of what they underwrite. Insurers also buy more reinsurance on an excess of loss basis, reinsuring losses above a specific retention level and paying a smaller portion of the total premium to acquire that coverage.

With interest rates high, a catastrophe is unlikely to shake up the market unless it is "something like a \$3 billion to \$4 billion storm," said Keith Smallden, president of Eagle Intermediaries Inc. of New York. "We need a combination of a catastrophe and a downturn in rates."

"Any resolution of excess capacity won't be the result of a catastrophe alone," said Richard Scott, executive vp of Willcox & Baringer, a New York intermediary owned by Johnson & Higgins.

"It's a question of wearing the insurers down until they are tired of continued underwriting losses that make it uneconomical to continue even with continued high investment income."

"We've all speculated that if we had another (hurricane) Betsy, (capacity) would dry up," said Mac W. Henderson, president of Swett & Crawford Group and Reinsurance Facilities Corp. of Los Angeles, parent company of RFC Intermediaries Inc. "But 1979 had a greater number of catastrophes than any year in history and nothing happened."

A drop in interest rates could help tighten the reinsurance market, but most intermediaries interviewed by *Business Insurance* predicted that if that happened, the impact would be slow and gradual.

"A severe drop in interest rates will help clean the market, but investment return is not quite sensitive to changes in the prime rate," said Thomas A. Greene, president of Thomas A. Greene & Co., a subsidiary of Alexander & Alexander. "If interest rates drop to single-digit levels, it will take a few years before it will be reflected in reinsurers' return on investment."

Richard Cole, president of Sten-Re Cole and Associates Inc., an affiliate of Reed Shaw Stenhouse, foresees a drop back to a 9% to 10% prime following the election. But interest rates alone won't shrink capacity because reinsurers "wouldn't be losing that much money."

High interest rates attract new capacity and hold down higher rates from reinsurance stalwarts.

"If a reinsurance company can run at a 105% combined ratio and still do well on income generated by its assets and net worth, why should it do anything different?" asked W.E. Taylor, president of Seattle-based John F. Sullivan & Co., a subsidiary of Fred S. James & Co.

Established reinsurers also

continue to underwrite business at depressed rates to avoid being forced to take a loss on older bonds in their investment portfolios, maintains Joseph A. Zaffarese, senior vp of Interocean Agency Inc., a Frank B. Hall & Co. subsidiary.

U.S. insurers and reinsurers carry bonds on their books at amortized value rather than market value, he explains. Old bonds have depressed market values because newer issues pay more interest.

"By writing new business, (reinsurers) can pay off old losses with current cash and not be forced to sell off old bonds at a loss," Mr. Zaffarese said. He puts the blame for depressed rates on

'It's a question of wearing the insurers down until they are tired of continued underwriting losses,' says Richard Scott of Willcox & Baringer.

older companies, rather than new entrants.

The foreign entrants, however, do heighten competition.

Among such firms establishing subsidiaries here are SCOR, Skandia, Cologne Re, Copenhagen Re and Tokio Re

"They see the United States as a stable market and a chance to make a buck," said James P. Snedeker, assistant vp of Holborn

Agency Inc. of New York.

Expansion in their home countries is limited, Mr. Smallden adds. "They look at the U.S. insurance market and know it is the source of 50% of the world's insurance premium, but 78% of world reinsurance premium is said to come from outside the U.S."

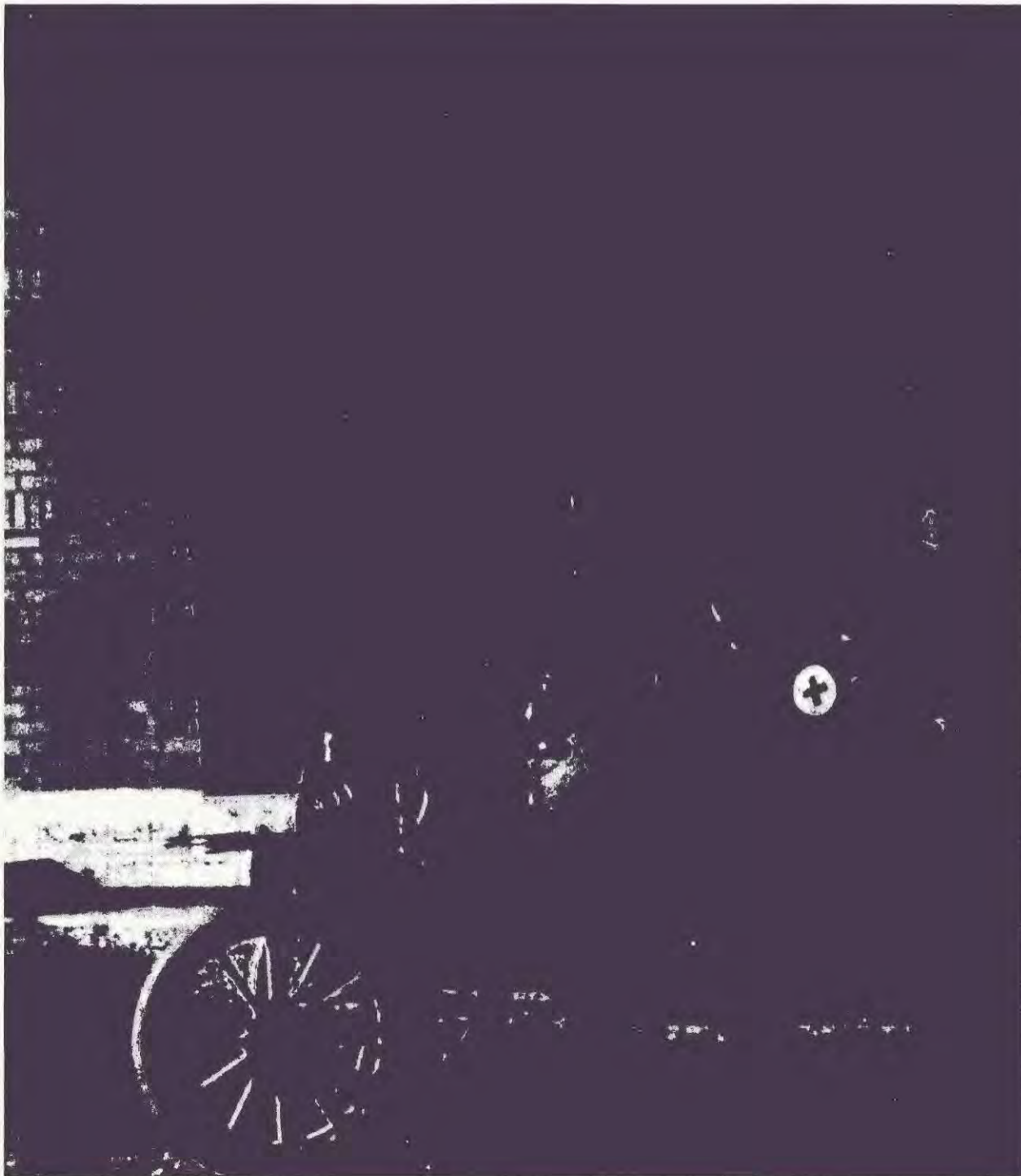
The American dollar's weakness also is an attraction for investing in the United States, notes Mr.

Zaffarese of Interocean.

Growth of captive insurers also has been a source of new capacity. The Bermuda market currently writes \$1 billion in reinsurance, Mr. Zaffarese notes. In five years, it will become the third major world market, he predicts.

Captives will evolve from taking third-party business for tax reasons into profit centers and will eventually hire underwriting managers with corporate ambitions who will propel their companies into becoming active participants in the reinsurance business, Mr. Greene predicts.

Mr. Zaffarese says more American firms will bring their captives onshore as reinsurers, similar to Armco Steel's Bellefonte and Mead Corp.'s Mead Re. ■



Less insurer interest

Lack of demand may depress rates

NEW YORK—Though reinsurance capacity is growing, insurers may be less interested. That's why low reinsurance rates refuse to rise, reinsurance experts say.

Historically, insurance capacity has not kept pace with the demand of American industry, but since 1975, reinsurance capacity has grown faster than demand.

Since 1975, U.S. reinsurance premium has grown to \$9 billion from \$8 billion while insurance premium has grown to \$30 billion from \$6 billion, says Mac Henderson, president of Swett & Crawford Group in Los Angeles. This means that U.S. insurers are retaining a larger chunk of their

gross written premium.

Intermediaries say growth that has taken place has been mostly in purchase of excess of loss coverage.

"Everyone is using excess of loss reinsurance to gain more limits," said John Zaffarese of Interocean Agency. "But they retain more risk as a percentage of premium."

Pro rata reinsurance, in which insurers transfer part of the entire risk to a reinsurer for a proportional share of the premium, has seen little change in demand over the past five years and its use has been discouraged by A.M. Best, adds James Snedeker of the

Insurers are retaining more of their gross written premium, says Mac Henderson.



Photo: Rhonda Rundie

Holborn Agency.

In a high interest rate environment, insurers make their optimum profit by retaining as much risk as they can afford because of the generation of cash flow.

"When you receive override commissions (for ceding reinsurance), it's a one-shot deal," Mr. Zaffarese said. "You can't meet deferred expenses from them. Override is paid with today's dollars,

but expenses must be met with inflated dollars five years from now."

"The thrust of the business has changed over the past five years from pure risk distribution to a money game," noted Willcox & Baringer's Richard Scott. Many insurers are holding on to their money longer and collections have become one of his firm's biggest problems, he adds.

Among U.S. insurers, American International Group is recognized as the biggest purchaser of reinsurance. About half of AIG's gross premium is ceded to reinsurers.

Although it continues to be the biggest user of reinsurance and probably the most imaginative, it has begun retaining more risk as its product lines become more profitable and secure, Mr. Zaffarese says.

Other major reinsurance users include most of the surplus lines insurers, INA Special Risk Facilities and some members of the Continental Group. The medium-size mutual companies are considered excellent risks for insurers.

Insurers making the least use of reinsurance include the giant Hartford-based stock insurers such as Aetna Life & Casualty, The Travelers and The Hartford.

Domestic reinsurers, including subsidiaries of foreign companies, underwrite about two-thirds of the U.S. reinsurance market, intermediaries say. That share splits about evenly between the big direct writers—General Reinsurance Corp., Employers Reinsurance Corp., American Re-Insurance Co. and North American Reinsurance Co.—and the broker market companies.

Leading broker market reinsurers include Prudential Re, Kemper Re, Allstate, Skandia, INA Re, National Re, Constitution Re, Excess/Casualty Reinsurance Assn. and Constellation Re.

Lloyd's and the London company market underwrite 20% to 30% of the U.S. reinsurance market with the balance written by other nonadmitted foreign reinsurers.

Group life

Group life purchases set up under new or revised group contracts totaled \$15.2 billion in August, compared with \$13.4 billion a year earlier, reports the Life Insurance Marketing and Research Assn. Group insurance bought from September 1979 through August 1980 totaled \$178.4 billion, compared with \$309.8 billion in the same period a year earlier.

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Intermediaries tend to avoid buyers



"If he has a captive, they'll talk to him," says Joseph Zaffarese.

NEW YORK—If a risk manager runs a captive insurance company, reinsurance intermediaries want him. If not, they don't want to talk to him.

"If a risk manager doesn't have a captive, we wouldn't talk to him," said Thomas A. Greene, president of Thomas A. Greene & Co. "It's not our business to talk to corporate buyers. We want to do business with insurance companies."

"The reinsurance market by and large won't deal with the risk manager," said Joseph A. Zaffarese, senior vp of Interocean Agency Inc. "They don't like to get involved with risk managers, but if he has a

captive they'll talk to him."

"We've been involved with risk managers, but in the context of reinsurance of a captive" said Keith Smallden, president of Eagle Intermediaries Inc. "We solicit business from captives no more or less than from other companies."

Reinsuring captives is attractive for many reinsurers because it's like underwriting direct business, he explains. "That's an attraction of facultative business."

Avoidance, however, is not a syndrome. Some intermediaries will work with risk managers if re-

tail brokers request it.

Richard Cole, president of Sten-Re Cole & Associates, says he wants his facultative people to become more involved with risk managers, but only if asked to participate by the primary broker.

Having an insurer front a risk and letting a reinsurer set the underwriting terms is another way for risk managers to get access to the reinsurance market, he says.

Fronting arrangements have always been used, but they are becoming more prevalent, Mr. Smallden adds.

Risk managers sometimes gain access to the reinsurance markets

by using specialty underwriters, notes Mac W. Henderson, president of Reinsurance Facilities Co., parent of RFC Intermediaries Inc.

"It's easy to get a specialty company to do the unique and unusual," Mr. Henderson said. "If a risk manager can find a specialty company and the specialty company has access to sophisticated reinsurance markets, he can do things for the buyer."

Reinsurance brokers believe there is little need for risk managers to know who reinsures their risks unless the buyer uses a small insurer that heavily reinsures.

"The risk manager should be more concerned with the quality of his primary company and whether it can meet its liabilities," said Interocean's Mr. Zaffarese. "If you're using a company that cannot write commensurate with its surplus, you should know who the reinsurers are."

If a \$10 million surplus company puts out a \$10 million line on a risk, "the insurance company has an obligation to tell who the reinsurers are," he said.

Once a risk manager knows who his reinsurers are, he can check their security by finding out their Best's ratings or, in the case of foreign reinsurers, reviewing their balance sheet.

Coal firms sue broker, insurers

KNOXVILLE—Blue Diamond Coal Co. and its wholly owned subsidiary, Scotia Coal Co., are seeking more than \$9 million from four insurance companies and a broker in connection with two 1976 explosions that killed 26 men at the Scotia mine at Oven Fork, Ky.

In a suit filed in Knox County (Tenn.) circuit court, Blue Diamond charges the insurers are violating their contracts to compensate the company for losses in catastrophic events. The insurers contend their policies covered only Blue Diamond and not its subsidiary.

The defendants in the suit are Holland-American Insurance, Lexington Insurance Co., Lloyd's of London Underwriters, American Re-Insurance Co. and Marsh & McLennan Inc.

The suit is the latest in more than a dozen filed in connection with the March 9 and March 11, 1976, explosions at the Scotia mine. Fifteen miners were killed in the first blast; eight miners and three federal inspectors were killed in the second. Both explosions are believed to have been ignited by an electrical arc created by the air compressor in the braking system of a piece of mining equipment.

As part of an out-of-court settlement, Blue Diamond last month agreed to pay \$5.9 million to the families of the 15 miners killed in the first explosion. But the suit says the total cost of recovering the bodies from the mine, plus attorneys' fees, lost interest and other expenses in settling that case, amounts to about \$9.05 million.

Storm losses

Insured losses caused by wind, hail and flooding that struck portions of Texas Oct. 15 are estimated at \$1.5 million by the American Insurance Assn.



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Captives flex muscles in reinsurance market

WASHINGTON—Offshore captive insurance companies statistically rank as the new economic powerhouse in the international reinsurance market.

In 1972, insurers in Bermuda and the Caribbean garnered just \$37.7 million in reinsurance premiums ceded by U.S. insurers, about 7% of the total reinsurance ceded abroad.

Last year, offshore insurers collected \$436.9 million in reinsurance premiums from U.S. insurers—an almost 12-fold increase in just seven years, according to preliminary statistics released by the U.S. Department of Commerce.

Offshore insurers received a full 25% of the \$1.67 billion in reinsurance ceded abroad, compared with 7% in 1972.

During those seven years, of course, the Caribbean and Bermuda have become the home of hundreds of new captive insurers as U.S. corporations have scrambled for new ways to fund risk as insurance costs soared.

And these new offshore insurers have become very aggressive in pursuing reinsurance premiums. Offshore insurers receive more reinsurance premiums from U.S. insurers than from any other country.

The \$436.9 million offshore insurers received in reinsurance premiums exceeds premiums ceded to insurers in Switzerland, Germany, France, Belgium, the Netherlands and Japan combined.

Only U.K. insurers receive more

Over the long haul, U.S. companies seem to be losing to foreign insurers.

reinsurance premiums from U.S. insurers than offshore companies. Last year, U.K. companies collected \$615.4 million in reinsurance premiums from U.S. insurance companies.

The reinsurance market between the Caribbean and Bermuda and the United States is largely a one-way street. U.S. insurers received just \$41.9 million in reinsurance premiums from offshore companies, about 10% of what they paid out to the offshore insurers.

Tracking the growth of offshore insurers is just one part of the Commerce Department's efforts to keep tabs on reinsurance transactions.

For the last 30 years, the Commerce Department, as part of its mandate to record the U.S. balance of payments, annually publishes statistics indicating how much U.S. insurers receive in reinsurance payments from abroad compared with what they pay to foreign insurers.

Over the long haul, U.S. insurers seem to be losing the competitive edge to foreign companies. In 1972, after all losses were paid, U.S. insurers paid out \$50 million more in reinsurance premiums than they took in.

Last year, according to the Commerce Department's preliminary statistics, U.S. insurers paid \$773.7 million in reinsurance premiums to foreign companies and received \$166.3 million in premiums on reinsurance assumed abroad.

This added \$607.4 million to the U.S. balance of payments deficit.

Other areas of the world where U.S. insurers are ceding a substantial amount of reinsurance premiums include:

- Switzerland, \$79.7 million, up from \$26.4 million in 1972.
- Canada, \$54.7 million, up from \$17.9 million in 1972.
- Japan, \$73.6 million, up from \$10.6 million in 1972.

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Offshore reinsurers await upswing

By STUART EMMRICH

BERMUDA—With reinsurance competition undercutting already low prices and insurers scrambling to grab what premium dollars they can, now might not seem the best time for a new reinsurer to set up shop.

Don't tell that to the people at Trenwick. Or Aneco. Or Cayman Islands Reinsurance. Or British-American.

These reinsurers with offshore homes already know it. But some day U.S. risks may land in their laps.

"It is a terrible time to start a reinsurance company. I would be less than candid if I said otherwise," conceded Klaus Gebhardt, director of Cayman Islands Reinsurance Corp. (CIRCO).

"It is an extremely soft market. A year and a half ago, when we first started setting it up, we thought that the market was getting ready to change—that reinsurance would tighten up.

"But it hasn't."
Officials of the four reinsurers aren't ready to admit they made a mistake, however. Sitting on millions of dollars of unused capacity, turning away most risks because the prices are too low, they are certain time will prove them right.

"The market is going to tighten up," stated Justin Tierney, president of British-American Service & Insurance Co. in Nassau, Bahamas, a reinsurer affiliated with the McM Corp. "I say it will happen in the next six to 12 months."

Officials of other firms are not so sure when conditions might change, but add they are making the best of the present situation.

"Now is a poor time to underwrite, but an excellent time to organize," said Mark Hinkley, senior vp at Trenwick Inc.

Trenwick takes no more than one of every 10 risks submitted to it. In better market conditions, it would probably accept about 35% of submitted risks, Mr. Hinkley said. Premium volume will be "substantially less" than the \$8 million to \$10 million company officials had earlier predicted for 1980, Mr. Hinkley said.

Cayman Island's Mr. Gebhardt said the reinsurer now has \$6 million in capital and expects to be up to \$12 million next year. It only projects \$4 million in premiums in 1981 and will be "happy" to write half that much by the end of 1980. Most of its business comes from life and health reinsurance.

"This will not be a major source of business for us in the future, but for now we are looking askance at the traditional property/casualty markets," Mr. Gebhardt said. "We are not in a position to see good risks and we are not going to take marginal business."

British-American is "turning away eight out of every 10 risks I see," said Mr. Tierney. It expects to write only \$500,000 in premium by the end of the year. Projections for 1981 range from \$1.2 million to \$2.5 million, he said.

Aneco, now two years old, says it is turning down 19 of every 20 risks submitted to it. President Francis Mulderig says his company has decided the best approach is to be conservative in a "trigger-happy" market.

Besides the reluctance to write business they consider unprofitable, these new reinsurers share offshore domicile. Both Trenwick and Aneco are based in Bermuda, British-American has its headquarters in Nassau and CIRCO is located in the Cayman Islands.

Several factors prompted the

reinsurers to locate offshore, but tax advantages are most notable. As non-controlled foreign corporations, they are not subject to U.S. taxes. They judged the Bermuda area as an increasingly important insurance center as the number of captives grew.

"The offshore market has matured to a tremendous extent," said British-American's Mr. Tierney. "Bermuda is now recognized as the third largest market. With that recognition has come a number of London and New York brokers."

British-American can easily tap Bermuda's market in a short plane ride from Nassau.

"It is a very active market that allows us to look at many different risks. We look at New York offer-

ings, London offerings. They come as soon as the slip is placed."

As a three-month-old reinsurer in a somewhat new insurance environment, British-American may be expected to run into trouble picking up desirable risks. But Mr. Tierney says that is not the case.

"I have been in this business more than 40 years and I know people all over the world and they know me. They know my experience," he said. "And our parent company, British-American Insurance Co. Ltd., is known in London, as is the McMillan Trust, which operates McM Corp., a \$600 million business."

British-American has capital of \$20 million, with individual risks limited to \$200,000. To augment

this, the firm has a treaty with the London market that boosts capacity to \$2 million.

Mr. Tierney said the ideal reinsurance client of British-American would be a large corporation that retains a great deal of its own risk, especially with captives.

British-American recently participated in the reinsurance on a captive of the National Assn. of Elevator Contractors.

Captives also attracted Trenwick to Bermuda when it was started in August 1979 by former employees of General Re.

With capital of \$27 million, Trenwick is pursuing the growing reinsurance market offered by the burgeoning captive movement in the Bahamas, Mr. Hinkley said.

Formed by private investors,

Trenwick has financial backing from Aetna Insurance Co., The Hartford Group and St. Paul.

CIRCO, formed in May 1979, was the first publicly held reinsurer to locate in the Caymans, a factor that played in the decision to start business there, Mr. Gebhardt said. Another publicly held reinsurer might soon be forming there.

Meanwhile, the reinsurer is looking at the possibility of setting up a U.S. subsidiary and keeping a close watch on the development of the Illinois Insurance Exchange.

Aneco Re, meanwhile, has several subsidiaries, including an underwriting syndicate on the New York Insurance Exchange. Last year's operating net income totaled \$72,000, with net written premiums equaling \$1.4 million. ■

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Net U.S. receipts lag behind payments

WASHINGTON—U.S. insurers netted a 30-year record of \$837 million in reinsurance premiums for coverage sold in foreign countries in 1979, but still failed to equal what U.S. insurers paid out to foreign reinsurers.

U.S. firms reinsuring foreign risks received net premiums of \$837 million, paid out \$670.7 million in losses and had net receipts of \$166.3 million, according to the U.S. Commerce Department's Bureau of Economic Analysis.

But at the same time, U.S. insurers paid out more than \$1.67 billion in net premiums (premiums minus commissions) to foreign reinsurers in 1979, the largest amount in the department's 30-year reporting period.

Most of those payments, \$615.4 million, went to U.K. reinsurance companies, while reinsurers in six members of the European Economic Community received a total of \$270.4 million in net premiums, according to

the department.

U.S. insurers recovered \$899 million in losses on the \$1.67 billion in net premiums they paid to foreign reinsurers, resulting in U.S. payments of \$771 million for reinsurance of U.S. risks accepted abroad.

The Commerce Department cautions that the reinsurance payment results are meant to show the effect of reinsurance transactions on the nation's balance of payments. They are not meant to indicate the underwriting results of the reporting companies.

"This is especially true with respect to the results for any single year because of the normal time lag between the payment of premiums and the settlement of claims," the department says.

Comparing the net U.S. receipts of \$166.3 million with the net U.S. payments of \$771 million, the effect of all 1979 international reinsurance transactions was a net outflow of

\$604.7 million to foreign reinsurers.

The Commerce Department insurance statistics indicate long-term trends in underwriting, with growth of U.S. reinsurance payments outstripping receipts.

In 1950, the first year for which figures are available, foreign insurers received \$129.7 million for reinsuring risks of U.S. companies. By contrast, the U.S. insurers received only \$17.5 million for reinsuring risks of foreign underwriters.

The Commerce Department breaks down the payments and receipts from abroad to show transactions with the European Economic Community, the United Kingdom, Canada, Japan, Switzerland, Latin American republics and other Western Hemisphere countries.

The statistics in this year's study are preliminary and will not be finalized until next year's report is released, around June or July.

Accounting plans may hide losses

NEW YORK—Poor accounting procedures are disguising serious losses among reinsurers that eventually will catch up with the reinsurance industry, said Edward C. Matthews Jr., president of Continental Reinsurance Corp.

Mr. Matthews recently told the second international non-life insurance seminar in Seoul that the industry has not yet felt the full impact of enormous losses over the last few years including aviation disasters, drilling rig accidents and natural disasters.

"I think that when all of these losses are finally billed out, there will be a great uproar within the reinsurance industry and reinsurance markets of the world."

Reinsurers need to consider using computerized data systems that can be linked with international operations. Such a system would help create a more up-to-date loss information system for reinsurers, he said.

The three DC10 crashes over the last two years have added signifi-

The industry hasn't felt the full impact of several losses, says Mr. Matthews.

cantly to the loss tolls, he told the conference.

Though the losses are real, accounting procedures in the reinsurance industry have not brought their full impact to the attention of reinsurers, which may be subject to greater financial harm than they realize.

The lack of such procedures "are not putting all of these losses in their proper perspective," he said.

"I predict that by 1985, the reinsurance markets of the world will demand a new and capable accounting system which will keep them abreast of every loss situation that is going to have an impact on the future of their companies," he said.

Continental Reinsurance Corp. has begun plans to create a data processing system that will tie into the reinsurance company's five international offices by 1982, Mr. Matthews said.

Officials hope the system will "give us a full line of tools to cope with the rising problems of conducting a profitable reinsurance business," he said.

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perspective

Relating to reinsurance

It's the muscle behind your coverage

By Ross C. Cowan

IT WAS MY first visit to Atlanta to attend my first RIMS meeting, a warm and sunny day in April 1973. I was welcomed by the convention brochure with Gov. Jimmy Carter's picture. Aside from that, I felt a bit out of place as a reinsurance man among all those corporate insurance buyers. What was I trying to sell them? What made me think reinsurance was of any interest to them?

Even in 1973, a handful of risk managers had some knowledge and interest in reinsurance, but over the past seven years certainly many more have learned much about how it works, and more important, how it can work for them. Other risk managers, no doubt spurred by inquiries from their financial executives, have looked more closely at the relationship of reinsurance to their insurance companies.

Some risk managers have grown so close to reinsurance they are now presidents of captive insurance companies. They are heavily involved in selling and reinsuring as captives venture further into third-party underwriting. They are either the innocent capacity or the not-so-innocent risk professionals, depending upon one's viewpoint.

We can assume, however, that today and in the future, the great majority of



Reinsurance generally exists to strengthen insurers, but some risk managers are acquainted with reinsurers through their captives.

risk managers, for many reasons, have not given much thought to the workings of reinsurance and how it may affect them.

Broadly speaking, reinsurance exists to strengthen insurers. Risk managers first were forced to note reinsurers as limits were increased to match higher property values and inflated liability judgments. Insurers, depending on their size, can retain only a predictable amount of loss from a given exposure. Beyond that they will cede their risk to another insurer that accepts the whole or a portion of that risk.

Reinsurance can be either simple or complicated, depending on the sophistication desired by both the ceding in-

surer and the reinsurer. It's just like the classic scene in Lloyd's coffeehouse where shippers are sharing each other's risks—certain underwriters still call on their peers in other companies to take a portion of the original risk, relying on mutual respect for the other's underwriting ability. This is straightforward proportional reinsurance, also known as pro rata or quota share, a percentage of the original risk for a percentage of the original premium.

Sparked by a technique popularized at Lloyd's, much reinsurance is now on an excess-of-loss basis. This allows the insurer to keep a larger portion of its original premium by retaining all

losses up to an agreed amount. The reinsurer benefits by reduced operating costs due to simpler premium calculations and, more often, speedier collection of the premium thanks to fewer discrepancies. The number of reinsured claims is also greatly reduced.

For an insurer, reinsurance not only protects it from a single shock loss or an accumulation of losses from a single event, it also enables the insurer to write a larger volume overall without overbalancing its financial surplus. Thus the insurer can reach for larger market shares with safety.

At the same time, an insurer bears the burden of risking security on the strength of its reinsurers. This has its challenges, not just because of the difficulty in determining the strength of a reinsurer, but because virtually all reinsurers in turn reinsure their shares or excess exposure. This is known as retroceding.

This makes it necessary for the risk manager to rely on the financial integrity of his original insurer, unless he or she is in a position to measure the security of all the reinsurers and their retrocessionnaires. In many instances these days, your own captive may be an unknowing retrocessionnaire on your exposure.

The assurance often given a risk manager when shown a list of all the facultative reinsurers on a large limit policy also should be considered. Remember that the reinsurer's obligation is to the insurer, not to the policyholder.

True, a reinsurer's obligation remains even though the insurer might be impaired, but that obligation is paid

Continued on page 37



Ross C. Cowan is first senior vp of Commercial Union Insurance Cos. and is in charge of special risks and reinsurance.

Pay life premiums with borrowed funds

By Joseph S. Robinson

THERE ARE definite financial and tax advantages in being able to pay a substantial portion of life insurance premiums with funds borrowed either from the insurance company or elsewhere. Interest payments on such borrowed funds are generally deductible provided at least four of the first seven annual premiums are paid in full by means other than borrowing.

Many companies are assisting top-level employees in such arrangements as an additional benefit. Here's how financed insurance works:

The company takes out a policy on the executive's life and pays the first four annual premiums. Then the company sells the policy to the executive for its cash value. The executive borrows all future premiums against the cash value and deducts the interest he pays on the policy loan each year.

Thus, the executive's only cash out-

lay is the amount paid to the company when he bought the policy plus after-tax cost of the interest on the policy loan. This is much less of an outlay than he would have had to make had he taken out the policy himself, paid four out of the first seven premiums in cash and then borrowed the rest.

The company makes it possible for the executive to get low-cost insurance without him realizing any taxable compensation when it sells him the policy. Even though the cash value in the fourth year is much less than the company paid in premiums, that's about all the policy is worth at that time. Since the executive is paying the full value of the policy to the company, he realizes no compensation income as a result.

Retirement benefits

Once a year, an employee is allowed

by law to request from his employer a statement of the benefits to which he or she would be entitled if he or she terminated employment. Most employers provide this information to their employees annually.

Here are some of the basic questions employees most often ask concerning their retirement plan:

- How much pension income will I receive upon retirement? On what basis is this determined?
- Is my pension plan integrated with Social Security? If so, how will I be paid?
- How much do I and my employer contribute?
- How many years must I work to be entitled to the maximum pension?
- If I leave the company, to what will I be entitled?
- If I take early retirement, what will

my pension be?

- Do my survivors get benefits?

Divorcee's share

Most states have new divorce laws that treat marriage as an economic partnership. In essence, the new laws, while differing somewhat from state to state, give each spouse a share in the total assets accumulated during the marriage.

Those include the house, the car and the stock portfolio, and it makes no difference whose name is listed as owner of the property. Total assets also include money tied up in a company pension kitty on behalf of a participating employee.

In a recent case in Maryland, a 55-year-old woman was awarded a \$70,000 lump sum as her share of her husband's pension in a property settlement in a divorce. The husband was collecting \$12,000 per year in pension benefits at the time. ■

perspective

Speeding a settlement

Policyholder's steps can assist adjuster

By William H. Rodda

DOES IT SEEM like your insurance company is dragging its feet in handling a property loss or liability claim? What can you do when an adjustment gets bogged down with red tape? How can you find out whether a delay is merely because of an adjuster's overload or whether there's a question about the coverage?

It is essential that you, the policyholder, take certain steps immediately following property loss or accident that might lead to a claim against you. Basically, these steps are:

- Giving prompt notice that a loss has occurred and possible liability exists. Telephone the insurer or agent immediately and confirm this notification in writing.

- The pertinent facts should be assembled and given to an officer or employee who will be dealing with the insurance adjuster. A file should be set up to accumulate and preserve facts and evidence.

- The physical situation should be placed in order. Inventory should be taken, and damaged areas should be cleaned up with attention to preserving any evidence regarding the cause of the occurrence. Values should be established in preparation for submission of a proof of loss.

Efforts should be made to set up a time sequence for adjustment. Try to determine when an adjuster will arrive and whether the insurer wishes any particular steps be taken in the meantime.

It may seem illogical, but often it is true that the adjuster who investigates has never seen your insurance policy. This may be true regardless of whether the adjuster is an employee of your insurer or an independent adjuster to whom the company has assigned the case. This is because an exact copy of your insurance policy has to reach the adjuster from an agent, a branch office of the insurance company or in many cases from the home office. This takes time. In many cases he does not see it until after the settlement has been started.

This explains why an adjuster may ask to see your copy of the policy during his initial investigation.

If the adjuster does not have a copy of your policy before, what does he have? His assignment from the insurer probably would give him a brief description of the occurrence, with an indication of the kind of policy involved. Most adjusters maintain files of the

Photo: Crawford & Co.



Following a property loss or accident, a policyholder must promptly notify the insurer or agent, compile a fact file, take inventory, clean up damage and establish values.

commonly written policies such as special multiperil, fire and extended coverage, automobile and general liability. These standard forms tell in general what the coverage is likely to be.

Individual policies often differ in details from the standard policies. Amendments are made in order to accommodate peculiar exposures, deductibles, special extensions or restrictions of coverage and to establish a premium. Many insurers, in addition, have their own policy forms that differ considerably from the bureau forms.

A basic step in settling a claim is to determine that the loss or circumstances are covered. You should be able in most cases to determine yourself whether there is coverage.

What kind of questions arise in determining whether there is coverage? Complications regarding property losses may arise with some of the newer and broader policies. Theft and dishonesty losses often give trouble. There may be a question of whether the loss resulted from theft by an outsider in a burglary, robbery or theft or from dishonesty of employees, which may be covered separately under a fidelity bond. Was it theft or mysterious disappearance, and are mysterious disappearance and inventory shortage excluded by one of the newer all-risks policies?

The actual coverage has to be determined by an examination of the individual policy. A responsible corporate officer or employee should examine the policy with this in mind and then

go over it with the adjuster to learn the adjuster's opinion as to coverage.

You should make a strong effort at this point to set a timetable. The adjuster should be asked to specify when he will return or advise. The adjuster should also be asked whom in the insurance company should be contacted if the adjuster does not get back with the answer in the time specified.

Remember that property policies require proof of loss, usually within 60 days. Under no circumstances should this be ignored. Should the adjuster and the insurer delay in negotiations, proof and time limit must be prepared and submitted to the company, either by registered mail or with a written receipt.

It would be unusual for an insurer to let a policyholder ignore policy requirements with a subsequent denial of liability, but this possibility must not be ignored. Should a dispute arise that later gets into court, it is essential that the policyholder has met all requirements of policy terms.

Two things may cause delay on the part of an adjuster in handling a claim that is clearly covered. These are possible as a result of an overload of losses and claims.

First, it may be difficult to get a loss of claim handled quickly. It is customary for insurers to send adjusters into a hurricane area, for example, from hundreds or even thousands of miles away in order to speed up claims handling.

Second, the assignment may be

given to an inexperienced adjuster. The adjuster who arrives under these circumstances may not have had experience in prompt and effective handling. You may have to determine whether there is coverage and whether every policy requirement has been met. These steps may have to be accomplished without the guidance of an experienced adjuster.

An effective way of finding out whether delay is because of overload or because of some question regarding the claim would be to ask the agent or company sales representative. A troublesome situation arises when a claim might exceed limits. Extremely high verdicts have been rendered by juries in many years. The chance that a verdict may go beyond policy limits is possible if there are multiple injuries and death.

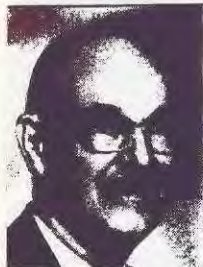
You should make your own evaluation as to whether a particular occurrence is serious enough to go beyond the policy limit. You should keep in touch with the insurer's handling of the claim to determine whether its investigation appears to be adequate.

Your own lawyer should keep in touch with the situation to make certain any settlement is to your advantage. It is possible the insurer will proceed with a settlement that would not be fully advantageous to you. The insurer may refuse to settle a claim at the policy limit and decide to let the case go to trial. Such a situation requires careful monitoring.

Photo: UAC



Photo: Sarasohn & Co., Inc.



William H. Rodda is president of Marine Insurance Handbook Inc. of Chicago.

Industry must react to regulatory action

By Robert C. Tueting

THERE IS A common thread running through a number of demands on the insurance industry today—a thread that could become a noose.

Some directly affect all lines, some a few, but together they signal a serious assault on the entire industry.

The industry is being told to reduce the amount and type of information required from prospective clients before insuring them, abandon territorial rating, do more business in inner-city areas and improve its overall image.

The demands are being expressed through the introduction of freedom of information laws in various states, through redlining hearings and efforts to prevent insurers from using the physical location of a risk as an underwriting consideration.

These actions are intended to serve the public by ensuring protection is made available to those in need. While the objective may be a socially desirable one, it poses some serious questions, namely:

- In a free enterprise economy, does the government have the right to substitute its untested and unrealistic underwriting judgment for the practices the industry developed and relied on for many years?

- Irrespective of whether or not the government possesses the right, is its decision prudent or will it inflict more

Robert C. Tueting is an assistant professor in the college of business at Colorado State University.

speaking out

harm than benefit in the long term?

- What if freedom of information laws deprive insurers of information to determine proper exposure?

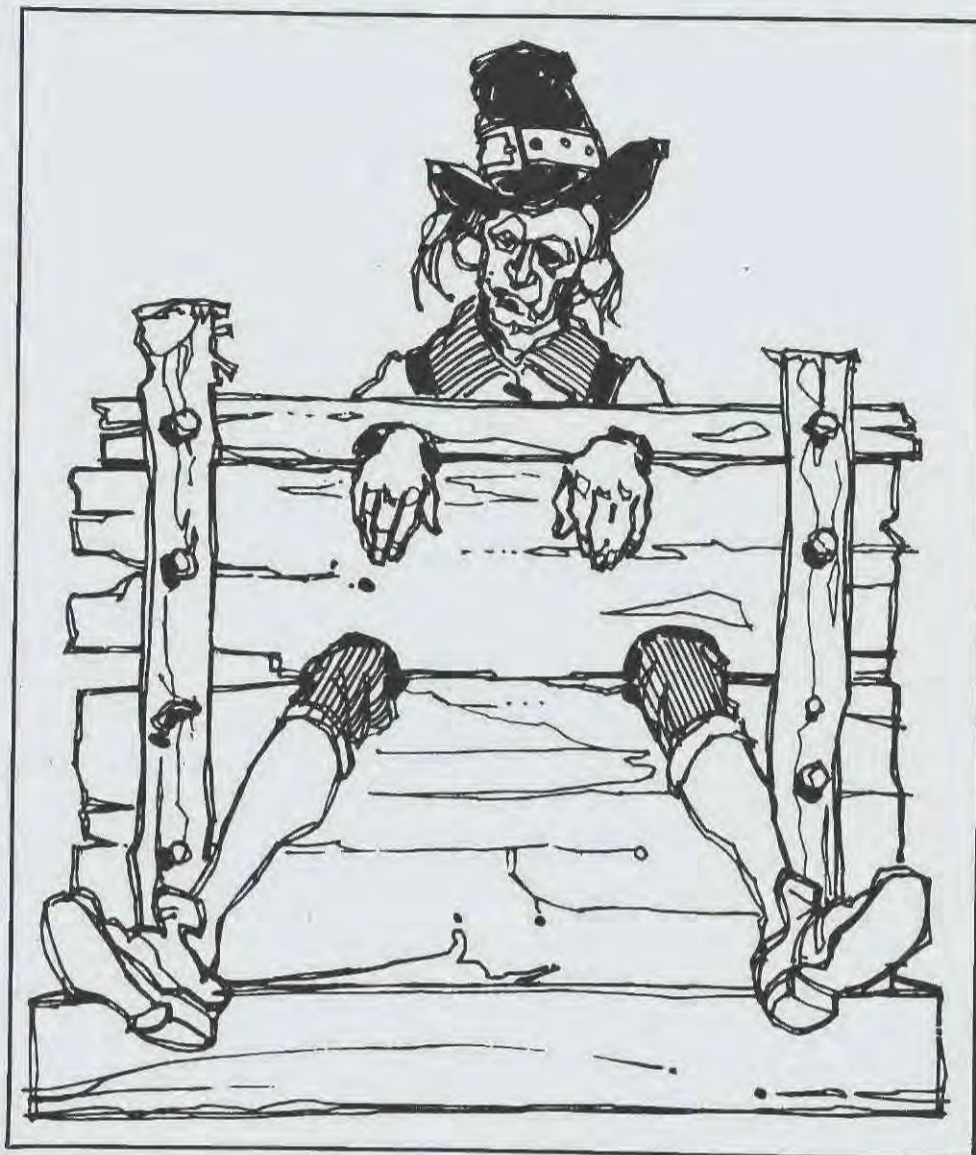
- Who will be accountable if great losses and insolvencies occur because the industry was forced to discard its underwriting standards?

- Can underwriting cope with and fulfill future needs?

All of these questions are two-edged sabres. It is not sufficient for the industry to merely demand answers from those who want to change its ways.

The industry must answer the questions and demonstrate unquestionable validity in its position. It must verify that current underwriting criteria are actuarially justified and not the mere exercise of whim or prejudice. It must explain the relevance of information it seeks from prospects while avoiding certain assumptions about the public. Further, the industry must inform the consumer of larger deductibles and the significance of controlling hospital costs.

Of course, current problems must be solved, but the basis for reducing problems is to improve image and future performance. More attention should be given to plans for the acceptance of risk. Protection should be simplified and made more understandable by reducing the technicality of the contract and modifying some conditions and exclusions. The rate structure must be current, equitable, adequate and not discriminatory.



Regulatory actions may be intended to serve the public, but they also may be shackling the underwriting judgment of insurers.

Delay in notification violates bond policy

NOTIFICATION OF A LOSS more than 22 weeks after discovery failed to constitute notice under a blanket bond insurance contract issued to a bank, the Connecticut supreme court ruled.

The LaFayette Bank & Trust Co. was insured by Aetna Casualty & Surety Co. under a standard form blanket bond. The policy covered loss from forgery and required written notice of loss "at the earliest practicable moment."

LaFayette Bank advanced a \$50,000 loan on the alleged signatures of two individuals, one of which turned out to be forged. The forgery information was confirmed in a letter to the bank's attorney in November 1975. LaFayette Bank filed a written notice of loss with Aetna on April 20, 1976, followed by a proof of loss on May 13, 1976. Aetna denied the claim. The bank sued and lost in the trial court.

The supreme court said the knowledge and admission of the bank's attorney regarding notice of the forgery were imputed to the bank. The supreme court agreed that because of the long delay after discovery, notification of the loss here did not constitute notice under the policy. *LaFayette Bank & Trust vs. Aetna Casualty & Surety*, Connecticut supreme court, March 20, 1980 (BI/01/0.-\$4).

Medically necessary

A group health policy excluding cov-

legal briefs

erage of hospital admissions not medically necessary in the judgment of the insurer did not conflict with state law or public policy, a Louisiana appellate court ruled.

W.H. Franks was covered under a group health policy issued to his employer by the Louisiana Health Ser-

vices & Indemnity Co. The policy contained an exclusion for hospital admissions "not medically necessary."

In 1978 both of Mr. Franks's dependent daughters were hospitalized by physicians, one for flu symptoms and the other with a sinus infection and low fever. The bills totaled about \$1,700.

The insurer paid \$430.

Franks vs. Louisiana Health Services & Indemnity, Louisiana court of appeal, March 31, 1980 (BI/02/0.-\$4). ■

These abstracts were prepared by Cases Unlimited Inc. Copies of the entire decision may be obtained by sending a check for \$4 made out to Cases Unlimited to Business Insurance, 740 N. Rush St., Chicago, Ill. 60611.

Buyers also feel effects of reinsurance

Continued from page 35

to the insurer or its general creditors.

So-called cut through clauses, which make the reinsurer respond directly to or on behalf of the policyholder, are rare. Few reinsurers want that complication.

Reinsurers are sometimes blamed when the market turns hard or soft. Though it is not the whole story, reinsurance does play some role in the changing market.

Unrelated events may cause a market shrinkage or expansion on the part of reinsurers. A major cyclone in Australia made many reinsurers in the rest of the world cautious. Reinsurance is often a business of follow the leader, only a limited number of whom are recognized.

Certain procedures measure the likelihood of losses from reinsurance

treaties, but they are probably more useful for negotiating premium terms rather than expressing confidence in the successful outcome of underwriting results. This is more prevalent in these days of supervalue exposures and quick-breaking losses on unanticipated exposures.

Major reinsurers and specialty reinsurance brokers spend years convincing insurance company executives that reinsurers have a uniquely broad view of the insurance business. Thus it is not surprising that insurers take notice of contractions by reinsurers as evidence that all is not well.

But it would be wrong to assume that most insurers change their approach based on perceived shifts in the reinsurance market. Insurers certainly strain to adjust rates for inflation and legal decisions, but those adjustments

do not cause substantial market changes.

Many risk managers recognize that relatively few U.S. insurance companies emphasize jumbo excess layer business. Those companies rely strongly on reinsurance. That is where contractions and expansions are quickly noted.

The difficult-to-measure risks reflect the current confidence of the reinsurance industry. The risk manager well understands the accepted pattern prevalent in reinsurance of first loss deductibles, followed by the working or buffer layer. Above that are the flat-rated large excess layers. When the market is in balance, deductibles are intelligently selected, buffer layers are priced on a reasonably equitable formula that spreads losses over time and the true excess area carries a flat rate. ■

Insurance subsidiaries flood market with capital

By STUART EMMRICH

NEW YORK—Reinsurers concerned about low rates and competition now blame primary insurers.

The reinsurance market is no longer the domain of a few specialists. More than ever, reinsurance subsidiaries of large primary insurers are becoming a powerful force.

These subsidiaries are flooding the reinsurance market with millions of dollars of capital, siphoning off huge amounts of premium dollars and, some observers say, providing the market with an overabundance of capacity that con-

tinues to drive prices down.

The entrance of primary insurers into reinsurance is "definitely one reason" why today's market is a soft one, says Thomas Cash, second vp of marketing at Employers Reinsurance Corp.

"There is no doubt there is an overabundance of capacity in the reinsurance market today," agreed Morgan Stanley analyst Allerton J. Cushman. "You have to say that it is due in large part to primary carriers who weren't around before. They have increased capacity considerably and helped to make it a very competitive business."

Reinsurance subsidiaries now

rank near the top of a list of leading reinsurers.

In 1979, Prudential Re was fifth on the list, with premiums of \$303 million. INA Re was sixth, with \$246 million. Also in the top 12 were Continental's National Re, Kemper Re and the Aetna-owned American Re.

American International Group also has joined in a pool to form Transatlantic, which wrote almost \$100 million in premium its first year and increased that by \$18 million in 1979.

Although officials of these subsidiaries agree they have added substantially to the market's capacity, they disagree they are responsible for competition.

"There are several factors contributing to the overall excess capacity," said INA Re president T.J. Strenk, "the entrance of the primary carriers, the growth of overseas reinsurers and the boom in captives. I don't know if you can point at any one of the three and say that is the one that did it."

Others scoff at suggestions that the reinsurance business is being taken over by huge conglomerates and primary insurers that want to control every aspect of the insurance industry.

"In today's world, General Re is the only reinsurance company that is privately held. Everybody owns somebody," said William Warren, president of National Re. "The days when industries were run by entrepreneurs were gone more than 10 years ago."

Now ownership by a conglomerate adds important recognition.

"Being part of a large financial entity connotes financial stability," said George Nimmo, president of Prudential Re. "We really have a combination of a company solidly professional and financial, which is part of an institution founded long ago."

"People know who we are and who is behind us," agreed INA Re president T.J. Strenk. But there are problems in being associated with a primary insurer, he adds.

"Since we have such a large primary company, the chances are good that it might be in competition for business with some of our potential customers. That may cause some bad feelings when they deal with us."

But Mr. Strenk, like others, says the barriers between reinsurance and primary departments are high and steadfastly maintained.

"The controls are absolute. There is no information about what we do in reinsurance given to anyone in the primary company. We just deal at the highest corporate levels. There is no communication at all with other underwriters."

The attraction of reinsurance, despite the current soft conditions, is obvious: profits. While underwriting income may be dropping because of the lowered rates, investment income continues to pile up and offset other losses.

Prudential Re, for instance, last year earned \$34 million, an increase of 70% over the 1978 figure.

"A lot of people have viewed reinsurance as a safe way to play the property/casualty market," said Oppenheimer analyst Myron Picoult. "There have been no major losses this year and the returns on equity have been very good."

Mr. Picoult predicts it may be a long time before conditions change enough to shake out some of the companies that have entered the reinsurance market in recent years.

someone you should know

I expect it will be a long time before the surplus dries up



Strenk

By MARY ANN MATLOCK

NEW YORK—Reinsurers are as quick as primary insurers to say they aren't cutting rates. Growing capacity in the reinsurance market hasn't really led to lower rates, says T.J. Strenk, president of INA Reinsurance.

"Our ability to provide facultative on individual risks has expanded. So has our ability to write treaty for a company," Mr. Strenk noted.

This increased capacity has given the reinsurer the ability to "take larger pieces of risks and assume a larger premium volume."

But, he cautioned, "this (increased capacity) doesn't necessarily make us do (more underwriting). We don't have to feed capacity at the expense of underwriting judgment."

Mr. Strenk believes the surplus reinsurance market capacity will not shrink in the near future.

"I expect it will be a rather long time before the surplus of capacity dries up. It's more likely to be gradually absorbed by increasing dollar cessions on primary insurers than a catastrophe," Mr. Strenk said.

Over the past five years, "insurers are on the average reinsuring a higher percentage of the share of risks." But this is nearly impossible to quantify, he adds.

Other factors that could prompt a tightening of the market could be a catastrophe or collapse of a major reinsurer.

"There's always the possibility of a major natural disaster, which traditionally has created some tightening, but another factor could be the failure of any substantial company in the reinsurance field," he said.

Natural attrition also could weed out some excess market capacity in years ahead, he says.

"New capacity will pretty much come from the same sources as in the last four to five years, primarily foreign entries."

The New York Insurance Exchange is also a potential source, "but the exchange has not yet attracted a great deal of local capital. It's only a potential source."

Massive capacity has also allowed reinsurers to offer insurers more protection against errors and omissions on commercial policies and punitive damage claims.

"We provide cover we didn't five years ago, such as for punitive damages, but it's not an automatic throw-in," Mr. Strenk noted. This coverage is a negotiable item in every reinsurance contract.

More requests and market pressures have prompted the firm's willingness to "provide coverage we didn't provide five years ago."

INA Re basically insulates itself from direct contact with risk managers. The financial stability of the reinsurer is "a point of issue between the corporate buyer and his primary market," Mr. Strenk said.

The agreements between the reinsurer and the primary insurer are confidential. If a risk manager wants to know the firm is secure, Mr. Strenk suggests probing the primary insurer for information and checking its status with Best & Co. reports.

Mr. Strenk, who received the president and chief operating officer's designation at INA Re in November 1978, has been with the reinsurer practically since its formation in March 1971.

Late that year, he was elected assistant vp, only to receive a promotion to vp the following year and eventually executive vp in 1977.

In 1950, he joined the New York office of the firm and became a senior underwriter in 1959. After a leave of absence, he returned to INA's Philadelphia operations in 1963 as manager of the treaty reinsurance department, and was later elected assistant secretary in 1966 and secretary in 1968.

Reinsurer to increase capital

NEW YORK—The Mercantile & General Reinsurance Co. of America will increase its capital funds by \$10 million through a contribution from its parent, The Mercantile & General Reinsurance

Co. Ltd. of London.

The surplus contribution is being made to show the firm's faith in the U.S. brokerage reinsurance market, said R.F. Gilmore, M&G America's president and CEO.



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Company trims health plan cost, but not benefits

By MARY ANN MATLOCK

MIAMI—When an employer slashes medical plan costs, benefits don't have to fall by the way-side.

Central Bancorp Inc. is proving this. It says it saved \$100,000 in its first year of a self-funded plan started in February 1979. It already is reporting a \$50,000 savings the second year.

Employees were not hit with additional costs and no benefits were cut, Central Bancorp said. The savings was accomplished by self-insuring the health plan and purchasing stop-loss insurance to avoid catastrophic losses.

Claims experience also has improved slightly under the new plan.

"We picked up exactly the same plan we had with an underwriter," said secretary/treasurer Tom Soltz. "We went self-funded because the outside insurance company we were dealing with wanted a substantial rate increase because of our poor experience."

That increase would have cost the company \$260,000 annually for group medical insurance for its 300 workers, said Mr. Soltz. Central Bancorp had been paying its underwriter, Connecticut General, \$228,000.

He said that under the self-funded plan, Central Bancorp pays individual claims up to \$18,500, with the employer and reinsurer INA Re sharing costs up to \$25,000, and INA Re assuming responsibility after that.

Stop-loss coverage on total claims begins after \$285,000 is spent annually. The reinsurance has a \$1 million limit, which is the maximum coverage of the Central Bancorp plan.

"We wanted to protect ourselves so we wouldn't have a complete calamity," Mr. Soltz said.

To date, the program is far from a calamity. Besides saving the employer substantial amounts, it has improved claims turnaround time and deferred increases for employees, Mr. Soltz said.

"**Claims are paid** a lot more quickly under this plan," Mr. Soltz said. He attributed this to the high-caliber services of plan administrator Penn General Services Corp., which receives about \$2,300 a month.

Employees now are reimbursed for bills in 30 to 45 days, compared with 75 to 90 under the old plan, Mr. Soltz said.

In addition, he estimates self-funding has averted at least 20% in premium increases for employees, who pay 40% of their plan's cost. Deductibles have also been kept at \$150 for single workers and \$300 for families.

"We've had no increase in premium to employees in two years. I

Wyatt places first in survey

WASHINGTON—The Wyatt Co. is the consultant used most often by corporations with defined benefit plans having at least \$1 million in assets and 100 participants, reports a survey of 5,400 corporations.

The survey, conducted by the Blue Book of Pension Funds here, found 735 corporations used Wyatt. William M. Mercer Co. placed second with 446 clients. ■

can easily see how this is becoming more popular," Mr. Soltz said.

Despite the plan's track record, Mr. Soltz is cautious about recommending other employers take the same self-insured step.

"I would recommend it to only to larger employers who had problems with claims experience. Also, you have to find a good company to administer claims," he said.

He expects to continue the plan, although "there is always that chance" that it may be shunned for something better in the future, he said. ■

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U.S. firms in Venezuela file \$6 million in claims

worldwide

NEW YORK—The Foreign Credit Insurance Assn. reports it has received some \$6 million in default claims from U.S. contractors, auto dealers and other businesses in Venezuela.

The claims, most of them filed since March, stem from national authorities' increasing cutbacks and delays in payment of fees and bills owed companies that do business with the government, said an FCIA claims official.

The situation has caused a ripple effect that has made it difficult for businesses to pay their subcontractors, he said.

FCIA officials are hopeful the situation will lead to a rescheduling of debts that will reduce the number of claims, he said.

Worker accidents

BONN—Workplace accidents occurred 2.5 times more frequently among foreign workers in German plants than among Germans, according to Experiodica, a publication of the North American

Reinsurance Corp.

Workers are coming into German plants from agricultural, non-industrial regions with no experience in industrial procedures, the report said. Many also work overtime and on night shifts, when accidents are most likely to occur.

Export claims

OTTAWA—Some \$664,000 in export credit claims were paid to Canadian exporters during the third quarter of this year, said the Canadian Export Development Corp. The third-quarter result brings total claims paid for the year to \$9.5 million.

Third-quarter claims were paid on 21 transactions, 14 of them for default by a foreign buyer, six for buyer insolvency and one for blockage of funds.

Sixteen of the claims involved U.S. transactions, while two were

from Guyana, and one each from Algeria, Ecuador and Venezuela.

Political turmoil

NEW YORK—Political turmoil and government instability in South Africa may imperil foreign investments over the next five years, but short-term risks may be less severe, according to a recent Frost & Sullivan survey of political risk.

The analysts give a 12% probability of major loss in the next 18 months and a 41% chance over the next five years.

In spite of Prime Minister Pieter Willem Botha's encouragement of foreign investment, the continuing racial struggle could restrict government influence and create backlash and black militancy that could threaten international ventures, the Frost & Sullivan report says.

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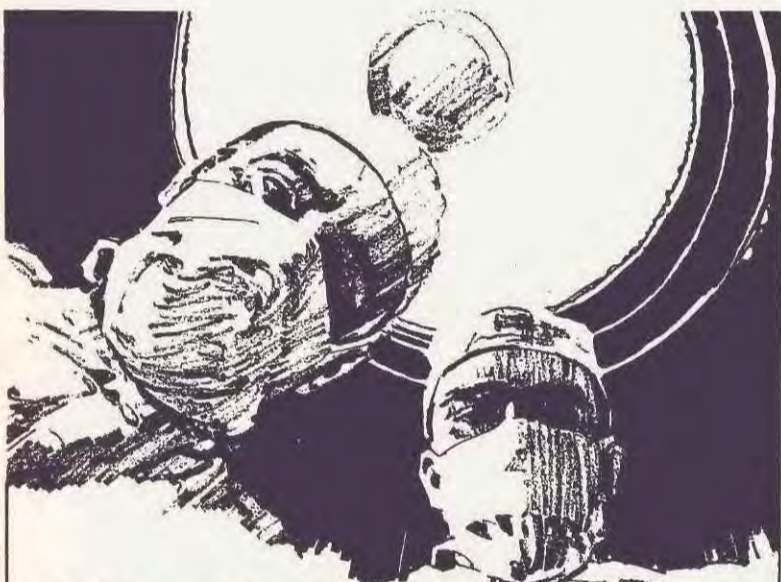
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datebook

DEC. 4-5. The National Self-Insurers Assn. Annual Meeting in New York; \$125 for members, \$150 for nonmembers. Maryanne De Santo, The National Self-Insurers Assn., 420 Lexington Ave., New York, N.Y. 10017; 212-867-9200.

DEC. 10-12. Self-Insurance and Risk Retention Course in New York, sponsored by the American Management Assn.; \$510 for members, \$585 for nonmembers. AMA, 135 W. 50th St., New York, N.Y. 10020; 212-586-8100.

DEC. 11. New York Free Trade Zone Seminar in New York, sponsored by the New York Society of Chartered Property & Casualty Underwriters; \$10. Michael A. Colir, EBASCO Risk Management Consultants, 2 World Trade Center, 91st Floor, New York, N.Y. 10048.

DEC. 11-12. Pension Fund Money Management Seminar in Dallas, sponsored by the Wharton School; \$595 plus \$75 registration fee. Heidi E. Kaplan, Dept. 20NR, University Conference Center, 360 Lexington Ave., New York, N.Y. 10017; 800-223-7450.

DEC. 11-12. Introduction to Qualified Pension and Profit-Sharing Program in New York, sponsored by the Practising Law Institute; \$250. PLI, 810 Seventh Ave., New York, N.Y. 10019; 212-765-5700.

DEC. 11-12. Creative Executive Perks Course in Arlington, Va., sponsored by American Management Assns.; \$460 for members, \$525 for nonmembers. AMA, 135 W. 50th St., New York, N.Y. 10020; 212-586-8100.

DEC. 11-12. Reinsurance Seminar in New York, sponsored by The College of Insurance; \$75. The College of Insurance, 123 William St., New York, N.Y. 10038; 212-962-4111.

DEC. 11-13. Product Liability of Manufacturers Prevention and Defense Workshop in New York, sponsored by the Practising Law Institute; \$325. Also Jan. 22-24 in Los Angeles. PLI, 810 Seventh Ave., New York, N.Y. 10019; 212-765-5700.

DEC. 12. Acid Rain: An Issue That Won't Go Away Conference in Arlington Va., sponsored by Inside EPA Weekly Report and the Energy Bureau; \$550. Robert W. Nash, Executive Director, The Energy Bureau Inc., 41 E. 42nd St., New York, N.Y. 10017; 212-687-3178.

DEC. 15-17. How to Design a Cost-Effective Loss-Prevention Program Course in Atlanta, sponsored by the American Management Assns.; \$510 for members, \$535 for nonmembers. AMA, 135 W. 50th St., New York, N.Y. 10020; 212-586-8100.

DEC. 15-17. Industrial Fire Protection Seminar in New Orleans, sponsored by the National Fire Protection Assn.; \$255 for members, \$270 for nonmembers. Ina L. Miller, Division for Continuing Education, NFPA, 470 Atlantic Ave., Boston, Mass. 02210; 617-482-8755.

JAN. 27-29. Financial Costing of Risk Management Seminar in Irving, Tex., sponsored by the University of Dallas Graduate School of Management; \$395. Bruce Evans, Risk Management Institute, University of Dallas, Irving, Tex. 75061; 214-579-5360.

FEB. 26-27. Pension Fund Money Management Seminar in Atlanta, sponsored by the Wharton School; \$595 plus \$75 registration fee. Also April 2-3 in New York and June 18-19 in Chicago. Heidi E. Kaplan, Department 20NR, University Conference Center, 360 Lexington Ave., New York, N.Y. 10017; 800-223-7450 or 212-953-7272, ext. 296.

Trenwick puzzler: UNDERWRITING.



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RISK AND INSURANCE MANAGEMENT SERVICES, EMPLOYEE BENEFIT AND ACTUARIAL CONSULTING THROUGHOUT THE WORLD

Map strategy before rates rise: Hines

By EILEEN NORRIS

CHICAGO—Risk managers should do themselves a favor and begin mapping out strategies to help take the sting out of predicted insurance rate increases.

Buyers should begin by asking themselves when the rate swing will occur, how severe it will be and how long it will last, said Harold Hines, president of Ryan Insurance Group in Chicago.

Mr. Hines, who spoke to the Midwest Regional Seminar of the Risk & Insurance Management Society recently, predicted the next upswing in rates will be in mid-1982.

Insurers will see their return on investment drop so low that by mid-1982 the herd instinct to raise rates at the same time will hit, said

Mr. Hines, formerly president of Marsh & McLennan. Then insurers will not have to fear losing business and cash flow by raising rates, a worry that is helping to prolong the current competitive insurance market.

Risk managers should prepare their company's managers early for the next rate hike and explain what competition can mean to rates, Mr. Hines said.

"Buyers have to decide at what price they should change their insurance carrier or broker," he said. "It might mean inviting competition and then giving your present carrier the opportunity to respond," Mr. Hines said.

The tighter market will bring "widely disparate quotations," he said. "Fixed cost burdens will vary and insurer's profit requirements

will differ."

Mr. Hines said risk managers should remember that "permanent" relationships can't exist for those who buy insurance.

"Loyalty is not the way to construct a business decision," he said, adding that negotiations and matters of mutual interest should rule decision making.

"A broker admires loyalty in his customers but despises it in his prospects," Mr. Hines said. "Loyalty exists, but it's not enough."

Besides opening the door to competition, risk managers should focus more on loss control. Mr. Hines calls it a "growing science."

"Too often loss control focuses on unsafe conditions and accidents when 95% of the accidents are caused by (euphemistically

speaking) human error," he said.

"Risk managers should monitor morale and the intangible somethings that cause accidents," he said.

Better claims management is also important, Mr. Hines said. One Fortune 500 company studied the handling of its claims by insurers and under its own self-funded program and discovered that if the handling of every claim were delayed just one day, the cost of those claims would be increased \$1 million, Mr. Hines said.

One of the major tasks for risk managers in the 1980s is to use "information management" techniques to monitor claims and discover the reasons for losses.

"It all makes for more effective bargaining power when the cycle changes," he said. ■



Photo: Kathryn J. McIntyre

Permanent relationships with brokers can't exist, Harold Hines says. ■

J&H study compares dental fees

NEW YORK—A benefit manager in Cincinnati who has to implement a dental insurance plan might be able to stretch benefit dollars further than his counterparts in other cities.

A recent survey by broker Johnson & Higgins of 13 major metropolitan cities showed Cincinnati dentists charge the lowest gross average dental fees for seven procedures covered by insurance plans.

Fees for eight procedures charged patients covered by dental plans were compared for Boston, Chicago, Cincinnati, Cleveland, Akron, Detroit, Houston, Los Angeles, Miami, New York, Philadelphia, the San Francisco Bay area and Seattle/Tacoma.

Average fees were lowest in Cincinnati in the seven following areas: cleaning, \$11.91; amalgam, \$18.78; crown, \$205.51; pulp cap, \$7.84; complete upper denture, \$254.36; bridge pontic fused to gold, \$196.78, and single-tooth extraction, \$15.34.

Highest fees were: cleaning, San Francisco, \$21.64; amalgam, Houston, \$28.24; crown, Philadelphia, \$254.90; pulp cap, Houston, \$16.81; complete upper denture, Houston, \$346.75; bridge pontic fused to gold, Philadelphia, \$246.50, and single-tooth extraction, San Francisco, \$22.47.

However, for gingival curettage root planing, Cincinnati's dental rate was highest at \$45.34 while New York's rate was lowest at \$21.15.

"It's important to have a knowledge of dental charges by area. You should recognize charges do vary and are not horribly consistent with other costs," noted J&H vp James McDonald.

Boston, which has been labeled by the Bureau of Labor Statistics as one of the most expensive areas of the country in which to live, had low dental rates, the J&H survey found.

Dental costs there ranked near the lowest in the following areas: cleaning, \$14.50; amalgam, \$18.78; pulp cap, \$9.38; gingival, \$28.18; complete upper denture, \$267.38; single-tooth extraction, \$16.73.

Mr. McDonald said the study results are used to design dental insurance plans for clients, especially those with fixed allowance schedules.

The study results also can be used to compare reasonable and customary charge plans with the gross average charges in the geographic areas. ■

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1: identification,
evaluation of risk
methods to manage
against loss 2: the
of self-insurance
signed to reduce it

Risk manager needs warning

Surprise mergers spark D&O crises

By KATHRYN J. McINTYRE

CHICAGO—A company that keeps its risk manager in the dark about pending mergers or acquisitions risks losing its directors and officers liability insurance.

It also could be buying a company with a host of loss and risk management problems that could be used to negotiate a lower purchase price if known to management.

A panel discussed mergers and acquisitions at the RIMS Midwest Regional Seminar held here Oct. 23-24.

The risk manager for a Midwest company related this story about his predecessor to seminar partici-

pants, asking his name not be repeated:

The risk manager had assured the D&O underwriters that the company wasn't involved in any pending mergers or acquisitions. The D&O underwriters wanted to know about any talks because they see big D&O risks in mergers and acquisitions.

The D&O underwriter renewed the company's D&O policy on a Friday, based on the information supplied by the risk manager.

The underwriter was horrified the next Monday when he opened the Wall Street Journal. A headline trumpeted a major acquisition by the D&O policyholder.

The policy was saved only by

personal assurances by the company chairman and president in a face-to-face meeting with the insurer that the risk manager did not know of the pending acquisition.

Another risk manager recalled his company negotiated a \$100,000 cut in the purchase price of a company after he pointed out the new company could create future loss costs on claims for previous activities that hadn't surfaced.

Risk managers need to be told about pending acquisitions and mergers in time to get a lot of work done, it was agreed.

"You have to go in there and go through the risk management pro-

cess in a short time," said panelist Robert Dreher, risk manager of Western Publishing Co. Inc. in Racine, Wis.

The risk manager has to identify the risks of the new company, develop a theoretical program for managing them and audit the existing program against the theoretical program, Mr. Dreher said.

One potential problem is discovering inadequate insurance. "You may find the company already has exhausted its aggregate limits," noted panelist Richard K. Voss, vp of Johnson & Higgins's Chicago office.

Or claims-coverage could have been purchased for product liability exposures, leaving yet-to-be-

filed claims uninsured under an occurrence program. The risk manager would want to consider buying a policy to cover these claims, called buying out the tail, Mr. Voss said.

Risk managers also need to see the merger agreement, noted panel member Marty McFadden, assistant vp of Marsh & McLennan in Chicago. "Position yourselves in the pipeline to the document," he advised.

Risk managers must see what agreements are being struck on the payment of claims yet to surface from past activities, for example, he said.

There are numerous approaches to financing risks of a newly acquired company. The new company's program can be folded into the purchasing company's program if the result would be cheaper.

Some risk managers, however, prefer to maintain the separate programs until they can analyze loss costs for fear of disturbing a successful self-insurance program, for example.

If separate policies are kept, the purchasing company's insurance policies should become excess and difference in conditions coverage to the new company's coverage policies, noted Mr. McFadden.

The excess insurance underwriters should reduce the rate for insuring the new company because the separate policies move the excess insurer farther from the risk, Mr. Voss added.

The purchasing company should have a broad definition of named insured to include all new acquisitions, Mr. McFadden noted. This is not difficult to secure from underwriters in the current competitive insurance market, he noted.

Two unavoidable side effects of an acquisition were noted during the seminar: an audit may reveal fidelity losses and the workers compensation modification factor of the purchasing company falls to the level of the newly acquired company if it is lower. In a true merger, the new company's experience mod is calculated by combining the mods of the two previous companies. ■

OSHA warns of carcinogen

WASHINGTON—Workplace exposure to 2-nitropropane may endanger the lives of workers, warns a worldwide bulletin distributed by the Occupational Safety and Health Administration.

OSHA warns that 2-NP, a confirmed animal carcinogen, also has the potential to cause cancer in humans.

About 185,000 U.S. workers are exposed to 2-NP during its production and use. Its only manufacturer, International Minerals & Chemical Corp., produces 30 million pounds of 2-NP annually, 12 million of which are sold domestically.

Studies show liver damage occurs in humans exposed to high concentrations of the substance. Continuous exposure may cause nausea, vomiting, diarrhea, weight loss and severe headaches.

2-NP is a clear, colorless liquid with a pleasant odor. Its odor is not easily detectable even in highly concentrated and potentially hazardous amounts. Solvent systems containing 2-NP are used in vinyl epoxy paints, nitrocellulose, chlorinated rubber, printing inks and adhesives. ■

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Policy covers city fraud

NEW BRITAIN, Conn.—City officials here are trying to recoup an estimated \$2 million lost as a result of widespread municipal corruption. The city is covered by a blanket criminal policy for employees written by Insurance Co. of North America.

At least 80 employees, elected and appointed officials are believed to be involved in the promotion-selling scheme, says Mark Dubois, special assistant corporate counsel.

The city contends the wrongdoing will be covered by the INA policy, which indemnifies the city against losses suffered as a result of criminal or illegal activities of workers, Mr. Dubois said.

Each employee, he said, is covered for a maximum of \$25,000—the amount now sought by the city of 80,000.

However, the city has yet to present INA with actual proof of loss, pending the outcome of criminal proceedings against the accused. Twelve persons have pleaded guilty or been found guilty.

"The full extent of our loss could be tremendous. It may take a decade to total it," Mr. Dubois said.

The \$2 million sought would be used to pay investigation and prosecution fees, settle claims filed by disgruntled workers who refused to partake in the scheme and reimburse the city for pensions collected by workers in fraudulently assigned jobs.

INA acknowledged it was notified of the possible claim, but refused to comment further.

Sentry decentralization sets up regional offices

SENTRY INSURANCE has been restructured to decentralize its operations into four domestic centers and establish full support systems for all insurance lines and financial services.

The new structure "moves us much closer to our customers by placing operations at the regional level," said John W. Joanis, chairman of the board and chief executive officer.

Regional centers will be in Stevens Point, Wis., the home office; Concord, Mass.; Atlanta, and Scottsdale, Ariz.

Reinsurer formed

Rheinland, a German insurance

markets

group, has formed Rhineland Reinsurance Corp. of America Inc. through a stock purchase of Americana Excess & Reinsurance Corp., an Oklahoma company.

The reinsurer will be managed by Intercontinental Re Inc., a reinsurance underwriting and management company in Los Angeles and a subsidiary of Frank B. Hall & Co.

P/C program

A new broad commercial property/casualty program is available

through the Pine Top Insurance Co., says J. Gordon Gaines Inc., managing underwriter.

The casualty program includes large-limit capacity for umbrellas; primary, general and professional liability; buffers, and straight excesses. The broad, high-limit property portion can be combined with casualty.

Gaines has offices in Akron, Atlanta, San Mateo, Seattle and Sioux Falls.

Reinsurer merger

Button & Tiescher Inc., reinsurance intermediaries in San Francisco, has agreed to merge with Thomas A. Greene & Co. Inc. of New York. Greene is the reinsurance subsidiary of Alexander & Alexander.

The merger agreement calls for a 100% acquisition of all of Button & Tiescher's stock, the majority of which is held by IWest Insurance Managers Inc. IWest has agreed to the merger and will use the proceeds to finance a major expansion of new wholesale operations.

The value of Button & Tiescher's stock was not disclosed.

Button & Tiescher was founded two years ago by Leon E. Button and Edward W. Tiescher. The firm specializes in treaty and facultative reinsurance for West Coast clients. Mr. Button will become a senior vp of the West Coast offices of Thomas A. Greene & Co. Inc. and Mr. Tiescher a vp-facultative on the West Coast. Susan C. Fisch was appointed vp-casualty and facultative on the West Coast.

Their operation will form the nucleus for a growing reinsurance profile for Thomas A. Greene & Co. Inc. on the West Coast, A&A says.

Alexander & Alexander says it formed the Thomas A. Greene subsidiary earlier this year with the intention of developing a major presence in the international reinsurance community.

New offices

Raphael-Scala Co. Inc., a claims adjusting firm, has relocated to 116 John St., New York, N.Y. 10038, and 201 Chester Ave., Moorestown, N.J. 08057.

Pacific Compensation Insurance Co. has opened its headquarters at 2277 Fairoaks Blvd., Sacramento, Calif. 95825; 916-920-5484.

Ellis Crotty Powers & Co. Inc. has moved to new offices in Suite 700, Sanger Harris Tower, 8300 Douglas Ave., Dallas, Tex.

Acquisitions

Corroon & Black Corp. has agreed in principle to acquire **Biles & Cook Administrators Inc.** and **Total Health Care Services Corp.** of Los Angeles for an undisclosed amount of cash.

Brokerages **Mintz, Gorgan & Hanlon Inc.** of North Arlington, N.J., and **Joel L. Harrison & Co.** of Kearney, N.J., have merged.

Mission Insurance Group of Los Angeles has completed its agreement to acquire the property/casualty division of **Strauss Fuchs Organization**, a Kansas City, Mo., managing general agency, for more than \$5 million.

Fred S. James & Co Inc. has acquired a 50% interest in Honolulu-based **Davies Insurance Agencies Inc.** Theo. H. Davies & Co. Ltd. continues to hold a 50% interest in the firm. ■

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Litton lifts hold on foreign plans

By RHONDA L. RUNDLE

LOS ANGELES—After 10 years of building an international blanket insurance program, Litton Industries is allowing its broker's local correspondents to help division managers make more local decisions.

"Now that our divisions are comfortable with the program and the local correspondents understand it, we have begun taking advantage of their expertise," said Judith Everett, manager of property/casualty insurance at Litton.

The correspondents help division controllers evaluate risks, report values and submit claims, Ms. Everett says. "We also believe the local rep can assist us in understanding local insurance practices."

Litton Industries is a multinational conglomerate with annual sales of more than \$4 billion, about 80,000 employees and foreign operations in 50 countries, Ms. Everett told a CPCU All-Industry Day seminar here.

In 1969, Ms. Everett says, Litton Industries launched a program to bring its worldwide divisions under a blanket all-risk, liability and workers compensation/employers liability policy.

"That was the easy part," she recalled. The hard part was selling the individual divisions, which are separate profit centers, on the merits of giving up their local insurance agent and relying on someone in "majestic Beverly Hills" to provide coverage.

Division managers were skeptical. One by one, however, they relented. The divisions retain the right to obtain coverage on their own if they can prove their alternative offers equal protection at equal or better cost. This rarely

happens.

About five years into the program, Litton decided to self-insure the first \$500,000 of each property and business interruption loss and to retain 95% of each cargo loss, says Ms. Everett. The corporation, not the divisions, absorbs the deductible.

Each year, insurable value reports are submitted by the divisions to the corporate risk management department, which allocates a portion of total premium back to the divisions. Cargo claims are adjusted by the underwriter, who submits payment to Litton for 5% of each loss. The divisions are fully reimbursed by the corporation.

Annual visits to the European locations are a continuing part of Ms. Everett's job. She is responsible for domestic and international property coverage, including primary liability.

Corporate risk management also provides division management with an insurance manual that spells out coverage, deductibles and claims procedures.

"Our account executive, underwriter and I have just completed a series of international insurance seminars," Ms. Everett said. The one-day meetings in London, Frankfurt and Zurich were attended by top executives and key staffers from Litton's various international divisions.

"We introduced Litton's local management to the local broker representative, explained our program in detail, gave a sales pitch on loss prevention and advised managers what to do in event of a loss."

Since then, she adds, her office has received a flood of telephone and telex inquiries regarding risks and coverages. The seminars were so successful, Litton plans another in Amsterdam next fall and three in Europe every other year.

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Arbitrators fear fiduciary liability risk

By MARGARET LeROUX

WASHINGTON—Don't be surprised if an arbitrator asks to be named in your fiduciary liability insurance policy before agreeing to arbitrate a pension or other benefit plan dispute.

Arbitrators are taking stock of their fiduciary liability exposure under the Employee Retirement Income Security Act and are scared.

A ruling by the Labor Department a year ago that an arbitrator was a fiduciary and liable for the result of his ruling is still sending tremors through the ranks of arbitration professionals.

A work group of the Labor Department's Advisory Council on Employee Welfare and Benefit Plans heard arbitrators' concerns

about fiduciary liability. The group has recommended the Labor Department encourage underwriters to make it easier and cheaper for arbitrators to obtain fiduciary liability insurance.

Underwriters already seem willing to provide fiduciary liability insurance to arbitrators at a price: additional premium or at least the price of watered-down coverage for the corporation buying the fiduciary liability insurance.

The issue of arbitrators fiduciary liability arose in September 1979, when the Labor Department ruled that arbitrator Joseph F. Gentile, acting in a pension dispute in Southern California, was a fiduciary because he broke a deadlock between employer and employee plan trustees over an individual's

entitlement to benefits.

The ruling set aside the judicial immunity to liability an arbitrator has in collective bargaining cases. The Labor Department said Mr. Gentile exercised discretionary authority in the decision on the individual plan participant's rights, and that made him a fiduciary, not an impartial judge.

In its ruling, the department cited a section of ERISA that says a person is a fiduciary of a plan if he exercises any discretionary authority or control over a plan or its assets.

The department sees a ruling on an individual's rights as a discretionary decision. But arbitrators are considered impartial judges in collective bargaining and cannot be sued.

Most arbitrators aren't automati-

cally covered by fiduciary liability policies, but "just about all major insurers that provide fiduciary liability coverage will extend the contract to pick them up," said Roland Chiaradio, assistant secretary in the bond department at Aetna Life & Casualty. It is a leading fiduciary liability insurer.

However, extra coverage does cost more.

"Our premium rate filings include a provision for an additional premium charge whenever we add an additional person to a fiduciary liability policy.

"Our policy does not automatically cover outside administrators (and by inference, arbitrators) if they're not named," he added.

The Chubb Pacific group in San Francisco now considers arbitra-

tors part of a group that includes outside administrators of pension or benefit plans and attorneys, says underwriter James Bradley.

"Most outside administrators are picked up by the plan; attorneys are covered sometimes and arbitrators are just beginning to be included," Mr. Bradley said.

"Arbitrators can be added to the named insureds of a fiduciary liability policy," he continued. The addition may not even cost much more in premium.

"If the arbitrator is acting as professional, he's going to be acting prudently; he's doing this for a living. That means there's not necessarily an increased exposure if an arbitrator is added," he explained.

"Underwriters aren't as gun-shy of fiduciary liability today as they were five years ago," Mr. Bradley said. "For the most part, companies have had good experience with it."

The addition can, however, reduce coverage for others, warns Aetna's Mr. Chiaradio.

"When you name outsiders in a fiduciary liability policy, you water down the coverage" since there is an annual aggregate limit, he said.

There is a danger that adding an arbitrator reduces the coverage for plan administrators, trustees and directors who are more exposed to the liability, he noted.

Even with insurance, arbitrators are balking at the suggestion they be held liable for their decisions in benefit disputes.

"The implication is that the arbitrator is less than an impartial judge," said Richard Lerner, counsel for the American Arbitration Assn. Its 55,000 members are called on to settle a variety of labor, benefit and pension plan disputes.

"Why should a qualified arbitrator take on the additional hassle of possible litigation if he's involved in a liability lawsuit as a fiduciary?" he asked. Rather than open themselves to such liability, arbitrators are going to refuse such cases, he warned.

When the arbitrators this fall took their complaint to the work group of the Labor Department's Advisory Council on Employee Welfare and Benefit Plans, they said most of the arbitrators' decisions involved individual disputes rather than collective bargaining.

"The work group does not treat lightly the possible repercussions for employees and employer organizations if the continued uncertainty over their (arbitrators') status under ERISA compels many good arbitrators to shun benefit plan cases," the work group's report states.

The arbitrators also told the work group they feared their decisions in controversial pension or benefit disputes could be influenced by the fear of being sued as a fiduciary.

That risk "could cloud the issue before the arbitrator and steer him toward a safe decision rather than one based exclusively on the merits (of the case)."

No claims have been filed yet against arbitrators acting in a fiduciary capacity, and underwriters say the arbitrators' fears are a bit premature.

"They're finding themselves in the same boat as trustees and plan administrators did when ERISA first came out," said Mr. Chiaradio of Aetna.

As ERISA evolves, benefit and pension plan professionals are accepting the necessity of fiduciary liability coverage, Chubb's Mr. Bradley said. "We'll be seeing a lot more professionals—arbitrators included—wanting fiduciary coverage in the future."

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Losses predicted to continue

HARTFORD—The insurance industry most likely will continue to lose money on its underwriting through the middle of the 1980s, an economic forecaster predicts.

"As long as interest rates stay high and investment income continues to provide its leverage, I don't see things turning around," Leandro Galban, vp of Donaldson, Lufkin & Lerrette, told a gathering of industry officials here.

"The underwriting cycle very possibly will not break into the black until the mid-'80s."

The combined ratio for the industry will probably range from 104% to 107% in the next three years, with levels of up to 112% predicted if inflation rises, Mr. Galban said.

But he said that still won't be catastrophic for the industry.

"The picture on returns is far from dismal, even though underwriting is in the red and will continue to be so for a while," he said. "The economy we are in right now provides a lot of investment leverage."

Investment income probably will grow 17% this year, 16% next and 14% in 1982, Mr. Galban says. This will more than offset losses in 1981, which he predicts will be the largest ever.

Despite these losses, Mr. Galban expects the industry to continue to chalk up revenue gains in the next three years, of 5% this year, 11% in 1981 and 18% in 1982.

'81 Congress will debate product liability law: Exec

HARTFORD—The battle for new product liability laws will escalate in Congress in January, predicts Gilbert Simonetti, a partner in the Washington office of Price Waterhouse.

The near passage of the Risk Retention Act and the Supreme Court's recent decision in a California DES product liability case have fueled calls for reform, he said.

Mr. Simonetti, who spoke to a gathering of industry officials here Oct. 29, said there is a 50% chance Congress will pass the Risk Retention Act in its special post-election session, but he doubts it.

"But most observers feel that if it is not enacted this time, it will be

done in the next session," he said.

The Risk Retention Act, which would allow manufacturers to pool their product liability risks, has passed the House and has broad support in the Senate. It died in the fall congressional session when a tourism bill was hooked onto it in a move to get both passed (BI, Oct. 6).

However, in January the new Congress will not be able to avoid action to entirely overhaul the nation's product liability laws, Mr. Simonetti predicted.

"Some people feel the Risk Retention Act is just a stopgap," he said. "It doesn't go to the heart of the product liability matter. They feel some federal standards are

needed."

The Supreme Court's DES decision has made this especially true, he said. In that case, the high court let stand a California court decision that allowed victims of the cancer-causing drug DES to sue DES manufacturers as a group when the specific manufacturer cannot be identified (BI, Oct. 20).

Mr. Simonetti said that decision has "staggering product liability implications."

"There is no need to tell you how this will impact the premiums set by insurance companies for product liability coverage," he said.

Some legislators are lining up behind a bill proposed by Rep. Richardson Preyer (D-N.C.) that would establish a new federal tort law making it harder for injured consumers to sue manufacturers. Among other things, it would make it difficult to sue manufacturers 10 years after the product was sold.

The Preyer bill, which Mr. Simonetti described as a "laundry list of issues that impact the product liability field," has no chance of being cited on in the special session, but will be aggressively pushed by Rep. Preyer next year, he said.

Another congressman who is expected to be hard-selling his proposals is Sen. Howard Metzenbaum (D-Ohio), the Senate's most enthusiastic supporter of federal regulation of the industry.

However, he doesn't expect far-reaching changes to be enacted soon.

"I don't think we will see federal regulation of a broad scope in several years to come," he said. "I think the case can be made that the most effective regulation is at the state level. But there will be some chipping away, particularly in light of the DES decision." ■

52 great issues coming up!

ISSUE NUMBER

ISSUE DATE

AD CLOSING

50. EMPLOYEE BENEFITS

DEC 15

DEC 2

more to come :

ISSUE NUMBER	ISSUE DATE	AD CLOSING
44.	NOV 3	Oct 22
45. Spotlight Report: Reinsurance	NOV 10	Oct 29
46.	NOV 17	Nov 5
47.	NOV 24	Nov 12
48.	DEC 1	Nov 19
49.	DEC 8	Nov 25
50. EMPLOYEE BENEFITS	DEC 15	Dec 2
51.	DEC 22	Dec 10
52.	DEC 29	Dec 17
1. CAPTIVE & SELF-INSURANCE REVIEW	JAN 5, '81	Dec 19
2.	JAN 12	Dec 29
3.	JAN 19	Jan 7, '81
4.	JAN 26	Jan 14

comings & goings: buyers

Kennecott taps Feick

PHILIP J. FEICK, 35, has assumed risk management responsibilities at Kennecott Corp. in Stamford, Conn. Mr. Feick will assume the duties of former manager of insurance and risk management Edith Lichota in addition to his assistant treasurer's duties. They include payroll, benefit administration and administrative services. Ms. Lichota, as reported, has joined Insurance Co. of North America (BI, Oct. 20). Mr. Feick reports to vp/treasurer Peter W. Brengel.

Chase Manhattan Bank in New York has appointed Mario Rosellini, vp of the risk financing insurance division, to assume international insurance programs once handled by Joseph Palazzolo, who left the company as reported. Mr. Rosellini, who will assume these responsibilities temporarily, has been with the bank 14 years.

U.S. Home Corp. in Houston has named Glen McCleskey director of risk management to replace Thomas Myers, who left the company as reported. Mr. McCleskey, who reports to Tim Humphrey, senior vp of auditing, previously was an associate with consultants Robert Hughes Co. in Houston. ■

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Lewis to oversee Prudential entry into Japan sales

NEWARK—Robert F. Lewis II was elected vp of group and diversified operations staff at The Prudential Insurance Co. of America, headquartered here.

He will be responsible for the Sony-Prudential joint venture, in which group and individual life insurance will be sold in Japan, and for the development of Prudential diversification strategy. **Kennett L. Simmons** was elected vp of the group insurance department.

Other insurer changes:

Jeffrey E. Warner named marketing manager in the special risks unit of Santa Ana, Calif.-based Western Employers Insurance. He will help Western Employers' clients develop and coordinate large risk programs and report to **Allon J. Greene**, newly appointed director of special risks.



Warner

George W. Lee elected president of the Bermuda-based operations of the Crum & Forster insurance organization. Before coming to Crum & Forster, Mr. Lee was in charge of the Bermuda office of General Reinsurance Corp.

Reinsurers

Joseph P. Hartnett joined the New York office of Copenhagen Reinsurance Co. of America as vp of the company's treaty department. Mr. Hartnett formerly was assistant vp of Skandia America Reinsurance Corp.

Joseph L. Fox appointed president and chief executive officer of Continental Reinsurance Co. in New York. Mr. Fox joined Continental Re from Swett & Crawford Group, where he was vp in charge of administrative operations and corporate planning.

Excess/surplus

Lorraine Knapp promoted to senior vp of Chicago-based Stewart Smith Mid America. Other promotions include: **Jack McGeehan**, vp-casualty; **David Selwood**, vp-transportation; **John Howard**, assistant vp-aviation, and **Ian Walker**, assistant vp-production.

E. Timothy Kenneally elected vp of Seaboard Surety Co. of New York. He will assume executive and administrative responsibilities in the business development department.

Brokers

J. Alan Fetterman and **Frank D. Svitek** promoted to vps of the Clair Insurance Agency Inc. of Erdenheim, Pa. **Spencer Kauffman** has joined the same firm as a specialist in the commercial insurance area.

Daniel Rowland appointed vp-manager of the commercial accounts division of Frenkel & Co. Inc., a New York brokerage. Also at Frenkel, **Edward R. Royals** named vp-manager of the employee benefits division.

Other suppliers

Gary K. Swager joined A.S. Hansen Inc. in Chicago as a senior consultant, specializing in health and welfare and group insurance programs. **Edwin C. Polsdofer** of the Dallas office promoted to man-

comings & goings: industry

ager of plans/legal.

Michael G. Herberger named executive vp and chief administrative officer of Homeland Industrial Corp. and vp of Homeland Insurance Co. He formerly was California manager and vp of corporate services for Scott Wetzel Services Inc.



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Mike Allan is John Hancock's International Group Program Director of Sales and Service for North American multinationals.

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HOW IS YOUR STAFF ORGANIZED TO MEET YOUR CLIENTS' NEEDS?

The answer in our case is that, of the 17 people working full-time in Boston on IGP sales and service for North American multinationals, fully two-thirds are assigned to teams that work exclusively for existing clients.

These teams are able to provide comprehensive service to each of their accounts on a continuing basis. They become very familiar with each client's needs and have the resources to solve their problems. Furthermore, I believe

these teams are staffed with some of the best people in the business.

WHAT MAKES THE IGP STAFF SO DIFFERENT?

They have the know-how and flexibility to do what works best. And because they bring extensive experience from diverse backgrounds including actuarial, underwriting and administration, each adds expertise to the team effort. In fact, two of our people were corporate international employee benefits managers before joining us. Their insights into the client's perspective are invaluable.

Our ongoing training program assures that everyone stays current in the fast-changing international employee benefits environment. Because of IGP's substantial size, we have more resources that enable us to train our people thoroughly.

YOU REFERRED TO SIZE A COUPLE OF TIMES. ARE YOU SAYING BIGGER IS BETTER?

Not necessarily. Basically, the size of our staff is geared to the volume of our business. But being bigger does allow us to offer certain advantages.

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Bituminous puts policy into simplified language

A PLAIN language commercial umbrella liability policy has been introduced by Bituminous Insurance Cos. of Rock Island, Ill.

The new policy is available only through Bituminous contract agents, according to the company.

The policy uses the "you" and "we" approach rather than the usual "insured this" and "company that" language, Bituminous says. It contains "pay on behalf of" coverage rather than "indemnity" coverage and calls for payment of "ultimate net loss" damages.

The aggregate limits of liability apply annually and separately to each of the following:

- All bodily injury and property damage included within the products hazard or the completed operations hazard or both combined.
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Bituminous will write coverage up to \$5 million. Before writing an umbrella policy, Bituminous requires policyholders to have minimum coverages in general liability (\$500,000 per occurrence and \$500,000 aggregate), property damage (\$100,000 per occurrence and

products & services

\$100,000 aggregate, except for contracting, which has minimum limits of \$250,000 per occurrence and \$250,000 aggregate) and auto liability (\$250,000 per occurrence and \$500,000 aggregate).

For further information, contact William J. Herold, senior vp, Bituminous Insurance Cos., 320 18th St., Rock Island, Ill. 61201; 309-786-5401.

Hull, P & I

SANTA ANA, Calif.—A special hull and protection and indemnity program for commercial vessels valued at \$1 million or less has been created by Hull & Co. Inc.

Hull developed the product after determining that the market was severely limited for such coverage, said Jim Tjomsland, marine and aviation specialist for the company.

The hull portion of the coverage can be written for any amount, although the program is aimed at the \$1 million or less vessel, he explained. Protection and indemnity coverage is normally written for \$100,000 to \$300,000, with higher limits available.

For information on rates, contact Hull & Co. Inc., 1441 E. 17th St., Santa Ana, Calif. 92701; 714-547-0793 or 213-624-8622.

Computers, condos

Reliance Insurance Co. of Philadelphia has launched two new products, the minicomputer policy and Habitat, for apartment, condominium and townhouse associations.

The minicomputer policy, introduced in July, is for business people who own or lease small computers. Computers, terminals, teleprinters and other related equipment are covered under the policy, which includes the cost of replac-

ing lost data on discs or tapes, said Bob Ward, head of marine underwriting.

Habitat, launched in Denver in early April and then in Orlando in mid-August, will be offered in 12 states by the end of the year and available in most other states by 1981.

The product features valuation on a replacement cost basis, as opposed to a depreciated amount; comprehensive general liability, including premises medical payments, and coverage for unlimited loss of rental income for 12 months.

For further information, contact Reliance Insurance Cos., 4 Penn Center Plaza, Philadelphia, Pa. 19103; 215-364-4000.

Legal expenses

The coverage range for business legal expense insurance has been extended to \$50,000 by NAS Insurance Services from the previous top limit of \$25,000. Firms with as many as 100 employees can qualify for this insurance, which has previously been restricted to firms with 50 or fewer employees, NAS says.

Business legal expense insurance provides legal defense expense coverage for businesses and professionals against unforeseen lawsuits. Coverage also includes consultation and plaintiff action costs.

The NAS plan features prior acts coverage and coverage of directors and officers of an insured corporation, if named in a suit against the business. The policy automatically includes benefits for legal defense expenses of the deductible portion of a liability policy.

Material on the program is available from NAS Insurance Services, P.O. Box 54831, Los Angeles, Calif. 90054; 213-451-5988. ■

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• **Making the Actuarial Report Useful to Management**, a booklet by Meidinger Inc., deals with a new, meaningful way to analyze pension obligations and touches on some of the common pension funding myths currently under scrutiny. Copies are available from Terry Vincenti, Meidinger Inc., P.O. Box 35740, Louisville, Ky. 40232; 502-499-1240.

• A newsletter entitled **Lump Sum Options in Pension Plans: Pros and Cons** is available from Kwasha Lipton, consulting actuaries and employee benefit services. For a free copy, write Department M, Kwasha Lipton, 429 Sylvan Ave., Englewood Cliffs, N.J. 07632.

• Industrial Risk Insurer's publication **How to Prevent Winter Fires** is available to help identify and correct conditions that could impair fire protection systems and result in a winter loss. For a free copy, contact Communications Department, IRI, 85 Woodland St., Hartford, Conn. 06102.

• **An Insurance Buyer's Checklist for Homebuilders** lists various types of insurance applicable to homebuilders. The booklet gives insight into alternatives, prepares specifications and shows how to ask for competitive bids. Copies are available at \$10 each from In-

ternational Risk Management Institute, 10300 North Central Expressway, Suite 350, Dallas, Tex. 75231.

• **The 1981 Tax Companion**, a quick-reference tax handbook for the insurance industry, has been announced by R&R Newkirk. The new edition, available Jan. 5, 1981, will provide information on the income, estate and gift taxation of advanced underwriting areas including life, health and business insurance, pension and profit-sharing plans, retirement plans, group life insurance, mutual funds, estate planning and many other topics. The 775-page book is \$2.95 if purchased before Dec. 1, 1980, and \$4.95 afterward. For information, contact R&R Newkirk, P.O. Box 1727, Indianapolis, Ind. 46206.

• **The pregnancy discrimination act** and its impact on employers is the subject of a pamphlet prepared by the U.S. Chamber of Commerce. The pamphlet gives a background of the act and outlines the employer's responsibilities under the new legislation. Cost is \$1.25 for a single copy, \$1 each for two to nine copies and 75 cents each for 10 or more copies. Write the U.S. Chamber of Commerce, 1615 H St. N.W., Washington, D.C. 20062 and request publication #6088. ■

NAEHMO conference

Kaiser executive urges employers to develop HMOs

By CAROL BLITZER

SAN FRANCISCO—James A. Vohs is glad to see insurance companies offering competition for the health maintenance organization he heads and would like to see more of it.

"The initiatives of insurance companies, such as Prudential and INA, in forming and acquiring group health practice HMOs will stimulate others in the insurance industry to follow their leads," said the president of Kaiser Foundation Health Plan Inc., the largest U.S. group practice HMO.

He believes HMOs, which offer health care for a prepaid fee, are one answer to rising health care costs. But, he says, the rate of formation of new group practice HMOs will depend on both supply of capital and management resources.



Vohs

Major corporations are the logical source of the start-up capital and management talent needed to establish a group model HMO, he told the National Assn. of

Employers on Health Maintenance Organizations conference here Oct. 23-24. The demand for competent managers will increase in the 1980s, he predicted.

He says the federal Office of Health Maintenance Organizations will have less capital available in the future for feasibility studies, planning and development grants and operational loans.

Mr. Vohs, who obviously is a supporter of HMOs, pointed out several statistics on their growth:

- The number of HMOs increased almost fivefold from about 50 in 1973 to 230 at the end of 1979. Enrollment reached nine million last year.

- About 85% of the people enrolled in HMOs are members of plans developed without federal financial assistance.

- Since OHMO began providing financial assistance, it has dispersed \$103 million in grants and \$155 million in loans.

- Of 117 plans that became federally qualified HMOs, only seven failed during the 1970s. Of 70 non-qualified plans, about 60 failed.

Quoting a study, Mr. Vohs pointed out that "the total costs of personal health care services for populations enrolled in our program and others like ours were 10% to 40% less than the costs for populations enrolled in other types of plans."

"HMOs have long been recognized for holding down costs without losing quality care," added Nathan Stark, undersecretary of the Department of Health and Human Services.

Mr. Stark pointed out that Americans spent \$212.2 billion on health care in 1979, 9% of the gross national product.

"Inflation is not the only factor," he said. "There are serious inefficiencies and hospital cost increases. I believe that voluntary efforts are important, but not sufficient."

"I believe it is important that employers be active in supporting and advocating public policies that stimulate private health care initiatives and promote competition in the health care system," Mr. Vohs said.

Kaiser is not planning further geographic expansion, but is offering consulting services to other HMOs or corporations considering setting up their own HMOs. ■

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IBM plans to increase HMO offerings

By CAROL BLITZER

Employer group changes name

Reflecting its members' interests in a broad spectrum of cost-effective health care options, the National Assn. of Employers on Health Maintenance Organizations is changing its name.

The new name, National Assn. of Employers on Health Care Alternatives, was announced at the group's fourth annual meeting Oct. 23-24 in San Francisco. More than 60 companies were represented at the conference, which focused

on health care options.

NAEHCA's goals include development and promotion of health education, wellness programs and health care coalitions and dissemination of information on health facility utilization reviews and absenteeism programs.

Ruth H. Stack, executive director, said other prime issues this year are HMO insolvency and mandatory multiple choice health care programs, which NAEHCA strongly opposes.

SAN FRANCISCO—Health maintenance organizations are an integral part of IBM's overall health care strategy that it plans to use even more, reports Harold P. (Pete) Kneen Jr., director of employee benefits.

By the end of this year, nearly half of IBM's 80,000 employees nationwide will be eligible to join an HMO.

IBM plans to offer more options as they become available, said Mr. Kneen at the National Assn. of Employers on Health Maintenance Organizations conference here Oct. 23-24.

"Any potentially meaningful private sector efforts should be thoughtfully considered and actively pursued" before government steps in to do something about rapidly escalating health care costs.

"We have put a great deal of emphasis on communications," Mr. Kneen said. When an HMO is offered, employees receive an analysis comparing IBM's health insurance coverage with the HMO's services.

Employees are encouraged to talk to other HMO subscribers and visit the facilities. IBM produced a short film with comments from employees participating in HMOs and has discussed HMOs in its company publication.

Administering the HMO option for a company as large and widespread as IBM has had its difficulties. Plant, laboratory and headquarters locations usually have sufficient personnel to handle HMO administration, Mr. Kneen explained. But IBM formed a special four-person HMO unit at corporate headquarters to provide support to the smaller locations.

Enrollment has grown to 7.5% of about 80,000 employees participating in 98 HMOs today, from 7% of



"We put emphasis on communications," says Harold Kneen.

26,000 employees participating in five HMOs in 1975.

One-third are individual practice associations and the rest are group models. IBM's approach is to offer all federal or state accredited HMOs, both closed panel and IPA.

So far, the HMOs' cost-saving ability is being taken largely "on faith," Mr. Kneen said. But he said the implications are clear that they represent a cost-effective delivery system.

Cost is not the only factor affecting employee participation in HMOs, Mr. Kneen noted. Geographical factors and general community acceptance are as important.

In the future, IBM will focus on increasing HMO availability to employees, improving education regarding the HMO option and administering the plans, Mr. Kneen said.

IBM also is playing an active role in community-based efforts to determine HMO feasibility and development of new programs.

"We believe it is important that any HMO development effort have broad community support and not merely be the product of a narrowly based special interest group," Mr. Kneen added.

IBM's health care strategy assumes each individual has a significant responsibility for his or her own health. It believes programs should be voluntary, privacy must be maintained and the company should not take over all financial responsibility.

Broke HMO closes doors

TOLEDO, Ohio—Health Plus, a health maintenance organization serving about 8,000 subscribers here, closed its doors Oct. 15 because of insolvency.

The group practice health plan, which was opened about two years ago, had been offered by about 100 area employers, said state insurance warden Jim Touse.

"It was a federally qualified HMO that had run through the federal money and then closed," Mr. Touse explained. He expects most outstanding debts will be covered by the HMO's remaining assets.

Arrangements have been worked out for former HMO subscribers to receive immediate coverage through either their employer's indemnity plan or Blue Cross of Northwestern Ohio. Pre-existing conditions should be covered under the special arrangements, Mr. Touse said.



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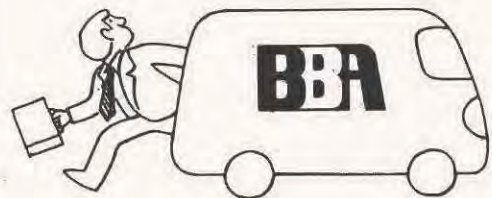
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Sandia polices absences

SAN FRANCISCO—Employees who play hooky at Sandia Laboratories have to answer to an employer that follows a tough program to reduce absenteeism.

Sandia of New Mexico estimates it has saved \$966,000 or 36 man-years of production during the first year of its Sickness Absenteeism Monitoring Plan, says Eldon E. (Tex) Ritterbush, supervisor of customer and supplier accounting. The plan, which penalizes employees with high absenteeism records, was designed to assist employees with health problems, Mr. Ritterbush said. He explained the plan to a small group at the National Assn. of Employers on Health Maintenance Organizations conference Oct. 23-24 in San Francisco.

The program has five steps, each progressively more punitive. It excludes employees with known long-term medical problems, but cracks down hard on others.

An employee is placed in the plan if he or she has four separate absences or is out 25 days in a year or in any one of the previous three years.

Once in the program, an employee progresses another step with each absence and is penalized accordingly. Ultimately he or she can be fired.

The steps are:

- The absence is reviewed by the medical department; the supervisor is notified; a discussion is set up with the supervisor and the employee is informed of available support services, such as a clinical psychologist and alcoholism counseling.

- A second discussion is held with the supervisor; the employee is advised that he or she will not be paid for the first two days of the next absence.

- A discussion is held with the next level supervisor; the employee is advised he or she will be suspended for five days if absent again.

- A second discussion is held with the next level supervisor; a formal review is held by the employee benefits committee to recommend action for the next absence.

- The employee is suspended or fired, as recommended by the committee and the company vp.

An employee moves back down the scale for each three-month period he or she is not absent because of sickness, Mr. Ritterbush explained.

Mr. Ritterbush is convinced the plan works. Without it, he estimated 778 employees would be absent more than four times a year. Of these, he figures 42 would reach step four and 26 would progress to step five.

But under the plan, none of the 197 employees enrolled during the first year progressed beyond step three.

Chemical study

WASHINGTON—A new research project administered by the Chemical Manufacturers Assn. here will examine the toxicological aspects of several industrial chemicals widely used as solvents and intermediates in manufacturing other chemicals and synthetic fibers.

The study, sponsored by 10 chemical makers, will review literature to compile information on the chemicals, known as ketones, and determine the need for further testing.



Photo: Carol G. Blitzler

The Sickness Absenteeism Monitoring Plan has saved an estimated \$966,000 during its first year, says Eldon E. (Tex) Ritterbush.

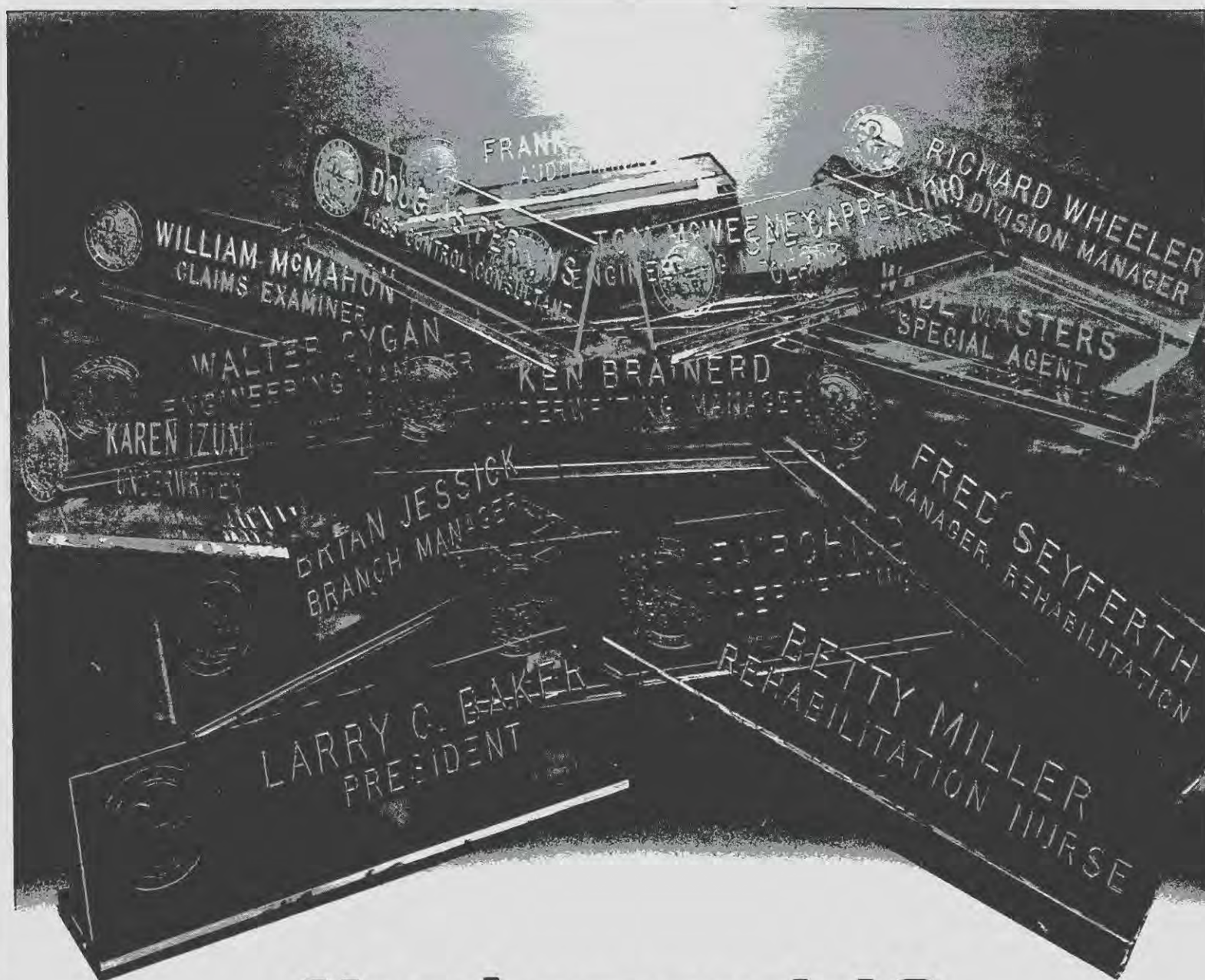
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RIMS to hold seminar

NEW BRUNSWICK, N.J.—The New Jersey chapter of RIMS is holding a seminar Nov. 19 at the Holiday Inn in Parsippany to address the topic of risk management during construction projects.

Speakers will be Jerry Latrell of Nabisco, Stu Fuhrmann of Foster Wheeler Energy Corp., Vince Borelli of Marsh & McLennan, Alfred Haynes and Robert Planer of Johnson & Higgins and Ron McCartney of General Instrument Corp.

Topics to be covered during the all-day session starting at 10:30 a.m. are: contractual and financial considerations; casualty and property insurance; loss control; safety, and claims actions.

Nonmembers as well as members are invited. Cost including lunch is \$40 for nonmembers and \$15 for members.

Reservations can be made with Stephen W. Scammell, Becton Dickinson & Co., Paramus, N.J., 201-967-3870.

The deadline for reservations is Nov. 12.

Engineering model helps assess risk

By CAROL G. BLITZER

PALO ALTO, Calif.—Airplanes crack, steam turbines crash, nuclear reactors malfunction, compact cars ignite on impact. This is the stuff from which risk managers' nightmares are made.

Finding out why these accidents occur—and how likely they are to happen again—is the job of Failure Analysis Associates, a Northern California firm of engineering and metallurgical consultants.

"We are trying to develop quantitative methods to assist people making decisions about risk," explained Dr. Charles A. Rau Jr., vp and general manager.

In the past, people have been reluctant to discuss costs and safety in the same breath, he points out. "Because of that, people have not come up with a rational basis upon which to make decisions about safety," said Dr. Rau.

"It's not possible to make a world where we have no risk. There's always a cost-risk trade-off. The question is, how much are we willing to spend to make a product how much more safe?" he added.

Founded in 1967 by a group of Stanford University professors, Failure Analysis Associates has grown to more than 75 employees with offices in Los Angeles, Houston, Phoenix and Palo Alto. Gross annual revenues are between \$4 million and \$5 million.

Few problems seem too big for the company, but not everyone can afford its expertise.

"A person with a \$50 problem can't afford to come to us because an hour of our time will cost him more than his problems," Dr. Rau



Photo: Carol G. Blitzer

"People have not come up with a rational basis upon which to make decisions about safety," says Dr. Charles A. Rau Jr.

explained. But someone severely disabled from a serious accident might justify spending hundreds or thousands of dollars in detailed engineering analysis if it were the key to recovery for those damages. "It's really a matter of whether the size of the problem justifies the expense," Dr. Rau said.

A small problem involving a broken part could take minimal testing and cost \$2,000 to \$3,000. The other extreme is a detailed engineering analysis of a major turbine failure for a power plant. That job might take two years and cost \$200,000, Dr. Rau explains.

Past clients have included Ford Motor Co., which recently won a criminal suit involving its design of the Pinto gas tank. The consulting firm helped prove that other compact cars suffered from the same design problems.

Failure Analysis Associates is also working on a Ford transmission problem in which cars allegedly begin to roll while in parking gear. The company also investigated why Ann-Margret was injured in a Las Vegas nightclub when the stage she was on collapsed a couple of years ago and what made a steam turbine crack.

One of the major reasons to call in Failure Analysis Associates is to provide independent analysis.

"There's usually some question of credibility," said Ken Kautz, safety administrator at Marriott's Great America in Santa Clara, Calif. "Other organizations who want to examine what happened would probably be more skeptical of work in-house."

Great America called in the company earlier this year to investigate an accident in which a boy was killed on a roller coaster. The case is still under litigation. Mr. Kautz says Great America is insured by Liberty Mutual, which sent in engineers during construction of the park and after it opened.

Willy Hammer, a systems safety expert at Hughes Aircraft, agrees companies tend to listen to an independent source.

"Some companies have personnel with preconceived notions, and it's hard to change them. Sometimes you get an outsider and they can come up with things

the company's own people haven't been able to see because of those preconceived notions."

"We do a thorough, detailed engineering analysis," said Dr. Rau. "If the results are unambiguous and credible to both sides, litigation usually ends. People look at the facts and they settle the case."

Although its emphasis is on materials or parts failure, Failure Analysis Associates also has a human performance group that assesses human errors. That error could be made by the user, manufacturer, assembler, inspector or designer.

Dr. Rau recalls a case in which a scuba diver was alleged to have accidentally turned on a certain switch. After analysis, it was found that with all his gear in place, it would be physically impossible for a diver to reach the switch.

More than half of the company's business is failure prevention or risk assessment, rather than analysis of a catastrophe. As product liability exposures rise, "companies are becoming more and more concerned that defects in product design might cause an accident and a lawsuit," explained Mr. Hammer.

Failure Analysis Associates is called in by attorneys, insurance companies, risk managers and manufacturers and does what underwriters do, only on a more quantitative basis.

Using a "combined analysis," it figures failure probability by examining the history of a product and its components and performing an engineering analysis. That analysis might include building a scale model and testing it.

"When you come up with a new product, there's no data," said Dr. Rau. "If you want to make an insurance decision or an engineering decision about reliability or efficiency, you have to have some way of estimating risk."

With a brand new product, Failure Analysis Associates can assess risk through a probability engineering approach. An engineering model is built and the statistical reliability figures of all components are multiplied together to get risk and failure probabilities for the whole product.

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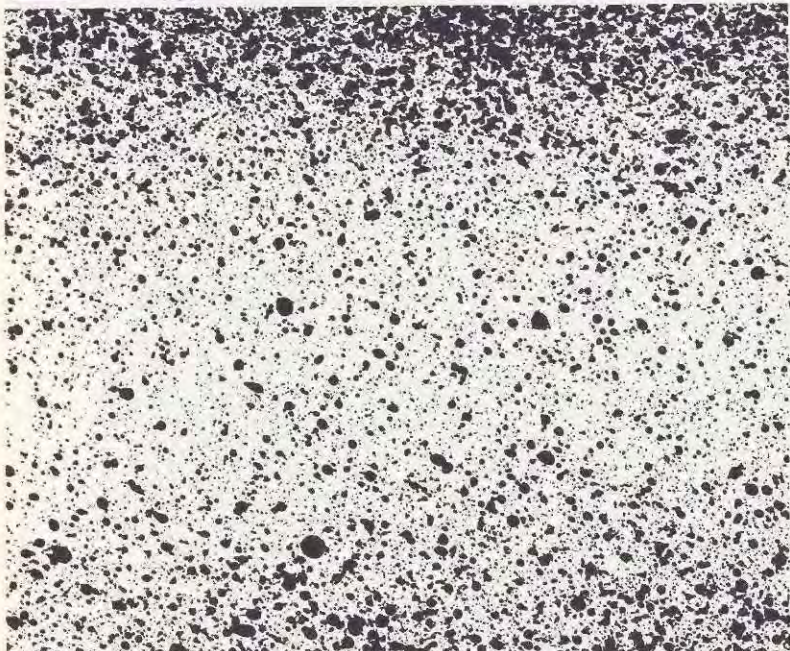
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High voter turnout aids work comp reform drive

By EILEEN NORRIS

COLUMBUS, Ohio—Last week's heavy voter turnout helped supporters here who favor a competitive workers compensation insurance system get the signatures needed to bring the issue to a vote in 1981.

Backers of the initiative to break the monopoly of the state workers compensation fund were expected to get more than enough signatures from voters at polls on election day, said Douglas N. Avery, executive vp of the Independent Insurance Agents Assn. of Ohio. Slightly more than 284,000 names were needed, equal to 10% of the vote in the last Ohio election.

But even before supporters were claiming victory in their second attempted petition drive, opponents were criticizing the methods used to get those signatures.

AFL-CIO of Ohio spokesman John Thomas said the IAAO and the American Insurance Assn. paid petition circulators more than \$1 million for the signatures they collected on Nov. 4.

"They talk about free enterprise, but they're paying petitioners for every signature collected," Mr. Thomas said. "That has nothing to do with free enterprise."

Mr. Avery confirmed that petitioners were getting paid for every signature gathered, but he defended the practice as being "completely legal."

"Let me point out that it's not uncommon to pay solicitors," Mr. Avery said. "They're (the AFL-CIO) just trying to demean our effort."

\$3.6 million lawsuit could bankrupt suburb

Continued from page 3

necessary," Mr. Murray said. South Tucson officials are not interested in delaying the outcome of the case for too long, however, because a \$984 per day interest clause was tacked onto the award, "and if we have to pay, we will have to pay much more," Mr. Murray said.

The injured officer is receiving full workers compensation, pension and Social Security benefits in the meantime, Mr. Murray said.

The suburb's officials are grappling with the problem of how to raise the necessary money if the courts ultimately decide in the police officer's favor. Its \$100,000 worth of liability insurance with the Jefferson Insurance Co. will hardly help and its current annual budget is only \$2.7 million.

Officials are still mulling four alternatives for raising the money if they have to pay.

Reorganization under Chapter 11 of the federal bankruptcy law is possible and so is floating a bond issue, with the possibility of the plaintiffs agreeing to a reduced award.

A special tax assessment, however, is the least likely option, because Arizona law requires a special election to approve the tax. It's doubtful South Tucson residents would vote to tax themselves.

The suburb could sell its property, but this also has its drawbacks. The municipality owns only a small amount of property worth less than the total award, Mr. Murray says.

During the trial, Mr. Garcia's attorney argued that South Tucson, not the police officer who fired the

Ohio is the only industrial state where workers compensation is insured exclusively by a state fund.

Some 5,000 petition circulators staffed 4,000 polling places the day of the general election, receiving an average of 25 cents per signature, Mr. Avery said.

Petitioners who were able to get more than a few hundred signatures were paid as much as \$1 a signature, he said.

"All this drive does is qualify us to be on the November ballot in 1981," Mr. Avery said. "Nothing illegal has taken place."

A previous petition drive that ended in August 1979 after five months fell short of its goal. Backers of the initiative want to break up the state's monopoly on workers compensation insurance. Private insurers cannot now write workers compensation insurance in the state.

Ohio is the only industrial state—and one of six states nationwide—where workers compensation is exclusively underwritten by a state fund. The Ohio Manufacturers Assn. has said employers are reluctant to vote for a change because they fear a move to a competitive system will increase costs (BI, June 30).

A monopolistic workers compensation insurance system is just the way union representatives want to keep it, says AFL-CIO's

Mr. Thomas.

"We're fighting the change because we know there is just so much money in workers compensation funds out there," he said. "We look at workers compensation as a social insurance program—there's no need for profit."

He said the AFL-CIO plans to lobby between now and next November to defeat the proposition. ■

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shot, was liable for the injury because the suburb poorly planned and executed the attempt to apprehend the gunman. Mr. Garcia, a Tucson police dog handler, was on the front porch of the gunman's home after releasing his animal to try to subdue the suspect, according to reports.

The South Tucson officer, however, mistook Mr. Garcia for the gunman and opened fire.

Mr. Garcia was participating in the operation under a mutual aid agreement that calls for law enforcement agencies to assist each other when needed.

Mr. Murray argued, however, that Mr. Garcia was working under the supervision of the South Tucson police department at the time. Therefore, Mr. Garcia was an employee of the city of South Tucson, giving him no more right to sue the suburb than his own employer, the city of Tucson.

He also countercharged that the Tucson police force was negligent because Mr. Garcia went to the porch on the orders of a supervisor from his own department, not the South Tucson police. "The South Tucson officer did not have a reason to believe he (Mr. Garcia) would be there," Mr. Murray said.

The suburb carried only a meager \$100,000 in liability coverage because its previous insurer canceled after a police officer in 1977 shot and killed a civilian who reportedly tried to run him over with an auto, Mr. Murray said. "\$100,000 was all we could get at the time and the premiums were exorbitant."

South Tucson now has liability insurance limits of \$1 million, underwritten by Drake Insurance Co. and brokered by Fred S. James. ■



MEMBER, MISSION INSURANCE GROUP INC.

Panel prepares an endorsement on volcano loss

Continued from page 3

Co. Inc. in Seattle. The task force could:

- Suggest a standard endorsement for all companies to use.
- Compile a set of minimum principles of what should be included in an endorsement and let each company write its own.
- Develop definitions of explosion to include volcano eruption, including the dropping of ash.

The problems with business interruption losses also are being considered, Mr. Solon said, but won't necessarily be addressed by specific wording. "If you define explosion to include volcanic eruption and the deposit of ash," he said, then coverage under business interruption policies follows automatically.

Another committee member doubts whether the committee can deal with the business interruption issue because of the amount of controversy and money involved.

"Most companies that will pay for ash removal will not pay a dime for business interruption," he added.

It's also been proposed that a \$250 deductible apply to losses from volcanic eruptions, but that there be no additional premium charge when the endorsement detailing volcano coverage is attached to policies.

The \$250 deductible "would knock out the nuisance claims," said Richard Farrell, public affairs consultant of the Washington Insurance Council.

Mr. Jarvis pointed out that only about \$14 million to \$15 million has been paid out to date. "Considering the magnitude of the blast, the cost is not that much," he added.

Most insurers say the coverage already exists, admitting it is subject to interpretation, Mr. Farrell said. Most policies cover explosions. The downstream damage from mud and flooding was covered by national flood insurance, he added.

The number of flood insurance policies sold in Cowlitz and Skamania counties near Mount St. Helens rose to 12,328 as of Sept. 3 from 800 before the May 18 eruption, he noted.

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Orthopaedic Hospital monthly health insurance premiums for full-time employees

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	Employee Pays	Hospital Pays	Employee Pays	Hospital Pays	Employee Pays	Hospital Pays
*Single Coverage (Employee Only)	-0-	\$64.80	-0-	\$51.84	-0-	\$43.20
2-Party Coverage (Employee and One Dependent)	\$31.50	\$96.30	\$5.94	\$96.30	-0-	\$85.20
Family Coverage (Employee and Two or More Dependents)	\$50.08	\$120.76	\$15.45	\$120.76	-0-	\$113.90
*Single Coverage Dividend to Employee:				\$12.96/month (\$155.52/year)		\$21.60/month (\$259.20/year)

High deductible earns cash

Continued from page 3

total cost of health care services under the plan, it is reasoned.

"The ultimate long-term goal is to drive down utilization," Ms. Fein said. In the past seven years, the price of health insurance for 753 employees at Orthopaedic Hospital rose 254%.

As a new self-insurer, Orthopaedic Hospital is especially concerned about reducing total use of its health benefits.

The total cost of medical insurance is paid by the hospital for all single employees, regardless of whether the employee selects the \$100 deductible plan or the \$400 deductible plan.

But the monthly cost of insurance for an employee with one or more dependents is greatly reduced if the employee selects a \$250 deductible instead of the \$100, and there is no charge to the employee for insurance if he or she selects the \$400 deductible.

The cash dividend to the single employee who selects the \$250 deductible is \$155.52 a year. The single employee who selects a \$400 deductible gets \$259.20.

This dividend could be taxable to the employee as income, but the Internal Revenue Service has not issued any formal opinion on this type of reimbursement.

Seventy percent of Orthopaedic's employees have chosen the higher-deductible plans since they were introduced Oct. 1. Claims under the new plans, which are self-insured in a 501(c)(9) trust, are administered by R.L. Kautz. Blue Cross had underwritten the hospital's group health insurance for the past 28 years.

Here's how each plan works for a single employee whose premium is paid by the hospital and who runs up a \$500 bill in one year:

Plan A
\$500 expense
-\$100 deductible
\$400 covered expense
×80% coverage
\$320 plan pays
\$180 cost to employee

Plan B
\$500 expense
-\$250 deductible
\$250 covered expense
×80% coverage
\$200 plan pays
\$300 cost to employee
-\$155.52 dividend
\$144.48 net cost to employee

Plan C

\$500 expense
-\$400 deductible
\$100 covered expense
×80% coverage
\$80 plan pays
\$420 cost to employee
-\$259.20 dividend
\$160.80 net cost to employee

These examples show that if the employee predicted he or she would use the health care system, the employee would want to choose the \$250 deductible as the best bargain.

But if the employee didn't expect to use the health care system, he or she would likely bet on taking the bigger deductible of \$400 and getting \$259 cash in hand.

"We tried this program at an-

other hospital without the incentive and got about 30% enrollment. Orthopaedic wanted to do better," Ms. Fein added.

Free coverage regardless of the number of dependents under the \$400 deductible plan is especially appealing to many employees, Ms. Fein says.

"There are many cases where a single parent making \$12,000 to \$14,000 a year just can't afford the average (\$50.08) monthly premiums."

Orthopaedic Hospital is the first hospital in Southern California to offer cash incentives to encourage selection of a higher-deductible plan. Several others are using multiple-deductibles, including Methodist Hospital of Arcadia, San Pedro Peninsula Hospital and Beverly Hospital in Montebello. ■

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LNG ship losses to be regarded as 1 occurrence

Continued from page 1 or restrict underwriting because of the loss.

Whether world reinsurers outside of London will agree the loss of the three ships is one occurrence remains to be seen.

Treating each ship loss as a single occurrence would reduce direct-line insurers' access to excess-of-loss reinsurance because the reinsurance carried high per-occurrence retentions. But considering all three ships as one loss could push any individual insurer's loss on the ships above its retention.

Among American insurers with direct-line exposures on the loss are American International Group, Marine Office of America and Highlands Insurance Co. Executives at these companies could not be reached for comment.

American Hull Insurance Syndicate's 55 members, who are bearing a \$27 million loss on their 15% of the \$180 million builders risk policy, probably won't benefit from the determination.

The syndicate doesn't have excess-of-loss reinsurance and most of the members' shares of the loss will fall within their own retentions, noted chairman Allen Schumacher.

Mr. Schumacher noted he agrees the loss should be considered one occurrence because the insulation problem and parties involved are the same on all three ships.

But Roy Bromley, lead U.K. reinsurer who heads Sphere Drake agency in the Alexander Howden Group, told *Business Insurance*, "We expect there will be substantial calls on excess-of-loss layers. We took a long time to examine all the implications.

"It is clear this is a most unusual case. It's the most complicated we've had for at least six years in the reinsurance market here, so we are well aware of the repercussions of our findings.

"Our decision is not binding, as it can vary according to individual policy contracts, but we assume it will apply to most reinsurance placed for excess-of-loss at Lloyd's on this transaction.

"But we hope reinsurers in other markets will follow our lead, including those in such widely scattered centers as Japan, France, West Germany, Scandinavia and, of course, the U.S. as well."

Ultimately, the effect of this record-breaking loss on the marine insurance market will be felt throughout the world, but will be spread over a well-proportioned period of time.

The \$300 million claim is to be paid under installments, with the first \$90 million installment followed by three of \$70 million in the next three years.

The payments are being made to El Paso Co. under a \$180 million builders risk policy purchased by Avondale Shipyard, which included El Paso as a named insured, and two policies providing \$120 million in coverage purchased by El Paso to protect its owners' interest in the ships.

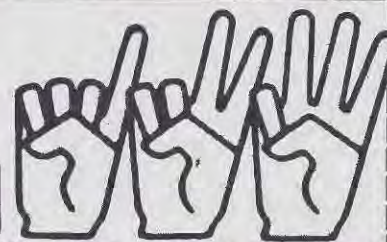
Not all London underwriters are happy about the Lloyd's decision. Those who are excess-of-loss reinsurers for the direct-line underwriters are displeased, one source told *Business Insurance*.

In an unrelated but similar case, a storm of controversy hit the European reinsurance market last year when one big German under-

writing group agreed two casualties in a mid-Atlantic storm at the end of 1978 should be classified as a single loss, even though they occurred 1,000 miles apart.

They were the \$40 million German freighter Munchen, which sank without a trace, and the \$14 million dry dock Forrestaal, which was damaged under tow. Some underwriters believed this was stretching coincidence too far, but it was pointed out that reinsurers often accept separate incidents in U.S. hurricanes as stemming from a single event.

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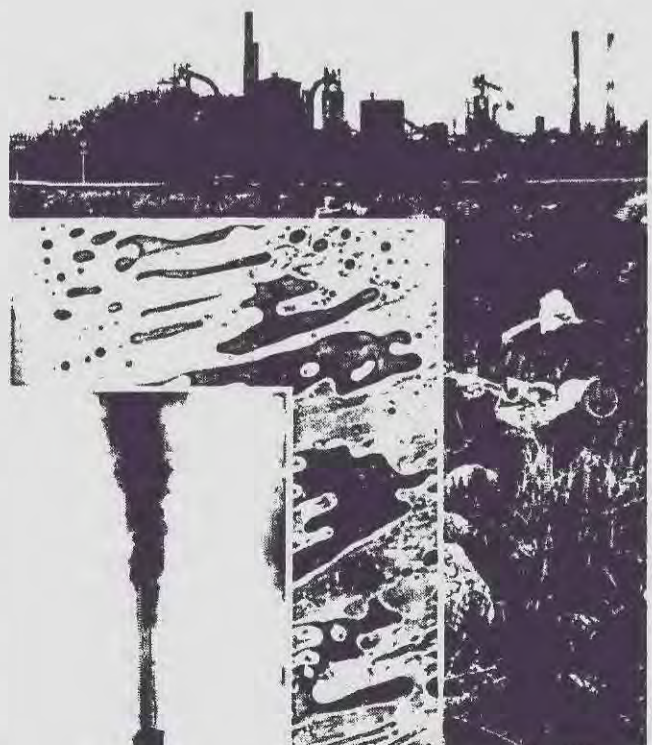
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Employers, insurers feel pain of stress

Continued from page 3

after an incident said to have caused the stress, so it's hard to measure the impact. "Emotional stress claims are becoming much more prevalent," he added.

"Occupational stress claims are definitely becoming more common," said Robert P. Dixon, claims manager for Fireman's Fund Insurance Co. in San Francisco. He has handled workers compensation claims for more than 30 years.

"This type of claim only emerged in the early 1970s," Mr. Dixon said. "It's more popular in supervisory and managerial levels than lower-level positions."

More productivity demands, constraints and deadlines on workers have added to today's stressful environment, says Mr. Dixon. The increase in claims reflects a public that is better educated in its legal rights, he adds.

"The legal profession is aware that judges are more lenient," Mr. Dixon said. "And don't think judges aren't more sympathetic—they're under stress themselves."

Stress claims are creating more than just a little distress for some claims managers, like Robert E. Paris at Aetna Life & Casualty Insurance Co. in Hartford.

"We're used to bodily injury and emotional claims with a traumatic injury," he said. "But what's new now is that someone yelled at by his supervisor will file a stress claim."

Sources say going to court over occupational stress claims can be

more than a little taxing on the company's budget.

There is a feeling, too, in the industry that the trend in court is to favor the employee, says Donald Eggenschwiller, director of corporate loss performance for Standard Register Co. in Dayton, Ohio.

"I honestly fear an epidemic of these claims," Mr. Eggenschwiller said. "We all have stress in our job and our family life. Who's to say what prompts it?"

Confusion over the definition of occupational stress is compounded by different interpretations of the laws, which vary in every state.

Most state workers compensation laws, however, consider stress an occupational disease, which is any affliction that arises out of or in the course of employment, said Georgeanne Riley, an attorney with the Illinois industrial commission. The commission hears the disputed cases.

She said an occupational disease covers nervous disorders and mental derangement and is usually compensable. The employee's attorney, however, must prove the job actually caused the illness.

Many companies admit they try to negotiate some sort of settlement with the employee to avoid litigation.

"A lot of money is paid out of fear," said Douglas Stevenson, an attorney with the firm of Rooks, Pitts, Fullagar & Poust in Chicago. He specializes in defending employers hit with workers compen-

sation claims.

"If a worker wins total disability, the benefits could be \$300,000 over a lifetime," Mr. Stevenson said. "But if the employee's attorney isn't so sure the stress claim is going to be awarded, he might settle for \$13,500."

A spokesman for a major Midwest telephone company admits to recently "buying off" a stress claim for \$20,000. He said the risk was so great the judge might rule that the employee was permanently disabled, that the company felt bound to "negotiate rather than take the chance."

"If the employee had won, we would have been paying \$250,000 over his lifetime," the source said. In that state, a permanently disabled employee is entitled to \$250,000 over a lifetime or 20 years of workers compensation payments, whichever is greater.

The same source said he fears news of the settlement will get around to other employees in the company who may get claim ideas of their own.

"We've found that when we make a settlement in one area, the claims increase," he said.

"An expensive claim can be settled (out of court) for upwards of \$20,000," said Carl Vogt, claims manager for General Tire & Rubber Co. in Akron, Ohio.

"Occupational stress claims only account for about 5% of our volume, but they can hurt if they go to court," Mr. Vogt said.

"The feeling by the courts is that the employer is more able to with-

stand the loss than the worker," said Aetna's Mr. Paris. "But the industry feels that we shouldn't take the full blunt of the claim when the stress could have been caused by something years before."

Several sources said the majority of the occupational stress claims they've dealt with have sought total permanent disability and "not just the 10% a company is liable for if an employee loses a limb," Mr. Paris said.

If a claim ends up in a lawsuit, it gets to be the pursuit of dollars, says Robert W. Ridley, an attorney and partner of Forster, Gemmill & Farmer in Los Angeles.

Where the claim is filed can also be an important consideration when it comes to collecting, Mr. Ridley noted.

"California is a heavy verdict state," he said. "And in California, you have to remember that everyone in the jury box probably has a psychiatrist." Most of the stress cases he's seen have been settled out of court.

California and Michigan are the two states most often mentioned by industry experts as taking a liberal view of state workers compensation laws.

Michigan is a big industrial state with powerful labor unions, which actively encourage employees to take full advantage of their compensation benefits, says INA's Mr. Kinzel.

Another source said the big money behind the unions helps influence a more "liberal interpreta-

tion" of the statutes.

California and Michigan also recognize as compensable cumulative trauma on the job.

"Michigan is one of the states that lets the employee be the judge of his condition," Mr. Vogt said. "If a worker there says he has occupational stress and the psychological pressures cause him to be unstable emotionally, then he's under occupational stress."

But Michigan's director of the bureau of workers disability compensation strongly disagrees.

"Claims are compensable if the employee is permanently and totally disabled," said James Brakora, head of the bureau, which hears Michigan's disputed claims.

"There are some liberal interpretations by the courts. And it is true that our labor community is sophisticated in terms of their legal rights."

Most sources said they would like to see the liability for stress claims spread among other stress producers besides employers.

As an example, one source told the story of a personnel manager who filed a claim alleging his job caused him to become mentally ill.

The manager was charged with carrying out affirmative action for the company. He said having to advance people on the affirmative action principle caused him to "crack up."

"His claim was based on his inability to carry out the policy of the federal government," said the source.

The claim is pending in court. ■

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Change bad situation: Exec

CHICAGO—Stress is here to stay, so learn to cope with it or get out of that stressful situation. That's the advice of Michael J. Smith, project officer of the National Institute of Occupational Safety and Health in Cincinnati.

More businesses should look into stress-reduction programs for their employees, he says.

"Management has to be made to see a payoff in terms of convincing them they can make an impact," Mr. Smith said.

"For a number of years I spent my time trying to convince managers that a good occupational safety program was going to save money on workers compensation costs," he said.

"It shouldn't be at all hard to convince managers of the savings that could be had with good occupational health."

Research into job-related stress suggests employers look at how repetition of work may affect their employees. Mr. Smith said employers also should take the time to ask workers what bothers them about their jobs.

"Sometimes it's possible to take the stress away," he said. "Many companies can deal with it by removing the employee from the stressful situation. If you can't take the stress away, employees must be taught how to cope with it."

Larger corporations sometimes have experts to counsel employees through stressful situations, Mr. Smith said. But even smaller companies can at least promote exercise as a good outlet for emotional difficulties.

"An employee can burn off the stress hormones with some rigorous exercise, but sooner or later the employer should get at the root of the problem," Mr. Smith said.

"It's hard to define stress. It doesn't happen overnight. Stress is a cumulative trauma and it's hard to pinpoint the events leading up to it."

But it can be a real pain to the body, Mr. Smith and an industrial psychologist agree.

Job pressure can affect the heart, lungs, gastrointestinal system and just about every part of the body, Mr. Smith says.

"Stress is related to the balancing system of the body, so it can affect us both mentally and physically."

"Stress seems to be a real type of occupational disease," said Steven Sauter, an industrial psychologist at the University of Wisconsin.

"What is significant is that we all spend a large part of our day working. When something that is that major in our lives causes stress, it involves ego status and psychological damage," he said.

Research says laborers, secretaries afflicted most

CHICAGO—Laborers, secretaries and office managers are more likely to suffer from a stress-related disease than are equipment operators, mechanics and personnel workers.

Middle managers are under stress, too, and concerns about risk can be most debilitating.

A National Institute for Occupational Safety and Health study, which examined more than 22,000 health records of Tennessee workers in 130 occupations, found definite correlations between disease incidence and occupation, said Michael J. Smith, NIOSH project officer.

The research is far from the "whole state of the art," he admits, but it does give a glimpse into occupations that show a high incidence of coronary heart and artery disease, hypertension, ulcers and nervous disorders.

Researchers examined Tennessee death certificates and hospital and mental health center admissions from 1972 to 1974. Occupations that had fewer than 1,000 employees were eliminated from the study.

By clustering occupations with a similar incidence of disease from all three data sources, 40 occupations with a higher-than-expected incidence of stress-related disorders were identified.

Twelve occupations with the highest disease incidence were laborers, secretaries, inspectors, clinical laboratory technicians, office managers, managers/administrators, foremen, waitresses/waiters, machine operators, farm owners and painters.

Of the remaining 28 high-stress occupations, six were in the health care field and the remainder were blue-collar skilled and human and

public service oriented.

Blue-collar skilled and technical workers reported high levels of job dissatisfaction, boredom, anxiety and depression, while the public welfare employees complained of little public recognition or gratitude compared to the services rendered.

Most of the high-stress jobs required a fast-paced workplace, long working hours, repetitive and/or boring tasks and an overall feeling of pressure, tension and anxiety without outlets for those feelings.

The dollar impact of stress illness on retirement programs, hospital and health insurance programs, life insurance and unemployment insurance programs is unknown.

"These costs are being further compounded by the fact that we now have to abide by the dicta of the Rehabilitation Act of 1973, under which we have to hire almost everyone who applies for a job, regardless of handicap," Mr. Smith said.

Handicaps aside, a study undertaken in 1977 estimated the cost of executive stress in this country to be \$10 billion to \$20 billion—a figure higher than the corporate gross revenues of all but the three largest U.S. industrial corporations.

This "conservative" loss estimate covers only the tangible costs of executive stress, said James W. Greenwood, author of the analysis and a senior instructor in the general systems division at IBM Corp. in Georgia.

"The estimate does not include the indirect cost of such items as restricted activity and decreased productivity," Mr. Greenwood's study says.

Mr. Greenwood, who has co-written a book on stress entitled "Managing Executive Stress: A Systems Approach," estimates the cost of executive stress will be closer to \$70 billion to \$80 billion in the 1980s.

The higher cost reflects increases in the cost of health care services, he said.

Emotional disability claim OK'd

ALBUQUERQUE—This city must pay former transit manager Thomas Gore up to \$111,828 in workers compensation for an emotional disability, a district court judge has ruled.

Mr. Gore, 59, suffered the disability as a result of being demoted two years ago and not being assigned meaningful duties thereafter, district judge Gerald Cole said.

Judge Cole said Gore is totally disabled and should receive \$186.38 a week, retroactive to July

1, 1979, for a period not to exceed 600 weeks or until his circumstances change. The payments and the 600-week duration are the maximums allowed under the New Mexico workers compensation act. Mr. Gore's salary exceeded \$400 a week.

The judge said Mr. Gore also is entitled to "reasonable attorney's fees" of \$8,000 and held the city liable for all reasonable future medical, psychiatric, hospital and medication expenses necessary.

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Changes to come with Reagan at reins

Continued from page 1

also has jurisdiction over all pension and health issues.

• Regulatory agencies, such as the Equal Employment Opportunity Commission, which has been accused of creating legislation through regulation, will be put on a much tighter leash.

Immediately, Mr. Reagan's win probably kills chances for the Risk Retention Act being passed by Congress in the lame duck session. Congress will meet for only a short session to pass a few appropriations bills needed to keep the government running and will avoid controversial issues, experts say.

The Reagan administration, however, is expected to support the Risk Retention Act, which makes it easier for businesses to

group self-insure product liability risks, and to seriously consider product liability issues plaguing its pro-business constituency.

Key changes in the federal government's approach to corporate insurance issues will begin in the Senate Labor and Human Resources Committee. Conservative Republican Sen. Orrin Hatch of Utah will take over the committee chairmanship from Sen. Harrison Williams, the liberal New Jersey Democrat who loses his job as his party becomes the minority in the Senate.

Sen. Williams has been indicted in the Abscam bribery scandal.

Sen. Hatch is expected to push for legislation barring OSHA from most inspections at smaller firms.

The Republican Party endorses such legislation and President-elect Reagan wants the agency to concentrate its resources on encouraging voluntary compliance by employers. Mr. Reagan will replace Eula Bingham, the current OSHA chief, but her successor has not been chosen.

With Sen. Hatch as chairman, the Senate Labor committee will no longer focus on federal standards for state workers compensation programs as it has for the last eight years.

"Federal work comp—it's a dead horse," said Les Cheek, vp-federal affairs for Crum & Forster. "They will flog it no longer."

In its commitment to improved business productivity the Reagan administration is expected to sup-

port legislation that would cut back the scope of the expensive federal longshore and harbor workers compensation act.

"They would be more sympathetic, (to the legislation)," said Thomas O'Day, government relations officer at the Alliance of American Insurers.

Sen. Williams has blocked proposals to cut compensation under federal longshore law.

As a candidate, Mr. Reagan made it clear there would not be a comprehensive national health insurance proposal coming out of the Oval Office if he were elected.

Mr. Reagan probably will back more modest programs that emphasize preventive care, says Steve Schanes, president of Schanes Associates in San Diego, a benefit consulting firm.

"You'll see more programs to keep people healthy and away from doctors and hospitals."

Mr. Reagan's election will force President Carter's pension commission to take a closer look at costs before making final recommendations, says Kenneth Keene, senior vp at Johnson & Higgins in New York.

But as a brainchild of the Carter administration and appointed by President Carter, the commission will have marginal influence now, says Michael Romig, director of employee benefits at the U.S. Chamber of Commerce.

Some pension experts believe the Reagan administration will give its blessing to tax deductions for employees' pension contributions.

With Mr. Reagan supporting increased capital formation from private funds to stimulate the economy, it seems logical he would favor tax deductions for pension contributions, notes Theresa Stuchiner, a partner at Kwasha Lipton in Englewood Cliffs, N.J.

New leaders on pension issues must emerge to carry this legislation. Sen. Jacob Javits (R-N.Y.), one of the founding fathers of the Employee Retirement Income Security Act, lost his independent bid for re-election, running on the Liberal Party ticket.

Rep. Frank Thompson (D-N.J.), chairman of the House subcommittee on labor-management relations, which oversees pension issues, also was defeated.

There's more continuity on product liability issues and the changes coming may help propel the Risk Retention Act through Congress in 1981.

Rep. Richardson Preyer (D-N.C.) will reintroduce the measure in the house, an aide said.

And Rep. John LaFalce (D-N.Y.), the leading product liability expert in Congress, was re-elected.

It's uncertain now who will pick up the Risk Retention Act in the Senate, where the law got hung up this year. Sen. John Culver (D-Iowa), who sponsored the proposal, lost his re-election bid.

The likely new chairman of the Senate Commerce Committee, Robert Packwood (R-Ore.) is expected to be more sympathetic to the act than outgoing chairman Howard Cannon (D-Nev.). It was Mr. Cannon's decision to attach a tourism measure to the act that left it languishing in the Senate.

Business groups are determined to push for the act and some of them are well connected to the new administration. "We won't give up," said David Sloane of the National Assn. of Wholesaler-Distributors.

James Mack, public affairs director of the National Machine Tool Builders Assn. and a leading advocate of the Risk Retention Act and federal and state tort reform, has close ties with high-ranking Reagan aides.

Most observers doubt that change in administration will cause the Treasury Department to change its opposition to tax breaks for self-insurance and captive programs. Tax deductions for premiums paid to wholly owned captive insurers alone would create such large revenue losses, "Treasury as an institution would stand up on its hind legs and fight it to death," said Mr. Cheek.

The status quo also seems ensured for the McCarran-Ferguson Act, the 1945 law that favors state regulation of insurance.

"While Sen. (Howard) Metzenbaum (D-Ohio) will push for repeal, his appeal probably will fall on deaf ears in the Reagan administration," said Mr. O'Day of the alliance. As strong proponents of states' rights, Reagan officials contend the federal government shouldn't be given control over what the states are handling. ■

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Lloyd's approves bill

Continued from page 2

tended the Nov. 4 meeting, prompting Mr. Green and London police to recommend members not bring briefcases. Search of the crowd "could seriously delay members attending the meeting," Mr. Green said in a letter to members.

U.S. member attendance at the meeting is not known, but Lloyd's has some 12,000 U.S. members.

Though members approved the formation of a Council of Lloyd's to regulate the market, members refused to grant the nearly unlimited authority originally proposed by the Fisher working party. An alteration proposed in October created a veto power for members if they disagree with Council rulings.

The new amendment requires 500 members to call for a meeting of members to review council decisions. A majority of those voting—if the total is at least a third of total Lloyd's membership—could override a decision of the elected council.

The amendment, however, was not enough to satisfy all external members. They are investors who

do not participate in day-to-day marketing decisions.

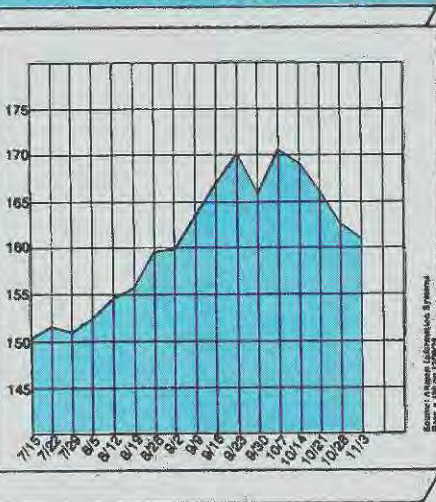
During discussion of the draft bill, several members suggested forming an independent association of the external members, who make up about 75% of the Lloyd's membership.

The committee of Lloyd's would support the separate association, said Mr. Green. The external members are becoming more aware of the need to be directly concerned with the market activities, he said. Lloyd's underwriting is presently controlled by about 3,000 working members.

Concern among external members about Lloyd's underwriting and marketing helped spur the Fisher study. Members of the Sasse Syndicate, thrown into a \$42 million loss by questionable fire risks, computer-leasing risks and other business, sued Lloyd's. They said the market should have better policed its underwriting. The case, however, has been settled out of court (BI, Nov. 3).

Lloyd's internal functions also were spotlighted by mammoth \$420 million losses on the unusual computer-leasing risk policies. ■

BI Insurance Index



Disappointing earnings pull broker stocks down

By HARVEY H. BUNDY III
Special to Business Insurance

THE STOCK MARKET does not seem to have done much of a job of discounting the disappointing third-quarter earnings reports of the major insurance brokers. All of the brokers' stocks declined in the quarter, led by the 14% decline in the price of Fred S. James & Co.

Admittedly, third-quarter results of the major brokers were poor, although no more so than anticipated. While Marsh & McLennan and Alexander & Alexander managed to eke out a penny gain in earnings per share, Frank B. Hall & Co., Fred S. James and Rollins Burdick Hunter showed significant declines. The market seems to have discriminated unfairly against the group in that total corporate profits declined by 18% on a preliminary basis, a worse decline than among any of the individual brokers.

Perhaps more important than the earnings results was the continuation of modest revenue gains. On the other hand, all brokers report a continuation of surprisingly strong new business. Had new business fallen off as it did in the prior cycle, we believe the brokers would be reporting earnings down more than 20% when compared with 1979 results.

We believe the brokers' stock prices will begin to outperform the market only as revenue gains begin to accelerate from the current depressed levels. At the risk of sticking our necks out, we believe the third quarter

Harvey H. Bundy III, a partner at William Blair & Co. in Chicago, specializes in financial and insurance stocks. His monthly column on insurance brokerage stocks written for Business Insurance appears on this page the second Monday of every month.



Bundy

BI ticker

of 1980 will prove to have been the bottom and that revenue gains will now begin to pick up.

It is important to note, however, we are not projecting a return to premium rate increases in subsequent quarters. Rather, we believe the magnitude of premium rate competition that has existed for the last several years will begin to moderate, perhaps resulting in rates that could be flat year-to-year by the middle of 1981.

Third-quarter earnings reports of the major brokers contain no significant surprises, especially after dissecting the reported figures. For Marsh & McLennan, reported figures showed an apparent one-cent increase in earnings per share. Actually, M&M's domestic brokerage operations were somewhat stronger than this.

While management has not broken out figures for this operation, we estimate it could have been up 5%, clearly the best showing in the industry. A significant amount of dilution from the C.T. Bowring acquisition, which would have resulted in a decline in earnings for Marsh & McLennan, was offset by a 10-cents-per-share foreign exchange gain, vs. a four-cents-per-share loss in last year's third quarter.

Alexander & Alexander came in second after M&M in quarterly performance. A 10% revenue gain and a 14% increase in operating expenses resulted in approximately flat pretax profits. With the help of a lower tax rate, A&A also was able to add to its string

of consecutive quarterly earnings increases.

The most impressive part of the company's third-quarter performance was the continued very strong level of new business. Management indicates that approximately \$8.5 million of new property, casualty and marine commission and fee income was generated in the quarter from accounts that were not in the A&A fold last year. By itself, this new business would have given A&A a 12% increase in brokerage revenues in the quarter. This makes the impact of rate competition even more evident when it is contrasted to the actual 8.8% gain recorded in brokerage revenues.

Corroon & Black results also appeared strong in the quarter, with an earnings decline of only one cent per share. In this case, appearances are deceiving, as Corroon enjoyed a major swing in profits from its equity in Minet Holdings, a U.K.-based broker. Although limited earnings at Minet resulted in a 12-cents-per-share earnings penalty in the first half of 1980, an unusually strong second quarter at Minet resulted in Corroon recovering the entire 12 cents in the third quarter. Excluding the impact of Minet, we estimate Corroon & Black would have shown an earnings decline of 18%.

James, Hall and Rollins Burdick Hunter also showed earnings-per-share declines greater than 10% in the quarter. In the case of RBH, an increase of 5% in revenues and 10% in expenses resulted in a 10% decline in pretax earnings. The earnings-per-share decline was somewhat more severe because of an increase in outstanding common share equivalents caused by the higher stock price at the end of the month.

At Hall and James, the revenue gain was somewhat better than at RBH, but this was more than offset by continued expense pressures. The other major development at James was the surprising degree of dilution from the Galbraith & Green acquisition.

As a result of this dilution, 1979 figures for James will be restated from \$2.64 per share to \$2.50. As a result of continued dilution in 1980, we are reducing our 1980 earnings estimate to only \$2.45 per share. This reduction in expectations may partially explain James's underperformance within the group during the month.

	Price 10/31/80	% Change vs. 9/30/80	% Change vs. 10/31/79
A & A	31.75	(4)	7
Cor. & Bk.	24.50	(8)	(8)
Hall	26.50	(8)	3
James	23.625	(14)	3
M & M	64.25	(6)	—
RBH	24.75	(7)	15
S&P 400	145.16	2	27

British Issues

11/4 Companies	Price	P/E	Div. pence	Yield %	High—Low
Comml Union	162	8.1	14.63	9.0	167—161
Eagle Star	266	8.9	14.28	5.4	276—266
Royal Accident	346	8.8	18.24	5.3	366—346
Gdn Royal Exch	346	9.1	20.71	6.0	364—346
Phoenix	276	7.6	20.00	7.2	296—276
Royal	440	9.2	32.17	7.3	457—440
Sun Alliance	764	10.0	42.14	5.4	804—784

Brokers	Price	P/E	Div. pence	Yield %	High—Low
CE Heath	196	9.8	13.80	7.0	205—195
Hogg Robinson	122	9.0	8.14	6.7	122—120
Alex Howden	95	7.9	10.00	10.5	99—93
JH Minet	95	11.4	6.45	6.8	99—93
Sedg Grp	124	11.4	7.14	5.7	128—124
Stenhouse Hldg	87	8.0	6.46	7.4	89—88
Staw Wrightson	221	9.2	17.14	7.8	225—218
Willis Faber	270	12.0	16.14	6.0	280—270

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

BI Industry Stock Report

Insurance Cos.	NOV. 3, 1980					10/29/80 THRU 11/3/80					Sri Corp	NOV. 3, 1980					10/29/80 THRU 11/3/80											
	Price	% Chg.	P/E	Div. %	%Yld.	High	Low	Vol (000)	Price	% Chg.		P/E	Div. %	%Yld.	High	Low	Vol. (000)	Price	% Chg.	P/E	Div. %	%Yld.	High	Low	Vol. (000)			
Aetna Life & Cas Co	NYSE	35.13	-1.4	5.3	2.12	6.0	35.25	35.13	247.1	37.1	0.0	5.0	1.00	3.9	25.50	25.50	28.2	OTC	25.50	0.0	5.0	1.00	3.9	25.50	25.50	28.2		
American Bankers Ins Co Fla	OTC	7.38	-10.6	5.0	0.44	6.0	8.13	7.38	47.0	Seibels Bruce Group Inc	OTC	22.88	2.2	4.0	0.80	3.5	23.00	22.88	115.0	OTC	22.88	2.2	4.0	0.80	3.5	23.00	22.88	115.0
American Fial Corp Ohio	OTC	19.50	0.6	5.3	0.50	2.6	19.50	19.50	14.5	Statesman Group Inc	OTC	6.13	-2.0	4.8	0.15	2.4	6.25	6.00	3.7	OTC	6.13	-2.0	4.8	0.15	2.4	6.25	6.00	3.7
American Gen Ins Co	NYSE	36.50	-1.4	5.8	1.00	2.7	36.88	35.75	62.0	Tokio Marine & Fire Ins Co	OTC	156.25	0.3	17.3	1.03	0.7	156.50	156.00	2.8	NYSE	156.25	0.3	17.3	1.03	0.7	156.50	156.00	2.8
American Indty Ind Corp	OTC	15.88	5.0	5.2	1.12	7.1	16.38	15.88	32.8	Travelers Corp	NYSE	38.00	-4.7	4.2	2.48	6.5	39.63	38.00	123.1	NYSE	38.00	-4.7	4.2	2.48	6.5	39.63	38.00	123.1
American Intl Group Inc	OTC	69.00	-3.2	10.2	0.50	0.7	71.00	68.50	64.7	United Fire & Cas Co	OTC	27.25	0.0	7.4	0.90	3.3	27.25	27.25	0.0	OTC	27.25	0.0	7.4	0.90	3.3	27.25	27.25	0.0
American Natl Ins Co	OTC	13.25	-4.5	5.5	0.68	5.1	13.63	13.25	77.9	United States Fid & Gty Co	OTC	41.12	2.5	4.6	2.80	6.8	41.13	40.38	71.4	OTC	41.12	2.5	4.6	2.80	6.8	41.13	40.38	71.4
American Sts Life Ins Co	OTC	19.50	-2.5	8.1	0.64	3.3	20.00	19.50	0.0	United Svcs Life Ins Co	OTC	16.75	0.0	5.9	0.96	5.7	16.75	16.63	12.3	OTC	16.75	0.0	5.9	0.96	5.7	16.75	16.63	12.3
Aeeco Reins Ltd	OTC	5.37	-4.4	0.0	0.00	0.0	5.50	5.38	20.1	USLife Corp	NYSE	19.62	-1.3	4.9	0.72	3.7	20.13	19.25	90.9	NYSE	19.62	-1.3	4.9	0.72	3.7	20.13	19.25	90.9
Appalachian Natl Corp	OTC	2.12	0.0	6.1	0.05	2.4	2.13	2.13	0.3	Washington Natl Corp	NYSE	40.00	7.0	8.1	1.50	3.8	40.25*	37.25	78.9	NYSE	40.00	7.0	8.1	1.50	3.8	40.25*	37.25	78.9
Avemco Corp	AMEX	9.12	-6.4	7.9	0.50	5.5	9.50	9.13	7.7	Zenith Natl Ins Corp	OTC	15.75	1.6	8.3	0.50	3.2	15.75	15.50	5.9	AMEX	9.12	-6.4	7.9	0.50	5.5	9.50	9.13	7.7
Banks Iowa Inc	OTC	26.75	0.0	4.2	1.32	4.9	26.75	26.75	0.0	INSURANCE COMPANIES	AVERAGE	7.2	3.7							OTC	26.75	0.0	4.2	1.32	4.9	26.75	26.75	0.0
Bitco Corp	OTC	36.00	-4.0	5.4	1.68	4.7	37.75	36.00	4.7	AGENTS/BROKERS										OTC	36.00	-4.0	5.4	1.68	4.7	37.75	36.00	4.7
Carolina Cas Ins Co	OTC	8.50	0.0	3.1	0.32	3.8	8.50	8.50	1.0	Agents/Brokers										OTC	8.50	0.0	3.1	0.32	3.8	8.50	8.50	1.0
Central Natl Finl Corp	OTC	10.75	0.0	4.2	0.50	4.7	10.75	10.50	1.9	Alexander & Alexander Svcs	OTC	31.75	0.0	10.4	1.64	5.2	31.75	31.75	80.2	OTC	10.75	0.0	4.2	0.50	4.7	10.75	10.50	1.9
Chubb Corp	NYSE	38.13	-0.3	4.8	2.40	6.3	38.50	37.75	63.6	Baldwin & Lyons Inc	OTC	30.00	-0.8	5.6	0.80	2.7	30.25	30.00	1.3	NYSE	38.13	-0.3	4.8	2.40	6.3	38.50	37.75	63.6
Combined Intl Corp	NYSE	18.38	-1.3	5.3	1.60	8.7	18.63	18.38*	46.4	Corroon & Black Corp	NYSE	24.38	-2.5	9.9	1.73	7.1	25.00	24.38	6.2	NYSE	18.38	-1.3	5.3	1.60	8.7	18.63	18.38*	46.4
Connecticut Gen Ins Corp	NYSE	44.00	0.9	6.6	1.52	3.5	44.38	44.00	256.5	Crum & Forster	NYSE	24.38	-2.9	10.1	3.60	5.6	24.38	24.38	55.2	NYSE	44.00	0.9	6.6	1.52	3.5	44.38	44.00	256.5
Continental Corp	NYSE	24.88	1.0	5.3	2.20	8.8	25.00	24.25	257.6	Ernst & Young	NYSE	7.62	-1.6	5.6	1.60	2.1	7.88	7.63	181.5	NYSE	24.88	1.0	5.3	2.20	8.8	25.00	24.25	257.6
Crawford & Co	OTC	18.75	1.4	14.7	0.48	2.6	18.75	18.50	2.7	Hall Frank B & Co Inc	NYSE	26.25	-0.9	9.0	1.54	5.9	26.63	25.88	45.7	OTC	18.75	1.4	14.7	0.48	2.6	18.75	18.50	2.7
Crown Life Ins Co	OTC	90.25	3.1	65.4	2.40	2.7	91.00*	86.75	5.0	Integrated Res Inc	AMEX	19.75	-0.6	10.9	0.00	0.0	19.75	18.75	32.3	OTC	90.25	3.1	65.4	2.40	2.7	91.00*	86.75	5.0
Cum & Forster	NYSE	28.00	-2.2	5.2	1.44	5.1	29.00	28.00	72.2	James Fred S & Co Inc	NYSE	24.00	-3.0	9.1	1.60	6.7	24.13	23.50	38.7	NYSE	28.00	-2.2	5.2	1.44	5.1	29.00	28.00	72.2
Employers Cas Co	OTC	40.00	1.3	6.6	1.20	3.0	40.00	40.00	4.8	Marsh & McLennan Cos Inc	NYSE	63.87	-2.9	10.1	3.60	5.6	65.63	63.88	55.2	OTC	40.00	1.3	6.6	1.20	3.0	40.00	40.00	4.8
Erc Corp	OTC	93.50	0.0	10.5	1.40	1.5	0.00	*****	0.0	Reed Stenhouse Cos Ltd	NYSE	11.00	0.0	9.2	0.56	5.1	11.13	11.00	3.7	OTC	93.50	0.0	10.5	1.40	1.5	0.00	*****	0.0
Equifax Inc	NYSE	22.88	1.1	7.5	2.40	10.5	23.00	22.63	6.8	Rollins Burdick Hunter Co	OTC	24.50	-3.9	11.1	1.24	5.1	24.75	24.25	9.0	NYSE	22.88	1.1	7.5	2.40	10.5	23.00	22.63	6.8
Farmers Group Inc	OTC	28.75	-1.3	9.2	1.00	3.5	29.13	28.63	241.2	AGENTS/BROKERS	AVERAGE	9.1	4.8							OTC	28.75	-1.3	9.2	1.00	3.5	29.13	28.63	241.2
First Colony Life Ins Co	OTC	37.00	-1.3	11.9	0.80	2.2	38.00	37.00	2.1	Conglomerates/Holding Cos.										OTC	37.00	-1.3	11.9	0.80	2.2	38.00	37.00	2.1
Foremost Corp Amer	OTC	20.38	-0.6	7.3	0.60	2.9	20.50	20.38	7.6	American Express (Fireman's Fd)	NYSE	34.25	3.8	6.7	2.00	5.8	34.25	31.75	615.8	OTC	20.38	-0.6	7.3	0.60	2.9	20.50	20.38	7.6
General Reins Corp Del	OTC	49.75	-1.0	7.2	1.40	2.8	50.00	49.75	90.5	Anderson Clayton (Ranger/PanAm)	NYSE	24.00	3.2	6.0	1.20	5.0	24.25	23.50	8.4	OTC	49.75	-1.0	7.2	1.40	2.8	50.00	49.75	90.5
Great West Life Assurn Co	OTC	180.00	0.0	8.9	8.00	4.4	180.00	180.00	0.0	City Investing Co. (Home Ins.)	NYSE	24.12	-0.5	5.4	1.50	6.2	24.25	23.75	370.9	OTC	180.00	0.0	8.9	8.00	4.4	180.00	180.00	0.0
Hanover Ins Co	OTC	46.75	-0.5	4.4	0.72	1.5	47.00	46.50	9.9*	CNA Finl Corp (CNA)	NYSE	18.88	0.0	4.6	0.00	0.0	18.88	18.50	45.2	OTC	46.75	-0.5	4.4	0.72	1.5	47.00	46.50	9.9*
Hartford Steam Boiler Insnptn	OTC	31.25	-0.8	6.5	2.40																							

The safe view of product liability



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From the client's point of view.