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update

Ambassador withdraws plan when reinsurance falls through

MONTPELIER, Vt.—Ambassador Insurance Co. Inc. has withdrawn its proposal to use loss portfolio reinsurance written by Cathedral Insurance Co. to avoid liquidation.

Ambassador's lawyers withdrew the plan in a Nov. 5 telephone conference with Vermont Superior Court Judge John Meaker, who ordered the firm liquidated on Sept. 4 after finding it insolvent by $45 million.

Continued on next page

Reagan victory may spur new benefit tax laws

By JERRY GEISEL

WASHINGTON—President Reagan's landslide victory last week will make employee benefits even more vulnerable to administration and congressional attacks next year.

In about a month, the administration will unveil a tax simplification and reform package that is expected to curb the tax-favored status of employee benefit programs.

That reform package will have added weight and a better chance of congressional approval because of the president's landslide victory, said Edward J. Davey, vp of technical analysis at Johnson & Higgins, a New York-based insurance broker and benefit consultant.

But, the fate of that tax package could depend on yet another election. On Nov. 28, Senate Republicans will select a new majority leader to replace the retiring Sen. Howard Baker, R-Tenn.

If Sen. Robert Dole, R-Kan., is successful in his bid for the majority leader post, it could bode well for employee benefits.

Sen. Dole, who has repeatedly said the government cannot afford so many tax-free employee benefits, currently is chairman of the Senate Finance Committee—the Senate starting point of bills like this year's Deficit Reduction Act of 1984, which restricted tax deductions for 501(c)(9) trusts and extended to 1988 from 1986 a freeze on increasing maximum pension benefits offered by defined benefit plans and maximum contributions to defined contribution plans.

Voters in five states elect insurance regulators. See story, page 103.

But, if Sen. Dole is named majority leader, he would give up the chairmanship of the Finance Committee. And, control of the Finance Committee then probably would pass to Sen. Robert Packwood, R-Ore., one of a handful of congressmen who understands employee benefit plans and has tried to protect them from congressional attacks.

"The Nov. 28 election is the key election in terms of the benefit community having a fighting chance to be heard," said J&H's Mr. Davey.

But for now, benefit lobbyists are focusing on the impact of Mr. Reagan's victory and the future course of administration policy on employee benefits.

They note that the administration has consistently promised that it would not raise basic tax rates to reduce the federal deficit.

As a result, the tax base will have to be broadened to provide any new major sources of revenue. And, employee benefits is one of the few areas where a huge amount of revenue could be gained if the tax-favored status were altered.

"How can one conceive of a method of reducing the deficit that doesn't involve significant changes in the tax status of employee benefits?" asked Richard Fay, a partner in the Washington office of Reed, Smith, Shaw & McClay, a Pittsburgh-based law firm.

"How can you raise $100 billion without taxing benefits? I wish I could conceive of a way, but I can't," Mr. Fay said.

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Arthur Andersen, insurers fight over E&O coverage

By STEPHEN TARNOFF

CHICAGO—Arthur Andersen & Co. and more than 50 primary and excess professional liability insurers are fighting over whether a 1971 or a 1975 claims-made policy—or both—should cover the settlement of a multimillion-dollar damage award against the accountant.

For Andersen, about $1 million is at stake, but for some of the insurers, several million is at risk (see chart).

In 1981, a U.S. District Court jury in New York ordered Andersen to pay $80.7 million to Fund of Funds Inc., a 77,000-member mutual fund that sued the Big Eight accountant, charging it with violation of federal securities laws, fraud and breach of contract.

This award was subsequently reduced twice by the judge hearing the case (*BI*, Aug. 9, 1982) and then the suit was ultimately settled out of court in March 1983 for $45 million.

Insurers' liability for Andersen's $45 million settlement*

Insurer	Liability under 1971 policy	Liability under 1975 policy	Liability under both policies**	Coverage favored by insurer
Lloyd's	$8.7 mil.	$13.2 mil.	$18.6 mil.	1971
Harbor	$5.0 mil.	$1.0 mil.	$350,000	1975 or both
First State	$6.0 mil.	$5.0 mil.	$7.2 mil.	Not known
North Star	$3.0 mil.	$500,000	$2.1 mil.	1975
U.S. Fire	$1.5 mil.	None	None	1975
Lumbermens	None	$1.5 mil.	$350,000	1971 or both
Northbrook	None	$2.4 mil.	$648,000	1971

*Example assumes that the full limits of all the insurers are available to pay the claim.
**Based on 1971 policy paying 40.6% and 1975 paying 59.4%.

All of Andersen's professional liability insurers on a $50 million professional liability policy underwritten in 1971—except Harbor Insurance Co. of Los Angeles—have indemnified Andersen for the $45 million settlement.

However, as early as 1979, some of Andersen's 1971 excess insurers notified Andersen that they believed the 1975 professional liability policy should respond, and they paid the claim under the 1971 policy reserving their rights to recover their payments.

In March 1983, Andersen filed a lawsuit in Los Angeles Superior Court seeking to force Harbor to pay its share under the 1971 policy.

This action was subsequently dismissed. But, in 1983 Harbor, which is also one of the underwriters on Andersen's 1975 professional liability policy, filed a declaratory judgment action in Cook County Circuit Court in Illinois asking that either Andersen's 1975 insurers alone or both the 1971 and 1975 insurers pay the Fund of Funds settlement.

However, Andersen and Lloyd's of London, a major primary and excess insurer in both 1971 and 1975, contend the 1971 policy should respond to the loss. Most of the other excess insurers share this stand.

Though the coverage dispute was initially between Harbor and Andersen, all of the approximately 50 primary and excess insurers on the 1971 and 1975 policies have since been brought into the litigation.

The 1971 policy provides $50 million in coverage. Under this policy, Andersen retains the first $830,000 of each claim and pays 5% coinsurance on the first $1 million of primary coverage provided. The $3 million annual aggregate limit on the primary layer is subject to one annual reinstatement.

The 1975 policy provides $101 million in coverage. Under this policy, Andersen retains the first $952,000 of each claim. There is no coinsurance provision. The $10 million annual aggregate limit on the primary layer is subject to one annual reinstatement.

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Lack of reinsurance cuts capacity for EIL coverage

By ROBERT A. FINLAYSON

LOS ANGELES—The reinsurance market's continued distaste for writing pollution liability risks appears to be strangling the already withered environmental impairment liability insurance market, even though demand for EIL coverage is growing.

Dryden & Co. has become the third EIL market in less than a year to stop writing the coverage, while three of the eight remaining EIL markets have cut their limits within the past four months.

Currently, a buyer can arrange for a maximum of $26 million in primary and excess environmental impairment liability coverage, down from limits of more than $65 million earlier this year (*BI*, July 9).

And, the capacity situation could become much worse, some say.

Most of the insurers that write EIL coverage are now negotiating reinsurance renewals. The insurers will not comment on the negotiations, except to say they do not know how much coverage they will be able to offer next year.

"There many not be an EIL market in six months, based on what the reinsurers are saying," warns Robert M. Grella, a senior vp with broker Alexander & Alexander Services Inc. in New York.

Mr. Grella notes that most EIL underwriters are currently reluctant to quote renewals, preferring to wait until mid-December when they expect to have their reinsurance lined up.

While other veteran EIL market watchers insist that the market is not in danger of collapse, they admit that more uncertainty is being added to the marketplace because of:

- The insurance industry's proposal to drop all pollution coverage from comprehensive general liability policies.
- Federal hazardous waste legislation recently passed by Congress.

The Insurance Services Office is proposing to eliminate all coverage for sudden and non-sudden pollution

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update

Ambassador withdraws plan

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The withdrawal followed confirmation from Cathedral's parent, Wigham Poland Holdings Ltd., a unit of Fred S. James & Co. Inc., that Cathedral would not provide the reinsurance (*BI*, Nov. 5).

The Ambassador proposal had called for Cathedral to cover $160 million of Ambassador's liabilities in return for a premium of $85.8 million. Payment of the $160 million was to come in 12 yearly installments starting in 1985.

Ambassador is now trying to find a portfolio reinsurer to replace Cathedral and will submit a new proposal to the court when coverage is arranged, according to Walter C. Squire, with the New York firm of Carter, Ledyard & Milburn, representing Ambassador.

Meanwhile, the Vermont Department of Banking and Insurance plans to file a motion seeking recovery from Ambassador of thousands of dollars spent on its analysis of the Cathedral proposal.

George Bernstein, a Washington attorney acting for the department, said a Bermuda subsidiary of Ambassador's broker, Lowndes Lambert International Ltd., received notice Oct. 23 from Wigham Poland that Cathedral would not write the portfolio reinsurance.

But, Alan P. Lazar, a Lowndes Lambert assistant director, signed an affidavit for the Vermont court the next day naming Cathedral as the reinsurer.

Mr. Squire said that Mr. Lazar wasn't aware of the Wigham Poland Telex until after he signed the affidavit, adding that Ambassador withdrew the Cathedral plan "at an appropriate time."

The Vermont department may seek to prevent Ambassador from filing a new portfolio reinsurance plan, said Gretchen Babcock, an attorney with the department who will become acting commissioner Nov. 16, when George A. Chaffee steps down.

NRC boosts required coverage

WASHINGTON—The Nuclear Regulatory Commission has proposed a new property insurance requirement for nuclear utilities.

The proposed rule would require nuclear plants to carry property insurance limits of at least $1.02 billion. Currently, the NRC requires only that utilities buy the maximum amount of insurance available from either of two nuclear insurance pools writing primary coverage and either of two pools writing excess coverage.

The proposal would effectively require utilities to buy excess coverage from both American Nuclear Insurers and Bermuda-based Nuclear Electric Insurance Ltd. ANI offers excess limits of $85 million and NEIL offers excess limits of $450 million over the available primary coverage of $500 million.

Bendectin pact threatened

CINCINNATI—The future of a $120 million settlement between Merrell Dow Pharmaceuticals Inc. and more than 700 claimants alleging injuries from the anti-nausea drug Bendectin is threatened by a ruling by the 6th U.S. Circuit Court of Appeals (*BI*, July 23).

On Oct. 26, the appeals court said U.S. District Court Judge Carl B. Rubin exceeded his authority in certifying a mandatory class of plaintiffs last June in an effort to settle the Bendectin litigation.

Following certification, Merrell Dow settled with a steering committee of plaintiffs' lawyers for $120 million in July. Various plaintiffs' attorneys opposed the settlement, however, and initiated the action resulting in the 6th Circuit opinion.

"The case was settled as a class, it is no longer a class, and therefore there is no longer a settlement," said Frank C. Woodside III, an attorney for Merrell Dow with the Cincinnati firm of Dinsmore & Shohl, who helped negotiate the settlement.

Firms must detail retiree plans

STAMFORD, Conn.—The Financial Accounting Standards Board says employers with post-retirement health care and life insurance plans must disclose details of them in a footnote to their financial statements.

According to a board statement, firms whose year-end reports are issued after Dec. 15 must disclose in their footnotes who is covered under their plan, how much it cost them during the preceding year, and the accounting method used.

Employers with foreign plans have six more months to comply.

Greenberg's son gets AIU post

NEW YORK—Jeffrey Greenberg has been named president of the North American division of American International Underwriters, the marketing arm for American International Group's foreign general insurance, a spokesman says. Mr. Greenberg's father is AIG President Maurice Greenberg.

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Judge says firm in bankruptcy can be liable for PBGC claim

By JERRY GEISEL

CHICAGO—It is possible for an employer in bankruptcy proceedings to have a positive net worth and thus owe money to the federal Pension Benefit Guaranty Corp. for a terminated underfunded pension plan, a bankruptcy court says.

U.S. Bankruptcy Judge Lawrence Fisher in Chicago ruled that an employer's view that calculating net worth "should be only a mathematical exercise of subtracting liabilities from adjusted assets is narrow and simplistic."

AM International Inc., which filed for protection from its creditors under Chapter 11 of the Bankruptcy Code in 1982 and later terminated a pension plan with a funding shortfall of $5.9 million, should have discounted its liabilities, or figured them at less than 100 cents on the dollar, Judge Fisher ruled.

He said the discounting is appropriate because creditors usually accept less than 100 cents on the dollar from companies that have filed for protection under Chapter 11.

By discounting its liabilities by 35% and including as assets certain "off-balance-sheet" items, like future tax credits, AM International had a positive net worth of at least $26 million rather than a negative net worth as the company officials contended, the bankruptcy judge said.

Because it had a positive net worth, AM must pay its $5.9 million claim to the PBGC. Under the Employee Retirement Income Security Act of 1974, the PBGC is entitled to up to 30% of a company's net worth when the PBGC takes over a pension plan that doesn't have sufficient assets to pay participants their guaranteed benefits.

Judge Fisher's ruling, which is believed to be the first of its kind, is a significant victory for the PBGC, the federal agency that guarantees workers' and retirees' pension benefits when employers terminate underfunded pension plans.

"This is a very important decision because it supports our historical position that an employer engaged in a bankruptcy proceeding may have sufficient net worth to defray its pension plan liability," said Charles Tharp, PBGC executive director.

David Walker, PBGC deputy executive director, added, "The decision will enhance our ability to recover debt from companies that terminate underfunded pension plans."

But AM International, a Chicago-based manufacturer of office and graphics equipment, is appealing Judge Fisher's ruling to a U.S. District Court. The company disagrees that debt should be discounted in calculating a company's net worth, thus exposing it to a PBGC claim.

"The 35% discount is highly speculative," said Terrance Bruggeman, AM International's chief financial officer and vp of finance.

Mr. Bruggeman noted that AM International, which

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Andersen has adequate cover

By STEPHEN TARNOFF

NEW YORK—Accounting firm Arthur Andersen & Co. should have enough professional liability insurance to pay $21.9 million to Marsh & McLennan Cos. Inc. in a settlement of a derivative action lawsuit filed by an M&M shareholder.

M&M announced the "agreement in principle" with Andersen, which stems from litigation arising from the massive government bond trading losses reported by M&M earlier this year.

M&M took a $90 million aftertax loss as a result of the transactions in which M&M treasury department personnel—acting against company rules—accumulated a position of more than $2 billion in intermediate and long-term government bonds between April 1983 and April 1984 (*BI*, June 18; April 16).

In the derivative suit, a shareholder of M&M sued four M&M employees and Andersen, M&M's outside auditor, contending among other things that Andersen acted with a "conscious disregard" of auditing standards and procedures in conducting M&M's 1983 audit.

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Self-insurers' group starts drive to educate legislators

By MICHAEL BRADFORD

ATLANTA—The Self-Insurance Institute of America is building a war chest to educate state and federal legislators about self-insurance in an effort to prevent passage of legislation it feels could harm self-insurers and third-party administrators.

A luncheon at the organization's Fourth National Educational Conference held Oct. 24-27 in Atlanta took on the appearance of a church revival when attendees began waving pledge sheets with promises of contributions of up to $1,000 or more for the campaign.

One donor promised $5,000.

A total of about $20,000 in pledges was collected at the luncheon, said Jim Kinder, the SIIA's executive vp. Others in the audience took pledge cards with them and said they would turn them in later.

(A report on the SIIA conference begins on page 86.)

James W. Duff, chairman of the SIIA's Legislative/Regulatory Committee, who urged members of the self-insurance industry to donate, said the group hoped to raise about $200,000, adding that fund-raising efforts will continue.

The money will be used to educate politicians about "the facts of self-insurance," Mr. Duff said.

Mr. Kinder said, "We have no paid lobbyists. The whole thrust is educating. We'll let our members take action as they see fit."

Members of the SIIA are forming state and federal legislative watch groups, Mr. Kinder said, to keep an eye on legislation that might affect the self-insurers and administrators, including regulation of third-party administrators and self-insured multiple employer trusts.

Mr. Duff said some of the funds raised will be used to supply the volunteer groups with copies of legislation, briefs, arguments and other documents they may need.

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Judge biased against Robins, court says

By STEPHEN TARNOFF

ST. PAUL, Minn.—A federal appellate court says a U.S. District Court judge exhibited "pervasive bias" and "prejudice" against A.H. Robins Inc. during litigation involving the Dalkon Shield intrauterine device.

In reprimanding Judge Miles W. Lord, the 8th U.S. Circuit Court of Appeals ruled that Robins and three company officials were denied due process and that comments made by Judge Lord should be stricken from the record.

The appellate court decision came following an appeal by Robins of Judge Lord's comments and actions during a February hearing regarding the settlement of seven Dalkon Shield lawsuits for a reported $4.6 million (*BI*, March 12).

More than 10,000 cases have been filed against Robins by women alleging that Robins' Dalkon Shield has caused injuries, including infections of the uterus, spontaneous abortions and the need for hysterectomies.

At the February hearing, Judge Lord ordered Robins' president, general counsel and director of research and development to remain in the courtroom during a recess and ordered them to read a speech he wrote that was included in a document called "The Church's Claim on the Corporate Conscience: Toward a Redefinition of Sin."

The speech presented a critical view of U.S. corporations, the appellate court said.

Judge Lord subsequently read another speech accusing Robins and the officials of engaging in callous and disreputable practices with respect to the Dalkon Shield litigation to the detriment of thousands of women. He advised the officers to "confess" and "beg forgiveness."

Judge Lord also charged them with a systematic effort of delay and obfuscation, all for the purpose of protecting the company's profits. He also admitted dur-

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errors & omissions

- Lincoln National Corp. lost $8 million on its property/casualty operations in the first three quarters of 1984, while its annuity operations generated operating income of $4 million over the same period. A story in the Nov. 5 issue indicated that Lincoln National had posted these results in the first half.

The reinsurance market

Underwriters' pullout won't drain capacity

By DOUGLAS McLEOD

NEW YORK—The U.S. reinsurance marketplace will have fewer underwriters as Jan. 1 renewals approach, but the withdrawal of several reinsurers isn't expected to have a broad impact on total market capacity.

At least six companies have stopped writing all reinsurance business since the first of the year. The largest of these, with 1983 gross reinsurance premiums of $178.1 million, was Universal Reinsurance Corp., an affiliate of Armco Insurance Group Inc. (See chart.)

Others, with much smaller premium volumes, include Rochdale Insurance Co., Commercial Union Reinsurance Co. United Americas Insurance Co., Sentry Reinsurance Inc. and Presidio Insurance Co.

In addition, several other reinsurers have stopped writing facultative and other specific types of reinsurance business without pulling out of the market altogether.

Still others are cutting back on their writings in certain areas, but are stopping short of discontinuing those writings completely.

While these actions may shrink the market for certain risks, capacity is still generally available at a price, observers say.

"I do not think immediately it will have so much effect," said Bernd Vogelsang, senior vp of Gerling Global Reinsurance Corp., which has stopped writing casualty facultative and treaty business. "There are too many companies that in the last few years have developed capacity and are ready to pick (business) up."

"There is plenty of capacity," adds Donald Smith, executive vp and chief underwriting officer of Kemper Reinsurance Co., one of several reinsurers that plans to expand its writings next year. "A lot of reinsurers such as ourselves haven't used our capacity because of inadequate terms."

"Everyone we lose is a negative from our standpoint. It means we have to work harder to find someone else," said W.E. Taylor, chairman of John F. Sullivan Co., the reinsurance broking arm of Fred S. James & Co. Inc.

Mr. Taylor added that some of the withdrawals are significant for certain segments of the market. Universal Re, for example, was a major market for

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Reinsurers withdrawing from the market

(1983 results in millions of dollars)

Company	Reinsurance only		All operations			
	Business eliminated	Associated gross premium	Total net premium	Policyholders surplus	Combined ratio	Operating income/(loss)
Universal Reinsurance Corp.	All reinsurance	$178.1	$120.1	$39.9	155.9%	($23.6)
Exxon Insurance Holdings Inc.	All non-Exxon reinsurance	$38.0	$137.6	$748.5	29.1%	$147.3
Rochdale Insurance Co.	All reinsurance	$34.7	$16.9	$6.4	135.1%	($2.1)
Commercial Union Reinsurance Co.	All reinsurance	$24.6	$20.6	$41.2	137.1%	$1.8
United Americas Insurance Co.	All reinsurance	$22.8	$20.6	$8.1	130.7%	($2.4)
Sentry Reinsurance Corp.	All reinsurance	$21.9	$19.7	$8.1	118.5%	($1.3)
Great American Insurance Co.	All non-related reinsurance	$12.0	$744.1	$429.3	115.0%	$12.3
Presidio Insurance Co.	All reinsurance	$9.9	$9.4	$1.8	249.7%	($11.2)
Gerling Global Reinsurance Corp.	All casualty	>$6.0	$52.0	$37.1	115.8%	$3.3
PMA Reinsurance Corp.	Facultative	$2.5	$26.0	$15.7	112.2%	$0.109
Signet Reinsurance Co.	Facultative	$2-$3	$16.5	$11.2	116.6%	$0.386
Folksamerica Reinsurance Co.	Facultative	<$1.0	$8.1	$6.6	161.2%	($3.4)

Intermediaries anticipate tough renewals

By KATHRYN J. McINTYRE

Reinsurance brokers expect to encounter the most difficult renewal negotiations in almost 20 years when they enter the January contract renewal season.

Already, brokers are moving business to other reinsurers because at least a dozen reinsurers in the United States recently shut down or began refusing certain types of business (see story above).

And, some reinsurers are already rejecting certain renewals or new business out-of-hand without even reviewing submissions.

When accepting submissions, reinsurers are demanding higher rates and tighter terms.

At the same time, clients are looking for more reinsurance to replace capacity that is being consumed as higher rates on existing business increase their premium-to-surplus ratios.

Also, insurers want to expand their capacity now that rates are rising and business looks more attractive.

As a result, brokers' negotiating skills in bringing reinsurance buyers and sellers together on terms that they both can accept are being challenged.

"I have to place business," huffed the chief executive of one the 10 largest U.S. treaty reinsurance brokers, revealing how difficult negotiations are becoming.

"The days of the order takers are over," declares David Cargile, recently appointed president of RFC Intermediairies Inc. Just passing information to a reinsurer won't place the business anymore, he says. The broker will have to bring knowledge of reinsurance markets and expertise in contract wording to properly serve a client, he contends.

For the most part, brokers welcome a tightening marketplace in which reinsurers charge more for their policies. Talk of "return to proper pricing" and "restoring the health of our industry" is common.

Most brokers also admit that, in their own self-interest, they also look forward to the higher commissions that rate hikes will create.

But, some brokers fear that increased commissions fueled by rate hikes could be offset by commissions that will be lost if rates go so high that ceding companies don't buy reinsurance.

One reinsurance company executive said one client already has decided not to write a class of business because the needed reinsurance was priced too high.

Brokers report that price increases are most obvious for specialty risks, like professional liability, low-level casualty and risks underwritten by surplus lines insurers.

Pro rata casualty treaties are particularly difficult to place.

A few brokers are even concerned there may not be capacity for some clients, at any price.

How well the brokers perform their role in spreading the risks of the U.S. insurance and reinsurance business will greatly affect the price and availability of insurance to corporations and institutions as ceding companies pass along price increases or withdraw from classes for which they find reinsurance too expensive.

Just how important reinsurance brokers are in the process of spreading risk is clear. Only about 25% of the nearly $11 billion in net reinsurance premiums written in the United States in 1983 was written by reinsurance companies that primarily deal directly with ceding companies. These reinsurers include General Reinsurance Corp., North American Reinsurance Corp., Employers Reinsurance Corp., American Re-Insurance Co., Munich American Reinsurance Co., National Reinsurance Corp. and American Independent Reinsurance Co.

About 75% of net U.S. premiums written, or more than $7 billion, was placed by reinsurance brokers, including the estimated $3.2 billion in reinsurance premiums paid to unlicensed foreign reinsurers.

A large portion of that $7 billion in net U.S. reinsurance premiums was placed by the 10 largest U.S. reinsurance brokers (see chart).

An insight to the brokers' market share is offered by their total gross revenues, conservatively estimated by *Business Insurance* at $290.7 million in 1983. Since at least 10% of the brokers' revenue is generated by investment income on the premium float, their actual 1983 commissions are about $265 million.

Assuming an average commission rate of 2.5%, these 10 brokers could place as much as $10.6 billion in gross premiums, including premiums placed abroad.

The large market share controlled by the 10 largest bro-

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10 largest U.S. reinsurance brokers

Company	Gross revenues (in millions)			Employees			Percent treaty	
	1983	1982	Change	1983	1982	Change	1983	1982
Guy Carpenter & Co. Inc. (Marsh & McLennan Cos. Inc.)	*$130*E	*$121*E	7.4%	1,200	1,200	—	*85%*E	*90%*E
John F. Sullivan Co. (Fred S. James/Transamerica Corp.)	$26.0	$23.9	8.8%	283	228	24.1%	88%	88%
E. W. Blanch Co. (Independent)	$23.2	$18.6	24.7%	223	253	-11.9%	99%	98%
G. L. Hodson & Son Inc. (Corroon & Black Corp.)	$22.0	$17.5	25.7%	192	170	12.9%	95%	93%
Towers, Perrin, Forster & Crosby Inc. (Independent)	*$20-25*E	*$20-25*E	—	200	198	—	80%	87%
Willcox Inc. Reinsurance Intermediaries (Johnson & Higgins and Willis Faber)	*$20-25*E	*$20-25*E	—	*175*E	*200*E	-12.5%	*96%*E	*90%*E
Intere Intermediaries Inc. (Independent)	*$15-20*E	*$15-20*E	—	163	151	7.9%	100%	100%
Thomas A. Greene & Co. Inc. (Alexander & Alexander Services Inc.)	*$12-15*E	$5-10E	—	200	215	-7.0%	70%	50%
Frank B. Hall (Reinsurance) Holdings Inc.* (Frank B. Hall & Co. Inc.)	$11.25	9.0	25.0%	90	80	12.5%	85%	90%
RFC Intermediaries Inc. (The St. Paul Cos. Inc.)	$11.2	$12.7	-11.8%	209	218	-4.1%	59%	51%

* U.S. business only; $25 million and 175 employees including international.

E— Business Insurance estimate.

Withdrawals won't seriously drain capacity

Continued from page 3
trucking business, he noted.

"I think they will be sorely missed," Mr. Taylor said.

Universal Re, which was primarily a treaty underwriter, stopped writing new and renewal business last April because of poor results (*BI*, March 19.)

The Armco unit reported a 1983 combined ratio of 155.9% and a net operating loss of $23.6 million.

CU Re last month informed intermediaries that it would no longer accept new or renewal business. The operation posted a net operating gain of $1.8 million despite an underwriting loss of $8.9 million.

In a letter to the intermediaries, CU Senior Vp Paul Walther cited "a need to concentrate our energies on Commercial Union's primary insurance business" as the reason for the decision.

A spokesman pointed out the CU Re's 1983 net premium volume of $20.6 million was "peanuts" compared with the 1983 net premium volume of $1.4 billion for all of CU's U.S. operations.

The soft state of the reinsurance market prompted the withdrawal last February of Rochdale and United Americas, which together generated gross reinsurance premiums of $57.5 million in 1983, according to Gustav P. Braun, executive vp of Rochdale and president of United Americas.

The two companies, which wrote only treaty business, are managed by Duncanson & Holt Inc. in New York.

The two may start accepting business again next year if market conditions improve, Mr. Braun added.

Sentry Re—formed in 1982 to handle reinsurance business formerly managed by its parent, Sentry Insurance—stopped accepting new and renewal business Sept 1. Sentry Re reported a 1983 combined ratio of 118.5% and a net operating loss of $1.3 million on net premiums of $19.7 million.

A Sentry spokeswoman, who declined to comment on the reasons for the move, said the company will continue to write reinsurance through its New York Insurance Exchange subsidiary, Sentry Syndicate Inc.

Presidio, a unit of Beloit Corp. of Beloit, Wis., stopped writing new and renewal business last May. Presidio wrote only treaty reinsurance, where its capacity per risk was $100,000. The company reported a 1983 combined ratio of 249.7% and a net operating loss of $11.2 million on net premiums of $9.4 million, which includes some direct underwriting.

"An actuarial analysis of our reserves indicated that we were woefully inadequate on the reinsurance side," said Fred Wootan, who joined the company as president in October 1982.

Mr. Wootan said he told Beloit's management that a $15 million reserve contribution would be required if Presidio were to continue writing business.

"They decided at that point they weren't interested in staying in business," he said.

A larger number of companies has stopped writing certain types of reinsurance business without pulling out of the market altogether.

Gerling Global imposed a "moratorium" on casualty facultative and pure casualty treaty business last July, according to Mr. Vogelsang, who said the company may still write some casualty risks as part of multiperil treaties.

Casualty facultative volume amounted to only $6 million last year, and the combined ratio for that portion of the book was about 140%, including internal expenses, Mr. Vogelsang said.

He wouldn't estimate casualty treaty volume, but said Gerling Global "has never been a big treaty casualty writer."

Loss experience wasn't the only reason for the moratorium, which may last at least one or two years, Mr. Vogelsang said. Another major reason was the unpredictability of jury awards in liability cases.

"We feel we are not in the pure casualty business but in some sort of social insurance element," he observed.

Great American Insurance Co. of Cincinnati, a unit of American Financial Corp., stopped writing reinsurance for non-related companies last January, according to Robert Maly, assistant vp.

Gross reinsurance premiums written by Great American in 1983 amounted to $594.4 million, most of which came from other American Financial subsidiaries. Net premiums of $744.1 million include the company's direct business.

Non-related reinsurance, all treaty, generated only about $12 million in 1983 premiums, Mr. Maly said, adding that the company decided to stop writing the business because it was unprofitable.

Employers Insurance of Wausau in September placed a moratorium on all new non-related treaty business through the end of 1985, according to Vp Norbert Berg.

Employers of Wausau's gross reinsurance volume in 1983 was $391 million, a large part of which was generated by other Wausau Insurance Cos. affiliates.

Premium volume from non-related risks, which totaled $48.5 million in 1983, will hit about $60 million this year and will remain steady in 1985 despite the moratorium and a re-underwriting program that could result in non-renewal of about one-third of the present book, Mr. Berg said.

Higher rates on the renewed business will make up the difference, he explained.

Several reinsurers with small facultative books have stopped writing the business because of its relatively high expense ratios. Executives at several of these companies say they're bullish on treaty business, though, and expect to write more of it.

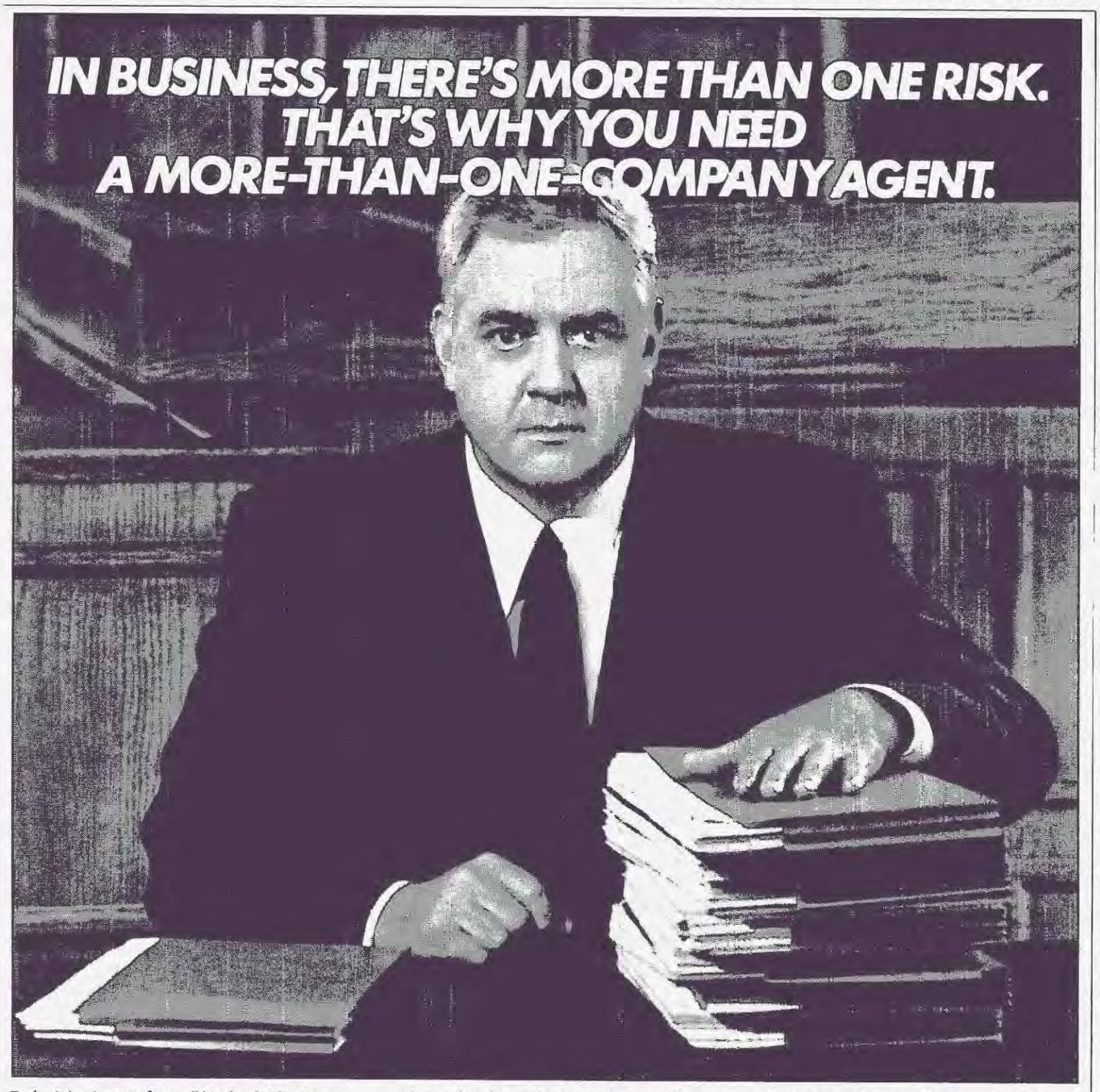
"To be successful in (facultative) business, you have got to make a very heavy commitment," said James Soper, executive vp of American Union Insurance Co. of New York. "We were eating up our premium with expenses and there was nothing left to pick up our exposures."

American Union stopped writing new and renewal facultative business in July. The business accounted for $1 million of the company's 1983 gross reinsurance premiums of $58.8 million.

Other companies that have discontinued facultative underwriting include:

- PMA Reinsurance Corp., which had stopped accepting new and renewal facultative business by July 1. Facultative accounted for

Continued on page 6



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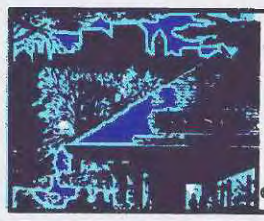
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Reinsurer cutback

Continued from page 4
$2.5 million of the company's 1983 gross reinsurance premiums of $29 million.

- Folksamerica Reinsurance Co., a subsidiary of Folksam International Insurance Ltd. of Stockholm, Sweden, which stopped writing facultative business at the end of 1983. The business produced less than $1 million of the company's 1983 gross volume of $11.6 million.
- Signet Reinsurance Co., a unit of W.R. Berkley Corp., which accepted facultative business through a Berkley underwriting management subsidiary that was closed. The facultative business amounted to $2 million to $3 million of Signet's 1983 gross volume of $21.2 million.
- Continental Casualty Co., a CNA Financial Corp. unit, which shut down its facultative division early last summer after four years of operation. Facultative business produced $5 million of Continental Casualty's $1.04 billion in 1983 gross reinsurance premiums.

"(It) was never enough to say grace over," observed William Gilmartin, senior vp.

Other reinsurers say they're cutting back on certain types of business without eliminating them completely.

Allstate Insurance Co. is "moving away" from quota-share and surplus treaty business, though it hasn't stopped writing such business, according to Joseph Aspland, vp and general manager for reinsurance.

Allstate has reduced its reinsurance volume 40% between 1981 and 1984, and volume will decline another 20% to 25% by 1985 because of the slowdown in new writings and non-renewal of existing business, Mr. Aspland said.

Treaty business accounts for 80% of Allstate's book, of which 60% was quota-share and 40% was excess in 1983. By the end of this year, only 40% of the treaty business will be quota-share, Mr. Aspland said.

The Mercantile & General Reinsurance Co. of America hasn't stopped underwriting in any areas, but in re-underwriting its current portfolio M&G may lose up to 50% of its pro rata treaty business by the end of 1985, says President Richard F. Gilmore.

Pro rata treaties make up half the company's book, which generated net premiums of $27.8 million last year. But Mr. Gilmore said M&G's volume won't fall much next year.

"(Volume for 1985) will not reflect the degree of the underwriting actions taken," he said. "Most of the impact won't really be felt until 1986," but by then the lost pro rata business may be made up by excess treaty business written at improved rates.

Meanwhile, some companies have decided that the time is ripe to expand their reinsurance underwriting.

Motors Re Management Corp., formed in late 1982 as a facultative reinsurance underwriting manager for Motors Insurance Corp., started writing treaty business on behalf of Motors Insurance in April.

"Our feeling is the market right now is probably what everyone has been hoping for for the last eight years or so," said Frank Pellegrino, executive vp at Motors Re in Burlington, N.J. "Our timing—at least on the surface at this point—is superb.

"But still we are going to do this carefully," he added.

Motors Re is the exclusive underwriter of non-related domestic reinsurance for Motors Insurance, but is not owned by Motors Insurance, Mr. Pellegrino said. Motors Insurance, a unit of General Motors Corp., wrote gross reinsurance premiums of $257.3 million in 1983, nearly all generated by reinsurance of other GM insurance units.

Motors Re wrote about $5 million in non-related reinsurance for Motors Insurance in 1983 and this year will write about $12 million, $10 million in facultative and $2 million in treaty, Mr. Pellegrino said.

Next year, Motors Re plans to write between $15 million and $20 million in facultative business and $10 million to $15 million in treaty business, Mr. Pellegrino said, adding that the treaty volume will probably outpace facultative volume eventually.

The combined ratio on Motors Re business is running in the "low 80s," he said.

Another relative newcomer is F&G Re. Inc., a reinsurance underwriting manager formed in October 1983 by United States Fidelity & Guaranty Co.

F&G Re specializes in financial reinsurance products like loss portfolio transfers, though it also writes more traditional treaty reinsurance, according to Senior Vp James Stanard. F&G Re writes no facultative business, he said.

Writing on USF&G's surplus, the company can provide limits of up to $7.5 million per risk, Mr. Stanard said. Typically, however, limits range between $3 million and $4 million on high-layer casualty business, and lower on high-layer property risks.

Mr. Stanard declined to comment on F&G Re's premium volume, noting that the loss portfolio reinsurance business makes a figure difficult to arrive at. A "large amount" of the company's volume is generated by loss portfolio reinsurance, he said.

F&G Re President Paul B. Ingrey, in an earlier interview, said that the company's traditional reinsurance writings have produced about $50 million in annualized premiums.

Last month, Hartford Insurance Group opened Hartford Fire International Ltd., which will underwrite non-U.S. reinsurance business for Hartford Fire Insurance Co. (*BI*, Oct. 15.)

Premium volume next year is expected to be about $5 million and rise to $15 million over the next three years, according to President Lawrence Doyle.

About three-quarters of the business will be treaty and one-quarter facultative, with the facultative business written mainly for U.S. multinationals, Mr. Doyle said.

Perhaps 90% of the company's business will be property, and most of the treaty business will be on an excess-of-loss rather than pro rata basis, he explained.

Some more established reinsurers are hoping to take advantage of a tightening market to expand on their current books.

Kemper Reinsurance Co.'s volume will be up about 25% this year over 1983's net written premium volume of $153.4 million "despite our canceling business," according to Mr. Smith.

Mr. Smith—who would not comment on how much business has been canceled—said that about 25% of the volume increase will come from new business and 75% from the re-underwriting at higher rates of renewal business.

The expansion is general, and Kemper Re hasn't targeted a particular type of property or casualty reinsurance for growth, Mr. Smith adds.

"It's just a matter of our being in a position to dictate terms," he explained.

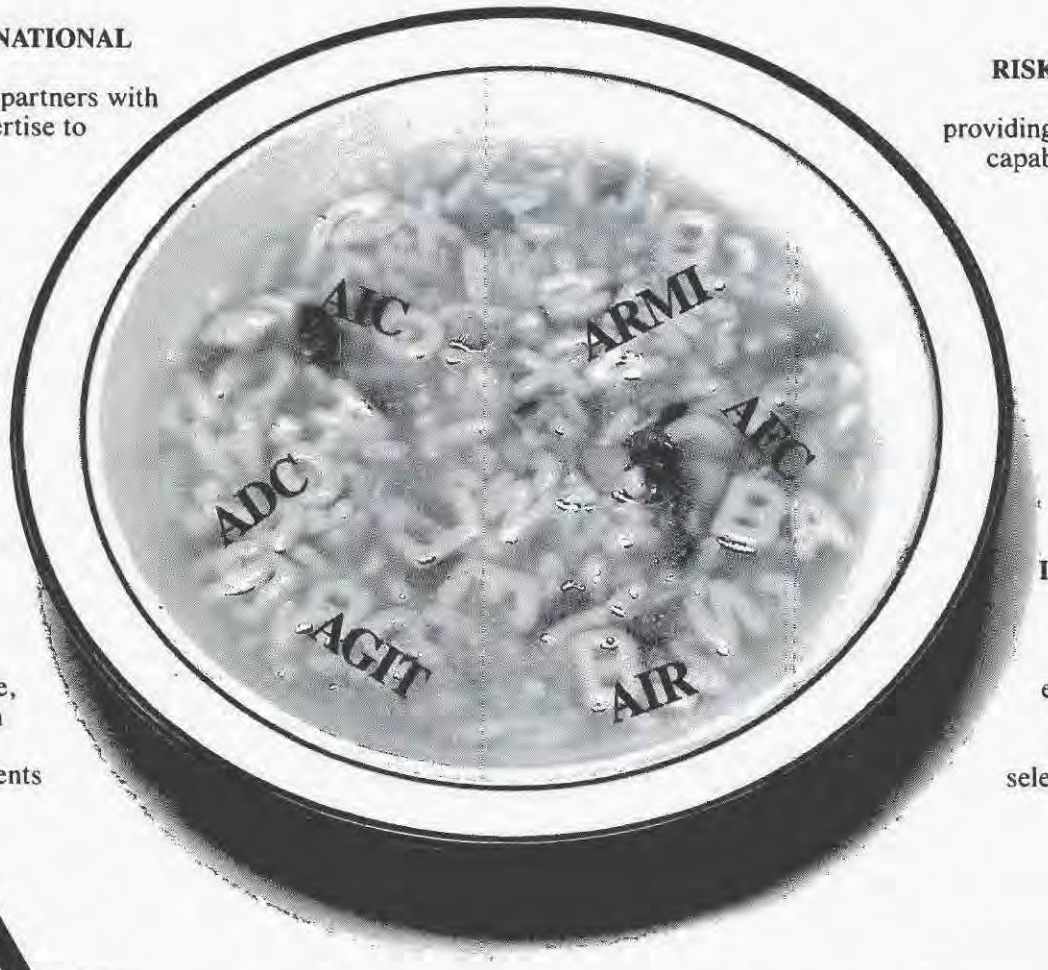
"With the curtailing of business by quite a few companies, I would guess that $120 million in premium volume is coming into the marketplace," he observed. "A lot of it is business we have refused to write (in the past) because of inadequate terms, and we (now) have the opportunity to write it." ■

Alphabet Scoop

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opinions

Let's shed light on reinsurance

SOME REINSURANCE brokers would prefer that no one knew anything about the reinsurance business, including their business.

One brokerage executive told us that he yearns for the days 20 years ago when no one even knew about reinsurance except those handling it.

Thankfully, not everyone wants to cast a cloak of secrecy over reinsurance, and more and more reinsurance professionals are willing to openly discuss their business.

We think the reinsurance business deserves more analysis and scrutiny than it has received over the years. This is why we began our annual reports on reinsurance in 1980 and why we regularly report on new developments in the reinsurance business.

Reinsurance, after all, is the money behind insurance policies. It's the mechanism that allows insurers to provide large limits of insurance protection. If reinsurance policies aren't professionally handled by reinsurance brokers and direct-writing reinsurers, or if reinsurance policies aren't underwritten by financially sound companies, the insurance industry's strength is weakened, and it could be sapped.

The growing importance of reinsurance to the insurance industry is obvious in the explosive growth of reinsurance premiums. In 1966, net reinsurance premiums written in the United States totaled just $1.7 billion. In 1983, net reinsurance premiums written in the United States totaled $10.9 billion.

We're not the only ones interested in digging deeper into the reinsurance business.

Corporate and institutional insurance buyers who are far more sophisticated today than 20 years ago want information about factors influencing the price and availability of their insurance. Reinsurance certainly is an important factor. And some sophisticated risk managers are negotiating with reinsurance brokers and underwriters.

Insurance regulators also are devoting more effort to analyzing the details of reinsurance transactions today. Although many departments need to become more sophisticated to exercise regulatory control over reinsurers, the first efforts are being made.

The Securities & Exchange Commission wants to know how reinsurance transactions can affect a company's balance sheet and whether investors are being misled by certain applications of reinsurance, namely loss portfolio transfers.

And, a task force of the American Institute of Certified Public Accountants plans to expand its work on accounting for loss portfolio transfers to analyzing all reinsurance transactions to determine when there is transfer of risk.

We can understand why those who in the past have gone about their work without regulatory or public scrutiny now bemoan what they view as unnecessary interference in their business.

But, those in the reinsurance business have to remember: In the last 20 years, reinsurance has become so important that it's not just their business; it's the business of everyone concerned about the financial stability of individual insurers and the entire industry.

letters

If 'safety bingo' boosts awareness, don't knock it

To the editor: Without criticizing the importance of the reader's comments on the article on "safety bingo" (*BI*, Oct. 8), mine would be: Let's turn safety into a game—or use any other technique to stimulate interest.

I am personally in favor of any device or "gimmick" that serves to remind us that a safety program exists and that to follow the rules is better than not to follow them. Unfortunately, it appears that safety is a dull subject to virtually all but the safety professional and an injured worker—and then he or she only in retrospect. Harsh, perhaps, but seemingly true; understandable when we stop and consider that aspect of human nature which allows us to live each day with the reasonably firm conviction that, although accidents happen, "I" will be exempt from tragedy.

While no argument exists that safety should not be a serious management concern, we should not lose sight of the fact that management awareness only provides the resources for the safety professional to promote individual awareness, the most vital ingredient of a successful loss-control program.

Let's consider and use every tool available to promote that awareness, while at the same time using our professional skills to maintain management awareness and concern, which will allow us the means to effectively control the physical environment.

Safety is a subject where the desired end result, less pain and suffering, seemingly justifies almost any "means."

W.C. Cooley
Insurance Manager
Golden State Foods Corp.
Pasadena, Calif.

There is only one RIMS, in U.S. and Canada

To the editor: I wish to clarify the impression given in the article, "RIMS Changing, Vp Says" (*BI*, Oct. 15), that there are separate Risk & Insurance Management Societies in the United States and Canada.

There is only one organization, with members based in the United States, Canada and elsewhere. Of the society's 76 chapters, 10 are located in Canada. The Canadian Risk Management Conference is an annual event with sponsorship rotating among the chapters in Canada. It is similar to events of other groups of RIMS chapters, such as the North Central, New England and West Coast regional conferences. The latter, by the way, was hosted by the British Columbia Chapter of RIMS in September.

In his remarks, RIMS First Vp P. Richard Hackenburg noted that membership stands at 3,619. This figure includes RIMS members in Canada, which represent approximately 10% of the total. His discussion of the changing nature of RIMS was not restricted to the United States.

The RIMS office in New York serves all members, on an individual and chapter basis, wherever they are located.

Fred Bossons
RIMS Canadian Coordinator
Nepean, Ontario

Malpractice brokers deserve big commissions

To the editor: I was disturbed to read William Mortimer's letter on the California Hospital Assn. (*BI*, Oct. 15). I know nothing of the CHA situation itself, but I am amazed that someone of Mr. Mortimer's apparent experience should make such generalizations about brokers and commissions on London market placements.

The average service time for medical malpractice coverages on hospital associations of this type is 16 years from inception. This is a long time, in my view, and I would hope that the brokers involved had adequate recompense.

As an insured, I would be seriously worried as to whether my broker would still be around in 16 years time at the commission levels envisioned by Mr. Mortimer. It is all too easy to recognize large commission dollars without realizing the work that has been, and more importantly will be, performed by the intermediary.

F. Kerry Friel
Marketing Manager
Belvedere Underwriting Agents Ltd.
Hamilton, Bermuda

Paul Revere offers new LTD cover, too

To the editor: I agree with Peter O'Brien that a meaningful long-term disability contract for management employees is long overdue (*BI*, Oct. 1). However, I do not agree that the sole company mentioned was unique in responding to the challenges. The challenge was also met by the Paul Revere Cos. over a year ago. Paul Revere has been and is responding to the needs of management employees by offering enhanced long-term disability products.

New product features include: a total disability benefit payable in an employee's own occupation to age 65, a residual disability benefit payable in relation to earnings loss, and a 7% cost-of-living adjustment benefit. Additionally, when used with our flexible benefits, these new options allow an employer to structure long-term disability plans based on the differing needs of each employee. We believe that tailoring products to individual needs is a vital element in long-term disability plan design.

John P. Clark
Vp, Group Products
The Paul Revere Cos.
Worcester, Mass.

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Reinsurers' third-quarter results dismal

By DOUGLAS McLEOD

NEW YORK—Reinsurance prices may be firming, but the changes haven't shown up in the nine-month results of some large U.S. reinsurers.

Despite continued growth in volume, several companies—including General Re Corp. and American Re-Insurance Co.—show widening underwriting losses, shrinking operating income and declining policyholders surplus in the first nine months.

Other reinsurers—including INA Reinsurance Co. and Transatlantic Reinsurance Co.—also reported deteriorating loss ratios, though these were accompanied by a decline in earned premium volume.

General Re was the hardest-hit among the handful of reinsurers that have already reported third-quarter results.

Total revenues increased by 8.5% to $1.31 billion in the first nine months from $1.21 billion in the same period in 1983. Net written premiums increased 16.4% to $776.4 million from $667 million in 1983's first nine months, while net earned premiums rose 12.3% to $700 million from $622.6 million.

But the company's pretax net underwriting losses ballooned by 720.8% to $143.5 million from $17.5 million in the comparable period in 1983. General Re's combined ratio climbed to 119.53% in the first nine months of 1984 from 103.21%.

Underwriting results continued to deteriorate on casualty facultative business, as well as on medical malpractice reinsurance written on occurrence forms and treaty automobile liability, General Re reported.

Treaty and facultative property business, which had been profitable for the company, also showed poor results in the third quarter.

Aftertax operating income dropped 40.1% to $93.6 million for the first nine months of 1984 from $156.3 million in the same period in 1983.

Policyholders surplus fell 27.3% to $641.4 million from $882.3 million at the end of the first nine months of 1983.

At American Re, gross written premiums jumped 31.5% to $503.2 million in the first nine months from $382.6 million in the same period a year earlier.

Net reinsurance premiums, however, increased only 8.7% to $316.4 million from $291 million in 1983's first nine months. Net earned premiums rose 10% to $307.1 million from $279.2 million in the first nine months of last year.

American Re's combined ratio rose to 121.6% for the first nine months of 1984 from 113.6% in the same period last year. The increase came mainly from the loss component of the ratio, while the underwriting expense component remained relatively steady.

The reinsurer suffered a 91.9% drop in net operating income, which amounted to only $2.6 million in 1984's first nine months, compared with $32.8 million in the same period in 1983.

Policyholders surplus declined by 4.2% to $287.3 million from $300.1 million as of Sept. 30, 1983.

A decline in premium volume contributed to the higher loss ratio and net operating loss posted by INA Re for the first nine months.

Gross written premiums dropped 32.1% to $174.2 million in the first nine months from $256.5 million in the same period a year earlier. Net written premiums fell 32.6% to $133.4 million from $197.8 million in 1983's first nine months, while net earned premiums dropped 20.1% to $141.4 million from $170.4 million.

Although losses rose only marginally, to $136.2 million from $132.2 million in 1983's first nine months, INA Re's loss ratio jumped to 96.33% from 77.58% in the same period a year earlier because of the drop in earned premiums.

Meanwhile, underwriting expenses dropped sharply to $45.4 million in 1984's first nine months from $72.4 million with the expense ratio falling to 34.06% from 36.58%.

INA Re's combined ratio rose to 130.39% as of Sept. 30 from 114.16% at the same time last year. But this represented a decline from INA Re's combined ratio of 134.6% for the first half of 1984.

The decline in volume was partly responsible for a 179.5% drop in earnings. INA Re booked a $6.2 million net operating loss for the first nine months, compared with a $7.8 million gain for the same period in 1983.

Policyholders surplus slid 17% to $135.8 million as of Sept. 30 from $163.7 million at the same time in 1983.

Transatlantic Re, whose largest shareholder is American International Group Inc., reported a 4.9% drop in gross written premiums to $200.5 million from $210.8 million in the first nine months of 1983. Net written premiums fell 6.3% to $100.3 million from $107 million, while net earned premiums declined 5.1% to $102.9 million from $108.4 million in 1983's first nine months.

Transatlantic Re's combined ratio hit 130.7% in the first nine months of 1984, compared with 122.7% for the same period in 1983. Increased losses were responsible for the larger combined ratio; the company's expense ratio actually fell slightly.

A 47.9% increase in investment income—to $23.1 million from $15.6 million—helped narrow the company's operating loss to $8.1 million for the first nine months from $11.6 million for the same period in 1983.

Policyholders surplus, however, declined 12.5% to $103.5 million from $118.2 million in 1983's first nine months.

San Francisco Re, a unit of Fireman's Fund Insurance Cos., booked a 7.9% increase in gross premiums for the first nine months to $75.2 million from $69.7 million in the same period in 1983.

But, net written premiums fell 19.6% to $43.4 million from $54 million. Net earned premiums rose 2% to $47.8 million from $46.9 million in 1983's first nine months.

San Francisco Re's combined ratio rose slightly to 128.2% for the first nine months from 126.7% for the same period in 1983. The loss component rose slightly while the expense component declined.

Investment income was up 45.9% to $4.7 million from $3.2 million, and the company's net operating loss narrowed slightly to $9.2 million for the first nine months from $9.4 million for the same period in 1983.

Policyholders surplus was increased 54.6% to $21.1 million as of Sept. 30 from $13.6 million at the same time in 1983. ■



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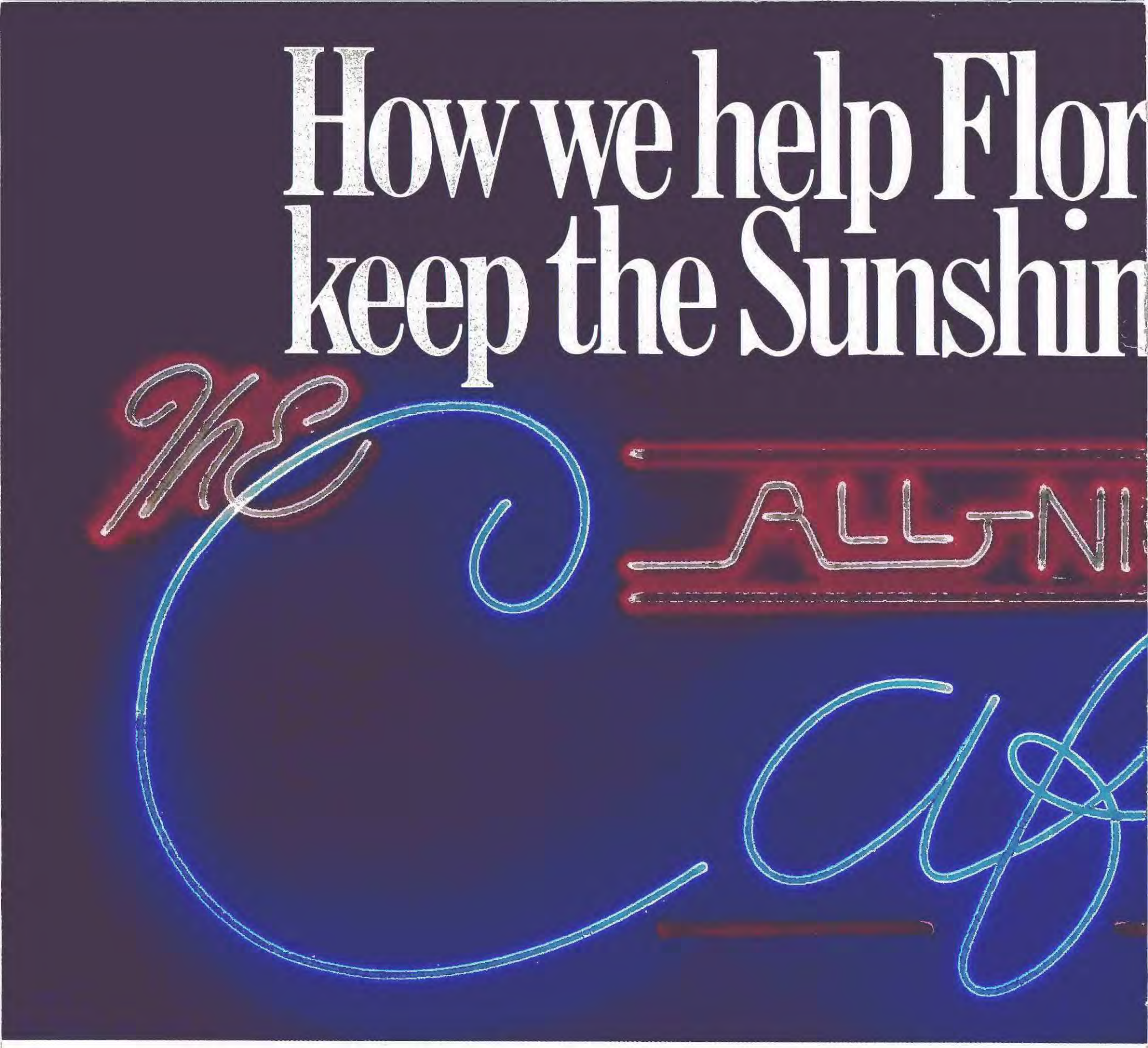
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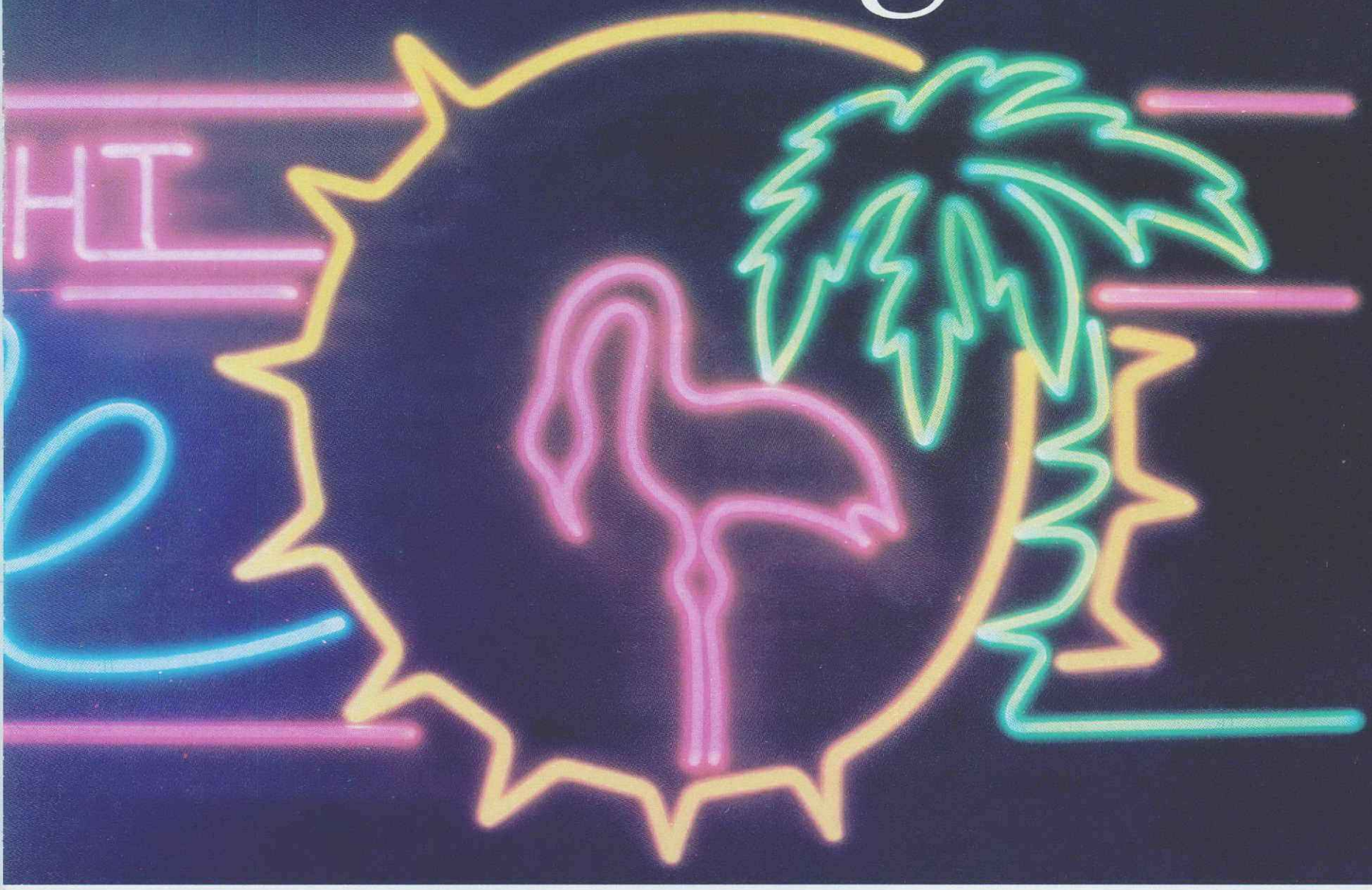
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As for Arkwright-Boston, it put us on the list as a nationally approved vendor for utility engineering and inspection services by the Coordinating Agency for Supplier Evaluation, an independent organization of electric utilities. Something we're very proud of.

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Top 10 intermediaries share several traits

Continued from page 3
kers also is apparent when one compares their gross revenues with those of the other 66 U.S.-based reinsurance brokers that responded to a *BI* questionnaire and are listed in the directory beginning on page 38.

Among those who supplied their gross revenues, the 11th-largest, O'Connor Associates Ltd., reports revenues of only slightly more than half those of the 10th-ranked RFC Intermediaries Inc.

While some very successful reinsurance intermediaries have declined to respond to the *BI* questionnaire, including Thomas P. Woods in New York, none is known to come close in revenues to RFC.

But there are hundreds of smaller reinsurance brokers that did not respond to the *BI* questionnaire. New York, the only state to license reinsurance brokers as such, has 326 reinsurance intermediary licenses outstanding. The number is not surprising since it takes little capital to declare oneself a reinsurance intermediary.

The 10 largest reinsurance intermediaries share many traits:

- All do more than half of their business in more profitable treaty reinsurance, in which clients cede portions of a class or classes of their business to reinsurers. RFC is the only broker known best for facultative reinsurance, which it negotiates by individual submission, a labor-intensive and low-profit-margin business.
- Seven of the 10 are owned by insurance or brokerage holding companies. Only three are independent.
- Nine of the 10 generate at least 90% of their income from serving U.S. clients. As a result, the revenues of Frank B. Hall (Reinsurance) Holdings Inc.'s international subsidiaries are excluded from the chart for comparison purposes.
- Nine report placing more than half their business with U.S. markets. Only Willcox Inc. Intermediaries says perhaps more than half its premiums are placed abroad.
- All claim superior experience and skills in negotiating reinsurance in a difficult market.

The senior officers of these 10 brokers who were interviewed for this report suggested that successful negotiating of reinsurance contracts in a tightening marketplace demands not only basic knowledge of who is willing to write the reinsurance and who may be ready to pull out, but also more careful complete and convincing presentation of the risks offered.

And, as direct insurers reprice their products and rethink their product lines at the same time reinsurers are doing the same thing, brokers need more lead time to develop and negotiate contracts, some of the leading brokers say.

Many of the senior officers suggested their newer and less-experienced competitors may not be up to the task.

One competitor whose ability to negotiate reinsurance is seldom questioned is Guy Carpenter & Co. Inc., a subsidiary of Marsh & McLennan Cos. Inc. New York-based Carpenter controls the largest share of the reinsurance business brokered in the United States.

Carpenter's competitors estimate its market share at anywhere from 30% to 70%, indicating how strong the broker is viewed by some of its competitors.

BI estimates the premiums handled by Carpenter's 1,200 employees at $3 billion to $4.7 billion, or about half of all the premiums controlled by the 10 leading brokers or the equivalent of almost half of the entire U.S. reinsurance market.

M&M does not release Carpenter's revenues, but it did say domestic reinsurance commissions increased 7% in 1983 compared with 1982. Based on an analysis of reports published by M&M and the observations of competitors, *BI* estimates Carpenter's 1983 revenues at $130 million.

Officials at Carpenter refused to be interviewed for this report, typical of the company's preference for keeping successful strategies under wraps that is exemplified not only by refusing press requests for interviews but also by generally refusing invitations for its executives to speak publicly.

Even stock analysts complain that M&M reveals little about its highly successful subsidiary.

Some observers speculate that M&M doesn't want to reveal how profitable its subsidiary is. Others suggest M&M doesn't want to focus attention on Carpenter's control of the market. And others submit that M&M believes it has nothing to gain and only a competitive edge to lose if too much is revealed.

Competitors, who agreed to comment on Carpenter only if they would not be quoted by name, were effusive in their compliments:

"Superbly professional. . .A most worthy competitor. . .Very aggressive. . .Very close relationships with major reinsurance buyers . . .When head-to-head with Carpenter, it's difficult, especially in specialty areas. To replace them on a global program is very difficult. . .Great depth of staff."

Carpenter's management, including recently appointed President Richard H. Blum, is also highly praised. Few reinsurance executives were surprised when M&M tapped former Carpenter President Frank J. Tasco to become president of the parent company.

Carpenter's success also is attributed to its early entry into the reinsurance business. Founded in 1923, and later acquired by M&M, it was the first company to recognize the potential of a successful treaty operation, competitors note. And in a business where long-term relationships are still valued, Carpenter has been able to hold age-old accounts.

All the major insurers do business with Carpenter, competitors agree Carpenter is a specialist in placing catastrophe protection.

"They are very good at analyzing

Continued on page 16

Estimated premiums of top brokers (1983)
(In millions of dollars)

Carpenter	$3,000-$4,700
Blanch	$1,728
Sullivan	$950
TPF&C	$800-$1,000
Willcox	$800-$1,000
Intere	$600-$1,000
Greene	$480-$600
Hodson	$475-$525
Hall (U.S.)	$340
RFC	$223
Total	$8,568-$12,038



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Competitors attest to Carpenter's strengths

Continued from page 14
catastrophe exposures. They have an enormous data bank and access to the worldwide market with their affiliate, Bowring," said one competitor.

Carpenter's edge in attracting clients because it is a subsidiary of the world's largest retail broker is mentioned frequently by competitors. A primary company called on by Carpenter doesn't need to be reminded how much of its business is produced by M&M retail brokers, competitors point out.

But, whether Carpenter has more clout placing reinsurance because it is so big is not so widely accepted by competitors.

"Carpenter is perceived by many buyers to be the only one who can harness world capacity. It's not true, but it's perceived," said one competitor.

"The underwriter is looking at the business, not the broker," said another competitor.

Only two weaknesses at Carpenter are observed.

First, its very strength of size intimidates some small insurance companies that, as a result, prefer not to do business with Carpenter.

Second, Carpenter has become so institutionalized that it sometimes lacks creativity on accounts, espcially when less senior employees are handling them.

Carpenter and its subsidiaries, including the well-respected Balis & Co. in Philadelphia, have offices in nine other U.S. cities (including St. Louis, which is not listed in the *BI* directory) and five cities outside the United States.

Carpenter reports no growth in staff in 1983. That could be a reflection of Carpenter's efforts to further automate its operations.

Competitors say that Carpenter is in the second year of an ambitious four-year automation effort.

Automation will be particularly important to Carpenter as it increases the facultative business it handles, which competitors say makes up about 15% of its premium volume.

Although second behind Carpenter in gross revenues, Seattle-based John F. Sullivan Co. is only about one-fifth Carpenter's size, according to *BI* estimates.

The Fred S. James & Co. Inc./ Transamerica Corp. subsidiary reports $26 million in gross revenues in 1983, a 9% increase compared with 1982.

Chairman W.E. Taylor projects 1984 revenues of $32 million, or about a 20% increase from 1983. Most of that growth will come from new accounts and more business from existing accounts, not rate increases, he says.

"Rate increases will impact 1985 a great deal more than 1984," he predicts.

But, Mr. Taylor is projecting only 10% increase in gross revenues in 1985 because while "we see an increase on existing business from rate increases, some of our business is going to disappear."

Some Sullivan clients are going out of business or dropping certain specialty lines, he reports. And a couple of clients are getting out of facultative business and therefore do not need facultative retrocessions.

Sullivan's employees grew 24% to 283 employees at year-end 1983, compared with 228 at year-end 1982, the biggest staff increase of any of the 10 largest brokers.

"We've grown some, recruited from competitors and from markets," Mr. Taylor says.

The most publicized recruit was James J. Meenaghan, former president of Fireman's Fund Insurance Cos., who joined Sullivan earlier this year as president.

Mr. Taylor had been looking for a successor for the last two years, ever since Jack Sullivan, the eldest son of the founder, left the company.

Mr. Meenaghan officially becomes chief executive officer on Jan. 1, but Mr. Taylor says the actual transition is basically in effect already.

Mr. Taylor, who turns 63 this month, will continue as chairman, producing business and becoming more active in training employees.

Already, Mr. Meenaghan has focused on "making John F. Sullivan second to none on service," says Mr. Taylor.

Mr. Meenaghan is focusing especially on speeding the collection and payment of premiums and of claims recoveries.

Mr. Meenaghan, who purchased reinsurance for Fireman's Fund for many years, said he was attracted by the opportunity for a change from the primary insurance business and to Sullivan for its professionalism.

While handling a broad-based book of property/casualty reinsurance, Sullivan also boasts specialty areas like satellite, financial guarantee reinsurance and financial reinsurance.

Financial guarantee reinsurance is reinsurance of financial guarantee products, while financial reinsurance business involves transactions auto reinsurers designed to improve the ceding company's balance sheet, such as loss portfolio transfers.

While Sullivan was incorporated in 1962, some of its clients including SAFECO Corp. and Canadian Indemnity Co., date back to its predecessor firm, Frank Burns Inc., founded in 1928.

In all, Sullivan serves about 250 treaty clients, from the very largest primary companies like CIGNA Corp., The Home Insurance Co. and The Reliance Cos., to the very smallest regional insurers.

Continued on facing page

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Continued from facing page

Sullivan wants to develop a larger presence among Eastern-based insurers. So far, its New York office has served more Midwestern than Eastern clients.

Of the five other cities where Sullivan has offices, two were opened in the last year: Dallas in 1984 and Philadelphia at the end of 1983. It also has offices in Los Angeles, Toronto and Vancouver.

The third-largest U.S. reinsurance broker, Minneapolis-based E.W. Blanch Co., is the largest of the three independent and employee-owned brokers among the Top 10.

Blanch's 1983 gross revenues of $23.2 million increased 24.6% over 1982, as revealed in a confidential memorandum Blanch issued seeking a joint-venture partner to form a new reinsurance company (see story, page 24).

That big growth ranks it among the three fastest-growing reinsurance brokers in 1983.

"We worked hard and by the time you add up all the pieces, we had a super year," said Chairman Edgar W. Blanch Jr., adding "1984 will be even better."

Blanch's premium volume in 1983 exceeded $1.7 billion, 44% of which was related to special life and accident and health reinsurance, 40% pro rata reinsurance, 7% casualty excess reinsurance and the rest catastrophe, property working layer, multiline excess and miscellaneous.

Omitting the specialty life and accident and health reinsurance, which produced $800,000 of its $20.7 million in 1983 commission revenues, Blanch's business by premium volume is 23% fire and allied lines, 20% life and accident and health, 15% liability, 15% professional liability retrocessions and the rest multiline, crop hail, mobile-home physical damage, fidelity and surety and miscellaneous.

Blanch, founded in 1957 by the current president's father, has a staff of 223 and offices in seven cities: Chicago; New York; Atlanta; San Francisco; Stamford, Conn.; Hamilton, Bermuda; and Copenhagen, Denmark.

A joint venture was formed with Lloyd's brokers Bradstock, Plunkett & Crawley Ltd. to form Bradstock Blanch Ltd. to place business in the London market.

Blanch's staff shrank almost 12% in 1983, representing scaled-down activity in facultative reinsurance.

Blanch subsidiary AgRe Management Inc. is an agri-reinsurance underwriting manager, which in 1981 became the largest U.S. crop hail reinsurance facility. The Travelers Insurance Co. will become Ag Re's issuing reinsurer, replacing Northwestern National Insurance Co.

Another Blanch subsidiary, MRM Inc., had binding authority for writing facultative property and casualty reinsurance but ceased underwriting because prices were too low to produce an adequate underwriting profit for its markets, Mr. Blanch said.

Blanch serves about 573 clients, many of which are medium-sized commercial property/casualty companies, although it provides some services to most of the major insurance companies. It is not strictly a Midwestern broker as it is often characterized.

Although Blanch deals with more than 1,000 reinsurance markets, 135 of these each received more than $1 million in premium from Blanch and together wrote almost 93% of the premiums placed by the broker.

The fourth-largest U.S. broker is either G.L. Hodson & Son Inc., a Corroon & Black Corp. subsidiary, or Towers, Perrin, Forster & Crosby Inc.

As a privately held company, TPF&C refuses to disclose financial information. But, TPF&C is judged by competitors to be larger than Hodson, whose nearly 26% growth in 1983 was almost unnoticed by many of its competitors.

Hodson Chairman and Chief Executive Officer Robert G. Hodson Sr. says Hodson has been growing at a 20% clip the last several years on the strength of new accounts and new business from existing accounts.

Mr. Hodson expects to turn in about 20% growth for 1984, too.

The general shift in the market to excess-of-loss reinsurance from pro rata and the attendant higher commissions also has increased the company's revenues, he notes.

Hodson's staff, too, is growing, up almost 13% in 1983 to 192 employees. And, Mr. Hodson says he is continuing to look for talented people to join the company.

Hodson, based in New Hyde Park, N.Y., has offices in Atlanta,

Continued on next page

How commissions are determined

Reinsurance intermediaries' commissions are standardized by the type of contract.

On pro rata or proportional treaties, brokers generally earn a 1% commission. On excess-of-loss treaties, they earn a 5% commission when the treaty is in the so-called "working layers" and earn 10% in the non-working layers where premiums are smaller.

For facultative placements, brokers are generally paid a 5% commission on pro rata or proportional contracts, but the commission can fall to as low as 2.5% on big premium placements. For excess-of-loss facultative placements, brokers are generally paid 10% of net premium when its a non-contributing program and there is no ceding commission, and 5% on the gross when it is a contributing program.

These commissions compensate the broker not only for its marketing expertise but for the service the broker provides, including contract writing, rating assistance and collecting and paying premiums.

Once a contract is placed, a broker's work is not finished. A reinsurance broker must process all claims filed under the policies it has placed, collecting from the reinsurers and paying the ceding company.

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Top 10 brokers compared

Continued from preceding page
Los Angeles, New York and Minneapolis/St. Paul.

Hodson's roots are in a business started in 1924 by Robert Hodson's father, although the current company wasn't incorporated until 1947 and became part of Corroon & Black in 1970.

Hodson estimates its premium volume at around $475 million, perhaps as high as $525 million. It produces a high commission rate compared with other brokers. Mr. Hodson says his company is averaging a 4.5% commission rate, compared with others whose average commission ranges from 2% to just more than 3%.

TPF&C, which this year is celebrating the 50th anniversary of its incorporation, could generate as much as $25 million in gross revenues from reinsurance brokerage by its 200-person staff, exclusive of its employee benefit consulting business.

Chief Excutive Officer Bernard D. Berry allowed that the company enjoyed "very attractive growth in 1983" and expects more growth this year.

TPF&C reports 20% of its 1983 premiums are related to facultative business, which Mr. Berry notes also reflects that facultative rates were rising in 1983. He expects that 20% ratio to hold as both facultative and treaty business continue to grow.

TPF&C is committing itself to facultative business "because so many people are getting out of facultative and we feel to be a full-service international broker we have to offer the service," explains Mr. Berry.

TPF&C has developed a computer system to streamline the processing of facultative reinsurance business.

About 6% of TPF&C's revenues are generated by its international department that handles business from non-U.S. clients.

TPF&C traces its reinsurance roots back to 1908 when its predecessor firm placed the first catstrophe cover in the London market, says Mr. Berry.

Philadelphia-based TPF&C operates branch offices in New York, San Francisco and Hartford, Conn.

A reorganized Willcox Inc. Reinsurance Intermediaries, under the joint ownership of Johnson & Higgins in New York and Lloyd's broker Willis Faber P.L.C. in London, may be coming up fast on its larger competitors.

Despite several competitors' comments that Willcox is not making its mark among U.S. brokers, *BI* estimates its 1983 gross revenues at $20 million to $25 million, although closer to $20 million.

The Willis Faber connection may be developing more business than U.S. competitors recognize, coming out of Willcox's London subsidiary, Willis Faber & Willcox.

As is traditional with privately held J&H, no revenue or premium volume figures were released.

Willcox closed all its U.S. branch offices in late 1983 after the company was reorganized as a joint venture under Kenneth Hecken as chief executive.

Its branch offices were generating facultative business, which Willcox has decided to stop developing and is now running off, Mr. Hecken explained.

BI estimates that the office closings resulted in Willcox dropping its staff to about 175 from 200 in 1982.

Despite retrenching on facultative business, Willcox's revenues in 1983 were up slightly from 1982, Mr. Hecken says. In 1984, the company is doing "very well and looking forward to an improved year in 1985; 1986 and beyond will be just outstanding," he says.

Willcox is targeting clients of all sizes, including the jumbo accounts it once eschewed in favor of concentrating on medium to large clients, Mr. Hecken notes. And, he expects more business to be generated from London, where he sees capacity shrinking faster than in the United States.

Willcox also is staffed to meet the demand for reinsurance of financial guarantee products, Mr. Hecken said.

"Our goal by the end of the decade is to become the pre-eminent reinsurance intermediary in North America," Mr. Hecken said.

That, of course, presupposes that Willcox could directly challenge Carpenter in size as well as service.

Privately owned Intere Intermediaries Inc. may be the seventh-largest U.S. reinsurance

Continued on page 22

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Top intermediaries compared

Continued from page 18
broker, outpacing Alexander & Alexander Services Inc.'s Thomas A. Greene & Co.

Neither Intere nor Greene would disclose revenues.

Intere's recently appointed president, Wallace E. Winter, allowed that the company's brokerage revenues increased in 1983, primarily on the strength of rate increases that he says Intere saw beginning in mid-1983.

Staff also grew almost 8% to 163 in 1983 compared with 1982.

Intere will soon open separate offices in New York for its marine and aviation division and its special services division, which handles any contracts that don't fit the standard mold.

These divisional offices will handle accounts without territorial restrictions, while Intere's other offices in Atlanta, Chicago, New York, San Francisco and Dallas operate by territories. Intere also operates subsidiaries in Bermuda, Taipei, Taiwan, and Copenhagen, Denmark.

While Intere reports handling only treaty business, it will, if critical, assist its treaty clients in obtaining facultative reinsurance, Mr. Winter says.

Its clients are primarily small to medium-sized insurers, particularly in the Midwest and West, but include giant stock companies as well. Its business is pretty evenly split between property, casualty, marine and aviation.

Mr. Winter, who was named president in September, succeeds Ward Gordon, who retains his title of chairman.

Thomas A. Greene, with 200 employees, may well exceed Intere in gross revenues in 1984, but for 1983 *BI* estimates that Greene was slightly behind Intere with $12 million to $15 million.

Chief Executive Thomas A. Greene declined to discuss the company's results, citing A&A's decision not to isolate its reinsurance brokerage revenues.

Mr. Greene did allow that Greene's 1983 revenues grew from attracting new clients and developing more business from existing clients. *BI* estimates that Greene's revenues in 1982 were $5 million to $10 million.

Greene succeeded in 1983 in developing more treaty business to increase its percentage of treaty premiums to 70% from 50% in 1982.

Greene, which was founded in 1980 when Mr. Greene joined A&A from General Reinsurance Corp. where he had been a senior vp, operates from its New York home office and a New York branch.

Frank B. Hall (Reinsurance) Holdings would rank as the third-largest reinsurance broker in the United States if its revenues from foreign subsidiaries were stacked up against the revenues of the other leading U.S. brokers, whose foreign revenues are much smaller.

About 55% of Hall Re's $25 million in revenues are generated abroad, primarily in Latin America.

While closing a Brussels, Belgium, office, the broker recently opened offices in Paris and Copenhagen.

Suggesting more international growth, Hall in the past year recruited former AFIA Worldwide Insurance President Paul Butler as the chairman of the reinsurance brokerage holding company.

In the U.S., Hall Re's revenues grew at a 25% clip in 1983, reports Frank B. Hall Re of New York President Joseph Zaffarese.

Hall's U.S. operation is only 9 years old, with 90 people serving about 100 clients, among them the Florida Farm Bureau insurers, The St. Paul Cos. Inc., Industrial Indemnity Co. and CIGNA Corp.

Offices are located in New York, San Francisco, Philadelphia and Coral Gables, Fla.

Hall's business is about 15% facultative, which has grown strongly, especially in Philadelphia and San Francisco.

Hall's domestic reinsurance brokerage staff will grow as Hall's business matures and more back-office staff is needed to process claims, notes Mr. Zaffarese.

"If you broker a $30 million treaty, even assuming a 10-point underwriting profit, you will eventually process $27 million worth of claims," Mr. Zaffarese points out. "And today, there are more disputes over claims and stall tactics," he says.

RFC, the 10th-largest reinsurance broker, is the only member of the Top 10 to report a revenue decline in 1983—almost 12% down to $11.2 million.

The uncertainty about RFC's future in 1983 before Continental Corp. sold it to The St. Paul Cos. Inc. cost the broker some business, said David Cargile, recently promoted to president of RFC.

Mr. Cargile succeeds Barry Sullock, who resigned from the company, although he was asked to stay with the company in another capacity.

Now that prices are going up, RFC expects to see some impact on its 1984 results on facultative business, and more impact on 1985. Business volume will be up in 1984 from 1983, but not as high as 1982, Mr. Cargile says.

Although known primarily as a facultative broker, RFC is now handling about equal amounts of treaty and facultative business for about 125 clients spanning the spectrum of jumbo to small accounts.

"We want to be a force in the treaty arena like we are in the facultative arena," Mr. Cargile says.

RFC isn't getting any special boost of business from its parent. RFC handles St. Paul business on an "as earned" basis.

RFC closed its Boston and Houston offices in 1983, transferring the business to Hartford, Conn., and Dallas, respectively, and reducing its staff to 209.

Los Angeles-based RFC also has offices in Atlanta; Chicago; Columbus, Ohio; New York; Philadelphia; and San Francisco. ■



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Blanch proposes new reinsurance company

By KATHRYN J. McINTYRE

MINNEAPOLIS—E.W. Blanch Co. wants to parlay its success as a reinsurance broker into the birth of a reinsurance holding company that would both underwrite and broker reinsurance.

There are insurance and investment profits to be earned on business Blanch now produces for other reinsurers, the company says.

In a confidential memorandum dated May 1984, privately held Blanch proposes to enter a joint venture with another company to form a holding company that would acquire Blanch and form a reinsurance company.

Blanch is owned primarily by its employees, although about 27,500 shares of about 214,000 shares outstanding are owned by non-employees.

Essentially, the investor would bring $432 million to the venture and Blanch would bring its $1.7 billion of premium flow, its worldwide reinsurance contacts and its experience as a reinsurance broker.

The new joint venture would create a new reinsurer that could underwrite business produced by Blanch while Blanch also would continue to place business with other reinsurers. The reinsurer and broker would share some employees and officers but would operate independently of each other.

The business Blanch would produce for other reinsurers would include retrocessions of the new reinsurer's business and reinsurance which the new reinsurer did not underwrite.

A new reinsurance company would benefit from rising reinsurance rates on business written today without the burden of potential losses from previous years when reinsurance was written at rates that were too low, the proposal says.

Although the Blanch memorandum requires those who accept it to keep it completely confidential, at least one person who received it violated the confidentiality. Copies of the memorandum were leaked to Blanch's competitors.

Blanch is the second-largest reinsurance broker in the U.S. market based on 1983 premiums handled and the third largest based on 1983 gross revenues (see story, page 3). Its stockholders' equity at year-end 1983 was $5.7 million.

The Blanch proposal has been criticized by competitors who charge that the marriage of broker and underwriter would undermine Blanch as a broker with unrelated reinsurers that would be skeptical of the quality of business offered them.

The proposal has been revised from the May 1984 memorandum, *Business Insurance* learned.

E. W. Blanch Chairman Edgar W. Blanch Jr. refused to discuss either of the proposals.

According to the May proposal, an investment of $432 million in cash would provide the investor with 80% ownership of the new holding company that would purchase Blanch.

The other 20% of the holding company would be owned by Blanch employee shareholders who would contribute to the holding company two-thirds of the stock they now hold in Blanch. The stock contribution by Blanch employees of 119,500 shares valued at $900 per share would be worth $108 million.

The holding company would purchase the remainder of Blanch stock owned by employees and all Blanch stock owned by non-employees at a cost of $85 million, based on a price of $900 per share.

The remainder of the $432 million dollar investment would be used to purchase or incorporate a reinsurance company with capital of $347 million.

The proposal calls for the company to be licensed in all 50 states and rated A or higher by A. M. Best Co. Its envisioned capitalization could make it the third-largest reinsurer in the United States.

The new reinsurance company could count on Blanch for production of business, estimated at $100 million to $150 million in premiums in the first year and as much as $1 billion by the 10th year.

Most of the reinsurance company's functions could be performed by the staff of the brokerage firm, according to the proposal.

The reinsurance company, however, would hire a senior underwriter and have responsibility for underwriting, free from undue influence from Blanch brokers, the proposal says.

The new reinsurance company would have many of the characteristics of a direct writing reinsurer, the proposal notes.

Blanch's proposal projects a 102% combined ratio for the new reinsurer, compared with 1983 industry averages of 122.5% for excess of loss reinsurance and 115.75% for pro rata reinsurance.

The proposal contends that a 102% combined rato for the new company is on the high side despite industry averages for three reasons.

One, Blanch as a production company will maximize the opportunity to be selective in choosing the business to be written.

Two, current industry figures reflect the underpricing in the primary and reinsurance markets over recent years and prices are now going up.

Three, the reinsurance company will minimize its risks through underwriting and pricing, claims control, client selection and effective use of retrocessions, plus concentrating on underwriting low volatility business.

The Blanch proposal notes that initial capitalization of $347 million is more than will be required to support the underwriting of the new reinsurance company in its first years, but maintains that it is needed for a new reinsurer to attract the type of clients it wants.

The Blanch proposal projects premiums written of $111.6 million in the first year climbing to $888.3 million by the 10th year.

The amount of business placed by Blanch with the new reinsurance company would be influenced by the existing relationships between Blanch's clients and other reinsurance companies, the clients' acceptance of the new reinsurance company, the reinsurance company's propensity to underwrite business and general market conditions, the proposal says.

The proposal envisions that the reinsurance company will retain about 30% of its gross premium as net earned premium, but the reinsurance company could increase its net position, the proposal notes.

Blanch's May proposal was prepared by The First Boston Corp. ■

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Rules would restrict loss portfolio transfers

By MEG FLETCHER

New restrictive guidelines proposed by accountants establishing how insurers and reinsurers account for loss portfolio transfers could force substantial changes in how reinsurance contracts are written, reinsurance experts say.

A committee of The American Institute of Certified Public Accountants is proposing that loss portfolio transfers must meet several crucial tests for the transaction to be considered reinsurance under generally accepted accounting principles.

Under the proposal, the transaction cannot specify the exact amount and timing of payments to the ceding company and the ceding company cannot be liable for additional premium payments depending upon loss experience.

If the transaction does not meet these two crucial tests and others, the transaction would be treated as a financing arrangement instead of reinsurance.

If a loss portfolio transfer is classified as a financing arrangement, the ceding company and the reinsurer would lose the boosts to operating income and the tax benefits.

In a loss portfolio transfer, one insurer cedes or sells to another insurer a block of claim reserves and associated liabilities.

While not a new reinsurance transaction, new terms and conditions have been imposed on these transactions that have led accountants and investors to question whether they are really reinsurance and whether the transactions can make the ceding insurer appear stronger than it is.

Loss portfolio transfers allow the ceding company to recognize as current gains the difference between the "premium" paid the insurer assuming the cedant's loss obligations and the amount the cedant had reserved to meet those obligations.

The ceding company pays the assuming company less than the amount it has reserved for its liabilities because the assuming company will earn investment income on the premium paid before claims must be paid.

In essence, the loss portfolio transfer discounts reserves to the present value needed to pay losses. But, insurers generally establish loss reserves at their ultimate loss cost, not the discounted cost.

Because the assuming company is now liable not only for reported losses but also incurred-but-not-reported losses, many assuming companies have imposed conditions on loss portfolio transactions that will protect them from losing money on the transaction and subject the ceding company to less than full recovery for claims at the time recovery may be needed.

The accountants' proposal would affect only GAAP statements prepared by insurers and reinsurers for their shareholders. It would not affect how insurers and reinsurers account for loss portfolio transfers for state insurance regulators in reports prepared under statutory accounting guidelines.

The proposal from AICPA's Accounting Standards Executive Committee establishes the following tests for a loss portfolio transfer to be accounted for as reinsurance:

- The assuming company must reimburse at least annually the ceding company on payment of losses by the ceding company. The agreement should not include provisions that specify amounts to be reimbursed at fixed or determinable future dates, nor should it include predetermined payment schedules, delayed payment clauses, or formulas that delay reimbursements to the cedant.
- The consideration paid by the ceding company, net of commissions, must be a fixed amount specified in the agreement. The agreement should not include provisions that allow payment—directly or indirectly—of additional consideration by the ceding company. The agreement may not include provisions that permit the ceding company to participate in the ultimate profit, if any, of the reinsurer.
- The agreement must constitute the entire understanding between the parties and should not provide financial guarantees to the assuming company, either directly, indirectly or by side agreement.
- The agreement must not include cancellation provisions that would result in a loss to the ceding company on cancellation.
- The agreement must provide for the indemnification of the ceding company by the assuming company against loss or liability.

If the loss portfolio transfer does not meet these tests, it must be accounted for as a financing arrangement. This means for the ceding company that:

- The consideration paid by the ceding company must be recorded as a deposit instead of a tax-deductible reinsurance premium paid.
- The difference between the consideration paid by the ceding company and the estimated amounts to be returned under the agreement should be recognized as investment income over the period specified in the agreement or, if none is specified, over the expected repayment period, using the interest method.

The assuming company should account for financing arrangements as follows:

- The consideration received by the assuming company should be recorded as a liability instead of a reinsurance premium received.
- The difference between the consideration received and the estimated amount to be paid by the assuming company under the agreement should be recognized as investment expense over the period specified in the agreement, or if no period is specified, over the expected payment period using the interest method.

The guidelines were approved Oct. 31 by the AICPA's Accounting Standards Executive Committee in a 13-0 vote with one abstention, says John E. Hart, committee chairman. He is the senior insurance consulting partner for Coopers & Lybrand in New York.

They are being reworded slightly and submitted on an information-only basis to members before being sent in a letter to the Financial Accounting Standards Board. The committee will recommend that the FASB issue a technical bulletin that would incorporate the guidelines into generally accepted accounting principles, Mr. Hart said.

Opponents say the guidelines rigidly differentiate between financing agreements and risk transfers, reducing the flexibility needed in writing reinsurance contracts.

Proponents of the guidelines see

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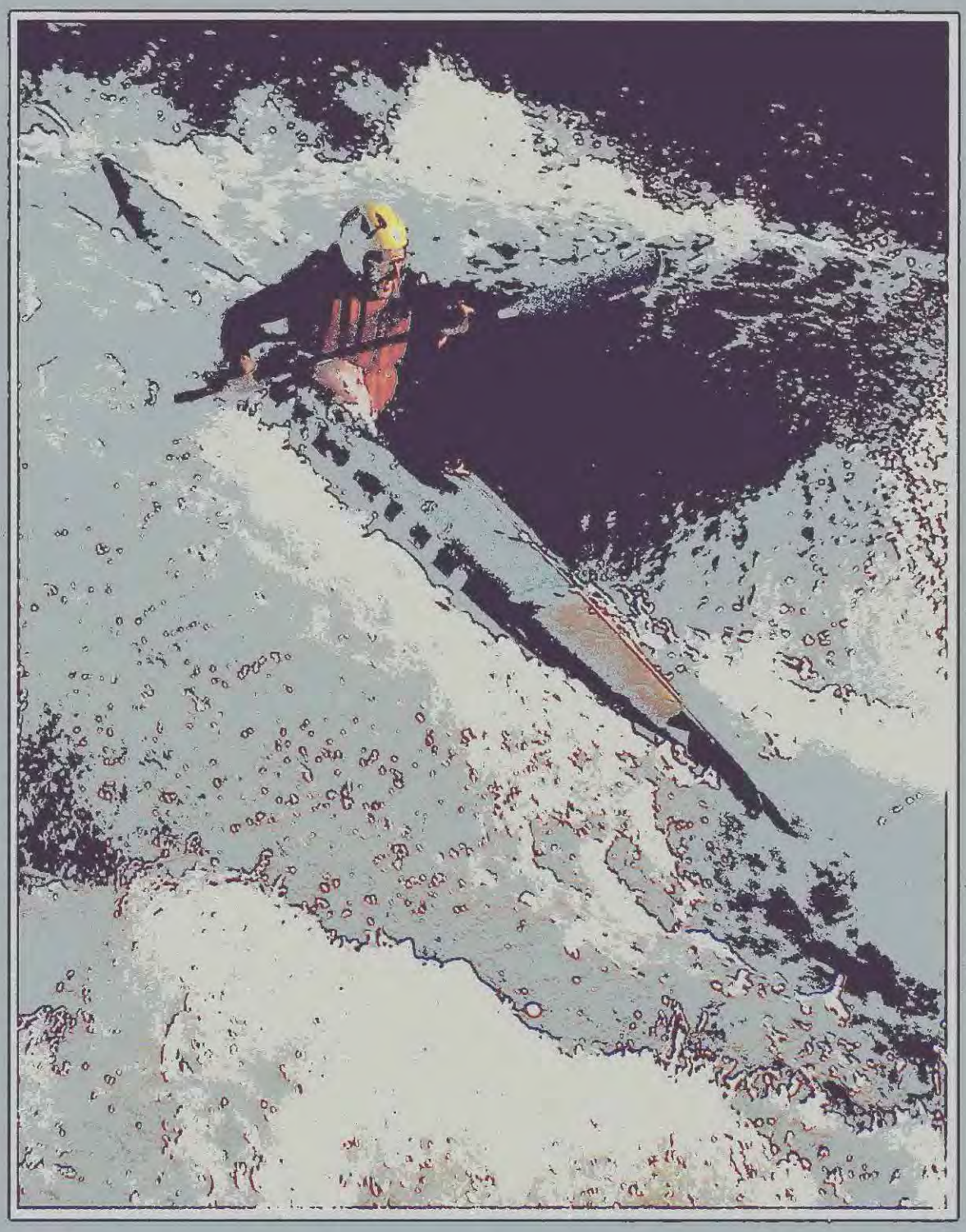
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Loss transfers

Continued from page 26
them as part of a regulatory trend to reduce incentives for companies to use loss portfolio transfers to inflate earnings.

"Concern has been expressed relating to certain loss portfolio transfer agreements being entered into by some insurers," according to the accountants' introduction to the guidelines.

"The characteristics of many of these agreements are such that, in substance, they are not reinsurance, but rather are financing agreements. . . .," according to the guidelines.

Most observers agree that the accounting guidelines would inhibit loss portfolio transfers that are merely financial arrangements while providing more credibility to those that transfer of risk.

The guidelines would inhibit transfers for financing purposes because it would take away the cedant's ability to recognize an immediate gain, said Mr. Hart.

The AICPA committee's feeling was that recovery of income should be recognized prospectively, that is, over the period in which losses are recognized and paid, Mr. Hart added.

"I think they will provide them (transfers of risk) with more credibility at the end of the day," said Stephen K. Lawrence, financial director of the Pinnacle Reinsurance Co. Ltd. in Bermuda, a specialist in underwriting loss portfolio transfers.

"For Pinnacle, it is excellent. It will eliminate a lot of people who were doing loss portfolio transfers as a sideline and not doing it well," said Mr. Lawrence.

Pinnacle generally underwrites loss portfolio transfers by predicting the timing and amount of loss payments using sophisticated actuarial methods. As a result, Pinnacle generally does not establish the kind of loss payment conditions the accountants are targeting.

Pinnacle takes the timing risk on about 80% of its loss portfolio business.

If the guidelines are adopted by the FASB, Mr. Lawrence predicts that all the insurer's business will be based on actuarial underwriting by 1985 or 1986.

"I think they are trying to legislate a system that works well with a knowledgeable buyer and knowledgeable seller," said Paul Ingrey, president of F&G Re, a subsidiary of USF&G Corp. that writes loss portfolio transfers.

"The proposals are well-intentioned but probably too restrictive in detail," he said. A better approach would be to look at the issue on a grander scale and state, for example, that the contract should include risk transfer, Mr. Ingrey commented.

Most loss portfolio transfers involve risks like medical malpractice, which makes it more difficult to calculate the timing of the loss payments, he explained.

Other observers criticized specific aspects of the new accounting guidelines.

Prohibiting predetermined and fixed amounts of payments to the ceding company under loss portfolio transfers would prohibit agreements done for good, valid business reasons that include transfers of risk but also incorporate payment schedules, they say.

"It is too stringent, in part," said Kirk Roeser, president of Gill & Roeser, a reinsurance intermediary specializing in loss portfolio transfers.

"There are times when it is reasonable in a risk transfer arrangement to have specified amounts limitations and/or delayed payment conditions," explained Mr. Roeser.

"Done properly, a runoff can be an important corporate strategy," agreed Mr. Lawrence of Pinnacle. However, it should not be used as a quick fix because, while it may improve the bottom line in the short run, it doesn't cure any underlying problem, he said.

This guideline would disallow most of the reinsurance arrangements involving F&G Re, Mr. Ingrey said. Some observers criticize the guideline requiring that the premium paid by the ceding company be fixed without provisions for additional payments.

"That's absurd," said Mr. Ingrey. "Reinsurance flourishes on give and take, negotiations. When you try to make too many restrictions, you take the best out of the reinsurance business."

That is a change that no one expected, said Mr. Roeser. "It is so contrary to other reinsurance practices where the price of an agreement is retroactively modified based on emerging experience," he explained.

"I think they have gone too far. There should be some room for the reinsurer to adjust the price," Mr. Roeser added.

He suggested as an alternative a rule of reason test that would allow for an arbitrator to judge whether a risk transfer occurred as well as allowing for retroactive modification, he said.

However, Mr. Hart of the AICPA emphasized the need for concrete accounting guidelines.

"I don't think financial arrangements are bad; they are perfectly legitimate. The accounting is of some concern," Mr. Hart added.

"The problem when you enter into a contract is whether immediate total recognition of the total gain by the ceding company is appropriate," he said.

The AICPA committee didn't want to allow a "make whole" agreement whereby the assuming company is sure to not suffer any losses under the transfer, he explained. That would be an indication that no transfer of risk occurred, he added.

The guideline prohibiting cancellation provisions, while not an issue now, apparently anticipated efforts by insurers and reinsurers to salvage loss portfolio transfers with cancellation clauses.

Reinsurance agreements are generally cancelable only by mutual agreement.

Mr. Roeser suggested that the guideline was looking ahead because reinsurers might want to cancel more in the future if other guidelines would not allow for retrospective adjustment of the agreements.

The guidelines do not address or affect disclosure requirements.

The AICPA guidelines represent one effort to examine and analyze reinsurance transactions.

The Securities and Exchange Commission staff also is preparing proposals that would require disclosure of loss portfolio transfers by publicly traded insurers, said Jerry Harrington, an SEC staff accountant.

On the statutory accounting front, the New York Insurance Department and the National Assn. of Insurance Commissioners are examining loss portfolio transfers.

The New York department already has proposed regulations requiring disclosure and governing credit to surplus for statutory purposes for loss portfolio transfers. The department is expected to promulgate the regulation—perhaps in a revised form—before the end of the year, according to a department spokesman.

And, the NAIC has established an Accounting for Reinsurance subgroup of the Accounting Practices and Procedures Task Force. The group is expected to develop accounting and reporting guidelines for statutory accounting purposes. ■

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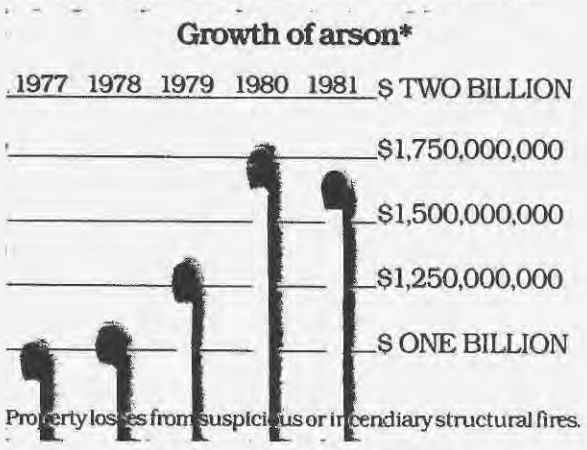
The arson crisis:
putting the heat where it belongs

How big is the arson problem today?

One northeastern county with 69 municipalities identified 66% of structural fires as suspicious or incendiary in 1981. In 1982 this same county delivered 42 criminal indictments for arson and received 92 more confessions of arson.

No one knows how many fires are actually caused by arson. A leading property insurance company shows that over 43% of structural fires in 1982 were suspicious or incendiary in origin.

One of the country's best-known arson experts estimates that at least 50% of *all* structural fires are deliberately set.



*Source: National Fire Protection Association

Figures from the National Fire Protection Association show a 72.5% increase in costs associated with arson from 1977 to 1980. In 1981, however, the dollar loss declined slightly. Is this the effect of increased anti-arson activity? It is too early to tell.

What can be done about this growing problem? At American Re we decided to tackle it head on. We teamed one of America's foremost arson experts with one of the country's most respected arson attorneys to lead a series of anti-arson seminars. The seminars address such topics as:

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- Benefits of an anti-arson program
- How to set up a successful anti-arson program

At the seminars, small numbers of primary insurance company executives discuss their experiences with arson, and exchange ideas on how to cope with this

AMERICAN REDEF

Litigation casts shadow on letters of credit

By STEVE TARAVELLA

Letters of credit issued by banks to guarantee payment by unauthorized reinsurers may not provide the blanket of financial security many ceding companies think, some reinsurance experts maintain.

Attorneys and observers suggest that the maze of litigation among Universal Marine Insurance Co. Ltd., Beacon Insurance Co. and Cherokee Insurance Co. casts doubt upon something that has rarely been questioned: the unconditional irrevocability of letters of credit.

Some say the litigation may change the way courts regard reinsurers' letters of credit.

Letters of credit are widely used to assure a ceding company that an unauthorized or non-admitted reinsurer will meet its financial obligations. Once issued, they are treated as irrevocable documents and are issued with the understanding that the ceding company, as beneficiary, needs only to present a sight draft to the issuing bank to draw payment.

"This is a very serious problem. Ceding companies that think they're protected by letters of credit really may not be. Courts (in this litigation) have shown that an insurance company that really wants to delay payment can," says David M. Spector, a Chicago attorney with Isham, Lincoln & Beale, the principal law firm representing Beacon.

"The Beacon/Cherokee/Universal Marine litigation should alert (underwriters) to the problems they are very likely going to have when drawing down on letters of credit in contested situations," Mr. Spector says.

Beacon ceded business to Universal Marine via Cherokee, a fronting company and unit of Dana Corp. of Toledo, Ohio. Bankers Trust in New York issued an $8.5 million letter of credit payable to Cherokee on Universal's behalf. In turn, Cherokee arranged two LOCs payable to Beacon via First American National Bank in Nashville, Tenn.

Universal Marine, a Bermuda reinsurance unit of Nashville-based Ingram Corp., sued Cherokee, Beacon and others on Dec. 28, 1983, in U.S. District Court in Statesville, N.C., alleging the defendants conspired to defraud Universal Marine of $16.5 million in reinsurance premiums, commissions and overcharges (*BI*, Jan. 9; Feb. 13).

When Cherokee subsequently tried to draw on the Universal Marine LOC issued by Bankers Trust, Universal Marine filed suit in New York State Supreme Court to enjoin payment. Cherokee, in turn, filed suit in the U.S. District Court in North Carolina to block Beacon from drawing down on its LOCs.

The New York court eventually denied Universal Marine's request, reasoning that it had not shown real fraud on Cherokee's part. Cherokee was able to draw on the Universal Marine LOC.

However, the federal court in North Carolina did enjoin Beacon from tapping LOCs issued by Cherokee's bank.

The proceeds of the LOCs are now in the registry of the court pending arbitration among Beacon, Cherokee and other parties in the litigation.

Both Beacon and Cherokee have been place in rehabilitation by the North Carolina and Tennessee regulators, respectively (*BI*, Feb. 27; July 23).

A proposed settlement between Beacon and Cherokee would give Beacon between 75% to 80% of the value of the LOCs and permit Cherokee to retain between 20% to 25%, Mr. Spector reports.

As Mr. Spector sees it, the litigation illustrates "the ease by which a party can get a temporary restraining order to prevent a drawdown" and then drag the process out endlessly.

Lawrence S. Greengrass, a partner with New York-based Rein, Mound & Cotton, consulting attorneys to Cherokee, says the case is relevant to parties not connected with the litigation.

"Everybody in the reinsurance industry should watch carefully the Universal Marine/Cherokee/Beacon case," he advises. "There is some awareness, but not enough.

"The issues raised in the Universal Marine case are important ones that should be watched closely by those in the industry," says Mr. Greengrass. "It's quite clear from that case that an 'unconditional' LOC is not unconditional."

The decision to enjoin Beacon from drawing on Cherokee's LOCs represents a "precedent for taking a hard look at LOCs," he says.

"Everyone has been assuming that LOCs are guarantees—and they're not necessarily. Although one thinks he has a clean and irrevocable LOC, payable on presentation of a sight draft, the court still has the option of enjoining the LOC if it believes the LOC itself is 'fraudulent' or if there's fraud in the transaction," he explains.

He is quick to add, however, that while the litigation raises questions about the reliability of LOCs, ceding companies shouldn't yet dismiss them as a form of security.

"I think the circumstances of the injunction in the Universal Marine case are somewhat unusual. One should not assume, by any measure, that an LOC is no good."

Gerald Fisher, special counsel to North American Reinsurance Corp. in New York, says, "We haven't gone back to the drawing board because of the Beacon/Cherokee litigation; maybe we should."

But, the controversy over LOCs does not have as large a impact on North American Re as it might on other reinsurers, since the company retrocedes very little of its business, says Mr. Fisher.

Some observers maintain that the Beacon/Cherokee case is an exception in an otherwise effective system and presents nothing for ceding companies to worry about.

"Frankly, I'm not staggered or concerned by those cases," says Donald Greene, senior partner with New York-based LeBoeuf, Lamb, Leiby & MacRae, general counsel in the United States for Lloyd's of London.

"Those letters of credit don't fit the pattern," he says. "There are thousands and thousands of them that are routinely presented, on which payments are made.

"As collateral, (LOCs) are far more liquid than anything else I can think of other than cash," Mr. Greene says. "No one who's knowledgeable has questioned them (as good security)."

Mr. Greene, former chairman of a National Assn. of Insurance Commissioners' advisory committee

Continued on next page

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Some questioning letters of credit

Continued from preceding page
that studied LOCs, says that when NAIC guidelines are applied, "a letter of credit is far greater security than normal reinsurance promises."

A model law adopted by the NAIC in June says a state should grant credit for reinsurance if the assuming companies:

- Are licensed in that state. If the assuming companies are nonadmitted, credit should be granted if the states in which they are licensed have solvency standards that are substantially similar to those of the state granting credit.
- Establish trust funds at Federal Reserve System member banks to cover expected liabilities.
- Or issue an irrevocable LOC with an evergreen clause that automatically renews the document if the reinsurer or the banks do not cancel it within 30 days of its expiration date (*BI*, June 18).

"Letters of credit are still viable documents for securing reinsurance," says Thomas M. Tobin, general counsel for Skandia America Group in New York. "It's very, very difficult, unless you have unusual circumstances, to have a court order an injunction against a letter of credit."

In the 10 years he has worked in the reinsurance community, Mr. Tobin can recall only two instances in which a court injunction blocking a drawdown appeared likely, "and both were under extraordinary circumstances."

Warren O. Hart, president of W.O. Hart & Co. Inc., an intermediary in Stamford, Conn., says, "As long as you're dealing with a legitimate client and a legitimate company," accessing funds promptly via an LOC is not a major concern.

Mr. Hart adds, though, that he believes the decision enjoining Beacon's drawdown on Cherokee's LOCs was justified.

Andre Maisonpierre, president of the Reinsurance Assn. of America in Washington, also sees the Beacon decision as an aberration.

"To say the whole system is suspect just because of this one instance isn't the right conclusion," he says. "This is only one of literally thousands and thousands of LOCs out there. The fact that this is such a unique case demonstrates that the system works pretty well."

But even those who aren't worried by implications of the Beacon case agree that companies relying solely on LOCs to back up their reinsurance aren't making the grade.

More important than the LOC itself is the stability of the company assuming the reinsurance, Skandia America's Mr. Tobin emphasizes. "You have to know whom you're ceding it to because sometime in the near or distant future you'll be looking for them to pay."

Before ceding business, he advised that direct insurers should closely examine reinsurers, looking at management, industry reputation and the speed, or lack thereof, with which they pay claims.

Neville Walton, vp and manager of the U.K. insurance division at Chase Manhattan Bank in London, agrees.

"People should place their business with companies they trust and respect, rather than just with those that issue letters of credit. I don't think letters of credit are necessarily the answer to every problem."

But it's not only ceding companies that are concerned about letters of credit. Reinsurers worry that a ceding company may draw down on their LOCs without justification. If that occurs, and if the ceding company subsequently enters receivership or rehabilitation, reinsurers may become creditors tackling the tough task of recouping funds.

What can an assuming company do to ward off unexpected or seemingly unjustified drawdowns?

First, advises Mr. Spector, the LOC in question must be prepared by a competent attorney so that the LOC can only be drawn upon under apporpriate conditions.

Second, the reinsurer and its intermediary must be selective about the bank issuing the LOC.

"The letter of credit is no better than the banking institution that issues it," says the RAA's Mr. Maisonpierre. To issue an LOC, U.S. banks currently charge between 0.25% and 1% of its face value, but that fee is often negotiable.

"The real concern is the viability of the bank that issues (LOCs), even if it's a Federal Reserve Bank," says W.O. Hart's Mr. Hart.

Indeed, consideration of the bank is merited: According to the Federal Deposit Insurance Corp., 70 banks have failed in the United States so far this year. ■

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London capacity taxed by demand from U.S. cedants

By STACY SHAPIRO

LONDON—U.S. underwriters are swarming the London market looking for reinsurance, brokers and reinsurers say. However, the ceding companies may be disappointed at what they find—or don't find.

The withdrawal of several reinsurers, more selective underwriting and the strength of the U.S. dollar against the British pound have reduced the capacity available to U.S. ceding companies, which may force first-time customers in the London reinsurance market to look elsewhere.

"There is a limitation in capacity here; therefore, most reinsurers will only be able to look after existing clients first," said Robert W. Cameron, joint divisional managing director of Lloyd's of London broker C.T. Bowring Reinsurance Ltd., an affiliate of Marsh & McLennan Cos. Inc. "Then, if there is anything left, underwriters might spare some for the newcomers."

"We are not looking to write new business," sums up Robin Jackson, director of Merrett Syndicates Ltd. and a leading Lloyd's non-marine underwriter.

Those that do find reinsurance capacity in London will have to bargain long and hard to keep rates from skyrocketing, terms and conditions from becoming too narrow and retentions from becoming unreasonable, those in the market agree.

Underwriters and brokers generally say that reinsurance rates in the London market will rise at least 25% and as much as 100%, depending on the type of reinsurance and the type of risk involved.

Ceding companies also may have to include tougher terms and conditions in the direct policies—especially casualty policies—if they want to reinsure in London.

All of this translates into a busy renewal season for London underwriters and brokers. Some say the negotiating preceding the Jan. 1 renewals will represent the most difficult—and busy— reinsurance renewal period since 1966.

In fact, reinsurance brokers like C.T. Bowring Reinsurance, Willis Faber P.L.C. and E.W. Payne Ltd., a subsidiary of Sedgwick Group P.L.C., are adding staff to accommodate the new wave of business.

"We are all extremely busy," said Peter Wilson, managing director of H.S. Weavers (Underwriting) Agencies Ltd. "There is a lot more business coming into London. . .but you may not find more capacity."

Some critics of the London reinsurance market are claiming that reinsurers are intentionally stalling renewals to further jack up prices and make ceding companies change their policy wordings.

Many London sources say the reason for the delay is that reinsurers are waiting for their retrocessional arrangements to be completed before they begin writing renewals, though some in the market admit that reinsurers may just be stalling.

In October, most casualty reinsurers were telling brokers, "Come back in November," said Richard Bowes, deputy chairman of Willis Faber. "It may be that they need to get their own reinsurance in place and it may be, too, that they are waiting for the market to mature. I don't blame them."

Although the renewal season has not yet begun in full force, it's clear that there probably will not be enough capacity to complete all of the reinsurance programs that are expected to be offered to London underwriters.

For example, in the past year, several London reinsurance markets have ceased underwriting. They include:

- Mead Reassurance S.A., a subsidiary of Lafayette Reassurance in Paris. Mead Reassurance S.A. stopped underwriting in early

Continued on next page

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London reinsurance capacity limited

Continued from preceding page
October after its sister company, Mead Re in Paris, also stopped accepting business (*BI*, Sept. 17).

● Ancon Insurance Co. (U.K.) Ltd., a subsidiary of Exxon Corp., which stopped underwriting new or renewal non-related risks as of Oct. 1 (*BI*, Oct. 8). Ancon, which had 10 million pounds ($12 million) of capital, primarily wrote excess-of-loss reinsurance.

● Community Reinsurance Corp. Ltd., a consortium of Scandinavian companies, which stopped underwriting in March. The company generated an average of 6 million pounds ($7.2 million) in annual net premiums, a company spokesman said.

● Underwriting agent Stetzel Thomson & Co. Ltd., which stopped underwriting Jan. 1. (*BI*, Nov. 5; June 25).

Besides the reinsurance markets that stopped all underwriting other major reinsurers have pulled out of certain lines or have reduced their capacity substantially.

More than a dozen companies have pulled out of underwriting North American facultative property/casualty reinsurance, including Excess Insurance Group Ltd., one of Britain's largest property/casualty underwriters, and English & American Insurance Co. Ltd.

Also, Britain's largest reinsurance company, Mercantile & General Reinsurance Co. P.L.C., is no longer writing some forms of marine excess-of-loss reinsurance and other specialties, like reinsurance for bankers blanket bonds (*BI*, Sept. 17).

In addition, Mercantile & General also has cut back on bloodstock and professional liability reinsurance, said General Manager John Lock.

Guildhall Insurance Co. Ltd., a subsidiary of Sun Alliance & London Insurance P.L.C., has also significantly cut the amount of reinsurance it will underwrite, said Managing Director John Bishop. The Guildhall will not renew all of its U.S. long-tail casualty risks, he said, noting that "we are here to make a profit."

Sovereign Marine & General Insurance Co. Ltd., owned by Willis Faber, has pulled out of low layers of excess-of-loss reinsurance, known as "risk exposed" business. Sovereign will now mainly write catastrophe excess-of-loss reinsurance for property risks.

Other companies that have pulled out of some reinsurance lines this year, according to information supplied by the British Department of Trade and Industry, include:

● General Reinsurance Ltd., a subsidiary of General Re Corp. in the United States, which has stopped underwriting aviation liability and legal expense coverage.

'There is a lot more business coming into London. . .,' says H.S. Weavers' Peter Wilson.

● La Reunion Francaise Societe Anonyme d'Assurances et de Reassurances of France, which has withdrawn from railway risk market.

Underwriters that have not withdrawn from certain lines are being very selective about what they write this year, market observers note, as companies seek to reduce their horrendous underwriting losses.

"The act of the underwriter is now becoming a much more important and major factor than the financial director—and rightly so," says J.M. Payne, chairman of E.W. Payne, the Sedgwick reinsurance affiliate.

Reinsurers plan to be most selective this year about the casualty risks they underwrite. Besides raising rates, casualty reinsurers say they also will make sure that direct insurance policies have restrictive wording.

In fact, the type of policy wording a ceding company offers to its policyholders will be a bargaining tool in reinsurance negotiations, pointed out H.S. Weavers' Mr. Wilson.

"It is a question of premium," Mr. Wilson added. "If underwriters cannot get the price they were looking for, then they will tighten conditions."

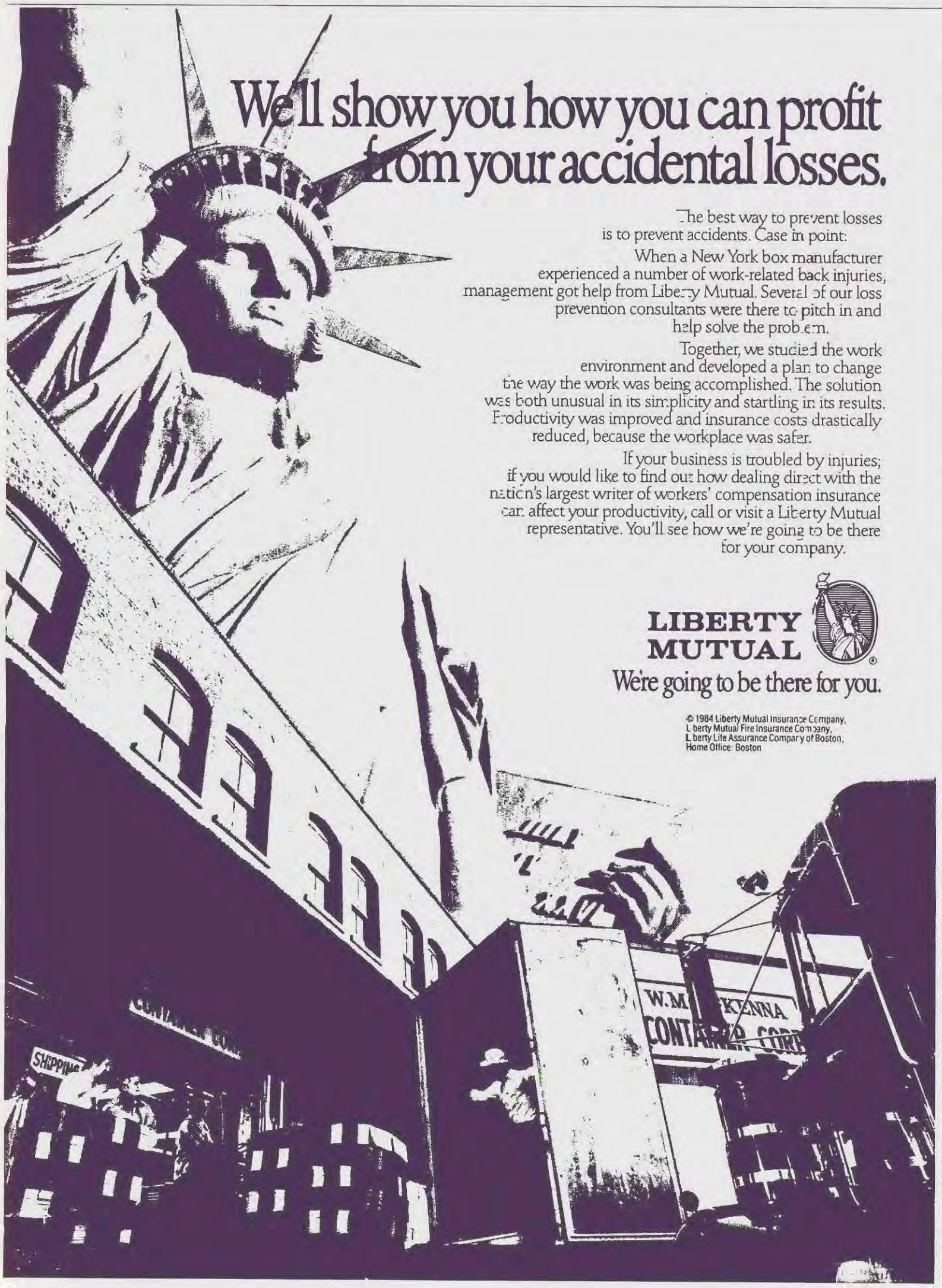
For example, London reinsurers may ask that all comprehensive general liability policies be written on claims-made forms in 1985. And, they also may ask that pollution coverage be removed from all CGL forms, though it could be added to the form through a special endorsement for an additional premium.

The Insurance Services Office in the United States is proposing a new CGL form that would exclude pollution coverage beginning Jan. 1, 1986.

Also, London underwriters will continue to reduce the amount of proportional reinsurance written in favor of more excess-of-loss reinsurance, Mr. Bowes of Willis Faber points out (BI, March 21; Jan. 9).

Proportional reinsurance, also known as pro rata reinsurance, describes forms of reinsurance in which the reinsurer shares a portion of the original premium and any of the attendant losses. Excess-of-loss reinsurance reimburses a ceding company for losses exceeding an agreed-to retention in ex-

Continued on page 34



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London reinsurers tighten underwriting requirements

Continued from page 32
change for a flat premium charged up front.

Excess-of-loss reinsurance generally costs more and forces ceding companies to retain more risk than proportional reinsurance.

Reinsurers may also limit the number of reinstatements placed in treaties, sources say. Treaties in the past may have had unlimited reinstatements, which meant that reinsurers paid for an unlimited numbers of losses until the treaty's aggregate was reached with or without additional premium.

Other demands that reinsurers will place on ceding companies, according to Harvey Simons, director of CNA Reinsurance of London Ltd., include:

- Reinsurers will look for evidence from ceding companies that they have increased direct insurance rates. "We don't want just rhetoric," he said.
- Coinsurance will become a factor again in almost all types of reinsurance, whereas at the moment it is used mainly in catastrophe coverage.
- Ceding companies will be forced to increase their retentions, though he would not say how much more risk they would retain.

"Good security must attract a higher rate," said Mr. Simons. "We are in a harder market, so we are looking at each cedant carefully. Every treaty must be looked at on its own merits.

"And we will be selective. It is where we have established a relationship that those relationships will be maintained. But, no one is going to get a bargain," he added.

However, while some London reinsurers are cutting back their capacity and refusing to write certain risks, new companies are springing up, while some existing companies are entering new lines.

> 'Every treaty must be looked at on its own merits,' said Harvey Simons of CNA Reinsurance.

For example, underwriters like St. Katherine Insurance Co. P.L.C. and Hanover Rueckversicherungs A.G. in London are now writing aviation reinsurance, in light of the huge hull and liability rate increases that have been imposed on airlines this year (*BI*, July 30).

Among the new companies that have entered the market, providing additional reinsurance capacity, is Delta International Reinsurance Co. Ltd., owned by Delta Holdings Group in the United States, Universal Insurance Co. of Ireland Ltd. and The Reiss Organization (*BI*, Nov. 5). Delta International was licensed by the Department of Trade in Industry in August with paid-up capital of 6 million pounds ($7.2 million). However, the company is not writing any North American reinsurance business.

London's largest reinsurance market, Lloyd's of London, will also increase its premium volume in 1985, said a Lloyd's spokesman. Reinsurance accounts for 60% of Lloyd's business.

"Almost every working member of Lloyd's has increased his insurance position for 1985," said Mr. Cameron of Bowring.

But any new capacity the comes into the London reinsurance market is negated by the strength of the U.S. dollar and the weakness of the British pound.

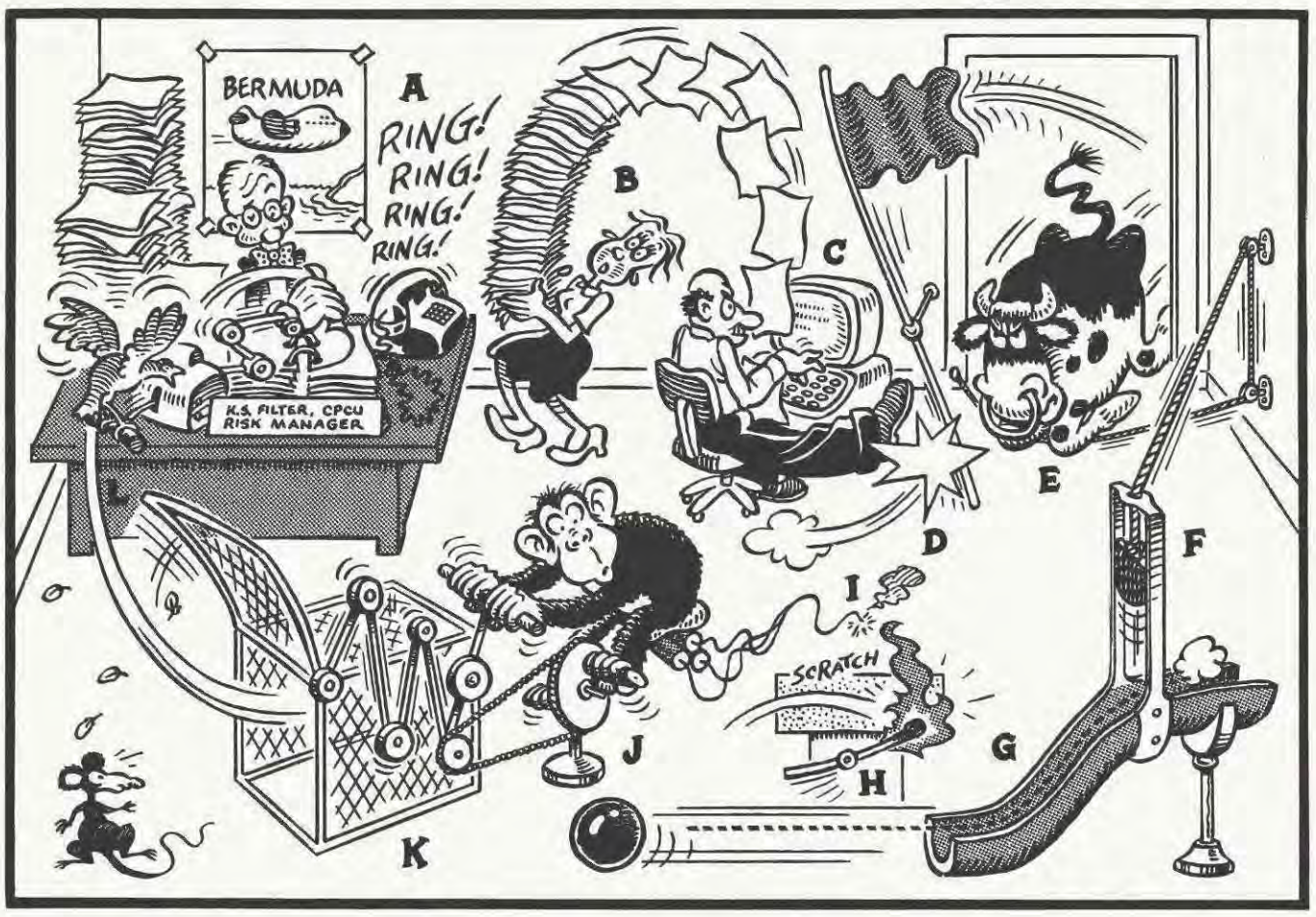
The dollar-to-pound exchange rate at the end of last year was $1.45 to 1 pound. However, those in the market expect that the exchange rate at the end of 1984 will be close to the current rate of $1.20 to 1 pound, a 20% difference.

That means that even if capacity in terms of pounds grew by 20%, there would be no additional capacity once U.S. business was converted from dollars to pounds.

"Companies here still have to translate U.S. dollars—which can make up 80% of their business—into pounds for the DTI (and for Lloyd's)," noted Mr. Cameron.

He said much the same scenario occurred in 1975-76. "Then, Lloyd's liked the business they saw, but they could not take it because of this problem." ■

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Regulation efforts increased

By CAROL CAIN

State insurance regulators, who still recall all too vividly two reinsurance scandals in 1982, are continuing to fortify their efforts to regulate reinsurance—often to the chortle of reinsurers.

But Texas Insurance Board Chairman Lyndon Olson Jr. says, "Where there are abuses, there will be responses." Mr. Olson chairs the Reinsurance and Anti-Fraud Task Force of the National Assn. of Insurance Commissioners which has led the effort to develop uniform guidelines and model laws in the area of reinsurance.

This year the emphasis is on monitoring insurers' relationships with managing general agents that cede and assume reinsurance on the part of the insurers.

"I see more regulation in reinsurance," says James Schacht, chief deputy director of the Illinois Department of Insurance and a member of the reinsurance task force.

"Reinsurers are doing a lot of things differently than they did before. . .not just the professional reinsurers, but others who do reinsurance business. We've gotten a lot more financial arrangements . that have become exotic and require regulation," Mr. Schacht said.

However, regulators who set about their task with intensity after reinsurance transactions led to the demise of Kenilworth Insurance Co. in Illinois and reinsurers involved with POSA in Panama refused to pay losses (*BI*, Aug. 30, 1982; Dec. 6, 1982) are finding their chore difficult.

Because of the complexity of reinsurance regulators say efforts must be ongoing, and often only one issue can be dealt with at a time.

For more than a year the key issue was the development of a model law spelling out when a ceding company can take credit for reinsurance on its financial statement (*BI*, July 4, 1983; Oct. 3, 1933; Dec. 26, 1983; June 18, 1984)

The NAIC reinsurance task force and the Reinsurance Assn. of America are planning to lobby for the passage of the model law across the country next year.

The model law provides credit for reinsurance purchased from unauthorized reinsurers that maintain trust accounts in the United States and submit their contracts to certain conditions.

"We've sent the model law (on credit for reinsurance) to every state insurance department and whenever a state has a recodification (of their insurance laws) in process, we try to get them to adopt as much of the model as possible," said Mindy Pollack, counsel with the Washington-based RAA.

Utah's codification, which is nearing completion, contains the essence of the model law, though the language is different, said Roger C. Day, Utah's insurance commissioner and vice chairman of the task force.

South Carolina, Ohio, Virginia and Maryland are among the states that will specifically look at the model during their next legislation session.

The NAIC task force has now shifted its attention to regulation of managing general agents that cede reinsurance or assume it on the part of an insurer.

"The general perception (of regulators) is that MGAs were a major source of the problem (in Kenilworth and FOSA)," said an attorney who represents reinsurers who did not want to be identified.

"The MGAs exceeded their authority by ceding to reinsurers that were not of good quality, or by assuming reinsurance that was very volatile. . .often with companies that in the end repudiated their coverage," he said.

Minimum guidelines for MGA contracts and the reporting of delegation of authority by insurers to MGAs are expected to be discussed and adopted by the NAIC when it meets Dec. 9-14 in Washington for its annual winter session.

The regulations and guidelines apply only to MGA contracts that have authority to cede and assume reinsurance and not MGAs that hold direct underwriting authority for insurers, said Andre Maisonpierre, president of the RAA and a member of the task force's advisory committee.

The guidelines, initially drafted earlier this year by the advisory committee and revised by the task force late last month, stipulate that all MGA contracts must be in writing and provide for termination of the contract by the insurer upon notice to the MGA.

All reinsurance funds collected for the insurer would be held by the MGA in a fiduciary capacity in a separate trust account in a federal bank, the proposed rules say. The funds are to be paid to the insurer as soon as reasonably possible.

The guidelines also would require that the contract between the insurer and MGA specify the maximum premium volume the MGA can write in a year. The MGA also would be required to have a fidelity bond, in a reasonable amount agreed to by the insurer and MGA. The bond could not be underwritten by an affiliate of the MGA or the insurer.

An MGA also must maintain an errors and omissions insurance policy underwritten by an admitted insurer or an approved surplus lines insurer in the state in which the MGA is domiciled. That policy also cannnot be written by a company affiliated with either the insurer or the MGA.

The advisory committee also drafted a form to be filled out by an insurer that delegates authority to an MGA. The principal managers, officers, directors and shareholders of the MGA would also be listed on the form with a biographical sketch of each.

Other information requested would include the classes of business for which authority has been extended, the limits on the MGA's underwriting authority, the term of the contract, the number of days' notice required to cancel the contract and whether the MGA is authorized to appoint subagents.

The Texas Insurance Board, however, is not waiting for the NAIC to adopt guidelines about transactions through MGAs. The Insurance Board is expected this week to make final revisions to legislation amending an existing law on licensing MGAs to include the proposed NAIC guidelines for insurers on dealing with MGAs.

In addition to the MGA proposals, the whole issue of reinsurer solvency is expected to continue to be studied by the NAIC reinsurance task force during the next year.

The task force is scheduled to be dissolved at the December meeting, but Mr. Olson is expected to ask the executive committee to extend the task force for another year.

Possible issues to be tackled next year, according to Mr. Olson, include a model bill prohibiting small underwriters from assuming reinsurance; a model bill restricting U.S. insurers from reinsuring with some foreign-based reinsurers; an examination of practices of reinsurance pools and insurance exchanges and their managers; and an examination of problems associated with so-called fronting arrangements in which a policy-issuing company cedes all or most of the risk (*BI*, Oct. 3, 1983). ■

J&H INFOLINE

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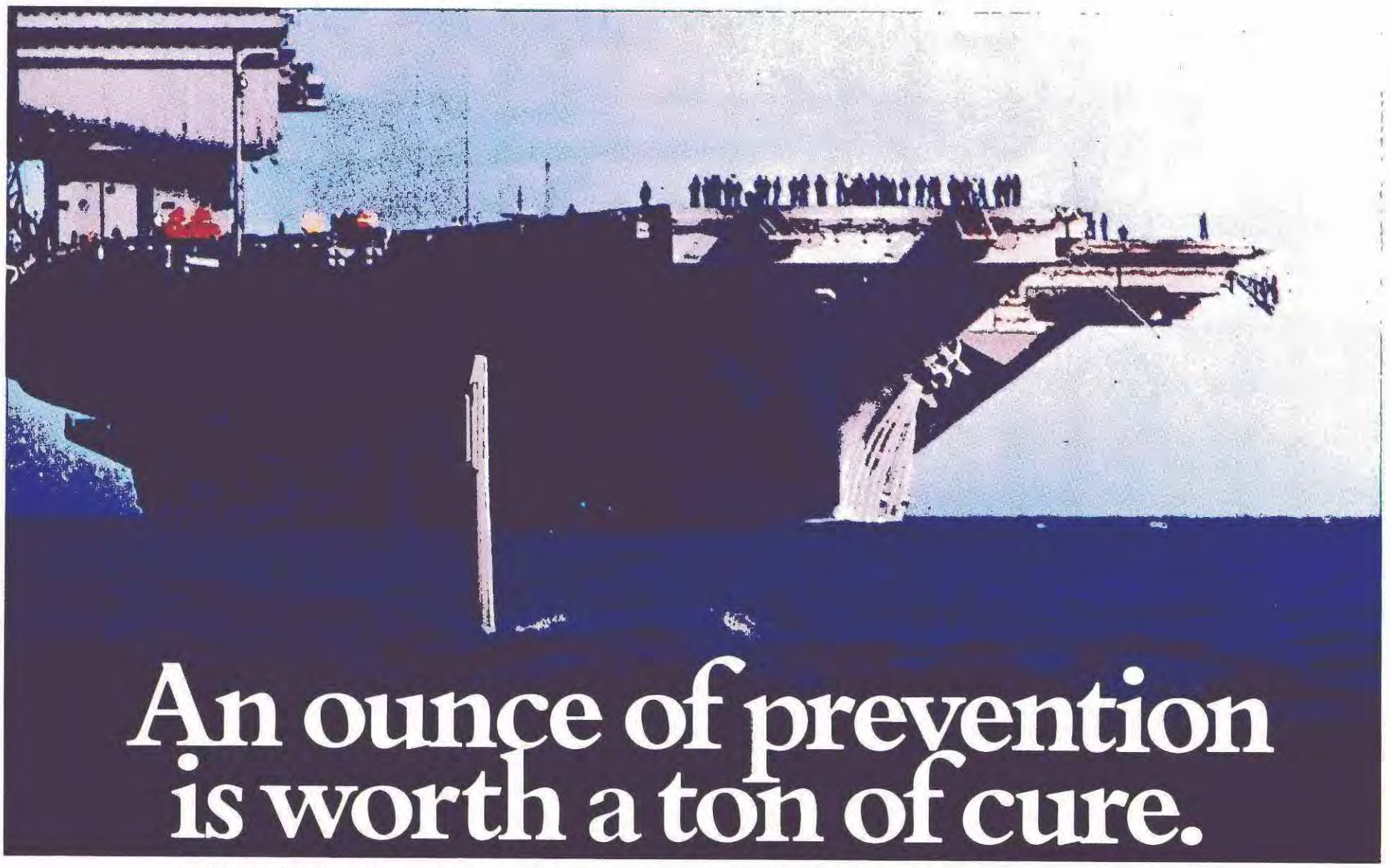
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perspective

Reinsurers undergoing a role reversal

By S. Robert Beane

MOST U.S. RISK managers have become aware recently that the international insurance marketplace is undergoing a major change.

While today's market shows some similarities to the 1974-75 market contraction, the role of reinsurers—particularly international reinsurers—is seen to be a far greater factor in determining just how severe and how extensive the current contraction will be than in that earlier era.

Indeed, the risk appetite and attitude of international reinsurers will be vitally important to U.S. risk managers trying to develop a plan of action for the next few years.

That reinsurance should dictate conditions in the insurance market is a relatively new phenomenon.

In recent years, direct writers have determined rates and coverage, and reinsurers have followed their lead. To understand the role of international reinsurance today and its effect on domestic and international risk management programs, it may help to review the environment in which reinsurers have operated in the past.

Until now, the conventional wisdom among reinsurers has been that it would take a major catastrophe to restore rational thinking—that is, more conservative underwriting—to the marketplace.

Invariably, earthquakes in Japan or on the West Coast, an East Coast hurricane or the flooding of the Thames River were cited as examples of events big enough to have a sobering effect on the market. In the absence of such catastrophes, most reinsurers expressed confidence in their underwriting and marketing practices while voicing some concern about the activities of competitors.

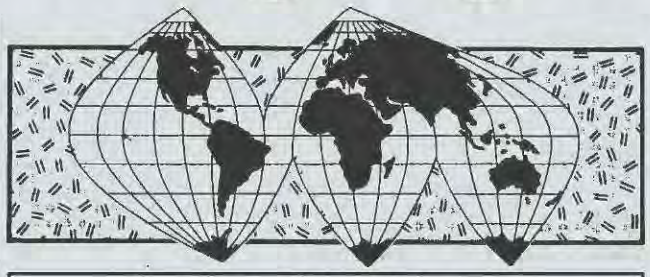
While many reinsurers were feeling complacent, however, the breadth and pricing of reinsurance coverage were undergoing some significant changes.

A decade ago, the distribution of reinsurance was relatively simple, requiring only a few transactions in major markets. An insured risk might first stop at a local insurer, move to an overseas reinsurer and come to rest with that reinsurer's own reinsurer, or retrocessionaire.

As reinsurers became more competitive about bringing business in the front door, many tried to pass as much of the risk as possible out the back door—at as high an override as possible—to companies participating in their retrocession programs. This caused the international chain of distribution to become increasingly lengthy and complex.

Indeed, in the past 10 years, the pattern of reinsurance distribution has altered greatly. There has been tremendous growth in the capacity of the established markets, and new markets have emerged to swell that capacity.

In London, this has been witnessed by the long list of new names at Lloyd's of London, as well as a substantial increase in the number of companies for which managers are now underwriting.



international issues

In the United States, a significant number of reinsurers have entered the market, and they have been joined by many Bermuda-based captives eager to expand into the reinsurance business.

Japanese companies have entered the market seeking reciprocity for their home business and capacity for their earthquake exposures. European insurers have also entered the international field—formerly the domain of their professional reinsurance brethren—to try to break out of the inherent growth limitations of their domestic markets.

Lastly, national reinsurers from the Third World countries have played an important role in expanding the international reinsurance market. This rapid expansion has had important consequences for the security of reinsurance transactions.

In London, the expression "fringe market" has been used to identify those companies that were physically located near Lloyd's. If the term "fringe" is applied to market position rather than to physical location, it becomes an apt description for the type of business that has been the focus of many new entrants.

Established reinsurers traditionally have had a high content of core business in their portfolios, business that represented a true spread of risk and a reasonably low volatility in results.

Developed over the years, it has provided these reinsurers with a stable base. Newer participants in the marketplace found this business extremely difficult to obtain. As a result, they became more involved in the fringe elements of reinsurance programs—those parts of the program that were not critical to the ceding company and could be discontinued if necessary.

Arbitrage subsequently developed in the marketplace.

In contrast to the longstanding principle that over time a company would allow a reasonable profit to its reinsurers in exchange for capacity and stability, a new approach emerged for dealing with the fringe of a program. It became acceptable to allow losses and commissions received to exceed the premium paid, thereby erasing the reinsurer's underlying prospect of long-term profit.

The competitiveness of pricing, the expansion of coverage and the volatility of risk distribution set the stage for the current situation.

Today, the ability of reinsurers to mitigate their underwriting results through retrocession programs or to maintain their earnings with investment income has been severely curtailed. While the published results of many reinsurers clearly indicate such a deterioration, they only point to a small part of the real market situation.

A significant shift came in 1982. While reinsurers had suffered somewhat in the marine hull and aviation fields, these losses tended to be annoyances, not major problems.

By 1982, however, it became clear to many underwriters that their reinsurance business was becoming unprofitable. This was especially true for companies whose assumed portfolios represented business accepted from other reinsurers—that is, retrocessional business. This would seem logical, since negative results appear most quickly in those areas where margins are thinnest.

Throughout 1983, difficulties within the market continued as companies attempted to come to grips with the problems in their portfolios. Many companies, especially in the Third World, decided to withdraw completely from the marketplace.

Others decided to stop writing retrocession business. Thus, a major step toward market contraction began as these reinsurers stopped providing other reinsurers with the capacity to write business.

As it became clear that results were deteriorating badly, many corporations became anxious about the security of their reinsurers. Those concerns caused more ceding companies to seek the safety of the established markets, which led to further shrinking of market capacity.

This new era of sharply reduced excess capacity has witnessed a reversal of roles between insurers and reinsurers. Today, reinsurers are requiring significant improvement in the terms and conditions of the business they accept. This means that they are playing a major role in ending what has been an extremely soft market for the commercial insurance buyer.

Primary insurers not only are suffering the adverse results of their net retained business, they are simultaneously coming under strong pressure from their reinsurers. This will begin to have a significant impact on pricing and capacity during the second half of 1984 and the early part of 1985.

How this manifests itself will have be important to risk managers. In the past few years, major risks have enjoyed competitive pricing and broad coverage subsidized and supported by the reinsurance market.

In addition, domestic reinsurers have relied to a great extent upon the international marketplace for capacity. A subsequent reduction in this capacity will mean that commercial insurance underwriters will not have the overriding commissions that, until recently, have enabled them to underprice their original product and maintain reasonable results on their net retained account.

At the same time, the inability to lay off exposures in the reinsurance market will force underwriters to look more closely at the coverages they have been providing.

Ironically, although it might be natural to assume that changes in the international reinsurance market would affect international insurance programs more than domestic programs, the reverse is true.

"Home foreign" underwriters—companies that insure the international portion of a U.S. multinational's program—have had much better underwriting results than their domestic counterparts. Loss experience for domestic underwriters in 1983 was far worse than it was abroad, in part because of damage from Hurricane Alicia and the winter freeze and in part because local policies written overseas are generally more restricted and have not resulted in the same underwriting exposures.

As a consequence, domestic and international reinsurers are far less concerned about their international business than they are about the domestic exposures of U.S. multinationals. To date, international programs have been largely unaffected by the tightening market, while domestic programs are beginning to face significant rate increases and restrictions in coverage.

Risk managers therefore should anticipate some problems in putting together their domestic risk management programs. Casualty coverages, especially difference-in-conditions and environmental impairment liability policies, will be most seriously affected, while for the most part property policies will remain unchanged.

In essence, commercial insurance underwriters will be committing themselves to smaller limits of liability, at increased rates and with greater selectivity, reflecting the influence of reinsurers who remain in the market.

It will be some years before reinsurers again provide to inexperienced and untested underwriters the capacity—whether facultative or treaty—that they have.

Undoubtedly, reinsurers really have no one to look to but themselves for the current state of the market. Perhaps their most significant flaw was to turn to cleverness as a substitute for solid risk analysis.

However, as one astute European reinsurer remarked recently when asked how he thought the next few years would be characterized, "Ah, yes, the days of clever reinsurance programs—we won't see them for a while."

Meanwhile, the international reinsurance market still awaits the major catastrophe. Let us hope that it does not occur for some time. ■



S. Robert Beane is vp and manager of the New York international department of Johnson & Higgins. He serves on the Permanent Working Group of UNISON, the international network of insurance brokers of which Johnson & Higgins is a founding member. His column on international issues, which appears the first Monday of every month, was delayed this month for the special reinsurance issue.

Colombian auto cover

In Colombia, a revised auto policy went into effect Oct. 1 for all new and renewal policies.

The new policy features the combination of third-party liability and medical expense coverage into one insuring agreement. Collision and theft losses coverage can be purchased for either partial or total loss, and coverage applies throughout the Andean Pact area (Colombia, Venezuela, Ecuador, Bolivia and Peru). There is a 20% to 25% premium increase under the new tariff.

Changes in Puerto Rico

Changes in the Puerto Rican Insurance Code stipulate that policies placed with non-admitted insurers are now subject to a 15% "premium tax" payable by the insured. The code also stipulates a schedule of penalties and interest for late payment and non-payment.

Local primary coverage should be considered for all Puerto Rico exposures, particularly if the operation is incorporated in Puerto Rico.

—From Johnson & Higgins/UNISON UPdate

REINSURANCE, PAST AND FUTURE

By G. Roger Greiner

WHERE WERE YOU when the reinsurance market turned in 1984?

In years to come, risk managers and reinsurance company executives will swear they were able to foresee the writing on the wall and were well-positioned and prepared to respond to the need for change. And, few will accept the responsibility for fostering the conditions that required the necessary adjustments that are now beginning to take shape.

A reinsurance executive once predicted jocularly that the underwriting cycle change would occur at 10:55 a.m. on April 22, 1983. While this forecast lacked actuarial credibility, it was meant to gain the attention of those who might influence a change in market conditions for the better. George Santayana once warned that those who do not remember history are condemned to repeat it, and we have certainly observed in our industry that history does repeat itself. What ever became of the industry's elusive search for underwriting profitability?

The last year the reinsurance industry was successful in achieving what should be its primary annual objective, a combined ratio of less than 100%, was 1978. We appear to have stood by much like Pollyanna as results deteriorated to a combined ratio of 115.54% in 1983—and, worse yet, to 126.2% for the first six months of 1984. It might be said that being in the reinsurance business today gives one a feeling of deja vu.

During the last so-called hard market in the mid-1970s, which was caused by poor underwriting results and reduced investment returns on depressed stock portfolios, policyholders expressed the opinion that the industry failed to respond to their risk transfer needs. Insurance markets attempted to recoup the losses they had sustained by restructuring their underwriting posture. Along with substantial rate increases came a reduction in limits, higher deductibles, more stringent policy terms and conditions and a withdrawal from certain lines of business.

One risk management tool available to a corporate insurance buyer was a captive insurance company. A captive, as such, would provide an alternative to the direct insurance companies, which buyers felt were becoming more risk adverse. It's estimated that in 1970 about 150 major multinationals had captive insurance subsidiaries that generated combined premiums of more than $50 million. In 1983, more than 1,500 captives writing in excess of $7 billion existed.

Captives and other self-insurance programs presented the risk manager with vehicles to effect better risk control and an opportunity for risk improvement in a hard market. They let risk managers structure terms and conditions to suit their own account needs, eliminating some of the volatile aspects of risk transfer previously faced in the direct insurance market.

The primary insurance markets obviously supported this concept by providing captive programs with the licensed, admitted insurance contracts that were needed for such coverages as workers compensation, automobile liability and general liability. Along with the fronting support these companies made available, they would bid on additional program services like claims handling, loss control and captive management. These companies also were willing to accept the captive as a reinsurer as long as acceptable financial guarantees were provided. With a captive insurance program in place, the risk manager could now approach the reinsurance market directly to purchase the additional capacity necessary to construct his program.

Captives, therefore, created a demand for reinsurance, to which reinsurers responded positively, as these were the very same risk transfer opportunities that had evaporated from their traditional client base as the market hardened.

Paradoxically, these new entrants into the reinsurance industry also provided new capacity that contributed to the supply of reinsurance. This supply might have been fueled by corporations' tax planning strategies as well as other motivations, such as the risk management department becoming a true profit center within the corporate structure. Large corporations with captives often expressed a desire that their brokers or insurers provide them with reciprocal reinsurance arrangements so as to leverage their overall portfolio with preferred business.

But, captives were by no means the only new source of increased capacity in the reinsurance industry. Even before underwriting profits began to reappear in 1977 and 1978, new reinsurance operations were being formed by life insurance companies, primary insurance companies and venture capitalists. Conning & Co. estimates that 52 new reinsurance operations were started between 1971 and 1983 with new start-up capital and surplus of more than $500 million. Going back to 1960, there were 43 licensed reinsurers in the United States, and by 1983, that number had increased to 147.

This does not take into account the effect of the London marketplace, the New York, Illinois or Florida insurance exchanges, or Bermuda companies and other offshore operations. If all these are added together, we are certainly discussing a market with in excess of 300 competitors.

Once the necessary capital had been acquired, there were few barriers to impede the formation of a reinsurance company that could then be organized with a minimal amount of personnel. These new companies most likely would solicit business through reinsurance brokers to consequently reduce their administration and marketing expenses. While there might have been an initial cost advantage to writing business through an intermediary in the company's early stages, it often did not build up the personal understanding of a risk between buyer and assumer that's necessary for establishing long-term account relationships.

While a high degree of underwriting skill is required in any successful reinsurance operation, we cannot overlook the need for assistance and support that is provided by the key functions of actuarial, claims and legal. All of these areas must work in concert with one another to profitably select, price and control risk. While new entrants into the reinsurance industry have attempted to recruit such personnel from the larger and more-successful reinsurers, the existing talent the industry does have has been spread so thin that a successful pool of talent was often difficult to develop in any one new operation. Time was necessary to develop these staffs into a competent, effective unit. On the other hand, investors were not willing to wait for this maturation to occur as they sought immediate high returns on their invested funds.

STARTING IN 1979, these new entrants, as well as existing reinsurers fresh from two consecutive years of underwriting profit, found themselves in a market where the seeds of an oversupply of their product were beginning to sprout. As newcomers sought to justify their existence to investors, and established reinsurers fought to maintain their market share, the supply of available reinsurance increased, and consequently prices decreased. Competition was also fueled by record rates of return on investment in the early '80s. Income grew at a rate more than sufficient to offset underwriting losses. Many, but not all, risk managers involved in captive reinsurance operations appeared to be looking in both directions at once. They wanted the lowest-priced reinsurance on their own corporate programs, but the highest rate of return on their capital investments in reinsurance operations.

In this buyer's market, which existed until this year, the reinsurance industry produced rates of return on equity that exceeded the Standard & Poor's composite. As indicated in the Conning & Co. report, over the last decade the reinsurance industry rate of return on equity reached a high of 20.5% in 1977 and did not fall below 15.6% through 1982. In 1983, however, the rate dipped to 8.5%, and Conning estimates it will be a negative 2.1% in 1984.

These previous high rates of return hastened the growth of reinsurance companies and the subsequent oversupply of the product. In the first half of 1984, the industry has continued to incur record underwriting losses. With the decline in the growth rate for investment income, the industry now has the lowest percentage gain in policyholder surplus since 1974. The industry has let its underwriting controls go unharnessed to the point where losses cannot now be offset with investment income, producing a negative bottom line for many companies.

While abundance of capacity and inadequate prices were two of the factors creating the present poor results, the loss-reserving techniques of the reinsurance companies must not be overlooked. Establishing loss reserves is more difficult for a reinsurer than it is for a direct insurer because the former is always at least one step further removed in the claims-reporting sequence. In dealing with an intermediary, the reinsurer is removed still further.

HISTORY HAS NOW shown us that many reinsurers were inadequately reserved. We have seen an increase in both the frequency and the severity of claims, in part due to social and economic inflation. This is not to mention the adverse effect on reinsurers emanating from such common-cause claims as asbestos, DES and Agent Orange. Inadequate loss reserving has led many companies to report an overstated surplus position. Today, we observe many reinsurers reporting a decrease in their policyholder surplus. This would indicate either that they are adding to their reserves for past deficiencies or their present claim payments have exceeded their reserves. Or, it could indicate a combination of both. Policyholder surplus is the value of the company, and if it is decreasing, so is the company's value.

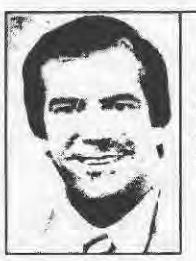
"It's 1984. Do you know where your reinsurance is?" Nineteen eighty-four seemed a long way off when this reinsurance slogan was created a few years ago. But, for the reinsurance buyer of today, what could possibly be more important than the financial security behind his risk management program? The quality of a sound reinsurance program is based on the financial ability of your insurer to meet its obligations under the agreement. You should feel confident in your ability to secure prompt claims payment upon submission of proper notice of loss. If not, your company's surplus or assets will suffer.

It must be remembered that the nature of the reinsurance business has changed drastically over the past 10 years. Previously, risk managers purchased an insurance policy from a primary issuing insurer they were able to evaluate. Risk managers seldom concerned themselves with what portion of their account was being reinsured by the issuing insurer or with whom it was placed. This was not a concern, as long as the risk manager was satisfied with the original insurer's financial soundness.

Now, risk managers with captives and self-insured programs are dealing in many aspects as if they were insurance companies. They are negotiating directly with the reinsurer and must now evaluate the reinsurer's financial stability themselves. It appears that over the past few years, reinsurance buyers placed more weight on the present value of the reinsurance price than they did on the long-term financial stability of the reinsurer to meet its obligations. Remember that if your reinsurer becomes insolvent, there are no guaranty funds to step in and help lessen the blow. Though the established reinsurers preached the value of financial security based on a long, proven track record, this most-important consideration sometimes fell on deaf ears. It might have been well to remember that, "Quality is remembered long after price is forgotten."

One way to evaluate a reinsurer you might wish to deal with is to review analysis reports published by A.M. Best Co. Inc., which are viewed as highly authoritative in the industry. In order to receive a Best's rating, a company generally must have five years of operating experience. Best's will examine many facets

Continued on page 62



G. Roger Greiner is a second vp at General Reinsurance Corp. in Greenwich, Conn.

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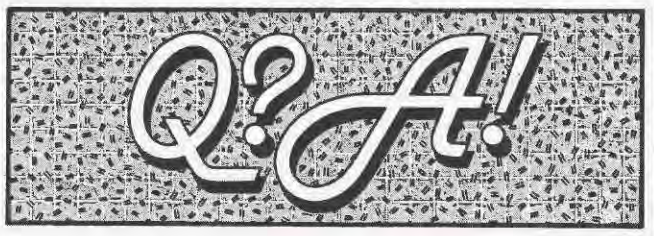
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Benefit manager's role is vital in acquisitions

Q: ***I'm the manager of employee benefits for a manufacturing company, and I've recently been asked to participate in the negotiations to purchase a business operation from another company. Can you describe how employee benefits matters are usually handled in these situations. And, how soon should I become involved in the negotiations?***



ask a benefit manager

A: You should become immediately involved in the negotiations!

Over the past 20 years, I have participated in many mergers and acquisitions involving operations that ranged in sales from $10 million to $250 million.

Many of these operations were handled very smoothly; others, however, resulted in a significant number of problems.

The single most important element in determining whether these situations were handled well or badly was, I believe, the timing of the employee benefits staff's involvement in negotiations.

In many companies the employee benefits staff is given a booklet at the 11th hour describing the other company's benefit programs and is asked to develop costs and liabilities. Amid demands for pension evaluations, financial reports and employee data, everyone's credibility is questioned. You count yourself lucky if you don't discover some hidden liability that threatens to wreck the deal.

You're also lucky if you do not discover, as I did some years ago in reviewing a purchase agreement regarding an overseas acquisition, that not everyone agreed on what the words "fully funded" mean.

Scheduling the entry of employee benefits specialists into an acquisition or merger negotiation is, of course, the responsibility of the acquisition team. Yet, as the person responsible for employee benefit matters, you should insist on receiving as soon as possible those reports and documents necessary to determine:

- The benefit liabilities as they affect the value of the company or business being acquired.
- The annual benefit costs of the company or business being acquired, as they may affect current and future earnings.

Having determined the liabilities and costs of the other company's benefit plans, you can develop a plan and make decisions about how to handle these programs.

In many cases, the pension liabilities you may be asked to assume can be the most critical element in the negotiations, and I have summarized below the alternative methods of handling pension plans.

First, you can continue the pension plan of the other company or business. This practice is generally followed where the pension plan covers hourly (union or non-union) employees because:

- The employees are thereby covered under a single plan for their total service, and your company will usually want to base benefit increases on the employee's total service.
- The seller can wind up its responsibility for the former operation's pension cost in the terms of the sale agreement.

In the event that your company elects to continue the pension plan of the other company or business, your company will assume a contingent employer liability for that portion of the plan's vested liability that is not funded (the unfunded vested liability), up to 30% of your company's net worth. Vested liability is defined as the actuarial present value of pension benefits whose payments are not contingent upon employees continuing in service under a pension plan.

In addition, your company may want to assume the liability for funding the plan for non-vested benefits, i.e., benefits accrued on account of service with the seller that will become vested if the non-vested employees continue employment with you.

Proper consideration of these liabilities should be given before the acquisition, and your company should seek a credit against the purchase price of the business for assuming the unfunded value of a pension plan's accrued benefits, whether vested or not.

Second, because of the liabilities involved, your company may elect not to continue the pension plan of the other company or business. This is the usual practice for salaried employees, because maintaining a uniform plan of employee benefits is generally the objective for this group of employees.

In this event, your company avoids the liability associated with the other company's or business' pension plans and the following alternatives are available in providing coverage under your pension plans:

- Prior service with the predecessor company or business may be credited under your pension plans for the purpose of both eligibility and benefit accruals. But, benefits payable under your plan will be offset by the benefits payable under the prior company's pension plan.

If this alternative is taken, the cost of automatically updating the prior service with the seller because of any final-pay formula in your plan should be recognized in the form of a credit against the purchase price of the business.

In addition, recognition should also be made for your assumption of the liability that was not vested under the seller's plan as of the date of sale.

- Prior service with the predecessor company or business can be credited under your pension plan for the purpose of eligibility, but not benefit accruals. Generally, the cost of such recognition of prior service is minimal.
- Prior service with the predecessor company or business will not be credited under your plan (i.e., service will be credited under your plan from data of acquisition only).

From an employee relations perspective, this is the least desirable alternative and can be expected to generate employee dissatisfaction. Employees generally regard their employment with a company or at a facility as continuous, regardless of changes in ownership.

- Under the Multiemployer Pension Plan Amendments Act of 1980, selling the assets of business results in the imposition of a withdrawal liability for an employer, with the exception of certain "de minimis" rules.

If the seller is a contributing employer to a multiemployer plan and your company is to become the "successor" to that company or business, you should evaluate your liabilities under the multiemployer plan so as to prevent the assertion of a substantial claim for withdrawal liability against your company, either presently or in the future, especially if you are uncertain as to the future of the business being acquired.

The basic principle regarding employee benefits in an acquisition or merger is that when benefits have been promised, someone must pay for them: either the seller or the buyer. Pension liabilities are generally recognized as having the greatest impact on the value of a business being acquired.

However, there are other important liabilities that may affect the value of a business, and these are:

- Post-retirement life and health insurance benefits, which can represent a substantial, hidden unfunded liability to the buyer.

Generally, a buyer would not want to assume the post-retirement plans for employees already retired, if this can be avoided. If you are going to continue these plans for active employees, you should review the age and service characteristics of the active group and evaluate the liabilities arising from it.

- Life and health insurance contracts should be reviewed to determine if there is any liability arising from retrospective or additional premium payment agreements that may be included in the contracts.
- The group health insurance plans of most companies commonly provide large amounts of catastrophic medical protection—major medical limits of $1 million are not uncommon.

Claims listings should be reviewed to determine if there are any significant claims in process that would become the responsibility of the buyer.

- The taxes to support unemployment insurance benefits are paid almost exclusively by the employer under various state rating formulas designed to assess each company a tax rate that primarily depends on a ratio of the benfits paid to its former employees to the company's taxable payroll.

In effect, each company is penalized for the unemployment charges attributed to its former employees; the higher these charges are, the higher the company's tax rate.

Because each company's experience differs, opportunities exist for tax rate reductions or tax rate increases in acquisitions and mergers, and these should be carefully analyzed.

Ideally, decisions regarding employee benefit programs should be made well before an acquisition or merger takes place. This will enable you not only to identify the costs and liabilities involved, but also to promptly and effectively communicate to employees how their benefit programs will be handled. ■



Joseph W. Duva is director of employee benefits and compensation at SCM Corp. in New York. Mr. Duva's next Ask A Benefit Manager column will appear in January.

Would you like the advice of a seasoned colleague on a risk management or benefit management problem? Two features in the Perspective section of Business Insurance can give you some answers.

Ask a Benefit Manager and Ask a Risk Manager answer written questions from readers on risk and benefit management issues.

While Joseph Duva answers benefit questions, Ralph F. Perry Jr., vp and director of risk management at Amfac Inc. in San Francisco, answers risk management questions.

Mr. Perry's and Mr. Duva's columns appear alternately on the second Monday of each month.

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

Reinsurance, past and future

Continued from page 59

of a company's operations, including management, history of various lines of business written, underwriting and expense ratios, reserve adequacy, premium-to-surplus ratios, liquidity and soundness of investments.

You should also secure a copy of your reinsurer's annual report and convention statement, which is filed with state insurance regulators. Important items in the convention statement to review are: Schedule D, which gives details of company's stocks and bonds; Schedule O, which shows reserve development during the past two years and will reveal any inadequacies; and Schedule P, which compares the development of losses paid and outstanding for five years by class of liability insurance.

Regardless of the method you choose, you should select a reinsurer that not only offers financial stability, but can provide you with underwriting, actuarial and claims expertise, professional service, long years of experience, continuity of employees and a willingness to provide uninterrupted coverage, even in hard times. As a buyer of reinsurance, you should demand the same high standards of quality from your reinsurer as you yourself apply to the goods or services you provide to your customers.

We are entering into a market that might someday be characterized as being harder than the New York Times crossword puzzle. You need a partner that will stand beside you with experience and expertise and a responsible underwriting philosophy that will provide a long-term commitment to your reinsurance program.

In the years to come, it will be interesting to stop and reflect on our business and see how well we have learned our history lesson. Or, will we have again failed to heed Santayana's warning? ■

Continued from page 54

vps; Peter J. Allatt and Peter C. Brown, vps; Barbara J. English, assistant vp; William A. Ameling, treasurer; Kathleen M. Walsh, corporate secretary.

Licensed in: New York.

Sten-Re, Cole & Associates

499 Thornall St., Edison, N.J. 08818; 201-549-6300

	1983	1982
Premium vol.	$125,000,000	$100,000,000
Gross rev.	NA	NA
Employees	68	62
Percent treaty	75%	70%
Percent facultative	25%	30%

Parent company: Reed Stenhouse Cos. Ltd.

Year founded: 1979.

Branch offices: New York.

Specialties: Domestic property/casualty treaty and facultative, international facultative, financial coverages.

Principal officers: Richard E. Cole, president/chief executive officer; Demarest S. Newman and Thomas M. Simone, senior vps; Bart L. Frazzitta and Anthony B. Provenzale, vps; Anthony P. Carro and John M. Mannix, assistant vps.

Licensed in: New York.

Stewart Smith Intermediaries Inc.

125 S. Wacker Drive, Suite 2500, Chicago, Ill. 60606; 312-332-0680

	1983	1982
Premium vol.	$120,000,000	$95,000,000
Gross rev.	NA	NA
Employees	15	14
Percent treaty	99%	97%
Percent facultative	1%	3%

Parent company: Stewart Wrightson Group PLC.

Year founded: 1976.

Branch offices: Stewart Smith Intermediaries-East, New York.

Specialties: Crop/hail.

Principal officers: J.J. Norton, president; R.C. Pedersen and L.T. Corsentino, senior vps.

Licensed in: New York and Illinois.

G.J. Sullivan Co.

800 W. Sixth St., Los Angeles, Calif. 90017; 213-626-1000

	1983	1982
Premium vol.	$3,750,000	$3,500,000
Gross rev.	$375,000	$350,000
Employees	4	2
Percent treaty	100%	100%

Parent company: Gerald J. Sullivan & Associates Inc.

Year founded: 1980.

Principal officers: Gerald J. Sullivan, chairman; Dennis Perler, Howard Garnett and Barbara Younker, directors.

Licensed in: New York.

John F. Sullivan Co.

1415 Fifth Ave., Seattle, Wash. 98171; 206-223-1200

	1983	1982
Premium vol.	$950,000,000	$856,000,000
Gross rev.	$26,043,000	$23,884,000
Employees	283	228
Percent treaty	87.5%	87.5%
Percent facultative	12.5%	12.5%

Parent company: Fred S. James & Co. Inc./Transamerica Corp.

Year founded: 1928 (predecessor firm).

Branch offices: John F. Sullivan Co. of New York; John F. Sullivan Co. of California, Los Angeles; Sullivan International, New York; John F. Sullivan Co., Philadelphia; John F. Sullivan Co., Dallas.

Subsidiaries: John F. Sullivan Co. of Canada Ltd., Toronto and Vancouver, British Columbia.

Specialties: Aerospace (aviation and satellite), financial guarantee, financial insurance, surety, political risk, professional liability.

Principal officers: W.E. (Gene) Taylor, chairman/chief executive officer; James J. Meenaghan, president; Kenneth J. Sherman, executive vp; Vincent J. Cuddy, Edwin C. Tollefsen and D. John Jolly, senior vps; Robert J. Striffler, Robert Peglar, Emmett J. Henry, James R. Grieser and Barbara Cirillo Bufkin, vps; Robert C. Holmes, president-John F. Sullivan Co. of Canada Ltd.

Licensed in: New York.

Summit Intermediaries Inc.

354 Eisenhower Parkway, Livingston, N.J. 07039; 201-740-1700

	1983	1982
Premium vol.	NA	NA
Gross rev.	NA	NA
Employees	10*	NA
Percent facultative	100%	NA

*1984 projection.

Parent company: C. Rowbotham & Sons (Insurance) Ltd., London.

Year founded: 1984.

Specialties: Association programs, captive reinsurance, large facultative risks.

Principal officers: Robert Lonsdale, president; James Cerreta, Joseph Curcio, Richard Standing and Richard Stary, vps.

Licensed in: New York and New Jersey.

T

Tarpon Management Co.

23801 Calabasas Road, Suite 2034, Calabasas Park, Calif. 91302; 818-992-7600

	1983	1982
Premium vol.	$700,000	NA
Gross rev.	$105,000	NA
Employees	7	NA
Percent facultative	100%	NA

Year founded: 1983.

Specialties: Life, accident and health.

Principal officers: Edward M. Hurley, president; Bryan Compton, secretary.

Totsch Enterprises Inc.

310 S. Michigan Ave., Suite 2220, Chicago, Ill. 60604; 312-663-1722

	1983	1982
Premium vol.	$11,000,000	9,000,000
Gross rev.	$250,000	$200,000
Employees	4	4
Percent treaty	99%	99%
Percent facultative	1%	1%

Year founded: 1978.

Subsidiaries: TFR Inc., Chicago.

Specialties: Crop hail reinsurance.

Principal officers: Marvin D. Totsch, president; Mary Ellen Totsch, secretary/treasurer; William E. Totsch, vp; James M. Totsch, assistant vp.

Towers, Perrin, Forster & Crosby Inc.

Centre Square West, 1500 Market St., Philadelphia, Pa. 19102; 215-569-6000

	1983	1982
Premium vol.	NA	NA
Gross rev.	NA	NA
Employees	200	198
Percent treaty	80%	87%
Percent facultative	20%	13%

Year founded: 1934.

Branch offices: Hartford, Conn.; San Francisco; New York.

Principal officers: Bernard D. Berry, vice chairman/chief executive-reinsurance; Peter M. Armour, senior vp/production manager; Christopher R. Day, vp/marketing manager; Robert F. Jones, vp-facultative operations.

Licensed in: Pennsylvania and New York.

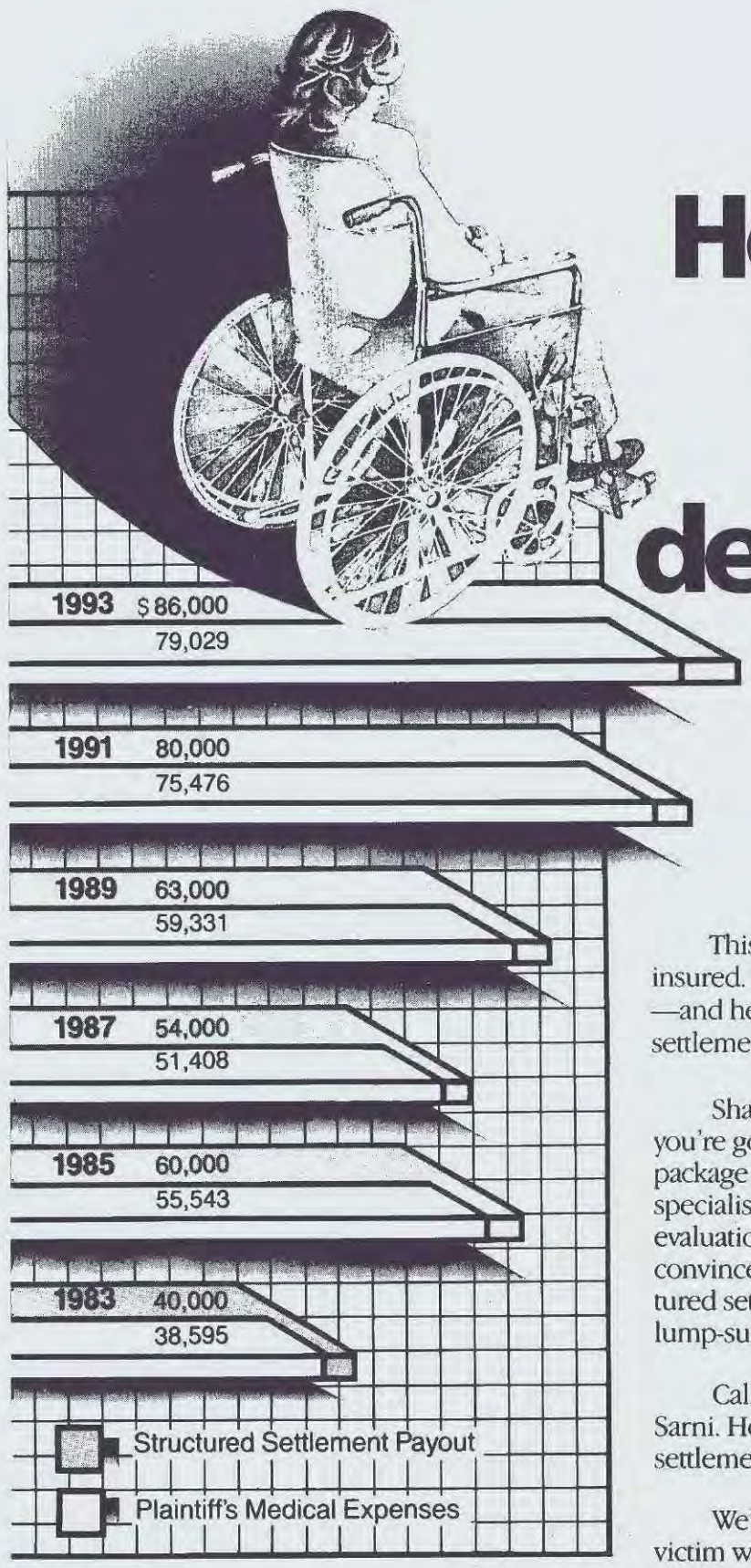
W

Richard Whiley Inc.

110 William St., New York, N.Y. 10038; 212-732-1360

	1983	1982
Premium vol.	NA	NA
Gross rev.	NA	NA
Employees	28	12
Percent treaty	80%	90%
Percent facultative	20%	10%

Continued on next page



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18 Professional Center Parkway, San Rafael, California 94903 (415) 499-1000
116 John Street, Suite 1400, New York, New York 10038 (212) 406-3410

Continued from previous page

Parent company: Xerox Corp.
Year founded: 1979.
Principal officers: D. Jay Carbine, chairman/president/chief executive officer; Richard A. Kafaf, senior vp/treasurer; Drew Beauchamp, John Ginley and Paul B. Raynolds, vps; Ronald Paul, assistant vp.
Licensed in: New York.

David C. White Agency Inc.

298 Sunrise Highway, Rockville, Centre, N.Y. 11571; 212-347-2999

	1983	1982
Premium vol.	$11,000,000	$1,346,486
Gross rev.	NA	$23,564
Employees	59	54
Percent treaty	70%	90%
Percent facultative	30%	10%

Year founded: 1946.
Branch offices: David C. White Agency of New Jersey Inc., Paramus, N.J.
Subsidiaries: Lawrence Excess Ltd., Rockville Centre, N.Y.; Lawrence Excess Ltd. of New Jersey, Paramus, N.J.
Principal officers: Walter S. Groden, president; Richard Wolf, executive vp; David Isenberg, senior vp.
Licensed in: New York.

Willcox Inc. Reinsurance Intermediaries

130 John St., New York, N.Y. 10038; 212-952-0650

	1983	1982
Premium vol.	NA	NA
Gross rev.	NA	NA
Employees	NA	NA
Percent treaty	NA	NA
Percent facultative	NA	NA

Parent company: Johnson & Higgins/Willis Faber.
Year founded: 1894.
Principal officers: Kenneth A. Hecken, chairman/chief executive officer; John H. Cassedy, president/chief operating officer; Peter M. Black, executive vp; Willis T. King Jr., senior vp.
Licensed in: Various states.

Y

H.E. Yerkes & Associates Inc.

127 John St., New York, N.Y. 10038; 212-344-1707

	1983	1982
Premium vol.	$25,000,000	$20,000,000
Gross rev.	NA	NA
Employees	8	7
Percent treaty	99%	99%
Percent facultative	1%	1%

Year founded: 1979.
Specialties: Ocean marine.
Principal officers: Harry E. Yerkes, president/treasurer; Richard V. Goodwin, vp; Ann R. Kaplan, secretary.
Licensed in: New York.

Z

Zimmerman, Green Inc.

1 Speedwell Ave., P.O. Box 2436R, Morristown, N.J. 07960; 201-267-8033

	1983	1982
Premium vol.	$36,000,000	$25,000,000
Gross rev.	$1,500,000	$1,150,000
Employees	10	8
Percent treaty	95%	90%
Percent facultative	5%	10%

Year founded: 1980.
Branch offices: Ontario, Calif.
Specialties: Life, accident, health, special risk reinsurance, professional sports disability coverage.
Acquisitions: U.S. Cap Insurance Co., Totola, British Virgin Islands, on Jan. 1, 1984.
Principal officers: John R.D. Green, chairman; George G. Zimmerman, president/treasurer; Edward A. Dipple, secretary; Eugene J. Schiller and Charles J. Sharkey, vps.
Licensed in: New York. ■



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CERRITOS	213-402-8600	REDDING	916-243-8400	SANTA ROSA	707-544-6200
CULVER CITY	213-670-3623	SACRAMENTO	916-924-3440	STOCKTON	209-951-0080
EUREKA	707-443-9721	SAN BERNARDINO	714-884-7281	VENTURA	805-644-4300
FRESNO	209-445-5858	SAN DIEGO	619-560-1600	WOODLAND HILLS	818-888-4750
		SAN FRANCISCO	415-565-1344		

Under California Law it is unlawful for an insurer to promise the future payment of dividends under an unexpired workers' compensation policy or to misrepresent the conditions for dividend payment. Dividends are payable only pursuant to conditions determined by the Board of Directors or other governing board of the Company following policy expiration. It is a misdemeanor for any insurer or officer or agent thereof, or any insurance broker or solicitor, to promise the payment of future workers' compensation dividends. Past dividend performance is no guarantee of an insurer's future dividend performance.

STATE COMPENSATION INSURANCE FUND

Reinsurance brokerages listed by city

Arizona

Phoenix
Insurance Risks International Inc.
Prescott
S.L. Alexander Insurance Services
Scottsdale
International Reinsurance Services Inc.

California

Beverly Hills
Insurance Risks International Inc.
Calabasas Park
Tarpon Management Co.
Glendale
Harry W. Gorst Co. Inc.
Los Angeles
S.L. Alexander Insurance Services
American Intermediaries Inc.
Guy Carpenter & Co. Inc.
G.L. Hodson & Son Inc.
INRE International Ltd.
NBA Excess & Surplus Lines Inc.
O'Connor Associates (California) Ltd.
RFC Intermediaries Inc.
G.J. Sullivan Co.
John F. Sullivan Co. of California
Ontario
Zimmerman, Green Inc.
San Francisco
E.W. Blanch Co.
Guy Carpenter & Co. Inc.
Cravens & Co., Special Insurance Services
Thomas A. Greene & Co. Inc.
Intere Intermediaries Inc.
Interocean Agency Inc. (Frank B. Hall Reinsurance Holdings Inc.)
RFC Intermediaries Inc.
Towers, Perrin, Forster & Crosby Inc.

Colorado

Denver
Booth Potter Seal & Co.

Connecticut

Greenwich
International Intermediaries Inc.
Hartford
Guy Carpenter & Co. Inc.
Independence Intermediaries Inc.
O'Connor Associates Ltd.-Connecticut
RFC Intermediaries Inc.
Towers, Perrin, Forster & Crosby Inc.
Stamford
E.W. Blanch Co.
Herbert Clough Inc.
W.O. Hart & Co. Inc.
Magnant Re Intermediaries Inc.

Florida

Coral Gables
Guy Carpenter & Co. Inc.
Frank B. Hall Re Southeast Inc.
Miami
International Insurance Brokers of the Americas Inc.
MacDuff Exchange Inc.

Georgia

Atlanta
Associated Intermediaries Inc.
E.W. Blanch Co.
Guy Carpenter & Co. Inc.
G.L. Hodson & Son Inc.
Intere Intermediaries Inc.
NBA Excess & Surplus Lines Inc.
RFC Intermediaries Inc.

Hawaii

Kailua
Group Resources Inc.

Illinois

Chicago
E.W. Blanch Co.

Continued on facing page

Continued from facing page

Chicago
- Guy Carpenter & Co. Inc.
- Thomas A. Greene & Co. Inc.
- Intere Intermediaries Inc.
- International Reinsurance Services Inc.
- J.L. Kelley Inc.
- Lodderhose & McGinn Inc.
- NBA Excess & Surplus Lines Inc.
- RFC Intermediaries Inc.
- Reinsurance Agency Inc.
- Stewart Smith Intermediaries Inc.
- Totsch Enterprises Inc.

Indiana

Fort Wayne
- Lincoln National Intermediaries Inc.

Kansas

Overland Park
- Bates Turner Inc.

Louisiana

Metairie
- Reinsurance Brokers Co.

Minnesota

Minneapolis
- E.W. Blanch Co.

Missouri

St. Louis
- NBA Excess & Surplus Lines Inc.

New Jersey

Chester
- D.M. Hatwell Associates Inc.

Edison
- Sten-Re, Cole & Associates

Franklin Lakes
- J.L. Kelley Inc.

Livingston
- Summit Intermediaries Inc.

Morristown
- Bates Turner Inc.
- Zimmerman, Green Inc.

Paramus
- David C. White Agency of New Jersey Inc.

Pennington
- John D. Sayer & Co.

Skillman
- Agnew International Inc.

Verona
- RBI Brokerage Inc.

New York

Elmsford
- International Intermediaries Inc.

Jericho
- Magnant Re Intermediaries Inc.

Lake Success
- Independence Intermediaries Inc.

New Hyde Park
- G.L. Hodson & Son Inc.

New York
- Agnew International Inc.
- Andrew Edwards & Co. Inc.
- Ashford Reinsurance Intermediaries Corp.
- B.R.I. International Agency Inc.
- Bailey Townsend Inc.
- E.W. Blanch Co.
- Bradstock Inc.
- Guy Carpenter & Co. Inc.
- Delaney Intermediaries Inc.
- E & S Intermediaries Inc.
- Foa & Son Intermediaries
- John Gilbert Intermediary Group
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- G.L. Hodson & Son Inc.
- Hosken Intermediaries Inc.
- INRE International Ltd.
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- Intermediaries of America Inc.
- J.L. Kelley Inc.
- Lodderhose & McGinn of New York Inc.
- D.G. Morris Inc.
- Munich American Intermediaries Corp.
- NBA Excess & Surplus Lines Inc.
- NSEW International Inc.
- O'Connor Associates Ltd.
- Pearson & Georgi International Inc.
- Pearson Webb Springbett (USA) Inc.
- RFC Intermediaries Inc.
- R/I Associates (R/I Inc.)
- Rhulen Intermediaries Inc.
- Sargent Wobber & Co. Inc.
- John D. Sayer & Co.
- Sten-Re, Cole & Associates
- Stewart Smith Intermediaries-East
- John F. Sullivan Co. of New York
- Sullivan International (John F. Sullivan Co.)
- Towers, Perrin, Forster & Crosby Inc.
- Richard Whiley Inc.
- Wilcox Inc. Reinsurance Intermediaries
- H.E. Yerkes and Associates Inc.

Purchase
- Sellon Associates Inc.

Rockville Centre
- David C. White Agency Inc.

North Carolina

Burlington
- R/I Inc.

Ohio

Columbus
- RFC Intermediaries Inc.

Pennsylvania

Exton
- Falcon Intermediaries Ltd.

Philadelphia
- Booth Potter Seal & Co.
- Frank B. Hall Re
- RFC Intermediaries Inc.
- John F. Sullivan Co.
- Towers, Perrin, Forster & Crosby Inc.

South Carolina

Columbia
- Seibels, Bruce & Co.

Texas

Dallas
- Independence Intermediaries Inc.
- Intere Intermediaries Inc.
- Professional Reinsurance Office Inc.
- RFC Intermediaries Inc.
- John F. Sullivan Co.

Houston
- American Management Services Inc.
- NBA Excess & Surplus Lines Inc.

The Woodlands
- J.B. Johnson Intermediary Inc.

Virginia

Richmond
- Old Dominion Intermediaries Inc.

Washington

Seattle
- Cravens & Co., Special Insurance Services
- NBA Excess & Surplus Lines Inc.
- John F. Sullivan Co.

Bermuda

Hamilton
- Amberco Brokers Ltd.
- Andrew Edwards & Co. Inc.
- Fairway Intermediaries Ltd.
- Freisenbruch-Meyer Insurance Services Ltd.
- Arthur J. Gallagher & Co. (Bermuda) Ltd.
- H & H Reinsurance Brokers Ltd.
- Harnett & Richardson Ltd.
- Independent Brokers Ltd.
- J & H Intermediaries Ltd.
- L.L.G. Services (Bermuda) Ltd.
- Montgomery & Collins International Ltd.
- NBA Excess & Surplus Lines Inc.
- Pearson Webb Springbett (Bermuda) Ltd.
- Regency Reinsurance Brokers Ltd.

Denmark

Copenhagen
- E.W. Blanch Co.
- Frank B. Hall Re

England

London
- INRE International Ltd.

France

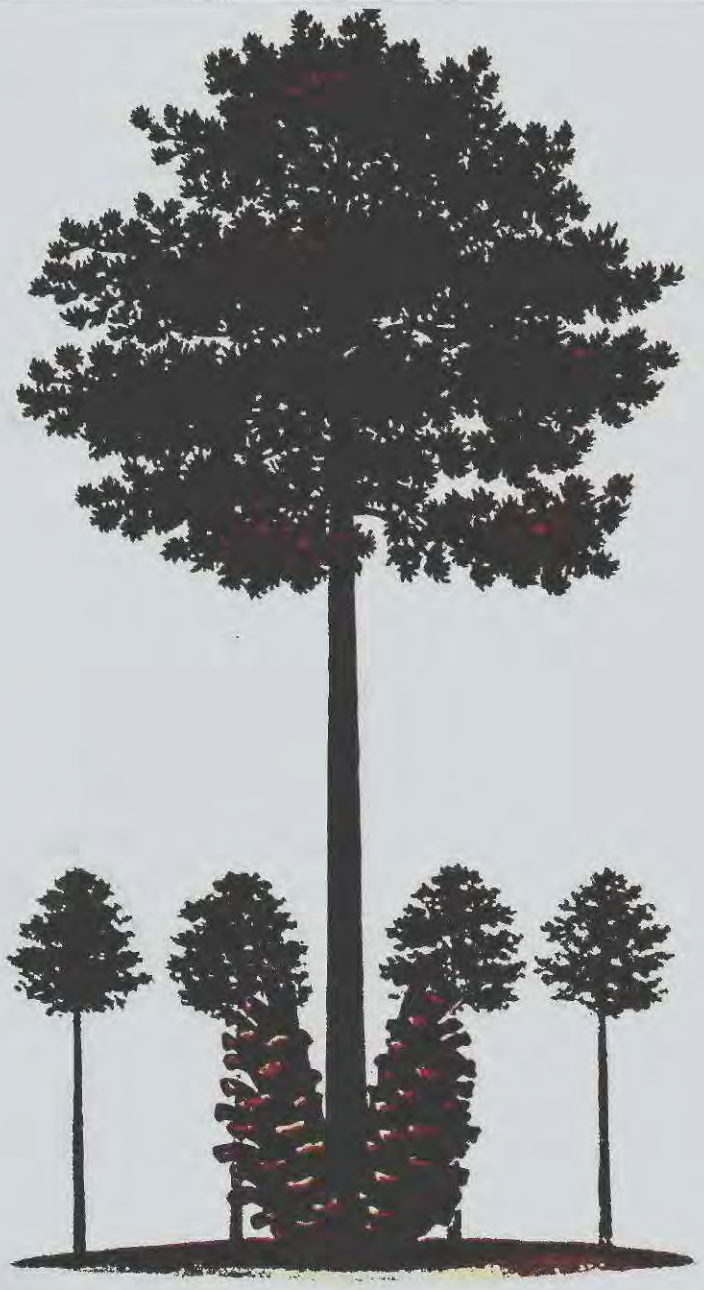
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Italy

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Financial Services

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'84 Olympics win risk management medals

LOS ANGELES—Risk management at the Summer Olympic Games in Los Angeles is proving to be as successful as the Games themselves.

First and foremost, there was no major catastrophe at the Games, pointed out Robert Degner, vp of commercial sales and Olympics liaison for Transamerica Insurance Co., which wrote property/casualty coverage for the Los Angeles Olympic Organizing Committee (*BI*, Jan. 24, 1983).

"The press always asked us about terrorism, but from the start we felt that it would be frequency—the small losses that add up—that would tell the story," he said.

And, he said, those smaller losses have been within reason: By late September, Transamerica had received slightly more than 1,900 claims in connection with the Olympics.

"That isn't too bad, considering the extent of the exposure," said Mel Windle, senior vp of claims for Transamerica. "After all, the (LAOOC) was for a time the largest employer in the state of California, their auto fleet included 4,800 cars and 2,600 buses and they had dozens of expensive facilities in their care during the Games."

Mr. Windle said that, as expected, the automobile exposure was the largest. Of the LAOOC's 4,800 cars, 450 sustained some damage. Although that is higher than average, the total dollar loss probably will be lower than expected because there were few liability claims, he said.

Also, most of the auto physical damage was minor, he said, noting the LAOOC chose a $250 collision deductible to reduce its premium.

"We had no serious auto accidents and no serious injuries, and in Los Angeles, that is something," Mr. Windle said.

He added that when costs forced the LAOOC to use volunteers instead of professional drivers, the insurer supplied a special driver safety program. He said it "seems to have paid off, because we had few serious problems."

The use of volunteers also posed a potential problem in the area of workers compensation exposure. Mr. Windle said the LAOOC had 46,000 employees, many of whom were volunteers doing work to which they were not accustomed. "To date we have about 350 claims for workers comp benefits, but only one or two seem to be mildly serious," he said.

All of the LAOOC's coverage terms had to be extremely broad, because the committee would have no future opportunity to recoup any losses. Therefore, a number of normal exclusions were waived.

Mr. Degner pointed out that, without such broad coverage, the LAOOC might not have been allowed to use many of the sites for the Games. "In a way, we were the catalyst that allowed the Games to go on, and we are extremely proud of that," he said.

> Good planning helped to control losses,' says Transamerica's Mr. Degner.

Mr. Windle and Mr. Degner said that Transamerica's good claims experience was due mainly to careful planning.

"Good planning helped to control losses," Mr. Degner said. "From an underwriting standpoint, we felt that the LAOOC would be a good risk because of the high caliber of their people. But, to be sure, we worked closely to advise them throughout."

Both men cited good risk management practices as an important factor in reducing losses. And, they said, the ability to respond quickly to claims also helped keep losses down and avoid dissatisfaction.

To make sure there were enough adjusters at each site, Transamerica contracted with GAB Services Inc., an independent loss adjusting firm.

"But we maintained complete management control throughout," Mr. Windle said.

Still, both men said that there was a certain amount of luck involved, too.

"There were a number of things that could have happened but didn't," Mr. Degner said. "I personally watched a javelin miss some athletes by inches during one preliminary session, and the fireworks display at the closing ceremonies, with all its attendant danger, seemed to go on forever—at least for me."

Overall, Transamerica said it is pleased with its role in the Olympics. "We don't expect to make money on the Games, but that was never really our intent," Mr. Degner said.

"We cut it pretty close to do our civic and patriotic part for the Olympics, and we're just grateful that our estimates were about right. Our major benefit has been the positive exposure we have received and, of course, the thrill of doing a difficult job so well." ■

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Canadian firm to buy Fireman's Fund unit

Trilon Financial Corp., a Canadian financial services company, has agreed to purchase Fireman's Fund Insurance Co. of Canada from Fireman's Fund Insurance Cos.

Fireman's Fund will receive $111.5 million in preferred shares of a Trilon subsidiary, plus warrants to buy 3 million Class A Trilon shares.

"Our strategy af Fireman's Fund is to focus the company's insurance resources on the domestic insurance market, which offers the strongest growth potential," said William M. McCormick, chairman and chief executive officer of Fireman's Fund.

"Divestiture of the Canada operation is something that has been under consideration at Fireman's Fund for several years," he said. "We feel confident that we have now found the best financial arrangement and the best company to acquire our Canadian subsidiary."

Fireman's Fund of Canada reported net written premiums of $164.3 million Canadian ($124.9 million U.S.) in 1983. It writes general property/casualty lines and is licensed in all Canadian provinces.

Fireman's Fund acquired the Canadian unit, then called Shaw & Begg, in 1961.

markets

Health care option

An Aetna Life & Casualty Co. subsidiary, Aetna Healthcare Programs of Oklahama Inc., has begun offering a prepaid health plan, CHOICE Healthcare Plan, in the Tulsa area.

The program permits participants to use their own personal physicians for personal care.

Under the program, referral care is handled by physicians associated with Tulsa's St. Francis Hospital. Participating hospital physicians are paid according to a fee schedule, while the hospital is paid for inpatient services using payments based on diagnosis related groups.

Depending on the type of industry in which an employer is engaged, the program costs $70 to $95 per month per employee, assuming the option of 100% coverage of primary care is selected. The monthly charge for family coverage is $205 to $255. This cost may be split between the employer and employee, says the company. Cheaper programs using deductibles are also available.

The Aetna program also operates in Chicago, Washington, D.C., and Santa Clara, Calif., and the insurer is now seeking state approval to introduce it in San Diego and in Richmond, Va.

For further information on the program in the Tulsa area, contact Jack Armstrong, executive director, at 918-250-6171.

New brokerage

A new insurance brokerage, Investors Surety Agency, has been formed in Canton, N.Y.

The agency specializes in limited partnership syndication, credit enhancement insurance and property/casualty products.

The company's address is 10 Court St., P.O. Box 72, Canton, N.Y. 13617; 315-386-2809.

Life insurer sold

Manufacturers Life Insurance Co. in Toronto has agreed to pay around $105 million to Lincoln National Life Co., an affiliate of Lincoln National Corp. of Fort Wayne, Ind., for majority control of The Dominion Life Assurance Co. in Waterloo, Ontario.

ManuLife said it will also make an offer to minority shareholders for the remaining 11% of Dominion's stock.

If the purchase is approved by regulatory authorities, Lincoln National Life's board and ManuLife's policyholders, the combined premium volume of Dominion Life and Manulife will rank it as the fifth-largest life insurer in Canada.

Dominion Life has assets of $1.5 billion Canadian ($1.14 billion U.S.), with 1983 premium income of $183 million Canadian ($139.1 million U.S.). ManuLife has more than $10 billion Canadian ($7.6 billion U.S.) in assets and a 1983 premium volume of $578 million Canadian ($439.3 million U.S.).

Capitalization hiked

CIGNA Corp. has increased the capitalization of Belgian subsidiary INA Reinsurance Co. to $10 million to support growth that has resulted from Cigna Worldwide's recent acquisition of AFIA Worldwide Insurance.

INA Reinsurance's expanded operations will continue to serve clients in Europe, the Middle East and Africa. Raymond Ainger has been named managing director of the company and general manager of CIGNA's European reinsurance operations.

Manager appointed

Forum Insurance Co. of Chicago, an affiliate of Mobil Corp. and part of Montgomery Ward Insurance Group, has appointed FGI Management Inc. of New York as underwriting manager for its limited partnership bond program.

FGI Management, with branch offices in Los Angeles and Houston, is an underwriting manager which specializes in bond programs, oil and gas risks and cable television projects.

USF&G acquisition

USF&G Corp. has agreed to acquire a controlling interest in E.W. Axe & Co. Inc. of Tarrytown, N.Y., an investment firm whose clients include pension funds and individual investors.

The acquisition also will give USF&G complete ownership of Axe Securities Corp., which acts as principal underwriter for E.W. Axe funds.

The transaction is subject to various regulatory requirements and approvals.

UNISON expands

Johnson & Higgins has added two correspondents to its worldwide UNISON network of brokers.

Brokers joining the network are Max Matthiessen Ltd. of Stockholm, Sweden, and Caribbean General & Marine Insurance Brokers Ltd. of Bridgetown, Barbados.

"The Matthiessen firm has unique capabilities in what is essentially a direct writing market environment," said Robert V.

Continued on next page

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Continued from preceding page
Hatcher Jr., chairman and chief executive officer of J&H. He said the firm has agency agreements with two principal Swedish insurers and places business as a broker with other Swedish companies and with foreign companies operating in Sweden.

Outside of Barbados, Caribbean General & Marine serves clients in St. Lucia, Grenada, Dominica, St. Kitts, Antigua and St. Vincent.

The UNISON network was established in 1982 to formalize a working relationship of 10 European brokers with Johnson & Higgins.

Swedish consultant

United Risk Management Consultants Ltd., headquartered in Stockholm, Sweden, is offering consulting services to Swedish and international markets.

The firm, known as UNIRISK, provides a variety of services including risk analysis and administration.

Max Matthiessen Ltd. is a shareholder of the firm, along with partners Ulf Nordblad, managing director, and Ronald Berg, senior consultant.

markets

Blues consolidate

Blue Cross & Blue Shield of Georgia/Atlanta and Blue Cross & Blue Shield of Georgia/Columbus have agreed to consolidate Jan. 1 and locate executive offices in Atlanta.

Blue Cross & Blue Shield of Georgia will serve about 1.5 million state residents, according to BC/BS officials. The consolidated operation will have assets of about $200 million.

An expanded operations center will be located in Columbus, while BC/BS offices will be located in 11 other cities.

BC/BS of Georgia said the new operation will enhance the plan's capacity to deliver a higher level of service to customers, health care providers and Georgians served by government operations. The plan also will continue to administer the state's health care plan.

"Both plans are financially healthy and well-managed," pointed out William E. Mayher III, chairman of the board of the new corporation.

"But we believe a consolidated company will be better able to provide service to plan customers, as well as provide efficient processing services for the health delivery system."

Consultants merge

William M. Mercer-Meidinger Inc., an employee benefits consulting subsidiary of Marsh & McLennan Cos. Inc., announced it is combining subsidiary MPA (Holdings) Ltd. with its United Kingdom benefits operation, William M. Mercer-Bowring Ltd.

The employee benefit consulting firm will operate as William M. Mercer-MPA Ltd. With the expansion, additional services will be provided by the eight MPA offices in the United Kingdom and several others on the European continent. "We are looking forward to combining the resources of MPA and Mercer to develop an organization that will provide the broadest, highest-quality professional services in all of the markets we serve," said Peter Coster, chairman of Mercer-MPA.

"And we intend to take full advantage of William M. Mercer's and Marsh & McLennan's worldwide resources for the benefit of our clients," Mr. Coster said.

Tokyo underwriter

The Koa Fire & Marine Insurance Co., a property/casualty underwriter in Tokyo, is establishing a New York branch that will be managed by Home Group Risk Services Ltd., a subsidiary of The Home Insurance Co.

"Under the five-year contract, Home Group will effectively act as Koa's manager or general agent in the United States and handle all of its affairs," said F.A. Mina, senior vp of Home Group Risk Services.

"The agreement benefits Koa by affording their multinational accounts or prospects operating in the United States prompt and efficient service. In turn, The Home has now opened opportunities for its agents and brokers who deal with firms having Japanese-based operations," Mr. Mina said.

Exchange members

A new syndicate and two brokerage firms have been approved to conduct business on the floor of the New York Insurance Exchange.

Kansa-Brougher Syndicate Inc. was capitalized at $3.7 million in October and is writing property/casualty and medical excess coverages directly and on a reinsurace basis. Managed by North Atlantic Treaty Managers Inc., it is principally owned by Finnish insurance interests.

Lynch & Moore Inc. has joined as a broker member of the exchange and Lodderhose & McGinn of New York Inc. is now an associate broker member. Broker members have voting rights in the affairs of the exchange and may place risks on behalf of non-exchange brokers. Associate brokers may not vote and can only place risks for their own accounts.

Another associate broker, Agnew International Inc., recently upgraded its status and became the NYIE's 72nd broker member. The exchange has 33 associate brokers.

Charter acquisition

Metropolitan Life Insurance Co. says it will acquire the insurance subsidiaries of Jacksonville, Fla.,-based Charter Co., after an investor group led by the Equitable Life Assurance Society of the United States dropped out of negotiations.

Equitable, along with Merrill Lynch & Co. and E.F. Hutton Group Inc., were previously negotiating with Charter Co. for its Charter Security Life Insurance Co. subsidiaries in New Orleans, New York and Chatham, N.J.

The subsidiaries are not included in Charter Co.'s filing for protection from creditors under Chapter 11 of the federal bankruptcy code.

Service offered

Rubenstein, Teller & Associates, International Risk Management Consultants in Brooklyn, N.Y., has formed a new risk management consulting service.

The service offers consulting tailored to the needs of international clients, recognizing the unique requirements of various countri s, according to Bill Rubenstein, president of the firm.

Mr. Rubenstein said the service specializes in minimizing foreign and U.S. tax problems.

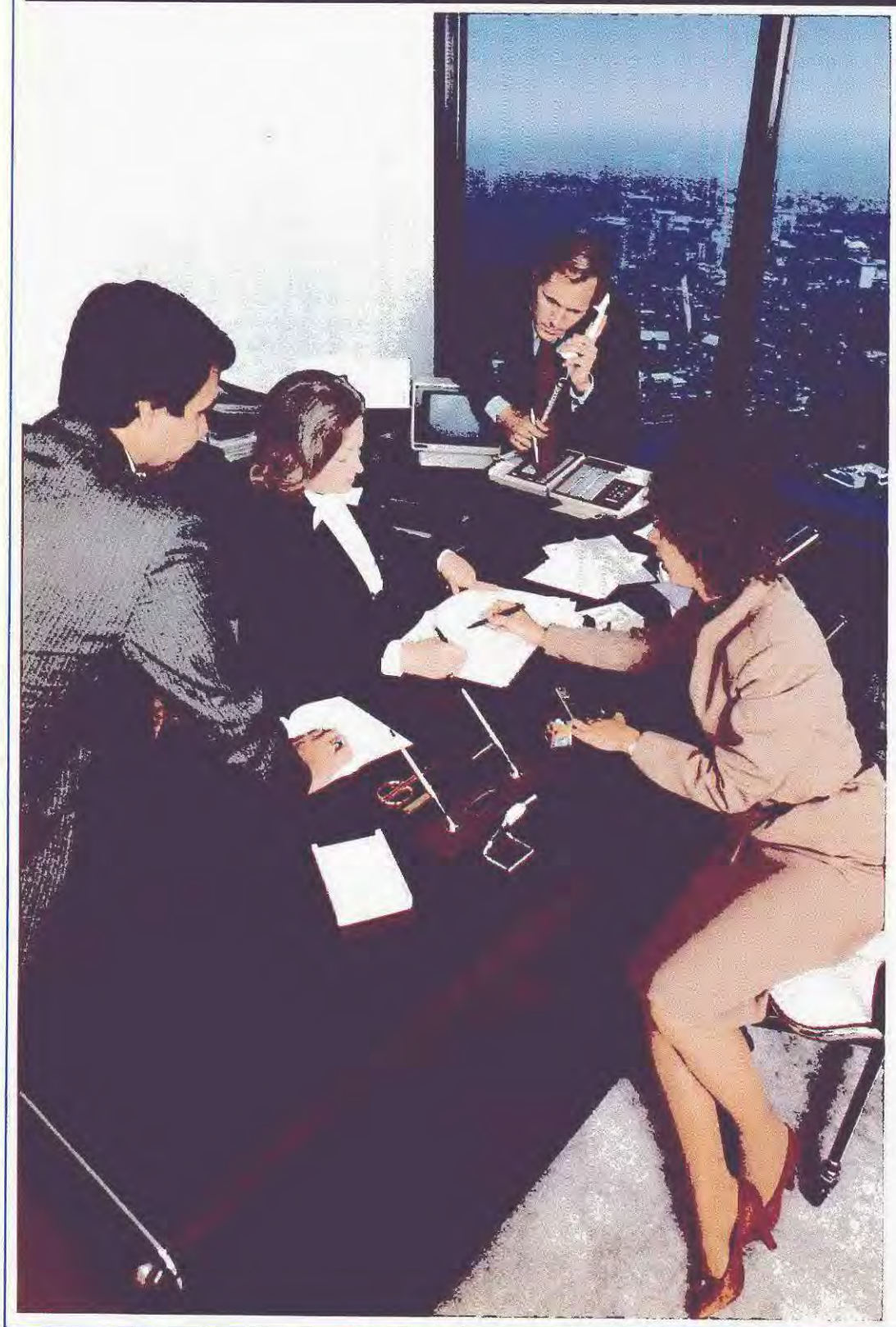
The service will focus on a variety of coverages, he added, including workers compensation, crime, boiler and political risk coverage.

Brokers merge

Rollins Burdick Hunter of Oregon, an insurance brokerage in Portland, is expanding its commercial insurance operations in the area through a merger with broker Lemma Gill Cusik & Hensley, also of Portland.

Continued on facing page

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markets

Continued from facing page

"We have been looking for ways to obtain a larger share of the commercial market," said Dick Johnson, president of Rollins Burdick Hunter of Oregon. "The merger...will help us in that respect."

Frank Lemma, president of Lemma Gill Cusick & Hensley, said his firm began looking for a merger because it needed to provide clients with services like loss control, engineering and employee benefits.

Acquisitions

Wigham Poland Holdings Ltd., a subsidiary of **Fred S. James & Co. Inc.**, has acquired **Anthony Lumsden Group Ltd.**, a marine and insurance and reinsurance broking firm.

Trenwick Inc. has agreed to acquire all outstanding shares of **Trenwick America Reinsurance Corp.** from minority shareholders.

Equifax Inc. has acquired **Alliance Insurance Management Systems Inc.** of Cedar Rapids, Iowa, **Insurance Information Inc.** of Atlanta and certain assets of **American Insurance Computers Inc.** of Denton, Texas. The transaction was completed Oct. 1 for an undisclosed amount of cash.

Johnson & Higgins has acquired **Insurance Management Consultants** of the Cayman Islands.

The Metropolitan Insurance Agency, Wahpeton Inc. in Wahpeton, N.D., has been acquired by **First Bank System Inc.** of Minneapolis.

New offices

Amerisure Cos., headquartered in Detroit, has opened a mid-Atlantic regional office at 5801 Executive Center Drive, Charlotte, N.C. 28212; 704-568-1165.

Alliance Insurance Group Inc. has opened **Alliance Insurance Services Inc.** at 3255 Wilshire Blvd., Suite 832, Los Angeles, Calif. 90010; 213-738-8019.

Risk Management Consulting Group Inc. and **Risk Analysis & Management Corp.**, two independent risk management consulting firms in St. Louis, have merged. The firms now operate as Risk Analysis & Management Corp. at 1001 Craig Road, Suite 260, St. Louis, Mo. 63146; 314-569-1740.

Fred S. James & Co. of New England is moving to 40 Broad St., Boston, Mass. 02109; 617-357-6600.

The offices of **James (Bermuda) Ltd.** are now located on the second floor of Global House, Church Street, Hamilton, Bermuda. The mailing adddress is P.O. Box 509, Hamilton 5, Bermuda; 809-292-6667.

Towers, Perrin, Forster & Crosby has opened a consulting office at 620 Newport Center Drive, Suite 1200, Newport Beach, Calif. 92660; 714-759-0261.

Response Insurance Brokers, a Laguna Hills, Calif.,-based wholesale insurance broker, has opened an office at 16742 Stagg St., Suite 108, Van Nuys, Calif. 91406; 714-768-7661.

Cost Care Inc., a health care cost containment firm based in Huntington Beach, Calif., has opened its third regional office, at 4801 Woodway Drive, Houston, Texas 77056; 713-963-0540. The office will serve Texas, Oklahoma, Louisiana and Mississippi.

Milliman & Robertson Inc., a consulting actuarial firm, has opened a St. Louis office. The address is 720 Olive St., Suite 2202, St. Louis, Mo. 63101; 314-231-3031.

The Fidelity and Deposit Co. of Maryland has consolidated its Baltimore and Washington, D.C., branches to form a Chesapeake branch. The new office is at 9150 Guilford Road, Columbia, Md. 21046; 301-792-2322. ■

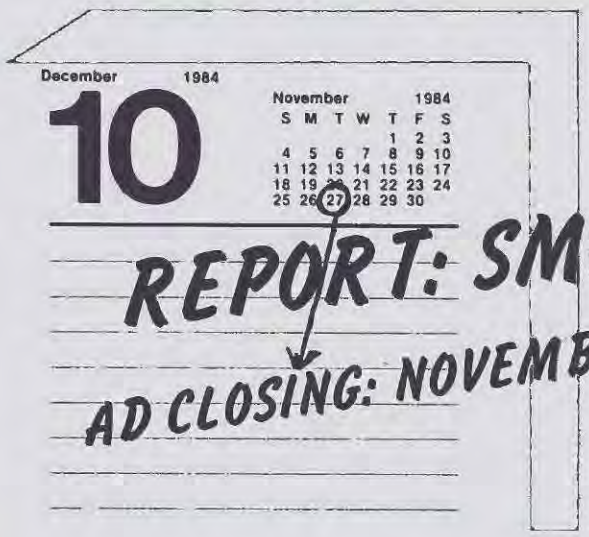
Institutes honor their top students

SEATTLE—The American Institute for Property & Liability Underwriters and the Insurance Institute of America honored outstanding students Oct. 16 in Seattle.

The 41 people had the highest grades on the 65,000 exams the institutes gave in the past year.

The distinguished graduate award was won by Stuart Ross Crisman of State Farm Insurance Cos., Fresno, Calif., who had the highest grade average on the exams for the Chartered Property & Casualty Underwriter designation. ■

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Deere offers early retirement incentives

benefit beat

Both union and non-union employees at Deere & Co. in Moline, Ill., will be able to retire early with the same benefits paid under regular retirement, plus additional incentive bonuses.

According to Mert Hornbuckle, Deere's manager of personnel administrative services, Deere is offering the plans as part of its new operating strategy.

"We're in a process of restructuring and positioning ourselves for the '80s and developing a work force that is in line with the needs of the company," he said.

Salaried employees can opt for the early retirement plan until Nov. 30. To be eligible, an employee must be 54 years old and have 20 years of service, or be 60 years old and have 10 years of service.

Salaried employees who opt for this plan will receive full pension benefits, Mr. Hornbuckle said. Normally, salaried employees who retire early have their benefits cut 4% for each year they retired before age 60.

As additional incentive, employees who choose to retire early also will receive 20% of their monthly salary at retirement, up to $650 a month, until age 62.

Salaried employees over age 60 who take the early retirement option will receive one year's salary, either in a lump sum upon retirement or in equal monthly installments up to age 65, the company's normal retirement age. However, this amount will be offset by the 20% of monthly salary bonus the employee receives between ages 60 and 62.

Deere wants to pare 1,000 employees from its salaried work force of 14,000, Mr. Hornbuckle said. But, only about 900 salaried workers meet the requirements for early retirement, and it is highly unlikely that all eligible workers will opt for early retirement. Layoffs and "involuntary separations" may be used to achieve the target reduction, Mr. Hornbuckle said.

However, he added, "If everyone who is eligible would elect to retire (early), we'd probably stop right there."

The difference between a layoff and an involuntary separation is that laid-off workers have "recall rights," but involuntary separations are permanent, Mr. Hornbuckle explained.

Deere offered two early retirement options to salaried workers in 1982, and approximately 60% of the eligible workers responded each time. Mr. Hornbuckle said he expects the response rate to this latest offer also to be about 60%.

A similar plan is being offered to Deere's union employees between Nov. 1 and Dec. 21. Employees must elect to retire early during this time, but they may continue to work until Jan. 31, Mr. Hornbuckle said.

To be eligible for the union plan, employees must be 57 years old and have at least 20 years of service or be between age 60 and 62 with have 10 years of service.

Figures on how many of the 26,700 union employees are eligible were not readily available, but Mr. Hornbuckle said that between 650 and 675 members of the United Auto Workers union, the company's largest union, are eligible.

A similar offer made to union employees in 1983 brought a 60% response rate, and Mr. Hornbuckle said he expects this offer to draw about the same response rate.

The union plan also pays full retirement benefits and offers the same incentives as those offered under the salaried employees' plan, Mr. Hornbuckle said.

The early retirement plans for both salaried and union employees provide the same health care and life insurance benefits that regular retirees receive.

Normally, retirees receive first-dollar medical coverage and twice their annual salary in life insurance, reduced by 1.5% a month after they retire, until the amount equals their final annual salary.

Deere self-insures both its life and health care coverage.

Health care plan

Uniroyal Inc. says a new three-year contract with the United Rubber Workers union contains provisions that will control health care costs without increasing the amount that workers must contribute toward coverage.

"Our concern was that costs not be shifted to the members," a union spokesman explained.

"This does not add any additional burden on the members. It's a wise utilization of health care benefits," he pointed out.

Under the plan, Uniroyal's 4,700 URW workers at 11 facilities will keep the first-dollar coverage they had under the previous contract. But health care services will be subject to utilization review, precertification and mandatory second surgical opinions for non-emergency surgery. In addition, workers will be given a $50 cash bonus for surgery performed on an outpatient basis.

Under the new cost-containment program, workers will receive all non-emergency prescription drugs from a mail-order drug program that supplies low-cost, generic drugs.

"What we've gotten is a program to basically control and get better utilization out of the health care package we have with the URW," a Uniroyal spokesman said.

The contract also calls for the es-

Continued on facing page



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tablishment of a joint committee at each plant to "examine factors influencing (health care) costs and make recommendations for cost containment that will involve communication and education of employees," the spokesman said.

Uniroyal's insurance for the URW plan is underwritten by various insurers, though The Prudential Insurance Co. of America serves as the major underwriter.

Pension, thrift plans

Federated Department Stores Inc. is replacing a cluster of defined contribution pension plans and profit-sharing plans at its 19 divisions with a single plan.

Before Jan. 1, the Cincinnati-based company, whose divisions include the Bloomingdale's and I. Magnin chains, had various pension and profit-sharing plans, though the company offered its Retirement Income and Thrift Incentive plan at the majority of its divisions. This plan offered both a defined contribution pension plan and a separate profit-sharing plan to non-union employees and union employees without a separately bargained duplicate plan.

Five divisions did not offer the RITI plan—Rich's and Richway, both headquarted in Atlanta; Bullock's, headquartered in Los Angeles; Rike's, headquartered in Dayton; and The Children's Place, headquartered in Pinebrook, N.J.

On Jan. 1, Federated replaced the RITI's defined contribution pension plan with a defined benefit plan. The profit-sharing plan remains, however.

Simultaneously, it replaced the separate plans at three divisions—Bullock's, Rike's and The Children's Place—with the modified RITI.

On Jan. 1, 1985, the new RITI will replace the plans at Rich's and Richway, according to James Tobin, director of retirement plans for Federated.

The plans are being changed to provide unity throughout the company and to eliminate "the unpredictable nature" of retirement income generated by defined contribution plans, Mr. Tobin said.

Under the new defined benefit plan, employees receive monthly benefits based on 0.75% of their average salary for the five highest-paid consecutive years of the last 10 years worked. This amount will then be multiplied by the employee's years of service up to a maximum of 30 years. In addition, employees receive 0.75% of the difference between their average annual salary and the Social Security bendpoint, multiplied by years of service up to 30 years.

The Social Security bend point is the amount of an employee's pay that is used to calculate Social Security benefits at normal retirement.

Employees become fully vested in the defined benefit plan after 10 years of service, Mr. Tobin said. They are eligible for retirement at age 65, or at age 55 with 10 years of service, he added.

The RITI's separare profit-sharing plan allows employees to contribute between 1% and 10% of their pay to a savings plan through payroll deductions. Employees with at least three years of service may contribute to the plan on a pretax basis under a 401(k) arrangement.

Federated will match the first 5% of employee contributions at a minimum rate of 20 cents for each dollar contributed by the employee, though the match may be higher depending on the level of Federated's profits.

All employees with at least one year of service may participate in the profit-sharing plan. Previously, employees had to be at least 25 years old to participate in the savings plans.

According to Mr. Tobin, Federated's profit-sharing plan has $643 million in assets and its defined benefit pension plan has $53 million in assets.

The old savings plans covered about 55,000 of Federated's 125,000 employees, Mr. Tobin said. He expects the new plans to cover about 75,000 employees because of the plans' easier eligibility requirements.

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Benefit beat keeps insurance and employee benefit managers informed on what other companies are doing and of current developments in the employee benefit field. We'd like to know if you've made any changes. Write Diane Kastiel, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611; 312-649-5393.

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Presentations for seminars being sought

Papers are currently being requested for two risk and insurance seminars scheduled for 1985.

The 1985 Risk Theory Seminar will be held April 18-20 at Vanderbilt University in Nashville, Tenn. It will provide a forum for critical discussion of research issues pertaining to risk and insurance.

Membership in the seminar can be obtained by presenting a research paper. Any risk and insurance topic can be covered, and those interested should send a detailed outline of their proposal by Nov. 30 to the program committee:

- Dr. Barbara Beliveau, School of Business Administration, U-41B, University of Connecticut, Storrs, Conn. 06268.
- Dr. Neil Doherty, Finance Department, 340 Com. West, University of Illinois, 1206 S. Sixth St., Champaign, Ill. 61820.
- Dr. Harris Schlesinger, Department of Economics, Vanderbilt University, Nashville, Tenn. 37235.

The committee will choose eight or nine papers for presentation. Authors will be notified of acceptance by Jan. 18, 1985.

Completed papers must be mailed to the program committee by March 1, and to all members of the seminar by March 15.

Also, proposals on any aspect of insurance, insurance economics and risk management are being sought by the American Risk & Insurance Assn. for presentation at the association's annual meetings, to be held Aug. 18-21, 1985, in Vancouver, British Columbia.

The deadline for submission of proposals is Jan. 15, 1985. Proposals should be sent to J. David Cummins, the Wharton School, 3641 Locust Walk, Philadelphia, Pa. 19104. ■

datebook

NOV. 26-28. Benefits Processing Institute seminar in Palm Springs, Calif., sponsored by the International Foundation of Employee Benefit Plans; $420 for members; $495 for non-members. Jordan Fox, IFEBP, 18700 W. Bluemound Road, P.O. Box 69, Brookfield, Wis. 53005; 414-786-6700.

NOV. 26-28. The First All-Insurance Industry Trade Show in Atlantic City, N.J., sponsored by CM/Creative Marketing Inc.; no fee, but pre-registration required. Joseph Casolare, CM/Creative Marketing Inc., 405 N. Wabash Ave., Suite 3612, Chicago, Ill. 60611; 312-467-0465.

NOV. 26-30. Management and Administrative Skills for the Occupational Health Professional course, offered by the University of Southern California; $650. Office of Extension and In-Service Programs, Institute of Safety and Systems Management, University of Southern California, Los Angeles, Calif. 90089-0021; 213-743-6524.

NOV. 27. Risk Financing and Captive Insurance Companies conference in St. Thomas, Virgin Islands, sponsored by Risk Planning Group Inc.; $600; $550 for subsequent registrants from same company. Micki S. Briskin, 722 Post Road, Darien, Conn. 06820; 203-655-9791.

NOV. 27. Insurer/Reinsurer Insolvency workshop in Philadelphia, sponsored by The Society of Chartered Property & Casualty Underwriters; $80 for members; $95 for non-members. Coleen Mulhern, Professional Services Coordinator, SCPCU, Providence Road, CB#9, Malvern, Pa. 19355; 215-251-2735.

NOV. 27. The 1984 Tax Act: Implications and Stategies for the Financial Services Industry videoconference, sponsored by Arthur Andersen & Co. and the 1st Financial Broadcasting Network; $175; $150 for three or more registrants from the same company. Registrar, 1st Financial Broadcasting Network, Woodfield Corporate Center, 150 N. Martingale Road, Suite 700, Schaumburg, Illinois 60194; 312-884-0990.

NOV. 28-29. Principles of Petroleum Insurance workshop in Fort Worth, Texas, sponsored by the Professional Development Institute; $395. Joyce Page, Professional Development Institute, P.O. Box 13288, North Texas State University, Denton, Texas 76203-3288; 817-565-3361.

NOV. 28-29. Virgin Islands Captives: Focus on Employee Benefits conference in St. Thomas, Virgin Islands, sponsored by Risk Planning Group Inc.; $600; $550 for subsequent registrants from same company. Micki S. Briskin, 722 Post Road, Darien, Conn. 06820; 203-655-9791.

NOV. 28-29. Advanced Loss Control Management seminar in Houston, sponsored by Waite Hill Services Inc.; $425. Rick Summers, Waite Hill Services Inc., P.O. Box 5816, Kingwood, Texas 77325; 713-358-0949.

NOV. 29. "Right to Know" Law conference in Springfield, Ill., sponsored by the Illinois State Chamber of Commerce; $80 for members; $120 for non-members. Registrar, 20 N. Wacker Drive, Chicago, Ill. 60606; 312-372-7373.

NOV. 29. Building Rehabilitation and "Soft Costs" seminar in Sturbridge Village, Mass., sponsored by the Inland Marine Underwriters; $20. Also, **Dec. 6** in New York; free. Dora Rothman, IMUA, 14 Wall St., New York, N.Y. 10005.

NOV. 29-30. How to Audit and Check Insurance Policy Costs and Coverages conference in Dallas, sponsored by the American Management Assns.; $620 for members; $715 for non-members. Also **Dec. 3-4** in Los Angeles; **Dec. 6-7** in Burlington, Mass., **Dec. 13-14** in Washington, **Dec. 17-18** in San Francisco. Registrar, American Management Assns.; 135 W. 50th St., New York, N.Y. 10020.

DEC. 2-5. 1984 Corporate Benefits Management conference in Miami, sponsored by the International Foundation of Employee Benefit Plans; $500 for members; $575 for non-members. Jordan Fox, International Foundation of Employee Benefit Plans, 18700 W. Bluemound Road P.O. Box 69, Brookfield, Wis. 53005; 414-786-6700.

DEC. 3-7. Total Loss Control Management seminar in Houston, sponsored by the International Safety Academy; $625; group discounts available. Roseanne Kornicki, ISA, P.O. Box 8527, 1600 Arch St., Philadelphia, Pa. 19101; 800-231-3147 or 215-241-5800.

DEC. 4-5. National Conference on Occupational Disease in Chicago, sponsored by the Alliance of American Insurers and the Risk & Insurance Management Society; $250. Steve Millikan, Alliance of American Insurers, 1501 Woodfield Road, Suite 400 West, Schaumburg, Ill. 60195-4980; 312-490-8500.

DEC. 5-7. Recruiting, Interviewing and Selecting Employees conference in Washington sponsored by the American Management Assns.; $675 for members; $775 for non-members. Also **March 6-8** in New York. Registrar, American Management Assns.; P.O. Box 319, Saranac Lake, N.Y. 12983; 518-891-0065.

DEC 6-7. Computer Applications for Industrial Management seminar in Atlanta, sponsored by the Assn. of Energy Engineers; $495 for members; $545 for non-members; $30 discount for subsequent registrants from same company. Registrar, AEE Energy Seminars, 4025 Pleasantdale Road, Suite 340, Atlanta, Ga. 30340; 404-447-6452.

DEC. 6-7. Unjust Dismissal: Evaluating, Litigating, Settling and Avoiding Claims program in New York, sponsored by the Practising Law Institute, $390; 10% discount for members. Also **Dec. 24-25** in San Francisco. Registrar, PLI, Department SI, 810 Seventh Ave. New York, N.Y. 10019; 212-765-5700.

DEC. 6-8. 1984 Health Care Cost Containment Management seminar in Miami, sponsored by the International Foundation of Employee Benefit Plans; $420 for members; $495 for non-members. Jordan Fox, IFEBP, 18700 W. Bluemound Road, P.O. Box 69, Brookfield, Wis. 53005; 414-786-6700.

DEC. 10. Accident Investigation and Analysis seminar in Los Angeles, sponsored by the International Safety Academy; $175; group discounts available. Registrar, International Safety Academy, P.O. Box 8527, 1600 Arch St., 12 Tower Philadelphia, Pa. 19101; 800-231-3147 or 215-241-5800.

DEC. 10-11. Effective Management and Direction of Malpractice Insurers and Trusts seminar in Atlanta, sponsored by Tillinghast, Nelson & Warren, Inc.; $600; $500 for subsequent registrants from same company. Pat Kelley, Tillinghast, Nelson & Warren, 3340 Peachtree Road, Atlanta, Ga. 30026; 404-261-5420.

DEC. 10-11. Consumer Products: Government Regulation and Product Liability seminar in Washington, sponsored by the Practicing Law Institute; $360; 10% discount for members. Registrar, PLI, Department SI, 810 Seventh Ave. New York, N.Y. 10019; 212-765-5700.

DEC. 10-11. Health Care Cost Containment Workshop in Chicago, sponsored by the Health Research Institute; $395. Also **Jan. 21-22** in Miami and **Feb. 11-12** in Los Angeles. Workshop Coordinator, Health Research Institute, 49 Quail Court, Suite 200, Walnut Creek, Calif. 94593; 415-676-2320.

DEC. 10-12. Techniques of Risk Management course in Denver, sponsored by the Risk & Insurance Management Society Inc.; $445 for members; $545 for non-members. Fran Jordan, Administrator-Continuing Education Program, Risk & Insurance Management Society, 205 E. 42rd St., New York, N.Y. 10017; 212-286-9292.

DEC 10-12. 1984 Electronic Data Processing program in Orlando, Fla., sponsored by the International Foundation of Employee Benefit Plans; $420 for members; $495 for non-members. Barbara Wesener, IFEBP, 18700 W. Bluemound Road, P.O. Box 69, Brookfield, Wis. 53005; 414-786-6700.

DEC. 10-14. Hazardous Materials: Handling and Disposal course in Los Angeles offered by the University of Southern California. $650. USC, Institute of Safety and Systems Management, Office of Extension and In-Service Programs, Los Angeles, Calif. 90089-0021; 213-743-6523/6524.

DEC. 11. Effective Safety Committees seminar in Los Angeles, sponsored by the International Safety Academy; $175; group discounts available. Registrar, ISA., P.O. Box 8527, 1600 Arch St., 12 Tower, Philadelphia, Pa. 19101; 800-231-3147.

DEC. 11. Data Workshop & National Statistical Data Base Briefings workshop in Chicago, sponsored by the Health Research Institute; free. Also **Jan. 22** in Miami, **Feb. 12** in Los Angeles. Workshop Coordinator, Health Research Institute, 49 Quail Court, Suite 200, Walnut Creek, Calif. 94596; 415-676-2320.

DEC. 12. Health Improvement/Prevention workshop in Chicago, sponsored by the Health Research Institute; $195. Also **Jan. 23** in Miami, **Feb. 13** in Los Angeles. Workshop Coordinator, Health Research Institute, 49 Quail Court, Suite 200, Walnut Creek, Calif. 94596 415-676-2320.

DEC. 12. Third-Party Administrator workshop in Chicago, sponsored by the Health Research Institute; $395; $195 for subsequent registrants from same company. Workshop Coordinator, Health Research Institute, 49 Quail Court. Suite 200, Walnut Creek, Calif. 94546; 415-676-2320.

DEC. 12-14. Fundamentals of Insurance course in Atlanta, sponsored by the Risk & Insurance Management Society Inc.; $445 for members; $545 for non-members. Fran Jordan, Administrator-Continuing Education Program, RIMS, 205 E. 42nd St., New York, N.Y. 10017; 212-286-9292.

DEC. 13. Cost Containment and Health Claims Management System seminar in Atlanta, sponsored by Resource Information Management Systems Inc.; free. Ellen Lockwald. 2015 Spring Road, #220, Oak Brook, Ill. 60521; 312-789-0230.

DEC. 13. Builders Risk & Wrap-Up Liability Insurance Luncheon meeting in Montreal, sponsored by Quebec Risk & Insurance Management Assn.; $18 for members and non-members. Suzan Ness, Chairman, Dominion Textile Inc., 1950 Sherbrooke St. West, Montreal, Quebec H3H 1E7; 514-989-6297.

DEC. 13. Risk Management and the Financial Executive seminar in Atlanta, sponsored by Tillinghast, Nelson & Warren; $600; $500 for subsequent registrants from the same company. Pat Kelley, Tillinghast, Nelson & Warren, 3340 Peachtree Road, Atlanta, Ga. 30026; 404-261-5420.

DEC. 14. Health Care Cost Containment conference in Chicago, sponsored by the Illinois State Chamber of Commerce; $80 for members; $120 for non-members. Registrar, Center for Business Management, 20 N. Wacker Drive, Chicago, Ill. 60606; 312-372-7373.

DEC. 17-19. Behavior Science: A New Approach to Accident Prevention course in Los Angeles, offered by the University of Southern California; $400 tuition. USC, Institute of Safety and Systems Management, Office of Extension and In-Service Programs, Los Angeles, Calif. 90039-0021; 213-743-6523/6524.

JAN. 10. Products Liability Insurance luncheon seminar in Montreal, sponsored by the Quebec Risk & Insurance Management Assn.; $18. Suzan Ness, Chairman, Dominion Textile Inc., 1950 Sherbrooke St. West, Montreal, Quebec H3H 1E7; 514-989-6297.

JAN. 11-12. Preparation and Trial of a Complex Toxic Chemical or Hazardous Waste Case seminar in New York, sponsored by the Practising Law Institute; $350. Registrar, PLI, 810 Seventh Ave., New York, N.Y. 10019; 212-765-5700.

JAN. 11-13. End Crisis Management seminar in Atlanta, sponsored by Retirement Advisors Inc.; $425; $375 for registration three weeks in advance. RAI, 919 Third Ave., New York, N.Y. 10022; 212-421-2400.

JAN. 15-16. Application of Microcomputers to Occupational Health and Safety course in San Diego, offered by the University of Southern California; $375. University of Southern California, Institute of Safety and Systems Management, Office of Extension and In-Service Programs, Los Angeles, Calif. 90089-0021; 213-743-6523/6524.

JAN. 21-25. Industrial Ventilation Fundamentals course in San Diego, sponsored by the University of Southern California; $650. University of Southern California Institute of Safety and Systems Management, Office of Extension and In-Service Programs, Los Angeles, Calif. 90089-0021; 213-743-6523/6524.

FEB. 1. Advanced "Post-Graduate" Cost Containment workshop in Los Angeles, sponsored by the Health Research Institute; $195. Workshop Coordinator, Health Research Institute, 49 Quail Court, Suite 200, Walnut Creek, Calif. 94596; 415-676-2320.

FEB. 4-8. Occupational Health Nursing: Basic Theory Update course, offered by the University of Southern California; $550. USC, Institute of Safety and Systems Management, Office of Extension and In-Service Programs, Los Angeles, Calif. 90089-0021; 213-743-3523/6524.

The Datebook is compiled from notices sent to Business Insurance. Notices should be sent at least eight weeks in advance to Datebook, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611. Business Insurance reserves the right to select meetings of most interest to its readers and cannot guarantee that notices will be printed.



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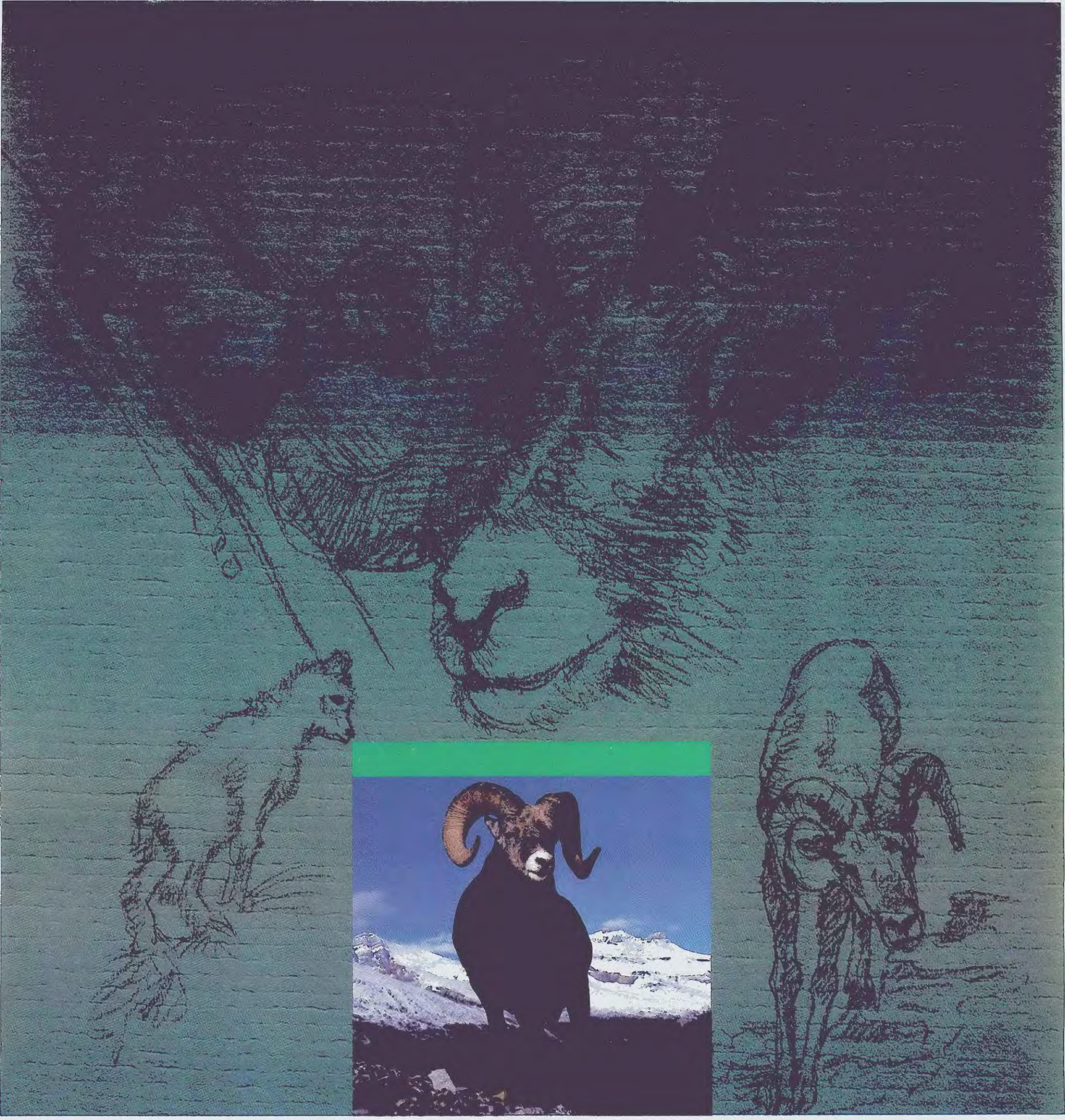
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Management moves follow LTV merger

comings & goings: buyers

Several risk and benefit management moves have been made at LTV Corp. following its merger with Republic Steel Corp. of Cleveland. **Thomas L. Ward**, 39, is the new risk manager for LTV Steel Corp. in Cleveland, formerly Republic Steel. Mr. Ward is responsible for the overall management of corporate insurance. He reports to John Delmore, assistant controller, and replaces **John Bosbous**, who had joined Bucyrus-Erie Co. in South Milwaukee, Wis. Previously, Mr. Ward was manager of claims administration for Republic Hogg Robinson Inc. in Beachwood, Ohio. He received a bachelor of science degree in business administration from Bowling Green State University in Bowling Green, Ohio. Mr. Bosbous, 32, has been named assistant to the treasurer for the Bucyrus-Erie Co. In this newly created position, Mr. Bosbous serves as risk and financial manager and reports to Micheal Decker, treasurer. Mr. Bosbous earned a bachelor of science degree in accounting from Lake Superior State College in Sault St. Marie, Mich., in 1975.

* * *

Robert Carpenter, 58, is now manager of insurance planning for LTV Corp. In this newly created position, Mr. Carpenter is responsible for the development and implementation of insurance programs and reports to Peter A. Biggins, director of personnel planning. Previously, he was vp of marketing for Republic Steel Services Group Inc., which was a wholly owned subsidiary of Republic Steel. Mr. Carpenter received a bachelor of arts degree in business administration from Western State College of Colorado in Gunnison in 1952.

* * *

Geoffrey C. Vaughan, 44, is manager of pension planning for LTV Corp. in Dallas. In this newly created position, Mr. Vaughan is responsible for the design and policy guidance of pension and savings plans. He also reports to Mr. Biggins. Previously, Mr. Vaughan was vp of planning and benefits development for Republic Employee Benefits, a now-defunct subsidiary of Republic Steel in Cleveland. Mr. Vaughan received a bachelor of arts degree from Colgate University in Hamilton, N.Y., in 1962 and a master of business administration from Harvard University in 1965.

* * *

Robert C. Knudtson, 33, is risk manager of Consolidated Capital Equities Corp., a real estate and financial corporation in San Francisco. In this newly created position, Mr. Knudtson has overall risk management responsibilities for Consolidated and its affiliates. He reports to Robert DeMonte, senior vp of finance. Previously, Mr. Knudtson was regional manager for the San Francisco Bay area for Industrial Claims Service, a subsidiary of managing general agency Rathbone, King & Seeley. Mr. Knudtson received a bachelor of general studies degree in business and law from the University of Michigan in Ann Arbor in 1974 and has received the Chartered Property & Casualty Underwriter designation.



Mr. Knudtson

* * *

Kathleen Kelly, 25, has been promoted to employee benefits supervisor for The Pittston Co. in Greenwich, Conn. In this position, Ms. Kelly is responsible for the administration and design of benefit plans. She reports to Edward Cox, manager of employee benefits, and replaces **Linda E. Smith**, who has been promoted to manager of compensation. Previously, Ms. Kelly was employee benefits assistant. She is currently studying for the Certified Employee Benefits Specialist designation.

Ms. Smith, in her newly created position, is responsible for the design and administration of compensation programs for the company and its subsidiaries. She reports to Frank Lennor., director of administration.

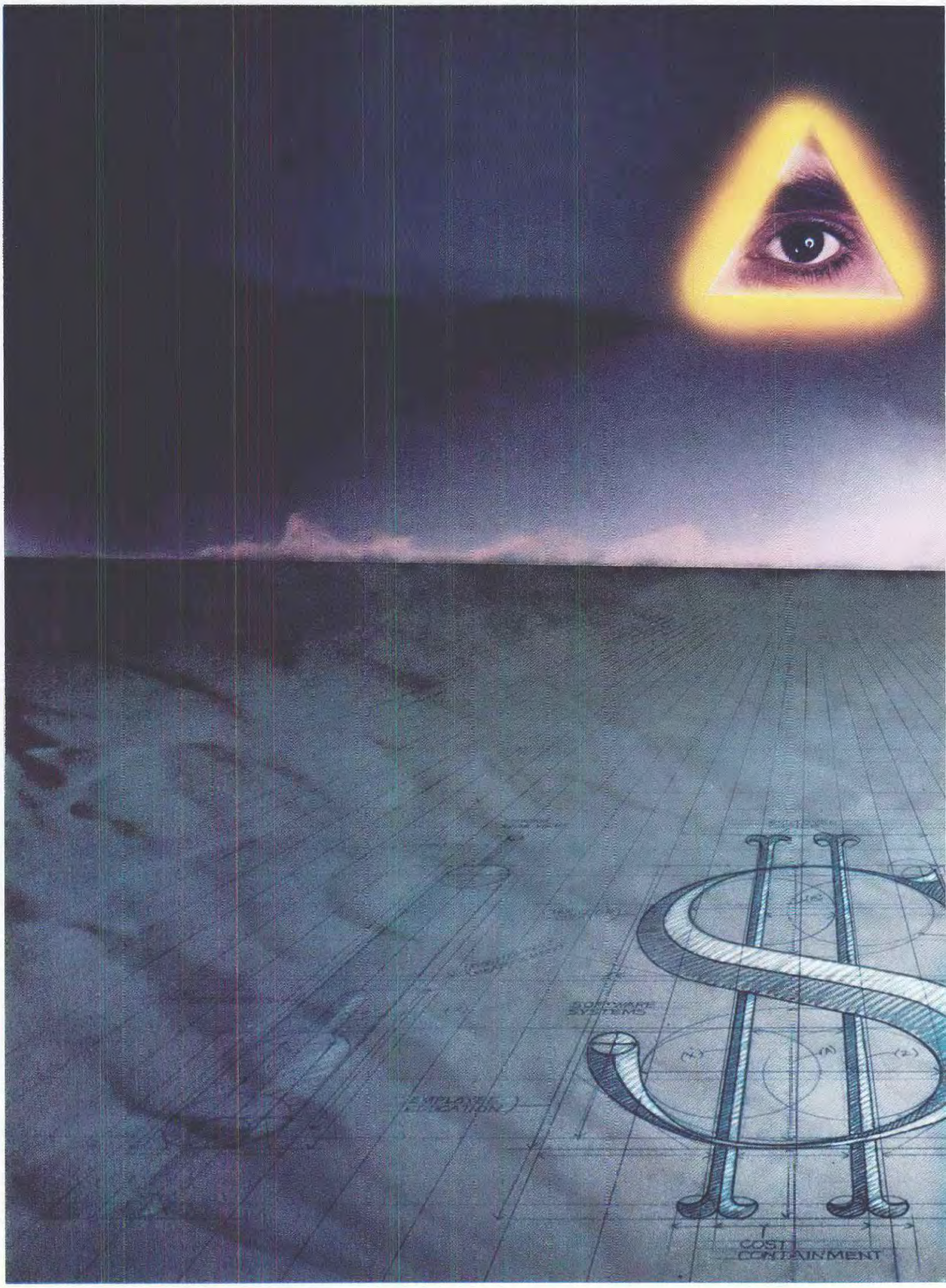
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Dennis G. Rhyne, 37, is the new corporate risk manager for Vons Grocery Co. in El Monte, Calif. Mr. Rhyne is responsible for the overall management of property/casualty insurance, including the administration of general liability and workers compensation claims, and the development of safety and loss-control programs. Previously, Mr. Rhyne was claims administrator for Household Merchandising Inc., the parent company of Vons Grocery. He replaces **Frederik Peithman**, who is now manager of loss prevention for Karl Carcher Enterprises in Anaheim, Calif. Mr. Rhyne reports to W.J. Birney, vp, general counsel.

* * *

David D. Urbani, 38, has been appointed assistant treasurer of Air Products & Chemicals Inc., in Allentown, Pa. In this newly created position, Mr. Urbani will oversee the financial planning and analysis activity of the company, as well as direct the risk management functions. He will retain his previous responsibilities as manager of corporate risk and report to Ronald Barclay, vp and treasurer. Mr. Urbani received a bachelor of science degree in mechanical engineering from Drexel University in Phila-

Continued on facing page



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delphia in 1969, a master of science degree in mechanical engineering from Carnegie-Mellon University in Pittsburgh in 1971 and a master of science degree in management science from the Sloan School, Massachusetts Institute of Technology in Cambridge in 1973.

* * *

Gerald W. Raschke, 60, has been elected vp of the Associates Corp. of North America. In this newly created position, Mr. Raschke will be responsible for the coordination of all risk management responsibilities of the Associates and its parent company, Gulf & Western Industries Inc. In addition, he will admininster the Associates' self-insurance program and will continue his previous responsibilities as corporate insurance risk manager. He reports to Joseph M. McQuillan, executive vp and comptroller. Mr. Raschke received an associate degree in business management from Van Sant School of Business in Omaha, Neb., in 1946.

* * *

David A. Arena, 29, has joined S.C. Johnson & Son Inc., as health care planning manager. In this position, Mr. Arena is responsible for managing the company's medical, dental, vision care and prescription drug plans. Previously, Mr. Arena was manager of alternate delivery systems development with Blue Cross & Blue Shield United of Wisconsin. Mr. Arena received a bachelor of arts degree from the University of Wisconsin in Madison in 1977 and a master's degree in health planning from the University of Pennsylvania in Philadelphia in 1979. He is a licensed insurance agent. Mr. Arena reports to James R. Russell, benefits manager, and replaces **Ronald Kastler**, who is now personnel manager of the company's Racine, Ill., complex.

* * *

H. Lee McConnell III, 47, has been promoted to director of risk management for Hershey Foods Corp. in Hershey, Pa. In this newly created position, Mr. McConnell is responsible for risk identification, analysis and management. Previously, he was the company's manager of risk management. He will retain his previous responsibilities in his new position. Mr. McConnell earned a bachelor of arts degree in political science from The Citadel, The Military College of South Carolina, in Charleston in 1969 and has earned the Associate in Risk Management designation.



Mr. McConnell

* * *

James Barrett, 36, has been named employee benefits manager of The Mills Co. in Dallas. In this newly created position, Mr. Barrett has overall responsibility for the company's employee benefits plans. He reports to William E. Howard, executive vp. Previously, Mr. Barrett was senior vp of the American Insurance Co. of Texas in Fort Worth, Texas. He received a bachelor of science degree in health from Oklahoma State University in Stillwater 1972.



Mr. Barrett

•

We'd like to report on staff changes in your company's risk management, safety or employee benefits department. Just drop a note to Diane Kastiel, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611, or call 312-649-5393. Please send a photograph, too.



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Premium increase predicted

NEW YORK—Significant increases in property/casualty insurance rates should cause the property/casualty industry's total premium volume to grow more than 11% in 1985, according to securities analysts surveyed by the Insurance Information Institute.

Other observers say that written premiums will grow anywhere from 5% to 8%, the III says.

The premium predictions—including estimates compiled by the Insurance Services Office, econometric firms and others—are contained in an "early bird" forecast prepared by the III for its insurance company members.

The III is predicting 8% premium growth for the industry in 1985. While that forecast is smaller than that of the stock market analysts, it is larger than the 7.6% premium growth seen by Data Resources Inc., the 7.2% growth prediction by Chase Econometrics and a 5.3% rise in premiums predicted by the Society of Insurance Research.

"The economy in 1984 is likely to show the strongest rate of growth since 1951, and this pace cannot be expected to be maintained in 1985," said Sean Mooney, an economist and III vp.

"A weaker economy will mean reduced growth in personal lines exposures. And, while commercial insurance rates are expected to harden, the increases will likely be restrained," he said.

Most economists agree the nation's economy will slow in 1985, which will be a key factor affecting premium growth.

The consensus prediction of 46 economic forecasters published by Blue Chip Economic Indicators calls for growth of 3.5% in 1985, less than half of this year's pace.

According to the Blue Chip consensus, the payroll base for workers compensation may decrease in 1985 with reduced activity in the auto, steel and housing industries.

All of the forecasters surveyed by the III, agree the underwriting cycle is now bottoming out and the industry will recover in 1985, though improvement will be gradual.

The forecasters also agree that 1984 will be one of the worst years in history for the property/casualty industry.

Most obeservers are predicting an industrywide combined ratio of about 118% in 1984, up from 112% last year. The average of the analysts' forecasts for 1985 shows a combined ratio of 115.5%.

The III notes that relatively high interest rates are likely to keep insurers from striving for an underwriting profit next year. ■

Chubb offers new, broader boiler policy

products & services

Chubb Group has introduced a boiler and machinery policy written in all-risk language that is designed to fill the gap between named-peril policies and all-risk property forms.

Chubb's Energy Systems Policy covers risk of direct physical loss or damage that is solely caused by, or results from, the explosion of steam boilers, steam turbines, steam piping or steam engines. It also covers mechanical breakdown or electrical injuries.

The company says these three perils are usually excluded in all-risk property policies.

The covered property does not have to be in use, or connected and ready for use, to trigger coverage, provided that it is at the insured's location. Chubb says this is a departure from previous boiler and machinery policies.

Property covered includes buildings, personal property, merchandise, raw and finished stock and the property of others for which the insured is liable.

William Taylor, Chubb production manager, says deductibles for the policy start at $1,000, and there are no set limits.

For further information, contact a local Chubb office or Mr. Taylor at 201-580-3696.

Engineering cover

Shand Morahan & Co. Inc., based in Evanston, Ill., is offering a new coverage for manufacturers product engineering or design errors and omissions liability.

The coverage, which is being underwritten by the Evanston Insurance Co., for which Shand, Morahan is managing general agent, has limits of up to $10 million. Deductibles begin at $10,000 and vary according to the risk.

The coverage provides third-party liability protection for manufacturers that both design or engineer and produce their own products. Third-party liability suits claiming economic or consequential losses are covered.

This coverage is normally excluded from product liability and comprehensive general liability policies, according to a Shand, Morahan spokesman.

The policy will apply if a third-party liability claim is made as a result of a product deficiency that can be traced to faulty engineering or design.

For further information, contact Don Brayer at Shand Morahan, Shand Morahan Plaza, Evanston, Ill. 60201; 312-866-0767.

Dental coverage

Delta Dental Plan of Wisconsin has introduced a prepaid dental program that features individual utilization reporting and premium rating based on the characteristics of the employee group, rather than community rating.

The Pacesetter program reimburses dentists with a set of monthly advance payments and a fee for each service they provide. The advance monthly payment, which is disbursed regardless of whether the patient is seen, totals one-half the program treatment dollars available per patient, says the company.

The program permits employees to use their own dentists if they wish. Its cost varies depending upon the size of the group and other factors, says Karen Thompson, Pacesetter's director.

In general, all basic services are 100% covered, except some involving lab work, which have a specified patient surcharge.

For further information, contact Ms. Thompson at P.O. Box 828, Stevens Point, Wis. 54481; 715-344-6087.

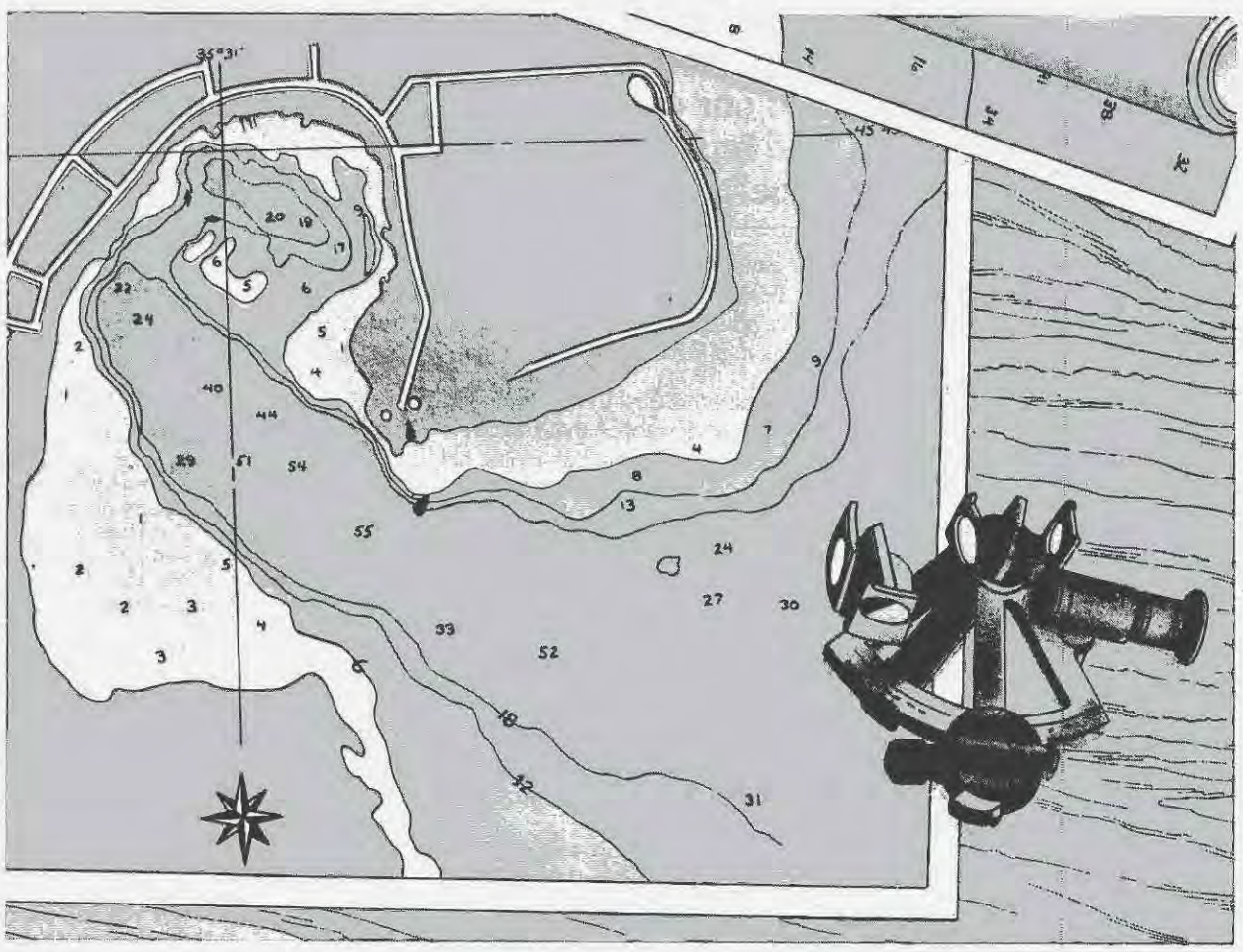


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Chemical hazards

The National Loss Control Service Corp. is offering a slide-cassette self-training program called Telling Employees About Chemical Hazards (TEACH).

The company says the program is based on requirements of the Federal Hazard Communication Rule, OSHA 1910.1200, with which companies must comply by May 25, 1986, as well as the technical requirements of most state occupational health programs.

The training program has four modules: "You and Chemical Hazards," "Material Safety Data Sheets," "Chemical Labeling, Storage and Handling" and "The Chemicals You Use."

The company says the first three modules consist of a slide-cassette program, plus a training manual for the instructor. The fourth module consists of an instructor's guide that explains how to give a presentation on specific chemicals used by the employee group.

The program can be previewed for $75 or bought for $650. For more information, contact TEACH Coordinator, NATLSCO, K-3, Long Grove Ill. 60049; 800-323-9585.

Universal life plan

Minneapolis-based North American Life & Casualty Co. has designed a universal life policy that can be used in conjunction with employers' 401(k) savings plans.

The Qualified Universal Life plan is used as a group master policy. Simplified forms are used and individual records maintained on each individual.

Contributions to a 401(k) plan are invested in high-yield annuities and other insurance products by North American Life. Cash accumulations currently grow at 11%, with a guaranteed interest rate of 5%.

The universal life coverage, which is available for employees ages 16 to 65, is issued in amounts beginning at $10,000, with minimum coverage increases of $5,000.

For further information, contact NALC at 1750 Hennepin Ave., Minneapolis, Minn. 55403; 800-328-5600.

HPR program

Baltimore-based United States Fidelity & Guaranty Co. has introduced a Highly Protected Risk Program designed to provide broader fire, marine and multiline coverages for qualified large commercial, industrial and institutional risks.

The program includes custom-designed property damage, business interruption, contingent business interruption, extra-expense and rent insurance coverages.

USF&G says the specialized property and business interruption forms include coverages that must

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said that printed suggestions on handling a ransom call are available from the FBI.

The FBI suggestions should be covered by protective plastic and kept by the telephone of anyone who might get the call.

About 100 top managers of his company have the sheet, but he plans to distribute it even more widely, Mr. Ross said.

Suggestions include carefully and thoroughly negotiating with kidnappers. That includes asking for proof that the victim is still alive, either by talking with the executive or asking for responses to personal questions, like naming a favorite restaurant.

In addition, the company negotiator can bargain for more time by pleading a lack of authority or the need for more time to collect money. It is also important to establish a code word for future contact, arrange for the simultaneous transfer of the victim and the money and repeat details about payoff arrangements.

● Knowing what to do after a ransom call has been received.

These include verifying that the person is missing, securing the safety of other family members and determining whether to call the police, the State Department or security specialists, which are required by some insurance coverages, Mr. Ross said.

Mr. Haight covered the problems of dealing with a major fire, including communicating with the media.

He described the following scenario: A telephone caller from a distant plant reports to the home office that there is a serious fire under way. The caller then hangs up, but a few minutes later the home office officials want more details.

"Have you ever tried to call a plant back that is having a major fire?" Mr. Haight asked. "No one answers the phone."

That scenario, which actually happened at a CF Industries plant, prompted further development of a Crisis Communication Plan for the company that requires both advance planning and a list of suggestions on how to handle emergencies when they occur.

As part of the planning, he said, a company should assess its communication needs. CF Industries now has hand-held radios at plants and has equipped key home-office personnel, including the corporate risk manager, with pagers.

The need to explore mobile telephone facilities occurred after a spill at a company ammonia terminal in which a Coast Guardsman was killed.

In addition to the media, representatives of 14 agencies showed up after the spill. The ammonia terminal, where only three people were employed, had only two telephones.

In situations like that, it is important to identify what agencies and media are present. In this case, only four of the 14 agencies were concerned about the death, and the others were concerned about the environment, he said.

Photographers were asked to send copies of their prints to the company, but few did, he said. The company considered banning photographs, but decided that would only alienate people, Mr. Haight said.

Establishing a crisis handling committee will help to delineate the responsibilities of the local plant and the home office.

The company's communication plan should include a telephone information sheet that lists the phone numbers to call in case of an emergency.

A temporary company spokesman and alternate should be designated and trained—using videotapes—to deal with the local media. The person who could logically be expected to act as spokesperson, the plant manager, often isn't the best choice because he or she is involved in handling the crisis. His company found that the manager of administration was best, Mr. Haight said.

He also suggested withholding information about a death until the dead employee's family has been notified and withholding damage estimates until a home office official authorizes them. However, information about action the company is taking to respond to the situation should be released to the media, he said.

The selected spokesman should be calm and factual and should refrain from using sensational terms like "wiped out."

In a major crisis, reporters and photographers should be permitted to enter company property within the limits of safety and without impeding operations. He suggested that the company should establish a press room, if needed, and have copies of a corporate fact sheet ready for reporters. ■

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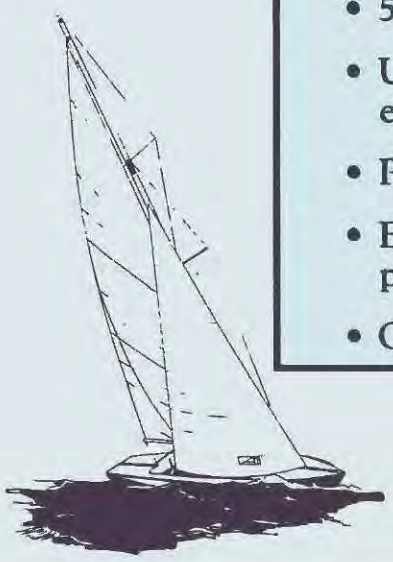
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Tax woes for self-insurers to persist: Harkavy

"No person's life, liberty, or property is safe while the legislature is in session."

—Unknown

By MEG FLETCHER

NORTHFIELD, Ill.—The 1984 tax act struck a hard blow to corporations that self-fund their liability risks, but the worst may be yet to come.

That gloomy prediction comes from Jon Harkavy, governmental affairs director for the Risk & Insurance Management Society. He spoke at a recent regional RIMS workshop in Northfield.



Mr. Harkavy

"On the one hand, you have a tightening insurance market.... On the other hand, Congress and the courts have been constantly expanding corporate legal liability in almost every direction," he said.

"At the same time, the tax code is headed in the direction where only the purchase of first-dollar insurance will be eligible for a tax deduction."

One of the most damaging sections of in the Deficit Reduction Act of 1984, he said, denies tax deductions for reserves to pay self-funded losses known in the current year but not payable until the future. Under the new law, deductions will be allowed only in the year claims are actually paid.

That provision overturns established case law and Generally Accepted Accounting Principles, he said. "The provision will restrict or prohibit the tax deduction that many corporate self-insurers can take for their reserves, particularly in the workers compensation area.

"The provision would place another weapon in the arsenal of an Internal Revenue Service already scrutinizing the deductibility of paid-loss retros and other cash-flow insurance plans," he added.

"If this position is sustained, then many payments made under such programs will not be deductible until the liability is paid. Similarly, the deductibility of many structured settlements, particularly those not involving the purchase of an annuity, may be jeopardized."

And, the law also makes offshore captives less attractive for tax purposes, he said. The law treats all a foreign captive's income attributable to U.S. risks as U.S.-source income. Previously, U.S. taxes payable on such income could be offset by foreign tax credits.

Another section makes income from the insurance of related risks in foreign countries taxable in the current year. Previously, the income was not taxed until it was repatriated to the U.S.

"Unfortunately, while the legislative noose has been tightened in the 98th Congress, it may hang the corporate insured in the 99th Congress," Mr. Harkavy said.

Proposals the next Congress is likely to consider include:

- Discounting for federal income tax purposes all loss reserves held by commercial insurers. Then, he said, "a significant portion of the tax increase will be passed onto you, the insurance consumer."
- Raising the federal excise tax to 4% from 1% of the gross insurance premiums ceded to foreign insurers or reinsurers, a measure that was defeated this year. This would also be passed onto the buyer.
- Limiting the kinds of insurance eligible for a tax deduction, including paid-loss retro plans and premiums paid to captive insurers.

RIMS has testified before Congress and lobbied to emphasize that current methods of taxing commercial insurers and self-insured companies are inequitable and inefficient, Mr. Harkavy said.

"It is inequitable to permit commercial insurance companies a deduction for the reserves which they set aside to pay future claims, and deny the same deduction to a self-insured corporate taxpayer utilizing the same set-aside mechanism," he said. "The only difference may be...the loss reserve set aside by the corporate self-insurer is likely to be more accurate than that set aside by the insurance company.

"The tax code's inequitable treatment of self-insured taxpayers is providing a dysfunctional incentive for corporate inefficiency," he said. And, the federal government loses tax revenue because deductions a corporation would take for self-insuring often would be lower than that taken for the premium paid for commercial coverage.

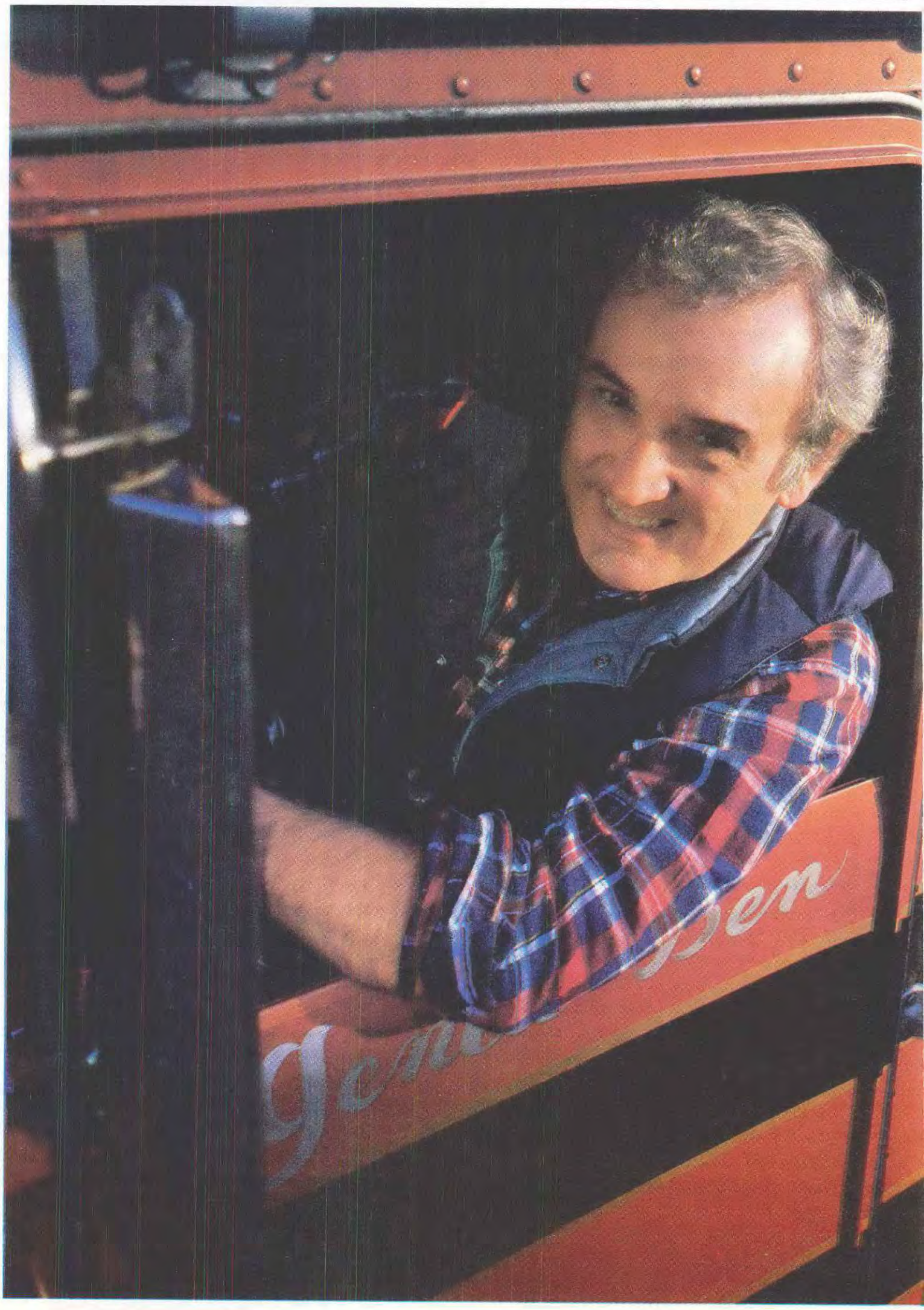
The Loss Reserve Deduction Bill, which he said got significant support in the House last session, addresses some of these issues and is expected to be reintroduced next session. It provides an arrangement under which a corporate taxpayer can receive a tax deduction for loss reserves set aside to pay workers compensation and liability claims.

But, RIMS' biggest task is getting its message across in Washington. "Our nation's capital has been described as 64 acres of land surrounded by reality," he said.

He urged members to get two free publications from RIMS: "The Legislative Handbook" on lobbying and the "Legislative Update Book" on risk management issues.

Instead of issuing dramatic political rallying cries like "Free the Captives" or "Paid-loss Retros or Fight,'" he said risk managers are always facing new risk exposures—for occupational disease, product liability and hazardous wastes. And, these exposures are created not only in the workplace, but also in Congress and state capitals.

"If the risk manager is not a participant in the legislative arena, he or she will certainly be a victim." ■



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be added by endorsement or are not available under most standard forms, like coverage for the personal property of officers and employees.

Earthquake, flood, boiler and machinery and transit coverage also are available on an optional basis.

The company says the program is designed for businesses that have made a significant investment in loss prevention equipment and have enforced risk reduction practices. There are no set limits on the policy. The minimum deductible is $500.

For further information, contact a local USF&G office.

Work comp manuals

The International Risk Management Institute Inc. and Premium Review Associates have both published workers compensation manuals.

The International Risk Management Institute's manual, called the "Manual of Rules, Classifications, and Interpretations for Workers Compensation Insurance," is designed to speed classification of risks for premium determination, reduce errors and consolidate national information.

It includes information on states that do not use the National Council on Compensation Insurance rating manual, classifications by industry as well as alphabetically and by code numbers, and lists of the most frequent classifications and applications.

The price of $110 includes a one-year update service. Quantity prices are available for orders of five or more.

For information contact IRMI, 10300 N. Central Expressway, Building III, Suite 208, Dallas, Texas 75231; 214-363-9656.

Premium Review is offering a workers compensation guide that provides necessary formulas for businesses to calculate their own experience modification, rather than having to accept the one used by their insurer.

The manual, which costs $35, can be obtained from Premium Review Associates, P.O.Box 125, Keene, N.H. 03431.

Disaster services

General Electric Information Services Co., based in Rockville, Md., has started a data processing disaster recovery services business, designed to provide a facility for use by subscribers whose own computer facilities have been destroyed or disabled.

The disaster recovery service, which is designed for use by Fortune 500 companies that operate their own data centers, operates out of Schenectady, N.Y.

The facility contains mainframe equipment from Honeywell Information Systems Inc., International Business Machines Corp. and Hewelett Packard Co., plus related peripheral devices, telecommunications links and office and work space.

The computers are ready for use at all times, and available to subscribers within 24 hours of a disaster.

Prices for the service depend on the type of equipment and the length of the subscription contract.

Monthly fees, for instance, range from $1,000 for the use of Hewlett Packard equipment under a three-year contract to $12,000 per month for the use of Honeywell dual processors under a one-year contract.

Charges incurred when using the equipment to recover from a disaster are additional.

For further information, contact Marketing Communications, General Electric Information Services Co., 401 N. Washington St., Rockville, Md. 20850.

products & services

Health hot line

Minneapolis-based Health Risk Management is offering an employee hot line for advice on costs or interpretation of medical problems.

Under the program, called CareCALL, employees can call a toll-free number and speak to a registered nurse who will answer any questions they have on their medical care.

For example, the nurses will interpret what a doctor has said, explain the options available to the caller and encourage comparison shopping, says the company. No medical advice is given.

On request, CareCALL will contact an employee's physician or hospital and ask questions on his or her behalf, then explain the situation to the patient.

The program is being offered in conjunction with HRM's ReviewPLUS program, under which the firm formally reviews the fees charged by hospitals and doctors before each hospital confinement, seeks second opinions for appropriate surgical procedures and makes sure hospital admission is necessary.

The company says CareCALL, when used with ReviewPLUS, can cut a company's hospitalization costs by up to 20%.

CareCALL costs $6 per employee annually if it used alone, and $4 per employee if ReviewPLUS is included.

Companies with a large number of employees may obtain a reduced fee, says Marlyce Helm, a Health Risk Management official. The cost of ReviewPLUS varies according to the number of employees, but is generally $18 annually per employee, Ms. Helm says.

For further information, contact Ms. Helm at Health Risk Management, 3500 West 80th St., Minneapolis, Minn 55431; 612-893-9009 or 800-328-6006.

Hog producers cover

The Travelers Insurance Cos. has introduced a Pork Producers plan for hog producers. The plan pays farmers for the death of their hogs by fire, storms, collapsing buildings and vehicular accidents.

Extra protection also may be purchased for hogs that are stolen, attacked by dogs or accidentally shot or drowned. The plan also features coverage for hog suffocation, offering compensation equivalent to the cash market value of each insured hog.

The plan provides property and liability coverage for producers' farms and homes, including protection for their buildings in case of fire, vandalism, hailstorms and various natural catastrophes. Producers may also insure their cars, trucks and farm machinery under the plan.

Depending on the plan's loss experience, the Travelers may return to participating farmers a portion of their premiums in the form of a dividend.

There is no set limit on the property portion of the plan; policyholders have the option of a $500,000 or a $1 million liability coverage limit. Also, deductibles of $100, $250, $500 or $1,000 are available.

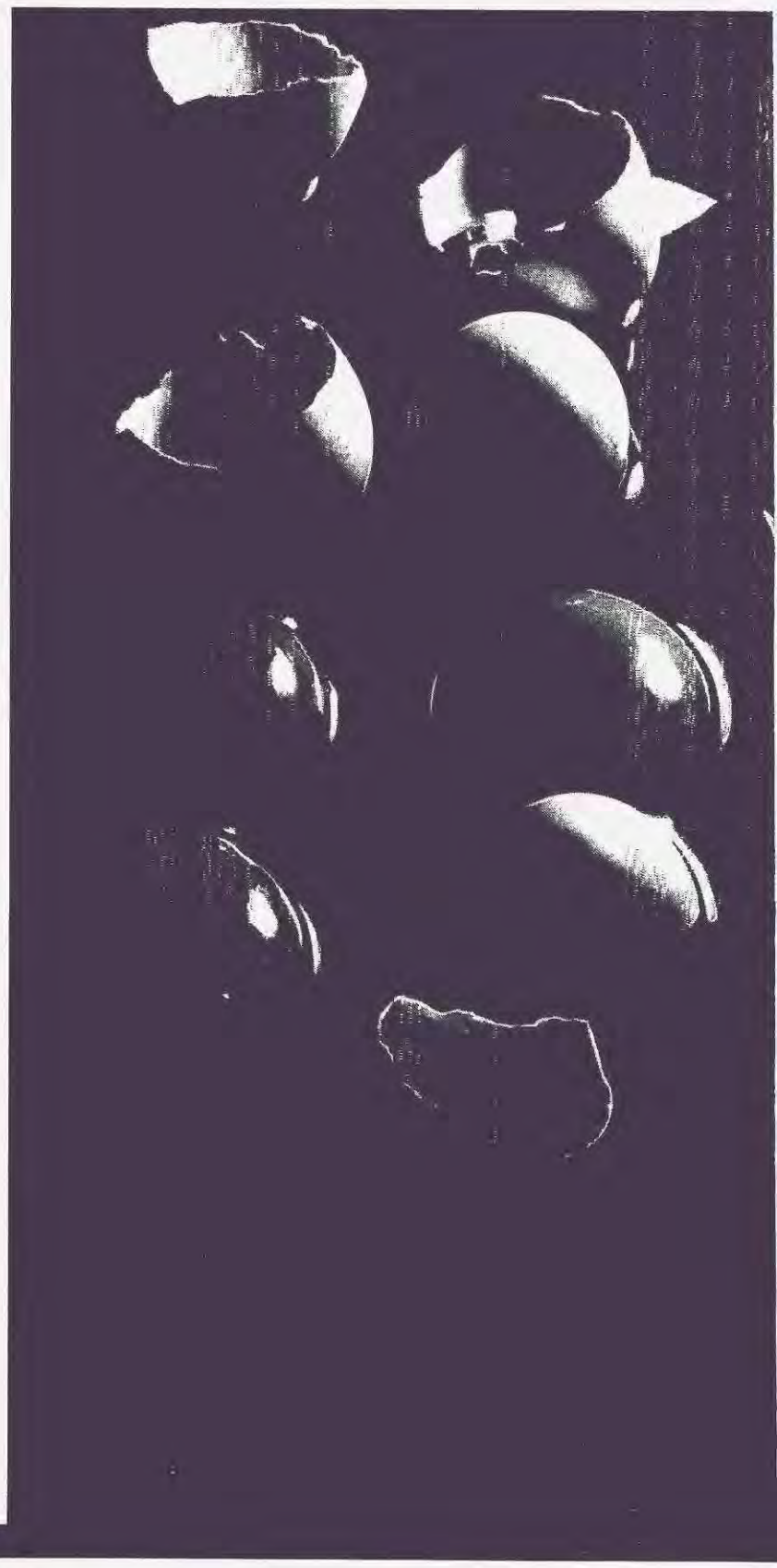
For further information, contact a Travelers agent.

Computer programs

Amarillo, Texas,-based Corporate Systems has introduced three software packages for group health/workers compensation

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Continued from facing page
claims, risk allocation and loss-control management.

CS QUICCLAIM gives the risk manager access to both workers compensation and employee benefits information, so he or she will be able to avoid duplicate payments and improve cost control, the company says.

The system permits companies to have all their group health information stored according to claim, worksheet location and plan. The software includes fund accounting and eligibility functions so that payments are made only to those who are eligible and fund account balances are not drawn below minimum levels.

For a stand-alone system including a minicomputer, software and an ongoing software update, there is a start-up fee of $10,000 to $20,000, plus a monthly cost ranging from 80 cents to $3 per company employee.

For smaller firms with 200 to 1,000 employees that want to use a remote computer facililty, the start-up cost is $7,500, plus a monthly charge of $3 to $4 per employee.

CS Online Cost of Risk Allocation (CORA) is designed to reduce the frequency of accidents by the rapid allocation of risk cost to those operating units within a organization that are responsible for the loss.

The software can provide this function by establishing a direct communications link that connects risk management, operating management and financial management.

Because it is an on-line system, CORA also lets the risk manager reduce the time it takes to obtain final budget allocations, the company says.

The system can be used for workers compensation, general liability, automobile liability and physical damage, product liability, and other high-frequency risks, and it is adaptable to marine, property, crime cargo and employee benefit risks.

There is a $2,500 license fee for the system, and there also is an additional charge of $100 to $200 for the development of work files.

CS FORESTAR is an integrated series of forecasting, statistical and actuarial routines designed to help risk managers solve everyday risk management and loss-control problems.

The system permits users to project known loss amounts and frequencies to their ultimate values, calculate aggregate probability distributions and analyze alternative funding methods.

With this system, a company can also create a customized loss development file and produce management summary reports, Corporate Systems says.

A firm will also have access to semiannual industrywide loss development trends to help it analyze its own loss data.

There is an initial one-time license fee of $5,000, plus additional fees of $75 to $150 for data extraction.

Further information on all three of the systems is available from Scott Gilmour, Vp of Marketing, Corporate Systems, P.O. Box 31780, Amarillo, Texas 79120; 806-376-4223.

Business owners cover

Harleysville Insurance Group of Harleysville, Pa., has increased the maximum size of businesses eligible for its standard and deluxe business owners policies and has added three new classes of business to the coverage, says a company spokesman.

Harleysville's standard policy offers replacement-cost property coverage on a named-peril basis, and the deluxe policy provides replacement-cost coverage against all risks of direct physical loss except those specifically excluded, the spokesman says.

The maximum size of businesses eligible for both types of policies has been increased to firms with $2 million in sales and up to 15,000 square feet of space, from $1.5 million in sales and 7,500 square feet of space.

Also, computer stores, convenience stores with self-service pumps and shoe repair shops have been added to the approximately 100 classes of business already eligible for coverage, the spokesman says.

Also, the policies now offer up to $100,000 in coverage for buildings acquired within the previous 30 days. In addition, the insurer has increased to $25,000 from $10,000 the coverage available for contents and equipment at newly acquired locations.

The limit on coverage for valuable papers has been increased to $2,500 from $1,000, and increased protection for contents and equipment temporarily off premises has been increased to $10,000 from $2,500.

Also, the liability portion of the policies were improved to include increased coverage for medical payments of up to $5,000 for each person and $25,000 for each accident, from limits of $1,000 and $10,000 respectively.

Coverage for advertising liability has been added as well. The limit is now $300,000, the same as the general liability limit.

There is no set limit for property coverage.

With the exception of the valuable-papers coverage, which has no deductible, the coverages have options for deductibles of $100, $250 or $500.

For further information, contact a Harleysville agent.

Software systems

New York-based Anistics, Alexander & Alexander Inc.'s risk management consulting subsidiary, has introduced two software systems designed to help risk managers organize and manage insurance policies and to pinpoint risks and determine insurance needs.

The Personal ARIS Policy Register System, which helps risk managers organize and manage insurance policies on a personal computer, has a standard data base that includes policy period, coverage, review date, insurer and broker information, premium limits and three client-defined special use fields.

The system's description data base is able to record the drivers and vehicles in a fleet policy, the exclusions and what locations are covered. In addition, the payment data base is able to set up a payment schedule for a policy over a period of time.

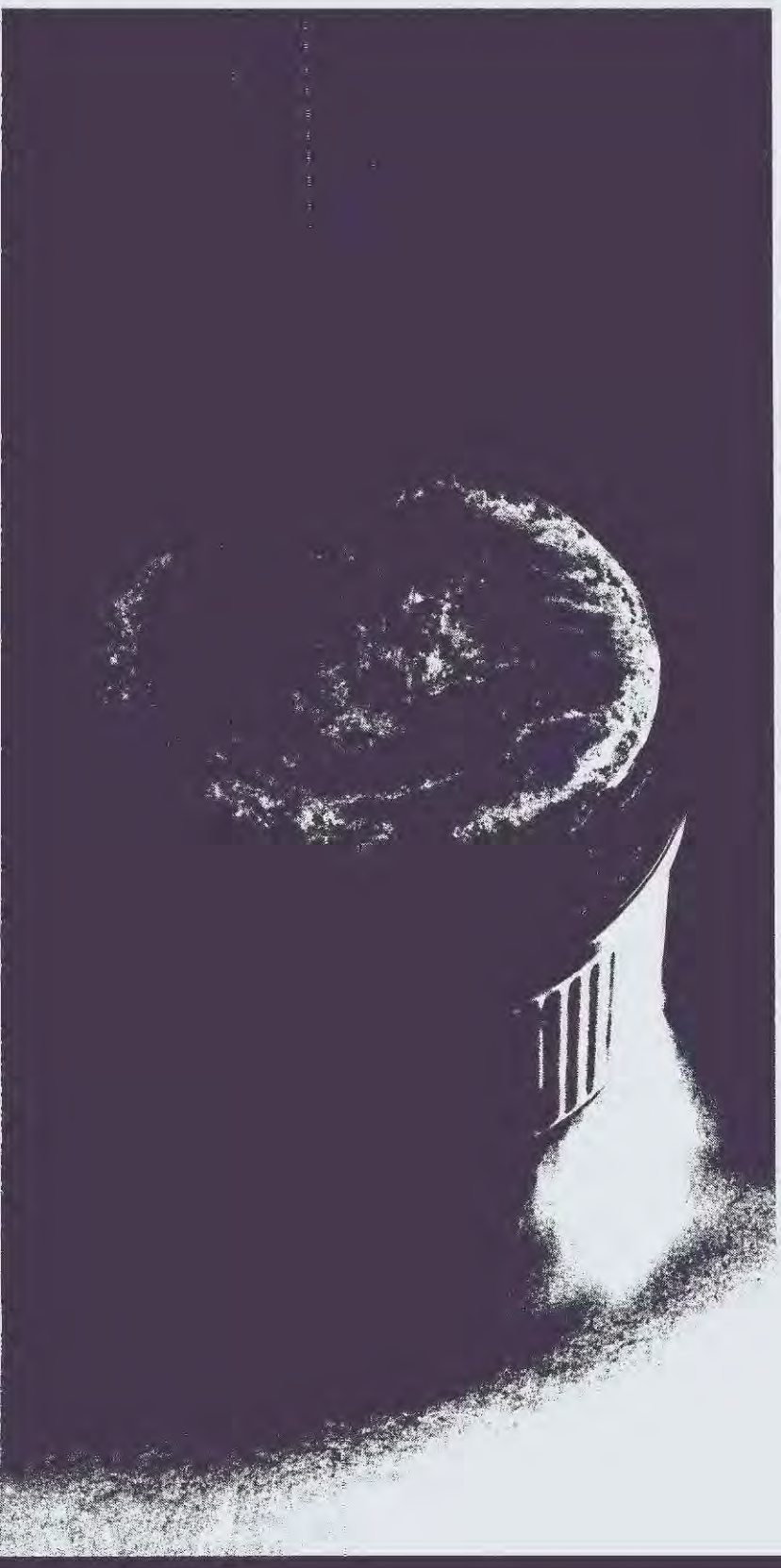
The stand-alone system, which costs $350, is designed for the IBM XT and PC personal computers. A minimum 256K memory is required. Integrated spreadsheet and flexible screen formating capabilities are included.

The Personal ARIS Loss Forecasting Software System, which costs $800, projects future losses based on previous claims history, according to the company.

It combines frequency and severity forecasts, using inflation adjustments, incurred-but-not-reported loss frequency and loss development factors. The software can be used for any type of coverage, including workers compensation, product liability and general liability.

This software is also designed for the IBM PC and XT personal computers and requires 256K of memory.

For further information, contact Tracey Carragher, National Sales Director, Alexander & Alexander Inc. 1211 Ave. of the Americas, New York, N.Y. 10036; 212-541-6050. ■



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Planning can cut cost of crises: Experts

By MEG FLETCHER

NORTHBROOK, Ill.—Planning can lessen the impact of any corporate catastrophe—whether it is a data processing failure, the kidnapping of a top executive or a plant fire.

Advice about controlling losses in these situations and establishing a policy for communicating with the news media after a major loss occurs were among the topics discussed at the recent Midwest Regional Workshop sponsored by the Risk & Insurance Management Society.

Discussing "Catastrophe Planning—What To Do Next?" were risk managers from three Illinois corporations: Bruce C. Wilson of Bell & Howell Co. in Chicago; John F. Ross of Household International Inc. in Prospect Heights; and David R. Haight of CF Industries Inc. in Long Grove.

Mr. Wilson focused on planning for a catastrophe involving a company's computer system.

"The cost of being without a computer can be very, very expensive," Mr. Wilson warned.

To prevent unauthorized access to the system, he suggested a mechanism be established to limit access to the computer center. A magnetic card system works well because it can be modified quickly if access needs to be changed.

He also suggested that remote terminals be programmed to shut down after five failed attempts to sign on to the main computer. And, the system should be set up so a terminal that shuts down can only be reconnected by the operations department.

Bell & Howell's began work on its disaster plan for its computer system with a broker's 18-page checklist. In the end, it took an internal audit department employee six months of full-time work.

It was important that this employee not only know data processing but also how the company functioned. "The confidentiality (of the plan) must be held at the highest level," Mr. Wilson said.

At Bell & Howell, only three company employees have a complete copy of the two-volume plan. Others, including Mr. Wilson, have only those portions that are essential to them.

Authorization to enact the disaster plan must come through a chain of command, he said, and at Bell & Howell it requires the approval of two senior officers.

Bell & Howell explored three alternatives to cope with a catastrophe that shut down the entire data processing system. The first was finding a "cold site," a place that could be set up as an alternate site for data processing operations. However, that option was eliminated because it could take four months to ready the site after a disaster occurred.

The second choice, to find a compatible site where facilities could be shared with another company, was futile.

Finally, the company established a "hot site," a fully installed, operational system that is fully compatible with the main system.

In the event of a major computer failure, the company could pack up and move to the alternative operation site with a minimum 24-hour downtime, Mr. Wilson said.

Data in a computer can be secured by keeping copies at two different sites. "If you have lost your data, you are down and gone," Mr. Wilson said.

The company's catastrophe plan has been tested twice to ensure its feasibility. "Don't wait until you have the disaster," Mr. Wilson advised.

In his talk, Mr. Ross explored ways to react to extortion.

For example, he asked, what would happen if a telephone caller said that a terrorist group was holding the chairman of the corporation and wanted $20 million or it would harm the chairman?

"It is a true panic situation," Mr. Ross said of his hypothetical example.

Responding to an extortion attempt involving the kidnapping of a corporate official requires advance planning. "Anything you can do in advance can pay great dividends," he said.

Information on what to do is available from the Federal Bureau of Investigation, the U.S. State Department and experts in the field, he added.

The problem is more widespread than it seems, he said, pointing out that only about 10% of the kidnapping and extortion attempts become public knowledge, he said. "Most companies have a policy to keep them quiet," he said.

In assessing the potential of this loss exposure, a risk manager should consider carefully the nature of his or her company and its management.

Ways to minimize the loss of personnel through extortion attempts include:

- Taking steps before a kidnapping occurs.

The company should prepare a manual on executive behavior to minimize the chance of kidnapping. Include information about home security and how to maintain a low personal profile while traveling. Consider the feasibility of corporate aircraft or a chauffeur-driven limousine.

Executives should fill out confidential dossiers using a form available from the FBI. The form asks detailed questions about health and personal habits and asks for a voice print and pictures of all family members. The material should be kept in a sealed envelope in the company's vault with access limited to only that executive alone, or to the FBI if the executive is kidnapped.

"Generally, it is a tough job to motivate people to fill out this form," Mr. Ross said. But he has gotten good compliance from his company's executives by sending out the blank form with a memo that states, "The FBI has instructed us that the extent to which you fill this out can save your life," he said.

When traveling overseas, executives should call the local consulate when they arrive, to identify themselves and state the duration of their visit in that area. A book from the State Department lists all overseas consulates, he said.

- Informing the executive what to do if he or she is kidnapped.

If kidnapped, an executive generally should comply with the demands of the kidnappers, take mental notes about locations and the captors' personal characteristics and maintain a dialogue with them, Mr. Ross said.

The executive also should realize that if taken captive by a terrorist group, he or she will probably be kept longer than if seized by a kidnapper looking only for ransom.

- Proper handling by a corporation of a ransom demand. Mr. Ross

Continued on facing page

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Planning required to improve renewal terms

By MEG FLETCHER

NORTHBROOK, Ill.—Like a battlefield commander, a risk manager renewing insurance needs a strategy to get the best terms in the current tight market.

"The best strategy. . .is the strategy that is the most highly organized, thoughtfully prepared and—of the very greatest importance—most carefully controlled, not by the underwriter, but by you," said John T. Sinnott, executive vp in the New York office of Marsh & McLennan Cos. Inc., the world's largest broker.

Mr. Sinnott offered that advice to more than 125 people who attended the Midwest Regional Workshop in Northbrook last month sponsored by Risk & Insurance Management Society.

Mr. Sinnott suggested taking a tactical approach to the three stages of renewal: planning, design and implementation.

Underwriters generally are seeking higher premiums and restricting their capacity as the result of changes in the marketplace, he said.

A.M. Best Co. "calls the first half of this year 'the most disastrous period in the history of insurance in this country,'" he said.

"And the Insurance Services Office calls the financial results for the property/casualty market in the first half of this year by far the worst for any half in the cycle, which started six years ago.

"Net underwriting income in constant dollars has declined steadily, and in the first half, cash flow from underwriting was negative by more than $2 billion," Mr. Sinnott added.

Compounding the problem are social and legal environments that foster high injury awards and result in long-tail burdens that insurers never anticipated when the policies were written.

The risk manager also may have to deal with the negative reaction of his top management, which is not used to paying more for less coverage.

The key to planning is to start early, he said. He suggested the risk manager begin gathering information at least six months before renewal time.

"This is particularly critical in a tight market," emphasized Mr. Sinnott, who is responsible at M&M for monitoring market trends in addition to supervising M&M offices in New York, New Jersey, Connecticut and Pennsylvania, the Far East, the Middle East, and Africa.

It is important that the risk manager decide ahead of time what he is most concerned about: the premium, renewal capacity or the scope of coverage, including how to maintain the widest possible coverage with restrictive endorsements on the upper levels only, he said.

Once priorities are set, potential insurers need to be contacted and design alternatives considered.

In selecting a market, he said, "Use a rifle, not a shotgun." Selective screening should be done before seeking bids, otherwise some of the best prospects may not choose to bid if they know they are one of many.

Mr. Sinnott urged caution in using some markets whose strategy is to be the last one to raise rates, because they may make up the shortfall at the first renewal.

In negotiating with an insurer, Mr. Sinnott urged maximizing of retentions and considering the kind and quality of loss-control services offered.

It also helps sometimes not to negotiate apples and apples with an insurer, Mr. Sinnott said. For example, it makes an underwriter seeking a 100% premium increase stop and think when that is not countered directly, but instead suggest a change in retention levels.

In the third stage—implementation—it is important to keep management fully informed. This should start in the planning stage, but it is particularly important in this final stage, he said.

A risk manager should give an order to the broker to place coverage early. "It will give you time to effect alternative strategies," said Mr. Sinnott.

A member of the audience said that no matter how early he got his specifications out, the broker seemed to control the timing and bids inevitably came in three days before the renewal was due. Mr. Sinnott responded, "I'd give the broker hell. We can't operate that way in a hard market."

Mr. Sinnott was also asked about the difficulty in getting terms nailed down early in a volatile market. He had not heard of that being a problem, but acknowledged that it could be if a risk manager's renewal date fell near an important reinsurance renewal date.

He suggested adding that question to a planning checklist and asking the broker about it early.

A risk manager should be prepared to consider partial plans if he or she cannot implement the total strategy.

It is also important to consider the possibility of not getting all the coverage a buyer wants. "I'm not saying that this will be the rule, but with capacity risks, it may happen," Mr. Sinnott said.

If it does happen, the risk manager may have to consider coinsurance on a layer. This may be better than restrictive exclusions across the board, he added.

These strategies will help risk managers gain more control over the insurance renewal process, but they are not a panacea.

One company used all these strategies, including increasing retention and coinsurance levels. Yet, it could not avoid a premium increase in the tight market, Mr. Sinnott said.

The company? M&M. ■



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Prepare for right-to-know law problems: Lawyer

By MEG FLETCHER

NORTHBROOK, Ill.—Companies must be prepared to meet employee requests under right-to-know acts that have broadened employee access to information on toxic substances used in the workplace and to personnel records.

"You are going to have the problem," said Thomas P. Krukowski, an attorney with the Milwaukee firm of Krukowski, Chaet, Beck & Loomis.

But, more importantly, if companies don't comply and take care of the 5% to 15% of complainers who will abuse the laws, they won't find the medium ground and fulfill the purpose of the law—to provide a safe work place for every worker, he said.

He provided an overview of federal right-to-know regulations and those in Illinois and Wisconsin during a seminar at a recent Midwest Regional Workshop sponsored by the Risk & Insurance Management Society.

Federal Occupational Safety and Health Administration rules regarding disclosure of records and medical reports pertaining to employee exposure to hazardous substances took effect in 1980.

Wisconsin statutes relating to employees' right to know about infectious agents, pesticides and toxic substances took effect in 1982.

"As of Jan. 1, 1984, Illinois employers are now required to provide employees with written information regarding toxic substances used at the workplace. The law not only requires that employers furnish this information upon request, but also provides that employers must post notices informing employees that they may make such requests," he said.

There have been 26 complaints about access to records in Illinois so far this year, and all have been informally handled with telephone calls, he said.

"The key to avoiding liability for violations of this (toxic substance) act is being prepared with not only the information regarding the toxic substances, but also the development of internal procedures for dealing with employee requests," Mr. Krukowski said.

He said employers should take the following steps:

- Identify all toxic substances in the workplace and get the information that must be given to employees who request it. This information can be obtained by requesting a Material Safety Data Sheet from the supplier or manufacturer of the substance.
- If the employer uses, studies or produces toxic substances, post the appropriate notices to employees informing them that information will be provided upon request.
- Develop a policy and procedure regarding toxic substance disclosure, employee inquiries and complaints.
- Develop the required education and training programs for employees who may be regularly required to work with toxic substances.
- Keep thorough records of all requests for information, and document all inquiries and compliance with such inquiries, including the dates on which an attempt was made to obtain the pertinent information from suppliers.

The laws, some of which require recordkeeping for 30 years, will mean more paper work and more litigation, he said.

"The problem I have with this entire area is it breaks down communication between employers and employees," Mr. Krukowski said. It allows an OSHA inspector to establish a secret relationship with the employee, he said.

Companies should learn their rights and obligations so officials are prepared to deal with OSHA inspections and requests for information, he urged. OSHA inspectors are obligated to find violations and are inclined to nit-pick, especially over the 33,929 chemicals listed as "toxic substances and harmful physical agents" by the National Institute for Occupational Safety and Health.

He urged employers to look at the law and try to simplify their reaction to it, but not to roll over and play dead.

Companies must work to regain the trust of employees if they want to continue being able to devote their energies to constructive activities instead of shuffling paper, he said.

Concerning access to personnel records, Wisconsin workers have had access to such records, including medical records, since 1980. On July 1, 1984, Illinois became the 12th state to require employers to let employees review their personnel records. The law covers all employers—public and private—with one or more employees. ■

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States limiting fund transfers among insurance affiliates

By MEG FLETCHER

NORTHBROOK, Ill.—More states will tighten regulations governing transfers of funds among subsidiaries of insurance holding companies to better prevent and detect insurers' financial problems, predicts Thomas Fox, Wisconsin's insurance commissioner.

Regulating fund transfers among subsidiaries will make it possible for regulators to determine the true value of an insurer's assets, he said at the recent Midwest Regional Workshop in Northfield sponsored by Risk & Insurance Management Society chapters in Chicago, Northeastern Illinois and Wisconsin.

Wisconsin has one of the toughest regulations nationwide to keep a holding company from draining assets from an insurance company domiciled there, Mr. Fox said.

A holding company must give the Wisconsin Insurance Department a 30-day notice of its intention to transfer money by declaring an extraordinary dividend. That gives the department time to survey the local company's financial health and, if necessary, to prohibit the transfer.

Statutes were amended earlier this year to change the method of determining an extraordinary dividend. It is now defined as any dividends or payments made in the previous 12 months that are in excess of 10% of the insurance company's policyholder surplus.

Previously, a property/casualty company could pay as a dividend and not be subject to review, whichever was greater—its total net investment income or 10% of its policyholder surplus for the last 12 months. Similarly, a life insurer could pay as a dividend—and not be subject to review, whichever was greater—its net gain from operations for the last 12 months or 10% of its policyholder surplus.

"It is more restrictive than the model holding company act of the National Assn. of Insurance Commissioners," Randy Blumer, state financial examiner, said in a telephone interview.

Giving impetus to tighter regulation was the Baldwin-United Corp. bankruptcy filing in September 1983 (*BI*, Oct. 3, 1983; Oct. 10, 1983). Mr. Fox had to deal with problems created by the Cincinnati-based piano maker that grew into a financial conglomerate consisting of 250 companies, including six insurers, after it sold more than $3.7 million in high-interest single-premium deferred annuities.

It was very difficult to challenge the value of the company's assets, he said. The company's stock was not publicly traded and the company could shift assets from one company to another very quickly, Mr. Fox said.

"It is something that could happen again," he added.

He said state regulators need to detect insurance companies with problems so there is time to work the problems out before policyholders are hurt.

However, Jon Harkavy, director of governmental affairs for the national office of RIMS in New York, posed a question critical of some state insurance department operations.

He said that states with guaranty funds often have indemnification limits that are too low to be very useful. And, he emphasized the difficulty in getting good information about an insurer's financial condition.

From a consumer's point of view, state insurance departments are concerned about propping up failing companies and the National Assn. of Insurance Commissioners seems to be worried about creating a "run on the bank" if it releases negative information about an insurer, Mr. Harkavy said.

Mr. Fox responded, "There is the very definite problem about creating a 'run on the bank.'" By releasing information that an insurer is having a few problems, it can cause policyholders to rush to cancel their business and thereby cause the company to go bankrupt."

Additional information may hurt consumers more than help them, he added.

The best solution is for the state insurance department to identify insurers with problems early and to force them to change business practices or precipitate mergers, Mr. Fox said. ■

CPCU designation granted to 1,181

SEATTLE—The American Institute for Property & Liability Underwriters conferred 1,181 new Chartered Property & Casualty Underwriter designations at a ceremony Oct. 15 in Seattle.

A total of 1,707 people received the designation this year, including the 20,000th person to earn a CPCU: Cyril Eugene Reed, an accounting unit manager for Allstate Insurance Cos. in Northbrook, Ill.

The program is administered by the American Institute for Property & Liability Underwriters, a non-profit educational organization headquartered in Malvern, Pa. ■

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Pirate attacks on vessels diminishing, group reports

By STACY SHAPIRO

LONDON—Piracy is not a thing of the past, but it is less popular than it used to be.

According to the International Maritime Bureau, the frequency of pirate attacks has dropped since 1981, particularly for vessels off the West African coast.

In 1981, 46 merchant ships in this region were attacked by pirates, but only 16 were attacked last year. So far this year, only four ships have been hit by pirates off the West African coast, according to the bureau.

Attacks in the Far East, near Singapore and Indonesia, also have diminished, the bureau reported. Forty-four pirate attacks were reported in 1982, compared with 24 last year and only three so far this year.

The reduction in piracy may be due to the reduction in trading, particularly in West Africa, said Eric Ellen, director of the International Maritime Bureau. "Piracy may become a major problem when trade picks up," he said.

Most pirates now operate from land rather than on the seas, so most ships that fall prey to pirates are attacked in coastal waters, he said.

Generally, piracy losses are covered under marine insurance policies, said the Institute of London Underwriters.

Lloyd's reserves

"Very conservative" reserving practices make Lloyd's of London policies the most secure in the world, Lloyd's Chairman Peter Miller said during a recent tour of the Far East.

For the 1981 accounting year, just closed under Lloyd's three-year accounting system, Lloyd's reinsurance to close—the amount underwriters reserve to pay incurred-but-not-reported claims—grew by 600 million pounds, Mr. Miller pointed out at a seminar in Seoul, South Korea.

"I am very happy to see the determination on the part of my underwriters at Lloyd's to strengthen their reserves as much as justifiably possible," he said.

'Complex' risks

Some risks are "too complex" for insurers to underwrite correctly, suggests Julius Neave, president of the Chartered Insurance Institute.

"Could anyone, for example, have reasonably expected lay underwriters to assess with any sufficient degree of accuracy the risks associated with putting highly sophisticated communication satellites into orbit?" he asked.

Mr. Neave said underwriters should establish an agency to monitor unfamiliar risks, like satellites, for the entire marketplace. The agency should provide information and statistics on technological innovations with which underwriters may not be familiar.

"And, it should commission investigations from a strictly underwriting point of view into all such risks, making its findings available to the industry at large," Mr. Neave said.

British job safety

Although the head of the British workplace safety and health agency says it is doing a good job, the agency will crack down even further on occupational health risks.

"Britain probably has the best health and safety law in the world," said Dr. John Cullen, chairman of the British Health and Safety Commission, on the eve of the 10th anniversary of the Health and Safety at Work Act.

"The act," he said, "is a piece of legislation admired and studied by the rest of the world."

In the future, the commission will focus on limiting exposure to toxic and carcinogenic substances in the workplace. It also will focus on other workplace hazards, like industrial noise.

In addition, the commission will work more closely with local workplace safety authorities "whose involvement in health and safety matters is increasing," Dr. Cullen commented. ■

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Good communication aids benefit plans: Consultant

By MICHAEL BRADFORD

ATLANTA—Management should develop a "two-way street" of communications to help employees understand their benefit plans, according to a communications consultant.

Employee benefit communication at most companies is a one-way street in which management talks down to workers, says David Wallace, president of Wallace Advertising Inc. in Grand Rapids, Mich.

"We can't afford that anymore," Mr. Wallace told the Self Insurance Institute of America's Fourth National Educational Conference, held Oct. 24-27 in Atlanta.

Traditionally, two extremes have characterized benefits communications at most companies, said Mr. Wallace.

"The summary plan description is a 5-pound book that is put on the shelf and that's the end of it until Johnny breaks his leg," he explained.

"The company newsletter is sometimes slick, but most of them are badly reproduced and full of births and bowling scores."

Those two media don't effectively educate workers about benefits, he said, noting that "most people don't even understand the writing in the plan description."

> 'Participation in any cost-containment program has got to be a two-way street,' Mr. Wallace says.

New attitudes must be cultivated among employees so that they don't take benefit plans for granted, said Mr. Wallace.

"The old attitude. . .leads to the state of mind that 'I'm paying for this, I darn well better get my money's worth. If Johnny scrapes his leg, I want a surgeon there.'"

By caring enough to communicate benefits to workers, employers can "listen to these notions and change some of the misconceptions," Mr. Wallace explained. "Participation in any cost-containment program has got to be a two-way street."

Mr. Wallace said making benefit communications part of a total benefit program is an educational challenge with three goals: "Make them understand the benefits plan, make them accept it and teach them to live it."

To help employees understand their benefits, "Keep it simple," he urged. "Speak in human, not 'insuranceese.'"

And when employees begin to understand their plans, "Say it again. Provide literature and updates on the plan, and make it easy to read," he said.

For instance, Mr. Wallace suggested including short "teasers" with paychecks to keep employees abreast of developments that might affect their benefits.

Convincing employees to "accept" the benefits "can be tougher," Mr. Wallace said, pointing out that plans with fewer "extra goodies" are the hardest for workers to accept.

For example, a medical plan that previously provided first-dollar coverage but now requires employee co-payment without the addition of any new benefits would be harder for workers to accept than a similar plan that included "extras" like dental coverage or a flexible reimbursement plan for certain expenses.

"The easiest plan to accept would be one... with all the bells and whistles, tying in with a profit-sharing plan," Mr. Wallace said.

"If you can get a reimbursement plan that rewards wellness and ties in with a 401(k) plan, that is the ultimate plan. That is the two-way street we're talking about, and I think that's where we're headed in the future."

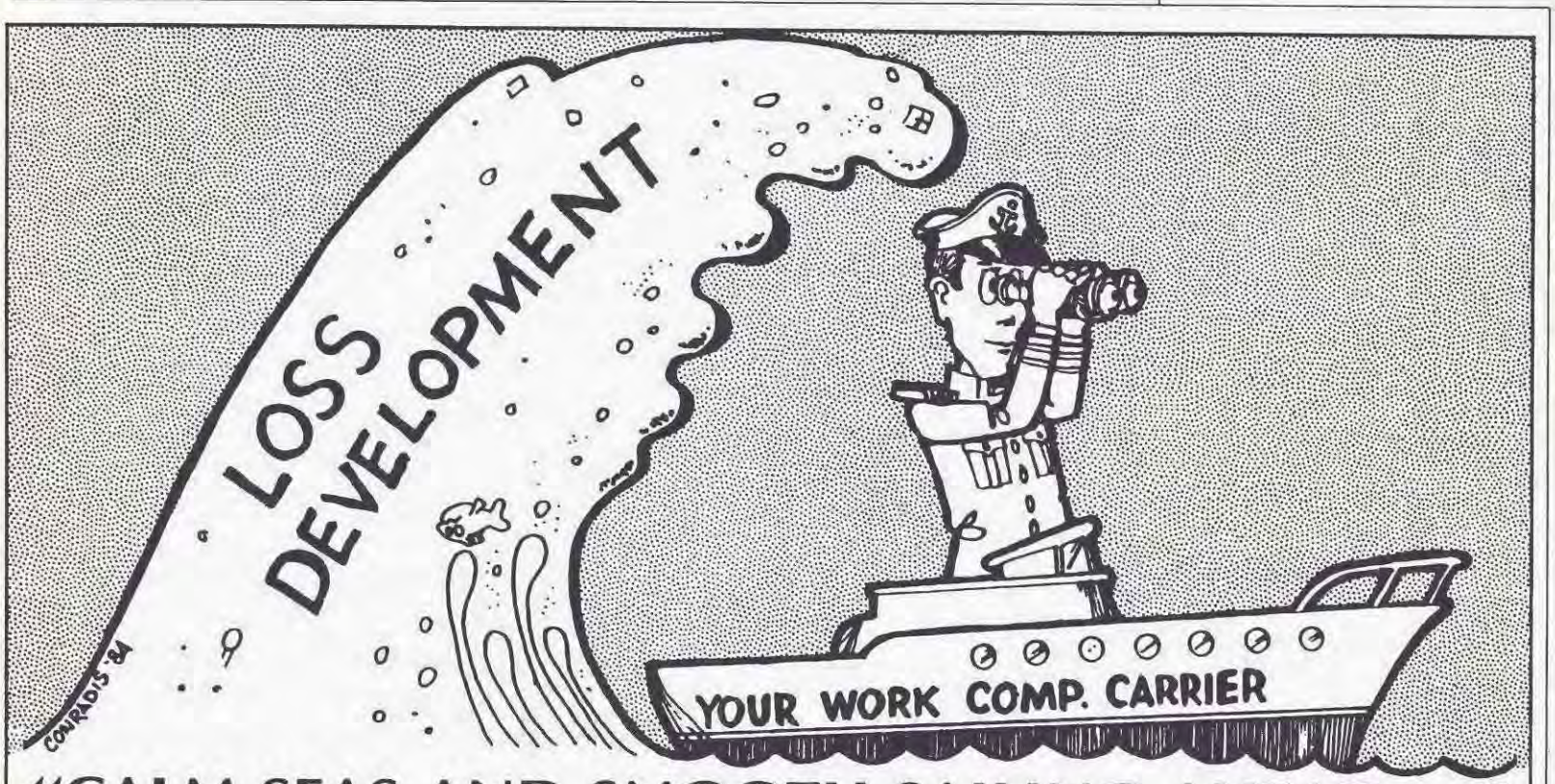
Management can also take advantage of technology to help keep workers familiar with their benefit programs, he explained.

Explanations of benefit programs can be stored on floppy disks and offered to employees who have home computers.

"He can take it home, show off his computer and learn about his benefit program," he said.

Some benefit plans are explained on videotapes the employees can play on their own recorders, he noted, while other communications are being recorded on laser disks for employees to play back on home units.

"The ultimate goal," Mr. Wallace concluded, "is to have management, labor and the third-party administrator in a huddle saying, 'I hear, I understand, I care and I share.'" ■



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Expert urges care in choosing firm to handle self-insured plan

By MICHAEL BRADFORD

ATLANTA—An employer should look closely at the financial condition and reputation of an administrator it is considering to handle its self-insured benefits plan, an expert says.

Duane W. Roberts, vp of research and planning at Benetics Corp. in Mountain View, Calif., reviewed the criteria to consider when choosing an administrator at the Self Insurance Institute of America's Fourth National Education Conference last month.

Benetics Corp. provides computer systems, including systems to automate health care claims administration.

Whether choosing an administrative-services-only arrangement provided by an insurance company or a third-party administrator that specializes in self-insurance administration, Mr. Roberts said the self-insurer should consider:

- The financial stability of the organization.
- The administrator's reputation in the marketplace. How do competitors and clients regard it? How do its references check out?
- Whether the administrator actually can implement cost-containment measures or if it just considers cost-containment a buzzword.
- Whether the administrator is able to handle operations other than administrative ones, like data gathering and consulting.
- Whether the administrator can help with benefit design and show in concrete terms how to lower benefit costs.
- Whether the administrator is adequately automated.
- The professionalism of the administrator.

Mr. Roberts said professionalism is the most important factor in evaluating an administrator and the only way to find out how professionally an administrator operates is by visiting the operation.

"Go look at the way they do business," he advised, cautioning buyers not only to check how an administrator operates but also to "consider the adminstrator's business philosophy."

Mr. Roberts pointed out that employers have three options for administering a self-insured plan. In addition to the choice between an insurer and a TPA, employers can self-administer their program.

He called the ASO arrangement "truly a concept in transition. The trend of the '70s and early '80s, where major insurers concentrated on regional service offices rather than providing specialized local services, has reversed."

He said large insurers are providing administration services in a variety of ways. "Some are actively contracting with TPAs, tying the TPA/ASO concept together. Others are offering dedicated services for large accounts—even to the point of dedicating computer services for individual accounts."

Major insurers are also providing computer expertise to companies interested in self-administering their self-insurance, he said.

If the self-insurer decides on a third-party administrator, it has "a myriad of choices" regarding the size and scope of the TPA, he said.

About 25% of all third-party administrators are "local entrepreneurs," he noted. "They are consultants or local (administrative) agencies that provide specific services to a certain segment of industry. For example, they may administer programs for companies with 100 to 500 lives that want to self-insure or partially self-insure."

Larger third-party administrators are more diverse, he said. "They don't hone in on one specific book of business as much as the smaller ones." Their services usually are directed at companies with more than 500 lives.

This type of TPA, which makes up 55% of the market, generally operates on a regional basis, Mr. Roberts said, possibly with a few branch offices.

National organizations comprise the other 20% of the TPA market, he said. They provide services through branches throughout the country or through franchises tied to a central organization.

If an employer feels it can conduct its self-insurance program effectively without a TPA or ASO, it has the option of self-administering, he pointed out. "This seems to be a concept that is catching on."

Mr. Roberts quoted a survey that indicated 24% of large firms that self-insure were either self-administering their programs or "had very specific plans for it."

But, he said, key factors affecting self-administration are often overlooked by employers considering that option.

The most important factor for an employer that self-administers, he explained, is that "he must have the same capabilities in his own operation that TPAs and ASO arrangements have in theirs. You can't do it with clerical people."

The transition from a fully insured operation to a self-insured and self-administered program is not simple, he warned. And many employers are overlooking the high cost of such a transition, Mr. Roberts added.

"They say, 'Why should I pay all this money to an administrator?' But what it all boils down to is can they really do it for less?" ■

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Plan for computer security, expert says

By MICHAEL BRADFORD

ATLANTA—Self-insured employers that use computers to track claims and other information must make sure their systems are secure, a computer expert says.

Businesses must develop computer security systems that not only will protect against the theft of confidential information but also will enable operations to continue if the data processing system crashes, says Jerry Buckley, president of California Interactive Computing Inc. in North Hollywood, Calif., which provides computer systems for claims administration.

Mr. Buckley stressed the value of computer security planning at the Self Insurance Institute of America's Fourth National Educational Conference last month.

Mr. Buckley said the first step in planning a computer security system is to analyze the value of each element of the computer network, including the hardware, software, data and computer personnel.

As an example, he explained how to assess the value of computer hardware to business functions.

"If you have a multiterminal installation. . .and you have one printer, the loss of one terminal doesn't have as great an impact as the loss of that printer."

Sometimes a firm must redesign its hardware to make the entire system secure, he said.

"Software, of course, is the brain of the computer," he said, noting there are two kinds of software: system software, which manages the computer by scheduling the work to be done, and applications software, which provides the programs to handle tasks like accounting and claims handling.

Both types of software have to be guarded so that no unauthorized changes are made, he noted. "Changing of a single instruction in an application program can produce unpredictable results. You have to protect that software."

The data in the system "usually represents the sum total of the user organization's labor," he said. "The loss of data translates into a corresponding loss of labor hours if you have to go back and recover it."

Losing data can "severely impact the organization's ability to stay current or to perform its function," he added. "Certain data is more valuable, while other data has statutory ramifications—piracy of personal data, for example."

In assessing computer personnel, he said a firm should be aware that workers in classified areas present a greater security problem than those in unclassified areas.

"In a claims administration situation, potentially millions of dollars are disbursed annually. Therefore, a very high value must be placed on personnel involved in this activity," he said.

After determining the value of the system to the operation, the next step is analyzing the risks to the hardware, software, data and personnel components, he said.

In analyzing the risks and making plans to minimize them, he said firms should realize:

- Physical destruction can occur from sabotage, carelessness or accidents like fires or power outages.
- System damage can be caused by overloading the computer.
- Software can be stolen or used in a way to steal money from the organization.

Once these risks are recognized, the next step is to "analyze the value of uninterrupted service" of the system, Mr. Buckley said.

In some operations, like airline reservations, in which service is time-critical, "The price tag of uninterrupted service must be met."

To achieve uninterrupted service, backup systems must be available if the company's computers become inoperable, he said.

"In self-insurance applications, that price tag (for a backup system) is usually too great. You have to expect a certain amount of downtime. However, in designing your security system, there are things that can be done to minimize interruptions," Mr. Buckley said.

He said environmental controls, like voltage regulators, temperature and humidity controls and monitors to detect other problems with the system, are available at low cost.

And, he said, firms should be prepared for the worst.

"You must have a well-thought-out plan that includes duplicating files and programs and use of a backup system. The process should include identifying responsible personnel to transport data to the backup system," he said.

He said, "Some companies have gotten together and formed backup systems that don't do anything but sit there in case they're needed."

He added that managing a computer security system may require some organizational changes.

Computer access codes should be changed irregularly, he said. "Don't be too obvious with passwords. Employees shouldn't use their initials for passwords or paste them on terminals."

If your computers can be accessed though a telephone modem, the access phone numbers must be changed often, and it must always be changed when someone who knows the access number leaves, he said. "And the modem should be unplugged whenever it is not in use to prevent dial-ins."

Personnel should also know management tests security procedures, he said. "Don't be lulled into a false sense of security simply because things are going smoothly." ■

Conference attracts 400

ATLANTA—The Self Insurance Institute of America hosted about 400 members of the self-insurance industry at its Fourth National Educational Conference in Atlanta.

The conference, held Oct. 24-27 at the Omni Hotel, offered workshops and sessions on topics ranging from legislative changes that affect the self-insurance industry to practical ideas for operating a more cost-effective program.

Attending were employers, third-party administrators, consumer representatives and others connected with self-insurance.

During one of the convention luncheons, the institute recognized its new president, Lynn H. Jennings, who is president of Self Funding Administrators Inc. in Maitland, Fla. He will take over Jan. 1.

Other officers who begin terms in January include vp of finance, Steven P. Stucky, president of S.P. Stucky Co. Inc. in West Lafayette, Ind.; vp of operations, W.D. Davenport, president of Independent Benefit Plans Inc. in Beech Grove, Ind.; vp of programs, R. Sterling Stafford, executive vp of marketing for James Benefits in Salt Lake City; and secretary, Richard Fellenberg, assistant secretary of Hartford Life Insurance Co. in Hartford, Conn.

The 1985 chairman of the institute's board of directors is George E. Gale III, president of Total Group Services Inc. in Grand Rapids, Mich.

Next year's convention, to be held Sept. 9-14, is set for San Francisco.

More information on the Self Insurance Institute of America is available from P.O. Box 15466, Santa Ana, Calif. 92705, or by calling 714-979-6318.

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Expert touts flexible compensation

By MICHAEL BRADFORD

ATLANTA—Employers and workers are increasingly interested in flexible benefit plans since traditional benefit programs fit the needs of only a small portion of today's work force, according to an expert on flexible compensation.

During the last three decades, most benefit plans have been designed for the traditional family, said Rob Thurston, assistant vp of marketing for James Benefits in Salt Lake City, a subsidiary of broker Fred S. James & Co. But, the traditional family, in which one worker supports a spouse and usually children, is now only 15% of the work force, he noted.

Unmarried wage earners with or without children comprise 33% of the work force, he said, and two-income families with or without children are 52% of the work force.

He added few employees have benefits that really meet their needs because plans haven't evolved with the work force.

"How can we meet needs when benefit plans are from the 1950s?" he asked. "One answer might be flexible benefits. We are dealing with a population that does not exist as it has in the past."

He spoke at the Self-Insurance Institute of America's Fourth National Educational Conference.

"Think of flexible compensation as a large circle," Mr. Thurston said. "You slice the pie as to how you are compensated. Flexible benefits simply give the employee choices."

The benefit pie can be sliced into options like flexible spending accounts and 401(k) plans, he noted.

The Internal Revenue Service has issued proposed regulations that restrict FSAs, including rules that employees must designate at the start of the plan year the amounts to be spent on specific benefits and must forfeit any money left the FSA at the end of the year (*BI*, Feb. 20; May 14).

But, he is optimistic that FSAs will survive the proposals.

He said firms offering flexible compensation can save money while giving workers more choice.

For example, he said, Pepsico Inc. switched from a health insurance plan with first-dollar coverage to one with a $500 deductible as part of a flexible benefit program. Medical expenses declined by 23% in 1982 as a result of the plan, he said. In 1982, the soft drink firm realized a "bottom-line savings of $6 million" after implementing its flexible plan, he said.

He said union employees at Xerox Corp. accepted higher medical deductibles to get flexible benefits, and a flexible program was implemented there last year.

Flexible compensation plans are not nearly as costly to implement as they once were, he added.

In 1978, when companies first began to establish flexible benefit plans after Section 125 of the Internal Revenue Code, which regulates flexible plans, was approved, some employers paid millions of dollars to consulting firms that designed the arrangements, Mr. Thurston noted.

Since then, he noted, companies have learned to implement flexible benefit plans for little or no cost.

While employers realize savings by offering the plans, workers can take home more pay through arrangements like FSAs, he said. "An employee saves any time he is in a flexible spending account.

"You should think of a flexible spending account like a checking account at a local bank," he noted. "You have the employee elect how much they want to put in before the year starts. They usually elect to put in just the amount they think they will need because they know if they don't spend it, they lose it."

The average annual employee contribution to an FSA is about $1,000, he said. An FSA can be set up to cover health insurance premiums, legal services, financial planning services, dependent care, life insurance premiums or other benefits, he said.

A component of many flexible benefit programs that has seen "explosive growth," is the 401(k) salary reduction program, he said.

"It is simply a means to defer paying taxes on money saved for retirement. It allows an employee to put aside small amounts on a tax-deferred basis along with any money the 401(k) investment earns."

A 401(k) usually offers the employee a better yield on his investment than he would receive at a bank and the funds are available for withdrawal in certain cases of hardship, like buying a house or sending children to college, explained Mr. Thurston. But, the IRS may tighten the hardship withdrawal rules (*BI*, Nov. 5).

And, he added, when the money is withdrawn at retirement in a lump sum, it is subject to 10-year averaging for federal tax purposes. "That is a more favorable tax treatment than other plans receive."

The employer gets an advantage with 401(k) plans by instituting vesting arrangements on company contributions, he added. "It gives the employee some incentive to stay with the company."

And, he said, the plans are "relatively inexpensive" for firms to implement and are popular because the employer "does not have to fund a certain amount into the plan each year." ■

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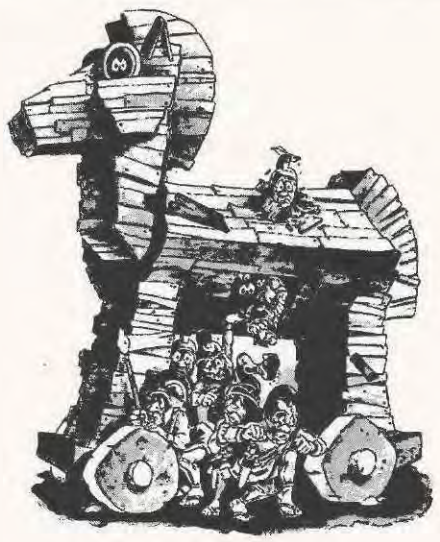
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SIIA starts drive to educate legislators on self-insurance

Continued from page 2

The money also will be used to publish the SIIA's Hot Line, a legislative advisory update published by the association.

A copy of the Hot Line that came with convention registration materials urged attendees to pledge financial support for the Legislative/Regulatory Committee, which is "reviewing, commenting and testifying on various legislative and regulatory issues facing the self-insurer and companies who serve the self-insurer's administrative and management needs."

The institute will also use the contributions to finance its computerized legislative tracking service, Mr. Kinder said. Legislate, the Washington-based computer service to which the SIIA subscribes, keeps track of federal legislation that could have an impact on self-insurers, he explained.

The tracking system follows a bill from its introduction in Congress or a state legislature through the legislative process. It lists sponsors of the legislation and the legislators who voted for or against the bill, Mr. Kinder said.

Mr. Duff said the aim of the campaign is to educate politicians about the industry so that laws like one passed this summer in Michigan to regulate third-party administrators don't become commonplace.

He said the Michigan legislation, as it originally was introduced, was so restrictive that it would have virtually eliminated self-insurance in that state. However, he said, changes the SIIA helped bring about produced a law "that we could live with."

"The bill that takes effect in 1985 adds cost and restraints to self insurance administration," he told his audience. "Let's all go to school on the Michigan experience."

The Michigan law requires TPAs to obtain a certificate of authority from the state's insurance commissioner before operating in the state (*BI*, Nov. 5).

When applying for the certificate, administrators must provide a variety of documents, including articles of incorporation, names and qualifications of individuals responsible for the services, descriptions of facilities and services, power of attorney, financial statements and any other information the commissioner may request.

Filing fees and other costs associated with certifying a TPA's status in Michigan total $270. Penalties for not complying with the act or violation of parts of the law range from $500 to $2,500.

The SIIA is also attempting to restructure legislation currently being drafted in Illinois that Mr. Kinder said contains inadequate definitions concerning the role of TPAs.

Continued on facing page

Virgin Islands captive touted as an alternative to 501(c)(9)

By MICHAEL BRADFORD

ATLANTA—Employers may be able to fund their employee benefits through a captive insurer based in the U.S. Virgin Islands as an alternative to using a 501(c)(9) trust, says one captive manager.

"The government is closing in on 501(c)(9)s at a rate I believe is being stepped up," said Joseph Englert, president of Metier International Management Inc. of Washington, referring to recent legislation passed by Congress that limits the tax deductibility of contributions to 501(c)(9) trusts, also known as Voluntary Employees Beneficiary Assns.

"For 53 years these trusts have been available, and now the legislative powers are moving closer to restricting them almost totally," Mr. Englert told the Self Insurance Institute of America's Fourth Annual Educational Conference.

Traditionally, 501(c)(9) trusts, named for the section of the Internal Revenue Code authorizing them, allow employers to receive tax deductions for contributions made to the trusts, which are used to fund employeee benefits. The trusts' assets and the interest they earn are not taxed.

However, the Deficit Reduction Act of 1984 sets complex limits on the amount of tax-deductible contributions that can be made to most 501(c)(9) trusts in one year (*BI*, July 2). These limits will take effect Jan. 1, 1986.

The government is "continually restricting the tax deductibility of those contributions or premiums," Mr. Englert said. "And the tax-deductible contributions to reserves is the key to maintaining 501(c)(9)s.

"We have to start thinking about alternatives to 501(c)(9) trusts. One of the alternatives is using captives for self-funding employee benefits."

Although non-domestic insurance companies are barred by a 1979 class exemption to the Employee Retirement Income Security Act from directly insuring employee benefits, the U.S. Labor Department ruled last year that U.S. employers could fund employee benefits through captive insurers based in the U.S. Virgin Islands (*BI*, Dec. 12, 1983).

And, earlier this year, the Virgin Islands enacted a captive insurance company law that will allow U.S. employers to form such captives (*BI*, April 2).

This actions "ignite a new trend in the self-insurance industry," Mr. Englert said.

And, unlike the deductibility restrictions placed on 501(c)(9) trusts, experts have maintained that employer premium contributions to captives used to fund employee benefits should be fully deductible for the parent.

Mr. Englert pointed out that employers could use two other offshore domiciles—Guam and Puerto Rico—as a base for a benefits captive, but so far only the U.S. Virgin Islands has passed a captive insurance company law.

"They said, 'We are special; we have a special treaty with Congress. Let's wake up and gather some business.'"

An added advantage of the Virgin Islands is that, unlike other offshore domiciles, no U.S. excise tax is applied to the Virgin Islands, he explained.

"A special treaty with Congress says that for tax purposes, anything exported to the Virgin Islands from the U.S. will have no excise tax on it.

"That was an issue with other captive programs. When you exported reinsurance premiums or insurance premiums, there was an excise tax. Not in the Virgin Islands.

Mr. Englert also noted that the Virgin Islands' captive law has flexible rules regarding reserving for losses and provides flexibility that allows investments that are not as restrictive in other parts of the United States.

"I believe this situation can be used very effectively for employee benefits," Mr. Englert said.

He did note that employers hoping to fund their benefits through a Virgin Islands captive might encounter one roadblock: a rule also contained in the 1979 ERISA class exemption that limits the amount of a parent company's employee benefits insured through a captive to 50% of the captive's total book of business.

"God only knows how they came up with that regulation. We've researched it, talked to different people; there's no reason for it. I guess they thought it was some kind of safety valve so captives wouldn't run away with themselves at that point."

But, Mr. Englert noted that employers could use a Virgin Islands captive to insure not only employee benefits, but also to cover non-benefit risks now insured in captive insurers located in other domiciles, like Bermuda and the Cayman Islands. ■

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'Inform (politicians) of the facts of self-insurance. Speak out against bad legislation, and short-circuit these poor rules before they are introduced. It takes money and people, and we don't have enough of either,' Mr. Duff says.

Continued from facing page

"There seems to be some inadequacies in the language used," he said. "For example, depending on who is reading the bill, an employer might be construed as being an insurer. There is too much room left for interpretation."

Wyoming and Vermont are also considering legislation that would affect TPAs. Louisiana defeated a proposal in its last session that would have regulated TPAs.

Mr. Duff urged attendees to contact politicians to "inform them of the facts of self-insurance. Speak out against bad legislation and short-circuit these poor rules before they are introduced. It takes money and people, and we don't have enough of either."

To aid the program on the national level, those attending the conference were supplied with the names of congressmen and urged to write and discourage legislation that would add regulations and cost to the self-insurance industry.

Mr. Duff said the industry "faces an uphill battle in the federal arena, and the best protection is prevention."

But, he noted, the threat isn't only federal. "State legislatures have exploded with proposals to regulate self-insurance. 'Eliminate' would be more accurate. . . .It's not a big-city or industrial-state problem. Those of you in the less populous states face the battle also."

Mr. Duff said legislation against self-insurance is being fueled by misconceptions and by the fact that its popularity as an alternative funding method means that self-insurance is no longer ignored by its competitors: commercial insurers.

"Whenever you see a poll, self-insurance is the No. 1 alternative," he said. The success of self-insurance has encouraged its competitors to make it appear unattractive, he claimed. "Blatant discrimination demonstrates the power of the forces against self-insurance."

Self-insurers are often characterized as uninformed victims of high-pressure sales pitches, he said, and administrators have been characterized as unprofessional. "But we know the consumer who chooses self-insurance is more knowledgeable than his counterpart," he said.

"Our problem is, because of our success, we are finding opposition from a foe who is well-financed." ■

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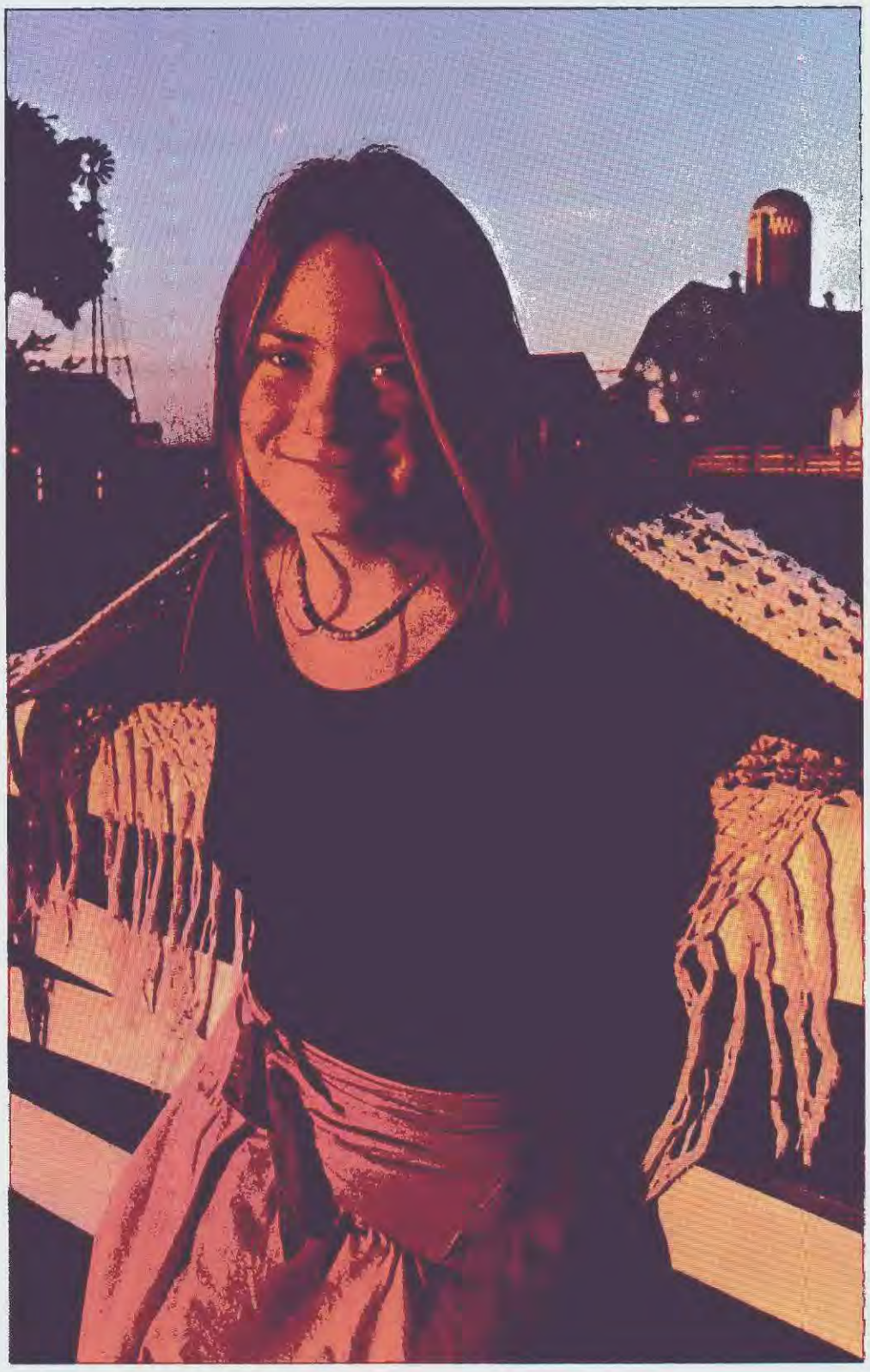
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Assets held by IRAs, Keoghs increase 19%

By JERRY GEISEL

washington

WASHINGTON—Assets held by Individual Retirement Accounts and Keogh plans continue to swell, a research group says.

Between Dec. 31, 1983, and June 30, 1984, IRA and Keogh plans assets rose to $120.2 billion from $101 billion, up $19.2 billion, or 19%, according to the Employee Benefit Research Institute, a Washington-based benefits think tank.

Of that $120.2 billion in IRA and Keogh plan assets, $40.1 billion, or 33.4%, is held by commercial banks; $31.7 billion, or 26.4%, is held by savings and loans; and $19.2 billion, or 16%, is with mutual funds. An additional $12.1 billion, or 10.1%, is with life insurance companies; $9.4 billion, or 7.8%, is held by mutual savings banks; and $7.7 billion, or 6.4%, is held by credit unions.

Under federal law, an individual can contribute up to $2,000 a year into an IRA on a tax-deductible basis. An individual with a nonworking spouse can contribute up to $2,250 a year, and two working spouses can contribute a total of $4,000 per year.

Keogh plans, which are used by self-employed persons, generally allow annual contributions of up to $30,000.

Benefit reporting

The tax-free status of educational assistance and group legal plans will continue through Dec. 31, 1985, but employers operating such plans face new reporting requirements.

Bills signed into law last month by President Reagan require employers with educational assistance and group legal plans to provide the Treasury Department with the following information, starting in 1985:

- The total number of employees
- The number of employees eligible to participate in the plan.
- The number of employees participating in the plan.
- The total costs of the plan during the year.
- The name, address and taxpayer identification number of the employer and the employer's type of business.

The Treasury Department will detail the manner and timing requirements of these new annual reporting requirements.

The department also is to prepare a report for Congress, due Oct. 1, 1985, on how widespread educational assistance programs are.

Data on flexible plans

Employers who want more information about cafeteria and flexible benefits can now turn to a Washington-based trade association for free help.

The Employers Council on Flexible Compensation is establishing a data bank that will collect information about the plans. The data will be summarized by ECFC, and a free copy of the summary will be distributed to companies that contributed information to the data bank.

"The data bank will provide the business community with its first comprehensive picture of the extent of flexible compensation in different regions and industries," said William Chip, ECFC counsel.

The data also will be used to measure the effect of the cafeteria and flexible benefit plan approach on health care costs.

In designing the health benefit questionnaire, ECFC worked closely with the Department of Health and Human Services, which is supposed to make a report to Congress next year on the effect flexible benefit arrangements have on health care cost containment.

"Unless cafeteria plan sponsors support the case for cafeteria plans with reliable and persuasive data, Congress may be reluctant to continue the tax-favored treatment of such plans," Mr. Chip said.

For more information about the data bank, contact the ECFC, 1700 Pennsylvania Ave. N.W., Washington, D.C. 20006; 202-393-1728.

Railroad taxes to rise

Payroll taxes for railroads that contribute to the Railroad Retirement System are on the rise.

On Jan. 1, payroll taxes for both parts of the Railroad Retirement System, known as Tier I and Tier II, will increase.

For Tier I, which corresponds to the Social Security program, the payroll tax for railroads will increase to 7.05% of the first $39,600 of wages per employee. The Tier I tax currently is 7% of the first $37,800.

Under the Tier II program, which corresponds to the private pension plans many employers offer their employees, the payroll tax will rise to 13.75% of the first $29,700 of salary. The current Tier II tax is 12.75% of the first $28,200 of salary.

As a result, the maximum Tier I tax that a railroad will pay next year will rise to $2,791.80 per worker, up from $2,646, an increase of $145.80. The maximum Tier II tax will jump to $4,083.75 per employee from $3,595.50.

Tier I and Tier II taxes paid by employees also will be increasing.

The Tier I tax paid by employees will be 7.05% of the first $39,600 of wages. The tax is now 6.7% of the first $37,800 of wages.

The Tier II tax paid by employees will climb to 3.5% on the first $29,700 of wages, up from 2.75% of the first $28,200 of salary.

The maximum Tier I tax paid by an employee will rise to $2,791.80, up from $2,532.60, an increase of $259.20, while the maximum Tier II tax will rise to $1,039.50 from $775.50, an increase of $264.

About 1,000 employers contribute to the Railroad Retirement System, which covers about 400,000 active employees. Last year, the program paid about $6 billion in benefits to about 1 million retirees and survivors.

PBGC to boost benefit

The Pension Benefit Guaranty Corp. next year will boost the maximum pension benefit it will guarantee participants of terminated pension plans.

For single employer plans that terminate in 1985, the new monthly maximum guarantee will be $1,687.50, up from $1,602.27 this year.

The maximum guarantee amount is adjusted annually according to a formula prescribed by law and is based on data obtained from the Social Security Administration.

The PBGC pays benefits to workers and retirees whose pension plans terminate with insufficient assets to pay guaranteed vested benefits.

It currently pays a monthly average of $189.20 each to participants of terminated plans, an agency spokeswoman said. ■

Illinois task force appointed to study medical malpractice

CHICAGO—The average indemnity per paid medical malpractice claim in Illinois almost doubled to $86,392 in 1983 from $44,260 in 1980, according to a recent study conducted by the state's Insurance Department.

That statistic and others in the department's report led Gov. James Thompson to appoint a task force earlier this month to study the increasing problems associated with medical malpractice insurance.

The task force also was asked to propose recommendations to curb these problems. The recommendations are to be considered by the General Assembly during its session next year.

"There are strong and opposing views on who should pay what for medical malpractice insurance and what is the best approach for handling this problem," Gov. Thompson said.

"Once again it came to the forefront in the last session of the Legislature with the medical community, the legal community and the insurance industry taking differing views," he said.

"However, it is the consumer—the patient—who is caught in the middle and who is forced to pay the increasing cost of health care," the governor said.

The Insurance Department's study, which showed how the cost and number of medical malpractice claims increased in 1983 from 1980, pointed out:

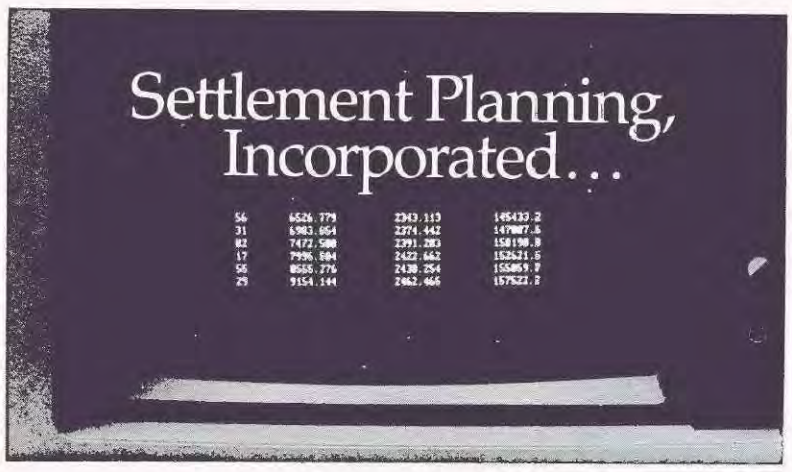
- The total indemnity paid tripled to $31.8 million in 1983 from $10.7 million in 1980.
- The number of closed claims reported to the Insurance Department doubled during that same time period, to 1,375 in 1983 from 630 in 1980.
- Total expenses paid increased 174%, to $5.4 million in 1983 from almost $2 million in 1980.

Arthus F. Quern, president and chief executive officer of broker Rollins Burdick Hunter Co., was appointed as chairman of the task force. He was formerly director of government operations for Gov. Thompson.

The 18-member task force includes insurers, professors of medicine and finance, bankers, employers, a circuit court judge, several attorneys and the director of the Illinois Department of Insurance.

The governor asked the group to to tackle the following tasks:

- Identify the trends in medical malpractice and related costs.
- Study the experience of the insurance industry in medical malpractice and the industry's ability to pay future awards.
- Study the adequacy and timeliness of awards made to individuals.
- Gauge the efficiency of the legal system in disposing of medical malpractice claims. ■





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Alaska names acting director to top post

JUNEAU, Alaska—John L. George, who has been acting insurance director in Alaska since August, was named director Nov. 1.

Mr. George, who was the first risk manager for the state of Alaska, replaced Kenneth C. Moore. Mr. Moore retired July 11.

Mr. George has served as deputy director of Alaska's Division of Insurance of the Department of Commerce & Economic Development since August 1977.

Before joining the Insurance Division, Mr. George served as Alaska's risk manager from 1973-1977.

Mr. George's first job in industry after college was in the risk management department of Signal Oil & Gas Co. in Los Angeles.

From Signal's risk management department, Mr. George moved to a similar post with Santa Fe International Corp. in Orange, Calif., and from there he went to Alaska.

around the states

Blues' tax status

BATON ROUGE, La.—Blue Cross of Louisiana disagrees with the decision of the state insurance commissioner, Sherman Bernard, to remove the insurer's tax-exempt status because it formed a wholly owned life insurance company this summer.

Mr. Bernard revoked the tax-exempt status late last month and sent Blue Cross a bill for $500,000, which represents the taxes due on the premium written since July, when the life insurer was formed. Blue Cross' new subsidiary, Bluebonnet Life Insurance Co., was formed July 16.

Blue Cross believes that since it was given its tax-exempt status more than 50 years ago by the state Legislature, that only the Legislature can remove it, a spokesman said. The insurer still is consulting with advisers to decide on its next step.

But, Mr. Bernard said he cannot find anything in the law that gives Blue Cross the right to create a life insurance company and acquire assets. He said that if Blue Cross does not want to comply with his decision, it will have to take the case to court.

Life, health and accident insurers in Louisiana are required to pay premium taxes of about 2.25% per year, Mr. Bernard said.

N.Y. deputy named

NEW YORK—Miriam A. Boggio, an attorney, is joining the New York Insurance Department as one of the department's six deputy superintendents.

New York Insurance Superintendent James Corcoran said Ms. Boggio is the first person of Hispanic origin to be appointed a deputy superintendent in the Insurance Department.

Ms. Boggio will be participating in the planned reorganization of the department, and her specific duties will include supervision of one or more of the department's bureaus, according to Mr. Corcoran.

"Ms. Boggio comes to the Insurance Department at a time when there are many complex issues confronting both the industry and the department," Mr. Corcoran said.

"With her impressive credentials in both law and government, I am certain she will make a major contribution as we face the regulatory challenges ahead," Mr. Corcoran added.

Since 1977, Ms. Boggio specialized in corporate and real estate law and trusts and estates law with the New York-based firm of Schwartzman Weinstock Garelick & Mann. She also has served during the same period as a counsel to the state's General Assembly, working on legislation for the Judicial, Labor and Commerce committees.

Vermont acting chief

MONTPELIER, Vt.—Gretchen Babcock, who has been general counsel for the Vermont Insurance Department for three years, will become the department's acting commissioner Nov. 16.

Ms. Babcock was appointed earlier this month by the governor to fill the unexpired term of Commissioner George Chaffee, who resigned to become president of Vermont Insurance Management Inc. in Waterbury and a partner in Vermont Group, a new insurance brokerage operation (*BI*, Sept. 3).

The insurance commissioner's term coincides with the governor's. Incumbent Gov. Richard A. Snelling is not seeking re-election this year, and it will be up to the new governor to appoint the new insurance commissioner.

Before joining the Insurance Department, Ms. Babcock was an assistant attorney general. She also has operated her own real estate brokerage firm in Vermont.

Ms. Babcock became an admitted attorney in Vermont through a clerkship program with the attorney general's office. She also has an undergraduate degree in political science and economics from the University of Rochester in New York. ■

New York bank offers PPO option

NEW YORK—When the 1,300 employees at Bank Leumi Trust Co. of New York need health care, they can make a single phone call and receive a referral to some 450 doctors and 50 dentists.

On July 1, the bank introduced a preferred provider organization made up of two panels of health care providers. One panel is sponsored by Fraternal Medical Specialist Service Inc., a 35-year-old nonprofit organization; the other, dubbed PPO Inc., is a 1½-year-old organization.

Together, the two panels provide employees with reduced-cost health services through a variety of doctors and dentists throughout the New York metropolitan area.

An employee needing health care calls a central telephone number and specifies the type of provider needed and the desired location. The employee is then given the names of available providers.

According to Ellen Finkelstein, the bank's benefits manager, the bank is offering the PPO option to offset the increased share of health care costs employees were asked to pay in January.

At that time, medical deductibles were increased to $150 from $100 for individual coverage and to $300 from $200 for family coverage. In addition, the out-of-pocket limit on the required 20% co-payment was increased to $1,000 from $500 for individual coverage and to $2,000 from $1,000 for family coverage.

Although employees already had the option of joining a health maintenance organization, the bank wanted to offer employees another way to deal with these costs increases, Ms. Finkelstein said.

"People who felt comfortable with the HMO already had that," she explained. "The PPO is for those people who don't feel comfortable with HMOs—they want that freedom of choice."

Employees who were not enrolled in the HMO automatically became eligible to use the PPO services.

The 350 employees who were HMO members were given the option of switching to the PPO for both medical and dental services, or participating in the PPO's dental program only. Ms. Finkelstein said about 25% of these employees enrolled in the PPO either for dental coverage or for both dental and medical coverage.

Blue Cross underwrites Bank Leumi's hospitalization coverage. Provident Life & Accident Insurance Co. underwrites its major medical coverage and Metropolitan Life Insurance Co. underwrites its dental coverge.

Fraternal Medical Specialists Service and PPO Inc. decided to pool their panels in February as a way to expand the services each could offer groups on their own.

Although FMS only had about 100 doctors, it also had 50 dentists on its panel. PPO Inc. had about 350 doctors and is currently adding about 600 more, according to Gerald Mazzola, executive director of PPO Inc. In addition, PPO Inc. had a utilization review program in place, which FMS did not.

"We both had something to add to each other, and we decided to live together for a while before we decide to get married," he said.

Although he conceded that a formal merger may take place in the future, he cautioned, "We're still in the engagement stage." ■

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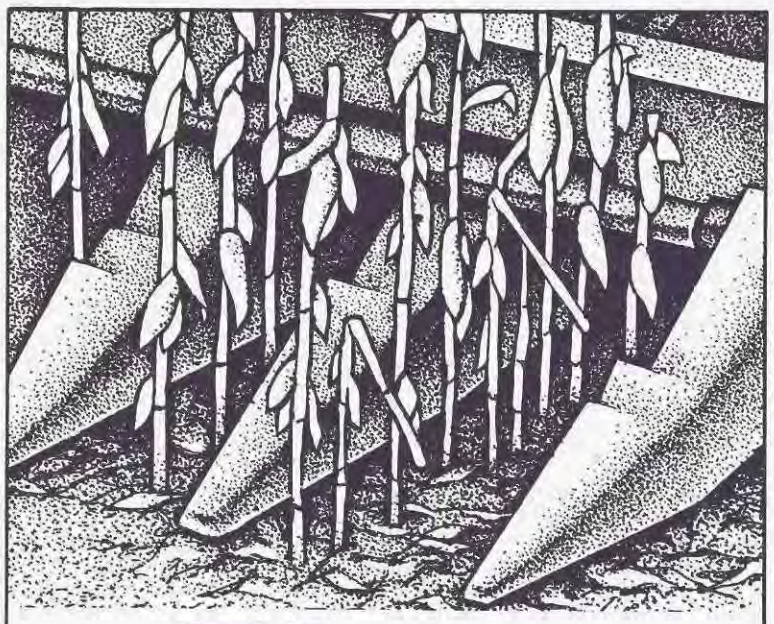
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Risk managers question rate hikes, capacity cuts

By STACY SHAPIRO

BARCELONA, Spain—Risk managers want to know why they are facing huge rate increases and reduced capacity.

So, the approximately 80 risk managers among the 350 people at the 14th Annual International Insurance & Risk Management Conference, sponsored by Management Centre Europe, asked brokers, insurers and reinsurers why.

The conference began with a heated discussion among four panelists representing the insurance, reinsurance, broking and risk management communities.

One reason for high rates and low capacity is that, for eight years, the industry has had "illusions of profit," said Maurice R. Greenberg, president of American International Group Inc. of New York.

Different accounting and tax treatment rules confused insurers trying to learn exactly how much profit they were making, he said.

"If the buyer wants to be confused, we can help him," Mr. Greenberg explained.

The explosion of capacity since 1978 created heavy competition worldwide, he said, noting that high interest rates created lucrative investment income that "charmed many."

And, he said, "Social inflation exploded. Today, the whole world is litigious-oriented. Everyone sues everyone else."

Brokers also share responsibility for the insurance industry's current troubles, Mr. Greenberg said.

"Many brokers sought the cheapest price," regardless of the security of the underwriter, he said. But, when losses rolled in, the security was not there to pay.

"If underwriters became less professional, brokers did as well," Mr. Greenberg said, adding that brokers also began to underwrite themselves, which was clearly a conflict of interest.

In addition, insurance buyers should share responsibility for the industry's problems, he said.

"The buyers say, 'The price above all else,'" he said. The buyer should have looked at the product it was receiving and the delivery of claims it was getting, he explained.

Now, capacity is shrinking, reinsurers are going out of business and insurers must put their industry in order, he said.

"It will get worse in 1985," he said. "Capacity will continue to shrink and prices to rise.

"Gone are the days of wine and roses of cash-flow underwriting."

Also, he said, pricing changes alone will not be enough. Insurers will look seriously at changing the way they underwrite, especially long-tail liability risks.

"How to price long-tail business today for a product that will have to be delivered perhaps 20 years into the future is a major problem," he said.

"The buyer will have to support better prices," he said. "And, we must join together to seek changes in legislation where the laws are unreasonable. . . .We must understand your risk better, and you must reduce your risks better."

The risk managers said they sympathized with the insurers' plight. But, they said they should not now be penalized because insurers made past mistakes.

"The insurance buyer wants an intelligent reason why his rate should go up," said John N. Havers, risk manager for Dunlop U.K. Ltd. in Birmingham, England, another of the panelists.

"Before the cudgel of higher rates and harsher terms are imposed, I would want to see a sharper, more skillful approach to underwriting," he said. "Too many underwriters are paying lip service to risk management. That is where their salvation lies.

"The savage rate-cutting war has seen the (difference in) rates for poor and good risks narrow to an extent where it is almost non-existent. Where is the incentive for the risk manager to sell loss prevention to his management?" he said.

"The poorer risks must be identified and rated accordingly. Those insures who regularly choose to ignore the basic loss-prevention recommendations should be given an ultimatum: Observe or go."

Also, instead of boosting rates, insurers and reinsurers could reduce administrative costs to allow them to retain as profit more of the premium paid by policyholders.

"In this age of modern methods, computers, word processors and advance telecommunications equipment, why is 30% or more of premiums needed for administration?" he asked.

The industry, too, could clean up its own act by making sure that premiums flowed faster from the buyer to the insurer and reinsurer.

"Where is the 'service' where a simple transfer of premium from insured to insurers, from insurer to reinsurer, is subjected to delays of one year or even longer? Our banking friends have no such problems and transfer money quickly," said Mr. Havers.

Brokers, which sometimes hold premiums as long as possible to generate investment income, may be one reason premiums "flow like treacle," he added.

"The reasons for this sad state of affairs are well-understood," said Mr. Havers. "Insurers blame brokers, captives and reinsurers. The reinsurers blame captives, insurers and the brokers. The buyers and captive managers blame insurers reinsurers and the brokers.

"The brokers blame nobody. They are too busy counting their money," said Mr. Havers to a round of applause.

However, David Palmer, chairman of Lloyd's broker Willis Faber P.L.C. and another panelist, defended the brokers' role.

Mr. Palmer told the audience, "You have all heard the four great lies: 'My check is in the post'; 'I am from the government and am here to help you'; 'It's not the money, it's the principle'; and 'Of course I will respect you in the morning.'

"Well, today, another one has been added, 'It's all the brokers' fault,'" he bellowed, followed by laughter. "Well, we have a relationship with all our speakers' companies, so we cannot be all that bad."

Mr. Palmer also noted there are three misconceptions in the industry. One, he said, is that premiums flow like glue. "There is more than a grain of truth in that, but there are good reasons."

For risks with high limits, he explained, brokers must arrange for dozens to hundreds of companies to insure and reinsure the risk, and it take time to make sure the right amount of premium is distributed to each underwriter. And, on international risks, the brokerage must convert and export currency, which is sometimes not easy.

The second misconception is that administration costs are too high. "That, too, may be true," said Mr. Palmer, "but putting together $1 billion to cover an oil rig takes a lot of people to talk to and see to get it underwritten. And, brokers also provide claims and risk engineering services, too. It is an expensive process."

The third misconception, he said, is that brokers hold onto premium to make investment income.

Mr. Palmer noted that Willis Faber's investment income is enhanced by 10% by the flow of premiums through the company. "But the normal length of premium in our company is 20 days," he said. "I don't think that is too excessive."

During a question-and-answer session, it became clear that the answers supplied by the insurers and brokers were not quite good enough for the risk managers.

As various people in the crowd pointed out, almost all companies right now are having tough times, not just insurers and brokers. The risk managers said it's difficult to persuade upper management to absorb higher insurance costs.

"Insurers have problems, but we have problems, too," said Mr. Havers.

But, Mr. Greenberg retorted, "The social explosion is demanding retribution for something that is wrong with products. . . .But, the insurance industry cannot be an aid program for anybody.

"The insurance industry sold the product too cheaply for the last seven years. Now it will have to be readjusted and readdressed."

Dr. Achim Kann, chairman of the board of Frankona Reinsurance Co. in Munich, West Germany, the fourth panelist, added: "We need to compare and develop these various points on premiums. You want us to give more service? More service means more money. Are you willing to pay?

"Insurance is looked at as a charitable institution. We are not a charitable institution. We want to make profits as you want to make them." ■

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Computer security a critical issue: Expert

By STACY SHAPIRO

BARCELONA, Spain—Do you know what a computer criminal looks like?

By way of illustration, a speaker at the the recent International Insurance & Risk Management Conference asked the men in the audience under the age of 40 to stand up.

"Turn around, fellas, and show everyone your faces," said Glenda Barnes, vp of teleprocessing standards and policy for Bank of America in San Francisco.

"The standard profile of the computer felon is male, between the ages of 18 and 40, a nice guy, aggressive in business, a frustrated employee who is well-thought-of in his community and has no prior record," she said.

This is just one of the ploys Ms. Barnes used in explaining computer security to those attending the three-day conference.

Ms. Barnes prefaced her remarks by noting she knew little about insurance before being asked to speak to the conference, but she added she was appalled at how little insurance industry personnel know about computer security after seeing a report prepared for Bank of America's insurers.

Ms. Barnes noted that the need for computer security is increasing as more and more people become computer users.

"There is a joke in the board rooms of the banks," said Ms. Barnes, who is in charge of international security for the bank's electronic funds transfers. "Sometime last night a kid from Ohio got into our computers and transferred all of our assets to Zurich.

"You laugh, but this is serious," said Ms. Barnes. "While educating your kids about computers, please teach them computer ethics. They treat them as games and they do not know what they are doing, but they have caused harm. Teach them the rights and wrongs of computers."

Computer literacy is rapidly increasing and home computers are becoming almost as common as television sets, she said, noting that there will be 6 million computer in U.S. homes by next year.

"We are faced with the risk of unhappy customers, rousing hackers, people seeking political ends and disgruntled employees," she said, quantifying the risk.

Computer crime is the most lucrative of white-collar crimes, Ms. Barnes noted.

While an armed bank robber steals an average of about $3,500, a computer felon averages $500,000 per heist, she said.

If the armed robber is caught and convicted, he receives an average sentence of six to nine years. But, "If you are a computer criminal, you go to a comfortable prison for six to nine months, and then we hire you as a consultant so it doesn't happen again," Ms. Barnes said.

Most computer crimes are discovered by accident even though most are inside jobs, she continued. A quarter of the thefts reported have been going on for 12 months. And, only a third are detected by internal auditing.

Ms. Barnes said that, while working for another firm, a superior was arrested by FBI agents for computer theft. It was later discovered that he had taken money from the company for three years by changing information right in front of employees' eyes. He was the boss, so no one questioned it, she said.

"Speak to your employees. Tell them they have the right to ask what is going on," she said.

The opportunities for computer felons and "hackers" to take money from banks today is tremendous, she continued, noting that banks electronically transfer trillions of dollars through systems that operate via ordinary telephone lines.

> 'Money is not in your safes anymore. It is in your computers,' according to Glenda Barnes.

The first thing banks can do to reduce their risk is to pay attention to their personnel, she advised.

For instance, she said if an employer wants to transfer a computer programmer that does not want to be transferred, do not transfer this person to an accounting department where the opportunity for theft is high.

But financial institutions and other companies are not completely ignoring their computer crime exposures, she said. Banks and other companies have either implemented are are considering a variety of computer security safeguards, she told the conference.

Banks are considering using fingerprints or handprints as identification for users of automatic teller machines, she said, though banks are not now using this safeguard because it has proven not to be popular with customers.

Voice printing is another potential security technique. With voice printing, the computer will be able to identify users by their voice, and will be able to tell if the user is under stress.

Eyeball laser analysis is also being investigated. In this process, the computer scans the users eye, much like it can identify a user by his or her figerprint.

And, signature verification systems are also in the development stage, she said.

Two of the security measures, however, are now being used by the banks, said Ms. Barnes.

One is encryption, which scrambles data between the sending and receiving computers. Small boxes are attached to the two computers, one to scramble and the other to decode. This is available now and is relatively inexpensive.

However, encryption of data is banned in some countries.

Finally, there is authentication, which uses high-level mathematics to identify material sent and received and to identify users. Companies can readily tell if such messages were altered by a computer criminal.

It can be difficult to convince top management that computer security is important enough to spend money on, Ms. Barnes admitted, though she said her task has been eased a bit by the volume of business the Bank of America does each day.

"Our average transaction is $3 million," she noted.

But, other institutions must also take action, she noted.

Bank robber Willie Sutton was once asked why he kept robbing banks, and he answered, "That's where the money is."

"Money is not in your safes anymore. It is in your computers," said Ms. Barnes. ■

Meeting draws a record crowd

BARCELONA, Spain—This year's 14th Annual International Insurance & Risk Management Conference, sponsored by Management Centre Europe and held Oct. 24-26, drew the largest crowd in its history.

With more than 350 people in attendance, the conference was truly international. Speakers came from Spain, France, West Germany, the United Kingdom and the United States.

Topics included computer security, political risk insurance and risk managers' annoyance at increasing premiums, along with service, security, profit and the buyer's needs in the future.

About 80 risk managers attended the conference, and they made themselves heard (see story, page 94).

But, the conference was chaired by a broker who has just returned to his native United States after living for 15 years in Europe. Jerry Karter, vp with Johnson & Higgins/UNISON in New York, put together an impressive list of speakers.

Appropriately, the conference was held in Spain, which is applying for membership in the European Economic Community. If it enters the EEC, Spain will have to deal with EEC directives geared at insurance and reinsurance companies.

But Spain, unlike France and West Germany, does not have restrictions that allow only insurers in the country to underwrite business. Without restrictive practices, Spanish underwriters are not overly concerned about their nation joining the EEC.

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Insurers consider land war risks

By STACY SHAPIRO

BARCELONA, Spain—London brokers are now asking marine underwriters if they will abolish the ban on insuring war risks based on land, says Julian Radcliffe, director of Hogg Robinson Group P.L.C.

Mr. Radcliffe spoke on war risks and political risks at the International Insurance and Risk Management Conference, sponsored last month by Management Centre Europe.

For the past half-century, marine underwriters have abided by the Waterbourne Agreement, signed after the Spanish Civil War, in which they agreed among themselves to only insure water-based war risks. At the time, it was felt that land-based risks were too vulnerable to losses to cover.

However, at the recent International Union of Marine Insurance Conference in Helsinki, Finland, some marine underwriters urged that the Waterbourne Agreement be reviewed.

And now, Hogg Robinson, along with other brokers, are petitioning marine underwriters in the market for their reaction to agreeing to underwrite some war risks on land, providing that nuclear warfare and wars started by the five major powers—the United States, Britain, France, the Soviet Union and China—are excluded, said Mr. Radcliffe.

The response so far has been favorable, he said.

In his presentation, Mr. Radcliffe also noted that increased capacity is needed in the political risk insurance market.

"Only about 10% of the insurance companies that are here today are underwriting political risk," said Mr. Radcliffe, "and that is a great disappointment to me."

Part of the reluctance of some underwriters to political risks is due to the fact that they do not understand the risks, he said.

This year, premium capacity for political risk insurance may reach $200 million, but that is only scratching the surface for what premiums could be, according to Mr. Radcliffe. There is no reason why premium volume cannot reach $1.5 billion in a few years' time, he said.

"Why hasn't it grown?" asked Mr. Radcliffe rhetorically.

In order for companies to get involved in the political risk insurance market, however, they will have to invest in the expertise it takes to underwrite the risks, he said. Recently, the market has been hit with large political risk claims because the brokers and underwriters on the risk did not study the countries in which the risks occurred, he noted.

Insurance buyers, too, must educate themselves on what political risk coverage there is offered and the best way to buy it.

"I believe that clients feel political risk rates are excessive and restrictions on cover are too great," he said.

But, he noted that clients only want coverage in areas that are known to be trouble spots, which will inevitably lead to higher premiums. He suggested that clients offer underwriters a spread of nations as a way of keeping rates in line.

Clients should make sure, however, that the brokers and underwriters they tap have political risk expertise, that they provide claims services and that data has been accumulated to understand the country and risks involved. ■

Allianz gains control of Italian insurance group

By JOHN PARRY

MILAN, Italy—Allianz Versicherungs A.G., West Germany's largest insurance company, announced last week that it has secured operating control of Riunione Adriatica di Sicurta SpA, Italy's second-largest insurance group.

The purchase price was not announced, but informed sources in Milan, where RAS is based, said it was in the area of $293 million. Munich-based Allianz announced it had agreed to buy 8% of the shares of RAS, which operates in 30 countries, with the understanding that it would buy an additional 30% next year from the family of the late Carlo Pesenti, chairman of the Italian group. Mr. Pesenti died six weeks ago, and sources said the delay in selling the other 30% had been requested by the Pesenti family for tax purposes.

Italmobiliare, the holding group controlled by the late Mr. Pesenti, is a conglomerate of insurance, steel, engineering and other companies and has been in the red for several years. The sale of RAS to Allianz will help balance the books, sources say.

Allianz, which reported premium volume of 15.4 billion deutsche marks ($5.2 billion) and a net profit of 255 million deutsche marks ($86.7 million) last year, failed in 1983 in a bid to acquire Britain's Eagle Star Insurance Co. Earlier this year, Allianz considered acquiring the property/casualty units of U.S.-based Armco Insurance Group Inc., but the deal fell through (*BI*, May 21).

The 150-year-old RAS controls 69 companies around the world and is particularly strong in Latin America. It has 32 insurance subsidiaries, including nine in Italy.

The purchase will enable Allianz to increase its share of the Italian market, where it currently ranks only 57th with 1983 premium income of $19.6 million.

Banking sources say the purchase is one of the biggest ever by a German company in Italy, and it fits well with Allianz's plans for foreign expansion. In the 13 years since Chief Executive Wolfgang Schieren took over, Allianz has expanded its foreign operations to almost 20% of its total business.

More than half the profits of RAS come from outside Italy.

In Germany, Allianz has a market share of 14% in the life sector and slightly more than that in the property/casuaty sector, but its further expansion is limited by antitrust laws, sources say.

Allianz stock has soared on West German stock exchanges, jumping to 1,100 deutsche marks ($374) from 700 deutsche marks ($238) this year, largely on the basis of continuing rumors—confirmed by this month's announcement—that the company was negotiating a large foreign deal.

The purchase of RAS by Allianz has been viewed in Italy as a setback for Carlo de Benedetti, chairman of the Olivetti Office Machine Group, who held 15% of the shares in RAS and who had said publicly that he would like to take control of the company.

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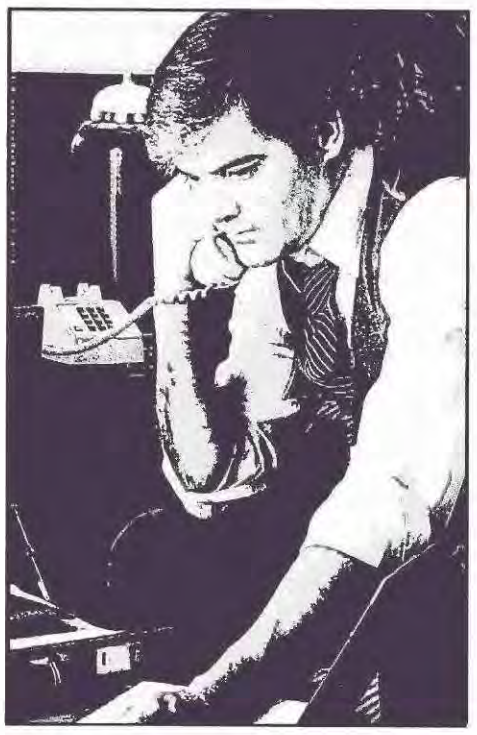
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Michael Poland appointed president at R.L. Kautz & Co.

comings & goings: industry

Michael L. Poland has been named president and chief executive officer of R.L. Kautz & Co., the Irvine, Calif., claims administration arm of broker Emett & Chandler Cos. Inc.

Mr. Poland, formerly executive vp at Kautz, retains his position as vp at E&C of Los Angeles.

Also at Kautz, **William F. Poland**, Mr. Poland's brother, has been elected executive vp and chief operating officer. He was formerly vp and chief financial officer at Bierly & Associates Inc., a rival claims administrator in South Pasadena, Calif.

Both men replace Robert Emett Jr., formerly Kautz's president and chief operating officer, who left to pursue real estate interests in Southern California.

Other administrator/consultant changes:

Donald B. Johnson joined American Risk Services Inc., a risk management consulting firm headquartered in Minneapolis. Before joining ARS, Mr. Johnson was a corporate security consultant for Control Data Corp. in Minneapolis.

Susan B. Gwinn joined Reliance Risk Management Inc. as account executive and has been elected secretary. Ms. Gwinn had been a senior marketing consultant at CIGNA in Philadelphia. Reliance Risk Management Inc. is an affiliate of Reliance Insurance Co. of Philadelphia.


Mr. Wright

Robert Wright named executive risk control consultant at Crawford & Co. Ltd., a diversified risk management services firm in Toronto.

Robert D. Sullivan named vp in the New York office of Graham Miller Inc., an international loss adjusting firm.

Harold C. Burden named vp of underwriting and manager of product development at Florida Atlantic Insurance Resources Inc., a consulting firm based in Boca Raton, Fla. Mr. Burden had been assistant secretary with the American Home Insurance Co.

Reinsurers

Kenneth J. Wittman named president of San Francisco Reinsurance Co. in San Francisco, an affiliate of Fireman's Fund Insurance Cos. Mr. Wittman most recently was vp and chief underwriting officer of Design Professionals Financial Corp. in Monterey, Calif.

Uwe von Manteuffel elected president of Allianz Syndicate Inc. and Allianz Management Inc. in New York, affiliates of Allianz of America Inc. Mr. von Manteuffel began his career with Allianz Versicherungs-A.G. in Munich, West Germany, and later moved to Munich Reinsurance. He rejoined Allianz in 1981. In addition to his responsibilities as president, he will be responsible for treaty reinsurance underwriting.

Alan M. Willemsen joined F&G Re Inc., the reinsurance subsidiary of United States Fidelity & Guaranty Co., as senior vp in charge of international reinsurance. Mr. Willemsen had been with Intere Intermediaries Inc.

John F. Schumacher promoted to vp at General Reinsurance Corp. He will be in the New York office of General Re, which is headquartered in Greenwich, Conn.

Insurers

W.E. Gilson Jr. named executive vp of Indemnity Underwriters Insurance Co. of Tulsa, Okla. His new responsibilities will include marketing, underwriting and claims for IUIC, as well as the growth and development of its wholly owned subsidiary, Indemnity Underwriters Lloyds of Addison, Texas. Mr. Gilson had been a senior vp of SCOR Reinsurance Co.

Ken Ziemke named chief executive officer of Sentry Center East in Concord, Mass., and president of Middlesex/Patriot General Insurance Cos., both affiliates of Sentry Insurance. In his new position, Mr. Ziemke, who had been vp of the New England Division of Sentry and Middlesex, will be responsible for both property/casualty and life/health operations.


Mr. Ziemke

Also at Sentry, **Dick Owens** named executive vp and chief operating officer of Sentry Center West in Scottsdale, Ariz. Mr. Owens joined Sentry Insurance Co. in 1974, and was vp of the Wisconsin Division.

Bowdre P. Mays named senior vp of the Middle East/Africa region of CIGNA Worldwide Inc. He will be headquartered in Athens, Greece. Mr. Mays had been vp of international relations and government affairs for AFIA Worldwide Insurance, which was acquired by CIGNA earlier this year.

Excess/surplus

Barbara K. Marrs elected executive vp of the National Underwriting Agency Inc. and NUA (Illinois). She joined the Chicago-based company at its inception in 1978, and most recently was senior vp.

Also at NUA, **Kurt B. Meyer** will become senior vp, effective Jan. 1. Mr. Meyer joined NUA in 1979, and currently is a vp of claims. He will be succeeded as vp of claims by **Sam Terzich**, who joined NUA in 1981 and currently is claims manager.

William P. Cullen elected vp of property/casualty underwriting for L.W. Biegler Inc. (N.Y.), a New York-based excess/surplus specialist. Mr. Cullen had been vp of casualty underwriting with Crum & Forster Managers Corp.

Agents/brokers

Cary L. Fondren Jr. named vp of the Financial Guaranty Division of Corroon & Black Corp. Mr. Fondren will be based in Greenville, S.C., and will be responsible for developing financial guarantee products in Corroon & Black's Southern region and assisting the division nationwide. Mr. Fondren had been a vp and partner at Norton & Co., an investment banking firm in New York.

At Frank B. Hall of Minnesota Inc., **Dwight H. Borne** named chairman of the board, **Alan R. Diamond** named president and **Michael Prins** named senior vp. Frank B. Hall of Minnesota Inc., based in Minneapolis, is a wholly owned subsidiary of Frank B. Hall & Co. Inc.

T.G. Simms named vp of Redpath Associates Inc. in Nashville, Tenn. Mr. Simms had been vp of O'Rourke, Andrews & Maroney Inc., a Fort Wayne, Ind., agency.

Richard J. DeRue named senior vp and manager of the Miami office of Johnson & Higgins. He replaces **Victor J. Gigli**, who is now with J&H's casualty department in New York. Mr. DeRue had previously managed the property/casualty department at J&H's Minneapolis office. He joined the firm in 1970. ■

Missouri storm damage estimated

NEW YORK—Insured property losses caused by wind and hail that hit sections of eastern Missouri in early October are estimated at about $35 million, according to C.E. Hermanson, vp of the Property Claims Services division of American Insurance Services Group Inc.

The heaviest damage caused by the storm occurred in St. Louis County.

The Missouri weather system was assigned Catastrophe No. 49 last month by the Insurance Services Office. ■

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Insurers oppose Massachusetts pollution rule

By ROBERT A. FINLAYSON

BOSTON—A state commission is recommending legislation that would make it easier for victims of toxic chemical exposure to collect personal injury damages.

But, insurance industry officials say they will not offer environmental impairment liability insurance in Massachusetts if the commission's recommendations become law because the recommendations would make pollution risks uninsurable.

In an interim report, the Special Commission on Liability for Releases of Oil and Hazardous Materials recommended that the Legislature impose strict liability—without regard to proof of negligence—on polluters for personal injuries resulting from the release of hazardous materials.

This means that a defendant in a toxic chemical lawsuit could be made to pay personal injury claims, even if the defendant did everything in its power to prevent the injuries alleged by the plaintiff.

The commission, created in 1983 by the Massachusetts Hazardous Waste Cleanup Superfund Law, also recommended that:

- The burden of proof be shifted to the defendant, meaning the defendant must prove that it did not cause a hazardous materials contamination incident, rather than the plaintiff proving the defendant caused the contamination.

Thus, a company accused of contaminating a nearby well would have to prove that its chemicals did not contaminate the well.

- Generators of hazardous substances be held jointly and severally liable for personal injuries resulting from toxic chemical exposure.

If this recommendation is made law, a generator could be made to pick up the entire tab for personal injury claims stemming from a contamination incident, even if other generators contributed to the contamination.

This legal doctrine is now applied to property damage under the the federal Superfund law and under the Massachusetts Superfund statute.

- The state statute of limitations be changed so that the time limit for filing a suit begins not on the date of exposure to a hazardous substance, but rather on the date the injury is discovered.

The commission also recommended the establishment of a "statistical causation" provision in state law. Under this provision, an increase in the incidence of diseases related to toxic chemical exposure in a given location could be used as the basis for forcing companies that use hazardous materials in that location to pay for any personal injury claims related to these diseases.

Willard Pope, general counsel for the state Department of Environmental Quality Engineering and a member of the commission, said the statistical causation provision probably would be removed from the final report because of "well-founded" objections to it.

He said epidemiologists—scientists who study disease patterns—testified that it is nearly impossible to determine the background, or normal level, of diseases caused by exposure to toxic chemicals. Without such background levels, there is no way to determine if there is any increase in these diseases, he said.

Although he would not be specific, Mr. Pope said other changes are also likely in the 75-page interim report, based on public comments the commission has received. The final report is expected to be released by the end of the year, he said.

Several insurers and insurance industry groups have spoken against the commission's recommendations during public hearings, including the American Insurance Assn., the Alliance of American Insurers, Crum & Forster, Liberty Mutual Insurance Co. and Travelers Corp.

The industry officials told the commission that, taken together, the recommendations in the interim report would prompt many underwriters to cease writing environmental impairment liability coverage in Massachusetts, said Charles C. Humpstone, president of Environmental Risk Assessment Services (USA) Ltd., based in Boston.

Mr. Humpstone, who is a member of the commission, said additional public hearings may be held because of concerns raised over the commission's recommendations. Five such hearings have already been held.

Earlier this year, some insurers stopped writing environmental impairment liability insurance in Minnesota after the state enacted its own Superfund law (*BI*, April 16; Nov. 28, 1983).

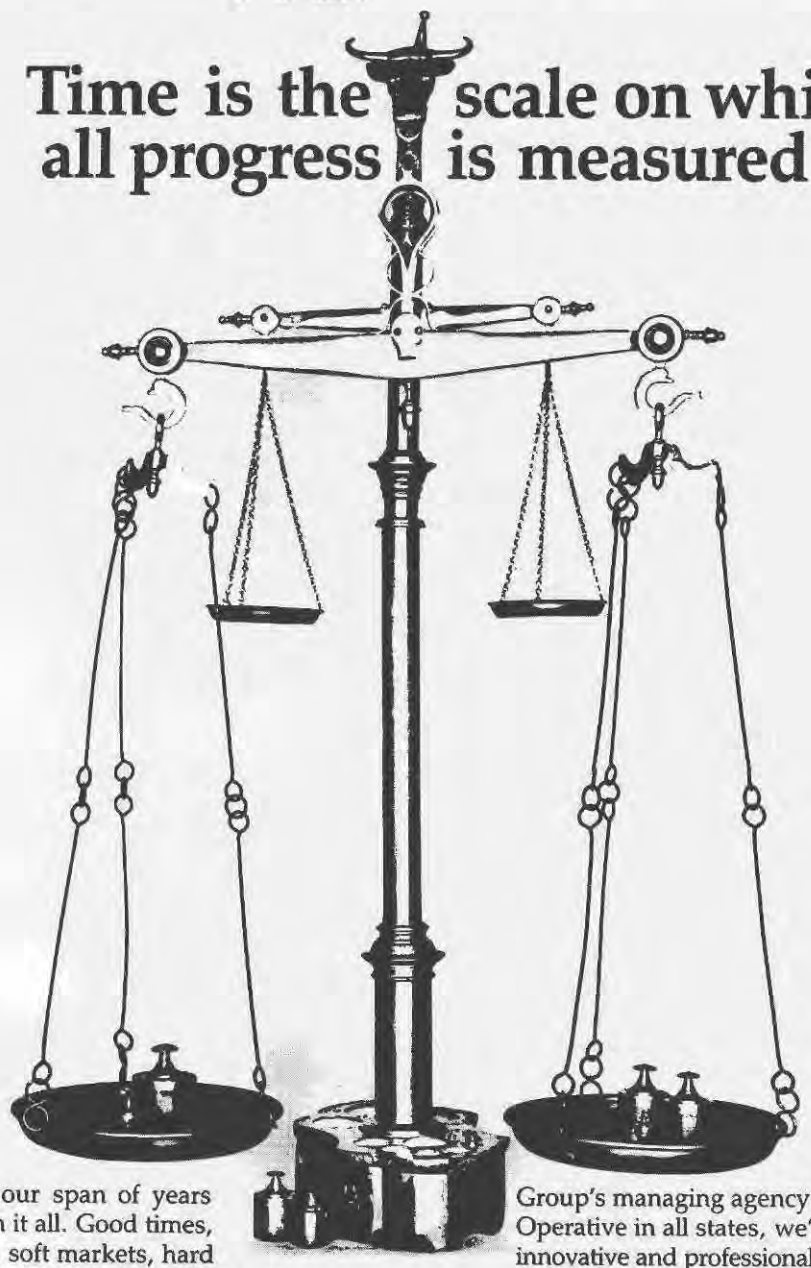
Insurers objected to two provisions in that law: One that made liability retroactive and one that addressed causation.

The Minnesota Superfund is retroactive to 1960, though a waste generator's liability is only retroactive to 1973 if it can prove that the process in which it was engaged was not "an abnormally dangerous activity."

The law also creates a statutory cause of action for any past or future economic loss, death, injury or disease caused by exposure to hazardous wastes, shifting the burden of proof to the hazardous waste generator from the plaintiff.

The plaintiff must prove that he or she suffered an injury or a loss, but the law, which applies strict and joint and several liability, also requires waste generators to show that their method of disposal was safe. ■

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Andersen, insurers battle over coverage

Continued from page 1

At the heart of the insurance litigation is a dispute over when Andersen's coverage claim in the Fund of Funds lawsuit was actually made.

Andersen says it was made in 1971 when it put its professional liability insurers on notice that it was being sued in conjunction with its auditing of another firm.

In 1971, litigation entitled *Dietrich Corp. vs. King Resources, et al*, was filed against Andersen in the U.S. District Court for the District of Colorado. Andersen was auditor for King Resources and Fund of Funds from 1968 to 1970.

The Dietrich litigation was a class action by securities and debentures holders of King Resources seeking recovery against Arthur Andersen for wrongdoing in connection with the revaluation of certain properties owned by King Resources.

The plaintiffs charged that Andersen overvalued these properties.

The 1975 lawsuit by Fund of Funds against Andersen involved two issues. One involved its revaluation of certain properties owned by Fund of Funds that were related to those owned by King Resources. Similarly, the Fund of Funds lawsuit charged that Andersen overvalued the properties Harbor says.

The second issue in the Fund of Funds litigation involves the pricing of property sold to Fund of Funds by King Resources while Andersen was the auditor of both.

According to court papers, King Resources had reached an agreement with Fund of Funds to sell certain real estate properties to Fund of Funds at prices comparable to the prices King Resources charged its 200 other purchasers.

But Fund of Funds charged that King Resources sold the properties at inflated prices and that Andersen, as auditor for both, was aware of the overcharge but failed to disclose it to Fund of Funds, according to court papers filed by Harbor.

The Fund of Funds case finally went to trial in 1981 and a jury verdict was handed down against Andersen for $80.7 million in November 1981.

Following an appeal by Andersen, the case was settled in March 1983.

As part of the agreement, the amount of the settlement was to be sealed. However, court papers filed in the insurance litigation reveal that the settlement was for $45 million.

The Dietrich litigation also was settled, according to Jeffrey Tone, an attorney for Andersen with the Chicago firm of Sidley & Austin. However, the amount of that settlement is not known.

Andersen contends that the Dietrich and Fund of Funds suits arise out of related actions of Andersen and that notification by the insurers in 1971 for the Dietrich litigation also covered the Fund of Funds lawsuit filed in 1975.

Harbor, however, contends that this is not so. It says that the filing of the Fund of Funds lawsuit in 1975 triggered coverage and the 1975 insurers should respond to the Fund of Funds settlement or that both 1971 and 1975 policies should respond.

In the first count of its action against Andersen, Harbor contends that Andersen's notification of its insurers in 1971 about the Dietrich suit should not be considered notice of the 1975 Fund of Funds lawsuit.

"Harbor contends that. . .no notice was given to underwriters during the 1971 policy period concerning the breach of duty owed to Fund of Funds which was the basis of the Fund of Funds claim and resulting settlement," the complaint says.

> 'The issue is whether the claim was made by Fund of Funds at the time of the litigation filed in February 1975 or is simply a continuation of the previous matter in the King Resources litigation,' says Harbor attorney Anthony Katauskas.

But in the second count of its suit against Andersen, Harbor says as an alternative portions of both the 1971 and 1975 policies could be triggered.

It bases this on the nature of the two damage awards handed down in the Fund of Funds litigation. The complaint says the award related to Andersen's overvaluation of property owned by Fund of Funds during a revaluation of its holdings is related to the Dietrich suit and can be filed under the 1971 policy.

However, the award related to King Resources selling Fund of Funds property at inflated prices is not related to the Dietrich claim and must be filed under the 1975 policy, not the 1971 policy, Harbor says.

When the Dietrich litigation began, Andersen gave notice to Lloyd's during the 1971 policy period and thus coverage was arguably preserved as to unknown but related claims arising out of the Dietrich litigation, Harbor argues.

"Since its conduct concerning revaluation of certain properties was at issue in the Dietrich litigation, coverage under the 1971 policies arguably was preserved for the subsequent claim concerning those revaluations which was brought by Fund of Funds in 1975," Harbor's complaint says.

However, "Since Arthur Andersen's conduct concerning its breach of engagement with Fund of Funds was not an issue in the Dietrich litigation, coverage under the 1971 policies was not preserved for the breach of engagement claim concerning the overcharges brought by Fund of Funds in 1975.

"With respect to the overcharge claims at issue in the Fund of Funds suit, Arthur Andersen was not covered by the 1971 policies because it had not preserved coverage under those policies for those claims when it gave notice of the Dietrich litigation during the 1971 policy period," the complaint adds later.

"Therefore, inasmuch as the overcharge claims were first made against Arthur Andersen in 1975, the 1975 policies provide coverage for the overcharge claims."

Harbor says that the 1971 and 1975 policies should respond according to the manner in which the $80.7 million award was allocated in the 1981 jury verdict. Since the jury allocated 40.6% of the award for the revaluation claim, the 1971 policy should pay 40.6% of the $45 million settlement—or $18.3 million, Harbor contends. And, the 1975 policy should pay 59.4%—or $26.7 million—of the settlement because that is the amount the jury allocated to the claim that Fund of Funds was overcharged for property sold by King Resources.

In its answer to Harbor's complaint, Andersen admits the Fund of Funds claim was asserted when Fund of Funds filed suit in 1975, but contends the filing date does not determine when the claim was made.

Andersen contends that the losses arising from the Fund of Funds litigation arose out of the same acts, errors or omissions as occurred in the Dietrich case and, therefore, should be covered under the 1971 policy.

Andersen also says no specific portion of the settlement can be allocated to the revaluation claim.

"The issue is whether the claim was made by Fund of Funds at the time of the litigation filed in February 1975 or is simply a continuation of the previous matter in the King Resources litigation," said Anthony Katauskas, an attorney for Harbor with the Chicago firm of Jacobs Williams & Montgomery.

A secondary issue, he points out, is whether Harbor and the other excess insurers in 1971 are bound to follow Lloyd's decision to pay the Fund of Funds claim.

Andersen apparently stands to lose about $1 million if the court rules that the 1975 policy must respond instead of the 1971 policy as advocated by Andersen.

According to court papers filed by three excess insurers, Andersen had already paid its $830,000 deductible under the 1971 policy in connection with "the defense and settlement of claims other than the Fund of Funds claim." This apparently refers to the Dietrich settlement.

If it is determined that the Fund of Funds claim must be paid under the 1975 policy or under both the 1971 and 1975 policies, then Andersen would also have to pay a $952,000 deductible due under the 1975 policy.

The size of the Dietrich settlement is not known, but apparently Andersen still had $45 million in

Continued on next page

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Andersen, insurers battle over coverage

Continued from preceding page
coverage available under the 1971 policy.

Meanwhile, many of the insurers involved in the litigation have much more money at stake than Andersen.

Lloyd's, which says the 1971 policy responds, stands to lose about $5 million if it is determined that the 1975 policy must respond to the Fund of Funds claim instead of the 1971 policy. And, it could have to pay almost $10 million more if both the 1971 and 1975 policies must respond.

Lloyd's underwrote the largest share of the $3 million primary layer of the the 1971 policy and was the only primary insurer on the 1975 policy. It also underwrote portions of each of the four excess layers in the 1971 policy and each of the five excess layers in the 1975 policy.

Assuming that the full limits of the policy are available to pay the Fund of Funds claims, Lloyd's, under the 1971 policy, would be liable for $8.7 million of the $45 million Fund of Funds settlement. But if the 1975 policy responds, it is liable for $13.2 million of the settlement.

And, if both policies must respond, according to the allocation formula proposed by Harbor, Lloyd's would be liable for $18.6 million.

In contrast, Harbor—which wants either the 1975 policy or both the 1971 and 1975 policies to respond—would have to pay out $5 million under the 1971 policy but only $1 million under the 1975 policy and only $350,000 if both policies respond. This assumes that the full limits of the policies are available.

Harbor underwrote 25% of the $20 million excess of $20 million layer of the 1971 policy and 5% of the $20 million excess of $20 million layer of the 1975 policy. It also wrote $15.9% of the $51 million excess of $50 million layer of the 1975 policy, but that apparently would not be tapped by the Fund of Funds claim.

Some insurers would not be liable for any of the loss, depending on what policy must respond. For example, Lumbermens Mutual Casualty Co., which underwrote coverage on three high excess layers under the 1975 policy, was not on the 1971 policy at all. It advocates that either the 1971 policy respond alone or that the 1971 and 1975 policies respond.

While it would be liable for $1.5 million of the settlement if the 1975 policy responds, it would pay nothing under the 1971 policy. And, it would pay only $350,000 if both policies responded according to the allocation proposed by Harbor because the upper two layers it underwrote in 1975 would not be tapped.

In counterclaims, three of the excess insurers in the litigation—American Re-Insurance Co., North Star Reinsurance Corp. and United States Fire Insurance Co.—contend that Lloyd's and Andersen deliberately chose the 1971 policy to minimize their losses at the expense of excess insurers.

"If Lloyd's had acknowledged that the Fund of Funds claim was made in February 1975, Lloyd's would have had to pay approximately $5 million dollars more in connection with the defense and settlement of that claim than it did by treating it as a claim made in September 1971," the insurers contend.

Likewise, "If Andersen had acknowledged that the Fund of Funds claim was made in February 1975, Andersen would have had to pay an additional deductible in the amount of $952,000 called for under its 1975 policies in connection with the defense and settlement of the Fund of Funds claim," the insurers further charged.

The three insurers contend that the entire claim by Fund of Funds against Arthur Andersen was first made in 1975, that no part of the claim was made during the 1971-1972 policy year, and that Andersen is not entitled to indemnification for that claim from the 1971 insurers.

The insurers seek to recover the amount paid under a reservation of rights by each to Andersen under their 1971 policies minus any amount they owe under policies insuring Andersen in 1975.

North Star paid $3 million under the 1971 policy but would only have to pay $500,000 under the 1975 policy.

U.S. Fire paid $3 million under the 1971 policy but would owe nothing under the 1975 policy.

If the full limits of both policies were available to respond to the Fund of Funds settlement, it appears that American Re would owe $2 million under either insurance policy.

First State Insurance Co., whose position in the litigation is not known, stands to lose a substantial amount on the Fund of Funds claim no matter which policy is tapped.

If the full limits of the policy are available to respond to the Fund of Funds claims, First State would owe $6 million under the 1971 policy, $5 million under the 1975 policy and $7.2 million if both policies are tapped.

Besides the controversy over which policy must respond, Lloyd's and the other primary insurers on the 1971 policy are seeking to recover about $745,000 in legal fees and expenses from the accounting firm.

The insurers, which include 16 insurers with whom J.H. Minet & Co. placed the Andersen coverage plus Fireman's Fund Insurance Cos. and Highland Insurance Co., reimbursed Andersen for all legal fees and expenses paid in the defense of the Dietrich and Fund of Funds litigation. However, they say they did this with the understanding that there would be a reapportionment of legal fees and expenses over all layers of insurance called upon to satisfy the settlement or judgment.

It was also understood that the primary insurers could recover from Andersen amounts paid in excess of their pro rata shares should any of the excess insurers be bankrupt, insolvent or unwilling or unable to make payment, the insurers add.

Harbor's pro rata share of that was $826,938, of which $745,199 was advanced to Andersen by the primary insurers.

Because Harbor has refused to reimburse the primary insurers for its share of legal fees, the insurers contend that Andersen is now obligated to reimburse the primary insurers for $745,199. ■

PICO will manage reciprocal

TALLAHASSEE, Fla.—Physicians Insurance Co. of Ohio is assuming management of Florida Physicians Insurance Reciprocal under a rehabilitation plan developed by the Florida Insurance Department.

Management of the reciprocal will be guided by PICO's newly formed subsidiary, Physicians Management Corp., according to a statement issued by the Pickerington, Ohio,-based PICO.

The reciprocal, with 3,400 physician members, is the state's second-largest writer of malpractice coverage after The St. Paul Cos. Inc., and had been endorsed by the Florida Medical Assn. (*BI*, July 30).

Although it claimed to have about $13 million in surplus, the reciprocal was found to be insolvent earlier this year in a routine triennial examination of state-licensed domestic insurers, according to the department.

The reciprocal, which wrote about 30% of the state's physicians' medical malpractice insurance, has been in receivership since June.

According to Jerry Service, director of the Insurance Department's rehabilitation division, the plan was approved Oct. 25 by the Second Circuit Court in Leon County and calls for:

- Physicians covered by the reciprocal to contribute $6.25 million to surplus. Half of that has already been contributed; the remaining 50% must be contributed by the end of this year.
- The Florida Medical Assn. to contribute 10% of that total, or about $625,000, in exchange for a subordinated note from the reciprocal.
- The reciprocal's reinsurers to credit the entity $5 million.
- Physicians Management Corp. to contribute $1 million, in exchange for a subordinated note.

Physician-members of the reciprocal are expected to vote sometime next year on transforming the entity into a stock company, Mr. Service points out.

The reciprocal had $40 in premiums written in 1983, and $68.7 million in assets at year-end, according to PICO. Formerly, it was managed by Professional Insurance Management Co. in Jacksonville, Fla.

Hysterectomy most common surgery

NEW YORK—The most frequently performed surgery for women are total abdominal hysterectomies and low-cervical caesarean sections, according to a study by Corporate Health Strategies Inc., a unit of Metropolitan Life Insurance Co.

According to the study, total hysterectomies and low-cervical caesarean sections both accounted for 3.89 hospital admissions per 1,000 females nationwide.

These procedures were followed by diagnostic dilation and curretage, with 3.69 admissions per 1,000 females; dilation and curretage following delivery or abortions, 2.25 per 1,000; and total cholecystectomies—or gallbladder removals—2.13 per 1,000.

The most common surgical procedure for men is unilateral repair of inguinal hernias, with a rate of 1.52 hospital admissions per 1,000 men nationwide.

This procedure is followed by appendectomies, with 1.5 admissions per 1,000 men; tonsillectomies with adenoidectomies, 1.06 per 1,000; and excision of semilunar knee cartilage, 1.01 per 1,000. ■

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Chicago conference to study occupational disease issues

CHICAGO—The impact of occupational disease on employers, employees and the workers compensation system will be emphasized at a national conference on the subject next month in Chicago.

The conference, co-sponsored by the Alliance of American Insurers and the Risk & Insurance Management Society, will be Dec. 4-5 at the Drake Hotel.

"The primary purpose of the meeting is to bring employers, labor, doctors, workers compensation administrators, attorneys and insurers together into a common forum to consider occupational disease issues with emphasis on the ability of the state workers compensation systems to handle occupational disease," said Steven D. Millikan, director of workers compensation at the Schaumburg, Ill., based Alliance and chairman of the event.

"We feel that often when you discuss occupational disease, you hear the point of view from labor and from the insurer, but rarely from the employer," said Jon Harkavy, director of governmental affairs for RIMS in New York, explaining the society's participation.

A speaker from the employer sector on a panel on the critical issues of occupational disease is still not confirmed, Mr. Harkavy said. But, Bruce M. Eckert, executive vp of the Pennsylvania Foundrymen's Assn., will give employers' views on a panel called Occupational Disease Work Place Link—Who Is Responsible? The foundrymen's group, based in Philadelphia, has 175 company members.

Other panelists are Kenneth R. Feinberg, a Washington attorney for asbestos manufacturers; Donald Elisburg, a Washington attorney who represents labor; and Marshall Bennett, chairman of the Mississippi Workmen's Compensation Commission. The moderator is California Assemblyman Michael Roos, D-Los Angeles.

Other speakers on the panel addressing the critical issues of occupational disease are Gary L. Countryman, president of Boston-based Liberty Mutual Insurance Co., and David Mallino, an economist with the AFL/CIO in Washington. The moderator will be Andre Maisonpierre, president of the Reinsurance Assn. of America.

Another panel that will tackle the magnitude of occupational disease includes Dr. Irving J. Selikoff of Mount Sinai Medical Center in New York and Dr. Phillip Cole of the University of Alabama Medical School. The moderator will be Peter S. Barth, economics professor at the University of Connecticut.

A fourth panel will discuss the problems of causation in occupational disease from the legal and medical points of view. Speakers are Dr. Shirley Conibear of Carnow, Conibear & Associates, a Chicago medical consulting group, and Merton Marks, a Phoenix, Ariz., attorney who represents employers. The moderator will be Douglas Danner, a Boston attorney.

And, a fifth panel will tackle the question, "Where Do We Go From Here?" Panelists are Richard Victor, executive director of the Workers Compensation Research Institute in Massachusetts; Dr. J. Donald Millar, director of the National Institute of Occupational Safety & Health in Washington; Robert Steingut, chairman of the New York Worker's Compensation Board; and C. Clarke Imbler, Alliance senior vp.

The moderator will be Robin W. Waller of the Connecticut Workers' Compensation Commission and chairman of the Legislation Committee of the International Assn. of Industrial Accident Boards & Commissions.

A U.S. senator and a state representative will debate the state approach vs. federal approach. Sen. Don Nickles, R-Okla., will give the federal viewpoint, and Maine Rep. John Martin, D-Eagle Lake, will give the state side. The moderator will be Joseph P. Hegarty Jr., Alliance senior vp in Boston.

Victor Schwartz, a Washington attorney known for expertise in product liability, will speak about the impact of tort litigation on employers during Tuesday's luncheon.

And U.S. Rep. John Erlenborn, R-Ill., will close the conference Wednesday at noon.

The dinner slated for Tuesday evening will feature as its speaker Charles McDowell, a political columnist for the Richmond (Va.) Times-Dispatch who will analyze the 1984 elections.

The registration fee is $250, and hotel rooms are available at a reduced rate. Information and registration material are available from Steven Millikan, Alliance of American Insurers, 1501 Woodfield Road, Suite 400 West, Schaumburg, Ill. 60195; 312-490-8500. ■

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• National Loss Control Service Corp. has published a new price list for **analyses of industrial hygiene samples**. Analyses include common metals, specialty metals, bulk metals, organic and inorganic acids, organic solvents and vapors and specialty organics. For a free copy of the new NATLSCO Laboratory Price List write, NATLSCO, K-3, Department LB, Long Grove, Ill. 60049.

• Guard against **computer theft and liability suits** with advice and information from "Computer Crime: Computer Security Techniques," published by Government Publications Outlook. The 231-page manual classifies and describes data security techniques in terms of strengths, weaknesses, costs and target vulnerabilities. To order a copy, send $7.50 to Department 36-JR, Superintendent of Documents, Washington, D.C. 20402; or phone 202-783-3238 for Visa or Mastercard.

• Approaches toward **highly protected risk property insurance** are detailed in an illustrated 16-page brochure offered by Protection Mutual Insurance Co. The brochure examines the engineering and research resources available to policyholders and prospective insureds from the Factory Mutual System. For free copies, write Walter Sands, Protection Mutual Insurance Co., 300 S. Northwest Highway, Park Ridge, Ill. 60068.

• "Situations and Attitudes of Retirees/Older Americans," a study published by the International Foundation of Employee Benefit Programs, discusses the impact of **pre-retirement planning programs** on employees. The paperback report is available to members of the IFEBP for $5 and to nonmembers for $9. To order a copy, write the Publications Department, IFEBP, P.O. Box 69, Brookfield, Wis. 53005.

• A planned approach to the safe and efficient management of **corporate automobile fleets** is described in "A Control Program for Motor Vehicle Fleets." The publication suggests ways to establish a fleet safety policy that takes a company's special circumstances and needs into account. The topics covered include driver qualification, recruitment and evaluation; supervision and training; and equipment maintenance. Each section offers tips on record keeping and other control procedures that encourage safe vehicle operation. To obtain a copy of the publication, send $1.50 to the Publications Department, Engineering and Safety Service, American Insurance Services Group Inc., 85 John St., New York, N.Y. 10038.

• Two new booklets detailing **cold-weather information** for both commercial and residential property owners are now available from The Hanover Insurance Cos. "Cold Weather Loss Prevention for Commercial Properties", a 28-question checklist, helps businesses prepare for frigid weather, and "Cold Weather Loss Prevention for the Home" provides solutions for common problems encountered by homeowners during the winter. For a free copy, write The Hanover Insurance Cos., Marketing Department, 440 Lincoln St., Worcester, Mass. 01605.

• The new, revised and expanded 28-page directory of **products and services** is available free from the American Society of Safety Engineers. Included in the guide is information on the following: audio-visual training programs, study materials for the Certified Safety Professional Examination, awards and honors programs and ASSE Institutes for Continuing Safety. To order a copy, write Dept. F, American Society of Safety Engineers, 850 Busse Highway, Park Ridge, Ill., 60068.

• The International Safety Academy has published a catalog of **safety and training films** that can be rented by employers. These films cover a wide range of safety and training topics for safety professionals in a variety of industries. A free copy of the catalog may be obtained by writing the International Safety Academy, 1600 Arch St., 12 Tower, Philadelphia, Pa. 19101.

• Making the new tax laws work for you is the subject of a new booklet released by Pension Planning Co. Inc. The booklet, "401(k) —A New tax Savings Program for You and Your Employees," describes the major provisions and advantages of **401(k) salary reduction plans**, details the cost of implementing such a plan and compares a 401(k) plan to an Individual Retirement Account. For a free copy, write Pension Planning Co. Inc., 355 Lexington Ave., New York, N.Y. 10017.

• The Film Library, a collection of **safety, training, fire, health and motivational films**, is now offering more than 200 of its titles in ½-inch and ¾-inch VHS videocassette format. The 1984 Film Catalog and Supplement are available free from the Film Library, 616 S. Westmoreland Ave., Los Angeles, Calif. 90005; 213-384-8114 or 800-421-9585.

• Implications of the Financial Accounting Standards Board's proposals on **collective bargaining** are examined in a paperback report published by the International Foundation of Employee Benefit Plans. The report examines the issues of pension cost allocation and pension information on the balance sheet—issues that could influence collective bargaining by changing employers' accounting for pensions. The report is $5 for IFEBP members and $9 for non-members from the Publications Department, IFEBP, P.O. Box 69, Brookfield, Wis. 53005-0069.

• "Fitness" is a 16-page booklet describing hypokinesis—or the underuse of muscles—and the related problems of disease, stress and nonproductivity. The booklet emphasizes the importance of **fitness** and explains the aerobic metabolism. For a free copy, write Krames Communications, Department 1091, 312 90th St., Daly City, Pa. 94015

• A total of 13 comprehensive **insurance checklists** are now available for agents and insurance buyers. The checklists cover the options and details of the following areas: lease analysis, builders risk, universal life, disability insurance, auto/truck change form, boat/yacht, health insurance, extended non-owned auto liability, boiler and machinery, directors and officers legal liability, EDP/computer coverages, agents renewal procedures form and State Farm vs. ISO's PAP policy. For any two subjects, send $12 and a self addressed envelope to Insurance Checklists, P.O. Box 5224, Jacksonville, Fla. 32207-5224.

• Current strategies for managing the costs of **health care benefits** are described and illustrated in a new study, "Health Care Cost Management: Private Sector Initiatives." The study describes different benefit plan designs, health care coalitions, worksite wellness programs and trustee actions in non-profit hospitals. Copies are available for $22.50 from Health Administration Press, Department FWG, 1021 E. Huron St., The University of Michigan, Ann Arbor, Mich. 48109; 313-764-1380.

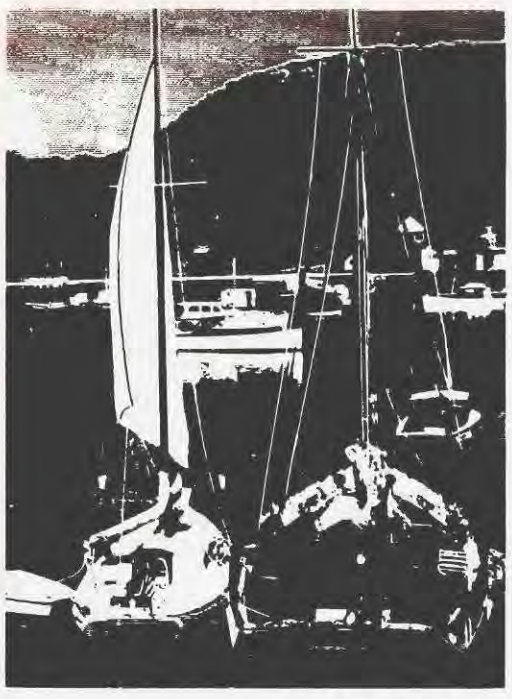
• An analysis of the costs and benefits of providing employees over age 65 with **pension accruals** is contained in the Employee Benefits Research Institute's October Issue Brief. The brief, "Pension Accruals for Older Workers," examines the Equal Employment Opportunity Commission's plan to implement pension credits and, if implemented, how the plan will affect the nation's employers. Individual copies are available for $10 or as part of an annual subscription, costing $100, to EBRI's monthly issue briefs and bimonthly newsletter. Either is available through EBRI at 2121 K St. N.W., Suite 860, Washington, D.C. 20037; 202-659-0670.

• A new study examining the types of information that are important to consumers in the selection of **physicians and medical service** is available from the International Foundation of Employee Benefits. The study details the need for instructing consumers in the proper use of such information and explains how consumer information is reflected in better selections. The study, "Reducing Benefit Costs Through Consumer Information: A Study of Physician Selection" is $5 for IFEBP members and $9 for nonmembers from the Publications Department, IFEBP, P.O. Box 69, Brookfield, Wis. 53005-0069.

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State voters elect incumbent, four new insurance regulators

By CAROL CAIN

Four new insurance commissioners will be joining the ranks of insurance regulators in January as a result of last week's elections.

Delaware voters unseated Republican David H. Elliott, while voters in North Carolina, South Dakota and Montana elected insurance regulators to fill seats that will be vacated at the end of the year.

Meanwhile, Washington voters re-elected Republican Richard G. Marquardt to his third term as commissioner.

And, voters in Colorado decided through referendum to make the insurance commissioner's post an appointed position, rather than having the commissioner selected through the civil service system.

The Colorado vote was 98,762 to 62,194 in favor of the change. Colorado was the only state that selected its chief insurance regulator by civil service. Most other states have regulators appointed by the governor or commerce department, though 11 states elect their commissioners (*BI*, Nov. 5).

With 90% of the votes totaled in Washington at press time, incumbent Mr. Marquardt captured 59% of the vote, or 65,897 votes, to challenger James E. Hoffman's 40,944.

One of the first things Mr. Marquardt plans to do in his third term is take aim at what he calls "celebrity insurance." He says he has been approached by people throughout the state who are concerned about movie stars and sports personalities peddling insurance to senior citizens through television commercials.

"(The policies) do what they say they're going to do, but I don't think they serve the best public interest," he said. "We think (these policies) should have minimum standards," Mr. Marquardt said.

With virtually all of the votes reported in the three-way race in Delaware, Democrat David N. Levinson unseated Mr. Elliott, a two-term incumbent. Unofficial vote totals show Mr. Levinson with 127,933 votes to Mr. Elliott's 107,148. American Party candidate Karl VanderHeyden received 2,025 votes.

Mr. Levinson, an attorney and land developer in Delaware and other states, unsuccessfully ran for the U.S. Senate in 1982.

Neither Mr. Levinson nor Mr. Elliott was available for comment after the election.

In Montana, with 94% of the precincts reporting, Andrea Hemstad, the Republican candidate, received 172,874 votes, or 53% in the race for state auditor, a post that includes insurance regulation. Democratic challenger Newell Anderson received 133,165 votes, and Libertarian Party candidate Patricia Summers received 18,874 votes.

Ms. Hemstad, a three-term state representative and former personnel officer with Blue Cross of Montana, has an undergraduate degree in political science from the University of Montana. As a state representative, she sponsored virtually all insurance-related legislation that came out of the auditor's office, she said.

Modernizing the office of the auditor, who also holds several other titles in addition to insurance commissioner, is the top priority for Ms. Hemstad, who campaigned on that issue.

She will assume the seat vacated by the retirement of E.V. "Sonny" Omholt, a Democrat.

In North Dakota, with 90% of the votes tallied, Democrat Earl Pomeroy appeared to be the new insurance commissioner after capturing 155,705 votes, or 52%, compared with 131,519 votes, or 44%, for Republican Diane Alm. Independent candidate Jan Gerhart-Shelver had 9,235 votes.

Mr. Pomeroy, an attorney from Valley City, was serving in his second term in the state House of Representatives when he decided to run for the insurance commissioner's post. As a state representative, Mr. Pomeroy was chairman of the Judiciary Committee, which investigated financially unstable insurers.

He views the department as a nuts-and-bolts regulatory agency and campaigned on the theme of consumer protection. Mr. Pomeroy has an undergraduate degree in political science and a law degree from the University of North Dakota. He also did graduate work in legal research from the University of Durham in England.

He will take over the position from J.O. "Bud" Wigen, who is retiring.

In North Carolina race, with only 77% of the votes in, showed Democrat James E. Long leading with 940,000 votes to Republican Richard T. Morgan's 796,000.

Mr. Long, an attorney, had been chief deputy insurance commissioner under incumbent John R. Ingram from 1975-1976. Mr. Long also served three terms in the state House of Representatives, was chairman of the state's Property Tax Commission and was counsel to the speaker of the House.

His transition team already is at work trying to determine the statutory responsibility of the department and what types of people are needed to fill the positions, he said, adding that the department is "woefully understaffed."

Mr. Long, who has an undergraduate degree in political science and a law degree from the University of North Carolina, "has represented and sued" insurers through his private law practice.

He will succeed Mr. Ingram, who ran unsuccessfully for governor in the primary. ■

Judge in Robins case reprimanded

Continued from page 2

ing the hearing that he was biased in favor of the plaintiffs.

In its decision, the three-judge appellate panel ruled that Judge Lord interfered with the Robins officers' due process rights.

"These three officers received no adequate notice of the nature of the informal and personal charges Judge Lord issued from the bench on Feb. 29," the court said.

"Such intimidation of private citizens who are not parties to proceedings before the district court is antithetical to our notions of fundamental fairness and the proper functioning of our judicial system."

The appellate court also ruled that Robins, as a party to the litigation, was denied its right to due process, the essence of which is a fair trial before a tribunal free from bias or prejudice.

"The record is clear that, at the time he issued the reprimand, Judge Lord had decided the merits of the underlying dispute against Robins, even though there had been no trial," the court said.

"Here, the judge made his comments without a trial and thus without hearing both sides of the case.

"Those comments in such a context exhibit a pervasive bias and prejudice as to deprive Robins of its due process right to a hearing before an impartial judge."

The appellate court ruled that Judge Lord improperly interfered in the settlement agreement between the plaintiffs and Robins by affixing a "so ordered" notation and by signing the settlement agreement when the parties did not contemplate he would do so.

Still pending against Judge Lord is a disciplinary proceeding brought by Robins before the Judicial Council of the 8th Circuit.

In a prepared statement, Judge Lord said, "I am of course greatly pleased that A.H. Robins Co. has failed in its attempt to personally punish me for reprimanding the company for its misdeeds. A.H. Robins never seriously contested the truth of my remarks nor did the court of appeals question the accuracy of my statement.

"Jurors in Minnesota and across the nation have found this corporation to have acted with a willful indifference to the rights and safety of women. Recent events have further vindicated the validity of what I have done and the law itself, I am sure, will come to a position of holding corporate officials accountable for the misconduct of their corporations."

A spokesman for Robins said, "The opinion of the Court of Appeals speaks for itself. The court has spoken against Judge Lord, and we are satisfied that justice has been done." ■



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~~Oct 15~~	~~Oct 2~~
~~Oct 22~~	~~Oct 10~~
~~Oct 29~~	~~Oct 17~~
~~Nov 5~~	~~Oct 24~~
~~Nov 12~~	~~Oct 30~~
~~Nov 19~~	~~Nov 7~~
Nov 26	Nov 13
Dec 3	Nov 20
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1985	
Jan 7	Dec 19
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Jan 21	Jan 9
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Feb 4	Jan 23
Feb 11	Jan 30
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Vote won't quickly affect risk management

By JERRY GEISEL

WASHINGTON—Last week's elections will have little immediate effect on property/casualty insurance issues, but the long-term outlook is worrisome, experts say.

The most striking thing about President Reagan's massive victory is that it did little to change the political composition of the House and Senate.

"The place (Congress) hasn't changed that much," said Dirk Van Dongen, president of the National Assn. of Wholesaler-Distributors.

In the Senate, the Democrats picked up two seats to trim the Republican margin to 53-47. In the House, the Republicans were expected, with several close races still undecided, to pick up about 15 seats, leaving the Democrats still in control.

"The big disappointment for Republicans must have been the short coattails of the president's victory," said Andre Maisonpierre, president of the Reinsurance Assn. of America in Washington.

"What happens during the 1986 congressional elections, when there is no presidential coattail effect at all? The Democrats could take control of the Senate, and there could be big gains for the Democrats in the House," Mr. Maisonpierre said.

And if that scenario actually occurs, slumbering issues backed by some Democrats—including federal standards for workers compensation programs and altering the McCarran-Ferguson Act, the federal law that leaves regulation of the insurance industry up to the states—could be revived.

"We could be fighting people like Sen. Howard Metzenbaum again," Mr. Maisonpierre said. Sen. Metzenbaum, D-Ohio, a longtime critic of the insurance industry, has frequently raised questions about the regulation of insurers.

It isn't clear what the election will mean to the chances that Congress will enact a federal product liability law, observers say.

On the negative side, Sen. Charles Percy, R-Ill., one of the few moderate Republicans from a major industrial state to endorse federal product liability legislation, was defeated. Rep. Paul Simon, D-Ill., who defeated Mr. Percy, is not expected to back a federal product liability bill.

On the plus side, Sen. Robert Packwood, R-Ore., an opponent of federal product liability legislation, may give up his chairmanship of the Senate Commerce Committee, which controls product liability bills, to move to the Senate Finance Committee (see story, page one).

If that happens, Sen. John C. Danforth, R-Mo., who this year backed federal product liability legislation proposed by Sen. Robert Kasten, R-Wis., probably would win control of the pivotal Commerce Committee.

"Sen. Danforth is a thoughtful legislator with a strong interest in product-related injuries," said Les Cheek, vp of federal affairs in the Washington office of insurer Crum & Forster.

When the Kasten bill was considered earlier this year by the Commerce Committee, Sen. Danforth added a provision to set up a three-member panel of legal scholars, appointed by the Judicial Conference of the United States, that would conduct studies to see how well a federal product liability law was working (*BI*, April 2).

The new, slightly more conservative House will make it more difficult for Rep. James Florio, D-N.J., to win support for an expanded federal Superfund law, which is up for reauthorization next year.

Mr. Florio had backed a provision in Superfund legislation this year that would have created a federal cause of action under which companies disposing of hazardous waste could be held jointly and severably liable for personal injury and property damage claimed by individuals.

That provision, which insurers said would have made pollution risks uninsurable, was stripped on a narrow 208-200 vote before the House approved the bill (BI, Aug. 20). The Senate didn't complete action on Superfund legislation this year.

"With a House that is a bit more conservative, the chances of a Florio-type Superfund amendment gaining passage are less," said Tom O'Day, assistant vp in the Washington office of the Alliance of American Insurers, a trade group representing about 170 property/casualty insurers.

Mr. O'Day also believes that the new Congress will be a bit more business-oriented. As a result, issues like compensation for occupational disease victims will be considered in the context of their impact on the economy.

"Legislators will be asking: 'Can the economy afford such proposals?'" Mr. O' Day said.

Observers say both the administration and the Congress will study proposals affecting the taxation of property/casualty insurers.

"Our problems with taxes have not gone away," said Mr. Maisonpierre. Legislators and regulators see the industry as a possible source of more revenue, he added.

Mr. O'Day said, "The David Garlocks are saying: 'You (the insurance industry) are next.'"

Mr. Garlock, assistant tax legislative counsel at the Treasury Department, recently said that the department is drafting proposals to reduce tax advantages enjoyed by insurers (*BI*, Oct. 29). ■

Risk management, benefit experts leave Congress

WASHINGTON—Some key figures on risk management and employee benefit issues will not be returning when the 99th Congress convenes in January.

Those senators and representatives include:

- Sen. Charles Percy, R-Ill. Mr. Percy, one of the few moderate Republicans from a major industrial state to support a federal product liability law, was narrowly defeated by Democratic Rep. Paul Simon in last week's election.
- Rep. Barber Conable, R-N.Y. Mr. Conable, the ranking minority member of the House Ways and Means Committee, successfully fought to prevent the Internal Revenue Service from retroactively imposing restrictive rules on flexible spending accounts. He did not seek re-election.
- Rep. John Erlenborn, R-Ill. Mr. Erlenborn, widely acknowledged as Congress's top expert on pension issues, is joining a Chicago-based law firm and did not run for another term.

But, other senators and representatives who will play an important role in risk management and employee benefit legislation were re-elected and will return to Washington. They include:

- Sen. Bill Bradley, D-N.J., who is expected to take a major part in next year's debate on reauthorizing the federal Superfund law.
- Rep. James Florio, D-N.J., who will lead the battle in the House for a tougher Superfund law.
- Rep. William Clay, D-Mo., who as chairman of the House Labor-Management Relations Subcommittee controls legislation affecting the Pension Benefit Guaranty Corp.
- Rep. Daniel Rostenkowski, D-Ill., who as chairman of the House Ways and Means Committee will control the fate of expected deficit reduction bills that will try, among other things, to curb the tax-favored status of employee benefit plans.

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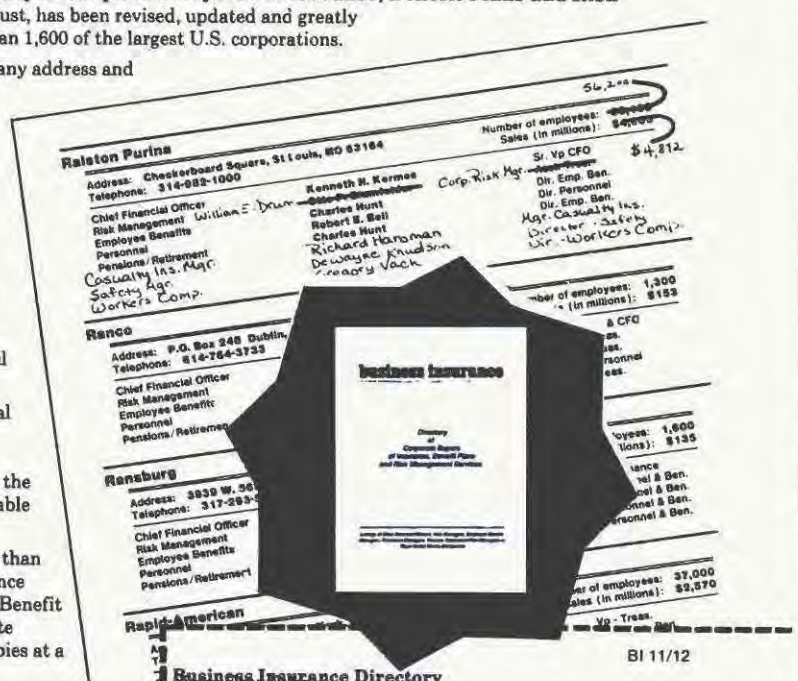
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Aetna Life & Casualty official dies at age 56

HARTFORD, Conn.—Herrick A. Drake, a vp at Aetna Life & Casualty Co. and former president of CIGNA Corp.'s Aetna Insurance Co. subsidiary, died Nov. 4. He was 56 years old.

Mr. Drake became president of Aetna Insurance Co. in 1979. He joined Atena Life & Casualty in 1982 and was vp of field management for the commercial insurance division. ■

Reagan win may spur new benefit taxes

Continued from page 1

"What is left is to tax benefits," said Mr. Davey.

The size of Mr. Reagan's victory is expected to give him the power to achieve marginally unpopular proposals, like taxing benefits.

"A president with this kind of authority will get a chance to make changes," said Mr. Fay, a former Senate Finance Committee staffer.

"We know this administration has sent proposals to Capitol Hill to tax benefits before, and there is no reason to believe that they won't do so in the future," predicted James Dorsch, Washington counsel for the Health Insurance Assn. of America, an industry trade group.

For example, the administration drafted and urged Congress to pass legislation that would have included as taxable income to employees their employers' cost for group health insurance premiums that exceeded $70 a month for individuals and $175 a month for family coverage.

That proposal, later introduced by Sen. Dole, R-Kan., died this year in the Finance Committee.

While individual bills that strip away the tax-free status of employee benefits will be introduced next year, it is the Treasury Department's soon-to-be unveiled tax simplification package that is expected to most affect benefits.

"I wouldn't be surprised if the tax preferences for many employee benefits will be taken away in a tax simplification package," Mr. Davey said.

For example, a major tax simplification bill introduced this year by Sen. Bill Bradley, D-N.J., and Rep. Richard Gephardt, D-Mo., proposed that the cost of health care (medical, dental and vision), group term life insurance, child care, van pooling and group legal benefits be included as taxable income to the employee (*BI*, Sept. 3). The bill never made it out of committee.

Tax simplification proposals, like the Bradley-Gephardt Fair Tax Act and the package expected to be unveiled by the administration, all try to simplify the tax code by applying flat tax rates.

The Bradley-Gephardt bill, for example, applies flat tax rates of 14%, 26% or 30% to all incomes. In many cases, such a system would mean people would be taxed at lower rates.

But, to broaden the tax base, which would be needed to make up for the revenue lost by lowering tax rates, many current tax deductions and exclusions—like the exclusion of the cost of employer-provided benefits from employee income—would be eliminated.

Previous tax simplification proposals have never made it out of a congressional committee. But, that could change with an enormously popular administration soon to unveil and lobby for its own tax simplification proposal.

"The mandate the president received gives a tax simplification package a much better chance in Congress," Mr. Davey said.

Such a package would first go to the House Ways and Means Committee, where the tax-free status of employee benefits came under attack this year.

"There are few friends of employee benefits in the Ways and Means Committee," a source said.

One friend the employee benefit community did have on the Ways and Means Committee—Rep. Barber Conable, R-N.Y.,—is retiring this year.

The ranking minority member, Rep. Conable almost single-handedly convinced Congress to stop the retroactive enforcement of proposed restrictive Internal Revenue Service rules for flexible spending accounts.

Tax simplification bills also would be considered by the Senate Finance Committee, which, under the chairmanship of Sen. Dole, also has taken a hard line on the tax-favored status of employee benefits.

For example, it was Mr. Dole this year who tried to convince the Finance Committee to accept an administration proposal that benefit experts said would have crippled the use of tax-exempt Voluntary Employee Beneficiary Assns., also known as 501(c)(9) trusts, to fund long-term disability benefits and post-retirement medical care.

Sen. Dole would vacate his Finance Committee chairmanship if he is successful in his bid to become the new Republican majority leader. Sen. Dole is expected to be opposed by Sen. Richard Lugar, R-Ind., and political experts say the contest now is too close to call.

If Sen. Dole does become majority leader, Sen. Packwood, now the ranking majority member on the Finance Committee, would most likely become the new chairman.

In contrast to Sen. Dole, Sen. Packwood has frequently spoken out on the need to protect employee benefits from new taxes.

Sen. Packwood fears that if benefits were taxed, employees would drop coverages rather than pay taxes for benefits they might never use. In the end, this could increase pressure for a national health insurance program to aid employees who no longer are insured but face catastrophic medical costs.

Such a program would be much more costly than employer-provided benefit plans, Sen. Packwood has said.

"Sen. Packwood is very committed to the employee benefit field," said Mr. Fay.

Few will forget that it was Sen. Packwood's tenacious opposition that led to the defeat of the administration's proposal to restrict VEBA benefit reserves in the Finance Committee this year. A modified version of the administration's original proposal later was incorporated in the 1984 tax bill.

But not all benefit experts welcome control of the Finance Committee by Sen. Packwood.

One benefit lobbyist questions if Sen. Packwood could be effective on benefit issues.

"He (Sen. Packwood) turns off a lot of people. He frequently goes too far and finds it difficult to compromise. I'm not sure how helpful it would be to have someone on our side who engages in suicidal missions," the benefit lobbyist said.

For example, it was Sen. Packwood who refused to accept a House compromise proposal that would have extended the tax-free status of employer-provided educational assistance benefits so long as employees paid Social Security taxes on the tuition reimbursement checks they received.

After Sen. Packwood announced his opposition, House members became angry and dropped the educational assistance benefit provision from the 1984 tax law.

Congress on the last day of the session did extend the tax-free status of educational assistance benefits, but only after imposing a $5,000 annual cap on the amount of the benefit. ■



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Andersen probably covered in M&M suit

Continued from page 2

In a derivative action, shareholders sue the officers and directors on behalf of the corporation for failure of the officers or directors to act in a prudent manner to the detriment of the corporation. Andersen was named as an additional party in the M&M suit.

Andersen apparently failed to discover the bond positions, valued at $1.2 billion at the end of 1983, in its year-end audit, M&M officials have said. The positions were finally discovered by M&M in March.

The derivative suit, filed in mid-June in a state Supreme Court in New York City, alleged that Andersen:

- Allowed cash managers to record margin and interest payments as full payment for securities purchases and to record purchases of long-term securities as short-term.
- Should have asked securities dealers what M&M's total positions were, instead of just asking dealers to verify positions that appeared on M&M's books.
- Failed to carefully conduct the audit considering that brokerage confirmation slips were sent directly to the individual bond trader without independent verification from M&M; open-trading commitments were not monitored or reconciled by non-traders; the company did not have a trading policy manual; and M&M did not receive monthly securities brokerage statements because securities dealers considered M&M to be another dealer.

Under the settlement, Anderson will pay M&M $19.9 million in cash and $2 million in "additional concessions," M&M said. The settlement also provides that the derivative litigaion against Andersen will be dismissed.

However, the settlement has yet to be finalized "subject to the negotiation and execution of definitive settlement documents and various other conditions including court approval," according to an M&M statement.

M&M also said last week that Andersen would remain the company's auditor. "They will continue as our auditors for 1984," a spokesman said.

Spokesmen for Marsh & McLennan, Andersen and attorneys for the shareholder that brought the suit declined to provide specifics of the proposed settlement or details of Andersen's insurance.

Harold R. Cunningham, a partner at Andersen's world headquarters in Chicago said that, in general, "we feel we have sufficient liability coverage."

Andersen is believed to have purchased professional liability insurance from Lloyd's of London underwriters. Ian Hay Davison, a former Andersen senior partner, currently serves as Lloyd's deputy chairman and chief executive.

In addition, it is known that Andersen had $50 million of professional liability coverage in 1970-1971 and $101 million in coverage in 1974-75. Lloyd's underwriters were primary insurers during both policy periods.

All of Andersen's primary and excess insurers in those years are currently embroiled in litigation to decide which insurers are liable for a $45 million settlement Andersen agreed to stemming from what is known as the Fund of Funds litigation (see story, page 1).

Although the details of the settlement between M&M and Andersen have not been disclosed, a source who is familiar with the case said the $2 million in concessions that Andersen will pay to M&M include the fees that the accounting firm charged M&M for the 1983 audit.

A spokesman for Andersen, however, called this report "just speculation."

Andersen's Mr. Cunningham said that as a general rule auditing services would not be involved as part of such a concession.

Attorneys for Miriam Rabinowitz, the shareholder who filed the suit, also said last week they will continue to vigorously pursue the litigation against the M&M employees named in the suit, which is currently in the discovery stage.

The shareholder's attorneys also say they believe they can recover from M&M's directors and officers liability insurance.

"We hope to get Marsh money from any source we could, including directors and officers insurance," said David Brower of the New York firm Abbey & Ellis.

"We clearly expect to get recoveries from the (D&O) policies," another attorney said.

An M&M spokesman would not comment on the company's insurance.

Earlier this year, M&M Chairman John M. Regan Jr. said M&M was considering several ways to recoup some of the bond trading losses, including filing claims with insurers. However, he would not reveal the names of M&M's insurers nor the types of policies that may be involved.

The current and former M&M employees named in the suit include James W.S. Macdonald, who was M&M's vp of finance at the time of the losses and who now holds another position with the company; Chester A. Gan, M&M's former trasurer; Richard O. Post Jr., who was formerly head of the broker's investment management group; and Dorothy Conway, formerly M&M's cash manager and bond trader.

The settlement by Andersen of the M&M suit is the second time in recent weeks that Andersen has settled litigation with clients.

Recently Chase Manhattan Corp. announced a $49 million pretax gain for the third quarter, reflecting a settlement of a lawsuit it filed in wake of the collapse of Drysdale Government Securities Inc. (*BI*, Oct. 22).

It is believed that Andersen, Drysdale's outside auditor, contributed the bulk—perhaps more than $45 million—of the settlement. An Andersen spokesman confirmed the company's participation in the settlement, but refused to give details. ■

State fines M&M $250,000

NEW YORK—The New York Insurance Department has fined Marsh & McLennan Cos. Inc. $250,000 for violations stemming from M&M's bond trading losses.

The fine is the largest the department has ever imposed.

In a stipulation signed Nov. 1, M&M President Frank J. Tasco agreed to pay the fine and admitted that M&M had illegally invested New York premium funds in government securities and had used New York fiduciary funds to finance the bond purchases.

At the same time, the department accepted M&M's assertion the trading took place without the knowledge of M&M's senior management and against its policies.

M&M fired several employees, including its treasurer and the head of its investment management group, after it discovered the unauthorized trading of more than $2 billion in government bonds, which produced aftertax losses of $90 million (see related story). ■

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Commercial Consumers Sub-Total	**24,416**
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*Source: Business/Occupational breakdown of qualified circulation, May 7, 1984 issue, as submitted to BPA for June 1984, BPA Publisher's Statement.

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Judge orders firm in bankruptcy to pay PBGC

Continued from page 2
has emerged from Chapter 11, paid its creditors between 93 cents and 95 cents for every $1 in debt.

But, on July 31, 1982, AM International's public debt securities were trading at a discount of between 75% and 80%. In view of this, the PBGC argued that the marketplace expected a compromise of claims under AM International's upcoming reorganization.

The PBGC conceded the "unlikelihood of the aggregate debt being discounted to the full extent implied by the public debt trading prices."

As a result, the PBGC employed a discount of 35% to some $251 million of AM International debt.

"The court finds that this discount is reasonable and within the range of debt compromise likely to be effected in reorganization proceedings of like size and complexity," Judge Fisher said.

For other financially troubled employers, the decision means that filing a bankruptcy petition no longer will mean that a company automatically has more liabilities than assets and thus is protected from a PBGC claim.

The PBGC and AM International locked horns when the company shut down its Euclid, Ohio, manufacturing plant in 1982 and terminated a pension plan covering hourly, unionized employees.

The PBGC said the plan, which had 1,600 participants, including 930 retirees, had $19.1 million in assets, but promised $25 million in guaranteed benefits to vested participants.

That resulted in a funding shortfall of $5.9 million.

The 32-year-old defined benefit plan, which covered machinists and office workers, was underfunded because funding did not keep pace with recent benefit improvements sought by the unions, Mr. Bruggeman said.

Shortly before AM International terminated the plan, the company had filed for Chapter 11, which temporarily protects a company from its creditors while it works out a reorganization plan.

As a result of AM International's termination of the underfunded pension plan, the PBGC, on May 20, 1983, filed a $3,609,911 claim against AM International in bankruptcy court.

On Sept. 28, 1983, the PBGC amended its claim to $6,022,550, and later reduced the claim to $5,927,201, the amount it believed it would have to pay to participants in the terminated plan.

AM International objected to the claim, saying it had a negative net worth and thus no liability to the PBGC. Its audited balance sheet on July 31, 1982 included $389,088,000 in assets and $473,059,000 in liabilities.

But Judge Fisher noted that AM International "mechanically measures net worth as being adjusted assets minus liabilities."

Such a method of calculating net worth might be appropriate outside of reorganization, he observed.

"However, the prime motivation for Chapter 11 reorganization is the restructure and reduction of debt. Consequently, a method of valuation which ignores such restructuring does not truly measure an employer's ability to sustain the expense of liability," Judge Fisher said.

By discounting some of AM International's debt by 35% and including as assets off balance sheet items, like investment tax credits and a reversion of excess assets in a separate pension plan for salaried employees that the company also terminated, AM International had a net worth of about $26 million, Judge Fisher said.

With this finding of positive net worth, the judge found AM International liable for the PBGC claim.

AM International recently emerged from Chapter 11. In its most recent fiscal year, ending July 31, the company, which has about 10,000 employees and $600 million in annual sales, reported operating income of $17.5 million. ■

Injured athlete gets $125,000

BOSTON—Normand Leveille, a 21-year-old former hockey player who suffered a cerebral hemorrhage in 1982, will get $125,000 from a policy from a Lloyd's of London underwriter because the accident was work-related.

The Lloyd's underwriter has agreed that the stroke suffered by the former member of the Boston Bruins between periods of a game in Vancouver was caused by his profession, said Mr. Leveille's lawyer, Neil Abbott of Boston. He said the underwriter will honor a policy with the National Hockey League, written through William J. Sutton Insurance Agency in Toronto, that provides $100,000 to a player who suffers a "career-ending accident" that is work-related.

A similar Lloyd's policy with the NHL Players Assn. has already paid Mr. Leveille $50,000 because he was disabled, Mr. Abbott said, and since the underwriter has agreed that the accident was work-related, that coverage will provide an additional $25,000.

The Bruins at first contended the stroke "had nothing to do with hockey and Normand wasn't entitled to the benefits," Mr. Abbott said.

"We produced medical evidence that showed this type of hemorrhage could be produced by elevations of blood pressure. . . .It was aggravated by his employment."

He said Mr. Leveille had a preexisting condition of large veins in the head that burst during the break in the game.

"If he hadn't been a professional athlete, he probably wouldn't have suffered the accident," he added.

Mr. Abbott said the Industrial Accident Board in Massachusetts has ordered Commercial Union Insurance Co. in Boston, the worker's compensation insurer for the Bruins, to pay Mr. Leveille $1,191 per month. Commercial Union is appealing that order to the board, he said.

Mr. Abbott said Bruins players are also covered by a disability policy written by Manufacturers Life Insurance Co. in Toronto.

That policy has not yet taken effect. But, the policy could pay a maximum of $100,000 if the company determines that Mr. Leveille is totally disabled. Less may be awarded if he is not considered totally disabled, Mr. Abbott noted.

Mr. Leveille has partial use of one arm and can move with a cane, Mr. Abbott said. But, he has difficulty speaking and "will never be able to earn a living again," he said.

He said the Bruins will pay Mr. Leveille the $162,500 that he would have received in salary during the final 2½ years of his contract. ■



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Lack of reinsurance cuts EIL capacity

Continued from page 1
claims from CGL policies, which is expected to force buyers to seek EIL coverage for exposures previously covered by CGL policies (see story below).

The new federal hazardous waste law, which was expected to be signed by President Reagan last week, could also mandate new coverage for as many as 1 million underground tanks, explains Jim Kimble, senior counsel with the American Insurance Assn. in Washington.

In addiiton, other new EIL insurance buyers are now looking for coverage to meet a Jan. 15 deadline imposed by the U.S. Environmental Protection Agency. On that date, firms with hazardous waste disposal operations that generate less than $5 million in annual sales will have to have pollution insurance or otherwise prove financial responsibility.

The latest company to pull out of the EIL market, Dryden & Co., is managing general agent for Gibraltar Casualty Co., a surplus lines affiliate of Prudential Reinsurance Co. Gibraltar indefinitely suspended writing new business in September, citing poor operating results (*BI*, Sept. 17).

A spokesman for Dryden says the EIL market lacks "an adequate premium base," and he says the company may not offer EIL coverage when it begins writing new casualty business again.

Earlier this year, Hartford Steam Boiler Inspection & Insurance Co. and Environmental Risk Assessment Services (International) Ltd., a London-based pool of 15 insurers, stopped writing pollution liability coverage because they could not find adequate reinsurance.

Also, two potential markets, one contemplated by J.H. Blades & Co. of Houston and the other by California Union Insurance Co., withered on the vine earlier this year for the same reason—no reinsurance available (*BI*, July 9).

While Dryden has bowed out of the EIL market, several other companies recently lowered the policy limits they can offer.

Swett & Crawford Management Co. Ltd., a subsidiary of The St. Paul Cos. Inc., has reduced its EIL policy limits from $15 million per occurrence/$15 million aggregate to $6 million/$6 million.

In addition, The Home Insurance Co. reduced its limits from $10 million per occurrence/$20 million aggregate to $5 million/$10 million.

And, while Travelers Indemnity Co. officially still has limits of $10 million/$10 million, Edwin J. Rinehimer, associate director of commercial lines, says Travelers is generally not writing the full amount of those limits.

The continued tightening of the reinsurance market is largely responsible for these reduced policy limits, EIL underwriters say.

"The reinsurance market has diminished appreciably," says Mr. Rinehimer. As a result, it is "not easy to get the policy limits" for an EIL risk, he adds.

Tim Lehman, an underwriter for Stewart Smith Inc. in Chicago, puts it more bluntly. "Nobody wants to talk about EIL," he says, referring to the reinsurance market.

Mr. Lehman says Stewart Smith, which writes EIL insurance for Great American Surplus Lines Insurance Co., has EIL reinsurance lined up through the middle of next year. "After that, who knows?"

In addition, reinsurance was one of the reasons behind Swett & Crawford's lower limits, says Kathryn I. Scott, EIL underwriting manager for Atwater McMillian Inc. in St. Paul, Minn., a St. Paul Cos. Inc. unit that now manages the Swett & Crawford program.

In addition, she says, the program is now insured through St. Paul Surplus Lines Insurance Co. The Swett & Crawford program had been underwritten by Harbor Insurance Co. and Pacific Insurance Co., underwriting units of Continental Corp. The change was the result of St. Paul's purchase of Swett & Crawford last year (*BI*, July 18, 1983).

A spokesman for The Home says the reduction in its EIL limits is based on the company's underwriting policy, which is to take on only small and medium-sized companies with "light to moderate" pollution exposures. Because of this policy, the spokesman explains, The Home did not need the $15 million/$20 million limits.

> 'The reinsurance market has diminished appreciably,' says Travelers' Mr. Rinehimer, noting that as a result, it is 'not easy to get the policy limits' for an environmental impairment liability risk.

The Home is currently negotiating with its reinsurers, the spokesman says, noting that limits or policy conditions that will be available next year are not yet known.

Companies that have not reduced their limits since the last *Business Insurance* survey in July include Stewart Smith; American Home Assurance Co., an affiliate of American International Group Inc.; Shand, Morahan & Co., underwriting manager for Evanston Insurance Co.; and Hartford Insurance Group.

The eighth EIL market, the Pollution Liability Insurance Assn., a pool of 49 companies offering coverage on the Insurance Services Offices form, was able to increase its limits slightly, from $6 million per occurrence/$6 million aggregate to $6 million/$10 million.

The increase was the result of increased interest in the PLIA program by some of the association's member companies, explains Art Baden, senior underwriter for PLIA in Chicago.

But, Mr. Baden notes that PLIA's limits may be reduced in January because several PLIA members are pulling out of the pool, largely because they haven't seen enough premium volume to justify their participation in the facility.

However, he adds that several companies may join the pool in December, replacing those that plan to pull out and says PLIA will be a viable EIL market through 1985.

Despite the apparent lack of activity at PLIA, which Mr. Baden says is due to the fact that the member companies are not aggressively selling the coverage, overall capacity in the EIL market is extremely limited, observers note.

Only two of the markets, AIG and Shand, will write pollution risks for Fortune 500-size companies. While both can offer limits up to $20 million/$20 million, both say they have a backlog of requests and it can take as much as 60 days for them to provide a quote.

In addition, excess EIL coverage is practically non-existent. Only Swett & Crawford is currently offering excess coverage, with limits of only $6 million. And, brokers say Swett & Crawford is very choosy about whom it will offer excess coverage to.

Thus, the maximum primary and excess coverage available in the EIL market is $26 million.

Swett & Crawford, The Home, PLIA and Stewart Smith say they primarily serve small to mid-sized companies with light to moderate pollution risks.

At one time, Stewart Smith was writing coverage for large companies with significant pollution risks, but earlier this year the company began shifting its book of business to smaller companies with moderate pollution exposures, brokers say.

As a result, larger companies that had policies with Stewart Smith must now seek coverage from the other EIL markets, principally AIG and Shand.

Mr. Lehman says Stewart Smith's reinsurers "don't want the Fourtune 500-type risks. They set up the program for smaller risks."

The other two markets, Hartford and Travelers, will only write EIL coverage for clients that purchase other types of coverage from them.

"We are not a specialty market," explains Travelers' Mr. Rinehimer.

David C. Sterling, a Hartford senior vp, says it is not cost-effective for Hartford to write EIL coverage on a stand-alone basis. Currently Hartford offers limits of $9.5 million/$9.5 million, but the insurer is now in negotiations with its reinsurers and Mr. Sterling says he does not know what limits will be offered next year.

Both Travelers and Hartford prefer to write coverage on one form for sudden and accidental pollution risks, which have been covered under comprehensive general liabilities policies, and gradual pollution, which is not covered under a CGL policy but is covered by the EIL policy. The two companies maintain this reduces the confusion over which policy will cover a pollution incident.

In fact, most of the EIL markets will currently include sudden and accidental coverage in their EIL policies for an additional premium.

Like many of the markets, Mr. Baden notes that PLIA is gearing up for an increase in submissions as a result of ISO's action to remove sudden and accident pollution coverage from the CGL form (*BI*, Oct. 29).

In addition, other new buyers may be looking for EIL coverage.

The federal hazardous waste legislation that the president was expected to sign last week reauthorizes the Resource Conservation and Recovery Act and requires the EPA to study the feasibility of requiring financial responsibility standards for owners of underground storage tanks.

The AIA's Mr. Kimble estimates that owners of perhaps as many as 1 milliion of the 3 million underground tanks now in use would be required to obtain EIL insurance to meet such standards, should EPA propose them.

On top of this, the new law also requires EPA to study the need for financial responsibility requirements for the tens of thousands of companies that generate small quantities of hazardous waste. These companies, too, are potential EIL policyholders.

If the EIL market can't handle this influx of new business, Mr. Kimble warns that Congress may respond with a federal program to take up the slack.

Mr. Kimble also points out that Congress is likely to consider a federal cause of action provision in next year's Superfund reauthorization bill, the prospect of which has already had a chilling effect on the EIL market, experts say.

This cause of action would make it easier for citizens to recover damages from companies because of pollution incidents (BI, July 9). ■

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Reinsurers balk at pollution risks

By STACY SHAPIRO

LONDON—Although the U.S. environmental impairment liability market is shrinking, the reluctance of London reinsurers to assume any comprehensive general liability risks that include any pollution coverage will make the EIL market more vital to insurance buyers.

The newly proposed Insurance Services Office's commercial general liability form excludes coverage for all pollution risks—sudden and non-sudden (*BI*, Oct. 29). However, CGL insurers could offer policyholders a chance to buy back coverage for sudden pollution through an endorsement.

But, London reinsurers may not support ISO's buy-back clause for any kind of pollution risks, said Robert Cameron, joint divisional managing director of C.T. Bowring Reinsurance Ltd. Indeed, reinsurance of pollution risks is one of the London reinsurers' biggest concerns right now.

"Reinsurers will question ceding companies on whether they intend to include the buy-back clause. And, the temptation may be to say no, 'I will not reinsure you.'"

If reinsurance is not available for CGL policies that include pollution coverage, direct insurers may be forced not to offer any pollution coverage or endorsements. This would send buyers that must have coverage to the EIL market, unless new markets for separate pollution coverage crop up.

However, London reinsurers are split on the issue of whether pollution coverage should be excluded from the CGL form.

Robin Jackson, director of Merrett Syndicates Ltd. and the leading Lloyd's of London non-marine underwriter, says all pollution risks should be excluded from the CGL form and a separate policy written for pollution exposures.

"We do not believe we should provide pollution of any sort under the CGL under any circumstances," he said. "If a company wants to be covered for pollution, there should be coverage under a separate policy."

However, Peter Wilson, managing director of H.S. Weaver (Underwriting) Agencies Ltd. and the leading London company non-marine underwriter, appears to be more flexible. He advocates that "ultimately, all standard seepage and pollution should be excluded from the CGL policy, but there should be a buy-back clause." This way, for an extra premium, an insurance buyer could name certain perils on his CGL form that would be covered, he added.

The ISO comprehensive general liability form was recently revised after reinsurers balked at an earlier revised policy.

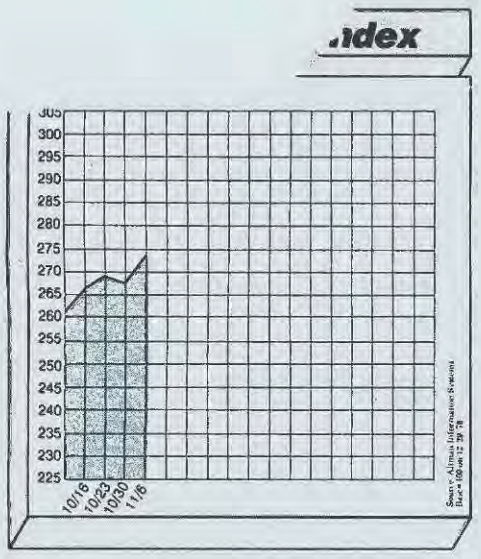
"Reinsurers in the U.S. and London had an input into the ISO form and the policy wordings and some changes were made," Mr. Jackson confirmed.

Besides stressing their concern over pollution coverage under the CGL form, the London reinsurers also want CGL coverage written on a claims-made form only, and not an occurrence form.

Under a claims-made form, an insurer is responsible only for claims first filed during the policy period; under an occurrence form, insurers are liable for losses that occur during their policy period, regardless of how long after a policy's expiration date a claim is brought.

Some reinsurers are saying they may provide reinsurance for risks written on a claims-made form or charge substantially more if an occurrence policy is involved.

The newly revised ISO form adds a retroactive date to the claims-made policy. ■



The *Business Insurance* stock index rebounded strongly in the period that ended Nov. 6. The *BI* index of insurance industry stocks closed at 274.0 points on Nov. 6, up 6.3 points from 267.7 on Oct. 30. A total of 37 stocks posted gains, 13 stocks declined and 11 were unchanged. The biggest gains were posted by Bitco Corp., up 47.8%; St. Paul Cos. Inc., up 13.5%; Washington National Corp., up 10.9%; American International Group Inc., up 9.1%; and Farmers Group Inc., up 6.9%. The biggest losses were posted by Aneco Reinsurance Co. Ltd., down 14.3%; Banks of Iowa Inc., down 6.7%; Hanover Insurance Co., down 4.5%; Integrated Resources Inc., down 3.7%; and Fremont General Corp., down 3.4%. The *Business Insurance* index rose 2.4% during the period, which was slightly better than the increase of 2.1% reported by the New York Stock Exchange composite and a 2.2% increase reported by the Dow Jones 30 Industrials for the same period.

British Issues

6 Nov Companies	Price pence	P/E	Div. pence	Yield %	1 Week High—Low pence	pence
Commil Union	174	N/M	16.9	9.7	174—170	
Gen Accident	488	18.8	27.1	5.6	488—475	
Gdn Royal Exch	640	15.1	32.9	5.1	640—625	
Royal	493	27.4	32.6	6.6	493—485	
Sun Alliance	398	24.9	20.0	5.0	398—387	
Brokers						
CE Heath	470	8.5	24.3	5.2	483—470	
Hogg Robinson	195	10.5	9.7	4.9	201—195	
JH Minet	176	12.1	7.4	4.2	182—176	
Sedg Grp	278	12.9	11.5	4.1	285—278	
Stew Wrightson	395	11.3	21.4	5.4	403—395	
Willis Faber	933	16.7	30.0	3.2	950—933	

Source: Philip Olsen/Alan Clifton, Insurance Industry Specialists Kitcat & Aitken Stockbrokers, London

Price hikes not yet reflected in broker commission results

By LEONARD M. WILSON

Special to Business Insurance

THE EUPHORIA over premium rates on primary commercial lines seems to be building. Ask almost anyone in the industry how much rates are going up, and the standard reply is likely to be 20% or more. The jump in prices seems to be an accomplished fact to most observers.

Unfortunately, the reputed price increases have not yet filtered into the commission streams of the publicly owned brokers, judging by third-quarter results. For example, we estimate with some humility as to precision that premium rate increases contributed 1% to 2% at best to the advance in third-quarter commissions.



Mr. Wilson

There was acceleration in year-over-year commission growth as compared to first and second quarters, however. But, this acceleration is owed primarily to an absence of premium rate reductions rather than to premium rate increases.

Another phenomenon in the current unsettled pricing environment seems to be a lack of benchmarks for underwriter quotations. Everyone wants higher rates to staunch red ink. But, just as the rating books were tossed out the window during the now-ended rate war, there seems to be no clear rhyme to the magnitude of rate increases. As capacity tightens, pricing will likely become a question of what the traffic will bear, not necessarily what the experience warrants.

Third-quarter earnings comparisons for the three public brokers that have already reported followed the second-quarter pattern. In a word, there is no cause for rejoicing as yet.

Marsh & McLennan's third-quarter earnings at 87 cents a share looked pretty solid against a year-earlier figure of 56 cents a share. But, the numbers, after dissection, seem less prepossessing. Included in the 1984 quarter was 12 cents to 13 cents per share for the sale of assets. The 1983 result, in turn, had been restated downward from an original 79 cents per share to reflect allocation of bond losses.

The company's other operating expenses soared, partly due to a non-recurring charge to allow for a discontinued operation. Even leaving out this special factor and an acquisition, we estimate that other operating expenses rose 20%. On the plus side, we think that domestic primary brokerage increased 12% in the quarter compared with 2% in the first quarter and 6% in the second. The top line is moving in the right direction.

Alexander & Alexander Services Inc. reported earnings of 26 cents per share for the third quarter against the prior year's 22 cents per share. That is not a bad gain, but it is far below potential earning power. Domestic commissions rose about 8%, we calculate. Pronounced earnings leverage, though, will await a greater contribution from rate increases.

The company's British-based insurance unit, a subsidiary of Alexander Howden Group P.L.C., posted a profit in the quarter. Symbolically or otherwise, the absence of red ink could be another sign that the Howden troubles are receding.

Corroon & Black had the most difficult comparison: 24 cents per share for the quarter against 68 cents per share the previous year. But, like in the case of Marsh & McLennan, the numbers need intepretation, and in fact were far better than they appeared.

Reserve strengthening at a small underwriting subsidiary crimped earnings by 38 cents a share in the 1984 period. In addition, 1983's results included 8 cents per share of non-recurring gains. On an operating basis, results actually improved.

Importantly, the advance in Corroon & Black's primary brokerage commissions edged into low double-digit territory. Surplus lines brokerage, though, remains a substantial drag, as a result of contraction in capacity.

New business for all the reporting brokers was strong again. The tightening now being seen in some markets has promising implications for the large brokers with clout in the marketplace. For several years, "clout" was a term that had been just about banished from the insurance brokers' vocabulary. Clout will no doubt be back in vogue in 1985.

Even though third-quarter results were lackluster, investors have seized upon the anticipated rate increases to bid up the process of insurance brokerage share. We calculate the average price-to-earnings ratio at 13 times 1985 estimated earnings. In contrast, the average industrial stock sells for nine times 1985 earnings estimates.

Clearly, investors have waxed optimistic about the outlook. What a far cry from six months ago, when a show-me attitude governed investor attitudes.

Leonard M. Wilson, a special limited partner at L.F. Rothschild, Unterberg, Towbin in New York, specializes in insurance brokerage stocks. He is a member of the New York Society of Security Analysts.

Financial briefs

Old Republic

Old Republic International Corp. reported record operating earnings for the nine months ended Sept. 30.

The Chicago-based insurance holding company reported net operating income of $44.2 million, or $3.73 a share, for the nine months, compared with $39.1 million, or $3.41 per share, for the same period last year.

For the third quarter of 1984, operating earnings were $15.1 million, or $1.28 a share, compared with $13.7 million, or $1.20 a share, the year before.

Helvetia Accident

Helvetia Accident Insurance Co. of Zurich, Switzerland, is purchasing all assets of Italy's Savoia Insurance Group as part of its plan to expand its activities in other nations.

Informed sources said the cost of the deal was about 26 billion lira (about $13.87 million), although Helvetia would not disclose figures.

Savoia Group reported 1983 profits of about $49 million. The sources said Helvetia is expected to operate Savoia as a subsidiary.

St. Paul Fire & Marine

St. Paul Fire & Marine Insurance Co. says it will increase the capitalization of Mercury Reinsurance Co. Ltd., its British reinsurance subsidiary, by about $3.6 million to approximately $6 million.

St. Paul says it intends to further increase the capital of the British company to about $12 million by year-end 1985.

In addition, St. Paul has applied to change the British company's name to St. Paul Fire & Marine Insurance Co. (U.K.) Ltd.

Mercury Reinsurance was formed by St. Paul in 1980, with Oberon Underwriters Ltd., a unit of English & American Insurance Group P.L.C., acting as its underwriting manager. St. Paul estimates Mercury Re's 1984 premium volume at $7 million.

CIGNA Corp.

CIGNA Corp. has declared a cash dividend of 65 cents per share of common stock. In addition, it has declared a cash dividend of 68.75 cents per share of its convertible preferred s[illegible].

The dividends are payable Jan. 10 to shareholders of record Dec. 13.

American Indemnity

American Indemnity Financial Corp. has declared a regular quarterly dividend of 28 cents per share of common stock, payable November 15 to shareholders of record November 7.

HealthAmerica Corp.

HealthAmerica Corp., a publicly held operator of health maintenance organizations, reported increased revenues and income for the first nine months of the year.

Revenues increased 74% in the first nine months of 1984 to $127.3 million from $73.2 million in the same period last year. Net income rose 111.2% to $9.6 million, or 44 cents per share, from $4.5 million, or 26 cents per share. ■

BI Industry Stock Report

NOV. 6, 1984 10/31/84 THRU 11/6/84

Insurance Cos.		Price	% Chg.	P/E	$ Div.	% Yld.	High	Low	Vol. (000)
Aetna Life & Cas Co	NYSE	36.00	-1.0	18.5	2.64	7.3	36.00	35.63	839.1
American Bankers Ins Group	OTC	11.50	3.4	9.1	0.50	4.3	11.50	11.13	68.4
American General Corp	NYSE	25.88	3.5	9.5	0.90	3.5	25.88*	25.13	2,205.3
American Indty Finl Corp	OTC	18.25	-1.4	0.0	1.12	6.1	18.50	18.25	9.3
American Intl Group Inc	NYSE	71.88	9.1	13.1	0.44	0.6	71.88*	67.38	878.3
American Natl Ins Co	OTC	29.25	-0.8	8.0	1.08	3.7	29.38	29.25	157.9
Aneco Reins Ltd	OTC	1.50	-14.3	4.4	0.00	0.0	1.75	1.38*	7.9
Avemco Corp	AMEX	20.00	1.3	13.4	0.60	3.0	20.00	19.75	11.9
Banks Iowa Inc	OTC	42.00	-6.7	13.2	1.56	3.7	45.00	42.00*	4.1
Bitco Corp	OTC	8.50	47.8	0.0	0.40	4.7	8.50	5.75	35.6
Carolina Cas Ins Co	OTC	3.25	0.0	0.0	0.00	0.0	3.25	3.25	1.9
Chubb Corp	NYSE	47.75	0.5	12.2	2.20	4.6	47.75	46.38	435.6
Combined Intl Corp	NYSE	37.63	-1.0	9.5	2.08	5.5	38.38	37.63	289.9
Continental Corp	NYSE	35.88	4.0	597.9	2.60	7.2	35.88*	34.75	1,220.7
Crawford & Co	OTC	18.25	0.0	11.7	0.66	3.6	18.25	18.25	4.7
Crown Life Ins Co	OTC	115.50	-0.4	7.5	4.00	3.5	120.50	115.00*	0.2
Employers Cas Co	OTC	35.00	0.7	8.0	1.20	3.4	35.00	34.75	7.9
Equifax Inc	NYSE	32.13	5.3	12.9	1.70	5.3	32.25*	31.13	25.9
Farmers Group Inc	OTC	48.50	6.9	10.5	1.52	3.1	48.75*	46.38	434.0
Foremost Corp Amer	OTC	26.00	2.0	15.2	0.96	3.7	26.00	25.63	87.9
Fremont Gen Corp	OTC	17.88	-3.4	0.0	0.48	2.7	18.00	17.63	149.1
Great West Life Assurn Co	OTC	310.50	0.0	8.3	12.00	3.9	310.50	310.50	0.0
Hanover Ins Co	OTC	26.50	-4.5	9.9	0.56	2.1	27.75	26.50	16.6
Hartford Steam Boiler Inspctn	OTC	58.50	-0.8	28.5	3.00	5.1	59.00	58.50	8.8
Jefferson Natl Life Ins Co	OTC	21.50	0.6	21.3	0.44	2.0	21.50	21.25	13.6
Kemper Corp	OTC	40.13	0.9	41.4	1.80	4.5	40.13	39.88	116.4
Lincoln Natl Corp Ind	NYSE	40.00	5.6	9.3	1.68	4.2	40.00*	38.50	887.5
Mission Ins Group Inc	NYSE	10.25	2.5	0.0	0.50	4.9	10.25	10.00	228.2
Northwestern Natl Life Ins	OTC	26.75	-1.4	13.1	0.80	3.0	27.13	26.75	356.9
Ohio Cas Corp	OTC	41.00	2.5	15.6	2.68	6.5	41.00	40.25	103.6
Old Rep Intl Corp	OTC	32.50	2.0	6.5	0.88	2.7	32.50	31.75	47.6
Orion Cap Corp	NYSE	22.63	4.0	26.3	0.76	3.4	23.00	21.63	106.6
Preferred Risk Life Ins Co	OTC	24.50	1.0	9.6	0.74	3.0	24.50	24.25	6.2
Provident Life & Acc Ins Co	OTC	81.00	6.6	7.6	2.88	3.6	81.00*	76.00	29.2
St Paul Cos Inc	OTC	49.50	13.5	101.0	3.00	6.1	49.50	42.88	1,720.2
SAFECO Corp	OTC	32.75	1.6	9.1	1.50	4.6	33.00	32.75	276.9
Sri Corp	OTC	17.00	0.0	14.0	0.68	4.0	17.13	16.25	45.8
Seibels Bruce Group Inc	OTC	19.00	-5.0	0.0	0.80	4.2	19.75	18.75	260.4
Statesman Group Inc	OTC	5.13	0.0	16.3	0.15	2.9	5.25	5.13	33.2
Tokio Marine & Fire Ins Co	OTC	141.50	4.2	28.6	1.05	0.7	143.00	137.25	96.1
Travelers Corp	NYSE	38.25	4.8	9.7	1.92	5.0	38.25*	36.00	1,209.1
United Fire & Cas Co	OTC	17.00	0.0	0.0	0.80	4.7	17.00	17.00	0.0
United States Fid & Gty Co	NYSE	25.00	2.6	8.0	2.08	8.3	25.00	24.25	920.6
United Svcs Life Ins Co	OTC	29.50	5.4	8.4	1.20	4.1	29.50*	27.50	41.2
Uslife Corp	NYSE	34.25	1.5	9.5	1.04	3.0	34.25*	33.50	544.6
Washington Natl Corp	NYSE	22.88	10.9	12.6	1.08	4.7	22.88	20.63	69.8
Zenith Natl Ins Corp	OTC	11.75	-2.1	9.3	0.68	5.8	12.00	11.75	35.5
INSURANCE COMPANIES	AVERAGE			13.8		3.8			
Agents/Brokers									
Alexander & Alexander Svcs	NYSE	24.75	3.1	0.0	1.00	4.0	25.00*	24.75	435.8
Baldwin & Lyons Inc	OTC	42.00	2.4	24.3	0.80	1.9	42.00	42.00	0.5
Corroon & Black Corp	NYSE	28.50	2.2	38.0	1.00	3.5	28.50	27.75	121.1
Crump E H Cos Inc	OTC	16.75	0.0	15.0	0.44	2.6	16.75	16.75	9.3
Emett & Chandler Cos Inc	OTC	11.25	0.0	0.0	0.00	0.0	11.25	11.25	0.0
Gallagher Arthur J & Co	OTC	26.25	1.9	18.7	0.22	0.8	26.25	26.00	32.6
Hall Frank B & Co Inc	NYSE	25.50	2.5	31.5	1.00	3.9	25.88*	25.50	120.6
Integrated Res Inc	AMEX	19.38	-3.7	6.7	0.00	0.0	19.75	19.00	174.1
Marsh & McLennan Cos Inc	NYSE	55.25	6.8	26.7	2.40	4.3	55.25*	51.25	632.4
Poe & Assoc Inc	OTC	5.75	0.0	0.0	0.00	0.0	5.75	5.75	8.0
Reed Stenhouse Cos Ltd	OTC	13.25	2.9	25.5	0.60	4.5	13.25	13.13	139.5
AGENTS/BROKERS	AVERAGE			26.1		2.7			
Conglomerates Holding Cos.									
American Express(Fireman's Fd)	NYSE	36.88	1.4	19.2	1.28	3.5	37.38	36.88	3,889.4
Anderson Clayton(Ranger/PanAm)	NYSE	32.38	-1.5	15.3	1.32	4.1	34.00*	31.63	155.5
Armco Inc	NYSE	11.00	15.8	0.0	0.00	0.0	11.00	9.50	601.3
Baldwin Utd Corp	NYSE	0.81	0.0	0.0	0.00	0.0	0.88	0.81	112.9
CIGNA Corp	NYSE	39.50	3.3	32.6	2.60	6.6	39.63	37.25	1,222.2
City Investing Co. (Home Ins.)	NYSE	41.50	1.5	10.0	2.00	4.8	41.50	40.88	532.8
CNA Finl Corp (CNA)	NYSE	29.38	0.9	12.8	0.00	0.0	29.38	28.88	54.2
Control Data (Comml. Credit)	NYSE	34.88	7.7	9.6	0.66	1.9	34.88	33.25	2,718.1
General Re Corp	NYSE	63.13	5.0	22.0	1.44	2.3	63.13	60.63	535.1
ITT (Hartford Group)	NYSE	28.38	0.0	7.9	1.00	3.5	28.38	27.88	2,111.8
Optimum Hldg Corp	OTC	2.75	0.0	0.0	0.00	0.0	3.00	2.75	14.6
Sears Roebuck & Co. (Allstate)	NYSE	33.00	1.1	8.3	1.76	5.3	33.00	31.88	2,500.8
Teledyne Inc (Argonaut)	NYSE	264.25	-4.6	12.9	0.00	0.0	275.00	262.25	370.0
Transamerica Corp (Occidental & Fred S. James)	NYSE	27.13	3.8	11.3	1.64	6.0	27.13	25.88	476.1
CONGLOMERATES/HOLDING COS.	AVERAGE			-25.5		2.1			

*Record high/low since Jan. 1, 1984

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