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business insurance®

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update

Peter North Miller elected new Lloyd's chairman

LONDON—The Council of Lloyd's of London last week elected Peter North Miller, chairman of Lloyd's brokerage Thomas R. Miller & Son (Insurance) Ltd., as the market's new chairman. He will replace Sir Peter Green, whose retirement is effective Jan. 1.

The council also elected Frank Barber, a partner in the underwriting management firm of Morgan, Fenti-

Continued on next page

Employer gripes lead to changes in pension bill

By JERRY GEISEL

WASHINGTON—Congressional staffers are overhauling legislation that would dramatically increase employers' pension liabilities in response to objections from employers.

The legislation, designed to bolster the financial stability of the Pension Benefit Guaranty Corp., the federal agency that insures workers' pension benefits, had been on a fast legislative track.

The Single-Employer Pension Plan Amendments Act of 1983 introduced by Reps. William Clay, D-Mo., and John Erlenborn, R-Ill., cleared the House Labor Management Relations subcommittee last month after just one day of hearings (*BI*, Oct. 31).

Initially, backers of the legislation, H.R. 3930, had hoped to win approval by the full House Education and Labor Committee without additional hearings. But, committee staff now are rewriting the bill after being bombarded with objections from employer groups.

At least two key sections of the measure that were bitterly assailed by employers are being overhauled:

- Originally, an employer with a collectively bargained plan could not terminate the plan unless it first received approval from its union. Even after a collective bargaining agreement expired, a company would have to wait another two

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Firms band together to sue waste site insurers, owners

By RHONDA L. RUNDLE

INDIANAPOLIS—More than 130 U.S. industrial firms are bankrolling a major suit to prove that the owners, operators and insurers of hazardous waste sites—rather than site customers—should pay for a government-ordered cleanup.

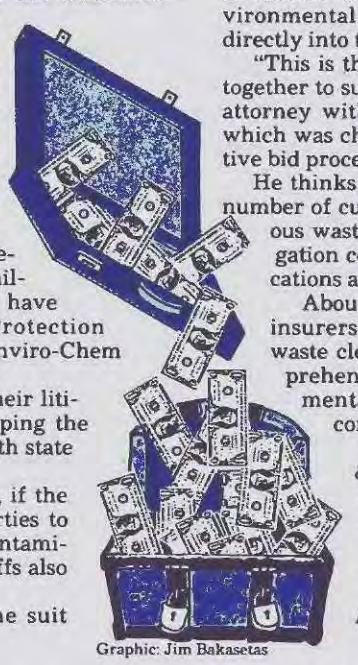
The customer group, which includes corporate giants like Union Carbide Corp., Ford Motor Co. and American Can Co., filed suit Nov. 8 in the U.S. District Court in Indianapolis against the owners, operators and insurers of the Environmental Conservation & Chemical Corp. (Enviro-Chem) recycling site in Zionsville, Ind.

The suit seeks reimbursement from the defendants of a substantial portion of the $2.9 million that the 151 plaintiffs and other parties have jointly agreed with the Environmental Protection Agency to spend for surface cleanup of the Enviro-Chem operation.

In addition, the plaintiffs want to recoup their litigation and other costs associated with developing the cleanup plan and negotiating an agreement with state and federal government agencies.

And, once the surface cleanup is completed, if the EPA seeks more money from responsible parties to treat potential subsurface and ground water contamination at the Enviro-Chem facility, the plaintiffs also would ask the defendants to pay.

Of the 151 plaintiffs, 133 are funding the suit against Enviro-Chem and its insurers.



Graphic: Jim Bakasetas

Enviro-Chem and its owners have already been sued by the federal government for contributions to the cleanup under the Comprehensive Environmental Response, Compensation and Liability Act of 1980 (CERCLA), which established the Superfund to finance cleanups. The customer lawsuit draws the site's environmental impairment liability insurers for 1981 and 1982 directly into the litigation.

"This is the first time that a group of generators has banded together to sue the site's EIL insurers," said John M. Kyle III, an attorney with the Indianapolis firm of Barnes & Thornburg, which was chosen to represent the plaintiffs through a competitive bid process.

He thinks it may also be the first case in which a substantial number of customers have jointly brought suit against a hazardous waste facility owner or operator. A seven-member litigation committee has been formed to coordinate communications among the plaintiffs.

About a month ago, Shell Oil Co. sued its own liability insurers to pay part of a multimillion-dollar hazardous waste cleanup bill. However, those insurers provided comprehensive general liability insurance and not environmental impairment liability coverage to the giant oil company (*BI*, Nov. 7).

International Insurance Co., an affiliate of Crum & Forster, provided EIL coverage to Enviro-Chem for a 12-month period during most of 1982. The policy was underwritten and placed through The London Agency Inc., another Crum & Forster unit in Atlanta.

American Special Risk Insurance Co., a unit of Alexander Howden Group U.S. Inc. owned by

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Manville talks to include co-defendants

By STEPHEN TARNOFF

NEW YORK—Beginning today, Manville Corp.'s co-defendants in asbestos litigation must be allowed to negotiate with Manville and asbestos claimants' attorneys in bankruptcy court.

At a hearing in U.S. Bankruptcy Court last week, Judge Burton Lifland ordered the parties to include co-defendants in the long-standing negotiations over how asbestos victims will be compensated.

Judge Lifland also gave Manville another extension—until Nov. 21—to come up with a reorganization plan that can be agreed upon by all the parties. Both Manville and the asbestos litigants sought the extension.

Manville's co-defendants have continually sought representation at the asbestos claims negotiations, but neither Manville nor the plaintiffs' attorneys have allowed them to participate.

Manville, in filing for bankruptcy in August 1982, said it could not fund the estimated 16,500 claims it was facing at the time and thousands of future asbestos lawsuits that would be filed against it in the next 30 years.

While Manville remains in bankruptcy, it is shielded from all asbestos and other lawsuits, but the co-defendants must continue to defend against

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Insurers may withdraw $250 million offer

By STEPHEN TARNOFF

NEW YORK—An offer by three of Manville Corp.'s insurers to provide the company with $250 million to fund present asbestos claims and to design a claims-made policy for paying future claims may be in jeopardy.

In a recent letter to U.S. District Court Judge David N. Edelstein, an attorney for Travelers Insurance Co. said that lack of progress in negotiations on the offer and the continuing expense of litigation pending in California between Manville and its insurers could lead to a withdrawal of the offer.

Travelers, Home Insurance Co. and syndicates at Lloyd's of London made the offer several months ago in an effort to resolve the California litigation as well as to free up millions of dollars in coverage.

Manville and several other asbestos defendants are suing their insurers in San Francisco Superior Court over the nature and scope of liability coverage. Manville contends it has more than $600 million in coverage for asbestos claims.

Under the insurers' plan, the $250 million would pay present asbestos claimants while the claims-made policy could fund future claims brought against Manville (*BI*, Sept. 19).

Under a claims-made policy, the insurer on the risk when the claim is made is liable. Using such a policy would eliminate the current problem of de-

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NEWSPAPER

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Bermuda exchange ready for January debut
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Harold Hines named president of RBH
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update

Miller elected Lloyd's chairman

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man & Barber, as senior deputy chairman. Walter Nicholas Murray Lawrence, chairman of Bowring Agencies Ltd. and C.T. Bowring (Underwriting) Agencies Ltd., was named junior deputy chairman.

Mr. Lawrence had been the early favorite, but Mr. Miller said he was the only candidate considered by the council.

Mr. Miller said that he will resign as chairman of the Lloyd's brokerage when he takes over as chairman to prevent any conflicts of interest. However, he will remain a director of a Lloyd's underwriting agency, Thomas R. Miller & Son (Underwriting Agents).

Panel alters longshore bill

WASHINGTON—The House Education and Labor Committee this week will vote on legislation to reform the federal Longshoremen's and Harbor Workers' Compensation Act (*BI*, July 4).

The House Labor Standards subcommittee approved the bill last week, but made several changes opposed by employers and insurers. Under one change, operators of small shipbuilding yards would continue to be covered under the Longshore Act. By contrast, these facilities generally would be exempt from coverage under the longshore bill earlier approved by the Senate.

Both the House and Senate bills would cap annual benefit increases at 5% and eliminate death benefits to survivors of workers who die from causes unrelated to an on-the-job injury.

Charge won't affect TMI cover

HARRISBURG, Pa.—Insurance payouts for damages from the 1979 Three Mile Island nuclear plant accident probably will not be affected by the recent indictment of the plant's former operator on charges that it falsified the results of safety tests.

A federal grand jury last week indicted Metropolitan Edison Co., a subsidiary of General Public Utilities Corp., on charges that it tampered with tests that showed higher-than-allowed rates of leakage from the reactor's primary cooling system in the five months before the March 28, 1979, accident.

The indictment stops short of charging that the tampering caused or even contributed to the accident, though. If found guilty, Met Ed faces a maximum $85,000 fine, plus court costs.

Payment of GPU's claims probably will not be affected, even if Met Ed is found guilty, since the indictment doesn't charge that the alleged wrongdoing led to the accident, according to Burt C. Proom, president and chief executive of American Nuclear Insurers, GPU's primary property and liability insurer (*BI*, Jan. 17).

ANI has paid all but about $25 million of the property policy's $300 million limit and expects to pay the remainder, he said. The insurer also paid $25 million from the liability policy.

The indictment also is not expected to affect City Insurance Co.'s $4 million contribution to the $20 million settlement of a shareholder suit. City, a subsidiary of The Home Insurance Co., was GPU's directors and officers liability insurer (*BI*, April 18).

Retiree benefits restored

PHOENIX, Ariz.—Medical benefits were reinstated last week for some 6,000 unionized retirees of Greyhound Lines Inc. after the Amalgamated Transit Workers Union threatened to bring the company to federal court for dropping these benefits, said a spokeswoman for the Amalgamated Council of Greyhound Local Unions.

The contract covering Greyhound union employees expired Oct. 31. Greyhound officials could not be reached for comment.

The union spokeswoman also confirmed that life, health, medical, pension and other benefits are at issue in the negotiations between the company and the approximately 12,700 union members who walked out at midnight Oct. 31, and were still on strike last week. The company is asking for benefit concessions, the union says.

Allstate to appeal judgment

LOS ANGELES—Allstate Insurance Co. will appeal a state Superior Court award of $40.5 million for delaying the payment of a $36,000 arbitration award in an automobile accident case.

The plaintiffs, Henry and Alice Fellows and three other family members, were involved in an auto accident in 1976. The family originally brought the case to arbitration and was awarded $36,000 from Allstate, including $6,000 in medical payments.

In October 1978, the family filed a bad-faith lawsuit against Allstate and an employee because of a delay in the original payment. Allstate contended a lack of communication between its adjuster and the plainitiffs' attorney precluded payment.

Last week's jury award included $500,000 in compensatory damages and $40 million in punitive damages. Punitive damages of $25,000 were also awarded against the Allstate employee.

"Allstate does not agree with the decision in Fellows vs. Allstate," a company spokesman said. "Post-trail motions will be filed including a motion to set aside the verdict."

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Bermuda Risk Exchange to open early next year

By RHONDA L. RUNDLE

SCOTTSDALE, Ariz.—The Bermuda Risk Exchange is gearing up to write its first risk in early January.

The exchange will open its doors as soon as the Bermuda Parliament enacts legislation to create the Risk Exchange Assn., whose members will initially include about 17 insurance company subsidiaries of major corporations around the world.

Parent corporations that participate in the exchange will trade risks among themselves via their captives, bypassing the commercial reinsurance marketplace and its heavy brokerage costs (*BI*, July 25).

The enabling legislation, which will be introduced within the next few weeks, is supported by government authorities, so approval is virtually assured by mid-December, with underwriting to follow after the first of the year, exchange organizers say.

In the meantime, Hudson Underwriting Ltd., a unit of Skandia America Group that was selected to serve as the exchange's professional underwriter, has assigned Assistant Vp Robert J. Rosser to act as full-time underwriting service manager.

Mr. Rosser has nearly nine years of underwriting experience with Hudson and The Reiss Organization, which manages captives and reinsurance pools. He is on loan to the exchange for a three-year period to act on behalf of Hudson, the exchange underwriter, and Hudson Reinsurance Co. Ltd., another Skandia unit that will reinsure at least 10% of every risk placed with the exchange.

Mr. Rosser and a full-time technical assistant already are working out of the exchange's new quarters in the Beneficial Building on Church Street in Hamilton. They are establishing underwriting procedures, drafting binding contracts and assessing risks that will be offered to the exchange.

The exchange will probably open with 17 captive insurance company participants, almost equally split between U.S. and European ownership, organizers told a group of risk managers and others who attended an informal meeting held during the Captive Insurance Company Assn. conference last month in Scottsdale.

The prospective members are all single-parent captives, but the board of governors is "wrestling with a formula to decide about qualifications for association captives," reported Duane E. Allen, interim executive director of the exchange and assistant treasurer at Hanna Mining Co. in Cleveland.

Hanna is the parent of Erieview Insurance Co. Ltd. of Bermuda, which intends to join the exchange.

The proposed exchange will resemble Lloyd's of London in its operating style, but it will differ in one key respect: It will consider only the risks brought to it by its member captives and will not underwrite risks

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Hines takes over as RBH chief executive

By KATHRYN J. McINTYRE

CHICAGO—Three years and three major acquisitions later, Harold H. Hines Jr. is back running a national broker.

Mr. Hines, who became well-known nationally from 1978-80 as president and then vice chairman of Marsh & McLennan Inc., the world's largest broker, is now president and chief executive officer of broker Rollins Burdick Hunter Co., the nation's seventh-largest broker based on 1982 revenues of $118.4 million.

Mr. Hines

He comes to the position through the circuitous route of resigning from M&M in October 1980 to join Ryan Insurance Group in Chicago; the 1981 purchase of James S. Kemper Agencies by Ryan Insurance Group; the 1982 acqusition of Ryan by Combined International Corp.; and the 1982 acqusition of RBH by Combined.

Mr. Hines, who is also executive vp and a director of Combined, assumed the RBH operating role last week after Charles Hall resigned as chairman, president and chief executive officer of the Chicago-based brokerage to "pursue other business activities."

Combined President Patrick G. Ryan became chairman of RBH.

"Pat Ryan and I are assuming major positions at RBH to underline our commitment to the brokerage business," Mr. Hines said during a telephone interview last week after Combined announced its third-quarter results and other organization changes.

Aftertax operating income for the third quarter increased 47.5% to $34.4 million or $1.04 per share, compared with 81 cents a year ago. The revenues and expenses of Ryan and RBH are consolidated from their purchase dates.

Third-quarter brokerage commissions and fees totaled $25.8 million.

For the first nine months of 1983, Combined's operating income grew 38.9% to $96.3 million or $2.92 per share, compared with $2.50 in 1982.

Net income for the first nine months, after $12.7 million of realized investment losses incurred to recover taxes paid in 1980 and 1981, totaled $83.6 million or $2.54 per share.

Brokerage commissions and fees totaled nearly

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CNA unit paying Hyatt claims, but wants others to contribute

By BILL DENSMORE

KANSAS CITY, Mo.—Yet another excess underwriter is starting to pay claims from the Hyatt Regency Hotel skywalks tragedy following the payment of nearly $79 million by underlying insurers.

But the excess insurer—Columbia Casualty Co., a CNA Financial Corp. affiliate—is still arguing over whether it should have to pay an estimated $5 million in legal fees and expenses racked up by defendants.

Columbia had been fighting since August with Hallmark Cards Inc., the parent of the hotel's owner, over whether it was obliged to pick up the costs of settling victims' claims once underwriting manager Baccala & Shoop Insurance Services Inc. expended its coverage limits.

Baccala represents a trio of excess insurers that were part of $201 million in liability insurance purchased by Hyatt Corp. for its operations, including the Kansas City hotel.

Insurers below Baccala on the Hyatt line of coverage —Northbrook Excess & Surplus Insurance Co. and Occidental Fire & Casualty Co. of North Carolina—expended their limits months ago.

Columbia had withheld any pledge to begin paying on its coverage, $25 million excess of $51 million, arguing that it wasn't obliged to cover losses from the tragic collapse until insurers that wrote $101 million in insurance for Hallmark had expended their limits.

Then, on Sept. 1, it agreed with Hallmark that it would begin claims payments, Hallmark's lawyers say.

"They made an agreement to come in and perform their obligations," Judith A. Whittaker, Hallmark's associate general counsel, said last week. "So far as I know, they are coming in and paying."

However, Columbia now says that a group of insurers for construction and design firms involved in the Hyatt project also should be representing Hyatt and Hallmark. Their participation would have saved excess insurers, including Columbia, $5 million in defense costs, Columbia says.

Most of the construction defendants' insurers agreed earlier this year to contribute the limits of their coverage to a fund managed by Crown Center Redevelopment Corp., the Hallmark subsidiary that owns the hotel.

Under the agreement with these insurers, Hallmark

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errors & omissions

• Indirect and hidden expenses actually cost employers five to 10 times their direct workers compensation claims costs, says Tom E. Prendeville, president of TEP & Associates, a loss control consulting firm in Arcadia, Calif. It was incorrectly stated in an Oct. 17 article that indirect costs often add 5% to 10% to the cost of work comp claims.

International report

Risk managers with foreign operations and people to protect overseas say nothing beats a personal visit to another country to open their eyes to the risks involved and how to best protect against them.

Taking a cue from our readers, *Business Insurance* turned to on-the-spot reporting for this year's report on international risk management and employee benefit management in six countries: Canada, Great Britain, West Germany, Switzerland, Brazil and the Netherlands.

Four of the reporters working on our special report this year live in the countries they covered. Stacy Shapiro, *BI's* full-time associate editor based in London since January 1981, reports on Great Britain. Laurel Wentz, living in Sao Paulo as special correspondent (Latin America) for Advertising Age, another Crain publication, reports on Brazil for the second year for *BI*. Kevin Cote, Advertising Age's Focus correspondent living in West Berlin, reports on West Germany. John Parry, a freelance writer based in Geneva, Switzerland, reports on his country. Mr. Parry also traveled to the Netherlands for that report. And, finally, Chicago-based *BI* Senior Editor Len Strazewski, who has visited Canada more than two dozen times, reports on Canada.

The countries selected for this year's report were chosen with our primarily U.S. audience in mind. We selected the countries with the largest direct U.S. investments: Canada ($44.5 billion), Great Britain ($30.8 billion), Germany ($15.9 billion), Switzerland ($13.3 billion), Brazil ($9 billion) and the Netherlands ($8.8 billion).

Bermuda, where U.S. investments total $11.2 billion, according to U.S. government statistics, was omitted from this report. Bermuda is profiled every spring in *BI* as an important home for captive insurers and reinsurers.

Five of the surveyed countries also are significant insurance forces in the world, according to statistics published by Swiss Reinsurance Co. In per-capita expenditures on insurance in 1981, Switzerland is first at $985.30, ahead of the United States at $900.80. Canada is third at $631.70, West Germany fourth with $622.80, the Netherlands fifth with $546 and Great Britain sixth with $525.80. Brazil trails at 43rd with per capita insurance spending of just $14.10.

In terms of domestic insurance premiums, West Germany leads the surveyed countries with $38.4 billion in premiums—and third in the world behind, respectively, the United States ($207 billion) and Japan ($60.5) billion. Great Britain is fourth in the world with $29.4 billion, Canada sixth with $15.3 billion, the Netherlands seventh with $7.8 billion and Switzerland 10th with $6.4 billion. Brazil's $1.7 billion in premiums puts it 22nd in the Swiss Re rankings.

This week's report on these six countries, and two important international risk management meetings (see story below), does not conclude our reporting on international insurance markets this year. For example, a special report on risk management, benefit management and the insurance market in France will appear Dec. 5.

Risk management worldwide

Environmental risks, political risks, the role of risk management and access to international insurance markets.

These topics, of concern to risk managers around the world, were some of the issues discussed at two international risk management and insurance meetings last month.

In Monte Carlo, Monaco, a three-day conference titled "Risk Management's Response to a Risky World" was co-sponsored by the Risk & Insurance Management Society in New York and Association Europeenne des Assures de L'Industrie. AEAI encompasses associations of risk managers in Belgium, France, West Germany, Italy, the Netherlands and the United Kingdom.

The meeting, Oct. 16-19, was the second International Risk Management Conference co-sponsored by AEAI/RIMS. The first was held in Monaco in October 1981.

The registration of 420 from 24 countries included 166 risk managers, the largest-ever assembly of risk managers from around the world. In total registration, France made the strongest showing, followed by the United States, Belgium, Germany and the United Kingdom.

Overlapping Oct. 19 with the AEAI/RIMS meeting was the beginning of the 13th annual Management Centre Europe International Insurance & Risk Management Conference in London. The 200 registrants predominately represented insurance companies, brokers and consultants, but risk managers and their concerns were not ignored.

Reports on these meetings begin on page 60.

Graphics: Amy Falmer

'Era of risk management' comes to Canada

Leading Canadian property/casualty insurers in 1982
(in Canadian dollars*)

Company	Premium	Market share
Royal Insurance	403,547,000	5.61%
The Co-operators	394,687,000	5.49
Lloyd's Non-Marine Underwriters	334,730,000	4.66
Commercial Union	250,207,000	3.48
Allstate of Canada	230,975,000	3.21

*$1.23 Canadian:$1 U.S. on Dec.31, 1982.
Source: Canadian Underwriter magazine.

By LEN STRAZEWSKI

OTTAWA—Canadian risk managers may still be lagging a bit behind their colleagues to the south, but with the help of competitive markets and specialist brokers, they are gaining fast in prestige and sophistication.

And on the international scene, Canadian risk managers are also winning new leadership roles as evidenced by the election of Marc Darby, director of risk management and insurance for the Societe d'energie de la Baie James in Montreal, as president of the Risk & Insurance Management Society.

As president of RIMS, Mr. Darby is a worldwide spokesman on risk management and, as the former president of the Quebec Chapter of RIMS, he is a keen observer of the role played by Canada's more than 400 RIMS members in protecting corporate assets.

"I think risk managers are gaining much more visibility in Canada," Mr. Darby said shortly after returning from the AEAI/RIMS International Risk Management Conference in Monte Carlo (see stories, page 60).

"My own job here—10 years ago—was a breakthrough, because I was appointed to do much more than buy insurance. As most risk managers do now, I was hired to review and manage all exposures to loss and coordinate our loss control. That was quite a change from the usual post of insurance buyer."

Now risk managers are becoming the corporate rule rather than the exception, Mr. Darby and other Canadian risk managers note. Of the 400 Canadians enrolled in RIMS, more than half have the word "risk" in their title, an indication of the new respect the post commands within corporate structures.

In the last five years, under the direction and support of Don Stuart, retired risk manager of Canada Packers Inc. and the Canadian coordinator of RIMS activities, the number of RIMS chapters in Canada has doubled to 10, including ad hoc groups in rural provinces.

"More and more we are seeing risk managers being appointed in full- or part-time posts for all sizes of Canadian companies," Mr. Darby notes.

"The era of risk management has clearly come to Canada."

With only a few exceptions, however, Canadian risk managers generally take on fewer overall responsibilities than their U.S. counterparts, deal with fewer brokers and insurers and manage budgets less than half the size of those at comparable U.S. companies.

The reasons relate not at all to a difference in professional commitment, but rather to the economic and insurance demographics of Canada.

While Canada takes up a huge portion of North America, it has a considerably smaller population, with less density than the United States.

Much of the country is rural and its industries tend to cluster around a handful of large cities: Toronto, the nation's financial center; Montreal, the country's French-Canadian capital and hydroelectric center; Winnipeg, Manitoba, the country's breadbasket capital near the Central and Western farming communities; Calgary, Alberta, Western Canada's oil and gas center; and Vancouver, British Columbia, the Northwest lumber and fishing capital.

Smaller commercial centers such as Halifax, Nova Scotia, on Canada's Eastern shore, and Edmonton, Alberta, near the oil fields north of Calgary, also have strong financial communities, but look to the larger cities for financial services. Those services tend to be dominated by a relatively small number of banks, stock and insurance brokerages and other service firms.

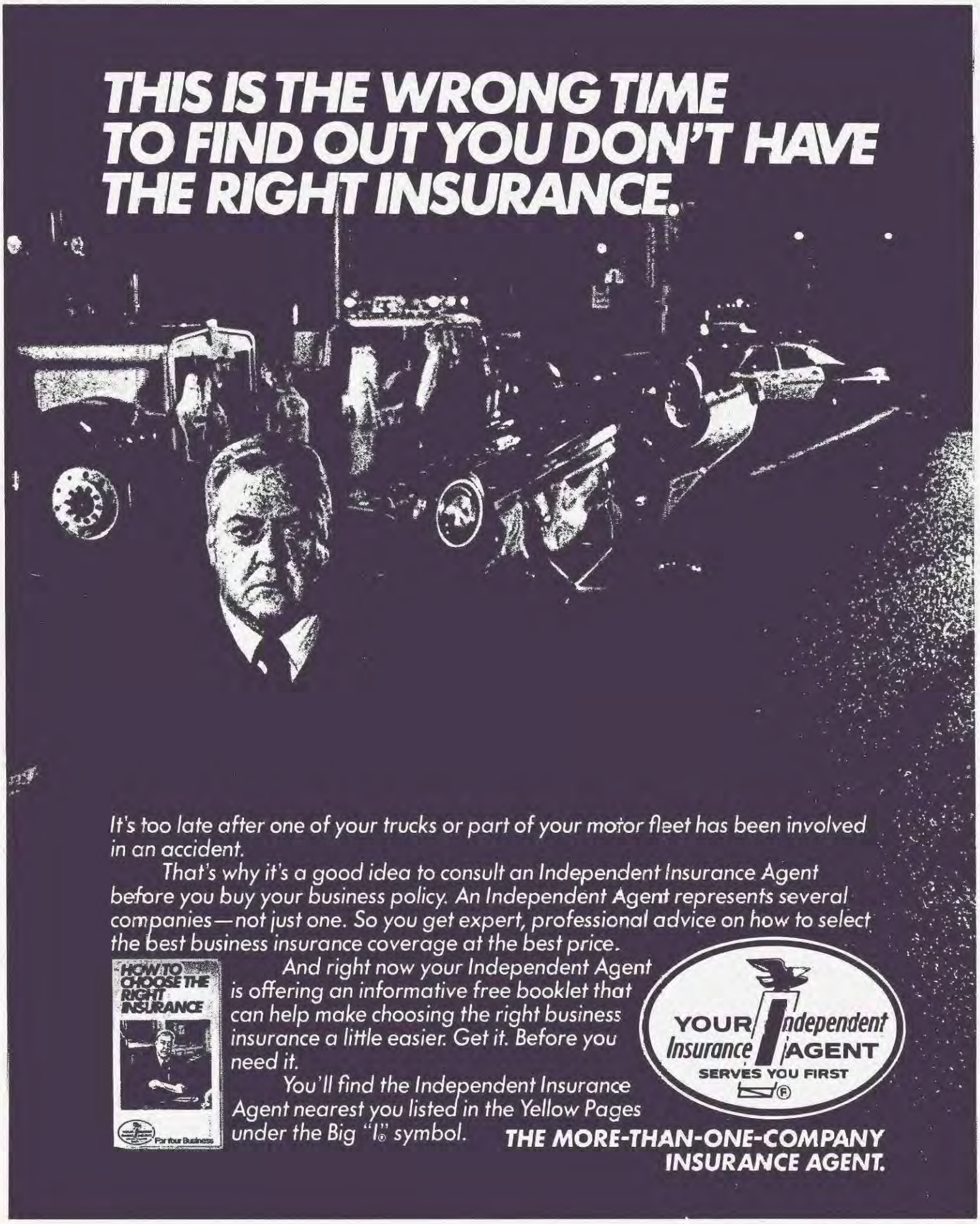
Within these commercial areas, corporate risk managers tap the resources of no more than a dozen large insurance brokers, many of which are known as specialists. In Western Canada, for example, Reed Stenhouse Cos. Inc., the largest Canadian-owned brokerage, tends to dominate the oil and gas industry from its largest and most profitable office in Calgary.

In Eastern Canada, especially Toronto, Reed Stenhouse competes for the financial and service industries' business with Marsh & McLennan Ltd., the Canadian division of Marsh & McLennan Cos. Inc. of New York, and Johnson & Higgins/Willis Faber Ltd., a joint venture between Johnson & Higgins in New York and Willis Faber P.L.C. in London.

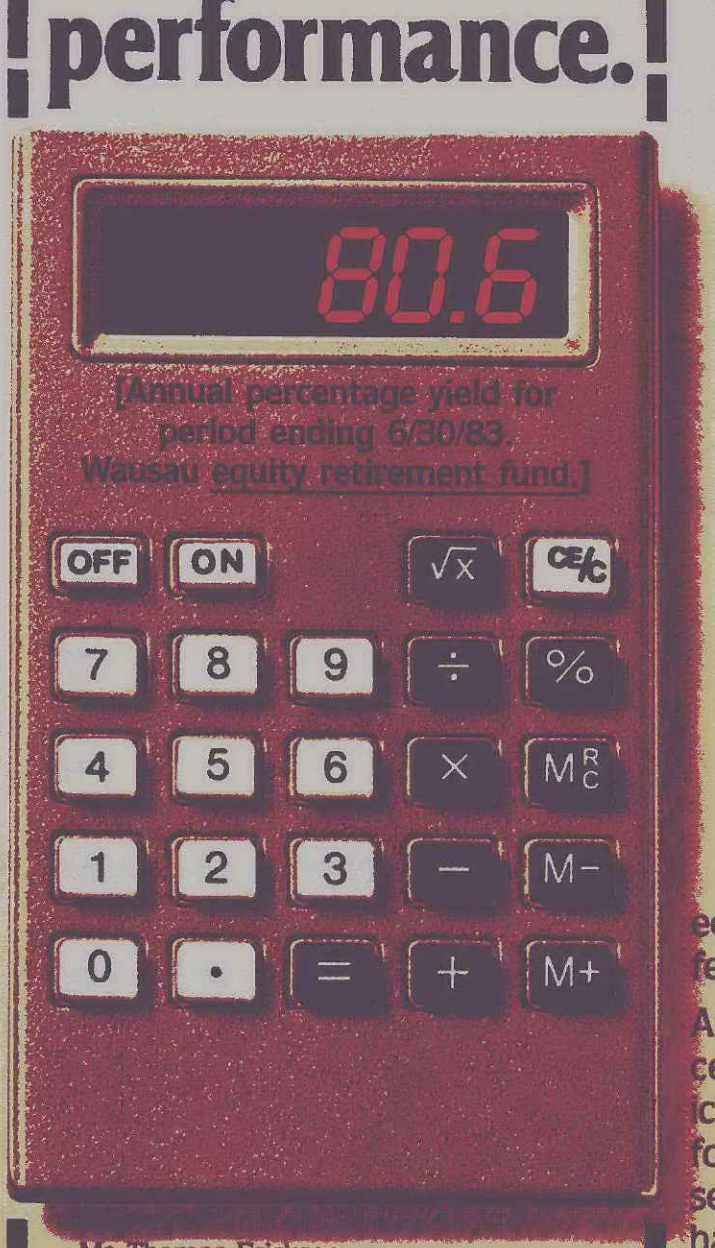
In French-speaking Quebec province, Sodarcan Inc., parent of brokers Girard-Parizeau Ltd. (a marine insurance specialist) and Dale & Co. Inc. (a manufacturing specialist) tends to lead, followed by J&H/WF, Marsh & McLennan and then Reed Stenhouse.

Also in the thick of brokerage competition is Tomenson Saunders

Continued on page 6



We've done a number on retirement fund performance.



Wausau — 80.6%! For the same period, Standard and Poors 500 has a number, too — 61.4%. And for the past *five* years, our average annual yield was 30.6% compared to the S&P 500 average of 18.1%. So, you can see, Wausau's results are worth knowing about.

Besides our equity fund, the Wausau guaranteed retirement fund was guaranteeing an 11% yield as of January, 1983. And our short term money market retirement fund achieved a yield of 8.36% during the first six months of this year.

Our retirement plans are especially designed to help firms with from two to 200 employees. So *smaller* companies can feel very comfortable with us.

And Wausau offers exceptional *convenience*. Services such as filing government forms, reporting to I.R.S., and sending benefit checks are all handled by Wausau.

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opinions

Talk, talk, talk—it's a start

ONE, TWO, or even a dozen conferences can't alone break down the barriers that divide the risk management and commercial insurance business around the world. But with each meeting, chinks are driven, weakening those barriers, and people are inspired to pursue international cooperation.

The Risk & Insurance Management Society and the Association Europeenne des Assures de L'Industrie deserve credit for doing the most to weaken those barriers by cosponsoring another eminently successful International Risk Management Conference in Monte Carlo last month.

The program was jammed full of sessions on provacative topics that were debated by experts from around the world.

Among the best of the sessions was a debate on national barriers to trading insurance products and services. After attending it, we are more firm than ever in our belief that national laws barring corporations from accessing the best insurance products and services anywhere in the world should be dismantled. Maintaining these barriers in the name of protecting the consumer is ludicrous. Maintaining these barriers in the name of nationalism to nurture local insurance industries is counterproductive because it isolates local insurers.

By denouncing barriers to trading insurance services, we are not suggesting that local insurance industries cannot adequately serve the risk management needs of business. Our international report this issue shows that capable and creative people in foreign markets are able to serve businesses in their countries—and elsewhere.

Breaking down national barriers to trading insurance services won't be easy or quick. More quickly broken down are barriers among risk managers.

We heard repeatedly during the AEAI/RIMS Conference that risk managers in Europe are much more isolated from each other than are risk managers in the United States. The AEAI/RIMS meeting is breaking down those barriers in Europe.

And, the meeting breaks down barriers between U.S. risk managers and their overseas counterparts—barriers not only of space but also of attitude. European risk managers found that U.S. risk managers don't talk down to them but earnestly want to exchange views. This camaraderie, built on mutual respect, was even more apparent at this year's meeting than the first meeting two years ago.

Management Centre Europe, which sponsors international insurance meetings, is also helping to break down barriers, not only between insurers but now also the barriers between the insurance industry and its commercial consumers. For the second year, MCE has added the words "risk management" to its meeting title, attracting risk managers and risk management topics. It's another useful forum in which users of insurance and risk management services can meet.

Risk managers, underwriters and providers of risk management services from around the world: Keep talking.

letters

Reimburse victims of frivolous lawsuits

To the editor: We applaud your reprobation of those plaintiffs' attorneys (*BI*, Oct. 17) who prostitute their profession by bringing frivolous lawsuits without doing their homework, and we heartily agree with your suggestion that attorneys who are responsible for such "mistakes" should be made to reimburse Rockwool Industries Inc. and other innocent victims of the shotgun technique employed against them.

It has often been noted that Americans live in the most litigious society in the world. A glance at the Yellow Pages in any city or town reveals the surfeit of lawyers spawned by a judicial system that is unique in that it permits adventuresome plaintiffs' attorneys to institute frivolous lawsuits, secure in the knowledge that they have nothing to lose but their time when a case is thrown out of court and that they will retain a substantial share of the "damages" obtained in a settlement should the targeted victim elect to offer a compromise settlement as an alternative to the aggravation, publicity and cost of a court trial.

Such practice falls but little short of legal blackmail. If the courts were to order attorneys and their clients to pay the court costs and to reimburse the defendants when they have been shown to have acted irresponsibly in selecting their targets or to have instigated cases having no merit, surely this kind of legal harassment could be drastically curtailed.

There is little chance of bringing about a change in the system through the legislative process as long as a majority of the members of the legislatures in most states are lawyers. But most lawyers and judges are honest and it seems to me that, if other insurance media were to follow your example in focusing on the problem, the leaders of the legal profession would want to seek ways to discipline or remove the bad apples from their barrel.

Russell Bond
Chairman
Russell Bond & Co. Inc.
Buffalo, N.Y.

Pakistan isn't banning foreign reinsurance

To the editor: The government of Pakistan has not issued any order banning foreign companies from underwriting reinsurance on Pakistani risks (*BI*, Oct. 10).

Furthermore, there is no evidence that all reinsurance coverage would be underwritten by Pakistan Insurance Corp. or the Pakistan Banking Council.

Currently, all companies cede 30% compulsory reinsurance prior to retention and 25% surplus after retention to Pakistan Insurance Corp. Thus, approximately 47.5% of reinsurance is controlled by Pakistan Insurance Corp.

Recently, there were suggestions by the Pakistan Banking Council officials that all direct insurance (not reinsurance) in which a bank's interests are involved must be offered to the insurance companies of their own choice. So far, there have not been any comments made by either the Department of Commerce or the Department of Finance on this suggestion.

Moin M. Fudda
Senior Vp
Reliance Insurance Co. Ltd.
Karachi, Pakistan

Lighten up—and relieve employee eyestrain

To the editor: Your recent article on tight building syndrome (*BI*, Oct. 3) overlooked another cause of employees' eyestrain and headaches that are indirectly the result of modern lighting and energy conservation in newer buildings—namely, "cool white"-type fluorescent light tubes.

The "warm white"-type fluorescent tubes are easier on the eyes, but cost more and may be somewhat less energy-efficient, so most building managements prefer to install the cool white-type tubes for illumination.

If an employee is laboring long hours under a cool white-type fluorescent tube and cannot get it replaced with a warm white-type, an incandescent lamp placed nearby can be of relief. Better yet would be natural light from a window.

Donald M. Carlson
Kindler & Laucci
San Francisco

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

Consider buyer when rating policy with computer

To the editor: I read with interest your article, "Computers can rate insurance quotes" (*BI*, Oct. 3), on the use of computers in evaluating various insurance programs.

It appears that the two consultants mentioned in the article established which insurance program was a "best buy."

However, this was only done from the point of view of which program was projected to have the lowest profit margin for the insurer.

I certainly hope the analysis did not stop there.

The article gave the general impression that the final recommendation might be to purchase that coverage with the least projected profit.

I do hope that the individual buyer's needs were taken into consideration before the recommendation was made.

Certainly an aggregate stop loss, even though profit margins might be somewhat higher, would be of extreme benefit to the client.

Charles A. McAlear
Chairman
McAlear Associates Inc.
Grand Rapids, Mich.

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Reporting weekly for corporate risk, employee benefit and financial executives

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managers and their brokers note.
"There aren't many Canadian captive insurers (less than 60
Continued on page 10

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Canadians form few captives

Continued from page 6

total)," Mr. Padanyi notes, "because there generally isn't sufficient cash flow to take advantage of without private workers compensation.

"The only other reasons to have a captive relate to global insurance needs, which few Canadian corporations have, or coverage needs. Considering the level of competition among insurers, strictly speaking, captives just aren't justified," he says.

Georges Balcer, risk and insurance manager at Consolidated Bathurst Ltd. in Montreal, agrees. He says he would like to have the company's workers compensation costs included in his budget, both to manipulate the large cash flow and to develop the use of captives for his company.

"There's probably a lot of cash flow and investment return that could be generated for the company if we could get workers comp into a captive," says Mr. Balcer.

With the exception of workers compensation, Canadian corporations purchase most of the same insurance coverages purchased by U.S. corporations, including property and all-risk insurance and casualty coverages of all types, including comprehensive general liability, product liability and various third-party and corporate officers' liability coverage.

Risk managers generally renew policies on Oct. 1 or July 1, preferring to be as far away from an insurer's year-end accounting as possible.

Limits and deductibles, however, tend to be significantly smaller than those taken by similar-sized corporations in the United States, risk managers note.

"Most Canadian companies have been lowering their deductibles over the past few years," Canadair's Mr. Padanyi explains. "There is just no point increasing deductibles when the premium credits available seem very small compared to the overall rate cuts we have been seeing."

Canadair maintains only a $50,000 deductible on its multimillion-dollar property insurance program, the standard 1%-of-value deductible on aircraft hull insurance and only a $25,000 on transit property damage risks.

"Generally, it doesn't pay to go higher. In certain cases where I want to handle some claims or manipulate cash flow, I actually have to fight with my underwriters and superiors for higher deductibles," he notes.

Consolidated Bathurst's Mr. Balcer agrees. While some Canadian corporations still buy first-dollar property insurance, most corporations, including the largest, plan on deductibles of $50,000 to $250,000 for property risks, he says.

Canada's largest property insurers include Lloyd's non-marine underwriters, Royal Insurance and Commercial Union, in that order, according to the Canadian Underwriter survey.

Risk managers also tend to purchase smaller amounts of comprehensive general liability insurance —both on the primary and excess levels—than their U.S. counterparts.

Large corporations in the United States tend to buy as much liability insurance as they can get and limits of $300 milllion to $500 million are not uncommon.

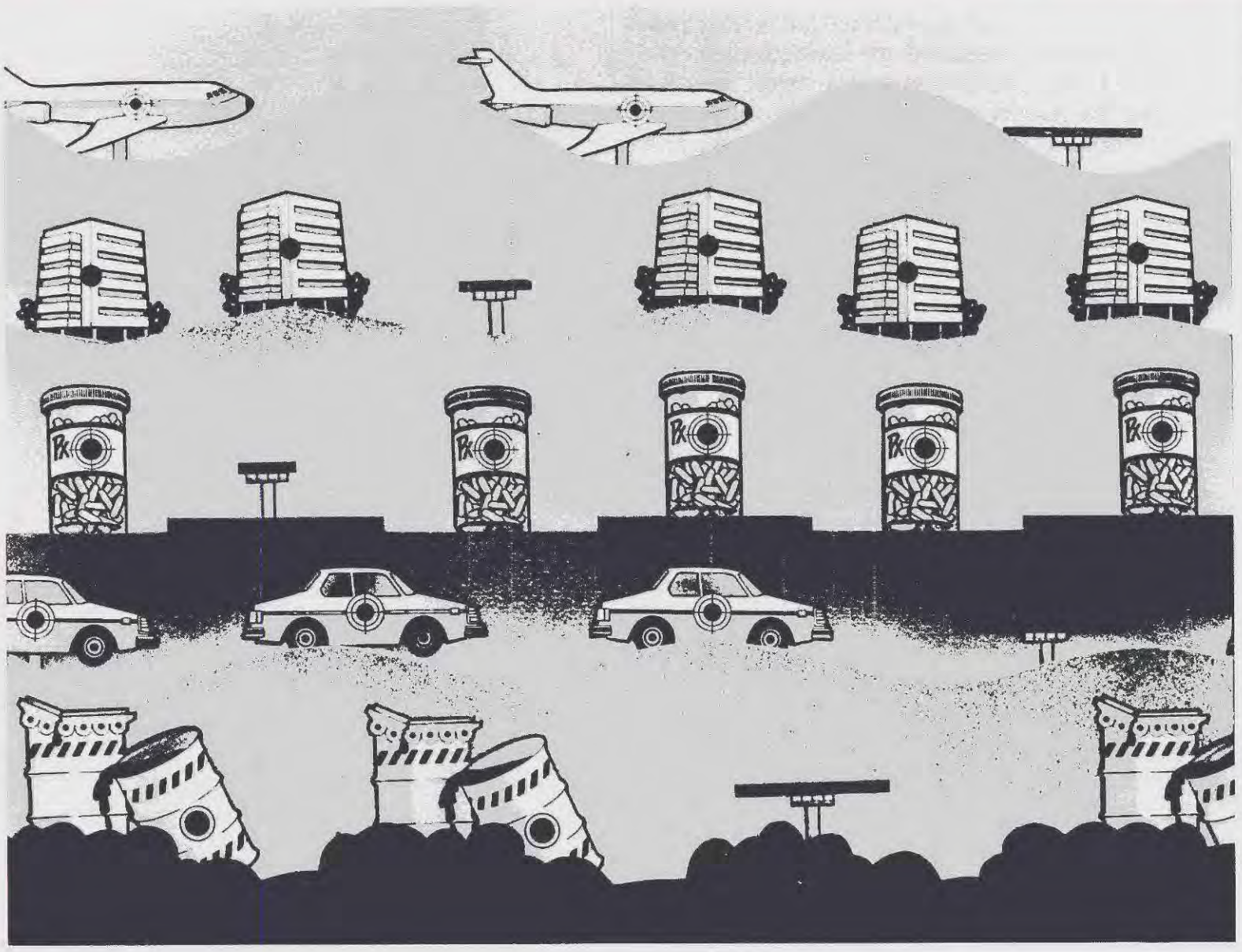
Most Canadian corporations, however, tend to purchase from $50 milllion to $100 million in liability insurance, reflecting Canada's less litigious society and trend to smaller personal injury awards.

Canadian legal experts note that Canadian attorneys rarely use the contingent fee system and that Canadian courts rarely allow personal injury lawsuits to be heard by a jury, two factors that they say tend to deflate liability judgments and settlements.

Companies with U.S. subsidiaries or aircraft, however, tend to purchase larger amounts of coverage.

"I'm proud to say that my company buys only $100 million in liability insurance and has never needed that much," Baie James' Mr. Darby says. "But I buy much higher limits for my aircraft."

Statistics on Canada's largest underwriters of casualty insurance are not generally available, but risk managers note that Royal Insurance, Commercial Union and Lloyd's maintain a competitive edge in liability as well as property insurance. They also note that U.S.-based insurers, including American International Group Inc., also are frequent choices for liability coverage. ■



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Health care costs don't worry Canadian firms

By LEN STRAZEWSKI

Self-funded health benefits, health care cost containment and pro-competition legislation—major employee benefits issues for U.S. employers—are just a bunch of foreign terms to Canadian companies.

Since Canada's socialized medicine program provides health care benefits to all citizens, domestic employers simply have never needed to learn the words that now dominate the conversations of U.S. employee benefit managers.

Canadian companies, however, do offer private pension plans and they sling the lingo of contemporary pension issues with fluency and fervor.

"The Canadian employee benefit structure is not all that different from the U.S. employee benefits system," explains Daniel McCaw director of the Toronto office of William M. Mercer Ltd., Canada's largest employee benefit consultant. "Most Canadian companies are structured just like U.S. corporations with employee benefit programs and retirement security plans.

"Socialized medicine, however, simplifies the employee benefit picture here. Health care cost containment simply has never become an issue. Competition among health care providers is generally irrelevant. Self-funding is unnecessary."

Mercer, a division of insurance brokerage giant Marsh & McLennan Cos. Inc., was founded in Canada and tends to dominate the employee benefit consulting business there with offices in 12 major cities.

Other consultants active in the marketplace include Reed Stenhouse Associates Ltd., Johnson & Higgins/Willis Faber Ltd. and Hewitt Associates, though most firms focus on pension consulting rather than welfare benefits because of the national health insurance.

Canadian citizens pay the government $28 a month, or $57 a family, for basic health care and hospitalization services, which include both outpatient and catastrophic care benefits.

Citizens covered under the governmental plan may purchase services from private health care providers and claims are processed in comparable ways under privately insured plans—either by direct billing or reimbursement, depending upon the treatment.

What the government health care program doesn't cover, however, does create a small health insurance market for local life and health insurers, including such leaders as Sun Life Insurance Co. of Toronto, the largest domestic life and health underwriter in Canada; Confederation Life Insurance Co. of Toronto, which also underwrites group life and health insurance in the United States; and Great-West Life Assurance Co. of Winnipeg, Manitoba.

The accident and sickness market, as the coverage area is called in Canada, is quite small by United States standards. In 1982, Canadian A&S insurers generated only $2.2 billion in net earned premium compared with more than $50 billion in earned premiums on group health insurance alone in the United States.

Supplemental health benefits include expanded hospitalization benefits to pay for private and semiprivate rooms, short- and long-term disability plans, prescription drug programs and fast-growing dental care plans, according to Mr. McCaw.

"About half of Canada's major employers now offer dental insurance plans," he notes, "And those that don't are planning to add the benefits. There is employee benefit competition among employers; it just doesn't manifest in the same way the competition shows in the United States."

Pierre Desmarais, president of Reed Stenhouse Associates Ltd., the employee benefit consulting subsidiary of Canada's largest insurance brokerage, Reed Stenhouse Cos. Inc., agrees.

"We were seeing some rapid escalation in supplemental benefits, but the recession has slowed the growth a bit. Right now, the fastest growing benefits, beside dental care, are payroll deduction group automobile and homeowners insurance.

"Because of the problems with the economy, employers have been looking for ways to add benefits without adding to their own bottom line. Payroll deduction plans are a convenience benefit for employees and don't cost the employers anything," he says.

Unlike U.S. counterparts, Canadian employers rarely assign responsibilities for employee benefits to employee benefit managers.

Budgeting for benefits is generally one of the responsibilities of a corporate treasurer or financial vp. Administration of benefits is usually a duty of the corporate industrial relations or personnel department. The purchasing and negotiation of insured employee benefits is a job for the corporate insurance expert, the risk manager.

At the Societe d'energie de la Baie James, Quebec's giant hydroelectric construction project, Marc Darby, director of risk management and insurance, who also is president of the U.S.-based Risk & Insurance Management Society, sits on a three-person committee that oversees all employee benefit decisions. His major area of concern is purchasing.

"The committee consists of representatives of the personnel department, treasury and risk management department," he explains. "And in that role, I am primarily a consultant to the personnel department, assisting it in the purchase of hospitalization benefits in excess of what is provided by the Crown, long- and short-term disability plans and travel/accident insurance."

The assignment of group insurance purchasing to risk managers is common across Canada, Mr. Darby notes, with corporations generally relying on the bargaining experience of their risk managers to strike deals with brokers and group insurers.

The single biggest employee benefits issue in Canada is its private pension system, now undergoing close governmental scrutiny at both the federal and provincial levels.

As in the United States, Canadian private pensions, which cover about 50% of the workforce, are designed to supplement and be offset by public retirement benefits.

More than 90% of all Canadian private pensions are defined benefit plans, as they are in the United States, consultants say.

Continued on facing page

NO CURE FOR THE EXPLODING COST OF YOUR COMPANY MEDICAL PLAN?

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Continued from facing page

Unlike the United States, though, Canadian public retirement benefits are provided by two plans: Old Age Security, a pay-as-you-go program similar to the U.S. Social Security system, and the Canada/Quebec Pension Plan for which employers contribute a maximum of $300 per year per employee.

The two plans now pay retirees a maximum combined benefit of about $600 per month in retirement income, an amount generally considered to be less than necessary for most retirees.

Hence, the government's interest in the nation's private pension system and possible expansion. Federal regulators, however, have little control over private pensions.

Though the plans are taxed by the federal Department of National Revenue (the Canadian counterpart of the Internal Revenue Service), pensions are regulated by provincial governments, all of which have retirement security laws similar to the U.S. Employee Retirement Income Security Act of 1974.

The provincial regulations, however, do differ in funding and vesting requirements and plan reporting standards. A "green paper" study conducted by a federal research panel late last year now suggests federal legislation of minimum private pension standards that would accelerate vesting and funding standards.

Specifically, the green paper recommends:

- Two-year vesting and indexing of vested pensions.
- Annual pension benefit increases based upon an index of standard investment returns. Employers would be required to increase pensions by an amount equal to the difference between the average yield on long-term government bonds and 7% for benefits earned before the effective date of reform legislation and 3.5% for benefits earned after that date.
- Portability through a Registered Pension Account, a government-sponsored money purchase plan into which an employer must pay at least 50% of any vested benefits owed to a resigning or fired employee.

The green paper also recommends a series of reforms aimed at improving the pension prospects for women, an expanding part of the Canadian workforce. These suggestions include provisions for:

- Splitting pension credits in the event of a divorce or separation so that courts could award part of one spouse's accrued pension to the other spouse.
- Continuing survivor's pension benefits after remarriage.

'But should private pensions be mandatory? We don't think so. Just under 50% of all Canadian employers sponsor private pension plans. . . There is no need for the government to legislate mandatory pensions,' says Ms. Sinclair.

"As you might guess, pension reform has become a rather heated issue," remarks Mercer's Mr. McCaw. "As soon as Parliament saw the green paper, it organized a study commission of its own, which is now touring Canada and interviewing employers on their pension plans."

Though Canadian businesses generally oppose a mandatory private pension plan system, some solid support exists for some of the green paper recommendations, including faster vesting and improved portability.

One reason for this support is the growing cost of the Old Age Security program. To break even for 1984, the cost of the plan must jump from 3.6% to 10% of payroll next year and up to 20% of payroll if it is required to meet standards for retirement income discussed in the green paper.

Canadian businesses would rather swallow pension reform that frees some of the funds already tied up in private plans than stand still for bigger federal taxes.

"It's clear that we must improve portability," says Helen Sinclair, a member of the Business Committee on Pension Policy, an ad hoc panel representing 13 business and professional associations whose members account for 80% of Canadian employers. "And the government's suggested Registered Pension Account seems to be a viable alternative along with faster vesting.

"But should private pensions be mandatory? We don't think so. Just under 50% of all Canadian employers sponsor private pension plans and we expect that percentage to continue to grow of its own accord. There is no need for the government to legislate mandatory pensions."

Canadian business also opposes the indexing of pension benefit increases to standard investment returns, as proposed in the federal report, says Ms. Sinclair, who doubles as director of public affairs for the Canadian Bankers Assn. in Toronto.

"We don't expect it to survive as it stands," she says. "In Canada, no one really has a handle on what really is a good rate of return over the long run. If indexing is necessary, we suggest there should be a better tool for measuring the increase, such as the Consumer Price Index."

Some of the employers' debate may be in vain.

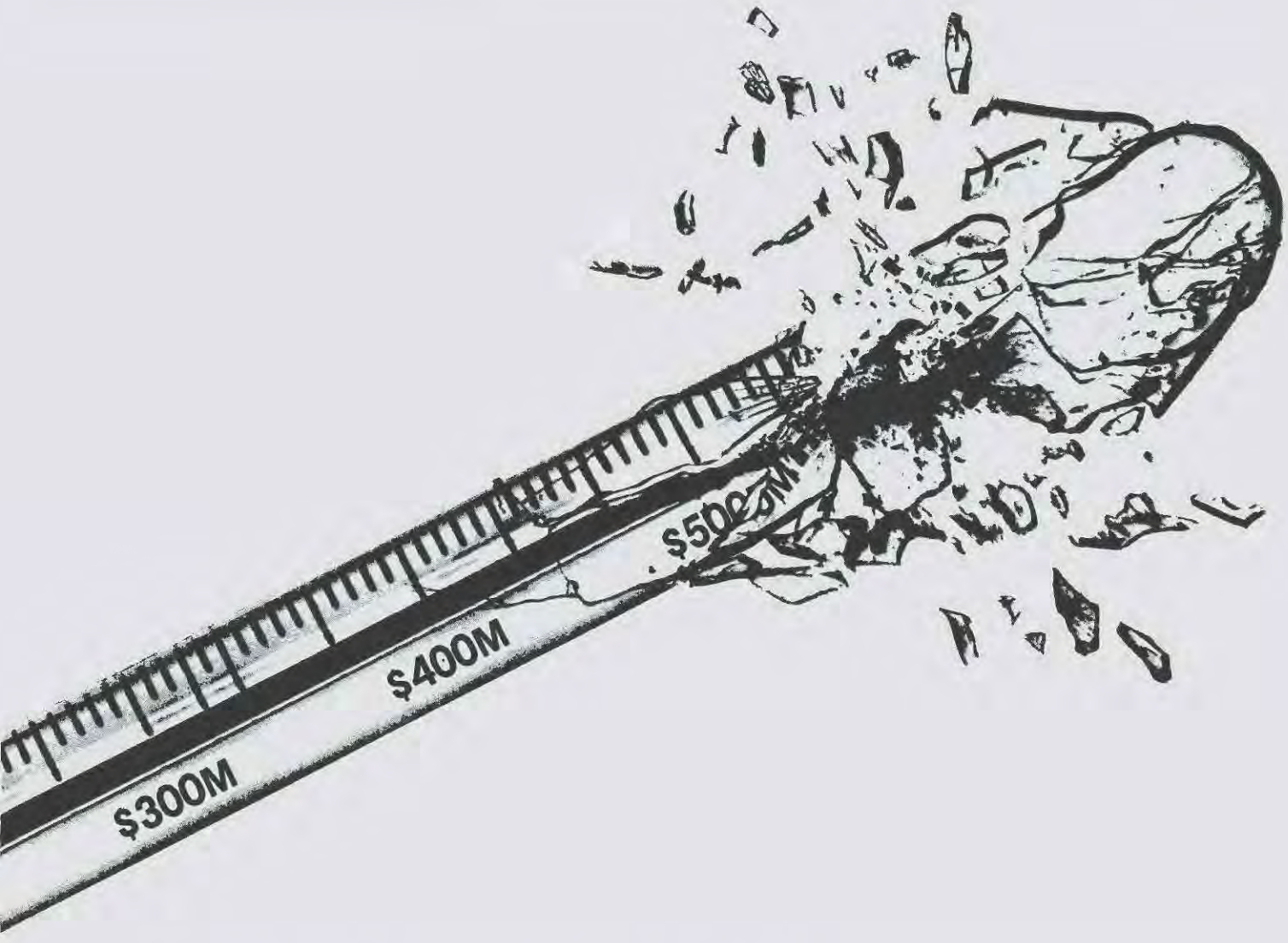
Hoping to head off a federal takeover of pension regulation, some of Canada's provinces, including Manitoba and Saskatchewan, already have enacted pension reform laws that include some of the green paper recommendations.

Spurred by its liberal New Democratic Party, which currently dominates the provincial government, Manitoba's new pension law, effective Jan. 1, seems to be the most liberal of the provincial pension reform laws recently enacted or presently under discussion, consultants say.

"Basically, Manitoba jumped the gun on federal reform," remarks Reed Stenhouse's Mr. Desmarais. "Its pension act contains many of the green paper suggestions as well as provisions for mandatory inclusion of part-time workers."

Though the Manitoba Act is not expected to be a model for other provinces, it may turn into a proving ground for many of the federal suggestions. Reforms mandated in the Manitoba law include:

- Complete vesting after five years after Jan. 1, 1985. By 1990, private pension plan members will vest after two years. Also, vested benefits earned after Jan. 1, 1985, will be locked in on termination of employment and the employee must accept a deferred life annuity.
- Mandatory inclusion of part-time and temporary employees in pension plans if the plan calls for membership of full-time employees in the same job classification.
- Mandatory joint survivor benefits that do not terminate on remarriage.
- Recognition of common-law heterosexual marriages.
- Splitting of pension credits upon separation or divorce.
- Elimination of offsets against Old Age Security benefits. ■



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General Accident	1,353,100,000	1,233,000,000
Guardian Royal Exchange	1,232,100,000	967,000,000

*0.62 pounds:$1 on Dec. 31, 1982.
Source: "The British Insurance Industry: A Statistical Review" (Kluwer Publishing Co.).

By STACY SHAPIRO

LONDON—U.S. risk managers should feel pretty much at home in the United Kingdom, whether they are placing risks for their companies' British operations or using London as a base to manage other overseas subsidiaries.

In London, U.S. risk managers can find a huge concentration of insurers and the brokerage expertise to place risks anywhere in the world.

They can purchase insurance in a virtually regulation-free environment.

They can tap into the network of worldwide insurance and risk management information that flows through London.

And, they can speak the same language as the native insurance industry, so their requests and desires can be easily understood.

Although Britain can no longer claim to be the world's largest insurance center, "London is still the most competitive and varied market in the world," says Graham Trapnell, a London-based risk manager for Moore Business Forms Ltd., a company that is headquartered in Toronto.

"One of the reasons why I am located in London is because of the close proximity to the London market," he says.

"I could be placed anywhere, but here I can keep in contact with the underwriter," says Mr. Trapnell, who is in charge of all of Moore's risk and insurance management outside North America.

Mr. Trapnell, in fact, says he sits in on almost every meeting of his broker, Reed Stenhouse Cos. Ltd., and London underwriters so he can map out the insurance program to his precise specifications.

Since risk managers in London are so close to the insurance market, most are tuned in to what coverages are available, how they can be tailored to best meet their needs and, of course, what bargains can be found.

Right now, British risk managers are finding plenty of bargains.

Dennis Farthing, group manager for Rank Xerox Ltd., a joint venture between Xerox Corp. of the United States and Rank P.L.C. of Britain, says he hasn't seen a premium increase in any property or liability line in the past year. In fact, he says, Rank Xerox's excess liability insurance costs have been cut as much as 30%, adding that the company's property coverage rates also have been reduced.

Mr. Trapnell says that his company's insurance costs have "nudged a bit downward" this year. In the past four years, through a combination of loss-control measures and the competitive insurance market, the premiums the company pays to London insurers have been cut by 25%, he adds.

Anthony P. Benson, group risk manager for Arthur Guinness & Sons P.L.C. and former president of the Assn. of Insurance & Risk Managers in Industry & Commerce, says he doesn't think rates in London will rise soon, at least for large multinational corporations.

"The international buyer in general sees either premium savings or improvement in his cover terms, or sometimes both," Mr. Benson adds.

Despite the general atmosphere of rate cutting, one line of coverage is becoming more costly: commercial auto, including both liability and collision. Lloyd's of London underwriters, for example, recently raised their motor insurance rates by about 10% to 12%.

When looking for bargains, the British risk manager has a lot of markets to shop. The British Department of Trade, which loosely regulates the British insurance market, reports there are 849 authorized insurance companies in the nation. Also, there are hundreds of Lloyd's of London syndicates, which generally do not come under the Department of Trade's purview.

The British risk manager can tap any insurer he chooses, since there is no law against doing business with non-authorized insurers, although companies must buy the two coverages mandated by the government—employers liability and auto liability—from authorized insurers.

In fact, the only restriction imposed on non-authorized insurers by the Department of Trade is that non-authorized life insurance companies must state in their advertising that they are not authorized, what company is their ultimate owner and the nation in which they are headquartered.

The department says it may soon extend this regulation to non-authorized property/casualty companies.

Although British risk managers have almost complete freedom of using whatever markets they wish, they purchase their insurance a little differently from most U.S. buyers.

Continued on page 16

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London's like home to U.S. risk managers

Continued from page 14

For instance, British risk managers more often than not purchase coverage directly from an underwriter rather than go through an agent or a broker. This, British risk managers say, saves the buyer money since the company does not have to pay a brokerage commission.

According to a survey by AIRMIC, the major British risk management association, about 30% of the surveyed risk managers say they place their risk directly with insurers. The other 40% responded that they use a broker, but only to place risks with Lloyd's syndicates —where using a broker is mandatory—or for tapping overseas markets.

"Wherever possible, we insure directly, except at Lloyd's, where we have to use a broker, according to Lloyd's rules," said Rank Xerox's Mr. Farthing.

"We can save money by not using a broker, so why shouldn't we?" Guinness' Mr. Benson asked.

When British risk managers do use a broker, they look for one that is registered with the Insurance Brokers Registration Council, a quasi-governmental organization. The council establishes that the broker is financially stable and passes certain solvency requirements.

The broker probably also will be a member of the British Insurance Brokers Assn., which accepts only council-registered brokers.

Another seemingly peculiar trait of British risk managers is that—for all its fame—they don't buy that much insurance from Lloyd's of London.

"Lloyd's is still very useful to use for risks like kidnap and ransom, extortion, political risk cover and marine, but its importance is diminishing on things like motor, property and liability," Mr. Benson said.

British risk managers, particularly those with international exposures, say Lloyd's is hard-pressed to meet their needs and instead approach a global insurer for coverage.

A "very valuable part" of a company's international program, for example, is to be able to provide a uniform insurance coverage for overseas subsidiaries that can be translated into local values and local languages, Mr. Trapnell points out.

"Not more than half a dozen insurers can provide that," he said.

In fact, U.S. underwriters' London offices do a lion's share of the international business written from London, British risk managers say. For instance, Mr. Trapnell says he finds it easier to buy coverage for foreign operations from AFIA Worldwide Insurance, a consortium of U.S. insurers, than to go to Lloyd's.

"Lloyd's just does not have the facilities that we do to provide that kind of coverage," said Thomas Hauff, an AFIA vp in London. "People have suggested that we front for Lloyd's and provide the facilities, but that won't happen."

AFIA now employs 450 people in London and can write any line of insurance a British risk manager would want. But its specialty is still global coverage, underwritten by member insurers like Fireman's Fund Insurance Cos., The St. Paul Cos. Inc. and Hartford Insurance Group.

When insuring risks within the United Kingdom, however, British risk managers usually do business with the so-called "composite" British insurance companies, which despite Lloyd's renown, make up the bulk of the British insurance market.

For instance, the British Insurance Assn., whose more than 800 member companies comprise about 90% of the "company" market, says British commercial insurers generated about 20.52 billion pounds in premiums in 1982 ($33.2 billion using the year-end exchange rate). Of this amount, 13.26 billion pounds ($21.5 billion) of premium —about two-thirds of the total— was underwritten for solely British risks.

Conversely, Lloyd's reported 4.3 billion pounds ($6.97 billion) in gross global premiums in 1982.

Of the company market volume

Continued on page 20

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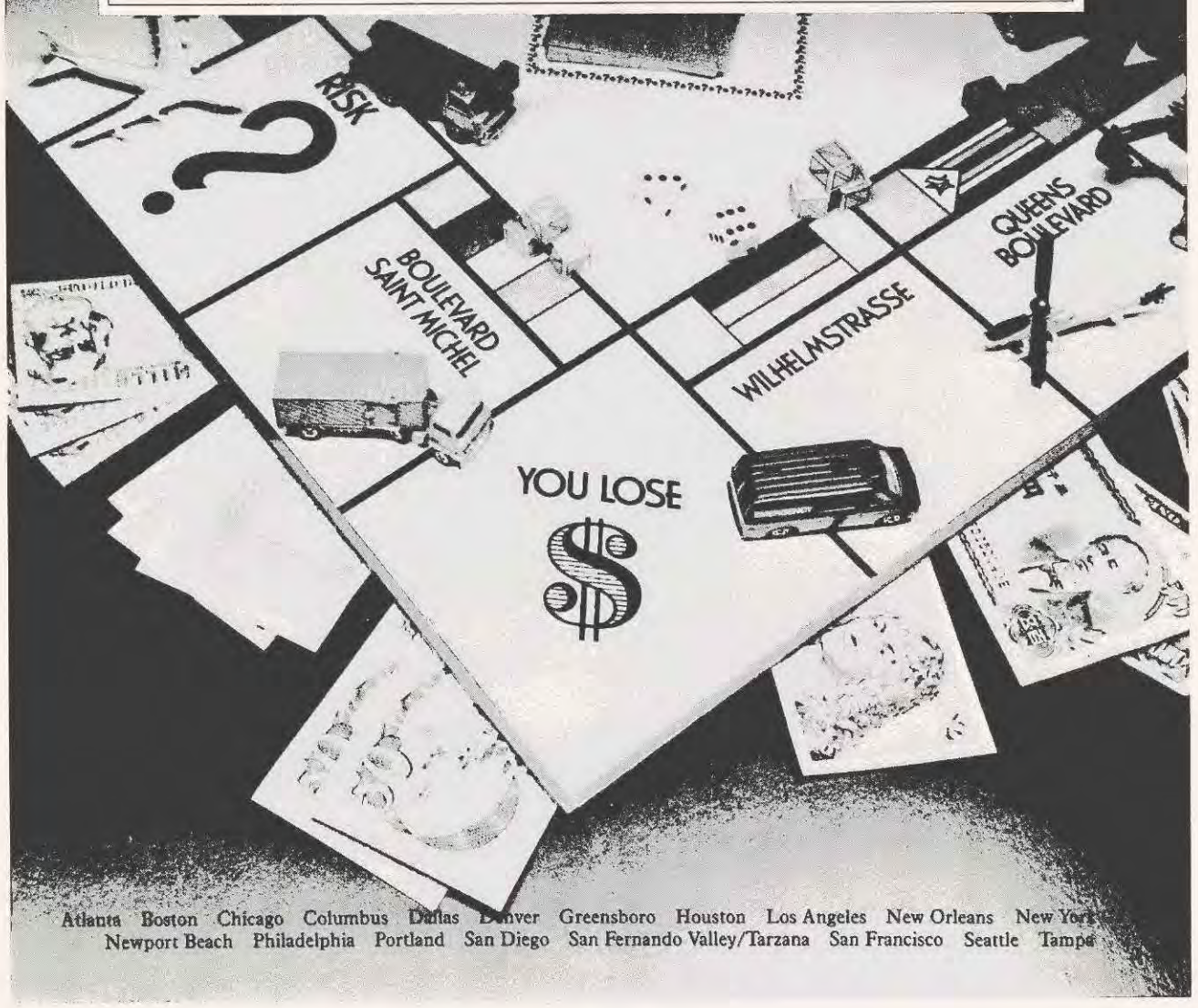

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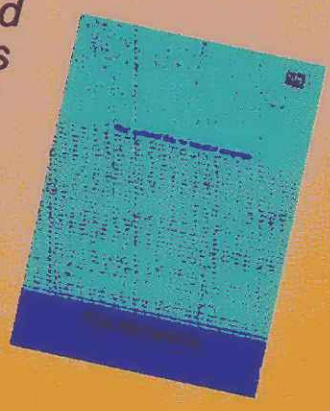

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Domestic risks dominate U.K. market

Continued from page 16
generated by pure British risks, 8.39 billion pounds ($13.6 billion) was "long term" or life coverage while about 5 billion pounds ($8.1 billion) was "general" or property/casualty premium.

Although the majority of the company market business is domestic, the amount of overseas business varies greatly from insurer to insurer. For instance, Commercial Union Assurance P.L.C., the largest British insurer, generates about 75% of its premium from overseas clients (see chart, page 14).

On the other hand, the No. 7 insurer, Eagle Star Group P.L.C.—which is currently the target of a takeover battle—generates more than 70% of its premiums from British clients.

The Department of Trade requires British companies to show proof of coverage for only two types of risks.

They must, by law, show an insurance certificate on demand to verify third-party liability insurance on all company-owned vehicles. Virtually without exception, automobile third-party liability insurance is insured through composite companies or Lloyd's, even if the company self-insures vehicle damages.

British business, by law, also must either insure or receive permission to self-fund employers liability, which is akin to workers compensation coverage in the United States.

British law stipulates that the coverage must have no limits and that, barring special circumstances, no deductible can be included in the policy.

In most cases, companies choose to insure the risk rather than self-fund. Like the United States, premiums are based both on payroll and the type of job the company's workers perform. For instance, companies pay higher rates for construction workers than they do for white-collar employees.

However, there are some differences between the employers liability system in Britain and the U.S. workers compensation system.

British employees injured on the job must prove that their employers are negligent before they can receive any compensation for their injury.

Thus, unlike the United States where workers compensation is designed to minimize litigation, an employee must theoretically take his or her employer to court to prove negligence and establish the amount of compensation due. Many times, though, the injured employee, the employer and the liability insurer will negotiate an out-of-court settlement based on past judgments in similar cases.

Also, the British insurer most likely will not have to pay the full amount of the award. Once the award is finalized, the employer's insurer only has to pay the difference between the benefit awarded by the court and the disability benefit supplied under the government social security system (see story, page 24).

Although the British government has few rules regarding the purchase of insurance, the British insurance industry has established some restrictions, many of which are largely ignored.

For example, a tariff on fire coverage has been on the books for more than 115 years to regulate the minimum rate that insurers can charge. An industry group called the Fire Offices Committee sets the tariff, which is confidential, and is charged with making sure that member insurers do not violate the set rate.

However, only about half the nation's insurers abide by the tariff, and those that say they do often apply to the committee for exemptions in order to compete with the insurers who do not follow the tariff.

Low property insurance rates are important for British risk managers because, unlike in the United States, property and business interruption insurance is most likely a company's greatest insurance expense.

Although the threat of liability claims—especially those stemming from long-latent occupational diseases and faulty products—are increasing, relatively few liability suits are filed in Britain, and the resulting awards are much lower than across the ocean.

One reason for the reduced number of liability claims is the absence of the contingent fee system in Britain. British plaintiffs must pay their attorneys even if they lose the case, which reduces the number of suits that are filed.

Also, civil suits—except in Northern Ireland—are tried before judges, not juries, and experts say this reduces the amount of awards.

Most U.S. companies operating in Britain find that their global umbrella liability policies will more than adequately cover their liability exposures.

"We handle all our insurance separately from our (U.S.) affiliate, Xerox Corp., except one or two policies, which are directors and officers liability and excess liability coverage," said Mr. Farthing.

"In America, they perceive product liability as a terrible, terrible tiger, so they get insurance at high levels. We don't need it, but we get the benefit of the insurance."

Besides the composite market, Lloyd's and foreign underwriters, British companies have yet another source of coverage: captive insurance companies. More than 100 British companies have formed captive insurers in nearby domiciles like Guernsey and the Isle of Man, as well as in Bermuda and the Cayman Islands.

In fact, Guinness last month opened a Guernsey-domiciled captive insurer called ABS Insurance Co. Ltd., Mr. Benson confirmed.

But, forming a captive insurer may not be as attractive if the government enacts proposed tax legislation.

Currently, offshore companies do not have to pay taxes to the British government on their earnings. However, under the legislation proposed by the Conservative government, offshore companies would have to pay the same taxes as onshore companies unless they meet certain exemptions (*BI*, Oct. 10).

For instance, captives would not be taxed if they remit more than 50% of their profits back to the parent company. Nor would they be taxed if the bulk of their business were third-party risks. ■

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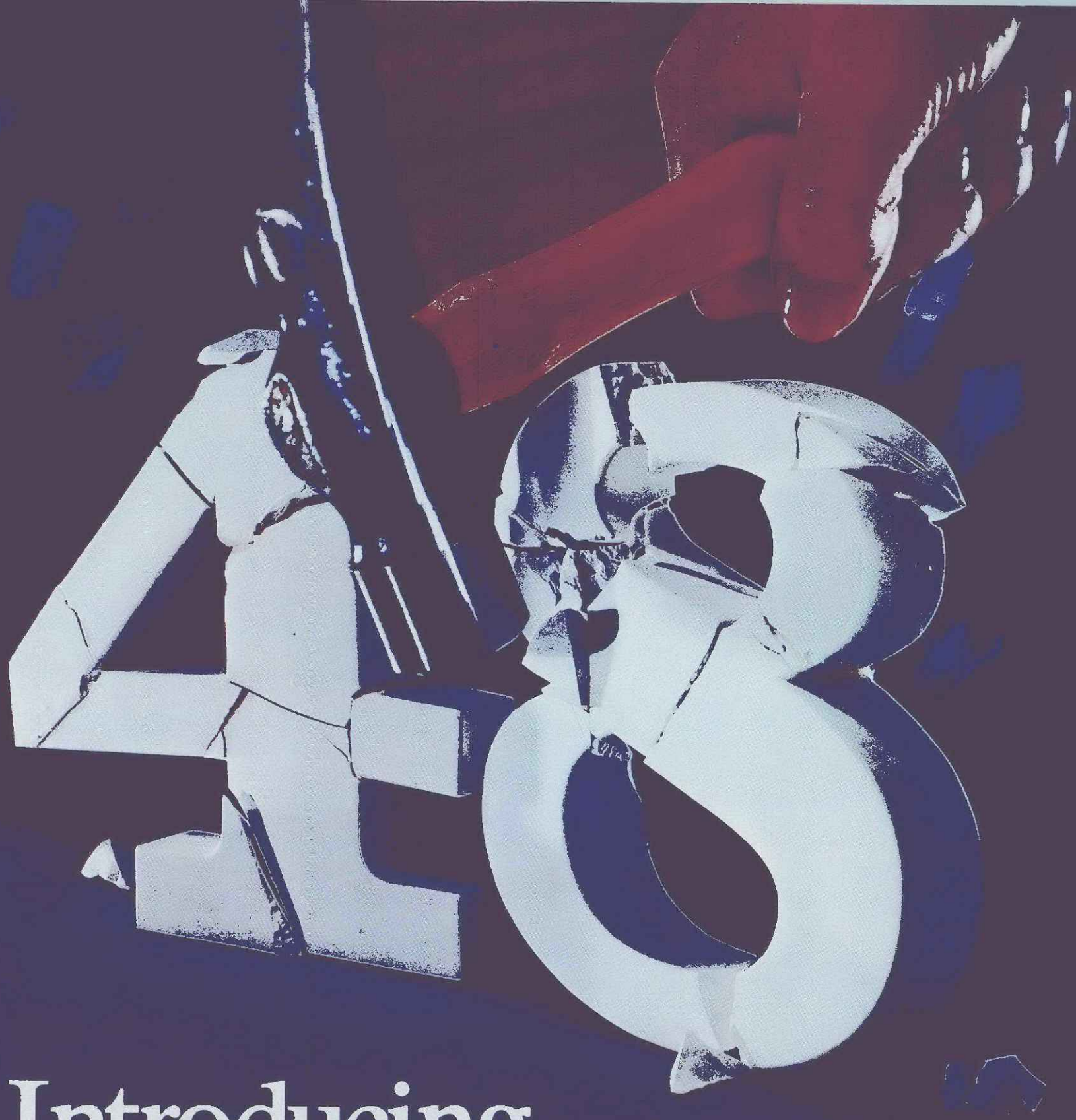

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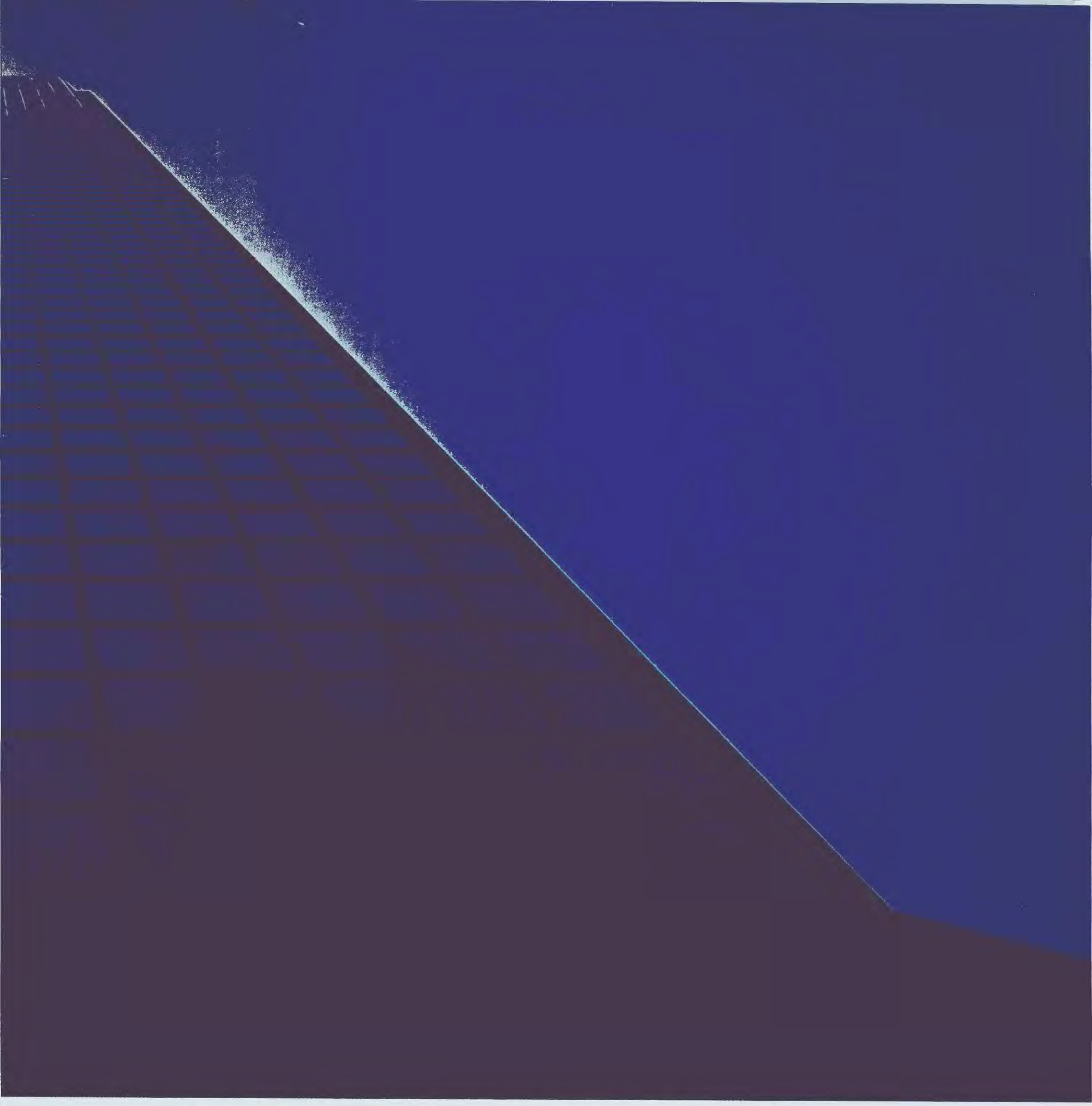

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Extravagant benefits are fading in the U.K.

By STACY SHAPIRO

LONDON—The bell tolls for the flamboyant employee benefits packages to which British executives have grown accustomed during the past decade.

Gone for most high-ranking officials are the company-paid grouse-shooting weekends in the country.

Gone are the bulk of the company-paid vacations to faraway places.

Gone are many of the company cars for spouses' use, company-paid private school tuition, low-interest housing loans and separate executive dining rooms.

In fact, at some companies that are really stretched, gone are the private medical insurance plans that allow employees to bypass the National Health Service, Britain's socialized medical plan (*BI*, Oct. 12, 1981).

But, some top-management perks linger on. Company cars—including Rolls Royces and Jaguars—still line the streets of London. Subsidies for annual train or bus passes are still handed out to some employees and, in a few cases, company-paid hunting excursions are still offered.

In fact, company contributions to employee benefits—including contributions to nationalized health, retirement and disability plans, plus private medical, life insurance and retirement programs—still cost about 20% to 25% of payroll for most workers, and much more for executives.

But the recession and Prime Minister Margaret Thatcher's Conservative government have bitten hard into executive benefit packages. What poor profits have not taken away, new taxes on employee benefits have, consultants, employers and government officials note.

"The recession in the United Kingdom has led a number of companies to rethink their whole employee benefits packages," says Hugh Elwell, a private benefits consultant in London and a parliamentary lobbyist for the Conservative Party.

"Before, the company said you can have a free car, loans, private insurance. But now they are cutting back and moving to U.S. remuneration: a large chunk of cash or higher salaries instead of benefits," Mr. Elwell says.

"The industrial Midlands in England, for example, once were potent sources for private medical insurance, but now they have cut back costs—including benefits—for pure survival and are not likely to pay for private medical insurance anymore," he notes.

"Executive employee benefits are being eroded. . .whittled away," adds Christopher R. Labrow, managing director for Etherington Group Ltd., an employee benefit consultant in London. "And there will be more erosion in this area."

Mr. Labrow says generous benefit plans are being killed by the Conservative government's tax policy.

Benefits that once were untaxed are now considered taxable income to the employee who makes more than a base wage. For instance, the Inland Revenue Service will tax a company car if an employee earns more than 8,500 pounds (about $12,750) annually.

Also, employees who earn more than 8,500 pounds per year must pay taxes on private medical insurance premiums as if they were part of their salaries.

Other benefits that have lost their tax-free status are loans to employees and sick pay.

But, a spokesman for the Inland Revenue Service does not feel that taxes on executive employee benefits are overly harsh.

"I do not know if taxation as a total burden has changed," said the spokesman. New, lower income tax rates offset the new taxes on benefits, the Inland Revenue spokesman explained.

Before Mrs. Thatcher came to power in 1979, British executives paid as much as 83% of their income in income taxes. Since taxes on salaries were so high, employers paid as much of an employee's compensation in tax-free benefits as possible.

In the last four years, the government has reduced the maximum tax to 60%, which makes higher salaries more attractive.

Although executives are losing some of their perks, British benefit plans, even for the lowest-paid workers, are still among the most generous in the world and employees are well aware of their importance.

The benefits package for many British employees has moved from being a "benefit to a necessity," Mr. Labrow say.

By law, all British employees are covered for a wide array of benefits through Britain's National Health and Social Security System, established by the National Insurance Act of 1946 and the National Health Service Act of 1946.

The system is funded by heavy taxation known as the National Health Insurance Contribution, which all employers and employees must pay even if the employees work overseas and cannot tap the state-run medical system or if they are covered by private health or pension plans.

Currently, employers must pay 10.45% of the first 12,000 pounds ($18,000) of each employee's salary for the socialized benefits. Employees must pay 9% of their first 12,000 pounds of salary.

In return, workers receive a wide array of benefits. According to a booklet published by Swiss Life Insurance & Pension Co., these benefits include:

- Free physician and hospital visits through the National Health Service, though minimal fees have to be paid for dental work, eyeglasses and prescription drugs.
- Disability benefits for the first six months a person is ill and cannot work. When these benefits expire, an invalid pension takes over.
- Maternity grants of 25 pounds ($37.50) for all expectant mothers. Companies, by law, must give a new mother her job back if she returns to work within six months and has worked for the company for more than two years. New mothers also receive 25 pounds per week for up to 18 weeks that they are off from work. And, children up to age 16 receive 6.5 pounds ($9.75) per week from the government.

National Health Insurance also provides workers' retirement benefits and a widows' pension, a death grant that is paid in a lump sum to survivors if an employee dies.

The state retirement plan, similar to those paid by the U.S. Social

Continued on page 28

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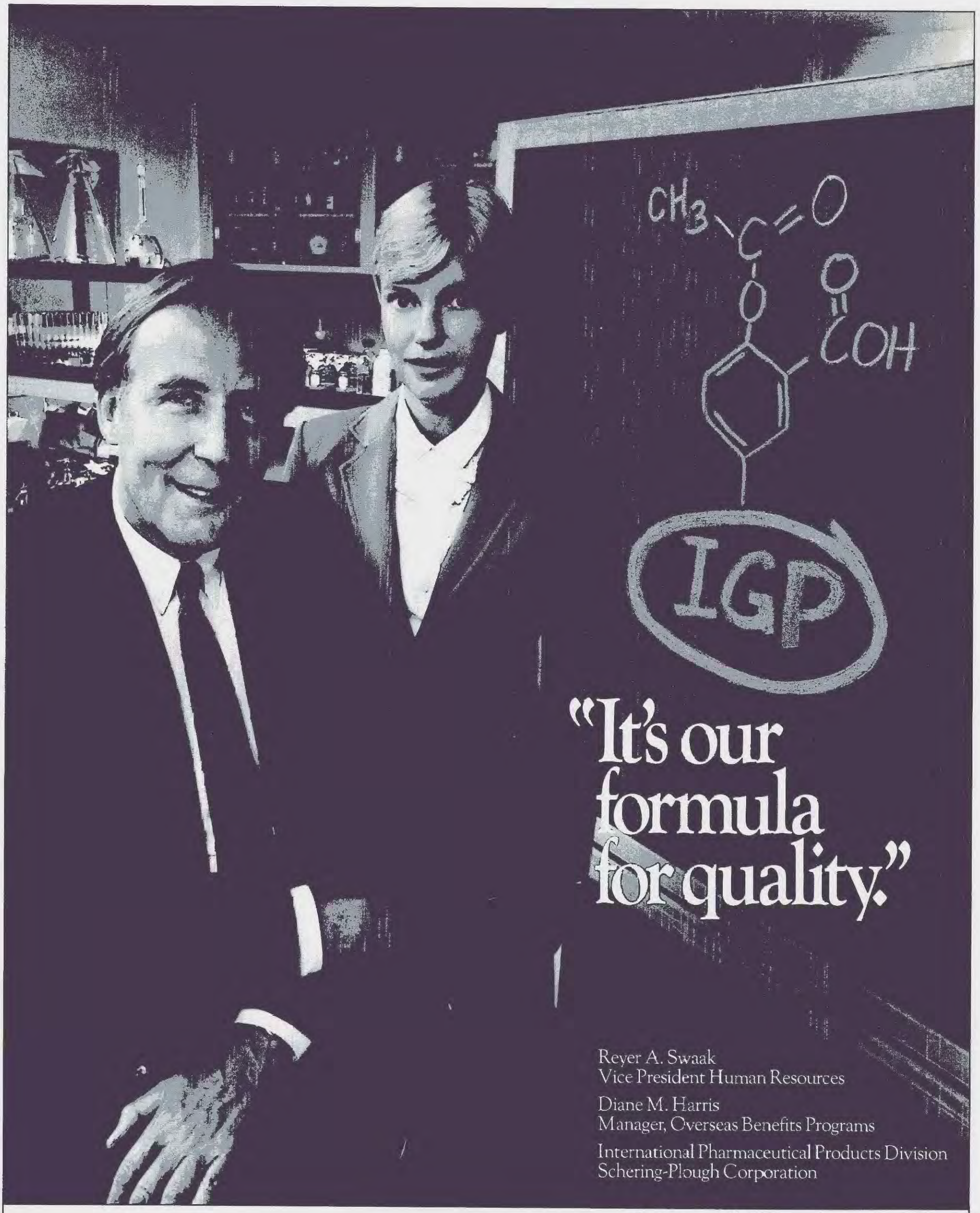

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Big benefits fading in U.K.

Continued from page 24
Security program, will pay employees up to two-thirds of their final salary, either on a monthly basis or in a lump sum upon retirement, after 10 years in the workforce.

The retirement age for women is 60 and 65 for men.

National Health Insurance contributions also finance unemployment benefits, more commonly called the dole. More than 3 million people, or 13% of the British population, are unemployed and receive some benefit from the dole.

Although the National Health Service provides a generous benefits to British workers, it has been a topic of heated debates in Parliament. The Conservatives say the system should be dismantled because it is inefficient, while the opposition Labor Party wants the National Health Service retained.

But, both parties recognize major flaws in Britain's socialized medical system. For instance, because of a lack of funds, patients with nonchronic ailments have to wait up to 18 months for surgery.

"If you are a trucker, you may have to wait over a year to get a hernia operation, which can be extremely uncomfortable," notes Mr. Elwell.

Some Conservative backbenchers believe that "privatising" the National Health Service will reduce costs and relieve the long waits for medical procedures.

But Mr. Elwell, even though he is a lobbyist for the Conservative Party, says he believes that the system never will be dismantled.

"I do not think for one moment that the government will do it," he says. "First, it would be political suicide and second, the Health Service provides a reasonable standard of care.

"Also, the Health Service supplies 900,000 people with jobs, which makes it the biggest employer in Europe. In other words, I reckon that we are stuck with what we've got," Mr. Elwell says.

The long lines at NHS hospitals and clinics have persuaded more than 4.5 million people to take out private medical insurance, he points out. About 1.5 million belong to group plans funded by employers.

Private medical coverage allows Britons to see their own doctor instead of an assigned doctor at a National Health Service clinic. Private patients also can convalesce in private rooms in state-owned hospitals, instead of huge, multipatient wards.

Specialists are also easily accessible, unlike in the National Health Service, and operations and house calls can be scheduled quickly.

Private medical insurance used to be available only to executives, but lower-ranking employees want that benefit, too, said Mr. Labrow. For example, the Electrical Trade Union, even though it supports the retention of the National Health Service, offers a private medical plan to its members, he said.

The three largest private medical underwriters are non-profit organizations: the British United Provident Assn. (BUPA), the Private Patients Plan (PPP) and the Western Provident Assn. (WPA).

Commercial insurers, like Mutual of Omaha, a U.S.-based company, also are offering plans, but they are still in the developmental stages, Mr. Elwell explains.

The private British plans will cover inpatient hospital care; operations; consultation, nurses' and specialists' fees and prescription drugs. They will not, however, cover routine checkups.

The plans offer much lower limits than most U.S. medical plans. For example, the maximum annual benefit per person in the PPP's company master plan is 38,000 pounds ($57,000). There is no deductible and the PPP will cover 100% of most charges, with the exception of hospital room and board.

The PPP will pay 22 pounds per day ($33) for room-and-board charges in a government-owned hospital, up to a limit of 1,500 pounds ($2,250) per year. However, since the government sets room rates on a case-by-case basis and the amount charged fluctuates wildly, a policyholder has no idea how far this benefit will go.

"Under the National Health Service there are no established charges, so no one really calculates what the costs are to the system," said Mr. Elwell. "But with private care, you have to put a price on the services, and sometimes that price is high."

Private health plan premiums are lower than in the United States. Depending on what part of the country in which the employee lives, annual premiums for a family of four for the BUPA plan range from 336 pounds ($504) to 607 pounds ($911).

The private medical insurance industry is suffering, however. Many companies that offer private coverage say they're unable to pay two sets of medical premiums: one to the private plan and one to the National Health Service.

Private medical plans also are being hit with high health care costs, just as in the United States. BUPA and the PPP, for example, raised their rates 15% last year and BUPA tacked on another 5% in July.

"The private insurance sector increasingly is being hit by the problem of cost escalation," Mr. Elwell says. "The public will not pay for higher premiums, however, when they can get medical services free."

Overall, the number of people in private plans grew only 3% last year, compared with 27% in 1980.

Besides private health insurance, most employees also receive a private pension to supplement the nationalized benefits.

Last year, total investments for the 20,000 employer-sponsored British occupation pension funds were around 80 billion pounds ($120 billion), said a spokesman for the National Assn. of Pension Funds. Of the 1,000 pension plans surveyed by the NAPF, 69% were plans formed and operated by employers; the others were either insured or managed by commercial underwriters.

The amount employers contribute to private plans ranges widely, according to the NAPF spokesman, with an average corporate contribution of 10.7% of salary.

Almost all private British defined benefit plans are contributory, with employees paying an average of 4.7% of their salaries.

Under British law, full vesting is mandatory after five years of service, and the minimum vesting age is 26. Companies whose pension plans qualify can receive a credit against their social security taxes for contributions to private plans.

Employers with private pension plans, though, could see their costs increase if the Occupational Pensions Board, the agency that regulates British plans, gets its way. The board is considering drafting legislation that would mandate that vested workers could transfer their pension funds from job to job. It also wants to ensure that workers' pensions are not adversely affected by inflation (*BI*, May 23).

Besides medical insurance and pensions, British employers customarily provide workers with several other employee benefits. For instance, a British worker is normally provided with life insurance that pays from one to four times the worker's annual salary. ■

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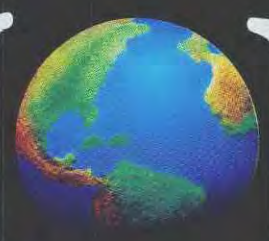

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German social programs provide majority of benefits

Continued from previous page
serves" has become an important issue in light of the string of crippling bankruptcies that plagued the German economy last year. Employers are required to insure company pension plans with an organization called the Pension Guarantee Fund (PVS).

A company also may fund pension plans through direct insurance, a pension fund that is regulated like an insurance company, or a "support fund" that is not subject to government supervision except to limit contributions.

Pension plans are normally noncontributory, primarily because employees can't pay into a book reserve system.

Health insurance is a conspicuous element of the social net in the Federal Republic and, like state pension funds, participation is mandatory for all workers. Employees pay 6% of their monthly earnings into a variety of authorized Krankenkassen (sickness funds); that amount is also matched by employers for a total of 12%.

The various sickness funds offer essentially the same benefits and differ only by the professional groups they serve.

Supplemental health plans are virtually unheard of because the social plan is so comprehensive.

Although the plan generally pays all health expenses, the rising costs of health care in Germany is forcing some changes. Certain over-the-counter drugs that had been covered under the plan when prescribed by a doctor no longer will be covered.

Vision and dental care are included in the health plan, but with some restrictions such as the number and type of eyeglasses covered.

Accident insurance—comparable to workers compensation in the United States—also is compulsory and is financed entirely by employers through specially created liability associations. Rates charged by these associations vary widely from industry to industry.

Unemployment insurance is administered by state authorities, and reserves are created primarily by fees paid by workers and their employers. Here, the employee is obligated to relinquish only 2.3% of pay, while the employer is hit for double that amount—4.6%.

Not everyone is enamored with West Germany's social programs. The director of a major commercial insurance company, who asked not to be named, contends: "The social net has become a social hammock, as far as many people in private industry are concerned."

Some large employers use commercial insurers to offer additional life benefits to workers, but most entrepreneurs are so strapped with their obligations to state social insurance programs that they hardly feel motivated to gild the lily, he says.

In a sense, that job is increasingly being left to the taxpayers. Shortages in the state pension funds are met by federal subsidies.

Because most of the state pension reserves are paid directly to eligible recipients, the system is headed for an uncertain future: Demographic and economic factors (unemployment is officially at 8.6%) have contributed to a situation where a shrinking workforce must support a growing number of pensioners.

"This leaves us three possibilities," says Mr. Harms of BfA. "Increase the obligatory payments, decrease the level of support paid to pensioners, or turn to the federal government for more subsidization."

The director of one of Germany's largest insurance brokerages has a fourth scenario. He maintains the state social insurance schemes have a poor track record for delivering services in proportion to the billions of dollars they collect each year.

"We feel in the long run the employer will have to turn to commercial health and pension plans for his workers," he says. "The state social insurers cannot exist for much longer without drastically reducing the level of service Germans have become accustomed to."

On private life insurance products, West Germans spent about 35 billion DM on life insurance, or $15.7 billion in 1981. ■

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Swiss insurers focus on industrialized nations

By JOHN PARRY

GENEVA, Switzerland—Swiss insurers sell more insurance abroad than at home, and they sell plenty of insurance at home.

The average Swiss spends more on insurance than anyone else in the world. The domestic premium volume of $11.5 billion averages out to $985 per capita, compared with $900.80 in the United States, according to a study by Swiss Reinsurance Co.

In total, however, the country's 20 life and 45 non-life companies took in about 25 billion Swiss francs in 1981, or about $14 billion at the 1981 year-end exchange rate of 1.80. About 55% of those premiums was paid by foreigners.

In 1982, premium volumes showed "gratifying growth" compared with 1981, according to the information department of the Swiss Insurance Assn. Annual reports of the leading insurance companies show increases of 9% to 14% in non-life premiums and 11% to 16% in life and annuity premiums.

Swiss insurers, however, are changing their international marketing strategy.

As more and more Third World countries form state companies and adopt burdensome regulations and currency transfer restrictions, Swiss companies have steadily retreated from the developing world and are concentrating more on the markets of industrialized countries, primarily Europe and North America, says Peter Gmeiner, secretary of the Swiss Insurance Assn.

Swiss Life Insurance & Pension Co. and Winterthur Swiss Insurance Co., big names on the international market, do the bulk of their foreign business in Europe and North America. In the United States, Zurich Insurance Co. recently purchased International Underwriters in Kansas City. Winterthur picked up Republic Financial Services of Dallas.

Swiss Re considers the United States the only market for assured growth, according to Theo Obrist of Swiss Re's Group Interest department.

Zurich, however, has "high hopes" of developing its Far Eastern business, according to Willi Schurpf, vp of the company's international division.

Already, Zurich gets 76% of its premiums from abroad, with the non-life sector comprising more of the premiums than the life sector.

Swiss companies are moving actively to snag the international business of multinational companies—not only Swiss-based companies such as Nestle Co. Inc. and F. Hoffmann LaRoche Co. Ltd., but American and other foreign companies, too.

"The risk manager of a multinational might come to us when he finds his local cover doesn't have the same quality he's getting at home," explains Zurich's Mr. Schurpf. "He's looking for quality protection worldwide, so he buys an umbrella cover from us which brings his insurance up to the same level of comprehensive cover he's used to at home. Multinationals need centrally coordinated services, and that's what we are selling worldwide."

Zurich has 68 programs of this kind in force around the world, 26 of them for Swiss companies and the rest for American, British and West German companies.

"No names," says Mr. Schurpf, when asked to identify them.

At home, the Swiss have a virtual monopoly on domestic business. Only 3% of domestic premiums was written by foreign insurers and one foreign company operates in Switzerland since Allstate Insurance Co. sold its Swiss subsidiary to Zurich last year.

American Home Assurance Co., established in Zurich for 25 years, is now the only major U.S. company operating here. And, more than 50% of its business is with U.S. companies, mostly in the fire and international risk fields.

"We only do industrial and commercial business, no personal business: fire, liability, casualty and special property lines," says American Home Deputy Director Peter Morf. "We're the only people in Switzerland, for example, writing political risk insurance, a complement to the government's Export Risk Guarantee given to Swiss companies exporting to high-risk countries overseas."

The government's Export Risk Guarantee program insures Swiss exporters against risks incurred in exporting to Third World countries or other high-risk areas. It provides only minimum cover and has run into problems recently because it has been underfunded by the federal government. Attempts to pump more money into it have met strong resistance in Parliament.

The corporate client in Switzerland is in a somewhat different role from risk managers in the United States.

Marcus Kiry, who handles insurance for CIBA-Geigy Corp., the

Continued on facing page

Leading Swiss non-life insurance companies in 1981
(in Swiss francs*)

Company	Premiums
Zurich	3,303,867,714
Winterthur Versicherungen	2,279,300,000
Basler Versicherung	933,700,000
Schweizerische Mobiliar	634,663,270
Helvetia Fire	593,455,341

*1.79 Swiss francs:$1 at year-end 1981.
Source: New Reinsurance Co., Geneva.

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Continued from facing page
pharmaceutical and petrochemical multinational, and who heads an association based in Basle for the Swiss version of risk manager, describes himself modestly as "more of a lobbyist—we try to make sure the government listens to what the insurance industry has to say.

"Describing a Swiss risk manager is rather hard," Mr. Kiry said. "We in the chemical industry, for example, have lots of risk managers—anybody who's handled insurance is involved in risks. But there's no centralized function as there is in the States. We have someone who handles fire risks, another work security, another cargo risks—all specialists. And their actions are coordinated, as a rule, by top management rather than someone with the title of risk manager.

"Risk management isn't institutionalized the way it is in the States," he says. "Our philosophy is that if there is coordination in the company, insurance can be centralized with one person in top management, so you simply don't need a risk manager."

As a rule, but not always. Robert Grin, insurance manager of Nestle in Vevey, operates as his company's de facto risk manager with a team of subordinates handling the various functions. He eschews the risk manager title, however.

"An insurance manager should be a kind of antenna for his company," says Mr. Grin. "He can't be involved in risks everywhere, so it's better he operates as a filter, taking in news of insurance risks from others."

The Swiss Risk Management Assn. counts 50 members—companies rather than individuals. It meets on an informal basis to share information on industry problems.

"We are a club for the exchange of ideas, but we do have an indirect influence on government," says Mr. Grin.

Whenever insurance is purchased, it is usually from insurers. The insurance broker plays only a modest role in the country's insurance affairs.

"I suppose the reason for this is the sales networks of the major companies are so highly developed in a small country such as this that you simply don't need a broker," says Kurt Banninger, secretary of the Swiss Assn. of Accident and Automobile Insurers. "Not only that, of course, but we Swiss are very conservative and like to see the man from the (insurance) company face to face, not to deal with a middleman."

Members of Mr. Banninger's association do not pay commissions to brokers, which perhaps explains why brokers are somewhat scarce.

Nevertheless, there is a general feeling in insurance circles here that the role of the broker is going to increase in the next decade.

Predictably upbeat on the role of the broker are those who, in fact, are brokers themselves. Paul Karrer, managing director of the EWI S.A. of Geneva, which represents Marsh & McLennan Cos. Inc. and Alexander & Alexander Services Inc. in Switzerland, says he is "more than confident" that the role of brokers will continue to grow in Switzerland as Swiss companies do more and more of their business overseas.

Brokers are of less concern to Swiss insurers than their financial results and the future of the insurance business in the face of more government control.

Swiss insurers' profits depend on investments, but claims are growing, premium income is lagging behind inflation and underwriting losses are growing. In 1982, for the second year, the Swiss insurers' worldwide results produced a combined loss ratio of 107.7%.

Fritz Hefti, general manager of Helvetia Swiss Fire Insurance Co. Ltd., said at the Helvetia Group's annual general meeting earlier this year that it is "heresy that it is possible to accept almost unlimited losses on actual insurance business in the light of good investment earnings."

Mr. Schurpf

The Information Division of the Swiss Insurance Assn. predicts lower investment yields in 1983. Its report also predicts the non-life sector will be faced with ever-growing claims, rising expenses and competition, which will drive down premiums.

New government intervention also concerns some insurers.

"There's a general feeling in both government and Parliament that the insurance industry makes too much money; the left would like to see us state-owned and the right wants to see automatic insurance for everyone, not just in the automobile field but in other fields—health insurance, for example—as well," says Mr. Banninger.

Members of other associations said that they, too, detect a heavier government hand but are not as pessimistic as Mr. Banninger.

Hans Rubli, director of the Swiss Property Insurance Assn., says his preoccupation is the law that splits property insurance between private companies and cantonal (state) insurers, thus effectively giving each half the market.

Property coverage in Switzerland covers all elemental risks: floods, hail, avalanches, landslides, lightening and aircraft damage all lumped together with fire in the same insurance.

The Property Insurance Assn. is currently considering another catch-all insurance that would cover strikes, riots, civil and malicious damage, vandalism, sabotage and terrorism.

Under the split-market situation, 19 out of 25 cantons must insure their buildings through the cantonal insurance office. These 19 cantons include the industrial cantons in the north and east of the country. In the other six, including the more "rural" cantons of the French and Italian-speaking west and south, private insurers can insure buildings.

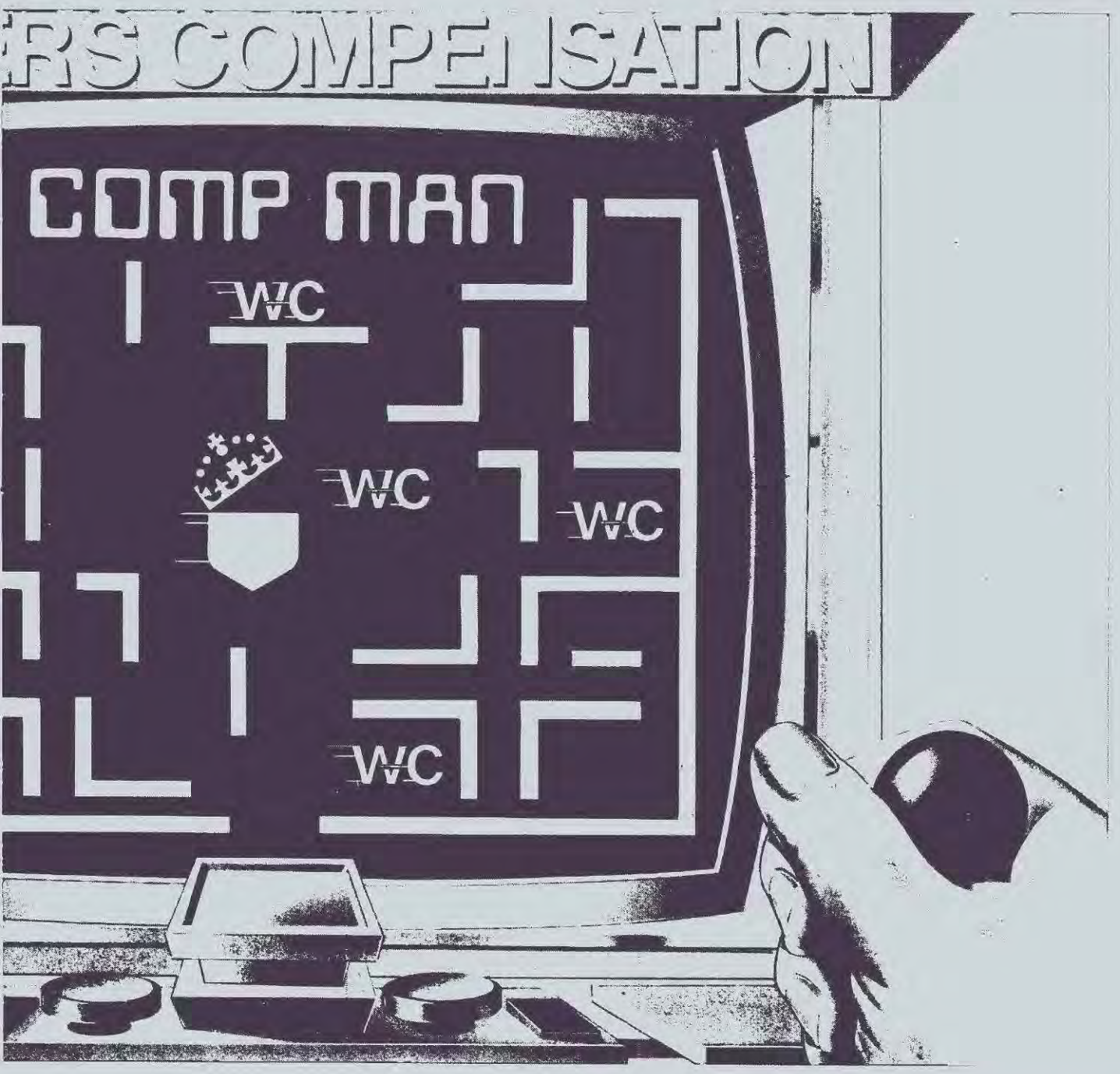
The private companies can insure the contents of buildings in all 25 cantons, which permitted the private companies to write roughly 500 million Swiss francs worth of fire insurance in 1982 compared with 470 million Swiss francs for the cantonal companies.

The operations of private insurers are regulated by the Federal Office for Private Insurance in Berne under the terms of the Federal Insurance Law of Jan. 1, 1979.

But the possibility of further government regulation hasn't stopped Swiss insurers from coming up with new product ideas.

Insurers are developing new products for corporate buyers, says Zurich's Mr. Schurpf. Zurich, for example, is offering:

- Liability insurance covering directors and officers of major corporations. Long established in the United States, this idea is now taking hold in Switzerland, and Zurich has been offering it for a year to Swiss corporations with "modest sucess," as Mr. Schurpf puts it.
- Product recall insurance, insuring the recall costs of major products such as pharmaceuticals, cars or asbestos products.
- Fidelity insurance, covering industrial espionage. Zurich is now offering insurance to companies with a heavy investment in research and development that are afraid an employee might flee the company with trade secrets, which could then be sold to a competitor. ■



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Leading Swiss life insurance companies in 1981
(in Swiss francs*)

Company	Gross premiums
Rentenanstalt	2,620,954,627
Winterthur Life	1,245,200,000
Vita (Zurich)	1,154,815,489
Basle Life	586,548,331
Patria Life	490,258,333

*1.79 Swiss francs:$1 at year-end 1981.
Source: New Reinsurance Co., Geneva

New Swiss law mandates private pension programs

By JOHN PARRY

GENEVA, Switzerland—The Swiss are going to fill in the gaps in retirement income for its citizens under a new Occupational Pensions Act, scheduled to take effect Jan. 1, 1985.

The new law, passed in June 1982, will extend coverage to virtually the entire Swiss working population by mandating that anyone over age 24 earning over more than 14,880 Swiss francs ($7,153.84) be covered by pension benefits provided through employer and employee contributions.

Known as the "second pillar" of old age insurance in Switzerland, benefits under the new law will supplement the long-established, old-age pension plan (AVS or Assurance Veilleisse Securite) to which everyone in Switzerland must pay.

This "first pillar" guarantees a minimum pension at retirement age—65 for men, 62 for women—based on how many years the paricipant has made contributions. Employees and employers each pay 5.15% of total income toward the plan, which also provides survivors' and disability benefits.

The minimum benefit payment today is about 900 Swiss francs ($419) a month.

The "third pillar" of retirement income in Switzerland is private insurance purchased by individuals. A combination of the three will, in theory, enable retired Swiss to live in a modicum of comfort for the rest of their lives.

Mr. Schenker

But, about 40% to 45% of the Swiss working population today has only AVS coverage, according to Peter Schenker, senior vp of Vita Life Co., a wholly owned subsidiary of the Zurich Insurance Co. and the third-largest life insurance company in Switzerland.

Another 40% to 45% already have adequate secondary coverage, he added. With the new law, 90% of the working population will have both primary and secondary coverage.

"I would say that 85% to 90% of the Swiss population is already adequately insured as far as pension is conerned," said Mr. Schenker. "So, in a way, you could say we are going after the other 10%."

Already about 80% of all employees belong to company-sponsored pension plans that are contributory. The new second pillar law establishes minimum benefits.

The portion of salary covered under the plan—known as coordinated salary—ranges between 14,880 Swiss francs ($6,921) and 44,640 Swiss francs ($20,763), or a minimum amount of 1,860 Swiss Francs ($865).

Mr. Hufschmid

Different retirement credit rates and contributions will be applied to the employee's coordinated salary at different ages, beginning with 7% for men ages 25 to 34 and women 25 to 31. This will rise to 13% for men 55 to 65 and women 52 to 62 for the first two years of the law and then jump to 18%.

The contribution rates for employers and employees will be set by the pension funds to meet the liabilities, but the employers' contribution can't be less than the employee's. However, employers can contribute more than employees.

The retirement pension will be calculated as a percentage of the amount of retirement credits—plus interst—accumulated in accordance with actuarial bases. A widow's pension of 60% of the retirement or disability benefit is provided, as well as an orphan's pension of 20% until age 18.

The disability pension will be based on retirement credits earned until disability occurs, plus retirement credits until retirement age, without interest.

The benefits accumulted under this plan are immediately fully

Continued on page 38

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*California Health Facilities Commission, 1982

Swiss restructure pension system

Continued from page 36

vested and will be portable from one employer to the next, with the portable credits transferred to a new pension fund.

The total cost of the plan is expected to be about 18% of coordinated salaries or about 9% on an average total salary of 30,000 Swiss francs ($13,953) and 12% on an average total salary of 45,000 Swiss francs ($20,930).

Contributions under the new law will be fully deductible but benefits from the "second pillar" will be fully taxable as income.

Employers with mandatorily insurable employees on their staff must either establish or join a pension fund entered in the Register of Occupational Pension Carriers.

A company pension plan must be administered through a non-profit organization, and the greater part of its assets be invested in Switzerland. Company contributions to foundations cannot be withdrawn, but are tax-deductible and not restricted in size.

Company pensions, as currently structured, are normally related to a percentage of a salary. This can vary widely, according to VITA's Mr. Hufschmid. A company paying 5% to 7% of payroll into a pension plan probably would cover a capital endowment plan for employees—a lump sum payable on retirement. A company contributing 15% of payroll to a pension plan could provide a retirement pension of 60% to 70% of salary, depending on how much the employee has paid in, Mr. Hufschmid says.

The new "second pillar" law could make it more complicated for small and medium-sized companies to administer their own pension plans, Mr. Schenker of Vita said. This would be a boon to life insurers, which will be able to "step in" with professional help, he said.

Swiss life insurers already have almost half of the total insurance market in Switzerland with 5.2 billion French francs in 1980 ($2.4 billion).

"It's a considerable change in the way Swiss employee insurance is handled, but perhaps it's a sign of the times," says Jean de Preux, a former managing director of AIMSA (Automobile Import & Machines S.A.) of Geneva and now a consultant.

AIMSA, which employs slightly fewer than 100 persons in three locations in Switzerland, has had its own pension plan for the past 30 years, administered jointly with another company owned by AIMSA's owners, Charles and Leon Flory.

"We always handled our own investments, in close collaboration with our bankers, of course," says Mr. de Preux. "But now with the new law, I would not be surprised if companies like AIMSA felt they would be better off putting their administration and investment policy in the hands of a major insurance company. After all, they're the experts."

Total premiums and employer and employee contributions for all life and non-life, private and social benefits are estimated at about 50 billion Swiss francs ($23 billion) by VITA's Mr. Schenker. That's an impressive 24% of Switzerland's gross national product.

The cost to employers varies with the size of the company and the scope of its pension plan, be it private or administered by an insurer.

Most sources seem to think that a ball-park figure is 25% of annual payroll, but this can go as high as 35% for some.

Health insurance is provided to 96% of the population by private health insurance (Caisse Maladie), often run on a non-profit basis and subsidized by the federal government.

The health insurance does not cover dental care, except in the case of certain plans written specifically for Americans working in Switzerland.

Profit-sharing and company-sponsored savings plans are virtually unknown. While the Swiss are known as being thrifty, they are also known as being highly individualistic, and savings—like marital affairs—are regarded as a personal matter into which the company should not delve. ■

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spotlight report

Brazil's economic troubles slowing pension plan growth

By LAUREL WENTZ

SAO PAULO, Brazil—The predicted growth in private pension plans sponsored by Brazilian companies is being slowed by the recession that is troubling the nation's entire economy.

"There's been a real slowdown in new (pension) plans in the last year," says Robert A. Coscarello, managing director of Towers, Perrin, Forster & Crosby Ltda., an employee benefits consulting firm. "Most of the activity is in studying the area."

However, a few multinational companies—including 3M Corp. of the United States and Bayer Industrial S.A. of West Germany—have set up pension plans this year.

In addition, Atlantic-Richfield Co.'s Brazilian subsidiary is awaiting government approval of Brazil's first defined contribution plan.

"Defined contribution minimizes the risk of a pension plan to the company," Mr. Coscarello says. "It doesn't have to promise to pay 50% of final salary."

Almost all of the current Brazilian pension plans are defined benefit plans, where an employee is promised a certain benefit upon retirement (*BI*, Nov. 22, 1982).

According to the proposal, both the Atlantic de Petroleo, the ARCO unit, and the employees will make fixed contributions. Employees will be expected to contribute up to 5% of salary, while the employer will contribute twice that amount.

Approval of Atlantic de Petroleo's defined contribution plan, which was designed by TPF&C, has not yet been granted by the government, reportedly because officials are having trouble understanding the concept.

But approval should be given this month, says Ary Alcantary, the head of Previdencia Complementar, the government agency that regulates pension plans.

Only 18 pension plan proposals have been submitted to Previdencia Complementar this year, Mr. Alcantary notes.

The vast majority of Brazil's 40 million workers will never be eligible for any pension benefits beyond those provided by the INPS, the Brazilian social security system that funds worker retirement, disability, workers compensation and very basic medical benefits.

Employers must pay 10% of payroll to the social security system, while employees must pay 8.5% to 10% of their salaries.

At the lower salary levels, the INPS pays workers up to 80% to 90% of final salary. The current maximum pension paid by the INPS is about $11,000 per year.

Retirement age is set at 60 for women and 65 for men, though workers who have 30 to 35 years of service may also retire.

Although there's been a marked slowdown in the formation of new private pension programs to supplement INPS benefits, the debate over what type of pension plan employers should offer hasn't abated.

Basically, companies may choose between plans that are "open" (abertas) or "closed" (fechadas).

An open plan is a pension program offered by an insurance company or another third party that is open to anyone who chooses to make the monthly contributions. It pays fixed benefits for retirement, death or disability.

Employers opting for an open plan usually buy an individual contract for each employee and receive discounted rates based on the number of employees that sign up.

A closed plan is a non-profit entity, similar to a trust fund, maintained by an employer for its workers. The company must make an initial donation of 7% of the previous year's payroll, pay at least 30% of the total contributions to the plan and enlist the voluntary participation of at least one-half of all employees with more than two years of service.

More flexible than open plans, a closed plan can pay benefits for additional items, like sick pay, medical care and employee loans.

Many Brazilian benefit consultants say closed plans are the way to go.

"The open plans are not doing well at all," says Andre de Montigny, a partner in de Montigny Woerner Ltda., a pension plan and employee benefits consulting firm. "Companies with more than 500 employees don't give them much consideration.

"The open plans are not a flexible product, they cost at least twice as much and don't give any profit to the contract holder."

Open plans guarantee a return on investment of the so-called ORTN rate (the rate paid on indexed government treasury notes) plus 6% interest, about the same as a savings account.

However, the insurer that operates the plan can receive a yield equal to the ORTN rate plus 20%, a windfall that is rarely shared with the employer or individual.

Open plans are currently marketed mainly to individual investors; only a handful of corporations have set them up.

On the other hand, about 138 closed plans have been set up by employers over the past five years, including 51 by non-state-owned companies and 15 by multinationals.

But some companies do opt for open plans. Insurance brokerage Tudor, Marsh & McLennan formed an open plan in September for its 250 employees through Itau Seguradora, Brazil's largest single insurer.

The plan will provide about 50% of final salary, with the brokerage assuming 70% of the plan's cost.

"For a small group of people, it's not easy to set up a closed entity," says Tudor, Marsh & McLennan President Petr Purm. "It's more economical for us to do it on an insured basis. (And) that doesn't mean for large numbers a closed plan is always the best solution."

Insurance company executives point out that closed plans are almost impossible to terminate and can cause a lot of troubles for a company.

"The sponsor is responsible for any deficit generated by the fund," says Celso da Rocha Miranda of the Companhia Internacional de Seguros, a Rio de Janeiro-based insurer that recently entered the group pension product market.

The mammoth state-owned firms operating in oil, banking, mining and other industries have set up closed pension plans with extraordinarily high levels of benefits—often 100% or more of final salary—and are forced to make ever-larger contributions to stave off bankruptcy.

Since interest in benefits is lagging because of the poor economy, insurers offering benefits like pension plans and health care are increasingly using catchy marketing ideas to gain attention.

In Brazil, health insurance is expensive, policies are restrictive and few employees are provided with traditional health insurance plans.

To supplement or replace low-quality INPS medical care, Brazilian companies most commonly make agreements with clinicas, or medical associations offering somewhat better care through their own doctors, clinics and hospitals.

Self-insurance of medical care, especially at the free-choice level, is a growing trend. A large U.S. company with Brazilian operations plans to begin self-insuring health benefits next year on a free-choice basis with controls such as deductibles for a monthly ceiling for routine care. ■

Dutch underwriters' results won't cause any bells to ring

By JOHN PARRY

AMSTERDAM, Netherlands—In the hall of the sparkling new headquarters of the Amsterdam Insurance Exchange hangs a shiny ship's bell.

"Just like the famous Lutine Bell in Lloyd's in London," proclaims an official proudly. "The only difference is that ours is to be rung when there's good news, not bad news."

But the bell at the insurance center, which basically is just a meeting place for brokers and insurers, rather than an insurance market like Lloyd's, has not rung since the exchange's new offices opened in June 1982.

The lack of bell-worthy good news at the Amsterdam Exchange and the other Netherlands insurance exchange in Rotterdam is a fair indication of the way things are going in the Netherlands insurance market.

Nobody is going broke, but nobody is doing bell-ringing business either. However, most are mildly optimistic about the future.

The insurance industry appears to be in better shape today than many other sectors of the Dutch economy, affected by a new tough national budget introduced in September by the center-right government of Prime Minister Rudolph Lubbers to lay a sound basis for the nation's recovery from the recession of the past three years.

Forecasters generally say—with typical Dutch caution—that things should not be too bad for the insurance industry in the next 24 months, according to officials for the Dutch Insurance Assn. in The Hague. The association is the trade group for all but five of the country's 355 insurers.

These insurers in 1981, the last year for which figures are available, generated a total of $7.7 billion in premiums to make the Netherlands the seventh largest insurance country worldwide. It generated 1.73% of the total worldwide premium for both life and non-life insurance in 1981.

The Dutch insurers generated $4.6 billion in premium for non-life business in 1981, 1.76% of the world market.

Underwriting results for the non-life insurers improved from 1977 to 1981, although in 1981 underwriting losses were greater than in 1980. In 1977, the Dutch non-life insurers posted a 105% combined ratio. This decreased the next three years as underwriting results improved. The combined loss ratio in 1980 was about 98%. However, in 1981 it passed the 100% threshold again, moving up to almost 101%.

The conservative Dutch purchase most of their insurance from domestic companies, with the approximately 40 foreign insurers sharing very little of the market. And, most insurance is placed with insurers through a very highly organized system of brokers and agents.

The amount of insurance purchased directly by the corporate buyer, though, is expected to increase as buyers realize they can trim their costs if they get rid of the brokers 10%-15% commission.

However, the risk management profession in the Netherlands is not developed much at all. Risk mangers per se exist only in multinationals with worldwide operations, such as Phillips, the electronics company, or KLM Airlines.

But, Dutch insurers expect to see bigger demand for product liability insurance and directors and officers coverage.

Leading the list of top non-life Dutch insurers is the giant Nationale-Nederlanden, which generated total premium volume of 1.3 billion guilders ($519.2 million) in 1981.

Its next closest competitor, based on 1981 figures, is Delta-Lloyd, which produced premium of 753 million guilders ($304.9 million). Other top non-life insurers are Interpolis NV (Hagelunie), 558.7 million guilders ($226.2 million); AGO verzekeringen (De Twaalf Gewesten, Nezifo), 540.1 million guilders ($218.7 million); Amfas Groep NV, 535.7 million guilders ($216.9 million); and Nieus Rotterdam, 504.5 million guilders ($204.3 million).

While the major companies generally reported falling profits in 1982—and Amfas even had to drop its final dividend—there has been a turnaround in the overall picture this year.

The insurers' investment philosophy generally has allowed them to achieve reasonable returns on their portfolios over the past year—returns which have provided an additional cushion against the vagaries of the non-life market.

The industry as a whole says its investment returns rose by more than 30% in 1982.

Dutch insurers also say their claims payouts are much lower than what is typical in most western countries, about 73% of premiums. This puts them on the verge of profitability on underwriting alone, a fact which sets them apart from most insurers in the U.S. and other countries.

Administrative and commission costs for the Dutch insurers are currently about 25% of net premiums and most companies' combined ratio is at about the breakeven 100% mark, according to the Dutch Insurance Assn.

However, the Netherlands' recession has prompted more and larger claims.

In response, insurance companies are examining claims more strictly, according to Ap. Van Koert, a director of Nationale-Nederlanden.

Dutch insurers will see a new emphasis on product liability coverage in the future.

"Product liability is going to assume a much more important place in the overall insurance picture here in the next decade," says Erno Kleijnenberg, deputy manager of the Dutch Insurance Assn.

"The European Community has been talking about a draft directive on this since 1976, but now we in the Netherlands are writing product liability into our new civil code and we expect to have it on the statute book within two years.

"Our proposed law covers risk liability for products without any limitations. It also covers risk liability for manufacturers of dangerous machinery, such as farm tractors.

"This will be a heavy risk for insurers, which is one reason why we're moving slowly in bringing it into law. We want to make sure we've got it right."

Now, product liability is covered by general comprehensive liability policies sold by such companies as Nationale-Nederlanden.

A major banking scandal at N.V. Slavenburg's Bank, one of the largest private banks in the Netherlands—since taken over by the French Credit Lyonnais group—has helped nudge Dutch corporations to take more interest in directors and officers liability policies.

Half a dozen top officials at the Slavenburg's bank were implicated in the scandal. This made corporations and insurers both realize that no clear protection existed for corporate senior officials whose personal assets might be attached if they were held liable for a company's default.

However, insurers are circling skittishly around the topic.

"We've no great experience in this—it's a very selective market," says Nationale-Nederlanden's Mr. Van Koert.

Mr. Kleijnenberg of the insurance association said some insurers have not jumped into the D&O market because some legal professors at Dutch universities have said that D&O insurance is illegal under current law. Some insurers are writing the coverage although there has been no clear ruling on the matter.

Mr. Kleijnenberg says D&O coverage is growing, along with environmental liability insurance and pecuniary loss insurance.

When Dutch insurance buyers' decide to jump on the bandwagon and purchase some of this newer coverage, they will more than likely use a broker to tap the markets.

Indeed, for such a small country, there seems to be an extraordinarily large number of brokers and agents in the Netherlands.

"There are more than 30,000 insurance agents selling in this country, although not all of them are full time," says Hans Kraaijeveld of the Dutch Insurance Assn. "And that's really too many."

However, the number of agents registered with the Stichting Va-

Continued on next page

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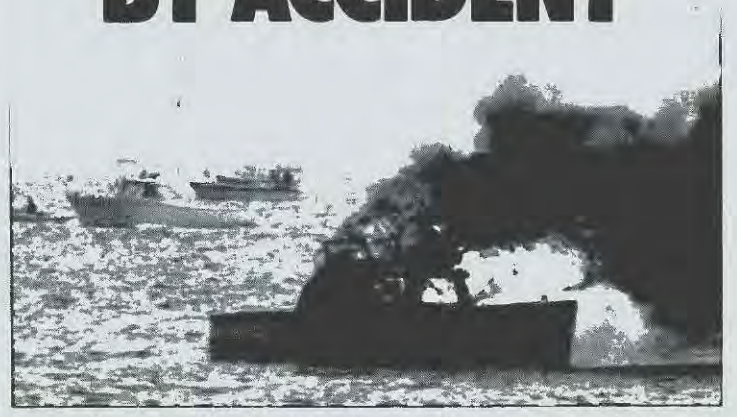

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Dutch enjoy loose regulation

Continued from previous page
kantwikkling in Utrecht has decreased slightly in recent years; 29,506 new licenses were granted in 1982, compared with 31,601 granted in 1977.

The Stichting Vakantwikkling is a private organization funded jointly by the insurance companies, the federal government and the fees paid by those who sit for its exams.

Most of the big insurance business is conducted by about 2,500 major brokers and agents.

Despite this extensive network of brokers and insurers, direct buying of insurance is growing and will continue to do so, says Mr. Van Koert of Nationale-Nederlanden.

It will increase as customers discover they can cut their premiums by 10% to 15% if they buy directly from the insurer and cut out the broker's commission. "But I don't think the tradition of agents will ever fade away," says Mr. Van Koert. "It's just too deeply ingrained in the Dutch system."

And, foreign insurers doing business in the Netherlands need the brokers to get their foot in the door.

"Foreign insurance companies have always had a somewhat suspect image in the Netherlands," according to Pieter Van der Ster, manager of the Amsterdam office of AFIA Worldwide Insurance. "There's always been a lurking suspicion that they are going to quit writing business entirely, and just fold their tent and steal away."

AFIA itself helped pour oil on this fire some six years ago when it dropped a lot of non-profitable business as a result of bad underwriting.

Now AFIA is back in business on the Amsterdam Exchange, but according to Mr. Van der Ster, the memory of that time when the company cut back its business still rankles in many insurance circles.

AFIA, therefore, does not issue policies itself but works exclusively through brokers.

However, this can be costly. Mr. Van der Ster says that taking its broker's 18.2% commission into account, AFIA needs an 81.8% loss and expense ratio if it is to show an underwriting profit.

This is "possible, but getting harder to achieve in a competitive market like this one," he says.

Underwriting agents, who would normally expect another 3% to 5% in commission, are gradually being phased out as the Dutch market tightens, according to Mr. Van der Ster.

Hudig Langeveldt Group, the Netherlands' largest broker and Europe's largest marine broker, has been hurt in recent years by the depressed marine industry, explains Hudig's John de Raad.

"The marine market is very bad at the moment because of the generally depressed world economic situation," he explains.

"But underwriters have lost so much money they have strengthened their rules and raised their prices, so we're hoping for a turnaround in the next three to four years in that field."

Hudig Langeveldt, which is 30% owned by U.S. broker Marsh & McLennan Cos. Inc., brought in 191.2 million guilders ($77.4 million) in premium income in 1982—placing it No. 18 among the world's largest brokers. It handles a lot of pension planning, life insurance, fire insurance and casualty insurance for corporations.

Hudig Langeveldt says its size allows it to handle risks which other brokers would not want. For example, it is broking insurance for a $3.84 billion water conservation project on the North Sea. "You have to be big to be able to handle risks like that," says Mr. de Raad. "And that's why there will always be a need for brokers in Holland."

Regulation of the Dutch insurance industry is rather relaxed.

Brokers, says Mr. de Raad, largely police themselves, although there is a Broker's Assn. in Amersfoort that sets ground rules.

"In effect, however, we make sure that we stay honest by watching each other," he says. "If there is any skullduggery going on, you're going to be found out quick and your business will suffer."

This relaxed attitude extends to the insurers.

While the Finance Ministry sets general standards and the Verzekerings Kamer (Insurance Chamber) in Apeldoorn watches over the solvency of the companies, there is little other overt control.

The insurers themselves set premium rates after informal consultation.

The Dutch Parliament is currently discussing a guaranty fund to provide additional protection for buyers after the collapse of the medium-sized Werld (World) Life Co. this year. It left behind $2.30 million in debt.

Hasty rescue efforts mounted by the Insurance Chamber made it possible to salvage about 30% of clients' money, but attempts to pursuade other insurers to take over the Werld business failed.

Situations such as this are rare in The Netherlands, says Kees de Galan, chairman of the Insurance Chamber. However, he still thinks a guaranty fund is necessary.

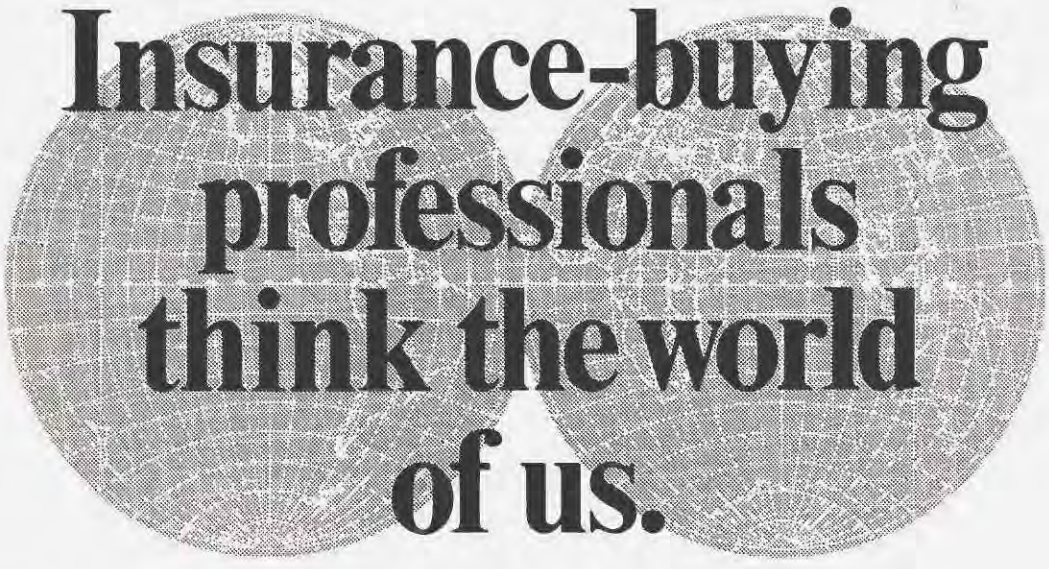
"I think the Dutch insurance industry is basically solid, built as it is on a foundation of literally hundreds of small local companies and a few major nationwide companies operating in all fields," he says. "What's important is that we make sure the system has some built in safeguards. Dutchmen like their insurer to be able to say 'I can insure you against anything anywhere', and in order to be able to make a promise like that, you've got to be able to have the backing of the industry as a whole.

"That means there's got to be a certain amount of government supervision." ■

Leading Dutch non-life insurers in 1981
(in millions of guilders*)

Company	Premium income
Nationale Nederlanden	1,282.3
Delta-Lloyd	753.0
Interpolis (+Hagelunie)	558.7
AGO (+Twaalf Gewesten & Nezilo)	540.1
Amfas	535.7

*2.47 guilders:$1 in 1981.
Source: The United Insurance Press



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PIA

UNDERSTANDING YOUR ROLE

Risk managers often do not manage all corporate risks

By Benedetto Salaroli

speaking out

THE ROLE the risk manager should perform within his or her company is often misunderstood, especially in Europe.

My experience has shown me that usually the risk manager does not operate in that capacity, but as an insurance manager, perhaps a sophisticated one, but still an insurance manager.

This risk management problem is not an easy one and varies from company to company depending on the company's size and the country in which it operates.

The creation of the risk management function has become necessary mainly for the following reasons:

- Money today is in shorter supply.
- Competition grows stronger and stronger.
- Technological risks, risks due to human behavior and stricter laws are increasing every day.
- Both physical and human resources are becoming more and more precious.

Therefore, it is imperative to avoid, or at least limit, the perils that can endanger such resources in a more coordinated fashion and with precise priorities. After all, a healthy company is much more interested in not having any claims than in being reimbursed by an insurer.

The need to protect resources or limit perils has been felt by many companies but, in my opinion, has not brought about the organizational changes required.

In all companies, there have always been individuals responsible for the control of traditional risks. Those risks were covered by:

- The fire prevention person in the maintenance area.
- The industrial security person in the personnel area.
- The marine risk prevention person in the marine area.
- The safety person in the personnel area.
- The environmental person in the production area.
- The product liability person in the quality-control and production area.

Prompted by needs, the companies reacted by creating one post, the risk management function. However, companies did not make the position responsible for the whole process; there was only a change in the label identifying the job, but not in the content of the job itself.

In the new, post-risk management situation, these prevention people have continued to perform their activities, managing the increased risks, without being centrally coordinated. Often the performance of their duties is affected by their level of authority within the company; their common sense; their emotional reactions to exceptional events, like large fires, kidnappings and robberies; the planning and thinking of management; and pressures of unions, etc.

What kind of relationships should exist among the risk manager and the managers in the different risk areas?

The relationships problem is possibly one of the main obstacles that has hampered the correct implementation of the risk management function and process. The problem is that risk management should involve a change in the company's structure. This change can be deep and affect some "power areas" that are unwilling to give up any influence and authority they have exerted for a long time within the company.

Also, it is extremely dangerous to leave the solutions to prevention problems to the "educated guesses" of the staff in the marine, safety, prevention or other departments mentioned; or even worse, to let ourselves be carried away by our emotional reactions to outside events.

On the contrary, it is imperative to calculate correctly the loss exposures of the company in terms of probability and amount and to act according to set priorities with the funds available. This is where a risk manager can step in and help calculate exposures and fix priorities.

Also, the risk manager should step in and coordinate the staff operating in the different areas at risk. Here, the major responsibilities should be:

- To gather all the information on loss exposures in the company, at least as far as traditional, pure or non-speculative risks are concerned.
- To gather the staff managers' recommendations (and their costs), aiming toward abolishing or reducing loss exposures.

With this information, the risk manager should be in a position to furnish a complete picture of the company's situation to top management and indicate the priority of functions to be carried out with available resources. After a decision has been made, the risk manager should control the implementation.

The problem of the power a risk manager can wield can be solved only through the intervention of top management, once it is convinced of the importance of the risk management post. Specific duties, like gathering information from other departments, are a way of showing that certain tasks are best coordinated through one person—the risk manager.

Yet the solution may mean that the risk manager's position, as a coordinator of all the processes, will embrace the function of insurance manager. However, in order to avoid confusion, I would suggest—at least in the launching phase—keeping them separate.

If the position of risk manager is established in a correct fashion—that is, if the risk manager's activity is focused on the knowledge of the risks, the elimination or reduction of loss exposures and loss control—the risk management techniques used will improve greatly. ■

Benedetto Salaroli is risk and insurance manager for the Fiat Group in Turin, Italy.

The Perspective section, which is a forum for readers' opinions, is compiled and edited by Assistant Copy editor Claudette Dampier. She can be reached at 312-649-5282.

Law denying benefits unconstitutional

legal briefs

A PORTION OF the Ohio workers compensation law denied accrued, but unpaid, workers compensation to dependents of workers who died from work-related causes. The same portion of the law compensated dependents of workers who died from causes other than a compensable injury or occupational disease. That segment violated the equal protection clauses of the state and federal constitutions, according to the Ohio Supreme Court.

Paul Nyitray was injured in an industrial accident in April 1974. He filed and was awarded temporary total disability benefits from April 1974 to February 1976. Thereafter, he filed for continuation of benefits; it was granted on Jan. 17, 1978, and a warrant for $9,104 was issued and mailed to him. However, Mr. Nyitray died on Jan. 29, 1978, as a result of his industrial, compensable injury.

The Bureau of Workers Compensation canceled the previously issued warrant. Thereafter, Mr. Nyitray's widow filed for payment of the accrued compensation and death benefits. While she was awarded the latter, the compensation for temporary total disability was denied.

Her appeal to the courts resulted in a further denial.

The appellate court, however, reversed concluding that there were no reasonable grounds for making a distinction here between those within and those outside the designated class. *State Ex Rel. Nyitray vs. Industrial Commission*, Ohio Supreme Court, Jan. 5, 1983, (*BI*/01/D.-$5).

Employment-related seminar

Workers injured while returning from a seminar the employer suggested they attend were injured in a sufficiently employment-related activity to support their claim for workers compensation, according to an Arizona appellate court.

Two employees of Johnson Stewart Mining Co. were requested to attend an educational seminar, after work hours, sponsored by the manufacturer of equipment used by Johnson. Afterward, on their way home, their car collided with another and both employees were injured. Each filed claims for benefits, which were denied. But an administrative law judge found their claims compensable.

On appeal, Johnson argued that seminars generally are for the employees' benefit and the injuries thus are not compensable. But the court didn't draw such a broad generalization. The court was satisfied that, under the facts here, the seminar training was "reasonably, substantially and primarily for the benefit of the employer." *Johnson Stewart Mining Co. vs. Industrial Commission*, Court of Appeals of Arizona, Aug. 24, 1982, *review denied*, Oct. 5, 1982 (*BI*/04/Ju.-$5).

Settlement excuses liability

A settlement entered into by an insured with its customers effectively excused an insurer from liability, according to a Michigan court.

Coil Anodizers Inc. anodized aluminum. One of its customers was Prime Metals. The latter sold treated aluminum to Avion Coach Corp. for use in its trailers and motor coaches. Because of a defect in the salt Coil used, some of the aluminum turned yellow when exposed to the sun.

The three parties agreed to a settlement of the problem with Avion setting off its accounts payable to Prime and Prime setting off its accounts payable to Coil. Coil then notified its insurer, Wolverine Insurance Co.

The insurer denied liability under a policy provision precluding Coil from voluntarily making any payment or assuming any obligation. The policy required that all provisions be complied with before the insurer could be sued. Coil sued Wolverine. The trial court ruled for the insurer.

The appellate court affirmed pointing out that the purpose of the condition precedent clause is to prevent collusion between a claimant and the insured and to give the insurer control over settlements. *Coil Anodizers Inc. vs. Wolverine Insurance Co.*, Court of Appeals of Michigan, Oct. 5, 1982 (*BI*/05/Ju.-$5).

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

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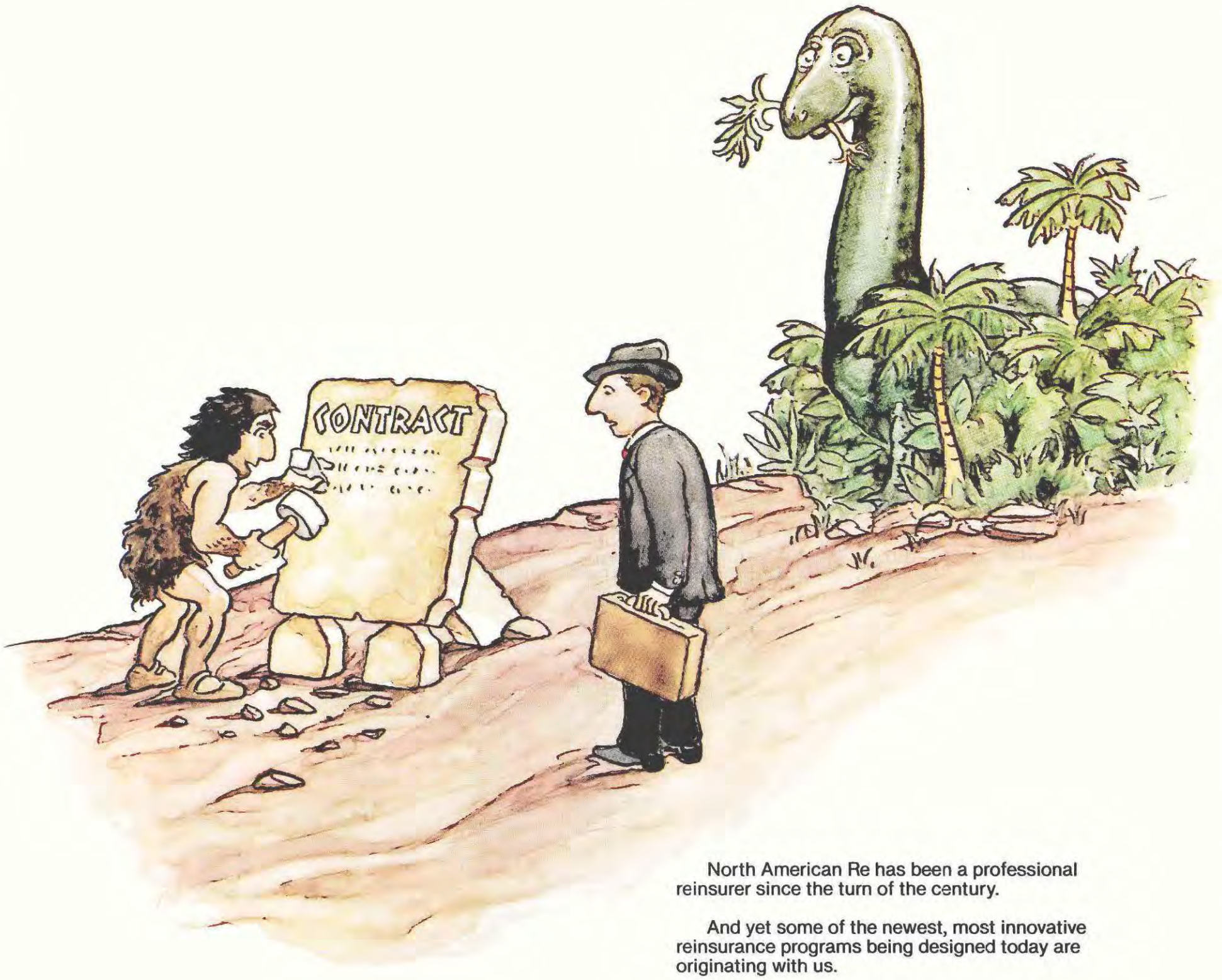

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perspective

Countries act to control data flow

Continued from page 49

The Organization for Economic Cooperation and Development (OECD) has tried "harmonizing" the varying provisions through guidelines that have been endorsed by the U.S. government (and 180 U.S. companies and trade associations). Also, the Council of Europe has drafted a TBDF convention to bind ratifying member nations. Though OECD and COE basically agree on the principles of data privacy protection, they differ on acceptable means of national implementation.

State-run post, telegraph and telephone (PTT) monopolies play a key role in implementing their countries' information policies. Multinationals must work with these facilities in any worldwide communications network and because PTTs control both equipment and services, they are in a unique position to inhibit foreign competition:

- By restrictions on private leased lines and/or required use of national public networks. Mexico, following West Germany's lead, has advised foreign corporations they must use its new public data network when leased line contracts come up for renewal.
- By discriminatory pricing and/or leased-line rates based on transmission speed or data volume. Multinationals in West Germany will pay higher volume-based public and private line tariffs in 1985. EURONET, a communications network providing services solely to European countries, charges $5 per hour to European Economic Community member users vs. the $20 to $30 hourly rates paid by non-EEC competitors forced to use PTT.
- By discriminatory technical standards and/or restrictions on the connection of terminal equipment. Mandated use of locally produced hookup/plug-in equipment protects domestic industries by limiting the compatability of foreign hardware and software.
- By requiring host-country data processing operations. Brazil prohibits any offshore data processing if it can be performed locally; West Germany requires local processing prior to internal or external transmission; Canada's and Mexico's policies favor in-country operations.

Finally, emerging revenue-raising policies threaten to provide the basis for customs duties and value-added taxes on information as it crosses national frontiers. France is considering assessing import levies on the intrinsic value of software data. Brazil equates TBDF with the flow of goods and is implementing a "gateway policy" for controlling and taxing classes of data entering and leaving the country.

How these policies could affect an international organization can be illustrated by looking at AFIA Worldwide Insurance.

AFIA must maintain open lines of communication among its New York City headquarters, its centralized data processing base in New Jersey, its Latin American regional operation in Florida, its Brussels center serving Europe, the Middle East and Africa and its 250 other offices around the world. If these lines are interrupted, it will have a profound effect on AFIA's efficiency.

AFIA depends on telecommunications for claims settlements, for prompt review of new forms, policies and covers from all over the globe and for rapid, worldwide client counseling on the latest trends and recent advances.

The electronic network is essential, too, for internal communications and in-house management information systems, financial planning, personnel record keeping and marketing and sales coordination.

AFIA, like other international corporations, must be able to move data across borders with cost-effective speed and accuracy. Without swift, unhindered global communications, we could not function. Certainly, AFIA could not operate at the level of efficiency to which we are accustomed.

Yet, these TBDF regulations and restrictions make international business less efficient and more costly by preventing the optimum use of state-of-the-art networks and the realization of economies of scale. Discriminatory PTTs encourage limited and less-flexible—but more expensive—telecommunications services and redundant data processing operations.

And, as an insurer charged with protecting confidential client data, AFIA is disturbed particularly by threats—implicit on both the privacy laws and value-added tax proposals, either through government monitoring of business communications or required plain-text transmissions over public networks—to the security of propriety information.

We believe these policies will eventually backfire. They encourage lower technical quality for domestic companies, reduce the competitiveness of other local companies and expose national industries to "export retaliation."

If you kink a hose and stop the flow of water long enough, the non-irrigated garden withers away. Protectionism that dams information flow will have the same effect on international trade. As was recently stated in Foreign Policy, a quarterly publication:

"Such non-tariff barriers can have a profound impact on international information flows. These barriers pose direct threats to all forms of international commerce that depend on the unrestricted movement of data: to information business such as data processing and data base companies; to trade in services such as. . .insurance. . .and to trade in goods that rely both on worldwide communications and on information-based services."

The end result will be increased consumer costs and decreased productivity.

Indeed, trade in services is vitally important to U.S. national interests. Our economic base is heavily reliant on providing and exporting services: in 1983, it accounted for 67% of the country's economic output, generated 72% of the U.S. employment and totaled $135 billion in exports.

Yet, the U.S. government's response to TBDF issues has been fragmentary at best. Many U.S. businesses, cognizant of the threats posed by TBDF barriers, advocate supplementing U.S. international trade laws with an international communications regime and applying GATT (general agreement on tariffs and trades) free trade principles, rules and procedures to trade in services, information and communications.

How can a risk manager become involved in defending U.S. interests?

Risk managers, I believe, can help in various ways.

A risk manager, by definition skilled in assessing and dealing with risks, is in the ideal position to educate senior management on the dangerous operational impact of TBDF issues. A risk manager would be an appropriate company official to coordinate a TBDF issues-management action plan consistent with corporate objectives. This plan:

- Assesses the extent of company reliance on information and communication products and services, as well as its present compliance with foreign laws.
- Evaluates, in a TBDF context, future company plans for international communications, introducing new products and services and other major moves, such as doing business in a new country.
- Forecasts likely TBDF evolution and impact to permit informed company decisions and enhance strategic planning.
- Complements the company's "public policy" presence by, for example, recommending endorsement of OECD guidelines, assisting in congressional testimony, participating on government advisory committees or serving as company delegates to international conferences.

Today more than ever, open international communication, fostered through liberal information policies, is a business necessity. And the need for free trade in services (including insurance) has never been greater.

The last thing service companies and their clients need is more artificial barriers to doing global business. ■

Paul F. Butler is president and chief executive officer of AFIA Worldwide Insurance in New York.

Decentralization aids computer use

Continued from page 49

years. In fact, basic systems will begin to become available sooner than that.

What exactly will this new world look like? First, it will be filled with computers and video display terminals. The global regulatory and communications environment almost guarantees that computerization will be decentralized. Many small computers spread around the world will feed data to central data bases.

This decentralization of data input and centralization of data bases assure the best possible climate for information management in the future.

Decentralization provides the highest possible data accuracy as well as timely system entry of the data. Our experience indicates that error rates are much lower when data is entered directly by the person who first receives it. Central data bases, on the other hand, enable quick, easy access for users. A large, time-sharing computer can collect information from all over the world and make it available to users at any time and almost anywhere.

A second characteristic of the system of the future is that it will be communications-intensive, using many media to transmit and receive data. From larger operations, satellites or dedicated lines may be used while smaller offices may use time-sharing applications to feed regional processing centers or they may transfer data by mailing tapes or disks directly to a regional or global processing center for inclusion in the corporate data base.

Similarly, customers will have the options of receiving hard-copy reports, electronically transmitted reports at high speed or having data terminals on their desks to receive reports. They even may use portable consoles to retrieve needed information from insurers' files that are thousands of miles away.

Flexibility is the name of the game for the future. We will be able to access the data we want, when we want it. Cash management may be handled daily, weekly or quarterly and could allow us to pay or receive the balance of claims and premiums because of almost instantaneous availability of transaction files.

In fact, the entire process could produce so much interconnecting among insureds, insurers and brokers that it will evolve into an integrated network working to provide complete, accurate information and to make changes in coverages and records on a day-to-day basis.

Adaptation of the new information technology to insurance is likely to change the basis for competition among insurers.

In addition to service in the classic sense, a whole new dimension of information services will become available to risk managers and brokers. Failure to develop these sophisticated systems will almost certainly mean that an insurer will be at a competitive disadvantage.

What is more, it is likely that this technology will reduce the number of insurers a company will do business with. It will be more and more problematic for insureds to change companies because of the difficulties inherent in extricating themselves from one system and using another.

The information revolution will lower costs, improve cash flow and add new information capabilities for buyers. All in all, that sounds like a significant improvement in service—one that we would all look forward to. However, change of this magnitude cannot be accomplished without a lot of discomfort.

All of our jobs will change and the ways we do business will change. It will be scary, and it will demand that everyone learn new skills and create new ways of operating our companies.

We are on the edge of a change more sweeping than anything that has affected insurance. This change may be nerve-racking, but that is a small price to pay for participating in the coming new era in insurance. ■

David W. Schrempf is president of the international division and senior vp of the property and casualty group of CIGNA Corp. in Philadelphia.

ELECTRONIC BORDERS

Countries move to control foreign, domestic data flow

By Paul F. Butler

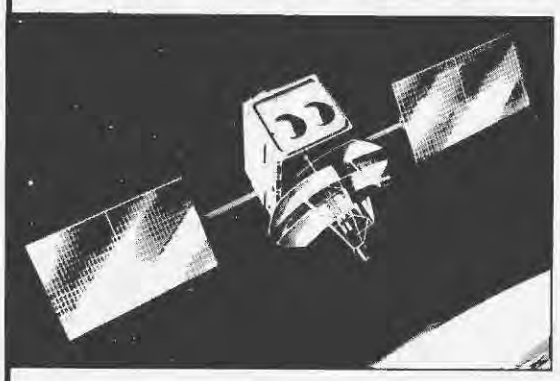
UNITED STATES businesses are using new data processing and telecommunications techniques to link their expanding global business activities for economy, efficiency and profit.

International insurers are using similar data processing and telecommunications techniques to provide global insurance programs to their multinational clients that want to exert the same centralized control over their risk management programs that they have over their international expansion.

Free flow of information in global business activities is important today and will grow more important as business expands worldwide.

But, international business activities of every industry and its insurers could be hamstrung by protectionist moves of foreign governments to restrict the flow of information via data processing, telecommunications and other electronic devices.

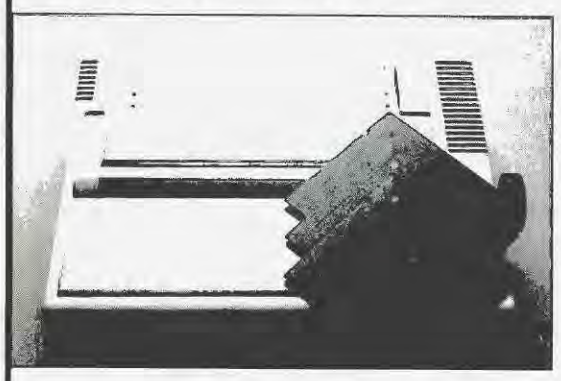
Foreign governments are wielding the weapon of "transborder data flow," or TBDF regulations. TBDF regulations could have an enormous impact on the entire U.S. international business community, whether a company makes or provides data processing or telecommunications equipment or services and uses such technology to deliver or enhance management of its own goods and services.



Little is being done right now to defend against TBDF regulations. U.S. multinational risk managers could, and I believe should, lead the defense. Risk managers must be concerned about receiving information from overseas offices quickly and freely. Risk managers also must be concerned that their insurers have free access to data. The risk manager's duty now extends beyond protecting an employer's global assets to protecting his or her employer's ability to do business internationally.

TBDF regulation dates back to 1973 when Sweden enacted the first law to protect data privacy. Besides protecting data, there are other reasons foreign governments enact TBDF regulations:

- To preserve national sovereignty.
- To safeguard national security.
- To conserve national cultures.



- To ensure economic growth.

The economic consideration is the most important one to foreign governments in the 1980s. They have identified information as a prerequisite for technical research and development, which is a central element to their economic growth.

So far, about 60 developed and developing countries have long-range information strategies. Some observers equate these with other invisible trade barriers designed to promote domestic industries and to reduce dependency on foreign competitors.

By the end of 1983, it is expected that as many as 24 countries will have passed TBDF legislation, which, in general:

- Covers public- and private-sector automated records and defines practices for collecting, storing, using and communicating personal data.
- Requires registration of files and creates data protection boards to issue data export licenses and prevent data transfers to less-protective jurisdictions.
- Includes, in some cases, "legal persons" (corporations, partnerships) along with "natural persons" (individuals, employees). This could affect all types of corporate insurance.

There are differences among the regulations, creating potential compliance problems for any multinational operating in several nations that may, or may not, have data privacy.

Continued on page 52

Decentralization will aid flexibility of computers

By David W. Schrempf

A PREMIUM PAYMENT is received in Thailand and a clerk routinely enters the account number and the amount received into the terminal on his desk. Almost instantly, on the other side of the world in New York, a computer terminal notifies the company's treasurer that the payment has been received and provides cash transfer instructions to a captive.

Simultaneously, another terminal on a risk manager's desk in St. Louis notifies her that the payment has been received and that the cash transfer to the captive can be expected shortly. Is this capability imminent or just another futurist vision of the year 2000?

While this highly desirable system does not yet exist, these and other risk management services will begin appearing within the next few years. Insurance companies and other financial institutions will have the ability to move money and information around the globe instantaneously via computer and to give insureds, brokers and captive managers instant access to computerized data at any time and from virtually any location.

Today, we are awed when an electronic device can transmit copies over thousands of miles of telephone lines at a rate of a page every 15 seconds. Tomorrow, we will be impatient when a computer takes microseconds to update files from anywhere in the world and put them on our terminal.

John Naisbitt, in his recent book "Megatrends," talks about the evolution of a global society and characterizes the coming decades as those of the information society as opposed an industrial society. He talks about the ability of satellite technology, computers and electronic devices to eliminate the information "float," bringing instant access to worldwide data.

The capabilities exist today to accomplish this. As Mr. Naisbitt points out, the task is simply to adapt existing technology to meet current needs. The industry has begun to do this, and the reality will appear shortly and as a major benefit to insurers, brokers and risk managers. In the process, it will unquestionably change the shape of the industry and the way insurance and insurance services are bought and sold.

If you doubt that there are tremendous changes sweeping financial services and information technology, as well as the insurance industry you have only to look to the changes that have occurred in the United States.

Already, CIGNA Corp. makes available its Corporate Risk Information System to insureds and brokers. Customers can access the company's data for their account files from remote locations using portable terminals to prepare reports and analyses in any format they desire.

Similarly, less than 10 years ago, there were fewer than 100 automated teller machines in the United States. Today there are thousands and the technology is threatening to change not only banking, but the way all financial transactions are handled. In fact, some banks have even experimented with a requirement that smaller customers use only the automated tellers.

Although the full potential of electronic technology has not yet been tapped in the United States, it is very clear that a revolution is under way—one which will produce sweeping changes in the services available to us and the way we manage our businesses.

On a worldwide level, change will come at a slightly slower pace. Variations in regulation, restrictions on certain types of equipment and differences in local regulatory climate will certainly impede the rate of change somewhat. However, it is almost inevitable that global systems for processing and moving information will be available to risk managers and brokers within three to five

Continued on page 52

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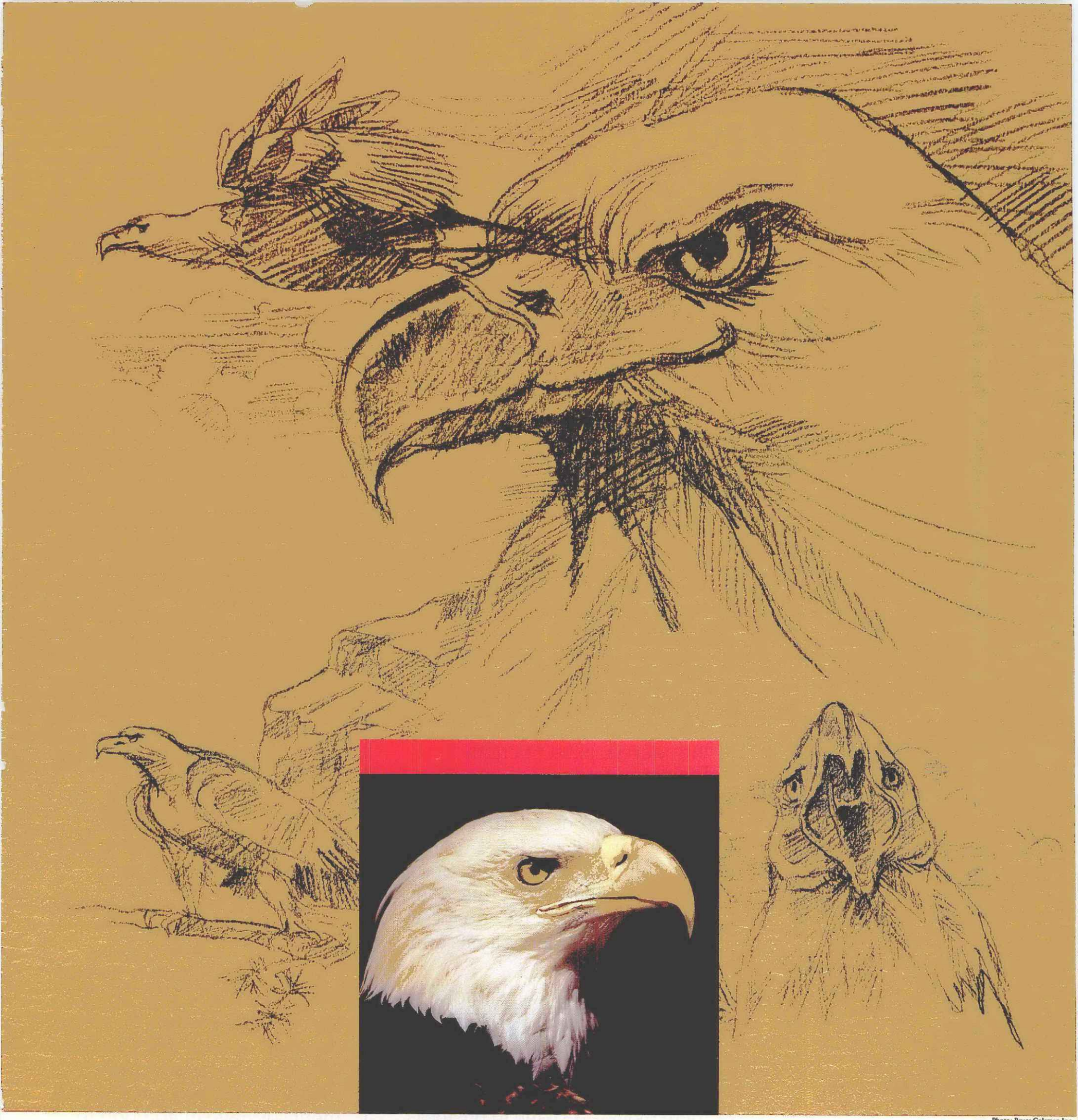

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Insurers hope to recoup London losses

By LAUREL WENTZ

RIO de JANIERO, Brazil—The Brazilian insurance industry still is paying heavily for the government-controlled Brazilian reinsurance monopoly's disastrous seven-year incursion into the London reinsurance market.

IRB's losses in London reinsurance market
(in U.S. dollars)

Year	IRB	Brazilian-based insurers	Total
1975-76	$9,048,000	$21,115,000	$30,163,000
1977	3,835,000	8,930,000	12,765,000
1978	25,850,000	60,330,000	86,180,000
1979	66,220,000	44,150,000	110,370,000
1980	67,200,000[E]	12,800,000[E]	80,000,000
Total			**$319,478,000**

E: Estimate.
Source: Instituto de Resseguros do Brasil.

The Instituto de Resseguros do Brasil (Brazilian Reinsurance Institute) and participating Brazilian insurers have lost nearly $320 million so far in the London reinsurance market.

But the IRB and some of the Brazilian insurers plan to re-enter the London market in an attempt to recoup the money lost through British tax breaks.

However, the September or October 1984 startup date that was announced when the IRB ended its underwriting activities in London last December seems less certain today.

"Everything imaginable so far as bad operations happened," said IRB President Ernesto Albrecht in an interview shortly after the decision to shut down the London operations.

"Bad control, bad administration, bad selection of risk. We had a very big concentration of maritime risks —more than 60% at one time," Mr. Albrecht explained.

The IRB and the participating Brazilian insurers will pay out about $80 million in 1983 for losses in underwriting year 1980. Losses for underwriting years 1975-1979 totaled almost $240 million, according to IRB figures.

And up to $50 million will be owed in 1984 to close the 1981 London accounts, estimates the president of a Brazilian insurance company.

"The IRB fiasco has hurt everyone badly," says a multinational insurance expert who is based in Sao Paolo.

"At IRB, they made fools of themselves by barging into a very sophisticated market. They thought they could compete and they got taken advantage of.

"IRB was known for many years as a garbage basket," the expert explained.

Brazilian insurers will have to be convinced to enter the new company with the IRB because British law stipulates that 75% of the stockholders must be the same as in the previous company in order to qualify for the tax benefits.

Many do not believe this will be a problem because the insurers want to recoup their money and also because they do not want to anger the IRB, which sets rates and broker commissions.

However, Brazilian-based insurers were not always willing participants in the IRB's ill-fated London venture.

Until 1980, all Brazilian-owned and multinational insurers operating in the country were required to belong to the company, with shares based on each underwriter's capital.

Through 1977, the IRB took only 30% of the risk while 70% was divided among the Brazilian insurers. Beginning in 1978, IRB took 60% of the London business, leaving 40% for the insurers.

When participation became voluntary in 1980, only 34 companies —slightly more than one-third of the total number of insurers—remained, driving the IRB's share of London risks up to 84%.

If the London IRB office had continued underwriting in 1983, only 21 insurers would have been left writing only 10% of the London business.

The new IRB London venture, when formed, will begin with a $20 million to $50 million investment, but no date has been set because of the depressed state of the London reinsurance market and current problems in Brazil involving remitting money abroad. ■

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CRAWFORD & COMPANY
Risk Management SERVICES

Brazilians seek riot coverage

Continued from page 40

With waves of store lootings and strikes in major cities this year, demand for riot and tumult insurance, which made up only 0.25% of all premiums in 1982, has soared.

"We're suggesting all our clients give riot and tumult insurance serious consideration," says Michael D. Ogdon, managing director of brokerage Atec-Frank B. Hall. "Probably three times as many of our clients have it now as a year ago."

Nearly half of Brazil's 94 insurance companies are owned by banks, most of which also have their own insurance brokerage. It is mandatory in Brazil to use a broker to place insurance. The bank-linked insurers have about a 70% share of the market at the expense of Brazil's 25 independent and 20 multinational insurers.

Brazil's financial crisis has made these bank-owned insurers—with their often generous policy-financing terms—increasingly attractive to insurance buyers.

For example, to finance fire insurance premiums through a bank insurer, the buyer typically must make one down payment and then nine equal monthly payments with little or no interest. Insurance bought from independent insurers usually must be paid for in fewer installments with interest.

"Bank-associated insurers, because of their financial clout, are out there to take over the market," says Hall's Mr. Ogden. "They get business not because they are competent, but rather through the banks' engineering of very big loans and lines of credit.

"A lot of insureds are selecting an underwriter on a purely financial basis, saying, 'We don't care about the product itself. How cheap can we get it?'"

A Sao Paulo insurance expert says, "The banks have greater leverage in Brazil every single day. They're not competing with insurance. It's like giving away free trips to Hawaii. That's bribery."

Even the risk managers of some multinational companies are attracted by the cheap prices banks can offer on insurance.

Often, multinationals will use a mulinational insurer, but will coinsure a portion of their accounts with bank-linked insurers.

"You have to sympathize with the financial director who's looking at interest rates and credit available and wants to maximize his financial position," says Home Insurance Co.'s Mr. Moore.

Meanwhile, insurance brokers and independent insurers are lobbying to limit further encroachment of the banks into the sale of insurance and to convince the banks to withdraw from the insurance brokerage market altogether.

However, few expect them to succeed.

"It's unreal to expect the banks to leave the insurance market," says Pedro Pereira de Freitas, director of bank-owned Comind Companhia de Seguros.

As the insurers continue to battle among themselves for more of the market, Brazilian risk managers are waging their own crusade to develop their profession.

Brazil is still behind more developed markets in the area of risk management, which is usually handled by a treasurer or insurance administrator. The new Brazilian Risk Managers Assn. has 18 founding members, equally divided among Brazilian and multinational companies, including Aluminum Co. of America, Shell Oil Co., Cargill Corp., Bayer Industries S.A. and CIBA-Geigy. Another 100 firms, about 80% of them multinationals, are encouraged to participate by their international risk managers.

"Our primary objective is training, before being a lobby," says Luiz Paulo M. de Oliveira, risk manager in Brazil for ALCOA and president of the new association.

"The (Brazilian insurance) market is disorganized and the tariff system (of insurance rates) is ridiculous. All this is happening because the insured is weak. He doesn't make demands or ask for what he wants because he doesn't know.

"We have to raise our level of professionalism first. Then the insurers, brokers and the Brazilian Reinsurance Institute will have to provide service.

"Our idea isn't to form a little group to fight with IRB," Mr. de Oliveira says. "But the insurance companies have never pressured IRB to change the tariff system."

The association will form committees to study and suggest tariffs for different industries, such as food and aluminum production.

But some companies with active risk management departments have made some breakthroughs in the area of insurance regulation.

ALOCA's risk management department in Sao Paulo is one of two the company maintains outside the United States, says Mr. de Oliveira, a former ALCOA assistant treasurer. The other is in Australia.

Since the Brazilian risk management operations began three years ago, the company has set up its own captive brokerage and switched its business—close to $5 million in premiums annual—from Insurance Co. of North America to three bank-linked Brazilian insurers.

ALCOA has introduced innovations, with IRB's premission, in several types of insurance little-developed in Brazil, including builder's risk, liability and business interruption.

For a billion-dollar aluminum refinery and smelter project under construction in northern Brazil, ALCOA has been able to obtain unusually comprehensive builders risk coverage.

"It's almost all-risks, which, in Brazil, you don't find," says Mr. de Oliveira. "IRB, in contrast, has more exclusions than risks covered. Usually, builders risk just covers installation and setting up of equipment."

Rather than use the Brazilian rates, ALCOA adapted rates from several countries to the local risk, with the IRB's approval. The company is insured for a maximum probable loss of $100 million.

Normally the entire premium must be paid by the time the project is half-finished, which ALCOA considered too early in a three-year project. ■

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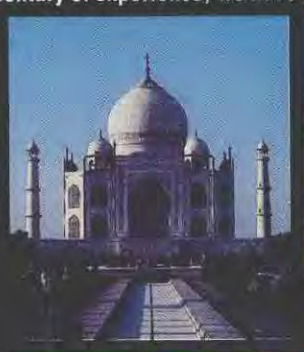

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Brazil's direct insurance premiums in 1982
(in cruzeiros*)

Class	Premiums
Fire	99,760,190,368
Life	73,233,362,121
Motor	64,019,825,272
Transport	31,894,292,388
Home	29,592,652,513
Personal accident	28,401,716,659
Personal injury	24,609,617,674
Marine hull	13,671,762,961
Aviation	6,959,676,787
Loss of profits	6,670,630,913
Third-party liability	2,191,163,038
All other	56,205,339,106
Total	**437,210,229,800**

*170 cruzeiros:$1.
Source: Instituto de Resseguros do Brasil.

Brazilian inflation gives edge to bank-controlled insurers

By LAUREL WENTZ

SAO PAULO, Brazil—Brazil's ungovernable 180% inflation rate is making it increasingly difficult for corporations to keep insured values from eroding and for insurers to keep premiums current.

And the high inflation, coupled with Brazil's severe economic recession, is giving an added edge to the powerful banking groups that can offer clients of their bank-owned insurance companies favorable premium financing.

Of Brazil's top 10 leading domestic insurers, eight are owned by banks.

Meanwhile, corporate insurance buyers in Brazil banded together in August to form a local risk managers association. The Association Brasileira de Gerencia de Riscos is modeled after the Risk & Insurance Management Society in the United States.

In Brazil, which still has only a handful of professional risk managers, the move is seen as a much-needed step toward greater professionalism in the risk management area and as a potentially strong lobby for change within the tightly regulated Brazilian insurance industry.

The insurance industry is rigidly controlled by the Instituto de Resseguros do Brasil—the Brazilian Reinsurance Institute—a government reinsurance monopoly commonly referred to as the IRB and by an arm of the finance ministry called the Superintendencia de Seguros Privades (SUSEP), which is the Federal Insurance Commissioner's Office.

SUSEP and the IRB set rates and conditions, fix brokers' legal commissions and approve or veto new types of policies. The rates tend to be higher than in the United States and other markets.

During the first half of 1983, premium income of Brazilian insurers fell by 4.6% to 383.8 billion cruzeiros ($925 million). Brazil's 30% currency devaluation in February will put the 1983 market considerably below the 1982 premium income of nearly $2.5 billion.

Fire insurance premiums, which account for 23.4% of premiums collected, fell by about 17% during the first half of this year, estimates one multinational insurance broker.

Only 13 of Brazil's 94 insurance companies showed an underwriting profit during the second quarter this year, with combined loss ratios ranging up to 130%.

"Last year the (market) average was about a 104% combined ratio," says Celso da Rocha Miranda, president of the Council of Companhia Internacional de Seguros, Brazil's largest independent (non-bank-linked) insurer.

"I expect by the end of the year, companies will be working with about a 110% combined ratio," he said. "With the present inflation rate, we cannot expect anything better."

Most insurers, however, are expected to show a profit for 1983 because of high returns on investments due to the wild inflation.

"If interest rates come down suddenly, we'll be working at a loss," Mr. Rocha Miranda says.

Many insurance buyers are beginning to update insured values every quarter—or even more frequently—to keep up with the triple-digit inflation. However, they often increase coverage by only about 70% of the inflation rate.

An optional inflation guard updates insured values daily by the rate of inflation estimated by the policyholder at the beginning of the year.

An additional premium of one-half of the insured's inflation estimate is levied. For example, if the policyholder guesses that inflation will be 180%, the premium will be increased by 90%.

However, this option is rarely used because it requires payment upfront in comparatively hard currency for devalued coverage.

And guessing the coming year's inflation rate, while a favorite pastime in Brazil, is always risky. The estimate for 1983 climbed from 70% in January to 180%—and rising—in October.

The government is expected to increase individual insurance companies' retention ceilings to keep more business in the domestic market, rather than have it reinsured abroad where premiums must be paid with scarce dollars, says Phillip N. Moore, vp of Home Insurance Co. in Rio de Janeiro.

Besides increasing the insured value of their property against inflation, risk managers in Brazil also are buying more riot and tumult insurance due to the economic crisis.

Continued on page 42

Lost In Space?

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Swiss Re strongly opposes 'growth for sake of growth'

ZURICH, Switzerland—"Treading water" is a term that might be used to describe the current position of Swiss Reinsurance Co.

Swiss Re, one of the world's leading reinsurers, increased its net profit in 1981 by 6% to 80 million Swiss francs ($44.7 million at 1981 exchange rate) from 76 million Swiss francs ($45.4 million at year-end 1980 exchange rate).

Swiss Re's relatively modest growth, according to Chairman Walter Diehl, is due to three distinct factors:

- The company's refusal to follow what Mr. Diehl describes as "the widely prevailing market practice of inadequate premium rates."
- The effects of foreign currency rates on a company that conducts its business largely in Swiss francs.
- The worldwide recession.

"On the reinsurance markets there is, significantly, no lack of risks seeking coverage," he says. "But today a large part of the busy turnover does not concern genuine new business, but covers which are being moved from one reinsurer to another."

This procedure, he added, may bring short-term success "because new reinsurers who are hungry for business still have too little experience or else they throw caution to the winds as long as they do not suffer any major losses."

Swiss Re believes, according to Mr. Diehl, that growth for the sake of growth "is not only unimportant, but undesirable and dangerous."

Premium growth in non-life insurance shrank to 2.3% in 1982, noted General Manager Hermann Odermatt, which reflects Swiss Re's selective underwriting policy.

"By this we mean a policy which, in view of the persistently difficult market conditions with the inadequate premium level and continuing heavy competition that has long prevailed, attaches no priority to increasing turnover." Besides the economy and the soft insurance market, Swiss Re may soon have another hurdle to cross: additional competition at home.

Switzerland is not a member of the European Community, but the EC nations are a major source of income for Swiss insurers and reinsurers, particularly Swiss Re, which does 90% of its business outside the country's borders.

The EC and Switzerland have drafted an agreement that would allow casualty insurers from EC countries to set up branches in Switzerland exactly as they can in EC member countries. In turn, Swiss casualty companies would have the corresponding access to the EC market.

Although it has been drafted, the agreement has still not been signed, mainly because of foot dragging by Swiss insurers that, according to one industry source, "don't want to see their nice, cozy, little domestic world threatened by foreign competition, which has been singularly lacking."

But some say the threat could open new horizons for companies like Swiss Re, enabling them to write even more business in EC member nations.

Swiss Re makes much of its connection with Switzerland: Its literature is full of pictures of the Alps and executives stress the nation's financial stability, the full convertibility of the Swiss franc against other countries' currencies and Switzerland's political stability.

Yet, despite this emphasis, Swiss Re is an international company—more than 40% of its premiums come from outside Europe.

Twenty percent of Swiss Re's net business is in North America, split 2-to-1 between reinsurance and direct insurance. And, the company is looking for new acquisitions in the primary market in North America, according to Theo Obrist, a Swiss Re executive who spent five years with the company's operations in the United States. ■

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FACTS

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

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Dutch social security benefits, contributions to be reduced 3.5%

By JOHN PARRY

AMSTERDAM, Netherlands—Holland is cutting social security benefits and contributions by 3.5% beginning Jan. 1.

The cuts will provide almost a third of the reduction in government spending that Prime Minister Rudolph Lubbers says is necessary to pull the nation out of a recession.

The reduction in social security benefits will save 3.4 billion guilders ($1.13 billion) while overall government spending is being reduced by 11.5 billion guilders ($3.8 billion).

The 3.5% cut in contributions to social security is intended to increase individual investment and stimulate the economy.

Holland's social security system provides benefits for disability, death, family allowance (a fixed sum for each child, payable to the age of 18), medical care, old age and unemployment benefits. And, the system has been strained in recent years by an economic recession and thousands of immigrants from former Dutch colonies in the Caribbean.

Coming on top of similar successive waves of immigrants from Indonesia, these new citizens put an additional strain on the social security system, since most of them are jobless and, in many cases, homeless when they arrive.

Currently, The General Old Age Pension (AOW), which covers all persons, provides for a pension of 12,883.44 guilders ($4,955.16) for a single person and 18,504.72 guilders ($7,117.20) for a married couple, payable at the retirement age of 65, for both men and women.

This pension is augmented by compulsory occupational pension funds, and, in many cases, by private company pension plans and/or private insurance taken out by individuals. This system produces a "three tier" effect similar to that found in many other European countries where the general state pension is augmented by a compulsory company pension and a "third pillar" of voluntary company or individual insurance.

Leading Dutch life insurers in 1980
(in thousands of guilders*)

Company	Premium income	Market share
Nationale Nederlanden	1,845,397	26.8%
AMEV	754,579	11.0
Ennia	752,969	11.0
Centraal Beheer	722,443	10.5
AGO	648,004	9.4
Delta-Lloyd	627,297	9.1

*2.129 guilders:$1 in 1980.
Source: Verzekeringskamer.

The General Old Age Pension covers all residents. Current contributions to the AOW are paid by the employee up to an income ceiling of 46,000 guilders ($17,692). The government has been trying to extend this ceiling, but, despite fears that the 1983 budget would contain measures to this effect, the fears were not realized. Employees pay 11.85% of salary toward the cost of AOW and employers pay nothing.

The AOW is the most expensive of the extensive social programs in the Netherlands, which in total can cost employees 31.5% and employers 27.1% of an employee's earnings up to ceilings that vary with the program, according to consultant William M. Mercer.

The "second pillar," the company-sponsored benefits, come from an industry fund, a private company fund or an insured plan.

An industry fund exists for some industries, and when it does, participation is mandatory. The benefits provided by the funds vary.

If an employer's industry does not have a mandatory industry fund, the employer may maintain its own pension plan. Company pension plans also vary widely but there is a general trend toward pensions that are integrated with AOW to give employees 70% of average annual salary over the final five to 10 years of work.

Group pension plans generally follow the formula of the old-age pension, starting when the employee reaches 65. They also provide a widows pension (but not, so far, a widowers pension), and an orphans pension.

Since the government had telegraphed its intention to cut social security benefits well in advance, individuals began to buy more life insurance, private pension and annuity products.

These purchases also were encouraged by a state tax concession introduced in 1981 which allows life premiums of up to 15,000 guilders a year ($5,769.23) to be set off against personal tax liability.

In total, life insurers in the Netherlands brought in 7.8 billion guilders ($3.2 billion) in 1981.

Health insurance costs are covered by what could perhaps best be described as a "means test." All employees with an income of less than 46,000 guilders a year ($17,692) are compulsorily covered for medical (but not all dental) expenses under the Ziekenfondswet, a government medical scheme. Employees and employers each pay 4.9% toward the compulsory health insurance.

Those earning more than 46,000 guilders a year must buy private health insurance, and more and more companies are signing group medical insurance contracts which provide comprehensive coverage.

An employer must enroll 70% of its employees before an insurer will underwrite a group health plan. Employers with fewer than 1,000 employees usually find group health plans too expensive.

Most employees prefer group health plan coverage because it is less expensive than individual health insurance contracts. Some major companies such as KLM Airlines, Royal Dutch-Shell and Philips, the electronic multinational, pay part of the employee's premium, sometimes up to 50%. ■

Life insurance sales changing

AMSTERDAM, Netherlands—Beginning Jan. 1, all life insurance companies will be required by law to work through independent agents.

Currently, life insurance is sold by brokers and direct sales forces as well as through agents.

Insurers are now in the throes of difficult negotiations with the extremely powerful network of independent agents over the question of commissions. The agents, who number some 30,000 around the country, want their commissions to be tied to the sum insured, not the premium; the companies would of course prefer the opposite. Negotiations are expected to continue until the Jan. 1 deadline.

Direct writers currently hold about 11% of the life business in the Netherlands.

Major nationwide companies have traditionally eschewed direct selling and the three major direct writers are all provincially based—Centraal Beheer in Apeldoorn, URA in Arnhem and FBTO in Leeuwarden. All three were originally writing only non-life business, but switched to life business when the bottom fell out of the non-life business three years ago. What they will do under the new law is unknown.

Nationale-Nederlanden, which writes about 26% of all life business in the Netherlands, currently operates a system that looks like an agent system but isn't. Since more than 80% of the individual agents are non-life specialists, handling mostly car, fire and accident insurance, NN employs a force of 280 field representatives who travel the country "goading" the agents into selling life insurance. This field force will take over a more supervisory job as of Jan. 1. ■

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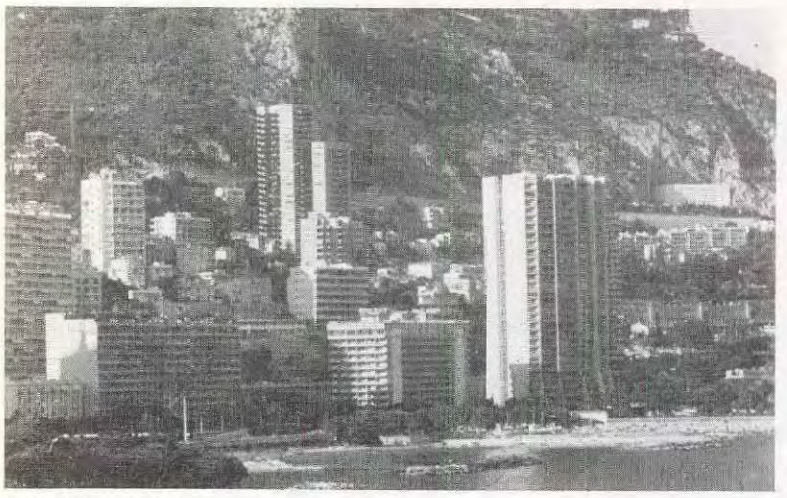

Photo: Kathryn J. McIntyre
Risk managers met in Monaco, where the mountains meet the sea.

Lift insurance trade barriers, risk manager says

By KATHRYN J. McINTYRE

MONTE CARLO, Monaco—Risk managers should try to influence two international organizations that are grappling with the issue of national barriers to trade services, advises a risk manager.

"Barriers to trade in services increase costs and reduce competition," said Edith Lichota, vp-risk management at Irving Trust Co. in New York.

Barriers to trade in insurance services include regulations restricting the purchase of insurance from insurers outside a nation and regulations restricting the licensing of foreign insurers.

"As the users of insurance services and products, it is you and your employers who must influence the market," she advised.

"If you leave it to insurers, it will be shaped only by insurers. If you leave it to the politicians, it will be shaped only by the politicians. If you participate, it will be a field responsive to your needs and concerns," she said.

Ms. Lichota, also vice chairman of the Insurance Commission of the International Chamber of Commerce, moderated a discussion on "Freedom of International Trade in Services" on the closing day of the International Risk Management Conference, sponsored by the Risk & Insurance Management Society and the Assn. Europeenne des Assures de L'Industrie.

Panel members focused on why the General Agreement on Tariffs and Trade (GATT) is only recommending national studies on the issue of trading services, why there are insurance services trading problems within the European Community and how a developing country views the issue.

A paper on freedom of international trade in service written by Marsh & McLennan Inc. President Bruce W. Schnitzer was read by the president of M&M's affiliate in Paris because, at the last minute, Mr. Schnitzer was unable to attend the meeting (see story, page 64).

The largest organization tackling the issue of freedom of trade in services is the GATT, the 88-nation member organization that governs the institutional environment of international trade.

Some signatories to GATT are preparing reports on international services with the hope that the information exchanged among the nations will eventually lead to liberalizing the barriers to international flow of services, reported Liliana Archibald, international affairs adviser to Lloyd's of London.

It had been hoped, Ms. Archibald recalled, that the GATT Ministerial meeting in November 1982 would result in the creation of a working party to study the problems affecting international trade in services, the applicability of GATT principals and rules to international trade in services and the negotiating options for liberalizing trade in services.

Instead, the GATT recommended that each country study the issue and exchange the results through the GATT Secretariat for consideration at the GATT session in 1984, which would then decide if multilateral action would be appropriate and desirable.

A working party was not established for several reasons, Ms. Archibald said. "First, many developing countries were opposed to the idea, taking the view that there were more important issues with respect to market access for goods, which had not been settled.

"Second, many of the smaller developed countries took the view that as a multilateral institution expected to safeguard the interests of smaller countries, the GATT was threatened with issues more fundamental to the health of the international trading system than issues in the services sector.

"Third, since the United States was pressing so hard for a working party on services, other developed countries thought that there must be great gains in store for the United States, which in mercantilist terms translated into great losses for them.

"Fourth, since some went to great pains to stress that the establishment of a working party would not imply eventual negotiations, there apparently was concern that governments would be inveigled into assuming international obligation in the services sector, which would limit the scope of their domestic policies.

"Therein lies the rot," she emphasized. "This is why we are drawn back to a preparation of national studies dealing with international trade in services and why the recommendation from the GATT Ministerial meeting was limited to a proposal that interested governments undertake "national examinations of issues in this area and an exchange of information.'"

Continued on page 62

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Risk managers told to advise governments on trade policies

Continued from page 60

She predicted that the "fullest national study will come from the United States of America, with the United Kingdom not far behind, but it is also clear that Canada, Sweden, Japan and a number of other OECD (Organization for Economic Cooperation and Development) countries are also trying to put together a national assessment."

There is concern, however, that "there has been no meaningful dialogue with the newly industrialized countries," Ms. Archibald noted. It can be argued that there is "little purpose to further services talks at the GATT until the newly industrialized countries and less-developed countries are more meaningfully involved," she said.

Ms. Archibald observed, "You cannot make countries do things," but she argued against prevailing regulations in developing countries that stifle trade in services.

Ms. Archibald

Regarding national policies designed to protect local producers from foreign competition so that the local industry can develop, she countered, "It is difficult to see how separating local insurers from the latest techniques and technologies will assist in the sound development of a local market."

She also rejected the arguments that countries protect their balance of payments by restricting the purchase of insurance from abroad. "It is, indeed, very far from clear that restrictions on either the access of or the access to foreign insurers have in fact conserved foreign exchange."

Even among the 10 industrialized nations that belong to the EC there are problems coming to "satisfactory solutions to freedom of services," explained Edgar Muller-Gotthard, member of the board of directors of Nordstern Insurance Co. in Cologne, West Germany, a German delegate to the International Chamber of Commerce and chairman of the German Insurance Assn.

Mr. Muller-Gotthard presented what he identified as a German insurer's point of view regarding liberalization of services.

Germany and France are often criticized for not embracing freedom of services among the EC countries. In Germany, for example, domestic insurance brokers are prohibited from placing insurance with a foreign insurer. An industrialized company, however, can negotiate its own purchase from a foreign insurer.

Mr. Muller-Gotthard explained the German point of view by emphasizing that the Treaty of Rome, which establishes freedom of services in the EC, pertains to "a temporary activity and that the service is to be supplied under the same conditions as are imposed by the state in which service is offered to its own nationals."

One major issue is: What is a temporary activity and what is a permanent one that obliges a company to establish a company in another country to conduct business, he continued.

It's agreed by all markets, he said, that granting binding authorites in the country of operations calls for establishing an office. However, the countries cannot agree on whether a company must establish an office to carry on other activities, for such services as "offering insurance contracts, canvassing, concluding insurance contacts and settling claims."

The German government has suggested granting different degrees of freedom of activity in servicing industrial and commercial risks from those servicing mass, or personal lines, business before calling for the obligation to establish. "For reasons of principle, I am told, this pragmatic solution has not found sympathy of the EC Commission in Brussels and of certain markets," he said.

Ms. Lichota

The German government also suggested first finding a solution to industrial and commercial risks and then mass business, but no progress has been made, he said.

Another important issue, Mr. Muller-Gotthard said, is: What requirements imply what modifications of existing regulations and to what extent?

"Germany disposes of the strictest of insurance control," he noted. But, German officials contend that the same rules, regulations and freedom afforded non-established companies operating in Germany would have to be afforded established companies in Germany, he said.

"The extent to which, therefore, the insurance supervisory system in Germany would be abolished when introducing freedom of services has an immediate effect on the established market and this is the object of main concern rather than the effect of expected competition from non-established insurance markets," he said.

Bilateral negotiations among the insurance markets involved have resulted in recommendations to the EC Commission to solve some of these problems, Mr. Muller-Gotthard noted. The suggestions are to allow individual EC countries to define, by law, standard forms of coverage and definitions of risks covered. But, for industrial and commercial risks, insurers would only need to notify the authorities of the conditions they want to apply generally in the market. There would be no prohibitions on tailor-made insurance contracts that deviate from the standard. The buyer would only be made aware of the differences from the standard.

Mr. Muller-Gotthard

But, Mr. Muller-Gotthard was not optimistic that progress will soon be made on these suggestions or others involving freedom of services in the EC.

Barriers to trading services among developed countries were criticized by Hamza Kettani, chairman of La Marocaine-Vie and the insurance and reinsurance Moroccan Federation in Morocco who explained the point of view of developing countries.

Since North America has almost half the world premiums, the Common Market 4%, the rest of Europe 5%, Japan 30% and the remainder of the non-Socialist block only 8%, he said, "Why would countries with this proportion of premium resort to protectionist policies?

"Protectionism is hard to understand in this climate except that it appears aimed at preventing outsiders from accessing markets which are not sufficiently exploited by domestic enterprise," he observed.

"I believe governmental organizations should start to remove all protectionist activities at the level of the industrialized countries, he continued."

But, in developing countries, where state-owned insurers or exchange controls hamper freedom of services, the restraints stem from problems with balance of payments, population growth, shortage of capital, drop in export prices and political instability, he contended.

"The first concern of developing countries in establishing and regulating their insurance industries was to protect their balance of payments," he said.

"A secondary objective of their market development was to reduce the costs of insurance and reinsurance to their national economies, often by developing national capacity through coinsurance and national pools.

"The protectionism of these measures has reduced local capacity because of poor technical results, so that the first step in liberalization would appear to be technology transfer," Mr. Kettani suggested.

"Liberalization could start by a better regional distribution of risk aided by freer circulation of capital," he recommended.

In Morocco, he noted, the total premium is about 1.7 billion French francs, with 20 direct companies and one national reinsurance company. Both public and private capital are involved, but since 1973, at least 50% of the capital of incorporated companies must be owned by Moroccan nationals.

"Through reinsurance and admission of foreign capital, we believe we have some liberalization in our market," he said. ■

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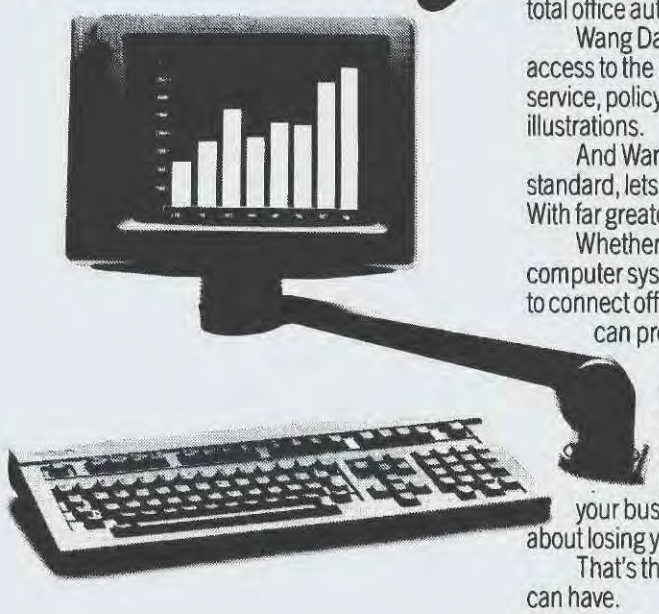

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M&M's Schnitzer endorses loosening of trade restrictions

MONTE CARLO, Monaco—The need for protective insurance regulation must be balanced by the global need to trade knowledge, suggests the president of the world's largest insurance broker.

In a paper written for the AEAI/RIMS International Risk Management Conference, Marsh & McLennan Cos. Inc. President Bruce W. Schnitzer called for more freedom to provide services across national bounderies.

Mr. Schnitzer was unable to attend the meeting, however, and his paper was read to the audience by Robert Husson, chairman of Groupe Faugere & Jutheau, an M&M affiliate in Paris.

Services represent an estimated 20% of the world's gross national product, Mr. Schnitzer pointed out, with worldwide insurance premiums of $400 billion representing almost 6% of the world's GNP.

Mr. Schnitzer

"The exporting of services has become a highly charged international issue."

In making trade-offs between the need for regulation and the need to trade in knowledge and services, governments should segment financial service sectors by type of service and clientele, Mr. Schnitzer suggested.

"If we do this, practitioners and policymakers may become better able to identify real and potential abuses and to agree as to whom is in need of protection," he wrote.

National attitudes toward regulation and trade are influenced by the perceived opportunity or threat —by a self-interested appraisal—of competitive advantage, he wrote.

"And—no surprise—Americans, in the main, have taken an absolutist view on the subject of freedom of trade in services. In virtually every available form, U.S. business and government representatives have asserted the social advantages to all which are inherent in free trade—at least for the service sector of the world economy."

In terms of regulations and restrictions, segregating services by type and by client also helps identify "legitimate exposures," he continued.

"For instance, solvency and financial security is a genuine concern with respect to capital-intensive services. Every society needs to be protected from insolvent banks and insurance companies.

"Both the retail consumer and major corporations need sensible rules and regulators to make judgments regarding the financial stability and related capital requirements of those institutions that hold deposits, insurance premiums and other forms of financial assets for safekeeping."

Regarding services sold to buyers, however, he wrote, "I suggest that the regulation of advice to corporate decision makers is counterproductive—and impractical to enforce. For advice-intensive services directed toward a corporate clientele, an environment of relatively unrestricted trade is likely to be in society's best interest."

Insurance brokers, he noted, must "place risks in whichever markets of the world provide the best coverage, sound security and a low price."

Licensing practitioners is appropriate, Mr. Schnitzer wrote. "But, in this corporate market, the consumer is a highly sophisticated decision maker; little in the way of consumer protection is needed. In fact, these decision makers, such as risk managers, have an obligation to seek out—and find—the best advice available to solve their problems on a global basis. Risk managers worldwide are increasingly taking a global look at their needs, assessing insurance markets and capital markets throughout the world to which they can transfer risks. The circumvention of inhibiting regulations is a part of the job."

Major corporations of the world also need world insurance capacity, Mr. Schnitzer noted, because industrial and technological risks have grown faster than insurance capacity in various countries.

—By Kathryn J. McIntyre

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Does an in-house broker benefit a corporation?

By KATHRYN J. McINTYRE

MONTE CARLO, Monaco—Should the corporate risk management function be organized as an in-house broker?

"Yes," says Dr. Werner Schimming, who is responsible for insurance for Bavarian Motorworks AG-BMW and is general manager of the company's captive broker Bavaria Wirtschaftsagentur GmbH in Munich.

"No," says Eckart Russell, former risk manager for Alcan Aluminium Ltd. in Montreal and now manager of foreign exchange risks for the international company.

The two squared off during a debate on in-house brokers at the AEAI/RIMS International Risk Management Conference in Monte Carlo last month.

Mr. Schimming

In-house or captive brokers—those wholly owned by an industrial company—have grown up in traditionally direct markets, such as West Germany and France, noted the debate moderator, Peter Gilbert, a director of Sedgwick International Ltd. in the United Kingdom. Captive brokers are relatively rare in the United Kingdom and almost unknown in the United States.

Captive brokers were developed to reduce insurance costs by providing the parent company with an opportunity to participate in the commissions.

Today, according to Dr. Schimming's presentation about AG-BMW's in-house broker with a staff of 38, the German captive broker often performs all the functions that one would expect to find in a sophisticated risk management department.

During his opening remarks, Dr. Schimming explained, "The responsibilities and objectives of the traditional, qualified in-house broker are to optimize the security of the parent company in terms of insurance—including all types of alternative risk financing and loss prevention. Within these limits—coverage of insurable risks—a professional in-house broker may be regarded as a viable, effective and well-established risk management organization.

"The in-house broker must also consider risk areas going beyond questions of insurance coverage alone," Dr. Schimming suggested.

"Economic conditions becoming tougher, technological problems more complex, risks changing at an ever-increasing pace, problems of liability laws becoming greater, political and social demands becoming more stringent and business activities being expanded on an international scale" are reasons for companies to "consider all conceivable risks which might threaten their very existence.

"This development not only concerns the type and quality of the insurance coverage to be taken out to cover such risks, but also results in a constant development and expansion of the responsibilities and tasks of a professional in-house broker within the company.

"Irrespective of whether the in-house broker is responsible for the identification and assessment of risks, whether he acts as a coordinator or catalyst, he may also be classified—given this wider range of tasks and responsibilities—as a 'viable' risk management organization."

An in-house broker requires vital conditions, Dr. Schimming said, listing: a qualified team, an official definition of his tasks, description of his functions and the requisite power to take action, the establishment of his organization as a line office reporting directly to the company's financial management, the creation of a comprehenisve information system within the company, and the "suitable appreciation and support of the management of the parent company."

These are conditions that risk managers would cite as necessary for a successful risk management department.

Mr. Russell of Alcan argued

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Should a corporation form an in-house broker?

Continued from previous page
against organizing a corporate risk management department as an in-house broker, warning that it will "detract from the risk management function."

As an in-house broker whose profits are dependent upon buying insurance, the in-house broker is biased toward buying insurance, Mr. Russell said.

"If I were running an insurance department perceived to be a profit center, I would be biased toward buying insurance," he said. "I feel there should be as little insurance bought as possible because of the cost.

"Insurance broking and risk management are not the same thing," Mr. Russell stressed. "Insurance is one of the many financial tools that can be employed in risk management. The service functions of broking and risk management do not seem to be natural bedfellows.

In-house brokers also are overstaffed, Mr Russell charged.

Finally, Mr. Russell criticized in-house brokers as less equipped to deal with the worldwide insurance market than independent international insurance brokers.

Lacking expertise to deal with international insurance markets, the in-house broker is "biased toward domestic insurers," Mr. Russell complained.

An in-house broker as a risk management department results in buying too much insurance, with too much administration, no flexibility and a department that lives off commissions added to premiums, Mr. Russell summed up.

"You are not a profit center but an elaborate cost center," he suggested.

Mr. Russell allowed that a captive broker can be used effectively, noting that Alcan has been trying to get a license in Brazil. Captive brokers can be used effectively to buy insurance for suppliers and employees, he suggested.

Mr. Russell

"But I object to putting the risk management function under the heading of insurance broker because that's not where it belongs."

Dr. Schimming opened his rebuttal with the observation, "A judgment can be refuted but a prejudice cannot."

Leaving aside Mr. Russell's argument that risk management cannot be conducted under the title of broker, Dr. Schimming refuted Mr. Russell's judgment that it is detrimental for captive brokers to use domestic insurers.

Putting substantial business with a domestic insurer that also has operations abroad provides the captive broker with bargaining power and direct contact with an insurer that speaks the same language, Dr. Schimming said.

In-house brokers can use international brokers when access to international markets is needed, he added.

His company uses Sedgwick, he noted.

Regarding an in-house broker's tendency to buy insurance when it is not needed, Dr. Schimming countered, "I totally disagree with you!"

Dr. Schimming argued that an in-house broker's success is not based on its premium volume. "You couldn't succeed" on that basis, he responded.

"We are providing optimum security and saving premiums when it makes sense.

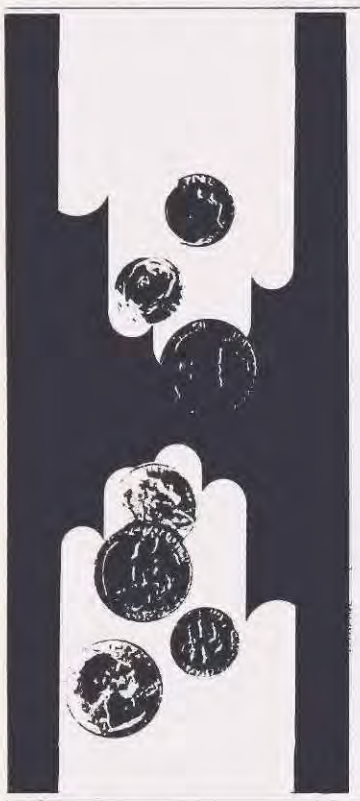
"The in-house broker should advise the company to give up insurances that aren't necessary," he agreed.

A captive broker need not be paid on a commission basis, but could charge the company a fee for technical services rendered, Dr. Schimming suggested.

When pressed by Mr. Russell as to "Why do you need 38 people?" Dr. Schimming responded that an in-house broker can perform broking, loss prevention, claims management and other risk management services "better than third parties from the outside. It has access to confidential information."

One member of the audience from the United Kingdom advised at the close of the debate: "It doesn't matter what we call ourselves—it's how we do it. The personality of your company is all-important.

"Let's not box ourselves into what we call ourselves." ■



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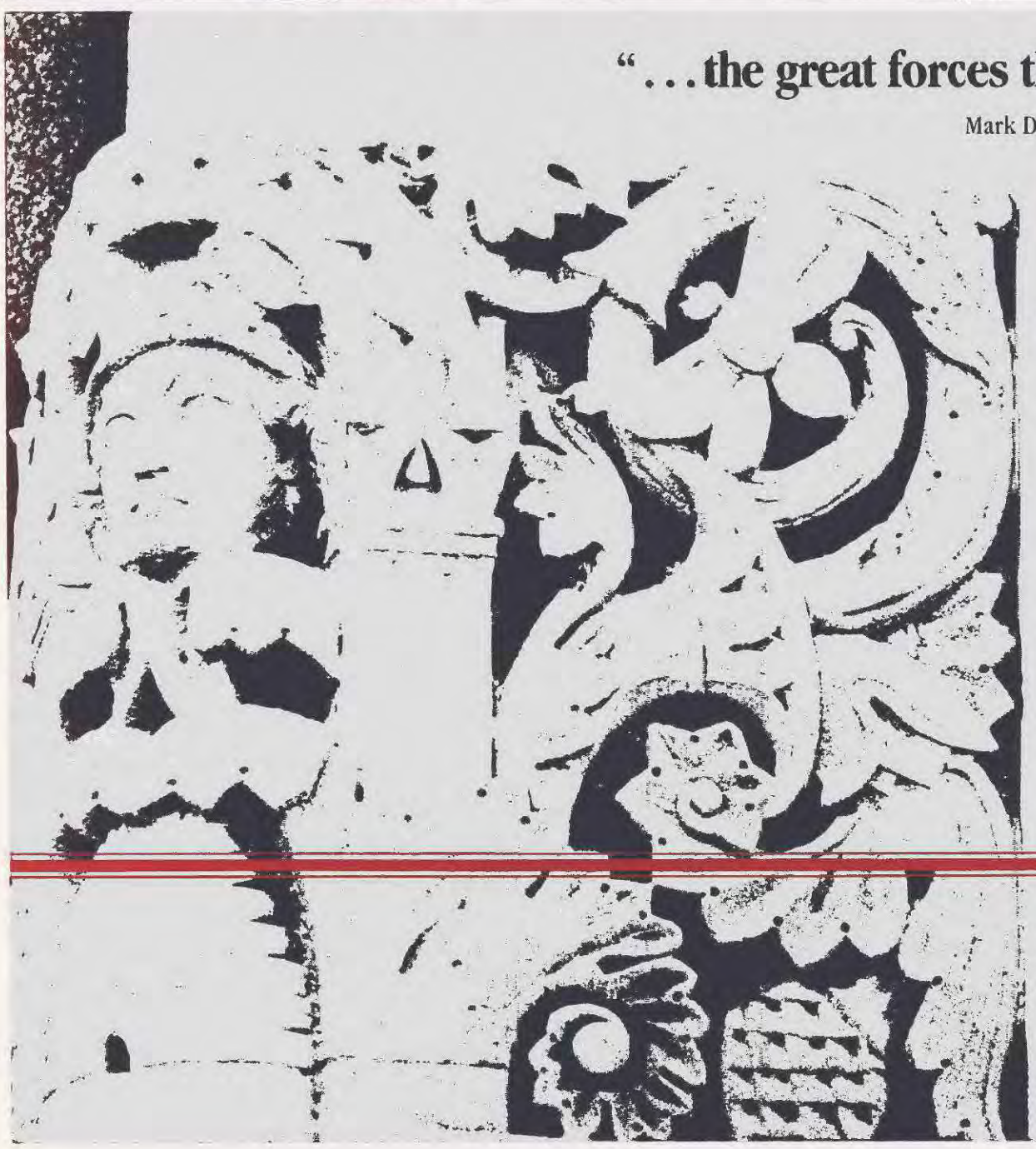

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Political risk is worldwide: Lloyd's underwriter

By STACY SHAPIRO

MONTE CARLO, Monaco—Risk managers must be prepared for political risks no matter where in the world they do business, a prominent Lloyd's of London underwriter advises.

Companies must install a political risk insurance and management program for all their installations around the world, agreed other members of a political risk management panel at the AEAI/RIMS International Risk Management Conference.

No one present in the audience realized how true these words were at the time. Just one week after the conference, political risk worries increased in light of the U.S. invasion of Grenada and the terrorist bombings in Lebanon that killed more than 260 French and U.S. servicemen (*BI*, Oct. 31).

"Iran was a typical example of what a risk-safe country can become," Lloyd's underwriter Stephen Merrett, chairman of Merrett Holdings P.L.C., told a packed house at the conference.

Mr. Merrett

"Iran was thought one time to be the safest country to invest in in the world. It even had a better rating than the United Kingdom."

But after the Iranian monarchy was toppled in 1979 by followers of Ayatollah Ruhollah Khomeini, nearly $4 billion in foreign investments were seized. London underwriters paid out about $80 million in political risk claims, Mr. Merrett said.

"There was realization then from buyers of insurance that there was no safe country anymore," he said.

Agreeing with Mr. Merrett were the other panelists: W.M. McDonald, risk manager-foreign administration for United Technologies Corp.; Julian Radcliffe, director of the credit and political risk division of Hogg Robinson Group P.L.C.; and M.S.M. Wright, vp of AIG Political Risk Inc.

Companies, the panelists said, should consider buying political risk coverage for investments in even the most quiet nations, just in case the "impossible" happens.

In fact, Mr. Radcliffe stated, a multinational company would be derelict in its obligation to shareholders if it did not have a political risk insurance program.

Currently, most political and credit risks are insured by government agencies. But the private political risk insurance market is growing, he said, and generates about $120 million in premiums annually.

Lloyd's and American International Group Inc. are the most sophisticated private political risk underwriters, the panelists agreed.

Lloyd's has been involved in underwriting political risks since World War II, said Mr. Merrett, who is regarded as Lloyd's leading political and war risk underwriter.

For instance, Lloyd's used its influence to help reopen the Suez Canal in the 1970s by covering the political risks involved. In fact, a Lloyd's underwriter stood next to Egyptian President Anwar Sadat on board a ship the day the canal was reopened.

And, in 1972, Lloyd's began to reinsure the Overseas Private Investment Corp. in the United States, so OPIC could offer political risk insurance to U.S. buyers.

Lloyd's has three advantages over most political risk underwriters. Mr. Merrett told the audience. They are:

- The top officials at Lloyd's syndicates are underwriters, unlike insurance companies where an underwriter "follows a book of rules."
- Lloyd's underwriters rely heavily on brokers, which "keeps our minds flexible" and allows the underwriters to form new policies.
- Lloyd's is located in London, "where the whole country is geared to international trade."

Mr. Wright of AIG said that one of the strengths of his company is the guidelines it has drafted on how to assess a political risk.

When underwriters, brokers and risk managers learn that a crisis has developed, they respond differently, he explained.

The broker sees the article and calls his office, said Mr. Wright. The risk manager goes to the office and expects a call from his chief executive to find out if the company is covered. And, the underwriter goes to his computer and finds out what he is exposed to.

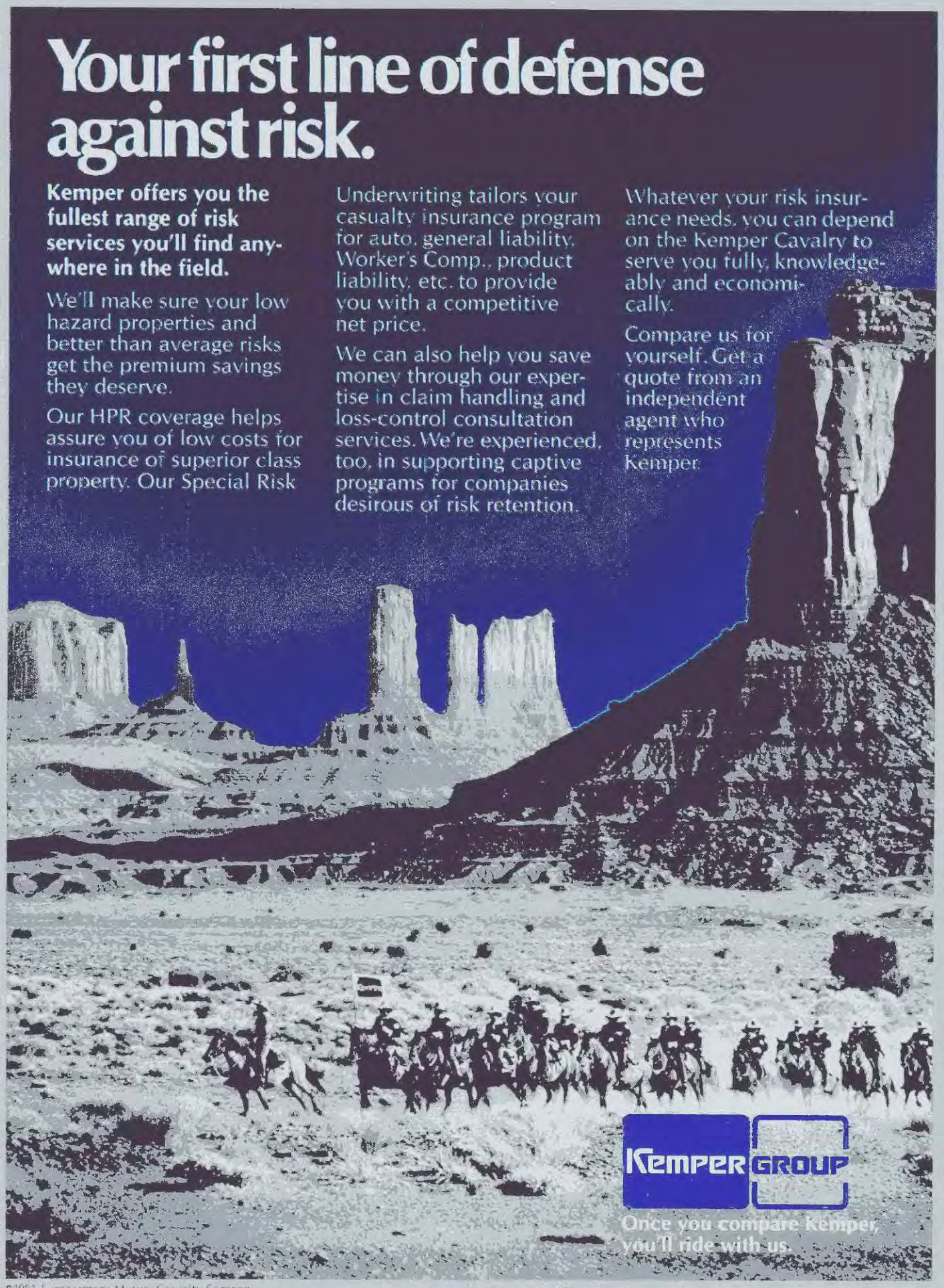
At AIG, underwriters make sure they keep up with world events, he noted. They also examine the policyholder to see if the company is familiar with the country's political climate in which it does business.

Questions a policyholder must ask itself are: How important are the products to the country and the buyer? What are the contract conditions? What are the commercial conditions for the sale? Can the contract be readjusted? And what are the terms of payments?

The risk manager also should know before contacting the underwriter what kind of political risk insurance the company needs, Mr. Wright said, adding that insurers can custom-tailor policies.

But, he added, that insurance cannot serve as a substitute for bank guarantees or "make a bad contract look good."

Mr. Merrett agreed. "We just cannot survive if we just take in bakers' dirty washing," he said. ■



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Study political risks in every country, risk manager says

By STACY SHAPIRO

MONTE CARLO, Monaco—A company with exposures abroad must examine all political risks abroad to be secure, a risk manager for a multinational corporation says.

The corporate risk manager should keep a spreadsheet that maps out every political risk exposure the company faces, he advises.

"And, do not omit any countries, no matter how insignificant they may seem," adds Michael McDonald, risk manager-foreign administration of United Technologies Corp. in Hartford, Conn.

In his address to the AEAI/RIMS International Risk Management Conference in Monte Carlo last month, Mr. McDonald detailed how a political risk management program should be developed.

First, the risk manager should have a "thorough" understanding of what exposures his company possesses abroad, Mr. McDonald said. The risk manager can rely on information from corporate staff members in the company's financial and business planning departments.

A political risk analysis committee should then be formed to share information gathered on the foreign nations in which the company operates. Also, a questionnaire tailored to the company's needs should be sent to managers of foreign subsidiaries to find out about the company's exposures.

A rating system can then be set up so the risk manager can judge the level of risk the company faces in each nation, Mr. McDonald explained.

Besides reading the press accounts and reports originating from the foreign operations themselves, he suggested that risk managers should ask consultants and brokerages with offices abroad to supply the company with information.

And, the company can tap a company that specializes in political risk intelligence. Mr. McDonald recommended four: The Conference Board in New York; the Multi-Dimensions Division of Chase World Information Corp. in New York; International Political Surveys Inc. in Hartsdale, N.Y.; and Control Risks Ltd. in London.

If, after reviewing all the information gathered, political risk exposures in a foreign nation cannot be reduced, "I would recommend a transfer of risk vis-a-vis an insurance contract," Mr. McDonald added.

Political risk insurance, he said, can be bought through government sources, like the Overseas Private Investment Corp. in the United States, through commercial insurers like Lloyd's of London or AIG Political Risk Inc. (see story, page 67) or possibly through some captive insurers, although the captives are not yet a dominant force in political risk insurance.

If a company has not yet set up a foreign operation, Mr. McDonald said a risk manager can help his company reduce potential losses by advising that it:

- Avoid or severely restrict investment in high-risk countries.
- Keep research, product development and processing information in the home office. If a foreign subsidiary is dependent on its parent for this information, foreign governments are less likely to expropriate the subsidiary.
- Establish joint ventures with companies based in the foreign country. Joint ventures offer host governments more "national" control over foreign corporations and bolster the country's economy.
- Incorporate the subsidiary as a local business, with local borrowing and local accounts payable, so any interruption could affect other companies in the country.
- Spread risk among many countries, so that instability in one nation will not affect all the company's foreign operations. ■

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Risk manager's attitude key to success

By STACY SHAPIRO

MONTE CARLO, Monaco—Is risk management a career or is it a dead-end job?

"Have we cornered the market for an intellectual commodity no one wants?" asks Thomas V. Hallett, vp and director of risk management for broker Frank B. Hall & Co. Inc. in Braircliff Manor, N.Y.

Or, can risk managers share success stories and be roused "by the celebration of our good fortune to be part of the dynamic world of risk management?" Mr. Hallett wonders.

Four panelists, all success stories in the world of risk management, examined the career dilemmas risk managers face at the AEAI/RIMS International Risk Management Conference.

Two of the panelists—Hugh Loader, group insurance manager for Tetra Pak P.L.C. in Great Britain, and Anthony P. Benson, group risk manager for Arthur Guinness & Sons P.L.C., also in Britain—have served as presidents of the Assn. of Insurance & Risk Management in Industry and Commerce.

In 1980, Mr. Hallett, then risk manager for General Motors Corp., was named *Business Insurance* Risk Manager of the Year. The fourth panelist, Edward Lalley, a former insurance manager for American Airlines Inc. and Kraft Inc., is now president and chief executive officer of Ideal Mutual Insurance Co.

Whether your job is a dead end or a stepping-stone to the top depends on your attitude, the panelists agreed. It depends on what initiative you take and how you decide to broaden your activities.

For example, consider Joe and Jack, two hypothetical risk managers invented by Mr. Hallett. Both have similar educations, jobs and salaries.

But their attitudes toward their jobs are different. Joe spends his time making every decision his department faces, while Jack delegates the decisions to his employees and juggles priorities.

Joe is anxious for his salary review because there have been no complaints about his department from higher management. Jack is anxious for his review because his staff met nearly all its goals.

Joe pushes paper, while Jack avoids busywork.

"All of us have a little bit of Joe. . .in us but, hopefully, very little because, like Jack, we must be determined and diligent in pursuing our roles," Mr. Hallett said.

Risk managers must take the bull by the horns and expand their jobs in order to move upward and forward on the corporate ladder, another panelist agreed.

"The future in risk management lies in the opportunity to develop an understanding of your company as a whole," said Mr. Lalley.

"A risk manager must extend his or her role into learning the parent company's financial, industrial relations, production, marketing, legal and research and development areas to be fully effective.

"If a risk manager views his or her position as a limited specialty, the corporate role is likely to remain limited also," he said.

Mr. Lalley says he has heard that some risk managers are insecure in their jobs because they feel that senior management does not understand what they do.

This attitude may still exist at some companies but, as Mr. Lalley said, "Most corporations have developed a healthy respect for the protection of corporate assets."

A risk manager should be versed on how to protect these assets and not just in the form of insurance coverage, he said. Then, the risk manager must be able to communicate information clearly and concisely to the board.

> 'The future in risk management lies in the opportunity to develop an understanding of your company as a whole,' said Edward Lalley, president of Ideal Mutual Insurance Co. and a former insurance manager.

"Every memo and report presents an opportunity to create an awareness of the importance of risk management to general management," Mr. Lalley said.

Sadly, however, risk managers usually expand their careers by leaving the company to work for insurance brokers or risk management consultants, Guinness' Mr. Benson pointed out. Rarely, if ever, do risk managers move up the corporate ladder, he noted.

In fact, risk management can sometimes be viewed as a dead-end job in the company simply because of the nature of the work, Mr. Benson pointed out.

For example, the risk manager's job is specialized, so promoting him creates a hole in the company's management that is difficult to fill, he said.

And, he added, the risk manager is a lonely person, sometimes because he knows too much about what others do wrong.

"And, if you know all the nasties, you do not get loved."

Risk managers' successes are, by nature, discreet and innocuous, the kind that are not always noticed by the board, he explained.

"My greatest achievement that the board sees is that my claims settlement has been excellent. But I also prevent the bad things from happening, which no one knows." Mr. Benson admitted, however, that the plight of the British risk manager to move upward in a company may be worse than for his American counterparts.

According to a 1981 AIRMIC survey of 213 risk managers, nearly 68% reported to the company secretary or to finance executives, while only 32% reported directly to the board of directors.

About 61% held their jobs or those similar to them for an average of eight years, he added.

"Do you see stagnation? Seems like it to me," Mr. Benson said. ■

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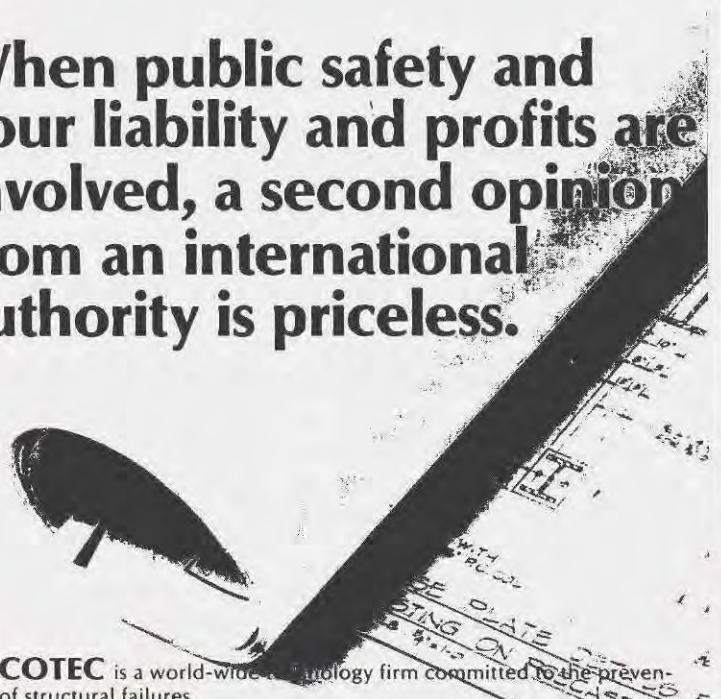

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Pollution regulations hitting U.S. firms hardest: Panelists

By STACY SHAPIRO

MONTE CARLO, Monaco—"What are Americans afraid of? Nothing much, really, except the food they eat, the water they drink, the air they breathe, the land they live on and the energy they use."

Worries about a safe environment, as noted by H. Felix Kloman, president of Risk Planning Group Inc. of Darien, Conn., have caused the U.S. as well as European governments to regulate what chemicals industries can use and how they can dispose of harmful wastes.

The result may be a safer, cleaner and quieter world, according to panelists at the AEAI/RIMS International Risk Management Conference, but the effort is costing companies, particularly in the United States, billions of dollars.

Two sessions at last month's gathering were devoted to discussing the problems of environmental impairment and hazardous waste materials. Each session, one in French and one in English, presented the growing problem European risk managers face. But, the panelists emphasized, the plight of U.S. companies to clean up their act is far greater.

In Europe, regulations are tightening, although industry associations still are responsible for most pollution control measures, said Roger Papp, director general of Technology Council of Pechiney Ugine Kuhlmann in France.

But the European Community plans to crack down in some areas, added Claude Pleinevaux, director of the EC's environmental division.

The EC already has drafted several directives concerning the use of some toxic substances, their transportation across international borders, the labeling of dangerous substances and ways to control noise pollution, he said.

Another directive that recently went into effect calls for companies to make reports to the EC about any dangerous substance they produce. These substances also will have to be properly labeled with European Economic Community uniform coding.

Soon, directives may ban the use of mercury, a toxic substance, Mr. Pleinevaux said.

European environmental rules, however, have not caused half the havoc for business that U.S. legislation has generated over the past few years, panelists agreed. European companies are not yet strictly held liable for cleaning up hazardous waste sites like American companies are.

Two Americans—Henry Taylor, assistant secretary and director of insurance of Rohm & Haas Co. in Philadelphia, and Hugo Standing, chairman of Alexander & Alexander of California Inc. in Los Angeles—explained the maze of American environmental impairment regulations to the Europeans attending the conference.

First, Congress passed the Clean Air Act and soon thereafter the Clean Water Act, which limited the toxic substances that could be discharged into the air or water.

These two laws resulted "in greater amounts of solid industrial waste generated," said Mr. Taylor. "What was earlier disposed of by discharge to the atmosphere or waterways must now be collected and turned into solid waste for disposal elsewhere."

As a result, Congress enacted the 1976 Resource Conservation and Recovery Act, the 1977 Toxic Substances Control Act and the 1980 Comprehensive Environmental Response, Compensation and Liability Act, also known as the Superfund Act.

That law, the panelists explained, allows the Environmental Protection Agency to identify hazardous waste sites and hold firms strictly liable to clean them up.

It also requires industries that produce hazardous wastes to contribute to the so-called Superfund, which will pay for the cleanup of an environmental waste site. The government has the authority to sue responsible parties for any funds used for this purpose.

The Superfund Act has posed many problems for U.S. companies, Mr. Taylor and Mr. Standing pointed out.

"It establishes strict liability for certain ill-defined types of damage. Secondly, it requires companies to report sites that the company used or has used in the past for storage or disposal of hazardous wastes, even though the use of these sites may long have been discontinued," Mr. Standing explained.

"In this manner, companies will be required to publicize potential targets for civil suits," he said.

Mr. Taylor's company, Rohm & Haas, is one of the businesses that the EPA is suing over environmental impairment liability.

"My company identified its wastes at (one) site, paid to have them picked up and taken away and then was sued by the EPA for the cleanup costs of the remaining wastes from other users.

"In this case, Rohm & Haas has potential triple or quadruple expense. Such discouraging situations are indicative of the need for improved administrative practices by government agencies to recognize and fairly apportion each party's responsibilities."

Mr. Taylor would not comment further on the suit nor would he disclose the amount of the claim. ■

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Businesses not stampeding to buy EIL coverage: Broker

MONTE CARLO, Monaco—Although many U.S. companies have been forced to clean up hazardous waste sites, they're not rushing to buy environmental impairment liability insurance, a U.S. broker says.

Nevertheless, the EIL insurance market has been steadily expanding for a number of years since Lloyd's of London originally began writing the coverage, says Hugo Standing, chairman of Alexander & Alexander of California Inc.

Mr. Standing reviewed some of the EIL coverages on the market at the AEAI/RIMS International Risk Management Conference.

According to Mr. Standing, markets for environmental impairment liability insurance, besides Lloyd's, include American International Group Inc.; Shand, Morahan & Co. Inc.; Stewart Smith Holdings Inc.; Hartford Steam Boiler Inspection & Insurance Co.; Swett & Crawford; Travelers Corp.; Great American Insurance Co.; Kemper Group and Aetna Life & Casualty Co.

All of the markets, Mr. Standing explained, basically accept that environmental impairment means "caused by the release or escape of liquids, solids or gases" and include "smell, noise, vibration and light." AIG, however, excludes sensory impairment.

Most markets, except AIG, also cover all claims arising from the same incident.

All the markets cover personal injury, property damage and defense costs, he said. Some companies, like Swett & Crawford, offer additional coverage for defense costs that exceed the limit of the policy.

Except for AIG's, the policies cover off-premises cleanup, including costs to avert additional losses.

All of the markets write the coverage on a claims-made basis. Most of them will not provide retroactive coverage, though AIG may consider it.

The exclusions in the various policies also are similar, Mr. Standing said. On-premise cleanup is basically excluded from all policies. So are acts of war, nuclear incidents and liability that is covered under workers compensation or comprehensive general liability policies.

Companies with environmental exposures also must be aware that pollution-related claims could affect their directors and officers liability insurance as well as their EIL policies.

"Chief executives, officers and directors of companies that are involved in hazardous waste disposal where there is inadequate protection may face serious liability problems, both under civil and criminal codes," he said.

"They also have the fiscal responsibility of protecting their own corporate assets and their balance sheet and this becomes a problem for risk managers," he said. "Not only is this a problem for the environmental impairment insurance, or lack of it, but it could impact also on directors and officers liability." ■

Weigh prevention costs against fire risks

By STACY SHAPIRO

MONTE CARLO, Monaco—Fire losses may sometimes cost less than the equipment needed to prevent the fire, the risk management department at Alcan Aluminium Ltd. in Montreal discovered.

"Our philosophy is that when we make decisions on investigating loss-control methods, we use the same technology as the company uses to buy a smelter," says R. Ian Stronach, Alcan's assistant risk manager-loss control.

"We find out what will be the return on our investment—in terms of dollar signs."

Mr. Stronach presented a case study to risk managers attending the AEAI/RIMS International Risk Management Conference to prove his point.

Not long ago, Alcan had to decide whether to install a sprinkler system above a conveyor-belt system, which carried a product from the production line to the loading sites.

"The engineers on the project said that the risk was too low to justify the (loss-control) expenditure, but the employees wanted the sprinkler, so we did a cost-benefit analysis," Mr. Stronach said.

Alcan wanted to learn if the cost of the sprinkler—including capital investment, installation and operation expenses—outweighed the expected annual loss-reduction benefits if the sprinkler were installed.

To accomplish this, Mr. Stronach attempted to determine the likelihood of a fire affecting the conveyor system and how much Alcan stood to lose if that happened.

Alcan, which had never suffered a fire in a conveyor system, asked its property insurers for loss data. It discovered that only two of every 1,000 fires affect conveyor systems.

Using this data, Alcan computed that a fire would affect the conveyor once every 275 years. Without sprinklers, the fire loss—including property damage and business interruption—would probably reach $6.5 million. Sprinklers would reduce the loss to $825,000.

"On the surface, it looks like you are saving $5 million by installing fire sprinklers, but that is not quite true," said Mr. Stronach. "If you look at the annual loss-reduction benefit over 275 years, the loss (without sprinklers) is actually $156,062," he said.

"But the present cost of the sprinkler system is $250,000, which is twice the cost of the benefit.

"So, we did not, therefore, install the sprinkler system. It was not worth the benefit," Mr. Stronach said.

Alcan's insurers did not increase Alcan's property premiums because the sprinkler was not installed and, so far, Alcan has not suffered a loss, he said.

However, not all insurers will react so favorably to the absence of loss-control equipment, said Pierre Sonigo, director of industrial risks for Pechiney Ugine Kuhlmann in France.

Mr. Sonigo, a member of the panel along with Mr. Stronach and H. Felix Kloman, president of Risk Planning Group Inc. in Darien, Conn., says insurers want as much fire protection as possible, even for a once-every-275-year loss.

"The insurer has to plan for a total loss," he said, "and he has to convince his reinsurers of the risks he is taking. One loss can ruin his results for years," he said.

"Also," Mr. Sonigo pointed out, "probabilities is not yet an exact science."

Insurers, however, should appreciate cost-benefit analyses conducted by risk managers, he said. The practice lets insurers know that their clients have verified the economic soundness of loss-control recommendations and can convince risk managers of the scope of the exposures insurers face.

One member of the audience, however, noted that sometimes the science of probabilities and statistics should be overruled by common sense.

"We had a similar problem with our conveyor system, but we found a different solution," the member of the audience said.

"The factory engineer said that if you put water near my conveyor, our products will turn to cement, he explained.

"So, we didn't install the sprinkler. It was a simple answer." ■

Good communications win risk program support

MONTE CARLO, Monaco—Sometimes, the "Mercedes effect" can ruin a risk management department's best intentions, a U.S. risk manager notes.

Consider the risk manager who determines it's cheaper to retain commercial auto risks than to insure them. He informs corporate management that it's not necessary to insure company cars.

However, the head of one of the company's subsidiary has just bought a new Mercedes and his instinct tells him that his new car *must* be insured.

"He has difficulty understanding our objective," says William L. Mather, risk management administrator for the The Gillette Co. in Boston.

"So, we have to convince him."

The best way for risk managers to convince both senior and middle management of their goals is through an effective communications program, Mr. Mather told last month's AEAI/RIMS International Risk Management Conference in Monte Carlo.

Mr. Mather explained that an effective risk management department communications program must contain several elements, including:

- Management-approved goals of the risk management department's effort.
- A variety of ways to make sure that information from all sections of the company is transmitted to the risk management department.
- Ways of transmitting meaningful information both up and down the organization.
- Efficient means of transmitting and receiving information from sources outside the company, like vendors and suppliers.

Mr. Mather explained how Gillette, a multinational corporation with more than 50 sites in 26 nations, has tackled the corporate risk management communications problem.

Gillette's risk management department, he explained, is part of the corporate treasurer's division and directly responsible for risk financing, insurance and security. It also shares responsibility for safety, product integrity, environmental hazards control and property protection.

Each year, Gillette's risk management department compiles an annual report. "The distribution of the report is quite widespread," Mr. Mather noted.

"In addition to worldwide unit and group operation management, it also is distributed to senior operating and staff management. And, for the past six or seven years, a summary of the report has been presented to the finance committee of the board of directors," he added.

However, the annual report is no longer 65 to 70 pages of insurance statistics, as it was a dozen years ago, Mr. Mather said.

"We knew that no one would have interest in this kind of report other than the insurance department. Management is not interested in going through your pearls of wisdom looking for an occasional golden nugget of information," he explained.

Now, the report highlights the activities of the risk management department over the past year. For instance, it details advances in loss-control guidelines at Gillette's large facilities.

The report discusses specific loss-control problems. For example, it pinpoints executive security problems in nations like Guatemala, Colombia, El Salvador, Italy and Spain. It discusses the handling and storage of flammable products and explains environmental protection measures.

And, the risk management department report lists the major losses the company has suffered in the past year.

"The lowlights of our year as opposed to the highlights, we call them. These losses give us the most feedback from the executives and generate questions. I make a report to the board of directors once a year and I now add 15 minutes to my time schedule just to talk about the loss record," Mr. Mather said.

But, he explained, losses remind management that there still are weaknesses in the company's loss-control procedures and there is a need to do something to eliminate them.

—*By Stacy Shapiro*

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Insurers are paying brokers too much, AIG executive says

By KATHRYN J. McINTYRE

MONTE CARLO, Monaco—The insurance industry is spending too much money on its operations, including the compensation of producers, says an insurance company president.

Insurance companies are compounding their financial problems and further depleting the eroding premium base needed to pay losses by paying producers additional commissions and bonuses, says Richard J. Williams, president of the American International Group Inc. affiliate Commerce & Industry Insurance Co.

Mr. Williams, who was one of a three-person panel addressing the topic: "The insurance premium: Where does it go?" stressed that his remarks at the AEAI/RIMS International Risk Management meeting were his own views and not necessarily those of his company.

Other panel members who addressed an audience of about 100 were Johnson & Higgins Chairman Robert V. Hatcher and Robert E. Feer, executive vp of Switzerland General Insurance Co. in Switzerland.

Mr. Williams

Mr. Williams pointed out that some insurers are paying agents and brokers the following incentives to produce more business:

- Additional commissions ranging from 2% to 7% for increasing production by specified amounts, usually regardless of loss ratio.
- Bonus commissions on any new account with a premium of $25,000 or greater.
- Interest-free loans, or loans with payment of the principal deferred for several years.
- Expense reimbursements, frequently on spurious grounds.
- Various profit-sharing schemes, under which agents or brokers share in the underwriting profit on the business they have produced for the insurer.

"With rates being drastically reduced, surely insurance company managements must realize that they are compounding their problems by giving these higher commissions and other inducements, which further depletes the eroding premium base needed to pay the losses of our customers," Mr. Williams said.

Profit-sharing agreements, Mr. Williams said, "seem to me to be a particular anomaly when a broker is involved. As they represent only the insured, what is the rationale for brokers benefiting financially if the underwriting results of the business they place with certain carriers are favorable? It is not beyond the realm of possibility that these profit-sharing arrangements could affect the objectivity of a broker regarding the markets chosen to place clients' risks.

"It certainly is the intention of the insurer to influence the broker's objectivity."

Later, Mr. Williams remarked that American International Group does not maintain profit-sharing agreements with producers and observes maximum commission levels, which he declined to divulge.

Mr. Hatcher of Johnson & Higgins said he was surprised to hear Mr. Williams criticize profit commissions. He remarked, "AIG doesn't pay bonus commissions. AIG doesn't pay profit commissions. Why do you think we place business with them?"

Mr. Williams did not restrict his criticism of insurers' expenses to compensation for producers. "The answer to the question, 'Is the current allocation of the premium dollar a proper one?' is clearly no," he said.

The expense ratio for 306 major U.S. multiple lines insurers averaged 31.4% in 1982, according to Best's & Co., but most analysts agree that insurers will have to reduce their expense ratio to close to 20% by the end of decade in order to survive and prosper, Mr. Williams said.

"No one panacea will be found to accomplish this," Mr. Williams remarked, suggesting that each company must examine its operations, business mix and marketing approach to find areas to improve productivity.

Of the current average 31.4% expense ratio, Mr. Williams quoted Best's analysis of how it is spent:

- 14.4% for direct commissions to producers.
- 7.4% for salaries and employee benefits.
- 3.2% for taxes, excluding federal income taxes.
- 1.7% for rent and equipment.
- 1.1% for communications.
- 1.0% for assessments by boards, bureaus and associations.
- 0.6% for net reinsurance commissions.
- 0.6% for travel and entertainment.
- 0.4% for fees to managers and agents.
- 0.3% for surveys and underwriting reports.
- 0.2% for advertising.
- 0.5% for miscellaneous expenses.

"The figures indicate that commissions to producers and salaries are the major expense categories, with commissions being almost two times salary costs," Mr. Williams observed.

"It is also interesting to note that, excluding federal income taxes, the other 'hidden' taxes are approximately equal to rent, equipment, communications, travel and entertainment costs combined. So for this group of companies, almost one-third of every dollar is expended to produce, market and process the intangible product."

A study by analysts Conning & Co. of 40 major U.S. insurers for 1977-1981 further illuminates how insurers have increased their spending.

The expense ratio, excluding direct and reinsurance commissions, increased by 21% to 15.1% in 1981 from 12.5% in 1977. While commissions to producers during the same period increased only slightly—for example, to 19.8% from 19.1% on fire lines—these commission figures do not include the other forms of additional compensation that Mr. Williams identified.

"The crucial point is that in a period of adverse underwriting results, the total expense ratio for

Continued on page 74

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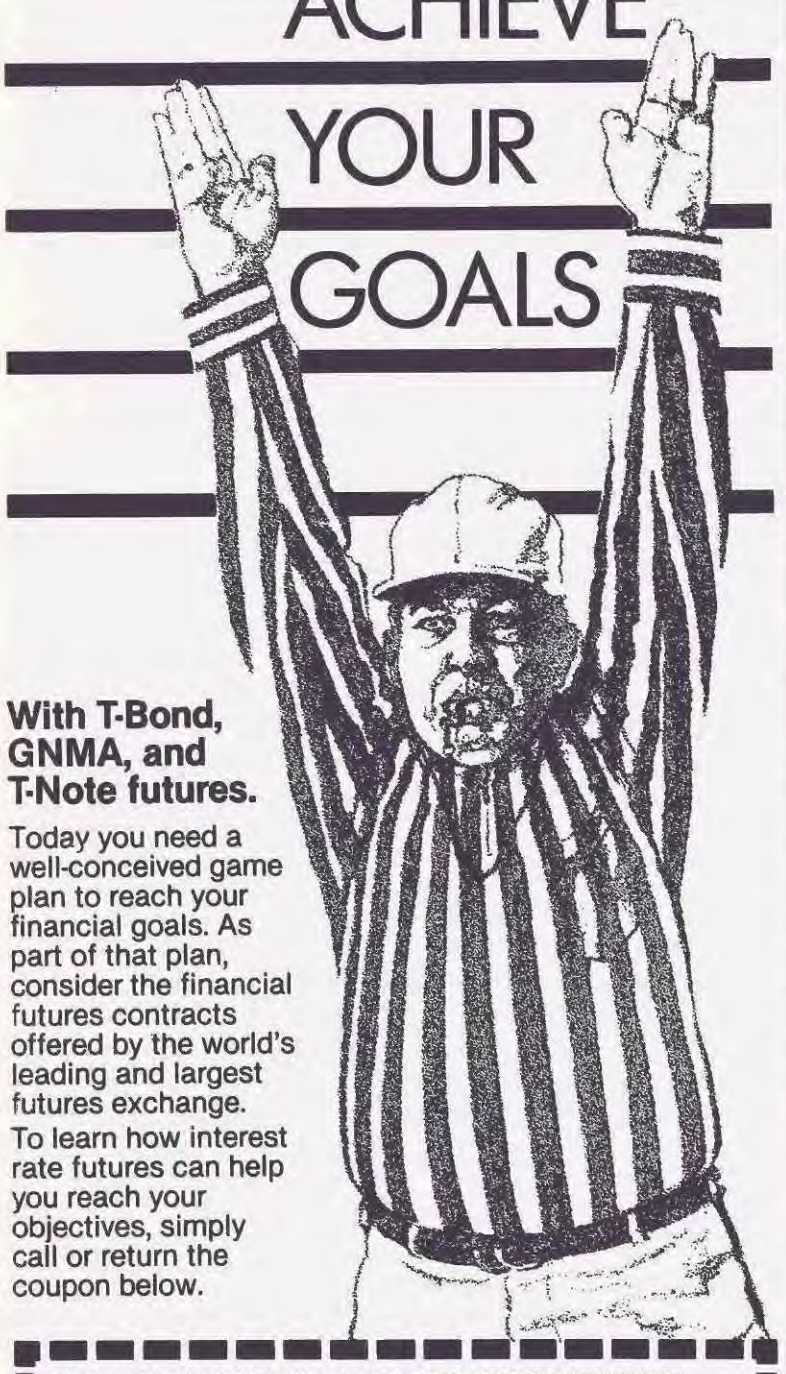

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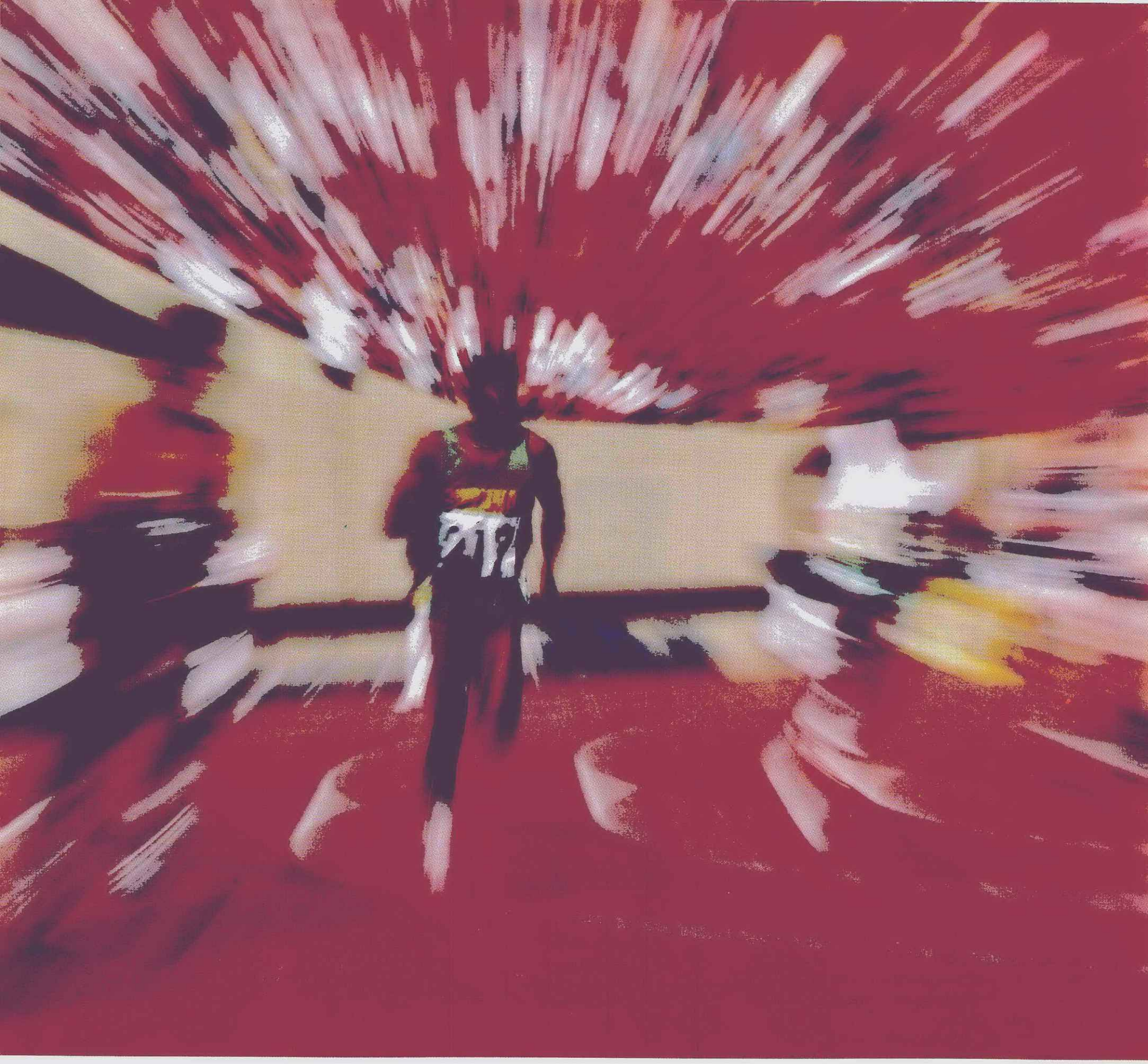

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Commissions should be reduced: Insurer

Continued from page 72

these 40 key insurers rose by 2.4 percentage points from 25.2% in 1977 to 28.6% in 1981 and has undoubtedly increased further in 1982."

These figures also are "somewhat deceptive" because they include some direct writers' results, which significantly bring down the average, Mr. Williams noted.

After excluding direct writers and specialty companies and comparing the 30 insurers that market their insurance products on an equivalent basis, the direct commissions ratio to producers for commercial multiple peril risks ranged from 16.3% to 26.9%, Mr. Williams said.

The Conning study also showed that total expense ratios for comparably operating companies ranged from 23.4% to 35% in 1931. "This differential is almost 12% and with the average combined loss and expense ratios approximately 112%, should provide food for thought to insurance executives," Mr. Williams observed

Mr. Hatcher

Loss adjustment expenses also should be of concern, especially "escalating legal charges," Mr. Williams said. "In many major loss settlements involving legal action—particularly in the United States—for every $3 spent nearly $2 or two-thirds is absorbed by legal fees.

"It is not a question of whether something should be done to reduce these costs but what, and how quickly, can expense control measures be instituted," Mr. Williams said.

"It is completely indefensible that expense ratios are as high as they are today and, for many companies, increasing."

He chided insurance company executives who "still apparently believe that they don't have an efficiency problem, just a revenue problem, and that higher prices or increased market share is the answer to their predicament."

Mr. Hatcher analyzed insurers' costs of doing business somewhat differently.

"Property/casualty management today runs on a total income basis, as distinguished from the historical premium income basis," he observed.

"Some 75% of the premium goes for losses, and 35% goes to pay expenses. Thus, for every dollar of premium, insurers kick in an additional 10% from the investment dollar," said Mr. Hatcher.

A direct writer's expense ratio generally is near 20%, and the stock companies are in the 28% to 30% range, he noted.

"Using a 35% expense ratio, 18% goes for commissions to producers, with most brokers in the 5% to 10% range; 3.5% goes for taxes; and 13.5% goes for insurers' internal operating costs," he explained.

"Considering 10% of the 75% for losses is spent on loss expenses, there is only a 65% pure loss ratio," Mr. Hatcher observed.

"However, insurers make 12.5% on investment income, so that the bottom line is 2.5% pretax.

"All this tends to suggest is that the six-year cycle is gone forever. I'm sure it is," he said.

Looking ahead, Mr. Hatcher sees, "Increasingly, insurance marketing has shifted from selling individual products to developing a total financial services relationship with the insured. So leaving a market means losing a customer.

"Self-insurance and the competitive unbundling of services have squeezed much of the profit out of the big commercial market for both broker and insurer. As a result, the medium-sized commercial market is rapidly becoming equally competitive and unprofitable.

"Ongoing internalization of risk taking has reduced demand for low-level exposure acceptance. Increasingly, the risk portion given to insurers will comprise unpredictable catastrophe losses. Reinsurance will absorb the heat. And premiums will be proportionately smaller."

Higher investment income and the desire for market share are the only elements changing the industry, Mr. Hatcher said.

"The insurance industry is undergoing a distribution revolution, triggered in part by rising consumer sophistication, by rapid technological changes, which have reduced the information float, and by fresh competition generated by the blurring of traditional barriers. Consumers are demanding higher levels of efficiency in the delivery of financial services.

"In America's growing service-dominated society, the new competition is for customer confidence, cost-efficiency, customer convenience, application of innovative technology and quality of service.

"The insurance delivery system with its multilevel manpower overhead is viewed as inefficient by some consumers.

"We are moving toward a national and international, individualized, high-tech delivery system with greater consumer choices, lower distribution costs and simplified financial relationships. There is simply a less-perceived need for more than 35,000 different banks, thrifts, insurance companies, securities firms and investment counselors—all competing for much of the same corporate and personal business.

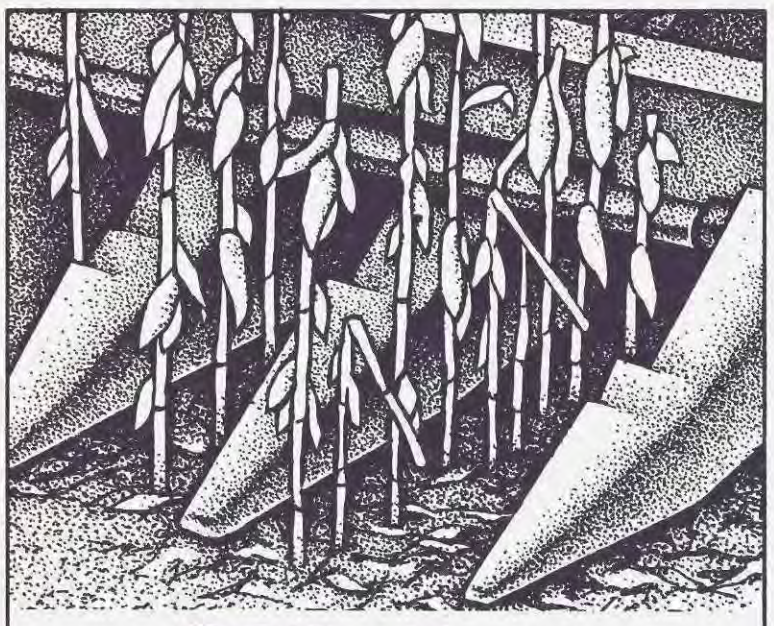
"Where has the premium dollar gone? Financially, it has been overshadowed by the investment income money machine. Motivationally, it has been hostage to the fear of market share loss. Non-financially, premium is chasing convenience, high-tech and the foreshadow of an international delivery system—all in a knowledgeable society of escalating sophistication.

"I do believe that the large commercial insurance-buying public is better served now and in the future by a professional independent intermediary function," he said.

Mr. Feer of Switzerland General focused his comments on the reinsurance business, advising the audience that risk managers should know of reinsurance arrangements and "even pass judgment" on them.

"If the risk manager is not involved in selecting the reinsurer, he will return to the office 40 years from now and find the picture turned to the wall," he warned.

In analyzing a reinsurer, a risk manager should look for financial stability, check claims settlement practices and make the account executive place the reinsurance, he advised. ■



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Hall executive defends retroactive cover

MONTE CARLO, Monaco—Risk managers should not condemn retroactive liability insurance because of some vague feeling that it is morally or ethically wrong, says the executive vp of a U.S. broker that placed the controversial coverage after a fire at a U.S. hotel.

Nor should risk managers think the product should be scrapped because there is litigation surrounding that insurance placed for MGM Grand Hotels Inc., says John McCaffrey, executive vp of broker Frank B. Hall in Briarcliff Manor, N.Y.

Mr. McCaffrey

Mr. McCaffrey conducted a miniseminar on retroactive insurance at the AEAI/RIMS International Risk Management Conference in Monte Carlo last month.

Frank B. Hall placed retroactive liability insurance in 1981 for MGM Grand, which had only $30 million of liability insurance when a fire struck its Las Vegas Hotel in November 1980, killing 84 persons and injuring close to 600.

MGM Grand, Hall and the insurers are now in litigation, with MGM Grand demanding payment from the insurers to cover a $75 million settlement with plaintiffs and the insurers denying payment, charging that MGM Grand violated the policy provisions.

The MGM case aside, Mr. McCaffrey predicted that retroactive insurance "will never be common and easily available, but I expect more and more risk managers will not only accept it but confidently use it.

"I'm a champion of retroactive liability coverage," Mr. McCaffrey said. "Perhaps that surprises some of you. Perhaps some of you are among those who have concluded that retroactive liability insurance is on its way back to the lab, if not the junkyard, and that I ought to be driving the tow truck," he said.

"Retroactive insurance looks like insurance, sounds like insurance and is grounded in insurance," Mr. McCaffrey contended.

Retroactive insurance is insurance that covers losses from events that happen before the insurance contract is made. The events can be unknown or known.

When the events are unknown, the coverage is for incurred-but-not-reported losses. It could be needed to cover events that were uninsured because the coverage was overlooked or unavailable, to reduce former self-insured retentions or to back up protection when the previous insurers have become insolvent.

"I applaud risk managers who are obtaining broad IBNR coverage for an attractive premium to increase eroded limits," Mr. McCaffrey said.

The insurance can also cover known events, such as the MGM Grand fire.

"The risk transferred (when the events are known) is the amount of the loss and the timing of the payment," Mr. McCaffrey explained.

Mr. McCaffrey rejected the term backdated insurance for this product because backdated has been used in the insurance industry to describe deceitful and fraudulent transactions, he said.

There is no way to know how much retroactive insurance has been purchased, he said later. But he is certain there is much more IBNR-type retroactive insurance being purchased than known-event retroactive insurance.

For either type of retroactive insurance, the purchaser generally deducts on its income tax the premium paid since insurance is a deductible expense.

There are times risk managers have argued that retroactive insurance is not insurance, Mr. McCaffrey noted. The lower layers of the coverage that certainly will be paid out in claims can be said not to be insurance, so no state premium tax would be due.

But then the buyer has to weigh whether or not the premium tax savings are worth losing the tax deduction—or perhaps consider not paying the premium tax and taking a tax deduction.

"It's hard for me to understand how you can have it both ways," observed Mr. McCaffrey.

Responding to frequent criticisms of the product, Mr. McCaffrey said:

- Claims payments are not delayed by underwriters of retroactive insurance. Although the insurers do expect to earn investment income on the premiums during the inevitably slow litigation process, leveraging the time value of money, they can't "idly toy with claims."
- Retroactive insurance is not detrimental to the risk management process. Risk managers will not cancel and reduce insurance coverage because the product exists. "I am the first to admit that retroactive insurance is a remedial product, and expensive at that."
- Retroactive insurance does not unreasonably jeopardize the assets of insurers.

Risk managers purchasing retroactive insurance and insurers underwriting the product should avoid some pitfalls, Mr. McCaffrey said.

Although not referring directly to the MGM litigation, Mr. McCaffrey obviously was drawing from Hall's experience placing the insurance for MGM and the subsequent litigation when he said claims-handling procedures, control of the claims-adjusting process and subrogation should be clearly defined. The policyholder should not have control over settlements, or else the policyholder's attorneys "will go crazy," driving up legal fees and settlement costs, he said.

At the heart of the dispute between MGM Grand and its retroactive liability insurers is whether the $75 million settlement MGM negotitated with liability claimants was so large it had to include a provision for punitive damages, which were excluded under the policies.

MGM had control of the claims-settling process because the policies were written as indemnification policies and not as pay-on-behalf-of policies.

"If I were a risk manager, I would want an indemnification policy," which requires insurers to indemnify the policyholder for the cost of claims settled by the policyholder, Mr. McCaffrey said.

"If I were an insurance company, I'd want a pay-on-behalf-of," which gives the insurer control over the claims settlements. "I'd resist indemnification as an underwriter unless there were pretty solid ground rules," he added.

By Kathryn J. McIntyre

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London risk management conference

Profession will progress by 1990, Kloman predicts

By KATHRYN J. McINTYRE

LONDON—A risk manager 10 years from now will either be a highly technical manager of risk financing techniques or a highly placed officer, predicts a risk management consultant and futurist.

The first is the more negative of the two projections, says H. Felix Kloman, president of Risk Planning Group Inc. in Darien, Conn.

Mr. Kloman presented his predictions on "Risk Management: 1990 and Beyond" at the International Insurance & Risk Management Conference in London.

"Risk management stands at a crossroads," Mr. Kloman emphasized, "that could lead either to its continued growth into a major general management function or relative stagnation or regression into risk financing and insurance alone. As an optimist, or perhaps wishful thinker, I believe the former will occur."

Mr. Kloman

If the risk manager in 1990 is a highly technical manager of risk-financing techniques—including insurance, captives and self-insurance—it will be because "managers are unable or unwilling to accept the broader mandate of the risk management discipline and, in particular, the growing requirement for sophisticated risk assessment and coordination of risk control."

But, under what Mr. Kloman calls the "broader view," the risk manager within the next 10 years, in many organizations, will be a highly placed officer, perhaps even a senior officer, reporting to the chief executive officer or to the board, he said.

"This person will have a broad mandate to review all forms of risk and to develop plans for responding to changing uncertainties."

So far, "Risk management today is more generally recognized as a potentially important management function," Mr. Kloman observed. But, he added, "Much of its promise remains to be realized. The most dramatic developments in risk management in the past decade have not been in risk assessment or risk control, but in risk financing."

More importance doesn't mean larger staffs, Mr. Kloman said. In the future, the risk manager's staff "will be very lean," Mr. Kloman predicted. Risk managers will "look to specialized support for specific project teams to solve changing problems. Members of these teams will be drawn from both inside and outside the organization.

"The risk manager, under this prediction, could well be the creator and custodian of a variety of contingency planning models, custodian of risk and loss data bases and a primary contributor to the entire strategic planning process for the organization."

Risk managers of the future will use data more effectively than today, Mr. Kloman predicted. "One of the major roles for the future risk manager will be risk assessment. Sophisticated computer models, operated in an on-line mode, will conceivably be under his jurisdiction.

"From today's basic data management—essentially taking past loss histories and using them today—will come refined capabilities in on-line data entry and modification and data query. 'What if' questions and answers will be critical skills for the new risk manager. Much of this loss forecasting and risk analysis, including Monte Carlo simulations, computer conferencing and other tools used by only a few today, will be relatively commonplace by 1990."

By 1990, Mr. Kloman predicted, corporate risk managers will have a computer terminal on their desks and on-line access to loss data.

"The capability of closely analyzing loss causes and loss potential leads logically to an enhanced role in risk control," he continued.

"In this area, the risk manager will be responsible for the coordination of worldwide risk control. This will include the development of appropriate broad policies and guidelines, the provision of qualified risk control counsel and advice when required and, perhaps most importantly, the monitoring of compliance with the stated guidelines of the organization."

In addition, "The risk control effort in the future will center around the concept of contingency planning. Risk control will aim not only at the elimination of potential loss events, but also at responding intelligently to these events should they occur."

Two developments are likely in risk control, Mr. Kloman said:

- The risk manager will organize, train and direct specific "quick response" teams, drawn from internal and external resources, to assure appropriate response to major contingencies such as product recall, natural disaster, etc.
- The manager probably will have developed means of quantitatively measuring the true costs of risks and losses, leading to improved incentives for loss prevention and rewards for operating staffs with superior records.

Risk managers also will increasingly quantify their costs, he predicted. "Cost of risk will definitely grow in importance as the measurement technique of risk management."

Cost of risk originally was defined by Douglas Barlow, then the risk manager with Canada's Massey-Ferguson, as the total cost of all expenditures for risk control, self-funded losses and other funding for catastrophe, insurance and administration.

A company can then compare its cost of risk to certain financial bases such as assets, earnings or growth revenues that will allow for comparative analyses with similar organizations.

"It is interesting to note the steady decline in insurance as a part of cost of risk in the United States," Mr. Kloman observed. When cost of risk was first calculated for some 500 U.S. corporations in 1977, insurance composed 65.3% of the total figure. By 1980, this had dropped to 52.6%. The 1982 figures, which Mr. Kloman said are being compiled, indicate that

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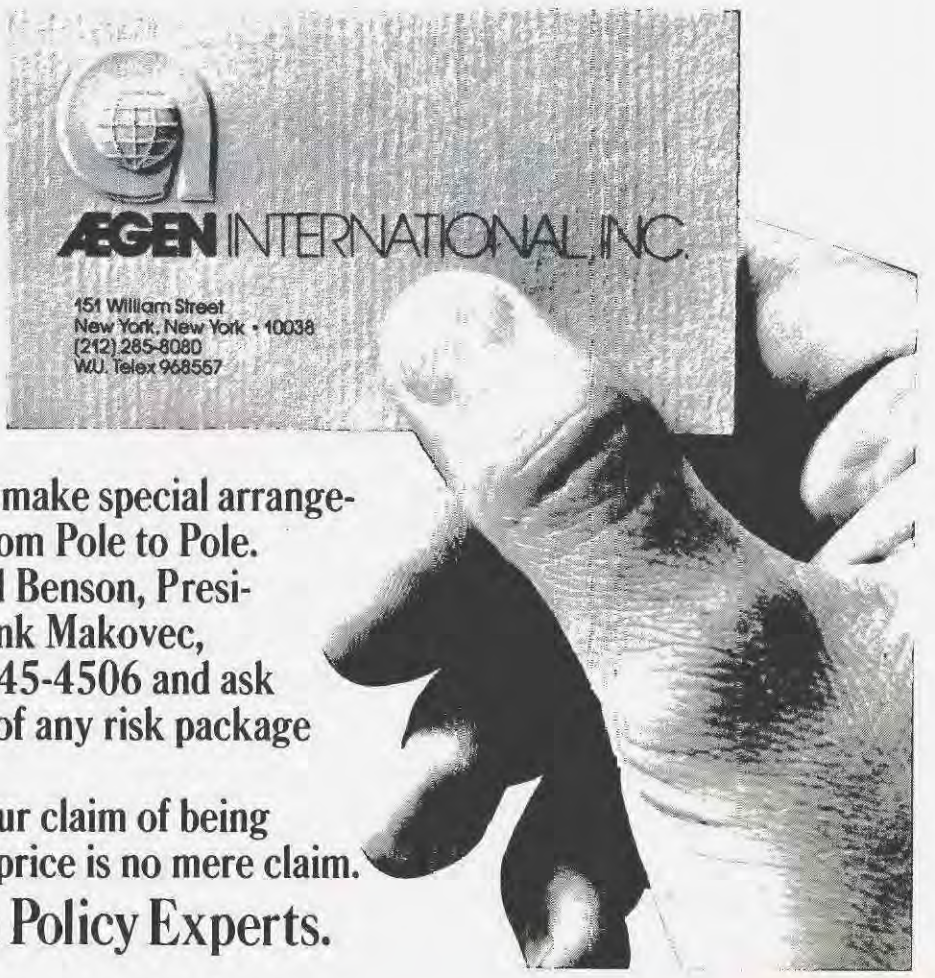

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insurance has dropped to less than 48% of cost of risk.

"It is evident that between 1990 and 1995, insurance may well be in the vicinity of less than 20% (of the cost of risk). The bulk of expenditures will, of course, be in risk control costs and in self-insurance.

"By 1990, the risk manager will be responsible for funding internally some 75% to 90% of predictable loss, and what is predictable will be much larger because of the sophisticated risk-assessment techniques used."

In financing this risk, risk managers by 1990 will use a broad composite of financial tools including credit, short-term and long-term investments and insurance. The risk manager probably will have constructed liquidity models showing the flows of and demands for cash in and out of the organization. He will have constructed far simpler overall contracts of risk financing composed of a combination of credit, investments and catastrophe funding, probably with a single or only a few financial service organizations.

"Conventional insurance, as we know it today, will play a far more limited role in risk financing and will largely be replaced by significantly higher levels of self-insurance—either directly or through captive insurers."

> 'One of the major roles for the future risk manager will be risk assessment,' Mr. Kloman predicts.

Brokers will not be part of the transaction, Mr. Kloman predicted. "I suspect that we will see risk managers directly accessing their risk financing markets, computer to computer, with no intermediaries, as such, whatsoever. We will see long-term contracts, subject to shorter-term changes in rates based on funds used and on investment returns, tied closely to prevailing interest rates. Fixed guaranteed-rates may be a thing of the past; variable rates are the future."

Catatrophes will be financed by a combination of credit and today's conventional insurance, Mr. Kloman predicted. And the coverage will be provided by a limited number of major financial service markets, probably no more than 10 to 15, which will have as clients the 5,000 largest organizations in the world.

"The pattern that is developing is very similar to that of the public accounting firms throughout the world. Competition for the risk financing product and for related services will be even more cutthroat than it is today, if that is conceivable."

And here also, there will be little room for brokers because the risk managers will be dealing directly and the relationship will be automated. As a result, distribution and overhead costs for the conventional insurance product will be about 5%, not 30%.

The insurance intermediary, as we know it today, will have become much more a consultant and significantly less a salesman, Mr. Kloman said.

Meanwhile, "A wide variety of services will be unbundled and offered through relatively autonomous and entrepreneurial subsidiaries of these financial service organizations."

Mr. Kloman also sees "a distinct possibility that large organizational risk managers will rely on the purchase of letters of credit and retroactive insurance when necessary to fund catastrophe losses to clean up a balance sheet.

"Maintenance of somewhat reduced current catastrophe limits of protection will require, of course, a guarantee of the availability of funds when needed. This could be achieved by an options market for retroactive insurance," Mr. Kloman suggested.

Mr. Kloman expects tax law in the United States to be amended to allow tax deductions for certain self-insurance reserves. "If President Reagan is re-elected and the economy recovers, there is a strong possibility this legislation will be passed in 1985," Mr. Kloman said.

If legislation is passed, he predicted "probably one-half to two-thirds of today's captives could conceivably be closed down. The remainder, however, probably will become major leaders, jointly or individually, in risk financing and in the provision of related risk management services worldwide.

"Today's tentative steps toward pooling and risk sharing could be the beginning of a major new force in risk financing."

Other predictions Mr. Kloman made include:

- Employers in the United States will combine administration, funding and control of workers compensation and employee health benefit plans.
- Local and national regulations affecting competition within the financial services and insurance arenas will be reduced, thus enhancing opportunities for multinational financial service organizations.

Although 1990 is only six years away and many of the predictions may seem far too radical for this short leap into the future, Mr. Kloman said, "in light of the rapidity of change, however, since 1975, I do not think it unreasonable to expect that the reality in 1990 will probably be dramatically different from that of 1983." ■

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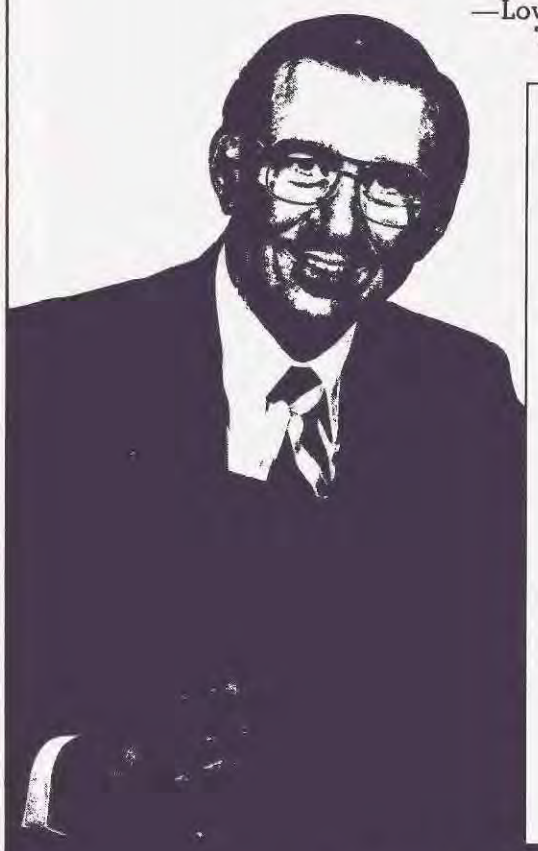

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London firm helps regain Iran assets

By STACY SHAPIRO

LONDON—Companies are getting a second chance to recover on some of the contracts they lost following the 1979 Islamic revolution in Iran.

Besides going through the International Tribunal in The Hague, Netherlands, that was set up to hear claims against the Iranian government (*BI*, Sept. 5), companies can now negotiate directly with the Iranians through a new London-based political risk salvage company.

The company, called Contract & Investment Recoveries, has been set up by the Credit & Political Risk Division of Hogg Robinson Group P.L.C. to salvage payment on foreign contracts that were virtually terminated after the revolution.

"We will either try to get some kind of compensation directly from the Iranians or seek renewals of the lost contracts, if possible," says Julian Radcliffe, the division's director.

So far, the CIR team—two full-time employees in London and two more who shuttle back and forth from Tehran—are representing a number of companies that had signed contracts worth between $100,000 and $50 million with the shah's government, Mr. Radcliffe explained.

The claims include those incurred by the British government's political risk underwriting facility, the Export Credit Guaranty Department.

Up until now, companies have had little success in recovering the more than $4 billion in property and assets expropriated by the Iranians. As of August, only about $78.1 million had been recovered from the Iranians through the special international tribunal dealing with the problem.

Other companies have negotiated directly with Iran, while some have collected on their political risk insurance policies.

Hogg Robinson's new company is designed to parallel the tribunal at The Hague, Mr. Radcliffe said. He explained that the climate in Iran is becoming "more favorable" to businesses that want to renew old contracts or seek compensation for those lost during the Islamic revolution.

The new political risk salvage company is just one aspect of the presentation on political risks that Mr. Radcliffe made at the International Insurance and Risk Management Conference held last month in London.

"Any corporation that does not have political risk insurance programs in place must be in danger of not looking after their shareholders properly," he said.

Mr. Radcliffe admitted to the audience that political risk insurance is not cheap, with premiums sometimes costing as much as 3% of the amount insured.

Underwriters are charging higher political risk premiums because they believe no nation is completely immune from political turmoil, Mr. Radcliffe said, echoing comments he and other political risk experts made at the AEAI/RIMS International Risk Management Conference held in Monaco a week earlier (see story, page 67).

> 'It is not possible to predict what will happen in any part of the world,' Mr. Radcliffe said.

"It is not possible to predict what will happen in any part of the world," Mr. Radcliffe told his audience.

Also, the worldwide private political risk insurance market still has a limited capacity, thus pushing up costs to buyers, he explained. Mr. Radcliffe urged worldwide reinsurers to start underwriting political risks so that capacity in the line can be expanded.

Turning to the risk managers in the audience, Mr. Radcliffe outlined some dos and don'ts when considering political risk insurance.

Don't contact an underwriter for political risk insurance until you have surveyed your company's worldwide exposures, he explained.

Risk managers should note what kind of contracts need to be covered by the insurance, what attitude host governments harbor toward foreign business ventures and how much the company has already invested in each foreign nation.

Don't assume a country is safe, Mr. Radcliffe advised.

"Do not depend on what you read about the future of the Philippines to decide to insure for political risk or not.

"Beware of charlatans, of underwriters, brokers or consultants who do not know what they are doing," Mr. Radcliffe warned the audience.

Once a risk manager has chosen a political risk underwriter to cover the company, "Stick with him," he advised.

Switching underwriters frequently can get quite sticky, especially when trouble occurs in more than one country, he said, adding that loyalty counts when times are rough. ■

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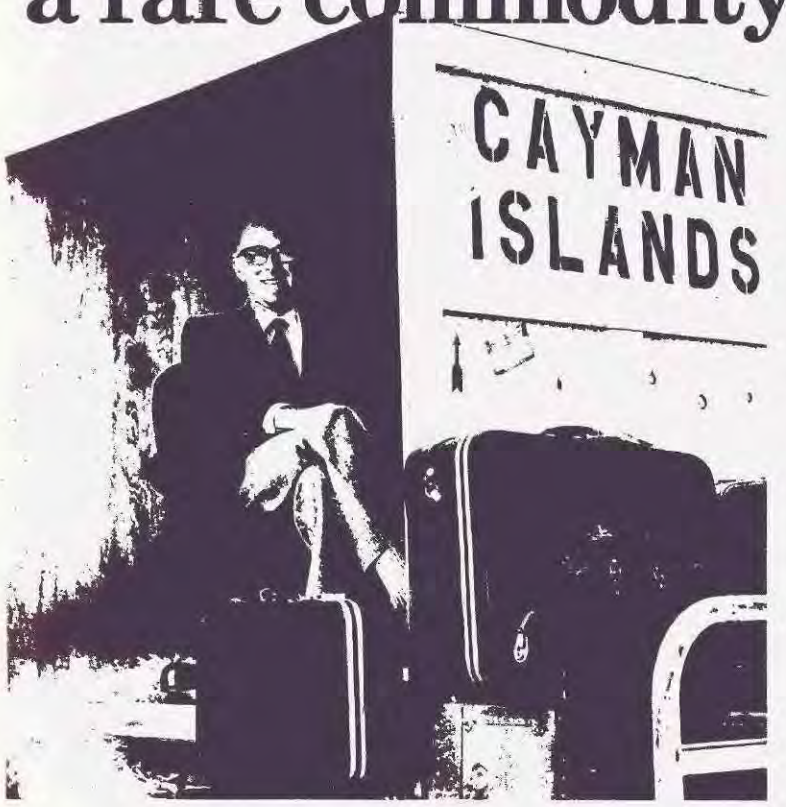

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Court decisions may give European insurers freer rein

LONDON—Decisions expected to be handed soon down by the European Court of Justice may once and for all allow companies based in one European Community country to freely use insurance companies in other EC nations, an EC official says.

The European Community is awaiting a decision on one case alleging that France and Denmark have not complied with an EC directive that allows foreign insurers to coinsure risks written by domestic underwriters.

Also, the EC is pressing a test case with the court against the West German government to determine whether the Treaty of Rome, which established the EC, allows for freedom of insurance services (see stories, pages 60 and 64).

Both cases could open the doors for European risk managers who wish to place their risks with foreign markets, says William Pool, head of the insurance division of the European Community.

A favorable decision would especially aid London-based underwriters.

For years, insurance companies and the EC have been trying to force member nations to relax insurance regulations. Some EC countries—especially France, West Germany and Denmark—have not allowed alien insurers to do business within their borders. The only way companies in these countries could gain access to the London insurance market was through reinsurance.

The EC, along with support from Britain, the Netherlands and other member nations that already allow freedom of insurance services, has tried in the past to ease these restrictions through directives, Mr. Pool says.

One directive, which the EC has been working on for the last eight years, allows freedom of insurance services in all EC countries, regardless of their present restrictions.

Another, which was passed by the EC in 1978, allows companies to coinsure large risks with underwriters in other EC member nations. This gives risk managers a chance to tap foreign underwriters, but protects governments from having too much premium flow across their borders.

However, France and Denmark have so far refused to implement EC's coinsurance directive, which has triggered the first of the court cases.

The test case against West Germany, however, is a bit more complicated and could have a heavy impact on the way the EC regulates insurance transactions, Mr. Pool explained at a session of the recent International Insurance and Risk Management Conference in London.

In June 1982, a West German court fined insurance broker Franz Schleicher $6,889 and found him guilty of violating German law by placing insurance for his West German clients with unlicensed foreign companies.

Mr. Schleicher had placed the coverage for fur traders in the Bavarian town of Ingolstadt with London insurers, Mr. Pool explained.

Mr. Schleicher attempted to appeal the judgment, explaining that freedom of insurance services is sanctioned under the Treaty of Rome, but the West German courts refused the appeal.

The European Commission agrees with him, Mr. Pool noted, adding that he thinks West Germany's action against Mr. Schleicher violates the principles of the Treaty of Rome.

Earlier this year, the EC asked West Germany to explain why it apparently failed to apply EC rules to international insurance transactions, but the West Germans never answered the request, Mr. Pool said.

"Since it is clear there will not be an agreement from the group, there is no alternative but to go to court," said Mr. Pool.

"It is the court which will tell us what the treaty means, but the EC takes the view that the treaty itself gives freedom of services, and restriction in certain countries goes against the treaty," he said.

Mr. Pool said he thinks the court will decide the case by the end of the year. ■

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Arabs restrict insurance markets

By KATHRYN J. McINTYRE

LONDON—Insurance markets in the Middle East are developing into restrictive insurance markets, an insurance company executive says.

Only two of 13 countries in the Arab Middle East can be called "open markets," said Basim R. Faris, group vp of Arab Commercial Enterprises in Athens, Greece, during his presentation at the International Insurance and Risk Management Conference in London last month.

Mr. Faris

The Middle East as described by Mr. Faris includes 13 countries: Egypt, Syria, Lebanon, Iraq, Jordan, Kuwait, Qatar, Bahrain, United Arab Emirates, Oman, Saudi Arabia, North Yemen and South Yemen.

The only two "open markets" are Lebanon and Saudi Arabia. In Lebanon, laws regulate the entry and establishment of insurers. In Saudi Arabia, the law is silent on insurance because it is uncertain whether insurance is acceptable to the Islam religion.

Nevertheless, Saudi Arabia is the largest market in the Arab world, with premiums of $1 billion out of the $2.3 billion generated in all 13 countries in 1981, the latest year for which figures are available. Lebanon insurers underwrote $42 million in premiums in 1981.

In three countries the insurance industry is entirely state-owned: Syria, with $81 million in premiums; Iraq, with an estimated $400 million; and South Yemen, with $10 million.

In Egypt, there are both state- and privately owned insurers, underwriting $189 million in premiums.

Far more predominant in the Arab Middle East are "restrictive markets," with national insurers given a competitive advantage over the limited number of foreign insurers allowed to operate.

These countries, and their premium volumes, include Kuwait, $250 million; U.A.E., $150 million; Qatar, $57 million; Oman, $50 million; Jordan, $50 million; Bahrain, $36 million; and North Yemen, $17 million. Only nationals are allowed to own stock in the national insurers except in U.A.E., Bahrain and Yemen where foreign minority shareholding is allowed.

"Although these insurance laws seem to be restricting entry to the foreigners, favoring the national insurance setup and sometimes imposing obligatory cessions to the national local company or companies, I feel in the long run they help insurance," Mr. Faris said.

"These laws, by setting the rules, create an atmosphere conducive to the industry, notwithstanding their restrictive attitude on an essentially international industry.

"Insurance as practiced in the Western world is a relatively new phenomenon in the Middle East," Mr. Faris explained. Before World War II, insurers were established only in Egypt. Insurers pioneered in the late 1940s and early 1950s in other Arab countries and by the late 1950s several countries nationalized their insurance markets.

Cultural and economic forces are both hindering and enhancing the development of insurance in the Middle East, Mr. Faris said.

"Insurance is more adaptable to developed nations than developing ones," Mr. Faris explained.

The pervasive influence of Islam, and the uncertainty about insurance under Islam, hinders development of insurance. Many people take the attitude that whatever befalls man is the will of God.

The extended family in the Middle East also has inhibited the purchase of insurance. People do not worry about income in old age or paying medical bills because children are expected to care for the elderly. This, however, is changing as families shrink in size.

The Arab layman also knows very little about insurance, except for car insurance, Mr. Faris said.

And, when insurance is the monopoly of the state, the monopoly limits the "variety, competition and ensuing innovation that helps develop insurance scope and sophistication," Mr. Faris said.

Laws in the Middle East countries limiting liability awards to small amounts decrease the need for liability insurance. But, laws covering auto liability, bodily injury, property damage and local maine cargo create demand.

Oil-related wealth both diminishes and increases the demand for insurance, Mr. Faris said. "Why should a multimillionaire insure his Cadillac for $10,000?" Mr. Faris. But, because of the oil industry, more people own possessions that need to be insured and they have the money to pay premiums, he added.

Meanwhile, modern communication methods are enhancing the development of insurance in the Middle East, Mr. Faris said. "The easily accessible telex and telephone are important factors making it much easier for Western insurance know-how and development to diffuse into the Arab Middle East," he observed. "This also helped standardize insurance of the Middle East to the specifications of the Western world." ■

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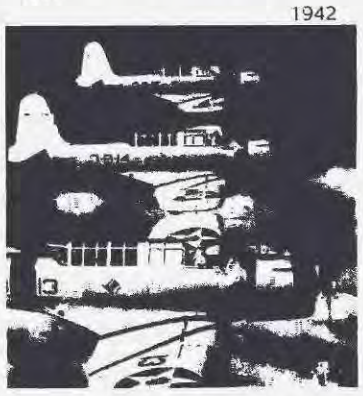
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Lloyd's chief executive says market is meeting his goals

By STACY SHAPIRO

LONDON—Ian Hay Davison is attacking his job as chief executive of Lloyd's of London from three angles, he says.

He is working to restore the confidence of Lloyd's members and the government in Lloyd's, to establish the self-regulation machinery given Lloyd's in the Lloyd's Act of 1982 and to manage the resources of the Society of Lloyd's—including restoring any assets that are missing.

Mr. Davison

Headway already has been made, Mr. Davison told attendees at the International Insurance and Risk Management Conference in London last month.

Lloyd's investigations are being conducted to dispose of cases of wrongdoing.

Lloyd's is talking to outsiders, including the press and authorities, instead of remaining insular as it had in the past.

Lloyd's has published its global results for the first time in a report that is readable in its new format that tracks how U.S. companies report financial results.

"Even more important," Mr. Davison said, syndicate financial accounts will be public record next year. "It's an amazing step," he stressed.

And, Lloyd's is setting up committees to develop codes and detailed rules. "We're educating the market in rights and wrongs," Mr. Davison noted. Some of Lloyd's problems related to "out-of-date" practices, not deliberate or venal activity, he said.

All these actions are intended to solve what Mr. Davison found to be the main problem when he became chief executive officer Feb. 14: A betrayal of trust among underwriting agents and Lloyd's members.

The betrayal included conflicts of interest, secret profits taken by agents without telling members and inadequate accounting to inform names of what was being done with their investments.

"This is where we are focusing our attention," Mr. Davison said.

Lloyd's has the tools to do so, too, under its self-regulation act and its new council, with support from the Bank of England and Whitehall—"and with a chief executive officer with no financial interests."

Mr. Davison recalled how he became chief executive of Lloyd's.

"Dec. 22 was a Wednesday and I was called up to see the governor of the Bank of England, which is a fairly noteworthy event."

The governor told Mr. Davison that he was to become the new chief executive at Lloyd's.

"I said, 'Do I have a choice?'" Mr. Davison reported. He was given three days to say yes.

Mr. Davison said he pointed out to the governor, "I don't know a thing about insurance."

"Well," said the governor, "that is a point in your favor."

Mr. Davison noted later that he does not now consider himself "an insurance man." As chief executive and one of three deputy chairman, his job, he says, is to "make sure the wishes of the council are carried out. I am a servant. The chairman is the leader."

Mr. Davison said he doubts that he would be chief executive or that there would have been a 1982 Lloyd's Act if "improprieties" at Alexander Howden Group P.L.C. and P.C.W. Underwriting, a subsidiary of Minet Holdings P.L.C., had been known before the act was passed.

Instead, Lloyd's may have come under direct government control.

Mr. Davison stressed that when he took his position, he found that there was nothing wrong with business at Lloyd's. "The place was humming. Valid claims were being paid."

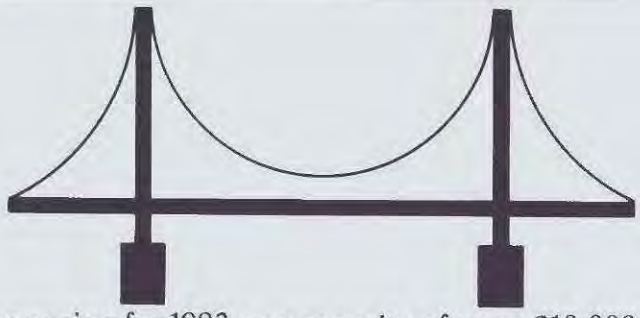
And, "security wasn't a problem," he said, with $10.5 billion in reserves.

With an annual premium income for the last year ended of $4.3 billion, double what it was four years ago, Lloyd's is the largest insurance market in the world, Mr. Davison bragged.

But, he admitted of Lloyd's age of 300 years, "in some respects it shows it."

But Lloyd's, like the city of London, Mr. Davison concluded, indeed is moving forward.

For the first time, London's financial district has a woman Lord Mayor, Mr. Davison noted. "So, what with the Crown and the Prime Minister and now the Lord Mayor, there is not much for a young man to hope for," he said. ■



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Giant Saudi projects stress risk management

By STACY SHAPIRO

LONDON—Two of the world's giant risk management projects are located in an unlikely place—the Saudi Arabian desert, a U.S. broker says.

The cities of Jubail and Yanbu, which the Saudis started from scratch in 1975, show what can result if sound risk management is practiced from the beginning of a project, says Edgar S. Clark, senior vp of Alexander & Alexander International Inc. in Los Angeles.

The cities started as "lots of sand," Mr. Clark noted at the International Insurance & Risk Management Conference in London.

But he added that in the early stages of the projects, the Royal Commission of Jubail and Yanbu—the Saudi agency spearheading the construction—realized that risk-control techniques and a uniform insurance program for the cities' contractors and engineers were vital to reducing losses and cutting costs.

> 'The description of Jubail and Yanbu as risk management on a large scale is certainly apt, since the building of these cities has been ranked as the largest civil engineering project in the world,' Mr. Clark notes.

"The description of Jubail and Yanbu as risk management on a large scale is certainly apt, since the building of these cities has been ranked as the largest civil engineering project in the world," Mr. Clark noted, adding that the projects now carry a $60 billion price tag.

"The cities cover 1,000 kilometers, employ 600 contractors from 22 nations speaking 12 to 14 languages, to say nothing of the plethora of different cultures.

"There are 52,000 workers. . .300 kilometers of roads and 8,000 vehicles. As many as 400,000 airline passengers each year pass through their airports, which can easily handle jumbo 747s. The seaports can accommodate ultralarge crude carriers and the seawater canals have the capacity to handle as much water in a day as the Mississippi River."

Just eight years ago, all that was merely a dream, Mr. Clark said. There weren't even any risks to manage at what would become Jubail and Yanbu.

The Royal Commission, which was set up by the Saudi government in 1975 to build the two new cities, was given total authority to govern every stage of the projects.

By the next year, the commission quickly recognized the need to quantify the risks involved in the construction, maintenance and operation of the two complexes, he explained.

First, the commission contracted with the Wharton School of Finance at the University of Pennsylvania in Philadelphia to identify and define the risk management needs of such a gigantic undertaking.

The study, dubbed the McGill Report after Wharton Professor Dan McGill, the leader of the team that studied the risks, concluded that:

- A comprehensive loss-prevention program should be instituted by the Royal Commission. By minimizing hazards at the worksites, less life and property would be lost, insurance requirements would be reduced and money would be saved.
- The commission should buy all the insurance needed to cover the contractors, subcontractors and other parties involved—a so-called wrap-up or owner-controlled insurance program.

Mr. Clark, who says he is a firm believer in wrap-up programs, explained the coverage has many advantages:

- It reduces or eliminates duplication of premium costs.
- It assures the developer of continuity in coverage for all parties involved in the project.
- It eliminates the possibility of errors and omissions by different insurers and brokers.
- It can cut insurance and overhead costs by 40%.

After adopting the McGill Report's suggestions in 1978, the Royal Commission asked for bids from insurance brokers to service the required loss-prevention and insurance programs.

A&A, which entered into a joint venture with United Commercial Agencies in Saudi Arabia, won the bid and anticipates earning about $10 million in fees for the five-year contract, Mr. Clark said.

A&A/UCA immediately set up a team in Saudi Arabia to analyze the loss-prevention programs for the two projects. This was the most vital element in the project, said Mr. Clark, who served on the A&A team working in Saudi Arabia. Once loss-control goals and techniques have been developed, losses can be prevented, he explained.

A&A/UCA also started to market the wrap-up insurance program, which included a contractors all-risk policy with a $50 million per-occurrence limit and a $30,000 deductible; a completed property policy with the same limits and deductible; and a marine cargo policy with a $10 million limit for each carrier and a deductible of 1% of value shipped subject to a $1,000 minimum and $10,000 maximum.

The wrap-up program also included comprehensive general liability coverage with a $3 million primary layer and undisclosed excess layers (*BI*, Aug. 11, 1980; Aug. 17, 1981).

The first 25% of all of the coverage is retained by Royal Reinsurance Co. Ltd. in the United Kingdom. The company also issues and administers policies and adjusts claims. The other 75% is shared equally by 30 Saudi-owned insurance companies.

The policies include a 30% refund to the Royal Commission for an excess profit if losses do not exceed profit at the end of each year.

So far, the wrap-up program has saved the Royal Commission about 35% over the cost of separate coverages that were purchased during the first year of construction, Mr. Clark said.

So far, 577 claims have been made, of which 128 have been paid totaling around 27 million Saudi riyals (about $7.76 million), he added.

Now that the wrap-up program is in place, A&A/UCA's main task is risk analysis and loss prevention, Mr. Clark noted. Among the loss-control measures that A&A/UCA have recommended are:

- That a standard provision for routine annual boiler inspections be included in all machinery operations and maintenance contracts. The inspections are meant to reduce the risk of both explosion and mechanical failure.
- All buildings with more than 1,000 square meters of floor space are fitted with automatic sprinkler systems, as a result of a study by the Yanbu Human Resources Development Institute.
- Design reviews are conducted at regular intervals.
- The installation of additional fire exits, smoke detectors and other safety features at a school for girls in Jubail. ■

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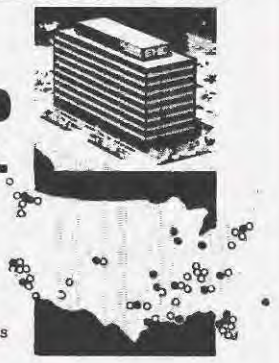

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Cheap, plentiful reinsurance to disappear, reinsurer says

LONDON—Reinsurers will no longer accept large risks for too little premium, forcing commercial insurance rates up, predicts a reinsurance company executive.

"Direct insurers are about to face very hard times indeed," said Gunter Marx, a member of the board of management of Bayerische Ruckversicherung, the German subsidiary of Swiss Re.

Speaking before the International Insurance and Risk Management Conference last month, Mr. Marx also predicted that:

- Captives are out.
- Brokers should be prepared to be paid fees instead of commissions.
- Insurers should take some tips from the banking business.

"The underwriting losses in reinsurers' balance sheets have reached such a magnitude that we are obliged to initiate a change of course if we ourselves are not to perish."

Not only are insurance rates too low, especially for commercial risks, but direct insurers also are not reinsuring what profitable business they are underwriting. Instead, primary insurers are reinsuring mostly the big risks that generally have been charged too little premium to insure in the first place, Mr. Marx complained.

"The direct insurers' ability to offload their financial burden onto the reinsurers has so far enabled them to avoid the necessity of charging their clients, particularly in industry, reasonable prices."

This must change, he argued. Reinsurers can provide long-term capacity only if "the principle of equitably sharing the fortunes between direct insurer and reinsurer is fairly observed. This means not only passing on 90% of industrial fire business, 80% of drilling rigs, 70% of credit and so forth—in other words large amounts of high-risk business—but also a reasonable proportion of standard business such as general accident, life, personal liability and motor," Mr. Marx warned.

Regarding captive insurance companies, Mr. Marx declared they are "out," because insurance prices are competitive, insurance products that companies want are being offered by commercial insurers and non-parent business underwritten by captives is proving unprofitable.

Speaking just days before the United States invaded Grenada, Mr. Marx also commented, "The logic of the Western industrial world investing its money on Bermuda or in the Caribbean seas eludes me. Ever since Fidel Castro came to power I, for one have ceased to regard this area as politically stable."

Taking a swipe at the risk exchange formed in Bermuda by several captive insurance companies set to begin underwriting next year, Mr. Marx interjected, "If several dwarves get together, however bouncing with health they may be, the result is seldom a giant."

Brokers, Mr. Marx said, are "another undesirable state of affairs." He suggested that reinsurers must ask "whether those who bear the risk can continue to accept the current level of brokers' commission."

"If I myself need tax or legal advice, then I have to pay a fee. The brokers should be prepared to discuss this question among themselves."

And, he criticized brokers for holding onto premiums and earning interest income on this float. "We still have outstanding balances from 1978 in aviation," Mr. Marx said. "We shall soon have no alternative but to adopt, contrary to our usual practice, an American approach to these matters and to declare: No money, no risks."

In pricing, Mr. Marx suggested that the insurance industry should take some lessons from the banking business.

Buyers "weep and wail" when faced with increased insurance prices, he said, but at the same time these companies are paying the highest interest rates in history to the banks. "And to emphasize the idiocy of this situation," he said, "the banks will not lend out their money unless there is a valid fire insurance policy.

"We insurers still have something to learn from the bankers, particularly with regard to self-awareness, self-confidence and market strategy," he suggested.

—By Kathryn J. McIntyre

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Manville talks

Continued from page 1
thousands of suits and compensate victims.

Before it filed for bankruptcy, Manville was the most often-sued defendant.

The co-defendants contend there will be no comprehensive solution to the problem of compensating asbestos victims if the co-defendants do not have a role in fashioning one. Such a solution can be devised through the Manville bankruptcy proceedings, they say

Judge Lifland ordered that co-defendants be included after attorney Arthur S. Olick speaking on behalf of Keene Corp. and 13 other co-defendants, urged that Manville not be granted another extension for filing a reorganization plan.

Mr. Olick, of the New York law firm of Anderson, Russell, Kill & Olick, said another extension would violate bankruptcy law, defy the court's previous orders and is futile because no substantive negotiations have taken place.

Further, by not having co-defendants be a part of the negotiations, the court may be throwing away the possibility of a comprehensive solution to the asbestos problem, he said.

In granting Manville its 10th extension, Judge Lifland said that progress between Manville and the asbestos litigants had been made.

He also said negotiations have been limited to those two parties because they are the key antagonists in the proceedings.

He added, however, that it was time for co-defendants to be included in the negotiations so they don't have to react later to a plan they had no part in formulating and so litigation can be avoided.

The Nov. 7 hearing before Judge Lifland was in stark contrast to one on Oct. 27 when when Manville was prepared to file its reorganization plan without the approval of asbestos litigants, who in turn were threatening years of litigation if Manville filed its plan without their consent.

However, at a Nov. 4 meeting between the two sides, the asbestos litigants apparently made a concrete proposal to Manville, including about 20 points to which the company said it was prepared to respond.

While details of the proposal were not made public, issues between Manville and the plaintiffs' attorneys have centered on the amount of money available to pay present claimants, how to evaluate the individual claims and the establishment of a facility for handling claims without resorting to lawsuits and jury trials.

The outcome of meetings going on last week between Manville and the asbestos claimants would determine if there will be future negotiations, said Manville attorney Michael J. Crames. He also said either Manville or the litigants could advance the next hearing date before Judge Lifland if discussions broke down.

In a related matter last week, attorneys for Manville, asbestos litigants and co-defendants argued in federal court over whether the U.S. District Court or the bankruptcy court should have jurisdiction on a motion to dismiss Manville's bankruptcy petition.

Attorneys for asbestos litigants and a Manville co-defendant are arguing that Manville's bankruptcy petition should be dismissed.

Bankruptcy courts currently operate under the jurisdiction of the district courts, which have the power to take cases and issues from them.

Speaking before U.S. District Court Judge Charles E. Stewart Jr., an attorney for the asbestos litigants argued that issues in the bankruptcy involved state-created rights and constitutional issues. Under a recent U.S. Supreme Court decision, bankruptcy courts are prohibited from dealing with those issues, the attorney said.

He said also that essentially the Manville bankruptcy was a "fraud case" in which plaintiffs are prepared to show that Manville provided false accounting justifications.

Anthony J. Marchetta, an attorney for GAF Corp., said Manville used the "hook" of future claimants as the premise for filing its bankruptcy petition. Whether that is proper use of the bankruptcy statute is within the jurisdiction of the district court, Mr. Marchetta said.

Manville's Mr. Crames, however, said that bankruptcy courts have always dealt with motions to dismiss brought by parties in bankruptcy litigation. In addition, the issues raised by the plaintiffs and GAF are within the jurisdiction of the bankruptcy court.

Judge Stewart was expected to rule on the issue by late last week. ■

Insurers may withdraw $250 million offer

Continued from page 1
termining which insurer on a long-latent disease risk must pay a claim, which triggered the California litigation.

The Travelers' letter came in response to Judge Edelstein's request for comments on a plan he proposed Oct. 25 to fund present and future claims against Manville.

Manville filed for reorganization in 1982, citing the overwhelming number of asbestos claims it faces. Although Manville's case is now pending in a U.S. Bankruptcy Court in New York, Judge Edelstein's district court technically has jurisdiction over the case, and he could move the matter to his court.

Judge Edelstein's proposal called for establishment of a so-called "sinking fund" that could stretch out payments to Manville's unsecured creditors and provide for future claimants for 20 years (*BI*, Oct. 31).

In the Travelers' letter to Judge Edelstein, attorney Barry R. Ostrager of the New York firm of Simpson, Thatcher & Bartlett said that the insurer has met more than a dozen times in the last two months with other insurers and representatives of Manville's creditors' committees to develop the claims-made program and that Travelers is still committed to the plan.

"However, the lack of any recent progress together with the continued prosecution of the California litigation is creating substantial economic disincentives for the insurers to continue participating in this settlement initiative," Mr. Ostrager said.

He charged that Manville has ignored a direction from U.S. Bankruptcy Court Judge Burton R. Lifland to seriously consider the insurers' proposal, pointing out that the insurers are interested in the bankruptcy litigation as a means to end the California litigation.

The longer the litigation proceeds in California and the more it costs the insurers, the less incentive they will have to settle, Mr. Ostrager said.

Travelers believes the California litigation may not be fully resolved until 1990. The current trial date is set for March 1, 1985.

A spokesman for Manville last week, however, steadfastly maintained that the company is negotiating with its insurers.

Manville Senior Vp G. Earl Parker said that the company had received Travelers' most recent proposal in late October and is considering it.

Judge Edelstein's request for comments also drew a response from attorneys representing asbestos claimants, who said that his sinking fund proposal was consistent with what they are seeking.

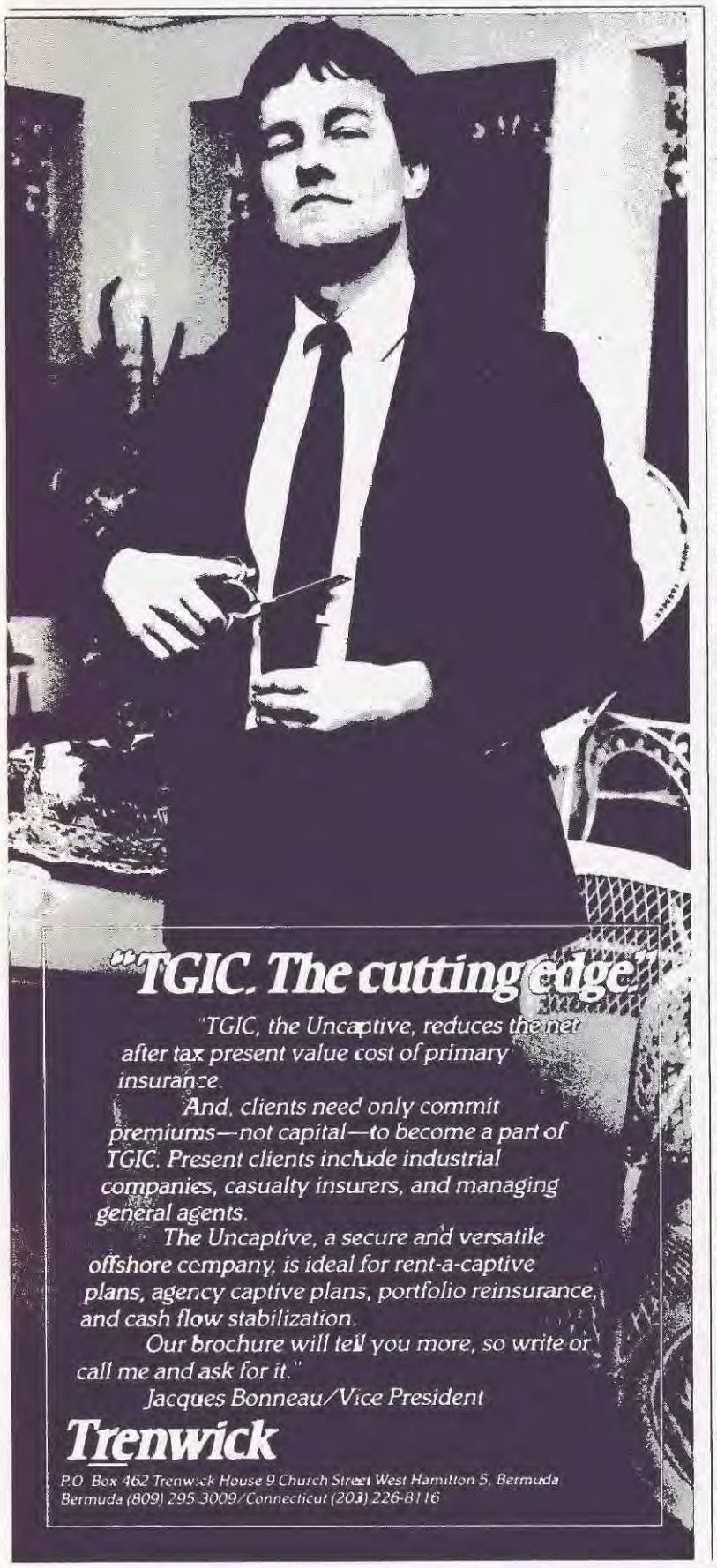
The letter from plaintiffs' attorney Robert J. Rosenberg also detailed numerous objections to a proposed reorganization plan that Manville says it will file if a consensual plan cannot be reached with creditors' committees.

Manville has released key elements of the proposed plan, which include computerized claims payment formulas, the barring of jury trials for present claimants and the establishment of a claims handling facility (*BI*, Nov. 7).

It intends to fund the plan by spinning off a new company (referred to in the plan as M2) that would assume all of the company's non-asbestos business and fund the existing Manville (referred to as M1). M1 would retain Manville's asbestos liability.

According to Mr. Rosenberg, the plaintiffs' objections to the reorganization plan include:

- It does not treat asbestos victims as individuals but rather as "fungible organs" with an objective dollar value determined through a computerized formula.
- Many terms of the plan are left blank, including how claims will be liquidated, the amount of cash to be paid and the amount to be paid to trade creditors.
- M1, which will fund asbestos victims, must rely on M2 for cash, but M2 has no obligation to provide M1 with any cash whatsoever.
- The claims of asbestos victims are subordinated to the claims of Manville's trade creditors and preferred shareholders.
- All plaintiffs' claims, even those decided though judgment or settlement prior to Manville's bankruptcy filing, must be relinquished and settlements started over.
- The plan effectively destroys the rights of future claimants by not classifying them and not giving them a right to vote or to receive notice. In addition, it enjoins future claimants from suing Manville until they go through the planned claims procedure. ■



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Bermuda exchange ready for January debut

Continued from page 2
offered by brokers.

That's because the exchange is designed to be a market for preferred parent-company risks. Participants are hoping the exchange will be a source of high-quality reinsurance risks unrelated to their parent companies.

However, several risk managers at the informal meeting in Scottsdale expressed concern that captives might offer undesirable risks to the exchange and leave their better business with existing reinsurance markets, pools and other arrangements.

"Hudson is there to be sure the exchange won't become a dumping ground," countered Mr. Rosser.

An assessment of risks that likely members have said they will offer the exchange shows these risks have performed "considerably better than the industry average," he added.

Mr. Rosser currently estimates that the exchange will write about $10 million in property/casualty risks in its first year, substantially less than the $35 million to $50 million that exchange organizers had predicted.

Capacity is also less than planned —about $2.5 million for property risks and about $1.5 million each for casualty and marine risks. However, this is expected to increase as the exchange attracts greater premium volume from ongoing and new members.

Pricing is expected to be competitive with the commercial reinsurance market, although total costs to the captive may be lower due to reduced acquisition costs. Exchange operations will be financed by a charge on premiums initially estimated at 1%.

Mr. Rosser identified three different types of underwriting positions that member companies will adopt with the exchange:

- Some participants will give their pen to the underwriting services manager with a fixed dollar commitment per line of business.
- Others will give their pen to the underwriting services manager, but will reserve the option to increase their commitment on a risk-by-risk basis.
- A handful of discretionary members will perform their own underwriting in their home offices and forward the slip to the exchange via telex within specified time limits.

Most members will select the first or second option, suggested Mr. Rosser, since they lack staff underwriting expertise. Some members, he added, will limit their participation—at least at first—to property, casualty or even more specific classes of business, such as non-U.S. property.

The exchange may accept and underwrite claims-made contracts. But, it does not intend to write innovative new coverages like Lloyd's of London.

"I'm not sure what we'll put into it, but we spend a lot of premium dollars that do not go into the captive," noted Thomas Duffield, vp-insurance and risk management at Archer Daniels Midland Co., which owns Agrinational Ltd. domiciled in the Cayman Islands.

He emphasized that Archer Daniels Midland won't disturb any of its existing reinsurance arrangements, but that he welcomes the risk exchange as another alternative market.

"People aren't going to unwind their current programs right off the bat," agreed Richard S. Thompson, president of Altamid Management Co. Ltd., a captive management company unit of Hanna Mining Co.

Altamid will provide accounting and computer services for the exchange, with which it shares offices in the Beneficial Building. Four or five Altamid staffers also will work part-time for the exchange.

Besides Mr. Allen, other interim members of the board of governors include William J. Dahl, corporate risk manager of Houston Natural Gas Co., owner of Gulf Oil Ltd. in Bermuda; Richard S. Johnson, director of insurance operations at Owens-Illinois Inc., owner of Owens Insurance Ltd. in Bermuda; Jens Erik Ladelund with The F.L. Smidth Group of Companies, owner of Forenede Assurandorer A/S in Denmark; and Harold Meeks, assistant secretary of Aluminum Co. of America, owner of Bermrisk Ltd. in Bermuda.

Other captives that are committed to join the exchange include Agrinational Ltd., Argent Insurance Co. Ltd. in Bermuda (Johnson Matthey P.L.C.), Champlain Insurance Co. Ltd. in Bermuda (Alcan Aluminium Corp.), Dalriada Ltd. in Guernsey (Stakis P.L.C.), Dorinthal Reinsurance Co. Ltd. in Bermuda (Dow Chemical Co.), A.S. Industriforsikring in Norway (Norsk Hydro A.S.), Keycon Insurance Ltd. in Bermuda (Keystone Consolidated Industries Inc.), Mead Reco Inc. and Westbury Reinsurance Ltd. in Bermuda (The Mead Corp.) and Three Star Insurance Co. Ltd. in Bermuda (Swedish Match Co.). ■

RIMS introduces two new chapters

NEW YORK—Two new chapters have been formed by the Risk and Insurance Management Society Inc.

Eastern Kentucky is the 76th chapter and Shenandoah Valley the 77th chapter.

Anne M. Zug of Jerrico Inc. is president of the Eastern Kentucky chapter which will meet in Lexington. Harold L. Dawson of the National Fruit Product Co. Inc. is president of the Shenandoah Valley chapter which will rotate its meetings among Roanoke, Winchester and Charlottesville, Va. ■

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Complaints trigger pension bill changes

Continued from page 1
years before it could terminate the plan.

Now, under one revised version of the bill, a company would have to wait 90 days—not two years—after a collective bargaining agreement expired before it could terminate the plan.

• Under another section of the original bill, a parent company would be liable for a subsidiary's pension benefits for up to five years after it sells it to another employer.

For example, if the company that purchased the subsidiary failed within five years after the sale, the original parent would be stuck with the subsidiary's pension liabilities.

But experts said the contingent liability section was so broadly written that it unintentionally makes those acquiring another company's subsidiaries liable for the parent's pension liabilities.

For instance, some pension experts said that a small corporation that bought a subsidiary from, say, a Fortune 500 company could be liable for the giant company's pension benefits if the big company later shut down and folded its pension plan.

The ambiguous contingent liability section has been rewritten to make clear that there is no "buyer's liability" when an employer buys a subsidiary from another company.

Benefit lobbyists say these changes were made in the face of determined employer opposition.

"There are indications. . .that industry objections are producing positive results," said Michael Romig, director of employee benefits at the U.S. Chamber of Commerce.

And, Mr. Romig says, changes are in the works that will make the bill even more acceptable to employers.

"Technically, the bill is getting better. Each draft is better than the previous one," adds Harrison Givens, senior vp at Equitable Life Assurance Society in New York and an influential member of the ERISA Industry Committee, a benefits lobbying group representing large corporations.

While some business lobbyists welcome the changes made so far, they say the bill still needs much more work.

Mr. Romig, for example, says the so-called "union veto" provision remains unacceptable. "The whole section has to come out," he says.

"Employers are making a lot of sacrifices, but (the union veto provision) is too much," adds Richard Fay, an attorney with Reed, Smith, Shaw & McClay in Washington.

Mr. Fay and others also say the union veto provision has nothing to do with the purpose of the bill—to shore up the PBGC—and was inserted as part of a political deal between big businesses and unions to win union support for the measure.

Labor unions do not deny this. A United Auto Workers attorney warned that the UAW could not support the bill if the union veto provision were deleted, but left the door open for compromise.

Other provisions also continue to arouse concern.

For example, one section would make employers that want to terminate their pension plans liable for participants' accrued-but-non-vested benefits. Under that provision, employers no longer could terminate plans that lack sufficient assets to pay benefits, including those that are not vested.

Instead of terminating the plan, the employer would "freeze" the plan. Under a freeze, benefit accruals would cease, but participants would continue to vest. The employer would have to continue to contribute to the plan until all accrued benefits are funded.

Therefore, if an employee who had worked for a company for two years was covered by a plan with 10-year vesting, the company would have to fully fund and pay for the benefit the employee is entitled to after two years of service.

By contrast, under current law, when an employer terminates a plan, employees are vested in accrued benefits, but the employer pays only to the extent of available assets.

While making employers liable for accrued-but-non-vested benefits assures that workers will receive more benefits if employers shut down pension plans, some lobbyists say the provision would have no effect on the PBGC insurance program and thus shouldn't be part of the bill.

The PBGC does not have to pay for accrued-but-non-vested benefits when a company terminates an underfunded plan. The PBGC only pays guaranteed benefits, which average about 85% of vested benefits.

Making employers liable for accrued-but-non-vested benefits was "slipped into" the bill, said Chet Salkind, executive director of the American Society of Pension Actuaries, whose members provide pension services for small employers.

"A lot of people are not aware how this provision increases employers' pension liabilities," Mr. Salkind said. The provision "really is making social policy in a bill that is of an alleged financial nature," he added.

While supporters of the measure acknowledge that more redrafting is needed, they point out that there is a broad consensus on the need to overhaul the PBGC's single-employer pension insurance program, which covers about 28 million people.

The PBGC was established in 1974 when Congress passed the Employee Retirement Income Security Act. The program, funded by premiums paid by employers with pension plans, was designed to guarantee pension benefits when companies collapsed without putting aside enough assets to pay guaranteed benefits.

Continued on facing page

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Commercial Consumers Sub-total	**23,176**
Insurance Agents & Brokers	9,639
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Financial Institutions	385
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*Source: Business/Occupational breakdown of qualified circulation, May 2, 1983 issue, as submitted to BPA for June 1983, BPA Publisher's Statement.

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Continued from facing page

When it passed ERISA, Congress thought it had included a sufficient penalty to prevent employers from dumping underfunded pension plans onto the PBGC and then starting new plans.

That penalty says that if a company terminates a plan without enough assets to pay guaranteed benefits, the PBGC can take up to 30% of the firm's net worth.

But this penalty is virtually meaningless to companies with little or no net worth. Such companies may find it cheaper to dump their underfunded plans onto the PBGC and then start new ones.

Other employers have to pay for underfunded plan termination through the premiums they pay to the PBGC. That annual premium is now $2.60 per plan participant; the Clay-Erlenborn bill would raise the premium to $6.

Such plan "dumping" would be eliminated under the Clay-Erlenborn bill because employers would have to fund all accrued benefits before the plan could be terminated.

While there may be broad agreement on the general principles for revising the PBGC insurance program, benefit experts note Congress passes laws, not general sets of principles.

As a result, "Employers shouldn't sign off on the (Clay-Erlenborn) bill until they fully understand it," said Mr. Fay. "More time is needed for review, reflection and refinement."

"Slow it (the bill) down," said Frank Cummings, who helped draft the early ERISA legislation more than 10 years ago as an aide to former Sen. Jacob Javits, R-N.Y., and who now is a partner with Cummings & Kershaw, a Washington law firm.

"The trouble with complicated legislation, like the Clay-Erlenborn bill, is that legislators who try to solve one problem may create four new ones," he explains.

As a result, Mr. Cummings says, the Clay-Erlenborn bill must be analyzed line-by-line, a slow process since the latest version of the measure is 109 pages.

"When legislation is so complex, it needs more time to be considered," said Ed Davey, executive director of the Assn. of Private Pension and Welfare Plans in Washington ■

Illinois OKs asbestos bill

SPRINGFIELD, Ill.—The statute of limitations for asbestos injury claims in Illinois will be extended to 25 years from the date of last exposure from the current three years.

S.B. 1070, as earlier amended by Gov. James Thompson, was enacted by the Legislature during its fall veto session and will take effect July 1.

Besides changing the statute of limitations for asbestos claims, the measure also expands the Illinois Industrial Commission by one member and raises the interest rate applied to awards in appealed workers compensation cases (*BI*, Oct. 17).

The Legislature also accepted the governor's technical changes on H.B. 186, which establishes two separate guaranty funds for employers that self-insure their workers compensation exposures (*BI*, July 11, Oct. 17).

One fund calls for the assessment of the estimated 2,500 individual companies that self-insure after a self-insurer goes bankrupt.

The other guaranty fund, which becomes effective Jan. 1, is for group self-insurers. ■

Hines becomes RBH chief executive

Continued from page 2

$83 million for the first nine months, up 3.3% from pro forma 1982 revenues of $77.5 million.

Mr. Hines predicted when he joined Ryan more than three years ago that the company would grow dramatically (*BI*, Sept. 1, 1980).

Chicago-based Ryan Insurance Group posted 1980 revenues of $107.4 million and was known best for products sold to auto dealers. Its 1980 brokerage revenues, concentrated in the Chicago area, totaled just $17.1 million, making it the 16th-largest broker in the country.

The first spurt of growth occurred in 1981 when Ryan Group acquired James S. Kemper Agency with revenues in excess of $15 million and 26 offices. Ryan's brokerage revenues in 1981 grew to $40.3 million, making it the 11th largest broker in the country. At year-end 1981, Ryan's total revenues were $133.4 million.

In July 1982, Combined International Corp. in Chicago—with 1981 assets of $1.6 billion—acquired Ryan Insurance Group for $133 million, and appointed Mr. Ryan president and chief executive officer of Combined—the second of the major acquisitions and a giant move.

Mr. Hines became an executive vp and director of Combined and continued as president of Ryan Insurance Group, overseeing brokerage as well as other operations.

Just four months later, in October, Combined announced it would buy RBH, whose 1981 revenues totaled $76.3 million—the third major acquisition.

At year-end 1982, the brokerage operations of Ryan, Kemper and RBH produced total gross revenues of $118.4 million, making RBH the seventh-largest broker in the country. Combined Interntional Corp. reported revenues of $1 billion and net income of $81.8 million.

In the past year, the brokerage operations of Ryan, Kemper and RBH have been merged under the management of Mr. Hall according to a strategic plan developed by Mr. Hines.

"Chuck Hall served us well," Mr. Hines said. "He did a fine job during the transition."

Now, Mr. Hines will be taking over responsibility for implementing his strategic plans for RBH and related opertations. He has also developed strategic plans for Combined's direct sales operations and its direct response operations. The plans call for the three operations to "work well independently and together."

For example, RBH will continue to focus on large commercial accounts, but will also move into more mass mechandising of insurance for trade associations and affinity groups of businesses.

RBH will be "representing the client," Mr. Hines stressed, and will not be tapping Combined's underwriting capacity.

Mr. Hines predicts more "rapid growth" ahead, including "judicious" acquisitions of more brokerage operations to fill geographic and service needs. RBH now has 64 offices around the country.

"We've had a plan and it seems to be working," he said. "The investment community likes it; our stock hit a new high yesterday," which was Nov. 9, when Combined released its organization changes and third-quarter results. Combined International closed at $41, up 75 cents.

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Firms sue waste site insurers, owners

Continued from page 1
Alexander & Alexander Services Inc., underwrote the facility's EIL coverage during the preceding 12-month period.

Both of the policies were written on a claims-made basis with limits of $5 million per claim and a $10 million aggregate. The International Insurance Co. policy contained a $50,000 deductible.

Although the policies were issued to Enviro-Chem, Mr. Kyle's clients believe that the contracts contain unusual language, which affords coverage directly to them. For this reason, the plaintiffs believe they have a cause of action against the insurers.

The policies define an insured to include not only the named insured, but also "any person to whom Enviro-Chem obligated itself to provide insurance such as was afforded in the policy," explains Mr. Kyle.

Enviro-Chem's customers believe that the company obligated itself to provide insurance to them by asking them to pay the premiums and by using the coverage as a marketing and advertising tool to attract and retain business.

"The customers paid for the insurance—explicitly," declares Cornelius Smith, chief environmental counsel for Union Carbide Co. and a co-chairman of the litigation committee made up of Enviro-Chem's customers who are participating in the lawsuit.

When Enviro-Chem obtained insurance in December 1981, it sent out letters to explain the coverage and a new price structure designed to fund the premiums, explains Mr. Smith. "Some companies were surcharged, others paid a per barrel increase." Not all customers' contracts were the same.

"Third-party lawsuits have traditionally been a rough road to hoe in the insurance business," observed William J. Wall, president of American Special Risk Insurance Co.

Although he had not had an opportunity to read the lawsuit, Mr. Wall said that the insurer had earlier denied a claim against its policy because it was a claims-made form and the claim was not made until after the policy expired.

Regardless of the timing of a claim, environmental impairment liability policies do not cover on-site cleanup at a waste site, say industry sources familiar with the coverage written through both the London and domestic markets.

Indeed, this is the reason that a claims officer representing International Insurance Co. gave to Enviro-Chem's owners and Indiana's attorney general for denying coverage in a letter written on Sept. 13, 1982. The EIL policy covers only off-site cleanup, the letter explains.

"We do not believe there is merit to the suit based on our current understanding of it," added a London Agency underwriting executive, who was reached by telephone during a business trip and had not seen the suit.

But, Enviro-Chem's customers are determined that parties directly responsible for the environmental damage—and their insurers—should pay for the cleanup. They believe an important principle is involved that transcends the dollar amounts they are contributing to fund the cleanup.

"The owners, operators and their insurers are the ones who caused the problem, so they should solve the problem," declares Union Carbide's Mr. Smith.

He said that Union Carbide had taken great pains to select a top-notch recycling facility to treat its wastes, rather than taking them to a local landfill. "This was done in the interests of the environment—we were trying to do things right."

"We sent someone to inspect the facility before we used it," he added. Then, the company paid for long-distance transportation of the wastes from as far as New Jersey to Indiana because "Enviro-Chem was one of the best recyclers east of the Mississippi," says Mr. Smith.

The six-acre Enviro-Chem site, owned by Jonathan and Patricia Bankert, operated from 1977 until May 1982. When it was closed, there were several thousand waste-containing drums in various stages of decay and contaminated surface water standing on-site.

"These conditions constituted a release of pollutants into the environment, which release has caused on-site and off-site contamination, and created the threat of fire and explosion and of additional future contamination of soils, surface water, groundwater and the atmosphere," says the suit.

Enviro-Chem is the only Superfund site known to have purchased EIL insurance, noted a source involved in the litigation. There are 546 locations around the country that have been identified for cleanup through the Superfund.

The 151 plaintiffs in the suit represent 246 of the settling parties who are contributing to the Enviro-Chem cleanup under terms of a consent decree reached Sept. 21 with the Environmental Protection Agency.

The plaintiff customers will contribute about $2.2 million of the total $2.9 million surface cleanup cost in different amounts, ranging up to $177,000. ■

Companies filing suit against Enviro-Chem listed

The following are the plaintiffs in the lawsuit filed against Environmental Conservation & Chemical Corp. in Zionsville, Ind.:

A.E. Staley Manufacturing; Aluminum Co. of America; American Standard Inc., Peabody Unit; Amtrak National Railroad Passenger Corp.; Anaconda-Ericsson Inc.; Anderson Development Co.; A.O. Smith Corp.; Arvin Industries Inc.; Batesville Casket Co. Inc.; Belden Division of Cooper Industries Inc.; Bemis Co. Inc.; Bootz Manufacturing Co. Inc.; Brockway Inc.; Brunner Engineering & Manufacturing Inc.; Carborundum Co., Commercial Filters Division; Kennecott Corp.; Carpenter Body Works Inc.; Carter Paint Co. Inc.; Centralab Inc.; Celotex Corp., Gamble Brothers Inc. Division; Chemcentral Corp.; Chemical Recovery Systems Inc. of Ohio.

Also, Conco Inc.; Connersville Paint Manufacturing Co. Inc.; Corning Glass Works; Crown Zellerbach Corp.; CTS Microelectronics Inc.; D&L Paint Co.; Dana Corp.; Dennis Chemical Co. Inc.; Dextrex Chemical Industries Inc.; Diamond Chain Co., Division of AMSTEAD Industries Inc.; Du-Wel of Morristown; Eaton Corp., Climate Control Division; Economy Plating Co. Inc.; Egyptian Lacquer Manufacturing Co.; Federal-Mogul Corp.; Ford Motor Co.; Foy-Johnston Inc.; Frost Paint & Oil Corp.; General Electric Co.; General Motors Corp.; Georgia-Pacific Corp.; Grote Manufacturing Co.; Gulf & Western Manufacturing Co. (Bohn Aluminum & Brass and Bohn Heat Transfer Divisions).

Also, Haas Cabinet Co. Inc.; Hamilton Glass Products Inc.; HC Industries Inc.; Hill-Rom Co. Inc.; Holcomb & Hoke Manufacturing Co. Inc.; Honeywell Inc.; Hoover Universal Inc.; Inmont Corp., a subsidiary of United Technologies Corp.; International Packings Corp.; International Paper Co.; KCL Corp.; Kendall Co.; Kimberly Clark Corp., Borwn-Bridge Division, K-C Business Papers Group; Knauf Fiber Glass GmbH; Filtration Sciences Corp.; Kolmar Laboratories Inc.; Lear Siegler Inc./Mammoth Division; Lenk Co.; Lexington Standard Corp.; Liberty Solvents & Chemicals Co. Inc.; Lilly Industrial Coatings Inc.; Louisville Varnish Co.; Marathon Petroleum Co.; Marathon Pipe Line Co.; Marisol Inc.

Also, McQuay Inc.; Midmark Corp.; Murray Ohio Manufacturing Co.; Northern Packaging Corp. (now American Packaging Corp.); Northern Telecom Inc.; Parker Industries, Division of Flint & Walling Inc.; Perfectin Paint & Color Co. Inc.; Potlach Corp.; Potter Paint Co. of Indiana Inc.; Pratt & Lambert Inc.; Radio Materials Co.; Ramsey Corp.; RCA Corp.; Rea Magnet Wire Co. Inc.; Red Spot Paint & Varnish Co. Inc.; Reliance Electric Co.; Rexham Corp.; Rexnord Inc.; Rostone Corp., Division of Allen-Bradley Co.; R.R. Donnelly & Sons Co.; Schwitzer Division and Richmond Gear Division of Household Manufacturing Inc.; Smith Cabinet Manufacturing Co. Inc.; Snap-Tite Inc.

Also, SRS Inc.; Solvents Recovery Service of New England Inc.; Solvents Recovery Service of New Jersey Inc.; Sommer Metalcraft Corp.; Sparton Indiana Inc.; Square D Co.; St. Regis Corp.; Stolle Corp.; Sullair Corp.; Sun Chemical Corp.; Techtronics Ecological Corp.; Teepak Inc.; Thiele-Engdahl Inc.; Ulrich Chemical Inc.; Union Carbide Corp.; Uniroyal Inc.; U.S. Gypsum Co.; United States Steel Corp. for U.S.S. Novamont; Vermont American Corp.; Waste Research & Reclamation Co. Inc.; Wayne Corp.; West Publishing Co.; Western Electric Co. Inc.; Westvaco Corp.; Whittaker Corp., Dayton Coatings & Chemical Division; Yenkin-Majestic Paint Corp.

Also, Zimmer Paper Products Inc.; Electrographics Corp., Midwest Body Mfg.; Emhart Industries Inc., Mallory Capacitor and Mallory Timers Co. Divisions; Mobil Chemical Co.; American Can Co.; Kyanize Paints Inc.; USM Corp., Bailey Division; Porter Paint Co.; Coca-Cola Co.; D&L Paint Co.; Chemcentral Corp.; General Cable Co., Division of GK Technologies Inc.; Hoosier Solvents & Chemical Corp.; Dimensional Designs Inc.; Marcus Paint Co.; Chase Bag Co.; Container Corp. of America; Chromalloy American Co., Precoat Metals Division; CPC International Inc.; Glas-Craft Corp. Inc. (successor to Glas-Craft Division of Ransburg).

Also, Lord Corp.; McGill/Jensen Inc.; Mercury Minnesota Inc.; The National Latex Products Co.; Onan Corp.; Paule Chemical; Paulo Products Co.; Phelps Dodge Industries Inc.; Robbie Manufacturing Inc.; Stewart Paint Manufacturing Co.; Universal Woods Inc.; York Casket Co. and Alabama-Indiana Metal Products Inc., as sucessors in interest to National Metal Products; and C & D Batteries Co., a division of Bunker Ramo-Eltra Corp.

CNA affiliate paying Hyatt claims

Continued from page 2
will use the fund, under a complex formula, to satisfy "special damages" of victims participating in two class-action settlements once all claims are resolved, probably sometime next year.

Plaintiffs participating in the settlements will accept the special damages in lieu of pressing punitive damage claims (*BI*, Jan. 24).

In a Nov. 1 filing in Jackson County Circuit Court, Columbia asked the court to order Hallmark to surrender $5 million of the construction defendants' insurance proceeds it is holding toward the payment of legal fees and expenses.

A total of 373 claims resulting from the July 1981 tragedy have been settled so far at a cost of $78.9 million to the defendants' and their insurers, attorneys say. Sixteen claims remain unresolved; 12 of those are set for trial in the next month and a half.

The largest jury verdict so far—$15 million—was awarded by a Jackson County Circuit Court jury in mid-September to 36-year-old Sally Ann Firestone, who was considered the most seriously injured victim.

That verdict and others totaling $5.5 million are in various stages of appeal. By the time all litigation has been terminated, attorneys expect liability claims to reach $100 million.

In a related development, Hyatt Corp. says it has dumped Marsh & McLennan Cos. Inc. as its primary insurance broker and switched to a fee-based contract with Frank B. Hall & Co. Inc.

Robert Duty, Hyatt's risk manager, confirmed that Hyatt's decision to sue M&M for negligence in the placement of Hyatt's skywalks coverage contributed to the decision to switch brokers.

"We felt that we couldn't do business with somebody and sue them at the same time," Mr. Duty said, adding that the cost of M&M's brokerage services was not a factor in the decision (*BI*, Sept. 26). Mr. Duty said Hyatt recently renewed most of its property/casualty coverages and found it was able to obtain higher limits and better coverage "at substantial savings."

"The market is still extremely soft and hasn't turned yet," Mr. Duty says he found.

Marsh & McLennan officials would not comment on Hyatt's action. ■

50% of suveyed employers considering 401(k) benefits

LOUISVILLE, Ky.—Almost half the medium-sized companies responding to a survey say they would offer 401(k) salary reduction plans or are considering implementing them.

Salary reduction plans can serve as a tax shelter by allowing employees to defer a portion of their salaries toward retirement savings, thus reducing tax liabilities.

Some 11.3% of the 243 companies with from 500 to 3,000 employees surveyed by benefit consultant Meidinger Inc. indicated they already have established a 401(k) plan.

Another 3.9% said they have begun to install a plan, while 34.6% said they are actively considering instituting one.

Combined, 49.8% of the companies surveyed had either implemented a 401(k) plan or were actively considering adopting one.

Only 12.6% of the companies surveyed said they had considered implementing a 401(k) plan, but decided not to.

A concern some employers have about instituting the plan relates to a discrimination test, which requires that the higher-paid one-third of employees eligible to participate not defer substantially more of their salary than the lower paid two-thirds.

Therefore, employers must get enough money into the accounts of lower-paid employees so that higher-paid employees can take full advantage of the opportunity to defer taxable income.

Among companies without 401(k) plans, 60.5% said they were concerned the discrimination tests would present a major problem. Only 20.6% of companies that have or are installing plans expressed similar concern.

Steps that can be used to boost participation by lower-paid workers are matching employer contributions, mandatory salary deferral and good employee communications to explain the plan and the benefits of participation, Meidinger points out. ■

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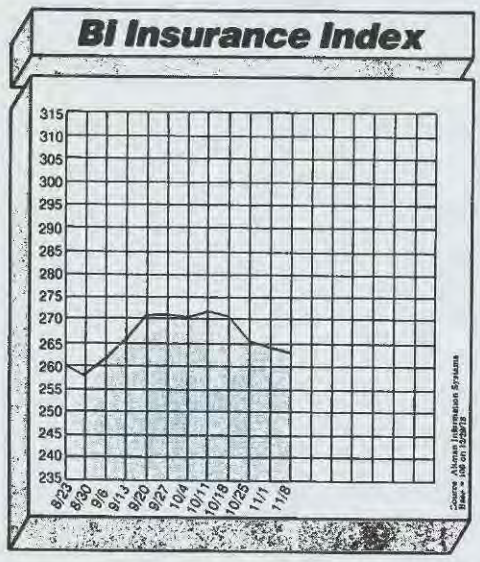

Insurance industry stocks again sputtered during the five-day trading period ending Nov. 8 as the *Business Insurance* stock index fell 1.1 points from 265.0 to 263.9. Twenty-one stocks posted gains, 27 closed lower and 16 were unchanged. The leading gainers were Great West Life Assurance Co., 15.4%; Fremont General Corp., 12.9%; Combined International Corp., 11.8%; Chubb Corp., 5.7%; and Northwestern National Life Insurance Co., 3.8%. The largest losses were posted by Washington National Corp., 14.8%; SRI Corp., 13.5%; Carolina Casualty Insurance Co., 9.7%; Aneco Reinsurance Co. Ltd., 8.7%; and Foremost Corp. of America, 7.8%. The *BI* index posted a 0.4% decline for the period ending Nov. 8, while the New York Stock Exchange composite average reported a 0.9% drop for the same period.

British Issues

8 Nov Companies	Price pence	P/E	Div. pence	Yield %	1 Week High—Low pence	pence
Comml Union	176	176.0	16.86	9.6	176—	173
Eagle Star	608	21.7	24.29	4.6	615—	585
Genl Accident	432	11.2	24.29	6.1	433—	430
Gdn Royal Exch	478	11.9	27.26	5.4	482—	478
Phoenix	373	16.2	25.00	7.0	381—	365
Royal	494	12.4	37.86	8.0	500—	494
Sun Alliance	1375	15.8	68.57	5.7	1413—	1375
Brokers						
CE Heath	285	7.1	21.07	8.0	285—	283
Hogg Robinson	128	9.8	8.57	7.4	130—	126
JH Minet	128	9.8	6.50	5.9	128—	124
Sedg Grp	212	10.6	10.00	5.4	219—	205
Stenhouse Hldg	103	9.4	7.86	8.0	103—	97
Stew Wrightson	253	8.4	20.43	8.9	253—	250
Willis Faber	566	11.8	25.00	5.3	566—	558

Source: Philip Olsen/Alan Clifton, Insurance Industry Specialists Kitcat & Aitken Stockbrokers, London

Despite current pessimism, rate hikes may come soon

By LEONARD M. WILSON

Special to Business Insurance

THE CYCLE OF competitive premium rates is about to enter its sixth year. Combined ratios in mainstream commercial lines are at hair-raising levels. Economists regularly forecast a decline in interest rates. Reinsurance rates seem to be firming.

The property/casualty insurance industry, judging by this backdrop, is poised for broad rate increases. Right?

Mr. Wilson

Wrong, at least based on the industry contacts with whom we speak. Their pessimism is almost unanimous. Hardly anyone will admit to expecting materially improving markets, at least for the foreseeable future. Maybe competition will ease somewhat, so says the consensus, but for the typical insurance broker, it will be tough slogging for a long time.

In the stock market, the crowd is usually in error, mainly because of the understandable tendency in a framework of uncertainty to extrapolate an existing trend. But a trend that is part of a cycle often terminates when least expected.

While the gloomy consensus view for property/casualty insurance prices may be on target, skepticism about mass wisdom ought to serve as a reminder that competitive pricing could abate.

Pricing in commercial lines reflects a balance among a number of conflicting forces. The cumulative decline in commercial rates over the cycle is generally reckoned at around 40% across a broker's full book of business.

The magnitude of the price declines already may have diminished the impact of the widely advertised price depressants. In turn, the forces for stable prices may become increasingly supportive.

To be sure, hotly competitive insurance markets in 1984 could be fueled again by rallying financial markets. The gains in the stock and bond markets have fattened insurance company surpluses. If the uptrend in financial values persists, then industry capacity again may grow apace.

Rate cutting is also receiving fresh impetus from a kind of competitive rotation among insurers. Last year's price cutter—perhaps bloodied—is retrenching, but last year's retrencher is this year's price cutter. The competitive oscillation draws its momentum from underwriters' aggressive market-share strategies.

As a result, excess capacity is not cleared from the marketplace by mounting underwriting losses. In addition, as the competitive phase of the cycle ages, the probability of its end increases. Having stayed the course for this long, insurance company managements may find it difficult to back away from increased volume when perhaps a turn is not far off.

Competition has drawn strength from increasingly diversified income streams. For many underwriters, commercial lines—as a source of profit and loss—are far less important in the total profit picture than in 1974. Earnings from personal lines and employee benefit products, in effect, are subsidizing poor results in commercial property/casualty lines.

Profitability, as measured by return on shareholders' equity, has benefited from this diversification of income. On underwriting capital committed to commercial lines alone, the returns for many participants are not tenable on a long-term basis.

These negatives are now quite likely integrated into the price structure. Countervailing factors are coming into play that could bring price cutting to a halt:

- First, the economic recovery already is being felt on the demand side of commercial property/casualty insurance. An acceleration in premium growth might allow companies to gain volume without cutting prices, and concomitantly soak up some excess market capacity.
- Second, the publicized firming in reinsurance rates may not usher in a pricing millennium, but it will make ultracheap reinsurance scarcer. Rising reinsurance rates have to be regarded as a positive, if unquantifiable, influence on prospects for primary insurance rates.
- Finally, combined ratios are at a level that may produce selective efforts to contain price competition. Yes, combined ratios have been dismal for several years, but the deterioration continues. Aetna Life & Casualty Co., for example, reported a combined ratio for commercial lines of 125.1% for the third quarter and 118.6% for first nine months of the year.

Commercial lines competition is not going to disappear completely. We would agree that the excess capacity in the property/casualty insurance market may be a permanent phenomenon. The business is too easy to enter and too many players, old and new, want a slice of the pie. The banks are only one example.

Nonetheless, there is a balance of forces seeking an equilibrium in the pricing of commercial lines. The negative factors already may be discounted, while the positive variables soon could assert themselves.

We do not expect the publicly owned insurance brokers to experience a dramatic acceleration in operating performance. Any change in pricing will be subtle and markets, in any event, could remain a little on the soft side in 1984 and perhaps in 1985.

Even so, 1984 could shape up as a year in which brokerage earnings comparisons become favorable. The stage then might be set for several years of steady operating income gains, and a revitalized investment image for the brokers. ■

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BI Industry Stock Report

NOV. 8, 1983 11/2/83 THRU 11/8/83

Insurance Cos.		Price	% Chg.	P/E	$ Div.	% Yld.	High	Low	Vol. (000)
Aetna Life & Cas Co	NYSE	35.88	-1.4	9.2	2.64	7.4	36.63	35.75	789.6
American Bankers Ins Group	OTC	12.88	0.0	10.1	0.50	3.9	13.00	12.88	36.8
American Gen Ins Co	NYSE	22.88	0.5	8.0	0.80	3.5	22.88	22.50	602.8
American Indty Finl Corp	OTC	17.63	-0.7	9.4	1.12	6.4	17.75	17.63	6.6
American Intl Group Inc	OTC	62.75	-0.4	10.5	0.44	0.7	65.00	62.75	850.5
American Natl Ins Co	OTC	20.00	-2.4	7.2	0.96	4.8	20.50	20.00	75.2
American Sts Life Ins Co	OTC	46.25	3.4	12.7	0.88	1.9	46.50*	44.75	2.7
Aneco Reins Ltd	OTC	2.63	-8.7	65.6	0.00	0.0	2.88	2.63	9.5
Avemco Corp	AMEX	20.50	0.0	12.7	0.58	2.8	20.50	20.25	21.3
Banks Iowa Inc	OTC	47.50	0.0	15.3	1.52	3.2	47.50	47.50	0.9
Bitco Corp	OTC	17.50	0.0	0.0	1.33	7.6	17.50	17.50	26.8
Carolina Cas Ins Co	OTC	7.00	-9.7	0.0	0.20	2.9	7.75	6.50*	0.2
Chubb Corp	OTC	64.75	5.7	8.4	3.12	4.8	64.75	61.25	87.5
Combined Intl Co-p	NYSE	40.25	11.8	12.8	2.00	5.0	40.25*	36.00	466.9
Continental Corp	NYSE	28.63	-2.1	38.7	2.60	9.1	29.13	28.63	221.0
Crawford & Co	OTC	15.00	0.0	11.1	0.60	4.0	15.00	15.00	8.8
Crown Life Ins Co	OTC	119.50	0.0	7.8	3.10	2.6	119.50	119.50	0.0
Employers Cas Co	OTC	32.75	-1.5	7.3	1.20	3.7	33.25	32.75	0.4
Equifax Inc	NYSE	29.25	3.1	12.2	1.60	5.5	29.25	28.50	12.7
Excelsior Ins Co	OTC	20.50	0.0	17.2	0.00	0.0	20.50	20.50	0.0
Farmers Group Inc	OTC	40.75	1.9	10.3	1.36	3.3	40.75	40.00	234.1
Foremost Corp Amer	OTC	26.75	-7.8	8.2	0.88	3.3	29.00	26.75	56.9
Fremont Gen Corp	OTC	13.13	12.9	59.7	0.48	3.7	13.38	11.63	259.7
Great West Life Assurn Co	OTC	300.00	15.4	10.8	11.00	3.7	300.00*	275.00	0.1
Hanover Ins Co	OTC	54.75	-2.2	6.8	0.88	1.6	56.25	54.75	24.3
Hartford Steam Boiler Insptn	OTC	58.50	2.6	11.4	3.00	5.1	61.00*	57.00	17.6
Jefferson Natl Life Ins Co	OTC	40.50	-1.2	13.6	0.76	1.9	41.00	40.50*	0.7
Kemper Corp	OTC	36.75	1.0	7.9	1.80	4.9	36.75	36.25*	85.3
Lincoln Natl Corp Ind	NYSE	62.38	3.7	9.0	3.00	4.8	62.38*	61.38	229.4
Mission Ins Group Inc	NYSE	28.00	-3.4	11.3	1.00	3.6	31.13	28.00	118.1
Nationwide Corp Chio	OTC	41.75	0.0	15.3	0.70	1.7	0.00	DID NOT TRADE	
Northwestern Natl Life Ins	OTC	37.38	3.8	24.8	1.50	4.0	37.38	36.00	67.7
Ohio Cas Corp	OTC	47.63	0.3	8.8	2.52	5.3	47.63	47.38	22.5
Old Rep Intl Corp	OTC	31.00	0.8	7.2	0.90	2.9	31.00	30.75	47.3
Orion Cap Corp	NYSE	27.25	-3.5	13.6	0.66	2.4	28.00	27.25	30.1
Preferred Risk Life Ins Co	OTC	20.13	0.0	7.7	0.67	3.3	20.13	20.13	2.1
Provident Life & Acc Ins Co	OTC	62.50	1.6	7.7	2.60	4.2	63.00	61.50	18.5
St Paul Cos Inc	OTC	56.00	0.7	7.6	2.80	5.0	56.50	55.88	389.6
SAFECO Corp	OTC	55.88	0.4	11.0	2.60	4.7	55.88	55.00	41.2
Sri Corp	OTC	16.00	-13.5	6.9	0.68	4.3	18.25	15.75*	476.0
Seibels Bruce Group Inc	OTC	21.00	-5.1	5.6	0.80	3.8	22.00	21.00*	25.4
Statesman Group Inc	OTC	10.63	-3.4	7.4	0.15	1.4	10.75	10.50	47.7
Tokio Marine & Fi-e Ins Co	OTC	105.75	1.9	16.9	0.96	0.9	106.25	103.50	1.6
Travelers Corp	NYSE	32.38	3.6	8.2	1.80	5.6	32.38	31.63	368.5
United Fire & Cas Co	OTC	32.25	0.0	11.5	0.88	2.7	32.25	32.25	0.0
United States Fid & Gty Co	NYSE	55.88	-0.2	9.8	3.84	6.9	58.63*	55.88	243.4
United Svcs Life Ins Co	OTC	22.38	0.0	6.6	1.00	4.5	22.38	22.00	9.1
Uslife Corp	NYSE	26.50	-1.9	7.6	0.96	3.6	27.00	26.50	101.7
Washington Natl Corp	NYSE	22.38	-14.8	10.7	1.08	4.8	25.63	22.38*	133.3
Zenith Natl Ins Corp	OTC	15.75	-1.6	11.1	0.60	3.8	16.00	15.75	37.2
INSURANCE COMPANIES	AVERAGE			10.2		3.7			
Agents/Brokers									
Alexander & Alexander Svcs	NYSE	20.00	-3.6	0.0	1.00	5.0	20.75	19.75	131.6
Baldwin & Lyons Inc	OTC	37.50	0.0	15.6	0.80	2.1	37.50	37.50	0.0
Corroon & Black Corp	NYSE	24.00	-1.5	12.9	1.80	7.5	24.25	24.00	18.1
Crump E H Cos Inc	OTC	9.88	0.0	13.5	0.40	4.1	9.88	9.88	6.3
Emett & Chandler Cos Inc	OTC	10.63	0.0	0.0	0.00	0.0	10.63	10.63	1.8
Hall Frank B & Co Inc	NYSE	26.88	-1.8	24.4	1.70	6.3	29.38	26.88	443.6
Integrated Res Inc	AMEX	30.75	-3.9	11.5	0.00	0.0	32.88	30.75	53.8
Marsh & Mclennan Cos Inc	NYSE	46.25	2.8	13.5	2.20	4.8	46.25	44.63	108.5
Poe & Assoc Inc	OTC	6.00	0.0	0.0	0.00	0.0	6.00	6.00	2.6
Reed Stenhouse Cos Ltd	OTC	12.25	-3.9	20.4	0.60	4.9	12.88	12.00	39.1
AGENTS/BROKERS	AVERAGE			18.3		3.8			
Conglomerates/Holding Cos.									
American Express(Fireman's Fd)	NYSE	33.50	1.5	9.7	1.28	3.8	34.38	33.50	3,274.5
Anderson Clayton(Ranger/PanAm)	NYSE	28.88	3.6	13.4	1.32	4.6	29.00	27.75	203.4
Armco Inc	NYSE	17.38	0.7	0.0	0.40	2.3	17.50	17.38	230.1
Baldwin Utd Corp	NYSE	3.00	-7.7	0.0	0.00	0.0	3.75	3.00	934.9
CIGNA Corp	NYSE	44.00	-4.9	7.1	2.48	5.6	45.88	44.00	437.6
City Investing Co. (Home Ins.)	NYSE	34.25	-2.1	10.1	1.80	5.3	34.88	34.25	244.7
CNA Finl Corp (CNA)	NYSE	22.00	-1.7	7.2	0.00	0.0	22.75	22.00	235.9
Control Data (Comml. Credit)	NYSE	45.88	-3.4	11.2	0.60	1.3	48.75	45.63	1,158.4
General Re Corp	NYSE	62.00	-3.1	13.1	1.28	2.1	63.00	62.00	703.0
Gulf Utd Corp	NYSE	29.25	1.3	9.0	1.32	4.5	29.25	29.00	194.6
ITT (Hartford Group)	NYSE	42.25	2.7	9.0	2.76	6.5	42.25	41.38	1,352.1
Optimum Hldg Corp	OTC	5.75	0.0	18.5	0.00	0.0	5.75	5.75	2.5
Sears Roebuck & Co. (Allstate)	NYSE	39.13	0.0	11.3	1.52	3.9	39.38	39.00	2,918.4
Teledyne Inc (Argonaut)	NYSE	161.00	-0.8	15.0	0.00	0.0	163.25	160.63	240.4
Transamerica Corp (Occidental & Fred S. James)	NYSE	29.13	0.0	9.5	1.56	5.4	29.13	29.00	373.0
CONGLOMERATES/HOLDING COS.	AVERAGE			15.4		2.7			

*Record high/low since Jan. 1, 1983

System design: Altman Information Systems

Financial briefs

Foremost Corp.

Foremost Corp., an insurance holding company based in Grand Rapids, Mich., has declared a regular quarterly dividend of 22 cents per common share payable Dec. 15 to shareholders of record Nov. 15.

Dental Plan of America

Dental Plan of America Inc., an Oklahoma City-based dental insurance underwriter, is seeking Securities and Exchange Commission approval for an initial public offering of 1 million shares of common stock. The company says it will use the proceeds to expand into new markets.

The offering, with an expected price of $1 to $5 per share, is expected to commence early next month, the company says. DPA's common stock will be traded over the counter.

St. Paul

The St. Paul Cos. Inc. has declared a regular quarterly dividend of 70 cents per share of common stock, payable Jan. 17 to shareholders of record Dec. 30.

HealthAmerica Corp.

HealthAmerica Corp., an operator of health maintenance organizations, has reported third-quarter net income totaled $2.36 million, including an extraordinary credit of $764,000. That compares with a third-quarter loss last year of $414,000.

Third-quarter revenues increased 189.4% to more than $29 million from just more than $10 million a year ago.

USLIFE

USLIFE Corp. has declared a regular quarterly dividend of 24 cents per share of common stock, payable Dec. 1 to shareholders of record Nov. 15.

The latest dividend is a 2-cent increase over the previous quarter's. ■

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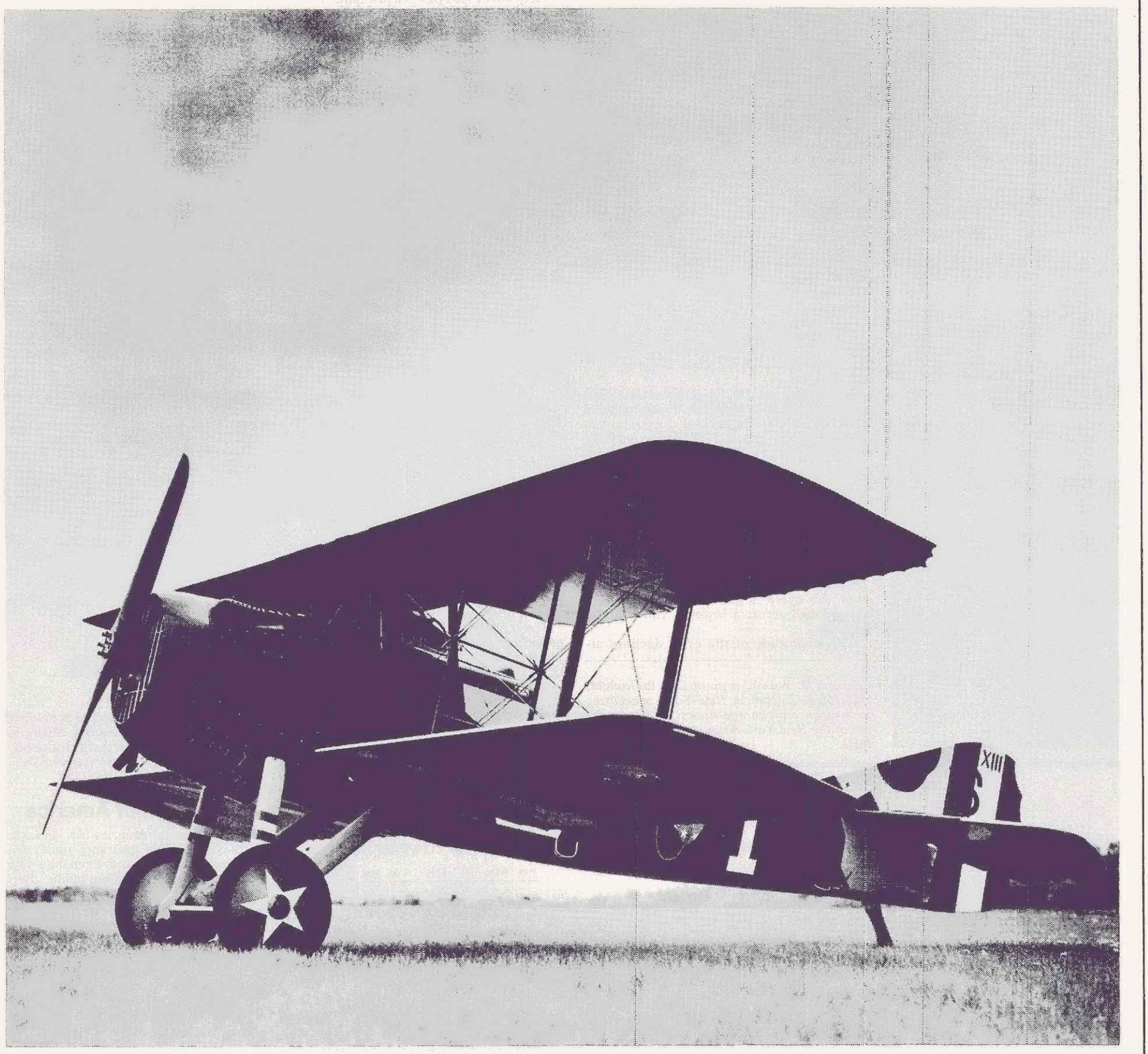

Location courtesy of the Owls Head Transportation Museum, Owls Head, Maine.

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