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update

NYIE syndicates to get $22 million in new capital

NEW YORK—Current investors are adding at least $22 million to three New York Insurance Exchange syndicates.

Trenwick Group Inc. in Westport, Conn., which owned 16% of Apple Syndicate, is acquiring 100% of the syndicate, renaming it Trenwick Syndicate and increasing its capital to at least $15 million from the current $4 million, says Tren-

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Abridged versions of libel cover seen

By JUDY GREENWALD

NEW YORK—Don't try to find a paperback edition of "In the Spirit of Crazy Horse," Peter Matthiessen's 1983 book about the American Indian Movement. It doesn't exist.

Nor are you likely to find even a hardcover edition of the critically acclaimed book, unless your local library happens to have a copy.

The book's publisher, Viking Penguin, killed plans for a paperback edition and stopped distribution of its remaining hardcover copies shortly after publication because both it and the author were sued for libel by South Dakota Gov. William J. Janklow and an FBI agent.

Plans for a European edition were also scuttled after the suits, which sought a total of $49 million, were filed, said the book's editor, Elizabeth Sifton. Viking would not discuss its insurance for the suits, which are still pending.

"In a sense, you could say these harassment suits have already won," said Mr. Matthiessen.

This is just one example of the "chilling effect" observers say the actual or anticipated specter of libel suits has had on book publishers who—like many other business people—are having problems finding affordable insurance.

Litigation costs, as well as the tightening commercial insurance market, have helped fuel hikes of 200% or more in book publishers' libel insurance rates over the past two years while capacity has been shrinking dramatically, market observers say.

Bill Bauer, president of Media/Professional Insurance Inc. in Kansas City, Mo., which writes libel insurance on behalf of SAFECO Corp., said premiums for book publishers now gen-

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Three NYIE syndicates may face liquidation

By JUDY GREENWALD and DOUGLAS McLEOD

NEW YORK—Three New York Insurance Exchange syndicates are facing possible liquidation after being declared insolvent by the exchange's board of governors.

The board last month found The Heartland Group Inc. insolvent and ordered it to prepare a rehabilitation plan. The plan—which relies principally on arranging loss commutation agreements with ceding insurers—was expected to be reviewed by the board late last week.

If the board does not approve the plan, it is "highly likely" that the board will ask the Insurance Department to petition the court for a liquidation order, said Heartland Chairman Richard L. Johe in a letter to the syndicate's ceding companies.

In addition, The Burt Syndicate Inc. and The First New York Syndicate Corp. have been ordered by a New York court to show cause why they should not be liquidated (*BI*, Nov. 3).

Examinations by the New York Insurance Department found Burt insolvent by $3.2 million and First New York insolvent by $2.5 million as of year-end 1985.

Exchange observers are uncertain about the impact the potential liquidations may have on the exchange's security fund.

The fund—which totaled about $37 million at June 30 and which has not yet been tapped for any losses—would be used only after the syndicates' assets are exhausted. In addition, payments from the fund are limited in several respects (see story, page 42).

Meanwhile, exchange brokers and underwriting managers have mixed opinions about the impact of the insolvencies on the New York exchange's image and on its search for new syndicate investors.

While several note that the insolvencies won't help the struggling exchange, some point out that the problems faced by the three syndicates stem from business written during the exchange's early years at the height of the soft property/casualty market. Underwriting conditions have improved for those syndicates that are still active, they say.

None of the three syndicates in question has written any new or renewal business since 1984.

Observers also point out that the exchange's experience is no different from that of the industry as a whole, where insurer insolvencies have become increasingly common.

The problems at Burt, First New York and Heartland have been known for some time, observers add, suggesting that the insolvencies have not come as a surprise to anyone familiar with the exchange.

"I'm not surprised that one or more syndicates have gone insolvent," said Patrick Agnew, president of Agnew International Inc., an exchange broker. He added that similar events are occurring throughout the market.

"I just hope potential investors are not so naive as to be influenced by it," Mr. Agnew said.

The three syndicates' problems have "already been discounted," according to one exchange broker who asked not to be named. "I think the problems there

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Benefit costs continue to rise: Chamber

By JERRY GEISEL

WASHINGTON—Employee benefit costs are spiraling upward again, topping an average of $8,000 per worker for the first time.

Benefit costs per employee increased 4.1% in 1985 to an average of $8,166 from $7,842 in 1984, according to the annual U.S. Chamber of Commerce benefits survey released last week.

Just as benefit costs rose among surveyed employers, benefit expenditures, as a percent of payroll, hit a record 37.7% in 1985, up from 36.6% in 1984. Among all employers nationwide, the Chamber estimates the benefit cost as 35.2% of payroll.

The total spent by employers last year on benefits rose to an estimated $691.3 billion, up from $610 billion in 1984 and $240 billion in 1975, according to the survey.

The 4.1% increase in overall benefit costs exceeds the 3.4% increase in 1984, but is much less than increases recorded in previous years. Benefit costs climbed 5.5% in 1983, 8.5% in 1982, 8.9% in 1981 and 9.4% in 1980.

A major reason for the 1985 increase in benefit costs appears to be employer underreporting in 1984 of one benefit item: paid rest periods such as lunch periods, wash-up time, travel time, clothes-changing time and preparation time.

In 1985, some 80% of surveyed employers reported offering paid rest periods at an average cost of $752 per employee. That was about the same percentage as in 1979, when paid rest periods cost an average of $539 per employee.

By contrast in 1984, just 47% of surveyed employers reported offering paid rest periods with the benefit costing an average of $399 per employee.

"There are clear indications of an increase in underreporting of benefits during the 1979-1984 period," the Chamber notes. "Significantly smaller proportions of companies reported payments" for rest periods during that period.

If rest periods are removed from both the 1985 and 1984 surveys, benefit expenditures per employee actually dropped to $7,414 in 1985 from $7,443.

Indeed, expenditures for the more costly benefits—health insurance and pensions—dipped slightly in 1985.

Insurance costs, which include health and life insurance payments, declined in 1985 to $1,561 per employee from $1,581. Even with this decrease, insurance retained its position as the most costly employee benefit. As a percent of payroll, insurance slipped to 7.2% in 1985 from 7.4%.

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Employers' benefit costs per employee

Industry	1985	1984	% change
Petroleum	$12,303	$12,671	−2.9
Primary metal industries	11,344	10,343	9.7
Public utilities	10,622	10,371	2.4
Chemicals & allied products	10,086	9,119	10.6
Transportation equipment	9,649	9,525	1.3
Machinery (excluding electrical)	9,408	8,556	10.0
Fabricated metal products	8,659	8,394	3.2
Electrical machinery, equipment & supplies	8,573	7,808	9.8
Food, beverages & tobacco	8,425	8,531	−1.2
Rubber, leather & plastics products	8,095	7,847	3.2
Pulp, paper, lumber & furniture	7,786	8,079	−3.6
Miscellaneous non-manufacturing industries	7,731	7,196	7.4
Insurance companies	7,608	7,319	3.9
Stone, clay & glass products	7,511	8,313	−9.6
Printing & publishing	7,292	7,856	−7.2
Instruments & miscellaneous manufacturing	6,948	7,591	−8.5
Hospitals	6,745	6,146	9.7
Banks, finance companies & trust companies	6,552	5,873	11.6
Trade (wholesale & retail)	5,697	6,006	−5.1
Textile products & apparel	4,599	4,322	6.4
Department stores	4,292	3,956	8.5

Source: U.S. Chamber of Commerce Research Center

Chart: Amy Palmer

Broker forms EIL insurer under Risk Retention Act
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Third-quarter setbacks hurt profits at several brokerages
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Industry leaders issue warning against new round of rate cuts
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NYIE captial contributions

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wick Group Executive Vp Mark W. Hinkley.

Trenwick is buying out investments by several industrial and service corporations, including GTE Corp., Burlington Industries Inc., Kaiser Aluminum & Chemical Corp., Navistar International Inc., Optimum Syndicate Corp. and Continental Group.

The syndicate, which had written only facultative property reinsurance, will begin Dec. 1 to write only direct excess general liability insurance on Trenwick's claims-made form, Mr. Hinkley said. The new Trenwick Syndicate will offer a limit of at least $2 million, available in the first $25 million layer of a corporation's program.

"This is not surplus lines—it's excess general liability for complex general liability risks," Mr. Hinkley said.

Trenwick veteran Stephen Binet will be president of Trenwick Syndicate and Michael Mather, formerly with Ancon Insurance Co. Ltd. in Bermuda, will be vp.

Meanwhile, J&HWF Syndicate A, which was owned by four shareholders, is now wholly owned by Philadelphia-based PMA Insurance Group. Renamed Johnson & Higgins Willis Faber Syndicate A Inc., its initial capital is $10 million, compared with $3.9 million for the former syndicate as of Sept. 30.

The new syndicate will write treaty reinsurance focusing on the casualty excess/surplus lines market.

In addition, IAT Syndicate Inc.'s policyholder surplus was doubled to $10 million from $5 million with a contribution from Peter R. Kellogg, senior partner and chief executive officer of Spear, Leeds & Kellogg, a Wall Street stockbrokerage. IAT was initially capitalized with $5 million on Jan. 1.

Both syndicates are managed by Johnson & Higins Willis Faber (U.S.A.) Inc.

Robins' counsel reinstated

RICHMOND, Va.—A federal judge says the recently disqualified law firm representing A.H. Robins Co. Inc. in its bankruptcy proceedings can once again represent the company.

The New York-based firm of Skadden, Arps, Slate, Meagher & Flom had been disqualified because it also represented Aetna Life & Casualty Co., which has a $57 million claim against Robins in the bankruptcy proceedings (*BI*, Nov. 3).

Last week, U.S. District Judge Robert R. Merhige Jr. reinstated Skadden, Arps after Aetna agreed not to seek further legal advice or representation from the firm while Robins' bankruptcy proceedings are pending. Judge Merhige also ordered the law firm to pay all costs related to the dispute.

An attorney for Aetna said that the $57 million claim represents payments made by the insurer to or on behalf of Robins that were in excess of or excluded from a settlement agreement the parties previously reached over insurance coverage for Dalkon Shield claims.

Stock offerings called off

NEW YORK—Parent companies of Home Reinsurance Co. and Reinsurance Corp. of New York canceled plans for public offerings because of the poor stock market conditions.

The Home Insurance Co. had originally said it was temporarily withdrawing an issue of 5 million shares to wait for a more favorable market (*BI*, Nov. 5).

"We just didn't think that market conditions were appropriate right now," said a Home spokesman. Home subsidiary U.S. International Re, which is Home Re's holding company, had expected to raise $105 million to $125 million in the offering (*BI*, Nov. 10).

The spokesman said The Home will still follow through on plans to donate $37.5 million to Home Re's statutory surplus, which will give it a year-end surplus of about $100 million.

Robert DeMichele, president of both Piedmont Management Co. and Reinsurance Corp. of New York, its downstream reinsurance company, said Piedmont's stock was selling at about $22 when its 1.5 million share offering was originally planned. It closed at $15 on Nov. 12.

Mr. DeMichele noted Piedmont also owns Lexington Management Corp., which has about $2 billion of invested assets under management and has a 17% interest in the New York-based Navigators Insurance Group. An investor buying Piedmont's stock for $15 a share would have been paying book value for the reinsurer and getting equity in Lexington and Navigators for free, he said.

Piedmont plans to boost the reinsurer's surplus by $15 million to $20 million, either by contributing assets or by borrowing, he said. This will give the reinsurer a year-end surplus of $60 million to $65 million, he said.

Briefly noted

Wade H. Coleman, chief executive officer of the **Asbestos Claims Facility,** resigned last week. No reason for the resignation was given, and Mr. Coleman declined comment. . . .The U.S. Supreme Court has denied review of a $4.7 million damage award against **Ortho Pharmaceutical Corp.** for failing to warn that its Ortho-Gynol Contraceptive Jelly might cause birth defects. A spokesman for parent Johnson & Johnson said the award would be covered by insurance.

errors & omissions

- The policyholder surplus of MONY Reinsurance Corp. as of June 30 was $44.1 million, not $22.7 million as reported in the Nov. 10 issue of *Business Insurance*.
- The law firm of Karon, Morrison & Savikas Ltd., which recently combined practices with the Miami firm of Reagin & King, has offices in California and Florida and is based in Chicago at 5700 Sears Tower, 233 S. Wacker Drive, Chicago, Ill. 60606. An incorrect address was given in the Oct. 20 issue of *BI*.

J&H forming EIL insurer under Risk Retention Act

By DOUGLAS McLEOD

MONTPELIER, Vt.—Johnson & Higgins is organizing a new insurer under the recently amended federal Risk Retention Act to provide environmental impairment liability insurance.

The new company—North American Casualty Cooperative Risk Retention Group—is expected to be capitalized with $100 million contributed by U.S. industrial corporations and other investors, according to Dennis R. Connolly, a J&H vp. The investors, who also will be NACC's policyholders, will contribute a minimum of $1 million each, Mr. Connolly said.

NACC, which will be domiciled in Vermont, will provide both gradual and sudden and accidental pollution coverage with basic limits of $3 million per claim and $6 million annual aggregate over a $1 million self-insured retention, Mr. Connolly said.

Offering statements and applications were expected to be available to potential investors late last week, Mr. Connolly said, adding J&H hopes to have the facility capitalized and issuing policies by early next year.

NACC apparently is one of the first group captive insurers to take advantage of the newly expanded Risk Retention Act.

Under the 1981 act, risk retention groups must be chartered in one state but may then operate nationwide, largely exempt from state regulation.

Although the act originally allowed such groups to insure only product liability risks, President Reagan last month signed legislation expanding the act to allow coverage of all casualty lines except workers compensation (*BI*, Nov. 3; Oct. 20).

NACC will cover the pollution risks of its member/shareholders on a claims-made form with retroactive dates to be decided separately for each policyholder, according to Mr. Connolly.

The insurer also is "shooting for" an offer of one-year extended reporting period coverage, he said, adding that additional extended tail coverage may be available in the future. The coverage will be written on a "site-specific" basis, he noted, with each site separately underwritten and separately rated.

The NACC form will cover liability for bodily injury, property damage and cleanup costs, Mr. Connolly said. The cleanup coverage includes:

- Liability for the cost of cleaning up on-site and off-site pollution that originates from contamination of an insured site.
- First-party cleanup costs on an insured site if the cleanup is ordered by a government body. NACC also has the option to pay for such first-party cleanup to reduce potential future liabilities to third parties.

The NACC form will not cover any losses arising at a site owned by a policyholder but not specifically included as an insured site under the policy, Mr. Connolly noted. He added that there will be no limit on the number of insured sites per policyholder.

A percentage of defense costs will be included within NACC's policy limits, though the costs thus included will be subject to a maximum dollar cap, according to Mr. Connolly, who could not provide further details.

NACC is "highly unlikely" to insure any site that is currently on the Environmental Protection Agency's National Priority List of contaminated sites eligible for Superfund money, he added.

Though organizers expect NACC to get initial cap-

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BI expands coverage of international issues

Business Insurance is expanding its coverage of international risk management, insurance and reinsurance news and its London office staff.

London Editor Stacy Shapiro has been promoted to international editor in London with new responsibility for establishing a network of correspondents to report international news in *Business Insurance* during the coming year.

Ms. Shapiro opened *BI's* London office in 1981.



Ms. Shapiro

In addition, Carolyn Aldred, 23, has joined *BI* in London as associate editor.



Ms. Aldred

While Ms. Shapiro has expanded duties, she will continue to cover certain stories in the London market, including the aviation insurance market beat.

Ms. Aldred primarily will report on London market news, contributing some international reports.

Ms. Aldred comes to *BI* from Post Magazine & Insurance Monitor, a weekly insurance publication in London. She is a graduate of Imperial College, University of London, with an honors degree in mechanical engineering.

"Stacy and Carolyn are going to be a terrific team, improving our scope and depth of coverage of the London market and international news," said Editor Kathryn J. McIntyre.

N.Y. threatens surplus lines, experts warn

By AVRA WING

NEW YORK—Proposed New York regulations governing the surplus lines market will drive non-admitted insurers out of the state, some observers warn.

Suggested changes to New York's Regulation 41, which regulates the non-admitted market, would "cut the heart out of" that market, says Richard Bouhan, government relations director for the National Assn. of Professional Surplus Lines Offices.

Witnesses told a New York Insurance Department hearing last week the proposed changes to the 6-year-old regulation would place severe limits on the kind of coverage that could be obtained from non-admitted insurers and impose an onerous burden on surplus lines brokers.

Under the proposed changes:

- Surplus lines brokers would be forbidden to place with a non-admitted insurer any risk "that is not eligible for such placement" with an admitted insurer under the provisions of the insurance law and department regulations. Also, if the coverage to be placed is not

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✓ The U.S. Chamber of Commerce survey refutes the suggestion, often heard in congressional circles, that employee benefit costs are out of control and that the federal government has to take some kind of action to restrain benefit plan expenditures, points out this week's editorial. **PAGE 8**

✓ In this month's column on risk management information systems, David A. Tweedy explains how avoiding the "eight data collection sins" can improve the integrity of the data. **PAGE 27**

✓ While many of the problems contributing to the liability insurance crisis are external to the insurers themselves, some changes in the standard operating procedures of the industry also may offer a form of relief, suggest Ronald S. Berman and Jeffrey A. Clark in this week's perspective. **PAGE 28**

✓ Auditor Grant Thornton says it has enough errors and omissions insurance to cover the half of a $70.9 million federal jury award to the trustee of the defunct E.S.M. Government Securities Inc. that the firm will have to pay if an appeal fails. **PAGE 46.**

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Miller to serve fourth term as Lloyd's chief

By CAROLYN ALDRED

LONDON—Peter Miller will serve a fourth term as chairman of Lloyd's of London, following his re-election last week by the Council of Lloyd's.

However, there will be several new faces on the Lloyd's Council when it reconvenes Jan. 1.

Alan Parry, chairman of Lloyd's broker Carter Brito e Cunha Ltd., will replace Michael Cockell, Lloyd's underwriter for syndicates managed by M.H. Cockell & Co. Ltd., as Lloyd's junior deputy chairman.

The market's senior deputy chairman will remain Murray Lawrence, chairman of underwriting agency Murray Lawrence & Others.

Also, four new working members were elected to the Council on Nov. 5: Stephen Merrett, chairman of Merrett Holdings P.L.C.; Frank Barber of underwriting agency Morgan, Fentiman & Barber; Alan Francis Jackson of underwriting agency Alan Jackson (Underwriting Agencies) Ltd.; and David Rowland, chairman of Lloyd's broker Stewart Wrightson Holdings P.L.C.

In addition, one of the four Council members nominated by the Bank of England will be replaced. Alan Hardcastle, a partner of accountant Peat, Marwick, Mitchell & Co., will succeed Brandon Gough, senior partner of accountant Coopers & Lybrand, who is resigning from the Council after three years of service.

The Lloyd's Council is composed of 28 members, 16 of whom are elected by Lloyd's working members and eight of whom are elected by Lloyd's external members. The remaining four Council members are nominated by the Bank of England and are not members of Lloyd's.

The nominated members, in addition to Mr. Hardcastle, are Lloyd's chief executive Alan Lord; Sir Kenneth Berrill, chairman of the Securities and Investments Board, which will oversee the British financial regulatory network under the nation's new financial services law; and Edward Walker-Arnott, senior partner of law firm Herbert Smith & Co.

In addition to the changes on the Council, Lloyd's hired

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Third-quarter setbacks deter broker profitability

By LINDA J. COLLINS

Most publicly held insurance brokers are showing much-improved results for the first nine months of 1986, but lackluster third-quarter results are holding back profitability for several brokers.

While Alexander & Alexander Services Inc. reported a 13.2% revenue gain in the quarter, it was forced to take a $16.6 million charge against its third quarter earnings to run off discontinued underwriting operations. The charge resulted in a $900,000 net loss for the quarter.

A 1% decline in revenues and several one-time expenses translated into a $10 million third-quarter loss at Frank B. Hall & Co. Inc.

And Tampa, Fla.-based Poe & Associates Inc.'s revenues were relatively flat for the quarter because of new insurance regulations in Florida that have prompted many insurers to refrain from writing new business in that state (*BI*, Nov. 3). About 70% of Poe's retail brokerage business comes from Florida risks.

Despite these setbacks, there's good news ahead for all the brokers: The Tax Reform Act of 1986 will have a very positive effect on brokers' earnings in 1987 and an even more dramatic effect in 1988, securities analysts say.

"The tax law will be of benefit to the typical insurance broker in 1987, a particularly notable departure from other sectors of the business community," said Herbert E. Goodfriend, securities analyst with Prudential/Bache Securities Inc. in New York.

"Brokers were always full taxpayers, so losing income tax credits and depreciation doesn't affect them that much," explained Samuel J. Weinhoff, first vp with Shearson Lehman Bros. in New York. "The only negative is that they can only deduct 80% in travel and entertainment rather than the full 100%."

"By and large it's going to be very positive for all of the brokers," agreed John E. Keefe, financial analyst with Drexel Burnham Lambert Inc. in New York.

"On their U.S. business they pay 46% now with little tax credits. They will see something like a 20% (net income) jump from the old tax rate to the new tax rate, and they don't lose much in the way of investment credits," he added.

Brokers' 9-month 1986 results
(In thousands of dollars)

Broker	Gross revenues	% change	Net income	% change
Marsh & McLennan	$1,359.4	35.1%	$193.9	53.6%
Alexander & Alexander	786.4	16.7	40.8	72.9
Frank B. Hall	335.5	7.9	3.9	N/M*
Corroon & Black	250.4	26.0	33.2	56.5
Arthur J. Gallagher	89.4	28.3	12.4	34.1
Poe & Associates	24.8	17.2	3.5	67.6

*Not meaningful

Chart: Amy Palmer

A senior official at Marsh & McLennan Cos. Inc. said the new tax law will benefit the world's largest brokerage in more ways than one.

The law "will create an increase in demand for our services in benefits consulting in the areas of employer compensation and pension plans" due to the law's complexities in those areas, said the official, who asked not to be identified.

He added that M&M, which pays 52% of its earnings in various taxes, will see a reduction "to the low 40s" as a result of the new tax law.

But even before the tax bill's effects are felt, Marsh & McLennan reported the most substantial growth of all the publicly held brokerages—in both revenues and earnings—during the third quarter.

M&M's gross revenues jumped 31.6% to $461.8 million compared with $350.9 million in the third quarter of 1985, while net income soared 51.8% to $64.2 million from $42.3 million in last year's third quarter.

M&M's nine-month figures showed a 35.1% increase in gross revenues to $1.36 billion in 1986 from $1 billion in 1985. Net income for the first nine months of 1986 grew 53.6% to $193.9 million from $126.2 million in 1985.

"Excellent performance was achieved in all our businesses: insurance and reinsurance brokering, consulting and investment management," commented M&M Chairman Frank J. Tasco.

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Market watching

Industry leaders warn against new rate cuts

By KATHRYN J. McINTYRE

ATLANTA—Worldwide insurance and reinsurance leaders are warning their colleagues against a new cycle of rate-cutting—which they say is just beginning to emerge.

"I am already seeing the first re-emergence of the 'market-share syndrome,'" reports Michael G. Fitt, chairman, president and chief executive officer of Employers Reinsurance Corp. in Kansas City, Mo.

"I hear the rumblings of new marketing strategies as we begin to observe relaxation of underwriting and volume guidelines in the primary market. I see a certain infusion of new capitalization coming into the reinsurance market."

"I see signs of weakening already in property rates," says Robin A.G. Jackson, a director of Merrett Holdings P.L.C. in London and chairman of the Lloyd's Underwriters' Non-Marine Assn.

"From a period of crisis, record losses, unavailability of insurance coverage; from reducing shareholders' equity in hundreds of millions, even billions, by the stroke of a pen—within less than a year, we pride ourselves with high profits and we are back fighting for market share," agrees Rolf F. Hueppi, senior executive vp and general manager of Zurich Insurance Co. in Zurich, Switzerland, and chief executive officer of Zurich-American Insurance Group in Schaumburg, Ill.

During speeches at the 41st annual meeting of the National Assn. of Independent Insurers held last week in Atlanta, each of these executives urged his colleagues to maintain stable pricing in the coming years.

"At a time when we have been increasing surplus-to-premium written ratios, when we have decreasing investment returns, when we have punitive tax legislation, when we have lack of credibility with the public and possibly a majority of our legislatures and regulators, when we are in fact being attacked from almost every angle, it would seem that now is the time to contemplate our mistakes, gather up our wits and adopt a responsible attitude," said Mr. Fitt.

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U.S. offers opportunity: Hueppi

By KATHRYN J. McINTYRE

ATLANTA—The U.S. insurance market offers European insurers attractive opportunities, but fear of the downside risks is keeping them from rushing into the United States, says an executive of a leading European insurer with U.S. operations.

The U.S. insurance market offers Europeans four important opportunities, according to Rolf F. Hueppi, senior executive vp and general manager of Zurich Insurance Co. in Zurich, Switzerland, and chief executive officer of Zurich-American Insurance Group in Schaumburg, Ill.

The opportunities are:

- The sheer size of the U.S. market, representing more than 50% of the world property/casualty insurance premium volume.
- Stability in profits and growth through global risk distribution, since the bottoms of insurance cycles around the world do not coincide.
- Access to innovations in the insurance business and risk management.
- Insuring the U.S.-based operations of European clients.

"With all these lucrative opportunities, why do we not find a rush of European insurers knocking at our doors?" Mr. Hueppi asked in remarks at the 41st annual meeting of the National Assn. of Independent Insurers.

"Well, there is always the downside," he explained, listing the pitfalls as:

- The instability of U.S. insurance market results.

A seemingly profitable U.S. insurance market can change quickly, before a European insurer that has started operations in the United States has had an opportunity to make a profit.

- Large-scale start-up costs.

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Photo: Atlanta Convention & Visitors Bureau

Gracious and bustling Atlanta provided the backdrop as insurance industry leaders gathered for the 41st annual meeting of the National Assn. of Independent Insurers.

Pricing warning

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"We must see we do not relax too soon just because we have had one or two good years," Mr. Jackson said.

There are no reasons to drop rates now, the speakers maintained—not even the tort reforms enacted to date.

"I'm not convinced we've seen anything of real substance," Mr. Jackson said of tort reform in the United States. "It's been a Band-Aid performance."

"I'm not convinced we're going to see enough tort reform to make U.S. liability business attractive," he added. "Certainly not attractive enough to make us reduce premiums. It will be five to 10 years before we'll know the results, and there is no guarantee they won't change it all back."

Each of these industry leaders also agreed additional tort reform is needed to improve the insurance industry's ability to price liability insurance.

'Let's strive for more technical perfection, better management, more detailed financial analysis, a greater degree of unity, more effective communications, and an intelligent and conservative approach to the marketplace,' Mr. Fitt urges.

"Our social consciousness must not let us forget this simply because insurance rates now appear somewhat more comfortable and our casualty business more acceptable," Mr. Hueppi urged.

While continuing to work for tort reform, the insurance and reinsurance business needs to maintain stable pricing to improve its credibility and service to the public and to maintain its financial strength, the speakers agreed.

Allowing that insurance and reinsurance are cyclical businesses, Mr. Fitt observed: "Ups and downs can be handled. It is the peaks and valleys that create the real problems.

"If the degree of the up is extreme, we lose credibility with our customers. If the degree of down is extreme, we lose the viability of our companies."

Mr. Fitt expressed hope that the industry "will resist the usual temptation for aggressive growth," and instead concentrate on rebuilding capital, which he suggested will take at least three or four years.

"I am inclined to think, however, that sanity will not prevail long enough to achieve this modest yet basic goal.

"Unfortunately, history clearly illustrates that, in our industry at least, we have a hard time learning from our experiences and an even harder time living with prosperity.

"We are peaking, both from a revenue point of view and an income point of view," Mr. Fitt said. "How far these numbers plunge in the near future depends to a large extent on the attitudes of the industry's executives. . .both the primary and reinsurance industries."

"While the marketplace may be cyclical, the extremes are a result of poor management or maybe even a lack of management at all," Mr. Fitt contended.

The industry needs to improve its management, Mr. Fitt advocated, including upgrading salaries to attract more talented people and providing them with the needed training.

"In the future, let's strive for more technical perfection, better management, more detailed financial analysis, a greater degree of unity, more effective communications, and an intelligent and conservative approach to the marketplace," Mr. Fitt urged. "Let's take the tough decisions for long-term prosperity rather than the easy decisions for short-term advantage. Please, let's not mess it all up again just as we are starting to straighten things out."



Mr. Fitt

Mr. Hueppi also urged that the industry "introduce some stability in our business" to "re-establish credibility and corporate integrity in our business."

"Extreme cycles, leading to large-scale non-availability of market, is damaging to our industry," he pointed out.

Since the stock market anticipates the industry's profit performance by 1½ to two years, management should have "sufficient opportunity to take a longer term view of our business."

"Insurance is a long-term business," he stressed."

"Forcing earnings expectations into the short-term and rather artificial periods such as a quarter or calendar year leads to unhealthy behavior—unhealthy P&L statements and unhealthy balance sheets.

"Greater responsibility and self-discipline must be expected from insurers."

Insurers should not be "tempted by deceiving the public and shareholders again by overstating, for the immediate temporary benefit, our current earnings. Having reached a relative level of comfort in today's results, it would serve us very well to make up for the deficiencies of the past and create capacity for the future."



Mr. Hueppi

But, Mr. Hueppi noted, he is concerned that "the discounting of loss reserves for tax purposes will lead to even more aggressive short-term thinking and pricing. This, in turn, could mean a behavior we have seen in most social security systems around the world—namely, we pay past losses our of current income.

"Government may believe that they can afford not to be funded. In private enterprise, where we can't turn on a money machine and print money we need, this will spell disaster."

If the insurance industry does not introduce more stability to its business, "we must accept the inevitable: an increase of outside interference into our industry," Mr. Hueppi warned.

Mr. Jackson, in urging stable pricing policies, observed, "I accept that most of us have very good property results for '85-'86, but we have not had a major catastrophe."

When a property catastrophe occurs, individual property insurance and reinsurance underwriters each will be liable for a larger portion of the loss than in past years, he noted. That's because most reinsurers do not have enough catastrophe reinsurance and many primary insurers have significant retentions and gaps in their reinsurance coverage.

"This is no time for rate reductions," Mr. Jackson declared. "We have to ask: Do we really believe we have enough money in the bank to pay for the national disaster?

"It's all very well to say 5% off

Continued on page 6



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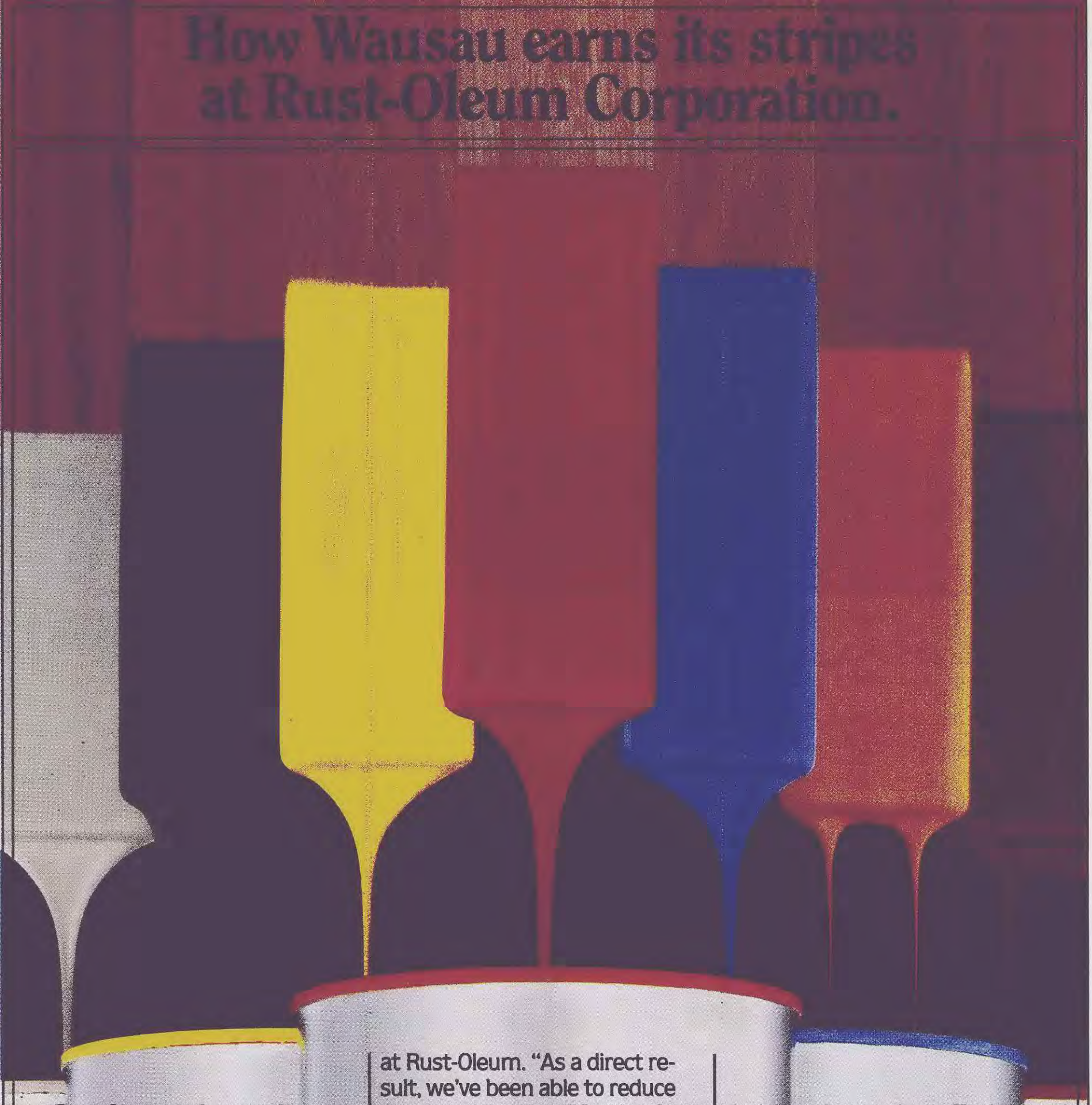
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Continued from page 4

this or 10% off that won't break us. And maybe it won't. But if it's 5% to 10% off everything you do, then everybody else does the same thing and eventually it becomes 25% to 30%, and we know what that did to us before."

In addition, the industry overall has to cope with problems of loss reserve inadequacy and uncollectable reinsurance, according to Mr. Jackson said.

The industry's improved results this year may not be accurate, Mr. Jackson suggested. "In 1979, very few underwriting organizations had significant reserves for asbestos. Now they certainly do."

"If we add asbestos claims, did we do as as well as we thought?" he asked.

"I've said many times the insurance industry has been underreserved, and I believe it particularly strongly in reinsurance and particularly in international reinsurance," Mr. Jackson said.

"European companies find it difficult to understand what crazy things have been going on and it is difficult to bite the big bullet to put up reserves," he explained.

The lack of adequate loss reserves could be so severe to bankrupt some underwriting organizations, he suggested. "As asbestos losses go through the system and really get to the end of the line, the dominoes will start to fall backward," Mr. Jackson predicted. "How many reinsurers and retrocessionaires will be able to pay?" he asked.

In addition to asbestos losses, Mr. Jackson said, "We have to remember we should consider reserves for uncollectable reinsurance when the 1981, 1982, 1983 and 1984 underwriting losses get through."

And Mr. Jackson advised that future capacity for liability business could be restricted if the coverage is not written at a profit.

'This is no time for rate reductions,' says Lloyd's of London underwriter Robin A.G. Jackson.

"Our investors are making it very clear—if you can't make an underwriting profit, go somewhere where you can. We've never made it on U.S. liability business. You only have a year or two to prove that we can. When you do, don't give it all back," Mr. Jackson advised.

Lloyd's premium capacity will grow to an estimated $14 billion next year, compared with $9.25 billion in 1985 and $6 billion in 1983, Mr. Jackson noted.

"Don't assume the growth all will be dedicated to your business," Mr. Jackson warned. "A lot will go to marine underwriters, who won't know what to do with it," he said, referring to the depressed state of the oil industry.

Members joining Lloyd's in 1987 see the poor results on non-marine business and they want a greater share of marine business and no U.S. liability business, Mr. Jackson explained.

"It takes a lot of effort on our part to convince people to put capacity behind syndicates writing U.S. business."

But, Mr. Jackson also stressed Lloyd's commitment to the U.S. market.

In 1985, Lloyd's underwrote $1.5 billion in reinsurance premiums for U.S. insurers, Mr. Jackson said, noting "that is somewhat less then General Re and $500 million more than Michael's company," referring to General Reinsurance Corp. and Employers Re, respectively.

And, Lloyd's wrote even more in premiums on direct U.S. insurance business: $2.4 billion.

"I answer these people in Washington who say, 'All we are doing is paying all that money to foreigners,' that I am sure we've given you more back in the last few years," Mr. Jackson quipped.

Despite concern that insurers and reinsurers are beginning to move toward another rate-cutting binge, Mr. Jackson predicted there will be a "tight market for the next year or so," for all U.S. liability business.



Mr. Jackson

Liability rates also will go up 10% to 15% for 1987 policies, if the policy had been completely re-rated this year, he said later in an interview.

Mr. Fitt said that he expects "capacity will continue to be somewhat of a problem, particularly in the retrocessional market. Certain third-party lines will still experience a contraction of limits."

Mr. Jackson's syndicate 799 will increase its capacity about 10% to 15% in 1987, Mr. Jackson also noted during the interview.

This year, Syndicate 799 is writing about $148 million in premiums on U.S. liability business out of a total of about $247 million.

Syndicate 799 will begin writing new business with Jan. 1 inception dates "almost any day now," but right now "the priority is renewals," Mr. Jackson said.

How much new business Mr. Jackson writes for 1987 will depend upon how much capacity is eaten up by renewals.

Except for medical malpractice risks, which he says he is cutting back, Mr. Jackson expects to write new business in all classes.

(Merrett has given Lloyd's notice that it intends to appeal the committee's decision ordering it to limit its 1987 premium writings to 85% of its premium capacity.

Merrett has told its shareholders that it believes the committee failed to take full account of the controls it has implemented for 1986 and certain other matters. Merrett expects the appeal, which will be made to an independent group under Lloyd's procedures, will be heard before the end of the year.)

Mr. Jackson also advised that Lloyd's underwriters will continue to insist on claims-made policy forms for general liability and product liability risks.

"I find it very hard to understand why people want to continue to issue occurrence policies on general liability and products when we're had the interpretations we've had," Mr. Jackson said, referring to various court opinions providing broad coverage under the occurrence form for asbestos-related claims.

"It is most unlikely that Lloyd's will be a major player on occurrence liability business in the U.S.," Mr. Jackson said. ■

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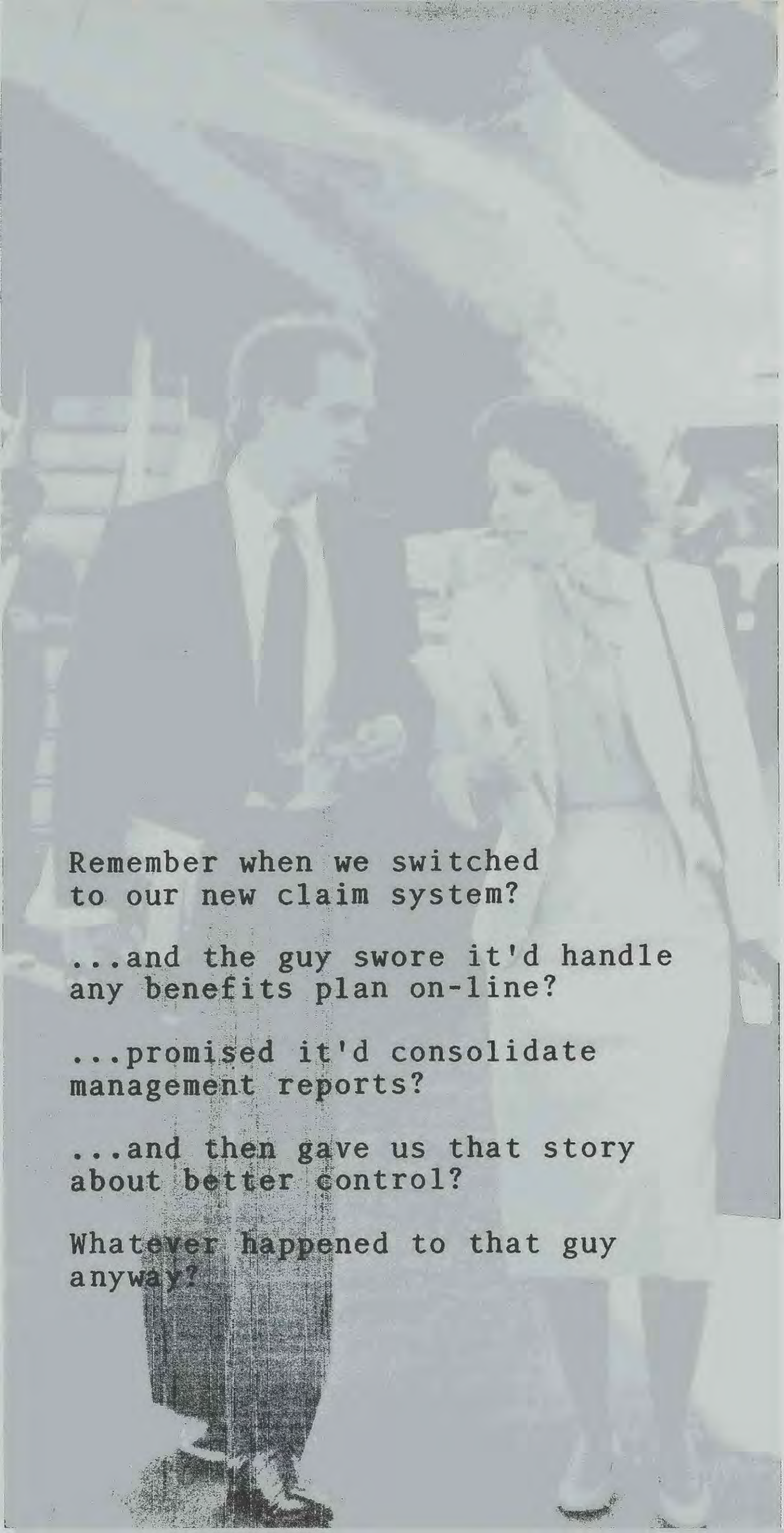
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NAII coverage to continue

Coming next week in *BI*: "American Civil Justice in the '80s," a panel discussion during the NAII annual meeting. The speakers included: Eugene C. Thomas, president of the American Bar Assn.; former Commissioner of Baseball Bowie K. Kuhn, now practicing law with Wilkie, Farr & Gallagher in New York; Sen. Orrin G. Hatch, R-Utah; and Donald L. Schaffer, executive vp, secretary and general counsel of Allstate Insurance Co.



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opinions

Don't cut benefit safety net

BEFORE CONGRESS again begins to tinker with employee benefit plan rules, we recommend that legislators first read the latest survey on employee benefit costs conducted by the U.S. Chamber of Commerce (see story, page 1).

The survey, published last week, reveals how widespread benefit plans have become. For instance, among the 1,000 employers that responded to the survey, virtually all—99%—reported making payments in 1985 for group health and life insurance benefits.

In addition, 79% of employers, representing a broad cross-section of American companies, made contributions to pension plans, while about half paid premiums for group dental insurance.

Aside from the breadth of coverage, the survey reveals how expensive it is for companies to provide benefits to their workers.

For example, companies reported that on average in 1985 they spent $1,561 per employee on health and life insurance coverage, while pension benefit expenditures amounted to $905 per employee.

These are tremendous expenditures. All told, the Chamber estimates that employers spent a whopping $691.3 billion on benefits in 1985.

These numbers deliver one simple—but vital—message: It is the nation's employers that are providing the safety net to assure that workers have health and life insurance protection and are covered by retirement plans.

But instead of strengthening this safety net, Congress, judging by its actions in its recently concluded session, seems determined to rip the net apart.

Legislators, for example, tacked on needlessly complicated non-discrimination rules for pension and welfare plans as part of the Tax Reform Act of 1986.

Adding this maze of complexity to benefit plan administration does not encourage employers to offer benefit plans.

And, earlier in the year, Congress gave former employees, as well as employees' divorced and widowed spouses, the right to purchase group health insurance coverage from employers.

While this extension of coverage certainly serves a social purpose, the law's failure to delay compliance until regulators developed rules has caused no end of problems for employers.

If Congress continues to follow this thinking and passes more legislation that further complicates benefit plan delivery, no doubt some employers will decide enough is enough and will terminate benefit programs altogether.

If that happens, the burden of providing benefits would increasingly fall into the hands of the federal government. And, in an era of huge budget deficits, that's a burden the government certainly cannot afford—a point legislators should remember when they take actions that discourage employers from continuing benefit plans.

Finally, the Chamber survey refutes the suggestion, often heard in congressional circles, that benefit costs are out of control and that the government has to take some kind of action to restrain benefit expenditures.

While benefit costs did increase 4.1% to an average of $8,116 per employee in 1985, up from $7,842 in 1984, much of this increase appears attributable to previous under-reporting of paid rest periods. In fact, insurance costs, which include payments for both health and life insurance, actually declined slightly in 1985 compared with 1984.

That decrease underscores the point that employers, without any interference from the federal government, are in the best position to keep benefit costs under control.

letters

Forming mutual one way to circumvent tax law

To the editor: So the latest tax bill makes profits of U.S.-owned offshore association captives taxable to stockholders. So why not form a company that has no stockholders—a mutual? It is hardly an untried idea.

Decades ago, Belk Industries even established a reciprocal to write insurance for its franchises.

Long before that, employers in various places established mutual companies to write their workers compensation insurance (such as Employers of Wausau, Michigan Mutual Liability, Texas Employers and American Mutual).

Associations of lumbermen, hardware and equipment and millers established lumber, hardware and mill mutuals. Farmers established the farm bureau mutuals.

Automobile owners' associations established reciprocals and mutuals to write auto insurance.

Back in 1835, Zachariah Allen and other textile mill owners started the Factory Mutuals to insure their mills. Still further back, in 1732, Philadelphia citizens under the leadership of Benjamin Franklin established the first insurance company in this country in order to have insurance on their homes. They copied the idea from the "Hand in Hand" society, founded by builders in London in 1696.

In each case, the founding was motivated by the high cost of—and/or inability to get—other insurance. The same motive exists today, of course. And the same type of solution is available.

In a mutual, there are no stockholders against whom the income can be taxed. And policyholders' dividends are not "income" under U.S. tax law.

Bob A. Hedges
Professor of Risk Management
and Insurance
Temple University School of
Business and Management
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Part of COBRA speech was misinterpreted

To the editor: An article in the Oct. 27 issue reporting on the Council on Employee Benefits conference provided a good summary of my speech on the Consolidated Omnibus Budget Reconciliation Act. Unfortunately, however, you failed to interpret properly my observations regarding the need to offer continuation of non-core benefits, such as dental benefits.

Non-core benefits must be offered for continuation, along with core benefits. The point is, however, that the employer cannot require a qualified beneficiary under the provisions of COBRA to take the non-core benefits if he or she merely desires to continue the core benefits.

Thus, the employer must permit continuation of all benefits (both core and non-core) or core benefits alone (without the non-core benefits).

Charles C. Morgan
Assistant General Counsel
Law Department
Prudential Insurance Co. of America
Newark, N.J.

Risk Retention Act not reprinted in entirety

To the editor: With regard to the *Business Insurance* issue of Oct. 20, please note that there is an inaccuracy in the text of the amended Risk Retention Act as reprinted on page 96.

Specifically, Section 2 (b) of the Risk Retention Act was reprinted only in part, and should read in its entirety as follows:

"(b) Nothing in this chapter shall be construed to affect either the tort law or the law governing the interpretation of insurance contracts of any State, and the definition of liability, personal risk liability and insurance under any State law shall not be applied for the purpose of this chapter, including recognition or qualification of risk retention groups or purchasing groups."

Elaine K. Soble
Mayer, Brown & Platt
Chicago

■ *Editor's note: Between the time the Risk Retention Act of 1981 was published on Sept. 25, 1981, and Senate amendments to the Act were published on Oct. 6, 1986, a technical amendment relating to the subsection was passed. BI regrets the omission.*

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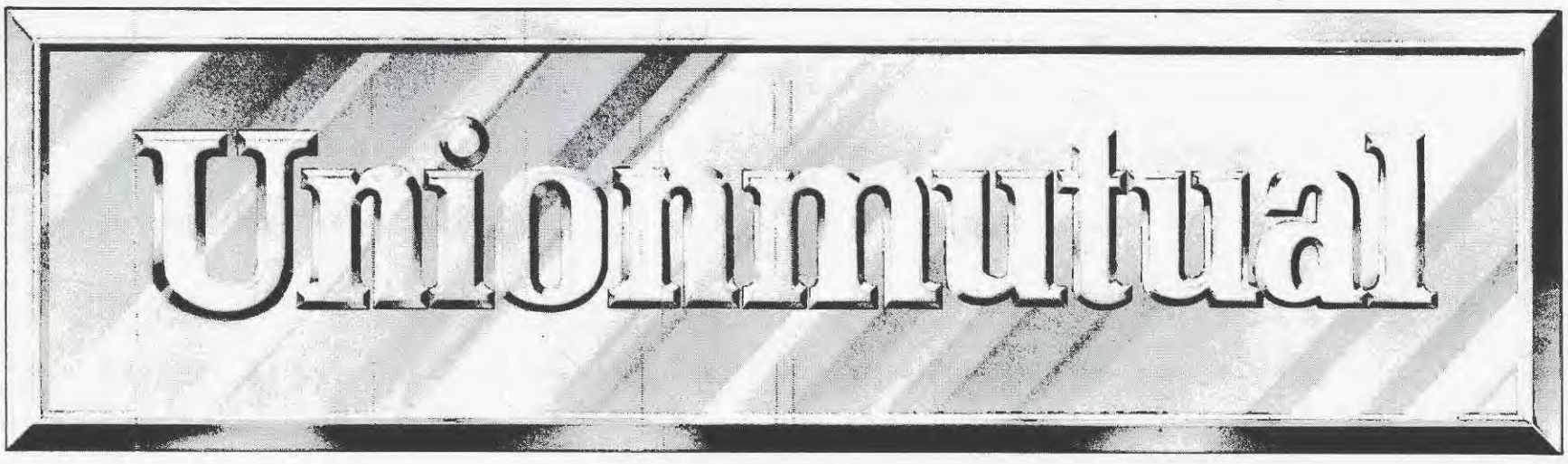
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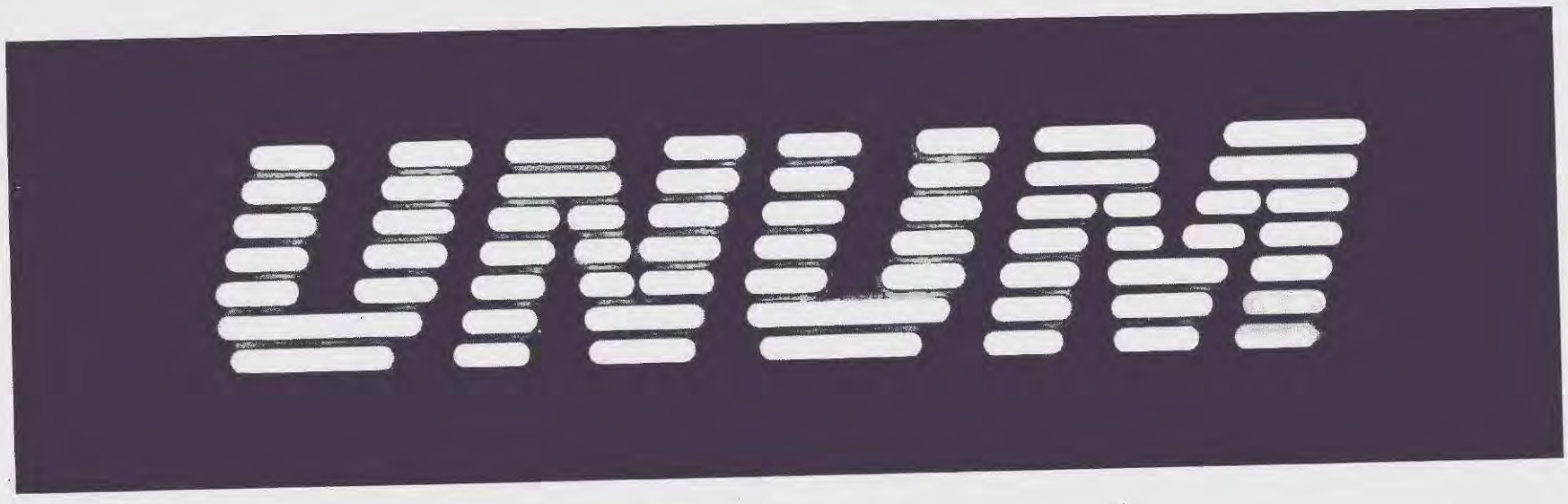
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NAII planning to defend tort reforms: Beck

By KATHRYN J. McINTYRE

ATLANTA—The National Assn. of Independent Insurers is preparing to defend tort reforms against legal challenges by plaintiffs' attorneys, its president says.

"We have to hold the ground we won," Lowell R. Beck said in opening remarks at the 41st annual meeting of the NAII, a 500-member insurance company association.

Citing tort reforms enacted in 35 states, Mr. Beck said, "The personal injury lawyers found out this year what it's like at the other end of the bat, and as a consequence they are coming back and have threatened to test the constitutionality of the new reform laws in 20 of the 35 states.

"Our legal division already is at work roughing out the briefs we'll need when the trial bar makes its move. We'll be filing amicus briefs in those cases, and our resources will be available to individual companies if you turn out to be parties to the suits," Mr. Beck told his membership.


Mr. Beck

In addition to defending the tort reforms enacted to date, the NAII will lobby for more tort reforms, oppose efforts to regulate insurers more strictly and work to maintain the state system of insurance regulation against proposed federal intervention, he said.

The NAII will lobby for abolition of—or severe limitations on—joint and several liability; changes to the collateral source rule; caps on non-economic damages; and limits on punitive damages, he said.

In addition to seeking new reforms, the NAII also will have to "counter some outright backlash in a few states," Mr. Beck added.

He said he expects "trouble in 1987 from three directions. Reform will be used as the quid pro quo to pass some kind of excess profits law, to impose prior approval of rates or to enact very onerous new data-reporting requirements."

The NAII's strategy to block these efforts will be "stressing—and proving through research and data surveys—that the problems will be solved by giving the competitive market the freedom and time to self-correct."

The tort reform effort was successful in 1986 because "the public and the legislators believed us when we said we had indications and intuitions about tort abuse. In 1987, we'll have to start producing harder numbers," he warned.

"If 1986 was the year of availability and affordability, 1987 will be the year of accountability and credibility," Mr. Beck predicted.

In 1986, 16 of the 35 states that passed tort reform also enacted new data-reporting laws, Mr. Beck noted. "Some are easy to comply with; some aren't," he observed.

"We represent our members on the All-Industry Advisory Committee on Data Reporting and we've been meeting over the last several months with regulators in six states to make the new regulations as workable and painless as possible," Mr. Beck said, referring to a committee advising the National Assn. of Insurance Commissioners. The six states are Idaho, Oklahoma, Delaware, Wisconsin, Maryland and New Mexico.

In addition, the NAII is working with the NAIC to give regulators "timely, detailed data, broken down into sub-coverages and classes of business."

Congress, too, is "mightily interested in our business," Mr. Beck said.

"When the 100th Congress convenes, we'll be looking at no fewer than three strong attempts in the House to repeal or modify the McCarran-Ferguson Act. We expect at least four more in the Senate."

Later, Mr. Beck said he was referring to Sen. Paul Simon, D-Ill.; Sen. Howard Metzenbaum, D-Ohio; and Rep. Peter Rodino, D-N.J.

"In addition, we anticipate several bills to require insurers to report data to the federal branch, and there will be several financial deregulation measures.

"But the key to keeping the lid on in Washington is in the states," Mr. Beck suggested. "Nothing will silence these calls for federal regulation quicker than a vibrant market in the states and a public that understands our problems.

"That means loosening the market where you can and furnishing credible data where you and we can. It means supporting the data studies, closed claims surveys and other research projects we may need."

Suggesting that "perhaps the most important job ahead of us in the states is to keep the market moving toward some degree of normalcy," he added, "the great danger we face now is not tight markets, but an over-softening. We're hearing reports already of commercial business being written at 20% to 30% under (Insurance Services Office) recommended rates.

"One very large commercial writer is saying openly that it's going after large market share now, while rates are adequate, and before they start to fall."

Mr. Beck said later that he has not personally heard executives of the unidentified insurer espouse that philosophy, but he has heard it twice attributed to the same East Coast stock company.

"If that attitude toward underwriting spreads, frankly we will use up the good will of public officials at the state and federal levels of government. And our pleas to be patient while the market corrects itself—which is what we're saying—will fall on deaf ears," he said.

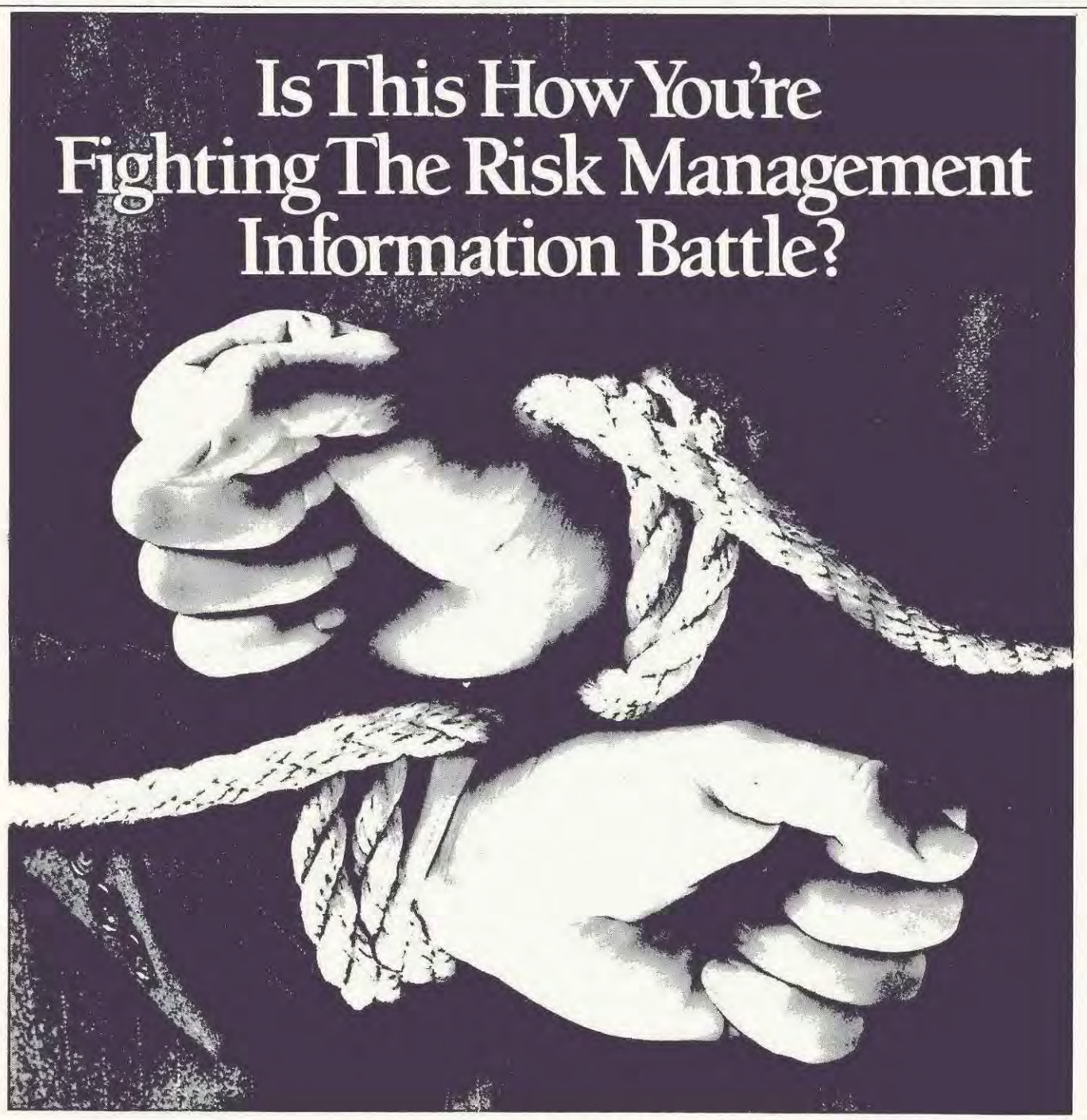
In addition, Mr. Beck noted that while "operating results are out of the swamps after the two worst underwriting losses in history, we have a long way to go to make up for years of puny earnings."

Mr. Beck also called on the NAII membership to continue their political activity.

NAII is working with The Alliance of American Insurers and the American Insurance Assn. along with the Insurance Information Institute and ISO to "coordinate our efforts in legislative work, public education and to raise the necessary money," he added.

For the first time, the NAII's political action committee in 1986 raised more than $100,000 in one year, Mr. Beck noted. When Mr. Beck joined the NAII 6½ years ago, the PAC had only $16,000.

"There's no way this industry could buy votes," Mr. Beck said later during an interview. "We're interested in men and woman who try to understand the insurance business and support state regulation of insurance." ■



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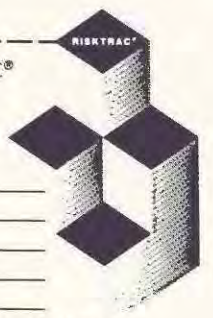
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Continued from page 3

"High start-up costs, coupled with market instability, pose a formidable barrier and will deter many boards of directors from making another attempt or a new attempt to enter this market in the near future."

- The need to bridge different cultures.

"Bridging vastly different cultures, varying lifestyles, employment and management customs, operating conditions, shareholders' expectations and disclosure practices all certainly add to the complexity of controlling a U.S. insurance operation from Europe."

- Currency exchange.

"Movements in the currency market can play havoc on an international insurer's profit and loss statement and on an international balance sheet."

Citing the recent decline of the U.S. dollar against European currencies and especially the Swiss franc, Mr. Hueppi noted a 1984 U.S. dollar loss of $10 million would have been booked as 25 million francs, but a 1986 operating profit of $10 million would be booked as only 16 million francs.

- The European view of the U.S. tort system.

"The differences between the U.S. tort system and European notions thereof lie in the mentality and the claims consciousness of the population at large, of the plaintiffs' bar in particular and in some different procedural concepts."

European's claim consciousness is "dampened by broadly satisfactory social security, a more modest assessment of a claim's monetary value, little incentive for exaggeration of claims and a number of issues in connection with the burden of proof."

"All these factors encourage or facilitate negotiation and settlement of justifiable claims in Europe," with very few cases ever going to trial.

- A system of state regulation under which 50 different states impose "widely differing regulations and reporting requirements.

"All combined, or any of these factors, may determine the European insurer's level of interest—and limited interest—in the U.S. market," Mr. Hueppi said.

Zurich, however, has operated in the United States since 1912. In 1985, 28% of the group's worldwide property/casualty premiums written in the United States.

"To participate in the continuing opportunity that the U.S. market will offer, I believe we foreign-owned companies, along with the smaller and medium-sized U.S. carriers, will be well advised to learn to be pro-active in areas of specialization, and react to specific market niches," he advised.

That is because he predicts the U.S. insurance market of the future will become more concentrated to "fewer, larger and market-dominant insurance carriers. Through size, sheer power and efficiency, these larger insurers will increasingly control broader parts of our market."

At the same time, however, Mr. Hueppi predicts the more dynamic midsized and smaller insurers will specialize.

"Both of these developments will take place at the cost of the unsophisticated, small insurer and the medium-sized insurer that goes along with all facets and the broad range of the national property/casualty insurance market."

Zurich's strategy in the United States is to operate three property/casualty insurance groups, a reinsurer, a life company and a 50% share in a surety underwriter.

The three property/casualty groups include:

- Zurich-American Insurance Group, which operates Zurich Insurance Co.-U.S. branch, and four companies owned by Zurich Insurance Co.: American Guaranty & Liability Insurance Co.; American Zurich Insurance Co.; Zurich American Insurance Co. of Illinois; and Zurich American Lloyds.

Zurich-American Group underwrites standard commercial lines, large accounts, international business, selected personal lines and specialty products.

- Universal Underwriters Group in Kansas City specializing in automobile dealers' insurance.
- The Empire Group in Omaha, Neb., which underwrites specialty, non-standard products.

In addition, Zurich also operates in the United States:

- Zurich Reinsurance Co. of New York.
- Zurich American Life Insurance Co., which plans significant expansion in the individual life market.
- A 50% investment in Fidelity & Deposit Insurance Co. of Maryland, a surety underwriter.

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Mr. Tom Walters, Director of Cash Control for Blue Cross and Blue Shield of Michigan, says: "The payback from this project was terrific. Through intense use of IDP's service on behalf of our employer, we were able to achieve savings of over $1,000,000 above and beyond what we would have saved without the service. The overall effect is that we saved $94.00 for every $1.00 spent on the service."

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New financial guarantee insurer opens

Capital Guaranty Insurance Co. of San Francisco,the successor company to USF&G Financial Security Co., began operations last week as a monoline financial guarantee insurer, fueled with initial capital of $100 million.

Capital Guaranty Insurance Co., a wholly owned subsidiary of Capital Guaranty Corp., will assume USF&G Financial's book of business, which generates about $30 million in annual premiums.

Virtually all of its business is now accounted for by financial guarantees for municipal bonds, notes and leases, though it plans to become more involved in the corporate financial segment as well, said Helene Jaillet, who is responsible for financial operations.

Michael Djordjevich, who was president and chief executive officer of USF&G Financial, assumed that post at Capital Guaranty.

In addition to the $100 million in paid-in capital contributed by its stockholders, the insurer has a binding agreement with them that provides an additional $100 million if and when required.

Ms. Jaillet said the company's investors are Constellation Investments Inc., an affiliate of Baltimore Gas & Electric, which contributed $27.5 million; Fleet Financial Group Inc. and Norstar Bancorp, which contributed $20 million each; United States Fidelity & Guaranty Co., USF&G Financial's former parent, which contributed $17.5 million; SAFECO Corp., which contributed $10 million; and Sibag Finance Corp., which contributed $5 million.

There are no immediate plans to take Capital Guaranty public, she said, "but down the road several years from now, there's no reason to believe it might not happen."

USF&G Financial's restructuring as a monoline insurer is part of a trend toward segregating long-tail financial guarantee business (*BI*, Oct. 20).

Insurer sold

Lincoln National Life Insurance Co. has reached a definitive agreement to acquire all of the stock of Green Bay, Wis.-based Fireman's Fund Employers Insurance Co. from American Express Travel Related Services Co. Inc. and AMEX Life Assurance Co. for $215 million in cash.

The agreement is subject to regulatory and board approvals and is expected to close by the end of the year, according to a spokesman for Fort Wayne, Ind.-based Lincoln National.

Fireman's Fund Employers Insurance writes traditional indemnity group health insurance and markets health maintenance organizations and preferred provider organizations.

Lincoln National is a multiline insurance holding company with annual revenues of $5 billion.

Atlanta HMO

John Hancock HealthPlans Inc., a subsidiary of Boston-based John Hancock Financial Services, has purchased Ameriplan, the largest health maintenance organization in Atlanta, for $7 million.

Hancock, which has been in a limited partnership with the HMO since 1980, purchased the interests of 70 limited partners, mostly local doctors and attorneys, to complete the acquisition.

AmeriPlan in Atlanta has 86,000 members and is affiliated with 1,600 physicians. The HMO also offers a plan in Jacksonville, Fla., that began operations 1½ years ago and currently has 28,000 members and 600 doctors.

"The acquisition allows Hancock to establish a stronger position in both markets," said Howard Veit, executive vp of John Hancock HealthPlans. "We will now be able to offer employees in both the greater Atlanta and Jacksonville areas a broader array of health insurance products."

Explaining the reasons for the sale, Art Bartlett, former president of Ameriplan and now regional vp with John Hancock HealthPlans, said, "The agreement gives AmeriPlan access to greater capital. The limited partnership had come to the end of its usefulness. The problem was that when we wanted to change anything we had to get the approval of each limited partner."

Hancock has interests in HMOs in Philadelphia, Chicago and Hartford, Conn. With the addition of AmeriPlan, its HMOs now serve more than 325,000 clients.

markets

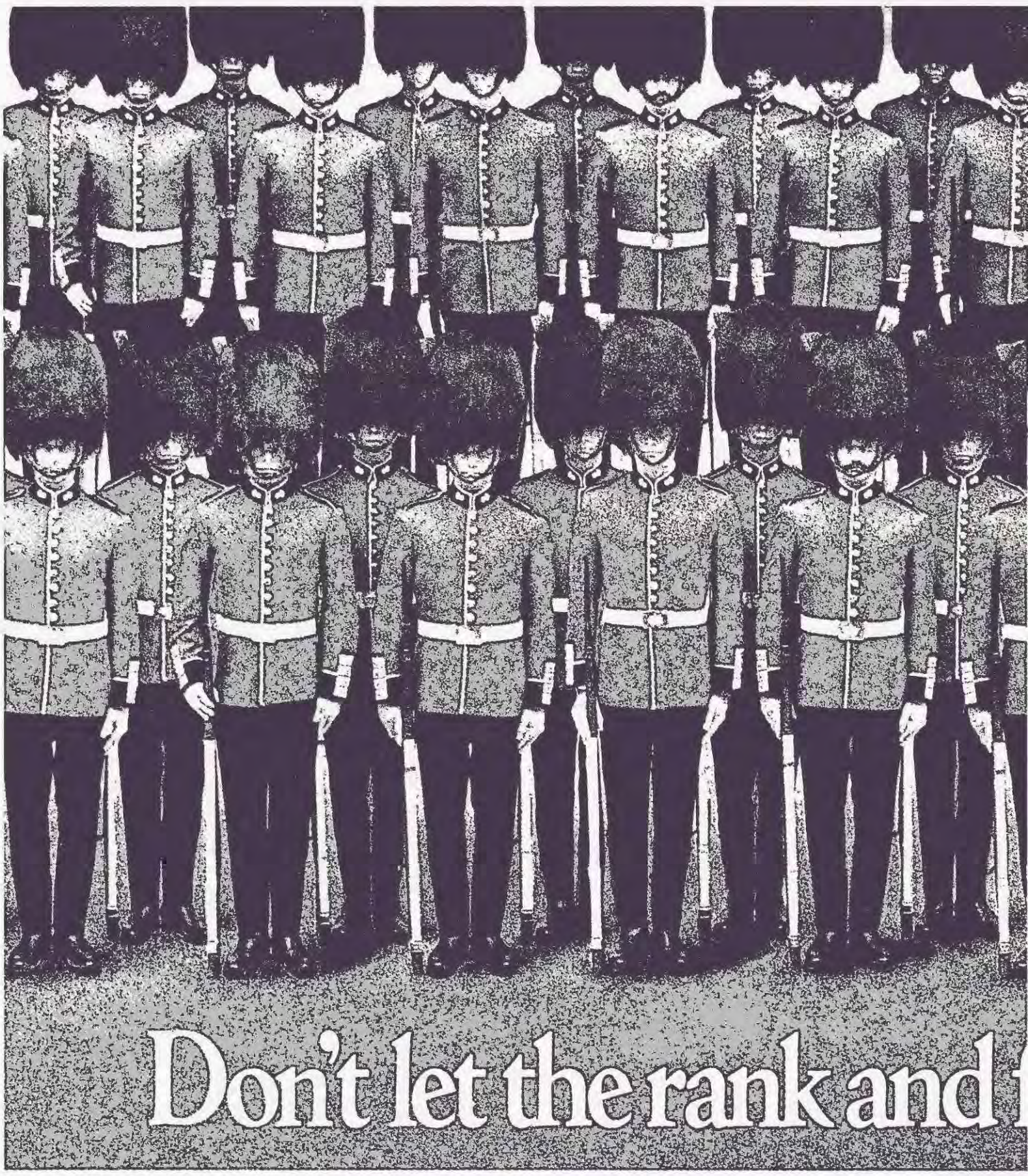
New offices

Insurance broker **Corroon & Black of Illinois** has expanded its network of offices in suburban Chicago, opening a new office at 1 Northfield Plaza, Northfield, Ill. 60093; 312-441-2640.

Corroon & Black/Olliver Pilcher Insurance has moved into new offices in The Corporate at Squaw Peak, 7310 N. 16th St., Suite 300, Phoenix, Ariz. 85020-5299; 602-870-7000. Also, a toll-free number is available to customers in Arizona: 800-237-7097.

Hull & Co. Inc., an independent excess/surplus lines broker, has opened a new office in Northern California at 1043 Stierlin Road, Suite 103, Mountain View, Calif. 94043; 415-968-8448 or 800-331-7501 outside California. Hull & Co. specializes in placing difficult commercial auto risks.

Surplus lines broker **McAlear Associates Inc.** has moved to 3075 Orchard Vista Drive S.E., Grand Rapids, Mich. 49506; 616-942-8000. ■



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Insurers will not pay PCW-related claims

By STACY SHAPIRO

LONDON—Underwriters of Minet Holdings P.L.C.'s 75 million pounds ($112.5 million) of errors and omissions insurance for 1982 are refusing to pay claims relating to Minet's former subsidiary, PCW Underwriting Agencies Ltd.

The underwriters are refusing to pay any claims on the 1982 coverage that relate to the huge financial losses at PCW-managed syndicates because the insurers claim that former Minet Chairman John Wallrock did not disclose alleged wrongdoings at PCW.

Mr. Wallrock has been expelled from Lloyd's for participating in the alleged misappropriation of millions of pounds of PCW syndicate funds.

"Mr. Wallrock was aware of these activities and participated in them," said Duncan McMillan, claims manager for the Michael Payne & Others syndicate at Lloyd's, who is one of five members of a committee representing Minet's E&O underwriters.

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"Mr. Wallrock's knowledge was Minet's knowledge. We have recommended that the market avoid (paying claims on) the policy and we have communicated this to Minet," Mr. McMillan said.

Minet filed its first PCW-related claim for about 10 million pounds ($14.5 million) two years ago on its 1982 E&O insurance policy to pay for costs involved in returning 38.17 million pounds ($52.29 million) to PCW members in 1984, said Mr. McMillan.

Minet and New York-based Alexander & Alexander Services Inc. paid the PCW members 38.17 million pounds ($55.3 million) to cover losses for the years 1979-1981, for which the members were liable. In return, the PCW members agreed not to sue Minet, A&A or other parties (*BI*, June 25, 1984).

More than 70 underwriters are involved in several layers of Minet's 75 million pound E&O policy, which is led by Royal Insurance P.L.C. and placed by Lloyd's broker Nelson Hurst & Marsh Ltd., sources in London say.

A committee of five underwriters, including Mr. McMillan, was set up to examine the claim. The committee decided to avoid paying claims on the grounds of non-disclosure. The underwriters also offered Minet 500,000 pounds ($725,000) to settle the claim, but Minet rejected the offer, said Mr. McMillan.

Minet has not filed suit against its underwriters to recover the money.

Minet Chairman Ray Pettitt would not comment on the dispute or Minet's E&O coverage. However, he said that for the last four years, Minet has been operating as if it had no E&O insurance to pay for claims arising from the PCW affair.

"We continue to handle the situation as we have for four years—as a prudent uninsured," he said. "We continue to receive legal advice that we have no liability whatsoever" for PCW losses.

In the meantime, Minet could file additional claims on its 1982 E&O policy even though the underwriters have voided the policy, Mr. McMillan speculates.

The E&O underwriters may be asked to pay losses that arise from current negotiations with PCW members to settle who will pay 235 million pounds ($352.5 million) in underwriting losses for which the members are liable.

The members have refused to pay the losses and are threatening to file suit against Lloyd's, Minet and 36 other defendants if a settlement isn't reached.

Lloyd's currently is negotiating with the members and defendants to settle the dispute.

Mr. McMillan believes that Minet could ask its E&O underwriters in 1982 or its E&O underwriters in 1985 to pay for losses arising from any settlement. However, Minet's 1982 underwriters are refusing to pay the claims, he noted, adding that Minet's 1985 E&O coverage excludes claims arising from PCW-related incidents.

However, Lloyd's Chairman Peter Miller said that the state of Minet's E&O insurance is irrelevant to any possible settlement with PCW members. Lloyd's wants to settle the dispute out of court, he added.

"We are talking about a compromise over legal liability," he said.

Syndicate manager

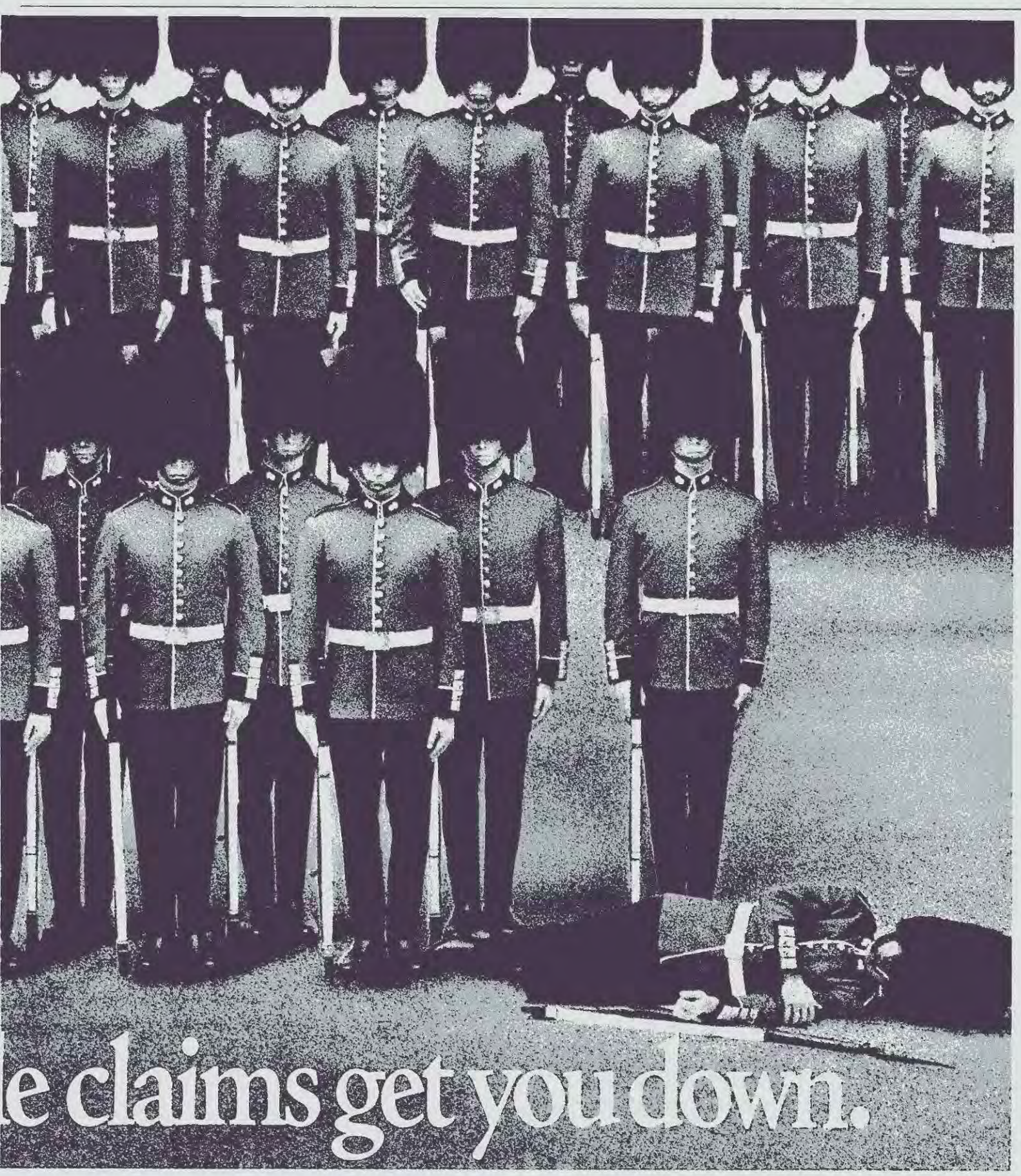
Lloyd's of London misjudged the fate of at least one of the syndicates formerly managed by PCW Underwriting Agencies Ltd. last year and is now changing the syndicate's management.

In June last year, Richard Beckett Underwriting Agencies Ltd., then the managers of PCW syndicates, discovered that underwriting losses in the PCW syndicates would exceed 62 million pounds ($93 million) (*BI*, May 20, 1985).

Lloyd's since has updated this figure to approximately 235 million pounds ($352.5 million), net of reinsurance. That amount has been set aside in Lloyd's Central Fund until Lloyd's and PCW members can arrange a settlement to pay the losses (*BI*, Sept. 1).

After Beckett reported the losses, its parent, Minet Holdings P.L.C., decided to run off the Beckett agency by the end of last year. The Council of Lloyd's subsequently stepped in to protect the interests of the Lloyd's members by setting up a rescue agency, Ad-

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ditional Underwriting Agency No. 3 Ltd. (*BI*, June 24, 1985).

Lloyd's decided that AUA3 should take over the running of 11 PCW syndicates from Beckett, but not aviation syndicate 859, which at the time showed marginal profits. Instead, Lloyd's allowed the management of syndicate 859 to be passed on to J.H. Minet Agencies Ltd., another Minet subsidiary, confirmed a Lloyd's spokesman.

However, last week Lloyd's Council planned to transfer the running of aviation syndicate 859 to AUA3 because the syndicate is now reporting losses of 3.9 million pounds ($5.9 million) for accounting years 1982 to 1985.

"Syndicate 859 was not included (in AUA3 management) originally because we believed 859 was clear of problems," said a Lloyd's spokesman. "However, after a year of investigating by AUA3... Lloyd's discovered that this wasn't true. More has come to light than was known at the time," he added.

According to a report published by accountants Neville Russell in 1984, about 41 syndicates either had been managed by PCW, bought reinsurance from PCW or used PCW employees as their own underwriters. Syndicate 859 is one of the syndicates mentioned.

Less than three months ago, AUA3 took over the management of another one of these syndicates, syndicate 970 managed by Gardner, Mountain & Capel-Cure Agencies Ltd., because losses at that syndicate could reach 5 million pounds ($7.5 million).

Syndicate 540, also mentioned in the Neville Russell report and managed by WMD Underwriting Agencies Ltd., also may be managed by AUA3 soon, a Lloyd's spokesman confirmed.

In the meantime, Lloyd's Chairman Peter Miller still believes that Lloyd's and PCW members can reach a settlement on payment of the losses without going to court, as the PCW members have threatened. But, there must be a "significant contribution" from PCW members and from those whose actions contributed in any way to the "seriousness" of the situation, Mr. Miller told Lloyd's members at the general meeting on Nov. 5.

Earthquake risks

Reinsurers say they will continue to offer high rates and tight capacity for earthquake risks following last month's earthquake in El Salvador.

"It is going to give enough momentum to keep people from dropping their guard," said Robert Keith, assistant vp dealing with Latin American business for Continental Reinsurance Co. in New York. "No one will try to come in and undercut."

As a result of the earthquake "we cannot weaken rates," said John Austin, assistant general manager of the Mercantile & General Reinsurance Co. P.L.C. in London. "It can only strengthen the catastrophe market—it won't stop the serious players."

More than $200 million worth of damage was caused in the earthquake in El Salvador last month measuring 5.5 on the Richter scale, sources say. However, only about $20 million to $25 million of the damage in El Salvador was insured, reinsurers estimate.

"We don't expect the El Salvador earthquake to cause too much of a problem," said Mr. Austin.

The loss "is so unimportant that we have not even asked for information about it," said Giovanni Fantino, deputy executive manager of the Latin American department at Munich Re2insurance Co.

One of the reasons reinsurers feel that insured losses will be minimal is the small size of the insurance market in El Salvador.

According to Mr. Keith at Continental Re—which reinsures about 7% of the Salvadoran market—total premium volume in El Salvador is about $50 million annually, only about half of which is from non-life insurance.

Helicopter crash

The British helicopter that sank off the coast of Scotland last week killing 45 people—believed to be the worst civilian helicopter accident on record—is insured for 5.4 million pounds ($8.1 million).

The aircraft is insured by London underwriters led jointly by The British Aviation Insurance Co. Ltd. and Lloyd's of London's Ariel syndicate, sources say.

Oxford, England-based Pergamon Holdings also has 500 million ($750 million) pounds of liability coverage, London sources add, with 50 million ($75 million) pounds in primary liability insurance and two excess layers of 150 million pounds ($225 million) excess of 50 million pounds and 300 million pounds ($450 million) excess of 200 million pounds ($300 million). The excess layers are led by BAIC, London sources say.

The Boeing Vertol 234, a civilian version of the military Chinook helicopter, plummeted 300 feet into the Norwegian Sea off the Shetland Islands just before it landed. Only two of the 47 passengers and crew on board survived.

The helicopter, owned by British International Helicopters, was returning from the Brent oil fields in the North Sea and carried at least nine employees from the Shell International Petroleum Co. Ltd.

British International was purchased from British Airways Sept. 23 by Pergamon Holdings in Oxford, which is owned by Robert Maxwell, who runs the Mirror Group of Newspapers in London.

Pergamon insurance officials would not comment on the company's coverage.

Lloyd's building

Lloyd's of London will be closed for business Nov. 18 when Queen Elizabeth II officially opens the new Lloyd's building.

But, the building will be open for a giant champagne buffet lunch for those people who are invited to attend the official opening. This includes 5,000 people from the Lloyd's market—including underwriters, brokers, members and corporation staff—who have been chosen by ballot to attend.

London freelance writer Maria Kielmas contributed to this article.

Strong franc affects Swiss Re's results

ZURICH, Switzerland—Swiss Reinsurance Co., the second-largest reinsurance company in the world, blames the strength of the Swiss franc against most currencies for the 1985 drop in gross premium volume.

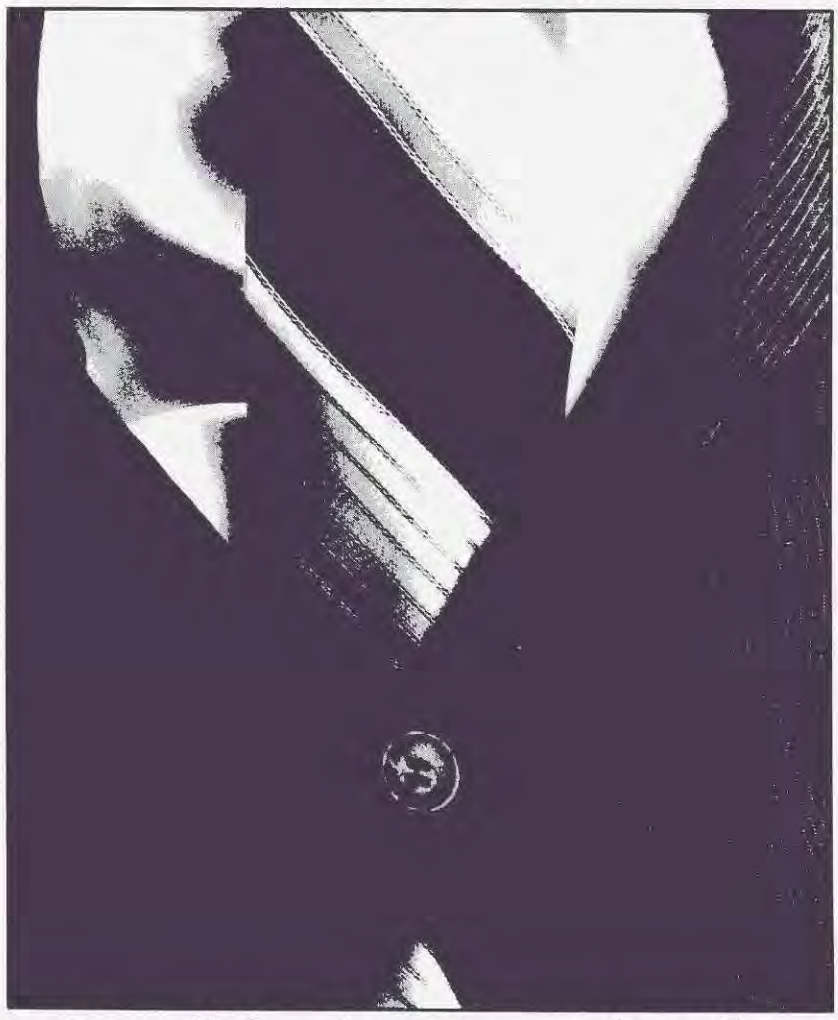
The reinsurer's gross premium volume fell to 11.1 billion Swiss francs ($6.5 billion) in 1985 from 11.5 billion Swiss francs ($6.8 billion) in 1984. However, net premiums rose slightly more than 1% to 9.9 billion Swiss francs ($5.8 billion) in 1985, up from 9.8 billion Swiss francs ($5.8 billion) the previous year, Swiss Re reported.

Investment income increased slightly to 1.08 billion Swiss francs ($635 million) from 1.05 billion Swiss francs ($618 million).

Group underwriting losses dropped 6.6% to 493 million Swiss francs ($290 million) from 528 million Swiss francs ($310.6 million).

As a result, net profits rose to 145 million Swiss francs in 1985 ($85.3 million) from 120 million Swiss francs ($70.6 million) in 1984.

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Engineers paying more for liability cover: Survey

WASHINGTON—Engineers nationwide saw average increases of 43% in the cost of their professional liability insurance in 1986 over 1985, according to a recent survey by the American Consulting Engineers Council.

The 1,600 design firms responding to the ACEC poll paid an average of 4.11% of their gross billings for insurance, up from 2.87% in 1985.

Among the various disciplines represented, structural engineering firms paid the highest percentage of their billings for insurance—7.11%. They also had the biggest increase, as costs as a percentage of billings rose 58% from 4.5% in 1985.

Based on size, small firms—with five or fewer employees—paid the most for insurance, at 5.67% of billings.

But, the largest firms—with more than 500 employees—had the biggest percentage increase in costs. Firms of that size paid 1.91% of billings in 1986, a 75% jump from 1.09% in 1985.

And, the number of engineering firms electing to go without insurance coverage also increased. Some 19.1% of the respondents said they were going bare in 1986, up 46.9% from 13% last year.

Average claim settlement costs, including legal fees, rose 49.3%, to $103,000 in 1986 from $69,000 in 1985.

And, the average amount of claims made rose 29.7%, to $1.4 million in 1986 from $1.08 million a year earlier.

In all, the ACEC estimates that its 4,700 member firms paid $200 million for insurance.

The liability rates have "skyrocketed all right," says Taylor Cosby, the ACEC's managing director-risk management and insurance. "These numbers quantify the problem ACEC has been talking about for more than a year."

Mr. Cosby says the ACEC is looking for ways to keep insurance costs from continuing to climb.

"We're looking at all types of tort reforms, such as restrictions on frivolous or non-meritorious claims, but also far beyond them," he says.

"One of our goals is to have all states include engineers in workman compensation laws, as has happened in Kansas and Oklahoma" he says, explaining that under those laws, injured construction workers who receive workers compensation are prohibited from suing the engineering firm involved in the project.

"Such major changes will affect insurance cost reductions, but it's a long way off," Mr. Cosby says.

"Nevertheless, we're already moving full speed ahead." ■

Carbide settles cleanup suit

DANBURY, Conn.—Union Carbide Corp. will pay more than $40 million to clean up radioactive mill tailings at a uranium mine in Colorado under an agreement with the Colorado state government.

The Oct. 31 agreement settles a 1983 suit the state brought under the Superfund act against Union Carbide asking the company to pay to clean up radioactive waste at Uravan, a mining town about 20 miles from the Utah border in southwestern Colorado.

Union Carbide also will pay Colorado $2.3 million to cover the state's legal expenses, natural resource damage claims and state monitoring of the cleanup operation.

The company plans to file suit against the federal government to recover some of the costs because it says about 55% of the 12 million tons of waste generated at Uravan were were generated by and for the U.S. Atomic Energy Commission, according to a spokesman for Union Carbide.

The spokesman would not say whether Union Carbide will seek any money from its insurers to cover any part of the cleanup costs.

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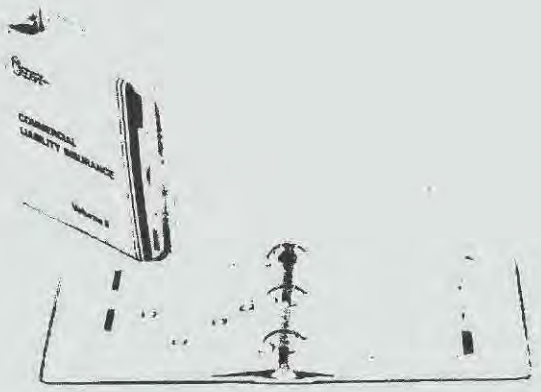
update

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Directory: Benefit Consultants
Issue Date: December 22
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Washington to probe insurer market conduct

OLYMPIA, Wash.—The Washington Insurance Department expects to begin conducting market conduct examinations of selected insurance companies by the end of the month.

The new examinations will be conducted independently of the regular financial review of insurers that department officials conduct every five years, said a spokesman for the state's Insurance Department.

Previous capacity problems in the state led to the passage of tort reform measures and funding of a three-person team of examiners to staff the market conduct review program, the spokesman said (*BI*, May 19).

While the first insurer to be examined under the program has not been chosen yet, priority is being given to property/casualty companies that have been named in complaints to the Insurance Department, he said.

around the states

"We are not trying to point a finger and say, 'These are the bad guys,'" the spokesman explained, noting that complaints often stem from a failure of the insurer's employees to follow internal procedures.

Insurance Commissioner Dick Marquardt concurred: "We're not out to do a hatchet job on anyone.

"If a company approaches a market conduct exam with a constructive, positive attitude, it can be a beneficial experience for all concerned," the commissioner said.

"We hope to give a company two to three weeks' advance notice of an exam and explain what records we'll need and just how the process will work," he added.

The team of examiners will look primarily at an insurer's internal procedures for handling applications, renewals and cancellations, as well as its relationship with policyholders and claimants.

Examinations are expected to take about two to five weeks, depending upon the size of the company and the nature of its problems, the department spokesman pointed out.

If examiners discover the insurer violated state insurance regulations, examiners may offer suggestions to bring the insurer into compliance or may report the violations to the state Insurance Department for action, the spokesman said.

Future examinations will include health and life insurers, health care service contractors and alternative health care programs like health maintenance organizations, he said.

Ohio refunds

COLUMBUS, Ohio—The Home Insurance Co. has refunded nearly $1.9 million in excess premium charges to seven public entities in Ohio as part of a settlement to end an Ohio Department of Insurance investigation into complaints of unwarranted rate hikes, a Home spokeswoman said (*BI*, Aug. 25; Sept. 22).

The Home is continuing negotiations with the remaining public entities to comply with a Sept. 15 consent order in which it agreed to honor all premium guarantees made to the public entities and to refund premiums where rating factors were applied improperly.

In related action, the department held hearings Nov. 3 involving American International Group Inc. affiliate National Union Fire Insurance Co., which signed a similar consent order Sept. 15, and the city of Brook Park, the only public entity that complained about National Union's rate hikes.

The hearing officer has 20 days to make his recommendation to Ohio Insurance Director George Fabe, who then has 10 days to decide on an appropriate settlement, the Insurance Department spokesman said.

The Insurance Department is expected to evaluate The Home's settlements later this month or in early December, the spokesman said.

Insurance Department-ordered actuarial studies found that the two insurance companies had overcharged public entities between 50% and 600%, according to the department spokesman.

New Jersey rate hike

TRENTON, N.J.—Employers in New Jersey can expect an average 10.4% increase in their workers compensation insurance rates on new and renewal policies beginning Jan. 1.

This increase, the first in six years, is expected to result in the collection of an additional $36 million in premium.

The increase is primarily due to mandated benefit increases to injured workers and the need to replenish the system's second injury fund, said Robert R. Heckman, special deputy commissioner and chairman of the New Jersey Compensation Rating & Inspection Bureau.

New Jersey's second injury fund, like similar funds in other states, pays a portion of the benefits to an injured worker who re-enters the workforce and sustains a second injury.

However, New Jersey's second injury fund also is used to bring existing permanent and total disability benefits up to current levels, Mr. Heckman said, explaining why more money is needed.

He also noted that the maximum weekly benefit level as of Jan. 1, 1987, will be $302, an increase from the current level of $284 per week.

Workers compensation rates in New Jersey remained level this year.

The last rate changes, which were effective Jan. 1 each year, include an average 13.1% decrease in 1985; an average 11.1% decrease in 1984; an average 14.8% decrease in 1983; an average 5.9% decrease in 1982; and an average 7.98% increase in 1981.

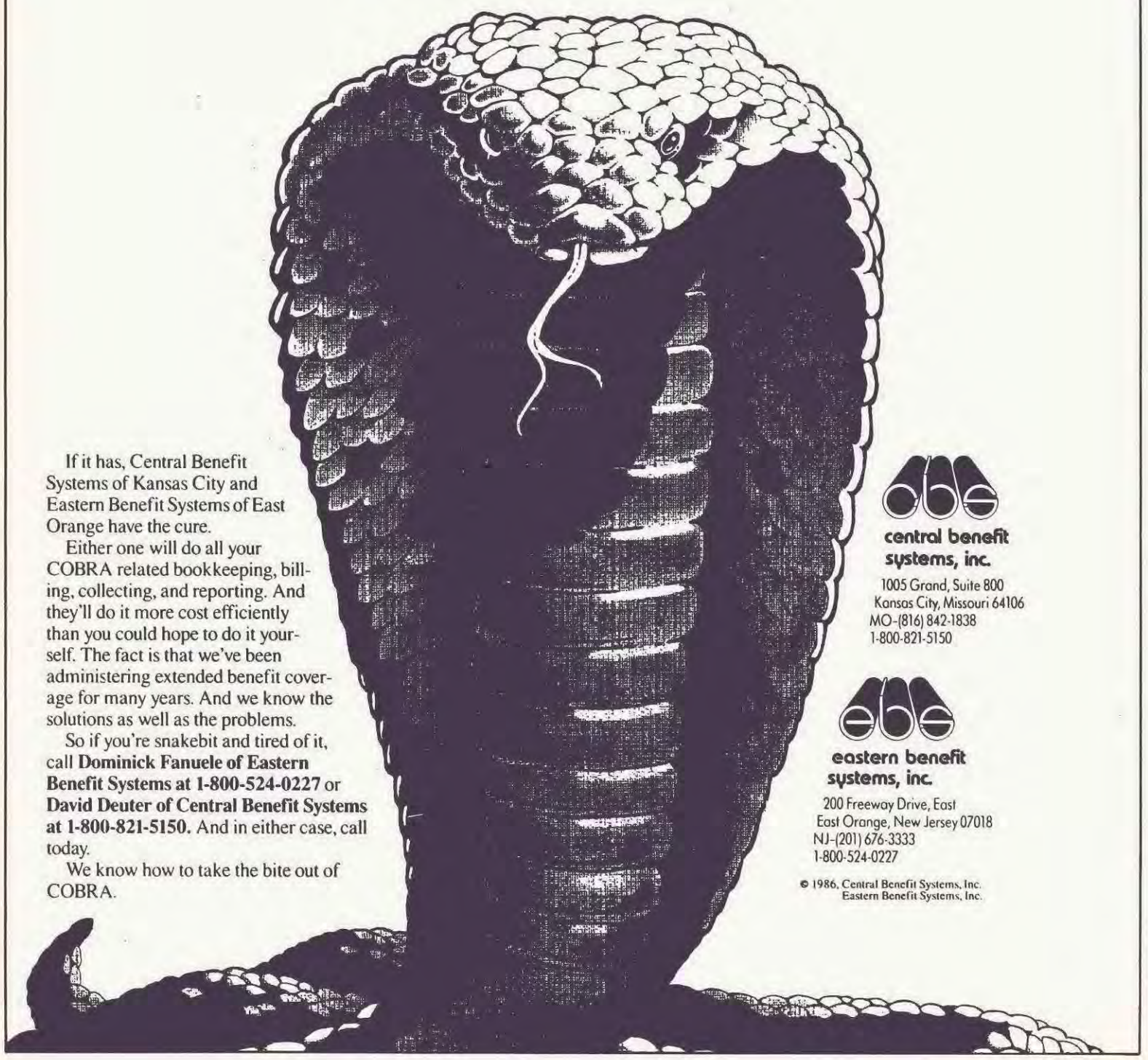
Pending Alaska hike

JUNEAU, Alaska—An average 14.3% workers compensation rate increase that would take effect Jan. 1 on new and renewal policies is pending in Alaska.

A hearing on the work comp rates, filed last week, is scheduled for Nov. 24-25.

The bulk of the increase is due to losses, said a spokesman for the National Council on Compensation Insurance, which made the rate filing on behalf of its insurer members. ■

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Private bids sought for CHAMPUS program

benefit beat

The U.S. Department of Defense will begin soliciting proposals in January from private health insurers for its Civilian Health and Medical Program of the Uniformed Services.

"We will solicit proposals from offerers that are interested in assuming financial underwriting responsibility for the CHAMPUS program," said John Casciotti, counselor to the assistant secretary of defense for health affairs. "We're trying to convert to a prospective, fixed-price program managed by the private companies."

CHAMPUS is a self-funded health insurance program offered to dependents of military personnel, retired military personnel and dependents of retirees, he said. Active military personnel must use military facilities for health care.

The CHAMPUS program covers about 6.2 million people, but only about 1 million people actually file claims with CHAMPUS, he said.

"CHAMPUS attempts right now to pick up the cost of care not paid for in military hospitals or not obtainable in military hospitals. Beneficiaries obtain care from civilian providers and send the bill to CHAMPUS," said Mr. Casciotti. "Our military hospitals provide about three-quarters of the care to military personnel and their dependents and CHAMPUS provides about one-quarter of the care to dependents and retired personnel.

"The initial phase of the bid solicitation will be for basically one-third of the CHAMPUS program," he said, explaining that one-third of the program's beneficiaries will be covered by the new plans. "If the new program is successful, CHAMPUS will be solicited further in subsequent years."

The Defense Department budgeted $1.7 billion for health care services for CHAMPUS beneficiaries for the fiscal year ending Sept. 30. About $1.4 billion in claims were paid just prior to the end of the fiscal year, he said.

In soliciting proposals from the private insurance industry, "we're simply coming up with a new system for purchasing that one-quarter of care," he explained.

Under the current plan, dependents of active duty members pay an annual deductible of $50 for individual coverage and $100 for family coverage. They also pay 20% of all expenses for outpatient care and a "nominal inpatient fee," he said. Dependents do not contribute to the premium under the program.

Retired members and their dependents pay the same deductibles, but they also pay 25% of all inpatient and outpatient expenses, said Mr. Casciotti. They also do not contribute to the premium.

There are no limits on coverage under the plan.

Some of the private insurers interested in the bidding include the Blue Cross/Blue Shield Assn. and Equicor, the joint venture between Hospital Corp. of America and the Equitable Life Assurance Society of the United States.

BC/BS plans "are currently evaluating the proposal and the plans are interested in bidding on the business if it makes good business sense," said a spokeswoman for the Blues in Chicago.

"Equicor has been following the bidding plans and we are interested. We do plan to participate in the bidding process," said Richard Wright, senior vp of business development for Equicor in Nashville, Tenn.

Early retirement

Unisys Corp., the new corporation formed as a result of the merger between Burroughs Corp. and Sperry Corp., hopes to streamline its workforce by offering an early retirement incentive.

The early retirement program is the first step in an effort to reduce the company's workforce by 8%, said a spokesman for the Detroit-based computer company. More than 2,000 employees are eligible to accept the offer.

Under the offer, employees who are at least 55 years old, with a minimum of 15 years of service, are eligible to receive 1½ weeks of pay per year of service in addition to pension benefits from the defined benefit pension plan.

And, although the company's normal retirement age—at which employees receive full pension benefits—is 65, "the reduction in pension benefits under the early retirement program will be less than it ordinarily would have been," because of the additional payments, said the spokesman.

Employees have until the year-end to decide whether to accept.

MCorp incentives

Eligible employees at MCorp of Dallas have until Nov. 30 to accept an early retirement offer introduced by the company on Nov. 1.

The plan is offered one year after an identical plan was introduced last fall, said a spokesman for the financial services company.

Last year's plan, the Voluntary Incentive Program, was accepted by 306 of 420 employees that were at least 55 years old and fully vested in the company's defined benefit pension plan. The company's normal retirement age is 65.

However, under this year's offer, eligible employees must be at least 50 years old and fully vested in the pension plan by Nov. 30, he said.

Employees under age 60 will receive up to five years of additional service credits toward their pension benefits. Employees between 60 and 65 will get enough credits to bring them equal to the credits they would have at age 65, he said.

If the additional service credits are not enough to entitle employees to receive the full pension benefit they would normally receive at age 65, the company will make up the difference in monthly or lump-sum payments, he said.

In addition, employees between the ages of 60 and 62 will receive 50% of the Social Security benefits they would normally receive at age 62. When employees turn 62 and are eligible to receive Social Security benefits, the supplemental benefit is discontinued.

Employees accepting the offer also will continue to receive full health benefits under one of the company's three contributory health plans, the spokesman said.

There are 250 employees eligible to accept the offer, he said.

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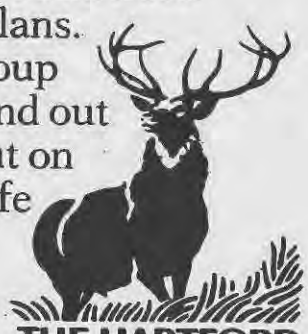
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NOV. 20. The Amended Risk Retention Act Briefing in St. Louis, sponsored by Tillinghast/TPF&C; free. **Also Nov. 21** in Dallas, **Nov. 24** in Philadelphia, **Dec. 1** in Pittsburgh, **Dec. 2** in Los Angeles, **Dec. 3** in San Francisco, **Dec. 4** in Minneapolis, and **Dec. 5** in Washington, D.C. Eileen Callahan, Conference Director, Tillinghast/TPF&C, 722 Post Road, Darien, Conn. 06820; 203-655-9791.

NOV. 20-21. Damages, New Settlement Techniques and Tax Consequences conference in New York, sponsored by the American Bar Assn. Division for Professional Education, Litigation Section; $375 for ABA members; $350 for ABA Litigation Section members; $250 for members of government; $400 for non-members. **Also Dec. 4-5** in San Francisco. American Bar Assn., Division for Professional Education, Department 441/442, 750 N. Lake Shore Drive, Chicago, Ill. 60611; 312-988-6200.

NOV. 20-21. Letters of Credit in Reinsurance seminar in New York, sponsored by Executive Enterprises Inc.; $795; $695 for additional registrants from the same organization. Executive Enterprises Inc., 22 W. 21st St., New York, N.Y. 10010-6904; 800-223-0787; 800-831-8333 in New York.

NOV. 21. Sixth Annual Economic Issues in Workers Compensation in Philadelphia, sponsored by the National Council on Compensation Insurance; $60 for NCCI members; $85 for non-members. Michelle Smith, National Council on Compensation Insurance, 1 Penn Plaza, New York, N.Y. 10119; 212-560-1026.

NOV. 21. The Risk-Bearing Phenomenon—Alternatives to Traditional Insurance workshop in Seattle, sponsored by the Society of Chartered Property Casualty Underwriters; $125 for CPCU members; $140 for non-members. Mari Jennings, Society of CPCU, Kahler Hall, 720 Providence Road, CB #9, Malvern, Pa. 19355; 215-251-2741.

NOV. 21. Workers Compensation: Your Safety and Health Balance Sheet course in Los Angeles, sponsored by the Institute of Safety and Systems Management, University of Southern California; $150. **Also Nov. 22.** University of Southern California, Institute of Safety and Systems Management, Office of Extensions and In-service Programs, 3500 S. Figueroa St., Suite 202, Los Angeles, Calif. 90007; 213-743-6523.

NOV. 24-25. Second Annual Symposium on Workers Compensation and Occupational Safety and Health in Hartford, Conn., sponsored by the Division of Worker Education of Connecticut Workers Compensation Commission; $34 for Connecticut residents; $65 for out-of-state attendees. State of Connecticut-DWE Symposium, Division of Worker Education, 1890 Dixwell Ave., Hamden, Conn. 06514.

NOV. 24-25. How to Audit and Check Insurance Policy Costs and Coverage course in Parsippany, N.J., sponsored by the American Management Assn.; $675 for AMA members; $775 for non-members. American Management Assn., P.O. Box 319, Saranac Lake, N.Y. 12983; 518-891-0065.

NOV. 24-25. Risk Financing Alternatives: Coping With the Crisis in Coverage course in Chicago, sponsored by the American Management Assn.; $695 for AMA members; $800 for non-members. American Management Assn., P.O. Box 319, Saranac Lake, N.Y. 12983; 518-891-0065.

NOV. 30-DEC. 3. Corporate Health Care Cost Management Conference in Hollywood, Fla., sponsored by the International Foundation of Employee Benefit Plans; $530 for members; $605 for non-members. International Foundation of Employee Benefit Plans, Registration department, 18700 W. Bluemound Road, P.O. Box 69, Brookfield, Wis. 53008-0069; 414-786-6700.

DEC. 1. Commercial Lines Simplification Program seminar in New York, sponsored by the Insurance Services Office Inc.; $350 for members of ISO-member companies; $500 for all others. Maureen Karon, Insurance Services Office Inc., 160 Water St., New York, N.Y. 10038; 212-487-4722.

DEC. 1-5. Loss Control Management course in Atlanta, sponsored by the International Loss Control Institute; $695. International Loss Control Institute, P.O. Box 345, Loganville, Ga. 30249; 800-554-6001; 404-466-2208.

DEC. 2. Questions on the New CGL and CP Policies? Ask the Claims Department! workshop in Memphis, Tenn., sponsored by the Society of Chartered Property & Casualty Underwriters; $110 for CPCU members; $140 for non-members. **Also Dec. 11** in Des Moines, Iowa, and **Jan. 15** in Indianapolis. Mari Jennings, Society of CPCU, Kahler Hall, 720 Providence Road, CB#9, Malvern, Pa. 19355; 215-251-2741.

DEC. 3-4. Basics of Captives and Association Captives: Answer to the Insurance Crisis? seminar in Miami, sponsored by Tillinghast, Nelson & Warren, a division of Towers, Perrin, Forster & Crosby; $50 for Basics of Captives (Dec. 3); $250 for Association Captives (Dec. 4). Conference Director, Tillinghast, a division of TPF&C, 720 Post Road, Darien, Conn. 06820; 203-655-9791.

DEC. 3-4. Computerized Plan Administration institute in Hollywood, Fla., sponsored by the International Foundation of Employee Benefit Plans; $450 for IFEBP members; $525 for non-members. International Foundation of Employee Benefit Plans, Registration department, 18700 Bluemound Road, P.O. Box 69, Brookfield, Wis. 53008-0069; 414-786-6700.

DEC. 3-4. Understanding Risk Pooling conference in College Park, Ga., sponsored by the Risk Management Section of the Society of Chartered Property Casualty Underwriters; $200 for CPCU members; $250 for non-members. Mari Jennings, Society of CPCU, Kahler Hall, 720 Providence Road, CB#9, Malvern, Pa. 19355; 215-251-2741.

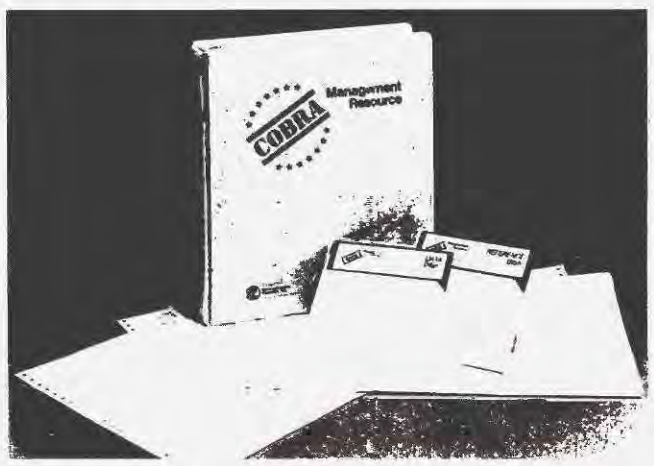
DEC. 3-5. Risk Management in Managed Health Care Systems conference in Washington, D.C., sponsored by the Group Health Foundation, an educational affiliate of the Group Health Assn. of America Inc.; $345 for GHAA members, $420 for non-members. Group Health Foundation, Risk Management in Managed Health Care Systems, 1129 20th St. N.W., Washington, D.C. 20036.

DEC. 4-5. Sixth Annual Occupational Health Nursing Principles and Certification Review course in San Rafael, Calif., sponsored by the Occupational Health Consulting division of Fireman's Fund Risk Management Services Inc.; $275. Also **Jan.9-10** in Newark, N.J.; **Feb. 19-20** in Schaumburg, Ill.; **March 5-6** in Dallas; **March 19-20** in Philadelphia; **April 2-3** in Torrance, Calif. Annette B. Haag, Occupational Health Consulting, Fireman's Fund Risk Man-

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agement Services Inc., P.O. Box 3890, San Rafael, Calif. 94911; 415-492-6646.

DEC. 4-5. Alternative Care Risk Management: New Delivery Systems, Liabilities and Responses seminar in Los Angeles, sponsored by the American Society for Healthcare Risk Management of the American Hospital Assn.; $230 for ASHRM members; $290 for non-members (eligible non-members may contribute $60 of fees toward ASHRM membership dues). David Meyers, American Society for Healthcare Risk Management, American Hospital Assn., Chicago, Ill. 60611; 312-280-6425.

DEC. 8-9. Legal Issues in Home Health Care seminar in Washington, D.C., sponsored by the National Health Lawyers Assn.; $350 for NHLA members; $400 to non-members; $460 for those who wish to join NHLA. National Health Lawyers Assn., 522 21st St. N.W., Suite 120, Washington, D.C. 20006; 202-833-1100.

DEC. 8-9. The Impact of Environmental Regulations on Business Transactions: Real Property Transfers and Mergers and Acquisitions seminar in New York, sponsored by the Practising Law Institute; $390; $40 for course handbook only. **Also Jan. 26-27** in San Francisco. Practising Law Institute, Department 105-6D, 810 Seventh Ave., New York, N.Y. 10019; 212-765-5700, ext. 286.

DEC. 8-12. Health Care Cost Containment Workshops in Chicago, sponsored by Health Research Institute; $495 for advanced health care cost containment sessions; $250 for health improvement/wellness sessions. Health Research Institute, 1600 S. Main Plaza, Suite 170, Walnut Creek, Calif. 94596; 415-676-2320.

DEC. 9. Coping With COBRA seminar in Chicago, sponsored by the Illinois State Chamber of Commerce; $45 for ISCC members; $70 for non-members. **Also Dec. 11** in Springfield, Ill. Carol Jensen, ISCC, 20 N. Wacker Drive, Chicago, Ill. 60606; 312-372-7373.

DEC. 9. Forum on the 1986 Tax Reform Act in New York, sponsored by the International Foundation of Employee Benefit Plans; $150 for IFEBP members; $175 non-members. **Also Dec. 10** in Chicago, **Dec. 11** in San Francisco. International Foundation of Employee Benefit Plans, Registration department, 18700 W. Bluemound Road, P.O. Box 69, Brookfield, Wis. 53008-0069; 414-786-6700.

DEC. 10. Personal Liability Risk Management workshop in Georgetown, Del., sponsored by the Insurance Society of Philadelphia; $105 for members; $120 for non-members. **Also Dec. 10** in Philadelphia. Insurance Society of Philadelphia, 737 Public Ledger Building, Philadelphia, Pa. 19106; 215-627-5306.

DEC. 10. Assessing Dram Shop/Liquor Liability Risk seminar in Waltham, Mass., sponsored by the Responsible Hospitality Institute; $85. Responsible Hospitality Institute, 11 Pearl St., Suite 226, Springfield, Mass. 01105; 413-732-7780.

DEC. 10-12. Captive Insurance Companies course in London, sponsored by the Risk & Insurance Research Group Ltd.; £454.25 (approx. $650). Risk & Insurance Research Group Ltd., 4 Henrietta St., Covent Garden, London WC2E 8PS; 01-836-0614.

DEC. 11. Employee Benefits workshop in Dallas, sponsored by the Public Risk & Insurance Management Assn.; $110 for PRIMA members; $180 for non-members. Public Risk & Insurance Management Assn., 1120 G St. N.W., Suite 400, Washington, D.C. 20005; 202-626-4650.

DEC. 11-12. Insurance and Reinsurance Company Disputes: Arbitration vs. Litigation seminar in New York, sponsored by Executive Enterprises Inc.; $795; $695 for additional registrants from the same organization. Executive Enterprises Inc., 22 W. 21st St., New York, N.Y. 10010-6904; 800-223-0787; 800-831-8333 in New York.

DEC. 12. Self-Insurance and Other Risk Financing Techniques workshop in Dallas, sponsored by the Public Risk & Insurance Management Assn.; $110 for PRIMA members; $180 for non-members. Public Risk & Insurance Management Assn., 1120 G St. N.W., Suite 400, Washington, D.C. 20005; 202-626-4650.

DEC. 15-16. Market Hard-To-Place Accounts workshop in Chicago, sponsored by Crittenden Research Inc.; $395. Crittenden Research Inc., P.O. Box 1150, Novato, Calif. 94948; 415-382-2440.

DEC. 19. Managing and Controlling Asbestos Contamination/Exposure course in Los Angeles, sponsored by the Institute of Safety and Systems Management, University of Southern California; $150. University of Southern California, Institute of Safety and Systems Management, Office of Extensions and In-service Programs, 3500 S. Figueroa St., Suite 202, Los Angeles, Calif. 90007; 213-743-6523.

JAN. 6-7. Insurance Crisis Conference—Preparing For the Future in San Francisco, sponsored by Laventhol & Horwath; $575. **Also Feb. 2-3** in New York. Laventhol & Horwath, National Real Estate Department, 919 Third Ave. New York, N.Y. 10022.

JAN. 11-13. 10th Annual HMO Policy Conference in Washington, D.C., sponsored by the Group Health Foundation, an affiliate of the Group Health Assn. of America Inc.; before Dec. 11: $295 for GHAA members, $350 for non-members; after Dec. 11: $345 for members, $400 for non-members. Group Health Foundation, 10th Annual HMO Policy Conference, 1129 20th St. N.W., Washington, D.C. 20036.

JAN. 26-30. Occupational Health Nursing: Basic Theory Update course in Los Angeles, sponsored by the University of Southern California, Institute of Safety and Systems Management; $550. University of Southern California, Institute of Safety and Systems Management, Office of Extension and In-service Programs, 3500 S. Figueroa St., Suite 202, Los Angeles, Calif. 90007; 213-743-6523.

JAN. 28-30. The Asbestos Problem: A Program for the Financial/Insurance/Property Management Industries conference in Fort Lauderdale, Fla., sponsored by Hall-Kimbrell Environmental Services Inc.; advance registration fee: $495 for one to two persons, $445 for three to four persons, $420 for five to six persons, $395 for seven or more persons; walk-in registration fee: $550. Kim Heck, Educational Services, Hall-Kimbrell Environmental Services Inc., 4840 W. 15t St., Lawrence, Kan. 66406.

FEB. 9-10. Developing and Managing a Medical Surveillance Program course in Los Angeles, sponsored by the University of Southern California, Institute of Safety and Systems Management; $250. University of Southern California, Institute of Safety and Systems Management, Office of Extension and In-service Programs, 3500 S. Figueroa St., Suite 202, Los Angeles, Calif. 90007; 213-743-6523.

FEB. 11-13. 12th Annual Enrolled Actuaries Meeting in Washington, D.C., cosponsored by the American Academy of Actuaries and the Conference of Actuaries in Public Practice; Before Dec. 27: $215 for AAA and CAPP members, $240 for non-members; After Dec. 27: $240 for AAA and CAPP members, $265 for non-members. Enrolled Actuaries Meeting, 1720 I St. N.W., Seventh Floor, Washington, D.C. 20006; 202-223-8196.

FEB. 11-13. Audio-Visual Media for Safety and Health: Developing and Producing Inexpensive Programs course in Los Angeles, sponsored by the University of Southern California, Institute of Safety and Systems Management; $420. University of Southern California, Institute of Safety and Systems Management, Office of Extension and In-service Programs, 3500 S. Figueroa St., Suite 202, Los Angeles, Calif. 90007; 213-743-6523.

FEB. 14. Promoting Safety and Health in Today's Economy course in Los Angeles, sponsored by the University of Southern California, Institute of Safety and Systems Management; $150. University of Southern California, Institute of Safety and Systems Management, Office of Extension and In-service Programs, 3500 S. Figueroa St., Suite 202, Los Angeles, Calif. 90007; 213-743-6523.

FEB. 23-27. Hazardous Materials: Handling and Disposal course in Los Angeles, sponsored by the University of Southern California, Institute of Safety and Systems Management; $700. University of Southern California, Institute of Safety and Systems Management, Office of Extension and In-service Programs, 3500 S. Figueroa St., Suite 202, Los Angeles, Calif. 90007; 213-743-6523.

MARCH 5-6. Public Agency Risk Pooling seminar in Clearwater Beach, Fla., sponsored by the Public Risk & Insurance Management Assn.; $150 for PRIMA members; $250 for non-members. Public Risk & Insurance Management Assn., 1120 G St. N.W., Suite 400, Washington, D.C. 20005; 202-626-4650.

MARCH 9-11. Third Annual International Insurance Assembly in Miami, sponsored by the Insurance Exchange of the Americas, the University of Miami, city of Miami and FIIRA; $305; $125 for accompanying person/spouse. Helen Frey, Conference Coordinator, University of Miami Conference Center, 400 S.E. Second Ave., Fourth Floor, Miami, Fla. 33131; 305-372-0140.

MARCH 9-11. Fire Detection and Suppression symposium at the Maritime Institute of Technology and Graduate Studies, Linthicum Heights, Md., sponsored by the Society of Fire Protection Engineers; $475 for SFPE members; $535 for non-members. Lisa Juliano, Society of Fire Protection Engineers. 60 Batterymarch St., Boston, Mass. 02110; 617-482-0686.

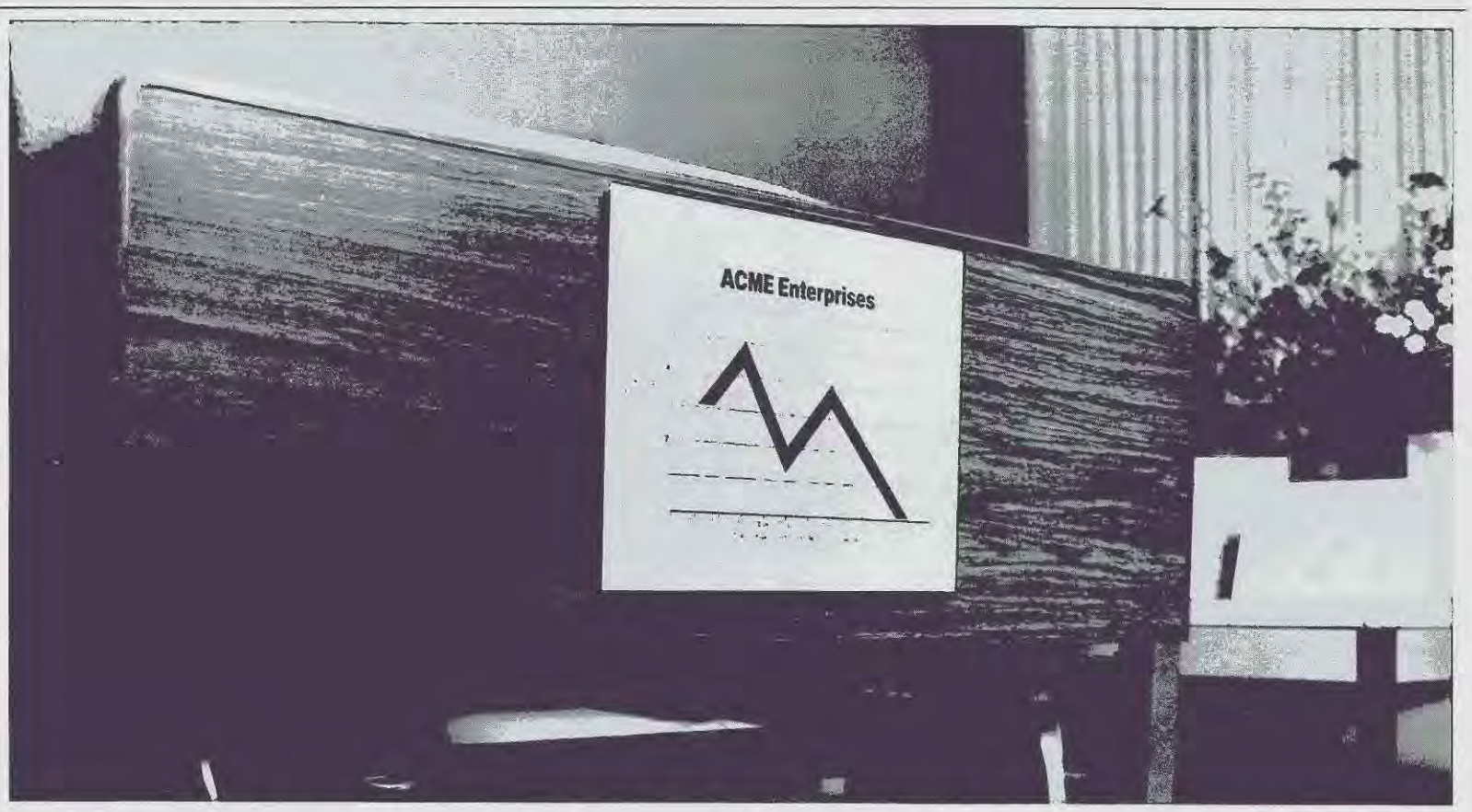
MARCH 23-24. Legal Aspects of Occupational Safety and Health course in Los Angeles, sponsored by the University of Southern California, Institute of Safety and Systems Management; $375. University of Southern California, Institute of Safety and Systems Management, Office of Extension and In-service Programs, 3500 S. Figueroa St., Suite 202, Los Angeles, Calif. 90007; 213-743-6523.

MARCH 25-27. Recognition of Accident Potential in the Workplace Due to Human Factors course in Los Angeles, sponsored by the University of Southern California, Institute of Safety and Systems Management; $425. University of Southern California, Institute of Safety and Systems Management, Office of Extension and In-service Programs, 3500 S. Figueroa St., Suite 202, Los Angeles, Calif. 90007; 213-743-6523.

APRIL 5-11. 14th International Assn. of Industrial Accident Boards and Commissions Workers' Compensation College in Tempe, Ariz.; $350 for IAIABC members; $450 for non-member. International Assn. of Industrial Accident Boards and Commissions, P.O. Box 13449, Jackson, Miss. 39236.

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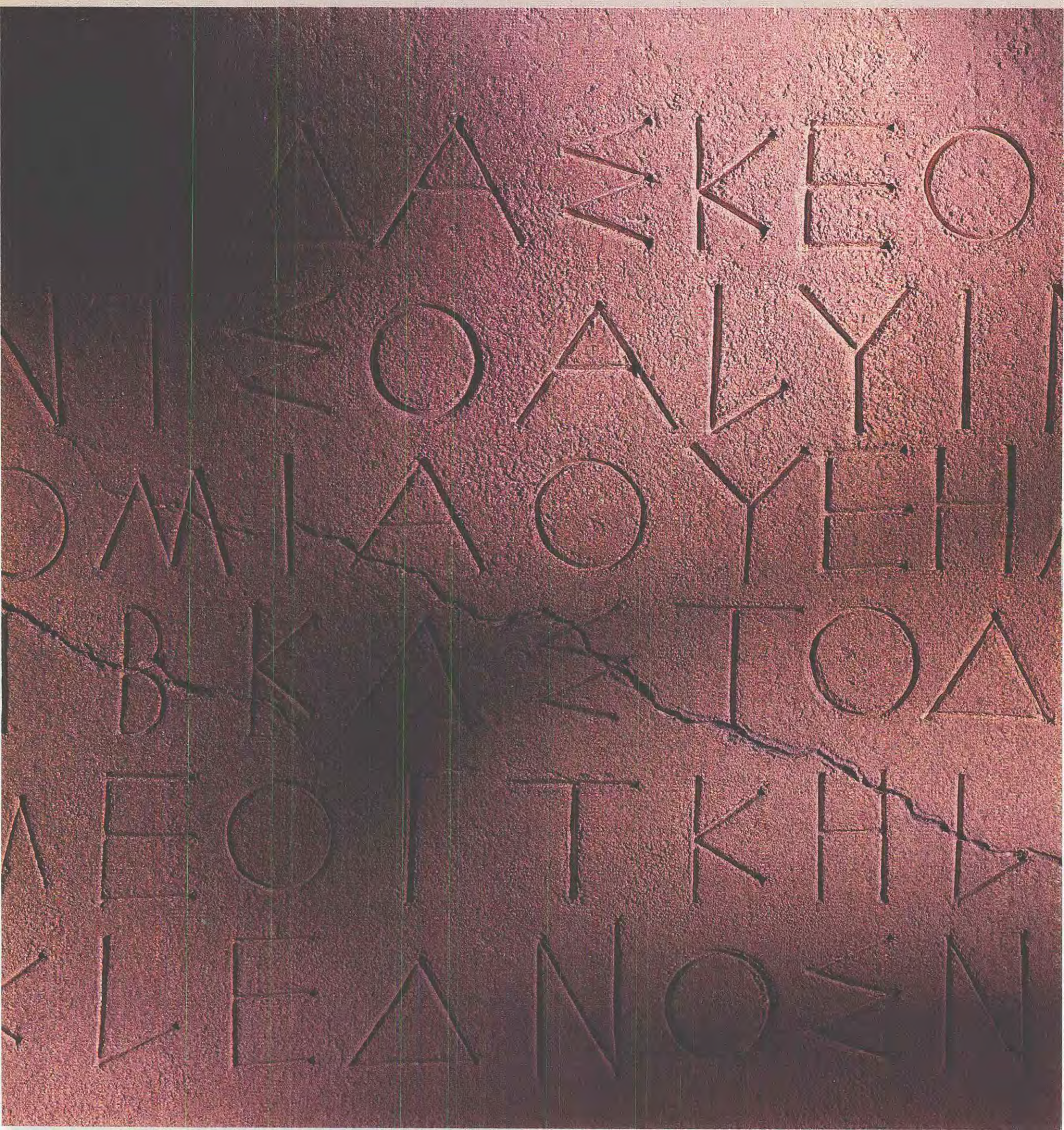
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TML appoints two assistant directors

comings & goings: buyers



Ms. Loughlin

Carol Loughlin has been named assistant director of property/casualty services for the Texas Municipal League in Austin. In this position she will be responsible for property/casualty coverages for municipal governments in Texas. Ms. Loughlin replaces **Francis Fey**, who now is a vp with consultant Joseph Ivy Co. in Austin, and reports to Al Hyman, director of insurance services for TML. Previously, Ms. Loughlin was assistant vp for Nash Phillips/Copus Inc. in Austin. In this capacity she managed the company's insurance agency subsidiary and risk management program. Prior to that she was a property/casualty underwriter for New Hampshire Insurance Co. in San Diego, Calif., and a marketing manager for Walker-Sullivan in Los Angeles. Ms. Loughlin is a graduate of the Insurance Institute of America's INS program and is working toward the Chartered Property Casualty Underwriter designation.

Also at TML, **Carmen Velez** has been appointed assistant director of employee benefits. In this position she will handle group employee benefits for municipal governments in Texas. Ms. Velez replaces **Brad Harmes**, who has been named assistant director of marketing and administration. She also reports to Mr. Hyman.



Ms. Velez

Previously she was the assistant risk manager for the city of San Antonio, Texas, where she was responsible for administering a flexible benefits plan for 8,000 employees. Prior to that she served as administrative assistant in the risk management department of the city of Corpus Christi, Texas. She received a bachelor of business administration degree in insurance risk management from St. Mary's University in San Antonio. Ms. Velez is working toward her master of business administration degree and the Chartered Property Casualty Underwriter designation. She holds the Associate in Risk Management designation.

* * *

Karen Epermanis, 25, has been promoted to manager in the risk management department of Columbia Gas System Service Corp. in Wilmington, Del. In this position, she is responsible for casualty risks and related activities. Ms. Epermanis reports to Joseph V. Yandoli, assistant treasurer. Previously, she was coordinator-risk management at the company. She holds a bachelor of business administration degree in risk management from the University of Georgia in Athens and a master of business administration degree in finance from the University of Tulsa in Tulsa, Okla. Prior to joining Columbia Gas in 1985, Ms. Epermanis was an account manager in the risk management department of The Williams Cos. in Tulsa.

* * *

Stephen R. Giles, 39, has been named director of risk management at Inspiration Resources Corp. in New York, N.Y. In this newly created position, he has overall responsibility for the diversified natural resources company's risk management program. He reports to John Melville, vp and treasurer. Prior to joining IRC as manager of risk and insurance in 1984, he held positions in risk management at Schering-Plough Corp. and Nabisco Brands Inc., and served as a commercial underwriter for Fireman's Fund Insurance Cos. Mr. Giles received a bachelor of science degree in finance from Fairleigh Dickinson University in Rutherford, N.J. In addition, he holds the Associate in Risk Management designation and is a deputy member of the Risk & Insurance Management Society.

* * *

Virginia C. Willis, 27, has been named risk analyst in the risk management department of Waite Hill Holdings Inc. in Richmond, Va. In this position she will assist in the corporation's workers compensation, property and liability insurance programs. Ms. Willis replaces **Thomas Biede**, who left Waite Hill to join CIGNA Corp. in Chicago, and reports to Grady L. Dixon, Waite Hill's corporate risk manager. Waite Hill is the insurance subsidiary of Figgie International Inc. Previously, she worked in the surety department at Chubb Group in Warren Township, N.J., and most recently worked in Chubb's commercial excess/umbrella department in Richmond. Ms. Willis received a bachelor of science degree in business administration from the E. Claiborne Robins School of Business at the University of Richmond in Richmond, Va.

●

We'd like to report on staff changes in your company's risk management, safety or employee benefits department. Just drop a note to Paul Winston, assistant copy editor, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611, or call 312-649-5442. Please send a photograph, too.



CREATING DATA BASES

Eight deadly data collection sins can complicate process

I RECENTLY HAD occasion to coordinate a seminar on designing and constructing a risk management information system. I would like to share some of the wisdom from that seminar.

Mark Dorn, president of Softec Inc. in Livonia, Mich., focused on the creation of an effective data base as a primary foundation for a good risk management information system. He detailed several major problems involved in building a good data base, calling them the eight deadly data collection sins:

✔ The "other" syndrome.

Commonly, when risk management professionals run out of descriptions for information, they use the term "other." Often, that column is the repository of some of the best, most meaningful data within the data base.

The risk manager must clearly define the key areas of data he or she wants to look at within a system and tell the vendors or the internal data processing department.

When "other" becomes one of the most important fields on a screen, it shows lack of planning. Furthermore, it makes it that much more difficult for the risk manager and the vendor to separate the required information from the rest of the "other" data.

✔ Field "density."

Another sin is the pursuit of trying to enter every field on a specific form in the computer. The result can be a very compressed, visually confusing screen, requiring more time to decipher than should be necessary.

There is no need for "overkill" in building a data base management RMIS. Some information is simply extraneous and should not be included for fear of detracting from the real purpose of the system: to make the risk manager's life easier.

For example, there may be no need for the Social Security number of each witness on a general or automobile liability claim, or even for the address of each, if statements taken from them clearly indicate that there is full liability on a claim, as in the case of a rear-end collision.

✔ Extraneous data descriptions.

Too often, data descriptions are joined together with the conjunctions "or" and "and." It may be better from an information standpoint to separate these two distinct data descriptions into separate fields. If not, some key information may be missed because the data were "jammed" into a previous element's description.

It is very important not to miss any key data, and avoiding these types of data combinations will improve the quality of the analysis.

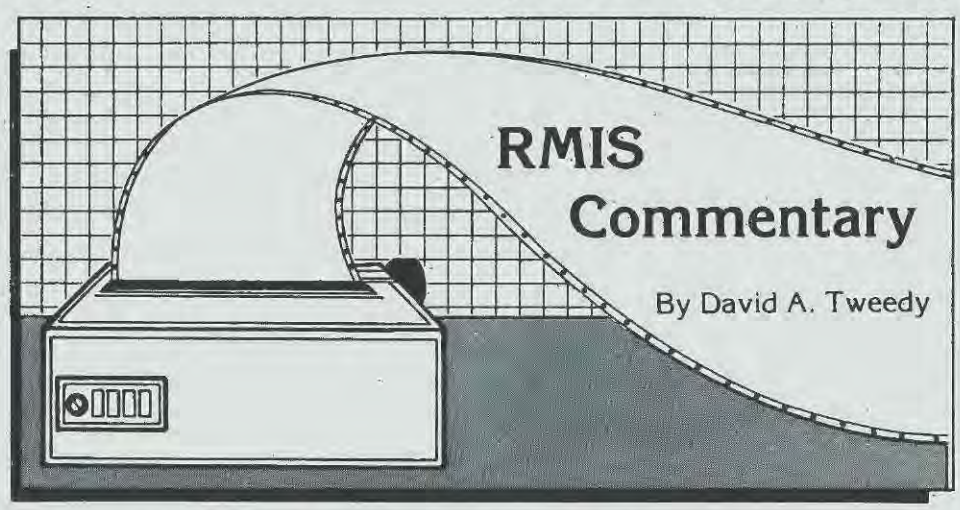
✔ Unnecessary characters when coding data.

In data base construction and system design, simplicity should be an objective at all times. I am not suggesting that you sacrifice accuracy or completeness. Nevertheless, each screen should be designed as simply as possible to allow greater speed in entering and retrieving the data.

According to Mr. Dorn, the objective should be to plan the data base around clerical data entry resources, not some textbook response on systems. After all, your clerical personnel are the key players; they are doing the entry and retrieval work, and if the entry method is logical and concise, it will help them to do a better job.

Too many characters tend to overburden the data base and result in coding errors.

As an example, consider two options. One would actually name the data base field—such as division, claim type, date of loss—and the other would have a programmed code character corresponding to that alpha field name. In the first case, the name of a claim type—property damage—requires the clerk to enter 15 characters. But, if a one-digit programmed code character for property damage is used, 14 characters are saved.



An average claim entered into the system may well use 150 characters or more under the first method. But, that may be cut by one-third using a character code method. And, that results in about one-third less required for time in data entry, storage capacity, updating requirements and back-up time.

✔ Inconsistent coding/data descriptions.

Another common error to be avoided at all costs is the combination of data descriptions without consistent coding. For example, consider the following combinations: L1 for "Lifting, incorrect weight"; and L2 for "Lifting, permanent lifting injury."

Although the "L" part of the dual code makes sense—"lifting"—the numerical code does not make sense in its stated sequence. "1" refers to incorrect weight—the cause of the accident; "2" refers to the outcome of the lifting—permanent injury.

So, there is an illogical connection between the description of the accident (lifting) with either the result (permanent lifting injury) or the cause (incorrect weight). A data entry clerk or a risk manager may be confused as to the logic of the sequence and spend valuable time in trying to adhere to this illogical coding.

It makes far more sense to correct the coding problem beforehand to make the data entry process as simple and logical as possible.

✔ Not pre-defining mandatory and optional data collection fields.

Some systems and data collection forms, because of the vendor's desire to make them as flexible as possible, allow too many optional entry items. If there are no pre-defined mandatory data fields—i.e., datavacs or department code number—there may be too many blanks in the data base when it comes time for sorting an analysis.

The rule is to carefully select those mandatory fields that must be filled in even if there is no data at the time of entry. For example, if the department code is not known—it may be a new department, for example—there should be a selection option that says "not known at time of entry." This will allow the data entry clerk to satisfy the mandatory data field and give the risk manager an opportunity to sort on that option.

Later, when the department number is known, the correction can be made. Otherwise, the risk manager will not know if the computer lost the information on this field, the data clerk simply forgot to put it in, etc. The result will be confusion and distorted data.

That will show up as blanks on an annual loss run report or other important document going to senior management. And, that will cause an embarrassment to the risk manager that should be avoided at all costs.

Simple planning of the data collection forms and the system fields will avoid this data collection sin.

✔ Data source problems.

Many times, the data entry people receive broad data forms from the field that are illegible, incomplete and/or late. This, of course, has a significant negative impact on the quality of data and the resulting analysis.

Since the risk manager does not have as much control over this data collection sin as the others, he or she will have to find another alternative.

One risk manager added the fields "legibility" and "completeness" on the screen and data collection form. If the quality of the raw data received was good, it would be so noted. If it was poor, the report would note that instead.

After a few reports were distributed to the various departments and senior management, those parties guilty of illegible or incomplete data forms suddenly changed their bad habits.

✔ Incorrect data backup procedures.

The final problem—and one of the most significant—is poor data backup procedures. Most risk management professionals are aware of the need for data backup, but how many are performing the correct procedures?

For example, how often is the backup performed? The basic recommendation is that work should be backed up at least three times a week.

Also, how many risk managers back up their data on different media? If you are using a personal computer-based RMIS, perhaps you are only using the IBM/AT 1.2-megabyte media to back up your floppy disks. If that mode were not available, you would not be able to use that backup disk. It would be better to back up not only on the AT, but also on other media, such as a Compaq unit or a cartridge tape.

Finally, how many are storing backed-up data off site? In risk analyses, we often find that although backups have been made, they are stored in the same room as the computer—and therefore subject to the same risks, like fire, flood or theft.

In summary, designing, modifying and implementing a comprehensive risk management information system presents many challenges and opportunities to the risk manager.

With justification, a lot of the attention is focused on the efficiencies such systems create for the risk management department, the reduced time and manual activities involved, the increased analytical capabilities provided, and so forth.

Unfortunately, not as much attention is given to the fundamentals of system design, one of which is data collection and entry. The system can be one of the most sophisticated and advanced in the industry, but if it is using improper or confusing data, the results will be misleading and incorrect.

Avoiding these eight data collection sins will do much to improve the integrity of the data.

David A. Tweedy is a risk management consultant for D.A. Betterley Risk Consultants Inc. in Worcester, Mass. He is the assistant editor of Betterley Risk Management Commentary and the author of RMIS Update, a yearly publication analyzing major risk management information systems and vendors. His column on risk management information systems appears the third Monday of the month.



perspective

Changing from the inside out

By Ronald S. Berman and Jeffrey A. Clark

speaking out

THE LIABILITY insurance crisis of 1986, more than any in recent history, threatens the very foundations of the property/casualty industry.

Costs have been pushed beyond manageable limits, both for insurers and buyers. States are considering populist solutions that could make continued operations untenable for many insurers. Claims costs have escalated faster than underwriting can cope.

Observers are predicting the exodus of many companies from the marketplace, and policyholders are screaming for relief from rising insurance premiums.

While many of the problems contributing to the crisis—the magnitude of jury awards, the cost of litigation, etc.—are external to the insurers themselves, some changes in the standard operating procedures of the industry also may offer a form of relief.

The traditional model in the liability insurance industry treats each of an insurer's component parts—underwriting, marketing, claims handling and brokering—as separate entities.

In many companies, in fact, an "us vs. them" mentality may isolate each of the departments from the crucial tasks of analysis and decision-making.

The familiar pattern, repeated in company after company, is something like this:

Marketing suggests a product that could be added to the insurer's line. Underwriting and actuarial specialists price the product based on statistical analysis of the targeted industry, brokers and managing general agents are given information on the product, and claims receives the necessary information for processing.

At the end of the year, finance reports that the company is experiencing significant losses on the new line, and rates are increased substantially to recoup the previous year's losses and absorb the expected burden for the coming year.

Within the departments, claims processors complain that the structure of the plan is unworkable, marketing and the sales force object that the rates make the product uncompetitive, and underwriting argues that it was not given sufficient data for adequate forecasting.

In short, everyone works at shifting the blame to someone else. Rarely has there been any attempt by all parties to prevent unfavorable experience on a new program.

In short, everyone works at shifting the blame for the losses to someone else. Rarely in our experience has there been any attempt by all parties to *prevent* unfavorable experience on a new program.

A rational approach would be to initiate a dialogue among the parties before a new plan is priced and sold. Ultimately, of course, everyone within a company should be working for the same goal: profitability.

This point seems so obvious that stating it is almost embarrassing. But experience demonstrates that the goal is often overlooked as individual managers seek to protect their own territories.

Regular conferences involving all of the affected departments would achieve several benefits, all of which would contribute to the corporate goal. The benefits are:

- More realistic evaluation of the potential risks for a given program.
- Consistent claims administration procedures that would allow better ongoing analysis of claims experience.
- Enhanced awareness by the sales force of its role in forestalling claims.
- Identification of trends and patterns that bear upon the loss ratio for a specific program.
- An educational program designed to help policyholders avoid claims through better internal procedures.

And in all these areas, it would be helpful to include the input of counsel, either an insurer's own in-house staff or outside counsel.

It is possible that counsel could provide resources that otherwise would not be available for gathering and analyzing data and helping to implement changes. Let's look at a hypothetical example:

Insurer X is considering a new form of errors and omissions coverage for insurance brokers. Before the program is initiated, counsel examines the relevant data and reports to underwriting, marketing and claims on which types of activities produce the greatest risks in the industry, the estimated costs of defense, the costs of settlements and judgments and the availability of alternative forms of claims resolution, such as arbitration, mediation, etc.

In many cases, alternative dispute resolution techniques such as arbitration or voluntary settlement conferences may be as effective as litigation, and far less costly.

When the plan is developed, a conference of all the parties allows the insurer to develop a uniform claims-handling strategy, which will be distributed to counsel as claims-handling guidelines. It also gives counsel an opportunity to advise the sales personnel about major areas of concern.

In this example, let us assume that counsel has found a significant number of claims involving failure of insurance brokers to disclose potentially negative aspects of coverage. Underwriting decides to require the policyholders to keep a record of disclosure documents on file for each sale. In the course of the conference among parties, the sales personnel can be shown how this requirement is to be implemented.

At the same time, if there are difficulties in marketing a policy with that requirement, the salespeople will have an opportunity to work out their objections with the underwriting and claims departments.

When the plan is ready for marketing, everyone will have had input, and the product will be one that all parties can live with.

The process does not stop here. Once the plan has been sold, the insurer—either through its own personnel or through claims counsel—can contact policyholders and assist them in developing programs to implement the disclosure requirement.

Through supplementary materials and/or face-to-face meetings, the policyholders can be taught how to present disclosure information to their clients, how to document those disclosures and how doing this will help reduce their potential claims liability. Once the policy is in force, counsel can be used to analyze claims and provide recommendations for improvement of the product.

For example, trends may occur, such as recurring fact patterns, recurring plaintiffs or recurring co-defendants. Without an ongoing program of analysis and communication among counsel, claims, marketing and underwriting, these patterns may not be identified until significant losses have occurred. However, if analysis is a continual process, trends or patterns can be noticed and the information disseminated to all parties through regular meetings or, in extreme cases, through bulletins.

The analysis also can be used to refine the educational program for policyholders. By using the insurer's customers as an early warning system, claims costs can be cut markedly.

Counsel also will be in a position to recommend the best alternatives for resolving claims. In many cases, alternative dispute resolution techniques such as mediation, arbitration or voluntary settlement conferences may be as effective as litigation, and far less costly.

The continuing analysis also can provide information to underwriters that may not be available otherwise.

For example, it may find that the majority of claims involve part-time salespeople. Adjustments can be made in the terms of the coverage that would forestall a massive rate increase at the end of the first year.

In order for this process to work successfully, it is important for the parties to meet regularly and evaluate the experience. While no one is enthusiastic about attending another meeting, the improvement in the profit picture should be sufficient motivation.

It is during these meetings that the most valuable exchanges will occur. For example, in reviewing the data, the actuarial representative may find that claims are being honored that were not contemplated in the original policy. Or, conversely, the marketing personnel may find that they are not presenting the limitations of the coverage properly.

Because of the complexity of the process, the only way in which all parties will be able to benefit is from the free flow of information.

At the same time, it may be important for critical data to be disseminated quickly. For that purpose, written bulletins should be used. Through these bulletins, for example, counsel may be able to alert marketing to deficiencies that have occurred, advise underwriting of changes in litigation results or alert claims administration to a preponderance of claims involving a particular fact pattern.

There is no question that this approach should result in fewer claims losses and an increase in potential profits for an individual insurer. It also should be possible to extrapolate elements for use on an areawide basis involving several insurers.

For example, a regular conference of industry representatives could provide some common data on claims types, fact patterns, recurrent parties, etc. If this data pool could be made available to all insurers, subject to any antitrust restrictions, the overall loss experience of the industry conceivably could be reduced.

Moreover, such a sharing of non-competitive data could result in more-efficient forms of claims handling and management.

Claims processing currently depends on a haphazard stream of forms, attorneys' letters and other instruments. By developing a common claims format, insurers would be able to devote more of their resources to evaluating individual claims rather than trying to force a random collection of data into their individual systems.

There is precedent for such an effort. The health insurance industry, working with providers and the federal government, has evolved consistent forms of claims reporting. The time is clearly at hand for a similar effort by the liability industry.

However, no such program can be contemplated, much less implemented, as long as there is no communication within the companies themselves, let alone within the industry. ■



Mr. Berman

Ronald S. Berman and Jeffrey A. Clark are principals in Berman & Clark, a Santa Monica, Calif., law firm specializing in business litigation.



Mr. Clark

financial briefs

Warwick Insurance Co. hikes statutory surplus

Warwick Insurance Co. is increasing its statutory surplus by $10.9 million to approximately $29 million by year-end, compared with $8.6 million at year-end 1985.

The increase will be used to support future premium growth at the Morristown, N.J.-based insurer.

The increase in surplus resulted from a contribution by its parent company, Warwick Insurance Managers Inc., through an increased credit facility of $15 million from the Bank of Boston. The balance of the loan will be used to repay existing debt and for working capital.

$97.4 million in 1986 from $12.8 million in 1985.

New York-based Continental reported written premiums of almost $2.7 billion in the first nine months of 1986, up 21.4% from $2.2 billion in last year's corresponding period. In the third quarter, written premiums totaled $958.6 million, a 20.6% rise from $794.9 million in last year's third quarter.

The company posted a combined ratio of 106.3% after policyholder dividends in the first nine months of this year, compared with a 114.6% combined ratio in the cor-

Continued on next page

Aetna Life & Casualty

Aetna Life & Casualty Co. reported a surge in operating earnings during the first nine months of 1986.

Operating income totaled $498 million for the first nine months of 1986, up 85.1% from $269 million for the comparable 1985 period.

"These results reflect generally favorable operating performance in all divisions, continuing recovery from the severe down cycle in the commercial casualty/property business and the absence of significant catastrophe losses in the quarter," said Aetna Chairman James T. Lynn.

Operating income for the third quarter of 1986 totaled $199 million, up 77.7% from $112 million a year ago.

Net income for the first nine months of 1986 totaled $758 million, up 231.0% from $229 million for the comparable 1985 period. Net income for the third quarter of 1986 was $265 million, up 143% from $109 million a year ago.

Written premium volume for the first nine months of 1986 totaled $11 billion, up 11.1% from $9.9 billion for the comparable 1985 period. Premiums totaled $3.7 billion for the third quarter of 1986, up 15.6% from $3.2 billion for the same period a year ago.

Aetna's property/casualty results amounted to an underwriting loss of $344.1 million for the first nine months of 1986, down 30.4% from $494.3 million for the same period a year ago. The underwriting loss for the third quarter of 1986 totaled $56 million, a 63% drop from $151.5 million in 1985's third quarter.

Aetna's aggregate combined ratio was 107.5% for the first nine months of 1986, compared with 116.1% for the comparable 1985 period. The combined ratio was 103.2% for the third quarter of 1986, compared with 113.9% for the third quarter of 1985.

Aetna's investment income totaled $14.8 billion for the nine months of 1986, up 10.4% from $13.4 billion for the same period a year ago. Investment income for the third quarter of 1986 amounted to $5.0 billion, up 13.6% from $4.4 billion a year ago.

Continental Corp.

Continental Corp. reported a 155.4% gain in operating income in the first nine months of the year to $145.6 million from $57 million in the corresponding period of 1985.

Operating income also rose 238% in the third quarter of this year to $66 million from $19.5 million from 1985's third quarter.

Net income for the nine-month period rose 202.3% to $329.5 million from $109 million in the same period last year. For the third quarter, net income rose 661% to



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financial briefs

Continued from previous page

responding period of 1985. The company's third-quarter 1986 combined ratio was 105.2%, compared with a 115.6% combined ratio in last year's third quarter.

Travelers Corp.

Travelers Corp. reported a 19.7% rise in operating income in the first nine months of the year to $284.5 million, compared with $237.7 million in the first nine months of 1985.

Third-quarter operating income at the Hartford, Conn.-based insurer rose 31.9% to $113.6 million from $86.1 million in last year's third quarter.

Net income for the nine-month period ending Sept. 30 totaled $360.6 million, up 44.5% from $249.6 million in the first nine months of 1985. Third-quarter net income rose 104.1% to $166.7 million from $31.7 million in the third quarter of last year.

Commercial property/casualty insurance produced operating income of $30.1 million over the nine-month period, compared with a $54.1 million loss in the first nine months of 1985. In the third quarter, commercial property/casualty insurance produced 36.3 million in operating income, compared with a $31.4 million operating loss in last year's third quarter.

For the first nine months of 1986, Travelers reported a 106.7% combined ratio which compared with 119.5% in the same period last year.

The third-quarter 1986 combined ratio was 106.4% vs. a 123.4% combined ratio in the third quarter of 1985.

Reliance Group

Reliance Group Holdings Inc. has filed with the Securities and Exchange Commission a registration statement relating to a proposed public offering of a $175 million aggregate principal amount of senior sinking fund notes due 1996 and a $175 million aggregate principal amount of subordinated sinking fund debentures due 2001.

The underwriter of the proposed offering is Drexel Burnham Lambert Inc.

Reliance says it intends to use the offering, together with the net proceeds from its recent initial public offering of common stock, to redeem all of its outstanding $15 Series A cumulative redeemable preferred stock, all of its outstanding $3.12 Series C cumulative redeemable preferred stock and all of its outstanding 17% senior debentures due 1996. The Series A and Series C preferred stock is redeemable beginning Dec. 16 and Dec. 2, respectively, while the senior debentures are redeemable beginning Dec. 15.

Kemper Corp.

Kemper Corp.'s operating earnings rose 176.5% in the first nine months of the year to $100.3 million from $36.3 million in the first nine months of 1985.

Third-quarter operating income rose 150.2% to $35.4 million from $14.2 million in the third quarter of 1985.

Net income for the first nine months of this year totaled $138.2 million, a 200% increase over $46 million in the corresponding period of last year. Third-quarter net income rose 191.4% to $52.5 million in 1986 from $18 million in 1985.

Long Grove, Ill.-based Kemper reported total net written premiums of $1.57 billion in the first nine months of 1986, up 11.6% from $1.41 billion in the first nine months of 1985. Net written premiums in the third quarter rose 1.5% to $484.6 million from $477.7 million in last year's third quarter.

NAC Re

NAC Re Corp. announced its operating income rose 153% in the first nine months to $2.88 million from $1.14 million in the corresponding period of 1985.

In the third quarter, NAC Re's operating income totaled $593,000, compared with an $819,000 operating loss in last year's third quarter.

Net income in the first nine months of this year totaled $5.12 million, up 48.9% from $3.45 million in the same period last year. Third-quarter net income totaled $758,000, compared with a $620,000 operating loss in the third quarter of 1985.

Nine-month net written premium volume rose 371.5% to $65.8 million in 1986 from $14 million in 1985. Net premiums written in the third quarter rose 457.8% to $29.1 million from $5.2 million in last year's third quarter.

Greenwich, Conn.-based NAC Re reported a nine-month statutory combined ratio of 112.7%, which compares with a 140.2% combined ratio in the first nine months of 1985. In the third quarter, the company reported a 114.8% combined ratio, compared with a 170.7% combined ratio in the third quarter of 1985.

NAC Re reported a statutory surplus of $111.9 million, or a 51% increase over surplus of $74 million at year-end 1985.

CIGNA Corp.

CIGNA Corp.'s property/casualty business posted operating earnings of $86.1 million in the first nine months of 1985, compared with a $177.7 million operating loss in the corresponding period of last year.

In the third quarter, CIGNA reported property/casualty operating income of $54 million, compared with an operating loss of $18.7 million in the third quarter of 1985.

CIGNA reported overall operating income of $329.4 million, up 112.8% from $154.8 million in the first nine months of 1985. Third-quarter operating earnings rose 6.7% to $146.6 million from $137.4 million in last year's third quarter.

Philadelphia-based CIGNA's net income rose 142.5% in the first nine months to $500.2 million from $206.3 million in 1985's comparable period. Net income rose to $212.5 million in the third quarter, up 35.5% from $156.8 million in the third quarter of 1985.

Net written property/casualty insurance premiums increased 18.4% to $4.14 billion in the first nine months of this year from $3.5 million in last year's comparable period. Third-quarter premium volume rose 22% to $1.55 billion in 1986 from $1.27 billion the previous year.

After policyholder dividends, CIGNA reported a 110.6% combined ratio for the first nine months of this year, compared with 123.1% after the first three quarters of 1985. In the third quarter, CIGNA posted a combined ratio of 106.3%, which compares with 119.9% in the third quarter of 1985.

CNA Financial Corp.

Property/casualty operating earnings at Chicago-based CNA Financial Corp. increased 87.3% in the first nine months of 1986 to $156.8 million from $83.7 million in last year's corresponding period.

In the third quarter, property/casualty operating earning rose 104.2% to $63.7 million from $31.2 million in 1985's third quarter.

Overall operating earnings at CNA rose 60.4% to $196.3 million in the first nine months of 1985 from $122.4 million in the corresponding period last year. Third-quarter operating income rose 57% to $74.9 million from $47.7 million in the third quarter of 1985.

Net income rose 42.9% in the first nine months of the year to $340.8 million from $238.5 million in the first nine months of 1985. Net income rose to $98 million in the third quarter, a 33% increase from $73.7 million in last year's third quarter.

Commercial property/casualty net premium volume rose 56.5% in the first nine months to $1.51 billion from $966 million in the corresponding period of 1985.

Net premium volume increased 31.6% in the third quarter to $441 million from $335 million in last year's third quarter.

CNA's combined ratio before policyholder dividends was 113.5% as of Sept. 30, compared with 122.7% at the same time during 1985. The company posted a 112.9% combined ratio in the third quarter, compared with 122.2% in the third quarter of 1985.

CNA's statutory surplus totaled $1.62 billion as of Sept. 30, up 40% from $1.16 billion on the same date in 1985.

Continued on next page

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Hartford Steam Boiler

Nine-month operating income at The Hartford Steam Boiler Inspection & Insurance Co. grew 72.3% to $33.1 million from $19.2 million in 1984. In the third quarter, operating earnings rose 57.3% to $11.8 million from $7.5 million in 1985.

Net income at the Hartford, Conn.-based company increased 90% to almost $40 million in the first nine months of 1986 from $21 million in the corresponding period last year. In the third quarter, the company reported an 85.4% increase in net income to $14.5 million from $7.8 million in 1985.

Earned premiums in the first nine months totaled $197.3 million, up 33.5% from $147.8 million in the first nine months of 1985. Earned premium volume in the third quarter increased 29.4% to $68.5 million from $53 million last year.

Hartford Steam Boiler reported a combined ratio of 85.8% for the nine months of 1986, compared with 94.8% over the same period last year. In the third quarter, the insurer's combined ratio stood at 84.9%, down from 91.1% last year.

General Re

Operating income at General Re Corp. increased 72.2% in the first nine months of the year to $178.4 million from $103.6 million in the corresponding period last year.

Third-quarter operating income at the Stamford, Conn.-based company rose 13% to $49.4 million from $43.7 million in the third quarter for 1985.

Nine-month net income jumped 166.9% to $211.4 million from $79.2 million in the first nine months of 1985. Net income totaled $69 million in this year's third quarter, up 51.3% from $45.6 million in last year's third quarter.

Total net written premium volume rose 53.5% in the first nine months to $2.1 billion from $1.37 billion last year. Net premium volume rose 22.9% in the third quarter to $668.3 million from $542.8 million in 1985.

General Re posted a combined ratio of 104.1% for the first nine months of 1986, compared with 112.7% in the same period last year. The third-quarter combined ratio fell to 102.5% in 1986 from 111.5% last year.

American General

Operating earnings at American General Corp. rose 22.3% in the first three quarters of 1986 to $390.6 million from $319.4 million in the first nine months of 1985.

Operating earnings increased 34.9% to $137.3 million in the third quarter from $101.8 million in the same period of 1985.

Net income at the Houston-based insurance holding company rose 20.6% in the first nine months of the year to $432.7 million from $358.8 million in the same period last year. Third-quarter net income rose 28% to $153.3 million from $119.8 million in 1985.

Earnings from property/casualty insurance increased 125.7% in the first nine months to $64.6 million from $28.6 million from the first nine months of 1985. The company reported property/casualty earnings of $23.2 million in the third quarter, compared with a $593,000 loss in the third quarter of 1985.

American General's combined ratio stood at 105.9% after the first nine months of 1986, which compares with 111.9% at the same time last year. The company's combined ratio in the third quarter was 105.6%, compared with 118.2% in the third quarter of 1985.

American General also has authorized the call for redemption of all of its outstanding $114.5 million principal amount of 11% convertible debentures due 2007. The scheduled redemption date is Feb. 8, 1987, and the price is $1,000 per $1,000 principal amount.

As an alternative to redemption, the debentures are convertible into American General common stock. Each $1,000 principal amount of debentures is convertible into approximately 54.5 shares of common stock. The right to convert the called debentures expires at the close of business on Jan. 29. Based on the $39 closing price of American General common stock on Oct. 28, the value of 54.5 shares is $2,125.

Also, interest of $55 per $1,000 principal amount will be payable Feb. 8 only to holders of record as of Jan. 24 that do not convert their debentures to common stock. Under the terms of the indenture, persons converting their debentures to American General common stock will not be entitled to the semiannual interest payment due on Feb. 8.

The debentures were originally issued on Feb. 8, 1982. ■

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● **"Employers Accounting for Pensions: Understanding and Implementing FASB No. 87"** is a new booklet available from Ernst & Whinney. The Financial Accounting Standards Board's Statement No. 87 will require more intricate pension expense accounting and may result in these expenses showing up as much larger obligations on companies' balance sheets. Ernst & Whinney specialists designed the book to aid corporate financial officers in determining the impact of Statement No. 87 on their financial statements and summarize many aspects of the ruling. Included are: components of net periodic pension cost; accrued and prepaid pension cost; disclosure and transition requirements; and gain/loss calculations. For a free copy, contact Richard Schwartz, partner, Ernst & Whinney, 153 E. 53rd St., New York, N.Y. 10022.

● Business & Legal Reports has produced a new handbook entitled, **"Health Care Cost Containment,"** designed to show companies "how to develop and implement an employee benefits plan that saves money and keeps workers happy at the same time," according to BLR. Included in the guide are checklists, charts, examples and case studies to aid in designing a program. It also suggests 16 specific steps to cut benefit costs without hurting employees. The book costs $24.95 and can be obtained on a 30-day trial basis from Business & Legal Reports, 64 Wall St., Madison, Conn. 06443.

● The Public Risk & Insurance Management Assn.'s OUTREACH program introduces the "Risk & Benefits Report (1985)." The report contains an overview of **risk management and employee benefits operations in the city of Springfield, Ore.** The 38-page publication is divided into seven sections, including: losses and benefit usage, 1985 renewals, 1985 accomplishments, issues and trends, budget issues and documents for the medium-sized city. The report offers comparative data in areas such as workers compensation, property/casualty, liability and employee benefits coverage. The report concludes by identifying issues that the city must address in the future including cost containment, retirement, the insurance market and claims. Cost of the report is $10 (plus $1.50 handling if not prepaid). Send to the Public Risk & Insurance Management Assn., 1120 G St. N.W., Suite 400, Washington, D.C. 20005.

● Free copies of several **benefits-related publications** are now available from Kwasha Lipton. Titles of article reprints available are: "Financial Administration of Defined Contribution Plans," "Flexible Benefits at Merrill Lynch: A Retrospective View," "Medical Benefits for Retirees—Plan Design Considerations," "Recordkeeping and Administration: Administration of QDROs Under Defined Contribution Plans," and "Cash Balance Pension Plans: A 'First Anniversary' Update." In addition, Kwasha Lipton offers a newsletter, "The New Pension Accounting Standard," free of charge. For copies of reprints or the newsletter, write to Marketing Department, Kwasha Lipton, P.O. Box 1400, Fort Lee, N.J. 07024.

● "Risk Management Information Systems—How To Choose What's Right For You" is the title of a brochure from Anistics Inc. that describes the process of **evaluating your company's risk management information system needs.** The brochure is free of charge and may be obtained by contacting Nancy Mullins, Anistics Inc., 220 E. 42nd St., Suite 500, New York, N.Y. 10017; 212-972-600.

● "Comprehensive Health Insurance For High-Risk Individuals-A State-By—State Analysis" is the title of a new 166-page book from Communicating for Agriculture Inc. that provides the latest data on **health insurance pools** throughout the United States. This update covers all existing pools, operational statistics, application forms, premiums, model legislation from the National Assn. of Insurance Commissioners and Communicating for Agriculture, actual legislative bills and more, including the federal movement to mandate state health pools. Cost of the book is $7.50. Make checks payable to: CA Support Services, 2001 Killebrew Drive, Suite 100, Minneapolis, Minn. 55420.

● The landmark U.S. Attorney General's **"Asbestos Liability Report"** is now available from SourceFinders Information Corp. The 213-page document is an unabridged reprint of the complete document originally prepared by eight Justice Department attorneys and paralegals for the U.S. Congress. Although it addresses technical legal issues, it is written in easily understood language and provides some insights into the liability of persons who own, use, work in or attempt to sell a building containing asbestos materials. Cost of the document is $19.95 plus $2 shipping and handling from SourceFinders Information Corp., 68 Sandra Road, Voorhees N.J. 08043; 609-772-2355.

● **"Financial Services Professional's Guide to the Tax Reform Act of 1986"** has been produced by seven faculty members of The American College. The guide is written specifically for insurance underwriters, brokers, lawyers, bankers and financial planners, and includes section-by-section analysis of the new tax law, point-by-point comparison with the old law, in-depth treatment of financial planning considerations and suggestions for immediate and long-range planning. Cost of the guide is $7.95 for currently enrolled American College students, and $12.95 for all others. To obtain a copy call or 800-841-8000, extension 18, seven days a week, or write: The American College, P.O. Box 1400, Bryn Mawr, Pa. 19010.

● **The basics of risk management and insurance from the perspective of construction companies** is provided in a new booklet published by Associated General Contractors of America and the International Risk Management Institute Inc. The 35-page "Guide to Construction Insurance" covers a broad range of subjects, including automobile insurance, workers compensation, builders risk, contractors equipment. All insurance chapters focus on the new Insurance Services Office's commercial lines policies. Copies may be obtained for $15 ($23 overseas) from International Risk Management Institute Inc., 10300 N. Central Expressway, Building III, Suite 208, Dallas, Texas 75231-3390; 214-363-9656.

● Changes in **the new 1986 business income insurance policy** are explained in a new book from BJ Publications. The book, written by James R. Jorgenson, provides descriptions of how coverage is broadened and simplified under the new form, in addition to including limit-setting and pricing guides to keep track of underwriting requirements, rates and rating procedures for the new forms. For a copy, send $9.95 to BJ Publications, P.O. Box 16791, San Antonio, Texas 78216.

● **"Topics in Association Benefits Management-1986"** has been published by the International Foundation of Employee Benefit Plans. The 89-page book is a collection of texts presented at the 1986 Association Benefits Management Conference held last April. Topics covered include association professional liability insurance, underwriting association plans, selecting professionals and retiree health benefits, among others. Cost of the book is $23 for IFEBP members and $25 for non-members. Write to Publications Department, International Foundation of Employee Benefit Plans, P.O. Box 69, Brookfield, Wis. 53008-0069.

● Metropolitan Life Insurance Co. has a new booklet titled, "Take Control of Your Future with Metromatic," which contains information of special interest to employers who are looking for **opportunities to supplement existing employee benefit plans** on a voluntary payroll deduction basis using Unisex Universal Life Insurance. The booklet is free of charge and can be obtained by contacting Metropolitan Life Insurance Co., 208 S. LaSalle St., Suite 1232, Chicago Ill. 60604; 312-726-8452.

● **"Computer Security Services"** is the title of a technical paper prepared by M&M Protection Consultants. The paper describes the company's services in the areas of risk analysis, security programs, data and communications security, disaster recovery planning and training and education. For a free copy write to M. Musson, manager, Computer Security Consulting Services, M&M Protection Consultants, P.O. Box 14459, 515 Olive St., St. Louis, Mo. 63718.

● The HMO Advisory Group, a Washington Business Group on Health Committee, has produced a new report titled, **"The Future of HMO Regulation: A Need for Reassessment."** The report discusses the federal qualification process, the community rating system and current employer contribution regulations, among other topics related to HMO rates, levels of benefits and quality of care. Copies of the report are available for $10 from the Washington Business Group on Health, 229½ Pennsylvania Ave. S.E., Washington, D.C. 20003; 202-547-6644.

● "International Benefits—1985-1986" is the title of a collection of texts published by the International Foundation of Employee Benefit Plans. Topics covered in the 130-page book include **international employee benefits, compensation and benefits strategy, U.S. Social Security and totalization agreements.** The texts in the booklet were presented at IFEBP International Benefits conferences in 1985 and 1986. Cost of the book is $10 for IFEBP members and $18 for non-members. To order contact Publications Department, International Foundation of Employee Benefit Plans, P.O. Box 69, Brookfield, Wis. 53008-0069; 414-786-6700.

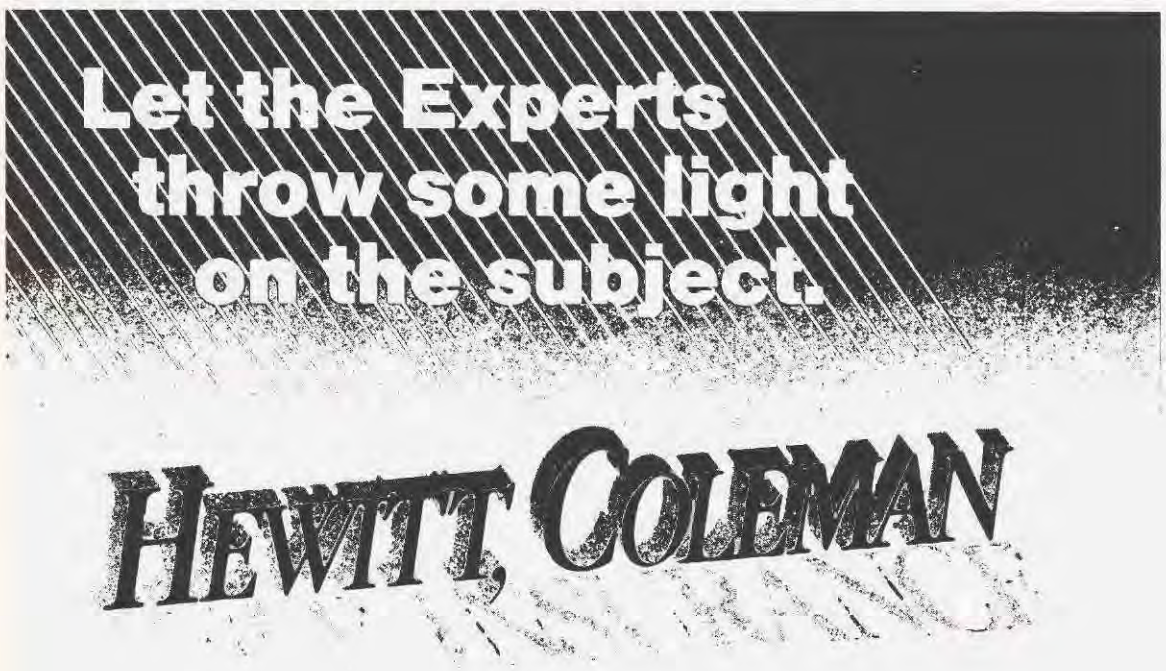
● The National Assn. of Professional Insurance Agents has produced an 18-page booklet, **"CGL in the Marketplace: Implementation Guidelines For the Insurance Industry."** The booklet provides an 11-point plan for using the new Insurance Services Office's commercial general liability forms. In general, the PIA guidelines stress cooperation between insurers, agents and consumers in using the new forms. To obtain a copy of the free booklet, contact Richard C. Bourne, director of industry affairs, National Assn. of Professional Insurance Agents, 400 N. Washington St., Alexandria, Va. 22314; 703-836-9340.

● Andrew Barile, chairman of reinsurance intermediaries and consultant Andrew Edwards & Co., has authored two new insurance related books. **"Reinsurance. . .A Practical Guide"** is the title of a book designed to give the reader a basic understanding of the reinsurance industry, discussing topics such as treaty and facultative reinsurance, functions of reinsurance and the U.S. reinsurance market. **"The Captive Insurance Company—An Emerging Profit Center"** is the title of a second book, which examines the growth and potential of captives and, in addition, covers specifics such as conducting a feasibility study, reinsuring captives and the role of captives in the conventional insurance market. Cost of the reinsurance text is $9.95, and the captives book costs $12.95. For a set of both books, the price is $22.90. To order, contact Interstate Service Corp., Box 1725, Oklahoma City, Okla. 73101.

● The American Society of Safety Engineers has published an 80-page book titled, **"Safety Manual for Municipalities."** The booklet provides a general look at loss control procedures, in addition to safety measures for various administrative departments, including: waste treatment/pollution control, police, fire and public works. Single copies are available at the rate of $20 for ASSE members and $25 for non-members. Prepaid orders only will be received by Department F, American Society of Safety Engineers, 1800 E. Oakton Blvd., Des Plaines, Ill. 60018-2127.

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Society of Risk Management Consultants meeting

Small consultants tout advantages for clients

By MICHAEL BRADFORD

SCOTTSDALE, Ariz.—Small can be better if you're a risk management consulting firm, the heads of several small consulting firms agree.

In fact, "Large firms can often be counterproductive," according to Michael M. Kaddatz, moderator of a panel discussion at the annual meeting of the Society of Risk Management Consultants in Scottsdale earlier this month.

The panelists—heads of small consulting firms—agreed that their size is no disadvantage in competing with larger companies.

Mr. Kaddatz, who is a principal of Advanced Risk Management Techniques in Laguna Hills, Calif., said large consulting firms often produce "diseconomies of scale. As the size of the firm grows, often the overhead grows disproportionate to the revenues."

And, Mr. Kaddatz added, "I believe that due to the professional and personal nature of the service we deliver, that a small consulting firm can often deliver a product better."

In addition, management at large firms tends to emphasize high production of new business and revenues, setting "growth goals independent of professional goals. It puts on pressure to produce business" that might be questionable, said Mr. Kaddatz.

Management at some large firms delegates a lot of responsibility, he said, and often that burden falls on inexperienced shoulders.

"We try to keep the emphasis in our organization on the individual practices of the people," said Mr. Kaddatz of his firm, which has grown to 19 employees from four.

"We want to grow only as we can find the professionals to do the work. We don't set growth goals independent of being able to find people. The people come first, the growth comes second," he said.

"We try to operate as democratically as possible," he added. "Not everybody has an ownership interest in the firm, but everybody in a professional sense wants to have a voice in it. . . .We try to give them every opportunity."

Panel member Jerry L. Brecke, president of Risk Control Inc. in Excelsior, Minn., said deciding how much growth is enough and finding the right employees are two of his biggest concerns.

"My staff concerns are quite a few, really," said Mr. Brecke. "Among them, and it's a business concern as well as a staff concern, is, 'How big do I want to get?' "

One disadvantage to adding employees, said Mr. Brecke, is, "I had to give up one of the things that I enjoy the very most and that is working with clients."

Therefore, the employees are essentially "taking over," he pointed out, "and I have to be sure that they have the mental philosophy that I have tried to establish."

One thing Mr. Brecke said he requires of all new employees is solid experience. He requires professionals in his firm to come from a risk management position.

To keep employees sharp, his firm pays 80% of the cost of any continuing education related to the job. Continuing education for staffers is important, said Mr. Brecke, because "in many respects, they're smarter when they join me than at any other time. They have come out of a relatively vigorous risk management position. . . .I have a big obligation to my staff to try to keep them current."

Panelist Beryl Shapley-Parsons of consultant Melanber Inc. in Quebec, said she had such problems finding qualified individuals to work at the firm managed by herself and Melville J. Parsons that personnel growth was put on hold.

About four years ago, "we finally came to the conclusion that we were just going to keep our company to ourselves," Ms. Shapley-Parsons said.

Apart from the problem of not being able to locate adequately trained personnel, she and Mr. Parsons did not have time to teach new employees the business, said Ms. Shapley-Parsons.

To keep up with its expanding business, the firm has computerized, she explained. And now two computer terminals help the firm save time on administrative chores, she said.

While Mr. Brecke laments giving up some of the contact with his clients, another panel member advises management to be careful that the focus of the firm is not centered on one individual.

If it is, the loss of that key employee can have a devastating effect on the firm, said Alice B. Weiss, president of LRF/Risk Management Inc. in Great Neck, N.Y.

Ms. Weiss, noted that her firm last May experienced the loss of its founder, Leonard R. Friedman.

"An organization cannot continue if it depends on one person alone," she cautioned her fellow consultants. "The clients will perceive the person as the only one who can service them and if that person is not around, the client is not interested in having you continue with the services."

Clients, she said, have to be aware of "depth in the organization."

Mr. Friedman had developed a plan that allowed the firm to continue if he decided to leave the company or work only part time, and the plan has worked, said Ms. Weiss.

A key executive must have the foresight to begin training someone to fill the position years before the job is anticipated to become vacant, Ms. Weiss noted.

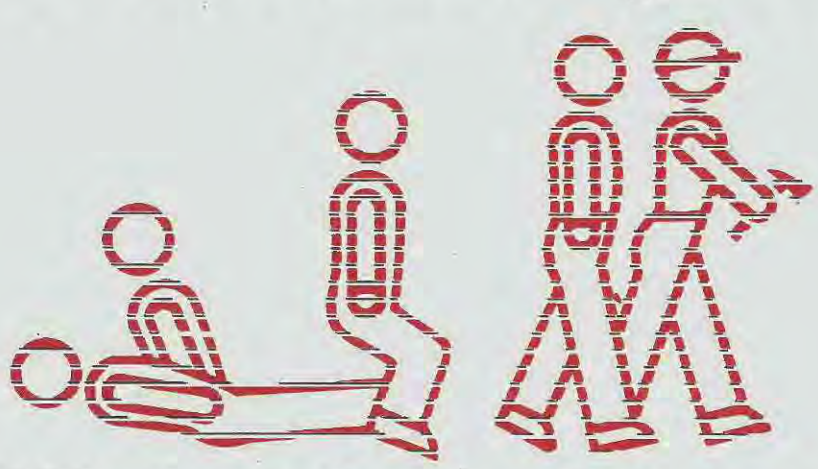
"And, let your clients know what your thoughts are of this person—the responsibility that you're giving them," she remarked. She pointed out that as part of Mr. Friedman's plan, he named her executive vp several years ago and communicated to clients that she was an important member of the firm.

Ms. Weiss said a key executive should "gradually step back, and instead of being involved in the day-to-day operations, you get involved only in projects."

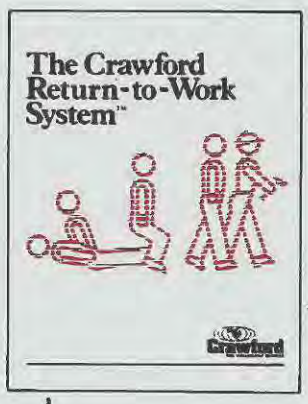
As Mr. Brecke pointed out, executives will "miss the day-to-day relationships with clients," agreed Ms. Weiss. "But it's really something you have to do."

Continued on next page

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Small consulting firms

Continued from previous page

When Mr. Friedman announced about year ago that Ms. Weiss would be named president of the firm, she aid many clients expected the former president to retire. But, she added, "He wanted everybody to know he was there, but he was there as chairman of the board. And they knew if they had a problem, he wasn't the one to come to.

"They still had the comfort of knowing he was around, but they knew that he wasn't the only person."

She said key executives have to "think to give the responsibility and the title and have your clients aware that you are not unique if you want them to stay as clients."

On another topic, panelists had different ideas about how to market a small risk management consulting firm.

Barron S. Wall of Insurance Consulting Associates in South Hackensack, N.J., said his firm relies almost entirely on word-of-mouth promotion.

"We do no advertising whatsoever or marketing," said Mr. Wall. In fact, no one at his firm had business cards until two years ago, he said.

Consultants at the company now carry business cards, said Mr. Wall, because he once almost lost an account when the president of a large toy company became incensed that Mr. Wall did not have a card.

Apart from carrying cards that identify his company, Mr. Wall said his company gains some visibility because he speaks frequently at Chamber of Commerce functions in New Jersey.

Mr. Wall said the firm relies primarily on business from existing clients and others that have heard recommendations of Insurance Consulting Associates.

Panelist Robert S. Felton, a principal of Felton Associates in Baton Rouge, La., said he likes to keep his name in front of former and prospective clients.

Once a month, Mr. Felton sends a pre-printed postcard to several hundred persons whose names he has gathered over the years. Sometimes he debates whether to purge the list of some of the older listings, but he noted that business sometimes comes from unexpected sources.

"Like just last week, someone called me that has been on the list since 1977, I believe," he said.

The cards, which offer risk management suggestions, are a way to "remind people I'm in the business. . .so they don't forget me."

Most of the material on the cards comes from problems Mr. Felton's clients have experienced or ones they might see in the future, he explained.

And future marketing plans call for a brochure that is being designed for the firm, said Mr. Felton. ■

Consultants told to note new Arizona regulations

By MICHAEL BRADFORD

SCOTTSDALE, Ariz.—Risk management consultants who do business in Arizona have to be aware of new insurance-related regulations that will affect the way they operate in the state.

Michael Sophy, chief hearing officer of the Arizona Department of Insurance, told the Society of Risk Management Consultant's annual meeting in Scottsdale that H.B. 2375 is a "major piece of legislation" with several features "important to the work you do."

The law, which became effective in August, has several provisions that affect risk management consultants, including:

- New provisions to allow corporations to self-insure directors and officers liability exposures.
- Regulations that allow school districts to self-insure.
- Requiring financial disclosures by property/casualty insurers writing in the state.
- Requiring payment of interest on claims not settled within 30 days of proof of losses.
- Requiring refunds on unearned premium in the "the very few cases" where cancellation of automobile policies is permitted.
- A non-cancellation provision for commercial business that allows only limited opportunities for insurers to cancel coverage.

The bill also includes provisions that allow the formation of joint underwriting associations in the state, said Mr. Sophy.

That part of the legislation, which calls for insurers to participate in associations that write coverage for hard-to-place risks, has created a lot of interest among potential policyholders, he remarked.

Among those lobbying for a JUA is a group of medical professionals whose jobs is to keep a patient's lungs inflated during cardiovascular surgery, he said. The 17 such professionals in the state "they can't get insurance," he said.

Others that may seek coverage through a JUA in Arizona include asbestos-removal contractors and securities attorneys, he said.

Surgeons that petitioned for a JUA that would underwrite medical malpractice coverage were denied insurance under such an arrangement because a hearing produced "no evidence of uninsurability," Mr. Sophy added.

And, a JUA that provides coverage for midwives was formed under a companion bill to H.B. 2375 and is already operating, he said.

While the insurance-related legislation was passed in August, a campaign to change a part of the state's constitution relating to how damages are awarded did not fare so well in the state election this month. The proposition, which was defeated narrowly, would have allowed a change in the constitutional provision that allows unlimited financial recovery in cases of wrongful injury or death (*BI*, Nov. 10).

In light of the defeat of the initiative, Mr. Sophy predicted that it will be "a very long time before that constitutional provision has a comma or a period or a word changed in it."

The constitutional provision, Mr. Sophy said, was enacted in 1912 by a group of "crusty old territorials who had no faith in government whatsoever."

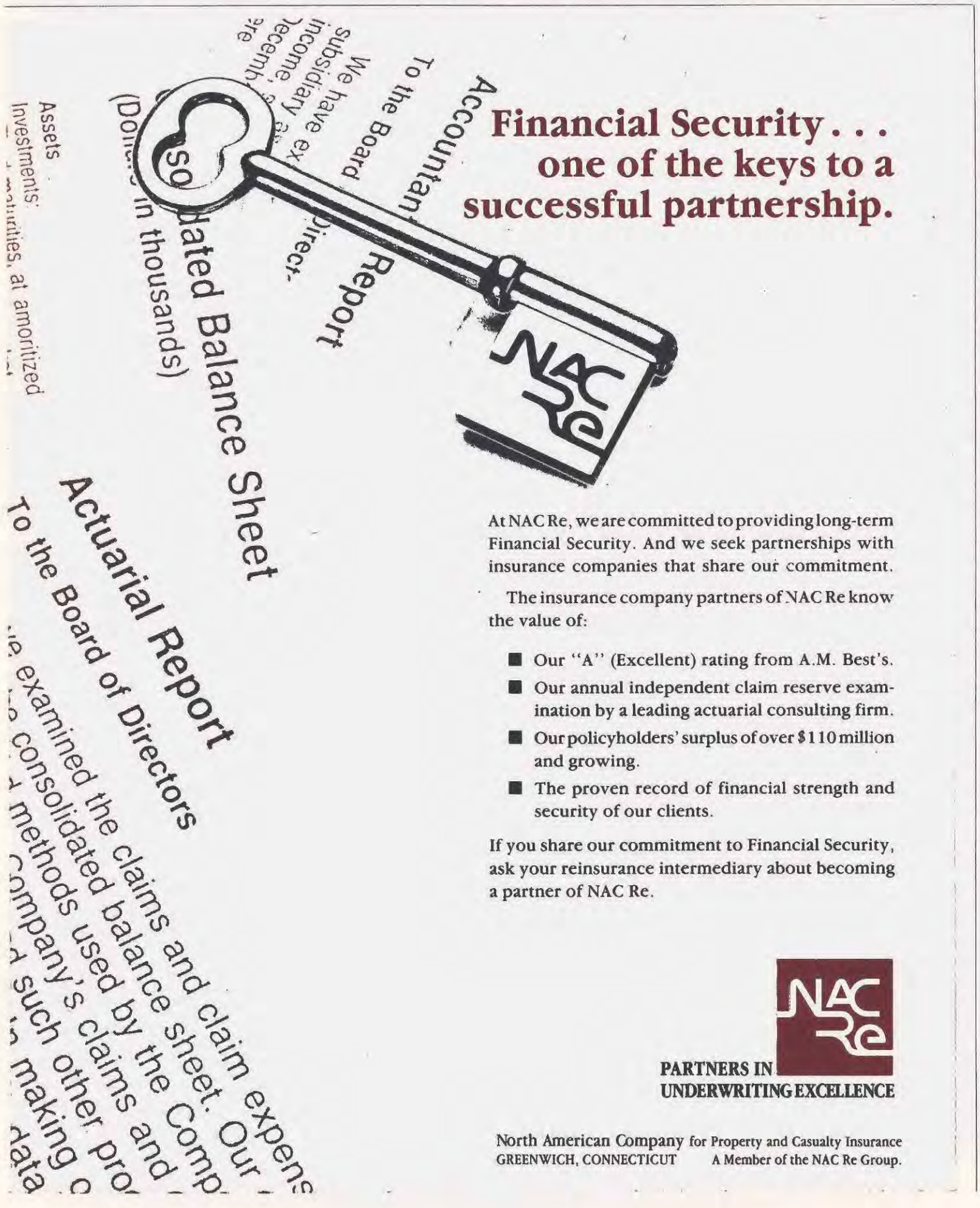
Still, Mr. Sophy said the defeat of Proposition 103 was puzzling. The proposition gathered a record number of signatures to be included on the ballot, he said.

And Mr. Sophy noted that before the election, polls showed the measure to have strong support.

But after a $6 million campaign by proponents and opponents of the measure—also a record for such an initiative in Arizona—"voters went thumbs down on the proposition," Mr. Sophy said.

Analysts have speculated that voters may have been swayed by a series of television advertisements that attempted to show the "amendment would cripple the war on crime," he said.

Mr. Sophy said he could not explain how the amendment could affect crime prevention, but he noted that ad campaign was the only new ingredient during the late days of the campaign, "and most probably, was the thing that turned it around." ■



Tort reform measures target medical malpractice: Study

By MICHAEL BRADFORD

SCOTTSDALE, Ariz.—State legislatures are zeroing in on tort reforms in their efforts to alleviate the medical malpractice insurance crisis.

During 1986, 12 states passed tort reform measures specifically addressing medical malpractice issues, according to a survey presented to the Society of Risk Management Consultants by Kenneth S. Wollner, a consultant with The Wyatt Co. in Chicago.

"Medical malpractice is truly an area of state concern," Mr. Wollner remarked. "It is one of the basic reasons why government formed. You'll find promotion of health care as one of the objectives set forth in most state constitutions."

Mr. Wollner provided information on medical malpractice tort changes like the new Kansas law that partially caps damage awards against health care providers at $1 million. The law also permits claimants to seek additional benefits up to $2 million for medically related expenses (*BI*, Aug. 18).

In addition to Kansas and the 11 other states that have enacted tort reforms aimed primarily at medical liability issues, 16 others have enacted "more generic legislation" in 1986, said Mr. Wollner.

One of the most popular "generic" tort reform measure passed this year has been a cap on non-economic damage awards, he pointed out. In Massachusetts, for example, damages like pain and suffering cannot exceed $500,000 except in cases that involve a victim with substantial disfigurement.

Mr. Wollner told the consultants that tort reform measures being introduced and passed this year differ from those appearing before lawmakers 10 years ago.

Today, he noted, tort reform measures increasingly include provisions to aid affected professions, like medical providers.

"Also, as many of you know, insurers have taken their lumps," he said. "In Florida, Hawaii and North Carolina, the statutes contain elements that require a rollback of premium rates."

Charles T. Tagman Jr., a consultant with Tillinghast/Towers, Perrin, Forster & Crosby in Newton, Mass., told the group he questions whether tort reform would be so big an issue now if "the insurance industry had acted with some degree of wisdom and turned the tide in 1981 or 1982" by developing products that could have averted an insurance crisis.

Still, he called the U.S. tort system "terribly inefficient. The system stinks in terms of efficiency."

Mr. Tagman pointed out that only 25% of the cost of operating the tort system is awarded to claimants as compensation for economic losses, compared with 70% of cost of the workers compensation system and 85% of health insurance premiums. ■

Consultants tap new leader

SCOTTSDALE, Ariz.—The Society of Risk Management Consultants gathered in Arizona earlier this month to address subjects ranging from directors and officers liability insurance policies to ways to beef up client rosters and select employees.

About 60 of the group's members got together Nov. 5-8 at the Sunburst Hotel in Scottsdale for four days of meetings and social events.

During the meeting, SRMC President Allan P. Waters of Waters Risk Management in Seminole, Fla., relinquished his title to Thomas C. Radziewicz of John Liner Insurance & Risk Management Advisors in Wellesley, Mass.

The society accepts only individual members, although consulting firms often have several members. Applicants must satisfy requirements for education, length of employment in risk management consulting and other areas.

Membership information is available from Charles Cox at Aldrich & Cox Inc., 1900 Ridge Road, Buffalo, N.Y., 14224; 716-675-6300.

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Courts shaping D&O coverage: Expert

By MICHAEL BRADFORD

SCOTTSDALE, Ariz.—The makeup of directors and officers liability coverage has been shaped greatly by court challenges to the policies, according to an expert in professional liability coverages.

Albert L. Salvatico told the Society of Risk Management Consultants meeting in Scottsdale earlier this month that "the key to understanding the product that you are selling and the questions you will get from your clients on how policies will respond to claims is to be found in the case law."

Mr. Salvatico is president of ARC Excess & Surplus Inc., a wholesale brokerage and consulting firm in Mineola, N.Y., that specializes in professional liability coverages.

'When you buy the (D&O) policy and you make representations to insurers, the person who signs the application in most cases. . .signs on behalf of the entire group of insureds,' explains Albert L. Salvatico of ARC Excess & Surplus Inc.

There are a couple of cases involving D&O coverage that are "particularly important to you as a consultant," he told conference attendees.

In the 1984 case of *Shapiro vs. American Home Assurance Co.*, Mr. Salvatico said insurers were able to walk away from claims made under a liability policy written for a corporation's directors and officers.

Using material researched by the New York law firm of Yeager & Lang, Mr. Salvatico said the case involved a corporate president who stated in his application for D&O coverage that he knew of no "acts, error or omission" that might give rise to a claim.

However, the president later was convicted of securities fraud for deliberately falsifying corporate income statements for the year preceding the date of the policy application, according to a case summary provided by Mr. Salvatico.

The president and the company's directors and officers were eventually sued in securities fraud actions and filed claims under the D&O coverage.

However, the court ruled that the coverage was void for the president as well as for the directors and officers and threw out the policyholder's argument that the policy should be viewed as a series of separate contracts between the insurer and each director and officer covered.

Consequently, the court decided, the fraud of one officer affected the entire contract and the insurer was allowed to rescind all coverage.

The case shows that "one of the most misunderstood things about a D&O policy is that it, in fact, is an agency contract," said Mr. Salvatico.

"When you buy the policy and you make representations to insurers, the person who signs the application in most cases. . .signs on behalf of the entire group of insureds," he said.

Mr. Salvatico said that, in most instances, if there are any misrepresentations in the application, the insurer has a "clear-cut right" to rescind coverage for all the policyholders.

"That fact is lost on most people," he said.

If a large claim is filed, directors may deny knowledge of any wrongdoing by another member of management and ask, "How can you exclude me from coverage?" Mr. Salvatico said.

The insurer will counter with, "Read *Shapiro vs. American Home*," he said.

An insurer can walk away from a claim, "and now you have an innocent director out there who is now facing significant personal liability," Mr. Salvatico said.

"Another very misunderstood application of a D&O policy," is also extremely important to buyers, according to Mr. Salvatico. He said many buyers don't understand how legal costs are paid in a D&O suit.

He explained that many policyholders have a policy that reads "the insurer agrees to pay on behalf of the directors and officers liabilities."

But, when the insurer is asked to pay ongoing defense costs, the insurer may look at the policyholder "like you've got six heads," said Mr. Salvatico.

Despite a policyholder's contention that the policy reads "pay on behalf," the insurer often points to exclusions that delay payment until the issues in litigation are resolved.

"It's a very embarrassing situation," Mr. Salvatico commented.

He referred to court decisions that draw different conclusions about how defense costs should be paid.

In the 1985 case of *Okada vs. MGIC Indemnity Corp.*, the court decided that the D&O policy involved in the case defined a loss to include defense costs and held that the costs must be paid as they are incurred, according to Mr. Salvatico.

The decision was reached despite a provision in the policy that allowed the insurer to advance expenses "at its option," according to the case summary.

However, a court earlier this year in the case of *Bank of Commerce & Trust Co. vs. National Union Fire Insurance Co. of Pittsburgh, Pa.*, held that the question of whether an insurer had to pay losses, including defense costs, does not have to be decided until all coverage questions are resolved, the summary explained.

This court decision meant that the insurer had no obligation to pay defense costs before the underlying litigation was resolved, even though there was no timing provision such as the one in the Okada case, Mr. Salvatico's research showed.

Although Mr. Salvatico acknowledged that his outline of these and other court cases was brief, he said that such legal precedents offered his listeners a place to start when they are wondering, "Where do I go to look when I have this problem?"

The case studies would help them determine whether a policy they are reviewing "has worth, or no worth at all," he added.

Continued on next page



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Continued from previous page

Mr. Salvatico said insurers overreacted to losses they piled up during soft market conditions by raising prices and adding a multitude of exclusions to D&O contracts to essentially "gut the policy of any real coverage."

In doing so, he said, insurers have created a crisis in "corporate government."

"It's not an insurance consideration when directors of a company resign. It now transcends the insurance consideration and becomes a matter of corporate government," he said.

As a result of the D&O crisis, it has become common for companies to lose directors and officers because the businesses cannot find insurance to cover them, said Mr. Salvatico.

But legislation passed in several states offers evidence that lawmakers are under increasing pressure to help businesses protect their managers from liability exposures, according to Mr. Salvatico.

And statistics show capacity is beginning to reappear in the troubled D&O marketplace, he said (see related story).

In Delaware, legislation now limits the personal liability of a company's directors in some situations, Mr. Salvatico explained.

And in New York, a new law includes a provision that absolves non-compensated directors of non-profit corporations of liability unless the director is proven to be dishonest.

'It's not an insurance consideration when directors of a company resign,' says Mr. Salvatico.

"That's a major consideration," according to Mr. Salvatico, because non-profit organizations in the state now may only want to buy enough insurance to cover legal expenses.

Mr. Salvatico said he would not be surprised to see legislation regarding non-profit organizations similar to the New York law "take hold in virtually all the states. It makes sense." ■

Capacity for D&O increasing

SCOTTSDALE, Ariz.—Buyers of directors and officers liability coverage are going to find more coverage available in 1987, according to a broker and consultant who follows the marketplace closely.

Figures gathered by Albert L. Salvatico of ARC Excess & Surplus Inc. in Mineola, N.Y., show that 19 insurers that have provided D&O coverage during the past six years were offering a total of $88.5 million in per-risk capacity in September of this year.

Those same insurers were offering $83 million last January, according to the figures.

Mr. Salvatico's numbers show the increase in D&O capacity is the first since available limits dropped to $159 million in January 1985 from $320 million in December 1984.

By July of 1985, the 19 insurers were providing only $115 million in capacity before restricting their offerings even further to last January's level, the numbers indicate.

"I think if we re-examine this chart come Jan. 1, we'll see a different scenario," said Mr. Salvatico.

"We're going to see that $88.5 million start to inch up," he said.

In addition, he predicts, there will be new names among the list of insurers offering the coverage, "which, from the buyer's standpoint, is a very encouraging situation."

"As far as I'm concerned, from my little corner of the world, the marketplace is changing," said Mr. Salvatico.

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Estimated 1985 total employee benefit payments

Industry	Wages & salaries (In billions)	Benefit payments Percent	Benefit payments billion dollars
Manufacturing	$460.1	37.9%	$174.4
Services	381.3	27.0	103.0
Government (federal, state, local)	371.9	40.8	151.7
Trade (wholesale and retail)	331.3	31.2	103.4
Finance, insurance and real estate	135.1	40.7	55.0
Construction	102.1	30.3	30.9
Transportation	72.5	39.7	28.8
Utilities and communication	66.0	44.6	29.4
Mining	28.9	42.2	12.2
Agriculture	16.6	15.2	2.5
Total	$1,965.8	35.2%	$691.3

Source: U.S. Chamber of Commerce Research Center — Chart: Amy Palmer

Chamber of Commerce survey

Continued from page 1

Pension costs—the third-most expensive benefit—eased to $905 per employee in 1985, down from $1,011. Pension costs as a percent of payroll dropped fractionally to 4.2% from 4.7%.

On the other hand, Social Security payroll taxes, the second-most expensive benefit expenditure, increased to $1,428 in 1985 from $1,408 in 1984. Social Security payroll taxes, as a percent of payroll, remained the same between 1984 and 1985: 6.6%.

Benefit costs increased in 14 of the 21 industries surveyed in 1985. The biggest increase occurred among banks, finance companies and trust companies where per-employee expenditures rose 11.6% to $6,552 from $5,873.

Double-digit benefit cost increases were recorded in two other industries: Chemicals and allied products, up 10.6% to $10,086 from $9,119; and machinery (excluding electrical), up 10% to $9,408 from $8,556.

In seven of the surveyed industries, benefit expenditures declined in 1985. Those industries are: petroleum; food, beverages and tobacco; pulp, paper, lumber and furniture; stone, clay and glass products; printing and publishing; instruments and miscellaneous manufacturing; and trade (wholesale and retail).

These decreases ranged from 1.2% in the food, beverages and tobacco industry to 9.6% in the stone, clay and glass products industry.

How much employers are spending on employee benefits is detailed in the survey, the 24th since the Chamber first began the benefit survey project in the 1940s. At one time, the survey was conducted biannually.

The 1985 survey is based on the responses of 1,000 employers ranging from companies with fewer than 100 employees to corporate giants with more than 5,000 employees.

The survey was sent to 7,807 employers and with 1,000 companies responding, the survey had a response rate of 12.8%.

The publication of the Chamber benefit survey is an eagerly awaited event each year. The survey lists exact per-employee benefit expenditures for a broad cross-section of American commerce and industry.

As a result, the Chamber survey can help benefit managers compare their companies' benefit costs to others in the same industrny to analyze how successful their companies have been in holding the line on benefit costs.

The 1985 survey shows considerable variation by industry on whether benefit expenditures are increasing or decreasing.

For example, of the 21 surveyed industries, 10 reported increases in insurance costs, while 11 reported decreases.

The biggest percentage increase was found among department stores, where insurance costs—the most costly employer-provided benefit—rose 19.4% in 1985 to $690 per employee from $578.

Other industries where insurance costs increased substantially include:

- Chemicals and allied products, up 13.3% to $1,894 from $1,671.
- Textile products and apparel, up 10.1% to $1,002 from $910.
- Pulp, paper, lumber and furniture, up 9.2% to $1,880 from $1,722.
- Banks, finance companies and trust companies, up 7.1% to $1,252 from $1,169.

But insurance costs declined sharply in a number of industries. Those industries include:

- Stone, clay and glass products, down 21.8% to $1,794 from $2,294.
- Instruments and miscellaneous manufacturing, down 17.3% to $1,353 from $1,637.
- Petroleum, down 11% to $1,981 from $2,227.
- Trade (wholesale and retail), down 9.6% to $1,237 from $1,369.

Decreases in pension plan expenditures were most often the rule, with cost declines reported in 16 industries. Pension costs increased in four industries, while in one industry—hospitals—pension expenditures remained virtually the same, slipping just $1 in 1985 to $703 per employee from $704 in 1984.

Eleven industries reported double-digit decreases between 1984 and 1985 in pension costs:

- Rubber, leather and plastics products, down 46.6% to $392 per employee from $734.
- Food, beverages and tobacco, down 44.9% to $678 from $1,231.
- Printing and publishing, down 44.2% to $427 from $765.
- Instruments and miscellaneous manufacturing, down 33.3% to $321 from $481.
- Trade (wholesale and retail), down 30.4% to $273 from $392.
- Stone, clay and glass products, down 23% to $553 from $718.
- Chemicals and allied products, down 22.2% to $972 from $1,249.
- Department stores, down 18.5% to $212 from $260.
- Miscellaneous non-manufacturing industries, down 15% to $1,014 from $1,193.
- Fabricated metal products, down 12.8% to $669 from $767.
- Public utilities, down 10.3% to $1,905 from $2,124.

Bucking this downward trend, four industries recorded increases in their pension costs between 1984 and 1985. Those industries were: textile products and apparel, up 33.9% to $296 from $221; petroleum, up 12.5% to $1,876 from $1,667; machinery (excluding electrical), up 7% to $807 from $754; and transportation equipment, up 6.7% to $1,070 from $1,003.

As in previous years, this decline in pension costs for a majority of the surveyed industries undoubtedly is the result of the bullish stock

Continued on next page

Continued from previous page
market. As stock prices climbed, the value of plan assets also increased, reducing the need for employers to make contributions to their pension plans.

Social Security payroll taxes, though, increased for most surveyed industries. This increase, which brought the average per employee FICA tax to $1,428 in 1985, up from $1,408 in 1984, was the result of mandated increases in the tax.

In 1985, the FICA tax for employers was raised to 7.05% of an employee's first $39,600 of salary, compared with a 1984 tax rate of 7% of an employee's first $37,800 of wages.

The FICA tax now is 7.15% of the first $42,000 of an employee's wages, while the Social Security Administration recently announced that the FICA tax in 1987 will be 7.15% of the first $43,800 of an employee's salary.

The strong economy in 1985 led to an increase in profit-sharing payments, rising to an average of $234 per employee in 1985 from $219 in 1984.

Industries where profit-sharing payments rose by more than 30% in 1985 compared with 1984 include:

- Department stores, up 121.2% to $115 from $52.
- Miscellaneous non-manufacturing industries, up 59.2% to $207 from $130.
- Electrical machinery, equipment and supplies, up 58.6% to $536 from $338.
- Banks, finance companies and trust companies, up 49.5% to $480 from $321.
- Rubber, leather and plastics products, up 47.2% to $240 from $163.
- Chemicals and allied products, up 42.5% to $463 from $325.
- Food, beverages and tobacco, up 31.4% to $377 from $287.

However, profit-sharing payments took a nose-dive in the pulp, paper, lumber & furniture industry, declining 89.9% to just $45 per employee from $444, while in the slumping petroleum industry, where profits were pinched by declining crude oil prices, profit-sharing payments fell 64.7% to $202 from $572.

Other findings in the Chamber survey include:

- Despite that big drop in profit-sharing payments, the petroleum industry still was able to hold onto its position as spending more on employee benefits than any other industry. Surveyed petroleum companies in 1985 spent an average of $12,303 per employee on benefits, down 2.9% from $12,671 in 1984.

The petroleum industry was far ahead of the second-ranked primary metal industries, where benefit expenditures averaged $11,344 per employee in 1985, up 9.7% from $10,343 in 1984.

Public utilities had the third-highest benefit cost per employee: $10,622 in 1985, up 2.4% from $10,371 in 1984.

- At the other end of the benefit spectrum, department stores spent the least on benefits in 1985: $4,292 per employee, up 8.5% from $3,956.

Other industries with low benefit costs include textile products and apparel, $4,599, up 6.4% from $4,322; and trade (wholesale and retail), $5,697, down 5.1% from $6,006.

- As was also the case in 1984, insurance costs were highest in the primary metal industry, where the per-employee benefit expenditure averaged $2,817 in 1985, up 2.1% from $2,760.

The machinery industry (excluding electrical) ranked second in insurance costs. That industry spent an average of $2,159 on insurance per employee in 1985, up 6.3% from $2,032 in 1984.

Despite a 19.4% increase, health and life insurance costs were lowest among department stores increasing to $690 from $578. The textile products and apparel industry just crossed the $1,000-mark in 1985. Its health and life insurance costs increased to $1,002 from $910, up 10.1%.

- While public utilities' pension costs declined substantially, that industry's pension costs were higher than any other industry. Pension costs in the public utilities averaged $1,905 per employee in 1985, down from $2,124 in 1984, a drop of 10.3%.

Not far behind in pension costs was the petroleum industry where expenditures in 1985 averaged $1,876 per employee, up from $1,667, a 12.5% increase.

Pension costs were lowest in the department store industry where expenditures averaged $212 per employee in 1985, down from $260 in 1984, an 18.5% decline.

The trade industry (wholesale and retail) had the second-lowest pension cost in 1985: $273 per employee, down from $392 in 1984, a 30.4% decrease.

- Industries with the highest benefit costs as a percent of payroll in 1985 include: primary metal, 49.6%, up from 45.4%; chemicals and allied products, 43%, up from 39.3%; fabricated metal products, 42.1%, up from 40.8%; transportation equipment, 41.5%, up from 39.3%; public utilities, 41.2%, up from 41%; machinery (excluding electrical), 40.1%, up from 37.8%; and rubber, leather and plastics products, 40%, up from 38.3%.

Industries with the lowest benefit costs in 1985 as a percent of payroll include: department stores, 30.7%, up from 29.1%; trade (wholesale and retail), 31.5%, down from 32.2%; textile products and apparel, 32.3%, up from 30.9%; miscellaneous non-manufacturing industries, 33.9%, up from 31.3%; and stone, clay and glass products, 34%, down from 40.6%.

- Benefit costs, as a percent of payroll, varied by geographic region. For example, benefit costs as a percent of payroll averaged 39.5% among employers in the eastern North Central states (Illinois, Indiana, Michigan, Ohio and Wisconsin), 38.8% in the Northeast, 37% in the West and 35.1% in the Southeast.

•

Copies of "Employee Benefits 1985" are available from the U.S. Chamber of Commerce, Publications Fulfillment (RKVL), 1615 H St., N.W., Washington, D.C. 20062; 301-468-5128. The cost is $20 per copy. Discounts are available for bulk orders. Prepayment is requested.

PWS amends Heath offer

By CAROLYN ALDRED

LONDON—Lloyd's of London broker PWS Holdings P.L.C. is sweetening its unfriendly takeover bid for Lloyd's broker C.E. Heath P.L.C. by offering cash as well as stock to Heath shareholders.

Last week, PWS replaced its proposed stock swap for Heath, made Oct. 20, with a new offer that includes 25 million pounds ($37.5 million) in cash to Heath shareholders.

Because Heath and PWS's stock prices have fallen since the unfriendly takeover bid began, the deal is now worth 173 million pounds ($259.5 million) instead of the original 180 million pounds ($270 million) (*BI*, Oct. 27; Nov. 10).

"We felt our offer would be more attractive with a cash alternative," said Ranaan Ben-Zur, chairman of PWS.

But, Heath Chairman Derek Newton still advises shareholders to ignore the PWS offer and support a merger between Heath and Fielding Insurance Holdings Ltd., a 71 million pound deal ($106.5 million) that Heath announced earlier this month.

"The (new PWS) offer still contains a majority of paper of uncertain value unsupported by cash, and the board of C.E. Heath sees no reason to alter its previous advice to shareholders to reject the PWS bid," he told shareholders.

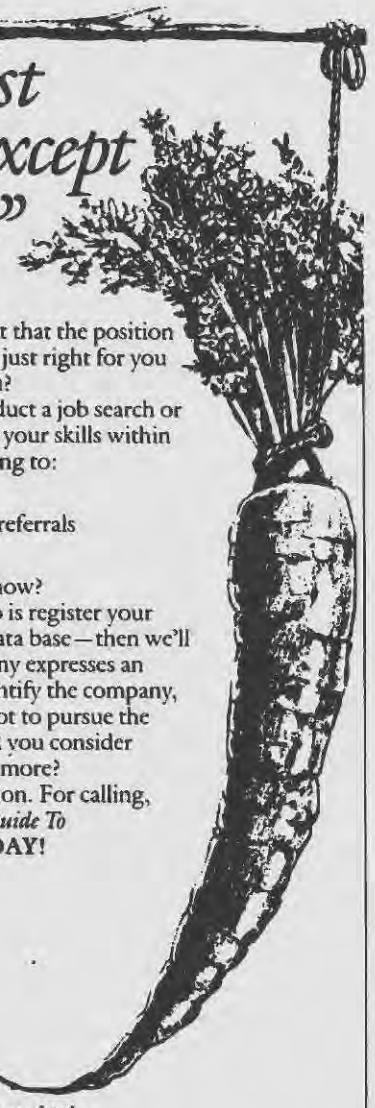
"I cannot see how this is an improved offer," he told *Business Insurance*. "We have received very favorable support for the Fielding deal both from the marketplace and from our staff and we shall continue with our merger plans."

Under PWS's new proposal, Heath shareholders would be able to opt for cash for all or part of the new ordinary shares in PWS to which they are entitled, on the basis of 275 pence ($3.93) for every new share in PWS. PWS will fund the first 12 million Heath shares that are sold for cash with funds already available at PWS and no new PWS shares will be allotted, said Mr. Ben-Zur.

"We wanted to minimize the dilution of our own shareholders' shares so we are putting up the first 25 million pounds from our own resources," he said.

PWS's new offer closes on Nov. 25, four days after Heath's shareholders are scheduled to vote on the proposed merger.

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Libel coverage

Continued from page 1

erally range from $7,500 to $400,000 for libel coverage, while deductibles can be anywhere from $25,000 to $500,000.

"If the circumstances are right," Mr. Bauer said, book publishers could perhaps now scrape together $15 million in primary and excess capacity, compared with $100 million several years ago.

Observers say in addition to Media/Professional, Employers Reinsurance Corp. and Lloyd's of London underwriters are the major markets for book publishers' libel coverage.

Media/Professional's general counsel, Larry Worrell—who named Employers Re and his firm as the major players in the market—said other underwriters have "kind of wandered in and wandered out" of the market over the years.

George F. Thompson, president and chief executive officer of Seaboard Surety Co., a unit of The St. Paul Cos. Inc., said his company had once been active in the libel insurance market for hardcover publishers, but withdrew 10 to 12 years ago after "we paid an awful lot in losses."

It is not clear exactly how many publishers have decided to go bare. The Assn. of American Publishers recently surveyed its members on their libel coverage, but Tom McKee, executive vp of the organization, could not release its results because survey respondents were promised confidentiality.

If a publisher is geared to certain types of books, "You're going to have more difficulty getting insurance than other publishers," said Rodger Rudkin, second vp and manager of the libel underwriting department at Employers Re.

According to Mr. Rudkin, however, that does not mean that publishers cannot publish. "Not all publishers are always insured for content," he said.

In general, observers say, publishers seek coverage for their authors as well as themselves through their libel insurance policies.

Henry Kaufman, general counsel at the Libel Defense Resource Center in New York, a research facility funded by media companies, estimates that at least 80% to 85% of the costs associated with book publishers' libel suits is accounted for by legal fees, despite the fact that publishers win summary judgments or the suits are dismissed in as many as 90% of the cases. "Exceedingly few" libel suits against publishers ever reach the trial stage, he said.

Fear of being drawn into costly court battles may prevent many worthwhile but controversial books from ever seeing the light of day, publishing executives, attorneys and other observers believe.

Today, a book publisher will look at a book, estimate it could sell 10,000 copies and wonder if it's "worth getting sued for," said Mr. Worrell of Media/Professional. As a result, "fewer books see the light of day."

Publisher Sol Stein of Stein & Day, based in Briarcliff Manor, N.Y., said fear of litigation by underwriters has prevented his company from obtaining libel insurance.

Mr. Stein said Media/Professional told him this spring it would not renew his libel coverage, citing the planned publication of "Family Treason," a book by Jack Kneece on the Walker family espionage case. The book, which has since been published, involves "a matter of great public interest," said Mr. Stein.

Even though Stein & Day, in its 25 years of existence, has never been successfully sued for libel, the company has been unable to find another insurer with which to place its business.

"No one wanted to consider it," said Mr. Stein.

Now that Stein & Day is going bare, Mr. Stein said he is concerned not about a "shortage of courage," but a shortage of time. The lack of libel insurance means in addition to the 100 hours normally spent to edit a book, perhaps an additional 500 hours of work will be necessary to "make certain it has nothing that could possibly draw a lawsuit."

Media/Professional's Mr. Bauer said the Stein & Day account was dropped when Media/Professional began writing business on behalf of SAFECO instead of CNA Financial Corp., which had different underwriting standards.

Based on SAFECO's underwriting standards, he said, the policy required a substantial premium and deductible that would have been out of proportion to Stein & Day's relatively small sales volume. Mr. Stein said his firm generates "$7 million plus" in annual revenues.

"I think the chilling effect comes from the state of the law and the courts," said Mr. Bauer. "Insurance carriers really can't be blamed for that."

Mr. Rudkin of Employers Re said small publishers are particularly vulnerable to being discouraged from publishing controversial books because libel insurance costs consume a larger proportion of their profit.

But the situation has even affected large publishers like Doubleday & Co., said Heather Kilpatrick, Doubleday's associate counsel.

Although Ms. Kilpatrick says Doubleday—whose libel insurance is underwritten by Employers Re—has never been lax in its editorial standards, the increasing amount of litigation, and stricter courts' interpretation of libel law, have caused the publisher to start "treading more cautiously."

"There's a certain, I guess, chilling impact on the publication of anything, whether it's insured or not," she said. "The chilling impact is when the lawsuits are brought and the enormous awards are given."

Robert M. Callagy, a New York-based libel attorney, said settlements of libel suits against book publishers are rare. "The integrity of your editorial operation, and the integrity of your authors, are most important," he said.

But others say rising litigation costs have made more publishers more inclined to settle. Employers Re's Mr. Rudkin said the publishing industry is "more aware of the inherent exposures that are involved in trying to defend an action based upon the content of their books" and, as a result, counsel suggests settlement more often.

Martin Garbus, a New York-based libel attorney, said the economic pressure to settle is particularly strong on a small publisher. A publisher, he noted, tcan be sued in any state in which his book is distributed, and if a small publisher is sued in a distant state where it would be considerably more costly to fight the suit, the impetus to settle is "very high."

Mr. Garbus added that while many cases will ultimately be dismissed or receive summary judgments in a publisher's favor, "you've got to spend a lot of money to get there."

While publishers complain about the rising cost of libel insurance, they also say these costs are not significant enough alone to lead to higher book prices.

Gerald Hollingsworth, vp and general counsel at Random House, said the publisher's libel insurance costs are "significantly higher," but would not provide additional details except to say that Media/Professional increased the publisher's deductibles this year to $50,000 from $25,000.

Beacon Press, a Boston-based non-profit publisher operated by the Unitarian Universalist Association, was told by Media/Professional that its annual premiums would rise to $25,000 at it July 1986 renewal, compared with $5,000 previously.

Beacon, which has less than $2 million in annual revenues, publishes primarily academic books and has never been sued, said Wendy Strothman, director of the company. It compromised by continuing to buy libel insurance for itself, but dropping its authors' coverage. Still, its premium rose to $13,000, which Ms. Strothman described as "appalling."

But Media/Professional's Mr. Bauer countered that publishers' coverage is "still pretty cheap, I would think."

Policyholders are being asked to pay higher premiums for coverage previously available "for a real bargain" during the soft market, said Employer Re's Mr. Rudkin. Pointing to "astronomical" legal costs, Mr. Rudkin said book publishers' premiums over the past two years have been raised "along with everyone else."

Today, he added, there is "more of an effort among underwriters to see to it insureds carry their end of the bargain" with respect to taking on these costs.

Factors insurers take into account in determining premiums include the type of book published, said Mr. Rudkin. Publishers of biographies of well-known people, or books on subjects of contemporary political or economic issues, are likely to pay more.

All else being equal, insurers would also be less willing to insure a book publisher whose books are distributed in California, as opposed to one whose books are distributed in New York, because California courts are less friendly to libel defendants, said Media/Professional's Mr. Worrell.

Another factor in this situation, said Mr. Worrell, is the effectiveness of publishers' in-house or outside counsel in screening out potentially dangerous material.

In an effort to reduce publishers' libel costs, New York broker Herbert L. Jamison & Co., acting on behalf of the Assn. of American Publishers, recently approached a number of insurers about creating a group insurance program, said the association's Mr. McKee.

But the insurers said they felt it would be difficult to put publishers together in one group because of the wide variety of exposures they have, said Mr. McKee.

However, a number of insurers indicated they would be interested in writing the coverage, including Fireman's Fund Insurance Co.; National Union Fire Insurance Co. of Pittsburgh, Pa., an American International Group Inc. company; and Evanston Insurance Co., whose underwriting manager is Shand, Morahan & Co. Inc., said Mr. McKee.

A Fireman's Fund spokesman said it would never discuss any proposed program, while spokesmen for National Union and Evanston could not be reached for comment.

Ann Heavner, assistant vp at Fred S. James & Co. Inc. of New York, noted the American Newspaper Publishers Assn. has its own Bermuda captive that writes libel insurance, Mutual Insurance Co. of Bermuda. However, she said book publishers probably would not create a similar captive because book publishers number "a couple of hundred at the very outside," not enough to raise sufficient capital. "The numbers simply don't wash."

A captive that writes all types of insurance for book publishers, including workers compensation, is more feasible, she said, though she added such a captive would raise "political" problems because many publishers would be reluctant to break off their relationships with their insurance brokers. "That relationship is very, very important to the publisher," she said. ■

Author seeks libel coverage for lawsuit

NEW YORK—Joe McGinnis, author of the best-selling "Fatal Vision," the 1983 book about a former Green Beret doctor convicted of killing his wife and two daughters, is now battling with his publisher's insurer over coverage for a lawsuit.

Mr. McGinnis is seeking to have the insurer, Employers Reinsurance Corp., compensate him for legal expenses incurred while defending a suit brought against him by the doctor, Jeffrey R. MacDonald.

At issue, say attorneys for both sides, is whether the suit is a libel suit and therefore covered under provisions of the policy obtained by publisher G.P. Putnam & Sons.

Employers Re's 1982 policy stated Putnam and Mr. McGinnis are covered for "damages because of injury sustained by any person or organization arising out of libel or slander or other defamatory or disparaging material," said Alan Kramer of Lanzone & Kramer, the New York-based law firm representing Employers Re.

The suit, filed in 1984 in U.S. District Court in Los Angeles by Mr. MacDonald—who is now serving three consecutive life sentences in a federal prison outside Phoenix, Ariz., for the murders—charges Mr. McGinnis committed fraud and "intentional infliction of emotional distress" with his book, noted Marian Lindberg, an attorney with Kornstein, Veisz & Wexler in New York, which is representing Mr. McGinnis.

Putnam is not named in the suit.

Mr. MacDonald invited Mr. McGinnis to write a book about his case while Mr. MacDonald was still facing trial. Under their agreement, Mr. MacDonald was to receive a share of the book's profits.

After "Fatal Vision" was published, however, Mr. MacDonald—who by then had been convicted—complained that Mr. McGinnis had portrayed him in a negative light.

Employers Re believes it should not have to pay Mr. McGinnis' defense costs "basically because the allegations in the complaint do not come within coverage," said Mr. Kramer. "It's just not a libel case."

But Ms. Lindberg says the complaint contains "hidden" libel claims. Interpretation of the Employers Re policy, she said, should not depend upon the "superficial acceptance of labels" that someone gives to a complaint, but instead on an analysis of the suit.

Ms. Lindberg said a decision on the insurance dispute is now being awaited from Judge Robert Sweet in U.S. District Court in New York. "It could be any day, or it could be a year from now," she said.

Ms. Lindberg would not reveal how much the MacDonald case has cost Mr. McGinnis so far in legal fees beyond that it is "many thousands of dollars." Putnam, she said, had contributed a "lump sum" toward the defense costs, but this money has since been exhausted.

The MacDonald case does not fall under provisions of the "Son of Sam" law, which prevent criminals from profiting from their crimes, because Mr. MacDonald's conviction was in 1979, before the law was promulgated, said Ms. Lindberg. ■

Lloyd's Council

Continued from page 3

Andrew Duguid, who managed the Companies Division of the British Department of Trade & Industry, to head Lloyd's regulatory service. He replaces David McWilliam, who resigned after only 16 months in office.

Mr. Miller said he hopes the new Council and the Lloyd's staff will work on new regulations for Lloyd's brokers next year. "We now have a strong team to take forward broker regulation," he said.

Lloyd's has postponed work on new broker regulations to gather documents and answer questions for a government committee headed by Sir Patrick Neill that is investigating Lloyd's system of self-regulation.

The Neill committee is scheduled to report its findings before the end of the year.

"It is quite unfair for people to castigate Lloyd's for not doing more on broker regulation," Mr. Miller said.

"We have moved far more quickly in matters of reform than any government department would have done."

In another regulatory development, Lloyd's is reprimanding four members for their parts in the alleged misappropriation of about 6.2 million pounds ($8.9 million) from syndicates managed by Brooks & Dooley (Underwriting) Ltd.

Lloyd's last week censured John Raymond Parry and Frederick Charles Raven, directors of Lloyd's broker Bellew Parry & Raven Ltd., and Bryan Cyril Peers, a former accountant of Brookgate Ltd. and Fidentia Marine Insurance Co. Ltd. of Bermuda.

In addition, Lloyd's reprimanded Margaret Mary Brooks, a former director of Brooks & Dooley (Underwriting) Ltd.

All four Lloyd's members were charged with improper conduct for their role in the placement of reinsurance for Lloyd's syndicates managed by Brooks & Dooley with Fidentia.

Lloyd's underwriter Thomas Raymond Brooks already has been expelled from Lloyd's and deputy underwriter Terence John Dooley has been suspended for 21 months for allegedly siphoning more than 6.2 million pounds ($8.9 million) of Brooks & Dooley syndicate funds over a 13-year period to Fidentia, a reinsurer controlled by Mr. Brooks (*BI*, Dec. 17, 1984).

Lloyd's claims that Bellew Parry & Raven placed Brooks & Dooley's syndicates' reinsurance with Midland Reinsurance Co. Ltd.—where Mr. Parry and Mr. Raven were non-executive directors and shareholders. That reinsurance, according to Lloyd's, was later retroceded to Fidentia.

Lloyd's also says that from 1970 until 1983, Bellew Parry & Raven, acting on behalf of Brooks & Dooley, either directly or indirectly placed with Fidentia substantial quantities of reinsurance from the Brooks & Dooley syndicates.

"Bellew Parry & Raven were neither asked to, nor attempted to, place the policies on the market to rate them or to draw up wordings," Lloyd's said.

Lloyd's alleges that the reinsurance was placed on terms that were disadvantageous to the syndicates and that Mr. Parry and Mr. Raven were aware of this.

Mr. Peers, as a chartered accountant and a director of Brooks & Dooley (Underwriting), was responsible for dealing with the syndicates' investments and cash flow. But Lloyd's alleges that Mr. Peers did not have sufficient control or supervision of the underwriting staff, including Mr. Brooks and Mr. Dooley.

Ms. Brooks did not adequately investigate the transaction and benefited from the sale of Fidentia in 1978, Lloyd's claimed.

'We now have a strong team to take forward broker regulation,' says Lloyd's Chairman Peter Miller.

Mr. Parry and Mr. Raven were each ordered to pay 27,000 pounds ($38,690) in costs incurred by Lloyd's during the investigation, while Mr. Peers and Ms. Brooks were ordered to pay 5,000 pounds ($7,165) and 2,000 pounds ($2,870), respectively.

Mr. Miller said that these actions put to rest the "Fidentia affair."

However, the chairman refused to comment on whether further investigations were under way regarding the directors of Bellew Parry & Raven. ■

New EIL insurer

Continued from page 2

ital contributions totaling $100 million, its capital and surplus eventually may amount to three or four times that much, Mr. Connolly suggested.

Limits available also will grow incrementally—especially for companies contributing more than the standard $1 million—as NACC's capital base expands.

For example, if NACC raises $100 million in capital and surplus, a company contributing $10 million will be able to buy limits of $10 million per claim and $10 million annual aggregate, Mr. Connolly said. If NACC's capital base hits $150 million, a $10 million contributor can buy limits of $15 million per claim and annual aggregate; and if total capital reaches $200 million, the $10 million contributor can buy limits of $20 million per claim and annual aggregate.

Companies contributing the standard $1 million will be able to buy only the standard $3 million/$6 million limit until NACC's total capital reaches $350 million, when the per-claim limit will rise to $3.5 million.

The available per-claim limit will continue to rise in $500,000 increments for each $50 million in additional capital raised, he explained, adding that the annual aggregate limit will remain at $6 million.

Mr. Connolly noted that the standard limits are the minimum necessary for policyholders to meet federal and state financial responsibility requirements.

Mailings were sent in early October to several potential investors, including chemical companies, manufacturers of semiconductors and other products and financial institutions that risk assuming pollution liabilities in foreclosure proceedings.

Representatives of more than 70 companies attended an Oct. 29 meeting on the facility in Toronto, and 100 more have requested information, Mr. Connolly said.

J&H hopes to round up the initial group of investors before the end of the year, and to see NACC licensed in Vermont and underwriting by early 1987, he said.

Chase Manhattan Capital Markets Corp., a unit of Chase Manhattan Bank, will serve as investment banker in the NACC offering, Mr. Connolly said. Other firms supplying services to NACC will include:

- Johnson & Higgins Services Inc. of Burlington, Vt., which will provide administrative and management services.
- IT Corp. of Torrance, Calif., which will provide site inspection and risk assessment services.
- Clement Associates Inc. of Washington, which will provide underwriting management services.
- LaRoe, Winn & Moerman, a Washington law firm that will coordinate legal defense services for policyholders.

Mr. Connolly would not disclose NACC's projected premium volume for 1987. ■

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NYIE syndicates

Continued from page 1

were obviously known for at least a year or more and probably won't have much effect."

The broker added, however, that "it sure can't help" the exchange's efforts to attract new investors.

Heartland, formed in 1980 and owned by Fred S. James & Co. Inc. and 18 insurance company shareholders, stopped underwriting new and renewal business in December 1984.

The syndicate had been managed by Syndicate & Corporate Management Services Inc.—a James unit—but switched in January to W.J. Burt Management Inc.

(A New York State Supreme Court judge ordered Heartland in July to arbitrate several disputes with Syncorp, which had filed arbitration demands earlier this year. The disputes are over management fees and overdue expenses allegedly owed by Heartland, court papers show. Heartland has filed counterclaims against Syncorp, but arbitrators have not yet been chosen, according to James A. Shanman, a lawyer with Sharfman, Shanman, Poret & Siviglia in New York, representing Heartland.)

Not writing new business, Heartland's gross premium volume dropped to $11 million in 1985, when it was the exchange's sixth-largest syndicate, from a high of $12.2 million in 1984. Gross premiums for the first quarter of 1986 dwindled to $1.6 million.

The syndicate reported an underwriting loss of $6.1 million on earned premiums of $2.4 million for the first half of 1986, and a net loss after investment income of $5.8 million.

Though Heartland reported policyholder surplus of $2.5 million at year-end 1985, this had dropped to a surplus deficit of $3.3 million by June 30.

In a Nov. 5 letter, Mr. Johe—also a senior vp of Michigan Mutual Insurance Co., a Heartland shareholder—informed the syndicate's ceding insurer policyholders that the exchange's board of governors had found the syndicate insolvent on Oct. 24. Heartland was given until Nov. 7 to present a rehabilitation plan.

The exchange governors told Mr. Johe that if the plan is found to be unacceptable, the board "may take further action" at its Nov. 14 meeting.

"This action could include a formal declaration of insolvency and petitioning of the superintendent of insurance for an order of liquidation," a board letter to Mr. Johe said.

Given the syndicate's financial condition at Sept. 30, Mr. Johe predicted that the board would seek a liquidation order unless a rehabilitation plan outlined in his Nov. 5 letter was accepted.

Heartland's pro forma balance sheet shows assets of $8.6 million and liabilities of $12.3 million as of Sept. 30, making for an insolvency of $3.7 million.

Under the proposed plan, Heartland would obtain loss commutation agreements from its principle ceding company policyholders in return for immediate payment by Heartland of 100% of outstanding losses (excluding incurred but not reported losses) adjusted for past due accounts through Sept. 30.

The payments to ceding companies would consist of:

- Cash equal to the greater of letters of credit and funds already held by the ceding companies or cash recoverable from Heartland's retrocessionaires, not to exceed 100% of outstanding losses adjusted for past due accounts.
- Surplus notes, bearing 6% interest starting in 1988, for the balance.

The effect of the plan, according to Mr. Johe's letter, would be a $2.6 million reduction in the syndicate's assets, but a $7.2 million reduction in its liabilities, producing a net gain of $4.6 million. This would leave Heartland with surplus of $862,351.

"With your cooperation and support for this plan, I believe that Heartland can ultimately make good on its promises without the formal involvement of the New York Insurance Department," Mr. Johe's letter says.

Heartland wrote primarily property and casualty reinsurance with an emphasis on property risks.

Exchange President Joseph Fahys declined to discuss Heartland or the other two syndicates. Mr. Johe could not be reached for comment.

Ceding companies owed the largest amounts by Heartland at year-end 1985 include St. Paul Surplus Lines Insurance Co., with $342,395 recoverable on unpaid losses, and Transit Casualty Co., now in liquidation, with $366,921 recoverable on unpaid losses, according to Heartland's annual statement.

In addition to James and Michigan Mutual, Heartland shareholders include Casualty Insurance Co. of Chicago; Celina Mutual Insurance Co.; Ohio Reinsurance Corp.; Donegal Mutual Insurance Co. of Marietta, Pa.; First Horizon Insurance Co. of Minneapolis and Horizon Insurance Co. Ltd. of Bermuda, both units of Cargill Corp.; and Guilderland Mutual Reinsurance Co. of Delmar, N.Y.

Also, Inland Insurance Co. of Lincoln, Neb.; Lumbermens Mutual Insurance Co.; Midro Ltd. of Bermuda, a unit of Midland-Ross Corp.; Milwaukee Mutual Insurance Co.; National Mutual Insurance Co.; Niagara Insurance Co. of Celina, Ohio; Northeastern Fire Insurance Co. of Pennsylvania, declared insolvent by Pennsylvania regulators; Presidio Insurance Co. of Miamisburg, Ohio; RLI Insurance Co. of Peoria, Ill.; and Shelby Mutual Insurance Co. of Shelby, Ohio.

First New York, also managed by Burt Management, was formed in 1979 and was one of the exchange's first underwriting members. The syndicate also stopped underwriting in 1984.

First New York is equally owned by eight U.S. and foreign insurers: Arkwright-Boston Insurance Co. of Waltham, Mass.; Capital Assurance Co. of Coral Gables, Fla.; Gjensidige Norsk Skadeforsikring of Norway; Mutual Fire, Marine & Inland Insurance Co. of Philadelphia (currently under the supervision of the Pennsylvania Insurance Department); Nouvelle Cie. de Reassurances; Ormond Re; Pearl Assurance P.L.C. of Great Britain; and Vakuutusosakeyhtio Pohjola of Finland.

The syndicate's gross premium volume also declined steadily to $11.8 million in 1985, when it was still the exchange's fourth-largest syndicate, from a high of $24.8 million in 1984. With gross premiums of $2 million, First New York was not among the Top 10 syndicates in the first quarter of 1986.

Continued on page 44

NYIE security fund limits its liability

NEW YORK—New York Insurance Exchange policyholders are protected by a security fund, though exchange rules limit claims against the fund in several ways.

The fund consists of two components:

- A deposit fund, to which each underwriting member must contribute $500,000. Syndicates can be assessed up to an additional $500,000 if this fund is depleted. The deposit fund stood at about $25 million as of June 30, an exchange spokeswoman said.
- A surcharge fund, financed through a charge equal to 0.75% of gross premiums written by exchange syndicates. The surcharge fund stood at about $12 million as of June 30.

Before the security fund is triggered by a syndicate insolvency, other avenues of recovery must be pursued, exchange rules say. These may include negotiating loss commutation agreements; collection of reinsurance recoverables; exhaustion of the insolvent syndicate's assets and surplus; and use of the syndicate's $500,000 deposit to the deposit fund.

If the security fund must then be tapped to cover obligations, the surcharge fund is triggered first. If this isn't enough to cover claims against an insolvent syndicate, the deposit fund can be tapped.

The security fund is not obligated to pay more than the total in the surcharge and deposit funds at the time a syndicate is declared insolvent by the exchange board. Syndicates declared insolvent within 90 days of each other are considered to have become insolvent at the same time, exchange rules say.

The exchange constitution also imposes several limitations on the types of claims covered by the security fund.

For example, the fund will not pay claims to syndicate policyholders that also directly or indirectly own 10% or more of the insolvent syndicate's stock or that controlled the syndicate. The intent of this rule was to prevent owners from abandoning a syndicate while benefiting from the security fund.

Seven of The Heartland Group Inc.'s shareholders ceded business to the syndicate, but only one—Ohio Reinsurance Corp.—owned more than 10% of its shares. Ohio Re was owed $23,340 on unpaid losses at year-end 1985, the syndicate's annual statement said.

The First New York Syndicate Corp. assumed business from three of its shareholders, all of which owned more than 10% of the syndicate, according to First New York's 1985 annual statement. Mutual Fire, Marine & Inland Insurance Co. was owed $381,776 on unpaid losses at year-end 1985; Pearl Assurance P.L.C. was owed $108,849 on unpaid losses; and Arkwright-Boston Insurance Co. was owed $175,090 on unpaid losses.

The Burt Syndicate Inc. did not assume any business from its sole shareholder, Ormond Re Group, according to its annual statement.

Along with this limitation, the security fund will not pay claims:

- On any one risk above a limit equaling 10% of the insolvent syndicate's surplus as reported on the last financial statement filed with the exchange before issuance of the policy. The fund will pay such a claim up to—but not in excess of—the 10% limit.
- For unearned premiums, dividends or retrospective rate credits or punitive, exemplary or consequential damages.
- On policies whose conditions are found to be "grossly unsound" or whose premium is "grossly disproportionate" to the benefits provided by the policy, based on customary insurance practice.

N.Y. surplus lines rules

Continued from page 2

"of a kind or in a form" that is permitted to be written by an admitted insurer, the coverage also cannot be written by non-admitted insurers.

In addition, surplus lines brokers cannot place coverage with non-admitted insurers unless the coverage conforms with the minimum requirements of state insurance law and departmental regulations.

This is known as the "illegal coverage" provision.

- Surplus lines brokers must obtain, before surplus lines coverage is placed, affidavits from policyholders in which the buyer certifies he knows the coverage is being placed with a non-admitted insurer.
- Surplus lines brokers must "inquire into the character and capacity of unauthorized insurers" before the coverage is placed.

In addition, brokers would be required to obtain various documents before placing business with a non-admitted insurer, including: a copy of the insurer's most recent annual statement; the most recent report on examination by the insurer's domiciliary insurance department; a certification from that insurance department of the insurer's license; a copy of the trust agreement with the domiciliary state; and a statement from each trustee indicating the amount and nature of funds maintained.

- A new, standard type of trust fund must be maintained by non-authorized insurers, and "cash and investments"—not letters of credit—must be used to finance these trust funds.

Department members at the hearing contended the proposed regulations are intended to protect buyers against the possibility of insurer insolvency.

However, Jon Harkavy, director of governmental affairs for the Risk & Insurance Management Society Inc., said the new rules would "kill the commercial insured with kindness."

Policyholders seeking non-admitted coverage are sophisticated buyers, witnesses contended, well-aware of the risks of not being covered by state guaranty funds if a non-admitted insurer should become insolvent.

In addition, the proposed revisions "fly in the face of" the state's tort reform bill passed last June, according to James March, executive director of the Insurance Brokers Inc. of New York State.

Mr. March and other witnesses said that proposed changes would work against the intent of the new law, which was designed to ease commercial capacity for liability coverage (*BI*, Aug. 12).

For instance, the tort reform law reduces to three from five the number of declinations from admitted insurers needed before a broker can place coverage with a surplus lines insurer.

The proposed regulations seem to have been written by people who are "simply not familiar with how the E/S business operates," commented Jeremy Cooke, president of New York broker Major Surplus Inc.

Particularly troublesome to the witnesses is the proposal concerning "illegal coverage." Such restrictions are "obviously inconsistent with the very essence of the non-admitted market," Mr. Harkavy argued.

The provision "hits hard on the entire concept of the excess lines market," said Mark Smith, president of the Professional Insurance Wholesalers Assn. of New York.

"We're not there to compete with the admitted market but to complement it," he continued, maintaining that the surplus lines market "has proven its value" in accepting risks the admitted market does not write.

Requiring surplus lines policies to meet a minimum standards test would "severely inhibit the market's ability to respond creatively to emerging insurance needs," something it had been able to do in the past "precisely because it is not tied" to state regulation, contended L. Patton Kline, vice chairman of Marsh & McLennan Cos. Inc.

If buyers are unable to obtain coverage in the surplus lines market, Mr. March warned, they might be forced into alternatives such as captives or risk retention groups that offer them even less protection from insurer insolvency.

Under the proposed rules, "companies would avoid" the New York market and "brokers would not want to do business" there, Mr. Bouhan said.

Witnesses also spoke out strongly against the proposed requirements that brokers obtain affidavits from buyers and obtain various documents regarding the insurer before placing coverage.

This places an "inappropriate burden on the broker," Mr. Kline maintained.

The burden placed on surplus lines brokers by these proposed regulations supports the perception that the department "is antipathetic, if not hostile, to brokers," according to Donald Green, a partner in LeBoeuf, Lamb, Leiby & MacRae in New York.

The broker "can't get the paper work done first," argued Patrick Foley, vp of American International Group Inc., because of the often last-minute nature of placing coverage in the non-admitted market.

Brokers "operate under time constraints given by insureds—there's time to comply with the regulations later," said Mr. Foley.

"The most important thing is to cover the insured."

This argument was echoed by Alan Martin, an attorney with Abrams & Martin in New York. Determining "solvency and honesty" of surplus lines insurers should be the "main thrust" of the department's concern, he said, "not paper work."

Witnesses also argued against the elimination of letters of credit as a vehicle for financing trust funds.

While acknowledging the department's belief that "cash on the barrel offers better security than a letter of credit," as Mr. Harkavy said, witnesses maintained that using LOCs was a valid and prevalent way of doing business.

In fact, Mr. Harkavy noted, most surplus line trust funds are currently funded by LOCs rather than cash or government securities.

The reinsurance community would "look with great alarm at any suggestion that letters of credit were not adequate security," commented Bert Thompson, senior vp for Shand, Morahan & Co. Inc.

Others testifying at the hearing against the proposed regulations included James Bianchetta, vp of NBA Excess & Surplus Lines Inc. in New York; Dennis Connolly, vp of Johnson & Higgins; and Richard Foss, vice chairman of the Illinois Insurance Exchange.

Miriam Boggio, the deputy insurance superintendent who conducted last week's hearing, said the department would continue to accept written statements on the proposals for 30 days.

After that, the department will study the testimony, but there is no deadline for promulgating final regulations, a department spokesman said. ■

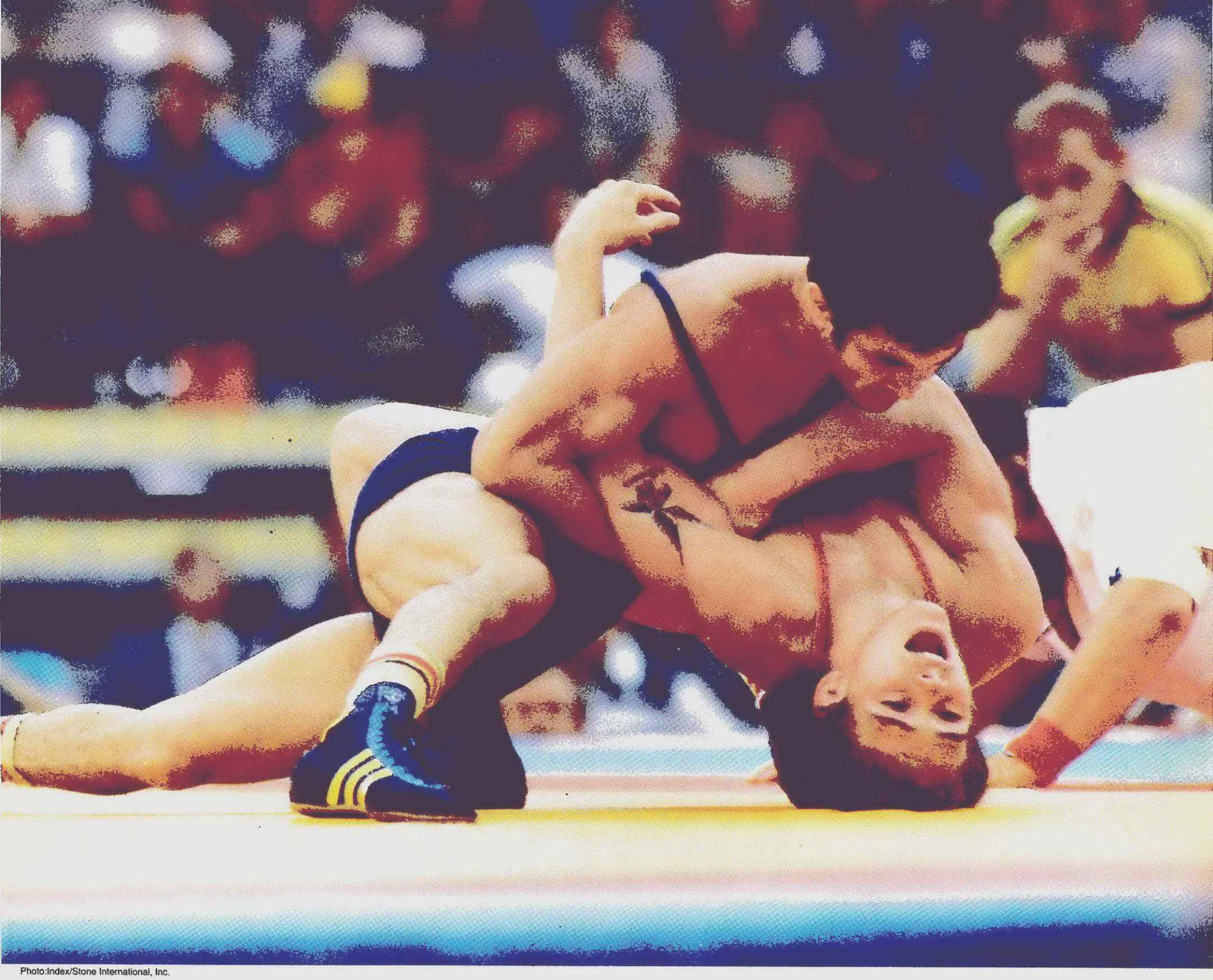


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NYIE syndicates

Continued from page 42

Though it reported year-end 1985 policyholder surplus of $1.8 million, Insurance Department examiners concluded that First New York was actually insolvent by $2.5 million as of last Dec. 31. The difference related mainly to the examiners' finding that the syndicate's loss reserves were deficient by $4.3 million, according to the report.

The Insurance Department ordered First New York on April 15 to cure the insolvency, and the exchange board subsequently petitioned the department to seek a liquidation order, court papers say. First New York is scheduled to respond to the show-cause order on Nov. 20.

The syndicate reported an underwriting loss of $4.5 million on earned premiums of $1 million for the first half, and a net loss after investment income of $4.1 million. Assuming a year-end 1985 policyholders surplus deficit of $2.5 million, First New York's surplus deficit would amount to about $6.6 million as of June 30. First New York reported a surplus deficit of $2.3 million as of June 30 based on its claim that it had surplus of $1.8 million at year-end 1985.

First New York policyholders owed the largest amounts by the syndicate at year-end 1985 include National Union Fire Insurance Co. of Pittsburgh, Pa., a unit of American International Group Inc., with $2.2 million payable on unpaid losses; Continental, with $1.8 million payable on unpaid losses; Integrity, with $1.3 million payable on unpaid losses; and Safety Mutual, with $1.1 million payable on unpaid losses.

The syndicate's largest reinsurers as of last Dec. 31 include some of its own shareholders: Capital Assurance, with $1.7 million recoverable on paid and unpaid losses; Arkwright-Boston, with $1.4 million recoverable on paid and unpaid losses; and Mutual Fire, with $508,039 recoverable on paid and unpaid losses. Other large reinsurers include Monarch of Ohio, with $2.1 million recoverable on unpaid losses.

Burt and First New York primarily wrote property and casualty reinsurance weighted toward casualty risks.

Separately, two other syndicates—KCC New York Syndicate Corp. and The Realex Group N.V.—last year fell below the exchange's minimum $2.2 million surplus requirement.

KCC—which reported a surplus deficit of $800,000 at June 30—has developed a rehabilitation plan with the exchange board that relies mainly on loss commutation agreements with ceding insurer policyholders, says KCC owner Donald Kramer. So far, KCC has arranged commutations with 12 of its largest ceding companies, he said, adding he doesn't know if a capital infusion will be necessary.

Realex is voluntarily preparing a proposal to obtain commutations from about 10 "of our most vulnerable treaties," says Robert D. Hughes, president of Chartrex Re Inc., which is the syndicate's underwriting manager.

The syndicate reported policyholder surplus of $415,586 as of Sept. 30, he said. If the commutations result in the syndicate's surplus rising to near $2.2 million, the syndicate's principals will consider a capital infusion of $1.5 million to $2 million "so we can start writing business again." ■

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* Source Business/Occupational breakdown of qualified circulation, May 26, 1986 issue, as submitted to BPA for June 1986 BPA Publisher's Statement.

Airline Mutual hoping for January takeoff

By CAROLYN ALDRED

LONDON—Airline Mutual Insurance Ltd., the mutual insurer being formed by the International Air Transport Assn. in Bermuda, hopes to begin underwriting hull and liability coverage for commercial airlines on Jan. 1.

While no airline has yet officially committed to buying coverage through AMI, six or seven airlines are interested in participating in the mutual by January, confirmed Hugh Bishop, general manager of the aviation division of AMI's managers Thomas R. Miller & Son (Bermuda).

IATA has said that 12 to 15 IATA member airlines must commit to participating in the mutual before it starts writing coverage (*BI*, July 7).

But, more than 15 airlines have expressed enthusiasm for the project, Mr. Bishop said.

"Six or seven parties have expressed interest in starting in January," said Mr. Bishop, who would not identify the airlines. "We have not yet pinned down a starting date, although we are working for a January start.

"I believe we have enough support to go ahead and the sooner we start, the better," he explained.

The IATA's executive committee, representing 25 of the group's 126 member airlines, approved in June a plan to establish AMI in Bermuda to "provide an insurance facility for airlines which will be run by airlines," according to a written proposal (*BI*, June 9).

IATA decided to establish a mutual insurer because of the increase in hull and liability insurance rates over the last few years. It then decided to establish AMI rather than revive the association's two dormant captives in Bermuda.

IATA has taken several other steps since last summer to establish AMI:

- IATA has chosen Thomas R. Miller & Son (Bermuda) to manage AMI. Miller prepared the original proposal for the mutual.
- A board of six directors has been chosen from IATA's executive committee. All of the directors represent European airlines, including Lufthansa German Airlines, British Airways, KLM Royal Dutch Airlines and Scandinavian Airlines Systems.

The board members do not necessarily represent the same airlines that will purchase coverage from the mutual, an IATA spokesman pointed out.

- An underwriter has been chosen: Geoffrey Digby, a former aviation underwriter with Sphere Drake Insurance P.L.C., who has been working for the last six months as assistant director of Lloyd's broker C.E. Heath (Aviation Reinsurance Broker) P.L.C.

'We have not yet pinned down a starting date, although we are working for a January start,' says Hugh Bishop of AMI's manager Thomas R. Miller & Son (Bermuda). 'I believe we have enough support to go ahead and the sooner we start, the better.'

Sources close to AMI say that Mr. Digby will join Thomas R. Miller next week.

However, reinsurance arrangements and the initial capital of the company have not been determined, sources agree.

Capitalization will be provided by airlines joining the mutual based on a percentage of the premium they pay to the insurer, IATA says.

Mr. Bishop says AMI is not looking for a specific amount of capitalization before it begins writing, but under Bermuda law it must have at least $250,000 in initial capital in order to begin writing.

Under the initial terms proposed by IATA, the new insurer will underwrite 5% of the total hull and liability limits of each airline joining the mutual and receive 5% of the total premium paid by the airline. Initially, the mutual will follow market rates and will only start leading policies and setting separate rates when it is well established, said a spokesman for the insurer.

The coverage will be offered through brokers and will be available to non-IATA member airlines as well as members of the association, the spokesman said.

Among the airlines known to renew their hull and liability coverage in January are Lufthansa, Air Jamaica Ltd., China Airlines Ltd., Egypt Air and Gulf Air Inc.

"We will welcome airlines who wish to join us at any time during the year," said IATA's spokesman. "Our target for the first year of operation is (to write) $7 million to $10 million worth of coverage." ■

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Grant Thornton 'fully covered' for judgment in E.S.M. case

By STEPHEN TARNOFF

FORT LAUDERDALE, Fla.—Auditor Grant Thornton says it has enough errors and omissions insurance to cover the half of a $70.9 million federal jury award to the trustee of the defunct E.S.M. Government Securities Inc. that the firm may have to pay.

"It will be fully covered by our insurance," said Peter Skomorowsky, managing partner of Grant Thornton's New York office.

Grant Thornton, formerly Alexander Grant & Co., will not have to pay the entire amount of the jury award under a pretrial agreement with the trustee of E.S.M. and various municipalities that calls for it to pay only 50.1%. The pretrial agreement recognized the value of other settlements paid by Grant Thornton in the E.S.M. affair.

E.S.M. was closed in March 1985 after a court order was obtained by the Securities & Exchange Commission, which charged the government securities dealer with fraud. E.S.M. now is in liquidation proceedings.

Also in March 1985, the receiver for E.S.M. sued Grant Thornton and a partner at the firm in U.S. District Court in Fort Lauderdale accusing them of "gross negligence" in conducting audits and preparing reports for E.S.M. and a related company.

The suit sought $300 million in compensatory and unspecified punitive damages.

Last year, a former Grant Thornton partner in its south Florida office pleaded guilty to fraud charges that he accepted bribes from E.S.M. officers and issued an unqualified opinion on E.S.M.'s financial statements knowing they were misleading and false.

Last week, Mr. Skomorowsky said Grant Thornton will file post-judgment motions seeking to overturn the verdict awarded to the E.S.M. trustee and, if unsuccessful, will appeal to the 5th U.S. Circuit Court of Appeals.

He said the E.S.M. trustee had no standing to bring the lawsuit since E.S.M. created the fraud. The trustee, however, disputes that contention.

Mr. Skomorowsky said reports that Grant Thornton has $190 million in errors and omissions coverage are "in the ballpark."

Numerous insurers are involved, including Lloyd's of London underwriters, he said. A $500,000 deductible already has been exhausted.

The auditor was insured under a claims-made policy with the policy year ending in the spring of 1985.

Grant Thornton already has paid out approximately $75 million to claimants including about $50 million to municipalities, $22.5 million to the Miami-based American Savings & Loan Assn. and $2.5 million in related settlements.

If the Nov. 6 jury verdict, which found Grant Thornton liable for negligence and breach of contract, is upheld on appeal, approximately 95% of the $35.5 million will go to the state of Ohio, which paid depositors after Home State Savings Bank of Cincinnati, E.S.M.'s largest creditor, collapsed.

An estimated $315 million was lost by financial institutions and public entities that traded government securities through E.S.M.

Home State also has a suit pending against Grant Thornton. To the extent creditors recover in the suit by the trustee, the claims in the Ohio case would be reduced.

Last January, Home State's liquidator sued Arthur Andersen & Co., Home State's auditor, and a Miami law firm that did legal work for both Home State and E.S.M. (*BI*, Jan. 20).

The Home State suit is the only remaining major litigation involving E.S.M., Mr. Skomorowsky added.

An attorney for E.S.M.'s creditors said that they were "very satisfied" with the verdict against Grant Thornton.

"This is the largest award ever in a professional malpractice claim that we are aware of," said Jose Garcia-Pedrosa, the lead counsel for the plaintiffs. ■

Lloyd's makes offer to settle Landoil suit

By KATHLEEN BARNES and STACY SHAPIRO

LONDON—Lloyd's of London underwriters say they want to pay less than $5 million to settle a $540 million lawsuit over political risk coverage filed in the Philippines by Landoil Resources Corp.

And, if no settlement can be reached, the Lloyd's underwriters want the dispute with the financially troubled construction giant to be arbitrated in London.

Landoil so far has refused to settle, although it is considering the offer from Lloyd's underwriters, according to Landoil attorney Manuel Camacho in Manila.

Landoil President Ambrosio Collado said that no board of directors meeting will be scheduled to consider the settlement offer until Mr. Camacho completes his recommendations on the offer.

Last December, Landoil and its subsidiaries, all based in the Philippines, charged in a lawsuit that leading Lloyd's underwriter "R. Outwaite"—actually Richard Outhwaite—and other Lloyd's underwriters failed to pay claims of more than $40 million filed under a $50 million political risk insurance policy (*BI*, Jan. 20).

The claims arise from four contracts Landoil had with state-owned companies in Libya and Iraq, the lawsuit said. According to the suit, the political risk policy was issued Jan. 18, 1983, and covered from Sept. 30, 1982, to Sept. 29, 1983.

In addition, Landoil charged in the suit that because the claims have not been paid, the company has "suffered financial setbacks and damages" amounting to $500 million in compensatory damages. The lawsuit, the largest ever in the Philippines' history, was filed Dec. 19 in the Regional Trial Court, National Capital Judicial Region, Makati, Metro Manila.

Landoil and Lloyd's underwriters had been squabbling for at least two years before the lawsuit was filed over the payment of the Landoil claims.

Mr. Outhwaite has said that he repudiated coverage shortly after claims were reported in 1983 because the claims involved Landoil contracts that were in dispute before the policy went into effect in 1983.

Mr. Outhwaite said he heard nothing from Landoil until May 1984, and only discovered from a newspaper article that a lawsuit had been filed in Manila.

In addition to Mr. Outhwaite, about 50 to 60 underwriters are participating in the coverage dispute. Other plaintiffs in the suit are Landoil affiliates and subsidiaries, including Construction Consortium Inc., Asia Water & Sewerage System Inc., Greater Manila Land Corp., Pacific Asia Builders and Developers Inc.

Since President Corazon Aquino came to power in the Philippines earlier this year, Lloyd's underwriters have been trying to settle with Landoil, Mr. Outhwaite confirmed. "We have had discussions," he said.

Lloyd's underwriters originally offered about $2 million to settle the dispute, he said, adding that throughout the discussions the underwriters have offered no more than $5 million. In the meantime, Lloyd's underwriters have argued that the dispute should be settled in London.

The Court of Appeals in Manila is to determine whether London or Manila has jurisdiction over the dispute, Mr. Camacho said. But, Lloyd's underwriters already have filed for arbitration in the London Court of Arbitration and have begun collecting material for the proceedings, Mr. Outhwaite said.

Mr. Camacho said Landoil also is considering action against the companies involved in placing the political risk policy. The brokers who placed the policies were Alexander & Alexander Services Inc., Alexander Howden Group P.L.C. and/or Sedgwick Group P.L.C., according to the writ against the underwriters, though the brokers are not named defendants in the existing suit against the underwriters.

A&A and Howden have "emphatically denied" any liability and will vigorously defend any claims Landoil may make.

Landoil has closed its offices in Makati. And, sources say that Landoil is currently being restructured with Filipino government support following the company's difficulty in collecting receivables from companies in Libya and other Middle Eastern nations over the last two years.

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Publicly held broker results

Continued from page 3

An M&M spokesman added investment management was the strongest growth area. Revenues at M&M's Putnam Cos. subsidiary "were up 95% over last year for two reasons: the level of the security market in general and the growth of the mutual fund business."

Analysts expect M&M's substantial growth rate to continue at least through 1987.

"Marsh has had the best record so far in 1986. They have shown tremendous new business gains and they have a corner on the reinsurance market. I think they're going to come up with the biggest revenue gains in 1987," Mr. Keefe said.

Mr. Goodfriend labeled M&M "the best company with the most solid potential."

"Marsh & McLennan reflected strength across the board in new business. That's the key," said Leonard M. Wilson, special limited partner with L.F. Rothschild, Unterberg & Towbin in New York.

Alexander & Alexander announced some good news along with its third-quarter loss: It has settled for $24 million a longstanding lawsuit against four former auditors of its British unit, Alexander Howden Group P.L.C. (*BI*, Nov. 10).

However, "Recognition of this recovery is being deferred in the company's financial statements pending final resolution of other related contingencies," said John A. Bogardus Jr., chairman and chief executive officer.

Tinsley H. Irvin, president and chief operating officer, added that "At some point, when all Howden contingencies are eliminated," the settlement will be reflected in A&A results. But such Howden contingencies—estimated losses from disposal of Howden underwriting subsidiaries—cost the brokerage $16.6 million in the third quarter.

"The discontinued operations loss we took was the final analysis on our claims reserves. . .for the run-off of Atlanta International (Insurance Co.) and the Bermuda operations" of Howden, Mr. Irvin explained.

Mr. Bogardus said that "barring unforeseen developments, we believe that the provisions taken through this quarter will cover losses through the period of the run-off."

And, despite the increase in revenues, A&A also experienced a 9.8% decline in earnings from continuing operations during the quarter to $15.7 million compared with $17.4 million for the same period in 1985.

"Adversely affecting operations in the quarter were less-than-expected operating revenues from clients in depressed business areas, particularly our energy-related clients in the Western U.S. and in Canada," Mr. Irvin explained.

Despite the poor third-quarter results, A&A's nine-month figures are still positive. Gross revenues increased 16.7% to $786.4 million from $673.9 million in the first nine months of 1985. Net income rose 72.9% for the nine months to $40.8 million from $23.6 million in 1985.

Analysts have mixed observations about A&A.

"Their generally disappointing earnings in the third quarter require us to be a little more cautious about our earnings predictions for next year," Mr. Wilson said.

Mr. Weinhoff said Shearson is re-examining its earnings projections for A&A for 1987, although he expects A&A's 1987 earnings to be higher than in 1986.

"Their problems have lingered and lingered and lingered. I'd lean more toward expecting more problems rather than expecting that problems are over with," Mr. Keefe said.

But Mr. Goodfriend said: "It is presumptuous to presume that the troubles that hit them with a vengeance in the third quarter will continue at their current magnitude." He predicts that A&A will have a better year in 1987, but said that its growth rate continues to lag.

Mr. Irvin says he's optimistic. "We are projecting significant improvement in our fourth quarter," he said, citing "successful business development efforts" as the reason for his optimism.

Third-quarter revenues at Frank B. Hall decreased 1% to $104.6 million from $105.2 million in last year's third quarter for several reasons, according to Senior Vp John A. Addeo:

- Fees were reduced for Safety Mutual Casualty Corp., a client of Hall managing general agent subsidiary Insurers Services Corp., to compensate for additional reserving required by Safety Mutual in the third quarter (*BI*, April 7).

"The effect of this is a $5 million reduction in commissions in the quarter," Mr. Addeo.

- Two large brokerage accounts' renewals, which account for about $1.7 million in commissions and fees, were transferred to the fourth quarter from the third.
- A West Coast office did not book return premiums during the first two quarters. This had a $1.6 million "catch-up effect" in the third quarter," Mr. Addeo said.

"We also had some one-time charges in other operating expenses. Because we were not going to be reporting a strong quarter anyway, we decided to do some house cleaning. We put up additional reserves for bad debts and other items amounting to $7.6 million."

Mr. Addeo would not comment further, except to say: "We don't expect these charges to recur. Without these charges, we would have only reported a 5% increase in operating expenses. With them, we reported about a 25% increase."

The combination of lost revenue and increased expenses translated into a $9.99 million loss in the third quarter, compared with a $94.5 million loss in 1985's third quarter. The 1985 loss was caused by reserve increases at underwriting units and the disposal of its truck leasing subsidiary.

For the first nine months, Hall reported a 7.9% revenue increase to $335.5 million from $291.6 million last year. Net income totaled $3.9 million, compared with a $103.2 million net loss in last year's corresponding period.

"It's too early to tell about our fourth quarter," Mr. Addeo noted. "It hinges on new business production. We don't foresee any problems. We think with this house cleaning, we should be fairly clean for the fourth quarter, and we're optimistic about 1987."

Shearson's Mr. Weinhoff said he was disappointed with Hall's third-quarter numbers. "It's very disappointing to me that the revenue growth was absolutely flat," he said, adding "that shouldn't be" considering the growth of the other public brokers. I think we will continue to see housekeeping actions at Hall for the rest of the year."

However, Mr. Keefe was more optimistic.

"The extra charges and some of the revenue adjustments will be pretty constructive. That will give them a better base to build from and comparisons should be much more valid form here forward," he said. He also noted that revenues from property/casualty brokerage, Hall's main line of business, were up 17% in the quarter.

Corroon & Black Corp., the fifth-largest broker behind privately held Johnson & Higgins, posted a 24.8% increase in gross revenues to $91.3 million in the third quarter from less than $74 million in last year corresponding period. Net income jumped 42.4% to $14.6 million from $10.2 million.

For the first nine months, Corroon & Black's gross revenues rose 26% to $250.4 million from $198.8 million in 1985. Net income increased 56.5% to $33.2 million from $21.2 million.

"Corroon & Black is doing pretty well. Their basic brokerage business grew at about 25%, and wholesale business grew faster than that. Their reinsurance business has been flat, but they indicated that might be better in 1987," said Mr. Keefe.

"Corroon & Black's results were very solid. They continue to do well in almost all areas of business, although their growth in reinsurance brokerage is not as strong" as other areas, Mr. Wilson said.

The brokerage's "earnings were very bullish," Mr. Weinhoff added, and Mr. Goodfriend predicts that Corroon & Black should also have a "very good year" next year.

Stephen A. Crane, senior vp and chief financial officer of Corroon & Black, attributes most of the brokerage's growth to new business rather than to premium rate increases. "Our new business activity continues to be quite strong. We're very pleased with that.

"Our year-to-year revenue growth will probably be somewhat lower in 1987 than in 1986 because of the deceleration of the increase in property/casualty rates. We do expect continued growth in revenues in respect to new business production," Mr. Crane continued.

Arthur J. Gallagher's & Co.'s gross revenues increased 24.8% in the third quarter, to $33.8 million from $27.1 million in the third quarter of 1985. Net income rose 17.9%, to $5.5 million from $4.7 million.

For the nine months of 1986, Gallagher's gross revenues increased 28.3% to $89.4 million from $69.7 million in 1985. Net income jumped 34.1% to $12.4 million from $9.3 million.

"Gallagher should have another good year in 1987," Mr. Goodfriend said. Other analysts do not track Gallagher's results.

Michael J. Cloherty, Gallagher's vp of finance, attributes Gallagher's strong growth in the quarter to "our overall risk management concept," explaining that an increasing number of clients need self-insurance services, Gallagher's specialty.

Gallagher made three acquisitions in the quarter, all accounted for as pooling of interests: Lloyd's of London broker John Plumer & Co. Ltd.; Manning, Malcolm & Kelley Inc., a broker in Norcross, Ga.; and Heffernan, Keiler & Doble Inc., a broker and risk management services firm in San Francisco.

Tampa, Fla.-based Poe & Associates reported a 1% increase in gross revenues in the third quarter of 1986, to $8.6 million from $8.5 million in 1986. Net income increased 10.1%, to $1.2 million in the third quarter from $1.1 million in third-quarter 1985.

Nine-month 1986 results show stronger gains. Gross revenues grew 17.2%, to $24.8 million from $21.2 million in the first nine months of 1985, while net income jumped 67.6%, to $3.5 million from $2.1 million.

Chairman William F. Poe commented said the slow growth in third-quarter revenues was a result of insurers' withdrawal from writing new business in Florida to protest the state's new insurance and tort reform law.

"In Florida, only 15% to 20% of our insurers are open for new business. For every 10 new customers, you might get a quotation on 1½ or two," Mr. Poe added.

"We were able to write new business in the balance of the country, which helped to offset the normal attrition at renewal," said Mr. Poe. He added that the huge premium increases faced by clients served by Poe's wholesale division has caused some to go bare, which created further pressure on Poe's revenues.

Mr. Poe also expects the fourth quarter to be "relatively flat in terms of revenues," but remains optimistic for 1987.

"It's my opinion that whatever the conclusions on Florida's tort reform may be, it will clear the air and insurers will know the rules. Then in the first quarter, I think, we'll be back to a reasonably normal atmosphere," he said. ■

BI Industry Stock Report

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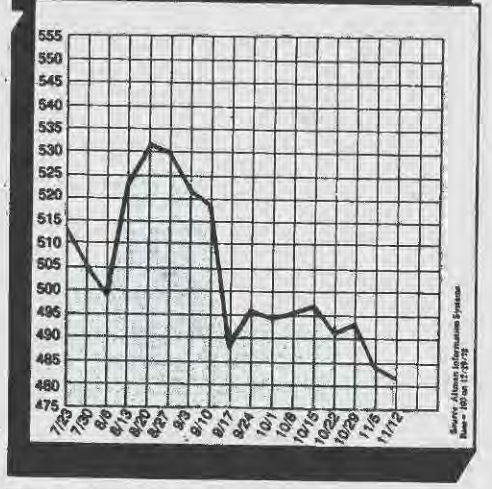
Brokers		Price	% Chg.	P/E	$ Div.	% Yld.	High	Low	Vol.(000)
Alexander & Alexander Svcs	NYSE	28.25	-13.1	403.6	1.00	3.5	29.13	28.25*	1,954.6
Baldwin & Lyons Inc	OTC	24.00	0.0	19.5	0.20	0.8	26.50	24.00	0.9
Corroon & Black Corp	NYSE	37.88	-0.7	17.1	0.65	1.7	37.88	37.38	354.6
Crump E H Cos Inc	OTC	32.75	0.0	31.5	0.25	0.8	0.00	0.00	0.0
Gallagher Arthur J & Co	OTC	30.00	-1.6	21.9	0.20	0.7	30.00	29.50	360.8
Hall Frank B & Co Inc	NYSE	19.00	11.8	0.0	0.00	0.0	19.00	16.88*	394.7
Marsh & Mclennan Cos Inc	NYSE	62.75	-3.5	20.0	1.90	3.0	63.75	62.00	993.3
Poe & Assoc Inc	OTC	11.75	-2.1	14.9	0.32	2.7	12.00	11.75	22.3
AGENTS/BROKERS	AVERAGE			23.1		2.0			

Conglomerates & Holding Cos.									
American Express(Fireman's Fd)	NYSE	57.75	-2.1	10.5	1.36	2.4	59.25	57.75	2,430.5
Anderson Clayton(Ranger/PanAm)	NYSE	65.63	0.0	47.9	0.00	0.0	0.00	0.00	0.0
Amaco Inc	NYSE	5.25	-16.0	0.0	0.00	0.0	6.00	5.25*	3,478.3
Berkley W R Corp	OTC	24.75	-3.9	13.7	0.24	1.0	25.25	24.00	598.4
Berkshire Hathaway Inc Del	OTC	2890.00	-0.7	703.2	0.00	0.0	2925.00	2890.00	1.5
CIGNA Corp	NYSE	54.13	-0.2	0.0	2.60	4.8	54.63	53.63*	1,054.7
CNA Finl Corp (CNA)	NYSE	53.75	0.0	13.5	0.00	0.0	54.88	52.50	457.5
General Re Corp	NYSE	52.13	-2.8	22.5	0.88	1.7	55.25	52.13	2,085.6
ITT (Hartford Group)	NYSE	54.75	5.0	25.9	1.00	1.8	55.25	53.75	3,159.1
Sears Roebuck & Co. (Allstate)	NYSE	43.50	0.0	11.9	1.76	4.0	43.88	42.88	2,950.7
Teledyne Inc (Argonaut)	NYSE	328.75	-3.2	13.3	0.00	0.0	334.63	328.75	107.3
Transamerica Corp (Occidental)	NYSE	35.50	-1.4	10.2	1.76	5.0	36.00	35.50	441.5
CONGLOMERATES/HOLDING COS.	AVERAGE			67.9		0.2			

Insurers									
Aetna Life & Cas Co	NYSE	54.00	-3.1	9.4	2.64	4.9	55.50	54.00	1,537.6
American General Corp	NYSE	38.00	-0.7	10.4	1.12	2.9	38.00	37.50	1,855.6
Amern Heritage Life Invt Co	NYSE	39.13	-0.6	14.0	1.32	3.4	39.38	39.00	5.8
American Indty Finl Corp	OTC	18.50	0.0	0.0	1.12	6.1	19.00	18.00	7.8
American Intl Group Inc	NYSE	118.88	0.1	19.4	0.50	0.4	123.88	118.88	974.4
Aneco Reins Ltd	OTC	2.75	22.2	0.0	0.00	0.0	2.75	2.25	13.1
Avemco Corp	NYSE	28.63	0.0	14.0	0.50	1.7	28.88	28.38	16.5
Business Mens Assurn Co Amer	OTC	26.25	5.0	21.5	1.10	4.2	26.25	24.75	32.4
Chubb Corp	NYSE	60.13	-6.1	24.1	1.56	2.6	63.88	60.13	1,238.3
Combined Intl Corp	NYSE	57.13	0.0	10.7	2.24	3.9	57.38	56.88	146.9
Continental Corp	NYSE	44.00	-3.0	209.5	2.60	5.9	44.88	44.00	391.8
Crown Life Ins Co	OTC	355.00	0.0	12.3	6.40	1.8	355.00	355.00	5.0
Durham Corp	OTC	42.00	-4.5	11.8	1.36	3.2	43.50	42.00	12.2
Farmers Group Inc	OTC	39.75	-4.2	13.3	1.00	2.5	41.00	39.75	1,543.9
Fairmont Finl Inc	AMEX	16.88	2.3	17.4	0.00	0.0	16.88	15.13*	264.6
Fireman Fd Corp	NYSE	35.00	-3.1	0.0	0.30	0.9	36.13	35.00	869.5
Fremont Gen Corp	OTC	17.25	1.5	0.0	0.48	2.8	17.25	16.88	227.5
Great West Life Assurn Co	OTC	740.00	0.0	15.2	18.00	2.4	740.00	740.00	0.0
Home Group Inc	AMEX	18.88	-11.2	30.4	0.00	0.0	20.25	18.88	713.3
Hanover Ins Co	OTC	63.88	-0.2	13.6	0.56	0.9	64.50	63.88	132.3
Hartford Steam Boiler Insptn	OTC	44.50	6.0	11.4	1.20	2.7	44.50	42.25	106.7
Kans City Life Ins	OTC	28.50	0.9	11.2	0.87	3.0	28.50	28.50	8.5
Kemper Corp	OTC	25.00	-3.8	10.0	0.60	2.4	25.88	25.00	1,250.5
Liberty Corp S C	NYSE	39.50	0.0	13.3	0.72	1.8	41.38	39.50	83.9
Lincoln Natl Corp Ind	NYSE	48.88	-3.5	11.2	2.16	4.4	50.25	48.88*	526.6
Mission Ins Group Inc	PAC	1.87	0.0	0.0	0.00	0.0	4.38	1.75	21.0
Monumental Corp	OTC	55.63	0.0	18.8	0.00	0.0	55.63	55.63	1.1
Nac Re Corp	OTC	27.00	0.9	0.0	0.00	0.0	27.00	26.50	62.8
Nobel Ins Ltd	OTC	15.50	7.7	14.9	0.37	2.4	15.50	13.92	86.9
Northwestern Natl Life Ins	OTC	30.50	6.1	11.3	0.86	2.8	30.63	29.00	464.1
Ohio Cas Corp	OTC	78.00	-3.1	14.7	3.00	3.8	80.25	78.00	172.2
Old Rep Intl Corp	OTC	31.00	-0.8	12.0	0.78	2.5	31.00	29.63*	565.7
Orion Cap Corp	NYSE	29.38	-6.0	0.0	0.76	2.6	30.63	28.63*	122.7
Protective Corp	OTC	19.75	-8.1	10.9	0.70	3.5	20.00	19.75*	254.4
Provident Life & Acc Ins Co	OTC	24.50	-3.9	9.3	0.84	3.4	25.38	24.50	186.4
St Paul Cos Inc	OTC	38.38	0.3	11.8	1.50	3.9	39.00	38.38	692.6
SAFECO Corp	OTC	51.75	-6.5	11.3	1.70	3.3	55.00	51.75	556.0
Seibels Bruce Group Inc	OTC	15.25	0.0	0.0	0.80	5.2	15.50	15.13	28.7
Selective Ins Group Inc	OTC	21.25	-6.6	41.7	0.92	4.3	23.25	21.25	96.9
Statesman Group Inc	OTC	5.25	5.0	58.3	0.05	1.0	5.25	5.00	55.2
Tokio Marine & Fire Ins Co	OTC	489.00	12.8	55.1	1.66	0.3	489.00	446.00	1.0
Torchmark Corp	NYSE	29.00	-1.3	11.1	0.80	2.8	29.50	29.00	405.8
Travelers Corp	NYSE	43.13	-1.7	10.3	2.16	5.0	43.88	43.13	1,466.3
Trenwick Group Inc	OTC	14.88	-3.3	114.4	0.00	0.0	15.50	14.88*	141.4
United Fire & Cas Co	OTC	26.50	1.9	12.4	0.80	3.0	26.75	25.50	18.9
United States Fid & Gty Co	NYSE	38.88	-1.0	44.7	2.32	6.0	39.88	38.88	1,239.4
Usllife Corp	NYSE	47.00	1.1	12.2	1.20	2.6	47.00	46.13	266.0
Washington Natl Corp	NYSE	32.75	1.2	14.9	1.08	3.3	32.75	32.25	34.0
Zenith Natl Ins Corp	OTC	24.00	-3.0	41.4	0.80	3.3	24.25	23.75	645.1
INSURANCE COMPANIES	AVERAGE			16.3		2.2			

System design: Altman Information Systems

BI Insurance Index



The *Business Insurance* index of insurance industry stocks closed at 482.6 points on Nov. 12, down 1.9 points from 484.5 points on Nov. 5. A total of 30 stocks posted losses, 18 recorded gains and 12 remained unchanged for the trading period. Stocks that posted the largest losses were: Alexander & Alexander Services Inc., down 13.1%; The Home Group Inc., down 11.2%; Selective Insurance Group Inc., down 6.6%; SAFECO Corp., down 6.5%; and Chubb Corp., down 6.1%. The leading gainers were: Aneco Reinsurance Co. Ltd., up 22.2%; Tokio Marine & Fire Insurance Ltd., up 12.8%; Frank B. Hall & Co. Inc., up 11.8%; Nobel Insurance Ltd., up 7.7%; and Hartford Steam Boiler Inspection & Insurance Co., up 6.0%. The *BI* index fell an average of 0.4% during the period.

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