International issue

Latin America: Page 11

WEEK OF NOVEMBER 22, 1982

business insurance®

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update:

Lloyd's lowers estimate of leasing losses

LONDON—With more than half of all computer-leasing claims settled, Lloyd's of London lawyers predict the ultimate cost will be $388 million.

Lloyd's lawyers Lord, Day & Lord in New York and Elborne & Mitchell & Co. here reduced the earlier estimate of $444 million based on 1982 settlements.

Continued on next page

Quaker Oats is cooking up health incentives

By CAROL CAIN

CHICAGO—Quaker Oats Co. is cooking up a unique health benefit plan that boils down to making employees more responsible for their medical costs to reduce health care overuse.

And, it hopes to affect the entire national health care system by inspiring other benefit managers to try similar incentive plans and by lobbying Congress to pass tax incentives that would encourage people to save for their health care needs.

"Our effort will be very small if other people don't try the same things," says Robert Penzkover, director of employee benefits and mastermind of Quaker's new Health Incentive Plan. "I'm willing to bet that 100 benefit managers have ideas like this on the drawing board."

The most unusual aspect of Quaker's new four-part health incentive plan is the dividend employees will receive if annual health care costs come in lower than budgeted.

The plan, which is designed to control Quaker's runaway health care costs, also includes:

- A $300 health expense account for each employee that can be used for a broad range of health care expenses or received as cash at the end of the year.
- Comprehensive medical benefits that require employee cost-sharing but protect him or her from catastrophic losses.

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Quaker Health Incentive Plan

Health expense account:
Each eligible employee is credited with a $300 annual expense allowance that he can use to cover his health insurance deductible or a wide range of other health care expenses or receive as cash at the end of the year.

Comprehensive medical benefits:
Employees must pay a $300 deductible and 15% of the next $5,000 in covered expenses for hospitalization, surgery or other illness or injury-related expenses. However, the co-payment is capped at $750 for individuals and $1,500 for families.

Annual dividend:
If the company's health care costs for the year come in less than the amount budgeted, the savings is returned to employees in the form of a dividend that is added to their health expense accounts for the next year.

Economic adjustments:
As the health care economy changes, periodic adjustments in guarantees and coverage levels will be made.

Bargain prices prompt higher D&O policy limits

By RHONDA L. RUNDLE

CHICAGO—U.S. and Canadian businesses are taking advantage of bargain prices to bolster their directors and officers liability insurance limits, a new survey shows.

The larger the company, the more it has increased its limits over the past two years. Small U.S. businesses with less than $25 million in assets increased their limits an average of 14%, while corporate giants with at least $400 million in assets increased their limits an average of 44%.

D & O policy limits in the U.S.

Company size in assets	1982	1981	Percent increase
Under $25 million	$ 4,168	$ 3,670	14%
$25 million to $100 million	7,570	5,628	35%
$100 million to $400 million	13,025	9,702	34%
$400 million to $1 billion	17,022	11,721	45%
$1 billion or more	28,703	19,975	44%

Source: 1982 Wyatt Co. survey

Canadian companies also appear to be buying substantially higher D&O limits, although specific figures are less reliable due to the smaller number of participating companies (see related story, page 83).

"Many companies have found it possible to both reduce premiums and enjoy increased limits at the same time," according to the "1982 Wyatt Comprehensive Report on Directors and Officers Liability and Fiduciary Liability."

This is the eighth D&O buyer survey published by The Wyatt Co., an actuarial and consulting firm. The authoritative report on directors and officers liability insurance appeared annually through 1980 and switched to biennial publication with the 1982 edition.

The new 170-page study is based on participation by 1,979 U.S. and 275 Canadian businesses of all sizes that responded to questions about their D&O losses, claims

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Pressure building on NAIC to postpone open rating bill

By EILEEN NORRIS

CHICAGO—The pressure is mounting on state insurance regulators as opponents of open rating for workers compensation to intensify their lobbying efforts to stall passage of model legislation.

With the National Assn. of Insurance Commissioners' winter meeting just one week away, trade groups and insurers appear to be split over whether they will endorse the bill.

So far, most of the lobbying against the model bill is behind the scenes. Many industry organizations haven't announced their positions, and some have said they support the bill.

But, there is opposition to this first model bill for open rating of workers compensation, and insurance commissioners expect to hear every last bit of it at the NAIC winter meeting in Dallas where they will vote on the measure.

Only the Alliance of American Insurers has come out publicly against the model bill. It will ask the NAIC to postpone adopting it. The Alliance wants the NAIC to wait until the eight states that have passed open rating begin to see the results of their individual laws before sanctioning an NAIC model bill as the best alternative.

Organizations which have not announced their positions include:

- The Risk & Insurance Management Society. The group plans to express its stand at the NAIC meeting in Dallas. In the past, RIMS has supported the concept of open rating for workers compensation.
- The American Insurance Assn. Its insurer members are known to be lobbying hardest against the measure. However, it says it doesn't have a formal position yet, but will by the NAIC winter meeting.
- The National Assn. of Insurance Brokers. It says it is not working on a formal position and won't comment at the NAIC meeting.

Organizations that support the bill include:

- The Professional Insurance Agents, which passed a resolution supporting adoption of this model bill as

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FICA taxes proposed for salary reduction plans Page 2

Chamber survey details rising benefit costs Page 3

NEWSPAPER

Premiums double for Colorado state workers

benefit beat

Some of Colorado's 26,000 state government employees are now paying health insurance premiums that are more than double what they paid during the last plan year to help offset a deficit in the state's group insurance fund.

In addition, employees electing the state's basic medical insurance plan have been hit with an increase in plan deductibles.

Both changes were made, explains state Controller James A. Stroup, because increased claims costs and high utilization have pushed the state's total self-funded medical plan expenditures to more than $18 million during fiscal 1982, which ended June 30.

During fiscal 1981, the state spent only $13 million to provide its employees with medical coverage.

While the group insurance fund suffered a $2.2 million deficit in fiscal 1982, the state only has to make up a $600,000 loss because the balance was offset by an aggregate stop-loss policy underwritten by Prudential Insurance Co., which also underwrites the plan's $5,000 per-individual specific stop-loss coverage.

Under the new premium schedule, effective with the Aug. 1 start of the current plan year, employees with single coverage must contribute to the basic plan for the first time. They must pay $22.18 monthly, while the state contributes $42.12 a month.

An employee with one dependent must now pay $83.07 monthly, 108% more than in fiscal 1982. The state also contributes $42.12 per month to this premium.

An employee with two or more dependents now pays $117.13 monthly, 88% more than in fiscal 1982. The state contributes $42.75 toward these premiums.

About 16,000 of the state's employees now are enrolled in the basic medical plan, which pays 80% of all medical charges up to a maximum of $5,000. The plan pays 100% of all charges above that amount, explains Mr. Stroup.

The remainder of the state's employees are enrolled in one of the seven health maintenance organizations.

Employees electing the basic plan were also hit with an increase in deductibles. Employees with single coverage now must pay a $250 deductible per year, up from the previous $100, while employees who previously paid a annual family coverage deductible of $200 are now responsible for an annual maximum deductible of $500 if more than one member of the family uses the health plan.

The maximum deductible for any one family member is only $250, explains Mr. Stroup.

Alcoa HMO option

Alcoa Corp. is offering a health maintenance organization option for the first time to 3,200 of its hourly and salaried employees at its Davenport Works facility in Danvenport, Iowa.

The company will pay the f premium for employees choosi coverage with the Quad-C Health Plan, as it does for emplo ees who choose the traditio health insurance plan.

The HMO option, officials s was added to help control heal plan expenditures and hopeful lower the number of hospital day

Alcoa officials declined to discu how much the HMO option w cost the company.

Benefit forecast

An increasing number of en ployers are considering benefit r ductions as a viable means of trin ming costs during a bad economy.

Thirteen percent of the 600 en ployers who responded to a surve conducted by William M. Merce Inc. said they were planning majo changes in their benefit plans t control costs during the next 1 months.

Sixty-seven percent of the re sponding employers said the planned no major benefit change during the upcoming year, whil another 20% said they were no sure what they would do.

Of the companies planning t make major benefit changes, 37% said they would reduce the benefit their employees received. Anothe 24% said they would demand in creased employee premium contri butions, while 18% said they would boost the deductibles employees have to pay.

In addition, 10% of the employers planning major changes said they would reduce the level of increases they had planned to make during the upcoming year. Eight percent said they would implement new cost-containment features, while another 6% said they would closely monitor benefit programs to eliminate waste and abuse.

Although the employers that plan to cut benefits are in the minority, companies now appear to be more likely to alter benefit plans to cut costs than they were this year. Less than 1% of the responding employers said they had made benefit reductions or froze the growth of their benefit programs during the past 12 months, the survey reveals.

"It's a clear indication that some employers believe benefit cuts can be a viable solution to reducing and controlling benefit costs during bad times," says Karin Allport, a senior consultant with Mercer in New York.

A copy of Mercer's "Employer Attitudes Towards Compensation and Benefits in the 1982 Economic Environment" can be obtained by writing Willaim M. Mercer Inc., Box 99, 1211 Ave. of the Americas, New York, N.Y. 10036.

Premiums paid

Butte School District No. 111 in Arco, Idaho, is now paying the entire major medical premium for full-time teachers, custodians and clerical workers who seek coverage for their spouses and dependents.

The district previously paid the full premium only for employees opting for single coverage.

The five-school district spends more than $92,000 annually to provide hospitalization and major medical coverage for its 52 employees, explains Nancy Carlson, clerk of the Butte Board of Education.

With the change, employees now only pay a $50 annual deductible for a plan that covers 80% of eligible costs. The plan is underwritten by Blue Cross of Idaho.

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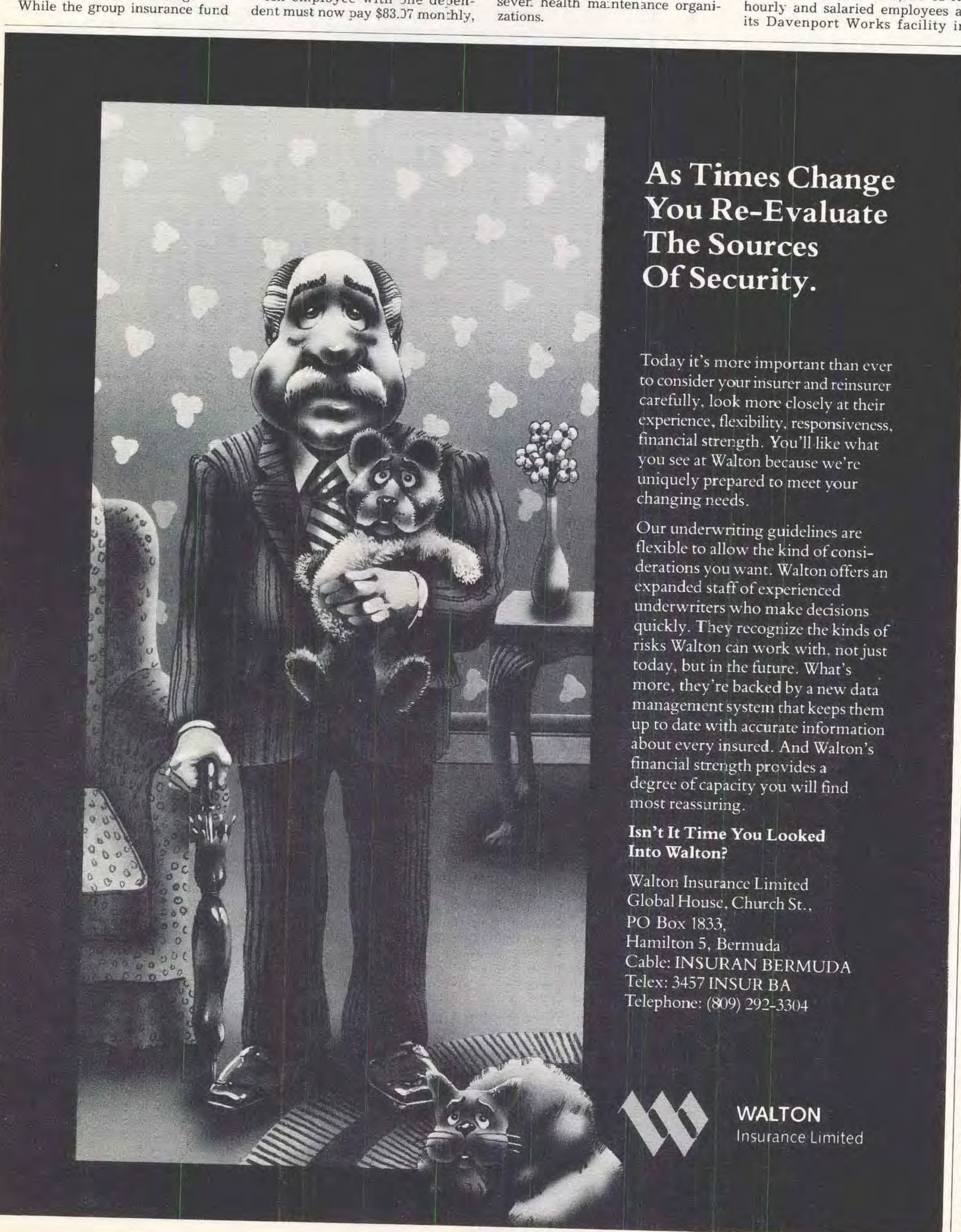
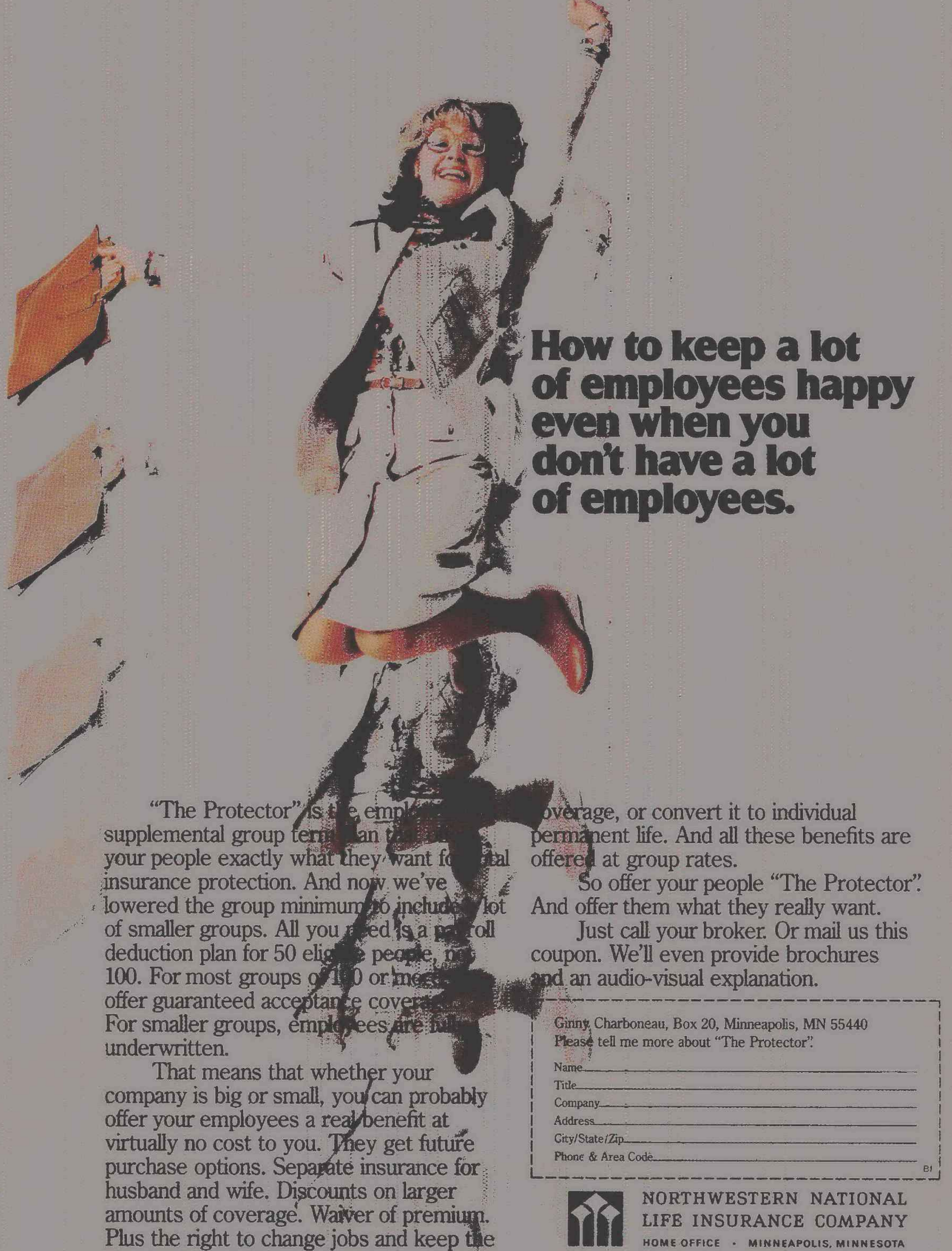
Made any benefit changes? Write James Lawson, Associate Editor, Business Insurance, 220 E. 42nd St., New York, N.Y. 10017; 212-210-0143.

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Du Bain leaving Fireman's Fund

SAN FRANCISCO—Myron Du Bain will retire as president and chief executive officer of Fireman's Fund Insurance Cos. at year-end, he announced last week.

"I feel I have done the things I had set out to do as chief executive officer, and it's time to let someone else run this fine company," said Mr. Du Bain, 59, who had been with Fireman's Fund for 36 years.

Mr. DuBain

Edwin F. Cutler, 58, formerly vice chairman and chief executive officer, will become chairman and chief executive officer of Fireman's Fund, as well as chairman, president and chief executive officer of Fireman's Fund/American Express Inc., the newly formed holding company for American Express Co.'s insurance operations. Reporting to Mr. Cutler will be James J. Meenaghan and O.D. Oliphant.

Mr. Meenaghan, 44, president of the insurer's U.S. property and liability operations, was elected president and chief operating officer of Fireman's Fund and vice chairman of the holding company. Mr. Oliphant, 62, who has announced he intends to retire at the end of 1983, continues as vice chairman of the holding company and of Fireman's Fund, responsible for reinsurance and international operations.

Howden's Bermuda units reorganized

markets

Alexander & Alexander Services Inc. is reorganizing the Bermuda-based operations of its British subsidiary, Alexander Howden Group P.L.C., following its discovery that Howden's Bermuda insurers were substanitally under-reserved (*BI*, Nov. 8).

Peter M. Densen, an A&A senior vp and president of Anistics Inc., A&A's risk management services subsidiary, will manage Trent Insurance Co. and Capital Marine Insurance Co., the two Howden units in Bermuda.

Mr. Densen said the underwriting policies of both companies would be shifted from reinsurance to what he termed specialized risk management programs.

In addition, Alexander & Alexander Inc., A&A's brokerage subsidiary, is regrouping its 88 U.S. offices in three new operating divisions.

The new Eastern, Northwestern and Southwestern divisions will replace two previous operating groups—Northeastern and Southwestern—which the company felt had grown too large to be effective.

Each of the new groups will be headed by a newly appointed sales director. Thomas J. Petersen, currently production manager for A&A in New York, will be sales director for the Eastern group; William D. Baker, now managing vp of A&A of Minnesota, will head the Northwestern group; and R. Peter Urquhart, the broker's current mid-Atlantic regional director, will manage the Southwestern group.

A&A is also eliminating its "Mid-Central" regional division, and v operate with 10 geographica based subdivisions rather than 11

Marine reorganizatio

Fireman's Fund Insurance Co panies has reorganized its Atlan ocean marine division into a new established New York home offi division. The marine and home fice divisions will be housed in ne offices separate from the cor pany's New York branch offic The location of the new office is y to be announced.

Ocean marine managers branch offices in New York, Lo Island, Baltimore, Boston and Phi adelphia will report to the ne home office division. Miami, A lanta, New Orleans and Dallas m rine personnel, who previously r ported to the Atlantic division o fice in New York, will now repo to the Houston branch office.

Geoffrey Daw, former marin manager for Fireman's Fund In surance Co. of Canada, will becom senior ocean marine executive i the home office division, replacin the retiring Atlantic division senio executive, Joseph Borowiak.

New brokerage

Cooney, Rikard & Curtin Inc. ha been formed as a property/casualt insurance brokerage.

Its partners are John P. Cooney James A. Rikard and Thomas J Curtin Sr.

The brokerage's offices are located at 1933 Montgomery Highway, Birmingham, Ala. 35209; 205-933-8230.

Poe subsidiary

Poe & Associates Inc., the nation's 16th-largest brokerage, has formed a new subsidiary called Poe & Associates of Puerto Rico Inc.

Offices will be located at 416 Ponce De Leon Ave., Hato Rey, Puerto Rico 00919; 809-754-9040.

Willie Morales has been named president of the new subsidiary.

Acquisitions

St. Paul Fire & Marine Insurance Co. has announced the merger of two of its subsidiaries. **St. Paul Risk Services Inc.**, a risk management subsidiary, and **Atwater McMillian Inc.**, a surplus lines and specialty risk underwriting subsidiary, will join under the name Atwater McMillian Inc.

The GEM Agencies of Houston have acquired another agency, **Klein, Schmidt & Associates.** The combined staffs will service 12,000 clients in Texas and 13 other states.

Triangle Insurance Services and **Westco Insurance Associates** have merged to form **TriWest Insurance Services.** TriWest is moving to new offices at 4340 Fulton Ave., Sherman Oaks, Calif. 91423; 213-906-3350 and 213-872-3220.

New offices

Buffalo Reinsurance Co. will open an office at Eight Piedmont Center, Suite 705, Atlanta, Ga. 30304; 404-266-0669.

Marsh & McLennan Inc. has opened an aviation and aerospace services office at 955 L'Enfant Plaza North S.W., Washington, D.C. 20024; 202-554-0833.

Rhulen Agency Inc., will expand into a new office at 196 Broadway, Monticello, N.Y., 12701. The new office is one block from Rhulen's headquarters at 217 Broadway. ■

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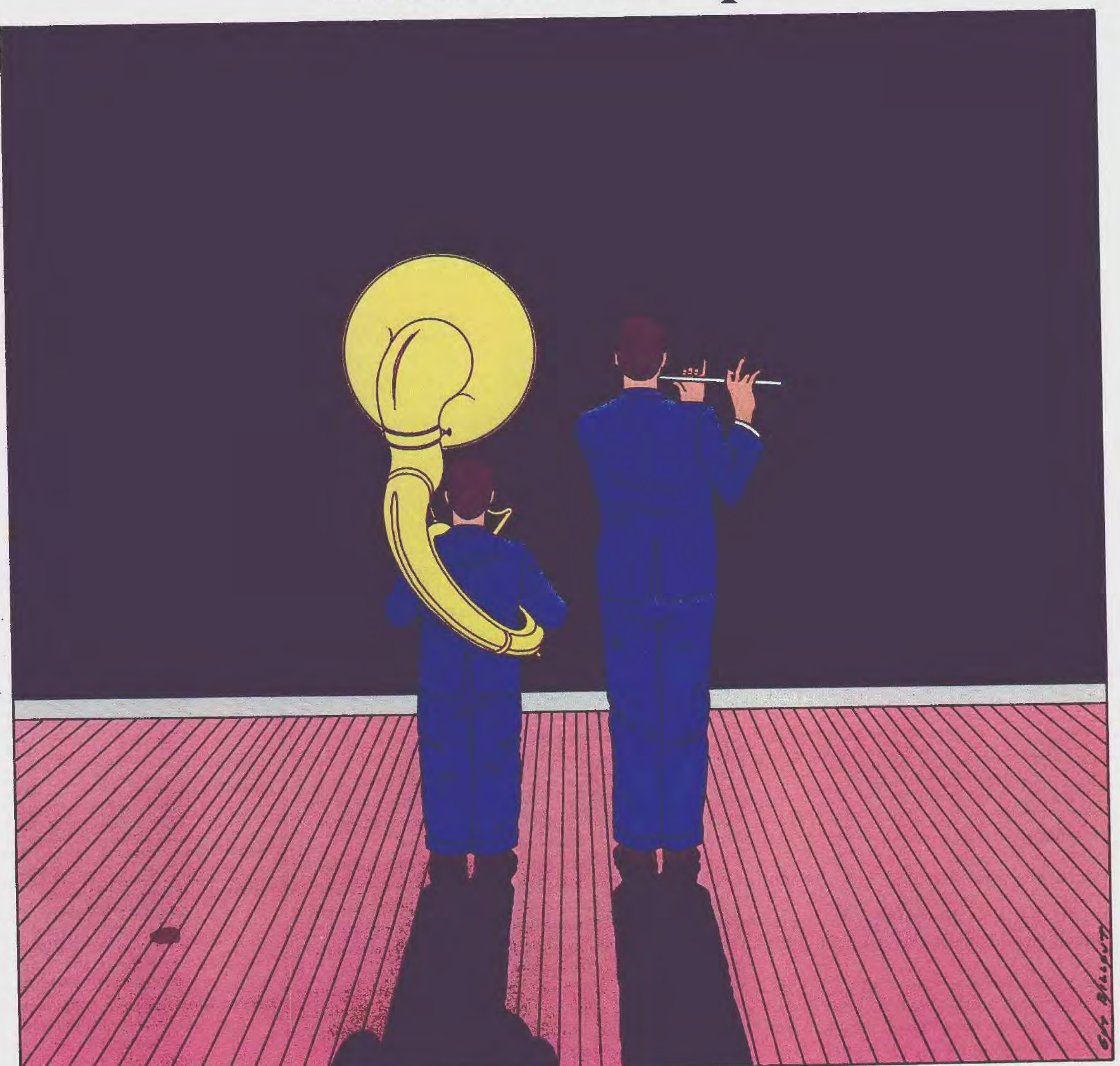

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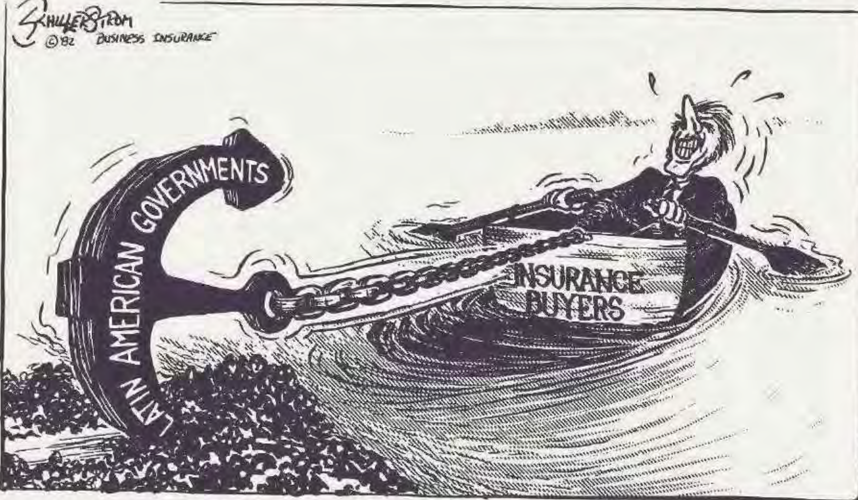
editorial opinions

Pulling for south-of-border reform

INSURANCE BUYERS and sellers need more freedom to operate in Latin American countries.

We are concerned less for multinationals operating in Latin America than for local industry. Multinationals can tap various multinational insurance services to structure their sophisticated programs, cleverly circumventing local restrictions. Multinationals also can send managers trained in risk management to their Latin American operations.



Local business in Latin America, however, has not yet embraced risk management and employee benefit management (see special report, page 11). How can they? Nationalistic regulations requiring businesses to buy insurance locally, strictly enforced uniform rates, the absence of deductibles and the lack of credits for loss control programs all shackle good risk management programs. Government-sponsored health and pension programs with mandated contributions from employees and employers have slowed the development of private benefit plans.

Latin American governments must reform these regulations to encourage businesses to adopt good risk management and employee benefit programs.

The first changes we recommend are rating regulations. Insurers ought to be able to reduce the cost of insurance for businesses that implement safety and security programs to reduce the risk of loss. Already, insurers in Venezuela are clamoring for this change and we commend them. In time, those with good loss experience ought to be rewarded with lower insurance costs and those with bad losses ought to be penalized with higher premiums.

Deductibles should be the next innovation. It is quite clear from the experience in the United States that a company that pays its losses out of its own pocket in the first instance is more serious about controlling losses than the fully insured company. Deductibles and self-insured retentions make the loss hurt today instead of in the future in the form of higher insurance costs.

These changes are vital to nurturing the development of risk management.

Important, but we recognize harder to sell to Latin American governments, is more competition among insurers. Removing the shackles of uniform rates among domestic insurers would be a start. Allowing foreign insurers more open access to their market, such as Chile does, is ideal. The competition and free flow of ideas created by allowing foreign insurers into their markets would benefit Latin American businesses. They would have access to more reasonably priced and progressive insurance programs.

The problems of government-sponsored health and pension plans will become plain all too soon to Latin American governments. Already the cost of health care in Venezuela is raging out of control at an annual clip of 21%. The smart Latin American government quickly will reduce its commitment to government-sponsored health and pension plans and encourage local businesses to provide these benefits to their employees. So far, the experiment in phasing out government-sponsored plans in Chile is working.

Creating atmospheres in which sound risk management and employee benefit programs can be developed by businesses is one way Latin American governments can encourage economic growth that is desperately needed to pull their economies out of deep recessions and put their citizens to work.

Sound risk management programs will reduce the needless waste of resources in avoidable losses. Private health and pension programs are more economical ways to provide needed benefits.

letters

Higher costs in the long run

To the editor: If I may, I'd like to add my two cents' worth to the proposals aired by you a couple of months ago: to treat workers compensation as an employee benefit for financing and administration (*BI*, Aug. 2).

This requires some second thoughts. Ten years ago, or more, I used to throw this concept out in a number of talks. I cleverly developed the premise that medical reimbursement and salary continuance were essentially a first-party problem, rather than adversary. Yet we all maintain two pockets to pay for these, one marked "occupational" and one marked "non-occupational."

The trouble is, you have to take $1.50 out of the occupational pocket to pay for $1 in benefits. You get the same result out of the other pocket for $1.04 or so. And part of that 50 cents loading on the occupational is spent on arguing with yourself as to which pocket it should come out of.

It then seemed elementary: Why not pay it all out of the $1.04 pocket and save millions? You had to admit that it wasn't quite that simple—that one obligation was contractual or paternalistic, the other defined by statute. But surely, a resourceful risk manager could overcome these minor problems.

But as I moved toward my goal, I woke up to something I should have learned from an earlier experience.

Twenty years ago, I spent a lot of energy trying to find a market that would treat aircraft as merely another United Airlines property—with all property covered on an all-risk basis. This was intended to get for us a better aircraft insurance rate.

I finally sold the concept. We moved on the cleanest, simplest property policy you ever saw. But, finally, I saw the light: Immediately, I'd save some money, but in the long haul, I'd infect all my other property with the perils, the uncertainty, the volatility of aircraft. That would cost, not save.

The same applies to the compensation benefits consolidation. For most companies, group insurance (not pensions) is an expense item several times the cost of workers compensation. You could undoubtedly save some loading on the compensation but you'd soon infect your total group insurance with many of the ailments of compensation. Benefits would tend to rise to the maximums of compensation, but participation would disappear. The adversary atmosphere would become more pervasive.

So, I put it away as another apparently good idea for which I couldn't find appropriate answers. Perhaps the present advocates have.

Waller B. Smith
Alexandria, Va.

Bell Helmet 'condemned' to pay

To the editor: In regard to your article, "Bell Helmet to appeal $3 million award" (*BI*, Oct. 25), what if the unfortunate Ms. Cornier had been without a helmet, resulting in her death from this casualty? Who would the jury then have found liable?

Because she was wearing Bell's helmet in the accident, Bell and its insurer are now condemned to pay $3 million to her for saving her life. The world's turned upside down, indeed.

Richard Smith
Canal Barge Co. Inc.
New Orleans

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.atin America's insurance troubles

By LAUREL WENTZ

ourists heading for Latin America harbor images of sun sand of Cancun in Mexico, carnivals in Brazil, the pleas- climate in Venezuela, glaciers and penguins on the tip of thern Argentina, the lake region of southern Chile and the a ruins of Machu Picchu in Peru.

'he insurance professional heading for Latin America uld be prepared for the less-attractive scenes in the busi- s world beset by recessions, astronomical foreign debt, iaway inflation and monetary 'aluations that send local cur- icy plummeting overnight.

Economic problems in Latin nerica wreak havoc with iurance programs al- idy limited by national- ic laws that hamper iltinational insur- ce programs.

Crime—for personal or political gain—threatens personal property and safety in Peru.

The practice of risk and employee benefit management is restrained by restrictive regulations on property and casualty insurance and by government intervention into employee benefits.

The corporate executive ready to confront these risks and restraints in Latin America must first cope with the region's insurance markets and customs.

In this international spotlight report, correspondents on the scene in Mexico, Brazil, Venezuela, Argentina, Chile and Peru report on the insurance markets and customs in their countries.

Security consultants in the United States and London also shared their assessment of the risks in these countries in separate stories.

The most recent and startling problems created by economic crises in Latin America are evident in Mexico, which was shaken not by earthquake tremors but by general exchange controls and the nationalization of all private banks in September.

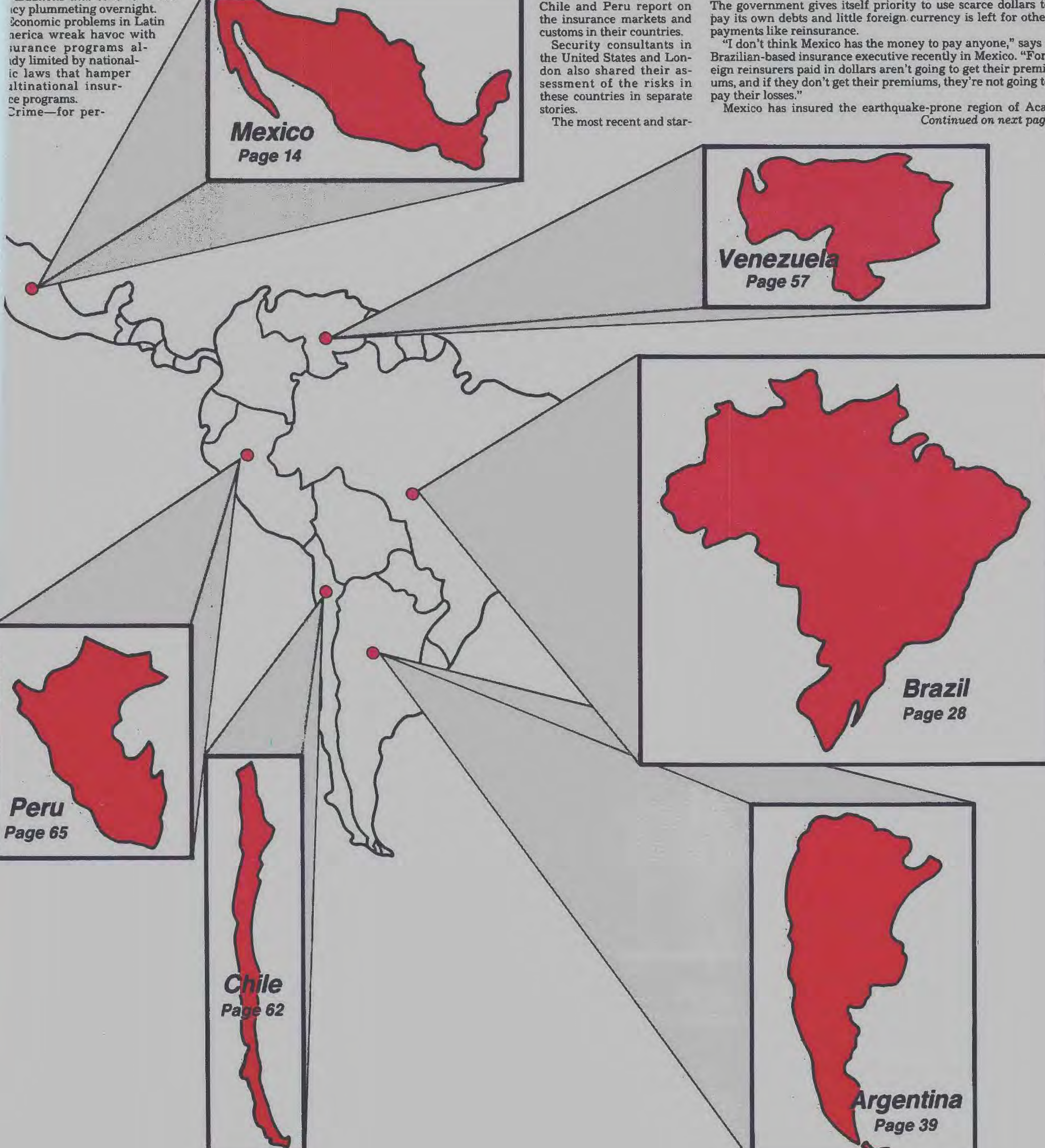
Insured values and premiums routinely quoted in dollars in Mexico were outlawed overnight. Insurance policies once written and paid for in dollars were converted to devalued pesos, drastically reducing policy limits and raising still unanswered questions on claim payments now that the dollar as has been outlawed as legal currency.

Mexico is also in danger of defaulting on payments to foreign reinsurers due to the strict foreign exchange controls. The government gives itself priority to use scarce dollars to pay its own debts and little foreign currency is left for other payments like reinsurance.

"I don't think Mexico has the money to pay anyone," says a Brazilian-based insurance executive recently in Mexico. "Foreign reinsurers paid in dollars aren't going to get their premiums, and if they don't get their premiums, they're not going to pay their losses."

Mexico has insured the earthquake-prone region of Aca-

Continued on next page



Our Latin American report

Laurel Wentz, special correspondent in Latin America, coordinated this locally reported section on insurance trends and markets in six Latin American nations for this special international section in *Business Insurance*.

Ms. Wentz, employed by Crain Communications Inc., publishers of *Business Insurance*, reported on insurance customs and the market in her home turf of Brazil and also guided the reporting conducted by correspondents in five other countries.

Ms. Wentz

The other foreign-based reporters providing articles for this special report were Letitia Baldwin in Mexico City; Randy Drapeau in Buenos Aires, Argentina; Doreen Hemlock in Caracas, Venezuela; Juan O'Brien in Santiago, Chile and Caitlin Randall in Lima, Peru.

The reporters all interviewed corporate executives handling insurance matters, insurance regulators, underwriters and brokers in their countries to compile their reports.

Latin America's insurance trends

Continued from previous page

pulco and the valley of Mexico, including the capital Mexico City, for $20 billion, most of which is reinsured through London, estimates a foreign reinsurer in Mexico.

Inflation raging as high as 100% annually in Brazil and 12% monthly in Argentina create additional problems. As one Argentine broker asks, "How do you cover yourself when the insurance sums you had yesterday are out-of-date today?"

Insurance markets in Latin America are small by U.S. and European standards. Only in Mexico and Brazil, where there are some compulsory lines of insurance, do premiums exceed $2 billion annually, estimated at $2.5 billion in Brazil and $2.4 billion in Mexico.

In Venezuela, premiums are estimated at $1.4 billion. Total premiums are less than $1 billion in Argentina ($700 million), Peru ($300 million) and Chile ($220 million).

Strictly regulated insurance rates and forms are the norm in Latin America, with all insurers charging the same price for the same policy, leaving little room for negotiation. Only in Chile do insurers openly slash rates to win business. In Argentina, the newly appointed insurance superintendent, Seliciano Alchourron, is expected to clamp down on insurers who have used outdated rates and liberally classified property to hold rates down.

Self-insurance is almost unknown in Latin America, where by either regulation or custom deductibles are seldom allowed or used. The word captive would most often denote a kidnap victim, not a company, except in Brazil where a r
ulation requiring the use of an
surance intermediary has inspi
some companies to form capt
brokerages.

Limited risk retention may
one reason why corporate loss p
vention and control isn't oft
highlighted by companies in La
America.

Nationalistic laws that for
companies to buy insurance fr
local insurers also prevail. Spec
permission to use foreign mark
when domestic markets can't pr
vide the product can be obtained
some countries. Only in Chile a
foreign insurers subject to the sa
treatment as local companies. Ve
ezuela and Peru limit foreign ow
ership of insurers to 20% and Me
ico excludes foreign insurers.

Governments own large interes
in the insurance business in Lat
America. In Brazil and Argentin
the state has a monopoly on rei
surance business.

Of the six countries analyze
only the Venezuelan governme
isn't interested in owning insurers

In Mexico, where the govern
ment has had an interest in mo
insurers, the government no
owns three major insurers, ac
quired when the private banks th
owned them were nationalize
Some fear Mexico may nationaliz
the entire insurance industry.

Bank affiliation with insurers i
common in Latin America. In Bra
zil, bank-affiliated insurers contro
70% of the premiums. The banks fi
nance premiums for policyholder
of affiliated insurers at absurdly
low rates, peddle new policies
through branch networks and even
force loan seekers to buy insurance
from their affiliates.

Venezuela bans direct bank ownership of insurance companies, but the law is circumvented by forming separate companies with the same stockholders.

Banks in Peru often own shares in insurers, precluding insurers from demanding needed security measures at banks.

Insurance products well-known in the United States are just beginning to emerge in Latin America where 345 million people are underinsured by U.S. standards.

Liability insurance products are unusual in countries where consumer rights are not highly regarded and lawsuits are unusual because the courts are mistrusted.

But, in Peru, increasing political violence under the fragile 2-year-old civilian government of Fernando Belaunde Terry has created demand for the new terrorism insurance.

Group life and health coverages are just beginning to supplement inadequate state social security benefits in Latin America. Social security-provided health facilities are often overcrowded and inadequate.

Pension plans have yet to be developed for the most part in countries with predominantly youthful populations and small government pensions are provided under social security programs.

Private pension plans are growing in popularity, especially in Brazil and Mexico.

Chile is experimenting with a radically different health and pension benefits system totally financed by workers and run by private industry. After more than one year under the new plan, Chileans have invested about $500 million in 12 pension fund administration companies.

Workers compensation benefits generally are provided under the social security systems, except in Argentina where employers are subject to workers compensation laws but also can be sued by injured workers. ■

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Mexico: Economic woes complicating market

By LETITIA BALDWIN

MEXICO CITY—The drastic devaluation of the peso and the resulting general exchange controls imposed by the government earlier this year threaten to throw the Mexican insurance business into chaos.

Insurance policies once written and purchased in U.S. dollars were converted into pesos and may not provide the coverage needed by businesses that must import raw materials to manufacture their products.

Insurers in Mexico fear that the government's foreign exchange controls that prevent them from paying foreign reinsurers will cost them their desperately needed foreign reinsurance, especially earthquake reinsurance.

There is also fear that Mexico might nationalize the insurance companies following the nationalization of the banks, which owned three major insurers.

The National Banking & Insurance Commission, which regulates the insurance industry, and the Mexican Assn. of Insurance Institutions are working on a new set of regulations and guidelines for the insurance industry in accordance with the exchange controls.

Since the dollar is no longer legal tender in Mexico, insurance policies written in dollars have automatically been converted into pesos at the current rate of exchange, fixed indefinitely at 70 pesos to $1.

This has created a problem for businesses that must import raw materials to manufacture their products and had purchased insurance written in dollars. If the dollar policy limits were not increased before the devaluations, the converted policies do not provide the coverage originally purchased.

However, dollar policies adjusted at the time of the devaluation, when the peso fell to a low of 120 to the dollar, are now overvalued at the current fixed rate of 70 pesos.

Underinsured companies are increasing their limits, but brokers say their clients are not increasing them enough.

Even with adequate insurance limits, subsidiaries of U.S. companies that must buy their raw materials or components from U.S. companies could face problems after a loss.

"In case of a big loss, they will have to buy everything in dollars to replace what was destroyed and there is no way to do this now," says Ricardo Rojas, risk manager at Union Carbide de Mexico.

No one knows whether foreign currency will be available if the government gives companies permission to buy it.

And, if a company is able to purchase foreign currency, perhaps at the preferential rate of 50 pesos to the dollar, there could be additional importing problems. The duration of import permits has been reduced to three months, so a company's import permit could run out before it can buy foreign currency.

Some of the big automobile ma ufacturers in Mexico import up 75% of the needed parts.

Other problems can arise wi policies that were originally wri ten in dollars and have been coi verted into pesos. What would ha pen if a shipment of merchandi en route from Mexico and insure in pesos is destroyed in France How will the French company co lect the pesos?

The general exchange contr now in effect also prevents Mex can insurers from paying premi ums to foreign reinsurers. The in surers, and all companies with for eign debts, must apply to th Central Bank to purchase foreig currency. The actual mechanisn for obtaining the currency has no been announced and reinsurers ar as uncertain as anyone else tha foreign currency will even b available.

Payments to foreign reinsurers are fourth on the government's lis of priorities for foreign exchange.

Continued on page 18

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Mexican crisis several years in the making

MEXICO CITY—The severe economic crisis in Mexico that resulted in general exchange controls and the nationalization of Mexican banks on Sept. 1 has been brewing for the past few years.

The Mexican government, under President Jose Lopez Portillo, borrowed heavily from abroad to finance huge expansion projects, like extending the Mexico City subway and starting construction of four new major ports.

The government thought it could eventually pay back its debts with the revenues generated from oil production.

But, world oil prices dropped suddenly in 1981, and Mexico was forced to reduce its exports. The gross national product's growth rate fell from more than 8% in the first half of 1981 to about 5% for the rest of the year. The foreign debt, both public and private, climbed to $78 billion.

The situation became worse in February when the Bank of Mexico withdrew its support from the peso, causing it to fall from 27 pesos to the dollar to 49 pesos by the beginning of August.

The same month, the peso was again devalued when it plummeted to as low as 120 pesos to the American dollar.

The two devaluations caused Mexicans to panic and begin withdrawing their money from banks and buying dollars no matter what the exchange rate was.

The banks were shut for two days during the first week of September after they had been nationalized. The president blamed the financial crisis on the bankers and accused them of encouraging the huge flight of capital out of the country—$38 billion over the past three years.

The Mexican government also has had to postpone for 90 days overdue capital payments of about $10 billion on its foreign debt.

The International Monetary Fund just recently, however, agreed to lend Mexico $3.84 billion over the next three years under very strict conditions, such as cutting its government budget and reducing its borrowing. Mexico, therefore, hopes it can afford to pay the interest on its $60 billion in foreign debts. ■

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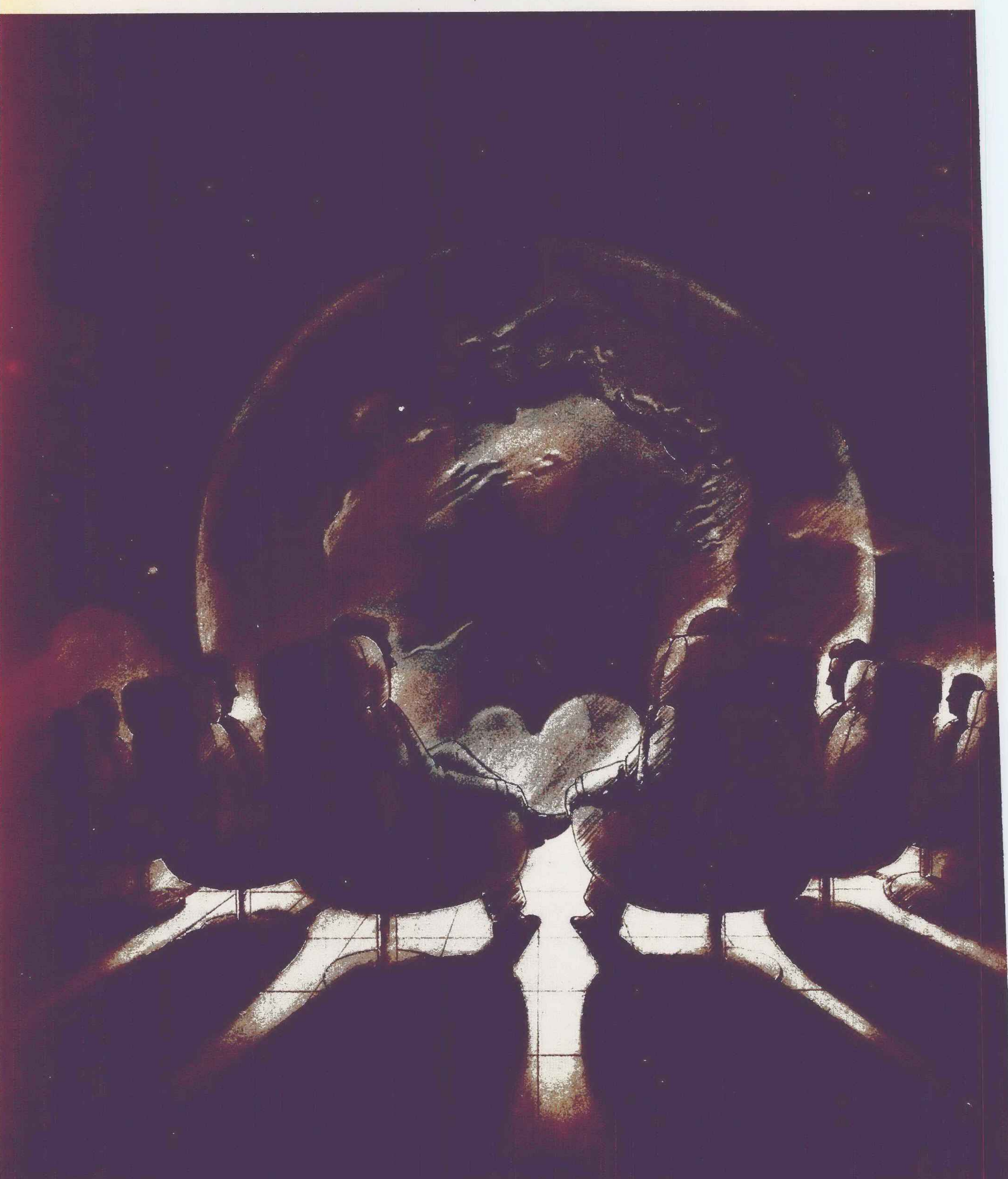

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Paul F. Butler, President and Chief Executive Officer, AFIA.

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Peter C. R. Huang, Chairman of the Board and President, The Home Insurance Company.

"If global programs are the best answer to your insurance needs, we know how to provide them."
Myron Du Bain, Chairman of the Board and President, Fireman's Fund Insurance Company.

"At The Hartford, we want to protect your world; global programs fit right into our plans."
DeRoy C. Thomas, Chairman of the Board and President, Hartford Fire Insurance Company.

"Global programs may not be for everyone, but if they fit into your risk management program, we want to be involved."
David J. Prentiss, Chief Executive Officer, Aetna Insurance Company.

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Mexican crisis worries foreign insurers

Leading insurers in Mexico
(at midyear 1982, in thousands of pesos*)

Company	Premiums
Aseguradora Hidalgo	8,678,767
Seguros Monterrey Serfin	4,634,114
Seguros Bancomer	4,279,895
Seguros La Comercial	4,049,491
Grupo Nacional Provincial	3,698,318
Seguros America Banamex	3,054,607
Seguros La Republica	1,045,963
Seguros Del Atlantico	918,948
Seguros Tepeyac	670,505
Seguros La Azteca	524,944
Independencia	520,270
Interamericana	492,707
Aseguradora Cuauhtemoc	482,999
Genral De Seguros	479,283
Pan-American De Mexico	473,840

*Current official exchange rate is 70 pesos = $1
Source: National Banking & Insurance Commission, Mexico

Continued from page 14

Richard Horsey, general manager of Mercantile & General's Mexican offices, is especially concerned about the renewal of excess-of-loss reinsurance treaties, for which a minimum and deposit premium must be paid by Jan. 1.

"If the foreign exchange is not available by Jan. 1, I don't know where the Mexican (insurance) companies will get their cover," Mr. Horsey said.

Mexico's insurers and two reinsurers do not have the capacity to provide the reinsurance the nation needs. They cannot even underwrite all the reinsurance they are entitled to under Mexican law, which requires that Mexican insurers place 50% of their reinsurance with local companies unless they can prove that the capacity has been exhausted.

In 1979, the most recent year for which figures are available, Mexican reinsurance capacity was exhausted in all lines. Of 4.97 billion pesos of fire insurance premiums collected, for example, 1.86 billion pesos were paid to Mexican reinsurers and 1.46 billion pesos were reinsured abroad. Of 578 million pesos of liability insurance premiums, only 119 million were reinsured in Mexico and 233 million were reinsured abroad.

Mr. Horsey of Mercantile & General, who has been in close contact with the National Banking & Insurance Commission since the exchange controls were imposed, believes a mechanism for paying reinsurance premiums should be announced before Dec. 1.

One broker said London reinsurers are, so far, being very j tient.

William Roberts of Lefomex reinsurance brokerage that rep sents Royal Re (United Kingdo Netherlands Re, Winterthur (Sw zerland) and Union Re (Switz land) believes Mexico would ber fit if it allowed insurance co panies to remit premiums to fc eign reinsurers.

Although there is a huge outfl of premiums in Mexico, he believ there is an equally large inflow commissions and claims paid by tl reinsurers. "I think the overall fi ure is in favor of Mexico. By pe mitting these transactions, the go ernment would actually be brin ing in money," he says.

The devaluations create anoth serious problem for insurers i Mexico, who by law must retain premium reserve of 45% of th gross premium for one year. Th premium reserve established earl in 1982 now is worth less than ha of what it was when it was created

Some fear the insurance busine in Mexico could be nationalized.

Already the government has a interest in all insurance companie in one form or another except fo three companies: Seguros Tepeya Interamericana and Pan-America De Mexico. And, three of the larg est insurance companies in th country—Seguros America Banamex, Seguros Bancomer and Seguros Monterrey Serfin—are entirely owned by the nationalized banks.

The director of the Central Bank, Carlos Tello, originally said the shares of the companies previously held by the banks would be sold through the stock market and the revenues paid as compensation to the bankers.

However, the book value of most of these stocks is two or three times more than the current prices. Therefore, the government would have to sell them at a huge discount, which it is unlikely to do. Also, many of these companies are not listed on the stock market.

Another theory is that the shares could be paid as equity to foreign banks demanding payments from Mexico on its foreign debt. But the insurers would wind up with a majority of foreign shareholders, which is against the Mexican law that permits only 49% foreign ownership.

Nationalizing the insurance industry might simplify the administration of overseas payments, but most people believe the government would not dare make another dramatic move. Jose Corbar Rubias, director of the Mexican Assn. of Insurance Institutions, and Mr. Horsey of Merchantile & General both predict that the insurance industry will not be nationalized.

Short of nationalizing the insurance business, the Mexican government might create a state body to control reinsurance, like the Instituto de Resseguros do Brasil in Brazil, some insurance industry executives here fear. Under such a body, the reinsurance system may become more ordered, but competition would be eliminated.

Most insurance people agree that the government had no alternative to implementing the exchange controls, and they are now looking toward the future.

Mike Turner, general manager of Sertanza, bonding and insurance agents, believes the exchange controls will have to become more flexible since Mexico needs to import foreign technology and specialists to help with its development.

Everyone also is anxious to see who will be in the new administration when Miguel de la Madrid takes over as president on Dec. 1. ■

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Broke Mexico still requires insurance

Mexico's direct insurance market
(at midyear 1982, in thousands of pesos*)

Line	Written premiums	Percent of market
Auto	11,752,665	32%
Life	9,693,578	27
Fire	5,456,937	15
Marine cargo	5,264,108	15
Accident & sickness	834,377	2
General liability	574,633	2
Farming	33,012	0.09
All other	2,454,140	7
Total	**36,063,450**	

*Current official exchange rate is 70 pesos = $1
Source: National Banking & Insurance Commission, Mexico

By LETITIA BALDWIN

MEXICO CITY—The large government projects that led to the country's current economic crisis also created new demands for insurance in Mexico.

The expansion projects—like extending the Metro subway system in Mexico City and starting construction of four new major ports—created demand for insurance and reinsurance in a country that still isn't very insurance-conscious.

Risk management in Mexico is practiced mostly by the large multinationals. Insurance is not compulsory in Mexico except for travel accident insurance for people traveling by public transit (not taxi) and auto liability in some northern states.

Even though most of the construction has ground to a halt, work on the expansion of the Metro has ceased and countless projects have been canceled at Pemex, the government-owned oil company, at least one reinsurance broker is optimistic about the future.

Mr. Roberts

Reinsurance broker Lefomex was kept busy arranging reinsurance for the steel and cement industries, hotels and shopping malls that also were part of the government's expansion projects.

Lefomex's William Roberts remains confident about future insı ance needs. He says the last ꞉ years have created a permane need for insurance.

There is far more building th there was five years ago, he sa꞉ "There is room for penetrati here more than in other countri In the United States and Britai everyone has insurance; it's just matter of where they place it."

He continues: "1983 will be year to raise the level of insuran consciousness and to persuac Mexicans to take out more sophist cated types such as profit or cons quential loss insurance."

The Mexican insurance market highly regulated and domesti leaving the insurance buyer fe options.

Since 1935, Mexico has prohi bited foreign insurance compan representation. Mexico's 56 insur ers, by law, underwrite all cover ages for Mexican risks includin imports and exports when th goods are in transit at the risk o Mexican interests. An admitted in surance company can obtain per mission to place the insurance witl a foreign insurance company onl if it is not obtainable in the domes tic market.

Mexico's six largest insurers (see chart, page 18) control 75% of the insurance market, which in 1981 included 53 billion pesos of direct insurance premiums. Using the year-end 1981 exchange rate of 27 pesos to the U.S. dollar, it was nearly a $2 billion insurance market and almost 50% larger than in 1980.

In the first half of 1982, 36 billion pesos in premium have been written.

The big insurance companies operate in all branches of insurance: fire, public liability, transportation, automobile and life insurance (see chart). Some are limited to life and accident and sickness insurance. Bonds can only be issued in Mexico by bonding companies.

Tariffs, or rates, are set for all insurance by the Mexican Assn. of Insurance Institutions (AMIS), which claims the membership of nearly all insurance companies and brokers, and are approved by the National Banking and Insurance Commission, which is a branch of the Treasury and Public Credit Secretariat.

Any company seeking a special rate must first obtain approval from AMIS. General and professional liability rates are not specifically provided for in the tariff but all insurers charge the same rates.

The property insurance rates are based on location, occupation and construction. Certain risks can be rated under "specific rates," which give reductions from the tariff, in addition to those for superior construction and other fire protection discounts.

Total discounts cannot exceed 80% of tariff rates, but there is no absolute minimum premium. The maximum fire protection discounts are: extinguishers, 5%; alarm systems, 10%; hydrants, 35%; sprinklers, 70%; superior construction, 60%.

Policies are usually written for one-year periods expiring at year end. Discounts are not allowed for long-term policies, except boiler insurance, which is normally issued for three years. Short-term policies are permitted, but are not popular because of surcharges. Unilateral cancellation by the insured is not allowed, and pro rata return of the premium is granted only if the insurer cancels.

By law, premiums must be paid within 30 days or the policy is automatically canceled. Most premiums are taxed at a rate of 7%.

Continued on page 22

The Travelers Corporation of Bermuda (TCB) stands out as the leader in funding international retirement plans. Developed specially for third country nationals and other non-U.S. employees, retirement plans invested in fixed income receive competitive minimum interest guarantees. New money on 1981 deposits was 15.43%. A separate equity account is also available.

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If you're interested in how The Travelers Corporation of Bermuda can help develop and maintain a cost-effective funding program for your international retirement plan, call your international benefit consultant, or Mr. George F. Carrick, Second Vice-President, International Department.

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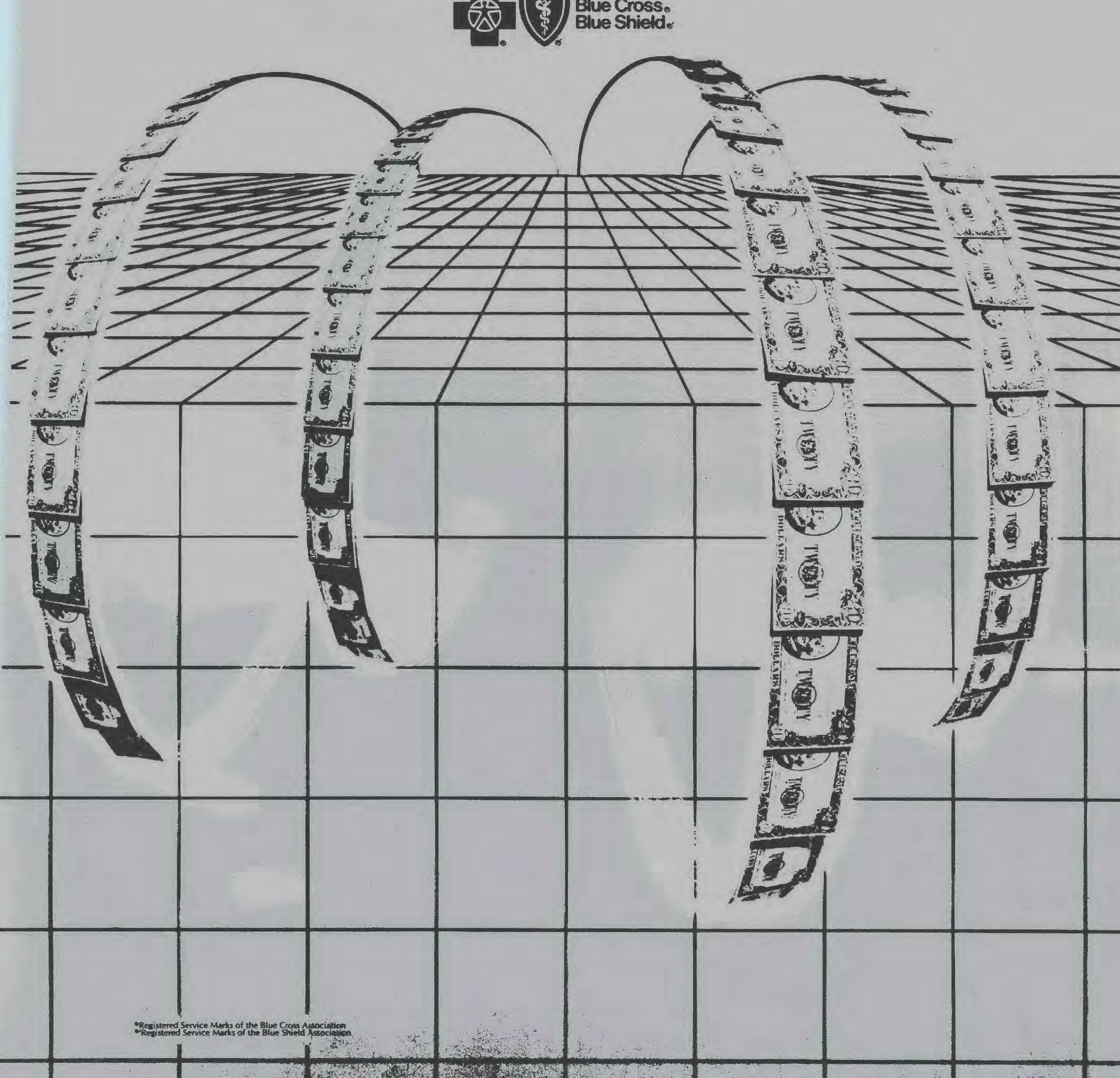

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Mexico tightly regulates most coverages

Continued from page 20

Premium financing has become popular since the permitted time for payment is so rigid. Financing is most frequently conducted through banks and consists of monthly payments from the policyholder's account at a cost of 3% of the annual premium.

Insurance buyers generally use an intermediary when buying insurance. Although in the past there was only a fine line between agents and brokers, buyers will soon know exactly what title and function their intermediary has.

Agents, generally assumed to represent only a single insurer, had in the past worked collectively. Their collective work made them look more like brokers, who work with many insurers.

Mr. Retteg

New legislation this year prohibits agents from acting collectively anymore. By the end of this year, brokers and agents will have to choose their niche.

The most important brokers in Mexico are Brockman y Schuh (representatives of Johnson & Higgins), Bourcheir, Marquard, Zepeda & Asociados (Marsh & McLennan) and Aserores Kennedy (Alexander & Alexander).

Brokers say they compete mainly through service since the tariff system is so unflexible. "For fire insurance, the prices you get from one company are exactly the same at another company," said Ricardo Retteg, operations director at Brockman y Schuh, Mexico's largest insurance broker.

Mr. Brockman

Joaquin Brockman, finan director of the company, agre "The coverages are not that fle ble, so that the client's needs cann be precisely met. You cannot wo with deductibles. The deductil table does not operate for the ber fit of the client. It's cheaper to b full coverage than to buy a dedu ible and get a rebate."

"The only way to reduce the c ent's costs is to obtain the max mum tariff discounts, which a based on the presence of fire pr tection equipment, type of con struction, location of the risk, etc. said Chris Baudoin, unit manag at Aserores Kennedy.

Other brokers complain the ta iff does not take technologic advances into consideration. On broker cited production of a styro foam container. Although th flammable substance once used in the manufacturing was changed to a non-flammable one, the rate remains the same.

Mr. Baudoin

However, a broker can obtain a specific quote when someone from the CNBS and AMIS makes a special inspection with the insurance company's engineers in an attempt to reduce the rate.

Risk managers are usually found only at the very large Mexican companies or the multinationals operating in Mexico like Ford Motor Co., E.I. du Pont de Nemours & Co., International Business Machines Corp., International Telephone & Telegraph Corp., Xerox Corp. The concept of a risk manager, though, is slowly gaining ground in smaller companies.

At locally domiciled companies, it is usually the controller or accountant, guided by the company's general manager, who is responsible for purchasing property/casualty insurance.

"The main problem with risk management in Mexico is that people think it only means insurance," said Ricardo Rojas, risk manager at Union Carbide Corp. Mr. Rojas was the first to introduce the concept to Mexico in 1975 after studying loss prevention and property conservation at the Factory Mutual System in Providence, R.I.

The program was launched in 1978, and Mr. Rojas said it was Union Carbide's first worldwide attempt to form a comprehensive and complete risk management program.

Mr. Rojas

Union Carbide has a large fleet of cars. "Instead of purchasing insurance, we made a complete analysis and determined the possible losses. We calculated how much the company needs to protect the cars. We decided we could absorb the risk ourselves. This way, we save money," Mr. Rojas said.

"Some small Mexican companies practice a type of self-insurance," said Mr. Retteg of Brockman y Schuh.

"In order to self-insure consciously, the company must make calculations to determine the possible loss and compare the figures with its financial situation," he said. "But they do not always make

Continued on page 24

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Very few policies written in Mexico contain deductibles

Continued from page 22

all the necessary calculations. They think the chances are so remote of a big disaster, but there are often surprises."

Kenneth Price, a consultant with Barta y Associados, says Mexican companies do not self-insure because they lack the capital structure of U.S. companies.

Another reason companies in Mexico do not self-insure, according to Mr. Price, is that most insurance policies in Mexico do not contain deductibles.

"Public liability policies rare have deductibles," Mr. Price e: plained.

"Fire insurance doesn't ha any. There are small ones f earthquakes, windstorms and aut mobile insurance but as a rule, d ductibles are not given."

There is, however, an increasin awareness among medium-size companies of the need to emplo one person to handle all insuranc matters.

Fire and allied perils is the prop erty insurance most frequentl purchased in Mexico. The standar fire insurance covers the perils o fire or lightning.

Extended coverage include losses from windstorms, hail, air craft, vehicles and smoke. It als covers explosions except for damage to a pressure vessel when the vessel explodes.

Strikes, riots, civil commotion vandalism, sprinkler leakage earthquake and volcanic eruption may be covered by individual endorsement.

Mr. Price

All policies have a 100% co-insurance clause except for earthquake coverage, which is limited to 75%.

Buildings, machinery and equipment are usually insured at actual cash value. A separate sum must be stipulated for each of these categories. Blanket insurance is available for buildings and contents at one location. It is not allowed to cover two or more locations.

All large multinational companies in Mexico purchase comprehensive general liability coverage, but this is not always true of medium-sized and small Mexican companies.

"Mexicans are not so conscious of being able to sue when something has been done to them as individuals," said Mr. Brockman.

Mr. Price at Barta y Associados says that product liability insurance is being purchased more and more, but errors and omissions and directors and officers liability insurance is not yet available in Mexico.

Joint Mexican ventures of American or British interests purchase an average general liability limit of $500,000, Mr. Price estimates.

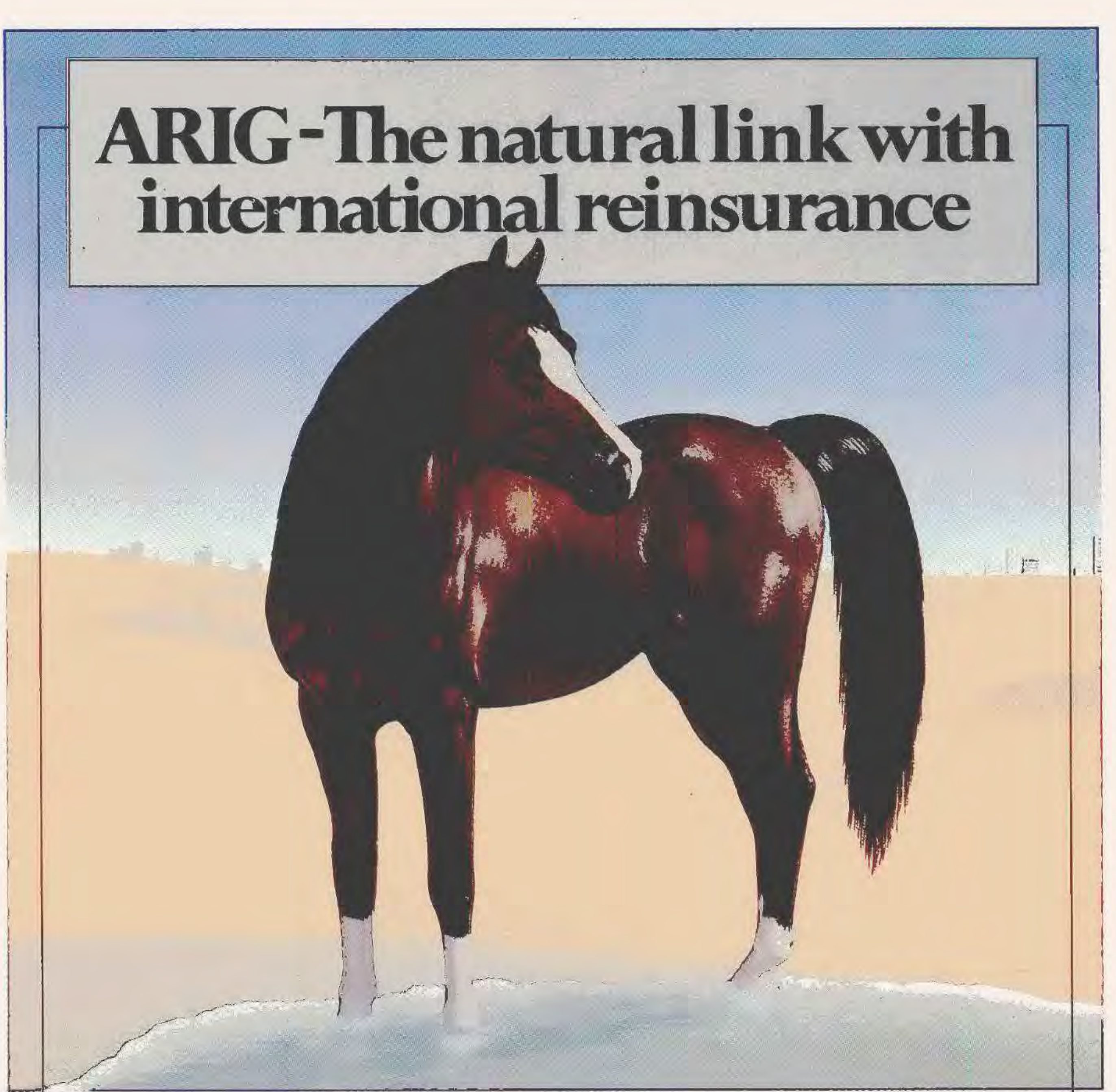
For both property and liability insurance, these companies pay on the average of 1% or less of their annual sales, he says.

Even Pemex, the government oil company, has been reluctant to buy insurance.

It had no insurance to cover the losses associated with the 1980 Ixtoc fire that burned for three months in the Gulf of Mexico. Pemex is now being sued in the United States for damage to the shores of South Padre Island off the coast of Texas.

Pemex has, however, started to buy insurance to protect its marine and drilling projects against blowouts.

All property and liability insurance purchased by government-owned companies is handled by one of the two government insurance companies, Aseguradora Mexicana and Aseguradora Hidalgo. ■



"WHEN IT COMES TO BEING A LEADER IN COMPUTER SYSTEMS, THERE'S NO PLACE LIKE HOME."

Gordon Smith began his career designing systems for IBM's Data Processing Division. He then joined and later became a partner at McKinsey & Co. where he was a consultant to financial and industrial organizations on computer activities. From there, Gordon went to Teachers Insurance and Annuity Association where he became Executive Vice President in charge of managing their computer functions. And in May '79, he joined The Home as Senior Vice President, Management Information Services.

"I joined The Home Insurance Company because I became convinced that it was going to be a leader in the industry.

The computer system used by The Home is one of the largest and most sophisticated systems in use today. It includes a distributed processing network, with more than 50 computers connecting 100 cities. This network, with one computer video display terminal for every 6 employees, provides immediate access to some of the most extensive computer data bases in the insurance industry.

Here are three examples of The Home's leadership in using automation to meet the needs of our producers and policyholders. To my knowledge, none of our competitors has available on-line systems that match these.

First, immediately after the end of each month, profit and loss statements for all of our more than 7,000 producers are available on these terminals. These statements are available in summary form, as well as by individual product lines for each producer, and they include comparisons to previous results. This means that producers obtain up-to-date results from The Home sooner than from other companies.

Second, all of our Field Offices can retrieve a visual display of the complete claim record for all claim transactions for The Home for the past 7½ years. These displays are available instantaneously from a computer data base that includes all transactions as of the close of business the previous day. Not only does the use of this file eliminate a lot of paperwork, but it can be used to provide fast, accurate responses to questions about claims from our producers and policyholders.

A third example. By using computer terminals, our field personnel can obtain, within seconds, computer-generated price quotes for commercial package policies. This system is the most comprehensive on-line quoting system for package policies. With this system, The Home is able to give price quotes and requotes to our producers immediately upon request.

Other systems now in use provide on-line policy status retrieval and automatic rating and writing of policies. All of these result in a saving of time and improved service for our producers and policyholders.

With over $4.5 billion in assets, we've got excellent financial resources and strength. We've become a leader in automation, and we're moving fast to do more."

A City Investing Company

Mexican employers add to government benefits

By LETITIA S. BALDWIN

MEXICO CITY—Mexico's social security system, established in 1943, provides free medical services and other benefits to all employed people except for the armed forces and public employees who have their own programs.

Private employers, however, are adding benefit plans to supplement the government program.

The government taps both individuals and employers to fund its social security program, which provides workers with medical, disability, pension, survivors' pension and burial benefits. It also includes all workers compensation benefits.

The amount deducted for social security from an employee's paycheck is based on salary, but averages 3.5%. The employer generally pays 10% or 11% of its annual revenues to social security, depending on the type of activities and the risk involved.

The unemployed are not covered by the system, primarily because of the enormous potential cost, says Carlos Sauri Campos, director of actuarial services at broker Brockman y Schuh. In addition, there is a possibility that Mexicans would use social security benefits as an excuse not to work, he added.

"In Mexico, because of our cultural and religious background, a person who is not working is not badly regarded. People are not pressured by the family or government to work, which is why there could be abuse of such a system," Mr. Campos said.

Complaints about medical service under the system, however, have caused many large and medium-sized Mexican companies to offer employee benefits in addition to social security, such as long-term disability, group life and health coverages and pension plans.

Big companies like Ford Motor Co., International Telephone & Telegraph Corp., International Business Machines Corp. and Xerox Corp. are known to ha especially good benefits. Mediu sized companies are providi more and more benefits to attr better-qualified employees. At t same time, Mexican workers a becoming more shrewd and sele tive about the benefits that prc pective employers offer.

The best employee benefits a often offered by state-owned cor panies, depending on the power each company's labor syndicat Such strength has created som very generous benefits.

For instance, at the governme oil company, Pemex, a person ca retire after 25 years of service wit 100% of salary.

Private employers, however, ar offering more benefit plans.

Among the benefits offere under private plans, life insuranc is the most prevalent, according t a 1981 survey of 200 companies b broker Brockman y Schuh. Ninety nine percent of the companies of fered life insurance in 1981, com pared with 97% in 1979 when a sim ilar survey was conducted.

Group life plans usually offe basic coverage ranging from 12 tc 24 months' salary with the possibility of increasing the protection on a contributory basis. The government authorizes the general rate that is subject to dividends, which reduces the cost from 25% to 30%.

Medical benefits were the second most-popular benefit, offered by 76% of the companies in 1981, compared with 69% in 1979. Health insurance is usually provided to management employees in addition to the medical service provided by the social security program. The average coverage limit in 1982 was 250,000 pesos.

Savings funds were the third most-popular benefit, offered by 72% of the companies in 1981, compared with 38% in 1979.

Accidental death and dismemberment insurance, which is usually included as an additional coverage clause within a group life policy, was offered by 38% of the companies in 1981, compared with 32% in 1979.

Private pension plans are becoming increasingly popular in Mexico since company contributions to a pension fund are tax-deductible and the earnings of the fund are tax-free.

In 1981, 52% of the companies had a retirement plan, compared with 48% in 1979.

Long-term disability insurance is also growing because social security benefits have proven to be insufficient for younger employees that have not had a chance to build up credit within the program.

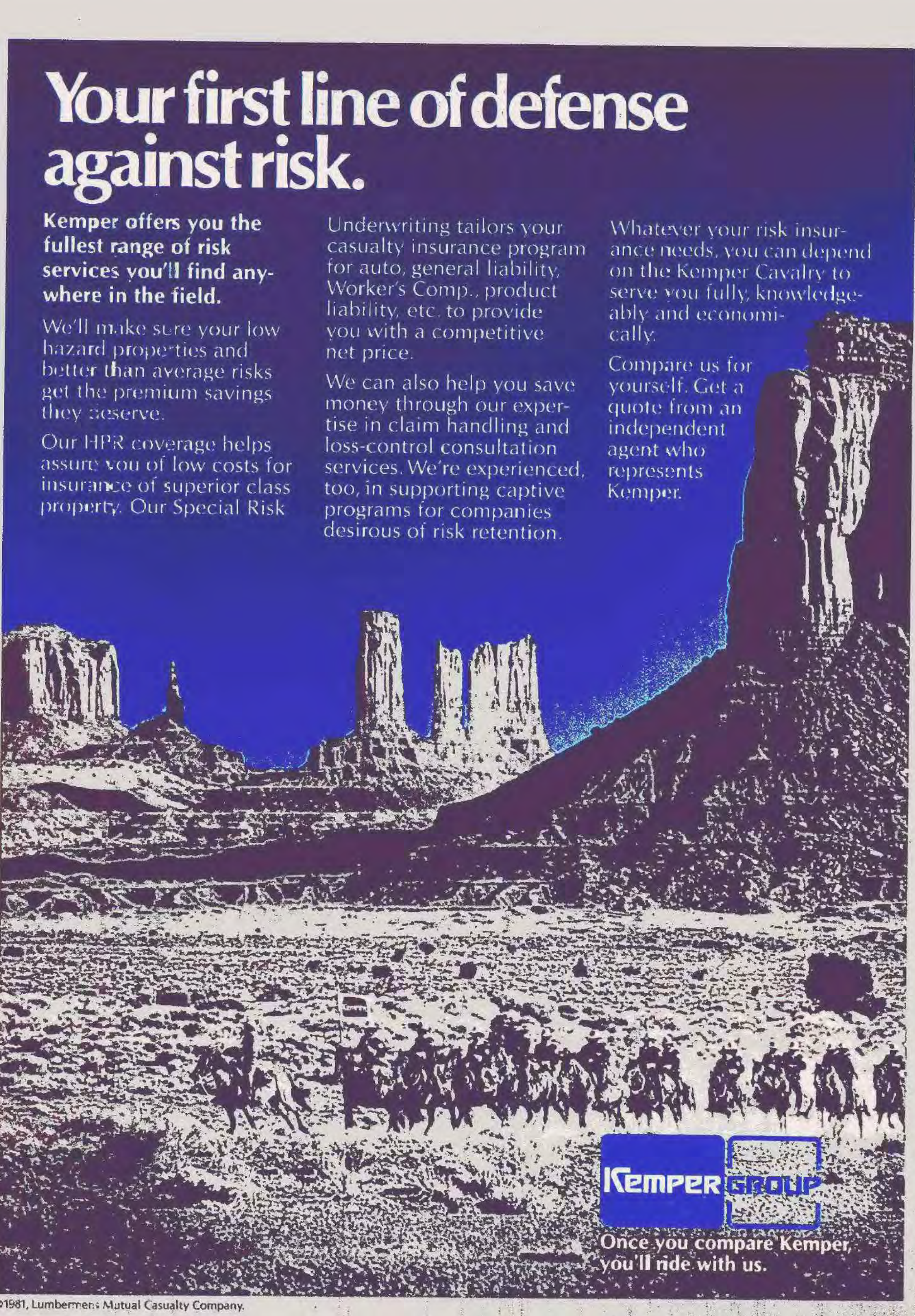
At large manufacturing companies, the personnel manager is responsible for purchasing, funding and administering employee benefits. Either a broker or an agent assists the company in offering an employee benefits plan. If it is pure insurance, the broker or agent receives a commission.

Many pension plans in Mexico are not insured, but funded. In this case, the broker or agent receives a pre-arranged fee.

The leading underwriters of employee benefits in Mexico are: Aseguradora Hidalgo, Grupo Nacional Provincial, Seguros Bancomer, Seguros America Banamex, Seguros Monterrey Serfin and Seguros La Comercial. All are domestic companies, in compliance with the law prohibiting foreign insurers.

One of the two government insurance companies, Aseguradora Hidalgo is in charge of writing all employee benefits for employees of state-owned companies.

Life, accident and health premiums are taxed at 3%, except for group life, which is taxed at 1.5%. ■



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

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

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

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

FACTS

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

SERVICE IS PRIMARY

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

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

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

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

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

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

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

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Brazil's direct insurance premiums in 1981
(in cruzeiros*)

Class	Premiums	Percent of market
Fire	54,115,374,772	24.7%
Group life	34,192,506,358	15.6
Motor	29,445,158,779	13.5
Transport	18,255,304,304	8.3
Personal accident	14,384,664,816	6.6
Home	13,257,117,972	6.1
Personal injury (auto)	13,113,668,912	6.0
Marine hull	6,650,413,243	3.0
Loss of profits	3,891,999,967	1.8
Aviation	3,431,666,528	1.6
Third-party liability	1,105,897,275	0.5
Medical refund	1,010,050,187	0.5
All other	25,947,336,902	11.9
Total premiums	**218,801,160,015**	

* 125 cruzeiros = $1 on average exchange for 12 months ending June 30, 1981.
Source: Instituto de Resseguros do Brasil.

Brazil:

Banks increasing domination over nation's insurance industr

By LAUREL WENTZ

SAO PAULO, Brazil—Insurance buyers in Brazil increasingly may turn to banks when shopping for coverage.

Powerful banking groups already control 70% of Brazil's $2.25 billion in annual insurance premiums through affiliated insurers by offering attractive premium financing terms and, in some cases, requiring their borrowers to buy insurance coverage from their affiliates.

Now, the revision of independent insurers' premium payment schedules may make the bank's fina ing terms even more attractive buyers.

Premium payments to insur formerly were made in four stallments at 30-day intervals 2.2% per month interest, a ridi lously low rate in a nation wh inflation has hovered around 10 annually for years.

But, since October, payme must be made in seven monthly i stallments with interest rates about 7% per month, calculated the increase in indexed gover ment treasury notes.

Banks linked to insurance co panies, however, sometimes f nance premiums in as many as monthly payments and charge interest at all. Bank premium f nancing is handled in a parall transaction to the insurance pu chase.

"Multinationals will be forced look for companies linked to bank," says the financial manag of a very large U.S. company wit an office in Sao Paulo.

"With money costing 160% a year (in Brazil), insurance costs are determined by the cost of financing," says the manager who uses a half dozen insuranc companies, most of them American.

Insurance buyers in Brazil als find they must, by governmen regulation, use an insurance broke as an intermediary and must insure their Brazilian risks with insurers in Brazil under uniform rating schedules.

Even without the financing edge, banks have offered affiliated insurers their vast branch networks for marketing and the enviable position that insurance premiums can be paid only in banks. And, banks sometimes have linked approval of a loan to the purchase of insurance from an affiliate.

"It's complete blackmail," contends Fermino Whitaker Jr., head of Sao Paulo Companhia Nacional de Seguros and bitter opponent of bank involvement in insurance industry.

Mr. Whitaker estimates that fully one-half of Brazil's 91 insurance companies are linked to some 24 banking groups.

With the banks' increasing involvement, the market share held by foreign insurers, which represent half of the 38 independent insurers, has dwindled to 17% of the market. Another half-dozen insurers are owned by state governments and one is owned by the federal government, which is trying to sell it.

"When banks ask the company they are giving a loan to for their insurance, that's reciprocity," contends Luiz Campos Salles, president of Itau Seguradora, Brazil's largest single insurer. Itau Seguradora is linked to Banco Itau, Brazil's second-largest private bank.

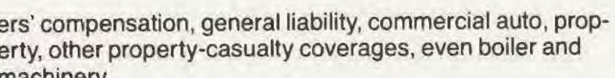
Insurance company executives admit that loan seekers are pressured to buy insurance they do not want or need, especially personal accident insurance.

The cozy relationship between banks and their affiliated insurers has been upset recently. Brazil's largest private bank, Bradesco, rocked the local insurance industry in October when it abruptly se-

Continued on page 30

ZURICHVISION:

What it takes to be world class in special risk.



What in the world does your special risk business need? For an international carrier to cover special risk foreign exposures, choose the one that's truly world class—Zurich-American.

At Zurich-American, we think exceptional international coverage takes flexibility, creativity and imagination—a special blend of qualities we call Zurichvision.

It starts with the Zurich Group's international network of resources—20,000 employees in 550 offices spanning 28 countries, in addition to our 33 offices across the United States. With these capabilities, we can service almost any international account—including the foreign exposures of U.S. businesses and the U.S. subsidiaries of foreign accounts.

Zurichvision means tapping this network and marshalling just the right resources for you and your risk's particular needs. Because the aspect of Zurichvision *you'll* appreciate most is individualized service and attention.

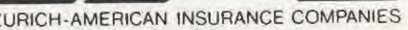
It includes our approach to special risk coverage, which we custom-tailor from our full product line—primary and excess coverage involving workers' compensation, general liability, commercial auto, property, other property-casualty coverages, even boiler and machinery.

With Zurichvision comes ingenuity in account management. We use the account team concept, a progressive approach in bringing our team of professionals together with the producer and the client for direct communication and streamlined service.

Zurichvision means keeping our sights set on every detail, from immediate claim response to specialized loss control facilities, computer claims analysis, continued involvement after the account is written, and more.

Our long history of large lines underwriting, our far-reaching international network, our full-service capabilities—together, they make Zurich-American world class for international special risk underwriting.

So the next time you've got a special risk with foreign exposures, give Zurich-American a call. And start looking at your international special risk business with Zurichvision.



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Banks own most insurers

Continued from page 28
vered its operating agreement with both the Sul America group, which holds 15% of the nation's insurance market, and the Atlantica Boavista empire of insurance companies.

The bank broke with Sul America because Bradesco's owner-patriarch, Amador Aguiar, was unable to remove Sul America's executive president, Leonidio Ribeiro, from his job after a bitter fight.

Although Sul America still owns one-quarter of Bradesco and Bradesco owns a piece of Sul America, the insurer has lost Bradesco's 1,400 branch offices for distribution and financing of its policies. However, Sul America is being wooed by other major banks.

The bank also broke its relationship with Atlantica-Boavista to avoid being charged with unfairly treating Sul America, but the bank is expected to continue to operate with Atlantica-Boavista.

The unique mandate in Brazil that brokers must be used as intermediaries between underwriters and clients has spawned a vast army of one-man commission-collecting brokerages. It also has caused many multinational and large Brazilian companies to open their own captive brokerages to recapture the commission.

The captive brokers, whose financial manager or director buys the insurance, usually hire professional brokers to manage the enterprise and split the commission.

Brokers' commissions range up to 20% on fire insurance and to 30% for personal accident insurance. And, commissions can rise even higher, say brokers and insurance company executives, who charge that brokers sometimes can get hidden, illicit payments from insurers hungry for business.

"The sale of insurance is completely prostituted," says Mr. Salles of Itau Seguradora.

The rigid control of the Brazilian insurance industry is wielded by the government reinsurance monopoly, Instituto de Resseguros do Brasil, or the Brazilian Reinsurance Institute (commonly referred to as the IRB), and by an arm of the Finance Ministry, the Superintendencia de Seguros Privados or the Federal Insurance Commissioner's Office (often called Susep).

Companies are required to carry insurance for fire, inland transport, truckers liability and automobile bodily injury and also workers compensation through the federal social security fund.

Susep and the IRB, which has more day-to-day contact with the market, set rates and conditions, fix brokers' legal commissions and approve or veto new types of insurance policies. The IRB allows insurers to settle claims up to two times the underwriter's net retention, but sends an inspector is sent to handle higher claims.

"There's nothing an insurance company has to do that requires any degree of intelligence or sophistication," says a major U.S. broker in Sao Paulo. "All the policies are exactly the same and the rates are the same."

Although the IRB and Susep have done a great deal to restore faith in Brazilian insurance companies, which used to be famous for collecting premiums but neglecting to pay claims, many broker and insurer executives complain the two have "dictatorial powers."

The government has refused, for example, to allow deductibles except for auto insurance and in some rare cases.

"You can't work with deductibles in fire and property insurance," says Michael D. Ogden, managing director of the brokerage Atec-Frank B. Hall. "Most claims are small so you're just exchanging money with the insurance companies."

The fire insurance rate is based on industry, type of construction and location, and ranges from 0.1% to 5% of insured value. Discounts of up to 70% for fire safety precautions are possible, but the minimum net premium is 0.1% of insured value.

A European truck maker, for example, won a premium reduction to 0.17% from 0.40% of insured value because of a low claim record and firefighting equipment, including an in-house fire brigade.

Business interruption insurance, extremely expensive in Brazil, allows a 12.5% premium reduction for taking a deductible (called franquia) for 1% of insured value.

Continued on facing page

Leading foreign insurers in Brazil

Company	Premiums*	Assets*	Main shareholder
1. Vera Cruz	4,122.0	11,465.2	S/A Moinho Santista
2. Generali do Brasil	3,369.7	5,889.3	Transocean do Brasil
3. Interamericana	2,224.9	3,162.1	American International
4. Segurasul	1,920.4	3,105.4	The Yassuda Fire & Marine Insurance
5. Uniao Continental	1,827.4	2,622.1	La Preservatrice-Fonciere
6. Argos	1,552.3	2,096.7	The Chubb Corp.
7. Home Insurance	1,499.7	2,219.8	The Home Insurance Co.
8. Adriatica	1,372.2	1,740.7	Rionione Adriatica
9. America Latina	1,327.6	3,208.0	The Tokio Marine & Fire Insurance
10. Motor Union Americ.	1,312.7	5,190.7	The Motor Union Insurance Co.
11. Phoenix Brasileira	1,064.2	1,973.2	Phoenix Assurance Co.
12. Colina	882.1	1,267.6	Insurance Co. of N.A.
13. Lloyd Industrial	844.8	928.6	Kemper Empreends. Parts.
14. Commercial Union	624.1	845.6	Commercial Union Assurance Co.
15. American Home	504.0	851.8	Commercial Union Co.

*In millions of cruzeiros; 125 cruzeiros = $1 on an average exchange rate for 12 months ending June 30, 1981.
Source: Brazilian newspaper Gazeta Mercantil

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Leading domestic insurers in Brazil

Company	Premiums*	Assets*	Bank affiliation
1. Itau	11,739.8	24,571.2	Itau
2. Satma	11,321.0	21,710.6	Bradesco
3. Atlantica	9,688.7	35,268.0	Bradesco
4. Bandeirante	7,874.8	8,582.7	Bradesco
5. Sul America	7,783.8	17,607.4	Bradesco
6. Bamerindus	7,414.8	19,115.1	Bamerindus
7. Internacional	7,250.5	13,057.8	None
8. Alianca da Bahia	5,822.9	16.069.1	Economico
9. Boavista Vida	5,585.7	7,914.1	Bradesco
10. Nacional	5,498.1	11,313.7	Nacional
11. Uniao	4,681.5	5,884.1	None
12. Brasil	4,547.0	359.0	None
13. Porto Seguro	4,055.2	4,394.4	None
14. Paulista	4,022.3	5,804.9	None
15. Unibanco	3,270.4	7,422.0	Unibanco

*In millions of cruzeiros; 125 cruzeiros = $1 on an average exchange rate for 12 months ending June 30, 1981.
Source: Brazilian newspaper Gazeta Mercantil

Rates in Brazil are high

Continued from facing page

Although Brazil's tariff market rates are often high by U.S. or international standards—especially for property, health and business interruption insurance—there is little a multinational company can do.

Multinational companies with worldwide insurance policies are hampered because all exposures in Brazil must be written in the country. In practice, brokers and some multinationals admit, business interruption and other types of insurance for risks in Brazil are often carried under the parent company's difference-in-conditions and umbrella policies and paid for outside of Brazil by the parent company.

With high rates, few deductibles and few options, brokers say it is often cheaper for companies to self-insure. This can be done by not updating insured values to keep pace with inflation and doing without the most expensive coverages, like business interruption.

Anderson Clayton, for example, only updates insured values every six months and, thus, absorbs part of the risk. The company is considering updating every three months.

An inflation guard, available from fire insurance, updates insured values daily by 1/365th of the rate of inflation estimated by the policyholder at the beginning of the policy year. An additional premium of one-half of the insured's inflation estimate is levied. If, for example, an insured guesses inflation will be 120%, his premium will be increased by 60%.

However, most companies prefer to update every three or six months, rather than on a daily basis. Policies are usually renewed in January and July.

With the current recession, Brazilians are buying less insurance. Total premiums are expected to drop in real terms for the fourth straight year in 1982. Premium income increased by 65% in 1979, 87% in 1980 and 90% in 1981, which is lower than the corresponding inflation rates of 77%, 110% and 95%.

The insurance industry's share of the gross national product fell to 0.81% in 1981 from 1.18% in 1979.

"Brazilians aren't very insurance-conscious," Mr. Ogden says. "It's a miracle you can get them to buy fire insurance."

Liability insurance is not well-developed in Brazil. Consumer rights are given little importance and courts are ridiculously slow. Some 200 thalidomide victims are still awaiting resolution of their class-action suit filed years ago against Brazilian drug manufacturers and the government.

Typically, a company may buy product liability coverage with a limit of 30 million to 60 million cruzeiros ($1 million to $1.5 million) although some companies carry far more. Coverage is less expensive than in the United States.

"It's difficult to take someone to court (for product liability) and make it stick," Mr. Ogden says.

Dircetors and officers liability insurance is not available in Brazil.

Fire, group life and auto insurance account for 54.6% of the value of all Brazilian premiums (see chart).

Brazilian insurance companies are free to accept risk but only the IRB can reinsure and retrocede domestic risks. The IRB places most reinsurance with Brazilian companies and the remainder, about 3.6%, is placed abroad through London and New York offices, says IRB President Ernesto Albrecht.

The IRB also runs the lottery that allocates government insurance business, estimated at 30% to 40% of the market. Every two years, each state-owned company chooses a new Brazilian insurance company by the lottery, which excludes foreign insurers.

In Brazil, Itau Seguradora is the largest single insurer (see chart). The rest of the top five belong to the Sul America and Atlantica Boavista groups.

The main U.S. insurers operating in Brazil are American Farm Assurance Assn. and American International Underwriters. Citibank and Chubb jointly own an insurance company called Argos. The largest foreign insurers are Vera Cruz, formerly a captive insurer for Argentina's Bung y Born Group, and Italy's Generali.

U.S. brokers operating in Brazil include Marsh & McLennan Inc., Frank B. Hall & Co. Inc., Johnson & Higgins and Alexander & Alexander Inc. affiliate Wood MacRae. ■

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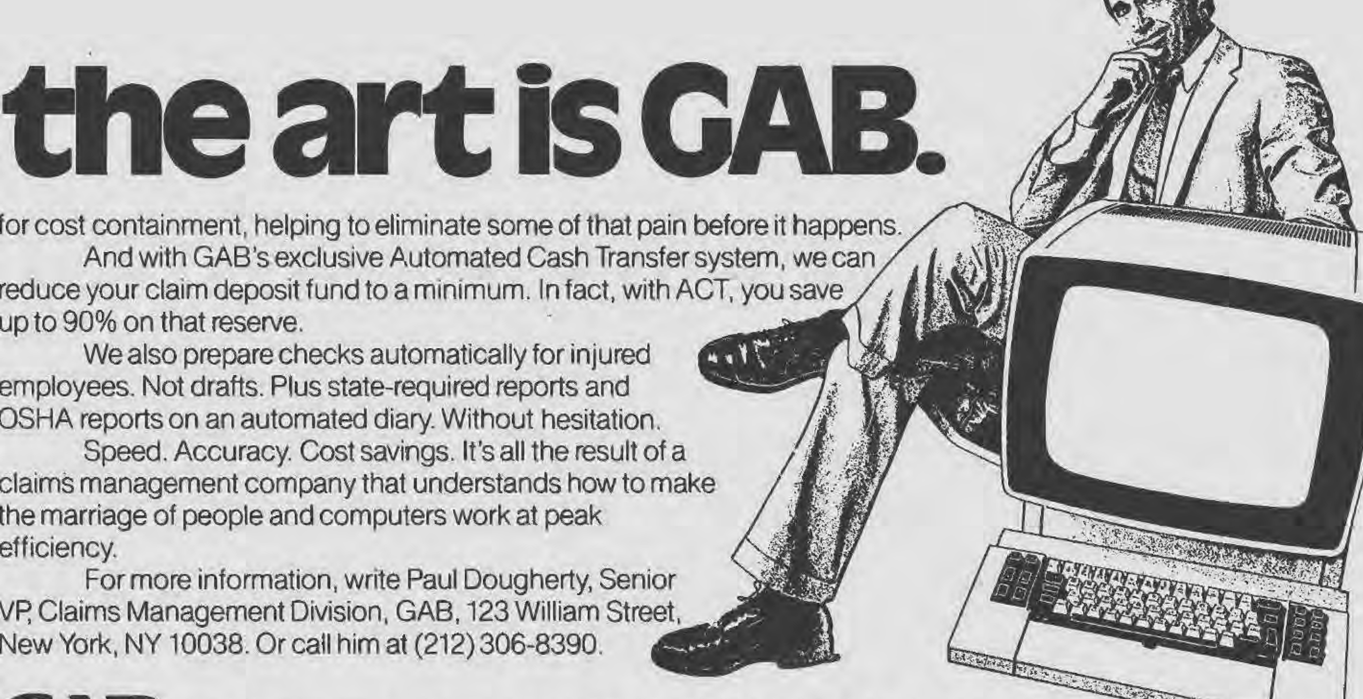

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Group insurance not widely offered in Brazil

By LAUREL WENTZ

SAO PAULO, Brazil—The 40 million Brazilian wage earners—one-third of the nation's population—are far behind their North American and European counterparts in employee benefits.

Pension plans, almost unknown in Brazil until the mid-1970s, are only now beginning to spread beyond government-owned companies and a handful of multinationals.

Insured benefits, like group health and life coverage, are not widely offered by employers. Health insurance is costly, policies are restrictive and companies commonly prefer to augment government-run health care programs with private plans.

In addition to contributions to the government health care plan, companies are required to provide or fund other employee benefits, which can account for 60% of a company's payroll.

"State-owned companies have had very generous pension plans since 1974-75, often with 100% of final pay," says Robert A. Coscarello, managing director of Towers, Perrin, Forster & Crosby Ltda., which was the only major employee benefits consultant working on a fee basis in Brazil until William M. Mercer Inc. established a Brazilian office last year.

"There are 120 to 130 private plans now—of which about two-thirds are state companies and one-third multinationals," says Mr. Coscarello. "A lot of Brazilian companies are studying (starting) a pension plan."

Employers and employees in Brazil each contribute 8% of each worker's salary to the INPS, a social security system that funds worker retirement, disability, workers compensation and medical care benefits. Basically, the INPS provides:

- Retirement benefits for old age (at 60 years for women, 65 for men) or longtime service (30 to 35 years of work) and widows' pensions.
- Temporary and permanent disability pay after the first 15 days of lost time, which are paid by the employer.
- Workers compensation benefits.
- Death benefits.
- Health care through INAMPS, the National Medical Care & Social Welfare Institute.

"INPS pensions are fine at the lower salary levels—(they pay) up to 80% or 90% of final salary," says Mr. Coscarello of TPF&C. "But the maximum pension is about $15,000 (per year). The issue now is whether companies should set up their own plans or go through insurance companies. They usually go on their own."

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

An open plan is offered by an insurance company or incorporated civil society, may be non-profit or profit-making and can be open to anyone who chooses to make the monthly contributions and receive fixed benefits. About 175 entiti[es] including insurance companies, a[re] authorized to sell pension plans [to] groups or individuals.

A closed plan is a non-profit e[n]tity maintained by a company f[or] its employees. The company mu[st] make an initial donation of 7% [of] the previous year's payroll, pay [at] least 30% of total plan contributio[ns] and have the voluntary participa[tion] of at least one-half of all em[ployees] with more than two year[s] service. These plans usually sup[plement] INPS benefits for retire[ment], disability, sick pay an[d] widows' pensions.

Contributions to a closed pla[n] must be a function of the INPS rat[e] based on a complicated formula. When the government decides, as i[t] recently did, to change the level o[f] worker and employee contributions to the INPS, private pension plans need to acquire more money than was anticipated. This puts the sponsor of a closed plan, which is almost impossible to discontinue, at the mercy of the Brazilian government, notes Alfredo Carlos Del Bianco, technical director of Itau Seguradora, Brazil's largest insurer.

Under a closed plan, the company may keep up to 30% of the plan's total funding in tax-deductible book reserves. The remainder must be invested outside the company, with 10% to 40% in government securities, 20% to 40% in stocks and debentures and up to 40% in employee loans and/or real estate.

Mr. Salles

So far, only three major companies—all multinationals—have opted for open plans through insurance companies.

Belgo-Mineira, a steelmaker, has joined with Brazil's largest bank, Bradesco, which formed a pension plan company with two insurers.

In October, Dutch shipbuilder Verolme signed with Itau Seguradora. Beginning in December, Verolme will pay 70% of the 70 million cruzeiros (approximately $620,000) per-month cost of the plan for its 7,000 employees, says Mr. Del Bianco of Itau Seguradora. Employee contributions range from 0.9% to 8.4% of salary, depending on age and earnings, he says. The plan provides most employees with their full salary as well as group life insurance equal to 13 months' pay, disability and survivors' benefits, Mr. Del Bianco says.

The French company Telemecanique also has a plan similar to Verolme's.

Sao Paulo's state bank, Banespa, has a closed pension plan for its 28,000 workers that costs about $5 million per year. The cost is equally divided between workers and the bank, which spends about 2% of payroll on the plan.

"No one knows what the trend will be—for companies to develop their own plans or go through insurance companies—so all the big companies are ordering studies and comparing them," says Itau Seguradora President Luiz Campos Salles. "All the multinationals have been negotiating with Itau and other companies for more than a year. When they see the price, they get alarmed."

In a report to prospective clients, Itau estimates the cost of an open plan providing an income equal to 80% of current salary will cost 4% to 9% of payroll, depending on the age and salary level of participants.

TPF&C is studying the cost of

Continued on page 34

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Benefits lagging in Brazil

Continued from page 32

closed pension funds for Ford Motor Co. and its Philco division.

Walter Luiz Scarfone, Philco's employee benefits manager, estimates the cost of a plan at Philco would be 4% of payroll. It would cost even more at Ford, which has more older workers.

Philco may establish its pension plan next year if it gets approval from Ford's U.S. headquarters. The plan probably would benefit only the top 240 of Philco's 9,160 workers. Most other workers could be eliminated from coverage if their benefits do not exceed what the INPS already pays to lower-paid workers Mr Scarfone says.

Almost one-half of Philco's workers earn less than two "minimum salaries," he says. (One minimum salary, adjusted every six months for inflation, equals about $100 per month.)

The government social security plan itself is under scrutiny because some fear it is headed for trouble.

"The government allows workers to retire after 35 years, and (low-paid workers) receive 90% of their salaries and continue working," says Eugene M. Smyth, who set up Mercer's year-old pension and benefit consulting office in Sao Paulo.

"Most Brazilians begin work at age 14. An increasing number of Brazilians in their early 50s are drawing full (INPS) pensions while working. The writing on the wall is that the system will have to change."

Companies already are supplementing health benefits under the INAMPS because its medical service tends to be slow and of poor quality. Many companies have agreements with "clinicas," associations offering complete medical assistance through their own doctors, clinics or hospitals. However, even the quality of care at the clinicas is declining.

High-level executives may have a more expensive "free choice" plan, allowing them to choose doctors and hospitals. Maximum payments are often calculated as a multiple of INAMPS charges, such as the plan will pay up to eight, 10 or 12 times what a procedure would cost if INAMPS facilities were used.

Users of free-choice plans often contribute 2% to 3% of salary for their coverage. Free choice may be funded through an insurer or paid directly by the employer.

Sales of insured medical plans to employers, authorized by the government in 1977, have lagged, and the plans rarely include dental care.

Continued on page 38

Philco's mandated benefits & contributions to the government:

- FGTS (Fund for Time of Service) 8% payroll
- INPS (Social security): 8% payrc
- Sick pay: first 15 days of workers comp
- 13th month salary
- Senai (government apprenticeship program)
- Finsocial (social investment fund)
- INCRA (rural development)

Total: 60% of payroll

Voluntary employee benefits at Philco in Brazil

Job category	Employee benefits	Value of benefits/month (in cruzeiros*)	Percent of salary
Assembly line workers	Medical care; Pay 1.32% of salary for group life insurance; Dental care (assembly line workers only); Discount on Philco and Ford products; Subsidized company restaurant	2,300	7%
Office workers	+ Sick pay totaling up to 3 months' salary	2,500	2%
Supervisors	+ Annual checkup; Can rent one car from company for 10,000 per month ($47)	50,000	14%
Managers	+ Travel insurance to $4,000; One rented car and one company car; One-half children's schooling paid	150,000	29%
Directors	+ Travel insurance to $9,000; Two rented cars and one company car (more luxurious model than managers', supervisors'); Access to company pool of chauffeurs	300,000	40%
Executive director	+ 24-hour guard at home; Two company cars; Own chauffeur	450,000	45%
President	+ Unspecified	650,000	45%

*220 cruzeiros equal $1

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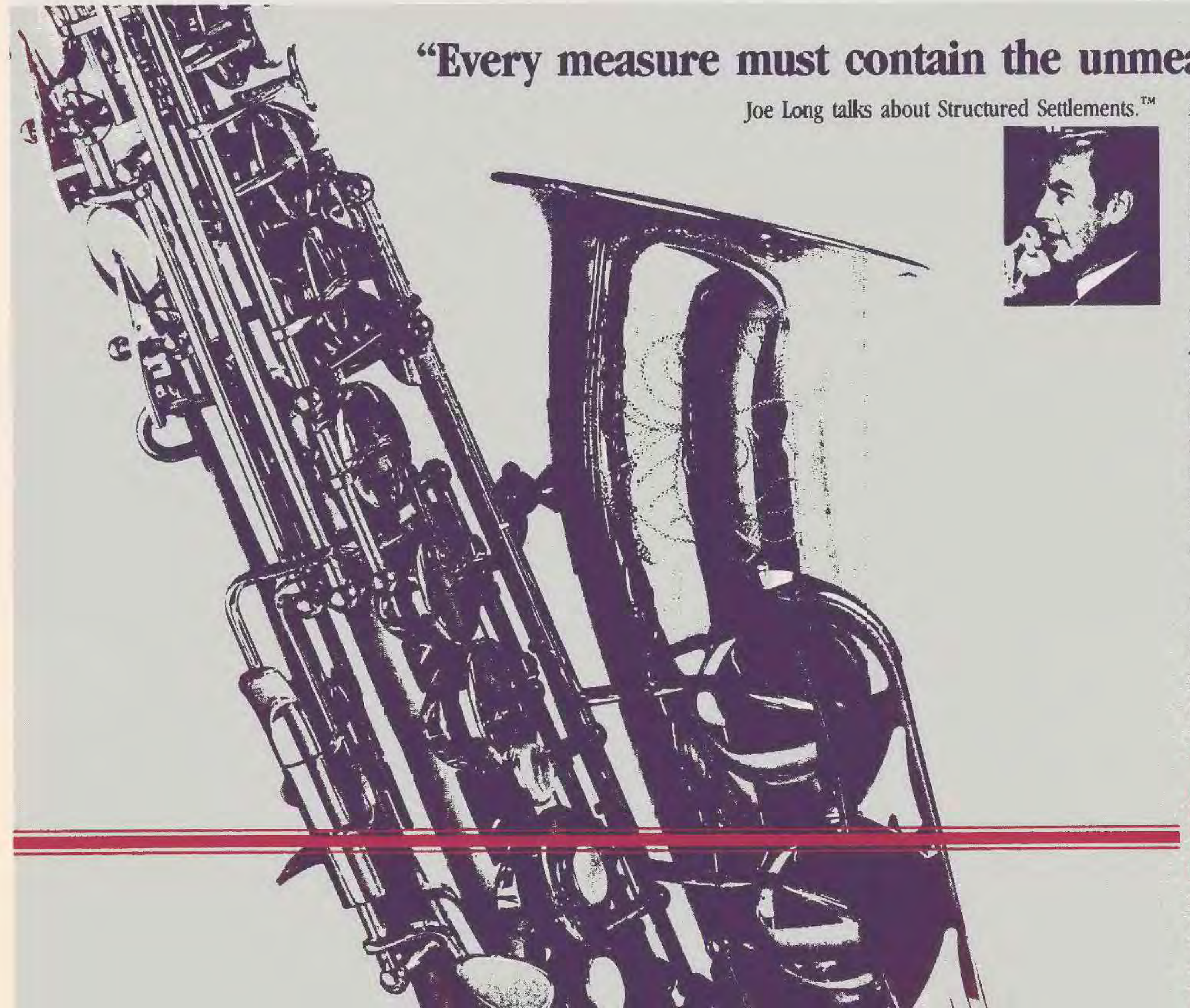

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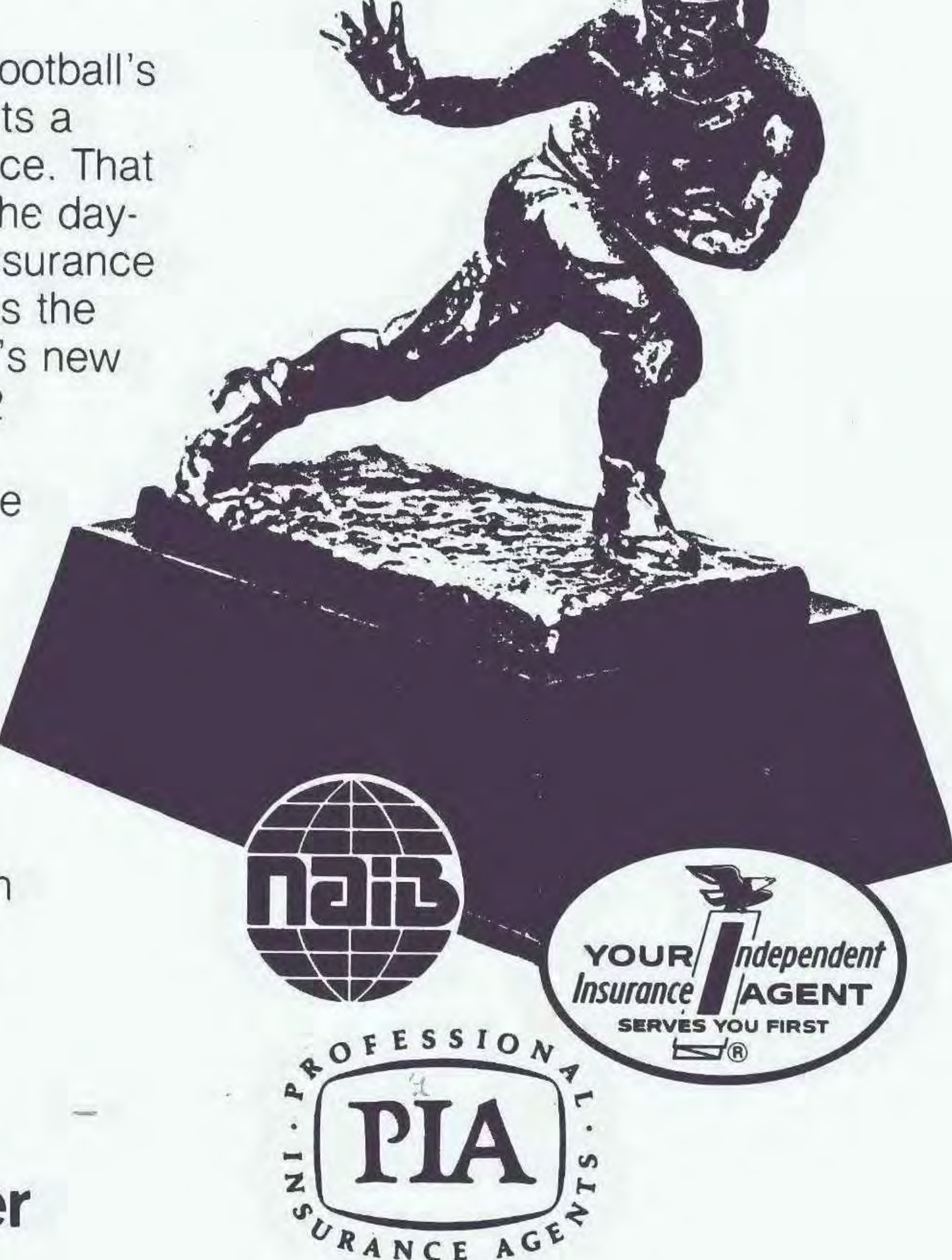

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Group life use limited in Brazil

Continued from page 34

"There's a big need in Brazil for medical insurance but the law is very restrictive and costs through an insurance company are very high," says Mr. Coscarello.

Group life insurance is also subject to high costs and government restrictions, which limit its use. Experience-rating agreements are restricted to groups with more than 500 lives and terms are not favorable by U.S. standards, brokers say.

"Most companies have very modest amounts of group life insurance, about 24 to 30 months' salary to a maximum of $50,000, which is not appropriate for senior people," Mr. Coscarello says.

Henry Sage of Tudor, Marsh & McLennan, a Sao Paulo brokerage, estimates life insurance costs companies about 0.5% of base payoll and medical care between 3.2% and 3.8%, with a small rebate from INAMPS.

The cost of employee benefits is put at anywhere from 30% to 40% of payroll to 100% of payroll, depending on what is included, Mr. Coscarello says. Managers tend to prefer non-insured, and non-taxable, benefits like a company car, a country club membership or paid domestic help.

Companies do not offer savings or thrift plans, profit sharing or stock options, though executives may get bonuses and emergency loans. The most generous employers are government-owned companies, followed by banks, then multinationals.

Certain other benefits are mandated by the government, including an obligatory payment of an additional month's salary as a bonus at year-end. The Fundo de Garantia de Tempo de Servico (FGTS or the Time of Service Fund) also requires all employers to deposit 8% of each worker's monthly salary monthly in a block bank account. The FGTS is regarded as a sort of unemployment insurance and workers may withdraw the money accrued if they are fired without just cause, or to buy a house or start a business.

Brazilian workers get a one-month vacation annually.

Philco's Mr. Scarfone estimates mandatory contributions—8% to the FGTS, 8% to the INPS, the mandatory year-end bonus, sick pay and special government funds for apprenticeships, rural development and social investment—add almost 60% to the company's payroll. Philco's monthly payroll for 9,160 workers totals 1.3 billion cruzeiros ($6 million) with the mandatory contributions, although it would reach only 700 million cruzeiros ($3.25 million) without them.

Philco voluntarily provides other benefits to its workers according to their rank. Workers gain additional benefits as they ascend the corporate ladder (see chart, page 34).

Assembly line and office workers, for example, are entitled to a company-paid medical plan, subsidized meals at work and a discount on Ford and Philco products. They pay 1.32% of salary for a group life policy that is totally funded by employee contributions.

Assembly line workers earning up to two minimum salaries are eligible for dental treatment at the company.

Office workers also receive sick pay up to three months' salary.

Supervisors get an annual checkup and may rent a car from the company for 10,000 cruzeiros ($47) monthly.

Managers are entitled to the rented car, plus a free company car, as well as company-paid travel insurance worth up to about $4,000 and the payment of one-half of their children's tuition.

Continuing up the ladder, directors are eligible for $9,000 of travel insurance, two rented cars and one company car and have access to a pool of company chauffeurs.

At the top, the executive director has a private chauffeur for his two company cars and a 24-hour security guard at his home.

The value of these benefits ranges from 2% of the office workers' wages to 45% of the executive director's remuneration, says Mr. Scarfone. ■

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Argentina: Falklands war still affects the market

By RANDY DRAPEAU

BUENOS AIRES, Argentina —Death threats during the Falkland Islands war caused newspaperman James Neilson to take special action to protect himself and his family.

The editor of an English-language daily, The Buenos Aires Herald, took a forced vacation in nearby Uruguay when his editorials became increasingly unpopular.

Several months have passed since hostilities ended in the South Atlantic and business in crowded Buenos Aires carries on as before.

Mr. Neilson is back at his typewriter and even the multinationals, foreigners in this strongly nationalistic South American country, are back on course.

In the highly regulated insurance industry, business is as usual, except for the uncertain future of reinsurance purchased in the London market by the state reinsurance monopoly, the National Reinsurance Institute, also known as INDER.

INDER retains 97% of the reinsurance business it underwrites for domestic and foreign insurers in Argentina, but of the 3% placed abroad, most is placed in the London market.

Argentina's reinsurance contracts with the London market expired for airlines and shipping during the Falklands war but the Argentines were able to replace it through broker Frank B. Hall & Co.

All other reinsurance contracts placed through London expire Dec. 31. "We don't know if they will be renewed," said an INDER spokesman. "There are many political problems," he said. "It all depends on how the relations go."

So far, Argentina has refused Britain's demand to officially end hostilities over the Falklands.

If London does not renew, INDER will look to the United States and Western Europe for reinsurance. "We also will try to expand the Latin American market," the INDER spokesman said.

Of more concern to insurance executives in Argentina than reinsurance contracts with the London market is the continuing tight regulation of rates, policy forms and reinsurance.

Insurance regulation in Argentina is a blow to free enterprise, many insurance executives say, and it seems to be about as welcome as an Exocet missile.

"They have created an Argentine insurance industry, an Argentine reinsurance capacity and at the same time, as a matter of policy, weeded out the foreign insurance influence," observes Henry Whitney, executive director of Sud Atlantica Insurance Co., the 27th-largest insurance company in Argentina.

"But in so doing, they have created a series of limitations through their laws that limit the freedom a risk manager has in putting together the insurance package head office wants him to have."

"Our problem here is that it's not a free market like in the United State or in other parts," says account executive Juan Moore of Alexander Ayling & Barrios, one of Argentina's leading brokerages representing eight international insurance brokers.

"There are all types of tariffs and regulations," he said.

Rating boards determine basic premiums for various types of coverage.

"A risk manager in the U.S. has considerable freedom to negotiate his rates," says Mr. Whitney. "Here, theoretically, it is possible for the insurance company to present a client's case in hopes of a lower rate but that doesn't happen very often," he laments.

Ford Motor Co. in Argentina hasn't been able to negotiate a lower rate, despite good safety programs.

At its biggest facility, in Pacheco, about 15 miles from Buenos Aires, Ford has built 30 separate buildings rather than one large building. The buildings also are protected by such fire protection equipment as special foams, extinguishers, alarms, sprinklers, a fire engine and fire hoses.

Mr. Whitney

Despite all these precautions, Ford found "our premiums were so high we asked our insurance company to try to get us a special premium with a high deductible," said Risk Manager Eugenio Myhal. "We only want to insure against a major calamity and not the little things. We would like to have at least a $50,000 deductible but until now they (National Reinsurance Institute) still haven't given it to us."

Continued on next page

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Risk managers blast Argentine regulations

Continued from previous page

Ford pays about $400,000 annually to insure first-dollar assets worth $310 million, including buildings, machinery and merchandise. The fire and extended coverage policy is written on a named perils basis, which is the rule in Argentina rather than the exception.

Eduardo Toribio, until recently national insurance superintendent, defends the minimum regulation. "One company can charge more than another but the minimum is there to assure that they maintain the necessary reserves for when a claim is filed."

Restrictions on policy forms also create problems, says Mr. Whitn of Sud Atlantica. "In the States, y can have a policy that says 'cove all locations in the country up $10 million per location.'

"Here, we have to specify eve location and describe every sect of each location and sometimes w have policies of up to 40 pages more."

There are more than 250 insu ance companies in Argentin today. Argentine companies con trol about 57% of the market, coop eratives and mutuals control abou 27%, state companies about 14% an foreign companies about 2%.

It is a dramatic change from 2 years ago when foreign companie dominated the Argentine insuranc scene.

Today, restrictive chains are worn by non-Argentine insurance companies. They may not write import marine business. They may not bid on insurance on any government assets. They are not allowed to insure any company working on a contract for the government. A foreign insurance company in Argentina is required to cede from 30% to 60% of the business it writes to the government body. It is then free to retain the remaining 40% or reinsure abroad.

Among the American insurers active in Argentina are AFIA, American International Group, Continental Corp. and Insurance Co. of North America.

Mr. Toribio

Some observers are skeptical of the financial stability of the primarily domestic Argentine insurance market.

Mr. Whitney, for example, contends that the NRI monopoly has allowed many smaller, undercapitalized companies to have the reinsurance privileges available before only to the large, well-established companies.

"With a big brother like the National Reinsurance Institute, anybody could become an insurer, and did."

An Argentine insurance company decides what percentage of its business it will retain and what percentage it will reinsure. But, it can only reinsure with NRI.

Mr. Whitney contends the large number of insurance companies has weakened considerably what used to be "Latin America's strongest insurance market."

News items published in the major daily La Nacion have stated that at least 24 insurance companies are so far in debt to the National Reinsurance Institute that they should be considered insolvent.

Mr. Toribio has acknowledged that there are insurance companies in serious trouble but did not release their names.

Mr. Myhal at Ford says, "There are 25 or 30 that are dependable and the rest are kind of shaky."

Among the insurance brokers in Argentina, Mr. Whitney believes Alexander Ayling & Barrios S.A. is the largest by representing no fewer than eight international brokers, including Alexander & Alexander Services Inc., Corroon & Black, Fred S. James & Co. and Rollins Burdick Hunter. He places Johnson & Higgins as the second-largest broker in Argentina, and Gamasi S.A., which depends on Marsh & McLennan Inc. for much of its business, in third place. ■

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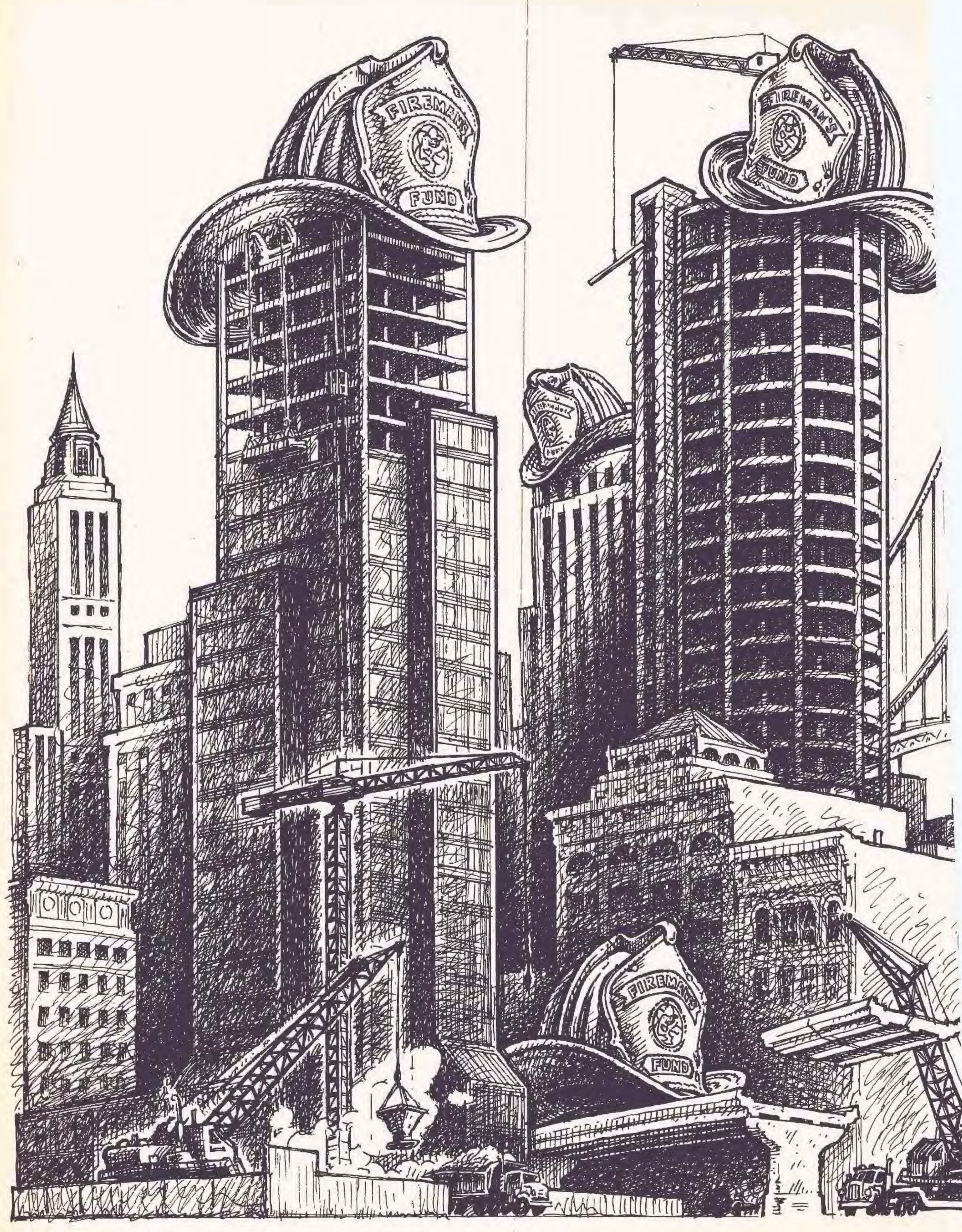
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Argentines stress property exposures

BUENOS AIRES, Argentina—Argentine risk managers speak the language of risk management, but they focus their efforts differently from their U.S. counterparts.

Property risks are far more important to risk managers in Argentina than liability risks.

At Massalin Particulares S.A., a large cigarette producer connected with Philip Morris Inc. in New York, Risk Manager Daniel Graziadio employs effective risk management techniques to minimize insurance claims as well as premiums.

"We analyze the risks, try to prevent them and as a last measure we transfer the risk to an insurance company," Mr. Graziadio says.

The company retains most risk up to a $500,000 limit with the ex ception of third-person liability o its fleet of more than 300 compan vehicles. That risk is transferred t an insurance company and, as i the custom in Argentina, its valu is unlimited.

"In everything else," h stresses, "we like to retain a grea deal of the risk. To me, the grea advantage in retaining much of the risk is that it forces you to have a very good risk prevention policy."

A new factory will soon be added to the company's network and "an impressive amount of money" has been spent to reduce risks, he notes.

One of the first modifications to the building, which had been used by a non-related industry, was the addition of a thick fire wall down the middle.

The currently insured value of up to $30 million, for a premium of about $70,000, will be increased to $100 million once the factory is operating at full capacity.

At Ford Motor Co. across town, Risk Manager Eugenio Myhal enforces property protection measures (see related story).

But losses still occur. Recently, a river near Ford's Pacheco factory overflowed and 166 brand new cars, parked in a separate lot, were filled up to the roofs with water. In all, they were worth more than $1.5 million, but the claim will not be near as much because they are reparable. Their value was insured 100% under the company's vehicle transport insurance, which covers the automobiles from the time they leave the assembly line until the new owner signs the papers at the dealership.

Mr. Graziadio

Business interruption insurance is available but Ford retains that risk, explains Mr. Myhal. "It's just too expensive for what good it does us."

Risk managers in Argentina don't have to spend much time worrying about liability risks.

Ford Motor Co. in Argentina buys comprehensive general liability insurance mostly because "it's a policy from the north (U.S.)," says Mr. Myhal. Liability lawsuits do not proliferate in Argentina as in the United States, he says. "Most Argentine companies don't think about that kind of insurance," he adds.

Ford pays $25,000 for a CGL policy with a $500,000 limit. If the claim is more than $500,000, the company would pay the difference. If it exceeds $1 million, the cost is handled by a worldwide company policy.

At Massalin Particulares S.A., Mr. Graziadio says there haven't been any claims against the company's $1 million comprehensive general liability insurance policy.

"We have only had two cases of people saying they had suffered certain amputations or other problems for having smoked our cigarettes. The results have always been in our favor."

He estimates the cost of $1 million of liability insurance runs about 3% of net annual sales.

One veteran insurance broker says liability suits are "just chucked out by the courts or they make an out-of-court settlement. It just kind of gets swept under the rug."

—By Randy Drapeau

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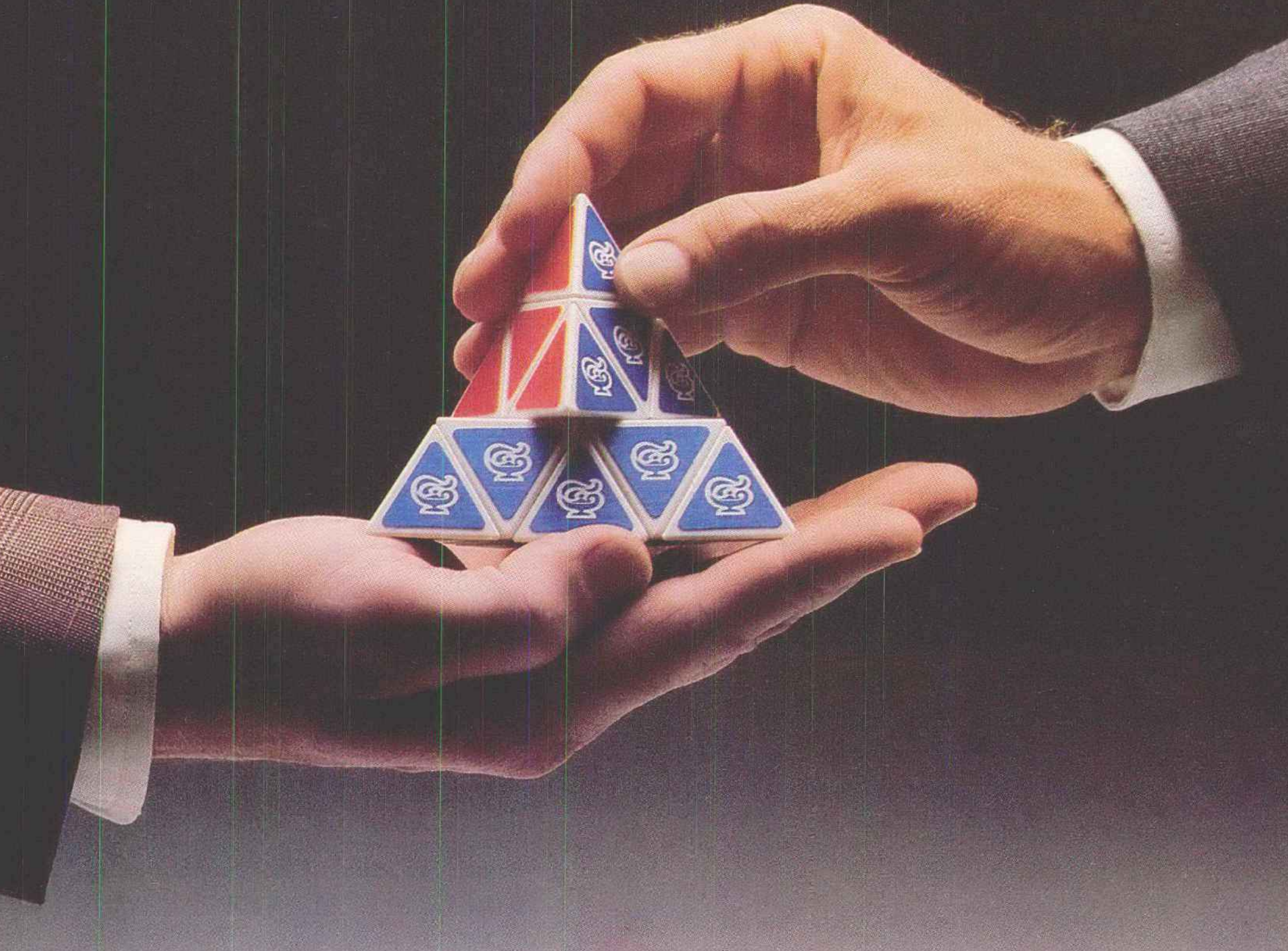

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perspective

WORLDWIDE INSPECTIONS

Loss prevention in remote areas often demands Yankee ingenuity

By Stanley S. Smartt

AS I STEPPED down from the plane, my first impression of Africa was seeing jeeps full of soldiers armed with machine guns racing toward me. I should have stayed at home, I thought, as the jeeps came closer and then rushed past me, continuing down the airstrip to a military jet that had crashed just moments before.

As an Industrial Risk Insurers engineer from the Atlanta office, I visited Africa recently to inspect two sites IRI insures. Before arriving in Africa, I spent a day at IRI's office in Brussels, Belgium, which is responsible for African risks, to familiarize myself with the two locations.

Since no one from IRI had visited these sites before, the staff in Brussels couldn't give me much information. I had no idea what to expect.

I certainly did not expect a welcome of jeeps filled with armed soliders.

I spent four days in Zaire inspecting an auto assembly plant and a week in Nigeria at an oil terminal. The Nigerian plant was a three-hour plane trip from Lagos, the capital, with nothing but jungle between.

Due to the location of these facilities, there is little or no outside assistance. Therefore, they are literally on their own. With this type of isolation, completing even the most simple recommendation may become a complex problem. For instance, when we make recommendations for sprinklers, we have to teach the plant people how to install them. They aren't going to fly in installers to such a remote location for a small office. And, there are no local contractors, no local manufacturers.

Applying contemporary fire-protection engineering ideas in a developing country becomes an art as well as a skill. Locals try to follow American codes as best they can but they lack the knowledge and the equipment. In many cases, I had to weigh what was practical and make allowances for the equipment they had.

Adjusting to the food was another allowance I had to make. Since African steers are fed differently than in the U.S., the beef had an altogether different taste than it does at home. It was like eating hamburger and having it taste like fish—not that it was bad, but different from what I expected.

Agriculture is not very modern and insecticides are not used. Disease is prevalent and native vegetables had to be soaked in bleach for a half-hour before they were fit to eat. In fact, food is shipped in from Europe or the United States for the hotels. This is reflected in the check. A breast of chicken, french fries and a Coke cost me $35. Bottled water goes for $2 a bottle. I ate a lot of fruit. That was OK. Even so, I lost 10 pounds in two weeks.

The climate was humid. Most of the days hit 90 degrees with an 85% chance of rain. I'd walk out of the hotel in the morning and be perspiring. But, you'd never see a drop of sweat on the people at the plant. They, of course, were used to it.

Communication was not too difficult in Nigeria. Although 253 different languages are spoken there, with as many totally different cultures, the official language is English, which is taught in schools and spoken in the cities. In Zaire, once a colony of Belgium, French is the predominant language. There, I had to speak broken English to be understood most of the time.

Mr. Smartt's trip to Africa is part of a project, called IRI Corp., that was started in the late 1970s by IRI. This special international group is staffed with multilingual nationals who know local customs, currency, policies, language and business practices. In addition, they are familiar with each country's fire- and loss-prevention regulations. Their educational backgrounds in engineering from European and Far Eastern universities and practical experience in related fields have been sharpened with intensive training at IRI's home office and in several district offices.

The European headquarters operation was established in 1974 in Brussels. This office is directly responsible for all of continental Europe, the Middle East and Africa. A satellite office, opened in 1980 near London, helps the Brussels office service properties in England, Wales, Scotland, Northern Ireland and the Republic of Ireland. A second satellite office opened in 1981 near Frankfort, West Germany, works with locations there and in Switzerland, Austria and Scandinavia.

The Sydney, Australia, branch has more field territory and a wider distribution of risks than any other IRI office. It frequently takes more than 12 hours of flying to reach the ends of its territory. IRI's Australian staff regularly visits New Zealand, Indonesia, the Philippines, Japan, Hong Kong, Korea, Singapore, Malaysia and Thailand.

IRI's operations continue to expand in South and Central America. These risks are covered by field engineers working from various offices in the United States. The Houston and Los Angeles offices service a number of Mexican facilities located just south of the border.

The way IRI services overseas risks is much the way properties are served in the United States. Since most of the foreign facilities are part of accounts that also have properties in the United States, the same account team from the United States services all the account's properties worldwide. The team is familiar with the types of hazards the account faces and with the company's approach to risk management.

The account team has access to all pertinent data IRI has collected on the account. It meets periodically with the account's representatives or the client to discuss problems that may arise. As with any account, the team contacts a district loss-prevention staff that periodically inspects the risk's various facilities. To make this an easy task, representatives servicing overseas accounts are located as close as possible to the properties they handle.

Certain accounts are harder to service than others. Some are remote, like the terminal Mr. Smartt visited in Nigeria. Others are located in politically troubled countries or in countries whose governments restrict the movement of foreigners. Service and inspections may occur less frequently where these conditions exist.

To see that protection standards are met, the overseas loss-prevention staff must recognize local fire codes. Although efforts are being made to standardize these codes, usage and interpretation may vary from country to country. IRI representatives often use their expertise developing solutions that are acceptable to everyone concerned.

Local water supplies vary as much as local codes. A number of areas will not allow industrial facilities to use the public water supply for fire-protection purposes. Water supplies are insufficient to provide fire protection in other areas, because water mains are outdated and there is not sufficient water pressure. The lack of a public water supply means that many facilities must develop their own supplies. IRI's on-the-spot loss-prevention staff helps them do that. ■

Photos: Stanley Smartt

Stanley S. Smartt is an engineer at the Industrial Risk Insurers' Atlanta office. Also contributing to the article were Ann Waller and R. Blinn McClelland, an IRI vp in Hartford, Conn.

perspective

Risk management in the United States and France

La gestion de risques aux Etats-Unis et en France

By Jacques Lesobre

A French point of view

Un point de vue francais

THE UNITED STATES and France have always been separated by two factors. One is natural: the Atlantic Ocean; the other cultural: the language.

In spite of these barriers, on several occasions these two nations have allied themselves to confront serious perils.

Risk management, as practiced on both sides of the Atlantic, also reveals differences, a number of which will disappear through exchanges and encounters made in the international world of industry and commerce.

Can it be said, therefore, that risk management in the United States and France is the same thing? Let's look at the different facets of risk management in each country.

Terminology

In the United States, risk management is the favored term for "the" function. Some experts would prefer risk control. Yet insurers have preferred and stressed the term risk management.

In France, the terminology reflects recent changes taking place in this function. Too many people use the American terminology simply wishing to pander to fashion or, more simply, in order to allow a certain vagueness to exist in the scope of their function.

It appears that after certain isolated attempts to try to have the terms "maitrise de risques" (risk control) or "management de risque" (management of risk) adopted, the terminology "gestion de risques" (risk management) is preferred and is used. It is this terminology that is being gradually introduced in Canada, Belgium and Switzerland.

Of course, the person charged with this function is called "gestionnaire des risques," or risk manager.

The French insurers have been in no hurry to choose a definite terminology. The great majority have a reserved attitude and now tend to follow the movement toward the term risk management.

Risk management

The recognition and scope of the risk management function in France have lagged approximately 10 years behind the United States.

In the United States, the demand for insurance managers appeared about 1950, followed in the 1960s by a demand for risk managers in large industrial and commercial firms. It is the insurance managers, above all, who have made their function evolve toward that of risk managers. This trend was fostered from the start by an insurance environment that was barely perceptive to the need for risk management.

In France, the demand for insurance managers has never been very significant. The evolution has been slower and somewhat spasmodic.

About 1970, certain French industrial corporations being subjected to large increases in insurers' rates or having suffered large fire losses, became conscious that budget provisions for insurance and the protection of property should be coordinated and followed by a specialized person. An evolution, comparable to what had taken place in the United States, then ensued.

The duties of certain insurance managers, following this trend, evolved into risk managing. This trend was becoming more firmly rooted toward the 1980s, at least at larger corporations.

Because risk management appeared earlier in the United States, it is more widespread there and, therefore, is an intrinsic part of most large corporations.

Not only is it recognized in the large and medium-size industrial and commercial corporations, but it is also acknowledged in large public entities and organizations. It is not only taught, but actually put into practical application at universities.

In France, the time lag has made a difference. Although risk management is adopted each year by more industrial and commercial firms, the same cannot be said for public entities like state organizations, towns and hospitals. Risk management in the universities is either absent altogether or in its infancy. And yet, universities should be one of the bases for the effective and rapid development of risk management in France.

Although the function of risk manager is fully acknowledged and a reality at most U.S. corporations, that's not the case in other countries. In spite of the rapid growth of this function, there are still a large number of bogus risk managers who are insurance buyers only, too often working in administrative, legal or personnel departments. The title of the executive in charge of the insurance department and whether or not that executive reports to the board of directors shows what importance that position has. In many cases, the findings prove disappointing.

From various visits to the United States, I have found that one of the major concerns of risk managers was not only communicating to upper management, but also obtaining information and communicating with others. I share this viewpoint. Certain risk managers are too often in a situation of "nobody ever tells me anything." In many cases, once they are in this position, it is often too late to intervene.

In France, there are still too few real risk managers. In the majority of cases, they are insurance managers purchasing insurance, not risk managers protecting employees, property and activities. They hardly ever report directly to the board of directors; they are frequently attached to the legal, administrative, real estate or accounting departments.

This handicap is resented more and more by some insurance managers who are trying to enlarge the scope of their function. The next few years will determine the success or failure of their attempts to become risk managers.

The concern about the reliability or the lack of information and communication is not as yet felt to any great extent in France. The reason for this, perhaps, is that risk managers are still too prone to admit the situation of "rien a signaler," or nothing can be done. We should be, if anything, at the "restant a solutionner," finding-a-solution stage.

Insurers

At the start of the evolution of risk management in the United States in the 1960s, insurers generally showed little enthusiasm and were in no hurry to associate themselves with this development.

It was not really until the 1970s that risk management was taken seriously by insurers. Once this development was found to be irreversible, a number of insurers reached the conclusion that insureds were looking for other services, like self-insurance management, appraisals, risk engineering, valuation of possible losses, loss control, loss prevention and more.

From this time on, competition took another dimension since insurers started vying with each other offering different services. Certain companies have not hesitated to set up services or subsidiaries specializing in risk management. It is no longer a fashion, it is an ongoing trend.

In this market, where a large number of insurers are capable of affording real services for their insureds, there are those insurers that are content to pursue a policy of cut rates or are restricted to risk financing or only services of the rush-priority type. At a time of overcapacity in the reinsurance market and high interest rates, are they so naive?

In France, the sluggish evolution still remains at the stage of little enthusiasm shown by the insurers.

There were a few rare risk management services performed by certain insurers in the field of workers compensation insurance. They have quickly died out through the reassumption of this risk within the context of Social Security benefits.

Since that time, there have not been any examples of an insurer innovating services to be offered to the customer over and above the usual financing. The creation of certain services manifested itself collectively through professional pools or associations.

As a result, these few services have been subcontracted or even performed by organizations that are most frequently outside the insurance profession.

It was only after 1970 that certain insurers began to reinforce their teams by hiring engineers charged with estimating the risks of underwriting. This was, and still remains, in the field of insurable risks.

At present, there are still no French insurers with an autonomous service or subsidiary specializing in risk management. There is only one large reinsurance company that has recently taken the initiative, and it is limited to the field of insurable and reinsurable risks.

There is a very small number of insurers in the process of bringing "risque hautement protege" (highly protected risk) services to insureds. On the other hand, the majority of insurers are content to limit their actions to the usual financing by prudently splitting it up between coinsurers and, for greater safety, putting the surplus into reinsurance.

Certain insurers, and not always the same ones, behave in a manner worthy of gambler financiers. The only services they offer are for RHPC "risque helas probablement certain," or certain-loss risk. Is it really a question of innocent overcapacity or is it due to the unawareness of certain insureds, since one really must be rich to buy so cheaply?

Brokers

U.S. insurance brokers have adapted themselves a little more rapidly to the management of risk and have, in general, preceded the underwriters.

For certain brokers used to dealing with insureds that are customers of direct insurers like Factory Mutual or Liberty Mutual, risk management presented the opportunity to increase their services that are remunerated on a fee basis.

Continued on facing page

INTERNATIONAL

The movement of brokers to risk ınagement positions at industrial firms d of risk managers to brokerages have ;o favored the evolution of expanded okerage services.

Brokers faced with underwriters that, the beginning, were hardly receptive, ıve furthered the movement and caused reaction in the traditional underwriting arket.

The trend is irreversible and certain ·okers define their services as those other ıan the traditional search for nderwriters ready to finance the ›nsequence of accidental losses.

In the future, the remuneration of rokers inevitably will no longer ssentially be based on commissions, but n fees.

This is certainly one of the reasons why ver the past few years, insurance brokers reated or started associations with risk nanagement consulting companies, nformation management or loss-reporting irms.

In France, developments are slow, due n part to the fact that brokers have never ›een confronted with direct underwriters ›f industrial risks. Brokers were not ıclined to offer new or additional ;ervices; as a consequence, remuneration ›n the basis of fees is not sought.

At present, except for a few rare brokers, risk management is not really performed, and no broker has the means of the U.S. counterparts. Very few specialize in services other than traditional financing sought from insurers and reinsurers, like control of risks and the management of losses. Those services are remunerated on the basis of fees. French brokers are traditionally remunerated by commissions.

I am convinced that the same evolution that has occurred with U.S brokers will take place very shortly in France. The future of risk management will depend on similar developments in corporations or at least with French brokers.

Risk consultants

The risk management consulting profession first came into being in the United States about 1970, and in many cases, on the initiative of risk managers.

There are now a large number of consultants, some of whom are well-equipped with technicians, engineers and data processing facilities. Some are not totally independent, because they are linked with insurers or financial organizations.

The evolution of risk management has been speeded by consultants; they have not hesitated to promote certain categories, like self-insurance, to the detriment of conventional insurers. This was the case, for instance, with workers compensation: funds backed up by a decentralized claims management, but supervised in all instances by an organization fully equipped with data processing facilities.

The consulting profession will continue to progress, and notably through the nature of its fee-based remuneration. This method will attract more and more risk managers who wish to control the costs of the services offered by the suppliers.

Except for certain rare cases, this profession does not exist in France. At present, there are no risk management consulting firms that are staffed with technicians and data processing facilities. Among those that exist, in general, not one is presently capable of managing self-insurance programs for a national corporation. Those capable of managing self-insured plans are, generally, former insurance brokers. Only one is a former risk manager trained in the United States.

Inevitably, consulting services will expand and be endowed with structured organizations, independent of the insurance industry.

Risk management will be influenced in its evolution if consulting services adopt fee-based remuneration. This is not always the case at present since certain risk consultants prefer percentages linked to reductions made in existing insurance budgets.

Professional organizations

Compared to the size of the country, there is a small number of professional associations in the United States. However, they are important ones:

- The Risk & Insurance Management Society is by far the most important organization. It possesses financial resources, especially with its annual conference revenues. It is essentially represented by members in industrial and commercial firms.

Originally, it was a defense organization of insurance buyers. It was called the American Society of Insurance Management until 1975.

- The American Risk & Insurance Assn. is oriented more toward colleges and universities. It is largely an association of university professors teaching insurance and risk management. This association is nevertheless open to risk managers and insurers.
- The Public Risk & Insurance Management Assn. is an association restricted to risk and insurance managers of public entities, like state, city or village organizations. It is developing rapidly.

In the field of risk and safety control, the three largest associations are the Society of Fire Protection Engineers, the American Society of Safety Engineers, and the American Society for Industrial Security. They are composed mostly of technicians and engineers and those specializing in the safety of people and property.

All these associations work separately, and rarely have any contact with each other. No common action has been formulated with a goal of promoting better knowledge or a more practical approach to risk management.

In France, one might expect a small number of professional associations. On the contrary, there are just as many as in the United States:

- Groupement des Assures du Commerce et de l'Industrie (GACI), the Assn. of Insureds in Commerce & Industry, is an association of the main industrial and commercial firms that buy insurance. It is this association that has the most effect on French insurers, since insurance problems are still its priority.
- Association des Charges de la Gestion des Risques et des Assurances des Enterprises Francaises (ACADEF), the Assn. of Risk & Insurance Mangers in French Companies, although less important than the GACI, is composed essentially of insurance buyers of the industrial and commercial firms of various sizes.
- The recently created Association des Conseils en Etudes, Gestion et Maitrise des Risques is a group of people from industrial firms, insurance brokers and a few risk management consultants. Of minor importance, it operates with the view of promoting risk management in France.
- Association des Agrees en Prevention Incendie, the Approved Fire Protection Engineers Assn., is the French section of the American branch of the SFPE and the Association Francaise des Techniciens, Ingenieurs de Securite et Medecins du Travail (AFTIM), are associations oriented toward safety. The first two specialize in fire safety and the third in the safety of people in relation to work accidents. These three associations deal little with risk management and limit themselves to safety.

All these associations, like those in the United States, rarely have any contact with each other. No common action or goal has been set to promote risk management or to develop risk management methods.

Education

The teaching of risk management in the United States has followed the general evolution of risk management.

Universities have very quickly adapted themselves, adopting risk management, both to actually perform the function and to promote it. Risk management is well-integrated in higher education and at several universities it forms part of a course of study.

The special insurance institutes or colleges have also integrated risk management in their programs. This integration has been promoted through RIMS by creating the Associate in Risk Management designation.

In France, risk management is not yet taught in the universities. A few universities are beginning to introduce the management of risk in addition to the courses reserved under insurance. Although there are several insurance institutes and schools risk management does not yet appear in their curricula. Of course, there is no official designation specifically for risk management.

This year, on the urging of insurers, a Centre d'Etudes Superieures de Gestion des Risques (CESGER), The Center for Higher Learning of Risk Management, was created. It is hoped that the end result will be a better national coordination of the various associations involved.

Professional publications

In the United States, the professional reviews like Risk Management from RIMS and the Journal of Risk & Insurance Management from ARIA have started publishing studies, reports and experiments concerning risk management. This movement has gathered strength over the last 10 years.

Of the number of publications dealing with safety, some of which are among the best in the world, only a few broach the subject of risk management from a global standpoint. Nevertheless, one can note the effort is aimed toward the promotion of teaching and practicing risk management.

In France, the attempts are still modest and no publication for risk management, of any note, has been able to take root. In large measure, this is due to a behind-the-times mentality, diversification of associations and the lack of financial resources. These financial means are essential for a publication to achieve success in this field.

The reviews concerning safety that can, in certain cases, rival those of the United States timidly broach the subject of risk management. They sometimes mention the basics, rarely the methods and never the actual case studies. The insurer publications are still, at the present, hardly receptive to risk management.

In spite of the present differences, it is certain that risk management will continue to evolve. Inevitably, the direction shown by the United States will be followed elsewhere as risk management services, rather than the pure funding and transfer of risks, are offered.

The euphoric period of people "captured" by the captives will be followed by a period, not less captivating, but more tuned to researching and finding methods of communicating, preventing, lessening and reducing the hazards linked to future technological developments.

Funding will always be necessary, but it will be determined more by the engineering of risks than traditional indemnification. There is still too much property destroyed that is difficult or impossible to replace by a cash payment. In addition, the knowledge of the evolution of risks, based on past experience, will no longer be sufficient, since risk only exists in the future.

Insurers should be compelled to become real partners, playing a major role in the prevention losses or damage suffered as a result of accidental hazards, rather than being content just to be managers and distributors of premiums and indemnities.

Perhaps when that happens, we will suffer fewer catastrophies caused by human error. Although it may not be possible to prevent such catastrophies from occurring, one should be able to reduce the harmful effects of such losses as Three Mile Island, Tenerife, Amoco Cadiz, Alexander Kielland, the MGM Grand Hotel, Seveso, Flixborough and others.

The experiences, the failures and the successes of each one should be put to better use. An international association of risk managers should be created, since it alone would possess the necessary perspective to undertake such actions.

There may or may not be differences between the United States and France regarding the future of risk management, but we can learn from the wish expressed by oceanographer Jacques Cousteau on the lesson of the Amoco Cadiz:

"The management of risk should start by eliminating any risk that could pose the slightest threat to humankind's survival. The next step is to concern ourselves with the management of acceptable risks." ▪

Jacques Lesobre is the risk and insurance manager of MATRA Corp. in Paris.

perspective

Pick the culprit pushing up health costs

By Robert C. Penzkover

speaking out

IF YOU COMPLETE the "villain" chart honestly (see checklist) you will indict virtually everyone. When the country is so full of villains, is there really any hope for containing health care costs and bringing them under control?

By now, we are all aware that the entire health care financing structure is built on a foundation that is alien to the American free enterprise system. It's known euphemistically as the third-party payment system. It should be called the fourth-party bilking system.

Now that the obvious problem has been identified, an obvious solution is called for. It's just a simple matter (or not-so-simple matter) of assembling all these folks in one very big room and getting them to agree to the following:

- Doctors will deliver or order only necessary care and will accept less income.
- Hospitals will shrink, limit lengths of stay and reduce their revenue.
- People will lead healthy lifestyles and become more responsible consumers of only necessary care.
- Insurance companies will enforce utilization standards and tightly control claims payments.
- Government will cut taxes, spending and regulation (right after the next election).
- Employers will offer only sensible, cost-effective benefits and turn their attention back to making widgets.

And on the next day the earth will take on a warm, sunny glow of health and happiness for the rest of time.

For those who don't believe in fairy tales, perhaps a doomsday scenario is more appropriate:

- The payers will stop paying.
- Consumers will be left to pay their own health care.
- The majority of consumers won't be able to afford health care.
- Providers will lose revenue.
- Providers will accept only wealthy patients.
- Government will take control of access, pricing and delivery of health care.
- Health care will cost taxpayers more than ever.

To a large extent, this latter scenario is already unfolding. Payers are organizing in droves to do battle with the political giants represented by the medical and hospital associations. At least one association is already dividing the enemy by inviting select generals to bring their troops into its camp.

Meanwhile, the unwary consumers are disorganized, unprepared, unhealthy and, increasingly, unemployed. No one has invited them to come to the war—even though they are the issue.

Unfortunately, in the battle that is brewing, the only possible victors will be politicians behind big government who can instantly organize the consumer masses under the saving banner of a nationwide, government-operated health system.

It seems that the provider and payer factions haven't yet realized that big government doesn't even have to load its guns to win this battle. "Big G" can simply watch the payer army build up strength, momentum and resolution to crush what they perceive as the arrogance and greed of the provider powers.

Neither payer nor provider can profit in the long run by proving which is more powerful. No matter who destroys whom, inevitably they'll both end up in Uncle Sam's "prison camp."

Why can't these armies see that if they both act to put the consumers in charge of their own health care and give them cost and quality information to make informed decisions, they'll probably make correct decisions? If not correct, at least they'll make a fully-understood, free-market decision—just like when they buy automobiles, homes, groceries and lottery tickets.

Instead of warring over control of the disappearing health care dollar, how about turning attention to the patient?

Wouldn't payers like to go back to running their businesses and get off the health care battlefield? Shouldn't providers want to cure and heal and prevent illness like no other health delivery system in the world?

Aren't disease and injury the real villains? Can't American ingenuity be the victor?

Isn't apple pie a health food?

Robert C. Penzkover is director of employee benefits at The Quaker Oats Co. in Chicago.

Blame your favorite villain for the health cost crisis.
Check the statements you agree with.

Doctors
- — Charge too much.
- — Perform too many tests.
- — Hospitalize patients unnecessarily.
- — Perform unnecessary surgery.
- — Are powerful in fighting controls and regulation of the health industry.
- — Don't care about costs—"insurance pays."

Hospitals
- — Charge too much.
- — Have too many beds to keep filled.
- — Profit from keeping beds filled.
- — Try to be the biggest and the best.
- — Cause further illness or injury.
- — Make a lot of billing mistakes in their favor.
- — Charge privately insured patients higher rates (a hidden tax).
- — Have tax incentives to grow larger.
- — Don't care about costs—"insurance pays."

People
- — Expect modern medicine to cure anything.
- — Go to doctors too often.
- — Don't go to doctors when they should.
- — Could prevent most illness and injury.
- — Sue doctors and hospitals readily.
- — Expect the best hospitals in their communities.
- — Don't ask about cost or treatment alternatives.
- — Don't care about costs—"insurance pays."

Government
- — Doesn't pay its full share of costs.
- — Shifts costs to the private sector.
- — Burdens providers with red tape.
- — Encourages hospital and service growth through tax incentives.
- — Tries to legislate solutions.
- — Cares deeply about votes.
- — Doesn't worry about cost—it prints more money, refuses to pay, shifts costs or increases taxes.

Insurance companies and "carriers"
- — Pass money from one party to another.
- — Are saddled with myriad state regulations.
- — Want to be everyone's friend.
- — Want everyone to be friends.
- — Don't care about cost—employers, plan sponsors and subscribers pay.

Employers and plan sponsors
- — Provide "blank check" medical plans.
- — Rely on insurers to control costs.
- — Give hospitals money to expand.
- — Cave in to pressure for bigger and better health plans.
- — Demand little accountability for dollars spent.
- — Care about costs—they pay them.

Delay in filing claim means coverage rejection

legal briefs

A FEDERAL appellate court ruled that it was reasonable for an insurer to decline to defend a suit against a bank because the bank gave such late notice of its potential loss. "This late notice violated a condition precedent to coverage under the policy," the court said, "therefore, Hartford's refusal to defend was not vexatious."

A bank was covered under a bankers blanket bond issued by Hartford Accident & Indemnity Co. The policy indemnified the bank for loss of property through false pretenses and attorneys' fees and defense of a claim costs. The bank was sued by a trustee in bankruptcy for Great Western Automatic Sprinkler Co. Essentially, the suit said that Great Western was entitled to recover from the bank on checks payable to Great Western that were deposited in High Point Co.'s account.

The bank notified Hartford of the suit on Dec. 1, 1971, but defense was refused. The bank then spent $37,000 in the defense and sought to recover this sum under the Hartford bankers bond. The trial court dismissed the suit against Hartford.

The appellate court said the facts disclosed that the bankruptcy trustee informed the bank after Great Western went bankrupt that he intended to "put a stop on" the High Point account. The court was satisfied that the bank had facts that would lead a reasonable person to believe that a loss was suffered and the insurer should have been notified. The court concluded that Hartford was prejudiced by the bank's delay in providing notice of the potential claim. *Columbia Union National Bank vs. Hartford Accident & Indemnity Co.*, U.S. Court of Appeals for the Eighth Circuit, Feb. 8, 1982 (BI/03/S.-$5).

Liability settlement

A liability insurer's indemnification agreement carries with it, an obligation to pay judgments against the insured, but also to pay settlement amounts, according to a federal appellate court.

A C & S Inc., an installer of industrial and commercial insulation since 1957, became involved in the nationwide flood of lawsuits seeking to recover damages for harm caused by asbestos exposure. Since 1958, the company had comprehensive liability insurance, first from The Travelers Indemnity Co. and then from Aetna Casualty & Surety Co. The policies obligated the insurer to defend any damages suit for injury arising out of "accident" or "occurrence" during the policy period and to pay damages the company was obligated to meet.

In the suit the company sought to determine who should defend them. Both insurers refused. The trial court dismissed the company's suit because it had no actual need for a determination of insurance coverage since it had not yet become liable to pay any judgment.

The appellate court reversed, concluding that liability insurers owe fiduciary obligations to their insureds with respect to the consideration of settlement offers and the conduct of settlement negotiations. "It would turn the reality of the claims adjustment process on its head," the court emphasized, "to hinge justiciability of an insurance agreement on the maturation of a suit to a judgment when the overwhelming number of suits are resolved by settlement." *Aetna Casualty & Surety Co. vs. The Travelers Indemnity Co.*, U.S. Court of Appeals for the Third Circuit, Dec. 9, 1981 (BI/04/Au.-$5).

A copy of the entire decision may be obtained by sending $5 to Cases Unlimited, in care of Business Insurance, 740 N. Rush St., Chicago, Ill. 60611. Please list the case number.

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Argentine employers open to worker suits

Photo: Randy Drapeau
The Buenos Aries Sheraton Hotel stresses worker safety.

By RANDY DRAPEAU

BUENOS AIRES, Argentina— Argentine employers have to put up with the headaches of workers compensation liability but don't get the benefit of a no-fault system.

Workers in Argentina are protected against job-related accidents or diseases and during direct travel to and from work. The mandated workers compensation benefits are limited by law.

But an Argentine worker can sue his employer to collect high indemnities if it appears the employer's negligence was the cause of the mishap. Indemnities, in this case, are unlimited.

"It's not mandatory to carry insurance, but it (workers compensation risk) normally is insured because the indemnities can be very big," says Peter Spielmann, general manager of La Buenos Aires Insurance Co., the sixth-largest insurer in the country.

However, larger companies generally still self-insure workers compensation risks.

"The need for insurance is on the rise," says another underwriter. "The price doesn't look too bad in dollars, but in pesos it's a lot. We've had cases where we've had to pay up to $300,000 for a workers compensation claim."

The unlimited liability more than the cost of mandated benefits is causing more employers to insure their workers compensation risks, say some insurance officials.

There is one deterrent to employee lawsuits. If the verdict is adverse to the plaintiff, he can't pu sue the work comp benefit.

Under the labor law, an injure worker who can't continue his jc is entitled to 85% of his normal sa ary for the first 30 days of disabi ity. After 30 days, 100% of salary paid. During this convalescence pe riod, the employer must also pa for needed medical care.

After a year of disability, doctor from the nation's Labor Ministr examine the worker to determin the degree of disability. A worke approaching retirement whose dis ability is determined to be 55% o more may retire. Otherwise, the employee will be paid a lump sum depending upon the degree of disability. If the disability is permanent and requires the care of another person, the benefit is increased by 50%.

A worker who recovers must be given his job back.

In the case of death, a minimal payment of less than $5,000 is paid in most cases.

"The limits of indemnity by dollar standards are rather nominal," says C.F. White, director of the O'Grady Insurance Brokerage. "Because the indemnities fixed under the normal labor law are rather on the low side, more and more people every day sue their employers."

Nevertheless, many large corporations still prefer not to insure their workers compensation risk.

Ford Motor Co. in Argentina, for example, says it is cheaper in the long run to not transfer the risk.

"For the number of employees we have," says Risk Manager Eugenio Myhal, "it is expensive to insure. It doesn't function very well, either, because at times the company just wants to go ahead and pay a claim without legal action."

At Manliba, the largest waste management company in Buenos Aires, only excess insurance is purchased.

"Most things can usually be taken care of on a self-insurance level, including medical costs and salary, when the man's not working," explains Julio Silverio, insurance coordinator.

Insurance is purchased to protect against catastrophic risks such as permanent disability and death. He estimates the cost of the insurance to be about 3.2% of annual salaries paid the firm's 1,400 employees.

Naturally, a high-caliber risk management program is preferable to lawsuits, union problems and disabled employees.

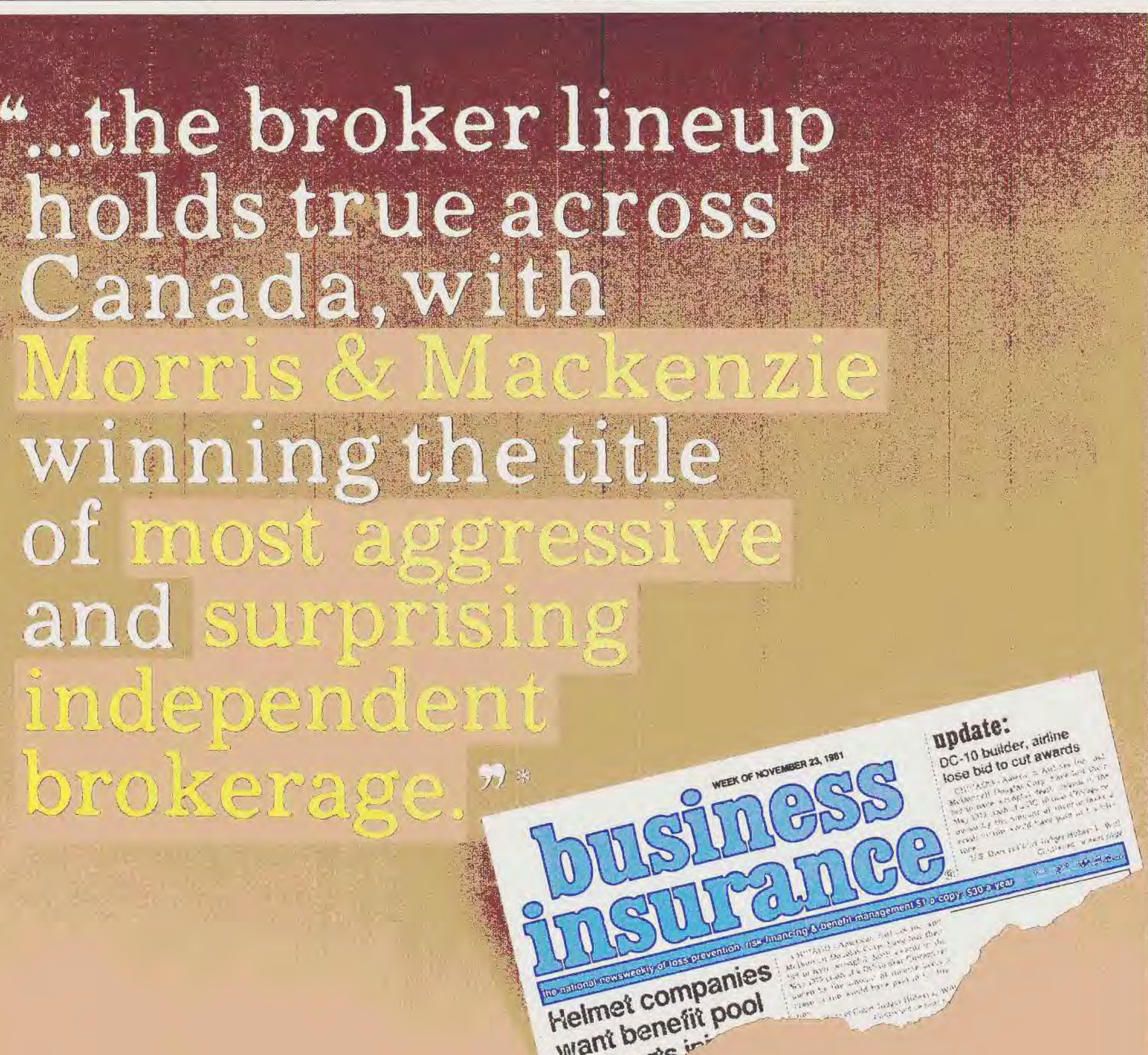
Humberto Amitrano, chief of industrial relations at the Buenos Aires Sheraton Hotel, understands that. Its safety program s very detailed, he says, and its foundation is a thick manual called "Sheraton Safe Way."

"We have an important safety program," says Mr. Amitrano, "and it is put into practice in all the departments." In areas such as the hotel's kitchen, where accidents are more likely to occur, 10 minutes are taken at the start of each shift to review various chapters of the manual and safety procedures in general.

The manual contains such headings as "Using the Grill," "Lifting," and "Dress for Safety."

Mr. Amitrano also notes that the hotel has a security/safety committee that "analyzes all the accidents that occur, studies their causes, and arrives at conclusions to best prevent them in the future."

Employee safety is important to the company, but not just because of the cost of indemnifying injured workers. "This is the service business," says Mr. Amitrano. "Our personnel is the most important thing we have." ■



*A quote from BUSINESS INSURANCE Magazine as it appeared in "Canada Market Report," page 20, November 23, 1981

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Life/Health/Auto/Home/Retirement

Most benefits in Argentina controlled by government

By RANDY DRAPEAU

BUENOS AIRES, Argentina—A country that has nationalized health and life benefits is now turning to the insurance industry for help.

Unprepared to extend battle-earned benefits to veterans of the Falkland Islands campaign, the new postwar military government in Argentina has ordered insurers to pay life insurance benefits to the survivors of the relatively few insured soldiers who were killed, even though acts of war are excluded from the coverage.

"We don't know how much they want us to pay," says Henry Whitney, executive director of Sud Atlantica Insurance Co. The government, however, has said it will reimburse the insurers.

Overall, private insurers and brokers are hardly involved in providing benefits to ordinary workers in Argentina. Contributions are required to government-controlled health, life and pension plans. There are no supplementary medical or pension plans, but some companies do provide additional life insurance benefits.

Every trade, from textile workers to grocers, has a particular social service agency that provides health care. Medical costs are funded through mandatory monthly contributions by employers and employees. Employers pay 4.5% of an employee's monthly earnings and 3% of earnings is deducted from the employee's pay.

"The quality of service generally varies depending on whether the particular industry is a lucrative one or not," notes Mr. Whitney of Sud Atlantica.

"For instance, banks and insurance companies are able to contract health care on a high level. On the other hand, the social service organization for construction workers is pitiful, with many low-paid workers and very little cash in its social service coffers.

"I think, all things considered, it really is an excellent health care system," he admits.

Generally, there are three types of health plans provided: open, closed or mixed, which is a combination of the first two.

The type of plan an employee receives depends on his pay since 7.5% of an executive's pay can buy more than 7.5% of a laborer's pay.

Most employees are likely to have a closed plan, which means they may go to only specified doctors or hospitals to have all expenses paid.

If they have a mixed plan, they may go to whomever they please but generally have to pay a little more out of their own pockets. These plans also extend to the employee's immediate family including sons up to 18 years of age and daughters up to 21.

Coverage includes most standard medical needs, like routine physical checkups, hospitalization, laboratory tests and X-rays.

Open plans allow the recipient the luxury of using the facilities of any medical institution he chooses and even a favorite family doctor.

These plans are, of course, the most expensive and are primarily supported by upper-middle to upper-income individuals and large corporations.

"Our managerial staff has the best plan on the market," says Robert Stanfield, manager of the Sheraton Hotel in Buenos Aries.

He explains that the plan includes psychiatric, vision and dental care. There's a limit of 10 visits a year to the dentist and cosmetic expenses, like dentures, are not included.

Although health care is quit adequate in greater Buenos Aires where nearly one-third of the population is located, it is often a problem in the outer provinces.

Petroquimica Bahia Blanca, a national company that produces ethylene, faces that obstacle. Personnel Manager Osvaldo Zavattieri explains that the company has machinery, plants and men spread out across the republic.

"Demographically, we are a disaster," he frowns. The company provides medical services through facilities owned by the State Gas Co., which furnishes its own doctors and hospitals.

Life insurance in Argentina doesn't stack up to its health system. The law requires that every employer contribute a small monthly percentage for every employee. This mandatory group life plan pays a minimal benefit of 13 million pesos. With recent staggering peso devaluations, this figures to be about $325.

Some large companies and multinationals buy additional group life insurance as a extra benefit to their employees. The cost varies from employer to employer depending on the number of employees and the amount of premium assumed by the corporation.

Massalin Particulares S.A., a large cigarette manufacturing company with more than 3,000 employees, offers a coverage that pays up to 20 times annual salary. If death is accidental, the amount doubles.

According to Risk Manager Daniel Graziadio, the company pays 60% of the premium. The spouse of the employee is also insured up to half value.

Ford Motor Co. in Argentina also offers an additional group life plan. Ford pays 20% of the premium.

It is estimated that only about 30% of the population in Argentina that has access to optional life insurance coverage actually buys it.

Retirement benefits are handled by the government, funded by a mandatory 12% monthly deduction from the workers' paychecks and at least a 16% employer contribution.

Official retirement ages are 60 years for men and 55 years for women. The maximum pension pays the recipient about 70% of salary during the three highest earning years.

To qualify, a worker must have worked at least 30 years and contributed for at least 15 years.

Many types of employee benefits are unknown in this country due to turbulent internal problems. Savings plans, for example, are practically unheard of.

The cry in Argentina these days (at least for those with money) is "buy," not save. Not very many people want to save with constant devaluations and 200% inflation.

Indeed, real estate salespeople have reported that customers will enter a home for sale, take a look at the living room and announce, "I'll take it." Or, in the case of new autos, it may be, "I'll take three."

Development of new employee benefits in Argentina also is constrained by employers' fear of union demands, notes Mr. Whitney of Sud Atlantica.

"Many employers will think twice before doing something extra for their employees," he reports. "The union may demand that the benefit be given from then on. A precedent has been set. Or they may want to force the employer to extend the benefit to everyone under conditions they would establish, not the company." ■

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Venezuela:

Insurers want heavy emphasis placed on safety, security plans

By DOREEN HEMLOCK

CARACAS, Venezuela—Suffering losses from rising crime, insurers in Venezuela want to reward companies with good safety and security programs and penalize those without them.

The government-regulated industry is studying two new policies for property and bank insurance that would penalize firms that do not install such programs.

If rate reductions were granted for good records, they would would be welcome news to businesses here that are suffering under a 3-year-old recession. The businesses now limit their insurance purchases to the commonplace robbery, auto, auto liability and property policies without branching out into product liability or malpractice coverages.

Any change in insurance policies, however, must be approved by the Superintendency of Insurance, which governs all forms and rates.

The nation's 48 insurance companies and seven reinsurers, which wrote $1.4 billion in premiums last year, are pushing for changes to reduce their risks. Claims costs are particularly high in the bank and auto field due to growing crime in this oil-producing nation.

Property insurance, or fire insurance as it is called here, accounted for 28% of total premiums, or $389 million, last year and is the most important line being studied by the insurance industry.

Insurance Superintendent Boris Perez Soto hopes that the current fire policy, copied nearly verbatim from U.S. policies 30 years ago, will be replaced with a modern and Venezuela-adapted policy as early as next year. It would provide incentives for industrial loss-prevention programs.

The current Venezuelan fire insurance policy includes coverage—and premiums—for hail and hurricanes, conditions unknown in the South American nation. Rates are based only on type of construction and industrial use without regard to the loss-prevention programs, age or other important risk factors, Mr. Perez noted.

An old textile factory pays the same premium as a modern facility or sometimes less, due to its depreciated assets, Mr. Perez said.

Some economic incentive, such as reduced premiums, is needed to encourage companies to install property-protection systems.

"It's difficult to convince companies to install industrial safety programs when everyone is belt-tightening due to the economic contraction," lamented Agustin Silva Diaz, president of the Diverse Risk Committee of the Venezuelan Insurance Chamber.

The new fire insurance policy would provide property coverage based on replacement value.

Although replacement value is intended under the current policy, most policyholders pay premiums on a lower value than full replacement. They do not revalue their assets annually according to inflation nor do they account for the costs of freight and duties which would have to be paid on imports if machinery needed to be totally replaced.

Asset values in Venezuela today are higher than values for comparable U.S. property, said George Holmberg, comptroller at Sears, Venezuela's largest department store chain. Mr. Holmberg uses insurance broker Segurosca, Marsh & McLennan's affiliate, as his insurance department and risk manager, he said.

Most companies in Venezuela pay an annual average of 4% to 5% of total assets in insurance premiums, according to Gumersindo Torres, executive at brokerage Rontarca, an affiliate of Frank B. Hall & Co.

Banks, however, pay even more due to increasing holdups here.

Premiums for major banks have risen 800% in the last four years and will rise another 50% this year, according to Mr. Silva of the Vene-

Continued on next page

Venezuela's direct insurance market in 1981
(in thousands of bolivares*)

Class	Premiums	Percent of market
Fire	1,238,343	22.4%
Auto	1,234,230	22.3
Life	915,784	16.6
Medical	451,348	8.2
Cargo	298,897	5.4
Accident	241,982	4.4
Fidelity & surety	198,369	4.0
Robbery	148,673	2.7
Truck physical damage	102,694	1.9
Company responsibility	96,706	1.8
Aviation	94,622	1.7
Civil liability	76,375	1.4
Multiple coverage	59,807	1.0
All other	369,671	6.7
Total	**5,527,501**	

*4.3 bolivares = $1

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Safety, security stressed

Continued from previous page
zuelan Insurance Chamber. A major commercial bank is now paying about $1 million a year for coverage, he said.

New expanded branch networks have increased the risk of robberies. The banks in Venezuela have a total of about 1,800 branches today compared with 200 branches 15 years ago. Many of the new branches don't have trained personnel or the safety equipment to combat robberies, which have increased in number dramatically since 1978.

New white-collar crime, such as falsification of checks, has made the situation even worse, Mr. Silva said.

The Venezuelan banking system is also very different from the U.S. system, he said. Trust in checks is very low and credit card holders are carefully selected. The amount of cash in the streets is excessive.

In the U.S., bank robberies may be just as frequent but the losses run only about $5,000 per assault. In Venezuela, a bank loses an average of $125,000 per robbery and the deductibles on insurance policies are only $25,000, Mr. Silva explained.

The loss ratio on insurance for banks was so bad in 1979—666%—that 16 insurance companies in Venezuela formed a banking pool which retains 50% of all bank premiums and reinsures directly in London and abroad.

A new insurance policy for banks also is to be introduced in early 1983, based on the Lloyd's of London Bond 24, Mr. Silva added. The policy provides for reduced premiums for banks that install such protection devices as delayed action locks.

The government here also is revising policies in another high-risk area: automobiles.

Currently, auto insurance rates are based only on the use of vehicles (commercial, private, etc.) and their book values, without considering the model, age of driver or other factors.

Coverage applies to partial and total damage and total loss.

With a rising accident rate and an average 350 car robberies per month in traffic-congested Caracas, insurance companies last year lobbied the government superintendent for policy changes.

The superintendency granted insurers the right to select their future policyholders and this year insurers have rejected those with poor histories and are insuring poor risks only as part of a larger insurance package.

Auto insurance pemiums for 1982 are expected to remain the same or even to fall slightly from last year's $216 million for physical damage insurance and $71 million for auto liability coverage, a broker said.

"We've got to rationalize our premiums by charging those clients with poor histories more than those with good safety records. And we should consider making auto insurance compulsory," Ricardo Mujica, president of the Auto Committee of the Venezuelan Insurance Chamber stated.

At times, insurers disagree with the regulations from the Superintendency of Insurance, which approves all policy forms and sets the rates for auto, robbery, group life, property and auto liability plans.

It is the superintendency, for example, which has rejected the entry of difference-in-condition policies into Venezuela. And, the superintendency has authorized the creation of eight new insurance and reinsurance companies over the past three years, much to the dismay of insurance competitors here.

Foreign participation in insurance and brokerage firms, however, is limited to a maximum 20% of equity, and all insurance must be purchased locally.

All insurance companies in Venezuela must set aside 40% of their yearly premiums as technical reserves and they must place or at least offer another 40% of their premiums to local reinsurance firms before reinsuring abroad. When Venezuelan insurers buy reinsurance abroad, it is generally in the London market.

Since the country's legislation limiting foreign ownership went into effect in 1974, many multinational insurance firms have pulled out of Venezuela, maintaining only an affiliate relaionship with Venezuelan companies without equity.

In their place, Venezuelan financial power groups are taking over insurers, a former insurance superintendent noted.

In this vein, shareholders of major banks have acquired insurance companies, although banks as such are prohibited from owning insurance companies.

Banco Union, for example, owns the largest insurance company here, Seguros Caracas. Banco Metropolitana owns forerunner La Metropolitana. Banco de Venezuela controls medium-sized Banvenez Seguros, and state-owned Banco de los Trabajadores de Venezuela owns the small Bantrab ca Seguros.

Industrial groups are also entering the field and using insurance firms to capitalize their other interests. Construction group Tecoa, for instance, owns three insurance companies: Seguros la Paz, General de Seguros & Reaseguros and Seguros Saint Paul, making it the third-largest in premium volume in the nation.

While bank-controlled insurance companies deny that these shareholding arrangements lead to unfair competition, brokers note that banks do in fact condition industrial financing loans to the purchase of property and group life policies from their insurance affiliates. The industrial groups limit their purchases to their own firms regardless of the service capabilities of competitors.

The government as such is not interested in directly controlling insurance companies as is common in other parts of Latin America, according to Superintendent Perez.

But the government does play political favorites with its choice accounts, such as the state steel company or the state telephone company. The government rotates coinsurance account leaders every five years if power switches hands between the rival Social Christians and Social Democrats.

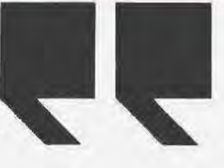
The best account, the nationalized petroleum industry holding firm Petroleos de Venezuela, worth some $25 million in premiums per year, also breaks tradition, broke say. It sends some 95% of its prem ums to reinsurers abroad via a ur of Sedgwick Group P.L.C. ar Lloyd's of London.

Not only are local firms and the U.S. affiliates denied any of th premiums, Venezuelan broke say, but the local leading compani also receive only 1% to 2% commi sions on the deal while commi sions on other business tend to av erage 18%.

Portions of these commission however, are often paid back to th client as a way to beat the regulate rates, underwriters say.

No matter how good the price, n one expects businesses to expan their insurance buying in the cur rent tough economy.

"Several years ago, there wa some interest in professional insur ance but as the economy worsened I was told. not now," said Ol Campa, a Cuban-born underwrite at Segurosca, the Marsh & McLennan affiliate. ■



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Oil glut curbs new Venezuelan benefits

By DOREEN HEMLOCK

CARACAS, Venezuela—Em-
oyee benefits in Venezuela are ieled by oil revenues.

Today, with the world oil glut id declining petroleum income, enezuela's companies are not in-esting in new benefits plans or ven keeping their benefits up to ar with inflation.

Companies are maintaining their orporate insurance, but group life nd accident policies are declining 1 real terms, said Nestor Sanchez, echnical manager at insurer Rea-eguradora Nacional de Venezuela.

Ever since the 1930s, when U.S. ind British insurance companies stablished subsidiaries here to ater to the American petroleum irms, the pace of employees' benefits has been set by the oil sector, where benefits are best.

With the hard-pressed oil sector setting the tone for the entire economy here, no major improvements are foreseen in the employee benefits field until petroleum revenues rise, executives say.

The outlook for 1983 is not good. Petroleum earnings are expected to fall 5%, the economy is expected to remain stagnant and inflation is expected to hold at 8% to 10%.

The national budget, 60% dependent on oil, will be slashed nearly 10%.

The insurance sector will slow its growth to an estimated 8% after this year's anticipated 10% premium rise, industry executives said.

But, Venezuela's earlier oil boom, which made its Bolivar currency Latin America's strongest and its salaries the continent's best, has enabled the government to create two compulsory employee benefit systems: a social security network and a hearty lump-sum bonus plan.

Together, the two systems cost employers between 30% to 35% of salaries, according to Johnson & Higgins Vp William Ryan.

The social security network, begun in 1967 and modeled after the post-revolutionary Mexican system, currently provides 2.2 million workers with illness, accident, maternity, disability, old-age, death and survivors' benefits.

Labor laws in Venezuela also obligate companies to share a minimum 10% of their yearly profits with workers by granting a two-week pay bonus, regardless of company profits, and a maximum two-month salary bonus.

In practice, most major companies grant a 13th- and 14th-month paycheck to their employees each year.

All companies must also grant hefty lump-sum benefits to their workers when they leave a job, whether they quit or are fired.

The lump sums equal one week's pay for workers with up to six months' service, two weeks' pay for workers with up to one year's service and one month's pay for workers with more than one year's service.

Seniority benefits total 15 days' pay for every year served and severance benefits add another 15 days' pay for every year an employee works.

Double lump-sum benefits—and the replacement of the worker at the same salary—are mandated by law whenever a tripartite commission finds an employee's dismissal was unjustified.

The lump-sum system has stimulated worker turnover on all levels from manual laborers to executives. People work a year, quit or get themselves fired, collect benefits and then find another and usually better job.

The rate of turnover has slowed since the economy started slowing in 1978, but productivity is still far lower than it was in 1975 when the lump-sum system was introduced, IBM President Salvador Covelo said.

Employers also contend that the lump-sum system actually works against employees. "Whenever I am about to give someone a raise, I think, 'Is this person going to walk out on me soon and collect double benefits?'" another executive commented.

Private insurance policies in Venezuela basically serve to complement the two government programs with major medical, group life, accident and savings plans. Pension plans are few, due to the lump-sum program, and specialized group packages have still to be introduced into this nation of some 15 million residents.

Major medical premiums in Venezuela grew 21% between 1980 and 1981, faster than the overall insurance sector increase of 12% and more quickly than the nation's 16.2% annual inflation rate for the corresponding period. Medical premiums paid totaled $110 million last year.

The dramatic premium rise resulted primarily from soaring hospital costs, which raised the cost of an appendectomy, for example, to $4,650, according to Frank Ratmiroff, president of insurer Seguros La Paz.

It's cheaper to go to Miami for surgery, including the plane fare, than to have surgery in Venezuela, an underwriter at Seguros la Coordinadora said.

In fact, many executives have individual medical plans in the United States to cover treatment provided there.

Technically, one could avoid the astronomical costs of medical attention in Venezuela by using state-run social security facilities. But even Social Security Institute President Jaime Gomez recognizes that state hospital services, while improving, are now merely bad instead of really bad.

Companies in Venezuela tend to offer major medical plans that exclude dental, eye, preventive, ambulatory and hereditary disease care. Coverage is largely limited to fixed amounts per day or per service instead of a percentage of the total hospital bill, said Gumersindo Torres, executive at Rontarca, Frank B. Hall & Co.'s affiliate.

Employers pay the full medical premium in seven out of 10 cases, Mr. Torres said. They also often pay the claims themselves and then collect from the insurance companies. Insurers tend to be slow in paying claims and hospital bills must be paid when the patient checks out, they explain.

Pan American De Seguros and La Seguridad have recently inaugurated a medical insurance credit card called Prosalud to combat this problem at private designated clinics, but the idea has not really caught on yet, brokers noted.

Everyone agrees that medical insurance premiums can't continue to grow at the 21% rate recorded in 1981. Employees are going to suffer

Continued on page 61

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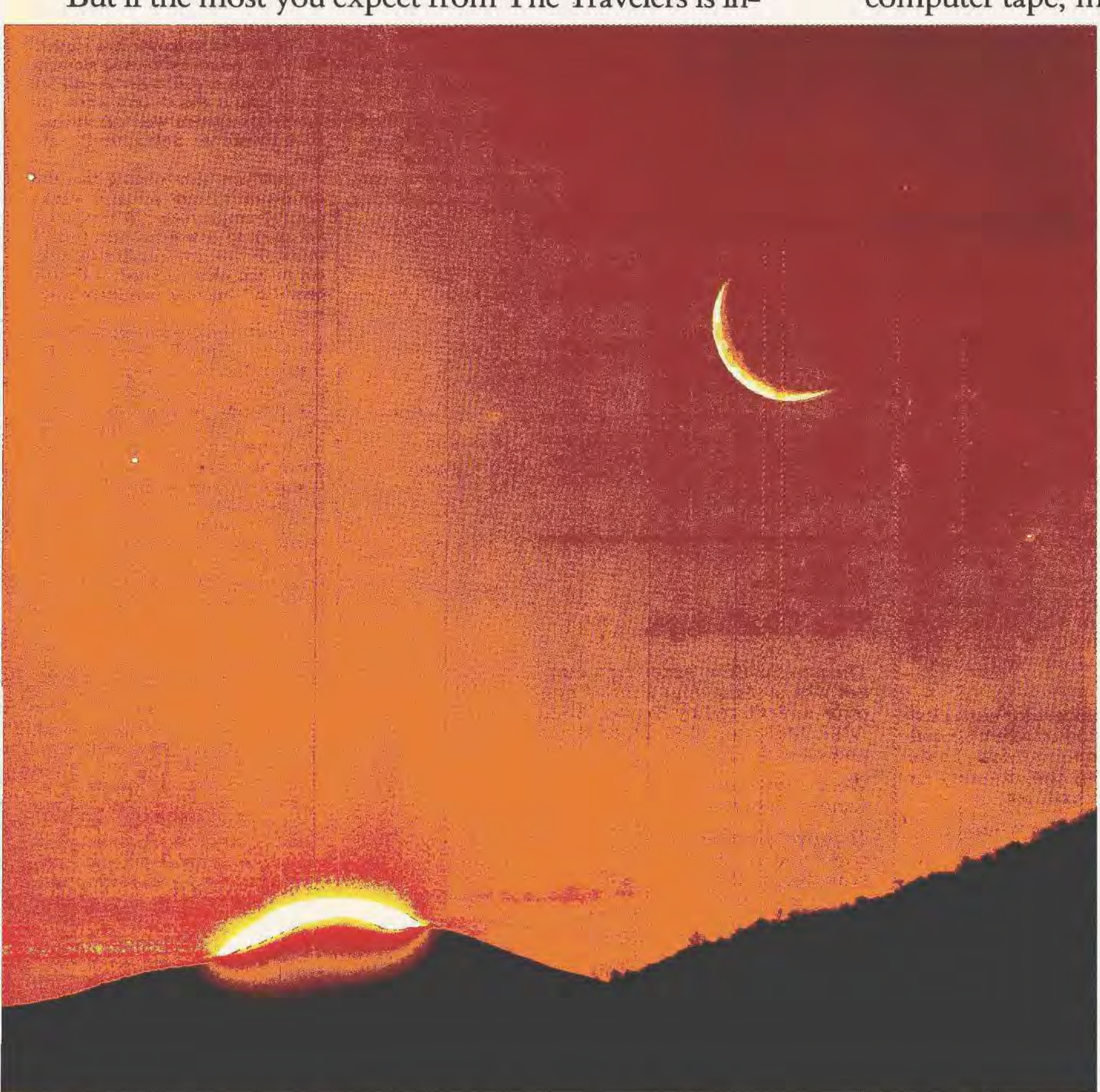

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Health insurance costs soaring in Venezuela

Continued from page 59
and pay the difference in the future, predicted Insurance Superintendent Boris Perez Soto.

Since group life insurance tends to show a lower claims level—40% vs. medical's 70%—insurance firms here tend to try to sell the two policies together.

Group life insurance, which accounted for one-fifth of total premiums last year, registered $212 million in premiums in 1981, a mere 3% increase over 1980.

Life insurance benefits vary by economic activity and employee status, but generally range from 12 to 24 times monthly salaries for contracted workers and fewer than 12 times monthly wages for hourly workers.

Maximum coverage in Venezuela is limited to 600,000 bolivares ($139,111) per individual, excluding accident, disability and dismemberment riders, according to government-regulated policies.

"We generally calculate an average age of 40 for men and 37 for women, at a premium cost of some 130 bolivares ($30) per year. The tariffs are set by the government's superintendency of insurance," said Roberto Te Winkel, systems manager of Seguras La Paz.

Accident insurance accounted for $69 million in premiums last year with coverage limited to about $10,000 to $25,000 for hourly wage earners, $25,000 to $75,000 for salaried employees and $75,000 to $150,000 for executives.

Premiums for accident insurance averaged some 75 cents to $2.10 per $1,000 covered and another 63 cents to $1.95 per $1,000 covered in disability options.

It is expected that both life and accident insurance will continue to grow slowly, falling even farther behind the annual inflation increases.

In addition to the $381 million spent for these plans, employers in Venezuela's major companies also offered their employee savings plans, which matched between 5% and 10% of earnings.

Sears, with 12 stores and assets worth $80 million in Venezuela, limited its savings plan to 5% of salaries but granted interest in company shares through other modes, Comptroller George Holmberg explained.

In general, Venezuelan employee benefits plans cost companies more than identical plans in the United States, the American-born executive said.

The big-money investments go to the compulsory state plans, which demand 7% to 9% of each worker's salary up to 3,000 bolivares ($696) to fund the state social security system. Workers also contribute an additional 4% of their earnings up to 3,000 bolivares.

The social security plan provides pensions to men at age 60 and women at age 55 at a minimum 40% of monthly salaries, or a maximum $696 monthly.

"These amounts are really insignificant when you consider that recent surveys show Caracas to be the most expensive city in North, South and Central America," one underwriter noted.

Nevertheless, companies and individuals are not interested in private pension plans today. Individuals prefer to invest in certificates of deposits that offer better returns at today's high interest rates, said Mr. Sanchez of Reaseguradora Nacional.

Although unions have mentioned the possibility of pressing for pension plans to keep up with the oil sector's plans established by the former American company owners prior to the 1975 oil nationalization, insurance executives doubt that pensions will be a major short-term demand.

Unions probably will emphasize keeping workers employed now that the jobless rate is 12%, executives agreed. ■

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Chile: Economic downturn starts to push rates up

By JUAN O'BRIEN

SANTIAGO, Chile—Insurance companies in Chile are cooling their hot competition for earthquake insurance premiums.

In one of the few Latin American countries that allows insurers to openly compete for business by slashing rates, insurers took the opportunity.

Rates for earthquake insurance in Chile, a country well-known for its frequent tremors, fell to 0.3% per $1,000 of insured value from 1.5% per $1,000, while the rate charged by reinsurers held to about 1% per $1,000.

But earlier this month, all domestic insurers announced they would raise rates for earthquake insurance to no less than 1.5% per $1,000 of insured value.

It's the first sign of a slowdown in the competition among insurers, which are now facing a recession after three boom years in Chile.

Mr. Searle

The cutthroat competition for all lines of insurance began in 1980 when the government adopted new laws that liberalized tariffs and ended a 50-year-long state monopoly on the reinsurance business.

The new law took away the power of the government insurance authorities to regulate irresponsible pricing and allowed Chilean insurers to tap cheaper international reinsurance markets. Both moves allowed insurers to drop rates.

The average insurance premium in Chile has declined an average of 50% and as much as 75% in some cases.

"The positive side of the new legislation is that it opened up the doors to competition, bringing foreign know-how into the country and allowing Chilean insurers to cover their risks at international prices," says Jaime Searle, a young graduate from the American Graduate School of International Management in Arizona who is Chile's superintendent of insurance.

"However, we are aware that cutthroat competition has forced a dip in tariffs nearing dangerous levels."

Insurers in Chile have operated like insurers everywhere and invested their premiums and loss reserves for high yields. "Companies are essentially centered on cash-flow underwriting," says Mr. Searle, "but we hope the current recession and the consequent drop in the value of investments have taught companies to act more conservatively."

Mr. Salas

The insurers can't ignore the economic reality in Chile.

"I don't see insurance companies making profits in the near future whether it is in underwriting or investments, because premiums are down, economic activity is down, the stock market is down and the whole morale of the Chilean population is down due to high unemployment," said a risk manager who asked to remain anonymous.

"This recession has stopped the tide favoring the development of an insurance consciousness, which was just beginning to emerge in the country," he added.

"To put it bluntly, Chileans were quite ignorant about insurance and were slowly learning to assess their needs for risk protection. Companies were also opening their ears to risk management, but the recession did away with this trend."

Risk management, as such, only exists at a few large Chilean companies. Commonly, brokers are called in as consultants to provide corporations with risk management services. Companies are nowadays worried about cutting down their immediate costs and will stick with the broker/consultant instead of preparing professionals capable of understanding, controlling and financing risks.

In the long term, this is much more expensive. But few business executives are thinking about the long term, with the nation's gross national product falling by 13% this year.

The current economy stands in sharp contrast with the economic bonanza that occurred from 1978 to mid-1981 when the GNP grew an annual average of 6%. In this period, property/casualty insurance premiums grew 14% annually.

The boom in the insurance business was supported by the flourishing construction industry and by massive imports of automobiles. The number of cars imported jumped to 800,000 units in 1981 from 600,000 units in 1980.

Car imports dramatically changed the structure of the property/casualty market. Ten years ago, about 90% of the business was composed of fire insurance. Now, cars account for 40% of the total premiums, while fire coverages fell to barely 30%.

The premiums received by insurers in the good years were rapidly invested in high-return financial instruments and in the then-thriving Chilean stock market. It was impossible to lose: domestic inflation was under control and monthly interest rates rarely fell below 2%.

However, the international recession hit Chile in mid-1981 and soon began to take its toll. Immediately affected by the recession was the stock market, which fell to 67 points in July 1982 from a 100-point base index in December 1980. Next, the Chilean currency was devalued in successive stages to the present levels of 66 pesos per $1 from a fixed rate of 39 pesos, which had lasted almost three years.

"Insurance companies suddenly faced a threefold problem as a direct consequence of the recession: a drop in the value of their invest-

Continued on facing page

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ntinued from facing page
nts, heavy exchange-rate losses d a sharp decline in premium income," said Andres Salas, technical anager of Chilena Consolidada, e of the oldest and most prestigious domestic insurance companies.

'Property/casualty income durg 1982 will make up only a third the 8.7 billion pesos written in 81," he says.

Many local insurance companies e now trying to renegotiate their yments to international reinrers because their pesos are only orth half of what they were in e immediate past.

The Chilean population of 11 illion barely spends $20 per capita i insurance premiums every year. is a small market that nevertheess has attracted some noted multinationals. Insurers like Aetna, NA, AFIA, Prudential, Mercanile, Allianz, Munchener, Tokio Marine nd American nternational Group are here.

Mr. Andueza

Important brokers like Alexander & Alexander Services Inc., Marsh & McLennan Inc., Frank B. Hall & Co. Inc., Johnson & Higgins and Britain's Sedgwick Group P.L.C. have a presence in the mountainous country, too.

"One of the attractions is that Chilean law operates on the principle that foreign companies may compete on an equal basis with domestic insurers provided they establish themselves as Chilean corporations," says Sergio Andueza, part owner of Andueza y Compania, one of the oldest stock brokerage operations in the country. The company branched out into insurance in 1980 when it sold a share of the company to Sedgwick Group.

"However," he adds, "most of the foreigners are operating as reinsurers, given the fact that the technical reserves of the $150 million per year for property/casualty business must remain in Chile and that 52% of another $150 million generated by life insurance is already a captive market of the private pension fund administration companies."

The market share of multinationals in the property/casualty business in Chile is small. Only Continental Insurance Co., along with its Chilean partner, Banco BHC, and Aetna Life & Casualty Co., along with Banco de Chile, have a predominant presence with 10% and 6% of the market respectively.

The three largest insuers are locally owned. State-owned Instituto de Seguros del Estado (ISE) has 18%, Consorcio Nacional de Seguros has 13% and Chilena Consolidada has 12%.

The local reinsurance market is dominated by state-owned Caja Reaseguradora de Chile, which held a monopoly on the Chilean market until the 1980 legislation was enacted.

"We are still the top reinsurance company in Chile because we know the market better than any other company," comments Fanor Velasco, an economist with Caja Reaseguradora.

"Caja Reaseguradora is the Latin American reinsurer holding the largest equity, and our business outside the country has grown systematically in the past year," Mr. Velasco adds.

"In any case, multinational reinsurers control and ship abroad about 47% of the total premiums generated by the property/casualty businesss in Chile," Mr. Velasco

Chilean regime letting private sector administer retirement, health benefits

By JUAN O'BRIEN

SANTIAGO, Chile—The Chilean experiment in turning the social security system over to the private sector appears to be a success.

More than a year after the reform, three of four Chileans have opted to join the new system under which building one's own retirement plan and structuring an individual disability and health insurance program will be the responsibility of each worker.

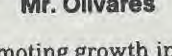
Workers' contributions of at least 17% of salary are deducted from their paychecks and deposited by the employer into a pension fund of the worker's choice.

Under the new law, employers pay a diminishing social security tax until 1983 when they will be completely freed from these contributions. Because employers paid 26% of salary under the old government-run system, employers have raised their salaries since the reform to cover their new benefit costs.

Current Chilean workers have until 1986 to join the new system rather than stay with the old system, under which employers still must make payments. Workers who join the workforce after 1982 must join the new system.

The Chilean government revamped the national social security system and entrusted pension plans, disability insurance and health protection to the private sector more than a year ago.

There were two incentives for the reform. First, it was an opportunity to funnel million of dollars into private investments, creating more jobs and promoting growth in a developing nation. Second, it was a chance to prove that social security could be transformed from a red tape-ridden scheme into an efficient and competitive business that could make profits by serving clients well.



Mr. Olivares

So far, Chileans have invested about $500 million in the 12 pension fund administration companies—called AFPs—created by the private sector to take over the social security system. Clients also seem convinced that AFPs offer better service than the state-controlled agencies.

Depending on their income, workers who want to retire with a larger pension can deposit 10% to 20% more than required into the AFP.

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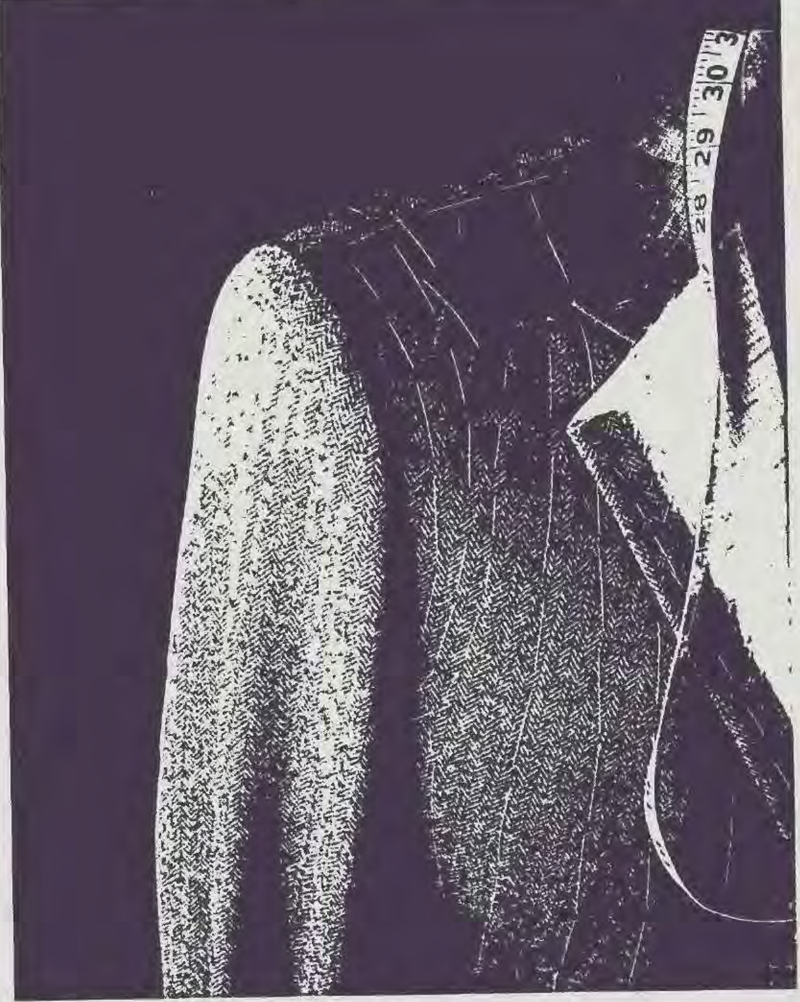

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Chile switching to private pensions

Continued from previous page

"The majority of Chilean workers chose to switch to the new system because they are aware of its potential," said Ruperto Olivares, general manager of CUPRUM, an AFP that serves workers from state-owned copper mines.

"Only 25% of the total Chilean labor force of about 2 million have remained in the old system, but they will eventually come to the AFPs when they discover our plans are much more solid and profitable than the old ones," he adds.

Pensioners in state retirement plans paid thousands of pesos in contributions, but never got their money's worth. According to official statistics, the value of an average pension fell by a third between 1970 and 1978, despite adjustments to meet the rising cost of living.

"The worker now receives a savings account book to know exactly how his money is growing and to know in what kind of financial instruments his money is being invested," says Mr. Olivares.

"I think Chile is the only country in the world that offers this sort of service," he adds proudly.

A worker who opts for the new system transfers retirement funds accumulated in the working life to an AFP in the form of government bonds. Workers who do not, continue under the old system until the uniform retirement age of 65 for men and 60 for women.

The new administrators, however, have come to realize that they have inherited the headaches and problems of the old system along with the funds.

"About 25% of the 1.6 million Chileans currently affiliated to the private funds are not paying their contributions," says Fanor Larrain, a market analyst for an AFP called San Cristobal. "This is caused by the high level of unemployment in Chile, which is almost 25%," he said.

In addition, "The bad economic situation in the country makes many companies postpone their (remaining) social security payments until they are brought to court," he contends. The new law should be improved to force prompt payment of contributions, Mr. Larrain contends.

Mr. Ruiz

The funds are administered by the AFPs, which receive a compulsory 10% of the workers' taxable monthly income for retirement and another 3% for disability and workers compensation insurance.

The worker also has to deposit another 4% in a private health company—called ISAPRES—or those who wish can continue contributing to and use the state's medical system.

Strict regulations govern the operations of the AFPs to assure profitable and secure returns to their clients, through domestic investment in a diversified portfolio. The law establishes that funds must have a minimum investment yield or be dissolved, in which case the government guarantees the minimum return.

Nine of the 12 pension fund companies operating in Chile were formed by associations of banks and insurance companies.

"The reason is obvious," says Enrique Araos, a lawyer in the brokerage company Andueza y Compania, which is 50% owned by Britain's Sedgwick Group P.L.C. "The 3% compulsory payment for disability and survivors' insurance rapidly attracted insurance companies into the new business."

Mr. Araos contends that the pension funds are not a very good bu ness for brokers, considering ties that exist between AFPs a insurance companies. "Neverth less," he says, "the growth of p miums has been tremendous."

Life insurance premiums Chile jumped to $150 million d ing 1981, a handsome 52% over t previous year. And this amou will be boosted again in three yea when the first pensioners of t new system go into retirement.

"At this point, workers will ha two alternatives (upon retir ment)," says Mr. Araos. "The fi one is to stay in the AFP, acceptin periodical payments from the co pany that will continue admini trating the fund. The second one to take the money out of the AF and buy a lifetime pension in an i surance company."

Consorcio Nacional de Segur holds 34% of the life insuran market.

Although foreign companies ma apply for recognition as an AF only two multinationals, Aetn Life & Casualty, associated wit Banco de Chile, and Continenta Insurance, associated with Banc BHC, have an important presenc in the private pension business.

"The problem is that the AF disability insurance was create without adequate statistical data," contends Mauricio Ruiz, adminis trative and finance manager o American International Group's Interamericana Compania de Seguros de Vida, the first insurer to open shop in Chile as a 100% foreign venture after a 1980 law permitted foreign ventures.

"We do not think the 3% (disability premium) rate is sufficient to ensure a good and stable service in view of the scant data available and the high operational costs in Chile." However, Chilean AFPs are not paying insurance companies the 3% contribution they receive from affiliates for disability coverage; they are paying less.

The current rate negotiated between AFPs and insurance companies fluctuates between 1.7% and 2.6%, according to the competition for the business. The law only set a 3% rate as a reference, rejecting further interference in the workings of the free market.

The AFPs keep the difference between what they pay and the 3% as additional compensation for their services. ■

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This indispensable reference guide was written by Douglas B. Owen, JD, MBA, CPCU. Mr. Owen is president of Arthur L. Owen Company, Inc., a Dallas-based insurance broker specializing in insurance and risk management programs for oil, gas and petrochemical companies worldwide. He is a recognized authority on risk management and well control insurance and has used his expertise to write **Blowouts: Well Control Insurance and Risk Management.**

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Peru: Insurers now offer terrorism coverage

By CAITLIN RANDALL

LIMA, Peru—Plagued by terror- attacks, labor unrest, the threat earthquakes and one of the orst economies in South America, sinesses in Peru are demanding ore insurance coverage.

Peruvian insurers, which under- rite $250 million to $300 million nually in premiums, are catering the growing demand with a new surance policy against losses used by terrorism. Earthquake surance already is widely avail- le, although expensive.

The domestic insurers, however, ay have trouble continuing to in- re banks against their extremely igh losses from robberies.

A new anti-terrorism insurance olicy was created in May by the ndustry-controlled Insurance ssn. (APESEG), which is made up f Peru's 23 insurers and sets all in- urance rates, and the Superinten- encia de Bancos y Seguros, which versees Peru's insurance business. The new policy is almost identical o an already-established policy for cts of vandalism and malicious cts.

Brokers says requests for the ter- orism coverage are pouring in from buyers throughout the country.

"We get about 10 letters a day and many more phone calls," says Peter Venard of the Fenix Peruana Insurance Co. "Fortunately, insurance companies anticipated the panic and we were prepared."

Last month, Peruvian President Fernando Belaunde announced a state of emergency in Lima for the first time since 1977.

While figures on property damage caused by terrorist attacks are not available, Electroperu, Peru's national electric company, estimates that repeated bombings of its electric pylons have cost the company more than $3 million.

It's doubtful that the losses were insured, according to one broker, who said that as a rule Electroperu doesn't insure pylons but does insure property during construction.

Underwriters say terrorist insurance premium rates will depend on the "risk factor." Hospitals, for example, would pay less than embassies or government offices.

The range of rates is from 3 cents to 6 cents per $100 of exposure for automatic limits of at least $60 million. The obligatory deductible ranges from $3,000 to $5,000.

The ever-present possibility of losses from earthquakes in Peru is covered by a unique earthquake insurance plan that is specially tailored to meet the country's unusual seismic distribution and intensity, say local brokers.

"Earthquake risk in Peru is completely different than in other earthquake zones," explains broker Carlos Raul Vidal of the Lima brokerage Vidal & Vidal.

In 1976, the state reinsurance company Reaseguradora Peruana S.A. created a quota-share treaty for earthquake insurance that brokers say gives better coverage for a buyer's money.

Peru's earthquake insurance is three times as expensive—32.5 cents per $1 of risk—than similar policies in other earthquake zones, and offers a maximum insured limit of $160 million, according to the insurance association.

Peruvian underwriters are very selective about the buildings they will insure, setting standards for construction and contents.

forced to also become more selective about the banks they will insure against robberies.

European and U.S.-based reinsurance companies recently threatened to withdraw crime coverage for local banks due to extremely large losses.

Since January, 131 Peruvian banks have been robbed at a loss of more than $2 million, according to the Assn. of Banks in Peru. The losses were fully insured under policies with deductibles varying from $5,000 to $10,000.

The rash of assaults has prompted foreign reinsurance companies to threaten the suspension of bank reinsurance if security doesn't improve by Dec. 31, according to Manuel Almenara, president of Reaseguradora Peruana S.A.

"The root of the problem is that banks, which are insured virtually without limits, are issued policies without warranties," says Mr. Vidal of brokerage Vidal & Vidal.

Banks don't have to guarantee that they will implement any security measures and although insurers aren't ready to require them, some banks voluntarily are improving their security programs.

Banks in Peru often own shares in local insurance companies so insurers often are reluctant to impose strict conditions on bank insurance policies, Mr. Vidal explains.

Banks have long received "favored client" treatment from insurance companies, agrees an underwriter at the El Condor Insurance Co., 40% of which is owned by the Banco Wiese.

Insurers have, however, recently hiked their rates in an effort to force banks to step up security measures, brokers say.

Of the $250 million to $300 million in annual premiums written, roughly half is ceded to reinsurers outside the country.

All reinsurance transactions with foreign and domestic reinsurers are regulated by Reaseguradora

Continued on next page

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Peruvian regulations criticized by insurers

Continued from previous page
Peruana.

The regulation stems from an October 1970 announcement by Peru's socialist-oriented military regime that all foreign reinsurance would be channeled through the reinsurance department of the Banco de la Nacion, which at that time acted as the government's insurance company.

The October 1970 announcement stopped Peruvian insurers from their custom of ceding risks directly to foreign-based reinsurance companies and forced them to cede risks that exceeded their retention levels to the Banco de la Nacion. Banco de la Nacion in turn placed any needed treaties.

Charges of corruption and mismanagement resulted, fueled by the fact that the Banco de la Nacion used only one brokerage firm (Hart & Robinson in Britain), said Mr. Almenara.

By 1975, Peru's reinsurance system was completely revamped. The Banco de la Nacion's entire insurance portfolio was turned over to the state-owned Popular y Porvenir Insurance Co., which remains the only state-owned insurance company in Peru.

Reaseguradora Peruana then was officially established as the regulatory agency responsible for overseeing all domestic and foreign reinsurance.

Mr. Almenara says in an effort to compensate for past mistakes, Reaseguradora hired no fewer than 17 brokers worldwide to handle Peru's reinsurance businesss.

"We've brought the number of brokers down to eight since then," Mr. Almenara says.

The Peruvian reinsurance system is based on what brokers here cal the "R.P. line." Reaseguradora Peruana (R.P.) was originally created by insurance companies as a means of increasing premium retention in Peru. Although the founding companies now own only 10% of Reaseguradora Peruana, with the government owning the remaining 90%, the system continues in much the same way.

Companies in Peru fix their own retention level and redistribute the remaining risks through a prefixed formula to other local companies. The system works, according to one underwriter, because insurance premiums are set by the Insurance Assn.

"If insurance company X knew that company Y was undercutting his business by charging a lower rate, it wouldn't be apt to participate in a pool to reinsure his competitor," he says.

Mr. Almenara says that while foreign reinsurance is channeled through Reaseguradora Peruana by law, the domestic reinsurance pool is handled by Reaseguradora Peruana "only out of custom."

Some insurers complain that the domestic reinsurance market should be controlled solely by the companies themselves. Mr. Almenara responds that the market is not sophisticated enough to handle domestic reinsurance placement.

Under law, all the domestic insurance companies are owned at least 80% by local interests.

The establishment of all insurance rates in Peru by the Insurance Assn. is also criticized. "The APESEG (Insurance Assn.) sets a standard price for every type of insurance," says Bruce Maynes, production and coordination manager of Johnson & Higgins' Lima office. "It's basically a cartel."

Insurance buyers cannot turn to foreign insurers for better prices. Companies must buy insurance from a local insurer unless they receive special permission from the Superintendencia de Bancos y Seguros by showing it is necessary to buy insurance abroad.

An insurance buyer who purchases insurance from a foreign insurer without permission is subject to a fine equalling twice the premium cost if the insurance had been bought in Peru.

Companies say they are able to purchase insurance that is not available from domestic insurers from foreign insurers. Charters liability, protection and indemnity and more extensive life insurance policies than are available in Peru are among policies purchased from foreign insurers with the permission of the government.

Despite occasional grumblings from local insurance buyers, all agree that Peru's insurance market is growing and improving.

"In the last 10 years, Peru's market has completely turned around," says broker Mr. Vidal. "It's become very much more sophisticated. Granted, we haven't caught up to the U.S. but we can offer a wide variety of policies."

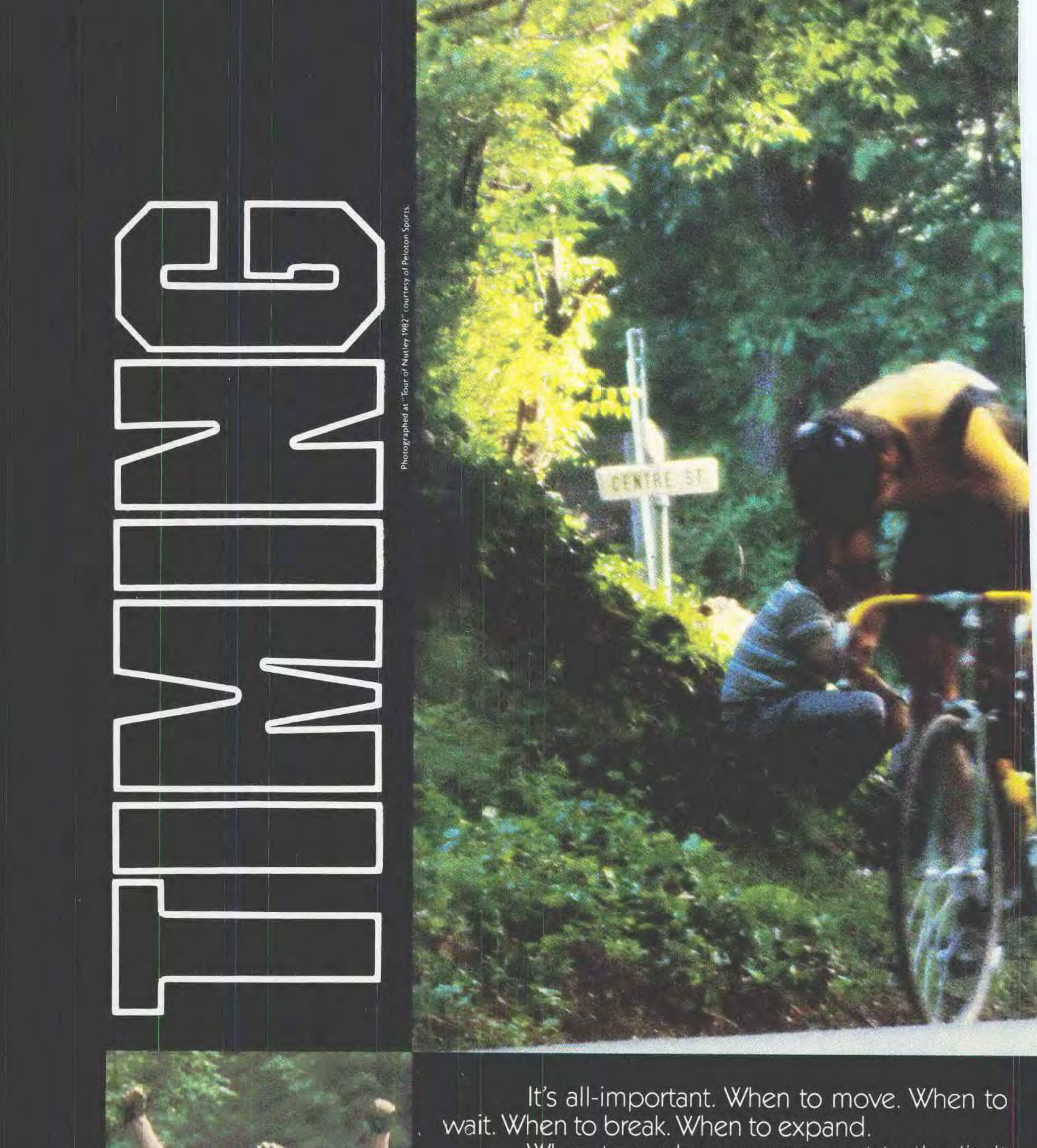
Corporate insurance buyers, which in Peru is most often the company manager, say that large corporations spend less than 5% of their annual revenue on insurance. The Belco Petroleum Co., for example, spends about $600,000 on numerous insurance policies that provide upward of $140 million of coverage, said H.J. Adriani, assistant general manager of Belco.

Companies in Peru buy the gamut of typical coverages rangi from business interruption earthquake insurance.

Liability insurance, however, practically non-existent.

Peru's insurance underwrite and brokers say their biggest wor is the country's economy.

"The economy sinks lower eve day," says one broker. "Peop aren't paying their bills, either b cause they can't afford to or b cause they're trying to hold the money as long as possible."



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Peru's workers demanding better benefits

By CAITLIN RANDALL

LIMA, Peru—Struggling against aring medical costs and critical vercrowding in local social secu-ty hospitals, Peru's workforce is emanding an alternative to gov-rnment-sponsored health plans.

Some local and foreign-owned ompanies are responding to the emands, which have even become trike issues with unions that say he government health plans are vorthless.

"Peru's market is wide open for a not-too-expensive, not-too-complicated major medical plan," says H.J. Adriani, assistant general manager of Belco Petroleum Corp., whose own company recently initiated a group insurance program with El Pacifico.

"Insurance companies are beginning to implement excess health insurance," says one broker. "In a matter of months, Peru's health insurance business will be in a whole new ballpark."

The biggest problem with the government system is overcrowding. Most Peruvian workers depend on the government program for ward care in a hospital, medical, obstetrical and dental care.

Medical care is provided under either of two social security plans. Under one, medical care is provided free of charge in one of the state-run social security hospitals.

"Unfortunately," says Jaime Villaran, a broker with the Lima-based brokerage Vidal & Vidal, "unless you have connections, it's virtually impossible to get admitted into a social security hospital. The waiting list is just too long."

The other plan is a reimbursement plan, under which beneficiaries use a private facility and are reimbursed according to a government schedule. The schedules, on average, reimburse just 35% of the actual charges.

Hospital costs have risen by more than 80% in the last year.

"Frankly, I just can't afford to get sick," says one worker whose $100 monthly salary is substantially above Peru's minimum wage of about $72 a month.

"We've ended up paying for nothing," says one executive in a U.S.-based company. "For both the company and the employee, social security payments are like money down the drain."

Companies pay 3.5% of a salaried worker's earnings and 6% of a hourly worker's pay to the government social security program for health benefits. Employees pay 3% of their monthly paycheck.

Companies offering medical coverage pay an estimated 5% to 7% of payroll.

Peru's first private employee benefits program began in 1958 when three foreign-based companies, Standard Oil of New Jersey, W.R. Grace & Co. and the Cerro de Pasco Mining Co., established a basic health insurance program. The health plan was "literally translated from a standard U.S. health insurance policy," according to underwriter Peter Venard of Fenix Peruana Insurance Co.

Local companies set up similar programs in the 1970s to attract employees after a nationwide salary freeze was implemented by the socialist-oriented military regime.

The coverage offered under private medical plans is very basic, according to brokers.

The Belco program, described by one broker as "one of the best health policies Peru has to offer," provides both health and life benefits. The company's major medical plan includes a $200 deductible and a lifetime maximum of $1 million.

Mr. Adriani says premiums for the major medical plan are split 80/20 between the company and employee. Rates for individual employees are $22.06 a month and $68.65 a month for families.

"It's a good policy for here," Mr. Adriani says, "but when you consider the kind of medical plans available in the U.S., you realize how far behind Peru is in terms of health insurance coverage."

Belco's life insurance program provides employees with maximum coverage of $5,000.

Retirement benefits in Peru are mostly provided under the social security system, although retiring employees are entitled by law to termination indemnity.

Full social security pensions are available at age 60 for men after a minimum of 15 years of contribution. For women, the retirement age is 55 with a minimum of 13 years' contribution. The monthly pension is equal to 50% of the final average salary plus an additional 2% for males and 2.5% for females for each year over the minimum requirement. In each case, there is an overall maximum benefit of about $230 a month.

A reduced pension is payable to workers who have more than five years' service but don't meet the minimum service requirements for a full pension.

Employers pay 5% of payroll to cover retirement benefits; employees pay 2.5% of their earnings.

While in theory the social security retirement pension provides a "nice cushion for a worker's old age," the average salary in Peru is so low that any less is "next to nothing," one broker notes.

In addition to social security, employers in Peru are required to purchase whole life individual life insurance policies for each of their salaried employees at the end of his first four years of service. The amount of the insurance must be 133% of the employee's average salary over the preceding four years. Every four years, the policy limits

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WE'RE BREAKING AWAY.

Latin American nations present a variety of risks

By LAURENCE H. GROSS

DALLAS—The worldwide threat of terrorism is making risk managers more aware of the risks associated with international operations, but the cultural and political patterns of Latin America require special consideration.

To businesses operating in some Latin American countries, especially Peru and the Central American nations, military coups and guerrilla activity may create the greatest risk to personnel and physical assets.

In other nations like Brazil, where violence is less of a threat, contract payment problems or restrictions on removal of profits pose the greatest obstacles.

Differences in cultural attitudes and law-enforcement techniques present the greatest contrasts in security considerations between Latin America and other nations, says Charlie A. Beckwith, president of SAS Ltd., an international security consulting firm based in Austin, Texas.

"I don't perceive law enforcement in South and Central America as being as responsive as European police," says Mr. Beckwith, the retired Army colonel who led the ill-fated attempt to rescue hostages held at the U.S. Embassy in Tehran, Iran, in 1980.

"Terrorism in Latin America may be less sophisticated than the European brand, but it can be just as effective."

Jim Dowaliby, an administrator with Control Risks Ltd., a worldwide security consulting firm in Washington, D.C., says credit and contract risks deserve special attention when establishing operations in Latin America.

"In the old days, kidnap/ransom security evaluations were separated from political risk considerations," says Mr. Dowaliby. "Now, corporations are interested in evaluations across the board—kidnap/ransom, political risk, product extortion, emergency evacuation and medical repatriation."

Steve Halliwell, publisher of New York-based Frost & Sullivan Inc.'s World Political Risk Forecasts, says the greatest risks in Latin America are the ability to be paid for services and goods, restrictions on foreign ownership and the ability to extract profits from the host nation.

"With political atmospheres that are likely to change, the rules can change with them," says Mr. Halliwell. "The economy could be sound with a good business climate, yet we're looking at the likelihood for change. That's where political risk analysis enters the situation."

"Corporate executives tend to jump on the first thing (aircraft) smoking and they're off," says Mr. Beckwith. "To travel somewhere just for a brief meeting without some intelligence information is just plain stupid."

Although Frost & Sullivan and Control Risks often have similar general outlooks on the stability and political forecasts for a nation, their perspectives can differ.

While Control Risks prepares reports for underwriters and security consultant clients, often focusing on kidnap/ranson and terrorist threats, Frost & Sullivan assigns probability percentages to the likelihood of a change in government in a particular nation over the nex 18 months.

Frost & Sullivan also assigns letter grades ranging from A to D for forecasts of financial, manufacturing/extractive and exporting risks for 18 months as well as an overall five-year risk rating.

Business Insurance asked Frost & Sullivan and Control Risks for their evaluations of kidnap/ransom and other political risks in six Latin American nations. Their analysis includes:

Argentina

• Frost & Sullivan: The military junta is given only a 45% probability of remaining in power for the next 18 months, but it says a civilian government may decrease the probability for turmoil.

Although the short-term outlook appears to be improving, the long-term risk evaluation is very poor. And, though Argentina once was considered acceptable for American business, the country now has been assigned the lowest possible long-term risk rating.

• Control Risks: The internal political changes generated by the Falkland Islands crisis renewed concern about Argentine political risks. Despite internal political struggles between military and civilian factions, overall security appears reasonably satisfactory.

With the official inflation rate pegged at 175% and actual inflation rising to about double that figure, more street demonstrations appear likely as the economic crisis continues. However, there does not appear to be any popular disposition to interfere with business.

Dissention within the military is fast reducing the army's ability to retain control, and the military has said it will relinquish control to a civilian government if civilian factions are willing to meet stringent conditions. No civilian faction has agreed to those conditions, and there is little likelihood the military-civilian disputes will be quickly resolved.

There is serious concern about an increase in right-wing terrorism, which may lead to a left-wing backlash. If such a backlash occurs, there probably would be considerable effects on business operations.

Brazil

• Frost & Sullivan: The regime of Gen. Joao Figueiredo appears strong and is given a 70% probability of remaining in power in the next 18 months. Despite elections that were scheduled for last week, there appears to be little probability for turmoil. If there are any disturbances, they are more likely to

Continued on facing page

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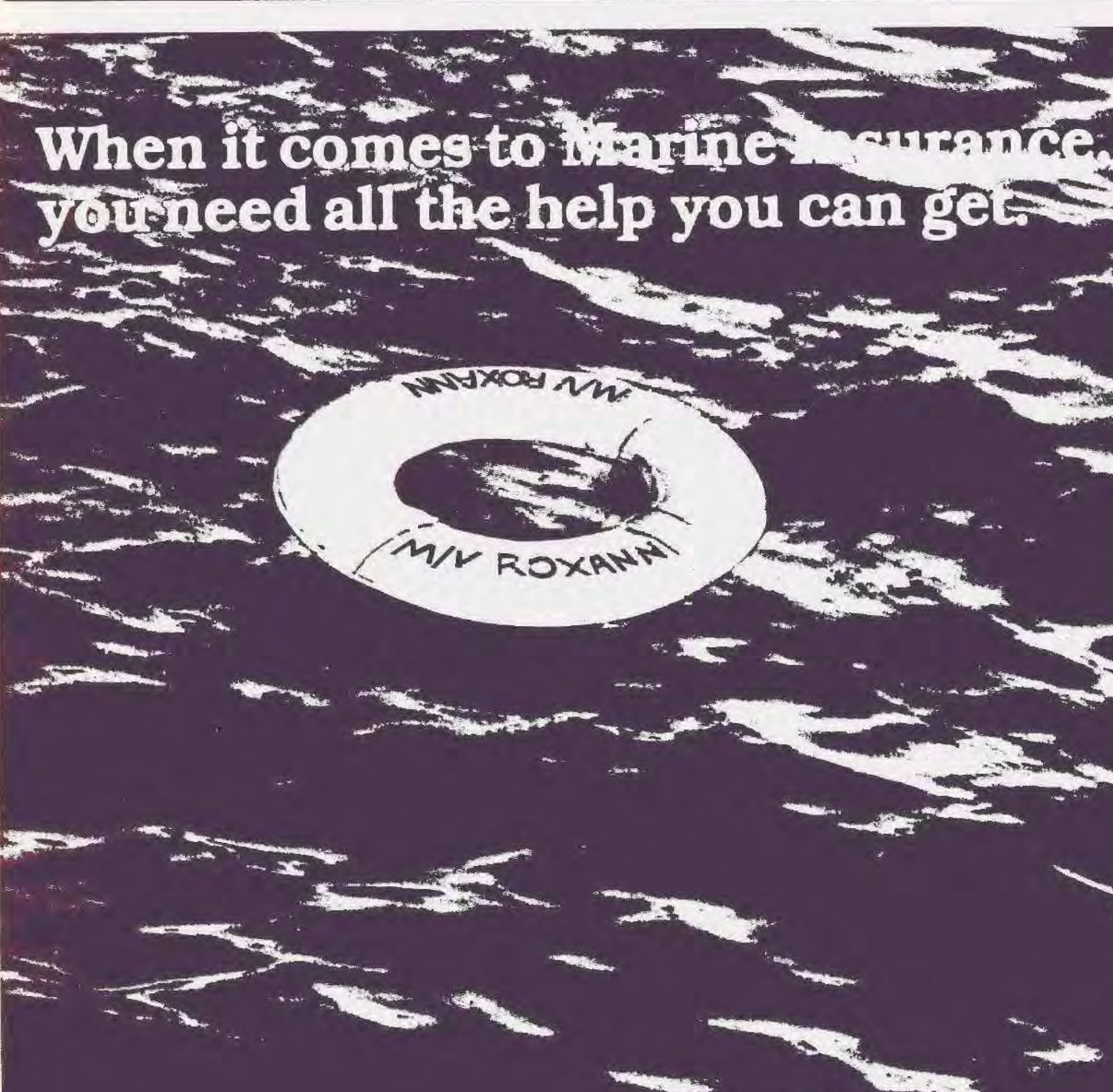

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:tinued from facing page
ur in rural than in metropolitan
as. The risk of kidnap is very
' and the business climate—from
:curity standpoint—is among the
st favorable in Latin America.
mport and tax restrictions pose
:tacles for business, however.
r example, tax rates on capital
noved from the country are
ich higher than for capital that
nains in Brazil.

• Control Risks: The country is
stable now as it has been in
any years, despite some tension
eated by last week's elections. Se-
rity of business and individuals is
t threatened at all by the elec-
ons. Street crimes pose a more se-
ous problem for the U.S. execu-
ve than the fear of kidnappings.
Riots and demonstrations could
:cur if the military were to renege
1 promises of not interfering with
e elections, although there is lit-
e probability of interference.

Chile

• Frost & Sullivan: The regime
f Gen. Augusto Pinochet Ugarte
ppears very stable with an 80%
robability that he will remain in
ower for the next 18 months. Gen.
'inochet had placed too many the-
reticians in important govern-
nent posts who were incapable of
he pragmatic aspects of running
he country and he recently has
been replacing them with more
ıble administrators.

The nation's financial risk rating and the rating associated with exporting goods are among the most favorable in Latin America, despite the troubled economy. The number of bankruptcies in Chile is skyrocketing. While Gen. Pinochet is trying to bolster the sagging economy, instability could develop with increasing economic trouble.

• Control Risks: Risk of violence in Chile is still considered low, although there are sporadic incidents of violence and guerrilla activity. Despite the rebel factions, a vast majority of the criminal activity appears aimed at government installations instead of foreign business or executives. As the effect of the government's fiscal policy bites more deeply, increased violence is possible. However, the lack of strength in the guerrilla movement is likely to turn their activities into no more than a nuisance and should not create a threat to business.

Mexico

• Frost & Sullivan: Political, financial and physical safety factors have been sliding since the election of Miguel de la Madrid, the first Mexican president without a background with one of the nation's political brokering groups. Although Mr. de la Madrid initially appeared to be following patterns set by his predecessor, Jose Lopez Portillo, he now appears to be taking more interest in the reform movement. Another currency devaluation is expected within six months and there is a possibility for a coup within the next five years if the economy does not stabilize.

The country is now negotiating with the International Monetary Fund for a loan exceeding $3 billion, but increased political turmoil is likely even if the loan bolsters the economy.

• Control Risks: Despite the alarmist rumors of political insurrection, the only area for terrorist concerns is the southern border with Guatemala. Many U.S. industries in Mexico are based in Mexico City and farther north, so personal security from terrorism has not yet presented great problems.

But other concerns are increas-

created ill social effects, including so-far peaceful demonstrations. Yet, even with the IMF assistance, unemployment is likely to increase and the loan may only delay the financial crisis that seems certain to occur.

Peru

• Frost & Sullivan: Peru could be a real trouble spot for international business in coming months as terrorist activity is expected to increase in the southern highlands. The government of Fernando Belaunde Terry has a 60% probability of remaining in power over the next 18 months, although there have been noticeable political shifts within the government toward a more nationalistic policy.

Peru's financial risk rating—the risk of a company receiving payments—was recently lowered. A possibility of a military coup remains, although there is only a 27% probability of turmoil for the next 18 months.

• Control Risks: The nation has been an area of continuing violence and threat, particularly to international business concerns. Although the government has lifted the state of siege over Lima and police claim incidents of violence by terrorists have been reduced, there is no improvement in security outside the capital.

Rebel groups control some towns and villages, often executing local businessmen, and further attacks on U.S. business interests are likely. General street crimes remain a problem and kidnapping also is more of a concern than in most other Latin American nations.

Venezuela

• Frost & Sullivan: The government of Luis Herrera Campins appears to be stabilizing the country, causing the probability for turmoil to decline and the long-term risk evaluation to improve. Elections are scheduled for late next year and no significant problems are expected.

A potential problem may exist next year over a territorial dispute with neighboring Guyana. The two nations had a 12-year moratorium on the dispute that expired this year, leaving Venezuela with claims on more than half of the former British colony. A medium but increasing risk factor is placed on the possibility of Venezuela trying to seize a portion of Guyana.

• Control Risks: Venezuela is one of the more stable countries in Latin America, and the territorial dispute with Guyana is not expected to be a serious problem. The greatest concern is with street crime, which is very high. New security measures have been installed at banks, as required by the government, to curtail the plague of armed robberies.

The guerrilla movement has been nearly quashed in Venezuela and is unlikely to pose near-term threats to business.

El Salvador, Honduras Guatemala and Nicaragua

There is a widely held consensus that these four Central American nations provide the least-fertile environment for business and pose the greatest risk to personnel and physical assets. While the threats of kidnaping and terrorism are high, some governments also impose restrictions on currency exchanges and other business transactions.

Without exception, security analysts assigned much greater risk factors in Central America than in most nations of South America. ■

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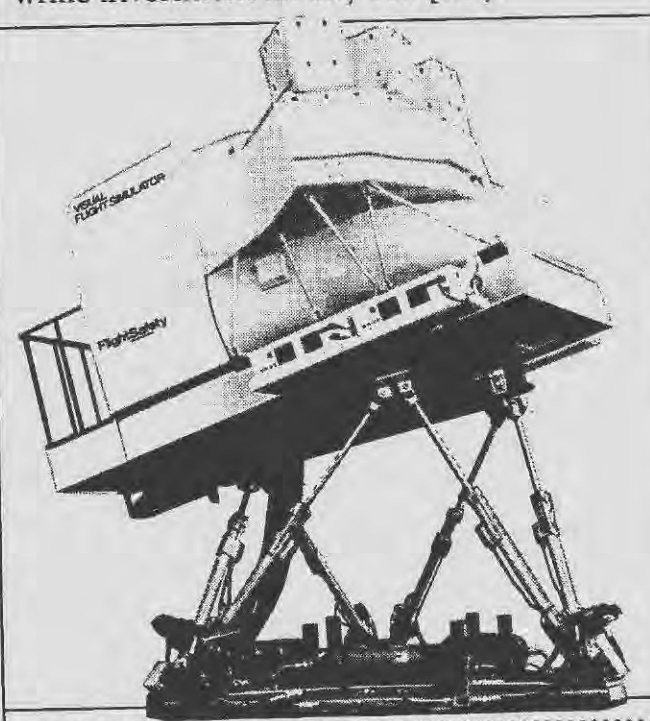

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Intelligence networks replace gimmickry for overseas execs

By LAURENCE H. GROSS

DALLAS—Armed with gadgets like a bulletproof briefcase that beeps when it detects a bugging device and wails like a siren when it's tampered with, an executive may believe he's ready to establish operations in a somewhat-hostile Latin American nation.

But the glamorous image attached to electronic gadgetry may provide a false sense of security to executives operating overseas.

Security experts say intelligence gathering, risk evaluation and loss-prevention techniques have replaced the gimmickry once associated with protecting personnel and assets in foreign nations.

"We believe the executive is not likely to be impressed by the cloak-and-dagger, bulletproof-briefcase crowd," says one security consultant. "Despite the apparent glamour of this business, security risk consulting is very straightforward. It's just another form of advance strategic planning."

Intelligence-gathering capabilities may be the key for corporations with overseas operations, particularly when information is gathered in advance of an international expansion.

"Most management teams are used to making traditional business decisions on internal data," says Timothy J. Walsh, a New York security consultant. "They are becoming newly dependent on outside expertise."

Mr. Walsh, a partner at Harris & Walsh Management Consultants Inc., says although information-gathering networks may reveal political problems—like guerrilla activities or potential government coups—in a particular nation, the intelligence network often reveals basic obstacles to business.

Mr. Walsh cites as an example the import-export problems of establishing operations in Brazil, one of the continent's most stable political environments. Capital goods imported to Brazil are subject to heavy tariffs, and monetary assets leaving the country also are subject to heavier taxes than capital remaining in Brazil (see story, page 68).

"That's just part of the country's attempt to vertically integrate its industries," Mr. Walsh says. "And it seems to be working."

Although accurate intelligence data may appear difficult to obtain, Mr. Walsh cites several potential sources besides routine accounts in the media.

"No company drops in from heaven," he says. "They have advance marketing people or regional offices in the nation being considered."

Personnel at the nation's U.S. Embassy can be helpful, but they can also be biased in their evaluations, Mr. Walsh says. Some corporations find their local managers can be the most useful source of information.

Because keeping a low profile is a key consideration in maintaining security of international operations, more than a dozen corporate risk managers refused to be quoted by name about their efforts.

One risk manager for a multinational food manufacturing company says he relies heavily on information from foreign nationals working at the company's overseas plants.

"They have a financial interest in the continued operations of the facility," he says. "The information is frequently used to dispel what we read in the foreign or U.S. press. They have been invaluable to us."

A risk manager for an international automobile manufacturer says he uses his bankers to assist in the information-gathering process.

To evaluate political risks—including the risk of expropriation of assets, change in governments or terrorism—some risk managers have turned to professional intelligence services.

Frost & Sullivan Inc. of New York was among the first companies to establish a worldwide political analysis service. Information gathered from sources in 70 countries is assembled, evaluated and edited monthly by two Syracuse University professors. The information is then published as Frost & Sullivan's World Political Risk Forecasts.

Steve Halliwell, publisher of the forecasts that are now provided to 900 clients, is critical of intelligence gathered by banks, explaining that it is often out-of-date or unreliable.

He cites as an example the recent events in Argentina, which most bankers failed to forecast.

But, he adds, "The Falkland Islands were one of our major booboos, too. While we did not focus on that specific territorial dispute, we had estimated a good probability for disruptions (in Argentina)."

Other risk managers are turning to specialty security firms, like SAS Ltd. of Austin, Texas, which will travel to a specific country to perform an analysis of risks.

SAS President Charlie A. Beckwith, the retired Army colonel who led the aborted attempt to rescue the hostages at the U.S. Embassy in Teheran, Iran, says it is impossible to evaluate political risks without sending an advance team to determine a nation's political climate.

"If you think I can call the shots in Argentina while sitting here in Austin, you're obtuse," he says. "You can waste a lot of money on intelligence and intelligence operations, but you simply cannot trust an armchair analysis."

While a company cannot always anticipate the international incidents that can affect business, security experts say intelligence can be used to determine the general safety of personnel and assets overseas. It can also be used to determine what type of risks a com-

Continued on facing page

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ıtinued from facing page
ıy's operations are likely to en-ınter.

ʼor example, Control Risks Ltd., worldwide security consulting m, says that although guerrillas Latin American nations like ru and El Salvador have at-ːked businesses and businessmen, ere have been few, if any, attacks business in other Latin Ameri-n nations, like Brazil.

Jim Dowaliby, a Control Risks ministrator in Washington, says ief executive officers generally ıve lost their naivete about inter-ıtional security problems. Most ıw seek to control the risks and ːposures that overseas operations eate.

"Some companies and industries em to be very well-prepared for ıe overseas crisis. For example, ıe petrochemical and pharmaceu-cal industries as a whole have ıng been aware of international roblems," says Mr. Dowaliby. Some corporations are not as well-ıformed."

Mr. Dowaliby says several key omponents contribute to the anal-sis of a client's overseas risks: the ompany's current security struc-ure, including the establishment of crisis management team; the his-ory of previous incidents or at-acks; and the corporation's general ırofile or image.

Security consultants, while not-ng that the makeup of crisis man-agement teams varies depending on corporate structure, emphasize the importance of having a group of top managers in place before a crisis occurs.

A team usually includes four to eight corporate executives, prefera-bly those who do not travel fre-quently and those with responsibi-lities that could easily be assigned to others if a prolonged crisis were to occur.

Although a typical team is hard to describe, most security experts say it will often include a financial officer, a member of the corporate legal staff, an operations executive and internal as well as external security consultants.

"We've found some circumstances where there is a crisis team in place—and that's great. They even had a plan for action," Mr. Beckwith notes. "But they never made a dry run through a simulated incident. If there had been trouble, there would have been pandemonium."

Another way to control losses overseas is to train executives and support personnel who travel or work overseas. Mr. Beckwith's firm, for example, puts executives through a two-day training course to prepare them for overseas operations.

Mr. Walsh of Harris & Walsh and other security experts say that the company's profile or public image is an obvious, but often overlooked, element in analyzing foreign risks.

"You have to consider the ordinary vulnerability of the product, items like normal exposure to theft," Mr. Walsh says, "but the inherent value of an asset must be evaluated. If you are producing gold salts, you obviously are a much more likely target than if you were manufacturing paper bags."

Evaluating the corporate profile should be more than a one-shot study of the worth of the company's products and the visibility of the corporation through its marketing efforts. Mr. Walsh says the evaluation must be ongoing to interpret the corporate profile in respect to new governments and political changes.

The size of the local workforce employed at a foreign plant, the public image of the corporation in the host nation, the cash flow from the operation as perceived by locals, the amount of travel by foreign-based executives and the number of U.S workers in the nation all must be evaluated and rated in a corporate profile, security consultants say.

Mr. Dowaliby of Control Risks says although multinational corporations used to view overseas risks as vulnerable to several different types of threats—like kidnap, expropriation of assets, political risks and evacuation of personnel—companies now consider them as part of an overall risk evaluation.

Security experts also advise their clients who buy political risk and kidnap and ransom insurance to keep the purchase of such coverage as secret as their research-and-development projects.

One Florida-based security firm rebuffed all inquiries from *Business Insurance*, saying that its clients expected it to keep the same low profile that it advises them to maintain.

Vincent J. Borelli, a senior vp at Marsh & McLennan Inc. in New York, would not reveal the number of clients that now carry kidnap and ransom insurance, explaining that the data has become so sensitive that insurers underwriting the coverage will list premiums under a miscellaneous category rather than reveal how much K&R coverage they provide (*BI*, Nov. 15).

Mr. Borelli says underwriters are underwriting most of the K&R and political risk coverages that are requested, but if the preponderance of risk factors is too great, the insurer will place extremely restrictive conditions on the policy.

"An underwriter would be foolish not to take into account both internal security (of the company) and external conditions," he says.

M&M's Mr. Borelli notes that security firms should be used for the pure risk analysis and loss-prevention aspects of working overseas.

"The first thing that executives have to recognize is that kidnap and ransom insurance is no substitute for protecting personnel and assets," he says. "The first thing is to protect people and their families." ■

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B-11/22

Berlin risk management conference

By STACY SHAPIRO

European companies trying to reduce insurance costs

WEST BERLIN—As the worldwide recession tightens its grip on European nations, companies are turning to sophisticated risk management techinques to cut losses and save money.

For example, European risk managers are closely examining the savings from using captive insurance companies. They are considering higher deductibles, self-funding and the use of bank services instead of traditional insurance. They are seeking unbundled services and tailor-made insurance packages from their underwriters. And, they are presenting more complex risk management analyses to top management.

All of these subjects, and many more, were raised at the 12th Annual Insurance and Risk Management Conference last month in West Berlin.

In fact, risk management has grown so much in Europe in the past year, the term risk management was added the title of the conference for the first time this year. The change may have been partly responsible for the record attendance of 300 people, of which 30% were risk managers.

The conference proved that risk management has spread across the Atlantic and even crossed the Iron Curtain. Conference participants came from the United States, Britain, France, West Germany, Italy, Switzerland, the Scandinavian nations, Hungary, Poland and Yugoslavia.

Some risk management problems are common around the world, conference members learned.

For example, budget-conscious risk managers everywhere want low premiums and fear that today's rock-bottom insurance prices will soon rise. However, they also realize that if the current competitive market cycle persists, some underwriters could fold.

But, higher premiums will not solve all the problems that insurers are now facing, said Gustaf Hamilton, risk manager for the Statsforetag Group in Stockholm, Sweden. "Even the insurer must be more efficient to reduce his costs of doing business and increase his financial services. Otherwise, his clients will disappear."

Premiums have already increased in Scandinavia, Mr. Hamilton told the conference, and it appears they are starting to rise in other nations, too.

Fire insurance rates could rise more than 25% in West Germany next year, conference participa said. And business interrupti premiums are already prohibi vely expensive in France, sa Alain Pavy, insurance manager France's Rhone-Poulenc.

The solvency of insurers in most every nation can affect sor multinational insurance progran said Robert E. Feer, vp of Switze land General Insurance Co. Ri managers at multinational cor panies should be very careful th the insurers and brokers they u to form such a program will l around to pay catastrophic claim he advised.

"There is a need for continuit (of coverage) in all multination insurance programs," said Dr. Fee

The risk managers attending th conference said they are also look ing for more innovative coverages

"My expectations in insuranc concepts are products that are flex ible, adaptable and conform t changes in risks," said Werne Wchimming of Bavarian Moto Works.

"I would like to see more flexibl calculation models, experience rat ing with a balance between premi ums and claims, retrospective rat ing in setting premium levels, more extensive self-insurance rules higher rebates and self-retention.

"The insurer must be ready and able, corresponding to changes to the internal organization of a company," he said.

The role of the risk manager is becoming more important in Europe, participants also agreed.

"A risk manager steps in upstream from insurance and intervenes as and when the risk arises," said a French representative during one of the conference's many discussions. "A tailor cannot make a suit unless he has the leg measurements of the suit. How can an insurer write something when he does not know what the risk manager wants?"

One major problem facing European risk managers is that the rules of the game are different in almost every country. Swedish companies, for instance, are not allowed to own captive insurers, although that situation may soon change, Mr. Hamilton said.

It was fitting that the international risk management conference was held in Berlin, a city that serves as a gateway between the Eastern bloc and Western Europe and that has a heritage as a major insurance capital.

The conference was held in the German "center of insurance," according to Elmar Pieroth, a West German senator who spoke at the opening of the meeting.

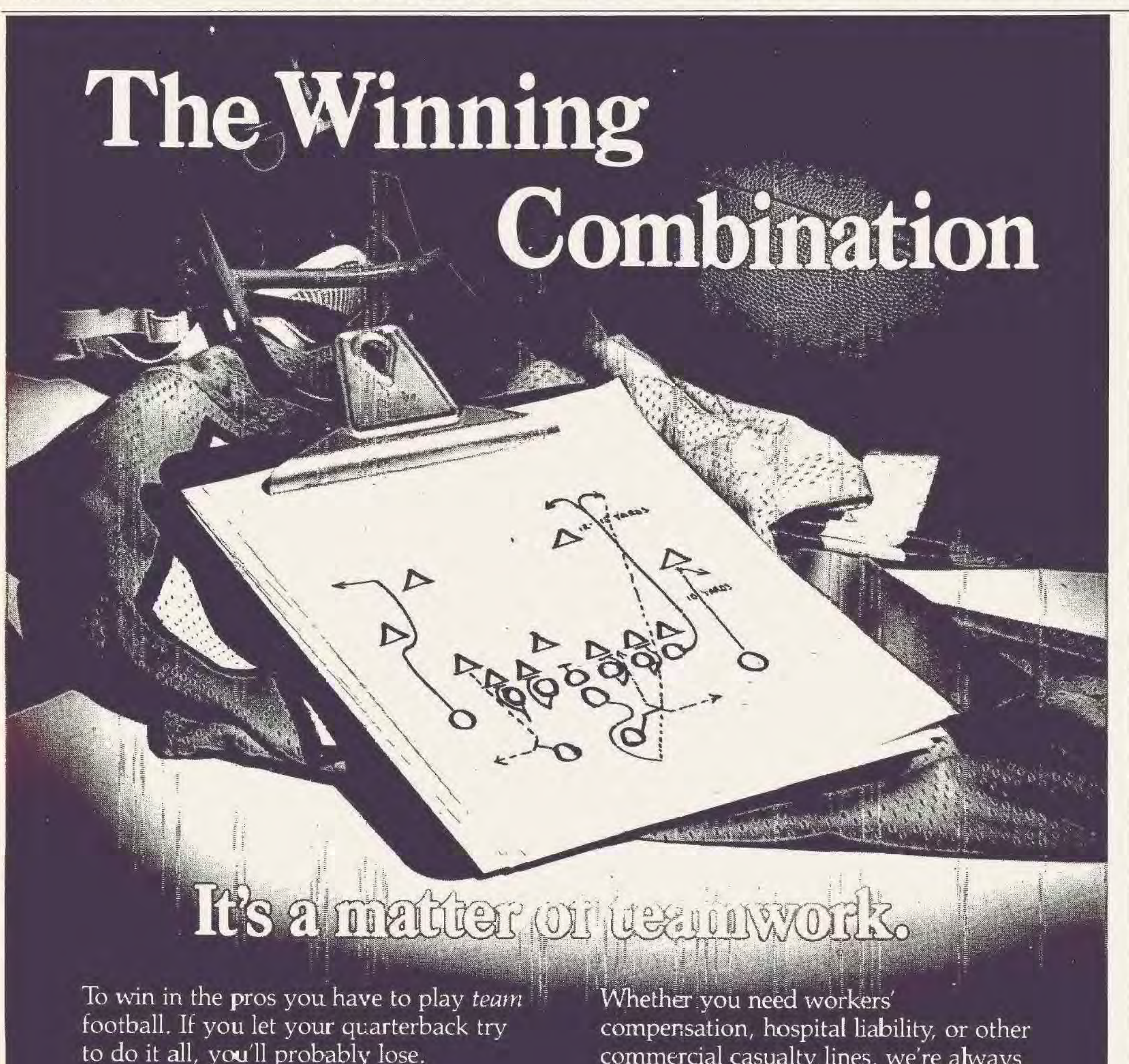
Before World War II, he explained, almost every German insurance company was headquartered in Berlin. Six insurers are still based in the city, he said.

Berlin's unusual status—a democratic and capitalistic city surrounded by a communist country—gives special significance to risk management.

Although West Berlin must trade with its communist neighbors to bolster its economy, there is no reason why international companies should shy away from doing business in the city, Mr. Pieroth said.

"There is no risk to committing yourself to Berlin," he explained. "It is secure—more secure—than most European cities. It is strategically placed. We are surrounded but have the special expertise of East/West trade.

"In insurance, as elsewhere, we have to cooperate and communicate in the Eastern power blocs. We must not underestimate or overestimate Eastern trade relations," Mr. Pieroth commented. ■



/lultinational packages equire careful planning

VEST BERLIN—Beware of jab-rwocky when searching for a ıltinational insurance program.

'This is the 150th birthday of wis Carroll (author of 'Alice in onderland')," said Robert E. er, vp of Switzerland General surance Co. of Zurich.

"But we of the insurance world ght not to delight in his memory making this a Mad Hatter's tea rty."

There are several ways risk man-gers can avoid the pitfalls of mul-national insurance programs, Mr. eer told the members of the 12th nnual Insurance and Risk Man-gement Conference.

"It is essential that an overall hilosophy of insurance be devel-ped and approved by your board f directors," he said, adding that t is preferable for the insurance rogram to be regionalized."

For example, U.S. exposures hould be under one general pro-ram because of the complexity of ifferent state regulations.

Britain and the Commonwealth ations could be lumped into one egion, as well as Europe, Asia, etc., e said.

One insurer and/or broker with offices or contacts around the world can usually provide the ser-vice needed.

"But beware the untested broker and insurer. Do not be a partner in his first global exposure," said Mr. Feer. "There is no point for you to pay for the education of your in-surer.

"Beware who you use—no in-surer should use any other cur-rency than the currency of the home policy," he said. And all transactions should take place in the currency of the company's home office.

Companies needing multina-tional insurance programs are in-clined to pick large brokers, which is not a bad idea, Mr. Feer said.

But make sure the broker has grown because it has increased its business production, not just be-cause it has merged with others, he suggested.

Insist on an executive in the bro-kerage to work on your insurance program.

"Otherwise, there is no point if a broker gets a novice for training on your program," he said.

When choosing insurers for the program, make sure these com-panies are willing to front for the policy anywhere in the world. "A carrier who cannot front itself ought not to be underwriting in the first place," said Mr. Feer.

Make sure the broker can service your policy properly. "The buyer should ask the broker to go through the risk management exercise, which separates the strong from the week," said Mr. Feer. Has the broker thought of the offbeat risks, like political risks without physical damage, fidelity risks, vermin risks, fear of contamination of products, currency losses and shareholders' protection?

A multinational insurance pro-gram can also become lost in the translation of different languages if different nations use different defi-nitions for the same terminology. The buyer and the insurer should understand and accept the same definitions.

When forming a program, make sure that individual factors are taken into account. Retention levels vary, depending on the type of risk involved and whether a captive is being used. Deductibles will vary, too.

Even if all these things are ac-complished, a multinational insur-ance program—or any program—can fail, Mr. Feer explained, if:

- There is a lack of management commitment on the part of the company.
- There is a failure to assign re-sponsibility to various divisions of the company.
- There are misunderstandings by key people, like safety or loss-control engineers.
- Company personnel are not adequately trained in the company.

"There is a need for continuity," said Mr. Feer. "There is a 10-letter word—asbestosis—which is realiz-ing company failures, lawsuits, counter lawsuits. You must make sure that your insurance carrier and your insurance program will be here and be responsive up to 40 years from now." ■

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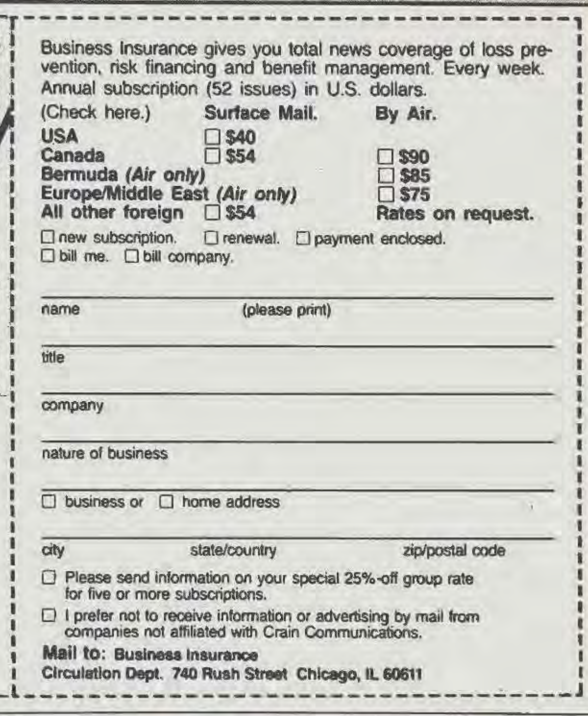

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Industry undergoing 'revolution': Cox

WEST BERLIN—"Insurance is undergoing the growing pains of the second Industrial Revolution," according to John Cox, president of INA Corp.

The "pains" have surfaced in the recent spate of acquisitions that has swept the industry, he explained.

"In the last two years, there has been more merger and acquisition activity than at any other time in the history of financial services industry," Mr. Cox told the 12th Annual Insurance and Risk Management Conference held in West Berline last month. "The merger of my own company with Connecticut General Corp. to form a new creature called CIGNA Corp. is a notable example.

"And this is just the beginning," he explained.

For example, the ongoing deregulation of the U.S. banking industry could prompt insurers to buy banks and become "one-stop shops" for financial services, he said.

Money access cards, like those already used for automatic bank tellers, could someday enable buyers to get insurance policy information, make coverage changes, receive price quotations and transfer the funds from their bank accounts to pay for the extra coverage—all at a touch of a button.

"Some large companies and securities firms will be able to make cash withdrawals, insurance payment and investment transfers with one corporate credit card," said Mr. Cox.

Computerization is also "revolutionizing" the insurance industry, Mr. Cox said. The industry is currently adding data processing equipment at a rapid pace, which is hurting profit margins now but will increase them in the years to come, he said.

The insurance industry now uses 600,000 computers, not including desk models, he said, and predicts that by 1985, the industry will use more than 1.5 million computers.

Technology has also changed the way insurance companies do business with risk managers, Mr. Cox added.

The risk manager-insurer relationship now goes beyond simple insurance buying. It embraces captives, paid-loss retrospectively rated plans and self insurance. Risk managers are now able to see the details of their loss data on computer terminals offered by insurers like INA.

"By using our personal computing facility, our software and/or writing his own computer program, the risk manager can do sophisticated analysis, which was impossible a few years ago," Mr. Cox commented.

The 21st century has already arrived for the insurance market, Mr. Cox stated.

"It is here now in the sense that changes have occurred in our market that already give us a firm outline of the markets in 2010," he explained.

Despite the changes that technology has had on the market, the most rapid changes are being made in the Third World countries, Mr. Cox explained. The risks there are growing in value every day, along with economic problems and the sentiment against foreign ownership. ■

German firms want right to us foreign insurers

WEST BERLIN—West Germ risk and insurance managers wa the government to drop its restr tion on placing coverages with fo eign underwriters.

The risk managers are lobbyi the government to ratify the s called "freedom of services" d rective issued by the European E conomic Community that sa companies in EEC member cou tries should be allowed to pla coverage with any insurer based i any Common Market nation.

The directive has been ratifie by all EEC members except Fran and West Germany.

"We, the insurance buyer under the Treaty of Rome, hav the right to accept the EEC law an put it into effect," said one Wes German risk manager who at tended the 12th Annual Insuranc and Risk Management Conferenc held last month in West Berlin. Th risk manager asked that his nam not be used because he did not wan to to antagonize the West Germa Insurance Supervisory, which reg ulates insurance in the nation.

"It is an old law that set up the Insurance Supervisory," he said "The idea when it was enacted in 1901 was to be protective—to protect the insurance buyer."

But the supervisory recently extended the law, he continued, to make it illegal for foreign insurers to settle claims in West Germany.

That rule "is the most ridiculous thing in the world," the risk manager commented. "Of course, someone from a foreign insurance company has to come here to settle claims."

The Insurance Supervisory strongly opposes ratification of the EEC directive, its president said.

"The European community, whose aim is to create a common market, is posing new problems for insurance supervision," August Angerer told the conference.

"In the case of unrestricted freedom of services, the German Insurance Supervisory would see endangered the interests of the insureds. . ." he said.

"The Insurance Supervisory fears that if there is freedom of services, it would lose its power," the West German risk manager later responded.

Conference participants were so upset by Dr. Angerer's remarks that they called a special session to discuss the EEC directive.

During the session, they drafted a letter urging ratification of the directive to be sent to the new West German Chancellor, Helmut Kohl.

"The participants at the 12th International Insurance Conference organized by Management Center Europe—representing European industry, insurance companies and brokers operating internationally—note with concern that freedom of services for insurance in the European market has yet to be achieved," the letter begins.

"The Treaty of Rome laid down that freedom of services would be established by the end of the (Common Market's) transition period (which ended in 1970). All efforts undertaken by professional bodies, governments and the European Commission with a view to adopting a coordinating directive have so far resulted in failure.

"A general political decision needs to be taken at the government level if a way is to be found out of the present conflict. The degree of integration already achieved by the economies of Europe requires that within the European community no restrictions be put upon trade and industry with regard to choice of underwriter." ■

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nsurance systems differ in Eastern Europe

/EST BERLIN—Commercial personal risks are insured in and, Hungary and Yugoslavia the "good of the people," insur-e officials of these three nations

ınd, the Soviet satellites have ıblished several different types insurance companies and pools :over these risks, they told those ending the 12th Annual Insur-:e and Risk Management Con-ence held earlier this month in :st Berlin.

n Poland, for example, domestic ırance is written solely by Pan-wy Zaklad Ubezpieczen (PZU), cording to Dr. Eugeniusz :oinski, director of economic in-rance for the monopoly insurer. Another company, Warta, under-:ites all coverage for interna-nal risks and issues all reinsur-ce in Poland, he said.

The Polish government requires at all cooperative and privately vned farms carry several types of surance, and all automobiles in e nation must also be insured, Dr. roinski said.

"It may be said that if the given nd of insurance is useful to the ajority of the economic units or ersons or when the public welfare emands it," the government is kely to make the coverage man-atory, said Dr. Stroinski.

State-owned companies do not ave to purchase insurance, but the overnment has purchased cover-ge for these companies almost ontinuously since World War II.

"This results from the fact that he state and cooperative firms ave considerable economic self-lependence and they operate on he basis of full economic account-ng," he said. "Insurance protection as ensured more efficient com-pensation of losses."

The coverages are not necessar-ly the same as in the West, he said For example, one all-risk policy can cover an entire state industry.

Group life insurance benefits are paid to the survivors "irrespective of the cause of death," said Dr. Stroinski, adding that group life coverage has quickly become popular.

"Poland's social security system also guarantees working people and members of their families keeping a certain level of livelihood" after they retire or they are disabled, he said.

In Yugoslavia, commercial policyholders are banded together in what resemble mandatory self-insurance pools to cover their own risks.

Eight "insurance communities" and five "reinsurance communities" offer coverage to Yugoslav businesses. The pooling arrangement was set up under various Yugoslavian acts, including the Foundation of the System of Property and Persons Insurance Act.

"Such pooling is being performed on the principles of mutuality and solidarity," said Nedjeljko Podrug, assistant general manager of Slavija Lloyd Insurance of Yugoslavia.

The pools replaced Yugoslavia's insurance industry in 1974, he added.

Each pool writes coverage for a certain type of risk or industry. The pools are managed by labor organizations or other Yugoslav social groups, said Mr. Podrug.

Although companies must join the insurance and reinsurance communities, property coverages and personal lines coverages are not mandatory in Yugoslavia, he said.

The only risks that may be insured outside the country are marine liability risks, new buildings and export risks, he said.

Hungary's insurance market is controlled by a government-owned monopoly:

"The insurance enterprise of the state covers the insurance demands of economic organizatons, other legal personalities and private persons," said Dr. Eva Ebli, managing director of Allami Bizosito in Budapest, the state-owned insurer.

The company also distributes loss-control instructions through state and social organizations, she said.

Each Allami Bizosito branch office is an independent unit, she said, marketing its own policies and settling its own claims.

The insurer serves three broad markets, Dr. Ebli said:

- Providing fire, liability and other coverages for Hungarian industrial and retail companies.
- Providing crop and livestock insurance for the nation's farms.
- Providing personal lines coverages like auto and property insurance and both individual and group health and accident insurance.

The company also has an "extensive" international presence by covering export and import risks, said Dr. Ebli.

"The backbone of our services consists of meeting the mass demands in insurances by providing combined policies with favorable premiums," she said. ■

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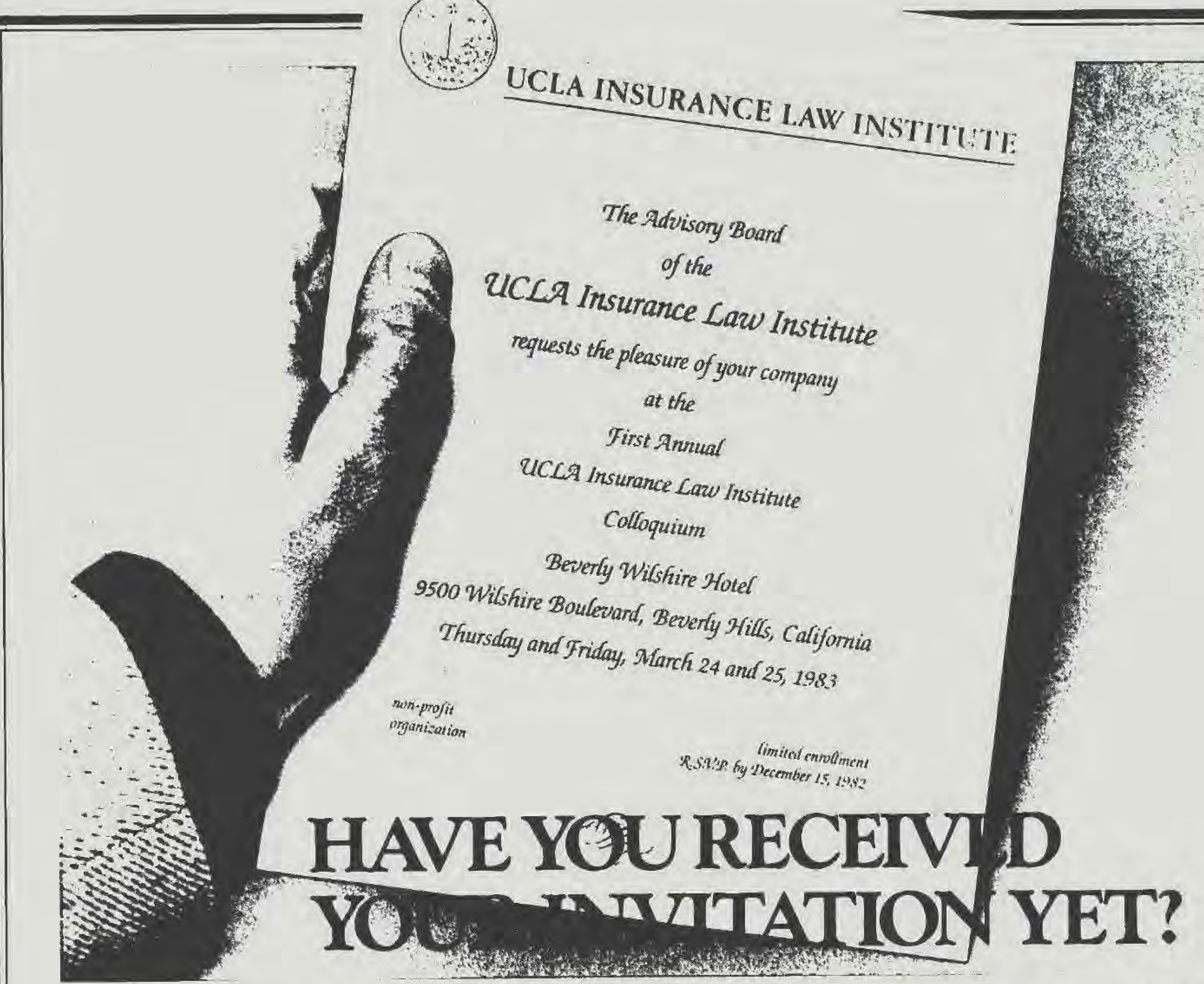

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Swedish risk manager hoping for changes

By STACY SHAPIRO

WEST BERLIN—Scandinavian risk managers may someday fund their companies' losses by taking out bank loans rather then buying insurance, says Gustaf Hamilton, risk manager for Statsforetag Group, a manufacturer based in Stockholm, Sweden.

Mr. Hamilton explained to those attending the 12th Annual Insurance and Risk Management Conference in West Berlin that obtaining a bank loan could be considered "post-funding" a loss, while purchasing insurance is a form of "pre-funding."

Post-funding would be more economical, he said, because funds would only be dispersed at the time the loss occurred.

However, there's a hitch in this plan, Mr. Hamilton admitted. "It is difficult to get an agreement from a bank to give me a loan if there is a loss," he said. "But when you have insurance, you are always sure that they will pay you for a loss."

Although banks may never replace insurers, Mr Hamilton hopes to see other changes in Scandinavian risk management. He wants to see underwriters tailor more programs for specific clients. He would also like additional unbundled services from insurers and brokers and more self-insurance capabilities.

And, Mr. Hamilton is waiting for the day when his Swedish-based company can form its own captive.

"We are not permitted in Sweden to own a captive right now," he said. "But, we will probably be able to in 1984. There is a commission of state searching for the solutions. The answer from them may come next year and we think in 1984 it will be OK to form a captive."

It will not be difficult convincing top management, either, that a captive insurance company is a good idea. Statsforetag's board of directors looks at its risk management operations as a profit center that is just as important as the rest of the company's operations, Mr. Hamilton said.

"Top management will always be interested if it is a question of profit," he explained.

The concepts of risk management have spread to Scandinavia from the United States over the last several years, said Ulf Nordblad, managing director of Skandia Risk Management Ltd. of Sweden.

"There is more risk management in Scandinavia than anywhere else in Europe," he said. "We are just stressing the word 'management.'

"The risk environment is always changing. Now we have to worry about white-collar crime, computer fraud, etc," he continued.

But if risk management is carried out properly, it can overcome any exposure, Mr. Nordblad pointed out. "Risk management ideas have been implemented in large industries in Scandinavia, so major losses have decreased."

Mr. Hamilton's risk management department at Statsforetag is a good example of how such a department should work, said Mr. Nordblad.

In 1977, with the help of Mr. Norblad's company, Mr. Hamilton set up the risk management department at Statsforetag. Since then, risk management has been included in year-end financial reports as a separate department.

Mr. Hamilton's department acts as a type of in-company insurer. It places coverages or self-insures each Statsforetag operating unit's risks and hopes, through controlling losses and wise investment policies, to turn a profit at the end of the year.

"We are a profit center and must make an annual report," said Mr. Hamilton. "We have not seen other annual report like this in Europe."

Some of the profit the risk management department makes is used as incentive payments to subsidiaries that properly control their risks, said Mr. Hamilton.

"I stress loss prevention. It is more important to all systems. I stress this, and I travel around to the subsidiaries and make risk analyses and examine their performing techniques.

"If I have found a grave risk, I may say, 'If you do not reduce this risk, you will have no money from me this year.' That can be a big blow," he said.

In 1981, Mr. Hamilton's risk management department earned a profit of $1.6 million. About $1.4 million was distributed as dividends to subsidiaries, while the rest was retained for loss reserve, he said.

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Task force to draft new PBGC legislation

washington

By JERRY GEISEL

WASHINGTON—The Labor Department will play the lead role in developing new legislation to shore up the nation's pension insurance system.

An interagency task force, chaired by Jeffrey Clayton, administrator of the Labor Department's Pension and Welfare Benefit Programs Office, will try to draft a bill to prevent firms from dumping underfunded pension plans on to the Pension Benefit Guaranty Corp.

Normally, the PBGC would develop legislation that affects its insurance program, but the agency's influence has declined in recent years. Also, the PBGC played the lead role in drafting the last major piece of pension legislation: the Multiemployer Pension Plan Amendments Act.

That 1980 law imposed enormous new liabilities on employers leaving underfunded multiemployer plans, a fact few employers grasped it was enacted in August 1980.

Since then, many employers, particularly small companies that think the PBGC is too closely tied with groups that represent large firms, fear any proposal that comes from the PBGC.

Truck rim rules

The Occupational Safety and Health Administration has proposed new rules to protect workers servicing single-piece truck tire rims.

The danger involved with servicing a single-piece rim—and multipiece rims, as well—is the sudden release of air within the tire. The force of the pressurized air, when suddenly released, can throw a 200-pound rim assembly 30 feet into the air.

Under the rules, the tire's valve core must be removed before the tire is taken off the rim to ensure complete deflation. Also, tires can only be mounted on compatible rims with matching bead diameters.

Crime insurance

Louisiana is the latest state in which federal crime insurance is available.

Small businesses and residents can purchase the burglary and robbery insurance through licensed property insurance agents or brokers. The plan, available through the Federal Emergency Management Agency, has a $15,000 limit.

Rates for the program, which is offered in 29 other states and the District of Columbia, are based on overall metropolitan crime statistics, so the cost is the same in an area's suburbs and inner city. ■

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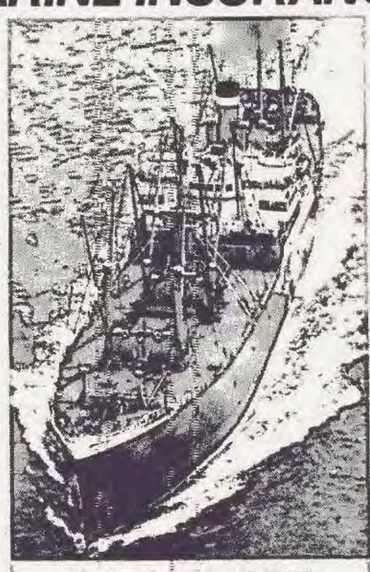
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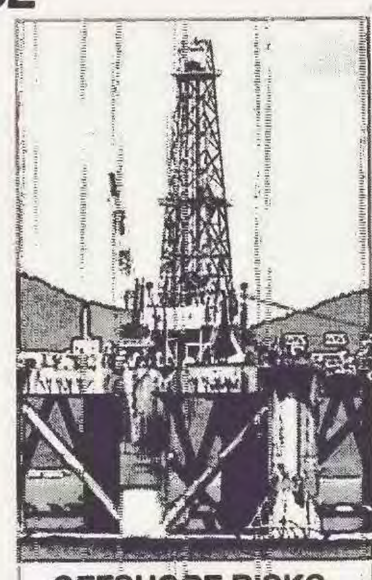
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New York man taking on 467 insurers

ntinued from page 2

'If all true parties in interest re named by plaintiff, most of world's wealth would be conlled by the named defendants," lawsuit states.

Representing himself—the attory he had hired to file the suit ed of a heart attack in September Mr. Moore has petitioned the urt to have himself declared the presentative of a class that indes every U.S. citizen.

If he wins the $21.6 million in mpensatory damages he is seekg, he will keep only about $2 milon, Mr. Moore says. The remainer will be placed in a trust that ill "fund projects to protect rights both U.S. citizens and foreign tizens."

Mr. Moore also seeks "a miniium" of $1 billion in punitive amages that would go into the ust.

The whole affair began in April 969, when Mr. Moore says he acuired the Columbia School of roadcasting franchise in an agreeent with Telfon Communications Corp., which managed Columbia ntil Telfon was declared bankrupt n 1971.

The agreement was reached after Mr. Moore's attorneys, the irm of Broad, Khourie & Schulz of San Francisco, negotiated a number of disputes Mr. Moore had with Telfon over the retail price of radio announcing courses and other matters.

When further disputes arose between Mr. Moore and Telfon, the law firm allegedly informed Telfon's management that it would bring a retail price-fixing antitrust suit against Telfon on Mr. Moore's behalf unless the company bought back Mr. Moore's franchise for a "multimillion-dollar" amount.

Mr. Moore further alleges in his suit that Telfon's president, William A. Anderson, coerced him into making threats against Telfon during four telephone conversations allegedly recorded by Mr. Anderson.

On July 6, 1970, Telfon filed suit in U.S. District Court in San Francisco to terminate Mr. Moore's franchise contract, citing Mr. Moore's threatened antitrust action and alleging "extortion and blackmail" attempts by Mr. Moore against Telfon.

Mr. Moore then had Broad, Khourie & Schulz file a $7.2 million antitrust counterclaim against Telfon, along with a separate lawsuit against Mr. Anderson and Telfon that alleged invasion of privacy and violation of federal wiretap laws in the alleged recording of the telephone conversations.

On Nov. 12, 1970, a federal judge ruled that Telfon's extortion and blackmail accusations be "forever stricken" from the record in the company's civil suit.

Both the Telfon suit and Mr. Moore's counterclaim were eventually dismissed due to "lack of prosecution," according to the latest suit.

In July 1975, Mr. Moore lost the invasion-of-privacy suit after a 12-day jury trial. He appealed that decision, but in early 1978 a federal appeals court upheld the jury's verdict.

Mr. Moore then filed a $7 million suit against his former attorneys—Broad, Khourie & Schulz—in June 1978, alleging negligence and breach of contract in their handling of the invasion-of-privacy action.

Nearly three years later, Mr. Moore agreed to a $110,000 settlement offer made on behalf of the law firm. After a federal magistrate approved the settlement, however, Mr. Moore withdrew from the agreement, claiming the $110,000 only settled a portion of the suit and refusing to release the firm from all further liability in the case.

A federal judge later granted a motion to enforce the settlement, but Mr. Moore's appeal of that decision is pending.

Thus, the stage was set for Mr. Moore's latest lawsuit.

The current suit names all of the defendants in the previous lawsuits with some additions, among them the 467 companies alleged to have insured or reinsured the other defendants.

The suit alleges that 11 of the defendants—including Broad, Khourie & Schulz; Telfon; and Telfon's attorneys—"conspired and colluded...to inflict malicious, intentional harm on plaintiff" in seeking to cancel Mr. Moore's franchise contract.

The other 475 defendants are accused of colluding to cover up the "insurers' and principals'" alleged liability to Mr. Moore for the actions of the other defendants.

Citing "12 years of legal frustration," Mr. Moore has asked the New York court to do "everything within its power to discourage 486 firms of attorneys (representing the defendants) from unduly delaying this case" with "creative" motions to dismiss.

The dismissal motions filed thus far are fairly straightforward, however.

Rein, Mound & Cotton, a New York law firm representing 30 of the named insurers, including Telfon's insurers—Maryland Casualty Co. and Great American Insurance Co.—is filing a motion to dismiss on the grounds that Mr. Moore fails to state a cause of action and had no direct contract with any of the insurers.

Alan J. Rein, a partner in the firm, added that he did not know what kind of insurance policies Telfon purchased from Maryland Casualty or Great American.

Law firms representing other defendants are filing similar grounds for dismissal.

Neither Mr. Anderson nor representatives of Broad, Khourie & Schulz could be reached for comment on the case.

Nevertheless, Mr. Moore, who says his sole source of personal income is now Social Security disability benefits, is determined to continue with his action:

"I think we were all put on this earth for something, and apparently this is what I have been put here for." ■

Risk manager at Zayre dies

FRAMINGHAM, Mass.—Robert Shedd, corporate treasurer of Zayre Corp., is acting as risk manager until a replacement is named for Dermot B. Moylan, who died Oct. 27.

Mr. Moylan, 47, had been with Zayre for more than 15 years. Previously, he was risk manager with Amerada Petroleum Corp. and assistant risk manager with J.J. Newberry Co., both in New York City.

He was a member of the Massachusetts Insurance Buyers Society, American Society of Insurance Management and the American

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Proposed solutions to asbestos crisis outlinec

Continued from page 3
any other available benefits.

There would be no time limitations on the filing of claims. Family members and others who develop asbestos diseases because they come in contact with people who have been exposed to asbestos fibers also would be compensated.

In return for the settlements, no claimant could sue any of the parties participating in the arbitration plan.

The second proposal, to dump all asbestos claims into the federal bankruptcy court, was suggested by Leslie Cheek III, vp for federal affairs for Crum & Forster, at a Senate committee hearing on the Federal Bankruptcy Act of 1978.

The proposal calls for a "Chapter 11 shelter" to be created for asbestos defendants through an amendment to the bankruptcy law.

The amendment would direct the U.S. Bankruptcy Court for the Southern District of New York, which is hearing the Manville reorganization petition, to:

- Take jurisdiction of all co-defendants and their insurers in any asbestos-related claim in which Manville is a defendant.
- Appoint special masters to develop rules for deciding the basis for insurance coverage for claims and the proportionate share that defendants would have to pay to victims.
- Create a trust fund for paying pending and future asbestos-related claims to be funded by periodic payments from co-defendants and their insurers.
- Make the trust fund the exclusive source of recovery against any of the co-defendants or insurers.

The amendment also would give bankruptcy judges the same salary and tenure as federal court judges, so that they could consider the claims filed against non-Manville defendants.

Mr. Cheek says that the proposal will assure uniform national rules governing insurance coverage and apportioning liability for asbestos-related damages. It would dramatically reduce legal expen
he says.

In addition, the changes would made through amending pro dural laws rather than making a substantive changes in tort workers compensation law, M Cheek said.

"We believe that timely use the procedural aspects of fede bankruptcy law to resolve the i surance coverage and other a bestos-related issues would obvi the need for changes in substanti law which might have unpredic able and perhaps undesirable co sequences," he added.

Eugene R. Anderson of the Ne York law firm of Anderson, Bake Kill & Olick, suggested creating superfund that would compensa claimants with contributions fro asbestos companies, their insure and the U.S. government.

He proposes that the fund coul be administered by the Social Sec rity Administration.

Legislation would be required t bring in the government and th Social Security administration, Mr Anderson says.

Superfund contributions fron the asbestos industry would com from three markets and generall be based on market share.

The first to be tapped would be companies that mine asbestos After their contributions are exhausted, fabricators would be tapped.

If more unpaid claimants remained, asbestos applicators, like contractors, would have to pay.

In all instances, these contributions would be indemnified by all insurers on a particular company's risk from the time of a plaintiff's exposure to asbestos through manifestation of the disease.

Mr. Anderson acknowledged that there might be a problem in getting cooperation of plaintiffs' lawyers to any of the suggested plans.

"It's fair to say that everybody I've talked to is receptive to finding a way of bringing asbestos litigation to an end, except the plaintiffs' lawyers," he said.

"They are immediately put off by proposals doing away with their 50% or one-third contingency fee."

While these three proposals are only in the discussion stage, they do differ significantly on how insurance coverage questions will be disposed of.

Mr. Cheek's proposal assumes that after the bankruptcy act is amended, the extent of coverage will be a federal question that the Supreme Court will likely review.

Mr. Anderson, whose firm represents Keene Corp., which has won in court coverage from all its insurers from the time victims were exposed to asbestos through the time the disease manifests itself, would like the same theory to apply to his superfund proposal.

While the arbitration plan lends itself to insurers that favor the exposure theory of coverage, companies that espouse the manifestation theory could still participate but continue to litigate the coverage question without being subject to bad-faith suits or punitive damages or being forced to disclose evidence aiding plaintiffs' cases, the plan says.

Also researching solutions to the asbestos litigation problem are consultants Hamilton, Rabinovitz & Szanton of Los Angeles, Center for Public Resources Inc. in New York and Rand Corp. in Santa Monica, Calif.

They were hired by insurance companies and trade associations to pursue alternative solutions. ▪

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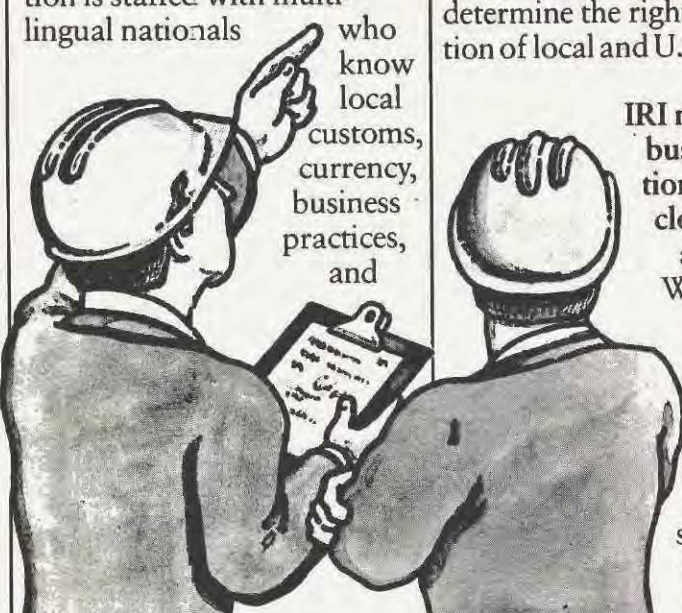

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ompanies consider defense pool

hile attorneys for defendants sbestos litigation met in New recently to discuss new ways ttle claims, they discussed an- r proposal to pool their re- ces to cut costs.

he proposal, which is still under ussion, calls for the establish- t of a national committee that ld oversee asbestos litigation defendants.

he committee would be com- d of representatives of defen- ts and their insurers, who ld select the counsel to defend ividual claims. The representa- s on the committee would also ermine whether cases would be d or settled.

single counsel would represent defendants named in a particu- action.

The purpose of such a committee uld be to cut down on the sub- ntial defense costs facing as- stos defendants while further rdinating defense efforts.

The expenses of the committee and the attorneys, as well as payment of jury verdicts and settlements, would be shared by the companies that agree to the proposal. Those companies would also share in any cost savings.

As a hypothetical example, it was suggested that such a committee could cut defense costs by as much as $25,000 to $90,000 in a case where 20 companies are named as defendants.

Defendants say the proposal could reduce the number of attorneys employed by defendants, reduce duplication of effort and centralize important information common to the defense of asbestos suits.

It could also reduce in-fighting among defendants, avoid piecemeal settlements that put improper pressure on the remaining defendants, reduce meritless suits and encourage settlements in cases that are meritorious, the proposal reads.

Extremely high defense costs is one of the major causes of the financial problems facing asbestos manufacturers. The 15 or 20 companies most often named in asbestos suits have generally failed to coordinate defense strategies, often hiring their own attorneys and causing unnecessary duplication of effort and expense.

Defendants' and insurers' single-biggest need "is to put their own interests aside for the common good," says E. Judge Elderkin, an attorney for Fibreboard Corp. with the San Francisco law firm of Brobeck Phleger & Harrison.

Individual defendants must be willing to surrender control to the group, he says.

While in some cases, the use of a national committee may mean a higher payment to a plaintiff than if a defendant acted individually, in the long run the proposal would reduce defense costs and non-meritorious claims, Mr. Elderkin says. ■

Malpractice premiums rise in Britain

By JOHN MILLER

LONDON—Medical malpractice surance costs for more than 0,000 British doctors will rise arply next year.

The Medical Defence Union in- nds to raise the premiums doctors ay for coverage by more than 44% 195 pounds (approximately $316) er year for fully qualified practi- oners, compared with 135 pounds 219) this year and 120 pounds 194) in 1981.

Even with the increase, the doc- ors will be paying far less for mal- ractice coverage than British law- ers, who will pay up to 1,361 ounds ($2,205) next year for cov- rage under the British Law So- iety's plan.

The Medical Defence Union, a self-funding mutual insurer that also provides legal advice for its members, is raising its malpractice insurance rates because of a large increase in malpractice claims.

Doctors or insurers paid out 3.66 million pounds ($5.93 million) in 1981, compared with 1.77 million pounds ($2.87 million) in 1980. Defense costs related to medical malpractice claims rose to 1.66 million pounds ($2.69 million) in 1981 from 1.07 million pounds ($1.73 million) a year earlier.

Increased publicity of large medical malpractice awards and more legal aid for plaintiffs are blamed for the increase in claims.

"Legal aid is now in full swing in the U.K. and is readily granted to claimants," the Medical Defence Union says in a report. "Recent substantial increases in the financial thresholds for eligibility for legal aid have led to estimates that about 70% of people in average households now qualify for them.

"The publicity over large awards for personal injuries seems to generate more claims. Expectations of medicine may be unreasonably high, so that disappointment turns into bitterness and then into litigation.

"Patients and their relatives generally took the attitude in the old days, when something went wrong, that doctors did their best, so it was 'no one's fault, just bad luck.' Today, the issues of fault or liability often predominate."

The increase in malpractice claims has also been attributed to coordinated actions by groups of plaintiffs, like thalidomide victims.

In addition, the Medical Defense Union says that part of the increase can be attributed to changes in medical care. It explains that the use of group health centers in which a large number of doctors can treat a patient makes errors more likely.

The malpractice settlements reached in the past year include a 150,000-pound ($243,000) payment to the family of a man who died before he could be properly treated for malaria; a 175,000-pound ($283,500) payment to a woman who developed severe neurological trouble after complaining of a stiff neck; and a 55,000-pound ($89,100) payment to a person after a doctor's sloppy handwriting caused an incorrect prescription to be sold. ■

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Benefit costs rise in 1981: Survey

Continued from page 3

Others whose costs increased as a percent of payroll were food, beverages and tobacco, 37.5% from 36.4%; chemicals and allied products, 43.4% from 43.3%; rubber, leather and plastic products, 37.1% from 36.7%; stone clay and glass products, 38% from 37.8%; machinery, 38.5% from 38%; electrical machinery, 37.6% from 36.9%; public utilities, 41.9% from 41.3%; insurance companies, 38.5% from 37.6%; hospitals, 31% from 29.6%; and miscellaneous non-manufacturing industries, 32.9% from 32.7%.

Benefit costs as a percent of payroll stayed even or dipped in nine industries.

Benefit costs in the petroleum industry, where profits have sharply declined because of stable oil prices, dropped to 44.6% of payroll in 1981, down from 48% in 1980.

Despite that sharp decline, the petroleum industry still spent more on employee benefits than any other industry. (The wholesale and retail industry spent the smallest percent of payroll on benefits at 30.6%, down from 31.3% in 1980.)

Benefit costs also dropped in the metals industry, which was hurt in 1981 by the recession. For example, in the primary metals industry, benefit costs dropped to 43.3% from 45.1%, while the fabricated metals industry reported average benefits cost of 37.9% of payroll compared with 39.4% in 1980.

A reduction in pension contributions was the major reason benefit costs as a percent of payroll declined in the petroleum and metals industries.

For example, among all companies surveyed, pension costs increased an average of 4.7%, rising to $950 per employee in 1981 from $888 in 1980.

However, pension costs in the petroleum industry, which still recorded the highest pension costs among industries surveyed, dropped to $2,467 from $2,507, a 1.6% decrease. Similarly, employers in the fabricated metals industries decreased their pension contributions to $754 per employee from $769, a 1.9% drop, and pension contributions in the primary metals industries fell to $1,006 from $1,031, down 2.5%.

In contrast, the costs of offering pension benefits increased most in the printing and publishing industry, where the cost hit $991 per employee in 1981, up from $784 in 1980, a 26.4% rise.

Pension costs also rose substantially in three other industries: textile products and apparel, $273 per employee, up from $225, a 21.3% increase; hospitals, $547 from $467, up 17.1%; and electrical machinery equipment and supplies, $730 from $650, up 12.3%.

Industries with the highest pension costs in 1981 besides the petroleum industry included public utilities, $2,027 up from $1,872, a rise of 7.6%; and chemicals, where the pension cost dropped to $1,225 from $1,257, a slight dip of 2.5%.

Industries with the lowest pension costs included the textile industry at $273, up from $225; the wholesale and retail industry, $308, up slightly from $298; and the instruments and miscellaneous manufacturers, $483 down from $608.

All industries were hit with higher Social Security taxes in 1981, a key factor in escalating benefit costs. The cost of paying FICA taxes among surveyed employers jumped to $1,123 per employee in 1981, up from $954, a 17.7% increase.

The higher Social Security costs were the result of a Jan. 1, 1981, rise in the FICA tax to 6.65% of the first $29 700 from 6.13% on the first $25,900.

Social Security taxes are now many companies' most expensive employee benefit, followed closely by health insurance plans and pension plans.

And the cost of Social Security is expected to climb again next year when Congress considers a package of proposals to prevent the S[ocial] Security system from running [out] of cash. One of those proposa[ls is] bound to include an acceleratio[n of] future payroll tax increases. [Al]ready, the wage base for Social [Se]curity is rising to $35,700 in 1983 from $32,400 in 1982.

Group health and life insura[nce] costs rose in 19 of the 20 indust[ry] classifications surveyed; t[hey] dipped slightly in the prim[ary] metals industry.

Insurers have been no more s[uc]cessful in controlling health c[are] costs among their own employ[ees] than other employers have be[en,] according to the survey. Insur[ers'] employee insurance costs, wh[ich] includes health and life insura[nce] premiums, jumped to $875 per e[m]ployee in 1981 from $688 in 197[9,] 27.2% increase.

Health and life insurance co[sts] also rose more than 20% in fo[ur] other industries: hospitals, $643 p[er] employee from $521, up 23.4[%;] stone, clay and glass produc[ts,] $1,278 from $1,041, up 22.8%; ru[b]ber, leather and plastic produc[ts,] $1,144 from $941, up 21.6%; a[nd] chemicals and allied product[s,] $1,271 from $1,051, a 20.9% i[n]crease.

The biggest spenders for e[m]ployee health and life insuran[ce] benefits include: the transportatio[n] equipment industry, which spe[nt] $1,600 per employee, up fro[m] $1,462 in 1980, a 9.4% climb; th[e] fabricated metals industry, $1,52[?] down from $1,580, a 3.4% decreas[e;] and the petroleum industry, $1,51[?] per employee in 1981, up fro[m] $1,427 in 1980, a 6.1% rise.

The smallest spenders wer[e] wholesalers and retailer at $622 pe[r] employee, up from $582; the textil[e] industry at $654, up from $606; an[d] the hospital industry at $643 fro[m] $521.

Among all industries surveyed health and life insurance cost[s] climbed an average of 12.9%, wit[h] the per-employee cost increasing t[o] $1,073 from $950.

Corporate profit-sharing plans took a beating as profits tailed off last year as the recession deepened. Profit-sharing contributions dropped in 11 industries and climbed in eight. In the hospital industry, profit-sharing contributions stayed even during the last year at just $15 per employee.

Among the 20 industrial classifications, profit-sharing contributions also stayed even at an average of $192 per employee.

Other highlights of the Chamber survey include:

- Benefit costs, as a percent of payroll, were the highest among the nation's largest employers and lowest among small employers. Companies with more than 5,000 employees paid 40.1% of payroll for benefits, while firms with fewer than 500 employees spent an average of 36%.
- Ninety-nine percent of employers contributed to health and life insurance plans in 1981, compared with 100% in 1980.
- Eighty-three percent of surveyed employers contributed to sick leave plans in 1981, compared with 80% in 1980.
- Twenty-one percent of employers in 1981 contributed to profit-sharing plans, down from 22% in 1980.
- Employers in the United States last year spent an estimated $485 billion on employee benefits, up from $435 billion in 1980, an increase of 11.5%.

•

Copies of "Employee Benefits: 1981" are available from the U.S. Chamber of Commerce Survey Research Center, 1615 H St. N.W., Washington, D.C. 20062. The cost is $7 for single copies. Discounts are available for bulk orders. Prepayment is requested.

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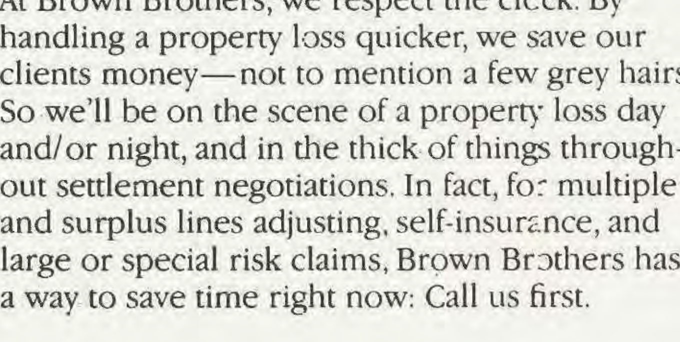

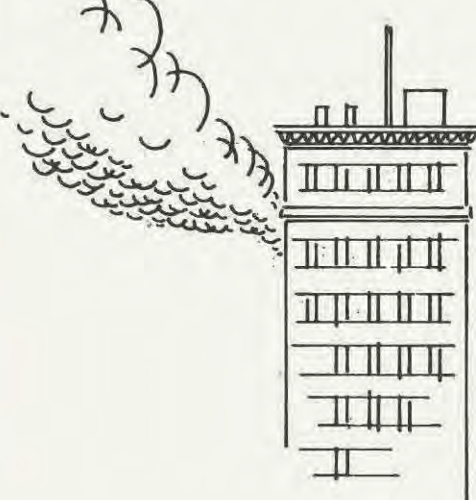

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lodel rating bill opposed

tinued from page 1

lternative to the eight different e laws already passed. It is a ice for those states that feel n rating in workers compensa- will benefit their marketplace.

The National Assn. of Indepen- t Insurers, which says it has a / minor problems with the del bill, generally feels the di- tion of the NAIC draft bill is rect and worth supporting.

Under the model bill, which in- idual states could adopt, work- compensation insurers would be ıhibited from agreeing on rates currently is allowed.

The NAIC model bill also limits the activities of advisory organi- ions, imposes a uniform classifi- ion plan and experience-rating in and mandates insurer partici- tion in residual markets.

The model bill further declares at advisory organizations may bmit only "pure premium" fil- gs, with no provision for ex- nses, taxes or profit.

Rates filed by individual insurers nay contain provisions for contin- ncies and an allowance permit- ng a reasonable profit."

'But, "in determining the reason- bleness of profit, consideration ıould be given to all investment come attributable to premiums nd the reserves associated with ose premiums."

Although the bill prevents insur- rs from agreeing with one another r with an advisory organization on ny rate, rating plan or rating rule, ıey may cooperate "as needed to evelop and maintain a uniform lassification and statistical plan."

Much of the argument from op- ıonents of open rating has centered n the effect it would have on the ndustry data base.

To protect the data base, every workers compensation insurer, the bill says, must record and report its experience and statistical informa- tion under a uniform plan ap- proved by its state insurance com- missioner.

J. Michael Low, Arizona insur- ance commissioner and chairman of the NAIC task force, said one of the most important features of the bill is that it makes it illegal for in- surers make dividends to employ- ers conditioned upon renewal of an insurance policy or contract.

"As it is now, the insurer has control over final price," Mr. Low said.

The mandated experience rating plans must have reasonable eligi- bility standards and adequate in- centives for loss prevention.

"The whole philosophy of work- ers compensation is workplace safety and the bill says the insurers must provide for sufficient pre- mium differentials so as to encour- age safety," added Mr. Low.

If the model legislation doesn't pass through the NAIC committee channels in Dallas, it will be for "political reasons," says Mr. Low.

He said he resents the behind- the-scenes lobbying of state com- missioners and by staffs of those in- surers opposed to switching from an administered pricing system to one of competition.

"It's short-sighted and I think the eight separate competitive-rating state laws pose a far greater threat to the lack of uniformity and re- porting requirements to the data base than this bill," he said.

Even as late as early last week, Mr. Low said he would fly to New York to meet with the American Insurance Assn.'s subcommittee on workers compensation to try to quell the fears of opponents and explain the bill and its provisions.

"The top selling point to this bill is that it's an alternative," said Mr. Low. "We're not saying states should adopt it, but if they are thinking about competitive rating for workers compensation, this is a measure that could be adopted."

But some, like the Alliance of American Insurers, say approving the model bill would be tantamount to agreeing the NAIC bill is the "best" when no one knows if that's true. Said Steve Milliken, an associ- ate vp with the Alliance, "Maybe the NAIC should make the lan- guage in its bill available to states, but we caution them against sanc- tioning model legislation without knowing how it will work."

But the PIA's Patricia Borowski, director of state government af- fairs, says that her members have been clamoring for a uniform model bill for states where a com- petitive rating bill seems inevita- ble.

"If the industry is really con- cerned about protecting the data base and uniform reporting of losses, they ought to get behind this bill," she said. "That's the practical reality."

To date, Oregon, Minnesota, Michigan, Kentucky, Arkansas, Il- linois, Rhode Island and Georgia have changed their laws to force workers compensation insurers to compete against one another rather than file rates together through rating organizations.

All the laws differ in some way from one another.

In addition, Arizona, Alaska, Hawaii, Maine, Wisconsin, Vir- ginia, Colorado and New Mexico are currently considering changing their laws to allow for some type of competitive rating for workers compensation insurance. ■

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CU offers to pay settlements

Continued from page 3

third/two-thirds basis."

CU wrote a $1 million primary policy and a $10 million first um- brella policy, part of a $101 million line of general liability insurance for Hallmark and subsidiary Crown Center Redevelopment Corp., which owns the hotel.

Until earlier this month, CU steadfastly maintained it had never been asked by Hallmark to defend or settle any claims in the disaster. Without a request from its policy- holder, CU said it would have been irresponsible to join Hyatt's insur- ers in settling claims.

But on Nov. 9, attorneys for Hall- mark wrote Commercial Union re- questing the coverage.

Hallmark waited more than 15 months to seek indemnity from its insurers because it felt Hallmark's $101 million in insurance was designed to be excess of Hyatt's $201 million for hotel operations.

But after the one-third/two- thirds formula was ordered, says Hallmark Associate General Coun- sel Judith A. Whittaker, "We told all of the carriers we expected them to comply with the order."

Judge O'Leary's order, however, does not specifically say whether the one-third/two-thirds formula applies only to future settlements or to past claims as well.

Judge O'Leary said last week that he will clarify his order at a Nov. 24 hearing during which he will also hear pretrial arguments in Hyatt's request for clarification of coverage for punitive damages under the insurance policies.

If CU's coverage were applied to claims already settled under Hyatt's $201 million line of cover- age, CU's limits would be ex- hausted almost immediately and Hallmark's next excess insurer, Fireman's Fund Insurance Cos. af- filiate American Insurance Co., would be obliged to pay one-third of future costs. If CU's coverage is applied only to future payments, American's obligations under its $50 million line would be delayed.

Northbrook Excess & Surplus In- surance Co., which already has paid out the entire $25 million of coverage it provided Hyatt in an excess umbrella policy on top of Hyatt's $1 million primary liability policy issued by Occidental Fire & Casualty Co. of North Carolina, is not asking for a one-third contribu- tion by CU toward prior settle- ments, which would bring it back into the settlement process.

Instead, Northbrook is maintain- ing at least a right to claim for in- terest on money it paid out more quickly than it would have if CU had contributed from the start.

A trio of excess insurers above Northbrook in the Hyatt line are paying settlements under a $25 million limit. Underwriting man- ager Baccala & Shoop Insurance Services, which is handling the payments, has already paid about $8.2 million in claims and has made offers to settle other claims.

Columbia Casualty Co., a subsidi- ary of CNA Financial Corp., is the next excess insurer in the Hyatt line after the three insurers repre- sented by Baccala & Shoop.

Columbia wants CU's contribu- tion to apply to paid settlements, which would delay exhaustion of the Baccala & Shoop layer and, hence, postpone or reduce any amounts it would ultimately have to pay.

Meanwhile, U.S. District Judge Scott O. Wright has given disaster victims or their families until Jan. 4 to say whether they wish to be included in a class-action suit he certified Oct. 29.

However, a group of plaintiffs' attorneys representing seriously in- jured victims is appealing the latest class certification.

Judge Wright has scheduled a trial for Jan. 10, but that could be delayed by the appeal. ■

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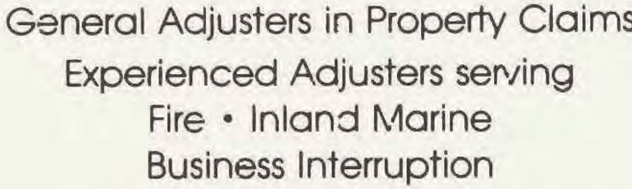

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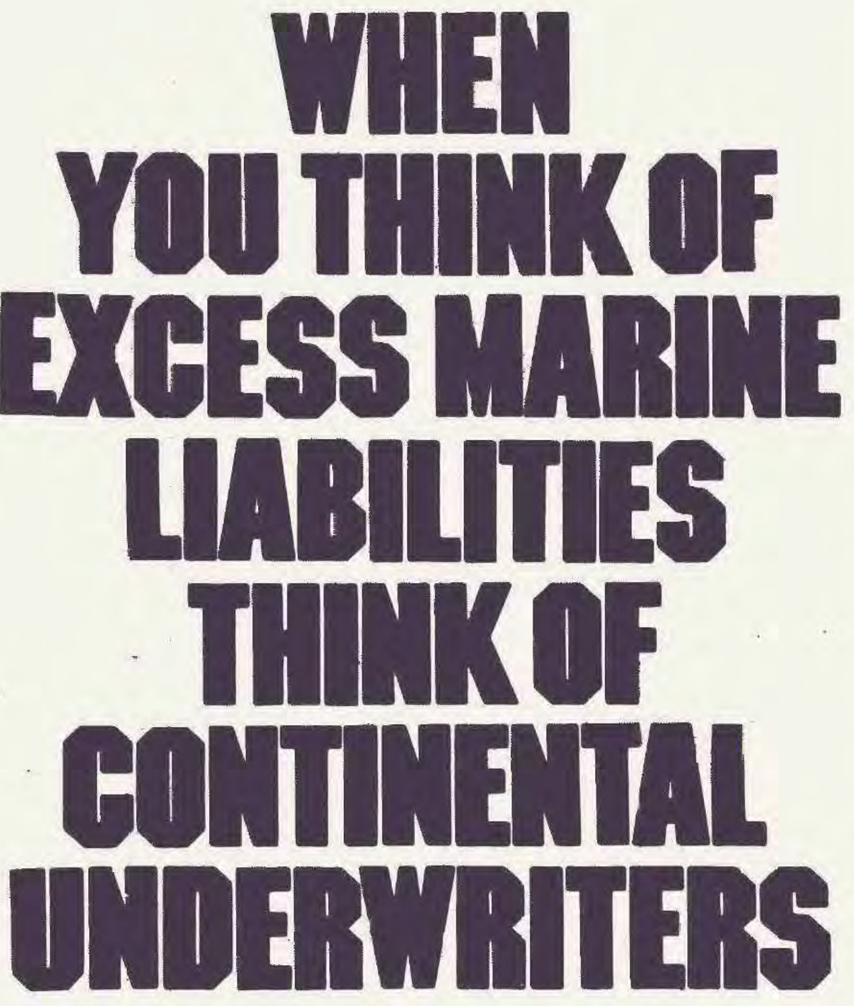

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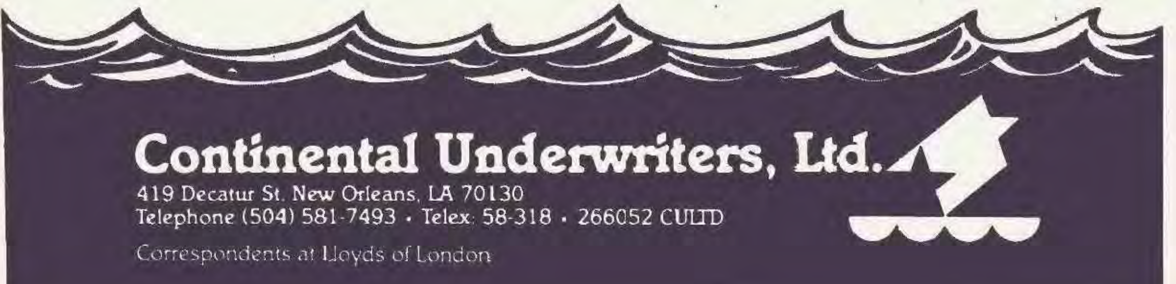

Firms increase D&O limit

Continued from page 1

experience, defense costs and insurance coverage. Three hundred U.S. companies reported a total of 515 claims.

For the first time this year, the report also includes an analysis of specific D&O policies.

Among the most significant findings in the 1982 report:

- About one out of 10 of the 1,350 Fortune-listed companies will have a D&O claim in 1982.
- The increase in frequency of D&O claims is leveling out, but the severity of claims continues to climb.
- Premiums paid on D&O coverage in 1982 average about 28% below premiums paid in 1980.
- The fastest-growing U.S. companies pay 25% to 50% more for D&O insurance than established businesses.
- There has been a sharp rise since 1980 in D&O claims filed against not-for-profit corporations and government units.
- D&O insurance buyers have been able to obtain first-dollar protection under the personal coverage section of the policy.
- Chubb Corp. has emerged since 1980 as a leading underwriter of D&O insurance.

As in prior years, there is a high correlation between company size and the frequency of D&O claims. More than one-fourth of the Fortune-listed companies in the United States have had a D&O claim in the last nine years. Diversified companies are about 25% more susceptible to events leading to a D&O claim and file about 40% more D&O claims than single-business companies.

The good news in the report is that the increase in frequency of new D&O claims appears to be slowing—a trend first identified in the 1980 study and confirmed this year (*BI*, Nov. 24, 1980). Wyatt predicts a frequency increase of 6.7% in 1982 from 1981, compared with an average annual increase of 19% during the eight preceding years.

The bad news is that the severity of claims continues to climb. The average total claim cost in 1982 inflation-adjusted dollars is estimated to be $1.34 million, including $763,000 for claims costs and $577,000 for legal fees. The largest reported award was in excess of $20 million.

In the 1980 survey, 64.4% of the reported closed claims involved no payment to the claimant, compared with 58.8% in this year's survey. This is consistent with Wyatt's projection of a leveling of D&O liability claims.

"It is felt that a smaller number of frivolous claims are being filed, and therefore the associated decline in claims closed without payment," the report points out.

Legal costs appear to be increasing at a rate of 7% to 11% a year. This is based on an average defense cost calculation (historical cost unadjusted for inflation) of $365,000 in the 1982 report, compared with $318,255 in 1980, $277,549 in 1978, $205,875 in 1976 and $181,508 in 1974.

The largest reported single-claim defense cost was $3.5 million.

One of the surprises in this year's survey was the rise in claims involving labor relations. This was the most frequent circumstance mentioned by respondents and accounted for 12.6% of the total claims, up from 7.3% two years ago. Acquisitions and financial loss to companies also were frequent trouble spots.

Employees or former employees initiated 17.1% of all D&O actions, trailing only stockholders (41.6%) as the source of claims. Stockholder suits also typically ask for very high damages, receive large awards and cost more than the average D&O claim to defend.

Next week: The results of t Wyatt survey on fiduciary liability.

Misleading representations tinues to be the leading allega of D&O claims, comprising al one-fourth of the total. The centage of claims charging proper expenditures increa while the percentage alleging a trust violations, collusion or spiracy to defraud decreased.

The 1982 Wyatt survey indic that 86% of all participating companies carry D&O insura compared with 79% in 1980 and in 1978. There has been a ste growth in the purchase of D coverage by small organizations, though such insurance continue be more prevalent among la corporations.

Among respondents that do carry the coverage, more than h said they didn't see a need for Only 37% of the respondents w did not buy the coverage two ye ago said they did not see a ne Construction companies are t least likely major U.S. businesses carry D&O insurance, perha "due more to cost and unavail lity than to lack of interest," t survey speculates.

Besides increasing their insu ance limits in the current soft i surance market, buyers are redu ing their deductibles and sel funded retention levels. They a negotiating first-dollar protectic on personal coverage and reducir retention levels on the corpora reimbursement coverage.

Since the early 1970s, most insu ers have offered separate deduc ibles for the two distinct coverage within the D&O policy: one on re imbursement to the corporation fo claims paid on behalf of its directo and officers and the other on direc personal coverage to the director and officers.

Eleven participants reported tha they have eliminated the deduct ible for personal coverage. Although that is less than 1% of the respondents, Wyatt expects this arrangement to become more common since about 95% of the losses fall under the corporate reimbursement section of the policy.

"It is relatively insignificant whether the personal coverage has a $5,000 deductible, a $1,000 deductible, or no deductible. Insignificant to the insurer, that is, but not to the person insured."

Wyatt predicts that, by 1986, full first-dollar personal coverage will be standard and deductibles will be scaled from $5,000 to $500,000 for corporate reimbursement, with 5% retention above the deductible limited to the first $1 million of loss.

"It will not be news to many risk managers that D&O premiums are very competitive this year," the report observes. Wyatt estimates an average premium reduction of about 28% since 1980.

Twenty-two percent of the 496 U.S. survey participants that increased their limits were able to couple this with a premium reduction of 40% or more. Another 31% had premium reductions of more than 5%.

"The indications seem to be that the more active the risk manager (in raising limits), the greater the premium reduction," the survey concludes.

The highest limit reported by any U.S. company was $200 million. Wyatt speculates that capacity may now exist for a limit of $250 million. In this year's survey, 127 companies reported they carry limits of more than $50 million, compared with 37 companies in 1980 and only eight in 1978.

There is a wide variation in premium paid by different companies of similar size and number of direc-

Continued on facing page

inued from facing page

and officers. "Thus, it pays to the D&O coverage intelligy marketed by a knowledgearoker and presented in a posimanner to underwriters," the rt points out.

me of the unusual factors that to raise the cost of D&O cover include acquisition activity, profitability, antitrust possibi and adverse publicity. onstruction and real estate, proonal services and transporta companies also pay above-av e premiums. The lowest costs ar are enjoyed by hospitals.

remiums for manufacturing panies peaked in 1978, gradu drifted downward during the t two years and became much more competitive in 1982.

Past surveys have shown that closely held firms could buy D&O coverage at a lower cost than publicly held companies. This year, the survey revealed that closely held companies are paying about 6% more than their publicly held counterparts. This is illogical because the exposure to loss of private companies is less since closely held firms are not subject to stockholder suits. Competition for name-brand accounts causes this phenomenon, Wyatt suggests.

Nineteen of the 100 companies listed in Inc. magazine as the fastest-growing companies in the United States participated in the 1982 survey. Fourteen of them carry D&O coverage and pay about 25% to 50% more than other companies of equal size but slower growth.

"Apparently they are not enjoying the same attractiveness to underwriters that is enjoyed by more staid companies with slower growth patterns," the report observes.

Many coverage concessions will be granted by underwriters to secure business in today's competitive market. For example, some policyholders have D&O insurance to cover the wrongful acts of all employees—not just directors and officers and other managerial personnel. Fifteen percent of the U.S. participants reported they had obtained this extension, but the survey authors believe many of them may have misunderstood the question and answered it incorrectly.

More than 96% of the survey participants identified their D&O insurers. The major change this year is the rise of Chubb Corp. to sixth place with 7.4% of the reported accounts. Chubb, principally through Federal Insurance Co., entered the D&O market in mid-1980 (*BI*, Dec. 29, 1980).

During the past six years, Chubb, MGIC Indemnity Corp. and Insurance Co. of North America have increased market share at the expense of older established insurers including Lloyd's of London, The Home Insurance Co. and The St. Paul Cos. Inc.

The leading D&O insurers ranked by estimated primary and excess premium volume are: American International Group, 30.7%; Lloyd's and British companies, 11.4%; Swett & Crawford, 10.8%; Crum & Forster, 10%; CNA, 9.8%; MGIC, 5.5%; Chubb, 5.2%; and INA, 4.3%.

•

The "1982 Wyatt Comprehensive Report on Directors and Officers Liability and Fiduciary Liability" is available to this year's survey participants for $40, past participants for $80 and non-participants for $125. A 30-page summary report also is available at a reduced cost. For information contact Warren Brockmeier, The Wyatt Co., Suite 5600, Chicago, Ill. 60606; 312-876-2000.

Canadian losses lower

CHICAGO—A typical Canadian company pays about 82% of the premium paid by a U.S. counterpart for directors and officers liability insurance despite half as many losses, a new study shows.

While premium costs dropped an average 28% for U.S. companies over the past two years, they fell only a modest 6% for Canadian businesses.

This picture of a less competitive Canadian than U.S. D&O insurance market emerges in the "1982 Wyatt Comprehensive Report on Directors and Officers Liability and Fiduciary Liability."

Two hundred seventy-five Canadian businesses participated in the study, including 26% of the 400 largest Canadian industrials identified by The Financial Post newspaper. Twenty-one of the participating companies reported 29 D&O claims during the 1973 to 1981 period.

"On a loss-cost basis combined with frequency, Canadian D&O premiums should be in the neighborhood of between 15% and 20% of the premium for U.S. corporations," the Wyatt study says. This percentage should be no greater than 50%, even allowing for possible statistical distortions caused by the small sample size, the survey authors point out.

Claim frequency in Canada is only about one-half that in the U.S., although it is increasing at a somewhat faster clip. The severity of claims measured in loss costs is about 30% to 40% of U.S. levels.

Among small and medium-sized Canadian companies, the frequency of D&O claims is only about one-third that in the U.S. It rises to 60% of U.S. frequency for companies with assets greater than $400 million.

Roughly one-third of the money needed to defend a D&O claim in the U.S. is needed to defend Canadian D&O claims. The defense of Canadian claims requires about $108,000 per claim (in Canadian dollars) vs. $365,000 for U.S. claims. The average total Canadian claim costs $292,700 (in Canadian dollars) vs. $848,000 for U.S. claims.

There has been a steady growth in the number of Canadian companies buying D&O coverage. Fifty-five percent of the 1982 participants carry it compared with 47% in 1980 and 33% in 1978. As in the U.S., much of this growth has occurred among small companies with assets of under $25 million.

Canadian companies also are dramatically increasing their limits of coverage. Eight Canadian firms reported limits of $50 million or more this year compared with four reporting that limit in 1980. The highest limit now among respondent Canadian firms is $100 million compared with $200 million among U.S. companies.

The same insurers who lead the U.S. D&O market dominate in Canada with the exception of Gestas, a Canadian underwriting manager owned by Sodercan Corp., which ranks second in premium volume after American International Group. The top six writing markets are: AIG (45%); Gestas (13.7%); Swett & Crawford (12.3%); Lloyd's of London (6.5%); Crum & Forster (4.6%); and Chubb (3.0%).

P&G suit

Continued from page 2

comment about the Nov. 11, 1980, accident, as did the Dallas attorneys representing the company.

Ms. Levin says that P&G representatives held several meetings in the areas affected by the accident, saying the company would immediately pay property claims after receiving proof of damages.

Sources close to the accident say Procter & Gamble has settled from 175 to 200 claims relating to the incident, with most claims costing from $500 to $1,000.

"Procter & Gamble didn't want to fall into a trap of paying $200 on a $20 claim, but almost all the claims except Ms. Levin's were paid," one person said. Another source said several false claims were submitted, particularly involving automobile damage. Dallas Fire Department officials have said the release of sulfuric acid was triggered when workers at P&G's manufacturing facility in south Dallas unloaded a tank car filled with liquid sodium hydroxide into a storage tank containing sulfuric acid. The workers apparently believed the tank was empty. ■

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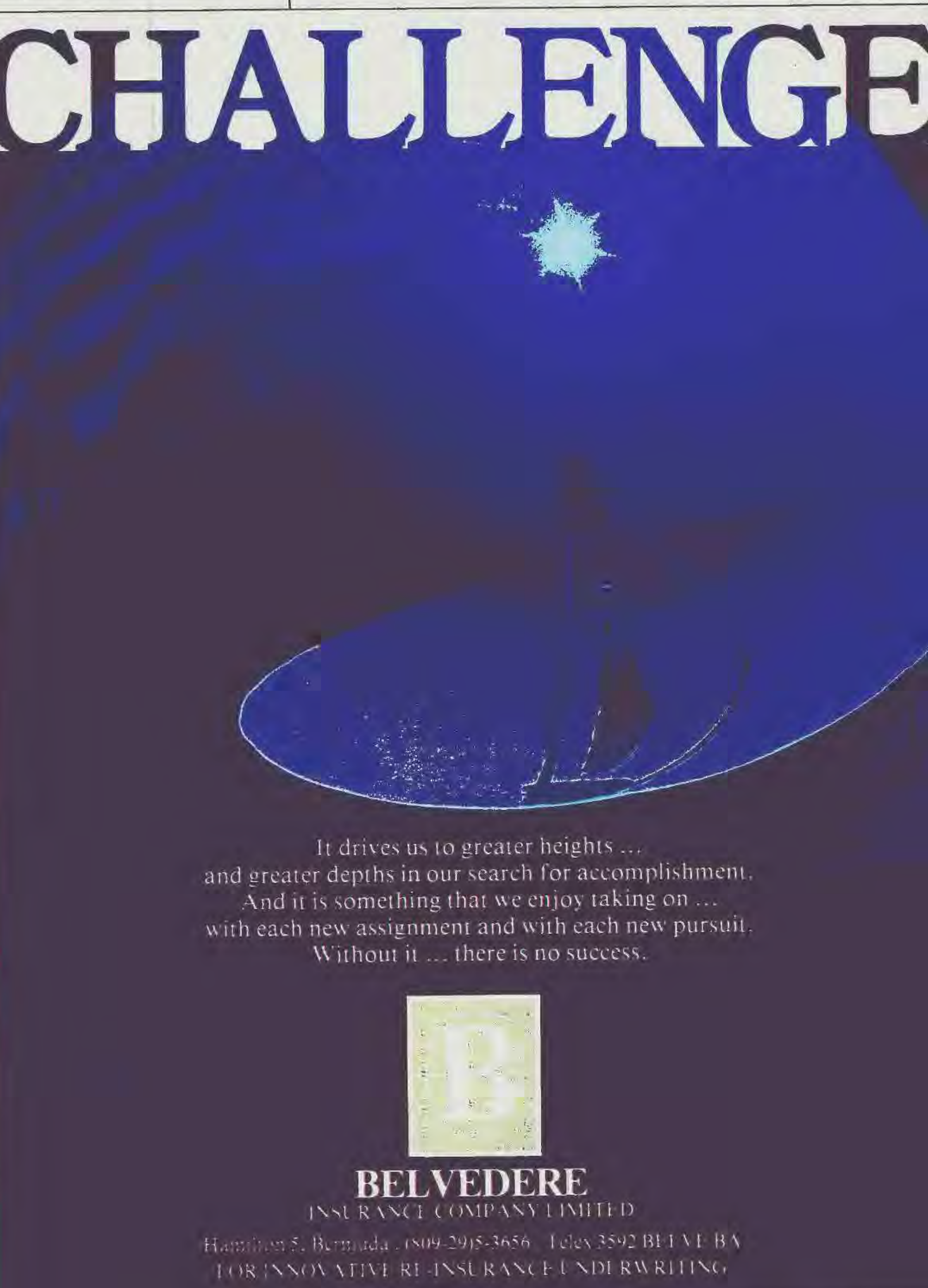

Communicating new plan

By CAROL CAIN

Because Quaker Oats Co.'s new Health Incentive Plan differs substantially from Quaker's former traditional health benefits, a special communications effort had to be designed.

The communication program consists of a 15-minute slide-sound show, a six-panel glossy brochure and small group meetings. A dollar sign inside an apple becomes a key symbol of the new program.

In all, about $25,000 was budgeted to communicate the details of the new plan to the 6,000 employees who will be covered initially.

Personnel managers at Quaker's individual plants were trained earlier this month to conduct the small meetings, said Robert Penzkover, director of employee benefits.

Members of the corporate staff or local benefit administrators and plan managers will be on hand to back up the presentations.

The script for the slide show was written in-house and was then turned over to Frame One Inc., an audiovisual production house in Chicago.

Rather than a hype-and-sell program, the slide show takes a more serious approach, a "let's-level-with-them-upfront" approach, said Robert Penzkover, director of employee benefits.

"We used our network of field personnel to help us construct an appropriate message," said Barbara Gladman, manager of benefits planning and communication. "We had to be sure to avoid the false impression of a benefit take-away.

"Surprisingly (maybe), that's what people are expecting today. But when more people get more benefits for a wider variety of health care items, and when Quaker is not cutting its current level of expenditure, the plan has to be considered an improvement.

"But we're not selling it as an improvement. There is a definite redistribution of benefit dollars and a shift in coverage philosophies," she said.

Charts and simple graphics comprise the bulk of the slide show that not only explains the plan, but tries to illustrate with figures the rising costs of health care coverage.

After the show, employees are given the brochure, which uses the same symbols as the slides.

Later, employees will be given a claims kit.

Quaker's Health Incentive Plan

Continued from page 1

- Annual economic adjustments to make sure the plan's value keeps up with economic changes.

The combination of these three aspects with the dividend program makes Quaker's health care cost containment effort unlike any other company's plan, says Mr. Penzkover.

"It's a whole system of incentives," he says.

In addition, Quaker management already has sold the idea to three unions in recent negotiations, a feat often not accomplished by companies changing benefit designs.

The 1,200 union members along with corporate employees will be the first 6,000 workers covered under the plan beginning Jan. 1.

They are learning about the plan this month through small group meetings and a slide presentation. The rest of Quaker's 25,000 employees will be introduced to it at a later date.

Educational programs to help employees use the health care system more efficiently also are being designed to complement the incentive plan.

Quaker self-insures its health benefits but contracts with Prudential Insurance Co. for claims administration.

"We're not trying to take away benefits. . .we just want to control future costs," said Mr. Penzkover. In fact, Quaker will being spending 13% more on each employee in 1983.

Under the new plan, Quaker guarantees it will spend an average of $1,535 per employee for health care in 1983. In fiscal 1982, the average cost per employee was $1,367.

Quaker's data further shows that 70% of the employees will receive more benefits under the new plan.

But, Quaker does believe its health incentive plan can slow the rate of increase for health care costs in the future.

"We know our cost will go up 20% to 25% a year if we don't do something," Mr. Penzkover said. "We expect to bring that inflation rate down to 8% or 10% per year by providing an incentive to drive out overutilization," he said.

He points out that Quaker's medical costs have gone up 56% in the last two years while the Consumer Price Index has risen only 18%.

The increase over the last decade is even more dramatic. From 1971 to 1981, the Consumer Price Index rose 125%; the medical consumer price index, 136%; and Quaker's health care costs, 283%.

But Quaker believes if its employees are responsible for their health care costs, they will be more conscious of overutilizing health care.

"We're banking heavily on the results of the Rand Study," which shows that when people have their own money at stake, utilization drops, said Mr. Penzkover,

Quaker's new comprehens medical insurance plan, the $ health expense account and the nual dividend plan are designe give employees this stake.

The new comprehensive med benefits plan eliminates all fi dollar coverage previously p vided under Quaker's "basic fi dollar coverage" for hospitalizat and surgical costs, said Mr. Pe kover. Some employees also w contribute more toward premiun

The new plan has a $300 dedu ible per person or family. Af that, it pays 85% of the next $5,(per covered person for hospitali: tion, surgery or any other illness injury-related expenses and 10(of all expenses greater than $5,0 for the rest of the year.

A stop-loss protection featu limits an employee's 15% share $750 for an individual or $1,500 f a family within a calendar year.

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Quaker pays the full premiur for its workers while employees

Continued on facing pag

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Business Insurance Circulation Breakdown*

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Insurance Management: vps, directors, managers of insurance, risk, benefits, compensation, safety, security, etc.	5,948
Government, Associations, Unions, Educational Institutions	1,004
Commercial Consumers Sub-total	**23,083**
Insurance Agents & Brokers	9,629
Insurance Cos.	4,944
Financial Institutions	314
Actuaries, Attorneys, Adjusters, Appraisers & Consultants	2,408
Others allied to the field	854
TOTAL	**41,232**

*Source: Business/Occupational breakdown of qualified circulation, May 3, 1982 issue, as submitted to BPA for June 1982, BPA Publisher's Statement.

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36 a month for spouse coverage $2 a month for dependent children with a $10 limit per family.

ıder Quaker's former "basic -dollar coverage," 100% of the $6,000 of each hospital stay paid for salaried and non-ın employees and their dependents. Reasonable and customary ery charges were paid at 100% le the coverage for diagnostic ays and laboratory fees was ted to $200 for all illnesses in a ındar year and $200 per accit. There is no coverage limit for ays and laboratory fees now.

hat plan was supplemented by a or medical plan that included a 0 per year deductible per per-, with a $200 maximum per ıily. The plan paid 85% of the t $4,000 in expenses and 100% er that with a lifetime maximum $300,000, including limits of ,000 for mental disorders.

Employees contributed $1 a ınth to the premium for single verage and $3 a month for family verage

The maximum annual employee pense for an individual was $700 the salaried and non-union plan. For hourly employees, a compaole but more complex plan limed out-of-pocket expenses to ,000 per individual or family.

The effect of higher deductibles d co-payments is softened by the 00 Quaker will set aside for each nployee.

Each eligible employee is given a ealth expense account of $300 a ear that can be used in three ays:

- To cover the $300 deductible or individual or family expenses under the new comprehensive medical plan.
- To receive a tax-free reimbursement for medical expenses that meet Internal Revenue Service guidelines, but currently are not covered under Quaker's medical plan.

These include: preventive health care, like routine physicals or immunizations; vision care expenses, like examinations, eyeglasses or contacts; hearing aids; medically ordered health improvement programs, like weight control or smoking cessation; premiums for any medical or dental coverage or any medical or dental expenses not reimbursed by any insurance plan, including Quaker's; and transportation to receive medical care.

- Payment in cash at the end of the year of any unused portion.

This health expense kitty can be increased in future years through Quaker's new annual dividend plan.

Under this plan, if Quaker's actual health care costs are less than the targeted expense for the year—$1,535 in 1983—the savings will be refunded to employees in the form of a dividend that will be credited to each employee's expense account for the next year.

"The initial target of $1,535 in 1983 is based on Quaker's current plan costs, allowing Quaker to back up the claim that it will spend as much on the new plan as on the prior plan, and refund cost savings to employees," Mr. Penzkover said.

If costs exceed the target amount, no dividend is paid, and the company absorbs the expense.

In tune with the economic adjustment provision of the new incentive plan, the health care cost target for 1984 will be increased 8% to $1,658, Mr. Penzkover said. Future increases will be determined after the first year's claims experience is studied.

The economic adjustment not only applies to what will be spent per employee but extends to all aspects of the medical plan. For example, in 1984 the deductible will be raised to $325, the 85% co-payment level to $5,400; the stop-loss level to $810 for individuals and $1,620 for families; lifetime maximum to $540,000; employee contributions to $6.50 for a spouse and $2.15 for each child with a $10.80 family limit.

The annual economic adjustments, effective Jan. 1 each year, will take into account all economic conditions, including Quaker's economic conditions and outside economic factors, such as inflation.

To forecast outcomes under the new plan, actual past claims data was organized into patterns by Thomas Kempa, manager of benefits administration.

"These painstaking efforts now allow us to state that at least 70% of employees will receive more benefits under the new plan," Mr. Kempa said. "We have to have that kind of credibility when we approach our employees with something so new and untested."

But Quaker thinks the government can help to make its incentive plan, and those that other companies might introduce, even more attractive through tax incentives. And, it plans to lobby for them.

"What we definitely don't need is a bunch of hit-and-miss government regulations to further dislocate health care competition," said Mr. Penzkover. "But to start the ball rolling, it would help to give consumers some positive tax incentives, not penalty-type disincentives, to speed the process along.

"For instance, one small tax change that would help us is to allow employees' unused health expense accounts and dividends to rollover from year-to-year without individuals being taxed.

"Currently, that's only possible through burdensome regulatory restrictions, all of which have some penalty factor either for the plan sponsor or the employee," he said.

Because there is no such tax incentive now, Quaker employees must take any unused portion of their health expense account as cash at the end of the year, which is added to their taxable income.

If there were the tax incentive to save the money, consumers would begin to be conditioned to budget for their health care, something they don't do now under the current third-party payer system.

In taking its crusade to Washington, Quaker wants to talk with legislators to show them that private industry can do a lot to affect the health care system, Mr. Penzkover said.

Already, Secretary of Health and Human Services Richard S. Schweiker has been sent a copy of Quaker's new incentive plan.

Other efforts will be channeled through the Washington Business Group on Health, of which Quaker is a member.

"Once the economic incentives are turned around by the consumer-payer sector, the provider professions will be forced to respond to the same market forces that the rest of the economy follows," Mr. Penzkover said. "Consumers must be given access, cost and quality information." ■

Quaker will re-educate its employees

CHICAGO—Quaker Oats Co.'s enefit staff realizes change can be ard so its going to educate employes to use its Health Incentive Plan.

"After years of insulating consumers from (health care) economic decision-making, we have to gradually work them back into the personal responsibility mode. But we're not about to send them out naked," says Robert Penzkover, Quaker's director of employee benefits.

As the first step in its consumer education effort, Quaker recently hired a manager of health care utilization.

While the details of the educational program are not finalized, Mr. Penzkover said it initially will be done on company time and will not be a one-shot deal.

For starters, each employee will be given a copy of the book "Take Care of Yourself (A Consumer's Guide to Medical Care)."

A second health-awareness and -enhancement program will complement the consumer education program.

Employees don't want to lose their health care benefits, Mr. Penzkover noted. By telling them what the problems are and presenting solutions that don't hurt too much, employees will understand, accept and wisely use the new plan, he says.

The new plan already has been negotiated into three union contracts with Local 347 of the American Federation of Grain Millers at Quaker's Danville, Ill. facility; International Local 125 of the Retail, Wholesale and Department Store Union in St. Joseph, Mo.; and Local 221 of the Cereal Workers in Chiremanstown, Pa.

Mr. Penzkover said union officials were shown what health care costs are. "Most of them were shocked to see how much benefits cost us. In the past negotiations, they would only see the level of benefits."

"While there hasn't been any jumping up and down for joy, our unions so far have understood the dilemma and have been willing to give our solution a chance," said Ray Miller, director of industrial relations.

"As a matter of fact, they have helped influence some of the final design considerations," Mr. Miller said.

Communicating a new benefit design to management also can be hard, but Quaker Chairman of the Board Robert D. Stuart Jr. takes an active interest in benefits costs and has conveyed the message: "Explore whatever you can."

Quaker did consider other cost containment alternatives like health maintenance organizations and cafeteria plans.

"We've been through all of that, but (their results) were nowhere near getting us out of overutilization," Mr. Penzkover said.

At Quaker, ideas were first bounced off the benefits staff and a study group on flexible benefits, then actually designing its new plan took Quaker another 10 months.

And, designing consumer and health education programs, monitoring utilization and creating a data base are still ahead. ■

Insurer, agents charged with bribery

Continued from page 2
Mr. Blumeyer, contacted at his St. Louis office, would not comment on the indictment, but confirmed that he has already made one court appearance in response to the charges. His trial date has been set for March 7, 1983.

Previously, Mr. Blumeyer has been involved in a variety of controversial insurance coverages, including last year's baseball strike insurance and a plan to insure safe-harbor tax leases announced this summer (*BI*, Aug. 23).

As a sub-broker for Boston-based brokerage Lockwood, Dipple & Green, Mr. Blumeyer helped place approximately $20 million of the strike coverage with the Southern American Insurance Co. owned by E.H. Crump Cos. of Memphis, Tenn.

More recently, Mr. Blumeyer's subsidiary company Tax Lease Management Corp. announced coverage available from Lloyd's of London to protect against the loss of tax credits due to bankruptcy or physical damage involving leased property.

Mr. McFerron, no longer employed by the state government, had previously pleaded not guilty to four charges of conflict of interest and misrepresenting taxable income resulting from the alleged bribery. Calls to his Jefferson City home were not answered. ■

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401(k) deferrals may be subject to FICA tax

Continued from page 2
ferred-contribution plans directly by the employer rather than deposited by the employee, it counts as an "employer" contribution, not as taxable income to the employee.

With a 401(k) plan, which is named for the section of the Internal Revenue Code that authorizes the idea, an employee not only can substantially reduce income taxes, but both the employee and the employer can save on Social Security taxes.

If an employee makes less than $32,400 (the wage base for computing FICA taxes this year), then any reduction taken in salary correspondingly reduces employee's and employer's FICA taxes.

For example, if an employee who earns $24,000 a year has 6% of the salary deferred to a 401(k) plan, it could slash both the employee's and the employer's FICA taxes to $1,511 from $1,608, a savings of $97 each.

But even if Congress does decide to make deferred wages subject to FICA taxes—something several consultants predict will happen soon—it won't crimp the growth of 401(k) plans, which are popular for many reasons besides the FICA tax advantage.

While the FICA tax savings may be a factor in an employer's decision to set up a salary reduction plan, it is not the determining factor, said Deborah J. Marx, a partner at Kwasha Lipton, a national benefits consulting firm in Fort Lee, N.J.

"Yes, there are substantial FICA savings, but that is not a primary reason why employers set up 401(k) plans," agreed a spokeswoman with Hewitt Associates in Lincolnshire, Ill. "They do it because they can offer an important employee benefit at little cost to the company."

"I'm not aware of a single employer who has considered FICA tax savings a significant reason in setting up a plan," said Robin Holloway, a vp in Towers, Perrin, Forster & Crosby's New York office.

"The 401(k) plan is still the best game in town" for employers as well as employees, said Marjorie G. O'Malley, second vp at Connecticut General Life Insurance Co., a CIGNA Corp. subsidiary.

Some consider 401(k) plans superior to Individual Retirement Accounts because:

- A larger amount of tax-deductible savings can be set aside.
- Employees can make emergency withdrawals without having to pay the 10% tax penalty that is imposed on early IRA withdrawals.
- When an an employee does withdraw money from a 401(k) plan, tax treatment is more favorable than on money accumulated in an IRA.

Interest in IRAs was sparked by the Economic Recovery Tax Act of 1981 that allows employees to take a tax deductions for up to $2,000 deposited in an IRA.

While the loss of the FICA savings probably won't be a fa[ctor] in employers' decisions to se[t up] salary reduction plans or emp[loy]ees' decisions to participate, it co[uld] set a precedent for taxing ot[her] benefits, some experts warn.

Originally, benefits like gr[oup] health insurance were exclu[ded] from taxes because of policy r[ea]sons.

"It was deemed good public p[ol]icy to encourage employers to [ex]pand benefits coverage to prot[ect] employees," Ms. Koralik said.

However, legislators are n[ow] making decisions about the ta[xa]tion of benefits for revenue r[ea]sons, not on the basis of public p[ol]icy.

For example, Congress this ye[ar] seriously considered placing a c[ap] on the amount of tax-free hea[lth] insurance benefits employers co[uld] provide to their workers. Such [a] cap would have raised a lar[ge] amount of new revenues.

If the cost of benefits continues [to] increase, congressional interest [in] taxing benefits as a new source [of] revenue also will rise, predicts Da[l]las Salisbury, executive director [of] the Employee Benefit Research I[n]stitute in Washington.

Commission likely to endorse tax hike

WASHINGTON—All employers, even those who do not sponsor salary reduction plans, can probably expect even higher FICA taxes.

President Reagan's blue-ribbon Social Security commission is bound to recommend and Congress will adopt proposals that will speed up future Social Security tax increases, experts predict.

"The question no longer is will Social Security taxes be increased, but rather by how much and when," said Dallas Salisbury, executive director of the Employee Benefit Research Institute.

Both Republicans and Democrats took credit for protecting retirees' benefits during the recent congressional elections. But few candidates offered solutions to keep the system afloat.

But since the election, the rhetoric has cooled.

The 15-member National Commission on Social Security Reform, which was set up late last year, was able to agree that Social Security will need between $150 billion and $200 billion in additional revenues to weather a funding shortfall over the next six years.

Speeding up future tax hikes could make deep inroads in that shortfall. For example, if the current 6.7% tax were increased to 7.65%—something that is not supposed to happen until 1990—Social Security trust funds would receive an additional $135 billion in revenues by 1989.

But such a tax hike would have a massive impact on employers' benefit costs. Last year, for example, the average employer spent $1,123 per employee for Social Security taxes, up 17.7% from 1980, according to the latest analysis by the U.S. Chamber of Commerce (see story, page 3). Costs probably climbed an additional 10% in 1982.

Assuming the 1983 wage base of $35,700 is not increased further, which is a slim possibility, the FICA tax an employer would have to pay under a 7.65% rate would be $2,731.05, compared with next year's maximum of $2,391.90 under the lower tax rate.

As payroll taxes increase even more, it will mean that employers will have to cut back on other employee benefits, one expert says.

"There will be fewer available dollars to spread around," the expert said.

Higher payroll taxes alone won't create all the revenues that the Social Security trust funds need to pay promised benefits. The commission is now considering other proposals that would increase revenues or reduce costs:

For example, Congress could mandate Social Security coverage for non-profit employers as well as for newly hired federal workers.

Expanding Social Security to include new federal employees and non-profit employers would bring in $23 billion over the next six years. "My intuition tells me that there was a non-voting consensus in favor of coverage (among commission members) for new federal employees and non-profit employers," said Mr. Salisbury.

Such a change, for example, would force many of the nation's hospitals to scrap their current plans to withdraw from Social Security and set up alternative retirement programs.

Another proposal that is being considered is to link Social Security benefit hikes to wage increases or price hikes, whichever is smaller.

Basing Social Security benefit hikes on the smaller of wage or price increases also is an option that has wide support among the commission's eight Republicans and seven Democrats. That idea has already been discussed in Congress.

Currently, Social Security benefits are increased annually to match the rise in the Consumer Price Index. Linking benefit hikes to the CPI originally was considered a fiscally sound move to prevent Congress from passing huge benefit hikes just before elections.

But as inflation soared during the last three years, benefit increases became much more costly than experts predicted. In 1981, Social Security benefits were increased 11.2%, while this year benefits were boosted 7.4%.

Billions, though, could have been saved if benefits were based on wage increases, which rose much more slowly than prices between 1981-1982, a point the commission will examine before it meets again Dec. 10. ■

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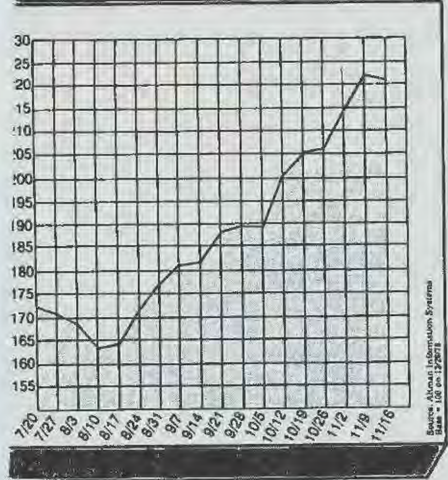

e *Business Insurance* stock index dipped 1.3 ints during the week ending Nov. 16, closing 221.2, down from 222.5. Thirty-one stocks re- rted losses, 24 gained and 13 were un- anged. The largest gains were reported by kio Marine & Fire Insurance Co., 9.7%; SRI rp., 8.3%; Integrated Resources Inc., 7.9%; ed Stenhouse Cos. Ltd., 7.5%; and American ates Life Insurance Co., 5.3%. The largest sses were reported by The Continental Corp., .5%; American National Insurance Co., 9.4%; ashington National Corp., 7.7%; Aneco Rein- rance Co. Ltd., 7.4%; and Zenith National In- rance Corp., 6.9%. The 0.6% drop in the *BI* dex was less than the decline in the Dow nes 30 industrials average.

British Issues

16 Nov Companies	Price pence	P/E	Div. pence	Yield %	1 Week High—Low pence pence
Comml Union	128	21.3	16.86	13.2	130—128
Eagle Star	335	12.0	21.43	6.4	350—335
Genl Accident	342	11.4	23.21	6.8	356—342
Gdn Royal Exch	356	9.0	25.00	7.0	374—356
Phoenix	296	11.4	24.00	8.1	300—292
Royal	438	10.7	36.07	8.2	458—438
Sun Alliance	845	12.1	61.43	7.3	880—845
Brokers					
CE Heath	312	8.5	18.71	6.0	312—307
Hogg Robinson	97	7.5	8.57	8.8	102— 97
JH Minet	105	8.7	5.43	5.2	109—105
Sedg Grp	196	11.2	8.57	4.4	200—196
Stenhouse Hldg	97	8.6	7.28	7.5	100— 97
Stew Wrightson	222	7.9	18.57	8.4	232—222
Willis Faber	497	12.4	21.43	4.3	500—497

Source: Philip Olsen/Alan Clifton, Insurance Industry Specialists Kitcat & Aitken Stockbrokers, London

Insurers' latest results not as bad as expected

BI ticker

By MYRON M. PICOULT

Special to Business Insurance

WE THOUGHT THAT insurance industry observers would focus on the continuation of poor underwriting results, the shrinkage in investment income growth and additional expense pressures affecting property/casualty underwriters after the insurers released their third-quarter results.

Mr. Picoult

While all of this appears to be correct, the fact remains that third-quarter underwriting results, in general, were not as bad as we originally thought they might be. The primary reason seems to be the absence of any meaningful level of catastrophic losses rather than some fundamental improvement in the industry's fortunes.

Our survey includes 14 major property/casualty insurers, which account for about 40% of the industry's premium volume. A review of the third-quarter results showed the following:

- Net written premiums for the three months ended Sept. 30 rose 3.9% compared with the amount of premiums written in the third quarter of 1981 and earned premiums edged up 3.3%.

To a certain extent, the data is distorted by strong premium gains at American General, American International Group and Geico. Excluding these three companies, the respective increases in written and earned premiums for the third quarter would have been 1.3% and 0.6%. These figures mirror the industry's pricing standards last year.

Myron M. Picoult is a vp and senior insurance analyst with Oppenheimer & Co. in New York. He is the past president of the Assn. of Insurance & Financial Analysts and a member of the New York Society of Security Analysts. His column for Business Insurance appears the fourth Monday of every month.

Of the companies surveyed, only three—Aetna Life & Casualty, CIGNA and U.S. Fidelity & Guaranty—posted declines in written premiums.

- Pretax investment income from property/casualty operations, as expected, continued to slow. The 14 companies surveyed recorded a 9.4% increase for the quarter vs. an average rise of 12.8% for the first six months of the year.

However, if American General, AIG and Geico had been excluded, the rise during the quarter would have been reduced to 7.8%.

The slowdown in the increase of investment income reflected both a reduction in cash flow and a drop in yields. The important fact to note from this figure is the shrinking capacity of investment income to offset underwriting losses.

- The average combined ratio (after policyholder dividends) for the group jumped to 105.6% from 103.3% in the third quarter of 1981. The expense ratio rose to 32.0% from 30.8%, while the loss ratio expanded to 73.6% from 72.5%.

The survey showed that seven companies posted combined ratios above the average, while seven posted ratios that were less than the average.

The average underwriting ratio was distorted by the superb underwriting performances turned in by Geico, SAFECO and American International Group. Adjusting for these three companies, the average combined ratio would have moved up to 107.3% from 104.8% in last year's third quarter.

In reviewing the third-quarter underwriting patterns throughout the industry, it is clear that those companies that had a higher-than-average exposure to personal lines business and those that maintained pricing and underwriting integrity fared better than the rest of the pack.

On the topic of loss reserves, paid claims increased a little more than 10% while incurred losses rose about 3.5%. Aggregate reserves rose approximately 7.0%. While the paid-claims figure apparently reflects the payment of some first-half catastrophe losses, we continue to sense that many companies are not establishing realistic reserve levels given current loss levels (notwithstanding premium and exposure reductions) and soft pricing levels.

Operating earnings from property/casualty divisions dropped 4.9%, while consolidated net income decreased 3.2%. Excluding AIG, Geico and SAFECO, operating earnings would have declined 8.1%, while consolidated net income would have dropped 7.3%.

The obvious question generated by the third-quarter figure is: "Where are we on the pricing cycle?" In the personal lines sector, evidence continues to mount that there is a slow but steady increase in premium rates, particularly in the automobile sector. In the commercial lines, prices have apparently stopped their decline, but there is no hard evidence of any meaningful upward movement either, at least in the fiercely competitive "retail commercial" market. In the "wholesale commercial" market, where many of the players do not participate, there are some indications of an ability to garner some rate relief.

We doubt that a bell will be rung announcing the end of price competition sometime in the future. The pricing recovery is likely to be slower than most industry observers would like to see.

The property/casualty industry has been playing a game of hangman for some time, and it has come out a winner by virtue of a portfolio of catchy phrases, while including cash-flow and total-return underwriting. However, the number of buzzwords still available are shrinking and the hangman's noose is tightening. In fact, it appears that some companies have already been hanged or are about to meet their maker because they forgot how to spell a simple word, namely P-R-O-F-I-T.

The harm done by the competitive market to the operating structure of some underwriters may be so severe that they have dashed all hopes of becoming a national marketing entity or perhaps even surviving as a specialty or regional company. What is incredible is that these companies think the same fate has struck their competitors. ■

BI Industry Stock Report

NOV. 16, 1982 11/10/82 THRU 11/16/82

Insurance Cos.		Price	% Chg.	P E	$ Div.	% Yld.	High	Low	Vol. (000)
Aetna Life & Cas Co	NYSE	42.75	-0.9	7.0	2.52	5.9	43.50	42.50	1,052.6
American Bankers Ins Group	OTC	11.13	-6.3	8.7	0.48	4.3	11.63	11.13	116.4
American Gen Ins Co	NYSE	55.38	-0.4	7.6	2.20	4.0	57.00*	53.63	832.1
American Indty Finl Corp	OTC	16.63	2.3	12.7	1.12	6.7	16.63	16.25	12.4
American Intl Group Inc	OTC	82.00	3.8	12.1	0.48	0.6	82.25*	79.75	489.7
American Natl Ins Co	OTC	14.50	-9.4	6.4	0.84	5.8	16.00	14.50	71.3
American Sts Life Ins Co	OTC	20.00	5.3	6.0	0.80	4.0	20.00*	19.00	0.7
Aneco Reins Ltd	OTC	3.13	-7.4	0.0	0.00	0.0	3.38	3.13	17.1
Avemco Corp	AMEX	13.25	-1.9	7.6	0.58	4.4	13.63*	13.25	11.5
Banks Iowa Inc	OTC	43.00	0.0	10.5	1.48	3.4	43.00	43.00	4.0
Bitco Corp	OTC	31.50	-1.6	5.2	1.92	6.1	32.00	31.50	3.4
Carolina Cas Ins Co	OTC	7.00	0.0	6.9	0.32	4.6	7.25*	7.00	5.6
Chubb Corp	OTC	51.88	2.2	8.4	2.92	5.6	52.38*	51.63	437.3
Combined Intl Corp	NYSE	27.38	-4.4	8.2	2.00	7.3	29.50	27.38	396.0
Continental Corp	NYSE	27.75	-10.5	8.8	2.60	9.4	31.38	27.75	444.5
Crawford & Co	OTC	17.00	1.5	12.4	0.56	3.3	17.00*	16.75	28.9
Crown Life Ins Co	OTC	79.50	-0.6	5.2	3.10	3.9	80.00	79.50	0.4
Crum & Forster	NYSE	51.88	-1.4	10.7	1.76	3.4	52.63	51.88	1,145.9
Employers Cas Co	OTC	31.00	0.0	14.1	1.20	3.9	31.00	30.75	4.9
Equifax Inc	NYSE	24.50	-3.0	12.9	1.32	5.4	26.25*	24.50	39.6
Excelsior Ins Co	OTC	11.25	0.0	0.0	0.70	6.2	11.25	11.25	0.0
Farmers Group Inc	OTC	37.88	-4.7	10.5	1.24	3.3	39.63	37.88	150.6
Foremost Corp Amer	OTC	37.50	4.9	11.4	1.12	3.0	37.50*	36.50	35.2
Great West Life Assurn Co	OTC	199.00	4.7	16.2	10.00	5.0	199.00	190.00	2.0
Hanover Ins Co	OTC	34.88	-1.1	5.1	0.88	2.5	36.13	34.88	27.5
Hartford Steam Boiler Insptn	OTC	42.75	-0.6	9.1	2.80	6.5	43.25	42.75	9.8
Jefferson Natl Life Ins Co	OTC	39.50	-4.8	11.0	0.76	1.9	40.00	39.50	4.6
Kemper Corp	OTC	41.38	0.0	7.9	1.80	4.4	44.00*	41.38	195.6
Lincoln Natl Corp Ind	NYSE	45.00	1.7	8.1	3.00	6.7	45.25*	43.25	117.4
Mission Ins Group Inc	NYSE	28.00	1.4	6.6	0.80	2.9	28.00	27.50	262.7
Nationwide Corp Ohio	OTC	39.25	0.0	11.6	0.70	1.8	39.25	39.25	1.6
Northwestern Natl Life Ins	OTC	25.00	-6.5	13.6	1.50	6.0	26.50	25.00	92.5
Ohio Cas Corp	OTC	45.50	0.6	8.6	2.36	5.2	45.50	45.25	41.8
Old Rep Intl Corp	OTC	23.13	-5.1	5.4	0.92	4.0	24.38	23.13	91.2
Preferred Risk Life Ins Co	OTC	24.25	1.0	7.2	0.92	3.8	24.25	24.25	8.9
Provident Life & Acc Ins Co	OTC	48.00	0.0	7.3	2.44	5.1	48.50	48.00	92.6
Ryan Ins Group Inc	OTC	33.75	0.0	13.6	0.16	0.5	0.00	DID NOT TRADE	
St Paul Cos Inc	OTC	60.63	-5.1	7.5	2.60	4.3	64.00	60.63	441.0
Safeco Corp	OTC	52.38	3.2	9.0	2.40	4.6	52.38*	51.50	485.1
Sri Corp	OTC	36.00	8.3	7.5	1.12	3.1	37.75*	35.50	146.2
Seibels Bruce Group Inc	OTC	27.38	-3.5	20.1	1.00	3.7	27.75	27.38	84.9
Statesman Group Inc	OTC	7.00	0.0	6.3	0.15	2.1	7.00	7.00	21.9
Tokio Marine & Fire Ins Co	OTC	88.75	9.7	7.1	0.92	1.0	88.75	86.50	4.1
Travelers Corp	NYSE	26.25	-0.9	7.2	1.64	6.2	27.25*	26.25	1,027.7
United Fire & Cas Co	OTC	31.75	0.0	8.5	0.88	2.8	31.75	31.75	5.1
United States Fid & Gty Co	NYSE	40.88	-4.4	10.0	3.60	8.8	42.25	40.88	186.4
United Svcs Life Ins Co	OTC	19.50	0.0	6.3	1.00	5.1	20.13*	19.50	87.2
Uslife Corp	NYSE	23.25	-6.5	5.1	0.88	3.8	24.38	23.25	452.9
Washington Natl Corp	NYSE	19.38	-7.7	9.5	1.08	5.6	20.38	19.38	55.1
Zenith Natl Ins Corp	OTC	16.75	-6.9	7.6	0.76	4.5	18.00	16.75	33.9
INSURANCE COMPANIES	AVERAGE			8.7		4.2			
Agents/Brokers									
Alexander & Alexander Svcs	NYSE	24.38	1.0	10.9	1.94	8.0	25.50	23.75	442.3
Baldwin & Lyons Inc	OTC	38.00	0.0	6.3	0.80	2.1	38.00	38.00	1.0
Corroon & Black Corp	NYSE	29.00	4.5	14.3	1.80	6.2	29.00*	28.50	87.8
Crump E H Cos Inc	OTC	10.13	-1.2	17.2	0.40	4.0	10.13	10.13	25.7
Emett & Chandler Cos Inc	OTC	9.00	2.9	29.3	0.00	0.0	9.00*	8.88	5.6
Hall Frank B & Co Inc	NYSE	28.63	-0.9	12.3	1.70	5.9	28.75	28.00	411.1
Integrated Res Inc	AMEX	32.38	7.9	9.8	0.00	0.0	34.75*	30.88	153.8
James Fred S & Co Inc	NYSE	33.25	0.4	16.8	1.60	4.8	33.38*	33.13	351.6
Marsh & Mclennan Cos Inc	NYSE	41.50	-2.4	12.9	2.20	5.3	43.50*	41.38	210.7
Penncorp Fincl Inc	NYSE	12.13	2.1	7.5	0.16	1.3	12.25	11.75	748.3
Poe & Assoc Inc	OTC	11.50	0.0	11.3	0.80	7.0	11.50	11.50	2.9
Reed Stenhouse Cos Ltd	OTC	14.25	7.5	20.7	0.60	4.2	14.25*	13.25	20.1
Rollins Burdick Hunter Co	OTC	24.13	1.6	19.9	0.00	0.0	24.13*	23.75	153.4
AGENTS/BROKERS	AVERAGE			11.6		3.9			
Conglomerates/Holding Cos.									
American Express(Fireman's Fd)	NYSE	65.50	-0.8	11.2	2.20	3.4	69.75*	65.50	2,323.5
Anderson Clayton(Ranger/PanAm)	NYSE	23.75	-12.8	6.5	1.32	5.6	25.00	23.75	154.9
Armco Inc	NYSE	17.75	-2.1	33.5	1.20	6.8	17.75	17.50	728.1
City Investing Co. (Home Ins.)	NYSE	28.50	0.0	8.9	1.70	6.0	29.75*	28.50	1,250.4
CNA Finl Corp (CNA)	NYSE	16.50	-5.7	6.4	0.00	0.0	17.38	16.50	46.9
Control Data (Comml. Credit)	NYSE	38.63	-7.8	9.5	0.55	1.4	41.38	38.63	818.1
General Re Corp	NYSE	62.50	-1.6	13.7	1.08	1.7	64.25*	62.50	209.6
Gulf Utd Corp	NYSE	25.38	1.0	8.9	1.32	5.2	27.00*	25.38	429.8
Cigna Corp	NYSE	48.25	2.1	7.0	2.30	4.8	48.25	47.38	583.2
ITT (Hartford Group)	NYSE	31.88	-4.9	7.2	2.76	8.7	33.75*	31.88	2,233.7
Optimum Hldg Corp	OTC	6.75	-5.3	6.5	0.00	0.0	7.00	6.75*	10.3
Sears Roebuck & Co. (Allstate)	NYSE	29.63	-5.2	13.5	1.36	4.6	31.38*	29.63	3,571.8
Baldwin Utd Corp	NYSE	45.38	-6.9	8.8	0.88	1.9	49.25*	45.38	765.1
Teledyne Inc (Argonaut)	NYSE	132.25	-6.8	8.0	0.00	0.0	139.00	132.25	813.4
Transamerica Corp (Occidental)	NYSE	23.75	5.6	8.3	1.50	6.3	24.25*	23.50	354.7
CONGLOMERATES/HOLDING COS.	AVERAGE			9.0		3.0			

*Record high/low since Jan. 1, 1982

System design: Altman Information Systems

Financial briefs

CIGNA

CIGNA Corp., which has already slashed about 2,000 jobs through attrition or layoffs this year, says it will eliminate another 2,000 positions in the next two years in an attempt to cut costs and focus on commercial insurance.

A company spokesman says that most of the positions will be eliminated through normal retirements and resignations rather than layoffs.

Approximately 1,000 Hartford, Conn.,-area employees of Aetna Insurance Co., the property/casualty subsidiary of the old Connecticut General Life Insurance Co., were fired after the merger of CG and Philadelphia-based INA Corp. About 500 of those workers were later given other jobs at CIGNA.

The insurer also fired about 500 field employees since the merger and eliminated between 400 and 500 positions through attrition.

At the same time, CIGNA also announced that it was selling its 24% stake in Paine Webber Inc., Wall Street's eighth-largest securities firm, for approximately $100 million.

The company says it will not sell the Paine Webber stock on the open market. Instead, it will offer $100 million in convertible debentures for the Paine Webber shares it holds.

CIGNA's first-half operating earnings declined 37.5% from a year earlier, based on a pro forma combination of the 1981 results of the two merger partners. For the nine months ended Sept. 30, the decline was 27.9%. ■

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Production workers at Bendix do Brasil in Campinas, Brazil.

From the client's point of view.