WEEK OF NOVEMBER 24, 1980

business insurance®

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

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update:

London insures missing U.S. carrier

NEW YORK—The S.S. Poet, a converted World War II troop carrier reported missing with 33 crew members off the Delaware Coast, is insured for property and liability in the London market.

Hull coverage on the U.S.-flag vessel, which was carrying corn to Egypt, is

Continued on next page

Social Security

Panel suggests limiting offsets

By JERRY GEISEL

WASHINGTON—Benefit managers already getting flak from employees for subtracting growing Social Security benefits from corporate pension benefits could face regulatory pressure to restrain the offsets.

The President's Commission on Pension Policy has suggested Congress consider lowering the percentage of Social Security benefits employers can use to fulfill their pension formula.

But the commission will not spell out how the integration limits should be changed until a staff report is completed.

The commission's second and last interim report, however, does specifically recommend other drastic changes for the first major overhaul of the 45-year-old public retirement program. They are:

- Gradually raising to 68 from 65 the age at which a worker can retire and collect full Social Security benefits.
- Raising to 65 from 55 the age at which federal employees can retire with full pensions.
- Increasing to 65 from 62 the age at which an employee can first collect a reduced Social Security benefit.

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Reagan, Carter proposals clash

WASHINGTON—The Reagan administration's tentative proposals for saving the Social Security system clash with those of the Carter advisers.

And what impact the recommendations of President Carter's Commission on Pension Policy will have on the new White House team is uncertain.

Key differences reportedly proposed by the Reagan Social Security task force, formed in September, are:

- Raising the Social Security retirement age to 68 from 65 12 years quicker than the president's commission proposes.

The Reagan group proposes gradually raising the age beginning five or six years from now so it reaches 68 by the year 2000. The Carter advisers don't want to begin phasing in the higher age until 2000, with the change completed in 2012.

- Basing cost-of-living increases for Social Security retirees on average wage increases instead of the Consumer Price Index whenever wages are rising slower than prices. President Carter's group rejects adjusting benefits by a wage formula "because of the uncertainty in future relationship between price and wage increases," its interim report shows. It is concerned about proposals that would not link increases in the benefits to the CPI.
- Giving free Social Security credits to women who take time off from their jobs to raise children

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Drugmakers, insurers clash over DES claims

By RHONDA L. RUNDLE

BROOKLYN, N.Y.—The first major lawsuit to grapple with the thorny issue of insurance coverage for millions of dollars in damages for DES-induced injuries is pending in U.S. District Court here.

The case presents another disagreement between policyholders and their insurers over what product liability policies cover long latent or late-to-surface injuries.

Asbestos manufacturers and their underwriters are fighting a similar battle to decide who has to pay up—the insurer that wrote the liability policy when the person was exposed to the hazardous product or the insurer that wrote the policy when the long-delayed injury appeared.

In the DES-related case, Schering-Plough Corp., a New Jersey-based pharmaceutical manufacturer of the drug dienestrol, is suing its excess liability insurer. It wants The Home Insurance Co. to cover losses that occurred during a 10-year policy period ending in 1976.

The drugmaker is arguing that occurrence should be defined as manifestation of the injury. The Home believes coverage should be construed under a theory of ingestion. It says the fetuses developing in the wombs of mothers who took DES were injured at that stage.

Dienestrol is a synthetic estrogen similar to diethylstilbestrol (DES). Both compounds are believed to cause cervical cancer and other abnormalities in the daughters of women who took

Illustration: Milt Priggee

the drugs to prevent miscarriage during pregnancy.

The outcome of the Schering lawsuit could set an important precedent in the resolution of the exposure vs. manifestation issue in other disputed DES cases, say attorneys for both sides.

A similar action between Philadelphia-based Richlyn Laboratories Inc. and eight insurers is pending awaiting resolution of a DES suit against the drugmaker. Insurance Co. of North America

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Pullout threatens N.Y. plan

By ELLIS SIMON

NEW YORK—The New York State health insurance plan, threatened with the loss of its three largest county members, could be close to collapse, its critics say.

Westchester County, the third largest in the plan with 9,500 employees, already has decided to withdraw. It is leaving Feb. 1 because of a more than 50% rate hike expected by next July. Its inability to obtain loss experience data from the plan also influenced its move, says Robert M. Bieber, director of risk management.

Nassau and Suffolk, the two participating counties larger than Westchester, and Rockland, Orange, Putnam and Schenectady also are considering leaving.

Westchester, Nassau and Suffolk represent 43,000 workers or almost 10% of the state plan enrollment, Mr. Bieber notes.

Westchester would be the ninth county to leave the plan since December 1976, but it would be the first in downstate New York, where medical costs are highest.

"If Westchester leaves and we

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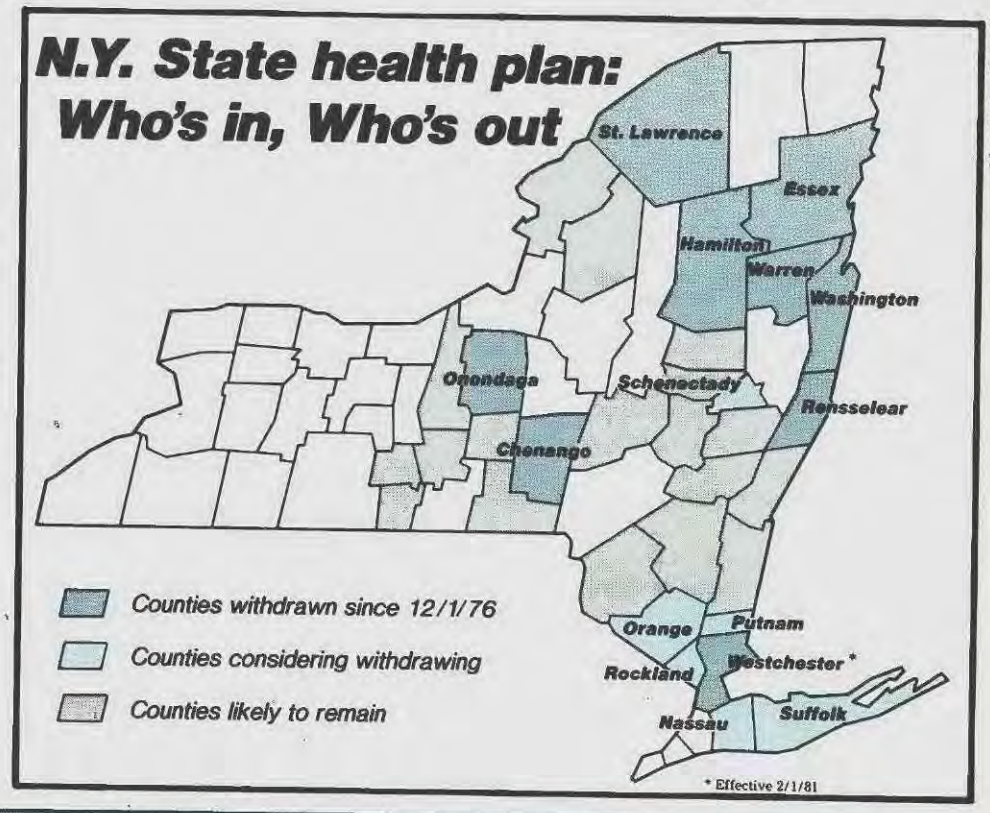

Map: Toby Roberts

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Sambo's wins pregnancy case Page 2

Measuring financial health of surplus lines insurers Page 38

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update:

London insures missing ship

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provided by Lloyd's and the Institute of London Underwriters. The Poet, owned by Hawaiian Eugenia Corp., a subsidiary of Alton Steamship Co., is a member of the West of England Protection & Indemnity Club.

John P. Tilden Ltd. of New York brokered the coverage for Alton. Tilden president J.R. Wilson could not disclose the ship's value, but the corn cargo was worth about $1.6 million at mid-November prices.

Marine sources believe the ship's cargo was sent under a foreign aid program and was owned by the Egyptian government, but was probably uninsured.

The Poet left Philadelphia Oct. 24 bound for Port Said. The ship was reported missing Nov. 3 after it failed to reach the Strait of Gilbraltar.

Newhouse named to M&M post

NEW YORK—Robert J. Newhouse has been elected to the newly created position of vice chairman of Marsh & McLennan Cos. Inc., holding company for the largest U.S. brokerage, Marsh & McLennan Inc.

L. Patton Kline, chairman of the brokerage, will replace Mr. Newhouse as president and chief operating officer of the parent firm while continuing his duties with the brokerage. He previously held the corporate position of senior vp.

Mr. Newhouse will assume the new responsibilities of chief professional in charge of long-range planning and Mr. Kline will take on more day-to-day management responsibilities, says M&M Cos. chairman John M. Regan Jr., who retains his position. The appointments are effective Jan. 1, 1981.

Insurer covers rocketboat

LAKE TAHOE—No one knows why the U.S. Discovery II blew up two weeks ago in an attempt to break the world water speed record, but Lexington Insurance Co. plans to pick up the bill.

The 16,000-horsepower rocketboat was insured for $500,000 by Lexington Insurance Co. (*BI*, Nov. 3). A Lexington spokesman said the company is waiting for the investigation of the crash to be completed before it pays the claim.

The body of driver Lee Taylor has been found. His life was insured for $1 million.

No action on risk pool act

WASHINGTON—The next chairman of the Senate Commerce Committee says there isn't enough time left this year to pass the Risk Retention Act.

"I thought we had reached a compromise and were 90% in agreement" but a bill probably won't pass this session, said Sen. Robert Packwood (R-Ore.).

The Risk Retention Act would make it easier for businesses to set up insurance cooperatives in the U.S. and offshore to insure their product liability risks.

Public pensions rated

PHILADELPHIA—After two years of work, a special study group is expected to release findings this week that public pension plans are surprisingly well-funded.

"By and large, the issue of financing of public pension plans has been greatly exaggerated. There seems to be no great cause for alarm over the funding of these plans," George Peterson, one of the group's leaders, told *Business Insurance*.

The study, costing $1 million, was done by the Wharton School of Business at the University of Pennsylvania and the Urban Research Institute of Washington. Findings eventually will be part of testimony to Congress, Mr. Peterson said.

The report examined the financing behind state and local pension plans around the country, including 35 of the nation's largest.

Colonial Penn to appeal

POMONA, Calif.—Colonial Penn Insurance Co. of Philadelphia said it plans to appeal a $4.5 million jury award given last week to a 72-year-old retired apartment manager in a civil suit over a health insiurance policy.

The man, Elmer Norman, sued the company in 1976 over the company's refusal to pay a $48 claim to his satisfaction on a health insurance policy with the American Association of Retired Persons. His lawyers alleged the company fraudulently switched Norman's policy in 1974 to one that provided 40% less in benefits while reportedly telling the man his olicy had been improved.

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Vol. 14, No. 47—*Business Insurance* (ISSN 0007-6864) is published weekly at 740 Rush St., Chicago, Ill. 60611. Second-class postage is paid at Chicago, Ill., and additional mailing offices. Postmaster: Send address changes to *Business Insurance*, circulation department 740 Rush St., Chicago, Ill. 60611.
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California fund to pay for maternity disability

SACRAMENTO—California employers are off the hook for disability benefits to pregnant women who quit work before becoming disabled.

Reversing its previous position, the California Unemployment Appeals Board will order the State Unemployment Compensation Fund to pay pregnancy disability benefits to eligible women who quit work when they are pregnant but before they are disabled.

The board had wanted the woman's employer to pay the disability benefits, a ruling Sambo's Restaurants fought in court (*BI*, Oct. 20) and was on the brink of winning when the board reversed its position.

The policy reversal came Nov. 14 on a case involving a Xerox Corp. employee who left her job before she was certified as disabled by her doctor. Self-insured Xerox convinced the board the state fund should pay the disability benefits because she wasn't disabled when she left Xerox.

Sambo's was looking forward to winning its suit against liability for pregnancy disability benefits. Los Angeles Superior Court Oct. 30 handed down its intended decision that the employer is not liable for these disability claims. In administrative law cases, a judge hands down a preliminary decision pending a final decision.

Employers that paid such benefits through a self-insured disability plan from April 1979 to the present probably will seek refunds from the state fund, said Ralph Hurley, a partner in Voluntary Plan Administrators Inc., which administers Sambo's plan.

Sambo's alone has paid as much as $30,000 in pregnancy disability claims that should have been the responsibility of the state fund, he estimated.

"We have not had any inquiries about refunds," said Carl Peterson, assistant chief of the disability insurance division in the State Employment Development Department. "There is no legal remedy for retroactive benefits once the appeal period has passed."

About 20 cases similar to the Xerox and Sambo's cases have been appealed within the 20-day appeals period, he said. "These will likely hold the state liable, citing the new precedent decision."■

Photo: Mary Cairns

EPA regulations will detail how hazardous wastes must be handled "from cradle to grave."

Chem firms await rules, bill on waste

By STUART EMMRICH

WASHINGTON—The next few weeks are crucial for the chemical industry as the Environmental Protection Agency releases its long-awaited dumping regulations and Congress decides the fate of a superfund bill.

A flurry of year-end legislative and regulatory actions is expected to have a great impact on how hazardous wastes produced by chemical manufacturing firms will be treated, stored and financed in the coming years:

- A superfund bill to provide for the clean-up of abandoned wastes sites passed the House and passed the Senate Finance Committee last week. But a compromise between the two houses is threatened by industry speculation that a Reagan administration will be much more lenient on manufacturers.
- Voluminous EPA regulations that will detail how hazardous wastes must be handled "from cradle to grave" were not out to meet the projected Nov. 19 deadline. Most likely they will not be finished until the end of the month. Interim regulations released by the agency in May will stay in effect.
- A group of chemical companies and trade associations has gone to court to block those EPA regulations, arguing they place a burdensome expense on the industry. These suits have been countered by others from environmentalists who charge the regulations do not go far enough.

The Senate proponents of legislation that provides for a fund to clean up chemical spills and dump sites have put together a compromise bill in the past week. They hope it will salvage chances of passage in the lame duck session.

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Exporters shun Mideast risk

By STACY SHAPIRO

CHICAGO—High war risks, fueling the higher insurance rates, are scaring away U.S. shippers in the war-torn Persian Gulf.

Representatives of Barber Blue Sea shiplines came from the company's Oslo, Norway, home to drum up business.

They tried to convince Midwest U.S. exporters here at a meeting of the Chicago Association of Commerce & Industry that vast profits can be found near Iran and Iraq, despite risks.

"'Crisis' is something that sounds real bad. But when it comes to shipping, it isn't really so bad," said Wilhelm Wilhelmsen, chairman of the steamship liner.

War and strike cargo insurance rates in the hot spots, however, have skyrocketed. Current war risk rates have gone up to 50 cents per $100 from almost 4 cents per $100 for American cargo being shipped to Lebanon or Iraq, said Carroll Dawson, secretary for the American Cargo War Risk Reinsurance Exchange. Rates for other Mideast countries start at 4 cents.

Exporters, especially those shipping through the Mideast, carry automatic war risk insurance with their cargo marine policies.

Barber Blue Sea will avoid cargo losses in the Mideast by taking alternative shipping routes if the Strait of Hormuz or the Suez Canal are ever closed. Representatives said alternative routes exist around the Cape of Good Hope or overland. ■

errors & omissions

- In the Nov. 10 article "Company trims health plan costs," it was incorrectly reported to *Business Insurance* that INA Re provides stop-loss coverage for Central Bancorp's self-funded health plan. Reinsurer for specific stop-loss coverage is Employers Re, while INA underwrites aggregate stop-loss.
- In an acquisition, the workers compensation modification factor of the purchasing company is extended to the newly acquired company regardless of whether it is higher or lower than that of the acquired company. The rule was misstated in the Nov. 10 article "Surprise mergers spark D&O crises." ■

Computers get test run in courtroom

By STACY SHAPIRO

CHICAGO—The newest testing ground for computers is the courtroom.

An estimated 500 lawsuits have been filed across the country by businesses, mainly small companies, that charge faulty computers or improperly equipped electronic systems have caused them financial loss.

The businesses say they lose money and customers or even go bankrupt when the systems incorrectly spew out billings or pay accounts twice.

They are taking the computer manufacturers to court to determine who is responsible for these business losses and who is to pick up the tab for the machinery that won't do the job.

One computer litigator says the 500 cases in court represent only a portion of the complaints by small businesses against computer companies. He says thousands of similar cases will never come to court because suing is too expensive for the smaller businesses.

But the 500 court cases have been enough to move some computer manufacturers to seek insurance coverage for the losses for which they could be held liable.

All but one insurer contacted by *Business Insurance* said they did not offer such coverage and most brokers said they have not had requests from clients looking for such insurance.

However, a member of the American International Group is marketing such a policy. American International Underwriters is bending a product guarantee legal liability insurance policy to fit the new computer risk.

"We've been approached by a number of them (computer manufacturers)," said Mark Harris, vp of AIU. "We're interested in looking at them."

The policy covers the policyholder's legal liability to repair or replace a defective product, whichever is cheaper, he said. The policy may insure a computer

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Photo: Mary Cairns

Quality Books in Northbrook, Ill., has packed its Burroughs computer away in a storeroom.

Reinsurance negotiations send rates down even more

By KATHRYN J. McINTYRE

NEW ORLEANS—Cheap insurance rates will come on as strong over the next 18 months as the Dixieland jazz musicians who wail in the French Quarter here.

Direct and reinsurance negotiations conducted during the National Assn. of Independent Insurers meeting here Nov. 9-12 continued to send rates plummeting from last year's lows.

The meeting is dubbed "Monte Carlo West" by attendees out to conduct business while Main Street insurance company executives meet in sessions to hear the latest analysis of the state of the insurance business, the economy and the government.

"London brokers turn out in droves to churn up business," sniffed one U.S. reinsurance company executive surveying the scene in the lobby of the New Orleans Marriott Hotel, the convention center. Brokers from the U.S. and Bermuda as well as London huddled in corners with insurers and reinsurers looking over risks while others made small talk before getting down to business.

"It hasn't been very productive this year," says Robin Jackson.

The business conducted was at cheap rates, reinsurers and brokers complain. Facultative casualty reinsurance was selling cheapest, but property insurance rates were off, too.

Few sources wanted to be pinned down to figures and even fewer wanted to be quoted as revealing the tempo of the 1981 reinsurance renewals. Thirty percent off last year's casualty prices and 10% off property prices were mentioned, but most sources lamented, "Pick you own number; anything is possible."

Signs of an insurance market glutted with capacity and not enough business were everywhere. "I haven't seen much business from you lately," replaced "How are you?" as the standard greeting.

Lloyd's underwriter Robin Jackson reported renewals are off 30% for Merrett-Dixey Syndicates because he won't meet rock-bottom prices. The 15-year veteran of NAII meetings who returns each year to keep tabs on the market shrugged, "It hasn't been very productive this year."

(Merrett-Dixey, however, will end the year with a

Continued on next page

Firms criticize proposed rules for comp pools

By EILEEN NORRIS

CHICAGO—Proposed state regulations on group self-insurance are "overly restrictive," say two large business groups here eager to form workers compensation pools.

The proposals won't be filed with the Illinois Secretary of State's office until later this week, said Ken Smith, a deputy director of the Illinois Insurance Department.

But the regulations would require a self-insurance group to have a minimum total payroll of $10 million, with a minimum $250,000 payroll for each employer in the pool, he explained.

The rules also would require each employer in the pool to have a minimum of 20 to 25 employees.

The Illinois Chamber of Commerce and the Illinois Manufacturers Assn. have been studying group self-insurance since reforms signed into law in September established a group funding mechanism for workers compensation.

Neither group is happy with the proposed regulations.

"We would like the state to review its minimum number of employees that each group member would need," said Tom Connolly, workers compensation project manager for the Illinois Chamber of Commerce in Chicago.

Many small companies, for which the reform was intended, may be able to meet the payroll requirements but not the required number of employees, he said.

The chamber has scheduled presentations in early December on group self-insurance for its 700 members that expressed interest in pooling. Mr. Connolly said the chamber plans to ask for firm commitments from them then.

The Illinois Manufacturers Assn., which has 5,700 members, is strongly opposed to limiting the pools to employers with a minimum of 20 employees, said Jack Roadman, secretary for the group.

"We believe the state should lower it to be about five employees

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DOL holds back on black lung trusts

By ELLIS SIMON

WASHINGTON—The Department of Labor is holding back approval of tax-exempt 501(c)(21) trusts to fund federal black lung benefits.

Coal mine operators that have had trusts approved by the Internal Revenue Service want to use them to meet DOL financial requirements to qualify as self-insurers of federal black lung benefits.

Operators now must purchase a fidelity bond or deposit up to $3.5 million with the Federal Reserve System to qualify as self-insurers.

The DOL wants to closely scrutinize the trusts before approving them, since the law allows 501(c)(21) trusts to be used to fund both state and federal benefits, a DOL official said. The trusts must be financially sound to protect the Federal Black Lung Disability Trust Fund from accepting liabilities of insolvent operators, he explained.

The federal trust pays claims of miners who last worked before 1970 or whose last mine employer cannot be located.

Because 501(c)(21) trusts are tax exempt, mine operators using them receive tax breaks now rather than when claims are paid.

Nine current self-insurers and one new one are waiting for approval of their trusts to meet DOL financial security requirements, a DOL official said. He would not identify them.

An IRS spokesman said 23 trusts have been approved by that department. *Business Insurance* was previously told by the IRS that no 501(c)(21) trust had been approved (*BI*, Oct. 13). The spokesman said the error occurred because records on the trusts have not yet been transferred to the IRS's master

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"We're trying to evenly fund costs," says John Chappelear.

Funding takes guessing

ALLENTOWN, Pa.—Using a tax-exempt trust to fund black lung benefits has saved Pennsylvania Power & Light Co. $1 million in corporate taxes in a year.

But a number of unknown variables that will affect employers' ultimate liability for the miners' disease blurs the picture and makes use of the trust a guessing game.

The variables include possible improvements in benefit levels and changes in eligibility requirements, improved claims experience, changes in life expectancy for black lung claimants and investment returns.

Because of these unknown factors, PP&L and its actuaries cannot project future funding requirements for the 501(c) (21) trust that was approved by the Internal Revenue Service in September 1979. The company, like the companies behind 22 other 501(c) (21) trusts, walks a thin line between overfunding and underfunding the trust.

The penalty for putting too much money in the fund is losing it—trust deposits are irrevocable. However, if not enough money is set aside, future claims could mean passing more of the cost to the utility customers.

"We're trying to evenly fund costs over the long term to avoid large

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Rates drop some more

Continued from previous page
$27 million to $30 million premium volume, about the same as last year's business, thanks to new business including property risks and personal accident and health insurance. A drop of 20% in premium volume is possible in 1981.)

Many insurance industry experts look to reinsurers to rein in the rate-cutting by primary markets. But reinsurers this year claimed to be at the mercy of the primary insurers' rate-setting, unable to refuse to reinsure the risks at rates they disapproved of because they too need business and its premium flow. "We've lost control of pricing to the primary insurer's" complained one reinsurance company executive.

"The whole market is equally guilty," contended another executive. Poor reserving practices among many companies leading to larger profit statements than exist were cited repeatedly for fueling the competitive fires. Disdain for cheap underwriting also appeared. General Reinsurance's Fred Fisher sported a tie reading "It's 1984 . . . Do you know where your reinsurance is?"

When do the reinsurance experts predict insurance rates will start climbing?

"Spring of 1982 perhaps," guessed Mr. Jackson of Merrett-Dixey.

"1984?" grimaced another reinsurer.

Most shrugged their shoulders, refusing to even guess anymore, and headed for Bourbon Street and Dixieland.

Funding takes guessing

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payments 20 to 30 years down the road at a higher cost to the customer," said John Chappelear, PP&L manager of pension funding investments.

However, that is not an easy task. For example, in 1977, amendments to the federal black lung law liberalized eligibility for the benefits and sent the number of claims PP&L faced soaring.

In 1978, only eight federal claims were filed against the utility. But it is a different story this year and in 1979. So far this year, 77 federal claims and seven claims filed under state law had to be addressed. In 1979, the numbers were 74 federal and 18 state.

"If the rate of claim acceptance will be in the 40% to 50% range (as presently mandated), we can project costs," said Mr. Chappelear. "If they're going to be in the 5% to 10% range (as it was before the 1977 liberalization), we can project costs. But if you think about the difference between the two, that's the problem."

Overfunding is not a problem for PP&L at this time, Mr. Chappelear says. The company's ultimate liability is likely to be several times current annual contributions.

"But four different actuarial firms could compute four different sets of numbers," he pointed out.

Even short-term funding levels are difficult to predict, he said. "We don't know what our contributions four years from now will be.

"Hopefully, as the years go by, the actuarial studies will get sharper," added George Vanderslice, PP&L vp and comptroller.

Whether future claims are filed under federal or state law is another variable. Pennsylvania benefits for a miner with one dependent run as high as $12,500 per year compared with $4,800 under the federal program, notes Donald Fiorito, PP&L insurance administrator.

PP&L executives would not disclose their annual contributions to the trust fund, but indicated it was about what they were contributing when the firm self-insured the benefit, as it had done since 1974. Self-insurance reserves would have been less than $2.5 million, according to company financial records.

"Taxes are what we save on," said Mr. Fiorito. By having the tax-exempt trust, PP&L avoids the 46% corporate income tax it would have to pay on book reserves.

While this allows the company to realize tax savings in the trust's early years, PP&L would have gotten the tax deduction when claims were paid if it continued to self-insure, Mr. Chappelear explains.

"We're making an annual payment and, hopefully, it will be level so there will be a tax deduction for every year, rather than the year you file a claim," he said. "We're deducting when we mine the coal, rather than when we pay the people."

Establishing the trust was relatively simple because PP&L already had a claims review and payment mechanism as a self-insurer and already was using actuarial evaluations.

One drawback to use of the trust fund is the limited investment alternatives. Only government securities and bank deposits may be used and "if we hire a bank as a custodian, we cannot use the same bank to hold our deposits," Mr. Chappelear said.

"As interest earned on our investments accumulates, there isn't always enough to buy government securities, so we sometimes use bank deposits to be prudently investing all our assets."

Because of the current money market, PP&L is realizing a better return by investing the trust fund than it would have had it reinvested the book reserves into its ongoing operations.

"We wouldn't be in it if our return wasn't superior from the trust, taking account of tax advantages," Mr. Chappelear pointed out. ■

DOL stalls OK of trusts

Continued from previous page
files in Washington from a regional office in Cincinnati.

There are no regulations to guide the DOL in approving use of the trusts and none are being drafted, the DOL official said. Although department policymakers recognize the problem must be addressed, the official did not know whether drafting of a regulation would begin before President-elect Reagan takes office.

The department could be forced to act on the trusts without regulations, he added.

When DOL eventually drafts regulations, they probably also will include new rules for using surety bonds and deposits with the Federal Reserve, similar to the methods of qualifying as a self-insurer.

Because of increased liability resulting from the 1977 liberalization of black lung eligibility requirements, financial security requirements are likely to be revised upward, he added. ■

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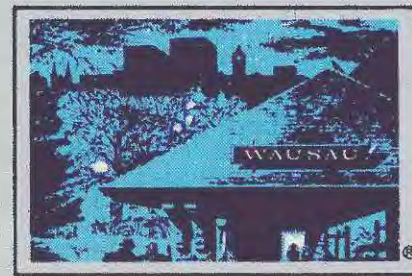

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Court tests computers

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manufacturer for up to $20 million, just as it does a boiler manufacturer. Additional coverage for the loss of use and profits of a small business is negotiable, but limits are rarely more than $1 million.

Rather than buy expensive insurance, however, computer manufacturers are pointing to their contractual agreements to avoid this liability risk, sources say.

A liability clause in most contracts states computer manufacturers are not responsible for damages caused by a computer, said Daniel Swan legal vp for Burroughs Corp. one of the largest computer manufacturers.

"Computers are very complicated and 98% of the people don't understand them," which could cause financial losses, he said.

He said he is not aware of any liability insurance to cover faulty computers. "We have a claims department, and they investigate claims," he said. "If they can't make a machine work, they'll replace it. It's the cost of doing business."

But Burroughs Corp.'s computer contract isn't stopping at least 30 businesses from filing lawsuits against it for selling computers they say can't do the jobs for which they were bought.

"It's a legal document, but what's right and what's wrong?" asked Gary Oliver, proprietor of Century Automotive Machine in Twin Falls, Minn. Mr. Oliver is suing Burroughs for $853,000 for selling him a B-800 computer that was supposed to take on 36 terminals, but doesn't.

"In reality, you put four users on this thing, and you get nothing," he said. "The problem is their operating system. If they stand on the contract, I'll stand on a verbal contract."

Mr. Oliver is asking for damages caused by the computer that he says didn't support his needs. He said he asked Burroughs to replace the B-800 computer with two B-700s he had used before.

"Burroughs said, 'We can't do that,' " Mr. Oliver said.

Burroughs is also being sued by other companies for "misinterpretation" and possible fraud in the sale of the B-800 computer and is the subject of an investigation by the Federal Trade Commission in Seattle, *Business Insurance* learned.

"We never had it working, period," said Tom C. Drewes, president of Quality Books in Northbrook, Ill., who filed a $1.9 million lawsuit against Burroughs.

"We were totally immobilized by this thing," he said. "What's really going on is a Pinto. This thing (the B-800) should have been recalled."

Before Quality Books filed its lawsuit, Mr. Drewes took out an ad to find any other people dissatisfied with Burroughs' B-800 computer. He has received more than 600 phone calls and letters from businessmen who have had trouble with Burroughs computers but only two calls from users who praised the systems, Mr. Drewes said.

Attorney Mr. Swan at Burroughs, however, disagrees with the results Mr. Drewes' ad brought and has filed a countersuit against him and his company for trade discouragement and interference with business opportunities and contractual relations.

"We have one hell of a lot of happy customers out there, including (ones with the) B-800," he said. "We do not expect to have any liability."

Honeywell Inc. a computer manufacturer that recently lost a $1.1 million lawsuit for a malfunctioning computer, doesn't have any insurance for this type of loss, either.

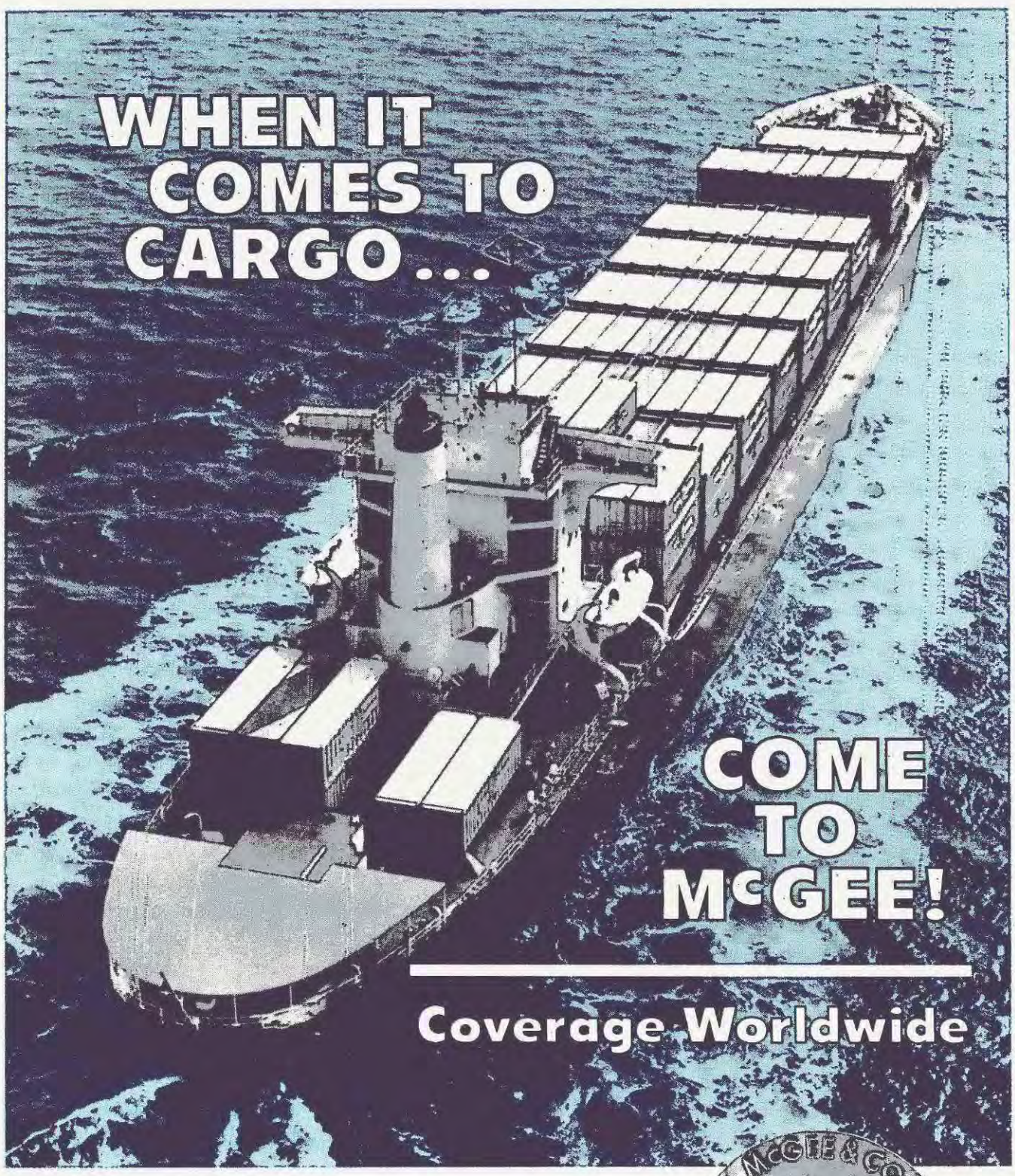
"There are occasional cases of this type, but it's very difficult to get insurance at this time," said Al Brosius, director of corporate insurance/risk management for Honeywell. "It's very expensive."

Triangle Underwriters, once a sizable company in New York City, won the unprecedented $1.1 million against Honeywell for the faulty computer that Triangle says caused the company to go out of business.

Computer users should realize computers can't be trusted with new information, sources in the industry say.

Companies should plan for a period to debug a computer, Mr. Brosius suggested. This can take anywhere from six months to a year.

"Run it parallel with existing programs until you have confidence in it," he said. ■



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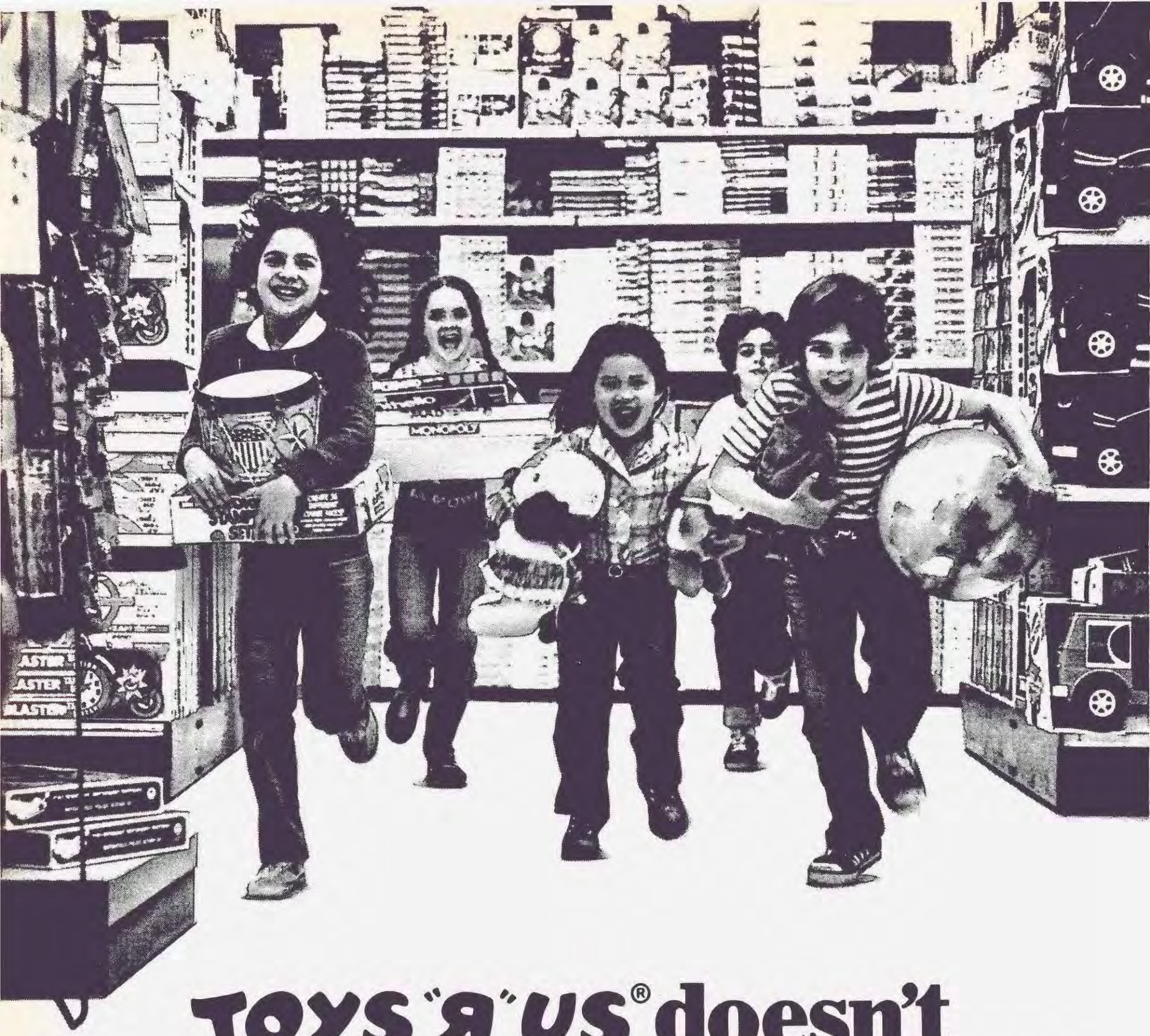

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Unit to monitor hazardous dumping

SPRINGFIELD—A 25-agent investigative unit will be formed to protect people from the "potentially disastrous effects of criminal dumping," Illinois Gov. James R. Thompson has announced.

The unit will begin policing the dumping of hazardous wastes in mid-1981 and will cost about $1.4 million a year, the governor said. He plans to draft legislation to allow the Illinois Environmental Protection Agency to fine dumping sites up to $10,000.

Hearing demand

DOVER—Blue Cross & Blue Shield of Delaware Inc. has requested a hearing on three rate increases denied by Insurance Commissioner David H. Elliott.

The company also has written to Joseph S. Flowers, the commissioner's director of life and health insurance, demanding to inspect all medical insurance rate filings with his office within the last 12 months and all other insurance department orders, notices or "other adjudications" relevant to Blue Cross.

The hearing will involve rate increases that would have affected small community groups and individual student subscribers.

Sex discrimination

LANSING—The Michigan Civil Service Department's insurance plan discriminated against women by excluding pregnant women from long-term disability benefits, but making no similar exclusion for disabilities involving only men, the Michigan Court of Appeals has ruled.

By singling out women, the plan violated the state's fair employment practices act, its landmark civil rights act and Civil Service Commission guidelines, the court said. The plan, in effect for about four years, specifically excluded pregnancy, miscarriage, childbirth or abortion from long-term disability coverage. It has pregnancy-related benefits.

Three women complained about the insurance to the state Civil Rights Commission, which declared it discriminatory and ordered the department to pay them the benefits.

In April 1979, the Ingham County Circuit Court overturned the commission finding, a ruling upset by the Court of Appeals decision. The appellate court said that if the commission lacked authority to hear the complaint, "its constitutional mandate to end discrimination would be weakened."

Because the circuit court found no violations of the state civil rights law, it did not consider whether the insurance discriminated against all women in state service. The appeals court ordered the circuit court to determine whether the practice involved all pregnant women and if they are entitled to relief.

Reducing immunity

ANNAPOLIS—Gov. Harry Hughes will ask the 1981 Maryland General Assembly to reduce the state's immunity against negligence suits.

The administration will try to weaken the centuries-old doctrine of sovereign immunity, which says the state cannot be held liable for negligent acts no matter how much damage they cause or who is injured. County and city governments are also protected from many lawsuits.

If a law is passed, the state and its subdivisions would have to purchase insurance to protect against large, court-ordered awards. Several jurisdictions already have insurance, although they have not given up their right to use the legal protection as a defense.

State Attorney General Stephen H. Sachs has called sovereign immunity a "basically antidemocratic doctrine" that can be replaced by better and fairer ways of protecting government.

The attorney general's office has been exploring the insurance question with several companies. But Michael A. Millemann, an assistant attorney general working on the sovereign immunity proposal, said no figures are available of how much the local jurisdictions and the state would have to spend to purchase coverage.

Rare disease

AUSTIN—The Texas Supreme Court will review a workers compensation case filed by a plumber who contends he caught a rare disease by working in contact with contaminated soil.

Bobby Schaefer of Corpus Christi filed suit against Texas Employers Insurance Assn., the workers compensation insurer for C&R Plumbing Co., charging he contracted atypical tuberculosis from the contaminated soil. A Corpus Christi jury awarded him $25,000, but the Eastland Court of Civil Appeals reversed the ruling.

Claim reports

SALEM—Oregon insurers must file with the Oregon Insurance Department detailed reports on each claim settled under Oregon law or against an Oregon policyholder.

Insurers must file a report on each closed claim and annual summaries of claims and the policyholder's product liability closed claim reserve history. The report for 1979 must be filed with the insurance commissioner by Dec. 1. Reports for later years will be due by March 1 of the following year.

Blue Cross sued

CINCINNATI—Bethesda Hospital here has filed a suit in Hamilton County Common Pleas Court seeking to prevent the Cincinnati-based Blue Cross plan from enforcing its new cost-control measures.

The suit charges Blue Cross is "unilaterally and arbitrarily" refusing to reimburse hospitals for room and board charges for most patients admitted on a Friday or Saturday or for most subscribers receiving dental care in a hospital (*BI*, Nov. 17).

Ohio law requires Blue Cross to pay a hospital directly. If the plan refuses to pay a bill, the hospital is prevented from billing the patient and must absorb the charges.

Drop in arson

CHICAGO—The projected cost of arson-for-profit fires in the Chicago area in 1980 has dropped to a five-year low, the Chicago Metropolitan Loss Bureau reports.

Suspected arson-for-profit claims will reach $8.16 million this year, says the bureau, which compiles statistics and investigates claims for 80% of the insurance companies in the Chicago area. This projection is down from the $10 million in claims costs in 1975.

The bureau also reports that the cost of all set fires, including arson for profit, is projected to be $22.8 million this year, down from an earlier estimate of $30 million.

Don Mershon, president of the bureau, attributed the decrease to "good law enforcement and resistance on the part of insurance companies to fraudulent claims" and should result in lower rates.

Paid claims decline

SACRAMENTO—The number of malpractice claims paid by California hospitals and licensed nursing homes continued to decline last year, although the total amount paid increased by $3.6 million to $22.6 million, the state reported.

Nearly a quarter of the total came from two settlements paid by nonprofit hospitals, one of $3.2 million and another of $2.2 million.

The decline in paid claims began in 1975, when the number peaked at 641 and the legislature passed a bill to curb medical malpractice lawsuits. Last year, 213 health facilities paid 449 claims of $3,000 or more. Lesser claims are not reported to the state. ■

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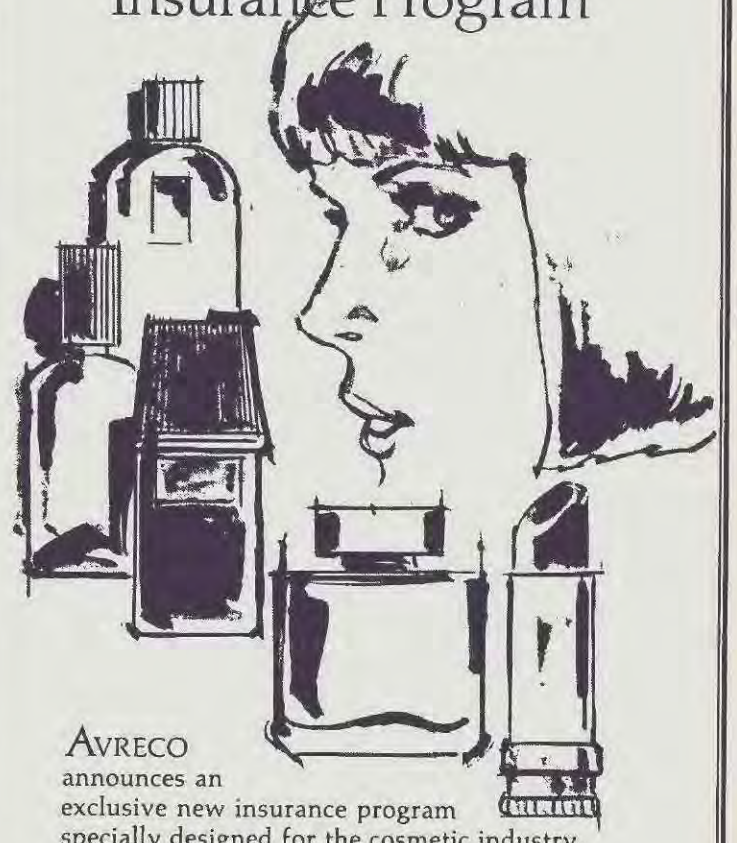

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editorial opinions

Challenge of change

ALL SEGMENTS of the insurance business are being challenged to embark on an exciting adventure:

An in-depth, analytical look at the U.S. insurance business modeled after the far-reaching Fisher Report on operations at Lloyd's of London.

Joseph H. Blades, chairman of The Blades Group in Houston, made the challenge in an address to the National Assn. of Professional Surplus Lines Offices meeting in Houston Nov. 15.

"Our industry is adrift," he warned, as reported elsewhere in this issue. "We need a Fisher-type commission in the U.S. including the public, regulators and representatives of all people in the marketplace." The need, Mr. Blades contends, is for more "long-range planning."

We couldn't agree more, and compliment Mr. Blades on his idea.

It would be a chance to dissect the U.S. insurance business, examine it and then reassemble it to function more efficiently for the benefit of all.

Granted, no commission on the diverse U.S. insurance market could spur with such speed the sweeping changes the Fisher Report is accomplishing for the single institution of Lloyd's. But the challenge of spurring change by raising the issues and by persuasion shouldn't discourage insurance leaders from painting a vision of Camelot.

An insurance industry/consumer commission on insurance in the United States could tackle a host of issues, not the least of which is proper pricing.

After a week of talking to insurers and intermediaries at the annual National Assn. of Independent Insurers meeting in New Orleans and the NAPSLO meeting in Houston earlier this month, we are convinced the insurance industry is adrift in its pricing attitudes.

Everyone laments the current rate cutting, tells horror stories of the crisis threatening from underpricing the insurance product and widespread underreserving for long-tail liability losses, but in the same breath denies any responsibility for the market conditions and contends to be helpless to change them.

One underwriter pleaded with us—admittedly with a smile—to print headlines heralding rate hikes so we could herd the market into proper pricing.

We, of course, can't do that until underwriters tell us they are in fact raising rates.

But are rates really too low now or were they just exorbitant a few years ago? In these days of unprecedented high interest rates, are loss and expense ratios above 100% warranted? Should insurers discount loss reserves to recognize the time value of money as we have advocated?

Perhaps there are better ways to more fairly price the insurance product.

There's also the issue of regulation. Should commercial insurance products be regulated by rate and form? Are commercial buyers savvy enough to bargain freely in the marketplace?

Should admitted markets enjoy the fruits of laws restricting access to surplus lines markets because admitted markets must participate in FAIR plans and guaranty funds? Or should the two markets compete on equal terms, with the admitted market holding a competitive edge of additional backing by guaranty funds?

Where do the developing insurance exchanges fit into the American market? Does more than one drain capital and credibility from each?

What is insurance? Is the product entailing risk transfer and risk shifting as strictly defined by the Internal Revenue Service an archaic product? Should large corporations be granted some of the tax breaks and loss-reserving privileges extended to insurance companies.

Have captives established themselves as essential elements of the insurance marketplace not to be reined in by the IRS?

Each of us has an opinion on these questions and at least a dozen more questions to ask. Gathering great insurance minds in the country to identify the most pressing issues of our times, and debate them could provide some answers.

A final report from such a commission could be the basis for sweeping reform of some elements and reaffirmation of other elements of the insurance business and its regulation in the United States.

Mr. Blades has said NAPSLO stands ready to participate in such a commission to probe the issues. Now someone must come forward to help organize it.

Who is willing? Are you? Who knows, you may have the report named after you.

letters

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

Want to place bets?

To the editor: In Carol Blitzer's article "Workers get cash for high deductible" (*BI*, Nov. 10) about a plan in California, the "cash" is variously described as (1) dividend, (2) reimbursement and (3) incentive. The statement is made that the IRS has not issued any formal opinion on this type of reimbursement. Not being a tax expert, I can't offer any citations, but I am willing to bet $1 (enclosed) that the IRS will provide several.

First, this payment is not a dividend. It does not come from any fund contributed to by the employee. Second, it is not a reimbursement because the employee disbursed nothing. He will, of course, if he has a claim— but that is not a requirement, and may not happen. Third, cash incentives or bonuses are taxable income, plain, pure and simple.

However, dealing with the IRS is never that plain, pure and simple. They may well find that, without a special act of Congress, every employee who has the option to take the cash but instead instructs his employer to spend it for a lower deductible plan will have had constructive receipt up to the value of his option and owes the tax anyway!

If you will provide a list of all those who wish to take me up on the $1 bet, I will accommodate as many as my limited means will permit.

A.E. Lutz
Jacksonville, Fla.

■ *Those who wish to play the odds can contact Mr. Lutz at 4815 Iroquois in Jacksonville. We, however, are not the gambling type and are returning the dollar.*

No pay for petitioners

To the editor: In "High voter turnout aids work comp reform drive" (*BI*, Nov. 10), Douglas Avery of the Independent Insurance Agents Assn. of Ohio wrongfully confirmed that petitioners were getting paid for every signature gathered on Election Day 1980.

I along with 43 other volunteers from my office participated in the signature-gathering process, which resulted in a gross contribution of more than 1,800 signatures. It should be pointed out that Mr. Avery does not represent the interest of the Ohio Committee for Free Enterprise Competition nor the "Ohio Insurance Family." This petition drive was organized by the firm of Bailey, Deardourff & Associates. Fred L. Roberts is the committee campaign manager.

If Mr. Avery truly participated in the organizational attempts of this petition drive, he would have known that the original intent of the drive was to gather as many volunteers from the "Ohio Insurance Family" as possible for a collection of signatures on Election Day. The remainder would be paid petition gatherers.

John Thomas of the AFL-CIO commented about "looking at workers compensation as a social program and not having a need for profit." Obviously this is a ludicrous statement at most and misguided at least. Perhaps he can explain to the disabled union worker who has not received a disability payment in over six months and who was also injured as a result of a lack of loss-prevention services on the part of the state that this is merely a social program.

I believe the problem is that it is just a social program. How can Mr. Thomas explain a system which has historically been surrounded by mismanagement and deficit spending? Perhaps Mr. Thomas does not fully understand basic economics, but competition only serves to benefit people by making institutions or organizations run as efficiently as possible at the least cost or perish. A monopolistic system obviously is the opposite.

Michael J. Dribnak
District sales manager
Liberty Mutual Insurance Co.
Cleveland, Ohio

'Unfortunate' omission

To the editor: It was unfortunate the Louis Harris/Insurance Research Services survey "Buyers grade top suppliers; some slip" (*BI*, Oct. 27) omitted reference to the four Factory Mutual placing companies as the provider of property, boiler and machinery and inland marine coverages and services. Each company responds to policyholder needs for risk management services in its own way, while subscribing to FM loss prevention practices. There is a real difference within FM.

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Published weekly at 740 Rush St., Chicago, Ill. 60611 (312-649-5200). Offices: 708 Third Ave., New York, N.Y. 10017 (212-986-5050); Suite 1253 National Press Building, Washington, D.C. 20004 (202-638-5300); 6404 Wilshire Blvd., Los Angeles, Ca. 90048 (213-651-3710). $1 a copy. $25 a year in U.S. Canada and all other foreign add $10 for surface mail. Europe and Middle East only add $32 for air delivery. First-class mail to Canada only, add $36. WILLIAM STRONG, *vp-circulation.* PAMELA JANOUSEK, *circulation manager;* ROGER DiGREGORIO, *fulfillment director.* Circulation Dept.—Chicago. (312-649-5227). Four weeks' notice required for change of address. Send subscription correspondence to Circulation Department, Business Insurance, 740 Rush St., Chicago, Ill. 60611 or phone 312-649-5221. Telex 25-4248; Cable CRAINCOM. Microfilm copies are available from University Microfilms, 300 Zeeb Rd., Ann Arbor, Mich. 48013. Microfiche copies available: Bell & Howell, Micro Photo Division, Old Mansfield Rd., Wooster, Ohio 44691.

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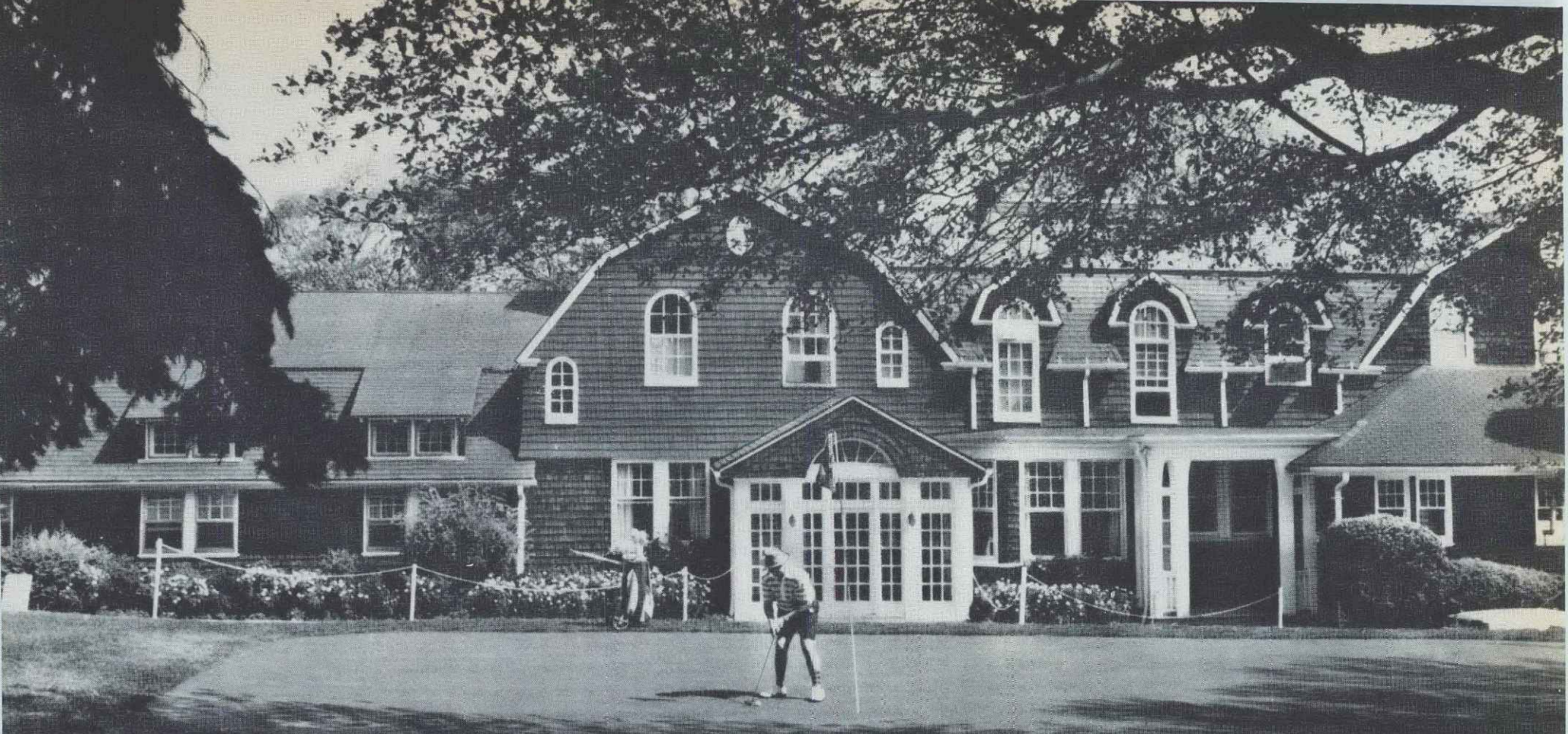

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Social Security tax increase nears

By JERRY GEISEL

washington

WASHINGTON—Another big increase in Social Security taxes is just around the corner.

On Jan. 1, the FICA payroll tax will jump to 6.65% of the first $29,700 of wages. The current tax is 6.13% on the first $25,900.

The latest increase will boost the maximum annual tax to $1,975. The current maximum is $1,587.

Even with this increase, the fund will remain in financial trouble.

A congressional committee has warned the Social Security reserves "will be inadequate to maintain the cash flow of the program by late 1981 or early 1982" (*BI*, Nov. 17).

Fewer bombings

The number of criminal bombings in the United States decreased sharply last year, the Treasury Department says.

In 1979, 54 persons were killed and 328 injured in such incidents, down from 69 fatalities and 707 injuries a year earlier.

There were 1,469 known criminal bombings in 1979, a 16.8% decrease from the 1,767 reported in 1978.

Crime coverage

California this month was added to the list of states 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 25 other states and the District of Columbia, are based on overall metropolitan crime statistics so the cost is the same in the inner city and suburbs.

More information is available from the Federal Crime Insurance Program, P.O. Box 41033, Washington, D.C. 20014; 800-638-8780.

Gasoline hazards

Gasoline is one of the most dangerous of the hazardous cargoes transported on U.S. highways, the Department of Transportation says.

A DOT survey of traffic mishaps in 1977 found more than 1,500 accidents involved gasoline cargoes. Those accidents caused about $7 million in property damage and killed 21 persons.

In contrast, the 72 accidents involving radioactive materials did not result in any deaths or injuries and caused slightly more than $20,000 in property damage.

Roof rules

More than 40,000 workers who work on low-pitched roofs will be protected by new Occupational Safety and Health Administration rules.

Highlights of the new roof rules, which will go into effect Jan. 13, are:

- Mechanical equipment use is barred near unprotected roof edges.
- All new employees of a company engaged in "built-up roofing work" must receive training to help them recognize and deal with the hazards of falling if they are assigned to do work near a the edge of a roof.
- Safety belts or a guardrail system must be used at storage and hoisting areas.
- A chain or gate across the opening of guardrail systems is required when the hoists are not operating.

The final roof work rules were published in the Nov. 14 Federal Register. ■

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Benefit incentives lag: Poll

NEW YORK—More money won't always make employees work harder, some of the nation's largest companies are discovering.

However, a recent survey shows the employers haven't done much to improve benefits to inspire workers.

In a recent survey by consultant William M. Mercer Inc., the large majority of the executives agreed salary alone won't boost worker productivity.

About 88% said compensation is important to improving productivity, but 51% said they had not changed their benefit programs specifically to increase productivity.

However, the employers are looking at alternative forms of increased compensation, the survey showed.

"Non-salary incentives seem to come through as important," pointed out Mercer executive George Faunce.

Incentives such as merit salary increases as opposed to an annual raise only, management performance bonuses and stock option plans are all better ways to improve an employee's work habits, the companies reported.

Cafeteria compensation packages in which employees choose the benefits they want were viewed as an important factor in employee productivity by 65% of the firms that use them. But only about 5% of the respondents actually have cafeteria plans.

The survey showed an increasing awareness of "quality of life" programs.

More than three-quarters of the respondents thought such programs as career planning, employee development and training, employee participation in operational decisions and "pleasant" work surroundings were important in improving employee productivity.

However, the much-touted trend of some employers to offer fitness programs for workers was seen as "very important" by just 3% of the firms and "somewhat important" by only 33%.

The firms surveyed said one of the most important factors in improving productivity is communication between employer and employee.

The executives stressed that employers should do a better job of clearly defining what output is expected. ■

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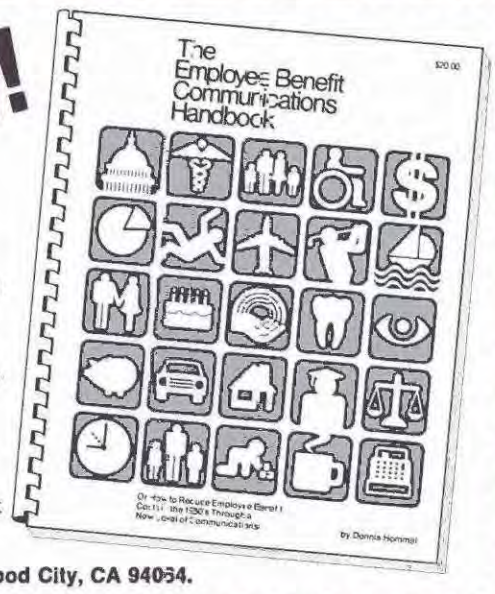
The Employee Benefit Communications Handbook

New!



At last, here is an informative handbook for making ber efit communications more effective!

Successful step-by-step techniques are revealed to inc ease employee interest, understanding, appreciation and prudent use of benefits.

Written by award-winning creative director Dennis Hommel, this concise manual tells how to evaluate available media, select a communications consultant, plan an effective creative strategy, determine true costs and execute messages dynamically!

It also gives tips on how to gain management approval for an ongoing communications budget, and much more.

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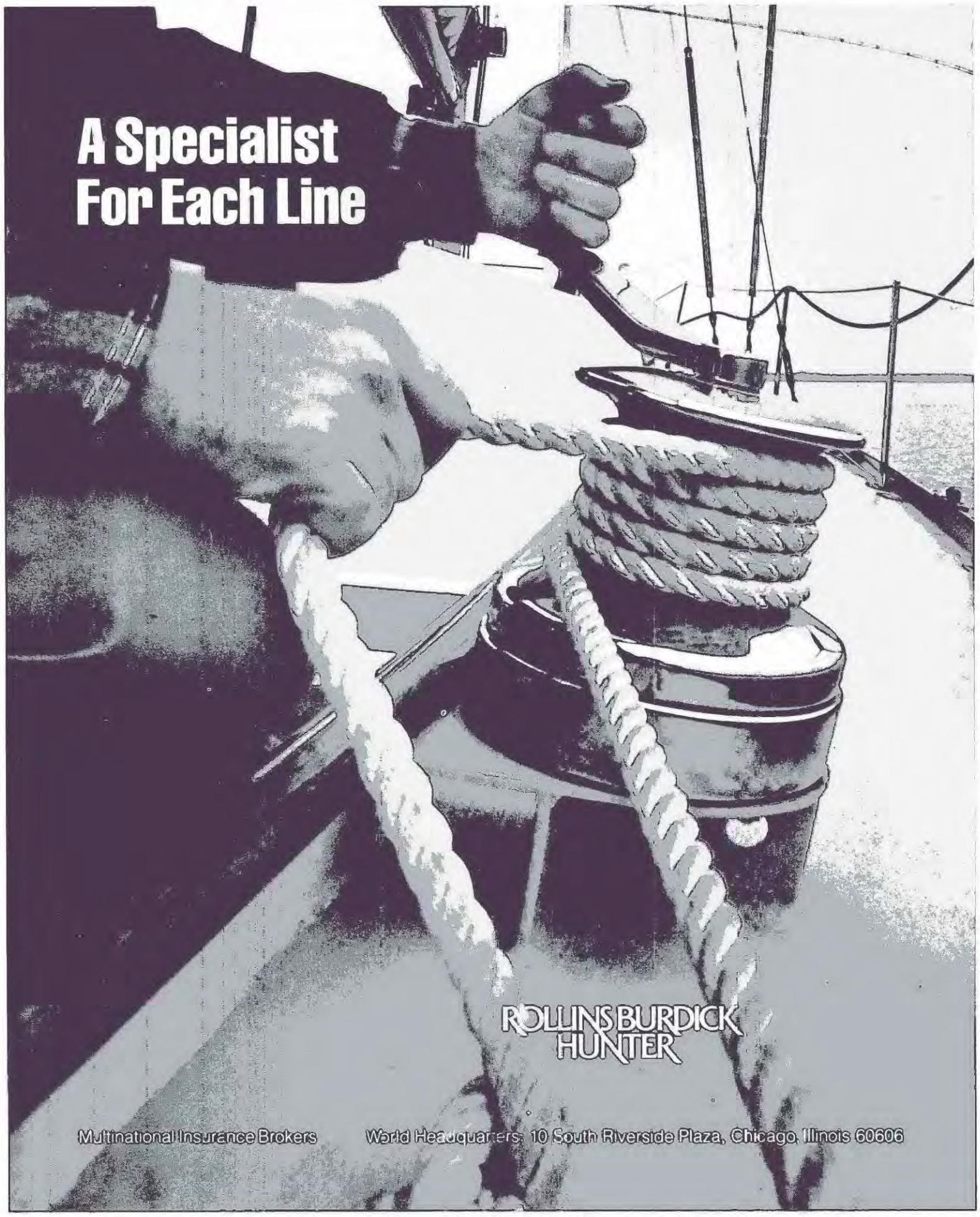

info

• A companion manual to the Manual of Rules, Classifications and Interpretations for Workers Compensation Insurance has been published by the International Risk Management Institute Inc. The **Comprehensive General Liability Manual** will be available for $125. Pre-publication contributors are being offered the opportunity to reserve a copy of the manual for $95. Contact R. Martin Richards, Vp, International Risk Management Institute, 10300 North Central Expressway, Building IV, Suite 208, Dallas, Tex. 75231; 214-363-9656.

• **Availability of TRASOPs: A Guide to Implementation** has been published by Hewitt Associates. The implementation guide is a 79-page reference manual for legal counsel, TRASOP plan designers and plan administrators. Copies of the guide, which includes 269 cross-references to existing or pending statutes, regulations and revenue rulings, may be obtained for $50 from Christine Seltz, 100 Half Day Road, Lincolnshire, Ill. 60015; 312-295-5000.

• **The Supervisor's Role in Hazard Control** is designed to help supervisors meet their responsibilities in preventing industrial accidents. Single copies of the booklet are available free from James G. Perkins, M&M Protection Consultants, 222 S. Riverside Plaza, Chicago, Ill. 60606. Prices are $1 each for up to nine copies; 90 cents each for 10 to 49; 80 cents each for 50 to 99, and 70 cents each for 100 or more.

• **The Eighth Edition of the Standard for Safety for Outlet Boxes and Fittings for Use in Hazardous Locations** has been published by Underwriters Laboratories Inc. Copies are available for $4.25 each, or $10.25 for the eighth edition and any revisions that may be issued while it is in effect. Orders with prepayment should be sent to Underwriters Laboratories Inc., Publications Stock Department, 333 Pfingsten Road, Northbrook, Ill. 60062.

• **A Protocol Guide for Occupational Health Nursing Specialists** provides outlines for 16 of the most commonly needed protocols in the occupational health setting. The manual is available for $4.70 plus tax through the California State Assn. of Occupational Health Nurses. Write Alma Tickker, R.N., 555 California St., Bank Of America, San Francisco, Calif. 94104.

• **The Warren Report** is a new publication offering risk management commentary by David Warren, a risk management consultant. The publication, issued 10 times a year, costs $35 annually in North America, or $29 if prepaid, and $6 more elsewhere. It is available from David Warren, 58 Diablo View Drive, Orinda, Calif. 94563; 415-254-9472.

• The insurance and protection division of the American Bankers Assn. has developed a cassette explaining **changes in the revised Bankers Blanket Bond, Form 24.** Cost of the cassette, plus a copy of the old bond form (with riders) and a copy of the new bond form, is $17.50 for members and $22 for nonmembers. Contact Shelly Davis, ABA, 1120 Connecticut Ave. N.W., Washington, D.C. 20036; 202-467-4047. ■

U.K. fire, theft losses increase

LONDON—U.K. insurers are mounting a nationwide campaign to reduce fire and theft losses.

So far this year's fire damage already has outweighed the whole of last year's claims, with losses running at $936 million for the first nine months of 1980, compared with $852 million for all of 1979. Insurers assume losses will hit a record $1.2 billion by the end of the year.

Domestic burglary losses rose 55% to $86 million and commercial and business theft losses rose 40% to $65 million in the first six months this year. ■

MP urges combat against ship fraud

By JOHN MILLER

london line

LONDON—Conservative Party MP Jonathan Aitken is asking U.K. Trade Minister Reginald Eyre to strengthen Lloyd's underwriters' hands in combating worldwide shipping fraud that is costing them huge sums.

Mr. Aitken, who raised questions about the role of Lloyd's brokers in handling fraudulent marine claims 30 months ago (*BI*, April 17, 1978), also warned he will ask Parliament to debate in detail the bill to change Lloyd's structure.

"One of the most serious issues now affecting Lloyd's is the lack of adequate powers to deal with the growing number of international insurance frauds," Mr. Aitken said. "It's time its rules are changed to deal with current conditions."

Lloyd's fears swindles of highly insured cargo are costing $250 million a year in the Far East alone. And the mystery of the missing tanker Salem, which was insured for $24 million hull value when it secretly delivered a $56 million oil cargo to South Africa, is still being probed by Scotland Yard, which has four arrest warrants out.

Trade Minister Mr. Eyre predicts the pending revised act of Parliament will enable Lloyd's to deal more effectively with the problem.

Meanwhile, Lloyd's Chairman Peter Green is defending Lloyd's settlement of claims.

"Lloyd's underwriters are often accused of settling claims they know to be fraudulent," he admitted. "But fraud is easy to allege and difficult to prove. The burden of proof when refusing to meet a claim lies firmly on the underwriter, who has to persuade the court in the U.K. that fraud occurred.

"We often suspect a claim is based on fraud, but cannot find enough evidence to prove it. So people who complain we are not doing our best to prevent fraud should realize that it is the law which is to blame, and it is they who should get Parliament to change the rules regarding the degree of proof required."

In 1978, Mr. Aitken contended Lloyd's underwriters had paid more than $500,000 on a reinsurance contract for 300 Fiat autos damaged by fire on the cargo vessel Savonita and later alleged to have been resold by a group of Italian businessmen for suspiciously large sums.

But after a nine-month inquiry, Lloyd's absolved broker Willis Faber from putting undue pressure on the marine market to settle the claim (*BI*, Jan. 8, 1979).

Search called off

A salvage team hoping to recover $60 million in gold and other treasure from the sunken British frigate Lutine (*BI*, Aug. 4) has called off its search until next year because of bad weather.

The lost vessel, which foundered in 1799, carried Lloyd's Lutine Bell, which was recovered from the ship and placed in Lloyd's underwriting room, where it is rung after major casualties.

Another salvage team, however, has traced the wreck of a wartime cruiser, the British naval vessel Edinburgh, which sank in 1942 off Murmansk with $120 million of gold on board.

The team is negotiating with the British and Soviet governments to begin an attempt to recover the gold. The two governments had loaded the gold for dispatch to the United States for wartime weapon purchases. Part of the property was insured against special risks by a consortium of World War II insurers. ■

:omings & ;oings: buyers

Safety post goes to Basil

THOMAS M. BASIL has been appointed director of corporate insurance at Sun Chemical Corp. in New York. He was formerly safety director at Shiabone-Bonomo in New Jersey. Replacing him at Shiabone is **Steve Brush**, promoted from supervisor of the metal and alloy division. Mr. Basil received a bachelor of arts degree in English from St. Bernadine of Sienna College.

* * *

Dennis M. Tabita has been promoted to corporate risk manager at Publicker Industries Inc. of Philadelphia, replacing **Don Brodasky.** Mr. Tabita was formerly employed with Allied Chemical Corp. before joining Publicker last year. He received a bachelor of science degree from Penn State university and is pursuing a master's in business administration at Villanova University.

* * *

William L. Hyland has been elected to the newly established position of vp-insurance at GTE in Stamford, Conn. Mr. Hyland will be responsible for the company's insurance and pensions department and for the operations of GTE's insurance subsidiary, Telect Insurance Co. Ltd. Mr. Hyland formerly held the position of director-insurance and pensions.

* * *

Bluebird Inc., headquartered in Philadelphia, has named **Rita Dettore** to the newly created position of corporate personnel and employee benefit manager. Ms. Dettore, who reports to treasurer Jack MacKerell, will be responsible for the implementation and coordination of corporate and subsidiary personnel policies and benefit programs. Before accepting this position at Bluebird, she was director of personnel and benefits for American Medical Affiliates Inc. in Jenkintown, Pa. She has a bachelor's degree in business administration from Parsons College in Fairfield, Iowa, and is secretary of the executive committee for Penjerdel Employee Benefits Assn. ■

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SpecBook sizes up benefit programs

CHICAGO—If your company wants to keep its benefit plans up with the Joneses', you need an employer-paid comprehensive dental plan that covers orthodontia.

This is just one tidbit of comparison you can pull out of the 2-inch-thick Hewitt Associates SpecBook that gives you the major provisions of benefit plans offered to salaried employees by 454 major U.S. companies.

SpecBook, which costs $250 and is available only to companies that agree to reveal the details of their benefit plans for inclusion in future editions, is a do-it-yourself tool for measuring your benefit plans against those of other companies.

Thumbing through the book, you can see what plans with what provisions are offered by different employers. It can help you start to decide what plans and what provisions your company should adopt to maintain a competitive employee benefit program.

For the benefit manager who wants to compare apples to oranges—to answer what is more valuable, a comprehensive 80/20 medical plan with a $50 deductible and a $50,000 maximum or a basic/major medical package also 80/20 with a $100 corridor and a $100,000 limit—Hewitt Associates also will perform what it calls a benefit index.

For $6,000, the Lincolnshire, Ill.-based consultants will put a numerical value on each of 20 major benefits you offer and compare your plans with those of others in your industry or of your corporate size. Usually the benefit plans of another 20 companies you choose are used for comparison. An update of the information costs $4,000.

The index identifies how your plans stack up against others, showing whether your plans are more or less valuable than the base group's plans (see chart).

SpecBook grew out of this benefit index work and is offered to employers that may not want to spend $6,000 for the index but want to compare their benefit plans to others, noted consultant Ed Noha, who manages the SpecBook project.

SpecBook lists by company name the major plan provisions for benefits offered in the following areas: retirement and capital accumulation benefits including pension, profit-sharing (both deferred and immediate), savings and employee stock ownership plans; health care benefits including hospital/surgical/medical, major medical/comprehensive, major medical, dental and vision/hearing; death benefits including basic group life insurance, optional supplementary life insurance, accidental death and dismemberment and survivor income benefits; disability benefits including salary continuation, sickness and accident insurance, long-term disability plans and time off with pay including holidays, vacation schedules and other special provisions.

To illustrate how a benefit manager could use SpecBook, Hewitt Associates culled a few comparisons from the 1980 edition for *Business Insurance*.

Looking at dental plans, Hew found 71.5% or 320 of the 454 pa ticipating employers have a pla Comprehensive plans that pay set percentage of charges are mo prevalent, offered by 78.4% of t 320 companies with plans.

Only 15% or 48 firms pay sche uled benefits and 6.6% or 21 ha plans that include payment on schedule and comprehensive b sis.

Orthodontia is included in 74.4% or 238 of the plans.

Slightly more than half or 161 the companies pay the entire co of the dental plan for employee Only 56 companies or 17.5% re quire employee contributions dependent coverage and 32.2% 103 require employee contri tions for employee and depende coverage.

Pension fete falls short

FLINT, Mich.—The spirit was there, but a Halloween night party failed to raise funds for a drive by United Auto Workers Local 326 to get early retirement rights for workers exposed to hazardous materials.

The birthday party held in honor of Local 326 president Michael E. Bennett, who is heading the drive for 25-and-out retirement, cost $750 more than donations received from partygoers.

Proceeds were to help support a drive to allow workers at the Fisher Body Coldwater Road plant to retire with full benefits after 25 years of service because of exposure to hazardous materials.

Although organizers had good intentions, Halloween was a bad night for the event, Mr. Bennett said. He said some of the money would have helped reimburse him for costs he has borne in pushing for the early retirement benefit.

Part of Mr. Bennett's efforts included a mortality study of 226 employees at the Fisher Body Coldwater Road plant who died between 1974 and 1978. The study showed a high rate of lung cancer—twice the national average—among those workers.

Mr. Bennett attributed the high rate to exposure to dangerous chemicals in the plant, particularly in the plating and die-casting areas.

When Mr. Bennett presented his results to plant administrators, they suggested implementing an X-ray program. After 850 of the plant's 3,700 employees were screened, it was discovered a mechanical failure had made the X-rays unreadable.

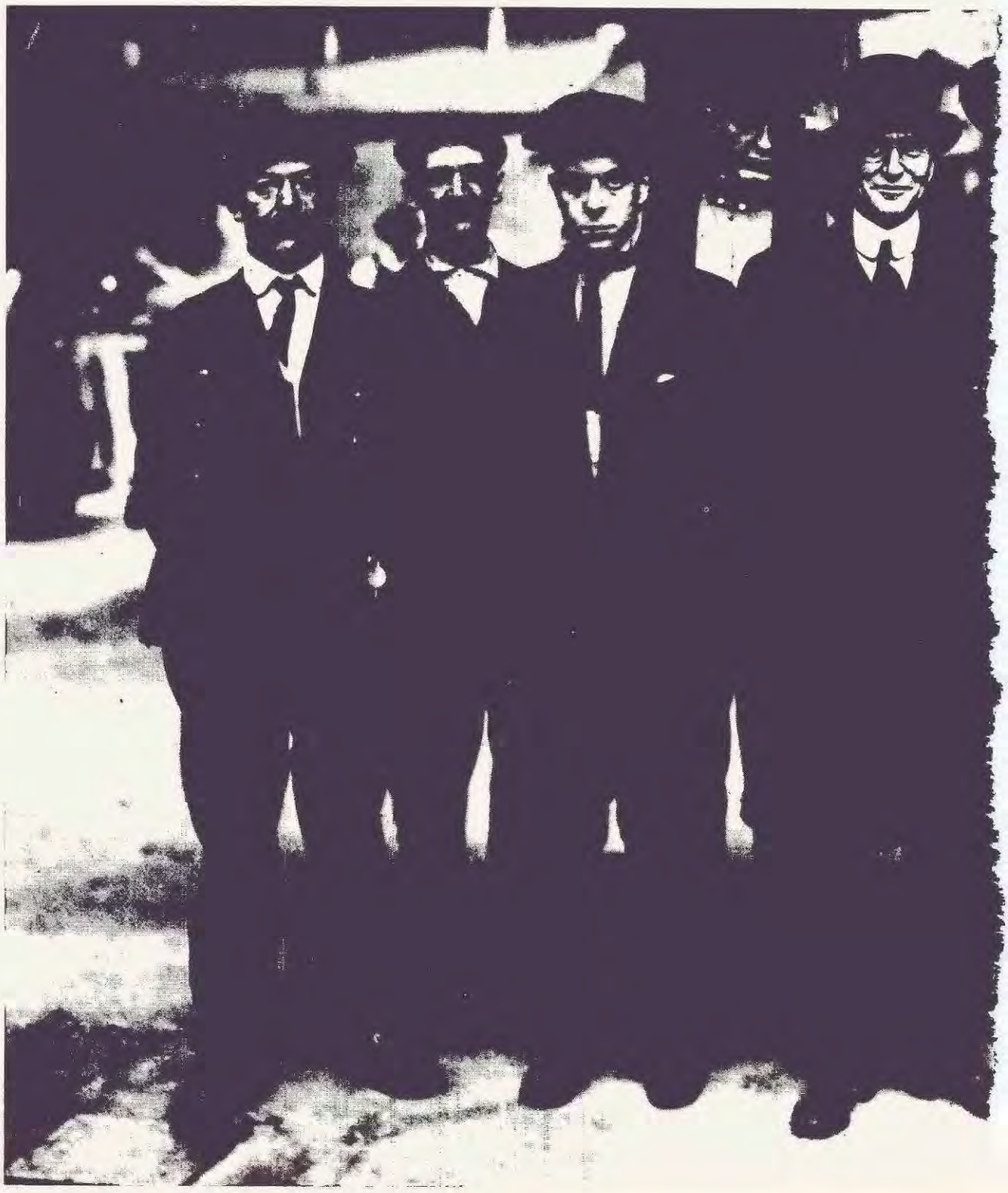
The program is expected to resume when equipment is repaired.

Local 326 and other union members will continue to support early retirement despite the financial loss, said Mr. Bennett. "Thirty-and-out retirement took many years of education and political pressure within the UAW to be adopted," he said. But he believes 25-and-out will meet approval more easily.

Further automation of the industry will help speed up early retirement, Mr. Bennett says. There'll be a dramatic shift to robots performing the more redundant tasks, especially in hazardous areas, he predicted.

Twenty-five-and-out retirement will be an item on the bargaining table when contract negotiations open in spring 1982.

Mr. Bennett predicts a general preventive medicine and early cancer detection program also will be among the union's demands. ■



Looking at the medical plan maximums, Hewitt found a great variety of approaches among 452 companies, but 77% or 348 employers use a lifetime maximum.

Fifty-five plans do not have any maximum benefit. A per cause maximum only is used by 17 plans. Another 17 use both lifetime and annual maximums. Six plans have annual maximums only. Three plans impose both lifetime and per cause maximums. Six plans use another maximum cap.

Just over half (176) of the 348 companies imposing a lifetime maximum medical benefit have chosen $250,000 as the limit, with the rest choosing limits ranging from $10,000 to $2 million.

Sixty-three companies have set a lifetime limit of $100,000, but 38 set the limit at $1 million. Only one company has set $2 million as the lifetime limit.

A $500,000 limit is relatively popular, chosen by 24 companies.

Only 20 companies have lifetime limits ranging from $10,000 to $75,000.

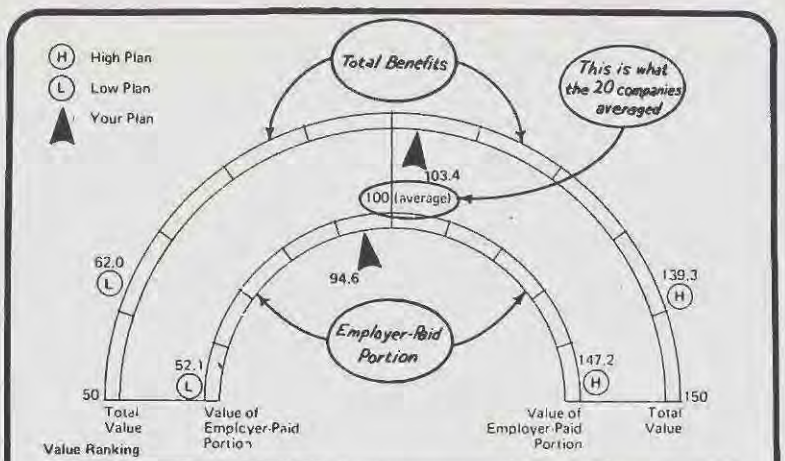
Among the 17 companies setting per cause maximums, five use $1 million, three use $500,000, four use $250,000 and one company each uses $50,000, $75,000, $150,000, $200,000 and $400,000.

Among the six companies using annual maximums only, two use $50,000, two use $100,000 and one each uses $25,000 and $250,000.

The 1980 edition of SpecBook is the second edition. Hewitt hopes to add another 100 companies in 1981 and publish two volumes.

The majority of participating companies are Fortune 500 industrials or in the Fortune 50 of other business areas. Smaller companies may buy it and offer their data, although Hewitt may or may not include the information in a coming edition.

For more information, contact Hewitt at 100 Half Day Road, Lincolnshire 60015; 312-295-5000. ■



Ranking Among Plans in Study	Position on Total Value Index	Position on Employer-Paid Index
first	139.3	147.2
fifth	117.6	114.6
tenth	102.4	97.8
fifteenth	91.6	77.9
twentieth	62.0	52.1

Source: Hewitt

Surplus lines case on appeal

NEWARK—The New Jersey Supreme Court has agreed to hear a case that threatens to blur the definition of admitted and surplus insurers and stretch state insolvency funds to cover unlicensed insurers.

The decision also could threaten free access to the surplus lines market in New Jersey and drain state insolvency funds in other states, says Reginald Beane, Risk & Insurance Management Society counsel.

"We fear that if this decision is upheld, the ruling would be a precedent for the rest of the states, stretching insolvency funds to cover what they had never been intended to cover," he said.

The cost of increasing the guaranty fund capital eventually would be passed on to insurance consumers, RIMS said in a "friend of the court" brief.

A lower court previously ruled in favor of the plaintiff, Railroad Roofing & Building Supply Co. Inc., by saying Financial Fire & Casualty Co. should be guaranteed by the New Jersey Property-Liability Insurance Guaranty Assn., the state insolvency fund.

Though surplus lines insurers are traditionally excluded from state insolvency protection, the court ruled that New Jersey granted the insurer admitted status by listing it with other surplus lines insurers in an official directory of eligible surplus lines insurers.

RIMS, agreeing with codefendants that include the state of New Jersey and its insurance commissioner, James J. Sheeran, charged the lower court made a mistake.

Including eligible surplus lines insurers under the protection of legislation designed to protect admitted insurers is contrary to the spirit and definition of the New Jersey Property-Liability Insurance Guaranty Assn. Act, the brief said.

"Inclusion of eligible surplus lines insurers within the scope of the act is unwarranted, unworkable and unfair," RIMS said.

"Further, it is undisputed that the act was based virtually entirely on the model guaranty fund act promulgated by the National Assn. of Insurance Commissioners and that it was the express intention of the NAIC to exclude surplus lines carriers from the scope of the model act."

Regulation of surplus lines insurers is enforced adequately by licensing surplus lines agents and stringent testing of the agents to establish their expertise, the brief noted.

"Although these experts cannot guarantee an unlicensed insurer will remain solvent, their expertise affords insureds the best practical protection against losses due to an unlicensed insurer's insolvency.

"Inclusion of eligible surplus lines insurers within the scope of the (guaranty) act may be effected only at exorbitant cost," RIMS stated.

In addition, guaranty fund assessments could make surplus lines insurers ask to be taken off the eligible list of drop out of the market entirely, limiting buyer access and information.

"If unlicensed insurers remove themselves from the list or are stricken from it, surplus lines agents and the public will lose a valuable tool in ascertaining the financial condition of unlicensed insurers," the brief noted. ■

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There's more to the Armco story. Find out by contacting any one of the Armco insurance companies, or write: Scott R. Crawford, Armco Insurance Group, Dept. 240, 703 Curtis Street, Middletown, Ohio 45043.

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U.S.-Switzerland pact streamlines Social Security

worldwide

ZURICH—The U.S. and Switzerland have reached an agreement to streamline Social Security for expatriated workers in each country to avoid duplication of benefits, says Johnson & Higgins International.

The agreement, effective Nov. 1, stipulates that expatriate employees to either country will ultimately participate in only one Social Security system rather than those of both nations.

For example, a U.S. worker working in Switzerland will be covered under the U.S. system for the first year before switching to the system of the host nation. At retirement or disability, the worker will receive a combined benefit with payments paid proportionately from both systems.

Similar agreements with Belgium, Norway, Sweden and Canada are expected to be made next year, Johnson & Higgins said.

Qualified pilots

BONN—The West German Federal Transport Ministry has ordered all ships of more than 1,000 gross registered tons to use qualified sea traffic pilots as advisers as of April 1, 1981, before they will be allowed to sail into West German ports.

The pilots also will have to be familiar with West German ports, according to Experiodica, a publication of the North American Reinsurance Corp.

An estimated 90% of such ships already use such pilots, but the government instituted the regulation to crack down on the other 10% who contribute to shipping accidents.

All-risk coverage

LONDON—British exporters can now buy all-risk coverage protecting shipments worldwide at any stage of a journey, through the British Freight Transport Assn. and its insurer, Ernest A. Notcutt & Co.

The policy will provide destination-to-destination coverage for any transportation method. The coverage is designed to counteract denial of liability by the shipper, which has been a frequent problem in British exporting.

Up to $600,000 worth of coverage per accident is available, with higher limits also possible for a negotiated premium, the transport association said.

The all-risk coverage also eliminates the necessity of multiple insurance policies to cover shipments being sent abroad, the association said.

Earthquake rates

MEXICO CITY—Leading Mexican insurers are studying earthquake risks as a step toward creating a new rate structure by the end of 1981.

Industrial plants are expected to face higher premiums.

The project is being carried out by the Mexican Assn. of Insurance Companies (AMIS) in cooperation with several international reinsurers.

AMIS consultant Ricardo Toldeo, a member of the U.S. Seismological Society, has been visiting Europe to discuss the plan with major reinsurers in Switzerland and Germany.

"Moves have already begun in Mexico for a uniform reporting system of earthquake accumulations and losses throughout the country," he told the Reinsurance Officers Assn. in London.

The Mexican insurance market has a large catastrophic exposure for earthquake and volcanic eruptions. Mexico City has a fire loss exposure of $12 billion, he estimates, which may be included in the proposed rate structure instead of as part of existing policies. ■

The crack troop mission: writing the tough excess casualty classes.

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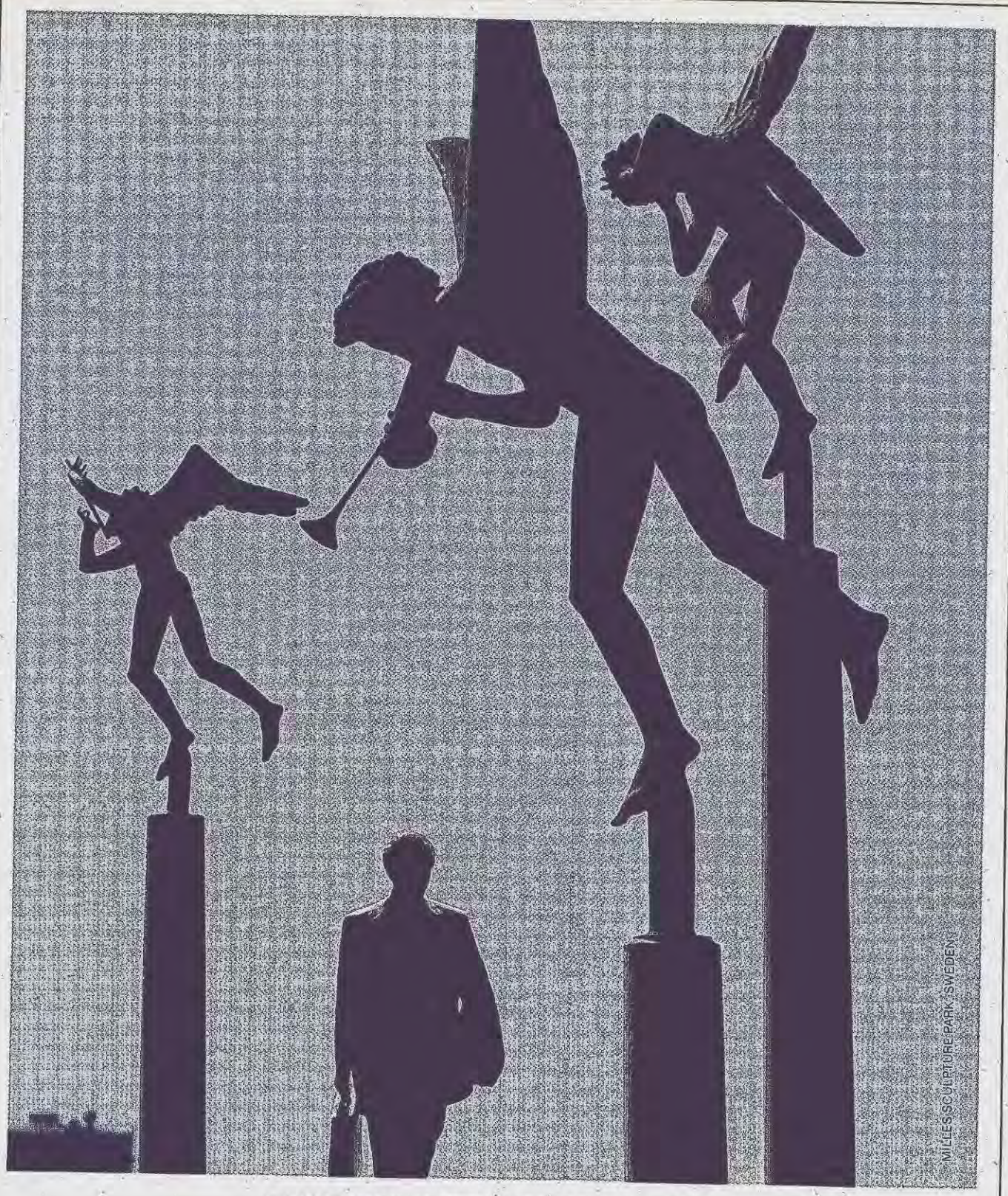

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Allendale Insurance is well known for its technical expertise in industrial loss prevention. And its ability to turn that knowledge into real protection. But some losses are inevitable. So it's reassuring to know that our people are also proficient and imaginative when it comes to helping our clients recover from a devastating loss.

It took some fancy globe-trotting recently to replace a ruptured 12-foot, 100-ton "Yankee Dryer" roll in one of American Can's paper mills. Having a new roll custom-fabricated would have meant a downtime of two years. And a loss valued at $100,000 a day. But our global reach and persistence paid off. The only suitable "Yankee Dryer" roll existing in the world was discovered within weeks in Karlstad, Sweden.

Getting the roll from the interior of Sweden to the middle of Alabama, USA, was no small challenge. It took some sophisticated international distribution management to bring it off. Especially during a stormy January.

Five months after the interruption, American Can's tissue paper line was back in production. All through the joint efforts of Allendale, American Can, the fabricator, riggers and numerous consultants. Ed Alheit, Risk Manager of American Can, put it in perspective, saying: "We couldn't have done it in such a short time without Allendale."

What our loss adjustment professionals accomplished with American Can certainly isn't routine. Nor is it extraordinary for us. After helping insureds recover from losses for close to 150 years, we're used to going to great lengths. And for the important companies Allendale insures, that can make a world of difference.

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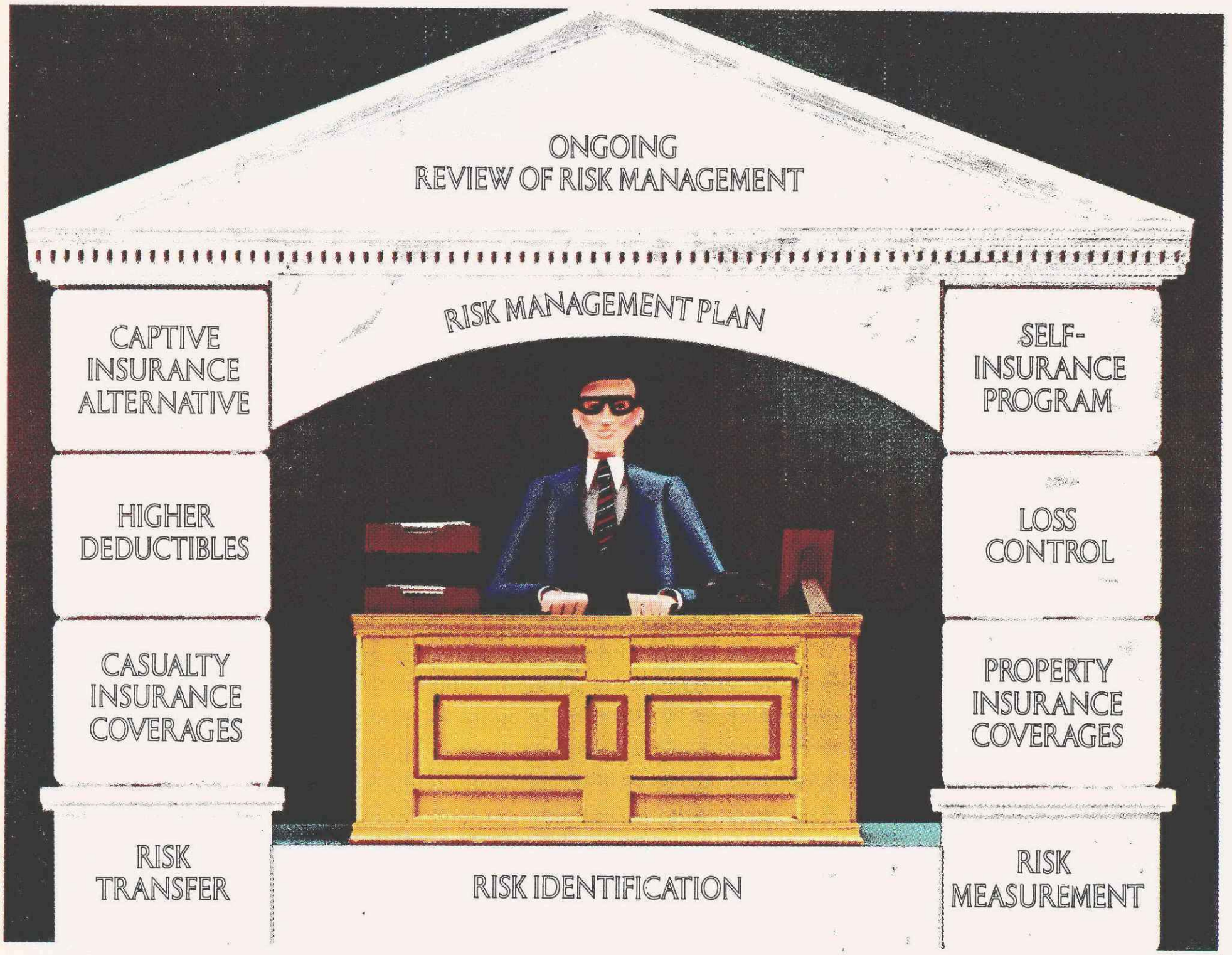
If you're not quite sure which risk management options fit your company best,



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Professional risk management means more than just cost-efficient protection for your company's assets. An effective risk management program can make substantial contributions to your company's financial planning. As the world's leading insurance broker, Marsh & McLennan is uniquely qualified to provide expert evaluation of your risks and review of all your options, within the framework of your financial strategy.

A hard look at your choices

Risk transfer through conventional insurance coverage is just one

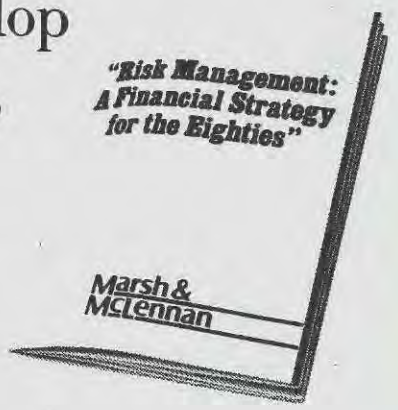
of many options considered in developing a comprehensive risk management program. Risk retention (through higher deductibles, a properly funded self-insurance program, or, in certain cases, a captive insurance company), may enable you to buy *less* insurance than you thought necessary. And loss-control programs to reduce your risks can also lower your costs.

Marsh & McLennan has the professional resources and organization to implement any of these options, or a combination of them. We base our recommendations on objective analyses of your protection needs and the effects of each alternative on your cash flow, your capital requirements—in fact your whole financial picture.

Ongoing review of needs and options

Frequent examination of changes in your exposures and your financial requirements is essential to ensure that risk management makes its full contribution to your company's results. Marsh & McLennan has the specialists to provide this ongoing service—available to you through more than 90 offices across the country and through a worldwide network of subsidiaries and equity-affiliated companies. That's what makes us the leader.

For more information on how we can help you develop a risk management program, write for a copy of our booklet, "Risk Management: A Financial Strategy for the Eighties" to: Mr. Robert Clements, President, Marsh & McLennan, Incorporated, Dept. 40BI, P.O. Box 839, Radio City Station, New York, N.Y. 10101.



When it comes to insurance, come to the leader.

Marsh & McLennan

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James to reshuffle after New Year's

FRED S. JAMES & Co. Inc. will announce reorganization plans after Jan. 1, says president and chief executive officer William Burch.

The move is likely to emphasize the brokerage's employee benefit sales and consulting, in accordance with plans to increase benefit revenues announced at the firm's annual meeting.

"Nothing final has been decided yet," Mr. Burch explained, "but we've been operating with the same kind of organization that we had 10 years ago when we made $10 million. Now we make nearly $200 million. We need to do something like what other brokers have done."

Following a model initiated by Marsh & McLennan Inc., other large brokers including Corroon & Black have split into product divisions that separate benefits, property/casualty insurance and risk management services sales.

James H. Vaughn, who recently stepped down as James chairman, will stay with the firm as vice chairman in charge of development and special projects, including any reorganization.

Charles A. O'Mally, chairman of the firm's executive committee, replaces Mr. Vaughn as chairman and shares chief executive officer duties with Mr. Burch.

Captive manager

U.K. broker Stewart Wrightson and banker Kleinwort, Benson (Guernsey) have formed a management service for captives in the Channel Islands.

Capacity Resources (C.I.) will offer insurance, investment management and clerical services to captive owners. It is the first joint captive management venture in the Channel Islands between a major U.K. broker and a major independent U.K. merchant bank, says Gordon Sanders of Stewart Wrightson, who is a director of the new company.

Stewart Wrightson holds 70% of the shares of Capacity Resources, with Kleinwort, Benson holding the remaining 30%.

Acquisitions

Campbell & Co. of Boise, Idaho, has merged with Alexander & Alexander of Seattle.

Arthur J. Gallagher & Co. has announced a merger with **Jas. H. Woodside & Co. Inc.** in Greenville, S.C. Woodside is a commercial lines agency.

New offices

Frontier Adjusters Inc. has opened new offices at P.O. Box 1832, Fayetteville, Ark. 72701; 892 E. William St., Carson City, Nev. 89701, and P.O. Box 356, Onalaska, Wis. 54650.

Kientz & Co. will move Dec. 1 to 1328 Dublin Road, Columbus, Ohio.

Intercontinental Re Inc. has relocated its offices to 2500 Wilshire Blvd., Suite 900, Los Angeles, Calif. 90057, or P.O. Box 76177, Los Angeles, Calif. 90076; 213-380-8822.

AFIA Worldwide Insurance has opened an office at 121 S. 8th St., Minneapolis, Minn.

Rhulen Agency has opened a service office at 1 Merrick Ave., Westbury, N.Y.

Hull & Co. Inc. has opened an office at 2000 North Loop West, Houston, Texas 77018; 713-957-1345.

Industrial Risk Insurers will open a branch Dec. 1 at 3751 Maguire Blvd., Orlando, Fla.

Dar Allen Reinsurance Agency of Chicago Ltd. has moved to 101 N. Wacker Drive, Suite 1160, Chicago, Ill. 60606; 312-853-3501.

markets

Arthur J. Gallagher & Co. has opened a sales office at 100 Summer St., Boston, Mass. 02110

Fred S. James & Co. Inc. has opened a brokerage office in San Diego to handle employee benefits and property/casualty risks. Representatives of the **Blanie. Hurst & Hemrich** and **Galbraith & Green** consulting firms will be located in the office.

Surplus lines

Brown & Riding Insurance Services Inc. has been formed to offer a full range of surplus lines coverages for all difficult classes.

President B. Peter Brown and vp David F. Riding have 35 years combined experience in the surplus lines market. They were previously associated with Towers, Perrin, Forster & Crosby in San Francisco.

Brown & Riding is at 500 Airport Blvd., Burlingame, Calif. 94010; 415-347-1283. ■

How GAB invests in your bot

At GAB, our chief resource is people. The professional men and women to whom over 15,000 business executives entrust some 4,500 claim problems every day. GAB professionals are the heirs of 95 years of accumulated experience. Our investment in their continuing education is one of the reasons why GAB serves you better in loss and claim handling, processing and administration.

Last year, more than 1,500 GAB career professionals came from our regional and local branches to answer the school bell. Aside from our regular on-the-job training program, they invested 340,000 hours of their time in further training at our national education center. This represented a total investment of $1.9-million by GAB in quality of service to you. This year, we expect to invest even more. No competitive firm makes a commitment of this magnitude.

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U.S. to pay cancer victim $900,000

WASHINGTON—A federal judge has awarded more than $900,000 in damages to a naval officer's wife who charged that a civilian doctor employed by the government failed to detect that she had breast cancer five years ago.

Patricia Hernandez, 43, went to a military clinic at Fort Meyer in Arlington, Va., in September 1975 after she found a lump in her left breast, according to court records.

Dr. Edward G Koch, the clinic doctor who examined her, was unable to find a problem, but advised her to return in 10 days, the court records say.

During the second visit, Dr. Koch administered a routine physical examination, which included a breast exam, but did not address her previous complaint about the lump, Ms. Hernandez charged.

Dr. Koch said he gave Ms. Hernandez a breast exam during the second visit and had remembered her complaint, but determined her condition was normal.

About 18 months later, Ms. Hernandez experienced severe pain in her left arm. Another physician found she had cancer.

U.S. District Court Judge June Green said Dr. Koch's failure to examine Ms. Hernandez more thoroughly "constituted an improper and negligent diagnosis."

The federal government is liable for the entire award. ■

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comings & goings: industry

C&F taps Lundberg for CFO

NEW YORK—In a major organizational change at Crum & Forster, John K. Lundberg, 46, was elected chief financial officer, vice chairman of the board and chairman of the finance committee. Mr. Lundberg will report to B.P. Russell, chairman and chief executive officer of the New York-based insurance holding company.

Donald H. McComber, 51, was elected executive vp-insurance operations officer. He will report to S.F. Wentz, president and chief operating officer of C&F.

Under the new structure, all insurance and planning activities will be under Mr. Wentz. All C&F profit centers will report to Mr. McComber.

Mr. Lundberg is currently chairman and chief executive officer at the American Savings Bank in New York.

Mr. McComber is presently executive vp at Industrial Indemnity, a C&F organization headquartered in San Francisco.

Other insurer changes:

John R. Anderson promoted to administrator of underwriting systems at the home office of Industrial Risk Insurers. **Robert A. Decker** named underwriting systems administrator and **Eldon A. Steen** promoted to executive engineer in the western regional office in Chicago. Also **Roger L. Porte** promoted to engineer-in-charge in Detroit.

Philip A. Stephens named assistant vp of SAFECO Insurance Cos.; **R. Neil Rucksdashel** named general counsel of SAFECO Life and SAFECO National Life Cos.

Thomas C. Chiappa appointed commercial property underwriting manager of CIU Inc.

Reinsurer changes

Carl J. Zuanelli appointed assistant vp of casualty facultative at The National Reinsurance Corp. in Stamford, Conn. Before joining NRC, Mr. Zuanelli was vp and manager of the Marine Office of America Corp.

Theodore Neocleus joined Constellation Reinsurance Co. in New York as director of international reinsurance. He will be responsible for the development and internal control of all foreign business assumed by the company. **Robert E. Miller** also joined Constellation Reinsurance as secretary and manager of the treaty accounting department.

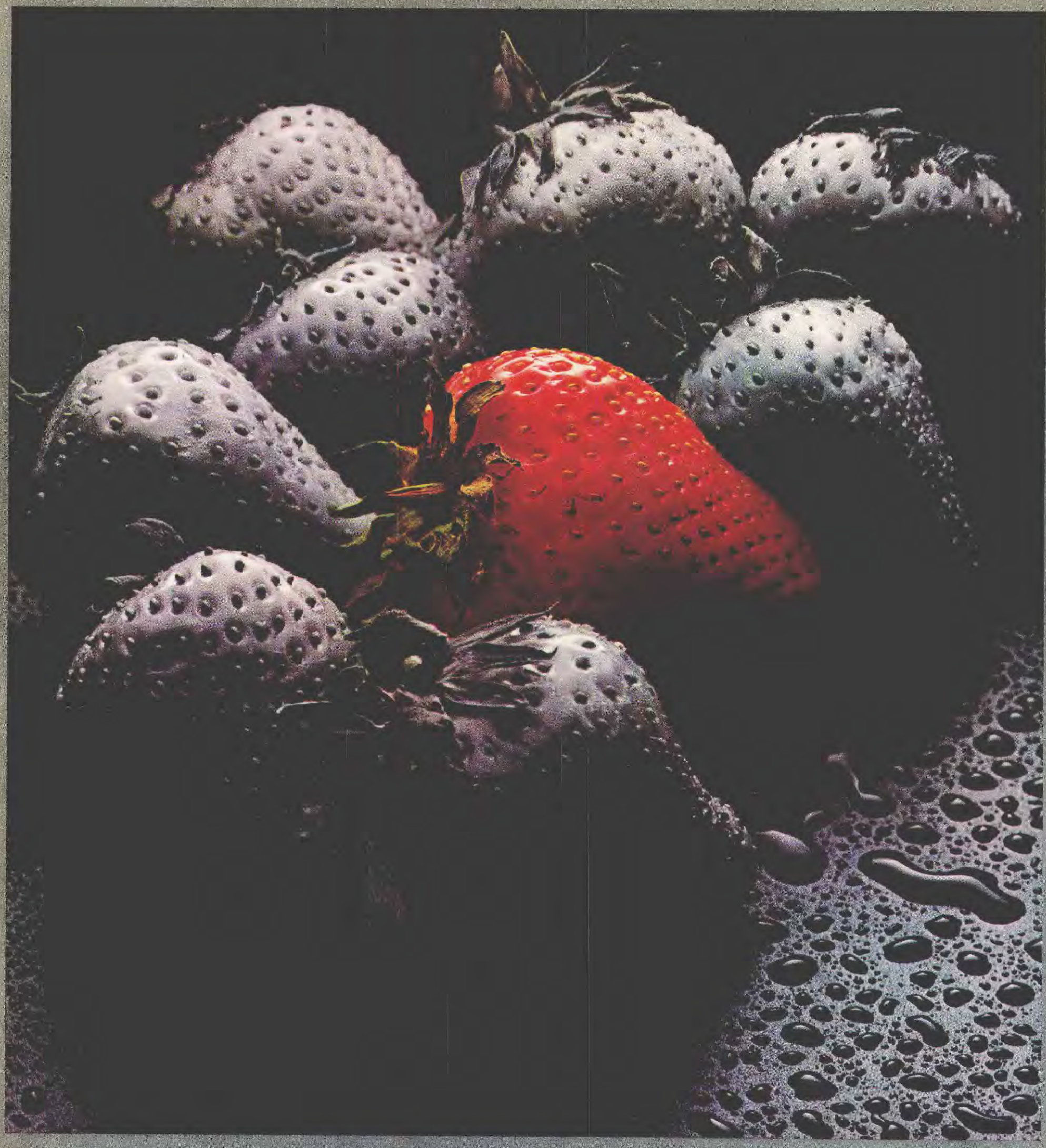
Other suppliers

Marvin J. Paull joined A.S. Hansen Inc. in the Los Angeles office as a senior consultant in employee benefits.

Troy Harper joined imaginAction Inc., a Santa Clara, Calif.-based management services firm, as senior engineer. He was formerly employed as manager of loss prevention with Rollins Burdick Hunter.

Excess/surplus

Richard P. Kropp promoted to assistant vp of underwriting for special risks and **Robert N. Liston** promoted to assistant vp of underwriting administration at Shand, Morahan & Co. Inc. in Evanston, Ill. ■



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perspective

Miners' benefits burden fund

By Kenneth K. Keene

AMIDST THE clamor for reduced government spending, containment of energy and medical costs and greater security of employee benefits, a black cloud has arisen.

It all began when Congress passed the Federal Coal Mine Health and Safety Act of 1969, which compensates miners afflicted with coal workers' pneumoconiosis, commonly known as black lung disease. Originally, the act was intended as a temporary measure to provide compensation until mining states brought their workers compensation programs up to standards.

The act, originally scheduled to self-destruct in 1976, and later, in 1981, is now permanent. Benefits escalate automatically in line with changes in the wage levels of federal GS-2 employees.

The program was initially administered by the Social Security Administration under very liberal eligibility standards. When the administration was transferred to the Department of Labor in 1973, the approval rate dropped dramatically, and a large claims backlog developed. Then too, coal companies were discovering that insurance was extremely expensive. Under pressure Congress passed the Black Lung Benefits Reform Act of 1977 and the Black Lung Benefits Revenue Act of 1977.

Highlights of the reform act include:

- Redefining miner as any person in the processing and transportation of coal and in mine construction.
- Redefining pneumoconiosis to include pulmonary and respiratory impairments.
- Redefining total disability so active coal mine employment cannot be used as evidence that the miner is not totally disabled.
- Providing benefits to eligible survivors on affidavits from spouses and other persons having knowledge of the deceased miner's condition when no medical evidence exists.
- Providing benefits to survivors of miners who died before March 2, 1978, if the miner had 25 or more years of employment before June 30, 1971, unless it can be proved the miner was not partially or totally disabled by pneumoconiosis at the time of his death.
- Eliminating time limits for filing of claims.
- Re-examining previously denied claims under liberalized eligibility standards.

Kenneth K. Keene is senior vp and director of the employee benefit plan department with Johnson & Higgins in New York.

But this good news for the miners and their survivors has been overshadowed by the bad news for the energy consumer and taxpayer. While the Social Security payments on claims filed before mid-1973 reached $1 billion in fiscal 1980, the Labor Department-authorized payments under the new reform act reached a record $726 million in fiscal 1980. In all, since the reform act in 1977, $1.31 billion in black lung benefits have been authorized, compared with only $78 million for the entire first five years.

Of 82,434 claims re-examined under the reform act, 28% have been approved. Based on a recent investigation, the General Accounting Office believes close to 90% of these are not supported by adequate medical evidence. The GAO reported that 87% of the affidavits used to substantiate approvals were made by people who would gain from the claim.

Claims made by miners after mid-1973 whose last coal mine employment was after 1969 are the responsibility of individual coal mine operators. However, since no "responsible" operator could be identified for many claimants, Congress, through the revenue act, created the black lung disability trust fund to pay benefits to miners whose last coal mine job had been before 1970 or for whom no responsible operator could be located.

The trust is funded through an excise tax of 50 cents a ton for deep-mined coal and 25 cents a ton for surface-mined coal. To date, the revenues to the fund have been grossly inadequate, and the Labor Department has already had to borrow more than $1 billion from the U.S. Treasury. Projections are that the revenues will fall short by $9.2 billion over the next 15 years, plus an additional $5.4 billion of interest will be owed the Treasury.

The Black Lung Revenue Act of 1977 allows employers to self-insure black lung costs for their own employees through a tax-exempt trust under the Internal Revenue Code section 501(c)(21). Tax-deductible contributions may be paid to the trust for some actuarial prefunding of liabilities.

Actuarial studies can provide a useful tool in forecasting and preparing for black lung contingencies. Advanced planning should focus on the minimizing of hazardous conditions, prefunding of liabilities, administration of claims in an efficient and equitable manner and the control of otherwise catastrophic costs. ■

Check data services before buying

Photo: Mary Cairns

Some firms have computer terminals that can be used to instantly determine the caller's case, payment or coverage status.

By Kenneth R. Snipper

WHILE MUCH attention has been given to computerized loss runs as a feature of a workers compensation program, little has been said about how to evaluate or compare data services available in today's marketplace.

If you are selecting a self-insurance administrator, particular attention should be given to strengths and weaknesses of the data services on which your firm will depend.

Self-insurance administrators usually emphasize data services in their marketing strategy. When an account entertains self-insurance proposals, the marketing representative will, in many instances, pass over previous problems or shortcomings with its data processing.

Kenneth R. Snipper is director of claims services for Bayly, Martin & Fay Inc.

Some data processing problems are very difficult to discover. Inaccurate paid costs and reserve estimates, for example, might go undetected for years, unless an audit is performed.

Understanding how your administrator categorizes claim costs exhibited on its loss runs is essential for a budget-minded risk manager. If you wish to take an active role in evaluating and containing your workers compensation costs, you should know how much your administrator is spending and reserving in such areas as: legal

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perspective

Calculating your reserves

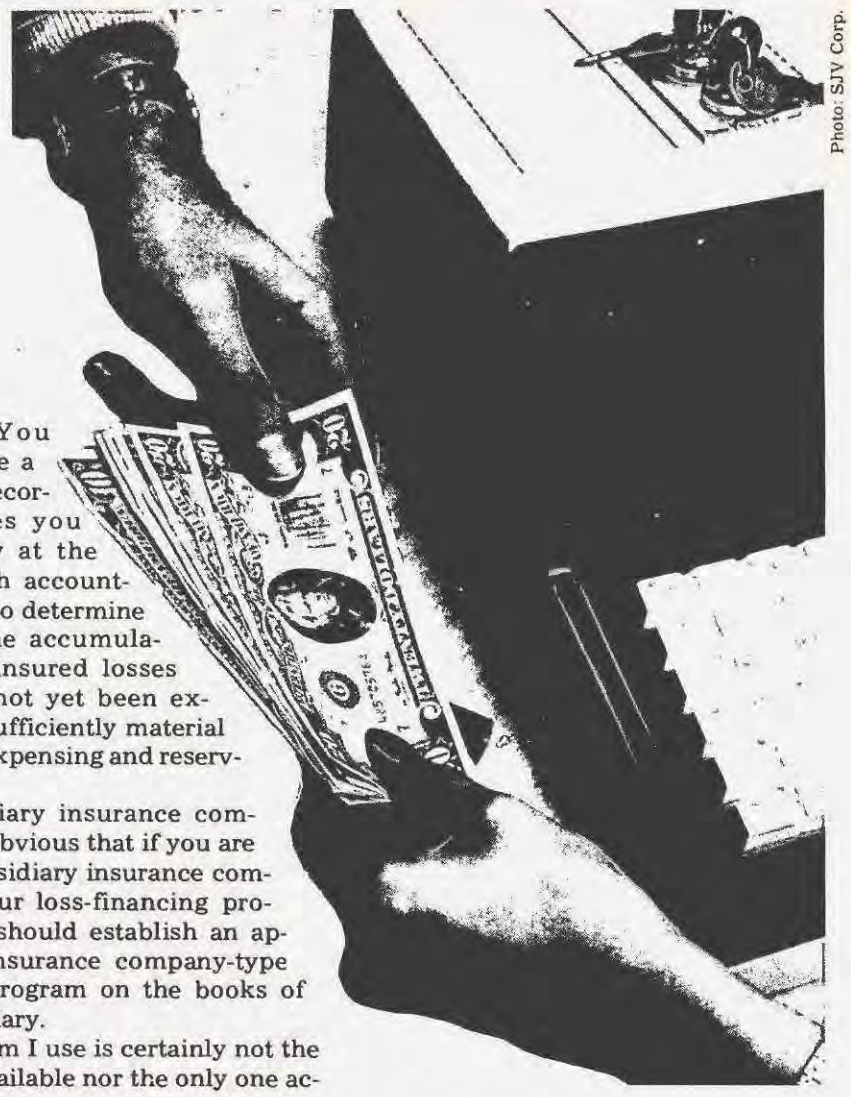

Photo: SJV Corp.

By Howard T. Weber

IF YOU ASK your chief executive officer or your board of directors what they consider to be the most important or the most essential responsibility of the risk manager, the answer will undoubtedly be financial protection.

I don't mean to downplay the importance of risk identification and evaluation or risk prevention and control, but these are responsibilities inherent in every manager's job. Risk financing is usually the unique responsibility of the risk manager.

The structure of your program of financial protection must be not only appropriate for the risks faced by your company, but also must be consistent with your corporate financial goals and personality.

Four factors influence our needs and require a change in practice and attitude toward a greater emphasis on loss reserving:

• When Financial Accounting Standard No. 5 was proposed, many risk managers panicked in their belief that FAS No. 5 would eliminate their ability to reserve for losses. However, the truth is that FAS No. 5 requires reserves that many of us had previously not been providing. For most companies, the reserves now required by FAS No. 5 far exceed the reserves previously thought to be needed.

• As we have become more sophisticated, we have identified many areas of risk not previously recognized.

• Larger deductibles, more self-insurance, the use of subsidiary insurance companies and sophisticated retrospective or cash-flow financing programs all represent risk-financing systems that leave more of the ultimate risk of loss with the policyholder.

• Twenty years ago, even if we had reserved for all of our recognized needs, the total of all of our reserves would not have been material to corporate financial statements. Today accountants are much more sophisticated in the questions they ask and the information they demand of us in assessing the adequacy of our reserves.

Howard T. Weber is director of insurance at 3M Corp. in St. Paul, Minn. His remarks were made at the American Management Assn. conference in Phoenix last month.

In general, any loss-financing program where the ultimate cost for your current program will be determined based on your own loss experience creates a loss or premium reserve need. Among such programs are:

• Uninsured or deductible property damage and business programs. Reserving systems for these programs are probably the least complicated. You should know of any significant property loss as soon as it occurs.

• Retrospective rating plans. For many years it was common practice for policyholders using retrospective rating plans to expense their deposit premium in the year paid and credit or expense their subsequent year adjustments when received.

However, a careful analysis is likely to show that expected ultimate premiums for all open years are well in excess of your paid premiums.

• Self-insurance plans of all types deserve at least annual review to determine your estimated ultimate cost. I can think of no circumstances where it would be appropriate to treat a self-insured long-tail program such as workers compensation on a pay-as-you-go basis without some form of reserving for the expected future payments.

• Intentional non-insurance. There are many arguments to the effect that no reserving is appropriate or necessary for intentional non-insurance programs.

However, the test is not the materiality of each loss, but rather the materiality of the accumulation of unpaid losses at the end of any accounting period. You should have a system of recording losses you can review at the end of each accounting period to determine whether the accumulation of uninsured losses that have not yet been expensed is sufficiently material to require expensing and reserving.

• Subsidiary insurance company. It is obvious that if you are using a subsidiary insurance company in your loss-financing program, you should establish an appropriate insurance company-type reserving program on the books of that subsidiary.

The system I use is certainly not the only one available nor the only one acceptable to the accounting profession. Our procedure at 3M has three steps:

• First, review your cost accounting standards and goals. The Cost Accounting Standards Board has issued a standard for the expensing of insurance costs. The concept is that each segment of the business should be charged, during each accounting period, an amount that appropriately reflects its average long-term cost of loss.

• Second, determine your total expense forecast for the year. The expense forecast will include fixed insurance costs, estimated additional future insurance premiums, forecasted uninsured losses and all other risk management expenses.

• The final accounting step is to determine what to do at year-end to adjust for the difference between your total reserve accruals and your estimated actual needs.

Let's assume that whatever system you use, you are left with a difference between your estimated needs and your reserve accruals. What do you do with that difference? It should be charged or credited to a corporate nonoperating income and expense account.

If you have done your job properly, you will find your reserve accrual account has a surplus at year-end. You do not have unusual losses every year. Therefore, in most years you will have a surplus reserve accrual.

It used to be a standard accounting procedure that any surplus or deficit would be redistributed back to the operating units.

Current opinion is that this is not a proper accounting system. Instead, the surplus or deficit should be cleared through a corporate nonoperating income or expense account and not returned directly to the operating units.

The operating units already have been charged an expense that is appropriate for each unit. By absorbing the deviations at corporate level, you are protecting the individual units from distortion resulting from an unusual occurrence.

They will be taken into consideration in setting future costs, but they should not be allowed to distort current operating unit results. Top management will know the reason if the total deviation is significant. ■

Check out data services before signing up

Continued from previous page

and investigation fees; rehabilitation consulting, program fees and disability costs; medical and legal expenses; medical treatment, and indemnity.

What questions can you ask the self-insurance administrator in evaluating, comparing or utilizing data services most effectively?

On your individual claim summaries, check loss run reserves and paid costs against the claim file figures. Make sure all claims closed in the claims department are listed as "closed" on loss runs.

Determine what types of loss runs your insurer or self-insurance administrator can provide. You should be able to obtain useful loss-control summaries, claim summaries or check register runs.

Determine the cost of your computer services. Some firms require payment for specific services, while others incorporate the charge into a cost-per-claim, administrative fee.

Loss runs should be easy to read. Data should be designated into categories. An overabundance of codes may discourage or confuse readers.

Late or infrequent loss runs are two of the most common problems with data services.

Many systems used today are flexible enough to tailor loss runs to the needs of the risk manager. Some firms have computer terminals that can be used to instantly determine the caller's case, payment or coverage status.

Control over computer problems should be considered in light of where the computer is located and who owns it. If the computer is out-of-state, your firm may have to depend on the mail for data entry and printouts. If the system is on-line, your computer may be situated at a distant location and you may share time with many large, national accounts.

Many excellent controls are being used in claims departments of self-insurance administrators. These include automatic closure of medical-only files at designated intervals and reserve re-evaluation alerts.

Effective loss-control summaries must be available and properly coded, with adequate descriptions of injuries. Also, large numbers of unclassified injuries compromise the usefulness of loss-control summaries.

If you are in the process of becoming self-insured or changing administrators, the firms that submit proposals should also provide references. ■

riskWatch

Detoxification emerges as option to chemical dumps

By STUART EMMRICH

Chemical companies are looking to their own industry to figure out what to do with the millions of tons of hazardous wastes produced every year.

Chemically treating the wastes to detoxify them is being increasingly considered as a way to handle the long-term disposal problem.

The more conventional method of dumping toxic substances in a designated waste site is perceived by some industry experts as less than ideal. The amount of land available for such sites is finite and many of the methods used in dumping the wastes have been labeled improper and unsafe by the Environmental Protection Agency.

Emmrich

"When you dump hazardous wastes, you aren't really getting rid of the problem, you are just transferring it for a period of time," said Joan Berkowitz, a chemist with the Cambridge, Mass., consulting firm of Arthur D. Little.

"The industry realizes that it would be better to come up with some method of treating the wastes that would detoxify them permanently and fully remove the danger of them contaminating nearby areas."

"If you have to store toxic wastes, you're just postponing a solution," agreed George Pierce, a researcher for Battelle Laboratories in Columbus, Ohio. "If you instead develop a detoxification system, you are coming up with a solution that is permanent."

Battelle is one of several firms around the country that is developing chemical treatment processes for hazardous wastes. Goodyear Tire & Rubber Co. also is working on a similar project and so are several other chemical manufacturers.

Perhaps the biggest boon to the chemical treatment of toxic wastes is the decision by SCA Services Inc., a Boston-based waste disposal company, to strongly emphasize detoxification.

One of the best known waste disposal companies in the country, SCA operates two landfills and up to now has relied almost totally on the landfill method of disposing wastes.

But company officials say waste treatment is the wave of the future.

The company two years ago bought an old chemical plant in Newark, N.J., and has since converted it to process waste chemicals. The company first looks to see if anything of commercial value can be recovered from the wastes and then it tries to detoxify the rest.

Detoxification of chemicals is still in its infancy, however.

Battelle's Mr. Pierce says his company has yet to come up with a method that can be both easily used by industry and cost effective. Working out the bugs in the various systems could take a couple of years or more, he says.

Ms. Berkowitz of Arthur Little says part of the problem in developing detoxification methods is the complexity of the chemicals involved.

"No two chemicals are exactly alike, so it would be almost impossible to come up with one detoxification method that could be easily transferred from chemical to chemical," she said.

But although the cost of developing individual systems could be high, Ms. Berkowitz said firms realize the cost may be worth it in the end.

"When companies dump these wastes, they haven't really eliminated their potential liability," she said. "Something could happen in the future that might end up costing them a lot of money. Look at what happened at Love Canal," she pointed out.

The already high cost of landfills isn't expected to go down over the next few years, either, Ms. Berkowitz says. The costs of maintaining chemical landfills will rise as the expenses involved in trucking chemicals to special waste sites continue to go up.

The EPA, although it has not yet sanctioned any particular method of detoxification, agrees that the importance of the process will grow.

datebook

DEC. 10-11. Minimizing Risk and Exposure of Hazardous Waste Conference in Philadelphia, sponsored by AMR International; $550. AMR International, 1370 Ave. of the Americas, New York, N.Y. 10019; 212-765-6400.

JAN. 11-13. Health and Pension Benefits Conference in Washington, D.C., cosponsored by RIMS and U.S. Administrators Inc.; $250. Reg Beane, RIMS, 205 E. 42nd St., New York, N.Y. 10017; 212-557-3221.

JAN. 15-17. Medical Malpractice Litigation Seminar in New York, sponsored by the Practising Law Institute; $350. Also **Feb. 19-21** in Los Angeles. Nancy B. Hinman, PLI, 810 Seventh Ave., New York, N.Y. 10019; 212-765-5700.

JAN. 16-17. Toxic Substances: Problems in Litigation Program in San Francisco, sponsored by the Practising Law Institute; $275. Also **Feb. 27-28** in New York. Nancy B. Hinman, PLI, 810 Seventh Ave., New York, N.Y.

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

FEB. 23-25. Trustees and Administrators Institute in Orlando, Fla., sponsored by the International Foundation of Employee Benefit Plans; cost to be announced. Also **March 19-21** in Freeport, Grand Bahama Island. IFEBP, P.O. Box 69, Brookfield, Wis. 53005; 414-786-6700.

MARCH 3-5. Risk and Insurance Management in Banking Seminar in San Diego, sponsored by the Insurance and Protection Division of the American Bankers Assn.; $315. Shelly Davis, ABA, 1120 Connecticut Ave. N.W., Washington, D.C. 20036; 202-467-4047.

APRIL 2-3. Pension Fund Money Management Seminar in New York, sponsored by The Wharton School; $595 plus $75 registration fee. Also **June 18-19** in Chicago. Heidi E. Kaplan, Dept. 20BR, University Conference Center, 360 Lexington Ave., New York, N.Y. 10017; 800-223-7450. In New York State or Canada, call 212-953-7272, ext. 296.

APRIL 5-10. 19th Annual Conference in San Francisco, sponsored by the Risk & Insurance Management Society; $395 for full week, $325 for partial week. RIMS, 205 E. 42nd St., New York, N.Y. 10017; 212-557-3221.

APRIL 6-7. Radiation Protection of the Public in a Nuclear Accident Course in Washington, D.C., sponsored by the International Institute of Safety and Health; $295. IISH, 9413 Jones Place, Seabrook, Md. 20801; 301-469-9448. ■

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Merger can lead to D&O claim: Poll

CHICAGO—Buying another company can open the doors to an expensive directors and officers liability claim.

More prior owners of acquired companies are filing D&O suits and they are expensive, reports the 1980 Wyatt survey of directors and officers liability.

Overall, however, the frequency of D&O claims may be leveling off, the report says. But it is difficult to determine yet whether that is true. Wyatt's 1980 survey included more smaller companies than in the past, which tend to lower the overall average claim activity, the consultant says.

Besides identifying the source and cause of D&O claims, the annual survey also reveals trends in premium pricing, insurers' market shares, limits purchased and coverage of subsidiaries' directors and officers under corporate D&O policies.

Although stockholders continue to be the single largest source of serious D&O claims, filing 40% of all claims, prior owners of acquired companies are filing more lawsuits, the survey says.

More than 6.4% of all the claims reported by 2,247 U.S. companies participating in the 1980 survey were filed by prior owners of acquired companies. This is up from 3.8% in 1979.

The most common circumstance leading up to a D&O claim also was acquisition of another firm, with 12.5% of all claims involving an acquisition. The next most frequent circumstances were labor relations, 7.5%; financial loss to a corporation, 7%, and marketing activities, 6.9%.

A large percentage of claims filed by prior owners sought high awards and the percentage closed without any payment was considerably lower than the average 60% of all D&O claims that are closed without payment. Awards and legal fees were higher than average.

Directors & officers liability insurance policy limits

	1973	1974	1975	1976	1978	1979	1980
$ 1,000,000	13.2%	10.7%	11.5%	8.7%	9.9%	8.2%	8.5%
3,000,000	10.5	9.2	7.5	5.6	6.4	6.0	6.2
5,000,000	40.5	39.4	34.9	31.9	27.5	24.8	25.5
10,000,000	20.3	24.6	27.7	31.7	31.8	31.4	29.4
15,000,000	4.1	3.3	3.6	5.6	6.1	7.7	7.3
20,000,000	4.4	4.7	6.9	7.2	7.8	9.2	9.0

Percentages represent number of companies that had particular D&O limits in each year listed. The percents do not equal 100 because some had limits not charted. 37 companies reported limits of $50 million or more.

Customers, too, are filing more suits against directors and officers. More than 13% of reported claims were filed by customers, up from 9.8% in 1979.

But customers' claims are more often closed without an award and the amounts awarded are low, the survey says. Legal fees to defend these suits are also lower than the average 1980 D&O claim defense cost of $318,255.

Employees and former employees continue to be a significant source of D&O claims. Seventeen percent of the cliams reported came from this source, down slightly from 18.2% in 1979.

These claims, however, are usually for lower amounts and cost less to defend than other D&O claims. But the number settled with employees and former employees is less than average, indicating these claims tended to be disposed of with some payment, but generally a modest amount.

Slight increases in the number of D&O claims filed by contractors and creditors appeared in the 1980 survey.

Misleading representation continues to be the most often used charge in D&O suits. It was used in 22.7% of the 1980 claims, up from 21.4% in 1979. Collusion or conspiracy to defraud was cited in 16% of the 1980 reported claims, up from 13.6% in 1979.

Charges of antitrust violations also increased in 1980 to 10.2% of all claims from 7.6% in 1979. But this doesn't reflect increased action by the government since government-source claims decreased to 6.7% in 1980 from 7% in 1979. Instead, more antitrust suits are being filed by customers, competitors and others, the survey notes.

Allegations of antitrust violations are almost the most expensive to defend, the survey adds, which makes claims filed by the government very expensive.

Suits involving conflict of interest, irregularities in securities issues and illegal payment to public officials also cost more than average to defend, according to the survey.

More than half the claims, or 58.4%, reported are covered by insurance. But only 9.1% of the claims are against companies that don't buy D&O insurance. Nearly a quarter of the claims may or may not be covered by insurance, according to the survey respondents who aren't sure about coverage.

Almost 7% of the claims fall outside the policy. This large percentage may be because of clauses attached to D&O policies in recent years that exclude coverage for illegal payments to public officials, antitrust violations or claims arising out of real estate investment trusts, the survey notes.

The sensible approach to Partial Self-Funding

The employer wishing to partially self-insure employees' group health benefits will find that there are several approaches. A member of the staff could be used to administer claims for the self-funded portion of the plan, but that ties up personnel.

A third-party administrator could be brought in, but then there's a problem coordinating the insured and the self-funded portions of the plan.

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The cost of D&O insurance dropped for many survey participants, reflecting competition in the D&O insurance marketplace. Among eight companies with $15 million to $25 million in assets, the average cost of $3 million of D&O liability insurance was $7,562 in 1980, down from $14,792 in 1979.

Among seven companies with assets of $75 million to 4100 million, the average cost of $1 million of D&O liability insurance fell to $5,389 in 1980 from $14,791 in 1979.

But in other categories the decrease in cost is not so dramatic, and in some prices went up.

For example, 23 companies with assets of $15 million to $25 million saw the average cost of $1 million in coverage decrease to only $4,362 from $4,739. And 43 companies in the $100 million to $150 million range saw the average premium for $5 million of coverage drop to only $14,554 from $14,934.

The most dramatic increase was experienced by six companies in the $1.5 billion to $2 billion range who purchased $5 million of coverage. The average premium increased to $78,529 from $37,149.

The seven leading underwriters of primary D&O insurance remain unchanged in 1980. American International Group led with a 28.5% market share. Next in line were Swett & Crawford, 16.3%; Crum & Forster, 13.1%; CNA Group, 10.6%;

The cost of D&O coverage dropped for many, reflecting competition.

Lloyd's of London, 8.6%; MGIC, 7.1%, and The Home Insurance Group, 4%.

INA climbed to eighth with 2.8% of the market share, up from ninth last year. St. Paul slipped to ninth from eighth, with 2.5%. Midland stayed at 10th with 1.1%. Aegis, a utility industry-owned captive, jumped to 11th from 14th last year, with 0.9%.

But these markets rank differently in percentage of premium volume, according to figures supplied by Warren Brockmeier, director of Wyatt's risk management services.

AIG was first with 26.2% of premium volume, followed by Lloyd's, 17.2%; Crum & Forster, 13.3%; Swett & Crawford, 12.9%; CNA, 11.5%; The Home, 6.5%; MGIC, 3.9%; Aegis, 1.1%; St. Paul, 1%, and First State and Liberty Mutual, 0.3% each.

Lloyd's and The Home, in particular, registered a high premium volume percentage relative to their market share. The likely reason is that their accounts tend to be extremely large corporate risks.

The most frequent limit of D&O insurance purchased is $10 million, with 29.4% of the companies covered by this amount. The next most popular limits are $5 million, 25.5%; $20 million, 9% ; $1 million, 8.5%; $15 million, 7.3%, and $3 million, 6.2%.

The most significant change in policy limits is among companies with assets of more than $2 billion. These showed an average increase in limits to $22.6 million in 1980 from $19.5 million in 1979.

Of the 1,378 U.S. respondents with domestic subsidiaries, 1,247 or about 90% cover the directors and officers of all domestic subsidiaries, while 46 or 3% cover directors and officers of some subsidiaries, but not all.

U.S. corporations with Canadian or other foreign subsidiaries have several D&O considerations:

- Exposure of the parent firm for a foreign subsidiary's violation of U.S. law.
- Exposure of the foreign subsidiary for violating U.S. law.
- Exposure of the foreign subsidiary for violating laws of the foreign domicile.

Of 543 with Canadian subsidiaries, 453 or 83% cover the directors and officers of all Canadian subsidiaries, while 13 or 2% cover only some.

Of the 568 companies with subsidiaries in other foreign countries, 448 or 79% cover directors and officers of all foreign subsidiaries and 29 or 5% cover only some.

•

A complimentary copy of the 1980 Wyatt Directors and Officers Liability and Fiduciary Liability Survey is sent to all participants. Non-participants can obtain the survey for $60 from Warren Brockmeier, The Wyatt Co., Suite 5600, Chicago, Ill. 60606; 312-876-1616.

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Captives aren't necessary: Consultant

SAN FRANCISCO—None of the Fortune 500 companies needs a captive insurance company unless it wants to diversify into the insurance business, says a California consultant.

In 1974, consultant Joe Destein believed every major U.S. corporation would have a captive within 10 years. Six years later he's changed his mind. The reason: Insurance companies are proving they are flexible in meeting the needs of the risk manager.

'The reason that captives started is that we couldn't get insurance companies to do what we wanted. Now they will,' says consultant Joe Destein.

The risk management departments of major insurers are touting unbundled claims services, loss-control engineering and cash-flow plans. "They are quietly, but very clearly trying to find ways to go directly to risk managers," Mr. Destein said.

Insurers, in fact, are doing what the insurance brokers started doing in the 1970s, he observes. That could lead to some bitter struggles between insurers and brokers in the future.

Risk managers will benefit from the competition—playing brokers and insurers against each other in an attempt to fashion the optimal risk-treatment program.

Mr. Destein, president of Risk Sciences Group in Mill Valley, Calif., was a panelist at a seminar on improved cash-flow techniques for casualty risk management programs. The seminar was held Nov. 11 at a CPCU All Industry Day in San Francisco.

Other panelists at the cash-flow seminar included A. Hunter Long, president of Technical Risk & Insurance Management Inc., Frank B. Hall & Co.; Kerry Clem, risk manager at Esmark Inc., and John Kessock Jr., president of Aneco Marketing Co. Ltd.

"The reason the captives started is that we couldn't get the insurance companies to do what we wanted. Now they will," Mr. Destein said.

"If you want tax deductions, they will help you get them. If you want cash-flow, unbundled services, excess insurance placements through your own broker—they will do whatever has to be done to get your business."

Companies are spending a tremendous amount of money operating captives and trying to maintain an arm's-length relationship, Mr. Destein said. Cash-flow plans offer maximum tax benefits and avoid the uncertain tax status of premiums paid to captives.

Insurers have a different relationship with the IRS than do corporations and their risk managers. Given today's flexible attitude of insurers, risk managers can work out arrangements that give them access to reinsurance markets without using a captive.

Cash-flow means different things to different people depending on their financial perspective, Mr Long noted. "In insurance and risk management it means minimum cash out—paying as little premium as possible as slowly as possible." This approach enables buyers to earn maximum investment earnings on their loss reserves.

"If buyers can pay fixed expenses and paid losses on a monthly basis, cash flow is considerably enhanced Mr. Long said. Many insurers are now deferring fixed expense for much longer than the 12-month policy term, he continued. One company is deferring excess expenses for 60 months on an annual policy, he says.

It used to be that such cash-flow advantages were available to companies offering insurers $1 million or more in premium. In the late 1970s, insurers expanded eligiblity to include the $500,000 risk.

"Just recently we've seen such programs written on risks generating $250,000 in premium," Mr. Destein said. Many companies have thrown out eligibility standards and are now saying "bring us your program, we'll look at it and give you our best offer," he added.

"I think we have to recognize that if the world has changed, we've got to start changing the way in which we write our programs and advise our clients. We have a responsiblity to start looking at the future of casualty programs from a different perspective."

In the 1970s, risk managers with their brokers focused their energies on fine-tuning the costs of paying claims. In the 1980s, Mr. Destein predicts, risk managers will concentrate their efforts on reducing frequency and controlling severity of losses. ■

Health care data to be compiled

The Employee Benefit Research Institute has awarded a contract to a Maryland think tank to develop a bibliography of research of health care programs.

The bibliography, to be developed by Aspen Systems Corp. of Rockville, Md., will cite research on the general characteristics of the U.S. health care system. It will also describe programs providing health care benefits and present and proposed methods of changing or controlling the health care system.

"The development of this bibliography represents a major step in aiding analysis of trends and the potential pitfalls of different proposals for changing health care programs," said Dallas Salisbury, the executive director of the institute.

Employers and individuals wishing to participate in the development of the bibliography should contact Catherine Thomson, EBRI Fund, 1800 M St. NW, Suite 275, Washington, D.C. 20036; 202-659-0670.

The bibliography, to be available to the public, is expected to be published in October 1981. ■

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company 2: to insure
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Photo: Carol G. Blitzer

"Now we spend more time evaluating," says Ralph Perry of AMFAC.

Less emphasis on transfer

Risk execs rely more on prevention

By CAROL G. BLITZER

SAN FRANCISCO—Risk managers this decade will find themselves concentrating more on preventing risks than transferring them, panelists told members of the San Francisco chapter of the Society of Chartered Property & Casualty Underwriters.

No one can prevent a catastrophe, but companies can improve safety, educate employees about risk and improve recordkeeping to help locate risk areas, they said at an All Industry Day this month. Through a combination of loss control, involvement in captive insurance companies and better long-range planning, risk managers may be able to cut costs, even in growing companies, they added.

"We started out transferring the risk," said Ralph F. Perry Jr., vp and risk manager for AMFAC Inc. in San Francisco. "Now we spend more time evaluating and identifying areas where we can reduce risk, retain risk (funded and unfunded) and avoid risk."

Mr. Perry noted that his Honolulu-based firm employs nearly 27,000 people in a decentralized environment, with sales of $2 billion and incurred workers compensation losses of more than $2 million in 1979. His department has grown to 10 staff members from four in the last few years.

"Risk managing is becoming a more exact management science," said Richard H. Soper, director of risk and insurance management at Levi Strauss & Co. in San Francisco.

In the property/casualty area, Levi Strauss is looking at a decrease in expenses for the second consecutive year while the company is growing about 20%, he reported. Levi Strauss employs 11 people to handle risk management for its operations with 47,000 employees in 32 countries.

"I view risk management as a systemization of logical approaches," explained Woodrow B. Anderson, risk manager of the University of California at Berkeley.

"First, we worked at insurance, how to buy insurance, then we concentrated on risk-financing alternatives. What we've evolved from there is the area of loss control. We've got financing down. The bottom line is the losses that you pay."

Mr. Anderson has 11 people on his staff and nine campus risk managers, environmental health and safety officers and police chiefs to help diffuse risk for the 111,000 employees, 140,000 students and $4.8 billion in property. His budget runs to $45 million.

Employees are scattered not only over the nine campuses, but may work anywhere in the world. The system also includes five hospitals and two nuclear research centers.

AMFAC's goal is to reduce costs by 10% over the next three fiscal periods, measuring cost as the ratio of the total cost of risk to corporate sales. To accomplish this, Mr. Perry plans to continue to evaluate insurance and self-insurance plans, retention levels and captives. He also is scheduling meetings to improve monitoring of loss-control programs and compare in-house claims management to buying outside expertise.

Levi Strauss wants to increase refinement in forecasting and reduce claims by 15%.

Panelists agreed captives can be very useful. AMFAC has had a captive in Colorado since 1973 and one in Bermuda since 1977. "Many things you do in a captive you can do in-house, but people look at it differently if it's a captive," Mr. Perry said.

"You collect statistics better and keep better control of the program. I think we'll use our offshore captive a lot more."

Levi Strauss began using a captive about five years ago to utilize greater deductibles and recapture part of local premiums, Mr. Soper said. "It also helped get money out of places like Argentina, France and Mexico," Mr. Soper said.

Last year Levi Strauss spent $90,000 to operate its captive and will spend $80,000 this year, he said. "We're now able to give a credit in allocation for the following year."

Mr. Soper also hopes for an improved cash flow for workers compensation in Texas through a new domestic captive.

Should loss control be done by an insider or an outsider? "Politically, it's more advantageous to use an outsider," said Mr. Anderson, although the university is getting more involved in training programs for employees.

Levi Strauss has used both insiders and outsiders. "The needs of loss control are not appreciated," Mr. Soper said. "The needs are broad, and I don't think one person can do it."

He pointed out that loss control includes fire protection, safety, technical knowledge of machinery, industrial hygiene and administrative skills.

"I'm a strong believer that risk management in action can save a smaller company," Mr. Anderson noted. A $200,000 savings might not mean much to a huge corporation, but it could be life or death to a smaller one, he explained.

One way companies can control expenses is to be aware of loss trends. AMFAC uses a data system, Corporate Systems, that Mr. Perry refers to as a "lifesaver."

"Outside auditors asked if we had enough money in the pot to pay our losses. That criticism got us going on it and management concurred," he said. ■

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Annual report shows solvency

HOUSTON—A surplus lines insurer's annual statement is chock full of clues to its financial solvency, a reinsurance expert says.

The key revelations in the annual statement are: the amounts reserved for incurred but not reported losses; reinsurance ceded and assumed, and loss development history, Kemper Reinsurance Co. vp Ernest Fennell told surplus lines brokers attending the National Assn. of Professional Surplus Lines Offices meeting here.

The tips to financial statement analysis Mr. Fennell offered the brokers can be used by insurance buyers who would personally like to analyze the financial statements of their surplus lines insurers.

The financial health of a surplus lines insurer is crucial because there are no guaranty funds to pick up the claims if a surplus lines insurer goes broke.

The figure reported for incurred but not reported losses should be compared with the amount reserved for oustanding losses and the amount of earned premium, Mr. Fennell advised. "If the IBNR figure is low, you worry about long-tail business."

Two other ratios usually ought to be near or above 100%, Mr. Fennell suggested:

- Total loss reserves, loss adjustment expense and unearned premium divided by the earned premium volume.
- Total invested assets minus surplus to policyholders divided by earned premium.

These ratios are better indicators of financial strength than the premium-to-surplus ratio often cited, he said.

Schedule F reveals reinsurance ceded and assumed by the company. "Look at it carefully," Mr. Fennell advised.

Unfortunately, it may not always reveal the name of the reinsurer but instead list the reinsurance broker or pool manager, he said.

"You can't always tell the security behind a name.

The annual statement blank does specify that the security be specifically identified.

Funds held or letters of credit indicate the insurer holds security to offset liabilities for using non-admitted reinsurers.

What reinsurance business is being assumed is also important to gauge the business of a surplus lines insurer.

Schedule P reveals loss development by accident year. Changes in loss-development figures from year to year will reveal whether the insurer is properly reserving for losses.

Applying the tests of the early warning system used by the National Assn. of Insurance Commissioners to measure an insurer's financial health is also revealing, Mr. Fennell said. He cautioned however, against jumping to conclusions when the results fall outside the norm established by the NAIC.

"It doesn't mean they are in trouble; they are indicators," he said. The reason a company falls outside a norm should be checked. An increase in capital or surplus may not be an infusion of money to save a failing company but preparation for future growth, he noted.

The annual reports of U.S. surplus lines insurers are filed with the insurance departments in states in which they are domiciled.

Financial information on alien surplus lines insurers approved by the NAIC for compliance with certain criteria is available from the NAIC in Milwaukee.

A 600-page financial review of alien direct writers with trust funds in the United States and approved by the NAIC includes auditor's reports available on each. It will be available Jan. 1 for $250.

The report is available for $200 to subscribers to a quarterly listing of NAIC-approved alien insurers costing $100 annually. A supplement with details on balances and locations of trust accounts costs $60.

Gerald J. Sullivan of Gerald J. Sullivan & Associates Inc. in Los Angeles reminded the audience not to downplay the importance of checking the background of unknown insurers with other surplus lines brokers.

He also warned, "You have to be careful. Be sure of your sources. You can cause irreparable harm by saying the wrong thing, as well."■

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Refund of excise tax won't affect U.S. buyers

HOUSTON—Few insurance buyers will see any of the refunds of U.S. excise taxes on insurance premiums paid to British insurers.

The excise tax has almost always been paid by the British insurer, says Donald Greene, senior partner of the law firm of LeBoeuf, Lamb, Leiby & MacRae, which is helping British insurers negotiate a refund of the taxes paid since 1975.

A 1975 treaty exempted most British insurers from paying the tax, but implementation of the treaty was delayed until this year's Senate ratification of the treaty. The 4% excise tax on direct insurance and 1% on reinsurance and life/health premiums were paid in the meantime and will be paid until the IRS says to stop.

The IRS, U.S. brokers and British insurers are working together on a method for refunding the tax.

A tentative agreement calls for the surplus lines brokers to scour their files to determine how much premium they placed with the British insurers eligible for refunds of the excise tax.

The excise tax due on that premium volume will be refunded by the IRS to the brokers, who will net their service fees and remit the rest to the British Insurance Assn. The BIA will apportion the refunds to the British insurers.

Only policyholders billed directly for the excise tax would be due a refund, Mr. Greene said. This rarely occurred, he added.

It has been proposed the surplus lines brokers' fee for digging up the premium volume information be 15% of the first $100,000 of recovery, 10% of the next $150,000, 7.5% of the next $250,000 and so on.

"The majority of NAPSLO members fall in the $100,000 category," noted Anthony Markel of Markel Service Inc. in Richmond, Va., who is on a committee of NAPSLO members appointed to negotiate with LeBoeuf, Lamb on the refund procedures. ■

Name changed

The five-year-old National Assn. of Professional Surplus Lines Offices has changed the key word surplus to specialty in its name.

"The name change more accurately reflects the nature of this association," said outgoing president James H. Bryson. NAPSLO broker members use the admitted as well as nonadmitted markets, especially in competitive markets.

Newly elected officers of NAPSLO include John H. Crowther, president of John H. Crowther Inc. in Minneapolis, as president; Joseph H. Blades, chairman of The Blades Group in Houston, as vp; A. Noran Dubois, president of Insurance Brokers Service Inc. in Chicago, as secretary. Re-elected treasurer was Roy B. Oddy, chief executive officer of Swett & Crawford in Los Angeles.

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Drugmakers sue over DES coverage

Continued from page 1
and seven other insurers have agreed to defend Richlyn in the product liability suit, apportioning legal costs according to their own predetermined formula, reports Anthony Minisi, Richlyn attorney.

The Kemper Insurance Group has never appealed a summary judgment against its subsidiary, American Motorists Insurance Co., in a DES exposure vs. manifestation suit with E.R. Squibb & Sons two years ago, reports John Fortunato, assistant general counsel for Squibb.

After reading the policy, the court determined occurrence should be interpreted to mean manifestation of injury, Mr. Fortunato said. American Motorists was Squibb's primary product liability insurer from 1968 to 1975.

More than 200 pharmaceutical companies produced DES to prevent miscarriages in pregnant women from the early 1950s through 1971. Hundreds of insurers, both domestic and foreign, underwrote those companies' product liability exposures over this period. So far there is no agreement on how to apply coverage.

An alternative theory of insurer liability suggested for solving the manifestation vs. exposure dispute in asbestosis litigation—prorating liability among all the various insurers on the corporate risk from the time of exposure to the time of manifestation—isn't being raised as an issue in the DES coverage dilemma.

Asbestosis injury is cumulative, while DES ingestion and injury are definite in time.

Although drug companies are unable or unwilling to estimate their market share for DES during these years, *Business Insurance* sources privately confirm the view of plaintiff attorney Thomas Bleakly in Detroit that Eli Lilly & Co. had an "overwhelming share" of the market.

The Indianapolis drugmaker was able to build this competitive edge by offering sizable volume discounts to pharmacists, Mr. Bleakly says. Abbott Laboratories, Squibb and The Upjohn Co. actively promoted DES to physicians, thereby creating a market for it, Mr. Bleakly adds.

Lloyd's of London and The Home Insurance Co. covered all of Eli Lilly & Co.'s liability for DES until 1969, when the company decided to cut premium costs by self-insuring, the drugmaker said.

If DES claims grow to the proportions some observers expect, it could be disastrous for both insurers and pharmaceutical companies. There are perhaps a half-dozen major U.S. insurers whose individual aggregate exposures for DES exceed $100 million, says an insurance industry source.

Besides London syndicates and The Home, the hardest hit insurers likely would include Aetna Insurance Co., INA, The Travelers Insurance Co. and The Hartford Insurance Group, *Business Insurance* learned.

Because each DES claim represents a separate occurrence under a product liability policy, the potential aggregate loss costs are much higher than for a natural catastrophe.

During the 1960s, when many of the major stock insurers underwrote primary liability policies for pharmaceutical firms, insurers also bought reinsurance to protect against losses of more than about $100,000. But they must pay up to this limit on each DES loss.

Even if insurance coverage is prorated among insurers writing policies from time of ingestion to manifestation, drugmakers might not have enough insurance to cover their DES losses, believes Robin Jackson, underwriter for Merrett-Dixey Syndicates Ltd.

Although product liability limits of $100 million or more are not unusual today, limits were substantially lower a decade ago, notes the Lloyd's of London underwriter.

Today, however, drugmakers have huge self-insured retentions exceeding $1 million.

It could be years before the courts finally resolve the disputed coverage issue created by DES exposure and its manifestation as cancer 20 years later in the daughters of women who took it.

"There has got to be a uniform approach; we can't continue to argue," one broker said. Disputed coverage litigation makes bad publicity for the insurance industry, other sources point out.

Underwriters from major London and U.S. insurance companies have been meeting privately for some time to reach a compromise on coverage for DES losses, Mr. Jackson says.

"Six months ago it seemed we were making progress, but since then there have been significant U.S. court decisions," he says. The Sindell decision (*BI*, June 16), which established the concept of liability among drugmakers according to market share, has frightened people, he believes.

Merrett-Dixey is involved in DES claims as a direct excess insurer for pharmaceutical companies and as a reinsurer of American insurers who covered drugmakers.

Merrett-Dixey favors the manifestation theory, says Mr. Jackson, because "we believe that's what policies intended to say." Research shows the victims don't have the injury at birth—the injury occurs later when the woman gets ill, he contends.

If the issue is resolved according to a theory of ingestion, Merrett-Dixey is least involved, Mr. Jackson says. "But manifestation is our consistent approach." He concedes this theory shuts off recovery through insurance to women whose injuries have become manifest since the mid-1970s. Most product liability insurers started excluding DES around 1976.

Mr. Jackson declined to discuss his syndicate's exposure for DES claims "because it is an indication to plaintiffs of what we think we might have to pay." He says he has had to amend his figure upward since the Sindell decision.

There is no justification for prorating liability for all insurers, says Mr. Jackson. Considering the impact of the Sindell decision on the availability of other products, Mr. Jackson said, "If enterprise liability is applied across the board to other products it might well be that underwriters will have to take this into account." This means policy rating would have to reflect a policyholder's market share for its products.

London is hoping the Insurance Services Office will develop a new policy wording that clearly fixes the date of loss to manifestation of the injury, Mr. Jackson said. In a couple of cases, Merrett-Dixey has specified such language to insurers on pharmaceutical risks. ■

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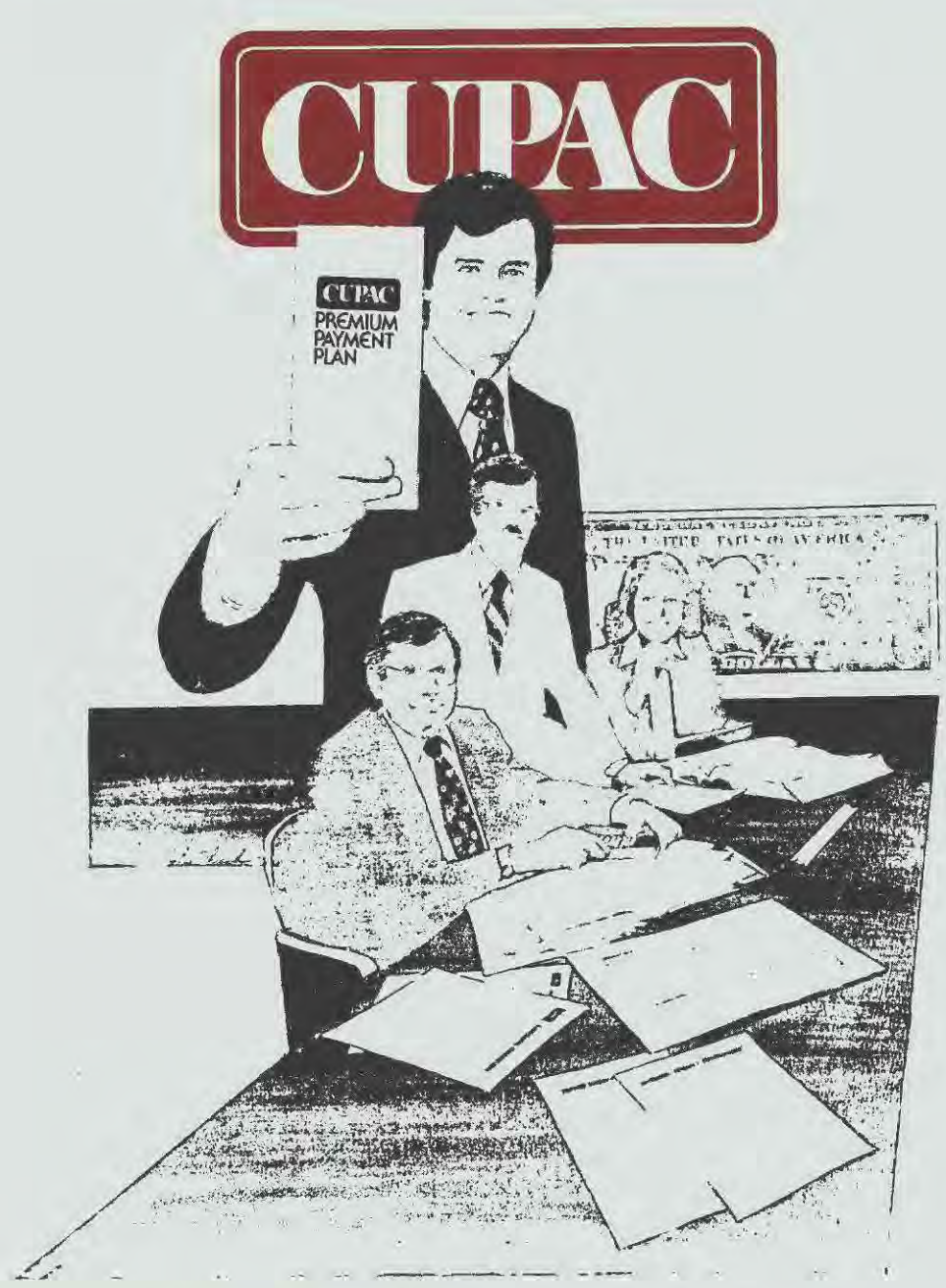

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Change in offsets sought

Continued from page 1

• Continuing to increase Social Security benefits automatically to match inflation.

The commission also reaffirmed support for other Social Security changes recommended in its first interim report this spring (*BI*, May 12).

They are:

• Removing the earnings level limit that bars some employees working after age 65 from receiving full Social Security benefits.

• Taxing Social Security benefits but making the contributions tax deductible.

The recommendations made last week will be the commission's last until it submits its final report to Congress and President-elect Reagan in February.

The 10-member commission is in the home stretch of a two-year study to develop a national retirement income policy mandated by President Carter in 1978.

But much work remains before the commission crosses the finish line. For example, the staff is still completing studies on the cost of faster vesting and mandatory private pensions before recommendations are made in these controversial areas.

Commission chairman C. Peter McColough, chairman of the board at Xerox Corp., says long-term problems threaten the ability of the $140 billion Social Security system to deliver promised benefits.

"Corrective action must be initiated in the near future," Mr. McColough warned.

The most significant proposal is the suggestion that offset limits be reduced, forcing employers to contribute more from the corporate piggy bank for pension benefits.

Experts advocate integration formulas to ensure Social Security and pension benefits are coordinated to reach a benefit target level. Without integration, a retired worker collecting growing Social Security benefits and private pension benefits could earn more than when he was on the job.

But commission chairman Mr. McColough worries some offset arrangements may go too far and "do not provide the best mix of Social Security and employee pension benefits for low- and moderate-income workers."

Under the tax law, up to 83% of an employee's pension benefit can be offset by Social Security. However, most employers offset at a 50% rate.

A Bankers Trust Co. survey released this month shows 89% of plans that base benefits on an employee's final pay are integrated (*BI*, Nov. 17).

Some pension experts agree reform of offset rules may be necessary to boost retirement income for lower-income workers.

"The amount of integration that is permissable is excessive," said Edith Fierst, staff adviser on retirement income for the White House Interdepartmental Task Force on Women.

"There is some justification for changing integration formulas so that lower-paid workers receive more retirement income," agreed Lloyd Kaye, vp at consultant William M. Mercer in New York.

But Dallas Salisbury, executive director of the Employee Benefit Research Institute, cautions that "if you are going to have private plans . . . you need integration."

He points out that most employers already have moved away from integration formulas that have come under the greatest criticism.

In another significant recommendation, the commission says the age at which a worker could retire and receive full Social Security benefits should be increased to 68 from 65 over 12 years beginning in 2000.

Raising the retirement age could head off a financial crisis when the "baby boom" generation retires next century and must be supported by a smaller pool of workers.

Many pension experts enthusiastically support the higher retirement age as a partial solution, but some are wary.

"It is the single most important thing that will help Social Security financially," said Mr. Kaye.

"It's realistic because people are working longer now anyway," added Mildred Krasnow, executive director of the Bergen County (N.J.) Office on Aging.

But EBRI's Mr. Salisbury worries that raising the Social Security retirement age could reduce confidence in the program.

And Henry Aaron, senior fellow at the Brookings Institution, an advocate of a higher Social Security retirement age, warns "that it would be a mockery to raise the retirement age if the jobs (for older workers) are not there." ■

Comp pool proposals criticized

Continued from page 3

per group member," Mr. Roadman said. "Otherwise this law will be directed to the large companies and not the smaller ones that need help."

"The whole intent of the reform was to help smaller companies reduce their insurance premiums," he said. "The minimum amount of payroll per employer should also be lowered."

He said $250,000 payroll per pool member would overly restrict membership in the group.

"The amount of payroll should be lowered to $100,000 per employer," he said.

When the regulations are formally filed, the Illinois Insurance Department will explain bond requirements, standards for insurers and the types of reinsurance that must be purchased.

Employers in a pool also would be required to have similar risk characteristics—with all pools dedicated to a prefunded program where assets would equal liabilities, Mr. Smith said.

The Independent Insurance Agents of Illinois and the Illinois Assn. of Professional Insurance Agents Inc. oppose the group insurance program, saying privately that business groups don't belong in the insurance industry.

"Group self-insurance can be dangerous," said Milton Zimmerman, IIAI spokesman. "It's dealing with an individual group that may not properly adjust themselves for risks."

Ronald Keener, executive director of the IAPIA, admits "trepidation" on the part of the independent property/casualty insurance agents when it comes to group self-insurance.

"There's nothing we can do legally," Mr. Keener said. "They have a legal right to form pools."

Even more group plans are expected around the state as brokers push the group self-insurance idea to employers. The IMA estimates a group plan could cut 15% off the cost of workers compensation insurance.

Mr. Smith said public hearings on the proposed state regulations will be announced following the publishing of the new proposed rules in the Illinois Register. After the hearings, the requirements for group self-insurance will be amended or left as they are, he said. ■

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THE SPECIALISTS

Reagan, Carter clash on Social Security

Continued from page 1

so they could build up a better work record. The Carter commission rejects and Social Security "homemaker credits."

• Phasing out the extra benefit for the nonworking spouse of a person who has retired on Social Security. Currently, an eligible spouse receives a monthly benefits payment equal to 50% of the worker's benefits even if the spouse never worked.

Mr. Reagan's task force believes this should be phased out because more women are working. The Carter commission does not address this as a solution.

Members of Mr. Reagan's task force could not confirm or deny these proposals have been made. The members are identified below.

But the members stress that any current proposals are only tentative and may be changed before being submitted to Mr. Reagan.

It is unclear what impact the recommendations President Carter's commission will deliver to Mr. Reagan in February will have on the new administration.

Reagan task force member Robert J. Myers, former chief actuary of the Social Security Administration, told *Business Insurance* the Carter commission's final report will be looked at closely, but it is impossible to predict what impact it will have on the new adminstration.

The Reagan panel reportedly has not reached a decision on whether the limits for offsetting pension benefits with Social Security should be lowered.

But Mr. Myers is against changing integration limits. "They are not unfair," he said. "What counts is the total benefits."

Mr. Myers said he is a longtime advocate of raising the Social Security retirement age. "With people living longer, they also should work longer," he said.

He also advocates universal Social Security coverage. Mandatory coverage would eliminate the "windfall" benefits for employees who work for private employers and then join the federal Civil Service. Currently, federal employees are excluded from Social Security coverage. The Reagan panel reportedly agrees federal employees should participate in Social Security. ■

Task force established

WASHINGTON—President-elect Ronald Reagan has set up an 11-member advisory task force to recommend action to keep the Social Security system financially sound.

The members are:

• **Rita Ricardo Campbell,** panel chairman, a fellow at the Hoover Institution, a conservative think tank in Palo Alto, Calif. She is the author of "Social Security—Promise and Reality."

• **Michael Boskin,** a professor of economics at Stanford University in California.

• **Colin Campbell,** an economics professor at Dartmouth College in Hanover, N.H. He has written extensively on Social Security issues for the American Enterprise Institute, a conservative research organization.

• **Mary C. Falvey,** a former analyst with security firm Blythe, Eastman, Dillon, Paine, Webber Inc.

• **Robert Kaplan,** dean of Carnegie Mellon University's Graduate School of Industrial Administration in Pittsburgh.

• **Robert Myers,** of Silver Spring, Md., the former chief actuary of the Social Security Administration.

• **Morton Miller,** a former actuary with The Equitable Life Assurance Society.

• **Walter Oi,** a professor of economics at the University of Rochester.

• **Sherwin Rosen,** a professor of economics at the Unviersity of Chicago.

• **Richard Rosett,** dean of the Graduate School of Business at the University of Chicago.

• **Agnes Waldroon,** a member of the Republican Senate Policy Committee. ■

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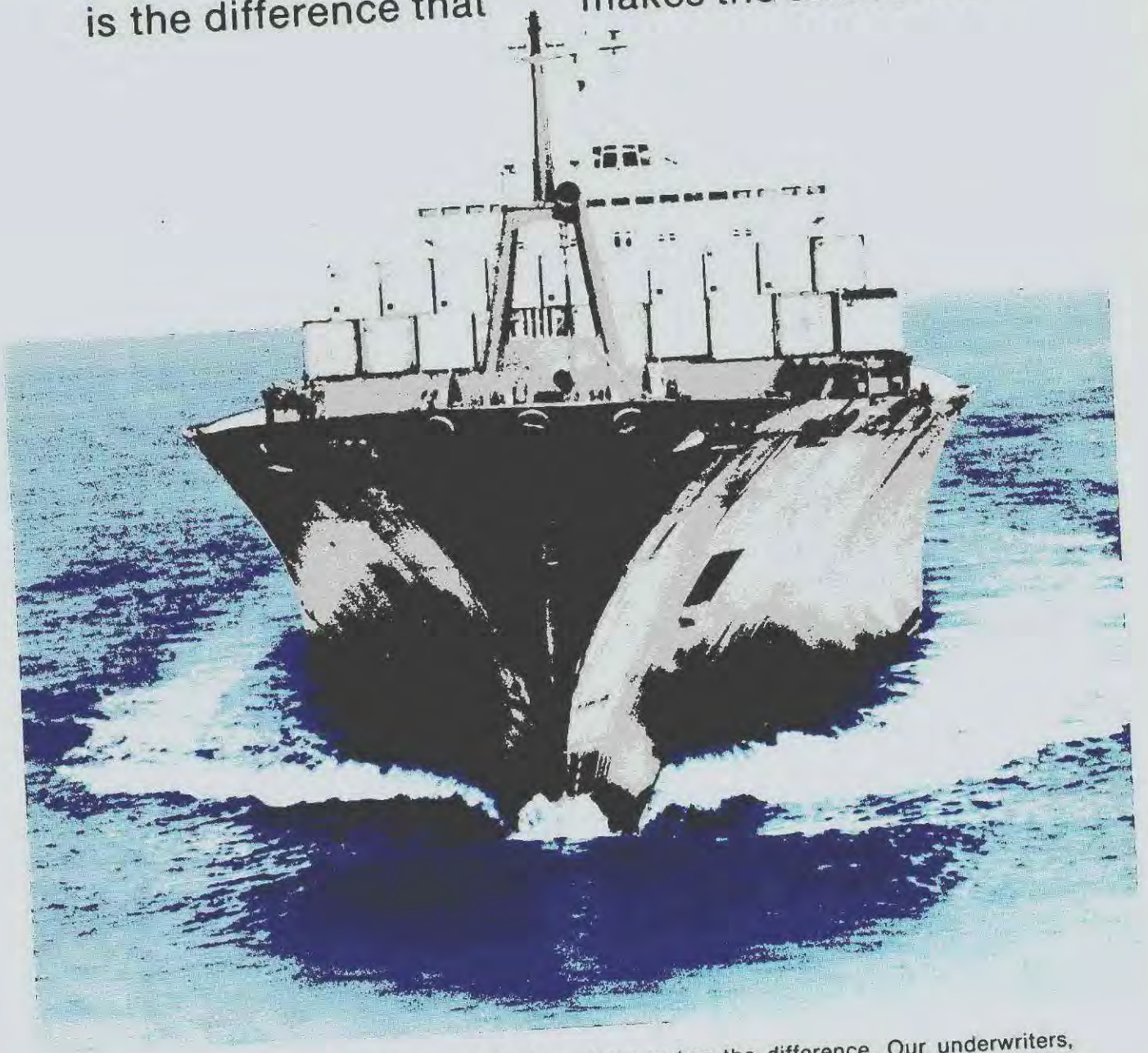

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Firms await waste rules

Continued from page 2

The compromise bill would create a $2.7 billion fund to clean up the sites and spills over five years. The bill originally recommended by the Senate committee would provide a $4.2 billion fund over six years. Industry would pay 88% of the costs under both proposals.

The House bill, which has already passed and is waiting for conference committee action if the Senate passes its legislation, calls for a $1.2 billion fund, with the chemcial industry paying 75% of the cost.

Although chances for a compromise in the lame duck session looked good a few months ago—and the bill was listed as one of President Carter's priorities before year-end—supporters of the legislation now say they see critics getting tougher, particularly members of the chemical industry.

Rep. James Florio (D-N.J.), one of the prime movers behind the superfund legislation, told reporters last week the industry can expect a "more sympathetic ear" in Washington with the coming of a Republican Senate and the Reagan presidency.

Chemical manufacturers that had earlier supported the House bill as the best compromise now are trying to delay passage of any bill until next session, he said. Industry support of any measure is crucial to it being passed, he added.

While the chemical industry is fighting the superfund bill, some of its members also have joined together in suits to block implementation of the new EPA regulations governing the treatment and disposal of hazardous wastes.

The suits filed by 87 companies and trade associations have been consolidated into one action in the U.S. Court of Appeals in Washington. Most of the suits are seeking a stay of the regulations until the litigation is settled, which some observers say could take up to two years.

The regulations establish more than 500 chemical byproducts that are said to be hazardous and set standards for identifying others. They also impose detailed reporting requirements on companies that generate, transport or treat hazardous wastes.

The EPA now projects Nov. 28 as the earliest the regulations will be completed.

Among the issues addressed by the regulations is where the hazardous wastes will be dumped. Some EPA officials have said that up to 90% of the dumping is done improperly.

But a report recently released by the EPA maintains there are enough dump sites around the country to handle the expected 43 million tons of hazardous wastes next year.

The report concurs with earlier EPA statements that although there are plenty of dump sites nationwide, some parts of the country have plenty and others have only a few.

Chemical companies in the Northeast, for instance, often have to ship their wastes halfway across the country to a suitable dump site, it said. ■

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Withdrawals threaten N.Y. health plan

Continued from page 1
leave and many upstate counties leave, the state plan will collapse," predicted James Patterson, Suffolk County insurance manager.

Thomas McCracken, acting director of the New York State Civil Service Health Insurance Plan, disagrees, but says many upstate participants could get better deals by being insured locally by Blue Cross & Blue Shield. State plan rates will rise 18% in January and 25% to 35% next July.

The state plan includes 447,000 state employees and more than 1,400 county, village, school district and other public agencies. In the past, the pooled experience meant lower-priced coverage.

Recently, upstate public entities charged they were paying to subsidize the higher hospital and medical bills of civil service workers in New York City and its suburbs. However, the state plan refused to release experience data.

Mr. McCracken says state law requires the plan to use uniform experience figures. That prevents the plan from releasing experience data to member agencies.

Mr. McCracken, however, intends to examine this situation to see if changes are necessary.

His predecessor, Sam D. Freeman, now with Bache, Ter-Bush & Powell Inc. of Schenectady, told *Business Insurance* there was nothing to prevent the plan insurers from releasing data. But it was not in their best interest (*BI*, Jan. 21).

Since December 1976, eight upstate counties—Chenango, Essex, Hamilton, Onondaga, Rensselaer, St. Lawrence, Warren and Washington—and numerous school districts and municipalities have withdrawn from the plan. Most of these entities chose self-insurance or bought coverage locally from Blue Cross & Blue Shield.

Westchester County's new program will be insured with Blue Cross & Blue Shield of Greater New York Inc. The plan's benefits are identical to those offered by the state plan.

Monthly rates under the new plan will be $31.02 for individuals and $77.56 for families. Had the county remained with the state plan, in January it would have paid $31.71 and $79.32, respectively. In July, the county would have been hit with an additional 30% increase, Mr. Bieber says.

By switching insurers, Westchester will obtain loss experience reports for the first time. "Without loss experience data, we had no way to justify whether increases were warranted," Mr. Bieber said.

The new plan is experience rated.

With loss experience runs, Westchester can begin analyzing the feasibility of self-insuring, he adds.

Lack of data also is hindering Suffolk County's plans for self-insurance (*BI*, July 7). The county legislature last week heard presentations of self-insured and insured group health proposals.

Suffolk probably will decide within a month whether it will remain in the state plan or go self-insured, says assistant insurance manager Michael Natale.

If it stays, it would try to develop experience figures by having claims submitted first to its offices or to a consultant, Mr. Natale says.

Nassau County will not leave the state health plan now, but "a 30% rate hike (in July) would break the camel's back," said Douglas MacLeod, director of real estate and insurance.

"We're certainly looking at our options, but we're not going to jump off the rock," Mr. MacLeod said. He anticipates no changes before July 1981 and probably not before 1982.

Nassau has 22,000 employees and an annual health insurance bill of $20 million.

Of the upstate counties considering leaving the state health plan, Schenectady County is closest to pulling out. Its board of representatives approved a plan to go self-insured in 1981, but that is subject to approval of two unions negotiating contracts, says Albert Shapiro, commissioner of finance.

Self-insuring the county, which has 1,100 employees, would save $250,000 annually because charges at area hospitals are less than in other parts of the state, Mr. Shapiro says. The county was considering self-insurance even before the state health plan announced its rate hikes last September.

Putnam County risk manager Philip Campbell and Rockland County insurance administrator Eugene Stetz say they are in the early stages of studying self-insurance and other alternatives to the state plan.

Orange County is considering leaving the state plan, too, says an aide to risk manager Don Kestor.

The 18% increase in state insurance plan rates follows a 12.8% reduction last year (*BI*, Nov. 26, 1979). Critics of the state plan, including Mr. Bieber, had predicted the reduction was a "one-shot deal" that would be followed by major increases in 1981.

Last year's rate reduction resulted from favorable experience and unusual recoveries from two legal actions, Mr. McCracken says.

The 1981 rate increases reflect higher-than-anticipated inflation and dramatically higher utilization of medical/surgical and major medical benefits provided by Metropolitan Life Insurance Co., he explains. Blue Cross of Northeast New York provides hospital coverage.

In a related matter, the New York Supreme Court ruled the Syracuse School District did not have to repay a 1977 loan of $405,000 from the state health plan.

It ruled that a reduction in state aid that year, by a like amount, in effect repaid the loan, says Robert Jenkins, the school district corporation counsel. The school district left the plan in January.

Similar loans were made to other school districts and government entities with the provision they had to be repaid if they withdrew. The court ruling will make it easier for them to leave the plan, too.

The state says it probably will appeal the ruling. ■

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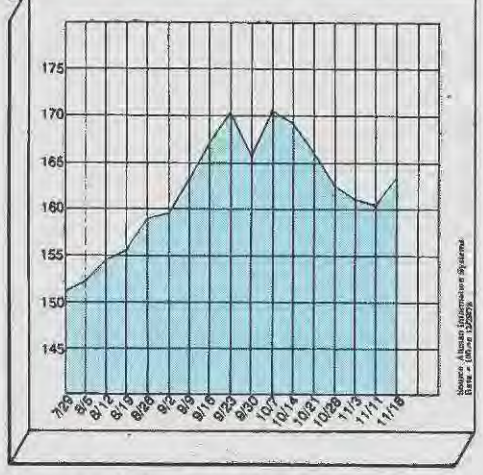
BI Insurance Index



Insurance industry stock rebounded slightly when a short downward spiral ended last week. The *Business Insurance* index rose 2.6 points to 163.4, reflecting an average increase of 1.6%. The base of 100 was at year-end 1978. Thirty-six stocks rose, 22 dropped in price and 13 were stable. Showing the largest increases were Integon Corp., 26.7%; Carolina Casualty Insurance Co., 16.2%; First Colony Life Insurance Co., 13.1%, and Hartford Steam Boiler Inspection Co., 12.3%. Jefferson National Life Insurance Co. showed the biggest drop, declining 30.8%. The small overall increase fell short of most major stock market indicators, which rose about 6% overall.

British Issues

11/18 Companies	Price pence	P/E	Div. pence	Yield %	1 Week High—Low pence	pence
Comml Union	146	7.7	14.63	10.0	156—146	
Eagle Star	262	8.7	14.28	5.5	266—262	
Genl Accident	334	8.6	18.24	5.5	342—332	
Gdn Royal Exch	324	8.5	20.71	6.4	330—322	
Phoenix	262	7.3	20.00	7.6	262—250	
Royal	420	9.8	32.17	7.7	430—418	
Sun Alliance	762	9.8	42.14	5.5	766—752	
Brokers						
CE Heath	188	9.4	13.80	7.3	187—185	
Hogg Robinson	125	9.2	8.14	6.5	123—122	
Alex Howden	100	8.3	10.00	10.0	99— 98	
JH Minet	101	12.2	6.45	6.4	102— 98	
Sedg Grp	126	11.5	7.14	5.7	129—126	
Stenhouse Hldg	88	8.1	6.46	7.3	87— 86	
Stew Wrightson	216	9.0	17.14	7.9	217—215	
Willis Faber	278	12.3	16.14	5.8	277—275	

Source: Philip Olsen/Alan Clifton, Insurance Industry Specialists Kitcat & Aitken Stockbrokers, London

Underwriting experience lags behind expectations

By MYRON PICOULT

ALL OF THE companies in our property/casualty universe have reported their third-quarter and nine-month figures. There was some good news and some bad news.

The bad news was that underwriting experience was a little worse than expected, reflecting severe weather-related losses, self-inflicted reserve strengthening in some cases and slower premium growth that affected both the loss and expense ratios. This will result in some shaving of earnings estimates for both 1980 and 1981.

Picoult

The good news is that investors didn't seem to care about the results and, hopefully, the deterioration in underwriting experience should bring about a bottoming of the cycle sooner rather than later.

Net premiums continued to slow and a few commercial insurers even posted third-quarter declines. This reflects attempts to avoid inadequately rated business as well as the impact of the soft rate environment in preceding months. For our universe of companies, written premiums during the third quarter rose 5.7%, bringing the nine-month gain to 7.2%. Net investment income growth, as expected, also slowed, reflecting some paring of cash flows and smaller yield spreads vs. levels a year ago.

Our screen showed a 17% increase in investment income for the third quarter, which compared with increases of 21.5% for both the first and second quarters. Hence, at the end of nine months, investment income is up 19.5% over the 1979 nine-month period. Finally, the underwriting ratios also slipped, as expected.

Overall, the firms produced a third-quarter combined ratio of 102.3% compared with 99.6% a year ago. However, if the companies with heavy personal lines exposures are segregated, the combined ratio averaged out to 104% compared with 101.5% in the 1979 third quarter.

It is interesting to note that three-fourths of the commercial writers in our universe were in a loss position at a level above the average. The comparable nine-month comparisons were about 103% and 100.5%.

Fundamentally, we remain most positive on the industry's long-term fundamentals and believe that as 1981 progresses, there will be recognition of the industry's earning power, dividend growth and favorable relative return on equity and relative price to book value comparisons vs. the S&P 400.

The near term outlook for the stocks is clearly being affected by fears of a repeat of the 1974-75 underwriting debacle and the lackluster performance of the stocks, which has disenchanted performance-minded portfolio managers. To be sure, the industry's articulation about the competitive environment is partly responsible for the current malaise.

Over the past few weeks, in meetings with industry analysts and quarterly reports to shareholders, companies have gone to great lengths to talk about the difficult competitive environment in the commercial lines arena. While there is unanimity that the competitive environment is sloppy, it is always "the other guy" who is the ratecutter.

Specifics on who the violators are (big or small/stock or mutual) and to what extent the alphabet brokers are contributing to the situation are scarce. Queries as to why one doesn't take a firmer stand on pricing are met with an exacerbated sigh.

When pressed, insurers cannot provide any framework for what their tolerance for pain is—pain being defined as loss of premiums or underwriting losses. If companies do not have a frame of reference, how can the management teams judge what levels of ratecutting are irrational?

From another viewpoint, it would be helpful to surely know "who's in charge here" before the industry starts losing its investor appeal.

Myron M. Picoult is a vp and senior insurance analyst with Oppenheimer & Co. in New York. He is the current president of the Assn. of Insurance & Financial Analysts and a member of the New York Society of Security Analysts. His monthly column for Business Insurance appears the fourth Monday of every month.

BI ticker

Financial briefs

Commercial Union

Commercial Union Insurance Cos. lost $58.4 million on its underwriting results during the first nine months of 1980, compared with a $33.1 million loss during the same period in 1979. The company's combined ratio grew to 104.9% from 103%.

Operating income for the nine months fell 25% for the Boston-based insurer, to $35.5 million from $47.1 million, while net investment income increased to $93.8 million against last year's $80.2 million.

Written premiums for the company's U.S. property/casualty operations grew 13% to $835.4 million from $741.8 million, while earned premiums increased 13.4 % to $757.5 million.

Interstate

Interstate Insurance Group reported a statutory underwriting loss of $432,000 during the first nine months of 1980, compared with a profit of $1.4 million in 1979. Earned premiums grew 1%, to $26.2 million from $25.7 million.

Net adjusted income increased 22% to $5.2 million from $4.2 million, while investment income went up 23% to $4.6 million from $3.7 million.

The company's combined ratio climbed to 102.4% from last year's 93.3%.

Interstate, a Chicago-based specialty and excess lines insurer, is also parent of George F. Brown & Sons. It is currently being pursued for acquisition by Fireman's Fund.

An offer has been made but the acquisition is "in limbo," a spokesman said.

Kemper

Kemper Corp. reported operating income grew 0.4% during the first nine months of the year, to $62.1 million from $59.7 million. Operating income for the third quarter was $19.2 million, down 16% from 1979's $22 million.

Revenues for the nine months totaled $1 billion, a 17% increase over sales of $873 million for the first nine months of 1979.

Operating income for the property/casualty companies increased 2% during the nine-month period to $38.1 million from $37.4 million. Losses from Midwestern windstorms were blamed for an adverse effect on third-quarter results.

Operating income for Kemper Reinsurance Co. and its subsidiaries was $13.5 million, an increase of 31% from the $10.3 million earned in the first nine months of 1979. Revenues increased 10% to $95.6 million.

Zurich

Zurich Insurance Co. of Switzerland has broken off talks to acquire Jefferson National Life Insurance Co. of Indianapolis. In September, Zurich had agreed in principle to pay $73 for each of 1.3 million outstanding shares of Jefferson National, or a total of about $97 million. The transaction had been subject to a written agreement and regulatory and shareholder approval.

The life and health insurer recently reported a 29% decrease in third-quarter net income, to $3.2 million from $4.45 million, a drop company officials said could have caused the merger talks to break down. ■

BI Industry Stock Report

NOV. 18, 1980 — 11/12/80 THRU 11/18/80

Insurance Cos.		Price	% Chg.	P E	$ Div.	%Yld.	High	Low	Vol. (000)
Aetna Life & Cas Co	NYSE	36.00	-0.3	5.4	2.12	5.9	36.88	36.00	695.7
American Bankers Ins Co Fla	OTC	6.87	-1.8	13.5	0.44	6.4	7.13	6.88	64.3
American Finl Corp Ohio	OTC	22.00	10.0	4.1	0.50	2.3	22.00	21.00	178.8
American Gen Ins Co	NYSE	36.00	-0.3	5.7	1.00	2.8	36.50	36.00	261.1
American Indty Finl Corp	OTC	15.50	0.0	5.1	1.12	7.2	15.50	15.50	6.8
American Intl Group Inc	OTC	73.00	3.5	10.3	0.50	0.7	73.00	72.25	188.9
American Natl Ins Co	OTC	13.50	4.9	5.6	0.68	5.0	13.50	13.00	66.4
American Sts Life Ins Co	OTC	19.50	0.0	8.1	0.64	3.3	19.50	19.00	4.4
Aneco Reins Ltd	OTC	5.25	0.0	0.0	0.00	0.0	5.25	5.13	47.9
Appalachian Natl Corp	OTC	2.12	0.0	6.1	0.05	2.4	2.13	2.13	14.0
Avemco Corp	AMEX	9.00	0.0	7.8	0.50	5.6	9.00	8.75	9.3
Banks Iowa Inc	OTC	26.50	0.0	4.2	1.32	5.0	26.50	26.50	2.5
Bitco Corp	OTC	37.50	7.1	6.0	1.68	4.5	38.00	37.00	10.6
Carolina Cas Ins Co	OTC	10.75	16.2	3.9	0.32	3.0	10.75*	10.25	5.3
Central Natl Finl Corp	OTC	11.00	0.0	4.3	0.50	4.5	11.00	11.00	0.4
Chubb Corp	OTC	37.75	-0.7	4.8	2.40	6.4	38.38	37.75	134.1
Combined Intl Corp	NYSE	17.50	-1.4	5.1	1.60	9.1	18.25	17.50	134.3
Connecticut Gen Ins Corp	NYSE	47.37	0.3	6.5	1.52	3.2	49.75	47.38	137.3
Continental Corp	NYSE	24.50	-0.5	5.2	2.20	9.0	25.75	24.50	366.0
Crawford & Co	OTC	19.50	4.0	15.3	0.48	2.5	19.50*	18.75	23.5
Crown Life Ins Co	OTC	87.00	-11.2	63.0	2.40	2.8	98.00	80.50	16.0
Crum & Forster	NYSE	27.50	-1.8	5.1	1.44	5.2	28.25	27.50	203.5
Employers Cas Co	OTC	40.00	0.0	6.6	1.20	3.0	40.00	40.00	5.1
Equifax Inc	NYSE	23.75	2.7	7.8	2.40	10.1	23.75	23.13	10.8
Farmers Group Inc	OTC	28.25	-1.7	8.9	1.00	3.5	28.88	28.13	124.5
First Colony Life Ins Co	OTC	34.50	13.1	12.7	0.80	2.3	34.50*	32.00	10.4
Foremost Corp Amer	OTC	20.38	0.0	7.3	0.60	2.9	20.50	20.38	3.6
General Reins Corp Del	OTC	49.75	0.0	7.2	1.40	2.8	49.75	49.75	156.5
Great West Life Assurn Co	OTC	200.00	5.3	9.9	8.00	4.0	200.00*	190.00	0.0
Hanover Ins Co	OTC	46.75	0.5	4.3	0.72	1.5	47.50	46.75	25.6
Hartford Steam Boiler Inspctn	OTC	36.50	12.3	7.6	2.40	6.6	36.50*	35.00	24.1
Integon Corp	NYSE	35.63	26.7	12.7	0.52	1.5	35.63*	31.00	950.9
Jefferson Natl Life Ins Co	OTC	44.62	-30.8	16.4	0.64	1.4	66.00	42.00	43.1
Kemper Corp	OTC	31.50	1.2	4.6	1.40	4.4	31.88	31.50	51.4
Lincoln Natl Corp Ind	NYSE	39.50	-0.9	5.5	3.00	7.6	40.25	39.50	96.2
Mgic Invt Corp	NYSE	30.13	0.4	8.5	1.12	3.7	30.75	29.50	446.1
Mission Ins Group Inc	NYSE	36.00	7.1	7.4	0.80	2.2	36.00	32.75	86.5
Nationwide Corp Ohio	OTC	19.75	-0.6	5.0	0.66	3.3	19.75	19.75	3.3
Nn Corp	OTC	58.00	11.8	12.0	2.00	3.4	58.00*	51.88	87.9
Northwestern Natl Life Ins	OTC	26.37	-7.5	5.7	1.25	4.7	29.50	26.13	76.8
Ohio Cas Corp	OTC	34.00	-2.9	5.5	1.76	5.2	35.13	34.00	216.6
Old Rep Intl Corp	OTC	15.75	0.0	3.9	0.92	5.8	16.38	15.75	80.4
Pinehurst Corp	OTC	5.87	-2.1	10.9	0.00	0.0	6.00	5.88	28.4
Preferred Risk Life Ins Co	OTC	18.75	-1.3	6.8	0.64	3.4	19.00	18.75	15.0
Provident Life & Acc Ins Co	OTC	41.50	5.1	5.4	1.88	4.5	41.50	40.00	28.4
Republic Natl Life Ins Co	OTC	23.75	0.0	13.2	0.70	2.9	24.00	23.75	121.8
Ryan Ins Group Inc	OTC	29.25	5.4	8.8	0.12	0.4	29.25*	28.50	2.7
St Paul Cos Inc	OTC	37.12	2.8	5.0	2.32	6.2	37.13	36.88	324.4
Safeco Corp	OTC	36.00	-0.3	5.5	2.00	5.6	36.63	36.00	130.3
Sri Corp	OTC	27.00	5.9	5.0	1.20	4.4	27.00*	25.75	42.4
Seibels Bruce Group Inc	OTC	22.37	0.6	3.9	0.80	3.6	23.25	22.38	50.9
Statesman Group Inc	OTC	6.00	-2.0	4.5	0.15	2.5	6.00	6.00	8.9
Tokio Marine & Fire Ins Co	OTC	151.12	-1.2	16.7	1.03	0.7	152.75	151.13	7.3
Travelers Corp	NYSE	43.37	9.1	4.9	2.48	5.7	43.38	41.13	305.7
United Fire & Cas Co	OTC	29.50	-1.7	8.1	0.90	3.1	30.00	29.50	0.5
United States Fid & Gty Co	NYSE	42.50	2.4	4.8	2.80	6.6	43.25	42.50	165.6
United Svcs Life Ins Co	OTC	16.50	0.0	6.0	0.96	5.8	16.50	16.38	33.7
Uslife Corp	NYSE	20.38	3.8	5.1	0.72	3.5	20.50	19.75	467.4
Washington Natl Corp	NYSE	38.75	6.2	8.0	1.50	3.9	39.00	35.00	86.0
Zenith Natl Ins Corp	OTC	15.50	1.6	8.2	0.50	3.2	15.50	15.25	15.7
INSURANCE COMPANIES	AVERAGE			7.2		3.8			
Agents/Brokers									
Alexander & Alexander Svcs	OTC	30.00	0.8	9.8	1.64	5.5	30.25	30.00	112.3
Baldwin & Lyons Inc	OTC	30.00	0.0	5.6	0.80	2.7	30.00	29.75	7.5
Corroon & Black Corp	NYSE	24.00	5.5	9.7	1.72	7.2	24.00	23.00	20.1
Crump E H Cos Inc	OTC	13.75	-3.5	12.0	0.36	2.6	14.13	13.75	44.5
Hall Frank B & Co Inc	NYSE	23.75	-7.3	8.1	1.54	6.5	25.38	23.75	56.5
Integrated Res Inc	AMEX	21.00	11.3	10.5	0.00	0.0	21.00	19.25	92.4
James Fred S & Co Inc	NYSE	23.75	2.2	9.0	1.60	6.7	24.00	23.75	55.4
Marsh & Mclennan Cos Inc	NYSE	30.63	-1.2	9.7	1.80	5.9	32.38	30.00	185.9
Penncorp Fincl Inc	NYSE	7.12	-6.6	5.2	0.16	2.2	7.50	7.13	286.0
Reed Stenhouse Cos Ltd	OTC	11.25	4.7	9.5	0.56	5.0	11.63*	10.75	5.6
Rollins Burdick Hunter Co	OTC	22.75	7.1	10.3	1.24	5.5	22.75	21.50	18.7
AGENTS/BROKERS	AVERAGE			8.6		4.8			
Conglomerates/Holding Cos.									
American Express(Fireman's Fd)	NYSE	35.88	3.6	7.0	2.00	5.6	36.00	35.13	555.7
Anderson Clayton(Ranger/PanAm)	NYSE	23.00	-1.1	6.1	1.20	5.2	24.25	23.00	57.9
City Investing Co. (Home Ins.)	NYSE	24.88	-0.5	5.6	1.50	6.0	25.88	24.88	417.2
CNA Finl Corp (CNA)	NYSE	18.50	3.5	5.1	0.00	0.0	18.75	18.38	51.4
Control Data (Comml. Credit)	NYSE	75.50	13.7	9.7	0.60	0.8	75.50	70.00	716.7
INA Corp (Ins. Co. of NA)	NYSE	39.13	1.3	5.6	2.20	5.6	39.13	38.13	401.1
ITT (Hartford Group)	NYSE	31.88	3.7	6.1	2.60	8.2	32.88	31.25	1,091.4
Reliance Group Inc	NYSE	69.75	2.4	2.7	3.00	4.3	70.38	69.50	19.8
Sears Roebuck & Co. (Allstate)	NYSE	16.13	1.6	7.8	1.36	8.4	16.38	15.88	2,624.8
S & H Co. (Bayly Martin & Fay)	NYSE	20.00	25.0	9.9	1.00	5.0	20.75*	16.25	81.3
Teledyne Inc (Argonaut)	NYSE	202.75	1.9	9.0	0.00	0.0	203.00	199.38	248.0
Transamerica Corp (Occidental)	NYSE	19.00	4.1	5.3	1.28	6.7	19.13	18.75	294.4
CONGLOMERATES/HOLDING COS.	AVERAGE			6.2		2.9			

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