WEEK OF NOVEMBER 2, 1981

business insurance®

the national newsweekly of loss prevention, risk financing & benefit management/$1 a copy; $30 a year

update:

Senate panel OKs cuts in longshore benefits

WASHINGTON—A Senate panel last week approved legislation, S. 1182, to cut benefits and reduce the scope of the costly and controversial federal Longshoremen's and Harbor Workers' Compensation Act.

On a 5-4 vote, the Senate Labor subcommittee agreed to limit future benefit increases payable under the program to 3% a

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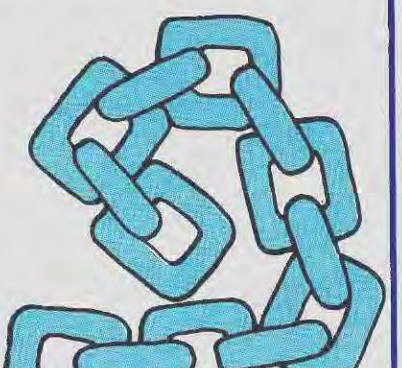
Reinsurance

The links that bind your risk



Spotlight Report
Pages 17—42

This week, *Business Insurance* looks at the hotly competitive reinsurance business, the international financial chain that supports U.S. and international risks passed on by local insurers.

Though few corporate insurance buyers know this marketplace well, reinsurers help set the pace for rate competition among policy-issuing insurance companies and help provide the multimillion-dollar insurance capacity needed for escalating property and liability risks.

Though still strong and growing, the reinsurance chain is showing its own signs of stress as Associate Editor John W. Milligan reports. Rising losses, cash-flow underwriting and new competitors may be taking their toll. **Page 17.**

In the special aviation branch of the market, the trouble has already arrived and London correspondent Stacy Shapiro says market sources predict the market will shrink by about 20%, raising rates around the world. **Page 25.**

Hearing horror stories about insolvencies and unpaid claims, state regulators have also "discovered" the reinsurance market and are considering requiring more information about financial backing and capital before approving reinsurers to write agreements in their states. **Page 28.**

Reinsurers and intermediaries that match insurance companies with willing reinsurers also fear upsets in the industry and question the security, stability and expertise of new foreign reinsurance companies and captive reinsurers. **Page 33.**

Benefit managers cool to pension contributions

By LORRIE GAWLA

President Reagan's idea of giving employees tax breaks for contributing to company-sponsored pension plans is headed nowhere unless employee benefit managers change their minds, the most recent *Business Insurance* Employee Benefit Board survey shows.

And the president, who is looking for ways to boost the economy with incentives for more capital investments, should not expect corporate America to smooth the way for employees to set up Individual Retirement Accounts either.

The majority of the respondents to the Employee Benefit Board survey show little initial enthusiasm for the provisions in the Economic Recovery Tax Act of 1981 that allow employees to take tax deductions for contributions of up to $2,000 to company-sponsored pension plans, IRAs or a combination of the two.

They say voluntary contributions to corporate pension plans would mean too much new administrative work and too few benefits to the company. Others point out that the new saving options threaten participation in current company thrift or savings plans.

Still others say that saving for retirement is a matter of personal choice, and the company that takes on the job of investing the employees' voluntary contributions sets itself up for lawsuits when the contributors are not pleased with the earnings.

These same fears are making the employee benefit managers reluctant to even help employees set up IRAs through payroll deductions. Most would encourage employees to take advantage of the new tax laws by setting up on their own IRAs with no connection to the corporation.

Coloring this early negative reaction to this portion of the law, which was signed by Mr. Reagan in August and takes effect in January 1982, however, may be fear of the unknown. Repeatedly, the survey respondents said it is too early to know how their companies will respond to the new law, they are

Continued on page 66

employe benefit board

No rush to alter plans

	Yes	No	Maybe
Employers should offer employees the opportunity to contribute to the corporate-sponsored pension plan.	45%	49%	—
Company will set up the procedures to allow employee contributions.	13%	49%	36%
Employees should set up IRAs instead of making voluntary contributions to corporate pension plans.	43%	23%	26%
Company will make IRA available to employees through payroll deduction.	25%	47%	6%
Benefit communications circulated to explain new savings options.	2%	98%	—

Ohio ready to vote on comp competition

By EILEEN NORRIS

COLUMBUS, Ohio—Some of the nation's major insurance companies are spending about $6 million to try to convince Ohio voters that insurers should be able to sell workers compensation insurance in the state.

And those opposing a competitive environment have spent almost $1 million to keep the insurers out.

At issue is an amendment to the state's constitution that, if approved, would allow private insurers to write workers compensation coverage in the state. Ohio is the only industrial state where the mandated coverage is exclusively underwritten by a state fund.

The Ohio Committee for Free Enterprise Competition is the name insurers have given to their group, which is trying to get voters to cast ballots in favor of open competition.

The opposition, chiefly the AFL-CIO and the Ohio Manufacturers' Assn., which calls themselves the Ohio Committee, is working just as vehemently to defeat the amendment, slugged State Issue 1.

Few believe the issue will be approved.

But for many small and medium-sized employers and the average worker, Tuesday's vote will be based on the known vs. the unknown.

The question boils down to this: Will voters go for the exclusive state

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Yes

COLUMBUS, Ohio—"Yes on State Issue 1" says the woman answering the telephones at the Ohio Committee for Free Enterprise Competition headquarters.

It is the final week before the Nov. 3 vote and the committee still has close to $1 million to spend on television and radio advertisements, staffing telephone banks and paying leaflet distributors in this last-ditch effort to get out the "yes" vote on Issue 1.

Some 40 insurance companies are backing the cause to win the right to sell workers compensation insurance in the state, says spokesman Bob Bur-

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No

COLUMBUS, Ohio—Opponents of a competitive workers compensation insurance market in Ohio may be outnumbered in dollars—but not in supporters.

The Ohio Committee, not to be confused with the opposition that has a similar name, has the powerful state AFL-CIO, the Ohio Manufacturers' Assn., the State Chamber of Commerce and even the Ohio Council of Churches behind its cause.

There are many other groups opposed to State Issue 1 as well. All but one newspaper in the state has editorialized in favor of keeping the Ohio state

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NEWSPAPER

INSIDE:

update:

Panel approves longshore bill

Continued from preceding page

year. Currently, benefits are boosted every October to match the increase in the national weekly average wage.

The measure also would limit jurisdiction of the act to the "water's edge." Such a provision would overturn recent court decisions that have extended longshore coverage to workers who strip cargo in dockside warehouses. It also would overturn a 1979 Supreme Court decision that widows are entitled to two-thirds of the deceased workers' weekly wages without an upper limit.

Instead, the Senate legislation, proposed by Sen. Don Nickles, R-Okla., would limit survivors' benefits to 200% of the national average weekly wage, subject to a maximum of $496.

Sen. Nickles' bill now goes to the full Senate Labor and Human Resources Committee, where a vote is expected later this month.

Tax deductions in limbo

WASHINGTON—Employers hoping for legislation that would allow them to take tax deductions for self-insured loss reserves and contributions to captive insurance companies may have to wait a long time.

Rep. Gillis Long, D-La., and Rep. Richard Gephardt, D-Mo., who were reported to be ready last month to introduce legislation to amend the Internal Revenue Service Code to give corporations new tax breaks for payments to captives and self-insured reserves (*BI*, Oct. 12), still haven't decided whether they will sponsor such a bill, according to their staff aides.

Even if the Loss Reserve Deduction Committee, the coalition of risk management interests that has spent tens of thousands of dollars trying to get the bill introduced, can find a sponsor, the chances of such legislation gaining approval are slim.

For example, more modest proposals that would allow tax deductions for self-insured reserves for product liability losses were introduced in previous sessions but were unable to move out of committee because of congressional apathy and opposition from the insurance industry and the Treasury Department.

Maine considers open rating

PORTLAND, Maine—Competitive rating for workers compensation insurance in Maine is being considered by a subcommittee of the Joint Committee on Business Legislation.

Such a bill could be introduced as early as January, but the subcommittee plans to make its formal recommendation on competitive rating when it meets Nov. 24, said Bob Flewelling, a committee attorney.

Maine could become the third state, after Minnesota and Oregon, to pass legislation authorizing workers compensation insurers to use and file rates with the state insurance agency.

Under the present system, insurers must get prior approval of rates from the state.

Bichler case to be reviewed

INDIANAPOLIS—The highest court in New York state has granted a petition filed by Eli Lilly & Co., an Indianapolis-based pharmaceutical maker, to review the landmark Bichler decision.

An appellate court ruled in February that victims of DES, an anti-miscarriage drug linked with cancer, can sue manufacturers that acted in concert to market the product even if the specific manufacturer cannot be identified (*BI*, March 2).

Punitive damages dropped

RIVERSIDE, Calif.—A New York insurance company will not have to pay a $2 million punitive damage award for failing to defend or cover the losses of a California shopping guide newspaper, a California Superior Court judge has ruled.

But Judge Gerald Schulte let stand an earlier $3.2 million compensatory judgment against the Royal Globe Insurance Co. when it did not defend California Shoppers Inc. in an unfair competition suit that was brought against it.

The punitive damages were eliminated because the insurer exhibited no fraud, malice or conscious disregard for the newspaper's rights, the judge said.

California Shoppers, publisher of the Pennysaver, a shopping guide, sued Royal Globe after the newspaper was sued by a similar newspaper, alleging unfair competition.

Both California Shoppers and Royal Globe have appealed.

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Sen. Hatch wants to gut multiemployer pension law

By JERRY GEISEL

WASHINGTON—Most employers participating in multiemployer pension plans no longer would be responsible for paying the plans' massive unfunded liabilities if Sen. Orrin Hatch, R-Utah, gets his way.

Sen. Hatch, chairman of the Senate Labor and Human Resources Committee, has introduced a bill, S. 1748, that would gut the Multiemployer Pension Plan Amendments Act of 1980 and allow an employer to withdraw from a multiemployer plan without having to pay a single dollar of the plan's liabilities.

At the same time, most multiemployer plan participants no longer would have their pension benefits guaranteed by the federal Pension Benefit Guaranty Corp.

The measure was introduced as employers increase pressure on congressmen to change the current multiemployer law that imposes huge withdrawal liabilities. The employers say they did not plan on such liabilities when they joined the mulitemployer groups.

Mr. Hatch's bill would turn the clock back on multiemployer pension plans by returning to the liability system that existed before the Employee Retirement Income Security Act in 1974.

An employer's liability to the plan would once again be limited to a negotiated contribution rate hammered out between union and employer representatives at the bargaining table. That limited liability has been blamed for the plans' cur-

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Info for Buyers section planned

The Jan. 4 issue of *Business Insurance* will include a veritable card catalog of literature relating to commercial insurance concerns.

In a special editorial section, the weekly Info for Buyers column will be expanded to describe all current literature available on systems, policies, programs and products and services of interest to those in the risk management, employee benefit management and safety/security fields. The literature will be categorized so readers can turn to their areas of primary concern and free literature will be available by simply filling out a reply card.

Those interested in submitting literature to be described in this section should request fact sheets and policy guidelines by contacting Claudette Dampier, Editorial/Research Assistant, *Business Insurance*, 740 N. Rush St., Chicago, Ill. 60611; 312-649-5398. Or in New York, call Ann Vasquez at 212-210-0137. The deadline for submitting literature for this special section is Nov. 24.

Wrongful death judgment may cost suburb $5 million

By STEVE SHERWOOD

TROY, Mich.—This Detroit suburb's liability insurance may cover only $500,000 of a $5.75 million wrongful death award won by the estate of a 24-year-old man slain by Troy police.

Unless the Oct. 19 decision by the U.S. District Court for Eastern Michigan is overturned, Troy will have to pay the bulk of the award itself.

Sources say the $5.75 million verdict is the largest of its kind handed down in the federal court district and represents about 23% of Troy's annual operating budget.

As for how Troy, a city of 70,000, will raise the money if the verdict stands, City Manager Frank Gerstenecker says, "We are still uncertain of that at this point."

The city's attorney, Gerald Davis, of Livonia, Mich., says Troy "most definitely will appeal."

Although the city has liability insurance totaling $2.5 million—$500,000 primary coverage written by The Hartford Insurance Co. of Hartford, Conn., and $2 million excess umbrella coverage written by California Union Insurance Co. of Los Angeles—California Union is apparently denying coverage because of a police professional liability exclusion in its policy.

California Union, an excess/surplus lines insurer, is a subsidiary of

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Photo: The Detroit News

Officer Zavislak walks toward federal courthouse in Detroit.

errors & omissions

- The Pollution Liability Insurance Assn. mistakenly listed Aetna Life & Casualty Co. as one of its 20 members in an Oct. 12 article. Aetna Insurance Co., a subsidiary of Connecticut General, is the PLIA member.
- The Commerce Department compiled a list of the 20 laws business complained about the most; it did not take them off the books as erroneously stated in a Perspective column due to an editing error made in John Olsen's article in the Oct. 26 issue. *Business Insurance* regrets the error.

Minimum airline coverage required

By BILL DENSMORE

WASHINGTON—Some small commuter airlines may find themselves shopping for additional coverage as a result of a Civil Aeronautics Board rule requiring all U.S. and foreign scheduled airlines to carry at least $300,000 per passenger in liability insurance.

Most airlines already have liability coverage exceeding these limits. However, the rule, which goes into effect Feb. 23, adds new reporting requirements for them.

"Most of our carriers are carrying insurance that exceeds the board's minimum," said Stephen G. Smith, vp of government relations for the 150-member Commuter Airline Assn. of America. "Some are not. . .(and) some of them will have to increase their insurance."

The rule, printed Oct. 27 in the Federal Register, applies to all U.S. and foreign direct air carriers. But the nation's 4,700 on-demand air taxi services—nonscheduled operators who use small general aviation aircraft—are excluded from the $300,000 minimum. The CAB had included the taxis in an earlier draft but pulled back after industry criticism.

"This is one of the biggest rule makings we've had," said Joseph A. Brooks, a CAB attorney in Washington who helped draft the measure, "because it affects every single air carrier and it is costly."

But a *Business Insurance* survey of several aviation insurers and airlines found that the $300,000 minimum will not affect the majority of airlines, which have

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For benefits consultants

Is your company an employee benefits consultant?

Business Insurance is publishing a special listing of employee benefits consultants in our Dec. 14 issue, and you can be included.

Questionnaires already have been sent to the firms listed in our Dec. 15, 1980, issue. But any company involved in benefit consulting—retirement plans, welfare plans, preparing and informing employees of benefits, international benefits and compensation—is eligible to be listed.

For a questionnaire call or write Claudette Dampier, *Business Insurance*, 740 N. Rush St., Chicago, Ill. 60611; 312-649-5398.

Questionnaires must be returned to *Business Insurance* no later than Nov. 16.

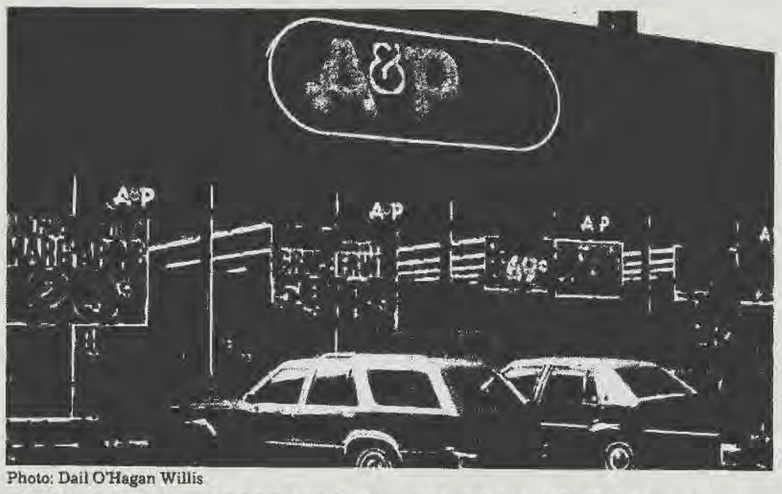

Photo: Dail O'Hagan Willis

A&P wants to invest pension fund surplus back into the company.

A&P plans to abolish defined benefit plan

Crain News Service

MONTVALE, N.J.—The Great Atlantic and Pacific Tea Co. is planning to terminate its $550 million defined benefit pension plan and replace it with a defined contribution plan.

Because the plan is overfunded, the move will allow the supermarket store chain to take back about $200 million it has contributed to the plan and use those funds to restructure the company.

A&P's move is the latest in a series of actions taken by corporations to ease the strain of pension obligations or to help themselves out of difficulties by using their pension funds. Last year Chrysler Corp. deferred pension contributions to help it out of its financial crisis, and Grumman Corp. last month used pension assets to buy its own stock to fend off an unwelcomed takeover.

According to Philip E. Hoversten, A&P's senior vp and treasurer, the present value of accumulated vested plan benefits was about $179 million as of February, while the present value of unvested benefits was about $5.9 million.

However, he said these figures were calculated using the Pension Benefit Guaranty Corp.'s interest assumption of 9%.

Because annuities returning 15% can be bought today, the actual present value of the vested liabilities is much lower, even when all employees are granted full vesting.

When the annuities are bought with the plan's $353 million in managed assets, a surplus of about $200 million will be left for company use, he said.

Mr. Hoversten said the defined benefit plan would be replaced with an entirely new defined contribution plan. Corporate contributions to the plan would be based on salary, he said, and employees would be able to contribute up to $2,000 per year on a tax-deductible basis, as allowed under the new tax law.

"There will be a completely new plan, more of a savings plan as opposed to a pension plan," he said.

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Oregon HMO is liquidated

By DONNA LEIGH YANISH

PORTLAND, Ore.—Unusually high hospital utilization for one month apparently caused reserves at Portland Metro Health Plan to dip below required levels, leading to the demise of the once successful health maintenance organization.

The acting Oregon insurance commissioner ordered liquidation of Metro Health Plan after determining the plan didn't have resources available to correct the continuing capitalization deficit, according to Lynn Pendlebury, chief insurance examiner for the State Insurance Division.

HMOs in Oregon come under the jurisdiction of the insurance commissioner because the state, unlike most others, does not have statutes specifically covering health maintenance organizations.

Employers are still waiting to hear the status of their employees' claims. Most company contracts,

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Benefits conference

Social Security losing $12,300 per minute, administrator says

By RHONDA L. RUNDLE

DENVER—"People who believe that we don't have a problem with the Social Security system are dead wrong," declares John A. Svahn, commissioner of Social Security in the Reagan administration.

The system will be broke next fall unless interfund borrowing and minor benefit cuts are implemented to solve the short-term problem, warned Mr. Svahn at the Council on Employee Benefits meeting Oct. 21-23 in Denver.

Current reserves will fund only 1.5 months of benefits for the 51 million people who receive income through Social Security. The system is losing money at the rate of $12,300 per minute, Mr. Svahn revealed.

"These problems did not start with the Reagan administration," he stressed. The reserve ratio of income paid vs. contributions received in a year exceeded 100% in 1970 and has plummeted to 17% over the past decade.

Mr. Svahn said political voices within the Reagan administration have warned the president away from the issue, but he believes the situation must be faced. "The president does not want to change benefits for current beneficiaries," he stressed.

A proposal offered by the administration earlier this year was intended to be a starting point for discussion, said Mr. Svahn. That proposal, which met immediate opposition, would have sharply reduced benefits for workers retiring before age 62 (*BI*, May 18, May 25).

The long-term solution boils down to a choice between or combination of two options: raise revenues or decrease expenditures. "Neither is very palatable and would likely be laughed off the Hill," said Mr. Svahn.

The U.S. population is aging and the ratio of active workers to retirees is declining—that is the long-range demographic problem, added Mr. Svahn. He said $1.5 trillion is needed to invest over the next 75 years to balance the system.

Mr. Svahn hopes to achieve a compromise bipartisan solution this fall working with Rep. J.J. Pickle, D-Texas, chairman of the House Ways and Means Committee Social Security subcommittee, and Rep. Dan Rostenkowski, D-Ill., chairman of the full committee.

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275 attend CEB meeting

DENVER—More than 275 benefits managers, consultants, brokers and insurers met to discuss current benefits planning issues at the Oct. 21-23 meeting of the Council on Employee Benefits.

The CEB's annual fall conference, held this year at the Fairmont Hotel in Denver, also is open to non-members interested in the council's activities and getting a handle on the problems facing benefit managers today. Representatives attended from 127 of 187 member companies.

Concern for soaring health care costs and uncertainty about the future of the Social Security system and its impact on private pension planning dominated the sessions and talk in between sessions during the program.

Benefit managers also heard tips on strategic planning and the Economic Recovery Tax Act of 1981. The report by West Coast Editor Rhonda L. Rundle continues on pages 57-61.

Tax act means more work for managers: Consultant

DENVER—The Economic Recovery Tax Act of 1981 could turn compensation and benefits managers into full-service financial advisers to their employees, warns a benefits consultant.

These tax law changes may accelerate employer involvement in their workers' outside lives and particularly retirement planning, predicts Judith A. Goulett, partner in Los Angeles with Hewitt Associates.

"Your employees will be asking questions about what their company will do and how it can benefit them," said Ms. Goulett at the recent meeting of the Council on Employee Benefits in Denver.

The most far-reaching aspect of the tax act is the provision effective Jan. 1, 1982 that enables employees to make tax-deductible contributions to an employer's retirement plan (if amended) or to set up an Individual Retirement Account outside the company plan.

Employers must amend their qualified plans if they wish to permit employee contributions. They also may support individual IRAs through providing payroll deductions to interested employees.

Other provisions of the tax act to be phased in over several years include payroll-based tax credit Employee Stock Ownership Plans, incentive stock options and dependent care assistance.

The intent behind the retirement contribution provisions is to emphasize the individual's responsibility to fund his own retirement and to take some pressure off the Social Security system.

The new act also shifts the focus in retirement planning to individual-account type plans that give employees a sense of "my own money," noted Ms. Goulett. They also heighten employee awareness of the investment performance of their retirement plans.

"Look before you leap," Ms. Goulett cautioned benefits managers. First, identify your management objectives and decide if your company wants to support the tax act concept, she advised.

"Determine the appropriate cash to benefits mix for employees. Eval-

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Workplace accidents

Workers who are psychologically bent on getting hurt are to blame: Consultant

By STEPHEN TARNOFF

CHICAGO—Employees who are psychologically bent on getting into accidents—not the safety practices of employers—cause many workplace accidents, says a management consultant.

"There is such a thing as accident proneness" that disguises self-punishment and self-attack by employees, said Brian R. Dubrow, president of Barbrisons Management Systems Inc. in Cincinnati, Ohio, at the National Safety Congress.

"Those predisposed to accidents will find a way to have them no matter how safe you make it," he said. As many as 50% to 75% of accidents are not necessarily accidents at all but are psychologically motivated, he said.

But, some 70% to 90% of these accidents can be predicted based on employee profiles and other information and possibly prevented.

Many of Mr. Dubrow's conclusions stem from a three-year project and four studies by his firm to determine if people more disposed toward accidents could be identified.

The studies looked at employees' accident histories on and off the job, the number and types of first-aid calls, damage to machinery, workers compensation cases and the employees' vital statistics. The employees were also asked to complete questionnaires which were designed to evoke answers that would portray each employee's image of himself.

Armed with these answers, the researchers were then able to predict with a high degree of accuracy which persons would have accidents in which areas.

Mr. Dubrow sketched various accident profiles of those most likely to have accidents involving first aid, workers compensation claims or damage to machinery.

His study found that persons who are self-

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The breakdown in management control is usually to blame: Loss-control expert

CHICAGO—The causes of accidents in the workplace are symptoms of breakdowns in management control and not the unsafe acts of employees, says Frank E. Bird Jr., president and executive director of the International Loss Control Institute in Loganville, Ga.

Mr. Bird, speaking at the National Safety Congress Oct. 19-22, said that 85% of accidents could be controlled by management despite the prevailing myth that most accidents are caused by employees.

"If one accepts the fundamental truth that management can effectively control the vast majority of accidents with the same professional skills used to control production, quality and cost problems, the second truth would appear only logical: Accident causes are symptoms of management-control breakdowns," Mr. Bird said.

The very fact that a big percentage of employers continue to teach employees that 85% of all accidents result from their unsafe acts is proof that this second truth is far from accepted, he said.

He cited other safety and health professionals who have found that management is responsible for most accidents. Their contentions include:

- Much of the data blaming workers for unsafe acts are based on highly subjective judgments by management, self-serving reports and questionable definitions.
- Thorough investigations of serious accidents almost invariably show unsafe conditions.
- Many unsafe acts result from materials and products that do not conform to requirements, inadequate tools and/or untrained personnel using them and supervisors setting low standards for employees.

Mr. Bird listed four "super-critical management competencies" that could help re-

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Revamped inflation index may cut pension costs

benefit beat

The federal government's decision to revise the housing component of the Consumer Price Index could cool employee demands for wage and pension increases and slash the government's benefit costs by billions of dollars.

The Bureau of Labor Statistics' proposal, unveiled last week, would change the current housing component of the CPI, which reflects housing prices and mortgage interest rates, to measure only rental cost increases.

The goal is to eliminate the distortions caused by mortgage interest rates and the overemphasis of housing costs, which has resulted in the CPI overstating the inflation rate during periods of high interest rates.

This overstatement has been especially costly to federal retirement programs like Social Security and Civil Service pensions where benefit increases are based directly on the change in the CPI.

Some experts say altering the housing component could cut the published inflation rate by 1% to 2% a year. The Bureau of Labor Statistics proposes to make the change beginning in 1983.

With smaller published increases in the CPI, employee demands for better compensation to keep up with inflation should ease, said Lloyd Kaye, vp at William M. Mercer Inc. in New York.

"Employees get alarmed when they read about the increase in the CPI. They think it is real," Mr. Kaye said.

For example, the drive by retirees to force their former employers to boost their pension benefits has been fueled by the recent huge jumps in the CPI.

If the CPI increase is reduced through a more accurate measurement of price changes, retirees will not feel that their benefits are falling so far behind the cost of living and will ease their demands for increases, experts say.

The more accurate CPI will reduce the cost of enormous federal entitlement programs, like the financially ailing Social Security program and federal and military pension plans, whose benefits are automatically indexed to match CPI increases.

For example, if the new housing component index had been in effect in July when Social Security benefits were last hiked, benefits would have been increased by 10.3% instead of 11.2%. This would have slashed the $15 billion increase by more than $1 billion.

In addition, the change would have cut the cost of federal and military pension programs, which also are automatically increased annually to match the CPI increase, by about $300 million.

While the CPI change won't by itself solve Social Security's chronic funding problems, at least benefit growth will be more stable, said Sylvester Schieber, director of research at the Employee Benefit Research Institute.

Health care costs

Sales of new automobiles may be stalled, but the throttle is wide open on Ford Motor Co.'s group health insurance costs.

Last year, the No. 2 automaker spent $550 million on health care.

In 1965, Ford spent just $68 million on health care, but costs have doubled every five years since.

"While there are many reasons for this dramatic increase, including the introduction of some new benefits, the majority of the increase in attributable to inflation and higher benefit utilization," according to Jack Shelton, manager of Ford's employee insurance department. ■

Bomb threats force business interruptions

LONDON—The recent wave of bombings and bomb threats by the Irish Republican Army has forced some London store owners to temporarily shut their doors, but few have insurance to cover the business interruption losses.

The bombings are also forcing the stores to take extra security precautions.

From now until Christmas, Debenham's, a London department store where a bomb was discovered last week, will check the handbags and packages of all customers entering the store, said Debenham's Insurance Manager Paul Clist.

"Everbody's being searched," said Mr. Clist. "And this will go on until Christmas as the terrorists usually create havoc around here now until December."

All the other stores in Oxford Street shopping district are following Debenham's lead after a bomb gutted The Wimpy Bar and killed one man. That explosion, the bomb found in Debenham's and a bomb threat at another department store closed the district for 24 hours last week.

The forced closing could cost store owners up to 7 million pounds in sales and very little of the loss will be recovered on business interruption policies, sources say.

Debenham's, for instance, is not insured for the 40,000 pounds in sales lost when it shut its doors after the bomb was found, he said.

Had the bomb gone off, however, Debenham's property policy would have paid for the damage, plus the business interruption.

"Explosion is a standard inclusion within a multidamage property insurance policy in the United Kingdom, though it doesn't include the stores in Northern Ireland," Mr. Clist said.

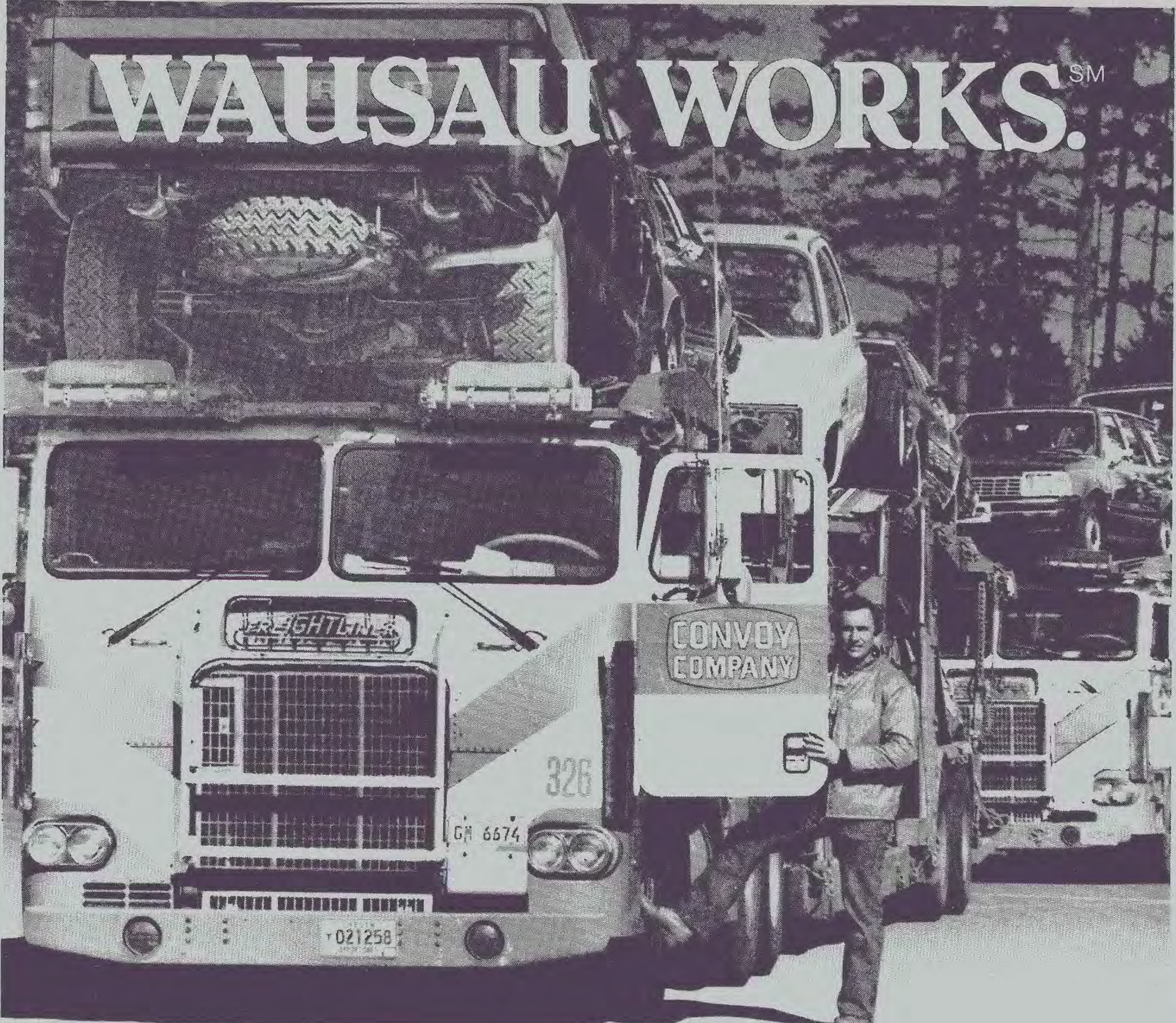
A liability policy for 50 million pounds per occurrence would cover any injuries and subsequent legal expenses if the bomb had exploded in Debenham's, he said.

Business interruption policies covering bomb threats are very expensive, he said.

Hoaxes are very difficult to insure, agreed Barry Kirby, Debenham's broker at Jardine Granville.

"Generally in the U.K. about 90% of the people buy an explosion extension on their property/business interruption policy," he said. "But hoaxes are subject to a special extension of a business interruption policy. It's expensive and there is a time limit on it."

No underwriter, for example, will consider writing a bomb hoax policy with less than a three-hour evacuation time, he said. ■



The company: Convoy. The insurer: Wausau.

Dating back to 1930, the Convoy Company of Portland, Oregon, has become one of the nation's leading auto transporters. They even design and build their own trailers. They drive an area from Wisconsin to Southern California, Canada to Texas, with nearly 300 rigs. Like any firm of this size, they need innovative business insurance.

We provide fleet and cargo, workers compensation and general liability. All geared to fit Convoy. Because *wherever* Convoy works, even in the most remote areas, Wausau works.

For example, Wausau's fleet and cargo policy for Convoy has a single large deductible. Depending on the type of claim, loss within the deductible may be handled by either Wausau or Convoy. The best claim capabilities of both are used on a "partnership" basis.

Our workers compensation coverage for Convoy is flexible with a "sliding scale" plan for California, risk management assistance for the State of Washington, and a retrospective plan for other states.

"With Wausau, we get competitive rates, effective help with loss control, and reliable claim service," says Andy Anderson, Convoy Risk Manager. "We are really well pleased with Wausau's service."

On the road, or in the shop, Wausau and Convoy work together to make business insurance work for a living. Wausau specializes in the coverages motor carriers need — we're looking for more good policyholders like the Convoy Company.

WAUSAU INSURANCE COMPANIES®
Wausau, Wisconsin 54401

Kaiser-Georgetown HMO suing J&H over coverage

By JERRY GEISEL

WASHINGTON—A major health maintenance organization is suing its insurance broker for buying insurance the HMO says it didn't need.

Kaiser-Georgetown Community-Health Plan Inc., an HMO with 60,000 members, charges that broker Johnson & Higgins purchased malpractice insurance for the plan and its salaried physicians that duplicated other insurance carried by the plan.

In a lawsuit filed in U.S. District Court in Washington, Kaiser-Georgetown contends that J&H secured a malpractice insurance package from Insurance Co. of North America that "was not required. . .duplicated other insurance carried by the plaintiff, was inordinately expensive and was not the optimal insurance available at the least available cost. . ."

Kaiser-Georgetown not only wants $94,028 in compensatory damages to reimburse the plan for the INA coverage, but it also is seeking $500,000 in punitive damages. It accuses J&H of "gross and wanton negligence."

J&H, the nation's fourth-largest insurance broker, denies the charges. "We think it is a misunderstanding. . .and the problem may be cleared up soon," a J&H spokesman in New York said.

Donald Hartman, Kaiser-Georgetown's staff attorney, was traveling in California and could not be reached to confirm if a settlement of the suit is near.

According to the suit, Kaiser-Georgetown asked J&H in April 1978 to place all its professional liability insurance policies for the plan and its physicians with one insurer.

At the time of the request, the HMO and its physicians were covered by professional liability insurance policies provided by six different insurers.

Kaiser-Georgetown was covered by a $2 million primary policy provided by Bercanus Insurance Co. Ltd. of Bermuda and above that a $3 million excess policy written by North-West Insurance of Portland, Ore.

The plan's Washington, D.C., physicians were covered by a $5 million medical malpractice policy written by The Hartford; Virginia physicians were covered by a $100,000 primary policy written by The St. Paul and a $1 million excess policy through Glacier General Assurance Co. of Missoula, Mont.

Finally, the plan's Maryland physicians were covered by a policy with limits of $1 million per occurrence and $3 million annual aggregate written by Medical Mutual Liability Insurance Society of Maryland, a Lutherville, Md., doctor-owned medical malpractice insurance company.

J&H recommended that Kaiser-Georgetown purchase an INA professional liability package that included a primary policy with a $2 million aggregate limit and an INA excess policy with $4 million occurrence and aggregate limits, according to the suit.

J&H, however, did not make any recommendations to change the liability coverages of the physicians employed by the plan, the suit said.

According to the suit, a "portion" of the INA policy also included professional liability insurance for all of the plan's salaried physicians. This portion, which cost $94,208, duplicated other insurance purchased by the plan, the suit said.

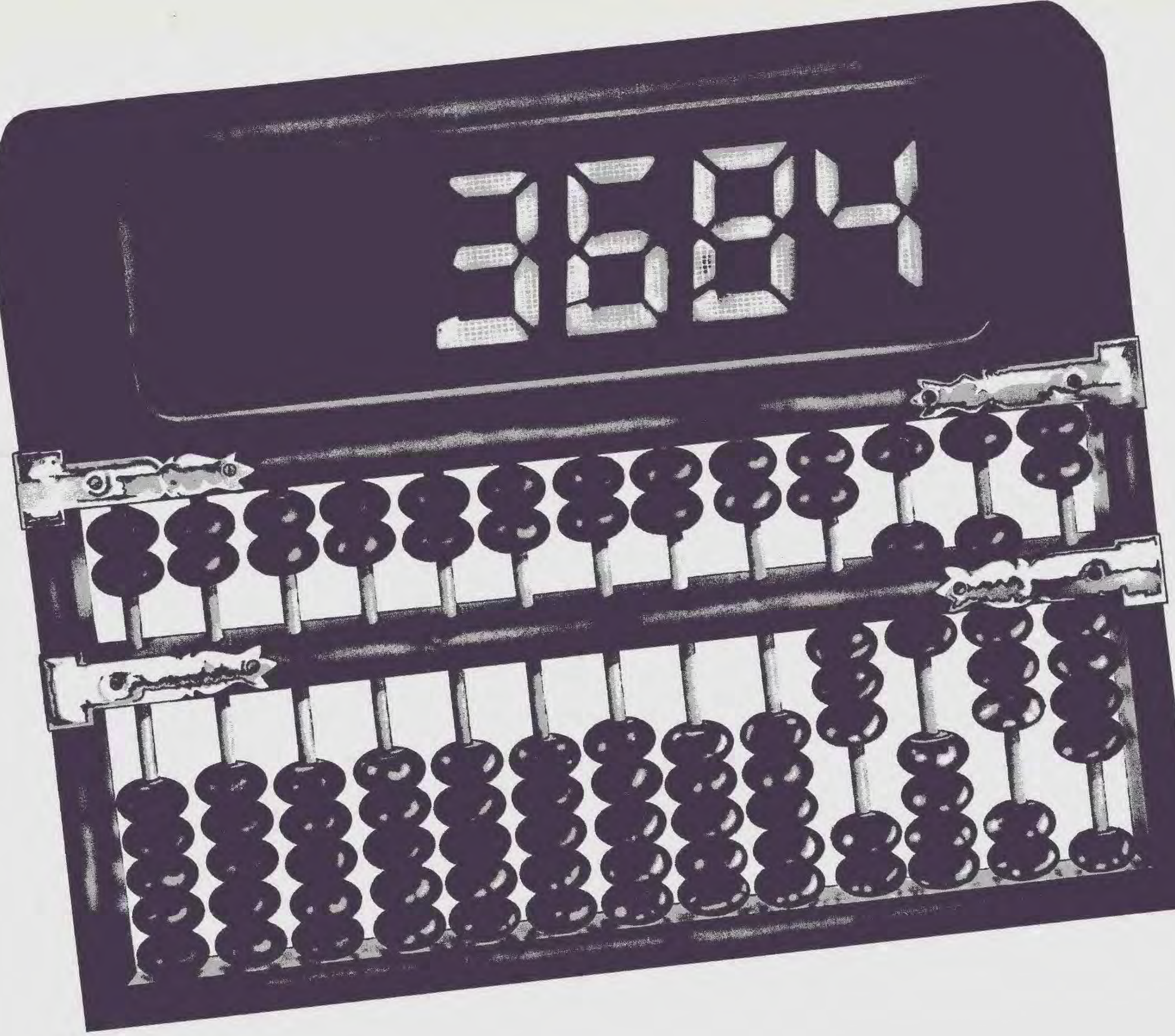
J&H violated its "duty of care" to the plan by failing to disclose the terms and conditions of the INA policy and by purchasing a liability insurance policy that duplicated other policies held by the plan, the suit said. ■

Group life sales total $17 billion

WASHINGTON—Group life insurance set up under new or revised group contracts totaled $17.04 billion in August, compared with $15.02 billion in August 1980, the Life Insurance Marketing & Research Assn. reports.

Group life insurance purchases made in the 12-month period ending in August totaled $226.12 billion, compared with $176.02 billion during the 12-month period ending in August 1980.

All figures represent the face amounts of insurance purchases. ■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editorial opinions

Give employees a break

WE HOPE CORPORATE executives in charge of employee benefits take a second look at how they can help employees take the best advantage of changes made under the recent tax act, especially to save for their retirement.

The response to our most recent Employee Benefit Board survey (see story, page 1) reveals that corporate executives don't want to get involved in accepting voluntary contributions to corporate pension plans or even in allowing a payroll deduction plan for Individual Retirement Accounts marketed by another financial savings institution. And so far hardly any employer has even told employees about the tax act changes that give them new tax breaks for saving for their retirement.

We sympathize with the initial reaction of many corporate executives when confronted with the prospect of accepting voluntary contributions to corporate pension plans. "Oh no, not more paperwork" is an understandable response when one considers the amount of record keeping and reporting already required under the Employee Retirement Income Security Act.

And we don't disagree that companies should consider what kind of fiduciary liabilities they are assuming in accepting these voluntary contributions.

But, as with all business decisions, there are benefits to be weighed against these risks. As our board members in favor of accepting voluntary contributions to pension plans point out, taking on this extra work will further encourage employees to save for their retirement and instill a feeling of more responsibility for their retirement income. This is a responsibility that employees must assume to be sure they do live a comfortable retirement.

While making decisions on how the company should respond to the tax changes, employers also should be hard at work to prepare an explanation of how the tax law affects employees' financial plans. Many employees don't know where to turn for this kind of information, and those in charge of employee benefits, who are experienced now in communicating benefit plans to employees, have the skills needed to explain the act.

Employers should seize this opportunity to provide a service to employees that will pay off in goodwill worth more than the cost of writing the explanation and delivering it to employees. Small employers without in-house expertise should tap their benefit brokers or consultants.

The payoff from such a service will be better financial planning by employees, which can benefit the employer, too. Employees who feel more secure about their financial future in these tough economic times will be happier, more productive employees.

An explanation of the tax act for employees also also offers employers an opportunity to discuss company-paid retirement benefits and remind employees that their total compensation is more than they see in their paychecks.

At the very least, a good explanation of how employees can benefit under the new tax law will remind employees that their company cares about their financial well-being and their future. An opportunity to instill that kind of goodwill should not be wasted.

Why the worry?

ANY INDIGNATION OVER the compilation of the financial results of individual syndicates at Lloyd's of London looks like "much ado about nothing" to us on this side of the Atlantic, to steal a line from the British bard.

Syndicate names aren't listed in the charts. No one's reputation is being built or smeared. The most a would-be syndicate member or insured can do is ask the syndicate for its results and then compare them to chart to see how the syndicate stacks up. It makes sense to us that any syndicate member should have the right to this information.

As advocates for the buyer of commercial insurance, we think the information could be helpful to the buyer, too. One would certainly prefer bargaining with a successful underwriter than one losing his shirt—or the shirts of his syndicate names, we mean.

Knowing the financial strength or weakness of a market not only helps one know where and how to bargain, but also helps one gauge the stability of the market. The profit winners are more likely to stick with your risk than the losers.

That's why we report the quarterly financial results of U.S. insurers.

We wish the latest assemblage of Lloyd's renegades success in their venture and hope they expand the compilation of results in the number of syndicates covered and years compared to provide more credible information for comparing the underwriters.

letters

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

Insurers shift burden

To the editor: I must take issue with the Health Research Institute (*BI*, Oct. 5) concerning cost-containment savings. The table lists "savings" of: Non-covered charges, 11.8%; deductible, 5.8%; and coinsurance, 5.6%.

Let's please call a spade a spade. These are not systematic savings at all. They are merely cost-transferring devices that shift the burden of cost from the insurer to the employee.

Nothing is really saved now, is it?

Joseph. S. Tomaselli
Vp of marketing
Pilgrim Health Care
Middleboro, Mass.

■ *You are right systemwide, says William Hembree, director of the Health Research Institute. The amount of costs shifted to employees under current deductible and coinsurance levels is not enough a burden to make employees use the system differently, he explains.*

But the cost shifting does save money for the employer paying for the health benefits, Mr. Hembree says.

Estimated savings from health care cost containment efforts

Non-Covered Charges	11.8%
Alternative Delivery Systems	8.5%
Coordination of Benefits	7.3%
Alternative Funding/Administrative Methods	6.7%
Deductible	5.8%
Coinsurance	5.6%
Physician Treatment Review	4.6%
Concurrent Hospital Review	4.1%
R&C cut back	3.9%
Ineligible Persons	3.7%
Fee Negotiation	3.4%
Ambulatory Surgery	1.9%
Subrogation	1.9%
Retrospective Hospital Review	1.5%
Hospice Care	1.1%
Pre-Certification	1.0%
Pre-Admission Testing	0.8%
Hospital Utilization Review	0.7%
Second Opinions	0.7%

Source: Health Research Institute, Second Biennial Survey

RIMS, CICA not the same

To the editor: Your report on the Captive Insurance Cos. Assn. meeting (*BI*, Oct. 19) says, "For information about CICA contact the organization in care of the Risk & Insurance Management Society."

Wrong.

The Captive Insurance Cos. Assn. Inc. has a telephone number (212-687-4501), and CICA is listed on the building directory at 205 E. 42nd St. in New York and on a door on the 15th floor of the building.

CICA is a separate and distinct organization from the Risk & Insurance Management Society and is not "in care of the Risk & Insurance Management Society."

Ron Judd
Executive director
Risk & Insurance
Management Society
New York

■ *Our mistake stemmed from our knowledge that CICA pays RIMS an administrative fee for certain association management services performed. We didn't mean to suggest anything else.*

Outdated name

To the editor: In the article "Inland rates cruise on bargain-basement rating" (*BI*, Sept. 14), our company is referred to as "Mission Equities Group."

The name of our company, however, is Mission Insurance Group and has been for several years.

David L. Arrillaga
Vp of communications
Mission Insurance Group Inc.

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American Re forming subsidiary in London

American Re-Insurance Co. is forming a wholly owned subsidiary in London. The new company, American Re-Insurance Co. Ltd., has an authorized capital of $18.1 million and is licensed to transact all classes of reinsurance business.

The new subsidiary replaces American Re's London branch office, which generated $23.7 million in premium in 1980.

The new subsidiary "substantially strengthens" the company's position in the London and European markets, American Re President James D. Koehnen said.

markets

Reinsurance

Armco Financial Services-Latin America in Coral Gables, Fla., has formed Armco Reinsurance Managers Inc. The new agency will produce and underwrite treaty and facultative reinsurance business throughout Latin America.

Acquisitions

First American Financial Corp. of Santa Ana, Calif., has agreed to acquire **St. Paul Title Insurance Corp.**, a subsidiary of the St. Paul Cos. Inc. for an undisclosed amount. The transaction, company officials said, is subject to the execution of a definitive purchase agreement.

Insurance Agency Inc. of San Antonio, Texas, has merged with **Alexander & Alexander of Texas Inc.**

Meredith Associates, a New York personnel consulting firm, has merged with **Alexander & Alexander Services Inc.**

Alexander & Alexander Services Inc. has also acquired **Min Tsubota Insurance Agency** in Seattle. The firm was established in 1947 as one of the first Japanese-American agencies in the Northwest.

Norman Reitman Co. and **Daniel Grady & Co.**, both New York-based insurance consulting and auditing firms, have merged with Grady becoming a Reitman subsidiary. Reitman specializes in audits of reinsurance contracts, premium audits and claims analysis. Grady offers claims analysis and auditing services on property, fidelity and business interruption losses.

Integon Corp. of Winston-Salem, N.C., a wholly owned subsidiary of Ashland Oil Inc., has acquired **Life of Mid-America Insurance Co.** of Dubuque, Iowa, which was owned by American Bankers Insurance Co. Life of Mid-America operates in 33 states.

Marsh & McLennan Inc. has merged with **Panhandle Insurance Agency Inc.,** headquartered in Amarillo, Texas. The new Panhandle Insurance Agency division of Marsh & McLennan will operate offices in Amarillo, Lubbock, Pampa and Borger, Texas.

New offices

Knox Vicars McLean Inc., a Canadian insurance consulting firm, is moving its headquarters to Place Universite, Suite 800, 1255 University, Montreal, Quebec.

Schirmer Engineering Corp. has opened an East Coast office at 803 W. Broad St., Falls Church, Va.

The Hartford Insurance Group has opened an underwriting office at 220 W. Washington St., Suite 430, Marquette, Mich. 49855.

Insurance Co. of the West has opened a regional office at 2525 E. Arizona Biltmore Circle, Phoenix, Ariz. 85016; 602-955-7878.

International Rehabilitation Associates Inc. has opened a new office at 5500 N. Western, Oklahoma City, Okla. 73101 and at 8106 Menaul N.E., Albuquerque, N.M. 87103.

Schiff Terhune Inc. of California has relocated its office to Suite 401, 3200 Wilshire Blvd., Los Angeles, Calif. 90010; 213-384-2880.

Marsh & McLennan Inc. has opened a new office at 4305 W. Illinois, Midland, Texas 79703.

Western Employers Insurance Co. has opened a new office at 7801 Mission Center Court, Suite 220, San Diego, Calif. 92108; 714-692-2033.

Fremont General Corp. has expanded and moved its Los Angeles headquarters to 525 S. Virgil Ave. ■

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For more information, contact Commerce & Industry Insurance Co., Dept. A, 70 Pine St., New York, N.Y. 10270.

OPIC writes record level of political risk cover

washington

By JERRY GEISEL

WASHINGTON—The use of insurance by business to protect overseas investments against political instability is growing.

The Overseas Private Investment Corp., the federal agency that provides political risk insurance to encourage U.S. investment in less-developed countries, wrote more insurance in fiscal 1981 than at any other time in its 11-year history.

During fiscal 1981, which ended Sept. 30, OPIC issued $1.48 billion in various political risk coverages, almost $400 million more than the previous record of $1.1 billion in fiscal 1980.

"There has been a concentrated effort within this agency to become more aggressive and to be more responsive to our customers' needs," said Craig Nalen, OPIC president and chief executive officer. "Recent results would seem to suggest that we are on the right track."

And OPIC is poised for more growth. Legislation signed last month by President Reagan extends OPIC's underwriting authority for another four years—until Sept. 30, 1985—and allows OPIC to provide coverage for companies that want to invest in nations where per capita income is less than $2,900.

Previously, OPIC coverage generally was not available for risks in countries with a per capita income of more than $1,000.

OPIC insurance covers currency inconvertibility, expropriation, war risks and insurrection.

Social Security

The Reagan administration and Congress have agreed to set up a bipartisan commission to hammer out solutions to Social Security financing problems, but they could not agree on the date on which the panel should make its recommendations.

House Speaker Thomas P. O'Neill, D-Mass., and presidential aides agree that the 15-member panel should include seven Democrats, seven Republicans and one independent.

Under the agreement, Mr. O'Neill would appoint three commission members, while House Minority Leader Robert Michel, R-Ill., will appoint two. In the Senate, Majority Leader Howard Baker, R-Tenn., will select three members and Minority Leader Robert Byrd, D-W.Va., will select two.

In addition, President Reagan will select five members, two Republicans, two Democrats and the independent.

Mr. Reagan said he would like the commission to make its recommendations by January 1983, but Mr. O'Neill wants the recommendations to be published by April 1982.

Arsenic effort

Employers, labor and the federal government are teaming up to determine the best techniques of protecting workers from exposure to arsenic.

Engineers from ASARCO, a major lead and copper producer and refiner, the Occupational Safety and Health Administration and the United Steel Workers of America will visit a number of copper and lead smelters in several Western states during the next year to try to map out an overall strategy for reducing worker exposure to arsenic.

"It is my conviction that good health protection for American workers can be most effectively achieved through the cooperative efforts of labor, industry and government," said OSHA Director Thorne Auchter.

Asbestos coverage

The Supreme Court may be on its way toward deciding whether it will consider what insurance policies will provide coverage for asbestos manufacturers.

In a highly unusual move, the high court has asked several parties, including The Travelers Insurance Co., that are involved in a complex asbestos coverage suit to explain to the court why it should not take jurisdiction in the case. Other parties earlier petitioned the court to hear the case.

Legal observers say it is rare that the Supreme Court will ask parties involved in a suit to justify why the high court shouldn't consider their case.

Although the court's action doesn't guarantee that it will agree to consider the case, it does increase the chances.

In the asbestos case, Insurance Co. of North America and Liberty Mutual Insurance Co. have asked the Supreme Court to overturn a U.S. Court of Appeals decision in which the appellate court ruled that insurance policies in force when workers are exposed to asbestos are the only source of funds to pay current claims (*BI*, Nov. 3, 1980).

INA and Liberty Mutual prefer the manifestation theory that says coverage in force when the disease is detected applies. The Travelers prefers the exposure theory. ■

Better benefits needed: Report

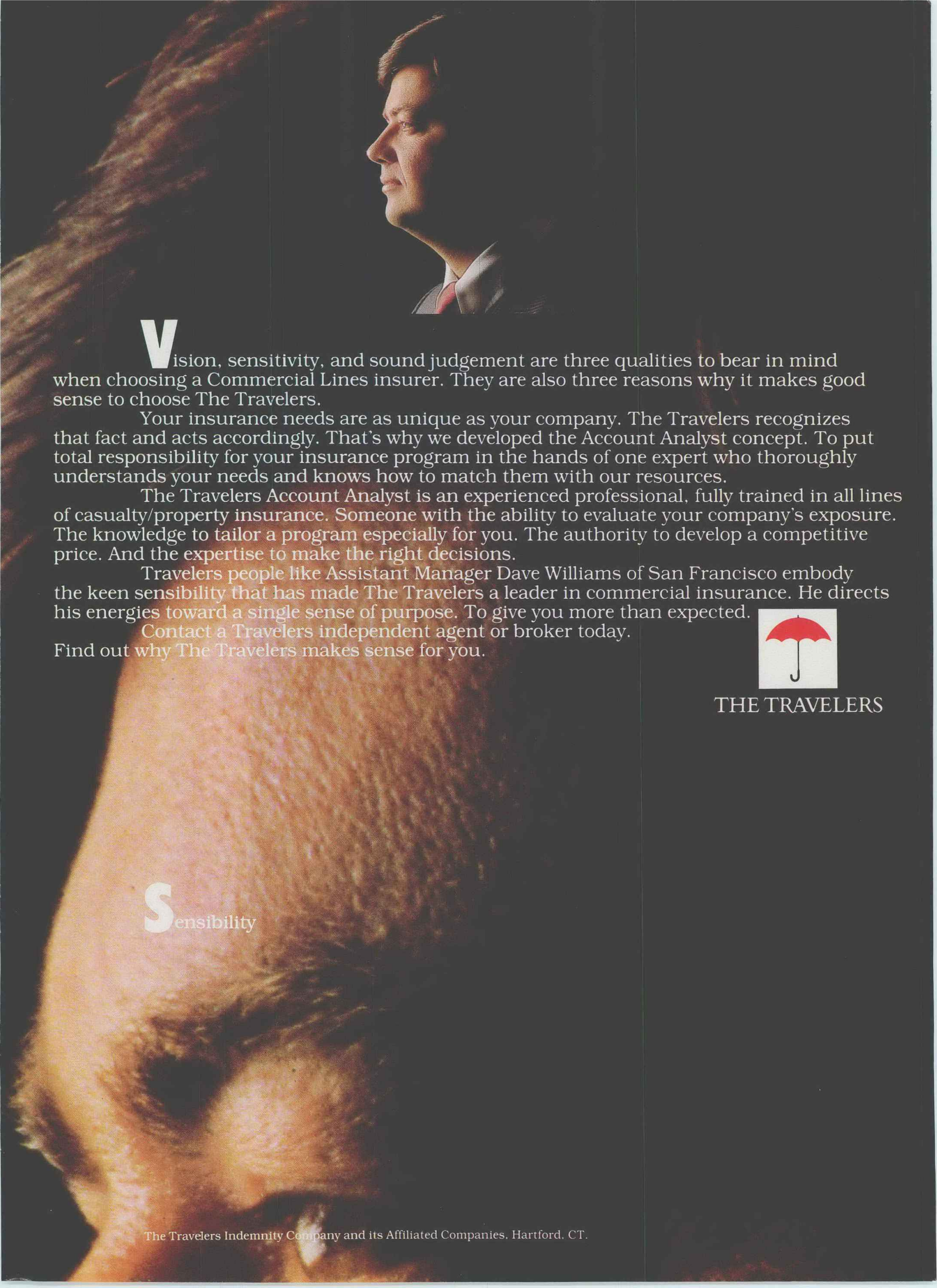
NEW YORK—State and local governments must develop competitive executive benefit packages if they are going to attract the talent necessary to fulfill President Reagan's desire to return power to the states, according to a recent Mercer Public Sector Report.

As the shift toward greater state responsibility grows, "public employers will be required to develop competitive executive benefit packages," the report states.

The report says that current public sector benefit plans discourage executives to work for state and local governments because of significant disparities, including long-term disability income protection, deferred compensation and employee contribution requirements.

"Implementation of executive benefit plans that would narrow these disparities will be a challenging issue from a political standpoint because it will be a difficult concept to communicate to public officials and taxpayers who are grappling simultaneously with fiscal constraints and inflation," the report concludes.

The Mercer Public Sector Report is published by William M. Mercer Inc., the employee benefit consulting firm. ■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Further delays may be in store for Lloyd's bill

london line

By STACY SHAPIRO

LONDON—The Lloyd's of London self-regulation bill may be further delayed when it is finally reconsidered by Parliament.

A group led by Alexander Howden Insurance Brokers Ltd. is drawing up a petition against the bill's new divestment clause, which requires Lloyd's brokers to sell off their underwriting management agencies.

If the petition is heard by the House of Commons committee reviewing the bill, then witnesses opposing the divestment clause would be given an opportunity to testify, and the bill would not be considered by the entire House of Commons until the extended committee hearings were concluded.

The divestment clause, which was overwhelmingly approved by Lloyd's members earlier this year, closes loopholes that brokers could try to use to retain ties with underwriting agencies after they are sold (*BI*, Oct.26).

But Howden, soon to be acquired by Alexander & Alexander Services Inc. of New York, stands to lose a considerable amount of income if the underwriting agencies are sold.

Under the direction of Ian Posgate, Howden's underwriting group earned 35 million pounds in premium income last year, compared with 45 million pounds in net retained insurance brokerage.

Mr. Posgate, who controls about 3,000 names at Lloyd's, was one of the financial supporters behind the petitioners who managed to attach the divestment clause to the Lloyd's bill earlier this year. And Mr. Posgate says he is satisfied with the new divestment clause.

The internal fighting between Mr. Posgate and Howden officials who oppose divestment is strictly a Howden affair and has nothing to do with the A&A takeover bid, says Howden Group Chairman Michael Glover.

"Howden is against the divestment clause," Mr. Glover said. "But we and A&A regard it entirely as a domestic U.K. affair."

The Lloyd's self-regulation bill also faces a battle over the controversial immunity from liability clause, which has drawn criticism from some members of Parliament.

There may be a compromise on the wording of the clause, which gives Lloyd's protection against being sued by its members and affiliates, sources say.

But, if the bill is delayed much longer, there is another problem that must be considered, according to a Lloyd's spokesman. The Conservative government led by Prime Mininster Margaret Thatcher could lose a vote of confidence and be removed from office in a general election, the Lloyd's spokesman said.

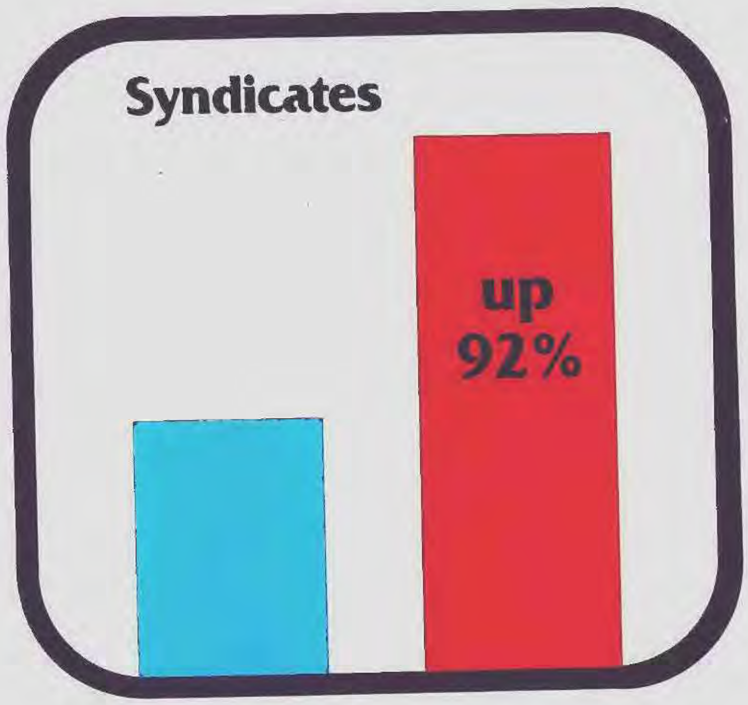
"Then we may have to start the whole procedure all over again," he said.

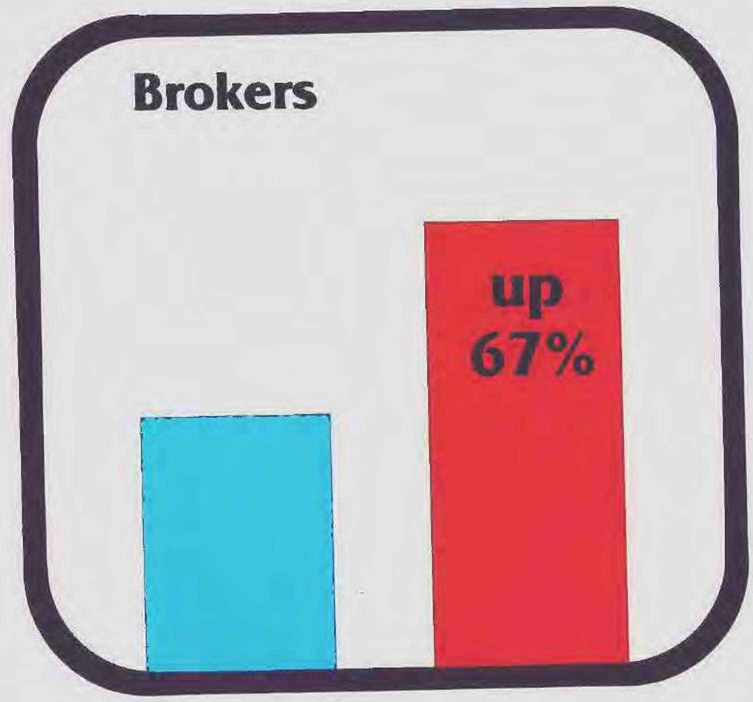
If the self-regulation bill is passed by Parliament, however, the new Council of Lloyd's will be elected in a different fashion than will be used to choose four members of the present Lloyd's committee this week.

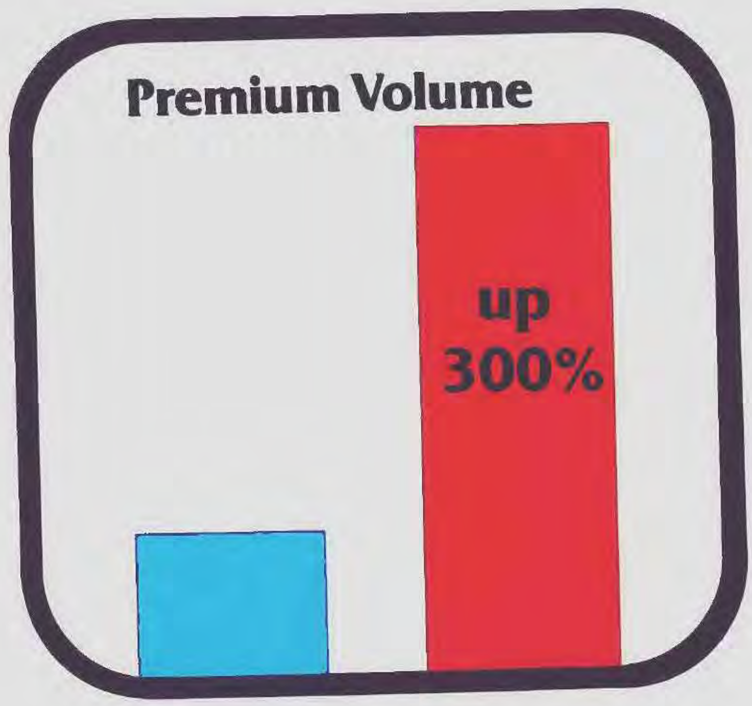
Members of the new council will be elected in separate ballots by the working and external Lloyd's names. The four committee members to be elected this week, however, will be elected by the entire Lloyd's membership.

Eight persons are vying for the four vacancies on the 16-member committee: Terence Higgins, Frank Barber and broker Peter Miller, who have all sat on the committee previously; Mr. Posgate; non-marine underwriter David Barham; underwriting agent Peter Daniels; Norman Evernett, chairman of Lloyd's Joint Hull Committee; and Peter Randall, chairman of the Lloyd's Motor Underwriters' Assn.

The four committee members who are stepping down are Charles Gibb, Richard Beckett, Charles Skey and Ivor Binne. Under Lloyd's regulations, they cannot serve on the committee for at least a year. ■







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The Exchange has grown into a vital, competitive tool for agents and brokers. It's a real alternative for international risk managers. And it offers an appealing potential for investment groups.

Whether you are helping all this to happen, or merely watching, the change in The Exchange is a wonderful experience. It's exciting. It's rewarding.

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Reinsurance

Reinsurers' results tell the same tough story

By JOHN W. MILLIGAN

NEW YORK—Change the names and numbers and the annual reports of many major U.S. reinsurers are interchangeable.

Each annual report tells a story of tough competition, overcapacity and underwriting losses—three pretty rough thugs that are beating up on much of the reinsurance industry.

The story leads to a frightening conclusion. Cash-flow underwriting, new foreign and domestic capacity and a grand optimism about future losses have created a reinsurance rate war that could eventually knock out the market that helps provide low prices for corporate insurance buyers.

The first signs of trouble are appearing. Nine of the 12 largest reinsurers had combined ratios in 1980 that exceeded the traditional break-even point of 100% (see chart). Only Prudential Reinsurance significantly showed underwriting black ink with a combined ratio of just less than 97%.

Although nobody seems to know when the competition will ease, one industry analyst says the best that reinsurers can expect is a modest overall *decline* in growth both this year and in 1982. Combined ratios will continue to rise.

Reinsurers are already becoming discouraged. "Price is terrible for us and capacity is all over the place," says Guy K. Patterson, senior vp of INA Reinsurance Co., which assumed $390 million in reinsurance last year.

Cash-flow underwriting, a practice that most reinsurers decry, abounds. They price the reinsurance below the ultimate expected losses to get the premium now in hopes of earning enough investment income to cover future losses and make a profit.

That is not really anything new to insurers or reinsurers, but the practice has become a fact of life for both segments of the industry, says Ross Cowan, senior vp of Commercial Union Reinsurance Co., which assumed $46 million in reinsurance for 1980.

"It also looks like it's probably not going away," he adds.

Although cash-flow underwriting is not a strategy that all reinsurance companies consciously pursue, new markets may be more likely to do so to generate immediate income.

"As a start-up operation, you've got to pay some bills," says Thomas R. Tizzio, president of Transatlantic Reinsurance Co., an American International Group affiliate that assumed $263 million in reinsurance last year.

But all reinsurers are forced to react to the competition, which has grown more intense as new markets join in the hunt for reinsurance premiums.

The worst thing that can happen to a major reinsurer is to lose market share, says one industry analyst, and the top markets are fighting to keep their existing business.

Leandro S. Galvan, a vp at the investment firm of Donaldson, Lufkin & Jenrette in New York, does not see the larger reinsurers being nearly as concerned about generating new business as they are afraid of losing existing accounts.

"They will fight very hard to keep it," he says.

A senior executive for General Reinsurance Corp., the largest U.S. reinsurer with $740 million in assumed reinsurance last year, adds: "Very few people are sitting down and deciding to do it. They're just reacting to competition."

Mr. Patterson at INA Re agrees. Established reinsurers may have a tendency to shave rates in response to competition from newer markets.

"We try not to do it, but I would be naive if I didn't think that our company sometimes does the same thing," he says.

The danger in cash-flow underwriting is underestimating the ultimate cost of claims or overestimating investment income. It may take years before it's apparent losses were underestimated on such long-tail liability exposures as black lung and asbestos and even other products. But these are the risks cash-flow underwriters are after because they generate the most premium volume—more than property risks, for example.

These long-tail risks also demand sophisticated loss reserving—and big loss reserves.

Mr. Patterson calls it the old game of "how much cash can you get" and "how much reserves can you bill to offset the claims" that might not come in for five to 10 years.

"It's a profitable game, but it's a dangerous game," he says.

It may be particularly dangerous for newer, less-experienced markets that may not have sufficient underwriting expertise.

This is especially critical for the more recent entries, says Mr. Tizzio, since there is "only so much talent to go around."

These new markets have had a significant impact on the reinsur-

Continued on next page

Reinsurance Leaders 1980

		Net Premiums Written (000)	Losses/Adjustment (000)	Underwriting Expense (000)	Combined Ratio (000)	Policyholders Surplus (000)
1.	General Re/North Star	$724,880	$514,195	$193,684	98.78	$680,570
2.	Employers Re	383,273	280,234	116,389	105.90	223,596
3.	North American/Swiss Re	382,064	281,878	131,567	109.30	315,725
4.	American Re	376,110	301,405	113,356	111.80	223,340
5.	Prudential Re	321,971	209,847	78,073	96.91	168,025
6.	INA Re	287,844	207,183	88,656	99.80	109,180
7.	Skandia Group	179,309	123,923	53,714	100.89	106,002
8.	Munich Re	174,799	124,361	61,192	107.26	83,868
9.	National Re	165,167	133,423	49,523	107.19	74,512
10.	Kemper Re	124,053	99,885	28,550	103.30	78,837
11.	Transatlantic Re	120,980	89,243	32,654	102.72	110,309
12.	Constitution Re	102,483	71,740	36,565	109.66	31,140

Source: Reinsurance Offices Assn.

Reinsurers not taking blame for price cutting

By LISA BERGSON

Most reinsurers will accept some credit for the consistently cheaper prices that corporations are paying for insurance.

But they won't take all the blame for market competition that insurers call cutthroat and confusing.

Prompted by rapidly expanding capacity and the prospects of making high returns on cash flow, many reinsurers admit they have slashed prices to draw business.

For example, David Thompson, president and chief executive officer of the North American Reinsurance Corp. in New York, points to "absurdly low" facultative rates, like $300 for every $1 million of coverage for high-limit excess coverage.

But he insists that reinsurers cannot be directly responsible for industrywide price cutting.

"It strains credulity to say that a 10-inch tail is wagging a 90-inch dog," he remarks, noting that reinsurance accounts for only 10% of the property/casualty insurance business in the United States.

Competition in the reinsurance industry, however, does have indirect means of stimulating cheaper rates among commercial insurers.

"It's a certainty that the erosion of excess of loss pricing by reinsurers has supported price cutting on the primary level," agrees Thomas Greene, president of Thomas A. Greene & Co., reinsurance intermediaries.

Depressed reinsurance prices not only give insurers more leeway in setting their own rates, but have, in some instances, encouraged buyers to bypass insurers altogether. The front line of insurers are left scrambling for that much less business.

"In some cases where reinsurance rates have gotten low enough, corporations have self-insured and then reinsured," comments George Nimmo, president of Prudential Reinsurance Co.

"This forces primary insurers to lower rates to meet their competition."

Moreover, since price fixing is illegal, reinsurers contend there is little they can do about about correcting rates that could be plummeting lower than even risk mangers think are safe. The most that individual reinsurers can do is take it upon themselves not to write business below a certain price.

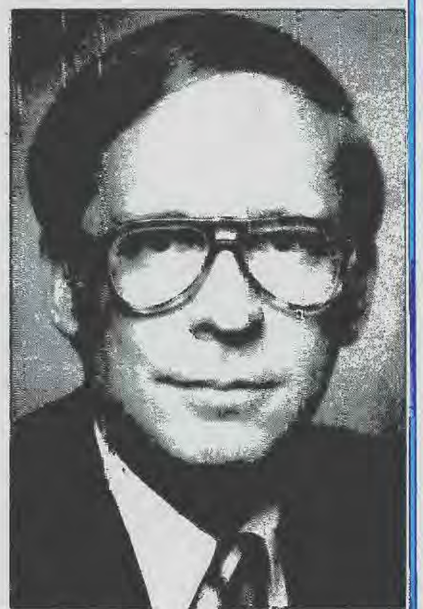
"We've changed our underwriting strategy," says Mr. Nimmo.

"Now we concentrate on areas where rates are more adequate—higher layers and some specialty areas." Working on this goal, the company added two new facultative offices in 1981.

But as a result, Pru Re has to look at twice as many submissions to write the same amount of premiums.

North American Re has fared less well. "We're doing our best to hold the line in facultative, and we've lost some volume as a result," Mr. Thompson says.

Despite such tightenings, the explosion in global capacity, exemplified by the recent formation of the Arab Insurance Group, combined with the growing propensity among buyers to self-insure, adds up to more low prices continuing indefinitely.



Mr. Thompson says. 'It strains credulity to say that a 10-inch tail is wagging a 90-inch dog.'

Aviation reinsurance rates may be first to soar
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Is the new international capacity as secure as the tried and true?
Page 33

New firms heighten reinsurance competition

Continued from previous page
ance industry, Mr. Tizzio points out, creating an atmosphere of "instability" by underwriting risks that normally would not be touched. "If a lot of markets hadn't come in, some things wouldn't get done," he says.

The new players also will prolong the current competition, Mr. Tizzio says, since pricing directions set by larger markets are not being felt. As the experienced reinsurers tighten their underwriting standards, new reinsurers take the risks.

Ernest G. Jacob, senior analyst for Alex Brown & Sons in Baltimore, agrees that the "biggest risks" lie with the smaller reinsurance companies.

Mr. Jacob says it's hard to believe that a large market, like General Re, will go bankrupt over the industry's current problems, yet some smaller reinsurers may not be reserving adequately enough for the more volatile risks they are taking and do not have the ability to "absorb mistakes" like their larger competitors.

"I wonder about the smaller companies that have become more aggressive in the last few years. It's hard to see that they have the people that the larger reinsurers have," he adds.

Not only are the new reinsurance markets criticized for their lack of experience, but also for creating the glut of reinsurance capacity that is a boon for the corporate insurance buyer who gets lower rates but a bane to the reinsurers who are forced to compete even more heavily and develop new contract terms and pricing that may eventually lead to poor results.

The "chief culprits" in capacity growth are foreign reinsurers that, backed by their individual governments, have jumped into the U.S. marketplace thinking "our business is better than theirs," Mr. Patterson says.

Mr. Jacob says there is a tendency to label all the new entries as "naive capacity," but cautions that this is not always so, especially when large and well-established European reinsurers are involved. "These companies clearly have staying power," he warns.

Overseas markets do not deserve all the blame either, since many of the new entries are U.S. reinsurers. A General Re senior executive notes that the number of U.S. reinsurers has increased 110% in the past few years.

When will prices go up and why?

Reinsurers and analysts agree that several major catastrophes will have the effect of hardening rates. Yet some reiterate that with more reinsurers than in the last cheap cycle during the mid-1970s, the risks are spread more widely. One catastrophe probably won't do it.

They all agree that lower investment yields will cool competition considerably, although no one cares to guess when this might occur.

Mr. Galvan at Donaldson, Lufkin & Jenrette had hoped to see some firming of rates this year and next. But this "is just not going to happen" since too many treaty contracts are being renewed at even lower rates, he says.

The best he can predict is a "modest decline" in earnings of 5% to 10% this year and in 1982, rather than the 20% drop predicted earlier.

Mr. Galvan says most reinsurers' loss reserves do not look too bad, and he does not buy the big-bang scenario of a market change. In this picture, a "big chunk" of the industry gets into trouble, some reinsurers go belly up and the markets reacts by firming rates across the board.

Reinsurers usually have "piecemeal" problems, he says, leading managements to make more gradual changes.

He also says loss history has to be bad for three to five years before the climate is really ready for change.

Another analyst, Bob Brokaw at Mavon, Nugent & Co., feels the major reinsurers are in "good financial shape" and could withstand most shocks that might occur. Combined ratios are up, he says, but are not alarming.

"The big ones are well-reserved," he adds. "They're looking back at 15 years ago and constantly increasing reserves to counteract deficiencies that might occur."

If financial stability is a problem, Mr. Brokaw says, it might be among some retrocessionaires for the major reinsurers, which he describes as the "fringe market."

While major reinsurers continue to do business with those companies, he says, some are very concerned about their stabiliy and may go as far as to request financial data or even letters of credit. ■

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Competitive market raises fear of losses

By JAMES LAWSON

Losses. The mere mention of that word sends shivers up the spines of reinsurers, even though they are on the second line of risk bearing behind the primary insurers.

Just like any underwriter, no reinsurer likes to hear about losses, but they all realize they are an inevitable part of the business.

The object, they say, is to only assume the amount of risk you can afford, but intense competition in the reinsurance marketplace makes that easier said than done. One big loss could rock the market and send out ripples through the entire insurance industry, leading to higher commercial insurance rates.

Heavy short-term or long-tailed losses could "knock any undercapitalized reinsurer out of the water," some industry experts say.

And no one wants to have cash-flow problems when disasters, like a California earthquake, a Hurricane Betsy, two colliding 747s or an exploding oil rig, press the industry.

"Natural disasters tend to be cash-intensive," explains John C. Etling, senior vp of General Reinsurance Corp., the nation's largest reinsurer, "because they come quickly and claims have to be paid out rather quickly.

"If you're lucky, you hope they don't happen during your career," he says.

While many reinsurers fear natural disasters, many others say they are also terrorized by precedent-setting product liability cases like those related to DES, the drug that expectant mothers took to prevent miscarriages in the 1950s and 1960s and that is now blamed for causing cancer in their daugthers.

Robert Hall, vp of claims for American Re-insurance Co. in New York, remembers how reinsurers were affected by a court decision that made all manufacturers of aluminum wiring liable for losses in the Beverly Hills Supper Club fire in Southgate, Ky. (*BI*, Jan.26).

"They (the court) couldn't find the manufacturer of the wiring that had been installed so they made all manufacturers pay based upon their industry market share," Mr. Hall says.

Such a decision means insurers and their reinsurers get hit, even when their policyholders may not have provided the aluminum wiring that was blamed for the loss.

Unlimited medical coverages, like those included in workers compensation packages, as well as record court awards are other worries, industry officials says.

A litigation-minded society has brought more claims and lawyers representing plaintiffs are asking for extremely high awards. Juries hearing those cases are responding with large judgments, they say.

"The concept of entitlement—the general feeling that someone must compensate us for anything that besets us—is another major concern," says Clyde F. DeWitt, president and chief executive officer of Employers Reinsurance Corp. "Few people are willing to accept responsibility for their mistakes."

Despite growing exposures and possibilities of loss, the reinsurance market is still very competitive. While a few reinsurers are trying to assume less risk as values and liability awards grow, others follow the lead of the retail insurance market and are cutting rates to generate cash, assuming a higher percentage of risk and are retroceding less to their own reinsurers.

Some industry experts believe this may eventually pinch some reinsurers and that they may find themselves stuck with large long-tailed losses from growing exposures like asbestosis. The experts say the real punch could come in the future: five, 10 or 15 years after signing a reinsurance agreement.

Patrick Steele, vp of Thomas A. Greene Co. Inc., a reinsurance intermediary subsidiary of Alexander & Alexander Services Inc., believes reinsurers can effectively guard against extreme losses by carefully plotting their potential losses. They can maintain comprehensive up-to-date statistics and try to forecast the future, he says.

They should also keep loss reserves up to calculated needs, he suggests.

"We try to figure out a level of loss we're comfortable with," adds Christopher Garand, vp and actuary at American Re-insurance.

"Comfort" means no more than $5 million at risk on natural disaster coverages or property insurance and no more than $1 million on general casualty coverages, he says.

"If I were coming into the marketplace assuming long-tail casualty business, I would try to hire the best underwriting staff I could find," Mr. DeWitt says. "I also would seek out a very knowledgeable reinsurance actuary."

The competition, however, can get in the way of such careful planning and discipline.

"Haven't you been hearing the screams?" T.J. Strenk, president of INA Reinsurance Co., asked rhetorically during a recent conversation about the reinsurance market. "Overcapacity in the market is a more pressing problem than the economy. Expect competition to be great for another year." ■

Malaysians cut foreign reinsurance

KUALA LUMPUR, Malaysia—Reinsurance placed abroad by Malaysian insurers last year totaled $40 million of the nation's gross premium income of $173 million.

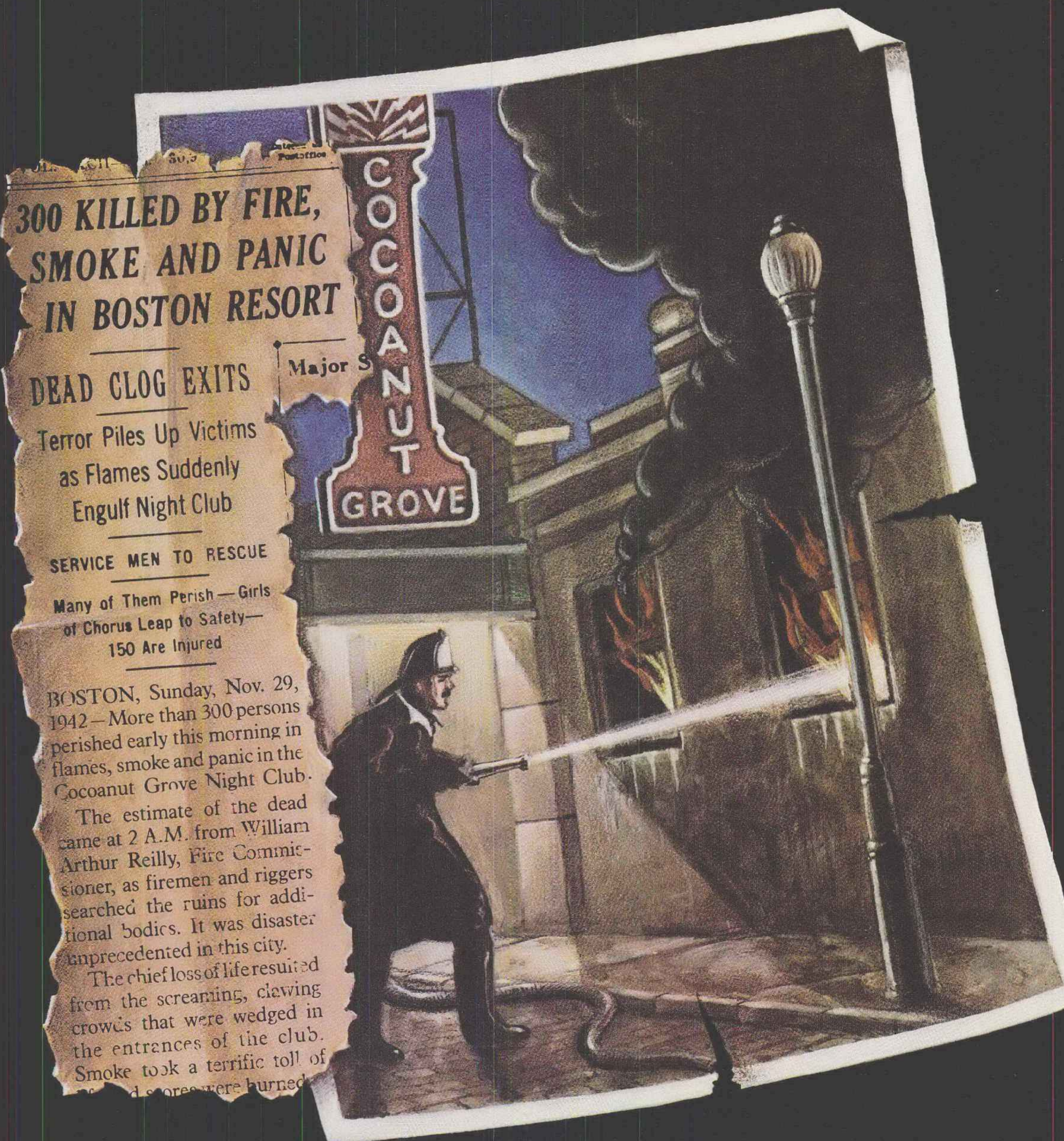
Claims recoveries under these agreements reached $18 million, according to results released by the Malaysian Finance Ministry.

This amount of reinsurance going abroad represented about 22% of the premium income in 1980, compared with 24.5% in the previous year. Before that, reinsurance placed overseas represented between 17% and 19% of the premium income, which has more than doubled in the past six years.

Reinsurance placed internally in Malaysia last year reached $60 million, almost exactly the same as the previous year.

The Malaysian insurance industry made an estimated $800,000 underwriting profit last year, compared with a $300,000 loss in 1979.

Decade after decade, the cost of America's



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North Sea Oil Platform Collapse

LONDON, Friday, March 28, 1980—An oilfield platform with more than 200 people on board collapsed in the storm-lashed North Sea, tossing many into the water and trapping an estimated total of 50 in a section that appeared to be submerged. More than 60 people were believed to be missing.

A large-scale rescue operation, which was to include the use of diving bells, was under way in the disaster, one of the worst in the history of offshore oil operations. As of early this morning, 91 survivors had been plucked from 30-foot waves. British helicopters search operations were resumed this morning after being called off because of poor visibility, high waves and strong winds.

208 people were aboard the structure when it collapsed.

Sixteen of those rescued clambered onto an adjoining platform with others taken from lifeboats and rafts. Fears were

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Reinsurers view captives as a lifeline

By LISA BERGSON

Once scorned as insurance interlopers, captive insurance companies are now pampered and courted by reinsurers who see servicing them as a key to survival.

As James Dowd, executive vp of Skandia Group in New York, says, "Five years ago a lot of reinsurers saw captives as a device to remove business from the insurance industry. Now they're viewed as an alternative self-insurance mechanism that presents opportunities to the industry to participate as well."

"Traditionally, we wanted to protect our relationships with the existing carriers," agrees Roger Grenier, an assistant vp responsible for captive coordination at the General Reinsurance Corp. in Hartford, Conn.

"But we're all faced with a shrinking book of business, with lowered prices and new competition," he adds. "And some of the places where we feel we can grow are captives and self-insurers."

Also, captives generally lack the full-scale facilities, expert personnel and experience of a major reinsurer.

Clyde DeWitt, president and chief executive officer of Employers Reinsurance Corp. in Chicago, says, There have been a few captives that have expanded rapidly into the assumed reinsurance area, taking on some of the most difficult casualty exposures without needed underwriting knowledge and pricing discipline."

Thomas Miller, chief executive officer of Dallas-based Scor Risk Management, a subsidiary of Scor Reinsurance Co. concurs. "There's been a lot of bad business ceded to captives because of their eagerness to write reinsurance," he says.

To help captives avoid such errors and to increase profits, a handful of reinsurers, including Scandia Re, General Rè, Prudential Reinsurance Co., Scor Re and Trenwick Re, are offering captives a spectrum of services in competition with some of the primary insurers who also service captive business.

General Re, the nation's largest reinsurer with $724.9 million in premiums in 1980, started a captive and self-insured unit of its underwriting department three years ago.

This group assists captives in determining the desired amount of risk transfer, predicting losses and handling reserves and claims; provides financial, legal and tax advice; and supplies data processing, underwriting and loss-control programs, like rehabilitation services for employees.

Compared to other reinsurers, General Re contends it has a wider service network, with two specialists in each of its 17 locations.

"We're attempting to generate as much direct contact with accounts as we can," Mr. Grenier says. So, General Re tracks risk managers to solicit business through Risk & Insurance Management Society meetings, presentations to other professional organizations and research on major corporations.

Scandia Re works with captives through its offices in Bermuda, offering individualized programs that may include reinsurance, underwriting capabilities or simply management services like accounting and bookkeeping.

Unlike General Re, Scandia Re does not directly solicit risk managers. Instead, it relies on reinsurance intermediaries or brokers.

While General Re and Scandia Re choose to assist captives in writing reinsurance, almost as if they were subsidiaries, other reinsurers may view such methods as simply creating more competition.

George Nimmo, president of Prudential Re, downplays this threat, however. "With capacity and expertise, the established reinsurers can continue to maintain their competitive edge."

Another "broker market," Prudential Re, headquartered in New Jersey, is the fifth-largest U.S. reinsurer and had 1980 net premiums of about $322 million, according to the Reinsurance Offices Assn. Mr. Nimmo says an increased portion of premium is coming from captives.

Prudential Re has an underwriting marketing group that helps intermediaries and occasionally risk managers obtain reinsurance for captives.

"We can evaluate, set up and price their programs," Mr. Nimmo says.

Trenwick Reinsurance Group, based in Norwalk, Conn., with a Bermuda reinsurer, has also developed some fairly elaborate reinsurance options for captives. In addition to the more common forms of reinsurance, such as excess of loss and stop-loss protection, Trenwick endorses several methods to either enhance tax deductibility or increase cash flow.

For example, since the Internal Revenue Service doesn't recognize captives as insurance companies entitled to tax deductions for individual case reserves or for incurred but not reported losses, James Billett, Trenwick's chairman and chief executive officer, proposes an alternative.

"The simple answer is to have the captive reinsure those liabilities and convert them to reinsurance ceded by the end of the fiscal year," he explains, labeling this device "loss reserve reinsurance."

Furthermore, Mr. Billett notes, the captive may arrange to receive credit in the form of discounted reserves from the reinsurer in acknowledgement of lost investment income.

Scor Risk Management, among its services, will even help captives link up with reinsurers other than Scor Re. "We secure reinsurance where ever we can find the best deal," says Mr. Miller of Scor Risk Management.

In business since 1978, Scor Risk Management was a pioneer in so-called unbundled services: helping captives service claims, manage finances, handle investments and prevent losses, as well as secure reinsurance.

These days, Mr. Miller sees no difficulty in reinsuring captives, although he believes "it takes a little more creative underwriting."

"You're starting off with a new, unknown company with unknown problems," he adds. "Normally reinsurers just massage the numbers that are already worked out by primary insurers."

So far, the consulting firm has drawn what Mr. Miller describes only as a "small" number of offshore captives to its fold. He attributes this to general inactivity in the captive markets in these times of bargain rates for conventional insurance. ■

Aviation rates may soar as the reinsurers shrink

By STACY SHAPIRO

LONDON—Aviation insurance premiums may soar to new heights next year if the reinsurance market shrinks by 20% during this treaty renewal season, market sources say.

If there isn't enough reinsurance capacity for the world's airline risks, prices will have nowhere to go but up.

"We haven't had a reducing market like this for 10 years," one aviation reinsurer said. "Brokers and underwriters may find they can't write on the rates they used to because they won't be able to complete the risk on a quota share basis."

That's why aviation rates next year may rise another 10% over the 10% to 15% rate increase policyholders saw this year, one aviation reinsurance broker predicted. And deductibles may also be increased for 1982 above the $600,000 to $1 million that the airlines had to swallow this year.

If the crunch appears in the aviation market next year, it will be because reinsurers this year are demanding good loss records on proportional and quota share treaties. They are refusing most treaties that have poor loss records attached.

"It's more of a realignment in the aviation reinsurance market," said the aviation reinsurance broker. "Reinsurers are looking to increase the lines on the good business and come off of the bad ones."

The move to accept only reasonable business came from the more established reinsurers, like Munich Re and Swiss Re, about two years ago when aviation losses were quickly climbing. When considering proportional treaties, the established reinsurers refused any long-term policies that were ceded to the treaties.

They tightened up on profit commissions and cash returns for good loss experience. And they cut back on contributions to the loss reserves of the insurer.

"Munich Re confirms they are tightening conditions again this year on aviation renewals," said Uli Eichen, managing director of Munich Re in London. "We are not going to give coverage to certain people."

But the entire London aviation reinsurance market is now getting into the act, says Eliot Chorley, divisional director of Willis, Faber & Dumas Ltd.

"Practically everyone's talking about loss reserves in their renewal treaties this year," Mr. Chorley said. Reinsurers will also ask for between 4% and 5% interest on any reserves held by the insurer.

Terms may also tighten on overriding commissions for proportional and quota share treaties, says Lloyd's of London aviation underwriter David Dann. And the three-year treaty contract has been replaced with a 12-month contract.

"There will be a hardening of the aviation reinsurance terms by the end of the year," said Mr. Dann, who was one of the leaders on the 1979 American Airlines DC-10 crash in Chicago.

"We are pulling out of the bottom of the cycle. The reinsurance rates are hardening. Everything's hardening," Mr. Dann said.

Some aviation reinsurers say, however, that the hardening of the aviation market is long overdue. Rates plummeted in the early 1970s when the new wide-bodied jetliners were introduced and capacity increased. But as the jumbo jets took to the air, more crashes resulted and reinsurers were forced to pay huge losses on nominal premiums.

Now they hope that the crunch in aviation reinsurance capacity will increase premiums to a reasonable level.

But while it's pretty certain that aviation insurance premiums will rise next year because of this year's reinsurance crunch, no one knows exactly how high the increase will be. There are many factors that could soften the expected increase, now estimated at 10%, sources say.

"There is still enough capacity

Continued on next page

Aviation rates take off as reinsurance shrinks

Continued from preceding page
available for the world's aviation insurance, but rates may go up," said Lloyd's aviation underwriter Harry Coleman. "People are talking that it's going to be a tough renewal season, and it probably will be," said Mr. Coleman, who is also chairman of Lloyd's Aviation Underwriters Assn.

Mr. Coleman said he would be "overjoyed" if the reinsurance capacity crunch does occur. But other factors may ameliorate the reduction in resinsurance capacity.

To begin with, new aviation coverage capacity has just come into the market. The Arab Insurance Group just opened its doors in Bahrain with $3 billion in capitalization, although only $150 million is paid up. This new blood could loosen the tightened market.

And losses for 1980-81 haven't been as bad as in the past several years, which may soften the rate increase insurers may see next year, said one reinsurance broker.

"Last year we thought the reinsurance that was curtailed would give us a 25% to 30% rate increase in aviation reinsurance policies this year," the aviation reinsurance broker said. "What we saw was 10% to 15%.

"And this year it will be more difficult because 1980-81 results have seen no major losses yet. How can you go to an airline and ask for a 10% increase in premium above last year's increase when he's had no losses?" ■

Arab group opens doors

BAHRAIN—With $3 billion in capitalization, the Arab Insurance Group BSC opened its doors to business last month.

More than 550 people showed up at a party on the Persian Gulf island to listen to American-educated Fawzi Musaad Al-Saleh open the Mideast insurance market.

"ARIG intends to maintain and project its Arab identity, and to provide a means for Arab nationals to develop the skills required as leading insurance professionals," he said.

Arab nationals are being educated overseas and at the Arab Insurance Institute to help widen the capacity needed in today's multinational insurance market.

"I believe we owe it to ourselves to make ARIG a bridge between the insurance communities of the developing and developed world," he said.

With $150 million of its capitalization already paid, ARIG hopes to earn about $100 million in gross premium income this year and employ about 100 people.

The London insurance market, however, is putting out warning lights for anyone using the new Mideast insurance group. There are no insurance regulations or capacity requirements in Bahrain to control the group, some say, adding that the Middle East isn't a stable marketplace.

As one Lloyd's of London spokesman put it, are Americans really going to put their business trust in the Middle East? ■

State regulators call for increased reinsurance data

By STEPHEN TARNOFF

CHICAGO—Despite horror stories about insolvencies and claim denials in the reinsurance marketplace, reinsurers, intermediaries and corporate insurance buyers generally don't see the need for additional regulation.

Some state regulators, however, are calling for additional information and increased monitoring of a field that they say has largely been ignored.

Reinsurers are not regulated to any great extent by the states. To be licensed, reinsurance companies must meet the same financial, auditing and capital and surplus requirements as standard insurance companies.

Reinsurers can also do business in some states where they are not licensed as long as they obtain a license in at least one other state.

But reinsurers have always been free when it comes to setting rates and forms with direct insurers.

"They are not regulated as to the rates they charge or to the contents of contracts," says Frank Nutter, president of the Reinsurance Assn. of America. "It is an open and competitive market."

The reinsurance market has grown tremendously in recent years, however, and the threat of reinsurance company failures combined with allegations of fraud by some reinsurance intermediaries has caused many regulators to call for a closer look.

Several lawsuits involving a variety of risks, including the major league baseball club owners' strike insurance and high-limit liability risks, have charged intermediaries with misrepresentation.

"My concern in reinsurance is that it is so poorly regulated or unregulated that it is susceptible to the worst type of predators," says New York Insurance Commissioner Albert Lewis, who also chairs the Special Sections Committee for the National Assn. of Insurance Commissioners.

"My concern is also that the entire structure of the insurance industry is based upon a structure that is essentially reinsurance. It's very, very frightening to me as a regulator."

Mr. Lewis says there is a need to get confirmations in the hands of the direct insurer with no equivocation as to the identity of the intermediary and who is handling the money.

Arkansas Insurance Commissioner William H.L. Woodyard III says that regulators don't necessarily see a problem, but that "we have inadequate information as to placement of reinsurance and the likelihood of the ultimate reinsurer to pay. We really don't know that much about the reinsurance market."

He emphasized that this does not necessarily mean the industry needs to be regulated. But because of the "many new players" in the game and allegations of fraud concerning reinsurers that have been unable to pay, there is a need for more information.

Illinois Insurance Director Phillip O'Connor agrees. "Nobody knows anything about reinsurance," he says. "The approach has been to treat it as mystical when it really shouldn't be."

The need to understand the relationship between the primary insurer and the reinsurer and the path that reinsurance often takes is of primary importance, he says.

Mr. O'Connor says it is possible some reinsurers underprice risks to obtain cash and that some primary insurance companies may base their prices on the reinsurance rate.

One tactic the state regulators are considering is to work closely with the American Institute of Certified Public Accountants to standardize reinsurers' financial reporting.

Continued on page 30

Reinsurers oppose added regulations

Continued from page 28

Some states are also putting a greater burden on primary insurers' accountants and actuaries who prepare financial reports dealing with reinsurance companies.

"I'm not suggesting we have a huge problem," Mr. O'Connor says. "But we might and not know it. We have to begin developing an approach to fairly standardize the statistical base companies use so we can make judgments on profitability, etc."

Reinsurers and other industry spokesmen, however, strongly oppose increased regulation.

"I hope they don't move too rapidly in this area," says Jack Smith, an insurance lawyer active in the reinsurance field. "Reinsurance is not an area where regulation is warranted or where it can be effective."

Mr. Smith suggests some of the calls for regulation are due to the growing number of reinsurers, many of which have not been introduced to the traditions of the reinsurance field. Thus, it is more difficult for those in the industry to sit down and settle their problems.

One answer would be for reinsurance buyers to be more cautious, he adds.

"We shouldn't change the regulatory structure on the basis of a random misfit," he says.

A spokesman for one major reinsurance company said states should enforce current regulations that allow primary insurers to take credit for reinsurance only when the reinsurer is an authorized company, or when funds are put on deposit.

"There has been a tendency in recent years for insurance departments to accept relaxed standards for reinsurance for the credit that will be granted," the spokesman says. "It can lead to cases of noncollectible reinsurance.

"In effect, states abandoned the effort to determine if reinsurance companies have assets or not," he says. In some cases, "reinsurers" that are not even reinsurance companies are listed on ceding company reports, he charges.

'I hope they don't move too rapidly,' Jack Smith says.

"The fault is with the regulator. He's not enforcing the ones (regulations) we've got."

Reinsurance intermediaries, or brokers between the primary insurer and the reinsurer, also have attracted criticism. Many spokesmen for intermediaries, however, don't believe regulation is the answer to any problems.

One way to prevent failures in the system is to make sure intermediaries are audited, says William Eyre, executive vp of Intere Intermediaries in New York. Intere fills out a questionnaire explaining how it handles funds, and it supplies statements to reinsurers showing that funds are not commingled.

He said it is up to reinsurers to make sure that they are dealing with reputable intermediaries because "they are on the hook for the money."

Some buyers also don't see the need for additional reinsurance regulation. Robert Mattucci, administrative manager of corporate insurance for General Tire Corp. in Akron, Ohio, says the company has "never had a problem with reinsurance carriers and I don't see a need for it (regulation)."

A lot of reinsurers write such small percentages of the risk that they really won't have to pay out too much, he adds.

Debbie Gilbert, manager of risk administration for BFGoodrich Co. in Akron, says that the company's main concern is with the policy issuer. By using only reputable insurers, it does not have to concern itself with whether a reinsurer will pay any claims it underwrites.

"We're pretty satisfied with the way it (reinsurance) is," she says, noting she fears government regulation might cause more problems than it solves. ■

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...out any ability can ...ange reinsurance," ...nexperienced buyer will get burned because he follows the line of least resistance straight to new reinsurance companies and captives."

Aside from the influx of novice intermediaries, established companies must contend with the fact that they are virtually cut out of the leading markets for reinsurers.

The very top reinsurance companies—General Reinsurance

Continued on next page

The 'first, second and third most important words' must be security, Ian Heap says.

Complicating the task of understanding intermediaries is their penchant for secrecy, which makes it hard even for insiders to gauge how many intermediaries there are. Estimates for the United States range between 40 and 150 firms.

"There are more intermediaries than there is capacity to sustain them," sums up Thomas Greene, the president of Thomas A. Greene & Co., a recently created subsidiary of Alexander & Alexander Services Inc. looking to become a major force in the business long dominated by names like Guy Carpenter & Co., Willcox Baringer and E.W. Blanch.

Indeed, with intermediaries vying among themselves as well as with consultants and a new breed of risk manager who would sooner do it himself, they are having to step lively just to keep up.

For the buyer, this may signal more favorable pricing and special services as intermediaries hustle to put together competitive packages for primary insurers, be they commercial insurance companies or captives.

But beware of an intermediary

Intermediaries cut out of largest markets

Continued from previous page
Corp., American Re-Insurance Co., North American Reinsurance Corp. and Munich Reinsurance Co. —have their own sales forces and do not deal with intermediaries.

If they are to survive, intermediaries must emphasize their strongest selling points. For example, at G.L. Hodson, which serves 50 major insurance companies, the accent is on longevity.

In the business for 57 years, Mr. Hodson concentrates his 100-man staff mainly on basic treaty business—bulk risks as opposed to a single, so-called facultative risks.

Mr. Hodson places business with more than 100 companies worldwide, most of which "we've known as long as they've been in business," claims the company chief.

In another instance, Paul Napolitan Inc., focuses on offshore reinsurance, claiming to be the "largest overseas broker" and the seventh-ranking intermediary.

Foreign firms make up 60% of Mr. Napolitan's 300 reinsurers, the managements of which he "knows personally."

He also prides his company on its ability to carry out retrocessions or reinsurance of reinsurance. "Your ability to do retrocession enhances your capacity to do reinsurance," he says, pointing out that 35% of Napolitan's portfolio consists of rétrocessions. In contrast, he asserts, "A lot of intermediaries have programs they can't complete."

Napolitan derives 60% of its business from the American International Group and 40% from other international insurers.

These include captives, which make up 5% of the intermediary's business, a percentage that Mr. Napolitan expects to increase slightly.

"The captive managers haven't been in business long enough to establish the contacts nor do they have the time and the interest to do as good a job as a broker."

In yet another instance, Richard Wiley Inc., a 2-year-old subsidiary of Crum & Forster Managers, attempts to distinguish itself through its association with the New York State Insurance Exchange. Although practically all the leading intermediaries are exchange members, "We wanted to give our operation an identification, and we've chosen the exchange," says Ian Heap, a director of Richard Wiley and president of Crum & Forster Managers.

The bulk of Wiley's business derives from Crum & Forster, which gives the intermediary "first opportunity on some business," according to Mr. Heap. However, he aims to draw a larger portion of non-Crum premiums over time.

Peter Black, chairman of Willcox Baringer & Co., a subsidiary of Johnson & Higgins, adds retrocession facilities. "There's always been less capacity for retrocession. People would rather be on the front end than on the back end."

If they differ in their areas of expertise, the intermediaries interviewed were almost uniform in their criteria for evaluating reinsurers. "We look for stability based on financial and staying power," Mr. Hodson says.

For his part, Mr. Napolitan favors "small, well-balanced reinsurance companies with a proper balance between net premiums and policyholders' surplus." As a rule, he wants a ratio of 2-to-1 to 2.5-to-1.

Agreeing that the "first, second and third most important words have to be security," Mr. Heap opts for more flexibility on ratios. "It depends on the volatility of the business that's being written," he notes. "The more predictable and stable the exposure, the higher the risk ratio you can have. So you really want to know what that reinsurer is doing."

The intermediaries' principal sources of information on reinsurers are first-hand experience, Best's Insurance Reports for U.S. companies and a combination of financial documents and advice from London brokers for foreign firms.

In addition to structuring and placing reinsurance programs, intermediaries inform their clients of their reinsurance needs, availability and conditions.

The fees paid by the assuming company consist of a percentage of the pass-through premiums. In most cases, this works out to be 1% to 2% of pro-rata business—by far the most common and higher volume approach, calling for the reinsurer to share a portion of the total risk—and 5% to 10% of working excess—wherein the reinsurer is responsible for a given layer.

While the latter carries the potential for higher losses, they also entail fewer administrative expenses, since the rate of loss is often less frequent.

Despite the competition that laces every aspect of today's insurance market, intermediaries still lay claim to loyal followings. In treaty business, which offers greater continuity and consistency than facultative business, Mr. Heap observes "a good insurance intermediary becomes a trusted adviser to his client." ■

Korean Re premiums rise

SEOUL, South Korea—Korean Reinsurance Co. wrote gross premiums last year of $320 million and retained $84.3 million after reinsurance.

Net losses paid was $54.4 million and the loss ratio was 64.5%, almost the largest on record for the company.

The reinsurer faced a worse situation only seven years ago when it had a loss ratio of 80.6%. Since then the loss ratio has fluctuated between 50% and 60%, except in 1968 when it improved to 41.7%.

The loss ratio last year deteriorated partly because of major losses, like the missing ore freighter Hae Dang Wha and a fire the erupted on a Korean Airlines Boeing 747 during landing.

The company suffered an underwriting loss last year of $9 million, but investment income totaling $9.5 million helped the company to report a profit of $473,500.

Since 1963, the company has constantly increased its premium flow, which was only $1.3 million that year.

In 1979, the firm's premium was $303 million, with $81 million retained for its own account.

In 1976 it was $126 million with $19 million retained, and in 1971 premium was $28 million with $5.5 million retained the reinsurer reported in past years. ■

Are new international reinsurers secure?

By JAMES LAWSON and LISA BERGSON

NEW YORK—Today's sluggish economy has created a market basket full of inexpensive reinsurance capacity, but many insurers are shunning those bargains for security and service.

Others, responding to competitive rates from new alien, captive and domestic reinsurance entrants, are rummaging for bargains in an international marketplace with an abundance of capacity.

No one buying trend defines the reinsurance market, but all recognize that strong international growth brings some new market questions.

A few new entrants have some industry experts concerned that they're not serious, lack the expertise to properly price and underwrite risks and may be undercapitalized and unable to sustain a large or long-tailed claim.

Industry officials also wonder if reinsurers are undercutting rates too feverishly and are assuming some risks too hastily. A hardening of the market, they say, could put a strain on some reinsurers.

Political uncertainty could also make some foreign reinsurers unattractive because companies may be reluctant to put premiums into a country that is unstable.

> "The U.S. is the biggest (market) but not the smartest," Paul Napolitan says.

The Arab Insurance Group, a Bahrain-based company with support from Libya, Kuwait and the United Arab Emirates, is one new reinsurer and is hoping to overcome ill feelings created by its Libyan involvement.

Warren Gash, a company spokesman, contends the current rift between the United States and Libya will have no impact on ARIG use by Americans.

"It's a commercial concern, not a political concern," he asserts. Launched in October, ARIG has authorized capitalization of $3 billion with $150 million paid in (see related story, page 26).

This new venture, proclaims ARIG Chairman Fawzi Mussard Al-Saleh, is the "beginning of a major development in world insurance."

Mr. Al-Saleh projects first-year gross premiums of $100 million and contends ARIG will lead on rates. Given its large capacity, the company could set prices on gross lines, undercutting the market.

Mr. Al-Saleh says his company is committed to fostering insurance expertise. He proudly notes he has many trainees in insurance colleges and will soon provide 40 scholarships a year to Arab students.

U.S. industry experts are anxiously waiting to see if ARIG can pull it off.

A few other foreign countries are filled with growth potential and may eventually prove to be good markets for clients seeking new reinsurance marketplaces, but their use is frequently debated.

Paul Napolitan, president of Paul Napolitan Inc., a New York reinsurance intermediary, favors the British overseas market because "they have a greater sense of long-term outlook on business than do U.S. firms.

"The U.S. is the biggest (market) but not the smartest. The British are smarter; they've been at it longer than we have," he says.

Ian Heap, director of Richard Wiley Inc., another New York reinsurance intermediary firm, likes the London market for its "history and security," but he first turns to the United States.

"It's a safe, regulated market," he explains. "Security is the most important."

Graves D. Hewitt, the chairman and chief executive officer of Cameron & Colby, agrees. "The action is here," he says, explaining the breadth of the U.S. insurance market.

Some believe that the insurance action has been so lucrative that U.S. firms now control 75% of all reinsurance transacted here.

Seventeen percent of the business goes to London and 6% is passed on to foreign firms.

Reinsurance activity generates about 10% of all property/casulaty insurance premiums.

The U.S. controls 45%—or $10 billion—of all the world reinsurance market.

Japan is second with 14% of the international market "but doesn't have growth potential," says Mr. Hewitt.

Many Western European markets and Bermuda also are attractive.

Some of the other major reinsurance markets are:

- **West Germany,** the third-largest reinsurance market with 10% of the market share, has good growth potential.
- **France,** operating with nationalized insurance companies, now controls 5% of the reinsurance market.
- **Great Britain,** like France, controls 5% of the international reinsurance market. Many industry experts say it is a safe and stable market. But others see the country as "forever on the verge of bankruptcy."
- **Canada** controls 3% of the international reinsurance market. It's considered to be a great territory, but has "no desire to grow," says Mr. Hewitt.
- **The Netherlands, Italy and Australia** each control 2% of the international reinsurance market. The Netherlands, Mr. Hewitt says, is "underwater," Italy has "too many governments" and Australia is too much like Canada.
- **Bermuda** is considered to be a fine market that's not a leader. It doesn't set prices. Mr. Heap describes Bermuda as a market "to be reckoned with, since it is growing and attracting experienced people. However, like any new market, it has its troubles."

Long-tailed business from London, like asbestosis, has been placed there and will eventually bring losses, he explained.

- **The Cayman Islands** are not yet taken seriously. The Caymans are considered by many to be good for those seeking a tax shelter.

"Anyone who deals with anything in the Caymans," says Mr. Napolitan, "ought to be in another business." ■

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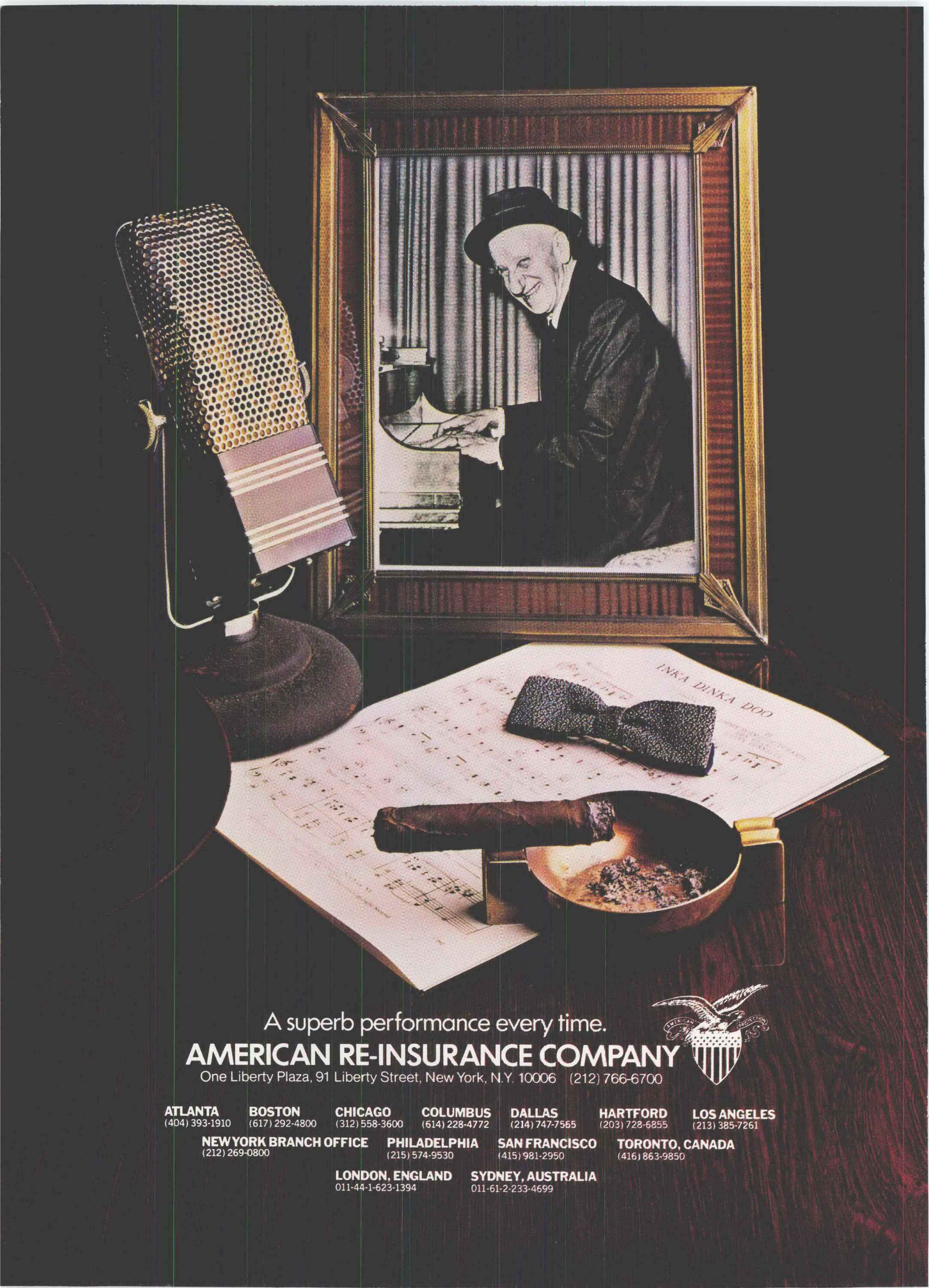
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perspective

A lesson in rating

Risk managers play reinsurers for day

By Bruce Evans

INTEREST IN THE inner workings of reinsurance continues to grow at all levels of the insurance and risk management profession. At the University of Dallas' 18th consecutive educational program in reinsurance, 30 participants, including eight risk managers, raised a series of interesting reinsurance questions while analyzing a fictional reinsurance purchasing case.

Bidding on the reinsurance for a fictional insurer, the Red Fox Insurance Co., the non-reinsurance and risk manager participants, after applying traditional loss analysis, consistently bid much higher than reinsurance market experts.

Using a panel discussion approach, the University of Dallas seminar taps experts from the non-life reinsurance business to present basic approaches to reinsurance analysis, which the seminar participants can use to analyze a specific case. The faculty for this case study included G. Roger Greiner of General Reinsurance Corp., Richard Waterman of Associated Treaty Managers, Donald Fox of Texas Interocean and Gerry Radke of MONY Re.

After a general discussion of reinsurance basics, including the triangular approach to loss development analysis, participants put their knowledge to analysis of the case.

Using the triangular approach, a reinsurance underwriter studies the developed year-to-year incurred excess loss increases and compares them to the original year estimates. This analysis produces a pattern of reinsurance excess loss reserve accumulation.

Once a trend factor can be determined for the historical second-year incurred position, then the most recent year's stated claims are inflated appropriately to project the expected losses at next year's end. Similarly, the third and subsequent year's forecasts can be displayed to more accurately project reported losses that are in the process of development.

With that knowledge and background on a specific case, a reinsurance underwriter should be able to rate and bid on reinsurance for a company.

The seminar students were divided into four groups: North, South, East and West. They were asked to analyze the Red Fox request, which was for first-, second- and third-layer excess protection on casualty risks. Loss history, not particularly good or bad, was available, and the seminar group responded with a triangular analysis and a series of questions.

The questions interestingly represent the wide scope of data beyond loss history that reinsurance underwriters use in accepting or rejecting agreements.

For instance, the workshop team asked if Red Fox had entered or exited from any class of business (yes, they did!).

Also questioned was the percentage of trucking accounts, usually a high-risk area, within the existing portfolio of business (14% and rising).

A further inquiry from seminar members sought the reason why the exisiting reinsurers were withdrawing. A plausible reason was rendered but as in the case of authentic reinsurance situations, the real reason is seldom known by bidding reinsurers.

The Red Fox cover slip was technically examined for possible additional exposures to risk and seminar members spotted a clash cover potential, a situation in which separate reinsurance agreements are involved in single events.

After examining the risks, the required excess per occurrence coverage was divided into four groups:

- $200,000 excess of $50,000.
- $250,000 excess of $250,000.
- $500,000 excess of $500,000.
- $1 million excess of $1 million.

The seminar groups' bids for the reinsurance are listed in the chart, which expresses the quotes as a percent of standard premium, noting sometimes a provisional or deposit premium subject to a maximum and minimum charge depending upon actual losses. Actual losses are divided by the conversion factor stated to arrive at the charge for claims handling and other expenses of the reinsurer.

The quotes demonstrate how widely quotes can vary depending upon the judgment and ability of the underwriter, even with consistent data.

The panel's reinsurance experts also produced quite a different set of bids, which they felt reflected the competitive state of the reinsurance marketplace. The panel offered these terms:

- For the working layer of $200,000 excess of $50,000: developed losses plus a static 2% charge of standard premium, subject to a sliding scale of 8% minimum, 12% provisional and 20% maximum.
- For $250,000 excess of $250,000: a flat rate of 1.6% of standard premiums, using a $125,000 minimum and deposit premium.
- For the $500,000 excess of $500,000: a flat $50,000 fee.
- Since there would be no underlying policies of insurance with limits exceeding $1 million, the next $1 million layer would cost $15,000.

The industry panelists, however, all felt the coverage was underpriced. ■

Bruce Evans is a professor of insurance at the University of Dallas Graduate School of Management in Irving, Texas. He is the sponsor of the school's reinsurance education program.

The Red Fox Problem

Layer	West	North	East	South
$200,000 excess $50,000	4.5% min. 8% provisional 12% max. 100/75 conversion $640,000 aggregate	Declined to quote.	9.33% min. 101% provisional 12.75% max. 100/75 conversion	14.8% flat for both
$250,000 excess $250,000	4% flat $240,000 quarterly M&D	5% min. 8% max. 100/85 conversion	6% min. 8% provisional 10% max. 100/75 conversion	↓
$500,000 excess $500,000	2.5% flat $150,000 M&D	Declined to quote.	$25,000 quarterly M&D .25% flat	7.4%
$1,000,000 excess $1,000,000	1% flat $60,000 M&D	Declined to quote.	$10,000 flat	4%

M&D: Minimum & deposit Min.: Minimum Max.: Maximum %: of standard premium

Reinsurance anthology has something for almost everyone

By Kathryn J. McIntyre

books & ideas

"Reinsurance"
Edited by Robert W. Strain, CLU, CPCU
The College of Insurance, 123 William St., New York, N.Y. 10038
665 pages, $39.95

HERE'S THE ONE book on reinsurance that can introduce a beginner to the subject, refresh the understanding of someone who knows something about reinsurance and even engage an old pro.

The strength of "Reinsurance," published by The College of Insurance in New York, is drawn from the 23 reinsurance experts who contributed articles to this anthology on the insurer's insurance business.

From the opening chapter on "The Nature of Reinsurance" by industry veteran Henry T. Kramer through the glossary of reinsurance terms, the 665 pages of this book will teach, entertain and stimulate the reader in search of information on the business of reinsurance.

But its strength is also its weakness. As a book to pursue straight through, it becomes repetitious as one author repeats points made by another.

The book is better approached as a series of essays and used a reference guide to the reinsurance business, rather than be put on a risk manager's winter reading list.

Appropriately, the series begins with an article on the fundamentals of

Continued on page 39

Kathryn J. McIntyre, ARM, is editor of Business Insurance.

perspective

A new haven for captives?

The Isle of Man hopes to attract more insurers through new tax breaks

Map: Amy Palmer

By Ron Muckleston

THERE'S NOTHING fishy about the latest in a long line of "sun-drenched" offshore islands that is casting its net for the still-growing captive insurance market.

The island is one of the few Western countries where capital punishment is still legal (now that France has abolished the guillotine).

Also noted for its cats without tails (there is no truth in the rumor that the islanders cut them off to make cat-o'-nine-tails) and its kippers, the Isle of Man, off the coast of Great Britain, is the latest to court captives.

Three times as many people as were expected recently gathered in the now-crowded casino on this island of opportunity amid thunderstorms and near-freezing temperatues to hear the island's treasurer extol the virtues of the Isle of Man.

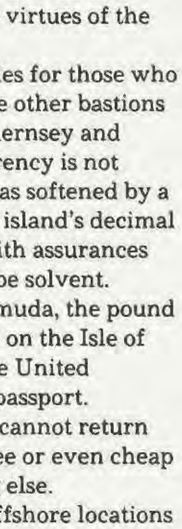
First, there were apologies for those who had come to spy from those other bastions of British colonialism—Guernsey and Jersey—because their currency is not acceptable on Man. This was softened by a very thoughtful gift of the island's decimal coinage to all attending, with assurances that the island would still be solvent.

However, unlike in Bermuda, the pound sterling is still widely used on the Isle of Man, and a visitor from the United Kingdom does not need a passport. Unfortunately, the visitor cannot return loaded down with duty-free or even cheap drink, tobacco or anything else.

If the pundit who said offshore locations were only used by executives seeking sun, booze and exotic women was correct, the the Isle of Man has a difficult task in attracting insurance business.

In practical terms, the island has much to offer. Those assembled compared many countries, some of which many delegates never heard, like Nauru and Vanuatu. But more famous locations, like Bermuda, Cayman, the Bahamas, Guernsey, Gibraltar, Hong Kong, Cyprus, Panama, Singapore, Malta, Seychelles, Turks and Caicos were considered.

Ron Muckleston is currently director and general manager of Marbarch Insurance Services Ltd. in London.



Topping the tables, after allocating points on a 1-to-5 scale on some dozen criteria, was the Isle of Man. But the top five nations were separated by only three points.

Why, then, should everyone rush to the Isle of Man? Some delegates thought that the rush would be so great that anyone with a captive in a low-tax location, like Guernsey, would uproot and move to the Isle of Man after royal assent is given to the island's Exempt Insurance Companies Act (*BI*, Oct.19). Their scenario saw existing low-tax areas bringing in similar exemption laws to retain and attract more business. The more enlightened saw this position as highly unlikely.

Companies who formed captives in a low-tax area did so for a reason, and presumably these reasons still pertain today. If not, then a move would have been made to zero tax location as soon as restrictions were lifted. The existing host nation will not change its laws—except to tighten controls—since it would have to attract an impossible number of new captives to offset the loss of tax from existing domiciled insurers.

The Isle of Man must therefore try to lure the formation of new companies and to absorb any others that are disenchanted with their present location for any reason. Government officials on the island have decided to woo not only the captive, but also insurance and reinsurance companies—both new and existing.

Any company looking for an opportunity to build up reserves quicker from tax-free income (including investment income) must give consideration to the Isle of Man. For a cost of only $500 for an insurance company license fee, plus an exemption fee of $1,500 per year and normally a $50,000 minimum capital (on which interest is tax-free to non-residents), anyone can set up an exempt insurance company if they have an acceptable business and management plan. Only the authorities will know who owns a company, secrecy being one of the benefits stressed by the island. Presumably, this will benefit only those financial wheeler-dealers who cannot face public scrutiny rather than true risk managers.

Risk managers may be asking themselves why they should consider setting up on the Isle of Man rather than elsewhere. Island officials stressed the unique stability of the island, having recently celebrated 1,000 years of self rule—something which no other government can claim. The island's special relationship with the European Economic Community also exempts it from any harmonization of insurance regulations, providing long-term stability for any tax-exempt insurance companies established.

For those looking to take in third-party business, reinsurance between tax-exempt companies is allowed. Precedent has been set by Isle of Man & General Life Assurance Co. Ltd. by underwriting travel insurance for a British travel tour operator with the tacit permission of British authorities without having to comply with British statutory requirements. Whether other companies could obtain such a status can only be determined by experience, but no other offshore captive location can claim to have achieved this recognition.

Anyone thinking of forming a company on the Isle of Man should be able to buy relatively reasonable office space or build their own on this underpopulated island.

The resident staff would pay a standard 20% income tax rate—not quite like working in a totally tax-free environment. Local staff in general are paid only about 60% of British levels, but how long this situation would last if demand exceeded supply is anyone's guess. With no capital gains tax, death duties, capital transfer tax or wealth tax, the island looks a good place to live, work and invest. It would almost certainly be cheaper for a British company to operate on the Isle of Man than on Guernsey or Bermuda.

Communications are good, but one has to be an early bird to take advantage of the early morning flights to the United Kingdom. There were many bleary eyes when conference participants boarded the bus to the airport at 5:30 a.m. The island, however, is convenient for a one-day business meeting in Ireland or the United Kingdom, unlike the more exotic islands.

As with any developed low-tax area, expertise of banking, law, trusts, investments, etc., is freely available, but insurance expertise is limited. It should not be long, however, before the pool of local underwriting, policy formulation, reinsurance brokerage, claims assessment and loss-prevention services are built up.

Operating a captive would involve transacting business in an agreeable manner with minimum regulation, which should be most acceptable for the professional risk manager. Island officials do not wish to attract the minority of whiz-kids who ignore basic management rules solely to avoid tax. Following this philosophy, the essential guidelines call for a 15% solvency margin (tangible assets to exceed net liabilities by 15%). Reinsurance particulars will also have to be submitted to support solvency calculations along with quarterly management accounts.

Whilst the Isle of Man does not, as yet, stand as an automatic choice and it lacks the mystique of Bermuda and Gibraltar, it will certainly be carefully considered when I advise my own clients on the feasibility and cost of operating a captive.

At the moment, the Exempt Insurance Companies Act needs some work. The island's treasurer has to build it up to keep the animal on the right course.

A lot of the "regulation" of captives and captive managers is left to the discretion of the treasurer, who is readily approachable and sees the benefits of well-managed insuance companies to his island.

The first few companies formed under the new Exempt Insurance Companies Act will doubtless have a smoother ride than those coming along after the authorities have gained experience in interpreting their own guidelines. ∎

Contributing to a company's retirement plan may result in greater tax breaks than IRAs

By Joseph S. Robinson
Attorney-at-Law

benefit tax slants

THE NEW TAX LAW increases the deduction for contributions to Individual Retirement Accounts to $2,000 ($2,500 for accounts maintained by a couple). More importantly, for the first time there's a big new tax break for participants in employer-sponsored plans starting in 1982.

It's an opportunity well worth considering since taxes are avoided on the interest or other income earned while the funds accumulate in the IRA. For example, if an individual is in the 25% tax bracket and deposits $2,000 in an IRA, it reduces his tax bill by $500 while the entire $2,000 continues to earn tax-deferred income.

In order for the employee to contribute to his company-sponsored thrift or pension plan and obtain the deduction, the company plan must specifically accept such contributions on a voluntary basis. In other words, the participant cannot be forced to contribute. Where a company thrift or pension plan does not provide for voluntary contributions, it can be amended to meet the new requirements.

Not all companies are willing to do this. Here's why:

A plan that is amended to accept deductible employee contributions needn't hold assets purchased with such contributions apart from the plan's other assets. However, where such assets, and the earnings thereon, are not segregated, it is expected that the accumulated tax-deductible contributions will be adjusted for income, etc., at least annually.

In addition, the new law requires such plans to provide certain reports to the Internal Revenue Service and plan participants. The time and manner for making such reports will be prescribed by the IRS. Failure to file such reports will result in penalties.

In view of the administrative problems entailed in keeping special track of deductible voluntary employee contributions, plus the additional reporting and disclosure chores they will involve, it is unlikely that many employer plans will be amended to accept them. Most employers will be inclined to advise their employees to set up an IRA.

Now, let's look at the situation through the employee's eyes. Suppose an employed individual can only afford to set aside $2,000 a year for retirement and is considering whether to start his own IRA or to put the money into his company's thrift plan.

Can the employee take a tax deduction if he elects the thrift plan? He cannot if the thrift plan is the usual kind in which the company matches employee contributions—typically, putting up 50 cents for each dollar deposited by the employee. In such a case, the employee's contribution would not qualify for the deduction, unless the company amended the plan accordingly.

But suppose the company refuses to alter its thrift plan. Is it better for the employee to set up his own IRA and take the deduction or to contribute to the thrift plan and obtain the benefit of the matching contributions by the company?

There is no black-and-white answer. Each case must stand on its own.

When the funds that have accumulated in the IRA are finally paid out at retirement, they are considered ordinary income and subject to an individual's regular tax rate, while the funds that have accumulated in the company thrift plan qualify for 10-year-forward averaging, a technique that minimizes taxes by spreading income over a 10-year period.

In certain situations, IRAs are preferable. For example, 10-year-forward averaging, which tips the balance to the company matching plan, is only available if the thrift plan funds are taken in a lump sum when an individual leaves the company. Employees who expect to reinvest the proceeds in an IRA or withdraw it in installments, and thus forfeit the 10-year averaging advantage, may be better off with an IRA.

IRAs are also preferable for workers who do not expect to stay with a company long enough to vest in the thrift plan.

However, funds placed in a thrift plan are more accessible than funds placed in an IRA and can usually be withdrawn after a certain period. Deposits to an IRA, by contrast, are frozen until a person reaches age 59½ and are subject to a 10% penalty if withdrawn before that. ■

Book has something for everyone

Continued from page 37

reinsurance—what it is, its purpose and how it works—by Mr. Kramer, formerly president of North American Reinsurance Corp. and Risk Exchange Inc.

Another 22 contributors expand on the themes.

Among them is Robert A. Baker, president of Hudson Reinsurance Co. Ltd. in Bermuda, who details why reinsurance is an essential part of the insurance business, affecting what is available to the ultimate buyer of insurance. He describes how private insurers use reinsurance to improve their capacity to assume risk while protecting them from catastrophic loss and protecting their earnings and even strengthening their financial position.

The nitty-gritty about types of reinsurance contracts and how they accomplish these goals is outlined by Ronald E. Ferguson, senior vp of General Reinsurance Corp., the largest reinsurance company in the United States. After reading this piece, you'll be able to converse about pro rate and excess of loss reinsurance with Americans and proportional and non-proportional reinsurance with international experts who prefer these terms.

The risk manager with a captive who wants to explore third-party business needs to understand reinsurance contracts. The chapter on contract wording by Robert F. Salm, assistant vp of the reinsurance division of Continental Casualty Co., discusses common contract clauses, suggests improvements for drafting contracts and points out problem areas.

With his usual wit, William G. Clark introduces a chapter on facultative reinsurance with the notation that "to the French, facultative is a baseball term meaning 'fielder's choice.' In reinsurance, it means the same thing." The former senior vp at General Reinsurance Corp. in charge of facultative reinsurance, who is now at Gulf Oil Corp., covers the field of this select reinsurance underwriting.

Within the same section, Walter J. Coleman, formerly senior vp at The Reinsurance Corp., lays out the ins and outs of pro rata treaties in property insurance.

The users of reinsurance are offered two specific chapters: One by John L. Baringer, retired chairman of Rochdale Insurance Co., describes where to find it, what to do there and what responsibilities are exchanged there. Richard F. Gilmore, president of The Merchantile & General Reinsurance Co. of America, outlines how to plan a reinsurance program.

The techniques of the reinsurer are laid bare in three chapters, each must reading for any risk manager taking a captive insurer into third-party underwriting. One by W.J. Gilmartin, senior vp at CNA Insurance, describes how reinsurance is marketed.

Laszlo K. Gonye, president of Skandia America Reinsurance Co., describes in great detail how to "underwrite the reinsured," noting specific concerns a reinsurer should address before taking the risks of another underwriter.

Maintaining the business once written is discussed by James D. Koehnen, president of American Reinsurance Co.

Finally, a six-chapter section addresses the reinsurer as a business concern, which will appeal to the reader heavily involved in the reinsurance business.

management

Good business writing is a key to management communciation

By Kenneth P. Shapiro

NOT EVERYONE who knows about a subject can write about it. That's why, when I began to write these columns, I contacted Dr. Edmund Weiss to find out more about good business writing.

"Every sentence you write runs the risk of being read," warns Dr. Weiss, who has crisscrossed the country during the last five years helping thousands of businessmen and women to improve their writing skills. He urges business writers to take as much pride in their writing as they do in the other aspects of their job.

"Ultimately, how well you communicate your ideas becomes the measure of their worth." A first-class thought presented in a third-rate letter is easily overlooked.

"No first draft is good enough to be a last draft," Dr. Weiss emphasizes. First drafts should be written as quickly as possible, but always according to a plan. Get your ideas out in an organized way. It is easier to fix sentences than to restructure entire memos or reports. So, remember, "the only 'good' first draft is one that's finished."

"Few people can write three organized sentences without a plan," Dr. Weiss says. Yet many never create a solid outline even before writing a long report, let alone a short memo. Determine what you want to say, decide to whom you intend to say it and then plan to say it in a way that is best for your audience. For instance, avoid jargon in a technical summary for non-technical readers.

"If you signed it, you wrote it," says Dr. Weiss, who warns busy executives that a secretary may get the blame for an embarrassing "typo," but it is they who will feel the repercussion either from a client or higher management. Copy must be proofread before it is mailed.

"The most important part of any sentence comes at the end," Dr. Weiss says in a sentence that proves his point. Another example is this:

Weak: "We cannot renew your policy because you have consistently been late with your premiums."

Stronger: "Because you have consistently been late with your premiums, *we cannot renew your policy*."

Of course, these are just a few illustrations of the writing tips that Dr. Weiss uses, not to make "great" writers, but to make bad writers competent and good writers better.

"You not only can help people become stronger writers," Dr. Weiss says, "but also help them handle their anxiety over writing," writers' mental cramp that causes an otherwise competent professional to agonize for an entire morning over a two-page report. The key is to train people not just in the mechanics of writing, but in a systematic way to approach it. ■

Kenneth P. Shapiro is a vp at Hay Huggins & Co. and a partner of Hay Associates in Philidelphia. His column on management appears monthly in BI.

someone you should know

"We plan on becoming very good at what we do"

By JOHN W. MILLIGAN

"O judgment! Thou art fled to brutish beasts, and men have lost their reason."

—Shakespeare, Julius Caesar, Act 3

BOSTON—Shakespeare would have liked Carol A. Rennie.

If Ms. Rennie, a chartered property/casualty underwriter, brings anything to Hanseco Reinsurance Co. as its new president, she wants to bring sound judgment to reinsurance underwriting—judgment leading to an underwriting profit and not cash-hungry gorging on juicy investment income.

Sure, that's what everyone says—insurers and reinsurers alike. But Ms. Rennie says she has the corporate commitment to back it up.

Hanseco Re, a subsidiary of the Hanseco Insurance Co., was incorporated two months ago to underwrite property/casualty treaty reinsurance. Hanesco itself is a joint property/casualty insurance venture started 10 years ago by two insurance companies: John Hancock Mutual Life Insurance and Century Insurance.

Ms. Rennie

Hanseco Re is starting out with $10 million in capital and is now accepting treaties that will begin later this year or early in 1982.

The company wll not reinsure risks on a facultative basis and prefers excess of loss rather than pro-rata treaty agreements. It will only accept business through intermediaries, Ms. Rennie says.

John Hancock's goal is for Hanesco Re to become a strong and profitable reinsurance company that will have staying power through the years.

But why start now when there is plenty of capacity and you need a program to keep track of all the new players?

Given the requirements of building a profitable reinsurance operation, Ms. Rennie says, John Hancock felt it was necessary to start now despite the soft market so the new company will be ready to roll once the market hardens.

Hanseco Re plans on "becoming good at what we do," to take an "active but low profile" while the market is down and position itself for when the industry turns around. "Our commitment is to the future," she says.

Part of this commitment is its determination to earn an underwriting profit, says Ms. Rennie, who has 18 years of experience as a reinsurance underwriter. She was most recently a senior vp of E.W. Blanch Co., a Minneapolis-based intermediary.

"We intend to make an underwriting profit because that is how we will be judged," she says. Hanseco Re will not follow an industry-wide trend to cash-flow underwrite, she affirms.

Reinsurance companies are in trouble, Ms. Rennie says, when the pressure of competition and the pressure to produce converge. John Hancock is not pushing for "unsound production."

And besides, Ms. Rennie adds, her years as a reinsurance underwriter make the concept of slashing premiums just to raise cash for investment purposes hard for her to swallow.

"Underwriting for cash flow is a lot more risky than it sounds," she says, and then takes her assessment of cash-flow underwriting one step further.

The word irresponsibility is one she uses with obvious discomfort. Yet she says that any reinsurer taking on business just to generate quick cash—and thus throwing sound underwriting judgment to the winds—is "probably being irresponsible."

The least predictable lines of reinsurance such as "heavy casualty" generally produce the highest premium, yet also provide the greatest risks. Taking on long-tail liabilities whose outcome cannot really be predicted can be dangerous, she says.

Hanseco Re places all its casualty lines under very close scrutiny, she says, and the company looks closely before taking product liability and workers compensation treaty exposures.

Ms. Rennie sees the relationship between insurer and reinsurer as a partnership that provides the industry with stability. When reinsurance works right, she says, it levels off the loss experience of the primary market.

But when reinsurers allow the commercial insurers to shift their bad losses to another market and when reinsurers take risks just to generate premium dollars, the reinsurers no longer provide much stability at all, she says. ■

A&A intermediary shyly grows on

By LISA BERGSON

NEW YORK—Most businessmen like to recount their personal success stories, but not Thomas A. Greene, president of Thomas A. Greene & Co., a reinsurance intermediary here.

As a leading denizen of the hidden world of reinsurance, Mr. Greene is typically tight-lipped.

Nonetheless, the fast-paced growth of his 2-year-old company cannot be overlooked—a fact that publicity-shy Mr. Greene accepts with resignation.

Started as a subsidiary of Alexander & Alexander Services Inc. and Sedgwick Group Ltd., which own 80% and 20% respectively, the Greene operation has already grown to four offices with 130 staff members and has developed a strong, positive reputation—even with its rivals.

Greene has also merged with three reinsurance brokerage firms: Button & Tuescher of San Francisco; Bleichroeder Bing of New York; and First Manhattan Intermediaries of Chicago and New York. The acquisitions appear to be key to the company's strategy, although A&A president John Bogardus likes to boast that the operation was really built from scratch with select acquisitions.

Stepping into Thomas A. Greene's strikingly elegant Rockefeller Center offices, replete with oriental rugs, white antique couches and framed tapestries, it seems evident that its backers have spared little expense.

A&A had a reason to be interested and supportive, Mr. Greene explains, because for many years it was the only leading broker without a reinsurance intermediary subsidiary.

"It was true that A&A had a disadvantage," he says. "They felt that there were opportunities they might capitalize on, but without an intermediary they couldn't."

With Greene's expertise, A&A can take advantage of its insurance market ties and earn some extra profit by servicing insurers.

"For example, a major primary insurer might want reinsurance and wants to do A&A a favor because it's supplying them with a lot of business," says Mr. Greene, alluding to the quid pro quo arrangements by which A&A's major clients might help channel reinsurance through his firm.

Apparently, it's a formula that works, though the intermediary will not release operating results.

Greene, which does business with stock and mutual insurers, stresses active marketing. Its producers are encouraged to make regular calls on potential clients "to see what opportunities there are for helping them out," says the company's chief.

Typically, clients will then approach Greene with a problem or a new product line.

"They might talk to a number of intermediaries. We make a proposal, maybe talk prices and eventually they might place the business through us," Mr. Greene says.

"I think this is the most fascinating part of the insurance business: The deals are bigger than they are on the primary side; you deal with the top level of insurance company management; and the problems you're asked to solve are often demanding and require interesting and creative solutions," he says.

Greene handles both treaty reinsurance for bulk risks and facultative reinsurance for a single large or unusual risk. It places reinsurance with about 200 reinsurers, half in the United States, about half in London and a handful in Japan and Bermuda.

The company's growth may be attributable to the founder's own stature.

The son of a General Reinsurance Co. employee, Mr. Greene spent 12 years at General Re, where he became senior vp for treaty production. He also spent little more than a year running a reinsurance firm for the Ryan Insurance Group in Chicago.

But when A&A approached, he liked what he saw.

"They had the kind of commitment to growth that I was seeking," he said, and growth is certainly in his plans.

"We'd like to be the largest reinsurance broker in the U.S. in five years. But we'll settle for second," he says.

To realize that goal, Greene will continue its aggressive marketing and keep an eye out for more acquisitions.

One new merger is already imminent. Early next year, when the merger between A&A and Alexander Howden, the British broker, is finalized, Greene will seek to combine efforts with RSA, Howden's Atlanta-based intermediary.

"We look forward to somehow rationalizing our operations," Mr. Greene says. ■

Look before you leap

By LISA BERGSON and JAMES LAWSON

Unbeknown to most buyers, insurers frequently turn to reinsurers for prices and advice before covering some special risks.

And pre-pricing and consulting, reinsurance industry executives say, can mean the difference between acceptance and denial of coverage on some exposures.

An underwriter who rates a risk determines whether it is potentially profitable, but if the insurer waits to buy faculatative reinsurance, it could find the cost higher than expected. Pre-pricing the reinsurance market erases some worries.

Underwriters of the 1981 major league baseball strike insurance, for example, lined up reinsurers before selling the $50 million package. "You couldn't have sold it to the major leagues otherwise," explains Thomas A. Greene, president of Thomas A. Greene & Co., the reinsurance intermediary subsidiary of Alexander & Alexander.

Commercial insurers also pre-price when they need to draw upon a reinsurer's expertise.

"Sometimes an underwriter gets an idea for a certain kind of placement and it becomes part of the marketing to line up the reinsurance capacity first," explains David Thompson, president and chief executive officer of North American Reinsurance Corp. "Underwriters ask us daily, 'Will you quote such and such a risk, if we insure it?'"

AIG president is ready for market to harden

By LEN STRAZEWSKI

CHICAGO—Most buyers and insurers fear the day reinsurers begin to raise their rates, but Maurice R. Greenberg, president and chief executive officer of American International Group, says he wouldn't mind a less bloody rate war.

"I'm ready for the reinsurance market to turn," he told the Investments Analysts of Chicago last month. "In fact, I welcome it."

Although AIG is one of the largest buyers of reinsurance, it is also one of the most profitable risks for reinsurers, he explained. If the reinsurance market lost some of its competitive edge and raised its rates, AIG would still find all it needed.

"Over the past five years, our reinsurers have managed an 84% (loss and expense) ratio on AIG business, so we expect they are happy with us. I'm not expecting any difficulty with the reinsurance market," he noted.

But others can. "Something has got to change in the market. A 114% combined ratio for insurers and reinsurers is just too high."

The key to AIG's successful buying power in the reinsurance market could be its traditional underwriting profit.

While many commercial insurers are now underwriting over the 100% combined ratio break-even point and are relying on investment income to produce earnings, AIG has maintained a combined ratio of less than 100% during the most competitive part of the underwriting cycle.

Insurers that are incurring an underwriting loss can improve the expense portion of their combined ratio by buying reinsurance and passing losses on to others, he explained to the analysts. But AIG has actually added slightly to its expenses by purchasing reinsurance when it was making an underwriting profit, he noted.

Reinsurance had added 3% to AIG's expense ratio, but the investment could be valuable if reinsurance becomes difficult to purchase in the future.

Competition, however, is likely to continue in both the commercial and reinsurance marketplace until the middle of next year, he said, and AIG's own venture in the reinsurance business may take an even more competitive stance.

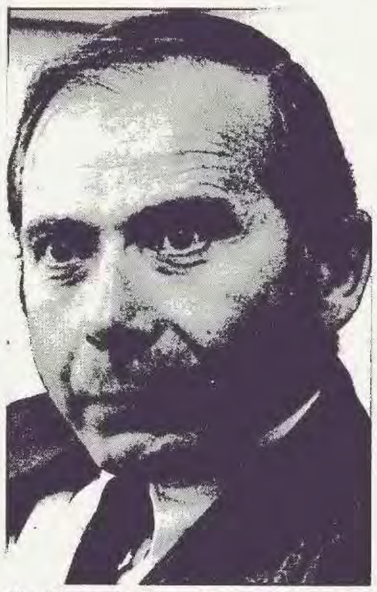
"Transatlantic Re, of which we own 47%, is becoming very powerful in the reinsurance marketplace and is capable of far more underwriting than it is presently doing," he said. "In the future, I think we can unleash it a little more aggressively."

Transatlantic, a 3-year-old reinsurer, recorded nearly $121 million in net premium for 1980 with losses of just more than $89 million, ranking 11th in overall reinsurance underwriting last year. Its combined ratio was about 102.7%, the fourth best among reinsurers with net premiums of more than $100 million (see chart, page 17).

AIG shares ownership of Transatlantic with a variety of U.S. and international insurers including U.S. Fidelity & Guaranty, Swiss Re, two Japanese insurers and Philips Petroleum, he said.

The reinsurance company was founded with $100 million in capital, 80% of which was provided by the minority investors. AIG contributed $20 million, expertise and seed business.

"Since then, Transatlantic has met all of its objectives and our $20 million investment is worth $60 million," he said.



Mr. Greenberg says AIG is ready to 'unleash' Transatlantic Re.

Other recent additions to the growing reinsurance marketplace may not do as well so quickly, Mr. Greenberg noted. The recently opened Arab reinsurance market will wait a long time before it has credibility, he predicted (see story, page 26). And captive insurers actively selling reinsurance will begin to take serious lumps from losses.

"I think the so-called naive capacity will become seasoned very quickly," he remarked. "Captives provided a fine vehicle for big firms to use in risk funding, but it soon became evident that many companies got into captives when they shouldn't have.

"It was like the California gold rush: Everyone was rushing outward and most found fool's gold."

Although captive insurance companies are not for everyone, especially medium-sized corporations, mature captives make a welcome addition to the reinsurance market, he said.

"The capacity from good captives will be a welcome addition. As risks become bigger and bigger—from asbestosis, product liability, giant oil rigs, nuclear energy—we will be happy to have the extra capacity," he said. ■

datebook

NOV. 9-10. Canadian-U.S. Carrier Liability seminar in Toronto, sponsored by the Shippers National Freight Claim Council; members, $175; non-members, $195. Shippers National Freight Claim Council, 120 Main St., Box Z, Huntington, N.Y. 11743; 516-549-8984.

NOV. 9-10. Mining Product Liability and Safety conference in St. Louis, sponsored by The Energy Bureau Inc.; $650. Carol Hertzoff, The Energy Bureau Inc., 41 E. 42nd St., New York, N.Y. 10017; 212-687-3177.

NOV. 9-11. Eighth Annual Computer Security Conference in New York, sponsored by the Computer Security Institute; members, $445; non-members, $495. Computer Security Institute, 43 Boston Post Road, Northboro, Mass. 01532; 617-393-3768/3663.

NOV. 10. Back Injury Prevention training in San Mateo, Calif., sponsored by the San Mateo County Safety Council; $65. Back Dynamics Institute of America, 788 Edgewater Blvd., Suite 305, Foster City, Calif. 94404; 415-574-1087.

NOV. 10. Subrogation in Workers Compensation Claims workshop in San Francisco, sponsored by the California Workers Compensation Institute; $25. Also **Nov. 12** in Los Angeles. CWCI, 201 Sansome St., San Francisco, Calif. 94104; 415-981-2107.

NOV. 11. Reinsurance, Arson and Hurricane seminar in Atlanta, sponsored by The Skandia Group; free. Gunder Morken, Assistant Secretary, The Skandia Group, 211 Perimeter Center Parkway, Atlanta, Ga. 30346.

NOV. 11-13. Third Annual American Society for Hospital Risk Management seminar in Orlando, Fla., sponsored by the American Hospital Assn.; members, $225; non-members, $275. Division of Education, American Hospital Assn., Box 98946, Chicago, Ill. 60693; 312-280-6177.

NOV. 12-14. Public Employees conference in Williamsburg, Va., sponsored by the International Foundation of Employee Benefit Plans; members, $360; non-members, $435. IFEBP, Box 69, Brookfield, Wis. 53005; 414-786-6700.

NOV. 15-20. Hemispheric Insurance conference in Acapulco, Mexico, sponsored by the Interamerican Federation of Insurance Cos. and the Mexican Insurance Assn.; $600. Gordon Cloney, Executive Secretary, International Insurance Advisory Council, U.S. Chamber of Commerce, 1615 H St. N.W., Washington, D.C. 20062; 202-659-6114.

NOV. 16-17. Captive of the Future seminar in New York, sponsored by the American Management Assns. AMA members, $525; non-members, $605. American Management Assns., 135 W. 50th St., New York, N.Y. 10020; 212-586-8100.

NOV. 16-17. Employee Theft and Fraud Prevention workshop in Arlington, Va., sponsored by the American Society for Industrial Security; members, $220; non-members, $285. ASIS Educational and Seminar Programs Department, 2000 K St. N.W., Suite 651, Washington, D.C. 20006; 202-331-7887.

NOV. 16-17. Risk Management and Safety seminar in Las Vegas, Nev., sponsored by the Arizona Center for Occupational Safety and Health, University of Arizona; $275; two or more from same firm, $250. Herschella Horton, Coordinator for Continuing Education, Arizona Center for Occupational Safety & Health, University of Arizona Health Sciences Center, Tucson, Ariz. 85724; 602-626-6835.

NOV. 16-18. Analyzing Safety Performance course in Tucson, Ariz., sponsored by Don Petersen, management consultant; $375. Don Petersen, 9236 East Walnut Tree Drive, Tucson, Ariz. 85715; 602-749-2319.

NOV. 17. Kentucky Workers Compensation Insurance seminar in Louisville, Ky., sponsored by the Southeastern Council on Compensation Insurance; $25. Robert E. Maxwell, Manager, SECCI, 320 Beacon Parkway West, Box C-40, Birmingham, Ala. 35283.

NOV. 17-19. Financial Analysis for Risk Management Decisions seminar in San Francisco, sponsored by Cozzolino Associates Inc.; $685, plus $50 registration fee per company. Also **Dec. 15-17** in Atlanta. Cozzolino Associates Inc., 12 Chippenham Drive, West Berlin, N.J. 08091; 609-784-7105.

NOV. 19-20. Basic Radiation Hazard Control seminar in Arlington, Va., sponsored by the International Institute of Safety & Health; $295; three or more from same firm, $250. IISH, 5010-A Nicholson Lane, Rockville, Md. 20852; 301-984-8969.

NOV. 19-20. Safety By Objectives course in Tucson, Ariz., sponsored by Don Petersen, management consultant; $275. Don Petersen, 9236 East Walnut Tree Drive, Tucson, Ariz. 85715; 602-749-2319.

NOV. 20. Risk Management Information Systems seminar in Santa Ana, Calif., sponsored by the Public Risk & Insurance Management Assn.; PRIMA members, $95; non-members, $170. Also **Dec. 4** in White Plains, N.Y. Natalie Wasserman, Executive Director, PRIMA, 1140 Connecticut Ave. N.W., Suite 210, Washington, D.C. 20036.

NOV. 23-25. The A-Z of Captive Insurance Companies seminar in Brussels, Belgium, sponsored by Management Centre Europe of Brussels. W.F. Sennett, Director, European Risk Management Ltd., E.R.M. House, 31/33 Monument Hill, Weybridge, Surrey, KT13 8RS, England.

NOV. 23-25. Effective Risk Management course in London, sponsored by the Risk Research Group Ltd.; approximately $537, plus $80.55 value-added tax. Course Coordinator, Risk Research Group Ltd., Bridge House, 181 Queen Victoria St., London EC4V 4DD England.

DEC. 2-4. Second National Arson Legislative conference in Dallas, sponsored by the National Legislative Conference on Arson; $85. Nancy R. Tidwell, National Legislative Conference on Arson, Box 09604, Columbus, Ohio 43209; 614-235-1922.

DEC. 3-4. Nuclear Litigation program in New York, sponsored by the Practising Law Institute; $285. Practising Law Institute, Department ULC, 810 Seventh Ave., New York, N.Y. 10019; 212-765-5700.

DEC. 3-5. Alternative Captive Domiciles conference in Hollywood, Fla., sponsored by Risk Planning Group Inc.; $550, $475 for each additional registrant from same company. Nicki Briskin, Director of Conferences, Risk Planning Group Inc., 722 Post Road, Darien, Conn. 06820; 203-655-9791.

DEC. 4-9. 27th Annual Educational IFEBP conference in Acapulco, Mexico, sponsored by the International Foundation of Employee Benefit Plans, $360. IFEBP, 18700 W. Bluemound Road. P.O. Box 69, Brookfield, Wis. 53005; 414-786-6700.

DEC. 8-9. Safety Management—A Behavioral Approach course in Tucson, Ariz., sponsored by Don Petersen, management consultant, $275. Don Petersen, 9236 E. Walnut Tree Drive, Tucson, Ariz. 85715; 602-749-2319.

DEC. 8-10. General Liability Insurance conference, sponsored by the International Risk Mangement Institute. $450, which includes set of general liability manuals, or $295 if manuals have been purchased. International Risk Management Institute, Suite 208, Building IV, 10300 N. Central Expressway, Dallas, Texas 75231; 214-363-9656.

DEC. 9. Insurance Perspectives 1981 symposium in Dallas/Ft. Worth, sponsored by Peat, Marwick, Mitchell & Co.; free. Keith Tucker or Paul Zucconi, Peat, Marwick, Mitchell & Co., Suite 1500, 2001 Bryan Tower, Dallas. Texas 75201; 214-747-8911.

DEC. 10-11. Interest Rate Risk Management seminar in New York, sponsored by New York University's School of Continuing Education; $655, plus $95 registration fee. Registrar, 14th floor, University Conference Center, 360 Lexington Ave., New York, N.Y. 10017; 212-953-9022.

DEC. 14-16. 1981 EDP Conference in Hollywood, Fla., sponsored by the International Foundation of Employee Benefit Plans; members, $360; non-members, $435. IFEBP, 18700 W. Bluemound Road, Box 69, Brookfield, Wis. 53005; 414-786-6700.

DEC. 14-16. Product Liability of Manufacturers program in New York, sponsored by the Practising Law Institute; $325. Also **Jan. 21-23** in Los Angeles. Practising Law Institute, 810 Seventh Ave., New York, N.Y. 10019; 212-765-5700.

JAN. 7-8. Institutional Investor Annual Pension conference in New York; $725. Conference Director, Institutional Investor Pension Conference, 488 Madison Ave., New York, N.Y. 10022; 212-832-8888.

JAN. 7-8. Products Liability, Defense Techniques and Trial Tactics seminar in Houston, sponsored by the Defense Research Institute Inc.; members, $210; non-members, $235. Tony Karpowitz, Public Relations, Defense Research Institute, 1100 W. Wells St., Milwaukee, Wis. 53233; 414-272-5995.

JAN. 15. Risk Management Information Systems seminar in Denver, sponsored by the Public Risk & Insurance Management Assn. and Warren, McVeigh & Griffin; Public Risk & Insurance Management Assn. members, $95; non-members, $170. C.C. (Bud) Griffin, President, Warren, McVeigh & Griffin Inc., 1420 Bristol St. N., Newport Beach, Calif. 92660; 714-752-1058.

JAN. 25-28. Industrial Safety Awareness course in Los Angeles, sponsored by the University of Southern California; $525. University of Southern California, Institute of Safety and Systems Management, Office of Extension and In-Service Programs, Los Angeles, Calif. 90007; 213-743-6523. ■

Black/White to arrange hard-to-place coverage

A new miscellaneous professional liability program is available from Black/White & Associates for risks that are hard to place. Coverage is written with an A-rated insurer with limits up to $10 million.

Eligible classes include insurance agents with policy issuance and underwriting authority, managing general agents with surplus lines broker licenses and firms or individuals who manage captives. Additional classes include attorneys who specialize in E&O cases, companies with 15 or more attorneys and "target attorneys" or attorneys of prominent plaintiffs.

Also included are architects and projects E&O coverage. Contractors, engineers and surveyors are eligible. Coverage for blanket projects, including defense department projects, can also be written.

For more information contact Black/White & Associates, 233 Sansome St., Suite 1301, San Francisco, Calif. 94104; 415-433-5773.

products & services

Policy analysis

The Rough Notes Co. of Indianapolis is offering its Policy, Form & Manual Analysis Service.

The PF&M is a three-volume, loose-leaf file that contains analyses of more than 400 policies. The analyses describe the policies, limitations and special clauses. An underwriting section of the analyses details eligible risks, suggests rating procedures and optional coverages.

The service is updated monthly with new and revised analyses of policies. They contain recent court decisions, future developments and specialty coverage market reports.

The Policy, Form & Manual Analysis Service is $99.95, which includes the 12-month update service and three-volume reference file. The update service costs $36 the second year.

For your PF&M Analysis Service contact William L. Guyon, Promotion Manager, The Rough Notes Co. Inc., P.O. Box 564, Indianapolis, Ind. 46208; 317-634-1541.

Safety group

Fremont Indemnity Co. has introduced a new workers compensation safety group and a package program designed especially for printers.

The Printers Safety Group is open to all Fremont producers. Annual membership dues are $25, with minimum premiums of $275. Members of the Fremont Safety Group are offered many benefits, including special loss-control services and eligibility for participating dividend programs.

The printers' package is designed for printing shops of all sizes. Coverage available includes printers professional liability, platemakers legal liability and plates coverage.

Businesses eligible for this coverage are bookbinders, lithographers, typesetters and mailing and addressing companies. For more information contact your local Fremont office or Fremont Indemnity Co., 1709 W. Eighth St., Los Angeles, Calif. 90017; 213-483-8731.

Medical malpractice

Group Council Mutual has introduced the Excess Limits Professional Liability policy, a medical malpractice liability policy. This coverage is now available to practicing physicians in New York state.

The policy is in excess of malpractice insurance limits. It adds $1 million above the basic $1 million per claim per year. An additional $1 million above the basic $3 million in total annual claims is included, extending malpractice coverage to $2 million to $4 million.

This new policy is available to physicians in New York state that are already covered by the basic $1 million to $3 million of insurance.

For further information contact the Group Council Managing Agent, Group Council Mutual Insurance Co., 230 W. 41st St., Suite 1800, New York, N.Y. 10036; 212-398-9197.

Blood bank cover

A new malpractice and general liability program has been introduced by PIC of Seattle especially for blood banks, plasma centers and antibody centers.

The policy provides occurrence professional liability coverage, and coverage for employed and independent contractor physicians is part of the program.

Limits range up to $300,000 for primary level, with an unlimited umbrella.

Coverage is written through PIC by the Lexington Insurance Co.

The program is open to all qualified agents and brokers in the United States and Puerto Rico.

For more information contact Harry L. Baker, President, PIC, 211 Sixth Ave. N., Suite 210-S, Seattle, Wash. 98109; 206-623-7960. ■

Prudential appoints Walsh vp of group insurance lines

Dennis R. Walsh named vp of group insurance for the Prudential Insurance Co. of America in Newark, N.J.

Mr. Walsh had been vp of group credit insurance since 1979.

Other insurer changes:

Ramani K.S. Ayer elected a secretary and director of corporate reinsurance in the product management division of The Hartford Insurance Group.

Two were promoted at Groupo Seguros La Comercial of Mexico City. **Carlos Terroba Wolff** named vp and director of the corporate sales division. **Jorge Dugelby** named manager of the Chicago office.

Robert Wasserman appointed underwriting manager for Frontier Insurance Co., a specialty insurance firm in Monticello, N.Y.

H. Max Dickerson named head of the newly created corporate development and management division of Fireman's Fund Insurance Co. **Charles R. Rinehart** will succeed Mr. Dickerson as senior vp for the commercial group.

The Hartford Insurance Group promoted **Charles W. McConnell** to secretary of the technical services unit, product management division.

Armco Underwriters Agency Inc. named **Joe W. Kutz** senior property underwriter for the Dallas office.

Agents/brokers

Eugene J. Semon and **Rodney**

comings & goings: buyers

J. Taylor joined the national services division of Fred S. James & Co. Inc in Chicago.

Reinsurers

Ellis E. Manning promoted to vp at General Reinsurance Corp. in Greenwich, Conn.

Other suppliers

Claude F. Peacock named director of vocational rehabilitation for Vocational Placement Services Inc. in Richmond, Va.

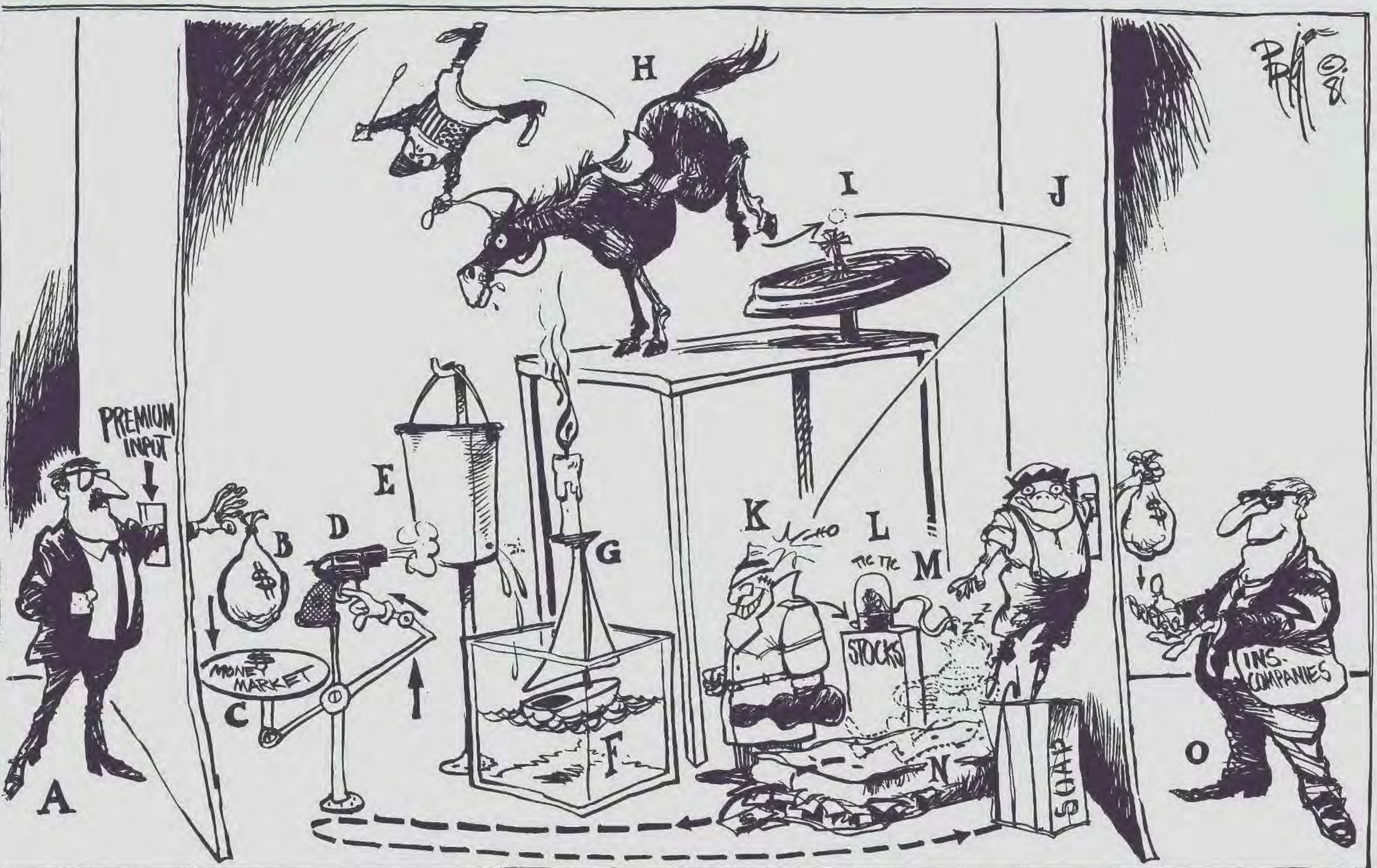
Excess/surplus

Rich McAdam promoted to property manager at Baccala & Shoop Insurance Services in Newport Beach, Calif. He will be responsible for supervision of the home office property staff and national property underwriting.

At the same company, **Chris King** promoted to vp and property manager of the San Francisco branch office. He will replace Mr. McAdam. **H. George Surprenant** named vp in charge of casualty operations. ■

agent/broker topics

A REGULAR EDITORIAL SECTION EXCLUSIVELY FOR AGENTS AND BROKERS



POLICY HOLDER (A) DROPS PREMIUM (B) ON MONEY MARKET FUND (C) CAUSING GUN (D) TO SHOOT HOLE IN PAIL (E). WATER DRAINS FROM PAIL INTO FLOAT (F) RAISING CANDLED BOAT (G) TO SPOOK RACE HORSE (H). CAUSING HIM TO KICK ROULETTE BALL (I) OFF WALL (J) AND BOOMERANG TO HEAD OF LOAN SHARK (K). WHICH KNOCKS HIM OUT COLD AND AS HE FALLS HE HITS THE 'ON' SWITCH FOR THE TICKER TAPE MACHINE (L). TICKER TAPE CONTINUALLY DROPS TAPE (M) ON BOY (N) WAKING HIM UP, WHICHS ALERTS HIM IT IS TIME TO GET THE PREMIUM FROM THE MARKET FUND (C) AND DELIVER TO INSURANCE COMPANIES (O).

Make your money work

By DONNA LEIGH YANISH

CHICAGO—Are you storing your money in a mattress ather than maximizing earnings on it?

A good cash management mechanism may make a profitable difference, agency management experts say, if you are careful.

"The average broker/agent has large sums of money sitting checking accounts or saving accounts" earning 5¼% inter-, says F. George Gilman, vp, controller and treasurer for U Cos. Inc. in San Francisco, an insurance agency franchise rm.

Those with larger agencies may invest in high yield certificate of deposit accounts, but that means tying at least $100,000 p for a minimum of 30 days, he says. The high yield CDs n't even available to smaller agencies that don't have the $100,000 minimum, he added.

Yet, in today's financial markets with high interest rates available on relatively short-term investments, brokers can earn more than 14% on both retained earnings and, in most states, premiums collected for insurance companies.

Careful cash management is essential for good business, agrees Frederick J. England Jr., president of Hastings-Tapley Insurance Agency Inc., Cambridge, Mass., and an Independent Insurance Agents of America speaker on cash management.

"There's danger in handling all that money—particularly someone else's," he adds.

Most states have laws against commingling an agency's own funds with premiums collected for insurers (trust funds). Even without the state mandate, agencies should separate the two sources of funds, Mr. Gilman says.

Demand for each source comes at different times, and good cash management suggests keeping money invested until the last possible minute before it's needed, he explains. Borrowed funds should be kept in separate accounts.

Agencies that must get a short-term loan should borrow only on the actual day they need the money, he advises. Some agencies are paying interest on outstanding debts for days that money is sitting in their own accounts, he says.

The careful records of cash position allow an agency to continually maximize return on its funds.

Hastings-Tapley keeps a daily record of deposits, running expenses and predictions of anticipated income. "We also post when money we owe comes due," Mr. England says.

With these records, the agency can "keep a daily tally of (its) cash position and have as much money earning some

Continued on next page

PIA Report Pages 44D-44K

Cash management methods mean higher profits

Continued from previous page

kind of interest as possible," he notes.

Agents can choose from a variety of methods for controlling, extending and investing cash flow once it is located in the budget. ISU members who elect to participate in the franchiser's money maximizer program can continually earn interest on both premium dollars and operating funds with a special bank account.

The agencies open a zero-balance checking account with the Bank of America, Mr. Gilman explains. At the end of the business day, the bank transfers each agency's funds to the investment arm of Merrill Lynch, Pierce, Fenner & Smith Inc.'s government fund.

The investment banker invests those funds in repurchase agreements, Treasury notes and other securities backed by the federal government.

A participating agent writes checks on the money deposited at the bank, even though that account always has a zero balance, Mr. Gilman said. Bank of America covers those checks and then demands the money from Merrill Lynch.

The agent stops earning interest on the money only after his or her creditors demand the money from the bank, Mr. Gilman notes. Until then, "all funds are invested all the time."

Interest paid on the Merrill Lynch accounts corresponds with the interest paid by money market funds—currently about 16%, Mr. Gilman adds.

While California limits the kinds of investments that agents can use

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for trust funds to government-backed securities, this Merrill Lynch investment technique fills the bill.

ISU's money maximizer "removes the need for cash planning," Mr. Gilman says. Agents don't have to time their outlays to maximize float; the program takes care of that itself, he explains.

While the money maximizer program is only available to ISU members, independent agents can maximize their float themselves by negotiating cash management techniques with their producers and insurers.

Most agents have "a gut feeling" for the amount of cash on hand, but many don't have formal cash budgets, says Frank J. Smith, director of agency management consulting services in the Boston office of The Travelers Insurance Cos.

The consulting group developed a cash budget that allows managers greater control over future cash flows. Using historic trends of income and outlays, they estimate monthly cash surpluses or deficits.

Cash budgets should be dynamic rather than static or periodically adjusted to account for over- or underestimates contained in initial projections, Mr. Smith notes.

Agents and brokers can make informed judgments about future expenses using The Travelers' system, Mr. Smith says. The program also provides management with a strong bargaining position when seeking short-term financing by identifying how much is needed, when it's needed, what it will be used for and when it can be repaid.

"Collection procedure is also critical to cash management," contends David Hales, president of Hales & Associates Inc., Chicago, a consulting firm. "We recommend that our clients use a system of reward and punishment to motivate their producers to collect premiums right away."

Many of Mr. Hales' clients charge against a producer's bonus an amount equal to the interest the agency would have made on premiums from accounts that exceed 60 days, he explains. Conversely, many brokers give bonuses to their producers for collecting premiums quickly.

Hastings-Tapley gives bonuses through the producers' salary formula, Mr. England says. They receive a portion of income generated from money management.

The sooner the producers collect premiums, the longer that money can be invested and the larger their portion of the income it earns.

Agents must "recognize that payment terms (on policies) are right now," Mr. Gilman believes. "Establish rigid guidelines" for your producers, he said. They should inform new policyholders immediately that they must either pay, use premium financing or be cancelled, he says.

Hale & Associates established a benchmark for agencies to use as a guide to determine if they're collecting premiums quick enough to maximize interest earnings. The consultants established a ratio of accounts receivable over accounts payable, Mr. Hale explains.

Using 1980 composite data from five national brokerages, they calculated that the firms' receivables were 85.6% of payables.

An agency with a higher ratio than the benchmark is doing a very good job on collections, Mr. Hale contends.

The firm's combination of accounts receivable and cash on hand should outweigh accounts payable, he adds.

While agents try to negotiate with their insurers for longer schedules, payment terms are getting increasingly shorter, Mr. Hale notes. Those shorter schedules give producers less time to invest the trust funds.

Producers can maximize their float time by sending renewal policies 30 days ahead of due date and billing on binder, he suggests.

"Many agents welcome direct billing (from the insurer) because money is so tight," Mr. England believes. They want to avoid the overhead necessary to make collections, he says.

Agents must examine their policies from insurers that push for direct billing, Mr. Gilman contends. On typical personal lines, agents can usually save money by negotiating direct billing.

With commercial accounts, however, where premiums could hit several thousand dollars, producers may be better off collecting the money themselves. Collecting early allows producers to earn hefty amounts of interest on the premiums before they have to turn the money into the insurance companies, Mr. Gilman says.

"Agents have to examine their (overhead) cost per policy and negotiate with insurance companies on the basis of their findings."

Agents with a good cash management program can be less conservative on their retained earnings investments, Mr. Hale notes. He suggests that agents explore longer term financing vehicles such a stocks, bonds and six-month o one-year ceritificates of deposit. ■

Cash management at M&M improved by central system

Crain News Service

A/BT

NEW YORK—Marsh & McLennan Inc. is putting all its cash into one management pocket—with the help of a new centralized cash management system.

The super-sophisticated system, serving 86 offices of Marsh & McLennan Cos., the brokerage's parent, is similar to a system designed by General Electric Information Services Co. for its parent company's treasury department.

Dubbed ICMAS, or Integrated Cash Management Accounting System, the program covers receipts, disbursements, payroll and cash forecasting and files marketable securities.

With the central system, M&M offices can avoid the burden of cash juggling and short-term investing. Changing to centralized management, however, demanded some accounting changes.

The new network forced offices to switch to zero-balance accounts so that excess cash can be concentrated in New York where it is invested.

Four portfolio managers based at M&M in New York serve the four areas of the country. The managers report to Dorothy Conway, a vp and assistant treasurer.

"Before the system was installed, the offices were doing their own thing, putting away $10,000 or $25,000," she said.

The funds from the regional offices, now concentrated into a sizable investment pool, are worth about $300 million. They include fiduciary funds or premiums owed to insurers and short-term corporate investment funds. Much of the corporate funds was not invested to any major extent, she said.

In some states, the firm had to deal with restrictions against the fiduiciary cash moving out of state.

"There are restricted funds in restricted states like New York, Illinois and California, and we had to set up a portfolio bank in those restricted areas," she said, so the funds could earn money but still stay put.

All of Marsh & McLennan's offices in California now report to just two California banks, Bank of America and First Interstate. In Illinois, all activity has been channeled into a concentration account with Continental Illinois; previously, it was with Harris Bank.

In New York, Marsh & McLennan concentrates funds with Bankers Trust.

"It is a very controlled atmosphere," she said. "There is hardly anything that can go wrong with it—as far as audit lines or insurance commissions are concerned. Everything is determined," Ms. Conway said.

All disbursements, including premium payments to insurers, are now drawn on these portfolio banks, cutting down on the compensating balances in local accounts.

The office is debited as its disbursements clear the system, and its total sum invested is adjusted accordingly.

Cash-flow forecasting is done according to a 20-day working calendar that lists any disbursements. Offices then call in any further items.

At the end of the day, the banks retrieve the available cash through either depository transfer checks or the automated clearinghouse.

Regional offices, however, get individual reporting even though the funds are invested together. Communication between the offices is through the electronic mailing system and the information flow smooths out the potentially confusing flow of funds statements.

The running tally on which office owns what proportion of the total fund invested at any one time is handled through mutual funds—each participant has a net position.■

PIA report

Agent groups hope to strengthen political clout

WASHINGTON—While the Independent Insurance Agents of America are researching the cost of merging with the National Assn. of Professional Insurance Agents, the PIA is making no relocation plans.

"In my opinion, there are no plans to merge," outgoing PIA President Bert J. Leavitt told *Business Insurance*.

"There has been no current discussion of merging," he said.

PIA officials said, however, that they have discussed merging with IIAA officials many times the past 10 years.

"While there can be no doubt that friendly competition between our organizations has contributed to the growth of each, it is appropriate for both of us to consider if more could be accomplished under a single banner," Mr. Leavitt added.

Mr. Leavitt's remarks follow reports that the PIA and the IIAA were considering merging and that the IIAA's state directors had approved research into potential problems and advantages (*BI*, Oct. 5).

With or without a merger, Mr.

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Leavitt believes the two trade groups must work together with other industry organizations to strengthen agents' and associations' political clout.

"Agents haven't been involved (in politics) in the past, partly due to apathy and partly because nobody took charge to direct them," he contends.

That guidance is PIA's and all professional organizations' role, he added.

State and local politics form the arena for agents' potentially strongest voice, Mr. Leavitt explained. "Agents are at the grass roots level" on the political ladder. "They are recognized as advisers to their clients," he said.

Legislators haven't recognized agents' political clout to date, but that will change, Mr. Leavitt predicted.

"We're in evolutionary times," agreed Dow Reichley, incoming PIA president.

Agents must expand their services to compete with large brokerage firms and financial service institutions that are offering programs traditionally provided by commercial property/casualty insurance agencies, he contends.


Mr. Leavitt

Agents must realize they're "selling total financial security," not just insurance, Mr. Reichley said.

Without broader scope, the insurance agency system could face the same problems that crippled the American system of railroads.

If the railroads had realized they were in the transportation business, they would have been ready for any form of competition and met it head-on, expanding with it rather than letting the competition pass them by, he remarked.

"We must gear agencies to become more sales-conscious, so more time can go to the sale of new products," Mr. Reichley added.

Maximizing use of profit dollars is one key to meeting competition head-on (see related story, page 44A), Mr. Reichley believes.

Agencies must use tighter controls on their cash flow and search for vehicles, such as money markets, to maximize their return from profits, Mr. Reichley explained.

Automation is also a key to streamlined operations and greater efficiency, he said.

Earlier at the convention, Mr. Reichley demonstrated his interest in computerized agencies by displaying a briefcase-size computer terminal that he will use during his term as PIA president.

That computer will soon be able to tie in with all the airlines, possibly making travel agents extinct, he said.

"It is exciting, but at the same time, frightening," Mr. Reichley said.

"If you think this device has no application in our industry, then think again. The idea of purchasing insurance this way is not remote," he warned.


Mr. Reichley

Now is the time to pick up a basic understanding of computers, Mr. Reichley contends. Agents mustn't be run off by computer language and should decide what direction in automation they want to go, rather than allowing a computer salesperson to tell them what is best.

But computer technology isn't coming to insurance agencies as quickly as some would like. Experts estimate that about 10% of the nation's agencies are automated.

"The problem has been that many companies are funding (computer) operations on their own," Mr. Leavitt said.

To be fully automated, an agency has to have several computers, each tied into a different insurance company.

"We need to go in one direction," Mr. Leavitt said.

"Until insurers can say a standard has been set, there's going to be problems" in fully automating the industry. ■


MONOPOLY

Agencies need to make changes to survive: Panel

By DONNA LEIGH YANISH

A/BT

WASHINGTON—Independent agents must become financial experts, rather than insurance providers, if they want to survive the 1980s, a panel of four industry leaders told the National Assn. of Professional Insurance Agents' convention.

The American agency system is losing its grasp on the market and has to make changes, according to panelist William A. Pollard, chairman of Reliance Insurance Co. in New York.

Although the insurance business has grown to $90 billion from $33 billion in the past 10 years, the independent agents' share has dropped to 45% from 80% in that same period, a research study prepared for Reliance shows.

That business has been picked off by exclusive agency insurance companies, direct response insurers and national brokers, Mr. Pollard said.

"The independent agent is the only group of distributors that has not grown, and you have been losing market share 1% to 2% a year."

The same study shows that independent agents' commission per employee has been reduced to about $42,700 a year, about $10,000 less that the national brokers, Mr. Pollard noted.

The "independent agent has 10% less operating income for each $1,000 business that he brings in, or the brokers make $100 more profits" for each $1,000, Mr. Pollard continued.

The independent agents' commercial niche, however—firms paying under $150,000 in annual premium—has grown to a total market of $17.3 billion in premium in 1979 from $10.7 billion in 1975, according to another study conducted by a Stanford research group for Reliance, Mr. Pollard said.

While that segment of the market is expected to jump to $19.3 billion in 1984, independent agents shouldn't sit back and be complacent with the statistics, he said. Agents' market share dropped to 46% in 1979 from 60% in 1975 and will skid to 24.9% in 1984.

The American agency system can prove those predictions wrong if it makes some drastic changes in the services it offers, Mr. Pollard concluded, and other panelists agreed.

New insurance products, including retroactive liability insurance, may boost some sales, but the changes that could improve market share must come in the services agents provide, agreed P. Richard Hackenburg, staff vp for Allegheny International Inc. in Pittsburgh.

"Companies are going to want unbundled services. Will agents provide them?" he asked.

Relying on retroactive insurance can be imprudent, he added.

"Good risk managers don't wait until disaster happens. It's imprudent to wait for a disaster to happen" and then put together retroactive insurance, he noted.

While insurers are developing related financial services, such as money market funds, the agency system will have to change to market these services, contends Charles E. Nail Jr., chairman and chief executive officer of Lumbermens Mutual Insurance Co. in Lakewood, Ohio.

In order for agents and companies to participate, "they'll have to offer full financial management," he said. "The (current) system was developed to market individual policies, not financial management."

Potential competitors who already sell these services are entering the insurance business, Mr. Hackenburg noted, as financial ser-

Continued on facing page

Panelists included Ronald Vinson of the Insurance Information Institute, Mr. Carlson and Mr. Nail.

Automation not agency panacea: Panelists

Continued from facing page
vice firms and stock brokerages expand interests in the insurance business. And both established companies and new insurers will expand into new insurance lines, he added.

"Everybody is getting into everybody else's pockets," he said.

Besides offering services such as budgeting, financial planning, captive insurance company management, employee benefits, loss control and expanded access to the London insurance markets, agents can become stronger and more efficent, said panelist Ronald F. Carlson, who is vp of United California Insurance Agency in Hollywood, Calif.

"Franchising will come of age in the 1980s," Mr. Carlson said, and agents will fight size with size rather than staying away from big business.

Automation is being called the savior of the agency system to increase efficiency, but Mr. Carlson cautioned against jumping into total automation of agencies immediately.

The computer industry "hasn't quite been able to meet insurance agents' needs," he said.

Although Mr. Carlson admitted the industry will have to automate "to help overhead and efficency," he questions whether now is the time.

"I have yet to see a system that can interface successfully with a myriad of systems that are around with our various carriers," Mr. Carlson said.

"I don't think independent brokers have the time, expertise or the capital to design a truly sensible, logical interfacing computer," he continued.

"Let the large insurance companies get the bugs out of the system. Let them counsel with us as to what we're looking for in systems. Meanwhile, I'm going to be out selling," he said.

"I don't think the primary problem will be solved by computers," agreed Mr. Nail. Agents and insurers must deal with the contradiction in the system of being independent and yet efficient.

Photo: Donna Leigh Yanish

Mr. Hackenburg says agents must improve their services.

"The primary mission of the insurer and agent is to render a service to a policyholder," Mr. Nail believes.

"The commission income, premium income and profits are a byproduct of that service. The explosion of self-insurers and the entry of other people in our business can be viewed as a lack of confidence in our ability to deliver that service," he said.

Mr. Nail also cautioned agents to watch and participate in state politics that affect their industry. Citing the debate in Ohio over current state-controlled workers' compensation insurance, he warned that failure to shake state control there may be a mandate for other states to grab complete control over workers compensation insurance.

Many agents, however, are apathetic about the controversy, Mr. Nail said, and that apathy may lead to further government encroachment into the industry.

The panelists were were less concerned about the Risk Retention Act, which allows manufacturers to pool product liability risks and self-insure. The federal law was recently signed by President Reagan.

The act itself shouldn't have a negative impact on the insurance industry, Mr. Carlson said, but it points to a problem plaguing the industry.

The act was written and passed in response to the product liability situation in 1974 to 1977, he noted. Insurance companies and agents didn't respond to the need for insurance to cover the liability, and the government had to, he said.

"If we turn tail and run and don't take (other newly developed) issues by the horns," the government will have to fill the need again, Mr. Carlson said.

Independent agents must become a political voice, Mr. Carlson contends. Industry organizations can help organize, but agents must work on a state level as most laws don't have a national scope.

Agents' own lobbying efforts are essential because the industry can't expect allies in other businesses, Mr. Nail said.

"Manufacturers aren't going to be sources of support" on issues pertinent to the insurance industry, he warned.

The self-insured firms are worried about how much the results of new legislation will cost them, while workers want the greatest benefits despite costs to their companies or the insurance industry, Mr. Nail said.

For example, many manufacturers support national health insurance because they think it will reduce their costs, he said.

Insurers may also turn out to be adversaries.

Insurance companies aren't likely to help agents being squeezed by low premiums, he said. While insurers rake in investment income, agents lose on companies' underwriting practices.

"My bottom line is being eroded by insurance carriers who are knowingly underwriting to deficit loss figures, loving every minute of it and running all the way to the bank, screaming, 'Wonderful!'" Mr. Carlson charged.

Insurers aren't going to share investment income with their independent agents, Mr. Pollard admitted. But insurers should change profit-sharing plans to better compensate agents, he said.

"Most companies are not deliberately underwriting at a loss. That's just the way it translates," Mr. Nail said. ■

Build efficiency, consultant says

A/BT

WASHINGTON—Agencies that survive the 1980s will be led by managers who regain control of their agencies through accountability and streamlined administrative functions, predicts consultant Roger H. Sitkins of Holgate & Associates Inc. in Fort Worth, Texas.

Agency presidents will become administrators rather than another member of the team, he said at the National Assn. of Professional Insurance Agents' convention here. But they still will need to carefully monitor their firm.

They will delegate the responsibility of running the show and turn to those leaders to keep them informed of pertinent happenings, Mr. Sitkins said.

"Eighty-five percent of problems (in an agency) stem from top management who make uninformed decisions. They're too far removed from the mainstream to understand the roots of problems," he contends.

"Administrators should ask the customer service people to find where the problems are," he explained.

With proper administration, coordination and automated aids, managers will build the agencies of the 1980s to efficiency that puts their sales force out selling 80% of the time, with zero backlog and zero receivables, Mr. Sitkins continued.

Productivity is important to meeting those goals. Managers should rate all their employees' potential on a scale from one to 10 and get rid of anyone who rates less than an eight. Those employees with the greatest potential deserve management's time, he emphasized.

Traditionally, managers spend too much time trying to pull up the threes and fours and not enough time with the eights and nines who become disenchanted.

A manager with a firm grasp of his or her agency also sets realistic goals for each producer. Talk with each producer; don't set goals without his or her input, Mr. Sitkins said.

Begin by discovering what compensation the producer wants to make for the year.

What does he or she expect to make from renewals?

New business makes up the balance. Calculating the producer's average commission per sale establishes how many sales he or she must make.

What percent of the proposals the producer makes result in a sale? How many prospects does he or she see per proposal? What percent of his or her contacts results in new business proposals?

By answering all of these questions, the manager and producer can calculate daily goals for the producer, Mr. Sitkins said.

The manager can monitor the producer's progress toward these goals to give the manager a firm grasp on what to expect in revenues for a coming year.

Administrative staffs also can better prepare producers to tap valuable prospects, Mr. Sitkins said.

After a positive contact with a client who has, for example, an auto insurance policy with the agency, the customer service representative should ask in what month the client bought his home, too. Chances are, the client's homeowners policy comes due that month.

The representative should ask if the agent may call on the client at that time to discuss a homeowner's policy. A record of those calls is invaluable, Mr. Sitkins said.

More agencies will turn to automation, especially in-house accounting systems.

As managers compare data processing systems, they should choose a system that has full word processing capabilities, he noted.

About 80% of the business that goes through the agency can be standardized. An agency with a word processing system can take advantage of that standardization and streamline administrative work. ■

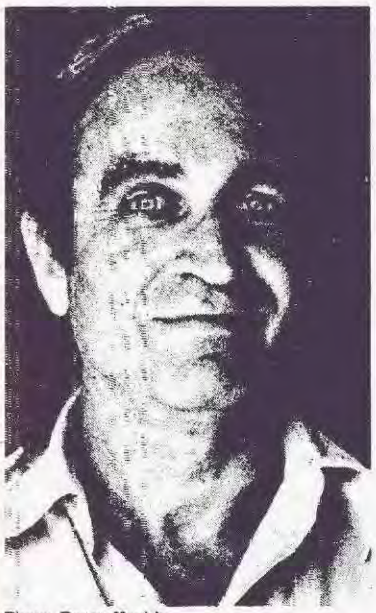

Photo: Donna Yanish

Dave Goodwin says agents shouldn't forget life coverage.

Agents should put some life into their book: Consultant

WASHINGTON—Agents better put some high-quality life into their property/casualty insurance book or business could dry up and blow away.

That was consultant Dave Goodwin's warning to the National Assn. of Professional Insurance Agents' convention here.

If a commercial policyholder is forced to look elsewhere for life insurance, that life agent is going to bring his or her property/casualty insurance affiliate in to steal your business, he said.

"For every $1 million of your property/casualty insurance premiums, these customers are buying $1 million in life insurance as well," he said. "You'll lose fewer accounts if you sell life."

Most agencies are interested in life insurance, Mr. Goodwin noted, but some agencies that started a life insurance sales arm a few years ago have dropped the business again.

They fell into one or more of the many pitfalls plaguing the life insurance business, he believes.

The life insurance industry is changing as providers discover that the traditional sales methods are inefficient, Mr. Goodwin explained. "Eighty percent of a life agent's time is spent in prospecting. Managers are giving awards to producers for each policy they write."

A/BT

Old-fashioned marketing methods are no longer working and customers' demand for new policies, especially universal life, is tearing away at whole life sales.

Agencies ready to expand into life insurance sales should pick only the best life insurers and products. "The top 1% or maybe 2% of policies overall," Mr. Goodwin said. The life insurance policies a life producer in an agency writes reflect the entire agency, he noted.

With life products to sell, management must find and evaluate the competence of a life agent to hire. That can be difficult for a manager who has always dealt with commercial producers, Mr. Goodwin said.

"Life producers are a different breed."

Many life agents are trained to make the sale, he noted. Hard-sell techniques traditionally have dominated the industry. A property/casualty agency, however, can't tolerate that pressure. An over-aggressive life agent can destroy client relationships developed by the agency.

"A life producer has to be untrained and retrained" in effective sales techniques used by the commercial property/casualty agents, Mr. Goodwin said.

While the agency's current accounts are a wealth of prospects for a life producer, "files are off limits," Mr. Goodwin emphasized. A life producer, for example, shouldn't have access to age statistics on holders of other policies with the agency.

Information in the files is confidential, and a client may view a life producer's access to the data as a breach of confidence, he said.

When a policyholder makes a call to the agency with questions about life insurance, the life producer must do his or her homework. A life agent's "first responsibility is to go to existing policies," Mr. Goodwin contends. "If replacement is the best alternative, the agent has an obligation to tell the policyholder," he says.

Service calls are important for a life producer, he adds. If, for example, an auto insurance policyholder calls the agency from a hospital after an accident, the life producer should see the policyholder and offer assistance of any kind.

Later, that person will remember the service call, he said.

While property/casualty producers and life producers can provide prospects to each other, neither should mingle in the other's business.

"Even if a policyholder gives a property/casualty producer the easiest life sale, don't write it," Mr. Goodwin warned. "You may not be writing the right concept or the right policy" for that client. "Also, as easy as the application was, there has to be follow-up that can be very time-consuming," he added. "Go to your life producer; see that it's done right."

Likewise, "if the life producer stumbles into a property/casualty account, he or she should turn it over to the house," he said.

A life seller, although experienced in that field, may want to get into the property/casualty side, he noted. Don't let that happen, he warned. Each producer should sell one or the other.

If you are going to add partners to run the life operation rather than commission salesmen, make sure that you retain 51% of the ownership, Mr. Goodwin adds.

The property/casualty agents should have stock options on what the life (business) creates and should be licensed in life insurance. Their name should go on all life policies to maintain control of the operations stemming from the agency, Mr. Goodwin explained.

If the property/casualty producer and the life producer split, the life insurance producer should know up front that renewal commissions come to the agency, Mr. Goodwin suggested. ■

Check policies carefully

Agents need adequate E&O coverage

WASHINGTON—Agents' errors and omissions insurance takes over when the policyholder's insurance runs out, quips Duane A. Valine, executive vp and treasurer of Hackett, Valine & MacDonald Inc. in Burlington, Vt.

That painful definition can be true, unless agents carefully review procedures for issuing policies and handling renewals and cancellations, he told the National Assn. of Professional Insurance Agents' convention.

Agents should make sure they have adequate E&O insurance, added another panelist, William H. Rauschenberg Jr., senior vp of Fickling-Walker Agency in Atlanta.

The errors and omissions problem for agents continues to grow as exposures grow and as policies get increasingly complex, the speakers noted.

More and more insurers are even bringing E&O complaints against their own agents because the insurance company has been called upon to pay a claim it doesn't believe it is responsible for, Mr. Rauschenberg said.

Many agents also misunderstand the difference in E&O coverage under an occurrence policy and a claims-made policy.

He used the following example to illustrate the difference:

An agency has an E&O policy issued for the period from Jan. 1, 1979, to Jan. 1, 1980. The agent issues a homeowners policy but omits a jewelry item from the schedule. That error occurs on July 15, 1979.

A theft occurs on Oct. 12, 1981. The agent then discovers the mistake and the homeowners policyholder says (on that date) that he will hold the agent responsible for the error.

"Under an occurrence contract, the policy that was in force at the time the error was made—July 15, 1979—would be the policy that would apply anytime in the future if a claim were made as a result of that error," Mr. Rauschenberg explained.

But with a claims-made form, the policy that was in force from Jan. 1, 1981, to Jan. 1, 1982, when the claim was filed, not the policy in force when the mistake was made, would cover the loss, Mr. Rauschenberg continued.

The claim is officially made on the date the client indicates he will hold the agent responsible for the error.

Since most claims-made policies cover losses only during the time the policy is in force, agents who switch between occurrence and claims-made policies and don't add coverage to fill in the gaps can have problems, Mr. Rauschenberg said.

Several insurers sell errors and omissions policies without retroactive or prior acts coverage.

"Check your policy," Mr. Rauschenberg advised. "You may think you have a retroactive date when you do not."

It's particularly important for a agent to understand what coverage he or she has when switching policies or insurers, he added.

"Make sure your E&O policy covers dishonest acts," Mr. Rauschenberg said.

"Most E&O policies have an exclusion for dishonest acts, unless they're extended to include them," he noted.

Examine and understand the components of an E&O policy, Mr. Rauschenberg said. Check the definition of employee. Is everyone working in the agency covered?

Check what acts are covered. Does the policy exclude consulting acts?

Determine contractual responsibility. Most E&O policies contain contractual exclusions.

"The mere fact you have a contractual agreement defining responsibility for an incurred liability doesn't necessarily mean your E&O policy assumes that responsibility," Mr. Rauschenberg noted.

If an agency acquires another corporation or changes its name, all entities should be listed in the E&O policy, Mr. Rauschenberg advised. Then an insurer will be less likely to question claims made under any agent names.

A/BT

Even with a comprehensive E&O policy, an agent's best plan of action is to avoid E&O claims, Mr. Valine told the group. He advised agents to:

- Discuss E&O claims with the agency staff, describing how the claims happen, why and how they can be prevented.
- Establish a manual of operations and make sure the staff follows it.
- Establish a binder register with all agreement forms listed. The binders should be registered in sequence. Follow up on the status of each entry.
- Initiate a consistent policy for handling telephone calls.
- Keep a visitation folder for each client. Train your agents to note what was discussed at each meeting immediately after leaving the visit.
- Inform clients of the consequences of changing a policy from a special multi-peril form to a business owners' policy. Many agents only point out that they saved the client money by converting to a BOP; they don't advise the clients that previously covered risks may be uncovered now, Mr. Valine said.
- Send policyholders a notice of law or property value changes that may make their coverage incomplete. Two years ago, for example, a policyholder may have been grossly underinsured for his or her silver when prices skyrocketed last year.
- Notify clients who continue to add endorsements on auto policies that their limits may be too low.
- Send customers copies of order changes they request. They can bring errors to your attention before a claim is made.
- Don't say to clients, "Don't worry about it—I'll take care of it." That may imply the agency can obtain coverage for the client that an insurer may refuse.
- Report claims immediately to the insurance company. ■

Agents are hoping to share insurers' investment income

By LISA BERGSON

A/BT

WHITE SULPHUR SPRINGS, W.Va.—As underwriting losses grow, agents and brokers are seeking insurers' investment income to help sweeten revenues.

But it's not like taking candy from a baby.

"Wouldn't you want it, too? They're like kids in a candy shop," said B.P. Russell, the chairman and chief executive officer of Crum & Forster Insurance Group, in response to complaints from agency ranks.

Investment income, an extra source of cash flow and a beneficiary of high interest rates, has cushioned the insurers against inflationary losses, while allowing them to keep prices down.

But agents and brokers do not enjoy the same luxury. Underwriting losses reduce or, in many cases, erase producers' contingency fees, while lower prices eat into their up-front commissions.

Many agents from the 304 leading firms represented at the National Assn. of Casualty & Surety Agents-National Assn.of Casualty & Surety Executives 1981 joint conference, told *Business Insurance* that agents are hurting without extra income.

Mr. Russell

"We need an opportunity to participate in investment income," affirmed John Bassett, president of Beardsley, Brown & Bassett, a Bridgeport, Conn., agency.

Gerard Cassidy, former president of the National Assn. of Casualty & Surety Agents, agreed.

"If underwriting results are no longer a necessary goal, then the traditional rewards are no longer valid. Appropriate consideration must be given so that both underwriter and producer are rewarded for achieving the same goal. . .bottom-line results," Mr. Cassidy said.

Given the reluctance of the insurance industry and the lack of unity among producers, most of the agents present agreed that the chances of their sharing in investment income were slim.

"One of the presidents told me that he would never do it," bemoaned Arthur Hirman, chairman of Hirman Insurors in Rochester, Minn.

But that didn't stop the agents from dreaming. "The companies might include investment income as a bonus in the contingency or profit-sharing contract," suggested Merton Segal, chairman of the board of Meadowbrook Insurance in Southfield, Mich.

Thomas Rutherfoord of Thomas D. Rutherfoord Inc. in Alexandria, Va., concurred: "It's an admirable idea. Perhaps it could work through an overriding commission."

Any group effort to pressure the insurance companies into compliance was roundly vetoed, however. Instead, the agents seemed to feel they could do better as individuals, cutting their own deals with the companies they represent.

"If we need more money, we should negotiate better contracts," contended Joseph Hamilton Jr., president of Hamilton-Dorsey-Austin Co., an Atlanta subsidiary of Continental Can Co.

John Bogardus, the president and chief executive officer of New York-based Alexander & Alexander Services Inc., agreed with an individual approach to compensation negotiation.

"Higher commissions or part of the investment income might be given to specific agents. But I don't see this happening in a broad-based way." ■

National Safety Congress

Psychology the root of accidents: Consultant

Continued from page 3

ish, self-centered, bored with life, non-giving, unable to cope with stress and have feelings of guilt and anxiety were more likely to be involved in accidents.

Those with frequent first-aid needs were also extremely bored with their job, were less motivated, felt constrained or frustrated by the system and didn't communicate well with supervisors.

Those bent on destroying machinery were more selfish, self-centered, frustrated with their job, unable to cope with stress and suffered from feelings of guilt and anxiety.

Employees who filed more workers compensation claims were more prone to feel unappreciated by management, had unreasonable perceptions of what the supervisors should do, disrespected authority and did not like the work environment.

The most significant characteristics of accident prone employees was high stress and a desire for self-punishment, he said.

In many cases, having an accident focuses attention on the indiviudal, relieves stress by taking the employee's mind off his problems, is a form of self-punishment and serves as a variation from the employee's routine, Mr. Dubrow said.

He has developed an "Accutrac Evaluation System" to help identify accident-prone employees.

The system tries to determine which employees have the proper attitude and potential to succeed and whether they have the potential to advance. It grades employees from below average to above average in 30 job-related attitudes and activites ranging from how well the employee copes with stress to his quality of work.

"We believe we have clearly demonstrated we can identify people with accident potential," he said.

The system can be used in the hiring process to screen out accident-prone employees or to identify current employees who may need counseling.

It can also help identify persons with alcohol and drug problems for counseling, many of whom share the same psychological problems as accident- prone employees, he said.

Counseling of just five to 15 hours, Mr. Dubrow said, can be effective. "Once it is raised to a conscious level, everyone can change if he wants to."

Mr. Dubrow rejected the theory that peer pressure would have much effect on reducing accidents and said peer pressure has little to do with the attitude of those involved in accidents.

"These people have a conscious or subconscious intent to be involved in injuries," he said.

These intents, however, are not at all related to any particular race, religion, sex or national origin, he said.

Loss-control expert blames management

Continued from page 3

duce accidents:

- Listening actively to employees.
- Giving clear, effective instructions.
- Accepting a share of the responsibility for accidents.
- Identifying the real problems.

"Every employee is a problem solver and can be used to identify the real causes of accidents if we listen actively and often enough," Mr. Bird said. "Giving clear, effective instructions is a management skill and a responsibility of managers that will prevent a significant number of accidents caused by people who didn't know or didn't understand.

"Accepting one's personal responsibility for safety problems and accidents is a giant step in the identification of the real problems that can be controlled by a committed management team.

"One of the most significant messages here is that the whole concept of changing attitudes toward accident causes and the fact they are purely symptoms of management control breakdowns begins with a change in our own attitudes as professionals and redirection of our own finger-pointing," he concluded.

15,000 hear experts' views on safety issues

CHICAGO—More than 15,000 safety professionals converged in Chicago Oct. 19-22 for the 69th National Safety Congress and Exposition.

They came to attend more than 200 sessions with 600 speakers addressing current safety topics in the American—and in some cases European—home, government and industry.

But while numerous sessions concerned traffic and home safety, the bulk of the convention dealt with the latest techniques in improving safety in the workplace and dealing with accidents when they happen.

Automotive, chemicals, construction, farming, food and beverages, metals, mining and textiles are just a sampling of the industries for which techniques of improving safety were addressed by the experts who filled the agenda.

Loss-control experts in every field emphasized approaches for reducing or preventing accidents that ranged from very practical suggestions for particular industries to subtle psychological and motivational techniques for improving the safety awareness of workers and supervisors in general.

The role the federal government's Occupational Safety and Health Administration and the Mining Safety and Health Administration play was the subject of many sessions, including a speech by new OSHA Director Thorne G. Auchter, who outlined the way he is reshaping the agency to better respond.

Other sessions were devoted to the latest in product liability law and sought to show industry how to prevent product liability lawsuits and, if they could not, how to defend them.

Fire prevention in the home and industry was also a popular topic, highlighted by a three-hour session devoted to high-rise fire safety, including a film of the MGM Grand Hotel fire.

Several all-day professional development seminars also were held.

The subjects included solving occupational health problems, preventing back problems and rehabilitating those with them, training safety professionals, industrial ventilation, aquatic facilities and handling hazardous materials.

Associate Editor Stephen Tarnoff covered the safety congress, which was sprawled over several downtown Chicago hotels. His report continues here and runs through page 52. ■

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Take steps to control hazardous material exposures: Pamphlet

CHICAGO—Risk managers of companies that produce, transport or dispose of hazardous wastes should take a number of measures to control or eliminate hazardous waste exposures, a pamphlet outlining guidelines for insurers says.

"Hazardous Waste Exposure Assessment and Control" is published by the Alliance of American Insurers for insurers assessing risk and liability of companies dealing with hazardous wastes.

It was distributed at an all-day seminar on hazardous waste management and handling at the National Safety Congress Oct. 21.

In general, buyers and insurers must consider several factors when assessing such exposures. These include the components making up the wastes, their transportation and disposal and their effect on humans and the environment.

"Acceptable risks can be identified by direct risk assessment and by indirect methods such as design requirements or performance goals or by policies that require that wastes be treated or disposed of by means other than land disposal," the pamphlet says.

In a risk assessment program, a technical survey is also necessary. The raw materials used, manufacturing processes, finished products and byproducts and compliance with environmental regulations all must be examined.

In addition, the policyholder's size, hazardous waste pollution already present in the environment, disposal methods, claims and loss experience, safety and health awareness, compliance with recommendations made by consultants or specialists and quality of housekeeping must also be considered.

In determining waste management strategies, policyholders should recognize the problem's full loss potential in terms of the company's profitability; separating hazardous from non-hazardous wastes at the source; concentrating them to reduce handling, transportation and disposal costs; disposal of the waste in a secure landfill; assigning responsibility for managing wastes within and outside the organization; obtaining information about environmentally safe hazardous waste management; and developing a waste management plan.

Regarding a waste management plan, "It is important that policyholders develop a fundamental working knowledge of the technical, legal, legislative, economic, sociopolitical and regulatory issues associated with hazardous waste management," the pamphlet says.

It is essential also that someone in the company be assigned to deal with the total hazardous waste problem, the pamphlet says.

"The first step risk managers, safety directors, line managers or other responsible policyholder executives should take is to recognize and become informed about the hazardous waste disposal problems as well as become aware of potential impact of federal and state regulations," it says.

Citing the four phases of the hazardous waste cycle—waste generation, storage, transporation and treatment and disposal—the pamphlet describes what insuers should look for in policyholder's operations.

For waste generation, a detailed examination of the policyholder's manufacturing operations should develop information about the type, volume and hazardous characteristics of all wastes generated, the processes producing the wastes and the handling procedures used.

For storage, the quantities of wastes stored, the types of containers used and the length of time they are stored at the plant should be reviewed.

Transporters must deliver hazardous waste shipments to the facility designated by the generator, keep accurate records and report any spills. The type and condition of the transport vehicles, handling procedures, tank and container labeling, compliance with federal regulations, cleanup procedures, segregation of incompatible wastes and the travel routes used should all be considered.

For treatment and disposal, proper control will depend on practical and precise sampling and analytic procedures.

When assessing hazardous waste disposal sites, such things as proximity to population and valuable property, exposure to unusual weather or geological conditions like hurricanes, floods or earthquakes, the area's hydrology, interference with commerce, destruction of farms and businesses and pollution of aquatic wildlife should also be considered.

Finally, the pamphlet recommends that basic risk management factors be applied in developing a waste management plan.

These include looking at the possiblity of recovering and recycling wastes, strategies for dealing with problems resulting from past disposal practices, existing and proposed monitoring and surveillance procedures, training programs and seminars for company personnel, contingency plans for dealing with plant emergencies and the economic impact of complying with federal and state regulations.

"Policyholders that address these points in advance will most certainly benefit because their liability exposures and compliance costs will be anticipated and most probably reduced," the pamphlet says. ■

Safety orientation should cut injuries

CHICAGO—Companies seeking to reduce workplace accidents should upgrade orientation safety programs for new employees, says a safety director for a research laboratory.

David J. Van Horn, environmental health and safety director of Rohn & Haas Co. Research Laboratories in Spring House, Pa., believes the new safety orientation program instituted by his company last year should reduce accidents significantly.

"I think it has got to help," he told participants at the National Safety Congress. "If it doesn't, we will be very, very disappointed."

Between 15% and 20% of employees in the Rohn & Haas research division are injured during their first three months on the job, Mr. Van Horn said.

An important step to tackling this problem was to convince senior officers to sit down with department heads to discuss safety and what should be done for new employees in the department.

In many cases, it was found that managers had not taken seriously new indoctrination programs. They often would delegate training responsibilities to people not equipped to handle them.

Consequently, the company set up a program that emphasizes the role of senior managers and better recording of training procedures. An outside consultant was brought in to help.

The safety training is divided between the line organization managers and the health and safety department. Major responsibility, however, is placed on line organization personnel.

The new employee is to be trained within his first three days on the job by the department manager, immediate supervisor and department health/safety monitor. The employee gets a follow-up review a month later.

All new employees to the department participate in the the program including interns, temporary help and those coming to the research division from another division in the company. Mr. Van Horn describes new employees as "all who are new to the work they were doing" no matter how long they have been employed.

Line organization training includes introducing the employee to the division's safety and health policy statement; the department's safety, industrial hygiene and environmental rules; rules for specific projects and operation of equipment; location and use of safety and health equipment; and accident, injury, illness and other emergency procedures.

The department manager is required to sign a paper verifying that he had reviewed the safety policy statement with the employee. "It is visible evidence that the manager is really serious about safety," Mr. Van Horn said.

During the new employees' first two weeks on the job, the company fire marshal provides general training in fire protection and explains evacuation plans, how to handle emergencies and how to use laboratory glassware safely.

At this meeting, safety rules and regulations are reviewed. The meaning of emergency signals and the importance of reporting injuries and malfunctions also are emphasized. Employees also are taught how to operate a fire extinguisher.

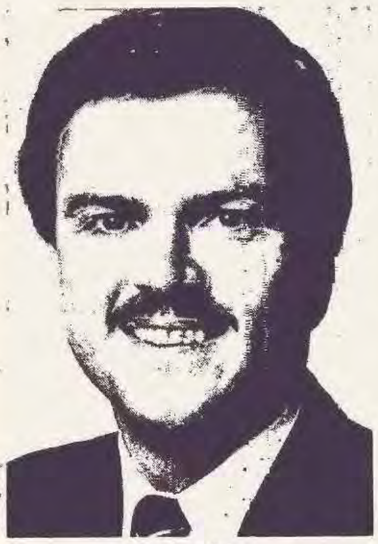
A third means of reinforcing safety procedures with employees is quarterly sessions for new employees to discuss management's role in safety and health.

Topics emphasized are the company's commitment to preventing accidents and occupational injuries and illnesses; understanding the safety review procedure; general safety, industrial hygiene and medical programs and related employee benefits; and management's commitment to protecting the environment by control of chemicals and waste at work and during transit.

Mr. Van Horn stressed, however, that a a safety orientation program is not likely to succeed unless management gets involved.

Peer pressure also forces employees to practice what they have been taught. ■

OSHA won't punish business: Auchter



Mr. Auchter

By STEPHEN TARNOFF

CHICAGO—The Occupational Safety and Health Administration is interested in improving the health and safety of workers, not in punishing businesses, says its director.

"OSHA is interested in safety and health and not in crime and punishment," Thorne G. Auchter told participants at the National Safety Congress Oct. 19-22.

"Inspections, yes. ...but our inspections should leave something positive in the workplace, not just a citation."

To achieve the new goals, Mr. Auchter has implemented a new management system for the agency.

Mr. Auchter told the largely receptive audience that the agency would work to achieve President Reagan's goal of returning power to the states from the federal government and to reduce the budget.

But he emphasized that OSHA would continue to help ensure a safer workplace for employees as intended by Congress.

"I am not here to gut the agency," Mr. Auchter told the audience. "But at the same time I don't want your money."

Mr. Auchter said money spent on OSHA fines would be better spent by employers on health and safety programs for employees.

In addition, he said he did not believe in a "quota system" that grades agency employees according to the number of violations they find in the workplace.

The improved relationship with employers is one of the goals of a new a code of conduct issued to compliance officers, Mr. Auchter said.

Beginning Oct. 1, the agency is visiting more manufacturers. At the same time, however, it hopes to eliminate useless inspections, reward companies with good safety records and terminate inspections early where there is no need for them to continue, Mr. Auchter added.

These reforms are possible under OSHA's new management system that is more consistent with the intentions of Congress when it created OSHA, Mr. Auchter explained.

Before he became director, the agency had no real management system or way of measuring its progress toward congressional goals, he contended.

Now, however, the agency will collect and compare data among regions on a regular basis, set objectives for 1982 and translate the objectives into performance criteria for senior and middle managers.

"For the first time, we will have a way of grading our management, for holding our people accountable," he said.

The new management system will address OSHA's review of standard state programs, consultations with employers, education and training, federal agency programs and special projects.

The agency is changing its monitoring system for state programs to make them equal partners with OSHA in ensuring employee safety. The agency also has moved its compliance forces out of state program areas to prevent duplication of enforcement, he said.

Along the same lines, the agency is talking with states in an attempt to avoid conflicts between their standards and federal OSHA standards.

Mr. Auchter said the agency also is encouraging a grants program funded by OSHA that fosters new organizations involved in safety and health. There are currently about 150 grantees.

It also is addressing safety and health programs in federal agencies where $3.5 million to $6 billion could be saved per year, he said. A new program for federal agencies is due by March 1.

Finally, the agency will be looking at a number of special projects through which OSHA will encourage innovations in safety and health.

Projects include encouraging labor-management committees to promote more involvement between employers and employees on safety and seek ways to translate the feeling of responsibility for work safety from employer to employee.

OSHA currently has 2,600 employees, with 500 in the national office and 2,100 in field operations. About 1,200 employees make 60,000 inspections a year involving 40 million employees.

The agency's new direction as described by Mr. Auchter has apparently received the endorsement of at least one group, the U.S. Chamber of Commerce.

In a session on the past, present and future of OSHA, Mark DeBernardo, an attorney for the Chamber, described OSHA as presently "hopeful, very positive" with "very, very dramatic changes coming in the future."

"We very much want to see the Auchter program work," Mr. DeBernardo said.

Predicting that more responsibility for occupational health problems will be placed with the employer, he called for industries to work closer with the agency where the "door is open" to business.

"We see a de-emphasis in the federal presence, less direct federal presence in the workplace," he said.

Admitting OSHA has been positive in some respects since its inception in 1971, (such as raising the consciousness of the need for safety in the workplace), he said it has also had a number of "missed opportunities."

He speculated that OSHA might be partly responsible for the "marked increase in serious injuries and time off the job" in the workplace during the Carter administration.

Policies that encouraged employers to prevent OSHA citations rather than prevent injuries and to spend money on items not related to injury and illnesses may have contributed to the increase, Mr. DeBernardo said. ■

Law firm hires engineer to help prepare tort cases

CHICAGO—Law firms specializing in product liability cases probably will hire safety engineers in the future to help them prepare, a plaintiff's attorney said at the National Safety Congress.

"I think it will be a trend because cases will be bigger and more sophisticated," said Alan E. Gesler whose law firm, Warshafky, Rotter, Tarnoff, Gesler & Reinhardt of Milwaukee, has already hired a safety engineer.

The engineers can conduct field investigations and technical research and interview experts, all necessary tasks in preparing a case, he added.

Mr. Gesler, whose firm also has hired a physician, said he did not know of any other firms that have hired safety engineers, although some employ lawyers who are engineers.

Both he and the safety engineer believe that their jobs are to help deter product liability problems and to clean up the worst examples of technology, Mr. Gesler said. "He (the safety engineer) has the view that without product liability cases, these things won't get done."

Mr. Gesler said a number of cases in which he has been involved have resulted in installation of new safety equipment on machines. "I consider that a contribution to safety," he said.

But while the firm has hired a safety engineer because bigger and more complex cases are being tried, the total number of product liability cases is not growing, he said.

He pointed out, however, that reform legislation introduced in some states to restrict awards or lawyer's contingent fees in product liability cases is generally failing to influence costs.

Testimony by insurance company personnel indicates that such legislation will have no impact on premiums.

Mr. Gesler said comparing the premiums earned with losses paid out by the top 50 product liability insurers in 1979 shows that they are making a large profit on product liability risks.

In 1979, the average claim payment was 20 cents on the premium dollar and in 1980 it was 24 cents, he said. Investment income on reserves adds to these profits. "It is a very highly profitable area."

He cited the trend toward self-insurance by manufacturers, which allows more control in selecting attorneys in product liability cases and settling out of court.

Mr. Gesler said he believes the workers compensation system discourages emphasis on safety in the workplace because under the laws' exclusive remedy provisions, employers generally cannot be sued by employees who are injured.

Because benefits for injuries under workers compensation are typically low, it has become a cheap form of insurance, he said. "There's no impetus for employers to take a look at safety."

He said this is increasingly frustrating to manufacturers, which are then hit by product liability lawsuits filed by employees who are not satisfied with worker compensation benefits. The manufacturers count on their products being handled with a degree of safety, he said. ■

Conference adds speakers

PHILADELPHIA—The sponsors of the 1982 Philadelphia World Insurance Congress have lined up two more speakers.

Edward H. Budd, president and chief executive officer of The Travelers Corp. in Hartford, Conn., and James D. Robinson III, chairman and chief executive officer of American Express Co. in New York, will speak to registrants at the congress April 25-28 (*BI*, Sept. 14).

The congress, which is being held in conjunction with the city's tricentennial celebration next year, will provide a forum to explain significant trends shaping the future of insurance and related financial services.

For more registration information contact the Philadelphia World Insurance Congress 1982, Box 1982, Philadelphia, Pa. 19107; 215-563-5813. ■

Safe high-rises could depend on cost

By STEPHEN TARNOFF

CHICAGO—Safe, fireproof high-rise buildings can be constructed and improved firefighting techniques are available if people are willing to endure the cost and inconvenience, says the commissioner of the Chicago Fire Department.

"With the techonology available, there is no doubt we can construct a relatively fire-safe building," Chicago Fire Commissioner William R. Blair told members of the National Safety Congress Oct. 19-22. "But at what cost and what inconvenience? We have the technology to do anything we want if we want to pay for it."

Equipment used by the National Aeronautics and Space Administration, such as radios with 33 channels and improved breathing apparatus, would be a great help to firefighters, but the cost of this equipment is prohibitive, he said. "These things are all possible but impractical."

Mr. Blair's remarks were made in a session devoted to high-rise fire safety. Also speaking at the session were James Barrett, assistant fire chief for the Clark County Fire Department in Las Vegas, Nev.; Carl Baldassarra, manager of the Schirmer Engineering Co. in Deerfield, Ill.; and Wayne Watson of the McDonnell-Douglas Corp.in Creve Coeur, Mo.

To describe the latest in fire prevention in high-rise buildings, Fire Commissioner Blair used a slide presentation on the Bonaventure Building in Los Angeles and the 110-story Sears Tower in Chicago, which he said is "one of the most outstanding" buildings in the world in fire protection.

The Bonaventure Building and Sears Tower both have sprinkler systems throughout, smoke and heat detectors or a combination of the two and smoke-proof towers and pressurized stairways that can be used for escape during a fire.

In addition, a fire, floor identifications in stairwells and fire pumps with a large capacity for supplying water.

A regular standpipe system throughout the buildings, large generating systems and fire pipe inlets allow firefighters to increase the water pressure if necessary.

"Nothing here is new technology," Mr. Blair said. "It is a better application of items and concepts that have been around for years."

Mr. Blair did refer to one bit of new technology—the fire control room. Here every system in a building is monitored using computer printouts to point out problem areas.

Mr. Baldassarra, whose firm helped design the fire prevention system at the Sears Tower, said fire safety in high-rises is good and the number of deaths resulting from fires in them has decreased in recent years.

Noting that the recent fires at the MGM Grand Hotel in Las Vegas and at the Stouffer's Inn in Westchester County, N. Y., have aroused public concern, he said "It is clear society is expecting an improved level of fire safety in public buildings."

The biggest challenges ahead are with existing buildings, he said. Newer fire safety codes are good, but they only apply to new buildings, he said.

Fire prevention problems in high-rises are similar to those in other buildings and the frequency of fires can be reduced, he said.

But, high-rises present unique firefighting problems because the fires are often beyond the reach of fire station equipment, the time necessary to evacuate occupants is excessive and the structures provide a natural setting for vertical drafts that are responsible for the spread of smoke.

Contents of buildings also have changed with plastic being used much more. They "are not necessarily dangerous but do need to be used with caution," he said.

Other changes are lightweight construction, open floor plans, more extensive electrical systems and more creative architectural design.

Mr. Baldassarra applauded work done by the U.S. Fire Administration in the area of fire prevention.

Mr. Barrett of the Clark County Fire Department described the MGM fire last November that killed 84 and injured 679 people. The fire started at 7:16 a.m., engulfing the casino in four minutes. Had it occurred in the evening, as many as 15,000 people may have been located there, Mr. Barrett said.

There were about 6,000 people inside the 2,082-room building when the fire occurred. More than 25 helicopters evacuated 350 people from the roof, although they were not all evacuated until noon.

Most of the deaths occurred on the 20th through 26th floors.

Mr. Barrett said the areas protected by sprinklers were in much better shape than others. "Automatic sprinklers are one of my favorite subjects today," he said.

Mr. Watson described a 7-by-8-foot rectangular device that attaches to a helicopter by a long cable and can be used to fight high-rise fires.

Developed by the McDonnell-Douglas Corp., the "Suspended Maneuvering System" can be attached to the side of a building to fight a fire from it.

Mr. Watson said the device can be used to bring firefighters to the upper floors of a high-rise, supply air bottles and evacuate firemen and casualties. ■

Interest in preventing high-rise fires has increased since last year's fire at the MGM Grand Hotel in Las Vegas.

around the states

Georgia considers work comp pools

ATLANTA—A hearing on the establishment of group self-insurance pools for workers compensation in Georgia will be Nov. 17.

Regulations proposed by the state insurance commissioner would allow such funds, which would be set up by qualified groups or associations.

Interested parties can make proposals in writing before Nov. 17 or make oral comments at the hearing to be held in Room 238 of the State Capitol.

Work comp rate cut

JACKSON, Miss.—The National Council on Compensation Insurance, acting on behalf of its Mississippi members, has filed for revised workers compensation insurance rates that would cut the average premium level in the state by 0.9%.

The change, which would take effect on Jan. 1, revises rates and rating values for new and renewal policies only.

Several factors influenced the request, according to Robert L. Hilton, vp of the NCCI's southern regional office, including an overall 1.4% decrease in premium level and an increase in the allowance for loss adjustment expense—the expense incurred by an insurance company in settling claims—from 11.5% to 12% of expected losses, which produced an 0.4% increase in the overall premium level.

Another reason for the proposed rate cut cited by Mr. Hilton was an increase in the the workers compensation administration assessment—an extra fee charged to companies to administer workers compensation insurance—from 1.035% to 1.036%.

The proposal would raise premiums for manufacturing companies by an average of 0.9%, increase premiums for contractors by an average of 2.6% and decrease premiums for other groups by an average of 4.2%.

Deputy appointed

NEW YORK—Superintendent of Insurance Albert B. Lewis has named Martin Minkowitz deputy superintendent and general counsel of the state Insurance Department.

Mr. Minkowitz has served as general counsel for the state Workers Compensation Board for the past five years. Mr. Minkowitz was responsible for the board's legislative program and has been concerned with benefits for injured workers as well as claims handling. He has also advised board members, workers compensation law judges, legislators, the governor's office and industry and labor groups on the state's workers compensation law.

Retirement programs

NEW YORK—The state Insurance Department will conduct a series of joint studies with the state's Division of the Budget to establish financial standards for the state's eight major public retirement systems.

Because of the impact of retirement costs on state and local government finances, Insurance Superintendent Albert B. Lewis and the state budget director will study the plans' actuarial assumptions, accounting practices, administrative efficiency, investment policies and financial soundness.

State insurance law authorizes the superintendent to establish standards for public retirement programs, including plans covering teachers, police officers and firefighters and other public employees outside New York City. He can also draft standards for five plans operated by New York City.

The insurance and budget agencies will discuss the new standards with the affected plans and the state's Permanent Commission on Public Employee Pension and Retirement Systems before changes are made. At least one more public hearing will be held in connection with the studies. ■

Psychiatrist seeks high court ruling

WASHINGTON—The Supreme Court has been asked to decide whether an insurance company can recover damages from a psychiatrist for an allegedly negligent diagnosis of the insurer's policyholders.

A former Atlanta psychiatrist has petitioned the high court to overturn a June federal appellate court decision that a psychiatrist can be liable to a third party if the psychiatrist knows that the party will rely on his opinions.

Making a psychiatrist liable to his patients and to a third party, such as an insurance company, "will foster innumerable and very real conflicts in the health care delivery system," according to a brief filed on behalf of psychiatrist Merton Berger.

Dr. Berger was the subject of a 1977 *Business Insurance* probe investigating the large number of federal air traffic controllers he certified as disabled because of "job-related neuroses," (*BI*, March 7, 1977).

"Who is the doctor to satisfy in attempting to exercise a reasonable amount of care—the patient, or the cost-conscious insurance company? Who will compensate the physician for the extra risk he now evidently runs of a negligence suit by the insurance company?" the brief asked.

The case involves a lawsuit filed against Dr. Berger by North American Co. for Life and Health Insurance of Chicago, challenging Dr. Berger's disability certification of 30 federal air traffic controllers who had disability income insurance policies with North American.

Under the North American disability income policy, the air controllers were entitled to benefits for an 84-month period if they were medically certified as unable to perform their air traffic control duties during that time.

Depending on the premiums paid, the monthly benefits each air traffic controller received from North American policies ranged from $500 to $1,000.

Because of the large number of controllers Dr. Berger certified as disabled, North American investigated and said that many of his diagnoses of total disability were fraudulent or negligent.

North American sued Dr. Berger to recover $562,025—the amount of money the insurer had paid under its disability income policies to air traffic controllers that Dr. Berger certified as unable to work.

According to court papers, Dr. Berger had evaluated air traffic controllers in the Atlanta area from 1965 to September 1974 as a consultant to the Federal Aviation Administration. He left after allegedly disagreeing with various medical procedures.

Shortly before leaving the FAA, Dr. Berger began seeing air traffic controllers as private patients. On the basis of a single 50-minute office visit, and allegedly without employing any objective psychological tests, Dr. Berger certified that 64 air controllers had job-related neuroses and were entitled to disability benefits.

The air controllers' visits to Dr. Berger did not stop with initial certification of disability caused by job-related neuroses.

Dr. Berger was allegedly aware that under the terms of some of the air controllers' disability income policies, they were required to consult regularly with the physician or psychiatrist who certified the disability.

So, the controllers continued to see Dr. Berger, who at one time received $60 for each monthly visit. The North American complaint estimated that Dr. Berger received $25,000 a year in income from this group of patients alone.

In June 1979, a U.S. district court dismissed North American's claim for negligence damages against Dr. Berger. The court accepted Dr. Berger's argument that since there was no privity—direct relationship—between the psychiatrist and the insurer, there was no breach of duty on the part of Dr. Berger.

But in a 3-2 decision in June, the Fifth Circuit Court of Appeals in Atlanta overturned the lower court ruling. "When a tortfeaser provides an opinion with actual or reasonable knowledge that the injured party will rely on its accuracy, he is liable for the foreseeable results," the appellate court said.

"It is a declaration of an old principle that a physician is under a duty to render a certification of his opinion—with the proper amount of care—to one he knows will rely on it," said North American attorney Matthew Patton of Atlanta.

But in their brief to the Supreme Court, Dr. Berger's attorneys contend that the appellate court decision "has created a duty where none heretofore existed. It has expanded the physician's proper concern from the exclusive dedication to the welfare of his patient to include a concern for the satisfaction of the insurance company." ■

Number of HMO enrollees hits new high of 10.3 million

EXCELSIOR, Minn.—The number of people enrolled in health maintenance organizations hit an all-time high during the last year, but the rate of increase in the number of plans slowed markedly.

A record 10.3 million people were enrolled in 242 HMOs as of June 30, up 13.2% from the 9.1 million enrolled in 236 plans on June 30, 1980, according to preliminary statistics compiled by the federal Office of Health Maintenance Organizations and Interstudy, a health policy research firm here.

This year's 13.2% increase in enrollment is up from the 1980 increase of 10.9%, but fell shy of the 15.8% enrollment jump in 1978.

The 2.5% increase in the number of plans is down substantially from the 9.7% increase in plans between 1979 and 1980 when the number of HMOs grew to 236 from 215.

The decline in the number of new HMOs is in line with earlier predictions by health experts who say that plan growth will be spotty in the next few years as federal funds for HMOs dry up (*BI*, May 4).

Some experts maintain that while the number of people enrolled in HMOs is expected to climb substantially in the next few years, the number of HMOs may actually drop because of absorption or bankruptcies.

Large financially strong plans, such as those sponsored by insurance companies, are expected to take over weak HMOs that have been poorly managed or are unable to attract investment capital.

More information on recent HMO trends will be available later this month when Interstudy and OHMO publish their annual HMO census. ■

info

• The Wyatt Co. has published a report on **public officials' liability in Michigan**, the first in a series. It contains the findings of a study of claims experience, settlements of lawsuits, defense costs and the purchase of errors and omissions insurance by public entities. It discusses limits of coverage purchased, premium costs, insurers used and the responsiveness of coverage to claims. The report is designed to help government entities formulate their insurance programs. The report costs $15 and is available from Kenneth E. Beres, Consultant, The Wyatt Co., Suite 200, First National Building, Detroit, Mich. 48226.

• A free booklet containing **arbitration rules for employers involved in disputes over their withdrawal liability for leaving a multiemployer pension plan** is now available from the International Foundation of Employee Benefit Plans. It contains rules developed by the American Arbitration Assn. and the foundation. Some of the topics explored include initiation of arbitration, pre-hearing conferences, qualifications of arbitrators, disclosure and challenge procedures, vacancies, representation by counsel, adjounments, oaths, majority decisions, waivers of rules, extensions of time, deposits and interpretation and application of rules. For a copy write the International Foundation of Employee Benefit Plans, Box 69, Brookfield, Wis. 53005; 414-786-6700.

• **"Hand Tool Safety: A Guide to Selection and Proper Use,"** a compilation of three hand-tool safety booklets, is available from the Hand Tools Institute. The 89-page booklet contains 10 sections with illustrations describing the proper selection and safe handling of 80 different hand tools. It includes a special section on redressing the cutting edges of tools. The booklet is available at an introductory price of $1.50 each. Write Hand Tools Institute, 707 Westchester Ave., White Plains, N.Y. 10604.

• Copies of **a report on universal life insurance** are available from The Insurance Forum. The report describes universal life coverage, comments on its advantages and disadvantages and discusses its implications for the insurance industry. The universal life report costs $4 per copy. Write The Insurance Forum, Box 245, Ellettsville, Ind. 47429.

• The Education and Research Fund of the Employee Benefit Research Institute has just published **"A Bibliography of Research: Retirement Income and Capital Accumulation Programs"** and **"A Bibliography of Research: Health Care Programs."** The publications are sources on retirement income and health care research. Each bibliography includes more than 1,000 citations; author, title, sponsoring organization and subject idexes; research in progress sections; lists of employee benefit information organizations; a looseleaf binder for updating; and regular updates. The cost is $25 each. Write EBRI-ERF Publications, 1920 N Street N.W., Suite 520, Washington, D.C. 20036.

• INA Corp. reviews prepaid health care in a 12-page booklet, **"Insurance Decisions: A New Option in Health Care."** For a free copy write INA Corp., Department R, 1600 Arch St., Philadelphia, Pa. 19101.

• A summary of the new tax act and its application to defined contribution plans is available from Kwasha Lipton, consulting actuaries and employee benefit services. The booklet is called **"Effects and Implications of the Economic Recovery Tax Act of 1981 on Defined Contribution Plans."** For a free copy write Kwasha Lipton, 429 Sylvan Ave., Englewood Cliffs, N.J. 07632.

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Have a new report, booklet or promotional brochure you'd like to send to buyers of insurance? Business Insurance will describe your material as an editorial service in the weekly Info for Buyers column. Simply send us a short description of the material to be offered, along with a cost and a mailing address. Address all contributions to Info for Buyers, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611.

A&P is hoping to terminate defined benefit pension plan

Continued from page 3

In addition to the managed assets. A&P already has about $200 million in annuities, Mr. Hoversten said

He said the company will apply to the Internal Revenue Service for permission to terminate its pension plan.

Mr Hoversten said the company's actuaries, Towers Perrin Forster & Crosby, had advised that the overfunded pension plan could be terminated, the existing participants fully vested and, at the same time, extra funds estimated to be as much as $200 million could be used to shore up the company's ailing finances.

"Everyone will become fully vested, whether they were fully vested or not at the time of termination, and we will probably purchase annuities with the major insurance companies," he said.

Referring to the termination of pension plans, Mr. Hoversten said, "Apparently this is quite common. The IRS is getting applications of about one a week."

Mr Hoversten said he had been advised by attorneys that the excess money in the pension fund belonged to A&P shareholders.

The plan currently covers about 10,000 employees, and the company is obliged to fully vest all of them if it wishes to terminate the retirement plan. Mr. Hoversten said he was not sure how many of those employees were not fully vested.

If a pension plan is underfunded, a company must receive permission to terminate the plan from the Pension Benefit Guaranty Corp. The PBGC has the right to impound up to 30% of the company's net worth to insure payment of pensions if an underfunded plan is terminated.

Since the A&P plan may be overfunded, it may not have to seek PBGC approval to terminate, but it does have to notify the PBGC in advance of the proposed date of termination. The PBGC then issues a notice of sufficiency if the plan is overfunded. If the plan turns out to be underfunded, the PBGC has to make up the shortfall and the plan is very carefully analyzed.

"Since the enactment of the Employee Retirement Income Security Act in 1974, we have had 30,000 plans terminated," said Joseph Ellinger, director of public affairs at the PBGC. "A small percentage has been insufficient."

In the case of A&P, however, a spokesman for the Department of Labor said if the plan was overfunded, approval would only have to be granted by the IRS, which would be interested in whether the action has any tax implications. Mr. Hoversten said the company would be applying to the Labor Department and the PBGC as well as the IRS.

Alan Lebowitz, acting assistant administrator for enforcement for pension and welfare benefit programs at the Labor Department, said: "There is nothing specific that A&P would have to ask of us, but we would like to gather the facts around the matter and see whether there is anything under the Labor Department's part of ERISA that we would want to pursue.

"There are lots of terminations that go on all the time, but I am not aware of aything like this ever happening before. It may be that they just do not come through us. In my experience, it is a somewhat unusual situation," Mr. Lebowitz said.

No unions are involved in the plan termination.

Robert D. Paul, vice chairman of the actuarial and employee benefits consulting firm of Martin E. Segal Inc., said a move like A&P's was not unexpected when "companies are examining every possible way to remain viable."

However, he said he had not seen any trend toward replacing defined benefit plans with defined contribution plans.

Rather, there is a trend for companies to start defined contribution plans to supplement defined benefit plans instead of improving the benefits under the existing plans, he said.

A&P said it also plans to dispose of unprofitable operations as a result of its seventh consecutive quarterly loss. The company announced an $11.4 million loss for its fiscal second quarter ending Aug. 29.

Since 1975, the company has closed 1,624 unprofitable stores, according to its most recent 10-K filing with the Securities and Exchange Commission.

It currently operates about 1,500 stores.

Some 50.5% of A&P stock is controlled by Tengelmann Group, a family-controlled West German retailer. ■

CPCU texts are revised by institute

MALVERN, Pa.—The American Institute for Property & Liability Underwriters has revised two of its texts: CPCU 1, "Principles of Risk Management and Insurance" and CPCU 5, "Insurance Company Operations."

CPCU 1 has been modified and condensed, according to Eric A. Wiening, assistant director of curriculum for the institute, who directed the revision. He said a considerable amount of material on life insurance has been transferred to CPCU 2, "Personal Risk Management and Insurance."

Other material that has been eliminated will be covered in CPCU 6, "The Legal Environment of Insurance."

Updated material in CPCU 5 includes developments in marketing and agency franchising plans and the increased use of retentions and captive insurers, said Dr. Norman A. Baglini, dean of curriculum. In addition, the chapters on underwriting have been expanded to include more types of insurance.

Dr. Baglini said the changes were part of an ongoing effort to keep all of the texts current. Two more texts are scheduled to be revised this year and three more will be revised in 1982.

For more information write to Field Services, American Institute for Property & Liability Underwriters, Box 314, Malvern, Pa. 19355. ■

Benefits council

New tax law is likely to pose problems for benefit managers

Continued from page 3
uate your administrative capabilities and the approach that makes the best fit with your existing programs.

"Talk to your employees," she stressed. "Find out what their perceptions are. Is it worth your trouble to do something? Will they participate if you do?"

Ms. Goulett described three courses of action available to employers. They may take no action at all. They may act as a conduit for payroll deductions for IRAs. Or they may allow employee contributions to the company-sponsored qualified plan.

A show of hands at the CEB meeting attended by about 250 people indicated about one-third would take no action; one-third would make payroll deductions for contributions to IRAs; and one-quarter would amend the employer plan to allow contributions.

"Employees tend to regard anything with the word deductible in it as the next best thing since instant coffee," noted Ms. Goulett. "Regardless of your action, there will be tremendous pressures for information."

Employer considerations to decide how much support to give the new tax act include: administrative costs, tax shelter availability, fiduciary liability and possible competition from banks and other financial institutions.

Here is an opportunity for employers to show their concern for their workers, too, added Ms. Goulett. "We know from employee surveys that people are concerned about inflation, high taxes and the future of Social Security."

Through support of the payroll deduction option, employers promote the concept of individual savings without great effort. They demonstrate concern for workers by simplifying their savings effort.

Some employers may prefer to avoid the perception of endorsing this approach to savings, however. And, by providing the deduction, employers will become involved in counseling employees about how the deductions work and compare to other investment returns such as a thrift-savings plan.

Employers demonstrate the strongest support for the tax act by amending their qualified plans to accept employee contributions. Besides set-up costs and other administrative expenses, this alternative increases an employers fiduciary liability, noted Ms. Goulett. ▪

Joint effort needed to cut high health costs: Panel

DENVER—More cooperation and less castigation among employers, providers and insurers is the way to forge powerful coalitions to fight soaring health care costs.

Employers must be the catalysts to form working partnerships with providers to bring about health care coalitions, observed Robert A. Carpenter, manager of health care cost containment for Republic Steel Corp. in Cleveland.

Doctors, hospitals, insurers and employers must all join in these coalitions—the efforts must be synergistic, not fragmented, stressed Walter J. McNerney, the retiring president of Blue Cross/Blue Shield Assns.

"There's a whole group of people in society that has contributed to the problem and must contribute to the solution," noted Dr. Lowell H. Steen, a member of the board of trustees of the American Medical Assn.

After years of pointing the finger at each other for soaring health care costs, buyers and sellers are getting together to seek local solutions to the problem, said speakers from employer, insurer and provider segments at the recent meeting of the Council on Employee Benefits.

There are currently more than 50 health care coalitions in the country working to identify areas of potential health care cost containment in their individual communities, reported Mr. Carpenter.

Companies have to be willing to devote financial and human resources to these coalitions if they are to work, he added. Each community must identify its own initiatives.

One important issue that coalitions should address is local health care planning, he stressed. The private sector will have only itself to blame if it sponsors more capital spending for hospitals, he warned.

"Employers must decide whether they sit on a health care coalition as a trustee or as a buyer," noted Mr. McNerney. Many companies promote the growth and expansion of hospitals, especially when they serve as trustees on hospital boards, he pointed out.

There is $800 million in capital spending projects on the drawing boards in Cleveland, reported Mr. Carpenter. Such capital spending pushes up health care costs and should be restrained when not needed.

"Not all the villains are providers," he stressed. "First-dollar medical coverage eliminates incentives to employees to use health care less."

Mr. Reynolds also urged local coalitions to develop health care utilization review mechanisms. The purpose of such programs is to eliminate inappropriate services and to identify hospital procedures that could be performed on an outpatient basis.

Shortly after the first of the year, the Greater Cleveland Hospital Assn. will initiate a utilization review program to look at admissions and lengths of stay at local hospitals, Mr. Reynolds noted.

The growing awareness of the size of the health care bill is translating into pressure to take action, Mr. McNerney said.

Statutory limitations on Medicare reimbursements are forcing a massive cost shift for medical services to the private sector. Cost-shifting is also fueled by state government cutbacks.

"It is unlikely we'll see major federal legislation to fuel more competition and even if we did, it would take five to 10 years to work, Mr. McNerney said.

That means the burden to save significant amounts of money for health care will fall to the private sector, he said. The market has changed so much since the 1930s and 1940s that a complete restructuring of the delivery system is

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Consultant urges strategic approach to benefit planning

DENVER—Coordination of employee benefits with corporate objectives should be an exercise in strategic planning, emphasizes Robert D. Paul, vice chairman of the Martin E. Segal benefits consulting company.

There is an emerging trend for companies to promote a unique identity today through benefits such as day care, extra vacation, employee loans and other programs, noted Mr. Paul at the recent Council on Employee Benefits meeting.

"It's never easy to make a change in the shape of a benefits program," acknowledged Mr. Paul. But with the cost of benefits averaging 36.8% of payroll today versus only 18.4% in 1950, this may be necessary.

Employers must look at the total compensation package, which includes pay and benefits, to determine how it meets employee needs and the competitive challenge of the marketplace, said Mr. Paul.

When a change is made, the company must view it in the context of human resources, finance, communications and administration.

An advantage to flexible benefits is that this approach forces managers to go through the exercise of reexamining the company's benefits structure. There is a tendency for companies to think of benefits in terms of average cost per employee rather than benefits per individual, he pointed out.

When it examines a flexible benefits program, a company must ask whether it wants to spend the same amount in benefits on all employees or allot more to those with a spouse and dependents.

Although it was once thought that flexible benefits could contain costs, this has not proven to be true. Flexible benefits should be a response—a "satisfier"—of employee needs, said Mr. Paul.

Changing attitudes in the workforce must be considered as important planning issues of the 1990s, he added. These include employee predilections for more choice of benefits and self-governance.

Another category of benefits that employees favor could be termed "protective compensation," suggested Mr. Paul. These benefits reduce the need for employees to dip into their own pockets to pay for health care, legal counseling, homeowners and automobile insurance.

Besides employee attitude changes, other important planning issues include changing demographics in the workforce, economic developments and the impact of government regulation on how benefits are shaped.

The age 18-to-64 group is declining in size while the number of people in the over-65 age bracket is growing rapidly. There will be fewer people entering the workforce in the 1990s than in the past decade.

The number of women in the workforce is steadily increasing both in absolute terms and as a percentage of total workers. There were very few two-worker families in 1950, but today nearly half of U.S. families fall into this category.

Slow economic growth will require companies to devise new incentives and benefits that recognize there will be fewer promotional opportunities, said Mr. Paul. Instead, there may be more lateral job moves to challenge veteran employees.

"Look at your own population," Mr. Paul told benefits managers. "Is it single, male, older, salaried? Are workers more loyal to their profession than to the company they work for? Can that be changed?"

Consider the effects of inflation on benefits planning, he urged. They profoundly impact major medical deductions, fixed medical reimbursement schedules, life insurance and long-term disability maximums. Post-retirement adjustments is another crucial planning issue.

To calculate appropriate long- and short-term disability, unemployment, retirement and life insurance benefits, Mr. Paul recommends a replacement income approach.

The company should decide "what percentage of pre-retirement income will be replaced in the event of disability, death or retirement." The employer sums up different sources of replacement income to make this decision. Social Security benefits, thrift plan savings and pension income should all be incorporated.

Benefits design must also consider administrative expenses including data processing and benefits communication, he said. ■

Joint effort recommended to fight rising health costs

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needed.

"We're in a new world now and it's beginning to shake up the shop," Mr. McNerney said. BC/BS is studying a broad range of ideas, including alternative delivery systems and different ways of paying.

"We're taking a gutsier approach to cost containment," he declared. That includes getting a bit tougher about second opinion plans, home health care and hospice options.

"The American people are the most overmedicated and overtinkered-with people in the world," acknowledged Dr. Steen. "It is the medical profession's responsibility to teach people to do more for themselves—to explain that many times in seven days they will get well anyway," he said. ■

Work comp boosts underwriting losses

CHICAGO—Underwriting losses in the workers compensation sector helped boost residual market underwriting losses and insolvency assessments by 22% in 1980, according to the Alliance of American Insurers.

Total underwriting losses and insolvency assessments topped $1.4 billion in 1980.

Statutory underwriting losses for workers compensation residual markets reached a record high of $503.8 million last year, a 50% increase.

The states with the highest losses in 1980 were Kentucky, with an average loss of $45 per $100 of voluntary workers compensation premium; Maine, $33; Wyoming, $30; Rhode Island, $20; Virginia, $17; and Massachusetts, $14. ■

Does society spend too much on health? hospital official asks

DENVER—"How much is too much to spend for health care?" asks Paul D. Ward, president of the California Hospital Assn. with 570 members.

Last year health care represented 9.2% of the gross national product, nearly double the percentage it held in 1960, Mr. Ward said at the recent Council on Employee Benefits meeting.

The average cost of a hospital room in California is now approaching $500 a day, up from $40 a day in 1960. And, average costs per stay have soared to $2,800 from $300 over the same period.

But, is 10% of the GNP too much? Congressional testimony given in 1964, which accurately predicted this increase, was greeted with applause, not despair, he recalls.

"There was no consternation—it was thought a good thing that Americans should spend those dollars for better medical care."

By 1972 it was a different story. People began to be alarmed by the growth in health care costs. The Nixon administration's price controls, imposed in 1972, were retained for health care for a year after they were lifted for other products.

But inflation is not the only culprit, stressed Mr. Ward. An avalanche of new medical procedures must share the blame for burdensome hospital costs. People want more and better health care services.

Twenty-two procedures and services have come into existence since 1965, spurring greater use of hospitals. In 1950 hospital rooms were bare and services scant—a far cry from today's attractively furnished, full-service facilities.

Since the introduction of dialysis as a treatment for renal disease in the early 1970s, its use has grown to 61,000 patients per year at a cost of $1.4 billion, up from 11,000 patients at a cost of $200 million 10 years ago.

Hip replacements now cost Americans $300 million a year. Coronary bypass procedures—which didn't exist as common procedures until recent years—now are a $2.4 billion-a-year business.

Coronary care centers and units have been added or expanded at many hospitals to serve heart patients seeking bypasses, transplants and other critical surgeries. And more people can expect to want these lifesaving or life-extending procedures at costs running into six figures and more.

Mr. Ward also notes that an enormous transfer of hospital costs to private from public patients is taking place. Public Law 92603, Section 223 limits the amount of Medicare reimbursements to hospitals.

Private patients must pay the difference, he noted. Herrick Hospital in Berkeley, Calif., for example, must increase the cost of a hospital room to a private patient by $33 in order to raise $1 on the bottom line.

Hospital professional liability costs are also driving up costs, he emphasized. Even when an expensive test is only marginally indicated, the hospital must give it to avoid the risk of a medical malpractice lawsuit.

Slowing the utilization of highly specialized services is one step of a three-pronged strategy Mr. Ward believes will be necessary to slow skyrocketing hospital costs. "I'm not advocating these steps, only pointing them out," he said.

Besides slowing utilization of specialized services, public policy will have to be changed to require health care consumers to contribute more to the bill, he said. This could take the form of higher deductibles and coinsurance payments.

"We also have to do something about the liability issue," he stressed. "So long as the hospital runs the risk of high malpractice losses and lawsuits, it will continue to prescribe tests that might be unnecessary." ■

In rough times, rethink benefits: Actuary

DENVER—"You are not likely to get a letter from an employee saying that pension benefits are too high, but many plans are richer than you know," declared a benefits planner and actuary.

"If times get tough, these benefits give your companies a cushion and you should take a look at revising them to meet current and future economic needs," advised Guy Shannon of the Wyatt Co. at the recent Council on Employee Benefits meeting.

Employees have been trained to expect higher benefits packages but we may be moving into an economic period where there is less to go around, said Mr. Shannon. "To think benefits can always improve just doesn't make sense."

Acquiring corporations have tended to institute plan improvements—often resulting in the best of both the old and new company pension benefits for their new employees, he noted.

Most retirement plans were designed to provide reasonable retirement income to long-service employees. Then they were improved to provide comparable income levels for short-term workers. Benefits were further enriched for the 25- or 30-year veterans, explained Mr. Shannon.

Plans originally were designed to provide reasonable retirement income for workers who retired at age 65—then those benefits were extended to age-62 retirees and further enriched for workers who wait until 65 to end their careers, he continued.

Many pensions are poorly integrated with Social Security, points out Mr. Shannon. This is one place to look for fat in your current plan, he advises. "It can amount to a lot of dollars and it is not immoral to make the change."

It doesn't need to be unthinkable to reduce pension benefits,' he added. "This can be done to parallel Social Security benefit changes," he suggested.

Likely changes in the Social Security system should be considered by benefits planners thinking about private pensions, noted Mr. Shannon. He identified the following options available to the federal government:

- Interfund borrowing.
- Lower windfall benefits to non-retirees.
- Universal coverage (extension of benefits to government workers and others who are not currently covered).
- More general revenue financing.
- Increased taxes (unlikely today but a factor to consider in pension planning).
- Lower cost-of-living adjustments.
- Higher retirement age.
- Lower early retirement benefits.
- Lower basic benefits.

Mr. Shannon predicts that more companies will offer employees flexible retirement to encourage them to defer retirement if they are able to continue working. Another possibility is more post-retirement jobs that don't necessarily mean a second career but perhaps a smaller assignment with the current employer. ■

System slights women

DENVER—To be old and female in this country is to be poor and alone, says an administrator from the U.S. Department of Labor.

Nine out of 10 women are widowed in their lives and at age 60 little more than half are living with their husbands, says Helene A. Benson, chief of the division of coverage for pension and welfare programs.

Neither the Social Security nor the private pension system is filling the need for women over 60—one-third of whom live alone on an income of less than $3,000 a year, explained Ms. Benson, who spoke at the Council on Employee Benefits meeting here.

Women receive pension benefits as retirees based on their own employment or as spouses of employees. But under current pension rules, a break in employment, low wages, divorce and other common circumstances may leave a woman with a reduced pension or none.

Ms. Benson advocates a review of the private pension system. Private plans should not preclude divorced spouses from being elected benefits under the joint survivor option. Community property rights should be established in all states, she says.

Women as employees are likely to receive smaller pensions than men because they earn only 59% of what men earn. They tend to be employed in poorer industries that offer only small pensions.

Many women fail to meet the typical 10-year vesting provisions of private pension plans. Years of service before age 25 can be disregarded for vesting purposes, pointed out Ms. Benson. A woman who works from age 18 through 31 accrues 13 years' service but no pension if the plan meets only minimum standards.

"Many women today think the price of child-bearing is possible old-age poverty," noted Ms. Benson. That's because the birth of a child reduces the average woman's employment by 10 years, although this statistic is rapidly changing.

Part-time workers, who tend to be female, are not covered under the Employee Retirement Income Security Act rules if they put in fewer than 1,000 hours a year. A break in service for a full-time worker can wipe out any pension credits earned.

Married women who share their husband's pension are not given compensating protection. An employee may reject the joint-survivor option in his private pension plan without advising the spouse.

Two individuals as diverse in their view as Pope John Paul II and Betty Friedan agree that women should not be penalized for fulfilling their family responsibilities, summed up Ms. Benson.

Judgment could cost suburb $5 million

Continued from page 2
Philadelphia-based Insurance Co. of North America.

An INA spokesman acknowledges California Union's $2 million policy limit and the fact that an exclusion for police liability exists. A spokesman for The Hartford confirmed his company insures Troy.

The federal court jury awarded David Prior's estate $1.75 million in actual and $3 million in punitive damages against all defendants, including Troy and its police department, for "gross negligence and reckless conduct" under both state and federal laws in the July 31, 1979, shooting death of Mr. Pryor, says Bruce Franklin, attorney for the estate.

In addition, $500,000 in actual and punitive damages was awarded to Mr. Prior's mother, JoAnn Prior, for the emotional trauma she suffered as a result of police conduct on the night of the shooting. Another $250,000 was assessed from each of the two officers, Stephen Zavislak and Joel Woods.

Mr. Prior spent the night in his van to guard against theft and vandalism, both attorneys say. The van had been burglarized twice.

"He had officers come to the house twice," Mr. Davis says. "During that time, police officers discouraged him from staking out the van himself."

Mr. Prior called the police on two previous evenings to let them know he would be sleeping in the van, and his sister went to the department in person several hours before the shooting to remind them, the attorney says.

About 1:30 a.m., responding to a report from neighbors about a possible "larceny in auto," the officers checked a number of vehicles in the Prior driveway.

"When they got to the second van, one officer noticed it was unlocked and observed what he thought were wires dangling down," Mr. Davis says. "He got in and drew his revolver. Before this he had shined his flashlight into the van and saw no movement or any indication anyone was inside."

According to Mr. Davis, the officer was surprised by Mr. Prior, who pointed a pellet gun at him and said, "You're dead. . ." The police officer fired one or two shots and fell down as he struggled to get out of the van. His partner, believing he'd been shot, fired six shots.

"Our argument was that the officers acted reasonably under the circumstances," Mr. Davis says, adding they are both veterans.

But the officers had taken their hats off and did not identify themselves while conducting the search, Mr. Franklin says. "David allegedly had a pellet gun in his hand, but his fingerprints were not on the pellet gun."

He characterized the lawsuit as a trial against the policies and procedures of Troy and its police department "or lack thereof," he says, referring in part to the officers' apparently being unadvised Mr. Prior would be in the van.

Mr. Prior was shot twice and died a short time later, Mr. Franklin says. Damages for emotional trauma were based on conduct of the police after the shooting.

"They were short with his mother and wouldn't let her out of the house," Mr. Franklin says. When Mrs. Prior asked about her son, she was told he was only shot in the arm and was all right, he alleges.

Troy offered to settle for $75,000 on the first day of the trial, for $250,000 on the second day and for $600,000 on the fourth day, Mr. Franklin says.

"That wasn't enough then," he said. "It would have been if it had been made at the proper time and in the proper way. They still say they weren't wrong."

One thing that contributed to the size of the award was that the two officers' versions of the shooting were incompatible and "even their own expert said it couldn't have happened the way they said," Mr. Franklin says. ■

FICA funds need review: Lawmakers

Continued from page 3
There are only three or four members of Congress who really are committed to working toward a solution even though Social Security should not be a partisan issue, said Mr. Svahn.

Some congressmen on both sides of the aisle will be running on the Social Security issue in 1982, so it is imperative to reach a solution spring primaries , he added.

People who say general revenues should fill the gap are really talking about printing more money, he said. "Once we start financing Social Security out of the deficit, I guarantee there will be no holding Congress in check—voting higher benefits would be too fat a political tool," he said.

From 1970 to 1972 Congress increased benefits 52% across the board. In 1977 Americans paid the single largest tax increase ever in the form of higher Social Security payroll deductions. More increases are set for 1982, 1986 and 1990.

In 1970 the maximum payroll tax was $370 a year. It will climb to $2,000 in 1982. "By the next century we could be paying well over $10,000 in Social Security taxes," Mr. Svahn said.

Until a few years ago, Americans thought Social Security was a social insurance program. They paid "contributions" not "taxes." People thought they were contributing to individual accounts in a trust fund.

"I get thousands of letters asking what the government has done with 'my money,'" Mr. Svahn said. "People didn't realize it as a pay-as-you-go system—and it has always been that way."

There is also a myth that Social Security is our retirement system, he said. But Social Security was never intended to maintain retirees at a middle-income level. It is the foundation on which to base retirement planning—one leg of a three-leg stool that includes pensions and private savings, he pointed out.

Many people fear they will never get back what they have paid into the system, noted Mr. Svahn. But most people have a highly inflated notion of what their contributions have been. The maximum contribution of an individual retiring today at age 65 is $14,700, he said.

"You would get all that back in one year if you were married," said Mr. Svahn. Most people now are receiving far more than they paid in, he said.

But a worker entering the system today at age 20 who earns average wages over his career can expect to contribute $350,000. ■

Older men disabled more often than women

NEW YORK—Women may very well make up the stronger sex, at least according to a study of job attendance.

Men aged 45 and over recorded more days off the job because of disabilities than women the same age, according to the study by Metropolitan Life Insurance Co. of New York.

Women in younger age brackets do miss more days on account of disability than men in the same age brackets, but the difference is attributed to pregnancy leaves, according to the study.

When all age brackets are lumped together, both sexes compile about the same number of disability days per year, the survey says.

The study, which used statistics from 1977-79, defined disability as an illness lasting longer than one week.

Male employees are disabled less frequently than women, according to the research. Some 124 of 1,000 male employees are disabled each year, while the disability rate for females is 201 per 1,000.

However, a disabled male misses an average of 9½ weeks of work, while a disabled woman misses only six weeks, according to the study.

Overall, about one in every six workers is disabled each year and the disability usually lasts about 7½ weeks, the study says.

Sales personnel, who are often compensated by commissions, had a lower incidence of disability than office workers, but their disabilities tend to last longer, the research shows.

Pregnancy was the greatest cause of disability of women under 45. It accounted for two-fifths of all disability days among younger female office workers.

Accidental injuries, genitourinary diseases and bone diseases were the leading causes of disability for female workers over 45.

For males over 45, circulatory disease was the leading cause of disability. Accidental injuries were the leading cause of disability of men under 45. ▪

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Business Insurance Circulation Breakdown*

Commercial Consumers

Administrative Management: owners, presidents, vps, etc.	6,635
Financial Management: chief financial officers, vps of finance, secretaries, treasurers, etc.	9,335
Insurance Management: vps, directors, managers of insurance, risk, benefits, compensation, safety, security, etc.	5,112
Government, Associations, Unions, Educational Institutions	952
Commercial Consumers Sub-total	**22,034**
Insurance Agents & Brokers	9,486
Insurance Cos.	4,486
Financial Institutions	292
Actuaries, Attorneys, Adjusters, Appraisers & Consultants	2,135
Others allied to the field	752
TOTAL	**39,185**

*Source: Business/Occupational breakdown of qualified circulation, May 4, 1981 issue, as submitted to BPA for June 1981, BPA Publisher's Statement.

Oregon HMO is liquidated; lacked reserve requirement

Continued from page 3
however, provided that neither the employer nor employees could be held liable for debts if the plan became insolvent.

Claims made before Oct. 16, when the commissioner took control of the HMO, will be settled on an amount per dollar out of the remaining assets of the plan, Mr. Pendlebury explained. Metro Health will cover in full any "necessary" claims made between Oct. 16 and Nov. 14 by plan enrollees, he added.

Insurers and another HMO—Kaiser Foundation Health Plan, Oregon Region—that have contracts with the employers have agreed to enroll former subscribers of Metro Health Plan as of Nov. 1, benefit managers said.

Employers say they were stunned by the demise of the plan. One benefit manager who asked not to be identified said that the HMO's financial picture appeared to be improving. "It (the HMO's closing) appeared to happen so quickly," he said.

Tektronix Inc. in Beaverton, Ore., one of the largest organizations subscribing to the plan, will automatically enroll the HMO subscribers in its self-insured health program, said Michael Eastman, manager of corporate compensation and benefits. They'll also waive a pre-existing condition clause for them, he said.

Subscribers from Esco Corp. in Portland will have an option of joining either the company's self-insured plan or Kaiser, explained Carie Strahorn, personnel manager. Their self-insured program also will waive the pre-existing condition clause, while Kaiser doesn't have a clause in its contract, she said.

Metro Health Plan's financial report filed with the insurance commissioner last June first disclosed that the plan couldn't meet reserve requirements, according to Mr. Pendlebury.

"Last spring every insurance company (in the area) experienced a rise in (hospital) utilization," and Metro Health's utilization doubled for a month, said Henry Kane, the attorney for the HMO. Those claims surfaced in June, causing reserves to dip below required levels, he contended.

Under Oregon law, reserves must equal $25,000 or an amount equal to 50% of average claims incurred monthly during the preceding 12 months—whichever is greater, but not exceeding $500,000.

The acting insurance commissioner determined that the deficit was further below the requirement than the plan reported, according to Mr. Pendlebury. The commissioner notified the plan to take corrective action.

Although doctors and other providers of the plan agreed to cut rates by 50%, the commissioner determined that wouldn't be enough to turn the plan's finances around.

Efforts by the plan to reorganize under federal bankruptcy laws failed when a bankruptcy judge determined that the HMO, under Oregon statute, was an insurance company and therefore exempt from coverage under the Federal Bankruptcy Act.

Metro Health Plan, the first federally qualified individual practice association in the country, was unable to receive funding from the federal government this time. Although the Office of Health Maintenance Organizations had loaned $2.5 million to the plan in the past, federal law prohibits federal loans after a plan has been operating for five years. Metro Health reached its fifth birthday only a few months before the financial crunch began.

The plan began paying both interest and principal on its $2.5 million loan late last year against Mr. Pendlebury's advice, he said. The federal government agrees to subordinate loans to both the subscribers' claims and to surplus requirements within a state, he explained.

The plan didn't have a large enough cushion to pay off the loan and still have enough to account for adverse conditions, Mr. Pendlebury said.

Since the beginning of this year, eight of the nation's some 250 HMOs have gone under, three were taken over by other HMOs and three merged into one, according to statistics compiled by InterStudy in Excelsior, Minn., an HMO consulting group. ■

Sen. Hatch wants to gut multiemployer law

Continued from page 2
rent financial ailments.

Since employers' liabilities before 1974 were limited to a fixed contribution, employers had an interest in keeping contribution levels low, while union representatives fought for high benefits.

Because employers' contributions failed to match the benefits promised, many of the multiemployer plans are badly underfunded. For example, the Central States Teamsters' Fund alone has $3.5 billion in unfunded vested liabilities.

Under ERISA, an employer's maximum liability to a multiemployer plan was boosted to 30% of its net worth, but there was no liability if the plan did not collapse within five years of the company's withdrawal.

The Multiemployer Amendments Act tipped the liability scales even higher—too high in the view of Sen. Hatch and some employer groups—by making withdrawing employers totally liable for their share of the plan's unfunded vested liabilities.

Because the plans have been so poorly funded, employers now withdrawing have been hit with enormous liability claims.

For example, Johnson Motor Lines of Charlotte, N.C., and Transport Motor Express of Fort Wayne, Ind., two trucking companies Sen. Hatch cites in his bill, were hit with withdrawal liability claims that were more than double their net worths when they withdrew from the Teamsters' plan.

Johnson and TMX now are suing the Teamsters in U.S. District Court in Chicago, charging that the multiemployer act is unconstitutional because it allows the confiscation of property without a trial. Several other suits challenging the constitutionality of the act are also pending (*BI*, July 20, Aug. 24).

Sen. Hatch and some pension experts believe that the fear of withdrawal liability has become so great the employers are now shunning multiemployer plans, robbing employees of pension protection.

"Employers who become organized are refusing to contribute to multiemployer pension plans. The irony is that more employees will lose retirement benefits as a result of the amendments act, Sen. Hatch said."

Pension experts view Sen. Hatch's bill as the opening shot in the battle to amend the act.

"This issue will not go away. This is only the beginning," said Richard Fay, a former Senate committee staffer who helped draft ERISA and now an attorney with Reed, Smith, Shaw & McClay.

Mr. Fay said the issue now facing Congress is whether the problems caused by the Multiemployer Amendments Act justify its virtual repeal, as Sen. Hatch proposes.

CAB tells airlines to have $300,000 in liability cover

Continued from page 2
broad insurance policies for amounts far in excess of $300,000 per passenger per occurrence.

"It will have no effect on any of the major carriers," said one broker who estimated the trunk airlines carry between $200 million and $600 million in liability insurance per occurrence.

Besides policy minimum coverage of $300,000 per passenger, the rule requires a total liability coverage limit per involved aircraft of $300,000 multiplied by 75% of the number of passenger seats installed in the aircraft per occurrence.

No liability insurance mininum previously existed for airlines other than commuter carriers. However, the commuters had to show the CAB written proof of coverage of $75,000 per passenger to receive certification.

Under the new rule, certificates of insurance or summaries of self-insurance plans must be filed with the CAB and be available for public inspection there and at the carrier's principal place of business.

The certificate form asks for the insurer's name, the broker's name, policy numbers and—if the airline has a combined policy with a single limit of liability for each occurrence—the amount of that coverage.

The CAB, responding to airline concerns about releasing insurance details, backed away from requiring that the actual policies be made public. The full policy, however, must be available for CAB inspection.

The board declined to set standards for self-insurance plans, saying to do so would reduce the flexibility of airline management, financial institutions and insurance companies. It said only that the plans submitted by airlines must meet the minimum liability requirements.

The new rule also:

- Requires airlines to carry liability coverage for non-passengers "with minimum limits of $300,000 for any one person in any one occurrence, and a total of $30 million per involved aircraft for each occurrence." For aircraft carrying fewer than 60 passengers or with a maximum payload capacity of 18,000 pounds or less, the minimum per involved aircraft for each occurrence need be only $2 million.
- Allows deductibles but prohibits policies or self-insurance plans that contain exclusions for violations of government safety requirements. Such exclusions have been allowed for air taxi operations.
- Requires the insurance policy or self-insurance plan to cover liability even if it otherwise would be waived by provisions of Warsaw Convention, an international agreement limiting liability for passenger deaths.
- Requires carriers to disclose to shippers the existence or absence of cargo liability insurance and the limits that they have imposed on their liability, if any.

The CAB, in comments published with the rule, said:

"Most U.S. and foreign air carriers, with the exception of on-demand air taxis, maintain liability coverage in amounts exceeding those adopted and with good reason. The (Federal Aviation Administration's) comments state that settlements in tort litigation involving aircraft accidents average $250,000 per person, with judgment averages running even higher."

The CAB said the $300,000 minimum is necessary to provide a "safety-net source" of compensation in the "deregulatory and procompetitive environment of air transportation today."

It added that some new carriers and small carriers without established track records may find it difficult and expensive to obtain commercial insurance that fully meets the new requirements.

However, insurers generally agree availability should not be a problem in the competitive insurance market.

"Deductibles and creative combinations of self-insurance to provide 'catastrophic coverage' are encouraged to reduce cost and to meet the rule's standards," the CAB added Oct. 13 in unanimously adopting its staff's recommendations.

The CAB estimates there are 80 scheduled airlines in the United States and 300 commuter carriers. Those figures don't include foreign carriers operating in the United States.

More than 150 airlines, trade groups and individuals filed comments with the CAB after the compulsory minimum insurance rule was proposed on Feb. 4, 1980. Many questioned the need for the rule, particularly following the Airline Deregulation Act and its emphasis on free-market operation of the airlines. ■

CPCU review day

CHICAGO—The Chicago Chapter of the Society of CPCU will hold a review day for parts 1, 3, 5, 7 and 9 of the CPCU examination on Jan. 9.

The program, to be held at the CNA Plaza in downtown Chicago, will run from 8:30 a.m. to 4:30 p.m. The cost of the program is $20.

For more information, contact Susan J. Alt, The Wyatt Co., 233 S. Wacker Drive, Suite 5600, Chicago, Ill. 60606; 312-876-1616. ■

Benefit managers cool to pension contributions

Continued from page 1

waiting for further clarification from Washington or sorting out the new law's implications on other features of their benefit plans is taking priority.

As a consequence, only one of the 52 respondents had communicated anything about the law and its implication on the company pension plan to employees. However, 83% said employees would want to take advantage of the new saving opportunities.

Forty-nine percent of the employee benefit managers responding were completely against companies offering employees the opportunity to contribute to the corporate-sponsored pension plan. (A story on Page 3 from the Council on Employee Benefits meeting shows a similar cool reaction.)

And although 46% did agree that employers should offer such an option, only 13% said their company would set up the procedures to make such contributions possible. Another 36% said maybe, leaving half with no plans at all to make employee contributions possible.

The biggest deterrent is the additional administrative work the voluntary contributions would make—and the cost of that work.

Fifty-three percent of the 41 respondents who said the voluntary contribution option would create problems cited the added administrative work.

"There are many other ways for an employee to invest his money without making the employer pay for maintaining the voluminous records necessary for the voluntary contributions," said the employee benefit manager for a multi-industry company employing 26,000.

"Too difficult to amend, administer and report," wrote the manager of benefits planning and pension and savings plans for a chemicals/fibers company employing 24,000.

"Our plan is non-contributory. It would be more trouble to amend the plan to accept employee contributions than it is worth. It's better to encourage employees to set up their own IRAs," said another, whose manufacturing company employs 4,500.

Looking ahead, the corporate director of industrial relations for a truck-trailer manufacturer with 2,000 employees warns: "Four years from now, another Congress might turn the present administrative problems into a nightmare."

Benefit managers, tired of the reporting requirements mandated by the Employee Retirement Income Security Act, apparently don't want any more records to handle.

Although the loudest complaint was over being burdened with more work and expenses, underlying many of the comments was a fear of putting the company in the position of an investment adviser for these new, voluntary funds. They fear it would open the door to new liabilities and set the stage for employee-employer trouble.

Fiduciary responsibility

Several, like the director of employee benefits for a multibusiness holding company with 49,000 employees, just cited a fear of increased employer fiduciary responsibility:

"Administrative cost increase, retaining terminated participants' funds to age 59½, *fiduciary exposure*, not worth it with other alternatives available." Others elaborated:

"I am just concerned about providing a facility which will compete with myraid offerings I expect from financial institutions which might leave our trustees exposed to unfavorable comparisons whenever anyone else has a better year," said the assistant secretary for employee benefits for a conglomerate employing 18,000.

"Employees can set up their own IRA account in any vehicle they choose. Why put the company in the position of investment adviser?" asked the vp of finances and administration for a publishing firm with 570 employees.

Besides exposing the company to lawsuits from dissatisfied contributors, he worries about a bad investment affecting employee-employer relations and cautions against the "potential ill will created by possible bad investment results."

The employee benefits director of a manufacturing company employing 25,000 added, "I believe this will lead to confusion on what benefits such contributions will buy. Interest credited could be an employee relations problem if prior contributions held in the plan have lesser interest."

The general manager of personnel services for a food processing company with 8,000 employees confirmed that employee dissatisfaction with returns on their savings can be a problem.

"A prior contribution plan resulted in employee dissatisfaction as to amount of benefit credited for supplemental employee contributions." He is against trying it again.

The principal benefits administrators for a utility employing 13,000 threw in the additional fear that allowing contributions to the company plan "may encourage unions to seek more say in plans and asset administration."

Another major deterrent to allowing voluntary contributions to the corporate plan is the employee benefits managers' belief that this would deter contributions to thrift/savings plans already in operation. Forty-four percent saw this as a major obstacle.

Several pointed out that inflation has cut into the amount employees have for savings—and the average employee could not afford to contribute to more than one plan. He would probably opt for the one that offered him a tax deduction, dropping out of the thrift or savings plan that offers no tax advantage.

The benefit managers who do favor the idea of employee contributions to corporate pension plans like the idea of employees sharing in the cost of their retirement benefits. They think it will make them feel more responsible for their future, improve their benefits and take pressure off the company for more benefits.

Three-pronged approach

The employee benefits manager for a packaging company with 50,000 employees echoes the belief of many experts who have recently studied the U.S. pension system: "Retirement income security must consist of three essential elements—private pensions, Social Security and personal savings."

Another benefits manager for an agricultural products processor points out that in the medical benefits area "everything paid for by the company produced an 'I don't care' attitude by employee and 'it doesn't cost you' attitude by physicians," but adds this may not be as true in the pension area.

Others who favor the plan hope it will take pressure off them to offer more benefits. "It provides employees with hedge against inflation and reduces need for employer to grant increases in pensions to retirees," says the director of benefits administration for a paper manufacturing company that employs 27,000.

"Both employee—through payroll deductions and professional investment management—and the company—through better pensions at less cost—can benefit," adds the director of employee benefits for a pharmaceuticals company employing 10,000.

But the majority of the benefits managers responding to the Employee Benefit Board survey do not think the new saving options will take enough pressure off the companies for better retirement benefits to put up with the additional administrative work and exposure to fiduciary liability lawsuits.

Would the new retirement saving options take pressure off companies to increase pension benefits they will pay?

Fifty-five percent said no.

Would they reduce demand for mandatory retirement benefits for employees?

Sixty percent said no.

Would they reduce pressure for higher Social Security benefits?

Fifty-three percent said no.

Would they smooth the way for reductions to Social Security benefits?

Sixty-six percent said no.

Having formed those opinions, the majority of the employee benefits managers would close the corporate pension purse to employees eager to contribute and turn them out the door to Individual Retirement Accounts marketed by banks and other financial institutions.

The 43% who would encourage employees to set up IRAs mostly cite the opportunity for better returns on their investments and the flexibility.

"The flexibility offered by individual accounts can't be matched by a company plan, although this advantage benefits the sophisticated person," said the assistant secretary for employee benefits for a conglomerate that employs 18,000.

Others added: "Likelihood of better returns, greater flexibility and control," "More investment flexibility," "Availability of spousal account, greater investment flexibility," "Return would be higher," and "Depending on the terms and return and impact on benefit, an IRA could seem more desirable."

On the other side of the coin, the 23% who said employees should not set up IRAs but rather should contribute to the corporate pension plan argue that they can offer employees a better investment deal.

"Under the right plan, the employee gets tax deductions, tax shelters and a better chance to direct investment," said the director of employee benefits for a manufacturing company that employs 25,000.

"More leverage is available in employer-sponsored fund," said the employee benefits manager for a packaging company with 50,000 employees.

"Corporate programs can generally produce better returns," said the director of employee benefits for a hotel/food service company employing 65,000.

"It would be a greater convenience to use company pension plan, automatic deductions," added the director of compensation and benefits for a food service company with 5,600 employees.

Some 26% said an IRA could be good or bad depending on the individual's situation, what his financial resources are and how he invests them.

The reluctance to take on more administrative work and fear of a new fiduciary responsibility made 47% of the respondents reluctant to make IRAs available to employees through a payroll deduction plan.

"Administrative load is too great to provide remittance to thousands of IRAs," said the director of benefits administration for a petroleum/chemical/coal company with 38,000 employees.

"Too much administrative work. Employees can join IRAs with attractive rates on outside," said the corporate manager for benefit plans and trusts for a company that is a supplier to the transportation industry.

"We would be competing with outside investment groups who can probably do better and offer more variety," said the benefits manager for a petroleum/energy company with 30,000 employees.

Setting up a payroll deduction plan "implies endorsement," said one benefits manager obviously worried about a fiduciary liability exposure. "The exposure question needs to be resolved," said another.

"We could not provide for all IRAs and would not want to select which would be acceptable," added the thrift plan manager for a conglomerate with 7,500 employees.

The 25% of the survey respondents who do favor payroll deductions for IRAs see it as a service to employees and an incentive to save.

"It would encourage employees to save additional moneys before retirement and this type of deduction would make it easy to do," said the employee benefits supervisor for a packaging and machinery company that employs 17,000.

"(It would be) service to employees. . .good alternative to amending existing pension or profit-sharing plan," believes the employee benefits manager for a manufacturing company with 11,000 employees.

"I believe the tax deferral opportunity is positive for employees and good for company," said the director of employee benefits for a multibusiness holding company.

Employee reaction

Some respondents said their decision would depend on employee reaction to the new opportunity for tax deductible contributions to retirement funds.

The assistant secretary of employee benefits for a conglomerate said his firm would not offer payroll deductions for IRAs "unless we detect a great deal of interest on the part of our employees for this service."

He added, "We intend to encourage all our employees to take advantage of a splendid opportunity. The benefit to our employees of a company plan appears to be so slight that I am reluctant to consider offering such a plan. I probably would change my mind if convinced that many employees will not otherwise open their own IRAs."

The survey revealed that the marketers of IRAs have not yet seized the new opportunity for business presented by the Economic Recovery Tax Act.

Only eight of the 52 survey respondents had been approached by anyone wanting to market IRAs to their employees.

Most of the employee benefits managers and their companies are reacting cautiously to the new tax act. Fifty-eight percent have not communicated anything to employees about the company's plans for implementing new savings options because they are still studying the law and deciding their course of action.

The corporate benefits/compensation director for a retailer with 9,000 employees cautions: "Companies should be carefully analyzing the law at this time, not rushing out communicating to employees and making plan changes."

Another indicated he is waiting to see what others do: "It's too early. We don't like to pioneer."

Thirteen percent said they would not communicate any information on changes to their employees until they had more information or regulations from the government.

"Too many unanswered questions concerning definition of 'voluntary' contributions," wrote the director of employee benefits for a hotel/food service.

"Awaiting more clarification on the new bill," said another manager.

"We will not communicate to employees until we know exactly what we are communicating—what other companies are planning. We will likely await regulations," said the director of benefits administration for a petroleum/chemicals/coal firm.

The Treasury Department says regulations will be coming out next year. Until then, it will publish hypothetical questions and answers on the act to help employers with their particular problems.

One benefits consultant, however, said that the act is so clear that employers should not be afraid to make their decisions now without waiting for the regulations.

Seventeen percent of the survey respondents seem to share that opinion. They have benefit communications in the works to explain new savings options to their employees. ■

Insurance management consultants to have works stored in Ohio library

HICKSVILLE, N.Y.—A library that will contain the works of members of the American Assn. of Insurance Management Consultants will be established by The Confidential Registry of Columbus, Ohio.

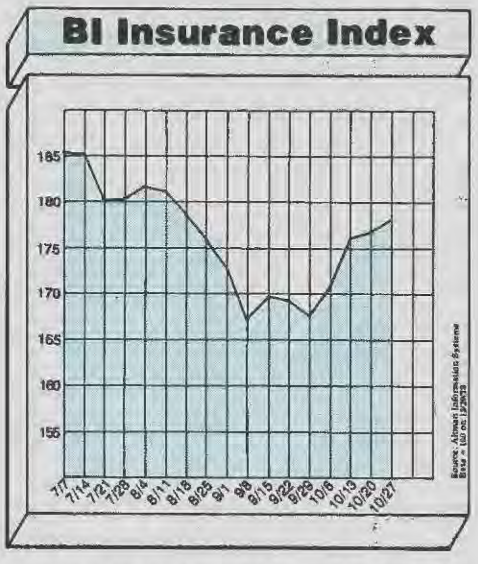
AAIMCO members are invited to forward copies of speeches, articles, releases, research papers, tapes, books or other works prepared for the insurance industry.

These works will be made available to industry members. Copies of articles will be duplicated at cost upon request.

The name and address of the donor of each article will be registered in the library.

For further information contact The Confidential Registry, 3857 N. High St., Columbus, Ohio 43214. ■

BI Insurance Index



Insurance industry stocks surged ahead once again last week with the *Business Insurance* stock index rising 1.7 points to 178.4, up from 176.7. Thirty-seven issues advanced, 14 declined and 22 were unchanged. Stocks showing the greatest advances were: Central National Financial Corp., 13.2%; Old Republic International Corp., 10.6%; Hanover Insurance Co., 9.2%; Optimum Holding Co., 7.5%; and Chubb Corp., 7.3%. Largest declines were: Combined International Corp., 8.8%; Washington National Corp., 6.0%; Armco Inc., 5.1%; Poe & Associates Inc., 4.8%; and Penncorp Financial Inc., 4.5%. The insurance index, which increased 0.9%, outperformed the stock major market averages.

British Issues

27 Oct Companies	Price pence	P/E	Div. pence	Yield %	1 Week High—Low pence pence
Comml Union	132	8.8	16.07	12.2	134—130
Eagle Star	294	9.5	21.43	7.3	295—291
Genl Accident	318	7.4	21.07	6.6	320—316
Gdn Royal Exch	298	7.7	23.21	7.8	300—296
Phoenix	258	8.5	22.43	8.7	260—254
Royal	350	9.0	35.00	10.0	350—345
Sun Alliance	906	9.1	53.57	5.9	906—854
Brokers					
CE Heath	287	11.2	15.00	5.2	287—282
Hogg Robinson	103	8.2	8.57	8.3	103—102
Alex Howden	144	11.1	10.71	7.4	145—142
JH Minet	140	11.7	6.80	4.8	144—140
Sedg Grp	133	9.8	7.50	5.6	135—132
Stenhouse Hldg	94	8.6	6.64	7.1	94— 93
Stew Wrightson	220	11.0	17.14	7.8	220—207
Willis Faber	370	12.7	17.85	4.8	370—358

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

Lloyd's syndicate results show wide profit disparity

By MICHAEL BECKET
Special to Business Insurance

BI ticker

The demise of yet another time-honored tradition at Lloyd's of London—this time the confidentiality of individual syndicates' finances—is opening the market to more scrutiny.

Some 30 Lloyd's members swapped the results of their individual syndicates and prepared charts that make interesting reading (*BI*, Oct. 26). The charts detail direct premium income, claims, reinsurance assumed and ceded, underwriting expenses and income, income from investments and capital appreciation for 92 syndicates: 30 marine, 26 non-marine, 17 aviation and 19 motor. To compare results for different-sized syndicates, the researchers express the relevant figures as a percent of direct premium income.

Until now, results of individual syndicates were available only to the members of each syndicate and the Corporation of Lloyd's, which annually compiles them into aggregate results for public release.

Only the 30 members who shared the 1977 results of their syndicates have copies of the charts, but a copy was given to the Daily Telegraph.

Concerned mostly with obtaining numbers to compare results, the members compiling the charts decided not to name the individual syndicates. This omission makes the charts less than useful to risk managers trying to figure out the underwriters that can afford to negotiate rates and the underwriters that are doing so poorly that they may not be stable leads for a policy.

The charts reveal what one would suspect: Some underwriters make a lot of money for their names while others lose it.

Among the 26 non-marine syndicates compared, for example, total profits as a percent of direct premium income range from a high of 76% to a low of 4.4%, while three syndicates lost money: from 3% to 16.3% of premium income. Six other syndicates also lost money on underwriting, but turned a profit thanks to investment income and capital appreciation.

The spread of profits among the marine syndicates ranges from a high of 52% to a low of 2.3%. None of the 30 lost money, but three showed underwriting losses.

Unfortunately for the aviation syndicates, the same can't be said. Six of 17 lost money, ranging from 1.5% of premium income to 24.2%. Among the 11 that made money, three lost on their underwriting but recovered on profits from investments and capital appreciation. The total profits of the 11 ranged from a high of 42% of direct premium income to a low of 3.5%.

The greatest consistency in results was achieved by the motor underwriters, which one would expect. The profits of the 19 motor underwriters ranged from 23.6% of direct premium income to an 18% loss.

There is no apparent correlation between size and profitability, nor does the amount of reinsurance written or purchased seem to affect profitability. Two non-marine syndicates of similar size—21.2 million pounds and 23 million pounds in direct premium income—ranked eighth and 24th respectively in profit ratio.

Underwriters at Lloyd's caution against drawing any conclusions from the charts. They say the figures could be misleading. Startlingly good performance one year does not mean the boom for that underwriter will continue. There may be a change in leadership of a syndicate.

In addition, high profits may only reflect that a syndicate is involved in high-risk business, or that it is vulnerable to large catastrophe claims.

The example always cited is property insurance written in San Franciso. Until the San Andreas Fault moves, the profits will be healthy.

But the Lloyd's members compiling the table, a new splinter group called the Assn. of Members of Lloyd's, do not accept the Lloyd's argument. Comparing the results of Lloyd's syndicates is like analyzing any sort of investment, they argue—like picking a mutual fund or even a stock.

Although the syndicates aren't named on the charts, the results of the two largest marine syndicates listed have been linked to their underwriters: Ian Posgate and Stephen Merrett, who are well known to risk managers who do business with Lloyd's.

Mr. Posgate confirmed that his marine business shows up on the charts as the largest among the 30 marine syndicates, with premium income of 34 million pounds and a total profit of 12.9 million pounds, the highest recorded.

Comparing the ratios of profits to direct premium income, however, Mr. Posgate's marine business comes in as the fourth most profitable syndicate, behind Mr. Merrett's.

Mr. Posgate's underwriting profit of 27.3% of premium income is higher than Mr. Merrett's 24.6% on 28.9 million pounds of direct premium income. And Mr. Posgate managed the business at a surprising low expense ratio of 1.6% of direct premium income compared with Mr. Merrett's expense ratio of 7.2%, which was on the high side for the marine syndicates.

But Mr. Merrett showed larger profits on investments and capital appreciation to make his marine business the third most profitable with a 42.1% profit ratio.

Mr. Merrett's investment income was a strong 5.2% of direct premium income, the highest of all the marine syndicates, and his capital appreciation profit of 12.4% took second only to a similarly sized syndicate that did much worse on its underwriting.

Mr. Merrett had substantially larger reinsurance commitments than Mr. Posgate. Mr. Merrett's syndicate underwrote reinsurance for 35 million pounds, 121% of direct premium income, and purchased reinsurance for 38.8 million pounds, 134% of direct premium income. Mr. Posgate underwrote only 13.8 million pounds as reinsurance, or 41% of direct premium income, and spent 19.8 million pounds on reinsurance, or just 58% of premium income.

The two unidentified syndicates whose total profits as a percent of premium income outpaced Mr. Posgate and Mr. Merrett were much smaller. The best had a profit ratio of 52% on direct premium income of 6.4 million pounds and the second best was 48% on direct premium income of 2.2 million pounds.

Although they are the only two underwriters widely linked with their results, neither Mr. Posgate nor Mr. Merrett are among the underwriters blowing their top hats over the compilation of the figures. Told that one of the members who had compiled the figures was expelled from another syndicate, Mr. Posgate said, "Send him to me."

Mr. Posgate has long advocated that results of syndicates be released, he said.

Mr. Merrett commented, "One has reservations as to the significance of the figures taking only one year into account. But I have no objection to more information being made available to the names."

Anyone expelled from a syndicate for releasing financial information, in effect, faces expulsion from Lloyd's if he doesn't hook up with a sympathetic underwriter like Mr. Posgate or Mr. Merrett.

A member expelled from a syndicates is also likely to be abandond by his agent, who probably won't want a member known for rocking the boat.

Indeed, the agents appear more displeased with the release of this financial information than the underwriters. The member agents may fear names will expect them to deliver these kinds of financial comparisons in the future.

The members who compiled the charts intend to keep at it, hoping to gather results on more syndicates for the 1978 year just closed under Lloyd's accounting methods. And they want to compile the results from more years for a bigger picture of comparisons.

The members also hope that the work might attract other outside names to join their association, now numbering about 150 and under the direction of a chartered accountant, John Rew.

Michael Becket is a reporter for The Daily Telegraph in London.

BI Industry Stock Report

OCT. 27, 1981 — 10/21/81 THRU 10/27/81

Insurance Cos.

Company	Exch.	Price	% Chg.	P/E	$ Div.	% Yld.	High	Low	Vol. (000)
Aetna Life & Cas Co	NYSE	40.00	-2.7	7.1	2.32	5.8	40.63	39.50	540.1
American Bankers Ins Group	OTC	6.25	-2.0	11.8	0.44	7.0	6.38	6.25	50.6
American Gen Ins Co	NYSE	42.75	2.7	6.8	2.00	4.7	42.75	41.75	176.2
American Indty Finl Corp	OTC	13.88	-0.9	5.6	1.12	8.1	13.88	13.88	6.5
American Intl Group Inc	OTC	63.50	0.0	11.6	0.40	0.6	65.00*	63.50	248.7
American Natl Ins Co	OTC	13.00	6.1	5.9	0.68	5.2	13.13	12.50	140.1
American Sta Life Ins Co	OTC	17.50	-2.8	5.6	0.72	4.1	18.00	17.50	0.2
Aneco Reins Ltd	OTC	2.88	-4.2	0.0	0.00	0.0	3.00	2.88	15.7
Appalachian Natl Corp	OTC	2.13	0.0	0.0	0.00	0.0	2.13	2.13	0.1
Avemco Corp	AMEX	9.25	0.0	6.3	0.50	5.4	9.25	9.00	3.5
Banks Iowa Inc	OTC	43.50	1.2	6.3	1.44	3.3	46.00*	43.00	13.6
Bitco Corp	OTC	35.00	1.4	4.9	2.16	6.2	35.00	34.50	9.9
Carolina Cas Ins Co	OTC	6.75	0.0	6.8	0.32	4.7	6.75	6.75	1.0
Central Natl Finl Corp	OTC	31.13	13.2	10.1	0.65	2.1	31.50*	27.50	8.9
Chubb Corp	OTC	45.63	7.4	5.6	2.68	5.9	45.63	43.88	192.3
Combined Intl Corp	NYSE	19.50	-8.8	5.3	1.80	9.2	21.50	19.50	51.8
Connecticut Gen Ins Corp	NYSE	53.50	4.1	7.0	1.76	3.3	53.50	50.75	208.6
Continental Corp	NYSE	25.38	-0.5	8.0	2.40	9.5	25.88	25.25	67.4
Crawford & Co	OTC	14.75	-1.7	11.4	0.52	3.5	15.00	14.75	10.5
Crown Life Ins Co	OTC	92.00	0.0	10.0	2.80	3.0	92.00	92.00	0.0
Crum & Forster	NYSE	32.88	6.0	5.8	1.64	5.0	33.00	32.25	147.5
Employers Cas Co	OTC	34.00	0.0	5.6	1.20	3.5	34.00	34.00	15.7
Equifax Inc	NYSE	23.00	0.0	5.2	2.40	10.4	23.25	23.00	10.0
Excelsior Ins Co	OTC	16.50	0.0	14.2	0.70	4.2	16.50	16.50	2.3
Farmers Group Inc	OTC	28.63	2.7	8.8	1.12	3.9	28.63	27.88	121.3
First Colony Life Ins Co	OTC	59.00	-0.8	18.0	1.00	1.7	59.25	59.00	2.1
Foremost Corp Amer	OTC	26.25	2.9	7.4	0.80	3.0	26.25	25.50	13.9
Great West Life Assurn Co	OTC	242.50	-0.4	9.8	10.00	4.1	243.50	242.50	0.2
Hanover Ins Co	OTC	32.50	9.2	4.4	0.72	2.2	32.50	30.13	37.5
Hartford Steam Boiler Insptn	OTC	45.50	0.0	8.1	2.60	5.7	45.50	45.50	4.3
Jefferson Natl Life Ins Co	OTC	34.50	-1.4	27.8	0.64	1.9	34.50	34.50*	1.4
Kemper Corp	OTC	31.25	0.4	5.1	1.60	5.1	32.00	31.25	63.4
Lincoln Natl Corp Ind	NYSE	40.00	2.2	6.1	3.00	7.5	40.00	38.75	61.6
Mgic Invt Corp	NYSE	37.88	1.3	9.4	1.28	3.4	39.00	37.00	613.4
Mission Ins Group Inc	NYSE	36.25	-0.7	6.6	1.00	2.8	36.50	36.25	14.4
Nationwide Corp Ohio	OTC	24.63	0.0	7.6	0.70	2.8	24.63	24.63	2.8
Northwestern Natl Life Ins	OTC	23.63	0.5	5.7	1.36	5.8	23.63	23.38	122.3
Ohio Cas Corp	OTC	43.25	7.1	6.6	2.04	4.7	43.25	41.38	50.3
Old Rep Intl Corp	OTC	17.00	10.6	4.3	0.92	5.4	17.00	15.50	68.2
Pinehurst Corp	OTC	8.25	1.5	0.0	0.00	0.0	8.25*	8.13	10.3
Preferred Risk Life Ins Co	OTC	19.88	-0.6	5.3	0.80	4.0	19.88	19.63	7.6
Provident Life & Acc Ins Co	OTC	44.00	1.1	6.1	2.20	5.0	44.00	43.50	3.3
Ryan Ins Group Inc	OTC	19.25	0.0	8.1	0.12	0.6	19.25	19.00	4.9
St Paul Cos Inc	OTC	48.88	3.2	8.4	2.32	4.7	49.00	48.50	180.5
Safeco Corp	OTC	36.50	2.8	7.0	2.00	5.5	36.50	36.13	55.2
Sri Corp	OTC	24.25	4.3	5.0	1.00	4.1	24.25	23.50	41.3
Seibels Bruce Group Inc	OTC	22.75	1.1	12.2	0.80	3.5	22.75	22.75	4.2
Stateman Group Inc	OTC	6.38	2.0	5.5	0.15	2.4	6.50	6.25	13.5
Tokio Marine & Fire Ins Co	OTC	105.75	3.7	8.4	1.00	0.9	105.75	99.50	2.0
Travelers Corp	NYSE	46.13	1.1	5.4	2.88	6.2	46.13	45.63	408.8
United Fire & Cas Co	OTC	31.50	0.8	8.2	1.00	3.2	31.50	31.25	0.7
United States Fid & Gty Co	NYSE	42.63	-1.4	6.3	3.20	7.5	44.13	42.63	126.8
United Svea Life Ins Co	OTC	14.50	4.5	5.6	1.00	6.9	14.50	14.00	32.7
Uslife Corp	NYSE	23.75	4.4	5.7	0.76	3.2	24.13	23.00	117.1
Washington Natl Corp	NYSE	21.63	-6.0	6.4	1.08	5.0	22.75	21.25	40.1
Zenith Natl Ins Corp	OTC	16.50	1.5	8.6	0.60	3.6	16.50	16.25	21.9
INSURANCE COMPANIES	AVERAGE			6.3		4.1			

Agents/Brokers

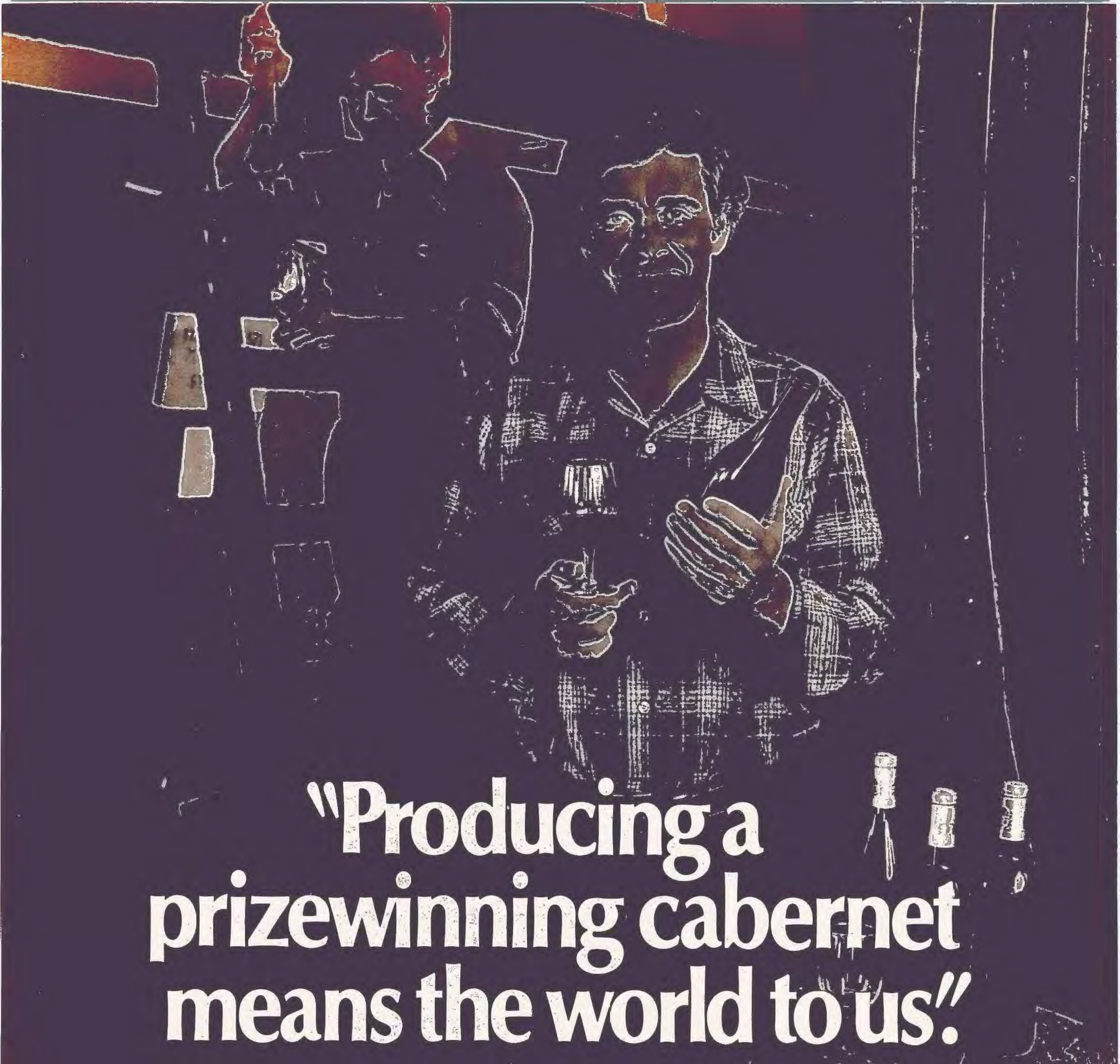
Company	Exch.	Price	% Chg.	P/E	$ Div.	% Yld.	High	Low	Vol. (000)
Alexander & Alexander Svcs	OTC	29.00	-3.3	10.2	1.84	6.3	30.50	29.00	102.0
Baldwin & Lyons Inc	OTC	31.75	0.0	5.4	0.80	2.5	31.75	31.75	0.5
Corroon & Black Corp	NYSE	19.50	-3.7	10.3	1.76	9.0	19.63	19.25	13.4
Crump E H Cos Inc	OTC	11.75	2.2	13.8	0.40	3.4	11.75	11.75	35.6
Hall Frank B & Co Inc	NYSE	29.00	0.0	10.8	1.66	5.7	31.50	28.00	606.3
Integrated Res Inc	AMEX	15.00	1.7	6.6	0.00	0.0	15.25	14.75	185.5
James Fred S & Co Inc	NYSE	25.75	-1.4	11.9	1.60	6.2	27.25	25.75	70.6
Marsh & Mclennan Cos Inc	NYSE	34.25	0.0	11.3	2.00	5.8	34.25	33.75	54.3
Penncorp Fincl Inc	NYSE	5.25	-4.5	9.4	0.16	3.0	5.50	5.25	59.8
Poe & Assoc Inc	OTC	10.00	-4.8	8.7	0.80	8.0	10.50	10.00	0.0
Reed Stenhouse Cos Ltd	OTC	11.00	4.8	8.7	0.60	5.5	11.00	10.75	17.9
Rollins Burdick Hunter Co	OTC	23.50	-2.6	13.4	1.32	5.6	24.00	23.50	3.9
AGENTS/BROKERS	AVERAGE			9.3		5.3			

Conglomerates/Holding Cos.

Company	Exch.	Price	% Chg.	P/E	$ Div.	% Yld.	High	Low	Vol. (000)
American Express(Fireman's Fd)	NYSE	43.38	-0.3	7.7	2.00	4.6	43.38	41.50	544.0
Anderson Clayton(Ranger/Panam)	NYSE	23.88	2.1	5.8	1.20	5.0	23.88	23.63	16.3
Armco Inc	NYSE	25.38	-5.1	2.9	1.80	7.1	26.63	25.38*	167.5
City Investing Co. (Home Ins.)	NYSE	23.88	1.6	6.9	1.60	6.7	24.50	23.00	403.5
CNA Finl Corp (CNA)	NYSE	13.13	1.0	5.2	0.00	0.0	13.38	13.13	9.6
Control Data (Comml. Credit)	NYSE	73.88	4.8	8.7	1.00	1.4	73.88	70.50	289.2
General Re Corp	NYSE	76.25	0.7	9.8	1.76	2.3	77.00	75.75	61.3
Gulf Utd Corp	NYSE	21.38	0.6	7.7	1.32	6.2	21.75	21.38	502.5
INA Corp (Ins. Co. of NA)	NYSE	44.00	0.6	6.2	2.40	5.5	44.13	43.13	259.2
ITT (Hartford Group)	NYSE	26.50	-8.2	4.8	2.60	9.8	28.38	26.50	1,096.1
Optimum Hldg Corp	OTC	10.75	7.5	13.3	0.00	0.0	10.75	10.00	10.8
Reliance Group Inc	NYSE	84.25	1.2	8.9	3.00	3.6	84.25	83.25	18.6
Sears Roebuck & Co. (Allstate)	NYSE	16.38	-5.8	8.2	1.36	8.3	17.00	16.25	925.8
S & H Co. (Bayly Martin & Fay)	NYSE	35.63	-0.3	13.9	1.00	2.8	36.00	35.63	3.4
Teledyne Inc (Argonaut)	NYSE	150.75	1.2	7.8	0.00	0.0	150.75	146.63	275.8
Transamerica Corp (Occidental)	NYSE	23.88	3.2	6.9	1.40	5.9	23.88	22.75	302.8
CONGLOMERATES/HOLDING COS.	AVERAGE			7.4		3.2			

*Record high/low since Jan. 1, 1981.

System design: Altman Infomation Systems



Photographed at Concannon Winery, Livermore Valley, California.

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