

WEEK OF OCTOBER 11, 1982

business insurance

update:

Judge's disqualification delays coverage trial

SAN FRANCISCO—San Francisco Superior Court Judge Robert W. Merrill, who was to preside over four long-delayed coordinated asbestos insurance coverage cases involving more than 75 parties, has disqualified himself.

Judge Merrill's decision, announced at a hearing on Oct. 1, shocked attorneys on both sides. *Continued on next page*

Reporting weekly for corporate risk, employee benefit and financial executives/\$1 a copy; \$40 a year

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The Tylenol tragedy

Lawsuits to set liability precedents

By RHONDA L. RUNDLE

LOS ANGELES—Johnson & Johnson may be liable for the deaths of victims who took poisoned Tylenol even if lethal potassium cyanide was added to the capsules after the product reached retailer shelves, legal experts believe.

Whatever their outcome, product liability lawsuits brought against Johnson & Johnson and its manufacturing affiliate, McNeil Consumer Products Co., are certain to plow new legal ground because there are no clear precedents to follow.

By late last week, a class-action lawsuit that could generate refunds of up to \$600 million for Extra-Strength Tylenol customers had been filed in Cook County, Ill., Circuit Court against the Tylenol makers.

The suit charges that Tylenol capsules are defective and negligently packaged. The estimated \$600 million nationwide refund includes a 50% markup on \$400 million worth of Tylenol products sold by J&J since 1981.

Three individual lawsuits also were filed in the same court by Chicago attorney Leonard Ring on behalf of relatives who survive three deceased members of the Janus family of Arlington Heights, Ill.

Besides Johnson & Johnson and its McNeil subsidiary, these suits also name retailer Jewel Food Stores Inc. and Jewel Foods of

Arlington Heights as defendants.

One of the Janus suits, whose beneficiaries are two young children, seeks \$10 million in compensatory damages and \$5 million for pain and suffering. The other two suits, filed in Cook County, Ill., Circuit Court, seek \$10 million each. *Continued on page 77*

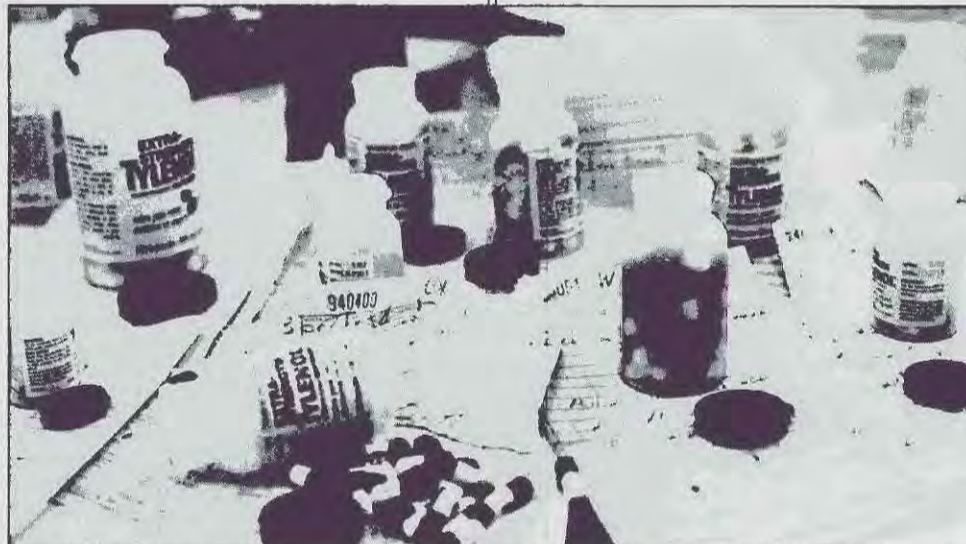


Photo: Merrill Saltzman

Area residents sent samples of Tylenol to the Chicago Board of Health for testing.

Policy covers product rehabilitation

By BETSY SHARKEY

NEW YORK—The costs Johnson & Johnson will incur to rehabilitate Tylenol in the face of public reaction to recent deaths associated with the drug could have been covered

by a unique new insurance policy offered by broker Johnson & Higgins.

The Tylenol controversy surfaced 10 days ago after the deaths of seven Chicago-area residents were tied to cyanide-laced Extra-Strength Tylenol capsules.

Tylenol is manufactured by McNeil Consumer Products Co. in Fort Washington, Pa., a subsidiary of Johnson & Johnson.

Although authorities say in each Tylenol case it appears the capsules were tampered with after being bought or stolen from retail stores, Johnson & Johnson's Tylenol brand name has received a tremendous blow. The product had projected sales of \$500 million this year and produced 8% of the company's revenue.

With the product integrity impairment coverage introduced by J&H in January, companies could protect against just such an occurrence. The policy, the first of its kind, not only covers the cost of recalling the product, but also offers other protection:

- If future sales are adversely affected by either rumor or an actual event, the policy would pay up to two years for loss of earnings.

- If the product needs to be rehabilitated through advertising, promotion or even replacement of the product, the policy would cover these costs.

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High court to decide on longshore ruling

By JERRY GEISEL

WASHINGTON—The Supreme Court will decide whether the value of employee benefits must be considered when calculating awards payable to injured workers under the federal Longshoremen's and Harbor Workers' Compensation Act.

In a case that will affect thousands of employers, the high court last week agreed to review the landmark ruling handed down by a federal appellate court in Washington late last year (*BI*, Feb. 8).

Deciding how, if at all, benefits should be calculated in longshore awards is just one of several key benefits and insurance cases that are before the Supreme Court during its new term. They include:

- Whether the 1978 Pregnancy Discrimination Act requires employers to offer equitable pregnancy benefits to male employees' *Continued on page 75*

Judge rules Kaiser Steel can deduct comp reserves

By KATHRYN J. MCINTYRE

SAN FRANCISCO—Kaiser Steel Corp. will receive a check from the Internal Revenue Service for \$220,198 plus nine years' interest as a tax refund after winning a signal victory for self-insurers against the government.

For Kaiser, the opinion of Judge William A. Ingram of the U.S. District Court for the Northern District of California strengthens its defense against a government demand for about \$15 million in back taxes since 1964.

For all corporations that self-insure workers compensation risks, the opinion is the strongest precedent to date in the ongoing effort to deduct from income their reserves for unpaid claims.

The basic issue before the trial court was whether Kaiser was "reasonably accurate" in evaluating and setting reserves for claims for which it had admitted liability. The government argued it was not reasonably accurate on a case-by-case basis and that the aggregate

accuracy was only luck.

However, Judge Ingram said in a 38-page opinion that Kaiser did determine its individual and aggregate liability with reasonable accuracy, allowing it to use the accrual method of accounting in determining its taxable income.

'This is an important decision for self-insurers and it ought to cause them to think about self-insurance programs because they are justified for tax reasons,' Mr. Dawes says.

"This case affects the basic principles of tax accounting," said Kaiser's trial attorney Paul H. Dawes, a partner with Thelen, Marrin, Johnson & Bridges in San Francisco. "The court adopted an aggregate method for determining reasonable accuracy."

"This is an important decision for self-insurers. It provides them with an additional reason to self-insure, and it ought to cause them to think about self-insurance programs because they are justified for tax reasons."

There are an estimated 2,000 self-insurers in California alone that will want to cite this decision.

The government has 60 days from Judge Ingram's decision to appeal. *Continued on page 74*

Senate committee gives boost to federal tort reform legislation

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update:

Asbestos trial delayed

Continued from previous page

sides and reopens the question of who will preside over the cases. The companies involved had fought for more than a year on whether his predecessor should hear the cases.

Judge Merrill said he disqualified himself because he recently discovered his wife owns more than 500 shares of stock in American Express Co., which is the parent company of a co-defendant in the litigation, Fireman's Fund Insurance Cos. Citing canons of judicial conduct, he said it would not be proper for him to hear the cases.

The coordinated cases concern to what extent asbestos defendants and their insurers will pay for the claims by victims.

Meanwhile, Manville Corp. in Denver, a leading plaintiff in the California litigation, says it isn't paying settlements arranged before the company filed for bankruptcy Aug. 26, but the largest settlement for \$6.1 million won't be affected.

Manville has stopped payments on all settlements since filing in August for reorganization under the Federal Bankruptcy Act.

Manville's \$5 million contribution to a \$6.1 million settlement will be paid, however, under a surety bond Manville had purchased from Federal Insurance Co., a subsidiary of Chubb Corp. Manville is liable to Federal for the payment unless it goes bankrupt.

The \$6.1 million settlement involved an agreement with 141 plaintiffs, including former employees and widows of employees of Pearl Harbor Naval Shipyard in Honolulu.

Concerns that the entire Manville bankruptcy proceedings would be delayed by a hiatus in bankruptcy law have been allayed by a Supreme Court extension of the law until Dec. 24.

Congress was supposed to rectify unconstitutional aspects of the bankruptcy code by Oct. 4 under a previous Supreme Court ruling (*BI*, Sept. 6) but adjourned without taking any action.

Had the deadline not been extended, bankruptcy actions across the country, including Manville's, would have been placed in limbo.

Accountant to pay Grant trustee

NEW YORK—Ernst & Whinney has agreed to pay the trustee of the W.T. Grant & Co. estate \$2 million plus interest to settle claims that it should have done a better job auditing the retailer's accounts, inventory and internal controls before Grant collapsed in 1975.

Robert F. Brodegaard, an attorney representing the Grant trustee, said the agreement was reached in June. He also confirmed that the bankrupt estate will pay Ernst & Whinney \$10,000 to settle claims lodged by the auditors.

In another legal matter involving an accountant, Chase Manhattan Bank and Manufacturers Hanover Trust Co., both of New York, have sued Arthur Andersen & Co. in U.S. District Court, charging it was negligent in reviewing the financial statements of Drysdale Government Securities Inc., which collapsed in May.

Chase Manhattan is asking for \$285 million, the amount it lost in the Drysdale collapse, from Andersen, Drysdale and its officers and a New York securities broker. Manufacturers is seeking treble damages for its \$21 million in losses from the same defendants.

Fourth sentenced in Sasse case

NEW YORK—Allen Assael of New Jersey, who pleaded guilty last year to charges of fraudulently diverting premium owed to the Sasse Syndicate at Lloyd's of London, has been sentenced to one year in prison and five years' probation.

Co-defendants in the case, who pleaded guilty to a variety of charges, also have been sentenced. They are John V. Goepfert of New Jersey, who was sentenced to 10 years' imprisonment and five years' probation (*BI*, Oct. 4); Richard Mamarella of New Jersey, five years' probation; and Dennis D. Harrison of Florida, three years' imprisonment and five years' probation.

Retirement plans to appeal

NEW YORK—Two college retirement plans are appealing to the U.S. Supreme Court a federal appeals court decision that requires them to stop calculating retirement benefits based on sex-distinct mortality tables.

The Teachers Insurance & Annuity Assn. and the College Retirement Equities Fund also want a stay of the appellate decision.

The ruling, handed down Sept. 29 by the 2nd Circuit Court of Appeals in New York, requires the plans to pay men and women retirees equal benefits for equal contributions based upon unisex mortality tables that do not calculate benefits based on the difference in life expectancy for men and women. The court decision is retroactive to May 1980.

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Rath agrees to pay PBGC to terminate pension plans

By JERRY GEISEL

WASHINGTON—Rath Packing Co. will pay the Pension Benefit Guaranty Corp. about \$13 million and risk turning over a share of future profits in exchange for a quick PBGC takeover of Rath's pension plans and \$38 million in liabilities.

Last week's agreement, sought by Rath's lenders, eliminates the possibility of a long legal battle between the PBGC and the Waterloo, Iowa, meatpacker over the proposed termination of its three badly underfunded pension plans (*BI*, Sept. 13).



Rath's lenders were reluctant to extend to the financially troubled company the working capital it needs to stay in business until its exact liability to the PBGC was decided.

When a company seeks to terminate an underfunded pension plan, the PBGC, the federal agency that guarantees workers' basic pension benefits, takes over the plan and its assets.

The PBGC has the right to collect 30% of a company's net worth to pay benefits it promised to its employees but didn't fund.

But conflicts often occur because the PBGC uses a

formula that maximizes a company's net worth while the corporation uses a formula to minimize that worth.

Rath told the PBGC that its creditors might force it into liquidation proceedings unless the pension termination controversy was quickly resolved.

Under the proposed agreement, Rath will pay the PBGC a total of \$3.5 million by Sept. 15, 1983. This amount will cover minimum contributions Rath was supposed to have made to the plans in 1980. The Internal Revenue Service earlier had given Rath permission to temporarily waive the contributions because of the firm's financial instability.

In addition, Rath will pay the PBGC \$750,000 annually over the next 13 years. These payments will begin in 1983 and will be guaranteed by PBGC liens on Rath's property, accounts receivable and inventory.

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BI's London bureau moves

LONDON—Business Insurance's London bureau has moved to new offices.

Associate Editor Stacy Shapiro can now be reached at 20-22 Bedford Row, London WC1 England. The new telephone number is 01-831-9696.

Fewer product suits filed in U.S. courts

By JERRY GEISEL

WASHINGTON—The number of product liability cases filed in federal courts around the country decreased last year, the first time a decline has been recorded since the mid-1970s.

Product liability complaints filed in U.S. District Courts decreased 1.4% in fiscal 1982 compared with fiscal 1981, according to a report by the administrative office of the U.S. courts.

The preliminary report, which will be officially released later this month, shows 8,944 cases filed in fiscal 1982, which for the federal court system ended June 30, compared with 9,071 in fiscal 1981.

But product liability experts say the decrease may represent a shift of more cases to state courts where

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Most product liability cases in federal courts

State	1982	1981	Increase (Decrease)
1. Texas	1,039	745	39.5%
2. Pennsylvania	654	626	4.5%
3. Ohio	474	255	85.9%
4. New York	474	549	(13.7%)
5. Michigan	465	440	5.6%
6. Massachusetts	440	330	33.3%
7. California	357	405	(11.8%)
8. Louisiana	349	382	(8.6%)
9. Mississippi	308	330	(6.6%)
10. Connecticut	229	166	41.6%

Source: Administrative Office of the U.S. Courts

Last-minute approval by panel gives tort reform bill big boost

By JERRY GEISEL

WASHINGTON—A Senate committee boosted the chances that a federal product liability bill will pass next year by approving the legislation before Congress adjourned Oct. 1, but a House panel delivered a jolt to enactment of longshore reform this year.

The federal tort reform bill, S. 2631, proposed by Sen. Robert Kasten, R-Wis., was approved 8-2 by the Senate Commerce Committee, winning broad bipartisan support.

For example, Republican moderates like committee Chairman Robert Packwood of Oregon, Slade Gorton of Washington and Ted

Stevens of Alaska and liberal and moderate Democrats like James Exon of Nebraska and Daniel Inouye of Hawaii voted for the measure.

That bipartisan backing will attract support from many other members of Congress next year when a new tort reform bill is introduced, observers say.

In addition, the committee vote ensures a staff report that will offer an objective analysis of the nation's product liability problems and show how the bill would help reduce those problems.

The report will be "a rationale for action," said Les Cheek, vp-federal affairs for Crum & Forster. Congress is much more influenced by committee reports than analyses prepared by parties with a vested interest in the legislation, another observer noted.

However, the Commerce Committee agreed to a series of changes before it approved the legislation, mainly at the insistence of Sen. Gorton, who once served as Washington state's attorney general. These changes included:

- Removing a statute of limitations provision that would have required plaintiffs to file suits no later than two years from the time

of injury. Sen. Gorton was concerned that a two-year limitation could unfairly deprive accident victims of access to the courts.

- Removing a provision that would have required a plaintiff to identify the specific manufacturer of a product to establish liability.

That provision challenged the 1980 Sindell decision by the California Supreme Court. That ruling, which involved the anti-miscarriage drug DES, said when a product causing injury is made by many different manufacturers and the specific manufacturer can't be identified, liability must be divided among all manufacturers based on market share.

The "anti-Sindell" provision was deleted because committee members believed it was too broad and could have let companies off the hook even if they were negligent.

- Tightening a section dealing with the liability of wholesalers and retailers. Under the revised section, wholesalers can be held liable if they had a reasonable opportunity to inspect a pre-packaged product and the inspection would have revealed a product's defect.

Originally, wholesalers were under no obligation to open a pre-

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errors & omissions

- An article in the Sept. 13 issue listing the health maintenance organization options the state of Wisconsin offers its employees failed to mention Family Health Plan of Milwaukee.

\$80 million involved in Howden scandal

By STACY SHAPIRO

LONDON—Alexander Howden Group P.L.C. could have lost \$80 million had it not recovered funds allegedly misused by five of its ex-directors and received claims money from reinsurers the ex-directors allegedly owned, sources close to auditors for Howden and its parent say.

Of this amount, Howden and parent Alexander & Alexander Services Inc. claim \$55 million was misappropriated by the five former Howden directors and diverted to the reinsurance companies.

But another \$25 million in liabilities incurred by Howden's underwriting group was separate from the money allegedly misappropriated, say sources close to the auditing firm of Deloitte, Haskins & Sells.

Those liabilities, which had never been noted on Howden's ledgers, were discovered a few months ago by the auditors. In August, A&A pumped \$25 million into Howden subsidiary Sphere Drake Insurance P.L.C. to cover those liabilities, the sources say.

A&A has filed suit against the former Howden directors—Kenneth V. Grob, Ronald C. Comery, Alan J. Page, Jack H. Carpenter and Ian R. Posgate—to retrieve the funds that were allegedly misappropriated (BI, Sept. 27).

A&A says in the suit that the five men allegedly filtered the money
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Defendants in asbestos suits can use new defense: Court

By STEPHEN TARNOFF

SEATTLE—Asbestos litigation defendants can escape liability by successfully arguing their products conformed with government specifications, a federal judge has ruled.

The order, handed down Sept. 14 by Walter T. McGovern, chief judge for the U.S. District Court for the Western District of Washington, could prove to be a major breakthrough for asbestos producers.

Judge McGovern's order allows eight asbestos defendants to argue in a separate trial that they are not liable for asbestos-related injuries since they produced and sold their products to conform to government specifications—what is known as the government contract or specifications defense.

Manufacturers that sold asbestos products to other commercial enterprises could also be covered by the defense as long as the products conformed to government specifications, the ruling said.

Under Judge McGovern's order, the separate trial will be conducted to determine whether the contracts between the defendants and the government meet criteria laid down by the court for the defense to apply.

A favorable ruling for the defendants could relieve them from liability in the approximately 15 cases pending in the Western District of

Washington, leaving asbestos claimants without a remedy.

More importantly, the defendants hope that other courts where asbestos cases are being tried will follow Judge McGovern's decision, which could free them from liability in thousands of cases.

"It is our opinion that this decision by Chief Judge McGovern should effectively unplug the logjam of asbestos cases in the state and federal courts throughout the United States," says Leonard L. Rivkin of the Garden City, N.Y., law firm of Rivkin Leff Sherman & Radler.

"Basically, we will take it and run with it across the country.

"It is the first time a judge (in asbestos cases) has ever ruled on the motion," Mr. Rivkin adds. "We assume that other judges will follow."

Mr. Rivkin's firm, which represents Pittsburgh-Corning Corp. in the Washington state action, has filed similar motions in Connecticut, Maine, Virginia and California.

The ruling could affect asbestos suits filed by shipyard workers in about 10 to 12 jurisdictions where the defendants manufactured asbestos products in accordance with government specifications, Mr. Rivkin said.

More than 50% of the thousands of current asbestos plaintiffs may have been exposed
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Taming the Arctic

Alaskan theater group drops curtain on risks

By DANIEL BRIGHAM

ANCHORAGE, Alaska—The world's only Eskimo theater group takes its show "on the road" this month with insurance against hazards that include being shot down by Soviet planes.

The Dukat Teateret, a group of Eskimo performers from Greenland, will visit 13 Alaskan communities this month and next. The tour is sponsored by the Alaska Repertory Theatre, which has found that this tour and the others it sponsors can create "very complicated insurance situations," says David Darling of Alexander & Alexander Services Inc. in Anchorage.

When the repertory theater brings a touring group to Alaska, it provides technical equipment, props and transportation, so any property losses and third-party liability risks are its responsibility. It also must have workers compensation insurance for any of the touring troupes' players.

Some of the exposures the Rep faces are unique.

For example, consider the tour of the Dukat Teateret. Of the stops on their tour, four are north of the Arctic Circle and only two are connected by roads. On top of that, two stops—Gambell and Savoonga on St. Lawrence Island—are so close to Soviet air space that navigational maps of the area note that straying pilots "may be fired upon without warning."

"It's quite the challenge," says the Rep's Bennett Taber, who as production manager is responsible for transporting the troupe and all the necessary props, costumes, lighting, sound and other technical equipment.

He is also responsible for finding insurance for all this mobile equipment.

"I thought I had touring down pat until I came to Alaska and lost the Interstate highway system," he explains.

The Rep has about \$1 million in mobile property, and at any given time during the touring season is transporting about \$500,000 worth of it to water-locked cities in the southern part of the state and to remote, ice-locked villages in the north and west.

The values and descriptions of the property are never constant because the Rep borrows many of the unique props it needs.

"We've had productions calling for an 18th-century armoire, a collection of African animal trophy heads and for suites of designer furniture for a New York City townhouse set," Mr. Taber notes.

In addition, the Rep loans its own property to

other theater groups.

But the complicated risks are covered rather simply.

"The property, because of the fluctuating values and the range of exposures, presents a complicated situation made simple by the standard industry theatrical floater form," notes Alexander & Alexander's Mr. Darling.

Mr. Darling describes the policy, provided by Insurance Co. of North America, as a "very broad named-perils policy. Coverage is included for fire, lightning explosion, collapse of bridges and culverts, floods, windstorms, cyclones and tornadoes, damage by aircraft, smoke, theft, burglary, holdup, collision, upset and overturn of land conveyances, stranding, sinking, burning or collision of vessels and crash or collision of transporting aircraft."

INA recently added coverage for water damage, strike, riot and vandalism, malicious mischief, breakage and sprinkler leakage and earthquake.



Photo: Alaska Repertory Theatre

The theater's coverage protects its property from a wide variety of perils.

The repertory's theater's deductible on the policy is 1% of the loss or \$250, whichever is greater, per occurrence. The premium for the 1981-82 fiscal year was \$14,000.

All insured items are scheduled, notes Mr. Taber. He says the Rep gives its agents a monthly computer-generated inventory of all items and their value.

"The Rep pays an estimated premium at the beginning of the policy term, and the premium is adjusted when required to take into account the fluctuating values," says Mr. Darling. He notes that while the exact items change occasionally, the value usually remains at about \$1 million.

The task of safely transporting all this equipment is made more difficult by Alaska's lack of roadways and severe weather.

Modes of transportation vary according to loca-
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Firms hiking health plan deductibles: Study

By JAMES C. LAWSON

NEW YORK—Employers are boosting employee health insurance deductibles to control costs and make workers more responsible for medical care spending.

Nearly a quarter (22%) of the 272 employers who responded to a recent Towers, Perrin, Forster & Crosby cost-containment survey said they have boosted deductibles on individual coverage plans in the last three years.

And, 20% said they have increased the deductible employees must pay under family coverage plans.

In addition, 37% of the employers said they are considering raising deductibles under individual coverage plans and 35% said they might boost family coverage plan deductibles.

The TPF&C survey was mailed to 390 Employee Benefits Information Center member companies last summer. With 272 returning a completed survey, the response rate was 70%

computerized data base that resource unit for a variety of

Fortune 500 industrial companies as well as leading utilities, service firms, banks and other financial institutions across the country.

"What we're seeing is the beginning of a trend to not reimburse everything," explains David L. Glueck, a vp in TPF&C's Chicago office.

"Employers are realizing they have to make employees more responsible for health costs. They want to make employees more conscious of their medical buying decisions."

But while many employers are altering deductibles as one of their cost-containment tactics, a significant number of the surveyed employers still are not.

How companies raised deductibles

New deductible	% of companies
\$25-\$49	1.4
\$50-\$74	18.4
\$75-\$99	9.9
\$100-\$149	58.9
\$150-\$199	7.8
\$200-\$249	2.1
more than \$250	1.4

Source: Towers, Perrin, Forster & Crosby Inc.

Forty percent of the responding employers said they do not plan to change the deductible level for individual coverage and 42% said no changes in deductibles are planned for family coverage.

Of the employers who have made changes in deductible levels, most (58.9%) in-

stituted deductibles of \$100 to \$149.

Another 18.4% use deductibles of \$50 to \$74; 9.9% make employees pay deductibles of \$75 to \$99 and 7.8% have plans with deductibles of \$150 to \$199.

Two percent of the employers said they now require their workers to pay an annual deductible of \$200 to \$249.

On the high and low end of the deductible scale, only 1.4% of the respondents have deductibles higher than \$250 and only 1.4% have deductibles in the \$25-to-\$49 range.

One Midwestern employer of 32,000 told TPF&C that it recently raised its annual deductible for family coverage plans to \$300 from \$200. It also raised deductibles for individual coverage plans to \$150 from \$100.

The next most popular cost-containment measure among the companies that were surveyed is limiting full payment of hospital bills.

In the last three years, 15% have applied new or reduced limits on "in-full" payment of hospital benefits, the survey shows. Another 30% are considering doing so.

However, more than half (52%) have no plans to do so.

Seven percent of the employers that formerly paid the full premium for health care insurance are now making employees share the cost for individual coverage. Another 6% have begun to make employees share premium costs for dependent coverage.

Another 15% are considering making em-
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GAF to replace pension plan with profit-sharing

GAF Corp. is hoping to terminate its current defined benefit pension plan covering 2,500 salaried workers and replace it with a profit-sharing plan with 401(k) salary reduction features.

The GAF Capital Accumulation Plan is a move to "streamline and modernize" the benefits program to suit the needs of both the New York-based company and its employees, a spokesman for the specialty chemical and building materials company says.

"We're a different company now and our needs are different and our employees' needs are different," the spokesman explains. "We want to provide a retirement program that will provide our employees the best advantages."

Company officials say the new defined contribution plan will

benefit beat

allow employees to defer a portion of their annual salaries for tax purposes, while increasing their retirement savings through several stock, bond and mutual fund options.

In addition, employees will be immediately vested in the new plan when it begins Jan. 1. Under GAF's current defined benefit pension plan, employees are fully vested only after they complete 10 years of service with the company.

The termination of the current pension plan is subject to the approval of the Internal Revenue Service and the Pension Benefit Guaranty Corp. GAF says it hopes to profit from the estimated \$35

million in assets left in the plan after it is terminated.

All employees' accrued benefits will become vested when the plan is terminated. They will have the option of taking those benefits in a lump-sum cash amount, purchasing an annuity that will pay benefits upon retirement or rolling the amount into the new profit-sharing plan.

Employees choosing to take a lump sum will have 60 days in which to invest in an Individual Retirement Account or they will have to pay taxes on the amount received.

Those who choose to contribute to the new retirement plan will be

allowed to contribute a maximum of 25% of their annual salaries to the plan. They will not have to pay federal income taxes on contributions of 15% of salary or less, although this amount could change when final plan provisions are drafted. GAF officials say they still are working out contribution, withdrawal, loan and other financial details of the plan.

GAF will automatically make a profit-sharing contribution to the plan equivalent to 3% of an employee's annual salary, regardless of whether the employee contributes to the plan. The company will also contribute an amount equal to two-thirds of the first 6% of salary an employee's contributions.

All company and employee contributions to the plan are tax-deferred income.

Under the contribution schedule, an employee earning \$15,000 annually, for example, will automatically receive a contribution from the company of 3% of income (\$450). If the employee contributes 10% of income (\$1,500), the company will contribute an amount equal to two-thirds of the first 6% of salary contributed (\$600). The employee will then have retirement savings of \$2,550 in the plan.

Employees will have the choice of investing their contributions in a bond fund, a common stock fund, a money market fund or any combination of these. The plan is managed by Citibank of New York.

All salaried employees under age 65 are eligible for the plan, although employees hired after Jan. 1 must be with the company for at least six months before they can participate. New employees will be allowed to join the plan only on Jan. 1 or July 1 of each year.

GAF is offering the plan only to salaried employees and has no immediate plans of extending it to cover hourly workers, who are covered by a separate pension plan.

GAF Corp., a Fortune 500 firm, began reducing its overall workforce in 1977 when it started divesting itself of certain operations. The firm reported a net loss of \$26 million on net sales of more than \$672.5 million during fiscal 1981.

Self-insurance

The Chesapeake & Potomac Telephone Co. of Baltimore, a unit of the Bell System with more than 45,000 employees, is now self-insuring its major medical plan. It has selected Group Health Insurance & Medical Services of D.C., a Blue Cross affiliate, to administer the plan.

The telephone company had previously insured the major medical coverage with The Travelers Insurance Co., while self-funding basic hospitalization coverage.

Major medical coverage has not been changed with the switch to self-funding, says, Charles Lamdin, a district staff manager in charge of benefits.

The plan pays 80% of all charges up to \$5,000 in a calendar year and pays 100% of all charges above that amount.

Employees and retirees must pay an annual deductible equal to 1% percent of their annual salary or pension. The annual deductible must be no less than \$25 and no more than \$125.

The plan has a \$50,000 lifetime maximum for retirees and no maximum for active employees.

C&P Telephone employees are scattered throughout Virginia, West Virginia, Maryland and the District of Columbia.

Benefit increase

United Parcel Service of America Inc. has boosted its weekly health and welfare contributions for members of the International Brotherhood of Teamsters by \$10 per employee.

The Teamsters won the benefit increase in a recent contract negotiated with the delivery company based in Greenwich, Conn. The 37-month contract, retroactive to May 1, covers 85,000 employees.

The benefit increase boosts UPS contributions to \$70 to \$100 per week per employee, depending upon local agreements. The Teamsters union administers the contributions to provide health, life and disability insurance and pension benefits to the UPS employees.

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

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BI conference could help cut benefit costs

CHICAGO—"Cutting costs" is a common phrase in business today. It also is the theme of a conference sponsored by *Business Insurance* called "The Dollars & Sense of Communicating Employee Benefits," to be held Nov. 1-2 in Chicago.

The conference will offer ideas on how to effectively and efficiently communicate employee benefits. In keeping with this theme, Crain Communications Inc. has arranged air fare discounts of up to 50% and special hotel rates for conference participants.

Early registration for the conference begins Sunday, Oct. 31 from 5 to 7 p.m. Some of the entries in *BI's* 10th annual Employee Benefits Communications competition will be on display.

Registration continues on Mon-

day morning. A continental breakfast will be served and the EBC gallery of entries will again be open for browsing.

The conference will begin with opening remarks from *BI* Editor Kathryn J. McIntyre. The first general session will feature Don Sheppard, a vp at William M. Mercer Inc. in San Francisco, who will speak on "Budgeting for Benefits." He will focus on how employee benefits communication programs can effectively reach employees.

Frank Morgan, vp of human resources at Berol Corp. of Southbury, Conn., and Fred Halperin, a consultant with Hewitt Associates, will then lead a session called "Reading Employee Needs Can Save Time & Money." Mr. Morgan and Mr. Halperin will explain how

to develop an employee attitude survey and how to incorporate the results into a benefits communication program.

"Getting Employees to Listen & Act," a presentation by Alan Turetz, formerly assistant vp of Citibank in New York, will offer tips on how to help employees understand and use their benefits.

After lunch, concurrent sessions will begin. These smaller, working groups will be repeated later in the afternoon and again on Tuesday morning so that participants can at-

tend all three. The concurrent sessions are:

- "On Your Own." Elayne Lewis, a benefits analyst with Eaton Corp., will tell how to develop, start and maintain an in-house communications program. Pointers on booklet layouts, how to find printers and writing pamphlets will be given.



Mr. Morgan



Ms. Lewis

- "Personalizing Benefits." Robert Youngberg, benefit statement consultant with Buck Consultants Inc., and Mel Borleis, vp-communications services at A.S. Hansen Inc., will describe how to orga-

nize, design and distribute personalized employee benefit statements. Various types of statements will be analyzed.

- "Pre-Retirement Planning." Eldos Cable, supervisor of retirement counseling at Fluor Corp. in Irvine, Calif., will explain how to administer a pre-retirement counseling program and examine retirement issues in which employees are interested.



Mr. Cable

On Monday evening, conference participants are invited to attend a dinner and reception at which the EBC competition awards will be presented. One of the winning audiovisual entries will also be shown.

After the concurrent sessions are repeated Tuesday morning, a general session, "Using Audiovisuals," will be presented by Joan Beugen, president of The Creative Establishment, an audiovisual presentation firm in Chicago. She will examine how low-cost audiovisual programs can effectively get benefits message across to employees.

After lunch, the general sessions continue with Herb Zeltner, a marketing communications consultant, and conference participants taking an in-depth look at some of the EBC competition winners.

Another session, "Getting Employees to Share the Cost and Responsibility," led by Robert Penzkover, director of benefits at The Quaker Oats Co., explores how to deal with difficult situations and encourage employees to get involved financially with their benefits. The focus will be on Individual Retirement Accounts and salary reduction plans.



Mr. Penzkover

After a wrap-up session, the conference adjourns at 5 p.m. Tuesday.

The conference fee is \$475, with a 10% discount to additional participants from the same company. This fee includes all sessions, a workbook and educational materials, Monday's breakfast, coffee breaks, lunches, a cocktail reception and the EBC awards dinner.

Hotel accommodations are not included in the registration fee. Special rates of \$72 single and \$86 double are offered at the Knickerbocker Hotel, the conference site.

Special discount air fares have been arranged by Travel Headquarters Ltd. in Chicago. Information about these fares from several major U.S. and Canadian cities will be included with conference registration confirmations.

To register or receive more information, contact Ann Vazquez, 212-210-0137, or Beth Levine, 212-210-0229, at *Business Insurance*, Communication Services Department, 220 E. 42nd St., New York, N.Y. 10017.

Damage assessed

NEW YORK—A series of storms, including wind, hail and tornadoes, that struck portions of Colorado, Wisconsin and Missouri caused an estimated \$8 million in property damage, according to C.E. Hermanson, vp of property claims services at the American Insurance Assn.

The storm, one of a long series this year, was assigned Catastrophe No. 71 by the Insurance Services Office.



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editorial opinions

Consider the unconventional

IF YOU EVER doubted that risk and employee benefit management jobs are becoming more financially oriented and less insurance-oriented, this week's special report on financial services should convince you.

Bankers are beginning to spot a market in these specific corporate departments, which means banks recognize those functions as financial work.

But there is more excitement between the lines of this special report than that recognition.

We think the developments reported this week are the first rumblings of a revolution in the source and type of services offered to corporations to fill their needs in risk and employee benefit management programs.

The key concept is unbundling. Just as the unbundling of insurance company services revolutionized the way risk and employee benefit programs are funded and administered, so will the unbundling of banking services.

We are concerned, however, at how few people seem to have pondered these developments and how they can be capitalized upon to create more economic and efficient risk and employee benefit management.

We wonder if many people in risk and employee benefit management departments—and especially people in the insurance industry—aren't ignoring these early developments in much the same way that the first captive insurance companies and first self-insurance programs were ignored.

When those programs were developed, conventional wisdom held that they were aberrations that would soon fail and prove to be worthless to most corpora-

tions. Many corporations sat back and waited to see how other companies fared with their captives and self-insurance programs. Many insurance companies refused to cooperate with self-insurers.

Now, these hesitant corporations and reluctant suppliers are trying to catch up with the forerunners that have been reaping the savings—and profits of serving—well-managed programs.

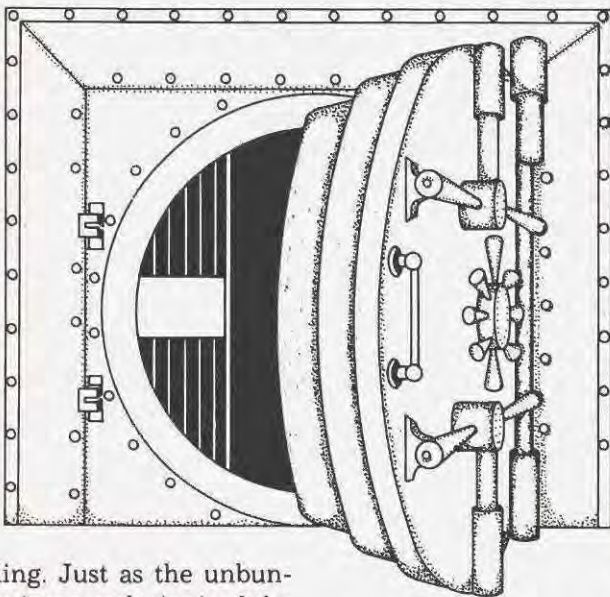
Although, to our utter amazement, there are still some insurance company executives who continue to rally against self-insurance programs, most people agree corporations of different sizes can and should assume varying amounts of risk to economically fund their property and casualty risks and employee benefit programs.

If insurers don't look over their shoulders now at what banks are doing, they may find in a few years that they are wiping the dust off their faces kicked up by new banking competitors.

Now that the first banks are moving into services designed for risk and employee benefit management departments, the conventional wisdom of using only conventional markets should be questioned.

Corporate executives in search of services needed in funding and administering risk and employee benefit programs should broaden their search beyond the conventional sources of brokers, insurers and administrators. Look into what the banks offer you.

This, of course, will require that you sharpen your skills to make financial comparisons among the various services you are offered. You will have to be the financial executive that the bankers think you are.



Gearing up for a fight...

THANK YOU Judge William A. Ingram.

As we report on page 1 this week, Judge Ingram has issued an opinion that Kaiser Steel Corp. in California is entitled to a tax deduction for its self-insurance reserves to pay workers compensation claims.

This is a victory for all self-insurers of workers compensation, that according to the Internal Revenue Service should fund their self-insured reserves with after-tax dollars.

But we hasten to urge everyone to keep this victory in context. At best, it is a battle won. The war certainly is not over.

You can bet that the Internal Revenue Service is going to take this issue up in other cases and in other districts where it hopes it has a better chance of winning its argument.

The war will be won only when either the Supreme Court upholds a corporation's right to take tax deductions for self-insured work comp reserves or when legislation is passed to clarify the tax code on this issue.

In the meantime, we suggest that corporations wage their fights on both levels.

Fight your case with the IRS when you are challenged. Demand your right to a full tax deduction for your self-insured reserves for uncontested workers compensation cases. Don't settle for 50 cents on the dollar. If the IRS is willing to settle with you, it means the IRS doesn't want to litigate your case because it is afraid you will win. While the IRS is looking for the kind of cases it wants to litigate, corporations should be standing firm to litigate the kind of cases they know

they can win.

But do everything you can to heighten your chances of winning. Act now to satisfy the all-events test.

It appears safe to assume that the courts will accept that a workers compensation claim establishes liability. What is less safe to assume is what will be needed to convince the courts that you established your liability reserves with reasonable accuracy. We suggest you use every means possible to be accurate in setting your reserves and that you update them often. The government's lawyer suggested to us that reserves should be updated every 60 days.

Prepare to fight for your right to tax deductions for self-insured reserves in the legislative arena, too. The Loss Reserve Deduction Committee (BI, April 26) is beginning that fight and will call on you for your lobbying support in time and money.

Something to cheer

WHILE WE'RE ON the subject of battles, a major one was won when the Senate Commerce Committee approved a federal product liability bill.

A year ago, its sponsor, Sen. Robert Kasten, R-Wis., was the only senator who showed an interest in federal tort reform. Now, the legislation has attracted broad-based Senate support, and observers give it a 50-50 chance of being passed by the full Congress next year.

Although the bill is not yet law, the committee vote proves what can be accomplished when employers speak up and tell congressmen what they want.

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Published by Crain Communications Inc., Chicago

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FINANCIAL SERVICES

Banks opening new doors to lure captives, self-insurers as clients. . .

By **BETSY SHARKEY**

NEW YORK—Tucked away in a growing number of money-center banks is a quietly emerging group of banking specialists who are launching major efforts to capture and control a new brand of insurance client.

Often working behind obscure doors shingled with grandiose titles like "Worldwide Insurance," these specialists have set their sights on the growing levels of investment and premium dollars generated by self-insurance and captive insurance operations.

The financial services these clients demand already run like loose threads through most traditional corporate banking departments: international banking, trust management, investment management, cash management, credit services.

But those threads now are being woven into a tapestry that may soon blanket the entire self-insurance and captive marketplace, covering a captive's or self-insurer's total financial needs.

The list of banks that have been drawn into the arena reads like a financial who's who: Citibank, Bankers Trust, Bank of America, Chemical Bank, Chase Manhattan, First National of Boston, Colorado National.

"The insurance industry itself has always been a major client for banks," said Frank Dunn, who coordinates Citibank's captive insurance task force. "Captives are becoming a major segment of that industry. And we are seeing continued growth

for all types of self-insurance from higher retention levels to growth in captives."

Even though banks have offered many basic financial services to the insurance industry for years, only a few banks have assembled a cohesive marketing program targeting self-insurers and captives.

"I think you'll find the organizational structures within the various banks that work with captive insurance companies differ," said Chris VanCuran, The First National Bank of Boston's vp-insurance group and commercial lending. "There isn't any common organizational pattern to market services to them."

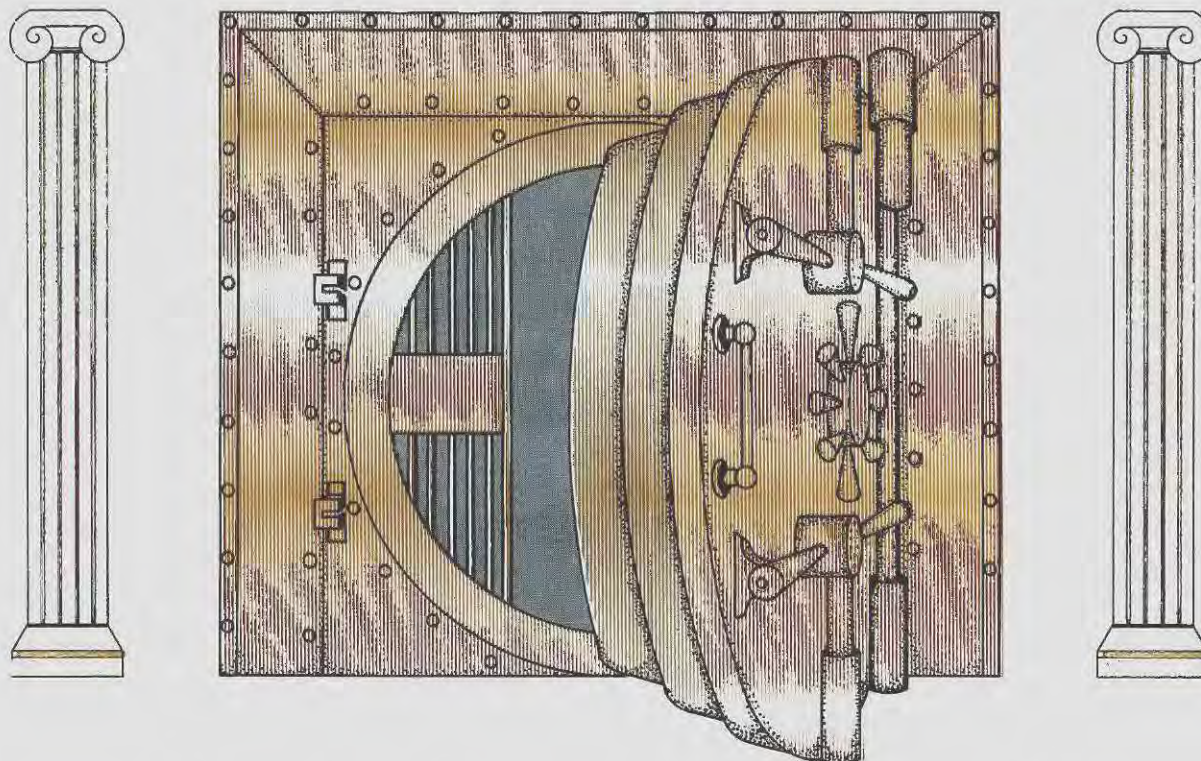
New York-based Citibank was the first to make a full-time effort to attract captives and self-insurers and in October 1979 organized its captive insurance task force.

Other bankers, too, are finding an increasingly attentive and interested audience in corporate risk managers with responsibility for captives and self-insurance programs.

The services these major banks offer range from the most basic insurance letter of credit to the more complicated realm of establishing and managing trusts for offshore captives.

"I've talked to Frank Dunn at Citibank and they're quite anxious to do business," said a risk manager for a Midwestern firm. "I don't have a need for their services at this point, but I am interested in the fact that somebody in the financial area is showing a willingness to offer services in this area."

Continued on next page



. . .As the day approaches when they'll butt heads with insurers

By **RHONDA L. RUNDLE**

As the first bankers start showing up in risk management departments, they stir images of a new financial services marketplace in the minds of some brokers and financial consultants.

But, if you ask your banker today for advice about a new captive insurance company or setting risk retention levels for a self-funded program or claims administration, chances are your question will be met with a blank stare. Most banks today are not prepared, much less interested, in providing risk management services to their corporate clientele.

Now, only a handful of money-center banks are forging links with risk managers, popping up at Risk & Insurance Management Society meetings and cold-calling potential customers. Citibank in New York has taken the lead in marketing a package of self-insurance services to corporations (see story, page 34).

The services from banks now are mostly complementary to services offered by the insurance industry, but fierce competition could erupt in the future between banks and traditional insurance industry vendors.

Ultimately, it is highly likely that banks will be a conduit for insurance products and services, says Bruce W.

Morgan, an economist with Golembe Associates Inc., a bank consulting firm based in Washington, D.C.

He envisions a future in which financial institutions will be segmented by market needs, rather than by type of product. Some institutions will serve personal financial needs, while others will target their activities toward corporations.

All of the institutions will accept deposit accounts, manage and invest money and sell insurance among other functions. They will specialize in personal lines, small business insurance packages or self-funded risk management programs consistent with the needs of their customers.

"It won't happen overnight; lots of protectionist barriers must topple," he notes.

"I do not think of Citibank as a competitor now, but we take banks as a whole very, very seriously as potential competitors," observes James V. Davis, chairman and chief executive officer of Advanced Risk Management Services, a unit of Corroon & Black Corp.

"No one feels banks are competition because they haven't emerged as a force yet," observes Harold H. Hines Jr., president of Ryan Insurance Group Inc. in Chicago. "Risk management involvement by banks is five years away," he predicts.

Continued on page 36

Banks increasingly serve captives' needs

Continued from previous page

Richard Hackenburg, staff vp and assistant treasurer of Pittsburgh-based Allegheny International Inc., added that he would "be interested in allowing financial institutions to become involved in all forms of financial services. It would make the market more com-

petitive and it would also allow innovation in the industry."

There is only a handful of banks that have a long history of working hand-in-hand with the worldwide insurance industry. It is these few that first threw out the net to the captive insurance market.

"You have sort of a minioli-

garchy," said Andrew Osinski, Bankers Trust Co.'s vp/international insurance division. "Of the old established specialist divisions among the American banks, only Citibank and Bankers Trust go back 20 years or more.

"Then you go to Chemical, Chase and one or two others, but they are

more newly established, going back just five or six years."

The years of marketing the insurance distinction have paid off well. Bankers Trust and Citibank together control nearly 85% of the offshore captives and other alien non-admitted insurers' U.S. trust funds, with Bankers Trust leading

by a nose. The principal purpose of such trusts is to enable the non-admitted insurer to underwrite direct risks.

Although virtually any bank handling corporate accounts issues letters of credit, only a few banks specialize in insurance letters of credit. Citibank is thought to dominate the market with an estimated \$2.4 billion in insurance letters of credit currently outstanding.

Without question, self-insurers and captives point to letters of credit as one of the most basic and widely used financial services.

The "standby" letter of credit is the type used for insurance purposes. It is a simple financial instrument that lists the name of the beneficiary, the account payer, the monetary amount and the bank.

The bank, for a fee, essentially lends its good name to the payer, guaranteeing that a potential debt will be paid. For the company, the advantage lies in not having to idle or set aside the total amount it would take to meet that potential debt.

According to standards set by the National Assn. of Insurance Commissioners in 1980, these letters of credit must be "clean and irrevocable." This makes funds immediately available to the beneficiary company simply with a sight draft drawn on the issuing bank.

Captive insurance companies most frequently use a letter of credit to meet fronting company requirements for guarantees on unearned premiums or payment of outstanding losses.

For example, a fronting company might cede 80% of a \$1 million exposure to a corporation's captive insurance company. However, the NAIC still views that exposure as a liability on the fronting company's books.

So the fronting company would require a letter of credit for 80%, or \$800,000, to be issued by the captive, naming the fronting company as the beneficiary. That would now show up as an asset on the fronting company's book, balancing out that ceded liability.

"Not only does the letter of credit act as some sort of guarantee that the captive or reinsurer will pay should he be called on," said Mr. Osinski, "but without the letter of credit, the fronting company would have to represent the liability with its own funds, therefore dipping into its solvency and affecting its future underwriting ability."

The second area where offshore captive companies rely on letters of credit is in establishing a "non-admitted carrier" trust. For captives writing direct risks of unrelated companies, the NAIC requires that a trust fund be established to protect the interests of U.S. policyholders.

"The NAIC currently asks for \$1.5 million minimum to be placed in the trust fund, either in cash, bonds or letters of credit," said Mr. Dunn. "We recommend using a letter of credit, say for one-half million dollars, issued for the five-year minimum life of the trust (combined with \$1 million in other assets). It is an ideal way to get into the U.S. market and not very expensive."

When it comes to the purchase of letters of credit, it is a buyers' market with prices ranging from a low of 0.125% to a high of 1.5%. Most bankers agree that those prices can't go much lower. However, one risk manager indicated that several banks were dropping all charges for letters of credit in exchange for a corporation placing its funds with the bank.

Ironically, the prices for letters of credit are so consistently low that

Continued on page 16

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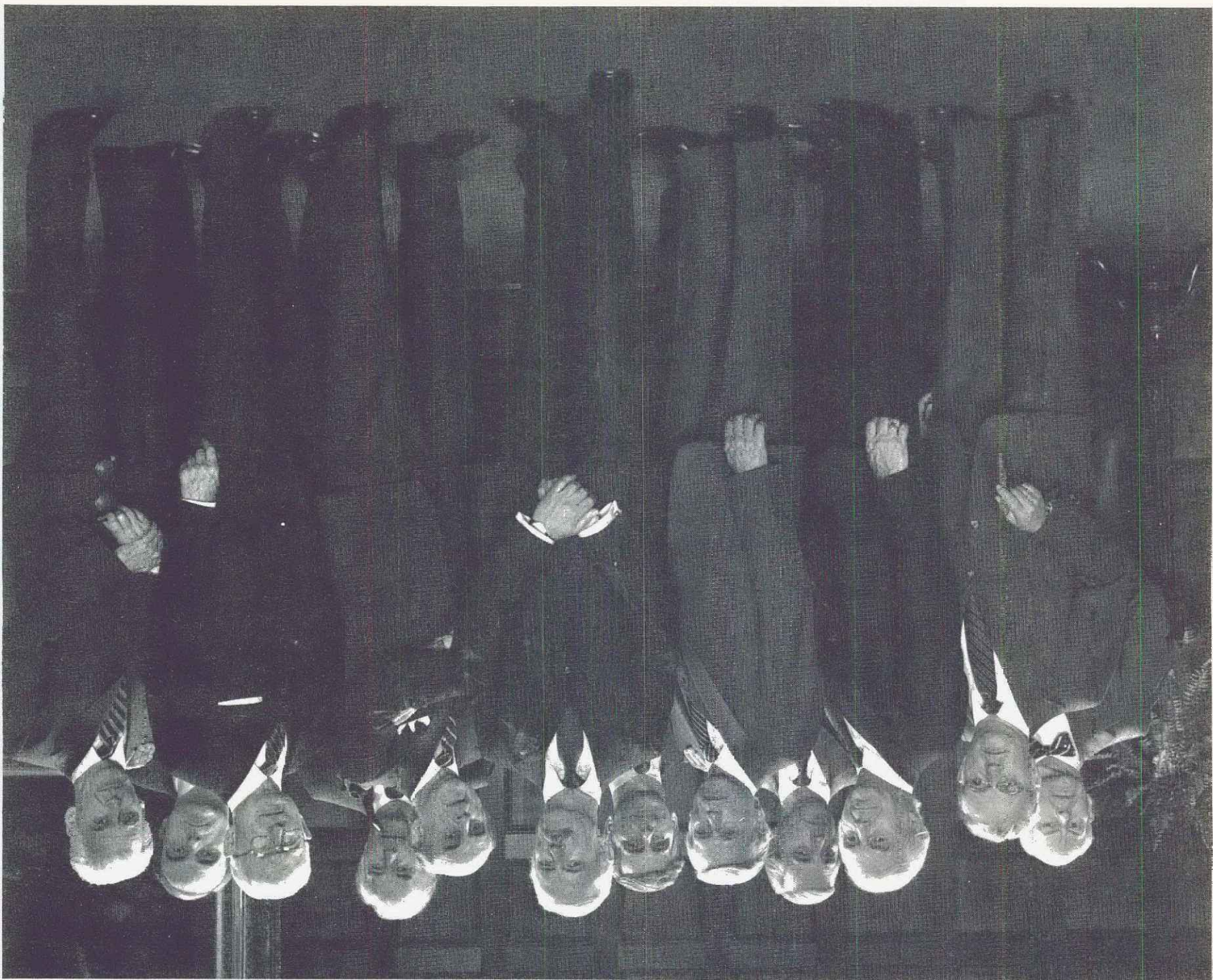
And positioning ourselves through all these changes to take full advantage of upturns in the economy that aid the hard-hit insurance industry.

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Captives turn to banks for letters of credit

Continued from page 12

most corporations don't bother to shop the market. Instead, they turn to the banks where they do most of their banking business.

While a letter of credit for a corporation is about as fundamental a banking activity as writing a check and the basic insurance letter of credit is commonplace, Citibank and Bankers Trust were the first to capitalize on captives and self-insurers as a distinct market.

In 1979, Citibank gave Mr. Dunn the task of isolating the specific banking needs of a captive insurer and tying all those needs together into a single marketing effort. That effort quickly spilled over to cover domestic self-insurance as well.

The final product includes a comprehensive program that ana-

lyzes financial strategies for captive insurance operations and also targets banking needs for risk managers, employee benefit managers and corporate treasurers.

For risk managers who don't know exactly how a letter of credit might be used, Citibank spells it out. Some of the specific letter of credit uses include:

- Self-insurance of workers compensation. The letter of credit is used to cover projected claims. While a surety bond is most typically used for a financial guarantee, the self-insurer is often required to provide a letter of credit to the surety company. But more states are moving to accept letters of credit in lieu of a surety bond.

- Guarantee of loss adjustments for a retrospectively rated insur-

ance policy. The letter of credit is used to meet reserve requirements.

- Self-insurance of employee benefits. Again, the letter of credit serves as the company's financial guarantee to either a claims administrator or a union that claims will be paid.

- Self-insurance of collateralized property. In this case, a letter of credit is substituted for an insurance policy to guarantee a loan if collateralized property is destroyed or damaged.

Citibank also is pushing its way into the administrative side of the insurance business, offering a loss-protection program (see story, page 34) and a cash management system aimed at easing employee benefit plan record keeping.

"It (the effort) has been well-re-

ceived by corporate clients," said Mr. Dunn. "We are serving between 115 and 120 offshore captives and several domestic captives."

There are nine insurance companies using the money management system for employee benefit programs, he added.

Citibank's captive task force serves as a direct link between risk managers and other departments in the bank. This role has been aggressively marketed to risk managers nationwide.

Much like Citibank, Bankers Trust's involvement with the captive market grew out of years of working with the insurance industry.

"Since 1979, in recognition of the fast-growing international diversification of the U.S. insurance in-

dustry and for sheer ease of access to the Bermuda market, we built up a team here (in New York)," said Mr. Osinski.

The bank, which is the leading trust center for alien non-admitted insurers, also is marketing a broad range of international exchange services offered by its London money center. Bankers Trust also offers investment management, insurance letters of credit, as well as a number of resource publications geared to monitor the business and regulatory environment with which the insurance industry must contend.

BankAmerica, with its primary captive effort spearheaded out of London, coupled with a subsidiary organization in Grand Cayman, is reaching for a unique foothold—merging investment banking with offshore administration of captives.

BankAmerica Trust & Banking Corp. (Cayman) Ltd., like the Bank of Nova Scotia Trust (see story, page 18), offers captives a number of administrative services from which domestic banks are precluded by regulation.

"We involve ourselves in assisting with the offshore administration of captives," said Graham Stapley, BankAmerica assistant vp. "That could include providing a full accounting function, preparation of annual financials or periodic financials, liaison with local statutory auditors and arranging submission of information to the superintendent of insurance here. This would be in addition to the normal banking responsibilities like letters of credit, placement of funds in Eurodollars, time deposits, etc."

The bulk of the captive clients BankAmerica Trust has attracted have parent companies that are familiar with San Francisco-based BankAmerica Corp., Mr. Stapley said. However, he added that the Cayman operation is beginning to siphon clients from the East Coast as well.

Along with that effort, BankAmerica's international investment division manages approximately \$180 million in captive assets. The bank has continued to build a captive client base with its performance record on fixed income, an area of particular interest to captive companies.

"On the fixed-income side, we have consistently been the top performer (last three years) in their (captive's) universe," said Francois Dennery, BankAmerica's vp-international investment management services. "That is measured in terms of percentage gains or losses and also comparing us to all other managers."

Other banking services that are available to risk managers include the management of 501(c)(9) trusts for employee benefit plans. However, the approximately 10,000 plans seem broadly spread in many different financial institutions, with no large concentration of funds in any single bank.

Also, since the Internal Revenue Service regulations limit the reserve levels a 501(c)(9) can maintain, they are far less attractive to banks than other trust activities.

"For the most part, banks really don't manage these plans," said Ashley Harden, president of Harden & Co. Inc., a San Francisco-based administrator of corporate 501(c)(9) trusts.

In very rare instances, risk managers also might call upon a bank to extend its company's line of credit to handle post-loss funding for a risk.

For example, a company might retain the first \$25,000 of a risk and purchase primary insurance

Continued on page 18

International Bankers to the Insurance Industry



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International Insurance Division

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Banks performing new functions

Continued from page 16

above that. The primary layer could be replaced by a line of credit, sandwiched between the self-funded retention and excess layers of insurance.

However, a line of credit depresses a company's borrowing ability and banks say they are not inclined to offer such a line of credit except to the most financially sound companies. Risk managers, too, aren't convinced it is a good risk funding mechanism.

"Why not take the self-retention up to \$50,000 instead?" suggests Robert Reeves, president of Hospital Corp. of America's health services group division. "Why not wait until the loss happens and pay out the \$50,000, then go out and borrow the second \$25,000 from the bank if you need it?"

"Using a line of credit for post-loss funding is very rare," he added.

Both risk managers and bankers agree that the use of a line of credit for post-loss funding is not

expected to expand, particularly in a continuing economic downturn when future corporate solvency is often tentative.

But the overall effort by banks to attract the self-insurers and captive market is rapidly expanding, with more money-center and regional banks interested in getting a piece of the pie.

Chase Manhattan has sent representatives to captive insurance gatherings to push a new captive program. And ChemicalBank has established a World Insurance Group to market to the insurance industry. Colorado National Bank also has jumped into the arena.

The First National Bank of Boston finds it handles most of its insurance services out of two offices: the commercial lending and the institutional investment sides of the bank.

Risk managers who are looking for assistance for the captive and insurance company operations would most likely find it in the investment and trust departments.

Trust company offers full service to captive insurers

By BETSY SHARKEY

GRAND CAYMAN, B.W.I.—In 1976, when Dan Creasey went looking for a manager for Harvard University's new Cayman captive, the search ended with the Bank of Nova Scotia Trust Co.

At the time, Scotia Trust didn't supply any management services for captive insurance companies, but Scotia officials told Mr. Creasey they were willing to give it a try.

The result was the development of a broad range of captive services,

including complete management capabilities, which are now being used by about one-fourth of Cayman's 250 captive insurers.

The trust company, the leading captive manager on the islands, is competing head to head with the brokers and independent management agencies that normally dominate the market.

"What we are, really, is both a bank and trust company," said Derek Webber, assistant manager of Scotia Insurance Services. "Our activities are banking, investments, company management, trust administration and the insurance division, which is purely for the administration of the day-to-day functioning of offshore captive insurance companies."

Scotia Trust now has a full underwriting manager's license, which enables it to provide all the services a captive insurance company might need under one roof. The insurance division has two worldwide underwriting specialists available for clients, as well as accountants and bankers.

"Basically, they (Scotia Trust) were providing the functional ser-

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'We provide all the functions for captives under one roof,' Mr. Webber says.

vices to other clients on a slightly different scale; it just wasn't labeled as insurance," said Mr. Creasey, president of the Boston-based Risk Management Foundation of Harvard Medical Institutions and a consultant to the captive, Controlled Risk Insurance Co.

"For example, the trust company was already in the business of doing accounting for other people's business," he said. "They just went into the business of doing accounting for insurance companies, too."

The primary Scotia services typically tapped by captives on Cayman include:

- Full accounting services.
- Filing regulatory reports to Cayman authorities.
- Filing excise tax reports to the Internal Revenue Service.
- Investing funds.
- Providing liaison services with other offshore support operations like actuarial, accounting, and claims administration companies.
- Maintaining claims records and claims profiles.

Although not a typical request, the trust company also has the ability to handle reinsurance arrangements, including obtaining price quotations, developing background information and actually placing the reinsurance.

And, Scotia Trust's administrative services can extend to include payment of claims, where required. However, many captive insurance companies only write reinsurance, with a fronting company handling direct claims payments.

"What we're finding is that we are able to provide all the functions down here for the captive under the one roof, and that is very marketable," said Mr. Webber.

The combination continues to attract new clients. "With our existing portfolio and the people in the pipelines, we have somewhere be-

Continued on page 20

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Trust company 'does it all' for captives on Cayman

Continued from page 18
tween 60 and 70 clients," Mr. Webber said.

Access to specialists at the Bank of Nova Scotia who provide cash management, letters of credit and investment services are at the insurance division's doorstep.

Although these services are available on Cayman, some U.S. parent companies are reluctant to turn over complicated investment decisions to an offshore banking operation.

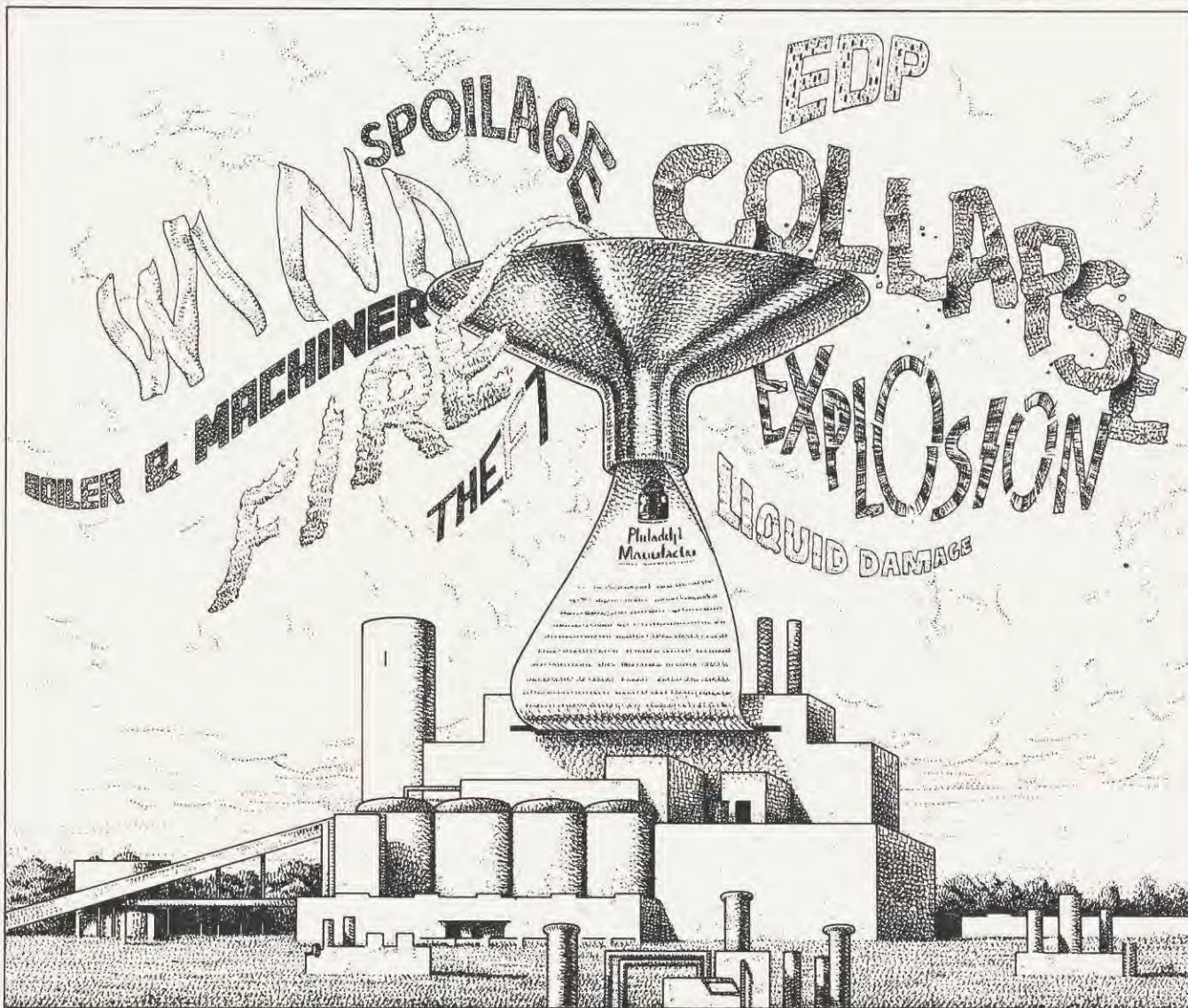
"The islands aren't Wall Street," one captive manager noted.

"Obviously, the investment of funds would differ with each client as to where the decision-making lies," Mr. Creasey said. "We do use

the bank to advise and when we talk about buying a specific instrument, they usually select it. So, they are definitely involved in our portfolio management."

Scotia Trust essentially can serve as a captive's complete offshore office, providing services to whatever extent the parent company decides. It was this flexibility that initially attracted the captive set up by Harvard.

"The other people I spoke to sort of listened politely and then told me what their services were," Mr. Creasey said. "Whereas, when I talked to Nova Scotia, they said, 'What do you want done and we'll figure out how we can do it.'"



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Scotia Trust wasn't 'doing any of these things, but they were willing to undertake it,' Mr. Creasey says:

"They weren't doing any of these things, but they were willing to undertake it."

Although captive insurance companies now tend to use more of the basic services, Scotia Trust is looking ahead with an emphasis on expanding its market in the future.

"Banks, of course, have an interest in the insurance industry and we realize that there is the ability to maintain the premium dollar in-house," said Mr. Webber. "It is certainly an area that is considered of major, major importance in the future planning of this trust company's activities."

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Risk managers increase investment savvy

By LEN STRAZEWSKI

Risk managers with captive insurance companies are getting more directly involved—and wiser—in investment issues.

More and more often, it's the risk manager, not a corporate treasurer or investment officer, who is the main corporate contact for independent investment managers handling a captive insurance company's funds.

"We want to meet directly with the risk and captive manager at least twice a year," says Senior Vp Ed Toledano of the New York office of J. Henry Schroder Wagg, a London merchant bank.

The topics of conversation: Results of the past and liquidity needs in the future.

The latter dictates what the money manager will do, usually using foreign instruments for additional tax breaks for the captive.

"It's important to go over the numbers, identify expected claims payment and then go over what we expect to be able to do for the client to make sure he or she is happy with our strategy," says Mr. Toledano. "If not, we'll listen to what he or she advises."

"We absolutely work closely with them," said Andrew Osinski, vp of the international insurance division at Bankers Trust Co. in New York. "It's important to discuss the concept and the ideas behind captive reserves with the risk manager. Only he or she can give you a feeling for the structure of

claims and liabilities. Only the risk manager can tell you what are really the outstanding losses and what will need to be paid."

Elliot Gartner, director of client services in the New York office of Morgan Grenfell & Co., another London merchant bank, agrees.

"The way we run money, the risk manager is essential. Though the captive is an owned subsidiary, it is still an insurance company and assets must be planned for insurance needs," he says.

In general, investments must be matched with cash needs for claims payments, but cash on hand should be kept to a minimum.

Funds for claims not immediately payable, such as liability claims winding their way through court battles, may be invested in long- or

medium-term investment instruments for higher interest rates. Funds for claims payable imminently may be invested for periods as short as overnight.

Most captive managers want no more than \$20,000 in the checking account at one time and that is usually invested over weekends, risk and portfolio managers agree.

One risk manager responsible for two corporate captives who is intimately involved in the selection of money managers and what they do is Charles Eades, vp of Ingram Industries in Nashville, Tenn.

Ingram operates two captive insurers, one based in Bermuda and the other in Tennessee. Bluewater Insurance Ltd. of Bermuda uses Schroder Wagg, one of the fre-

quently mentioned leaders in the captive investment business, as an overseas investment manager.

Tennessee Insurance Co.'s funds are managed by Commercial Union Bank of Nashville, "a sort of small but reliable local bank," Mr. Eades notes.

Although Mr. Eades appreciates the nearness and intimacy of Commercial Union, he also notes that Tennessee law allows a 75% premium tax credit if a major portion of the captive's funds is invested in Tennessee.

In selecting an independent investment manager to handle captive insurance company funds, many risk managers with offshore captives look for expertise in foreign investments. They want to invest in the international Eurobond market, foreign certificates of deposits or floating rate notes in multiple currencies to avoid the 30% withholding tax on U.S. investments.

An independent money manager also is recommended by tax experts who say investment decisions regarding an offshore captive should not be made on U.S. soil.

Mr. Eades contends that investment managers are chosen more for their expertise than because of concern for potential tax problems.

"Most companies that are attempting to manage funds held offshore choose an outside money manager because the U.S. (corporate) executives just don't have the experience with foreign investments," he says. "They need someone who knows the international marketplace."

"This doesn't mean that U.S. companies aren't capable," he adds. "There are many wise and sophisticated investment officers who could manage offshore funds. But in general, U.S. investment officers know U.S. investments best and do not frequently deal with foreign investment opportunities."

"The important issue," according to Mr. Eades, is trust—getting an investment manager that knows the business and can follow instructions (see related story).

A growing number of overseas investment managers are promising personal attention to offshore captive owners, catering particularly to risk managers now that they are more frequently seen participating directly in setting investment goals.

The competition, according to Mr. Eades, is intense, shared by many of the London merchant banks, most of the major U.S. banks with London branches and several independent portfolio managers including a couple employed by Bermuda captive management firms.

The leading London fraternity includes the London merchant banks of Schroder's, Morgan Grenfell, S.G. Warburg & Co., Barings and N.M. Rothschild & Son.

Competitive U.S. banks, operating mostly from their London offices, include Citibank, Bank of America, Chase Manhattan Bank, Bankers Trust and Morgan Guaranty Trust Co.

Bankers Trust is expanding its investment services to captives based on its experience in serving non-admitted alien insurers.

Among investment bankers and portfolio managers competing to manage captive funds are Brown Bros., Harriman, Kidder Peabody & Co., Morgan Stanley Investment Bankers, Scudder Stevens & Clark and Marsh & McLennan Asset Management (Putnam Investment Funds), all in New York City.

Most of the companies charge a

Continued on page 24

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Firms eager to invest captive funds

Continued from page 22

fee of 0.2% to 0.3% of assets under management, depending on the size of the account. A captive investing \$1 million would pay \$2,000 to \$3,000 a year for investment management services.

Schroder's manages some \$400 million in offshore company assets for 35 captive clients, according to Mr. Toledano. The bank has been in the business for more than 10 years.

The bank focuses captive investments in the Eurobond market,

London certificates of deposit and occasionally Yankee bonds and U.S. Treasury bills purchased overseas, according to Mr. Toledano. Most clients sought short-term investments during the past few years as interest rates rose steadily. However, those instructions have been changing.

"We are receiving more and more calls from clients telling us to buy more medium-term instruments," he noted. "But for the most part, it's too late. They should have allowed us to buy them over a year

ago when the rates of return were higher. Now we've got several captives with \$3 million or \$4 million invested at 9%, 10% or 11% when they could have had medium-term bonds at 14% or 15%."

Most investment managers are talking up longer-term investments now, adds Anthony Regan, senior vp and director of Citibank's international investment department. Citibank has only handled captives for two years and has 15 offshore and two domestic captive clients.

"Right now we are sticking to short-term investments in U.S. dollars because assets have to be readily available, but this has been exaggerated by the insurance marketplace and the disappointing bond market. But when we are meeting with treasurers and risk managers, we are trying at early stages to get them thinking about longer-term investments.

"Our goal is to produce return significantly above inflation. That used to be easy in the short term, but with the drop in rates, it's more difficult. It may require an equity position, or in some cases, real estate investment."

"We receive lots of subjective instructions, too," Mr. Gartner of Morgan Grenfell says. "Depending upon accounting conventions and the general investment policy of the parent, we may have a flexible or very rigid set of guidelines. Right now, there are even some

'Our goal is to produce return significantly above inflation,' Mr. Regan explains.

captives that are not actively managing funds; they are just rolling over short-term certificates of deposits and meeting their cash-flow needs."

Morgan Grenfell has managed captive portfolios since the late 1970s, according to Mr. Gartner, and has about 35 worldwide clients and \$700 million in funds under management. Most of the funds are invested in five-to-10-year maturity Eurobonds, he says, with a mixture of floating-rate notes and certificates of deposit for shorter terms.

Some clients allow multicurrency investment.

More frequently than ever before, some captives are allowing their captive managers to handle short-term investments.

"But they're not doing it enough," remarks Richard S. Thompson, president of Altamid Management Co. in Bermuda, which has an investment officer on staff for client use at no charge.

"Most use outside investment managers in London and in some cases Bermuda banks," says Mr. Thompson.

But few outside account managers put in the time required to truly match the portfolio to captive needs, he says. If the risk manager provides the cash-flow needs and the treasurer the investment philosophy, a captive manager could handle the funds without charge and still meet all the traditional tax concerns.

Altamid, however, does not actively seek outside investment clients and still meets with the independent portfolio managers seeking business from Altamid captive management clients.

"My visitor's book is littered with them," Mr. Thompson says. ■

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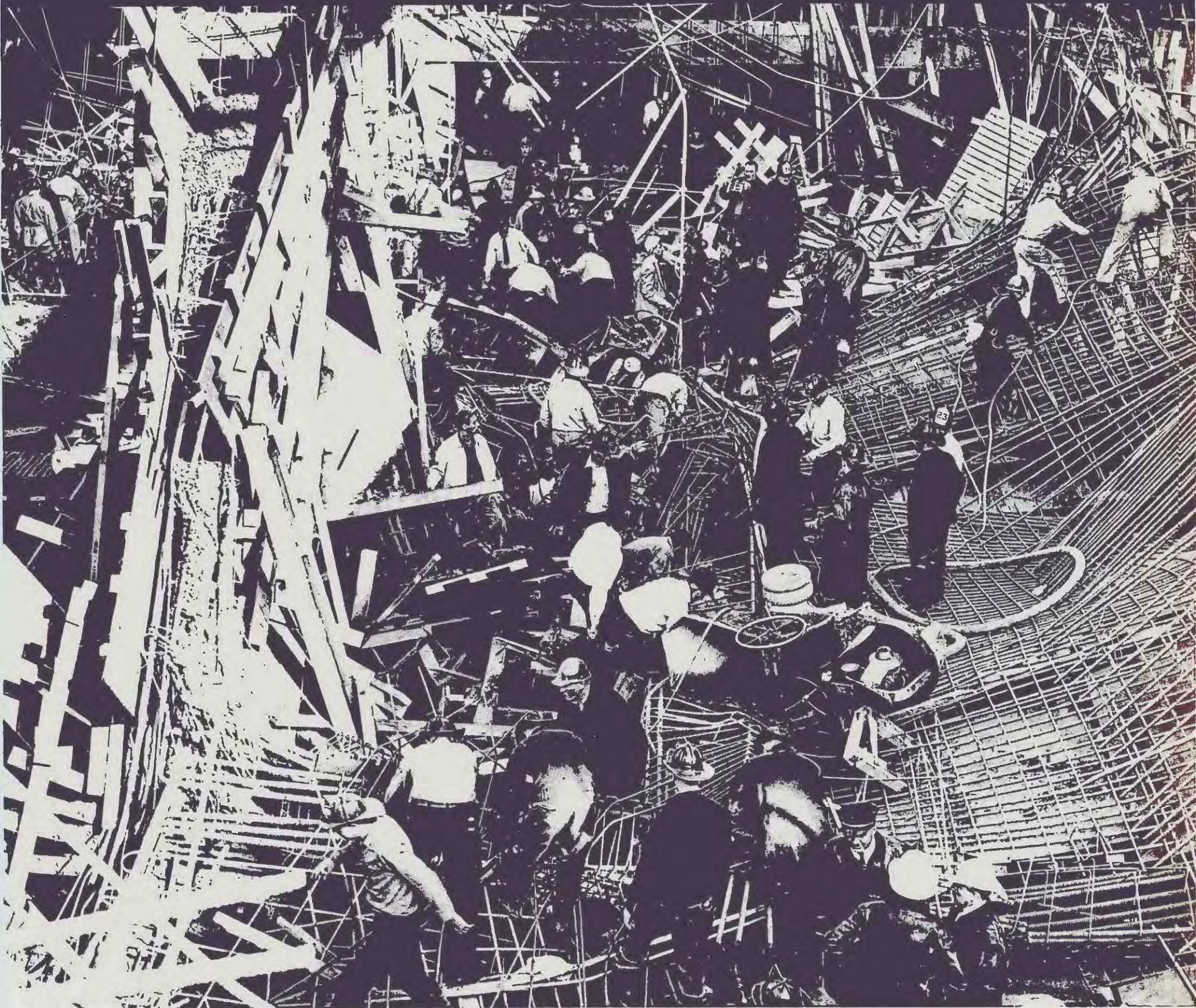
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Bermuda banks to begin wire transfers

By BETSY SHARKEY

HAMILTON, Bermuda—Banks in Bermuda expect to plug into SWIFT, an electronic funds transfer system that links 981 banks worldwide, by August 1983, island bank officials say.

Improving service to the islands' international business community, 20% of which is U.S. captive insurers, prompted the Bermudian-based Bank of N.T. Butterfield & Son Ltd. to approach the Society

for Worldwide Interbank Funds Transfer earlier this year.

"It will not only speed up each transfer and make the transfers more efficient, but SWIFT also will give us a lot more information," said Stephen Kempe, assistant general manager-international for the Bank of Butterfield. "It will enable us to see the daily movement of cash and that would certainly make our operations here in Bermuda a lot more efficient."

The system can accomplish an

electronic transfer from one continent to another, from Tokyo to London for example, in about 3.2 seconds. The cost per transfer is a standard 40 cents, quite a reduction from about a \$6 charge for a telex or wire service over the same distance.

For the banks in Bermuda, with nearly \$5 billion on deposit, the SWIFT system is the newest service they will have to sell to international clients, including captive insurance companies. Final ap-

proval from the SWIFT board was expected last week.

"Quite often people are quite naive about dealing offshore and don't know how to go about transferring funds," said Mr. Kempe. "They don't know exactly how the mechanics work. SWIFT will be marketed when necessary to allay the fears of potential clients about the transfer of funds."

Bermudian bankers estimate that 80% to 90% of their deposits are composed of moneys from captives and other international businesses. Captive insurance companies trying to maximize the use of their funds rely very heavily upon the speed and ease of such transfers.

"We transfer our funds that way so the money goes immediately to work for us," said Ralph Perry, assistant vp/director of risk management for AMFAC Inc. in San Francisco. "Our self-funded money ranges between \$7 million and \$8 million a year, so we are moving a fair amount in monthly premium."

"We rely on electronic transfers primarily with our offshore captive," agreed a risk manager for a Midwestern company who also heads his company's captive operation. "There is always a concern that we transfer the funds to where they will be earning interest, and EFT systems expedite these transactions."

Once Bermudian banks are connected to the major international banking centers by SWIFT, a captive insurance company might handle a transaction like this:

A Bermudian-based captive insurance company knows it has to pay a reinsurance premium to its U.S. fronting company on Friday. Friday is also the maturity date for the time deposit where those premium dollars have been earning interest.

Instead of writing a check and mailing it to the fronting company—and losing the use of that money for several days—the money would be transferred from the captive's bank account directly into the fronting company's bank account in the course of a single workday.

"SWIFT is a very efficient system and it does as much volume in one day as all the New York banks," noted Cummings Zuill, assistant general manager/banking for the Bank of Bermuda. "We manage the bulk of our transfers on the same day, but SWIFT will greatly reduce the inefficiencies of the present system."

Although most Bermudian banks are tied indirectly into other electronic funds transfer systems through their affiliation with U.S. banks, the SWIFT system will be the first to operate independently with the Bermuda banks.

And once linked to SWIFT, the banks expect to dramatically cut down on the two-day lead time they often need to meet high-volume demands, which now require extensive coding of account information.

Membership in SWIFT is limited to banks in an approved country. The system basically transmits a coded message from bank to bank. However, there is nothing to preclude banks from setting up computer tie-ins for their corporate customers, say SWIFT officials.

"If you happen to be a Chase Manhattan, you can put terminals wherever you like," said SWIFT's Michael Patyna, implementation officer for the Belgium-based company. "Obviously, I would hope if the banks give their customers the ability to input the (EFT) message, then the bank would presumably be responsible for releasing the message and not let them go straight through the system."

Continued on page 30



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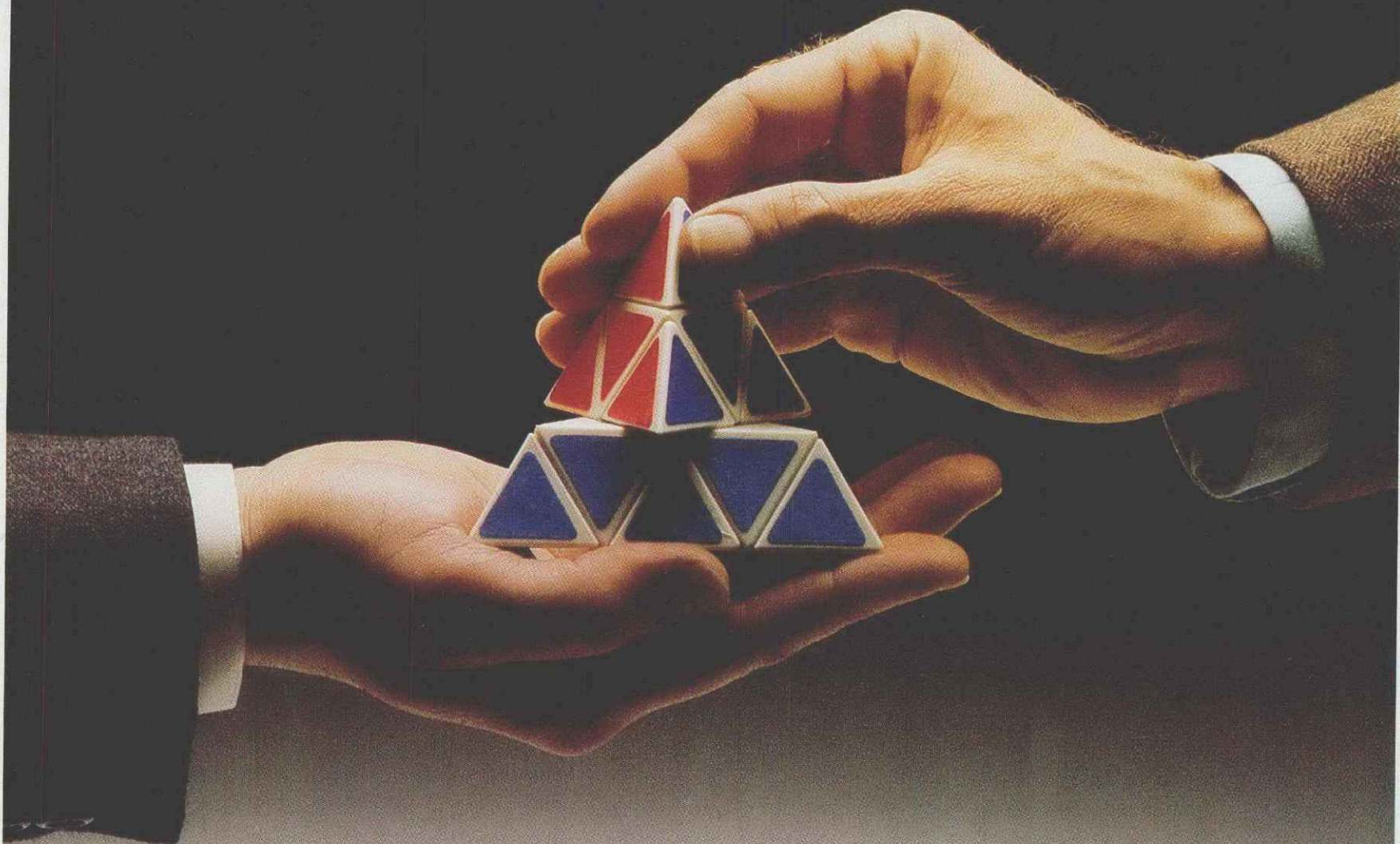
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Wire transfers to aid captive owners

Continued from page 28

"But that is the bank-customer relationship, rather than the SWIFT relationship," he remarked.

Several banks said they are considering methods that would enable their corporate customers to pre-code funds transfer information and transmit it to the bank via just such secondary computer links.

Tying into SWIFT usually costs a bank about \$60,000, estimates Mr. Patyna, who operates from a Washington office.

"There is a membership fee of about \$30,000—however, that depends on the Belgium-U.S. exchange rate," Mr. Patyna said. "Then you've got to equip yourself with the computer equipment, the terminals that you need, so that takes you up to about \$50,000 to \$60,000 to get off the ground."

The SWIFT network handles an average of 325,000 individual transactions daily and can be used by the banks 24 hours a day, seven days a week.

U.S. banks currently are the heaviest users of the SWIFT system, followed closely by banks in Italy and West Germany. Most U.S. banks use the SWIFT system exclusively for international transfers.

"About 10% of the total U.S.-generated traffic is domestic, but it is slowly creeping up," Mr. Patyna said. "There are no restrictions for using SWIFT for domestic transfers; however, some banks seem to be under the misapprehension that

there are."

Industry experts estimate that about half of the major U.S. money center banks' assets flow through the electronic funds transfer systems almost every business day. Corporate transactions represent an estimated 90% of that activity. Bermudian banks expect to have a similar level of EFT activity.

In the next two years, SWIFT will be expanding its network to include more Middle Eastern and Far Eastern countries. However, the most recent inquiry came from a bank based in the Cayman Islands, another major domicile for offshore captive insurance companies.

In addition to SWIFT, there are three other primary systems used in the United States for the transfer of corporate funds—CHIPS, Bank Wire and Fed Wire.

CHIPS, or the Clearing House Interbank Payment System, is one of the oldest EFT systems. It is based in New York and began operations in 1970.

Like SWIFT, it deals primarily in international traffic. Unlike SWIFT, its member banks must have a bank office in New York City. Ninety-eight banks are on the system and another 76 are waiting to get on.

"Our total dollar volume averages about \$180 billion a day," said Jack Owens, CHIPS' manager of customer relations. "Our daily average is about 70,000 transactions with the average payment amount in the range of \$2 million."

There is a minimum monthly cost for each member bank and an additional per-transaction charge for CHIPS members.

New York-based Bank Wire links together most of the major regional banks, about 50 in all.

The domestic EFT activity,

The SWIFT network 'will enable us to see the daily movement of cash,' Mr. Kempe says.

though, is dominated by Fed Wire, the Federal Reserve Bank system that links the 12 Federal Reserve banks, the 25 Federal Reserve branch banks and virtually all U.S. commercial banks.

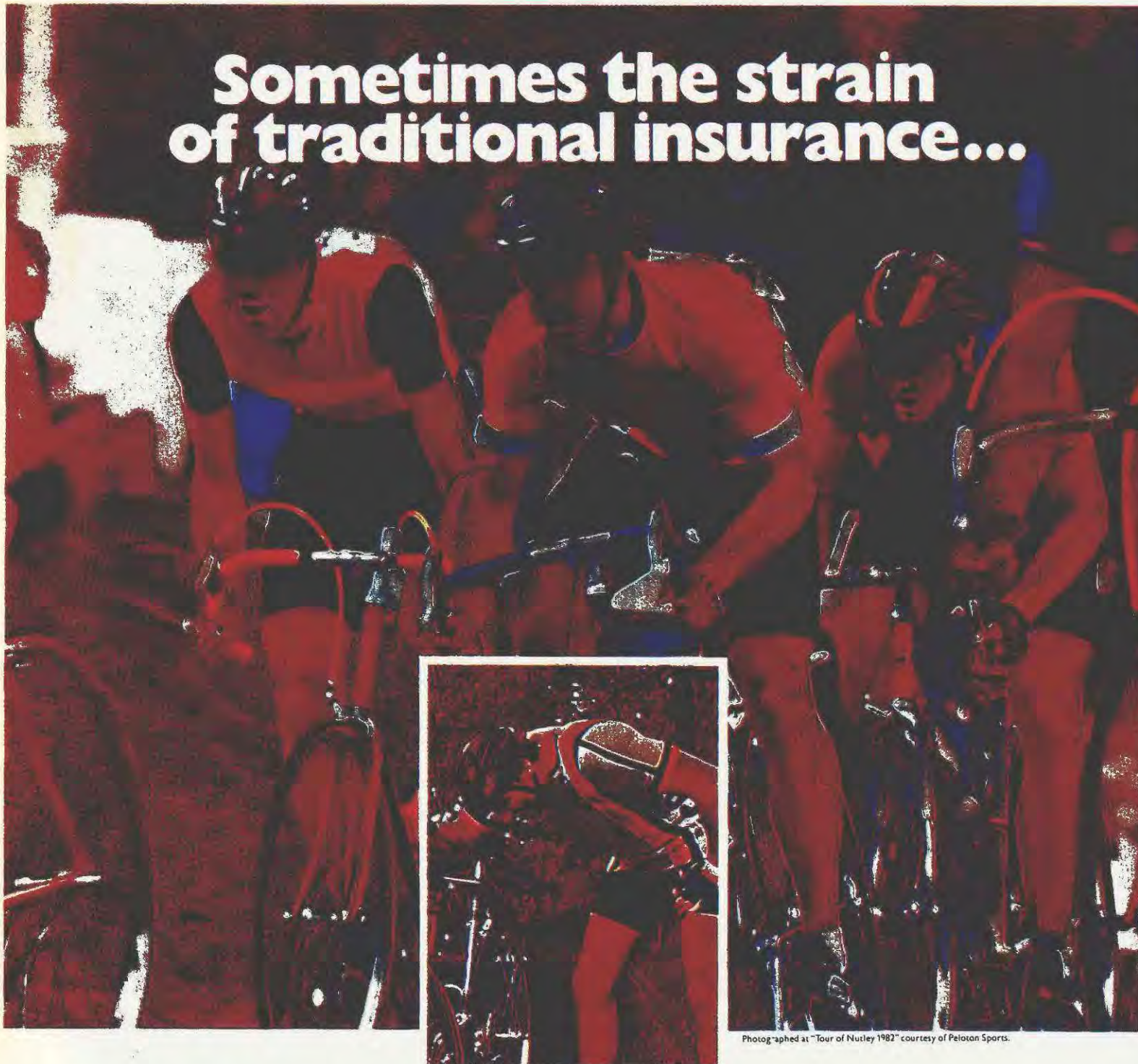
"Fed Wire is the principal medium for making wire transfers," said a Federal Reserve spokesman. "We transfer many billions and perhaps trillions of dollars a day." And most banks agree that the majority of their domestic money transfers flow over Fed Wire.

"Eighty to 90% of our work is on Fed Wire," said Dale Hatfield, vp of The Bank of California. "We use it for big-ticket items, for example, transfers of anything over \$100,000."

The major money-center banks typically subscribe to all four of these systems as well as a variety of retail-oriented EFT systems. Most have the ability to use several of the networks in tandem to complete a single transfer when necessary.

"Corporations, particularly those with international interests, will choose a bank that has the capability to handle complicated transfers," said Helene Duffy of New York-based Duffy & Duffy Inc., an EFT consulting firm for banks. "Today all large banks participate and have the capabilities for complete electronic corporate services."

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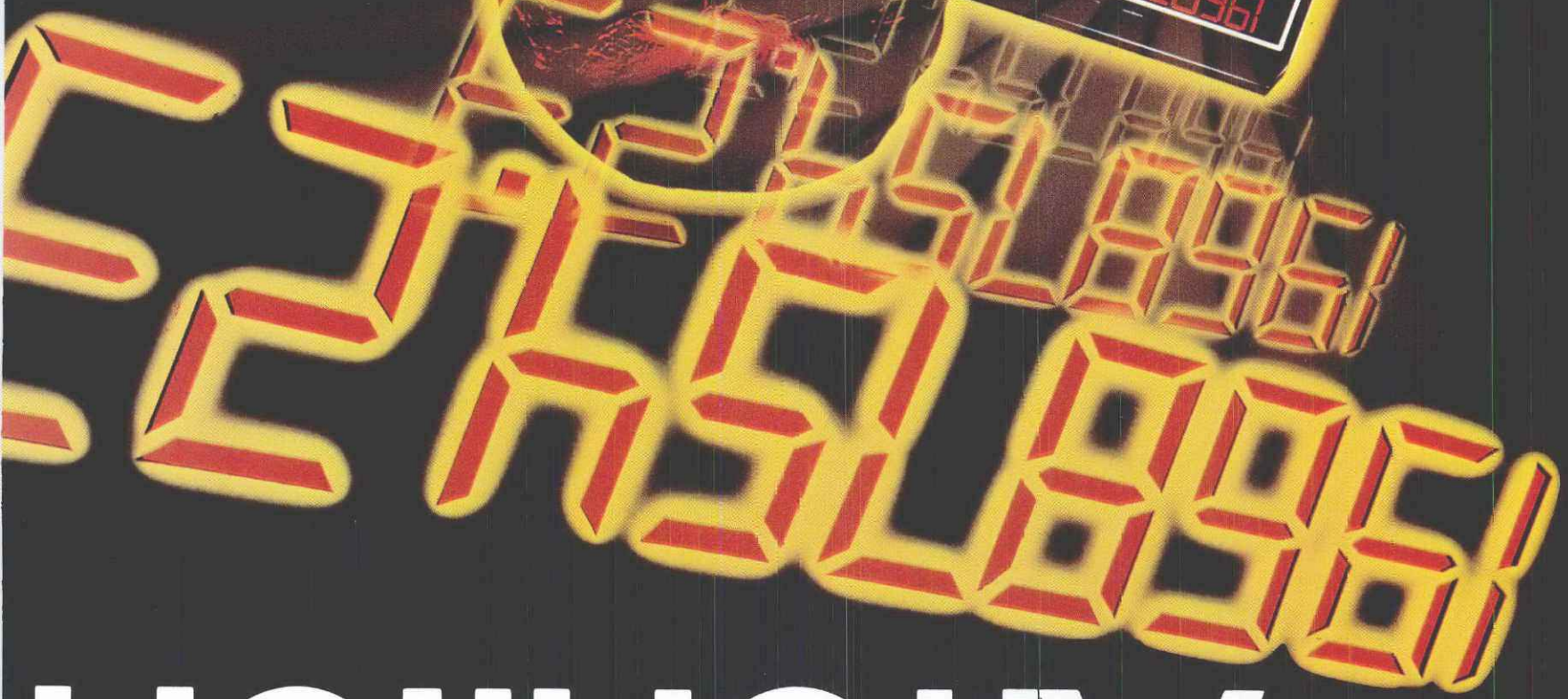
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Computer analysis lets Citibank focus its safety efforts

By BETSY SHARKEY

NEW YORK—Safer.

That's what Citibank wanted to be eight years ago when it began developing a computerized system to analyze fire and accident information and safety inspection data.

After refining its internal system, which it says has reduced insurance costs by more than \$1 million annually, Citibank now is marketing its SAFER system to corporate risk and safety managers.

One client is fully using SAFER, which was field tested by several companies.

The client using SAFER said 1982 would be the first full year the system is totally operational and that an evaluation of its effectiveness was premature at this point.

A number of other companies say they are planning to use the system when budgetary pressures ease.

"For the risk manager, SAFER will give him on a real-time basis the group causes for what's causing the company losses," said Joseph Will, assistant vp of safety and fire prevention at Citicorp. "Really, what we have built is a multiproduct work station for the safety director with safety, fire and loss-control information as close as his terminal."

The system, which can handle forecasting tasks, makes it possible to redirect internal programs based on actual loss experience.

SAFER also allows a risk manager to:

- Identify corporate entities that are incurring losses.
- Set optimum risk retention levels.
- Establish norms for loss performance.
- Track specific losses in detail.
- Analyze ratios between actual losses and reserves.

"Using the information, we have been able to apply resources to those areas where it is needed," Mr. Will said. "As a result, we have incurred lower insurance rates and received (premium) givebacks."

The system has also enabled Citibank to make wiser safety decisions.

For instance, Citibank was able to isolate a particular site that was suffering from numerous incidents of employees slipping and falling. The company responded by stepping up promotional material that emphasized care when walking, training sessions and general reminders to employees to be careful.

The result was an increase in the number of slips and falls.

"We were looking at the leading causes of injury there, instead of looking at the slips, trips and falls specifically," said Mr. Will. "When we looked more closely, they were not as significant as we thought they were. There was no consistent pattern. When we stopped the promotion, the number of falls went back down to a manageable level."

Conversely, by using the same sort of analysis, Citibank was able to isolate auto safety as an area where training, additional promotions and other incentives did decrease injuries and accidents.

They also found that auto safety was an area where injuries, although fewer in number than through trips and falls, were a more significant loss factor.

"Having the numbers—meaningful numbers—lets you see where you need to allocate

Continued on facing page



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Insurance leaders in a new age.

Continued from facing page resources," Mr. Will said.

"Then you can concentrate your resources in that area."

With more than 3,000 facilities worldwide, Citibank had been unable to handle this type of analysis before it established its computerized information system.

Citibank, the first bank to sell such a program, makes it available as part of its risk retention marketing efforts.

SAFER analysis focuses on three basic areas: injuries, inspections and fires.

Each client company establishes its own base of information, either by inputting information for the current year or by back-entering data from a previous year.

The data base is housed in Citibank's data center and SAFER clients use the computer on a time-sharing basis by means of a remote terminal that transmits information over telephone lines.

Once a company's data base is established, the system generates reports including:

- Injury and Fire Profile, a summary of loss data for the leading causes of accidents including how losses and premium costs can be reduced.

- Top 10 Causes Bar Graph, which graphically compares the most frequent causes of injuries and/or fires during any two given periods.

- Detail Report, which instantly provides all information pertaining to injuries, fires and inspection results for any location.

- OSHA 200 Log, which supplies all necessary records in accordance with Occupational Safety and Health Administration requirements.

- Safety Inspection Report, which highlights all unsatisfactory safety conditions.

- Site Profile Sheet, which outlines the complete safety status of any company location and/or department.

- Annual Corporate Safety Report, which provides complete safety summaries and analyses for the year for any and all company locations.

"The system has a lot of sophisticated reporting, predictions and chart making, but it also has some very easy-to-understand things that have some relevancy to top management that they can bite off and chew," said Mr. Will. "For example, it will give you information like, 'This division sustained one injury for every X number of employees.'

"So management can look at it and see that last year you had one injury for every 10 employees and this year you have one injury for every eight employees."

Access to a company's data base is controlled by a password system established by the individual company, according to Mr. Will. The data, once generated, belongs to the company and can be removed from the SAFER system at any time.

There is an annual subscription fee of \$3,000, with the yearly time-sharing costs for typical usage estimated to range between \$8,000 and \$12,000.

"We have been marketing it on a part-time basis since early 1981," said Frank Dunn, coordinator of Citibank's captive insurance task force. "The customer base is limited. I think the major problem with the bank offering SAFER is that we're not perceived as a provider of safety reporting systems."



The SAFER system can help reduce the number and severity of injuries at a production facility.

Financial services topic of discussion

WASHINGTON—A panel discussion on the changing U.S. financial services market will be one of the features at the 1982 Capital "I" Day to be held Oct. 20 in Arlington, Va.

A discussion of the new Washington, D.C., workers compensation law will also be featured at the event, to be held at the Pentagon City Quality Inn.

For more information contact Brandon Rohr, Morgan & Cheves 705 Prince St., Alexandria, Va. ■

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Banks consider insurance business

Continued from page 11

If they wanted to, banks could quickly become a major provider of captive and self-insurance feasibility studies and other analyses, Mr. Davis and Mr. Hines agree. Banks employ people well-armed with the know-how to do that.

Although federal bank regulations sharply restrict the sale and underwriting of insurance by banks, there is nothing in the law to prevent banks from offering a broad spectrum of consulting and

other risk treatment services (see story, page 51).

So far, Citibank, Bankers Trust Co. of New York and various other U.S. banks have confined their self-insurance services largely to cash management, issuing of letters of credit and captive insurance company portfolio management—all functions more or less within the purview of traditional banking.

But there are indications that some U.S. banks are seriously considering, if not actively planning,

entry into the asset protection and insurance business.

Mr. Davis says he knows of one New York bank that expects financial services for risk management departments to be "a strong factor" within three years.

An independent consultant is preparing a study for a bank client interested in offering financial services for corporate risk management departments. Because work is in progress, he asked not to be identified.

The financial and insurance considerations within a corporation are drawing more closely together as corporations move from insuring their risks to self-funding them, points out a senior executive of Marsh & McLennan Inc. in New York. More risk managers are emerging from the financial side of the corporation.

This trend, which most insurance industry experts expect to continue, points to a higher profile for banks in a corporation's risk treat-

ment program.

The tight relationship that banks often enjoy with their corporate clients potentially opens a direct line into the risk management department, especially if the risk manager works closely with the treasurer or chief financial officer.

There's no doubt that some banks are thinking about insurance-related activities, says Dick Stewart, president of Stewart Economics Inc., a New York-based consulting firm specializing in property/casualty insurance. There's nothing magical about the way banks look at it, he adds.

"If you were a bank looking to take part in the insurance function, you would probably first break down risk management and compare it to what the bank already does," he points out. That means investments, payments, analytical reporting and collections—all traditional bank functions with a clear application to self-insurance services.

This breakdown parallels the same unbundling of services that insurance companies, brokers and other vendors have undertaken in recent years, he points out.

Unbundling services makes possible for businesses, including banks, to analyze their services and consider unfamiliar applications like risk management. Mental ba-

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Mr. Stewart

riers to expansion in these financial institutions crumble quickly on such analyses begin.

Businesses start to think of themselves as independent of their labels as banks, securities underwriters or insurance companies. American Express Co., for example, views itself as a vast distribution network for a wide range of financial services—not just credit cards.

"People, being human and not knowing each other's business tend to think that everybody else's business is easier to conduct successfully than their own," adds Mr. Stewart.

Some observers of the topsy-turvy financial services scene believe that full-blown bank involvement in risk management is contingent upon deregulation to permit banks to sell insurance. If a bank sets up a self-funding program, it might like to sell comparison excess insurance, for example. The largest banks might even like to assume the risk.

Although some bank holding companies are keenly interested in insurance as an area of expansion it is hardly a high priority.

Banks are more worried about competition from money market funds that are draining off core deposits. They want Congress to give them authority to offer more market funds and to underwrite municipal revenue bonds. A bill before Congress would grant such powers but virtually ban insurance

Continued on page 40

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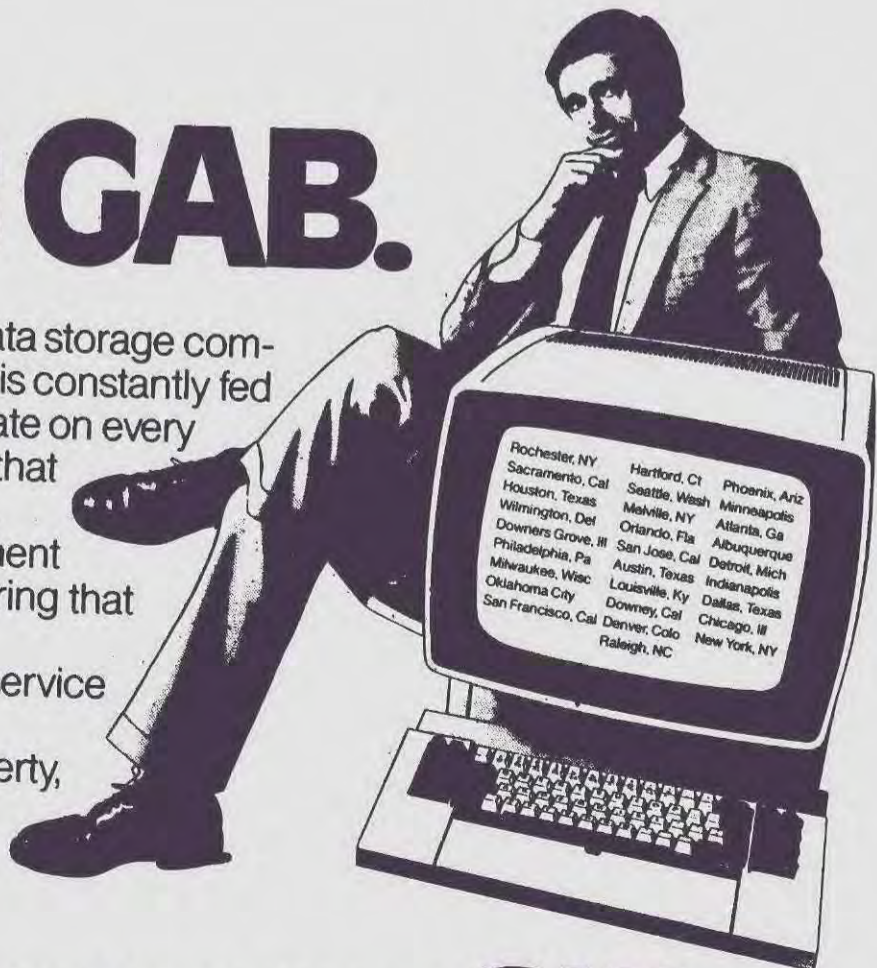
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The state of the art of claims management. GAB

Insurance market could get new players



Mr. Hines

Continued from page 36
sales by banks.

"Insurance is not a battle worth fighting, compared with others right now," believes Mr. Morgan of Golembe Associates.

Banks are fighting a rearguard action to prevent further restrictions on insurance, but it is not a legislative priority.

"If the big banks were to start selling insurance—and it makes an awful lot of sense for them to do that—they will raid the insurance industry for top brokers," predicts Mr. Davis of Carron & Black.

Advanced Risk Management Services recently prepared a feasibility report for a regional bank holding company interested in selling insurance, he adds. The study was authorized by the chief executive who had come from another

bank company that sold insurance under a grandfather clause.

Insurance companies generally feel less threatened than agents and brokers by the specter of bank involvement in the industry since insurers view banks as efficient distribution outlets for their products and services.

"We've had some tentative approaches from banks," reports Jack Morrison, senior executive VP at the Insurance Co. of North America. "We look at them on an individual basis, but we are very conscious of our agents' concerns."

Mr. Morrison does not believe large corporate clients would find banks attractive as a source of insurance. Small business customers might find it convenient to purchase property/casualty insurance from the bank, however.

"We are not aware of banks as competitors for risk management services," adds Mr. Morrison. INA has offered self-insurance services, including fronting arrangements for captives, claims administration and statistical analysis for six years.

"I am not aware of any bank selling risk management services," says Joseph Smetana, president of AIG Risk Management. Banks offer portfolio management and maintain trust accounts for self-insurance funds, but those are traditional bank functions, he says.

The services provided by insurers, brokers and independent consultants are quite different, he explains. They involve risk decisions, like claims adjustment, loss prevention and engineering and setting of risk retention levels. ■

Opposition stalls Missouri banks' efforts

By RHONDA L. RUNDLE

KANSAS CITY, Mo.—Insurance agents and brokers, who fear losing business to one-stop financial supermarkets, are at every turn fighting banks selling insurance.

Two Missouri bank holding companies that want to sell property/casualty insurance to their customers so far have been stalled by tough opposition from the Independent Insurance Agents of America and the Independent Insurance Agents of Missouri.

The Federal Reserve Board is the arena for this round of the insurance agents' concerted effort to block banks from selling insurance.

To set up an insurance agency, bank holding companies must obtain permission from the Federal Reserve Board under section 4(c)8 of the Bank Holding Company Act of 1956 as amended in 1970.

Even if Congress passes a bill to prohibit new insurance business by bank holding companies, pending applications probably will be swept into grandfather provisions or exemptions that permit existing activities to continue (see story, page 51).

The proposals of Commerce Bancshares in Kansas City and of Mercantile Bancorporation Inc. in St. Louis to sell insurance illuminate why some bank holding companies want to be in the business and why insurance agents oppose it. The applications are entirely separate, but raise many of the same questions and require similar administrative treatment by the Federal Reserve Board.

Mercantile Bancorporation is the second-largest banking institution in Missouri with 55 locations in the state. Commerce Bancshares is the third-largest Missouri banking organization and operates 38 banking subsidiaries and two non-banking units out of more than 70 offices.

Both bank holding companies want authority to sell a broad spectrum of personal and commercial lines of insurance that are closely related to traditional banking functions. This includes physical damage insurance for property held as collateral for a loan and liability insurance and other coverages commonly marketed as part of an insurance package.

Hundreds of bank holding companies already own subsidiary companies that sell or underwrite credit-related insurance. Others have received permission to sell property/casualty insurance, according to a Federal Reserve spokesperson.

But no one knows exactly how many banks currently sell insurance because the Federal Reserve does not keep aggregate records on the number of 4(c)8 applications received or approved by its 12 district banks. Some banks' insurance activities preceded legislation that established the application procedures.

Credit-related insurance required by banks to protect their loan in the event of the death or disability of the borrower is the most common type of coverage sold by bank holding companies. This is the only insurance product that bank holding companies are permitted to underwrite as well as sell.

Proposals by bank holding companies to set up an insurance agency, or to expand existing business beyond credit-related transactions, have met with persistent opposition from insurance agent trade groups. They argue that adverse effects of such sales outweigh the benefits to individual and business

Continued on page 50



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perspective

By Harry L. Shuford

THE CAPTIVES

Taxes, other alternatives can't stop movement

THE CARNATION CASE. Association programs. Soft markets. Profit centers. Surplus relief. The cap is off captive insurance.

In times past, captive insurance was perceived to be little more than a special form of self-insurance. Today, it has become an integral part of worldwide insurance underwriting capacity.

No more than three years ago, an article appeared on captives (*BI*, Jan. 7, 1980) extolling the virtues of financial planning. The primary objective was controlling the risks in captive insurance. As a consequence of recent developments, this industry's needs have moved well beyond those outlined in that earlier article.

Very few single-parent captives have been established in recent years. In part, this reflects a reluctance of U.S. corporations to tangle with the Internal Revenue Service.

To a greater extent, however, the market currently offers alternatives that are financially equal or superior to the captive solution. It has been argued by observers, such as in the Sept. 25 issue of *The Economist*, that some options, like paid-loss retros, are no more acceptable to the IRS than captives are.

Many existing single-owner captives have chosen to enter the international reinsurance markets. To some degree, the objective is to generate a volume of unrelated business to establish a shifting of risk sufficient to protect the current deductibility of related premiums. This is

not the whole story, however.

From a financial perspective, many captive parents are confronted with a dilemma. The subsidiary has accumulated redundant surplus and yet, given the condition of the U.S. economy, the anticipated return on investment in the parent's traditional activities is relatively unattractive. There is reason to believe that this capital could be used more effectively to support a modest but growing book of international reinsurance.

In spite of the limited growth of single-parent captives, the captive movement itself continues unabated. The current expansion is centered on the so-called group or association captive. Numerous authors have commented on

the reasons underlying this phenomenon, so there is no need to repeat them here.

In general, group captives can be identified with one of two characteristic organizational forms. Stock chartered companies typically consist of a small number, 15 to 35, of moderate to large owner/insureds. In most cases, all owners sit on the board of directors and share in the control of the company. In some cases, the captive may provide coverage to smaller, non-owner industry members.

If an industry or association program is designed to cover a large number of participants, the captive will normally be chartered as a mutual. In this case, the bond between the insured and the captive is less direct and frequently less strong since policyholders often fail to perceive

their ownership interest.

There is a common element in these three breeds of captive. They are active participants in the insurance marketplace. They are insurance companies, and they must be managed as such.

Unfortunately, most captive management companies really do not manage; they administer. Cash is collected and dispersed; bookkeeping is performed and financial statements are prepared; reinsurance protection may be established. Modern captive programs often need much more.

As captives begin to provide more diverse, multiline coverage to a larger number of insureds, they need to establish procedures for handling daily transactions. Insurance programs covering a large number of group members eventually will benefit from a version of a managing general agency system.

On the policy side, this system should handle rating, quotations, policy issuance and endorsements. The policy data base can provide information to serve a variety of needs like expiration/renewal reports and market penetration analyses. A claims register is useful for evaluating renewals and for underwriting classes of insureds by linking premiums to loss experience.

A comparable need exists for single-parent profit-center captives. Here, however, the focus is on unrelated reinsurance business. The traditional accounting/bookkeeping function should be extended to become a reinsurance treaty information system. It generally is

Continued on next page

By M. Moshe Porat

Direct retention plans not necessarily the same

A FREQUENT VIEW of captive insurance companies is as formalized self-insurance programs. The Internal Revenue Service in its 1972 instructions to its agents quoted others in stating that a captive is "a vehicle for formalizing self-insurance." Some even generalize by saying that a captive is "a risk management program of formalized retention."

Such views suggest that a captive is an ultimate form of any direct (self-insurance) retention program. Therefore, one may think that formation of captive insurers is a kind of substitute for existing direct retention programs like formal funded plans, retro plans, full retention of some coverage or other types of retention.

It is known, though, that some direct retention programs can be, in a technical sense, alternatives to captives and are promulgated as such. Also, some organizations use direct retention programs besides operating a captive.

The idea that captives are a substitute for direct retention programs was tested by posing a question to 148 operators of offshore captives who have been operating 204 captives regarding their direct retention programs.

Table 1 summarizes their responses, comparing the situation of having a direct retention program prior to the captive's formation with the current situation of operating offshore captives.

Notably more respondents, 121, reported that they currently have some kind of direct retention program than those who

reported such retention existed prior to the formation of the captives, 105. This increase by more than 15% not only rejects the theory that captives are a substitute for direct retention programs, but suggests that captives may even encourage them.

Therefore, out of 148 respondents, 81.8% used some form of direct retention.

Table 2 (see page 46) shows the numbers of those who used direct retention programs before and after formation of a

captive, 99; those who used direct retention programs before, but not after formation of a captive, six; those who never used direct retention programs, 21; and those that did not use, but started using direct retention programs after captive formation, 22.

Based on this survey, therefore, it can be argued that the chance that captive formation encourages utilization of other direct retention techniques is about 50%,

while the chance that formation of a captive discourages using other retention techniques is only about 6%.

The results tabulated in Table 1 indicate that use of deductibles was increased by 20% after forming a captive, but use of formal retention and retroactive rating system plans was reduced by about 25%. This suggests that captive owners use deductibles more frequently, and often in even larger amounts, than before they formed the captive. The other two forms of retention, full direct retention of a complete risk and retention of a first layer below the excess coverage assumed by the captive, indicate relatively extensive use of these forms by the parents of captives. This may be due to the additional knowledge and experience the parent gains by performing feasibility studies associated with captives and the actual operation of the captive.

This conclusion is supported by the fact that the majority of the operators reported that only portions of risks (a median of 36% and an average of 43%) are assumed by their captive. Thus, they use this additional knowledge in utilizing more retentions and continued coverage with insurers or reinsurers at better terms.

Among the coverages specified as retained in full, the most common was automobile physical damage, followed by workers compensation, errors and omissions, political risks, crime and loss of profits. Among other types of retention plans, various versions of rating methods and trusts also were mentioned.

Further investigation into the relationship between captive operators, in

Continued on next page

Table 1
Direct retention programs

Category	Before captive's formation		After captive's formation	
	Number of responses	%	Number of responses	%
Deductibles	80	58.4%	96	43.2%
Formal funded plans	44	32.1%	33	14.9%
Retro plans	10	7.3%	3	1.3%
Full retention of some coverages	-	-	47	21.2%
As layer prior to captive's retention*	-	-	38	17.1%
Other	3	2.2%	5	2.3%
Total	137	100.0%	222	100.0%
Any form of direct retention**	105	76.6%	121	81.8%

*Distinguished from deductibles by being associated with captive only as part of a program.

**Out of 148 respondents.

perspective

Association captives keep growing

Continued from previous page
not difficult for a risk manager to monitor a related book of business. The headaches of trying to track a growing book of international reinsurance can be powerful.

Similarly, cash-flow administration must be augmented by professional investment portfolio management, particularly as the cash flow needs of growing captives become more complex and interest rate relationships begin to change.

On a less-frequent basis, say annually, there is a need to review a captive's financial progress and to re-evaluate its future. Strategic planning may deal with relatively straightforward questions of declaring a dividend. Or it may consider

the question of entering the U.S. markets by becoming an admitted reinsurer. Frequently, the process is aided by generating projected proforma financial results for various strategies and scenarios.

Closely related to this annual review is the need for a solid actuarial analysis of reserves. This study should not only look at the level of liabilities and hence, surplus, but also should examine cash flow related to loss payments. A forecast of future losses generated by new business is also useful. It is an integral part of profit planning.

On an intermediate basis, say quarterly or monthly, captive management must examine the cumulative effect of daily

operations in terms of long-term goals. Budget variance reports should compare actual financial results with those projected as part of the profit plan. Cash flows and reported claims are of particular concern. Additional controls may be implemented in the claims management area using a claims information reporting system to restructure and summarize loss runs. Moreover, for multiline, multiyear programs it often is useful to link this analysis to updated actuarial projections on reported and paid claims.

The critical problem in running any insurance company is to earn an adequate return on surplus. If this could be done only from underwriting results, that

would be fine. However, the insurance marketplace has rendered this largely impossible. Thus, company management must strive to achieve an acceptable balance between underwriting and investment operations. Modern techniques of financial management and control will play an ever-increasing role in reaching and maintaining this balance. ■

Dr. Harry L. Shuford is senior vp of the financial research and planning division at Fred S. James & Co. Inc. in New York.



Captives may encourage direct retention

Continued from previous page

addition to direct retention programs and parent company characteristics, reveals that larger parents in terms of revenue and industrial companies, mainly manufacturers, are more likely to have direct retention plans than smaller parents and non-industrial concerns.

Parents with exposures in the United States and in foreign countries are more likely to have direct retention plans than those with solely domestic or foreign exposures.

It also appears that the larger the captive in terms of net premiums, the more likely the parent has a direct retention program.

Some direct retention plans were found to be relatively more common in particular types of industries or associations with certain types of coverages, mostly written by the captive. Deductibles, formal funded plans, retro and full retention plans tend to be utilized more often in industrial parent companies like construction, manufacturing and transportation than among other companies, like retail or services.

More specifically, the deductible method is used more often by parents operating

Table 2 Direct risk retention	
Before	After
<div style="border: 1px solid black; width: 80%; margin: 0 auto; padding: 5px;"> <p style="text-align: center; font-weight: bold; font-size: 1.2em;">105 Retained risk</p> </div>	<div style="font-size: 2em; margin: 0 auto;">→</div> <p style="margin: 0 auto;">Captive formed</p>
<div style="border: 1px solid black; width: 80%; margin: 0 auto; padding: 5px;"> <p style="text-align: center; font-weight: bold; font-size: 1.2em;">43 No retained risk</p> </div>	
	<div style="border: 1px solid black; width: 80%; margin: 0 auto; padding: 5px;"> <p style="text-align: center; font-weight: bold; font-size: 1.2em;">99 Retained risk</p> </div>
	<div style="border: 1px solid black; width: 80%; margin: 0 auto; padding: 5px;"> <p style="text-align: center; font-weight: bold; font-size: 1.2em;">6 Stopped retaining</p> </div>
	<div style="border: 1px solid black; width: 80%; margin: 0 auto; padding: 5px;"> <p style="text-align: center; font-weight: bold; font-size: 1.2em;">22 Started retaining</p> </div>
	<div style="border: 1px solid black; width: 80%; margin: 0 auto; padding: 5px;"> <p style="text-align: center; font-weight: bold; font-size: 1.2em;">21 Never retained</p> </div>

large-sized captives that underwrite mostly automobile and product liability coverage.

The analysis pointed toward an extensive utilization, nearly 82%, of various

forms of direct retention programs among companies operating captives.

It appears that deductibles are the most common form of direct retention programs. When the categories of "deduct-

ibles" and "first layer" are combined, these forms were reported in more than 60% of the responses. Deductibles were the only form of direct retention plans that have been increased in usage after the formation of a captive.

The analysis clearly pointed out that captives do not substitute for direct retention, or self-insurance, programs. If anything, they are likely to encourage formation of a direct retention plan. The increase in knowledge of risk management methods, at the feasibility study stages, and the experience gained from operating a captive are factors that influence increased use of direct retention programs by the parent company, in addition to the captive operations. ■

Dr. M. Moshe Porat is assistant professor of insurance and risk at Temple University's School of Business Administration in Philadelphia. This article is excerpted from sections of Dr. Porat's dissertation.



Court rules comp law discriminates against men

DISPARATE treatment afforded unmarried fathers by Oregon's workers compensation law did not have a substantial relationship to a legitimate government objective, according to the Court of Appeals of that state. The court held the statute unconstitutional because it discriminated against unmarried fathers on a basis of sex.

An unmarried woman who lived with an unmarried man for more than one year and who had children in that time was given the right to receive workers compensation under the Oregon law in the event of an accidental injury to the man. No benefits, however, were accorded to an unmarried man in the same situation.

Floyd Hewitt had lived with Marian Williams. They had a child. Ms. Williams died from a compensable industrial accident. Although the child received benefits, Mr. Hewitt was denied benefits.

The appellate court concluded that the "denigration of a female worker's

legal briefs

contributions" was not a benign discrimination. The statute, it said, discounts a female's family contribution and deprives them of benefits when those benefits are available to a male worker's family. *Matter of Compensation of Williams, Court of Appeals of Oregon, Oct. 26, 1981 (BI/01/Au.-\$5).*

Mistaken life payment

A federal appellate court in Missouri ruled that an insurer was entitled to recover benefits it mistakenly paid under a policy to the wrong beneficiary after it was required to pay the correct one.

Mr. Woods was covered under a group life policy issued to his employer by Metropolitan Life Insurance Co. He enrolled in the plan in 1964 when he was

married to Jeanne and designated her as beneficiary. Later, they were divorced. Under the settlement terms, Jeanne was to remain the designated beneficiary. Mr. Woods' employer knew of the provision. After the divorce in 1971, Mr. Woods married Roberta. In 1975, in violation of the settlement, he purported to designate Roberta as the sole beneficiary.

Mr. Woods died in 1978. Roberta filed a claim for benefits with his employer. The claim was processed with the 1975 information, and through the employer, Metropolitan paid Roberta \$116,000. She invested the funds. Jeanne sued Metropolitan; then the insurer sued Roberta for restitution if it was found liable to Jeanne. The court held Metropolitan was liable to Jeanne, but it could not recover from Roberta.

On appeal, Metropolitan argued that it should not have to pay both women. The federal appellate court, looking to Missouri where the case arose, said the courts there put emphasis on whether or not the payee had relied on retention of the payment received. Here, the court said, equity favored a holding for Metropolitan, otherwise Roberta would receive a windfall. The court said she was not entitled to the policy proceeds nor had she in any way relied upon the policy. *Woods vs. Metropolitan Life Insurance Co., U.S. Court of Appeals for the 8th Circuit, Dec. 2, 1981 (BI/02/Au.-\$5).* ■

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

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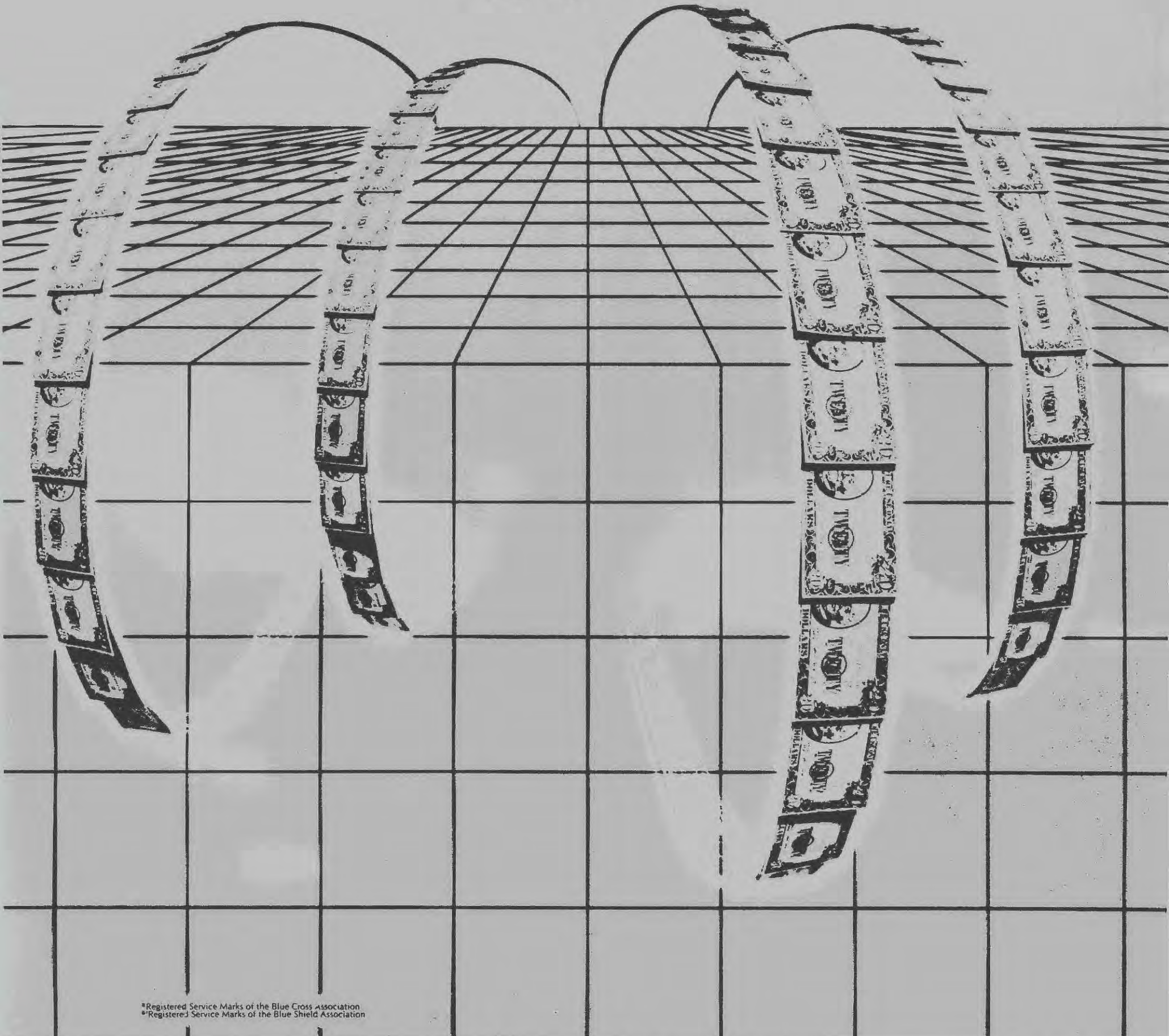
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Revision enlivens insurance text

By Dorothy Parr Snowden

"Property and Liability Insurance"
By S.S. Huebner, Kenneth Black Jr.
and Robert S. Cline
Prentice-Hall Inc., Englewood Cliffs,
N.J. 07632
630 pages; \$24.95

When is a textbook more than a textbook?

When it is thoroughly revised for property/liability professionals in this increasingly sophisticated arena, yet retains the principles set forth in a landmark volume written by a pioneer professor of insurance.

Written primarily for advanced students and agents and brokers just entering or re-entering the field, here is an invitation to refresh your perceptions and find updated information in specific areas of property and liability insurance coverage.

The complexities of property/liability insurance—including its development, functions, exposures and coverages—march by in orderly fashion, preceded by a fanfare of introductory material on risk, loss prevention and the structure of American insurance.

books & ideas



The latter section is an acknowledgement of the importance this reference work has been accorded in university curricula outside the United States and a recognition of American insurers' increasing expertise in this field.

Not to be confused with an introductory text, this handy resource touches on themes of major interest in today's fast-paced property/liability track. Major topics include fire, marine and business interruption, plus other forms of property exposures. Special liabilities, workers compensation and multiple lines also receive attention.

Management and regulations are briefly

considered while underwriting, claims administration and ratemaking are given introductory nods.

Among the more significant updates:

- Substitution of the word "liability" in all discussions pertaining to what earlier editions referred to as "casualty insurance."
- Multiple lines coverages: residential, commercial, auto and aviation.
- Functions of loss control: prevention, minimization, adjustment and settlement.
- Mechanics of state regulations: incorporation and taxation of insurers and the classes of insurance they sell; rating bureaus; and how regulations affect agents

and brokers.

The concise bibliographies will encourage professionals and students alike to burrow more deeply into the specifics of property exposures.

All this and more is in a handy third edition of a textbook by S.S. Huebner, long associated with the Wharton School at the University of Pennsylvania, which honored him with the title of late emeritus professor of insurance.

Co-authors Kenneth Black Jr. and Robert Cline are also highly respected in insurance academia. Mr. Cline is professor of insurance at the School of Business at the University of North Carolina at Greensboro. Mr. Black, regents professor of insurance at the College of Business Administration at Georgia State University, is consulting editor of the Prentice-Hall Series in Security and Insurance.

The preface of the book begins with a curiously confessional tone: they "regret that the many changes in the business, even in the marine insurance field, have made it necessary to revise every part of the book."

Dorothy Parr Snowden is the proofreader at Business Insurance.

Changes and challenges in store for actuaries

By Anna M. Rappaport

SINCE I STARTED in the actuarial profession, I have realized we must learn to cope with change and become more open to changes. I also have learned that changes occur in areas where they are not expected, so we need to watch for signs of change and anticipate how we will react to those changes.

Some of the changes I have seen in the institutions and practices of the actuary include:

- Computers now make calculations with ease and a low cost that actuaries considered practically impossible in 1959. Even the smallest companies now have access to computer facilities.
- Giant financial service organizations have emerged. They offer a wide variety of products to their customers. Sears, Roebuck & Co., American Express and Prudential Insurance Co. of America are among many vying for the personal financial services market.
- Life insurance premium rates have dropped to levels not imagined by actuaries in 1960. Products that then were considered so radical as to be unthinkable are commonplace today.
- Companies offering products and services to employers have adopted a posture of offering a smorgasbord of services, and a willingness to custom-tailor to the needs and desires of the customers. To make matters even more complicated for the insurers, their customers have often hired their own actuaries to assist them in obtaining the best arrangements for their money.
- Generally accepted accounting practices for financial reporting were introduced for stock life insurance companies.
- Many companies, particularly those stock companies, have started producing monthly financial statements and have developed elaborate financial plans.
- The market values of investment portfolios containing large numbers of bonds have dropped substantially below amortized values, so that statutory

financial statements that once could have been described as conservative can no longer be characterized that way.

- Brokers have been transformed and reconstructed into consultants, from being salespeople. Consulting firms in the employee benefits area today employ a wide variety of specialists including actuaries, health care experts, claims consultants, lawyers and other professionals. Employee benefit consultants have expanded their practices to include total compensation planning, retirement planning, employee communications and, in some cases, broad-based human resource consulting.
- There has been a very significant increase in the regulation of employee benefits on both the state and federal levels.

Change was sometimes painful for the actuaries and those institutions where they were employed. It still can be. The actuary, responsible for the security of the plan participant or policyholder, was often conservative and may have been viewed as inflexible by his peers. The environment changed and those changes virtually forced adaptation, but it was not an easy transition.

Our challenge today is to mold our tools and our attitudes so that we can respond better and faster. Our challenge is to educate new members of the profession who are prepared for uncertainty and who have the tools to cope with changes as they emerge.

The role of the actuarial professional can be defined in two parts.

First, the actuary is the person responsible for establishing the level of funding needed to preserve the integrity of a financial security system. The second role relates to the design of financial security systems so that plans and programs respond well to the needs of the people they are to serve.

The environment of the 1980s will make those roles more difficult than they have been in the time since I started to practice.

For instance, interest rates are very high today; we have seen high levels of inflation in the United States in the past decade. The economic future is uncertain.

Our security systems are designed to work best for the heads of traditional families, but fewer than one in five American workers are the heads of families that fit this model.

Fixed-dollar security protection has not really delivered the security that the purchaser expected.

American workers save less than workers in many other countries and government policy has served to discourage saving.

The basic needs of the population are changing job security. The need to develop new skills as technology changes is emerging as major new priority.

We all need to work together to meet these challenges, and to help the actuarial profession address them.

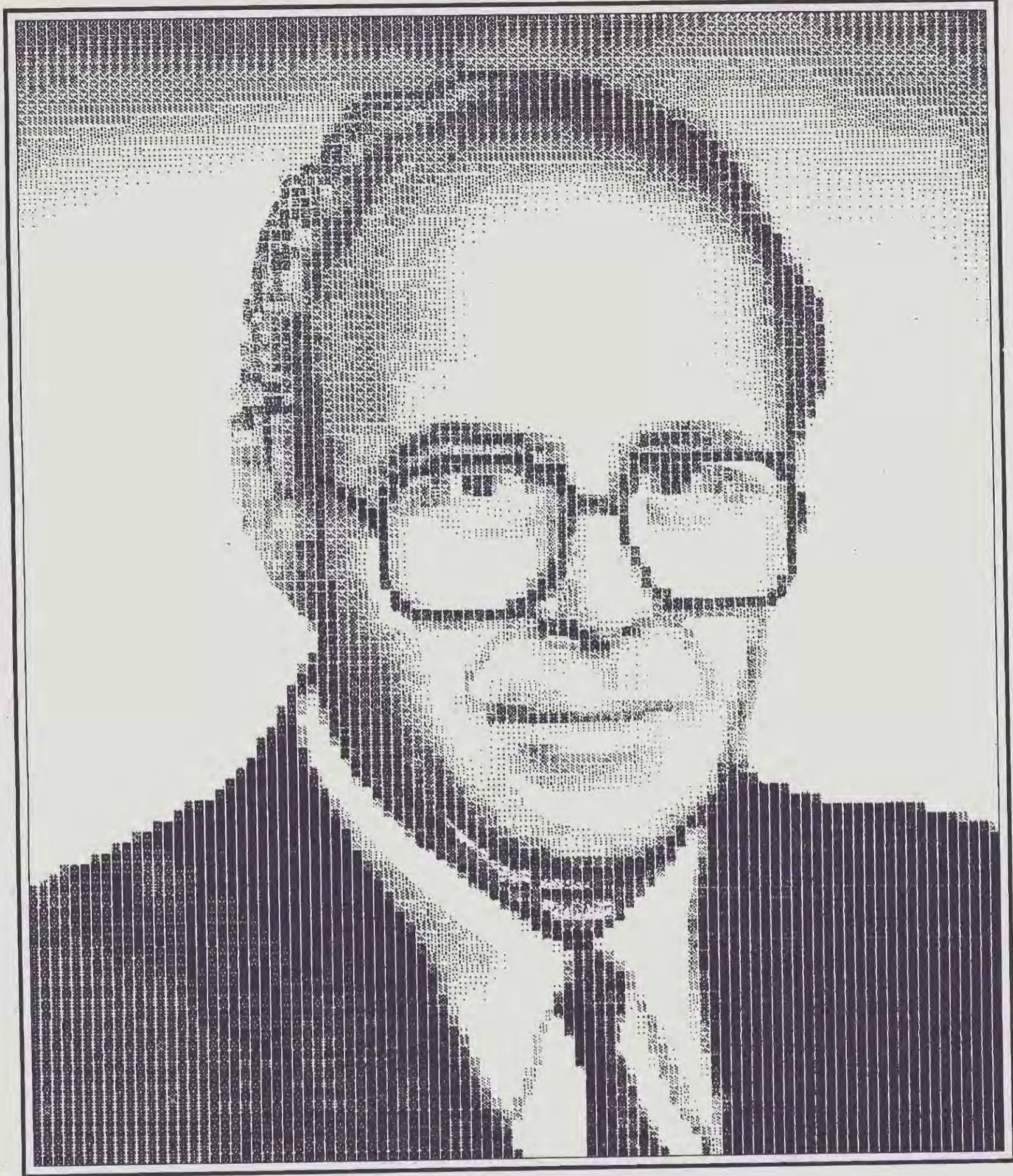
The society of actuaries has also responded to these issues with a continuing education program, recognition of specialized interests and long-range planning.

Does this mean we can be satisfied because all is in order?

No, I do not believe it does. We need to look at the systems we are working with and the lives of the people they serve. We must examine the systems critically to see if they are doing the jobs for which they were intended. When they are not, we need to have courage to explore new ideas and to improve those systems.

As a profession, we need to look at our research and educational systems and the demands that are placed on our members. We must be willing to identify any weaknesses and to build on what we have in place. The future offers promise, opportunity and challenge.

Anna M. Rappaport is a principal and senior consultant for William M. Mercer Inc. in Chicago. This speech was delivered to the Actuaries Club of New York in June.



— "WHEN IT COMES TO
FAST, ACCURATE PAPER FLOW,
THERE'S NO PLACE LIKE HOME" —

Peter Wolfe spent 27 years with Citibank, primarily in domestic and overseas processing operations. His last assignment was as Senior Vice President and Division Head of International Operations and Systems before joining The Home as Senior Vice President, Operations Management.

"One of the things that attracted me to The Home is that it is on the verge of completely changing the infrastructure of the insurance business.

Right now, we have one of the most advanced "on-line" computer systems available and are in the process of automating all our major product lines.

My role comes at the point of implementation. We're responsible for training our people in how best to utilize these production and paper processing systems.

Internally, that means making a smooth transition from manual processing to computers. Externally, it means providing our agents with direct access to computers, and eventually, decentralizing the system to put more and more computer power as close to transaction initiation and to the customer as possible.

This concept makes our systems more responsive, so we can make improvements based on what our field managers tell us are their agents' needs and product requirements.

In addition to a more timely, higher quality product, our agents will also get more timely, higher quality service and more efficient claims processing. For example, if other companies can process a claim in 10 days, The Home can do it in 5 days. This will

create a positive impression with the insured and means our agent will be likely to increase business with The Home.

The Home's \$4.5 billion in assets represents significant financial resources and strength and helps support our efforts to expedite changes in processing and quality controls, automated policy systems implementation and electronic office automation. At The Home, that's proactive change. I think we're going to be leaders in this business very, very shortly."

**THE HOME
INSURANCE
COMPANY**

City Investing Company



Agents try to block bank insurance sales

Continued from page 40
insurance consumers.

"We have fought tooth and fang against it," confirms Thomas E. Wilson, counsel for the IIAA in Washington, D.C.

Mr. Wilson is well-known to attorneys at the Federal Reserve Board.

"Insurance sales is the most litigated non-banking activity proposed by banks," observes Richard Whiting, senior attorney with the Federal Reserve Board.

Many bank holding company applications have been approved despite IIAA objections, but the IIAA's stubborn efforts to derail such proposals have taken their toll. Bank holding companies must think long and hard about potential gains from insurance sales before

Banks selling insurance create an enormous potential for unfair competition, opponents of the practice argue.

committing management time and legal costs to the battle.

Commerce Bancshares Inc. had filed an application several years ago but decided to withdraw it shortly afterward rather than fight the agents' protest, reports John R. Coffin, an attorney with the bank holding company.

The incentive to persevere is stronger since a competitor, Centre Bancorporation in St. Louis, obtained approval for property insurance sales in 1980. Commerce

wants to provide "one-stop lending and insurance services" as a convenience to bank customers.

"The availability of an insurance agent at the bank where a credit transaction is being negotiated, who is employed by the bank, will provide the customer with experienced advice as to both the financial and insurance aspects of the transaction and how they relate to each other," explains Mercantile Bancorporation in its application.

Although Mercantile and Com-

merce both say their immediate intention is to market insurance to individuals rather than businesses, their applications are sufficiently broad to permit sales of commercial lines as well.

Banks selling insurance create an enormous potential for unfair competition and markedly higher prices for insurance consumers, opponents of the practice argue. Banks could tie sales of insurance to extensions of credit: No insurance purchase, no loan.

Even if banks scrupulously avoid such tie-ins, their customers may perceive such a link, the argument goes. The bank's requirement of insurance to cover collateral could easily be interpreted as a requirement to purchase that coverage

directly from the bank.

This confusion is more likely when the loan officer is also selling the insurance. Commerce Bancshares' application, for example, proposes that loan officers sell insurance to customers on behalf of the bank holding company's insurance agency subsidiary.

The bank's business clientele is presumably more sophisticated but nonetheless vulnerable to tie-in sales, declares Mr. Wilson.

Imagine a building contractor, he says. In order to bid on a big job, the contractor asks the bank to raise his line of credit to \$8 million from \$5 million. The bank also points out that it can provide workers compensation, physical damage, and liability insurance on the project.

"The alphabet broker can't give him a line of credit—so he's going to play ball with the bank," sums up Mr. Wilson. "It's absurd to imagine that International Harvester or Chrysler Corp. wouldn't buy insurance from the bank if their credit were on the line."

To support their argument that bank sales of insurance are likely to reduce rather than enhance competition, agents point to evidence of high-priced credit-related insurance commonly sold by bank holding companies.

In a recent article published in *American Banker*, an economist with the Federal Reserve Bank of Cleveland extolled the virtues of bank holding companies selling insurance. He reported that insurance sales generated a return on capital nearly three times higher and a return on assets nearly 15 times higher than the returns earned by the holding companies as a whole over the 1978-81 period.

This profitability has been at the expense of consumers who have paid premiums for credit insurance out of all proportion to the loss experience of credit insurance underwriters, says Mr. Wilson.

"Because credit insurance is sold only in conjunction with extensions of credit, and because the cost of the insurance is relatively small in relation to the loan, credit insurance companies have competed with one another not to reduce premiums, but to elevate them in order to pay lenders the highest possible commission," Mr. Wilson writes in a so-far unpublished response to the *American Banker* article.

The IIAA has succeeded in setting aside the Federal Reserve Board's initial decision rendered in August 1980 to grant Mercantile Bancorporation's 4(c)8 application.

The 8th U.S. Circuit Court of Appeals ruled a year ago that the Board of Governors of the Federal Reserve Board must hold public hearings before reaching a final determination on the Mercantile application. Commerce subsequently filed its 4(c)8 application and participated in a hearing held before an administrative law judge last June.

The parties are now waiting for briefs to be filed by the Federal Reserve staff. Those recommendations are not binding on the governors who ultimately must decide whether the applicants' proposals to sell insurance will result in benefits to the public. ■

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New law to ban insurance sales at most banks

By RHONDA L. RUNDLE

WASHINGTON—Most bank holding companies will be barred from selling insurance after President Reagan signs the Depository Institutions Amendments of 1982, which was passed by Congress in its closing hours Oct. 1.

The prohibition, which received scant attention from legislators, was buried in a financial-aid package for savings and loan associations sponsored by Senate Banking Committee Chairman Jake Garn, R-Utah.

The ban was a major victory for the Independent Insurance Agents of America, a trade group representing 126,000 agents that has fought tooth and nail to prohibit bank sales of insurance. The National Assn. of Casualty & Surety Agents, whose members are leading commercial property and casualty agencies and brokerages, also supported the measure.

All bank holding company insurance agency operations undertaken prior to May 1, 1982, will be exempt from the ban under a grandfather clause in the bill. Applications to start up or expand insurance activities that are pending at the Federal Reserve Board also were swept into the grandfather provision.

Insurance agents have argued for years that bank sales of insurance reduce competition because of the enormous leverage banks exert over credit customers. Borrowers are likely to perceive that a pending loan application will be denied unless they also purchase insurance from the bank, insurance agents contend.

Up until now, banks have been permitted to sell only credit-related insurance after receiving permission from the Federal Reserve Board. The IIAA has persistently protested approval of such activities with limited success (see story, page 40).

"The public is well-served by this legislation," summed up Thomas E. Wilson, counsel for the IIAA in Washington. "It is an enormous achievement."

Commenting on the bill's generous grandfather provisions, which banks say set up an unequal competitive environment, Mr. Wilson said the IIAA would have preferred a retroactive provision.

"This is one of the imperfections of the legislative system. It would have been politically impossible to make the bill retroactive."

"Everybody expects President Reagan to sign it," added Mr. Wilson.

Title VI of the legislative package, which specifically addresses bank sales of insurance, was a major focus of controversy in the conference committee called two weeks ago to iron out differences in the House and Senate versions of the bill.

Large bank holding companies complained that the title tightens restrictions on them in a bill ballyhooed as a step toward deregulation.

In testimony before the Senate Banking Committee last October, Walter Wriston, chairman of Citicorp, raised this objection:

"In a bill whose fundamental thrust is to remove restraints on competition, one solitary provision, the prohibition on insurance, flies in the face of this intent."

Citicorp cannot support such a provision, he declared.

Small independent banks vehemently opposed the bill's primary objective of bailing out thrift institutions, but only mildly protested the insurance provisions. That was partly because the ban on insurance sales does not apply to banks located in towns with a population

of fewer than 5,000.

Other exemptions include:

- Sales of credit life, credit disability and involuntary unemployment insurance, which pay off outstanding loan balances in the event of a borrower's death, disability or layoff.

- Sales of property insurance on loan collateral by finance company subsidiaries of bank holding companies so long as the amount of the loan is \$10,000 or less.

- Insurance agency activities by bank holding companies with assets of \$50 million or less.

Two major insurance company trade associations assumed a neutral posture toward the bill. Within the past year, both the American Council of Life Insurance and the American Insurance Assn., repre-

sented major property/casualty insurers, set up task forces to study the broad issue of bank deregulation.

A common thread running through discussions of the two task forces was the belief that Congress had never adequately studied the implications of permitting bank sales of insurance, reports Thomas M. Sullivan, counsel for Aetna Life & Casualty Co. and chairman of the AIA task force.

"Contacts with administration officials made it clear that they had never seriously studied how state insurance regulation should be melded with Federal Reserve Board authority over bank insurance activities," he said.

Despite reservations about an all-out entry of bank holding com-

panies into their business, insurers were reluctant to bar banks from insurance sales.

"It's hard to know what institutions will look like in two to three years, and no one wants to have their own words served back to them on a plate," said Mr. Sullivan. Some insurers are actively considering alternative ways of distributing their products, including through banks, he pointed out.

The banking package passed through Congress Oct. 1 on a voice vote in the final hours before adjournment.

"It was voted on the last night of the session and I guarantee that most people who voted for it don't know what's in it," complained Philip Corwin, legislative counsel for the Independent Bankers Assn.,

representing 7,200 small and medium-sized bank members.

"Some legislators will get a big case of indigestion when they find out," he added, describing the package as a way to help ailing thrift institutions at the expense of commercial banks.

The bill provides federal aid to thrift institutions and allows savings and loans and commercial banks to establish deposit accounts that are competitive with money market funds. It also extends to state-chartered institutions the power to bar assumption of an existing mortgage when a house is sold.

Federally chartered savings and loan associations already had won the same right in a recent Supreme Court decision.

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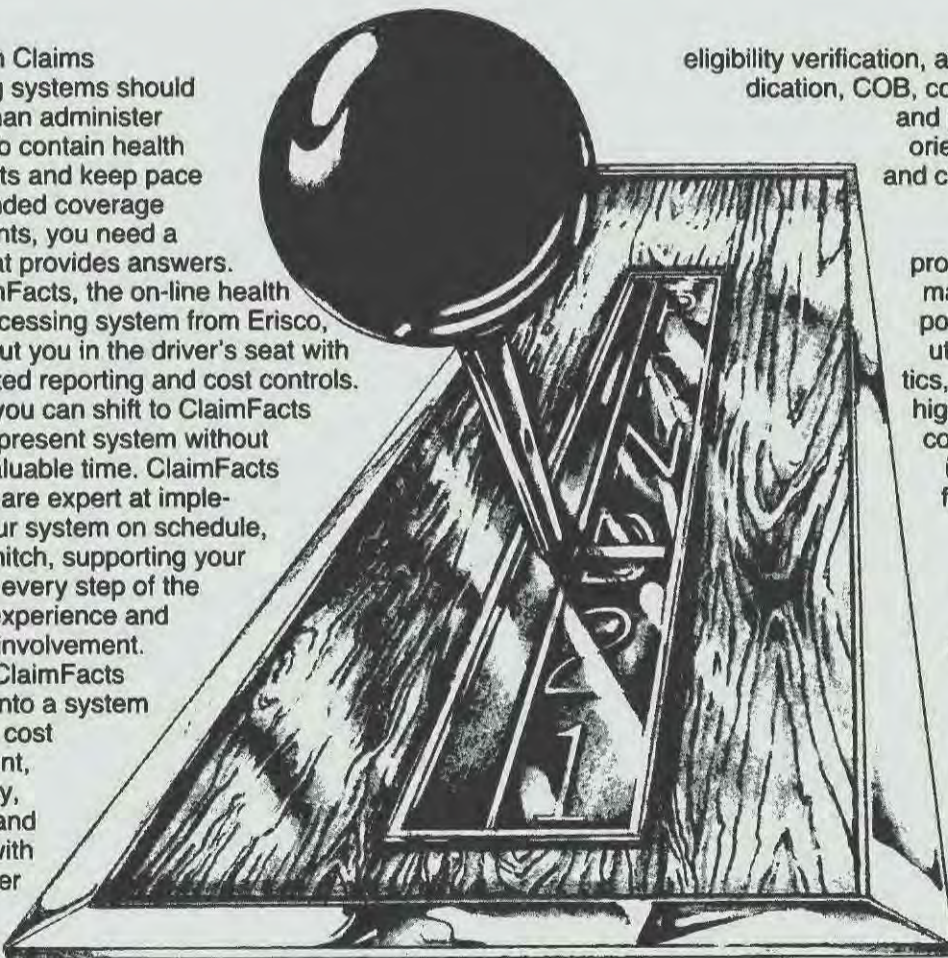
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Computer risks prompt bank coverages

By BILL DENSMORE

NEW YORK—The same computers that allow banks to expand and quicken their client services are expanding the banks' risks.

"The key issue we're facing is an electronic world," says Joseph Dancheck, director of risk management at Chicago's Harris Trust & Savings Bank.

But neither bank risk managers nor clients need fear uninsured losses if the banks plug into the array of insurance products being offered today.

"I don't think there is a hell of a lot of problems in bank insurance today because you can get anything you want," says Edgar W. Armstrong, a bank consultant and manager of risk management services

in the Washington, D.C., office of The Wyatt Co. "It's like a babe in toyland in terms of what I can do for my clients."

No longer must bank risk managers settle for standard property/casualty coverages plus fidelity insurance in the time-tested "blanket bond" format. Now, a variety of endorsements or separate policies are available from about a dozen markets (see related story).

The explosion in the use of computers and data-processing equipment that creates mind-boggling possibilities for glitches and losses was the catalyst for these new policies and endorsements.

The revolution in data-processing and computer coverage for banks began when banks started to widely use automated clearing

houses for check processing. The largest banks, and some medium-sized ones, too, also began to join wire-transfer organizations, which electronically send messages authorizing movements of cash or securities.

But when some banks questioned the extent of their insurance coverage for an electronic slipup, they found it lacking.

The Surety Assn. of America, an association of underwriters chiefly handling bank insurance, said in 1980 the standard bank or savings and loan blanket bond would only cover mistakes by the automated clearing houses, but not by wire-transfer associations.

At the same time, however, the surety association offered a separate electronic funds transfer rider

under which a bank could list any wire transfer group it uses and pay an additional premium.

"I think the thing that brought the highlight out was that banks thought that they had coverage under their surety bond and the surety association said they didn't," recalls Harris' Mr. Dancheck.

C. Robert LaForme, vp of Betterley Consulting Group Inc., the Boston-based division of Tillinghast, Nelson & Warren, agrees.

"The most important development was the change in 1980 in the old blanket bond to exclude electronic funds transfer operations and the resulting development of computer fraud policies."

The computer fraud policy came out of Lloyd's of London. K.F. Alder Syndicate and underwriter Colin Spreckley, who specialized in blanket bonds, worked with Burton J. Carbino, risk manager at Irving Trust Co. in New York, to develop Lloyd's first computer-crime policy for financial institutions (*BI*, Nov. 16, 1981; Dec. 14, 1981).

The Lloyd's policy was designed originally for banks and intended to provide for the first time broad coverage for losses resulting from computer fraud. The underwriters, however, required an extremely detailed application process involving on-site review of a bank's computer facilities and audits. Some bank risk managers objected to the underwriting requirements as time-consuming and excessive (*BI*, Feb. 15).

Nonetheless, the Lloyd's policy has been purchased by at least 30 U.S. companies, Mr. Spreckley said in an interview last month. The limits purchased have ranged anywhere from \$25 million to \$100 million, he said.

And, Mr. Spreckley added, he still seeks the detailed underwriting review, "but we don't ask as many silly questions as we used to."

The U.S. insurance market quickly jumped into the market with its own products and said the time-consuming underwriting process required by London wasn't necessary.

Most U.S. insurers in the blanket-bond market offer a policy or

rider that covers losses resulting from electronic funds transfers.

At least three others have developed separate, broader computer-fraud policies that extend coverage to the bank's own computer systems. They are Shand, Morahan & Co., an underwriting manager in Evanston, Ill.; St. Paul Fire & Marine Insurance Co.; and Aetna Casualty & Surety Co.

In addition, two units of Hartford Insurance Group Inc. offer "interloper" liability coverage to financial institutions and other insureds that purchase Hartford's computer physical-damage or blanket-bond coverage.

Most of the other blanket-bond writers plan to offer similar coverage once the surety association adopts a standard form backed by the American Bankers Assn.

"Hopefully, we will have a product within six months," says Donald E. Vaile, assistant vp of fidelity and surety underwriting at USF&G Corp. Mr. Vaile is also chairman of the surety association advisory subcommittee working on the computer policy.

"The hottest current issue is the computer coverage area, I don't think there's any question about that," he added.

Policies offered by the U.S. market include:

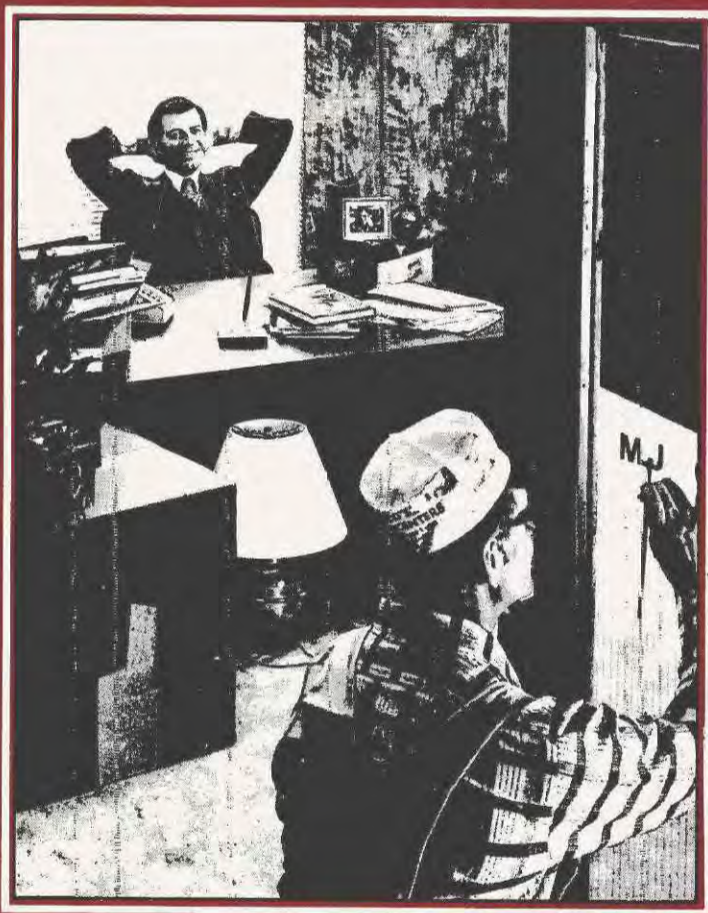
- Shand, Morahan & Co.'s "unauthorized computer access" insurance, which includes liability protection as well as first-party coverage and protection when losses are caused accidentally or by pranksters. The policy does not require that the party who gains access to the computer system be seeking financial or other gain.

The separate policy also covers the cost of restoring the computer system to its condition prior to unauthorized access, including costs to restore programs or stored data; extra expenses incurred to continue business operations until the computer system may be restored, like renting other computer time; and other direct monetary loss.

It also indemnifies the policyholder against suits by angry account holders or other customers who might sue for invasion of pri-

Continued on page 54

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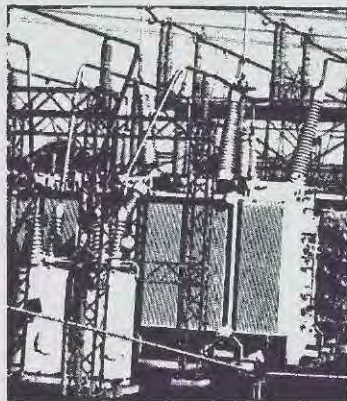
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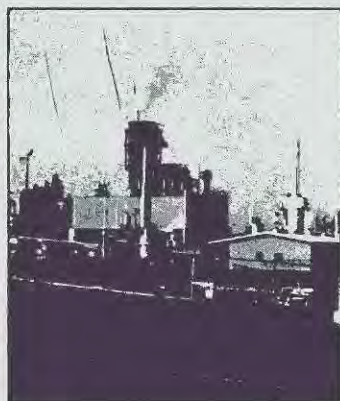
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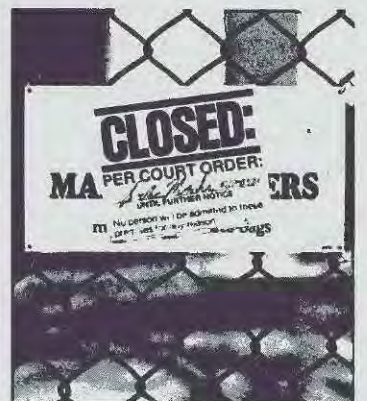
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Computer fraud coverages grow

Continued from page 52

vacy if confidential information is released or business interruption losses if the computer foul-up interrupts their businesses.

Shand says it can write limits as high as \$30 million with legal defense costs outside the limit.

In an apparent swipe at the Lloyd's-Alder application, Shand's promotional literature for the policy notes that "in most cases, no EDP security audit will be required."

St. Paul Fire & Marine's "computer/computer-related theft insurance," which it writes as an endorsement to its bankers blanket bond form. It protects banks from losses relating to the fraudulent entry of data into the insured's computer or the fraudulent altering of existing data in the com-

puter.

St. Paul's says its coverage protects banks from criminal acts affecting data-processing equipment, communications lines, data elements and program logic located in one or more of the insured's offices. It also covers problems that may arise in the bank's use of an outside computer data-processing firm or "service bureau."

Aetna, which has been part of the surety association subcommittee developing a standard computer-fraud endorsement. However, it decided for competitive reasons it couldn't wait for the association-endorsed policy and has started offering its own coverage through an endorsement to its blanket bond.

Aetna's riders separately cover wire-transfer and automated clearing-house losses; fraudulent oral

instructions communicated by telephone as long as the instructions were tape-recorded; and losses resulting from use of an independent hardware or software vendor.

Aetna also says it is the only insurer to provide legal liability coverage in one particular situation: When a bank locates a computer terminal on the premises of one of its large corporate clients for entering account instructions directly.

"If someone accesses the bank's own computer without coming on premises and purports to be an authorized person giving instructions, the bank is covered," says Roland T. Chiaradio, an assistant secretary for fidelity underwriting in Aetna's bond department.

Aetna says it will write limits of up to \$50 million. ■

Banks are covered for almost all risks

By BILL DENSMORE

NEW YORK—Your banker can insure just about any risk of doing business with you, with about a dozen leading insurers.

The bank's insurance policy portfolio begins with the bankers blanket bond, includes fiduciary liability and trust department errors and omissions insurance and directors and officers liability insurance. It also may include kidnap and ransom insurance, a new bankers professional liability policy and the new computer systems coverage (see related story).

The host of insurance products available to banks, as described by

the leading insurers, gives banking clients an idea of what risks exist in transactions and how bank risk managers are covering them.

Any analysis of a bank's insurance program must begin with the blanket bond, the generic name for the basic insurance that banks and savings and loans associations are required by state and federal laws to obtain.

The Surety Assn. of America, an association of 523 insurers based in Iselin, N.J., develops standard forms for such bonds. Its Form 24 is used for banks, and its Form 22 is used for savings and loans, building and loans and cooperative banks.

Individual insurers offer hundreds of endorsements and entirely separate policies that build upon or alter the basic bond coverages.

Each basic blanket bond covers employee dishonesty and loss of money, securities, bonds, bullion and other items of value through robbery, burglary, theft, holdup, mysterious disappearance and other perils.

It provides coverage while the property is on premises or in regular transit by messenger or armored car. It also indemnifies the financial institution for losses due to accepting counterfeit U.S. savings bonds or U.S. or Canadian currency.

The individual underwriters also commonly either endorse or adjust the basic policy to cover losses due to forgery, acts of agents or service contractors, extortion, securities forgery, physical damage to automatic teller machines or dishonest or fraudulent trading in securities, Treasury bills or other debt instruments by bank officers or employees.

Other additions to bond coverage or separate policies may cover losses from safe-deposit boxes, legal liability arising from a decision to stop payment on a check, payments made to directors or employees injured or killed while working, replacement of lost instruments worth up to \$50,000 and reimbursement for rewards of up to \$1,000 offered to apprehend burglars.

The key underwriters of blanket bonds and other bank or savings and loan policies are: Lloyd's of London; Insurance Co. of North America; Aetna Casualty & Surety Co.; MGIC Indemnity Corp.; USF&G Corp.; Federal Insurance Co., a subsidiary of Chubb Corp.; Fireman's Fund Insurance Co.; Hartford Fire Insurance Co. and Hartford Accident & Indemnity Co., two subsidiaries of Hartford Insurance Group Inc.; Continental Casualty Co., a subsidiary of CNA Financial Corp.; Fidelity & Deposit Insurance Co. of Maryland; and The St. Paul Cos. Inc.

Insurance Co. of North America, a subsidiary of CIGNA Corp., says it underwrites about a third of the market for standard bankers blanket bond coverage. It also writes similar bond coverage for about a third of the 450 savings banks in the United States.

Scarborough & Co., a subsidiary of Ryan Insurance Group Inc. that markets a series of financial institution insurance packages underwritten by Employers Insurance of Wausau-A Mutual Company, boasts of its "bankers special bond," which expands upon the surety association's basic Form 24.

Added to the basic bond is coverage for losses of safe deposits; data processing information lost when going to or from a data processing vendor; cash letter losses; stop-pay-

Continued on facing page



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Investment guarantee cover fizzles

By LISA BERGSON

NEW YORK—Investment guarantee insurance is hardly more developed now than earlier this year when a prominent broker and a few select markets lined up to break the traditional barriers.

Their aim: To expand into profitable but potentially very risky coverages for mortgage-backed bonds and securities lending.

Their efforts have subsequently stalled or stopped altogether, suggesting the difficulty of overcoming standard practice and buyer resistance to scrutiny and added supervision.

In the forefront of this brief foray were American International Group Inc., Marsh & McLennan Cos. Inc. and Salomon Brothers.

"Salomon Brothers is a market

maker and we try to follow them in creating innovative new products," says Albert Salvatico, vp of M&M's financial services division.

AIG also prides itself on being an "aggressive front-runner in financial guarantees that many insurers are afraid to get into," says Chris Watson, vp of AIG's banking division.

One of the products that was considered was a special hazard insurance policy for mortgage-backed pass-through certificates (Fannie Maes). M&M went after the business with a new insurance market, two affiliates of American International Group.

Special hazard insurance had previously been offered only by a handful of companies: Milwaukee-based MGIC Indemnity Corp.; Verex Corp. in Madison, Wis.; In-

dustrial Indemnity of San Francisco; and United Guaranty, based in Greensboro, N.C., a newly acquired subsidiary of AIG.

United Guaranty, as a veteran, was not part of the AIG market sought by M&M.

This special hazard insurance is needed to help obtain a rating from Standard & Poor's Corp. and thus enhance the credibility of these mortgage-backed securities that yield interest pegged above that for government securities.

The insurance has been purchased since 1977 by dealers, including Salomon Brothers, which is the largest market maker. The New York-based investment banker buys blocks of low-interest mortgage loans at a discount from troubled savings banks and repackages them for institutional invest-

tors. Salomon Brothers decided the price of special hazard insurance was too high. "Insurance companies are looking at a declining risk year by year," says John McDonogh, vp and assistant director of accounting services. "It's a very lucrative low-risk business."

Loss ratios well below 30% are reported by the companies specializing in this type of coverage. The risk virtually diminishes as the mortgages are paid down.

"The significance is philosophic more than economic," admits William Ross, MGIC's senior vp for mortgage securities, alluding to the "erratic, random loss potential."

Specifically, the policy covers all risk of direct physical loss and damage to the properties in the

Continued on next page

Continued from facing page
ment liability; unauthorized signature and endorsement liability; and limited directors and officers liability legal expenses.

Scarborough also contends its form is broader than Form 24 in three ways:

- It doesn't require a bank to report all losses below the deductible.

- It doesn't require losses to be reported within 30 days.

- It doesn't specifically define "discovery."

The leading underwriters of bankers blanket bonds and several other insurers also offer the two other relatively standard coverages for banks: Pension trust liability insurance, covering a bank's fiduciary liability under the Employee Retirement and Income Security Act of 1974, and trust department errors and omissions liability coverage for non-ERISA trust responsibilities.

Many of the bond underwriters will endorse this coverage to the bonds or write it separately. Among the other leading markets offering this coverage to banks as individual policies are National Union Fire Insurance Co. of Pittsburgh, Pa., part of the American International Group Inc.; Harbor Insurance Co., an affiliate of the Continental Corp.; and First State Insurance Co., the Boston-based

Many insurers also offer pension trust liability and trust department E&O coverage.

surplus lines affiliate of Hartford Insurance Group.

Separate directors and officers liability insurance policies for banks are underwritten by Harbor, MGIC, First State, National Union, The Home Insurance Co. and International Surplus Lines Insurance Co., a Crum & Forster affiliate, and through Scarborough with Employers of Wausau.

Kidnap/ransom or kidnap/extortion insurance is offered to financial institutions by several insurers, either as a separate policy or by endorsement to the bond.

Typically, the kidnap policies cover losses resulting from actual or alleged kidnapping of directors, officers or employees and their families; extortion threats of physical damage to the institution's offices or premises; extra expense arising from a kidnapping or extortion demand; and disappearance, destruction or theft of ransom money while in transit.

The markets for this coverage include Harbor, MGIC, Federal and INA.

In addition to the various computer system insurance policies introduced, a newer insurance product for banks is bankers professional liability insurance that covers banks for errors and omissions across its entire management. Before this policy was introduced by Lloyd's, banks and savings and loans could only purchase errors and omissions coverage for their trust departments.

The Lloyd's errors and omissions coverage is being marketed in the United States by Rollins Wrightson Co., a New York-based insurance consultant formed as a joint venture by Rollins Burdick Hunter Co. and Stewart Wrightson Holdings P.L.C.

Chicago-based Continental Illinois Corp., holding company for the nation's seventh-largest bank, Continental Illinois National Bank & Trust Co., purchased such a policy earlier this year (BI, Aug. 16). ■



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Financial guarantee insurance fizzles

Continued from previous page
event of a mortgage default. And, according to Martin Moran, assistant vp of M&M's financial institution division, it is a "very contingent, contingent insurance," complementing the homeowners' coverage and the blanket mortgage impairment policy normally provided by the servicing agent.

Limits run from 1% to 2% of the unpaid principal balance of the mortgage block. Since a pool averages \$15 million to \$20 million, the policy usually amounts to \$20,000, with no deductible.

Premiums in most states run about 2.5% of the limit, but as high as 3.5% in earthquake-prone states like Alaska, Hawaii and California.

M&M believed it could bring the price down with new insurers.

By working with AIG's American Home division, M&M created new capacity and thereby lowered costs for Salomon Brothers.

The initial savings were rumored to have been \$5.5 million on a \$2 billion issue, but no one would talk for the record about prices or the size of the issue insured with the AIG affiliates.

The M&M product, introduced in February, was to have been a bonanza for M&M that hoped to close many deals for Salomon Brothers and other investment brokers. At the time, M&M anticipated \$1 million in annual commissions from a coverage needed by "all investment bankers as well as many stockbrokers."

But now it looks as though those enormous sums may continue to be

paid to the traditional mortgage insurance companies. Apparently, after analysis, the AIG affiliates new to the risk were put off by the mandatory 30-year non-cancellation clause (except in the event of non-payment) for a coverage with which they have no experience.

"The 30-year feature scares the hell out of them," Mr. Ross of MGIC contends. "They're basically annual or three-year people, who think any problem can be resolved by adjusting the rates every few years."

For its part, MGIC's experience with mortgage credit eased its entry into special hazard coverage. "We're accustomed to writing a lifetime risk on a property."

The AIG affiliates, which were the first conventional carriers to

venture into special hazard insurance, are likely to handle more, but their approach now is tentative. As a result, M&M has grown "very cautious about this," according to Mr. Moran. "It's a situation still open to a lot of negotiation," he adds.

Salomon Brothers, meanwhile, is hoping to continue "moving away from the mortgage insurance companies toward those that offer concessions and more competitive prices," says Mr. McDonogh.

A worse fate has been accorded securities lending insurance, also developed early this year by M&M in conjunction with AIG and First State Insurance Co.

Unable to impose satisfactory safety measures on would-be buyers, AIG withdrew the coverage by midsummer. And First

State, which never publicized this insurance, now has no plans to write more than the two to three policies it did, the first for U.S. Trust Co. of New York in March.

"It's not a coverage of the future," comments Richard Willey, First State's vice chairman.

Relenting a bit, he adds, "If it's going to stick at all, there have to be refinements of it."

As it was developed, securities lending insurance indemnifies financial institutions (usually bank trust departments) for the risks associated with the controversial practice of lending their clients' equities to stockbrokers to cover short sales, stock option trades and other delivery requirements.

Chiefly, the danger is that the borrower might default on his obligations, such as Drysdale Government Securities did when it defaulted on at least \$160 million in interest payments to Chase Manhattan Bank.

Indeed, Mr. Watson of AIG notes, the Drysdale debacle has subsequently put off reinsurers.

But even before the Drysdale affair, obtaining coverage was no easy matter. U.S. Trust worked for three years to develop its maiden \$10 million policy, with a \$250,000 deductible, underwritten by First State.

"Someone in the security lending department came to me in February 1979 and said, 'This is what we do. Is there anything to cover it?'" recalls Bruce Barry, U.S. Trust's risk manager. "It's an exceptional coverage that everyone in the business needs."

Responsible bankers, those Mr. Watson calls "the Tiffanys," have already taken a cue from Drysdale and tightened up their practice to such an extent that they don't see a need for insurance.

Mr. Willey observes: "There hasn't been that great an interest in this insurance; the circumstances of the marketplace have changed."

But Mr. Barry of U.S. Trust cites "lack of imagination" among insurers and insufficient time, knowledge and energy among bank risk managers as the biggest obstacles. "A lot of bank insurance departments don't even know if their banks are in securities lending or what it's all about," he says.

Technically, the borrower is supposed to put up collateral (cash, U.S. government securities or a letter of credit) equal to the current market price. As the equities' value shifts, the borrower is expected to adjust the amount of collateral on a daily basis.

In this scenario, the loss takes the form of a collateral shortfall arising from a sudden surge in the securities' value. Securities lending insurance compensates the lender or, in some cases, the middleman for that loss and for failure to remit interest on the loan.

The catch is that few investment bankers are willing to "mark to the market," that is, adjust collateral on a daily basis. "In the business we saw, they wanted to do it on a weekly basis," says Mr. Watson of AIG.

Mr. Barry of U.S. Trust objects: "Everybody marks to the market, but there are times when computer failure or employee neglect might intervene. And First State accepts that."

On AIG's behalf, Mr. Watson relates: "At first, there was a lot of enthusiasm. But what insureds wanted isn't necessarily what insurers want. It's a Mexican standoff."

In a statement that applies equally to special hazard insurance, Mr. Watson concludes, "It turned out to be a more complicated world than we initially envisioned." ■



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OCT. 24-28. National Assn. of Independent Insurers' 37th annual meeting in Miami Beach, Fla., sponsored by the NAII; \$225 for members; \$325 for non-members. NAII Convention Office, 333 N. Michigan Ave., Suite 1632, Chicago, Ill. 60601; 312-297-7800.

OCT. 25-26. Financial Institution Marketing and Risk Management seminar in Hilton Head, S.C., sponsored by Continental Risk Services Inc.; CRS library subscribers, \$440; non-subscribers, \$525. Continental Risk Services Inc., 1201 Dove St., Suite 200, Newport Beach, Calif. 92660.

OCT. 25-26. Risk Management Concepts for the Safety Professional and Insurance Buyer course in Los Angeles, offered by the University of Southern California; \$225. USC, Institute of Safety & Systems Management, Office of Extension & In-Service Programs, Los Angeles, Calif. 90007; 213-743-6523/6524.

OCT. 25-27. Risk Management Strategies seminar in New York, sponsored by Marsh & McLennan Inc.; \$750. Pamela Newman, Marsh & McLennan Inc., 1221 Ave. of the Americas, New York, N.Y. 10020; 212-997-5639.

OCT. 25-27. Managing Employee Benefits workshop for financial executives in Lincolnshire, Ill., sponsored by Hewitt Associates; \$850. Beverly McRae, Hewitt Associates, 100 Half Day Road, Lincolnshire, Ill. 60015; 312-295-5000.

OCT. 25-27. International Risk Management Seminar in Los Angeles, offered by Eugene F. Johnson, consulting risk manager; \$580. Eugene F. Johnson, 1326 Wilder St., Thousand Oaks, Calif. 905-497-6200.

OCT. 25-27. Product Safety and Liability Prevention in the Medical Device Industry course in Madison, Wis., sponsored by the University of Wisconsin Extension; \$435. Professor Richard A. Moll, Engineering Department, University of Wisconsin, 432 N. Lake Street, Madison, Wis. 53706; 608-263-4712.

OCT. 25-28. Loss Control Management advanced course in Atlanta, sponsored by the International Loss Control Institute; \$590. Also Dec. 6-10 and Feb. 7-11 in Atlanta. ILCI, Box 345, Loganville, Ga. 30249; 404-466-2208.

OCT. 26-28. 12th Annual International Insurance conference in West Berlin, sponsored by American Management Assn. International; 43,000 Belgian francs (approximately \$860). Registrar, Management Centre Europe, 4 Ave. des Arts, 1040 Brussels, Belgium; 219-03-90; telex, 21917.

OCT. 27-29. Recognition of Accident Potential in the Workplace Due to Human Error course in Los Angeles, offered by the University of Southern California; \$300. USC, Institute of Safety & Systems Management, Office of Extension & In-Service Programs, Los Angeles, Calif. 90007; 213-743-6523/6524.

OCT. 28. Our Nemesis: Asbestosis, Latent Injury and Bankruptcy seminar in Columbus, Ohio, sponsored by the Columbus Chapter of the Society of Chartered Property & Casualty Underwriters; \$12. CPCU, 21 E. State St., Suite 730, Columbus, Ohio 43215; 614-221-8743.

OCT. 28-29. Environmental Liability Management conference in Arlington, Va., sponsored by the Center for Energy & Environmental Management; \$485; discounts available for three or more registrants from the same company. CEEM, Box 536, Fairfax, Va. 22030; 703-250-5900.

OCT. 28-29. ESOPs, TRASOPs, PAYSOPs and Other Employee Stock Ownership Plans program in Los Angeles, sponsored by the Practising Law Institute; \$350. Also Nov. 15-16 in New York. PLI, 810 Seventh Ave., New York, N.Y. 10019; 212-765-3700.

OCT. 28-29. Hazard Control Management Fundamentals seminar in Washington, sponsored by the International Institute of Safety & Health; \$295; \$250 for three or more registered from the same company. IISH, 5010A Nicholson Lane, Rockville, Md. 20852; 301-984-8969.

OCT. 28-29. ERISA Litigation program in New York, sponsored by the Practising Law Institute; \$325. PLI Department ZOC, 810 Seventh Ave., New York, N.Y. 10019; 212-765-5700.

NOV. 1. Alternative Methods of Funding Employee Health and Disability Benefits course in New York, sponsored by the Society of Actuaries; members, \$175; non-members, \$210; \$25 additional for registrations received after Oct. 11. Also, Nov. 5 in Chicago and Nov. 16 in San Diego. Society of Actuaries, Box 91901, Chicago, Ill. 60693; 312-236-3833.

NOV. 1-2. Communicating Employee Benefits conference in Chicago, sponsored by Business Insurance; \$475; 10% discount for additional participants from same company. Ann Vazquez, Business Insurance, 220 E. 42nd St., New York, N.Y. 10017; 212-210-0137.

NOV. 1-5. Practical Reinsurance course in London, sponsored by Risk Research Group Ltd.; 660 pounds (approximately \$1,112). RRG Ltd., Bridge House, 181 Queen Victoria St., London EC4V 4DD England; 01-236-2175; telex, 8811636 RRG G.

NOV. 1-5. Accredited Safety Auditor course in Atlanta, sponsored by the International Loss Control Institute; \$625. Also Jan. 17-21 in Atlanta. ILCI, Box 345, Loganville, Ga. 30249; 404-466-2208.

NOV. 3-4. Risk Financing seminar in Chicago, sponsored by St. Paul Risk Services Inc.; \$335. Kathleen Moriarty, St. Paul Risk Services Inc., 230 Hamm Building, 408 St. Peter St., St. Paul, Minn. 55102; 612-221-7763.

NOV. 4-5. Product Safety Concepts and Practice course in Washington, sponsored by the International Institute of Safety & Health; \$245. IISH, 5010A Nicholson Lane, Rockville, Md. 20852; 301-984-8969.

NOV. 5-6. The Banking and Insurance Forum in Scottsdale, Ariz., sponsored by Risk Planning Group Inc.; \$600. Eileen B. Callahan, Conference Coordinator, Risk Planning Group, 722 Post Road, Darien, Conn. 06820; 203-655-9792.

NOV. 7-16. Health Care Cost Containment seminar in Hollywood, Fla., sponsored by the International Foundation of Employee Benefit Plans; members, \$390; non-members, \$465. IFEBP, 18700 W. Bluemound Road, Box 69, Brookfield, Wis. 53005; 414-786-6700.

NOV. 8-12. Introduction to Risk Management course in Atlanta, sponsored by the International Loss Control Institute; \$625. ILCI, Box 345, Loganville, Ga. 30249; 404-466-2208.

NOV. 8-12. Basic Safety Management seminar in Houston, sponsored by the International Safety Academy; \$535. ISA, 10575 Katy Freeway, Box 19600, Houston, Texas 77024; 713-932-9400.

NOV. 8-12. Modern Safety Management course in Atlanta, sponsored by the International Loss

Control Institute; \$575. Also Jan. 10-14 in Atlanta. ILCI, Box 345, Loganville, Ga. 30249; 404-466-2208.

NOV. 9. Accident Investigation and Analysis seminar in Portland, Ore., sponsored by the International Safety Academy; \$150. ISA, 10575 Katy Freeway, Box 19600, Houston, Texas 77024; 713-932-9400.

NOV. 8-12. Eighth Annual Computer Security conference and exhibition in New York, sponsored by Computer Security Institute; \$575; group rates available. CSI, 43 Boston Post Road, Northboro, Mass. 01532; 617-845-5050.

NOV. 9-12. An Ergonomic Approach to Materials Handling seminar in Long Beach, Calif., sponsored by the International Safety Academy; \$375. ISA, 10575 Katy Freeway, Box 19600, Houston, Texas 77024; 713-932-9400.

NOV. 10. Effective Safety Committees seminar in Portland, Ore., sponsored by the International Safety Academy; \$150. ISA, 10575 Katy Freeway, Box 19600, Houston, Texas 66024; 613-932-9400.

NOV. 11-12. Exempt Organization: Tax Strategies and Legal Problems program in San Francisco, sponsored by the Practising Law Institute; \$325. Also Dec. 9-10 in New York. PLI, 810 Seventh Ave., New York, N.Y. 10019; 212-765-5700.

NOV. 11-12. Confined Space Entry workshop in Dallas, sponsored by Loss Prevention Associates; \$285. Loss Prevention Associates, Box 59888, Dal-

las, Texas 75229; 214-241-0396.

NOV. 15-17. Advanced Safety Management course in Atlanta, sponsored by the International Loss Control Institute; \$350. ILCI, Box 345, Loganville, Ga. 30249; 404-466-2208.

NOV. 15-18. Inspector Training seminar in Houston, sponsored by the International Safety Academy; \$490. ISA, 10575 Katy Freeway, Box 19600, Houston, Texas 77024; 713-932-9400.

NOV. 15-19. Practical Risk Management course in London, sponsored by Risk Research Group Ltd.; 590 pounds (approximately \$1,000). Elspeth Jones, RRG Ltd., Bridge House, 181 Queen Victoria St., London EC4V 4DD England; 01-236-2175; telex, 8811636 RRG G.

NOV. 15-19. Assets Protection course in Saddle Brook, N.J., sponsored by the American Society for Industrial Security; members, \$595; non-members, \$650. ASIS, 2000 K St. N.W., Suite 651, Washington, D.C. 20006; 202-331-7887.

NOV. 18-19. Fundamentals of Occupational Health Programs course in Long Grove, Ill., sponsored by National Loss Control Service Corp.; \$250. George Krafcsin, Vp, NATLSCO, Long Grove, Ill. 60049; 312-540-2400.

NOV. 18-19. Techniques of Risk Management seminar in Washington, sponsored by the International Institute of Safety & Health; \$245. IISH, 5010A Nicholson Lane, Rockville, Md. 20852; 301-984-8969.

NOV. 19. Loss Avoidance seminar in College Park, Md., sponsored by Shand, Morahan & Co. and the University of Maryland School of Architecture; architects/engineers insured through Shand, Morahan, \$55; others, \$145. Jim Ruiz, Shand, Morahan & Co. Inc., One American Plaza, Evanston, Ill. 60201; 312-866-0765.

NOV. 21-24. Apprenticeship and Training institute in Hollywood, Fla., sponsored by the International Foundation of Employee Benefit Plans; members, \$390; non-members, \$465. IFEBP, 18700 W. Bluemound Road, Box 69, Brookfield, Wis. 53005; 414-786-6700.

NOV. 21-24. Corporate Benefits Management conference in New Orleans, sponsored by the International Foundation of Employee Benefit Plans; members, \$470; non-members, \$545. IFEBP, 18700 W. Bluemound Road, Box 69, Brookfield, Wis. 53005; 414-786-6700.

NOV. 22-27. Aviation Safety Program Management course in Sydney, Australia, offered by the University of Southern California; \$950. USC, Office of Extension & In-Service Programs, Institute of Safety & Systems Management, Los Angeles, Calif. 90007; 213-743-4617/6523.

NOV. 24-26. Captive Insurance Companies course in London, sponsored by Risk Research Group Ltd.; 350 pounds (approximately \$595). Sue Moore, RRG Ltd., Bridge House, 181 Queen Victoria St., London EC4V 4DD England; 01-236-2175; telex 8811636 RRG G.

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B-10/11

Canadian RIMS

Risk management styles not the same north of the border

By CAROL G. BLITZER

CALGARY, Alberta—Canadian risk management styles differ just as the languages and cultures of Canada vary.

The risk management styles of a growing conglomerate, an oil company that began as a wild-cattling operation and a subsidiary of a U.S. corporation were contrasted at the Canadian Risk & Insurance Management Society Conference to spotlight some of the different ap-



proaches.

For example, one of John E. Roberts' first tasks as corporate risk and insurance manager for Versatile Corp. in Vancouver, British Columbia, was to establish risk management coordinators in each of the company's subsidiaries.

Versatile, with more than 10,000 employees and annual revenues of \$896 million, is a far-flung operation that has recently acquired companies involved in shipbuilding, oil and gas production and farm machinery manufacturing. It is also engaged in heavy industrial manufacturing, cold storage warehousing and financial services.

Mr. Roberts is attempting to

Mr. Roberts stresses coordination at Versatile.

make others in his company aware that risk management requires a team effort.

"We're trying to get risk management under control by coordinating at the beginning," he explained, noting that he often meets with financial personnel, plant engineers and the manufacturing vps of each Versatile subsidiary.

"In one or two subsidiaries, the

(risk management) responsibility was fragmented and one strategy is to improve that," he said.

Formal reporting procedures have been established, he said, including monthly claims reports, an annual report that outlines objectives and projections for the coming year and an annual cost-of-risk report that tracks premium costs, broker fees and engineering costs.

On the corporate level, Mr. Roberts is now directly responsible for placing insurance for all North American subsidiaries, is indirectly responsible for loss control and shares responsibility for determining self-retentions, risk identification and claims handling. He re-

ports to the vp-general counsel.

Mr. Roberts said Versatile works with one broker, although he did not disclose who it is. "We didn't feel we could get a better effort if we split our business," he said, adding that the broker is paid on a negotiated fee basis.

Another strategy Mr. Roberts' department is pursuing is tightening communications with Versatile's operating subsidiaries. "It's easy for things to happen on a field level and management not to be aware. As soon as a product problem arises, we ask to be told immediately," he adds.

Dome Petroleum Ltd. of Calgary
Continued on facing page



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Attendance down at conference

CALGARY, Alberta—The tight economy cut into attendance at the Canadian Risk & Insurance Management Society Conference as it has at other risk and benefit management conferences this fall.

Registration at the annual Canadian RIMS conference Sept. 19-22 was only about half of what was expected.

Some 110 people registered for the conference's 16 seminars that attracted more than 50 speakers. Last year 170 people attended the conference in Toronto, said Conference Chairman Dave James, adding that 200 were expected at the 1982 meeting.

The tight economy has cut corporate travel budgets, Mr. James said, and even the number of registrants from relatively nearby Vancouver, British Columbia, was not what was expected.

For those who did attend the conference, Calgary offered its Western-style welcome—a big "Yahoo" from "the last cow town left in Canada." Many RIMS members at the conference spent their evenings dancing and getting a taste of real Western barbecue.

During the day, they discussed the finer points of risk management, despite what many said is a reluctance by some Canadian companies to recognize it as a growing profession.

"Senior management doesn't look on risk management as a financial discipline. They insist on calling it insurance," explained Brian J. Henderson, manager of marine and casualty insurance at Dome Petroleum Ltd. in Calgary.

"Often when you raise risk management issues, a corporation president will start talking about his homeowners' policy," he added.

"Canadian risk managers need to be good educators. They need to put risk management into the perspective of a bona fide corporate financial discipline and to teach senior managers about it," Mr. Henderson said.

"Canada keeps a lower profile than the United States. There isn't the legislative or regulatory pressure like there is in the United States. Our law department is not as exalted as in the United States, and we have a lower level of litigation."

Check business interruption forms: Accountant

By CAROL G. BLITZER

CALGARY, Alberta—If a fire had not closed a local restaurant,

"But, in some industries, it isn't as critical," he added.

A risk manager should go over the business interruption contract

due diligence and dispatch to rebuild, repair, etc. But that due diligence clause may include others as well, Mr. Copeland said. If a land-

interruption can affect your company. If a supplier goes out of business, you must find an alternate supplier as quickly as possible, he

advised Ken Avison, corporate risk manager at Norcen Energy Resources Ltd. in Toronto, who moderated the session.

business insurance, October 11, 1982 / 59

Continued from facing page
was formed by a group of oil wildcatters, and company management still sometimes reacts negatively to formal, administrative reports, explains Brian J. Henderson, the company's manager of marine and casualty insurance.

A company that has made many acquisitions recently, Dome claims it is the largest oil and gas exploration company in Canada. It has gross revenues of \$3 billion and employs about 9,000 workers.

Dome's risk management department is in transition, Mr. Henderson said.

For example, the company last year acquired Hudson Bay's Oil & Gas Co., which already had a risk management department, so the two departments now have to be meshed.

Dome's oil exploration activities are diverse and pose many complicated risk management problems, Mr. Henderson told conference participants. Some of its drilling rigs are land-based, some are offshore and some that are situated on caissons encased on an island are a combination of both.



Mr. Henderson

Aside from oil drilling, the company also maintains an aviation division, a pipeline operation and a natural gas plant.

Mr. Henderson's department is under the auspices of Dome's finance and administration department. Its personnel includes six insurance experts, a loss-control manager and a clerical aide.

Dome's broker has expanded its Calgary office to service the company as it expanded and prospered.

Reading is 'like panning for gold. One in 10 reports will turn up something,' Mr. Henderson says.

Even though Calgary is 1,000 miles inland, the broker has a special expertise in marine risks.

"Their knowledge and resources are hard to match," said Mr. Henderson of the broker he did not identify.

Dome grew so rapidly that its risk management programs have had a hard time catching up, Mr. Henderson said. For example, it must wait two years for installation of a computerized risk management program.

"Risk management subtlety doesn't get us too far," he said, noting that he needs to illustrate his message, "Think of the cost of risk and look beyond premium," with graphs and pictures.

Because of Dome's relatively small risk management staff, Mr. Henderson gets little exposure to field operations, he said. He gets much of his information from reading contracts, expenditure authorizations and other departmental reports.

"It's like panning for gold. One in 10 reports will turn up something," he said. Scuttlebutt can also come in handy, he added.

Mr. Henderson suggested that risk managers join forces with other administrative departments to present new ideas. "If you try to make a lone stand, it may not do the trick, but groups give you leverage," he added.

"Our senior management talks about deductibles rather than risk retentions. We are a company that sits on market-imposed deductibles. We have no in-house data base. We need to educate management," he asserted.

Coca-Cola Ltd. of Toronto enjoyed almost complete autonomy from its Atlanta-based parent until recently, said Jim W. Millar, manager of its insurance department. Now the corporate headquarters sets retention levels for the Canadian subsidiary and has developed programs to protect against catastrophic losses.

The Canadian company is a fully-owned subsidiary that operates 19 plants in Canada and employs 2,800 people.

Part of the parent company's risk management philosophy is coordination of subsidiaries, Mr. Millar said. For example, Coca-Cola in Atlanta requires the Canadian company to buy fidelity insurance from the same insurer as the parent.



Mr. Millar

The Atlanta office also requires reports on total annual premiums, total losses sustained and total losses covered. In addition, Mr. Millar, who reports to the vp and general counsel of Coca-Cola Ltd., sends information to company headquarters on outstanding litigation and property loss.

The Canadian subsidiary uses three brokers: one for property/casualty coverage, one for its boiler and machinery coverage and yet another for its transportation risks.

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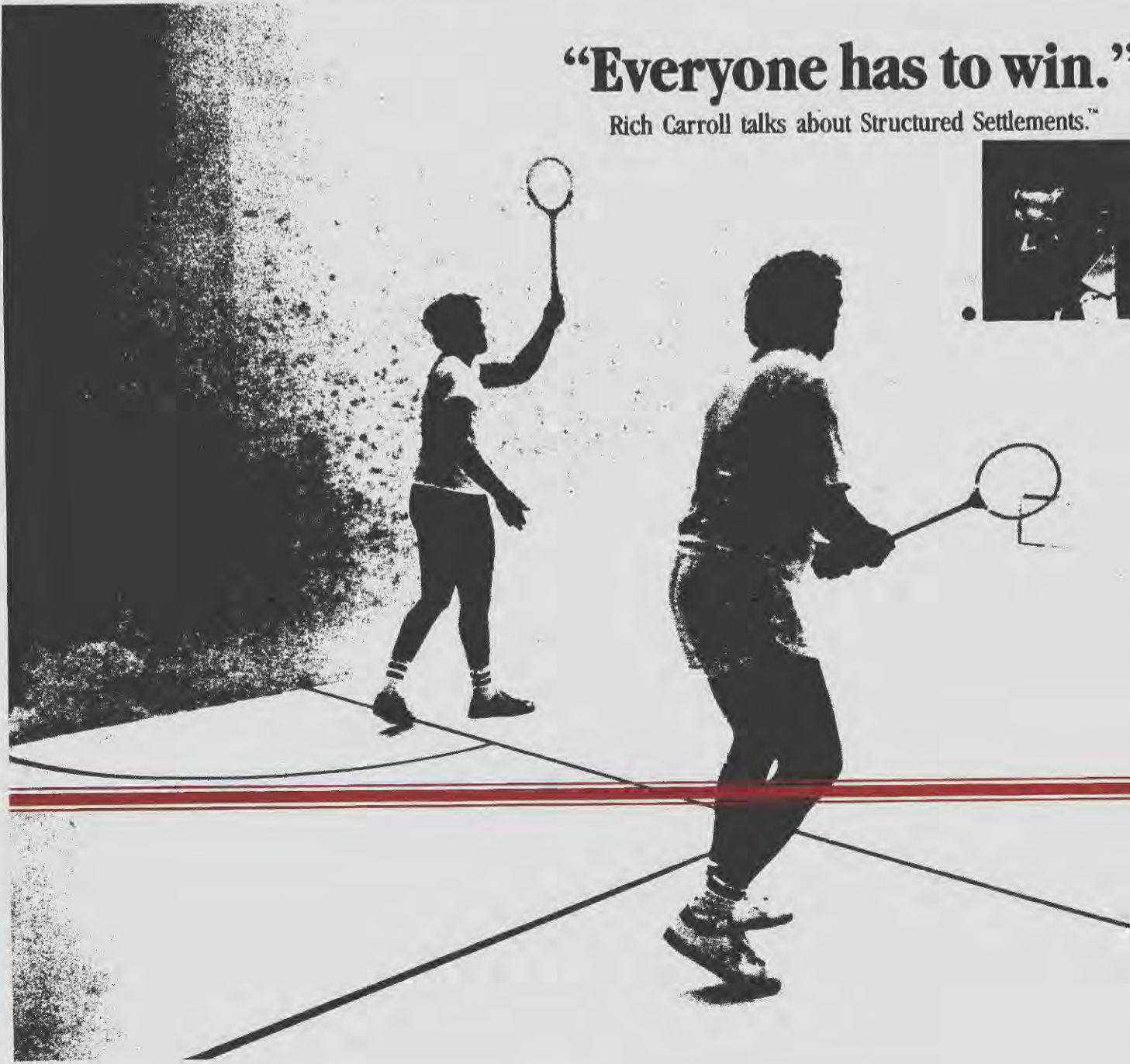


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Photo: Carol Blitzer

Calgary, the site of the Canadian RIMS conference, calls itself a 'cow town,' but it is really a modern city

Risk managers can spot ailing insurers: Actuary

CALGARY, Alberta—If risk managers examine the data that insurers release, they can predict which ones could become insolvent, a Toronto actuary says.

"The entire insurance process assumes an insurer will be solvent. If not, the contracts are useless," William R. Andrus, an actuary and president of Colander Publications Ltd. in Toronto, told the Canadian Risk & Insurance Management Society conference.

Mr. Andrus has compiled statistics on almost 300 Canadian insurance companies and rated them according to eight early-warning tests for insolvency. The tests are commonly used by the National Assn. of Insurance Commissioners, the Department of Insurance in

Canada and the Department of Trade in Great Britain.

"It's easier than perceived to pick companies in trouble," he said.

To assess a company, he begins with its financial statement. He told the risk managers that it's easy to quantify a company's assets, but liabilities can be harder to pin down.

The eight tests he then performs on the numbers are:

- The Insurance Risk Ratio. That ratio, computed by dividing net premiums by an insurer's surplus at year-end and multiplying that quotient by 100, is a measure of a company's ability to absorb financial shocks.

The data can lead to questions about the company's stability over time and how much risk has been ceded to reinsurers.

- Change in Net Premiums Written. Mr. Andrus looks for major fluctuations in an insurer's premium volume, which may suggest a lack of stability.

- Change in Surplus, which Mr. Andrus says is the ultimate measure of a firm's operating success.

- Two-Year Underwriting Ratio. By examining underwriting results over two years, Mr. Andrus can determine if a change in surplus is due largely to poor underwriting results.

- The Liquidity Test, which measures how well a company can use its assets to meet financial demands. Mr. Andrus notes it's important to consider the trend in this ratio as well as the ratio itself.

- The British Department of Trade's Minimum Solvency Requirement, which requires companies reinsuring more than 50% of their premium volume to maintain a higher surplus than those insurers less dependent on reinsurance.

A risk manager should also note if an insurer's reinsurers are unsecured or unregistered companies.

- The Investment Risk Ratio. This test indicates the degree of risk inherent in the investment strategy the company follows.

- Loss Reserves to Surplus. This simple test of an insurer's leveraged position compares its reserves with its surplus.

If a company falls into the acceptable range for all eight tests, it is given a score of eight points. Lower scores can mean potential problems.

For example, Pitts Insurance Co. of London, Ontario, which went out of business earlier this year, scored four points in 1979 and three in 1980, indicating that all was not well for quite a while before the company closed.

The Canadian Department of Insurance requires annual statements from about 260 registered insurance companies. Of these, about 20% are also required to submit quarterly reports to show that they are correcting problems, according to L.C. Savage, director of the department's property/casualty insurance division.

"The fact that we're getting interim statements doesn't mean they're all on the brink of insolvency," he said. "We try to keep track of how industry results are going, but we have to rely on data supplied by the companies themselves."

Insurance T.R.A.C. Report, which offers data on more than 250 Canadian, British and foreign insurers operating in Canada, is available for \$85 from Colander Publications Ltd., Box 401, Postal Station P, Toronto, Ontario M5S 2S9 Canada.



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Top risk managers outline techniques

By CAROL G. BLITZER

CALGARY, Alberta—Getting involved with new projects from the planning stage and forcing your broker to use management-by-objective techniques are two effective ways to manage risks, two innovative Ohio risk managers assert.

Duane E. Allen, assistant treasurer at Hanna Mining Co. in Cleveland, and Spencer J. Traver, assistant treasurer at The BFGoodrich Co. in Akron, explained some of their risk management techniques at the Canadian Risk & Insurance Management Society conference.

Mr. Allen was *Business Insurance's* Risk Manager of the Year in 1981 and Mr. Traver was the first runner-up in 1982.

By reviewing a construction project from the planning stage, a risk manager's loss-control suggestions can become part of the cost input and areas of consideration before a project is approved, Mr. Allen said.

"It's important to look at the design, deal with engineers and get consulting help from brokers," he added.

Once a project is under way, a risk manager has to monitor the construction and make sure the engineers follow through on safety measures. For example, the water system should be built first so adequate fire protection is available on the construction site, he advised.

Mr. Allen described a \$450 million nickel-smelting joint venture among the Colombian government, Shell Oil Co. and Hanna. "At the beginning of the project, we established policies for loss prevention and insurance," he says.

Consulting with local insurers, Mr. Allen's department sorted out local market restrictions including a ban on external reinsurance without approval, a tight tariff situation and little capacity for large

Comp insurers seek rate increase

BALTIMORE—Workers compensation insurers in Maryland are seeking a 5.9% rate increase.

The rate request by the National Council on Compensation Insurance, a New York-based rate-making body, is based on an Aug. 1 change in medical and surgical fees guide authorized by the Maryland Workmens' Compensation Commission, said Chapin Clark, NCCI regional vp.

Mr. Clark also pointed out that although the revised medical and surgical fees guide took effect Aug. 1, the proposed rate increase would not be effective until Nov. 1.

The revised fee schedule is payable on outstanding workers compensation policies in addition to new ones.

Therefore, the 5.9% rate hike would apply to policies in force as of Nov. 1 since this additional liability is not reflected in rates currently charged by insurers.

The rate increase proposal was submitted to Commissioner Edward Muhl for a ruling. No indication was given of how soon the request would be acted on. ■



industrial risks.

Because of the competitive market, Mr. Allen's company was able to reduce premium on cargo insurance from \$800,000 to \$160,000 by establishing a \$10,000 deductible.

Underwriters were very receptive because of the very complete analysis of risk, loss control on transporting equipment coming in and fire safety on the site, he said.

Because the project had an effective loss-prevention system during the construction stage, it was simply carried over into the operations stage. "We were able to secure full coverage where we needed it for earthquake, fire, business interruption and machinery breakdown risks," he reported.

To handle casualty risks more efficiently, Hanna and about a dozen other companies formed a group-

owned insurance company in 1977 to increase capacity for self-retained risk.

Corporate Insurance & Reinsurance Co. Ltd. now provides excess casualty insurance with a maximum limit of \$5 million.

CIRCL retains 10% of a risk and reinsures 90% to insurance affiliates, with each participant's share based on its premium in a calendar year. Reinsurance and premium loss funds are held by CIRCL, he reported.

Black lung claims didn't fit well into this program so a second group captive, COAL, is being set up to handle those.

Mr. Traver said the most efficient way to work is on a management-by-objective basis. However, he does not think this management

style is used by brokers or insurers.

"That means you're working on one system and they're working on another," he explained.

Goodrich developed elaborate specifications for brokerage services, based on MBO principles. That meant setting objectives early and marking progress monthly, forcing brokers to think on an MBO basis, he said.

Brokers are addressed as consultants by Goodrich, Mr. Traver said.

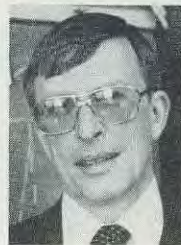
For loss prevention, Mr. Traver relies on a strong internal staff supplemented by outside consultants.

"Loss-prevention experts delivered by the underwriting community are inadequate," he said. "Their people are trained to help their company's profitability."

Mr. Traver also prefers to control claims services, farming out investigations only. He feels that insurance companies have a conflict of interest when handling claims because if losses go up, they can adjust premium.

"Our claims staff saves us more than \$700,000 a year and its whole budget is less than \$200,000," he said.

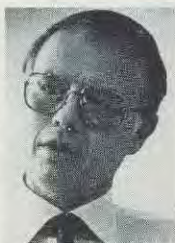
Mr. Traver also suggests structured settlements for damage claims. In the past, Goodrich only structured very large claims, but since January it has structured any claim exceeding \$25,000 and has saved \$2.5 million so far this year. ■



Mr. Traver

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A firm's level of risk retention can depend on many factors

CALGARY, Alberta—How much risk a company retains can depend as much on its management philosophy as its financial planning, a consultant says.

A company's risk-retention decision should be based on what kind of risks it faces, Robert N. Hughes, president of Robert Hughes Associates Inc. in Dallas, told members of the Canadian Risk & Insurance Management Society at their annual conference last month.

"Some risk managers are forced to manage frequent losses on a risk-management basis, when they are really a business-management problem," he added.

Some companies have an aversion to risk retention, even when it can be shown to be advantageous. Stockholders may be unwilling to pay for a large loss from company funds or to establish reserves by giving up dividends, he said.

Subjective probability is one problem many managers encounter when deciding how much risk to retain, Mr. Hughes said. Because they are used to risking money for company gain, they confuse specu-

lation with pure risk decisions.

"A pure risk decision is when you can only have a loss or nothing. You can't get a profit like you can from an oil well," he explained.

He said companies decide to retain risk because:

- Insurance costs too much.
- Insuring the loss could lead to an inefficient swapping of dollars.
- Insuring would mean a loss of cash flow.
- The insurer charges for unwanted services.
- Coverage might not be available.
- They fear they will jeopardize their current insurance rates by making a large claim.

There are legal limitations on how much risk can be retained in certain lines like auto liability, aviation, workers compensation and nuclear coverages.

Risk retention also can have tax ramifications. Most companies don't want to use aftertax dollars to retain risk, but a company is not permitted to take deductions for reserves, he warned.

When deciding how much risk to retain, risk managers need to keep in mind three cardinal rules:

- Never risk a lot for a little.
- Never risk more than you can lose.

• Consider the odds.

Sophisticated statistical analyses are necessary to determine the retention budget. For example, risk managers can employ statistical yardsticks, like the company's debt-to-equity ratio or its return on assets, to determine the level of risk retention.

After the company examines its financial statement and the appropriate measures and discusses its aversion to risk, a risk retention budget can be drawn up, Mr. Hughes explained.

Mr. Hughes uses loss-development and trending techniques to help his clients determine their risk retention budgets. From skewed bell curves, he can develop a range and a midpoint to predict what losses will occur, based on historical data.

Certain losses develop over a number of years. For workers compensation, he noted, 81% of claims are outstanding five years after an accident. A similar pattern emerges with auto liability.

Mr. Hughes said he prefers to use paid-loss information over incurred-loss data to avoid overreserving. When there is a great disparity between the two types of data, he uses the midpoint between the two.

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Other topics covered in depth are the impact of industry contracts, analysis of insured's loss bearing capacity, blowout prevention practices, recent court rulings on the operator's extra expense policy, specialized endorsements, and underwriting/rating approaches.

This indispensable reference guide was written by Douglas B. Owen, JD, MBA, CPCU. Mr. Owen is president of Arthur L. Owen Company, Inc., a Dallas-based insurance broker specializing in insurance and risk management programs for oil, gas and petrochemical companies worldwide. He is a recognized authority on risk management and well control insurance and has used his expertise to write **Blowouts: Well Control Insurance and Risk Management**.

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Benefits increased under Longshore Act

By JERRY GEISEL

washington

WASHINGTON—Benefits payable under the federal Longshoremen's and Harbor Workers' Compensation Act have been increased.

Each Oct. 1, a new weekly maximum benefit is set, based on 200% of the current national average weekly wage. This year, the maximum weekly benefit for total disability has increased to \$524.54 from \$496.70, a 5.6% hike.

Legislators, primarily Sen. Don Nickles, R-Okla., and Rep. John Erlenborn, R-Ill., have tried to place a 5% cap on annual benefit increases, but so far Congress hasn't approved the idea.

The Longshore Act, which went into effect in 1928, covers about 500,000 people.

Co. of Pittsburg, Kan., in connection with the death last April of a worker who died when part of a wall collapsed on him. The worker was drilling holes for dynamite charges at the time of the accident.

Under federal law, employers can be fined up to \$10,000 and imprisoned for up to six months if their "willful" violation of an OSHA safety or health standard leads to a worker's death.

This is the first time that the Reagan administration has sought criminal prosecution of a company for an alleged OSHA rule violation.

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Wolf Trap losses

Wolf Trap Farm Park will receive money to rebuild the outdoor theater that was gutted by fire in April, but the famed entertainment complex will now have to buy property insurance to cover any future losses.

During the closing moments of its regular session, Congress approved a package of loans and grants to cover the cost of a new \$17 million, 3,500-seat amphitheater to replace the Filene Center, which was destroyed by the blaze.

The bill authorizes a \$9 million grant for the construction of a new theater. The measure also includes an \$8 million loan, which is to be repaid to the federal government by contributions raised by the private Wolf Trap Foundation.

In addition, the measure requires the foundation to buy property insurance to cover the new building. The Filene Center, which burned to the ground April 4, was not insured (BI, April 12).

Earthquake coverage

The federal government will not enter the earthquake insurance market.

The role of the federal government, at least for now, should be limited to conducting research, drawing risk maps and encouraging state and local governments to conduct earthquake preparedness projects, according to the Federal Insurance Administration, which now sponsors the National Flood Insurance Program.

According to a study conducted for the FIA by J.H. Wiggins Co., a consulting firm in Redondo Beach, Calif., most commercial and industrial plant owners are aware of the risks posed by earthquakes and have purchased insurance.

However, many small firms and homeowners have failed to take advantage of earthquake coverage offered by private companies, the study said. One reason is that they don't believe an earthquake will affect them, the report said.

"Federal involvement should only be considered after a proper balance between the private insurance industry and the government has been attained on other government insurance programs, and then only if it is clear that private industry is unable to provide the coverage," said Jeffrey Bragg, the FIA's administrator.

Construction death

The Occupational Safety and Health Administration is seeking criminal prosecution of a company involving a worker's death in a construction accident.

OSHA has asked the Justice Department to consider criminal prosecution of Heckert Construction



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Black lung law changes cheer coal operators

By STEPHEN TARNOFF

ARLINGTON, Va.—Legislation passed last year should cut the amount of black lung benefits paid to coal miners and reduce the coal industry's liabilities, participants at a recent conference on black lung claims say.

But the damage to the coal industry created by the Federal Coal Mine Safety and Health Act of 1969 and two subsequent amendments has already taken a tremendous toll.

That was the conclusion of several speakers at a two-day conference on black lung sponsored by The Energy Bureau Inc., a New York company that sponsors conferences on energy topics.

The original 1969 law and amendments passed in 1972 and

1977 brought many black lung claims under the jurisdiction of the Department of Health, Education and Welfare and later the Labor Department. As the amendments were passed, the law became more and more generous.

The 1977 amendment, for example, reopened 200,000 black lung cases that had previously been denied by HEW.

That amendment also created the Black Lung Disability Trust Fund to pay claims for miners who left the industry before 1970 and in cases where no responsible coal operator could be identified. The fund was to be financed by an excise tax of 50 cents a ton on underground coal and 25 cents a ton on surface-mined coal.

The speakers at the conference, including coal industry representa-

tives, cited a litany of problems and abuses that have plagued the federal black lung program. But, they added, the 1981 legislation should at least partially relieve many of the problems.

The 1981 amendments authorized:

- The transfer of liability for claims filed before March 1, 1978, from coal operators and their insurers to the trust fund.

- A tightening of benefit criteria including the elimination of benefits for deaths unrelated to black lung and elimination of various presumptions of total disability that did not require conclusive medical evidence that the miner suffered from black lung.

- The doubling of the excise tax on coal mine operators to \$1 a ton on underground coal and 50 cents a

ton on surface-mined coal to relieve a large deficit in the fund.

John L. Kilcullen, a senior partner with the Washington law firm of Kilcullen, Wilson & Kilcullen, called the transfer of claims to the trust fund the "most significant aspect" of the 1981 amendments.

He said the legislation in effect spreads the liability for some 18,000 claims to all coal operators, which must contribute to the trust fund.

But a group of claims remain in a "gray area" involving technical questions as to whether there was a denial of the claim prior to March 1, 1978, Mr. Kilcullen said.

He added that the net savings to the coal and insurance industries as a result of the transfer provisions could exceed \$1.25 billion.

The impact of the 1981 amendments will differ depending on a

coal operator's production level and its liabilities before they were passed, another coal company spokesman said.

Richard H. Weinzierl, supervisor of employee benefits for Barnes & Tucker Co. in Barnesboro, Pa., said coal companies with relatively low production levels may be relieved of significant liability since the tax that finances the trust fund is based on coal production.

But, high-production companies may pay a disproportionately higher share of the costs, he said.

"We experienced a number of transfer cases far in excess of our expectations, removing significant established liability," he said. "When we viewed this in combination with the current weak demand for metallurgical coal, it was obvious that we are a beneficiary."

Mr. Weinzierl said the 1981 amendments would keep the federal trust fund in the red since it will assume liability for claims formerly the responsibility of coal operators. However, the deficit will be moderated by the increased tax on operators and a prohibition against lump-sum payments for contested cases.

He added that the tighter eligibility requirements in the 1981 law should reduce prospective liability for claims filed on and after Jan. 1, 1982.

"The 1981 amendments represent a trend toward a disability program and away from an entitlement program," Mr. Weinzierl said.

Wayne R. Reynolds, a partner in the law firm of Keefe & DePauli P.C. in Fairview Heights, Ill., added that the 1981 amendments were reactions to abuses in the system following the enactment of the 1969 black lung legislation and the two later revisions.

Much of the "inherent irrationality" of the black-lung program was based on a reaction to a 1968 mining disaster and incorrect information given to Congress when the original legislation was enacted, he explained.

Under the previous versions of the law, many coal miners, widows and dependents have been receiving awards even though the miners may not have actually contracted black lung, he added.

"If a coal miner got sick or died, (it was perceived) he died from black lung," Mr. Reynolds said. "This is a perception prevalent in 1969 and a perception that lives on today in the coal mining community."

Stephen I. Richman, a partner in the Washington, Pa., law firm of Greenlee, Richman, Derrico & Posa, said the federal black lung program has lacked integrity and fairness.

Scientific truth has often been sacrificed when awarding claims, weakening public confidence in the program, he charged.

Citing a General Accounting Office study of 450,000 miners' widows and dependents receiving black lung benefits, Mr. Richman said medical evidence linking the disease to death or disability was not established in 85% of the cases.

"Should the present system of disability determination and workers compensation be changed?" Mr. Richman asked. "Yes, to a degree it should, in order to provide the system with more scientific integrity and fairness."

When the original black lung law was passed in 1969, its sponsors predicted that it would provide benefits to 50,000 people and that its total cost would not exceed \$50 million, Mr. Kilcullen added.

By 1977, more than 700,000 claims had been filed, he said, adding that the cost already has topped \$25 billion and could reach \$50 billion.

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Guaranteed cost insurance has drawbacks

ARLINGTON, Va.—Guaranteed cost insurance is a questionable means of financing black lung risks, a consultant says.

The limited market, the need to purchase policies for 15 to 20 years, and the rating mechanism used that distorts the cost create problems, Robert Briscoe, vp of J. Huell Briscoe & Associates of Chicago, said in a paper delivered at a conference on black lung liability sponsored by The Energy Bureau Inc.

The market is limited for both primary and excess guaranteed cost insurance.

The major provider of excess guaranteed cost insurance over a self-insured retention stopped writing the coverage in 1980, Mr. Briscoe noted, not naming the insurer.

Primary-level guaranteed cost insurance for black lung liability isn't even available from individual insurers, Mr. Briscoe noted. It is available only through a reinsurance pool of all work comp insurers in the coal mining states, a mechanism created in 1973.

The primary coverage is endorsed onto the basic workers compensation policy. Claim liabilities are assigned to policy periods using the claimants' day of last exposure to the occupational hazard. Each annual policy provides coverage for claims arising from that year's employment of a coal mine workforce.

It is necessary to purchase a continuous series of insurance policies to provide coverage for all claims, especially those likely to be filed after mining operations cease. This could mean buying insurance policies for the next 15 to 20 years.

At the very least, the mine operator will have to buy the coverage for at least five years under state regulations designed to protect the insurers from abuse by a self-insured operator who buys a policy when he shuts down his mine.

In addition, guaranteed cost insurance is very expensive and the rating method used may not reflect the actual emerging liability.

The rates, which are 5% to 40% of payroll, are computed by estimating the present value of the claims expected to arise out of the following year's working population. Each claim is funded completely in the year it is incurred.

These two problems, Mr. Briscoe said, "lead me to suggest that guaranteed cost insurance is a questionable means of securing black lung liabilities."

But, "there is no perfect method which deals reasonably with all the unique problems of black lung liabilities," Mr. Briscoe said.

The best any mine operator can do is select from the various funding possibilities and "assemble that method or combination of methods which best fit his particular circumstances."

The options, as Mr. Briscoe outlined them, are in addition to guaranteed cost insurance: self-insurance, forming a black lung trust, accepting retrospective rating on the black lung portion of a workers compensation policy and using a captive insurance company.

For coal companies that self-insure, there are various state requirements on bonding, submission of financial statements and timely benefits payment.

Companies often paid claims out of cash flow, but such pay-as-you-go methods have been generally discouraged by accountants.

Now, many coal mine operators who self-insure fund for black lung losses in methods similar to funding pension plans. They determine the ultimate cost of the claim, discount it to its present value and fund for it accordingly.

One disadvantage for the coal

mine operator, however, is that unlike pension fund reserves, reserves for black lung claims are not tax-deductible. The only payments that are deductible from a company's income tax are the actual claims payments made each year.

"These payments are today, and will continue to be for some number of years to come, a small fraction of the total yearly cost of black lung," he noted.

Coal companies can get around the deductibility question by setting up an irrevocable trust under Section 501(c)(21) of the IRS code, Mr. Briscoe said. Payments into the trust of actuarially computed provisions for liabilities are deductible.

But other concerns have limited the use of these trusts.

"The uncertainty of the mechanism in general, the irrevocability

of the trust and the general reluctance of most coal operators to commit large amounts of funds to any black lung funding mechanism have limited the use of such trusts to only a few coal operators who have unique reasons for establishing one," Mr. Briscoe said.

Another method of financing black lung risks is through group pooling, which some Kentucky mines are doing. The groups charge premiums, establish reserves and pay claims of member companies. Companies share in the underwriting experience and investments accrued.

Drawbacks to pools include their limited capital and the potential for loss for a member with good experience because another pool member has many losses.

"The relative advantage of shar-

ing an expected worse-than-average loss experience must be weighed against the potential disadvantage of assuming the adverse loss experience of other members of the group," Mr. Briscoe said.

Large coal companies also have made arrangements with insurers to pay for their black lung claims under agreements to "participate in the loss experience of the black lung coverage" while maintaining standard coverage for traumatic work comp claims.

This type of loss-sensitive or retrospective rating leaves the insurance company with "the primary obligation to pay each black lung claim under the workers compensation acts," Mr. Briscoe noted, and so "such arrangements have generally been undertaken only with coal operators whose financial con-

dition is very strong," Mr. Briscoe said.

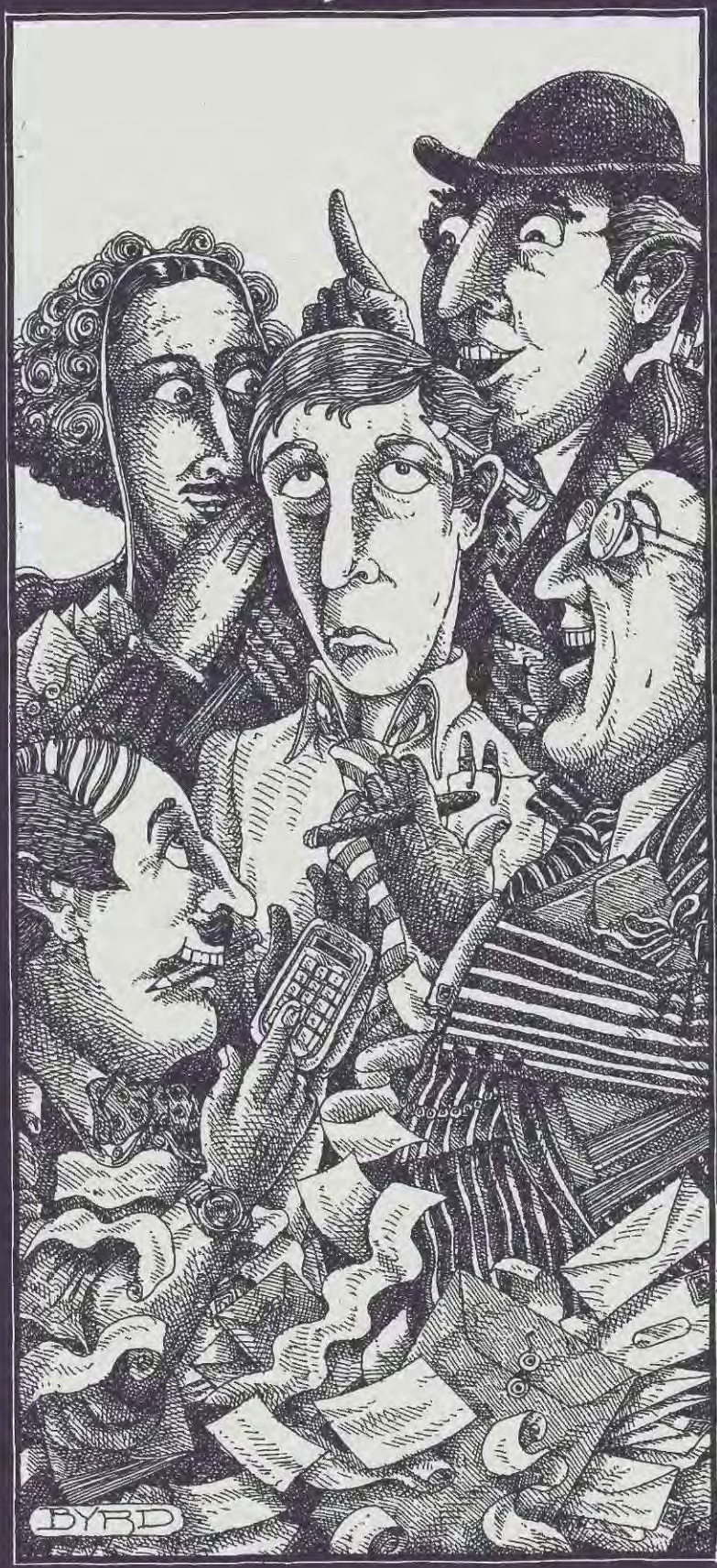
Other large coal companies have insured all or part of their black lung liability in captive insurance companies—either their own captive or using another company's captive.

A wholly owned captive is an effective way to control the insurance plan and operate it with a minimum of regulation, he adds, but he noted the Internal Revenue Service does not consider premiums paid to a wholly owned captive to be tax-deductible.

Placing the liability in a captive in which the operator has limited or no ownership could provide for deductibility of premiums but the operator sacrifices control and ease of administration of the plan, Mr. Briscoe added.

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Tough stance on black lung claims pays off

ARLINGTON, Va.—Coal companies can reduce black lung benefit costs by thoroughly investigating claims and actively participating in the claims process.

Speaking recently at an Energy Bureau Inc. conference on the medical and legal aspects of black lung disease, a coal company claims administrator and a defense attorney suggested how mine operators can do this.

They urged using independent physicians to determine if a worker does have black lung, checking prior medical and employment records and attending formal claims hearings to monitor the claimant's testimony.

Barnes & Tucker Co. of Barnesboro, Pa., a medium-sized coal producer, was facing a "disproportionately large black lung liability for

the size of our company" during the late 1970s, according to Richard H. Weinzierl, supervisor of employee benefits.

The company was receiving three or four claims a week with each having a present value of about \$65,000.

Because the company was unwilling to accept at face value the claimants' evidence that they had black lung disease, it developed a procedure to deal with the claims Mr. Weinzierl said.

"The question of the cost-effectiveness of mounting an aggressive defense is posed quite often in view of our legal costs," he said.

"When one weighs the cost of legal defense of a claim of questionable entitlement against the cost of accepting liability, the question is not whether we can afford to

defend them, but rather whether we can afford not to defend them."

First, when Barnes & Tucker is notified of a claim, all pertinent information concerning sickness, accidents and employment history is forwarded to company attorneys.

If the employee has not worked for the company recently, an investigation is launched to determine if the plaintiff had a subsequent employer. In black lung cases, the "last responsible operator" who employed the miner is liable for damages, Mr. Weinzierl said.

Once the company determines that it is the worker's last employer, it begins to check the claim.

If the medical evidence gathered by the company agrees with that of the claimant, the company pays the claim without a fight, Mr. Weinzierl said. But if the evidence dif-

fers, a defense is prepared.

As part of this step, the company uses internists from a rotating list of doctors, so none would be characterized as company doctors.

"Unfortunately, due to the diversity of medical opinions and the nebulous nature of the disease, many cases fall into a gray area" he added.

Disputed cases are referred to the Office of the Chief Administrative Law Judge for a formal hearing after the institution of interim benefits.

The defense then begins in earnest, Mr. Weinzierl said. But if it becomes apparent during defense preparation that the miner is entitled to benefits under the federal black lung compensation program, the company drops its fight and pays the benefits.

"There is nothing more damaging to credibility than to maintain a defense that has no basis in fact," Mr. Weinzierl added.

If the evidence gathered clearly shows the claimant is not entitled to benefits or raises questions about his entitlement, an "all-out defense" is begun.

A company representative attends all formal hearings to monitor claimant testimony and to make suggestions to the company's attorneys to clear up discrepancies.

When the claimant's ability to perform his job is at issue, the company might solicit testimony of his supervisor or check payroll records to see if the claimant worked extensive overtime.

"This has proven to be particularly effective in working miner cases in which the overtime worked post-dates the date of the claimant's medical examination and in death cases where the miner worked steady overtime up to and even including the date of death," Mr. Weinzierl said.

Also speaking on defense strategies at the conference was J. Randolph Query, a partner in the Charleston, W. Va., law firm of Jackson, Kelly, Holt & O'Farrell. He provided a checklist of things a company should do when a black lung claim is filed.

They include:

- Find out whether the liability can be transferred to the federal Black Lung Disability Trust Fund. Disability claims filed before 1978 are paid out of the federal fund rather than by the coal operators.

- Check the identification of the employee to determine if the company is the last responsible operator.

- Check the claimant's status as an employee. Even if he is employed by a coal company, he is not necessarily a miner or eligible for federal black lung benefits.

- Look at medical evidence in the record.

The company should then determine the nature of the claim. Some cases will be certain losers and should be paid, Mr. Query said. Others are certain winners and should be litigated. Some will require further investigation. ■

Quantitative techniques course offered

NEW YORK—The College of Insurance will offer the two-day seminar "Quantitative Techniques for Risk Management" at six sites around the country during the academic year.

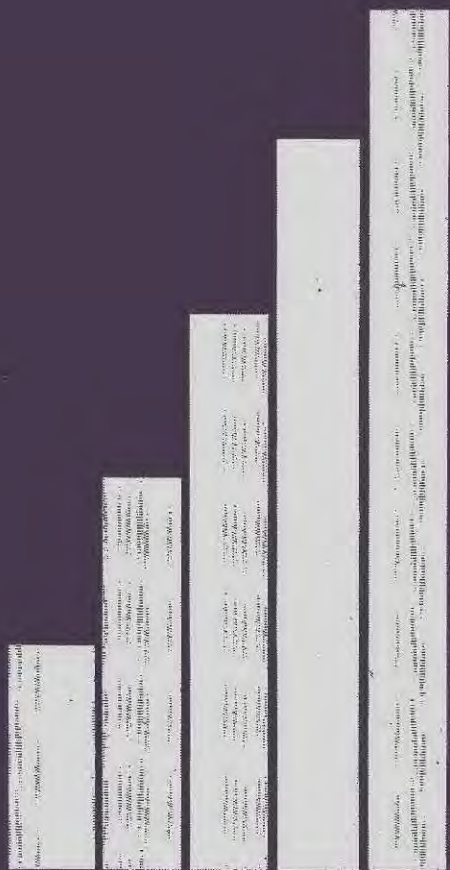
The seminar is designed for those who do not have in-depth mathematical backgrounds but must make decisions on such quantitative matters as retention levels and cash-flow programs.

The dates and locations for the seminars are: Oct. 21-22 in Houston; Nov. 18-19 in New York; Dec. 2-3 in Newport Beach, Calif.; Feb. 17-18 in New Orleans; March 17-18 in Chicago; April 14-15 in Denver; and May 25-26 again in New York.

The seminars are taught by Albert J. Beer, an associate professor at The College of Insurance.

Tuition for the seminars are \$495 at all the locations except New York, where the tuition charge is \$475.

To register or for more information about the seminars, contact the Property/Liability Insurance Division, The College of Insurance, 123 William St., New York, N.Y. 10038. ■



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Irish underwriter enters U.S. marketplace

The Insurance Corp. of Ireland is expanding into the U.S. market through a Chicago-based branch operation.

The insurer will offer all lines of property/casualty coverage to U.S. brokers, according to William D. Fleming, general manager-USA.

"We are starting in Chicago doing a general insurance business with American brokerage firms," Mr. Fleming said. "With Chicago as our U.S. headquarters, we expect to open an office in New York soon, as well as in a number of cities in this country in the near future."

"Insurance Corp. of Ireland is perhaps best known right now to U.S. producers for its aggressive stance in the London market. Initial efforts in the United States will be to extend and solidify these initiatives here," said Mr. Fleming, who previously was vp in charge of regional marketing for Marsh & McLennan Cos. Inc. in Chicago.

The insurer will maintain offices at 200 S. Wacker Drive, Chicago, Ill. 60606; 312-559-0509. It will hold an open house at the River Club at the same address at 5 p.m. Oct. 20.

Insurance Corp. of Ireland, headquartered in Dublin, posted written premium volume of \$72.4 million in 1980, with assets of more than \$287.5 million.

Illinois exchange

Members of the Illinois Insurance Exchange have elected a board of trustees to replace the interim board that directed the exchange during its first year of operation.

Louis W. Biegler, representing LWB Syndicate Inc., was elected chairman of the board. Robert L. Agnew, representing Northbrook Underwriters Syndicate Inc., was named vice chairman, and Peter Van Cleve, representing James S. Kemper & Co., a broker member of the exchange, was named secretary/treasurer.

The new 13-member board is made up of seven new members and six members of the interim board. The new members are:

- William MacMillian of RCA Syndicate #1 Ltd.
- Thomas H. Friedberg of Reliance Insurance Co.
- Guy K. Patterson of Lincoln Union Syndicate Inc.
- J. Howard Payne of Stewart Smith Mid-America Ltd., a broker member of the exchange.
- Paul S. Marvos of W.W. Blanch Co., another broker member.
- Richard B. Olgilvie, a former Illinois governor, who will represent the public.
- Illinois state Rep. Bernard Epton, another public representative.
- The six members of the interim board elected to the new board are:
- Harvey R. Hoth of Sentry Syndicate/Illinois Inc.
- Jeremiah Marsh of Hopkins & Sutter, a representative of the public.
- Michael J. Merlo of Pretzel, Stouffer, Nolan & Rooney, another public representative.
- Mr. Biegler.
- Mr. Agnew.
- Mr. Van Cleve.

Since the exchange opened in November 1981, it has issued policies for 75 risks including satellite and railroad coverages, said James M. Skelton, the exchange's executive director.

Captive management

Continental Risk Services Ltd. is expanding its captive insurance company management facilities, says President David B. Vaughan in Bermuda.

markets

While its largest management office is in Bermuda, with four clients, CRS also has an office in Cayman and is opening a new office in Vermont.

In Cayman, E.G. Alfred is assistant secretary and is managing the affairs of the first Cayman captive under CRS management, Great Republic Insurance Co. Ltd., owned by Kero-Sun Inc. in Kent, Conn.

In Vermont, John Titus will manage the CRS office in Burlington. CRS does not have any clients there yet.

In Bermuda, CRS is managing four captives: Glaxo Insurance (Bermuda) Ltd., owned by Glaxo

Holdings Ltd.; Golden Isle Assurance Co. Ltd. and Plymouth Insurance Co. Ltd., both owned by Charter Medical Corp.; and U.G.I.C. Ltd., owned by United Grocers Inc. in Portland.

The New Vermont office is located at 189 College St., Box 488, Burlington, Vt. 05402; 802-658-6102. The Cayman office is located in the Transnational Building, Box 705, Grand Cayman; 809-949-6477. The Bermuda office is located in the Warner Building, Box 824, Hamilton 5, Bermuda; 809-295-6015.

Franchisor expands

ISU Cos. Inc. has added a total of

29 new members in Arizona and Washington.

The San Francisco-based insurance agency franchisor, which recently refocused its program (BI, Sept. 6), has signed contracts with 15 agents in the Phoenix area, bringing the total number of franchise members in Arizona to 17, according to a company spokesman. The 14 new members in Washington bring the total in that state to 21, he adds.

Acquisitions

Rollins Burdick Hunter Co. has acquired Berrigan & Berrigan Inc., a property/casualty insurance brokerage based in New York. Berrigan & Berrigan will be merged with Rollins Burdick

Hunter of New York Inc.

New offices

Fireman's Fund Insurance Cos. is moving its home office from San Francisco to Novato, Calif., 25 miles north of San Francisco, during October. The move will be completed by Nov. 1. The new office's address is 777 San Marin Drive, Box 777, Novato, Calif. 94998; 415-899-2000. Corporate offices will remain in San Francisco and will be temporarily located at the current site at 3333 California St., Box 3395, San Francisco, Calif.; 315-929-2111.

INA Healthplan will open its new Central Dade Health Care Center at 1780 W. 49th St., Hialeah, Fla. 33011. INA Healthplan has 30,000 members in the greater Miami area.

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C.P. National names Sullivan to new risk management job

Jerry G. Sullivan, 45, is now assistant vp of risk management and real estate, a new position, at C.P. National Corp. in Concord, Calif. He will handle the company's corporate risk management program and real estate assets. Previously, Mr. Sullivan held risk management positions at Natomas Co. and Del Monte Corp. He received a law degree from Hastings Law School in San Francisco. He will report to James C. Roberson, executive vp and chief financial officer.

Carolyn L. Dalton was promoted to personnel vp at Utica National Insurance Group in New Hartford, N.Y. She will handle all corporate personnel functions including responsibility for employee benefits and the company's medical department. Ms. Dalton has been with the company since December 1981 as assistant secretary and director of human resources. She previously was a staff development officer with Oneida National Bank in Utica, N.Y., and also served as guidance coordinator in the Little Falls, N.Y., city schools. Ms. Dalton received a bachelor's degree from Utica College and a master's degree from Colgate University in Hamilton, N.Y. She replaces **Robert Strachen**, who retired after 35 years with the company. Ms. Dalton reports to President Jack B. Riffle.

Frank Capozzolo, 28, is the new risk and insurance administrator at Ivaco Inc. in Marieville, Quebec. He will administer the company's risk and insurance management programs. He replaces **Jacques Provencal**, who now works for an insurance agency. Mr. Capozzolo most recently served as a loss-prevention engineer specializing in petrochemical risks for Starr Technical Risks in Montreal, a division

comings & goings: buyers

of American International Group Inc. in Montreal. He received a bachelor of science degree in chemistry at McGill University in Montreal and is currently studying for the Associate in Risk Management designation. Mr. Capozzolo reports to Gerd Mayer, director of risk management and employee benefits.

The Home Insurance Co. has named **Herman N. Cohen**, 33 as vp of human resources. Mr. Cohen, who had been an assistant vp, will continue to be responsible for employee benefit and other personnel functions. Mr. Cohen is also an assistant vp with City Investing Co., The Home's parent. He will report to John D. Russell, senior vp of human resources for both companies. Mr. Cohen joined the corporation in 1979 as senior personnel

officer. In 1981 he was promoted to assistant vp. Before joining The Home, he worked with the Internal Revenue Service for nine years as chief of training and development for the Brooklyn/Queens/Long Island district. He received a bachelor of arts degree in psychology and education from Brooklyn College and a master of science degree in education from Hofstra University in Hempstead, N.Y. Mr. Cohen's new position was recently created as a result of a departmental reorganization.

We'd like to report on staff changes in your risk management or employee benefits department. Just drop a note to Sallie J. Drury, Editorial Assistant, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611, or call 312-649-5398. We would also like to receive photographs.

info

• A report comparing **small business package policies** is available from Rememberbooks. "Let the Buyer Be Confused!" contains 18 pages of charts comparing 53 small business packages, narrative detail and instructions for conducting your own policy comparison. To receive a copy, send \$10 for the report, plus \$2 for the optional policy comparison form, to Rememberbooks, Drawer 2501, Virginia Beach, Va. 23450.

• Kwasha Lipton is offering copies of two **publications on pension plans**. "Reducing the Burdens of the Final Average Pay Pension Plan" and "German Pension Plans

and the U.S. Parent" are available without charge by writing Department M, Kwasha Lipton, Box 1400, Fort Lee, N.J. 07024.

• Hyatt Third Party Administrator Software Group, a software consulting organization specializing in the development and evaluation of **software for third-party administrators** has published a list of software programs and their capabilities and of the consulting services offered by the company. For a free brochure and list of programs, write The Hyatt Group, 512 W. Belden Ave., Chicago, Ill. 60614.

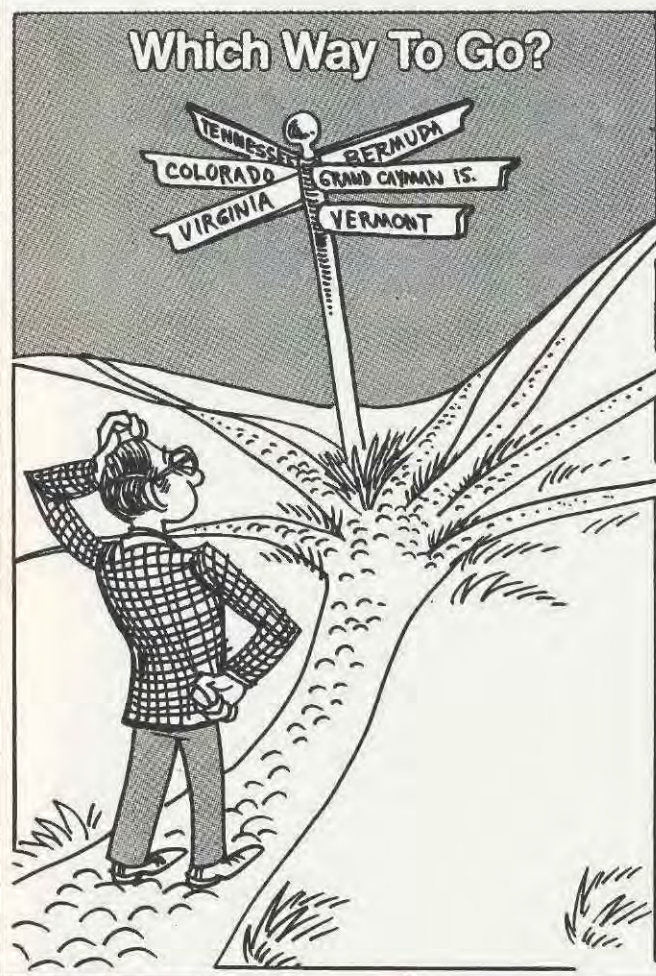
• Eliminating unnecessary treatment and long-term absences when employees are injured requires careful management. Aprim Inc., a consulting firm of rehabilitation nurses specializing in **loss control through rehabilitation and injury management**, has published a booklet describing their services. For a free copy, write Aprim Inc., 2625 Butterfield Road, Oak Brook, Ill. 60521.

• A booklet from the Loss Control Department of the Alliance of American Insurers, "Simplified Water Supply Testing," can help loss-control and municipal water departments test **water supplies used for firefighting**. The 48-page booklet is available from the Alliance for \$4.25 per copy. To order, write the Alliance Loss Control Department, 20 N. Wacker Drive, Chicago, Ill. 60606.

• The International Foundation of Employee Benefit Plans has published a book containing papers presented to Canadian plan trustees, administrators and advisers at its 14th Annual Canadian Conference. Topics include **government legislation, the future of pensions, pension reform, Canadian health insurance**. This 280-page paperback book costs \$8 for IFEBP members and \$14 for non-members. For copies, write Publications Department, IFEBP, Box 69, Brookfield, Wis. 53005.

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Control Data Corp. subsidiary opens Chicago wellness center

Life Extension Institute, a subsidiary of Control Data Corp., is now operating a StayWell Center in Chicago that provides preventive health care and health education services to employees.

The center, staffed by two physicians and other support personnel, will offer flexible physical examinations that may include cardiovascular stress tests, pulmonary function analyses, electrocardiograms, vision and hearing tests and 24-hour heart rhythm monitoring.

Other services include:

- Computer-generated health risk profiles based on questionnaires covering employees' family and personal medical histories, living habits and attitudes.

The profiles identify 10 major health risks each employee faces in the next 10 years or by age 40, and estimate an employee's chances of succumbing to any of the 12 leading causes of death. Staff counselors interpret the profiles and recommend steps employees should take to reduce health risks.

- One-hour health education courses on such topics as weight control, hypertension, stress, nutrition, coronary heart disease, alcoholism, smoking and cancer.

- In-depth "lifestyle change courses," which involve eight to 12 one-hour sessions and are aimed at weight control, improved eating habits, stress management, smoking cessation and general fitness.

- Employee assistance programs designed to help employees cope with emotional difficulties, family and marital problems, drug and al-

cohol dependencies.

Costs per employee range from \$25 for a one-hour course on hypertension to \$150 to \$200 for a physical exam and \$200 for the 12-hour course in general fitness.

Sales of the center's services have been slow so far, said Scott Keyes, the manager of the Chicago center, adding that "1982 is a bad year to sell another employee benefit."

Mr. Keyes said sales may grow in 1983 if the economy improves.

Control Data opened its first StayWell Center in New York last January and plans to open centers in San Diego, San Francisco and Philadelphia in the near future.

The Chicago center is located in the Chicago Marriott Hotel, 540 N. Michigan Ave., Chicago, Ill. 60601.

For additional information on Control Data's StayWell Centers, contact Dick Sommerstad, Life Extension Institute, Control Data Corp., Box O, Minneapolis, Minn. 55440; 612-853-7777.

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The annual price for the service for risk managers is \$128 per office. Requests that require more than 12 minutes of research, as well as requests for reproductions of materials, require an additional fee.

For subscription information, contact Continental Risk Services Inc., Commercial Bank Building, Suite 200, 1201 Dove St., Newport Beach, Calif. 92660; 714-851-9122.

Medical product cover

St. Paul Fire & Marine Insurance Co. is now offering product liability coverage for medical equipment manufacturers.

The coverage is designed for most manufacturers of medical equipment, ranging from small, disposable items like bandages to heavy-duty diagnostic machinery.

Limits up to \$1 million per occurrence and \$1 million aggregate are available. Umbrella coverage is also available. The policy also covers bodily injury and property damage caused by the equipment.

For more information on product liability coverage for medical equipment manufacturers, contact your agent or broker. ■

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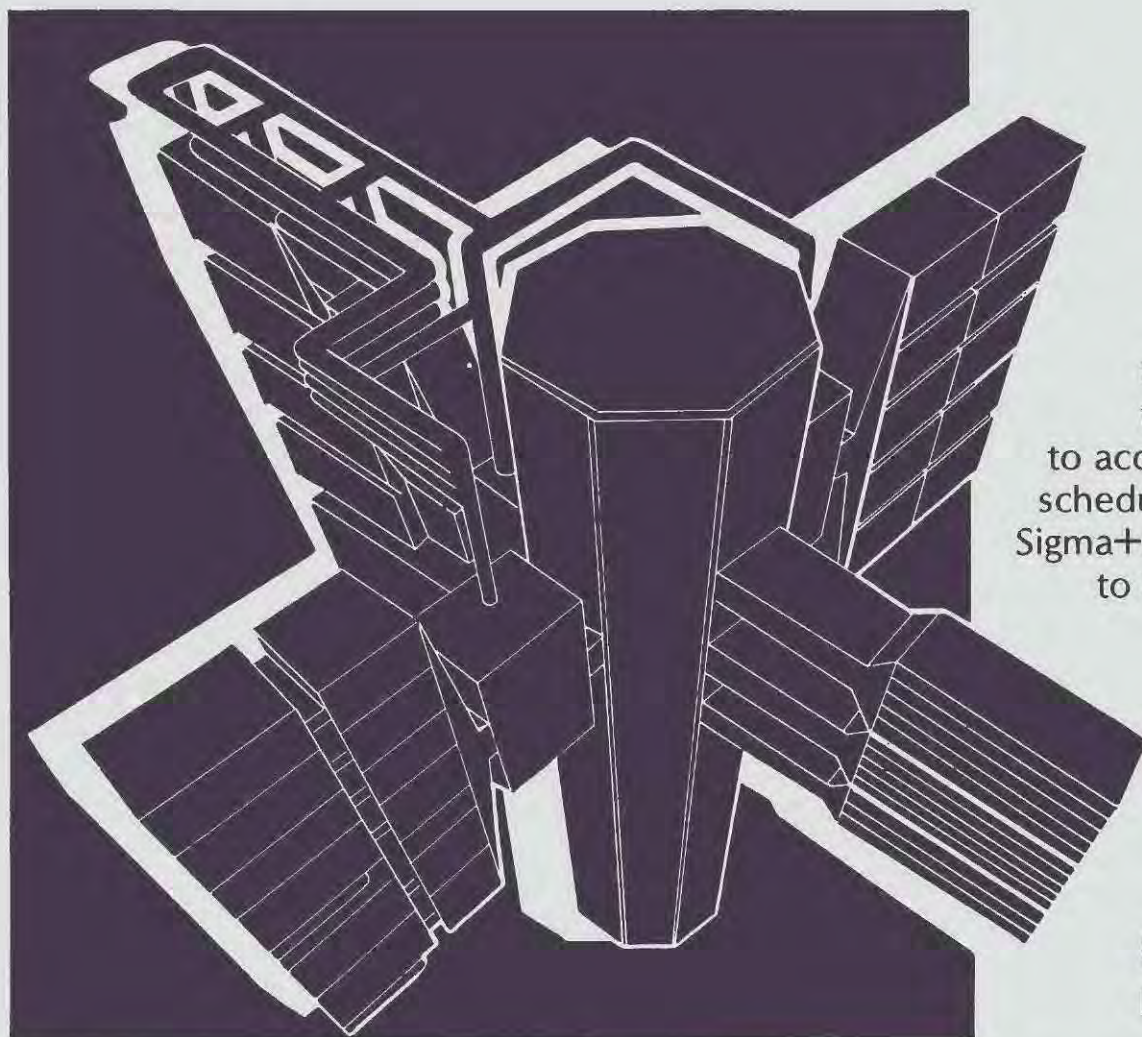
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Bond named commissioner in Texas

AUSTIN, Texas—Tom Bond is the new state insurance commissioner. Mr. Bond was selected by the State Board of Insurance to replace E.J. Voorhis, who retired last month.

Mr. Bond served as assistant deputy insurance commissioner in 1979-80 and supervised the reorganization of the board's information services section.

Mr. Bond received an undergraduate degree from Baylor University in Waco, Texas, and a master's degree from Bowling Green State University in Ohio. He will soon receive a law degree from the University of Texas in Austin.

He was working for the Austin office of Lynch, Chappell, Allday & Allsup, a Midland, Texas, law firm, at the time of his appointment.

"We consider it fortunate to get a person of his ability and broad experience. He has the intellectual capacity, integrity and administrative ability to qualify for this responsible position," said William P. Daves Jr., chairman of the state Board of Insurance.

Employee dismissals

CHICAGO—New rules governing the employment of the handicapped in Illinois allow employers to dismiss employees whose alcoholism, drug abuse or obesity interferes with the employee's ability to perform his or her job.

The new rules, which went into effect Sept. 15, specifically state that obesity and drug or alcohol abuse are not deemed to be handicaps unless the person can demonstrate that the condition arises from or constitutes the equivalent of a disease or functional disorder.

Previously, these conditions were protected by the regulations governing employment of the handicapped.

"We expect there will be a reduction in handicap charges as a

around the states

result of these rules," said Richard Bordelon, a staff attorney with the Illinois Department of Human Rights.

"A lot of handicap groups think these regulations are more pro-employer," he added.

The regulations, however, also govern the information an employer may demand of an applicant and how the information may be used in determining suitability for employment.

An employer, for example, may not require a job applicant to disclose all disabling conditions, according to the regulations.

In addition, while employers may require job applicants to submit to pre-employment physical or psychological exams, the employer may not disqualify an applicant on the grounds that the applicant has a condition or characteristic that merely presents a risk of future injury. Also, the employer may not consider the expense of providing group health insurance or the potential for a workers compensation liability.

A condition that can be a factor in the hiring decision is one that would make the person in a particular position demonstrably hazardous to the health or safety of the person or others, or if it is manifested or resulted in behavior (like absenteeism or poor quality or quantity of work production) that fails to meet acceptable standards.

Insurer fined

NEW YORK—The state Insurance Department has fined Horizon Insurance Co. of North Bergen, N.J., \$55,000 for multiple violations of state insurance law.

A market conduct investigation of Horizon's underwriting and rating practices found that it had:

- Deviated from filed rates for hospital malpractice, multiperil and automobile coverages.
 - Used unapproved and unfiled forms.
 - Failed to establish or maintain required rate verification procedures.
 - Written Free Trade Zone policies although it was not eligible to do so.
 - Maintained poor or inadequate records.
- In addition to paying the fine, Horizon has agreed to:
- Review and correct every policy it has written since it was given authority to do business in the state in 1981.
 - Correct and/or properly write all policies incorrectly placed in the Free Trade Zone.
 - Determine correct premiums and re-bill policyholders when necessary.

• Suspend all other Free Trade Zone activities until authorization from the department is granted.

• Submit future hospital malpractice policies to the department for review.

• Maintain complete and comprehensive underwriting files.

Horizon also said that it has hired a consultant to help it institute proper rate verification procedures.

State job safety plans

WASHINGTON—The federal Occupational Health Safety and Health Administration has approved supplements to state job safety and health plans in Wyoming, Utah and Indiana.

In Wyoming, changes were made to conform the state plan to changes in federal standards concerning fire protection, electrical safety, means of egress, hazardous materials and occupational exposure to lead.

In Utah, the state supplement in-

cludes rules and regulations dealing with explosive materials.

In Indiana, the revisions concern occupational exposure to cotton dust.

Copies of all three supplements may be inspected and copied at the OSHA Office of State Programs, Room N-2613, 200 Constitution Ave. N.W., Washington, D.C. 20210.

In addition, copies of the Wyoming revisions may be obtained from the state Occupational Safety and Health Department, 200 E. Eighth Ave., Cheyenne, Wyo. 82002. Copies of the Utah supplement may be obtained at the Utah Occupational Safety and Health Administration, 448 S. 400 E., Salt Lake City, Utah 84111.

Copies of the Indiana state job safety plan may be obtained at the state Division of Labor, 1013 State Office Building, Indianapolis, Ind. 46204.

Notices of the changes in the state plans were published in the Sept. 10 Federal Register.

U.S. Fidelity & Guaranty picks Paul Scheel as new president

comings & goings: industry

Paul J. Scheel has been elected president and chief operating officer of United States Fidelity & Guaranty Co., the principal subsidiary of USF&G Corp. He also was elected executive vp of USF&G Corp.

Mr. Scheel was previously executive vp of the property/casualty insurer and a vp of the parent organization. He joined USF&G in 1959 in the actuarial department.

Also, Robert R. Treweek and David H. Meehan have been elected executive vps of United States Fidelity & Guaranty Co.

Mr. Treweek was previously president of Cannon-Treweek Agency Inc. in Gainesville, Fla., and served as president of the Independent Insurance Agents of America. Mr. Meehan was most recently senior vp-data processing for USF&G.

Other insurer changes:

W. Jack Smith elected senior vp at Employers Insurance of Wausau-A Mutual Company, based in Wausau, Wis. Mr. Smith retains his current position as president of Wausau Underwriters Insurance Co., a personal lines insurance subsidiary, in St. Louis. In addition, Don Redmond and Phil Piety elected vp of Employers Insurance of Wausau. Mr. Redmond maintains his post as executive vp at Wausau Underwriters Insurance Co. Mr. Piety retains his post as president and chief executive officer of Wausau International Underwriters in San Francisco.

H.J. Bremermann Jr., chairman and chief executive officer of Maryland Casualty Co. in Baltimore, to be given new responsibilities with American General Corp. in Houston, Maryland Casualty's parent, after a merger with NLT Corp. is completed. Mr. Bremermann will have overall general management responsibility for Life & Casualty Insurance Co. of Tennessee, an American General subsidiary, and National Life & Accident Insurance Co., an NLT subsidiary. He will also retain his positions at Maryland Casualty.

Also, Don D. Hutson named president and chief operating officer of Maryland Casualty Co. Mr. Hutson was previously executive vp of the company.

Excess/surplus

Robert A. Pinto appointed director of surplus lines at Royal Insurance in New York. He will also manage the home office excess/surplus lines department.

William H. Boughey named senior vp at Stewart Smith Mid America in Chicago. He has responsibility for both the property and casualty departments. Mr. Boughey has been the head of the property department since 1977.

Peter J. Geier named vp at E&S Midwest, a managing general agent and broker in Minneapolis. Mr. Geier was previously the marketing manager at Mid-Continent Agencies Inc.

Other suppliers

Lawrence R. Hoehne named president of Rollins Burdick Hunter Management Inc., a captive insurance company service organization in Chicago. Mr. Hoehne has 21 years of experience in the underwriting and insurance brokerage fields.

Edward J. Gapp joined Buck Consultants Inc. in New York as manager of defined contribution operations, a newly created position. Mr. Gapp was previously assistant manager of benefits accounting and administration at AMAX Inc.

Dr. William Guillet joined Tillinghast, Nelson & Warren in Hartford, Conn., as a vp and director of medical care cost containment. He had been medical director for Aetna Life & Casualty Co.

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Senate panel approves federal tort reform

Continued from page 2

packaged product even if, for example, the product was leaking toxic fumes.

• Removing a section that limited the consideration a court could give to testimony from "expert" witnesses. The Justice Department lobbied against the provision, saying it conflicted with other federal statutes.

However, the committee agreed that the role of expert-witness testimony in product liability cases should be studied.

In addition, the committee agreed that suits involving capital goods, like printing presses, must be filed no later than 25 years after a product is delivered.

At one time, the committee had considered a 10-year liability period for manufacturers of consumer goods, but the current bill contains no time limit for the filing of such suits.

Finally, the committee decided that next year it would study whether manufacturers that comply with government safety standards should enjoy greater protection from product liability suits. Auto manufacturers, in particular,

have lobbied for such protection.

Compliance with government safety standards as a defense against liability was contained in an earlier draft of the Kasten bill, but it was removed because some committee members felt such rules are only minimal standards and should not be used as a shield against liability.

Despite these changes, the thrust of Sen. Kasten's bill remains the same: It would establish one uniform product liability law that would pre-empt state statutes that often conflict.

Such a law would reduce uncertainty in tort law, which makes it difficult for insurers and manufacturers to measure risk. This, in turn, contributes to wildly fluctuating product liability premium rates. Although the current soft market has made product liability insurance readily available at reasonable prices, when the market tightens, the new law will be needed.

The Commerce Committee's Oct. 1 action marks the first time that a congressional panel has approved a tort reform bill. That's considered remarkable progress since just a year ago, only Sen. Kasten showed

much interest in the subject.

Congressional interest has grown due to massive lobbying by business groups. In fact, hundreds of employers and trade groups have written to congressmen asking their support of federal product liability legislation. It also has support from insurance trade associations and some individual insurers.

Despite this massive support, enactment of a federal law next year is given only a 50-50 chance.

One major obstacle is in the House where Rep. Henry Waxman, D-Calif., chairman of the Energy and Commerce Committee that has jurisdiction over product liability issues, hasn't shown much interest in a federal tort reform law. Mr. Waxman is expected to be re-elected in November.

Although the chances of enactment of a federal product liability law are more favorable now than several months ago, the outlook has dimmed for longshore reform, which many observers had predicted would pass this year.

Bill S. 1182 that would have overhauled the federal Longshoremen's and Harbor Workers' Act never moved out of a House com-

mittee after gaining unanimous Senate approval earlier this year.

Lobbyists supporting the measure say time simply ran out after House Education and Labor Committee staff members raised numerous technical objections to the bill.

However, the measure could possibly be enacted during the special post-election session that begins Nov. 29, said Tom O'Day, government relations officer at the Alliance of American Insurers.

Key provisions in the bill, sponsored by Sen. Don Nickles, R-Okla., include limiting maximum future benefit increases to 5% a year, limiting jurisdiction of the act to workers engaged in maritime activities and eliminating death benefits to survivors of injured workers who die from causes unrelated to a

job injury (BI, Sept. 6).

On the benefits front, legislation that would have raised the annual premium that employers with pension plans must pay to the Pension Benefit Guaranty Corp. to \$6 per participant from \$2.60 was not passed by committees in either house.

The fate of the premium hike is linked to complex legislation that would make it more difficult for employers to dump underfunded pension plans on the PBGC. So far, Congress has not acted on that.

Other benefit legislation, including bills that would require employers to offer workers a choice of health insurance plans and that would amend the controversial Multiemployer Pension Plan Amendments Act of 1980, were not passed before Congress adjourned. ■

Rath, PBGC settle termination

Continued from page 2

Beginning in 1985 and continuing until 1994, Rath will pay the PBGC a percentage of its profits depending on how much Rath earns. For example, if Rath earns up to \$5 million, it will pay the PBGC 15% of pretax profits. If the Rath earns between \$5 million and \$10 million, it would pay 15% of the first \$5 million and 20% of the second \$5 million. The PBGC would receive 25% of any profits exceeding \$10 million.

Last year, Rath lost \$9.5 million; in 1980, it earned \$3.3 million.

Finally, Rath may not set up a

new pension plan over the life of the agreement. Rath Treasurer Charles Soloday earlier told *Business Insurance* that the company has no plans to set up a new corporate pension program. Instead, it planned to urge its 2,900 employees to set up Individual Retirement Accounts.

Both Rath attorneys and PBGC officials say the proposed agreement is a fair solution.

For Rath, the agreement removes the enormous pension liability that threatened its survival.

Rath also now has a chance to get more badly needed working capital

from lenders. In addition, it no longer will have to pay the whopping \$9 million a year it says it costs to fund and pay benefits for the three plans that have about 6,300 participants.

The PBGC also gains. If Rath had been forced into bankruptcy, the PBGC might have gotten nothing. "What's the net worth of a company that goes bankrupt? Thirty percent of nothing is nothing," an observer said.

"We don't want to be in the business of forcing firms out of business," added Edwin Jones, the PBGC's executive director. ■

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Kaiser wins case against IRS

Continued from page 1

Oct. 1 order to appeal the decision to the 9th U.S. Circuit Court of Appeals, which has decided similar cases in favor of the taxpayer.

Judge Ingram's decision that Kaiser was entitled to a tax deduction for the reserves it established to pay workers compensation claims applies only to the 1964 tax year. As a result, the IRS must refund the taxes, plus interest, Kaiser finally paid in 1973 in the dispute. The total is estimated at \$500,000.

Still open to dispute between Kaiser and the IRS are all the tax years since 1964 during which Kaiser continued to take similar deductions, which amount to a potential \$15 million in back taxes. Kaiser is prepared to go back into court to defend those tax deductions, too, Mr. Dawes said.

Judge Ingram's decision is the first time any court has ordered the government to make a refund under these conditions.

More significantly, his opinion is the first to address both aspects of the so-called "all-events test" as applied by the IRS to all reserves for workers compensation claims to

determine if a taxpayer can deduct these expenses that are not paid in the tax year.

The all-events test as applied by the IRS seeks to determine whether all of the events that determine the fact of liability occurred during the period in question and whether the amount of that liability was determined with reasonable accuracy.

Two previous rulings on cases involving tax deductions for self-insured workers compensation reserves failed to resolve these issues.

Judge Ingram's decision is the sequel to the most famous of the two previous decisions, the 1975 decision of the 9th Circuit in the Crescent Wharf & Warehouse case.

In Crescent Wharf, the 9th Circuit ruled that injury to an employee establishes the fact of liability, but in sending the case back for a trial on the second aspect of the test, the court said that the trial court must determine if the amount of liability was determined with reasonable accuracy.

The case was never tried again because the IRS and Crescent Wharf settled the case.

The other decision, Wien Consolidated Airlines Inc. in 1976, involved only death benefits.

Since that time, tax experts have extensively debated the degree of proof that would be required to satisfy the test of reasonable accuracy. The IRS issued a ruling in 1980 that it would not follow the two decisions and has challenged deductions for self-insured reserves.

Many taxpayers have relented, tax attorneys say.

In arguing its case in Kaiser, the government said that because the fact of injury and liability in Crescent Wharf was determined on a case-by-case basis, tax law principles and the duty of consistency similarly require that the accuracy of the amount of liability also be determined on a case-by-case basis.

Judge Ingram disagreed. While finding Kaiser was reasonably accurate in setting reserves on both an individual and aggregate basis, he also ruled that, "It is not required that workers compensation liabilities be accrued on a case-by-case basis."

Kaiser assembled a battery of experts to convince the judge during the trial conducted in the summer of 1981 that it did determine its liability with reasonable accuracy. Witnesses included Robert A. Geyer, the former administrator of workers compensation claims for Kaiser, and Edward Struck, former director of self-insurance for the state of California who had audited Kaiser's self-insurance program.

The government did not present any expert witnesses. "We could not find any to testify because they all have self-insurance clients. Regardless, the position was that an expert wasn't needed to determine reasonable accuracy. This was a legal issue," said Marc Levey, who tried the case for the government on special assignment after leaving the Justice Department in January. He now is an attorney with Kirkland & Ellis in Chicago.

Instead, Mr. Levey presented charts that showed how much final claim payments differed from the originally established reserves.

Mr. Dawes, Kaiser's attorney, called Mr. Levey's methodology "self-created, self-serving and indefensible," especially because it compared only initial estimates with final payments.

Judge Ingram's 38-page opinion details exactly how Kaiser established reserves for workers compensation cases since it began self-insuring for disability and death benefits in 1964.

The company maintained a separate file for each injured employee, as required by the state laws governing self-insurers of workers compensation. The file included

the dollar amount of the initial reserve, a record of payments and adjustments to the reserve.

In 1964, there were about 1,492 accidents among 10,000 workers requiring that case reserves be established, and at year-end there were 314 cases that were still open.

Kaiser's accounting department determined the tax deduction for workers compensation expenses by adding together the cash payments made in 1964 to injured employees and the aggregate reserves for future payments reported by its insurance department.

The four-person workers compensation unit within the insurance department administered the claims under the direction of Mr. Geyer, who is now retired.

Judge Ingram notes that Mr. Geyer "was and is qualified and experienced in light of his training and work dating back to 1937 in the field of workers compensation insurance. He is knowledgeable in the procedures and methods used by physicians in evaluating and reporting on industrial injuries and is skilled in the use of the various schedules and tables provided by the California Labor Code and administrative regulations and publications for the determination of workers compensation benefits."

Mr. Geyer received all reports from doctors after an employee was injured. He reviewed the so-called "doctor's first report," which included information on the nature and extent of the injury, the diagnosis, the prognosis, whether the employee had been placed off work, the predicted period of disability, if any, and the extent of permanent disability, if any.

Based on his evaluation of the report, his training and experience in reserving for claims, Mr. Geyer would complete a "computation of reserve form," which addresses all the relevant data in light of statutory specified benefits.

The computation of reserve form provided the method for determining three types of workers compensation benefits: medical benefits, temporary disability benefits and permanent disability benefits.

In computing the medical benefit, for example, Mr. Geyer would review the doctor's medical evaluation considering the nature and extent of the injury, the type of work performed by the worker, the worker's age, any description of the need for further treatment, the usual and customary fees for those future services and the experience and judgment of Kaiser's personnel regarding the medical expenditures expected for treatment.

The same factors were considered in computing the amount included in the temporary disability reserve, as were the factors of the expected duration of temporary disability and the weekly temporary disability benefit determined from the employee's wage and the statutory benefit formula.

Judge Ingram noted that in calculating the duration of temporary disability, Kaiser not only relied on the experience of the claims examiner and the opinion of the treating physician, but also on tables that provide the average length of disability for various conditions.

Similar methods were used in calculating the reserve for permanent disability benefits, using applicable schedules for rating permanent disability and the statutory formulas for computing benefits.

Judge Ingram found that for each type of benefit, "This process enabled Kaiser Steel to determine the amount of its liability with reasonable accuracy." Each case was placed on a master claims register to schedule benefit payments and periodic review of the file.

The government complained in its brief that files were reviewed only every six months, but Mr. Dawes said they were reviewed quarterly or whenever new information was submitted.

Mr. Struck, who was manager for self-insurance plans for the state of California from 1964 to 1977 and in that position audited Kaiser's reserves, said in an interview last week that "Kaiser did an outstanding job" in setting and maintaining accurate reserves.

"The government tried to prove that it was sheer blind luck (that Kaiser's reserves were close in the aggregate). We said, 'No, it was actuarially sound.'"

Mr. Struck, who is now the administrator of Shell Oil's self-insurance program, called Judge Ingram's decision "proper."

"There is no reason for the gross discrimination against self-insurers when they allow insurers to do it (deduct reserves) every day, especially in view of the fact you can predict workers compensation losses with reasonable accuracy."

The judge found, based on Mr. Struck's testimony, that "Kaiser Steel in 1964 could and did determine its individual and aggregate workers compensation liability with reasonable accuracy."

The judge also noted, to support his finding, that Kaiser estimated its aggregate liability with reasonable accuracy even when excluding all cases that were closed as of Dec. 31, 1964, and 22 contested cases.

Comparing the Dec. 31, 1964, reserve of \$425,418 to the amount paid and to be paid, Kaiser Steel will pay 117% of the liability reported on the 1964 tax form. Similarly, comparing its reserve from the date of injury of \$664,915 to what it has and will pay, it had paid 111% of its liability, the judge said.

The changes in the aggregate reserve after 1964 over the ensuing 17-year period amounted to 15.06%.

Of the 314 cases that remained open at year-end 1964, Kaiser Steel contested liability in 22 cases. Although it had claimed a deduction for the \$21,084 in reserves on these cases on its 1964 tax form, it did not claim the deduction at the trial.

Both Mr. Levey and Mr. Dawes were surprised by Judge Ingram's decision, Mr. Dawes said.

Interestingly, Mr. Levey noted the government had selected this case for trial "because we had good facts to make the case and because the case was further developed than other cases in the audit stage. There were other cases that were settled on various terms agreeable to the taxpayers and the government."

The national office of the IRS and the Justice Department handled the case instead of the local IRS attorneys, presumably because the IRS considered it a very important issue.

The government may decide not to appeal the Kaiser case, Mr. Levey said. The government could let it sit as a decision limited to the facts and circumstances unique to Kaiser and not applicable to other taxpayers. Or, the government could attempt to litigate another case in a more favorable district and create a conflict of opinions.

If the government does appeal the Kaiser case and loses, Mr. Levey suggested it would seek a Supreme Court review.

Whether there is an appeal in the Kaiser case, Messrs. Levey and Dawes agree there will be more litigation on this issue.

"If you think the government is going to give up because of the Kaiser loss, you would be sadly mistaken," Mr. Levey said.

Tax attorney James Cameron of Baker & McKenzie in New York, who often speaks on this issue, observed, "either they will appeal this judgment or seek to litigate other cases in the area."

His advice: "First, do a very good job of reserving and take great care. In spite of this decision, I'd still try to do it on a case-by-case basis and an aggregate basis. When I took reserves, I would clean out contested cases and not claim them."

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Supreme Court to review longshore ruling

Continued from page 1
wives.

- Whether a federal court erred in ruling that a California-based self-funded multiple employer trust was not a benefit plan protected from state regulation by the federal pension reform law.

- Whether Massachusetts has the right to require insurers selling group health insurance plans to offer certain benefits.

- Whether the District of Columbia has the right under its home rule statute to pass its own workers compensation law to replace the Longshore Act, which had determined comp benefits in Washington.

The first longshore case involves James Hilyer, an employee of Morrison-Knudsen, a giant construction firm based in Boise, Idaho, who died in an accident during construction of Washington's subway system in 1974.

The collective bargaining agreement between Morrison-Knudsen and Mr. Hilyer's labor union required the company to contribute to three union trust funds that provided, among other things, pension and health insurance benefits.

An administrative law judge said that, under the Longshore Act, Mr. Hilyer's widow was entitled to two-thirds of his weekly salary at the time of his death, or about \$190.

However, Mrs. Hilyer and her attorney appealed the decision, arguing that the employer's contributions to the trust funds, which equalled 68 cents per hour, should also be included in determining Mr. Hilyer's weekly wage.

An appellate court in Washington agreed last December. Benefit "contributions must be included as part of the employee's average weekly wage in computing the compensation due under the (Longshore) Act," the court said.

"It is clear that if the value received by the employee is reasonably identifiable and calculable, then it must be included in the average weekly wage of the employee," the court added.

If the value of employee benefits were to be counted as wages, as the appellate court ruled, the cost to employers would be enormous.

Some experts estimate that the average work comp claim could rise 10% to 50%. A recent survey by the U.S. Chamber of Commerce showed that the value of benefits equals 37.1% of payroll, or more than \$6,000 per employee.

While the case only applies to the estimated 500,000 workers covered under the federal Longshore Act, the court's decision could set a precedent that other courts might follow in injuries covered under state work comp programs.

In the pregnancy benefits case, Newport News Shipbuilding sued the Equal Employment Opportunity Commission, which issued guidelines implementing the 1978 pregnancy discrimination law. The EEOC said if an employer's health insurance plan covers the medical expenses of female employees' spouses, it must equally cover the maternity expenses of male employees' wives.

In January, the 4th U.S. Circuit Court of Appeals upheld the EEOC guideline, a costly blow to employers that say the pregnancy act only mandates equal benefits for pregnant employees and not to male employees' wives, (BI, Feb. 1).

Nationwide, the cost of equalizing spouses' pregnancy benefits could run into the tens of millions of dollars for thousands of employers who do not provide equal pregnancy benefits in their dependent health insurance plans.

Newport News Shipbuilding says its annual health insurance costs would rise by \$700,000 if it were

forced to provide equal benefits to pregnant wives of male employees.

In its largest group insurance plan covering hourly employees, Newport News Shipbuilding currently pays all reasonable and customary expenses for spouses of female employees, but it places a \$500 cap on pregnancy benefits for wives of male employees.

The MET case involves Insurance & Prepaid Benefit Trust, a self-funded multiple employer trust in Tustin, Calif., providing comprehensive health care benefits to 5,400 employees. The MET has asked the high court to review federal court decisions that dismissed IBT's contention that it was an ERISA benefit plan.

U.S. District Court Judge Robert Takasugi ruled last year that IBT flunked a key test to determine if it

qualified as an ERISA benefit plan. It could not prove it was controlled by the employers involved in the trust, instead of by its third-party administrator (BI, Aug. 3, 1981).

A clause in the agreement between the trust and its administrator gave the administrator the potential to control the trust by allowing the administrator to withhold certain records.

However, Thomas Wilkie, the president of Insurance Benefits Inc., the administrator, said the offending clause was removed in December 1979. Judge Takasugi's analysis of the MET was based on how it was structured on July 23, 1979, the date the Labor Department issued an advisory opinion saying that IBT was not a benefit plan under ERISA.

Self-funded METs, which have

been collapsing in increasing numbers, often seek court recognition that they are ERISA benefit plans to protect them from state regulation. State regulators want to shut these METs down as unauthorized insurers.

In another ERISA-related case, The Travelers Insurance Co. and Metropolitan Life Insurance Co. are challenging a decision this spring by the Massachusetts Supreme Court upholding a state law that requires insurers to offer certain benefits, like mental health coverage, in group health insurance plans they market in the state.

The insurers say ERISA bars states from requiring that specific benefits be offered in health insurance plans. However, the Supreme Court previously refused to consider this issue.

On the property/casualty side, the Greater Washington Labor Council is challenging an appellate court decision that upheld the District of Columbia's right to enact a new workers compensation law.

In 1979, the Washington City Council enacted a new work comp law that provides substantially lower benefits than the federal Longshore Act, which had served as Washington's workers compensation law.

For example, the maximum weekly benefit payable to an injured worker under the District of Columbia law is \$396; the maximum longshore benefit is about \$524 a week.

City officials say they had the right to enact the work comp law under home rule powers granted by Congress.

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Theater drops curtain on risks

Continued from page 3
tion.

When touring in the southeast and southwest parts of Alaska, Mr. Taber typically trucks the property to the nearest port-of-call for the Alaska Marine Highway System of ferries.

The Anchorage-to-Fairbanks run is a piece of cake in a truck or by rail. A good road connects the cities, which are also served by the Alaskan railroad.

But, tours to the north and west of Anchorage are all done by air.

"We have no other choice but to fly in," Mr. Taber says. "The ports are all iced up, and there are no roads."

While Mr. Taber tends to coverage for the technical equipment and movement of materials, Mark Somers, the Rep's managing director, is in charge of insurance for people.

Providence Washington Insurance Co. of Rhode Island underwrites the Rep's liability coverage. The Rep carries \$500,000 in first-dollar coverage, for which it pays \$2,305.

The main liability concerns are "slips and falls" and damage to property, Mr. Somers says. "Mainly, we don't want to get sued."

This can be a dicey proposition, Taber adds. "There are something like 1,200 practicing lawyers in Anchorage, which has a population of about 200,000, and they all seem to keep very busy. This is a very litigious state."

Providence Washington also provides workers compensation coverage for the Rep's employees—another wildly fluctuating number.

The theater group has 24 full-time, year-round employees, but during touring season it is required to provide workers compensation for as many as 300 people, many of whom are not paid a salary.

This year's Rep-sponsored tour of New York's All Children Theater illustrates the kind of situation that can arise, according to Mr. Somers. None of the child actors is paid a salary, so the workers compensation premium is based on the value of expenses—food, travel and lodging—provided by the Rep.

Mr. Somers notes that when such groups are brought into the state, the Rep must comply with Alaska's "bunkhouse" law, which requires 24-hour-a-day coverage and makes virtually all injuries compensable on the grounds that the employee wouldn't have been in the area at all if it weren't for the demand of the job.

Last year, the Rep paid about \$46,493 for its workers compensation coverage.

In all, the coverages for the mobile property, liability and workers compensation ate up about 2% of the Rep's total 1981 budget of \$3.2 million.

While the theater does not own any of the buildings in which it performs, it is responsible for damage to such attachments as curtains and drapes, which it discovered through trial and error. Mr. Somers is also responsible for arranging this insurance.

The theater group operates out of a theater in Anchorage, which is owned by the city; a theater in Juneau, which is owned by a private group; and a theater in Fairbanks, which is owned by the University of Alaska.

Mr. Somers recalls that the Rep once tore a curtain at the Anchorage facility. "We assumed, incorrectly as it turned out, that the curtain was covered. The loss slipped between the city's and our insurance policies. We're patching that leak now by getting from the city an inventory of all such items (attachments the Rep would be responsible for) which we'll include in our theatrical floater policy."

All in all, Mr. Darling of Alexander & Alexander says the Rep has had good loss experience. Most losses are relatively minor and usually involve people receiving slight injuries while building sets and moving material, he says.

The people at the Rep, on the other hand, knock on wood. "Nobody's hit the ice slick and gone over the edge yet, and we haven't crashed into the side of that mountain at the end of the runway in Kodiak," says Mr. Taber.

"That doesn't mean it won't happen. Insurance is for when you need it, and the rest of the time, you just try to keep things covered and watch the expenses."

Asbestos ruling could be defendants' breakthrough

Continued from page 3

to asbestos whose specifications were mandated by the government, he added.

The decision is based on one recently handed down in litigation filed by veterans seeking to hold manufacturers of Agent Orange liable for injuries they allegedly suffered from exposure to the herbicide during the Vietnam War (*BI*, May 3).

In those cases, a separate trial to determine if the government contract defense is valid will also be held. Mr. Rivkin is the lead counsel for the defendants in that litigation, too.

Jeffrey Silberfeld, an attorney with Mr. Rivkin's firm, added that Judge McGovern's decision is significant because it marks the first time a judge has recognized the government contract defense in asbestos litigation and because it sets up a procedure by which to conduct the defense.

Mr. Silberfeld acknowledged that if the defense does not succeed, it will delay resolution of other issues pending in asbestos litigation. If successful, however, it will save an enormous amount of judicial time and expense.

At the separate trial to establish the defense, defendants will have to prove four elements laid down in Agent Orange litigation for the government contract defense to apply:

- The product was supplied to the government pursuant to a contract.
- The government established the specifications for the product.
- The product met the government's specifications in all material respects.
- The defendant did not have and failed to disclose information unknown to the government about the hazards associated with the use of the product that might reasonably have affected its decision to specify its use.

In his ruling, Judge McGovern rejected the plaintiffs' arguments that a government contract defense was only permissible in cases involving the manufacture and supply of weapons or ordnance in a war effort.

"The crucial inquiry is whether the product was supplied pursuant to, and in compliance with, mandatory government specifications," Judge McGovern said. "Furthermore, the war powers rationale is not the only basis for the defense. One court reasoned it as being a

means to preserve tax revenues."

The government contract defense can apply even if the defendant sells the product to private concerns after it was developed for the government, Judge McGovern added.

"It seems logical to allow the defense irrespective of the product's general application if the specifications are the type of design specifications coming within the ambit of the rule and the four elements from Agent Orange are met," he said.

A trial to rule on the defense could speed up asbestos litigation since a favorable decision for defendants would absolve them of liability and halt the claims against them, he said.

Plaintiffs' attorney Charles Patrick of the firm of Blatt & Fales in Charleston, S.C., called the decision "unfortunate." "We're just going to have to deal with it." Mr. Patrick added that the basis for the decision was wrong. The government contract defense deals primarily where the government orders munitions in a war effort and companies are required to conform.

"It's not like this for asbestos," Mr. Patrick said. "It's used commercially, not just for the purpose of warfare."

Rather than forcing companies to conform to government specifications, the government went to the industry and asked what it had to fill the particular need, Mr. Patrick said.

"I think the decision will not gain any type of acceptance," he added, noting it has been raised before and never been successful.

Mr. Patrick also objected to the separate trial to be held on the government specifications issue. Such a trial will result in an unnecessary delay and also subverts the balance between plaintiffs and defendants in the legal system.

"If we (the plaintiffs) win, it wastes all the resources of having a separate trial on this one issue," he said. "It's trying the cases piecemeal."

The case was a consolidated suit brought on behalf of three plaintiffs. In addition to Pittsburgh-Corning, other defendants in the suit include Fibreboard Corp., Eagle-Picher Industries Inc., Unarco Industries Inc., J.P. Stevens & Co., Keene Corp., Celotex Corp., and Amatec Corp.

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Commercial Consumers Sub-total	23,083
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Financial Institutions	314
Actuaries, Attorneys, Adjusters, Appraisers & Consultants	2,408
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*Source: Business/Occupational breakdown of qualified circulation, May 3, 1982 issue, as submitted to BPA for June 1982, BPA Publisher's Statement.

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Liability questions

Continued from page 1

by the respective fathers of a husband and wife who died, ask for \$5 million in compensatory damages and \$5 million for pain and suffering.

All three suits charge the Tylenol makers with manufacturing a product that was "unreasonably dangerous" when it left the plant because poor packaging made it susceptible to tampering.

"Under the legal doctrine of strict liability it is not necessary to show that criminal tampering of the Tylenol was foreseeable by Johnson & Johnson," explained Mr. Ring.

The plaintiffs would have to show that Johnson & Johnson knew, or should have known, that it was putting a dangerous product into the stream of commerce to prove negligence, which is the second count in the three suits. This is a tougher charge to sustain.

Although most legal authorities queried by *Business Insurance* agree that plaintiffs have a basis for suit against Johnson & Johnson, most of them believe that such cases could hinge on the issue of foreseeability.

Would a jury rule that Tylenol makers could have foreseen the possibility of criminal contamination of their products?

"It is not a simple case for the plaintiff because a jury might decide that there is no way to guard against criminal acts," points out Sheila Birnbaum, associate dean of the New York University Law School.

Johnson & Johnson's liability could be cut off under the legal doctrine of superseding cause, she added. A superseding cause, like criminal contamination, could be so clearly responsible for the ultimate injury that the defendant's negligence in designing a faulty package would not be a substantial factor.

"This is a case of first impression

—there is nothing like it," observes Jerry Phillips, a professor of law at the University of Tennessee College of Law, who believes that plaintiffs will not be able to prove Johnson & Johnson is liable.

"When the product left Johnson & Johnson, there was nothing wrong with it," he observed. "In order to prove strict liability, you must find a defect in the product at the time it left somebody's hands."

Of course, the plaintiffs are likely to argue that the product was packaged in such a way that it could be tampered with, he added. "But a reasonable person could not have foreseen that would happen." The criminal act will relieve Johnson & Johnson's liability, he predicted.

"My hunch is it will be easier to reach the retailer," said Professor Phillips, based on the hypothesis of investigators that Tylenol capsules were contaminated after they reached store shelves.

"Could a retailer have foreseen that a maniac would tamper with a product? Probably a court would say no. It's a crushing burden," he said.

Paul Rheingold, a New York attorney who describes himself as a "doctrinaire plaintiff attorney," disagrees. "The test is foreseeability," he argues. "And nuts have tampered with products before. The files of the FDA (Food and Drug Administration) are filled with examples of it."

"Notice comes to drugmakers in many ways," he points out. The FDA publishes a newsletter that alerts manufacturers to such events. Common sense should suggest to a prudent manufacturer that products can be tampered with after reading about eyedrop contamination in Los Angeles, he says.

A criminal act will not let Johnson & Johnson off the hook, he contends. The recent trend in the law is to extend responsibility. For

Calls for packaging safeguards increasing

The Food and Drug Administration and a handful of state and local government officials are calling for stricter drug packaging standards to deter criminals from contaminating over-the-counter products.

To develop a national and uniform packaging standard, a Joint Committee on Product Security has been formed by the Proprietary Assn. in Washington, D.C., a trade group of non-prescription drugmakers.

Industry experts and FDA officials serving on the committee will report their recommendations Oct. 14.

Most over-the-counter drug products currently are packaged in a plastic bottle with a child-proof cap. The bottles are sold in a cardboard box with flaps that can be opened and closed without detection.

This is the packaging format used by McNeil Consumer Products Co., a Johnson & Johnson subsidiary, to sell the pain reliever Tylenol.

The recent deaths of seven Chicago-area residents, who swallowed cyanide-laced Tylenol capsules, has focused drug industry attention on better packaging to make tampering detectable.

Investigators speculate that one or more people bought or stole boxes of Extra-Strength Tylenol capsules from Chicago-area stores, opened the capsules, inserted the cyanide crystals and returned the poisoned pain reliever to retailer shelves.

Packaging experts say it would be quite inexpensive to glue the box shut or to place a seal across the mouth of the bottle to give evidence of such tampering. Other options include taping the outside of the box or enclosing the entire package in sealed plastic.

The joint committee will be under pressure to act quickly because a number of state and local governments already have passed or are drafting laws to mandate seals on over-the-counter medications.

The Cook County Board of Commissioners in Chicago passed an ordinance last week requiring that all non-prescription drug containers be sealed. The ordinance will take effect in 90 days.

The Los Angeles County Board of Supervisors last week directed the county counsel to draft legislation requiring that all drug products sold to the public be in tamper-proof containers.

Similar legislation has been proposed by the Chicago City Council, the Illinois General Assembly, Illinois Gov. James R. Thompson and Illinois Attorney General Tyrone Fahner.

The drug industry is asking for legislative restraint from local officials.

"The thing that would serve the consumer least is to have differing and potentially conflicting regulations adopted at the local level, many of which may not even be practicable," explained James D. Cope, president of the Proprietary Assn.

example, landlords and hotel owners have been held liable for inadequate security in cases where women have been raped in their buildings.

"It is true that defendants are ordinarily shielded from liability arising from criminal acts, but that is probably too broad a generalization to apply in this case," says Jon Waltz, professor of law at Northwestern University School of Law in Chicago.

He says plaintiffs will have a cause of action in negligence suits against Johnson & Johnson on the basis of unsafe design of product and failure to seal the outer container to prevent a "diabolical phantom from introducing poison."

"Some cold remedies are encased in tinfoil so that there is no way to use a capsule without breaking the tinfoil shield," he notes.

Baby food manufacturers use special lids on their products that pop up to show that the bottle has been opened and the vacuum seal has been broken.

Such examples will not help Johnson & Johnson deny foreseeability, experts agree. Since other manufacturers market their products in tamper-resistant formats, Johnson & Johnson could be held to this standard.

The court may balance the burden of taking such extra steps to use a tamper-resistant package—at a cost of perhaps as little as 1 cent per box—against the harm of not doing so, reasons Elliott Kroll, a New York attorney with many insurance company clients.

He expects Tylenol plaintiffs to use precedents from the early 1970s in which young children died after

drinking toxic home cleaning products. The courts generally held that manufacturers should have foreseen that their products were harmful to children. Today, such products are sold in containers with child-proof caps.

There are strong differences with the child-proof container analogy, however, since no manufacturer could be expected to package a product in a tamper-proof container. Packaging experts say there is no way to absolutely assure the safety of a product against the acts of a maniac.

Johnson & Johnson confirmed it has product liability insurance, but would not comment further. Most drug makers retain large amounts of risk, in the millions of dollars, and buy at least \$100 million of excess insurance in the London market.

Insurance coverage

Continued from page 1

● If a company's management decides to recall a product because they think something may be wrong with it, even though there has been no adverse publicity or public harm, the cost of that recall would be covered.

● If another manufacturer's product experiences adverse public reaction that affects the sales of the policyholder's product, the policy would pay for any loss of sales the policyholder might experience.

"In Tylenol's case, they're probably going to have a massive cost incurred to rehabilitate the product with advertising and promotion," said William C. Remington, president of Johnson & Higgins of Tennessee. "They may even have to discontinue the name Tylenol, and that would be another massive cost."

In a situation like the current Tylenol scare, product integrity would cover the cost of recalling the contaminated batches of the drug, the costs of any interruption in business, as well as costs the company might face to rename, re-market or even kill the product and resurrect a new one.

"Rely (tampons) is another example," he said. "It (the insurance) would have covered Rely's losses tied to recall and rehabilitation. And if the other tampon manufacturers had had this policy, their loss of sales could have been recovered, too."

In 1980, Procter & Gamble's extra-absorbent Rely and other brands of tampons were linked to toxic shock syndrome.

The policy, which includes protection for both contingent and direct risks, is the result of a 2½-year effort by Johnson & Higgins and lead underwriter American International Group Inc.

It was originally designed for a client in the food industry and most of the client base to this point has been drawn from that group.

"Obviously, the policy has wider application beyond the food industry. This was just the pilot field," Mr. Remington said.

"It's very, very new and we're crawling before we walk," he added. "As soon as the form of coverage has received some acceptance on the part of the buyers, then we would go to other fields, and pharmaceuticals is a perfect one—actually anyone who is making consumables."

Although some of these coverages, like product recall, are available from a number of brokers, most tend to be triggered by a specific incident that results in bodily injury or harm. This policy, on the other hand, responds even if bodily injury doesn't occur.

"In the Visine case for example, there were claims that someone's eyes were severely burned. That got headlines all over the place, then it turns out that there was nothing wrong with the Visine," Mr. Remington said. "There was nothing wrong with the product, but the damage is done. It is that kind of thing, that sort of wild rumor, that the policy responds to."

Last week, it was reported that a bottle of Visine eye drops found on the West Coast had been contamin-

ated with some kind of acid, but it apparently was only a rumor.

Deductibles for the product integrity coverage typically range from \$1 million to \$3 million, with upper limits on the policy varying between \$100 million and \$150 million.

"It's difficult to estimate the cost of the (insurance) product, since there is really nothing to compare it to," said Mr. Remington. "There are fairly substantial premiums, although the cost of the product may come down a little as the book of business grows. On the other hand, the current soft market may be delivering some pretty economical premiums."

One of the sticky points to the coverage is establishing the cause of any earnings loss.

"The insured (policyholder) has to show to the satisfaction of the underwriter enough cause or enough evidence to make the underwriter conclude that indeed the drop in sales can be attributed to that incident," he explained.

Sales figures are typically used as evidence in these situations. For instance, a company might have a sudden drop in sales occurring immediately after some adverse publicity. However, anything that shows growing public displeasure with a product could be used as evidence.

"We are dealing with very sophisticated people who buy the coverage, large companies and typically a major incident where they can prove it," he said. "There is a big deductible and they're not going to make a small claim that would be hard to prove."

"We're talking about a dynamic incident like Tylenol."

Another time the policy might be called into play would be in the case of a consumer group or government agency identifying a product, or elements within a product, as hazardous.

In the case of the tobacco growers, when the U.S. Surgeon General released the study that tied cigarette smoking to cancer, product integrity coverage would have handled any loss of sales either to the tobacco growers or the cigarette manufacturers due to that report.

It also would have covered advertising and other costs those companies might have incurred to repromote their products following the study.

Although the coverage has been on the market less than a year, there has been "fairly vigorous interest," according to Mr. Remington.

At least one company that manufactures both pharmaceutical and other consumer products has looked at the coverage.

"I know we've considered it and not purchased it," said the risk manager for the major concern. However, he indicated the company might look more closely at the coverage in the future.

"The possibility exists for that sort of occurrence (Tylenol) for any company and you just have to evaluate the chance of that happening," he said.

Wayne Johnson, benefits-insurance manager for Virginia-based C.B. Fleet, which manufactures a number of health and beauty aides, said that the Tylenol situation certainly focuses concern within the industry that other consumer products could face the same sort of tampering.

"How do you insure against the loss of your good name?" Mr. Johnson asked. "How do you get people to come back to buying your product? This sort of occurrence is becoming a risk of doing business the way things are today and I really don't know how you protect against it."

Fred Carter, director of risk management of Palo Alto, Calif.-based Cooper Labs Inc., which manufactures eyedrops and other ophthalmic products, indicated that in light of the Tylenol problem his company is reviewing its packaging.

"We have long been concerned about this kind of thing and we have just begun to look at our packaging and see where it can be improved," Mr. Carter said. "It would appear, though, that if somebody really wants to tamper with a product, they will."

"However, I think the container could be designed to give the ultimate user an indication that it has been tampered with."

As the Federal Food and Drug Administration and local governments around the country consider stiffer packaging requirements (see story, page 77), the investigations into the deaths continue.

Last week, an Oroville, Calif., man reported he went into convulsions after taking two Extra-Strength Tylenol tablets contaminated with strychnine. He was treated and released from an area hospital.

Investigators do not believe the 27-year-old California man was poisoned by the same person or persons who planted cyanide in Tylenol bottles in the Chicago area and killed seven people, including three from one family.

Bogardus speaks on Howden

By LEN STRAZEWski

WHITE SULFUR SPRINGS, W.Va.—Alexander & Alexander Services Inc. will appoint a committee of "disinterested underwriting agents" of Lloyd's of London to oversee the running of Syndicates 126 and 127, according to Chairman John A. Bogardus.

Syndicates 126 and 127, formerly directed by suspended underwriter Ian R. Posgate, were the first of

several stops for funds allegedly diverted by former executives of Alexander Howden Group.

A&A charges in lawsuits filed last month that about \$56 million in funds was diverted for personal use by the former executives (*BI*, Sept. 27). The lawsuits seek return of approximately \$25 million, said Mr. Bogardus, which represents the amount A&A has put into Sphere Drake Insurance P.L.C., a Howden subsidiary, to cover the amount

by which it was underreserved. This indicates that A&A has recovered about \$30 million of the diverted funds already.

"Our highest priority right now is taking care of the syndicates' names and shareholders," Mr. Bogardus told *Business Insurance*. "The agents whom we will choose will have been recommended by the Lloyd's Underwriters Assn. and will function as an audit committee to monitor syndicate business. They will have no interest but the security of the names."

Howden announced last week that it would merge the two syndicates with others under its control. Syndicate 127 will be merged in January with Syndicate 868/35, and Syndicate 126 will be combined with Syndicate 947.

Mr. Bogardus, who was attending the annual joint meeting of the National Assn. of Casualty & Surety Executives and the National Assn. of Casualty & Surety Agents, also said that A&A's conduct throughout the inquiry was motivated by the desire to protect investors.

In July, for example, when A&A discovered that Howden's subsidiary Sphere Drake Insurance P.L.C. was underreserved and missing assets, the first response was to recover those assets in the fastest possible way, Mr. Bogardus explained. So, A&A attempted to bargain with four of the former Howden executives named in the lawsuit—Kenneth V. Grob, Alan J. Page, Jack H. Carpenter and Ronald C. Comery—in return for a promise of no legal action.

"It seemed like the proper course of action at the time," Mr. Bogardus said.

When it was discovered that the four executives misstated the value of the requested assets, which included Mr. Grob's French villa and pieces of artwork, A&A immediately filed suit, Mr. Bogardus said. Some of the assets have already been recovered, Mr. Bogardus added.

"Hopefully, we will get out of this with no loss or only a modest loss."

For example, A&A last week acquired 83% of the capital of Banque du Rhone et de la Tamise, a small Swiss bank allegedly controlled by the five former Howden directors.

Failing the recovery of the full amount still outstanding, A&A may also pursue other legal remedies, according to Mr. Bogardus, including a suit against Howden's former auditors.

A&A had relied on Howden's audited public financial statement for pre-purchase financial data, Mr. Bogardus explained. "In a tender-offer situation, it is not normal to ask for an audit before the merger. Howden is a public company, and it is normal to assume that the publicly audited figures are correct. I don't know what we could have

done differently," he said.

Although at least one A&A shareholder has complained that the brokerage company had acted too hastily in seeking a merger with Howden after negotiations to combine with the Sedgwick Group P.L.C. collapsed, Mr. Bogardus said that Howden was a clear second choice and a planned contingency.

"Even as we continued discussions with Sedgwick, we knew that we would return to Howden if Sedgwick fell through. It would have been abnormal for us not to go through with the deal," he said.

Mr. Bogardus maintains that he and other A&A executives had no suspicions of financial problems at Howden. "We've had a successful trading relationship with Howden since the 1960s. After Sedgwick, Howden's facilities fit our plans perfectly," he said.

U.S. courts get fewer product suits

Continued from page 2

the dockets are not as jammed, rather than a decline in litigation.

"The federal courts are clogged," points out product liability expert Victor Schwartz, a partner with Crowell & Moring, a Washington law firm.

In fact, even with this year's slight decrease, the number of product liability cases filed in federal courts has more than doubled in the last four years. The 8,944 cases filed in 1982 are a 104.6% increase over the 4,372 filed in 1978.

Major increases in the number of suits filed occurred in five states: Ohio, 474 cases in 1982, compared with 255 in 1981, an 85.9% increase; West Virginia, up 50% to 96 cases from 64; Connecticut, up 41.6% to 229 cases from 166; Texas, up 39.5% to 1,039 cases from 745; and Massachusetts, up 33.3% to 440 cases from 330.

Experts blame a high number of asbestos or DES suits for the major increases in those states.

Ship workers, in particular, argue that exposure to asbestos has given them cancer.

DES, which stands for diethylstilbestrol, is a synthetic estrogen taken by millions of pregnant women in the 1950s and 1960s to prevent miscarriages. Daughters of some of the women who took the drug have developed cancer and are now suing the manufacturers. The federal Food and Drug Administration removed DES from the market in 1971.

The number of product liability cases dropped in fiscal 1982 in 25 states and the District of Columbia.

Major percentage decreases occurred in Hawaii, which recorded a 67.1% decrease to 25 from 76; Kansas, a 54.5% decrease to 161 from 354; New Mexico, a 52.6% drop to 27 from 57; and the District of Columbia, down 47.8% to 166 from 318.

In Missouri, Montana and North Dakota the number of suits filed did not change in 1982 compared with 1981. Missouri had 156, Montana 42 and North Dakota 21.

Among the nation's seven leading industrial states, Michigan, Ohio, Pennsylvania and Texas experienced increases in the number of suits filed, while California, Illinois and New York showed decreases.

Texas, with 1,039 cases, had the most product liability cases filed in federal courts, a distinction it has held for three consecutive years.

Pennsylvania was second with 654 cases in fiscal 1982, followed by Ohio and New York, with 474 each.

Delaware had the fewest number of product liability suits. It recorded 11 suits, down from 18 in 1981.

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Continued from page 3

employees share premium cost for individual coverage and 18% say they may make employees share the cost of dependent insurance.

Eight percent say they have increased the amount of employee contributions more than the rise in plan costs and 13% say they are considering such a move.

Six percent have changed the coinsurance ratio to make employees pay more of hospital bills and 8% have changed the ratio to make them pay more of other benefits.

Many health plans have an 80/20 coinsurance provision with the plan paying 80% of the costs and the employee 20%. Almost three-quarters of the employers surveyed have no plans to change their coinsurance provisions.

Nine percent of the surveyed employers have increased the point at which the health plan begins paying 100% of all health care costs. Another 20% are considering increasing this "stop-loss" point. Sixty percent doubt they will use this cost-containment technique.

To help them administer these cost-containment measures, 9% of the surveyed companies have appointed a health care manager whose only responsibility is to monitor and administer the company's medical plans. Another 8% are considering appointing such a manager.

While the TPF&C survey shows employers cutting back on some benefits, it also found that 39% of the employers were making "compensating changes" to offset the sting of the benefit cutbacks.

Among these 105 companies, the most popular "compensating change" by far is to increase the lifetime maximum major medical

coverage allowed. Seventy-eight percent have instituted this change. Lifetime maximums for most major medical plans, according to the survey, range from a low of \$50,000 to an unlimited amount for both major medical plans that overlap basic health coverage and for comprehensive health plans that include major medical coverage.

For employers with comprehensive health plans, the most popular major medical lifetime maximum level is \$200,000 to \$300,000. Thirty-four percent of the responding companies said they provide this level of coverage.

Unlimited major medical coverage is the second most popular level with 20% of the survey respondents in this category. Seventeen percent of the employers said they have maximums ranging between \$500,000 to \$1 million.

Thirteen percent of the employers offer plans with major medical maximums of \$1 million to \$2.5 million, while 10% have lifetime maximums of \$100,000 to \$200,000.

Five percent have maximums in the \$300,000 to \$500,000 range and 2% have maximums of \$50,000 to \$100,000.

Although their plans vary slightly, employers with major

Coinsurance provisions changed

medical plans that overlap basic health coverage generally incorporate the same level of major medical maximum as employers with comprehensive plans.

The next most popular compensating change, the survey shows, is adding a stop-loss feature to a plan that previously did not set a level above which expenses are reimbursed at 100% to eliminate any further out-of-the-pocket expense for employees. Forty-three percent have added stop-loss levels to their plans.

Twenty-one percent have tried to compensate employees for benefit cutbacks by lowering the maximum family deductible.

Other less popular compensating changes include adding or expanding dental coverage, 10%; instituting a lower stop-loss level, 3%; and improving emergency care for accident-related injuries, 2%.

Under the category of "compensating changes," several companies have instituted coverages that clearly will help them contain costs, too.

These new cost-containing coverages added by 63% of the companies that have instituted compensating changes include hospice care, ambulatory surgery and second opinions.

Governmental affairs director named

NEW YORK—The Risk and Insurance Management Society has a new director of governmental affairs.

Attorney Jon Harkavy, a former chief legislative assistant to Rep. Raymond Lederer, D-Pa., joined RIMS last month to monitor and lobby on legislative and regulatory issues that affect RIMS members.

Prior to coming to RIMS, Mr. Harkavy was general counsel at Bongiovanni and Reago, a Philadelphia law firm. Mr. Harkavy, 30, has a law degree from Temple University School of Law.

Mr. Harkavy replaces Reg Beane, who left RIMS to become vp-federal affairs for the Independent Insurance Agents of America.

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Recession has major effect on current rate predicament

By **LEONARD M. WILSON**
Special to Business Insurance

RATE CUTTING in commercial insurance has been so severe and its duration so prolonged that most insurers have been more concerned about the insurance cycle than the state of the economy. And why not? After all, insurance brokers have almost always fared rather well during recessions since World War II.

Insurance is an essential commodity for the corporate client. A company may try to cut costs in almost all its operations during a downturn, but most don't trim their insurance programs, even in recessions.

Industry figures bear out this perception. The growth of commercial premiums continued virtually uninterrupted through all of the post-war recession years.

The current recession is different, though, on several counts. It is more severe as measured by its effect upon basic industries. Using the 1979 peak in industrial production as a benchmark, this recession has lasted longer than other downturns since World War II. Finally, it is worldwide in scope.

Brokers have felt the impact, as well. Profit centers that depend upon such hard-hit sectors as forest products or automobiles are hurting. Cutbacks in employment, lower capital spending and large-scale inventory liquidation have exerted a more subtle but pervasive influence.

These direct effects on brokerage volume are painful but they have been overshadowed, in our view, by the implications that recession has for commercial lines pricing.

Leonard M. Wilson, a vp of L.F. Rothschild, Unterberg, Towbin in New York, specializes in insurance brokerage stocks. He is a member of the New York Society of Security Analysts.



Mr. Wilson

BI ticker

Insurance people, brokers and underwriters alike, tend to be almost uniformly supply siders. Capacity—or the supply of insurance—is seen as the principal determinant of commercial lines pricing. Too much capacity—an excess of supply—brings on competitive pricing. Too little capacity—a reduction in the supply of insurance—lifts prices.

The demand for commercial insurance is assumed to be stable and passive. Fluctuations in supply are seen as regulating the underwriting cycle and underwriting profitability. While this one-sided view might have sufficed as a competent explanation for price competition in other insurance cycles, it fails to take account of the impact on pricing from the current deep and prolonged contraction in economic activity.

Price cutting in commercial lines has, we believe, received powerful impetus from adverse economic conditions in the United States and worldwide that have led to lower demand for commercial insurance.

Let's work through some brief calculations. In the United States, gross national product expressed in constant dollars has increased only slightly since 1979. Essentially, the U.S. economy has stagnated for three years. Had the economy grown at a normal pace, perhaps 4% in constant dollars, the GNP would be about \$300 billion to \$350 billion higher than its current level.

There is a consistent relationship between total commercial premiums and gross national product. Using the 1981 ratio of commercial premium volume to GNP, we estimate that the lack of economic growth has deprived the domestic insurance industry of roughly \$5 billion in commercial premiums, a figure that exceeds the total premium volume of Chubb, Crum & Forster and The St. Paul Cos. combined.

Against total premiums in the United States, this may seem like a moderate shortfall. But pricing of insurance, as with most commodities, is disproportionately influenced by changes in supply and demand at the margin.

What would be the effect on capacity, and therefore pricing, if markets were writing this additional business? While premium rates might not necessarily be in an uptrend, we doubt that the weakness in prices would have gone as far as it has. Not unlike industrial companies in this recession, insurance markets are suffering from a deficiency in demand that is partially responsible for the perceived excess capacity.

World insurance markets, primary and reinsurance, are burdened by a similar malaise of insufficient demand stemming from a worldwide recession. Unlike other industries, insurance companies find it difficult for a variety of reasons to reduce capacity in the face of a slowdown in demand. Consequently, price cutting clears the market of excess capacity too slowly.

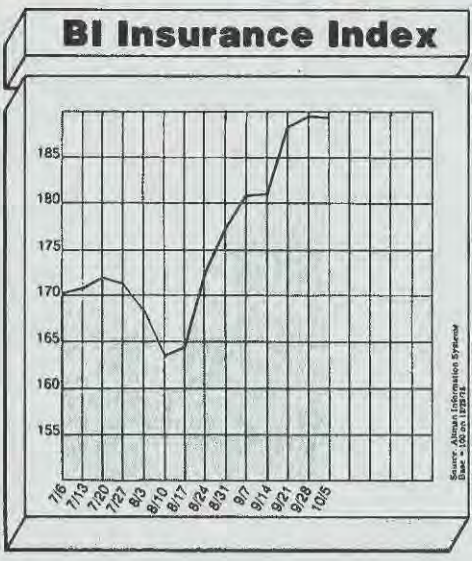
Insurance brokers, then, far from being immune to the business cycle, have received a double dose of trouble. The contraction in economic activity, on the one hand, has reduced brokerage volume and, on the other, contributed to the soft pricing that diminishes commission realizations per unit of volume.

Carrying this analysis forward, it is possible to construct a rather favorable scenario that might proceed as follows:

Interest rates continue to decline, and the economy embarks on a recovery. An expanding economy stimulates demand for commercial insurance, while lower interest rates and mounting underwriting losses finally put irresistible pressure on the insurers' profitability. The amount of brokerage increases and pricing firms. Thus, commissions experience a two-fold lift.

Can it happen? We think it is a plausible outcome, though its timing is uncertain. A turnaround in the economy may be as important to the process of renewed brokerage growth as the level of combined ratios.

While cash-flow underwriting prompted by high investment returns may have started the downward pricing spiral, vigorous demand for commercial insurance may be the needed catalyst for a firming in markets.



Insurance industry stocks declined slightly during the week ending Oct. 5 as the **Business Insurance stock index** slipped 0.2 points to 189.5 from 189.7. Twenty-two stocks were up, 34 declined and 12 were unchanged. The leading gainers were SRI Corp., 12.9%; American Bankers Insurance Group, 9.1%; Kemper Corp., 5.5%; Equifax Inc., 4.2%; and Washington National Corp., 3.9%. The largest declines were reported by PennCorp Financial Inc., 9.1%; Northwestern National Life Insurance Co., 4.3%; Carolina Casualty Insurance Co., 3.6%; Tokio Marine & Fire Insurance Co., 3.6%; and Continental Corp., 2.4%. The 0.1% decrease in the BI index was smaller than the decline posted by the Dow Jones 30 industrials.

5 Oct Companies	Price	P/E	Div. pence	Yield %	1 Week High-Low pence
Comml Union	124	13.1	16.86	13.6	130-124
Eagle Star	300	10.9	21.43	7.0	317-300
Genl Accident	298	10.9	23.21	7.9	304-294
Gdn Royal Exch	330	8.3	25.00	7.7	334-326
Phoenix	276	10.6	24.00	8.7	280-276
Royal	380	10.3	36.07	9.5	390-380
Sun Alliance	830	11.9	61.43	7.4	830-828

Company	Price	P/E	Div. pence	Yield %	1 Week High-Low pence
CE Heath	340	9.3	18.71	5.5	340-330
Hogg Robinson	110	8.5	8.57	7.8	110-102
JH Minet	143	13.0	5.43	3.8	143-135
Sedg Grp	195	11.1	8.57	4.4	195-189
Stenhouse Hldg	98	8.7	7.28	7.4	100-98
Stew Wrightson	238	8.5	18.57	7.8	238-230
Willis Faber	480	12.0	21.43	4.5	467-472

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

BI Industry Stock Report

Insurance Cos.	OCT. 5, 1982					9/22/82 THRU 10/5/82					Agents/Brokers	S OCT. 5, 1982					9/29/82 THRU 10/5/82				
	Price	% Chg	P/E	S Div	% Yld	High	Low	Vol (000)	Price	% Chg		P/E	S Div	% Yld	High	Low	Vol (000)				
Aetna Life & Cas Co	NYSE	37.00	-0.7	5.9	2.52	6.8	37.75	36.75	630.3	United States Fid & Gty Co	NYSE	38.75	-0.6	8.2	3.60	9.3	38.75	37.88	162.0		
American Bankers Ins Group	NYSE	10.50	9.1	7.8	0.48	4.6	10.88*	10.50	621.9	United Svcs Life Ins Co	OTC	14.88	-1.7	5.5	1.00	6.7	15.00	14.75	12.9		
American Gen Ins Co	NYSE	40.88	-0.6	5.6	2.20	5.4	41.13	40.88	75.7	USLife Corp	NYSE	21.25	1.2	4.5	0.84	4.0	21.25	19.63	202.7		
American Indty Finl Corp	OTC	15.50	2.5	11.5	1.12	7.2	15.50	15.13	7.2	Washington Natl Corp	NYSE	19.88	3.9	9.6	1.08	5.4	19.88	18.00	59.3		
American Intl Group Inc	OTC	74.75	-2.0	11.4	0.48	0.6	76.25	74.75	505.6	Zenith Natl Ins Corp	OTC	15.00	-3.2	7.0	0.76	5.1	15.50	15.00	8.8		
American Natl Ins Co	OTC	14.00	0.0	6.0	0.76	5.4	14.00	14.00	41.6	INSURANCE COMPANIES					AVERAGE	7.4	4.8				
American Svs Life Ins Co	OTC	16.25	-3.0	5.2	0.80	4.9	16.75	16.25	0.2	AGENTS/BROKERS											
Aneco Reins Ltd	OTC	2.75	0.0	0.0	0.00	0.0	2.75	2.75	1.0	Alexander & Alexander Svcs	NYSE	21.13	0.0	7.7	1.94	9.2	22.25	21.13	570.2		
Avenco Corp	AMEX	11.75	2.2	7.4	0.54	4.6	11.75	11.63	4.9	Baldwin & Lyons Inc	OTC	34.50	0.0	6.0	0.80	2.3	34.50	34.50	1.3		
Banks Iowa Inc	OTC	37.00	-2.6	7.0	1.68	4.0	37.50	37.00	2.2	Corroon & Black Corp	NYSE	22.75	1.7	11.2	1.80	7.9	22.75*	22.00	10.5		
Bitco Corp	OTC	30.50	1.7	4.7	1.92	6.3	30.50	30.00	0.9	Crump E H Cos Inc	OTC	9.88	1.3	18.3	0.40	4.1	9.88	9.75	6.3		
Carolina Gas Ins Co	OTC	6.75	-3.6	6.7	0.32	4.7	6.75	6.75	7.2	Emett & Chandler Cos Inc	OTC	8.50	3.0	12.7	0.00	0.0	8.50	8.38	3.4		
Chubb Corp	OTC	42.38	-1.5	6.8	2.92	6.9	42.88	42.38	689.2	Hall Frank B & Co Inc	NYSE	25.50	-1.0	9.9	1.70	6.7	25.50	25.25	91.6		
Combined Intl Corp	NYSE	22.25	0.0	6.4	2.00	9.0	22.25	21.50	180.1	Integrated Res Inc	AMEX	18.63	-3.2	6.3	0.00	0.0	19.38*	18.50	45.9		
Continental Corp	NYSE	25.25	-2.4	7.6	2.60	10.3	25.88	24.88	229.1	James Fred S & Co Inc	NYSE	23.50	-0.5	11.5	1.60	6.8	23.50	23.25	14.9		
Crawford & Co	OTC	14.25	-3.4	10.5	0.56	3.9	14.75	14.25	1.4	Marsh & McLennan Cos Inc	NYSE	36.63	-2.3	11.1	2.20	6.0	37.38	36.63	87.4		
Crown Life Ins Co	OTC	75.00	0.0	4.9	3.10	4.1	75.00	75.00	1.5	PennCorp Fincl Inc	NYSE	11.25	-9.1	7.9	0.16	1.4	11.38	11.13	1,849.4		
Crum & Forster	NYSE	48.75	1.8	9.4	1.76	3.6	48.75*	47.63	1,398.5	Poe & Assoc Inc	OTC	9.00	0.0	10.2	0.80	8.9	9.00	9.00	0.1		
Employers Cas Co	OTC	29.50	-0.8	13.1	1.20	4.1	29.50	29.50	1.5	Reed Stenhouse Cos Ltd	OTC	11.50	0.0	16.7	0.60	5.2	11.50	11.38	5.4		
Equifax Inc	NYSE	18.75	4.2	10.6	1.30	6.9	19.00	17.63	41.8	Rollins Burdick Hunter Co	OTC	16.50	-1.5	11.8	1.32	8.0	16.75	16.25	6.3		
Excelsior Ins Co	OTC	11.25	2.3	0.0	0.70	6.2	11.25	11.00	1.0	AGENTS/BROKERS					AVERAGE	9.2	5.3				
Farmers Group Inc	OTC	35.25	-2.8	9.8	1.24	3.5	36.25	35.25	368.9	CONGLOMERATES/HOLDING COS.											
Foremost Corp Amer	OTC	29.50	0.0	8.8	1.12	3.8	29.50	29.25	33.9	American Express(Fireman's Fd)	NYSE	48.63	-1.5	8.5	2.20	4.5	49.13	48.38	932.9		
Great West Life Assurn Co	OTC	185.00	-0.5	15.1	10.00	5.4	186.00	185.00	0.0	Anderson Clayton(Ranger/PanAm)	NYSE	22.88	0.0	5.1	1.32	5.8	23.13	22.13	43.3		
Hanover Ins Co	OTC	31.75	1.6	4.3	0.88	2.8	31.75	31.25	27.6	Arco Inc	NYSE	15.00	0.6	5.9	1.20	8.0	15.25	14.75	311.7		
Hartford Steam Boiler Insnpt	OTC	36.75	-0.7	7.3	2.80	7.6	37.00	36.75	6.3	City Investing Co. (Home Ins.)	NYSE	25.50	-1.7	6.6	1.70	7.9	21.75	21.38	318.2		
Jefferson Natl Life Ins Co	OTC	36.50	-1.4	10.2	0.76	2.1	36.50	36.00	3.9	CNA Finl Corp (CNA)	NYSE	15.38	2.5	6.4	0.00	0.0	15.38	14.63	70.4		
Kemper Corp	OTC	31.25	5.5	5.6	1.80	5.8	31.25	29.25	116.4	Control Data (Comml. Credit)	NYSE	27.38	-8.4	6.5	0.55	2.0	29.00	27.38	1,021.7		
Lincoln Natl Corp Ind	NYSE	37.63	-2.0	6.5	3.00	8.0	38.38	37.13	60.6	General Re Corp	NYSE	49.50	-0.8	11.3	1.08	2.2	50.50*	49.00	222.2		
Mission Ins Group Inc	NYSE	25.00	-2.0	5.8	0.80	3.2	25.75	25.00	35.3	Gulf Utld Corp	NYSE	25.00	2.6	8.6	1.32	5.3	25.00	23.50	215.1		
Nationwide Corp Ohio	OTC	25.00	-2.0	7.1	0.70	2.8	25.50	25.00	1.4	Cigna Corp	NYSE	39.13	2.6	5.5	2.30	5.9	39.13	37.50	598.7		
Northwestern Natl Life Ins	OTC	22.13	-4.3	4.8	1.50	6.8	23.00	22.13	32.7	ITT (Hartford Group)	NYSE	26.00	-1.4	5.9	2.68	10.3	26.25	25.50	1,252.1		
Ohio Cas Corp	OTC	38.75	0.0	7.1	2.36	6.1	38.75	38.38	50.1	Optimum Hldg Corp	OTC	7.75	-3.1	6.2	0.00	0.0	7.75	7.75*	17.2		
Old Re Intl Corp	OTC	18.63	-2.6	4.3	0.92	4.9	19.13	18.63	51.6	Sears Roebuck & Co. (Allstate)	NYSE	23.25	-2.1	10.9	1.36	5.8	23.25	22.38	1,793.2		
Preferred Risk Life Ins Co	OTC	21.00	-0.6	5.9	0.92	4.4	21.00	21.00	6.3	Baldwin Utld Corp	NYSE	30.75	-3.5	6.5	0.88	2.9	32.63	30.50	364.2		
Provident Life & Acc Ins Co	OTC	43.00	1.2	6.1	2.44	5.7	43.00	42.50	33.5	Teledyne Inc (Argonaut)	NYSE	89.88	-1.4	5.1	0.00	0.0	90.13	89.75	937.4		
Ryan Ins Group Inc	OTC	33.75	0.0	13.6	0.16	0.5	33.75	33.75	0.0	Transamerica Corp (Occidental)	NYSE	19.88	-3.0	6.0	1.50	7.5	20.25	19.88	290.3		
St Paul Cos Inc	OTC	48.00	0.5	6.3	2.60	5.4	48.00	47.00	447.3	CONGLOMERATES/HOLDING COS.					AVERAGE	6.6	3.9				
Safeco Corp	OTC	39.50	1.6	7.3	2.20	5.6	39.50	38.88	150.8	*Record high/low since Jan. 1, 1982					System design: Altman Information Systems						
Sri Corp	OTC	26.25	12.9	5.9	1.12	4.3	26.25*	23.25	109.0												
Seibels Bruce Group Inc	OTC	24.13	1.0	14.2	0.80	3.3	24.13	23.50	57.6												
Statesman Group Inc	OTC	6.00	-2.0	5.4	0.15	2.5	6.13	6.00	12.2												
Tokio Marine & Fire Ins Co	OTC	74.50	-3.6	5.9	0.92	1.2	77.25	74.50*	0.6												
Travelers Corp	NYSE	22.25	-2.7	5.8	1.64	7.4	22.38	21.88	507.3												
United Fire & Cas Co	OTC	32.75	0.0	8.6	0.88	2.7	32.75	32.75	0.4												

Financial briefs

Merger activity

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Quality inspector testing a system at Diagnostic/Retrieval Systems, Inc., in Oakland, New Jersey.

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From the client's point of view.