

business insurance

update:

Financial Guardian leading McDonald's war

CHICAGO—Although all the tallies aren't in yet, Financial Guardian and Great American Insurance Co. could be the big winners in the battle for McDonald's Corp. franchisee business.

"Financial Guardian's pricing was consistently lower than ours," reports Frank Neuhauer, vp of American International

Continued on next page

the national newsweekly of loss prevention, risk financing & benefit management/\$1 a copy; \$30 a year © Entire contents copyright 1981 by Crain Communications Inc. All rights reserved.

Figure interest in work comp ratemaking

By KATHRYN J. McINTYRE

Make workers compensation insurers calculate investment income when determining rates, risk and insurance managers demand in response to the most recent survey of the *Business Insurance Risk Management Board*.

Eighty-five percent of the 68 board members responding to the survey want workers compensation insurers to offset underwriting losses with the money they make by investing loss reserves—then figure needed rates.

Large companies can and do negotiate with insurers for some credit for investment income on their individual rates, but it is not required by law. Some states, however, are debating whether this should be mandated.

Risk and insurance managers responded nearly 3-to-1 in favor of reform of the current regulation of workers compensation rates to force more rate competition among the insurers.

Seventy-one percent said state insurance departments should stop approving one set of uniform rates as filed by a rating bureau for workers compensation insurers, which is the status quo in 43 states.

And 68% prefer that state insurance departments regulate workers compensation insurance by allowing insurers to file their rates and use

them subject to regulatory action, as allowed in only Vermont and North Carolina, or a use-and-file system,

which has been approved by the Minnesota and Oregon legislatures, rather than requiring insurers to seek prior approval of their rates before they can use them, as 43 of the states do.

Business Insurance regularly surveys risk and insurance managers and corporate executives who have agreed to participate on the Risk Management Board.

"Investment income is part of the overall equation and should be taken into account," said the director of risk management for an entertainment and leisure company employing 8,000.

"Underwriting losses should not be a justification for rate increases if investment income allows insurers to make a profit. Rates should be based on the entire profit or loss picture," contends the insurance administrator for a municipality with 3,300 employees.

But the assistant treasurer of a manufacturing company employing 38,000 asks for a little less.

"Some of the investment income should inure to the company owners and for contribution to overhead expense, but significant amounts should be factored into ratemaking, 50% to 70%," this executive in charge of risk management suggested.

The risk manager of a manufacturing and distribution company employing 15,000 who favors calculating investment income into rates also

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Seeking federal relief

Bill targets tax breaks for self-insured reserves

By KATHRYN J. McINTYRE

WASHINGTON—A bill that would dramatically amend the Internal Revenue Service Code governing insurance and loss costs accounting and permit corporations to take tax deductions for self-insured loss reserves could be introduced in the House this week.

Rep. Gillis Long, D-La., is expected to sponsor the bill, drafted by Baker & McKenzie in New York and fine-tuned and proposed to lawmakers by the Washington law firm of Patton, Boggs & Blow for a coalition of risk management interests called the Loss Reserve Deduction Committee.

The bill would secure tax deductions not only for reserves maintained under certain internal self-insurance programs but also for premiums paid to captive insurance companies, a risk-funding mechanism that has been under attack by the Internal Revenue Service, and cash-flow insurance plans with insurers, which tax experts predict are subject to IRS challenge as not constituting insurance.

Currently, only insurance premiums and uninsured paid or fixed losses are tax deductible.

The bill limits tax deductions for self-insured reserves to those that are actuarially predictable in the aggregate and will be paid in years after the loss has occurred, which would include reserves for liability, workers compensation and fidelity losses. These reserves for unpaid and unreported losses are not tax deductible now.

Regulations on determining the amount of appropriate re-

Continued on page 86

Tort reform bill attacks industrywide liability

By JERRY GEISEL

WASHINGTON—Sen. Robert Kasten, R-Wis., is expected to propose legislation this week to make it more difficult for plaintiffs to recover product liability damages if they can't identify the manufacturer.

Mr. Kasten's long-awaited federal tort reform proposal, which has been through at least eight drafts already, would attack last year's landmark California Supreme Court decision in the *Sindell* case.

In that ruling, the California court said when a product causing injury is made by many different manufacturers and the specific manufacturer cannot be identified, liability must be divided among them, based on their market share.

That decision sent shock waves through the risk management and insurance community because a manufacturer could be found liable in a product liability suit even if it didn't make the particular product, adding new legal uncertainties for manufacturers.

Sen. Kasten's draft bill, which is expected to be unveiled Oct. 15 or Oct. 16 for public comment before it is introduced in Congress, will be the centerpiece of a major effort by dozens of business groups and employers to enact tort reform legislation at the federal level (*BI*, Oct. 5).

Although other federal tort reform proposals have been introduced in earlier sessions of Congress, those bills were often hastily put together to placate certain business groups and failed to receive serious congressional consideration.

Continued on page 84

Latest asbestos ruling expands insurer liability

By STEPHEN TARNOFF

The most recent opinion on insurers' liability for asbestos claims against policyholders broadens insurance available to manufacturers for injuries caused by their products in the past but could threaten the availability of product liability insurance in the future.

The District of Columbia Court of Appeals ruled Oct. 1 in *Keene Corp. vs. INA* that all the insurers of a manufacturer from the time a claimant was exposed to a harmful product through the appearance of the injury are liable for the damages awarded a claimant.

The policyholder, even if self-insured during any portion of the period from exposure through manifestation of the injury, is not liable for any portion of the damages, the court said.

The decision is a radical departure from previous appellate court rulings on the controversial coverage question of what theory of liability should apply when there is latent injury caused by a product.

The exposure theory holds insurers of a manufacturer during the time a claimant was exposed to the harmful substance liable for claims, while the manifestation theory makes insurers of a manufacturer when the injury appears liable for the claims.

Courts in the past have held for one theory or the other, with two federal appellate courts—the 5th and 6th circuits—ruling in favor of the exposure theory.

The decision in the *Keene* case reverses a U.S. District Court ruling that held the exposure theory of liability applied.

Never has a court extended full liability to the policy limits of all the insurers of the manufacturer during the whole period, as this

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Administration backs reform of longshore benefits Page 2

Risk, benefit issues before Supreme Court Page 2

Square D adds new dental, drug plans

Some 7,000 union employees at Square D Co. in Palatine, Ill., have received an improved benefit package including new dental and prescription drug plans.

The benefit changes are part of a new, three-year national contract between Square D, an electrical products manufacturer, and an estimated 34 AFL-CIO unions. The contract went into effect on Sept. 14.

Included is a new dental plan covering preventive, diagnostic, periodontal, endodontic and oral surgery costs.

Preventive and diagnostic services are covered at 100%, while the employee pays 20% of all other costs. The plan contains a \$1,000-a-year maximum and excludes all orthodontic work.

The agreement also includes a

benefit beat

new drug prescription plan that has a \$2 deductible and no annual maximum. This plan goes into effect during the second year of the contract.

During the contract's third year, Square D will raise its monthly contribution to its pension plan from \$12 to \$15 per employee.

Monthly sickness and accident benefits will increase \$10 a year over the next three years, from \$135-a-week this year to \$155 in 1983.

The major medical plan's annual maximum was raised from \$75,000 to \$125,000, and group life insurance coverage jumped from \$16,000 to \$20,000.

All benefits are fully funded by Square D.

Benefit increases

State and university employees in Minnesota have received increased major medical and paid life insurance coverage and pensions as part of a new two-year contract.

Major medical benefits are provided through a Blue Cross/Blue Shield plan with nine Health Maintenance Organization options.

The lifetime maximum under the BC/BS plan has been increased from \$250,000 to \$500,000, with the employer funding 100% of coverage for both the employee and depen-

dents. Dependent coverage was previously funded at 90%.

However, the deductible for the BC/BS plan has been increased from \$50 to \$100 per person annually.

Pension benefits are provided under a statewide plan, with the employer making an annual contribution of 6% of the employee's salary.

Wages under the new pact increased 9.5% to 10% this year. Some groups will receive additional wage hikes of 6% in July 1982 and 3% in January 1983, while others will receive straight cost-of-living increases on the same dates.

The Minnesota State Employees Union negotiated for an estimated 18,000 workers, but the benefit changes are expected to be passed on to some 40,000 state and univer-

sity employees.

Social Security

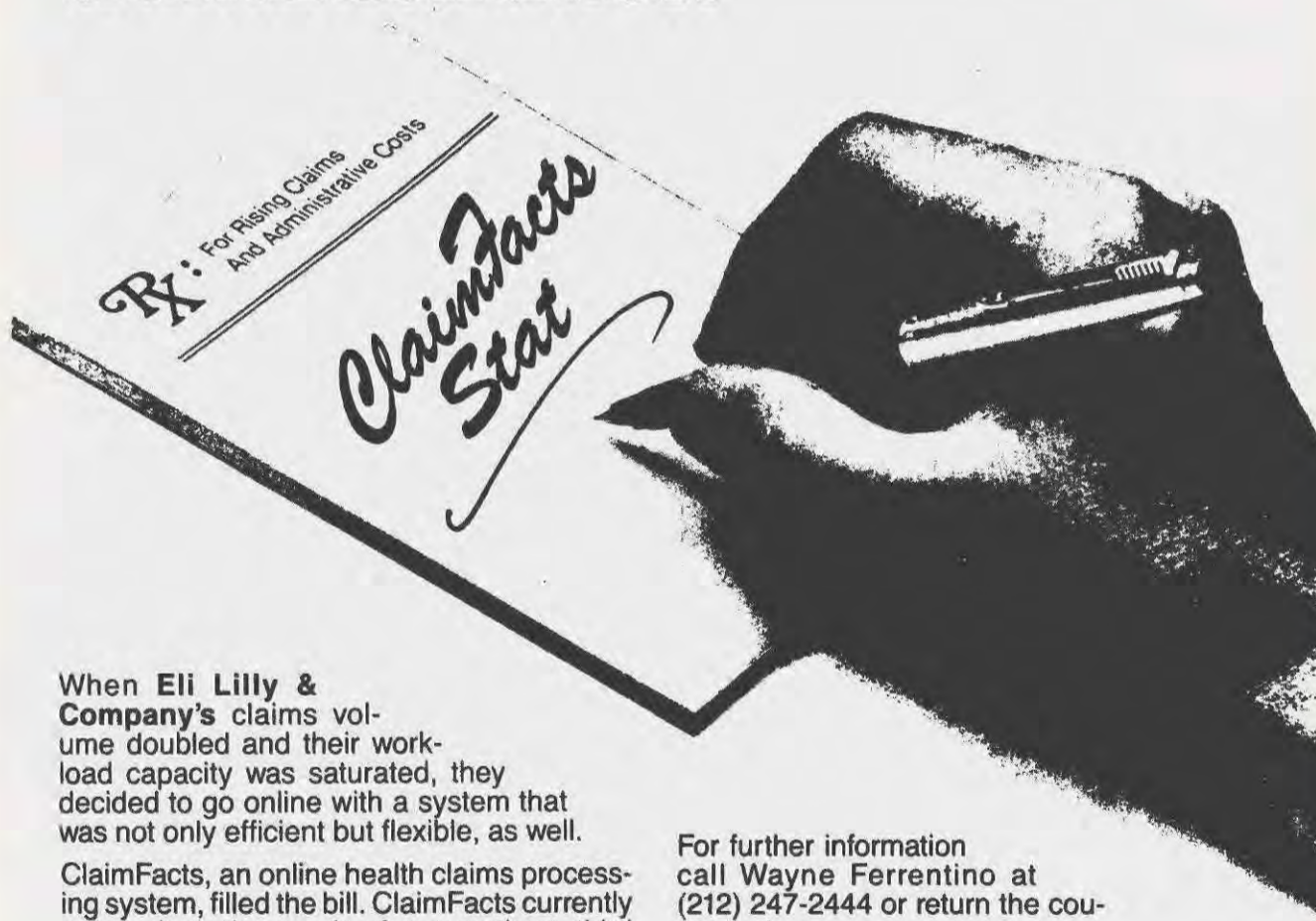
Retirees filing for Social Security benefits will have to file their claims faster.

Under new Social Security Administration rules, people filing late for retirement and survivors' benefits are eligible for no more than six months of retroactive benefits, reduced from 12 months worth.

Social Security Administration officials estimate that the rule will save the system about \$90 million a year.

Made any benefit changes? Write John W. Milligan, Associate Editor, *Business Insurance*, 220 E. 42nd St., New York, N.Y. 10017; 212-210-0141.

Prescription for effective health claims administration



When Eli Lilly & Company's claims volume doubled and their workload capacity was saturated, they decided to go online with a system that was not only efficient but flexible, as well.

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For further information call Wayne Ferrentino at (212) 247-2444 or return the coupon below.

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action line

Business auto policy clarified

Action Line: I may have misread an article about a year ago by Henry Salfeld or another writer on the business auto policy. I got the impression that when a driver or helper making a delivery damaged a customer's door, the damage was covered by a small multiperil policy, not by the business auto policy.

Would you be able to clear this up?

John Singreen
Singreen Agency
New Orleans

Mr. Singreen: Henry Salfeld, Carole Banfield and B. Joseph Shelley all wrote about the business auto policy.

Mr. Shelley, vp at the Insurance Services Office in New York, gave us this information:

Until the store owner accepts the delivery, either by signing a delivery bill or taking a receipt, the employer of the deliveryman and owner of the truck has responsibility for this liability.

Damage to a store, before accepting the delivery, would be covered under the business auto policy. Yet the truck may be covered under the truck owner's general liability policy.

It all depends on which policy the business owner chooses to pay for damages.

For further information on the business auto policy, see our article "More on the BAP" (*BI*, May 25, 1980).

Benefits handbook

Action line: We read *Business Insurance* weekly and benefit from many of your articles. The articles on benefit communications by Dennis Hommel that appeared in *BI* were very interesting.

The "Employee Benefits Handbook" mentioned in the articles would be an asset to our organization and we are interested in purchasing the book. Can you tell us where we can get a copy?

Patsy Behrendt
Administrative Aide
Guadalupe Valley Electric Cooperative
Gonzales, Tex.

Ms. Behrendt: You can order Dennis Hommel's book, "Employee Benefits Communications Handbook," by sending \$20 to UPG Publications, P.O. Box 700, Redwood City, Calif. 94064.



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Open panel legal cover may start soon in Jersey

around the states

TRENTON, N.J.—State lawmakers and Insurance Department officials are ironing out final details of legislation that allows open panel group legal insurance.

Signed by Gov. Brendan T. Byrne three months ago, the legislation allows insurers to market open panel group legal insurance for the first time in the state.

The law is expected to become effective later this month after lawmakers and Insurance Department officials establish regulations for processing applications from potential insurers.

Some labor unions and employers in New Jersey now offer closed panel group legal insurance. More than 400,000 employees are covered by such plans.

Closed panel legal plans restrict employees to a specified lawyer or

law firm. These plans usually are self-insured.

Under an open panel plan, employees will be able to use any lawyer they wish.

Most plans, insurance industry officials note, probably will be set up on a fully paid or deductible basis.

It can be offered as part of a cafeteria benefit package allowing the employee to purchase up to about 18 different legal service coverages or select the package best suited to his needs.

Employees will be able to utilize phone consultation, adoption, will, guardianship, name change, debt collection, consumer protection and

estate administration services.

In addition, workers can obtain non-petition divorce, driver's license suspension and criminal trial defense services.

The legislation is expected to allow many employers to offer a new employee benefit. It also is expected to generate more business for lawyers.

The reaction of many lawyers is disbelief. "They don't believe it's happening," says Paul Mainardi, chairman of the New Jersey Bar Assn.'s committee on prepaid legal services.

"Lawyers realize the middle class cannot afford lawyers. This allows them to do so. Most working

people can enjoy having a lawyer they can call upon. They'll also know how much it's going to cost them," he says.

New Jersey joins its neighbors, New York and Pennsylvania, in allowing insurers to offer open panel group legal services plans. The legislation was passed after years of fighting between legislators and Insurance Department officials.

So far, only two insurers, the Newark-based Prudential Insurance Co. of America and Blue Cross of New Jersey, have expressed an interest in the New Jersey marketplace, but others are expected to rush in, Insurance Department officials say.

Insurer fined

NEW YORK—Prudential Insur-

ance Co. of America has been fined \$3,500 by the state Insurance Department for failing to properly supervise its 40-hour insurance course program for life, accident and health insurance agents.

Three insurance agents, designated program instructors, have also been fined varying amounts. They are Lawrence Lederman, \$1,000; Anthony F. DeMento, \$500; and Patrick J. Wheeler, \$250.

By stipulation, Prudential acknowledged that it had failed to conduct the course in the specific manner approved by the department. The company paid the fine and stated that the violations were inadvertent and have been corrected.

In the same stipulation, Mr. Lederman, Mr. DeMento and Mr. Wheeler acknowledged that they had not conducted the course properly and had failed to maintain proper documentation concerning students' attendance and examination records.

Mr. Lederman also admitted he had issued certificates to students before they had completed all their courses, and Mr. DeMento admitted issuing a duplicate course certificate containing discrepancies in data. All three have paid their fines.

Comp board chairman

NEW YORK—William Kroeger has been appointed the new chairman of the state Workers Compensation Board. He had been named acting chairman following the death of Arthur Cooperman last June.

Mr. Kroeger was appointed to the 13-member Workers Compensation Board in 1975.

Mr. Kroeger was an assistant administrator in New York City from 1972 to 1974 and represented the city in matters of health policy, planning and administration. He later worked with the Temporary Commission to Revise the New York City Charter, which recommended changes in the city health planning system.

He has been a research analyst for Prudential Insurance Co. of America, a relocation adviser for the Urban Renewal Administration and a research assistant at the Brookings Institution.

Merger review

SPRINGFIELD, Ill.—Gov. James Thompson has signed legislation authorizing the state Insurance Department to review the impact of acquisitions or mergers by insurance companies doing business in Illinois, but headquartered elsewhere.

The intent of the legislation is to prevent monopolies or lessening of competition in the insurance marketplace, said Insurance Director Phillip R. O'Connor.

The legislation, an amendment to the Insurance Holding Company Act, provides that if an acquisition of a non-Illinois insurance corporation would result in an overconcentration of a market segment with one company or related group of companies, the Insurance Department can order divestiture or use other means to remedy the situation.

The law will go into effect Jan. 1, 1982, and is based on model legislation of the National Assn. of Insurance Commissioners. It requires an insurance company acquiring another insurer to notify the state Insurance Department if certain market share standards are exceeded.

Violation of the law can result in fines up to \$50,000 and the revocation of the certificate of authority to do business in Illinois.



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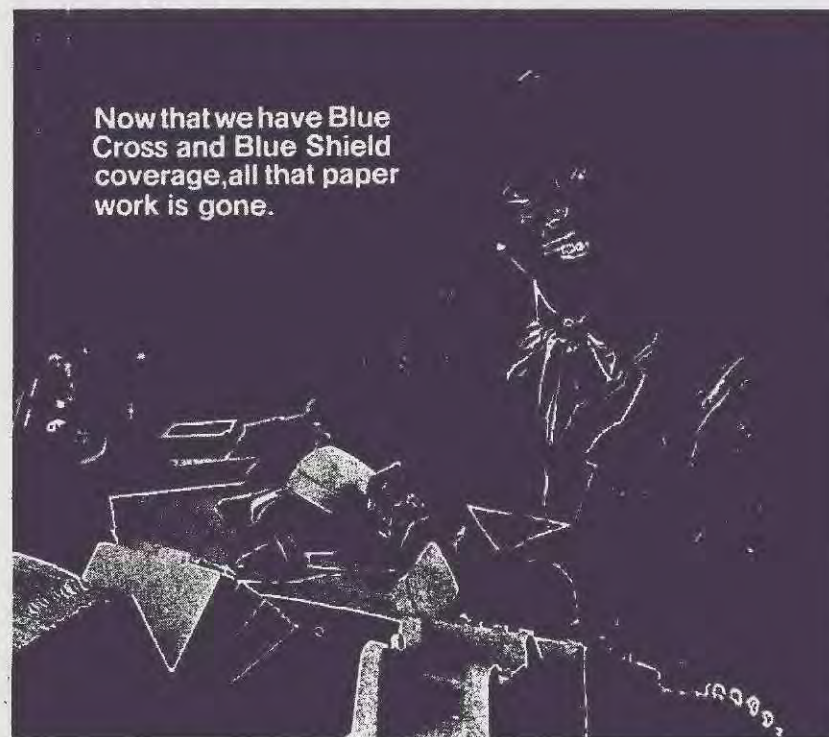
Now, the use of electronic systems to receive and transmit claims information is rapidly expanding among Blue Cross and Blue Shield Plans and is eliminating paperwork in a new way. Last year, more than 48 million claims were received using the new system. Through relationships with hospitals, physicians, and pharmacists, computer terminals and other data exchange systems are linked up with Blue Cross and Blue Shield Plans, allowing for this advance.

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helps keep down the cost of administering health care coverage programs. This puts your coverage dollars where they should be, in benefit costs and not administrative costs.

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editorial opinions

This is professionalism

EXECUTIVES who still believe that the risk or employee benefit manager is really an insurance policy file clerk should take a close look at this issue's spotlight report on multinational risks and insurance programs.

They will learn lessons about efficiency, economy and management as an art because the development of global programs for property/casualty risks and employee benefit programs shows much more than the insurance companies' desire to underwrite all of a multinational's risks for all available premium.

The unified programs demonstrate the evolution of professionalism in risk and employee benefit management.

Intel's risk manager Gary Toms facetiously says that laziness was one reason for moving his firm into a global insurance program, but it is clear that his goals were much more complex: cost savings, coverage standardization, centralization and overall efficiency.

The global property/casualty policy buying decision is likewise complex, requiring careful analysis of the depth and breadth of coverage offered by an insurer, its international service capability, long-term stability and, of course, price.

High premiums and massive exposures are at stake. A company's success internationally—indeed success as a company—can ride on how well its liabilities are protected.

In pooling employee benefits, benefit managers perform the same advanced management decision-making as they strive to unify and streamline the maze of international benefits offered employees around the world according to their firms' budgets and philosophy and local needs. Riding on the skills of the benefit manager can be the company's ability to recruit workers overseas and comply with local legal requirements.

In all cases, an overriding reason for developing and choosing a unified global package plan is the desire for a seamless, consistent coverage that eliminates the gaps, confusion

and paper chase of a fat file of insurance policies to the benefit of the multinational corporation.

Global programs may not be the answer for all companies with international subsidiaries and firms should remain wary of any simplistic plan that claims to eliminate all the problems associated with risk control and benefit planning in various cultures, languages and legal systems. But the risk and benefit managers' inclination toward organization, efficiency and economy is admirable.

It is the mark of a true professional and a management artist.

This is fitting

IT'S FITTING that this is our annual spotlight report on international risk and employee benefit management developments. The publication date coincides with the first international risk management meeting held this week in Monte Carlo, cosponsored by The Risk & Insurance Management Society in the United States and the Association Europeenne des Assures de L'Industrie of Europe.

We can see your smirks now as you consider a meeting in Monte Carlo in October. But besides a chance to catch the warm Mediterranean breezes, the 500 registrants will certainly gather new ideas and insights to risk management as they rub elbows with risk managers from all over the globe. From the United States will come risk managers from RIMS, which represents the risk managers of more than 3,500 corporations in the United States and Canada, many of which operate internationally. From AEAI will come risk managers from its member associations of risk managers in Belgium, France, Great Britain, Italy, The Netherlands and West Germany.

Our full report on this international risk management gathering will appear in the Oct. 26 issue.

letters

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

Interpreting survey results

To the editor: As one of the authors criticized in your editorial "Cutting health costs" (BI, Sept. 14), I thought I should ask for equal space to offer a reply. The party line apparently is that corporations are apoplectic about rising health care costs. Our survey of 69 major firms, which provide health care benefits for more than 12 million workers and dependents, did not find this to be the case.

To be sure, these firms do not want to waste money so they take prudent steps such as self-insuring and coordinating benefits in order to protect themselves from rising insurance costs. Their executives, however, do not exaggerate the need for or their ability to control health costs as apparently do some who seek to sell them various services described in your columns and advertisements. On the contrary, they worry as they must about unions, employee morale, community relations and the rest of their businesses before they leap for the many unproven cures of-

ferred to them.

We did, as you point out, interview senior executives in these firms as well as benefit managers. It is a technique that I would commend to your reporters as it provides balanced views of the current business problems. If reporters used this technique, your readers might discover that most firms consider preventive health programs as another benefit (a very popular one) and that not all are convinced that HMOs save them money or operate in the interest of their employees.

Finally, I must bring to your attention the curious logic of the editorial. The first half argues that our results cannot be true while the second half tells benefit officers how they can make certain that if we ever come their way again that we could not find the same results.

Harvey M. Sapolsky
Professor of public policy
and organization
Massachusetts Institute
of Technology
Cambridge, Mass.

Clarifying a couple points

To the editor: Your Sept. 14 article on marine classification groups, specifically the American Bureau of Shipping, was incorrect in stating that the ABS' chairman has always been from the Atlantic Mutual Insurance Co., and also incorrect in stating that William N. Johnston, chairman and president of ABS, is an Atlantic Mutual executive.

The ABS is an independent non-profit organization and Mr. Johnston, who has never been employed by Atlantic, is its full-time leader. It is true that in 1862 Atlantic's president, John Divine Jones, led 10 other marine insurers to form the American Shipmasters' Assn., and it is true that Mr. Jones was president from 1862 to 1871 and 1881 to 1886.

After the organization changed its name in 1898 to the American Bureau of Shipping, another Atlantic Mutual man was president from that point to 1916.

In this century, however, the ABS has developed and broadened. Its chairman and president, Mr. Johnston, is solely employed by the ABS.

Hundreds of members including shipowners, shipbuilders, naval architects, government representatives, insurers and others eminent

in marine endeavors elect a large and diverse board of managers, representing many maritime interests.

Atlantic is proud to be represented on the ABS board, but there is no way in which we—or even all marine insurers together—could possibly dominate the ABS, as the article implied.

Paul E. Wish
Manager of
corporate communications
The Atlantic Cos.
New York

Thanks, Frank; we needed that

To the editor: Thanks to Frank Walton of The Travelers for his gratifying response (BI, Sept. 28) to the earlier comments of Edward Siver (BI, June 29).

The purpose of Mr. Siver's diatribe had been a mystery to us until we saw the advertisement for his new book in your magazine. Now it is clear.

David R. Kornreich
Loveman, Kornreich Co. Inc.
Insurance Brokers & Consultants
New York

A necessary distinction

To the editor: Your first two articles on multiple employer trusts by Jerry Geisel and Steve Sherwood (BI, Sept. 7, Sept. 14) were quite good. They made a clear distinction between an insured MET and a self-funded MET. Then, in your Sept. 21 MET article, there was no mention of the difference between an insured and a self-funded MET.

Surely you are aware that many people in this country would not have medical-hospital coverage if it were not for the insured METs.

In the Sept. 21 article, something was mentioned for the first time: the little-publicized fact that insurance agents were selling these self-funded plans to the public. They alone are responsible for the large number of people being in these plans. Why is it that no one held these insurance agents responsible?

I am an insurance agent who has worked with insured METs since

the beginning. It has not been easy on anyone involved to make these plans work. Insurance companies have lost money. Agents had to change plans often while the clients did not fully understand the reasons. But the insured MET has done a job of covering small employer groups when no one else could or would.

Why not tell the story of the insured METs and the job they are doing?

Robert O. Miller
Corporate Administrators Inc.
Miami

■ Indeed, the Sept. 21 article referred to a self-funded MET, which should have been clearer. We agree insured multiple employer trusts are providing needed insurance to small employers. See story in BI, Sept. 1.

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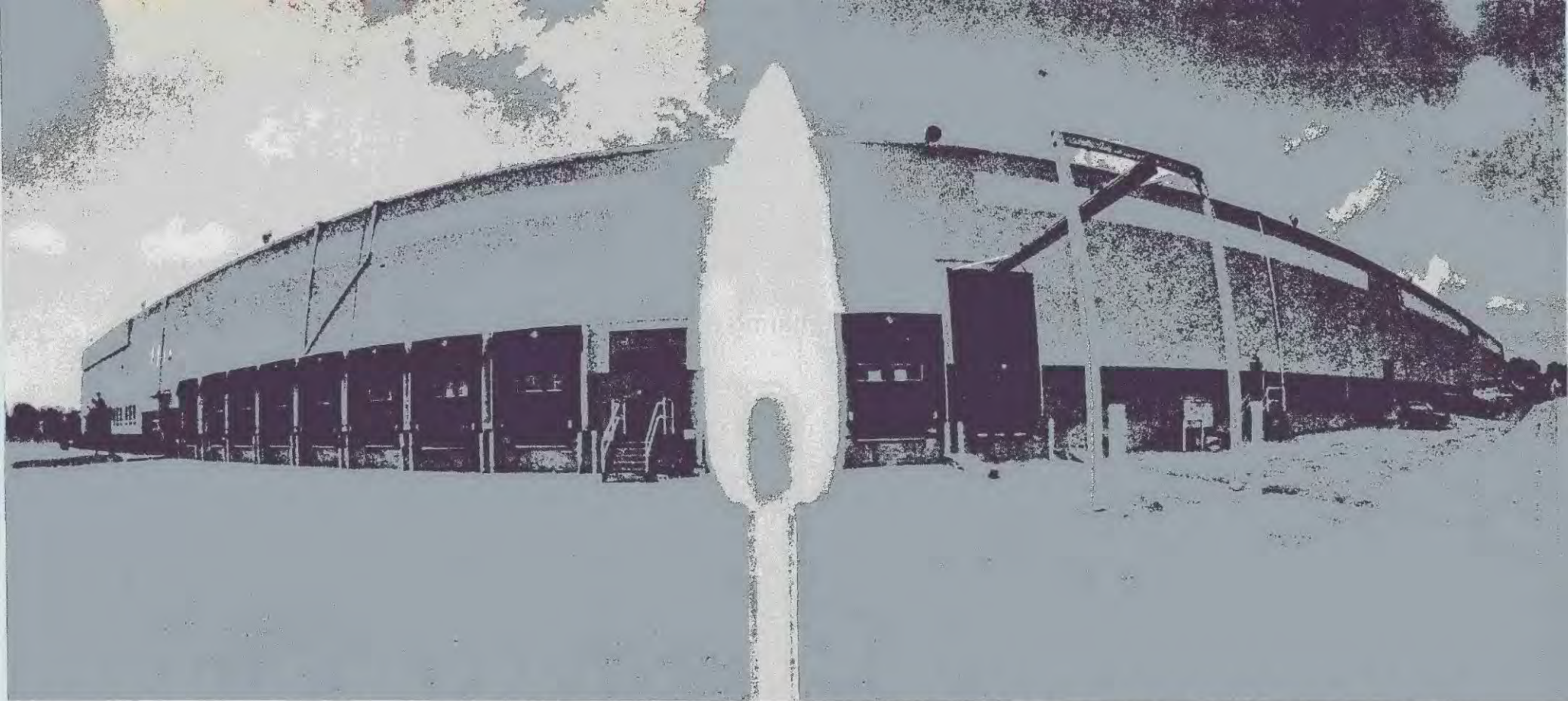
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Published by Crain Communications Inc., Chicago. TODD E. FANDELL, Corporate editor. ALFRED MALECKI, J.J. GRAHAM, S.E. COHEN, LOUIS F. DE MARCO, WILLIAM STRONG, ROBERT W. KRAFT, STEPHEN D. GILKINSON, ARTHUR E. MERTZ, JOE CAPP, CHUCK LAUER, ERNIE ZIELASKO, vice presidents; JAMES M. FRANKLIN, vp-finance and administration; MERRILEE P. CRAIN, secretary; MARY KAY CRAIN, treasurer.

Published weekly at 740 Rush St., Chicago, Ill. 60611 (312-649-5200). Offices: 220 East 42nd St., New York, N.Y. 10017 (212-210-0100); Suite 515, National Press Building, Washington, D.C. 20045 (202-638-5300); 6404 Wilshire Blvd., Los Angeles, Calif. 90048 (213-651-3710); 5327 N. Central Expwy, Suite 200, Dallas, Tex. 75205 (214-528-3561). \$1 a copy. \$30 a year in U.S. Canada and all other foreign add \$14 for surface mail. Europe and Middle East only add \$32 for air delivery. First-class mail to Canada only, add \$36. WILLIAM STRONG, vp-circulation. BARBARA RANDICK, circulation manager. ROGER DIGREGORIO, fulfillment director. Circulation dept.—Chicago (312-649-5227). Four weeks' notice required for change of address. Send subscription correspondence to Circulation dept., Business Insurance, 740 Rush St., Chicago, Ill. 60611 or phone 312-649-5221. Telex 25-4248; Cable CRAINCOM. Microfilm copies are available from University Microfilms, 300 Zeeb Rd., Ann Arbor, Mich. 48103. Microfiche copies available: Bell & Howell, Micro Photo Division, Old Mansfield Rd., Wooster, Ohio 44691.





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Longshoremen benefits increase again

By JERRY GEISEL

WASHINGTON—Benefits payable under the federal Longshoremen's and Harbor Workers' Compensation Act have been increased again.

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 \$496.70 from \$456.34, an 8.7% hike.

Legislators, primarily Rep. John Erlenborn, R-Ill., and Sen. Don Nickles, R-Okla., have tried to place a 3% cap on annual benefit increases, but so far Congress hasn't approved the idea.

The longshoremen's act, which went into effect in 1928, covers more than 1 million persons.

washington

FICA tax hike

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

On Jan. 1, the FICA payroll tax will jump to 6.7% of the first \$31,800 of wages. The current tax is 6.65% on the first \$29,700.

The latest increase will boost the maximum annual tax to \$2,130.60. The current maximum is \$1,975.05.

Even with this increase, the fund will remain in financial trouble. Richard Schweiker, secretary of Health and Human Services, has repeatedly warned that Social Security will run out of money to pay benefits to 36 million retirees by late next year unless benefits are

cut or taxes increased even more.

Profit-sharing suit

Three trustees of a Dallas, Texas, pension and profit-sharing plan have agreed to pay back more than \$1 million to the plan as part of a federal court consent order.

The consent order settles a January 1980 Labor Department suit filed against Theodore Shanbaum, Ellis Carr and Glenn C. Auerbach, trustees of Lee Optical Inc.'s profit-sharing and pension plans.

The Labor Department suit, filed in the U.S. District Court for the Northern District of Texas, charged that the trustees violated the Em-

ployee Retirement Income Security Act by using money from the plans to make loans or extend credit to Lee Optical and Dal-Tex Inc., companies which the trustees owned.

ERISA bars employee benefit plan trustees from making loans or extending credit to companies in which they have an interest unless a specific exemption is granted.

The consent order requires the trustees to repay more than \$1.1 million to the plans in addition to more than \$1 million already paid back since the suit was filed.

The court order also removes Mr. Shanbaum as a trustee. Mr. Carr and Mr. Auerbach resigned as trustees.

Pension portability

Only 2% of employees covered by

single employer private pension plans can transfer their pension credits to another plan, according to a study conducted for the U.S. Department of Labor.

These 2% of plan participants are employed by firms that participate in centrally administered pension portability networks. These networks, each of which covers employees in a single industry, permit portability of pension credits for employees transferring from one employer to another that participates in the network.

The networks range in size from the National Education Plan covering 775 employees to the TIAA-CREF plan with 407,000 employees at colleges and universities.

The study was conducted by Donald Grubbs of George B. Buck Consulting Actuaries.



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Claims-made policies urged for doctors

NEW YORK—The New York Department of Insurance is considering allowing claims-made medical malpractice policies in the state for the first time.

The change could come by Nov. 1 when the state Department of Insurance is to decide whether to grant rate increases to the two companies that write most medical malpractice coverage in the state.

The admission of claims-made policies is seen as an alternative to tort medical malpractice reform some doctors have called for.

Claims-made policies could reduce malpractice insurance costs significantly—possibly as much as 30%—while providing a high level of coverage, says Donald Gabay, first deputy superintendent of the state insurance department.

The claims-made policy proposal made by Presley and Associates Inc., the independent actuary that has recommended the state approve a 107% medical malpractice insurance rate increase, received mixed reaction from doctors who attended recent hearings in New York City and Albany.

Some fear claims-made policies—which only cover claims that are filed during the policy period—would leave them vulnerable to suits filed years after they have retired or died.

Presently only occurrence policies—policies that cover all injuries that occur during policy period regardless of when the claim is filed—are written in New York.

Normally those policies provide a broader range of coverage than do claims-made policies. But the addition of a guaranteed tail that would cover retiring doctors against future claims, Gabay says, would provide the same level of coverage for less.

The tail would be added at no extra cost to the insured.

If the policy is adopted, New York doctors would have the option of purchasing either claims-made or occurrence policies.

While most state officials believe a rate increase is imminent, they suggest it could be less than the 107% proposed by Presley and Associates, which was hired by the Department of Insurance.

The Medical Liability Mutual Insurance Co., the state's largest underwriter of medical malpractice insurance with 18,000 members, is seeking a 52% increase.

The Medical Malpractice Insurance Assn., which insures about 3,500 practicing physicians in the state, has recommended a 357.8% rate increase.

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International insurance

Old or new, global plans catching on

By LISA BERGSON

In one of American International Group's dimly lit offices, Arthur Phillips, vp, toys with a round wooden ball, a replica of the global puzzle used to illustrate a brochure for AIG's 10-month-old world plan.

"This new policy will revolutionize the way business is written within the next 18 to 25 months," he predicts.

"This is nothing but a merchandising gimmick: Someone has just put a new label on something that's been going on for a long time," counters a rival, whose firm markets a "coordinated program" without much fanfare.

Old or new, the global plan seems to be catching on, albeit slowly. Nine leading insurers offering the plans report about 70 sales, most of them recent, in the 15 years since it first appeared on the market.

The idea is that with one policy a multinational corporation can buy uniform global coverage for an array of risks. Underlying an umbrella or difference-in-conditions policy are agreements negotiated by the insurer with locally admitted insurance companies. In this way, necessary compliance with local regulations and tax laws is assured.

Previously, multinational companies have relied on what AIG describes as a "hodgepodge of U.S. and foreign policies" bought at random as the companies expanded into different countries.

This patchwork approach was reinforced by the very structure of the insurance companies, which divided domestic and international operations into separate profit centers.

In contrast, the global program combines the insurers' domestic and foreign capabilities to offer multinationals: a wider range of coverage than may be available in any one location; a uniform level of protection; freedom from the frustrations of coping with diverse national customs, regulations, currencies and languages; and a price that reflects the insurers' eagerness to collect large premiums.

This coverage most suits companies that rank among the Fortune 1,000. In fact, many insurers will only sell global programs to companies that generate enough premiums to justify the effort involved.

The Zurich Group, for example, expects plans involving half a dozen countries to cost from \$50,000 to \$100,000 in annual premiums.

John Ormerod, assistant secretary of Royal Insurance's international division, sets no minimum, but he says, "I'd be more attracted to one in the millions." And AIG mandates at least \$1 million in premiums in exchange for its global services.

For all its advantages, however, the global policy has had few takers. Many brokers, risk managers and even some insurers are less than enthusiastic about the new product. William Crowley, vp in charge of AFIA's North American operations, points to tax considerations as a key reason for broker trepidation.

Mr. Ormerod adds that brokers who lack international affiliates resist the possibility of losing control of the domestic side of a multinational account.

"To coordinate a worldwide program, the client wants the broker to have people on hand around the world," he explains.

The programs can also be tough to assemble, service and administer, says Theodore Hoeh, the manager of Kemper Group's international department.

Often branch managers feel a global plan is not only more expensive than coverage they can obtain locally, but that it threatens the relationships they have established with local insurers, as well as their autonomy.

"It can go against the profit center concept, which leaves local subsidiaries responsible for their own insurance programs," remarks Mr. Ormerod.

Before they can accept the change, Mr. Hoeh finds, "they have to be convinced that the corporation comes out better off."

Global plan proponents insist there is strong, if la-
Continued on page 16



Multinationals pool benefits to cut costs

By JAMES LAWSON

NEW YORK—Runaway inflation and a sagging U.S. economy are prompting an increasing number of multinationals to pull the reins on their international benefit costs.

And many are doing so by pooling their employee benefits programs in one funding vehicle with one insurer or a group of insurers that are represented in several countries. If countries demand outside firms use local insurers, some multinationals reinsure the native company with a network insurer or captive insurers.

Giving one insurer or insurance network the job of directly—or indirectly—underwriting all worldwide benefits can reduce corporate benefits costs by as much as 20% to 25% annually.

Multinational pooling provides companies with a premium report to aid in cost control, allows the firm to deal with professionals who know the country in which it operates and allows the benefits manager to see where surpluses and losses are coming from, notes Robert M. Pickrell, president of Multinational Benefits Associates, the U.S. representatives for Insurope Cos., a European network.

The premium report lists several items:

- Claims paid out for death and disability.
- The surrender value of a resigning employee's contract.
- Year-end reserves.
- Commissions paid to a broker.
- Local taxes paid.
- What the insurer charged for services.
- What was charged to bear risk.
- Dividends paid out.

While multinational experience pooling of benefits is not new, more firms, especially smaller multinationals, are finding it also allows for the easy transferral of pension reserves, which follow an employee who moves from one country to another.

In addition, many benefits managers are finding pooling is an effective means of centralizing benefits operations, increasing the level of benefits they offer their overseas employees and offsetting some overseas tariff restrictions.

"Most of the U.S. multinational corporations now are barely making money in the domestic market, but they still are making money overseas. So they are beginning to look at their overseas operations to make sure they don't have the same problems they're having here," explains Robert L. Sophia, assistant vp of Johnson & Higgins in New York.

The success of multinational pooling, some international benefits specialists contend, can be attributed to the fact many benefits managers know they can get a surplus—dividends—they would not get if they had not pooled.

And if there's a deficit in one country, a surplus from another country can be applied to the deficit.

Multinationals in benefit pools also tend to feel less of the effect of death claims and disability claims.

While there are no universal employee benefits plans because employee benefits needs vary from country to country with different social programs as well as union demands, employers can still pool their different plans with one insurer to cut costs or tap various networks to pool particular plans.

"Many U.S. benefits managers have to realize each country is an entity onto itself," says Mr. Sophia. "You can't import American ideas. The benefits manager has to determine what the company philosophy is and try to adapt its overseas package to fit that philosophy."

Another advantage of multinational pooling, industry officials say, is the crediting of pension reserves of an employee who dies. In some countries, the pension would revert to the insurer. Under multinational pooling, notes Mr. Pickrell, the pension goes back to the policyholder.

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Global rates keep falling
Page 20

What you should know about foreign courts
Page 55

British benefit plans keep growing in variety
Page 63

Global policies stabilize overseas risks

Continued from page 15

tent, demand for their product. Rudi Schwarz, the manager of the Zurich Group's international division, sees "undeniable" benefits for corporate risk managers in a "systematic, coordinated program."

Mr. Schwarz believes that multinational companies require the greater efficiency, cohesion and stability of a global insurance package plan.

Among insurers marketing world plans are American International Group, INA, AFIA, Chubb, Kemper and Continental.

They are joined by a handful of foreign-based companies: Royal Insurance and Commercial Union, both of Britain, and Zurich of Switzerland.

Here's what their respective programs offer buyers:

AIG's new Global Accounts Department specializes in master insurance plans for multinational corporations in the United States and abroad.

AIG is particularly well-equipped, with 90% wholly owned offices in 140 jurisdictions.

The firm's representation is strongest in Europe and the Far East. It slackens in the Mideast, where Mr. Phillips terms the political situation "difficult."

AIG's global format takes in the whole shebang: marine, bonds, aviation, directors and officers liability, kidnap and ransom and employee benefits, as well as the ubiquitous property/casualty exposures. All this can be handled under a retrospectively rated plan.

"What we can't write net and treaty, we'll buy facultative," vows Mr. Phillips.

The company will cover 100% of the primary layer of any exposure, he continues. For a casualty or marine cargo line, this usually means a first loss limit between \$1 million and \$5 million.

For property, the limits can go as high as \$50 million to \$150 million.

Of the 25 accounts he has quoted, five have purchased a global plan, and three or four others are pending. Over the next two to three years he expects to win 15 to 20 additional clients.

At that point, AIG's minimum premiums written may rise from \$1 million to \$2 million or \$3 million.

"We don't want to dilute the quality of the service," Mr. Phillips says. "We want it to be special."

The clientele Mr. Phillips has in mind will number among the world's major firms, 25% of which may be foreign-based.

His department already has small branches in Britain and Australia, with one client each. And AIG is playing for keeps with these mega-accounts.

"To make money on a major account, we really have to write it almost permanently. So our goal is not volume, but to write business that can be maintained," Mr. Phillips contends.

To develop its global plans, which can be drawn up in two to four weeks, the department has its own 12-member team of managers versed in different disciplines and international regions.

Mr. Phillips considers this department "an effective marketing tool to induce major brokers to come to AIG."

It is, in his words, the multinational insurance equivalent of a "one-stop shop."

AFIA, with locally owned offices in 85 countries and domestic coverage available through its seven member companies, certainly has the wherewithal to sponsor a global plan.

Although spotty in Africa, the

company has solid representation in Latin America, Europe and throughout Asia.

But AFIA's management isn't sure it's worth the bother.

"I think the jury is still out on global programs," comments William Crowley, vp in charge of AFIA's North American operations. "There haven't been many written today, so we deal with it as simply another option. When AIG came up with this product, we had to compete."

Unlike AIG, AFIA has no specific department for global accounts. However, each member company has established a contact person to coordinate such policies.

The company is prepared to write all risks, on a retrospectively rated basis, and accident and health

programs under a global policy. However, most clients are going for straight casualty or property lines, according to Mr. Crowley.

The global program, he says, can take from one to three months to put together, based on the amount of on-site inspections needed and the internal coordination involved.

"The industry has people brought up on either domestic or international," points out Mr. Crowley. "You're crossing lines here, so it may take more time to put together."

So far, AFIA has had about 15 submissions and written seven or eight of these policies. That the company requires no minimum premium is reflected in policies as small as \$75,000, with deductibles

Continued on next page



Photo: Stuart Emmrich

AFIA's William Crowley says the jury is still out on global plans.

Local Currency Pension Plans. Made Simple.

Continued from previous page of \$25,000. As a rule, though, marine and casualty insurance limits tend to range from \$1 million to \$5 million, with property risks insured to "any limit," says Mr. Crowley.

The company markets exclusively to brokers.

INA launched its global program in March, covering all lines. The company spans 140 countries, with the bulk of its non-U.S. offices concentrated in Europe.

"We own 100% where the law permits," comments John Morrison, the president of the international and special risk division. "In South Africa, Central America and some Asian countries, you have to name local partners."

So far, INA has received 20 submissions and sold 10 global accounts. In addition, the company has identified 50 prospects and expects to have more than 150 clients

signed on by the end of 1982.

"Too restrictive" is Mr. Morrison's opinion of minimum premium requirements. Of the cash-flow plans INA offers, most are retrospective rating plans.

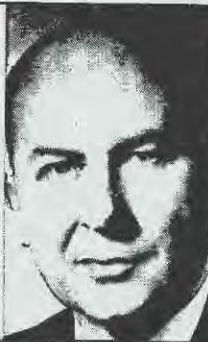
Although he takes pride in having just written a \$500 million-limit property cover, most of INA's first-layer limits fall range from \$20 million to \$50 million. Marine coverage can go to \$50 million and up. And property exposures generally range from \$100 million to \$200 million, using reinsurance.

Mr. Morrison finds accounts taking large retentions that can be protected with a blanket aggregate: "They want some large cover like a stop-loss on retentions, if they run into major losses in a given year."

In contrast to some of his rivals, Mr. Morrison finds brokers are looking for global multiline markets.

"We see this as practically the major thrust for the larger insur-

Minimum premium base requirements are restrictive, says INA international division President John Morrison.



ance buyers," he says, noting that INA has made the global plan a priority for both its international and special risk divisions.

The chief contenders for this market, Mr. Morrison says, are his firm and AIG. "We both have strong domestic and international operations. AFIA is strong internationally, but it's not really a domestic company."

He notes that Continental must

rely on Phoenix for global spread. Conversely, Royal and Commercial Union are strong outside the United States, but, "I don't have any sensation of how they are domestically," Mr. Morrison says.

COMMERCIAL UNION boasts strong representation in Europe, the Orient and North America. "We haven't got too many holes," quips Steven Foster, manager of

the international risks division.

Through direct control or via "friendly companies" where nationalism prevails, Commercial Union has ties in 82 countries. While the international risks department is in the British-based firm's headquarters, Mr. Foster develops U.S. multinational accounts and services foreign multinationals out of New York.

CU's coordinated accounts generally require annual premiums of \$600,000 to \$700,000, depending on each client's size and principal business. Equally, the limits for high-hazard exposure might be \$50 million, compared to \$150 million for a highly protected risk.

Because of the different expiration dates of a multinational's policies around the world, Mr. Foster believes it could take seven months to three years to achieve a unified global program.

Acknowledging that the global plan has been "slow catching on," Mr. Foster says Commercial Union is "seriously considering some form of promotion." His company deals with brokers in conjunction with risk managers.

CHUBB directly controls 26% of the facilities in up to 100 countries encompassed by its global plan. Since 1978, Chubb has offered this kind of program, writing 25 of the 50 to 75 submissions it has received.

On a worldwide basis, Chubb can write ocean and inland marine, property, business interruption, casualty, accident and crime insurance. It takes two to three weeks for the insurer to develop a global cover, "depending on the adequacy of the underlying information," says Henry Parker, director of the international department.

Unlike many of its competitors, Chubb has targeted its global plan to mid-sized, mostly high-technology businesses with sales of \$75 million to \$500 million. "We're looking at companies in the Fortune 2,000; we're not looking to shake any trees," remarks Mr. Parker.

A typical policy for bodily injury and property damage combined might start with a primary layer of \$1 million, with excess layers of up to \$10 million and a deductible of \$25,000 to \$50,000 for third-party property damage only, explains Mr. Parker.

Currently, Chubb has no special department to handle this type of coverage, though "we might form such a department," says Mr. Parker. "We don't have an expensive, upfront, special unit sitting on its hands waiting for business. Our people carry water on both shoulders."

Continued on next page

Local currency pension plans aren't simple. Plans must conform with local government requirements and your employee benefit objectives and philosophies. And for multinational companies, large or small, all this can get very confusing.

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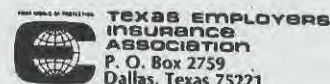
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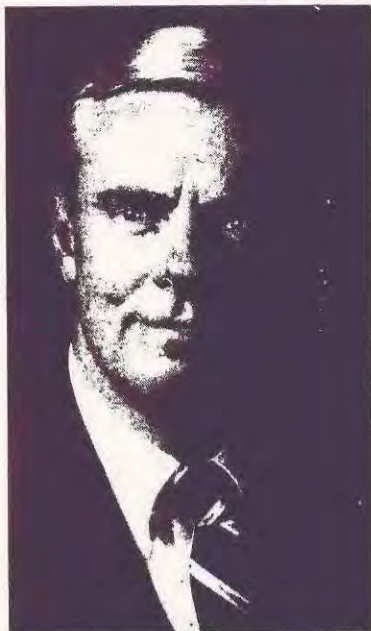
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Henry G. Parker III

Insurers sell global packages

Continued from previous page
ers."

KEMPER's worldwide master program is handled by Seven Continents Insurance Co., a Bermuda-based firm it shares in common with seven other foreign companies. Through 20 other companies around the world, Kemper sells coverage in 67 countries, though it has offices in eight.

Depending on local conditions, a new program can take a month or more to put together, notes Theodore Hoeh, the manager of Kemper's international program. One local buyer, for example, never upgraded the values of his property. So a multimillion-dollar facility was insured for half value.

Through its worldwide program,

Kemper will cover property/casualty and marine risks. "We'll work with the client and the broker to accommodate this form to their program," adds Mr. Hoeh.

Kemper reports rates between 3 cents and 4 cents per \$100 of value and up to 10 times that for an all-risk global program. It offers up to \$150 million in capacity, with deductibles of \$1,000 to several million dollars.

Started in 1978, the program's growth has been "modest," according to Mr. Hoeh. "We've written a few very large accounts this year," he says, allowing that there are no more than five such accounts presently in hand.

For the moment, Kemper has no literature available on its program. But, it is promoting the notion in-

ternally and to brokers.

CONTINENTAL started its global policy 18 months ago, breaking the traditional barriers that stood between its foreign and North American facilities. Now, through one policy, Continental will write the full range of property/casualty covers, from boiler and machinery to directors and officers, for multinational operations in 70 countries.

Only three or four companies have opted for the Continental's global cover so far, says Martin Farrel, vp in charge of the international department, but two more policies are in the works. Putting a global cover together takes Continental roughly 90 days, he says.

The company coordinates its

multinational covers with its 23% owned affiliate, the Phoenix Assurance Co. Through this connection, the largely U.S.-based firm can extend its service to 70 countries.

To encourage sales of global accounts, John Ricker, Continental's chairman, started an internal information center that "alerts us to accounts that could benefit from this approach," Mr. Farrel says.

ZURICH of Switzerland for the past four years has offered two global models—one for liability, with some contingent auto risk, and one for property and business interruption insurance.

So far, Zurich's clientele has been strictly European. On the casualty side, Rudi Schwarz, the international division's Zurich-based casualty manager, has seen 15 or 20 submissions and written a dozen. Buyers have generally been chemical or engineering firms.

What he terms a "good standard industrial company," with plants in Germany, the United Kingdom, France and Australia, might buy an umbrella with a difference of conditions coverage for \$10 million or more.

The deductible, which would probably be handled by the corporation's captive, could be as low as \$5,000, although Mr. Schwarz would prefer \$25,000. Such a package would take Zurich two to four weeks to assemble for its clients.

The insurer is promoting its global program among brokers and directly to clients, Mr. Schwarz adds. Zurich stresses its international operations in 100 countries and its direct control over both its U.S. and its foreign offices.

ROYAL INSURANCE is among the affiliates in more than 80 countries that make up London-based Royal Insurance Co.'s international network. With no specific department or marketing program, Royal, nonetheless, claims to have a following for its global plan.

"We write General Motors and two major oil companies," boasts John Ormerod, the assistant secretary of the international division in New York.

Royal's competitive advantages, as he sees it, are a "better control of statistical quality" and "more controlled local companies around the world" than AIG, INA, and Continental.

The No. 1 property/casualty insurer in Canada and the United Kingdom, Royal claims to be the largest seller of commercial insurance in Australia and to have strong operations in the Netherlands, South Africa and parts of Latin America.

The company specializes in casualty risks but sells property, marine and workers compensation insurance. It does not provide benefit packages or handle more exotic risks, however.

As a standard worldwide program, Mr. Ormerod envisions a casualty insurance program with auto and general liability, including products, employers liability and workers compensation coverage for a general manufacturing company.

The limits can be "as much as the reinsurance market will bear," says Mr. Ormerod, while the deductible would be \$100,000, given the likely participation of the corporate captive.

Such a program can take a month to several years to put together, "depending on the power of the risk manager," says Mr. Ormerod. Royal sells this service through brokers and has no particular marketing effort underway.

"We view it as one of the products we have on our shelf," he concludes.

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"Rates are low everywhere now," bemoans Theodor Hoeh, manager of Kemper Group's international department.

A look at current pricing trends presents an interesting picture, indeed. Rate-cutting, spurred by cash-flow underwriting and overcapacity, prevails. And the resulting low prices hardly seem fit to contend with inflationary losses that hobble investment income, in-

surers complain.

The cheapest rates, they say are in Australia, followed by Canada and Germany. Germany has particularly low fire rates.

In Canada, Germany, Holland and, possibly, France and Belgium, "the whole industry is in an under-

writing deficit," according to Jack Lancaster, the president of American International Underwriters, the foreign wing of American International Group.

"I don't know which is worse, Canada or Australia," muses John Ormerod, the assistant secretary for

the international division of Royal Insurance, Canada's leading property/casualty firm and a significant presence in Australia.

"Canada has been bad for at least three years, and Australia has been deteriorating for the last few years, too.

"In Australia, hundreds of insurance companies have come in," he continues. "They are all waiting for the day when the mineral business explodes. And that's why rates are so bad."

While rate-cutting is a common denominator around the world, insurers differ on the universality of cash-flow underwriting.

Rudi Schwarz, the manager of the Zurich Group's international division, argues that European insurers are less prone to cash-flow underwriting than their U.S. counterparts. They are limited not so much by principle as by practicality, he says.

European insurers lack the liquidity generated by the U.S. workers compensation and automobile liability insurance business, which provides domestic insurers

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Ted Hoeh

with a huge premium volume tied to long-tail risks, he says.

And even if they had the available capital, comparable high-interest paying investments are simply less prevalent in Europe. "We don't have the same options," he says.

"Foreign insurers do cash-flow underwriting," counters Mr. Lancaster. "The state of the market here and abroad offers high interest rates," he says, pointing to Chile's 36% rates, for example.

In any case, the U.S. companies' propensity for cash-flow underwriting doesn't translate into price cutting abroad, it's generally agreed.

"U.S. insurance companies operating in Europe have their reserves in European currency," notes Mr. Schwarz. "So they're competing on the same footing as us."

Faced with the prospect of a continued competition in many parts of the world, insurers told *Business Insurance* they were determined to hang tough.

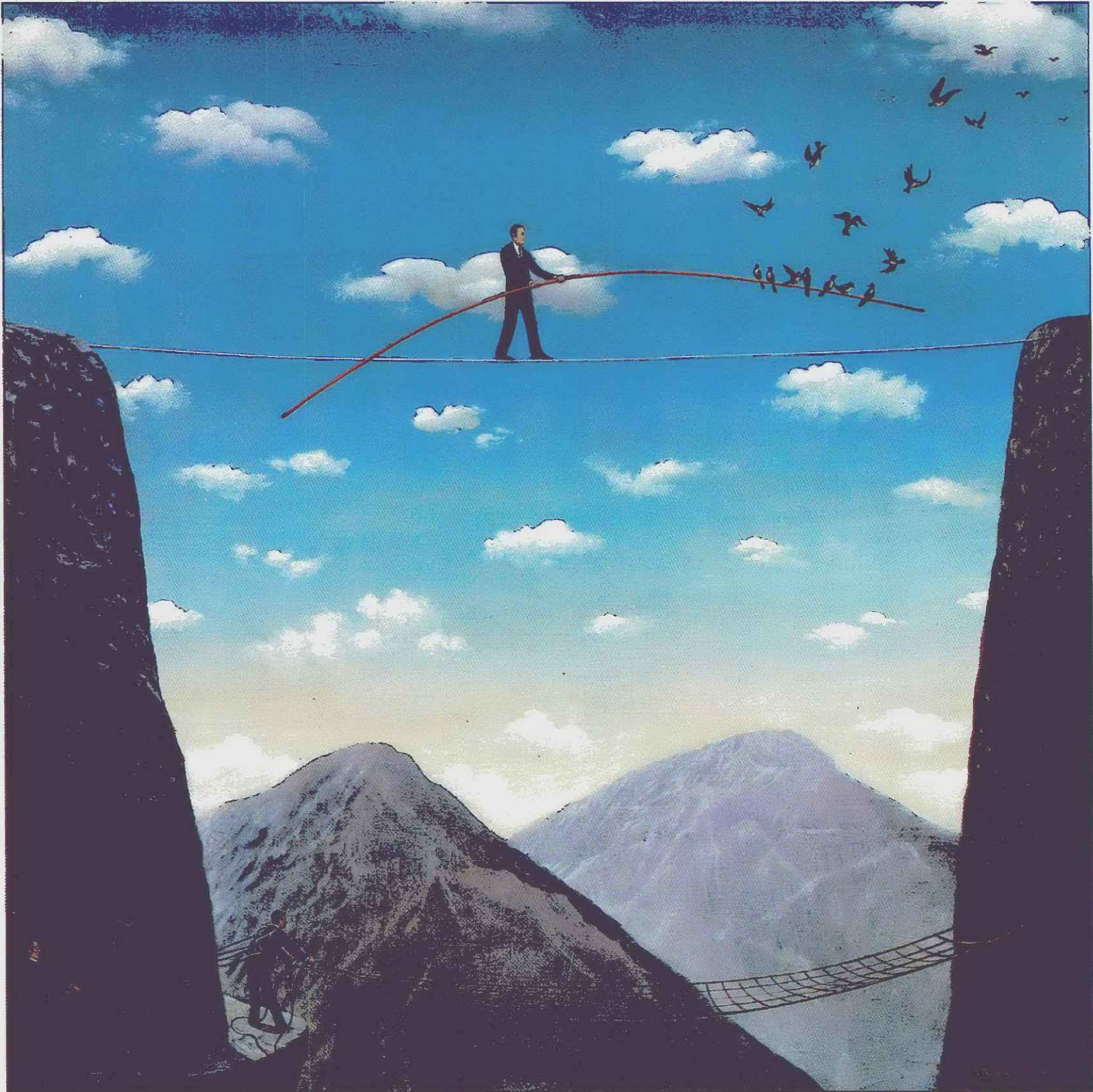
"We have an expression, 'beating averages,'" says Mr. Ormerod. "We're staying in these markets."

Still, for every company that beats the averages, another one falls below.

"Sooner or later, cash-flow underwriting has to stop," says Mr. Lancaster. "A multibillion-dollar disaster would shake things out in a hurry.

"Apart from that, three to four years of poor underwriting experience will lead to a negative cash-flow position. Then they'll have to sell their bonds at depressed prices, and that could happen."

And that would be the end of low global rates. ■



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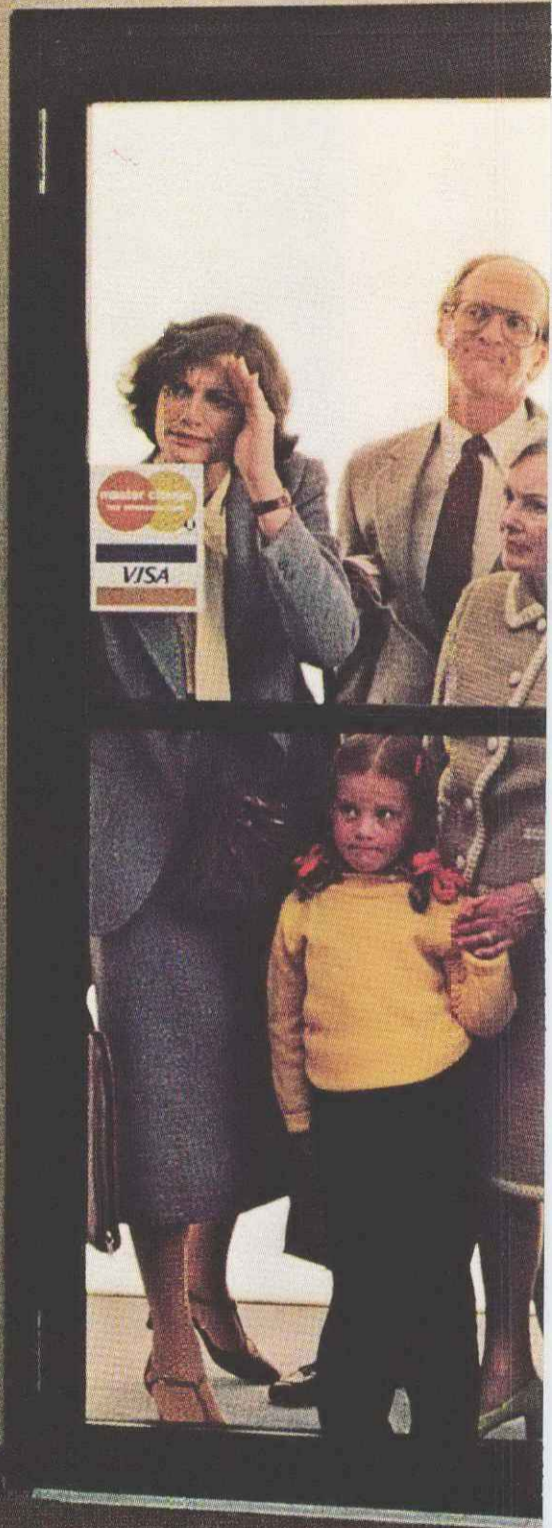
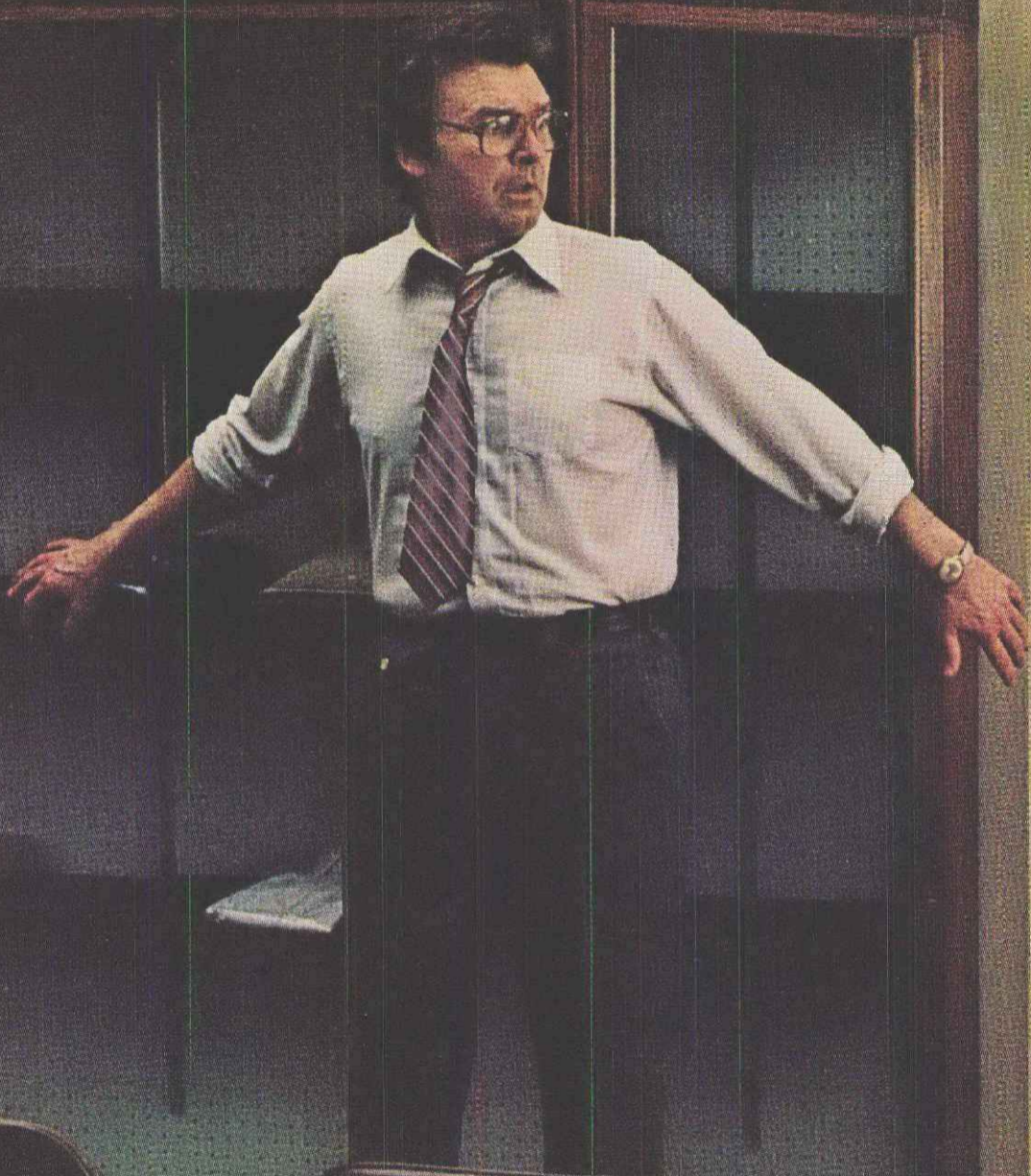
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Multinational brokers offer variety of services

By STACY SHAPIRO

LONDON—You don't have to use master policies or global account underwriting to line up an integrated international insurance program, multinational brokers will tell you.

You can let the multinational broker with multiple foreign offices create a coordinated program, tapping local insurers, they claim.

The international departments of Marsh & McLennan and Alexander & Alexander—both developing as larger multinational brokers thanks to new links with London-based brokers—can organize a multinational package that obtains the best prices in different areas of the world, they say. And they have local experts in their local offices

who know how to wade through books on foreign insurance laws that are 6 inches thick.

"It's one of the reasons for the formation of Marsh & McLennan World Services," said Gilbert Cooke, group managing director for C.T. Bowring and a member of M&M's board of directors. "If you have a multinational account, the total resources of the Marsh Group are available in each country."

And Alexander & Alexander Services President John Bogardus also believes that its pending acquisition of Alexander Howden Group Ltd. will give multinationals that kind of support.

"Insurance is crossing boundaries at an increasing pace," Mr. Bogardus said. "It's just a global business and you can't participate (as a

broker) unless you have the physical presence."

The independent foreign broker with various contacts in other countries around the world might argue with that.

Insurance for the Cartier diamond empire, for example, is placed by the French broker Societe Intercontinentale D'Assurances Pour le Commerce et L'Industries. It placed more than 20% of the overall package worth hundreds of millions of pounds with London brokers Lowndes Lambert International Ltd.

Unfortunately for Lowndes Lambert and its market, two days after it clinched part of the Cartier deal in July, 1.5 million pounds worth of jewels were stolen from a London shop. "The loss was in ex-

cess of the premium," said Derek Gillham, international director of Lowndes Lambert.

But other multinational packaging has been successful for one international group of Lowndes Lambert. Recently, the Grand Metropolitan Hotel Ltd. acquired the Liggett Group Inc. and also the Intercontinental Hotels Corp. of Pan American Airlines. The fire, liability, motor and other policies are placed for Grand Met by Lowndes Lambert, and insurance for the two acquisitions is now being placed in the American market by Frank B. Hall & Co. under Lowndes Lambert's suggestion.

"It may work out cheaper at the moment," Mr. Gillham said. "We need to look at it."

Lowndes Lambert's approach to

worldwide risks is to "go in and find loopholes, make suggestions and tend to end up with what they think we need, and what the existing broker needs," he said.

Not all risk managers seek that approach.

The motto on international risk management from A.E. Fowler, head of the insurance division at Shell International Petroleum Co. Ltd. in London, however, is: "Place as much as you can with your own insurance company and then reinsure."

Shell uses its two captives, one in Bermuda, in its insurance program.

The "insurance company," as Mr. Fowler likes to call the Bermuda captive, was set up back in 1919 and gets much of Shell's risks. But about 30 million pounds of premium stays in the London market, and risks like the huge Statfjord B oil platform in the North Sea take up the worldwide market (*BI*, Sept. 14).

But Shell doesn't force its subsidiaries into a centralized program. "It's a loose structure," Mr. Fowler said. "We have insurance arrangements which the group companies can take up if they want to."

Referring to protectionist insurance laws Shell companies can encounter in other countries, he said, "You can't tell companies elsewhere what to do. Each company is operating in a different state and they have to abide by local country requirements."

Mr. Fowler only handles Shell International policies; Shell's U.S. subsidiary handles its own policies.

The global policies that London-based risk managers can plug into are mainly in the general liability field, said Mr. Fowler, excluding workers compensation, which is done locally.

Multinational insurance packages, however, are becoming increasingly common as insurers spread international boundaries.

American International Underwriters, a part of American International Group, promotes its position in 140 countries around the world. "This ensures uniformity of cover, plus all the benefits of local premium payment, on-the-spot claims handling and risk-control services," AIG says.

"Or you can buy insurance locally and then buy excess cover over the whole thing," said Carl Bach, director of AIU (London) Ltd.

The master policy, called the Global Accident Protection, is multi-jurisdictional and accounts for currency differences between the home office and the international subsidiaries.

"The issuance of a master policy enables the company's risk manager to know exactly the scope of his international coverage, whilst being confident that the locally issued policies are in line with the master policy, and yet conform to local requirements," the policy says.

When the GAP policy came into existence about seven years ago, it was primarily to centralize liability coverage in the home office. The oil companies like Shell and British Petroleum bought something like \$500 million in primary and excess liability layers for their global structures. Captives can be included in the multinational package, so the policies vary from company to company.

"We're flexible and we try to design our programs to the individual companies," Mr. Bach said. "If the home office wants to know every cent that's been spent, we can provide them with that information."

AIU's new global account underwriting, however, is handled out of New York (see story, page 15). ■

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It is a fundamental conviction of Assurex partners that buyers of insurance and risk management services are most effectively served by the independent sector of our industry. We also believe that independent insurance agencies and the companies they represent are an outstanding example of free enterprise and of the entrepreneurial spirit that has made our country great.

Now, however, challenges to this proven method of meeting employers' insurance needs have arisen from several directions. First came the development of the international brokerage conglomerates which threatens to swallow up a significant portion of the independent agency system through acquisitions.

With the life companies' and direct writers' penetration into the commercial market sector, there appears to be developing a clearly defined move towards the centralization of power. Combined with high inflation and double-digit interest rates, some industry analysts are even suggesting a severe contraction of the independent agency force is near at hand, and that survival, not prosperity and growth, is now the core issue.

Assurex International believes this dreary prognosis is contrary to the best interests of our clients and the companies we represent, as well as the hundreds of thousands of dedicated men and women in our industry. We also are confident that the forecasted result can be avoided.

To do so, aggressive action must be taken and the trend towards vertical integration of the insurance industry must be stopped. On behalf of its 60 partner firms, Assurex International has instituted a program that is the first step in our action plan.

With the financial backing of eight leading property and casualty insurance companies whose combined annual premiums exceed \$13 billion, we have formed the Assurex Development Corporation (ADC). This new Corporation will provide perpetuation planning services, including interim equity and debt financing, to Assurex partners. As a result, our partners have strengthened their ability to maintain ownership and management of their firms as independent business enterprises.

Assurex International applauds the eight companies participating in ADC for their vision and commitment to our form of free enterprise. Their support will benefit not only Assurex partners and clients but the entire independent agency system as well.

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Intel's story

Global package raises coverage, cuts costs

By LISA BERGSON

If you are tired of patching the holes in a piecemeal international insurance program, a one-insurer global package may be the answer. It worked for Intel.

"I got lazy, that's all," says Gary Toms, the risk manager of Santa Clara, Calif.-based Intel, who opted for a global plan three years ago.

"I got tired of having 25 policies," he explains. "You didn't know where you were."

Intel ranks 336th on the Fortune 500 list, with 1980 sales of \$854 million, quite a jump from \$140 million in 1975.

About 5,000, or one-third, of

Intel's employees and all of its assembly plants are offshore. As a result, Mr. Toms' domain has grown to 250 locations, among them such far-flung places as Malaysia, Barbados and Sweden.

Intel's entire operation is protected by a single difference-in-conditions plan with underlying policies for countries that require coverage from local admitted insurers.

The global package's design is a classic of multinational insurance programs, experts say. The Intel policy helped set the standard for AIG's new Global Accounts Department, according to Arthur Phillips, vp in charge of that divi-

'I got tired of having 25 policies. You didn't know where you were,' explains Intel's risk manager Gary Toms.

sion.

Among the benefits of the world plan is Intel's discovery that it could lower its limits, which were originally set at \$250 to \$200 million. "AIG found that our maximum probable loss at any location is \$200 million," points out Mr. Toms.

The DIC policy includes a \$100,000 deductible and the under-

lying policies also have deductibles, ranging from zero to \$100,000, based on the availability of credits in different nations.

As highly protected risks, Intel enjoys "substantial" savings under the AIG plan, which would not be available from local insurers overseas, Mr. Toms notes.

"Foreign insurance companies don't give us credits for things like

sprinklers and so on," Mr. Toms explains.

The global program cost Intel annual premiums of \$825,000 in 1981 on a property replacement cost of \$550 million, compared to \$874,000 paid on a replacement cost of \$260 million in 1979.

Under the world plan, which became effective in 1980, Mr. Toms gloats, "We cover over double the property at essentially half the cost."

The global plan also offers Intel a uniform, seamless cover as opposed to the "holes" that Mr. Toms found in his prior policies, lapses that often showed up at the worst possible moment.

Intel's experience in the aftermath of a 1975 fire in Penang, Malaysia, was the initial impetus for the switch.

Conflicts between AFIA, Intel's property insurer, and Factory Mutual, the business interruption insurer, over who bore what portion of the \$6.5 million loss left Mr. Toms and Intel seeking a better way to handle their future international losses.

"I told my broker I didn't care who did it, as long as he found someone who would write one policy," he remembers.

Soon after, in 1976, AFIA canceled Intel's policy, and the company shifted its international risks to AIG.

"So they already had that part of the risk," recalls Mr. Toms, explaining how AIG came to underwrite the whole program.

Intel's transition to the plan was further smoothed by Mr. Toms' complete control over corporate risk planning.

"That's essential to implement this kind of program," he says. "You're going to be setting levels for what each office can buy."

"A local manager may feel it's too low, if he doesn't realize there's double coverage. Or he may have a friend who is a broker, and the program goes astray."

Generally, the risk manager reviews all the claims that are reported by Intel's plant managers around the world.

"We handle their claims through AIG's office here," Mr. Toms explains.

The exceptions, of course, are claims that occur in regulated areas where local handling of claims is required by a country's insurance regulations.

In those cases, Mr. Toms maintains authority over the final settlement and leaves the paperwork to the regional broker.

The only drawback in turning Intel's domestic risks over to AIG was the insurer's engineering staff, which imposed different criteria at various locations.

"We were trying to standardize our facilities, so we used the broker's engineering inspection staff instead," he notes.

Other than that, Mr. Toms says, "the service has been good."

While Intel gets by with one insurer, it uses two brokers. "We decided to split our lines because we need more service than we can get from a single broker," he remarks.

Rollins Burdick Hunter, the global plan's midwife, now handles international liability coverage, and Frank B. Hall oversees worldwide property risks.

So far, Intel has had no occasion to put its new system to the ultimate test but, in the event of a major loss, Mr. Toms expects claims handling to take half the time it took under the old, fragmented program.

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Multinational insurers face regulatory maze

When it comes to insurance, the world is a minefield of restrictions, legal complexities and political imperatives, subject to change at any moment...without notice. This can prove treacherous not only to multinationals and their insurers, but also to local markets riddled by self-defeating regulations.

Nonetheless, the growth in world insurance markets has proven tempting for U.S. insurers to ignore. And many have come up with innovative ways of participat-

In France, as in Norway, workers' compensation falls under the aegis of the state social security system.

The developing countries, including Mexico, are more uniform, though hardly more constructive in their approach.

"A very limited stage of development in the majority of Third World markets is characterized by a spate of restrictive measures that aim at safeguarding local interest and trying, above all, to prevent

of Royal Insurance's international division, replies, in one word, "carefully."

Mr. Vergna notes, "The foreign shareholder-insurer supplies the local associate with expert support, professional staff-training, and often management in exchange for special agreements or privilege insurance treaties."

"In this way," he adds, "possible restrictions on direct writing can be easily bypassed, with the local company...channeling a substan-

tial portion of business to the reinsurer." In Zaire, for example, where the insurance industry is nationalized, Royal has carved out a niche as a reinsurer.

In Brazil, American International Group's outpost "still makes a profit," in part from commissions garnered from the state reinsurer, says Jack Lancaster, president of AIG's American International Underwriting.

Help in keeping track of national developments is available through

AFIA's Worldwide Insurance Guide, which gives information on conditions and regulations affecting property, general liability, work comp, automobile, marine, boiler & machinery, surety-fidelity-crime and accident and health insurance in 94 countries.

Royal also publishes an excellent guide, the International Directory to insurance requirements in more than 100 countries, which provides details on legislation and property/casualty and marine lines. ■

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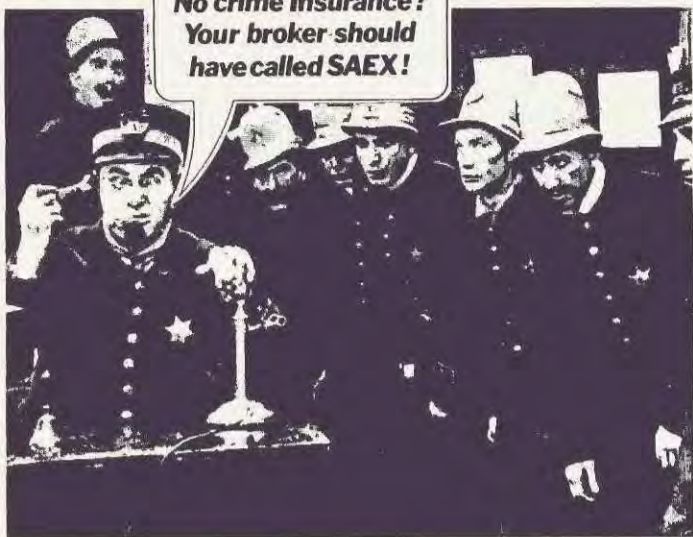
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Political risk coverage markets, demand grow

By JOHN W. MILLIGAN

NEW YORK—Political unrest in far corners of the world, coupled with a downturn in the world economy, is creating new demands for political risk insurance.

Many U.S. firms, especially small and medium-sized companies, are seeking protection against the perils of doing business in an unsettled world.

And the U.S. insurance industry is responding.

Two insurance companies have started writing political risk policies since the first of this year. A third—AFIA—may enter the race soon.

U.S. insurers offering such coverage are the American International Group, Insurance Co. of North America, Chubb & Son Inc. Group and Continental Corp.

The oldest political risk insurer is AIG, which has offered the coverage the past eight years.

Chubb and Continental have been in the market since about the first of this year, both responding to the line's potential profitability and requests for coverage.

AFIA is testing the waters for the same reasons and may join them within the next year, said William F. Crowley, vp of the insurer's North American division.

Each market notes that many of the requests for political risk coverage are coming from small and medium-sized companies that are seeking the protection for the first time.

Chubb has seen an even split between smaller firms and the large multinationals, said Robert Frank, manager of political risk.

Smaller companies—some handling their first international project—are concerned that a substantial loss could wipe them out, he said.

Recent events in nations like Iran, Syria, Poland and France—examples of political tension or economic uncertainty—are making American companies a little jumpy.

The greatest risks, said Duane Allen, assistant treasurer in charge of risk management for Cleveland-based Hanna Mining Co., are inconvertibility of capital and outright expropriation of physical assets. Hanna owns extensive mining operations in Colombia, Brazil and Guatemala.

Inconvertibility, which is more frequent but less severe occurs most often in poor Third World countries that do not have enough currency for foreign exchange.

Expropriation—a tougher case—happens less often but is far more deadly.

But the absolute worst, Mr. Allen said, is a combination of the two.

"They take your property and give you something you can't return," he said.

Such catastrophes also may strike with little warning.

Iran looked "as safe as any place in the Mideast" before its revolution came crashing down on U.S. interests there, Mr. Allen said. Yet "eight months later it was gone," and this rapid turnaround shook the confidence of many U.S. companies.

This assessment is supported by the experience at Chubb, where Mr. Frank said the most requested coverage is for expropriation for

nationalization.

An area where U.S. companies are seemingly underprotected is not the headline makers like expropriation, but rather the smaller and more frequent risks like inconvertibility and loss of an export license due to some action by a foreign government.

Companies with large receivables from overseas operations are "foolish" not to purchase some type of export or credit risk insurance, yet that's exactly what some of them fail to do, said Frank Boyland, vp of Alexander & Alexander Services Inc.

Many multinationals are more concerned about "catastrophic situations" and fail to see credit risks as part of the risk manager's concerns, he said. And the risk manager at such a company consequently pays little attention to credit risks.

"He couldn't care less about export insurance because it's not his responsibility."

Sharing the blame for this oversight are the broker and insurance companies themselves, Mr. Boyland said. Account executives at many brokerage firms often do not have the time to involve themselves with credit risk coverage, and the line is not being pushed enough by insurers.

"No one has gone to them and said, 'You're a fool for not having that.' No one has pushed it."

Political risk concerns generally have focused on non-European, Third World countries, but that old order has changed recently, said Chubb's Mr. Frank. Events in Canada and France, particularly the latter, have caught everyone's attention.

"What has happened in France," he said of the threats here to nationalize industry, "has shaken a lot of multinationals."

At least one insurer expects the demand for political risk insurance to continue growing as the United States steps up efforts to boost its foreign trade.

Joseph P. DeAlessandro, president of AIG's National Union Fire Insurance of Pittsburgh, predicts that this line will be a major part of any multinational's insurance portfolio.

Continued on page 32

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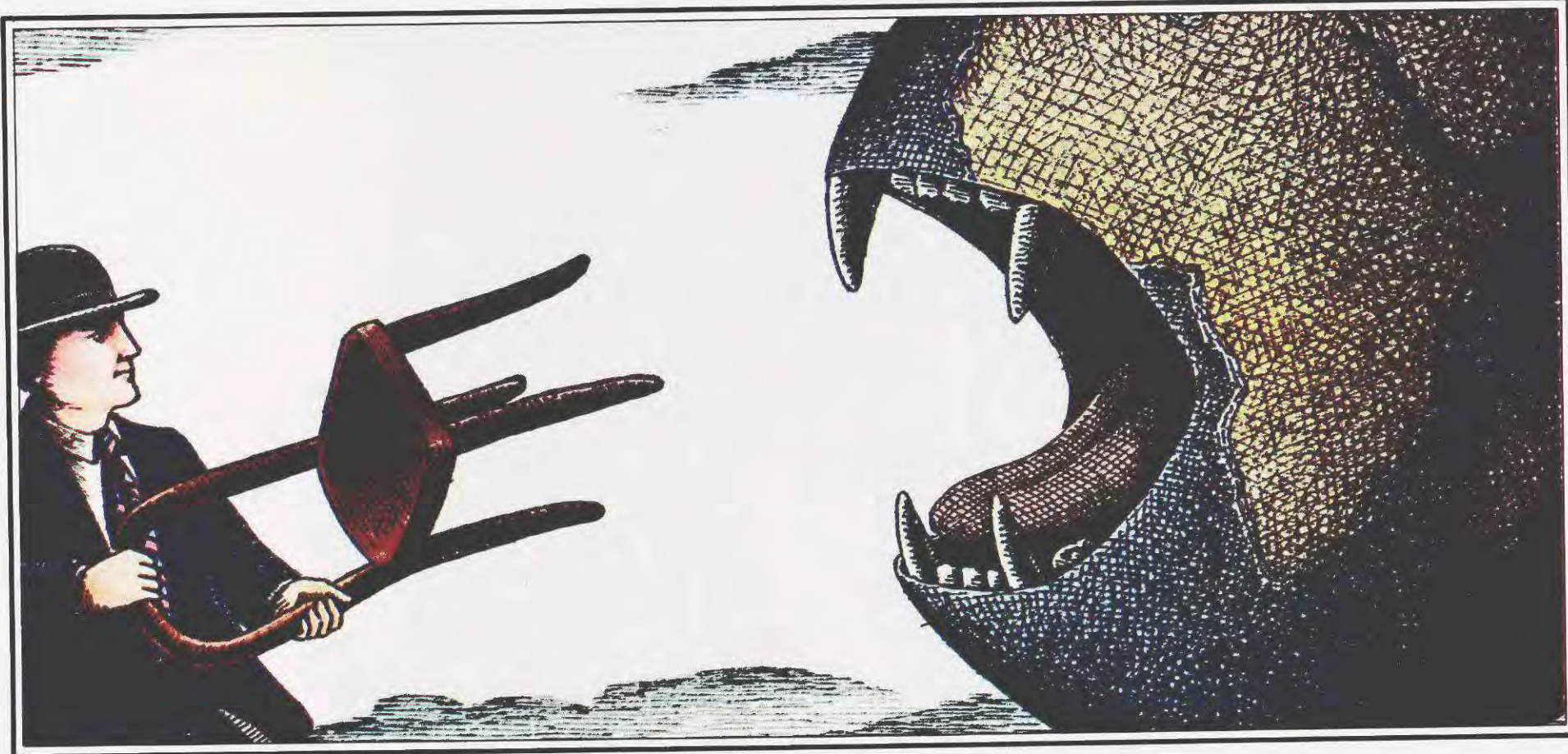
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Taming Threats to



With more of their total assets overseas, multinational corporations are increasingly aware of the advantages of global risk management.

INA explains how a unified strategy helps cope with local complexities—and why it may also improve corporate return on investment.

For many multinational companies, growth in the past decade has been greater in foreign markets than in domestic ones.

Some leading U.S. firms now earn more than half their revenues outside the country. In total they have an estimated \$200 billion in overseas equity, and may control foreign assets of nearly half a trillion.

With more than 150 nations worldwide, the risk manager is faced with a bewildering variety of languages, laws and fiscal policies. Insurance overseas is a tangle of varying practices that differ sharply from the domestic. Policies, for

one, are written in many languages. They may be based on foreign insurance standards that are quite different from those used at home. Many nations, in addition, require all insurance be placed with designated local insurers, some of them government sponsored.

To cope, the corporate manager needs specialized and up-to-date information.

Reconciling conflicting needs

Understandably, but at the risk of conflict with overall business objectives, some corporations simply leave selection and pur-

chase of overseas insurance to their foreign subsidiaries. However, the overseas manager, charged with producing a profit, may cut corners on insurance, considering it a low priority. This can negate the corporate risk manager's first priority—adequate protection of overseas assets, often the company's most profitable.

Nor are exposures limited to individual sites. Should a serious loss cripple one plant, other facilities, dependent on it for components or supplies, may experience severe dislocation of their own production schedules.

A company, for instance, might make printed circuits in Taiwan. If that plant is destroyed by fire, assembly centers as far away as Mexico or Brazil could be idle for months. The financial consequences thus affect much more than the single damaged factory—and could seriously reduce corporate profits unless covered by insurance.

Broad contingent business interruption coverage can protect the

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company against the "ripple effect" produced by loss of a plant anywhere in the world.

The familiar "difference in conditions" master policy can be the nucleus of a solution. These policies, written over often inadequate local ones, can bring all the corporation's insurance—domestic and foreign—up to standards set by the corporate risk manager.

Proper coordinating and supervising of local and master policies can produce significant efficiencies in the cost of asset protection and thus improve return on investment.

Sidestepping tax traps

The global insurer may recommend a corporation have its subsidiaries buy most of their insurance locally while maintaining a global master policy. There are two good reasons for this. Premiums paid by foreign subsidiaries are tax deductible for the parent. And compensation for overseas losses, if paid to the subsidiary, will not be taxed as ordinary income to the parent. The cost of the

master policy, in addition, may be allocated to the subsidiaries.

Tax considerations of this kind, however, are complex. An underwriter with wide local knowledge—and a thorough understanding of the corporation's own broad coverages—is essential.

Help from a captive

Another way a company can facilitate centralized control of risks abroad is through a captive insurer, owned by the parent organization.

Where foreign governments dictate premium rates and the choice of local insurers, relief from excessive charges may be obtained when the local insurer reinsures most of the business with the captive. In this way, a large part of the premium is returned to the company's control, thus becoming available to generate income. Also, the full amount of the premium as originally paid may be deductible as an expense of the overseas unit. Such use of a captive insurance subsidiary increases return on investment for many multinationals.

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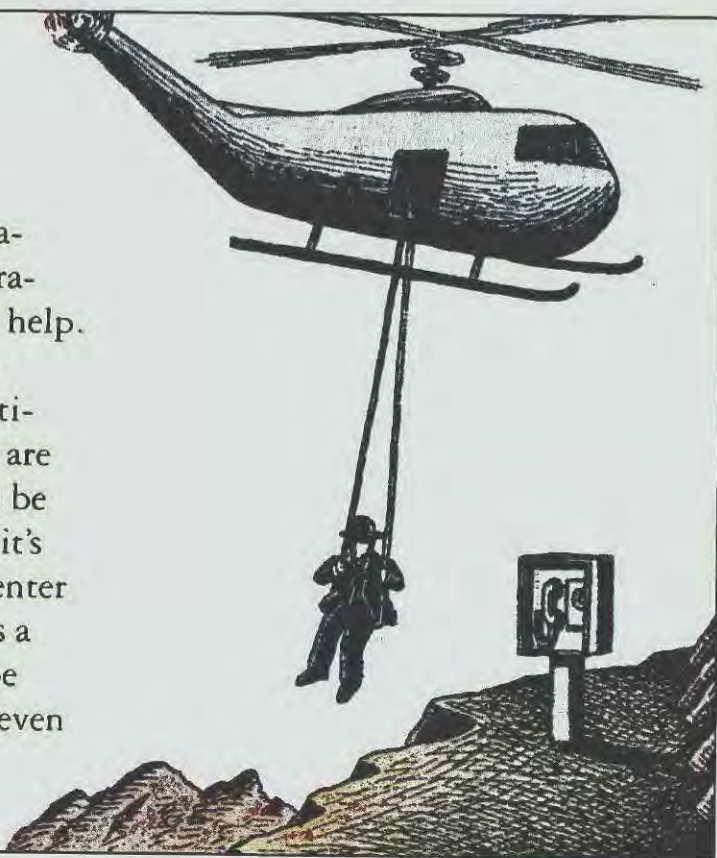
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For an informative booklet on global risk management strategies, write INA, Dept. R, 1608 Arch St., Philadelphia, Pa. 19101.

Wings for the stricken

A major concern for multinationals with remote foreign operations is providing swift medical help.

Services are available which provide access to qualified, multi-lingual local physicians. If none are available the injured person will be flown to a nearby hospital—or if it's necessary, back to a treatment center in the States. If the evacuation is a complicated one, a doctor will be brought to the patient and may even accompany the patient home.



INA
The Professionals

Coverage demand rises

Continued from page 28

folio during the 1980s, becoming as "common as fire and theft (coverage)."

AFIA may become the fifth U.S. insurer to offer the coverage. AFIA says that political risk insurance has the potential to be very profitable, and like the other markets, has noticed increased buyer interest.

With 6,000 people overseas in 85 countries, the company's existing international network is well-suited for this particular line, Mr. Crowley said.

He projected that AFIA would offer coverage similar to existing insurers' programs, with the policy written by AFIA and placed with

one of its five member insurers.

Most political risk policies offer short-term protection against many of the exposures facing a company with international operations. None of the commercial markets offers coverage for war risks.

These exposures are the exclusive property of the Foreign Credit Insurance Assn. and the Overseas Private Investment Corp. The former works with the Export-Import Bank while the latter is a government agency (see related story).

Kidnap and ransom and additional political risk exposure is generally offered separately.

With little hard data to go on, rating a political risk takes the foresight of a crystal ball. Each market uses essentially the same ap-

proach, looking at both the country and activity to devise a premium rate.

INA's INAMIC Ltd., a wholly owned subsidiary writing political risk coverage, rates the country first and then looks at how that nation will affect a specific project.

INAMIC Vp Richard Abrams provided two examples of good and not-so-good country/project combinations.

Selling glass in a country undergoing social disturbances and, therefore, having lots of broken windows is a good bet since there will be a need for the product, he said.

Poor risks are projects that compete with a domestic company in the host country, or a project that eats up a lot of local currency in a cash-poor nation.

K&R policy is becoming more popular

LONDON—"Literally millions" of employees are now insured under a 3-year-old kidnap and ransom policy, says Tony Cassidy, the leading Lloyd's of London underwriter in the field.

Still, some 35% of companies have opted not to buy K&R insurance, he says. Either the companies feel they are big enough to handle the risk internally or they are opposed to the concept.

While interest for K&R grows, premiums are coming down, Mr. Cassidy says. Fierce competition in the United States has halved premiums from what they were three years ago. And either a cheaper rate is quoted during renewals, or extras are added to the policy for the same price, he says.

Last year, total premium income for all K&R insurers was about \$80 million, while this year it is estimated to be about \$75 million.

A risk manager can also add a judgment liability clause to protect his company from being sued by the victim once he's been released, Mr. Cassidy says. Salary continuation can also be added to the policy and will pay for the kidnapped person's salary while in captivity. Legal, medical and travel costs during the kidnap can also be reimbursed under the policy, too.

Mr. Cassidy says personal factors affect rating: the nationality of the employee, his occupation, his wealth and his location. A private U.S. citizen who stays at home may be rated at 0.1% of salary, while the costs for a wealthy individual in Colombia may range up to 6%.

However, an American in Iran does not qualify as a high kidnap risk, he says.

"An American in Iran is a bad detention risk—which can also be insured—but he's not much of a kidnap risk," said Mr. Cassidy. "So the premium for the K&R policy would be comparatively low. But the detention cover obviously would be expensive."

While K&R may not be prevalent in Iran these days, the revolution there has ignited a new interest in political risk insurance.

"It's shown a steady increase over the last 11 years, and there's been a particular spurt during the post-Iran era," said Julian Radcliffe, director of international investment insurance for the Hogg Robinson Group.

The new administration in Washington has also influenced the potential risks that have to be covered under such a policy, he said.

"Some risks are easier to insure under Reagan than Carter and vice versa. President Reagan is more defense-minded, so the U.S. is less likely to stop selling arms abroad under Reagan," he said.

"Some countries, like Turkey, are all right for investment, but are bad risks for export," Mr. Radcliffe says.

Rating for exporters also varies on personal factors. The nationality of the exporter, his previous experience, his relationship with his policyholder, plus the capacity of his investment all play a part in the premium.

So, the rate for a \$40 million policy to cover \$20 million in bank guarantees and \$20 million callable on demand will differ, depending on where the investment is, says Mr. Radcliffe.

In Saudi Arabia the rate is 7.5%, thus the policy would cost \$3 million. In Spain, with a 4% rate, it would cost \$1.6 million, while in Libya, a high-risk area at an 18% rate, the cost would be \$7.2 million—more than twice that of Saudi Arabia.

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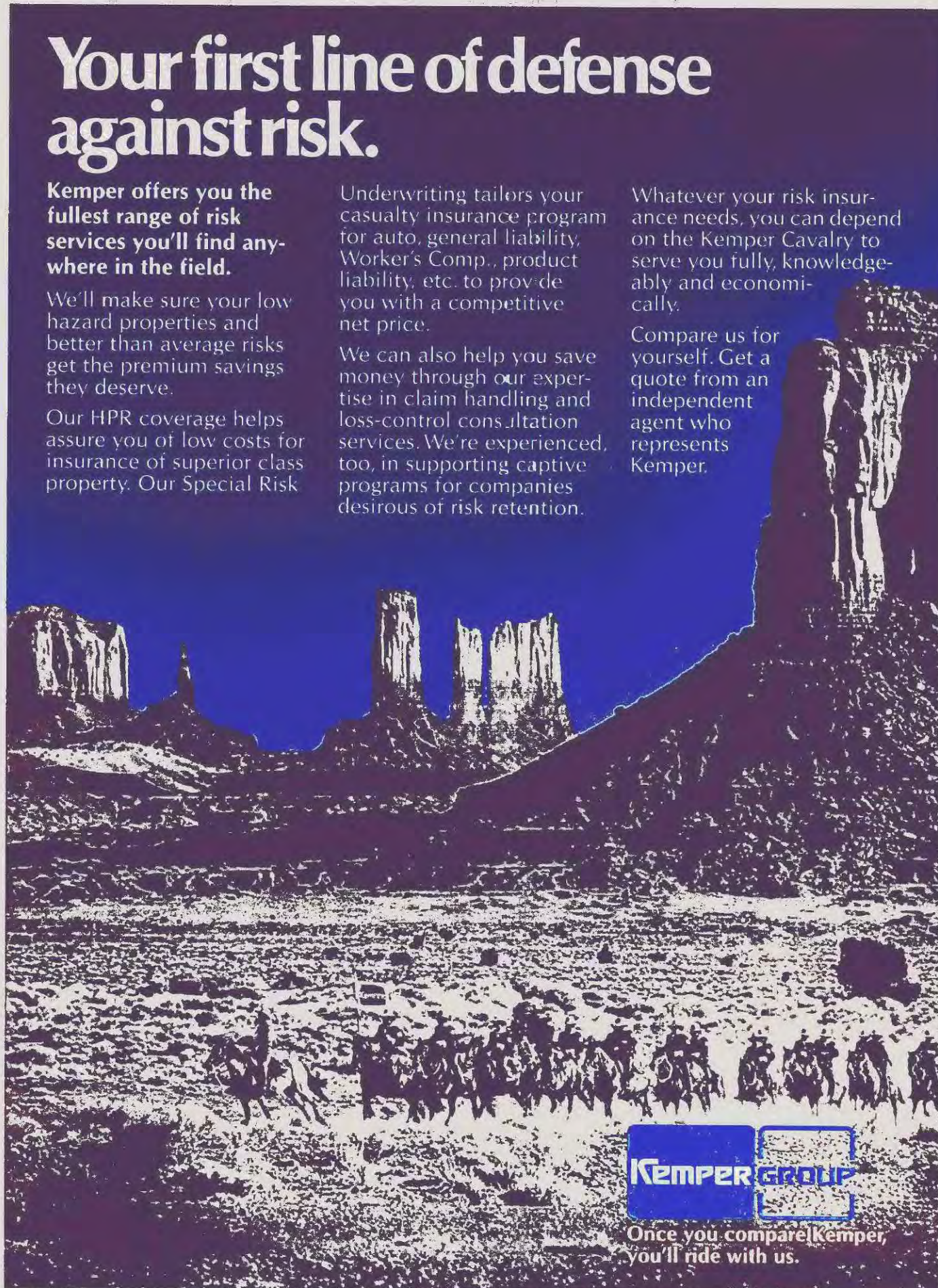
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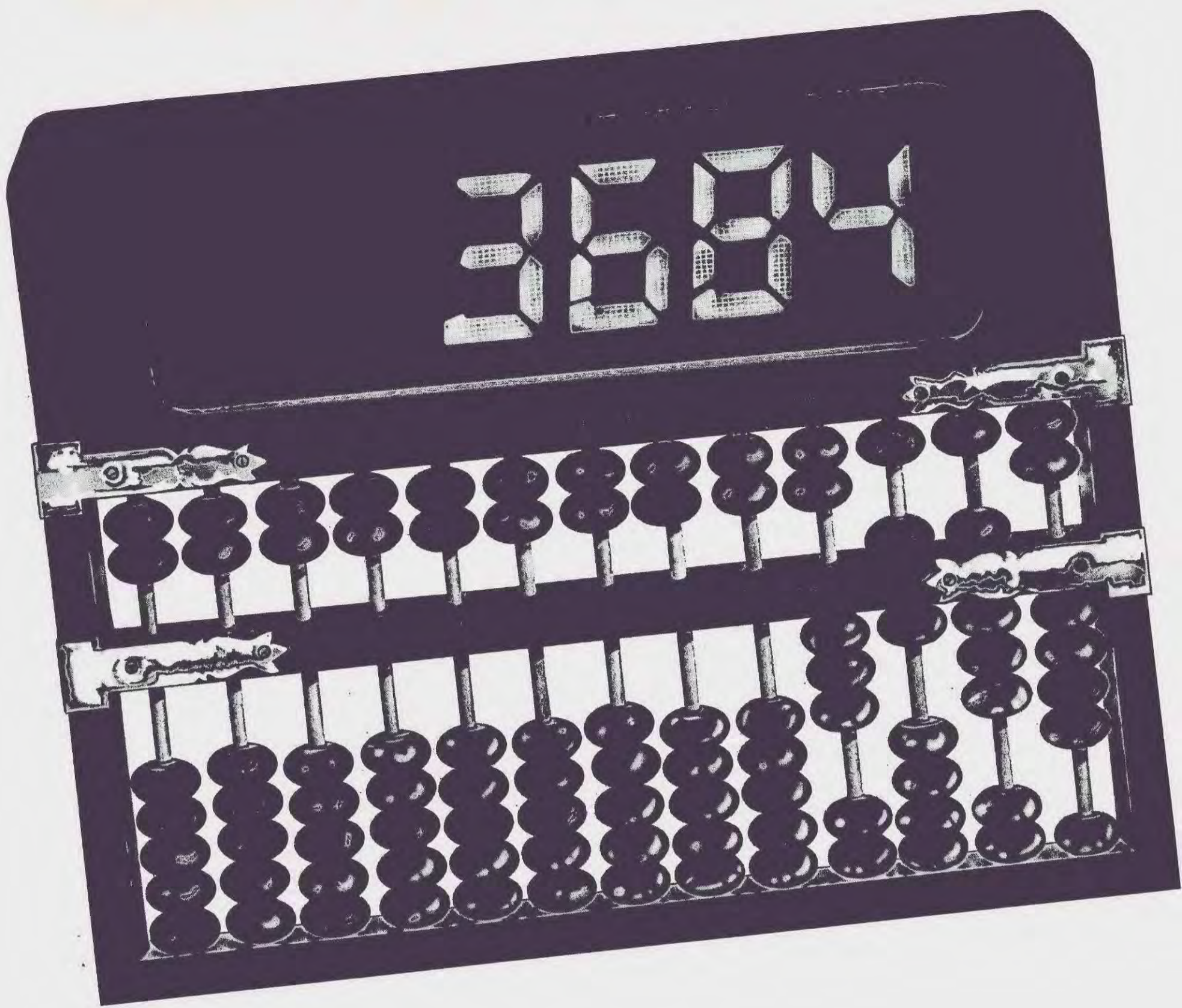
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Political risk claims rising, OPIC notes

By JOHN W. MILLIGAN

NEW ORLEANS—The nation's largest political risk insurer—Uncle Sam—has seen claims and losses rise as a deteriorating world economy catches up with U.S. companies abroad.

The most frequent claims are not the headline makers like expropriation, but rather inconvertibility of currency, an indication that many Third World countries are experiencing troublesome economic

times.

Actually, two insurers—the Overseas Private Investment Corp. and the Federal Credit Insurance Assn.—have the bulk of the market for these risks.

OPIC, a government agency formed in 1971 under the Agency for International Development, provides political risk insurance for the overseas investments of U.S. multinationals.

Its counterpart, FCIA, is a private organization of 51 prop-

erty/casualty companies that has insured the credit risks of U.S. companies abroad since 1961.

Combined, they are the nation's largest political risk insurers, far exceeding a commercial market that is just starting to respond to buyer demand (see related story).

OPIC offers coverage against expropriation and inconvertibility plus what it terms "three in one" coverage, said Buck Jordan, director of public affairs.

The latter—war risk insurance—

covers physical damage resulting from war, revolution or insurrection and assumes that an organized group is trying to remove the existing government from power, said Mr. Jordan.

This definition may be expanded to include civil strife—England's Liverpool riots, for example—if a bill pending in Congress is approved.

The agency has a \$7.5 billion authority for each of the three coverages, and Congress has indicated it

would have little difficulty getting those underwriting capacities increased, Mr. Jordan said.

OPIC's normal policy is for 20 years at an extremely low premium rate that remains the same over the life of the contract.

The agency, which takes "policy guidance" from the U.S. State Department, bases its premium on the nature of the activity. Coverage for "large and sensitive" projects is more expensive, Mr. Jordan said.

"Natural resources (mining and petroleum) by and large have the highest rates," he said.

Demand from U.S. companies for political risk coverage has increased significantly following events in Libya and Iran. The impact of Iran's Islamic Revolution was especially severe since that country was thought to be very stable before the lid blew, Mr. Jordan said.

"That's the greatest marketing program we ever had."

However, OPIC's claims and losses are up, Mr. Jordan confirms.

The agency settled 32 claims totaling \$13.8 million in 1980, up significantly over \$7.6 million on 15 claims in 1979 and \$700,988 on four claims in 1978.

In fiscal year 1981, which ended Sept. 30, OPIC settled 23 claims for just under \$21 million and has 15 more pending for an additional \$15.1 million.

OPIC has a \$700 million surplus to pay claims, \$600 million in reserves and the authority to draw an additional \$100 million from the federal Treasury if its reserves drop below \$25 million.

A significant number of the 1980 and 1981 claims—43—were for currency inconvertibility, which OPIC Counsel Richard Stern said results from the financial difficulties many Third World countries are experiencing.

"That's clearly the booming area," said Mr. Stern.

OPIC coverage is restricted to developing Third World countries; it writes in some 97 of them.

OPIC will only write insurance in countries that have negotiated bilateral trade agreements with the U.S. and agree that Uncle Sam has the right to try to recover its policyholders' losses.

The agency has been quite successful in recouping losses because developing nations know that they will jeopardize their standing with the world financial community if they resist, said Mr. Jordan.

"No host government has defaulted yet because they know they can't afford to."

OPIC limits its portfolio to no more than 10% in any one country, although its writings in Jamaica exceed that slightly, Mr. Jordan said.

This policy follows the agency's horrendous experience in Chile in 1971 when that government nationalized all industry and Chilean activities made up 36% of OPIC's portfolio. The results were claims that severely taxed OPIC's loss reserves.

While it is a government agency, Mr. Jordan is quick to point out that OPIC is one agency that makes a profit and gets by without Congressional funding.

OPIC collected \$1.1 billion in premiums last year and earned \$31.3 million in revenue from insurance. It also had \$46 million in claims recoveries and investment income on government bonds.

The Federal Credit Insurance Assn. offers companion coverage with OPIC—although the two are in no way related.

While OPIC provides coverage for permanent and mobile invest-



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ments like mining facilities or construction equipment, FCIA offers protection for a company's receivables from an overseas sale.

This protection is available for services, manufactured goods, agricultural products and virtually anything else that can be exported except for military goods, says Steve Fancher, FCIA's senior vp in charge of business development.

FCIA's coverage is separated into two areas: (1) inconvertibility and expropriation/confiscation resulting from war, insurrection and revolution; and (2) all other commercial risks facing exporters and importers, protection which "wraps around" the political coverage.

FCIA provides its policyholders a three-pronged advantage that enables the U.S. companies to aggressively pursue foreign business.

The program first provides companies with risk protection, Mr. Fancher said, setting up a facility—insurance—to reduce their liabilities.

This protection then makes it easier for U.S. companies to obtain financing, becoming almost a 180-day letter of credit, he pointed out. Such leverage is important since many large banks are now requesting that exporters and importers insure their receivables.

"Most banks look at us as the ultimate security in the transaction," he said.

Lastly, the insurance allows firms to more aggressively market their goods, an advantage that was once was unnecessary.

Many firms are going head to head with foreign companies in Third World markets and are facing stiff competition from many.

U.S. firms once competed on the strength of their product lines first, Mr. Fancher said, but this advantage has largely disappeared.

"By taking our insurance, it enables them to market in a more aggressive fashion than they could before," he said.

FCIA acts as the agent for the Export-Import Bank on political risk coverage with the bank the actual insurer. The organization's member companies insure the commercial risk side of the program.

Premium rates vary according to the term of repayment which a U.S. company negotiates with its foreign buyer, the number of foreign markets a company sells in on a "spread of risk" concept and the history of the firm itself.

This formula is used to devise a composite rate, Mr. Fancher said, which averages about 0.5% of total sales on contract terms up to 180 days, and 0.75% of total sales on terms over 180 days.

The premium rate is paid up front, with the buyer assuming a 10% deductible on all commercial risks. FCIA does not insure such exposures at full value since it assumes that companies will have some forewarning of these types of problems.

Political risks are insured at 100% value, Mr. Fancher said, since these exposures are harder for companies to identify early.

While the organization does rely on country ratings to some degree when setting a premium rate and does keep abreast of political develop-

ments overseas, Mr. Fancher said FCIA tries to take an actuarial approach as much as possible.

FCIA committed \$5.5 billion in insurance last year on U.S. goods valued at \$8.1 billion and collected \$30 million in premiums.

The past few years have not been profitable for the organization, Mr. Fancher admits.

A deteriorating world economy has caught up with U.S. firms, and this has translated into more claims.

FCIA does not release its loss data, but Mr. Fancher did say the organization has a combined loss ratio that is "higher than any commercial company would target for," or in excess of 100.

Yet the insurer's loss experience has always been "cyclical," he pointed out, and FCIA continually reviews its business practices in an effort to return to a profitable footing.

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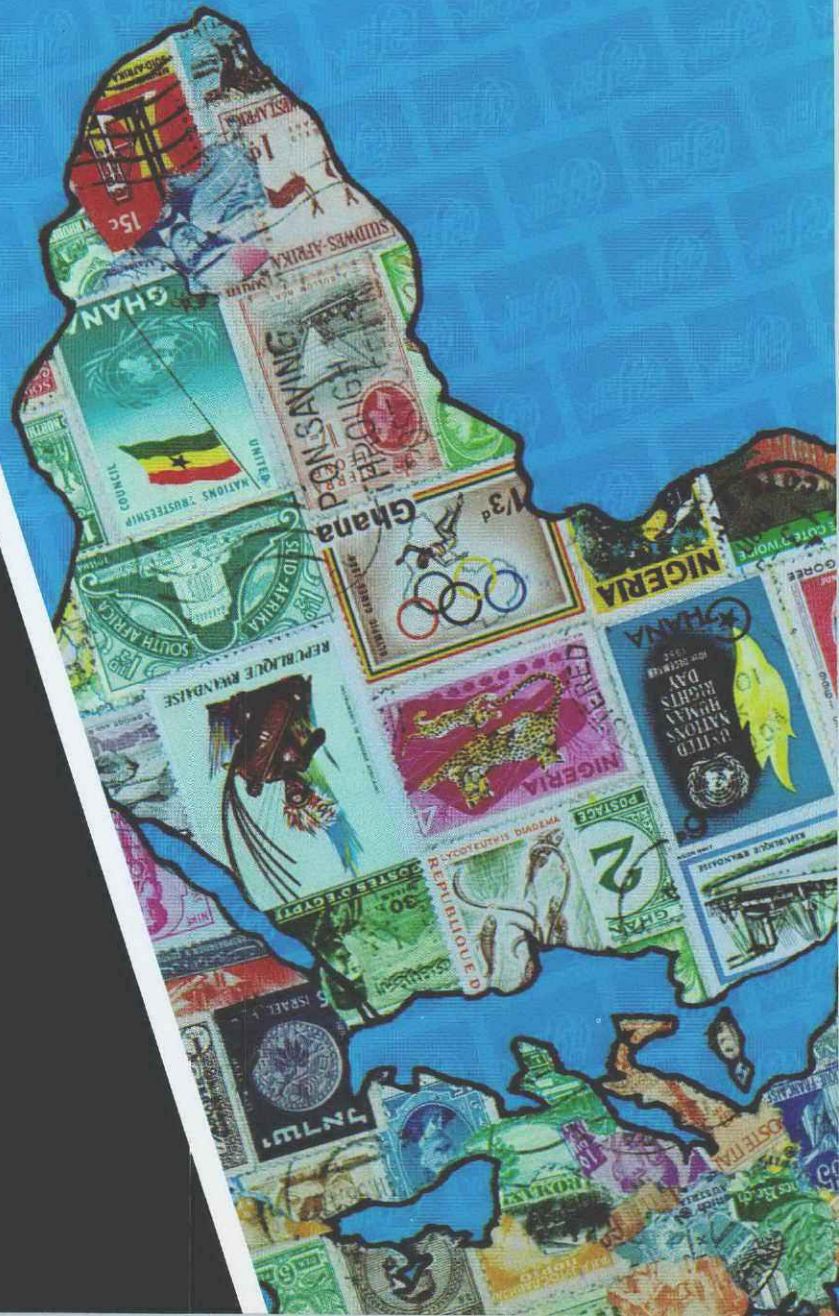


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Risk manager plays key role in Dutch firm

By STACY SHAPIRO

AMSTERDAM, Netherlands—G.H.A. Baron Van Lawick does more than plug up holes in insurance dikes as group risk insurance manager for Royal Packaging Industries Van Leer BV here.

He's a windmill of ideas, churning out systems to understand, control and finance risks, proving U.S. firms don't have a monopoly on professional risk managers.

Van Leer manufactures containers for the chemical and energy in-

dustry and produces solar and medical equipment. Facing shrinking profits, risk management has become an important part of this European firm.

The gross operating result in 1980 dropped to 34.1 million Dutch guilders (approximately \$13.1 million) from 79 million (approximately \$30.6 million) in 1979, and the net operating profit after tax dropped to 6.5 million guilders (approximately \$2.5 million) from 32.1 million (approximately \$12.3 million) in 1979.

The annual cost of insurance premiums for the company—including worldwide package plans for liability, fire and marine risks, all insurance purchased locally and not included in the worldwide policies and employee benefits—is more than 15 million guilders (approximately \$5.8 million).

Worldwide coverage alone costs about 5 million guilders (approximately \$1.9 million).

Every risk is approached systematically at Van Leer under Mr. Van Lawick. It has to be, he says.

"If you do not approach the problem in a systematic method, you get completely stuck. You'll never be able to solve the problems. You'll never be able to show where the risk is because everybody starts talking in different directions."

While risk analysis is his department's responsibility, risk treatment decisions are made by the board of directors and the top executives.

"A risk manager is not a specialist. He's a generalist," says Mr. Van Lawick. "What he does is show the mirror. He tells you what's happening and then the management must decide whether they accept the situation or whether they think it is necessary to take measures."

Mr. Van Lawick presents the Van Leer board with data he compiles. His four-man department is working on a fire/business interruption survey, a marine study, a feasibility study for a captive insurance company and a product liability system.

The results go to the board of directors, the management of the factory involved and/or his boss—the financial director.

"Then the next phase comes—how you can reduce the risk and what costs are involved. But the only thing you try to do is give the directors a picture and ask the questions and show them the consequences. You don't dramatize.

"As a risk adviser, whether internal or external, you haven't got the knowledge they have, first of all. Secondly, it is their responsibility to take the risk, accept the risk or not."

The board's ear, however, is attuned to Mr. Van Lawick's ideas. A lawyer by education, Mr. Van Lawick was asked to evaluate risks when he was a risk management consultant at Hudig-Langeveldt Risk Management three years ago. Hudig-Langeveldt is still the

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firm's broker.

In 1979, he started devoting 50% of his time to the job of risk and insurance manager for Van Leer. He was asked to become a full-time employee in 1980.

His risk management techniques sometimes differ from his European colleagues. Many risk managers in Europe believe in protecting the company first by passing the risks to insurers, some sources say. They consider insurance cheaper than installing preventive equipment.

Mr. Van Lawick thinks differently. He also buys insurance, but first he is concerned with identifying the cause of a risk.

"Go back to the basic causes and there can be a procedure," he says. "Then there may be organizational measures you can take, which may not cost you as much as insurance. It costs you discipline, though, which is very difficult."

Too many people, however, look at the symptoms of risks and the effects and not at the causes, says Mr. Van Lawick.

In a fire-sensitive area, for example, the impulse is to put up a fire wall to prevent the effects of a fire. But that is directed toward reducing the results of a fire and not preventing it, he says.

"If you want to limit the cause, you try to find out how a fire can happen—by people smoking, for example. Take away that basic cause—the smoking people in that area. But then you say, 'If somebody does smoke and this results in a fire, then how can we reduce the consequences? A fire wall.' So, it's always a step after the unwanted event."

Reducing the risk is a step to reducing the premium from the American Fire Insurance Assn., Van Leer's property package insurer. Right now, Mr. Van Lawick is examining the causes of fire in one of Van Leer's factories near Amsterdam. He devised flow sheets to show each machine in the steel drum assembly line.

These analyses were discussed in the factory at a group meeting that included the safety officer, his assistant, the shop foreman, product supervisor, the technical department of Van Leer's broker and Mr. Van Lawick.

With no historical data, the group estimated whether the machine had a fire within the last five, 10 or 15 years.

Searching for the source of potential fires in the assembly line area, the group asked:

- What was the cause of the fire? Was it the machine or the material used or the people using it? Is the problem the machine's environment?
- What is the probability of a fire?
- How many production days have been lost from a fire in this machine?
- What is the loss through material damage? How much would it cost to restore the machine?
- Is this machine, then, a relevant risk?
- Of those machines that are relevant, can the group identify what measures and procedures are presently available to reduce risk? A safety system, for example?
- What's the quality of the measure or procedure? How does it work? Does it have a strong, medium or low effect on the machine's risk?
- With a safety system, is the risk acceptable, non-ac-

ceptable or dubious?

• If it's non-acceptable, what direction should be taken to decrease the risk?

The group worked quickly and did not dwell on the questions. First impressions were the goal.

"Taking a risk is a feeling," he said. "A risk estimate or a decision to do something is always subjective," Mr. Van Lawick says.

So the best method is not to talk too long.

Each of Van Leer's packaging factories in Latin, North and South America, Australia, Europe and Africa have different fire risks.

"But the facts are all in principle the same. The next surveys will go much faster," said Mr. Van Lawick. The next objective will be further standardization of risk control.

Surveys like this have helped Van Leer save on insurance premiums, too, says Mr. Van Lawick.

In his first year as risk manager, Mr. Van Lawick reduced Van Leer's insurance premiums by 600,000 Dutch guilders (approximately \$232,200), partially because of his work on the company's product liability exposure.

Steel drums were being returned

accompanied by various vague complaints, including seam leaks. After studying the complaints and the claims, Mr. Van Lawick asked the board to approve a change in the complaint sheet.

Now the source of the defective drum can be identified by the computerized complaint document.

The data is still being compiled,
Continued on page 42



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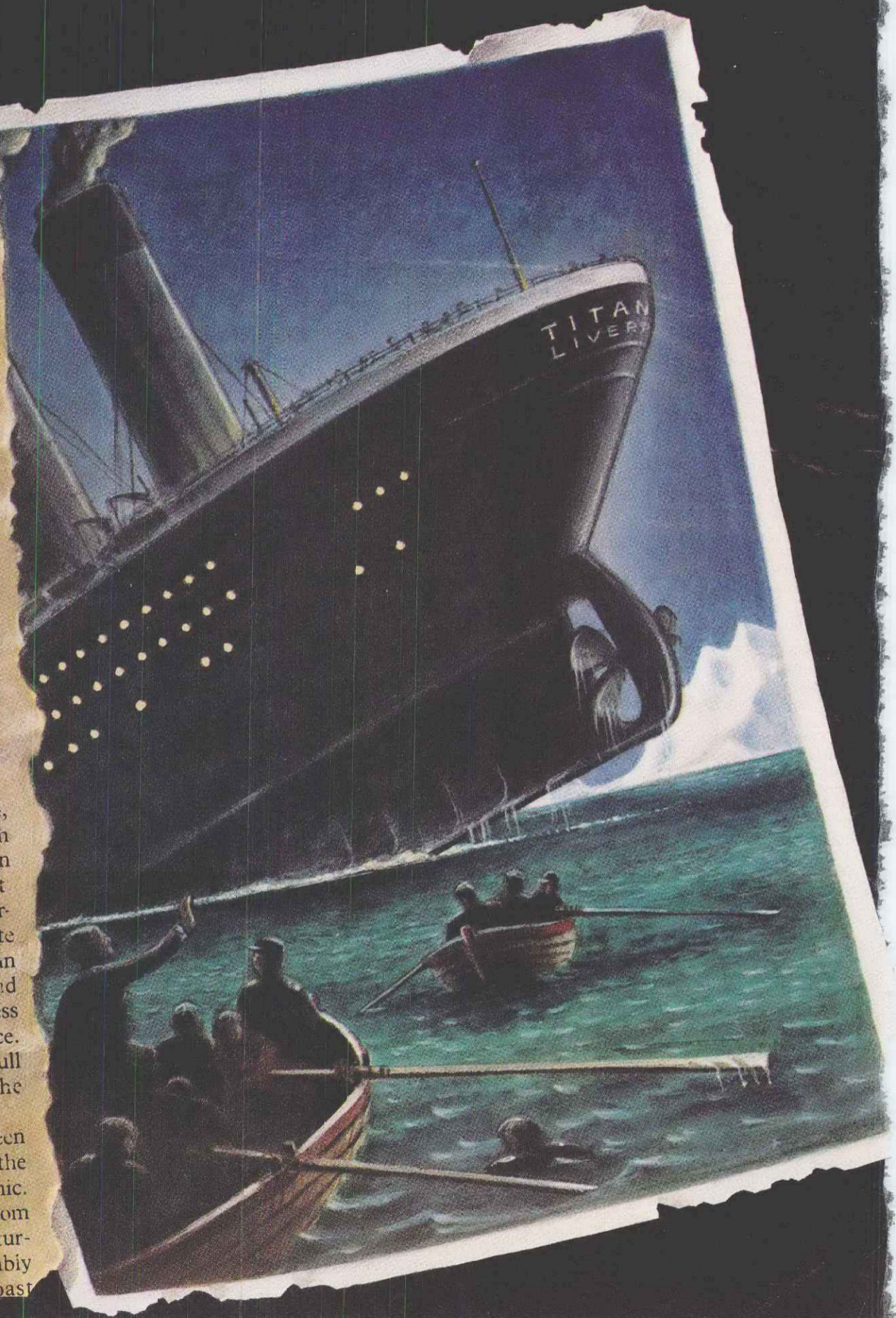
Narrowly Escaped Collision with the American Liner New York When Leaving Port.

HALIFAX, N.S., April 14, 1912. — A wireless dispatch received tonight by the Allan line officials here from Capt. Gambell of the steamer Virginian, states that the White Star liner Titanic struck an iceberg off the Newfoundland Coast and flashed out wireless calls for immediate assistance.

The Virginian put on full speed and headed for the Titanic.

No particulars have been received as to the extent of the damage sustained by Titanic.

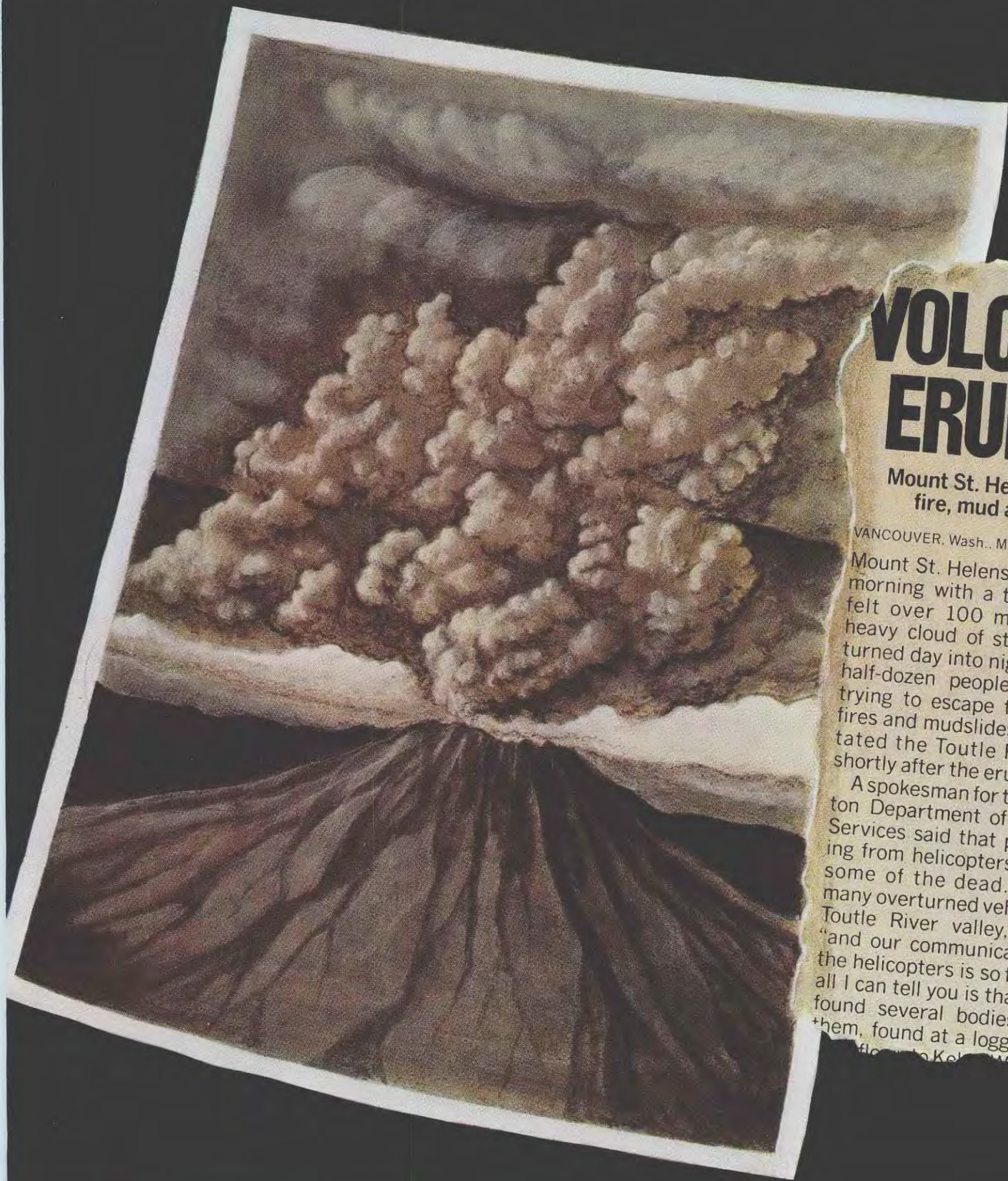
The Virginian sailed from Halifax at midnight on Saturday night, and would probably be 300 miles off this coast



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Mount St. Helens spews
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VANCOUVER, Wash., May 18, 1980.

Mount St. Helens exploded this morning with a thud that was felt over 100 miles away. A heavy cloud of steam and ash turned day into night. At least a half-dozen people were killed trying to escape flood waters, fires and mudslides that devastated the Toutle River valley shortly after the eruption.

A spokesman for the Washington Department of Emergency Services said that police working from helicopters had found some of the dead. "We have many overturned vehicles in the Toutle River valley," he said, "and our communications with the helicopters is so fragile that all I can tell you is that we have found several bodies." Two of them, found at a logging camp,

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Risk manager cuts cost of coverages for Dutch company

Continued from page 39

but Van Leer companies around the world are prompted to use the product liability system that detected and clarified the problems causing the claims, says Mr. Van Lawick.

Using the system can mean a 10% reduction in global liability premiums, he says.

"It's a good system that generates information to reduce defective products to reduce claims on the insurance policy," he said.

Van Leer's product liability in-

urance is underwritten equally by New Hampshire Insurance Co., part of the American International Group in Rotterdam, and Zurich Insurance Co. of Switzerland.

Last year he saved another 250,000 to 300,000 guilders (about \$150,000) in premiums and hopes to cut the same amount this year.

Mr. Van Lawick approaches his insurers with gusto about his risk management systems.

"It's a changing philosophy because we are active. I approach insurers," he said.

"We are taking the initiative because as a company, we are the only ones who can get a thorough idea of our own risks. Insurers can do it on a larger scale or for catastrophes because they have a lot of information in their files. But these are only the big events."

For the last two years, he's given an annual presentation to insurers to show the progress of the risk

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Photo: Stacy Shapiro

Baron Van Lawick

control programs.

"I said to the brokers, 'I want to talk to the insurers once a year,'" he said.

Among the company's other insurers are Ennia, a Dutch insurer, on the global marine package, and John Hancock International Group on the worldwide employee benefits program.

"We show insurers that this is the way we handle risks. We ask them to look at our risks. We think this should have an effect on our premium."

And it does. Insurers reduced their premium demands after Mr. Van Lawick talked directly to them about the new European Economic Community product liability law and the way his firm controls product liability risks.

Mr. Van Lawick also reduced premiums, however, by offering insurers a three-year contract (for continuity) and by convincing the board of directors to accept deductibles of 10,000 guilders (about \$4,000) for each major risk.

There isn't much danger of Van Leer seeing bigger claims on product defects because of the EEC directive on product liability, adds Mr. Van Lawick (see related story, page 45).

"The legislation is obviously a reflection of what is happening in the environment," Mr. Van Lawick explains.

"The product we make does not go directly to the consumer market so we don't expect too much pressure from the EEC directive in our company. But indirectly, I think it will affect us because our clients are also affected by the change of mentality. They don't accept defective products anymore." ■



Joint effort improving plant safety

By STACY SHAPIRO

AMSTERDAM, Netherlands—The Royal Packaging Industries Van Leer B.V. lent an ear to its employees in 1975, and now noise-control devices have been installed in the factories that make steel drums.

"We started a working environment improvement program," explained Van Leer's safety officer, H. Van Coeverden.

"We've formed a committee with participation by the shop floor, representatives from management and experts in the field of working environments.

"We found out the noise was one of the major problems," he explained.

Looking around the factory, on a canal near a working windmill just outside of Amsterdam, you can see fewer earmuffs and more noise-control devices.

Enclosures have been placed around automatic machines to reduce noise, gearboxes have had their teeth altered to tone down the din on the production line and a new type of insulation has been installed above the shop floor to absorb more of the racket that comes from the machines.

More improvements are planned if and when money becomes available, Mr. Van Coeverden said. The noise-control budget, estimated in 1975 at 1 million guilders (about \$387,000 currently), has been used up.

"There are more improvements than money available," he said, "so improvements were made where it helped the most people."

This openness between workers and management, however, has helped employee relations and improved production and safety in various ways.

In one facility, a newly decorated cafeteria with plants and birds in a terrarium near one wall helped boost morale. The workers return home from work each day in Van Leer vans.

"Changes are happening gradually," Mr. Van Coeverden said. "And as soon as one problem is solved, another comes up. But safety, compared to years ago, is much better."

The company is also tackling a new, more general employee problem: monotony on the job.

On assembly lines, one employee usually performs one job. The result: boredom.

But not at Van Leer.

Now the employees have groups that choose what person does what job. They are guided by a company veteran and are committed to meeting time and work goals, Mr. Van Coeverden said.

The workers are thus responsible for their own workplace and can rotate or improve their jobs as long as the quotas are met. This type of control also allows them to perform small repairs on their machines and increase their skills, he explained.

"There used to be interruption in production and machines were fixed by a person who was not interested in the quality of the repair.

"The employee now does a much better job than the repairman," Mr. Van Coeverden observed.

The all-around machine operators are paid better than one-job assembly line workers, "so it may not be cheaper, but better," Mr. Van Coeverden said. ■



Photo: Stacy Shapiro

Worker at Van Leer plant wears protective earmuffs.

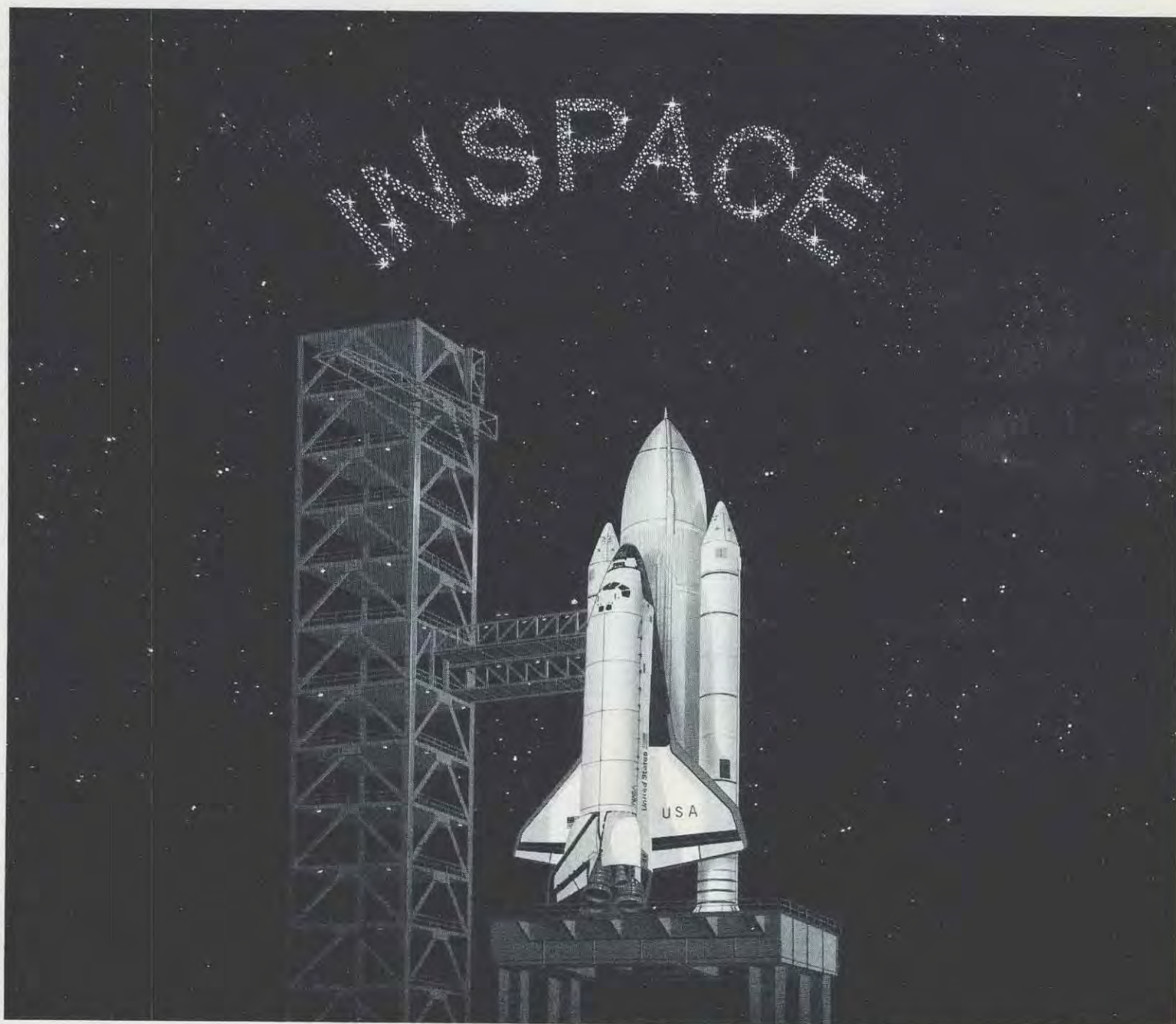
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Britain wants product liability proposal altered

By JOHN MILLER

LONDON—"State-of-the-art" design is the product liability defense all Europe should accept, says British industry. But will the European Economic Community agree?

The EEC's draft directive on product liability, a proposal for an international legal interpretation of manufacturers' liability, takes a much harder view.

The proposed guidelines say manufacturers should be liable for injuries caused by a defective product, regardless of how well constructed it was when it left the factory.

Britain, however, would like to soften this strict liability with a provision that would protect manufacturers that used the best possible

technology in preparing their product. But British firms realize that negotiations with the other Common Market countries could take several years to finish.

The controversy keys on Article 1 of the draft directive produced five years ago by the EEC, which says the producer of an article shall be liable for damages "whether or not he knew, or could have known, of the defect" alleged to have been involved in any damages claim.

The directive also proposes that the producer shall be liable "even if the article could not have been regarded as defective in the light of scientific and technological development at the time the article was put into circulation."

Lawsuits would have to be filed within three years after an injured

person becomes aware that he has been the victim of a defective product.

But British interests believe that producers ought to have some protection if they did not have cause to know their goods would be dangerous.

The answer may be compromise, European authorities say.

"It may be that a compromise will be accepted over the state-of-the-art defense. But that in itself will take several months to achieve, and there is no sign of any amended version yet," explained Information Officer Robert Sheaf, of the Common Market's British office.

"It looks as if several leading European manufacturing countries, like West Germany and France,

are ready to accept strict liability. Italy is not apparently as deeply concerned over it, and would probably align itself with Britain in opting for the state-of-the-art defense.

"The other six member countries are less involved, and it remains to be seen how they will react when the matter comes up for further debate in the future."

The other nations are the Netherlands, Belgium, Luxembourg, Denmark, Ireland and Greece, which is the newest EEC member, he said.

The EEC has already proposed one compromise: a "cutoff" period of 10 years after which a manufacturer's liability would be eliminated if no lawsuits have been filed.

"Before any proposed rules can become law, they have to be de-

bated by the top-level Council of Ministers, senior ministers from each member country. If the council finally reaches agreement—and that remains to be seen—the final approved directive goes back to each country for each individual government to bring in its own legislation for this purpose," Mr. Sheaf noted.

"That can take a year-and-a-half or longer to accomplish and since the Council of Ministers hasn't even met yet to consider the British proposals, it can obviously be some years before anything effective happens on new product liability rules across the frontiers in Europe."

If Britain refuses to compromise on the directive as already approved by member countries, some of the work would have to be reviewed again and a new directive written virtually from scratch.

"If Britain takes a tough attitude toward other countries, such as France with its recent changes of power in government, the new political atmosphere would then have to be taken into consideration."

"So, in general terms, one has to accept that there is no sign yet when the intended liability directive will come into effect, and what its final shape will be," he said.

In Britain, the issue of compromise is tabled until the EEC responds to the British state-of-the-art position.

According to a British Trade Department official, the question is

'It can be some years before anything happens on new product liability rules.'

now being argued in a working party known as the Committee of Permanent Representatives in Europe, a body of senior officials from all EEC member countries that meets regularly in Brussels to examine any problems before referring them to the Council of Ministers for final decisions.

"Nothing significant has happened since the U.K. government's position was made clear in a debate in Parliament some months back," he explained. "But the issues are being studied by this permanent committee, which has the relevant officials of the European commission sitting in on its deliberations, and it's now a question of 'wait and see' what happens."

The principles to be adopted by Britain are still those laid down in a long debate in Parliament in November of last year.

Consumer Affairs Minister Sally Oppenheim told Parliament when the issue was debated, "We are conscious of the need to protect the consumer. But I feel that the state-of-the-art defense should be included in any future European laws, and will try to persuade other countries to go along with us."

She will go to the Council of Ministers with the British view when it considers the matter, but no date has yet been fixed for her visit because the working party is still studying the issues involved.

"There are many areas of negotiation still open to us," Ms. Oppenheim has explained. "Unless an acceptable directive is finally negotiated, it will not be accepted by the British government. The present text is clearly unacceptable, and it does not achieve a proper balance between the interests of all the parties involved in product liability matters."



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Product liability proposal's impact baffles the British

Parliament, business and the insurance industry in the United Kingdom are still speculating on the impact of the European Economic Commission's directive on product liability if it is finally accepted, with or without the state-of-the-art defense.

Although the directive draft includes a proposed limit of 15 million pounds on the amount of compensation that can be claimed, manufacturers only will know this limit has been reached after all the potential damage lawsuits have been brought against them.

And the unknown frightens both manufacturers and industry experts.

Robert A. McCrindle, an insurance adviser for the British Insurance Brokers' Assn. and a member of Parliament, says product liability insurance premiums are unlikely to go up under the directive as much as some doomsayers fear.

But another member of Parliament, John Smith, wonders how insurers can assess their commitments if firms are unlikely to know when the 15 million-pound limit is being approached.

Still another member of Parliament, Cranley Onslow, has questioned the ability of the insurance industry to cover aerospace manufacturers against development risks under Common Market guidelines.

He points to a chain of accidents to the British range of Comet Aircraft many years ago, which were traced to metal fatigue caused by constant pressurization and depressurization. He wonders if any manufacturer could have anticipated that problem in time.

The British print industry also is worried about the EEC proposals, fearing that printers can be liable if textual errors of a technical kind, even those apparently correctly translated from foreign texts, could lead to product misuse.

Small businesses may be particularly vulnerable.

"A large firm might be able to get favorable quotations because of the spread of business it can offer, but a small firm with only one product might be in a different position when seeking quotations, and would have to subordinate its decisions to those of the insurance company it approaches," said Peter Griffiths, another member of Parliament.

Consumers in the United Kingdom, however, support the EEC's strict view of product liability.

The fears of manufacturers that they would be exposed to heavy damages have been challenged by the "Action Group," of the European Community Group (U.K.), which represents more than 20 consumer organizations.

In a recently issued pamphlet, the group says: "There have been many indications from insurers that they could cope perfectly well with a system of strict liability. Even if it meant doubling the producer's insurance cost, it is estimated by the insurance companies that this would only increase the actual cost of insurance from 0.01% to 0.02%."

"Some producers are worried that strict liability will be costly to introduce, placing on them a burden under which either they would be unable to obtain insurance cover, or if such cover were possible, the costs would be excessively high.

"This is largely due to fears that exorbitant damages could be

awarded on a level comparable with the United States. But there are a number of reasons why this should not be the case: The natural tendency of juries to award high compensation is not generally extended to judges who award such sums in the United Kingdom, the contingency fee system for lawyers is forbidden in the United Kingdom and the existence of the National Health Service reduces claims for very high medical expenses which form a large part of U.S. compensation claims." ■

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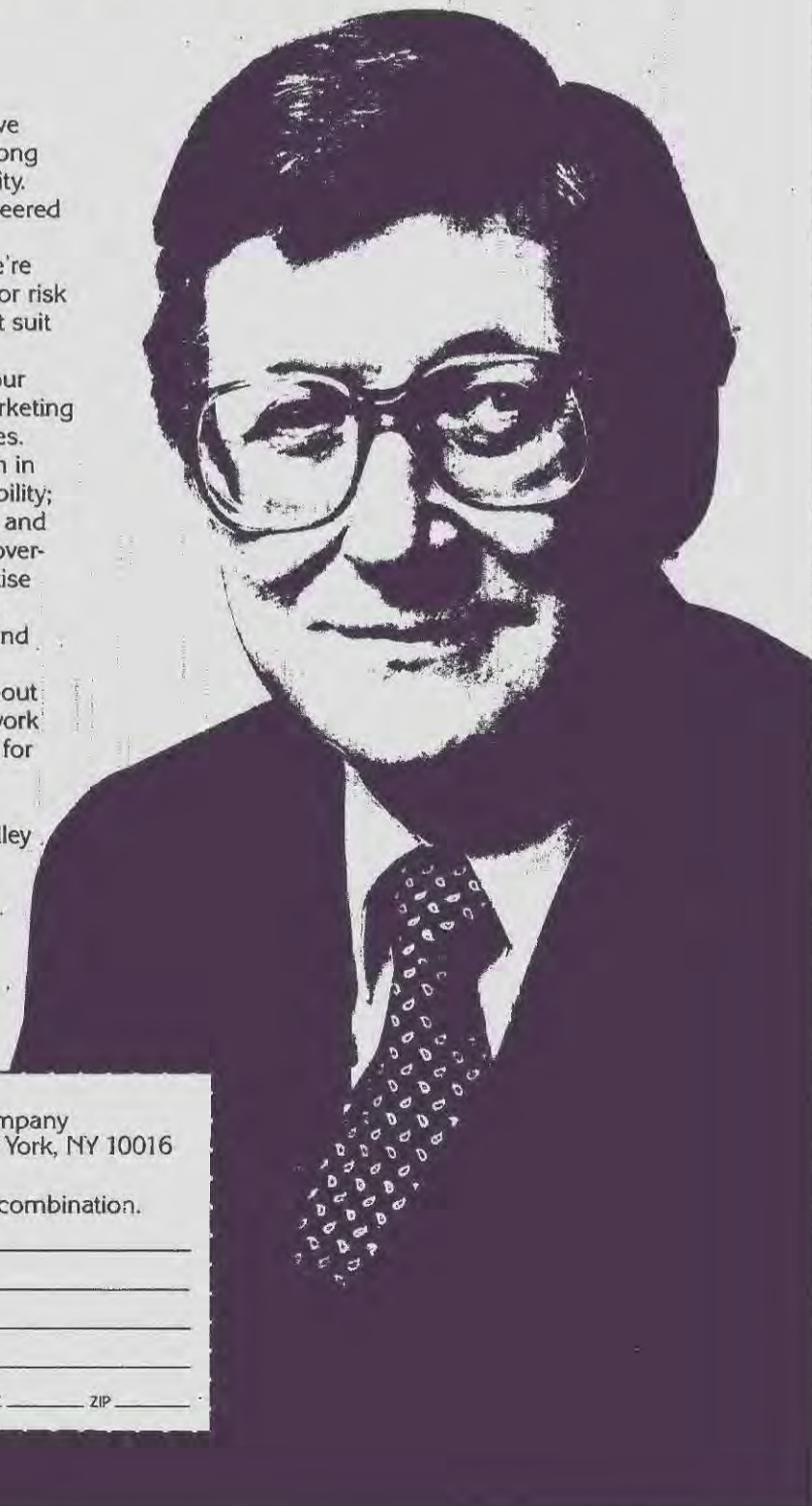
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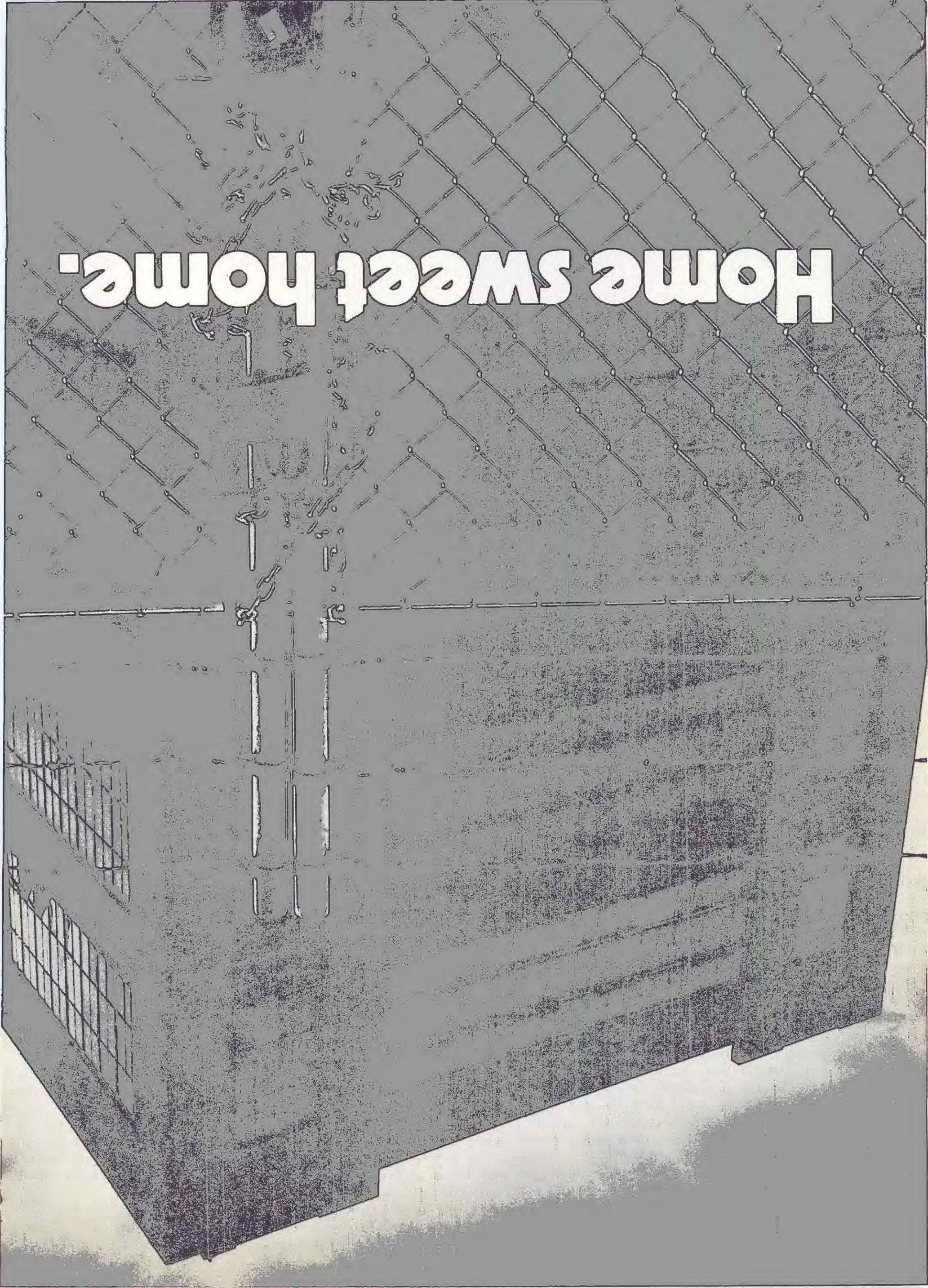
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perspective

Covering political risks

Exporters must be protected from acts of foreign governments

By Robert H. Hoff

THE INSTABILITY of some governments and the unpredictability of stable ones result in some form of geometric progression of problems to be solved by exporters. The problems, no doubt, are equal on the side of the importer, but geometric progressions to a factor of N boggles the finite mind.

In other words, an exporter has a problem of making sure that he will be paid for the goods or services he produces if he sends them to foreign nations, in addition to the usual credit problems.

The intervention of governments in the flow of business, all the way from protective tariffs to expropriation, inhibits trade. Milton and Rose Friedman in their best-selling book, "Free to Choose," state, and I paraphrase: The use of trade as a political weapon or political measures to increase trade make political frictions worse.

Realizing that most credit risks can to some degree be managed, barring the unusual, we as risk managers must also manage those fortuitous events, including acts of government.

A primary solution seems to be "Let the governments do it," and I agree that they have a place in the risk-assumption process. However, as just noted, that generally creates friction rather than solution.

In order to be more explicit, let's limit the investigation to two areas:

- Expropriation by the country of registry.
- Cancellation of export licenses.

I realize there are many other exposures, but with a subject this broad, it is necessary to specialize.

The taking of property by governments has been going on for years, but the confiscation of movable equipment such as aircraft is another matter. War risk insurance for an operator covers the confiscation of all countries except for the "home" nation. The reasoning behind this is clear. The "home" country registers and controls the operation; many times the "operation" is government. Therefore, confiscation can be for many causes:

- National defense.
- Change in government leadership (for example, a coup).
- Failure of operator to pay its bills.
- Illegal use of aircraft (for example, operating in restricted areas).
- "Nationalization" of operation.

Also, confiscation can take many forms—from an actual declaration of confiscation to a refusal to register an aircraft or vessel.

Underwriters have responded to this need in the past few years; however, there are some problems:

- Length of policy period—usually one



year, possibly two. For large items, though, this may not be sufficient time (long-term loans and losses). Underwriters have, however, even in the face of impending loss been willing to "roll over" the policy each year.

- Premium costs. Like other forms of political risk coverages, this is not cheap.
- By way of a condition to the policy, the parties agree not to divulge existence to the foreign buyer or his country officials. The logic to this is quite obvious. If a foreign country is having serious fiscal problems finding "hard currency," realizing the equipment is insured may be a cause for confiscation.

The greater problem is getting the buyer/lessee to pay for something, like political risk insurance, about which he is supposedly unaware. A finance package usually goes together near delivery time, long after the sale price on long-lead items has been established. There's no room to hide the cost there (considering also favored-nations clauses). There is no way to make it a part of the finance charges. The only solution is to call the charge per year something completely different and hope the buyer/lessee does not complain too long or too hard.

Some examples of how the insurance market has stepped up to the problem:

- In a two-year lease option, the insurers were able to put together \$150,000,000 of political risk coverage using a non-aviation market. To my knowledge, this is the largest such placement to date.
- In a financial situation where more than 30% of the value had to be paid, the lenders felt that even though the aircraft would be flown in and out of the country of registry by non-nationals, the only real exposure was the possibility of confiscation. Without it, the sale would have been lost.

- Coverage where the financiers would be paid, even though the country of registry had a legal right to detail the asset. Thus, the definition of "confiscation"

has been expanded to the legal operation of certain laws.

That's the good news. Now the bad. Cancellation of export licenses—the use of foreign trade in matters of political negotiation or reprisal—causes enormous loss potential to an exporter. Again, I refer to Mr. and Mrs. Friedman's comments.

I'm sure we are all aware of President Carter's use of his "right" to cancel export licenses to attempt to control "human rights" in foreign nations: the inability to ship computers to Russia, engines to Iraq and airplanes to Libya.

The usual method of contracting for long lead items is a major down payment by the buyer, if possible. These moneys are available to the manufacturer in case of contract termination or other actions by the buyer. It is not unusual to place the responsibility of a "valid export license at the time of delivery" on the buyer and with good cause.

Much can be said in favor of not dealing with a country that "harbors terrorists," a decision totally outside the control of a U.S. exporter. However, the ability to continue to make the buyer responsible, in light of worldwide competition and unpredictability of U.S. policy, is being eroded. Thus, there's a need for insurance by the exporter for the eventuality of having to resell to another buyer. The exporter's loss is measured by the sum of:

- The loss of profit (he would have sold to the new buyer, too).
- The cost of money from time of original delivery to final delivery.
- The cost of sales effort on an expedited basis.
- The reduction in price on an expedited sale.
- The cost to modify his product to the needs of the new buyer if necessary.

The total of this list should approximate the amount of the down payment.

Underwriters are having a tough time with this concept. The exporter is looking to be secure, while the underwriter seems to feel he is insuring a profit. The exporter

wants his money up front with salvage, if any, going to the insured on the same basis it would to the buyer. The underwriter is looking for a waiting period. Then the exporter must prove his loss. Obviously, there appears a difference of opinion which, judging from past performance, will be rationalized between the parties to the satisfaction of all.

Some current considerations:

- What will the administration do?
- Are there prohibited countries even if a license is granted?
- How much coverage is available and for how long?
- When should coverage start: implementation of the goods or the signing of sales contract?
- What is a realistic loss?
- Should not the exporter have a large stake by way of deductible and, if so, can he reinsure it if a market is available?
- Who will participate? London? Domestic? Governments?

In conclusion, that last consideration should be addressed for just a moment. Those interested in political risk insurance are really few in number, notwithstanding the new amounts of coverage we have found. Those interested in "innovation" within that group are obviously fewer, for good reason. There must be a spread of risk among underwriters, and thus they feel that government ought to participate in a program of insurance.

The Export-Import Bank has the charter, as does Overseas Private Investment Corp. We are all aware of budget restrictions for these agencies, but guarantees by way of insurance are a far cry from direct loans to foreign buyers.

We intend to continue our efforts to convince all political risk markets, along with the appropriate governmental agencies, that protection to the exporter for loss due to the cancellation or non-renewal of an export license, once granted in sales factory amounts and acceptable terms and conditions, is a legitimate and profitable undertaking.

Robert H. Hoff, formerly corporate insurance manager of The Boeing Co. in Seattle, is now a consultant with Reed Stenhouse Inc. of Washington. He delivered this address at the RIMS Conference in San Francisco earlier this year.

perspective



Montage: Leslie Gignilliat

Facing the same risks: Tiny firms need risk management, too

By Ronald S. Ohsner

IN THE PAST decade, risk management has become standard practice for large companies and is presently spreading rapidly into smaller organizations. Many firms are realizing that the examination of risk in the context of cash flows and operating costs is much more economical and effective than simply purchasing insurance.

This increased emphasis on risk management has caused many firms to establish risk policy. The difference between risk-management policies of large corporations and small companies are great in practice but, in theory, both types of businesses are directed toward a common goal.

Most large companies (more than \$1 million in premiums) have full-time risk managers, according to a recent Risk & Insurance Management Society survey.

These large corporations generally have a well-defined, written risk policy that expresses the goals, objectives and structure of the firm's risk-management program.

These policy statements are completely thought-out and define the scope of responsibility and authority of the risk manager, along with clarifying the risk manager's functions in terms of safety responsibility, loss prevention, loss control, insurance purchasing, claims administration, lines of communication, and other areas.

Furthermore, some of these statements indicate the maximum risk retention a firm will assume before insurance is purchased.

Finally, most large company policy statements are very specific and clear as to purpose.

They are not eloquent statements that require a high level of abstraction to be understood.

The large firm also has many attractive

'The difference in risk management policies of large and small firms are great, but in theory, they are all directed toward a common goal.'

alternatives in financing risk-management activities. They have the funds to establish elaborate cash-flow plans or captive insurance companies and they have the purchasing power to force insurers to lower rates and alter coverage forms.

Additionally, most large organizations retain sufficient earnings or have strong credit in the financial markets to fund extensive loss-prevention and loss-control activities.

Thus, investments made today to reduce future losses and future costs are no problem.

Finally, these large corporations can afford to hire well-trained, full-time risk managers who possess the expertise to design, implement and maintain sophisticated risk management programs.

In most circumstances, the small company doesn't have a written risk-management policy.

In fact, most small firms are entering the stage where risk management is a new topic, although the person responsible for insurance usually has some perceptions concerning how much risk the company should assume, even though these ideas haven't been formally discussed.

Moreover, the risk-management function in most small organizations is handled by the corporate treasurer or vp of finance and it is not the bulk of their job duties.

Finally, most small companies don't possess sufficient resources in terms of personnel and money to pursue as many of the loss-financing and loss-engineering alternatives as their larger counterparts.

Basically, both small and large companies pursue the same risk management objective. They want to

transfer as much risk as possible at the least possible cost.

The large organization reduces cost by sophisticated financing methods that enable the company to maintain cash and earn income, and by tax-favored loss payments, while small firms reduce cost by comparing insurance rates and policy coverages.

In achieving this objective, the small companies are at a great disadvantage. They don't have trained personnel in this specific area.

If insurance is involved, they don't possess sufficient buying power to negotiate favorable rates and coverages from the insurers.

However, there are many things that small companies can do to compensate for their limited clout.

Small firms must view insurance in the context of their cash flow and overall financial management, and they must realize risk-management techniques that were once available only to large firms are now available to them.

These firms should consider risk exposure studies. These studies are usually conducted by risk management consultants or skilled insurance agents. Generally, all exposures to loss are identified through these studies. It is only after exposures are identified that different ways of handling and financing them can be explored.

Small organizations should also review their insurance policies annually to make sure they cover the exposures they chose to insure. Policy audits should be conducted by independent parties. It should be noted that most commercial

insurance rates and coverages are negotiated. Thus, additional coverages may be obtained by merely asking for them.

It is also important that these small firms determine how much risk they wish to retain or self-insure. The risk-bearing capacity of each insured depends on the individual circumstances. However, a general rule-of-thumb is the minimum retained should be 1% of the "free surplus" of the concern plus 1% of its annual net earnings during the last five years.

If the cost of insurance is high in relation to the company's gross income, it is probably wise to take a substantial deductible in relation to free surplus and earnings.

In all cases property values should reflect current replacement cost. This is very crucial considering today's inflation. Furthermore, all property insurance should be written on an agreed-amount, replacement-cost basis so that coinsurance penalties are eliminated.

Small risks can net substantial savings through "safety groups." These groups consist of similar types of companies solely for the purpose of spreading risks.

In most cases, members of these groups must meet certain loss-engineering standards.

Whenever possible, package policies should be used rather than purchasing insurance on a piecemeal basis.

Such policies reduce costs, eliminate overlapping coverages and fill the gaps in crucial insurance needs.

A single package can cover complete property risk, liability, losses suffered during the recovery period, crime loss and computer damage.

Finally, in formulating risk policy, small companies should see insurance as a way to protect against major catastrophes, not to compensate for all minor losses. Too many insureds pay enormous sums for first-dollar coverage and leave themselves exposed for a catastrophe.

It would be better for them to have a self-insured portion on the bottom and use their money to protect themselves on the top, across-the-board for all perils. ■

perspective

English-French risk management lexicon shows common heritage of two cultures

By Z'ev Kronish

"Lexicon: Risk, Insurance, Reinsurance" (French and English)
By Jacques Lesobre and Henri Sommer
Berger-Levrault, 229 Blvd.
Saint-Germain, 75007, Paris, France
394 pages, 197 French francs
(approximately \$34.85), plus postage

ENHANCING THE understanding and usage of risk terminology worldwide becomes imperative with the expansion of international commerce. And since the English and French languages play dominant roles in international communication, bringing these vocabularies together is a sign of the maturing of risk management.

The language of risk has its own idioms. A vocabulary that cuts across different cultures compounds the challenge. As it turns out, the authors have served us a treat, for language is fun and full of surprises.

And now: Parlez-vous francais?

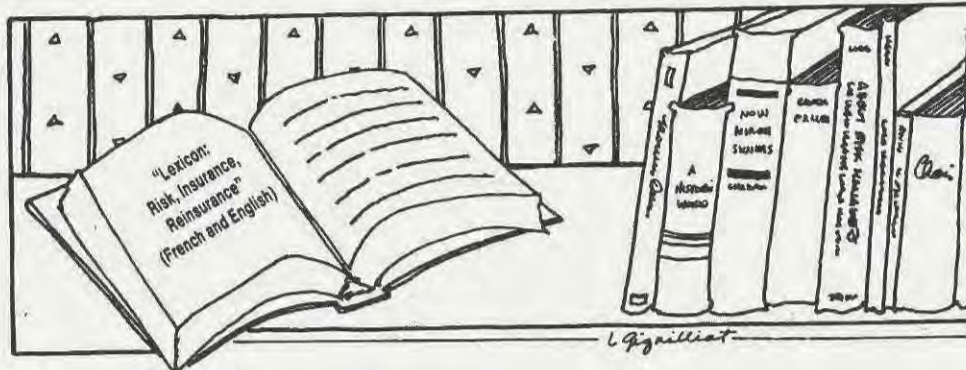
For starters, "risque" with an accent on the last letter is one of the earliest hazards known to man. The thread that binds English to its Romantic source becomes apparent soon enough. Property damage and physical damage translate as "dommage materiel" or "dommage direct" in the dictionary.

A tidbit that is both instructive and illuminating for the insurance professional is the French word for policy: "police." Did you ever associate those two words? The underlying connection is readily evident. "Police" refers to regulation and administration. The insurance policy represents an instrument for order as it spells out the obligations of insured and insurer.

The French word "pension" has a double meaning. It translates into English as pension and allowance. Here,

Z'ev Kronish is in the claims department at National Health & Welfare Mutual Life Insurance Assn. His reviews of management books appear regularly in BI.

books & ideas



too, the link is clear. The pension provides an allowance (annuity) for living in a residential hotel (in French, a "pension").

Insurance is "assurance," abbreviated "ass." The words are plainly interchangeable among Americans and the British.

Crime is "crime," possibly from the Latin "crimen" (accusation). Benefit is "benefice," also "indemnité." "Bene," you recall, means well and in French refers to a gain. If we don't lose sight of the fact that benefits are a benediction as well, the impact will last. (Collision, by the way, is the same in both languages.)

"Indemnité," another word which rings a bell, is compensation, a definition that comes close to the true meaning in the English language.

Safety translates as "sécurité." Corporate assets are defined as "biens." You have probably heard the expression "tres bien!" ("well done!"). It is obvious that to a "directeur," "risque et assurances" assets are well when protected against loss.

Sickness is "maladie." For workers compensation, the reader is directed to the main entry under workmen, where the French spills out as "assurance accidents de travail." Travail is a familiar word in either tongue, referring to toil (and trouble).

Professional liability pops us as "ass. de responsabilité civile professionnelle." Malpractice comes out as "faute professionnelle" or professional fault.

Umbrella coverage works up a storm. Defined as "ass. responsabilité civile complémentaire et excédentaire," we instantly recognize complimentary (additional) and note that in characteristic fashion, the French threw in excess (also surplus) to accentuate the concept. In reinsurance parlance (note the French root) the word cede (same root as excess) is "ceder," meaning to yield.

An act of God, a circumstance that could not reasonably be foreseen, is known as "force majeure," and you are catching on if you think that sounds like major force.

You'll find that exclusion is the same on both sides of the ocean. And you'll come across care, custody or control in the main entry and as C.C.C. under abbreviations. But you won't find XCU (explosion, collapse or underground damage) anywhere.

A joint venture is "entreprise commune" or "association de fortune." Isn't language fascinating? Prevention is everyman's word. Fire has several definitions: "feu," "foyer" or "incendie." The word "foyer" is where the fireplace belongs and "incendie" bursts upon us as a conflagration. A fire extinguisher obviously ought to be "extincteur contre l'incendie."

Three words explain claim: "demande," "reclamation," "sinistre." Claims frequency is "frequence des sinistres." Typically, these words are rooted in French law. In that context "sinistre" refers to a loss.

Context determines the most appropriate definition. Language cannot be translated exactly or literally because idioms have their own peculiarities. It's amazing that we share so much, coming as close as two parallel tracks.

With an attractive layout with lots of white space, "Lexicon" is easy on the eyes. After examining the book, it's easy to see that Jacques Lesobre and Henri Sommer have done their homework.

Tres bien!

legal briefs

Short illness doesn't affect coverage eligibility

The Supreme Court of Connecticut held that work does not cease to be continuous because of interruptions in a person's occupation due to a period of temporary illness.

John Cody Jr. was employed by Remington Electric Shavers from Feb. 7, 1972, to May 12, 1972. Remington contracted with Connecticut General Insurance Co. for a disability plan for its employees. Under the plan, an employee did not become eligible for benefits until he had completed three months of continuous active service prior to becoming disabled.

Mr. Cody was hospitalized for 6½ days in March 1972, losing time from work. From May 12, 1972, until his death in 1977, Mr. Cody was totally disabled within the meaning of the plan. Connecticut denied a claim for disability benefits. Mr. Cody's estate sued and won in the trial court.

On appeal, Connecticut General argued that because the active service must be

continuous, it must be totally uninterrupted; that perfect attendance for three months was necessary. The court disagreed, pointing out that to interpret "continuous" as requiring perfect attendance would make it theoretically possible for long-term employees to be excluded from coverage for missing one day of work during each three-month period for personal reasons, religious holidays, illness or the like. *Cody vs. Remington Electric Shavers, Etc.*; Supreme Court of Connecticut, Jan. 29, 1980 (BI/01/Au.-\$5).

Group health and life

In the absence of a policy provision or statute requiring notice of premiums due, notice need not be given an employee under a group insurance policy as a prerequisite to a policy lapse for non-payment of premiums, according to the Supreme Court of Utah.

Stanley Larson was employed as a full-time employee with Wycoff Co. He was covered under group health and life policies. The insurance benefits were detailed in a "red book" that was provided to all full-time employees. The book stated that all active, full-time employees may be included in the company's group benefit plans.

Mr. Larson received and read the handbook. Subsequently, Mr. Larson decided to return part time to school and continue to work part time. Although he discussed this with his supervisor, he never discussed his plans with a personnel or other company official.


It was Mr. Larson's understanding, from his supervisor, that he would retain his benefits. Larson returned to school and worked 25 to 30 hours per week. During this period his son became ill, was hospitalized and died. Mr. Larson's claim for medical and death benefits was denied. He sued his employer and the insurance company.

The trial court ruled against him.

The appellate court said that denial of the life insurance claim was clearly correct as the insurer had the right to cancel coverage when an employer discontinued payment for an employee, whether or not the employee contributes to the premiums.

With regard to Mr. Larson's claim against his employer, the court said the employee handbook clearly stated the insurance benefits were offered to regular full-time employees, and he was, therefore, on notice as to the termination of his participation in the insurance plans. *Larson vs. Wycoff Co.*, Supreme Court of Utah, Jan. 22, 1981 (BI/03/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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Dutch firm buys interest in insurer

THE HAGUE, Netherlands—Nationale-Nederlanden N.V., the largest insurance company in the Netherlands, has received approval from the Australian government to acquire 50% of Mercantile Mutual Holdings Ltd. for \$48 million Australian.

The decision fixed the price of the sale at \$6 Australian per share of Mercantile Mutual.

Nationale-Nederlanden's current Australian business, estimated at \$13 million Australian in property/casualty premiums and about \$12 million Australian in life insurance premiums, will shortly be combined with Mercantile Mutual's underwritings.

Mercantile Mutual Holdings, a diversified insurance company, was established in Australia in 1878.

Nationale Nederlanden is an international insurance company that operates six companies in the United States. ■

riskWatch

Workers in Britain shielded by 'umbrella' of employee benefits

By STACY SHAPIRO

LONDON—Dear *Business Insurance*:

During the last eight months the weather hasn't been too bad—no London fog or heavy snows. But do you think I could purchase a "company" umbrella for the incessant British rain?

And while we're on the subject, there are a few other employee benefits that my British colleagues get that I wouldn't mind having.

My ideal package would be like the one received by a former senior employee of *The Times*:

- A car with all gasoline, maintenance, insurance and an automobile association membership provided.

- Private medical insurance through British United Provident Assn. for his wife and children up to the age of 18. This allows the family to go to private rather than National Health Care clinics.

- An employee contributory pension plan and a life insurance policy worth about five times the employee's salary.

- A color television set plus the required government license that all TVs must have.

- Reimbursement for 75% of all private telephone bills, plus the rental of the home telephone.

- Tax counseling.

- Membership in two London social clubs.

- A free Thompson package holiday—up to 900 pounds.

- Access to a box at Albert Hall for concerts, including the London Philharmonic Orchestra.

It could be that the London Times has cut its benefit package since Rupert Murdoch bought the daily newspaper from the Thompson organization. For a start, the employees probably don't get the free Thompson holiday, which was paid for by the Canadian group.

But one current Times employee told me "everything is super under Mr. Murdoch."

Times Personnel Manager Tudor Hopkins preferred not to comment.

My other British cohorts also swim in a pool of benefits that I would like to share. I would be pleased to go grouse shooting in North Yorkshire as some merchant bankers do. And I wouldn't say no to a membership in the Reform Club. Ladies, of course, are restricted to one side of the club dining room for dinner, but we will soon change that.

How about a new Jaguar X-JS to drive around London? The beautiful blue of the Sedgwick Group's Jaguars is my preferred color, but I'd take Bain Dawes Ltd.'s white Mercedes instead. The chauffeur that accompanies the corporate car isn't necessary, but please include petrol, insurance and repair bills in my package.

If you can't swing the car, I'll understand. Instead, there's a nice little perk in London called the London Traveller's Pass, which will take me all over London by subway or bus at corporate expense.

I'd also like an interest-free loan for my monthly commuter train pass. The interest-free loan for a home mortgage can come later.

And now that our company office staff is expanding from two to seven, we need a sports facility. Walking up two flights of stairs each day in our Georgian office isn't enough exercise, I'm afraid. British companies own complete gymnasiums with tennis courts, swimming pools and cricket pitches. But I'd be content with a membership in the YWCA.

As an American living abroad for my company, a few special benefits are in order. Most Americans arrange "home levels" with their parent companies before they go overseas. Each year they return to the United States for one or two weeks—at the company's expense—to visit families and buy all the American products that can't be found anywhere else in the world.

The American expatriates also have their tax accountants paid for by the U.S. parent company. One American investment analyst told me that a tax accountant is vital for the 8-inch-thick tax return that the Internal Revenue Service requires.

Of course, most of these benefits have been given to British employees in lieu of salary increases. While the Labour government was in power (before the present Conservative government of Prime Minister Margaret Thatcher), senior employees had to abide by wage restraints. So, instead of giving salary increases, employers handed out employee benefits.

The pay freeze is over now, however, but the benefits still exist in many companies. Why, after all, pay out 1,000 pounds in salary when an employee only gets 400 pounds after the current 60% tax rate?

But I like the American way of increasing salaries once a year, so that can be in my package along with these British benefits. And if I am ever promoted to executive status, I will accept the other British executive perks, like a complete wardrobe and a townhouse in London.

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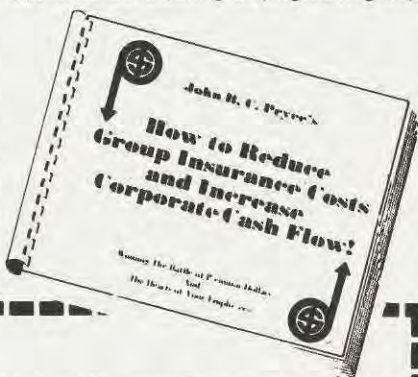
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Product liability not as big a problem in foreign nations

By STEPHEN TARNOFF

U.S. companies doing business overseas have fewer product liability and commercial litigation problems than they do at home, experts agree.

For various historical and cultural reasons, European countries do not encourage the large number of lawsuits nor the huge damage awards that are common in the United States.

Companies involved in commercial litigation also can often get a fairer shake in European courts because special commercial courts composed of experts in particular cases hear evidence and make decisions, something not found in U.S. judicial system.

"They've got us beat for the typical piece of litigation," says Frank A. Orban III, international counsel with Armstrong World Industries. "In tort or commercial litigation, the majority of Western European countries adjudicate cheaper, quicker and wreak very little injustice."

European countries are friendlier to business, Dennis Connolly, senior counsel for the American Insurance Assn., agrees. "But nevertheless, a company has to recognize that the law in another country is different, and it has to be prepared."

In product liability cases, foreign law and court systems favor manufacturers more than in the U.S. legal system. Strict liability, which offers little defense for manufacturers, is not commonly used. Most plaintiffs must prove a manufacturer's negligence or breach of warranty before winning a case.

But even though laws are similar and seemingly less strict, some legal differences can make companies more prone to product liability suits in certain countries.

Moreover, European countries appear to be heading toward larger awards and a larger number of lawsuits.

Countries can be divided up into "progressive" and "traditional" countries in their approach toward product liability, Mr. Orban notes.

Progressive countries, or those with laws that include or approach strict liability, are France, Belgium, Switzerland, the Netherlands, New Zealand, the Scandinavian nations and, to an extent, West Germany.

Traditional countries, which do not have strict liability and require proof of negligence and privity of contract include Japan, Italy, Austria, Greece, Spain, Portugal, Turkey, the United Kingdom, most British Commonwealth countries and most Latin American nations.

France, for example, presumes liability on the part of the manufacturer in a product liability suit, making it easier for the plaintiff to recover.

But Italy requires that the plaintiff prove negligence on the part of the manufacturer. In suing for breach of warranty, only the direct purchaser can sue the immediate seller, which does not include the manufacturer unless it was also the seller.

Germany and Sweden have strict liability for certain pharmaceuticals but not other products. Recommendations to introduce strict liability in the United Kingdom have been made, but have been unsuccessful.

Although there is a more conservative approach to the law and lawsuits in European countries,


members of the European Economic Community are considering a directive that, in effect, would provide strict liability in all nine member countries, which could radically change awards and the number of lawsuits (see related story, page 45).

Although the current state of the directive is "moribund," according to John Siegmund, a U.S. Department of Commerce official and author of an article on product liability, it could have a major effect on

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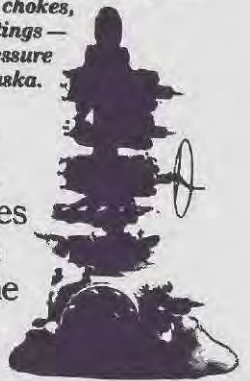
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Many foreign court systems more sympathetic to business

Continued from page 55
 product liability suits overseas if ultimately passed.

"I think the whole thing will probably change if and when the EEC adopts the directive," Mr. Connolly of the AIA predicts.

Perhaps the most traditional of the major industrial countries is Japan, where the role of litigation is played down.

"They do not favor litigation," Robert Layton of the New York law firm of Layton & Sherman says. "They often resolve disputes by conciliation, negotiation and discourse."

Manufacturers also do not have to worry about product liability in Eastern bloc nations. Few lawsuits are filed there and the countries do not allow large recoveries for their citizens.

"There is no product liability law outside of ordinary tort law in Eastern bloc countries," Mr. Siegmund says.

The reasons for the reluctance to permit a great deal of litigation in foreign countries and for the lower awards are numerous. Contingent fees are not permitted in many countries, making plaintiff's lawyers more reluctant to take on cases. A losing plaintiff often has to pay court costs and the defendant's attorneys fees, too.

Discovery practices are also much more restricted in Europe. Plaintiffs and their attorneys do not have the nearly unlimited access to the defendants' files as they do in the United States.



Frank A. Orban III

Europe also prohibits juries in civil cases, often a factor in driving up the awards in the United States. European judges tend to be more conservative and more sympathetic to defendants.

Also, some European countries with social welfare systems have eliminated the need for lawsuits since the plaintiff's medical expenses are paid by the government.

"It is a peculiar mix of procedural looseness and substantive generosity," said Professor Richard Epstein of the University of Chicago Law School.

"The process elements are as important" as the substantive provisions of the law, he said.

Although the product liability exposure of companies is smaller in Europe, basic commercial law sometimes poses bigger threats to manufacturers.

"The potential for problems arising from the sale of products overseas is greater in the commercial area than the tort area," Kenneth Ross, counsel for a major manufacturer in Pennsylvania, says.

"The basic principles of contract and commercial law have a degree of uniformity on the continent but local nuances are possible," Mr. Orban agrees. "Furthermore, some countries have special laws protecting particular interests, going beyond the basic (Napoleonic) code."

In Belgium, for example, the law protects distributors and agents more than in other countries. Distributors can't be terminated with-

out receiving a large indemnity from manufacturers, Mr. Orban adds.

Swiss commercial laws are often favorable to manufacturers, however, Mr. Layton says.

"It's very, very conservative and commercially oriented," he says. "The sanctity of contracts is really upheld."

Other countries with a similar orientation are West Germany and the Netherlands, where courts are more likely to insist that contracts be completed.

France is more socialistic and not as friendly to commercial interests, Mr. Layton notes.

"France and Italy are more inclined to being debtor than creditor states," he says. "They are not inclined toward applying rules favoring private foreign investment."

As a way of limiting liability, Mr. Ross says his company will try to get "our own tried-and-true terms and conditions in the contract" and to have it provide in the contract that, if any dispute arises, Pennsylvania law will apply.

The company also might seek an arbitration clause in a contract specifying that the arbitrators will apply Pennsylvania law.

Bill Blair, staff counsel for IBM America's Far East Corp., says his company attempts to strictly limit liability when framing a contract with merchants.

The company also attempts to limit the period of time in which customers can bring claims against the manufacturer.

There is also the problem of getting other companies to agree to arbitration or limitations of liability. And whether such limitations of liability or disclaimers may be upheld by European courts is uncertain, he adds.

Despite the problems that can arise in commercial transactions, several experts say that little commercial litigation is filed because there is little confidence in some foreign courts.

Also, some companies prefer to compromise with the firms they do business with to continue the relationship, according to Professor John Fleming of the University of California Law School.

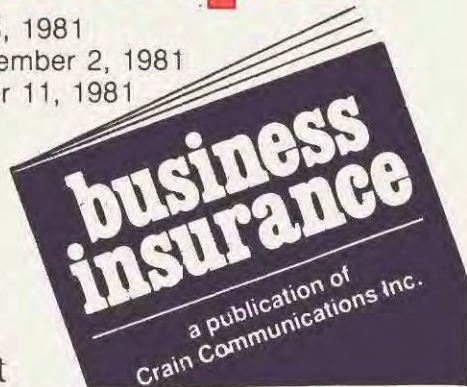
Arbitration thus becomes an important means by which companies solve their commercial problems.

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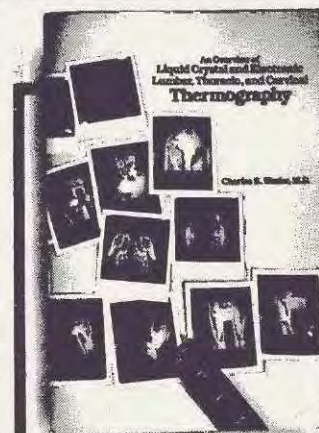
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Although generally unavailable in the product liability law, it is the most common in the commercial legal arena, according to Mr. Layton.

Either through private or public bodies like the International Chamber of Commerce, arbitrators are appointed, hold hearings, take evidence and apply the laws of whichever country is agreed upon.

Decisions are enforceable in the United States and other countries that have signed a U.N. convention stipulating they would abide by arbitration decisions.

The process can be expensive, however. Mr. Layton says with the international chamber, a sliding scale of fees can in some cases cause enormous fees.

Mr. Blair of IBM agrees. Arbitration is "extremely expensive," and prohibits certain discovery procedures that might otherwise be available under a country's legal system, he notes.

Mr. Orban of Armstrong World Industries does not prefer arbitration and limits its value to three instances.

When a complex contract is

'You don't want to get involved in suing governments.'

being contemplated that could take a number of years to complete, arbitrators can perhaps better interpret what the parties had in mind in light of changing conditions, he says.

Arbitration is also better in certain types of business where it is the norm, like maritime and certain commodity dealings.

Mr. Orban also says arbitration is often preferable when dealing with communist and Third World countries where it may be forced on a company.

"You don't want to get involved in suing governments," he says, adding that such countries generally are fair in legal matters involving international trade.

In normal international trade situations, however, he does not recommend arbitration because it limits a company's options. "If push comes to shove, I want the ability to go to court," he adds.

Arbitration, he says, can always be agreed upon even after legal proceedings are begun.

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Ronald Jacks

Suggestions from lawyers

To avoid product liability or commercial lawsuits in foreign countries, international lawyers suggest companies:

- Examine foreign substantive and procedural law and decide whether it is superior to U.S. law, a practice many companies often don't follow.
- Know where its risks lie. Each transaction has points of risks, and a company should know how the law of a particular country approaches those risks.
- Become familiar with local lawyers since foreign countries generally require that only those licensed there can practice.
- Have a key executive attend a seminar offered in the United States at various universities that deal with legislation and regulation in European countries.
- Have the executive spend time in the country absorbing the social, business and political climate. That way, he will become familiar with local lawyers, the local population and those that administer local courts and justice.

"It's as much who you know as what you know," Ronald A. Jacks, chairman of the International Insurance Law committees of the Sections of International Law and Tort and Insurance Practice for the American Bar Assn.

"If companies make any major mistake, it's that they don't get plugged into the local bureaucracy."

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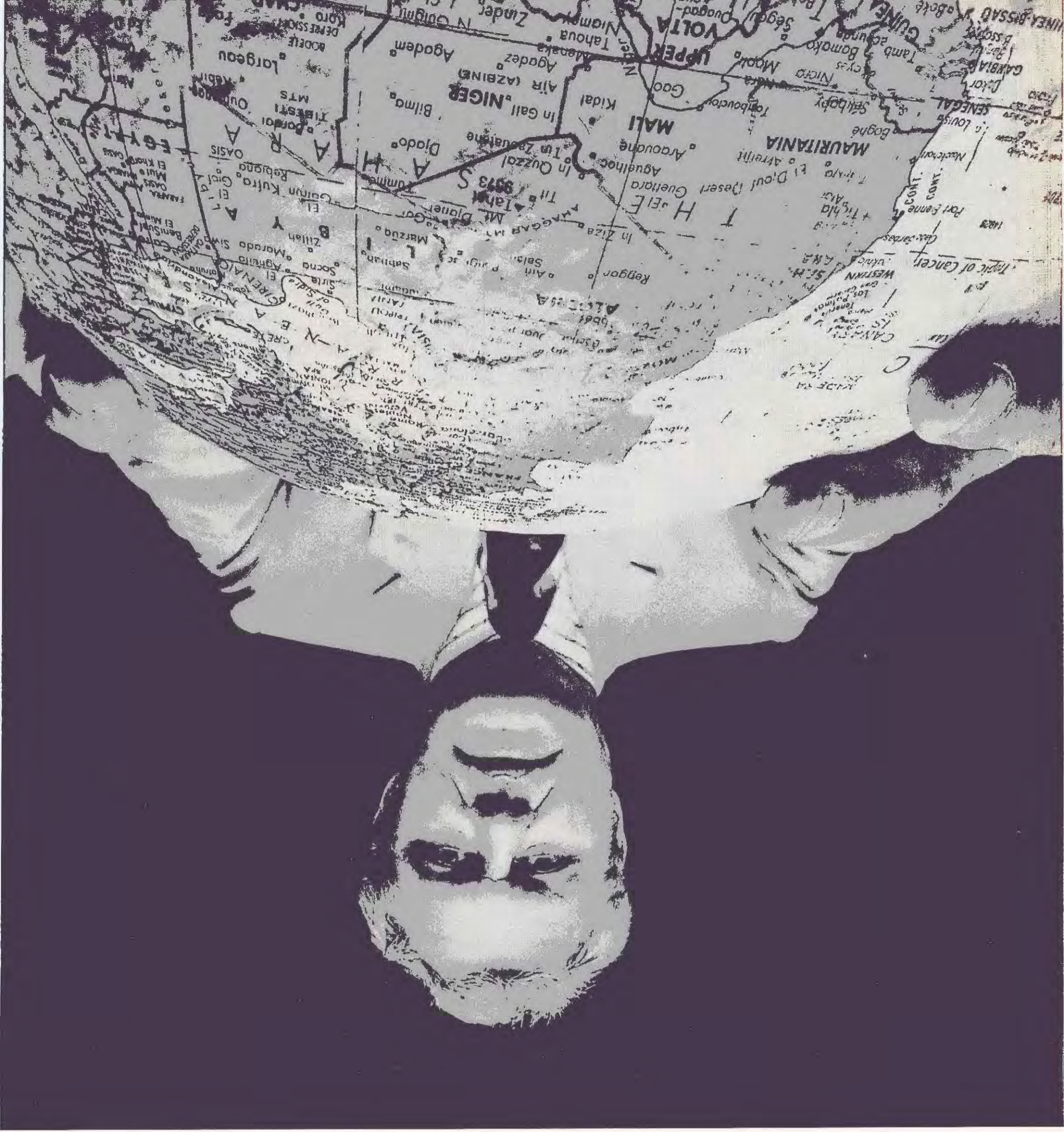
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Multinationals pooling employee benefit risks

Continued from page 15

To capitalize on the growing market, John Hancock, through its International Group Program network recently introduced an IGP small groups pool to appeal to multinationals with fewer than 1,000 employees overseas.

The IGP also has begun luring European and Japanese multinationals, which have been slow to utilize pooling techniques.

Aetna-Generali, a network partnership formed by Aetna Life & Casualty Co. and Generali, a large Italian insurer, is developing expertise in offshore packages for technical-skilled third-country nationals.

These networks, along with American International Group, Swiss Life, Area, Gain, Insurope, The Traveler's M.I.A. and Vita, are aggressively vying for the increasing level of multinational business.

Multinational pooling, for the most part, has been foreign to some firms because "they often had too many other problems they felt they had to clear up," explains Mr. Pickrell. "They would say, 'My foreign subsidiary is doing well and I don't want to change it.'

"We think they should look at it because benefits represent a very high percentage of total compensation."

Benefits can represent as much as 60% to 80% of payroll in some foreign countries, some industry officials contend.

Inflation, says Joseph Mota, international employee relations coordinator for FMC Corp., a diversified machinery and chemicals manufacturer in Chicago, has driven employee benefits costs up about 5% to 10% annually.

Many multinationals are finding that pooling offers an experience-rating system that determines how benefits should be priced internationally and can provide benefits for those with few claims.

The dividends, surpluses left over after claims and service charges are subtracted from premiums, are just rewards for cost-conscious multinationals that have begun realizing their foreign liabi-

lities.

"If it weren't for multinational experience rating," explains Samuel L. Richard Jr., vp of William M. Mercer International, a New York-based benefit consulting firm, "the client in most cases would not get any kind of surplus or dividends back."

It's those cost-cutting and dividend features that have, in part, attracted Borden Inc., a diversified dairy and chemicals maker based in Columbus, Ohio, to pooling. The firm presently is auditing its overseas benefits operations and expects to use one or more networks to provide benefits to employees in 28 countries.

Borden could "realize a potential \$500,000 a year in savings," says Michael Miller, the company's director of employee benefits.

Borden also hopes to install cost-containment programs, educate its employees on the proper use of benefits, increase its major medical deductible from \$100 to \$150, redesign its life insurance program to allow employees to adjust their coverages and improve the dental insurance schedule.

Allegheny Ludlum Industries, a Pittsburgh-based alloy steel maker, presently is assessing its benefit programs in Europe, South Africa and South America after acquiring Wilkenson Sword, the foreign razor blade manufacturer.

FMC Corp. has seen a 20% reduction in benefit costs annually since employing the Aetna-Generali network to administer employee benefits to more than 7,000 employees in 26 countries.

"We pool most of our benefits programs overseas," explains Mr. Mota. "It reduces benefits costs and allows us to provide a higher level of benefits than companies that do not pool. We pooled to maximize our benefits. Our objective has been to provide the best benefits in the competitive marketplace."

While some benefits managers tout the merits of pooling, they note it's not necessary to pool in all of the countries in which they operate, nor pool all of the benefits which they offer employees.

"In some countries where you have high tariff rates (some Western European countries), it's more advantageous to pool," says one benefits manager who asked not to be identified. "But in some countries, the local subsidiary can sometimes get a better rate than the corporate headquarters can get by pooling."

Multinational pooling, some international benefits experts say, is no panacea to all benefit problems. There are some disadvantages:

- It can force the foreign subsidiary to do business with an insurer that's the parent company's choice, not its own choice, taking the benefit decision out of the foreign subsidiary's hands. That could cause some strained relations between parent and subsidiary.

- The foreign subsidiary, in some cases, could be forced to pay a higher premium than it would have paid if its benefits had not been pooled by the parent corporation.

- It can upset affiliations foreign subsidiaries have with local insurers.

"The best way to decide whether pooling is the answer for you," a benefit manager of a large multinational farm machinery and high technology firm says, "is to decide what you want to accomplish benefits-wise, establish objectives and audit your benefits operations. You can either do that yourself or hire a consultant who will help you achieve your goals."



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How to pool multinational benefit risks

By JAMES LAWSON

As inflation takes its toll on a multinational firm's profit statements, more benefit managers are pooling benefit plan risks to centralize control and hold down costs.

Though more firms are learning the benefits of multinational pooling, buying and planning an international package can be a problem.

Pooling, or lumping benefit risks with a single insurer or international insurance network, is still not the norm, and firms should still be aware that they are breaking some new ground. Insurance industry officials say only about 2,500 multinationals now pool benefit risks.

"Multinational pooling is not a panacea for all of a company's benefits problems, but it's part of the puzzle," notes F. Michael Poncill, a benefits consultant with Towers, Perrin, Forster & Crosby in New York.

"Companies hadn't had the staff to undertake such a task before. And lots of times, they hadn't been allowed to do it. The economy, however, has helped a lot of multinationals to consider pooling."

One of the first steps in establishing a pooling arrangement is to conduct a benefit audit to determine the cost of the program, types of benefits offered and present funding plans for overseas subsidiaries.

The audit also demands a complete review of overseas benefits needs with input from both the benefits and operations departments. In reviewing the program, firms might find problems they never expected, consultants say.

In many Latin American countries, for instance, a firm might think twice about firing employees. Government-mandated severance indemnity could prove too costly.

In Mexico, the multinational would have to pay each fired employee three months' salary, plus 20 days times the total number of years of service. In Venezuela, the employer would have to pay 15 days of final service multiplied by the number of years of service.

"Companies have to come to grips with what their liabilities are," Mr. Poncill says.

Borden Inc., a Columbus, Ohio-based multinational with employees in 28 countries, now is conducting such a review. The diversified dairy and food products corporation wants to begin new cost-containment programs, provide better employee education and redesign some of its insured programs, as well as pool its benefit costs.

"It's time-consuming," Michael Miller, the company's director of employee benefits says describing the task, "but it's well worth it."

Mr. Miller expects the task to eventually produce savings of \$500,000 per year.

The benefits manager of a large New York multinational with 35,000 employees in 30 countries suggests other companies hire a consultant to help with planning, decide what the firm wants to accomplish with its benefit program and establish objectives consistent with the company's philosophy.

If you have a good understanding of your company's benefit philosophy, you'll be better able to establish a fair and equitable benefit program for your overseas operations, consultants say.

Choosing an insurer is not simple.

Some companies use only one insurer network, but others find their needs are best suited with two or three networks providing special expertise in certain countries or special benefits. One major high-technology firm uses seven net-

works to service its international employee benefits needs.

There basically are three different types of multinational pooling networks:

- Insurance company-owned networks like American International Group, which has local offices in the countries in which it underwrites insurance.

- Associated networks, which have numerous reinsurance arrangements across the world.

- Joint networks like Aetna-

Generali. Generali operates as the local insurer overseas while Aetna Life & Casualty Co. insures the domestic portion of a program.

Swiss Life is recognized as the pioneer of multinational experience rating for benefits and is almost a third category. The insurer is composed of a combination of its own subsidiaries and AIG.

While most networks operate in many foreign countries, some industry insiders say the networks are very different. Some have the

reputation of being extremely efficient, very flexible and very dependable.

Some even have specialized packages and market their services to a particular multinational industry or market segment.

Consultants and multinational benefit managers say the leaders include:

AETNA/GENERALI—a network established in 1966 by Aetna Life & Casualty and Generali, a large Italian insurer. It has em-

ployee benefit facilities in 42 countries and receives more than \$40 million in premiums from 187 multinational clients. The network has seen a tremendous amount of request for U.S.-style group benefits in the Middle East.

Aetna/Generali has designed a package that travels with third-country nationals who relocate to different countries on a regular basis. Many of the employees under these plans are technical, skilled

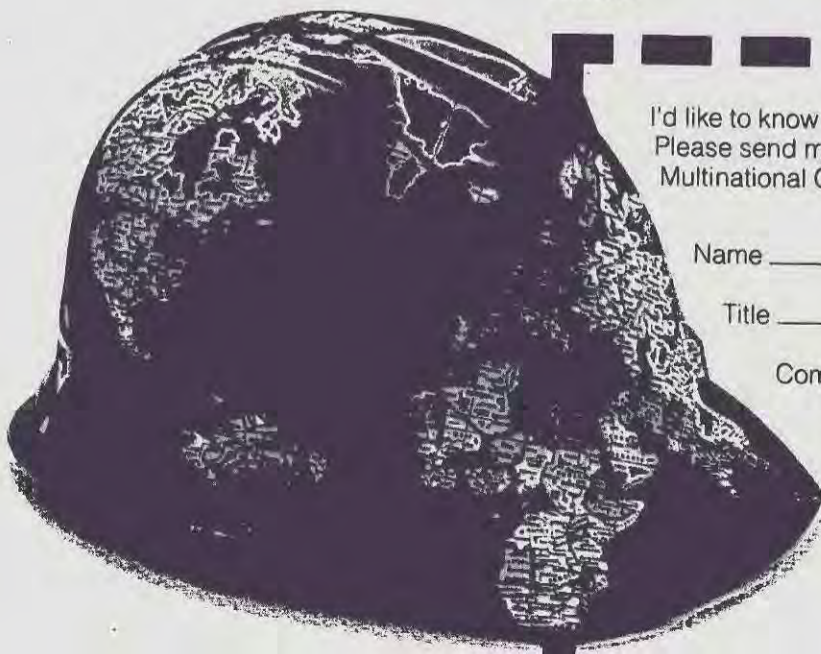
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Companies pool benefit risks

Continued from previous page and well-educated.

AREA—a relatively new network, which experience rates only a few benefits including life insurance, disability and medical benefits. AREA's minimum requirement is 300 lives.

AIG—its first pooling arrangement was written in 1954. "Our bread and butter," says Edward Farrell, multinational account manager of the firm's group management division, "in the overseas market is local benefit plans."

AIG, Mr. Farrell says, has 10,000 international benefit contracts and has 85 different locations and owns insurance companies in 78 of them.

AIG also identifies itself as the flexible multinational network. "We basically say to our clients, 'We can do anything you want us to do.'"

GAIN—a relatively small, foreign-based network, requiring a minimum 250 lives, that uses several underwriters in Europe, Mexico and Canada.

IGP/JOHN HANCOCK—started as a multina-

tional network in 1967. It operates an association with 28 world insurers that insure about 265 multinational parents and more than 1,500 local subsidiaries.

This network, trying to expand its market share, has begun marketing its services to Japanese and European multinationals. In addition, it has tailored a package for small multinationals.

INSUROPE—formed in 1968 and uses associate insurers based in several foreign countries. The associates, however, are not necessarily the largest in the country in which they are based.

MIA/TRAVELERS—began as a multinational network in 1967 and operates with associate insurers in 68 countries. This network offers services to small multinationals that want to provide benefits for at least 100 people in at least two countries.

Presently it has nearly 300 international accounts with 50 multinational clients, covering about 32,000 employees. Its annual premium volume, officials say, averages about \$40 million per year.

Foreign workers increasingly rely on benefit plans

Financially troubled foreign social security and other government-backed benefits programs are fueling the demand for more private overseas employee benefits.

An increasing number of multinationals are finding themselves providing a newer and higher level of benefits—including major medical and life insurance and pension and other retirement savings plans—in countries where their employees once depended upon socialized benefits programs.

Many employees use the addi-

tional coverage as alternatives to programs offered in the countries in which they work because they find those plans and the medical facilities inadequate or they simply hope to offset some inflationary costs by acquiring a higher level of benefits.

"In South America, many management and white-collar employees are asking for private hospital and medical benefits," explains the benefits manager of a large New York-based consumer products company with more than 25,000 employees in 40 countries. "The social security hospitals and medical facilities in some of those countries are not up to par."

"You wouldn't just send your wife to some of those social security facilities," he adds. "The employee would rather pay an additional cost than use those facilities."

For most multinationals, providing additional private benefits is costly. Some of that cost, however, is passed on the employee in contributory plans.

"In some cases, the employee pays a portion of the cost, but that depends upon how magnanimous the company is," the consumer products benefits manager adds.

Some of the demand is being created by foreign local employees who became accustomed to "rich" benefits packages while being trained in the United States. They refuse to accept less when they re-

'Benefits are becoming richer worldwide,' says Mr. Farrell.

turn to their native countries.

High-level executives who work overseas for U.S. multinationals also want the same level of benefits they enjoyed while working in the United States.

In addition, some of the demand comes because "governmental-supplied benefits are having financial trouble, which means a higher percentage of that share will be laid off on the multinational," says Bernard Coughlin, director of international employee benefits for Sperry Corp., a large multinational high technology company.

In Belgium, where employees once depended heavily upon the social security system, there's more demand for pension plans, international benefits specialists say.

There's also an increasing demand for private medical insurance in the Middle East, the Caribbean and Far Eastern countries, contends Edward Farrell, multinational accounts manager for the group management division of American International Group in New York.

Life insurance and widows benefits are becoming popular in some countries, notes Mark White, director of international compensation for Hay Associates, a management consulting firm in Philadelphia. Employees want to be compensated for lower salary increases," he says.

"Benefits are becoming richer worldwide, especially for the executive class," says Mr. Farrell. "There's an increasing number of people at the top management level who want private coverage because they don't want to stand in line for the medical care provided by benefits programs in those countries." ■



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Range of British benefits is enormous

By STACY SHAPIRO

LONDON—Moonlighting is just one of the employee benefits that British companies offer workers.

"The dog racing tracks are staffed in the evening by the daytime bankers," said Dryden Gilling-Smith, managing director of employee benefit services here.

Mr. Gilling-Smith isn't kidding. The range of benefits for British employees is enormous. Employees, usually middle- and upper-management, receive company cars, loans for mortgages and commuter transportation, luncheon vouchers, discounts and barter plans, profit-sharing and pensions and even part-time employment at a track.

The huge increase in benefit plans came in 1976 when the La-

bour government issued a control-of-income policy, limiting wage increases for workers earning more than 8,000 pounds.

"This had the effect of compressing earnings," said Mr. Gilling-Smith, "so you had to provide other remuneration."

The wage freeze was lifted under Prime Minister Margaret Thatcher's Conservative government, slowing the growth of new benefits, but firms are keeping the benefit programs for tax advantages, Mr. Gilling-Smith said.

He advises multinational companies—including British Petroleum, Barclays Bank and U.S. subsidiaries—on how to fund their pension and other benefit plans. He also has designed the funding program for the United Nations' pen-

sion plan.

Some of his client companies set up overseas employment companies so executives can receive some tax-free earnings under a tax loophole that gives a tax break to workers employed outside the U.K. for more than 30 days.

One of the biggest current controversies in the United Kingdom, however, is whether or not companies can offer tax-free private school scholarships for senior executives' children, said Mr. Gilling-Smith, who sold this benefit plan to many companies.

"The senior executives don't want to use the state school system, and their children don't get (state) university grants," he said. "The fees for boarding school are 3,000 pounds per year. But you'd have to

have a 12,000-pound increase in salary just to have that money after tax."

By paying fees directly, the company keeps its executives happy at a lower cost.

Three thousand pounds, rather than 12,000 pounds, is paid by the firm directly to the school, and the employee is exempt from paying tax on scholarship money.

The Inland Revenue, however, has objected to these scholarships and says they are taxable.

Imperial Chemicals Industry is financing a test case to see whether or not these scholarships are taxable under law, Mr. Gilling-Smith said. The final decision will be made in the House of Lords (the British Supreme Court) this autumn, and if it says the benefit is

taxable, the companies will go to the government for an amendment, said Mr. Gilling-Smith.

The company car is also a normal benefit for almost anyone in the office—from secretaries on up.

"Everybody in this office has a company car," said Mr. Gilling-Smith. "In order to give employees 500 pounds in hand, it would cost me (the employer) 1,000 pounds. It costs about 2,000 pounds per year to run a car, including tax, service and petrol," he said.

But by paying for an auto, his company gets 25% of the car and maintenance costs as a tax deduction, and the employee shells out only 190 pounds in personal tax for the company car, worth 8,000 pounds. The employee and the company both save. ■

Workers seeking private health care

LONDON—Private medical insurance in Britain is more than just an employee benefit these days—it's a corporate benefit.

Private care is becoming a necessity as British companies say they can no longer afford to have their employees sit on two-year National Health Service waiting lists for minor operations.

"A few years ago private medical insurance was looked upon as an employee benefit," said Mr. Hugh Elwell, adviser to the Private Patients Plan, which issues medical insurance policies. "Now, however, it's looked upon as the employer who gets the benefit. He can now dictate when you go for medical treatment and when you don't."

The NHS's waiting list is a way of rationing the free medical care the British government provides. People have been known to wait from six months to two years for operations on such minor maladies as hernias.

But while waiting, the employee is less productive and loses pay as the company schedules light duties and no overtime work, he says.

"If you're earning 150 pounds per week, 110 of that may come as wage and 40 pounds comes in as overtime. But then you don't get overtime because you're on light duties while you wait for the operation," he said.

"If you're a guy on the shop floor, you're going to ask for private medical insurance so you don't have to lose money doing light duties.

"And if you're an employer, you're going to give your employees a private medical plan because you need a well-run staff to improve productivity during this recession. Companies need their staff serviced like their machines these days, now that there's a 40% drop in the workforce," said Mr. Elwell. There's no fat in the staffs to fill in for sick people, he noted.

Nearly 80% of the 3.5 million people who use private medical care are insured by company benefit plans, but the employees are taxed on their company's premium contribution to the plan because the government classes the benefits as salary. So each employee under the medical plan pays his mandatory National Health contribution plus tax on a private insurance policy. The worker is paying for health care twice but could be saving money by getting early treatment.

Other company medical systems also are being improved. Miners in Yorkshire now go to the Beechwood Clinic to get minor operations without waiting and there's been enormous growth in company-employed medical doctor programs, says Mr. Elwell, though statistics are not available. ■

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Workers abroad earn Social Security benefits

By JERRY GEISEL

WASHINGTON—Some Americans working overseas can earn higher Social Security benefits, and their employers won't have to pay U.S. Social Security taxes.

Under recent agreements signed with West Germany, Switzerland and Italy, an American employee working in any one of those countries will have wages earned overseas taken into consideration when his Social Security benefit is computed at retirement.

For example, the Social Security benefit of a U.S. worker who worked in this country for 20 years and was then transferred to West Germany, where he worked another 20 years, would be based on his average wage earned over 40

years instead of just his employment in the United States, even though his employer paid no Social Security taxes while the employee worked overseas.

These Social Security agreements, known as totalization arrangements, date back to a 1977 law that gave the president authority to begin negotiations with other countries to provide continuity of coverage for U.S. workers who were transferred overseas.

"The agreements ensure adequate Social Security benefits for the worker who moves overseas," said Robert Heitzman, a partner with Kwasha Lipton, a partner with Kwasha Lipton, Cliffs, N.J.

The agreements also serve as a shield against inflation by including an employee's career average

Agreements have been signed with West Germany, Switzerland and Italy

wages in calculating a benefit, rather than just his earlier U.S. wages when he was earning less.

The first Social Security totalization agreement was reached with Italy in November 1978. An agreement with West Germany followed in December 1979 and with Switzerland in November 1980.

Talks continue with 16 others. Pacts are near with Belgium, Swe-

den, Canada and Norway.

Before the totalization agreements, U.S. employers had to pay both the employer and employee FICA payroll tax, which is now 13.3% of the first \$29,700 of wages, to guarantee that their overseas workers continued to have their wages included in the calculation of their Social Security benefit.

The agreements with West Germany, Italy and Switzerland wipe out the need for a U.S. employer with American employees in any of those countries to pay that hefty FICA tax since its employees' career average wages are used in setting a Social Security benefit.

The U.S. firm, however, would have to continue to pay the social security tax required by the foreign

country where it has a subsidiary.

Under the agreements, an American who worked in the United States and then moved abroad would receive two Social Security benefits when he retired—one from the United States, one from the foreign country where he also worked—with the amount based on career earnings as well as the number of years he worked in each country.

For example, an American employee may have worked 10 years in the United States before being transferred to Switzerland where he worked another 30 years before he retired. If he were entitled to an \$800 monthly benefit based on his average earnings over his 40 years of employment, the \$800 would be divided by one-fourth—the percentage of his work career in the United States—for a monthly benefit of \$200.

Similarly, if his Swiss monthly benefit was \$600, based on 40 years of total employment, the \$600 would be divided by three-fourths, the percentage of his employment in Switzerland, for a monthly benefit of \$450.

The agreements do require that a worker live a certain amount of time abroad in order for career average wages to be considered in calculating the Social Security benefit.

For example, an American must work at least five years in Switzerland before Swiss employment is considered in the Social Security calculations.

The totalization agreements are a two-way street between the United States and other countries. While foreign employment is considered when the U.S. Social Security benefit is calculated for the American worker, U.S. employment is taken into account when the foreign country calculates the public retirement benefit due its citizens for the years they worked in the United States.

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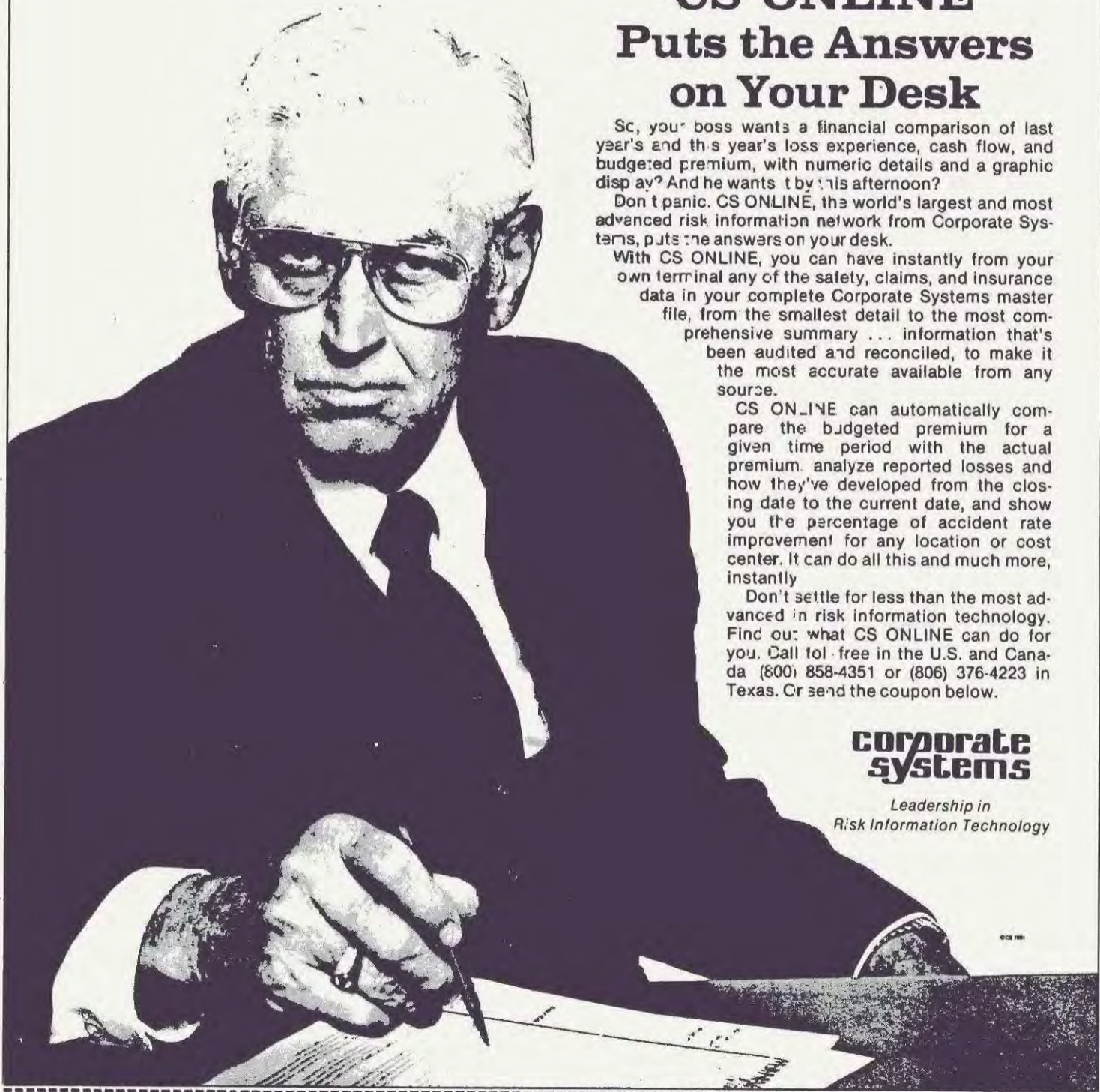
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New tax ruling helps and hurts multinationals

By JERRY GEISEL

WASHINGTON—A new section of the U.S. Tax Code allows companies to deduct from their taxes reserves established in West Germany to pay for their German pension plans, but the new rule could add millions of dollars in tax liabilities to some unsuspecting multinational companies.

Section 402A, which was added to the Tax Code late last year, ended an ongoing battle between the Internal Revenue Service and U.S. companies with West German subsidiaries over whether the companies could receive tax breaks for establishing pension reserves for German plans.

The issue arose in West Germany because of the unusual way that country allows employers to cover their pension plan liabilities.

Unlike the United States, in which the Employee Retirement Income Security Act requires employers with pension plans to set up separate funds to pay for the plans, West Germany allows employers to set up book reserves—without actually laying out ready cash—to pay for the plans.

The book reserve contribution is fully tax-deductible.

The practice of establishing book reserves to pay for pension plans began in Germany after World War II to enable cash-starved companies to conserve sparse capital that was badly needed as corporations there needed to rebuild.

U.S. companies in West Germany set up book reserves for their German plans, enabling them to conserve cash as well as reduce their taxes in Germany and the United States.

But about three years ago, the IRS ruled that employers could not deduct their German book reserve contributions. Tax deductions only would be allowed at the time the pension benefits were actually paid to the worker, the IRS ruled.

Multinational companies rebelled and began a three-year campaign in Congress to overturn the IRS ruling and restore tax breaks for book reserve contributions.

In 1980, employers thought they won a major victory when Congress passed legislation, H.R. 4155, to amend and add a new section to the Tax Code to allow companies with overseas branches and subsidiaries to set credit for about two-thirds of the deduction allowed in West Germany for the book reserve contribution there.

But for as many as several hundred U.S. companies it is a costly victory because the law is applied retroactively, said Robert Heitzman, a partner at Kwasha Lipton in Englewood Cliffs, N.J.

Companies that make book reserve contributions will have an increased tax liability for any year in which their books are still open.

In an example provided by Kwasha Lipton, a company with a medium-sized German operation may have been deducting \$1 million a year for the last five years for its pension book reserve contributions.

Under the new tax law, a firm with a German operation may be entitled to deduct about 30% less, or about \$3.5 million, for the five-year period.

As a result, the firm will have to add that \$1.5 million difference back into income by filing amended returns for the last five years, according to Kwasha Lipton.

At the same time, their future annual deductions for pension book reserves will probably also be reduced by about 30%.

But the new section of the Tax Code also has some firms beaming. Some 25% of U.S. companies doing business in West Germany have not been taking any deductions for their pension book reserves.

For them, the new legislation is a real bonanza, because it decreases their U.S. income tax liabilities, both retrospectively and prospectively, pension consultants say. ■

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AIRMIC's plans

British risk managers want group to expand influence

By STACY SHAPIRO

LONDON—British risk managers say they need a forum to wield influence in the insurance market, Parliament and the European Economic Community.

That's why Graham Hole, chairman of the Assn. of Insurance & Risk Managers in Industry & Commerce Ltd., is advocating change in his professional association.

"We, the risk/insurance managers, are the only link the companies have with market," said Mr. Hole, group insurance and risk manager for Barclays Bank Ltd.

"We need to know the legislation, what the EEC is doing and what there is in the worldwide markets—America, Africa, etc," he explained.

AIRMIC needs to expand its dialogues with other risk management organizations around the world and also needs to talk to brokers, insurers and safety associations, Mr. Hole said.

"We have tended to be a little introverted. We haven't sold AIRMIC as the sole organization for the insurance buyer in this country" he continued.

But to make the changes, AIRMIC needs to raise some more cash, Mr. Hole said. The type of membership into the club will have to be changed, he said.

'We have tended to be a little introverted. We haven't sold AIRMIC as the sole organization for the insurance buyer in this country,' Mr. Hole says.

Now, the 547 members of AIRMIC are listed by name and pay individual dues. To boost financial resources, Mr. Hole would like the group to go corporate. The association would register the employer instead of the individual, and membership fees could double from 21 pounds annually.

With more money, AIRMIC will be able to improve its education and training courses along the lines of those offered by the Risk & Insurance Management Society in the United States, Mr. Hole said.

"RIMS is farther along than we are," he said. "We will follow the model of RIMS in this sense...no use reinventing the wheel."

The College Institute of Insurance in London does have one course dealing with the theories of risk management, and next year AIRMIC will promote a fellowship at the CII.

The association also hopes to put some money into more undergraduate programs to develop risk management courses in universities, he said.

"At the moment, risk managers in this country have been born from insurance management," he said.

"But the insurance guy has a wide spectrum (for viewing) the risk; he's inquisitive and slightly pessimistic after seeing so many losses."

The system isn't terrible, but risk managers would like to see more professional risk management training.

"For the lack of high technical training, the insurance industry guy has common sense and works out quite well," he said.

Mr. Hole came up through 25 years in the insurance industry to develop the first risk management program of its kind in London's five major clearing banks. He is a model for the organization and coordination he wants for AIRMIC.

"By comparison to American banks, we don't have organized risk management departments, but that's because we don't have (as much) regulation for insurance," he said.

The British clearing or retail banks aren't required by law to insure against fraud or theft, nor are they forbidden to have insurance subsidiaries.

So a risk management department hasn't been used in the same way U.S. firms would use them in negotiations with brokers and insurers, he said.

Instead, Barclays has developed an insurance services company to sell individual policies, a Lloyd's broker called Barclays Insurance Services International Ltd., and a captive insurer in Guernsey, Spread Eagle Insurance Co. Other departments were developed by Barclays, the country's largest bank, to promote safety and security.

Mr. Hole organizes the company's insurance policies, totaling 3 million to 4 million pounds in premium.

He believes that risk management is more than buying insurance, however.

"The main niche of an insurance/risk manager is one of coordination as much as anything else," he said. "He can't buy insurance without being involved in the risk. I want to help the bank identify the risks, coordinating the risk before buying insurance."

Mr. Hole links up with the various departments in the bank that prevent claims in the 3,000 Barclays branches and works closely with the health and safety department, the security department—which controls the safes and transport of money—and the computer internal auditing staffs.

"My personal view is that the inspection department that watches the internal books is the biggest risk management function," Mr. Hole explained. "If you talk about risk management, you talk about reducing loss, and the inspection department is the biggest for this."

The biggest area of concern at the moment, however, is the fraudulent use of computers and the electronic transfer of money. Lloyd's of London is now researching a draft for computer fraud insurance, he said.

Barclays, like any other company, needs insurance despite its loss-prevention efforts. Some of the coverage is placed with the captive in Guernsey, and some is filtered through Barclays' brokerage to Lloyd's, Mr. Hole said.

British banks usually buy about 30 million pounds of bankers blanket bond coverage from Lloyd's, much less than U.S. banks, which usually buy 100 million pounds of coverage. Lloyd's underwrites about one-third of Barclays' policies.

Other insurance coverage, including automobile, fire and property, employer's liability and personal accident are placed with other insurers in the London market or the captive.

Some subsidiaries have needs too specialized to be dealt solely in the British market, so Mr. Hole is developing a North American insurance program through Marsh & McLennan for Barclays' branches in the United States.

"Barclays has been growing in the States," Mr. Hole said. "Four hundred million dollars has been invested in the United States in the last two years."

Coverage for U.S. subsidiaries will be kept and managed in the United States, he said, because the it presents unique insurance problems: higher liability awards, different state insurance regulations, etc. Premiums are paid in dollars, so they should be kept in dollars, he said.

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PLEASE ADDRESS ALL INQUIRIES TO LARRY NIETO, JR. VICE PRESIDENT
AND MANAGER INTERNATIONAL DIVISION NEW YORK OFFICE

Autorizado por la C.N.B.S. oficio No. 24746

Exp. 733.1(S-128)/1-9 de Julio 1981

Look for future announcement of our Los Angeles office.

Allianz names Keegan casualty underwriting vp

James E. Keegan has been appointed vp for casualty underwriting at Allianz Insurance Co. in Los Angeles.

Mr. Keegan had been vp for casualty underwriting at Baccala & Shoop Insurance Services in Los Angeles.

Also at Allianz, **Bill Cody** has been named vp for North American production.

Other insurer changes:

William B. Lusk elected president and a member of the board of directors of US-LIFE Corp. Mr. Lusk succeeds **Lee D. Arning** who has been promoted to vice chairman and chief investment officer.



Lusk

James Vogt appointed property/casualty claims manager of the Los Angeles office of Fremont Indemnity Co.

Ronald Harder appointed chief operating officer and administrative vp of Jewelers Mutual Insurance Co. of Neenah, Wis. At the same company, **William Herrbold** named claims manager, and **William Stoegbauer** named controller. **Don Zolkowski**, an executive vp, also named vice chairman.



Harder

Zurich-American Insurance Cos. announced two promotions: **Arthur J. Slawson** named development manager in the special risk division, and **Donald E. Scrivner** appointed boiler and machinery underwriting manager.

Peter E. Braun appointed vp of the group pensions department at Metropolitan Life Insurance Co.

Combined International Corp. named **Ronald K. Holmberg** as senior executive vp and chief administrative and financial officer.

Fred A. Buck named executive vp at Reliance Standard Life Insurance Co. in Philadelphia.

Dr. Robert L. Lambert named assistant vp and medical director and **Maynard R. Stuft** named assistant vp of underwriting at Pennsylvania Hospital Insurance Co. and its subsidiary, Pennsylvania Casualty Co. Both are headquartered in Camp Hill, Pa.

John W. Rucker Jr. elected a secretary of Insurance Co. of North America. Mr. Rucker is responsible for the inland marine product line and the municipality class of business.

Reinsurers

INA Reinsurance Co named **Donald M. Carll** vp for accident/health underwriting and named **Robert Taylor Jr.** resident secretary/underwriting, responsible for management of INA's Chicago regional reinsurance office.

Other suppliers

Lance Tane and **Mike Treacy** have joined the Washington office of The Wyatt Co. as consultants.

Towers, Perrin, Forster & Crosby announced several promotions. **Quentin I. Smith Jr.** named chairman of the board, retaining his position as chief executive officer. **James E. Kielley** named president, succeeding Mr. Smith. **Bernard D. Berry** elected vice chairman of the board and continues as managing director of the com-

comings & goings: industry

pany's reinsurance operations.

Gail Reitze promoted to director of benefit communications at the Chicago office of Meidinger Inc., a consulting firm.

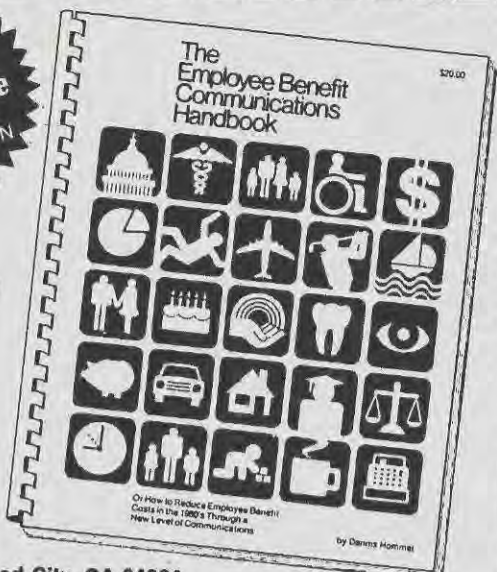
Agents/brokers

John T. Mulvihill joined Jay & Renfro Insurance Brokers in Newport Beach, Calif.

Gordon Adams joined the Los Angeles office of Frank B. Hall & Co. as vp and account executive.

The Employee Benefit Communications Handbook

RECENTLY SUMMARIZED AS 3-PART perspective IN THIS PUBLICATION



At last, here is an informative handbook for making benefit communications more effective! Successful step-by-step techniques are revealed to increase employee interest, understanding, appreciation and prudent use of benefits.

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

It also gives tips on how to gain management approval for an ongoing communications budget, and much more. Truly a valuable guide for any Benefit Manager.

\$20.00, P&H and sales tax included. 30 day money back guarantee. D&B rated firms may send P.O., others must include payment. No CODs.

UPG Publications Division, Dept. 19B, Box 700, Redwood City, CA 94064.

CROSSWORD PUZZLE

ACROSS

1. Primary property coverage in which insurers accept stated percentage of risk. 2 words pl.
9. Auditor of accounts. abbr.
12. Person who runs a business. abbr.
13. E.g. Eskimo and pizza
14. A kind of session
15. The first one occurred in New Mexico on July 16, 1945. comp.
19. Am. dramatist. *The Man Who Came to Dinner*
20. Insurance payment
22. What one does with initial stated portion of insurance claim
23. Compass point
24. Musical compositions intended mainly for practice of technique
26. U.S. Attorney General, 1961-1964, initials
27. Island of Immigration entry
29. Shortened version of girl's name
30. Realistic, practical
32. ___ and behold
33. You might have one of these in the fire
35. Type of excess insurance coverage. abbr.
38. Leader in underwriting management of excess and surplus lines
41. Cubic meter. abbr.
42. Capital of Tarn, France
43. ___id, Roman poet
44. Agreement between primary insurer and reinsurer
45. Section of playing field. abbr.
46. Cowboy
48. New England state. abbr.
49. One of President Reagan's principal advisers, first initial and last name
52. British scientific institution. abbr.
53. Vertical windows projecting from sloping roof
55. Baccala & Shoop's northwesternmost city
58. God of love

60. Duke or Day. 2 words
 61. ___ Paulo
 63. In a ___ jiffy
 65. Actor Colman
 66. Dutch airline. abbr.
 67. When an insurance company has not been licensed in a state. comp.
- DOWN**
2. Commercial casualty coverage insuring third parties against any risk
 3. Stare at
 4. Trolley
 5. Unit of mechanical energy. abbr.
 6. N. ___ national insurance organization
 7. Insurance prefix
 8. Affirmative. Sp.
 9. What Baccala & Shoop is known as. 2 words
 10. Go separate ways
 11. Urban living spaces. abbr.
 15. Vaulted semicircular recess in building
 16. Midday rest
 17. For shame!
 18. Mail a letter a second time
 19. Exclamation of joy
 21. Stan the Man
 22. Plaza ___ Toros
 25. Free of wear or decay
 28. Place to store belongings during athletic participation. 2 words
 31. Affirmative. a la Gary Cooper
 34. Where Kings and Red Wings play. 2 words pl.
 36. Louisville Slugger
 37. Payments in accordance with insurance policies
 38. How excess coverage is structured. pl.
 39. Division of risks among insurance companies
 40. Commitment by insurer beyond normal capacity
 47. Salmon eggs and lobster coral
 50. Title prefixed to woman's name that does not indicate marital status
 51. Red or Dead
 53. Office furnishing
 54. Spoken
 56. Act for which injured party is entitled to compensation
 57. Gait between a walk and a run
 59. ___ culpa
 62. Attendant of sick. abbr.
 63. Chemical symbol for tin
 64. Money market instrument. abbr.

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Baccala & Shoop

The crack troop in underwriting management

datebook

OCT. 19-21. The Improvement of Product Safety course in Cambridge, England, sponsored by Product Liability International; 180 pounds (approximately \$360). Also **Oct. 29-30** in London. Lesley Parkinson, Product Liability International, Lloyd's of London Press Ltd., Sheepen Place, Colchester, Essex CO3 3LP, England; 01-206-69222.

OCT. 19-22. 69th National Safety Congress in Chicago, sponsored by the National Safety Council; members, \$60; non-members, \$90, \$80 in advance. Congress Planning, National Safety Council, 444 N. Michigan Ave., Chicago, Ill. 60611; 312-527-4800.

OCT. 20. Legal Trends and Their Impact on Products Liability, Bodily Injury, Workers Compensation and E&O workshop in Norfolk, Va., sponsored by the Society of CPCU; members, \$85; non-members \$95. Society of CPCU, Providence and Sugartown Roads, Malvern, Pennsylvania, 19355.

OCT. 20-22. Financial Analysis for Risk Management Decisions seminar in New York, presented by Dr. John Cozzolino; \$685 per person, plus \$50 registration fee per company, which includes workbook and calculator. Also **Nov. 17-19** in San Francisco. Cozzolino Associates Inc., 12 Chippenham Drive, West Berlin, N.J. 08091; 609-784-7105.

OCT. 20. Business Interruption/Time Element Coverages workshop in Grand Rapids, Mich., sponsored by the Society of CPCU; members, \$85; non-members, \$95. Society of CPCU, Providence and Sugartown Roads, Malvern, Pa. 19355.

OCT. 21. An Insurance Learning Experience workshop in Oak Brook Terrace, Ill., sponsored by the Oak Brook Assn. of Insurance Women; \$35. Helen Roman, P.O. Box 1143, Oak Brook, Ill. 60521; 312-920-6800.

OCT. 21. 25th Annual Risk Management Conference in North Hollywood, Calif., sponsored by the Los Angeles Chapter of the Risk & Insurance Management Society; members, \$45; non-members, \$55. Donald A. Craft, Tigor, 6300 Wilshire Blvd., Los Angeles, Calif. 90048; 213-852-6203.

OCT. 22-23. Aviation Law/Insurance symposium in Orlando, Fla., sponsored by Embry-Riddle Aeronautics University; \$225. Bob Whempner, Director of Professional Programs, Embry-Riddle Aeronautical University, Star Route Box 540, Bunnell, Fla. 32011; 904-672-3439.

OCT. 22-23. Human Error Reduction Techniques course in Chicago, sponsored by Don Petersen, management consultant; \$275. Don Petersen, 9236 East Walnut Tree Drive, Tucson, Ariz. 85715; 602-743-2319.

OCT. 22-24. International Benefits Seminar in Montreal, sponsored by the International Foundation of Employee Benefit Plans; members, \$440; non-members, \$515. IFEBP, 18700 W. Bluemound Road, Box 69, Brookfield, Wis. 53005; 414-786-6700.

OCT. 23-24. Hospital Liability and Risk Management seminar in New York, sponsored by the Practising Law Institute; \$275. Also **Nov. 20-21** in Miami. Practising Law Institute Department SWC, 810 Seventh Ave., New York, N.Y. 10019; 212-765-5700.

OCT. 25-28. 1981 Corporate Benefits Management conference in San Francisco, sponsored by the International Foundation of Employee Benefit Plans; members, \$440; non-members, \$515. IFEBP, 18700 W. Bluemound Road, Box 69, Brookfield, Wis. 53005; 414-786-6700.

OCT. 25-29. Washington Insight on Employee Benefits program in Washington, D.C., sponsored by the U.S. Chamber of Commerce; \$825. Nancy Turnbull or Suzanne Lulewicz, U.S. Chamber of Commerce, 1615 H St. N.W., Washington, D.C. 20062; 202-659-6138.

OCT. 26-27. Eighth Annual Environment and Safety Briefing sessions in Washington, sponsored by BNA Education Systems; \$250. Environmental Conference Secretary, BNA Education Systems, Suite S-602, 1231 25th St. N.W., Washington, D.C. 20037; 800-424-9890; 202-452-4420.

OCT. 26-27. Industrial Hygiene for Managers

of Hazardous Activities seminar in Arlington, Va., sponsored by the International Institute of Safety & Health; \$295; three or more from same firm, \$250. IISH, 5010-A Nicholson Lane, Rockville, Md. 20852; 301-984-8969.

OCT. 26-28. Corporate Employee Benefits conference in San Francisco, sponsored by International Foundation of Employee Benefit Plans; members, \$460; non-members, \$435. IFEBP, 18700 W. Bluemound Road, P.O. Box 69, Brookfield, Wis. 53005; 414-786-6700.

OCT. 26-28. Product Safety Engineering course in Baltimore, sponsored by the Institute of Product Assurance; \$450. IPA, 9811 Mallard Drive, Suite 213, Laurel, Md. 20811; 301-792-0710.

OCT. 26-29. Loss Control Management seminar in Cleveland, sponsored by Factory Mutual Engineering & Research. Open to Factory Mutual-insured members only, \$495. Also **Nov. 16-19** in San Francisco and **Nov. 30-Dec. 4** in Dallas. Training Resource Center for Loss Control Management, Factory Mutual Engineering Corp., 1151 Boston-Providence Turnpike, Norwood, Mass. 02062; 617-782-4300.

OCT. 28-29. Risk Management Techniques for Municipalities seminar in Merrimack, N.H., sponsored by the Society of CPCU and the Professional Insurance Agents of New England; \$250. Maurice Desmarais, CIC, Education Department, Professional Insurance Agents of New England, 1 Ash St., Hopkinton, Massachusetts 01748; 617-435-6801.

OCT. 28-30. Techniques of Loss Control course in Chicago, sponsored by the Risk & Insurance Management Society; members, \$295; non-members, \$395. Also **Dec. 2-4** in New York. Rebecca Zimm, RIMS, 205 E. 42nd St., New York, N.Y. 212-286-9292.

OCT. 29. Maryland Workers Compensation seminar in Annapolis, Md., sponsored by Mid-Atlantic Council on Compensation Insurance; \$35. Kathy Hunt, Mid-Atlantic Council on Compensation Insurance, 305 W. Chesapeake Ave., Baltimore, Md. 21204; 301-828-0831.

OCT. 29-30. Radiation Protection of the Public in a Nuclear Accident course in Arlington, Va., sponsored by the International Institute of Safety & Health; \$295; three or more from same firm, \$250. International Institute of Safety & Health, 5010-A Nicholson Lane, Rockville, Md. 20852; 301-984-8969.

OCT. 29-31. Longshoremen's & Harbor Workers' Act Outlook '81 seminar in San Francisco, sponsored by the Industrial Claims Assn. in cooperation with the U.S. Department of Labor; \$250. Jon W. Challoner, Seminar Chairman, Industrial Claims Assn., 582 Market St., Suite 1909, San Francisco, Calif. 94104.

NOV. 14. Benefits Processing Institute program in Williamsburg, Va., sponsored by the International Foundation of Employee Benefit Plans; members, \$360; non-members, \$435. IFEBP, 18700 W. Bluemound Road, Box 69, Brookfield, Wis. 53005; 414-786-6700.

info

• "Compilation of Significant Provisions of State Rating Laws Pertaining to Workers Compensation Insurance" has been published by the American Insurance Assn. Printed in booklet form, it was prepared by the association's staff in connection with its research and planning program on workers compensation insurance rate regulation. The format was devised to allow comparisons of rating laws of various states and the District of Columbia with respect to rating organization affiliation, adherence requirements for rating organization members and subscribers, deviations from rating organization filings and data reporting. Copies are available free to member companies and are available at \$10 per copy to others. Write Publications Department, American Insurance Assn., 85 John St., New York, N.Y. 10038.

• A recent issue of Quotations, a regular newsletter produced by Swett & Crawford, details the company's new **Environmental Protection Liability Insurance Program**. The new program is designed to provide risk protection for firms that produce, transport, treat, store or dispose of hazardous and non-hazardous waste and offers limits of \$10 million per occurrence and \$10 million aggregate. For a copy write Corporate Communications, Swett & Crawford, P.O. Box 3451 Terminal Annex, Los Angeles, Calif. 90051.

• "How to Select a Tax Haven," a guide to various international tax planning techniques has been published by the International Corporate Management Services Ltd. The 38-page booklet also introduces readers to ICMS services available in the Cayman Islands. For a free copy write ICMS, Department TB-719, P.O. Box 1320, Grand Cayman Island, British West Indies. Include \$1 for postage.

• Healthier Life, an employee wellness and health cost-containment program, has started a monthly newsletter explaining its new **alcohol abuse program** that employers can distribute to their workers. For free copies write Healthier Life, 4182 Gann Store Road, Hixson, Tenn. 37343.

Have a new report or booklet you'd like to send to buyers of insurance? *Business Insurance* will describe your material as an editorial service in the weekly *Info for Buyers* column. Simply send us a short description of the material to be offered, along with a cost and a mailing address. Address all contributions to *Info for Buyers*, *Business Insurance*, 740 N. Rush St., Chicago, Ill. 60611.

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Buyers offered claims support service

products & services

When insurers settle a claim they draw on a bank of accountants and adjusters who specialize in the claims process. One of the Big 8 accounting firms says buyers can do the same.

Touche Ross & Co. in Dallas operates a nationwide program aimed at aiding insurance buyers in settling physical damage and business interruption claims.

"The insurance companies have the resources of adjusters and insurance accountants at their disposal," says Bill O'Connell, a partner in the firm and national director of business interruption and other insurance support services.

"These professionals have extensive experience to draw on in protecting the insurers' interest in loss settlements," Mr. O'Connell explained.

"To allow our clients the same professional edge in protecting their interests, Touche Ross & Co. offers business interruption and other insurance claim support services."

Accountants working for a company that has suffered a loss may know their own business very well, but still have no idea how to negotiate with insurers, Mr. O'Connell explains. Touche Ross handles these negotiations and provides related services.

"We review insurance contracts and coverages, prepare and present physical damage, business interruption and other insurance claims, negotiate and settle the claims and provide expert testimony should a case reach the courts," Mr. O'Connell says.

The firm works with an insurance buyer, financial, operational, accounting and legal personnel to determine the maximum allowable claim, then presents it to the insurer, Mr. O'Connell says.

"This may involve computing replacement costs, unit production costs, fixed and variable costs, historical patterns of sales, levels of production, pricing analyses and inventory analyses to determine losses."

Calculation of a business interruption loss is based on lost sales for a non-manufacturing company or on the sales value of lost production for a manufacturer, he says.

The lost sales or value of lost production is reduced by the saved cost of materials in determining gross losses.

"Any discontinued operating expenses—labor, utilities, depreciation—are also subtracted from the claim," Mr. O'Connell says. But expenses incurred to reduce the loss are added.

After a claim is presented to the insurer, the accounting firm carries out the necessary explanation of how they were computed and follows negotiations through to the final settlement.

As an example of what Touche Ross does, Mr. O'Connell described a claim.

"A 130,000-barrel Gulf Coast refinery was devastated by an explosion in its alkylation unit and by the resulting fire," he says. "The refinery was totally shut down for 22 days, severely curtailed for 8 months and not fully operational for 18 months. It was the world's most significant industrial disaster in 1978."

Touche Ross carried out the investigation, prepared the claims and negotiated settlements of \$33

million for physical plant damages, \$30 million for business interruption damages and \$4 million in product loss damages.

"All claims were successfully closed 10 months after the explosion."

The accounting firm has settled claims for other refineries, paper manufacturers, hotels, grain terminals, refineries, a printing company and a supermarket chain.

E&O coverage

Errors and omissions liability insurance for unions and union officials is available from H&W Underwriters Agency Inc. in Leawood, Kan.

The policy, underwritten by underwriters at Lloyd's of London, has a \$1 million limit and a \$1,000 deductible for local unions and a \$5,000 or larger deductible for international unions.

The first union E&O policy was underwritten for a local union in New Jersey late last month, said Neil Pouppirt, president of the surplus lines agency.

The price of the coverage varies, but small local unions would be charged \$1,200 to \$2,500 for the policy and international unions could pay \$10,000 to \$25,000.

The policy covers the union and union officials for losses from liability for negligent acts, errors, omissions, misstatement, misleading statement and breach of duty of fair representation. The policy, however, applies only to monetary losses and not bodily injury or property damage.

Available as an optional addition to the policy is \$25,000 of coverage for the cost of defending charges of dishonest acts against union officials. Unions are precluded from defending their officials against charges of dishonest acts and so the individual union officials would have to pay the \$25 premium for the coverage, which is not available separately from the E&O policy.

H&W Underwriters is at 8900 State Line, Leawood, Kan. 66206; 913-642-8280.

School board liability

Stewart Smith Inc. has introduced school board liability programs.

The policy, in the broad form, provides coverage for the public school district as a legal entity, board members, school district employees and individuals who serve as volunteers to the school district.

Limits up to \$15 million are available through Continental Casualty Co. Colleges, universities and private schools are also eligible.

The policy covers corporal punishment claims.

For further details contact any Stewart Smith Inc. office. In New York City, call 212-964-2929; Detroit, 313-963-7084; Chicago, 312-236-7333; Dallas, 214-688-1051; and Los Angeles, 213-382-6201.

Escape tape

Escape tape is available from Escape Tape Industries Inc. to mark walls in corridors, stairways and exits with raised, phosphorescent arrowhead shapes pointing the way

to safety. Sight-impaired people can feel their way to safety by following the tape.

For more information contact Richard Britt, Escape Tape Industries Inc., P.O. Box 3435, Peabody, Mass. 01960-0435; 617-551-0595.

Gym school cover

A gymnastic school comprehensive liability program has been introduced by the Rhulen Agency.

This policy covers owners of gymnastic schools, the instructors and employees. It carries a \$1 million limit. The program offers full trampoline coverage, provides protection for meets and covers students and spectators.

The broad form policy covers contractual liability, host liquor liability, fire legal liability, incidental medical malpractice and personal injury liability. Catastrophe liability coverage is available with limits to \$20 million. The gymnastic protection can also be written in conjunction with other programs.

For more information contact Jon Farrow, Rhulen Agency Inc., 217 Broadway, Monticello, N.Y. 12701; 914-794-8000; 212-924-1950; outside New York, 1-800-431-1270.

Safe transport

The International Civil Aviation Organization (ICAO) has published its safety manual, Technical Instructions for the Safe Transport of Dangerous Goods.

The manual covers shipping hazardous materials, handling and packaging, documentation and labeling.

The ICAO, a specialized agency of the United Nations, has compiled many regulations of major international air carriers and approved them through the ICAO Council, which represents 148 countries.

This 500-page manual is \$35 and

can be ordered from Labmaster, 7525 N. Wolcott Ave., Chicago, Ill. 60626; 312-973-5100. In Canada, Compliance Products Ltd., 185 Carlingview Drive, Rexdale, Ontario M9W 5E8; 416-675-9494.

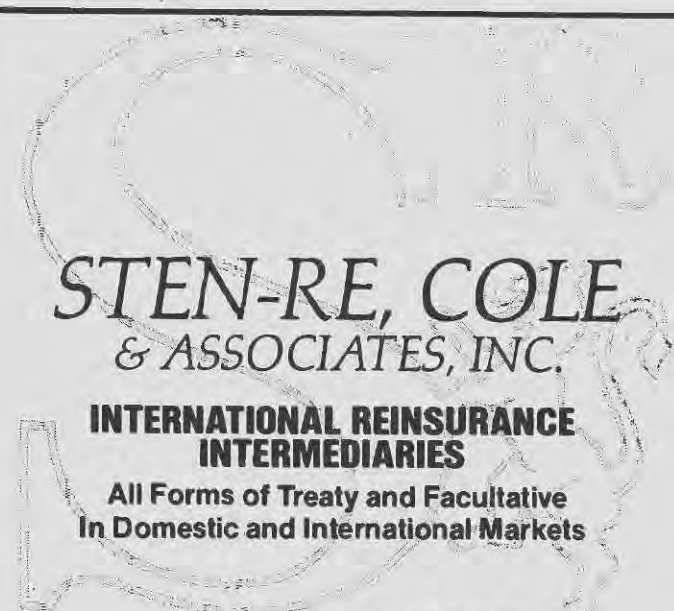
Emergency brigade

American Emergency Services Corp. has introduced special training programs for in-house fire brigades, designed to fulfill OSHA Subpart L.

American Emergency Services can help companies select em-

ployee volunteers for fire brigades and provide all necessary training. Employees are taught how to operate extinguishers and automatic systems, firefighting practices and tactics, first aid and CPR and proper use of breathing apparatus and special equipment. Training programs range in price from \$200 to \$1,900, but first aid and CPR training are specially priced.

For additional details contact Education and Training Division, American Emergency Services Corp., P.O. Box 215, Wheaton, Ill. 60187; 312-690-6550.



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Opinions change on right to pension

WASHINGTON—The number of Americans who believe they have a right to an adequate pension at retirement has declined significantly in the past six years, the American Council of Life Insurance reports.

In a recent survey, only 66% of those responding "agreed entirely" that every American is entitled to an adequate pension at retirement age.

In 1974, 82% of the respondents agreed.

Clothes make the juror

TORONTO—In Canada, jurors are sometimes picked by nationality. And defendants and witnesses are always told to dress as if they were going to church, says one prominent Canadian attorney.

"We used to ask ladies to wear hats and stopped that about four years ago," Lawrence Mandel, a lawyer with Thomson Rogers in Toronto told RIMS members at the group's 1981 conference.

"If a woman showed up for court without a hat, we'd run over to Eaton's (department store) and buy her one," he admitted. "I don't know why it is, but judges like hats. The attitudes have changed with new judges, but we still tell our clients to dress for trial as if they were going to church, and no one will be offended," he said.

Lawyers in Canada are still devouring body language books, too, he said, in hopes that they can better pick jurors who might be sympathetic to their client.

In the U.S., lawyers can question potential jurors to see if they want that individual on the jury, but in Canada only the juror's name, address and occupation are given to the attorneys, said Mr. Mandel.

He admitted that jurors are often chosen by figuring out the person's religion or ethnic background from his last name and then applying an admittedly bizarre rule.

"Jews and Italians seem to be more sympathetic with the injured plaintiff and are likely to award more (money) than a German or Swede, who gives less. Right or wrong, that's what we go on."

Canada reforming trial rules

Continued from page 3

"But the rules will say 'Produce everything—we don't want any surprises in the courtroom,'" he said.

New disclosure laws, however, could be beneficial to what has traditionally been "ambush at trial," said Mr. Mandel.

"There is a lot to be said for open disclosure," he said. "It will open things up and get cases settled."

But, Canadian risk managers are not as optimistic, said Don Stuart, coordinator for the nine chapters of RIMS.

"The employer has to look at this as extra work. And, there may be a question over how the information is used. Some of us, frankly, have doubts as to why more information is necessary," he said.

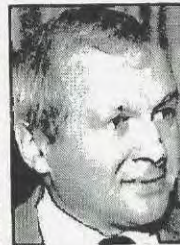
"It's a greater onus on the employer to open up his books," said

Mr. Stuart.

Canada's law reform commission, which serves as an advisory group to the government, has been researching the bill, but the parliament may or may not take the group's suggestions into consideration when it takes up consideration of the legislation.

"It's going to change things drastically," said Mr. Mandel, "and I'm convinced it's going to happen soon."

Also under consideration is an amendment to the rules of practice which would allow the filing of class action suits in all of the country's provinces or states.



Mandel

Only two of Canada's provinces allow class action lawsuits, but even then the plaintiff must get permission from the court to bring the suit.

Rule 75 of the current Rules of Practice permits class action suits, but in reality and procedurally, class actions are difficult for plaintiffs to bring to court, Mr. Mandel admitted.

"It is apparent that the courts have not nurtured the class action as have the American courts," he said.

"This may be of very temporary solace for defendants, however, as the rules of practice are in the process of being amended," he added.

"One of the amendments is directed toward facilitating the prosecution of class actions in appropriate cases."

52 great issues coming up!

ISSUE NUMBER

ISSUE DATE

AD CLOSING

44. REINSURANCE

NOV

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OCT

28

PLUS ...

extra distribution at the NAI Conference in Hawaii

more to come :

ISSUE NUMBER	ISSUE DATE	AD CLOSING
42.	OCT 19	Oct 7
43.	OCT 26	Oct 14
44. REINSURANCE	NOV 2	Oct 20
45.	NOV 9	Oct 28
46.	NOV 16	Nov 4
47. CANADA MARKET REPORT	NOV 23	Nov 11
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Risk exec's power grows

TORONTO—A broadening of the risk manager's role will bring much more influence to the position in the 1980s.

But, the first task facing risk managers is to educate their superiors on what that added influence can mean, says Dr. Wayne Snider, who is professor of insurance and risk at Temple University in Philadelphia.

"Senior management is becoming more sophisticated, but some of you are still fighting the limited image as insurance buyers for the company," he told the 200 persons attending the Canadian Risk and Insurance Management conference here Sept. 20-23.

"Your range of influence is going to increase in the future and you've got to be prepared," he added.

Risk managers can heighten the awareness of their peers by communicating the range of their management role.

But, a risk manager for a large corporation also should be developing techniques for in-house loss reporting and evaluating possible risks, he said.

"I know of only six large employers that have developed a system for loss reporting," said Dr. Snider. "But loss reports will be critical in the years ahead and will take two to three years to get in place."

The second most obvious expansion of the risk management process will be as a planner for the future, said Dr. Snider.

"Risk exists only in the future. There are no risks in the past," he said.

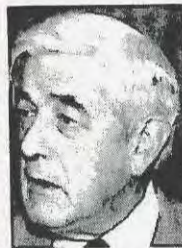
Most risk managers tend to think in terms of the immediate future or at a crisis stage, but the position is going to require evaluating risks down the road, said Dr. Snider.

"Long-range planning is the name of the game," he said.

Risk managers should undertake analysis as a tool of their trade, said panelist Paul Braithwaite, manager of risk management services with the firm of Bates, Thouard, Tierney & Brown in Toronto.

"The computer age has arrived to assist the risk and insurance manager," he said.

"Not only should the purchase price of an item be included in a report to the board of directors, but there has to be analysis of those numbers," he explained.



Snider

Security managers patrol workers now

TORONTO—Security managers are abandoning the company's padlocked entrance gates and taking up patrol over the corporation's assets in a war against white-collar theft.

But, they're doing it quietly and discreetly, says D.G. Gilligan, security manager of Consumers Gas Co. in Toronto. He said most business crime is never reported to that country's police force.

He spoke on security during the Canadian RIMS conference here Sept. 20-23.

The security manager's job is no longer to stand guard over his employer's entrance gates or to insure that all padlocks are securely in place, said Mr. Gilligan.

Security managers must now keep watch over the things that can frustrate the corporate goals and profit if disturbed, said Mr. Gilligan.

The workplace has to be patrolled just like the streets because the problems of the streets are the problem of the corporation, he said.

Since the company can only survive by growing, he theorizes that the employer has to stamp out managerial theft or face an impediment in its growth.

"It's not the crooks that create the problem. It's the guy who is desperate and who lives with us eight hours a day on the job," said Mr. Gilligan.

"The security emphasis has to be on management because that's where the crime is. It's not the guy who steals brass bolts," he said.

But regardless of where the loss occurs, it affects production overall. Someone has got to come in and clear the air so employees can get back to concentrating on their jobs.

The decision on whether to prosecute depends on the nature of the theft or crime and the philosophy of the chief executive officer, said Mr. Gilligan.

"What do you do with the guy who has been stealing pencils and Kleenex who's been on the job 30 years and is close to retirement?"

"Someone has to sit back and decide if they're going to take this guy's pension away for the rest of his life by firing him."

There is no one great formula for deciding whether or not to prosecute a worker found guilty of stealing from his employer, he added.

"Companies are not in the business of punishment, but it is the security manager's job to track the alleged theft, take the information

to the head of the company and let the decision making flow from there.

"The new security manager arrives on the job kind of like the first marshal in Dodge City," joked Mr. Gilligan.

"He's probably a fair man, like Matt Dillon, but he's got to change the environment of the workplace and gain the confidence of the employees."

A good security manager can do this with a security design program that will help prevent employee crime, said Mr. Gilligan.

"The security manager should spend a great deal of time on security design because most crimes are crimes of opportunity," he said. ■



Gilligan

Buck index hits high of 15.4%

NEW YORK—The Buck Forward Interest Rate Index increased to a record high 15.4% as of Sept. 1.

The rate, developed by Buck Consultants Inc., a benefit consulting firm, provides a benchmark to help pension plan sponsors comply with Financial Accounting Standards Board pension disclosure requirements. It is based on forward interest rates inherent in the prices of risk free government securities.

The index is intended to help pension plan officers select appropriate investment return assumptions to determine the actuarial present value of accumulated pension benefits.

The index stood at 14.6% on Aug 1 and at 11.9% on Sept. 1, 1980. ■

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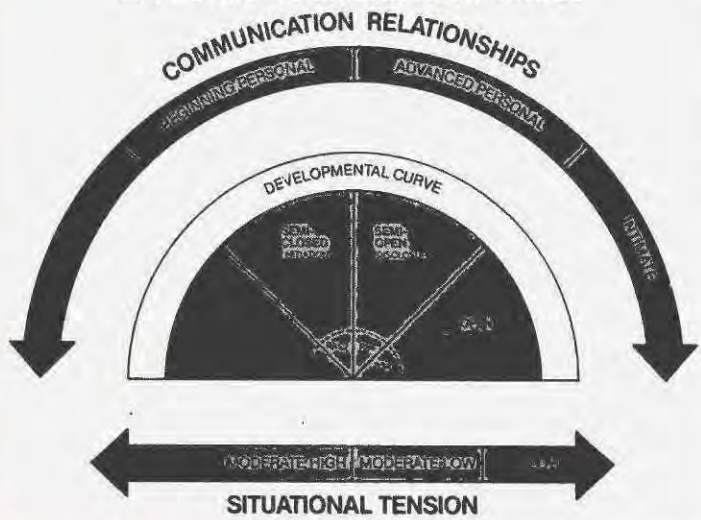
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Balanced personality aids risk and benefit executive

By EILEEN NORRIS

TORONTO—The most successful business person has a three-sided personality: He or she is a tolerator, dialoguer and asserter—all rolled into one.

Too much of one type or too little of another can hurt the risk manager, employee benefit manager or any worker in their dealings with associates, says Dr. Donald L. MacRae, behavioral management consultant at Seneca College in Ontario.

He spoke on the subject of communication and motivation at the Canadian RIMS conference in Toronto Sept. 20-23.

The key to being successful in

the 1980s—a time when tension in the money market will require risk managers to recommend more risk-taking—is knowing how to communicate effectively, he told an audience of some 200 people.

Those in attendance were asked to answer a relating style questionnaire and to select the multiple-choice response that best described how they would handle 12 various situations that a professional might encounter on the job.

Scoring depended on how a person perceived the relationship between the fictitious characters in the scenario and how he or she would handle each problem.

Impersonal relationships, Dr.

MacRae said, should be started slowly, in a closed "tolerator" position, while a relationship that is beginning to be personal can be started slightly open and invitational. (See accompanying effective communicator model.)

Advanced personal relationships should be semiopen to encourage disclosure while the intimate relationship is open all the way and assertive.

He asked each participant to decide if his predominant business personality was that of the tolerator, the dialoguer or the asserter and to split up into groups of three with others of the same relating style to talk about their strong points.

He described the tolerators as the kind of people who know how to listen, get things done quietly and smile when things are tense.

The dialoguers are flexible and two-way conversational types who invite discussion. The asserters are the achievers who want to get things done—they are very results-oriented.

"Business is usually a communication relationship without interpersonal exchange," Dr. MacRae said. "Most people play it safe at work, but usually one of those three relating styles takes over," he added.

Which is the best style to have in the 1980s?



MacRae

"You need it all," he told the RIMS audience. "You have to listen, discuss and achieve. The most successful person has all three characteristics."

He gave the audience a four-point process to remember that incorporates the best of all relating style characteristics:

- Smile and tolerate the tension.
- Invite a discussion—"Can we talk about it?"
- Tell the person your thoughts and feelings.
- Tell them how you prefer to handle the situation.

"There are two factors that affect the communication process," said Dr. MacRae. "The kind of relationship you have and the kind of tension in the situation."

"Sometimes you start in the beginning with a closed interaction and open quickly, but other times the tension will be high and it will be wise to close down and use those tolerance skills," Dr. MacRae said.

"It's not a straightforward process," he said of the relating styles program he and an associate devised. "It goes backward and forward depending on the situation."

He admitted that his analysis of communication rewards people who play it safe and penalizes assertive types who tend to speak too soon.

"Communication is a developmental process," said Dr. MacRae. "If you deal with people effectively, the results will follow." ■

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D.C. hospital rates

WASHINGTON—The average daily cost for a semi-private room and board at hospitals in the Washington area was \$179.89 on July 1, according to the Washington-based Blue Cross Plan.

The cost ranged from \$92 per day at the Northern Virginia Mental Health Institute to \$393 at the Psychiatric Institute of Washington, according to the report. ■

Little incentive offered for use of sprinklers

TORONTO—The speaker started out his talk on high-rise building safety by pointing out the fire exits. He would have done that anyway, but there was something else on Al Hill's mind.

The assistant vp of Marsh & McLennan told his audience he couldn't believe that the hotel they were all gathered in had just undergone a multimillion dollar renovation and overhead sprinklers weren't installed.

"I'm just amazed, but maybe I shouldn't be," he said.

"There's little incentive to add sprinklers when there's no premium savings from insurance companies, who are behind the times," he said.

His comments came during one of several sessions at the 1981 Canadian Risk Management Conference in Toronto Sept. 20-23.

"The building codes only say new high-rise buildings have to have sprinkler systems—they don't

address renovation," he added.

As a result, systems that are added onto a building are done from a moral point of view, said Mr. Hill.

Hotels are particularly vulnerable to fire because so much plastic is in the interior of the building and because it's virtually impossible to hold a fire drill in a high-rise hotel, said Mr. Hill.

Studies have revealed that it takes about 1½ hours to evacuate a 30-story building—and that time figure is based on good conditions, he said.

Another test performed by the Canada National Fire Protection

Assn. demonstrated that it takes pine 12 minutes before it becomes toxic while it only takes plastic material 3.5 minutes to reach a dangerous level.

Sprinklers, he said, are the simplest and most effective form of fire protection available. Mr. Hill said there have been very few deaths from fires in buildings that have sprinklers.

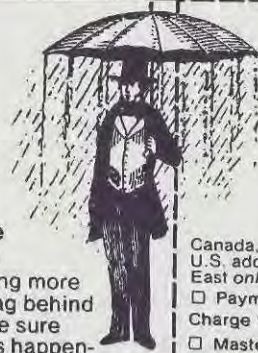
"There's no doubt that the records support the rule of sprinklers in a fire," agreed speaker Harold Locke, vp of Rolf, Jensen & Associates, Toronto.

There is no initiative to provide for anything more than what is required by the law. "There's no legislation so builders opt out of the additional cost," he said. ■



Hill

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The times, they are a changin'

TORONTO—Is there a future in risk management?

Definitely, but the future looks ripe for change, says Felix Kloman, president of Risk Planning Group of Darien, Conn.

Mr. Kloman spoke at the Canadian RIMS conference.

"The risk manager of today has outgrown its parent. It is no longer dominated by insurance and it is time to cut the umbilical cord," said Mr. Kloman.

The problems of today's unpredictable economy will force the risk manager of the future to conserve the resources of the organization against accidental loss and require a realistic assessment of future losses, he said.

Mr. Kloman predicts that:

- Risk assessment techniques will be more important in the future.

- Information and communication tools will be utilized by the risk manager even more as he or she takes on added responsibilities.

- The risk manager of the coming decade will be faced with dismantling the organization to decentralize and reduce the central staff—an integration of risk techniques into management.

- More sophistication in loss reporting and forecasting and a simplification in funding programs will enter into risk management.

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Investment income counts: Risk board

Continued from page 1

cautions it "can create serious problems. For example, in the mid-'70s, when both underwriting and investment income developed negatives, had investment income been included, the rate increases would have been greater.

"Also, investment income is subject, in normal times, to more frequent fluctuations, causing instability of rates, particularly under an open-rating system."

This same concern was aired by the 13% of the survey respondents who oppose forcing insurers to include investment income in rating.

"If they include investment income, they then should include investment loss and I don't want to pay for bad investment decisions during periods of low interest or depressed markets," said the risk manager for a city employing 2,000.

Others opposing the change are concerned it would be too difficult to implement. "It would be too cumbersome due to interest fluctuations," said the director of insurance and bonds for a construction/manufacturing company with more than 5,000 employees.

"The time lag on losses and rate increase requests to be approved, together with market fluctuations which affect investment income, all add up to an impossibility to control," explained the corporate risk manager for a financial institution with 11,000 employees.

Even some of those who said no to rate reform qualified their opposition. "Investment income must be considered somewhere in the premium promulgation process," said the risk/insurance manager for a commercial bank with 200 employees.

Two respondents tied their opinions on the investment income issue to what happens to regulation of workers compensation rates, an-

other issue addressed in the survey.

Make insurers include investment income when making rates "if current system stays. No, if rating open and competitive," suggested the insurance and risk manager for a health care institution employing 2,500.

"Let the free market system set the rate and forget how insurance companies determine the rate," said the vp of insurance for another health care provider employing 70,000, adding "insurance departments should assure that the insurance company filing the rate is financially stable."

Nearly three-quarters, or 71%, of the respondents agreed that insurance regulators should stop approving one set of uniform rates for workers compensation insurers as submitted by their ratemaking bureau.

"Not competitive," said the vp of a delivery service with 9,000 employees, stating succinctly the risk managers' concerns.

The present system is "inefficient and penalizes the small businesses. Workers comp should have open rating as other lines of insurance," said the vp of insurance for the health care provider employing 70,000.

"It does not permit flexibility of rates, due to carriers' different costs, experience, etc.," complained the vp/secretary of a metal fabricator with 10,000 employees.

"The system doesn't provide for competition, nor is there enough incentive for cost control," commented the vp and chief financial officer of an auto parts retailer employing 320.

"Investment income and administrative efficiency tend not to inure to the benefit of the consumer in present situation," agreed the insurance manager of a pharmaceutical manufacturer with 10,000 employees.

Among the respondents favoring the current system, many seemed to most appreciate its statistical value.

"This filing represents industry rates developed by class with deviations developed from loss experience—a fair system!" wrote the insurance manager for an electrical equipment manufacturer employing 14,000.

"It gives risk managers an average rate to work from," said the corporate risk manager for the financial institution with 11,000 employees.

"It provides a true picture of the hazards involved with a particular classification. Your experience modification factor tells you how your company stacks up," said the risk and insurance manager of a commercial bank employing 200.

Another insurance manager, with a conglomerate employing 3,600, argues, "Work comp is mandatory. Rate structure should be uniform." While most insurers would accept his support for the current system, they would oppose his conclusion that "ultimately benefits should be uniform."

Twenty-seven percent of the risk managers answering the survey said the current system is competitive enough because it allows for rate adjustments via experience modifiers and dividend plans.

But 73% of the respondents disagreed that credits and dividends create enough competition.

"Insurers tend to compete via intangible 'service,'" noted the pharmaceutical company risk manager.

Insurers supporting the current system also argue that they can file rates deviating from bureau rates in all but four states where they file bureau rates. This allows insurer

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who want to charge less than bureau rates to do so, they argue. Sixty-three percent of the risk managers on the BI board, however, disagreed with this, too.

"Before going self-insured, we solicited quotes from several insurers, all of whom quoted the exact same deposit premium," reported the insurance and risk manager for the smaller health care institution of 2,500 employees.

"Large buyers negotiate premiums hence filing deviations have little meaning," commented the assistant treasurer of the manufacturing company employing 38,000.

"Most 'competition' has been a result of various rating schemes or plans and not because of rate deviations. If the schemes were eliminated, the competition would be also," warns the risk manager of a manufacturing and distribution company employing 15,000.

The same risk manager, who supports reform of the rating system, also cautions, "This could have a negative effect by eliminating some smaller carriers from the marketplace because they are unable to determine reasonable loss levels."

While 71% of the respondents said they don't want the current system of bureau rates to continue, only 55% said insurers should be forced to file for rates based on their own experience.

"Too complicated," said the director of corporate risk management for a computer/finance concern employing 60,000.

"It would discourage companies from writing marginal or hazardous business," said the small bank's

comings & goings: buyers

Lummus taps risk manager

Arthur H. Seitter has been appointed insurance manager at The Lummus Co. in Bloomfield, N.J., a subsidiary of Combustion Engineering Inc. He will be responsible for supervision of all risk and insurance programs. Mr. Seitter, 51, will report to Assistant Treasurer Harold L. Rutherford.

Before joining Lummus, Mr. Seitter was risk manager for ADT Security for 11 years. Mr. Seitter is a graduate of Pace University where he majored in finance. He replaces **Joseph J. Adelman**, who has retired.

Also at The Lummus Co., **James J. Daly** was named insurance analyst. He will report to Mr. Seitter. Mr. Daly, 27, was formerly a property/casualty underwriter with Aetna Casualty & Surety Co. He received a degree in business administration from Montclair State College.

He is presently enrolled in the graduate program at The College of Insurance in New York. Mr. Daly replaces **Anthony J. Robertello**.

Motorola Inc. has appointed **Joseph J. Wojdula** manager of its corporate insurance department. Mr. Wojdula joined Motorola in 1977 as senior insurance analyst and has served as acting manager of the corporate insurance department since April. Before joining the company, Mr. Wojdula spent four years with Borg-Warner Corp. as insurance administrator. Mr. Wojdula, 35, has a bachelor's degree in economics from Purdue University.

He is a member of the Risk & Insurance Management Society and holds several professional designations. He will report to William J. Meehan, Motorola's vp and treasurer. He replaces **Tom Dalton**, who has left the company.

risk and insurance manager.

"Few companies have enough numbers by work class to make their own experience sufficiently valid," observed the assistant vp of risk management for a retail drug chain that employs 21,000.

The scanty statistics "could increase cost for some insurers to promulgate their own rates," worries the risk manager of an auto club/insurance company employing 6,000.

"Everyone will end up paying higher premiums" is the concern of an insurance and claims administrator for an oil and gas company with 2,000 employees.

Free market philosophy reigns among the 45% of respondents who do support requiring insurers to file for rates based on their own experience.

"It will promote safety engineering in fact instead of name only by many carriers since their experience will be tied to individual company experience," says the

risk/insurance analyst with a government entity employing 5,200.

"Insurance companies with better loss control and safety services will profit. This is how it should be," agreed another risk manager with a government entity, this one much smaller with 440 employees.

"It will weed out the marginal carriers based on cost and service," said the risk manager for a manufacturing company with 4,000 employees.

But more than half the respondents, 56%, said if insurers were required to file their own rates, they should be allowed to refer to and justify rate requests with data supplied by a rating bureau like the National Council on Compensation Insurance, the largest workers compensation ratemaking bureau.

"This would yield a good guideline," said the secretary and vp of a metal fabricator employing 10,000.

"The data base and overall experience information is still needed

and such a council would serve that purpose," agreed the director of risk management for educational and research organization with 11,500 employees.

"Small companies need this assistance just as they now receive from ISO," said the assistant treasurer of the manufacturing company with 38,000 employees.

But 44% of risk managers oppose any use of bureau rates as a reference by individual insurers.

"Rate requests should be based on the insurers' experience," contends the manager of risk and insurance for a commercial printing concern.

"Rates should be based on each insurer's needs and legitimate right to make a profit," agrees the corporate insurance administrator for three different entities.

"Only the companies with better loss ratios will refer to the bureau rates," predicts the risk manager for a freight transport company with 15 employees.

The risk manager of a city with 2,000 employees suggests, "If individual insurers use NCCI data, then NCCI should develop pure rates and let insurers adjust them by their profits and expenses."

The risk manager of a university employing 12,000 suggests that insurers could rely on states, rather than a rating bureau, for enough data to support their ratemaking.

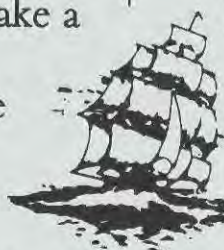
The insurance manager for the pharmaceutical company with more than 10,000 employees who does not approve of uniform bureau rates also commented: "While I strongly support competition in the insurance marketplace, that competition must be responsible and not jeopardize the solvency of the competitors, who are, after all, trustees of their insureds' collective premiums. Wide-open and uncontrolled competition could lead to abuses in such areas as types of investments and reserving practices in order to gain a temporary advantage in the marketplace."

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Regulations easing the way for captives

Continued from page 3

Mr. Sarchio explains, "you can deduct IBNRs (losses incurred but not reported) and premiums paid to captives."

While the federal government is ruminating over captive matters, some states are taking things into their own hands.

For instance, Vermont passed legislation last April freeing captives from rate and form regulation, investment and reinsurance restrictions and minimum pre-

mium requirements, as well as the need to prove that the captive fills a void in the commercial market. In so doing, the state set forth the country's most liberal captive laws.

In response, Colorado and Tennessee plan to revise aspects of their own captive regulations to stay competitive.

"I think Vermont has an aggressive law for attracting captives to the state," comments Robert Ayers, the regional marketing manager for Marketpac, consultants for

trade associations and franchise groups. "Beyond that, it's new, it's untested and there are many questions that need to be answered."

Of chief concern is the application of the state's 1% insurance tax on business from out of state. For example, since Florida charges a 3% tax on all premiums paid to captives, will Vermont give credit if a Florida company starts a captive in the New England state?

George Chaffee, the Vermont commissioner of banking and insurance, replies, "We might say that you are being taxed erroneously in Florida and that you should pay in Vermont. Then it's up to the judge to decide."

The prospect of pending litigation did not win the commissioner many fans.

But, despite the rough edges, Vermont's law already has seen results. "We came up here because our client wanted us to," remarks Peter Volpe, the president of Marsh & McLennan Insurance Management Services, who set up B.F. Goodrich's new captive, which is the first and only in Vermont so far.

M&M is joined by American Risk Management Group, which used the conference to announce its agreement to set up an office with Vermont Insurance Management of Waterbury. Mac V. Snow, ARM's senior vp and director, claims to have two captives, both with operations in Bermuda, "in the works" for Vermont.

And Vermont Insurance Management has another expected to come on line within six months. It will generate a premium volume of \$10 million, with a \$1 million deductible and variable limits, says Lincoln Miller, president of Vermont Insurance.

In light of Vermont's radical legislation, Tennessee has decided to loosen its own code. This move drew a mixed reaction from those attending the domestic captive conference, some of whom questioned the avowed willingness of John Neff, the state's commissioner of insurance, to bend the law.

As it stands, Tennessee captives are forbidden to join risk pools and to cover an individual risk for more than 10% of capital and surplus.

Once they prove that their purpose cannot be met by existing U.S. markets, pure captives must fork out \$400,000 capital and \$350,000 surplus, while associations mandate \$1 million capital and surplus, compared with \$120,000, regardless of species, in Bermuda.

A 3-to-1 premium-to-surplus ratio is required, vs. a 10-to-1 ratio in Bermuda, plus considerable paperwork is involved in the annual filings in Tennessee.

Commissioner Neff told the assembly that the "law is not as restrictive as it may seem to be." He explained that he will take a company's word if it says there's a need for a captive and allow for considerable leeway in what a captive reinsures or cedes to its Bermuda affiliate. In addition, he plans to ease the red tape, already permitting captives to set their own rates.

"Basically, they needed to get something on the books, and now they need to get them off to stay competitive," reasons George Love of the Florida Insurance Commission.

But others were less sanguine. "When an insurance commissioner of any state gets up in front of an audience of professional insurance people and says that that portion of the law will be so liberally inter-

preted, the question of consumer protection could be raised," asserts an irate executive, who asked not to be identified. "Who protects the litigants who have a claim against the captive that goes belly-up?" he asked.

Joseph Rossi, an assistant vp for Alexander & Alexander's Atlanta office, was reassuring. "The last things these states want is a captive going bust," he contends, noting that the parent company's solvency is scrutinized well before it is permitted to own a captive.

Without disclosing any specifics, Colorado Insurance Commissioner Richard Barnes allows that "we're open to modifications" on the state's captive sanctions—essentially similar to and a model for Tennessee's.

His key purpose, at this time, is to win Internal Revenue Service recognition of Colorado captives as "normal" insurance companies: "an arm's length, separate corporate entity." Mr. Barnes expects a ruling within 90 days on the petition that would guarantee the deductibility of premiums, reserves and claim payments.

Adds the white-haired commissioner, "I am not going to try to create the Barnes law. We've made strong commitments to the IRS, and I have to keep my word."

For the time being, then, many insurance commissioners and captive owners will have one eye on the government and the other on Vermont, where Commissioner Chaffee anticipates 100 captives within the next five years.

"It's at the curiosity stage now," comments Mr. Volpe on the prospects for Vermont. "When the market turns we'll do well, but until then..." he shrugs his shoulders.



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More captives root in native soil

Continued from page 3

"charm," as well as tax advantages and a favorable regulatory climate, he still says, "The best action for reinsurance is in the United States."

Since the bulk of the reinsurance market, 45%, is located here, there's

less risk, as Mr. Hewitt sees it. He alternatively dismisses other rival markets, calling Japan, with 14% of the reinsurance business, "without potential for growth"; West Germany, with 10%, "good for growth, but still smaller than the U.S."; France, 5%, "nationalized"; Great Britain, 5%, "forever on the verge of bankruptcy"; and Canada, 3%, "great territory, but no desire for growth."

Then there are the sister captives, which by their very nature require one sibling to stay home. Their appeal stems from the potential tax savings, further enhanced by Vermont's new law. If your Bermudian captive licenses an affiliate in Vermont, you avoid the 4% federal excise tax on premiums by writing directly in that state. Then cede the business to Bermuda and pay only the 1% excise tax the government imposes on reinsurance, suggests Michael Cantoli, vp of M&M Risk Management Services.

As Lincoln Miller, the president of Vermont Insurance Management, puts it, "This is a way of fine-tuning your handling of domestic and international risks."

Also, since there is no pressing need to repatriate reserves held on overseas risks, investment income may accumulate tax free. In this scenario, only reserves for domestic risks would be maintained by the Vermont captive.

On the other hand, some captives are finding there's simply not much reason to stay in Bermuda. In one case, the Hospital Underwriting Group went to Bermuda, expecting to garner enough subscribers to become a non-controlled company.

Consolidation in the hospital management business and the pro-

pensity of the different management companies to set up their own captives eventually dispelled HUG's ambitions.

And in 1980, when it wrote premiums of roughly \$11 million, the captive relocated in the United States. "Most of their risks were domestic and they realized they weren't going to grow enough to become non-controlled, so they moved back," says Mr. Cantoli, who notes that HUG thus saved on federal excise taxes.

For a captive with up to 10 owners underwriting U.S. risks, the tax advantage of locating offshore is nil, according to a recent report by M&M Risk Management Services.

As Spencer Traver, the president of B.F. Goodrich's new Vermont-based captive, recently told BI, the tax advantages of offshore captives are limited to those underwriting foreign risks, eligible to become decontrolled foreign corporations or providing a means to offset excess foreign tax credits (BI, Sept. 14).

Further, small and medium-sized firms may find a domestic captive more appropriate to their needs. "These people don't want to even think about going offshore—it seems exotic and extravagant. But Vermont they can handle," says Michael Sce, the senior financial analyst for Continental Risk Services.

Particularly suited to smaller firms, Vermont's new industrial insured model gives pooling privileges to companies that can generate at least \$25,000 in premiums, not all of which need be placed in the captive, and that employ a minimum of 25 people.

It's too bad. Bermuda shorts and knee socks were starting to look respectable.

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Do captives stir the rate competition?

WARREN, Vt.—Captives and insurance companies share a wish: They want the industry's cycle to turn and prices to harden.

But, if their wish comes true, the two may find themselves seriously at cross-purposes. For the buyer, herein lies an opportunity to divide and conquer.

The fault lies in the captives' reason for being. As an alternative to the traditional market, they were designed to provide additional capacity at lower prices.

In today's soft market, captive business is slow because many companies can get reasonable coverage from a conventional insurer.

But, should the market begin to gel, those same companies can be expected to head straight for the nearest, beckoning captive. The upshot: a lag in price adjustments and industry recovery.

Frederic Church, the vice chairman and director of Frank B. Hall, agrees. "I think the market is going to stay soft for a long, long time. When you look at all this capacity... if Travelers doesn't want your business, you can always take it to a captive or any number of other places and even write it cheaper," he says.

George Love of the Florida Insurance Commission, who sports a tie that reads IBNR in six languages, disputes this idea, pointing to the captives' size and vulnerability.

"I don't see captives growing to the point where they are much threat to the industry," he says of their current \$6 billion premium volume. Moreover, he contends, "when the next crunch comes, we're going to lose some captives in Bermuda, where they are least capitalized."

While \$6 billion may not seem like much in the context of an estimated \$200 billion world premium volume, it is more than 10% of the \$45 billion U.S. commercial business, as Felix Kloman, president of the Risk Planning Group, points out.

At least one buyer has primed its captive for the expected market downturn. General Mills has deliberately "under-utilized" its captive's \$11 million capital and surplus, writing only \$4 million in premiums, according to Mr. Kloman. "Their strategy is to use the soft market now and, when rates harden, fold the risks back into Gold Medal," he explains.

Alan Pearce, the assistant treasurer of Foremost-McKesson in San Francisco, also took one look at current prices in the commercial market and shifted his business out of the company captive, thereby cutting his \$1 million annual premiums for property coverage in half. "If the market turns, he has a ready-made alternative," notes Mr. Kloman.

"Captives strike terror in the hearts of insurance companies," comments Graves Hewitt, chairman and chief executive officer of underwriting manager Cameron & Colby Co., referring to the former's ability to siphon premium volume.

In view of this threat, some insurers have taken steps to cover themselves. Their edict: "If you can't beat them, join them."

Fronting, reinsuring, innovating cash-flow plans and unbundling services, like engineering and claims adjustment, are among the ways the industry now caters to captives.

"Insurance companies have no alternative but to work with captives," says one knowledgeable company insider. "If they want to grow and be profitable, they have to get into this business."

Hedge bets on captive's cash flow

WARREN, Vt.—Cash flow is a major drawing card for many captive owners, enticed by the potential for premium investment. But where does the cash flow actually go?

Who manages investments for corporate and association captives? And do those investments make sense from both a fiscal and an insurance standpoint?

When it comes to investments, a captive's options are many. The reserves could go to help an operating subsidiary in need of debt financing, they could be used as a hedge against the short positions of the company's operating subsidiaries, they could just stay in Bermuda or, in some instances, they might line the corporate coffers.

In Colorado, for example, the investment standards for insurance companies allow captives to rein-

vest in their parents by buying a limited amount of common or preferred stock, by providing a mortgage for an affiliate's property or through the purchase of commercial bonds.

But most captives take a similar and, to some critics, imprudent approach to reserve management. They put it in dollar-denominated instruments.

This does nothing to ward off currency exposures, reportedly 15% of the risk captives assume. Nor does it afford balance.

"You roll with the foreign exchange losses," asserts Peter Volpe, the president of Marsh & McLennan Insurance Management Services, echoing the sentiments of many of his colleagues. "When you buy a captive, you've decided to take risks. And if you take steps to avoid currency risks, it's contradic-

tory. Not only that, it costs money."

Hedging can involve extra commissions to currency dealers and loss of the use of funds for other high-interest paying investments, but Felix Kloman, president of the Risk Planning Group, thinks it might be worth the price: "When you deal with multinational accounts you have to hedge in the currency where you have the risk."

To better handle investments, some believe the corporate treasurer rather than the risk manager should oversee investments.

"The corporate financial people are most concerned with protecting corporate assets," explains Stuart Schwartz, Johnson & Higgins vp.

Sometimes, as in the case of American Risk Management, which directs 100 Bermuda-based captives, the captive's outside management will handle the invest-

ment of moderate-sized reserves, what Mac V. Snow, ARM's senior vp and director, calls an "intermediate account." Once the funds swell to a preset sum, they are turned over to the corporation's cash-flow system.

Association captives appoint an investment committee and an outside investment adviser, according to Mr. Snow.

"The well-managed captive is financially as sound or sounder than the typical insurance company and it doesn't have all that overhead," he contends.

Mr. Kloman finds that captives have been spared the harrowing losses that have eroded the investment income of some of the leading stock companies. "Captives are not deteriorating as fast as the total market, which isn't to say anything about loss ratios," he says.

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Vermont echoes offshore captive rules

By KATHRYN J. MCINTYRE

MONTPELIER, Vt.—Draft regulations governing the financial and reporting requirements of Vermont-based captive insurers sound more like offshore regulation than U.S. insurance regulation.

The draft regulations, in final form for the Vermont Legislature's Administrative Rules Committee to approve this month, slim down financial reporting requirements compared with other domestic cap-

tive domiciles and give certified public accountants the responsibility for alerting the Insurance Department to financial problems and require actuaries to certify loss reserves.

Although raising the eyebrows of insurance regulators in some other states, the liberal regulations of Vermont, compared with those of Tennessee and Colorado, will be welcome news to risk managers who prefer less regulation of their captive operations.

George A. Chaffee, Vermont commissioner of banking and insurance, said the draft regulations reflect his desire to make the captive and its parent their own best regulators.

Instead of submitting the captive's annual financial report on the blank used by commercial insurers as required in other domestic captive domiciles, Vermont captives will be required to submit a less complicated report of their financial condition.

The financial statement must contain:

- The balance sheet.
- Statement of gain or loss from operations.
- Statement of change in financial position.
- Statement of change in capital paid up, gross paid in and contributed surplus and unassigned funds.
- Certain notes including a reconciliation of differences between the audited financial report and the statement filed with the commissioner, a summary of ownership and relationship of the company and all affiliated corporations or

companies insured by the captive and a narrative explanation of all material transactions and balances.

All companies under the act also will have to submit an annual audit by an independent certified public accountant authorized by the commissioner.

The annual audit due by June 30 for the prior year must conform with generally accepted auditing standards and evaluate the internal controls of the company regarding methods and procedures for securing assets and the reliability of the financial records. The CPA also must promise that it will notify in writing an officer and all members of the board of the captive if it finds the company has materially misstated its financial condition in its report to the commissioner. The captive has five days to notify the commissioner.

If the commissioner thinks the financial condition of a captive warrants additional security, he can require a company to deposit with the treasurer of Vermont cash or approved securities or a letter of credit issued by a bank chartered in Vermont or a member bank of the

Federal Reserve system approved by the commissioner.

The annual audit also must include an opinion on the adequacy of the company's loss reserves and loss expense reserves, either by an actuary or someone approved as competent to do so by the commissioner.

Vermont's liberal law allowing captives to accept reinsurance from any source is restricted under the draft regulations only to the extent that no credit for reserves on risks ceded to a reinsurer will be allowed where there is not complete transfer of risk to the reinsurer or when the reinsurance agreement lacks a clause requiring the reinsurer to cover its obligation even if the captive becomes insolvent. This clause is becoming standard in the reinsurance business, Mr. Chaffee said.

The regulations also grant the commissioner additional rights to rescind a captive license. These include rescinding the license of a captive that doesn't start business within two years of being licensed or stops doing business in or from Vermont or rescinding at the request of the company.

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THE SPECIALISTS

Risk Sciences Group joins Atlanta claims administrator

MILL VALLEY, Calif.—Joseph Destein, the whiz of risk management quantitative analysis, is selling his second brain child.

The founder and former president of Anistics, which he sold to Alexander & Alexander, is now selling his Mill Valley, Calif.-based Risk Sciences Group to Crawford and Co. of Atlanta, Ga.

The sale, for undisclosed terms, will provide Crawford, known best for its claims administration, with new analytical forecasting and financial planning services for risk management.

Risk Sciences Group, which will operate as an autonomous subsidiary, gets the financial resources of Crawford.

Crawford admits Risk Sciences Group will not add significantly to

markets

its consolidated earnings during the next two to three years but expects Risk Sciences Group revenue to substantially exceed that of existing service lines in the latter half of the 1980s.

Crawford provides claims adjustment and claims supervision services, statistical reporting of loss data, loss payment systems, vocational rehabilitation and loss control consultation.

With Risk Sciences Group, it will provide new analysis of basic loss information to aid in risk management decision making.

Products pooled

The Los Angeles-based Fremont Indemnity Co. and the Physicians and Surgeons Underwriters Corp. have pooled their product lines and service capabilities to offer physicians and surgeons comprehensive insurance coverage.

The new program includes a workers compensation safety group to provide doctors and their staffs with a variety of services normally available only to large accounts.

A property/casualty package called Medi-Pak offers coverage such as loss of income on actual loss sustained basis, extra expense, accounts receivable and breakage of scientific instrument lenses.

New account

Schwartz Brothers Insurance Agency Inc. of Chicago has been retained by Arthur Rubloff & Co. to provide corporate insurance coverages for its national real estate interests.

The firm is completing a year-long review of existing Rubloff insurance protection.

All coverages will be computerized and interfaced with Rubloff's data processing equipment to make available immediate and accurate information to all its offices throughout the country.

Joins syndicate

The Travelers Syndicate 1 has been approved for underwriting

membership on the New York Insurance Exchange, becoming the 25th syndicate member.

New broker members on the exchange are Avreco Inc. and Pearson, Webb, Springbett (USA) Inc. E&S Intermediaries in a new associate broker.

The exchange's estimated annual premiums written for underwriting year 1981 through Aug. 31 totaled \$82.6 million. This compares with \$25.8 million for the nine months that the exchange was open for business during 1980.

Arab insurers

The new Bahrain-based Arab Insurance Group, which began operation July 1, will officially open Oct. 17.

ARIG is a Bahraini shareholding company with an authorized capital of \$3 billion.

ARIG initially will write only reinsurance. However, feasibility studies are under way to determine if it can enter the worldwide direct insurance market in all classes of business in 1982.

Eighty percent of ARIG's business so far has come from areas outside the Middle East.

New E/S insurer

Executive Excess of Pennsylvania Ltd. has been formed in King of Prussia, Pa., to offer excess/surplus insurance coverage. Formerly World Fire and Casualty Associates Ltd., the new firm was formed by Executive Excess Ltd. of Princeton, N.J.

Acquisition

The Excess & Special Risk Market Inc., a surplus lines operation, has been acquired by, as well as changing its name to, Geo. F. Brown & Sons Inc., a subsidiary of the Interstate National Corp. The latter was recently acquired by the Fireman's Fund Insurance Companies.

New office

North American Reinsurance Corp. has moved its headquarters to the Park Avenue Atrium at 100 E. 46th St., New York, NY, 212-907-8000.



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Supreme Court to hear N.J. product suit

Continued from page 2

cause non-Jersey firms can be hit with product liability lawsuits involving very old products if there is no law requiring plaintiffs to file suit within a certain time after an injury. Such lawsuits can be extremely difficult to defend because it is extremely hard to collect evidence (BI, April 27).

The possibility of suits involving very old injuries also makes it difficult for firms to calculate liabilities.

The Searle case involves a suit filed by a New Jersey woman, Susan Cohn, who charged that she was left partially paralyzed in 1963 several months after she took birth control pills manufactured by Searle of Skokie, Ill.

Mrs. Cohn, however, did not file suit against Searle until 1974—11 years after she took the pills. Mrs. Cohn's husband said his wife delayed filing suit because she was too depressed to take action.

Searle fought the Cohn suit, but a federal appeals court ruled that the tolling statute, which gradually is being removed in other states, did not violate the company's right.

However, Searle, in a court brief, said the tolling statute violates the equal protection clause of the Constitution, which bars arbitrary discrimination between persons and companies in similar situations.

While companies based or registered in New Jersey are protected from old product liability suits by the two-year statute of limitations, the tolling statute bars similar protection for out-of-state companies, Searle said.

As a result, "Searle is forever barred from asserting the defense of the statute of limitations," the brief said.

In the ERISA pre-emption case that the Supreme Court let stand last week, Standard Oil Co. of California challenged Hawaii's prepaid benefit law that requires employers to cover the cost of alcohol and drug abuse treatment in their

health insurance plans.

Standard Oil and other multistate employers are concerned that if states are allowed to impose varying benefit requirements, it will become very costly for them to administer benefit programs.

Lower courts ruled that since Standard Oil's insurance plan was an employee benefit plan covered under ERISA, the state did not have the power to require the plan to meet standards not required by ERISA. The federal pension reform law pre-empted state benefit requirements, an appellate court ruled earlier.

Hawaii appealed, but the Supreme Court refused to hear it.

The issue of whether ERISA pre-empted state benefit requirements, however, is expected to be dis-

cussed during the current session of Congress, said Jeff Hart, executive director of the Assn. of Private Pension and Welfare Plans.

In the asbestos case, Insurance Co. of North America and Liberty Mutual Insurance Co. have asked the Supreme Court to overturn a U.S. Court of Appeals decision in a case involving insurance coverage of 48 Insulations of Aurora, Ill., that says insurance policies in force when workers are exposed to asbestos are the only sources of funds to pay current claims (BI, Nov. 3, 1980).

INA and Liberty Mutual prefer the manifestation theory that says coverage applies when the disease is first detected. The captive tax case involves Carnation Co.'s purchase of a three-year blanket property insurance policy from Ameri-

can Home Assurance Co. Sept. 22, 1971, providing coverage for up to \$500,000 per occurrence with a \$10,000 per loss deductible.

American Home reinsured 90% of liability with Three Flowers Assurance Co. Ltd., Carnation's Bermuda subsidiary. Three Flowers paid American Home a 5% commission on net premiums ceded and reimbursed American Home for premium taxes.

As a condition of reinsuring Carnation's business with its captive, American Home required Carnation to promise to capitalize Three Flowers up to \$3 million, if needed, to cover losses over the \$120,000 initial capitalization.

U.S. Tax Court Judge William Goffe, in upholding an earlier Internal Revenue Service ruling, said

there was no risk-shifting and, therefore, no insurance transaction on the portion of risk ceded by American Home to Three Flowers.

The capitalization promise between Carnation and American Home counteracted the reinsurance agreement, neutralizing any risk-shifting, the 9th Circuit Court of Appeals in San Francisco agreed in upholding the lower court decision (BI, March 16).

Where there is no risk-shifting, and, thus, no insurance, the premiums paid are not tax deductible as a business expense, but instead are a non-taxable deductible contribution of capital to the subsidiary, the appeals court said.

Carnation of Los Angeles disagrees and wants the Supreme Court to review the appellate court decision.



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those areas you want to focus on. The ebc awards dinner gives you a look at the best in benefits communications. General sessions key on such vital issues as tailoring messages to a varied workforce and getting employees to use the benefits your company has fashioned for them.

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The BI Conference Program

Sunday, November 15. For early registrants—cocktails, conversation with speakers and attendees and a special film showing. Registration begins at 4 pm.

Monday, November 16

Registration 8:30 am until 10:00 am. Coffee served, and a chance to browse through selected ebc competition entries.

Opening remarks at 10:00 am. Alfred Malecki, Business Insurance Publisher; Kathryn McIntyre, Editor.

Morning general sessions:

Choosing the Right Words... to reach your whole audience.

Anna Rappaport, F.S.A., and James D. Hawthorne, Vice President from William M. Mercer Inc., Chicago, emphasize do's and don'ts as they examine strategies for a changing workforce. No longer can the benefits professional assume messages aimed at the working male with wife and children at home are adequate. Single parents, two-career households, career singles are a growing part of every company's workforce... and all must feel the benefits fit their needs.

Convincing Employees to Listen... and Act.

Using such benefits as employee fitness programs and second surgical opinion programs as examples, Citibank's Alan Turetz, Assistant Vice President, will tackle a key benefits communications problem... How to make sure employees understand and use benefits provided for them.

Luncheon. An opportunity to exchange ideas with speakers and fellow registrants.

Afternoon sessions: Four concurrent sessions keying on vital issues and problems. Sessions will be repeated after coffee break so that you may attend two.

• **On your own.**

Elayne Lewis, Benefits Analyst, Eaton Corp.
Jane Shannon, Assistant Vice President, Citibank.
How to develop, implement and maintain a solid communications program—all in-house. All the tips you need from writing explanations to laying out booklets, to finding printers and other suppliers.

• **Are you being heard?**

Julio Esteban, Jr., Manager Creative Services, Benefacts Inc., Subsidiary of Alexander & Alexander Services.
James Hawthorne, Wm. M. Mercer Inc.
How to measure employee response to your messages.
You've got your communications program in place, and

you need to know if it's working. This session tells you how to find out.

• **Personalized benefits statements.**

Lloyd Mills, Partner, Kwasha Lipton.
Robert Youngberg, Benefit Statement Consultant,
Buck Consultants.

How to develop, organize, design and distribute the personalized benefits statements. In this session, you will analyze different types of personalized statements.

• **Special Situations.**

Patricia Nazemetz, Benefit Operations Manager,
Xerox Corp.

How to deal with those difficult and challenging situations that arise—communicating benefits cutbacks, examining benefits reorganizations... and other difficult projects. A case history solution will be examined.

Coffee Break.

Concurrent sessions repeated.

Cocktail reception.

Awards dinner. Featuring Business Insurance ebc award winners.

Tuesday, November 17

Sessions run 9 am to noon.

Using audio visuals.

Joan Beugen, President, The Creative Establishment.
How to use video in your benefits communication program. Where to find cost-effective suppliers; how to tap in-house resources; sample budgets.

You be the Judge.

Marketing consultant Herb Zeltner is back with this popular session critiquing benefits communications programs. You join Mr. Zeltner in judging what works and what doesn't. (Session runs through noon with coffee break and snacks.)

Conference adjourns at noon.

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Vote coming on longshore act reform

Continued from page 2

creases. The administration favors limiting benefit increase to 6% a year; Mr. Nickles has called for a 3% cap on annual benefit increases.

• **Boosting funeral benefits to survivors.** Sen. Nickles has proposed retaining the existing \$1,000 allowance for funeral expenses; the administration says the allowance, which has not been increased since 1972, should be raised to \$3,500.

• **Jurisdiction of the longshore act.** Sen. Nickles has proposed that coverage under the act be limited to the "point of rest," the spot where the cargo is unloaded from the ship and put on the ground. The administration favors a further cutback. It wants to see longshore coverage limited to the water's edge.

This issue is important because recent court decisions have vastly expanded the scope of the act to cover more classes of employees, such as workers who "strip" cargoes in warehouses.

In many cases, no one is sure where jurisdiction lies until after a claim has been filed.

Resolving this issue is vital for risk managers and insurers because benefits payable under the federal act are more than double the benefits payable under many state workers compensation programs.

Without a solid definition of the scope of the law, underwriters face enormous difficulties setting proper reserves for claims, experts say.

Both the administration and Sen. Nickles, however, do agree that death benefits should be eliminated to survivors of injured employees who die from causes unrelated to an on-the-job injury.

The administration also supports a provision in Mr. Nickles' bill that would overturn a 1979 Supreme Court decision that widows are entitled to up to two-thirds of the deceased workers' weekly wages without an upper limit (BI, March 5, 1979).

Under the Nickles' legislation and a similar bill, H.R. 25, introduced in the House by Rep. John Erlenborn, R-Ill., survivors' benefits would be limited to 200% of the national average weekly wage, subject to a maximum of \$496.

Since some maritime workers can make as much as \$800 a week, the savings from a limit on death benefits would be substantial.

Obstacle removed for IUD lawsuits

Continued from page 2

with the IUD, says that one woman was fitted for a Dalkon Shield as late as 1979, and it is estimated that 5,000 to 10,000 British women are still wearing the Dalkon Shield, according to Christine Murdoch, another organizer of the association.

The Dalkon Shield Assn. and the Women's Health Network, a Washington, D.C.-based group, have filed a class action suit against Robins, saying that the IUD is still being used worldwide even though it was taken off the market in 1974. Not only do the women want Robins to "recall" all the devices but they want Robins to pay for the removal costs.

Several members of Parliament have asked the Ministry of Health here to issue a statement about Dalkon Shields and tell women of the danger. But the government feels action taken so far is sufficient.

The statute of limitations for suing Robins over the shield is two years from the time a woman discovers damage has been done by a Dalkon Shield.

Employers back sharing of health costs

WALNUT CREEK, Calif.—Sharing the cost of premium increases may alter an employee's medical buying behavior, but it's not clear how, the biggest companies in the U.S. admit.

By a 2-1 margin, the 507 employers that participated in a U.S. survey on health care cost believe that employees that share in the cost will alter their medical buying and help to reduce overall costs through the workers' judicious buying behavior.

But, some 18% (more than double the number from a prior survey in 1979) believe sharing the premium with employees will result in more cost to the employer because the worker will feel more entitled to his or her benefits.

The Health Research Institute of California sent the survey to the 1,500 largest employers in the United States, and one-third responded (*BI*, Oct. 5).

Attitudes toward cost-sharing have changed since an earlier survey in 1979, when only 44% of the respondents agreed that employees who share in cost increases will alter their medical care buying behavior.

Smoking bans save money, article says

WILLOW GROVE, Pa.—A ban on smoking in the workplace could save employers an average of \$4,789 per smoker annually, according to a business professor.

The \$4,789 figure is the average amount that employers lose annually for each smoking employee on the payroll who is allowed to smoke on the job, writes William Weis, an associate professor of business at Seattle University, in the September issue of *Management World* magazine.

Employers lose an average of \$1,820 per smoker annually for lost time on the job, Dr. Weis says. Other losses are lost earnings from early mortality, \$765; involuntary smoking, \$664; property damage, \$500; maintenance, \$500; medical care, \$230; absenteeism, \$220; and insurance (excluding health) \$90.

Dr. Weis conducted the research with Dr. C. Patrick Fleenor of the university. They are preparing a book based on the findings of their study.

Management World is the monthly publication of the Administrative Management Society.

For a copy of the article, send a self-addressed, stamped envelope to "Smoking Bans," American Management Society, 2360 Maryland Road, Willow Grove, Pa. 19090.

Product liability cases increasing

Continued from page 3
pared with 218 in fiscal 1980, a 6.8% increase. In New York, the number of cases jumped to 549 from 386, a 42.2% increase. In Pennsylvania, cases filed in 1981 rose to 626 from 449, a 40% increase.

Texas, with 745 cases, had the most product liability cases filed in federal court, a distinction it has held for two consecutive years.

Pennsylvania was second with 626 cases in fiscal 1981, followed by New York with 549 cases and Michigan with 406 cases.

Wyoming repeated its 1979 and 1980 performance by reporting the fewest product liability cases: 14. This was an increase of just one case over 1980.

In the 1981 survey, 53.1% of the employers agreed with the behavior change notion.

The opinion that employees who do alter their buying practice will help the employer reduce costs was slightly more widely held in 1981 than in 1979, when the first survey was taken (54.9% versus 49.6%).

In 1979, a considerable proportion (20%) expressed no opinion on whether cost sharing would be more effective at the point of service (through larger deductibles and coinsurance) than through premium deductions.

In 1981, the no-opinion segment dropped by nearly half and most of the no-opinion segment appears to have shifted to agreement that cost-sharing is more effective at the point of service.

In 1979, 59% agreed with the

point of service cost-sharing approach, compared with 67% in 1981.

Almost three-fourths of the employers disagreed that employees who frequently use benefits should pay a greater share of premium increases, according to Health Research Institute data.

Similar to the 1979 survey findings, the majority of the respondents continue to hold that employees would resist a reduction in health care benefits and/or levels of coverage in exchange for increases in direct pay or other trade-offs or benefits.

But, a sizable share of opinion has shifted, with only 52.2% of the 1981 employers agreeing their workers would resist a reduction in benefits, compared with 1979, when 63% said employees would be willing to lose benefits for an in-

crease in direct pay.

Respondents believed even more strongly in 1981 that even if costs could be ignored, paying all health care costs at 100% to promote early care would not be the best way to achieve the highest employee health status. In 1979, 21% agreed, compared with only 8.6% in 1981.

Nearly 84% of the employers agreed that the best way to achieve the highest state of employee health quality would be to take overt actions to shift the focus of health care from acute to preventive care and lifestyle change.

Employers were even more adamant in 1981 than in 1979 over their distaste for National Health Insurance and other government involvement.

Some 83% of those surveyed in 1981 said passage of national health

insurance would not be beneficial to their employees or their company, compared with 1979 when 74% opposed the passage.

Responding employers voiced strong disagreement that companies should have the ultimate responsibility for their employees' health, with only 5.2% believing the company should have the ultimate responsibility.

Almost 88% of the employers believe employees should be responsible for their own health (compared with 82% in 1979) and the number of employers expressing no opinion dropped significantly from 10.3% to 4%.

Respondents who believe the government should have the ultimate responsibility for employee health dropped from 5.6% in 1979 to a low of 3.3% in 1981.

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Federal products liability bill

Continued from page 1

By contrast, Sen. Kasten's proposal has been painstakingly put together during the last several months by Senate Commerce Committee staff members.

The proposal, which was still getting last-minute touches late last week, would reduce manufacturers' uncertainties in product liability cases by setting federal rules in these areas of the tort law:

- The length of time a manufacturer is held liable for the safety of

its products. Manufacturers say it should be more difficult for a plaintiff to sue in cases involving very old products.

- What the manufacturer's responsibility is when a product is improperly designed or when the seller fails to warn of a possible hazard.

- Assessment of a manufacturer's responsibility when a product has been altered or modified.

Sen. Kasten's proposal also will lay out new ground rules on when

an injured consumer can recover punitive damages. It also will sharply limit the product liability suits consumers can file against wholesalers and distributors under a so-called seller's exclusion provision.

The measure, though, is not expected to limit the amount of damages a consumer could recover in a product liability case.

Finally, the measure will explain what a manufacturer's responsibility is to warn consumers of possible risks associated with use of its product.

If enacted, Sen. Kasten's proposal would reduce uncertainties in the tort litigation system—a factor insurers cite to justify high product liability insurance rates—by setting the first federal tort standards.

But, despite widespread business support that is expected for the Kasten proposal, enactment of any federal tort reform legislation faces an uphill battle.

While Sen. Kasten, as chairman of the Senate Consumer subcommittee, is in a vital position to advance tort reform legislation, he will need the support of other senators to get such legislation passed.

So far, though, Mr. Kasten's fellow senators on the full Senate Commerce Committee haven't placed the same importance on a federal product liability bill as has the freshman Republican.

Some Reagan administration officials, however, are sympathetic to federal tort reform legislation. For example, following the passage of the Risk Retention Act, Commerce Secretary Malcolm Baldrige said, "We can now concentrate on working with the Congress on tort reform."

This support could give Sen. Kasten's bill its first push.

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Commercial Consumers Sub-total 22,034

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Insurance Cos. 4,486

Financial Institutions 292

Actuaries, Attorneys, Adjusters, Appraisers & Consultants 2,135

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*Source: Business/Occupational breakdown of qualified circulation, May 4, 1981 issue, as submitted to BPA for June 1981, BPA Publisher's Statement.

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Insurers criticize asbestos ruling

Continued from page 1
latest federal appellate court ruling does.

"It's a totally new ball game as a result of this decision," says Victor B. Levit, a San Francisco attorney who has represented The Travelers Insurance Cos. in several asbestos-related cases. "It breaks entirely new ground.

"What's going to happen in these cases is not limited to asbestos," said Mr. Levit. "It is a very significant decision for products liability that extends far beyond asbestos."

"This decision totally abrogates contract law in favor of deep pockets that don't exist," said William E. Bailey, senior vp and claims counsel for Commercial Union Insurance Co.

"It's the most far-out, far-reaching decision we've seen."

Citing differing appeals court decisions and the fear that the Keene decision will cost the insurance industry dearly—perhaps to the point of restricting insurers' willingness to underwrite product liability insurance—the insurance company defendants are considering an appeal to the Supreme Court to resolve the issue.

Defendants in the Keene case were INA Corp., Aetna Casualty & Surety Co., Hartford Accident & Indemnity Co. and Liberty Mutual Insurance Co.

In the meantime, this sweeping decision will immediately benefit Keene Corp. to the tune of \$19.5 million previously reserved for asbestos claims that now will be returned to earnings. And if the decision stands, it could add several hundred million dollars to available insurance to cover asbestos claims, depending upon the number of future claims, a spokesman said.

Currently, more than 8,000 asbestos claims have been filed against Keene. They are being settled at an average cost of \$2,700 per settlement.

Basing its decision on the "reasonable expectations" of Keene when it purchased the policies, the court said that exposure to the asbestos, manifestation of the asbestos-related disease and the latency period between the two (exposure in residence) all triggered coverage.

"In sum, the allocation of rights and obligations established by the insurance policies would be undermined if either the exposure to asbestos or the manifestation of asbestos-related disease were the sole trigger of coverage," the court said.

"We conclude, therefore, that inhalation exposure, exposure in residence and manifestation all trigger coverage under the policies. We interpret 'bodily injury' to mean any part of the single injurious process that asbestos-related diseases entail."

Noting that liability by more than one insurer would in many cases apply under this theory, the court left it up to the manufacturer to select which of all the insurers would be liable for losses and defense.

The only restriction in selecting the liable insurers is that the policyholder is not to recover more from insurers than it owes in damages and that the provisions in the insurance policies governing allocation of liability, when there is more than one policy, apply.

"The only logical resolution of this issue is for Keene to be able to collect from any insurer whose coverage is triggered the full amount of indemnity that it is due," the court said.

This doesn't necessarily mean that one insurer will have full liability for an injury, the court said. When more than one policy ap-

plies to a loss, the 'other insurance' provisions of each policy provide a scheme by which the insurers' liability is to be apportioned."

Such "other provisions" may take the form of equal contributions by the various insurers involved when there is overlapping insurance, the court said.

Finally, the court held that because each insurer is liable to Keene for indemnification, each is also fully liable for defense costs, but that the manufacturer can select which insurer will handle the defense.

Spokesmen for the defendants and other insurers criticized the decision as confused, ignoring basic insurance contract principles and creating a number of practical problems for insurers.

Mr. Bailey of Commercial Union complains the court ignored traditional contract criteria, like dates in a policy or legitimate expectations of the parties.

The reasoning used could open the courts to millions of plaintiffs making it more and more difficult for insurers to write product liability insurance, he said.

Without a degree of certainty as to what an insurers' risk will be, decisions such as Keene could "further and further drive product manufacturers to self-insurance or no insurance of any kind," Mr. Bailey said.

"It essentially provides even broader coverage for insureds and manufacturers than under existing policies," adds attorney Mr. Levit. "It provides far broader coverage than most liberal interpretations to date.

"It is a highly significant decision and a very material departure from any of the decisions that have come down."

"I don't think anyone, insurer or insured, anticipated this sweeping decision," says Chris Mansfield, an attorney for Liberty Mutual Insurance Co. "It adds uncertainty and confusion to the underwriting area. A major concern is the acknowledged implementation problems of a decision like this. They are immense."

Claims operations and day-to-day decisions could be inhibited, he said. Uncertainty as to what the outside limits of a company's obligations would be, how a manufacturer would select an insurer that is liable and how companies would set standards and terms for selling policies all remain unresolved.

"The judicial decision was based on the reasonable expectations of the insured but does not look to policy language, past judicial precedent, the peculiarities of the disease process or anything but that which could be in the minds of the insurance purchaser," Mr. Mansfield said.

A spokesman for Keene, however, called the opinion a correct interpretation of insurance policies, that conforms with prior tort decisions in related areas.

"We think it is a correct interpretation of comprehensive general liability policies sold over the years to our clients and subsidiaries," said Jerry Oshinsky, attorney for Keene Corp.

"There was certainly ample precedent for the court's decision. It seems to me the decision was well-reasoned, was accurately presented and should have influence elsewhere."

Mr. Oshinsky said that by holding that the "injurious process" triggers coverage, by not allowing an insurer to apportion its liability with policyholders and by committing the policyholder to pick the insurer, the court accurately construed prior tort law.

Charles A. Foster, Keene direc-

tor of risk management, says the decision "is in line with what we've viewed insurance to be all these years.

"The courts said (to insurance companies) 'Don't try to find loopholes in contracts just because big dollars are involved.'"

Complicating analysis of the ultimate effect of the Keene decision is that it runs counter to the two other federal appellate court decisions that have adopted the exposure theory of liability: INA vs. 48 Insulations and Porter vs. American Optical Corp.

Several spokesmen associated with the Keene case said that it will be difficult to ascertain what the implications of the case will be until the discrepancies with other cases are resolved.

They see the Keene decision as one more reason why a definitive decision on liability by the U.S. Supreme Court is necessary, even though there is no guarantee it will decide the matter.

INA and Liberty Mutual have asked the Supreme Court to review the INA vs. 48 Insulations decision this session, but the court has not decided yet if it will rule (story on page 2).

"It is not clear to us which of the various theories in the long run will have us wind up paying more claims on behalf of clients," James G. Bridgeman, director of investor relations for Aetna, said.

"We are more interested in getting a clear resolution than anything else. The decision enhances the likelihood down the road that we will have a Supreme Court review of the issue."

Virtually all defendants in the case have decided upon or are contemplating seeking further judicial review.

John Mahoney Jr., an attorney for Aetna, said that Keene is the "type of case the U.S. Supreme Court should take" and that the company is considering a petition for rehearing by the full court of appeals and a petition before the Supreme Court.

Mr. Mansfield and Mr. Bridgeman said their companies are also considering seeking further judicial review, although it was uncertain which form it would take.

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Producer inquiries invited. Contact Bill Tap.

Tax breaks for self-insured reserves proposed

Continued from page 1

erves and funding are included in the bill. In addition, a captive insurer would have to be licensed or approved in one state to be protected by the bill.

The committee had hoped the bill would have been introduced by now to boost its fund-raising efforts. It has raised \$76,000 and spent about \$100,000 to date. Only the delay of bills from its Washington law firm is keeping it in cash.

"We're broke," admitted committee member P. Richard Hackenburg, staff vp and assistant treasurer at Allegheny International, in a report last week to the Captive Insurance Cos. Assn. meeting in Miami.

CICA, the Risk & Insurance Management Society and most recently the National Assn. of Insurance Brokers have each contributed \$15,000 to the cause as members of the Loss Reserve Deduction Committee, and their representatives form the seven-person committee. The other \$31,000 was contributed in amounts ranging from \$100 to \$3,000 by companies responding to a fund-raising plea last year.

Finding the right sponsor and fine-tuning the bill has been more time-consuming than the committee had expected. The first draft of the bill was completed in February 1980. And although Rep. Long is expected to sponsor the most recent draft, the introduction has been delayed because the committee is trying to line up Rep. Richard A. Gephardt, D-Mo., as a co-sponsor.

Rep. Gephardt, who is still studying the bill, is eagerly sought as a sponsor because he is a well-respected member of the Ways and Means Committee, which must consider revenue bills. Mr. Long is a member of the Rules Committee and cannot lead the drive in Ways and Means for the bill.

Besides the insurance industry, which is expected to fight the bill as a threat to its business, the Treasury Department could be a formidable opponent. Treasury officials have said they would have to hear a strong argument to drop their opposition to a bill that would reduce federal tax income.

Loss Reserve Deduction Committee Chairman Robert A. Reeves thinks the committee has the strong argument. Reeves is vp of insurance for the Hospital Corp. of America in Nashville, Tenn.

"Although tax revenues would be reduced in the early years of such a law, total tax revenues

would increase over time. We are just wanting to adjust the timing of the receipt of the revenues by the government," he says.

"Setting up loss reserves necessary to pay the ultimate claims costs of an event that has occurred can now only be accomplished with after-tax dollars. That's uneconomical and counterproductive. It forces companies to buy insurance when they can more efficiently and economically handle the whole budgeting, reserving and claims administration procedure internally."

Given the right to take tax deductions for these reserves, companies could channel more money into their businesses, ultimately increasing their revenues and thus federal taxes collected, the reasoning goes.

Now, faced with the prospect of funding for self-insured losses with after-tax dollars, companies often choose the less economical alternative of buying insurance, he says.

Some corporations, however, are known to take the tax deduction for self-insured reserves anyway, although aware they are inviting challenges from the IRS when they are audited.

The current tax penalty on self-insurers also can force business into imprudent risk management in tough insurance markets, Mr. Reeves notes.

When insurance is unavailable and companies are forced to self-insure huge risks, they may leave unfunded many millions of dollars worth of retained risks they have been forced to accept rather than allocate after-tax dollars for reserves when they need the money for more productive projects, Mr. Reeves notes.

The change in the tax law would not only remove this disincentive to good risk management, but also would encourage better risk management, he argues.

"Our bill will place the incentive to prevent claims in the right place. Self-insurers are more conscious of the need to produce quality goods and service since reduced claims costs directly increase their bottom line."

Once a bill is introduced, the committee plans to launch another drive for funds.

The lobbying work that will be needed to get the bill passed is expected to make the 2½-year battle to get the Risk Retention Act passed look like a breeze. "It could be five years," admits Mr. Hackenburg.

The Risk Retention Act, designed to deal with the special problem of product liability insurance costs and availability, only pre-empts certain state insurance laws and doesn't affect federal tax revenues as the loss reserve deduction bill would.

The committee is pushing for immediate change in the tax treatment of self-insured reserves, but recognizes "this many need to be phased in," Mr. Hackenburg said.

Although Republicans are in power in Washington, the committee decided to keep as its lobbyist Patton, Boggs & Blow, whose ties have been traditionally with Democrats. The committee considers the choice of Democratic sponsors politically astute because "Democrats are looking for a way to show they care about business," Mr. Hackenburg says.

Mr. Reeves admits, "The committee spent a lot of time discussing who would be an active sponsor rather than a passive sponsor and who would be interested in what we are trying to accomplish. Rep. Long shares our enthusiasm."

One obstacle to selling the bill in Congress is its technical accounting nature. Congressmen want issues boiled down to a couple of sentences and this bill defies that kind of simplification for people unfamiliar with insurance and accounting.

A detailed memorandum prepared for congressmen, however, explains how the current treatment of self-insured reserves is counterproductive for business.

Currently, companies reporting income on a cash basis can deduct self-insured losses only when they are paid. Companies using the accrual method of accounting can only deduct self-insured losses that pass a stiff "all events" test that precludes companies from deducting reserves for contested liabilities or losses actuarially known to have been incurred but not yet reported.

Also cited as an argument for the change in tax law is the need to coordinate tax law and generally accepted accounting principles. GAAP require that highly predictable future payments arising from events that have occurred are to be charged to income in the current period, the memorandum notes.

"Such treatment is also in accord with the fundamental principle of accounting: the correct matching of the income and expenses of a period," the memorandum adds.

The bill has been written to anticipate Treasury concerns about

overfunding or underfunding reserves and to compromise with the IRS over the use of captive insurers.

The bill would require companies to declare on their income tax returns what classes and amounts of risks the corporation is self-insuring. The special tax treatment would apply only to these declared self-insurance programs.

Both internal accounting for self-insurance and the use of an affiliated or captive insurance company are included in the definition of self-insurance.

Captive insurance companies would have to be licensed or approved in one state to afford the parent company a tax deduction for premiums paid to the captive. An earlier draft would have extended this privilege to all captives, including the majority of them which are based offshore in Bermuda. But the committee's Washington counsel advised that the tax break for offshore companies would be a red flag that could kill the bill.

The state approval/licensing restriction should not prove to be a major obstacle to companies with offshore captives. Offshore captives could seek licensing under Vermont's Captive Insurance Company Act, the only state law to offer such an option.

Vermont Banking and Insurance Commissioner George A. Chaffee says, however, Vermont will want offshore captives to seek more than a license. The state wants the economic benefit of business conducted there, too.

There are no restrictions in the draft bill on the amount of premiums paid to a captive, arguing that other sections of the IRS code requiring arms-length dealings between related companies is enough regulation to assure that the premiums will be market price.

There are restrictions on the tax deductibility of self-insured reserves when no captive insurance company is used.

If not funded through a captive insurer, the reserves would have to be funded by either an operating self-insurance trust or a standby self-insurance trust.

Using an operating self-insurance trust, the taxpayer would fund the trust in the amount of the deduction in each taxable year, either with cash, marketable securities other than the taxpayer's or a combination of both. The trustee of the trust, who must meet certain criteria in the law, could loan up to 50% of the trust to the taxpayer at prevailing commercial rates.

A taxpayer using a standby self-insurance trust would have to maintain a reserve account and purchase a surety bond or letter of credit equalling the current liability for self-insured losses. The standby trust would be the beneficiary of the bond or letter of credit

to pay losses if the taxpayer did not pay them.

The amount deductible in any one year for a company maintaining a trust would be limited to the present value of the total current liability for self-insured losses, reduced by the amount in the reserve account or self-insurance trust. Two methods for determining this amount are described in the bill:

- Actuarial evaluation.
- Using 90% of the amount quoted by a commercial insurer to assume the liabilities of the trust, or a written estimate by a recognized insurance brokerage firm.

Loss payments during the year would be deductible only when in total they exceeded the total contribution made to the trust or reserve account for the year in which the losses were incurred.

If, at the end of any year, the reserve account exceeds the current self-insured liability, the amount in excess would have to be included in the company's gross taxable income.

The bill requires the current self-insured liability be computed at the end of every taxable year, regardless of whether a deduction under the law is taken for the year.

Eligible for self-insurance under the law, are liability, fidelity and workers compensation risks, all risks which usually involve a loss in one year and payment of the loss years later. Reserves can be maintained for both reported claims and aggregate incurred but not reported claims subject to the test for reserves established by Financial Accounting Standards Board Rule No. 5, Accounting for Contingencies.

Once established, the trust could not be dissolved nor could the letter of credit or surety bond be terminated. If a bond or letter of credit were canceled, the taxpayer would have 30 days to replace it or be penalized with 125% of the trust amount included in its gross income and the trust considered terminated.

The act would apply only to losses incurred in taxable years beginning after the enactment of the act. In addition, the law states that this is an election under the tax code and not mandatory for all self-insuring taxpayers.

The members of the Loss Reserve Deduction Committee, in addition to Mr. Reeves and Mr. Hackenburg, are Charles J. Eades, vp for insurance at Ingram Industries Inc. in Nashville; Donald T. Browne, vp of First Atlanta Corp. in Atlanta; Ronald Stasch, risk manager for Federal-Mogul Corp. in Detroit; Reginald E. Beane, director of government affairs for RIMS; and Donald Jordan, executive director of NAIB.

RIMS national headquarters in New York is accepting contributions to the lobbying effort.

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Brokerages attract attention as appealing takeover targets

By LEONARD M. WILSON
Special to Business Insurance

BI ticker

ACQUISITION FEVER has engulfed insurance brokers. We have written about the possibility that the public insurance brokers might become takeover targets (*BI*, July 13). It was and remains our view that a public broker is unlikely to benefit materially from an acquisition by a larger company, whether it be a financial or an industrial corporation.

But we also pointed out that, in the current freewheeling financial environment, a deal involving a public broker could not be ruled out, even if the business rationale were a weak one.

We lay no claim to any special knowledge. Insurance brokers are attractive acquisition targets because of their high proportion of free cash flow, their stability of earning power and their solid long-term growth prospects.

Merger speculation has centered on Fred S. James and Frank B. Hall. James stock moved up into the high 20s with heavy volume several weeks ago, suggesting that some investors were anticipating a tender offer. The stock has fallen back recently, though, probably due to management denials of any merger discussions.

Then came the announcement that Ryder Systems had acquired 4.9% of Hall's shares in open market purchases. Hall also said that Ryder intended to purchase 15% or more of its stock.

The phrase "or more" is a significant one since it could imply something other than passive, minority ownership.

What does a company that leases trucks want with an insurance broker? The business fit seems remote at best. Ryder's management, however, has admitted publicly to

wanting to diversify into fields less cyclical than truck leasing. Moreover, Ryder seems to have the financial capability to swing a sizable deal.

Many companies find the idea of diversification attractive. But Ryder could have an additional motivation and advantage. The Economic Recovery Tax Act of 1981 gives a sizable boost to investment tax credits and depreciation. Capital-intensive companies, like Ryder, conceivably may find themselves with unused investment tax credits and depreciation that could shelter taxable earnings. For such a company, an acquisition with such taxable earnings to be sheltered would make sense.

We cannot be sure that Ryder's intentions are motivated by tax considerations. Certainly, ownership of a minority position in Hall would preclude income statement consolidation for tax purposes.

But Ryder's strategy could become evident in the near future. From Hall's viewpoint, a linkup with a truck lessor would likely have little appeal, either in image or business fit.

It is virtually axiomatic that no one would attempt an unfriendly takeover of an insurance broker; the Marsh & McLennan-Bowring situation was a special case. An unfriendly takeover runs the risk of significant staff defections in a business dependent on people. A potential acquirer of an insurance brokerage must be cognizant of this hazard.

But the rules of the game could change. In that event, a broker targeted for an unfriendly tender offer might seek out a "white knight," a compatible merger partner to stave off a takeover by an undesirable.

The insurance brokerage industry is a small one by the standards of financial markets. The aggregate market value of the public brokers is no greater than that of a medium-sized oil company. Yet the industry is likely to remain a magnet for potential acquirers. Investors and brokerage managements alike undoubtedly will be preoccupied with the issue of potential acquisition for some time to come.

Acquisitions are a two-way street as Alexander & Alexander demonstrated with the

agreement to purchase Alexander Howden for stock and debentures worth about \$280 million. Alexander & Alexander's stock reacted to the announcement by retreating four points. Possible dilution of earnings and arbitrage pressure, often a factor in a merger between two public companies, probably were responsible for the price decline.

Investors wondered why the deal came so quickly after Alexander & Alexander and the Sedgwick Group abandoned their merger negotiations. Was it conceived in haste? We don't think so.

First, the two companies know one another well. Second, Howden provides Alexander & Alexander with direct access to Lloyd's of London and an enhanced presence in reinsurance brokerage. Finally, the personal chemistry between the managements seems to be right.

However, Howden is thin in retail brokerages abroad, so that objective is yet to be met.

Consequently, Alexander & Alexander will have to proceed further on its quest for broader international capabilities. A program of acquiring minority interests in indigenous brokers, along the lines of Marsh & McLennan, is likely to be the operating strategy. But realistically, it may take several years for Alexander & Alexander to achieve a meaningful presence in international brokerage operations.

In the meantime, insurance brokerage stocks have held their own despite the steep stock market plunge. Perhaps, the difficult premium rate environment already is reflected in share prices. Nonetheless, for the interim, any significant price advances in insurance brokerage shares may depend upon the level of merger expectations.

Financial Briefs USF&G

United State Fidelity & Guaranty Co. will become a wholly owned subsidiary of a new holding company, USF&G Corp., on Oct. 1.

United States Fidelity & Guaranty shareholders approved the proposal, whereby one share of the existing insurance company will automatically become one share of the new holding company, at a meeting on Sept. 25.

"The holding company structure will give management greater flexibility in the planning and execution of business," said Jack Moseley, chairman and president. "There are no present plans for any change in the company's business activities."

Fred S. James

Fred S. James & Co. Inc. has agreed to sell its majority interest in James International Treaty Corp., a New York-based reinsurance brokerage operation, to John L. Gilbert, president of James International Treaty.

The terms of the sale were not disclosed, but James Chairman Charles A. O'Malley said that the sale would not have a significant effect on James' operation or financial results.

Colonial Penn

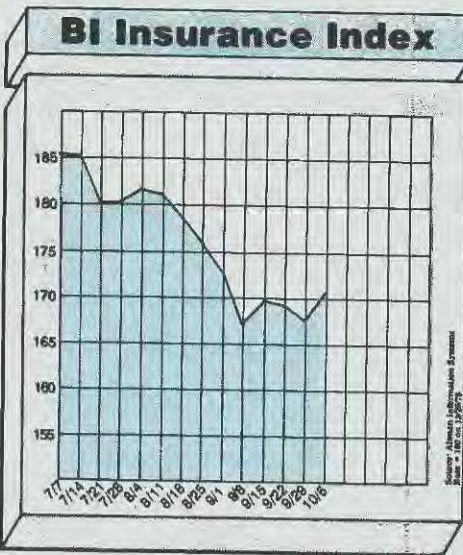
Colonial Penn Group Inc. has declared a regular quarterly dividend of 35 cents per share payable Oct. 10 to shareholders of record Oct. 2.

Hartford Steam Boiler

The Hartford Steam Boiler Inspection & Insurance Co. has declared a regular quarterly dividend of 65 cents per share, payable Oct. 30 to shareholders of record Oct. 9.

INA

INA Corp. has declared a regular quarterly dividend of 60 cents per share on its common stock and \$1.90 per share on its Series C cumulative convertible preferred stock. Both dividends are payable Nov. 15 to shareholders of record Oct. 15.



Insurance industry stocks rebounded slightly last week as the *BI* stock index rose to 171.2 from 167.7. Forty-two stocks posted gains, 17 declined and 14 were unchanged. Stocks showing the greatest gains included E.H. Crump Cos. Inc., 14.3%; Gulf United Corp., 13.4%; Integrated Resources Inc., 11.8%; and SRI Corp., 8.6%. Losses were less dramatic than previous weeks, but included Crown Life Insurance Co., 7%; Armco Inc., 3%; Equifax Inc., 2.7%, and Chubb Corp., 2.6%. The index gain of 2.1% outpaced the 1% growth in Dow Jones Industrials but couldn't beat the other major market indicators.

British Issues

10/6 Companies	Price	P/E	Div.	Yield	1 Week High-Low
Comm Union	138	9.2	16.07	11.6	147-138
Eagle Star	291	9.4	21.43	7.4	293-281
Genl Accident	316	7.3	21.07	6.7	320-308
Gdn Royal Exch	304	7.9	23.21	7.6	312-298
Phoenix	256	8.4	22.43	8.8	259-248
Royal	358	9.2	35.00	9.8	370-350
Sun Alliance	840	8.4	53.37	6.4	855-825

Brokers	Price	P/E	Div.	Yield	1 Week High-Low
CE Heath	278	10.9	15.00	5.4	278-265
Hogg Robinson	102	8.2	8.57	8.4	103-100
Alex Howden	138	10.6	10.71	7.8	139-130
JH Minet	142	12.9	6.50	4.6	146-134
Sedg Grp	139	10.2	7.50	5.4	141-133
Stenhouse Hldg	98	9.0	6.64	6.8	98-94
Stew Wrightson	206	10.3	17.14	8.3	207-200
Willis Faber	338	11.6	17.85	5.3	340-325

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



Wilson

Leonard M. Wilson, a senior analyst at First Manhattan Co. Inc. in New York, specializes in insurance brokerage stocks. He is a member of the New York Society of Security Analysts.

BI Industry Stock Report

Insurance Cos.	OCT. 6, 1981					9/30/81 THRU 10/6/81					OCT. 6, 1981					9/30/81 THRU 10/6/81										
	Price	% Chg.	P/E	\$ Div.	% Yld.	High	Low	Vol.	Price	% Chg.	P/E	\$ Div.	% Yld.	High	Low	Vol.	Price	% Chg.	P/E	\$ Div.	% Yld.	High	Low	Vol.		
Aetna Life & Cas Co	40.88	4.1	7.2	2.32	5.7	41.25	39.88	513.7	101.50	4.4	8.1	1.00	1.0	102.50	100.75	4.4	45.13	1.4	5.3	2.88	6.4	45.25	44.13	240.0		
American Bankers Ins Group	5.50	-2.2	10.4	0.44	8.0	5.63	5.50	92.0	30.50	1.7	8.0	1.00	3.3	30.50	30.00	0.4	40.25	1.6	6.0	3.20	8.0	40.50	39.50	93.3		
American Gen Ins Co	38.63	-0.3	6.1	2.00	5.2	40.00	38.63	337.9	13.88	2.8	5.7	1.00	7.2	13.88	13.50	6.4	18.00	1.1	6.0	0.75	3.5	22.50	21.25	231.4		
American Indty Finl Corp	14.00	-1.8	5.6	1.12	8.0	14.00	13.88	8.1	21.88	3.6	5.3	0.76	3.5	22.50	21.25	231.4	20.50	7.9	6.1	1.08	5.3	24.50	20.50	135.8		
American Intl Group Inc	59.75	5.3	10.9	0.40	0.7	59.75	56.75	316.0	14.50	1.8	8.1	0.60	4.1	14.50	14.00	11.0	AVERAGE									
American Natl Ins Co	12.00	1.1	5.4	0.68	5.7	12.00	11.88	98.4	INSURANCE COMPANIES					AVERAGE												
American Sta Life Ins Co	17.50	6.1	5.6	0.72	4.3	17.50	17.00	0.0	AGENTS/BROKERS					AVERAGE												
Aneco Reins Ltd	3.13	0.0	0.0	0.00	0.0	3.13	3.00	4.4	Agents/Brokers					AVERAGE												
Appalachian Natl Corp	2.13	0.0	0.0	0.00	0.0	2.13	2.13	0.8	Alexander & Alexander Svcs	28.00	-1.8	9.7	1.84	6.6	28.50	28.00	281.3	Corroon & Black Corp	18.50	0.0	9.7	1.76	9.5	19.25	18.38	15.8
Avemco Corp	9.00	0.0	7.4	0.50	5.6	9.38	9.00	11.8	Crump E H Cos Inc	16.00	14.3	14.6	0.40	3.1	13.00	11.38	54.5	Hall Frank B & Co Inc	23.13	0.5	9.7	1.66	6.4	26.75	26.00	65.8
Banks Iowa Inc	37.00	2.8	5.9	1.44	3.9	40.50	36.50	3.5	Integrated Res Inc	14.25	11.8	6.2	0.00	0.0	14.25	13.75	26.2	Integratd Res Inc	23.25	3.3	10.7	1.60	6.9	23.25	23.00	43.8
Bitco Corp	35.50	6.0	5.0	2.16	6.1	35.50	34.00	4.7	James Fred S & Co Inc	34.25	-0.7	11.3	2.00	5.8	34.25	33.50	235.9	Marsh & McLennan Cos Inc	34.25	-0.7	11.3	2.00	5.8	34.25	33.50	235.9
Carolina Cas Ins Co	6.75	0.0	6.8	0.32	4.7	6.75	6.75	5.5	Pennscorp Finl Inc	5.25	7.7	9.4	0.16	3.0	5.25	4.88	88.1	Poe & Assoc Inc	11.25	-2.2	9.8	0.80	7.1	11.25	11.00	0.8
Central Natl Finl Corp	26.50	0.0	8.6	0.65	2.5	27.50	23.00	17.1	Reed Stenhouse Cos Ltd	11.00	4.8	8.7	0.60	5.5	11.00	10.88	9.5	Rollins Burdick Hunter Co	20.25	0.0	11.3	1.24	6.1	20.25	20.25	6.4
Chubb Corp	41.75	-2.6	5.1	2.68	6.4	42.50	41.75	92.4	AGENTS/BROKERS					AVERAGE												
Combined Intl Corp	20.63	-1.8	5.7	1.80	8.7	20.75	20.50	89.2	Conglomerates/Holding Cos.					AVERAGE												
Continental Gen Ins Corp	49.00	4.3	6.4	1.76	3.6	49.38	47.00	188.6	American Express(Fireman's Fd)	43.13	5.2	7.9	2.00	4.6	43.13	41.25	1,059.5	Anderson Clayton(Ranger/Panam)	23.25	3.3	5.7	1.20	5.2	23.38	22.75	10.5
Crawford & Co	24.75	1.0	7.8	2.40	9.7	25.25	24.50	161.1	Armo Inc	28.25	-3.0	6.5	1.80	6.4	29.25	28.25	315.1	Armo Inc	28.25	-3.0	6.5	1.80	6.4	29.25	28.25	315.1
Crown Life Ins Co	92.00	-7.1	10.0	2.80	3.0	99.00	92.00	1.3	City Investing Co. (Home Ins.)	22.13	2.9	6.4	1.60	7.2	22.50	22.00	210.6	CNA Finl Corp (CNA)	11.75	-1.1	4.6	0.00	0.0	12.00	11.63	22.6
Crum & Forster	30.75	5.1	5.4	1.64	5.3	30.88	29.88	396.2	Control Data (Comm. Credit)	68.25	6.0	8.0	1.00	1.5	68.38	65.13	427.2	General Re Corp	75.00	6.8	9.8	1.76	2.3	75.00	70.75	107.8
Employers Cas Co	34.00	0.7	5.6	1.20	3.5	34.00	33.75	0.2	Gulf Utid Corp	20.13	13.4	7.3	1.32	6.4	20.75	18.38	129.8	INA Corp (Ins. Co. of MA)	42.38	4.6	5.9	2.40	5.7	43.50	40.75	337.3
Equifax Inc	22.75	-2.7	5.2	2.40	10.5	23.50	22.75	11.0	ITT (Hartford Group)	28.25	6.1	5.1	2.60	9.2	28.38	27.25	648.5	Optimum Hldg Corp	9.75	2.6	12.0	0.00	0.0	9.75	9.50	17.3
Excelsior Ins Co	16.50	0.0	14.2	0.70	4.2	16.50	16.50	3.3	Reliance Group Inc	79.75	-5.1	8.4	3.00	3.8	83.00	79.75	19.7	Sears Roebuck & Co. (Allstate)	56.25	1.6	7.6	1.36	8.4	16.50	16.13	1,442.9
Farmers Group Inc	29.13	2.6	9.0	1.12	3.8	29.13	28.63	242.6	S & H Co. (Bayly Martin & Fay)	35.75	0.0	13.9	1.00	2.8	35.75	35.75	3.7	Teledyne Inc (Argonaut)	139.00	4.6	7.7	0.00	0.0	139.00	133.75	526.8
First Colony Life Ins Co	60.00	3.4	18.3	1.00	1.7	61.50	57.50	6.7	Transamerica Corp (Occidental)	22.13	1.7	6.9	1.40	6.3	22.63	21.63	359.4	CONGLOMERATES/HOLDING COS. AVERAGE								
Foremost Corp Amer	25.25	5.2	7.5	0.80	3.2	25.25	24.25	5.8	*Record high/low since Jan. 1, 1981.					System design: Altman Information Systems												
Great West Life Assurn Co	245.00	0.0	9.9	10.00	4.1	245.00	245.00	0.0																		
Hanover Ins Co	27.75	1.8	3.8	0.72	2.6	28.00	27.25	17.2																		
Hartford Steam Boiler Insptn	43.00	7.5	7.7	2.60	6.0	44.00	41.00	7.3																		
Jefferson Natl Life Ins Co	35.00	0.0	28.2	0.64	1.8	35.00	35.00	7.2																		
Kemper Corp	30.00	-2.0	4.9	1.60	5.3	30.50	30.00*	27.3																		
Lincoln Natl Corp Ind	37.00	-1.0	5.6	3.00	8.1	37.88	37.00	31.1																		
Mgic Invst Corp	33.38	4.7	7.1	1.28	3.8	33.50	32.75	224.8																		
Mission Ins Group Inc	38.00	1.3	6.9	1.00	2.6	38.25	38.00	25.6																		
Nationwide Corp Ohio	24.63	0.0	7.6	0.70	2.8	24.63	24.63	1.4																		
Northwestern Natl Life Ins	23.00	-0.5	5.6	1.36	5.9	23.00	23.00	7.2																		
Ohio Cas Corp	38.88	0.3	6.0	2.0																						

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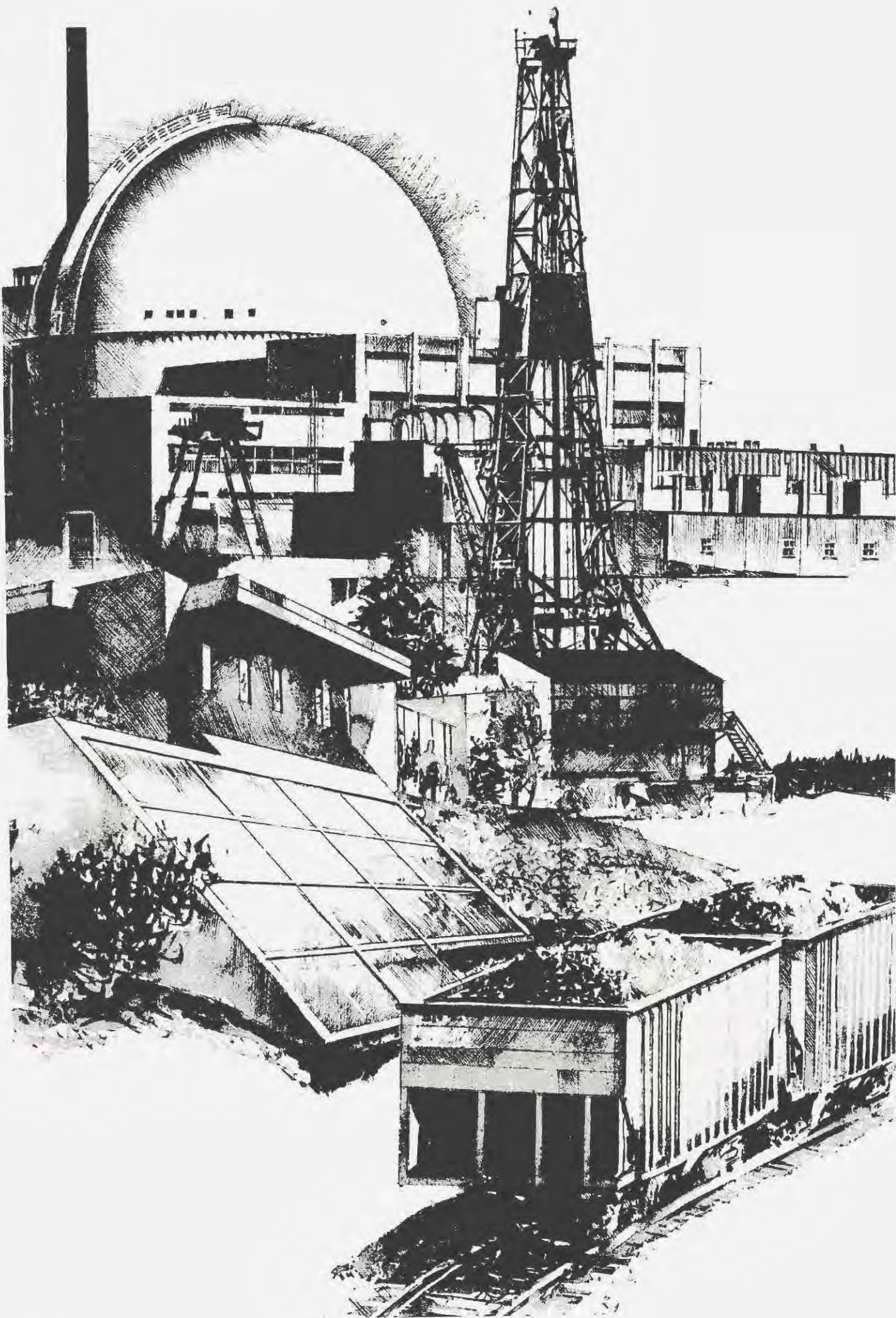
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