WEEK OF OCTOBER 19, 1981

business insurance®

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update:

Administration proposes doubling black lung tax

WASHINGTON—The Reagan administration wants to double the tax that coal mine operators pay on mined coal to shore up the black lung disability trust fund.

Under the administration's proposal, mine operators would pay 50 cents to the fund for each ton of surface-mined coal, up from 25 cents. The tax on underground coal

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Brown lung benefit apportioned

By STEPHEN TARNOFF

RALEIGH, N.C.—Textile manufacturers and their insurers are applauding a North Carolina Supreme Court decision permitting apportionment of workers compensation awards to cigarette-smoking textile workers who develop brown lung disease.

But the ultimate effect of this ruling on the textile industry and brown lung victims nationwide and its application to other occupational diseases is unclear, others say. The difference in workers compensation laws from state to state, the special North Carolina statutes pertaining to occupational diseases and the particular language of this court decision cloud the impact.

By a 5-2 vote, the court reduced substantially the disability payments to Elsie Morrison, 54, a textile worker for Burlington Industries Inc., who suffered from brown lung disease, or byssinosis, which is caused by inhaling cotton dust. It said 45% of her disability could be attributed to smoking.

The decision reversed an appellate court ruling that held Burlington was responsible for the woman's total disability despite the presence of other ailments.

Mrs. Morrison, a Burlington employee for 27 years, regularly smoked cigarettes and suffered from bronchitis, phlebitis, varicose veins and diabetes.

As a result of the high court decision, she will now get $43.92 for up to 300 weeks or a maximum $13,176.

Had she won, she would have received $79.85 for up to 400 weeks or a maximum $31,940.

William H. Stephenson, North Carolina's industrial commissioner, said the state Industrial Commission will not automatically start apportioning awards because of the decision. He said medical data would not support apportionment in all cases, and will continue to conform with the recommendations of medical testimony.

In the Morrison case, the Industrial Commission apportioned damages based on the

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Hyatt asks: Who will pay?

Suit naming 25 insurers, broker seeks answer

By STEVE SHERWOOD

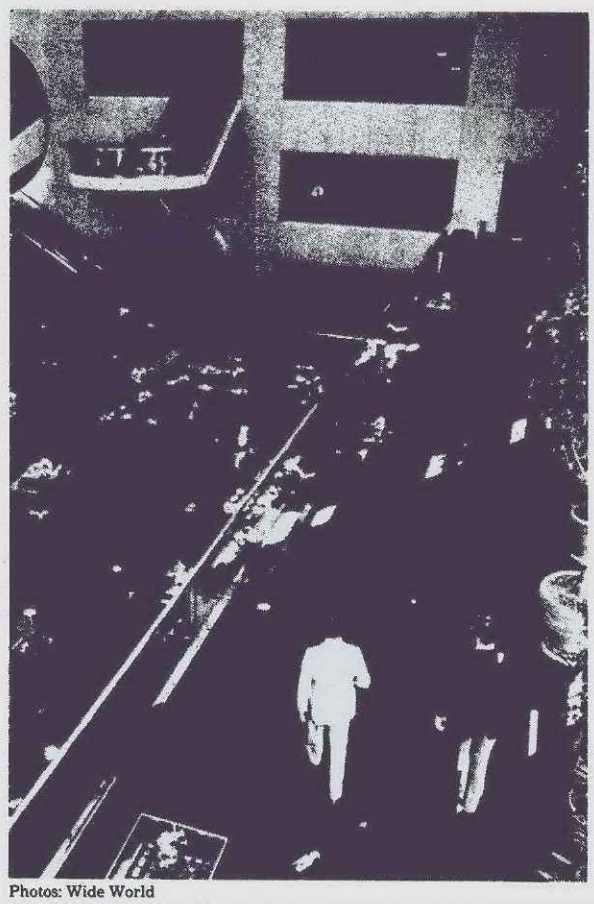
KANSAS CITY, Mo.—After almost three months of watching 25 insurers fight among themselves, Hyatt Corp. is asking the court to decide who is going to pay for damages from the Kansas City Hyatt Regency Hotel disaster.

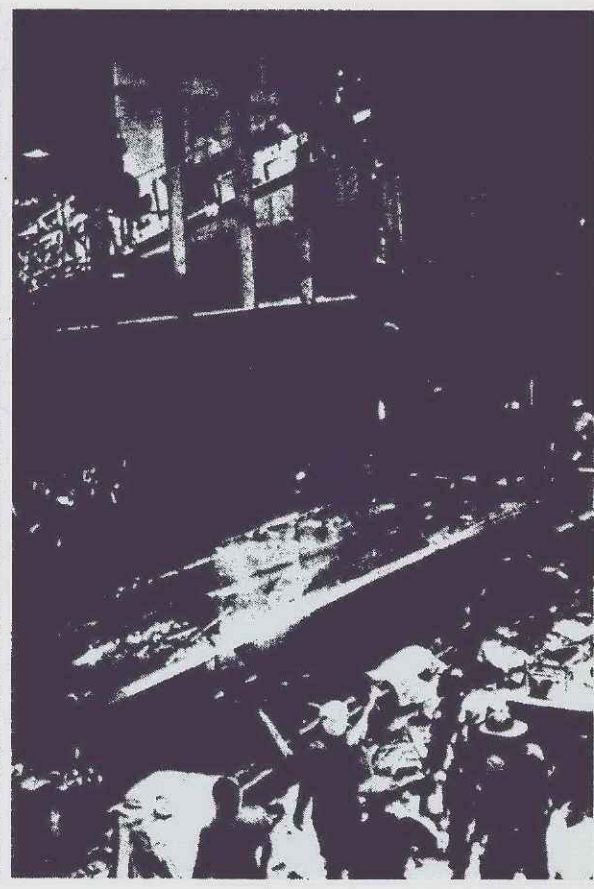
Hyatt filed a lawsuit Oct. 9 in Jackson County Circuit Court seeking a declaratory judgment to answer crucial questions about its insurance and end the fighting among insurers.

The suit seeks to settle several issues:

- In what order will insurers pay liabilities that may result from the July 17 collapse of two skywalk bridges in the Kansas City Hyatt Regency, which killed 113 and injured 186?
- Are the hotel's owner, Crown Center Redevelopment Corp., and its parent company, Hallmark Cards Inc., both of Kansas City, named as additional insureds on Hyatt's liability policies?
- If not, will Marsh & McLennan, broker for the Hyatt, Hallmark and Crown Center Redevelopment Corp., be held responsible for damages resulting from their not being named? Marsh & McLennan is named in the suit along with the insurers.

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Photos: Wide World

The Kansas City Hyatt Regency has reopened (left), but coverage for the July disaster is unresolved.

Michigan considers open comp rating

By EILEEN NORRIS and STEPHEN TARNOFF

LANSING, Mich.—Legislation that would force Michigan insurers to compete for workers compensation business and possibly face a 20% rollback in insurance premiums could be bright news for the state's employers.

Workers compensation reform bills and rescue plans are rolling out from both sides of the political aisle, but it's not clear which plan will garner enough support to become law.

It was less than a year ago that the state announced "sweeping changes" in the workers compensation system (*BI*, Jan. 12). Those laws have yet to take effect, but another set of cures for the state's financial ills already is being planned.

Michigan employers cite high workers compensation costs as one of their chief concerns and a contributing factor to the declining economy in the state and businesses' eagerness to take their operations out of Michigan to a state with lower workers compensation costs.

Republican Gov. William G. Milliken's new rescue package, which he has tagged as a top-priority item, includes a bill that would amend the state insurance code to establish a competitive ratemaking process for workers compensation insurance.



Map: Amy Palmer

Michigan would follow the lead of Oregon and Minnesota, which have both passed laws requiring insurers to compete in the workers compensation market rather than file the same rates together through a central ratemaking bureau (*BI*, Sept. 14).

Competing with the governor's reform is a plan by a group of four Democratic legislators, who say they can save Michigan employers $200 million a year in workers compensation costs by reducing insurers' premiums and allowing competition.

Their plan would force insurance companies to cut compensation premiums by 20% on Jan. 1, place a freeze on rates for two years and replace the current state ratemaking bureau with a competitive system to allow insurers to file rates separately and thus price the coverage competitively, said Bob Morris, a research analyst for the Democratic members of the House of Representatives. The Michigan Manufacturers' Assn., which has 2,500 corporate members, is giving its full support to the governor's package, said Richard Augenstein, director of governmental affairs for the association.

"We support open competitive ratemaking, but the Democratic plan to reduce premiums by 20% is only a band-aid approach that treats the symptom and not the cause," he said.

He said forcing insurers to reduce their premium by as much as 20% could dry up the insurance market for employers that are mandated by the state to have workers compensation insurance coverage for workers injured on the job.

The MMA also is opposed to other talk by

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NEWSPAPER

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update:

Black lung tax may double

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would rise to $1 per ton, an increase from the current 50-cent tax.

The administration also will suggest tightening eligibility standards for miners who seek black lung benefits in the future, but it will make no changes for miners now receiving the benefit.

The black lung disability trust fund now has a deficit of $1.2 billion, a figure that is expected to rise.

Airline ESOP hopes dashed

WASHINGTON—President Reagan apparently has delivered the final setback to efforts by the Continental Airlines' Employee Assn. to thwart a takeover by Texas Air Corp. and set up an Employee Stock Ownership Plan.

Mr. Reagan has informed the Civil Aeronautics Board that he will not block the takeover, allowing earlier CAB approval of the acquisition to stand. The president is required to review all acquisitions when international air routes are involved.

Continental employees have battled since March to set up an ESOP that would give them control of 51% of the company's stock. The employees had hoped that Mr. Reagan would at least remand the issue back to the CAB for further study (*BI*, Sept. 21), giving them more time.

The employees still have two possible—if very unlikely—options:

- They could purchase 15.4 million shares of Continental's authorized but unissued stock if the company's board of directors agrees and financing can be arranged.
- They could purchase 7.7 million shares from Texas Air Corp. and Frank Lorenzo, the company's president.

$2.28 million award granted

CLEVELAND—A U.S. District Court jury has awarded $2.28 million to a 26-year-old quadraplegic, injured when the roof of his 1968 Chevrolet Camaro collapsed during an accident five years ago.

Paralyzed from the chest down, Dennis Sours, a resident of nearby Kent, won the judgment against General Motors Corp. when the jury agreed that the roof of his car, was defective.

GM lawyers had argued the roof wasn't defective. They claimed Mr. Sours was injured when he was thrown up into the roof. They are appealing the decision.

Mr. Sour's attorney, Maurice Heller, contended the portion of roof above the driver's side collapsed in the accident.

Mr. Sours, the driver, was injured when his car rolled over after he swerved, trying to avoid a car that pulled in front of him. His neck was broken and several vertebrae were smashed. Two passengers were not injured.

Mr. Sours was hospitalized for a year-and-a-half. His medical bills presently average about $13,000 annually.

GM officials would not comment on their liability coverage.

Revised pollution rules delayed

WASHINGTON-Although its formal proposal will be delayed for several weeks, the U.S. Environmental Protection Agency still wants to drop third-party liability insurance requirements for hazardous wastes.

The agency, in a notice published Oct. 1 in the Federal Register, delayed all financial responsibility requirements for hazardous waste treatment, storage and disposal facilities (TSDFs) until April 12, 1982 (*BI*, Oct. 5). This included third-party liability insurance coverage against sudden and non-sudden pollution incidents, as well as standards for closure/post-closure costs.

EPA officials and industry sources said at the time a new notice, to be issued sometime in mid-October, would propose that third-party liability requirements be dropped altogether.

The agency now says that proposal has been delayed, although its intent has not been changed. While no firm date has been set, one EPA official said the agency hopes to publish the proposal in the Federal Register by the end of this month.

Investment income data sought

TALLAHASSEE, Fla.—The state insurance commissioner has sent out a request to 500 property/casualty insurance companies for more detail on their investment income in 1979 and 1980.

The Insurance Department wants the information so it can devise a new method to measure investment income when reviewing insurance rates and profits, Commissioner Bill Gunter said.

Mr. Gunter said invesment income for the nation's property/casualty insurance industry for the first six months of 1981 was approximately $6.3 billion. Last year, the industry earned a record investment income total of about $11.2 billion.

He projects that the $13 billion in investment income earned in 1981 will be approximately double the industry's underwriting loss.

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Firefighters sue Con Ed, claim exposure to PCBs

By JAMES LAWSON

NEW YORK—Thirty-four New York City firefighters are suing Consolidated Edison for more than $150 million, claiming they were exposed to deadly toxins while battling a transformer blaze that blacked out most of lower Manhattan last month.

And the suit could grow if more firefighters and their wives join the 34 firefighters and 18 wives who have filed suit in New York Supreme Court.

About 60 or 70 firefighters helped battle the blaze Sept. 9 at the East River generating plant and have complained of dizziness, sore throats and general lethargy since. They say they were exposed to PCBs, polychlorinated biphenyls, contained in the burning cooling oil. The toxic PCBs give off poisonous dioxin when burned.

However, the Environmental Protection Agency says the PCBs in the cooling oil did not present any health hazard.

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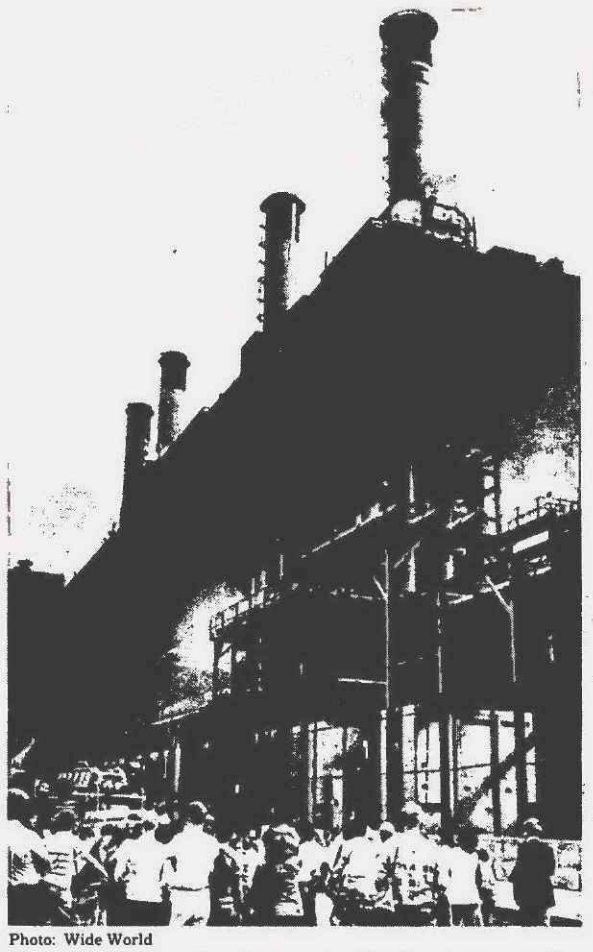


Photo: Wide World

Crowd watches firefighters battle the blaze at the Consolidated Edison generating station.

Employee benefit consultants wanted

Is your company an employee benefits consultant?

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

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

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

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

Reagan, utility association support TMI cleanup plan

By JOHN W. MILLIGAN

WASHINGTON—The Edison Electric Institute wants the electric utility industry to chip in $192 million toward a $760 million cleanup bill at the damaged Three Mile Island nuclear power plant.

This is just one component of a multiparticipant plan introduced last July by Pennsylvania Gov. Dick Thornburgh to fund the TMI cleanup operation. The reactor, located near Harrisburg, overheated and broke down in March 1979, releasing radiation and flooding the containment building with radioactive water.

The governor's plan also calls for $190 million from the federal government, $30 million from the state, $15 million from New Jersey and $245 million from General Public Utilities Corp., the owner of the plant.

The funding would be rounded out with $90 million in unexpended insurance on the TMI facility. GPU had $300 million in property insurance coverage at the time of the accident.

Initial reaction to Gov. Thornburgh's plan—at least from the Reagan administration—has been favorable.

President Reagan telephoned the governor recently and pledged a strong White House effort behind the funding plan, a spokesman for the governor said. And at a recent GOP fund-raiser, David Stockman, director of the Office of Management and Budget, announced that the administration will ask Congress to increase the federal government's contribution to more than $100 million.

New Jersey officials have been "supportive" of the plan as well, the spokesman added, although a gubernatorial race and other statewide elections have kept the issue low key.

The Edison Electric Institute, an association of some 200 investor-owned utilities, says a solution to

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errors & omissions

- James E. Keegan has been appointed vp for casualty underwriting and Bill Cody has been named vp for North American production at Allianz Underwriters Inc., not Allianz Insurance Co. as reported in the Oct. 12 issue.

Yanish, Palmer join *Business Insurance* staff



Palmer



Yanish

Donna Leigh Yanish and Amy Palmer have joined the *Business Insurance* staff, announced Editor Kathryn J. McIntyre.

Ms. Yanish, who comes to *BI* from Modern Healthcare, another Crain Communications publication, will be the new associate editor for Agent/Broker Topics, replacing Dave Galanti who is continuing his education in the law field. Agent/Broker Topics is a demographic section of *BI*, published on the first Monday of each month specifically for agents and brokers.

Ms. Yanish received her bachelor's degree in 1978 from Gustavus Adolphus College in St. Peter, Minn., with majors in English and economics. She joined the Modern Healthcare staff in January 1979 as a production editor/reporter and became an associate editor in January 1981.

Ms. Palmer joins *BI* as editorial production assistant. A 1977 graduate of Ohio University with a bachelor's of fine arts degree in graphic design and art history, she formerly worked in the corporate design department of Barton Aschman Associates in Evanston, Ill., as an artist/designer. She also has worked for Mercury Publications in San Diego, Calif.

Also joining the *BI* production department is Dail O'Hagan Willis as part-time editorial production assistant. She comes to *BI* from the Sarasota, Fla., Herald-Tribune and Journal where she was a member of the editorial page staff.

Looking ahead

Insurance executives predict 'rivers of red ink' for 1982

By LISA BERGSON

WHITE SULPHUR SPRINGS, W. Va.—"Look at them—they're not in any trouble," asserted a longtime insurance industry watcher, as the company chiefs and the nation's top agents whirled their gorgeously bedecked wives around the dance floor on the final night of the NACSA—NACSE 1981 joint conference.

In its 55th year, the three-day event Oct. 4-7 brought the National Assn. of Casualty & Surety Agents and the National Assn. of Casualty & Surety Executives to the majestic Greenbrier hotel here.

The aura of luxury, comfort and abundance that pervades this 6,500-acre resort stood in sharp contrast to the foreboding expressed by many in attendance.

Red Ledbetter, the chairman of Ledbetter Insurance & Risk Management Inc. of Oklahoma City, Okla., enjoying his 53rd year at the Greenbrier, said, "I've been in the industry 61 years, and I've never seen it as competitive and confusing as it is today."

B.P. Russell, the chairman and chief executive officer of Crum & Forster, anticipates "red ink, rivers of it, in the underwriting results for 1982."

And Joseph Sargent, an analyst with Connecticut-based Conning & Co., foretold disaster wherein inadequately reserved insurance companies "go under," others experience negative cash flows and fear pervades the industry.

The cause of this apprehension in the industry is triple-pronged: economic uncertainty, cut-throat competition and fundamental changes in the way insurance is handled.

No matter what happens to inflation, it looks bad for insurers since they are increasingly invested in high interest rates. "We represent 20 companies and none of them is making money underwriting. That scares me," says Richard Simmons, president of Hamilton & Shackelford, an agency in Birmingham, Ala.

He is far from alone in his concern over what may happen to these

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Regulators may extend realm

WHITE SULPHUR SPRINGS, W.Va.—Insurance regulators may be about to plow into some new and largely ungoverned terrain.

Worried over potential insolvencies in the little-known, but increasingly powerful worlds of reinsurance, self-insurance, risk-retention pools and captives and fearful that a disaster in any one of these realms could prompt federal intervention, the state insurance commissioners may be preparing to take matters into their own hands.

In fact, Arkansas Insurance Commissioner William Woodyard III, the president of the National Assn. of Insurance Commissioners, already sees signs of creeping intervention in the recent passage of the Risk Retention Act, which allows manufacturers to set up self-insurance pools for product and general liability.

And Gerald Cassidy, former president of the National Assn. of Casualty & Surety Agents, told those at the NACSA-NACSE 1981 joint conference that the Risk Retention Act sets a "dangerous precedent of federal pre-emption of state insurance laws and regulations."

"A simple amendment to this law could broaden its authority to include other classes of business," he explained.

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Kasten's tort reform plans offer little to asbestos firms

By JERRY GEISEL

WASHINGTON—Federal tort reform legislation unveiled last week would limit most manufacturers' exposure to product liability suits, but it would offer little relief for asbestos manufacturers and others that are blamed for injuries that develop over years of exposure to a product.

The tort bill, sponsored by Sen. Bob Kasten, R-Wis., would restrict how long consumers can file product liability suits, according to the type of product.

The bill also would challenge the California Supreme Court's decision in the Sindell DES case by making it more difficult for plaintiffs to recover product liability damages if they cannot identify the manufacturer (BI, Oct. 12).

Under Sen. Kasten's proposal, product liability suits involving major capital goods, like printing presses, would be barred 30 years after the product is delivered; manufacturers of major home appliances, like dishwashers, could not be sued 20 years after they delivered their products. A 10-year cutoff would be imposed for other products.

These statutes of respose on the right to recover damages have been fervently sought by insurers and manufacturers. "There has to be some finite limit on exposure," said Dennis Connelly, senior counsel at the American Insurance Assn. in New York.

But the proposed protection would not apply to asbestos manufacturers that are facing thousands of product liability suits seeking billions of dollars in damages from workers who say exposure to asbestos has injured them.

Sen. Kasten's bill specifically bars any time limitation on filing suit in cases where the injury was caused by prolonged exposure to a product, like asbestos.

"You can't cut off a person's right to sue before he is even aware that he been injured," said one source. "That isn't fair."

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Kasten

Main provisions of Sen. Kasten's federal product liability bill

- **A plaintiff must identify the manufacturer.**
- **Wholesalers are generally not liable.**
- **Manufacturers are responsible for only the "useful safe life" of a product.**
- **Major capital goods, like printing presses, are presumed to have a safe life of 30 years. Appliances are presumed to have a safe life of 20 years.**
- **Product alteration and misuse is a defense against liability.**
- **Compliance with government safety standards is a stronger defense.**
- **Manufacturers do not have to warn of obvious dangers.**
- **Awards are reduced by the extent a plaintiff was negligent.**

GM seeking to trim benefit plan

Crain News Service

DETROIT—General Motors Corp. and the United Auto Workers may be on a collision course if the nation's largest automaker presses for benefit cuts during next year's contract negotiations.

GM wants to restructure its benefits program to cut costs and get more bang for its buck, says Kenneth E. Olthoff, general manager of worldwide employee benefits, GM industrial relations. But UAW President Douglas Fraser has already said the union will not give back anything it already has won in contract negotiations.

Mr. Olthoff, in an exclusive interview with Automotive News, another Crain Communications Inc. publication, said GM is now paying an average of $10,000 a year in benefits for each employee.

That adds up to an annual benefits cost of some $4.4 billion for hourly and salaried employees, with $1.8 billion going to pensions and $1.5 billion for health care costs.

Pension and health care costs alone have jumped from $400 million and $278 million respectively in 1970.

Some of the cost-containment measures and changes that GM is considering for its benefit plan, according to Automotive News, include:

- Greater use of co-payment arrangements, used now only in the dental and vision plans and for medical costs not covered by the basic health plan.
- Phasing-in of benefits based on senority.
- Health and life insurance plans geared to individual needs, some being co-funded by the employee.

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IRMC conference

All companies open to D&O suits: Consultant

By RHONDA L. RUNDLE

VAIL, Colo.—Corporate size is not necessarily the best guide to how much directors and officers liability insurance to buy, a risk management consultant says.

Among corporations with $25 million or more in assets, D&O claims tend to be of equal magnitude, reports Warren G. Brockmeier, director of risk management services for The Wyatt Co. in Chicago.

"Medium-sized companies can get into as much trouble as giants—perhaps because the giants may be better managed," Mr. Brockmeier told a recent meeting of the Institute of Risk Management Consultants in Vail, Colo.



Brockmeier

He recommended that publicly held corporations with more than $25 million in assets purchase $25 million to $50 million in directors and officers coverage. "The largest placement that I know of was for $150 million, so very high limits are available," he added.

Besides evaluating the appropriate limits to carry, many other options are open to the D&O buyer today, Mr. Brockmeier noted.

Since 1973, The Wyatt Co. has tracked market trends through its annual D&O survey—which will be published every two years starting in 1982. Last year 2,500 companies participated in the research.

Virtually all D&O insurers now offer continuity of

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Two dozen risk management consultants and their invited guests took in fresh air and a program of professional education at the annual meeting of the Institute of Risk Management Consultants Oct. 3-7 in Vail, Colo.

William J. Pinckney of Mund, McLaurin & Co. of Los Angeles was elected IRMC president for 1982.

Other new officers include Charles T. Tagman Jr. of Betterley Consulting Group in Boston, vp; David Warren of Orinda, Calif., secretary; and Thomas G. Briggin of The Wyatt Co. in San Francisco, treasurer.

The IRMC is a professional organization of independent risk management consultants. For information write Mr. Warren, 58 Diablo View Dr., Orinda, Calif. 94563; 415-254-9472.

EPA's decision on pollution insurance won't wipe out need for cover: Broker

VAIL, Colo.—Downscaling of federal regulations will not absolve U.S. industry from environmental impairment liability, a brokerage executive warns.

Common law liability persists despite the Environmental Protection Agency's recent retreat from financial responsibility requirements, said Hugo Standing, chairman of Alexander & Alexander of California.



Standing

The Securities and Exchange Commission requires publicly owned companies to report how they dispose of hazardous wastes in the 10-K financial statement, he added.

Mr. Standing predicted that individual states will set their own standards, stricter in many cases than those proposed by the federal government. New York and California are leading the way, he told those attending the Institute of Risk Management Consultants conference Oct. 3-7 in Vail.

The EPA recently delayed until April 13, 1982, the financial responsiblity requirements for hazardous waste handling set to become effective this month (*BI*, Oct. 5), and it is expected soon to drop third-party liability insurance requirements altogether.

Under the Resource Conservation and Recovery Act of 1976, the EPA was authorized to set standards of financial responsibility for hazardous waste treatment, storage and disposal facility operators.

"This is an issue that won't go away," agreed a visibly frustrated George Garland, chief of the economic and policy analysis branch of the EPA's solid waste division. After the EPA moved to scuttle the financial responsibility requirements, his first impulse was to cancel his IRMC appearance, he said.

"It's a different ball game now," he said.

There are 21 states with legislation on the books addressing legal liability for environmental impairment, he reported. Sixteen others have made a stab at regulation—some have incorporated the federal regulations by reference.

"They will have to rethink their approach

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Court apportions brown lung benefit

Continued from page 1
recommendations of a physician.

At least one expert, however, has questioned whether proper apportionment of damages in such cases is possible.

"There is no way to identify how much exposure was caused by either cigarette smoking or exposure to cotton dust," Dr. Roger H. Secker-Walker, director of the Vermont Lung Center at the University of Vermont said last week at a conference of the International Assn. of Industrial Accident Boards and Commissions in Des Moines, Iowa, where the court decision was a popular topic of conversation among participants.

"I know of no way to separate the two because the manifestation of the problems are identical," he explained.

Mr. Stephenson also said the decision would not necessarily have an impact on asbestosis or silicosis claims in North Carolina because those diseases come under a special legislative act and are handled differently than byssinosis cases.

"I don't think the implications will be as great as industry thinks it will be, or as bad as employees do, either," Mr. Stephenson said.

Textile manufacturers and insurers, however, believe the decision ultimately will reduce the amount they pay in brown lung claims. And, they say it is also important because it prevents tapping the workers compensation system for injuries not solely caused by the job.

"The ruling is a reaffirmation of the industrial commission's finding, based on medical evidence, that Mrs. Morrison's disability was at most only partially work-related," a spokesman for Burlington said last week.

"It is particularly important because, increasingly, medical evidence is establishing that byssinosis is incorrectly blamed for medical problems caused by other factors.

"It would be improper and costly to both industry and the public generally to turn workers compensation into general health insurance programs," the spokesman said."

A spokesman for the American Textile Manufacturers Institute in Washington called the decision "a constructive one with wide-ranging implications."

"The workers compensation act was never intended to provide general health insurance for employees whose disability stems from causes other than those directly related to their jobs.

"To pay compensation for non-work-related disability would place a financial burden on the system that could threaten the entire workers compensation concept, thus depriving employees of needed protection."

However, Charles R. Hassell Jr., attorney for Mrs. Morrison, said no authority exists under the state workers compensation statute to apportion benefits.

He said that the Industrial Commission should not have apportioned the award and that it had not been proven nor could medical science determine the proportion in which the various ailments contributed to Mrs. Morrison's lung condition.

In the Morrison case, a state industrial commissioner ordered Burlington to pay for her total disability in 1978.

On appeal by Burlington, however, the full state Industrial Commission modified the original award. It ruled Mrs. Morrison should be paid only 55% of the weekly compensation benefit for partial permanent disability.

The commission found only 55% of Mrs. Morrison's loss of wage-earning capacity resulted from an occupational disease and that the the other 45% resulted from physical infirmities not related to or aggravated by her occupational disease.

The commission's decision was reversed, however, by the North Carolina Court of Appeals, which ruled Burlington had to pay the full award for total disability. If a worker can't work and a work-related injury is involved, the court said, the full total disability benefit must be paid.

It was this decision the Supreme Court reversed.

Noting that the high court set out a number of rules that will be a factor in future cases, Mr. Hassell said more litigation at the trial court and appellate level will be needed to clarify many of the issues on apportionment of awards.

He was studying the possibility of seeking review by the U.S. Supreme Court, but said there appeared to be no constitutional questions involved. "We're looking at it, (an appeal), but at first blush, the court of last resort has spoken," he said.

Peter Barth, a professor of economics at the University of Connecticut and author of a book on workers compensation, said that "given the facts as they have been reported, I think the decision is a regrettable one."

Mr. Barth said he had no objection to apportionment in principle and that it might have the positive effect of discouraging people from smoking.

"But you don't do it without giving workers plenty of notice," he said.

He said that workers need a grace period to adjust to "important changes in the rules of the game. It clearly wasn't done in North Carolina, and that's why the decision strikes me as being unfair," he explained.

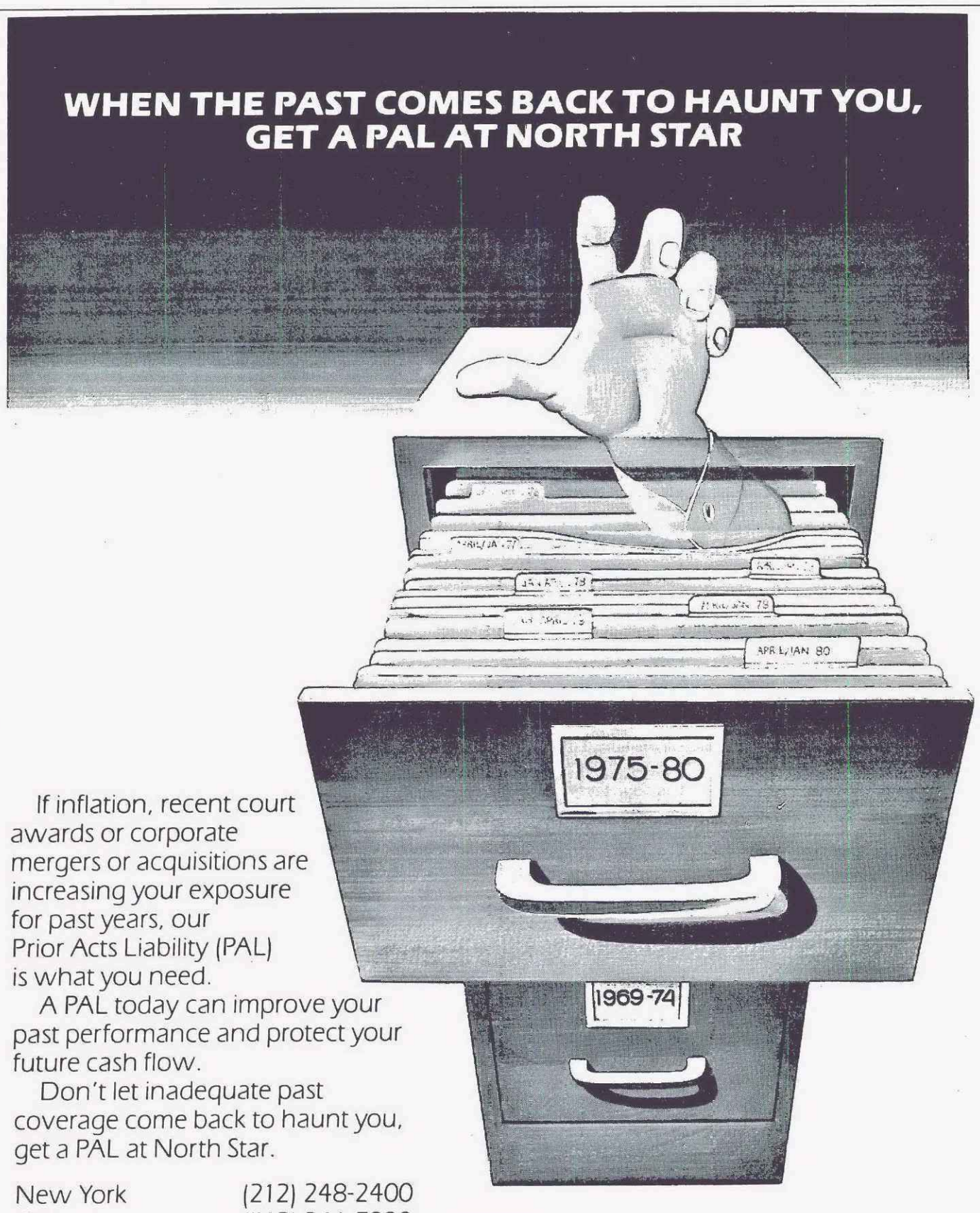
Mr. Barth added that apportionment should only be implemented by the Legislature and not the courts.

George Dennis, an attorney for both Burlington and Liberty Mutual Insurance Co., the textile manufacturer's insurer in the case, said the decision could have a significant effect in many occupational disease cases, not just lung cases or those involving byssinosis.

He said the decision already contributed to some out-of-court settlements in brown lung cases and could mean substantial dollar savings to the industry. No one had specific figures on how much Burlington or the industry as a whole could hope to save through apportionment in North Carolina brown lung cases.

Most brown lung workers compensation claims are filed in North Carolina. Through September, about $10.8 million was paid out in the state on 737 byssinosis claims found to be compensible, according to Charles Dunne, executive director of the North Carolina Textile Manufacturers Assn.

In addition, another 2,028 cases had been filed, with 268 pending, 323 withdrawn, 141 dismissed and 522 in the hearing stage. ■



If inflation, recent court awards or corporate mergers or acquisitions are increasing your exposure for past years, our Prior Acts Liability (PAL) is what you need.

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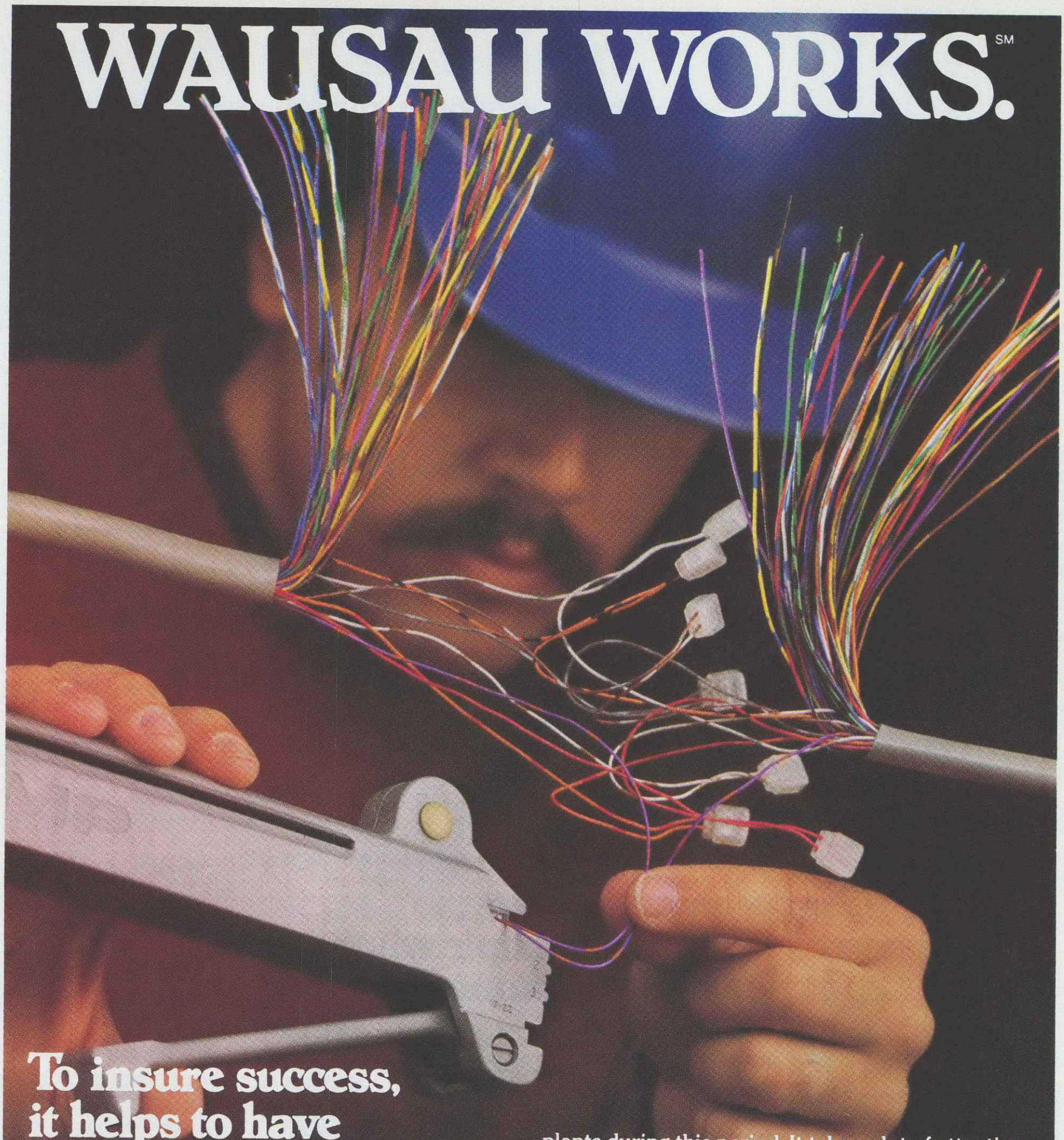
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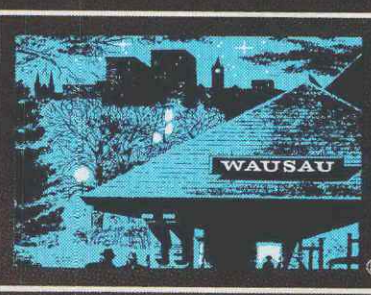
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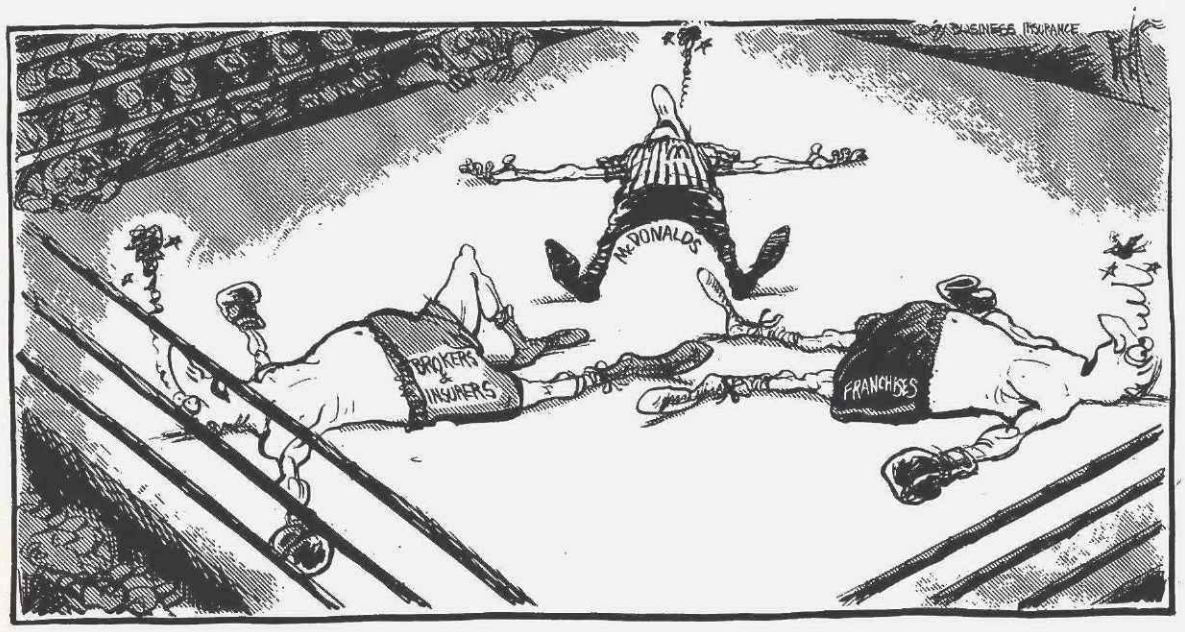
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editorial opinions



Hold the competition

WE'VE ALWAYS MAINTAINED that competition is good for the insurance industry and risk management in general, but in at least one case, we may be seeing too much of a good thing.

The unprecedented competition over the insurance on the 4,000 McDonald's franchised restaurants raises interesting questions about the goals of corporate franchise insurance programs and the ways those goals are served or not served by a price war.

The ideas behind a company-endorsed insurance program for the McDonald's franchisees seem obvious. A centralized program can serve both the corporation and its franchisees by providing consistent, adequate insurance for all at rates based on pooled experience and overall corporate clout.

A unified program also simplifies the handling of liability problems. If the corporation is party to a suit involving one of its franchisees, the risk manager need not dig through a pile of insurance certificates (if he has them on file) to locate the insurer that needs to be notified. One call can do it all.

A central plan for all franchises also contributes positively to the corporate image, lending more confidence in the uniformity of service the corporation is supposed to provide. Just as a uniform product guarantees that no franchisee is left in an inferior marketing position, a uniform insurance program can guarantee that no franchisee has inferior protection against the kinds of losses that all of the franchises face.

Will the McDonald's franchise program meet these rather obvious goals? Probably not.

As reported in *Business Insurance* last week, the coverage for the 4,000 stores seems split among at least five insurers and a multitude of brokers at wildly varying premiums.

Although the coverage probably meets minimum requirements set by McDonald's Corp., it is questionable whether all the policies are completely consistent, considering that premiums ranged from $1,000 to $8,000 for such similar risks. The task of reviewing 4,000 separate policies is monumental, requiring time and effort that could be better spent on loss control and planning.

Stability of coverage is also questionable. Will the insurer that slashed rates to get a group of restaurants be able to maintain those rates? Will high-risk restaurants in inner-city areas look as good in 1982 as they do now? Or will some franchises have to take deductibles or massive premium hikes? If premiums do skyrocket as losses roll in and the marketplace tightens, who will be blamed? Most likely the parent corporation, who takes the blame for every stale bun and broken deep-fryer.

McDonald's shouldn't be blamed for cooking up the fires of competition. McDonald's risk manager Jerry Lane acted in his professional judgment last year and this year in switching brokers and insurers. And if this year he switched insurers for price—which he says was just one factor—who can fault him? Making suppliers compete is a time-honored tradition that goes back before the first hamburger was served.

But who really won the Battle of the Big Mac?

Maybe nobody.

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.

Article is out of perspective

To the editor: Your article on long-term disability in the Perspective section (*BI*, Sept. 21) is certainly out of perspective with the group LTD products currently available on the market.

While I agree that many businesses are not adequately insured against the risk of the disability of key employees, I must point out that your article does not adequately represent the features of today's group LTD plans.

In contrast to your description, group LTD plans are available in which:

- Your "own occupation" definition of disability is used for the duration of the benefit period (usually to age 65 or 70).
- Monthly maximum benefits are more than $4,000 (even as high as $10,000).
- In addition to salary and commissions, bonus and other types of income may be covered.
- Methods of offsetting for Social Security are available that allow an employee making $6,000 per month (as in example B) to collect the full $2,500 maximum benefit from the group LTD insurer and still collect $500 (or more) per month from Social Security.

I am surprised that a publication of the stature of Business Insurance would allow such a misrepresentation of existing group products to be used as the basis for a comparison.

John W. Kaufman Jr.
Group sales representative
The Hartford
Somerdale, N.J.

* * *

To the editor: Your article on long-term disability plans contained some inaccuracies regarding taxes:

- Salary continuation payments pursuant to company policy are deductible by an employer.
- Such receipts ("sick pay") are excludable from the employee's gross income to the extent of $100 per week.
- Contrary to the article, neither the employer nor the employee will be paying Social Security taxes on sick pay.
- Proceeds from non-contributroy LTD plans are indeed taxable, according to the Internal Revenue Code. As a matter of fact, they are subject to withholding taxes, effective Oct. 1.

Herbert H. Feldman
Insurance Consulting Associates
Great Neck, N.Y

■ *Due to an editing error, an unrevised version of Allan B. Checkoway's article on long-term disability was published and did not include several expansions regarding tax deductions and Social Security. He will respond to these issues in a future article.*

However, Mr. Checkoway says that his remarks do accurately decribe the great majority of disability situations, especially in regard to small and medium-sized employers.

Expanded coverage is available from some insurers, he agrees, but the plans are not frequently promoted or purchased.

Agents, insurers aren't the only CPCUs

To the editor: I must take exception to the comments made by Frank E. Walton in his Perspective article "Independents do professional work" (*BI*, Sept. 28).

Mr. Walton states: "About 15,000 people have earned the CPCU designation, and half of them are agents (the rest are insurance company personnel)." A growing number of risk managers and a sizable percentage of those engaged in risk management consulting have earned the CPCU designation. Approximately 10% of all CPCUs are neither agents nor insurance company personnel.

Joseph E. Phillips, CPCU
Manager
Risk Management Department
Northwest Energy Co.
Salt Lake City

RIMS should adopt code of ethics

To the editor: Your editorial opinion, "Polishing your image" (*BI*, Oct. 5), was most appropriate. It is unfortunate that many risk managers apparently do not realize that they too must take responsibility for improving ethics and honesty in the insurance realm. RIMS touts itself as a "professional society," but it does not even have a written statement regarding ethical conduct. It is high time it did.

This may not be an easy task and will doubtlessly prove controversial, but "professional" risk managers should urge RIMS to develop a code or statement of ethical principles. Another question worth asking is whether the annual RIMS conference is presented in a manner that promotes ethical, professional conduct.

J.R. Weddle Jr.
Risk Manager
General Mills Inc.
Minneapolis

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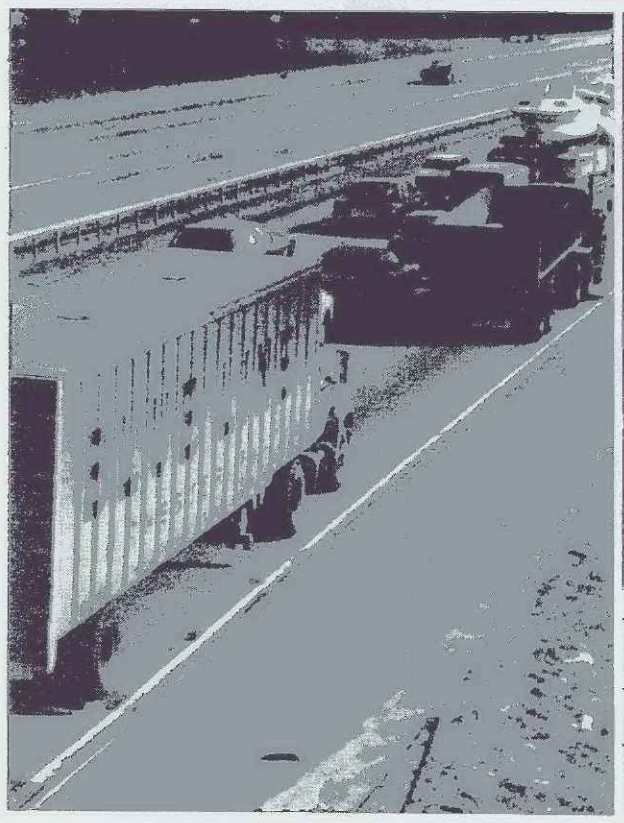
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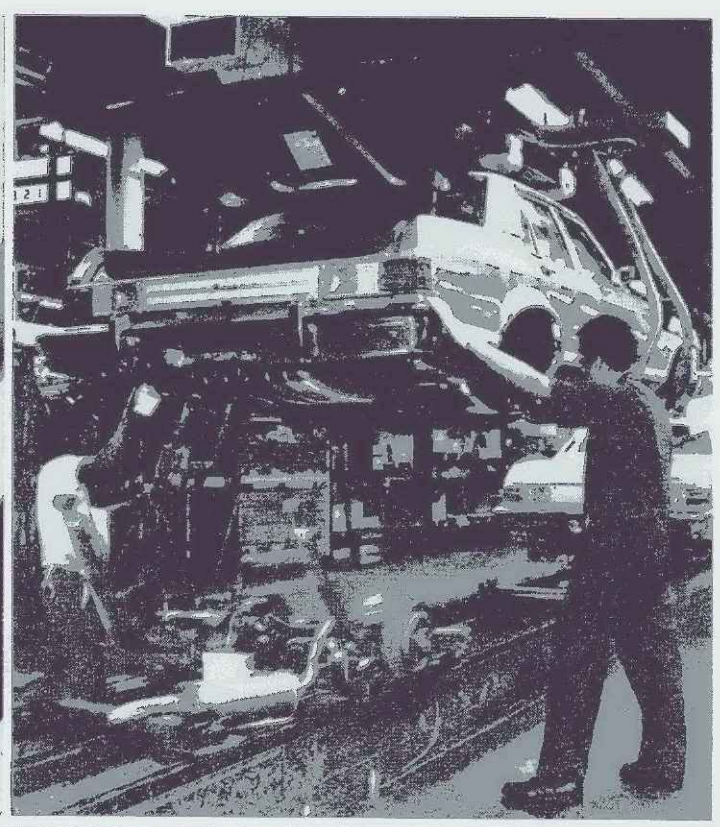
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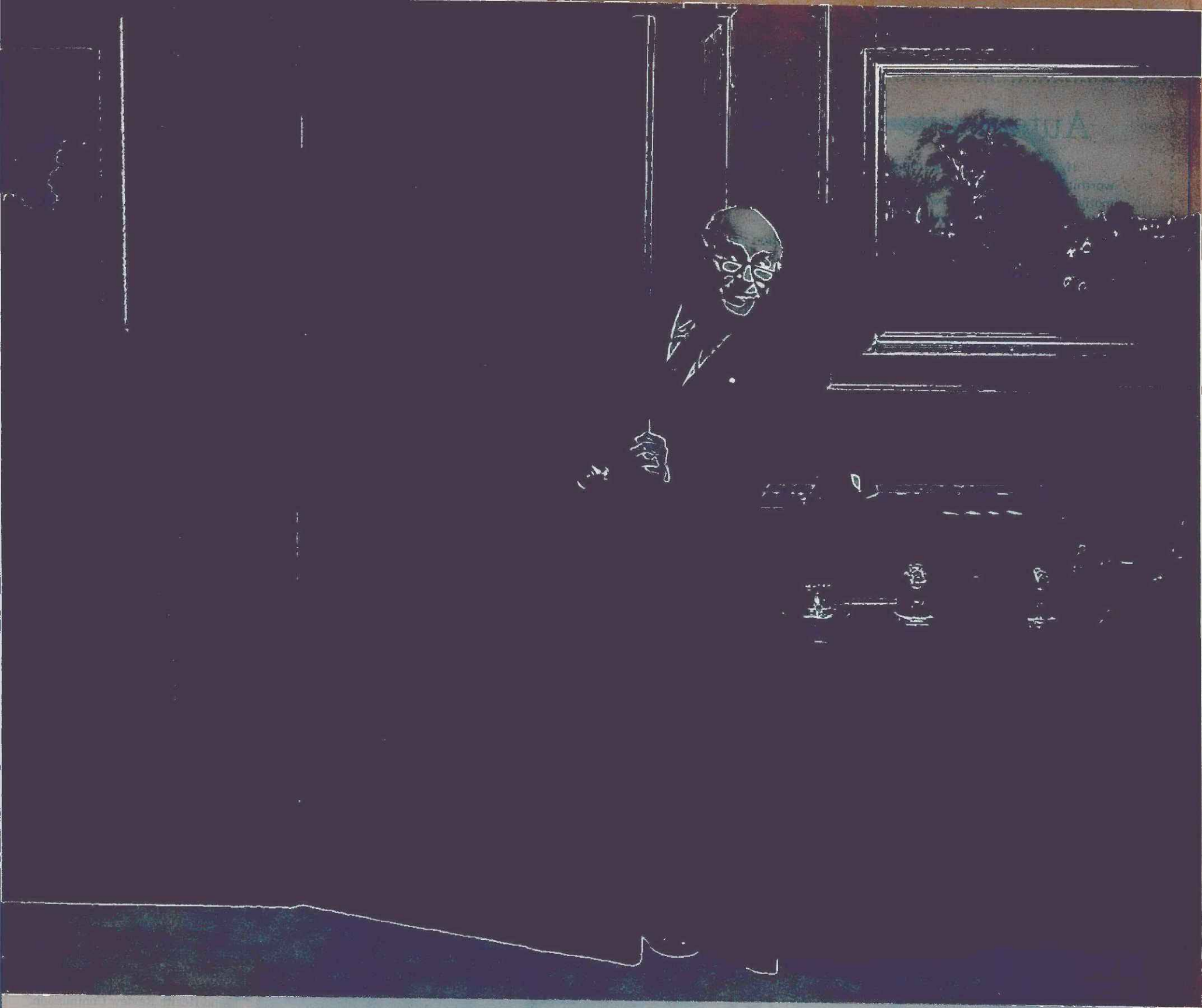
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CICA conference

Risk managers mull captive innovations

MIAMI—When members of the Captive Insurance Cos. Assn. gather you can bet the seeds of new, innovative ventures will be sown.

The 208 members of CICA, whose companies own 220 insurance companies, are among the best and brightest of U.S. risk managers. And their annual meeting, open to guests by invitation only, gives them a chance to swap ideas and develop new ones.

Although cheap insurance prices might lure many risk managers into complacency about their risk management programs, it's clear that even in the best of times, some CICA members continue to explore new ways to fund their losses for both market stability and price. And they continue to investigate how they can turn their risk management departments into profit instead of cost centers.

At this year's CICA meeting Oct. 4-6 at the Doral Country Club in Miami, attended by 140 of CICA's 208 members and almost an equal number of guests, two meetings of risk managers prove the point.

A CICA members-only meeting to discuss new ways captive insurance companies can exchange their risks attracted about 20 people. The discussion focused on how captive insurers could trade risks with one another in a manner different from the kind of group captives in existence now, such as Corporate Insurance & Reinsurance Co. Ltd.

Instead of forming a captive or pool to exchange one type of risk, like liability, the risk managers brainstormed how one captive could trade, say, its marine risk for the liability risk of another captive.

This kind of risk exchange is done informally in Bermuda now, but the risk managers are considering how a more formal risk exchange could be structured.

Such trading would provide the captives more unrelated risk business and strengthen the parent company's case that the captive is a bona fide insurance company, affording its parent the right to take tax deductions for premiums paid to it.

Another smaller group of risk managers met quietly after the CICA meeting to discuss a study on the feasibility of buying a small London broker as an investment and a way to keep their fingers on the pulse of the market. The companies involved could tap the profits accumulated in their offshore captives to fund the purchase.

The investors would not necessarily use their broker to market their own risks in London but are more interested in the profits.

The purchase of a London broker by a group of U.S. companies would signal yet another stage in the development of risk manager involvement in the insurance market, beyond creating insurance companies, becoming part of the intermediary business.

Those believed to be in the study group—which has hired two consultants, Bill Mortimer in the United States and Ron Hancock in London—declined to publicly confirm or discuss their work, saying it has not been decided to purchase a broker.

Whether the seed grows to bear fruit or not, the very discussion of the idea keeps the risk managers on their toes.

For information about CICA, contact the organization in care of the Risk & Insurance Management Society, 205 E. 42nd St., New York, N.Y. 10017.

Risk Retention Act ambiguous: Attorney

By KATHRYN J. McINTYRE

MIAMI—The exact meanings of parts of the recently enacted Risk Retention Act aren't clear, promising to raise the curtain on lots of litigation, a tax attorney says.

The result of that litigation could be helpful to companies using captive insurers that are looking for more decisions on the tax consequences of using the alternative risk-funding mechanism, notes James Cameron of the law firm of Baker & McKenzie in New York.

The Risk Retention Act, as adopted, is stripped of all federal regulatory power, leaving taxpayers and their attorneys with questions but with no one to call for interpretation, the attorney told the Captive Insurance Cos. Assn.

"It means plenty of business for lawyers," he quipped.

Specifically, Mr. Cameron raised a series of questions.

The Risk Retention Act requires that a risk retention group be formed with the primary purpose of insuring members' product liability and completed operations risks, and requires that this be the group's primary activity.

Although the exemption from certain state insurance laws for the group will apply only to product liability and completed operations risks, Mr. Cameron interpreted the use of the word "primary" in the law to mean that risk retention groups could self-fund other risks. This option was not highlighted when the bill was debated in Congress.

But Mr. Cameron suggested there is a lot of room for interpretation of what constitutes "primary purpose" and "primary acitivity."

Does, for example, it mean a risk retention group's business must be 51% related to product liability and completed operations risks, or could the group fund four different kinds of risk as long as product liability was the largest risk?



Cameron

Or, he asked, could a risk retention group form a subsidiary to fund other risks?

The sunset provision on the eligibility of offshore captives to qualify as risk retention groups also is unclear, Mr. Cameron said. The law says that only captives formed by Jan. 1, 1985 and certified by one state for minimum capitalization can qualify as risk retention



groups. Could a captive chartered before the cutoff date but not certified by a state until after the deadline still qualify as a risk retention group?

Mr. Cameron says he also is concerned that some group captives might become risk retention groups without trying when they don't want to be the new groups.

Many group-owned captives have been established as mutual insurers to avoid any potential problems with the Securities and Exchange Commission.

The Risk Retention Act, however, subjects the risk retention groups to the SEC's anti-fraud provisions.

Mutuals need not worry, however, he noted.

"There are plenty of ways to break the rules and be a risk retention group," Mr. Cameron explained.

Another issue won't surface immediately, but what happens if a risk retention group becomes so successful it wants to become a licensed insurer?

And what if its original status as a risk retention group were challenged, alleging that it merely used the act to get started with the full intention of becoming a licensed insurer?

Finally, Mr. Cameron said, it appears that foreign corporations could be participants in risk retention pools, but that isn't clear, either. ■

Tax cases, rulings watched

MIAMI—As tax attorneys wait to see if the Supreme Court will review the ruling in the Carnation Co. tax case (*BI*, March 9), they are closely monitoring developments in other pending cases and Internal Revenue Service rulings.

Curiosity is piqued by the recent revival of action in the Ford Motor Co. captive case, which was settled in 1978 for certain early tax years (*BI*, Jan. 8, 1979). At that time, however, it was known that transactions between Ford and its Bermuda captive in later years were being challenged by the Internal Revenue Service.

Also interesting to watch are letter rulings by the IRS, which state the IRS position in response to a taxpayer's question.

A recent letter ruling by the IRS, No. 811087, reveals more about its position on dealings with captive insurers. It said that no more that 50% of a group-owned captive's premium can come from one participant and no more than 5% of the "risk coverage" can pertain to any one insured.

Tax attorneys were scratching their heads over what the IRS meant by risk coverage but have since learned from IRS sources that risk coverage means policy limits.

That leaves group captive participants with the problem of how to compute what the policy limits are for holders of workers compensation insurance, which is written without a cap to statutory limits.

James Cameron, a partner with the law firm of Baker & McKenzie in New York, has suggested to such confused clients that they could use the maximum loss possible for each employee and multiply it times the number of covered employees. The products of this multiplication for each participant would be compared to determine if any one participant's potential limit of coverage would exceed 5%.

"One client called it stupid," Mr. Cameron said, agreeing that it is, but maintaining it is one way to cope with the ruling.

Alternately, group captives could buy stop-loss insurance for their participants limiting the loss of any participant to meet the 5% test.

The letter ruling, Mr. Cameron believes, was the result of an IRS attempt to mesh two previous positions on captives. In one, Revenue Ruling 78-338, the IRS said that the risks of no one participant in a group captive could exceed 5% of the total risks to be recognized as an insurance company for tax purposes.

The other previously stated position is in the IRS regulations governing Section 105 of the Tax Code pertaining to medical reimbursement plans. The IRS said that a plan would be considered insured if it were funded through an affiliated insurance company when the affiliated business of the insurance company did not exceed 50% of its total business. ■

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Captives could aid insurers' cash flow

MIAMI—Captive insurance companies might have the chance to gloat and make the commercial insurance industry eat its words of doom and gloom about captives if a reinsurance expert's scenario for the future comes true.

Imagine commercial insurers in negative cash-flow positions and facing the prospect of selling their bond portfolios at huge discounts, resulting in substantial capital losses, says James Billett Jr., president of Trenwick Inc. of Westport, Conn.

"Some large and senior underleveraged captives might have a unique opportunity in the next couple of years to loan their liquidity to the insurance industry in the form of reinsurance transactions at highly favorable terms," he suggested.

A commercial insurer could, for example, buy a stop-loss cover from a captive for a fee, and after presenting a claim that is in excess of the insurance company's ability to pay, collect from the captive under the stop-loss coverage. Eventually, the commercial insurer would pay back the captive the cost of the claim plus interest.

Mr. Billett coined the term "liquidity stop-loss coverage" for this type of transaction.

The captive could ask the commercial insurer to secure the transaction with a portion of its portfolio, he noted.

"Ask yourselves what a U.S. insurance company with the prospect of liquidating its bond portfolio, which is 40% under water to meet its current cash-flow demands, would pay a captive reinsurer over the long term to assume its short-term obligations," he told a group at the Captive Insurance Cos. Assn. meeting in Miami earlier this month.

"Ask yourselves how sweet it might be for members of the captive insurance community to come to the rescue of the industry that considered them a passing fancy," he smiled.

Trenwick Re, the Bermuda-based reinsurance company formed by Mr. Billett and four other former General Reinsurance Corp. employees, has earmarked some of its $27 million in capital to "loan to the industry in late 1982," Mr. Billett said.

Reserving a portion of the captive's money for such future business is just one alternative investment opportunity Mr. Billett suggested risk managers consider.

And it should be the risk manager who weighs the investment options of a captive, he said. "He who runs the captive should be just as involved in the investment function as the insurance function," he said.

This is not often the case, however. Money management for most captives is handled by the treasurer's office.

In reviewing the history of the insurance industry's investment practices, Mr. Billett said, "What was and still is fundamentally wrong is there has been and continues to be little or no interface between insurance management and investment management.

"The insurance managers are either underwriters or marketers and the investment managers are either analysts or institutional buyers. Not only do they have little in common, they very seldom even see one another."

Mr. Billett stressed that he is advocating a system beyond the conventional knowledge that one should match liability disposal rates with asset maturities. "The casualty insurance companies thought they were practicing that when they went long in the bond market in the late 1970s, and look at them now," he said.

For those who don't recall history:

In the mid-1970s, the insurance cycle was reaching the bottom of low pricing, the insurers were heavily invested in equities when the stock market weakened. Then unanticipated losses hit and insurers were forced to liquidate their equities below cost, creating substantial capital losses.



Billett

In response, insurers decided to limit equity investments to less than 100% of surplus and bought long-term tax-free municipal bonds, which aren't subject to market crises. Their yield, however, is about 5% to 7%.

The insurance cycle appears once again to be reaching the bottom of low pricing. Now, the industry is heavily invested in the long-term tax-free municipals while interest rates are holding at unprecedented high levels.

Mr. Billett predicted negative cash flow on the horizon, which would force insurers to sell their bond portfolios at huge discounts and substantial capital losses.

Insurers, watching clouds forming over the same horizon, are trying to increase their market share to acquire new cash so they don't have to unload their bonds. They are putting their available cash into short-term investments for earnings growth. But, there could be a dramatic decline in short-term rates and increasing liabilities, forcing insurers to either sell their bonds or look for help elsewhere—for example, captives with cash to loan.

Captive insurance companies can learn from these mistakes, Mr. Billett suggested. They can forecast and plan the investment function in conjunction with the insurance function.

Continued on page 18

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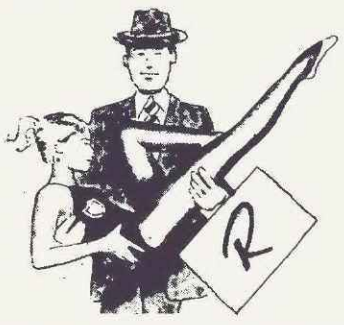
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Captives to the rescue?

Continued from page 16

"The mistakes of the insurance industry are not entirely the fault of bad investments but rather a continued absence of dialogue between what has been regarded as the active business function and the passive investment funtion," he said. "Both functions must be active and interactive.

"If the risk manager handles the insurance and the treasurer handles the investment, you may be heading down the same overtraveled road as the insurance industry," Mr. Billett said.

"If investment income generates the majority of your captive's profits, as it has for the insurance industry since 1954, and you don't play a principal role in the development of the investment strategy, you are missing a challenging opportunity and your captive may be missing some surplus in years to come," he warned.

Any risk manager who doesn't feel capable of undertaking this responsibility should tap investment expertise, he said.

A risk manager in charge of investment should consider business equity investment opportunities if the captive has consistently accumulated earnings over three to five years, or if the parent company would be willing to contribute additional capital for this purpose, Mr. Billett suggested.

These investments could be in joint ventures, private offerings, public offerings and acquisitions.

"My suggestion is to develop a plan for capital deployment rather than playing the venture capital, one-deal-at-a-time game," he said. The step-by-step procedure should be to:

- Determine whether it is consistent with your captive's purpose to diversify through investments.
- If it is, earmark a certain level of your surplus for that purpose—10% to 20%.
- Determine what the purpose of such an investment should be: an incremental return on investment, real rate of return, to become involved in outside business or service business, or as a tuition for additional industry knowledge.
- Determine how best to achieve your purpose: acquiring a company, getting into a joint venture, investing in a private or public offering or buying marketable securities in the insurance business.
- Determine if you have the internal capability to evaluate all the risks. If not, find someone who can.

But don't forget your investments need not be in the form of share certificates or interest-bearing instruments. The insurance industry just may need the captive industry's capital to lay off some liabilities, he concluded. ■

Experts' advice not all the same

MIAMI—Ready to get involved in the investment management of your captive?

The first thing you'll find is that you'll get conflicting predictions about the future money markets.

Witness the market predictions of a panel at the Captive Insurance Cos. Assn. meeting.

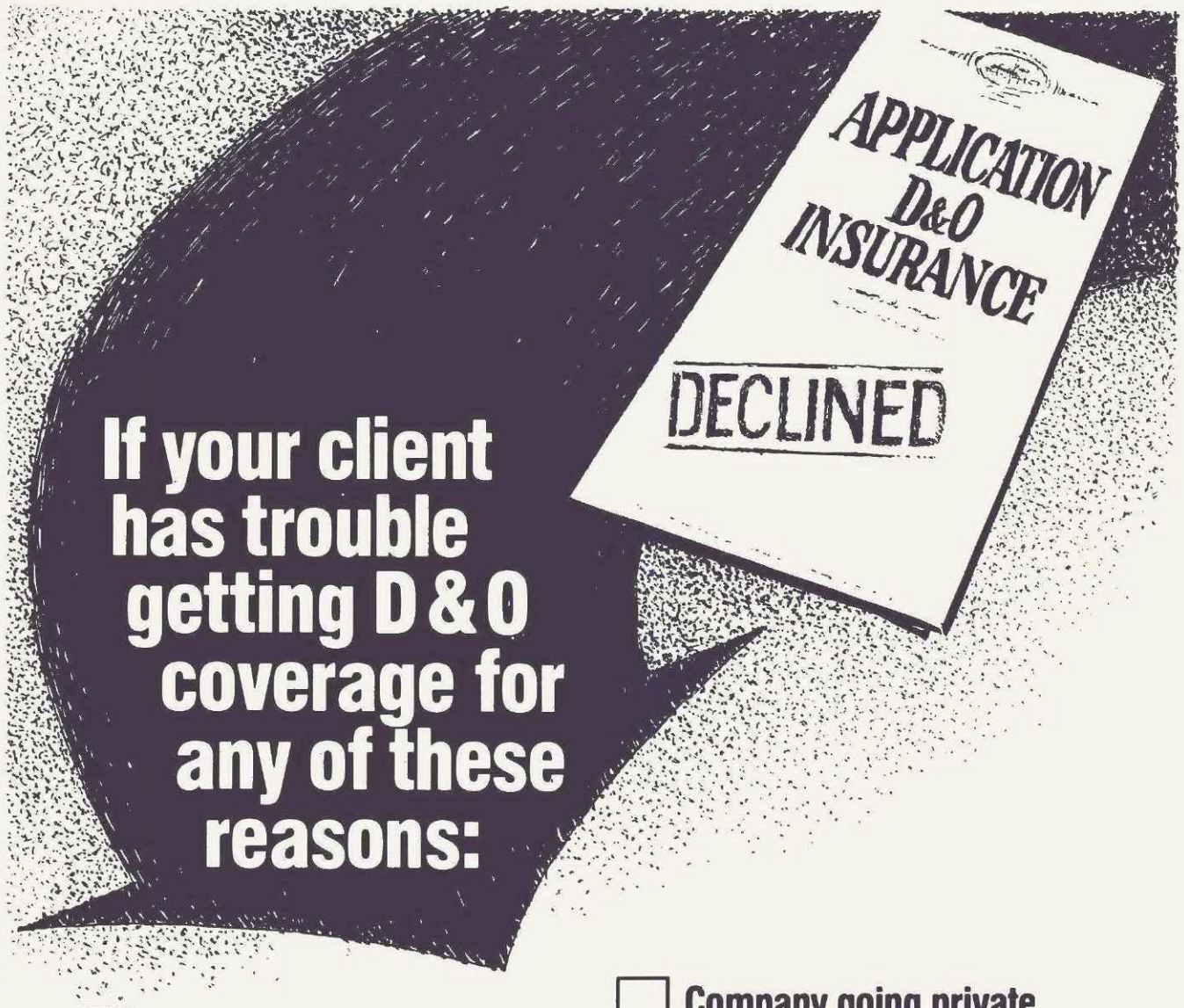
Werner Genieser, vp at The First Boston Corp. in New York, predicted that interest rates will rise a year from now, so long-term rates will be one to two points higher than at present. Companies should keep their money in short-term instruments. Corporate profits will be disappointing in the near future, which will be bad for stocks.

Joel Strauch, vp at Morgan Guaranty Trust Co. in New York, said there will be an opportunity in the next three or four months to move out of short-term securities a bit because some attractive longer-term offers will be made. He too, however, is concerned about equities in the next six months, fearing that corporate profits will suffer in the period.

James Billett Jr., president of Trenwick Inc., said, "We straddle the experts. We have invested that portion of assets in medium-term instruments not to exceed five years that will allow Trenwick to meet its earnings projections and overhead budget.

"With the other portion, we are investing in shorter-term instruments to optimize rather than maximize."

He advised risk managers managing the investments of their captives to "measure yourselves against what other financial institutions, including insurance companies, are doing. That is what you should be trying to out-perform—not the parent company." ■



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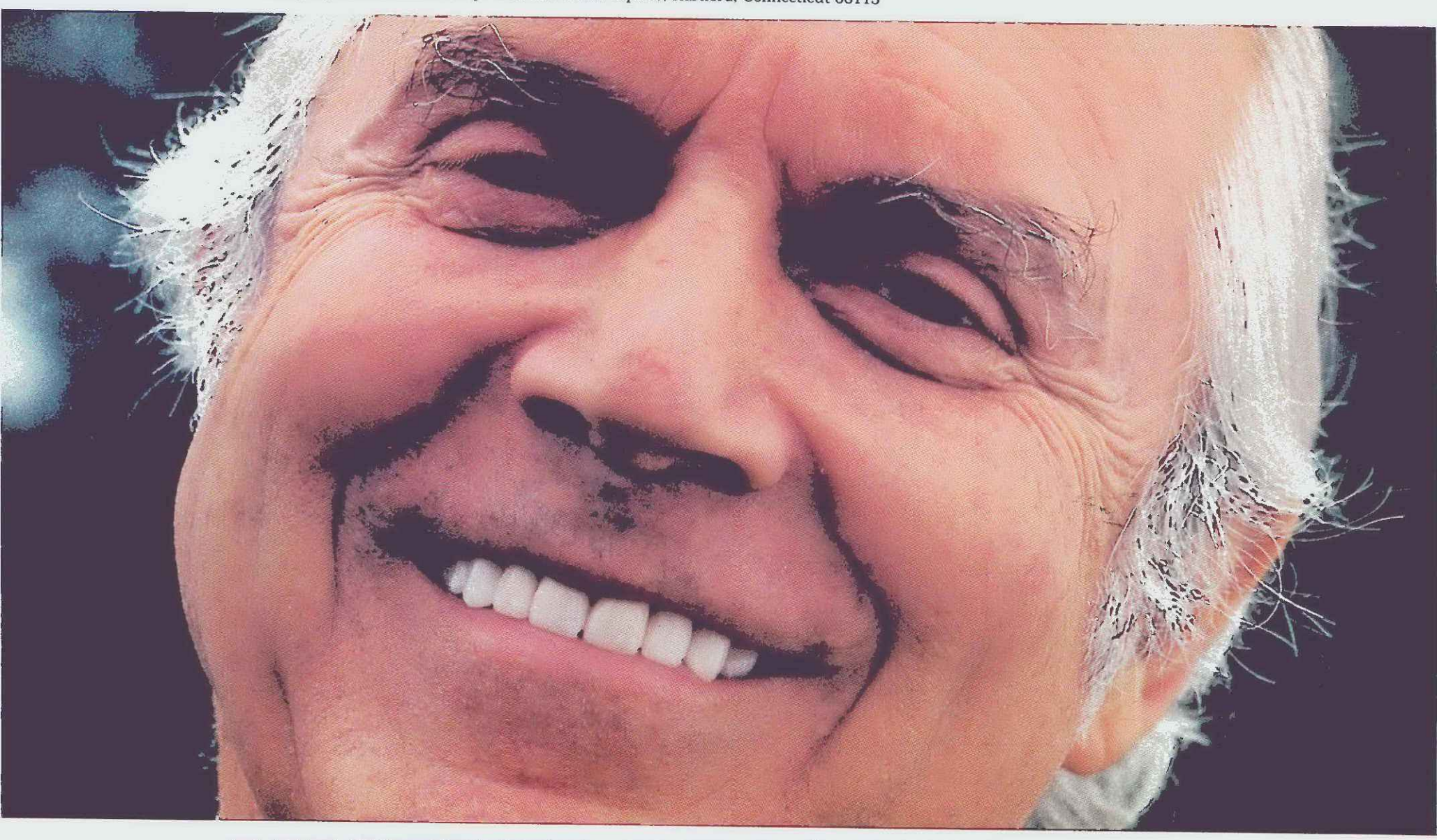
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ANOTHER REASON WHY THE TRAVELERS IS A LEADER IN INSURING SMILES.

Bad management can cause claim reserves problems

MIAMI—Claim reserves can be too large or too small because of improper claims management.

To guard against possible claims management problems, watch for the following signs, suggests Oakley E. Van Slyke of Warren, McVeigh & Griffin:

- An unexplained increase in the number of outstanding claims.
- An unusual fluctuation in reserves or payments.
- An increase in litigation.
- The administrator fails to return your calls promptly.
- The administrator gives you ambiguous answers.

You also can detect claims management problems by reviewing the loss experience report, Mr. Van Slyke noted. Look at the files on claims that you know. Are they accurate? Look at old claims and the last time a payment was made. You may find reserves for claims that should be long since closed.

The results of this scrutiny may tell you to engage a consultant to conduct a claims management audit to thoroughly evaluate the quality and cost-effectiveness of claims administration, to identify problems and determine the accuracy of the loss experience report.

The reserves also can be analyzed from the viewpoint of a good claims person, which will give a different perspective from that of an actuary, Mr. Van Slyke noted. Claim payments and reserves should be tested against the loss experience report.

The claims audit procedure should include reviewing the lastest loss experience report and selecting suspicious claims for close review. In addition, selected and representative samples of open and closed claim files should be reviewed. The auditor should offer advice on claims that aren't being handled properly.

Analysis of worksheets and memos will reveal patterns and trends in the claims administration process. The auditor should evaluate the claim personnel both by this review of the work product and by interviewing the personnel.

Although there is some merit to the suggestion that a claims audit should be conducted before an actuarial audit of the reserves is tackled, Mr. Van Slyke said that with four to five years of claims history, the actuarial audit can be conducted first.

Actuaries can determine correct level of reserves

By KATHRYN J. McINTYRE

MIAMI, FLA.—How sound are your self-funded or captive insurance company loss reserves? Could they be too low? Too high?

Ralph F. Perry Jr., Amfac's assistant vp and risk manager, found that the insurance industry executive on Amfac's board of directors, Fireman's Fund Chairman Myron DuBain, wanted those answers recently.

Mr. Perry believed the reserves were proper, but to be sure, he hired an actuary to assess Amfac's reserves, established over eight years of risk retention.

The result was good news for Mr. Perry and Amfac: the reserves were proper.

You might not have an insurance industry executive on your board of directors, but you still may find someone asking you those questions. An insurance regulator, perhaps.

If your captive is incorporated in Bermuda and more than half of its business is in product liability or medical malpractice risks, a certification of the loss reserves is required. The new Vermont captive law requires an annual certification of reserves for losses under all lines.



Photo: Kathryn J. McIntyre

Mr. Perry, left, and Mr. Van Slyke at the CICA meeting.

Or, if you are a light sleeper, you may appreciate the assurance that your reserves are proper.

Mr. Perry and the actuary who analyzed Amfac's reserves, Oakley E. Van Slyke, consulting actuary with Warren, McVeigh & Griffin in Newport Beach, Calif., discussed the the procedures of an actuarial reserve analysis at the Captive Insurance Cos. Assn. meeting here earlier this month.

Beginning a reserve analysis project, Mr. Van Slyke explained, entails analyzing the annual premium to be paid the captive or self-insured trust. These questions must be answered:

- How much is expected in incurred losses and expenses?
- What should be added for contingencies (or the risk factor associated with an insurance premium)?
- Is the existing funding level adequate?

One might also want to consider investment income to be earned on the reserves when determining how much needs to be reserved each year.

In analyzing the expected incurred losses, one must know if there are changes in exposure—are they growing or decreasing? What is the impact of inflation on your company's type of claim? Is it less or greater than the Consumer Price Index? Are the number of losses growing or shrinking? Are losses



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reserved in prior years being paid at less or more than they were reserved for and by how much? What can you expect in large losses?

When you hire an actuary to analyze your loss reserves, he will throw out technical terms like loss trending and loss development.

Loss trending reflects the increases in loss costs from year to year. Cost indexes, like the cost index of auto bodily injury claims, are used to help determine what the trend factor should be to anticipate the increase in claim severity for each year.

The trend factor is used to help determine the proper reserve for recent years in which claims reports are insufficient for setting reserves.

Loss development refers to the tendency of loss costs to increase over time until all the claims are settled. In this way, loss development takes into account claims that have not yet been reported and under- and over-reserving on reported claims.

The actuary uses this factor to adjust the estimated loss costs made by the claim adjusters to reflect how actual loss costs have emerged in the past.

In dollar terms, most loss development is on big claims, Mr. Van Slyke noted. Small claims, however, typically settle for less than the reserve.

An example of loss development on first-dollar workers compensation losses for California showed that losses still unpaid after 15 months since the beginning of the accident year will ultimately be paid for 43% more than the 15th-month estimate would suggest. The longer the claim is open since the accident, however, the lower the loss-development factor that must be applied to it.

Mr. Van Slyke admitted that the quality of a loss reserve analysis by an actuary will depend upon how much the company is willing to invest in the study. The results of a $2,500 study on claims for a small school district using almost entirely industry data don't compare with the results of a $100,000 study on the actual claims and reserves of a professional liability group insurer, he said.

Companies contracting for an actuarial study should ask the actuary for projections on the number of claims and incurred losses the company can expect in the future. "Ride with it as long as the projections bear out," Mr. Van Slyke suggested. "As soon as they start changing, get another study done."

The type of study needed on reserves will depend upon the age of the claims, Mr. Van Slyke noted. Auditing a new captive in Bermuda with reserves for claims just 2 or 3 years old, the claims history might be largely an audit of procedures because there would not be enough data to project loss costs from the statistical data alone.

However, a new captive whose parent company has maintained detailed records on past claims would have the statistical data necessary to apply trend and loss-development techniques. ■

Judge rejects ban on abortion cover

WASHINGTON—U.S. District Judge Gerhard Gesell has ruled that Donald Devine, director of the Office of Personnel Management, exceeded his authority when he eliminated abortion coverage from all 1982 federal health insurance plans except when the life of the mother is endangered.

Judge Gesell's decision came in a suit filed by the American Federation of Government Employees, a federal union that has about 44,000 participants in its health insurance plan. The union contended that Mr. Devine acted illegally when he banned coverage for elective abortions beginning in 1982 (*BI*, Nov. 5, 1980).

Judge Gesell's decision could prompt other federal health plans that had agreed under protest to drop the benefit next year to go to court to have the abortion benefit coverage restored.

Mr. Devine said he was following congressional intent.

While the House has approved an amendment by Rep. John Ashbrook, R-Ohio, that would bar federal health insurance plans from covering elective abortions, there is no way to predict how the full Congress will vote, Judge Gesell said.

"Mr. Devine's attempt to guess how Congress will act on this important issue now under intense consideration by the body represents usurpation of the democratic processes," he said. ■

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Sponsor's death could hurt struggle to pass Lloyd's bill

london line

By STACY SHAPIRO

LONDON—The Lloyd's of London self-regulation bill may have suffered a setback with the recent death of its parliamentary sponsor, Sir Graham Page.

Sir Graham, a member of Parliament since 1953, died two weeks ago. He was 70.

"We're very saddened by his death because he's been invaluable to us," said a Lloyd's spokesman. "We're grateful for him getting the bill as far as he did."

The Lloyd's bill won't need a new parliamentary sponsor until December, the spokesman said.

When Parliament reconvenes in November, a House of Commons committee will hear the proposals for the new divestment clause that was approved by Lloyd's members in July. The clause demands that Lloyd's brokers divest themselves of their underwriting management agencies within five years after the bill becomes law.

The bill will then be debated by the entire House of Commons, where a new sponsor will attempt to steer it past the objections concerning a clause that makes the proposed Lloyd's council immune from suits by Lloyd's affiliates. Lloyd's is presently drafting a document to explain why the immunity clause is needed.

Sources say there may be a compromise on the immunity clause, but the official word is that a compromise is unlikely. "At this stage, we're certainly not talking compromise," the Lloyd's spokesman said.

But if enough members of Parliament are opposed to the bill, it could be withdrawn altogether.

Lloyd's hasn't yet decided who will now sponsor the bill.

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Want a politically stable island that can provide a tax exemption for your captive?

Then try the Isle of Man, where a new Exempt Insurance Companies Act has just passed, but where the government's been around for more than 1,000 years.

"It's the longest continuing Parliament in the world," said Robin Bigland, chief executive of the Isle of Man & General Life Assurance Co. Ltd.

"For the first time, we have a stable community offering an exempt insurance bill which, as one man from Bermuda said to me, is the most attractive game in town," said Mr. Bigland.

The law provides that insurance companies (captives and/or others who do third-party business) will not be subject to tax on their investment income and the underwriting business on non-island risks.

Although the Isle-of-Man government, called Tynwald, has been around for centuries, it waited until now to push through tax-exemption legislation, upon the urging of the island's insurance community, Mr. Bigland said. "We felt the time was right."

Ski races

Lloyd's of London underwriters will take on any risks, and, this time, it's their bones they're risking.

Some Lloyd's people might just fall on their faces—literally—during the International Insurance Ski Races Jan. 29 and 30 in Courchevel, France.

Sponsored by an American International Group French subsidiary and the French insurance magazine L'Argus, the ski tournament has been held for the last 10 years.

"It is intended to be a few days where the international European insurance community can gather to meet each other, renew old friendships and make new contacts in a friendly, relaxed atmosphere," the brochure touting the event says.

American insurance personnel are invited. If interested in attending the races and learning how to ski, contact Jeff Greenberg, American International Underwriting, 2200 N. Loop West, Suite 200, Houston, Texas 77081; 713-683-4500. ■



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Hatcher named CEO of Johnson & Higgins

NEW YORK—Johnson & Higgins has named **Robert V. Hatcher Jr.** as its new chief executive officer, succeeding the retiring **Richard I. Purnell**, a 35-year Johnson & Higgins veteran who will continue to serve as chairman until the end of the year.

Mr. Hatcher, a J&H employee since 1968 when it acquired the Baker-Cockrell Agency, a Richmond, Va., firm he joined in 1959, assumes his new duties immediately. He will continue to serve as the company's president.

Johnson & Higgins officials said a new chairman will not be immediately appointed.

Also, **Peter B. Hutzel** and **George L. Budd Jr.** named vps in the employee benefit plan department of J&H in New York.

Other broker changes:

Daniel L. Douaire elected to the newly created position of vice president responsible for mergers and acquisitions at Rollins Burdick Hunter Co.

Roger M. Simpson Jr. elected president and chief operating officer at Rollins Burdick Hunter of Illinois Inc. **James H. Butler** elected executive vp.

Florian T. Frank elected vp of the ocean marine department of Frederickson Insurance Agencies Inc. of San Francisco.

Dennis P. Top named vp and **Jamie V. Martin** named assistant vp of the Cleveland office of Frank B. Hall & Co.

comings & goings: industry

Excess/surplus

Michael T. McDaniel named resident vp of the San Jose office and **Gary Galeotti** named producer for the Seattle office of IWest Insurance Managers Inc.

Victor O. Schinnerer & Co. Inc. announced four promotions: **Paul L. Genecki** elected senior vp, and **Homer M. Sandridge Jr., Ernest R. Blackwell** and **Richard J. Walk** elected vps. Schinnerer is based in Washington, D.C. ■

Insurers

Waverly G. Smith, president and chief operating officer of The St. Paul Cos. Inc., will retire effective Feb 1. **Robert J. Haugh** was elected to the recently created position of executive vp in charge of insurance operations at The St. Paul Cos. Mr. Haugh will continue as president and chief executive officer of St. Paul Fire & Marine Insurance Co.

Phillip E. Dyer named director of field operations for Region 4 of the Insurance Corp. of America.

American United Life Insurance Co. named **John A. Renner** territorial group underwriting manager, responsible for group cases in Indianapolis, Dallas, Houston and Lansing.

Reinsurers

Constellation Reinsurance Co. named **Francis D. Bell, Thomas C. Burke** and **Gerald J. Sheehan** vps, responsible for underwriting and production of reinsurance business.

Lawrence M. Ruder promoted to claims vp and head of claims department for Safety Mutual Casualty Corp. in St. Louis.

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This laudable legislation could have an unintended side effect.

Beginning January 1, millions of workers who participate in pension, profit-sharing, or savings plans will be able to get $2,000 annual tax breaks for voluntary contributions to company plans or to their own IRAs.

This means employees may think it's smart to drop out of savings plans. Particularly when every insurance agent, bank, and mutual fund in the country starts pushing IRAs with very competitive rates of return.

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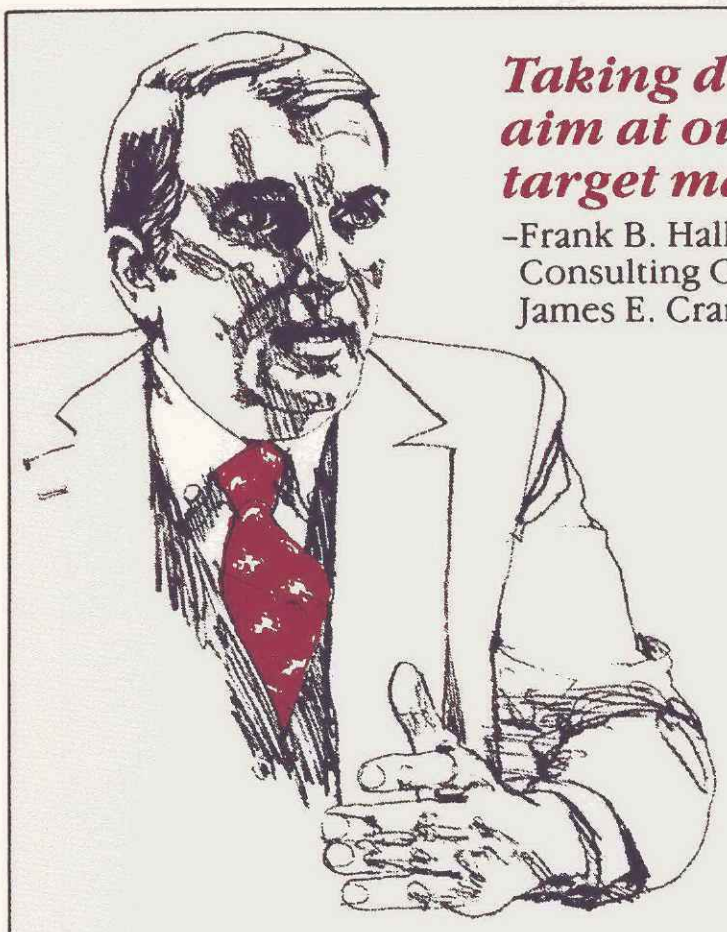
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Taking direct aim at our target market.

–Frank B. Hall Consulting Company's James E. Cranwill

As the marketing of life insurance products to individuals becomes more and more expensive, life companies and brokers are seeking new ways to reach potential customers.

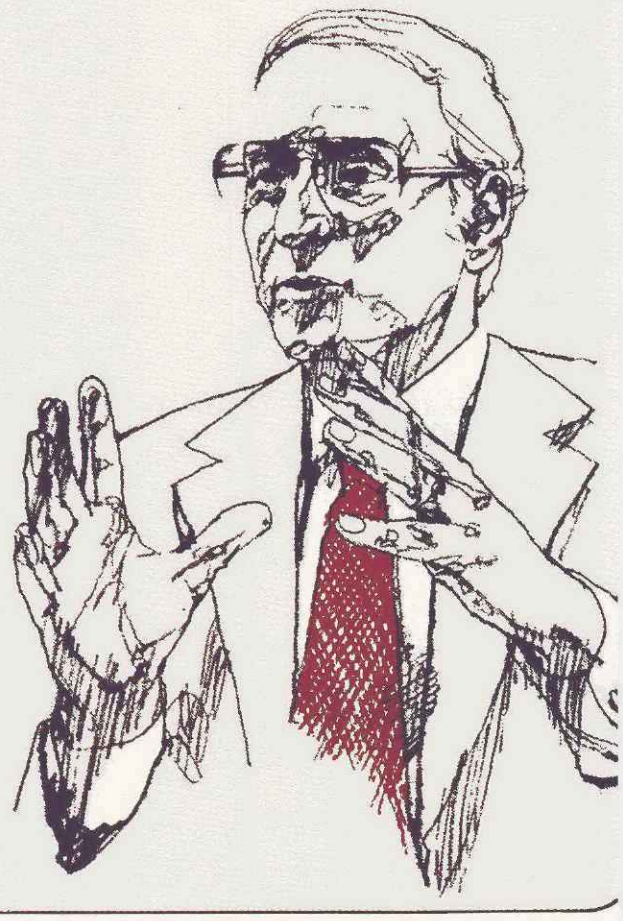
"We've found that direct-mail marketing of life products through credit card companies," says James E. Cranwill, Executive Vice President of Frank B. Hall Consulting Company, "can be a highly effective way for us to reach thousands of people who need insurance."

Operating as the benefits arm of Frank B. Hall, the Consulting Company deals with a number of insurers on these programs, including the Life Insurance Company of North America. Among other products, LINA provides term life insurance and accidental death coverage for T&E and oil company cardholders.

"These programs benefit everyone concerned," observes Cranwill. "The cardholders enjoy attractive group premium rates and the convenience of paying for the coverage through their credit card. The sponsoring card company builds good will among its customers, and the insurer taps a broad customer base at a low administrative cost."

The success of these programs has led the broker and LINA to expand the range of products offered. For example, one of Cranwill's major T&E card clients provides its customers with automatic accident insurance when its card is used to purchase airline tickets.

"LINA's cooperation and creativity in these programs has been tremendous," Cranwill notes. "And the further we delve into the total mass marketing field, the more convinced we become that the opportunities there are virtually unlimited."



Using reinsurance as an expansion tool.

–World Book Life's A. Charles Realie, CLU

World Book Life Insurance Co. (WBL) built a solid business in juvenile policies by targeting direct mail efforts against a rich source of leads: seven million World Book Encyclopedia owners. "We filled a void in the field," says A. Charles Realie, WBL's president and CEO, "but our capacity limited us from further expansion, particularly

into other markets. That's when we turned to reinsurance."

LINA provides part of the company's extensive reinsurance, and adds Realie, "The programs we've worked out with LINA are outstanding. Their people have been enthusiastic partners."

WBL is owned by The Scott & Fetzer Company, and soon capitalized on this link by developing group life, voluntary AD&D and voluntary life plans for its co-subsidiaries, all reinsured through LINA.

Now, using its direct marketing expertise, WBL has reached beyond the parent company into innovative new business areas. One example is an arrangement with a major daily newspaper in Chicago. Realie explains: "We have recently set up a group insurance program whereby, for a small monthly premium, subscribers get an accident policy, $20,000 of life insurance, ambulance service and more."

Realie credits his company's growth to many factors, but cites the decision to use reinsurance as a crucial step: "It has let us take the expertise we have and run with it. Without the help of companies like LINA, we would have been left with big goals—and no way to reach them."

More than ever before, an individual's insurance program must be carefully structured to counter inflation and taxes. According to planning expert Jon C. Thomas, "This often calls for flexibility and fast, aggressive action."

Thomas heads the St. Louis-based Intermark Financial Services, Inc., a marketer of financial products and services to brokerage firms and consultants dealing with individual investors.

Trading off for a tax-break.

-Intermark Financial Services' Jon C. Thomas



Recently, in cooperation with a leading broker, Intermark devised an innovative strategy for a businessman selling his closely held corporation. "The ground rules," said Thomas, "called for replacing certain corporate benefits with substantial amounts of personal life insurance before the business was sold."

Responding quickly, Investors Life Insurance Company of North America was able to issue the case standard in less than two weeks.

To pay for the $500,000 of modified-premium term coverage, substantial client assets were repositioned into municipal bonds. Thomas cites this as "the crowning touch—enabling our client to take advantage of INA's fast underwriting action with premium payments generated from tax-free income."

Decision-making in life and group insurance has never been more complex. And the financial implications have never been greater. Today, devising cost-efficient insurance programs requires knowledge, experience, capacity—and a complete range of products and services.

For the life insurance companies of INA, combining these elements has brought impressive growth. Total life insurance in force exceeds $19 billion; annual revenues approach $1 billion; total premium income is almost $800 million; and admitted assets have risen to more than $2.8 billion.

To learn how these strategies can be put to work for you, consult the professionals. Write to: INA Life Insurance Companies, 1600 Arch Street, Dept. R, Philadelphia, PA 19101.

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INA

The Professionals



Photographed at Concannon Winery, Livermore Valley, California.

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perspective

Changing times

Women in workforce necessitate benefit changes

By Susan J. Velleman

RECOGNITION OF women as potential workers and potential leaders will affect corporate plans for employee recruitment, development, training and mobility. The courts have clarified the employer's responsibility to eliminate sexual harassment in the workplace. Both formal and informal support systems must accommodate women workers in order to satisfy legal requirements and, more importantly, to effectively utilize the available talents and expertise in meeting corporate goals.

The demand for adaptation of employee benefit plans comes from two different perspectives.

First, there is the argument that men and women are the same, at least with respect to employment. Their contributions should be evaluated on the same basis and their compensation should equitably reflect that evaluation.

Second, there is the argument that men and women are different. They have different needs in employment-related matters and require different employer response to those needs.

Consider the implications of each of these points of view. Today's employee benefit programs reflect significant acceptance of equality between the sexes. Distinctions are largely history in 1981. They have disappeared gradually as a result of legislation, litigation, regulations and common sense.

Not all of the changes have been beneficial to employees, or specifically to female employees. For example, in medical plans drafted before 1979, benefits continued for a very short period of time after termination of employment in cases other than total disability. Maternity benefits were generally extended, however, up to nine months.

In interpreting Title VII of the Civil Rights Act, the Equal Employment Opportunity Commission issued regulations requiring that benefits for pregnancy and all other disabilities be the same. In response, many employers eliminated extended maternity benefits.

Typical employee benefits now vary by sex in one remaining area: retirement benefits paid under optional benefit forms. By 1984, pension plans must specify the basis for optional factors within the plan document. By that time, most employers will have adopted unisex factors of some type, in anticipation of further litigation or regulation. If that occurs, the concern of those who argue for equality between the sexes should be satisfied, at least in the area of employee benefits.

Now consider the implications of the contention that men and women are different and that their different needs should be reflected in employee benefit plans. Actually, these different needs arise from family status and roles that have traditionally been associated with members of one sex.

They include those of workers with non-continuous employment patterns, like the father who takes a paternity leave to raise children until they reach school age; those of the two-wage earner family; those of the family where both parents or the only parent in the home works full-time; and those of financial dependence on another person, with that dependence subject to the threats of death of the wage earner or divorce.

Several members of Congress have responded to these situations with House Bill H.R. 3117, called the Economic Equity Act. In part, this proposal would provide for higher deductions for contributions to Individual Retirement Accounts, based on one's earnings (including alimony) or the earnings of one's spouse, if higher. It also would provide for spouse benefit coverage, unless the employee and spouse both waive the coverage, and would provide for higher day-care deductions.

A very controversial proposal relating to both Social Security and to private retirement plans is that of sharing earnings credits or benefits. These approaches are primarily responsive to the financially dependent spouse and, to a lesser extent, the spouse who is a secondary wage earner.

Earnings sharing under Social Security was endorsed by the President's Commission on Pension Policy in its report issued last February. Under this approach each spouse would receive credit for 50% of the combined earnings of the couple. If the couple were divorced, each spouse would retain his or her share of the earnings credits accumulated during their marriage. If the marriage terminates through death rather than divorce, the surviving spouse inherits the earnings credits of the deceased spouse.

This approach would solve a number of perceived problems with the Social Security system. Credit for divorced spouses would not require a minimum period of marriage. Nor would benefit commencement depend on the former spouse's retirement, disability or death.

Also, current inequities between working and non-working spouses would be eliminated since all earnings up to a maximum limit would serve to increase the couple's benefits. This is in contrast to the current provisions, under which a secondary wage earner earns no additional benefits until his or her benefits exceed 50% of those of the primary wage earner.

Inheriting the earnings history of a deceased spouse also eliminates the "sin incentive" under the act since the benefits of widows or widowers would not be eliminated by remarriage.

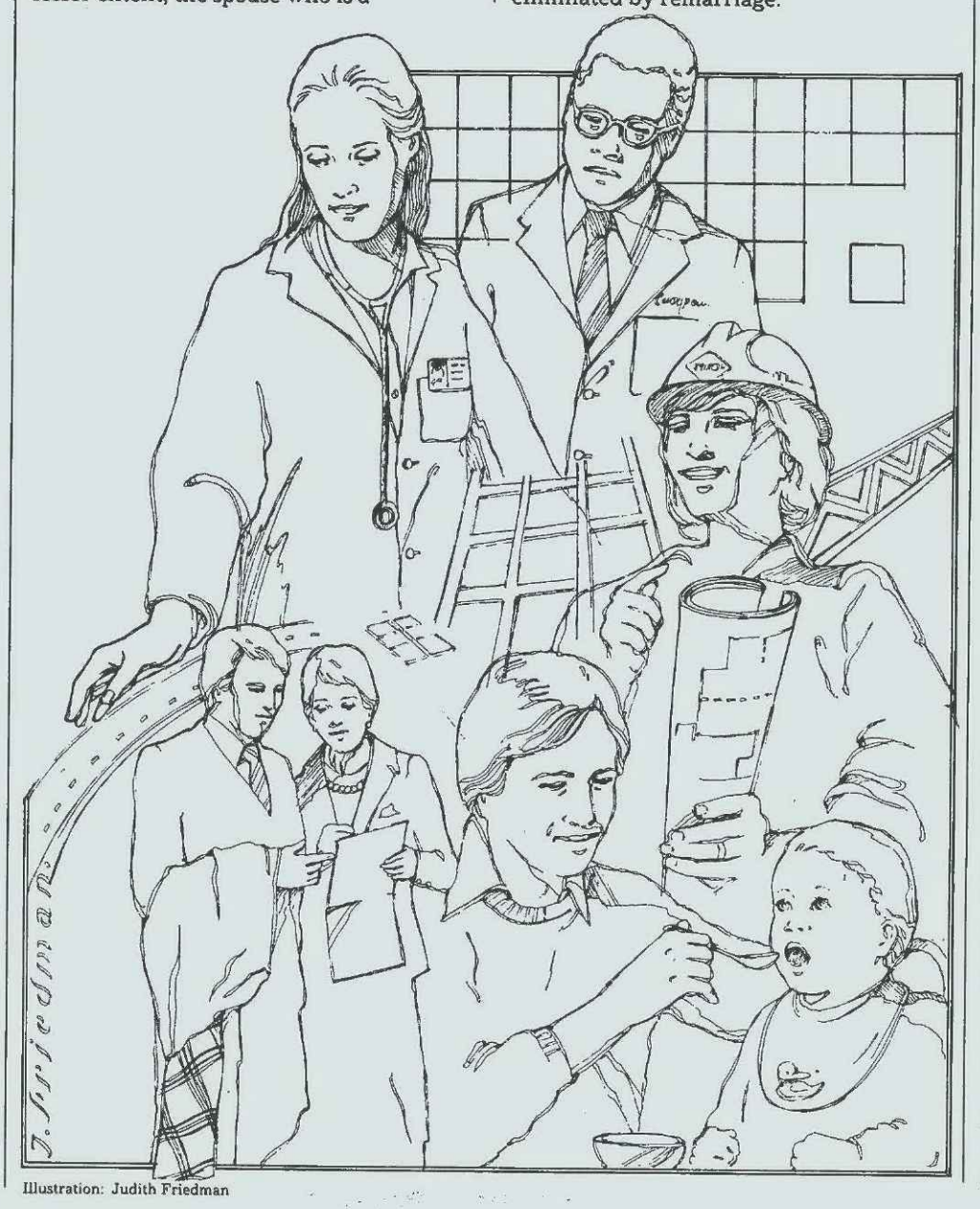


Illustration: Judith Friedman

Earnings sharing, or proration of benefits, has also been suggested to solve entitlement problems under private plans With wide variations in benefit formulas and high labor mobility resulting in small accrued benefits, sharing and combining of pension benefits would produce lots of paper but probably little in benefits for employees and spouses.

Another suggestion that would increase administration burdens but would provide greater flexibility and possibly more equity is the loosening of the rules on post-retirement survivor options.

Briefly, most plans provide that if an employee takes reduced benefits at retirement, naming a spouse to receive continued benefits after the employee's death, the election is totally irrevocable. If the spouse dies first, the retired employee continues to receive reduced benefits. If the retiree divorces the spouse and remarries, the original spouse receives benefits after the retired employee's death.

Many children today are brought up in homes where the only parent or both parents are full-time employees. These employees have special needs that employers are beginning to address. Most obvious among these is the need for day-care facilities.

Clearly not all of these approaches will be, or should be, adopted by every employer. Some address important needs of your employees, while some may provide incentives that are contrary to corporate goals. Some may be helpful in reinforcing a policy of encouraging innovation and independent thought.

Perceptions of differing employee needs may lead some employers to provide flexible or cafeteria benefit programs. A variation of this type of approach may be particularly well-suited to benefits for part-time employees.

Why consider these possibilities?

- Some are being considered by the government now and should receive your support or criticism. If you do not participate in the decision making, you may be forced to adapt to rules and laws made in a vacuum.
- Competition is strong for good employees. Employers have been forced to be innovative in helping employees with relocation problems. Similar innovation may be necessary to encourage potential employees to accept jobs that would otherwise conflict with chosen lifestyles or family needs.
- Once you've found good employees, you need to keep them. Responding to their perceived needs is important in this process.
- While the link between employee benefits and productivity is not clear, worries over child care, catastrophic expenses and family security may well be impediments to effective performance on the job.
- Limited employer resources will have to be more carefully directed to satisfy real needs of a diverse group of employees.
- Employees with non-traditional lifestyles and life patterns will become increasingly important as our population grows older. ■



Susan J. Velleman is vp of William M. Mercer's Inc.'s Boston office. This article is based on a speech given at the RIMS Conference in San Francisco last spring.

perspective

Hospitals want insurers to devise appropriate loss-control programs

By William T. Bolling and C. Robert Loskot

TRADITIONAL loss-control programs have not been successful in helping hospitals overcome the medical malpractice crisis.

These traditional programs concentrate on reducing exposures associated with physical, or "innkeeper," losses. These kinds of loss exposures are of secondary importance to hospitals.

Instead, the primary loss exposure within hospitals is patient injury due to medical negligence. Accordingly, the focus of hospital loss-control efforts has shifted from traditional exposures to exposures associated with the risk of medical negligence. However, insurers generally have recognized neither the change in exposure nor the shift in focus.

Several changes in the medical liability insurance market have resulted from this sorry state of affairs. In order to reflect loss experience, the insurance industry has implemented increasingly high medical liability premiums. This practice has led hospital boards and administrators to seek alternative, less-costly means to insure for medical liability exposure. The result has been the formation of hospital-owned captive and self-insurance companies.

At the same time, hospital executives have begun to criticize their insurers for failing to advocate, develop or implement loss-control programs designed to reduce the exposures due to medical negligence. They have also sought help in medical liability loss control from sources other than traditional liability insurers.

Increasingly, this assistance has been provided by the captive and self-insurance companies. Accordingly, the traditional liability insurers have begun to experience an erosion in their shares of the medical liability insurance market.

Loss-control programs are not new to the insurance industry. Techniques used in such programs have, for many years, been key elements in industrial insurance. Traditionally, the priority of these programs has been oriented toward safeguarding the physical assets of the corporate environment.

The primary exposure in industry is risk of loss due to either physical damage to the product or interruption of the industrial process. However, these risks are not of primary concern to hospitals. The primary exposure in hospitals is risk of patient injury due to medical negligence. Thus, where traditional loss-control programs were adapted to the hospital environment, they were found to be unsuited to the demands of the environment.

In effect, loss-control programs that focused on traditional risks within industry were misdirected within the complex hospital environment.

As employees of a hospital-owned captive insurer, we have seen the effects of these misdirected loss-control programs. During the past three years, we have been involved in the settlement of three medical negligence claims, each in excess of $1 million. We have seen numerous other negligence claims that cost from $25,000 to $350,000.

All of these claims resulted from patient injury caused by alleged medical negligence. At no time have we seen or heard of any hospital innkeeper-type liability claim whose settlement approached even a fraction of these amounts.

In addition, our loss-control efforts have been directed toward changing the focus of such programs within hospitals from traditional exposures to those associated with the risk due to medical negligence. We have also seen the medical liability insurance market within our state change to the point that non-captive companies now insure no more than 25% of all licensed hospital beds.

What is the message from these facts for traditional liability insurers? First, the legal duty and primary purpose of every hospital is to provide high-quality health care to its patients. When this duty is breached, claims for medical negligence may arise. Loss-control programs within hospitals must be designed to reduce the risk of medical negligence.

Second, the loss ratio for medical liability insurance has nearly doubled in the past four years. Nearly everyone familiar with the medical malpractice crisis will recall the dramatic increases that have occurred in the frequency, severity and value of medical malpractice claims. Loss-control programs that focus on reducing the risk of medical negligence may result in financial savings for insurers and insureds.

Third, the rapid growth of captive hospital insurers reflects the need of hospitals for more from their medical liability insurers than merely claims service. Hospitals have begun to demand guidance in developing effective loss-control programs that focus on the need to reduce the risks associated with patient care.

The failure of the insurance industry to recognize and respond to this need has, over the past few years, significantly reduced the industry's share of the medical liability insurance market. If the insurance industry does not react to this trend by developing such programs in the future, the erosion of its market share may well continue.

Accordingly, we advocate combining traditional loss-control methods with programs that focus on the risks of patient care. We encourage insurance industry response to be the development of a new breed of loss-control specialists qualified to assist hospitals in the reduction of the risks of patient care. ■

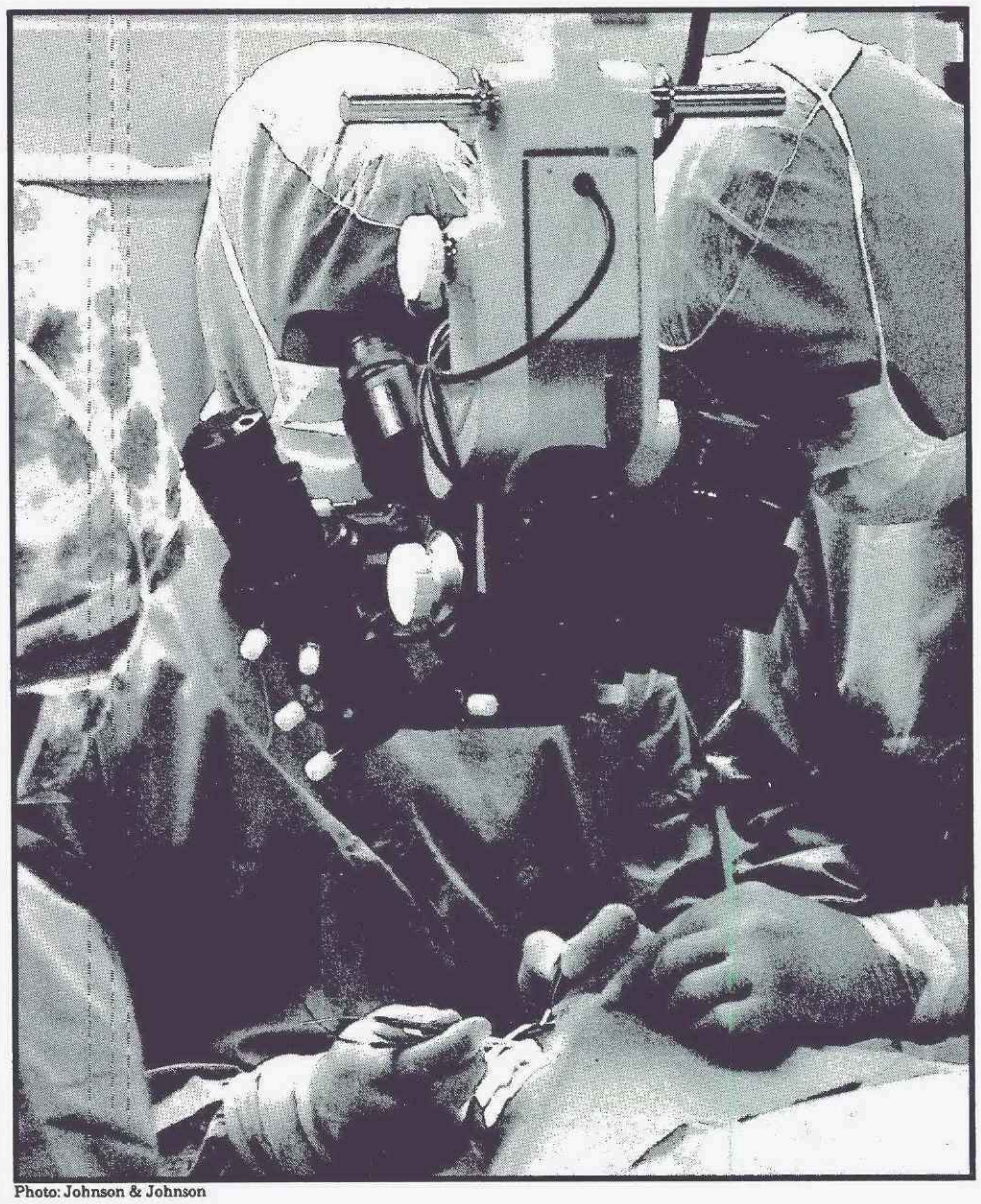


Photo: Johnson & Johnson

'The focus of hospital loss-control efforts has shifted from traditional exposures to exposures associated with the risk of medical negligence.'

William T. Bolling is claims consultant and C. Robert Loskot is risk management consultant for Virginia Hospital Insurance Reciprocal in Richmond, Va.

legal briefs

Court says punitive damages not insurable

An award for punitive damages was uninsurable on public policy grounds, according to a California appellate court.

Ford Motor Co. was insured under several excess liability policies covering all sums that Ford became legally obligated to pay as damages for product liability. None of the policies specifically excluded coverage for punitive damages.

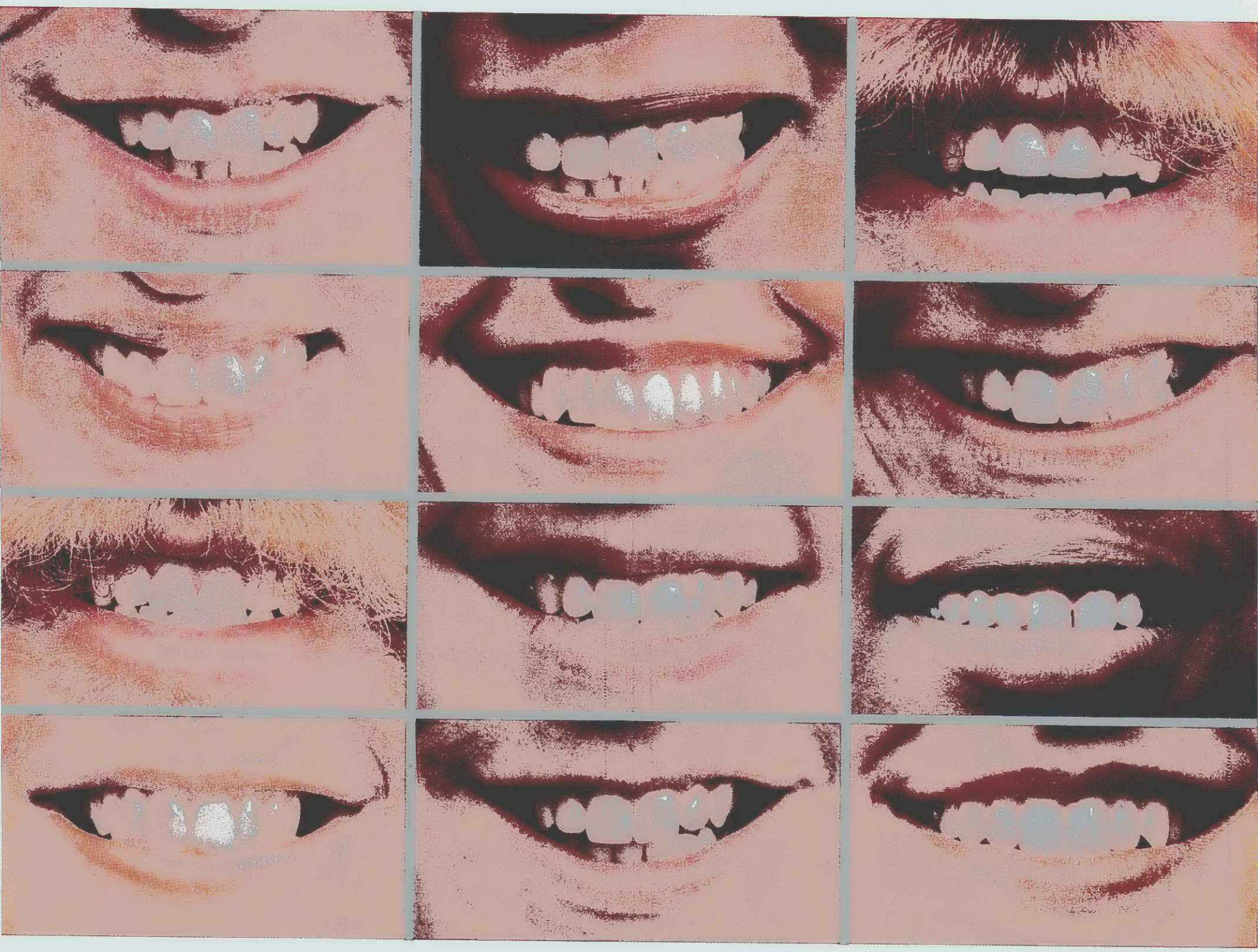
Ford was sued, and several other suits were in the wings, for personal injuries and property damage resulting from defects or faulty design of its automobiles or automobile products. In the suit, the jury awarded punitive damages against Ford.

Ford's insurers refused to indemnify it for the punitive damages. Ford brought this action, requesting the court to determine whether coverage existed. The trial court ruled against Ford.

On appeal, Ford argued that public policy did not bar indemnificaton in product liability actions because liability can result from non-intentional conduct and punitive damages can be awarded for conscious disregard of the safety of others rather than intent to harm.

However, the court considered Ford's position as "unduly narrow and restrictive." The court said that the prohibition of insuring punitive damages does not rest on the nature of the conduct but on the basis for assessment of punitive damages: fraud, oppression or malice. Although conduct resulting in injury may be characterized as non-deliberate, the court said that "when done in conscious disregard of safety, it is sufficiently blameworthy to warrant an assessment of punitive damages." *Ford Motor Co. vs. The Home Insurance Co.*, Court of Appeals of California, Feb. 2, 1981 (*BI*/04/Au.-$5).

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



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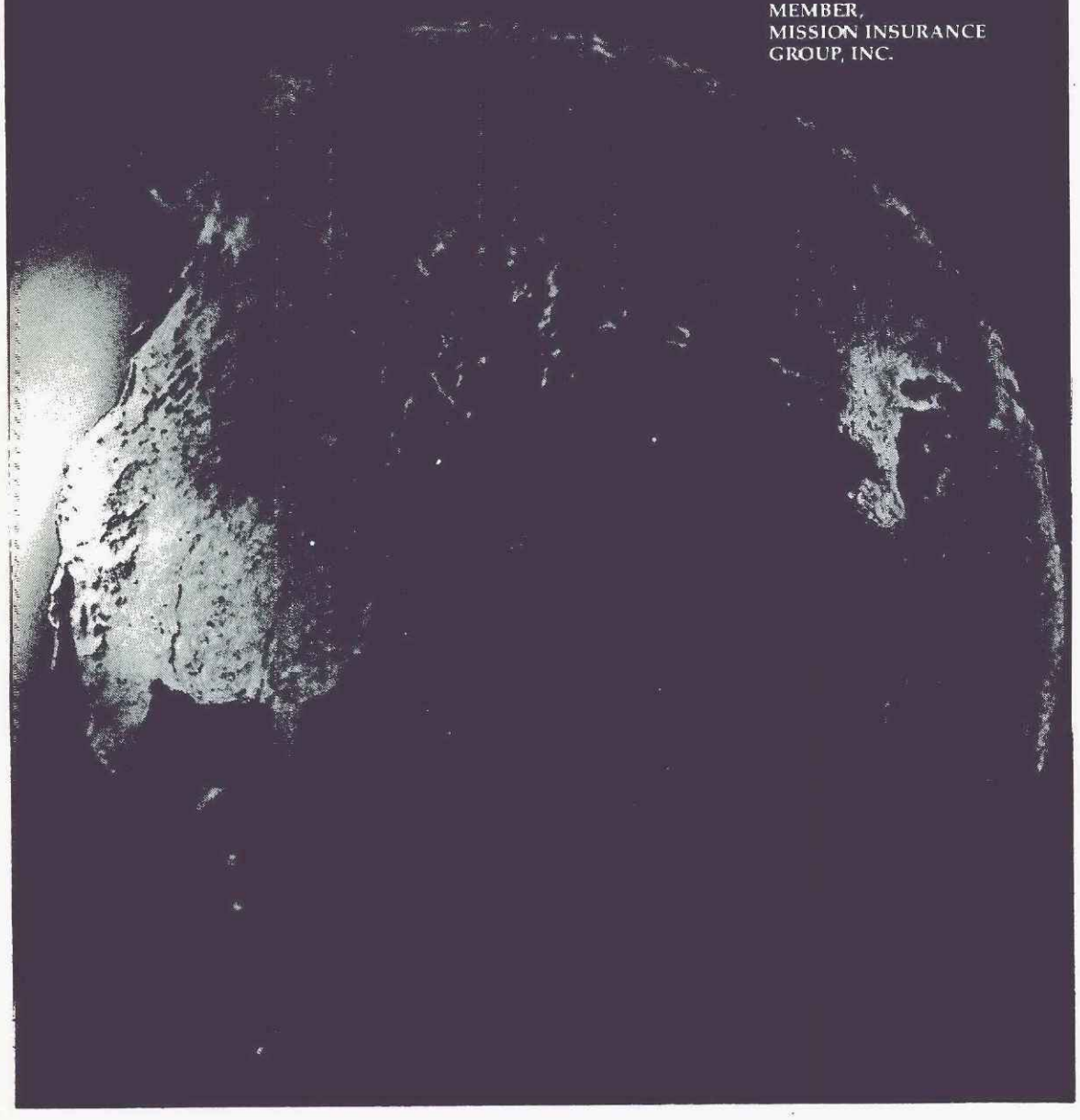
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'I have to believe that service and stability will count for something'

By LEN STRAZEWSKI

HARTFORD, Conn.—Joseph Quinn, president of the new Hartford Specialty Insurance Co., never slaved away at an underwriter's desk, but that could be an advantage in the era of cash flow.

As The Hartford Insurance Group follows in the footsteps of its competitors by establishing a special company to handle large and unusual risks, Mr. Quinn will be in the front lines of designing and negotiating risk management programs that bend or break many traditional underwriting rules.

Coming to the insurance industry as an attorney rather than an underwriter, Mr. Quinn has a risk management sympathy that supports open discussion of issues that many insurers refuse to discuss.

Hartford Specialty and its president are willing to talk to policyholders about how investment income is used in ratemaking, why most property/casualty insurance rates continue to drop and what will happen when growing losses finally cause rate increases.

"I've never been an underwriter and I wish I knew more about the art of underwriting, but I think I can bring a perspective to Hartford that will lend some new creative ideas," he explained. "Cash flow as a risk management concept is here to stay, and more risk managers are looking at risk-funding as a financial rather than underwriting concern.


Quinn

"They also are looking for service: management information systems, data processing and claims handling. The Hartford has the advanced services they need and with Hartford Specialty, we will be able to pull them together," he said.

Coordination and organization are Mr. Quinn's main tasks and he was chosen for his background. He joined The Hartford in 1980 as senior vp in charge of management services and was named founding president of Hartford Specialty last August.

Before joining The Hartford, he was senior vp of Royal Insurance Co. in charge of claims service, engineering and RISC, Royal's service division. In the 1970s, Mr. Quinn worked in a variety of senior positions with The Home Insurance Co., including general counsel and manager of two life insurance divisions.

His new charge, Hartford Specialty, is The Hartford Group's answer to Insurance Co. of North America's INA Special Risks division, American International Group's AIG Risk Management company and other insurer creations designed to tailor underwriting and service programs for large corporations.

The new division will market itself primarily through large brokers and will seek accounts paying $500,000 or more in annual premium. It will target firms needing a variety of services drawn from The Hartford Group, including the present large accounts department, the medical professional liability department, the excess liability department and Cameron & Colby, an underwriting manager for specialty insurers, according to Mr. Quinn.

For international packages, Hartford Specialty will tap the resources of Abbey Overseas (an insurance company affiliate) and AFIA, of which Hartford is a major shareholder.

Hartford Specialty is already working on alternatives to paid-loss retrospective rating plans that came under attack in California last year and wants to work on complex group programs, like the McDonald's franchise program.

"If the McDonald's competition had been just a little later this year, we would've been in the thick of it. That's our kind of account," Mr. Quinn says.

Mr. Quinn says the predicted hard times and tightening markets could be a boon to his company.

"I have an apocalyptic view of the industry," he says. "In two, three or four years, whenever the market is supposed to tighten, I believe we will be facing a whole new marketplace.

"I'm certainly not the first person to say this, but there will be insolvencies and there will be insurers in financial difficulty. But I don't think we will all go over the cliff. Many established insurers are in it for the long pull and despite the price competition, I have got to believe that service and stability will count for something."

As with any new venture, buyers will look to stability and creativity, Mr. Quinn adds. The Hartford Group is providing the stability with a 10-year commitment to the new division, and Mr. Quinn is supposed to aim his staff toward creativity.

"The insurance industry has made itself deliberately arcane, but the growing professionalism of the corporate buyer is making the idea of industry secrets outdated. Risk managers are interested in the investment income insurers are making on premium reserves. They want to know where you are making your money and how."

Buyers also are interested in sharing investment income and controlling rates with negotiation based on investment returns.

"Sure, buyers want to make use of this income and in some cases they already are. But if you explain how much is being brought in, how much an insurance company needs and where it is all going, you won't have much of a disagreement and you may be able to develop some new ideas," Mr. Quinn remarks.

Liberty Mutual forms two Bermuda affiliates

markets

Liberty Mutual Insurance Cos. of Boston has established two new companies in Bermuda to provide increased services for policyholders.

Liberty Mutual Ltd. is an offshore mutual insurance company that will primarily act as a reinsurer of casualty insurance written directly by Liberty Mutual Fire Insurance Co.

The reinsurer will be managed by Liberty Mutual Management Ltd., a wholly owned subsidiary of Liberty Mutual Insurance Co.

The company has contracted with Argus International Management Ltd. of Bermuda for accounting and other basic management services.

Open for business

Continental Risk Services Ltd. in Bermuda is up and running for business, says President David Vaughan, formerly managing director of Marsh & McLennan Bermuda Ltd.

The staff of six, which is projected to grow to 10 by January, is primarily geared to provide captive insurance company management services and already has three captive clients. The Continental Corp. subsidiary also will provide Bermuda captives with access to other Continental services, such as loss adjustment through a subsidiary of Underwriters Adjusting Co. in Bermuda.

Continental Risk Services is in the Warner Building on King Street in Hamilton.

Reinsurance treaty

Royal Insurance has signed a reinsurance treaty with West Bend Mutual Insurance Co., with Royal reinsuring 100% of the boiler and machinery exposures in multiple peril and individual line submissions from West Bend.

The West Bend, Wis.,-based insurer writes about $23 million in commercial lines business in Wisconsin, Illinois, Minnesota and Iowa. Royal is the sixth largest stock boiler and machinery underwriter in the United States.

West Bend will receive all applications and issue most policies. Royal will retain the option to underwrite and perform engineering surveys on all accounts.

Prescription cover

PCS of Canada Ltd., an administrator of pay-direct prescription drug programs, is looking for new business in Alberta.

PCS has received the endorsement of the Alberta Pharmaceutical Assn. and is now attempting to create a network of member pharmacies in the province.

Headquartered in Toronto, PCS administers pay-direct programs for 20 major Canadian insurance companies in Ontario, New Brunswick, Nova Scotia, Prince Edward Island and Newfoundland.

Agency formed

API/Associated Professionals Insurance has been formed in Minneapolis to market insurance products and services to real estate, construction, commerce and government organizations.

Established by David A. Wendt and Mark R. Sheehan, the agency is an affiliate of Twin City Insurance Agency in Minneapolis.

Acquisitions

Johnson & Higgins has acquired the insurance brokerage firm of **Bailey H. Patterson Inc.**, located in Riverside, Calif. Patterson will become a J&H branch office serving commercial, charitable, municipal and personal clients.

J&H has formed **Johnson & Higgins of Kentucky Inc.**, located in Louisville. In forming the new brokerage firm, J&H acquired the **Collins Agency** of Louisville.

New offices

Atlas General Agency Inc. has relocated its office to Emerald Hills Executive Plaza II, 4651 Sheridan St., Suite 200, Hollywood, Fla. 33021; 305-981-9000. ■

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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. Environment 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, $360; non-members, $435. IFEBP, 18700 W. Bluemound Road, 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; 617-762-4300.

OCT. 28. Business Interruption Insurance conference in New York, sponsored by Grower Conferences; $165. Grower Conferences, 20 Endell St., London WC2H 9BD; 01-240-5931.

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, PIA of New England, 1 Ash St., Hopkinton, Mass. 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. Chesapake 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. IISH, 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. 1-4. 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.

NOV. 2-4. 36th Annual Meeting in Honolulu, sponsored by the National Assn. of Independent Insurers; members, $175; non-members, $275. NAII Convention Office, Suite 1632, 333 N. Michigan Ave., Chicago, Ill. 60601.

NOV. 2-3. Management of Radiation Accidents course in Arlington, Va., sponsored by the International Institute of Safety & Health; $295; three or more from same firm, $250. IISH, 5010-A Nicholson Lane, Rockville, Md. 20852; 301-984-8969.

NOV. 2-3. Petroleum Loss Detection and Control seminar in Key Biscayne, Fla., sponsored by Enercon Group Inc.; $285. Enercon Group Inc., 1110 Brickell Ave., Suite 430, Miami, Fla. 33131; 305-371-3343.

NOV. 4. Employer Health Benefit Concerns workshop in Hartford, Conn., sponsored by Personnel Research Associates and Jacqui Associates; $150. Personnel Research Associates, 49 Oakridge Road, Verona, N.J. 07044.

NOV. 5-6. Defense of Business and Municipal Liability seminar in Atlanta, sponsored by the Defense Research Institute; $215. Defense Research Institute, 1110 W. Wells St., Milwaukee, Wis. 53233; 414-272-5995.

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

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

NOV. 9-11 8th Annual Computer Security Conference in New York, sponsored by the Computer Security Institute; members, $445; non-members, $495. Computer Security Institute, 43 Boston Post Road, Northboro, Mass. 01532; 617-393-3768/3663.

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

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

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

NOV. 15-17. *Business Insurance* Communicating Employee Benefits conference in Chicago, sponsored by *Business Insurance*. The latest tips and techniques to effectively communicate benefits to employees; $395; $355 for two or more registrants from the same company. Registration fee includes Nov. 16 awards dinner honoring winners of the *BI* Benefits Communications competition. Valerie Adams, Crain Educational Division, 740 N. Rush St., Chicago, Ill. 60611; 800-621-6877; in Illinois, 312-649-5242.

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

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

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

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

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

NOV. 18. Insurance Perspectives 1981 seminar in Dallas, sponsored by Peat, Marwick, Mitchell & Co.; free to clients. Keith Tucker, Peat, Marwick, Mitchell & Co., Suite 1500, 2001 Bryan Tower, Dallas, Texas 75201; 214-747-8911.

NOV. 18. Successful Selling in the '80s meeting in Chicago, sponsored by the Chicago Assn. of Life Underwriters. CALU members, $13; NALU members, $16; non-members, $21. Jack Vorhauer, 65 E. South Water St., Suite 1107, Chicago, Ill. 60601; 312-853-0600.

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

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

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

NOV. 23-25. Effective Risk Management course in London, sponsored by the Risk Research Group Ltd., approximately $537.00, plus $80.55 value-added tax. Course Coordinator, Risk Research Group Ltd., Bridge House, 181 Queen Victoria St., London EC4V 4DD.

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

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

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



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SIIA meeting

Firms considering self-insurance need to ask plenty of questions

By STEVE SHERWOOD

NEW ORLEANS—To self-insure or not to self-insure: That is a question many risk managers are asking themselves.

And that question leads to others. Is self-insurance a viable alternative to conventional insurance? What must be considered before instituting a self-insurance program? At what level of premium does it become practical to self-insure workers compensation? What are the advantages and disadvantages?

Speakers provided some answers during the first Self Insurance Institute of America Conference Oct. 1-2 at the Royal Orleans Hotel. About 200 risk managers, third-party administrators, brokers and consultants attended, a sign of the growing interest in self-insurance. The SIIA, headquartered in Santa Ana, Calif., was founded less than eight months ago.

Increased litigation, higher court awards, longer-term pay outs and inflationary pressures are all driving up the cost of risk, said Joseph G. Englert, president of Metier International Group in Rochester, N.Y. Rising costs are forcing management to take more specific steps to control risks.

"Decisions in the decade ahead, I believe, will focus on corporate protection and will fall into the area of risk management rather than the mere buying of insurance," Mr. Englert said.



Englert

Risk management grew out of the need to identify and quantify risk, then decide whether to retain it or transfer it. That is where the process of self-insurance came about.

"Self-insurance is sensible because the greatest amount of savings that can be derived is the diversion of the premium reserve account away from the insurer," Mr. Englert said. "The savings is in working with this premium reserve account—the money set aside to cover losses and the investment income it earns—to use it in your own way, to your advantage.

"If you are paying all of the premium up front, you are losing the future value of the money," Mr. Englert said. "The insurer gets to use it, you don't."

Self-insurance has become an excellent solution to a number of risk problems, he said. But in deciding whether to use a risk-financing method like self-insurance, a risk manager must be sure it is in keeping with corporate objectives.

"Self-funding can be at odds with corporate objectives," Mr. Englert said. "For example, if you have a company that is looking for higher bonding limits, the company might not want to assume a large retention and subject itself to a potential loss that would destroy its ability to get the higher bond."

If self-insurance meets corporate guidelines, it must then be determined in dollar figures how much risk can be retained, he said. "You have to ask, 'If we do this, what will be the dollar amount?'"

Two common ways of arriving at that figure are to base it on a percentage of the earning-per-share or of working capital. In either case, the risk manager determines the amount of uninsured losses that can be retained without adversely impacting his corporation's finances.

Deciding what type of risk-financing vehicle to use, self-insurance or a retrospectively rated insurance policy, depends in part on a company's loss payment schedule and rate of growth, Mr. Englert said.

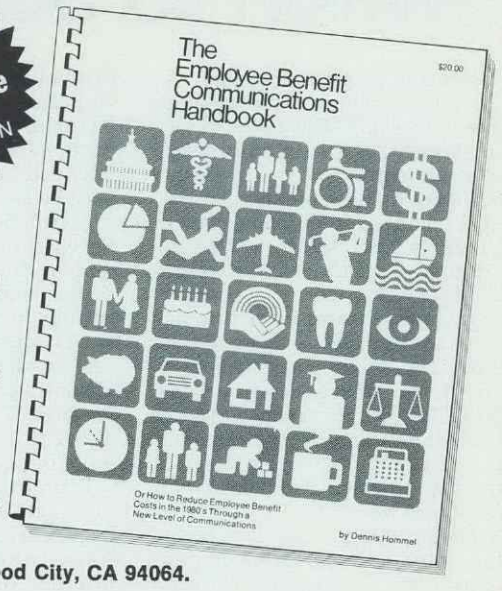
"The more slowly losses are paid, the more you would want a cash-flow plan from an insurance company," he said. "You want to retain the money in some fashion and you get the benefit of the reserves."

If loss payment is rapid, a company likely would want to self-fund so that it could deduct its losses as it moved forward.

Continued on page 34

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Taking Risk Out Of Risk Management Worldwide

Switch to self-insurance raises many questions

Continued from previous page

As for the rate of the company's growth, he said, "The faster a company is growing, the faster its losses are growing and it will want a cash-flow plan with an insurer." But a company with slow growth will likely have stable losses—the kind that adapt themselves well to self-insurance.

Forecasting losses is of primary importance in the decision to self-insure, Mr. Englert said. "A company has to forecast expected losses. This is a crystal ball-type of figure, but it is a very important. You have to know what losses to expect and decide if the premium savings are worth it."

If the insurer is charging a buyer $2 in premium for every $1 it pays out in losses and that buyer has a predictable loss ratio, he is in a "two-for-one ballgame," Mr. Englert said. "It is time to sit down and decide for himself what route to take and how to do it. He should at least be looking for alternatives."

Myron Soltau, vp of Scott Wetzel Services Inc. of Bremerton, Wash., said workers compensation in particular lends itself to self-insurance because losses are predictable.

"As long as a corporate controller can predict losses, he is willing to assume a part of that risk," Mr. Soltau said. "The larger the workforce and the longer the history, the more predictable the losses."

Rising insurance costs and risk managers' belief that insurers have been unresponsive to their needs have contributed to the rising number of firms that self-fund work comp, he said.

"In 1970, the direct premium written in workers compensation in the United States was $3.6 billion," he said. "In 1980, it was $15.7 billion. The average rate related to payroll was $1.11 per $100 in 1970 and $1.77 per $100 in 1977. It is higher today."

With rising costs and the advent of the risk manager as a sophisticated buyer, there is now more emphasis on self-insurance than in the early 1970s, he said. "Self-insurance is not for everyone, but it does have advantages for some municipalities and companies."

These advantages are numerous, Mr. Soltau said. For example, loss prevention can directly reduce a self-insured company's costs. Its savings is not affected by the loss experience of other companies covered by his insurer.

Benefits are paid over many years, giving the employer the use of the money until claims are settled, he said.

"The self-insurer is not subject to fee fluctuations of the general insurance market, claims can be paid or denied based on the self-insurer's decision and employee morale can be raised by the prompt payment of claims and information about compensation rights."

Choosing how much risk to retain depends on the severity and frequency of claims, economic conditions and what excess insurance is available in the marketplace, Mr. Soltau said. Besides specific excess coverage for single catastrophic losses over the retention level, self-insurers also should buy stop-loss coverage for multiple smaller claims to keep their aggregate amount within tolerable levels.

"I have a feeling most companies now have too low a retention level," he said. "Where many are $150,000, they probably should be $200,000 or $250,000." By raising their retention, they would lower their premiums, he pointed out.

The minimum retention a self-insured company should keep varies from $100,000 to $150,000, Mr. Soltau said. A year ago, excess insurance policies would only go down to $150,000.

If a company has a good loss ratio, is operating in a good geographic location and has $100,000 in standard premium, "maybe self-insurance is the program for you." ■

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Third-party administrators need coverage for fiduciary breaches

By STEVE SHERWOOD

NEW ORLEANS—Third-party administrators of self-funded employee benefit plans may be more exposed to breach of fiduciary duty lawsuits than many realize.

And one attorney versed in such suits said those administrators who lack professional liability insurance should buy it.

Although courts once considered only the officers, directors or trustees of a benefit plan to be its fiduciaries, third-party administrators who keep books, administer claims and perform other tradititonally ministerial tasks, have been named as fiduciaries in recent judgments. As such, they may be open to the same or similar liabilities as plan sponsors should a breach occur.

"If someone had asked me three years ago if a firm providing claims processing and general administrative services for a plan would be acting in a fiduciary role, I would have said no because the firm would not exercise the type of discretion normally associated with a fiduciary relationship," attorney Jeffrey Fuller said. "That conclusion would have been wrong."

Mr. Fuller, director of the Milwaukee law firm of Reinhart, Boerner, Van Deuren, Norris & Rieselbah, spoke at the First Self Insurance Institute of America Conference Oct. 1-2.

A recent U.S. District Court in Maryland held that an administrative firm that collected contributions, kept financial records, administered bank accounts, processed claims and supervised the operation of certain benefits did not perform purely ministerial duties, Mr. Fuller said. The court found that the administrator in fact performed fiduciary duties and held it responsible as a fiduciary.

"The court noted that when Congress adopted ERISA (the Employee Retirement Income Security Act of 1975), the definition of 'discretionary authority' could encompass consultants and advisers when their special expertise leads them to act in a discretionary manner while performing administrative functions for the plans," he said.

In other words, TPAs who give advice that leads a plan sponsor to make fiduciary decisions may be acting as a fiduciary, he said.

Although ERISA permits a benefit plan to purchase liability insurance to cover fiduciary breaches, it also permits recourse by the plan against fiduciaries for losses. Insurance purchased using plan assets will not protect them from this.

"Understand that you really don't have a lot of protection under those circumstances. This problem can be avoided where TPAs purchase their own insurance."

Professional liability insurance is important to third-party administrators for two major reasons, he said. "First, you need to provide protection to the very client you are servicing—the fiduciary that hired you. From your own standpoint, you want to protect the principals of your firm against liability in the event there is a slipup. The way court decisions are coming down, there is no way to draw the line as to what will and will not evoke liability."

TPAs need to be protected against any type of fiduciary breach, he said. "You should know that to the extent you are judged to be a fiduciary, you not only can be held responsible for damages, but also for court costs and attorney fees. The costs involved with going to court may be more significant than the actual damages."

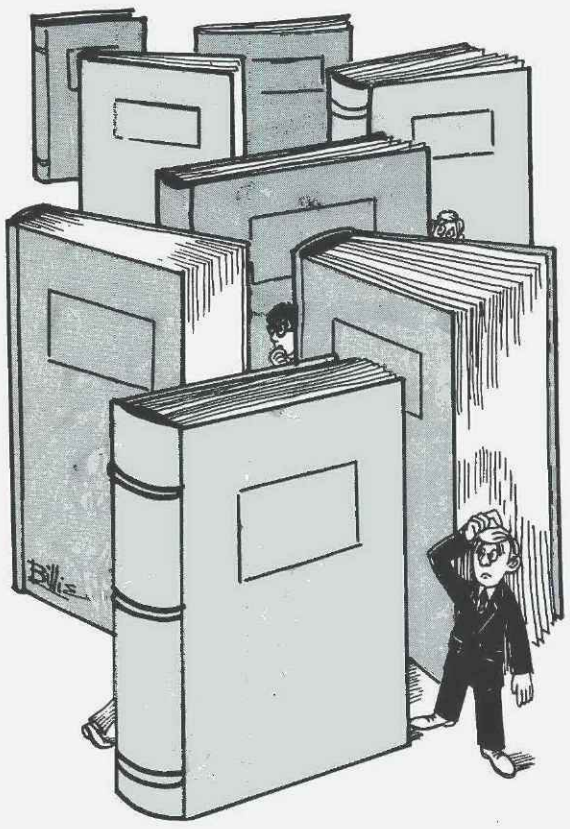
A third-party administrator must be sure his own policy covers all his roles, he said. "If you perform more than one role, or have two firms, one for general and one for claims administration, be careful because only one of you is covered by most policies."

A prototype policy Mr. Fuller reviewed recently, drawn up by a society of professional administrators, comes as close to providing comprehensive coverage as any he knows of, he said. "I do not know the exact cost, but I can say it covers co-fiduciary duty, punitive damages, defense costs, declaratory judgments, a whole gamut of things to both the plan and the TPA."

It is underwritten by First State Insurance Co. in Boston. ■

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M2405

Leveraging can cut self-insurance costs

By STEVE SHERWOOD

NEW ORLEANS—Leveraging is a banking term that essentially means getting the most out of using someone else's money.

But the term is becoming important to risk managers as more of them self-insure corporate risks.

Peter A. Dean, assistant vp of Citibank in New York, told those attending the First Self Insurance Institute of America Conference in New Orleans last month how to use leverage to get the most coverage for the least money.

"As the use of self-insurance has grown, so has the responsibility and skills required of the risk manager," he said. "Today's risk manager must often place as much emphasis on managing the financial aspects of his budget as he does on managing the organization's risk."

Mr. Dean said he could not offer an opinion about the advantages or perils of self-insurance. "To a banker, self-insurance may lower a corporation's credit standing while at the same time it represents an opportunity to sell additional banking services."

Once the decision to self-insure has been made, however, the risk manager must make sure that each dollar is spent as effectively and with as little use of the corporate equity as possible, Mr. Dean said, adding that one of the least expensive ways to finance self-insured risk is through leverage.



Dean

Mr. Dean compared the financial impact on a self-insurance program's cash flow, opportunity cost, risk and total cost of four different ways of covering potential loss: reserves, a line of credit, a letter of credit and a trust set up under Section 501(c)(9) of the Internal Revenue Service Code.

"Reserves set aside under a self-insurance program will tend to reduce the speed of a corporation's cash flow," he said. "Money will have to be borrowed or taken from the company's assets to establish such reserves."

There will usually be a cost associated with doing this, Mr. Dean said, calling it opportunity cost.

"For example, if a risk manager is receiving a 15% return on reserves left with an insurance company and the organization's internal rate of return is 20%, there is a 5% opportunity cost for not investing the funds in the business," he said. A reserve program tends to have a greater opportunity cost than the other three alternatives.

Unless some form of stop-loss insurance covers the corporation's reserves, the risk of such a reserve program tends to be highest as well, since the corporation's own assets are on the line.

With all this combined, the total cost of a program that covers potential losses with reserves will be the highest of the four alternatives, Mr. Dean said. "If cost is the most important factor and credit is available, a line or letter of credit will probably be better. For employee benefits, a 501(c)(9) trust may be the most cost-effective."

Under a line of credit, a bank agrees to loan the corporation money needed to pay losses, up to a certain amount, he said.

As a cash-flow tool, a line of credit is among the best since corporation assets are not immediately used, he said. A fee is paid to establish credit and the loan must be repaid with interest, but payments are spread over time.

Since the corporation's own money may be invested in itself—until it is paid back—the opportunity cost of such a program will be low, Mr. Dean said. As for risk, "with a line of credit, the lending bank effectively bears the risk for the amount of the loan."

As a listener pointed out, risk really remains with the corporation, since it will evenually pay back the loan. This makes the line of credit mainly a cash-flow tool.

The same is true for a letter of credit unless the corporation goes bankrupt, in which case the bank would be liable for the full amount.

A letter of credit is the bank's commitment to pay the obligations of its customer, he said. "Cash-flow advantages are among the most favorable, since a minimum of the corporation's money is used." He estimated letters of credit cost from 0.5% to 1% of the total amount, depending on the credit rating.

Opportunity costs are low, he said. "A letter of credit is usually a more cost-effective alternative to provide financial guarantees than other methods, such as surety bonds or cash deposits."

Total costs of both lines and letters of credit can be the cheapest way to self-fund risks, he said.

The money used to fund a 501(c)(9) trust will have the same effect on cash flow as that set aside in any reserve amount, he said. "Cash flow will be slower."

Unlike reserves kept within a corporation, however, the trust reserves are not available to the corgoration, making cash-flow impact one of the least attractive features of a 501(c)(9) trust.

Conversely, opportunity costs will be low since investment return will be high and the interest income may accrue tax-free, he said. "Even after subtracting the administrative fees, opportunity cost will be the most favorable."

The risk that claims will not be paid is transferred from employer to employees when a trust is established, he said. This can be further transferred to an insurance company by purchasing coverage. ■

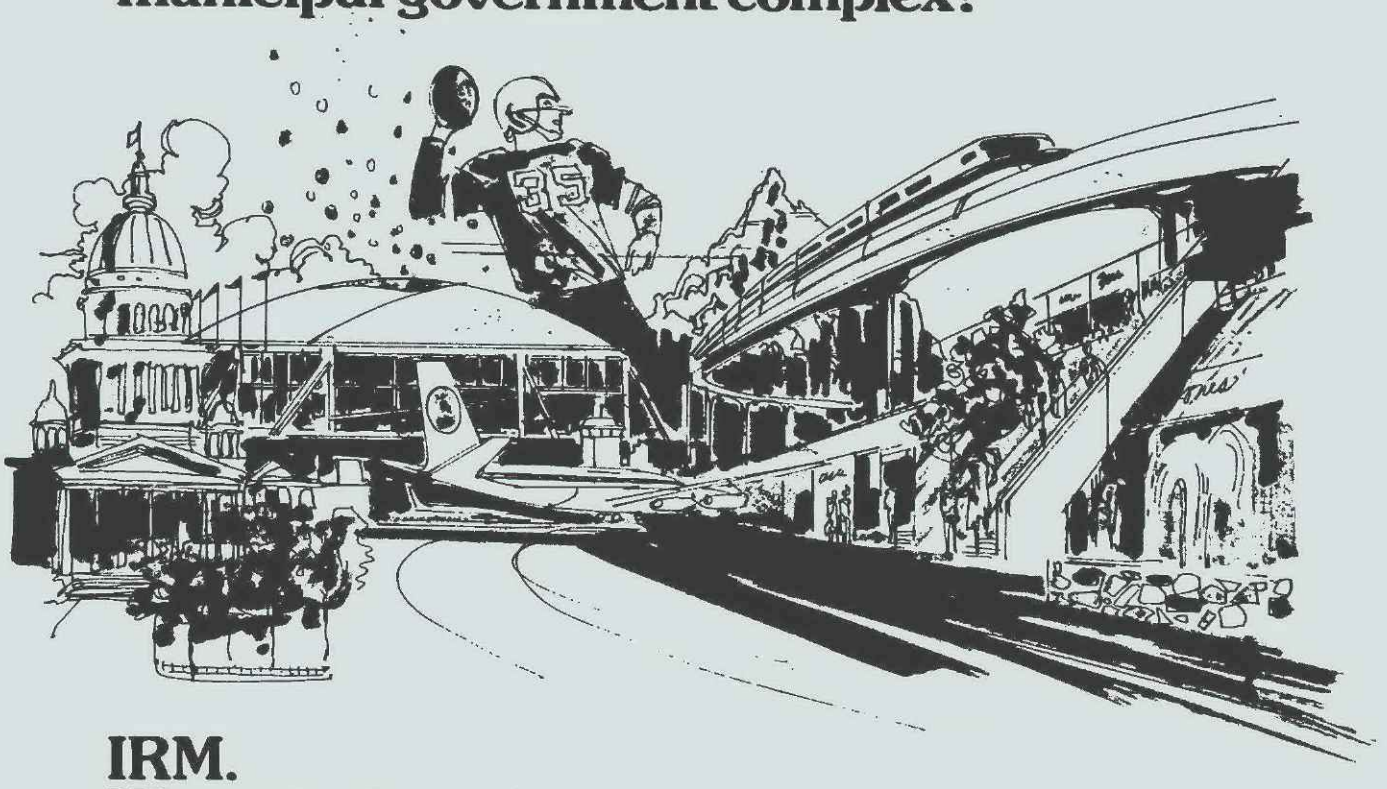
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Employers' comp costs increase 17.6% in 1979

WASHINGTON—Employers' workers compensation costs jumped by more than 17% in 1979, the Social Security Administration reports.

Employers paid $20 billion in workers compensation costs in 1979, the most recent year for which complete figures are available, compared with $17 billion in 1978, a 17.6% rise.

The increase is attributed to the greater number of workers covered by workers compensation and higher benefits. About 73.6 million workers were covered by workers compensation programs in 1979, an increase of 3.2 million over 1978.

Workers compensation now costs employers an average of $1.93 per $100 of payroll and is rapidly climbing to 2% of payroll. In 1940, the first year such figures were tabulated by the government, workers compensation amounted to less than 1% of payroll.

Of the $20 billion employers spent on workers compensation, $14.3 billion went to insurers in premiums. Another $3.8 billion was collected by states operating workers compensation funds. Employers who self-insure their work comp risks paid out $1.8 billion in benefits and administrative costs.

Injured workers collected $11.9 billion in benefits in 1979, about 22.6% more than the $9.7 billion paid in 1978.

About $8.4 billion—71% of workers compensation payments in 1979—represented cash payments to workers or survivors, the Social Security Administration says. The remaining $3.5 billion covered medical and hospital care expenses. ■

States that paid the most in work comp benefits (000)

	State	1979	1978	Increase
1.	California	$1,422,343	$1,246,813	14.1%
2.	Ohio	633,309	531,518	19.2%
3.	Texas	594,343	506,255	17.4%
4.	Illinois	582,840	490,010	18.9%
5.	Michigan	579,553	496,987	16.6%
6.	New York	568,966	496,606	14.6%
7.	Pennsylvania	494,632	407,135	21.5%
8.	Florida	325,940	307,868	5.9%
9.	New Jersey	296,211	268,441	10.3%
10.	Washington	252,612	224,770	12.4%

Source: Social Security Administration

Pilko offers pollution risk assessments

Pilko & Associates Inc., a Houston consulting firm, has introduced an environmental risk assessment service. Pilko's Risk Assessment Division specializes in detecting risks associated with chemical plants, refineries, utilities and related operations.

The division trains inspection service groups and designs and implements environmental inspection and audit programs. It also provides information on short- and long-term effects of environmental regulations on businesses.

For information contact F. Paul Pizzi, Pilko & Associates Inc., 9800 Northwest Freeway, Suite 204, Houston, Texas 77092; 713-680-1885.

products & services

Foreign protection

The Life Insurance Co. of North America, a subsidiary of INA Corp., has started a new emergency medical and legal assistance program for employees traveling abroad.

This program, LINAssist, is available to companies for an annual fee based on the number of employees, whether they have dependents and their destinations.

In medical emergencies, LINAssist provides medical help and, if necessary, an English-speaking doctor to consult with the employee's doctor and family. When hospitalization and surgery are required, LINAssist makes arrangements and provides an advance of up to $10,000.

In an emergency requiring legal services, LINAssist provides up to $10,000 for bail, names of attorneys and advance fees for legal advice.

For details contact Paul Niestroy, Life Insurance Co. of North America, 1600 Arch St., Philadelphia, Pa. 19101; 215-241-4591.

Safety cabinets

Justrite Manufacturing Co. has produced new cabinets designed for storage of corrosive acids and chemicals. The "LabRite" cabinets are coated with a chemical resistant substance. Adjustable shelves are lined with polyethylene trays to catch chemical spills or leaks.

The cabinets are made with a double-wall, welded construction with a 2-inch leakproof sill for extra protection.

The cabinets are made in 30- and 45-gallon capacity models along with a 22-gallon, under-the-counter model. For information contact Justrite Manufacturing Co., 2454 Dempster St., Des Plaines, Ill. 60016; 312-298-9250.

Pension plan

Great-West Life Assurance Co. has introduced a new defined contribution pension plan funding contract.

The Growth Guarantee Contract guarantees the principal, regardless of market changes, a good rate of interest before funds are deposited and that benefits will be paid at book value, regardless of market conditions, when plan benefits are due.

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For details on the Great-West Growth Guarantee Contract contact Pamela Parker, Great-West Life Assurance Co., Great-West Plaza, 15th Floor, 1675 Broadway, Denver, Colo. 80202; 303-892-3000.

Work comp rules

International Risk Management Institute Inc. has published its "Manual of Rules, Classifications and Interpretations for Workers Compensation Insurance."

This manual contains basic rules, classifications and interpretations for all states, with a special section on states with monopolistic funds. Data is compiled from the National Council on Compensation Insurance, Insurance Auditors Assn., various insurance companies and publications.

The manual is updated with revisions that are sent free for one year. The update service can be renewed after the first year for a fee.

The cost of the two-volume manual is $110. To order write or call, the International Risk Management Institute Inc., Suite 208, Building IV, 10300 N. Central Expressway, Dallas, Texas 75231; 214-363-9656. ■

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IRMI conference

All companies need D&O cover: Consultant

Continued from page 3

coverage. This feature was first introduced by two underwriting companies that entered the D&O market last year, Mr. Brockmeier reported (*BI*, Dec. 29, 1980). Since then, others have followed suit with the notable exception of AIG (the largest writer of D&O through the National Union Fire Insurance Co. of Pittsburgh).

Continuity of coverage is extended to a corporation that is considering a D&O insurer switch. The new underwriter agrees to cover the corporation under the prior insurer's terms and conditions. A fresh application that asks about circumstances that might give rise to a claim is not required.

"Risk managers must look closely at a policy to see if they are really getting continuity," Mr. Brockmeier emphasized. He said he felt a "little uneasy" about the practice of some insurers to offer continuity through acceptance of a previous insurer's application as warranty against known circumstances.

"I would be far happier if the policy explicitly states that it provides continuity," he noted.

The extended discovery option available to policyholders if a policy is not renewed by the insurer is well worth the cost—usually about 25% of the policy premium for a one-year extension, Mr. Brockmeier said.

Since D&O contracts are written on a claims-made basis, losses that are not discovered within the policy period are not covered. By exercising the extended discovery option and paying additional premium, the policyholder may extend that protection.

"If the carrier cancels, it will be for good reason," he said. "Either the corporation is a sinking financial ship or it knows of circumstances that may develop into a claim next year."

The corporation typically has 10 days after policy cancellation to exercise the extended discovery option—much too short a time, Mr. Brockmeier said. He urged corporations to seek an extension of that deadline at the time the policy is written.

"I know of no carrier that won't amend to 30 or 45 days to exercise the option—but it must be done when the policy is written," he stressed.

Asked about de facto cancellations where an insurer offers to renew but only for a very substantial premium increase, Mr. Brockmeier suggested that the policyholder serve notice to the insurer that it wants to exercise the extended discovery option.

The insurer will reject the request. But the policyholder builds a file that may eventually be used if the issue goes to court.

Risk managers also should red pencil policy exclusions they don't like, Mr. Brockmeier said. The nuclear exclusion can generally be eliminated for public entities, for example.

Non-profit corporations should carry D&O insurance to the tune of $1 million to $2 million, he recommended. Non-profit hospitals are increasingly the target of D&O lawsuits, he said.

Such plaintiffs are often members of the hospital's medical staff. Doctors as a group may sue the hospital administrators because accreditation is lost. An individual doctor, who is denied staff privileges at a hospital, may also bring legal action against its administrators.

Lawsuits against the directors of charitable organizations constitute "a reverse of the deep-pocket philosophy," Mr. Brockmeier said. "Jurors are more likely to find against the affluent directors of the United Way than against the United Way itself."

There also are valid reasons for closely held corporations to buy D&O coverage. According to the Wyatt survey, less than 50% of D&O claims are brought by stockholders. Employee litigation is growing; customer suits represent about 13% of total claims.

Although underwriters have shied away from writing D&O on closely held companies, it is available in today's competitive market. Some policies exclude internal squabbles in which one director or officer sues another.

About a year ago, AIG began offering separate D&O policies to client companies whose officers serve as outside directors on other boards. A bank officer who serves on a non-profit hospital board, for example, may be sued because the hospital has no D&O insurance.

AIG argues that including outside directorship coverage through an endorsement to the corporation's D&O policy dilutes limits available to pay claims arising out of normal operations, Mr. Brockmeier explained.

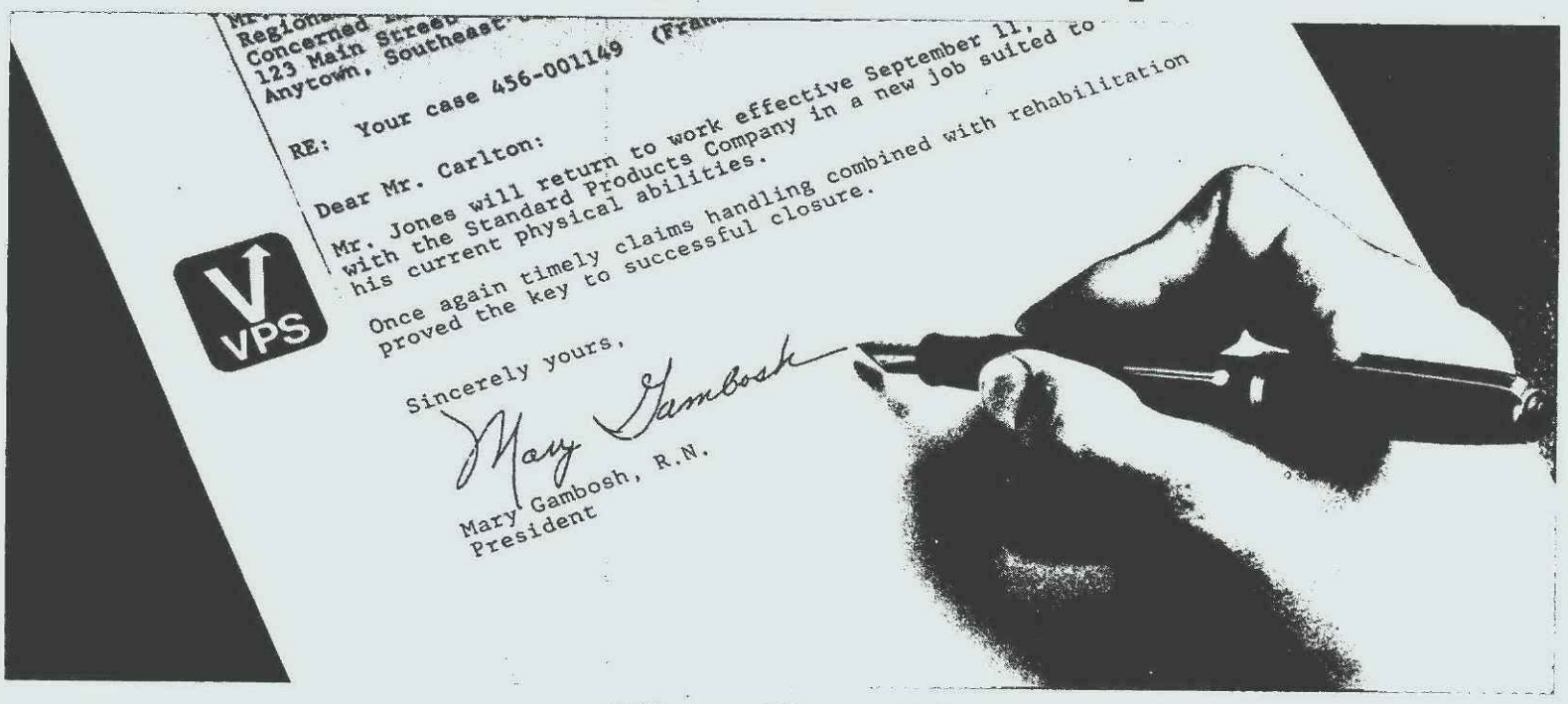
Rather than buy a separate outside directors policy, increase limits on your corporate D&O coverage, he advised. This way, maximum coverage will apply to all claims.

Current D&O policies should respond to outside directorship claims, he added. A recent appellate court decision upheld the liability of a D&O insurer to pay the defense costs of its policyholder whose director was sued in connection with service on an outside board.

But watch out for outside directorship exclusions in D&O renewals, Mr. Brockmeier warned.

Insurers may try to carve this coverage out of existing policies and sell it back to the policyholder at additional cost if the market tightens. ■

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Foreign risk checklist

Property damage insurance
- Building, machinery, equipment and stock values
- Inflation
- Perils
- Property of others
- Lease agreements
- Loss history
- Floater policies

Boiler & machinery exposure
- Perils
- Fire following
- Business interruption
- Replace key equipment
- Spare parts inventory

Fire protection
- Sprinklers
- Fire brigade
- Other protection
- Local regulations

Business interruption
- Annual sales
- Payroll
- Perils covered
- Business interruption form
- Indemnity period

Interdependency/contingent business interruption
- Raw materials
- Final products
- Final markets
- Catastrophe plan
- Raw and finished goods inventories

Transit exposure
- Shipping terms
- Consignee
- Coverage
- Loss history

Crime exposure
- General exposure
- Accounts payable/payroll
- Checking signing authority
- Burglary and theft
- Alarms/safeguards
- Local coverage

EDP equipment
- Equipment
- Uses
- Manual and time-sharing alternatives
- Business interruption exposures
- Replacement parts

Automobile liability
- Number of vehicles and use
- Loss history
- Personal use
- Local coverage analysis
- Coverage of personal vehicles

General and products liability
- Number of employees
- Loss history
- Contract manufacturing
- Special exposures
- Product description
- Local coverage analysis
- Exports
- Trade sales
- Local regulations

Special exposures
- Power sources
- Solvent storage
- Chemical wastes disposal
- Leases and contracts
- Compulsory insurance regulations
- Social welfare programs
- Workers compensation
- Others

Source: John F. Roskopf, risk manager, G.D. Searle & Co.

Foreign exposures require planning by risk manager

VAIL, Colo.—Pre-planning rather than fact-finding is the key to successful foreign trips by corporate risk managers who want to check out their multinational exposures.

"I don't believe in fact-finding missions," declared John Roskopf, risk manager for G.D. Searle & Co., the Chicago-based pharmaceutical company with manufacturing facilities in Puerto Rico, Mexico and other countries.

Don't hit the local manager with a surprise visit, agreed Mr. Roskopf and consultants William Niedecker of William Niedecker Inc. and William Pinckney of Mund, McLaurin & Co. at a panel discussion at the recent Institute of Risk Management Consultants meeting.

In the case of a new overseas acquisition, Mr. Roskopf said he asks the foreign broker for a complete insurance policy digest before his visit. He asks the local manager to send him a general description of operations.

"This will have holes—especially since the local manager typically comes from personnel, finance or accounting and is not a trained risk manager," Mr. Roskopf said. He also sends a risk checklist in advance of his visit (see box).

Before a consultant makes an overseas trip, it is crucial to understand the corporate client's philosophy toward risk management, Mr. Niedecker noted. Does the client want central or decentralized control?

If the former owners of an overseas operation retain management control after acquisition by a U.S. parent that favors centralized control, there may be first-class problems. The local manager may have been buying insurance from close friends or relatives.

It may be a mistake to approach overseas operatons with a closed mind, argued another consultant in general discusson. "One of the things we're evaluating is the centralized vs. decentralized option," he said. "We need to hear out the local—and domestic—managers before deciding."

One of the hardest parts of a risk manager's job is defining his role in the corporation, Mr. Roskopf said. The risk management function has to parallel corporate strategy, he stressed.

"I recognize I'm not going to cure everybody's problem because I have only so much time and energy," he said. "I have to set priorities—decide how to spend my time and when to rely on local, overseas reporting. I have chosen to rely on local brokers, for example."

High-inflation areas have special problems, the consultants pointed out. "Once you get book values on property, you have to do your own indexing," said Mr. Niedecker. Another possibility is to ask local managers to report new values every month.

"In Argentina, where inflation is 120%, a contractor quote on rebuilding after a fire isn't good for more than one week," he said.

The typical risk manager does not know how to use a consultant, Mr. Roskopf observed. Rather than looking for pat answers such as a fronting program, the risk manager should explain objectives like risk transfer, cash flow and tax benefits.

"Know the rules of foreign countries before structuring a risk-treatment program," Mr. Niedecker advised. Insurance must be written to comply with local laws. But he said he favors using a master blanket policy fronted though local admitted companies. Minimum limits should be placed through the fronting company.

If an insurance controversy develops, it is a lot easier to resolve if policies are written in English, Mr. Niedecker said. "Be sure your differences-in-conditions coverage is written over the blanket policy and not the local coverage," he urged.

One of the biggest problems in many countries is calculating the loss and recovering on a business interruption claim. To sidestep settlement delays and disputes, it may be better to let the local manager believe the exposure is self-insured and cover the exposure under a master U.S. policy, several consultants said.

Worldwide DIC coverage can cause problems of allocating the premium cost among operations, however. Mr. Niedecker recommends throwing the cover into the domestic premium account. "It should be part of corporate overhead," Mr. Pinckney advised. ■

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College's building plans explained at conference

WHITE SULPHUR SPRINGS, W.Va.—The College of Insurance plans to spend about $24 million on its expansion project, says Richard I. Purnell, chairman of Johnson & Higgins and chairman of the college's board of trustees.

Mr. Purnell said the price tag of the expansion project on the college's New York campus will include $15 million in building costs, $2.5 million for land and $1.75 million for furnishings.

Mr. Purnell discussed the college's building program at the annual meeting of the National Assn. of Casualty & Surety Executives and the National Assn. of Casualty & Surety Agents.

A economic feasibility study projects a 54% increase in enrollemnt at the college in the next decade, he said.

"We need dormitory space, classrooms, seminar rooms, eating facilities, faculty offices, a bookstore and a greater library facility," Mr. Purnell said.

"Our own new building will greatly enhance the image of the college, make it the acknowledged center for academic knowledge and learning of insurance and thereby enhance the very image of the insurance industry itself," he explained.

Mr. Purnell said pledges and payments toward the project total $7.5 million. He said he expects the New York Dormitory Authority will furnish a long-term loan at a favorable rate.

The college's evening division of special courses and programs has attracted 2,700 students, Mr. Purnell said. Management programs have been attended by more than 5,000 people and technical seminars have attracted 1,882 participants.

In addition, 110,000 visits were made to the college library last year, he said. ■

Pollution cover still needed

Continued from page 3

in the absence of federal requirements," Mr. Garland remarked.

A number of insurers have been gearing up to sell more pollution liability insurance, including Alexander Howden Group, American International Group, Shand Morahan, Hartford Steam Boiler, Stewart Smith, Swett & Crawford and International Surplus Lines Insurance Co., said Mr. Standing.

"The Insurance Services Offices is also writing a standard form (*BI*, Sept. 14)—once it is ready I think the standard lines companies will be more inclined to go into the business," added Mr. Garland.

Despite large commitments undertaken by many companies to underwrite the coverage, Mr. Standing says the industry is pleased with the EPA's new tack. "Minimum limits smacks of compulsory insurance," he said. "Now companies can assess their own exposures and insurance needs."

In the early 1970s, insurers began excluding gradual pollution coverage from comprehensive general liability policies. Only recently have a few insurers begun underwriting gradual pollution risks.

Despite the availability of coverage, underwriters are afraid of picking up liabilities they don't know about and hestitate to bind the coverage without a thorough risk assessment, one consultant said in general discussion. Mr. Standing said he knows of only three firms that perform these assessments.

Demand for gradual environmental impairment insurance may be compared to the growth curve in directors and officers liability insurance over the past seven or eight years, suggested another consultant. Initial demand was slow; now everybody wants it.

Many decisions on requirements had not been ironed out by the EPA before the recent policy turnabout, but Mr. Garland shared some of the agency's thinking.

One problem the EPA encountered in fixing insurance requirements was the lack of data on gradual pollution claims, admitted Mr. Garland. The number of cases to date has been small, although nobody denies the exposure.

The limits of coverage were fixed according to the largest known damage awards at the time, he explained. There was also a proposal to authorize the EPA administrators to grant variances.

Since coverage was based on a per-firm rather than on a per-site basis, limits might be inadequate for companies with 20 sites, he said. Conversely, some might have made successful cases for reduction in the required limits.

"We were attempting to define first-dollar coverage and to decide what kinds of deductibles would be allowed," he added. "We were also looking for some kind of compromise between a claims-made and an occurrence form to protect policyholders against cancellations in the event of an accident.

"It's my guess that policies with the better extended discovery provisions will win out in this competitive market," he observed. ■

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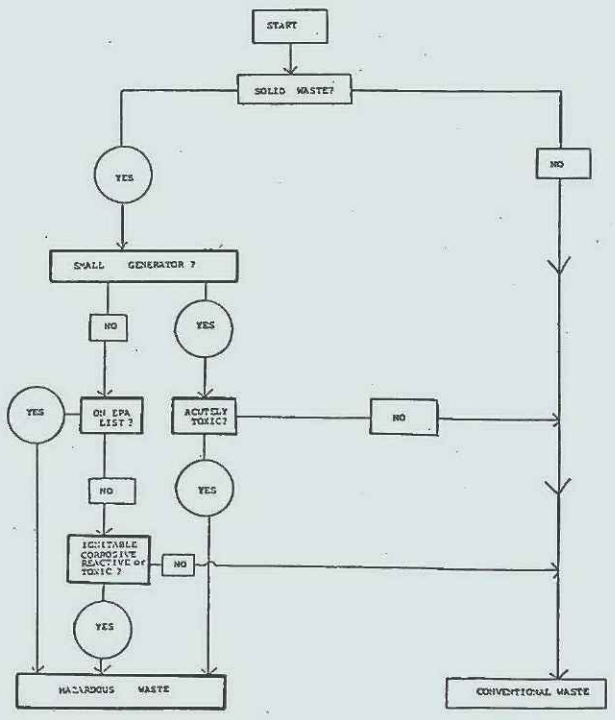
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Classification of hazardous waste



Hazardous wastes require risk control

VAIL, Colo.—The indirect costs of a serious hazardous waste accident may be more crippling than the direct costs, warns a risk management consultant.

Damage to reputation, the cost of testifying in court and loss of product market share are not insurable, says Joseph A. Greenwald, staff consultant with Risk Planning Group in Darien, Conn.

Yet such costs may be two to four times more than the insurable costs of cleanup and general liability. That's why risk control is really the only way to handle hazardous wastes, Mr. Greenwald stressed at the recent Institute of Risk Management Consultants conference.

About 57 million of the 350 million tons of wastes generated in the United States every year are hazardous. That translates into one 55-gallon drum full for every person in the country. And the amount of hazardous wastes is growing at the rate of 3% a year.

Between 30,000 and 50,000 dump sites exist in the United States; only about 10% are in compliance with government standards, Mr. Greenwald reported. About 2,000 pose severe health hazards.

An illegal dump site outside of Atlantic City, N.J., already has contaminated 10% to 20% of the city's water supply, it was recently discovered. Experts estimate that more than half the city's water will

Continued on next page

Fire losses can be reduced: Consultant

VAIL, Colo.—Last year was the worst in U.S. history for deaths and damage caused by fire, according to data compiled by the National Fire Protection Assn.

Some 6,500 people were killed and $6.5 billion in property was destroyed by fires during 1980, said Kenneth E. Berg, president of FPE Group, a San Francisco fire protection consulting company.

It also was a very bad year for high-rise fires, as evidenced by the MGM Grand and Hilton hotel fires in Las Vegas, he noted. Hotels and motels were responsible for only 165 of the 6,500 deaths, however.

"Reducing the frequency of high-rise fires is very difficult, but the technology exists at a reasonable cost to reduce their severity," Mr. Berg told an audience at the recent Institute of Risk Management Consultants meeting in Vail.

Even more important is enforcement of existing fire codes, he said. "Without strict enforcement we're in trouble—and that depends on available time, money and energy in local jurisdictions."

Until last year, high-rise fire losses were quite low, Mr. Berg observed. During the 1970s there were only 84 high-rise fires that resulted in the death of one fireman or civilian. The average annual high-rise fire loss was $2.7 million.

Combined with strong enforcement of codes, Mr. Berg stressed the role that automatic sprinklering can play in extinguishing fires quickly. Division of open space into separate compartments also slows the spread of flames.

Automatic sprinklers cost less than carpeting—about $1.25 per square foot or $11.25 per square yard in new construction, he said. Retrofitting costs about $3 per square foot, still not a large cost.

Mr. Berg characterized fire protection as a "reactive" profession in which experts try to learn from their mistakes. In this spirit they classify fires as "dumb" or "smart." Dumb fires could have been prevented. Smart fires teach a valuable lesson about unsafe conditions that may prevent future fires.

The classic smart fire was the 1953 blaze at the General Motors Corp. transmission plant in Livonia, Mich. The fire caused an $85 million property loss—$370 million in current dollars. The estimated $400 million business interruption loss does not fully reflect the repercussions at General Motors for its lost manufacturing capability.

The non-combustible plant building and contents were destroyed after an asphalt roof deck vaporized into flammable gases that ignited. The catastrophe taught a valuable lesson in roof construction design that changed building codes and property insurance underwriting standards.

The 1977 Ford Werke KG parts depot fire in Cologne, West Germany, is an example of a dumb fire. The $175 million blaze destroyed 800,000 square feet of automobile parts manufacturing space.

There are five reasons why the fire could have been prevented, Mr. Berg said:

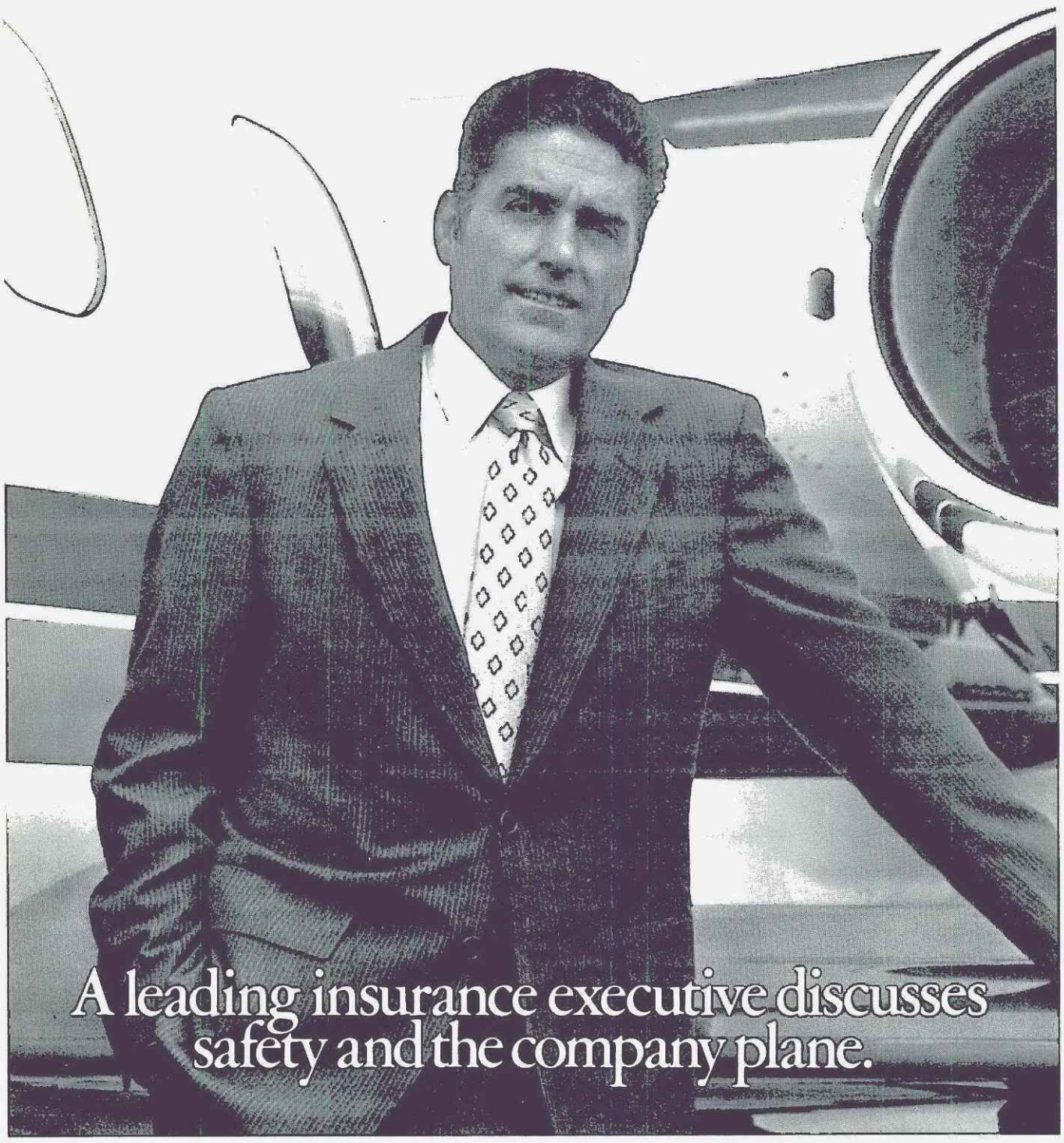
- Combustible materials were stored in warehouse aisles contrary to good fire protection principles.
- Interior open spaces within the plant were too large to permit manual firefighting.
- Employee emergency training was inadequate.
- Fire pumps stopped operating during the fire because common procedures were not followed.
- Public and plant fire departments had not rehearsed or coordinated their firefighting activities.

High-rise fires have increased in frequency since the 1950s when use of lightweight building materials was introduced, Mr. Berg said. Until that time, high-rise buildings were strong, solid boxes characterized by 6-foot-thick exterior walls that supported the entire structure.

This construction method was very expensive, however. After 1950, thin steel columns were used as interior supports. Exterior walls were reduced in strength. Highly combustible plastics and other synthetics became increasingly popular as interior furnishing materials.

This increased combustibility created more high-rise fires by the 1960s and 1970s, he said. But even today, the frequency is quite low.

There is roughly $90 billion involved in high-rise buildings today. The annual burn rate is about 0.00003, he calculates. ■



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Toxic wastes

Continued from previous page

be unusable when the problem fully develops, he said.

The first step in controlling hazardous wastes is identification. Most major corporations are aware of their exposures, but many medium- and small-sized companies may not know they are generators, transporters or treaters of hazardous wastes.

To identify potential hazardous waste generators, Mr. Greenwald drafted a classification chart (see chart, page 39).

Some companies, such as cargo airlines, may be inadvertent transporters, noted Mr. Greenwald. Periodic testing and auditing of their cargo is necessary for self-protection. Municipalities operating sanitary landfills are also candidates for such unrecognized exposures.

Hazardous wastes generators are ultimately responsible for what happens to them, so "it is not enough just to keep your own house clean," cautioned Mr. Greenwald. "The problem will follow you around—strict liability is operating here."

To cope with the exposure, some generators may opt to minimize production that creates the wastes, Mr. Greenwald said.

In some cases, a marginally profitable operation may be overwhelmed by the risks and cease operations altogether.

Another management alternative is to reduce wastes by increasing production efficiency. An even better solution may be to reprocess or recycle wastes so that they are never discharged.

Monitor changing conditions in your business, he stressed. Changes in the production process may introduce use of new substances and create potential for hazardous wastes. "Watch out for acquisitions—don't buy somebody else's creeping liabilities," he warned.

Pay strict attention to regulations and adhere to them, he said. The Federal Register, summary periodicals published by the Bureau of National Affairs, trade publicatons and other bulletins and newsletters are good ways to keep informed.

Another important component of a strong risk management program is good recordkeeping and auditing of hazardous wastes, he added. Such audits must be carefully planned, executed and reviewed with corrective action taken when necessary. ■

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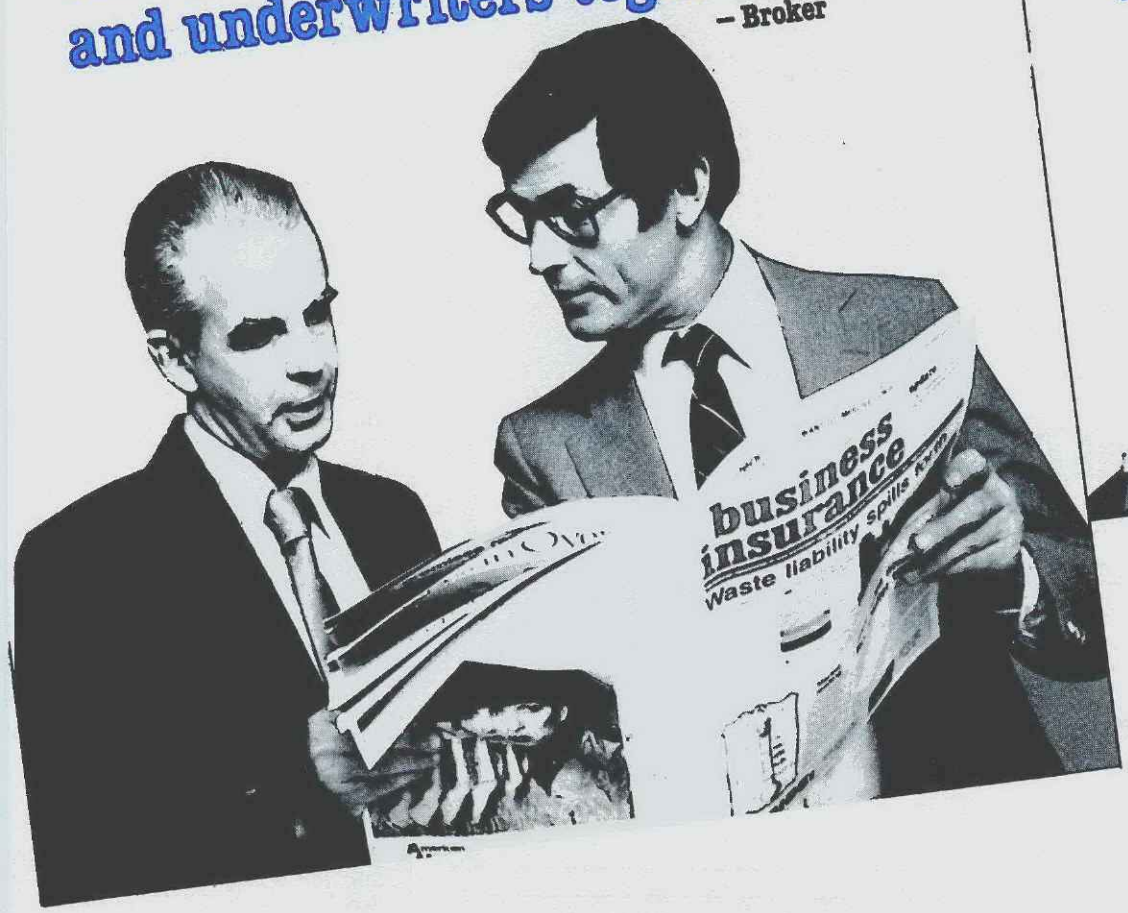
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Tort bill offers little aid to asbestos firms

Continued from page 3

But asbestos manufacturers are concerned about the exclusion. "I don't understand why exceptions are built in," said Charles A. Foster, director of risk management for asbestos manufacturer Keene Corp. in New York.

"It is not rational to treat asbestos differently," he said.

Setting the length of time a manufacturer is liable for the safety of its products and requiring a plaintiff to identify a manufacturer to recover damages are only two of more than a dozen areas of tort law addressed in Sen. Kasten's bill. Others provisions include:

- Wholesalers and distributors would be immune from most product liability suits unless they also made the product.
- Most manufacturers would only be responsible for the useful safe life of their products. Employers have complained that in some cases they can be held liable for their products long after the life expectancy of the products has expired.
- Manufacturers no longer could be held liable for failing to warn of obvious product damages.
- Manufacturers would be protected from most product liability suits if their products were altered or misused.
- Product liability awards would be reduced by the extent that a plaintiff's negligence caused an accident.
- Products would be presumed free of defects if the manufacturer complied with the appropriate government safety standards. Such a presumption would make it difficult for a plaintiff to win a product liability case.
- The employer or his insurer could not obtain compensation from the manufacturer to recover its workers compensation costs in product liability cases involving workplace accidents.

The unveiling of Sen. Kasten's proposal, which won't be officially introduced in Congress until the public has commented, comes at a time of growing business support for tort reform at the federal level.

Until recently, employers have concentrated their tort reform lobbying efforts at the state level. Under great pressure from business groups, about 25 legislatures during the last five years have passed bills that reduce uncertainties in the tort law—a factor blamed by insurers for high product liability insurance rates.

But some experts say these new laws have created new uncertainties. For example, Illinois 1978 tort reform law bars product liability suits filed on the basis of strict liability 10 years after a product is manufactured.

On the other hand, Utah's 1977 tort reform law cuts off many product liability suits after just six years.

"State efforts to bring about reform of product liability law have proved unsuccessful," said Sen. Kasten, chairman of the Senate Commerce Consumer subcommittee.

"Uniformity (of the tort law) can only be achieved through a federal bill," added Walter Taylor, assistant general counsel at Eli Lilly & Co. in Indianapolis, a pharmaceutical manufacturer.

But passing a product liability bill at the federal level faces an uphill battle for several reasons:

- The complexity of the issue. "Many in the Congress don't even know what the business community is talking about. . .let alone what the solutions are," said Tom O'Day, government relations officer at the Alliance of American Insurers.
- The almost certain opposition of the Assn. of Trial Lawyers of America and other legal groups. "Trial attorneys have a lot of muscle and a lot of dollars," Mr. O'Day notes.
- Competition from other bills. In an average session of Congress between 10,000 and 20,000 bills are introduced, minimizing the chances of complex and controversial legislation gaining congressional approval.

And Mr. Kasten's legislation—the first comprehensive product liability measure proposed this year in Congress—already has drawn fire from consumer groups.

The National League of Consumers is appalled at Sen. Kasten's proposal to cut off the right to sue after a product reaches a certain age. "It is the No. 1 outrage. It is an egregious intrusion on consumer rights," said Barb Pequet, legislative director of the league. "There is no compromise on this issue."

Other provisions in the Kasten draft bill also will arouse controversy.

For example, as reported last week, the measure would require a plaintiff to prove "by a preponderance of the evidence" that a product was produced by a specific manufacturer in order to establish liability.

That provision would challenge the 1980 landmark California Supreme Court decision in the Sindell case. In that ruling, which involved the anti-miscarriage drug DES, the California court said when a product causing injury is made by many different manufacturers and the specific manufacturer can't be identified, lability must be divided among them, based on market share.

The decision alarmed risk managers and insurers 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.

Mr. Taylor, the attorney at Eli Lilly—a major manufacturer of DES before it was taken off the market in 1971—said it is only fair, as Sen. Kasten has proposed, to require a plaintiff to show that a company is at fault before you take "its money away and give it to someone else."

But Ms. Pequet of the consumers' league said a person, through no fault of her own, should not be penalized, because the specific manufacturer can't be identified and the product was produced by one industry.

Manufacturers, however, will support a provision that eliminates their liability if a product was altered or modified without their permission or not in accordance with instructions, and if the alteration causes an accident. Some companies have complained about losing product liability cases although their products were altered or modified long after they left the manufacturers' control.

Under the Kasten bill, wholesalers and distributors generally no longer would be entangled in product liability suits. They would only be potentially liable if the manufacturer were insolvent or if they had a reasonable opportunity to discover a product defect that later caused an accident.

In addition, a plaintiff would have a tougher time winning a suit if a product complied with the appropriate government safety standard; punitive damages still would be allowed but a plaintiff would have to prove that the harm suffered "was the result of the reckless disregard of the product seller for the safety of product users."

In product liability suits involving workplace accidents, an award would be reduced by the extent the employer was negligent. For example, a $1 million award against the manufacturer of a defective machine press would be cut in half if the court found that injured worker's employer was 50% responsible for accident. A number of states already allow such a reduction, experts say.

Furthermore, an employer's workers compensation insurer would not have the right to slam a lien against the manufacturer of the product to recover the workers compensation benefit payable to the injured worker.

For example, if a worker injured in a factory won a $150,000 workers compensation benefit from his employer and a $1 million award against the product manufacturer, the work comp insurer no longer could recover its $150,000 cost from the product manufacturer.

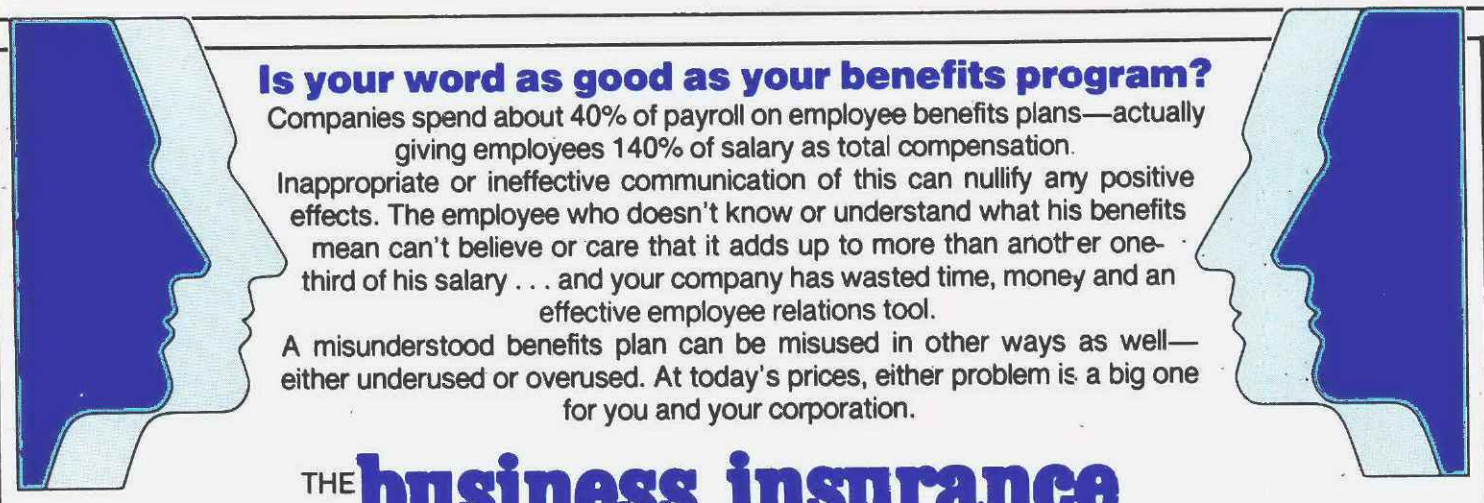
The elimination of such liens, in which the work comp insurer sues the product manufacturer or its insurer, is designed to reduce litigation costs associated with product liability suits, said Victor Schwartz, an attorney with Crowell & Moring.

Sen. Kasten said he hopes to hold hearings on his product liability bill either late this fall or early next year.

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Free copies of the "Product Liability Act of 1981," staff working draft No. 1, may be obtained by writing to the Documents Clerk, Senate Commerce Committee, 5202 Dirksen Senate Office Building, Washington, D.C. 20510. For faster service, include a self-addressed mailing label.





Firefighters say they were exposed to PCBs

Continued from page 2

Six firefighters and four wives filed the original damage suit Oct. 8 seeking $50 million in damages and others followed their action, bringing the damages sought to more than $150 million. The wives claimed they also were exposed to the PCBs because their husbands had not been told their clothes should have been decontaminated.

Con Ed officials could not be reached for comment. The utility has liability insurance with policy limits of $200.5 million and a $500,000 self-insured retention.

The firefighters say the utility failed to warn them that the burning cooling oil contained PCBs.

They also say Consolidated Edison used excessive amounts of PCBs—more than are allowed by federal standards—in the oil, which was used to cool and insulate the transformer at the plant.

They also claim that Consolidated Edison has stonewalled the EPA and the Public Service Commission, which have tried to investigate the accident.

The EPA, however, has denied any runaround by Consolidated Edison. James Marshall, chief of New York regional EPA office, said his agency has tested oil residues from the generating station and believe "the oil didn't contain a significant quantity of PCB."

Additional testing is not warranted, Mr. Marshall told *Business Insurance*. "There was no way any PCB and byproducts could have escaped into the air."

Mr. Marshall said the PCB level at the East River generating plant contained 250 parts per million gallons, less than the PCB levels at some of Consolidated Edison's older generating stations.

The federal government requires full labeling and danger signs when the PCB level reaches 500 parts per million gallons.

The firefighters claim they contracted rashes and nausea shortly after contact with the chemical, they now fear the symptoms will linger and they will later contract cancer or suffer neurological disorders, kidney and liver disorders, loss of sex drive and abnormal sensitivity to light. They also say they fear their offspring could suffer birth defects.

Dioxin is considered to be the most dangerous component of Agent Orange, the controversial substance used as a defoliant in the Vietnam War.

The cooling oil, firefighters say, was spilled during the accident that blew out the transformer at the generating station.

The blaze blacked out most of lower and a part of midtown Manhattan for several hours, closing businesses and snarling traffic.

"Consolidated Edison should have warned firefighters that the oil would give off potentially dangerous fumes if burned, months, years before this happened," says Kevin Concagh, the firefighters' lawyer. "If they (firefighters) had known beforehand, they could have gotten the proper equipment for fighting the fire. They were only warned about the live electrical circuits." ■

TMI cleanup plan

Continued from page 2

the TMI decontamination puzzle is vital if the electric utility industry is to have continued access to investment markets.

The nation's financial community is wary of the electric utility industry following the TMI experience. Many investors believe nuclear utilities are underinsured, exposed to the risk of bankruptcy if a serious accident knocks a plant out of commission.

High investment rates on bonds and depressed stock values are the result, an institute spokesman says.

Non-nuclear utility companies, which constitute a majority of the nation's electric generators, have a stake in the cleanup problem as well, the spokesman said, because investor confidence in the entire industry has been shaken.

Under the institute's proposal, all utilities combined would contribute a total of $16 million a year for six years.

Nuclear utilities with operating licenses or construction permits would pay an additional total of $16 million a year for six years.

An individual utility's contribution would be based on its kilowatt-per-hour output, a formula that would determine individual contribution according to size.

The institute admits that its plan might be opposed by rural electric cooperatives and some 1,900 municipally owned utilities.

The institute believes that most utilities would consider their contributions to be operating expenses and expects they will try to recapture such costs through higher rates.

This would require the approval of state regulatory commissions. The institute admits that it could be a problem getting 50 individual state commissions to agree.

With this in mind, the group may seek federal legislation requiring all electric utilities to participate in the plan, the spokesman said.

Federal participation will require a congressional appropriation, and Gov. Thornburgh already is trying to round up support.

In his call to Gov. Thornburgh, President Reagan said he agrees that the TMI cleanup requires "immediate attention" and said he is directing the White House staff and federal agencies to get involved.

The president indicated he will send Gov. Thornburgh a letter with "specific funding suggestions," the spokesman said. ■

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49.		DEC 7	Nov 24
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51.		DEC 21	Dec 9
52.		DEC 28	Dec 15
1.	MARKET PREVIEW/INFO FOR BUYERS	JAN 4, '82	Dec 21, '81
2.		JAN 11	Dec 28
3.	Risk Management Board Survey	JAN 18	Jan 6, '82
4.	SELF-INSURANCE	JAN 25	Jan 12
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Commercial Consumers Sub-total	**22,034**
Insurance Agents & Brokers	9,486
Insurance Cos.	4,486
Financial Institutions	292
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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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Suit seeks to untangle Hyatt coverage

Continued from page 1

• Are Hyatt's insurers only liable for actual damages and not punitive damages, as some of them claim?

Hyatt hopes to settle these key disputes and a few other smaller ones before the first of nearly 125 lawsuits seeking more than $3 billion in damages goes to court.

Named in Hyatt's suit are 20 insurers that wrote $200 million of primary and excess liability coverage for the hotel chain. Hyatt leases and operates the Kansas City hotel.

Also named are three insurers that wrote $100 million of liability coverage for Crown Center and Hallmark and two insurers that wrote $10 million of liability coverage for Eldridge & Sons Construction Co., the Kansas City-based general contractor for the hotel's construction.

"One of the purposes of the lawsuit is. . .to determine the existence of all insurance coverage available. . .," the suit says. Named as additional defendants are any insurers, not yet identified, that wrote related coverage.

Which insurance will be considered primary—that purchased by Hyatt or that purchased by Hallmark and Crown Center—is the main source of conflict among insurers, said Tom Deacy Jr., Hyatt's attorney.

"The Commercial Union people (primary insurers of Hallmark and Crown Center) are taking the position that their coverage is in excess to the Occidental (Hyatt's primary insurer) group's coverage," said Mr. Deacy. "And the Occidental group is claiming the Commercial Union group is either primary or should share in damages prorata."

Occidental Fire & Casualty Co. wrote Hyatt Corp.'s first $1 million of coverage, the suit says.

Commercial Union of Boston insures Hallmark and Crown Center for $1 million primary and $10 million excess. The American Insurance Co. of San Francisco wrote $50 million excess of $11 million and Continental Insurance Co. in New York and Republic Insurance Co. in Dallas wrote the remaining $40 million of the $100 million in coverage.

In its suit, Hyatt says that Commercial Union is basing its refusal to indemnify Hyatt as an additional named insured on a clause in an earlier policy that was written by National Union Fire Insurance Co. for Hallmark for the operation of the Kansas City Hyatt Regency. That old policy, which Commercial Union replaced, says that the coverage is excess over any other valid and collectible insurance. However, Hyatt says that the current policy written by Commercial Union specfically agrees to include any additional named insured with no stipulation that the policy is excess over Hyatt's own coverage.

On the opposite side of the same controversy, Northbrook Excess & Surplus Insurance Co. in Northbrook, Ill., which wrote $25 million excess of Occidental's $1 million on Hyatt, contends it has the right to refuse to pay claims until after the Commercial Union group's coverage is exhausted, the suit says.

Related to this is the controversy surrounding Hyatt's contention that Hallmark and Crown Center are additional named insureds on all its liability policies. Hyatt also says it is a named insured on Hallmark's and Crown Center's policies.

"It is manifesting itself in the denials of coverage to Crown Center and Hallmark, despite the fact that certificates of insurance naming them as additional insureds were issued on behalf of the insurers by Marsh & McLennan," Mr. Deacy said.

Four of the excess insurers on the Hyatt policy have refused to indemnify Hallmark or Crown Center because the companies had not been added to their policies by endorsement, the suit says.

They are Pine Top Insurance Co., Phoenix, Ariz.; Centaur Insurance Co., Chicago; INSCO Ltd., Hamilton, Bermuda; and Columbia Casualty Co., Chicago.

The suit says these insurers' refusal to afford coverage to Hallmark and Crown Center could jeopardize its own coverage as an additional named insured on Hallmark's and Crown Center's policies.

Although Marsh & McLennan figures prominently in the suit, Mr. Deacy says, "We don't contend they did anything wrong at all.

"We do say that if they did not get the coverage the way we ordered it or if they failed to get Hallmark and Crown Center on our policies as named insureds, and we have to respond to Hallmark and Crown Center, then Marsh & McLennan has to respond to us."

Hyatt requested its broker to procure general liability insurance "affording coverage for the types of claims that have been made. . .as a result of the July 17, 1981, occurrence," the suit says. Hyatt asked that Hallmark and Crown Center be named on the policies. A certificate of insurance was issued by Marsh & McLennan showing this had been done, the suit shows.

Based on this, the suit asks the court to declare Marsh & McLennan liable for losses that might result from failure to have Hallmark and Crown Center named on Hyatt's policies or from the denial of coverage to Hyatt by its insurers.

Pine Top, INSCO and Centaur also claim the right to deny coverage to the hotel chain for any damages related to the incident.

They base this refusal, the suit says, on clauses that exclude coverage to Hyatt for construction jobs, leased premises and liability from "any negligent act, error or omission of any insured."

Northbrook reserves the right to deny coverage if claims against Hyatt arise from "joint ventures for construction projects, any project insured under a 'wrap-up' policy or construction operations," the suit says. Northbrook says its policy excludes them.

But Hyatt says the exclusions in all four policies do not apply, their language conflicts with terms of the policies and they are an attempt to "vary and narrow" coverage contrary to public policy. Hyatt asks the court to declare that the policies give full coverage.

While Hyatt denies any liability for injuries or deaths resulting from the accident, the suit contends that insurers are bound to pay claims for both punitive and actual damages if Hyatt is found liable.

The suit says that on Aug. 24 Occidental Fire & Casualty Co. of North Carolina, Hyatt's primary liability insurer, sent Hyatt a letter that "purported to disclaim liability or coverage" for punitive damages. The letter said Occidental would consider giving coverage for punitive damages if a court decision altered its view.

If Occidental's contention that its policy does not cover punitive damages is upheld, excess insurers might take the same position. In fact, two excess insurers claim their policies specifically exclude coverage for punitive damages, the suit says. They are Excess Insurance Co. Ltd. of London and Tudor Insurance Co. of Ramsey, N.J. Tudor wrote a small portion of the top $100 million excess of $100 million layer. It is not known on what layer Excess Insurance wrote its coverage.

These policies follow Occidental's primary coverage and also should provide for punitive damages, the suit says. It cites the "ambiguity" between the excess policies' punitive damages exclusions and their general terms, saying that by Missouri public policy such ambiguity must be construed in favor of the policyholder.

"The amount sought as damages in the lawsuits which already have been filed far exceed the amount of insurance coverage available under all the insurance policies issued by the defendants," the suit says, and it asks the court to declare that Occidental's policy and all excess policies provide coverage for punitive damages.

Hyatt also asks the court to rule that Northbrook is obliged to reimburse costs for investigation, adjustment, appraisal, appeal and defense incurred as a result of the skywalk collapse. Hyatt says these expenses "should be paid at the defendant's (Northbrook's) sole cost and without reduction" of the limits of the policy.

Northbrook contended earlier that the defense costs and other investigative expenses should be considered part of the $25 million policy limits.

Finally, Hyatt contends that the insurers' "varying, conflicting and inconsistent actions and positions" may jeopardize its right to all the coverage it is entitled to and cause irreparable harm to Hyatt's name, standing and good will in the community by delaying and frustrating resolution of claims.

Hyatt insurers as named in the suit include Occidental; Northbrook; Pine Top; Centaur; Columbia; INSCO; Tudor; Excess Insurance Co. Ltd.; Highlands Insurance Co., Houston; Custom Insurance Co., Short Hills, N.J., which is managed by Chubb & Son Inc. also Continental Insurance Co., New York; Employers Mutual Casualty Co., Des Moines, Iowa; Integrity Insurance Co., Paramus, N.J.; Lexington Insurance Co., Boston; Granite State Insurance Co., Manchester, N.H.; Harbor Insurance Co., Los Angeles; National Surety Co., Chicago; Western World Insurance Co., Ramsey, N.J.; and Puritan Insurance Co., Stamford, Conn. ■

Here are coverage details

KANSAS CITY, Mo.—The picture of Hyatt Corp's liability insurance covering the Kansas City Hyatt Regency Hotel disaster became clearer through the Hyatt's lawsuit against its insurers (see related story).

Hyatt has $200 million in liability insurance, as reported earlier by *Business Insurance* (*BI*, July 27), with 20 insurers. In addition, Hyatt is a named insured on $100 million in liability coverage purchased by Crown Center Redevelopment Corp., owner of the Hyatt Regency, and Crown Center's parent company, Hallmark Cards Inc., both of Kansas City.

Hyatt's insurance coverage includes:

• A $1 million primary insurance policy written by Occidental Fire & Casualty Co. of North Carolina, a subsidiary of McM Corp. The first $100,000 of the heavily reinsured policy was ceded to Western General Insurance Co. in Bermuda, which, while not technically a Hyatt captive, involves the interests of the Pritzker family, which controls Hyatt Corp.

Transit Casualty Co. of Los Angeles reinsured half of the $750,000 layer excess of $250,000 and New York's Donald F. Muldoon Inc. placed the other half with unidentified insurers. Occidental may or may not have any of the remaining $150,000.

• A $25 million excess of $1 million policy with Northbrook Excess & Surplus Insurance Co., a Northbrook, Ill. subsidiary of Allstate Insurance Co. Of this layer, $20 million was in London until February 1980 and $5 million remained in London until February 1981.

• A $25 million layer excess of $26 million, placed on a quota-share basis by Baccala & Shoop Insurance Services, was split by Pine Top Insurance Co., a Greyhound Corp. subsidiary in Phoenix, Ariz., $10 million; Centaur Insurance Co., Chicago, $10 million; and INSCO Ltd., Bermuda, a Gulf Oil subsidiary, $5 million. Both Pine Top and INSCO said they were heavily reinsured.

• A $25 million layer excess of $51 million with unidentified excess insurers that appear to be Columbia Casualty Co., Chicago; Custom Insurance Co., Short Hills, N.J., which is managed by Chubb & Son Inc., and Federal Insurance Co. None of the companies would confirmed on what layer their participation in the coverage is.

• A $25 million layer excess of $76 million, $5 million of which is with Pine Top (heavily reinsured) and $10 million of which is believed to be with Highlands Insurance Co. Another $10 million is with unidentified insurers.

• A $100 million layer excess $100 million, written on a quota-share basis with an estimated 10% by National Surety Corp., Chicago; a small portion by Western World Insurance Co. Inc., Ramsey, N.J, a subsidiary of Westco; and an "even smaller portion" by Tudor Insurance Co. of Ramsey, a private company managed by Westco.

• Other insurers who were identified in the Oct. 9 lawsuit filed by Hyatt Corp. but whose exact participation is not known include Continental Insurance Co., New York; Employers Mutual Casualty Co., Des Moines, Iowa; Excess Insurance Co. Ltd., London; Integrity Insurance Co., Paramus, N.J.; Lexington Insurance Co., Boston; Granite State Insurance Co., part of the American International Group, Manchester, N.H.; Harbor Insurance Co., Los Angeles; and Puritan Insurance Co., Stamford, Conn.

Hallmark's and Crown Center's $100 million of liability coverage was written by:

• Commercial Union Insurance Co., Boston, $1 million primary and $10 million excess of $1 million. Commercial Union confirmed only that it wrote a Hallmark policy.

• The American Insurance Co., a subsidiary of Fireman's Fund Special Risks, San Francisco, for $50 million. A company spokesman confirmed the coverage.

• Continental Insurance Co. of New York and Republic Insurance Co. of Dallas, for the remaining estimated $40 million. It is not known how the $40 million is distributed, but a Republic source says his company's share was more or less a "reinsurance deal."

Eldridge & Sons Construction Co. of Kansas City, Mo., the Hyatt Regency's general contractor, has liability insurance written by:

The Home Indemnity Co., New York, for $500,000 primary and by Sayre & Toso in Los Angeles for Mission Insurance Co. for a $10 million umbrella policy reinsured with about 200 other companies. ■

GM wants to trim benefits

Continued from page 3

• Changes in the 30-and-out early retirement program.

• A GM plan for Individual Retirement Accounts.

Co-payment arrangements are not new to collective bargaining, and the UAW has in the past rejected the idea of employee contributions to the basic health and life insurance plans.

Yet one alternative would give employees a choice of several different plans with various levels of coverage.

The company might fund the basic plans for both health and life, with the employee sharing the cost of upgraded coverage.

This would require a variety of plans and expansive computer capabilities, Mr. Olthoff says, and such an option might be phased in, starting with salaried employees.

Another cost-containment option is the use of health maintenance organizations, which Mr. Olthoff said GM and the UAW are studying jointly.

In return for these concessions, GM might consider a profit-sharing plan as well as improvements in its existing Employee Stock Ownership Plan.

GM's present contract with the union provides employee incentives in its early retirement program. This may also be addressed at next year's talks.

"Our history, in terms of our negotiated plans, has been to emphasize early retirement," Mr. Olthoff says. "It is time now to de-emphasize that."

Early retirement has become a much different issue now that the Reagan administration is considering raising the retirement age for maximum Social Security benefits from 65 to 68 and the early retirement age from 62 to 65.

Under its current pension plan, GM early retirement benefits decrease when the retiree reaches age 62 and Social Security benefits are phased in.

If the retirement age for Social Security benefits is raised, GM would be faced with additional early retirement benefits.

GM is considering an in-house IRA plan, Mr. Olthoff says, although it would be subject to collective bargaining before it would apply to hourly employees.

Mr. Olthoff says that GM and the union have a closer relationship now than at any time in the past, highlighted by a day-to-day interchange of ideas.

The union also understands that 1979's rich contract will not be possible the next time around, Mr. Olthoff adds. Automotive News estimates that the 1979 contract will cost GM some $9 billion over the three-year contract period.

Insurers predict underwriting losses in '82

Continued from page 3
companies if interest rates drop. "The investment income has been so large that it has diluted the urgency of underwriting losses," Mr. Russell said.

Even though an easing of inflation would improve the value of the bond portfolio and the insurers' surpluses, "large percentages" of income are going into short-term, interest-rate-sensitive investments, David Seifer, an analyst with First Boston Corp., told the assembly.

"Lower interest rates could reduce the growth rate in investment income for a 12- to 24-month period," he warned.

As a result, roughly 5% of the nation's 3,000 property/casualty companies could "go down the tubes," Mr. Simmons predicted.

Noting that most of the stalwart companies at Greenbrier have sufficient investment income to "weather the storm," Mr. Russell also foresaw a "rash of insolvencies" among new, inexperienced insurers.

Prices simply won't rise fast enough to offset the income loss, explained Mr. Seifer. It could take from 12 to 18 months before any increases show up in the operating statement, he said. Or, as Mr. Russell put it, "Your book of business is like a big ship—it takes a while for rate changes to feed into the bottom line."

On the other hand, continued high interest rates are likely to discount bond prices by 25% to 30% over the next year, according to Mr. Seifer, who also expects "further weakness in the stock market, another negative pressure on surplus."

Within the context of this economic double bind, the insurance industry is further bowed by competitive price-cutting, made all the more possible by the growing tendency to cash flow underwrite and all the more necessary by overcapacity.

Rates, particularly for property, commercial auto, commercial multiperil and general liability, have dropped every year since 1979 and will, in Mr. Sargent's view, continue to do so in 1982.

What he characterizes as "intense competition" is spurred by new companies coming into the industry, mutual life firms diversifying into property/casualty underwriting, existing companies battling to maintain and to expand their own market share and the encroachment of foreign insurance companies in the United States.

Mr. Sargent made the point that "these new entrants are working off current interest rates only, giving them higher rates of return and inducing them to try and gain market share, while others fight to maintain it."

For example, he said, a start-up insurer can invest its premiums 12% tax-free and 16% taxable.

At the same time, a competing veteran may be burdened with 7% bonds worth 60 cents on the dollar.

Given the long-tail nature of much of the business presently written, Mr. Sargent wagered that most companies have no idea of what their true costs will be.

"On the down leg, insurance is a commodity. On the up leg, if you prosper, you're a genius," he quipped.

This situation is further exacerbated by overcapacity among reinsurers. Mr. Sargent noted that in this sector "higher limits, cut-throughs, super-quota shares and excess deals—all with great retro commission arrangements—and fronting arrangements at declining rates help to induce competitive pricing in the primary markets."

Meanwhile, he indicated that captives and self-insurance make up 20% of today's property/casualty business—an additional impetus to industry price-cutting as a competitive ploy to retain business.

Indeed, many in the industry decry the advent of the product liability Risk Retention Act, cash-flow underwriting and the burgeoning varieties of self-insurance.

Through these devices, they correctly see business slipping through their fingers. For example, 30% of workers compensation premiums are self-insured or in captives, a portion which is expected to increase by 25% over the next few years, according to Mr. Sargent's studies.

What it comes down to is a shrinking market that everyone—brokers, insurers, agents and consultants—is vying to serve.

And these changes on the buyers' side are matched by a dramatic transformation of the insurance industry itself.

There, stepped-up consolidation and a blurring of traditional roles make some participants fearful of becoming lost in the shuffle.

For instance, many industry experts, like Mr. Sargent and John Bogardus, president and chief executive officer of Alexander & Alexander, believe that the general melding of broker and underwriter cannot be too far off. "One major break in that, and things would move rather rapidly," Mr. Bogardus maintained.

In the face of such efficiencies of scale, small and medium-sized companies and agencies may be hard put to compete.

Looking ahead, Mr. Sargent depicted three alternative scenarios: a slow sink, with a combined ratio of 110% in 1982, 114% in 1983 and 110% in 1984; disaster in 1982, with a combined ratio of 113% and a 7% rate of return; or disaster in 1983, with a combined ratio of 116% and a 4% rate of return.

For his part, Mr. Seifer foresaw a combined ratio of 108% for 1981, 114% or 115% for 1982 and 110% for 1983. "I expect underwriting losses will result in one more realization of under-reserving," he added, referring to past down cycles.

Mr. Sargent believes that when the industry hits bottom, capital will move out of the business and "a number of companies will be in serious trouble or be seized by insurance commissioners or not pay claims or experience negative cash flows."

The forced sale of bonds "would produce a panic in today's financial markets, which would make the common stock sales of the mid-1970's look like child's play," he continued, pointing again to "the coming disaster."

Still, at Greenbrier, where the wine really does flow like water; where one feasts freely on smoked salmon, caviar, pate and all manner of rare and exquisitely prepared comestible; where there is tea and live chamber music at four; and where a good part of the day is given over to golf, tennis, trapshooting or luxuriating in a mineral bath and at the hands of a good masseur, there is a sense that the industry's annual pilgrimages and the prosperity that supports them will endure for at least another 55 years. ■

Regulators may govern reinsurers, captives

Continued from page 3
Determined to forestall such an event, the commissioners have streamlined their own organization, begun to take steps to improve their industry expertise and data processing capability, started to examine the implications of the Risk Retention Act and the wholesale shift to the self-insurance of workers compensation and considered looking into the reinsurance market.

Of particular interest is the solvency of the new pools, captives and self-insurance operations. For example, if a group of contractors bands together for a workers compensation group, Mr. Woodyard noted, "They may not provide adequate reserves to prepare for marketplace shifts."

Unlike property/casualty companies, self-insurers do not contribute to guaranty funds designed to safeguard policyholders if their insurer goes belly up. Whether they should be required to do so is a matter Mr. Woodyard thinks the states must decide.

The whereabouts and wherewithal of companies reinsuring U.S. risks is also a major concern. "I just wonder if some of these new insurers are going to be around when the losses come," he said.

"We need to know more about the role of brokers in this marketplace to know whether it should be regulated," the commissioner added. "We don't even understand how reinsurance works or where it goes."

As he sees it, the brokers should be the key to tracking and to protecting their clients risks. But Mr. Woodyard mig(t be in for a disappointment.

"You really can't follow every step of the retrocession—you can only follow it a few steps out," explained John Bogardus, president and chief executive officer of Alexander & Alexander. "To some degree everyone is trusting everyone else."

Mr. Bogardus further challenged Mr. Woodyard's assumptions. Without questioning the benefits, he wondered how, with their small staffs and limited funds, the commissioners could take on the "overwhelming burden" of monitoring self-insurers, reinsurers and the like.

Nonetheless, Mr. Woodyard believes, "If something does collapse, everyone is going to call us and say, 'Why didn't you prevent it?' "

Michigan considers open rating, premium cuts

Continued from page 1
Democratic legislators to imitate the "Ohio plan," where private insurers are not allowed into the state to write workers compensation coverage.

Ohio has a state fund that exclusively underwrites workers compensation insurance for employers, but insurers are trying to break into the market. In court, they won the right to have voters decide Nov. 3 if the state should continue to monopolize the market.

A spokesman for the Michigan Chamber of Commerce said that serious consideration of open or competitive rating should be given only if it would improve competition, save money and guarantee adequate rates and available insurance coverage.

Chamber President James Barrett said his organization had not addressed the 20% proposed premium reduction but that it is opposed to a rate freeze because of the negative impact it would have on state insurance companies.

Such a move would be "grossly unfair" to low-wage employers, many of which would otherwise see cost decreases. "They wouldn't get the benefit and it might cost them," Mr. Barrett said.

He added also that the Chamber "as a very miniumum" supports efforts by the governor to tighten the definition of disability but that the move should go further. He also said the Chamber opposes establishing a monopolistic state fund like the one in Ohio.

Michigan AFL-CIO legislative representative Darrell Tennis supports lower premiums and indicated that insurance companies will have to reduce them if they want to survive. The fact that many employers are beginning to self-insure their workers compensation risks and the possibility of an exclusive state fund point to that need, he said.

Mr. Tennis said also that both the open competition and the 20% premium reduction proposals are geared toward making insurance companies become more aggressive and competitive. They are also a response to the concern that insurers are not reflecting investment income in their rates, he added.

Insurance companies are expected to fight the proposed 20% reduction in premiums through their various trade associatons.

But some insurers may feel the time is ripe for a competitive rating system, since in reality many major insurance companies are beginning to file for lower rate deviations in states that allow it.

A spokesman for Michigan Mutual Insurance Co., the state's largest workers compensation insurer, said Gov. Milliken's proposals for deregulating rates make sense as long as the essential data base for insurers remains.

Noting that the present system has worked reasonably well for employers and insurance companies, Richard Johe, senior vp, said that the time has come to look at different approaches if the data base is preserved and healthy competition is promoted.

But he disagreed with the proposed 20% automatic reduction in premiums, which he said would penalize lower-wage employers by not giving them the reduction they were entitled to and rewarding employers who ought to have increases.

"It is a broad-brush treatment for the wrong illness," Mr. Johe said.

Jerome Scheibl, vp for industry affairs at Wausau Insurance Co. in Wausau, Wisc., said that every step away from an administered pricing system would have a negative effect on the data base upon which insurers need to calculate rates.

He said it would cause more complications in the data collection system rendering it less useful. "You get closer and closer to junk, the farther you move away from an administered type of system," he said.

This in turn could jeopardize the solvency of insurers, especially smaller ones. "I really feel that full reliance on a competitive marketplace could lead to impairment of the solvency for a number of carriers," Mr. Scheibl said.

He added that the 20% premium reduction would be anti-competitive and "might scare some insurers away." Such a measure might also be unconstitutional because there is a question whether the Legislature can mandate a reduction without due process, he said.

Wausau is the ninth largest workers compensation insurer in Michigan, writing about $37 million.

Gov. Milliken's package of reform includes legislation, still in the drafting stage, which would impose a closer watch on rehabilitation requirements for workers on disability leave, said press secretary Al Sandner.

The governor also is considering legislation that would coordinate workers compensation benefits with employer-paid pension and disability plans so that employees would not be paid more than their last salary from one or more sources.

Another bill that could come out of the governor's reform package would recommend the computation of benefits be based on the average weekly wage and limited to wages actually paid, minus benefits, said Mr. Sandner.

Stricter standards for proving disability are also part of the governor's reform package, he said. ■

Drummond elected

PHILADELPHIA—Chester H. Drummond, insurance manager of the Campbell Soup Co. in Camden, N.J., has been elected general chairman of the Insurance Managers Assn. of Philadelphia.

Mr. Drummond succeeds Robert M. Young of Scott Paper Co., who had held the top position since 1968.

H. Gordon Heile, risk manager of Asphundh Tree Expert Co. in Willow Grove, Pa., was elected vice chairman of the group. ■

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A&A's bid for Howden no surprise

By ALAN H. CLIFTON and PHIL V. OLSEN

Special to Business Insurance

IN OUR LAST contribution to the *BI* Ticker, we ventured into the business of prophecy and suggested that Alexander & Alexander might make a bid for Lloyd's of London broker Alexander Howden (*BI*, Sept 7). Our prediction, as readers are well aware, has come true. We are now packing away our crystal ball before we get the next one wrong!

There was really no surprise, however, in A&A's decision and no great insight on our part in anticipating it. Howden and A&A had serious discussions in 1974 and have continued a dialogue ever since.

The talks seven years ago reached quite detailed levels, despite probably a tougher regulatory background than is present today. The United Kingdom, for example, operated a stringent exchange control policy, which has since been dismantled.

The 1974 discussions broke down because of the collapse of stock prices that year. The markets along Wall Street were weak and the London stock market practically shaky, with Howden stock falling to a low of just 28 pounds.

Although negotiations were terminated, the relationship between the two companies did not die. Instead, they began gradually to work together more and more, though they never reached the degree of collaboration that has developed between Alexander & Alexander and Sedgwick.

In 1977, Howden and A&A set up a joint venture in Bermuda to manage Alexander's captive insurance company clients and provide them with access to a good spread of international insurance business. The company, Alexander Insurance Services (Bermuda), also confirmed the two parent companies' wishes to establish closer trading links.

But, while Howden's association with A&A strengthened in the late 1970s, it was always subordinate to the relationship between A&A and Sedgwick. The latter pair undoubtedly transact more business together, their relationship goes back much further in time and it probably extends more broadly across product lines.

Nevertheless, when Sedgwick and A&A finally ended their merger negotiations, it was clear Howden's moment had arrived. If neither A&A nor Sedgwick could accept being acquired by the other, then Howden, under Chairman Ken Grob, was happy to break the stalemate by agreeing to an acquisition offer.

There was no way that A&A would have willingly become embroiled in a competitive situation in the manner that scarred Marsh & McLennan's acquisition of C.T. Bowring.

To the contrary, in Alexander Howden the U.S. brokerage found the most enthusiastic of prospective partners.

The enlarged group will be a powerful force in the world's insurance arena. Howden may not have the depth or spread of retail brokerage interests that a Bowring or a Sedgwick enjoys. but it is truly strong in the field of international reinsurance. Further, A&A considers development of its reinsurance capabilities a top priority.

Historically, Alexander Howden has been one of Lloyd's leading reinsurance brokers, bringing international business into the London market and arranging reinsurance and retrocessions for British underwriters, including Lloyd's syndicates. Its reinsurance business is generated widely thoughout the world and even state insurance companies in Communist bloc countries like Hungary, Poland and the Soviet Union are on its list of clients.

Apart from its international brokerage interests, which include excess/surplus lines intermediaries in the United States, Howden is, of course, noted for its substantial underwriting interests. These include insurance company subsidiaries in many parts of the world and the management of numerous syndicates at Lloyd's.

Underwriting activities and insurance brokerage operations have always blended well at Howden and, indeed, this has been a deliberate theme of the group's development. The approach has yielded substantial benefits over the years, especially in the field of captive management. Howden's reinsurance expertise is clearly of vital importance to captive clients, yet the group can also provide access to a good spread of international business—essential to any aspiring captive.

Alexander Howden's involvement with Lloyd's members and managing agency interests is long-standing and was greatly strengthened by the acquisition in the early 1970s of I.R. Posgate Underwriting Agency interests.

Today, Howden ranks as one of Lloyd's most powerful firms and the earnings it derived from Lloyd's underwriting activities last year represented about one-fifth of the group's pretax income.

With mandated divestment of underwriting interests by Lloyd's brokers looming, Howden eventually could be faced with the need to split its operations. A&A, no doubt, has kept this possibility in mind throughout the negotiations, but this liability was evidently not judged crucial enough for the U.S. company to attempt to buy Howden's brokerage arm only.

Aside from Lloyd's, Howden controls underwriting capacity in London through its wholly owned insurance companies, Sphere and Drake, along with companies in the United States and Bermuda. The group also manages the London market accounts of major foreign insurers, such as DAI Tokyo (Japan), Employers of Wausau (United States) and Sampo (Finland).

The future of Howden's various insurance underwriting interests in an enlarged A&A remains to be seen, but there is little likelihood of major corporate restructuring in the near future. Priority undoubtedly will be placed on strengthening joint efforts in the reinsurance field and the coordination of Howden's overseas network of insurance brokerage offices, affiliates and subsidiaries with A&A's own embryonic foreign interests.

In the United States itself, Howden, though well-represented, always has avoided entering the retail brokerage market so integration of operations should be readily accomplished. Howden is not as strong as Sedgwick in Canada, but it does have a useful base of reinsurance business there.

The reaction in London to A&A's bid for Howden has been surprise at its speed but not at its choice, given that the proposed merger with Sedgwick was aborted by tax considerations. There are many Lloyd's firms deriving business from A&A apart from Howden and Sedgwick, and these will now doubtless conclude that their American business from this source will be eliminated.

Nevertheless, A&A has been a strong supporter of Lloyd's and the London market, and the acquisition of Howden confirms its long-standing commitment to this insurance marketplace.

Howden's colorful underwriter, Ian Posgate, said the deal is not only great news for Howden, but great news for Lloyd's of London, too. ■

BI ticker

British Issues

10/13 Companies	Price pence	P/E	Div. pence	Yield %	1 Week High—Low pence	pence
Comml Union	137	9.1	16.07	11.8	142—	135
Eagle Star	299	9.6	21.43	7.2	300—	293
Genl Accident	324	7.5	21.07	6.5	330—	320
Gdn Royal Exch	306	7.9	23.21	7.6	316—	304
Phoenix	262	8.6	22.43	8.5	266—	256
Royal	353	9.1	35.00	9.9	370—	352
Sun Alliance	850	8.5	53.57	6.3	870—	840
Brokers						
CE Heath	288	11.3	15.00	5.2	288—	282
Hogg Robinson	102	8.2	8.57	8.4	104—	102
Alex Howden	136	10.5	10.71	7.9	139—	134
JH Minet	142	11.8	6.50	4.6	147—	142
Sedg Grp	137	10.0	7.50	5.5	142—	137
Stenhouse Hldg	95	8.7	6.64	7.0	98—	95
Stew Wrightson	208	10.4	17.14	8.2	215—	208
Willis Faber	350	12.1	17.85	5.1	358—	347

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





Alan H. Clifton, left, and Phil V. Olsen are analysts with London-based Kitcat & Aitken. They report quarterly on the British insurance industry for Business Insurance, in addition to supplying weekly earnings reports on British companies for BI Ticker.

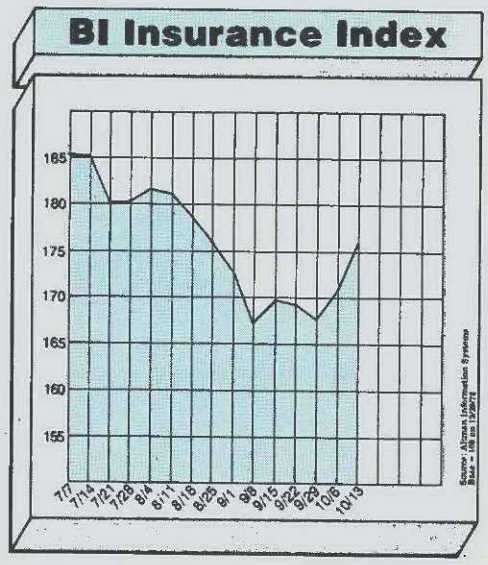
BI Industry Stock Report

Insurance Cos.		OCT. 13, 1981 Price	% Chg.	P E	$ Div	% Yld	10/7/81 THRU 10/13/81 High	Low	Vol (000)
etna Life & Cas Co	NYSE	41.63	1.8	7.4	2.32	5.6	42.00	41.50	977.4
merican Bankers Ins Group	OTC	6.00	9.1	11.3	0.44	7.3	6.13	5.63	98.2
merican Gen Ins Co	NYSE	40.75	5.5	6.4	2.00	4.9	41.00	38.75	94.9
merican Indty Finl Corp	OTC	14.00	0.0	5.6	1.12	8.0	14.38	14.00	7.3
merican Intl Group Inc	OTC	61.50	2.9	11.2	0.40	0.7	62.00	61.25	229.4
merican Natl Ins Co	OTC	12.13	1.0	5.5	0.68	5.6	12.13	12.00	28.9
merican Sts Life Ins Co	OTC	18.50	5.7	5.9	0.72	3.9	18.50	17.75	2.7
neco Reins Ltd	OTC	3.13	0.0	0.0	0.00	0.0	3.13	3.13	8.9
ppalachian Natl Corp	OTC	2.13	0.0	0.0	0.00	0.0	2.13	2.13	1.1
vemco Corp	AMEX	8.13	-9.7	6.7	0.50	6.2	9.00	8.13*	3.7
anks Iowa Inc	OTC	42.00	13.5	6.7	1.44	3.4	42.00	37.00	7.2
itco Corp	OTC	36.00	1.4	5.1	2.16	6.0	36.00	35.50	1.0
arolina Cas Ins Co	OTC	6.75	0.0	6.8	0.32	4.7	6.75	6.75	2.0
entral Natl Finl Corp	OTC	27.00	1.9	6.8	0.65	2.4	27.50	27.00	5.3
hubb Corp	OTC	42.00	0.6	5.1	2.68	6.4	42.38	42.00	63.8
ombined Intl Corp	NYSE	21.13	2.4	5.8	1.80	8.5	21.88	21.00	47.0
onnecticut Gen Ins Corp	NYSE	51.00	4.1	6.7	1.76	3.5	51.00	49.00	191.6
ontinental Corp	NYSE	25.75	4.0	8.1	2.40	9.3	26.25	25.75	204.1
rawford & Co	OTC	15.00	0.0	11.5	0.52	3.5	15.00	15.00	9.1
rown Life Ins Co	OTC	89.00	-3.3	9.7	2.80	3.1	92.00	89.00*	0.9
um & Forster	NYSE	33.63	9.3	5.9	1.64	4.9	33.63	30.50	85.6
mployers Cas Co	OTC	34.00	0.0	5.6	1.20	3.5	34.00	34.00	1.1
mifax Inc	NYSE	22.25	-2.2	5.0	2.40	10.8	22.88	22.25	3.7
xcelsior Ins Co	OTC	16.50	0.0	14.2	0.70	4.2	16.50	16.50	2.7
armers Group Inc	OTC	29.00	-0.4	9.0	1.12	3.9	29.25	29.00	83.7
irst Colony Life Ins Co	OTC	61.00	1.7	18.6	1.00	1.6	61.00	60.50	2.2
remost Corp Amer	OTC	25.50	1.0	7.6	0.80	3.1	25.50	25.50	5.2
reat West Life Assurn Co	OTC	245.00	0.0	9.9	10.00	4.1	245.00	245.00	0.0
anover Ins Co	OTC	29.75	7.2	4.0	0.72	2.4	29.75	28.00	13.4
artford Steam Boiler Insptn	OTC	44.50	3.5	8.0	2.60	5.8	44.50	44.00	4.3
fferson Natl Life Ins Co	OTC	35.00	0.0	28.2	0.64	1.8	35.00	35.00	0.8
mper Corp	OTC	30.38	1.2	4.9	1.60	5.3	30.38	30.13	30.2
ncoln Natl Corp Ind	NYSE	39.00	5.4	5.9	3.00	7.7	39.00	37.88	32.5
fic Invt Corp	NYSE	38.88	4.5	9.1	1.28	3.7	35.25	34.75	245.6
ssion Ins Group Inc	NYSE	37.13	-2.3	6.8	1.00	2.7	38.00	37.13	63.5
tionwide Corp Ohio	OTC	24.63	0.0	7.6	0.70	2.8	24.63	24.63	0.5
rthwestern Natl Life Ins	OTC	23.63	2.7	5.7	1.36	5.8	23.88	23.13	13.6
io Cas Corp	OTC	39.63	1.9	6.1	2.04	5.1	39.63	38.88	85.3
d Rep Intl Corp	OTC	15.50	6.9	4.0	0.92	5.9	15.50	15.13	35.1
nehurst Corp	OTC	8.00	-1.5	0.0	0.00	0.0	8.13	7.88	9.0
eferred Risk Life Ins Co	OTC	20.00	11.1	5.8	0.80	4.0	20.00	19.00	15.7
ovident Life & Acc Ins Co	OTC	44.00	0.0	6.1	2.20	5.0	44.00	44.00	4.3
an Ins Group Inc	OTC	19.50	0.0	8.2	0.12	0.6	19.50	19.25	11.9
Paul Cos Inc	OTC	46.75	-0.3	8.0	2.32	5.0	46.88	46.75	100.9
feco Corp	OTC	35.50	0.7	6.8	2.00	5.6	35.63	35.50	110.0
i Corp	OTC	22.50	2.3	4.7	1.00	4.4	22.50	22.25	46.8
ibels Bruce Group Inc	OTC	22.63	2.3	12.2	0.80	3.5	22.63	22.50	48.1
atesman Group Inc	OTC	6.13	4.3	5.2	0.15	2.4	6.13	5.88	6.3

		OCT. 13, 1981 Price	% Chg.	P E	$ Div	% Yld.	10/7/81 THRU 10/13/81 High	Low	Vol. (000)
Tokio Marine & Fire Ins Co	OTC	105.63	4.1	8.4	1.00	0.9	105.63	102.75	5.3
Travelers Corp	NYSE	45.50	0.8	5.3	2.88	6.3	46.25	45.50	282.8
United Fire & Cas Co	OTC	30.50	0.0	8.0	1.00	3.3	30.50	30.50	0.1
United States Fid & Gty Co	NYSE	41.75	3.7	6.2	3.20	7.7	41.75	40.75	78.3
United Svcs Life Ins Co	OTC	14.00	0.9	5.7	1.00	7.1	14.88	14.00	28.7
Uslife Corp	NYSE	22.63	3.4	5.4	0.76	3.4	22.63	21.88	238.7
Washington Natl Corp	NYSE	22.50	9.8	6.7	1.08	4.8	22.50	22.00	55.2
Zenith Natl Ins Corp	OTC	15.50	6.9	8.6	0.60	3.9	15.50	14.75	31.1
INSURANCE COMPANIES	AVERAGE			6.2		4.2			
Agents/Brokers									
Alexander & Alexander Svcs	OTC	28.75	2.7	9.9	1.84	6.4	28.75	28.25	93.5
Baldwin & Lyons Inc	OTC	31.75	0.0	5.4	0.80	2.5	31.75	31.75	0.0
Corroon & Black Corp	NYSE	18.88	2.0	9.9	1.76	9.3	19.25	18.50	69.9
Crump E H Cos Inc	OTC	12.13	-6.7	13.6	0.40	3.3	12.88	12.13	113.7
Hall Frank B & Co Inc	NYSE	29.38	12.4	11.0	1.66	5.7	30.50*	27.88	387.2
Integrated Res Inc	AMEX	15.00	5.3	6.6	0.00	0.0	15.25	14.38	27.1
James Fred S & Co Inc	NYSE	26.88	15.6	12.4	1.60	6.0	27.25	25.88	164.2
Marsh & Mclennan Cos Inc	NYSE	37.00	8.0	12.3	2.00	5.4	37.00	34.75	59.5
Penncorp Fincl Inc	NYSE	5.88	11.9	10.5	0.16	2.7	6.13	5.25	115.5
Poe & Assoc Inc	OTC	10.75	-4.4	9.3	0.80	7.4	11.25	10.75	0.6
Reed Stenhouse Cos Ltd	OTC	10.50	-4.5	8.3	0.60	5.7	11.00	10.50	12.3
Rollins Burdick Hunter Co	OTC	23.50	16.0	13.1	1.24	5.3	23.50	20.25	14.8
AGENTS/BROKERS	AVERAGE			9.4		5.1			
Conglomerates/Holding Cos.									
American Express(Fireman's Fd)	NYSE	44.38	2.9	8.1	2.00	4.5	45.88	44.38	929.6
Anderson Clayton(Ranger/PanAm)	NYSE	23.00	-1.1	5.6	1.20	5.2	23.38	23.00	13.7
Armco Inc	NYSE	27.75	-1.8	6.4	1.80	6.5	28.75	27.75	126.9
City Investing Co. (Home Ins.)	NYSE	23.75	7.3	6.9	1.60	6.7	24.63	23.25	277.4
CNA Finl Corp (CNA)	NYSE	13.00	10.6	5.1	0.00	0.0	13.00	11.75	26.3
Control Data (Comml. Credit)	NYSE	69.50	1.8	8.1	1.00	1.4	71.50	69.50	416.3
General Re Corp	NYSE	78.63	4.8	10.3	1.76	2.2	78.63	76.50	72.3
Gulf Utd Corp	NYSE	21.25	5.6	7.7	1.32	6.2	21.25	20.25	223.7
INA Corp (Ins. Co. of NA)	NYSE	44.63	5.3	6.3	2.40	5.4	44.75	43.13	338.3
ITT (Hartford Group)	NYSE	29.38	4.0	5.3	2.60	8.9	29.38	28.25	669.3
Optimum Hldg Corp	OTC	10.00	2.6	12.3	0.00	0.0	10.00	9.75	12.9
Reliance Group Inc	NYSE	83.50	4.7	8.8	3.00	3.6	83.50	80.25	28.2
Sears Roebuck & Co. (Allstate)	NYSE	17.75	9.2	8.3	1.36	7.7	18.00	16.38	2,390.4
S & H Co. (Bayly Martin & Fay)	NYSE	35.75	0.0	13.9	1.00	2.8	35.88*	35.75	9.3
Teledyne Inc (Argonaut)	NYSE	148.50	4.0	8.0	0.00	0.0	148.75	141.88	437.9
Transamerica Corp (Occidental)	NYSE	22.25	0.6	7.0	1.40	6.3	22.50	22.25	196.4
CONGLOMERATES/HOLDING COS.	AVERAGE			7.8		3.3			

System design: Altman Information Systems

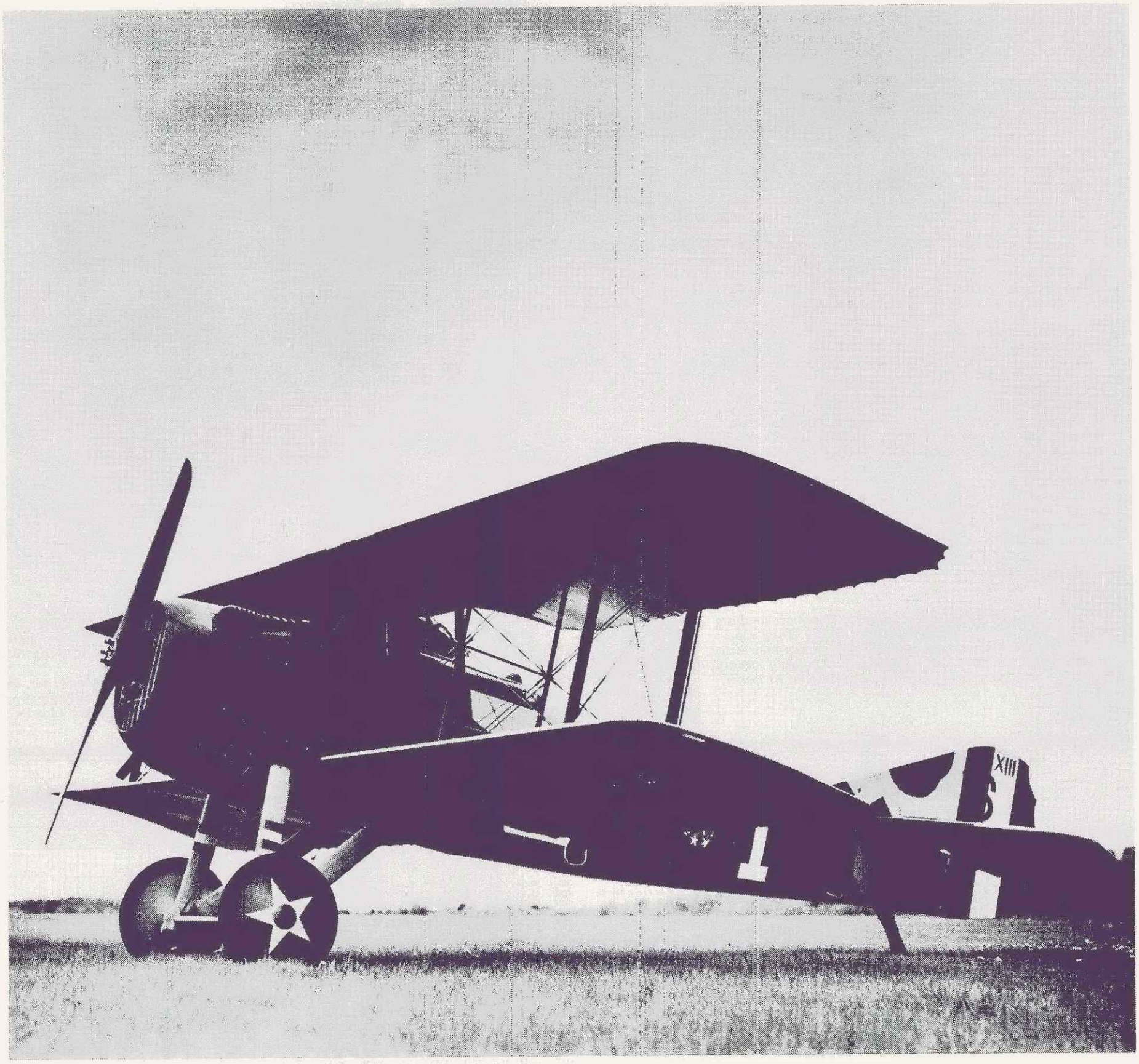
BI Insurance Index



Insurance industry stocks posted strong gains last week as the *Business Insurance* stock index rose 5.0 points to 176.3 from 171.3. Forty-eight issues posted gains, 11 stocks declined and 14 remained unchanged. Issues posting the largest gains included: Rollins Burdick Hunter Co., 16.0%; Fred S. James & Co. Inc., 15.6%; Banks Iowa Inc., 13.6%; Frank B. Hall & Co. Inc., 12.4%; and Penncorp Financial Inc., 11.9%. Stocks showing the greatest losses were: Avemco Corp., 9.7%; E.H. Crump Cos. Inc., 6.7%; Reed Stenhouse Cos. Ltd., 4.5%; Poe & Associates Inc., 4.4%; and Crown Life Insurance Co., 3.3%. The 2.9% increase in the index was greater than the increases in the major stock market indicators. The hefty increase in the weekly index was the largest since June 16.

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