

business insurance

J&H, Willis Faber to start joint reinsurance venture

NEW YORK—Johnson & Higgins, the fourth-largest insurance brokerage in the United States, and Willis Faber P.L.C., the second-largest British brokerage, are joining forces to broker reinsurance in North America.

As part of a joint-venture agreement, Willis Faber will take a 49% interest in J&H's reinsurance brokerage subsidiary, Willcox Inc. Reinsurance

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Reporting weekly for corporate risk, employee benefit and financial executives/\$1.25 a copy; \$45 a year

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Verlan trade captive will soon quit writing casualty coverage

By JERRY GEISEL

WASHINGTON—Verlan Ltd., one of the first and best-known of the trade association-sponsored captive insurance companies, is cutting back on its operations.

The 13-year-old captive, owned by the National Paint and Coatings Assn., a 900-member trade association based in Washington, plans to stop directly writing casualty insurance policies because of competitive pressures, losses and high costs.

"We came to the conclusion that it was not economically feasible for a small company to directly write casualty coverages," said Verlan President John Montgomery.

"We were a victim of the market," he added. "We are a little too small and can't spread the risk."

Verlan, which is chartered in both Bermuda and Vermont, is conducting negotiations with at least one national insurer to take over the captive's casualty business.

Verlan intends to continue to write property insurance policies, which accounted for about two-thirds of the captive's \$2.8 million premium flow in 1982.

News of Verlan's cutback surprised other association insurance officials.

"We looked at Verlan as a model," said Jack White, senior vp at the Health Industry Manufacturers Assn., which helped health care manufacturers launch a Bermuda captive several years ago to cover members' product liability risks.

Captive members aren't sure whether Verlan's decision to get out of the casualty underwriting business could be the start of a shakeout among the 100 to 200 trade association captives now operating.

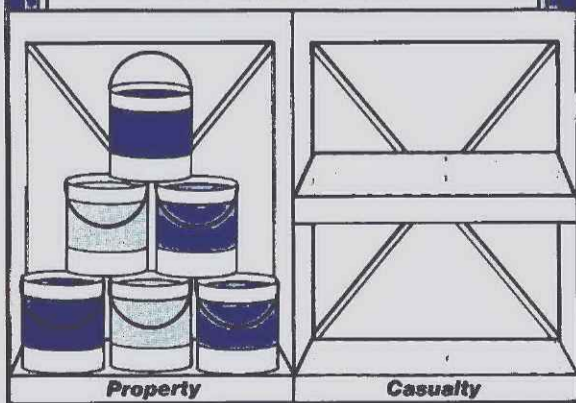
"Many companies (trade association captives) are undercapitalized and can't face the competition" from commercial insurers, said Bud Griffin, chief executive officer at Warren, McVeigh & Griffin Inc., a Newport Beach, Calif., risk management consulting firm.

On the other hand, Felix Kloman, president of

Graphic: Jim Bakasetas

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Verlan covers



Hotel damage ruling prompts study of war risk exclusions

By DOUGLAS McLEOD

NEW YORK—All-risk property insurers and policyholders alike are questioning the scope of the war risk exclusion in all-risk policies following a recent federal court decision involving Holiday Inns Inc.

The question raised by the ruling is: When is a war not a war?

In a suit brought by the hotel chain against its former property insurer, Aetna Insurance Co., a federal judge in Manhattan decided last month that Aetna is liable under an all-risk policy for damage done to the Beirut Holiday Inn during fighting in the mid-1970s (*BI*, Sept. 26).

U.S. District Judge Charles S. Haight Jr. rejected Aetna's argument that recovery should be barred by the policy's war risks exclusion, deciding the fighting in Beirut at that time was "a series of factional 'civil commotions'" covered by the policy's "strikes, riots and civil commotions" endorsement.

Holiday Inns seeks about \$11 million in damages in the suit, and Judge Haight has given the two parties until mid-November to settle the dollar volume of damages to be paid.

Attorneys for Aetna, a CIGNA Corp. unit that wrote the policy through AFIA Worldwide Insurance, say they will appeal the ruling.

If the appeal is lost, the cost of the claim will be spread among all AFIA member insurers according to the size of their participation in the organization. Aetna's share of the loss would amount to only about 11%.

Underwriters familiar with the Holiday Inn case agree that the ruling will force them to take a closer look at what is and isn't covered under all-risk policies as currently written. Some speculate that changes in the wording of the war risk exclusion may be considered.

Those familiar with the suit aren't sure, though, of the extent to which other policyholders may use the decision to press Beirut damage claims that were initially denied as war risks.

The 400-room Beirut Holiday Inn, which opened in 1974, was one of several hotels in the predominantly Moslem Western section of the city, which was partitioned from the Christian Eastern sector. In 1975, however, the hotels were occupied by the right-wing Christian Phalange, the largest of several private Lebanese Christian militias.

The occupation of the hotels constituted a Christian "redoubt" into the city's Moslem neighborhoods and, by late 1975, sporadic fighting had erupted

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Photo: Chip Hires/Gamma Liaison

The Beirut Holiday Inn was destroyed during fighting in Lebanon in the mid-1970s.

Manville, plaintiffs break off talks

By STEPHEN TARNOFF

NEW YORK—Manville Corp. will not reach an agreement with asbestos victims on damages before it files a reorganization plan, setting the stage for years of litigation in bankruptcy court.

Meanwhile, the asbestos plaintiffs' group has joined forces with other creditors and Manville's insurers to present their own plan for settling pending and future asbestos claims (*BI*, Sept. 19).

Manville is to file its reorganization plan by Oct. 17, but attorneys familiar with the litigation say the lack of an agreement with the asbestos plaintiffs could keep Manville in bankruptcy for years.

"There won't be a consensual plan," said Robert Rosenberg, counsel to the asbestos plaintiffs' litigation committee. "They (Manville) broke off negotiations."

Manville Senior Vp G. Earl Parker agrees there will not be a consensual plan, but he blamed the failure on plaintiffs' lawyers' interest in their own contingent fees.

"We don't expect to file a plan with the consent of the asbestos plaintiffs' lawyers," Mr. Parker said. "I don't think there is the prospect of being able to negotiate payments to injured people with their lawyers standing in the way."

"We really haven't been able to approach agreement on any-

thing," he said. The parties have been negotiating for about 10 months.

The main obstacle to an agreement was the funding of present asbestos injury claims. Manville has offered about \$400 million to present claimants while plaintiffs' attorneys seek more than \$700 million.

Mr. Parker said, however, that Manville expects to have the support of other creditor groups when it files its plan, adding it is still in discussion with them and asbestos co-defendants.

But, others indicated that getting the approval of other creditors and co-defendants before Oct. 17 is unlikely.

"It doesn't look bright for a totally consensual plan," said Arthur Olick, an attorney with the New York firm of Anderson Russell Kill & Olick, which represents asbestos co-defendant Keene Corp. in the Manville bankruptcy.

Another attorney close to the litigation said that "everybody's pessimistic" about the consensual plan. "It will be very tough to see an agreement in principle in the next couple of weeks," the attorney said.

Manville has not agreed to any essential demands of the interested groups that are a prerequisite to a consensual plan, and it appears it will act unilaterally, Mr. Olick said.

If Manville files a plan on its own, it would be a "blueprint for

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update

Willis Faber invests in Willcox

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Intermediaries, based in New York, and will open a new Lloyd's of London brokerage, Willis Faber & Willcox Ltd., to place reinsurance business at Lloyd's on behalf of Willcox.

In New York, Kenneth Hecken, a senior vp and member of the J&H board of directors and a former senior vp of Willcox, has been appointed chairman and chief executive officer of Willcox. John H. Cassady continues as president and chief operating officer. In London, Derek Martin, current head of Willis Faber's North American reinsurance division, has been named managing director of Willis Faber & Willcox. Willis Faber's current North American reinsurance brokerage operations will be added to Willcox as part of the joint venture.

Mr. Hecken estimates the new Willcox operation will generate approximately \$20 million in gross revenues for 1983 and then grow rapidly as tightening reinsurance markets and improved efficiency from the joint operation increase premium volume.

J&H and Willis Faber's business relations began in 1982 and have since expanded into an exclusive reciprocal brokerage arrangement as well as several additional joint ventures around the world.

Government reviews PPOs

WASHINGTON—The Justice Department's antitrust division is reviewing developments in the health care field, like preferred provider organizations, to make sure they aren't anti-competitive.

The division gave approval last month to two PPOs in the formative stages and noted that it believes the emergence of PPOs can be beneficial by increasing competition and keeping health care costs in line. This is the first time the division publicly stated its position on PPOs, which are contracted arrangements with doctors and hospitals to provide less costly health care for groups of employees.

The division fears that if a large percentage of doctors or hospitals in a specific geographic market ban together, they might impede the development of other PPOs or might be guilty of price-fixing, which violates antitrust law, a spokesman said.

The two groups receiving clearance are Hospital Corp. of America, based in Nashville, Tenn., which proposed to create a PPO in south Florida, and Health Care Management Associates of Moorestown, N.J., which plans a PPO in southern New Jersey.

Parents given right to sue

JEFFERSON CITY, Mo.—The parents of a Monsanto Co. secretary, who was raped and killed by a co-worker in 1979, can sue the company for alleged negligence in its hiring policies, the state Supreme Court ruled last week (*BI*, July 4).

The co-worker had served three years in a Missouri prison on a rape and robbery conviction before he was hired by Monsanto as a mail clerk. The victim's parents allege that Monsanto was not careful in examining his background before hiring him.

Dalkon settlements expected

SAN FRANCISCO—An out-of-court settlement of 13 product liability suits against the manufacturer of the Dalkon Shield intrauterine device will pave the way for the settlement of about 300 other cases within the next 18 months, attorneys say.

The settlement, which was to be finalized last week, established a procedure that will dispose of about 300 other cases against A.H. Robins Co. of Richmond, Va. The cases, about half of which were filed in California, will not be disposed of as a class action, but will be settled on individual merits; however, they will be dealt with in groups of about 12.

In accordance with the settlement, attorneys will not reveal the amount the 13 women will receive.

The Dalkon Shield was taken off the market in 1974 after women who used it reported uterine perforation, pelvic infection, spontaneous abortion and fetal injuries. To date, about 5,800 cases have been settled nationwide, and more than 3,400 are still pending.

Walton gets new capital

HAMILTON, Bermuda—Phillips Petroleum will inject \$55 million of new capital into its Bermuda subsidiary, Walton Insurance Ltd., and has scuttled plans to sell the company.

Walton President John Kemp told the Royal Gazette in Bermuda last week that the new capital will "solve Walton's problems," but refused to elaborate on how the money will be used.

Earlier this year, Phillips ordered Walton to stop underwriting unrelated reinsurance because of mounting underwriting losses on the business. Walton allocated \$61 million of its capital to loss reserves (*BI*, April 25). Phillips also said the company was for sale.

A Phillips spokesman said last week that the parent company no longer plans to sell the company and that it will continue to underwrite Phillips' risks. But, Walton will not resume underwriting risks unrelated to Phillips, Mr. Kemp said.

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Peruvian companies lose coverage through default

By CAITLIN RANDALL

LIMA, Peru—Squeezed by a severe recession, tightened bank credit and a new government regulation forcing timely payments of premiums, many of Peru's large industrial companies and hundreds of small companies are cutting back and even defaulting on their insurance purchases.

"Clients are wheeling and dealing, trying to keep insurance, but it's a very tough market," says broker Jose Varela of Johnson & Higgins.

"Suddenly, there are a lot of people without proper cover," says one local agent.

Premium income in Peru is expected to total just \$160 million in 1983, compared with \$200 million in 1982, according to the government agency that oversees the insurance business.

Insurance underwriters say a new insurance regulation that went into effect June 30 is partly to blame for the sweep of policy defaults.

The regulation requires local insurance companies to

cancel coverage for clients not up-to-date with their premium payments.

It's estimated that \$10 million worth of premiums have been canceled so far. The insurance industry expects another \$10 million will be canceled in the months ahead.

Brokers say the law was the brainchild of local insurance executives who had hoped to tighten the reins on increasingly slack insurance premium payments. By the end of last year, for example, the country's 22 insurance companies were owed some \$70 million in premiums on issued policies.

Insurance companies had no idea the new rules would be so stiff or would create such chaos, said one broker.

"The new regulation has clearly pressured policyholders," says Manuel Almenara, president of the Reaseguradora Peruana, the state company that reinsures Peruvian risks abroad.

While most insurance companies report their collec-

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Lloyd's wants baby syndicates to be prohibited

By STACY SHAPIRO

LONDON—Lloyd's of London managing agencies that direct more than one syndicate in the same class should not favor one of the syndicates over the others, the Council of Lloyd's recommends.

In addition, the council says, underwriters should evenly distribute expenses, including costs for reinsurance, among syndicates of the same class managed by the agency.

These recommendations are contained in the second portion of the A.W. Higgins working party report on the underwriting agency system at Lloyd's, which was approved by the council last week.

The first part of the Higgins party report outlined how Lloyd's brokerages should divest their underwriting management agencies, as required by the Lloyd's Act of 1982 (*BI*, June 13).

Both parts of the report must now be discussed by the Lloyd's membership before a final vote is taken.

The newest section of the Higgins party report deals with so-called "baby syndicates"—syndicates composed of Lloyd's members favored by the underwriter, who makes sure they receive only the most profitable business he sees.

For instance, a managing agency might manage two non-marine

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Chicago lawyer joins lineup for BI benefits conference

CHICAGO—A new speaker is on the faculty of the *Business Insurance Dollars & Sense of Communicating Employee Benefits Conference* to be held next month.

Jon Grogan, a partner with the Chicago-based law firm of Mayer, Brown & Platt, will discuss the reporting and disclosure requirements imposed on employers by the Employee Retirement Income Security Act.

His presentation will be on the first day of the two-day conference, Nov. 1-2, at the Knickerbocker Hotel in Chicago. In all, 16 faculty members will concentrate on current issues in communicating employee benefit plans, including wellness programs, salary reduction plans, employee attitude surveys and new ideas in communications techniques.

Mr. Grogan replaces Peter A. Straub, acting assistant administrator of the Office of Reporting and Plan Standards of the U.S. Department of Labor.

Mr. Grogan heads Mayer, Brown & Platt's 12-person compensation department. He is a member of the Illinois and New York bars and has spoken at numerous meetings and seminars.

While Mr. Grogan will address legal requirements governing employee benefit communications, other speakers will address communications strategies and specific communications projects.

The theme of this year's conference, "The Art of Persuasion," will be set by Ronald G. Hoff, executive vp and creative director of advertising agency Foote, Cone & Belding in New York.

Mr. Hoff will describe the presentation skills needed to persuade your audience. The skills needed to persuade an audience about the value of their benefits and how to use their benefit plans are no different from the skills Mr. Hoff counsels advertising account executives to perfect in pitching a major account.

Also on the first day, wellness programs—efforts to keep employees healthy and without medical benefit claims—will be discussed by three experts in the field: William E. Hembree, director of the Health Research Institute; Denise Maleska, director of human resources for CIBA-GEIGY Corp.; and Dr. Joseph C. King, director of employee health services at Continental Illinois National Bank & Trust Co. of Chicago.

These three panelists will discuss what employers can do and are

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Feds to help pay for bridge repairs

By DONNA GORDON

GREENWICH, Conn.—The federal government will pay up to \$20 million for repairs to Connecticut's Mianus River Bridge, making up for the state's inadequate property insurance coverage.

Three months after a section of the bridge on Interstate 95 collapsed, killing three persons and injuring three others (*BI*, July 4), temporary repairs have been completed and work has begun on plans for a permanent replacement for the damaged bridge section. But the cost of making the temporary repairs and the cost of the permanent reconstruction far exceed the \$17.9 million the state can claim under a property policy with Aetna Insurance Co., a unit of CIGNA Corp.

Although the state's property insurance can cover losses up to \$331.6 million, coverage for the bridge is

only 80% of the estimated replacement cost.

Under this formula, the most the state could receive from Aetna is \$17.9 million if the bridge were a total loss, but since only a 100-foot, three-lane-wide span was damaged, the state will collect much less, according to Arnold K. Shimelman, a Connecticut assistant attorney general.

Repairs, however, will cost much more than \$17.9 million, according to William Keish, a spokesman for the Connecticut Department of Transportation.

The department says that the cost to build the temporary span constructed right after the collapse was \$10 million to \$12 million, and the cost for permanent repairs will be \$25 million to \$30 million.

The state already has collected \$3 million from Aetna—\$2 million under the property policy toward the cost of the temporary span and \$1 million under the state's loss of business/business interruption policy, also with Aetna. The business interruption policy for all of the Interstate 95 turnpike covers loss of tolls up to an annual aggregate of \$54.7 million.

Together, Connecticut says it will seek \$14 million in reimbursement under the property policy. Aetna is "still developing information on which a settlement will be based," according to a spokeswoman for Aetna.

Because the available insurance fell short of the costs

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errors & omissions

- Arthur J. Gallagher & Co. estimates that its 1983 earnings will exceed \$4 million. Due to a typographical error, the company's estimated 1983 earnings were misstated in a Sept. 12 article on the company's decision to go public in 1984.

San Francisco suburb planning to dampen workplace smoking

By STEVE TARAVELLA

PALO ALTO, Calif.—This San Francisco suburb may soon have the toughest smoking-in-the-workplace law in the state.

An amended version of the city's existing smoking law comes before the city council Oct. 3 for a final vote. The ordinance bans smoking in conference and meeting rooms, restrooms, elevators and hallways of business offices.

The law also requires that at least two-thirds of company lunchrooms, cafeterias and employee lounges be designated for non-smokers.

And employees also may declare their individual workspaces non-smoking.

Employers must provide a written policy favoring non-smokers within three weeks after the law takes effect. The revised ordinance, which originally swept the council with an 8-1 vote, is expected to pass at today's second reading without opposition. If passed, it will take effect Nov. 3.

Many employers view the law as unnecessary regulation since many Palo Alto businesses already have policies to handle smoking disputes. Nonetheless, business interests in the community worked closely with the city attorney in drafting the ordinance.

"Employers have been dealing with this (employee smoking disagreements) for a long time, apparently to everyone's satisfaction. We don't think the ordinance was needed, but if the city council was going to do it, we were going to get in there and work with them," explains Rolf Horn, vp of governmental affairs for the Palo Alto Chamber of Commerce.

The city has about 55,000 residents, with about two-thirds estimated to be non-smokers.

"We did not openly support the ordinance, but rather than oppose it, we agreed to work with the city attorney to come up with one that would be workable," says Glenn Affleck, technical regulations manager for Hewlett-Packard Co., the computer and electronics giant.

Both men agree that the final version gives employers more flexibility than they would have if the business community had not contributed to its drafting. Businesses may develop their own smoking policies, as long as they are consistent with the ordinance.

But the same liberality in the ordinance that allows for flexibility is also causing some confusion.

One of the concerns, for example, rests on the degree to which the employer is expected to extend itself to accommodate a non-smoker who just can't be satisfied. The ordinance offers no guidelines.

"The real problem we still have to come to grips with is..."
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Too tight for comfort

Energy-efficient buildings can cause worker ailments

By MARK K. METZGER

For CIGNA Corp., it started right after a 300-person data processing department moved into brand-spanking new quarters in a suburban office park.

The department, then a unit of Connecticut General Insurance Corp., moved out of CG's Bloomfield, Conn., headquarters and into a leased four-story glass-and-metal office building in nearby Windsor, Conn., in November 1981. By early 1982, employees were complaining of a wide range of ailments that they attributed to the new office building.

The symptoms were generally low-grade—headaches, eye irritation, sneezing, skin rashes, dizziness, frequent colds, nausea, drowsiness—but they were so pervasive that CG officials called in experts from the company's medical and property management departments to try to identify the source of the problem.

They didn't realize then that they were dealing with a phenomenon known as "tight building syndrome" or "building illness" that is a growing problem in newer, tightly sealed office buildings.

CG made some adjustments in the building's ventilation system, opening and closing ducts, but they were unable to isolate the cause of the complaints. Meanwhile, the headaches, the scratchy eyes, the rashes and all the rest continued.

So, in November 1982, the company (now CIGNA after CG's April 1982 merger with Insurance Co. of North America) called for a scientific analysis of the building's air.

Using a highly sensitive real-time mass spectrometer, originally developed for the National Aeronautics and Space Administration, experts did discover some contaminants in the air. They were far below government

standards in concentration, but their presence seemed to fit with the character of the complaints.

This prompted more extensive changes in the air system. The main exhaust fan for the heating, ventilating and air conditioning (HVAC) system was replaced by the building owner, Culbro Land Resources, and the HVAC system was significantly altered.

In February of this year, the air was tested again. The results showed a sharp decline in the contaminants. Complaints had declined, too. But neither had been entirely eliminated, so CIGNA and Culbro went back to the air system, jacked up the air flow significantly, added two new rooftop HVAC units, installed a new humidification system, replaced the heat pumps, changed the ductwork and rechecked all the seals.

That should have eliminated the problem, CIGNA officials thought. But the elusive malady, like a poltergeist, still lingered in the form of occasional, but recurring, complaints and occasionally perceptible odors.

In a final swipe at it, CIGNA had all the carpets in the building cleaned over the Labor Day weekend by water injection to try to flush out the remaining sources of discomfort for the employees.

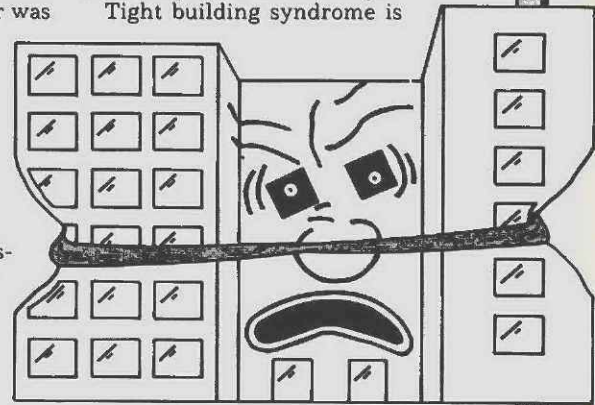
"We've still got our fingers crossed on that," Irving J. Friedman, assistant vp for property management at CIGNA, said in a recent interview.

Meanwhile, the tight building syndrome problem has begun to draw the attention of the loss-control or risk management units of many major insurers.

Fireman's Fund Insurance Cos. in Novato, Calif., recently began to offer

a special tight building syndrome consultation service through its subsidiary, Fireman's Fund Risk Management Services Inc. The tight building consulting business was unbundled from Fireman's Fund's package of client services and offered to non-clients on a fee basis in a pilot project in San Francisco. If the consulting service is successful in that market, Fireman's Fund may offer it nationally.

Tight building syndrome is



Graphic: Jim Bakasetas

nothing new to Fireman's Fund. Its risk management unit has investigated some 48 buildings throughout the United States for instances of poor indoor air quality over the last three years. Of those, a third turned out to be cases of tight building syndrome.

One Fireman's Fund industrial hygienist, Jeffrey Hicks, estimated that as many as 10% of the buildings built in the last 10 years are candidates for tight building syndrome.

"The recognition of this problem has really emerged in the last 10 years for several reasons," said Michael Joroff, director of the Laboratory of Architecture and Planning at the Massachusetts Institute of Technology.

"What's happened is that buildings have been 'tightened' to make them..."
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Managing risks north of the border

RIMS president says insurance buyers will have plenty of alternatives in 1980s

By LEN STRAZEWSKI

MONTREAL—The Canadian economy may be stagnating and commercial insurance markets may start to tighten, but Canadian risk managers have nothing to fear.

Commercial insurance company capacity and risk-funding alternatives continue to grow, and the risk management movement is still gathering strength across the United States' northern neighbor, according to a panel of experts led by Risk & Insurance Management Society President Marc Darby.

Mr. Darby is risk manager for Montreal-based Societe d'energie de la Baie James and a member of the Quebec provincial chapter of RIMS, which hosted last month's 1983 Canadian Risk Management Conference.

Mr. Darby and other panelists told 135 Canadian risk managers here that the 1980s will present more opportunities than burdens for corporate buyers.

"We do not even know if we are out of this stagnation, recession or depression that has burdened our economy and we are not quite sure of the fate of the insurance marketplace south of our borders upon which we are so dependent, but I do know that I see a great future for risk managers in the 1980s.

"I can see it in the evolution we have seen this past decade, both technologically in the development of such new risk management tools as improved loss forecasting through computers and in the development of the risk management profession," Mr. Darby says.

"I can see it in the growth of the Risk &

Insurance Management Society, which in 1975 had a budget of only \$37,000, and now has grown to a budget of \$3.8 million in 1983. A recent magazine survey of the most promising corporate positions of the 1980s cited the job of risk manager as the single most promising executive position in the future."

Even in Canada, where the risk management movement has lagged somewhat behind the United States, Mr. Darby sees growth in the prestige of risk managers and expansion of risk departments. He also sees growth in risk managers' use of risk-funding alternatives to insurance.

"Insurance is still our most commonly used risk-funding vehicle in Canada, but since 1975, retentions have been increasing. Maybe we got into larger retentions because we had to, because coverage was not available under any other terms. But we have learned to use those retentions. Some of us started using captive insurance companies and there are

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Impending litigation explosion curtailed by Canada's legal costs and procedures

By LEN STRAZEWSKI

MONTREAL—Only a couple of conservative legal practices stand in the way of a Canadian civil litigation boom similar to the one ongoing in the United States, says an author and legal researcher.

John H. Lehnert, staff adviser to Bell Canada and author of "When in Doubt, Sue," a study of the U.S. litigation explosion, told the 1983 Canadian Risk Management Conference that the U.S. legal system continues to allow the filing of frivolous lawsuits and that the prevalence of civil jury trials continues to foster larger-than-reason-

able awards in many cases. Moreover, he said, the litigation explosion seems to be spreading into Canada, despite a more conservative legal system.

"There is a great deal of similarity in substantive law between Canada and the United States," he explained. "Both countries are responding to the same kind of pressures."

More and more people in Canada want to

sue, motivated by a desire for redress against large institutions and stimulated by the tales of successful damage suits reported in the U.S. press, he said.

Procedural law, however, varies between the two North American giants and it is legal procedure that has saved Canada from a serious civil litigation boom, he noted.

"In the United States, many civil lawsuits wind up in front of civil juries that have the power to award punitive damages. Frequently, members of the juries are influenced by sympathy. The little guy is usually favored over an employer, even if the little guy or gal is wrong.

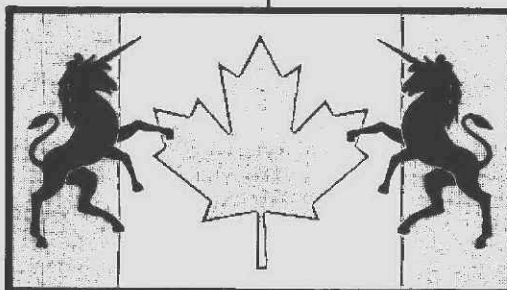
"Juries also introduce an element of great uncertainty into litigation, which is compounded by the habit of many trial lawyers to attempt to choose the least-intelligent and least-educated persons from a pool (of jurors) for their particular cases."

In Canada, however, very few civil lawsuits reach a jury stage and those that do are only the most serious and complex cases in which frivolous awards are unlikely.

The cost of filing lawsuits is also an issue, he continued. In New York, for example, a losing party in a civil lawsuit may have to pay from \$200 to \$400 in court costs, a small amount compared with the prospect of a large damage award, and these costs are incurred only if the party loses the suit.

In Canada, court costs tend to be much higher, with both parties sharing some of the expense. And losers, Mr. Lehnert noted, can

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New markets and risk management tools dominated seminars at the 1983 Canadian Risk Management Conference in Montreal. The report continues on pages 23-29.

Braniff settles pension dispute with PBGC

WASHINGTON—An agreement between Braniff International Corp. and the Pension Benefit Guaranty Corp. settling a \$47.7 million pension dispute has cleared its final hurdle.

The settlement, involving the grounded airline's three underfunded pension plans, was finalized Sept. 23 in U.S. Bankruptcy Court. Braniff filed for protection from its creditors in May 1982 under Chapter 11 of the Federal Bankruptcy Act and has been attempting to reorganize since then (BI, Sept. 12).

Under the agreement, the PBGC, the federal agency that guarantees workers' pension benefits, will drop a \$47.7 million claim against Braniff. The PBGC became a major creditor when the airline last year terminated three plans covering airline machinists, Teamsters and

washington

management employees.

In exchange for the PBGC dropping its claims, the federal pension agency will receive \$1 million in cash when Chicago-based Hyatt Corp. takes over Braniff and starts a new airline known as New Braniff.

The new airline also will refund to the PBGC an amount equal to 10% of the revenues New Braniff receives annually for flying federal employees. Under this provision, payments to the PBGC cannot exceed \$535,000 annually during the first two years of New Braniff's operations nor can the total amount paid to the agency exceed \$3.5 million.

The PBGC also will receive several hundred thousand shares of New Braniff common stock and warrants giving the agency the right to purchase additional shares.

"We are pleased to have reached a compromise with Braniff," said Edwin Jones, the PBGC's executive director. "We believe it is fair and reasonable, and it allows the reorganization plan to proceed and, importantly, puts the airplanes back in the air and people back to work."

Social Security rise

Social Security benefits will increase 3.5% next January for the

35.7 million beneficiaries.

That increase will boost to about \$420 the average benefit payable to newly retired workers.

Meanwhile, in another Social Security development, Martha McSteen, a veteran Social Security official, has been named acting Social Security commissioner.

For seven years, Ms. McSteen has served as the Social Security Administration's Southwest regional commissioner and was responsible for the administration's operations in Arkansas, Louisiana, New Mexico, Oklahoma and Texas. She began her career with the SSA in 1947 as a claims representative in Wichita Falls, Texas.

Ms. McSteen replaces John Svahn, who resigned as Social Security commissioner to accept a position in the White House as head

of policy development.

Benefits upped

Benefits payable under the federal Longshoremen's and Harbor Workers' Compensation Act increased this week.

Each Oct. 1, a new weekly maximum benefit is set, based on 200% of the current national average weekly wage. This year, the maximum weekly benefit for total disability rose to \$548.34 from \$524.70, an increase of \$23.64 or 4.5%.

The Longshore Act, which went into effect in 1928, covers about 525,000 people.

Trustees repay plan

Ten trustees of a New Jersey severance plan have agreed to repay \$82,500 to the plan as part of a consent order.

The order settles claims made in 1981 by the U.S. Department of Labor against the trustees of the Hotel and Restaurant Employees and Bartenders Union Local 54 of Camden County Severance Trust Fund.

The department had charged the defendants with violating the Employee Retirement Income Security Act by paying "excessive" and "unwarranted" premiums for whole life insurance to fund death benefits of plan participants. The excessive premiums resulted in substantial losses to the plan, the department said.

The consent order was signed Sept. 16 in the U.S. District Court for the Eastern District of Pennsylvania in Philadelphia.

New accident report

The National Transportation Safety Board has changed its mind about the cause of a 1975 Eastern Airlines landing accident in Raleigh, N.C.

In a 1976 report, the NTSB said the probable cause of the accident was the captain's "failure to execute a missed approach when he lost sight of the runway environment in heavy rain below decision height."

But after granting a petition filed by the Air Line Pilots Assn. to reconsider its findings, the safety board last month issued a new report that blames the accident on wind shear, downdrafts and intense rain that hit the Boeing 727 just before landing.

"The sudden onset of the meteorological conditions did not allow sufficient time for the captain to perceive and react to the effect of the downdraft and windshear on the airplane's performance..." the revised report read.

While the magnitude of the drafts and windshear could not be determined, the rainfall rate may have been as high as seven inches per hour when the 727 entered it.

"The captain had less than six seconds to correct the flight path" and prevent the accident, the safety board concluded.

The accident occurred Nov. 12, 1975, when the Eastern jet struck the ground 282 feet short of Raleigh-Durham Airport's runway 23.

One passenger suffered a broken ankle in the emergency evacuation of the eight crew members and 131 passengers aboard.

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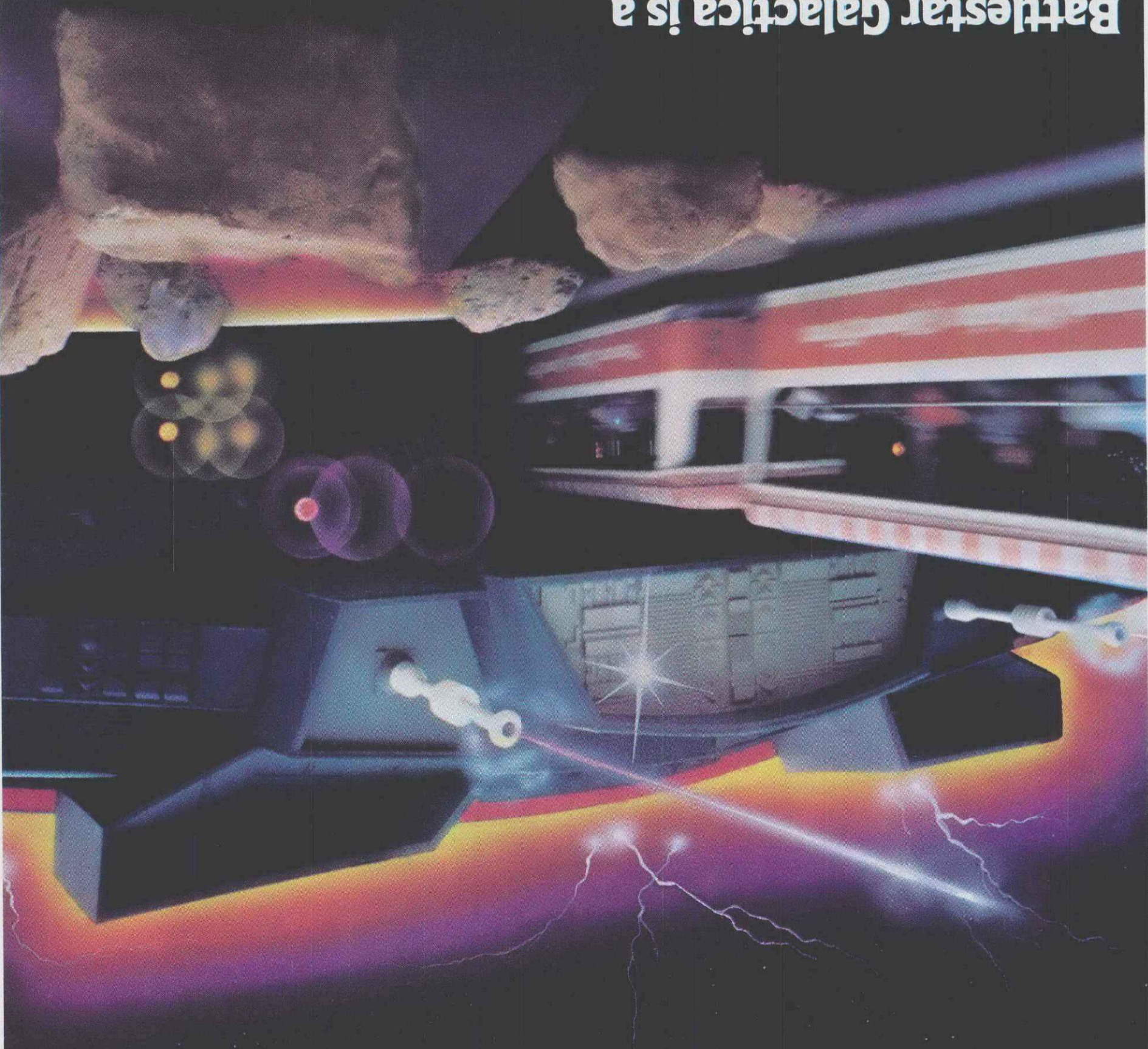
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Survey date change

The results of the *Business Insurance Risk Management Board* survey that were scheduled to be published Nov. 7 will instead be published in the Nov. 21 issue of *Business Insurance*.

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Federal health plan premiums to rise

WASHINGTON—Health care premiums for the nation's largest group health insurance program will go up next year, but the increases aren't as steep as in previous years.

Participants in the Federal Employees Health Benefit Plan will be hit Jan. 8 with premium increases averaging 19%. The federal government, which pays about 60% of most employees' health insurance premiums, will find its costs rising by about 13%.

By contrast, federal employees' health insurance premiums this year rose an average of 24%, while the federal government's costs increased by an average of 19%.

The smaller premium increases may be a sign that health care costs are moderating after three years of major increases.

Premiums charged by some in-

surers that participate in the program, which covers 10 million employees, dependents and retirees, will rise more than the average.

For example, employees enrolled in Aetna Life Insurance Co.'s plan will pay monthly premiums of \$109.01 for high-option family coverage, up from \$58.23, an increase of 87.2%.

At the same time, the federal government will pay a monthly premium of \$113.29, compared with \$103.01, an increase of nearly 10%.

The total monthly premium for Aetna high-option family coverage will rise to \$222.30 from \$161.24, an increase of 37.9%.

But cost increases will be much less in plans sponsored by Blue Cross & Blue Shield. For example, employees enrolled in BC/BS high-option coverage for individuals will pay monthly premiums of \$65.12 in

1984, compared with \$54.94 this year, an increase of 18.5%.

The federal government will pay \$51.08 for individual high-option BC/BS coverage, up from \$46.09, an increase of 10.8%.

The total monthly premium for the BC/BS coverage will be \$116.20, compared with the current \$101.03, an increase of 15%.

However, many of the 130 health maintenance organizations that participate in the federal program have been more successful in holding the line on premium increases.

For example, the nation's largest HMO, the Kaiser Foundation Health Plan in Oakland, Calif., increased its total monthly premium for family coverage to \$154.98 from \$138.45, a 12% boost.

An employee who selects family coverage under the Kaiser plan will pay \$41.69 per month, up from \$35.44, an increase of 17.6%. The monthly federal contribution will be \$113.29, up from \$103.01, an increase of about 10%.

Federal employees who face premium increases will be able to shop around for lower cost plans during the government's annual "open season" program. This year's open season will be held between Nov. 14 and Dec. 9. Last year, more than 1 million participants changed plans.

Manville talks end

Continued from page 1
litigation," which could result in the eventual dismemberment of Manville, with other groups taking control of the Manville management, he added.

Such litigation could look at many issues, including present and future asbestos liability claims, whether any reorganization plan meets the requirements of the bankruptcy code and whether the plan was filed in good faith, Mr. Olick said.

Last week, plaintiffs' attorneys asked a federal court in New York to hear its petition that the Manville petition for reorganization be dismissed on grounds it was filed in bad faith.

Mr. Olick pointed out that it is to Manville's advantage to stay in bankruptcy for as long as possible since it is protected from the asbestos litigation currently being tried against other asbestos manufacturers.

Manville's bankruptcy filing triggered an automatic stay on all litigation against it.

Meanwhile, asbestos plaintiffs are "involved in intense negotiations" with Manville's insurers and the unsecured creditors' groups in an effort to work out a reorganization plan independent of Manville, according to Mr. Rosenberg.

Mr. Rosenberg said that an "agreement in principle" exists between the parties, although the reorganization plan is not fully developed.

Under the plan, which was first discussed in bankruptcy court several weeks ago, Manville's insurers would agree to pay out \$250 million as a partial settlement with the asbestos claimants.

A plan is also being developed by these groups to provide Manville with coverage for future claims under a claims-made policy form so that the insurer on the risk when a claim is made is liable.

Manville's Mr. Parker said the company is still meeting with its insurers almost daily to work out a settlement over the nature and extent of asbestos coverage, he added.

Manville has filed suit against 27 liability insurers seeking indemnification for asbestos claims and legal costs. Manville says it has \$500 million to \$600 million in insurance.

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NAIC reinsurance bill being reviewed

By CAROL CAIN

TAMPA, Fla.—State insurance regulators are being offered a model law for regulating reinsurance transactions.

The model law, now being reviewed by the Reinsurance and Anti-Fraud Task Force of the National Assn. of Insurance Commissioners, sets down the conditions under which regulators should grant insurers credit against their surplus for the purchase of reinsurance.

The law's drafters hope it will be adopted at the NAIC's December session.

The proposed law sets minimum standards for granting credit for reinsurance placed with authorized and unauthorized reinsurers.

An advisory committee to the task force discovered that state reg-

ulators do not all take the same approach to granting credit for reinsurance purchased, said Wes Kinder, president of Fremont Re in San Francisco and chairman of the advisory committee to the task force.

In determining the financial strength of insurance companies, regulators give insurance companies credit against their surplus for reinsurance they purchase if the reinsurance meets certain requirements. There has been some concern however, that insurers have been given credit against their surplus for reinsurance that may not be collectible and, therefore, the insurer appears to be in a better financial position than it is.

Although most insurance regulators already have the authority to regulate reinsurance transactions, they haven't fully recognized or

implemented their authority, Mr. Kinder said.

"Quite a few (states) don't police reinsurance," he added.

This bill will heighten their awareness of the need to regulate reinsurance transactions and provide a uniform approach, he suggests.

The standards in the model would minimize the risk that insurers are being granted credit for reinsurance that may not be collectible, Mr. Kinder said. The standards might eliminate some companies as reinsurers if their reinsurance couldn't be credited by ceding companies, Mr. Kinder said. But, the model law is not that rigid, he added.

An introductory comment to the model law notes, "This uniform law should be treated as a minimum threshold for credit for rein-

insurance. The advisory committee commends the consideration of higher standards."

Until recently, the reinsurance market consisted of a limited number of well-known reinsurers that boasted of operating under the tradition of "good faith." There were few instances when reinsurers refused to pay claims made by ceding companies.

But now, there are a lot of new reinsurers in the market. Three out of four reinsurance companies have been doing business for fewer than 25 years, Mr. Kinder noted.

"It's just become a different kind of game. A lot of the old tradition doesn't exist," he said.

In recent years, some reinsurers have refused to pay claims from ceding companies, sometimes charging that the reinsurance was

Continued on page 12

Reinsurance issues studied

TAMPA, Fla.—How reinsurers conduct business, their relationships with the U.S. and foreign governments, reinsurance intermediaries, managing general agents and underwriting syndicates are topics before the Reinsurance and Anti-Fraud Task Force of the National Assn. of Insurance Commissioners.

The task force will meet before the December NAIC meeting to consider these topics, and a model law governing credit for reinsurance purchased (see related story).

Task Force Chairman Lyndon Olson Jr., who also is chairman of the Texas Insurance Board, is dividing the task force into three subgroups to consider suggestions for action made to the task force.

One subgroup will deal with how reinsurers conduct business. It will consider whether the task force should pursue:

- A model bill prohibiting small insurers from assuming reinsurance.
- Problems relating to collateral as credit for non-admitted reinsurers.
- The restriction, definition and qualification of letters of credit.
- The need for reinsurance treaty payment provisions.
- A review of the notice of discontinuation of an insurer's audit or auditor termination.

Another subgroup will review reinsurers' relationships with the U.S. and foreign governments. It will consider whether the task force should:

- Call on State and Commerce Departments and the Senate to obtain an international treaty to protect U.S. insurers that deal with foreign entities.
- Draft legislation to restrict U.S. insurance companies from reinsuring with foreign-based reinsurers.
- Establish a plan to develop a relationship with insurance authorities in other nations, especially the Caribbean and United Kingdom.
- Work with federal prosecutors to alert them to the nature and extent of any reinsurance fraud.

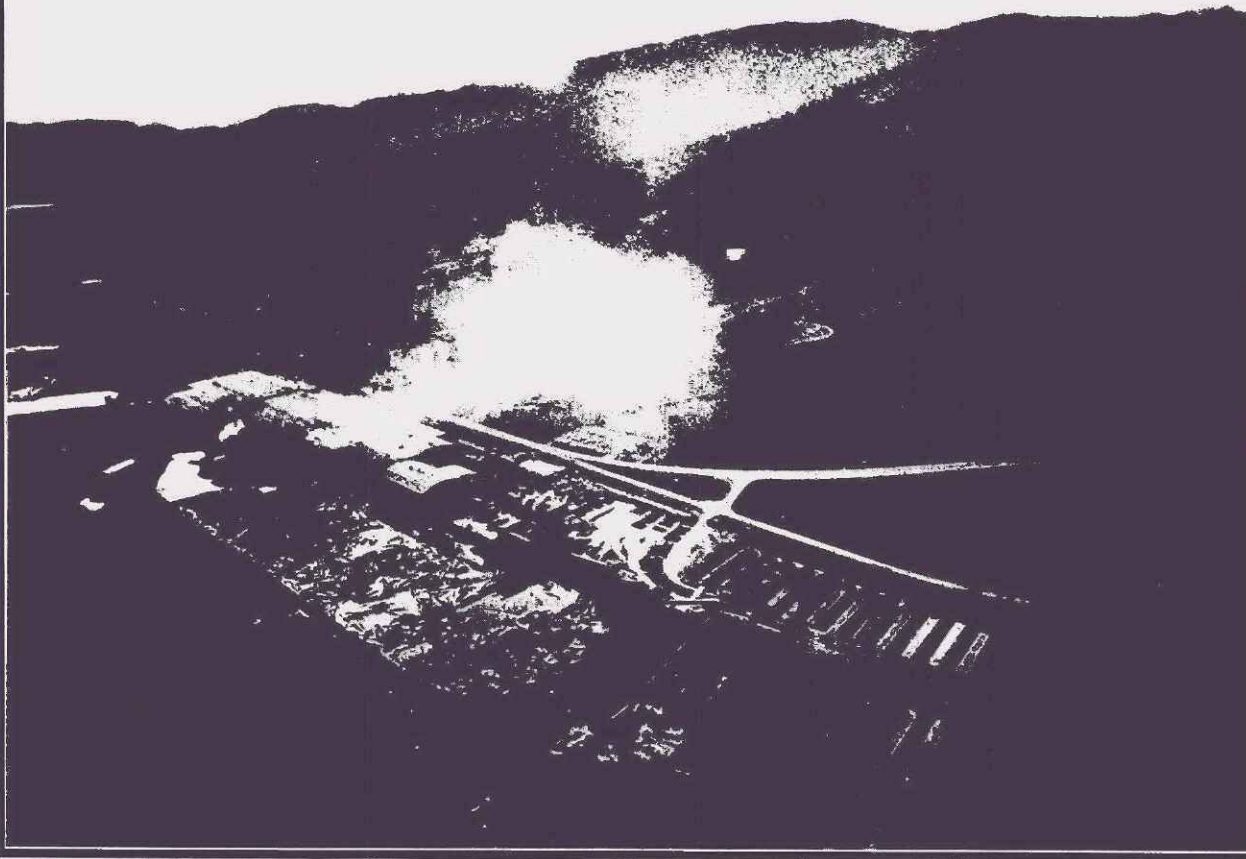
The task force subgroup looking at issues involving intermediaries, managing general agents and insurance exchanges will consider suggestions that it pursue:

- Licensing and registration of intermediaries.
- Licensing of managing general agents who place reinsurance.
- Examination of practices of pools and insurance exchanges and their managers.
- Creating an intelligence network or centralized data base on individuals and firms convicted of violations.
- Expanding NAIC's early warning system and the potential liabilities involved.
- Expanding enforcement abilities of insurance departments to investigate reinsurance fraud.
- Problems associated with so-called fronting arrangements in which a policy-issuing company turns around and cedes all or most of the risk.

The subgroups will present their preliminary reports in December. Exposure drafts are to be ready at the spring session with final reports next summer, according to the timetable set by Mr. Olson.

By Carol Cain

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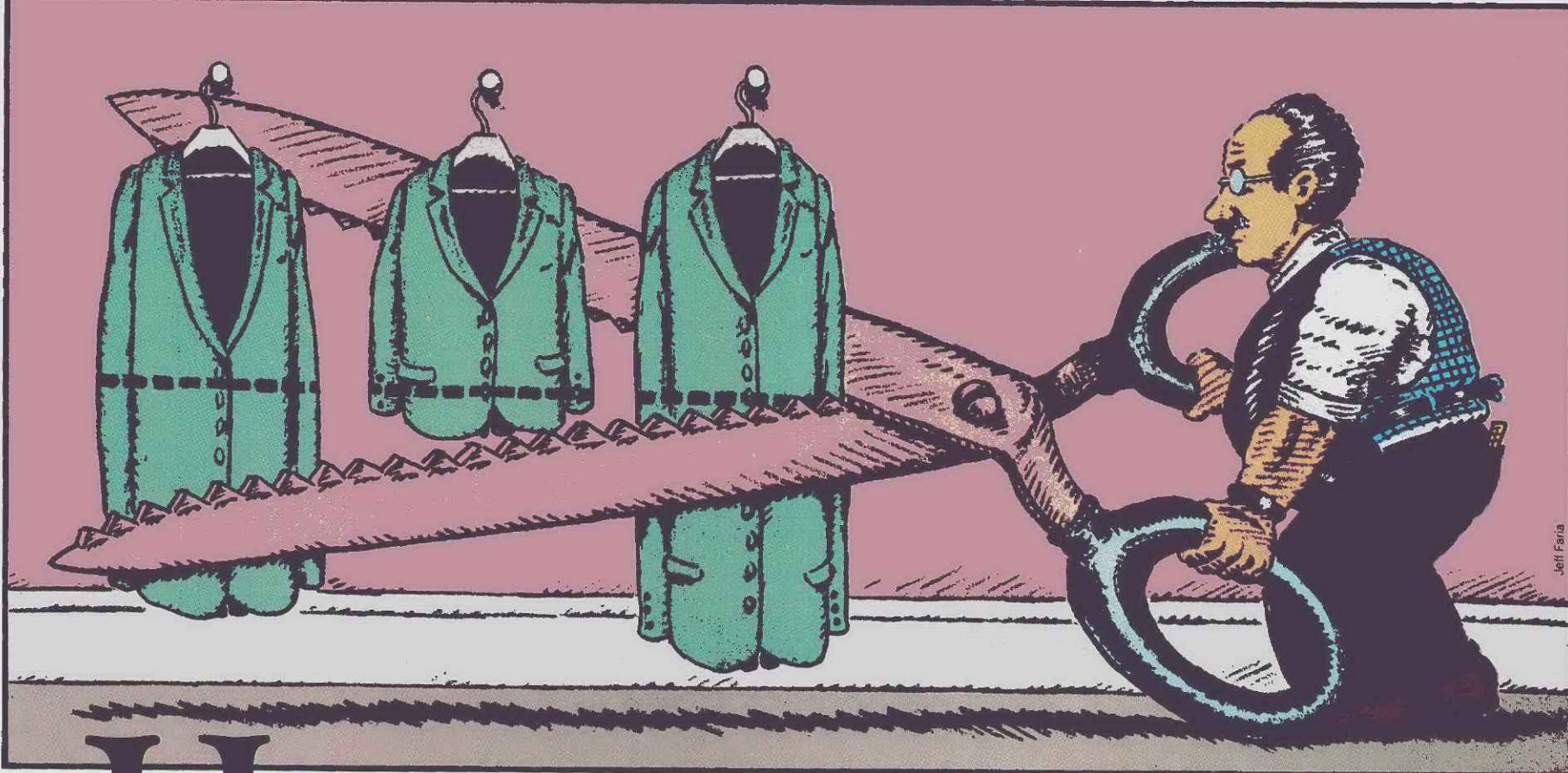
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NAIC reviews reinsurance bill

Continued from page 10

fraudulently arranged. There is also concern over the financial solvency of some reinsurers.

Under the model law, credit will be given for reinsurance purchased from a reinsurer authorized in the state where credit is taken or when the reinsurer is authorized in another state with similar statutory credit requirements and when the reinsurer meets the solvency standards of the state granting credit, said Frank Nutter, president of the Reinsurance Assn. of America and chairman of NAIC's subcommittee on credit.

The proposal also grants credit for reinsurance placed with unauthorized reinsurers under certain circumstances. Unauthorized reinsurers are those reinsurers that have not met state licensing requirements.

Credit will be given when the unauthorized reinsurer maintains a trust account in the United States that includes unearned premium and loss reserves for business written in the United States and a trustee surplus of at least \$20 million.

Individual unincorporated underwriters, like Lloyd's of London, must maintain a trust account representing the group's loss reserves and/or unearned premium reserves attributable to business written in the United States. It must include a trustee surplus of a minimum of \$100 million.

And, according to the model, the group shall provide insurance commissioners with an annual certification by the group's domiciliary regulator and its independent public accountants of the solvency of each underwriter.

Lloyd's syndicates already meet

similar requirements in London "and now we are going to do that exercise in the United States," said Donald J. Greene, an attorney with LeBoeuf, Lamb, Leiby & MacRae, the New York law firm that represents Lloyd's in the United States. Mr. Greene also is a member of the advisory committee that drafted the model.

According to the model law, trusts maintained by unauthorized reinsurers must:

- Be established in a bank or trust company that is a member of the Federal Reserve System in a form approved by the insurance commissioner.
- Vest legal title to its assets in the trustees for United States insureds and reinsureds.
- Be subject, with the assuming insurer, to examination as determined by the insurance commissioner.
- Remain in effect for as long as the assuming insurer shall have outstanding obligations as claimed

against it by the ceding insurer on the reinsurance subject to the trust.

The model bill also requires that ceding insurers will receive credit for reinsurance from unauthorized reinsurers only when the unauthorized reinsurer agrees as part of the reinsurance agreement that if the ceding insurer requests, the reinsurer will submit to the jurisdiction of any United States court and will comply with all requirements necessary to give such court jurisdiction.

The reinsurer must also agree to abide by the final decision of such court or of any appellate court in the event of an appeal, the model notes.

The reinsurer also must agree that the state's insurance commissioner be recognized as the attorney on whom may be served any lawful process by or on behalf of the ceding company.

This provision was written in the model because of past difficulty by

some states to get a foreign reinsurer into a United States court during a dispute, Mr. Nutter said. In some of those instances, the matter had to be taken up in a foreign court, he added.

Alternatively, as often exists under current practice, the model law recognizes funds withheld and letters of credit as assets for credit against surplus when reinsurance is purchased from unauthorized reinsurers.

The funds withheld from the reinsurer must be held in the United States subject to withdrawal solely by and under the exclusive control of the ceding insurer. Funds can be withheld in cash, assets or securities that qualify as admitted assets, or clean, irrevocable, unconditional letters of credit by a bank or trust company that is a member of the Federal Reserve.

However, when insurers operating in foreign countries are required to cede risks to government-controlled reinsurers, the ceding companies will be given credit for the mandatory reinsurance.

It has been suggested that U.S. insurers be prohibited from ceding risks to foreign-based insurers, a concept Mr. Kinder labeled as "absurd."

"The U.S. market, as big as it is, simply needs the rest of the world market," he said, "especially for catastrophic losses."

Regulators will fight possible amendment

TAMPA, Fla.—Insurance regulators will leave their state capitals and go to Washington, D.C., to protest an amendment to the Risk Retention Act of 1981.

The amendment, S. 1046, says that the broad definition of product liability, as contained in the act, supersedes any state definition of product liability and would be the only guide to what types of exposures risk retention groups could cover.

The commissioners' plan to protest the amendment "is not to thwart the act, but there's a difference of opinion on the definition of product liability and its ramifications to the industry," said Lyndon Olson Jr., chairman of the Texas Insurance Board and chairman of the Risk Retention Task Force of the National Assn. of Insurance Commissioners.

"We haven't been as effective in contacting our congressional people as we should have," said Delaware Commissioner David Elliott.

Mr. Elliott, vice chairman of the task force, has refused in Delaware to recognize as a risk retention group a captive of the Home Owners Warranty Corp. He says the risks the captive would cover are surety and warranty exposures under Delaware law, not product liability risks. Only product liability risks can be covered by risk retention groups in Delaware. The case is pending in court (BI, May 30).

"Some of us are going to Washington with our staffs to meet with individuals and talk to senators and congressmen," Mr. Olson reported in a task force meeting at the NAIC fall session.

At the NAIC's previous meeting in June, state regulators voted to oppose the amendment to the Risk Retention Act of 1981 (BI, June 20).

The amendment would pre-empt a NAIC model bill that would allow states to impose their own definitions of product liability on risk retention groups (BI, Dec. 6, 1982).

The amendment has been unanimously approved by the Senate Commerce Committee and is awaiting action on the Senate floor.

State regulators hope the delay means they have a chance to have the amendment defeated.

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Commissioners ponder effects of Norris ruling

By CAROL CAIN

TAMPA, Fla.—State insurance commissioners are worried about the effect the Supreme Court's Norris pension ruling will have on other lines of insurance.

In July of this year, the Supreme Court ruled that when men and women make equal contributions to a pension plan or their employer makes equal contributions for them, women cannot receive smaller monthly benefits than men (BI, July 11).

Often when pension benefits are paid through annuities, women receive smaller monthly benefits because the payouts are based on mortality tables that reflect that women—as a group—live longer than men.

In the Norris case, Nathalie

Norris, an Arizona state employee, sued the Arizona Governing Committee for Tax Deferred Annuity and Deferred Compensation Plans because her monthly benefit was less than the benefit paid to men who had made similar contributions to a three-year voluntary compensation plan.

The insurance commissioners now are watching to see how the high court ruling in the Norris case will influence Congress, which is considering legislation that would ban sex as a rating factor for all lines of insurance. The legislation would

affect life, auto, medical and disability insurance, which now are rated differently for men and women.

At its summer session in June, the NAIC voted 23-6 to oppose the unisex legislation, H.R. 100 and S. 372, because such legislation preempts state's regulatory rights, commissioners say.

"The outlook for (H.R. 100) is very uncertain this year," said Rep. Tony Coelho, D-Calif., who spoke at the most recent NAIC meeting.

Congressional action on the unisex bills has been delayed until the General Accounting Office issues its report on the cost of unisex legislation, which is not expected until November.

However, Rep. Coelho believes, action on the legislation is being delayed so it will be an election

issue next year.

"But make no mistake—1984 is a women's year. Women's groups made it clear; this bill is a test," he said.

And if the White House gets behind the bill, "and they haven't ruled it out," the chances of it passing are even better, Rep. Coelho said. In a recent report, the Reagan administration said it is committed to the elimination of discrimination against women in pension programs (BI, Sept. 19).

Attorney Amy J. Gittler, who represented Ms. Norris in her suit,

believes the Supreme Court ruling will be the final impetus to push forward the unisex legislation. Ms. Gittler participated in a discussion on the Norris ruling at the NAIC meeting.

"And maybe this will help with the president's 'difficulty' with the gender gap," said Ms. Gittler, who is executive director for the Arizona Center for Law in the Public Interest in Phoenix.

But Jack H. Blaine, chief counsel for the American Council of Life Insurers who also participated in the NAIC discussion, doesn't think the Norris ruling will influence Congress at all.

"Why would a congressman vote for a law that would hurt women... make them pay more for auto and life insurance?" Mr. Blaine asked.



Ms. Gittler



Mr. Blaine

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Women have traditionally paid less than men for life insurance because statistics show they live longer, and pay less for auto insurance because they have fewer accidents. But women pay more for medical and disability insurance because they are sick more frequently than men are.

Mr. Blaine said the insurance industry is most worried about the provision in the proposed unisex legislation that would make unisex rating retroactive.

In an ACLI survey, 24 of 153 life insurance companies that completed the questionnaire said they would be statutorily insolvent if unisex rating is made retroactive, Mr. Blaine said. Those 153 respondents represent 80% of the assets of all life insurance companies, he noted.

Ms. Gittler did not agree with this "doomsday scenario," saying it was an exaggeration.

"I think it's purely a habit that has allowed the industry to use sex as a factor... because it's easy, convenient," she said, underscoring her opposition to sex-biased insurance rates.

Mr. Blaine, however, said that the problem really lies in the use of terms. He said the use of different rates for men and women should not be classified as "discrimination" but rather considered as "risk classification."

At the close of their meeting, regulators adopted a proposed NAIC model law that would establish blended mortality tables for computing the minimum statutory non-forfeiture value of life insurance policies without consideration of sex.

Laws concerning the non-forfeiture value of life insurance were created to prevent the forfeiture of equities built up in those life policies.

The new model blended mortality tables would be used by insurers to compute the monthly benefits retirees should receive under annuities purchased by employers with defined contribution pension plans. The new tables will guarantee equal monthly payouts for men and women with equal contributions.

The Norris decision says that employers can no longer buy from insurers annuities that pay smaller monthly pension benefits to women that make equal contributions. In the past, insurers have made smaller monthly payments to women because, statistically, they are expected to live longer and therefore collect benefits for a longer period of time.

Regulators in most states will be able to adopt the new tables by reference because a 1980 model law on mortality tables specifies that when new tables are available, they will be adopted.



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Commissioners cite problems with coordination of benefits

TAMPA, Fla.—Coordination of health care benefits can be a problem when a self-insured and an insured health plan are involved, according to a survey of state insurance regulators.

Some 17 regulators said such a match presents a problem, while 13 said there was no problem.

The survey, prepared by the National Assn. of Insurance Commissioners, was sent this summer to its members—the 50 states, the District of Columbia and four U.S. territories.

The questions asked insurance department chiefs how health care benefits were coordinated in their states when more than one family member is working.

Results of 31 returned surveys were presented at the NAIC quarterly meeting last month.

Recommendations from a coordination of benefits task force, based on the survey results and input from employers and insurers, are expected to be presented at the next NAIC meeting in December.

Of the 17 regulators that said coordination is a problem when a self-insured and an insured plan are involved, 16 said some of the trouble arises because the self-insurer does not use NAIC guidelines to determine which plan is primary.

Nine states try to impose the same coordination of benefits guidelines on self-insurers as they do on insurers, while 14 commissioners said they do not. One state answered that guidelines were applied equally to both, to the extent that it has jurisdiction over the self-insurers. The other seven states did not answer the question.

Regulators also were asked if they noticed an increase in the coordination of benefits problem between third-party payers of health care benefits. Nineteen said they did not while 12 said they did.

In another area of the survey, 17 commissioners said that coordination of benefits should be utilized to add onto or stack benefits. For instance, if the primary insurer covers 60 days of mental health services and the secondary insurer allows for 60 days of mental health care, the policyholder should be permitted to stack benefits and be reimbursed for 120 days of services, if 120 days or more are used.

Thirteen regulators were opposed to such stacking.

The majority of the commissioners would let policyholders tap their secondary coverage to pay the deductible on the primary policy.

Sixteen regulators said the secondary payer should be used to fill in deductibles, while 14 said it should not.



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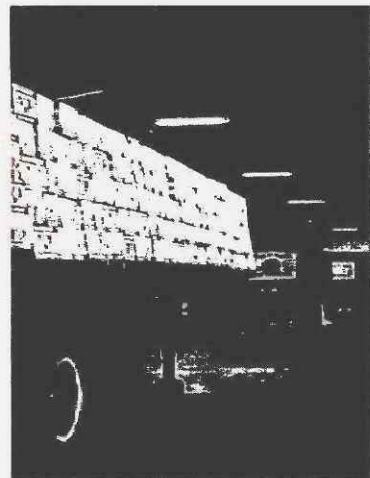
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Baldwin is constant topic at NAIC meeting

By CAROL CAIN

TAMPA, Fla.—Over and over the word tripped from the lips of insurance regulators attending their quarterly meeting last month in Florida. It was heard in the zone meetings, in the general sessions, at meals, in the halls and at press conferences.

The word?

Baldwin.

Baldwin-United Corp., a Cincinnati-based piano maker turned financial conglomerate that just filed for bankruptcy last week, presented insurance regulators, many of them new at their jobs, with the challenge of trying to figure out how to handle the rehabilitation of six of Baldwin's life insurance subsidiaries.

There was the usual number of activities at the National Assn. of Insurance Commissioners' fall meeting, but "a host of regulatory problems took somewhat of a back seat to Baldwin-United," said James W. Schacht, acting director of the Illinois Department of Insurance.

"Everyone is preoccupied with it, so there's not the same level of intensity at other sessions," he said.

The insurance commissioners from Arkansas and Indiana announced their joint plan of rehabilitating the six life insurance companies that issued \$3.7 million in single-premium deferred annuities.

The problem of insurer insolvencies in general has occupied the association.

"We're looking at current solvency issues—ongoing problems and solutions—but not at open sessions," said Roger Day, NAIC president and insurance commissioner for Utah.

Apparently, during the three quarterly NAIC meetings held this year, commissioners have been sharing information on insurer insolvencies in their states.

Some NAIC task forces are looking for ways to prevent similar insolvencies from occurring, Mr. Day said. But nothing tangible has come out of the task forces yet.

He said insolvency issues would be a priority next year for NAIC. "We probably also will beef up our disclosure requirements (for insurers)," he said.

The result, according to Mr. Day, may be the ability to discover a potentially insolvent company earlier.

When regulators weren't talking about Baldwin, they filled their agendas with talk about the reinsurance market in Russia in relationship to the recently shot down Korean Air Lines jet, about meeting less often in general sessions and about health promotion.

The International Insurance Relations Task Force decided to have its industry advisory committee investigate the Soviet reinsurance market, both the amount of retrocessions from the United States to Russia, and from Russia to the United States.

"The idea is to find out where the money is and report this to the federal government," the spokesman said.

The aim of the action is to protest the recent international incident in which a KAL jetliner was shot down by a Soviet jetfighter, he said.

A report is expected at the NAIC winter meeting Dec. 4 to 9 in San Diego.

In another area, the commissioners were five votes short of passing an internal constitutional amendment to change the number of times they meet each year. A two-thirds majority, which is 37 votes, is needed to approve constitutional amendments.

The 32 commissioners who voted

to pare their four meetings down to two each year, with zone meetings in between, say the frequent plenary sessions are costly both in money and time.

"They're too expensive, they take too much time out of the office and there's too much forum and not enough work," said President Day.

He plans to bring up the issue again at the December meeting.

The six regulators who voted against the measure—from California, Idaho, Nevada, New Mexico,

Oklahoma and Wyoming—questioned how zone meetings would be financed.

At least one commissioner, J.T. Langdon from Wyoming, believes there still would be plenary sessions at the zone meetings, requiring the attendance of all commissioners.

"The smaller states can't afford to go four times a year," he said. "And I think it's hard on industry."

Another commissioner, who didn't want to be identified, thought the measure would have

passed if U.S. territories weren't allowed to vote. "They hardly ever come to the meetings," he said.

Membership in the NAIC includes the 50 states, the District of Columbia and four U.S. territories. If the territories were not counted in the total vote, those that favor the reduction of meetings would represent the majority.

Another topic discussed by regulators was health care promotion and regulation.

"We'll be looking at hospital containment boards and will consider

the use of preferred provider organizations," said Florida Insurance Commissioner Bill Gunter, who also is vp of the NAIC.

Hospital cost containment is a pet project of Mr. Gunter, who is expected to be elected president of the NAIC at its December session.

More than 700 persons attended the September session, including regulators and members of their staff, federal and state legislative representatives and insurance industry representatives from insurers and associations.

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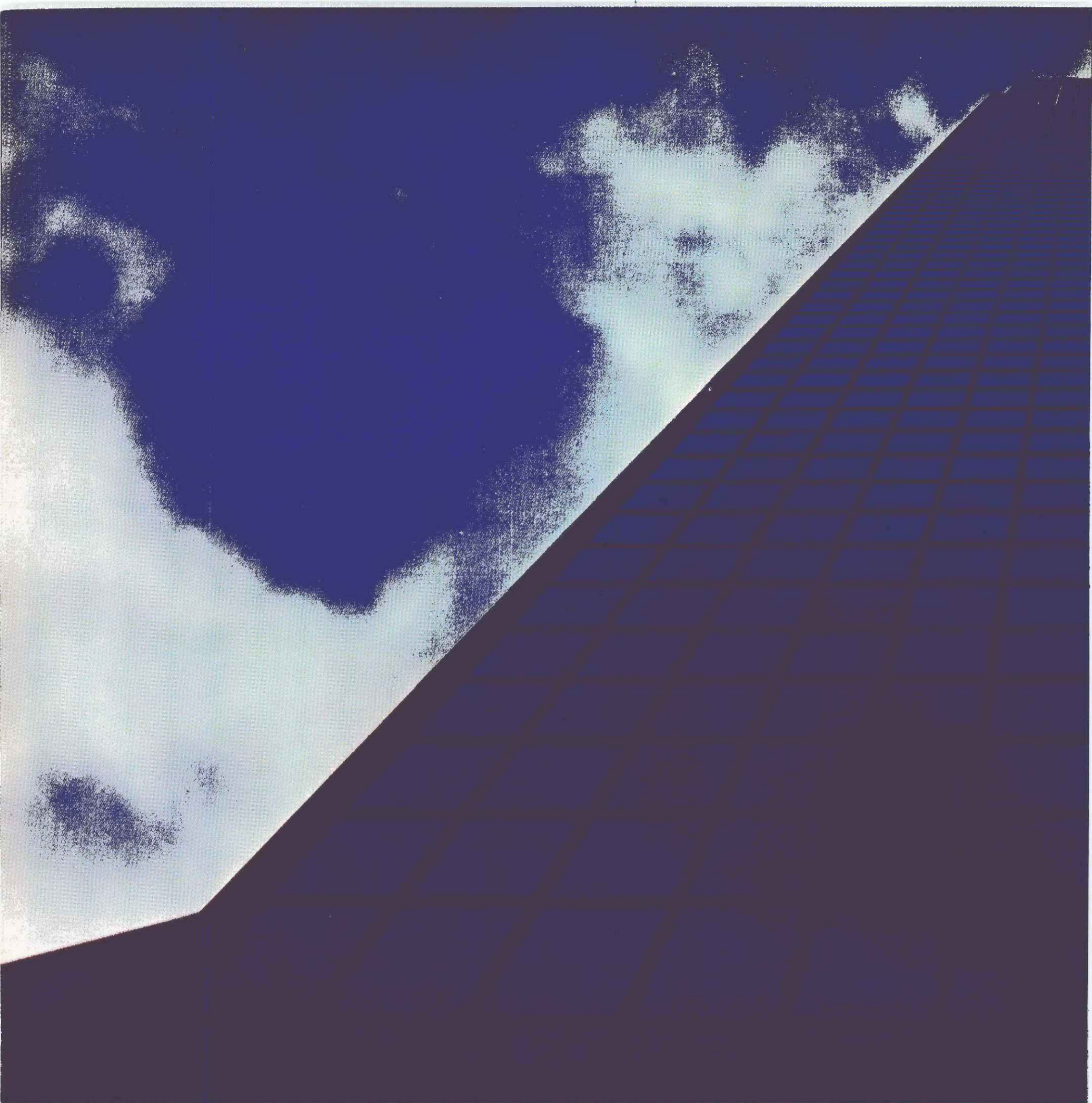
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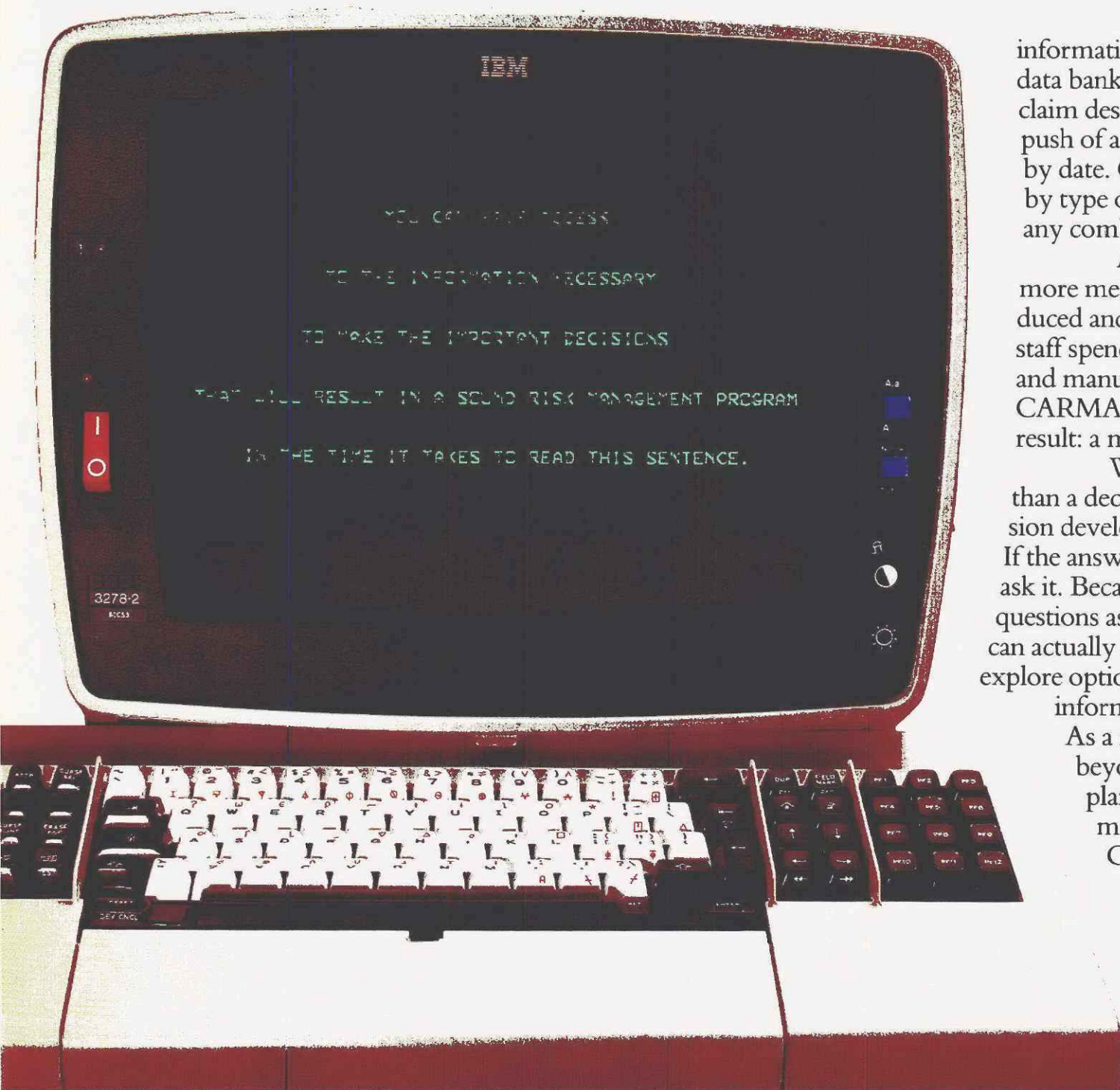
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MAGNIFYING THE POLICY DETAILS

By Earl H. Nemser

IN THE SECURITIES and commodities industries, companies routinely gear their trading activities to assure that their positions are hedged to the optimum.

Stockbrokers and commodity brokers extend this approach beyond trading, and consider the insurance policy their only hedge against certain business disasters. But rarely do these brokers pay adequate attention to the type of coverage they buy. Consequently, the disaster hedge can be illusory.

The problem is that all too often the broker just accepts the standard form blanket insurance bond required by the exchanges that, in many respects, does not afford sufficient coverage.

The result: Brokers are frequently shocked when they find either that major losses are not insured, that simple claims turn into expensive lawsuits, or that insurance companies will rely on fine-print exclusions to justify offering to pay only a small portion of a loss.

It may be a mistake to paint the insurance industry as the villain in this familiar tale. The insurance industry, like any other industry, is responsive to customer demand, particularly in the continuing soft insurance market. Insurance companies will sell the necessary coverage to remain competitive, but the buyer must know what to ask for.

What is surprising is that even the large brokerage firms that pay mighty premiums do not make sufficient effort to shop for the best product. Many firms will budget more time and money for a Christmas party than they will for investigating the best insurance to buy. The common standard form is wrongly accepted because brokerage firms are told it is the only coverage available. It is not.

The Uniform Stockbrokers Blanket Bond is the standard form providing, among other things, the essential fidelity coverage that protects against losses caused by dishonest acts of employees. Ironically, with all the resources behind the securities and commodities industries, the standard form blanket bond can be, many times, more onerous to the broker than standard-form policies are to residential tenants.

What is perhaps more astonishing is that the same type of problems arise under the Uniform Bankers Blanket Bond.

Yet many brokers and bankers mistakenly take comfort in the belief that standard-form coverage is adequate. It only provides an illusion of comfort—it will not provide coverage for many brokers and bankers in some typical situations where losses might be anticipated.

When disaster strikes, the broker may find that, instead of the comfort of courage, all it really purchased was the right to sue an insurance company, if the legal budget will allow for the high cost. The ultimate issue—coverage or no coverage—is obscured and dependent upon fine legal points or the vagaries of a jury.

For example, in employee fraud, upon later investigation, it is commonly found that the fraud would have been discovered earlier if the broker had only been

monitoring its books closely enough or in a different manner.

If, for this reason, the broker does not actually learn of the fraud until several months after it began, the broker can be sure its insurance claim for losses will be denied. The insurance company will take the position that even though the broker actually knew nothing of the fraud, the loss was "discovered," a term defined in the new standard form uniform bond, when the fraudulent activity began because it could have been seen from a close examination of the books.

The uniform bond provides, in a clause that is rather hidden, that discovery of the loss occurs when the insured becomes aware of facts that would cause "a reasonable person" to assume a loss will be incurred.

The insurance company will claim that if the broker was run by reasonable people, they would have been aware of the facts reflected in its books. The insurance company will then deny the claim because notice of the loss was not given to the insurance company at the earliest practicable moment after the loss was discovered, as the term is defined. Thus, the broker may be required to give notice of the loss even before it actually knows of the loss and if timely notice is not given, there is no coverage.

The broker with this new clause in its uniform bond did not buy insurance at all. Instead, it only bought the right to start a lawsuit.

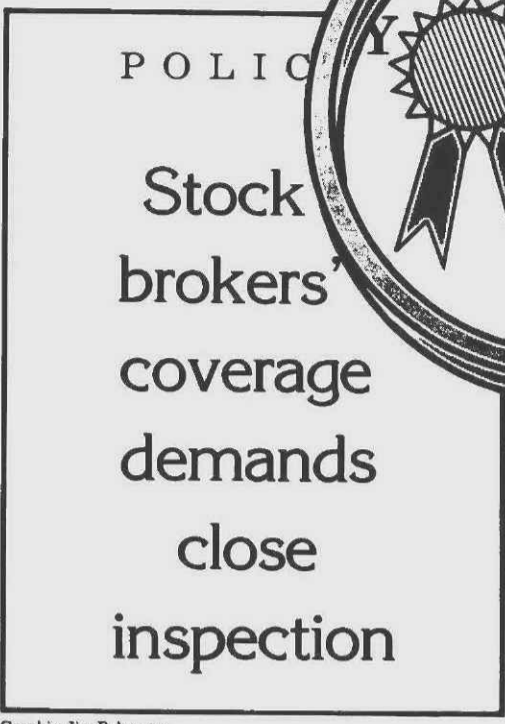
The broker will then be faced with the problem of whether a jury will believe it acted like a hypothetical reasonable person in watching its books. And it may be difficult to convince a jury of this—a jury that will be told how careful a broker, who is trusted with other people's money, is expected to be.

Rather than take the risk of an adverse jury verdict and incur the legal fees involved, the broker may be forced to settle for something less than its loss. This problem is avoidable since policies are available that do not contain this new and unusual term of discovery.

The gaps in coverage under the uniform blanket bond are many. For example, the bond covers: "Loss resulting directly from one or more dishonest or fraudulent acts of an employee." The phrase "dishonest or fraudulent acts" has a broad definition, but there are many significant exclusions. Under one exclusion, which should concern every stockbroker, there is no coverage for losses resulting from any employee violation of laws regulating "the issuance, purchase or sale of securities," unless the employee's activities are otherwise dishonest in the absence of such laws. But this may be exactly the type of conduct for which a stockbroker requires insurance.

It is unfortunate that brokers and bankers retain batteries of lawyers and pay fortunes to negotiate and provide a fine-tooth review of most documents used in their day-to-day activities, such as a prospectus, but they will accept a standard-form blanket bond simply because it is the first or only product shown to them by their insurance broker.

The adage that we "don't tend to our own affairs" applies here in striking



Graphic: Jim Bakasetas

fashion because with a little more attention and a little more negotiating, the insurance industry will respond and provide a real blanket of coverage. The insurance industry will respond because it means more premium dollars, and for the broker it may be dollars very well spent.

Selecting the appropriate coverage for a particular broker involves more than eliminating policy exclusions.

For instance, the uniform bond provides some coverage, for which the broker pays a nice premium, that is either totally unnecessary or that the broker could safely self-insure (considering the tax consequences of a loss).

The uniform bond provides coverage for damage to furnishings, fixtures, stationery, supplies or equipment caused by vandalism. It also provides counterfeit currency protection. If a broker does not own sophisticated equipment and doesn't need vandalism protection, or if cash is not taken over the counter (and one would be hard-pressed to find a broker today who does), the broker perhaps can trade off this unnecessary coverage for a lower premium or the elimination of a policy exclusion.

If a broker has an essential piece of equipment, like a computer, a separate vandalism rider can be purchased, and better coverage can be sought, such as coverage for losses caused by equipment downtime.

Once appropriate coverage is selected, the broker must then make the insurance policy work. Adequate internal controls and procedures can be crucial.

Under the uniform bond, to collect for dishonesty one does not have to prove that the employees' activities violated the criminal law. Dishonesty under the uniform bond has a broader and more comprehensive meaning, and includes non-criminal acts that amount to a lack of integrity or breach of trust. If the employees' acts are simply the results of bad business judgment, however, they will not be deemed to be dishonest.

In one case, a brokerage firm required certain minimum house margins and that all checks be countersigned by two authorized employees. An employee issued a check with just one signature disbursing

company funds to a strapped customer-friend, leaving his account undermargined and in deficit. When claim was made under a blanket bond for trading losses the firm sustained, the insurer's position was that dishonesty was not established because there were no *written* rules on margins or check signatures.

The insurance company argued that the acts of disbursing funds and permitting deficit trading were merely poor business judgment and that the employee sought to benefit the firm by assisting a valued customer, who might have generated large commissions. The issue was thus left to a jury. The firm won the case, but it had to pay its lawyers to do it. A simple procedures manual containing the margin and the two-signatures rule would have prevented the problem and the expense.

In writing a procedures manual, it is counterproductive to deal elaborately with every aspect of a broker's activities. Flexibility is needed, and too many intricate rules can create traps.

For example, if a broker has too many customer protection rules, the broker will inevitably find a rule has been broken and a customer bringing the rule violation home in a lawsuit to recover trading losses.

In selecting the proper insurance coverage, and making it work, the broker will not be able to unravel these problems after the disaster strikes.

For additional comfort, some businesses are now buying an extra policy called insurance coverage dispute—legal expense insurance, which insures against the eventuality of having to pay legal fees in lawsuits to collect payment on claims.

Even with that, the broker must be attentive in shopping for insurance. It should be hesitant in accepting the current standard-form bond without a full exploration of the alternatives.

Earl H. Nemser is a partner in the New York law firm Cadwalader, Wickersham & Taft.

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NOV. 3-4. Captives: Making Optimum Use of the International Risk Management Tool seminar in New York, sponsored by the World Trade Institute; \$590. Karin Ford, World Trade Institute, 1 World Trade Center, 55th Floor, New York, N.Y. 10048; 212-466-3162.

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NOV. 4-5. Employee Dishonesty: Claims, Bond Coverage and Caveats institute in New Orleans,

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NOV. 8-9. Tenth Annual Computer Security conference in New York, sponsored by the Computer Security Institute; \$595; group discounts available. Computer Security Institute Educational Resource Center, Department ERC, 43 Boston Post Road, Northborough, Mass. 01532; 617-845-5050.

NOV. 9. Dealing with New Horizons—Integration of financial services and its impact on the insurance industry seminar in Columbia, S.C., sponsored by the South Carolina CPCU Society and the Palmetto chapter of Risk and Insurance Management Society; \$25. Cathy Breitman, P.O.

Box 1, Columbia, S.C. 29202; 803-748-8323.

NOV. 9. Using the NIOSH Guide to Manual Lifting seminar in Greensboro, N.C., sponsored by the International Safety Academy; \$145. ISA, 1600 Arch St., P.O. Box 8527, Philadelphia, Penn. 19101; 215-241-3176.

NOV. 9-10. Barbados—A New Opportunity for Captives conference in St. Philip, Barbados, sponsored by the Central Bank of Barbados and the Insurance Corp. of Barbados; \$150. David King, Central Bank of Barbados, P.O. Box 1016, Treasury Building, Bridgetown, Barbados, W.I.; 62250.

NOV. 9-11. Society of Insurance Research annual conference in Houston; \$150 for members; \$175 for non-members. Herbert Hoell, Royal Insurance Co., 150 William St., New York, N.Y. 10038; 212-553-4340.

NOV. 10. What is Carpal Tunnel Syndrome? seminar in Greensboro, N.C., sponsored by the International Safety Academy; \$145. ISA, 1600 Arch St., P.O. Box 8527, Philadelphia, Pa. 19101; 215-241-3176.

NOV. 11-16. Design for the Future 29th annual educational conference in New Orleans, sponsored by the International Foundation of Employee Benefit Plans; \$450; \$390 before Nov. 10; \$130 extra for each pre-conference institute selected. IFEBP, 18700 W. Bluemound Road, Box 69, Brookfield, Wis. 53005; 414-786-6700.

NOV. 13-16. Professional Insurance Agents of America annual convention in San Diego; \$75 to \$180. Nicholas J. Matthews, 400 N. Washington St., Alexandria, Va. 22314; 703-836-9340.

NOV. 14. Banks and Employee Stock Ownership Plans seminar in Los Angeles, sponsored by the Employee Stock Ownership Assn.; \$90 for members; \$125 for non-members. Also **Nov. 18** in Chicago. Employee Stock Ownership Assn., 1725 DeSales St. N.W., Suite 400, Washington, D.C. 20036; 202-293-2971.

NOV. 14-16. Advanced Safety Management seminar in Atlanta, sponsored by the International Loss Control Institute; \$350. ILCI, P.O. Box 345, Loganville, Ga. 30249; 800-544-6001 or 404-466-2008.

NOV. 14-16. Employee Benefit Plan conference in Santa Monica, Calif., sponsored by Charles D. Spencer & Associates Inc.; \$350. Seymour LaRock, Charles D. Spencer & Associates Inc., 222 W. Adams St., Chicago, Ill. 60606; 312-236-2615.

NOV. 14-16. Multiple-Owner Offshore Insurance seminar in Los Angeles, sponsored by Captive & Self-Insurance Services Inc.; \$425; 10% discount for members; \$50 discount for second registrant. Judy, Captive & Self-Insurance Services Inc., 950 Elm Ave., Suite 210, San Bruno, Calif. 94066; 415-871-1670.

NOV. 14-16. Risk Loss Control Management seminar in Chicago, sponsored by the International Safety Academy; \$435. ISA, 1600 Arch St.,

P.O. Box 8527, Philadelphia, Penn. 19101; 215-241-3176.

NOV. 14-17. Inspector Training seminar in Houston, sponsored by the International Safety Academy; \$490. ISA, 1600 Arch St., P.O. Box 8527, Philadelphia, Penn. 19101; 215-241-3176.

NOV. 14-17. National Fire Protection Assn. fall meeting in Orlando, Fla.; \$60 for members; \$85 for non-members. NFPA, Fall Meeting Registrar, Batterymarch Park, Quincy, Mass. 02269; 617-328-9290.

NOV. 14-18. Assets Protection course in Philadelphia, sponsored by the American Society for Industrial Security; \$595 for members; \$650 for non-members. ASIS, Membership & Meetings Services, 1655 N. Fort Myer Drive, Suite 1200, Arlington, Va. 22209; 703-522-5800.

NOV. 14-18. Basic Safety Management seminar in Atlanta, sponsored by the International Safety Academy; \$570. Also **Dec. 5-9** in Houston. ISA, 1600 Arch St. P.O. Box 8527, Philadelphia, Penn. 19101; 215-241-3176.

NOV. 14-18. Fundamentals of Industrial Hygiene Monitoring course in Long Grove, Ill., sponsored by National Loss Control Service Corp.; \$425. John Garis, NATLSCO, Long Grove, Ill. 60049; 312-540-2026.

NOV. 14-18. Safety Trainer Training seminar in Atlanta, sponsored by the International Loss Control Institute; \$795. ILCI, P.O. Box 345, Loganville, Ga. 30249.

NOV. 16. Employee Stock Ownership Plan seminar in San Diego, sponsored by the Employee Stock Ownership Assn.; \$90 for members; \$125 for non-members. Also **Nov. 21** in Tampa. Employee Stock Ownership Assn., 1725 DeSales St. N.W., Suite 400, Washington, D.C. 20036; 202-293-2971.

NOV. 17-20. National Assn. of Professional Surplus Lines Offices Ltd. ninth annual conference in Chicago; \$300. J. Dale Bohm, 624 Holcomb Bridge Road, Suite 3, Roswell, Ga. 30076; 404-998-9075.

NOV. 18. Update '84: Workers Compensation and the Total Picture seminar in Santa Clara, Calif., sponsored by Self-Insurance Programs; \$90 for clients; \$110 for non-clients. Lucretia Doyle-Marcus, Self-Insurance Programs Inc., 3333 Bowers Ave. #100, Santa Clara, Calif. 95051; 408-980-0210.

NOV. 19-21. Fundamentals of Industrial Exhaust Ventilation course in Long Grove, Ill., sponsored by the National Loss Control Service Corp.; \$350. John Garis, Manager, Industrial Hygiene, NATLSCO, Long Grove, Ill. 60049; 312-540-2026.

NOV. 27-30. Benefits Processing institute in Hollywood, Fla., sponsored by the International Foundation of Employee Benefit Plans; \$390 for members; \$465 for non-members. IFEBP, 18700 W. Bluemound Road, Box 69, Brookfield, Wis. 53005; 414-786-6700.

NOV. 28-DEC. 1. Hemispheric Insurance 19th biennial conference in San Francisco, sponsored by the International Insurance Advisory Council; \$400 for delegates; \$700 for observers. Gordon Cloney, International Insurance Advisory Council, U.S. Chamber of Commerce, 1615 H St. N.W., Washington, D.C. 20062; 202-463-5480.

NOV. 28-DEC. 2. Recognition of Occupational Health Hazards course at the University of Southern California, sponsored by the university; \$650. Office of Extension & In-Service Programs, Institute of Safety & Systems Management, University of Southern California, Los Angeles, Calif. 90089; 213-743-6523/6524.

NOV. 30. Code S 401(k): The Final Regulations seminar in Washington, D.C., sponsored by the Employers Council on Flexible Compensation; \$250. Karin Gess or Margaret Shemo, Employers Council on Flexible Compensation, 1700 Pennsylvania Ave., Suite 600, Washington, D.C. 20006; 202-393-1728.

DEC. 4-7. Corporate Benefits Management conference in Orlando, Fla., sponsored by the International Foundation of Employee Benefit Plans; \$470 for members; \$545 for non-members. IFEBP, Box 69, 18700 W. Bluemound Road, Brookfield, Wis. 53005; 414-786-6700.

DEC. 5-7. Techniques of Risk Management conference in San Francisco, sponsored by the Risk & Insurance Management Society; \$345 for members; \$445 for non-members. Editorial Department, RIMS, 205 E. 42nd St., New York, N.Y. 10017; 212-286-9292.

DEC. 7-9. Computer Programs for Occupational Health Systems course at the University of Southern California, sponsored by the university; \$400. University of Southern California, Institute of Safety & Systems Management, Office of Extension & In-Service Programs, Los Angeles, Calif. 90089; 213-743-6523/6524.

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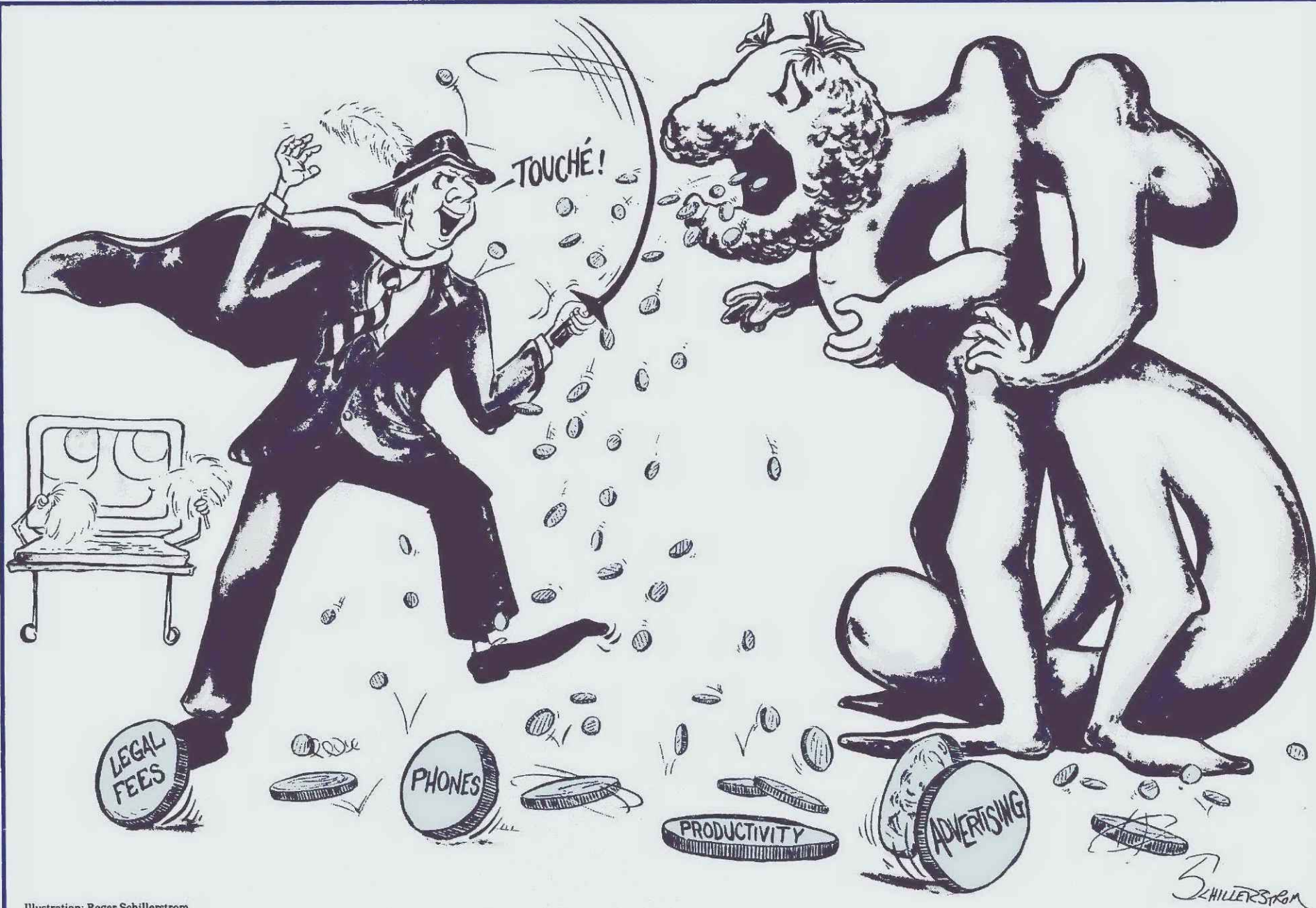


Illustration: Roger Schillerstrom

Battling monstrous agency costs

Many firms focusing on staff-related expenses to hold the line

By PAMELA DeFIGLIO

When there's not a lot of money coming in, agents and brokers have to reduce the amount of money that is paid out.

So, during a time of falling commissions, agents and brokers are taking a hard look at all the items on the expense side of the ledger, improvising ways to reduce or eliminate them.

Naturally enough, the first item they examine is their largest expense—people. According to various industry estimates, anywhere between 50% to 85% of agencies' and brokerages' expenses go toward employees' salaries and benefits.

Employees consume 85% of the expenses at small agencies, notes a study commissioned by the National Assn. of Professional Insurance Agents and conducted by Temple, Barker & Sloane Inc., a Lexington, Mass., research firm. Medium-sized agencies spend 75% of

their budget on employees, while staff costs consume 79% of large agencies' expenditures.

And besides the direct costs of employees, there are indirect costs, too.

Bruce Schnitzer, president of Marsh & McLennan Inc. in New York, the nation's largest insurance broker, points out that many other expenses, like rent and electricity costs, are directly affected by the number of employees that occupy a brokerage's office space. The more employees a firm has, he notes, the more office space, desks, typewriters and word processors it needs, and the more electricity, gas and telephones it uses.

Because employee-related costs are so huge, employers that find ways to reduce the number of employees, increase the amount of work produced—or both—can minimize their expenses and/or boost their output, giving them an edge over their competitors.

Productivity is the buzzword.

"In the end, the only significant expense control is to manage the number of people that work for you, and have them working in a beneficial environment as productively as possible," Mr. Schnitzer says.

"You have to make a move to doing more and better work with relatively fewer people. And those people should be challenged, enriched and better compensated.

"In my opinion, that's the only way to save money," he notes.

Mr. Schnitzer's philosophy can be seen in Marsh & McLennan's management structure. Instead of a traditional brokerage management hierarchy based on regional offices, M&M employees now report to superiors according to the area of specialty.

The change is more a reallocation of expense dollars than an effort to reduce expenses, but one of its effects is to save the brokerage money (see story, page 22L).

Seth Faison, vp of Johnson & Higgins in New York,

Continued on next page

White-collar workers
can become more productive
Page 22E

Low-cost legal advice
not necessarily low-quality
Page 22H

Discount telephone services
can cut long-distance expenses
Page 22J

Large brokers focusing on employee costs

Continued from previous page says that his firm cut costs by delaying annual salary increases by three months.

J&H has also set up a hiring committee, which approves all new employees before they are hired. The establishment of the committee has reduced the number of new hires and ensured that those who are hired are top-quality workers, the company notes.

Tinsley H. Irvin, president of Alexander & Alexander Services Inc., reports that the brokerage reduced its staff by 10% to 15%, and its officers and regional office employees accepted salary cuts in an effort to reduce costs. These steps were taken in March and April, and the brokerage's expenses for the first half of 1983 were 1% lower

than the corresponding period last year.

A&A pared its workforce by about 400 people through a combination of natural attrition, early retirement incentives, layoffs and firings, Mr. Irvin acknowledges. It attempted to relocate some employees to different profit centers and asked an independent placement service to find jobs for others.

"We like to think we're more efficient. We must increase productivity and organize our job functions," Mr. Irvin explains. "We're offering the same quality of service to our clients, but doing it in a more efficient way."

Mr. Irvin also notes that internal and external productivity consultants are studying Alexander & Alexander's operating methods in

an effort to streamline them.

Productivity consultants seem to be in demand these days. For instance, Val Olson, a former Sentry Insurance executive, now heads a consulting firm called Creative Management Alternatives Inc. in Stevens Point, Wis., which determines how businesses can up their productivity levels.

Most white-collar employees perform at 50% of their capacity, Mr. Olson says, and his consulting firm attempts to improve this performance for clients.

In fact, Mr. Olson has defined the productivity problem and his solution for it in a new book, "White Collar Waste: Gaining the Productivity Edge" (see story, page 22F).

"The biggest costs are personnel costs, and productivity is a key

area," agrees Jack Payan, president of Payan-Stitt Corp., an agency in Palos Heights, Ill., and president of the Independent Insurance Agents of America.

Mr. Payan notes that his agency completed a productivity-building program offered by Aetna Life & Casualty Co. about 10 years ago. Although Aetna no longer offers the program, Mr. Payan and his partner have reimplemented parts of it on their own.

"We reviewed production systems with a fine-tooth comb and



Mr. Payan

streamlined our operations, especially in personal lines. My partner, Malcolm Stitt, examined the computer capabilities and compared them to what we were using the system for.

"So, when one of our employees left the agency, we didn't have to replace her," Mr. Payan says. "We have two people instead of three working on the computers."

Mr. Payan attributes expense minimization to three factors: natural employee attrition, computerization and "tightening up job descriptions and procedures."

Computerization and streamlining of jobs permit an agency to function with fewer employees, and attrition weeds out the employees without causing bad feelings or morale problems, he says.

Many agency and brokerage officers cite computers when discussing how to cut employee costs while increasing productivity.

According to the Temple, Barker & Sloane study, employee productivity can be increased by up to 70% in as little as three to four years after full automation is installed. Such a fully automated system would handle bookkeeping and records and accept data about clients.

"Now, our computer does accounting and management, but we'd like to convert it to a marketing tool," says William A. Beal, president of Beal & Associates Insurance Counselors Inc. in Phoenix, Ariz., which collected \$1.3 million in gross revenues last year. "That way, the computer could in-point existing customers who could be solicited for more sales."

The computer, for example, could run through a list of auto policyholders and pick out those who owned homes, so they could be solicited for homeowners policies. Or, if the agency began marketing a new product, the computer could select names of existing customers who would be likely to buy that coverage.

Mr. Beal points out that it's more efficient to prospect from existing customers than new customers. "There's an old axiom in sales that a dollar saved is worth \$20 in sales," he says.

Some agents have found that computerization enhances their productivity.

"We'll get computers next year, but costs will be about the same as they are now, and may even be greater," says Ronald Junkin, principal of the South Bay Area Insurance Agency in San Jose, Calif. "But, based on the information we've gotten, we'll be able to service a larger book of business with the same personnel we have now."

Other agents have found that, with computers, they can do the same amount of work with fewer people.

"We automated about two years ago," says William Gaffie, vp of Gaffie Insurance Agency Inc. in Port Allen, La., near Baton Rouge, "and it prevented us from hiring an additional person. I was on the verge of hiring someone when we automated."

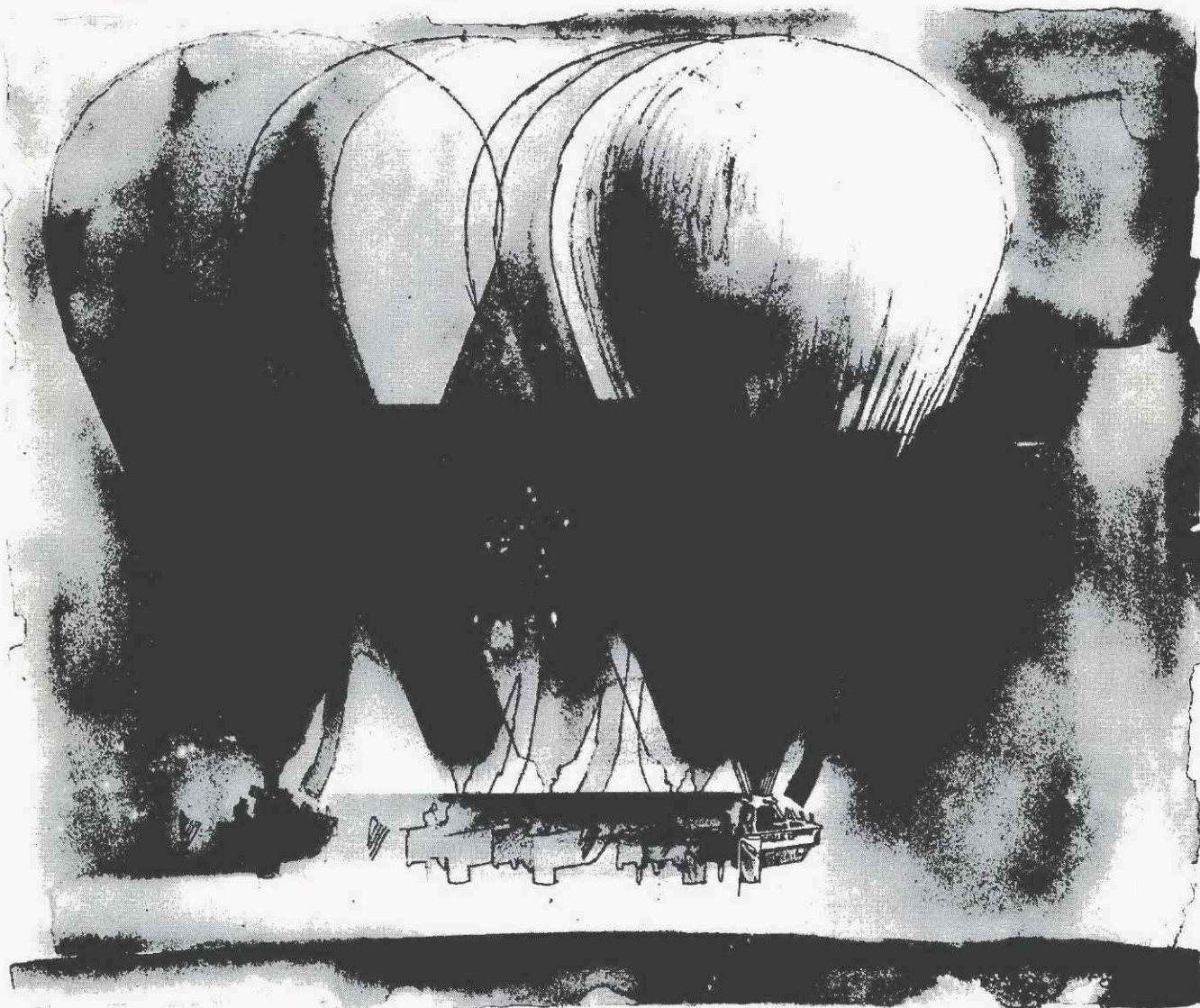
"It was traumatic for the first 90 days, but then things started to go very smoothly, and we found we didn't need to hire another person."

A&A's Mr. Irvin shares these agents' enthusiasm for automation, but cautions that computers are still in their infancy in the insurance industry.

"Now that we have direct-line terminals between brokers and underwriters, that provides some efficiency," he says. "But the industry hasn't developed a system for the information to get to the un-

Continued on facing page

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Continued from facing page
derwriter in one step. We're in an evolving stage. The problem is that no one company has over 3% of the market, and they all have different philosophies on how to automate."

One expense that many businesspeople never think of monitoring is attorneys' fees (see story, page 22H).

Many agents say legal fees are not a major expense, but one admitted to striking a deal with a lawyer who also was a neighbor and friend. The agent agreed to give the lawyer all his legal work in return for a reduced fee.

And, even the jumbo brokers are starting to take a look at legal expenses.



Mr. Schnitzer

"We have a very competent legal staff which manages a whole panoply of outside law firms," says M&M's Mr. Schnitzer. "It's an area in which expenses should be controlled."

"Our internal counsel is competent and frugal, but we make sure legal advisers are involved when they should be."

Another expense area, which some agents and brokers have cut and others have reorganized, is advertising.

"We're eliminating almost all national advertising," reports A&A's Mr. Irvin, "and going with local advertising, and advertising of unique sales situations (such as a new service)."

Likewise, M&M is concentrating on local advertising and institutional advertising, geared to reaching targeted prospective clients, according to Mr. Schnitzer. "We saved compared to what we were spending."

Mr. Payan says he doesn't believe in reducing his advertising, but he has decided to cut novelty items, like imprinted calendars and pens.

"We didn't cut our Yellow Pages advertising, we used radio and local newspapers selectively and we sent out direct-mail pieces," he said.

On the other hand, Edward Akin, owner of Akin, Akin Inc., an agency in Howell, Mich., has cut advertising in both the phone book and local newspapers and switched to direct marketing and target mailings, thereby cutting his advertising budget.

"Small-town advertising and big-city advertising are like night and day," says Mr. Gaffie.

There is no local television station in Port Allen, La., where his agency is located, so Mr. Gaffie ruled out television commercials, reasoning that he would be paying a lot of money to reach Baton Rouge residents who were not in his market.

Most of Mr. Gaffie's advertising budget goes into two advertisements run in the local weekly newspaper. One is a column bearing his name and picture, and the other is placed in a cable television insert.

Mr. Gaffie says he received a special deal by signing a two-year advertising contract with the weekly. He also saved half the cost by arranging a co-op ad with Kemper Group.

The remainder of his advertising budget goes toward ads in a church bulletin and a high school football program, which he says foster good community relations.

All of the agents and brokers interviewed expressed a strong interest in saving money through a strong collections policy. With today's high cost of money, many view their clients' late payments and bad debts as an unacceptable expense.

"My philosophy on collections is

PFC: Customers pay, we finance or we cancel," notes Mr. Payan. "And we've had a very small collections problem."

Other producers practice similar procedures. Mr. Beal's brokerage employs a person to solely monitor collections. Mr. Beal says the agency will cancel the policies of clients whose checks never come in the mail, but how long it will wait for payment sometimes depends on how big the premium is.

"We won't cancel a \$50,000 policy for a \$20 late payment," he notes.

Mr. Gaffie had to contend with townspeople who were used to paying his agency late. He took the business over from some older relatives, whose policy of letting customers take as long as they needed to pay dated back to the Depression.

Mr. Gaffie began charging 1.5% interest after 30 days, which upset his customers, noting he lost two

Continued on next page

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Agents single out a variety of expenses

Continued from previous page accounts.

"We worked hard on the 90-day receivables, they disappeared, and now we're working on the 60-day receivables," he said.

Of course, agents and brokers also have their own pet areas in which they believe expenses can be controlled.

For instance, Mr. Irvin says A&A is sending 15% fewer employees to the annual Risk & Insurance Management Society convention.

Producers at Mr. Payan's agency are keeping company cars longer than formerly, and the firm also has cut back on client entertainment, which took the form of tickets to sporting events.

On the other hand, Mr. Junkin of South Bay Agency does not think

client entertainment is a good area to cut. "It's not a place to save—it's promotion," he says.

However, Mr. Junkin switched from driving a Mercedes Benz, which required a lot of maintenance, to an American-made car that requires less service.

Mr. Junkin also says agents can cut costs through the type of sales strategies they implement.

"One of the main ways an agent can save is by specializing," he notes. "We insure approximately 140 service stations, and that enables me to rate them more efficiently."

Mr. Akin of Akin, Akin Inc. took a look at the dues and subscriptions his agency had accumulated over the years and canceled some of them. He refused to cut funds for

'My philosophy on collections is PFC: Customers pay, we finance or we cancel,' Mr. Payan says.

employee education, however. "I pay 100% for employees' classes," he said. "I feel it's important."

When Mr. Gaffie decided to minimize his agency's expenses, he reviewed all the items on the expense side of the general ledger. "I divided them all up between myself and two highly trusted employees," he explains. "Now all expenses in the agency have to be approved by

one of us.

"So far, there's only been one problem—one of the employees got the area of donations, and I found out we haven't donated money to anyone in six months. I didn't intend for that to happen."

When looking at telephone expenses, Mr. Gaffie was surprised by how much it cost to rent telephones, and will probably buy them in the future. After installing a new telephone system two months ago, the agency has reduced its long-distance expenses by 35% (see story, page 22J).

"The bulk of our long-distance calls are to insurance companies that don't have toll-free numbers," he notes.

Agents and brokers seem to be divided on whether expense cut-

ting is a temporary curse or whether it should be practiced constantly, throughout the ups and downs of insurance cycles.

"I think you could call what we're doing a long-term strategy," says Mr. Akin. "When the market hardens, there's still going to be red ink to be erased from the past few years."

"Expense control must be practiced in all cycles at all times," Mr. Payan notes. "But in good times, there are tax advantages to certain expenses."

Mr. Junkin says he feels today's cost cutting is only a temporary measure. "We're in an inflationary economy," he explains.

Perhaps it's only human to look forward to the day when you can get your Mercedes back. ■

Cutting costs sometimes isn't enough

Sometimes there's only so much a person can do.

"I can't see a place in this office where we can cut any more, unless I start taking a bus to work," one insurance agent grumbled.

Agents and brokers who reduce their costs eventually hit bottom, a point at which there is no more to cut. If their firms are to remain in healthy financial shape, only one alternative remains: to make more money.

"We're placing a heavier emphasis on personal lines every day, because there's a higher profit margin in them," says William Gaffie, vp of Gaffie Insurance Agency Inc. in Port Allen, La.

"We took a stand a year ago that we wouldn't solicit cheap mainstream business insurance policies. We couldn't survive if we wrote them all day long.

"We've taken a hard look at sales of group health, life and accident policies. We used to call a friend and give him the life insurance business, but now we may add another producer to handle it."

One San Jose, Calif., agent realized early on that rates, and thus commissions, were higher for personal lines than for commercial lines. "So we started selling a high volume of higher-profit items three years ago," explains Ronald Junkin, principal of South Bay Area Insurance Agency.

He also is soliciting his customers to buy more than one type of policy.

"We're trying to sell single accounts, such as combined auto and homeowners policies offered by Continental Insurance Co. and St. Paul Fire & Marine Insurance Co. Other companies give discounts when customers buy both auto and homeowners policies from them," Mr. Junkin said.

"One way of cutting expenses is by increasing income," points out Edward Akin, owner of Akin, Akin Inc. in Howell, Mich. "Pay attention to cash flow and invest every penny," he advises.

Agents and brokers should give top priority to earning money, which is the flip side of controlling expenses, says Jack Payan, president of Payan-Stitt Corp., an agency in Palos Heights, Ill., and president of the Independent Insurance Agents of America.

"There should be a real concentration on planning and marketing to increase income," he says. "Today, marketing and selling are the most important things agents can do." ■

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Good management boosts productivity: Consultant

By PAMELA DeFIGLIO

STEVENS POINT, Wis.—Many white-collar workers put in four hours of work for eight hours of pay—everyday.

But, Val Olson and the consulting firm he heads are trying to eliminate this waste of productivity for companies, including an Atlanta managing general agency.

Mr. Olson says his company, Creative Management Alternatives Inc., is able to boost productivity levels by 40% to 50%, enabling employers—like agencies and brokerages—to increase their work capacity and/or use fewer workers.

"When I first heard the axiom (four hours of work for every eight hours of pay, the so-called 4/8 theory), I didn't accept it. After all, I

had been a white-collar office employee and manager, and I didn't waste half my time," Mr. Olson says.

"However, I became personally sold on the theory as I subsequently was given the task of measuring the efficiency of hundreds of office units. The efficiency levels always came out 45% to 55%.

"I began to think, why was low white-collar efficiency so dependable? So predictable? Why 50%?"

"The answers to these questions began to develop in our best, almost clinical installations of efficiency-improvement programs," Mr. Olson explains. "I would find that under ideal circumstances productivity could be improved by 40% to 50%.

"In America, the worker is not the problem," Mr. Olson says.

"Therefore, we do not need to build the solution on the backs of our employees. This solution to our office productivity problem lies in management.

"I preach a systematic return to management basics as the substantial answer to the white-collar productivity problem," says Mr. Olson.

Mr. Olson began working at Sentry Insurance in 1967, and served as vp of sales for both personal lines and property/casualty insurance. In that sales position, Mr. Olson was able to test his theories—which basically center around putting organization and structure into the employees' workday—on a large scale in Sentry's largest insurance subsidiary.

He achieved a 46% increase in policy count, with no increase in

staff, in two years, he says.

In 1980, Sentry named Mr. Olson vp for productivity management and assigned him with implementing a companywide system for improving productivity. The property/casualty, life and claims departments reported productivity increases of up to 41% after Mr. Olson reorganized them.

Then, Sentry set up a separate consulting company, Creative Management Alternatives, with Mr. Olson as president, to help other white-collar businesses improve their productivity.

Creative Management Alternatives is currently helping Southern Insurance Underwriters, a managing general agency in Atlanta, become more productive.

"We've been primarily devel-

oping new workflows and new procedures (for SIU), and we've installed a basic management program," says Bob Worden, a project manager at Creative Management Alternatives. "We're about 60% to 70% of the way through the program and, so far, the employee group can handle 48% more work than at the same time last year."

Productivity problems are caused by management, or the lack thereof, Mr. Worden notes.

"Most white-collar supervisors manage like a baseball coach who walks in while the game is halfway through and asks what the score is. But that's not the way coaches operate. They're there before the game starts, they know the opposing team, the strengths and weaknesses of the players, the moves they tend to make and so on."

Creative Management Alternatives tries to make company managers more like well-prepared baseball coaches, he says.

Many managers believe that increasing productivity means making employees work harder and faster, Mr. Olson notes. Others feel that bad attitudes and the decline of the work ethic contribute to low productivity.

But, Mr. Olson contends, none of these theories is correct.

For instance, he says he has found that typists in a typing pool were able to increase their efficiency by 40%, even though they were typing at the same speed.

The increase in efficiency was due to the supervision of the department, not the fact that the employees were working faster.

"In most white-collar units across the United States, management and supervision are not occurring. They can get away with it because Joe, who has been sitting at his desk for five years, has never had an empty 'in' basket. So no attempt has ever been made to organize his day for him.

"Management today is backlogged; therefore, there is no management."

Mr. Olson explains that employees are usually promoted to supervisory positions because they are good at doing the work they do—not because they have the ability to delegate authority and supervise others. Because of this, they usually let work accumulate until it reaches a crisis point, then pitch in and help.

Middle- and top management owes the supervisors a workable system in which they help their department complete its work in the most effective way possible (see related story, page 22F).

"Good, close supervision can handle up to 10 employees," says Mr. Olson. "When a supervisor supervises—i.e., plans the workday and executes the plan—quality, service and productivity go up."

"What they (Creative Management Alternatives) have done is to give individuals assignments—from the management level down to supervisors down to the clerical level," says Wes Duesenberg Jr., executive vp of SIU. "The (largest) productivity increase occurs at the clerical end.

"They're helping us to interpret how long it takes to perform a function, then we take the functions, group them into assignments and assign them at least twice a day. It helps employees know how to use their time. They know that between 8:30 a.m. and 11

Continued on next page



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Good management can increase productivity

Continued from previous page
a.m., they must finish a certain amount of work.

"It's like when I was a kid, working in our family's yard. I'd ask my dad what exactly I had to do so I could plan it, get it done and play ball afterward, instead of dragging out the chores all day long.

"You fit the job around the people, rather than the people around the job."

Mr. Duesenberg says he expected some employee resistance to the productivity program when it was started last spring, but he notes that employees have accepted the program quite well. Mr. Worden termed the employee reaction "positive."

"Employees respect management more when it knows what it's doing. Plus, employees get the availability of supervision, involvement with day-to-day affairs, work direction and a feeling of accomplishment. All these

things lead to a happier, more knowledgeable employee group."

Once productivity is increased, managers will find that unless the volume of work is increased, there will be excess labor capacity. Mr. Olson advocates allowing attrition to thin out employee ranks, rather than firing or laying off employees.

Natural attrition doesn't upset employee morale, he explains, and should pare the employee group to the optimum size within three to nine months.

Both Mr. Olson and Mr. Worden noted that a larger office is more efficient than a small office, and that their company's methods work best for an office with 30 or more employees.

The program works better with a larger office since the workflow varies from day to day and department to department, and employees can be transferred to different departments to match the workflow.

"I am a great believer in the productivity improvement attributes of quality-of-work-life programs," Mr. Olson notes. "An employee or a group of employees can be personally motivated to enhance efficiency."

In order to make an insurance agency or brokerage more productive, Mr. Olson comments, agents should have a good idea of what it costs to sell given types of policies. "You know what it costs to run the agency and how many policies you sell each month," he says. "Often, agents don't compute these expenses as unit costs to produce policy sales."

Agents and brokers should compare the commission they earn on each type of policy with the unit cost, Mr. Olson says. If the unit cost to sell an auto policy is \$7, the unit cost for a homeowners policy is \$9 and the commission on both is equal, agents should sell more auto policies or become more efficient at selling homeowners policies.

How to teach management to supervisors

In his book, "White Collar Waste: Gain the Productivity Edge," Val Olson describes a scenario in which a company manager relates the basics of more productive management to a department supervisor.

Here's a paraphrased version of that scenario:

One afternoon, the manager asks the supervisor how he would plan the next day's workday for his employees.

She first asks what the supervisor needs to know in order to plan the day, such as where the work is and how much there is.

The supervisor explains that the work is scattered on the various desks of his workers. The manager gathers the work off the desks and heaps it on top of the supervisor's desk.

"What next?" the manager asks.

The supervisor responds that he first has to sort through all the papers. After they both sort the papers into piles, the manager then asks how long it will take to complete all the tasks.

"All day, and maybe more," the supervisor guesses.

The manager explains to the supervisor that he can accurately estimate how long the total amount of work will take by determining the time it takes to do each task, and then multiplying that by the number of tasks that must be completed.

"But," the supervisor interjects, "some people work faster than others, and workers must have the time to think and take breaks."

"That's true," the manager agrees, and that's why it's unreasonable to expect 100% efficiency. She suggests that the supervisor at first plan for 60% efficiency, while determining what the department is really capable of.

"But, how can I plan a workday when I don't know how many employees will call in sick and how much work will come in the mail?"

"Good point," the manager replies; you can't finish planning until morning, especially since most of the work that comes to the supervisor's department is processed in another department. Thus, there should be early-morning planning meetings for the supervisors of all departments to share information about the progress of the company's workload and possibly trade employees to whomever has the heaviest workload.

Also, the manager tells the supervisor that he must control the workflow in the department by handing the work out to the employees at least twice a day.

"When you hand out the last piece of work of the day, put a green tag on it. This tells the employee that when he completes it, he can go home with full pay, even if it's early."

"So, if I don't plan the day correctly, I could have hours of backlog with everyone going home at 3 p.m.?" the supervisor asks.

"Right," the manager responds.

The supervisor has another question. "Who will solve special problems that come up?"

The manager explains that the supervisor must train workers to handle these problems themselves. "But if tough problems come up, you'll have the time to help employees, because now you'll be supervising the work, not doing it."

"I now know what I've got, where it goes and how it gets there... I control the work—it won't control me any more," the supervisor concludes. ■

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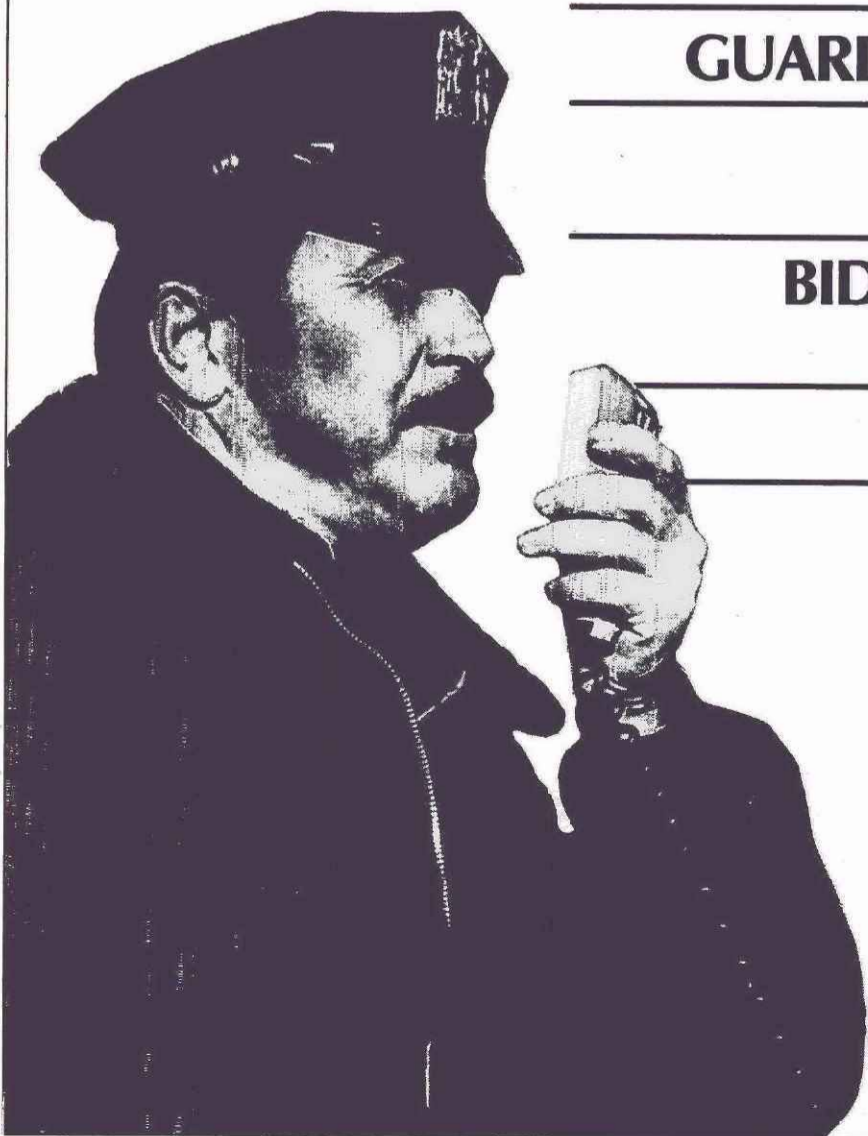
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agent/broker topics

Continued from facing page fully weigh the profit-making potential of business proposals against their legal risks, she adds. On the other hand, a lawyer who is unfamiliar with the business may be overcautious and veto all risky proposals, even if their potential to produce profit might be worth the risk.

One effective way to reduce legal costs is to pay lawyers only for work that requires their expertise, and delegate everything else to paralegals or support staff. Many administrative tasks often performed by lawyers can be taken over by assistants, provided they are given the proper resources for

information and trained effectively.

Repeated tasks, such as drawing up contracts, may be performed by assistants if a lawyer prepares the original document, supervises the finished product and monitors the procedures to ensure they cover changes in the law or in the brokerage's situation.

Robert I. Weil, a member of the management consulting firm of Altman & Weil, says there are alternatives to the hourly fee system most defense lawyers use.

One alternative is a negotiated fee, similar to that of plaintiff lawyers who receive a fee of one-third of the settlement. This gives the

defense attorney incentive to settle and also to keep the case simple, Mr. Weil points out in an article in the June 1983 edition of "For the Defense" magazine.

Another option is for an agency or brokerage to place all its work up for bids from competent law firms, then award the work to the lowest bidder. Still another alternative is arbitration, which would reduce the amount and/or time of litigation.

Mr. Tarangelo advises looking to smaller, competent law firms where defense can be more cost-effective because the insurance agency or brokerage account comprises a greater percentage of the

attorney's income.

"Because of the volume of work that (the agency or brokerage) can give the law firm, rates should be tailor-made for it," Mr. Tarangelo says.

"The law firm should be aware of the (agent's) objective of cost containment; what the (agency or brokerage) regards as superfluous activity must be eliminated, unnecessary communications and extra legal activities should not be conducted and charges for photocopying and incidental services should be established."

No matter what the size of the law firm, Ms. Chayes says an agency or a brokerage can take

several steps to control their legal costs.

Someone in the agency or brokerage, whether a general counsel or a non-legal executive, should set procedures for supervising outside counsel, as well as an accurate internal cost and time accounting system to keep track of the work done by inside lawyers.

"One of the most important things in saving legal costs is choice of counsel," Ms. Chayes says. "Where there's repetitive legal work in the same area, such as contracts or financings, you get a feel for what a certain project costs."

Agents and brokers can retain some control in the choice of counsel even when they are not directly involved in the legal proceedings. One attorney, who did not wish to be identified, said that when an agent's or broker's policyholder sues an insurer, the insurer can hire an expensive, top-of-the-line law firm. The lawyer recommended that the agents and brokers should try to arrange in advance to have some degree of control over the law firm that the insurer would choose in such a situation.

Other tips from Ms. Chayes include:

Define the scope of work of an outside law firm. "Make the scope of retention of an outside law firm as narrow as possible," she says, "so they know exactly what their job is." Otherwise, lawyers may spend a lot of expensive time investigating matters that aren't pertinent to the agency's or brokerage's needs.

Get estimates from the member of a law firm's staff who will work on your company's affairs.

"This can be done simply or elaborately," she explained. "Suppose an agency was trying to review forms or individualized contracts. They would have to define the scope of work, ask for estimates and then ask the law firm how long it will take and who'll do the work.

In litigation, this is done more elaborately, with charts, budgets or computers.

"You want to know who's doing the job, and whether they're efficient. How much supervision will they get?"

She noted that an associate could bill for 40 hours of research, while a senior partner could supervise or do the work in less time. Supervision usually works best, because, "you don't want the senior partners to reinvent the wheel, either."

Insist on a breakdown of legal bills. Clients should not accept bills for thousands of dollars that merely say "for general professional services." Because most lawyers keep track of their time in fractions of an hour, clients may request information such as who worked on a project, for how long and at what hourly rate.

Furthermore, the client should not hesitate to question a bill that seems unreasonable," Ms. Chayes states.

Provided managers act with tact and courtesy, there is no reason why law firms should resist sound management practices. Managers should never forget who pays the bills."

Litigation costs usually present a problem, Ms. Chayes notes, because "the usual attitude has been 'spare no expense—just win the case.'" She suggests exploring alternatives to the courtroom to hold expenses down.

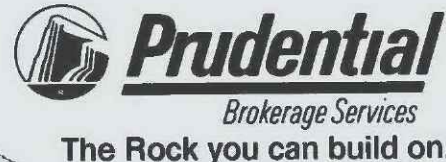
One such alternative is the minitrial. This is a shortened, concentrated trial in which both sides present their arguments to a referee, such as a retired judge.

"The minitrial is not for all cases. It works best when both parties wish to end the dispute, have severe disagreement about an appropriate resolution and foresee substantial litigation costs," Ms. Chayes says.

—By Pamela DeFiglio

New Meaning To Life.

Table listing office locations for Prudential Brokerage Services across various cities including Alexandria, VA; Baltimore, MD; Houston, TX; Oak Brook, IL; Richmond, VA; Arlington Heights, IL; Boston, MA; Indianapolis, IN; Ocean County, NJ; San Francisco, CA; Atlanta, GA; Chicago, IL; Jacksonville, FL; Orange County, CA; San Jose, CA; Cincinnati, OH; Long Island, NY; Philadelphia, PA; Seattle, WA; Detroit, MI; Los Angeles, CA; Phoenix, AZ; Syracuse, NY; Newark, NJ; Princeton, NJ; Washington, DC; New York, NY; Raleigh, NC; Westchester Cty., NY.



Financial table with columns: Low, Last, Chg., High. Lists various financial instruments and their values.

Large financial table with multiple columns listing various securities, mutual funds, and their corresponding values and changes.

Money Market Mutual Funds

Table listing Money Market Mutual Funds with columns for fund name, value, and change.

American Exchange

Table listing American Exchange securities with columns for symbol, value, and change.

Long-distance systems can trim phone bills

Telephone deregulation has brought about a host of long-distance services that can save agents and brokers money.

One such discount long-distance service is Sprint, which offers two programs—Home Sprint and Business Sprint—which are now used by 700,000 businesses and individuals nationwide.

Business Sprint allows subscribers to use its lines 24 hours a day, every day, for a \$10 monthly charge. There are no installation or setup fees, however.

According to a Sprint spokesman, the system can be a money-saver for an agency or brokerage that spends \$25 per month or more on long-distance calls.

A service called Sprint Universal, which allows users to call any-

where in the United States, Puerto Rico and the U.S. Virgin Islands, is available to all Business Sprint customers.

A push-button phone is required to use the Sprint system, as with most other long-distance services, so that a computer can interpret the tones and translate them into numbers, both for routing the calls and for billing. If your company is not currently equipped with push-button phones, Sprint sells adaptors for rotary telephones for about \$20 to \$25 each.

To complete a long-distance call, Sprint subscribers must dial a seven-digit access number, an authorization code, the area code and the number.

Sprint also boasts a travel feature, which allows users to make

	MCI Execunet	Sprint	Skyline	Allnet	ITT/ USTS	Bell ²
Detroit to Cleveland	\$.96	\$.99	\$.75	\$.95	\$.96	\$1.31
Los Angeles to Miami	1.29	1.30	1.17	1.26	1.30	1.72
Seattle to Denver	*	1.15	1.17	1.11	*	1.52

* Service not available from Seattle.
¹ All charges based on rates for three-minute calls from 8 a.m. to 5 p.m. weekdays.
² Direct dialed.

long-distance calls on the Sprint system from push-button phones all over the country. To use this feature, users must dial an extra two digits after their authorization codes.

Calls are billed according to duration, the distance the call must travel and time of day. There are

day, evening and night rates. Itemized billing is available.

For more information about Sprint, call 800-521-4949. If a company decides to implement the Sprint system, the operator can take the necessary information, and a Sprint authorization code should arrive by mail within 10 to

14 days.

A caller can begin using Sprint as soon as the authorization code is received.

Sprint was acquired by GTE Corp. in June from Southern Pacific Co.

ITT Longer Distance is a second discount telephone service alternative. Its business service plan allows subscribers to phone 24 hours a day, every day. There is no initial fee, but there is a \$10 per month service charge.

The service saves customers up to 50% of what American Telephone & Telegraph charges for long-distance calls, an ITT spokesman says.

Businesspeople who make many credit-card calls, such as insurance producers on the road, can save even more, he said. Bell charges \$1.05 for every call charged to a credit card, while ITT does not assess an extra charge for calls made away from a home city, so ITT Longer Distance subscribers can save up to 80% over Bell rates on such calls, the spokesman said.

The ITT Longer Distance system is a dial-up system in which users must dial an access code, wait for a dial tone, then dial the area code, telephone number and authorization code.

Business customers in 49 major metropolitan areas can dial anywhere in the continental United States. Other business customers in 113 metropolitan areas can call only to another city in the 113-city network.

If they try to call a city not on the network, they will get a recording saying that their call cannot be put through.

Rates are based on mileage bands, or the mileage from caller to callee. Bills are automatically itemized, and calls are billed in one-minute increments.

For more information about ITT Longer Distance, call 800-221-7267. Customers must wait approximately two weeks from the time they sign up for the service to the time their authorization codes arrive in the mail. No charges are billed until the first statement arrives.

A third long-distance alternative, Skyline, is a product of Satellite Business Systems, which is a partnership of Aetna Life & Casualty Co., International Business Machines Corp. and Communications Satellite Corp.

Skyline boasts its own intercity network of lines, has three communications satellites in orbit, two more approved for launch, and more than 100 earth stations.

The company's literature says that its ownership of the lines enables it to keep them exceptionally quiet and static-free. Other discount long-distance services rent or lease telephone lines, while some merely buy time on other companies' lines.

Again, the company claims that its rates are "substantially below what the Bell system charges, and lower than MCI and Sprint on most paths and durations."

There is a one-time fee of \$16 to initiate Skyline service. There is no monthly user fee; however, there is a minimum charge of \$15 per

Continued on facing page



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Continued from facing page month, even if no calls are made that month.

The \$15 monthly charge entitles subscribers to one authorization code, but additional authorization codes are available for a one-time charge of \$4, and a monthly minimum of \$15 each. An agency or brokerage might want additional authorization codes to track calls by one department or producer for accounting purposes.

Skyline subscribers who pay their bills promptly receive a 2% credit on their next monthly bill. The service bills its customers in six-second increments, which means that a three-minute, 10-second call would be charged at three minutes and 12 seconds, whereas Bell and some other services would charge for four minutes. Itemized bills are available.

Calls to neighboring (bordering) states are charged at 25 cents per minute during the day and 13 cents per minute in the evening (after 5 p.m.). Calls to all other states cost 39 cents per minute during the day and 18 cents per minute in the evening.

Clients are not charged for the local call that must be made to access the long-distance service. The Skyline spokesman pointed out that, with many other services, the caller is charged for this.

The Skyline service is available in 20 metropolitan areas, and callers in those areas can dial anywhere in the continental United States (except Alaska), Puerto Rico and the U.S. Virgin Islands. By next year, service will be available from 150 cities.

Telephone deregulation has brought about a host of long-distance services that can save agents money.

A travel feature for businesspeople on the road will be started in the fall.

For more information about Skyline, call 800-368-6900. The usual time required to initiate service is 24 hours.

Combined Network Inc. offers two long-distance discount services: Allnet, for moderate long-distance users, and Allnet Dedicated, for extremely heavy users of long-distance lines. The latter is recommended for offices that make more than \$1,000 worth of long-distance calls per month.

Allnet is a dial-up system and allows callers access to an unlimited number of lines. Allnet Dedicated is a network system, which allows users access to their own in-house long-distance telephone line(s).

For an agency or brokerage with moderate long-distance usage, the Allnet service would allow two or more employees to make long-distance calls simultaneously. If the office had one Allnet Dedicated service line installed, however, other employees would have to wait their turn to use the single line.

There is a one-time setup fee of \$45 for Allnet and a monthly minimum usage requirement of \$50. There is no monthly charge, however. Charges for Allnet Dedicated should be discussed with an Allnet representative.

If an agency or brokerage desired additional authorization codes for tracking and billing purposes, up to 99 are available for an additional fee.

Allnet advertises "the lowest average rates in the nation." Its billing is computed by the distance called and the duration of the call. In determining the charge, the service rounds out the duration of the

call up to the next six-second increment.

Itemized bills showing the place of origin of the call, date, time, number of minutes (to the tenth of a minute), rate and number, city and state called are available.

Service is currently offered from 37 metropolitan areas, and subscribers may call anywhere in the United States, Hawaii, Puerto Rico and the U.S. Virgin Islands.

Allnet buys large amounts of long-distance service at wholesale rates and resells the service to its subscribers. Because of the high volume of time purchased, an Allnet spokesman said, Allnet can demand that the line owners maintain the quality of the lines.

A travel feature on Allnet service works in conjunction with an 800 number, so employees can make long-distance calls from any telephone capable of putting through an 800-number call.

Continued on next page



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Long-distance systems can cut agents' phone bills

Continued from previous page

To find out more about Allnet, call 800-621-1057 or a local Combined Network sales office. Sales offices are located in 37 cities.

MCI, the original long-distance discounter, offers three basic services, all of which are designed to save callers 10% to 25% over AT&T rates.

The first service is Execunet, a dial-up service for offices spending \$25 to \$250 per month in long-distance charges. Callers must dial a seven-digit access number, then a five-digit authorization code before dialing the number. There is a monthly fee of \$10 per month for Execunet service.

Advantage, the second service, is designed for offices spending from \$250 to \$1,200 per month on long-distance charges. Equipment for the system is installed in the client company's phone room. MCI charges \$24 per month per unit (a unit carries 4 lines) for Ad-

vantage service.

The third service, MCI WATS, was designed to be much like the Bell System WATS service. Mike Rogala, a Chicago sales manager for MCI, said MCI WATS is cost-effective for offices that spend \$1,200 per month or more on long-distance charges. No additional equipment is necessary, and customers who have Bell WATS can switch to MCI WATS, he said.

MCI charges \$100 per line per month for its WATS lines, while Bell charges \$31.65 per line per month. With both systems, the more time spent calling long distance, the lower the cost-per-minute. Charges for the service are not based on distance, like most other services, but on the number of minutes used.

The MCI WATS tariff is discounted 25%, but because its monthly charge is higher than Bell's, the savings over Bell WATS rates figure out to 10% to 17%, Mr. Rogala said.

Itemized bills are available for all the ser-

vices, and an accounting code feature allows the accounting department to track calls to departments or individuals within the firm.

MCI users may make long-distance calls from outside the office by using an 800 number and an MCI credit card. There is a rental fee of \$5 per month for the credit card.

Customers almost anywhere in the United States may access MCI service, and they may call anywhere in the United States (except Alaska). Puerto Rico and to four metropolitan areas in Canada—Montreal, Toronto, Ottawa and Calgary.

When a customer buys MCI service, it takes two to five days to initiate Execunet service, approximately two weeks to initiate Advantage service and approximately 45 days to initiate MCI WATS service.

For more information, call the nearest MCI sales office; they are located in most cities nationwide.

M&M strays from regional management

NEW YORK—Marsh & McLennan Inc., the world's largest insurance brokerage, is experimenting with a brave new concept in management.

M&M has been re-evaluating the services it provides for its clients and rethinking the ways it provides them, its president says.

"When you go through that process, it provides a cleansing of your thinking," says Bruce Schnitzer. "You have to rethink your business."

M&M management has been asked questions like "What are we doing and how can we do it better?" "What do people expect from M&M?" "Why do we have an office in that city... in that specialty area?"

"Why are we spending money on advertising this way?" "What's the best way to get our message across?" "Is the management structure organized in a way that serves the company well?"

The result of this corporate soul-searching is that "you end up closing offices that don't suit clients, eliminating departments that are no longer appropriate and eliminating management services. You spend money in new ways," according to Mr. Schnitzer.

The brokerage had been operating on a regional basis, but is now in the process of changing to a specialty-related system.

In the regional system, the local office in a town would report to the regional office in a major city in that part of the country, which in turn would report to M&M's New York headquarters.

A regional system is the traditional brokerage management model, but one not without problems in an industry that depends on specialists in various fields.

"You remember why you used to do it that way, but there's no longer a reason for it, so why not change it to fit the way things are now?" Mr. Schnitzer wonders.

M&M changed its structure to fit the "way things are now," and organized its employees according to their specialty fields. For example, M&M's former Southwest regional director, John Elder, who is based in Houston, is now responsible for all clients worldwide in the energy field. And all M&M energy specialists, be they in Delaware, Denver or the Dakotas, report to him, instead of the manager of the offices they work in.

Mr. Schnitzer explains that this changes the way Mr. Elder spends his day, and makes his work more fun and challenging for him. As a "senior managing director," he has a worldwide mandate. Customers in the energy field, who tend to have common problems, also get the benefit of the senior managing director's expertise.

M&M now has about 10 to 11 fields in which such structures have taken shape. They include health care; aviation; pharmaceuticals and chemicals; forest products; heavy manufacturing; utilities; and financial institutions.

"The point is that the management of the business enterprise no longer needed regional headquarters because of modern communications," Mr. Schnitzer says.

The brokerage also felt the need to beef up its specialty areas, and it accomplished this by putting senior personnel into these areas, freeing them from their regional administrative responsibilities.

The new structure has reduced costs for the brokerage somewhat, but expense growth has been about equal to revenue growth, Mr. Schnitzer says.

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a/b products & services**SAFECO Insurance unveils E&O coverage for agents**

An errors and omissions policy for agents and brokers has been introduced by SAFECO Insurance Cos. in Seattle.

The policy, called SAFEPRO, protects agents and brokers against professional liabilities like libel, slander, false arrest and invasion of privacy. The policy covers punitive damages where law permits.

Included in the coverage are the activities of insurance brokers, general agents, excess/surplus lines brokers, employee benefits counselors, estate planners, insurance consultants, notaries, claims adjusters and premium financiers. And, the coverage automatically extends to partners, officers, employees, stockholders, heirs, retired officers and predecessor firms.

The policy has an aggregate deductible to protect against multiple claims and pays to defend an agency against lawsuits even if they are false or fraudulent.

SAFEPRO also can be broadened to include mutual fund and real estate sales.

There are limited exclusions such as dishonesty of principals, partners or officers; bodily injury or property damage available under standard general liability coverage; claims for funds held on behalf of others; and claims from firms that are owned, operated or controlled by the insured (unless added by endorsement).

For further information, call James D. Wallace at SAFECO at 1-800-243-6836. Kansas residents should call 913-341-8173.

Marketing planning

Individualized marketing planning for agents is now offered by Creative Insurance Marketing Co. of Red Bank, N.J., through its "CIM Success Plan."

The consulting firm analyzes the agency's geographic market, principals, the quality of its sales and service personnel, data processing capabilities and client base. Once goals have been determined for the agency, the consulting firm designs a step-by-step marketing plan.

The plan includes:

- An analysis of agency strengths and weaknesses.
- An analysis of past and present marketing efforts.
- A demographic analysis of the geographic or target market the agency is trying to reach.
- An analysis of media available for communicating to the market.
- An overall marketing budget.
- A system for tracking results.

For more information, contact CIM President Kimberly Paterson at 201-747-6898.

Fire mark poster

A full-color poster displaying 32 fire mark designs, the antique symbols of various insurers, is available from the National Assn. of Professional Insurance Agents and the Smithsonian Institution.

Fire marks originated in 17th-century London after a tremendous fire destroyed much of the city. Insurers established their own fire brigades, and hung their marks on buildings they insured. They were usually made of lead.

The poster, which measures 24 inches by 32 inches, is available for \$7 plus postage from the PIA Marketing Department, 400 N. Washington St., Alexandria, Va. 22314.

Agents' manual

The Merritt Co. has released a

new "Agents Study Manual" for Mississippi property/casualty agents studying for the state licensing examination.

The Mississippi Insurance Department has adopted the volume, which is designed in a programmed instruction format, as its official agents' licensing manual.

A sample examination with answers is included in the "Agents Study Manual."

Copies can be obtained for \$25, plus \$1 per book for shipping, from the Independent Agents of Mississippi, 945 State St., Jackson, Miss. 39205; 601-354-4595.

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WE'RE LOOKING FOR BETTER WAYS TO HELP YOU SELL.

Changes will make agency system more efficient

By H.M. DICKERSON

ONE OF THE favorite subjects for discussion these days is the health and fate of the independent agent/broker system. Observers note this system controlled about 90% of the property/liability market 30 years ago, but today it is down to only about 63% of the market.

The die is cast, they say. The independent agency system is inferior, the slide is irreversible and the system will continue to lose market share until it is no longer competitive.

So they say.

Like most rhetoric, there are probably both facts and myths in those statements. So let's explore some of them. Specifically, let's

look at the expense differentials, the comparative strengths and weaknesses and where the distribution system for insurance is headed.

Let's start by acknowledging that direct writers have an expense advantage. One can see just how much of a disadvantage there is for stock agency companies (see chart, page 220). This is the picture you get from information in annual statements.

Half of the gap you see between the line for stock agency companies and the line for direct writers is the difference in selling costs. The other half of the gap is the difference in internal costs.

You might say that agents are half the problem and the agency

companies are the other half.

The graph reveals only part of the picture, however. There are valid reasons, other than inertia and bad business practices, that help account for the gap.

The direct writers achieve their advantage primarily in the commodity end of the market—the personal lines—and, to some extent, the lower end in commercial lines. These markets are populated by price-sensitive buyers of pre-packaged products who require comparatively little in the way of service.

There's no question that direct writers have been able to dominate this downscale market because of their lower costs and resulting lower rates. However, the upscale personal lines market and the me-

dium-to-large commercial market are still largely controlled by independent agents and brokers. We believe the agency system will continue to dominate these segments.

Why? Because these markets require much more service, which the agency system is still in the best position to deliver. These markets require one-on-one counseling; a higher level of knowledge about exposures and coverages; expert risk analysis and custom-tailoring of protection; and loss-control and risk management services.

In short, they require all sorts of services that most direct writers cannot provide at their current expense levels.

In the upscale, more sophisticated range of the property/cas-

ualty market, one cannot simply assume the direct writers would be able to keep their expenses as low as they are now.

Now, all this does not imply that the agency companies are complacent about our competitive expense position. There is a need to get our costs in line because we do have an expense gap.

There are three major areas in which agency companies can and are making improvements:

- We can help the agent reduce expenses, including selling costs.

- We can reduce our own internal costs.

- We can significantly reduce the duplication that now exists between the agent and the company.

This is the route we and other leading companies are taking to reduce the overall structure.

As a result, our distribution mechanism will become more efficient and profitable in the markets where direct writers are not a factor. We also will be more competitive in markets where direct writers have achieved a dominant position.

To do this, we will have to re-vamp how we handle and process our business, both in the agent's office and in our own.

But first we have to recognize why such a gap between agency companies and direct writers developed in the first place.

Independent agents historically have been fiercely proud of their independence. Policyholders are their customers. They have guarded the service functions they perform as the way to maintain their independence from the companies they represent.

By the same token, agency companies also have maintained independence from their agents in the way they process their business.

Typical independent agency functions include finding prospects and new clients, accounting, new and renewal policies, policy maintenance and service, agency management, premium accounting and claims.

In the prospects and new client business category, an agency keeps a prospect record, solicitation responses, applications, rating information, binders and makes phone and mail inquiries.

Most of these are servicing and processing activities, rather than selling. These functions are still performed manually in most agencies. Therefore, the independent agents have more overhead and require a higher sales commission than their direct-writer counterparts.

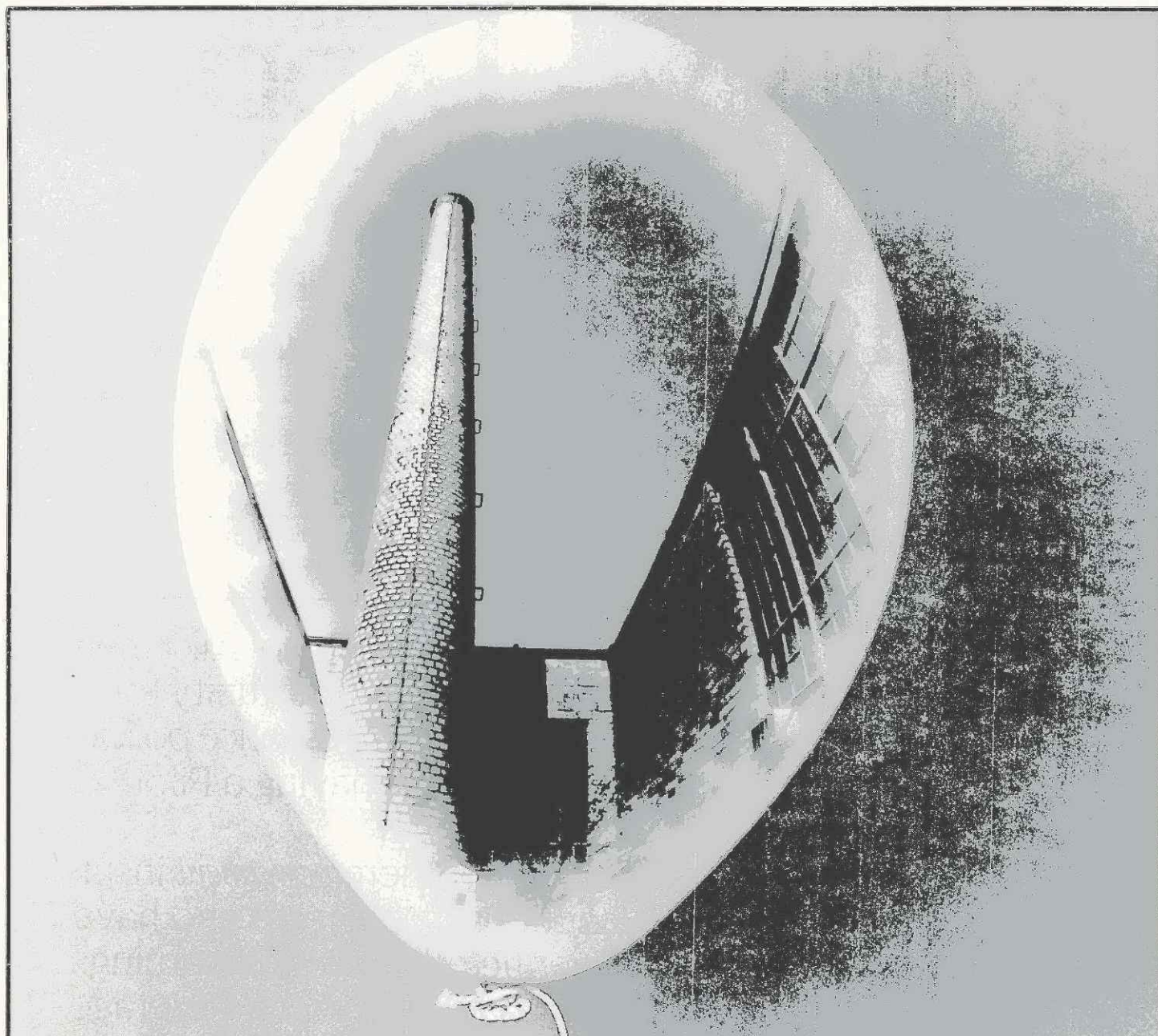
But, the expense problem does not stop there. After the agent performs all these functions, copies are sent to the insurers. The companies then duplicate most of these activities in order to process and maintain their records.

For instance, under the same category—prospects and new client business—companies duplicate the tasks of keeping phone and mail inquiries, applications, rating information and binders.

Although these processes are automated in the company, the information often has to be fed manually into the system because of the way it is received from agents. This inhibits the companies' ability to streamline their own internal processes and optimize their technology.

The direct writers, on the other hand, with their single-company-controlled sales force, do not have these problems. So they enjoy a significant internal expense advantage, which becomes a pricing ad-

Continued on facing page



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Comparative expense performance

Rolling 12-month average



Continued from facing page vantage.

Fortunately, this is all starting to change. The continuing cost-price squeeze, coupled with technology-driven changes, are convincing agents to shift from total independence to greater interdependence with selected companies.

Interdependence means both insurer and agent have to change to a greater level of mutual commitment and support on important joint-interest issues.

Some people say technology will be the savior of the independent agency system. Yet, streamlining operations—with technology—is what we really need. We must solve these problems on the company end, while assisting the agents in becoming more efficient, better-managed businesses. They need help with their planning, technology and training.

Progressive insurers are taking a leading role in bringing this about. For example, at Fireman's Fund Insurance Cos. we have a business development project under way that is the most comprehensive analysis of our business we have ever done.

This project is a major plan to completely recognize and streamline the entire processing environment, internally and at the point of sale—the agent's office. We are committed to reducing our internal costs by at least five percentage points over the next five years, while we improve service quality.

We also have programs committed to furnishing agents with the right kind of automated systems, business planning and management and training of their sales personnel.

We are working toward a system where every procedure will be streamlined, functions will be located where they can be performed most effectively and most efficiently and they will be performed only once to serve the needs of both producer and company.

Data will be exchanged on an integrated basis so that each receives the full benefit of the steps and functions performed by the other.

No doubt other agency companies are now moving along a similar path, some more quickly than others. This evolution is a good thing. When it's over, the system will be healthier and the players stronger.

All in all, we think there is a good future for the agency system. It will be a different system from what it is today, but it will continue to be a very effective and efficient distribution system for selected markets.

It will not be all things to all people. We think some people feel that just because the agency system has lost some marketplace segments it no longer can be counted on as an important distribution system. We

disagree.

With the strategies and improvements being put into place now, the agency company system will continue to be the best answer for some of the fastest-growing and most profitable segments in our business. ■

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H.M. Dickerson is executive vp of Fireman's Fund Insurance Cos. This article is excerpted from a speech given to the Assn. of Insurance & Financial Analysts in New York earlier this year.

IIAA reorganizes staff into four divisions

NEW YORK—The staff of the Independent Insurance Agents of America has been reorganized into four divisions.

This new structure, which reduces the number of divisions from five, was established to increase efficiency, says IIAA Executive Vp and General Counsel Jeffrey M. Yates.

Under the reorganization, the association's education division was eliminated. Its functions were assumed by a new agency services division, which will provide member agents with education, research, technical insurance programs, automation and other business services, except those specifically related to the association's advertising and communications programs.

The association's other three di-

agent/broker briefs

visions—financial affairs, government affairs and communications—will continue unchanged.

The financial affairs division is responsible for the association's financial functions and computer operations.

The government affairs division oversees the IIAA's legislative and regulatory representation, as well as operation of the association's Washington headquarters and external legal activities.

The communications division is responsible for the IIAA's advertising, public relations and communications programs, as well as Independent Agent magazine, other

publications and audiovisual services.

Requirements hiked

DES PLAINES, Ill.—Life Insurance agents hoping to qualify for the the 1985 Million Dollar Round Table will have to produce \$2.31 million in new business during 1984, the association reports. A minimum of 15 lives or cases is also required.

The new volume requirement compares with the current quota of \$2.25 million. The group says the new quota is based on the increase in the Consumer Price Index.

Also, the allowable disability credit for 1985 will be 15% of the newly established volume requirement, or \$346,500. The disability credits apply only to non-cancellable guaranteed and guaranteed renewable contracts.

Agents who hope to qualify for the Top of the Table must generate \$12.75 million in new volume.

Agents interested in the Million Dollar Round Table should write MDRT Headquarters, 2340 River Road, Des Plaines, Ill. 60018.

Agency rehabilitation

NEW YORK—Continental Corp.'s controversial "agency rehabilitation" program has affected 2,100 agencies nationwide, according to Chairman John Mascotte.

Mr. Mascotte said the agencies affected by the program, which were singled out because of high loss ratios, represent \$390 million, or 12%, of Continental's property/casualty volume.

By mid-August, 40% of the agencies had agreed to go through a stringent rehabilitation program, while the other agencies have either resigned or been terminated, he said.

"The redeployment of resources will enable us to strengthen our relationship with our remaining 5,000 to 5,500 producers," Mr. Mascotte commented.

Agents' groups join

SPRINGFIELD, Ill.—The Chicago Board of Underwriters and the Independent Insurance Agents of Illinois have consolidated their services.

The two organizations said they merged most operations, effective Sept. 1, to eliminate duplicated services, increase efficiency and provide additional help to member agents and brokers.

The IIAI will now offer both organizations' members educational programs and publications throughout the state.

The Chicago Board of Underwriters now functions primarily as a local board, holding monthly meetings for member agents, brokers and affiliates. It will also hold its annual "I" Day in cooperation with the IIAI.

The IIAI will maintain two offices: one at 101 N. Wacker Drive, Suite 230, Chicago, Ill. 60606, and the other at 300 Illinois Realtors Plaza, Springfield, Ill. 62703.

The Chicago Board of Underwriters is located in the IIAI's Chicago office.

Are women better?

NEW YORK—Women producers with three to five years of life insurance sales experience out-sell their male counterparts, says a study by the Life Insurance Marketing & Research Assn.

Women produce a median of \$22,500 of new annualized life insurance business produced, the association noted.

Among producers with more than one but fewer than three years of experience, women also outsold men, it said.

Trademark noted

NEW YORK—Some 66% of the American public recognizes the Independent Insurance Agents of America's logo, according to a new research project commissioned by the association.

Thirty-six percent said they recognized the logo even when the lettering on it was unreadable.

The study says the IIAA's Joint Agency/Company Marketing advertising program, which features actor Raymond Burr, has increased awareness of the group's trademark. For instance, only 54% of the public polled 10 years ago were able to identify the logo, and only 13% were able to recognize it when the lettering was obscured.

Automation interest

HARTFORD, Conn.—Nearly 1,700 agents have signed up for one of Travelers Corp.'s agency automation programs at seminars recently held throughout the country, the insurer says.

Travelers says it registered nearly 100% more agents for the programs than it expected. The insurer attributes the enthusiasm to the fact that agents are increasingly viewing automation as important. ■

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Canadian risk management keeps growing

Continued from page 3

no reasons why the captive movement shouldn't continue to grow.

"For a while, it looked as though the captive boom was over, but indications are that 30 new captives were formed so far in 1983, one of which is owned by a Canadian company."

A successful fight for favorable tax status for loss reserve deductions in the United States may also further the development of risk management in Canada, Mr. Darby continued. An all-industry Loss Reserve Deduction Committee continues to pursue a law that would allow self-insured corporations to take a tax deduction for self-insured loss reserves and, according to Mr. Darby, sees some hope in such a law passing the U.S. Congress this year. "After it becomes law in the United States—who knows, we may see fit to try it here."

Mr. Darby also says that risk managers need not fear the entrance of banks into the insurance industry. Though bank involvement in insurance distribution is probably "an irreversible movement," Mr. Darby says, "it is too early to judge whether or not it will affect the largest consumers of insurance. However, I don't foresee any reason for changing my relationship with insurers nor can I foresee any reason why the involvement of banks should lessen insurance capacity."

Citing an American Bankers Assn. study released earlier this year, Mr. Darby noted that banks are more likely to attempt entry into insurance distribution, rather than underwriting, and focus on personal lines.

With or without the involvement of banks, the Canadian insurance marketplace should continue to grow and provide more coverage for Canadian companies, added Lucien Bergeron, president of Gestas Inc., one of Canada's largest underwriting managers.

"Right now we look like an underdeveloped country as regards insurance," he told the risk managers. "Only 47% of the insurance premium generated by Canadian companies now goes to Canadian insurers. The majority of our business goes to foreign insurers, especially U.S. domestic insurers and Lloyd's of London."

But Mr. Bergeron expects that Canadian buyers will increasingly turn to local insurers as part of a continuing trend.

The Canadian insurance marketplace, based upon gross premium volume, has been growing at a steady compound rate of 11% a year, despite the intense market competition that until just recently has steadily reduced rates, he noted. Since 1979, overall premium volume for Canadian insurers has grown to \$9.2 billion in 1982 from \$6.4 billion.

"And by 1989, insurance industry experts are estimating that premium volume will grow to \$17 billion," he says, with some increase in market share for Canadian insurers.

Capital and surplus, one measure of insurer capacity, is also growing, he adds. In 1979, Canadian insurers reported only \$2.3 billion in capital and surplus, but by 1982 those resources grew to \$3.2 billion. By 1989, Canadian insurers are expected to report more than \$7 billion in capital and surplus, Mr. Bergeron says.

Part of the new Canadian capacity could be the country's first insurance exchange, patterned after the insurance exchanges in New York, Illinois and Florida, said Robert Hilborn, senior vp of brokerage Johnson & Higgins/Willis Faber. Mr. Hilborn is currently on leave from his firm and serving as

chairman of the Insurance Exchange Advisory Committee, an insurance industry group charged by the Ontario provincial government with the job of researching the feasibility of an insurance exchange based in Toronto.

If the committee agrees that the exchange is feasible, it will already have the blessing of the Ontario government, which agreed to the institution pending the recommen-

dation of the committee.

"The goal of the Ontario parliament is to allow for the placing of insurance and reinsurance locally to recapture some of the premium that has been leaving the country," Mr. Hilborn says.

Mr. Hilborn estimates that as much as \$8 billion of insurance premium leaving the country could be funneled into an Ontario Insurance

Exchange for the purchase of direct insurance and as much as \$2.5 billion in reinsurance premium might be available for exchange syndicates offering reinsurance to Canadian insurers.

"More than \$650 million alone now goes to unregistered foreign reinsurers. By purchasing reinsurance from a Canadian exchange, insurers would be buying registered reinsurance with much better

security. We foresee security unequaled among all the exchanges now operating in the United States," he said.

Though an Ontario Exchange would take some time to start up, Mr. Hilborn says that the time to begin is now, before commercial insurance rates have seriously increased. "When capacity begins to shrink, it is too late to start an insurance exchange," he remarked.

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AGENDA

Monday, October 31

5:30-7:00 p.m.

Early registration and cocktail reception. Browse the EBC Gallery and the Literature Gallery.

Tuesday, November 1

REGISTRATION

8:15 a.m.

A continental breakfast will be served. The EBC Gallery and Literature Gallery will be open.

GENERAL SESSIONS

Opening Remarks

8:45 a.m.

Kathryn McIntyre, Editor, Business Insurance.

The Art Of Persuasion

Ronald G. Hoff, Exec. VP & Creative Director, Foote, Cone & Belding

Unique in the field of presentation counseling, Mr. Hoff combines top-level, high-stakes business experience with exceptional presentation skills. This expert offers insight into the presentation skills needed to persuade any audience ... the techniques are the same, whether addressing your management or employees about benefits programs, or pitching a big account or proposing a campaign.

"The real measure of any presentation," Mr. Hoff says, "is whether the audience learned anything they can use that very day. It's nice if they're amused. But time is precious, and my main function is to help the audience be more productive, more persuasive, more profitable -- to their companies, to themselves."

This session, "A Presentation on Presentations," will motivate and inspire you.

Regulation & Legal Requirements

Peter A. Straub, Acting Assistant Administrator,

Office of Reporting and Plan Standards, U.S. Department of Labor

On September 2, 1974, the Employee Retirement Income Security Act (ERISA) was signed into law. With the enactment of ERISA came a legislatively ordered array of reporting and disclosure requirements intended to assure that private sector employee benefit plans would be operated and managed in the best interest of plan participants and their beneficiaries. This session will highlight the major reporting and disclosure requirements under ERISA and the manner in which the Department of Labor has been recently implementing these requirements through the regulatory process. And, what can we expect for the future ... more or less regulation governing benefit communications?

Explaining Salary Reduction Plans

Robert C. Penzkover, Director of Employee Benefits,

The Quaker Oats Company

The 401 (k) plan has rapidly emerged as a staple product in a modern employee benefit package. Obtaining broad participation to meet discrimination tests depends almost entirely on an effective communication approach. This requires fostering a climate of individual responsibility to manage benefit and compensation planning. In this case, a few relevant numbers are worth a thousand words.

Luncheon

Wellness Programs

William E. Hembree, Director, Health Research Institute;

Denise Maleska, Director of Human Resources, CIBA-GEIGY Corp.;

Dr. Joseph C. King, Director of Employee Health Services,

Continental Illinois National Bank & Trust Co. of Chicago

What employers can and are doing to change health habits and lifestyles is the subject of this panel. Concepts and techniques to be covered include cost-benefits, persuasion/motivation, behavior changes, incentives/disincentives, "new age" communications and approaches to employee interface, timeframes, etc.

Nationally recognized professionals will describe wellness programs, what works and what doesn't, an actual case study, accessing resources, and measurement and evaluation of results.

BREAKOUT SESSIONS

Breakout sessions afford you the opportunity to zero in on a specific problem you may be facing.

Select the one session that best meets your needs.

Essential Elements/How To Work With Suppliers

J. Frank Swygert, Jr., President, Benefits Media Inc.;

LaRue Foster, Manager, Employee Benefits Communication, Corporate

Communications Department, Boise Cascade Corporation

This joint presentation defines the vital components needed to implement an ongoing communications program and takes you through some of the possible pitfalls. Included is an analysis of the various target audiences, goals and necessary ingredients to make benefits communication effective. Case studies will be presented detailing from start to finish the required steps, subject matter, methods, procedures and monitoring of results. Whether you're working in-house or using consultants or production houses, this session provides the nuts and bolts for your decisions and the process of putting together effective communication programs.

Changing Benefits Strategy

Joseph W. Duva, Director, Employee Benefits & Compensation, SCM Corp.;

Dennis B. McKoy, VP and Co-Manager, Actuarial & Consulting Div.,

Johnson & Higgins

SCM Corporation recently amended their health care program to incorporate major cost containment provisions including increased employee contributions and the introduction of up-front deductibles for hospital charges. In addition, they introduced a 401 (k) feature in their RSIP. The major emphasis of their communication effort was placed on "net-effect" communications and establishing a rationale for the cost containment changes that employees could appreciate.

This session begins with defining the problem and includes developing the solution, setting communication objectives, analyzing the audience, selecting the media, implementing the program and measuring the effectiveness.

Cocktail Reception

6:00 p.m.

Dinner/EBC Awards Presentation

7:00 p.m.

Attend a reception and dinner honoring the winners of the 11th annual EBC Competition. One of the winning audio-visual programs will be shown.

Wednesday, November 2

GENERAL SESSIONS

A Look At This Year's Winners

8:45 a.m.

Herbert Zeltner, Herbert Zeltner Inc.,

Marketing & Communications Consultant

Mr. Zeltner, invited for a return engagement at the Conference, takes an in-depth look at what makes a winning program. This lively, entertaining, informative session offers a glimpse at what other professionals are doing.

Innovative Ideas

Andrew Corn, Executive Producer, Ad Master;

Polly Carpenter, President, Carpenter Graphic Design, Inc.

This is a chance to pick up tips from two experts who offer innovative ideas for print and audio-visual communication approaches. A look at each medium separately as well as when and where, why, and how the two can successfully work hand-in-hand for your communication needs.

Luncheon

Edward Davey, Executive Director & General Counsel,

Association of Private Pension & Welfare Plans

An exciting speaker addresses the question: What can employers do now and in the future to prevent the enactment of unfavorable benefits legislation?

Employee Attitude Surveys

Rhonda Karp, Ed.D., Associate Dean, College of Allied Health Sciences,

Thomas Jefferson University;

James B. Weitzel, VP, Consultant, Johnson & Higgins

The theory and reality of using surveys to anticipate, measure, and predict employee attitude toward benefits will be discussed from both the consultant and client point of view. The session will discuss how surveys invite employees into the overall benefit change process and thereby save the corporation and employees significant amounts of money.

Closing Remarks

The Conference adjourns at 3:30 p.m.

In today's economic climate, corporations are particularly sensitive to the rising cost of benefits and are concerned about more efficient and effective ways to communicate the value of benefits to employees.

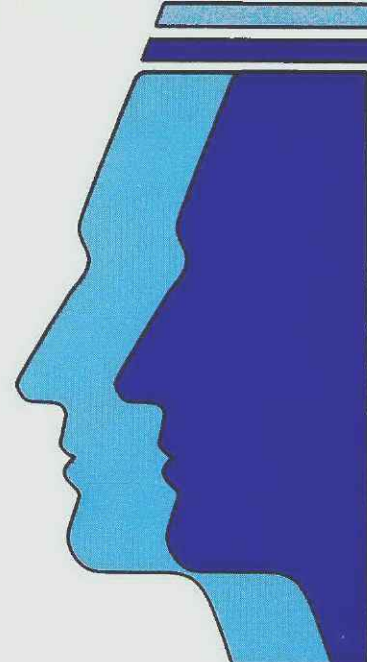
Every step of the way, the 'art of persuasion' plays a key role ... whether you're persuading management on the need to monitor benefit programs and communication ... persuading employees to use their benefit plans wisely ... or, convincing workers to change attitudes to enhance their health and well-being.

While exploring issues that are critical to your professional responsibilities, the BI Conference will focus on the foundation of effective communication ... "The Art of Persuasion." A clearer understanding of the methods used by experts in your field will help you achieve better targeting of communication and more efficient utilization of your company's benefits programs.

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A highlight of this conference includes the presentation of the 11th annual EBC Competition Awards. You will also have the chance to view some of the communication programs submitted for this year's Competition that will be displayed in the EBC Gallery. And, the Benefits Literature Gallery makes it possible for you to collect some of the latest benefits industry information available.



REGISTRATION

The cost is \$495. A 10% discount is offered to additional registrants from the same company. The fee includes sessions, workbook and educational materials, breakfast, coffee breaks, luncheons, cocktail reception and the EBC Awards dinner.

Payment required with registration.
(Check or credit card accepted, see registration form below.)

All cancellations must be received in writing. A full refund will be made on cancellations received prior to October 1. A \$100 service charge will apply to cancellations received after October 1. No refunds will be made on cancellations received less than five business days prior to the Conference.

However, if your plans change at any time you may substitute the name of another person from your company without penalty.

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The Knickerbocker Hotel has set aside special rates for BI conference registrants only: \$80 single room; \$95 double room.

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Computers can rate insurance quotes

By LEN STRAZEWSKI

MONTREAL—Risk managers looking for their best insurance buy may need computers to help evaluate quotes on complex insurance programs, consultants say.

Two consultants and associate actuaries, C. Ian Durrell and Robert Briere, both from the Montreal office of the Wyatt Co., detailed the need for risk management information systems during the 1983 Canadian Risk Management Conference last month.

"Computers can perform a variety of useful functions that can help you evaluate the true value of the insurance you purchase and the relative merits of various retentions and insurance layers," said Mr. Durrell.

Specifically, Mr. Durrell suggests risk managers use computers to:

- Maintain and analyze detailed loss experience for the purposes of charging back costs to departments and profit centers.

- Make more thorough and accurate determination of underwriters' ratemaking assumptions regarding loss frequency and severity and loss reserves.

- Gain access to new computer-

based financial programs that allow corporations to better measure their risks and evaluate the time value of money involved in self-funded programs.

Basically, using computers permit risk managers to translate their knowledge of risks and insurance from an art to a science, enabling buyers to identify and implement optimum risk-sharing strategies on a rational basis and communicate and demonstrate that knowledge to senior management, he said.

"Moreover, computer analysis of loss reserves can give risk managers considerable ammunition in dealing with brokers and insurers."

Illustrating their points, the consultants devised a case study in which computer analysis of three structural insurance alternatives revealed the best overall value.

The case study, drawn from an actual Wyatt project, involved a professional association that was preparing to self-insure a portion of the professional liability insurance it bought on behalf of its members.

After hiring a risk manager and preparing coverage specifications, the association and its broker produced three alternatives that combined various retentions with ag-

gregate and per-occurrence excess insurance.

The alternatives were based upon an expected enrollment of 10,000 association members, an estimated claims frequency of 75 per 1,000 members, an average expected loss of \$12,800 and total expected losses for the coverage year of about \$9.6 million.

The program predictions were based on four years of collected loss data and analysis on current trends in the professional liability coverage.

"Though the loss history had been computer-generated, the loss predictions were based upon both loss history averages and the risk manager's understanding of the risk," Mr. Durrell noted. For example, the risk manager estimated loss frequency at slightly higher than the four-year loss frequency average and significantly higher than the previous year when the association reported an inconsistently low number of claims.

The reason for this modification of the estimate, according to Mr. Durrell, was a subjective manipulation of the data by the risk manager based upon his understanding of litigation trends and the changing

makeup of the association membership.

The association broker and the risk manager designed the three alternatives with the same coverage limits but different retention/insurance makeups and marketed them to underwriters. They were:

- Aggregate stop-loss excess insurance attaching at \$10.6 million in losses. Premium: \$1.9 million.

- Per-occurrence excess insurance for claims over \$150,000 but no aggregate excess insurance. Premium: \$3.2 million.

- Per-occurrence excess insurance for claims over \$500,000 and aggregate excess insurance beginning when the policyholder's uninsured losses reached \$9.8 million. Premium: \$2.5 million.

Though many of the approximately 30 Canadian risk managers attending the session voted that the best value to the association was either the cheapest premium (quoted for the aggregate coverage only) or the most comprehensive coverage (aggregate and occurrence coverage for \$2.5 million), Messrs. Durrell and Briere said that a computer analysis of expected losses compared with premium costs revealed that the per-occurrence coverage, quoted at \$3.2 million, actually provided the best value for the money.

"The issue here is the insurer's profit margin for the coverage," Mr. Durrell explained. "Based upon a computer analysis of the loss history, we were able to generate the

insurer's expected claims cost under each of the three programs. They were \$810,000 for the aggregate-only coverage, \$3.46 million for the occurrence-only coverage and \$1.63 million for the combination coverage.

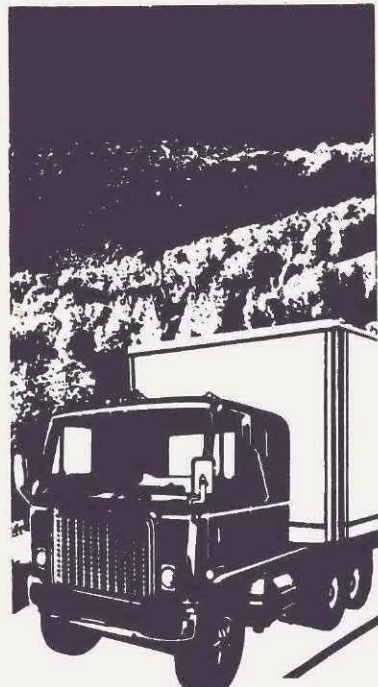
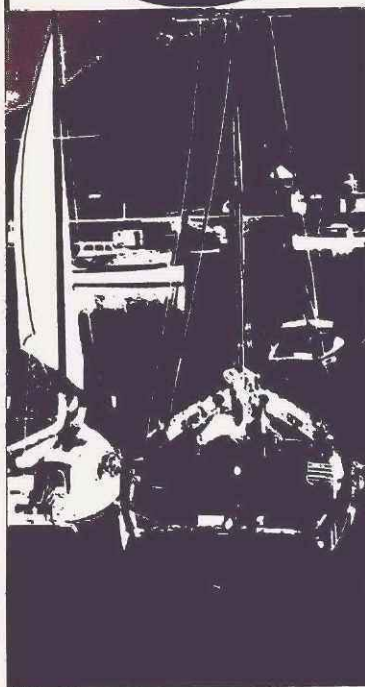
"By comparing those estimated costs to the premium quoted, we determined the insurer's profit margin for each package. For the aggregate coverage, the insurer was likely to earn more than \$1 million and for the combination coverage, the insurer could estimate about \$870,000 in profit margin," Mr. Durrell said.

According to the association's loss predictions, however, the per-occurrence coverage was actually undervalued by the insurer since the expected cost of nearly \$3.5 million was significantly higher than the \$3.2 million premium charge.

"Either the underwriter was taking a chance, or was making a mistake," Mr. Durrell noted. "That coverage was clearly the best value, but you wouldn't know it without a detailed computer analysis and a loss prediction."

The underwriter might be betting on a slow claims payment schedule and investing the premium at some high interest rate for a period of time to make up the difference, Mr. Durrell added, but based on the high cost of the other coverage, the occurrence coverage would still be a good value. ■

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Recent tragedies spur new product development

MONTREAL—Canadian and U.S. insurers are following up tragedies with new liability insurance products aimed at potentially catastrophic losses, according to Peter Robertson, a Canadian insurance broker.

Mr. Robertson, vp of Dale & Co. in Toronto, told the 1983 Canadian Risk Management Conference that product impairment insurance and related asset protection continue to be refined by underwriters in light of the Tylenol poisoning tragedy in Chicago (BI, Oct. 11, 1982).

"The key lesson insurers learned during the Tylenol tragedy was the cost of product recall," Mr. Robertson noted. "The Tylenol tragedy cost Johnson & Johnson about \$100 million, almost \$60 million of which was related to the recall of the product."

So contemporary product impairment coverages sold by American International Group Inc., Chubb Corp. and Lloyd's of London emphasize recall cost coverage and the replacement of assets lost as the result of an emergency recall, he says.

Current policies cover unscheduled recalls, provable lost sales, remarketing costs and the cost of increasing the sales of other products to make up for lost income, he explains. However, the coverage applies only to specific products listed on a policy, not a company's entire product line.

The policies exclude business risks such as changes in public taste, products known to be harmful, criminal or malicious acts of directors and officers, prior acts, any scheduled withdrawal of products and any claims from bodily injuries.

Bodily injury claims are covered by comprehensive general liability policies.

"The coverage can be triggered in a variety of ways," Mr. Robertson says. "Certainly, when an injury occurs, the coverage will begin paying for the recall of a product. But the coverage is also

triggered whenever the discovery of potential loss of public trust makes recall of the product desirable."

This means that whenever the public begins to fear a covered product, whether or not the fear is the result of product tampering, product impairment coverage should begin to apply.

"The coverage is also triggered whenever there is a clear drop in a product's unit sales that can be attributed to product impairment," Mr. Robertson says.

Proving a loss, however, could be an interesting task for a risk manager, Mr. Robertson adds, since the evidential standards for proving loss under product impairment coverage are not clearly defined. Buyers should watch future product impairment claims carefully to see what standards are being applied and what kinds of documentation will eventually be considered necessary to convince an underwriter of loss.

Product impairment coverage is available with limits of up to \$25 million from the three major underwriters, but can be written for as much as \$100 million with facultative reinsurance.

Retroactive liability insurance, such as the product designed by broker Frank B. Hall & Co. Inc. to guarantee claims payments of victims of the MGM Grand Hotel fire in Las Vegas two years ago, is also available in Canada, he points out.

Though several insurers are willing to underwrite the back-dated policies in the United States, only two insurers, American International Group Inc. and Scottish & York Insurance Cos., seem willing to take on the risks in Canada.

The retroactive coverage underwritten on a claims-made form is designed to retroactively add funding for past claims, lower deductibles, or to include current acquisitions in past coverage, he says. It can be written for virtually any limit, depending upon the availability of facultative reinsurance. ■

In some Canadian courts, D&O cover is not allowed

By LEN STRAZEWSKI

MONTREAL—Canadian judges may refuse to allow directors and officers liability insurance coverage to pay for some lawsuits, according to an underwriter that specializes in the coverage.

Francois Viau, professional liability underwriter for Gestas Inc., the underwriting management arm of brokerage Gerard Parizeau Ltd., told the 1983 Canadian Risk Management Conference that Canadian risk managers must take special care to negotiate their D&O policies to include coverage that suits the whims of Canadian law.

"Judges may refuse to allow indemnification of defense costs to corporate officers if the coverage is completely paid for by the corporation," he explains. "According to the Canadian Business Act, directors and officers must pay a portion of the D&O premium for the coverage to be valid."

Some businesses incorporated according to provincial law, however, may not have that problem, so it pays to carefully examine local statutes, he adds.

"About 75% of the claims we receive under directors and officers insurance policies are coverable under the policies. The others may be covered under comprehensive general liability or may not be covered at all, depending upon how carefully the coverage was planned," he says.

Mr. Viau suggests risk managers seek to extend their D&O coverage by asking for special wordings.

D&O policies, he says, should not exclude:

- Punitive damages.
- Prior wrongful acts or discrimination.
- Pollution.
- Acts covered by other insurance.

Risk managers should seek to include:

- All employees. Underwriters are now willing to extend D&O coverage to employees other than directors and officers upon negotiation, Mr. Viau says.
- Newly created positions.
- Newly acquired subsidiaries.
- Defense against allegations which may be false or fraudulent.

Kenneth Wollner, a risk management consultant with the Chicago office of Wyatt & Co., agrees. Canadian D&O policies, like similar products sold in the United States, are almost completely variable and subject to negotiation according to a company's needs.

Mr. Wollner's annual study of D&O contracts in the United States and Canada revealed "that basically, no two D&O policies are alike," he told the audience.

"Among the 75 separate policies we reviewed, we found significant differences in all of them. For example, of the 14 policies we reviewed that claimed to cover subsidiaries, only four of the policies covered former subsidiaries.

"The key to good coverage seems to be negotiation with competent assistance," he continued.

Mr. Wollner suggests risk managers also look for coverage under the D&O policy for litigation filed against both a corporation and its officers as well as for coverage for suits against the corporation only, which may eventually include directors and officers.

Though D&O coverage is often seen as an insurance product for big corporations, even smaller companies should take heed of their D&O insurance needs, added another Wyatt consultant.

D&O coverage is not yet as widespread among large Canadian companies as it is among U.S. corporations, but most large Canadian corporations now purchase the coverage, noted Paul Braithwaite, a risk management consultant with the Toronto office of Wyatt & Co. The prevalence of the coverage among smaller companies is growing.

Wyatt surveyed some 275 Canadian companies, including about one-fourth of the Canadian Financial Post 400 (the Canadian equivalent to the Fortune 500), to discover that 41% of the small companies surveyed now purchase D&O coverage.

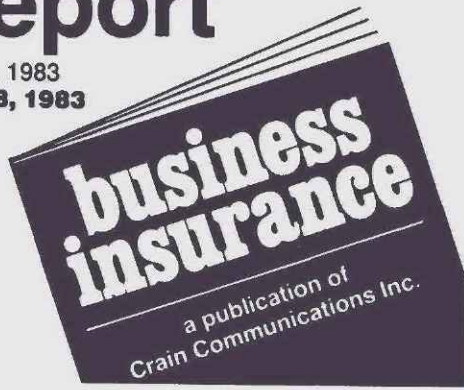
"However, the number of Canadian claims is also growing," Mr. Braithwaite says. "From 1973 to 1975, Canadian corporations reported no D&O claims whatsoever. But since then, claims have grown steadily, with eight claims reported in our most recent year, 1981."

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Five fears can hold back risk managers

By LEN STRAZEWSKI

MONTREAL—Risk managers shouldn't just dream about being chief executive officers someday, they should go after top management positions now with the belief that they are their natural legacy.

That's the advice of Pamela J. Newman, managing director of Marsh & McLennan Inc. in charge of the brokerage's client services and professional development. But before risk managers take the big step beyond their little corner of the corporate world, they had better learn to face a few new fears, she adds.

"I believe that a risk manager is in the best position among other executives to assume the position of chief executive," she told more than 125 Canadian risk managers

attending the 1983 Canadian Risk Management Conference here.

"Corporations have gotten so sophisticated that the prime responsibility of a chief executive officer is to know how the organization works. Who knows more about the comprehensive functioning of a corporate organization than the risk manager?"

"Moreover, I find similar qualities in risk managers and chief executive officers," she continues. "Courage and judgment are both required for both positions."

Why haven't more risk managers risen to top management positions in major corporations? Ms. Newman, a former management consultant with Big Eight accounting firm Peat Marwick Mitchell & Co. with a Ph.D. in business administration from the University of

Michigan, says that five fears interfere with professional growth. They are: fear of failure, fear of rejection, fear of new ideas, fear of trusting others and fear of change.

"I've seen too many executives consumed by these fears. They have what I call the 'hoofmark in the forehead,'" she told the Canadian risk managers. "They are beaten by life. Very simply, what makes life hard is other people in the organization."

This syndrome leads risk managers into fearing virtually everything around them, including themselves. Executives begin to fear failure, she says, and begin to express attitudes that prevent them from taking the steps necessary to advance.

"It's an old adage, but it's still somewhat true. Attitude doesn't

determine behavior, behavior determines attitude," she says. So an executive who refuses to take chances will wind up a disaster and become lost in a downward spiral of negative attitude and behavior.

Risk managers are also particularly subject to fear of rejection, Ms. Newman says. "No one understands what you do and no one knows why you do it. This can cause you pain and one response to pain is anger.

"If you get angry, you join another company. And if you get really angry, you become a broker," she quips. "Another response is pulling back, refusing to answer memos and generally not communicating with the rest of the company. Other executives fixate, develop tunnel vision and refuse to take their mind off a problem."

One common fixation is a disagreeable superior whose action grows to dominate the thinking of a subordinate executive until new ideas and achievement are lost in a muddle of second-guessing and imagined hurts.

"You have to learn to overcome it," she says. "Learn to use the 'XYZ' approach to communications with your superiors. If you are bothered by something your boss has said or done, communicate it according to this format: When you did X, it made me feel Y and as a result, Z. Communicate your feelings as feelings. Feelings are hard to argue with. At least through this method, you have a chance to get the problem off your mind."

Ms. Newman also suggests risk managers learn to assume responsibility for making others comfortable, especially those beneath them on the management pyramid.

"Understand the role of others and make it your job to help them. As a risk manager, you truly have a selling job and before you can sell your ideas in safety and loss prevention, funding, legal planning or employee benefits, you first have to overcome your fear of rejection. Remember that the act of selling really begins only when the other person says no."

Risk managers also must learn to stop fearing new ideas, Ms. Newman says, and instead work at developing new ideas.

"New ideas are hard to come by and require hard work to shape and define. Have you produced a five-year plan and a one-year strategic objective? Have you made a board of directors presentation on a specific subject, like political risks? Have you presented a method of integrating risk management into your corporation's strategic planning sessions?" she asks.

Ms. Newman recommends that risk managers bring people from various aspects of the corporation into free-form planning sessions to tap their new ideas. When not gathering the troops, she recommends risk managers go out and meet other executives in their particular environments for exposure to all aspects of their corporations.

Finding new ideas, however, means that risk managers will have to conquer the last two of the five fears, fear of trusting people and fear of change, as they tap the resources of other executives and look toward expanding their own work.

"The job of the chief executive officer is a legacy that belongs to the risk manager," she concludes. "But you have to go after it." ■

Women gain in education

MALVERN, Pa.—Women are making significant gains in insurance education, according to Dr. Edwin S. Overman, president of the American Institute for Property and Casualty Underwriters, which is part of the Insurance Institute of America.

Statistics recently released by Dr. Overman show that 28% of the students who just completed the CPCU program are women. In 1982, only 21% of the graduates were women.

More women are expected to get the degree next year. Currently, 33% of the students in the CPCU program are women. Women who complete their course of study this year will receive their designations in Seattle in October.

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Costs, procedures slow Canadian litigation

Continued from page 3
get hit with substantial costs, a factor that tends to reduce speculative claims.

In Quebec, for example, the losing party in a lawsuit could be subject to court cost charges of \$1,000 to \$100,000, he said.

The contingency fee system favored by U.S. trial attorneys also increases litigation, Mr. Lehnert explained. Why not sue, he asks, if an attorney is willing to take a chance on your case for a third of the award if you win and nothing if you lose?

Canadian attorneys, however, are much less likely to bill on contingent basis and the practice is not favored by the Canadian legal fraternity.

"However, despite all the complaints about the contingency fee system, it is probably a good idea," Mr. Lehnert remarked. "It helps balance the resources available to the individual plaintiff. Otherwise, a big corporation would always outlast a smaller opponent."

Despite these built-in conservative safeguards, the Canadian insurance industry still fears the prospect of more civil lawsuits and bigger damage awards, according to Roy Alfred Elms, executive vp and director of the Royal Insurance Co. of Canada in Toronto and another conference speaker.

"Our courts may currently be a bit more sensible than the U.S. courts," he said. "But we can't count on that always being the case. Legal costs are a significant problem and the problem continues to grow."

Though Mr. Elms says that it is impossible to completely avoid litigation involving insurance contracts, risk managers and their insurers could work to reduce litigation among themselves by adopting and using standardized wording,

CIGNA Corp. funds programs

PHILADELPHIA—CIGNA Corp. will provide financial assistance to 11 business coalition programs aimed at health care cost containment.

CIGNA, under the auspices of the CIGNA Coalition Grant Program, will provide awards of \$6,200 to \$51,000 as part of a two-year national grant program, which it introduced in March.

The grants will support innovative cost containment programs that range from building health care data bases to the development of preferred provider organizations.

The coalitions that will receive the grants are: Minnesota Coalition on Health Care Costs; Massachusetts Health Data Consortium; South Florida Health Action Coalition; Houston Area Health Care Coalition; Mid-America Coalition on Health Care, Kansas City, Mo.; St. Louis Area Business Health Coalition; Health Policy Corp. of Iowa; Health Care Alliance, Harrisburg, Pa.; Trident Industrial Health Coalition, Summerville, S.C.; Kansas Employer Coalition on Health; and the Vermont Coalition for Health.

After all eligibility requirements are met, which includes matching the CIGNA grant with local funds, the awards will be presented this fall.

The CIGNA Coalition Grant Program is funded by the CIGNA Foundation, administered by the company and advised by the HOPE Center for Health Information, Research and Analysis, a division of Project HOPE. ■

agreeing to guiding principles with respect to overlapping coverages and creating mechanisms for resolving intercompany disputes.

"First, reduce the prospects of litigation that are under your control," he advised. "Take great care in choosing your brokers and insurers. There is a natural inclination to succumb to the allure of the lowest price, but the seduction often produces the offspring of an unstable, low-quality product."

When you have chosen a reliable provider, monitor its work care-

fully to make sure that you are getting exactly what you are paying for, he continued.

"Spend time on reviewing wording to see that it correctly reflects your intentions as regards coverage," he said. This safeguard should help avoid coverage disputes after a loss.

If conflict is impossible to avoid, Mr. Elms suggests risk managers, brokers and insurers try a faster, less formal alternative to the legal system—arbitration.

"Arbitration," he said, "is a legiti-

mate and good way to adjudicate disputes. The practice has long been accepted in settling disputes in Great Britain and in a lesser regard, in the United States, but the practice has not caught on to the same extent in Canada.

"However, the formation of the Arbitrators' Institute of Canada has created a central organization to advise on a wide range of personal and corporate disputes."

Arbitration could be the key to keeping policyholders and insurers

out of long and costly court battles.

"Although disputes between insureds and insurers are demonstrably rare, further use of arbitration as a means of disposing of those disputes has the potential not only to reduce costs but to engender greater client satisfaction and a better image for insurers."

The main advantage of arbitration is speed, Mr. Elms said. "The adjudication of disputes can be expedited. Using arbitration, we can reach a conclusion, at worst, in months instead of years." ■

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Trade captive to drop casualty coverage

Continued from page 1

Risk Planning Group Inc., a Darien, Conn., consulting firm, says the number of association captives has increased steadily since associations first entered the captive field in large numbers in the mid- and late 1970s.

Verlan's birth preceded the great captive boom of the 1970s. The National Paint and Coatings Assn., the 96-year-old trade association of which many of the nation's paint and varnish manufacturers are members, set up Verlan in 1968 in Bermuda to offer property insurance.

By most accounts, Verlan's property insurance business was and continues to be a success. Association members that bought Verlan insurance not only could obtain up to \$30 million in coverage, but also could receive professional loss-control and loss-engineering services.

"Verlan is unique in its ability to provide property loss-control and engineering services to its members," said Larry Thomas, the paint and coatings association's executive

director.

As the commercial insurance market dramatically tightened during the great casualty crunch of 1975-77, Verlan and association officials thought it was time to expand the captive's operations.

"There was a fear that casualty coverages might not be available for members," said Mr. Thomas.

By 1978, Verlan began offering a \$500,000 comprehensive general liability insurance policy with the captive retaining \$25,000 of each risk on a per-occurrence basis. Umbrella liability coverages of up to \$20 million also were available.

But Verlan's entry into the casualty market almost coincided exactly with the major softening in the commercial insurance market.

With commercial insurers able to undercut Verlan's rates, the captive found the going rough in the casualty business.

The anticipated increase in the number of companies purchasing comprehensive general liability insurance from Verlan did not materialize.

The number of companies buy-

ing casualty coverage from Verlan never exceeded 50. Some 40 companies buy casualty insurance from Verlan, down from 42 last year.

Experts say that if an association captive is to succeed, it must attract a significant number of members.

"You need to get full participation by members," said David Vaughan, president of Continental Risk Services Ltd., a Bermuda-based captive management and consulting firm. "In any association program, you need a spread of risk to make it economically viable," he added.

"If a captive hasn't reached a certain size, it may not be viable," said Mr. Griffin. "A certain volume is needed because of administrative costs."

In fact, Verlan's operating costs were high because of its extensive loss-control services and because it lacked the resources to adjust claims and had to pay outside firms for adjusting services.

Costs, and ultimately rates, could have been cut if the level of services had been reduced, something

Verlan officials opposed.

"We couldn't lower rates and still maintain quality services," said Mr. Montgomery. "They (the paint and coatings association) agreed that we should not lower standards."

Yet, even in a field like the paint industry, where the risks of explosions are higher than most, lower rates offered by commercial insurers were more important to many association members than Verlan's loss-control services, a Verlan official complained.

As a result, many trade association members, most of whom have annual sales of between \$1 million and \$10 million and lack full-time risk managers, opted for lower rates in the commercial market even though the insurers' services may not have been as good, the Verlan official added.

Last year, Verlan lost \$156,715 compared with a profit of \$189,840 in 1981. That is a significant loss for an insurance company with a surplus of about \$1.6 million, insurance regulators say.

"With such a low volume, you can't afford a bad year," said Ed-

ward Meehan, chief insurance examiner in Vermont, where Verlan does most of its business. "We are dealing with a small insurance company. They are not big enough to stay in the casualty area."

With no signs that the market was about to turn, Verlan and association officials made a formal decision in July to get an insurer to take over Verlan's casualty business. Negotiations are continuing.

Under current plans, the Coating Industry Services Inc., an insurance agency subsidiary of the National Paint and Coatings Assn., would place casualty coverage with a national insurer. The insurer would provide claims adjusting services.

The new casualty program will "be much more cost-effective for an insurer with its own claims handling department," said Mr. Thomas.

Verlan and association officials believe Verlan will emerge as a stronger company after it sheds its casualty operations. "We want to concentrate on what we do best—property," said Mr. Montgomery. ■

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Chicago lawyer joins benefit conference lineup

Continued from page 2

doing to change the health habits and lifestyles of their employees, including a case study. Assessing your resources and measuring the results also will be discussed.

How to effectively communicate the provisions of a salary reduction plan to your employees to attract the needed participation will be explained by Robert C. Penzkover, director of employee benefits at The Quaker Oats Co.

Also on Monday, registrants will be asked to select between two concurrent sessions: one designed to fit the needs of those new to benefit communications and the other addressing those experienced in benefit communications.

J. Frank Swygert, president of Benefits Media Inc., and LaRue Foster, manager of employee benefits communications in the corporate communications department of Boise Cascade Corp., will describe the essential elements of the

benefits communications program and how to work with suppliers.

Joseph W. Duva, director of employee benefits and compensation at SCM Corp., and Dennis B. McKoy, vp and co-manager of the actuarial and consulting division of Johnson & Higgins, will discuss changing benefits strategy and the attendant communications challenges this presents.

On Tuesday evening, all conference registrants are invited to a cocktail reception and a dinner. The dinner honors the winners of the 11th annual *Business Insurance* Employee Benefits Communications Competition, who will receive their awards.

On the second day of the conference, the morning session opens with a look at and critique of winning audiovisual communications programs. Herbert Zeltner, a marketing and communications consultant whose previous sessions at BI conferences have received rave re-

views, again directs this program.

Innovative ideas for print and audiovisual communication projects will be described by Andrew Corn, executive producer of Ad Master, and Polly Carpenter, president of Carpenter Graphic Design Inc.

At lunch on Wednesday, Edward Davey, director and general counsel of the Assn. of Private Pension & Welfare Plans, will broaden the topic beyond communicating benefits to how employers can prevent the enactment of unfavorable legislation governing benefit plans.

The program concludes with a nuts-and-bolts session on surveying employee attitudes to invite employees into the overall benefit change process and thereby save both the employer and employees money.

The registration cost for the conference is \$495, with a 10% discount for additional registrants from the same company. The fee includes all

sessions, a workbook and educational materials, breakfast, coffee breaks, luncheons and the cocktail reception and dinner on Tuesday night.

Special rates of \$80 for a single room and \$95 for a double room are available at the conference hotel, The Knickerbocker Hotel. Reservations for these special rates must be made by Oct. 15, by calling the hotel at 312-751-8100. Registrants must mention they are registering for the BI conference to secure these discounts.

Special discount airfares also are available through Travel Headquarters Ltd. in Chicago, whose toll-free number is 800-621-1676, and in Illinois 312-641-3088.

To register for the conference, or obtain additional information contact *Business Insurance* Communications Services Department, 220 E. 42nd St., New York, N.Y. 10017; or call Ann Vazquez at 212-210-0137 or Beth Levine at 212-210-0229. ■

Many Peruvian companies lose coverage

Continued from page 2

tions are up since the June 30 deadline, they complain that those companies renewing coverage are cutting back on how much insurance they buy. The types of coverage being reduced vary, by each company, brokers say, unable to spot a trend.

Insurance sources say construction companies, still owed sizable sums from government agencies, are especially likely to cut back on buying insurance, if not default on premium payments.

Government entities had already drastically cut their insurance buying. "The boiling point for state-owned companies came long before the new law. It came when the government slashed budgets to meet the IMF (International Monetary Fund) program," said Mr. Almenara of Reaseguradora Peruana.

The full force of reduced government spending on insurance is hitting the state-owned Popular & Porvenir Insurance Co., which has a monopoly on all government business.

It reinsures most of the risks in New York and London and has been paying reinsurance premiums due before receiving the primary premium. As a result, Peru's Banco de la Nacion, the Peruvian equivalent

of the U.S. Treasury, has agreed to bail out state-owned companies in default on insurance premiums covering more than \$2 billion worth of government property and equipment.

"Without the bailout," says Carlos Raul Vidal of the brokerage firm of Vidal & Vidal, "Popular & Porvenir would have gone broke. It was paying delinquent reinsurance premiums out of its own pocket and losing money by the minute."

And, the Banco de la Nacion is planning to set up a special fund to help some shipping companies meet insurance payments. Some ships have been going uninsured for months, according to local brokers.

While premiums are going down, losses are piling up from terrorist activity and flooding.

Earlier this year, for example, 14 armed men, suspected members of the Peruvian guerrilla organization Sendero Luminoso, or Shining Path, stormed a Bayer industrial plant in Lima, setting off explosives and causing an estimated \$70 million in damages (BI, June 20).

At one point, American International Underwriters, an affiliate of American International Group, had issued a "provisional notice of

cancellation" on Peruvian terrorist risks, but has withdrawn it.

Losses due to flooding are coming from northern Peru which has been hit by torrential rains.

Total flood losses are estimated at \$700 million to \$900 million, but government officials are quick to point out these figures are still only estimates and that there is no estimate of total insured losses due to flooding.

Insurance sources say that most of the major flood damage was covered by facultative reinsurance contracts, placed through local companies with major reinsurers abroad.

So far, major flood and terrorism claims of around \$150 million have been filed in New York and London, brokers say. ■

CG complaint ratio lowest in Illinois

SPRINGFIELD, Ill.—The Illinois Insurance Department has reported that Connecticut General Life Insurance Co., a CIGNA unit, had the lowest complaint ratio in the state in 1982 for group accident and health insurance. It had a complaint ratio of 0.86, or less than one complaint for each 10,000 policies in force. ■

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Connecticut gets federal funds to help pay for bridge repairs

Continued from page 2
of repairs, Sen. Lowell Weicker, R-Conn., proposed an amendment to the fiscal 1984 federal transportation appropriation bill to give Connecticut up to \$21 million to complete repairs to the bridge.

Up to \$20 million can be used to cover repair costs not insured, explained Lisa B. Palache, an aide to Sen. Weicker. The other \$1 million will be split between Greenwich, Conn., and Port Chester, N.Y., to repair damage to their roads when Mianus bridge traffic was detoured through their towns after the collapse.

President Reagan signed the bill in August and funds will be released when the state Transportation Department completes plans for permanent bridge repairs, Ms. Palache said.

Connecticut's property insurance for the bridge is not the only coverage that is coming up short. It is expected that Connecticut's \$1 million per-occurrence liability coverage will not cover death and injury claims arising from the collapse. The three persons injured have notified the state that they also will make a claim.

Suits have been filed by the estates of Luis Zapata, 31, and Reginald Fischer, 21, of Stamford, Conn., who were riding together in a car when they were killed, and by the estate of the Harold W. Bracy Jr., a truck driver from Louisiana who

The federal appropriation will cover damages to municipal property such as roads.

The cause of the bridge collapse is still under investigation. The National Transportation and Safety Board conducted four days of hearings in Greenwich late last month.

Included in the testimony from state officials was a statement by Jerry E. White, one of the inspectors who last checked the bridge before it collapsed.

Mr. White pleaded guilty Sept. 19 to a charge of forgery, admitting that he had altered his field notes on the inspection after the bridge collapse to make it appear that he had spotted some problems.

He was placed on one year's probation and ordered to complete 150 hours of community service.

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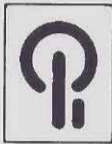
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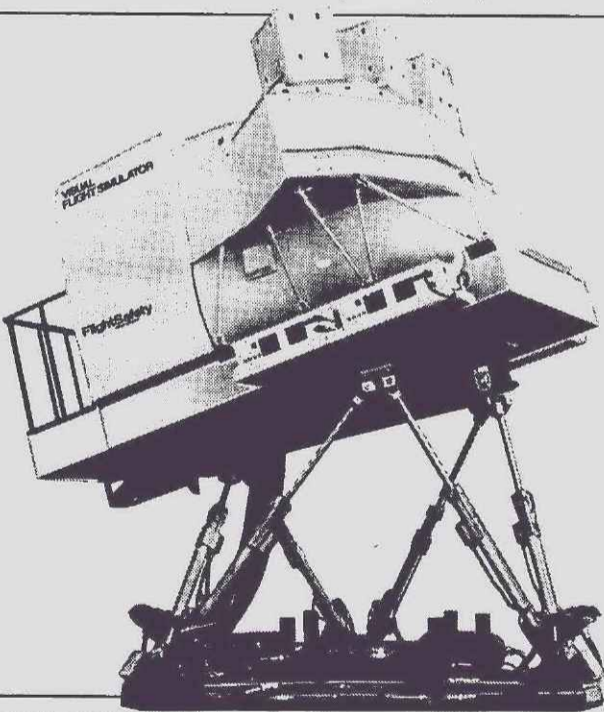
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'Up to \$20 million can be used to cover repair costs not insured,' said Sen. Weicker's aide.

also was killed.

Connecticut statutes do not require that specific damages sought be listed in the initial lawsuit filing, so the state will not know how much it is being sued for until discovery begins.

The state's highway defect or road liability insurance policy is underwritten by Aetna Life & Casualty Co. There is no annual aggregate on the limits of \$1 million per occurrence for bodily injury and \$100,000 per occurrence for property damage, Mr. Shimelman said.

He noted, however, that the chance of the claims going beyond the \$1 million limit is quite likely because two of the people killed were "relatively young men."

David and Helen Pace of Robins, Ga., the injured driver and passenger of the second truck involved in the accident, have filed a claim with the state for personal injuries.

The driver of the second car involved, Eileen Waldon of Darien, Conn., has filed statutory notice of a claim for injuries to herself and her vehicle.

Again, no dollar amount had to be listed.

Mr. Shimelman said the companies that owned the two trucks that were damaged in the accident also are seeking damages. One of the tractor-trailers damaged was valued at about \$67,000 and was carrying 38,646 pounds of hamburger, also valued at \$67,000.

Several communities in the Greenwich area also have threatened suits against the Connecticut Department of Transportation for damage to their roads and their homes when traffic was detoured off the turnpike, according to Kathryn Mobley, a Connecticut assistant attorney general.

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Tight offices may lead to worker ailments

Continued from page 3

more energy-efficient and, therefore, more dependent on mechanical ventilation; the building ventilation systems themselves have become very highly tuned, delicate machines; there have been a lot of new products introduced into buildings, possibly releasing fumes into the air, and there has been a greater awareness of environmental problems."

Office workers are among those who are becoming more aware of tight building syndrome.

The Office and Professional Employees International Union recently sponsored a study of tight building syndrome and other workplace problems in 12 Manhattan office buildings.

The study, carried out by TDS Ltd., a Canadian building consultant firm, covered 1,106 union members and concluded that tight building syndrome is a noticeable

problem for office workers. However, no workers compensation claims are known to have been filed on the basis of tight building syndrome.

In many cases, there may be an obvious, identifiable contaminant in the air of a building, such as carbon monoxide leaking in from an underground garage. In several cases, researchers have found the air-intake ducts for buildings located near garage exhaust vents, providing a clear-cut solution to the air problem: moving the ducts or the vents.

But in the typically perplexing instances of tight building syndrome, researchers are unable to find anything in the air that, by itself, would cause a problem.

"You just can't point to any one particular item that is responsible for building illness," explained Elia Sterling, an architect and building consultant based in Vancouver,

British Columbia, and president of TDS Ltd. "At the same time, there are many sources of contaminants.

"In an urban setting, you start, after all, with city air, which may already be highly polluted. To that, you add all of the substances that get into the air from the office itself. Plastics give off fumes, synthetic upholstery gives off formaldehyde and anything made with particle board gives off formaldehyde, paint gives off carbon monoxide and there is a whole array of adhesives and cleaners that is used in offices that can also give off all sorts of fumes. Then, on top of that, you add the substances that are introduced by the office workers, from cigarette smoke to perfume to hairspray, and you have quite a collection of chemicals in the air."

In older buildings, the leaks and drafts of the buildings would help to dissipate those chemicals. But in the newer buildings, there are no

leaks and drafts; they have been eliminated in the interest of saving energy. So, those chemicals get trapped in the building and they tend to build up over time.

Most office buildings recirculate 80% to 85% of the air in the building, adding 15% to 20% outside air in the process. That isn't enough to carry away the airborne irritants and somehow that collection of chemicals causes the problem.

"It's that exposure to low doses of a wide variety of pollutants that seems to be the reason for discomfort and illness," said Kevin McManus, an industrial hygienist in the Boston office of the National Institute for Occupational Safety and Health.

The low levels of the chemicals in the air make it difficult for NIOSH researchers or insurance company loss-control experts to identify and resolve the problem.

"We never see levels that are

over the OSHA standards," said Alice Farrar, assistant vp at INA Loss Control Services Inc. in Philadelphia, a unit of CIGNA. "What's so mysterious about this is that if you have a usual sort of industrial hazard, you have something to measure, something to detect. But in these cases, it's just not that easy to measure or identify the problem."

"I'll tell them (clients) right up front that we're not successful in every case," said John Garis of Kemper Insurance Co.'s National Loss Control Services Co. in Long Grove, Ill. "If we can't identify the problem, what we generally recommend is to increase the fresh air flow by 5% increments until the complaints stop."

That is the customary response to the problem: increasing the ventilation.

For example, the John W. McCormack State Office Building in Boston was racked by complaints of building illness for several years before officials finally cranked up the fans.

"Every day, we'd get complaints," said Rudy Sibillo, superintendent of the building. "People would get drowsy around 3 p.m. or 3:30 p.m. We were circulating the air within the proper limits. There was nothing wrong with it. We tried everything, but it seemed no matter what we did, there were still complaints.

"For the last six months or so, we've turned the air conditioning and ventilating system on about midnight, instead of 4 a.m. or 5 a.m. Our electricity bills are way up, but we haven't had any complaints."

Massachusetts learned its lesson. When the state's new Transportation Building opens in Boston early next year, it will have windows that open to let stale air out and fresh air in.

Others, however, have been less successful in dealing with tight building syndrome. The National Broadcasting Co., for instance, ran

Continued on facing page

Actual cause of building illness is unknown

The solution to tight building syndrome seems to be, in its simplest form, improving the ventilation. But what, exactly, is the cause of the problem?

No one really knows yet. But research is under way and two general theories seem to be emerging.

One theory is that the sum of a number of low-level irritants in the air is somehow greater than its parts.

"Most of the standards that are referred to were designed for situations in which there was just one substance in the air," explained Dr. Isaac Turiel, a research scientist at the Lawrence Berkeley Laboratory in Berkeley, Calif. Dr. Turiel recently completed the manuscript for a book on indoor air quality.

"The idea is that there is some sort of synergistic effect in which the chemicals acting together have greater effect than they would have independently."

The modern office environment is the source for a large number of chemicals that are released into the air. There are, for instance, many sources of formaldehyde. It is released, or "off-gassed," by any furniture made from

particle board, from many furniture coverings and from adhesives in furniture or under the carpeting, among other sources. Cigarette smoke carries a number of chemicals and particles. Carpet shampoo can give off gases. The list of sources and chemicals is long.

In addition, some people respond to certain chemicals, such as formaldehyde, in such a way that once they have developed a sensitivity to it. Only very minute amounts are required to trigger a reaction.

The other general theory of building illness is that the chemical contaminants in the air actually are transformed into another substance, in much the same way that photochemical smog is created from the chemicals in the air of major cities. The major proponents of this theory are Theodore and Elia Sterling, building consultants in Vancouver, B.C.

"In many ways, a modern office building is like a submarine placed on end," said Elia Sterling.

He draws a parallel between building illness and the experience in submarines in which deadly phosphene gas was produced by accidental combinations of leaking gases. Many

maintenance and cleaning products containing volatile chemicals commonly used in buildings are no longer allowed in submarines.

Another key factor that cannot be overlooked in assessing tight building syndrome is the psychological factor.

Many managers tend to attribute the symptoms of tight building illness solely to psychological causes. While most researchers believe there are actual chemical root causes of building illness, they also feel the psychological aspects cannot be overlooked.

"We often find that a tight building problem will go unnoticed for some time because each person assumes that the symptoms he or she is experiencing are strictly personal," said Jeffrey Hicks, an industrial hygienist for Fireman's Fund Risk Management Services Inc.

"Then, what happens is that a couple or three of them will go out together and they'll start talking about their problems and they'll say, 'Hey, me, too!'"

"At that point, it's a question of helping identify the problem by pooling experiences. You just have to be careful that the me-tooism doesn't go too far." —By Mark K. Metzger

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Insurance Management: vps, directors, managers of insurance, risk, benefits, compensation, safety, security, etc.	5,865
Government, Associations, Unions, Educational Institutions	1,024
Commercial Consumers Sub-total	23,176
Insurance Agents & Brokers	9,639
Insurance Cos.	5,384
Financial Institutions	385
Actuaries, Attorneys, Adjusters, Appraisers & Consultants	2,779
Others allied to the field	1,020
TOTAL	42,383

*Source: Business/Occupational breakdown of qualified circulation, May 2, 1983 issue, as submitted to BPA for June 1983, BPA Publisher's Statement.

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Continued from facing page into a case of building illness when it moved 135 staffers from its 30 Rockefeller Plaza headquarters to new offices in the Simon & Schuster building around the corner on Sixth Avenue in New York. The employees moved into the offices in October 1980 and began to experience the symptoms of building illness almost immediately.

NBC spent a year wrestling with the problem, calling on private testing laboratories, as well as inspectors from the New York City Department of Health and the federal Occupational Safety and Health Administration.

They found no contaminants that by themselves could account for the headaches, drowsiness, eye irritations and skin rashes, but they did find that the air was stale. Some improvements were made to the HVAC system, but the problem remained.

Finally, in late September 1981, senior executives refused to return to the offices until the air quality was dramatically improved. NBC threw up its hands and two weeks later moved all 135 staffers out of the building completely.

Poor ventilation can result from any number of causes. In some cases, the employees themselves can cause it.

In one case that Mr. McManus of the Boston NIOSH office investigated, one employee was bothered by the draft from the ventilating duct overhead so she had it sealed up.

That increased the air flow through other ceiling vents, prompting other employees to complain and have their overhead ducts sealed shut. Eventually, the building was operating almost without a ventilating system at all and NIOSH was called in to deal with the resulting building illness.

In many instances, building managers try to save some money by turning down the fresh air intake in the ventilating system. That means that the HVAC system doesn't have to heat or cool as much as it was intended to. Since the temperature itself is maintained at the proper level, those working in the office don't notice any change. Particularly in times of high energy costs, it is a very easy way to stretch building management budget.

"Right now, we're living high on the hog in terms of energy costs," said Theodore D. Sterling, father of Vancouver building consultant Elia Sterling and a principal of TDS Ltd. "But wait until the next energy crunch. Then you're going to see a big jump in building illness."

Often, however, tight building syndrome results from the basic design of the building itself: It is designed to operate so close to the minimal standards of air circulation (as defined by the American Society of Heating, Refrigerating and Air-Conditioning Engineers), that relatively small errors and disturbances can send the system haywire and produce tight building syndrome.

"Buildings have become extremely complicated," explained MIT's Mr. Joroff. "A new building is loaded with different systems—lighting, HVAC and so forth. It's like a sailboat. It can work really well, but you've got to work very, very hard at it."

If the building does get out of kilter, the easiest solution is to turn up the fans and increase the fresh air flow. At CIGNA's problem building, in addition to other steps, the fresh air flow was increased from seven cubic feet per minute per employee (two above the ASHRAE standard of five cfm/person) to 20 cfm/person. ASHRAE, meanwhile, is revising its air flow standards.

"We may not know what the problem really is, but we know what the answer is: open the windows," said one industrial hygiene expert.

Effective it is. Cheap it is not. "Sick buildings have all been solved on an individual basis, but nobody has really put it all together," said Dr. John Spengler, an associate professor at the Harvard School of Public Health.

"That cannot be a long-term solution, just pumping more air through the buildings. That's paying a pretty high energy premium."

Yet research on tight building syndrome is really only beginning and theories on the best way to deal with it are just emerging.

John Zeisel, a Cambridge, Mass., building design consultant, believes tight building syndrome is just one

aspect of a larger problem of poorly coordinated office design and operation.

The only solution is a thorough integration of all the various elements of office design and work planning, Mr. Zeisel said.

"It's really a problem of total building performance," said Mr. Zeisel, whose firm, Building Diagnostics Inc., is involved in research of building illness for the Canadian government.

For example, he said, the improper placement of the movable partitions that are so popular in contemporary modular office design can severely restrict airflow, creating dead spots of stagnant air even if the HVAC system is functioning properly.

In particular, partitions that run all the way to the floor, instead of leaving four inches or six inches clearance, tend to throw off even well-designed ventilating systems.

The problem, Mr. Zeisel said, is that a mechanical engineer is re-

sponsible for the HVAC system and an interior designer is generally responsible for selecting and laying out the partitions. Usually, no one is effectively coordinating those two elements so they function properly.

In addition, as Mr. Zeisel and other experts pointed out, buildings are constantly being changed and revamped and renovated. Partitions may be moved, offices may be created or eliminated and additional staff and equipment may be brought in. All those changes can affect air quality.

It can be, in Mr. Joroff's metaphor, like having the jibsail, the mainsail and the tiller on a sailboat all being tended independently, and still expecting the boat to sail straight.

More likely, it will end up on the rocks.

Mark K. Metzger is a business journalist based in Boston.

Suburb cools workplace smoking

Continued from page 3 with is what to do about the super-sensitive non-smoker. Where do the responsibilities of the employer end?" asks Mr. Horn.

"There are unreasonable people in this world—how far does a company have to go in its effort? There should be some protection against the totally unreasonable person," says a spokesman for Lockheed Missiles & Space Co. Inc., whose research laboratories are in Palo Alto.

The sponsor of the ordinance, Councilwoman Ellen Fletcher, says the employer must "satisfy the non-smoker," but admits its specific responsibilities "are not spelled out."

The ordinance does not dictate what an employer should spend to accommodate its non-smoking employees. "It's silent on that issue, and leaves it entirely up to the individual employer," says Ms. Fletcher.

She suggests that employers who now find themselves having to satisfy non-smoking employees turn toward practical, inexpensive solutions, such as moving desks around or purchasing a few desk-top air purifiers.

"But the employer would be better off by not hiring smokers at all, that's the best response in the end," she says. "This is an incentive for employers to require employees not to smoke."

Hewlett-Packard is concerned with adjusting to a no-smoking situation in company hallways. Employees may still smoke in lobby areas, but this prohibition means that no one can enter an office area from the lobby still smoking a cigarette.

"That's a whole new educational process, for us and for the public. It's going to be a little tough to police," Mr. Affleck says.

Employees may now declare their individual workspace a non-smoking area, and their employers must enforce those employee decisions and fellow employees must respect those decisions. Hewlett-Packard has defined the employee's work area as "his desk, table, and the area (directly) around him," Mr. Affleck explains.

Keeping an employee from smoking in the workspace of a non-smoker "may be tough to enforce," he says. "It's a courtesy-type of thing, and I hope our employees are courteous enough to work this out."

If an employer cannot resolve a smoking dispute, the ordinance requires that it ban smoking altogether in that area.

Another concern expressed by the business community is that of restricting smoking in conference rooms. Some companies currently allow conference participants to decide among themselves if smoking will be allowed in the meeting. This practice would violate the amended ordinance.

Mr. Affleck points out that it would be disruptive to the progress of any meeting if people periodically left the room to smoke. "I don't know what the response will be from the heavy smokers. I hope they'll stay for the (entire) meeting, but it's a question mark."

The law will not be enforced by a city authority. "We expect it to be self-enforcing," Ms. Fletcher says. Fines for violating the ordinance range from \$50 to \$250, but will have to be assessed by a judge.

The existing ordinance now bans smoking in auditoriums, classrooms, public restrooms and indoor service lines, and in the elevators of hotels and multifamily dwellings. Theater-goers have been prohibited from smoking in Palo Alto for about 10 years, Ms. Fletcher says.

"When they flash on the sign in the theaters, people applaud—that's how popular it is."

Fewer mergers in 1982

CHICAGO—Merger and acquisition activity in the insurance industry dropped 9% in 1982, according to statistics from W.T. Grimm & Co., a merger, acquisition and divestiture transaction intermediary.

In Mergerstat Review, a Grimm publication, the number of such transactions in the industry fell from 89 in 1981 to 81 in 1982.

Insurance was sixth on Grimm's list of 50 industries and their

But the signs required by the new smoking amendment are not so popular.

The ordinance states that, except where other state-required smoking signs are used, "Wherever smoking is prohibited, conspicuous signs shall be posted so stating, containing all capital letters, not less than 1 inch in height, on a contrasting background."

One employer called such signs "gross."

Ms. Fletcher says a similar, but weaker, ordinance in San Francisco "was really the trigger" for this legislation.

San Francisco's smoking ordinance, sponsored by Board of Supervisors President Wendy Nelder, was signed into law June 3, and was to have taken effect Sept. 3 (BI, June 13). But because a referendum petition secured enough signatures to put the measure, now dubbed "Proposition P," on the November voting ballot, the law is in limbo.

But the ordinance is expected to pass, and city businesses will have 90 days after its passage in which to comply.

About 12 cities in California have ordinances regulating smoking in the workplace to some degree. The Sacramento City Council will vote Tuesday on an ordinance that would restrict smoking in city offices.

Currently 36 states and Washington have some sort of smoking restriction law, and five of them, Connecticut, Minnesota, Montana, Nebraska and Utah, have state legislation addressing smoking in the workplace. ■

merger/acquisition activity. The banking and finance industry was first.

In terms of dollar values, the insurance industry ranked No. 2 in 1982, while the oil and gas industry ranked first, and banking and finance ranked No. 3.

To order a copy of the Mergerstat Review write Research Department, W.T. Grimm & Co., 135 S. LaSalle St., Chicago, Ill. 60603. ■

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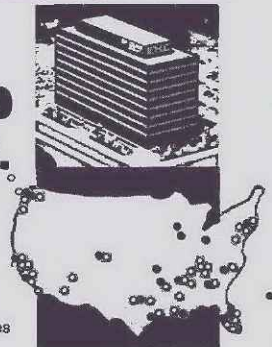
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All-risk policy covers damages to hotel

Continued from page 1

between the Phalangists and a number of predominantly Moslem leftist factions, including the Palestine Liberation Organization.

The leftists seized the tallest building in the area and used it to fire down on the Phalangist positions in the hotels. The fighting continued with gradually mounting damage to the hotels, until March 1976 when a leftist attack drove the Phalangists out of the area.

By that time, the Holiday Inn, long since evacuated by guests and staff, was wrecked.

The Aetna all-risk property policy, issued through AFIA, covered Holiday Inns and some of its subsidiaries beginning in February 1975. Before it canceled coverage for the Beirut hotel in November 1976, Aetna had insured the hotel building—leased by Holiday Inns—for \$9.5 million and its contents for \$1.9 million. The first year premium was \$238,705.

The policy carried a \$1,000 deductible on top of a \$100,000 self-insured retention, which Aetna fronted and then reinsured 100% through Holiday Inns' captive insurance subsidiary, American Commonwealth Assurance Co. Ltd.

According to court papers, Holiday Inns filed a notice of claim with Aetna in November 1975 and followed that with proof of loss in March 1976, claiming \$9 million in damages to the building and a \$1.9 million total loss of the building's contents.

Holiday Inns contended that the loss should be covered under the policy's strikes, riots and civil commotions endorsement, for which it had paid additional premium. That endorsement is intended to cover losses "directly caused by persons taking part in riots or civil commotion or by strikers or locked-out workers or by persons of malicious intent acting in behalf of or in connection with any political organization."

Aetna refused to pay the claim, citing the provision of the policy that excludes coverage for damages from "war...hostilities or warlike operation (whether war be declared or not), civil war, mutiny, insurrection, revolution, conspiracy, military or usurped power."

Holiday Inns filed its suit against Aetna in 1977 and the trial began in March 1982, after Judge Haight had ruled that it was Aetna's burden to prove that the war risk exclusion applied. During the trial, Aetna attorneys concentrated on the insurrection, civil war and war elements of the exclusion.

In his Sept. 19 opinion, Judge Haight defined each of the terms and explained why they couldn't

be applied to the fighting in Beirut.

The judge noted that even though the fighting in Beirut was dubbed a "civil war" by journalists and politicians, the term still had to be defined "for insurance purposes."

On several points of the war risk question, he relied on a 1973 case in which Pan American World Airways Inc. sued its all-risk insurer, Aetna Casualty & Surety Co., to recover damages after a Palestinian terrorist group blew up a Pan Am jetliner at the Cairo airport.

In that case, the court found that none of the war risk exclusions applied. The ruling was upheld on appeal in 1974.

Judge Haight cited the Pan Am and other cases in concluding that two conditions must exist for the "insurrection" exclusion to apply: The insurrectionary acts must be carried out by an identifiable group and must be for the purpose of overthrowing an existing government.

The "hodgepodge" of both leftist and rightist factions in Beirut "cannot accurately be placed under labels which suggest cohesion or unity of purpose," the judge concluded. Moreover, he said, none of the groups ever expressed an intent to overthrow the legal government, which continued to function throughout the fighting in 1975-76.

"The principal contending groups were attempting to restructure the Lebanese political system, not destroy it," he concludes.

Judge Haight went on to rule that Aetna's failure to prove that an insurrection existed "dooms its effort to defend on a theory of 'civil war,'" since the same intent to overthrow the government must be shown.

None of the leftist or rightist groups clearly intended to take control of the country or even to partition it and take control of a portion, even though there was "prolonged violence and much bloodshed, and during the course of that violence the Holiday Inn was much damaged," Judge Haight wrote.

Finally, Judge Haight cited British and American cases, including the Pan Am case, in concluding that "war" doesn't exist unless the fighting involves two sovereign states or "state-like entities." He decided that none of the factions involved in the 1975-76 fighting met this qualification, though Aetna argued that the Phalange acted as a "defender" of the existing government and that the PLO was a "quasi-sovereign entity."

"The Holiday Inn was damaged by a series of factional 'civil commotions' of increasing violence," the judge wrote in finding for Holi-

day Inns. "The Lebanese government could not deal effectively with these commotions. The country came close to anarchy. But the constitutional government existed throughout."

Lawyers for Holiday Inns note that this is the first U.S. case in which a judge has ruled that an all-risk policy covers damages from the strife in Beirut during the mid-1970s.

"Though it may appear to be hair-splitting to someone outside the insurance industry, within the industry and the law these terms have a definite meaning," said Richard Walker, an attorney with the New York firm of Cadwalader, Wickersham & Taft, which also represented Holiday Inns.

An attorney for AFIA, who asked that he not be named, agreed that the decision, if upheld on appeal, will serve as an important precedent in defining war risk exclusions and separating them from "civil commotion."

"All this is tremendously significant," he explained. "The categories are very important for insurance and public international law."

The AFIA attorney added that underwriters will probably look more closely at risks they thought were war risks but could be judged to be something else.

"I think the case will force us to take a closer look at the situation and not just blithely assume that any (such disturbance) is a civil war," he said. "We now have to distinguish between civil commotions and civil war to make subtle distinctions of this sort."

While the attorney said that he would favor changes in the current wording of the war risk exclusion in light of the Holiday Inns decision, he wasn't sure that underwriters will revise their all-risk policy forms.

"Maybe we should spell it out; maybe we should make clearer definitions," he said. "I'm not sure they are going to do that, though."

Other insurers that write Lebanese property risks speculate that a change in policy language is conceivable.

"I would think this might prompt them to (revise forms)," said Edward C. Dobbs, president of the Africa/Middle East division of American International Underwriters, a unit of American International Group Inc.

"I would think we would support any move toward clarifying forms and defining... what is war."

Mr. Dobbs added, though, that such a revision would be "a very tortuous process and it's always approached with great hesitancy because existing wording may be (defined) by existing court decisions."

Another result of Judge Haight's decision, says Mr. Walker, the attorney for Holiday Inns, may be the filing of more lawsuits by companies whose damage claims from the fighting in Beirut were previously denied on the basis of the war risk exclusion.

Mr. Walker said he knows of several banks and stores that suffered damage during the fighting and may benefit from the decision if it is upheld. But, he would not name any of these companies. Several

New York-based multinational banks contracted by *Business Insurance* said they either did not file claims for Beirut damage or were not responsible for purchasing insurance for leased office space in the city.

The Beirut Hilton hotel, operated by Trans World Corp., also suffered extensive damage in the fighting. The hotel building was leased, however, and a Trans World spokesman said the company was not responsible for arranging insurance on the hotel.

Attorneys for both sides agree that claims would have to arise from the same 1975-76 fighting in Lebanon for Judge Haight's ruling to apply. Claims stemming from current fighting in Beirut would be subject to new litigation.

Even for claims stemming from 1975-76, the AFIA attorney explained that if a company had decided not to file a claim, assuming that the war risk exclusion applied, policy provisions for prompt notice of claim would bar them from filing now.

In addition, various statutes of limitations, ranging from five to 10 years in individual states, may bar additional lawsuits.

AIU's Mr. Dobbs said that his company denied a few "significant" claims on the basis of the war risk exclusion, but "not anything of the magnitude" of the Holiday Inns claim.

AFIA may have also denied other claims on the same grounds, but nothing approaching the size of the Holiday Inns claim, according to AFIA Vp Bowdre Mays.

Report criticizes syndicate practices

Continued from page 2

syndicates. One of the syndicates might be open to any Lloyd's member, while the other—the baby syndicate—is restricted to Lloyd's members who are friends of the underwriter.

However, the report points out, the term baby syndicates is a misnomer.

"The term baby syndicates has been used too loosely," says the report. "It has come to be associated with the practice of writing for more than one syndicate and favoring one of them over the other. It is not always the case that the favored syndicate has been the smaller syndicate of the two."

Besides making sure baby syndicates write only top-quality risks, underwriters also sometimes allocate expenses—including reinsur-

ance costs—among their syndicates to benefit the baby syndicates.

As a result, members of the baby syndicates stood to make more profit than the members of the other syndicates.

"We recommend that preferred underwriting be banned," the Higgins report states. However, the report does not go as far as to ban "parallel" syndicates—where the managing agency manages two or more syndicates of the same class.

A managing agency can operate parallel syndicates, the report says, if the Council of Lloyd's is satisfied that:

- There is a valid reason for the parallel syndicate to exist.
- The parallel syndicate's underwriting is based on predetermined fixed percentages.
- The parallel syndicate has a

separate active underwriter.

• The parallel syndicate writes different categories of business within the same class.

• It pays its own costs or contributes its fair share to expenses.

• It has an independent reinsurance program, with recoveries that are fairly and properly distributed.

Also, the report states that managing agents should inform syndicate members in writing that risks will be written by parallel syndicates. Agency auditors should also be notified and agency annual reports should include the financial details such as reinsurance arrangements and expenses for the parallel syndicates.

If the Higgins report is accepted by Lloyd's members, the ban on preferred underwriting would take place immediately.

British may propose pension law changes

By STACY SHAPIRO

LONDON—When a British employee leaves a job before he fully vests in his pension plan, he has two options, neither of which is satisfactory, says Tom Heyes, chairman of the National Assn. of Pension Funds.

He can, under the 1973 Social Security Act, take a frozen pension from his former employer. This means that when he retires, he receives a pension with the same value as the day he left the company, even if that was 20 years ago.

Or, he can take his pension from his former employer and transfer it to his new company's pension fund, which is known as a transferred-value pension.

But neither of these solutions take inflation into account, and the "early leaver" gets stuck with an insufficient pension because he moved jobs, Mr. Heyes said.

"A frozen pension this year will buy you a box of matches in 1995

because it does not move in line with inflation," he said, "and in a transferred value, the early leaver's money does not buy in the new fund what it would if he had been in the fund and had never moved."

The British government agrees with Mr. Heyes and wants to introduce legislation that would help bridge the gap between pensions for those who do not fully vest and those who do.

Social Services Secretary Norman Fowler said last month that legislation will probably be introduced, but he did not describe what its content would be. He added that the legislation would not be introduced this year.

However, the current British pension laws are more advantageous for workers than U.S. pension rules, under which workers may not vest in any benefit for 10 years.

The National Assn. of Pension Funds, which is made up of com-

panies that maintain pension plans, favors some sort of new British legislation, Mr. Heyes points out.

Up until now, companies have been encouraged by the government to act voluntarily to end the pension problem for those who transfer jobs, but no company has so far taken the first step, he said.

The NAPF believes that any legislation should state that deferred pensions should be increased 5% annually or an amount equal to the inflation rate, whichever is lower, though Mr. Heyes says this formula would have to be increased if inflation again approaches rates as high as 15%.

But there's a catch for employees: The NAPF wants any extra costs mandated by the legislation to be paid by the worker.

"We can say you can redistribute the assets of the pension funds to pay for this without hiking employers' costs," Mr. Heyes said. "People who will benefit from full-term pensions will pay."

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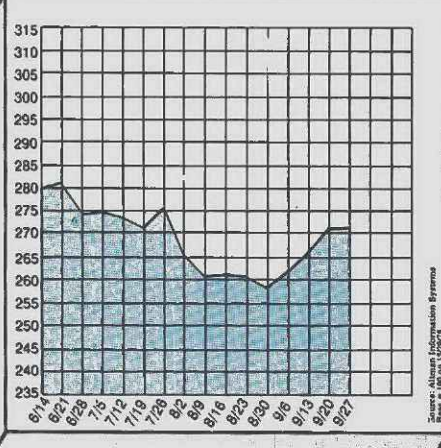
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BI Insurance Index



BM&F claims independence from beleaguered Baldwin

By LEN STRAZEWski

AFTER NEARLY A YEAR of buy outs and litigation, Bayly, Martin & Fay International Inc., the nation's eighth-largest brokerage, has finally severed its ties with the financially foundering Baldwin-United Corp.

The Newport Beach, Calif.-based brokerage announced last week that members of the current BMF management have teamed with Bass Brothers Enterprises Inc. of Fort Worth, Texas, a private holding company that represents the interests of four oil financier brothers, to purchase all of the brokerage's remaining debt from Cincinnati-based Baldwin and end any question of BMF ownership.

Bayly, Martin & Fay was acquired by Baldwin-United more than two years ago along with BMF's most recent parent, Sperry & Hutchinson Co., but was purchased back by a new holding company formed by BMF Chairman Charles R. Warde and President Joseph N. Tate in December 1982.

The \$92 million deal, however, was financed mostly with about \$60 million in loans from a Baldwin insurer subsidiary, National Equity Life Insurance Corp., then of Honolulu, but presently under the jurisdiction of the Indiana Insurance Department, and other promissory notes to Baldwin.

Because of the unusual financing and the convertible debenture arrangement with National Equity, which would have allowed the insurer to convert the debt into more than 75% of BMF stock, the real ownership of the insurance brokerage was often called into question.

In a lawsuit filed by former BMF treasurer William Luke regarding alleged improper use of premium trust accounts, the ownership question was raised in court documents as Mr. Luke described the sale transaction that involved little cash and almost all debt to Baldwin or subsidiaries (BI, May 23).

BMF denied all charges of wrongdoing and continued to affirm that its ownership rested with the current brokerage officers (BI, July 11).

"The Bass Brothers purchase settles the ownership questions once and for all," re-

marks BMF Senior Vp-Operations Samuel Alcorn.

"This will break any and all remaining ties we have with Baldwin. Our ownership will clearly remain with both Bass Brothers and a broad group of present BMF management," he said.

The Bass brothers are listed among the richest men in the United States and the assets of their holding company, estimated at more than \$1 billion, include real estate, casinos, oil exploration companies and diversified businesses. According to a spokesman for BMF, the brokerage is the holding company's first entry into the insurance business.

Actual shareholder designations among BMF present management have not yet been decided, Mr. Alcorn says, but would include Messrs. Warde and Tate as well as several other current officers of the brokerage.

Mr. Alcorn also noted that Indiana Commissioner Don H. Miller has agreed to accept undisclosed cash proceeds from the sale as repayment of the debt owed to National Equity, and any other promissory notes previously held by Baldwin have been canceled by the corporation some months ago as part of Baldwin's financial restructuring.

Six Baldwin insurance companies, including National Equity, University Life Insurance Co. and four subsidiaries, are currently under rehabilitation by insurance departments in Indiana and Arkansas that are seeking to protect approximately 165,000 holders of Baldwin single premium deferred annuity policies.

Meanwhile, Baldwin faces new financial attacks.

Shortly after three Cincinnati-based creditors filed petitions in federal bankruptcy court in Cincinnati seeking that Baldwin be forced into reorganization, Baldwin and two subsidiaries, D.H. Baldwin Co. and Baldwin-United Leasing Co., filed voluntary Chapter 11 petitions under the Federal Bankruptcy Act in New York federal court.

"The proceeding will provide a mechanism for dealing with intercreditor disputes which proved irreconcilable when a small number of creditors representing \$10 million out of almost \$1 billion of debt could not find common ground," Baldwin-United President

Victor H. Palmieri said last week in a prepared statement.

Mr. Palmieri noted that the Chapter 11 petitions were restricted to the three named Baldwin companies and did not include most of the group's other divisions, including its insurance companies. Not included were Balunit Inc.; MGIC Investment Corp.; Mortgage Guaranty Insurance Co.; American Municipal Bond Assurance Corp.; Sperry & Hutchinson Co.; Top Value Enterprises; Empire Savings, Building & Loan Assn. of Denver; and Baldwin Piano & Organ Co.

"The Chapter 11 filing should have no effect on the rehabilitation plans for the SPDA companies, which the commissioners are expected to file soon," Mr. Palmieri said. "And in particular, it will have no effect on the work of the Special Masters Commission which will oversee the development of a plan for the sale of MGIC Investment Corp. of Milwaukee."

Since MGIC securities are held by the six insurers under rehabilitation, Baldwin had been working with insurance commissioners in the three relevant states on a plan to secure those assets. On Sept. 14, the company and the insurance commissioners announced a proposal to form the Special Masters Commission to include designees of the Indiana, Arkansas and Wisconsin departments. The commission's main task was to find a suitable buyer for MGIC.

Mr. Palmieri affirmed that Baldwin continues its financial restructuring and believes that "a foundation has been laid for a successful plan to restructure the debt and rehabilitate the SPDA companies so that policyholders will fully recover their investment along with a market rate of interest within a three- to four-year period."

Creditors' chances for recovery depend upon a long-term cooperative effort that will bear fruit only after a successful rehabilitation program under the leadership of the Arkansas and Indiana insurance commissioners," Mr. Palmieri stated.

In a joint statement, the commissioners confirmed that their rehabilitation plans would not be impeded by the Chapter 11 filings and said that they were aware of the possibility of a corporate bankruptcy and had taken it into account in working on their preliminary plan that was announced last week at the National Assn. of Insurance Commissioners meeting in Tampa, Fla.

Securities firm Merrill Lynch & Co. is also getting some legal snags related to Baldwin's problems. The firm, the largest seller of Baldwin single premium deferred annuities, is being sued by an irate investor, Harry Factor, who is seeking class-action status on behalf of all like purchasers of Baldwin annuities.

The suit, filed in New York federal court, alleges that Merrill Lynch violated Securities and Exchange Commission regulations and knowingly concealed Baldwin's worsening condition from investors.

Financial briefs Alexander & Alexander

Providence Capitol Ltd. of Bermuda and its related insurance companies—Capitol Life Insurance Co., Providence Insurance Co. and Providence Washington Insurance Co.—have announced additional purchases of Alexander & Alexander Services Inc. stock.

In a revised Schedule 13D filed with the Securities and Exchange Commission last week, the companies disclosed that they had increased their holdings from 5.23% to 5.59% through stock purchases made the first week of September. The companies purchased more than 26,000 shares of A&A stock for more than \$562,737 to bring their total holdings to more than \$1.4 million.

Providence Capitol Corp. is owned in majority by Don F. Gaston and Paul R. Dupee Jr., two former Gulf & Western Corp. executives who purchased the related insurers from G&W last year (BI, Sept. 19).

British Issues

27 Sep Companies	Price pence	P/E	Div. pence	Yield %	1 Week High—Low	
					pence	pence
Comm Union	167	167.0	16.86	10.1	169	167
Eagle Star	464	16.6	24.29	6.0	480	455
Genl Accident	425	11.0	24.29	6.2	435	425
Gdn Royal Exch	465	11.6	27.26	6.6	468	460
Phoenix	312	13.6	25.00	8.3	316	312
Royal	518	12.9	37.86	7.6	525	515
Sun Alliance	1225	14.1	68.57	6.4	1225	1225

Brokers	Price	P/E	Div.	Yield	1 Week	
					High	Low
CE Heath	290	7.3	21.07	7.9	290	385
Hogg Robinson	114	8.8	8.57	8.3	111	110
JH Minet	123	10.3	6.50	6.2	125	115
Sedg Grp	208	10.4	10.00	5.5	208	202
Stenhouse Hldg	105	9.5	7.86	7.9	105	102
Stew Wrightson	242	8.1	20.43	9.3	243	235
Willis Faber	567	11.8	25.00	5.3	567	543

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

BI Industry Stock Report

Insurance Cos.	Price	% Chg.	P/E	\$ Div.	% Yld.	9/21/83 THRU 9/27/83			Price	% Chg.	P/E	\$ Div.	% Yld.	9/21/83 THRU 9/27/83					
						High	Low	Vol. (000)						High	Low	Vol. (000)			
Aetna Life & Cas Co	NYSE	37.50	-1.3	9.1	2.64	7.0	38.00	37.50	605.4	Travelers Corp	NYSE	31.63	-2.7	8.2	1.80	5.7	32.75	31.63	520.2
American Bankers Ins Group	OTC	11.88	-5.0	9.3	0.50	4.2	12.25	11.88	88.4	United Fire & Cas Co	OTC	32.25	0.0	11.6	0.88	2.7	32.25	32.25	0.0
American Gen Ins Co	NYSE	21.13	-2.3	7.7	0.80	3.8	21.63	21.00	312.1	United States Fid & Gty Co	NYSE	57.00	3.6	11.3	3.84	6.7	57.00	56.00	336.0
American Intl Finl Corp	OTC	13.38	3.5	12.7	1.12	6.1	18.50	18.00	63.6	United Svcs Life Ins Co	OTC	22.63	0.6	6.5	1.00	4.4	22.88	22.50	18.5
American Intl Group Inc	OTC	70.00	-0.4	11.7	0.44	0.6	71.00	70.00	565.6	USLife Corp	NYSE	26.63	-4.1	7.4	0.88	3.3	27.38	25.38	244.3
American Natl Irs Co	OTC	20.13	4.5	8.0	0.84	4.2	20.63	19.38	503.8	Washington Natl Corp	NYSE	31.00	11.2	13.7	1.08	3.5	31.00	27.50	168.3
American Sts Life Ins Co	OTC	40.50	0.6	11.1	0.88	2.2	40.50	40.50	0.1	Zenith Natl Ins Corp	OTC	17.00	-4.2	12.1	0.60	3.5	18.25	17.00	53.6
Aneco Reins Ltd	OTC	3.50	0.0	87.5	0.00	0.0	3.50	3.50	3.7	INSURANCE COMPANIES				AVERAGE	9.8	3.8			
Avecco Corp	AMEX	22.00	-5.4	11.9	0.58	2.6	23.38	22.00	20.4	Agents/Brokers									
Banks Iowa Inc	OTC	49.00	0.0	17.9	1.52	3.1	49.00	49.00	13.7	Alexander & Alexander Svcs	NYSE	21.75	-0.6	0.0	1.00	4.6	21.88	21.50	207.3
Bitco Corp	OTC	20.00	-2.4	8.6	1.33	6.7	20.50	20.00	38.7	Baldwin & Lyons Inc	OTC	38.50	0.0	12.4	0.80	2.1	38.50	38.50	0.6
Carolina Cas Ins Co	OTC	9.25	0.0	0.0	0.32	3.5	9.25	9.25	3.2	Corroon & Black Corp	NYSE	23.63	-0.5	12.2	1.80	7.6	24.13	23.63	20.4
Chubb Corp	OTC	65.25	3.2	8.1	3.12	4.8	65.25	63.75	428.6	Crump E H Cos Inc	OTC	10.00	0.0	14.7	0.40	4.0	10.00	10.00	39.6
Combined Intl Corp	NYSE	37.75	0.3	12.0	2.00	5.3	38.00	37.25	523.1	Emert & Chandler Cos Inc	OTC	10.75	0.0	0.0	0.00	0.0	10.75	10.75	4.1
Continental Corp	NYSE	33.13	-1.9	20.3	2.60	7.8	33.50	33.00	194.4	Hall Frank B & Co Inc	NYSE	27.13	-2.7	21.2	1.70	6.3	27.25	27.13	76.8
Crawford & Co	OTC	17.00	-2.9	12.7	0.60	3.5	17.75	17.00	7.5	Integrated Res Inc	AMEX	37.00	0.0	13.8	0.00	0.0	38.00	36.00	284.3
Crown Life Ins Co	OTC	112.00	0.0	7.3	3.10	2.8	112.00	112.00	0.4	Marsh & McLennan Cos Inc	NYSE	42.25	-1.7	12.2	2.20	5.2	42.75	42.13	248.4
Employers Cas Co	OTC	33.75	3.8	6.9	1.20	3.6	33.75	32.75	9.8	Poe & Assoc Inc	OTC	6.00	0.0	0.0	0.00	0.0	6.00	6.00	2.2
Equifax Inc	NYSE	32.75	0.7	14.3	1.40	4.1	33.88	33.13	36.3	Reed Stenhouse Cos Ltd	OTC	13.75	0.9	22.9	0.60	4.4	14.50	13.50	2.2
Excelsior Ins Co	OTC	19.75	0.0	10.3	0.00	0.0	19.75	19.75	1.0	AGENTS/BROKERS				AVERAGE	17.6	3.7			
Farmers Group Inc	OTC	35.50	-3.1	10.0	1.36	3.4	40.75	39.50	410.5	Conglomerates Holding Cos.									
Foremost Corp Amer	OTC	31.50	-1.6	14.5	0.83	2.6	32.00	31.50	38.3	American Express(Fireman's Fd)	NYSE	36.75	-8.4	10.7	1.28	3.5	40.00	36.75	1,924.4
Fremont Gen Corp	OTC	15.88	-6.6	75.2	0.48	3.0	17.13	15.50	164.9	Anderson Clayton(Ranger/Panam)	NYSE	28.75	3.1	16.4	1.32	4.6	28.75	27.50	40.9
Great West Life Assurn Co	OTC	225.00	0.0	8.1	11.00	4.9	225.00	225.00	0.0	Armo Inc	NYSE	20.00	0.6	0.0	0.40	2.0	20.00	19.75	692.1
Hanover Ins Co	OTC	61.75	2.1	7.7	0.88	1.4	62.25	60.25	22.8	Baldwin Utd Corp	NYSE	3.25	-35.0	1.5	0.00	0.0	4.75	3.25	1,395.3
Hartford Steam Boiler Inspnt	OTC	52.00	-1.0	8.1	3.00	5.8	52.50	52.00	3.2	CIGNA Corp	NYSE	43.75	0.6	6.7	2.48	5.7	44.00	43.58	814.4
Jefferson Natl L'fe Ins Co	OTC	43.00	-2.3	13.4	0.76	1.8	44.00	43.00	0.4	City Investing Co. (Home Ins.)	NYSE	36.00	-1.0	8.6	1.80	5.0	37.50	36.00	582.6
Kemper Corp	OTC	39.50	-0.6	7.3	1.80	4.6	40.13	39.50	56.1	GM Finl Corp (CNA)	NYSE	21.50	3.0	7.4	0.00	0.0	21.63	21.38	70.6
Lincoln Natl Corp Ind	NYSE	57.88	-1.5	9.2	3.00	5.2	58.50	57.88	123.3	General Data (Comml. Credit)	NYSE	51.88	-1.9	12.7	0.60	1.2	53.13	51.00	1,184.2
Mission Ins Group Inc	NYSE	31.25	6.8	11.6	1.00	3.2	31.25	30.50	405.9	General Re Corp	NYSE	62.63	-1.4	13.0	1.28	2.0	63.75	62.63	197.8
Nationwide Corp Ohio	OTC	41.75	0.0	15.3	0.70	1.7	0.00	DID NOT TRADE		Gulf Utd Corp	NYSE	27.50	0.0	8.4	1.32	4.8	27.88	27.50	286.1
Northwestern Natl Life Ins	OTC	37.00	4.2	24.5	1.50	4.1	37.00	36.50	24.1	ITT (Hartford Group)	NYSE	44.38	0.6	9.5	2.76	6.2	45.00	43.88	1,248.8
Ohio Gas Corp	OTC	47.75	-3.5	8.8	2.52	5.3	49.50	47.75	54.2	Optimum Hldg Corp	OTC	6.63	0.0	21.4	0.00	0.0	6.63	6.63	0.2
Old Rep Intl Corp	OTC	32.88	3.5	7.6	0.90	2.7	32.88	32.38	148.6	Sears Roebuck & Co. (Allstate)	NYSE	37.88	-2.3	12.1	1.52	4.0	38.50	37.88	1,683.9
Orion Corp	NYSE	28.50	5.6	14.2	0.66	2.3	28.88	27.00	50.4	Teledyne Inc (Argonaut)	NYSE	159.75	-5.8	14.2	0.00	0.0	167.00	159.75	830.0
Preferred Risk Life Ins Co	OTC	19.25	2.7	7.7	0.67	3.5	19.25	18.75	1.9	Transamerica Corp	NYSE	27.63	-1.3	9.5	1.56	5.6	28.00	27.63	281.4
Provident Life & Acc Ins Co	OTC	66.00	0.0	8.4	2.60	3.9	66.00	66.00	6.8	CONGLOMERATES/HOLDING COS.				AVERAGE	12.8	2.7			
St Paul Cos Inc	OTC	57.25	-8.4	6.6	2.80	4.9	60.50	57.25	448.2										
SAFECO Corp	OTC	54.50	2.6	11.2	2.40	4.4	54.6												

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