

business insurance

update:

Expert to resolve MGM policy questions

LAS VEGAS, Nev.—U.S. District Judge Louis C. Bechtle will name an insurance expert to resolve liability coverage issues in the MGM Grand Hotel fire litigation (*BI*, Aug. 24).

At a pretrial conference Sept. 9, Judge Bechtle asked the Plaintiffs' Legal Committee and the Defendants' Alliance to each

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Pollution coverage to be dumped?

EPA may back off on mandate for toxic waste insurance

By JOHN W. MILLIGAN

NEW YORK—In a surprising move that may signal a complete reversal in policy, the Environmental Protection Agency is reviewing its mandate that hazardous waste facilities must have pollution liability insurance.

Behind this decision, according to government and industry sources, is a philosophical debate over the proper role of the federal government and an unfavorable review of the EPA's proposed regulations by the Office of Management and Budget.

However, several industry sources are confident that there still will be a market for pollution liability insurance, regardless of what action the EPA takes. In the meantime, risk managers for companies that maintain hazardous waste facilities face further delays before the EPA regulations are finalized.

Under the Resource Conservation and Re-

covery Act of 1976, the EPA was given authority to establish standards of financial responsibility for hazardous waste treatment, storage and disposal facility (TSDF) operators.

Following a lengthy process that dates back two years to the Carter administration, the EPA mandated that TSDFs must purchase liability insurance to cover sudden and non-sudden pollution incidents, or otherwise demonstrate the ability to respond financially to liability claims.

The compliance deadline for liability coverage for sudden incidents has been set for Oct. 13, although recent reports from the EPA and the budget office have indicated that deadline might be delayed (*BI*, Aug. 24).

The largest TSDFs are to have liability coverage for non-sudden incidents by April 12, 1982, with limits of \$3 million per occurrence and \$6 million aggregate. This deadline

also is expected to be delayed.

Whit Field, special assistant to the EPA administrator for hazardous wastes, confirmed that the agency is reviewing its proposed financial responsibility standards.

A packet of regulations on financial responsibility of TSDFs, set to go into effect Jan. 12, 1982, contains two sections—financial responsibility standards for third-party liability and closing and monitoring of TSDFs.

Third-party liability is the biggest issue of the two, Mr. Field said, and centers on two questions:

- Is establishing financial responsibility standards a more appropriate role for the states rather than the federal government?
- How would this protect public health since there is no direct relationship between third-party liability and the prevention of pollution accidents?

While Mr. Field would not predict what decision the agency might finally reach, "I don't hold out a whole lot of hope for the third-party liability provision."

This development was described as a "dramatic turnaround" by Jim Kimble, senior counsel for the American Insurance Assn. Work on the requirements was nearing completion and "it was a lengthy exercise," he said.

The EPA has been looking favorably at self-insurance for liability exposures, said George Garland, chief of the economic and policy analysis branch of the EPA's solid

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AIG wages fight to keep McDonald's franchisee market

By KATHRYN J. McINTYRE

CHICAGO—American International Group is waging an unprecedented marketing war against McDonald's Corp. and its broker for the multi-peril package policy business of McDonald's franchisee-operated restaurants.

Notified by McDonald's Corp. that the corporate-endorsed package policy program for franchisees would be moved from AIG to Insurance Co. of North America on the Oct. 1 renewal date, AIG fired back with an advertising campaign appealing to agents and brokers around the country to rush out and offer AIG as a market to the 1,300 franchisees.

The advertisement, in this issue of *Business Insurance* and scheduled to run in other publications this week, promises brokers a quote in 24 hours on any franchise. It urges producers to quickly contact McDonald's franchises before the Oct. 1 renewal date, suggesting to them that they "cancel lunch. You can eat when you get there."

"I've never seen anything like this," said McDonald's risk manager

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BFGoodrich rolls out first Vermont captive

By KATHRYN J. McINTYRE

MONTPELIER, Vt.—BFGoodrich Co., the tire manufacturer that shyly confesses it is the one without the blimp, now has its own claim to fame to float: It has chartered the first Vermont-domiciled captive insurance company.

The captive, capitalized at \$2 million, gives Goodrich the leverage to pull together domestic property and associated property risks under a master policy otherwise unavailable in the commercial insurance market.

Vermont's captive insurance company law, the newest state captive law, is the only one offering Goodrich the freedom to create this program under its unique exemption for captives from rate and form regulation.

The Vermont captive will function as part of a worldwide property program.

Goodrich and the state basked in the publicity of a press conference last Thursday announcing the captive here:

- Goodrich named the captive First Charter Insurance Co., perpetuating its glory.
- Vermont Gov. Richard A. Snelling announced the news himself. For the conference he was flanked by Goodrich Chairman John D. Ong, Vermont Insurance Commissioner George A. Chaffee, Goodrich assistant treasurer and director of risk management Spencer J.

Traver, who is president of the captive, and Philip J. Brown, executive vp of Marsh & McLennan Inc., whose company will manage the new Goodrich captive.

"The state is very fortunate to have a company of this caliber and the names associated with it," said Mr. Chaffee, referring additionally to Marsh & McLennan as manager. "We're glad we can blow our horn on this, our first captive," he told *Business Insurance* in a telephone interview last week.

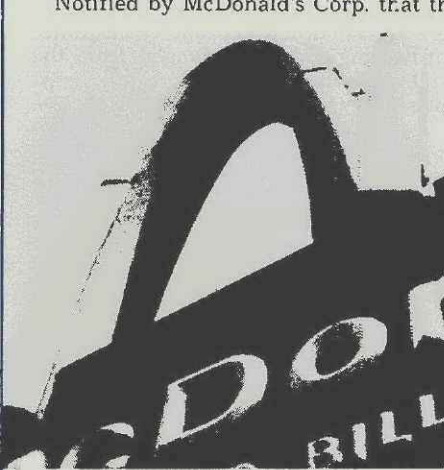
Another parent company may not have allowed as much publicity about the event, he noted.

Statements prepared for the Thursday press conference included Gov. Snelling expressing Vermont's honor that Goodrich selected its state, Goodrich Chairman Ong complimenting Vermont on its favorable attitude toward business and Goodrich's expectation that the captive will improve its insurance operations and M&M's Mr. Brown boasting that M&M becomes the first national insurance broker to establish a captive management facility in

Vermont under its new law.

Goodrich will begin using its wholly owned Vermont insurance subsidiary on Jan. 1 to reinsure a portion of a master domestic property insurance program including risks not traditionally classified by insurers as property risks.

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Expert to resolve MGM policies

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propose two names of "renowned" specialists within a week for his consideration. He said the appointment could be made a week after he received recommendations from both sides.

If the expert's report is prepared in 10 days, disputed coverage questions could be answered within a month, Judge Bechtel said.

MGM Grand Hotels claims to have \$200 million in liability insurance, including \$170 million in coverage obtained since the fire. Temporary binders held by the hotel on the back-dated layers constitute contracts of insurance, MGM attorneys argue.

But the Plaintiffs' Legal Committee contends such binders must be replaced by policies within 90 days after issuance to be valid under Nevada law. One binder is dated Jan. 31, 1981, and the other is dated in April of this year.

Stanley Chesley, a Cincinnati lawyer handling insurance matters for the Plaintiffs' Legal Committee, says his reading of the binders indicates that a \$25 million layer of retroactive insurance expires April 1, 1982, and a \$70 million layer expires Nov. 1, 1983.

MGM Grand Hotels has binders for the remaining \$70 million in coverage that will soon be filed with the court.

Judge Bechtel denied a plaintiffs' request to limit out-of-court settlements made by MGM Grand Hotels until proof of insurance coverage is decided. The hotel-casino company appears to have sufficient assets to discharge all of its liabilities, the judge said.

According to an MGM attorney, 1,500 claims have been settled, 613 plaintiffs have filed suits in federal court and 289 have filed in state courts. A list compiled by the hotel shows that there were about 4,000 guests at the hotel on Nov. 21, 1980, the date of the fire.

PBGC, AlloyTek settle suit

GRANDVILLE, Mich.—The Pension Benefit Guaranty Corp. and AlloyTek Inc. have tentatively settled a suit by the aerospace firm to shift \$4.5 million in unfunded pension liabilities to the PBGC.

Under the agreement, the PBGC will take over the Michigan jet-engine component manufacturer's defined benefit pension plan if certain conditions involving future benefits to employees are met by the company, according to a spokesman for the PBGC.

AlloyTek must eliminate a defined contribution plan the company had wanted to start after it shifted the current plan's liabilities to the PBGC. At the same time, the company must distribute an amount equal to 107% of the money set aside for the new plan to union employees.

However, AlloyTek must secure union consent for the agreement to become final.

AlloyTek also must not adopt a defined benefit plan or defined contribution plan until Sept. 1, 1986. It also says that past service liability for work prior to 1986 may not be included in the plan.

The PBGC will become trustee of the current plan within five days after the unions have ratified the agreement.

Con Ed insured for damage

NEW YORK—Consolidated Edison has some \$150 million in property coverage for damage caused by an explosion and fire that ripped through a power station, blacking out a large portion of lower and midtown Manhattan for four hours Sept. 9.

The power company is covered by a \$1 million self-insured property retention and has \$150 million in excess property coverage, according to William J. Collins, director of risk management. Liability coverage totals \$200.5 million, \$500,000 of which is self-insured. He declined to name the insurers handling the coverage.

The blackout affected about 50,000 customers, mostly in lower Manhattan, a Con Ed spokesman said. Some business owners said they have not assessed their losses from the blackout nor had they decided whether they will file claims for their losses.

Well, the snake did its job . . .

LONDON—A cobra that guarded the third-largest star sapphire in the world managed to keep thieves away from a Sri Lankan exhibition at the Commonwealth Institute last month, but more sophisticated crime prevention systems did not do as good a job (*BI*, Aug. 31).

One day after the snake and the \$1.8 million sapphire were removed from the exhibition on Sept. 1, thieves stole four smaller sapphires, worth \$25,000, from a display case at the institute.

London police believe the thieves used a key to open the case.

A spokesman for the Sri Lanka High Commission Office said the Sri Lanka Gem Corp., which owns the gems, is covered for the loss.

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Pennsylvania may abolish state workers comp fund

By EILEEN NORRIS

HARRISBURG, Pa.—Employers in Pennsylvania who are dumping their high-risk occupational disease coverage into the lap of the State Workmen's Insurance Fund may soon find themselves outsmarted.

A trend by employers to saddle the fund with expensive occupational disease risks has prompted a call from a committee appointed by Gov. Dick Thornburgh to abolish the fund in favor of a shared risk pool.

By a 12-2 vote, the Committee for Comprehensive Review of the State Workmen's Insurance Fund recommended that the state's licensed workers compensation insurers form a pool to share the high risks, said Bruce R. Hockman, the committee's executive director and the director of the state's workers compensation bureau.

The major role of SWIF, which is based in Scranton, has been to provide insurance to those employers unable to secure coverage through private insurers,

usually because of high risks.

But, some employers have been taking advantage of the state law, which says that SWIF must provide workers compensation coverage to any employer who asks for it.

"When companies realize a surge of claims is likely," said James Ewart, the committee's chairman and president of the Pennsylvania Assn. of Independent Insurance Agents, "they can dump that liability by dropping their self-insurance program or insurance carrier and securing coverage through SWIF."

The fund, which has 18,500 policyholders and writes more than \$125 million in premiums annually, has been besieged with worker compensation claims, while it receives "grossly inadequate premiums to cover such liability," Mr. Ewart said.

Once the surge of claims is over, the employer returns to his former insurer, leaving his poor loss record behind. As a result, the employer will enjoy favorable

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Men imprisoned in Libya are suing four oil companies

By EILEEN NORRIS

NEW YORK—Four major oil companies have been named in a \$40 million suit filed by two employees who say the firms are responsible for their imprisonment while on assignment in Libya.

The lawsuit, filed by Michael Price and Roger Frey, both of New Orleans, charges their chief employer, Oasis Oil of Libya, recommended the workers take along a camera—even though a memo from the Libyan desk of the State Department issued one month before the men were dispatched to Tripoli warned of the dangers of taking photographs there.

The men were arrested and taken prisoner on March 19, 1980, on charges of taking photographs for propaganda purposes, said Larry Hutcher, the New York attorney representing Mr. Frey, a project analyst, and Mr. Price, a senior engineer.

During their three-month ordeal, the men were beaten, tortured and jailed in an insect-infested cell before they were acquitted and released July 3, 1980, Mr. Hutcher said.

"These men suffered a great deal of emotional and physical injury that continues today," he said. "Both are still receiving treatment and Mr. Price lost 50% of his hearing in one ear from the dysentery he had while in prison," his attorney said. The men said The Travelers Insurance Cos. wrote their company's long-term disability insurance coverage.

The suit also charges the men were beaten by prison guards, threatened with torture, denied medical attention and poorly fed.

Oasis Oil of Libya, which is headquartered in New York and is 59% Libyan government-owned, had no comment on the lawsuit, which seeks \$10 million in compensatory and \$10 million in punitive damages for each of the employees.

Named as additional defendants in the lawsuit were Marathon Oil of Findlay, Ohio; Amerada-Hess Corp. of New York; and Conoco of Houston.

The three companies joined with Oasis for an oil production exploration project in Libya and directly dealt with the U.S. State Department, which apparently refused to negotiate with Oasis, thought to be an arm of the Libyan government.

Conoco's International Manager Jay S. Etheredge told *Business Insurance* he had not yet seen the suit, and thus could not comment on whether or not the oil firm is covered for the risk.

Risk managers for Marathon Oil and Amerada-Hess were unavailable for comment.

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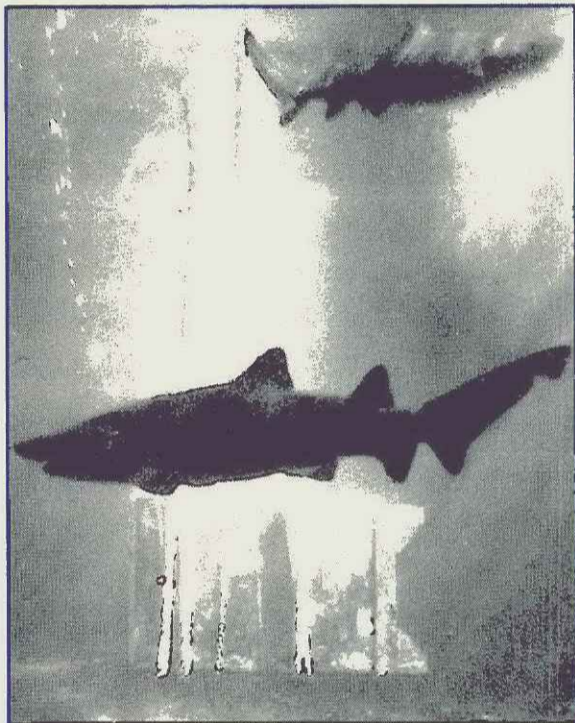


Photo: Wide World

Sharks in the New York Aquarium guard safe salvaged from the Andrea Doria.

Sunken liner's safe interests insurers

By JAMES LAWSON

NEW YORK—No one is even sure what is in it, but there are \$3 million in property insurance policies protecting the safe salvaged from the sunken Andrea Doria.

And once the contents are revealed on live television, possibly next month, many more insurers may be interested in the treasure, preserved for now in a shark tank in the New York Aquarium.

The safe, which itself belongs to Banco di Roma, was retrieved earlier this month by an expedition group organized by New York department store heir and explorer Peter Gimbel and his wife, Elga Andersen. Their interest in the possible treasures inside the safe is minimal, they say. Their reason for the expedition was the ad-

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Cayman Re fires chief executive

By JOHN W. MILLIGAN and LISA BERGSON

NEW YORK—In the continuing saga of the beleaguered Cayman Islands Reinsurance Corp., the company has fired chief executive Michael C. Scott for misleading its directors on the use of Cayman Re funds in transactions with John Muir & Co., a recently defunct securities firm.

In its short, trouble-filled history, Cayman Re, which was formed in

1979 and went public in 1980, founded in its attempt to take over Aneco Reinsurance Co. and has become enmeshed in a web of lawsuits.

Both Cayman Re and Aneco are products of Muir's speculative underwriting. Muir recently sold out in the face of a Securities & Exchange Commission investigation.

Indeed, it appears that Cayman Re never engaged in its purported business of reinsurance, but rather used the \$4.8 million from its public

offering for investments.

Chief among these was the firm's purchase of 7.2% of Aneco stock, a move that prompted Aneco to file a suit accusing Cayman Re of conspiring with Muir and Federated Reinsurance Co. to "plot" an illegal takeover.

Subsequently, a Cayman Re shareholder, Nancy Spector, sued stating that the reinsurer violated securities laws by issuing a false and misleading prospectus.

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Oregon to pioneer open rating of comp

By RHONDA L. RUNDLE

SALEM, Ore.—Oregon will become the first state to test open rating of workers compensation insurance when enabling legislation takes effect next July.

House Bill 2600, signed into law last month, substantially adopts the recommendations of a report submitted to Gov. Victor Atiyeh a year ago by a task force committee on workers compensation (BI, Dec. 15, 1980).

"We are convinced the change will mean net savings of about \$25 million a year to employers, based on our actuarial studies," reports Bill Fritz, state insurance commissioner and a strong advocate of open competition.

Minnesota was the first state to pass an open rating law requiring insurers to compete on price, but the new system will not be fully operational until mid-1983 (BI, May 25). Similar laws are under consideration in Kansas, Illinois and Wisconsin. Other states permit individual rate filings subject to state approval.

"For the first time employers will be able to shop price for workers compensation insurance," stressed Commissioner Fritz. Some self-insurers may even be lured back into the marketplace by competitively priced coverage, he predicted.

Oregon employers pay among the highest workers compensation costs in the country, driving to self-insurance many companies that would be considered too small to self-insure in other states. Six members of the Oregon Risk & Insurance Management Society contacted at random by *Business Insurance* all self-insure and do not expect the open rating law to impact their programs.

But Associated Oregon Industries, representing 2,400 large and small employers in the state, was very active in promoting deregulation, reports Karl Frederick, AOI employee benefits director and counsel.

When the law takes effect next summer, insurers will be permitted to "file and use" rates not less than the pure loss component of rates set by the National

Council on Compensation Insurance, a rate-making bureau based in New York.

The so-called pure premium makes up about 68% of the current NCCI rate. The remaining 32% represents built-in insurer expense and profit loadings. Once companies begin calculating their own expense and profit factors, superior administrative efficiency should translate into lower rates for policyholders.

Premium discount, retrospective and experience rating plans must be submitted to the commissioner for approval. But the new rules are expected to fuel competition among insurers to offer attractive cash-flow plans.

"My guess is that some of the Johnny-come-lately insurers in the state will become weak-kneed and disappear from this market," predicted one broker with a national company who asked not to be identified.

Rate deviations already are taking the fat and margin out of the business, he said. There were only five companies writing workers compensation insur-

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Oregon's price war

Rate deviations filed by work comp insurers

Company	% Deviation
SAIF Corp.	29
Employee Benefits Insurance Co.	22.5
Fire & Casualty Insurance Co. of Conn.	22.5
Argonaut Midwest Insurance Co.	20
Planet Insurance Co.	20
Safeco Insurance Co. of America	20
United Employers Insurance Co.	20
Industrial Insurance Co.	18
Employee Benefits Insurance Co. of Oregon	15
First National Insurance Co. of America	15
Great America Insurance Co.	15
Royal Insurance Co. of America	15
Western Employers Insurance Co.	15
Worldwide Underwriters Insurance Co.	15
Industrial Indemnity Co. of the Northwest	12
Mission National Insurance Co.	10

Source: National Council on Compensation Insurance

Agency proposes nuclear plants buy maximum coverage

By JOHN W. MILLIGAN

NEW YORK—The Nuclear Regulatory Commission is proposing a new rule requiring that nuclear utilities purchase the maximum amount of property coverage available in the commercial insurance market.

The agency also will try to determine, once this interim regulation goes into effect, exactly what levels of insurance are necessary to protect nuclear utility plants.

The result could be a federally mandated property coverage minimum for nuclear plants.

The decision follows the 1979 accident at the Three Mile Island plant in Pennsylvania and the NRC's concern that utilities may not have adequate insurance to protect them against another such devastating accident.

General Public Utilities Corp., the owner of the TMI plant, faces a \$1.3 billion cleanup bill with no clear idea of how it will pay it (BI, June 15). Despite this experience, there are still some nuclear utilities that do not have maximum coverage, a NRC spokesman says.

The interim regulation would require that nuclear utilities maintain the maximum available amount of property insurance—or an equivalent amount of protection through a letter of credit, bond or self-insurance—once nuclear fuel is brought to a licensed facility.

The agency estimates that the premium for maximum coverage at current levels would cost about \$1 million a year for a facility with two reactors.

The proposed regulation has been printed in the Federal Register. A comment period on the rule expires Oct. 19.

"I think most people are going to react like, 'Well, we're going to do this anyway,'" says Alonzo Rand Jr., senior vp and head of Marsh & McLennan's technical services department.

Nuclear utilities could secure \$1.3 billion in property coverage right now, he says, but the potential insurers must first agree on the layering arrangement. American Nuclear Insurers, Nuclear Mutual Ltd. and Nuclear Electrical Insurance Ltd. market nuclear property insurance.

ANI offers \$300 million in primary coverage and an additional \$75 million in excess of that. MNL offers \$450 million in primary coverage. NEIL offers \$500 million in excess of ANI's and MNL's primary layers.

While ANI has agreed to provide its \$300 million in excess of MNL's \$450 million primary layer, Mr. Rand says, both MNL and NEIL have yet to decide whether they will offer such an arrangement.



Allen Bieber Bogardus DeAlessandro Griffin

10 judges to name RM of Year

CHICAGO—Ten prominent leaders in risk management and commercial insurance will judge nominations for the 1982 *Business Insurance* Risk Manager of the Year and Risk Manager Honor Roll competition.

The judges are:
 • Duane C. Allen, assistant treasurer of Hanna Mining Co. in Cleveland and the 1981 *Business Insurance* Risk Manager of the Year, representing risk

managers.
 • Bob Bieber, director of risk management for Westchester County, N.Y., and the 1981 Risk Manager Honor Roll winner for government entities. He will also represent risk managers.
 • John A. Bogardus, president and chief executive officer of Alexander & Alexander Services Inc. in New York, representing a major commercial insurance broker.

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Landrum Mehr Olsson Ryan West

Debt-ridden MET files for bankruptcy

By STEVE SHERWOOD and JERRY GEISEL

FORT WORTH, Texas—A multiple employer trust has filed for bankruptcy here, leaving assets of only \$54,000 to pay hospital and medical claims of more than \$2.5 million.

The self-funded MET had excess insurance coverage with Lloyd's of London, but it appears most of the claims will fall within the MET's self-funded retention. It is possible these debts will be passed on to employers who used the MET to provide group health insurance coverage for the employees of their small businesses.

American Federation for Labor & Business Employer Benefit Trust at its peak provided health benefits to about 8,000 employees of 3,300 employers in California, Colorado,

The 'sharks' return. riskWatch, page 69.

Ohio, New York, Texas and other states.

An investigation by Rufus Garrett, a Fort Worth attorney appointed by the U.S. Justice Department to act as bankruptcy trustee for AFLB, uncovered "substantial evidence of fraud and dishonesty in connection with the debtor's affairs," court papers state.

Established in 1978, the AFLB trust allegedly was presented to member employers as a benefit plan under the Employee Retirement Income Security Act. As such, it provided hospitalization and medical benefits to employers without being forced to qualify as an insurance company under state regulations.

But there is some question as to whether the AFLB ever gained ERISA approval.

"The AFLB contends it was an ERISA trust," Mr. Garrett said. "The U.S. Department of Labor says it wasn't and various state insurance commissioners say it was an insurance company. No decision on its status was made before the bankruptcy filing on June 15."

Labor Department records show that the American Federation of Labor & Business Employer Benefit Trust did file an ERISA-required summary plan description for 1978. Records that would show a 1979 renewal are not compiled yet.

AFLB filed a petition for a Chapter 11 bankruptcy reorganization in the U.S. Bankruptcy Court for the Northern District of Texas in Fort Worth. Although the trust's

accounts were kept by Fringe Benefits Services Inc. of Denver, the trust originated in Texas.

"I am in the process of having a declaratory judgment made to determine whether the trust is an insurance company," Mr. Garrett said. Until that judgment is handed down, it will not be known whether the bankruptcy court has jurisdiction over the case.

Meanwhile, Mr. Garrett is investigating the trust's records to discover what led to the bankruptcy filing.

In a report to the bankruptcy court Aug. 27, Mr. Garrett said, "A number of lawsuits have been filed against the debtor. Many of these in California seek recovery of punitive damages for improper claims settlement

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Airline employees trade pay for stock

Republic Airlines Inc. employees will receive about 1 million shares of the company's common stock in return for a 15% cut in pay they took for the month of August.

This move—initially suggested by the employees—will enable Minneapolis-headquartered Republic to free about \$6 million and conserve cash during the air traffic controllers strike.

When the strike first began, Republic knew a cash-flow crunch would follow and looked for ways of averting the problem, according to a company spokesman.

The shares were purchased by the employees—through payroll deductions in August—at a price of \$6 a share, far below a high of \$11.50 earlier this year.

Employees are free to either retain or sell their stock, he said, and employee committees are now

benefit beat

being formed to trade or sell the stock among the workers.

Republic also has an Employee Stock Ownership Plan that gives workers about a 30% stake in the airline. Stock from the ESOP and the special program cannot be combined.

Republic is pleased with this one-time stock deal and says it has eased the cash-flow burden.

Benefits increased

Additional details of a new contract between Rockwell International Corp. and 13,300 aerospace workers have been released (BI, Sept. 7).

Active employees and depen-

dents will be eligible for a new vision care program starting Oct. 1, 1982, which covers customary and reasonable costs. Included is a \$5 copayment for eye examinations and a \$7 copayment for lenses and frames.

In the health care plan, excess costs above what are presently covered for diagnostic, X-ray and laboratory charges will be paid at an 80% level with no deductible.

The plan also will pay 90% of charges for a private room if a semiprivate room is not available.

The dental plan now covers orthodontics for dependents under 20 years of age, with a 50% copayment and a \$750 lifetime maximum.

The annual maximum for regu-

lar dental procedures has been increased from \$600 to \$800. Preventive, diagnostic and emergency costs are covered 100%. These procedures formerly carried a 20% copayment.

Coverage for accidents and illnesses will rise to a maximum of \$200 a month this year, depending on the hourly wage. The coverage will increase to a maximum of \$215 a month in October 1983.

Life insurance will be increased by \$1,000 for each year of the agreement, hitting \$11,500 the third year. Employees also may purchase an additional \$10,000 in life insurance a year at a cost of 50 cents per thousand dollars of coverage.

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

Open rating to be started by Oregon

Continued from previous page
ance in Oregon until a few years ago when the profits here attracted many more players, he said.

The state took a major step toward open rating four years ago when it authorized deviations from NCCI-set rates for the first time. But it was not until this spring that insurers stampeded to offer the lower rates (see chart on page 3). Now more than 50% of the market is written on this basis.

Argonaut Insurance Co. led the pack with the first significant deviation filed in June 1979. Employee Benefits Insurance Co. followed suit in April 1980. In April and May of this year more than a dozen companies rushed to file deviations in time to meet July renewal dates.

In the past, Oregon employers have focused on the size of workers compensation dividends paid out of insurer earnings at the end of the policy period. Now they expect to pay less up front.

The advent of open rating probably will continue that trend, suggested Everett Brookhart, division manager of Industrial Indemnity Co. in Portland.

The San Francisco-based insurer recently formed a task force to analyze the impact of open competition on the company and the marketplace.

To set competitive rates that also earn a profit for the company, insurers will have to closely calculate their loss and administrative costs. Many refinements will have to be made after the new system takes effect.

Industrial Indemnity is one of many insurance companies that opposes open rating because of the severe pressure it puts on other insurer services. "Loss-control services are owed to the employee to make the work environment a safer place to work," explains Mr. Brookhart. Strong claims management and loss control also may reduce the ultimate cost of insurance, he points out.

Many large workers compensation writers in Oregon have introduced "puppy" companies there to offer higher rate reductions to preferred policyholders. State law requires that all risks within each class be offered a uniform rate by each company.

For example, Industrial Indemnity Co. uses two subsidiaries to write reduced rates in Oregon. Industrial Insurance Co. offers an 18% deviation from NCCI rates; Industrial Indemnity of the Northwest offers a 12% deviation.

Many administrative details of the Oregon open rating system remain to be resolved. The Insurance Department plans public hearings starting this fall and stretching through April to present its views and accept testimony from interested parties.

Commissioner Fritz wants to preserve the NCCI statistical base, for example, so that individual insurance plans will probably have to be structured so that insurers continue to report loss figures using NCCI classifications.

One proposal that will be examined is the possibility of permitting 10 or more small employers to form a group for self-insurance purposes.

Workers compensation insurers with scattered accounts in Oregon may be allowed to use NCCI filing for their rates. And insurers who demonstrate superior loss experience may be permitted to offer coverage below NCCI pure premium levels.

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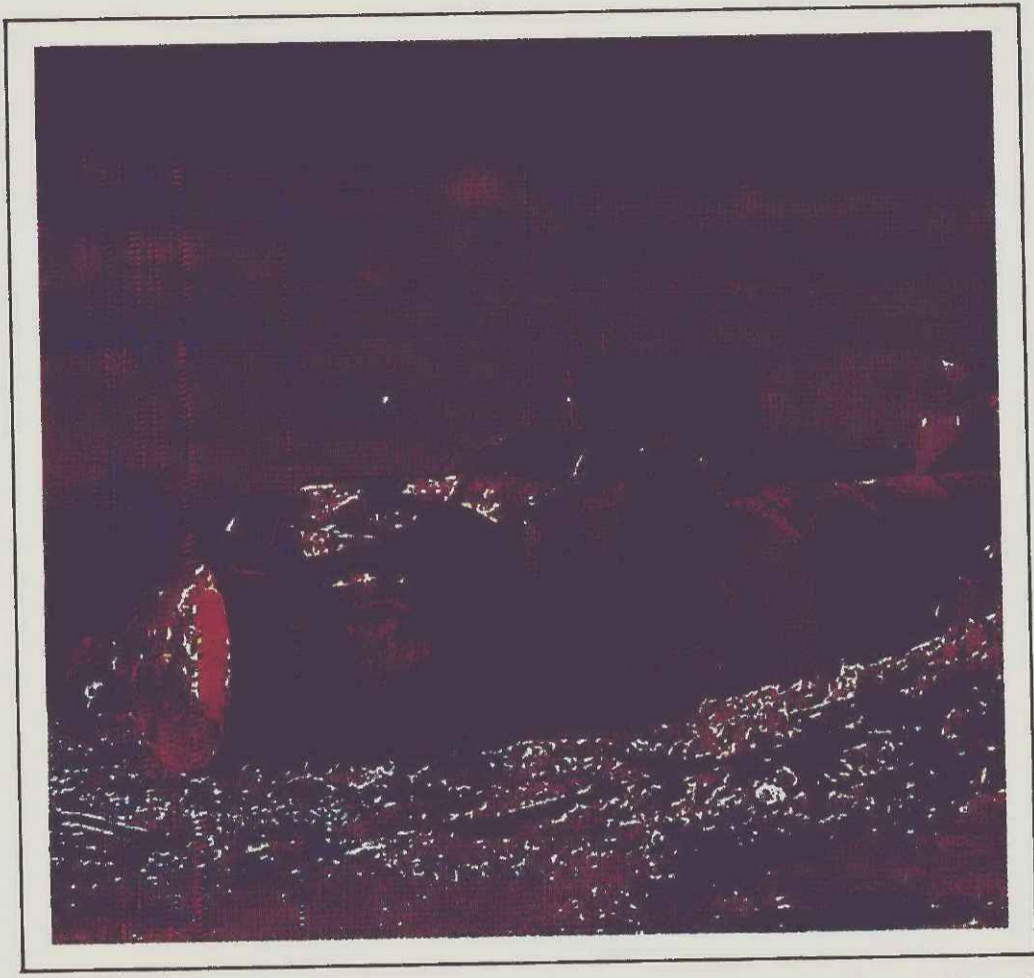
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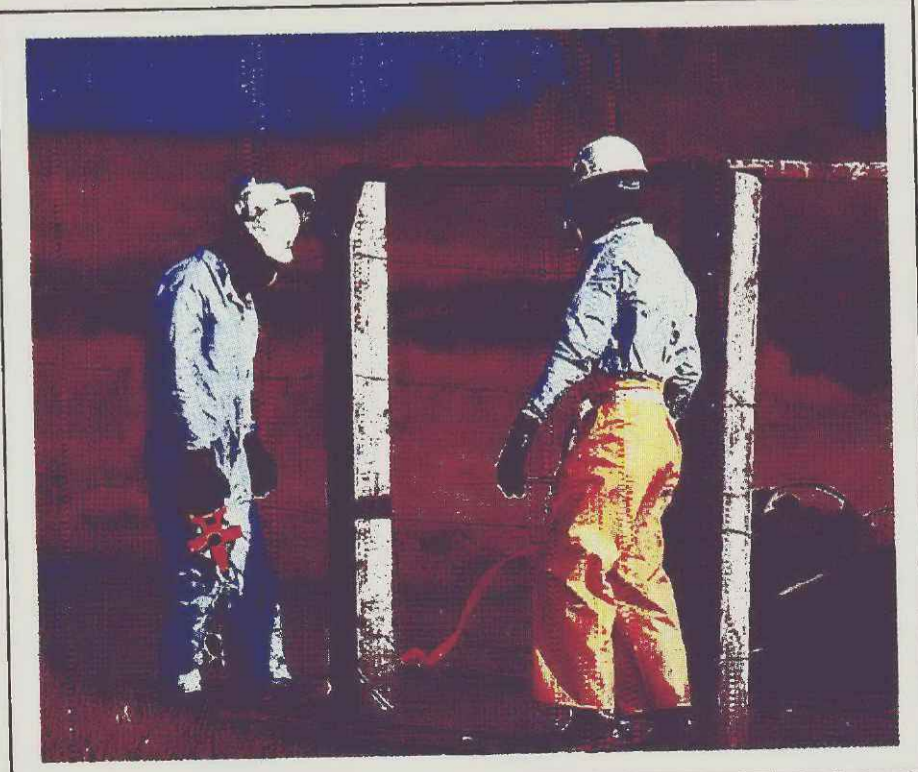
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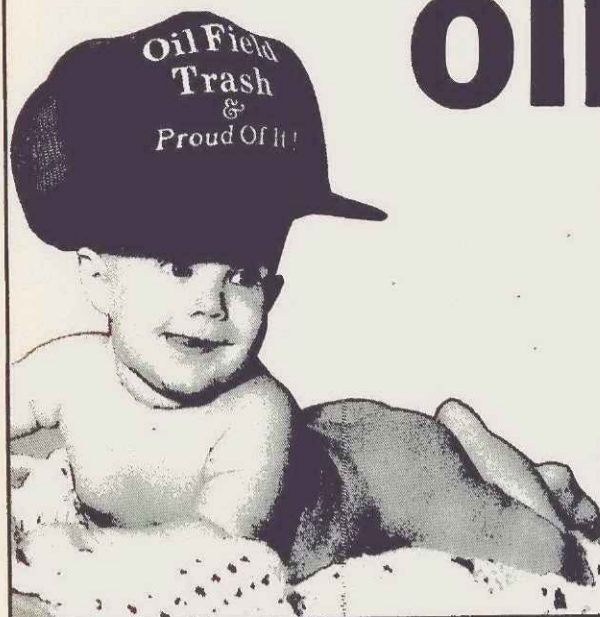


Hydrogeologist and civil engineer investigating abandoned hazardous waste disposal site. The new EPA requirements make this kind of investigation more important than ever.

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Cayman Re fires chief

Continued from page 2

Proceeds from Cayman Re's offering, she said, were additionally invested in the following companies birthed by Muir: Basic Earth Science Systems Inc., Security America Corp. and the Brady Energy Corp., among others. Ms. Spector's suit claims Cayman Re's underwriting was conditioned on its agreement to purchase other securities Muir brought to market.

In July, when *Business Insurance* interviewed Raymond Dirks, Muir's principal partner, he denied having a say in Cayman Re's investments, even though his investment firm handled the stock purchases. "We didn't know about the build-up," he said of Cayman's accumulation of Aneco stock.

But, Cayman's dismissal of Mr. Scott, coupled with statements attributed to James Gill, Cayman Re

treasurer, bolster contentions that Muir knew of Cayman Re's investment activities. Mr. Gill said in *The New York Times* that the brokerage firm, in fact, handled Cayman Re's \$4.8 million assets, since Cayman Re lacked an executive committee to oversee its funds.

Also, Francis Mulderig, Aneco's chairman, told *BI* that Mr. Scott's ouster supports Aneco claims that Cayman Re and Muir were involved in a conspiracy to take over his company. "I don't think there's any question that the events have proven that correct," he said.

Citing an "interesting coincidence," Mr. Mulderig said he first met Mr. Scott several years ago when they were introduced by Mr. Dirks. Mr. Scott and Mr. Dirks were trying to put together an insurance arrangement for yachts they wanted Aneco to cover, he recalled.

Mr. Mulderig added, however, that he did not know if Mr. Scott was employed by Muir before joining Cayman Re.

Aneco and Cayman Re reached an oral agreement Sept. 3 to drop all pending litigation between the two, according to Mr. Mulderig. This decision followed Cayman Re's statement that it did not intend to continue its acquisition efforts.

Noting the many difficulties facing Cayman Re, Mr. Mulderig said it would have been difficult for Cayman Re to form a new board of directors had its takeover succeeded.

Klaus Gebhardt, a Cayman Re director, was also at a meeting in New York. In July, Mr. Gebhardt told *BI* that "internal questioning" among Cayman Re's directors had stalled any further moves for Aneco. Mr. Gebhardt was in a meeting in New York and could not be reached for comment.

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Oil firms sued

Continued from page 2

If damages were awarded they probably would be covered under the companies' comprehensive general liability insurance and certainly under corporate umbrella policies. The suit alleges that Oasis was negligent in the information it gave the employees and names the other three oil companies that joined with Oasis for negligence in placing the employees in Libya.

Four other counts in the suit allege the employers failed to rescue the workers, concealed information and misrepresented the mental and physical health of the two men to relatives while they were in prison, and for negligence in rescuing them from Libya.

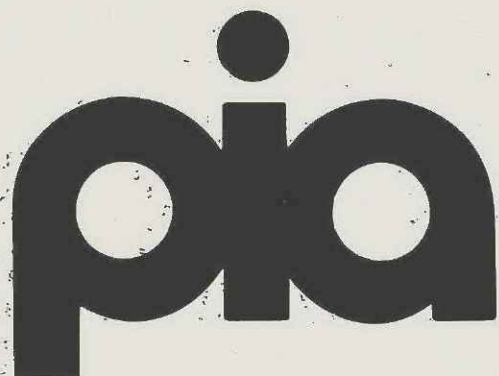
Mr. Frey, reached by telephone at his home in New Orleans, said representatives from the three American oil firms were in daily contact with the men's relatives.

"Our families were told we were eating well and that we had videocassette players in our cell for entertainment," Mr. Frey said. "We were locked up in 20-by-15-foot cell with seven other prisoners that was infested with cockroaches, mice, tapeworms and overflowing toilet facilities."

He said before leaving for Libya in December 1979, he was provided by Oasis with a list of materials and equipment to take overseas, including a camera.

When arrested, he and Mr. Price were taking scenic pictures of Tripoli for a photographic montage.

Consultants have warned risk managers of companies with overseas operations that employees who are kidnapped, or in this case imprisoned, while in a work situation could sue if they do not believe the company did enough to secure their freedom.



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editorial opinions

Cutting health costs

WE FIND BOTH suspect and disturbing the results of a government survey on corporate response to rising health care costs, as we reported in last week's issue.

The study, funded by the Department of Health and Human Services' National Center for Health Services Research, concluded "corporations were neither greatly concerned nor strongly motivated to do much about their health benefit costs."

We can't believe this is true. The study's conclusion, based on interviews with corporate executives at 69 unidentified companies, is suspect to us because we know that many corporations are trying to control health care costs.

We report regularly on corporate health care cost-containment programs. Just last week, in the same issue reporting the HHS-funded study results, Associate Editor Eileen Norris reported on cost-control programs implemented at Reliance Electric Co. in Cleveland and Continental Illinois National Bank & Trust Co. in Chicago. Their programs show that these two companies are indeed greatly concerned and motivated to do something about the rising cost of health care benefits, as are many others on which we have reported.

The researchers may have based their conclusions on sketchy information. They say they didn't just talk to employee benefit managers to get the corporate viewpoint because benefit managers have a "vested interest."

Indeed, as the person responsible for administering health care benefits and controlling their cost, the benefit manager does have a vested interest. The employee benefit manager also is the most knowledgeable person in a corporation to talk about the rising cost of health care benefits and what the company is doing to control those costs.

If the accuracy of the survey results can be questioned because of the low regard paid employee benefit managers, the results still are disturbing. If other corporate executives paint

a picture of near ambivalence about rising health care benefit costs—or fear of backlash to programs to control them—it must be that some employee benefit managers trying to control health care costs are not adequately communicating with their superiors about the problem and what they are doing to solve it.

For example, the reported corporate concern that claims control would make the employer look miserly is someone's misconception about claims control. Certainly no employee benefits department wants to deny coverage due an employee. Claims control needs to be defined better for what it is: Paying only when coverage is due to providers for services rendered. Any claims-control program will turn up claims filed with two insurers where coverage could exist under two policies and charges for services never delivered in bills incorrectly prepared by providers. Employees feeling the same pinch of economic times won't view such a program as miserly. Indeed, when asked to review charges for accuracy, employees have pointed out incorrect charges.

We can't imagine that many companies are providing good health care benefits without a concern about the cost and some effort to control costs. There has to be some communication problems reflected in these survey results.

When was the last time you updated your superior on the cost of health care benefits at your company and what you are doing to control them? Your 1982 budget would be a perfect opportunity to bring top executives up-to-date and to suggest new cost-control programs. Not only will this communication help bring you recognition and support for your efforts, it also will better prepare top executives to answer questions on this issue.

You must do a better job of explaining to your bosses the health care benefit cost problem and your efforts to solve it. To ignore this part of your job is to invite failure for your programs and your future—and more discouraging survey results like these.

letters

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

Lewis put safety first . . .

To the editor: I read your editorial opinion, "Reverse logic?" (BI, Aug 24), and I believe you totally missed the administration's posture with regard to the two air traffic safety studies.

What Transportation Secretary Drew Lewis said was that in the administration's opinion, the skies are safe with the reduced level of aircraft schedules. The air traffic controllers that remained on duty and management personnel feel comfortable that there are no safety problems. However, he said in the interest of reaffirming the administration's position, a study would be conducted by an independent commission whose recommendations would be considered heavily.

I believe Secretary Lewis commissioned the second study to confirm and reassure the public that the administration is not trying to cover up a potentially dangerous situation. Had he not been firm in his statements, he would have not allowed an independent study to be conducted.

I hardly think your editorial depicts the intent of the situation. Rather, you do a very critical job of exaggerating the horrifying prospects of a disaster. In difficult work stoppages like this, no public relations job is effective. One cannot negotiate emotional issues through the news media.

I believe the record speaks for itself. The administration has taken the right position. Public employees do not have the right to strike. Further, the Airline Pilots Assn. has publicly stated that the skies are safe. I can assure you that no pilot would endanger his own life or that of his passengers if he felt there were fundamental safety problems.

Perhaps you have expanded your area of expertise a little too thinly since generally your magazine produces interesting material in the loss prevention and insurance area.

For your information, I have no vested interest in the airline strike other than that of an occasional passenger, but I felt obligated to respond to what I think is an unduly critical and unsubstantiated article.

Robert J. Liguori
Director of industrial relations
Blackstone Corp.
Jamestown, N.Y.

. . . And preserved integrity

To the editor: Your Aug. 24 editorial opinion is considerably off the airways and indicates a misunderstanding of the situation—an unusual position for as bright a publication as *Business Insurance*.

First of all, the Reagan administration had an immediate decision to make in response to an illegal strike threat and made the right decision by permitting the air traffic controllers to fire themselves.

What *Business Insurance* and the general public are not aware of is that all domestic airlines combined operate only 1% to 1.5% (about 2,800) of the total of 200,000 civil aircraft currently active. The airlines, which have received the major public attention during the controller affair over the past few weeks, promptly reduced their flight frequency by 50%. It is now back up to approximately 75%. But general aviation, which comprises 197,000 aircraft, was virtually totally grounded.

General aviation, beginning with corporate aircraft and others flying under instrument flight rules, is now being fed back into the system as it can now accommodate them. Visual flight rules flights are being permitted and are active at some distance from the major traffic centers. The "load" on an air controller is the number of units on his scope, and you can see from these figures that the number of units has been reduced to minimal amounts.

Air safety integrity has, indeed, been preserved, and I know from personal experience that the senior people involved are uniquely equipped to handle this problem.

As to the investigation of the air safety system, this has been ordered by the federal government as a voluntary response to the controllers' demand that the system be reviewed. It is to Drew Lewis' credit that he has proceeded to order an inspection before being required to do so.

If you want to travel on an uncrowded aircraft, arrive safely and have an enjoyable trip, the time to go is now.

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Executive vp
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AlloyTek's 'cavalier' cost savings

To the editor: A friend of mine in the insurance business sent me a copy of your June 29 editorial regarding AlloyTek's attempt to pass the substantial unfunded pension liabilities of its existing defined benefit pension plan on to the Pension Benefit Guaranty Corp. while at the same time establishing a new defined contribution plan to benefit its employees.


Not only would I describe this business decision as unfair, as you have done, but I would add a few more adjectives like cynical, cavalier and self-serving.

Moreover, as a pension lawyer, I

would like to remind AlloyTek's legal counsel that although AlloyTek may be successful in discharging its corporate liabilities for these unfunded, vested pension benefits it is not home free just yet.

The Employee Retirement Security Act of 1974, which established the PBGC and its federal plan termination insurance program, also imposes upon any person who is a fiduciary with respect to a plan who breaches any of his fiduciary duties, personal liability for any losses to the plan resulting from such a breach. Title IV of ERISA

Continued on page 6



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Proposal requires review of building plans

NASHVILLE, Tenn.—The state Insurance Department will hold a hearing Sept. 21 on a proposed rules change that would require the Division of Fire Prevention to review plans for certain buildings before their construction.

Under the proposed rules, the division would begin inspecting plans for detention or correctional facilities and all other buildings built by the state.

The division already reviews plans for most educational buildings.

Beginning July 1, 1982, the new rules would also require the division to inspect plans for business and residential buildings taller than two stories and for places of assembly with a capacity of 300 or more people.

If adopted, the rules would apply statewide. Local governments, however, could carry out most of the required plan reviews after receiving permission from the state fire marshal's office.

However, local governments would not be allowed to adopt or enforce ordinances that are less stringent than the state laws, rules or codes.

System cuts costs

TRENTON, N.J.—A new "pay-by-the-illness" hospital rating system developed by the state Health Department has saved New Jersey residents more than \$10 million in hospital costs in 1980, according to state Health Commissioner Dr. Joanne E. Finley.

Under the new system of charging patients by the illness instead of by the length of stay, costs in the 26 participating hospitals in the program rose 12.7% in 1980, compared to a national increase of more than 14%.

Under state law, the Health Department develops the rates each hospital can charge for treatment of specific illnesses.

The rates are approved or modified by the Hospital Rate Setting Commission, composed of members of the public and government officials.

The New Jersey department's plan was developed under a contract with the U.S. Department of Health and Human Services' Health Care Financing Administration.

Work comp increase

TOPEKA, Kan.—State employers will have to pay \$17.2 million in higher premiums following an 11.2% increase in workers compensation insurance rates that took effect Sept. 1.

The rate hike was approximately \$6 million less than the original request for a 15.1% increase filed by the National Council on Compensation Insurance.

The 11.2% is a statewide average. The actual increase for individual employers will vary according to their rating classification. The average increase is 11.4% for manufacturing industries, 12.7% for contractors and 10.2% for other industries.

Approximately 1.5% of the increase was attributed to higher weekly benefits for injured workers.

Malpractice coverage

COLUMBUS, Ohio—A bill that is designed to turn over the remaining obligations of the state's Joint Underwriting Assn. for medical malpractice insurance to a reinsurer has been recently introduced in the state House of Representatives.

The association, established in 1975 to write professional liability

around the states

insurance for physicians who could not obtain insurance elsewhere, stopped writing the coverage this year.

The association, however, still has 22 primary and excess policies, plus 1,198 tail covers, on its books.

The intent of the bill is to turn the association's obligations over to the reinsurance market in an effort to dismantle the association, which is no longer considered needed.

The bill would allow the Ohio Department of Insurance to put out the association's remaining business to reinsurers.

Current assets are about \$46 million with another \$17 million in a reserve fund.

The \$46 million in assets will likely be distributed to the reinsurer undertaking the association's obligations and also among doctors and hospitals who have contributed to the fund. The \$17 million in reserves will be distributed to the insureds.

Official appointed

SACRAMENTO, Calif.—State Insurance Commissioner Robert C. Quinn has named Robert J. Murray as the new chief of the department's Bureau of Fraudulent Claims.

Mr. Murray is a career law enforcement officer, having worked

with various California agencies as a police lieutenant, police chief and a district attorney's investigator during the past 25 years.

Mr. Murray holds a degree in police science from Cypress College in Cypress, Calif., and both advanced and supervisory certificates from the California Commission on Peace Officers' Standards and Training.

Mr. Murray also is certified as a teacher in police science subjects. He replaces Capt. Glenn Sewel, who is returning to the California Highway Patrol.

Hospital rates

TRENTON, N.J.—The New Jersey Hospital Rate Setting Commission has granted New Jersey Blue Cross a temporary 2% increase in

the discount of payment it receives from the state's hospitals.

This followed a sharp decrease in Blue Cross' discount rate, or differential, from 25% to just more than 4%. Blue Cross has been hurt by a new state law requiring that it share in such hospital costs as care of the indigent and bad debts.

New Jersey Insurance Commissioner James J. Sherran issued a strong plea for the differential increase, saying it was needed to relieve the pressure for a substantial hike in the premium rates for Blue Cross' individual and small group subscribers.

Mr. Sherran granted Blue Cross a 15% rate increase on June 1. Citing its deteriorating financial condition, Blue Cross filed for an additional 31.4% rate hike soon thereafter.

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Suit seeks quick cleanup of toxic dumps

By JERRY GEISEL

washington

WASHINGTON—An environmental group has filed suit in federal court to force the Reagan administration to speed the cleanup of toxic chemical dumps.

The Environmental Defense Fund says the administration is almost two months late with publishing regulations to implement the Superfund legislation that Congress passed last year.

The \$1.2 billion fund, financed primarily by taxes on products produced by the chemical industry, will be used to clean up chemical and toxic waste dumps designated by the Environmental Protection Agency.

While the administration says it is committed to toxic waste cleanup, it is refusing to commit it-

self to action within a reasonable time, the defense fund said.

The fund's suit asks the court to require the administration to produce a plan for cleaning up the dumps.

Official accused

A former union official used his position to arrange for the union's dental plans to purchase services from a company he partially owned, the Labor Department charges.

Kenneth Hendershott used his position as vp and director of the United Paperworkers International Union of America in Cincinnati to

arrange for 32 of the union's dental plans in Ohio to purchase services from Internal Services Inc. of Columbus, Ohio, a firm in which Mr. Hendershott had a one-third interest, the department said.

Mr. Hendershott's actions violated the conflict-of-interest provisions of the Employee Retirement Income Security Act, the department said in the suit, which was filed in the U.S. District Court in Cincinnati.

Also named in the suit are the Second National Bank of Hamilton, Ohio, and Mark Mirken. Mr. Mirken is trustee and administrator for 14 of the plans and the bank is trustee and administrator for 18 of

the plans.

The suit charges that Mr. Mirken and the bank violated their ERISA responsibilities as trustees and administrators by failing to exercise independent judgment in the selection of firms to provide services to the plans.

The suit asks the court to order Mr. Hendershott to reimburse the plans for any profits he received from Internal Systems. The suit also asks that Mr. Mirken be permanently removed as a fiduciary for all Paperworkers Union plans.

Social Security

Workers staying on the job after age 65 next year will be able to earn more money without having their Social Security benefits reduced.

Retirees under 72 will be able to earn \$6,000 in 1982 without a Social Security benefit reduction, up from the \$5,500 this year.

However, benefits will be reduced by \$1 for every \$2 a retiree earns over \$6,000 next year.

Other Social Security benefit changes also are coming. Beginning on Jan. 1, 1983, retirees age 70 and older can earn as much as they want without having their Social Security benefits reduced. Currently, Social Security benefit reductions are made for retirees under age 72 who have significant earnings.

MET growth

The Labor Department isn't worried that a recent federal court ruling recognizing that different employers can band together to self-fund benefits as an employee benefit plan covered by ERISA and exempt from state regulation will lead to an explosion in the growth of multiple employer trusts.

The department's position that a MET must, among other things, be under the control of employer members and not a third-party administrator was upheld, said Ian Lanoff, administrator of the department's plan and welfare benefit programs.

Requiring employer control will keep most administrative firms from developing self-funded METs, Labor Department officials believe.

Mr. Lanoff also pointed out that Judge Robert Takasugi's decision in the Insurance & Prepaid Benefit Trusts case (BI, Aug. 3) could still be modified or reversed on appeal. The Labor Department, however, is not currently considering an appeal.

In addition, the decision is not binding on other courts. "There can be no assurance that the same analysis would be used, or the same result reached, by another court with either similar or different facts," Mr. Lanoff said.

43.4 million now have dental cover

WASHINGTON—A record 43.4 million Americans were covered by group dental insurance in 1979, according to the Health Insurance Assn. of America.

Another 26.7 million had some form of dental coverage as part of their health insurance plans, the HIAA reported.

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A Division of American International Group

75% of workers covered by group health

WASHINGTON—If you're male, earn a high wage, are represented by a union and work for a company with more than 500 employees, the chances are overwhelming that you are covered under a group health insurance plan.

But if you're a woman, not represented by a union and working for a small employer for low wages, your chances of obtaining group health insurance coverage are much less.

These are the key findings of a massive Labor Department survey of private group health plan coverage. The survey, drawn from information collected by the Bureau of the Census in 1979, was released last week.

Highlights of the survey include:

- About 43.5 million employees, 75% of the full-time private workforce, are covered by group health insurance plans.

- More than 75% of all male workers are covered by group health insurance plans, compared with 66% of all female workers.

- More than 90% of employees represented by a labor union are covered by a group health insurance plan, compared with 67% of non-union employees.

- Some 94% of employees working for firms with 500 or more employees are enrolled in group health insurance plans, while 62% of employees at companies with fewer than 100 employees had group health insurance coverage.

- The coverage rate for white-collar and blue-collar workers is about 76%; for service workers, 45%; and for farm workers, 24%.

- In the low-wage industries of farming and retail trade, only 31% and 58% of the workers are covered.

Coverage increases sharply as salary rises.

Only 25% of workers earning less than \$5,000 annually are covered by private plans. But, 82% of employees taking home \$10,000 to \$14,999 are covered by plans.

Ninety percent of employees earning more than \$25,000 a year have private group health coverage.

In April 1977, when a similar survey was conducted, about 75% of full-time workers also were covered by private group health insurance plans.

Free copies of the study, "Group Health Insurance Coverage of Private Full-Time Wage and Salary Workers," may be obtained from the Office of Communications and Public Services, Pension and Welfare Benefit Programs, U.S. Department of Labor, Room N-4659, 200 Constitution Ave. N.W., Washington, D.C. 20216.

Large pension plans cover most workers

WASHINGTON—Most workers are enrolled in large private pension programs, according to a Labor Department survey.

Ninety-five percent of employees participating in defined benefit pension programs are in plans that have more than 100 participants while 47% are in defined benefit plans with 10,000 or more participants.

About 22 million employees were enrolled in private plans that had at least 10,000 participants. But just 2.2 million workers were in plans with fewer than 25 participants.

While the information in the survey is relatively old—it is a look at the private pension universe as it existed in 1977—Labor Department officials believe the survey will be especially useful to benefit experts because of the massive sampling of plans that was conducted. The survey is based on the annual financial results of 37,500 pension plans, the largest sample ever used in a pension survey.

While the large plans account for most pension participants, most of the 451,761 private pension plans that existed in 1977 were small, the survey found. For example, 90% of the plans had fewer than 100 participants while 61% had between one and nine participants.

Defined benefit plans tend to be bigger than defined contribution plans. The median number of participants in defined contribution plans was six compared with 11 in defined benefit plans.

While 29% of all pension plans were defined benefit, these plans had 69% of all plan participants, a reflection of the larger size of defined benefit plans.

For example, 8,312 defined contribution plans had fewer than 10 participants, four times as many as the 2,433 defined benefit plans with fewer than 10 participants.

But there were 215 defined benefit plans with more than 20,000 participants compared with just 72 defined contribution plans in the same category. Similarly, the 258 defined benefit plans with 10,000 to 19,999 participants was more than double the 116 defined contribution plans in that category.

Participants in defined contribution plans were more likely to be vested than those in defined benefit plans. About 80% of active participants in defined contribution plans were full or partially vested compared with 44% of participants in defined benefit plans, according to the survey, which was released last week.

Defined contribution plans usually offer faster vesting schedules. For example, most defined benefit plans offer first and full vesting only after a worker has completed 10 years of service with a company. Defined contribution plans often allow a participant to vest 10% for each year of service, beginning with the first year.

Of the 49.6 million workers enrolled in private pension plans in 1977, about 34.2 million were in defined benefit plans and 15.4 million participated in defined contribution plans.

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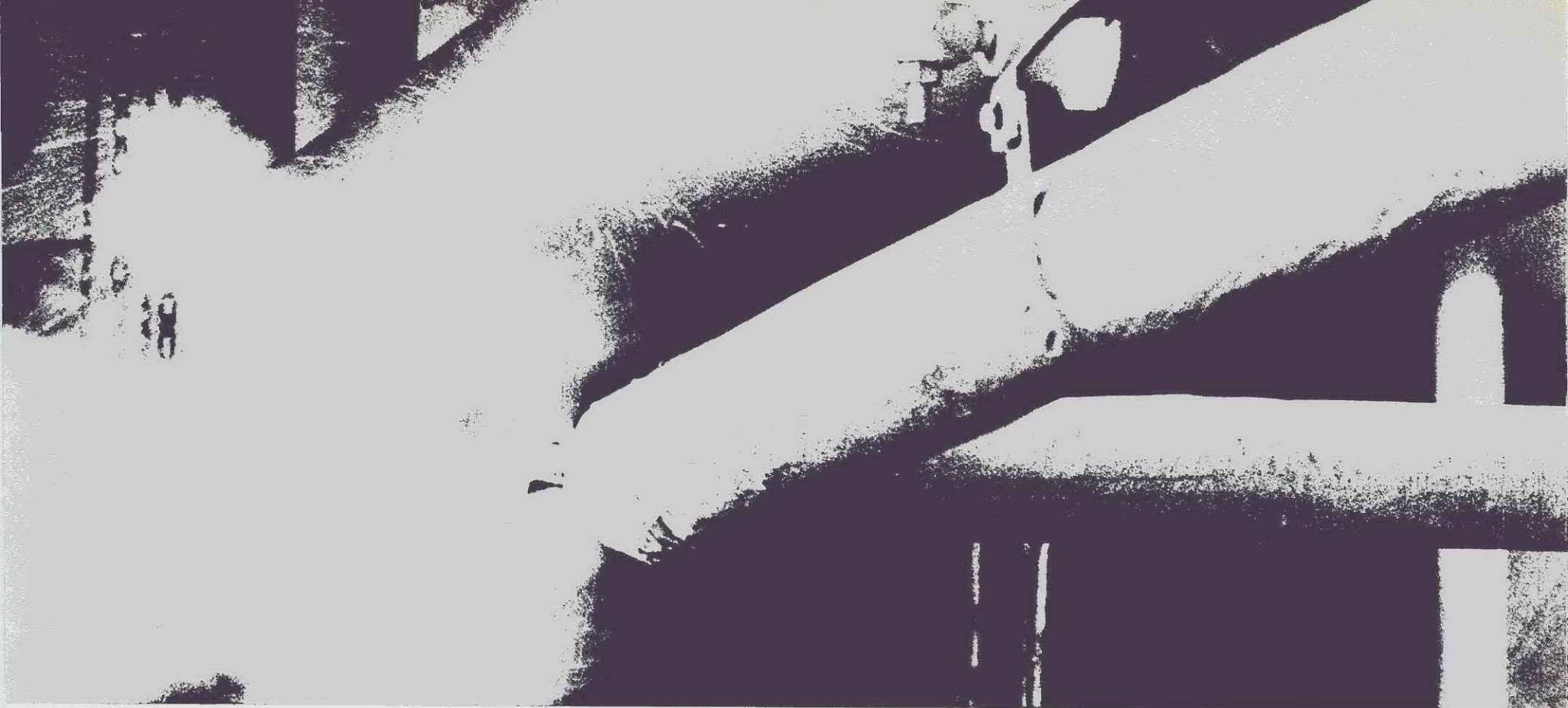
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Free copies of "Preliminary Estimates of Participant and Financial Characteristics of Private Pension Plans, 1977" are available from the Office of Communications and Public Services, U.S. Department of Labor, Pension and Welfare Benefit Programs, Room N-4659, 200 Constitution Ave. N.W., Washington, D.C. 20216.



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Electrical captive's growth slow but steady

By RHONDA L. RUNDLE

BETHESDA, Md.—Fast approaching its first anniversary, the National Electrical Contractors Assn.'s captive insurance company is steadily—if slowly—gaining ground in a very difficult market.

NECA Insurance Ltd. boasts 165 policyholders and gross written premium of \$1.73 million. The association's 6,500 membership is potentially worth more than \$100 million in workers compensation, property and casualty insurance

premiums.

"With a heavy renewal period coming up in the next two months, we anticipate close to \$2 million in written premium by the end of our first year," reports David Scudder, director of insurance for the association.

"We think that's excellent considering the soft market, he explained."

Many contractors are waiting to see what happens with the captive before they get into it, Mr. Scudder commented. The \$2 million and \$3

million accounts are "fairly hot," he adds. Their participation would boost written premium substantially.

The key to the captive's success has been a strong marketing drive, stressed Mr. Scudder.

The program has been explained to 75% of association members over the telephone or during personal visits.

"We're discounting like everybody else, but we will not follow other competitors down the hole to get an account," Mr. Scudder ex-

'We're discounting like everybody else, but we will not follow others down the hole to get an account,' Mr. Scudder says.

plained.

"In several situations we've been undercut and haven't dropped any further. But a year later, we'll be back to those accounts to see what we can do."

When he joined NECA in December 1979, Mr. Scudder reviewed a captive feasibility study prepared by Risk Administrative Services in Westport, Conn. He concluded that the captive would fly but that the consultant's proposal would not.

"I decided to go the request proposal route using an unbundled approach," Mr. Scudder explains. He prepared two sets of specifications—one for brokers, the other for insurers to front the captive and provide claims, engineering, loss control and reinsurance services.

But he insisted that every bidder itemize individual services so he could pick the best pieces rather than the best package. There were some screams from the industry about that, said Mr. Scudder.

"The reason for doing this was to be in a position to control all aspects of the captive," Mr. Scudder explained. "If one service needed to be replaced, it could be done quickly without disrupting other aspects of the captive's operation."

The brokers submitting bids included Alexander & Alexander, Buchanan Management Co., Johnson & Higgins, Fred S. James, Marsh & McLennan and Reed Stenhouse.

Although Mr. Scudder's request for proposals emphasized the need for a detailed first-year marketing plan, that message apparently "went in one ear and out the other" of some bidders.

"The brokers that did not include this were dropped out of the running right then and there," he explained.

Marsh & McLennan and Johnson & Higgins offered good marketing plans but the strongest came from Buchanan Management Co., says Mr. Scudder.

Besides managing the marketing effort, Buchanan Management was picked to administer the program—to quote rates, issue policies and perform other services of a managing general agency.

After reviewing insurer bids, other services were spliced together as follows: American International Group to front the program through policies written by National Union Fire Insurance Co. of Pittsburgh; CU Risk Management, a unit of Commercial Union Insurance Co., to handle engineering and loss control; Trenwick Ltd. in Bermuda to provide offshore management including placement of reinsurance and aggregate stop loss insurance; Trenwick Inc. in Westport, Conn., to monitor underwriting; and First Boston Corp. to serve as portfolio manager.

Crawford & Co. was awarded the loss adjustment contract based on a strong proposal and Mr. Scudder's past experience with the firm.

Former general manager of the National Flood Insurance Program, he observed many adjusting firms in action. Crawford did "by far the best job," Mr. Scudder explained.

Although NECA already held a charter in the Cayman Islands, Mr. Scudder opted to locate the captive in Bermuda after a visit there. "Access to reinsurance markets was the primary consideration," he commented.

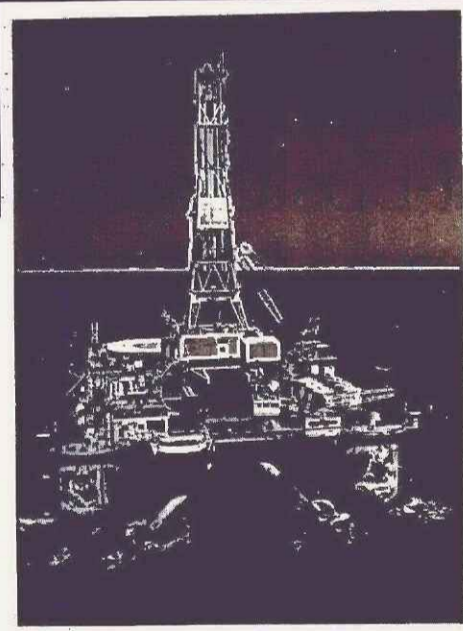
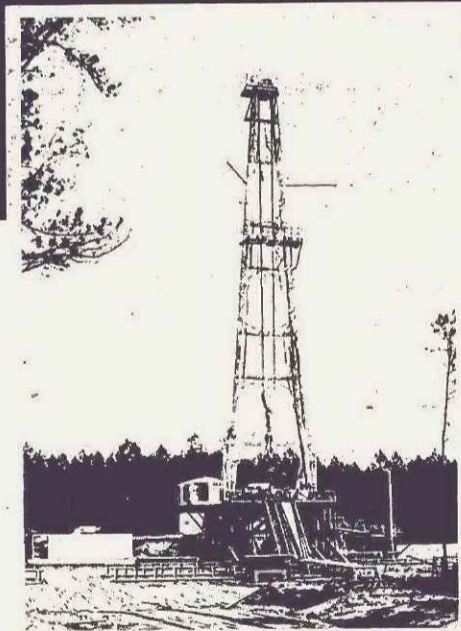
During a week-long visit to Bermuda, Mr. Scudder spent half a day with each of the potential management companies and brokers that were bidding for the captive's busi-

Continued on page 16

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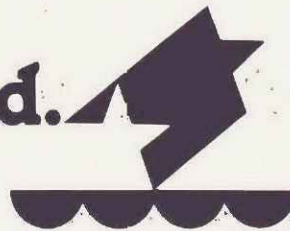
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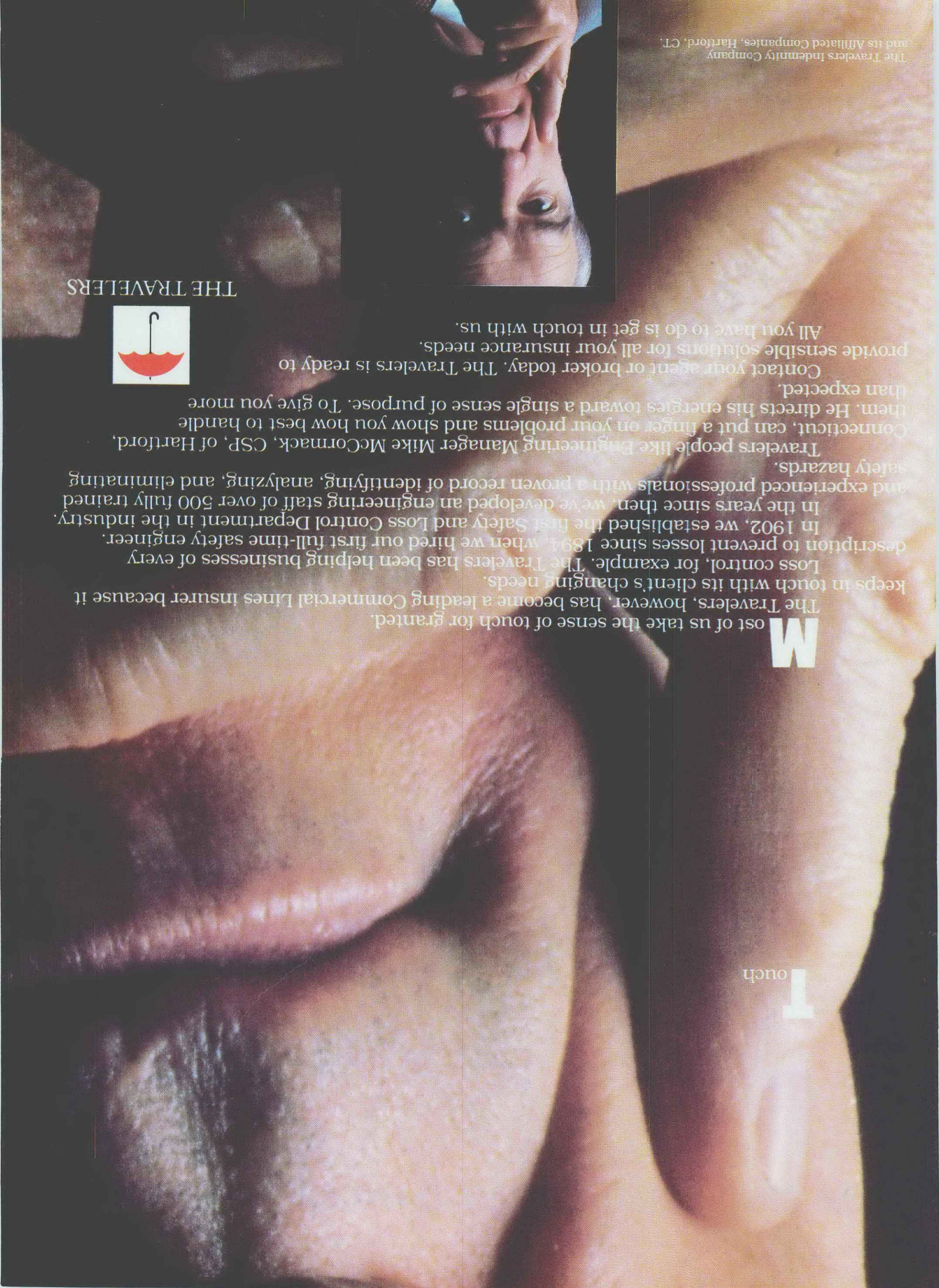
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Electrical captive growing after first year

Continued from page 14
ness.

"I had been leaning heavily toward Johnson & Higgins but I learned they had recently won two other large accounts," Mr. Scudder explained.

"This was in April and one of the captives was due to start in January. The key reason I turned them off was their involvement with those projects.

"They were growing so fast, I was concerned about a possible resource problem."

American International Group's reputation as a fronting insurer outdistanced other competitors, Mr. Scudder said. When red tape stalled the captive's start targeted for Nov. 1, 1980, the association arranged with AIG to temporarily warehouse the business.

Since the other services already were lined up and ready to go, AIG consented to underwrite the business using all the captive machinery and to transfer the book over to NECA Insurance Ltd. once the Bermuda insurer opened.

This gentlemen's agreement enabled the new insurance program to move off the drawing board in about nine months—much more quickly than the two years usually suggested to set up a captive.

Buchanan Management Co. launched the marketing drive in July 1980.

Using the Associated Risk Managers (ARM) network supplemented by handpicked brokers in 17 states without ARM representatives, Buchanan began contacting NECA members.

A computerized data base system called Client Status Report (CSR) monitors the status of every individual NECA member.

These reports show how many potential policyholders have been contacted, number of quotes issued and policies written.

"Our system is unique in that we can take a snapshot and show exactly where the program stands today and where it will be in a number of weeks or months," explains Jim Buchanan of Buchanan Management Co. Inc. in

Cocoa, Fla.

In compiling its bid for services, Buchanan used statistical models and data processing to generate a five-year pro forma profit and loss statement for the captive. The statement predicts premium and losses by line based on anticipated participation and past loss experience.

"Our approach is to break down each component and relate it back to the client," Mr. Buchanan explains.

Sophisticated data processing software makes these programs possible and Buchanan's proximity to the Kennedy Space Center in Florida insures access to a vast resource pool of topnotch talent.

"If these people can put up a space shuttle, they can help us with our projects," Mr. Buchanan quipped.

NECA Insurance Ltd. writes comprehensive general liability coverage to a maximum of \$1 million and a minimum of \$300,000 combined single limit. The minimum increases to \$500,000 when umbrella coverage is required. Automobile liability is written with the same minimums and maximums.

Workers compensation and employers liability insurance written through NECA Insurance Ltd. meets coverage A statutory requirements. The captive insurer provides \$100,000 of coverage B.

More than 40 optional coverages, including flood, earthquake and inland marine insurance can be written through the captive.

Umbrellas ranging up to \$25 million, performance bonds, fiduciary liability and other different coverages are available through the program, but they are not placed in the captive. NECA Insurance Ltd. retains the first \$100,000 of any loss.

The remaining \$900,000 of exposure is reinsured through Trenwick Ltd. in Bermuda.



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North Carolina Blues woo large employers for HMO

RESEARCH TRIANGLE PARK, N.C.—A prepaid health insurance plan will soon be offered to North Carolina's largest employers through Blue Cross/Blue Shield of North Carolina.

The new Personal Care Plan is an individual practice association form of prepaid health care and will be targeted at employees of International Business Machines Corp., Duke University and the state government.

With 7,500 employees, IBM is one of the largest employers in the state.

Rates for the new health maintenance organization at first will be about 10% higher than the current group rate paid to Blue Cross/Blue Shield for comprehensive health benefits, said John E. Sharp, director of alternative delivery systems for Blue Cross, but the long-range objective is for lower rate increases than under the traditional health insurance plan, he said.

Subscribers to the Personal Care Plan can choose a primary care physician from participating doctors in the three-county area that comprises Research Triangle Park. Mr. Sharp said Blue Cross/Blue Shield is recruiting physicians for the program.

Initially, Blue Cross/Blue Shield will pay participating doctors a management fee of \$7.50 for each patient visit per month.

When care by a specialist is indicated, Blue Cross/Blue Shield will pay 80% of predetermined fees; the remaining 20% will be pooled for allocation at the end of the year.

If the Personal Care Plan's income and expenses balance, the 20% will go to the specialists; if the plan suffers a loss, the 20% will be used to offset the loss.

If there is a surplus, it will be divided among the physicians, specialists and subscribers.

Currently, the only health maintenance organization in North Carolina is a private HMO operated by R.J. Reynolds Corp. for its employees.

Drilling risks

Continental Underwriters Ltd., marine insurance specialists located in New Orleans, has created a new division to provide onshore and offshore coverage for the oil and natural gas drilling industries.

H. Elder Brown, president of the firm, says all risks incurred by such companies would be insured, including rig physical damage, cost of control and loss of earnings.

Continental is a correspondent of Lloyd's of London.

New consultant

WEB Insurance Consultants Inc. has been formed by William E. Brengel to provide independent risk management and employee benefit services.

These services include identification, evaluation, treatment, claims and administrative services to the governmental, industrial and commercial sectors.

The firm is at 50 Galesi Drive, Wayne, N.J. 07470; 201-785-9066.

Official wanted

The newly formed Illinois Insurance Exchange is looking for an executive director and a comptroller.

Candidates for the executive director's post should possess a college degree, a CPCU or actuarial designation or an equivalent, extensive administrative experience, senior-level management experience in the insurance industry, a knowledge of the surplus lines and

markets

reinsurance business and an understanding of reserving practice and solvency requirements.

Individuals who want to apply for the comptroller's position should have a degree in accounting, a CPA designation or a master's in business administration and have at least five years of experience in property/casualty insurance accounting.

Interested people should submit resumes and salary histories to Dennis W. Toivonen, Box 831, Kalamazoo, Mich. 49005. An information packet about the openings is

available upon request.

Acquisitions

Alexander & Alexander Services Inc. has acquired Gordon & Brown Insurance Agency Inc. of Louisville, Ky. Gordon & Brown specializes in commercial lines and represents more than 250 clients. The merger will result in A&A's first Kentucky office.

A&A has also merged with M. Harvey Taylor & Son Inc., an insurance brokerage company in Harrisburg, Pa. ■

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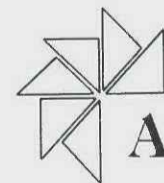
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- The IPC fees are minimal compared to Rent-A-Captives
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Marine insurance

Inland risks cruise on bargain-basement rating

By JOHN W. MILLIGAN

NEW YORK—It's called "samurai rate cutting," and some insurers don't seem afraid to suffer for your inland marine risks.

If you're a risk manager with an inland marine exposure to place, insurance companies really want your business and are slashing rates to get it—to the surprise of their experienced competition.

The result: insurance is available at bargain-basement prices.

Inland marine insurers are out "beating the bushes for business," says Ed Schwab, vp and operations manager of Alexander & Alexander Services Inc.'s Manhattan office.

Many insurers are no longer saying, "We don't write this and we don't write that," he says.

Yet, the good buys may offer bargain-basement coverage as well, cautions Len Hokanson, vp of inland marine for The Hartford Group.

The buyer who looks solely for the best price may end up with a policy that doesn't adequately cover the company's exposures.

Most inland marine buyers today are looking for a competitive rate, broad policy coverage and claims analysis, payment and reporting services, agrees Robert J. Hughes, vp and manager of marketing for Marsh & McLennan in Chicago.

Since the inland marine market is so competitive, Mr. Hughes advises his clients to solicit three competitive bids before placing a risk.

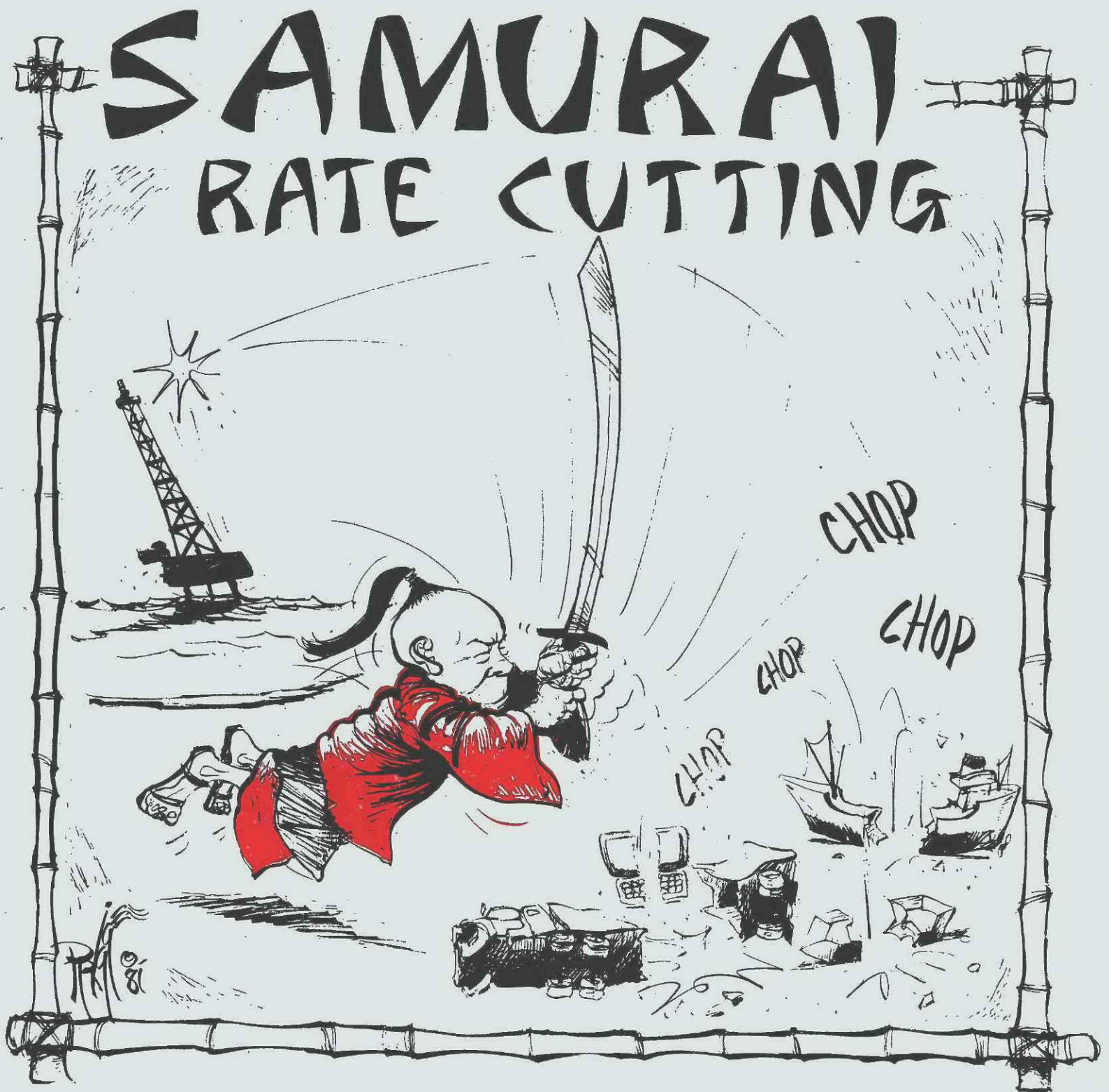
Though inland marine risks have been profitable for insurers, the category is basically an unregulated, complex and odd collection of seemingly unrelated exposures, ranging from jewelry stores to contractors equipment, and from bridges to motor truck cargo.

Inland marine risks traditionally have included goods in transit and modes of transportation, as well as block policies for jewelers and furriers.

This definition has gone under several revisions by the National Assn. of Insurance Commissioners, and now includes such diverse classes as builders risks and electronic data processing equipment.

According to both insurers and brokers, the most competitive inland marine coverages include:

Continued on next page



Cheap offshore rates may float trouble

By STEVE SHERWOOD

NEW YORK—One big loss and the cheap offshore oil rig rate structure could go tumbling, marine insurers say. And that loss could be lurking just over the horizon.

Rates for offshore drilling rig and platform coverage are at an all-time low, insurers claim. Careful to emphasize they are giving approximate figures and that rates would vary depending on the risk, they estimate that rates for all-risk property coverages range from 1½% to 2% of value. This is down from almost 10% charged until 1970 for the same risks.

For those savings, buyers can thank those who raised the tremendous capacity now covering North Sea platforms, one of which

is insured for \$1.6 billion.

Increased capacity heightened competition for offshore business everywhere, sending rates plummeting. Unless a major catastrophe occurs, today's buyers' market should continue for the foreseeable future, most insurers predict.

But one leading underwriter says a catastrophe could occur at any time and the bulk of insurers are unprepared.

"Because of competition and depressed prices, there is no way underwriters and brokers can be planning for catastrophic loss," says Norman Tucker, underwriter for the American Offshore Insurance Syndicate in New York.

The syndicate is one of a handful of major U.S. markets for offshore insurance and underwrites for 40 major American insurers. It has an

offshore property insurance capacity of \$26 million.

Other major markets include AIG Oil Rig, Mutual Marine Office and New York Marine Managers.

"I could show figures for one class of business—jackup mobile drilling rigs—that indicate an insurer could not make money writing for less than 3% of value," Mr. Tucker says. "That is the burning cost (break-even point). With policies being written for roughly half the burning cost, how long can you make money?"

Potential losses for the world's offshore energy industry are mind-boggling and can only be guessed at, since many rig owners self-insure or are underinsured, he said.

"There may be 15 to 20 platforms in the North Sea, some not too far

from others, that are valued at \$700 million to \$1 billion each," Mr. Tucker says.

If a severe storm destroys just one of them and does an equal amount of partial damage to others, losses could total \$2 billion or more.

Total world premiums for offshore risks amount to around \$600 million, sources say. Of this, more than 50% is paid out in any given year for ordinary damage claims and another 20% to 30% pays operating expenses. This leaves little for covering offshore catastrophes.

"Just because we have been lucky up to now does not mean we will continue to be," Mr. Tucker says. "If we are deluding ourselves that \$500 million to \$600 million in premiums is enough to cover potential losses, how can anyone be

planning for a catastrophe?"

Some offshore insurance markets are seemingly making a lot of money, but may be more exposed to loss than they believe.

"I think a good proportion of those providing capacity believe they are not exposed because they are in, say, the \$200 million layer excess of \$1.2 billion on a particular risk. I don't consider them removed from risk, however.

"It is a matter of the big loss having not yet come. I have to ask: Are they putting enough away to cover it?"

If a \$2 billion loss occurred, much of the capacity available today would probably disappear, he says. This would lead to more demand and higher prices.

"Those who felt they could get

Continued on page 29

Top Inland Marine Insurers

Insurer	1980 Direct Written Premium	1980 Net Incurred Losses	1980 Combined Ratio	1979 Direct Written Premium	1979 Net Incurred Losses	1979 Combined Ratio
1. American International Group	\$340,572	\$36,948	73.90	\$291,354	\$37,760	83.98
2. Fireman's Fund Group	126,114	70,407	107.48	107,666	63,863	106.61
3. Insurance Co. of North America	116,750	77,994	139.66	97,044	47,689	98.64
4. Continental Corp.	115,094	56,692	100.64	108,136	45,094	88.91
5. Chubb & Son Inc. Group	114,708	56,767	101.73	96,181	40,717	92.74
6. The St. Paul Cos.	103,815	51,500	97.20	90,889	38,315	84.10
7. Mission Equities Group	85,018	6,369	172.62	—	—	—
8. State Farm (Ill.) Group	84,595	49,203	104.14	73,389	34,898	87.21
9. Aetna Life & Casualty Co. Group	79,091	46,499	102.20	65,664	34,803	93.59
10. Allstate Insurance Group	70,863	52,826	111.75	69,320	49,150	104.12
11. Connecticut General Ins. Group	66,865	32,130	103.17	58,309	31,206	98.96
12. Hartford Fire & Casualty Group	64,753	1,409	3.79	137,688	45,908	89.60
13. Crum & Forster Ins. Cos.	62,659	28,306	106.48	51,324	27,789	108.96
14. U.S. Fidelity & Guaranty Group	61,047	34,880	97.15	55,172	28,475	88.45
15. Drum Corp.	57,569	3,320	96.60	50,242	4,037	86.71

Source: NAC

Inland rates 'gone too far,' insurer says

Continued from previous page

- Contractors equipment.
- Motor truck cargo.
- Builders risk.
- Electronic data processing equipment.
- Radio and broadcast equipment.

Major insurers that have sold these policies for years criticize "irresponsible rate cutting" and "unknowledgeable competition" and openly wonder how some competitors are making any money on their inland marine policies.

Based on 1980 figures provided by the National Assn. of Insurance Commissioners' data service, the leaders in the inland marine market stack up as:

• **AIG**—\$340.6 million in direct premiums written; \$36.9 million in net incurred losses; and a combined loss and expense ratio of 73.9%.

• **Fireman's Fund Insurance Cos.**—\$126 million direct premiums; \$70.4 million incurred losses; and a combined ratio of 100.7%.

• **INA**—\$116.7 million in direct premiums; \$77.9 million incurred losses; and a combined ratio of 139.6%.

• **Continental Group**—\$115 million direct premiums; \$56.6 million incurred losses; and a combined ratio of 100.6%.

• **Chubb Group**—\$114.7 million direct premiums; \$56.7 million incurred losses; and a combined ratio of 101.7%.

Competition among inland marine underwriters is "extreme and severe," says Les Nungle, director of field operations for Fireman's Fund.

"It's probably as tough as any time I've seen it in the 20 years I've been with it."

Rates are depressed and some insurers have "gone too far" to beat the competition, he adds.

Horror stories abound about incredibly low rates that some insurers say cannot be maintained.

'It's probably as tough as I've seen it in 20 years,' Les Nungle says.

"I can't believe some of our competitors are making any money, but time will tell," Mr. Nungle says.

Nick Creatore, vp of the inland marine division for the American Home Assurance Co., a member insurer of AIG, describes the inland marine market place as "extremely competitive."

Attracted by its profitability, a number of "non-traditional" insurers have entered the inland marine business in the past few years, Mr. Creatore says.

The result has been significant cuts in rates, often by insurers with little inland marine experience that take on questionable risks, he says.

"If we don't put the brakes on this irresponsible rate cutting, we won't be profitable for long," he says. "People are more or less taking advantage of this uncontrolled rate structure."

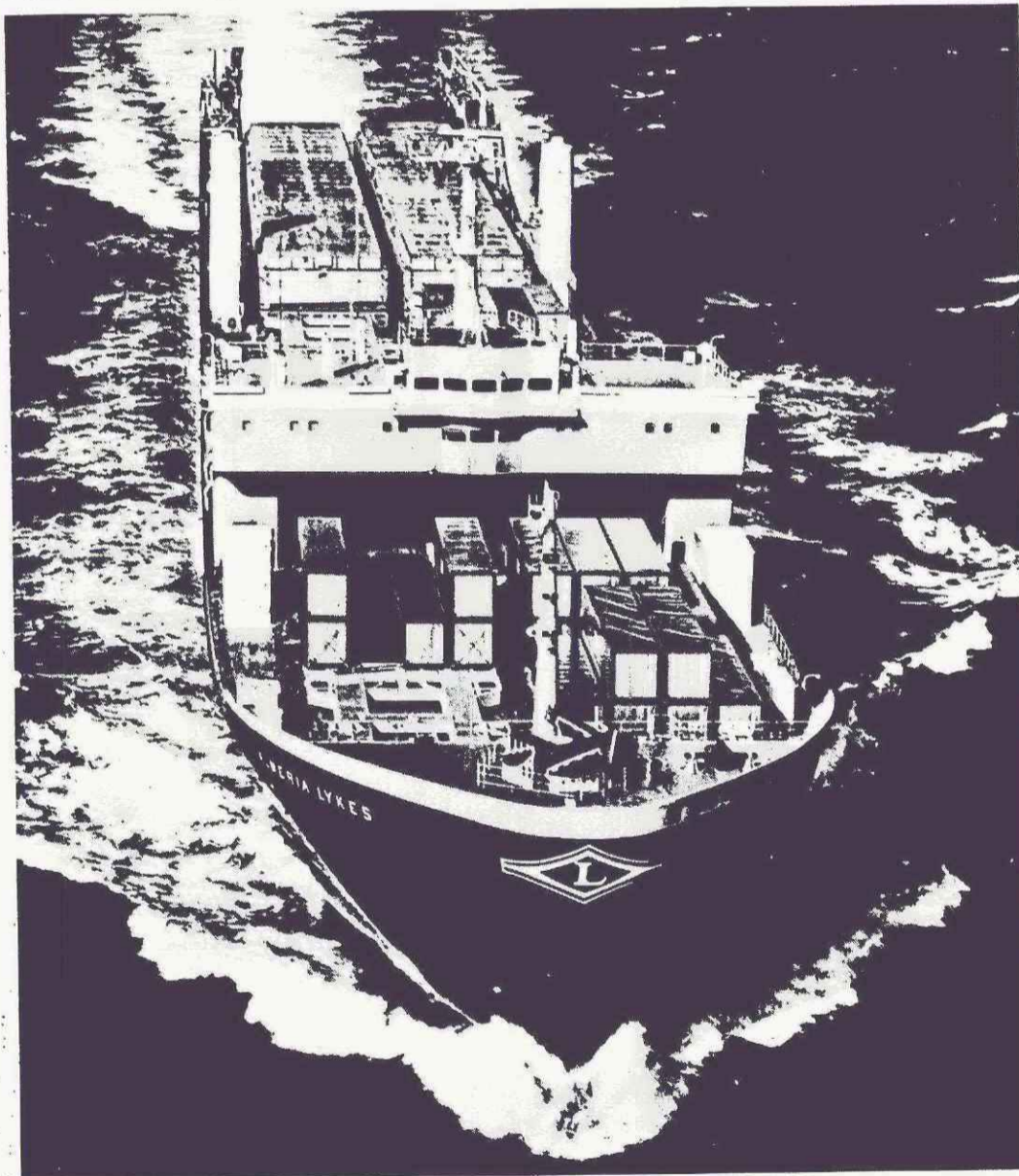
"We like the competitive spirit, but it has to be responsible."

A big part of the problem is the "unknowledgeable competition," adds Hartford's Mr. Hokanson. Hartford was the twelfth largest inland marine underwriter in 1980, according to the NAIC.

Most insurance companies that have been in the inland marine market for any length of time maintain their own staff of specialists. This is especially important

Continued on page 22

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Inland marine insurers marked by competition

Continued from page 20

since the most profitable classes of inland marine are unregulated and, hence, rely heavily on judgment rating, he says.

Many of the newer entries into the field—generally large national insurers trying to expand their inland marine underwriting—are working hard to assemble inland marine specialists, Mr. Hokanson says.

Insurers including Aetna Insurance Co., a subsidiary of Connecticut General; Royal Globe Insur-

ance Co.; the Chubb Group of Insurers; and Crum & Forster Insurance Cos. have all underwritten inland coverages in the past, but are now making an aggressive move to get more inland marine insurance premium, sources say.

Other insurers, including Mission Equities, came aggressively into the marketplace as recently as last year.

Some insurers are trying to "buy talent" from more established companies, including The Hartford, which has lost a few specialists to raiding parties.

Faced with very heavy competition for inland marine business, insurance companies have two immediate options, Mr. Hokanson explains.

They can hold onto a conservative underwriting philosophy and lose their market share, or "get in with both feet" and see their loss ratio rise, he says.

The Hartford claims to take a third approach, preferring to be "selectively" competitive, especially on its renewal business.

"We would like to keep our market share, but we would like to do that and remain profitable. This is a tightrope we walk," he says.

Fireman's Fund says it takes a similar tack.

Mr. Nungle says his company has moved with the rate cutting trend "a little" but not "full tilt."

He predicts that contractor's equipment for the coal mining industry is "coming on fast," as a discount coverage and is "looked upon as a very, very important segment of the business up the road."

In addition to the competitive environment, the inland marine class has undergone an additional change, this one going back 10 to 15 years.

Multiline or multiperil policies, which offer protection for a broad line of exposures, have been swallowing up traditional inland marine exposures.

A typical inland marine policy, says John Rucker, assistant secretary for the Insurance Co. of North America and officer in charge of its marine clients, provides coverage for real and personal property, burglary, fidelity, accounts receivable, general liability and transportation exposures.

A multiline policy can cover virtually anything except workers compensation and surety lines, he says.

Radio and broadcast equipment is a good example of this trend, Mr. Rucker says. While these risks are included in the inland marine definition, INA is more likely to underwrite this exposure under a multiline policy.

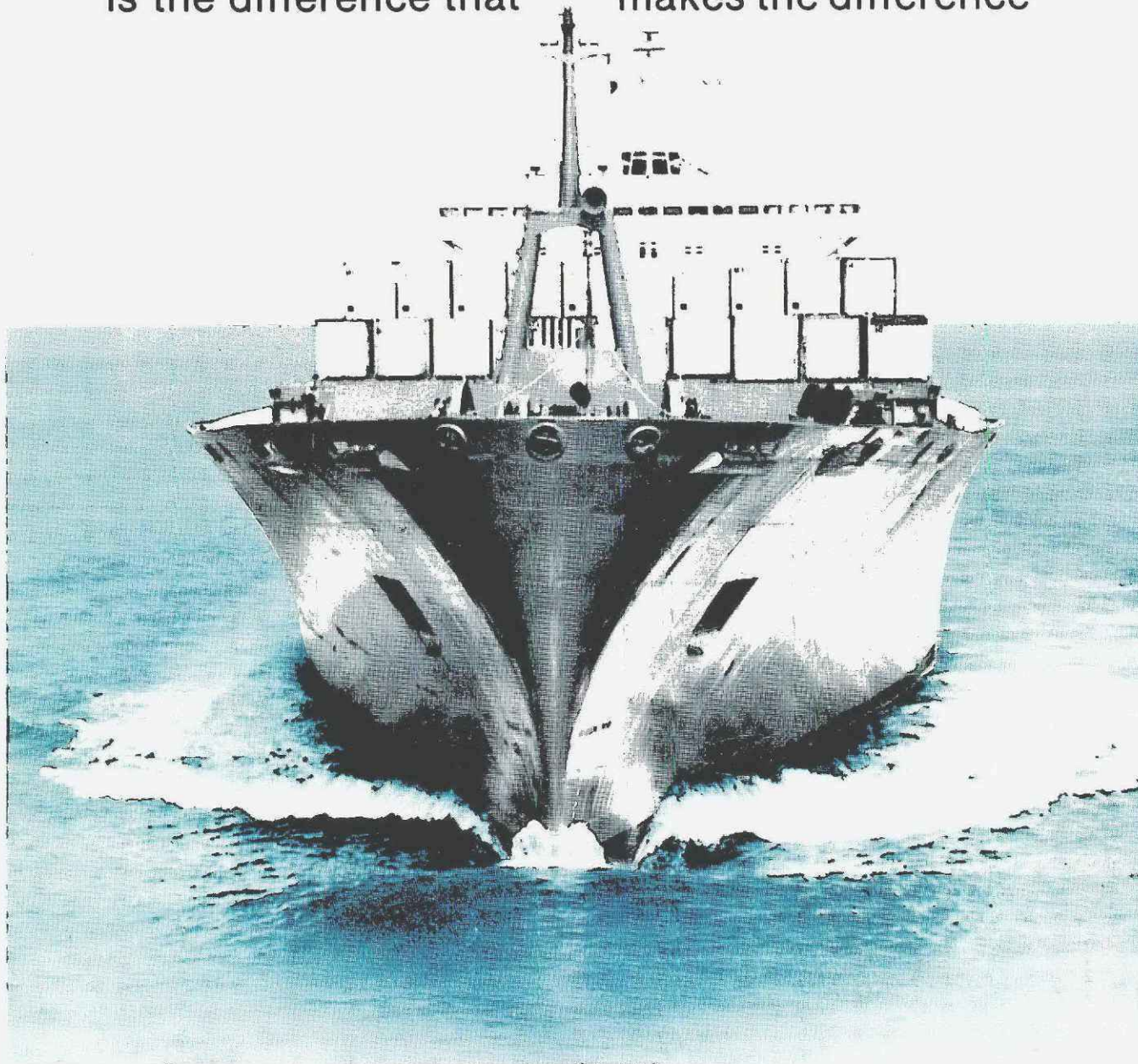
The trend can be seen elsewhere as well. Spector Redball Freight, a general commodities trucking company, Allied Van Lines, a household goods carrier, and American Airlines, with an air freight operation, all insure their transportation exposures under broad multiline policies (see related story).

But if the policies have changed, the risks are still the same and inland marine specialists are still in demand.

At The Hartford, Mr. Hokanson says, the specialists are usually responsible for the inland marine portion of a multiline policy and assist with rate setting on at least a consulting basis. ■

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Trucking risk managers tap prevention

By JOHN W. MILLIGAN

NEW YORK—Larry May at Spector Redball Freight keeps a weather eye on hurricanes and sends out daily tips on how to do a better job.

Bob McClure at Allied Van Lines worries about the furniture of its many small customers, items as important to them as a piece of electronic equipment is to a large company.

Gary Felt at Iowa Beef Processors keeps his eye on his refrigerated trucks, knowing how fast \$80,000 loads of beef can spoil.

In the transportation business, close attention to details can save you a lot of money, these trucking risk experts say.

Operating coast to coast, Spector Redball Freight in Dallas and Allied Van Lines in Chicago are transport companies that haul a wide variety of cargo.

Iowa Beef Processors of Dakota City, Neb., hauls sides of beef between its various plants and hires other carriers to ship the beef after it is processed.

Each company combines broad insurance coverage with sophisticated loss prevention programs.

Spector Redball Freight covers its transportation exposures with a multiple-line policy that includes auto and general liability insurance, physical damage coverage, motor truck cargo insurance and excess workers compensation coverage.

Spector purchases this coverage over a \$250,000 self-insured retention, says Dick Kane, president of Dixie Insurance Agency Inc. of Winston-Salem, N.C. Dixie is owned by Spector and purchases insurance for it as well as other transportation companies.

Spector has divided its loss prevention program into separate departments for safety, cargo loss prevention and security.

The loss prevention department provides Spector personnel with detailed instruction on how to handle and route freight, says Larry May, the department's director.

Spector then monitors these activities in Dallas to guarantee that proper procedures are followed. It also conducts field inspections of operations at Spector's 160 general freight terminals.

Mr. May says the key to Spector's loss prevention program is to identify "weak spots" before they become a continuing problem.

Mr. May also sends out "Tips of the Day" bulletins to every terminal on the company's teletype. These tips are likely to contain just about any type of information, from reminders on proper procedures to current weather reports.

When Hurricane Dennis was winding its way up the East Coast a few weeks ago, Mr. May was reminding terminals in that part of the country about rough weather operations.

Mr. May's responsibilities are complicated by the length and breadth of Spector's operation. The company does business in 40 of the 42 major market centers in the 48 contiguous states.

It hauls general freight, heavy machinery, personal cargo and refrigerated freight and owns some 8,000 trailers.

"The opportunity for loss in the transportation industry is so great, it's not funny," Mr. May says.

When Spector drivers leave a terminal, they are on their own with up to \$1 million in cargo and a very expensive rig.

"You've turned one man loose with a lot of your money and your client's money," he says. "The risk

in transportation is horrendous."

Mr. May feels he has one of the best loss prevention programs in the business and cites statistics to support it.

In 1980, the top 14 carriers in the business averaged 1.42% of revenue on claims. Spector's average was

1.03%, and it is presently sitting on a 0.92% average.

"As our program continues to strengthen, we think that a 0.75% is not out of the question," Mr. May says.

The company also has its own salvage operation, and last year re-

covered 16% of its gross claims.

Like Spector, Allied Van Lines purchases a multi-line policy to cover its cargo, vehicular and general liability exposures, says Mr. McClure, director of the corporate risk group.

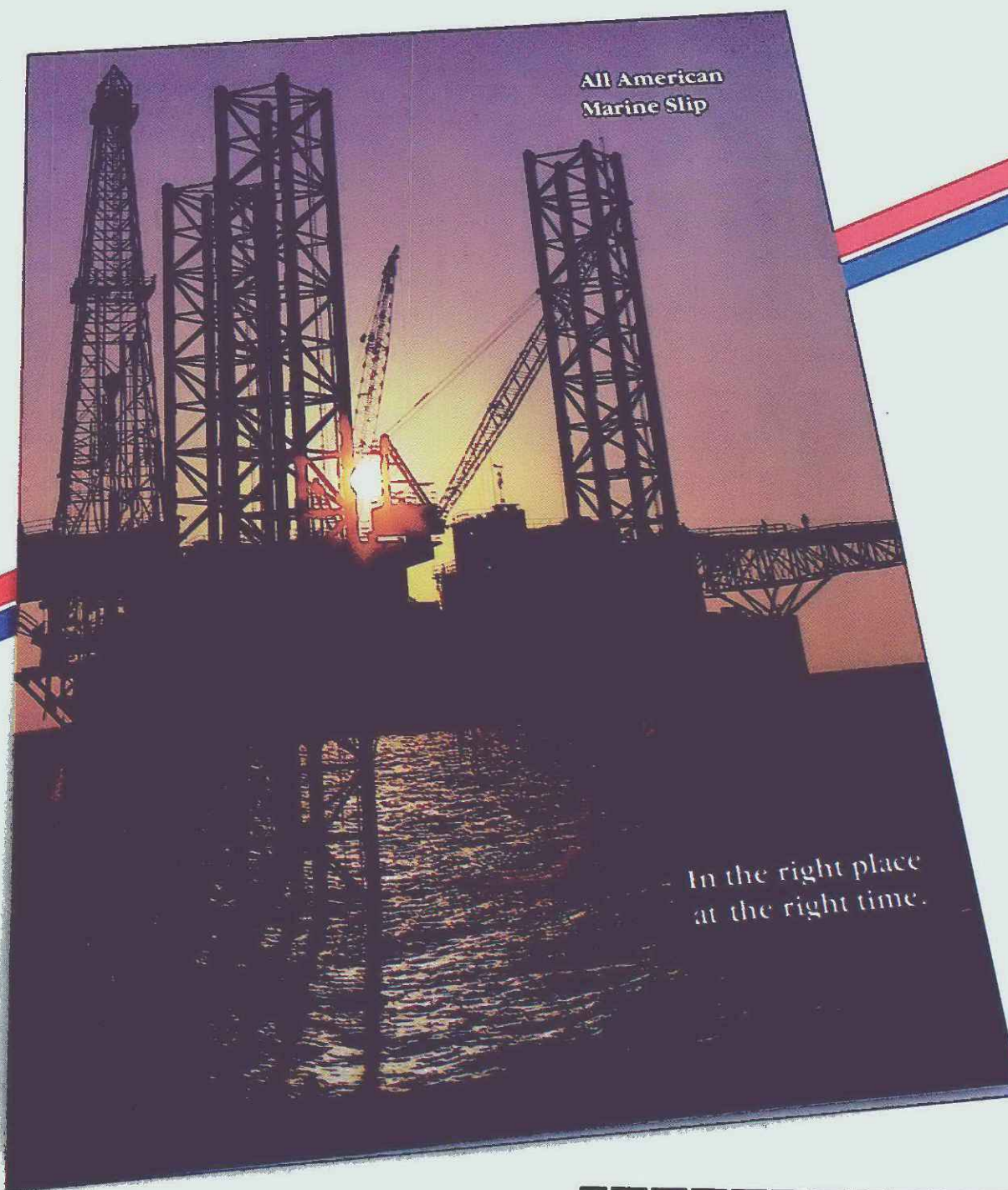
Allied buys conventional cover-

age with the right to settle most claims itself under its \$150,000 deductible.

As a household goods carrier, Allied's average claim is \$200, and it averages about one claim for every four shipments.

Continued on next page

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Truckers control losses

Continued from previous page

With such a high frequency of relatively small claims, Mr. McClure says it makes sense for Allied to process and pay the claims itself.

"We are better equipped to settle claims on a national basis than any insurance company," he says.

The advantage for the customer is faster claims settlement, which is very important when personal property is involved, he says.

Allied stresses education in its loss prevention program. It has a field force of seven supervisors who train drivers and agents on safe driving techniques and the proper way to handle cargo.

The company also tracks the claims records of all its drivers with a data processing system and addresses frequently occurring problems through its training supervisors.

"High risk" shipments, identified by their dollar value or content, are picked out in advance by a special supervisor, Mr. McClure says.

The supervisor and agent of origin then devise a "plan of attack" to cut down on the risk of damage during transit.

Iowa Beef Processors, which did \$4.6 billion in sales last year, ships all its beef products to wholesalers and retailers by common carriers.

Although it is not a transportation company like Spector and Allied, the Dakota City-based firm does ship its own carcasses and cattle between 10 plants in seven states.

The company requires that all its carriers have certificates of insurance and maintains an active list of "approved carriers," says Corporate Risk Manager Gary Felt.

Iowa Beef may soon computerize the list to make the process quicker and more efficient and to alert it when an individual carrier's coverage is about to expire, he says.

Inland marine coverage over a "fairly high self-insured retention" is purchased on its own transportation activities, Mr. Felt says.

A large portion of the company's loss prevention program is devoted to inspecting refrigeration units, or reefer units, to make sure they are operating properly.

Yard workers at each plant not only make hourly inspections of the reefer units on the company's trucks, but inspect the units of their common carriers as well, Mr. Felt says.

And each plant has maintenance personnel who can repair the units.

"We make certain that these carriers have adequate insurance and make sure they pay attention to their reefer units."

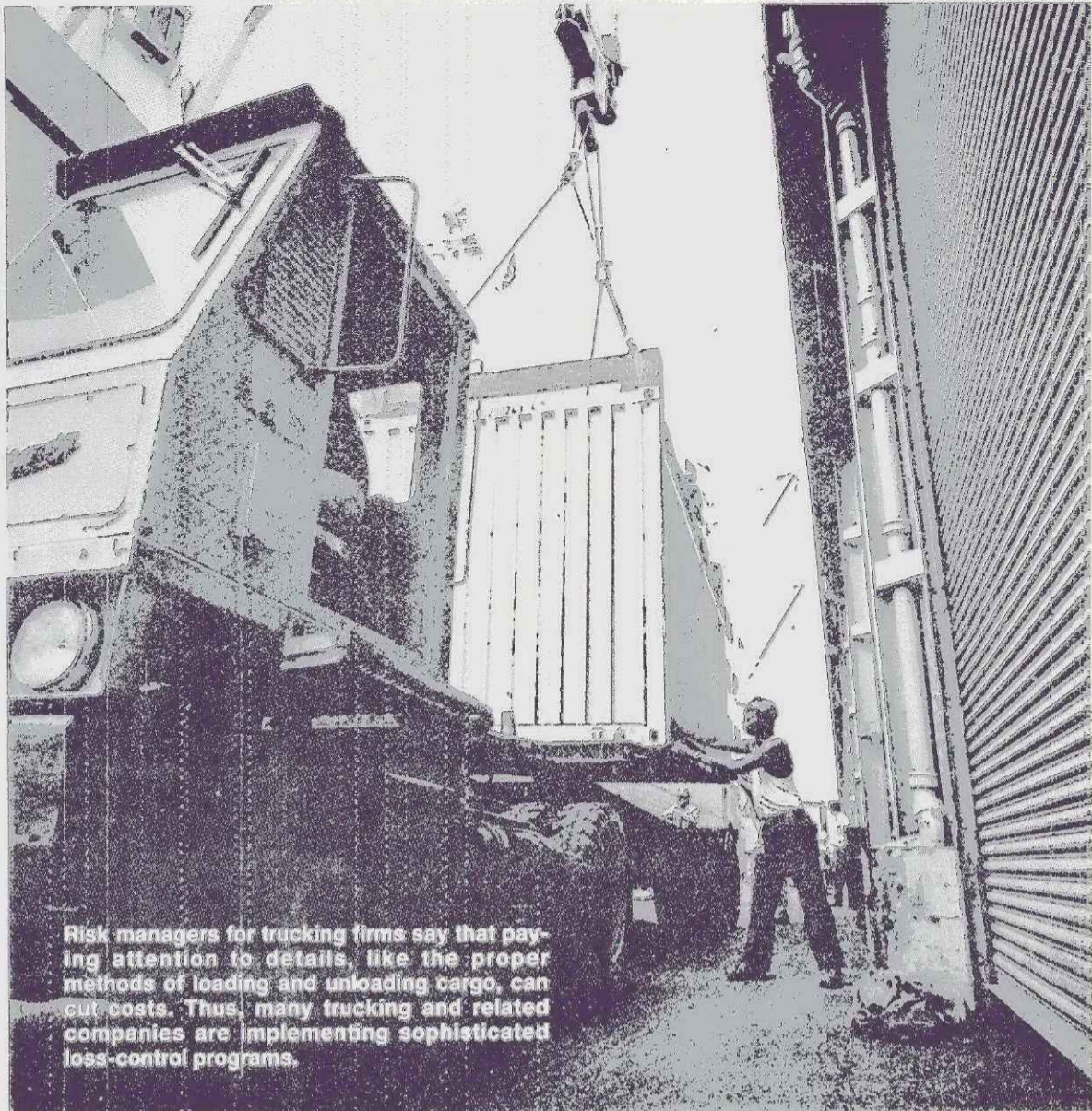
Iowa Beef also puts trip meters on each of the 80 trucks it operates. These provide the supervisors with a printout showing idle time and speed for each trip, useful information for insurers.

They can see evidence of the company's efficiency, a factor that can reduce rates.

"They like what we do," Mr. Felt says.

Due to the nature of its cargo, the company tries to react as fast as possible to accidents, getting backup trucks on the scene in time to save the beef.

"You have to, or you're going to lose it," he says, especially since government inspectors are "looking over your shoulder" to make sure the beef has not spoiled. ■



Risk managers for trucking firms say that paying attention to details, like the proper methods of loading and unloading cargo, can cut costs. Thus, many trucking and related companies are implementing sophisticated loss-control programs.

Photo: F. Moore McCormick



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Truck deregulation could mean higher insurance costs

By JERRY GEISEL

WASHINGTON—Every day Phyllis Gunn, an insurance specialist with the Interstate Commerce Commission, gets big questions: "My trucking firm hauls coal tar. Is that a hazardous substance?"

After checking a list, Ms. Gunn assures the trucker not to worry—coal tar is not considered a hazardous substance.

"Firms are calling all the time to find out what is hazardous and what isn't," Ms. Gunn says.

Until last year, trucking firms had no reason to call to find out how their cargoes were classified.

But the simplicity ended with the Motor Carrier Act of 1980, the Carter administration's last major piece of domestic legislation to clear Congress, designed to deregulate the trucking industry. It also may have heralded higher insurance costs for truckers.

The law scrapped an ICC regulation that required major trucking firms to have at least \$100,000 of liability insurance to cover bodily injuries of one person and \$300,000 of coverage for injuries or deaths of all involved in an accident.

In its place, the new law mandates substantially higher liability insurance requirements and brought in another federal agency—the Department of Transportation—to regulate trucking.

Some truckers now not only have to serve two different masters, but they also have to follow sometimes conflicting rules.

"As far as insurance is concerned, the Motor Carrier Act wasn't deregulation," said Les Cheek, vp for federal affairs for Crum & Forster. "It is confusing regulation."

For example, the act requires motor carriers to have \$500,000 of liability insurance if they haul cargo that is non-hazardous, such as furniture. A \$1 million insurance policy is necessary if the cargo is very hazardous, such as liquefied compressed gas.

By July 1, 1983, the liability limit for non-hazardous cargo jumps to \$750,000 from \$500,000, while the limit for hazardous substances, such as oil, leaps to \$1 million, and the limit for very hazardous substances will rise to \$.5 million.

Structuring is the main problem. Proposed ICC regulations insist that the first \$500,000 of liability coverage be placed with one insurer; the Transportation Department says the coverage can be layered with different insurers.

For truckers regulated by either the Transportation Department or the ICC, the interagency split on layering is not a problem: they simply follow the rule issued by its regulatory master.

For example, truckers that haul hazardous materials in a local commercial zone are under Transportation's jurisdiction and would be allowed to purchase their liability in layers from different insurers.

Similarly, a commercial interstate trucker that hauls non-hazardous cargoes, such as furniture, would fall under the ICC's regulatory umbrella and would have to buy \$500,000 of insurance from just one insurer.

But some truckers, including commercial interstate carriers hauling hazardous substances, fall under the regulations of both the agencies. If there is a conflict between two rules, the tougher rule

will have to be followed.

For example, interstate commercial truckers hauling hazardous cargoes would have to follow the ICC rule requiring the first \$500,000 of liability to be placed

Continued on page 28

Insurance liability requirements under the Motor Carrier Act of 1980

Type of carrier	Cargo carried	Insurance coverage July 1, 1981	Insurance coverage July 1, 1983
For-hire	Non-hazardous	\$500,000	\$750,000
For-hire and private	Very hazardous substances such as radioactive materials and poisonous gas	\$1,000,000	\$5,000,000
For-hire and private	Hazardous materials	\$500,000	\$1,000,000

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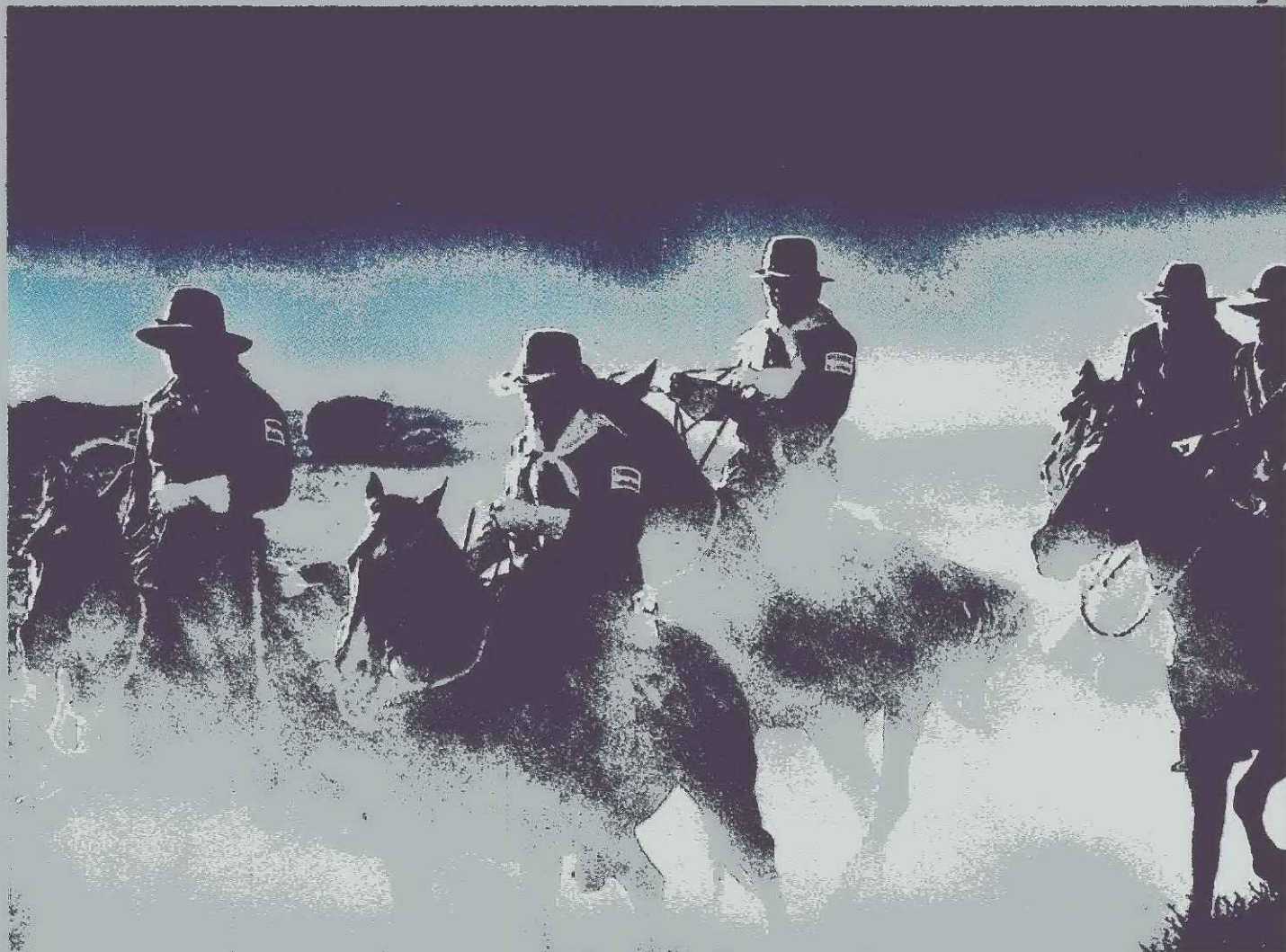
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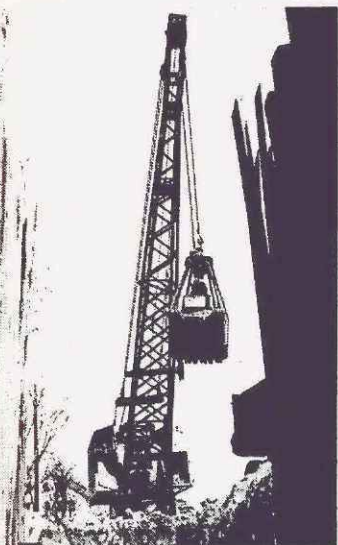
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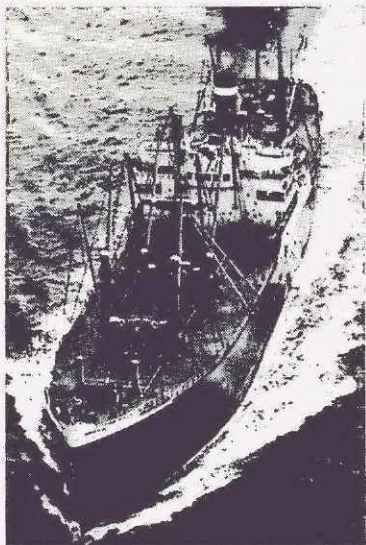


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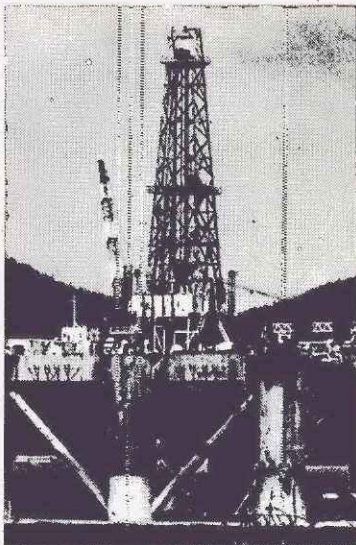
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Truck law poses worries

Continued from page 25
with one insurance company.

Truckers and their insurance agents and brokers face other problems under the act, which no legislators have yet tried to resolve. The required minimum limit of liability insurance varies from \$500,000 to \$1 million (\$750,000 to \$5 million by July 1, 1983) depending on whether the cargo is non-hazardous, hazardous or very hazardous.

The Environmental Protection Agency's listing of hazardous materials is 196 pages long.

"This approach of defining hazardous commodity by reference is unworkable," said James Kimble, senior counsel for the American Insurance Assn.

Insurance agents worry that if they give incorrect advice on the amount of insurance, the trucker could sue.

"There could be a real errors and omissions exposure for agents," warns Lee Backus, director of research and industry affairs for the Professional Insurance Agents of America in Alexandria, Va.

To reduce this exposure, AIA's Mr. Kimble recommends that the EPA provide, only for the purpose of complying with the Motor Carrier Act, a definition of hazardous commodities that is clear and limited.

"A clear, concise listing that permits insurers, their representatives

and the policyholder to fully understand which commodities require increased financial responsibility is necessary," according to Mr. Kimble.

There is one bit of good news for truckers: Insurers and agents insist that \$500,000 of liability insurance and \$1 million coverage for haulers of hazardous cargoes is available—for a price.

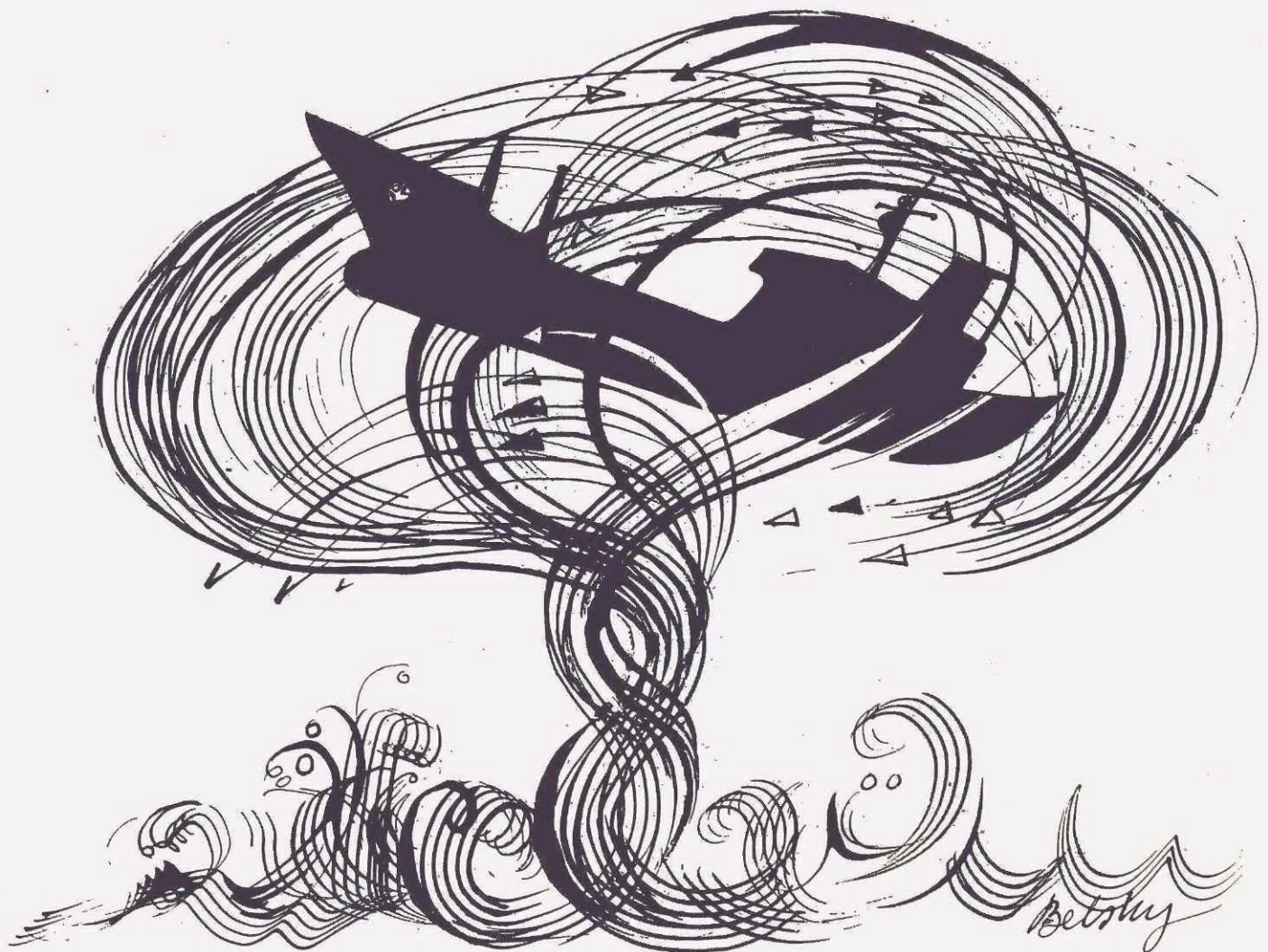
"If the guy is pretty clean and is talking to a big insurer, like an Aetna or a Travelers, the coverage is there," said the PIA's Mr. Backus.

By 1983, insurers will have worked out programs to provide the sharply higher financial responsibility levels that will go into effect then, said Michael Dineen, manager of Kemper Insurance Group's Washington office.

Truckers, however, will find their liability insurance costs rising sharply because of the new higher limits.

For example, a trucker hauling freight in the Louisville, Ky., area who paid \$2,175 for \$100,000/\$300,000 coverage, now will have to pay an additional \$261 for a \$500,000 combined single limit.

If the same trucker hauls hazardous materials, his insurance tab for a \$1 million combined single limit would jump by \$503, according to the Insurance Services Office. ■



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Big loss could topple offshore rating

Continued from page 19

their money back in five years would probably continue to provide coverage," Mr. Tucker says. "Supply and demand would take over and in order to buy new coverage, oil companies would have to be willing to pay the price. Just how much this would be is impossible to say."

While nearly all insurers writing offshore business are protected by reinsurance, a catastrophic loss would effect all offshore physical damage rates, he says.

Roy Williams, president of AIG Oil Rig Inc. of New York, managing general agent for American International Group, agrees. His agency has a \$75 million underwriting capacity and underwrites \$60 million to \$75 million of offshore insurance premium a year.

"Of course, you're talking about insurance of up to \$1.4 billion," Mr. Williams says. "If there was a loss of that magnitude, it would reverberate through the entire insurance industry."

It would be interesting to see where such a loss would end up, he says. "There would be no markets that would not be hit. Generally, profits attract underwriting capacity and losses discourage it. Prices would undoubtedly go up."

There are an estimated 563 mobile drilling rigs operating offshore at this time, with another 200 under

'We are writing substantially below our full capacity,' Robert Lowry says.

construction, Mr. Williams says. In addition, around 2,500 fixed production platforms are working the various offshore fields. Such platforms are stationary and are installed after mobile rigs have drilled exploratory wells and established that oil is present in sufficient quantities.

The largest offshore insurance market is the London Master Drilling Rig Line Slip, with an underwriting capacity estimated at \$600 million and annual premiums close to \$300 million.

Combined with other marketplaces in Europe, Japan and the U.S., offshore insurers have no trouble providing all the capacity needed, Mr. Williams says. "Frankly, we could now double the size of risk and not have a capacity crush, except for in the North Sea." Even there, if rig owners are willing to spend premiums of 4% of value rather than 1½% to 2%, they could likely raise more than the latest \$1.45 billion policy written for the Statfjord B platform operated by Mobil Oil Co., he said.

All American Marine Slip, owned by Marine Office of America Corp., manages a syndicate of 29 insurers and has a per-risk underwriting capacity of \$40 million.

Robert Lowry, president, agrees that prices for offshore property coverage are substantially below the break-even point, making it a buyers' market.

"We do the best we can in our selection of risk," he says. "But we have no compunction about letting a risk pass us by if we are satisfied there would be no rate of return." His syndicate is heavily involved in the North Sea, but has limited how much coverage is provided on any one rig or platform.

"We are writing substantially below our full capacity," he says.

Buyers confirm they are dealing in a market that at this time is favorable to them.

"We expect, from what we've been told, that our insurance costs will be diminished for similar coverages when we renew in October," says Del Jones, Zapata Drilling

Co.'s corporate risk manager. The Houston-based exploration and drilling contractor now places its oil rig insurance in the London market.

"In the renewal we also are looking at the domestic market—at companies like AIG Oil Rig and the

Insurance Co. of North America," Mr. Jones says. "As part of the process, we're getting quotes from Sedgwick Forbes, a London broker."

Zapata owns 20 drilling rigs and platforms of different types, sizes and values, some operating in the

Gulf of Mexico, some in the North Sea and elsewhere. A company spokesman says three more will be built by the end of the year and Zapata recently announced it will soon begin building another semi-submersible rig worth an estimated

Continued on next page



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Offshore risk market may tighten soon, many buyers believe

Continued from previous page
\$115 million.

Sixteen are mobile exploration rigs of three types: jackups, drill ships and semi-submersibles.

"There is a dramatic range of costs for all rigs, depending on how big they are, whether they will operate in a harsh or mild climate and other factors," Mr. Jones says.

Jackups typically have three legs that reach to the ocean floor and support the rig's superstructure. Usually operating in depths of 300 feet or less, modern versions may

cost \$25 million to \$30 million.

For deep drilling, semi-submersibles and drill ships are used. Semi-submersibles have large pontoons or ballasts that rest under the surface to provide stability. They are anchored into place and capable of drilling in water up to 2,000 feet deep.

Drill ships are essentially ships equipped with drilling towers. Their cost can range widely, but semi-submersibles can cost \$100 million or more.

Jack Smith, risk manager for SEDCO in Dallas, says he believes the offshore market may be tightening up, but his company has not received an increase for several years.

"I think it will probably harden in the next year," he says. Insurance for SEDCO's 19 mobile rigs, with insured values of about \$50 million for older rigs and \$95 million to \$110 million for newer rigs, is placed half with the All American Marine Slip and half with Lloyd's of London.

Mobil Corp.'s general manager of insurance says the offshore market is stable, according to his experi-

'I think (the market) will probably harden in the next year,' Jack Smith says.

ence.

"My feel for it is that rates are pretty stable and may be declining a bit," says Michael McNerney. "The reason for this is that loss experience for big platforms has been good."

Mobil is operator and part-owner of two giant platforms in the North Sea—one in the Beryl Field of the United Kingdom, the other in the Statfjord Field off Norway—that are insured for replacement values in excess of \$1 billion apiece.

"Both are joint ventures," Mr. McNerney says. Mobil owns about 13% of the Statfjord platform, most of which is owned by the Norwegian state oil company and eight or nine other companies. Mobil also owns a larger portion of the Beryl Field platform.

Sources say the insured value of the Beryl Field platform which has been operating for several years is about \$1.6 billion, while the Statfjord Field platform, in place for two years, is insured for \$1.45 billion.

As operator, Mobil developed the platforms' insurance programs, including all-risk physical damage policies.

The platforms' policies normally do not include business interruption coverage, because, "you're talking the same market for both covers," explained Mr. McNerney.

Once \$1.6 billion has gone for property coverage, there would be none left over for business interruption, he says.

Two more giant platforms are under construction now, one bigger and one a bit smaller than their predecessors, he says.

Will Mobil be able to find enough insurance to cover these new structures?

"Absolutely, there's no question about it," he says. "Capacity just keeps going up."

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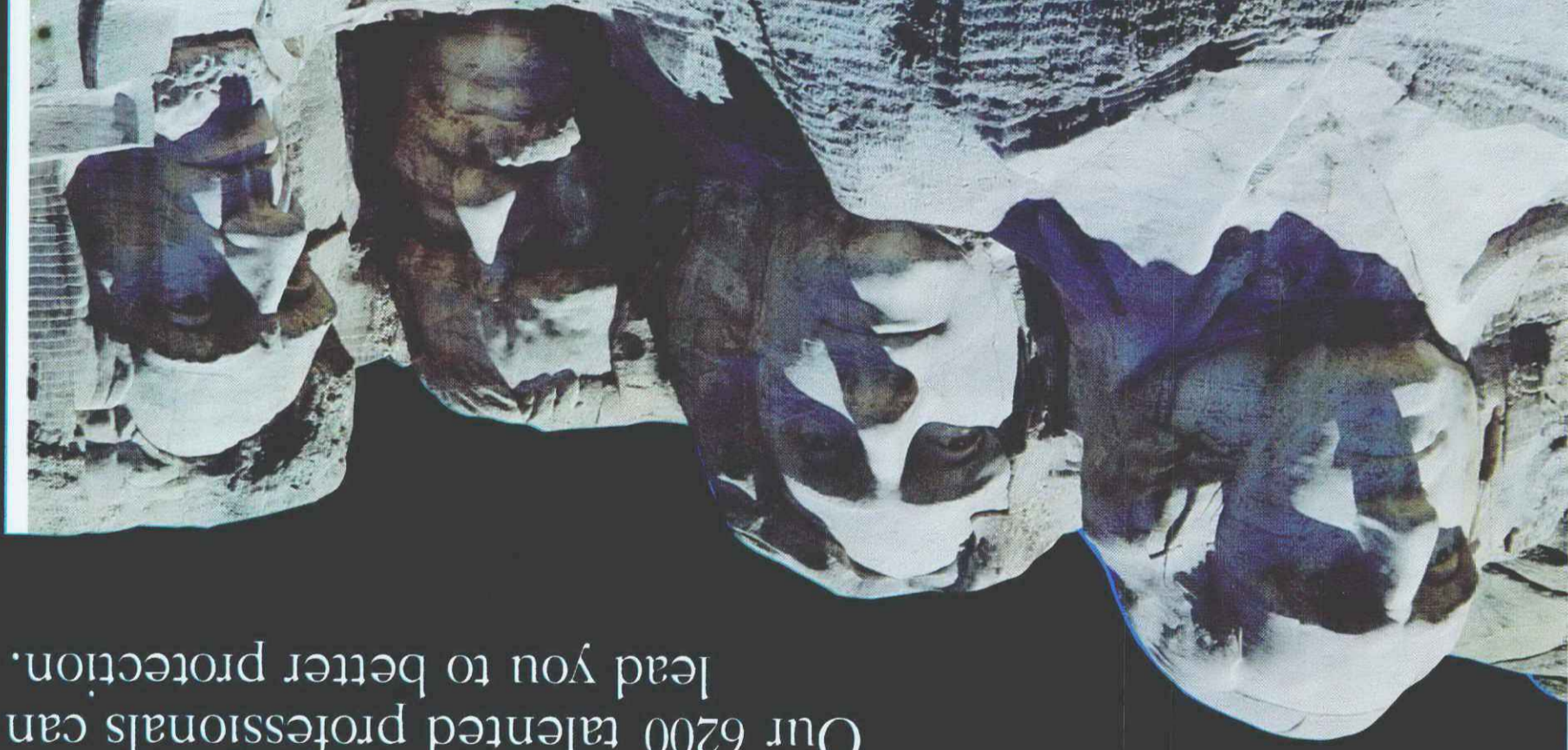
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Marine insurers expect hull rates to increase soon

By STEVE SHERWOOD

NEW YORK—Fleet size is no guarantee against higher hull insurance rates, but it helps. And soon shipowners will need all the rate help they can get.

While owning enough ships to qualify as a "prestige fleet" still translates into lower premiums, most shipowners can soon expect to feel the pinch of a tighter blue water hull market, marine underwriters say.

Indeed, one New York underwriter already has upped both rates and deductibles on the majority of renewals.

Another marine source, however, says efforts by London and some American underwriters to increase prices and deductibles in a market brimming with capacity will cost them business and eventually force rates back down.

Shipowners, he says, also have part of their destiny in their own hands and can reduce rates by self-insuring a larger portion of their risks and by working to improve loss experience. Owners are doing this with mixed success.

Underwriter Terry Deeks, president of New York Marine Managers, says rates and deductibles for all but the prestige fleets are definitely going up.

"We're probably getting 10% higher premiums and 20% higher deductibles for the same exposures," says Mr. Deeks, whose agency represents a syndicate of seven American insurers.

They are: Republic Insurance Co. in Dallas; Ranger Insurance Co. in Houston; Midland Insurance Co. in New York; Lumbermans Mutual Insurance Co. in Mansfield, Ohio; Northeast Insurance Co. in Des Moines, Iowa; Pennsylvania Lumbermans Mutual Insurance Co. in Philadelphia; and Bellefonte Reinsurance Co. in Covington, Ky.

"Prestige owners who deal in millions of dollars of premium will have rates one-half to one-third of those with smaller fleets. Competition there is as heavy as ever and keeps prices low, but serious underwriters will say that prestige doesn't buy groceries and that routine business, more often than not, is seeing increases."

New York Marine Managers reviewed 18 fleets during July, which was a big underwriting month for the managing general agency.

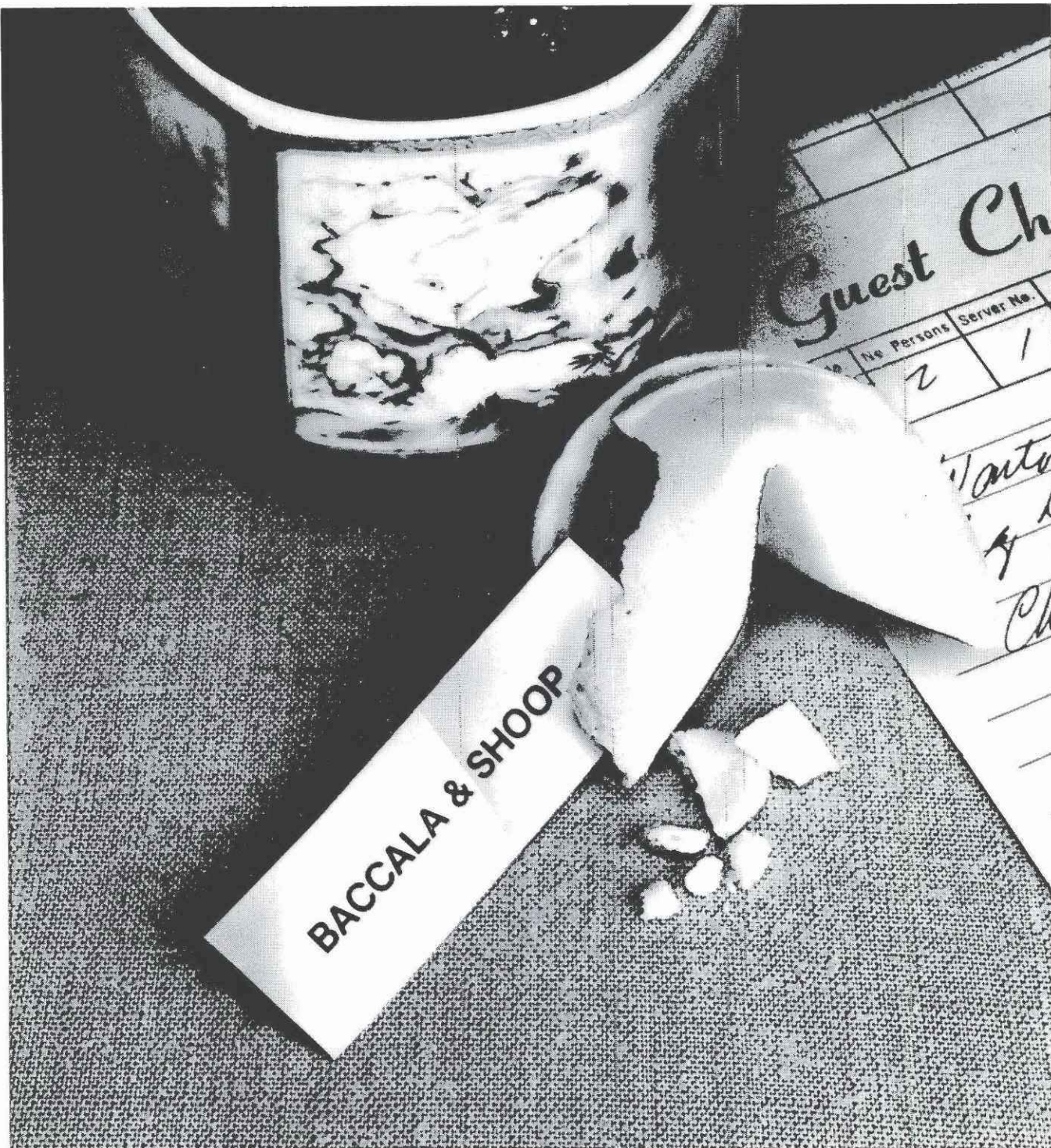
"Of those, all received deductible increases, 12 received rate increases, two stayed the same and only two received rate reductions. The remaining two were lost to competitors."

"We look unfavorably on tankers over 5 years old and are more competitive on newer tonnage. The fleets we try to attract tend to be more modern," he says. "Often of the fleets we see, we might finish up writing one or two."

Mr. Deeks says there has been a contraction of capacity in the past nine months as those "who had no business in the industry in the first place" began pulling out because of bad losses.

"Those who know the business—there are perhaps three or four in the U.S., all in New York—will continue to make money over the long term during both good and bad times," he says.

Among the other major blue line hull markets in New York are American Hull Insurance Syndicate, Mutual Marine Of-



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fice Inc. and All American Marine Slip (MOAC), all representing many American insurers.

John Blackman, president of the Mutual Marine Office Inc., says the blue water hull market has hardened somewhat in the last few months and that deductibles are running 25% to 30% higher.

"Loss figures are atrocious," he says. "We still desire to put business on the books, but I don't think we are willing to do it under the same terms. Those who have good loss records probably won't pay much of a rise, those with moderate records will probably pay a small rise and those with bad records will pay a large increase."

Mutual Marine Office has an underwriting capacity of about \$12 million.

Blue water hull insurance is still pretty much a buyers' market, says John Hickey, deputy manager of American Hull Insurance Syndicate. The syndicate represents many of the major marine insurers in the United States and provides the largest domestic marketplace for hull coverage, with a \$40 million underwriting capacity. "But I think buyers recognize the problem and know they will have to pay more for insurance. Losses have been there."

A total loss ratio for the entire hull industry is difficult to pinpoint, Mr. Hickey says, "but practically everyone is over 100%."

Although it does not differentiate between blue water hull and other ocean marine insurance lines, data from the National Assn. of Insurance Commissioners in Milwaukee indicates the top 10 U.S. ocean marine insurers had an average combined loss and expense ratio of 114.5% for 1980.

As a result, some underwriters are pulling out and some are slowing down, being more selective and charging higher prices, Mr. Hickey says. "Even so, making money is still a year or two away and if they do, it will be a combination of good underwriting and a lot of luck."

The standard blue water hull policy covers an oceangoing vessel for damages done by nearly any peril, excluding war and damages to third parties as a result of collision. It also provides coverage for salvage and labor costs to rescue a vessel in trouble.

Although premiums vary widely from fleet to fleet—depending on age, condition, areas of operation and loss experience—one ship-owner estimates rates of about 2% of value and another source places the average rate ranging from 1.5% to 2%.

John Buzbee, senior vp and director of Marsh & McLennan's marine division, says insurers would like to raise rates but does not believe they are succeeding.

"I really don't see prices coming up," Mr. Buzbee says. "London in particular has been trying to bring hull insurance up and is consequently losing business. On a given fleet they will require deductible increases, and depending on loss record, raises in premium." Business has left London and come to the United States where underwriters are interested in writing risks for the investment income and can offer lower prices.

"London can't continue to lose business, so it seems inevi-

table that they will eventually have to come back down," he says. Deductibles have been rising, in part, because underwriters are adjusting them to inflation.

Mr. Hickey takes issue with the idea that shipping risks are moving from London insurers to the U.S. markets because Americans are price cutting.

"This is not the case," he says. "There is a lot of business coming in, but American underwriters are not writing it all because some of it is still underpriced."

With so many underwriters seeking the same business, Mr. Buzbee says, "prices will rise when there is a series of catastrophic

losses, when capacity sinks or reinsurers begin to remove themselves."

But it is not happening yet. The American President Lines, a shipping company in Oakland, Calif., found the market a bit tougher than usual when it renewed this June, despite a fair loss experience.

"Usually you find London tougher and the American market not as tough, but this year we found both markets tight when it came to giving credit for good experience," says Gilbert Van de Water, insurance manager. "Apparently there were a lot of tanker losses and this affected the rates of all shipowners,

even if their loss ratios were good."

His company's experience could not be described as good, but it was not bad for the year, he says. "We usually get a small reduction, but this year we couldn't. In our case the premium didn't go up, but it didn't go down either."

The American President Lines' fleet of 22 ships is insured for \$450 million, with coverage spread throughout the U.S. and London markets, he says. Its trade is mainly trans-Pacific, to Southeast Asia and as far as the Arabian Gulf.

Where a company trades has a definite impact on premiums, he says. "It is undoubtedly a factor.

For example, around Japan they have a tremendous amount of ship traffic and a higher risk of collision. Trading there ups your premium."

To prevent losses, the company keeps its ships equipped with the most modern navigational equipment, he says. Potential losses run the gamut from collision to grounding and from fire to machinery breakdown.

"We have educational programs designed to brief seagoing personnel on hazards and how to avoid them," Mr. Van de Water says. "We're trying to get into loss control more all the time. It's called for

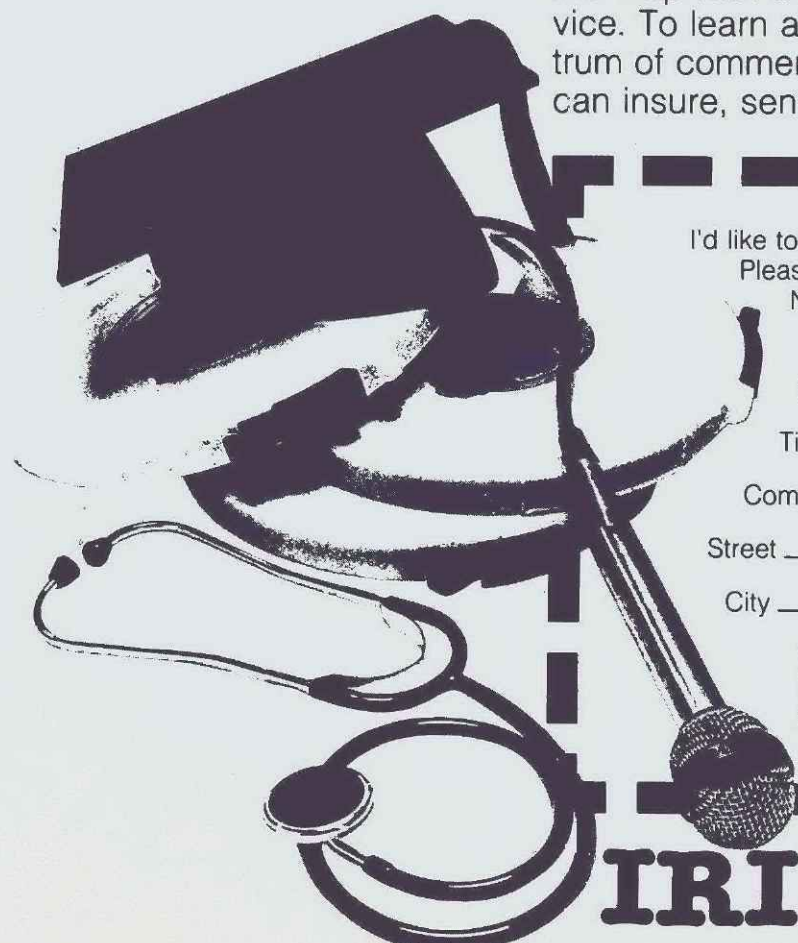
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Shipowners can expect to pay higher rates and have deductibles raised as the hull market tightens.

Hull rates may rise

Continued from previous page with the value of ships and equipment these days. We figure new ships of the type we're building now run about \$200 million each. We have an investment to protect."

Although he buys hull, protection and indemnity and workers compensation insurance, he does not attempt to insure against business interruption or loss of use, he says. "This is a built-in exposure in the freight industry and it is factored into the costs of doing business. We look at buying new coverage every once in awhile, though."

Future rates are speculative, he says. "We just hope we'll have reasonably good experience and that the market's attitude will soften."

Sonny Milos, vp of the Seal Fleet, based in Galveston, Texas, says he has seen no rise in marine insur-

ance costs.

"We haven't seen a tightening. Our brokers, Adams & Porter of Houston, brought in new lower rates, but we're taking out more insurance," he says. The Seal Fleet operates seismographic ships around the world.

Gulf Oil Co.'s marine insurance manager says he finds the hull market fairly constant.

"It's on the loss side," says Ted Metzger. "From the buyer's point of view it's good. If you keep losses down and run a good operation, you get good premiums. It's all based on experience."

Gulf operates a tanker fleet of 35 vessels and premiums range from 1.5% to 2% of total value, depending on deductibles, he says. Deductibles range from \$100,000 to \$1 million.

"We use Lexington Insurance Co., AIG and the London market, to name a few," he says, declining to estimate the fleet's insured value. Marsh & McLennan is Gulf's marine broker.

"I think premiums are fairly level, except for inflation," Mr. Metzger says. "But I can only talk for us. We think we have a pretty good loss ratio."

Sean Burke, corporate attorney and risk manager of Delta Steamship Lines of New Orleans, says increased marine capacity in the U.S. market is taking up the slack London left by hardening its rates.

"It helps temper London," he says. Coverage for the company's 24-vessel fleet was placed in the American marketplace through Frank B. Hall & Co.

Like blue water hull insurance, competition among insurers has kept premiums for inland hull coverage—for river barges, coastal vessels and fishing boats—fairly low for the past 10 years. Favorable prices should continue for some time, though one insurer sees faint signs of hardening.

"Capacity is enormous and rates are extremely competitive," says H Elder Brown Jr., vp of Continentals Underwriters Ltd. in New Orleans, which underwrites about \$10 million in premium a year, chiefly on offshore service vessels. "A lot of underwriters are rate cutting. We had an account today that was undercut in half."

For example, on a \$5 million supply vessel, with a \$25,000 deductible, the rate should be about \$2 per \$100 value, but underwriters are writing at about 90 cents to \$1, he says. He estimates the industry's overall combined ratio to be at least 105%.

"You really can't beat it. You just have to hold on to what you have," says Mr. Brown, adding his company has been in business for 100 years.

"In the next six to 12 months, the market will not be as soft as it is now," he predicts.

Greg Sterck, vp and part owner of Underwriters Marine Services Inc. in New Orleans, agrees. "There are some faint signs of tightening. People who were writing a lot of business are now slowing," he says. "Prices appear to be going up."

One of Contiental's clients, Acadian Marine Services Inc. of New Orleans, was able to overcome a substantial premium increase London wanted a year ago by moving half of its coverage into the American market.

"The policy I'm talking about is for 14 of our 30 vessels," says Henry Lowentritt, executive vp. They are insured for a replacement value of \$105 million for a premium of \$1 million. "Because of where we operate, in the Gulf, our coverage costs a little more." Acadian serves the offshore oil industry.

"Rates seem to keep going up," Mr. Lowentritt says. "Just like everything else."



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American Club weathers stormy seas

By LISA BERGSON

NEW YORK—The American Club, like any old salt, has crossed some stormy seas.

A declining shipping industry, sudden and extensive losses, rugged competition and rate cutting have battered the only U.S.-based non-profit protection and indemnity club.

Now, however, the tiny mutual, with 1980 gross premiums of \$18.5 million, may have steadied its course, buoyed its unique features and be headed for smoother sailing and competition with the famous British P&I counterparts.

The American Club is managed by the Shipowners Claims Bureau, a wholly-owned subsidiary of Johnson & Higgins, which refused to be interviewed about the Club. Industry sources and Club members, however, cite improved claims handling, speed and competitive costs as central to a new and better future for this marine market piece.

Founded in 1917, the American Steamship Owners Mutual Protection & Indemnity Assn. Inc., as it is officially and rarely called, has been "controlled by shipowners for generations," according to Gilbert Dunham, senior vp of Johnson & Higgins, the parent company.

It was a precursor to today's

many industry captives because club members provide each other with marine protection and indemnity insurance not available under the standard U.S. marine hull policy, adds Club board member Sean Burke, the general counsel of Delta Steamship Lines.

The risks P&I clubs cover range from crew injuries to mutiny, from dock damage to loss of cargo and include all liability-related legal expenses and fines.

Chief among the exposures handled by the Club are cargo and seaman's personal injury, Mr. Burke says.

While these policies have scarcely been profitable in recent years, the Club has managed a financial turnaround. In 1980, for example, it showed underwriting losses of \$1.5 million, about 50% less than 1979's \$3 million in losses.

Year-to-year investment income rose, albeit slightly, to \$2.9 million from \$2.3 million. After-tax net income swelled to \$708,175 from a loss of \$1.27 million in 1979.

But the club's combined ratios for the past five years are wavy as the sea: 1980—100.7%; 1979—114.4%; 1978—90.7%; 1977—110.7%; and 1976—142.7%.

"It's not unusual for a P&I mutual to incur combined ratios of more than 100% because they can

'You are battling a lot of mystique,' says Sean Burke of Delta Steamship.

assess their members," explains John Buzbee, senior vp and director of Marsh & McLennan Inc.

Because it is a non-profit mutual, the club duns or pays refunds to members, according to their share of total net premiums for the respective calendar year. For example, in its financial statement dated June 30, 1981, a refund of \$769,361, or 10% of net premiums paid, was announced for 1970, reflecting a surplus for that period.

Members, meanwhile, were assessed \$2.4 million for losses in 1981, \$3.2 million for those in 1980, \$4.2 million for 1979 and another \$1 million for 1978.

The magnitude of these assessments has led to higher advance calls, "closer to what may be the guesstimated need," says Richard LePage, the general manager for insurance claims and loss prevention at Farrell Steamship Lines, the company with the largest representation on the Club's board.

The norm for advance calls for many clubs, he recalls, was 40% to 60% of the total cost. Although figures for the American Club are unavailable, British clubs far exceed that earlier precedent.

In a report on P&I clubs just issued by Marsh & McLennan, West of England Ship Owners Mutual Protection & Indemnity Assn. (47.6 million gross tons) lists an advance call of 100% of members' routine claims, management costs and reinsurance, with supplementary calls for exceptional claims only.

Warring against higher advance calls is cash flow, one of the major lures of Club membership. So, while the American Club has increased its call, it has arranged for members to pay their annual premiums in monthly installments—a definite improvement over the British clubs, supporters say.

Precisely this feature led Delta Steamship Lines to leave the United Kingdom Mutual Steamship Assurance Assn. Ltd. in favor of the American Club last year.

Rapid claims handling distinguishes the American Club from its British counterparts, too. In one case, Mr. LePage remembers calling the Club the day before Farrell had to pay a \$5 million to \$6 million settlement. "The next day I deposited my recovery check," he con-

tinued. "This is the sort of thing they can do because they are two blocks away."

In addition, the Club touts the "stability and strength" arising from its supervision by the New York State Insurance Department. The department imposes a \$5 million to \$6 million surplus maintenance on the Club and keeps detailed records of its finances. In 1980, the Club reported a \$5.2 million surplus, in 1979—\$4 million.

But compared with the mighty British P&I clubs, the spread of risk is smaller. The clubs measure membership by tons. A cargo vessel's carrying capacity can run anywhere from 11,000 to more than 30,000 gross tons. Many of the large U.K. groups show gross registered tons of 25 million to 36 million.

Comparatively, the American Club, with 4 million to 5 million tons, is minuscule.

"The London clubs have size, spread of risk and huge leverage when it comes to buying reinsurance," notes Mr. Buzbee.

Competitively, the U.K. clubs have been more attractive markets because they claim to offer unlimited coverage, but the edge may be overrated, sources say.

"You're battling a lot of mystique," counters Mr. Burke.

The American Club offers a basic



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limit of up to \$25 million and an option to buy layers up to \$300 million. And, in contrast to the British clubs, the American Club provides an attractive stop-loss clause that limits member liability to 70%, better rates than the British clubs and a greater voice for members in determining claims settlements and setting policy, observers add.

Also, the Club recently improved cash-flow provisions, accelerated claims handling and quickened response to legislative changes, members add.

Today, the Club's 27-fleet membership remains predominantly the scions of American shipping. In fact, the first foreign shipowner was not admitted before 1980, a result of the Club's pre-1973 policy barring foreigners.

Also, some American shipowners did not initially take to the mutual concept, preferring to pay predictable, fixed premiums. But, by the early 1970s, insurers offering flat rates had all but fled the business, leaving the stalwart shippers to turn to the mutuals.

At the time, the overseas clubs appeared "more stable" than the American Club, particularly in regard to their ability to forecast losses, indicates Mr. Burke. Many U.S. shippers opted to join British clubs rather than the U.S. mutual. These firms are hard to attract back.

"Fleets that enter in London usually continue—you don't jump around," comments Mr. LePage. ■

P&I clubs cover marine gaps

By STACY SHAPIRO

LONDON—Need protection on the high seas during a Napoleonic War? Want to cover the transport of people to the "new world?" Can't find an insurer?

Join a protection and indemnity club and get unlimited liability protection, shipowners told their mates in the 19th century when P&I clubs first began.

Today, at least 90% of all shipowners' liabilities are insured through P&I clubs, London experts estimate. The 16 international P&I clubs vary in size up to 33 million tons of ship capacity covered for the largest P&I club, The United Kingdom Mutual Steamship Assurance Assn. (Bermuda) Ltd.

The United States has a small P&I club of its own, the American Club (see related story) and more protection and indemnity interest is moving to the North American continent with the opening of the Pan American club. Aimed at Latin American shipowner and operators, the club also is open to the North and Central American shipping fraternity.

Most P&I clubs function along the same organizational lines, said Charles Goldie of Thomas R. Miller & Son, manager of U.K. Mutual Steamship P&I club and others.

Each P&I club appoints a board of directors from its shipowner membership. The board hires managers to run day-to-day operations.

For the largest clubs like U.K. Mutual—which earned 135.7 million pounds in premium and investment income—managers are appointed from outside firms like Thos. R.

Miller, but smaller P&I clubs often hire managers from within, Mr. Goldie says.

Each P&I club member, who must be a shipowner, pays an annual "call" based on the size of his ships, his crew, claims experience and management fees. The non-profit club issues extra calls for money during the year to cover losses.

"If there's a surplus at the end of the year, it goes back to the shipowners or into the pot or split both ways," Mr. Goldie says.

The excess coverage and reinsurance needs of the 16 international P&I group clubs are pooled and placed primarily in the Lloyd's and London marine markets.

"If you take a \$10 million claim and it's one of our ships that produces it, we (U.K. Mutual) would pay, say, the first \$750,000 dollars," he said. Between that and \$6 million, the clubs share the reinsurance based on the size of each club and its premium income.

Losses above a \$6 million limit are reinsured in Lloyd's and other markets, he said.

These layers will go up to \$375 million, explains Mr. Goldie. "If any single claim exceeded that figure, then it would come back to the pool to be shared. And if it exceeded a very high layer, it would come back to the original club, who'd pay the excess."

The clubs cover all liabilities of the shipowner including liability for collisions, a risk refused by Lloyd's when the first P&I club began. Now Lloyd's will underwrite up to three-quarters of collision liability coverage.

The 20th century brought pollution liability. Pollution claims captured 13.2% of the United

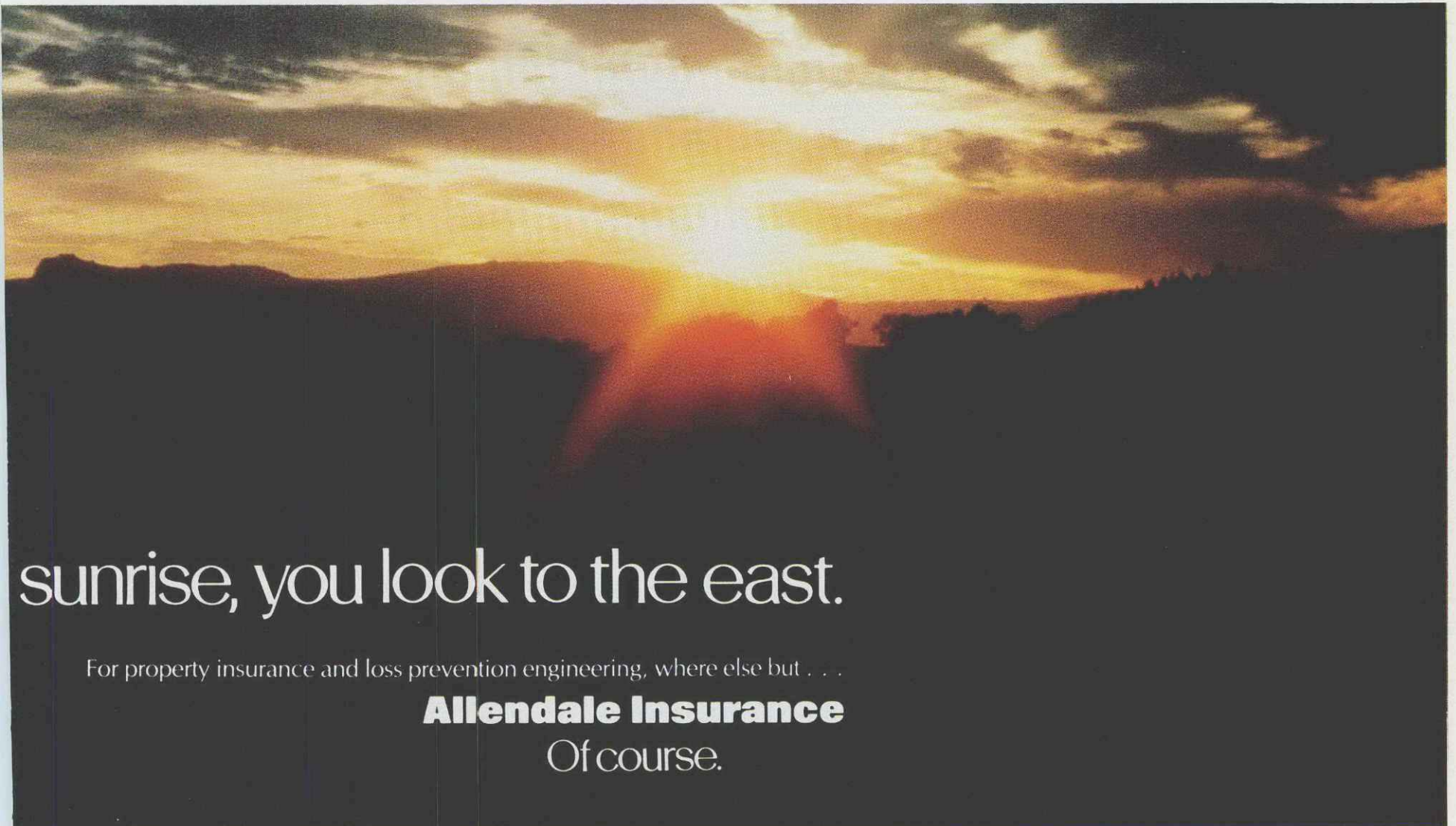
Kingdom Mutual's 1980 losses of \$184.9 million for the period ending in February 1981.

"Oil pollution 10 to 15 years ago was a minor calculation in our figures. It's now a very major one," Mr. Goldie says.

Just recently, United Kingdom Mutual paid out \$33 million for a Greek oil spill off Cuba—its single largest paid claim.

Few P&I clubs cover hull insurance.

The 16 Protection & Indemnity Clubs in the U.K.-based international group include The United Mutual Steam Ship Assurance Assn. (Bermuda) Ltd., The Standard Steamship Owners P&I Assn. (Bermuda) Ltd. and The Steamship Mutual Underwriting Assn. (Bermuda) Ltd. in Hamilton, Bermuda; The London Steamship Owners Mutual Insurance Assn. Ltd., The Britannia Steamship Insurance Assn. Ltd., The West of England Ship Owners' Mutual Insurance Assn. and The Steamship Mutual Underwriting Assn. Ltd. in London; Sunderland Steamship Protection & Indemnity Assn., Sunderland, England; Newcastle Protection & Indemnity Assn. and The North of England Protection & Indemnity Assn. Ltd., Newcastle-upon-Tyne, England; The West of England Ship Owners' Mutual Protection & Indemnity Assn., Luxembourg; Assuranceforeningen Bkuld (Sjensidig), Oslo, Norway; Sveriges Angfartygs Assurans Forening (The Swedish Club), Gothenburg, Sweden; The Japan Ship Owner Mutual Protection & Indemnity Assn., Tokyo; and Liverpool London Steamship Protection & Indemnity Assn. Ltd., Liverpool, England.



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Iran-Iraq war claims to sting Lloyd's

By STACY SHAPIRO

LONDON—Prices on the marine menu at the Lloyd's of London coffeehouse have been altered slightly in the last few years.

Deductibles are up 20% on this year's marine insurance renewals, confirms Lloyd's marine underwriter Malcolm Rumsey.

And some Lloyd's marine underwriters have raised rates by 5% on hull portfolios, other sources say.

"Responsible hull underwriters are being tough because they're not making money on their hull portfolios," says Mr. Rumsey, chairman of the Lloyd's Underwriters Assn. "Underwriters need a substantial rise in premium income."

But the scale between soft and

hard cycles still teeters at the world's oldest marine insurance market. More factors are needed to tilt the scale into the hard cycle, Mr. Rumsey says.

One factor may appear this month, the first anniversary of the Iran-Iraq War.

As of Sept. 20, claims totaling as much as \$400 million could hit Lloyd's and the world marine insurance markets for ships trapped for a year in Iranian and Iraqi ports. The losses come under a clause in the war risk contracts that declares ships a total loss after they are blocked or trapped for 12 months.

"This month will represent the crunch month for marine underwriters," Mr. Rumsey says. "A number of claims are about to be

presented to the London market. All 70-odd vessels add up to \$430 million, but how many are insured by war risk insurance or how many are insured at all (for being laid up) is another matter."

Already, the Hellenic Mutual War Risks Assn. has paid \$47 million for 13 of the 75 ships caught in Iraqi ports. Lloyd's reinsured 80% to 90% of these vessels, which are now considered total losses, a Lloyd's spokesman says. Some ships flying Indian and Yugoslavian flags also have been written off as total losses.

Lloyd's, however, whose underwriters will bear a third of the losses directly and much of the rest through reinsurance, is buffered from disaster by extra war risk premiums that were paid a year ago.

When the policies were issued last year, special rates above the usual 0.325% war risk rate were charged ships with Iranian or Iraqi destinations, Mr. Rumsey says.

There has been talk of including special war risk premiums for ships near the Gulf of Sidra, off the Libyan coast, after U.S. pilots shot down two Libyan fighters near there. But serious talks about such a move have not begun, Mr. Rumsey says.

Losses from the Iran-Iraq War will increase the 1981 Lloyd's global marine figures considerably, he says.

Besides war-related losses, the marine market suffers from the recession and a slowdown in shipping.

"There is no real true growth

marine-wise," says Mr. Rumsey. "It's partly to do with the recession and partly to do with a lot of vessels being laid up."

The recession is preventing cargo from being shifted from one area in the world to another, thus cutting potential premium, Mr. Rumsey says.

"Tankers in part are being laid up because of oil prices," he says.

Shipments of liquefied natural gas aren't filling in the trade gap. Some of these vessels, which are brand new, haven't been used because the land based terminals where the gas comes from are inaccessible at the moment for political and other reasons too.

Premium also is being whittled away by the trend toward setting up state insurance companies, he said.

There are also no new risks coming into the Lloyd's and London marine markets to compensate for this lost business, Mr. Rumsey says. "The major growth in offshore (oil) exploration has already taken place," he said. Any further \$1.45 billion risks like the Statfjord B gas platform are, therefore, unlikely to increase marine business.

"I think that plateaued out the last year or so," Mr. Rumsey says. "There isn't any impetus to build new vessels."

"If the world trade were to take off next year, business also would take off," he says. But right now, with continued recession and high interest rates holding up underwriting losses, the world marine insurance market is still competing for what little business there is in world shipping.

Although Lloyd's began in the 1730s as a marine insurance market, marine risks now contribute less than half of Lloyd's underwriting profits. In the 1978 global results just released, the marine market made 764.25 million pounds out of a total 2.16 billion pounds. Lloyd's and the London market, however, still insure more than half of the world's marine insurance business, Mr. Rumsey says.

The 1979 Lloyd's global results will bear the brunt of the Avondale losses in which three brand new vessels designed to carry liquefied natural gas were scrapped during construction for faulty insulation. The \$300 million claim has, so far, been the largest single claim in Lloyd's history.

"It's all up for sale now. The ships were worth \$160 million apiece, but the value will be minimal because no one wants them," Mr. Rumsey says. "The Japanese talked of buying them and putting in their own insulation, but found that wasn't economically worthwhile."

Marine underwriters must continue to watch for these unexpected claims that crop up, particularly in the United States, he says. The Avondale insurers, for example, never expected such a claim, he says.

But American courts, notorious for squeezing out the most unique liabilities and damages, are re-educating the marine insurer, Mr. Rumsey says.

"We just cover the legal liability of the assured and whatever the courts decide we go along with."

But whatever the bad results or unknown risks, the Lloyd's marine market needs more impetus to push it into a hard market.

"It may be that some of this excess capacity will disappear when those of our competitors, who write at below cost and rely solely on high investment earnings to achieve a profit, find their underwriting losses are greater than their investment earnings when interest rates start to fail."

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U.S. Coast Guard trying to improve safety on the seas

By LEN STRAZEWSKI

WASHINGTON—Wanted: ways to ensure the safety of maritime workers.

The U.S. Coast Guard, guardian of the waves, is looking for a new method of regulating safety for workers on the high seas.

"Basically, we are looking for a management option to personnel safety, a program which puts the emphasis on the human element in safety," explains Cmdr. David Zawadzki, who is in charge of safety research for the Coast Guard.

Government officials have monitored safety on waterways "since the steamboat days of the 1800s," Cmdr. Zawadzki says, and the mandate has changed little since then.

The Coast Guard inherited the task of regulating maritime safety from the Bureau of Marine Inspection and Navigation, which was phased out in the 1950s.

"Our approach has always been similar to that of the Occupational Safety and Health Administration. We have regulated the workplace and maritime equipment, hoping that would keep workers safe," Cmdr. Zawadzki explains.

"But while safety hasn't actually been a growing problem, we have always had the feeling that there could be a better, more efficient way of making this work."

Present rules demand OSHA-like inspections and examination of workplace equipment and atmosphere. Like OSHA rules, the maritime safety regulations are sometimes seen as too expensive and inefficient.

The effectiveness of dictating technical rules and standards seems questionable when training and worker experience seem to be lagging, the Coast Guard also believes, so it may begin regulating training more carefully through a management approach to safety.

One program under consideration consists of the International Safety Rating techniques, developed by the International Loss Control Institute in Logansville, Ga.

The safety management system is based on management controls, record keeping and accident reaction and correction (BI, Dec. 1, 1980).

A ship participating in the International Safety Rating program would prepare its safety systems according to an audit manual that describes training needs, meeting schedules, record keeping and disaster plan needs. When the ship officers feel they are prepared, the ship would be audited by ILCI-trained reviewers and awarded from one to five stars as a measure of how well the ship has developed safety reaction and preparedness.

Supporters of the safety rating technique say the program puts an emphasis on management-worker interaction and can unite employers and employees in a competitive spirit to improve ratings.

Instead of being fined for not meeting standards, ships are given guidelines for improving safety and encouraged to meet and surpass basic safety requirements. Older ships may not have to be completely refitted with new equipment just to meet arbitrary regulations, but would be able to improve overall safety programming to meet Coast Guard requirements.

"The International Safety Rating

program looks like it has some of the aspects we are looking for in safety: an understanding of the human element in maritime safety," Cmdr. Zawadzki says.

"We don't have a deadline to meet, and we are not exactly sure that the present rules should be thrown out. But we suspect that there are safety management options available out there that can be offered to the industry, and those options may be simpler and more effective than what we are doing now," he says. ■

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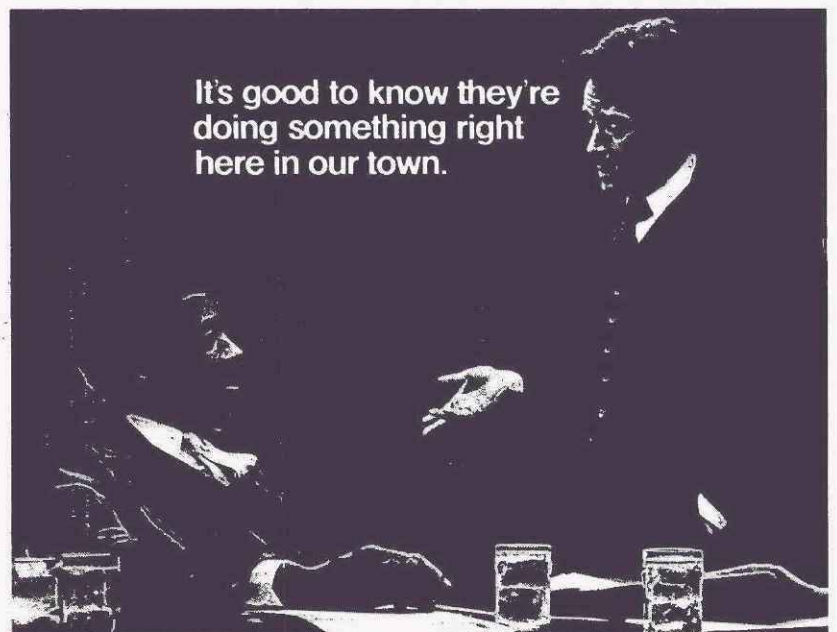
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perspective

Taking a chance

Oil investors should be aware of risks

By John T. Cook

THE ENERGY CRISIS of 1973 and '74 signaled the beginning of a fundamental change in the complexion of investors entering the oil and gas exploration scene.

The companies that had previously engaged in oil and gas exploration were for the most part the "Seven Sisters" and their close relations, companies that specialized in the industry.

But with the energy crisis came non-traditional investors: industrial companies looking for their own sources of fuel; public utilities; gas transmission companies wanting to assure sources of supply for their pipeline systems; and even dairies looking for boiler feedstock.

Today, the group of non-traditional investors has expanded to include virtually anyone with cash to put to work. Insurance companies, individuals, a myriad of limited partnerships and even London bookmakers are investing substantial sums in oil and gas.

The oil and gas business has long been known for high risks and a corresponding high reward if the company is successful. Price decontrol and an energy-hungry world combined to make investing in oil and gas ventures extremely attractive. However, the fundamentally high-risk nature of the industry continues, and while the potential for great financial reward is always present, so is the potential for a great loss.

The "business risk" aspects of oil and gas exploration are significant in themselves, but the risk of loss through misfortune, particularly as represented by an out-of-control well, is substantial.

And wells get out of control with some regularity. There are a number of reasons why, but one leading oil and gas claims adjuster says that 90% of out-of-control wells are caused by human error, either on the part of the drilling contractor or the well operator.

There is a substantial shortage of trained rig personnel today. The same is true for engineers and geologists working for the operator. Such a combination of inexperienced personnel can spell disaster and, in any case, increases the potential for a blowout. Wild wells can be very expensive to control. Losses of \$150 million have occurred.

What does this mean for the investor who is simply participating in a drilling fund, a limited partnership or some similar investment vehicle?

A contract called a "joint operating agreement" usually defines the relationship among the investors engaged in oil and gas exploration. One of the participants, the "operator," is responsible for hiring a contractor, obtaining the necessary leases and permits and usually furnishes the engineering and geological expertise. The people who participate with the operator and take a percentage of the venture are referred to as the "non-operating working interest."

The participants in the venture may be corporations, individuals or limited partnerships. It is not uncommon for one person or group to be represented more than once in a given venture. For example, a person may participate as an individual and again as an investor in a limited partnership.

The operating agreement makes it clear that the liability of the parties is "several," not "joint" or "collective." Each party to the joint operating agreement is responsible for its percentage of the cost liabilities, business risks and returns of the venture.

Any limited partnership, participating as a co-venturer, will have a general partner. While the exposures of the limited partnership are tied to its dollar investment, the general partner is responsible for any excess exposures.

An investor unfamiliar with the oil and gas industry will find that the operator of the joint venture has great authority to commit all of the co-venturers to substantial exposures to risk.

The operator will select a drilling contractor, the drilling location and the methods to be employed, which are all

exposures, not only in terms of a wild well but also with respect to third-party liabilities. The oil and gas industry makes extensive use of hold-harmless and indemnification agreements in order to segregate the exposure between the operator and the drilling contractor and various service contractors.

Nevertheless, the investor in an oil and gas exploration project may discover that he is responsible for his pro-rata portion of the drilling contractor's rig in certain circumstances, not to mention reservoir damage or loss to royalty interests. Pollution risks connected with a wild well are very significant.

A prospectus for a limited partnership or a drilling fund is full of disclaimers and warnings on pollution, environmental impairment, uninsured risks and the like, but the prudent investor, whether he is a member of the limited partnership or otherwise, should be conscious of the substantial exposures he faces. His exposure may be limited to his contribution in a limited partnership, but without proper insurance protection, uninsured liabilities can reduce or eliminate income available for distribution and can result in loss of the partnership's assets. Exposures must be recognized, and a conscious risk management decision must be made concerning their control.

The operator and his partners may assume, under contract, responsibility for millions of dollars worth of specialized equipment in their care, custody and control, which they can insure.

Another extension, evacuation expense, would respond for cost incurred in the evacuation of people because of the danger of escaping hydrogen sulfide gas.

The well can be controlled after a blowout, but the hole itself may be lost. Redrilling expense can cover this exposure and should be considered.

Even after the well has been drilled and is either producing or plugged, there is a risk of blowout. It is possible to insure producing, idle or shut-in wells.

All these exposures and more can be insured. In fact, many operators provide them for the benefit of the joint account. However, for various reasons, many operators do not, and any participant in an oil and gas venture should realize that the operator's insurance program can vary widely. Thus, many non-operators need to provide their own coverages.

However, many small investors, particularly those in drilling funds and limited partnerships, have little if any knowledge of whom the operator will be, what the operating agreement says, which contracts the operator executes and, consequently, to what they have been committed.

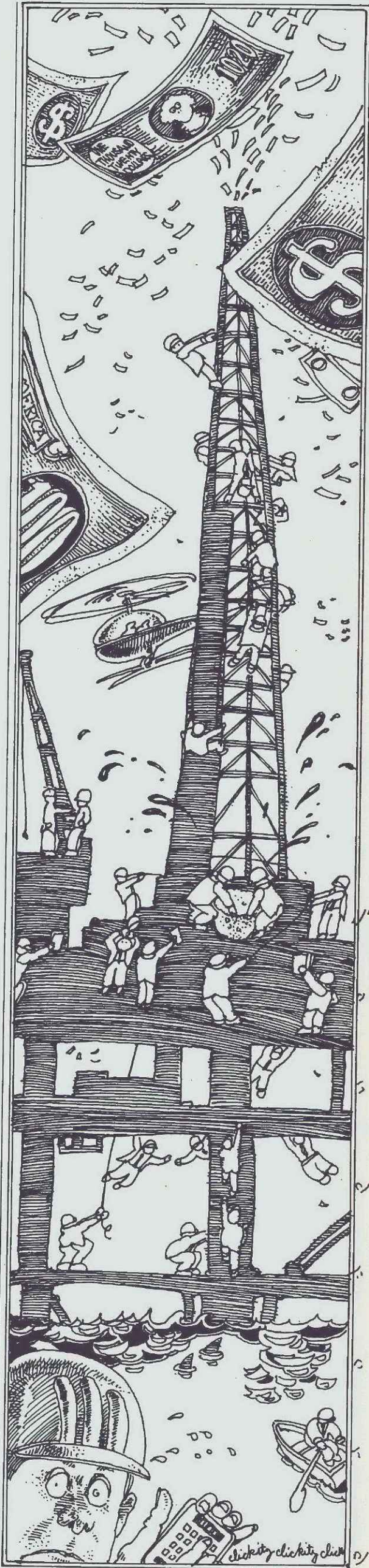
Investors' goals and objectives vary. The liabilities facing investors depend on the structure of the venture, but, in any case, they can be severe if a blowout occurs. Each investor should realize that he faces potential exposure through the operating agreement, which concerns contracts that have been entered into by the operator on behalf of the joint account.

Limited partnerships may be content to lose their investment and not be concerned with insurance protection. But such an attitude should reflect the investment goals of the partnership and should be the result of a prudent study of whether insurance is necessary.

The financial stability of the general partner should be considered as well. Even though liabilities are several, not joint or collective, operators, like non-operating working interests, certainly should be concerned at the possibility of having an insolvent partner. This is because they may be responsible for the partner's liability expenses.

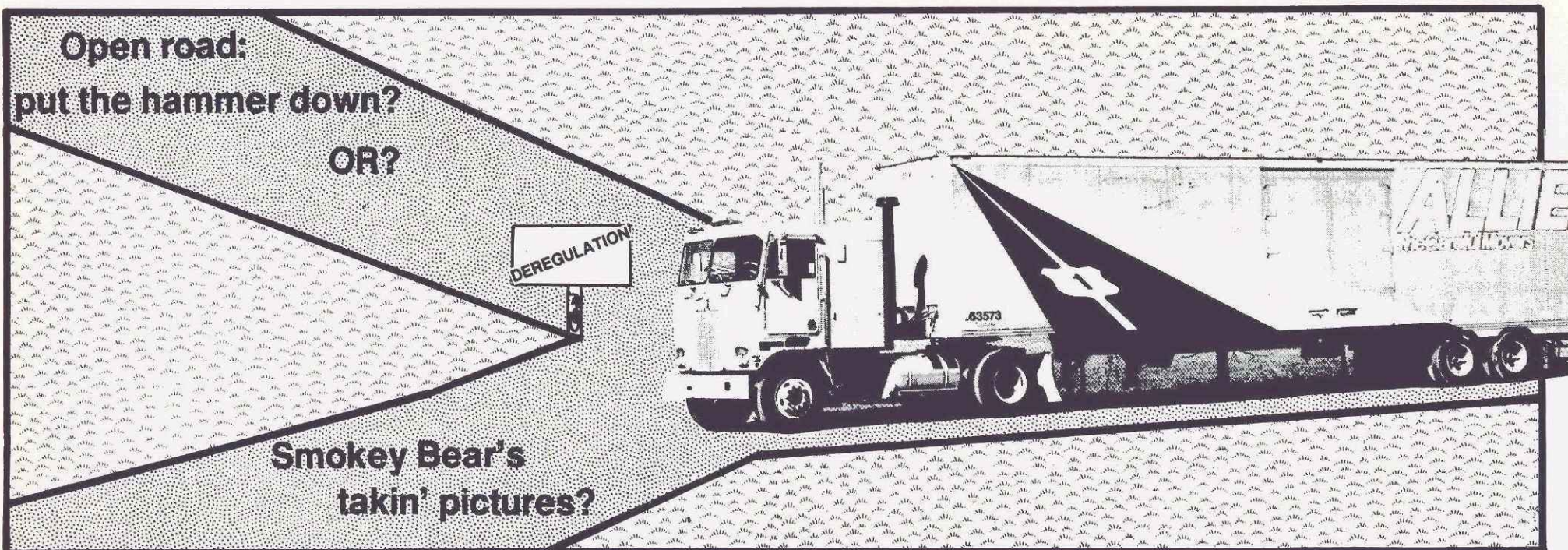
Conditions for cost-of-control insurance vary widely. There are a number of financially sound markets writing this class of business that can respond for almost any needed extension of coverage. There is a growing need for cost-of-control coverage based on increases in drilling activity and in the number and types of investors.

Hopefully, investors are more aware of the magnitude of their exposures. Discussions with an attorney and a competent insurance broker should go a long way toward crystalizing an investor's thinking and helping him reach a decision about insuring his exposures.



John T. Cook is a vp and account manager at the Houston office of Johnson & Higgins of Texas.

perspective



Montage: Leslie Gignilliat

Deregulation poses coverage perils

By William H. Rodda

WILL DEREGULATION of motor carriers be beneficial to the consumer—the shipper? Or is it merely a device to ease the burden of compliance for trucking firms and insurance companies?

An avowed purpose of deregulating the trucking industry has been to foster lower prices and better service by means of increased competition between carriers. The effect so far has benefited some shippers, but problems have been created for others. The shipper must also take advantage of the increased flexibility. Benefits will not flow automatically; they must be sought out and in some cases demanded.

Deregulation has affected all common carrier transportation—air, rail and truck—but our attention here is to motor carrier operations. The Interstate Commerce Commission has changed or eased some of its regulations, and Congress passed the Motor Carrier Act of 1980, which added important changes. The principles in these changes affect services and costs to shippers of goods.

Interstate routes of motor common carriers in the past have been authorized by the ICC on the basis of ability of the trucker to serve and the need for the service. It has been virtually impossible for a new truck line to get authority to operate where adequate service was already available. The new regulations require only that the trucker prove an ability to serve the route. This oversimplifies the situation a bit, but the practical effect is that truckers can expand their routes and new truck lines can more easily establish operations.

At first glance, it appears that this open competition should benefit the shipper. There will be more truckers competing for business, which should result in more service and the lowest rates that operating costs will permit.

The fly in the ointment is that freedom to establish new routes brings a collateral freedom to abandon unprofitable routes.

The result may be excellent for the shipper who is located on the main line where trucking operations are profitable. It may be a disaster for the shipper who is in a remote location.

Truck operations over longer distances will tend toward hub operations. Hub cities like Chicago, Kansas City and New York will be centers where shipments from smaller communities are consolidated and carried to another hub, where deliveries will fan out to destinations. Shipments between hub cities should be expedited. Shipments to and from smaller places will be subject to transfer at the hubs. This will increase the chances of loss and damage and may slow down service.

New truck lines will spring up to fill in the gaps where through operations have been abandoned. Some of these newly established lines will survive and become part of the system. Others will succumb to the difficulties inherent in any new operation.

The developments will be comparable to that in the commercial airlines business. The big airlines have abandoned service to hundreds of smaller cities. Several hundred commuter airlines have sprung up to provide local service to hub airports where connections can be made to the major carriers.

Will this freer competition bring about lower rates? The results will be a mixed bag. A comparison with the deregulation of the airlines is valid. Special low fares are available on highly competitive routes, but basic fares have increased where competition is lacking.

The shipper can do several things to take advantage of the new flexibility in motor carrier operations:

- The shipper who regularly moves substantial quantities of freight can look for special deals.

Procedures have not yet been settled in regard to filing and publishing new rates. Frequent inquiries should be made regarding new or promotional rates.

It may be possible to save money by changing the routing or the time of shipment. It might be cheaper, for example, to ship to a New Jersey community via Philadelphia rather than Newark or vice versa.

Another possibility may be for the shipper to operate his own trucks to a hub city. A shipper from an Illinois community might be able to save money by carrying goods to Chicago or St. Louis, where connection can be made with a through carrier.

- Increased handling of packages can be anticipated because of the hub city situation.

The shipper should determine by what routes and intermediate carriers the shipments will travel. There is increased chance of damage every time a package is transferred, unloaded and reloaded. More substantial packaging may be needed if experience shows increasing damage.

It should be remembered that carriers are not responsible for damage that is the fault of the shipper. Carriers may resist paying claims if damage results from improper packaging.

- Financial stability of motor carriers should be checked periodically.

Some insolvencies of truckers have already occurred. Many observers believe that additional insolvencies will occur from the increased competitive pressure, or among the new carriers that will attempt to fill a gap by shipping to smaller communities.

A trucker with financial difficulty tends to delay claim payments. A huge backlog of claims can occur by the time operations cease.

- Insurance on shipments should be reviewed. It may be even more advantageous now to have an arrangement where the insurance company pays the shipper's claims and then takes over the problems of collecting from the carrier. The hub city situation will increase the number of carriers involved in the handling of some shipments. This may delay recovery from the carrier and thus increase the desirability of getting immediate payment from an insurer.

Confessions of a marine person

By Roland Reuger

A SPECIAL REPORT on marine insurance seems to be the appropriate place to tell other insurance people—those who insure automobiles, houses and similarly uninteresting objects—about the strange people who handle marine insurance and marine claims.

Like all people who are considered strange, marine insurance people have good reason to be. Marine people feel neglected and unappreciated. My wife and children know that I am a marine insurance and claims manager, but carefully skirt mentioning it to friends so that they don't have to explain what I do. They wouldn't do that if I were a regular insurance and claims manager.

Have you ever looked at a program for

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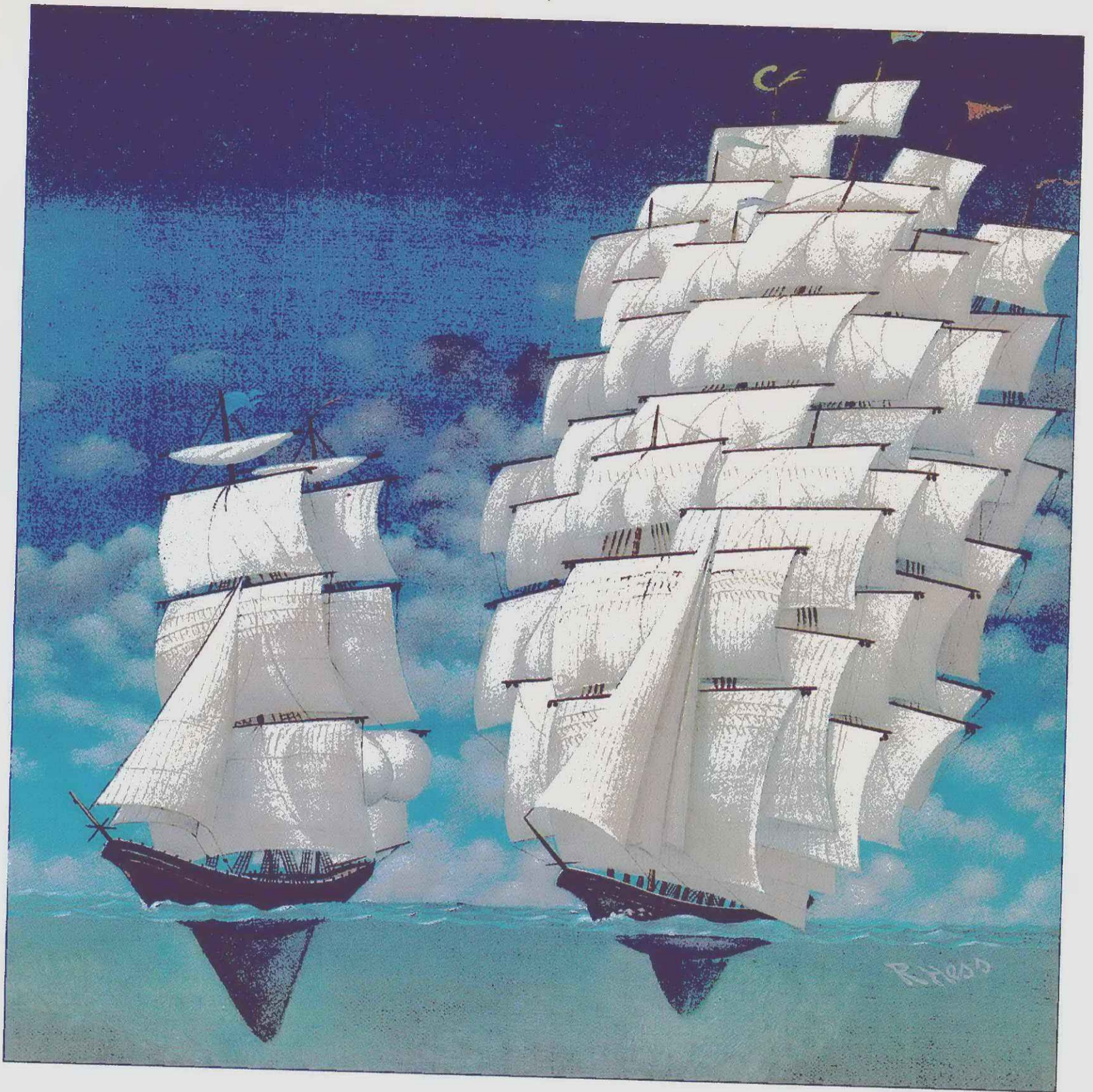
an insurance seminar? Marine insurance is about as prominently listed as water polo in a Summer Olympics program.

Even our brothers in the insurance industry make us feel unwanted. Tell a casualty man that you are in marine and he says "Oh!" as in "We can't all be perfect." I've stopped more cocktail conversations than I care to remember by saying I'm in marine insurance.

All this has forced marine people to band together—misery loves company—and cry on each other's shoulders while swapping sea stories and tales of strange claims using words like: P/A, FPA, G/A, draft, con and sentences like "We had this tramp who came in at a 40-foot draft with the pilot conning her when she hit a rock and ripped her bottom. Since we couldn't find her underwriters, we put a plaster on her."

Ask any marine man and he will tell you what that means. On second thought,

Continued on next page



STABILITY

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perspective

Blame it all on the unions?

By Peter Downes

IT WAS MY FIRST DAY back at the office, and like all first days back at the office, it was all very depressing. There were piles of unanswered mail and a long list of unanswered telephone calls. After spending an hour or two pushing files from one side of the desk to the other, I decided I needed cheering up and ambled over to the Hotel Junker in order to accomplish same.

Fred, my insurance broker friend, was in conversation with Jean, the bartender.

"What's today's special?"

"Meatball sub."

"Why should I eat that?"

"Because it's good for your sex life."

"Gimme some." And then, seeing me, he cried, "Hey, where've ya been this time?"

"I've been to sea. All good risk managers should inspect their risks from time to time, so that's what I've done."

"Sounds like a vacation to me. Where d'ya go?"

"Well, I intended to go to Guam and from there to Yokohama and then on to Singapore. My boss, on hearing this, demonstrated how to take off in an Easterly direction without benefit of aircraft and I wound up going from



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Bayway, N.J., to Baytown, Texas, and back to Port Everglades."

"A real thrilling trip. Why did you really go?"

"Like I said, to examine the risks. Our insurance premiums are enormous and I went to see if anything could be done to improve matters."

"Have you got union ships?"

"Yes, we do."

"Then I bet it's the unions that are killing you."

"If you listen to the ship's officers, you would certainly think so. A typical joke circulating right now concerns dogs. The people who owned them were boasting about them. The deck officer had a dog called Mate and he showed how he could draw pictures. An engineer's dog called Chief showed that he could go to the galley and come back with a dozen cookies which he then divided into three equal piles. The radio officer's dog Sparks then showed that he could pour seven ounces of milk into a 10-ounce glass. On being asked what his dog could do, the NMU man said, 'Go to it, Coffee Break!' whereupon his dog promptly ate the cookies, drank the milk, coupled with the three other dogs, claimed he had hurt his back in the process, filed for maintenance and cure and then left for home on sick leave."

"I don't think that's very funny."

"Neither do I, but it was a real knee-slapper the night somebody told it in the officers' dining room."

"There you are. They should know."

"There you are, nothing. I spent the next couple of days interrogating the officers and learned that something like 90% of the

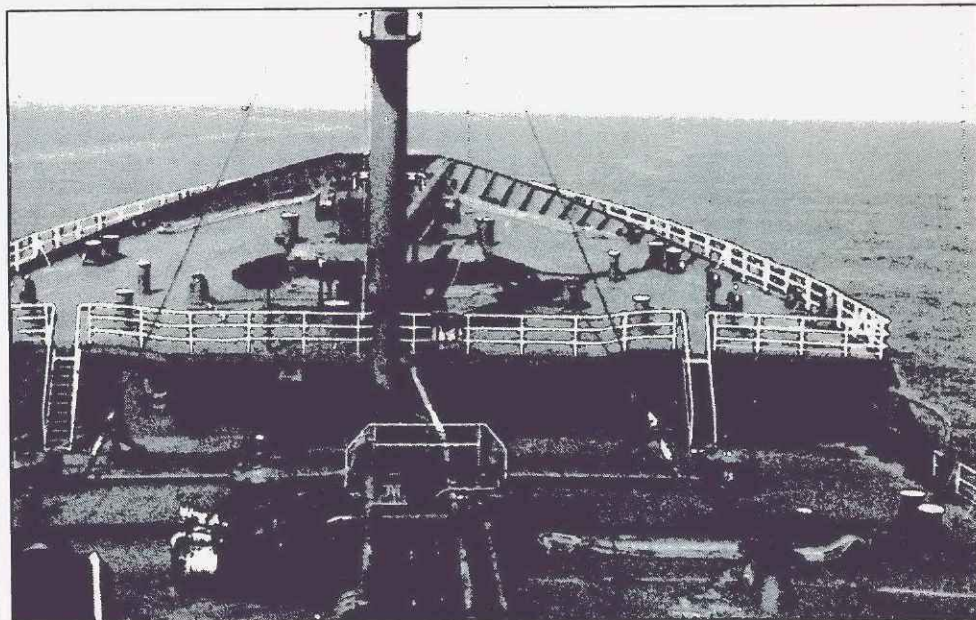


Photo: Peter Downes

Photographic proof of Mr. Downes' recent risk inspection tour.

unlicensed crew were regarded by them as being competent and reliable. Some of them have been sailing on our ships for as long as 30 years and we are not even their employer—they come from the union hall. Of course, I can't deny that there are exceptions. Indeed, the cost of seamen's injuries is and always has been a major problem. The only way to beat it is to improve loss frequencies which will come about because of better communications between shore management and the ship, sound safety planning and so on."

"So what's your problem?"

"There's no one problem. The cost of seamen's injuries is just one of many, all of

which seem to be aimed at driving American flag ships from the ocean. To a large extent, shipowners have created their own problems, unions have created them, the government has created a huge number, the courts often seem less than just in their treatment of owners and on and on.

"So what else is new? Talk to any employer anywhere and he will spout much the same tale of woe."

"True enough, I guess. But just look at one of the inanities I have run into recently. Tankers with a deadweight tonnage of 40,000 and up must install an inert gas system at a cost of more than \$2 million. One of our ships had a tonnage of 44,000 which we reduced to 39,999. We avoided spending \$2 million, but we have also reduced our profit margin since we now carry less cargo. Regardless of tonnage, the ship is neither more nor less hazardous, just less profitable."

"I suppose it is difficult to make a uniform provision for the thousands of ships in existence."

"My dear Fred, the last time I looked there were something like 540 American flag oceangoing vessels of 1,000 tons or more. Ten years ago there were jobs for more than 80,000 seamen, licensed and unlicensed. Last year there were jobs for fewer than 20,000. This has a devastating effect on the remaining owners."

"How come?"

"Well, of those 20,000 seamen or so, 13,000 are aged 40 years or more. As the number of ships dwindles, so will the number of elderly seamen proportionately increase. They will be susceptible to costly illnesses, such as heart and respiratory conditions, and if they have accidents, they will tend to take longer to heal."

"So why don't you just hire younger seamen?"

"Can't. The unions have the situation locked up, and seniority rules."

"There you are, then. Unions are to blame, just as I said."

"Fred, it's remarks like that which make me feel profoundly grateful that you became an insurance broker and not a politician. It's the kind of remark that one expects from an insurance broker."

"Oh, I don't know. What's Ronnie got that I haven't?"

Why marine insurance people are so strange

Continued from previous page

maybe you better not; just nod as if you knew what it all meant and forget it. Don't bother looking in the dictionary; it's not there. Incidentally, the sentence has nothing to do with a woman.

Like any other professional fraternity, we have a pecking order. At the very bottom—and sometimes below it—are the yacht underwriters and claims people. They actually might be lonelier than we are since we only tolerate them and the property/casualty guys probably don't want them.

The true bottom are the break bulk cargo claims people, especially those who handle personal effects and household goods. They deal with lost socks and underwear, torn seat cushions and other nickel-and-dime stuff. Next in line are the fellows who take care of container claims. They really do the same things as the first group, but in bigger volumes because you can put a lot more socks and underwear in a container than in a suitcase.

They are followed by the bulk cargo adjusters. There are liquid bulk and dry bulk cargo adjusters—the terms liquid and dry have nothing to do with their drinking habits. One probably would have to give the liquid fellows, especially those who are into crude oil claims, a slight edge

considering the price of oil and the size of tankers.

So much for cargo people. Then there are the P&I guys. They take care of marine liabilities. The only people who really like them are defendant shipowners because they can hide behind them. "Would love to pay your claims, but my P&I guy won't let me," is standard vocabulary for shipowners.

We are now approaching the top of the pecking order, the hull adjusters. They are so exclusive that they have their own organization, the Assn. of Average Adjusters of the United States. The word "average" has nothing to do with math nor does it mean that they are just average adjusters rather than really good ones. "Average" means damage to a ship. You can't get much more exclusive than by calling damage "average."

You really have to be sharp to understand this, and that's why the average adjusters are at the top of the heap. They are so good that they even charge a fee for what they do. As a matter of fact they are a little bit like lawyers; they first confuse the heck out of you and then offer to straighten the whole mess out for a fee. The kings of the average adjusters are those who adjust the big cases involving the real big ships.

By now you've probably realized that I haven't said a thing yet about marine underwriters and brokers. That's because I started in business as an adjuster—as a matter of fact as a cargo adjuster dealing in socks and underwear—so I feel adjusters are more important than underwriters. Of course, you won't find an underwriter who will agree with me. But for the most part, the marine underwriters specialize roughly the same way as adjusters.

The last group of marine people are the marine lawyers. They don't call themselves marine lawyers, they are admiralty lawyers. They file suits in rem and in personam, watch out for laches, make demurrage claims, arrest vessels, deal with the Jones Act, the Longshoremen's and Harbor Workers' Act and salvage claims.

Since marine people are lonely, we get together interationally through a variety of organizations. Now there is a great advantage to being in these international groups, since you have to meet internationally and it's a lot easier to forget that you are lonely in Bermuda, London, Monte Carlo, Paris or Tokyo than in Hoboken or Hohokus.

Well, that's it for the marine insurance people. If you want to know more about us, take a marine person-out to lunch.

The industry's future: Convergence

By Harold H. Hines Jr.

TODAY'S COMPETITION is shaping the future of the U.S. commercial property/casualty insurance industry. Current competition is forming what will inevitably come, what cannot happen differently, for necessity is already at work.

Future competition is evident in present signs of convergence, in clear indications that independent but related property/casualty underwriting and distribution systems will become a single, integrated whole. The fractured competition encouraged by separate systems will, in time, be replaced by more efficient competition among the survivors of a consolidated order.

A look at history confirms that the whole commercial property/casualty insurance culture has—since the early 1950s—adjusted easily to early stages of convergence. Larger insurers absorbed their lesser competitors, and significant New York and Chicago brokers acquired their counterparts in major cities throughout the nation. Within the current framework of giant multiline property/casualty insurers and national brokerage firms, the structural sources of ultimate convergence can be observed.

And frictions can also be discovered in existing practices. Between an underwriting structure capable of growing gross-lines risk bearing and a distribution structure in constant search of segmented risk transfer transactions, there is a fundamental contradiction capable of challenging industry progress. In this contradiction are latent conflicts currently being promoted in battles to provide service support, wholesale functions, risk acceptance and buyer contact.

These adversary relations either produce a disfunction of the close association of the underwriting and distribution systems, or they promote the convergence of these systems into a consolidated totality. Arguments in favor of cleavage and separation repudiate logic, for neither insurers nor brokers can exist in isolation. The systems must be joined; otherwise, life insurance companies, foreign insurers, broad-based financial institutions and banks will capture intrinsic opportunities to serve society's insurance needs. The integration imperative will be more compelling as rich outside competitors intrude into the huge U.S. property/casualty marketplace.

Verification of predictions about convergence requires examination of numerous countervailing forces evident in today's intense competition. Analysis of the present segmented underwriting and distribution systems yields perspective on the dynamics of current trade practices, the trends that are precursors of future structure, and the processes by which today's fragmented competition evolves to tomorrow's collective contests.

Competition is never a "steady state"; it is an ever-changing response to the marketplace, a potent energy with a life of its own, intensified by the critical demands of buyers and the freedoms encouraged or repressed by government.

Understanding the possibilities of future competition calls for a close look at demand created by buyers and the economic atmosphere molded by government. The internal dynamics of the insurance industry will be dominated by the vicissitudes of these influences.

For example, buyers' willingness to pay for losses in advance and to allow claims reserves to be held by underwriters will depend on the price of insurance and on the value of money. If inflation continues to compound rapidly in the decades ahead and if there are periodic insurance price aggravations with scarcities of insurance supply, buyers will divert cash flow and capital from the insurance industry to their own or alternative uses.

Buyer workers compensation decisions in the 1970s illustrate the employment of alternatives, for over one-third of all premiums paid went to plans that diverted cash and/or capital from traditional insurance vehicles. Should high inflation and exaggerated insurance price accelerations

happen simultaneously, buyers are likely to consider retroactive protection to cover losses post-facto. Such responses will challenge the industry's ingenuity, for there will be new competitors, like banks, who will create new instruments to replace conventional insurance products.

The insurance industry will, of course, respond to all the far-reaching demands buyers will express, supporting the requirements of customers so long as reasonable investment returns are available. And buyers, while appreciating the industry's need for adequate returns, will press hard for lower cost and more efficient risk management plans, service supports, risk transfers, and premium collections. Buyers will insist that the expense of all insurer and broker functions be identified, so that each function can be comparatively priced and judged for effectiveness.

Insurers and brokers will have to demonstrate the precise value of their economic contributions, cognizant that advantageous prices and profit margins will go only to those organizations that add value not readily duplicated by competitors. When insurers and brokers fail to demonstrate clear product differentiation, their prices will be tempered and their profit margins will suffer. Future battles to achieve and to communicate differentiation will create tomorrow's commercial competition, as insurers and brokers strive to make insurance less a commodity and related services less stereotyped.

The government, like the buyers, defines the perimeters of insurance industry competition. Recent developments at the state and federal levels profoundly affect the way business will be conducted. Smaller commercial buyers, for example, are now permitted to arrange the same opportunities for self-funding, reserve management and service support as larger purchaser. States now allow pooled workers compensation groups, and the national Congress will soon pass a progressive Risk Retention Act to encourage small enterprise to organize product liability protection in group self-funded plans.

The impact of the new freedom of smaller commercial competition will be spectacular. Contests for market share among insurers and brokers will be severe, and the new contender life companies, direct writers and broad-based financial enterprises, are certain to enter the fray.

Government will continue to stimulate further competition by joining buyers in scrutiny of investment performance, evaluating its influence on rate making. And government also will participate in mounting challenges to the validity of industry-collected rating information. State commissioners already show a growing awareness of the need to nourish competition by changing the commercial insurance industry environment from narrow public utility status to one that invites broad market economic competition.

It is too early to know if the profound "value changes" of the current federal administration will cause permissive antitrust interpretations that approve of the vertical as well as the horizontal mergers the insurance industry is certain to want. Is it not logical to assume that what is tacitly permitted the rest of U.S. industry will also be granted to the insurance industry? Isn't it equally sound reasoning to argue that financial institutions, including banks, will be allowed to participate more extensively in the creation of insurance transactions?

Anticipating eventual authorization, a number of money center banks are planning property/casualty entry strategies. Banks, currently permitted to sell only credit coverages to their own customers, are establishing strategic plans to sell life, personal lines and a full range of commercial insurance products. A few are already earning fees by offering rudimentary risk management consulting and insurance-related financial analytical services. Some bankers, remembering how standby credit was used in the property insurance crisis of the 1960s, are exploring ways to provide retroactive casualty



Harold H. Hines Jr. is president of Chicago-based Ryan Insurance Group Inc., whose subsidiaries include brokers and insurance companies. Mr. Hines delivered this address at the National Conference on Risk and Insurance Management held this week in New Orleans by American Management Assn.

coverage by replacing customers' cash flow after losses caused by insurance program gaps or inadequate policy limits.

Broad-based financial institutions, like American Express and Merrill Lynch, already have insurance underwriting and distribution facilities which they are likely to use in concert with their money management facilities. To these formidable potential competitors must be added the powerful life insurance companies whose loan contacts and distribution skills offer possibilities for the sale and underwriting of commercial property/casualty coverages. The Prudential already writes more than \$600 million dollars of annual commercial property/casualty premiums and has recently acquired an investment firm which owns the 11th largest U.S. insurance broker. Today's many successful commercial property/casualty insurers and brokers can hardly ignore the long-term implications of these kinds of adversaries.

Nor can the industry take comfort in the efforts large direct personal lines insurers are now making to capture smaller commercial business. In spite of the fact that early tests have been confined to a few states and isolated small businesses, plans call for aggressive sales to larger companies through captive sales organizations specializing in selected industries. Rather than "tailoring" products to fit the particular needs of any client—in the broker mode—these forceful competitors will merchandise meticulously constructed, standardized insurance, plus relevant service products.

Past prototypes of success are confirmed by the market-share positions of the Factory Mutuals in superior-risk property insurance and by the Liberty Mutuals in workers compensation insurance. These companies continue to demonstrate the potentials of linking uniform products, services and sales approaches. Direct personal lines writers, possessed of large capital and management resources, will add their prodigious ability to innovate to commercial underwriting, distribution and service competition.

These exotic future sources of commercial competition are relatively distant threats to the accumulated market share of today's separate underwriting and distribution systems, currently locked in internecine battles fought within each system. Study of the countervailing competitive forces within today's separate systems reveals diminishing

bonds of cooperation, the cement that has kept the systems related to each other and cohesive. Present insurer competition reveals contradictory practices that bring the underwriting system together and, at the same time, split it apart.

The trend of major U.S. insurers to accept ever-larger gross lines, supported by innovative facultative or treaty reinsurance, creates significant capacity and augments the competition among underwriters. Use of the world reinsurance market makes these gross line arrangements secure and quite independent of the kind of support from other major U.S. competitors that was historically essential. The ability of insurers to compete without interlocking commitments from their adversaries is growing; in fact, it is likely that new constellations of totally self-sufficient capacity for very large gross lines is very near reality.

Countervailing commitments to cooperation that transcend traditional trade practices are also being made by these same insurers in positions taken in the New York and Illinois insurance exchanges. They bring the underwriting system together by offering net capacity, and related managed capacity, to meet tomorrow's anticipated competition from aggressive Lloyd's, Bermuda and excess/surplus lines markets. Whereas exchanges began as responses to brokers' fears of overdependence on London as a gathering and spreading mechanism, they will become marketplaces dominated by U.S. insurers, eager to protect market share in times of restricted underwriting or when risk spreading is difficult because reinsurance supply contracts.

To further complicate contemporary competitive processes, insurers have purchased and will continue to acquire excess/surplus lines underwriting and distribution systems in order to provide specialty products to all brokers a "controlled know-how" to smaller, less-sophisticated firms.

The entry of major insurers into the wholesale distribution system is a development of great consequence, because it strengthens the ability of underwriters to build a controlled sales structure. In the years ahead, these ventures will be used defensively to guard against revenue base shrinkage by providing risk management plan design plus related risk transfer products for weaker brokers. To be successful, these insurer-controlled vehicles will have to avoid attempts to bureaucratize the entrepreneurial verve that has made specialty company and wholesale brokers so effective.

As the underwriting system adjusts to contemplated change, it must contend with growing competition from Lloyd's, the Bermuda market, the domestic reinsurance industry and foreign insurers. Lloyd's and related London underwriters have recently attracted much more capital poised to accept additional business when prices rise. The exceptionally innovative London gathering and spreading mechanism will not be content to commit half of its capacity for the long term as it has during past difficult years of soft rates. Because large American brokers now own or have "entente cordiales" with Lloyd's brokers, the flow of business to London will increase. These new relationships should produce efficiencies that will eventually be passed to buyers in lower prices certain to enhance the tempo of competition.

So will actions of the Bermuda market, which is still young but growing rapidly. The substantive capacity of Bermuda, comprised of corporate captives and commercial reinsurers, is engaged in an aggressive quest for premiums, confirmed by the fact that more than two-thirds of U.S. foreign reinsurance funds flowed to Bermuda in 1980. Indications are that this market will continue to compete aggressively for "working layer" and "catastrophe loss" business in the future, free from encumbering regulation and burdensome taxation.

U.S. domestic reinsurers and non-London
Continued on next page

perspective

Single-faceted insurance system coming

Continued from previous page
foreign insurance and reinsurance companies are additional competitive factors very much a part of the underwriting system. Domestic reinsurers are finding new ways to accept direct risks in support of self-insured or front plans. Foreign competitors, cognizant of the comparative size and stability of the U.S. commercial lines market and adroit at hedging currency fluctuations, are eager to gain American premium flow. These contestants have significant capital, plus technical knowledge, gained as reinsurance participants. They are important to the new constellation of competition that is shaping today's marketplace, and they will have an expanded role in the struggles predicted for the future.

While underwriting system competition is more obscure and sometimes inscrutable, distribution system competition is easy to understand. Primary competitors are the large national and regional firms that have grown so remarkably in the past few decades as finders and organizers of world insurance capacity.

There are more than 100 brokers capable of placing risks for America's largest corporations. These impressive firms will continue to be at the "cutting edge" of risk management innovation, as they compete with ever more intensity for commercial share from enterprises of all types and sizes.

A paradox of this vigorous competition is the movement by the largest brokers to create or acquire wholesale brokerage operations. It is clear why these firms want to capture total commissions earned on their own excess/surplus lines business; however, it is difficult to reconcile their willingness to share their considerable proficiencies with competitors.

Much more consonant with enlightened self-interest is the U.S. brokers' development of interests in Lloyd's brokers, either by outright purchase, joint venture or formalized association. Reciprocal acquisitions by London houses of U.S. firms are part of the aggressive moves by capable brokers to seize international opportunities and to protect against emerging competition from the underwriting system. Efficiencies will grow from Lloyd's interactions that will interfere with the emerging desire of underwriters to establish meaningful contacts with buyers.

Franchise and insurer-dependent agencies are two distribution system developments growing in importance and certain to heighten competition by extending the durability of smaller competitors and by contributing to overall improvements in total insurance industry productivity.

More than a dozen competent broker-franchise operations function in the United States to make smaller brokerage firms competitive with national and regional organizations.

By finding ways to use premium volume and geographic reach to gain economic incentives for participants, franchise operators attract stable firms with growth potentials to whom they can provide useful additions to their members' professionalism, managerial acumen, image and ability to share common problems and opportunities. Franchisors also offer their franchisees "state-of-the-art" technical support services, creative products and pre-funded succession planning.

A few franchise groups are exploring benefits that might be derived from creation of a broker-owned captive insurer which would underwrite personal or small commercial business and return useful earnings to owners. Enough progress has been gained by franchise tests to suggest that some will endure as distinctive distribution system factors.

The most significant distribution system development is the move by insurers to establish special relationships with effective smaller brokers. Although these contractual associations preserve some broker prerogatives, absolute independence is compromised by special agreements the broker has to place minimum premium volumes and percentages of total volumes with a single controlling insurer who agrees to permit the broker limited underwriting

authority, guaranteed capacity and renewal continuity. Controlling insurers also provide accounting, financial and management information services plus financing for acquisition or succession situations.

In many communities, firms with the advantages of new prerogatives are introducing very competitive capabilities likely to become more influential as early experiments prove that efficiencies are delivered to buyers in lower costs and to insurers in lower loss and expense ratios. Over the next few years, there will be a proliferation of insurer-controlled arrangements that will bring measurable market share increases to underwriters who sanction dependent agencies.

Market share battles between

sciences and financial perspectives will explain emerging information in ways that relate service support objectives to balance sheet and P&L statement considerations.

Fights to create and merchandise progressive support services underline the confrontations already developing within and between the underwriting and distribution systems. Insurers already are buying interests in brokerage firms and brokers own or control underwriting operations. Both have positions in the wholesale and surplus lines business, and both manage underwriting and broker syndicates on the New York Exchange. These conflicts portend the intensity of future competition, and they make convergence of the separate underwriting

buyer reach; in fact, the effective way brokers have differentiated their internal functional skills have encouraged insurers and buyers to create similar differentiations certain to compel buyers and insurers to direct interactions.

Although it is clear that convergence will make the once-sacred separation of insurance industry functions obsolete, it is difficult to predict the pace of change or the sequence of events that will consolidate underwriting and distribution. Convergence will be further advanced by the end of this decade. Except for the continuing independence of a few excellent brokers or insurers, consolidation should be well-developed by early in the next century.

Next stages of convergence will include the following dramatic events:

- Large multiline insurers will buy their smaller, less-efficient competitors, plus remaining excess/surplus lines companies, so that surviving underwriters will be those relatively few with the greatest financial and human resources.

- National and regional brokers will merge with each other, continue to acquire some smaller firms with substantial commercial business and establish more relations with foreign associates until the distribution system has a limited number of large survivors.

- Brokers and insurers will acquire the independent support organizations strong enough to endure accelerating competition.

- Franchise operations, effective enough to compete in the commercial marketplace, will be acquired or joined by contract to surviving insurers or brokers.

- The independent agent will become a sole supplier of a surviving insurer or be linked by exclusive contract to a surviving broker.

Later in the inexorable process of convergence, large multiline property/casualty insurers will acquire major brokers, even at the expense of earnings dilution and the balance sheet burdens of enormous good will. Problems of direct sales reorientation of the acquired broker will present difficulties, but ingenuity will prevail to make these consolidated firms triumphant.

While it is very unlikely that a major broker will acquire a substantial insurer, it is probable that giant life insurance companies and broad-based financial enterprises will acquire both substantial property/casualty insurers and national brokers. The foundations of convergence will finally be established upon which will be erected the new total consolidation of today's commercial property/casualty industry.

Observations of profound change provoke questions about the economic benefits and the moral values of integration. The public good will surely be served by an industry free to find its manifest destiny, motivated to serve the growing needs of all commercial buyers competently. Because integrated underwriter/distributors will be financially strong, managerially exceptional and operationally advantaged by constant competition from formidable, near-equal adversaries, convergence will benefit American business.

Benefits will include enhanced insurance industry abilities to organize the capital available for risk transfer, to gather and spread risk more cost-effectively and to create the new capital necessary to meet the industry's complex future obligations.

More objections to underwriter/distributors that counsel their own plan designs, sell only their own products and service only their own programs will be overcome by knowledgeable evaluations of comparative performance. And comparative performance can best be developed and judged when competition is vigorous, free and responsible.

Vigorous, free and responsible competition delivers value faithfully, balances the self-interests of buyers and sellers, arbitrates inequity and inefficiency, and augments society's search for economic strength.

Vigorous, free and responsible competition will move the insurance industry from separation to convergence for the benefit of buyers and society!



'The service war will escalate in the years ahead as competition shifts from pure price, plus geographic reach, to more meaningful contests of product differentiation and performance measurement,' according to Harold Hines.

insurer-controlled agents and larger national or regional brokers are subtle precursors of conflicts certain to put the underwriting and distribution systems in direct confrontation. This contention will be a logical extension of today's intense struggles between insurers and brokers for service support relationships. Former cooperation of distribution system participants with insurer domination of claims management, loss prevention and information retrieval has been replaced by the aggressive efforts national brokers have made to build service revenues. By replacing insurers, large brokers are generating significant new revenues which alone produce low profit margins but, when joined to broker commissions or fees, develop better overall profit results.

Insurer resistance to broker encroachments has caused insurance companies to sell their support services independently of risk transfers. Unbundling of service support from risk bearing is gaining momentum as brokers, insurers and unaffiliated service firms offer more sophisticated and valuable services to each other's customers. Actuarial analyses, financial studies, statistics trending, probability development and captive management are some of the relatively new services major brokers invented for their clients and prospects that insurers and independent firms are now offering with improving proficiency.

The service war will escalate in the years ahead as competition shifts from pure price, plus geographic reach, to more meaningful contests of product differentiation and performance measurement. In claims management, pre-disaster planning will produce post-disaster adjustments that find new ways to overcome the incredible expense burdens of the American legal system. Extensions of innovations now used in airplane disasters will give buyers claims administration choices built into comprehensive risk management plans.

Similar improvements will be developed in loss prevention techniques as broker, insurer and independent competitors produce cost-benefit analyses for safety programs that incorporate behavioral science insights to control frequency and severity problems. Systems logic will change the concept of prevention and will replace the traditional focus on unsafe physical conditions and inspection patterns that have so little to do with mitigating losses. Future information service advances will also prove useful as they integrate loss control and claims management insights to augment operations management methods. Actuarial

and distribution systems inevitable.

The accelerating pace of competition, in fact, leaves no alternative but integration. Buyers will demand it as a logical route to more efficiency; government regulations will approve it as part of the vertical integration necessary to the advance of American business; and insurers, brokers and independent service administrators will seek it to promote their enlightened self-interests.

There will, of course, be resistance to convergence, as there is to all change. Natural inertia will most affect the very successful insurers and brokers who have the most to gain by preservation of the status quo. These achieving enterprises will not be proponents of integration; in fact, they will lead the competitive attack on convergence linkages.

Transition from today's separate systems to tomorrow's single system will be full of trauma. Insurers that engage in overt distribution activities will risk repudiation by their established broker sales organizations. Challenges to licensing arrangements will quarrel with the rights of converged firms to offer themselves as representatives of customers. Regulators will question the financial integrity of integrated firms that try to preserve revenues by permissive underwriting. Entrepreneurial performers from the broker workforce will rebel against the implied confinement new associations may impose on their ability to discover new insurance sources and service supply alternatives.

These issues have already been articulated by the Fisher Working Party that studied self-regulation at Lloyd's. Because of fears that abuses might impair the security or the objectivity of the world's most effective and free insurance gathering and spreading mechanism, the Fisher Report and the British Parliament have proposed limitations on the common ownership of underwriting and brokering operations.

The final outcome of deliberations mandating a schism may be the forerunner of similar resistance in the United States. Impediments to the natural evolution of convergence fostered by regulators may delay, but they will not prevent, the improvements buyers demand.

Buyers' desires will remain the primary forces that shape the way competition works. The growing sophistication buyers will continue to gain—added to the comprehensive skills they will build in their risk management departments—will prompt buyers to seek direct risk transfer and service support negotiations with insurers. Brokers cannot impair this extension of

Free care for maritime workers to stop

By JOHN MAES

The nation's public health hospitals will become relics of the past under the Reagan administration's federal budget-cutting program, leaving shipowners to shoulder a greater share of the cost for the health care of its maritime employees.

But the weight of the load probably won't break the backs of shipping companies, shipping executives say.

Protection and indemnity insurance, a standard shipowner's policy, will cover the small to mid-sized firms for claims filed by seagoing employees, though rates may go up. The oil giants, which own and operate ship fleets and self-insure most benefits, anticipate few problems.

But a tradition will be passing away. For more than 200 years, merchant seamen have been entitled to free medical care at public health centers.

The federal government extended this privilege because merchant seafarers historically have not been tied to one employer and thus have not been a part of an employee benefit plan.

The government-paid care was

'We didn't think it would come so quickly,' Kirk Youngman says.

also considered a subsidy to shipowners to stimulate trade and commerce.

But in recent years, fewer maritime workers have used public health facilities. More crew members work for single employers and are eligible for conventional employee benefits packages—or at least that's what the administration believes.

As of Sept. 30, public health facilities will close their doors to maritime employees except for those employees who are already receiving care.

How will shipping companies cope?

Exxon, which owns a fleet of 19 oceangoing vessels, says it has the problem carefully in tow, as do most other large employers.

Few of Exxon's 1,000 maritime employees have used the facilities in the past few years "and use today is minimal," according to Ernest McNeil, administrative manager of Exxon's maritime department.

When in need of medical attention in a port city, Exxon ship workers have been using private hospitals and clinics by their own choice, he said.

In some cases, the company has contracted with health care facilities for care of maritime workers, while fee-for-services arrangements have been made in other situations, Mr. McNeil explained.

"For years, we have had good working relationships with medical service facilities for all our seamen, and the close of the hospitals just means a complete transformation to it," said Dr. John Lione, medical director for Exxon U.S.A.

"We've been moving in this direction more and more, and it won't present a problem," Dr. Lione said.

For those few seagoing Exxon workers that have opted for public health centers over the company's health insurance plan, the transfer to the Exxon program will be made simple, Mr. McNeil said. "All they

have to do is enroll."

Chevron U.S.A. Inc., owner of nine oil-transporting vessels with 400 crew members, has been expecting the centers to close for some time.

"But we didn't think it would come so quickly after Reagan took office," said Kirk Youngman, coordinator of maritime relations for Chevron.

About 90% of Chevron's seamen belong to the firm's health insurance plan and receive medical care

in whatever facilities are available along its trade routes.

But Chevron is looking into possible arrangements with medical facilities to ensure the availability of care for all seagoing employees.

He sees one problem, however. Until now, ships could receive medical advice via radio relayed by the Coast Guard from public health centers. This service will no longer be available, according to Mr. Youngman.

"That's something that will have

to be worked out," he said.

He is unsure what the company will do but speculated that his firm may work with industry groups to seek a common solution or try to arrange a similar service with hospitals and the Coast Guard.

The hospital closings will be felt more severely among owners of smaller ship lines because the firms will now submit claims under their P&I policies for treatment of their crews rather than letting the government pay the bill.

Even though such firms will have to pay these medical costs up to the amount of their deductibles, "it's not going to threaten their business," said a U.S. marine insurer.

More P&I claims can be expected and rates for the coverage will probably rise, but it's too early to tell how much, he said.

"Anything that raises the cost of claims we expect will increase the cost of P&I coverage," the insurer said.

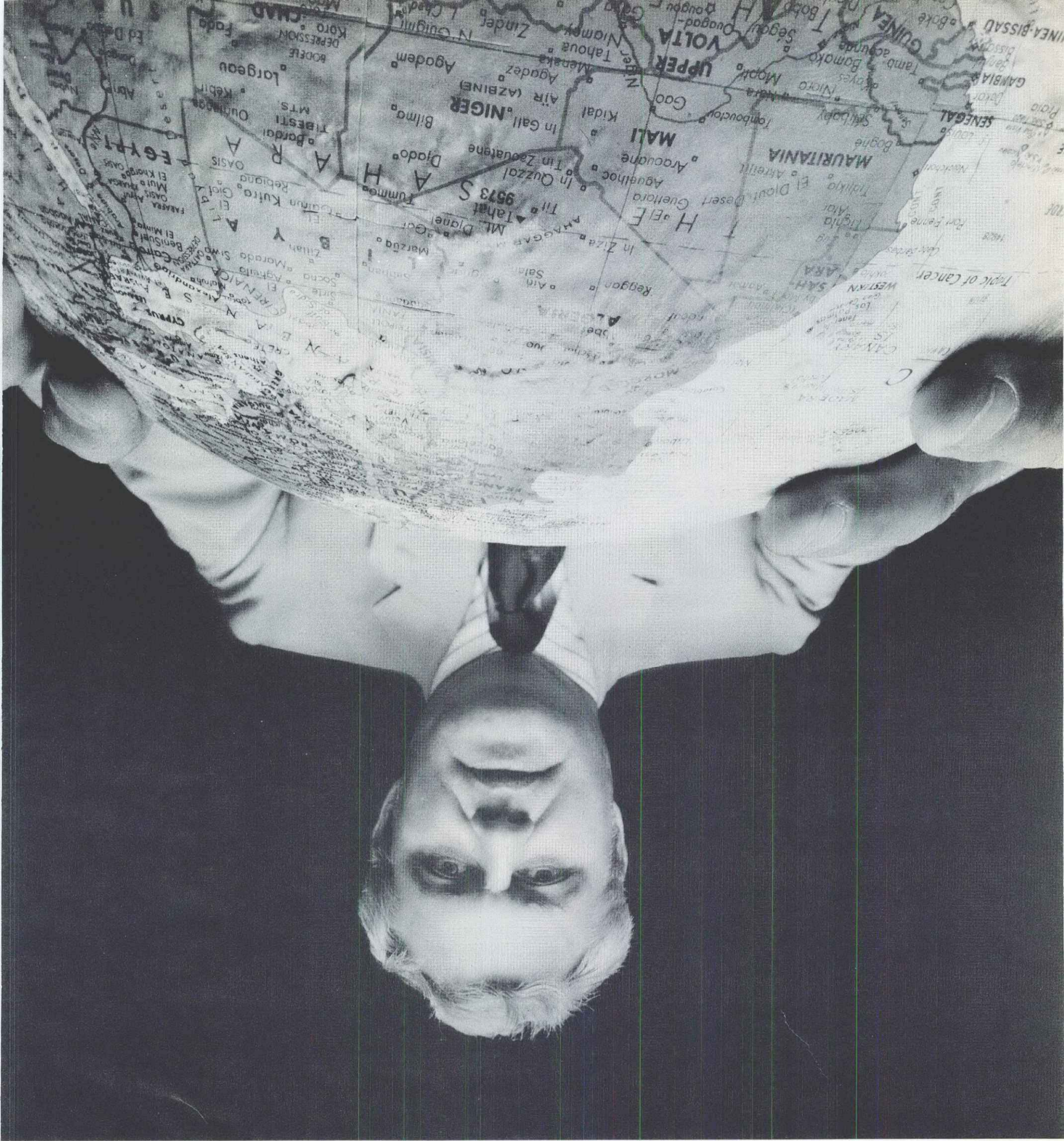
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"Finally (for this advertisement, at least) is the thing I like most about this conservative old-fashioned company. Our knowledge. Do you know, for example, that some of AFIA's offices provide information on port conditions for the American Institute of Marine Underwriters? Or that, when all else failed, AFIA was able to use our local contacts in an extremely politically sensitive North African situation to cut through

the red tape and get a surveyor to inspect the fire damage to a shipment of barley. By cutting through the massive political red tape we cut through years of litigation for our insured.

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Classification groups aid marine insurers

By JACK THORNTON

NEW YORK—How "classy" are your ships and how much stress can they stand?

Insurance companies that take on the peculiar and unpredictable dangers of shipping have some little-known technical help to answer those questions.

They share the services of classification societies that package ship risk data into chunks insurers can process quickly.

These societies are in each of the major maritime nations, rule on ship design, construction methods, materials and fitness for their intended service.

In the United States, the American Bureau of Shipping in New York City is the marine risk classi-

fier. The Lloyd's Register, Germanische Lloyd's, and units in Japan, Norway, Poland and the Soviet Union provide similar service around the world.

The ABS, in a real way, was the child of tragedy. In 1854, a disastrous year on the high seas, several insurers suffered financial peril.

The ABS started out certifying masters and mates in hopes of weeding out incompetents. After the Civil War, it moved into surveying, rating and registering vessels. Gradually, federal agencies took responsibility for masters and mates.

ABS's first set of rules—for building wooden ships—came out in 1870. Rules for iron vessels followed in 1877.

Over the years, U.S. insurers have become so dependent on the ABS that they will not underwrite coverage on a ship that is "out of classification."

"My syndicate would not consider insuring a vessel that was not in class with ABS or one of the other major classification societies," notes Allen Schumacher, chairman of the American Hull Insurance Syndicate.

"Determining that a vessel is in proper status with her classification society is a routine, yet essential, feature of our insurance renewal proceedings," he said. "When damage occurs, the classification society will set out what needs to be done to restore her to class," he said.

The ABS won't judge whether a

vessel is being used for the purposes for which it was classed and claims it can't judge the vessel's overall economic viability. The ABS also says that 85% of all marine casualties are caused by human error which no amount of engineering, structural analysis or inspection can prevent.

The small fraction of mishaps caused by structural and mechanical failures at sea and in port is what the ABS addresses.

The ABS is comprised of 1,300 people, including dozens of shipyard surveyors, and a high-powered computer system. The 450-plus member insurers elect a 60-man board of managers which in turn hires the society's professional management.

Since its inception in the 1850s, the ABS board and that of its predecessor have always been chaired by a top executive of the Atlantic Mutual Insurance Co. The current chairman is William N. Johnston, an Atlantic Mutual executive.

Surveyors scattered through 179 ABS offices in 79 countries are the society's eyes and ears. The surveyors generate a trail of checks and inspections that follow a vessel until it sinks or goes to the shipbreakers.

Computers coordinate the data. They keep track of all surveys for any given ship and alert surveyors what should be inspected next.

The ABS conducts more than 30,000 such surveys every year on almost 16,000 ships.

In 1980 alone, it classed 818 new ships, the ABS says, and the total data base includes more than 50,000 vessels.

Without the computer, the ABS noted, it might be swamped in a tidal wave of engineering minutiae. With it, ABS can, for a fee, analyze new ship designs for naval architects before a shipyard cuts the first steel plate.

The analysis is growing more important all the time, ABS said, because of rapidly evolving large ships and structures. These include the open-decked container ships and very large crude carriers (VLCCs), the biggest oil tankers ever built.

When such untried ships and structures come along, "you have to go back to first principles, to sound engineering practice," said Donald Liu, manager of research and development for ABS. "You have to investigate the technology. It probably isn't possible to class a new design without this type of analysis."

Whoever designed such a ship or drilling would have to support it with thorough engineering analyses, he says. That kind of work could cost "millions of dollars."

ABS can verify the work or at least review the calculations.

"The offshore drill rig is the area that's always changing. Structures are always being designed for greater loads and deeper water with new proportions and new geometries as well as better welds and thicker steels," Mr. Liu notes.

For offshore drill rigs, software will calculate wave forces and maximum overturning forces; the owner of the rig supplies data on water depth, wave height and the period (distance between the waves).

Under finite element analysis, the ABS computer technique, an entire hull is put into the computer and analyzed for sagging, hogging, whipping and bending amidships; from waves passing under the keel; flooding from vibration excited by the propeller; and stability of grain and liquid cargo.

Similar methods are applied to machinery. The thermal, static and dynamic loads on piping can be studied. So can diesel engine crankshafts, propeller shafts and gearing.

Separate from the computer wizardry is the business of writing rules and guidelines.

ABS rules for building and classing include steel vessels on oceans, rivers and coastal service in eight different nations; aluminum vessels; mobile offshore drill units; underwater systems and vehicles; Great Lakes bulk carriers; seagoing barges and floating drydocks. It also has rules for cargo containers and nondestructive testing of hull welds.

Its guidelines cover nuclear ships, burning crude oil rigs, shaft repair, underwater inspection and offshore racing yachts. ■

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Insurance conference part of Philadelphia fest

PHILADELPHIA—The role of insurance in the history of Philadelphia will be not be overlooked during that city's tricentennial next year.

Philadelphia, the birthplace of the insurance industry in the United States, still is home to some 65 insurance companies and is a center for insurance learning.

At the urging of the Insurance Co. of North America, which three years ago began thinking about ways to recognize the role the insurance community has played in Philadelphia, planning began for the Philadelphia World Insurance Congress. Sponsored by the city of Philadelphia, it will be held April 25-28.

The Congress, which its organizers expect will be one of the city's major tricentennial events, will provide a forum to explain the significant trends shaping the future of insurance and related financial services.

It also will "develop information which will better equip participants to understand and cope with the forces that are transforming insurance and risk management services on a global scale," the organizers say.

The Congress will pull together at least 60 speakers and panelists from 30 nations.

Over the course of three days, six sessions will provide background on changing world conditions, changing demands of risk transfer, changing demands of insurance and financial institutions and changing conditions under which managements operate.

Against this backdrop, the Congress will look closely at many insurance-related topics.

Dr. Michael Hogue, the Congress' program director, says it will be "equally responsive" to the buyer, insurer and government official.

A sampling of the specific topics includes:

- "Insurance Frontiers—Massive Risks," which will deal with the need for funding management measures for massive risks like new energy sources, space and ocean exploration and transportation of hazardous materials.

- "Reducing Demand for Risk Capital—A Byproduct of Risk Management," which will explore the risk management process in major business and government operations and other techniques that can be used to reduce demand for risk capital.

- "Risk Retention—Increased Responsibility Brings Increased Risk," which will look at the degree to which risk has been internationalized and its potential effect on financial well-being if a given loss occurs.

The speakers will include:

- Dr. Baruch S. Blumberg, winner of the Nobel Prize for medicine in 1976 and a resident of Philadelphia.

- John R. Cox, president and chief executive officer of INA.

- Maurice R. Greenberg, president and chief executive officer of American International Group.

- Dr. Robert L. Carter, Norwich Union professor of insurance studies, University of Norwich, United Kingdom.

- J.O. Irukwa, managing director of the Nigeria Reinsurance Corp.

- Erik Heimann Olsen, director of the Danish Insurance Information Office, Copenhagen, Denmark.

Raymond Barre, former prime minister of France, will deliver the Geneva Assn.'s annual lecture at the Congress.

Keynote speakers will be Denis Healy, former British secretary of state for defense and a former

chancellor of the exchequer, and Alvin Toffler, educator, lecturer and author of "Future Shock" and "The Third Wave".

The ocean liner Queen Elizabeth 2 will make a special voyage to Philadelphia as part of the city's Century IV Celebration, and congress participants will be invited aboard for a reception, dinner and entertainment.

Congress officials expect a total registration of some 1,500 insurance and industry executives, government officials and others from around the world. The registration fee is \$1,000.

For more information contact the Philadelphia World Insurance Congress 1982, Box 1982, Philadelphia, Pa., 19107; 215-563-5813. ■

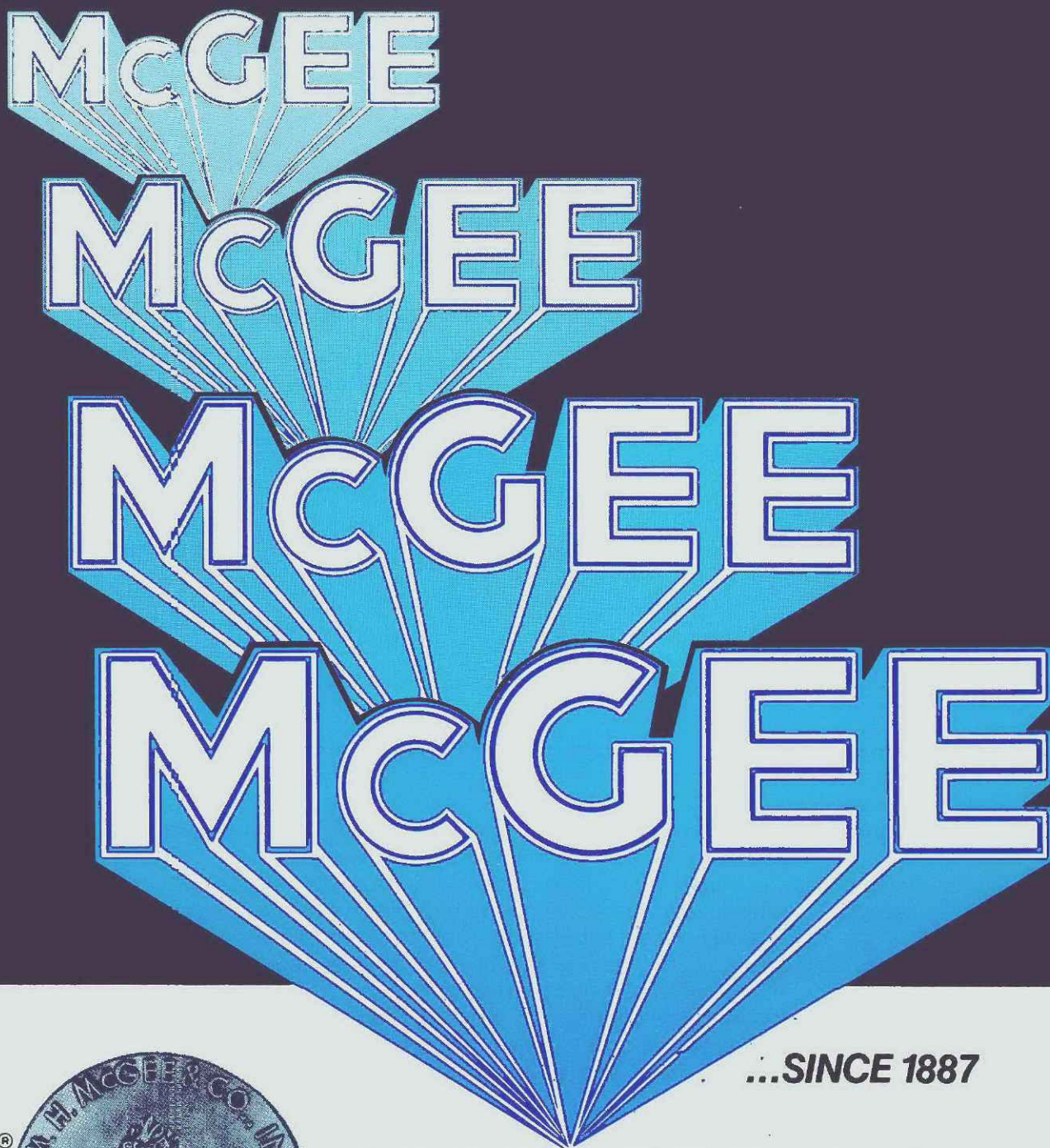
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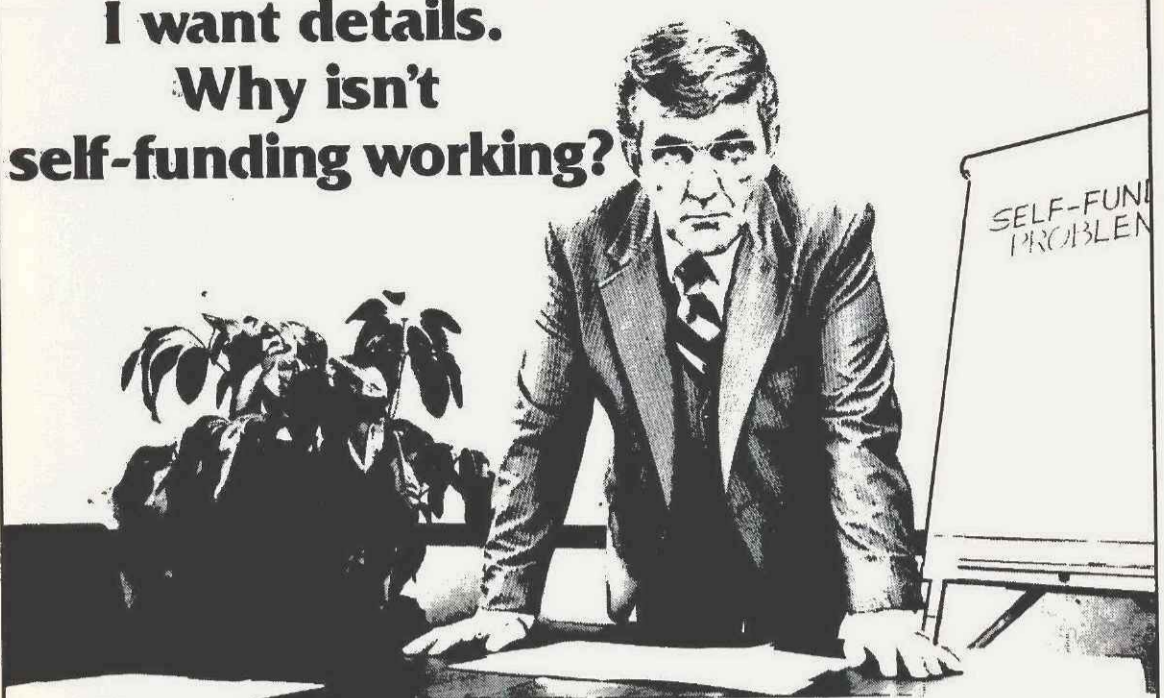
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Action line: We would appreciate receiving a listing of vendors and their systems, who act as administrators of self-insurance programs for medical and hospital malpractice.

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Ms. Troop: Information on hospital and medical malpractice administrators and consultants services can be found in the *Business Insurance* listings of claims administrators in this year's Jan. 5 and Feb. 2 issues and the listing of risk management consultants in the Feb. 16 issue.

These listings have names, addresses and phone numbers, along with information on specialties, gross revenues, size/number of clients, what the staff size is, who the principal officers are and whether or not the firm is affiliated with a parent company. If you do not have these issues of *Business Insurance*, they can be purchased through our Circulation Department at 312-649-5414.

The Aug. 24 Action Line explained for one reader the reasons behind joining a captive and how a company goes about it. Two other readers sent in more information. Their answers follow:

I read Ben D. Rowe's inquiry on captives in the Aug. 24 issue and would like to offer some comments and a suggestion.

Simply stated, after Mr. Rowe has become more knowledgeable and if a captive is being seriously considered, he should hire a properly qualified consultant.

As your reply pointed out, the captive area is no place for a do-it-yourself job. The consultant will be able to provide access to the experts properly qualified to achieve corporate goals. Further, and probably more important, a consultant should, via the feasibility study, be able to determine if a captive is the best method of achieving the desired results.

From my own firm's experience, I can state that the formation of a captive has about a 50% chance of

being the incorrect approach. We find that recommend over half the time that the client not form the captive but use one of the other alternatives. If the factors are proper, we, of course, will recommend a captive.

In short, the reading of a few books and a quick familiarization will not qualify a person to do anything other than work with a consultant.

Eric G. Heimann
President
HMS Insurance Management
Santa Ana, Calif.

While what you told Ben D. Rowe about captives in Action Line was all good, I don't think you went far enough. You did not mention the advantages of retaining the investment income on reserves nor the opportunity to secure better quality service at less cost by unbundling it.

For the captive neophyte, such as Ben appears to be, I would strongly recommend he spend the money up front for a good independent risk management consultant if he is still interested in captives after reading some of the material you recommended. Getting the right advice up front can make a vast difference in both the quality and cost of his program.

Lawrence J. Bell, CPCU/ARM
Assistant vp-risk management
Revco D.S., Inc.

New bus limits are considered

WASHINGTON—While the nation's truckers are grappling with the new higher liability requirements set by the Motor Carrier Act of 1980, bus operators may be next.

The Bus Regulatory Modernization and Improvement Act of 1981, which is now pending in the House of Representatives, would sharply boost the amount of insurance bus operators must carry.

The current requirement of \$100,000 of coverage per occurrence and \$300,000 of aggregate coverage would be scrapped.

Instead, buses that seat more than 11 passengers would be required to be covered by a policy with limits of \$500,000 per occurrence and an aggregate limit of \$5 million.

Smaller buses would need \$500,000 of coverage per occurrence with a \$2 million aggregate limit.

Insurers worry that new carriers may cut down on safety and maintenance programs if higher liability coverages are mandated.

"Insurance costs associated with high minimum limit requirements will form an increased portion of the motor carrier's operating costs," said James Kimble, senior counsel of the American Insurance Assn. To make up for higher insurance costs, "optional cost items like safety programs, preventive maintenance and upgrading equipment may be reduced by the motor carrier."

If Congress does mandate higher liability insurance requirements, the increased coverage requirement should kick in at the 40- or 50-passenger level instead of the 11-passenger level, he said.

"Utilization of 11 passengers or fewer as the point of distinction may discourage social agencies and van pooling," the AIA senior counsel said.

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Organization simplifying insurance forms, terms

DALLAS—Reduced insurance costs through better information is what International Risk Management Institute Inc.'s founder says his organization can offer buyers.

IRMI is a non-profit organization aimed at making insurance forms and policy terms more understandable, says Bill McIntyre, IRMI founder and president of McIntyre Financial Services Inc. in Dallas.

"We go into a subject, pull out the technical jargon buyers and producers don't need and leave in the meat so they can understand it," Mr. McIntyre says of IRMI's publications and seminars. "The idea is to try to get a true picture of what is being said, done or proposed."

When Mr. McIntyre decided to come out with a manual on umbrella casualty policies, he took a recent college graduate who majored in insurance and hired him to do the research.

"He wrote all the umbrella casualty companies in the country to get their forms, find out what they said and what their exclusions were," he says. "By the time he was finished, he was an expert and his knowledge was put into a manual for insurance buyers."

With 60 or more companies writing policies, each with its own forms, a buyer can easily become confused about which insurer offers the best coverage for his particular situation, he says.

"He may not know the coverage differences. This publication is designed to help him discern them. It gives him the opportunity to compare on a basis other than cost," Mr. McIntyre says.

Other publications include insurance manuals on workers compensation, construction, auto dealers, hospitals, manufacturing, mercantile, retailers and wholesalers, trucking, broad-form property salvage and general liability coverage. In addition, a manual of insurance specifications and a buyers' checklists on various types of insurance are available.

The most recent manual is a two-volume set published in July on general liability insurance.

"We started out having one manual and it is now two," Mr. McIntyre says. One shows how to classify and write policies on general liability. The other gives background, interpretation of coverage forms and explains non-standard forms.

A checklist of features that should be included in a general liability policy comes with the manuals. Those negotiating coverage should be able to sit down with the checklist and a proposed policy and determine what the policy should or should not include.

"We are not trying to take the place of industry manuals, we are printing manuals to allow buyers to interpret industry manuals," he says. Buyers, agents, London brokers and those from every facet of the insurance market—an estimated 6,000 subscribers—help support IRMI research projects through grants.

Mr. McIntyre says the willingness of subscribers to help fund studies is a reliable way to gauge market demand.

"One of my specialties is construction insurance," Mr. McIntyre reports. "I came up with the idea of putting out a manual comparing the different types of exposures builders face. It has been one of our commercial failures. We are still selling some, but it is not something I would want to base our future on."

So, before coming out with IRMI's broad-form property damage manual, he wrote an outline of the full report and sent letters to

subscribers telling them about it and asking for \$95 to help fund the project.

"We got \$10,000 in contributions, enough to be able to put a young MBA on it," Mr. McIntyre says. "Had we not gotten the contributions, it would not have been a financial success."

IRMI also sponsors seminars on different aspects of insurance.

"Our future thrust will be to have outside groups come to us with well-prepared professional programs that educate," Mr. McIntyre says. "If they do this, we will sponsor them."

IRMI was begun in September 1979 and evolved as a means of efficiently providing information to the insurance field, he said.

The Employee Benefit Communications Handbook

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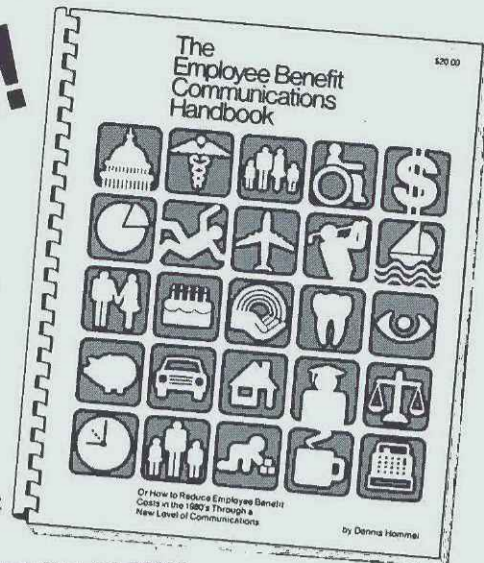
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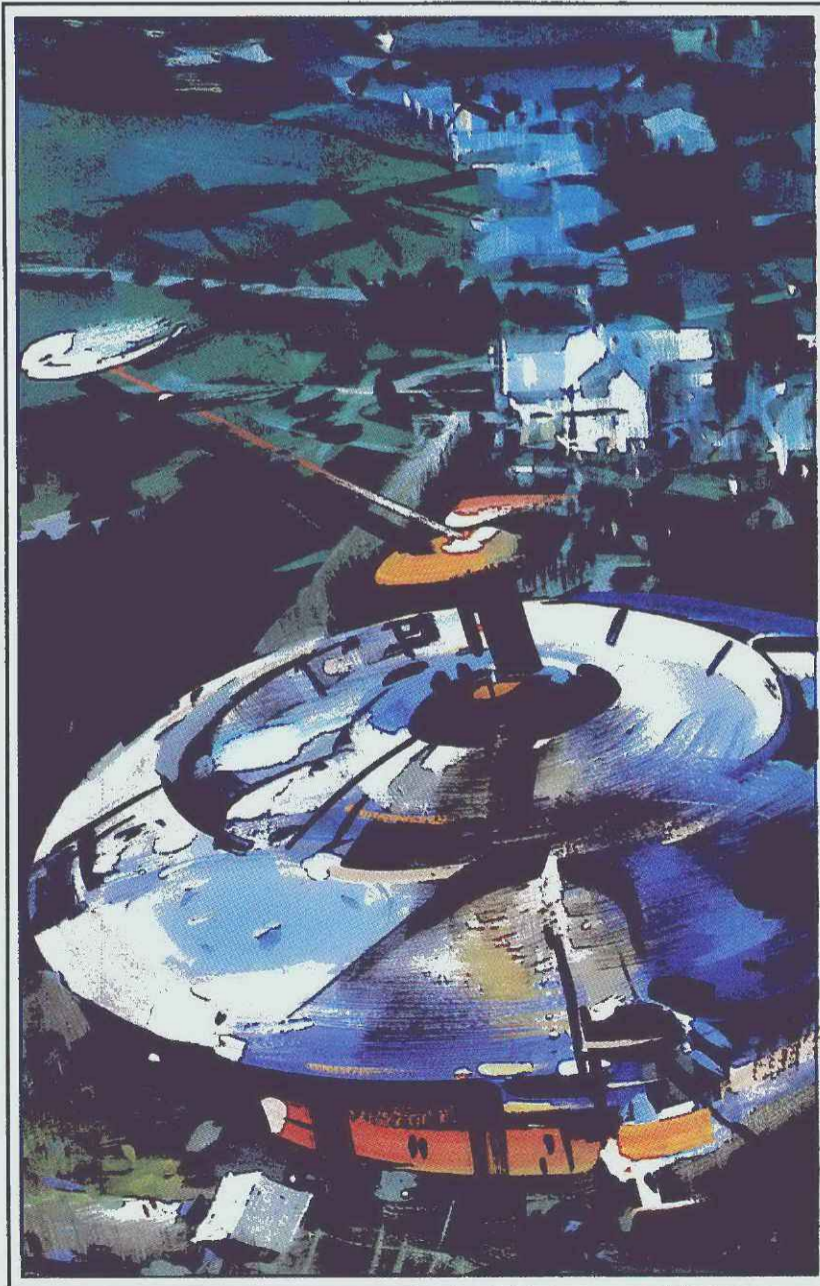
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Firms offer more than pensions to retirees

LINCOLNSHIRE, Ill.—Most retirees receive a monthly pension check from their former employer, but that's usually where the retirement benefits begin and end.

Some companies, however, have entered into retiree relations programs with their former workers, according to a study by Hewitt Associates, consultants in compensation and employee benefits.

Those employers that provide extra benefits for their retirees seem to view the former employees in much the same light as current employees—almost as members of an extended corporate family, Hewitt's research shows.

While all the programs studied are alike in that they're company-sponsored or affiliated, they differ widely in purpose, scope and content.

All but two of the 10 employers studied have a social orientation program that is geared toward providing personal assistance to retirees and their spouses.

Social activities include "retiree club" meetings, special luncheons or dinners and various educational forums.

The personal assistance ranges from drawing on retirees to work as volunteers in social, youth, hospital or nursing facilities to tapping former employees with special skills for consulting assignments.

The Bucyrus-Erie Co., based in South Milwaukee, Wis., has had an active retiree program for more than 30 years.

An elaborate clubhouse for active employees and retirees is located on the company grounds, set apart from the company's plant.

The building contains a dining room, a 10-lane bowling alley, pool tables, racquetball courts, a bar, a cafeteria, a gymnasium, an exercise room and a special "Old Timers Room."

All employees become automatic members of the Old Timers Assn. when they retire, a membership that makes them eligible for many free events. The cost for the company's retiree program is paid for by the commission from the employee vending machines in the plant.

In 1980, Exxon Corp. established an Annuitant Affairs Office within the Employee Relations Department to strengthen the retiree programs, Hewitt found.

With more than 22,000 retirees nationwide, Exxon has the task of coordinating its 40 to 50 clubs for

retired personnel located throughout the United States.

Gerber Products Co., which is based in Fremont, Mich., is another example of a company that has had an active retirement program for more than 30 years.

A toll-free information number is available to Gerber's retirees and their spouses to provide over-the-phone counseling and assistance with medical and death benefits. Gerber also provides its retirees with a company-paid membership in the American Assn. of Retired Persons.

Honeywell Inc. developed a retiree volunteer project in 1978 out of its home office in Minneapolis. The volunteers help with youth and educational programs, social agencies, hospital and nursing facilities, technical services and

schools. Office space, staff help and \$30,000 for expenses for the program are provided by Honeywell.

Illinois Bell Telephone Co. started a retiree program about 10 years ago to assist its 13,000 former employees. Benefit representatives were hired to remain in contact with each of Illinois Bell's retired employees. The retirees also receive free local telephone service and discounts on certain toll calls.

International Minerals & Chemicals Corp., located in Northbrook, Ill., has had a formal retiree program for three years, but the company is considering adding other options in the future, including a toll-free WATS line that would allow retirees to contact the corporate office for answers to benefit questions, a quarterly newsletter and a retiree home visitation program.

S.C. Johnson & Son Inc. in Racine, Wis., started its retiree program in 1957 out of its Recreation Department, which offers retirees many day activities at 50% cost.

Levi Strauss & Co. has its own retirement services department; 700 retirees nationwide participate in the program. A retiree hot line for employees with benefit questions is available, as is a lifetime membership to the American Assn. of Retired Persons. Education reimbursement is an added benefit for Levi Strauss's former workers.

Northwestern Mutual Life Insurance Co. has 570 retirees active in its program, which has been in existence for 30 years. About \$25,000 is budgeted annually for the various activities offered through the company.

Textron Inc. set up an unusual retiree program about three years ago that utilizes the skills of retired executives as consultants.

The program, called the Textron Advisory Group, has 35 members, who are all retired Textron executives. The consultants work for a variety of businesses on special assignments, which can range from part-time day work to a full-time five-month job.

Hewitt's research into retiree programs also found:

- Most existing programs provide retirees the same benefits regardless of former rank in the organization. Most retiree programs are also open to the retiree's spouse.

- Although the company formally supports the retiree program, in most cases the actual operation of the program is conducted by retirees and/or employees nearing retirement.

- Frequently, the retiree program is integrated with a pre-retirement counseling program. ■

Malpractice limit upheld

SACRAMENTO, Calif.—A state appellate court has upheld the constitutionality of a California law that places a \$250,000 limit on non-economic awards in medical malpractice cases.

The law also requires that periodic payments of judgments be instituted at the request of any of the parties.

The decision came in a case involving a \$1.3 million award to a man who claimed that a hospital had made a wrong diagnosis and caused him to suffer a heart attack that cut his life expectancy in half.

The law had been opposed by trial attorneys because they say it denies malpractice victims equal protection under California's tort laws.

Non-economic awards usually refer to pain-and-suffering damages. ■

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N.Y. kills work comp claims service bill

By JAMES LAWSON

NEW YORK—Insurers in New York state hoping to administer claims and provide other services for firms that self-insure their workers compensation risks will have to wait another year before they get the additional business.

Legislation that would have allowed insurers to provide claims services, loss prevention, actuarial and other services to firms that self-insure their workers compensation plans has been scrapped and a new bill probably won't be introduced until next year.

Differences between legislative supporters and members of the state Workmen's Compensation Board need to be resolved before the bill can be enacted.

The proposed legislation, adopted

in both the state Senate and Assembly this summer, was sent to Gov. Hugh Carey, but then recalled after members of the Workmen's Compensation Board complained, saying it had too many complications.

The legislation, many insurers had hoped, would have allowed them to do what they have been doing in other states for years. New York is the only state that does not allow insurance companies to provide services to firms that self-insure workers compensation risks.

Presently self-insurers in New York must contract with outside firms to process their claims and provide actuarial services.

"We found serious and fatal defects in the bills," said Martin Minkowitz, the board's general counsel. "The bills were completely worth-

less."

The legislation, Mr. Minkowitz says, didn't make provisions for the supervision or licensing of insurers providing the services.

Under the measure passed by the Legislature, insurers would have been allowed to provide claim service for workers compensation cases in which the employer and the employee have agreed upon liability and compensation.

Insurers also would be allowed to provide service on claims in cases in which the employer and employee had agreed upon liability but not compensation.

The Workmen's Compensation Board, however, did not want insurers to service claims in controversial cases in which liability had not been established.

Under the measure, insurance

companies also would have been allowed to represent the self-insurer in non-controversial cases before the board.

Legislators had hoped to keep the present bills, making only slight changes to appease the board.

"We'd like to see the current bill, with amendments, sent through so we can get it passed quickly," says Patricia Tinto, a spokeswoman for Sen. Donald M. Halperin, D-Brooklyn, one of the bill's sponsors.

That, however, won't happen, contends Mr. Minkowitz.

"We'll probably recommend that they (legislators) scrap them entirely and start over."

Some opponents contend the present package of bills also would have caused problems because insurers, hoping to get a self-insured company as a client, may not have

processed the self-insurer's claims judiciously.

But others are hopeful. "I'm optimistic we'll have a bill," Ms. Tinto says.

Insurance companies say self-insurers would cut their costs if the insurers serviced claims rather than outside service firms. The cost would be less, they say, because they are experienced claims processors.

The Workmen's Compensation Board has begun working on changes and is expected to begin negotiating with legislators later this month.

Any agreement, however, probably would come too late to be passed this year by legislators who will be out of session and are acting only on emergency or budgetary problems.

london line

British agency hopes to reduce workplace noise

By STACY SHAPIRO

LONDON—The British Health and Safety Commission says cutting down on workplace noise can also trim occupational injury costs and employee absenteeism.

Eliminating noise above 90 decibels can also increase worker productivity, according to the commission.

Those tips are contained in a report by the commission that recommends national legislation to reduce noise levels in British plants to below 90 decibels, a commission spokesman says.

"Industry should do everything possible to reduce noise," he says.

The commission believes the proposed legislation would reduce employee deafness.

But under British law, the commission can only enforce occupational safety rules that do not increase industrial costs. If reducing the noise level costs more than the hazards the noise causes, a company does not have to comply with the order.

"There is a lot more return for a company's money by reducing the higher levels of noise," the spokesman suggests.

Eleven of 100 workers who were exposed to noise exceeding 90 decibels in a commission study needed hearing aids.

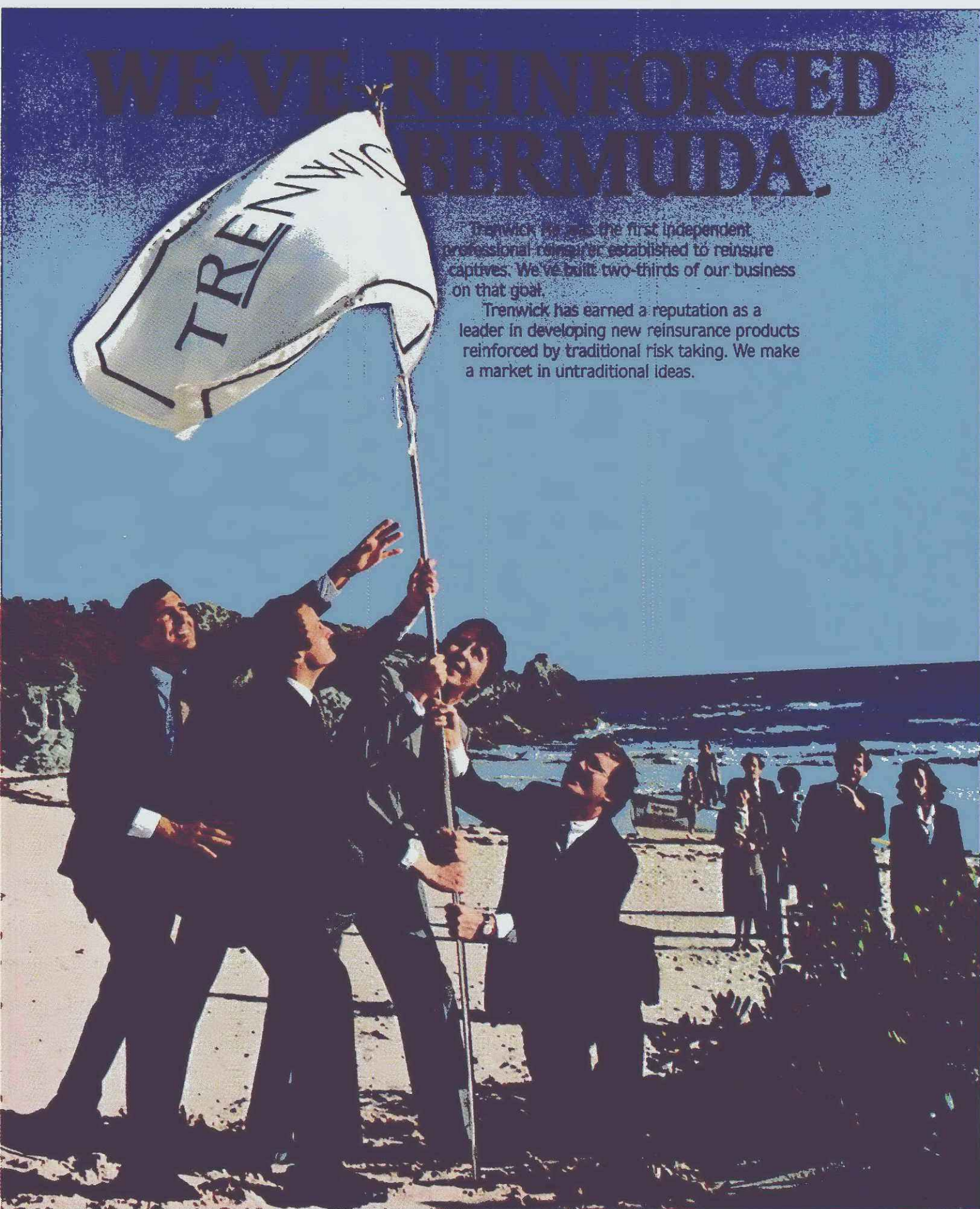
Marine insurers

Hazardous waste material and new locks for cargo containers are a few of the topics marine insurers will discuss at the International Union of Marine Insurers conference in Greece this month.

But the main topics of discussion are being kept secret until IUMI delegates and committee members meet in Corfu at the end of September.

The conference's emphasis, however, will be on marine loss prevention, sources say, as marine claims rapidly increase and potential risks like pollution continue to grow.

The annual conference, which was held in Seattle last year, is restricted this year to delegates and committee members of the international marine insurance society. "Greece is a small country and it couldn't afford funding such a large conference," said Geoffrey Merriman, chairman of the London Institute of Underwriters and a IUMI committee member.



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Pollution liability policy submitted to regulators

NEW YORK—The Insurance Services Office, in anticipation of new federal regulations mandating liability insurance protection for hazardous wastes accidents is filing a newly developed pollution liability policy with state insurance departments.

The policy form is designed to help ISO member companies provide liability insurance to hazardous waste treatment, storage and disposal facility (TSDF) operators.

And it may be an important "vehicle" through which admitted insurers can enter the pollution liability marketplace, says Ted Bayer, manager of ISO's general liability division.

Under regulations proposed by the U.S. Environmental Protection Agency, TSDFs must purchase pollution liability coverage for sudden/accidental incidents by Oct. 13. The regulations would further require the largest TSDFs to purchase liability coverage for non-sudden/gradual incidents by April 12, 1982, with limits of \$3 million per occurrence and \$6 million ag-

gregate (BI, Aug. 24).

Small and medium-sized companies will have their own compliance deadlines to meet for protection against gradual incidents, each at a later date.

This schedule, which already has been delayed almost a year, may be pushed back further or eliminated altogether.

Industry and government sources indicate that the EPA is reconsidering its proposed requirement that TSDFs purchase pollution liability insurance, or otherwise demonstrate the ability to respond financially to liability claims (see story, page 1).

The new policy was designed by ISO's general liability committee, which includes many of the insurance industry's largest property and casualty companies, Mr. Bayer says.

While it is yet unclear how widely the organization's member companies will market the product itself, "many, if not most, will adapt this policy," he says.

One group could be the Pollution Liability Insurance Association (PLIA), a new pool of potential insurers still in the organizational stage (BI, Aug. 31).

Many of PLIA's prospective member companies also were part of ISO's general liability committee, Mr. Bayer says.

The policy form provides claim-made coverage for both sudden and gradual pollution and includes protection for bodily injury, property and environmental damage. It also provides reimbursement for legally

imposed clean-up costs as well as those voluntarily assumed with the consent of the insured.

Extended reporting period coverage of one year, at a premium guaranteed not to exceed 50% of the basic annual policy premium, is available to the buyer if the insurer cancels or refuses to renew for any reason other than non-payment of premium.

The policy may be written to cover either an entire facility or specific portions of a facility, Mr. Bayer says.

It also protects a company that legally consigns wastes to a licensed storage or treatment site and later becomes liable for a pollution incident there.

While ISO tried to design an all-purpose policy offering broad protection, it does have several exclusions, he added.

Areas which are not covered, some of which require "special arrangements," include:

- Property damage to the treatment, storage or disposal site itself.
- Pollution from offshore facilities like oil drilling rigs.
- Sites which are sealed or not in active use.
- Pollution from oil, gas, mineral, water and gas thermal wells.
- A pollution incident that results from violation of statutes or regulations, such as those committed by "fly-by-night" operators.
- Acid rain, since it is difficult to determine where the source of such pollution originates from.
- "Blanket exclusions" on all nuclear wastes.

Insurance class to be offered

NEW YORK—The Risk & Insurance Management Society will offer its "Fundamentals of Insurance" course Dec. 14-16 in San Francisco.

The course is designed for those involved in the risk management profession who have only a limited exposure to the basic concepts of insurance and insurance coverages. It covers risk and insurance management concepts, property insurance and liability insurance.

The first portion of the three-day course covers the nature of risk. Fundamentals of insurance are then given comprehensive treatment. Practical application is

stressed, with the major concepts of the course reinforced through actual loss examples and illustrations.

The instructors will be Richard Corbett, Ph.D., CPCU, CLU, associate professor at Florida State University, and George B. Flanigan, Ph.D., CPCU, associated professor at the University of North Carolina at Greensboro.

The fee for RIMS members is \$295 (\$175 for each additional participant from the same company). The fee for non-members is \$395.

For more information contact Rebecca Zimm, RIMS, 205 E. 42nd St., New York, N.Y. 10017; 212-286-9292.

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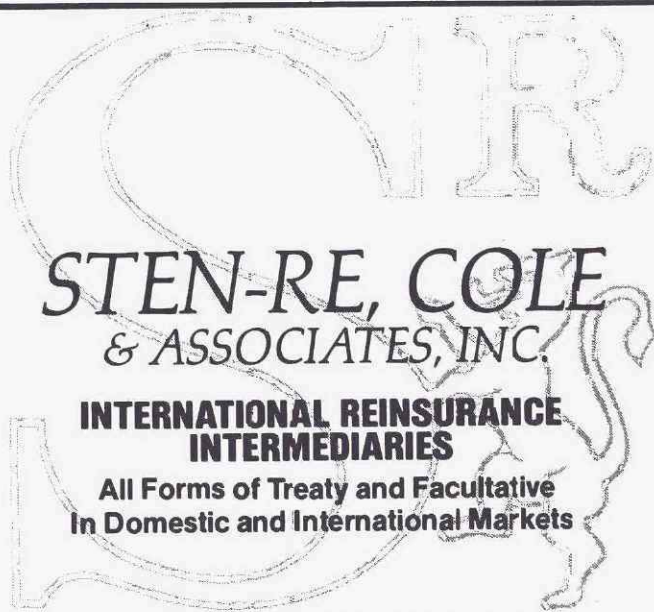
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• The spring/summer 1981 edition of **A&A World**, a publication by Alexander & Alexander Inc., includes an article on A&A's Washington office, which is oriented toward strategic planning/government affairs. For a free copy write: Alexander & Alexander Inc., Government and Industry Affairs, Suite 1250, 1333 New Hampshire Avenue N.W., Washington, D.C. 20036; 202-466-6340.

• The Illinois Department of Insurance has published "**Rethinking the Regulation of Policyholders Surplus**," a treatise describing various factors that should be considered in drafting minimum and required capital and surplus legislation. The free publication was written by Kenneth W. Smith, deputy director of the department's property/casualty division. Write Illinois Department of Insurance, 320 W. Washington St., Springfield, Ill. 62767 and include a stamped, self-addressed 9-by-12-inch envelope. Postage will cost 69 cents.

• The National Assn. of Surety Bond Producers and the Associated General Contractors of America have published "**The Basic Bond Book**." The 38-page booklet is designed to simplify what many consider a very confusing subject: contract bonding. Written especially for construction contractors with little experience in bonded work, the booklet also attempts to explain bonding to architects, engineers, educators, project owners and others involved in the construction process. Copies cost \$4 each. Write NASBP, 5454 Wisconsin Ave., Suite 1625, Chevy Chase, Md. 20815.

• "**Designing Pension Benefits for TCNs**" is the title of a newsletter published by Kwasha Lipton. TCNs are third-country nationals, executives who travel the globe for the parent company and who are neither citizens of the parent country nor the country where they work. The article emphasizes the proper benefit program design necessary for this special type of executive. Write Kwasha Lipton, 429 Sylvan Ave., Englewood Cliffs, N.J. 07632.

• Meidinger Inc., a national employee benefit consulting firm has published "**Deductible Employee Contributions: Some Considerations for Employers**." The publication is a summary and analysis of provisions of the new legislation allowing tax-deductible employee contributions to employer-sponsored plans or Individual Retirement Accounts. For a free copy write Kathleen Loomis, Meidinger Inc., 2440 Grinstead Drive, Louisville, Ky. 40204.

• The KAIROS Co., a product safety and liability prevention services company, has published a free **capabilities brochure**. Write The KAIROS Co., 20480 Pacifica Drive, Suite D, Cupertino, Calif. 95014.

• The Govmark Organization Inc. is preparing a new **flammability standards book**, to be available in January 1982. Among the items included are flammability standards and test procedures for home furnishings, requirements for hotels, motels, office buildings, prisons, private residences and other occupancy classifications and summaries of all flammability standards and test procedures, complete with sketches. For information on price and pre-publication discounts, contact Salvatore Messina, The Govmark Organization Inc., Box 807, Bellmore, N.Y. 11710; 516-293-8944.

• The Gypsum Assn. has published the 10th edition of its **Fire Resistance Design Manual**. The manual lists more than 200 fire-rated products that use fire-resistant gypsum in their construction. It is the first industry document to be referenced in three model building codes. Also included in the manual are data for walls, floors, ceilings, and column and beam assemblies. Individual copies of the Fire Resistance Design Manual are available for free. Write Gypsum Assn., 1603 Orrington Ave., Evanston, Ill. 60201.

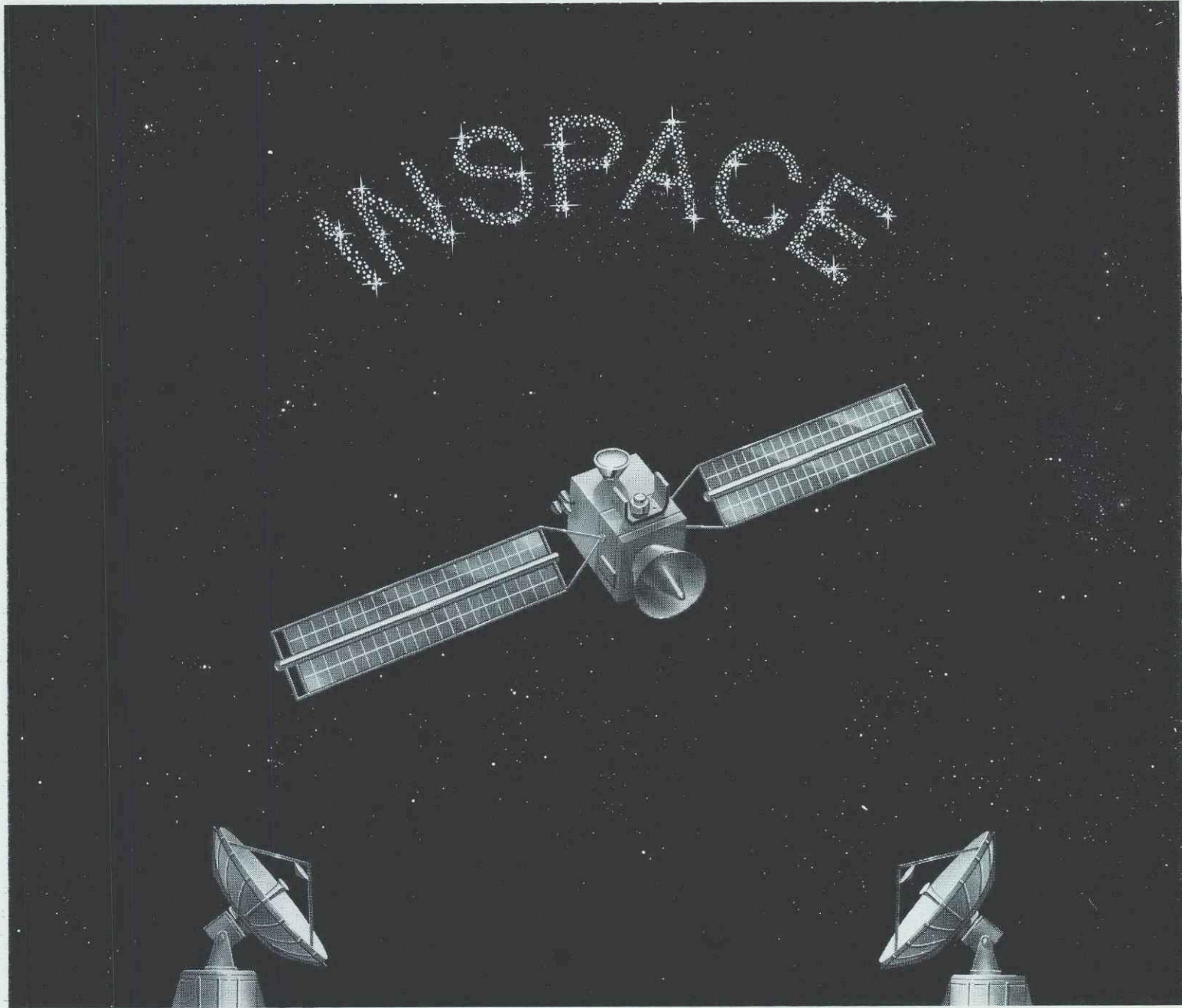
• Helping insurance agents, producers, loss control personnel and underwriters make more informed fire risk judgments is the goal of the fourth edition of "**Judging the Fire Risk**," prepared by the Loss Control Department of the Alliance of American Insurers. Completely revised, the 72-page illustrated manual discusses construction, occupancy and exposure hazards, public and private fire protection and the human factors affecting fire prevention and protection. The publication can be used as a training tool for new and experienced personnel. Single copies can be purchased for \$4.75. Multiple-copy and other discounts are available. For further informa-

tion write Alliance of American Insurers, Loss Control Department, 20 North Wacker Drive, Chicago, Ill. 60606.

• The 1981 "**Life Safety Code Handbook**" is available from the National Fire Protection Assn. First published in 1978, the handbook has since been extensively revised because of major revisions in the Life Safety Code. The 840-page book includes commentary, new and expanded illustrations and drawings and the complete text of the 1981 Life Safety Code. It explains the code, provides background information to provide a clearer understanding of code requirements and suggests how to

implement them. The hardcover handbook costs \$17.50. Please specify catalog No. 101 HB81. Write Publications Sales Division, National Fire Protection Assn., Batterymarch Park, Quincy, Mass. 02269; 617-328-9290.

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Statement compares HMOs, traditional plans

Kwasha Lipton is offering a benefit statement for employees that compares the benefits provided by health maintenance organizations against those offered by traditional company-sponsored health plans.

The HMO Benefit Comparison Statement provides the employee with information only on benefits and costs that directly affect him. In addition, the statement simplifies much of the administrative burden on a company personnel department. It is designed for companies with many facilities and at least 2,000 employees.

In conjunction with the HMO Benefit Comparison Statement, Kwasha Lipton has developed a 15-minute slide presentation on HMOs. The slide show introduces employees to the functions and possible benefits of an HMO.

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For more information on both the HMO Benefit Statement and the slide presentation contact Catherine R. Gambino, Manager of Marketing and Public Relations, Kwasha Lipton, 429 Sylvan Ave., Englewood Cliffs, N.J. 07632; 201-567-0001 or 212-279-6800.

Kung fu coverage

The Rhulen Agency Inc. has introduced a new insurance program for martial arts schools.

The program covers comprehensive liability, including accident medical, fire, theft and auto coverage. Limits range up to \$1 million, with umbrella limits up to \$20 mil-

lion. Special packages can be designed for specific needs.

As part of the policy, the insurer provides legal defense against all liability actions brought against the insured school owner, instructor or employee, including allegations that may be false, fraudulent or without grounds.

For additional details contact Jen Farrow or Dan Foley, Rhulen Agency Inc., 217 Broadway, Monticello, N.Y. 12701; 914-794-8000.

Coal operator policy

Carter Lunsford Insurance Co. of Bluefield, W.Va., has designed a new insurance policy for coal min-

ing companies and preparation plants.

The TCP—Total Coal Protection—policy includes coverage for bodily injury, pollution, subsidence, gob pile slides, movement of overburden or earth, damage to wells or springs, explosions and collapses.

Limits of the policies depend on the types of coverage purchased. For more information contact Duke Thompson, Carter Lunsford Insurance Co., P.O. Box 1582, Bluefield, W.Va. 24701; 304-327-7133.

Commercial auto

Cambridge General Agency introduces a commercial auto program for liability, physical damage and cargo.

Coverage can be written for many risks, including local and

long-haul trucking, fleets and owner operators. Coverage for classes such as tow trucks, sand and gravel trucks and limousines is also offered. Limits range from \$600,000 up to \$1 million.

For details contact Michael Mauch, Cambridge General Agency, 50 California St., San Francisco, Calif. 94111; 415-788-8250.

Crime insurance

RLI Insurance Co. is offering violent crime insurance for individuals, families and corporations.

The plan covers bodily injury, death or permanent disablement caused by criminal assault. Various medical expenses, such as ambulance service and hospitalization, are also covered. Limits range from \$5,000 for medical expenses to \$50,000 for death benefits. A surcharge may be added to premiums for coverage on people in hazardous occupations or those working in foreign countries.

For addition information contact William Applegate, RLI Insurance Co., 9025 N. Lindbergh Drive, Peoria, Ill. 61615; 309-692-1000.

Data processing

American International Group has introduced an electronic data processors' errors and omissions policy through National Union Fire Insurance Co. of Pittsburgh.

Companies can be insured for their liability as vendors. The policy also can cover EDP service firms, suppliers of software products, programmers and consulting or education services.

Losses resulting from human error in programming or processing services or in design and formulation of a system or program are covered.

Limits range up to \$3 million, with higher limits negotiable.

For additional details contact Ray Wahl or Judith Garafola, National Union Fire Insurance Co., 70 Pine St., New York, N.Y. 10270; 212-770-7000.

Breathing device

Scott Aviation has designed an Emergency Escape Breathing Device. The device provides a minimum of 15 minutes of escape time from smoke, toxic gases or other oxygen-deficient atmospheres.

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For more information contact Scott Aviation, 225 Erie St., Lancaster, N.Y. 14086; 716-683-5100.

Businessman's cover

The U.S. Insurance Group now offers an umbrella policy that covers both business and personal activities in one agreement.

The Businessowners' Catastrophe Liability policy covers owner-operated businesses, whether they are partnerships, family corporations or single proprietorship.

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For more information contact Joan Bianco, USIG Production/Planning Department, 299 Madison Ave., Morristown, N.J. 07960; 201-285-7314.

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Policyholder complaints increase in Illinois in '80

Complaints by policyholders against insurers selling group accident and health plans in Illinois generally rose last year, according to statistics released by the Illinois Department of Insurance.

Statistics for 21 companies indicated that 15 had a higher ratio of complaints per 10,000 policyholders in 1980 compared with 1979. Six had lower ratios. Comparisons were unavailable for 18 insurance companies.

Of those companies receiving the highest number of complaints, Life Investors Insurance Co. of America topped the list. The company received 10 complaints out of 3,197 certificates in force, a ratio of 31.28 complaints per 10,000 policyholders.

The best ratio was registered by Continental Casualty Co. The company generated only 11 complaints from its 495,035 Illinois policyholders for a complaint ratio of 0.02.

In its survey, the Insurance Department used the National Assn. of Insurance Commissioners' definition of a complaint: "Written correspondence which primarily expresses a grievance against an insurance company."

The department did not determine whether the complaints were justified.

After Life Investors, the insurer with the worst complaint ratio last year was Continental American Life Insurance Co., with slightly more than 4,300 policyholders. Continental American generated 12 complaints for a 27.88 complaint ratio.

Union Fidelity Life Insurance Co.'s 18.76 complaint ratio ranked third worst. It received 54 complaints from its Illinois 28,787 policyholders.

The best ratio except for Continental Casualty's was Connecticut General Insurance Co. with a complaint ratio of 0.71. Only 15 complaints were registered from the 210,883 certificates in force.

Travelers Insurance Co. of Illinois ranked third with 18 complaints out for 192,376.

Of the complaints against companies with more than 100,000 policyholders, worst was Health Care Service Corp. The company, with more than 1.12 million policyholders, received 684 complaints for a complaint ratio of 6.07.

The complaint ratio for Prudential Insurance Co. was 3.74. In all, there were 182 complaints out of 486,279 certificates in force.

Other large insurance companies listed included Aetna Life Insurance Co. with a complaint ratio of 2.55 or 87 complaints for 341,002 certificates in force.

Metropolitan Life Insurance Co. had a complaint ratio of 1.79 or 68 complaints out of its 680,370 policyholders.

The Equitable Life Assurance Society had 64 complaints from its 474,048 policyholders for a ratio of 1.35.

One of the largest jumps was recorded by Guarantee Trust Life Insurance Co. Its complaint ratio rose to 12.34 from 6.42 in 1979. One of the biggest drops was recorded for Bankers Life Co., which dropped to a complaint ratio of 2.99 from 4.38 in 1979.

Other complaint ratios included Pacific Mutual Life Insurance Co., 13.74; Illinois Hospital & Health Services Inc., 10.10; Horace Mann Life Insurance Co., 7.86; State Mutual Life Assurance Co. of America, 7.11; Golden Rule Insurance Co., 6.50; First Federated Life Insurance Co., 5.91; Sentry Life Insurance Co., 5.86; Guardian Life Insurance Co. of America, 5.0; New York Life Insurance Co., 4.53.

Also, Lincoln National Life Insurance Co., 4.39; Crown Life Insurance Co., 4.26; Great-West Life Assurance Co., 3.91; United Benefit Life Insurance Co., 3.87; Bankers Life and Casualty Co., 3.85; Massachusetts Mutual Life Insurance Co., 3.63; Massachusetts Indemnity & Life Insurance Co., 2.97; John Hancock Mutual Life Insurance Co., 2.14; Travelers Insurance Cos., 2.08; Colonial Penn Franklin Insurance Co., 2.06.

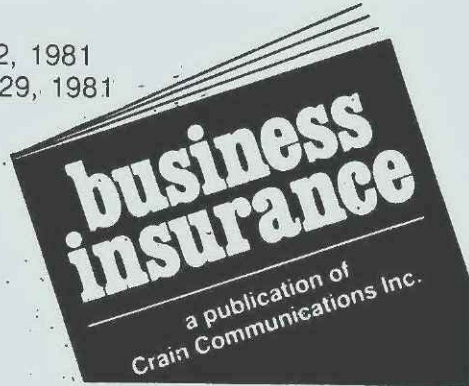
Also, Occidental Life Insurance Co. of Illinois, 1.99; Mutual Benefit Life Insurance Co., 1.84; Benefit Trust Life Insurance Co., 1.63; Allstate Insurance Co., 1.63; Aetna Life Insurance Company of Illinois, 1.62; Washington National Insurance Co., 1.60; and Continental Assurance Co., 1.37.

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SEPT. 21-22. Association Captives conference in New York, sponsored by Interforum Group Inc.; \$595. Interforum Group Inc., 68 William St., New York, N.Y. 10005; 212-269-2240.

SEPT. 21-24. Fundamentals of Reinsurance seminar in Irving, Texas, sponsored by the University of Dallas Risk Management Institute; \$395. Professor Bruce D. Evans, University of Dallas Risk Management Institute, International Center, University of Dallas Station, Irving, Texas 75061; 214-579-5360 or 214-579-5299.

SEPT. 23-25. Washington Business Group on Health annual conference, in Washington, sponsored by Washington Business Group on Health. Members, \$300; non-members, \$400. Ellen Menton, Washington Business Group on Health, 922 Pennsylvania Ave. S.W., Washington, D.C. 20003; 202-547-6644.

SEPT. 30-OCT. 2. Risk Management conference in Lake Tahoe, Nev., sponsored by Touro College; \$600. Ms. J.K. Van Wycks, Seminar Division Office, Touro College, 5th Floor, 1120 20th St. N.W., Washington, D.C. 20036; 202-337-7000.

SEPT. 30-OCT. 2. 12th Annual Educational RIMS conference in Myrtle Beach, S.C., sponsored by the Carolinas Chapter of the Risk & Insurance Management Society; members, \$45; non-

members, \$50. Donald Duncan, Collins & Aikman Corp., P.O. Box 32665, Charlotte, N.C. 28232.

OCT. 1. A New Look at CGL and Products Liability workshop in Saddle Brook, N.J., sponsored by the Society of CPCU; members, \$85; non-members, \$95. Society of CPCU, Providence and Sugartown Roads, Malvern, Pa. 19355.

OCT. 1-2. Risk Management Techniques for Municipalities seminar in Atlanta, sponsored by the Society of CPCU; \$250. Also **Oct. 28-29** in Merrimack, N.H. Society of CPCU, Providence and Sugartown Roads, Malvern, Pa. 19355.

OCT. 1-2. First Self Insurance Institute of America conference in New Orleans; theme: "Self-insurance, Sensible Innovative Insurance Alternative"; members, \$225; non-members, \$300. SIIA, 1700 E. Dyer Road, Suite 165, Santa Ana, Calif. 92705; 714-979-6318.

OCT. 2. Conference on Second Surgical Opinions in New York, sponsored by Second Surgical Opinions Conferences; \$150. Also **Nov. 1** in Los Angeles. Second Surgical Opinions Conferences, 411 E. 69th St., Room 305, New York, N.Y. 20021; 212-472-6393.

OCT. 7-9. Western Regional conference in Phoenix, Ariz., sponsored by the Risk & Insurance

Management Society; \$175. Jim Mullen, Arizona Public Service, Box 21666, Phoenix, Ariz. 85036; 602-271-2806.

OCT. 9. Controlling Accident Costs and Workers Compensation conference in New Carrollton, Md., sponsored by the International Institute of Safety and Health; \$175; three or more from same firm, \$165 each. International Institute of Safety and Health, 5010-A Nicholson Lane, Rockville, Md. 20852; 301-984-8969.

OCT. 11-13. 1981 Semi-Annual National Council of Self-Insurers meeting in Des Moines, Iowa, sponsored by the National Council of Self-Insurers; \$75. Mary Ann De Santo, The National Council of Self-Insurers, Rm. 2910, 420 Lexington Ave., New York, N.Y. 10017; 212-867-9200.

OCT. 11-14. Health Care Cost Containment seminar in Palm Springs, Calif., sponsored by the International Foundation of Employee Benefit Plans; \$360. IFEBP, 18700 W. Bluemound Road, Box 69, Brookfield, Wis. 53005; 414-786-6700.

OCT. 12. 25th Annual Risk Management Conference in North Hollywood, Calif., sponsored by the Los Angeles Chapter of the Risk & Insurance Management Society; members, \$45; non-members, \$55. Donald A. Craft, Tior, 6300 Wilshire Blvd., Los Angeles, Calif. 90048; 213-852-6203.

OCT. 12-13. Professional Liability-The Liability of Insurance Defense Counsel seminar sponsored by the Defense Research Institute; members, \$235; non-members, \$270. Anthony K. Karpowitz,

Defense Research Institute, 1100 W. Wells St., Milwaukee, Wis. 53233; 414-272-5995.

OCT. 12-14. International Risk Management conference in Monte Carlo, Monaco, sponsored by the Risk & Insurance Management Society and the Association Europeenne des Assureurs de L'Industrie. Risk managers, \$675; other insurance industry personnel, \$775. RIMS, 205 E. 42nd St., New York, N.Y. 10017; 212-286-9292.

OCT. 15. Hazardous Materials, Substances & Wastes Training & Compliance seminar in South Bend, Ind., sponsored by Transportation Skills Programs; \$135. Also **Oct. 27** in Kansas City, Mo. and **Nov. 18** in Cleveland. Jessie Sterner, Transportation Skills Programs, 320 W. Main St., Kutztown, Pa. 19530; 215-683-5098.

OCT. 15. Insurance in the '80s seminar in Dallas, sponsored by the Dallas-Fort Worth Chapter of the Risk & Insurance Management Society; \$70. Don Hairston, Lone Star Steel Co., P.O. Box 35888, Dallas, Texas 75235; 214-352-3981.

OCT. 15-16. Insider and Employee Thefts seminar in New York, sponsored by the Practising Law Institute; \$275, including handbook. Practising Law Institute, 810 Seventh Ave., New York, N.Y. 10019; 212-765-5700.

OCT. 18-23. Reinsurance Practice course in Warwick, Bermuda, sponsored by Risk Research Group Ltd.; 595 pounds (approx. \$1,190). Also **Nov. 1-6** in London. Risk Research Group Ltd., Bridge House, 181 Queen Victoria St., London

EC4V 4DD; 01-236-2175.

OCT. 19-21. The Improvement of Product Safety course in Cambridge, England, sponsored by Product Liability International; 180 pounds (approx. \$360). Also **Oct. 29-30** in London. Lesley Parkinson, Product Liability International, Lloyd's of London Press Ltd., Sheepen Place, Colchester, Essex CO3 3LP, England; 01-206-69222.

OCT. 19-22. 69th National Safety Congress in Chicago, sponsored by the National Safety Council; members, \$60; non-members, \$90; \$80 in advance. Congress Planning, National Safety Council, 444 N. Michigan Ave., Chicago, Ill. 60611; 312-527-4800.

OCT. 20. Legal Trends and Their Impact of Products Liability, Bodily Injury, Workers Compensation and E&O workshop in Norfolk, Va., sponsored by the Society of CPCU; members, \$85; non-members \$95. Society of CPCU, Providence and Sugartown Roads, Malvern, Pennsylvania 19355.

OCT. 20. Business Interruption/Time Element Coverages workshop in Grand Rapids, Mich., sponsored by the Society of CPCU; members, \$85; non-members, \$95. Society of CPCU, Providence and Sugartown Roads, Malvern, Pa. 19355.

OCT. 20-22. Financial Analysis for Risk Management Decisions seminar in New York, presented by Dr. John Cozzolino; \$685 per person plus \$50 registration fee per company includes workbook and calculator. Also **Nov. 17-19** in San Francisco. Cozzolino Associates Inc., 12 Chippenham Drive, West Berlin, N.J. 08091; 609-784-7105.

OCT. 21-24. International Benefits Seminar in Montreal, sponsored by the International Foundation of Employee Benefit Plans; members, \$440; non-members, \$515. IFEBP, 18700 W. Bluemound Road, Box 69, Brookfield, Wis. 53005.

OCT. 22-23. Aviation Law/Insurance symposium in Orlando, Fla., sponsored by Embry-Riddle Aeronautical University; \$225. Bob Whempner, Director of Professional Programs, Embry-Riddle Aeronautical University, Star Route Box 540, Bunnell, Fla. 32010; 904-672-3439.

OCT. 22-23. Human Error Reduction Techniques course in Chicago, sponsored by Don Petersen, management consultant; \$275. Don Petersen, 9236 East Walnut Tree Drive, Tucson, Ariz. 85715; 602-749-2319.

OCT. 23-24. Hospital Liability and Risk Management seminar in New York, sponsored by the Practising Law Institute; \$275. Also **Nov. 20-21** in Miami. Practising Law Institute, Dept. SWC, 810 Seventh Ave., New York, N.Y. 10019; 212-765-5700.

OCT. 25-28. 1981 Corporate Benefits Management conference in San Francisco, sponsored by the International Foundation of Employee Benefit Plans; members, \$440; non-members, \$515. IFEBP, 18700 W. Bluemound Road, Box 69, Brookfield, Wis. 53005; 414-786-6700.

OCT. 25-29. Washington Insight on Employee Benefits program in Washington, D.C., sponsored by the U.S. Chamber of Commerce; \$825. Nancy Turnbull or Suzanne Lulewicz, U.S. Chamber of Commerce, 1615 H St. N.W., Washington, D.C. 20062; 202-659-6138.

OCT. 26-27. Eighth Annual Environment and Safety Briefing sessions in Washington, sponsored by BNA Education Systems; \$250. Environment Conference Secretary, BNA Education Systems, Suite S-602, 1231 25th St. N.W., Washington, D.C. 20037; 800-424-9890; 202-452-4420.

OCT. 26-27. Industrial Hygiene for Managers of Hazardous Activities seminar in Arlington, Va., sponsored by the International Institute of Safety & Health; \$295; three or more from same firm, \$250. IISH, 5010-A Nicholson Lane, Rockville, Md. 20852; 301-984-8969.

OCT. 26-28. Product Safety Engineering course in Baltimore, sponsored by the Institute of Product Assurance; \$450. IPA, 9811 Mallard Drive, Suite 213, Laurel, Md. 20811; 301-792-0710.

OCT. 26-29. Loss Control Management seminar in Cleveland, sponsored by Factory Mutual Engineering & Research. Open to Factory Mutual-insured members only, \$495. Also **Nov. 16-19** in San Francisco and **Nov. 30-Dec. 4** in Dallas. Training Resource Center for Loss Control Management, Factory Mutual Engineering Corp., 1151 Boston-Providence Turnpike, Norwood, Mass. 02062; 617-762-4300.

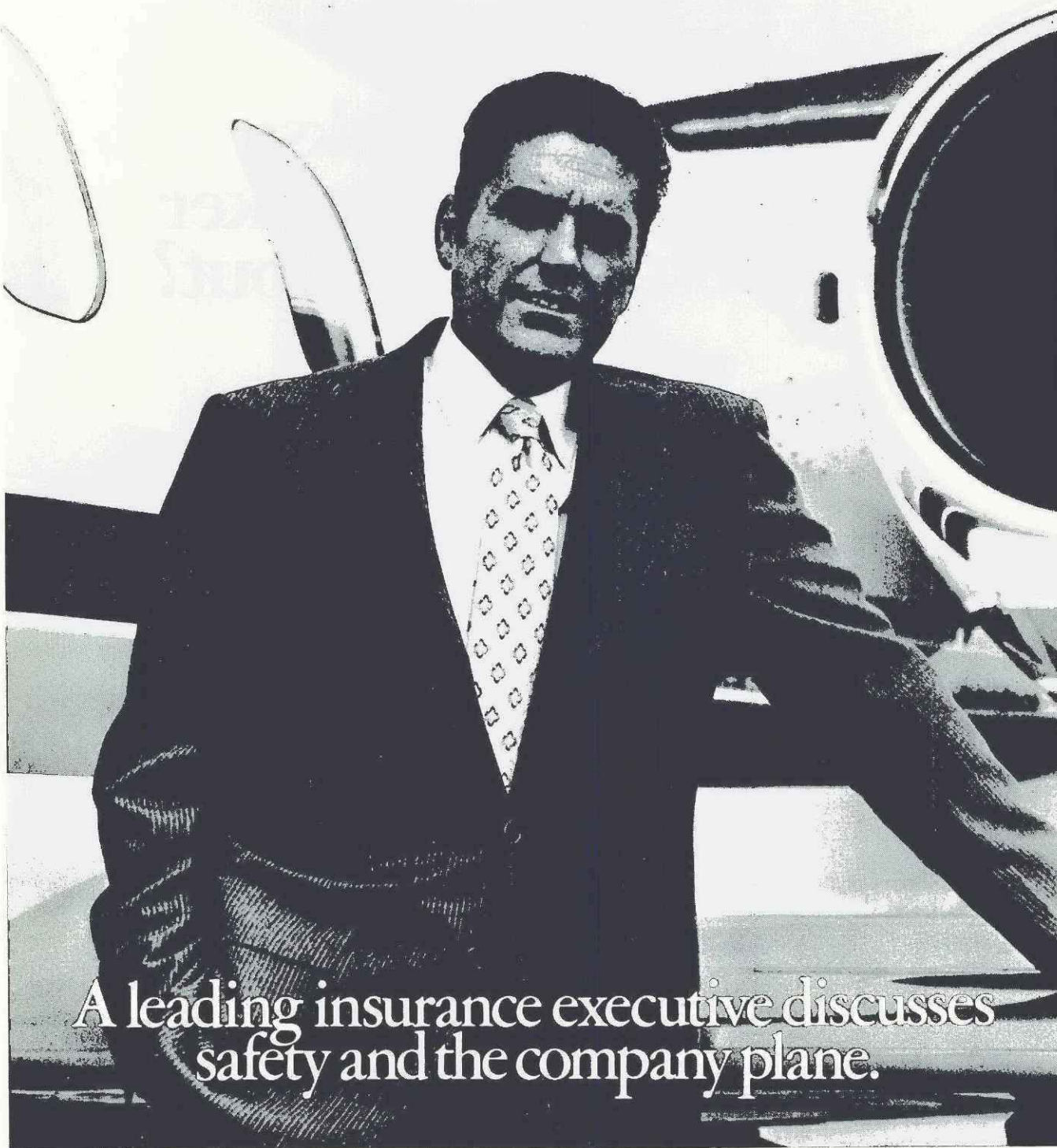
OCT. 28. Business Interruption Insurance conference in New York, sponsored by Grower Conferences; \$165. Grower Conferences, 20 Endell St., London WC2H 9BD; 01-240-5931.

OCT. 28-30. Techniques of Loss Control course in Chicago, sponsored by the Risk & Insurance Management Society; members, \$295; non-members, \$395. Also **Dec. 2-4** in New York. Rebecca Zimm, RIMS, 205 E. 42nd St., New York, N.Y. 212-286-9292.

OCT. 29-30. Radiation Protection of the Public in a Nuclear Accident course in Arlington, Va., sponsored by the International Institute of Safety & Health; \$295; three or more from same firm, \$250. IISH, 5010-A Nicholson Lane, Rockville, Md. 20852; 301-984-8969.

OCT. 29-31. Longshoremen's & Harbor Workers' Act Outlook '81 seminar in San Francisco, sponsored by the Industrial Claims Assn. in cooperation with the U.S. Department of Labor; \$250. Jon W. Challoner, Seminar Chairman, Industrial Claims Assn., 582 Market St., Suite 1909, San Francisco, Calif. 94104.

NOV. 1-4. Benefits Processing Institute program in Williamsburg, Va., sponsored by the International Foundation of Employee Benefit Plans; members, \$360; non-members, \$435. IFEBP, 18700 W. Bluemound Road, Box 69, Brookfield, Wis. 53005; 414-786-6700.



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Panama supports reinsurance center

worldwide

PANAMA CITY, Panama—The Panamanian government will continue to support the development of the International Reinsurance Center in Panama City, President Artistides Rojo told the third International Reinsurance Forum.

Mr. Rojo invited reinsurance companies that have not established operations in Panama to do so. "The government will continue to provide incentives for the benefit of this important enterprise," he said.

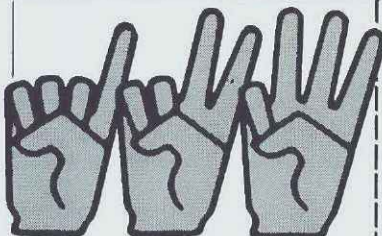
Founded in 1976, the International Reinsurance Center is now made up of 18 international reinsurance companies and nine reinsurance brokers.

The forum, which attracted reinsurance experts and executives from around the world, was hosted by the Panamanian Reinsurance Union.

the books for many years, the National Banking and Insurance Commission, part of the Mexican Ministry of Finance, has decided to enforce the rule, according to Brockman y Schuh, J&H's correspondent. The government has hired extra inspectors to check insurance company records to make sure the rule is followed.

To complicate matters for insureds that do not pay premiums promptly, canceled policies cannot be reinstated; new policies must be issued, according to Brockman y Schuh.

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Industrial safety

MELBOURNE, Australia—The Parliament of the Australian state of Victoria is considering a bill that would increase government authority concerning safety and health.

If passed, the bill could have an immense effect on the state's industries, according to a newsletter published by Sedgwick Pty. Ltd., an insurance brokerage firm headquartered in Sydney.

The legislation would require:

- The regulation of material storage and handling.
- The appointment of workplace safety supervisors or committees.
- Nursing and first-aid facilities in workplaces. The training of emergency personnel and onsite medical equipment also would be supervised by the government.
- Certification of competency for some types of workers.

Dominican risks

NEW YORK—The decision of the president of the Dominican Republic to not seek re-election may pose some risks for foreign businesses, according to a report compiled by Frost & Sullivan Inc.'s Political Risk Services division.

With President Antonio Guzman's decision not to run for another term, the political tide in the Dominican Republic is now running in the direction of greater restrictions on international business, especially business in the United States, the report says.

One continuing Dominican controversy that affects foreign businesses is a proposal to restrict foreign mining activities. Frost & Sullivan says there is a 50-50 chance of such a law being enacted.

Frost & Sullivan is a New York-based firm that publishes market analyses and industry forecasts.

Strict compliance

MEXICO CITY—Premiums on Mexican insurance policies must be paid within 30 days after the policy inception date or the coverage will be canceled, according to the Mexican correspondent of Johnson & Higgins International.

Although such a law has been on

RIMS elects head in Massachusetts

BOSTON—Stefan J. Valovic, assistant insurance manager of Stone & Webster Inc. of Boston, was recently elected president of the Massachusetts Risk and Insurance Management Society for the 1981-1982 term.



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THE SPECIALISTS

Two insurers fined \$8,200

TALLAHASSEE, Fla.—State Insurance Commissioner Bill Gunter has assessed two Hartford, Conn., insurance companies administrative penalties totaling more than \$8,000 for alleged violations of Florida law.

Aetna Insurance Co. agreed to pay \$6,200 and Aetna Fire Underwriters Insurance Corp. agreed to pay \$2,000 for several alleged violations uncovered by the Florida Insurance Department investigators during examinations of the two companies' business in the state last year.

Mr. Gunter charged both Aetna Insurance and Aetna Fire Underwriters with failing to have policy renewals countersigned, using unlicensed claims adjusters and failing to put rate reductions for certain coverages into effect on the correct date.

In addition, Aetna allegedly used certain rates, rules and policy forms that were not filed with the Florida Insurance Department, Mr. Gunter charged.

The company also allegedly applied premium credits incorrectly and refused without adequate justification to insure certain casualty risks, Mr. Gunter said.

Aetna Fire Underwriters allegedly wrote several automobile insurance policies containing uninsured motorist limits different from those that the insureds has specified.

Agreement by the companies to pay the administrative penalties is for settlement purposes only and does not constitute an admission of guilt, the insurance commissioner said. ■

growing pains



Chaney

McVeigh

New coverage can help small firms fight suits

By LEN STRAZEWSKI

SAN FRANCISCO—When a big corporation sues a small business, who is the likely winner?

If the little guy can afford the legal battle, he's got a chance. But many firms can't afford expensive legal action, and many causes of small-business lawsuits and other legal actions, including contract disputes, landlord/tenant relations, regulatory battles and employment practices complaints, are not covered by general liability insurance.

The threat of lawsuits is a classic small-business complaint, but ISU Cos., an insurance agency franchise group based in San Francisco, says it has a new insurance policy that may fill some of the key gaps in a small business' legal protection.

The coverage is called defense and judgment insurance and can provide up to \$100,000 in legal defense reimbursements and up to \$50,000 in legal judgment reimbursement for firms with up to 100 employees. The policy is underwritten by Lloyd's of London, marketed by surplus lines brokerage NAS Ltd. and sold by ISU franchise agents in California and Nevada.

NAS also sells a similar legal defense reimbursement insurance package aimed at small firms through agents around the country, but does not include insurance against judgments as an available option (BI, May 25).

"What we found out in the early development of this policy is that there are 477,000 small employers in just California that are obviously too small to have their own legal department or staff attorney," explained Russell Chaney, ISU's vp. "If we assume that California represents about 10% of the United States, that means there are nearly 5 million firms who are particularly sensitive to lawsuits and civil legal action.

"For these firms, even a nuisance suit can be dangerous. Our research shows that even a complaint without a lot of substance needs seven to 20 hours of legal work for a response. At \$100 an hour, this can be quite a burden for a small employer. He may not have a lot of these lawsuits, but when they come, they can hurt," Mr. Chaney explained.

Research conducted in California shows 208,000 civil lawsuits filed against small firms, added Donn McVeigh, ISU's vp of risk management. "There's no national figure available, but if we can extrapolate again and say that California is about 10% of the nation, that means that there are 2 million lawsuits of this type every year.

"A lot of suits relate to the product workmanship of a small manufacturer, which isn't covered under ordinary product liability insurance or professional actions for which a small firm might not buy professional liability coverage. Customers don't even have to be dissatisfied to sue," Mr. McVeigh said. "Many small businesses just don't defend them."

Small firms are also hit with a variety of other complaints that can force legal response, including Equal Employment Opportunity complaints, Occupational Safety & Health Administration violations and antitrust or restraint of trade complaints, Mr. Chaney added.

The defense and judgment policy covers all civil litigation except class action lawsuits, lawsuits involving the use of an automobile and workers compensation complaints that are filed under workers compensation laws and worker compensation policies. The optional judgment coverage, available only with the defense insurance, excludes punitive damages.

"We designed the coverage specifically to protect small firms from the occasional nuisance lawsuit and complaint that doesn't happen very often but is expensive to defend," Mr. McVeigh said. "The policy operates as a reimbursement, like a major medical plan, for legal problems."

"Rating was a particularly hard issue for us to calculate," noted Mr. Chaney, "because basically there is no track record for this kind of coverage for small businesses. So we don't rate by industry or professional class. Rates are based on the limits a firm chooses, its size, annual sales and how much it already pays in property/casualty insurance premium for other coverages."

A 60-person manufacturing firm earning about \$3 million in annual sales and paying a \$20,000 annual insurance premium would pay about \$6,000 for \$75,000 in defense costs coverage and \$20,000 in judgment reimbursement, he said.

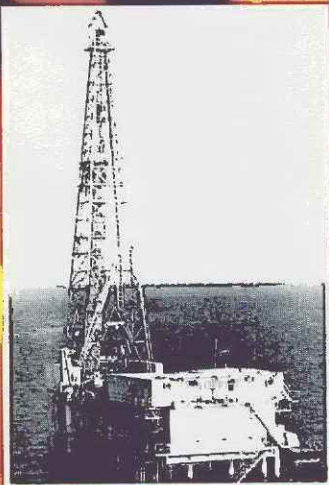
The coverage is only available from ISU agents in California and Nevada, but can be purchased by out-of-state firms from ISU agents who hold surplus lines licenses for other states, according to Mr. Chaney.

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Asbestos maker, insurer differ on liability theories

HOT SPRINGS, Va.—Tort law and the U.S. legal system can't handle the flood of claims from asbestosis and asbestos-related diseases, two liability experts told the Federation of Insurance Counsels here.

"The solution of the problem cannot be found in the courtroom," said William E. Bailey, senior vp and claims counsel for Commercial Union Insurance Co. "There are 70,000 to 80,000 asbestos cases each year and 12,000 to 15,000 of the plaintiffs will die.

"We need legislation that will pull this problem out of the tort system, allow the insurance industry to do its job of writing insurance and still stay in business and provide some form of compensation to people who 30 to 40 years ago had no idea that they'd contract asbestosis," he said.

Dennis Markusson, general counsel for asbestos manufacturer Johns Mansville, agreed that the asbestos and insurance industries need legislation to get them through the asbestos liability crisis, but argued in favor of wide liability for insurers.

Insurers on a firm's risk at the time employees were exposed to asbestos should be responsible for paying claims, Mr. Markusson said. This exposure theory of liability has been widely argued in various court cases involving asbestos and other occupation-related diseases.

"Exposure is the law," Mr. Markusson said. "You don't have to be-

Mr. Bailey disagreed, further interpreting contract law. The first principle of contract law, he said, is that you must take all the terms of a contract and interpret them as an integrated whole. An insurance contract contains a date, a stated premium and a limit to the length of time an insurer assumes a risk.

"The exposure theory," he debated, "is not only legally incorrect, but also violates fundamental concepts of insurance law. It is a disaster for the tort system.

"No matter how much coverage you have, it isn't going to bail you out. And, it is medically wrong. It is not the exposure to the product that causes asbestosis, but the body's inability to develop an immunity to the disease," he said.



William E. Bailey
of Commercial Union

lieve it or like it. It is the law. And as soon as everyone in the insurance industry accepts that, the better off we will be.

"It's time to put aside debate and develop new and innovative ways to handle toxic substance litigation which will proliferate in the 1980s and 1990s."

"The exposure theory does great violence to the basic principles by which we write our business and extend coverage," Mr. Bailey responded. "No insurer today will write an exposure policy. Using the exposure theory, if bodily injury means inhalation of one asbestos fiber, there are millions of current, viable claimants who need only get an attorney."

Mr. Markusson argued that followers of the manifestation theory have to go outside contract language to prove their case. Insurers point to statute of limitations, workers compensation cases and health insurance cases, he said, but he examples all reflect social or statutory policy that does not exist in a contract between insurer and policyholder.

"I also know that the Insurance Service Office in analyzing the current comprehensive general liability policy stated that 'if injury results from cumulative exposures over a period of time, it will be covered by all policies providing coverage during periods of exposure.' How much more clearly can you state it?" Mr. Markusson asked.

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Left to right: Fil Cooper and Foy Watson, Vice Presidents; Don Wilkinson, (CLU), Regional Manager, Knoxville; John Aggen, Regional Manager, Chicago; Tom Tucker, Regional Manager, Atlanta; Bob Anderson, Regional Manager, Cincinnati.

This is Provident's Group Field Advisory Council. This council is made up of senior, highly qualified field managers with over 50 years of combined experience. The council meets regularly with Provident's home office management in a no-holds-barred give and take session.

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Provident's council is a source of new ideas and innovations. This regular flow of new ideas helps insure Provident's leadership role in the group insurance field. Provident is proud of its Group Field Advisory Council and the important role it plays in helping us do a better job for you.

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GROUP DEPARTMENT

Robert Vairo elected president of USIG

Robert J. Vairo has been elected president and Frederick H. Jarvis has been elected chairman of U.S. Insurance Group of Morristown, New Jersey.



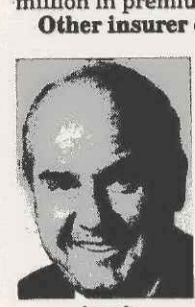
Vairo

Mr. Vairo replaces Mr. Jarvis as president. Mr. Vairo joined USIG in 1975 as vp of underwriting and was promoted to senior vp in 1976.

Mr. Jarvis succeeds Crum & Forster Chairman B.P. Russell, who continues to serve on the USIG board and executive and finance committees. Mr. Jarvis continues as USIG's CEO. USIG is a Crum & Forster orga-

comings & goings: industry

nization that wrote more than \$900 million in premiums in 1980.



Jarvis

of Continental's Kansas City, Mo., office. **Malcolm H. Leggett** appointed

Other insurer changes:
The Continental Insurance Cos. appointed **Thomas C. Dilatush** assistant vp and director of organization planning in the property/casualty division. **William C. Nail** appointed branch manager

senior vp of CU Special Risks, the Commercial Union Insurance Cos. division that handles large and unique commercial accounts, including international risks.

Harvey J. Hurd appointed resident vp of INA Underwriters Insurance Co. and its subsidiary, Pacific Employers Insurance Co. Mr. Hurd was also named general manager of the new INA office in Houston. **Morgan Davis** also appointed resident vp of INA Underwriters Insurance Co. and its subsidiary, Pacific Employers Insurance Co.

Mario S. Costa Duarte named manager of the AFIA office in Sao Paulo, Brazil.

Reinsurers

Robert Huntley named president of Folksamerica Reinsurance. Mr. Huntley had been vp of underwriting for Folksamerica.

Commercial Union Reinsurance Co. has named **Paul Walther** senior vp of assumed reinsurance operations.

Robert G. Morgan named regional marine manager for North American Reinsurance Corp. at North American's Houston office.

Robb Peglar named vp of John F. Sullivan Co.'s New York office. **Michael D. Elliott** named vp at Sullivan's Seattle headquarters. John F. Sullivan is a reinsurance intermediary.

Scott L. Warman appointed casualty facultative manager of the Buffalo Reinsurance Co.'s Chicago

branch office.

RFC Intermediaries Inc. has announced the following staff changes: **Neil F. Lauzon** named vp and facultative manager in New York; **Gloria M. Sas- turaim-Kessler** named assistant vp in the Los Angeles head quarters; **Lonna A. Bienick** named assistant



Lauzon

vp in the Chicago office; **George K. Barnes** named assistant vp in the New York office; and **Ronald J. Smith** named assistant vp in the Hartford, Conn., office. RFC is a wholly owned subsidiary of The Continental Corp.

Other suppliers

Thomas E. Crowley Jr. joined Michigan Claim Service Inc. as senior general adjuster.

Mario Caldarone appointed divisional manager of group benefits at the central division of Meidinger Inc., an employee benefits consulting firm in Louisville, Ky. **Judi Ryce** named manager of corporate communications in the marketing department at Meidinger Inc.

R. Patrick Donnelly named vp of RKC & Co., a consulting/broking firm in San Francisco and San Diego, Calif.

Agents/brokers

ISU Companies Inc. announced four promotions: **Peter B. Hawes** named executive vp, chief executive officer and a member of the board of directors of ISU Companies Inc.; **John P. Lowe** named vp of sales; **F. George Gillman** named vp, controller and treasurer; and **William Primozie** named general counsel.



Hawes

Mary Ann Little named vp of Emmett & Chandler of Northern California in San Francisco.

Jan W. Passmore promoted to CEO of Corroon & Black-Sanders & Sullivan, a subsidiary of C&B in San Jose, Calif.

Fred S. James & Co. Inc. announced two promotions: **John P. Olsen** appointed director of risk management for the metropolitan New York region; **Frank D. Riehle** named head of the National Boiler and Machinery Division of Fred S. James.

David D. Batlett and **Ross E. Watson** named vps of Fred S. James & Co. of California in Irvine.

H.N. "Si" Seiwert named vp/marine at Roanoke International Insurance Agency in San Francisco.

Louis O. Gys appointed to the national Risk Mangement Services Group at Rollins Burdick Hunter of Missouri Inc. in St. Louis.

John Meinke has been promoted to manager of the risk management department at Frank B. Hall & Co. of Missouri in St. Louis.

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Excess/surplus

Peter T. Conlon appointed executive vp of The Underwriters Inc. a managing general agency in Morristown, N.J.

Competition may hike health costs: Insurer

By DONALD E. L. JOHNSON

Large corporations' health benefit administrative costs could rise more than health care costs would be reduced under a price-competitive health care system, Lawrence B. Huston Jr., assistant vp of Aetna Life & Casualty Co. told a meeting at the American Hospital Assn.'s annual convention in Philadelphia. And small companies, he warned, could drop health benefits altogether rather than comply with new federal regulations.

The Reagan administration, however, is moving to address the concerns that corporate employers and the American Medical Assn. have about introducing price competition and an accompanying set of new federal regulations to the health care delivery system.

Dr. Robert B. Helms, deputy assistant secretary for planning in the Department of Health and Human Services, told another group of hospital and health care consultants that the department is attempting to write a bill that will use incentives instead of regulations to promote price competition among health insurers and among physicians and hospitals.

Dr. Helms is staffing an HHS task force set up by Secretary Richard S. Schweiker to draft the department's proposed legislation. Mr. Schweiker was scheduled to receive the task force report last week.

His recommendations will be reviewed by David Stockman, director of the Office of Management and Budget, before they are submitted to President Reagan.

The administration's legislation, which is likely to focus on reforming the Medicare reimbursement system rather than revamping the entire health care delivery system, is expected to receive serious congressional attention early next year.

Under pro-competition legislation already before Congress, most employers would be required to offer their employees a variety of high- and low-cost health care benefits from more than one federally qualified insurer.

This means an insurer would have to market its plans to clients' employees in competition with other insurers instead of capturing a company's entire workforce by closing one sale to an employee benefits manager.

"In the view of insurers," Mr. Huston declared, "multiple choice (among health care benefit plans and providers) is not needed to encourage competition among carriers. Such competition continues to be fierce among approximately 400 insurers, 70 Blue Cross plans, 224 HMOs and a variety of other insured and uninsured arrangements."

Unions also oppose the multiple choice provisions of pro-competition bills before Congress, but they are making an even bigger issue of the politically explosive parts of the bills that would make costly health benefits plans partially non-tax deductible for employers and partially taxable for employees.

Obviously aware of that opposition, Mr. Huston asserted that "a national medical tax cap discrimi-

nates in favor of those who live in high medical cost areas. Regionalizing this tax cap would tend to minimize this discrimination, but it would increase the complexity of administration."

Also, he said, "A tax cap may not change consumer behavior, but it would be an important potential source of federal revenues. A tax cap would be inconsistent with the political climate, which calls for lower taxes."

Early this month, the White House, which apparently had not been fully briefed on the various bills and the economic theories behind them, said it would do nothing to raise taxes by taxing health care benefits. The White House spokesman was responding to a front page story in The Washington Post that ran under a headline saying the ad-

ministration wants to tax health insurance benefits.

Since then, however, reports that President Reagan may have to increase some taxes to balance the budget by 1984 have undermined that White House statement.

Dr. Helms told a meeting in Philadelphia sponsored by the American Assn. of Hospital Planners that tax subsidies of health care benefits will total \$28 billion in fiscal 1983.

This will include \$21 billion in tax-exempt employer-paid health insurance premiums and employers' tax deductions for those expenses, up from \$14.5 billion in 1980, he said. In 1983, workers would pay another \$7 billion in Social Security taxes if currently tax-exempt health insurance premiums became taxable, he predicted.

Virtually all of the pro-competi-

tion bills "would dramatically change the way we do business," Mr. Huston conceded. Indicating he was speaking for the Health Insurance Assn. of America, he said, "We're also concerned about legislation designed to increase competition among third-party payers, unless such competition is accompanied by the removal of barriers to free and open competition among all private health insurers."

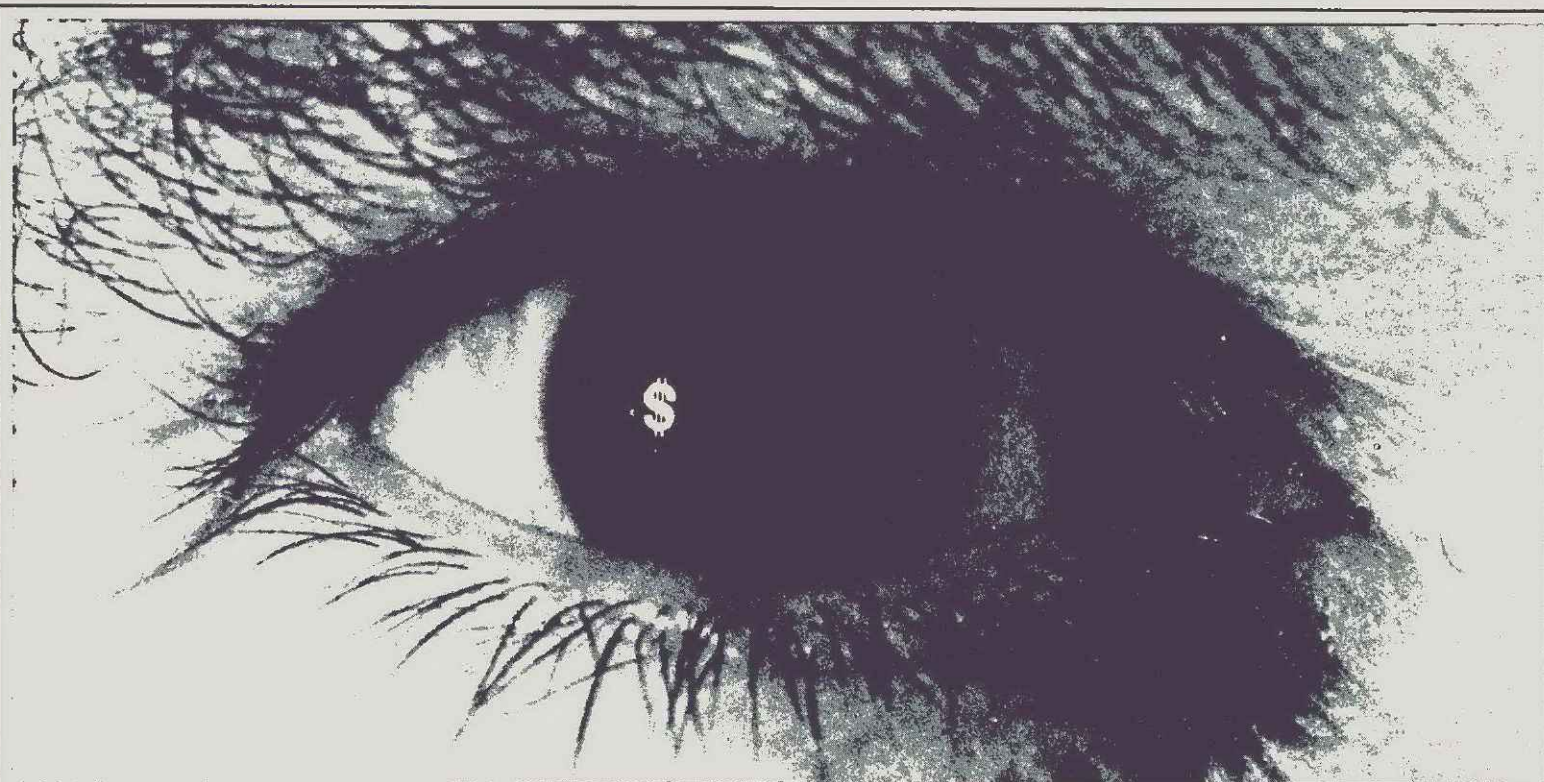
"These payers include self-payers, self-insurers, Blue Cross, HMOs and employer and union uninsured plans. These barriers to competition could be removed by requiring that charges be equitable to all private sector employers, by eliminating inequitable patient differences among payers and by equitable regulation of all payers."

Besides appealing to employee

benefits managers' fears that pro-competition legislation would bring new regulations that would make their lives more complex and communicating employee health benefits more difficult, Mr. Huston touched on some of concerns of the hospital administrators in his audience.

If some companies withdraw health benefits, for instance, Mr. Huston warned, hospitals' bad debts will rise. He touched on the fear among some teaching hospitals that their services are too costly to be price competitive and predicted that inner-city hospitals would be at a disadvantage unless some new way could be found to reimburse them for indigent care.

Donald E. L. Johnson is editor of Modern Healthcare.



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Safety certification testing dates set

The Board of Certified Safety Professionals will hold its professional designation examinations on May 22 and Oct. 16, 1982. Deadline for applications are Jan. 15 and June 1.

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McBride takes post with school district

L.A. "Mick" McBride has been appointed coordinator of risk management for Unified School District 259 in Wichita, Kan. He will be responsible for all purchasing of property/casualty insurance, administration of a self-funded group health program, risk identification and analysis and loss-prevention and safety programs administration. Mr. McBride has a bachelor of business administration degree from the University of Iowa and a master of business administration degree from Mankato State University. He was previously a commercial lines underwriter with the Great American Insurance Co.

Monsanto Co. in St. Louis, Mo., has made three changes in its risk management department. **David A. Stryker**, formerly liability insurance manager, has been appointed insurance manager. He will become more involved with the expansion of the company's subsidiary insurance companies. Mr. Stryker holds a law degree and a bachelor's degree in business administration with a concentration in insurance, both from the University of Iowa. He has held a variety of risk management positions since joining Monsanto in 1976. Monsanto has also appointed **Geor-**

comings & goings: buyers

Gene F. Grimm liability insurance manager. She is currently property insurance supervisor. Mrs. Grimm holds an bachelor's degree from Washington University in St. Louis and had considerable insurance experience before joining Monsanto in 1977. **Glenn E. Hogan** has been appointed property insurance manager. Mr. Hogan joined Monsanto Aug. 17. He was awarded a bachelor of science degree from Washington University and a master's in business administration from St. Louis University. Mr. Hogan has extensive property insurance experience, most recently with the insurance brokerage firm of Corroon & Black. All three will report to Robert E. Toth, director of risk management.

We'd like to report on staff changes in your risk management or employee benefits department. Just drop a note to **Stephen Tarnoff**, Associate Editor, *Business Insurance*, 740 N. Rush St., Chicago, Ill. 60611 or call 312-649-5482.

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INSURANCE SERVICES GUIDE:

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turn to page 76

More letters

Continued from page 8

may allow a corporation to get out from under its unfunded pension liabilities for 30% of its net assets, but Title I gives any plan participant, beneficiary or retiree a cause of action to recover lost benefits from irresponsible fiduciaries.

In this case, AlloyTek has taken care of current and future employees by establishing a new plan, but without knowing more, I am wondering what is going to happen to retirees who are currently receiving benefits from the plan that is being terminated. Specific breaches of fiduciary duties that may have occurred in this case include, but are not limited to, the following:

- Failure to discharge duties in respect to the plan solely in the interest of the participants and beneficiaries for the exclusive purpose of providing benefits for participants and their beneficiaries.
- Failure to discharge duties with respect to a plan solely in the interest of the participants and beneficiaries in accordance with documents and instruments governing the plan.
- Dealing with the assets of the plan in his own interest or for his own account.
- In his individual or any other capacity (for example, corporate executive or corporate stockholder), act in any transaction involving the plan on behalf of a party (the corporation) whose interests are adverse to the interest of the plan or the interest of its participants or beneficiaries.

Because I think AlloyTek's actions are so egregious, I am forwarding a copy of this letter to both the Department of Labor and the PBGC for their consideration.

Finally, AlloyTek and its legal counsel may be interested in a case decided on April 16, 1980, by the U.S. District Court for the Southern District of New York, in which the court held that an employer may be liable to his former employees for benefits due under a terminated pension plan, even when

the employer has met his obligations to the PBGC under Section 4062 of ERISA.

Charles A. Pillsbury
Attorney
New Haven, Conn.

Workers comp analysis faulty

To the editor: We find deficiencies in the analysis made by Robert Willar in his comments on California workers compensation dividends (*BI* July 13).

Mr. Willar is reported as saying that an insurer's dividend paying record is important and that the numbers are sensitive enough to show significant differences in payouts between insurers consistently in the top and bottom halves of the chart.

Such statements are unfair to some of the insurers in his analysis and portray a lack of full understanding of policyholder returns.

Western Employers presents a case to illustrate the erroneous assumptions. From Mr. Willar's analysis and statements, one could assume that Western Employers' performance to policyholders was poor and likely to continue poor since it has been consistently in the bottom half of the group.

Any analysis based solely upon dividend returns made by California workers compensation insurers is faulty because dividends are not the sole form of premium returns to policyholders. Another significant return is that generated by contractually guaranteed retrospective premium calculations made eight months after policy expirations.

Not all insurers write the same proportionate share of retrospectively rated programs. Some of the insurers listed write few if any such programs that guarantee the policyholder the return. Retrospective returns significantly affect the amount of dividend return. Western Employers Insurance Co. is one of the largest writers of retrospectively rated workers compensation

insurance policies in California.

Because of this, any comparisons with other insurance companies on dividend performance are misleading. Western's large retrospective returns to many of its insureds, when added to its dividend returns, result in the dividend potential on those accounts. Mr. Willar ignores this in his analysis as well as other circumstances that distort an insurer's performance. Based upon total policyholder returns, Western Employers will rank among the top 10 companies in premium return performance.

Distortions can also occur if the time period over which the analysis is made is not sufficient to allow the effects of poor loss reserving to be fairly reflected in the analysis. A three-year period is not sufficient to allow for the maturation of such practices.

We urge policyholders to do several things in selecting insurers:

- Review the quality of services offered, particularly claim services that can affect the most significant portion of the premium.
- Examine total returns to policyholders and particularly the percentage of accounts written on guaranteed retrospective plans rather than the uncertain promise of a dividend.
- Review dividend payouts over a long-enough period, generally five years, to eliminate any distortions caused by over or under reserving.

Even with this, it is difficult to make a totally fair analysis since some companies segregate their participating policies into a separate company.

Dividends or the promise thereof are too complex to be used as a sound method of evaluating insurers. The most effective method is for the buyer to carefully analyze the quality of services rendered by insurers that it is considering. Quality services will reduce the premium through the experience modifier and, when combined with the contractually guaranteed return of a retrospective program and a superimposed dividend plan, the buyer reaps better long-term results than through a purchase based upon a simplistic, perhaps, naive, dividend analysis.

Allon J. Greene
Vp of special risks
Western Employers Insurance
Santa Ana, Calif.

Ownership can be a crucial factor

To the editor: Several statements by T. Joe Byrd in the July 13 issue concerning Broad Form Property Damage coverage deserve further comment.

Mr. Byrd indicated "the courts have generally held that property constructed on premises not owned by the insured shall be considered owned by the insured until the construction is accepted by the owner. The BFPD endorsement excludes damage to property owned, occupied or rented to the insured."

The question of ownership is crucial in interpreting BFPD coverage. However, this question is generally resolved by reviewing the construction contract. Most construction contracts (for example, American Institute of Architects standard General Conditions, Document A201) call for periodic progress payments to the contractor. Ownership of the work/property covered by these progress payments generally transfers contractually to the building owner at the time of acceptance as evidenced by the progress payment.

Therefore, BFPD coverage often will apply during the course of construction.

Jack P. Gibson, CPCU, ARM
Consultant
RIMCO Risk Management Inc.
Dallas

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riskWatch

MET sharks return, and government should start fishing

By JERRY GEISEL

WASHINGTON—The sharks are circling again, attracted by the scent of fresh blood in the troubled health insurance waters.

Tens of thousands of small employers and individuals, buffeted by soaring health insurance costs, are being lured again into financial arrangements known as self-funded multiple employer trusts.

The METs promise comprehensive health insurance coverage at a reasonable cost. But that is a promise that hasn't always been kept. The collapses of the Northwest Assn. of Independent Businesses in Boise, Idaho, and the American Federation for Labor & Business Employer Benefit Trust in Texas are only the most recent examples of METs that have filed for bankruptcy (BI, Sept. 7).

METs usually are organized by third-party administrators with marketing backgrounds. An army of agents recruit new members who often are individuals working at firms that don't offer group health insurance plans or small employers who say they can't afford to buy health insurance from insurers. The administrators are supposed to set rates, collect premiums, establish sound reserves and pay out claims.

MET promoters say the trusts are a way individuals and small employers can obtain health insurance at affordable prices. State regulators, though, say the METs are nothing more than unauthorized insurers and have moved to shut them down.



Geisel

This isn't the first time time that controversy over METs has erupted.

The problem began in 1976 when the Illinois Department of Insurance ordered Old Republic Life Insurance Co., a major insurer of METs, to get out of the multiple employer trust business because of financial problems.

Some of Old Republic's former METs reorganized themselves as self-funded plans, while new self-funded METs sprang up about that time.

The self-funded METs filed with the federal government as employee benefit plans and argued that the Employee Retirement Income Security Act pre-empted state regulation of them.

The Labor Department, however, didn't set standards for the METs and failed to clarify their status for regulation. The METs in some cases filed suit to block state regulation, creating a regulatory void.

In this void, the sharks grew bold and attacked. They were among those who set up dozens of METs around the country governed by neither federal nor state regulation. As many as 2 million people may have been enrolled in METs during their peak in 1977, according to one MET promoter.

But tragedy soon struck. With some METs paying as much as 85% of first-year premiums for agent commissions, little money was left to pay claims.

The collapse of Welfare Assn. Trust and the National Multiple Employers Foundation in California in 1977 alone left thousands of people stuck with as much as \$7 million in unpaid health insurance claims.

State and federal regulators, though, won court victories that enabled them to shut down METs. And MET operators, uncomfortable in the glare of publicity, began to pull out of the field in late 1977 and 1978.

But the MET sharks are back, according to state regulators. With health insurance costs soaring again, individuals and small employers make easy targets for promoters promising high coverage at a low cost.

What makes this latest round of MET problems so discouraging is that some of the hustlers who skimmed MET premiums in the late 1970s are back setting up new METs, according to state insurance regulators.

"We go after one guy, and he simply hops to the next state," one state official complained.

To prevent a new national health insurance scandal, more state and federal action is needed.

Labor Department officials have to issue MET rulings faster and publicize their decisions.

For example, the Labor Department didn't rule that Northwest Assn. was not an employee benefit plan until October 1980—three years after the MET was established.

State legislatures will have to appropriate more money to beef up state insurance departments. Regulators in 21 states told the General Accounting Office in 1979 that they lacked sufficient staff to ensure consumer protection from insurance fraud. There is no evidence that the situation is better today.

Operators of legitimate self-funded METs—those that are controlled by employer-participants—have nothing to fear from tougher regulation.

Everyone has an interest in getting the MET sharks out of insurance waters. If more METs collapse, public confidence in private health insurance is bound to decrease and result in a renewed call for national health insurance—an uncomfortable prospect for benefit managers, agents and insurers who favor the current private system.

RIMS to offer finance course in 2 locations

NEW YORK—The Risk & Insurance Management Society will offer its 2½-day "Techniques of Finance and Accounting" course in St. Louis and Houston during the fall.

The course is designed to familiarize risk managers with financing techniques that have become important parts of their duties. It attempts to teach finance techniques to individuals with little or no accounting background.

The first day of the seminar concentrates on basic principles of accounting and corporate finance. The remainder of the seminar will be spent applying the accounting and corporate finance techniques to risk management situations.

Insurance cash-flow implications and design and analysis of captive insurance companies will also be discussed.

The course will be held in St. Louis on Oct. 14-16 and in Houston on Dec. 9-11.

The fee for RIMS members is \$295, and \$175 for each additional participant from the same company. The fee for non-members is \$395.

For more information contact Rebecca Zimm, RIMS, 205 E. 42nd St., New York, N.Y. 10017; 212-286-9292.

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Group-owned insurer on firm footing

HAMILTON, Bermuda—In its third year of operation, the group-owned casualty insurer Corporate Insurance & Reinsurance Co. Ltd. more than doubled its net income on a seven-fold increase in premiums from 1978.

CIRCL's just released annual report for 1980 shows continued financial growth of the company and details the underwriting methods of the pioneer group-owned reinsurance company.

The 14 owner-participants in CIRCL in 1980 generated \$35 million in earned premiums under the primary casualty insurance program and \$7.5 million in earned premiums under the first excess casualty program, producing net income for CIRCL of \$451,779.

The 67% increase in net income

includes increases in net earned premiums, commissions earned on premiums ceded and investment income, which more than compensated for a decrease in profits earned on business written.

Earned profit participation fell to \$612,669 from \$1.6 million because CIRCL and its participants paid their first loss in 1980: a \$1.75 million product liability loss by 3M Co.

Administrative expenses increased in 1980 to \$642,996 from \$431,560 in 1979 due to greater activity, more staff, new offices and inflation, the annual report says.

Shareholders' equity increased to \$3.9 million from \$3.5 million. Some \$2.4 million was available to pay policyholders' dividends.

CIRCL was formed in 1977 by eight companies to provide up to \$5

million of excess liability insurance for its members by pooling and redistributing the risks of the members' captive insurance companies. A primary casualty program, similarly structured, was developed in 1978 (see charts).

The annual report details how the casualty programs function.

The excess casualty program provides coverage for umbrella, first-layer excess and buffer-layer coverages for general liability, auto liability and workers compensation over a minimum primary layer or self-retention of \$250,000. Rates are set by the lead underwriter, chosen by the participant. The lead underwriter must assume at least 10% of each risk.

CIRCL then retains 10% of each risk and reinsures 90% to the participants' captives in proportion to their premiums. The 3% commission to CIRCL for administering the treaty increased to 4% in 1981.

CIRCL holds the reinsurers' premiums and loss-reserve funds with investment income earned credited to reinsurers. The profit participation plan provides dividends to insureds with favorable experience.

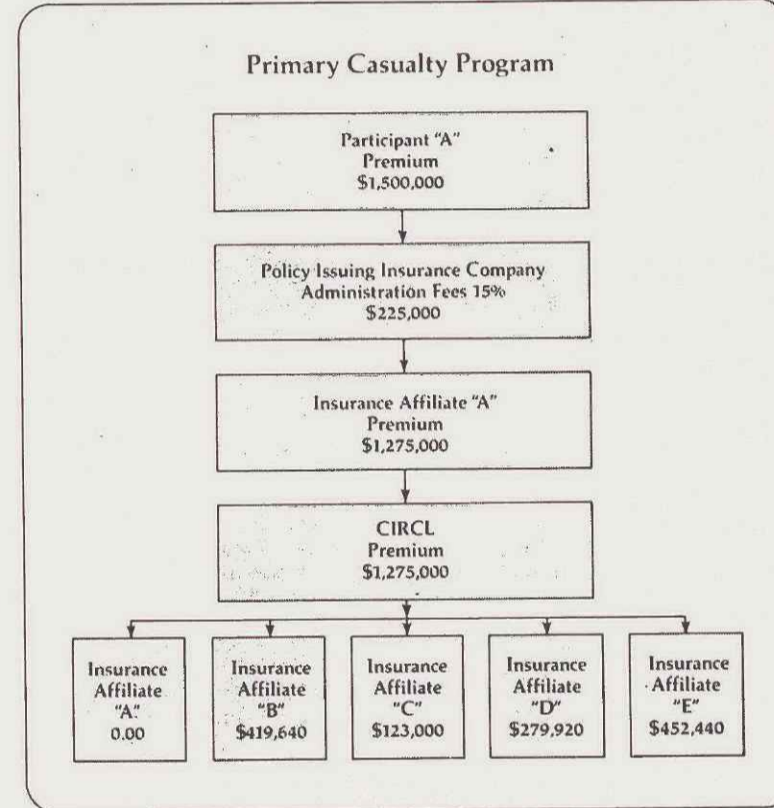
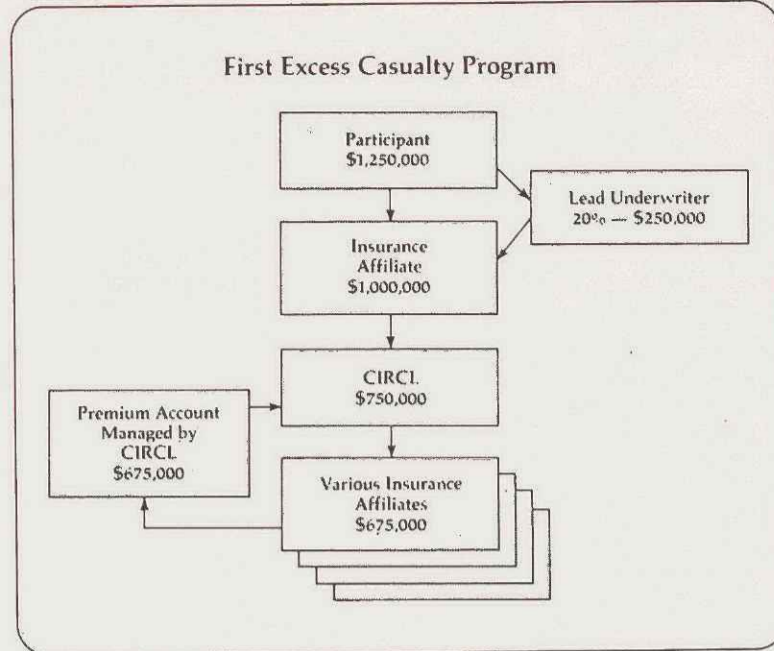
The profit participation provision requires reinsurers to pay CIRCL 80% of gross underwriting profit after allowing the reinsurers 4% of earned premiums for profit and expenses.

Initially, 75% of the market premium is charged to the participant, with the remaining 25% due if losses exceed the initial premium. Although re-rated annually, the maximum premium increase for adverse loss experience is 100% of expiring premium.

The primary casualty program, designed to cover primary and low excess casualty losses that are frequent, offers limits up to \$1 million per occurrence with an annual aggregate of 250% of the standard premium. A standard premium of 110% of expected losses is payable monthly and subject to a retrospective premium adjustment with a 175% maximum and 50% minimum.

CIRCL reinsures 100% of the risk to the captive insurance company participants with no participant reinsuring its own risk. The captives' shares of premiums and losses are proportionate to the premiums in the program. CIRCL earns a 0.75% commission on the premiums.

CIRCL's third year of operation was one of consolidation, said Duane Allen, a CIRCL director and assistant treasurer of Hanna Mining Co. Loss-reserving practices



Source: CIRCL Annual Report 1980

and the profit participation agreement were finalized.

CIRCL also assured its auditors of its loss-reserving practices, again securing a clean audit in 1980. The 1979 clean audit had been hard-fought because auditors questioned the loss statistics upon which reserves for incurred but not reported losses were based.

Despite competition from commercial insurers, CIRCL lost only one policy to competition, an excess workers compensation policy.

CIRCL terminated in 1980 any coverage for black lung risks under its primary casualty program, not retaining any of these risks. The \$4.8 million in premiums earned for this coverage were paid to former policyholders after deducting paid losses and expenses of \$52,526.

The elimination of this premium volume required a further adjustment in the primary program, which resulted in a decrease in net premium to \$35 million from \$40.9 million in 1979.

However, CIRCL is studying a present-value primary casualty insurance program to handle claims payable in installments over long periods of time, like black lung, and a property insurance program.

CIRCL's participation agreement provides for a maximum of 25 participants. The 14 current participants of CIRCL—12 of whom are using the excess casualty program and six of whom are using the primary program in 1981—include the offshore insurance affiliates of The

Hanna Mining Co., International Harvester Co., Ideal Mutual Insurance Co., Charter Oil Co., 3M Co., Archer Daniels Midland Co., National Steel Corp., Owens-Illinois Inc., Allegheny International Inc., The General Tire & Rubber Co., Alco Standard Corp., Wheelabrator-Fry Inc., Sybron Co. and A.O. Smith Corp.

Participation in CIRCL is open to companies that meet the standards set by CIRCL and the approval of 75% of its directors. The standards for participation are:

- A net equity of the parent company of at least \$200 million.
- Financial capabilities consistent with current participants.
- Ownership of a financially qualified insurance company with a minimum net worth of \$500,000.
- Purchase of 200,000 CIRCL shares priced at current book value (about \$280,000 at the end of 1980).
- Execution of the CIRCL participation agreement.
- Placement of insurance in one of CIRCL's insurance programs in accordance with underwriting guidelines.

The structure for another group-owned captive for smaller companies has been designed but won't be activated until 1982.

Free copies of the CIRCL annual report are available by writing Richard S. Thompson, President, CIRCL, Box 2002, Hamilton, 5, Bermuda.

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Pollution coverage rules may be scrapped

Continued from page 1
waste division. But he adds this provision becomes a moot point if the agency drops the financial responsibility requirement.

"I would expect that if the agency has a liability requirement, they would have a self-insurance provision as well," Mr. Garland said.

Should the EPA move to scuttle the requirement, it will first have to make a proposal, provide a comment period of 60 days and then review the comments before making a final decision.

The OMB, which recently reviewed the regulations, played a major role in these latest developments, according to one source.

After its review, the OMB "shot back" the questions on third-party liability mentioned by Mr. Field and it had the effect of a cold shower, said Leslie Cheek, vp of federal affairs for the Crum & Forster group.

Based on his conversations with EPA officials, Mr. Cheek said, the agency's top officials thought they should "stay in tune" with the Reagan administration's philosophy of keeping the federal government minimally involved in matters that may be handled by the states.

He also suggested that top EPA officials may have made a "tactical retreat," dropping the financial responsibility requirement for the time being.

"My impression is that they have in effect made that decision," he said. "They won't say so flatly, but that's my impression."

These developments present TSDf risk managers with "another confusing delay in putting together their programs," said Lynne Miller, president of Risk Science International, a Frank B. Hall & Co. Inc. consulting subsidiary in Washington.

The financial responsibility requirements already have been delayed for almost a year, and Mr. Garland at the EPA expects that the October and January deadlines will have to be pushed back.

Both Ms. Miller and Mr. Cheek maintain that the marketability of pollution liability insurance will not be affected by any EPA decision.

Liability exposures for TSDf's still exist, Ms. Miller said, and the "need for insurance is clearly there."

Mr. Cheek is confident that there will still be a healthy demand for this company's product, since "responsible facility operators" are aware of their exposures and will want coverage with or without a financial responsibility requirement.

Those facilities that can't meet insurance underwriting standards probably won't be able to meet the EPA's licensing criteria under the Resource Conservation and Recovery Act, he said.

The issue of financial responsibility standards will surface again, this time under the Comprehensive Environmental Responsibility, Compensation and Liability Act, better known as the Superfund.

Under this legislation, the EPA is required—not simply authorized as under RCRA—to establish standards that are "consistent with the degree of risk associated with production, transportation, storage and disposal of hazardous substances."

These standards must be set no later than Dec. 11, 1985, Mr. Cheek said. The EPA also must start licensing hazardous waste sites under RCRA. He suggested that the agency hopes most of the poorer sites will be closed down in several years, leaving only the well-managed sites once the standards are fully operational.

The requirements will not go into effect until December 1988, he

said, and then must be phased in over another three-year period.

"The full impact of the Superfund will not be felt until 1991," Mr. Cheek said.

Reaction to the EPA's decision is varied, with sources saying they are in favor of eliminating the financial responsibility requirement.

The AIA, Mr. Kimble said, did not actively lobby against the RCRA requirement but has strongly opposed such regulations elsewhere when the issue has surfaced in federal legislation.

His organization believes that the "whole concept is flawed" since insurance companies are placed in the position of punishing "bad operators" by denying them insurance coverage, he said.

"It did come as a surprise to us that there was a potential for eli-

minating this requirement in RCRA," Mr. Kimble said. "I have to say that we're pleased."

However, the Institute of Chemical Waste Management is "very much opposed" to the EPA's decision, said its director, Dr. Reva Rubenstein, adding that the public will be "shortchanged" if the requirement is eliminated since it needs to know that companies can meet liability claims.

Dropping the requirements also makes the establishment of new hazardous waste sites all the more difficult, she says. Financial responsibility through insurance is one important way of "cooling public fear" about new sites.

The Assn. of State & Territorial Solid Waste Management Officials agrees that elimination of financial

responsibility requirements will lower public trust.

This standard would support the states in their enforcement activities, said Director Norman H. Nosencheck, without which the private insurance market "will dry up."

Mr. Nosencheck pointed to the considerable problems that states have in opening new facilities and says that without a financial responsibility requirement new sites might be "impossible" to find.

He also disagrees with the Reagan administration's philosophy of non-involvement in this particular matter, saying that hazardous waste management is one area where uniform federal requirements are necessary.

Rep. John J. LaFalce, D-N.Y., whose congressional district in-

cludes the Love Canal waste site, cites that catastrophe as a strong argument in favor of financial responsibility requirements.

In a letter to EPA Administrator Anne Gorsuch, Rep. LaFalce says, "The crisis at the Love Canal has demonstrated the need to not only ensure that hazardous wastes are handled in an environmentally sound manner, but also that the public be protected from the financial losses that will result from so-called sudden and non-sudden occurrences."

"Protection of the public, its health, neighborhoods and livelihoods requires that hazardous waste operations carry sufficient liability insurance," he wrote. "The imposition of federally mandated minimum standards is required to achieve this objective."

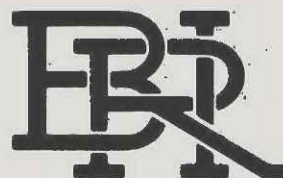
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Goodrich starts Vermont captive rolling

Continued from page 1

"I was always looking for a way to integrate U.S. property insurance to utilize a captive effectively," said Mr. Traver.

He had pulled domestic property risks out of the company's Bermuda captive in 1979 because he found self-funding and purchasing excess insurance more economical than insuring them with Risktech Insurance Ltd. (BI, April 30, 1979).

Now, however, the freedom from rate and form regulation provided in the United States only under Vermont's captive law, signed last April, offers Goodrich the opportunity to combine traditional property risks and associated lines into one master policy. Previously, insurers have refused to include these associated property risks with traditional property

risks, not wanting to move some risks from traditional forms.

These associated property lines, which will be insured under one master policy with the company's fire, lightning, extended coverage and all-risk form, include boiler and machinery, river and ocean cargo, auto physical damage, miscellaneous floaters, crime, fidelity and surety.

The new domestic captive and master domestic property policy expand upon the innovations instituted by Mr. Traver in 1979 under which Goodrich retained 90% to 95% of all expected property and casualty losses for an aggregate annual retention of more than \$10 million.

At that time, Mr. Traver convinced foreign and domestic insurers to underwrite excess property insurance on a Goodrich-developed property insurance rating formula based on Goodrich's past loss experience. Industrial Risk Insurers, which had been on the Goodrich account since the late 1800s, was among the excess insurers on the property risks. It probably will be involved in the new arrangement under which the insurers and reinsurers will cede various amounts of risk under the different portions of the worldwide property program to the two captives—domestic to First Charter in Vermont and foreign to Risktech in Bermuda.

With the new property program, including the master policy for domestic property and associated risks and the new captive, Goodrich is lining up higher limits, better terms and conditions and expects "significant savings," he said.

The company's expected domestic and foreign liability losses remain self-funded to a large retention under excess insurance.

Pending the completion of negotiations with insurers, Mr. Traver limited further details about the new property program to saying that the captives will accept risks on a quota-share reinsurance basis from insurers. The Vermont captive's premium volume will exceed \$5 million on its share of risk for

Goodrich's domestic property valued in excess of \$5 billion.

Goodrich will maintain a "modest deductible" to pay frequent losses. Regardless of whether a captive is involved or not, a company should pay its frequent losses without tapping the insurance mechanism, Mr. Traver said.

The Vermont captive, however, will participate to its strength on a large portion of expected losses

Critical to selecting Vermont for Goodrich was the freedom from rate and form regulation allowing the creation of the master policy and no restrictions on the investment practices of a wholly owned subsidiary, said Mr. Traver. With no investment restrictions, Goodrich could use the captive's surplus for internal purposes. The investment portfolio will probably be internally directed and managed.

● Edith Lichota, vp of government affairs for Insurance Co. of North America, representing reinsurance interests.

● Warren Brockmeier, director of risk management services for The Wyatt Co., representing financial concerns.

● Jerry Curtis, senior vp at Alexander & Alexander Services Inc., representing a national insurance broker.

● Gregory Leonard, an actuary with Tillinghast, Nelson & Warren Inc., representing actuaries.

● Howard Weber, director of insurance for 3M Co. in St. Paul, Minn., representing corporate insurance buyers.

● Fred Hackett of Hackett, Valine & MacDonald in Burlington, Vt., representing Vermont brokers.

● H. Lincoln Miller, president of Vermont Insurance Management Inc., a company formed to manage Vermont captives.

The advisory committee's comments and the Insurance Department's analysis of the proposal will determine whether a captive is licensed. Afterwards, the captive is required to be audited annually and secure an actuarial opinion on its reserves, Mr. Chaffee noted, as part of the annual financial statement.

Since Gov. Snelling signed Vermont's captive law, the state has received numerous inquiries by phone and letter about the law, Mr. Chaffee said. Two or three calls a day come into the Insurance Department about the captive law, he said, acknowledging that there is no way to gauge how many of the callers are prospective captives.

One other captive, an industrial insured, has applied for a license, but the application is not complete. So far five entities from a nearby Northeastern state are involved and are hoping for twice as many before beginning operation, Mr. Chaffee said.

When the captive bill was pending before the Legislature, Mr. Chaffee predicted that the state could have 100 captives within the next five years. ■

'I was always looking for a way to integrate U.S. property insurance to utilize a captive effectively,' Goodrich's Spencer Traver says.

under the various segments of the domestic program.

Goodrich was attracted to Vermont because it wanted a domestic domicile for a captive used to reinsure domestic risks. A company needs the tax advantage of an offshore captive only when the captive is underwriting foreign risks, can become a decontrolled foreign corporation or offset excess foreign tax credits, he said.

Vermont was more attractive for the domestic property captive than the other states with captive laws—Colorado, Tennessee and Virginia—because reinsurance can be assumed from any source, the parent company need not show that the coverage to be provided by the captive is unavailable in the commercial insurance market, there are no investment restrictions on the captive and only a financial statement must be filed annually, Mr. Traver said.

Less important to Goodrich, but more liberal than other state captive laws, Vermont does not require any minimum premium volume and has the lowest capitalization requirement: \$250,000.

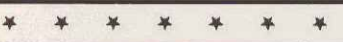
Goodrich intends to use First Charter solely for Goodrich risks.

Insurance Commissioner Chaffee said Vermont includes these freedoms in its captive law because "we look to the parent company to offer control. Goodrich wouldn't want a failing subsidiary. I think a strong parent can be an effective regulator."

The Vermont law, however, does apply the National Assn. of Insurance Commissioners' investment controls on association captives where the size and control of the many owners may not be as effective, Mr. Chaffee noted. Industrial insureds, a unique category under Vermont's captive law, which are essentially risk retention pools as described in the proposed federal Risk Retention Act, also are free from the investment restrictions because of other controls on the membership and management of the company, Mr. Chaffee added.

Mr. Traver of Goodrich commented that he also appreciated Vermont's system of submitting captive applications to a seven-person committee to comment upon before licensing.

Goodrich's proposal was the first to be reviewed by the committee appointed by Mr. Chaffee and serving gratis. The committee members include:



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AIG fights for franchisees' market

Continued from page 1

ager, Jerry Lane, when informed by a Business Insurance reporter of the AIG advertising message. "Everyone is so hungry for business—everyone wants McDonald's."

The AIG maneuver erupts yet another conflict in the year-old battle for the insurance business of McDonald's franchisees with 4,000 restaurants. The franchisees will spend an estimated \$35 million on property/casualty insurance over the next year: \$18 million to \$20 million for the multi-peril policies covering property and liability risks and \$15 million for workers compensation insurance.

The franchisees, free to purchase their insurance from anyone who can meet McDonald's broad specifications, had traditionally purchased their coverage under the corporate-endorsed program. From 1976 to 1980 it had been brokered by Frank B. Hall & Co. and underwritten by AIG, with about 90% of the franchisees participating.

Hall began the marketing war last August when McDonald's brought in Marsh & McLennan to broker the franchisees' insurance, ending a long-term relationship with Hall (BI, Aug. 4, Dec. 1, 1980).

Determined to keep some of the franchisees' business, Hall lined up Fireman's Fund as a market to compete with M&M, which was renewing the multi-peril policies with AIG.

The M&M-Hall brokerage battle,

which lured other brokers with more markets into the fray, splintered the once-cohesive program.

Ultimately, M&M/AIG and Hall/Fireman's Fund each won about 40% of the multi-peril policy business and 20% went to other markets, including St. Paul Cos. through Financial Guardian and Commercial Union through another broker.

The program could now be further splintered with AIG offering to underwrite franchisees' multi-peril policies on "first-come/first-serve basis" for any broker.

"We're a market without a broker," AIG Risk Management President Joseph Smetana told BI.

McDonald's is switching insurers on the multi-peril package policy for franchisees because "AIG was not competitive," Mr. Lane said. He denied as "untrue" Mr. Smetana's estimation that INA undercut AIG's quote on the whole program by about \$4 million.

AIG was "willing to renew at what we considered a marginal underwriting loss," Mr. Smetana said.

He declined to reveal AIG's quote on the total program, but the potential premium for all the franchisees is believed to be \$18 million to \$20 million under the expiring and new programs.

Mr. Lane characterized as "absolutely false" speculation that McDonald's moved the corporate-endorsed package policy program to INA for better-price to undercut

all other markets and reunite the franchisees in one program.

Besides some price reduction, INA offered "safety services, better administrative control and better claims reserve monitoring," he said.

He expects to bring more McDonald's franchisees back into the corporate-endorsed program.

McDonald's 1,400 corporate-owned restaurants also will be insured with the franchised restaurants in the INA program.

"It is very disturbing to see our profession act like this," Mr. Lane said in response to the AIG advertisement. The AIG fight for the McDonald's business is symbolic of today's rampant competition for premium dollars, he added.

Mr. Smetana of AIG defended AIG's marketing effort for the McDonald's business as demonstrating that "we are in the business for the long pull. We served McDonald's well in the past and if we can preserve some of that account, it's good for us and the operators. We will be here in 1982 and 1983 and some of these other markets may not. We want to demonstrate we are a stable market."

AIG will pitch market stability to the McDonald's franchisees, but Mr. Smetana admits AIG doesn't expect to retain much of the business this year, predicting many of the franchisees will buy the lower-priced policies offered by INA.

"But we have a unique rating

plan that experience rates the operators. Those with good loss experience will be competitively priced, those with bad loss experience will not," Mr. Smetana said.

Mr. Lane at McDonald's said rating under the new program with INA is modified from the AIG plan, but still includes experience rating for the franchisees.

Yet to be decided is the underwriter for the workers compensation program for the franchisees, which also has been AIG, said Mr. Lane. The workers compensation program, estimated at \$15 million in premiums, renews Feb. 1.

In the 1980-1981 brokerage battle for McDonald's franchisee business, the workers compensation programs generally went to the same broker/underwriter team that had snared the multi-peril policy business in October. An exception occurred on the business brokered by Financial Guardian, which placed the multi-peril policies with The St. Paul Cos. last October but the workers compensation with The Great American Insurance Co., BI learned.

It appears the Financial Guardian-controlled McDonald's franchisees will place their multi-peril policies with The Great American this Oct. 1 under the fast-food marketing agreement between Great American and Financial Guardian. Executives at Financial Guardian, however, could not be reached for confirmation. ■

Debt-ridden Texas MET files for bankruptcy

Continued from page 3
practices. Excluding these exemplary claims, which amount to many millions of dollars, claims in excess of \$2 million are anticipated." He said he is aware of \$2.5 million in unpaid claims.

After three years of operation, AFLB's assets, according to court papers, total \$54,000.

"That wouldn't go far toward paying them," Mr. Garrett says. "I am advising claimants that they charge this off and treat any return as a Christmas present."

AFLB purchased excess insurance from Lloyd's that covered 80% of claims after the trust paid its \$25,000 per claim, Mr. Garrett said. "Negotiations with Lloyd's are anticipated."

However, most of the claims, which range from \$100 to \$40,000, fall under the \$25,000 self-funded retention.

"I am investigating the possibility of a suit against Lloyd's; however, its responsibility seems limited to claims exceeding \$25,000 each and the policy is written on terms favorable to Lloyd's," Mr. Garrett wrote in a letter to David Chavez, insurance manager of Van Doren Rubber Co. Inc. of Anaheim, Calif., who purchased group insurance through the trust.

As of July 6, Van Doren Rubber had outstanding claims of \$27,958 for 16 employees.

The trust agreement provides for an assessment against employers if there is a shortage of funds to pay employees' claims, Mr. Garrett says. "But since many of them (the employers) have Mom-and-Pop operations and employ only themselves, this might not be practical. How many of them would want to assess payments against themselves?"

AFLB officers and staff included Bruce Schulte, marketing director; Bruce Robinson, trust coordinator; and Donald P. Arquit, trustee.

"Bruce Schulte was apparently responsible in whole or in part for formation of the trust," Mr. Garrett said. "He had a similar organization in California called the National Business Conference." The NBC filed for bankruptcy in 1979 in U.S. District Court in Portland, Ore.

Mr. Schulte, who is now working in Anaheim, Calif., for Trust Management Group, said his joining AFLB "wasn't a situation of one (trust) going broke, then going in another direction. There was much more to the program than that."

Mr. Schulte declined to confirm in an interview that Trust Management Group was a multiple employer trust, but an employee later told a *Business Insurance* reporter that the group was indeed a MET.

Mr. Schulte told *Business Insurance* that he had known Mr. Arquit, the AFLB trustee, for many years. "Later, when we had problems with ours (National Business Conference trust), we were able to take some of our people and place them with (AFLB) coverage. Some were taken over with a no-gain basis."

In his report to the bankruptcy court, Mr. Garrett says he investigated the acts, conduct, assets, liabilities and financial condition of AFLB.

"Based on my investigation, it is my opinion that there is substantial evidence of fraud and dishonesty in connection with the debtor's affairs," the report states. "There is also substantial evidence of mismanagement and of breach of fiduciary duties prior to commencement of this case."

"Commissions and administrative expenses took quite a bit more of the contributions than were paid out in claims," Mr. Garrett told

Business Insurance. "With hindsight it is easy to see the trust would go broke."

In AFLB's early stages, commissions paid to agents, Mr. Schulte and others ranged from 50% to 54% of employer premiums, Mr. Garrett said. "They were cut back from time to time. At the end, I can't say exactly how much they were."

During the 15 months before it filed for bankruptcy, the trust collected about \$4.7 million in premiums, Mr. Garrett said. AFLB account books show \$2.4 million was paid out in claims, \$1.2 million in commissions and \$1.1 million in administrative expenses, according to Mr. Garrett. Based on those figures, commissions the last 15 months were about 25% of premiums.

Mr. Schulte said it is "absolutely untrue" that commissions ever

equaled 50% to 54% of premiums. "This (the commissions) was changed many times by an actuarial firm. In the finalization, we were paid in the 20s (percent)."

At the beginning, rates for the health benefits apparently were competitively low, but were raised when it was discovered they were not sufficient to support the benefits being paid, Mr. Garrett said. He could not estimate what individual employers were paying for coverage, and Mr. Schulte would not comment on them.

The collapse of AFLB is at least the second MET to face financial problems this year. The Northwest Assn. of Independent Businesses in Boise, Idaho, filed a petition for bankruptcy July 21. A hearing for creditors is set this week in U.S. Bankruptcy Court in Boise (*BI*,

Sept. 7).

State regulators fear more METs may collapse this year because of increasing health care costs. In the past, many METs often had insufficient reserves and excess insurance, they point out.

MET problems began in 1976 when the Illinois Department of Insurance ordered Old Republic Insurance Co., then a major insurer of METs, to get out of the multiple employer trust business.

Some of Old Republic's METs reorganized themselves as self-funded plans and other self-funded METs sprang up.

The METs then filed with the federal government as employee benefit plans under ERISA. The MET operators said ERISA preempted state regulation of them. In

this regulatory void, several METs went broke leaving thousands of people, often the self-employed or employees of small firms, with millions of dollars in unpaid medical and hospital bills.

Federal and state regulators began to take action. In Kansas and Arizona, for example, courts ruled that two METs in their states were not employee benefit plans.

And in mid-1979, the Labor Department began issuing advisory opinion letters saying that more than 30 METs were not employee benefit plans. Those letters helped state regulators trying to close some METs.

Now regulators see an increase in the number of METs again as health care costs rise and small employers look for health care coverage they can afford.

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39.	SEP 28	Sep 16
40.	OCT 5	Sep 23
41. INTERNATIONAL INSURANCE	OCT 12	Sep 29
42.	OCT 19	Oct 7
43.	OCT 26	Oct 14
44. REINSURANCE	NOV 2	Oct 20
45.	NOV 9	Oct 28
46.	NOV 16	Nov 4
47. CANADA MARKET REPORT	NOV 23	Nov 11
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Government, Associations, Unions, Educational Institutions 952

Commercial Consumers Sub-total

22,034

Insurance Agents & Brokers 9,486

Insurance Cos. 4,486

Financial Institutions 292

Actuaries, Attorneys, Adjusters, Appraisers & Consultants 2,135

Others allied to the field 752

TOTAL

39,185

*Source: Business/Occupational breakdown of qualified circulation, May 4, 1981 issue, as submitted to BPA for June 1981, BPA Publisher's Statement.

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State may abolish comp

Continued from page 2
premiums from the private insurer, while SWIF is hit with long-term benefit payments. Under the shared risk plan, an employer's bad loss experience would be evident to insurers who could then increase premiums.

The state government accounts for about 40% of SWIF's membership, but the remaining policyholders fall into the high-risk category, such as coal mine operators or steel foundries.

A financial audit of the state fund by Peat, Marwick, Mitchell & Co. found that although it is operating adequately now, the fund is under-reserved by about \$130 million.

It wasn't only the financial condition of the state fund that brought the committee to conclude it should be abolished, Mr. Hockman said.

SWIF, which is overseen by the state Department of Labor and Industry, has had a history of weak, inexperienced managers who were political appointees, Mr. Hockman said.

Unlike most workers compensa-

tion insurers, the state fund has no safety, loss prevention or rehabilitation departments to offer its insureds and to help keep its claims costs down, he said.

The position of chief legal counsel has been vacant for about two years and half of the attorney positions remain unfilled, the study found. As a result, employers are not properly represented by legal counsel at hearings and unnecessary losses are incurred by SWIF, the committee found.

SWIF does not have an actuary or an actuarial department, either, to prepare loss-reserving practices, committee members found.

But the reason SWIF is understaffed, said its acting manager, William Scheuer, is because the personnel division within the state Labor Department hasn't allocated the necessary funds for adequate staffing.

The report's examples of the adverse impact of occupational disease claims included:

- Losses of \$14.6 million over a four-year period when a steel foundry, previously insured with a private insurance company, switched its coverage to SWIF and

paid only \$4.9 million in premiums.

- Some \$6.9 million in losses over a three-year period when a self-insured coal mine operator secured a SWIF policy for total premiums of \$1.9 million—and then closed two mines.

The risks involved in attempting to restructure SWIF are so great that the committee believes it has no alternative but to recommend abandoning SWIF and adopting an alternative solution for handling residual market risks for workers compensation insurance, the report says.

Two of the committee members, state Sen. William Lincoln and Harry Block, secretary of the state AFL-CIO, wrote minority opinions for the study, recommending the exclusion of private insurers from the workers compensation system and the enlargement of SWIF into a state government-operated monopoly.

John T. J. Kelly Jr., deputy secretary of industry whose job it is to oversee the state fund, said he would have no comment on the report until the governor has reviewed it.

Two policies cover salvaged safe

Continued from page 2
venture involved and to film a documentary on the ill-fated Italian luxury liner that sank off the U.S. eastern seaboard 25 years ago after colliding with the Swedish liner Stockholm.

But the Doria Project still purchased a \$2 million named-peril property policy on the safe from Royal Insurance Co.

The New York Zoological Society, the parent organization of the New York Aquarium where the safe was delivered Sept. 3, also purchased a \$1 million all-risk property policy from National Union

Fire Insurance Co. of Pittsburgh, an American International Group subsidiary.

Now, however, zoological society Controller John Hoare is considering dropping the society's coverage if the insurance would duplicate the Doria Project policy.

Richard J. Decker, assistant manager of Royal Insurance's New York marine office, also is wondering why the zoological society took out a property policy.

However, he pointed out that the Royal named-peril policy covering the transit, damage, loss and non-delivery of the safe would not cover any damage to the safe by New York Zoological Society negligence that could alter or damage the contents of the safe.

The safe is being kept in salt water to prevent rusting and the disintegration of any paper currency that might be in it from contact with air.

Kenneth C. Krings, vp of the marine division of Roanoke International, the New York-based brokerage that placed the coverage for Doria Project, said insurers were eager to cover the risk on the safe.

This was, Mr. Krings says, because of the publicity. "Everyone wanted a piece of the action."

And it is a safe risk, says Mr. Decker. "There wasn't much exposure," he said. "During delivery, the security was a fully armed police force. The Doria Project had its own security force and there was so much media attention, anyone try-

ing to steal the safe would have been on television."

It's hard to determine the value of the contents of the safe, but it has been estimated as high as \$3 million.

The U.S. Customs Department, which will assess a value and levy duties on the contents, has required a \$2 million customs bond.

St. Paul Fire & Marine Insurance Co. is providing the customs bond, which guarantees payment of duties to the Customs Department.

William C. Gustafson, under-supervisor of St. Paul's customs bond division, said the bond is more than adequate because he doesn't think there is much in the safe.

"The ship didn't sink immediately," he said. "I think any passenger with anything of value wouldn't have left it in the safe."

Insurers around the world probably hope Mr. Gustafson's assumption is wrong.

Under insurance law, any insurer who paid a claim on missing personal property, like jewelry, that went down with the ship would now own any valuables found in the safe that it could show it insured.

"No owner (of the safe) can sell somebody else's property," said John Jackson, senior manager of the Salvage Assn., a London organization that represents shipowners and underwriters in assessing shipwrecks. "For example, the underwriter who paid the loss on a necklace (lost in the Andrea Doria accident) is entitled to the necklace. That is the law of insurance."

Who has claim to any uncovered goods could be confusing. First, people of many nationalities were on the ship and probably insured their goods with insurers in their own country, involving insurers from around the world, Mr. Jackson said.

Others have pointed out that it might be difficult for the insurers to determine now exactly what pieces of jewelry they insured if the jewels are intact.

Lloyd's of London is not sure yet if it has claim to any uncovered valuables. "The contents are individually insured," said a Lloyd's spokesman. "Whether we have that insurance, nobody really knows. It could be anywhere."

"Somebody's going to have to wait until the safe's opened," he said.

Judges to use nine criteria

The judges will use nine criteria to select the 1982 *Business Insurance* Risk Manager of the Year and Risk Manager Honor Roll.

The judges will score each candidate on how well he or she:

- Established and implemented an effective risk management program within the organization.
- Tackled and solved one or more major problems for his or her organization.
- Innovatively applied the diverse tools of risk management and insurance.
- Creatively and effectively used insurance markets.
- Established a workable intelligence system inside and outside the organization, culminating in access to a flow of information about events and activities that affect the organization's risk management and insurance.
- Skillfully applied management principles in the overall organization and within the risk management/insurance department.
- Achieved the most effective program at the optimum cost over the long term.
- Developed technical expertise in any or all of the broad categories included within risk management (insurance, safety, law, industrial hygiene, claims control/administration, underwriting, communications, information systems, etc.) leading to a better managerial grasp of the operations aspects of the job.
- Exhibited an attitude and performed activities fostering the advancement of the risk management profession.

10 industry leaders to judge BI contest

Continued from page 3

- Joseph P. DeAlessandro, president of National Union Fire Insurance Co. of Pittsburgh, Pa., in New York, representing a major stock insurance company.

- Bud Griffin, president of Warren, McVeigh & Griffin in Newport Beach, Calif., representing the risk management consulting profession.

- Baylor Landrum, president of Nahm, Turner, Vaughan & Landrum Inc. in Louisville, Ky., representing the regional insurance brokerage fraternity.

- Robert I. Mehr, professor of finance at the University of Illinois and author of risk management texts, representing insurance and risk management educators.

- John P. Olsson, vp of finance of Austin Industries Inc. in Dallas, representing corporate financial officers.

- William Ryan, insurance and risk manager for the University of Michigan in Ann Arbor, named to the 1981 *Business Insurance* Risk Manager Honor Roll representing not-for-profit institutions. He will represent risk managers.

- George R. West, chairman and president of Allendale Mutual Insurance Co. in Johnston, R.I., representing mutual insurers.

Mr. DeAlessandro, Mr. Griffin and Mr. West were judges of the 1981 competition. The other seven judges are new to the panel this year.

The panel, whose members are leaders in their professions, represents the varied disciplines that are involved in risk management and brings a breadth of perspective to the judging of the contest nominations.

These 10 judges will review the nominations submitted and score each nominee against nine criteria established to measure a risk manager's skill and effectiveness (see box).

The risk manager with the highest aggregate score will be named the 1982 *Business Insurance* Risk Manager of the Year.

The nominations will then be segregated by type of employer: corporations with more than \$300 million in sales and 1,000 employees; corporations with less than \$300 million in sales and fewer than 1,000 employees; government entities; and not-for-profit institutions. The highest-scoring risk manager in each of the three categories not represented by the Risk Manager of the Year will be named to the 1982 Risk Manager Honor

Roll.

The Risk Manager Honor Roll was added to the competition in 1981 to ensure that risk managers from all types of organizations are recognized for their outstanding performance.

Business Insurance instituted the Risk Manager of the Year competition in 1978, on its 10th anniversary of publishing, to increase recognition of the risk management profession and to single out outstanding performance of risk management.

Besides the 1981 winners, who are on the panel of judges for the 1982 competition, previous winners of the Risk Manager of the Year competition were:

- Howard T. Weber, director of insurance for 3M Co. in St. Paul, Minn., in 1978.

- Edward L. Erickson, director of insurance for American Broadcasting Cos. in New York, in 1979.

- Thomas V. Hallett, then director of risk management for General Motors Corp. in Detroit, in 1980. Mr. Hallett is now vp and director of risk management for Frank B. Hall & Co. in Briarcliff Manor, N.Y.

Anyone responsible for the risk management function in an organization is eligible for nomination, regardless of title and whether the position is a full-time or part-time endeavor.

Individuals nominated in previous years are eligible again this year, but the nomination must be updated and resubmitted.

Nominations may be submitted by anyone familiar with the risk management program of the nominee—coworkers or superiors, insurance company representatives, brokers or consultants.

The nomination must include a resume and job history of the candidate, documentation addressing each of the nine criteria for judging risk management professionalism, a letter of endorsement of the candidate by a corporate executive overseeing the risk management function and a nomination statement written by the sponsor of the nominee.

All nominations are kept confidential. The winners will be announced in the April 19 issue of *Business Insurance*.

The deadline for submitting nominations is Dec. 7. To obtain the nominating form and complete instructions, write Risk Manager of the Year Competition, *Business Insurance*, 740 N. Rush St., Chicago, Ill. 60611.

CORRECTION

Dates in a recent ad for One Day Briefings on the Economic Tax Recovery Act—for corporate benefit plans—were incorrect.

Correct dates are:

September 22—New York
September 23—Chicago
September 24—Los Angeles

Contact the International Foundation of Employee Benefit Plans, 18700, W. Bluemound Road, P.O. Box 69, Brookfield, WI 53005, (414 786-6700), for registration information.

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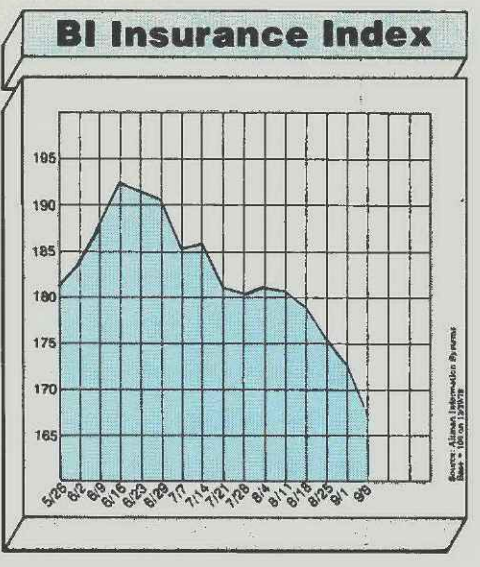
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Major brokers' productivity keeps their profits steady

By LEONARD M. WILSON
Special to Business Insurance

BI ticker



Insurance stocks plummeted for the fifth consecutive week as the *Business Insurance* stock index fell 6 points to 167.2 from 173.2. Only five issues managed to post a gain, 54 declined and 14 remained unchanged. The stocks that suffered the greatest loss were: E.H. Crump Cos. Inc., 21.6%; Optimum Holding Corp., 21.3%; Washington National Corp., 15.0%; Integrated Resources Inc., 12.6%; and Banks Iowa Inc., 10.3%. The five stocks that gained were: Pinehurst Corp., 7.7%; Great West Life Assurance Co., 3.3%; Frank B. Hall & Co. Inc., 2.6%; Hartford Steam Boiler Inspection Co., 1.2%; and USF&G Co., 0.6%. The 3.5% decline in the *BI* index was not as severe as that of the major market indicators.

PRODUCTIVITY HAS become a national worry. There seems to be a virtual consensus that the United States is losing its competitive position due to laggard capital spending and sluggish productivity.

Studies on the subject indicate that service industries, in particular, have hindered gains in productivity. That is not surprising since most service businesses are people-intensive and often lack the cost-accounting rigor of manufacturing firms.

The national insurance brokers are notable exceptions in the service sector, though. Far from being laggards, they appear to be productivity leaders. Indeed, rising employee productivity has been a pivotal factor in sustaining profits for the public brokers during this cycle of no-holds-barred price competition.



Wilson

There are different ways to gauge a broker's employee productivity. One way is through a physical measure like counting transactions. A simpler and easily available measure, commissions per employee, has served the purpose in analyzing the major U.S. public insurance brokerage firms.

Unfortunately, this yardstick can be misleading if premiums, and, therefore, commissions, are fluctuating. Commissions per employee overstate advances in productivity during periods of tight markets and increasing rates and, correspondingly, understate improvement when markets are soft and rates are falling.

Since 1978, price-cutting has lopped an estimated 25% to 30% from a typical broker's renewal commissions. A book of business

that generated commissions of \$1 million in 1978 may well produce only \$700,000 to \$750,000 during 1981, excluding new coverages and new business.

Meanwhile, general price inflation has amounted to perhaps 30% over the same time span. A 25% drop in commissions coupled with a possible 30% rise in costs is distressing arithmetic.

Even for an enterprise accustomed to profit margins before taxes of 25% to 30%, swings of that magnitude are potentially devastating.

What has actually happened to the profitability of the public brokers? Profit margins before taxes should be about 19% on average for the group in 1981 compared with 27.5% in 1978. That's painful but not disastrous. Rising investment income helped. Excluding investment income, 1981 profit margins before taxes should average 11% against 23.5% in 1978. Parenthetically, Marsh & McLennan and Alexander & Alexander have been the most successful in stemming the erosion of margins.

That brings us back to the subject of productivity. For the public brokers taken as a group, commissions per employee averaged about \$47,000 in 1978, excluding investment income and estimated billings of major foreign subsidiaries. Rollins Burdick Hunter posted the highest figure and Alexander & Alexander the lowest.

In 1981, average commissions per employee should reach \$53,000 to \$54,000, with the major public brokers ranging from \$50,000 to \$58,000. Based on these figures, the public brokers will achieve a productivity rise of 15% during the three-year period.

But, as we observed earlier, commissions per employee understate productivity gains when premium rates and commissions are under pressure. Therefore, to get a truer indication of what has happened to productivity, it is very important to eliminate the deflation in commissions due to the lower premium rates.

Adjusting for rate reductions, productivity per employee has advanced an estimated 40%

since 1978. While that figure reflects some assumptions about components of revenue other than property/casualty policies, it is, we believe, valid. A productivity gain of about 13% per year explains the ability of the public brokers to remain relatively profitable in the face of an excruciating price-cost squeeze.

Several factors explain this good performance. The rapid expansion of brokerage staffs between 1975 and 1978 likely created unused capacity that allowed a slowing of staff expansion subsequent to 1978. The more sophisticated use of computers has undoubtedly played a vital role as well. Finally, brokerage employees are probably working more effectively.

We also suspect that production, risk management services, specialty products and data processing account for much of the staff expansion since 1978. Staff directly involved in servicing accounts may have increased less than aggregate head-count numbers suggest.

Improved productivity has not been accomplished at the expense of the client. All signs point to unremitting efforts to maintain the quality of service. Indeed, streamlining procedures and costs could lead to more effective client service by eliminating unproductive effort.

The public brokers' cost-awareness has likely been raised permanently. This has quite positive implications for a recovery in profit margins over the next few years, even though the brokers' productivity gains may slacken.

In most manufacturing businesses, cost reduction is a central competitive strategy. It could become an integral strategy for the public brokers as well. Competitive position in the future may be a function of productivity as well as new business production.

British Issues

9/8 Companies	Price	P/E	Div. pence	Yield %	1 Week High—Low
Comm Union	162	10.8	16.07	9.9	167—162
Eagle Star	303	10.1	21.43	7.1	310—303
Genl Accident	368	8.5	21.07	5.7	396—368
Gdn Royal Exch	340	8.8	23.21	6.8	356—338
Phoenix	296	9.7	22.43	7.6	312—294
Royal	400	10.2	35.00	8.7	410—400
Sun Alliance	992	9.9	53.57	5.4	1050—992

Brokers	Price	P/E	Div. pence	Yield %	1 Week High—Low
CE Heath	298	11.7	15.00	5.0	310—298
Hogg Robinson	112	9.0	8.57	7.6	115—111
Alex Howden	141	9.1	10.00	7.1	144—139
JH Minet	138	12.5	6.50	4.7	140—138
Sedg Grp	152	12.4	7.14	4.7	154—151
Stenhouse Hldg	99	9.1	6.64	6.7	102—98
Stew Wrightson	231	12.1	17.14	7.4	237—227
Willis Faber	395	13.6	17.14	4.3	395—390

Source: Philip Olsen/Alan Clifton, Insurance Industry Specialists Kitcat & Aitken Stockbrokers, London

Leonard M. Wilson, a senior analyst at First Manhattan Co. Inc. in New York, specializes in insurance brokerage stocks. He is a member of the New York Society of Security Analysts.

Financial Briefs Washington National

Washington National Corp. has declared a regular quarterly dividend of 27 cents per share of common stock and 62.5 cents per share on its convertible preferred stock, payable Oct. 1 to shareholders of record on Sept. 14.

The common stock dividend is the first under the company's automatic dividend reinvestment plan.

That program permits shareholders to receive newly issued shares of Washington National common stock instead of cash for their dividends. The purchase price of such shares will be discounted 5% from the market price on the dividend payment date.

Safety Mutual

Safety Mutual Casualty Corp., a reinsurance company headquartered in Richmond Heights, Mo., reported lower underwriting results in the first half of 1981, but it recorded solid gains in surplus and assets.

Gross underwritings for the first half of 1981 dropped to \$11.7 million from \$14.1 million in the first six months of 1980. Net underwriting declined slightly to \$5.5 million from \$5.7 million last year.

"The slight reduction in net (underwriting) was because we retain more liability and thus more premium dollars," Safety Mutual President B.K. Werner said.

The company's surplus rose 14% to \$7.5 million from \$6.6 million. Assets as of June 30 totaled \$33 million, a 28% jump from the 25.7 million recorded at the same time last year.

Safety Mutual reinsures workers compensation, unemployment compensation and group health coverages. It has recently entered the umbrella market.

BI Industry Stock Report

Insurance Cos.	SEPT. 8, 1981					9/2/81 THRU 9/8/81					Price	% Chg.	P/E	\$ Div.	% Yld.	High	Low	Vol. (000)	
	Price	% Chg.	P/E	\$ Div.	% Yld.	High	Low	Vol. (000)											
Aetna Life & Cas Co	NYSE	35.75	-4.0	6.3	2.32	6.5	37.25	35.75	278.6	Travelers Corp	NYSE	41.25	-1.5	4.8	2.88	7.0	42.50	41.13	127.8
American Bankers Ins Group	OTC	5.63	-2.2	10.6	0.44	7.8	5.88	5.63*	40.7	United Fire & Cas Co	OTC	33.50	-1.5	8.7	1.00	3.0	34.00	33.50	0.4
American Gen Ins Co	NYSE	39.00	-3.7	6.2	2.00	5.1	40.13	39.00	29.7	United States Fid & Gty Co	NYSE	40.00	0.6	5.9	3.20	8.0	40.50	39.88	89.7
American Indty Finl Corp	OTC	13.50	-6.1	5.4	1.12	8.3	14.38	13.50	5.5	United Svcs Life Ins Co	OTC	13.25	0.0	5.4	1.00	7.5	13.63	13.25	15.9
American Intl Group Inc	OTC	56.00	-1.3	10.2	0.40	0.7	57.00	56.00	172.6	USlife Corp	NYSE	21.38	-9.5	5.1	0.76	3.6	23.63	21.38*	163.1
American Natl Ins Co	OTC	12.88	0.0	5.8	0.68	5.3	12.88	12.88	32.1	Washington Natl Corp	NYSE	20.50	-15.0	6.1	1.08	5.3	23.38	20.50	73.2
American Sta Life Ins Co	OTC	19.50	0.0	6.2	0.72	3.7	19.50	19.50	0.3	Zenith Natl Ins Corp	OTC	15.25	-3.2	8.5	0.60	3.9	15.75	15.25	10.2
Aneco Reins Ltd	OTC	2.88	-4.2	0.0	0.00	0.0	3.00	2.88	21.0	INSURANCE COMPANIES	AVERAGE			7.5		4.2			
Appalachian Natl Corp	OTC	2.25	0.0	6.4	0.00	0.0	2.25	2.25	0.1	Agents/Brokers									
Avemco Corp	AMEX	9.00	-4.0	7.4	0.50	5.6	9.38	9.00	3.0	Alexander & Alexander Svcs	OTC	30.00	-2.4	10.4	1.84	6.1	30.75	30.00	48.1
Banks Iowa Inc	OTC	35.00	-10.3	5.6	1.44	4.1	39.50	35.00	1.8	Baldwin & Lyons Inc	OTC	34.25	-0.7	5.8	0.80	2.3	34.50	34.25	1.1
Biteco Corp	OTC	38.50	0.0	5.4	2.16	5.6	39.00	38.50	1.6	Corroon & Black Corp	NYSE	19.13	-6.1	10.1	1.76	9.2	20.00	19.13*	6.8
Carolina Cas Ins Co	OTC	6.75	0.0	4.9	0.32	4.7	6.75	6.75	3.7	Crump E H Cos Inc	OTC	10.00	-21.6	11.2	0.40	4.0	12.38	10.00*	24.4
Central Natl Finl Corp	OTC	12.00	-3.0	3.9	0.65	5.4	13.25*	11.75	6.3	Hall Frank B & Co Inc	NYSE	24.38	-2.6	9.1	1.66	6.8	24.63	23.75	97.2
Chubb Corp	OTC	44.38	-3.5	5.4	2.68	6.0	46.13	44.38	56.9	Integrated Res Inc	AMEX	13.00	-12.6	5.7	0.00	0.0	14.75	13.00*	27.6
Combined Intl Corp	NYSE	19.13	-4.4	5.2	1.60	8.4	20.00	19.00	98.9	James Fred S & Co Inc	NYSE	23.75	-1.6	10.9	1.60	6.7	25.13	23.75	65.6
Connecticut Gen Ins Corp	NYSE	44.75	-8.9	5.9	1.76	3.9	48.75	44.75	120.2	Marsh & McLennan Cos Inc	NYSE	34.00	-5.6	11.3	2.00	5.9	35.00	34.00	154.6
Continental Corp	NYSE	23.75	-3.1	7.5	2.40	10.1	24.25	23.38	77.2	Pennacorp Fincl Inc	NYSE	5.38	-8.5	9.6	1.16	3.0	5.88	5.38*	129.1
Crawford & Co	OTC	15.50	0.0	11.9	0.52	3.4	15.63	15.50	48.0	Poe & Aasoe Inc	OTC	11.25	0.0	9.8	0.80	7.1	11.25	11.25	0.0
Crown Life Ins Co	OTC	102.00	0.0	11.1	2.80	2.7	102.00	102.00	1.2	Reed Stenhouse Cos Ltd	OTC	10.50	-2.3	8.3	0.60	5.7	11.00	10.50*	10.0
Crum & Forster	NYSE	28.88	-7.6	5.1	1.64	5.7	31.00	28.88	208.2	Rollins Burdick Hunter Co	OTC	23.00	-2.1	12.8	1.24	5.4	23.50	23.00*	26.9
Employers Cas Co	OTC	32.00	-3.0	5.3	1.20	3.8	33.50	32.00	3.9	AGENTS/BROKERS	AVERAGE			9.0		5.4			
Equifax Inc	NYSE	23.00	-1.6	5.2	2.40	10.4	23.63	22.88	6.3	Conglomerates/Holding Cos.									
Excelsior Ins Co	OTC	16.50	0.0	17.6	0.70	4.2	16.50	16.50	19.0	American Express(Fireman's Fd)	NYSE	40.13	-6.7	7.3	2.00	5.0	42.88	40.13	891.3
Farmers Group Inc	OTC	25.63	-4.2	7.9	1.12	4.4	26.63	25.63*	324.7	Anderson Clayton(Ranger/Pantak)	NYSE	23.13	-2.6	5.7	1.20	5.2	24.00	23.13	25.4
First Colony Life Ins Co	OTC	61.00	0.0	18.6	0.80	1.3	61.00	60.00	9.6	Araco Inc	NYSE	30.75	-2.4	7.1	1.80	5.9	31.75	30.75	83.0
Foremost Corp Amer	OTC	23.75	-5.9	7.1	0.80	3.4	25.25	23.75	11.0	City Investing Co. (Home Ins.)	NYSE	23.63	-4.5	6.9	1.60	6.8	25.38	23.63	210.5
Great West Life Assurn Co	OTC	252.00	3.3	10.2	10.00	4.0	252.00	249.00	0.0	CNA Finl Corp (CNA)	NYSE	13.75	-2.7	5.4	0.00	0.0	14.13	13.75*	11.6
Hanover Ins Co	OTC	27.25	-1.6	3.7	0.72	2.6	27.88	27.25*	9.4	Control Data (Comml. Credit)	NYSE	66.25	-2.0	7.8	1.00	1.5	68.00	66.25	232.1
Hartford Steam Boiler Insaptn	OTC	42.00	1.2	7.5	2.60	6.2	42.00	42.00	3.9	General Re Corp	NYSE	67.75	-3.0	8.9	1.76	2.6	70.50	67.75	119.8
Jefferson Natl Life Ins Co	OTC	35.50	0.0	28.6	0.64	1.8	35.50	35.50	4.9	Gulf Utld Corp	NYSE	17.00	-5.6	6.2	1.32	7.8	18.13	17.00*	96.5
Kemper Corp	OTC	30.50	-7.2	5.0	1.60	5.2	32.88	30.50	35.2	INA Corp (Ins. Co. of NA)	NYSE	38.50	-3.4	5.4	2.40	6.2	40.63	38.50	128.3
Lincoln Natl Corp Ind	NYSE	36.25	-1.0	5.5	3.00	8.3	37.75	36.25*	100.4	ITT (Hartford Group)	NYSE	25.25	-2.9	4.6	2.60	10.3	26.25	25.25*	628.4
Mgic Inv Corp	NYSE	31.13	-5.0	8.1	1.28	4.1	33.00	31.13	212.6	Optimum Hldg Corp	OTC	9.25	-21.3	11.4	0.00	0.0	11.75	9.25*	14.1
Mission Ins Group Inc	NYSE	36.50	-7.0	6.7	1.00	2.7	38.88	36.50	64.5	Reliance Group Inc	NYSE	85.50	-1.2	9.0	3.00	3.5	86.25	85.50	8.9
Nationwide Corp Ohio	OTC	24.63	0.0	7.6	0.70	2.8	24.63	24.63	1.4	Sears Roebuck & Co. (Allstate)	NYSE	16.50	-1.5	7.7	1.36	8.2	17.00	16.50	911.3
Northwestern Natl Life Ins	OTC	24.63	-3.4	6.0	1.36	5.5	25.50	24.63	15.4	S & H Co. (Bayly Martin & Fay)	NYSE	34.63	-1.4	13.5	1.00	2.9	35.13	34.38	24.4
Ohio Cas Corp	OTC	39.63	-0.3	6.1	2.04	5.1	39.88	39.63	60.8	Teledyne Inc (Argonaut)	NYSE	143.63	-1.7	7.9	0.00	0.0	147.00	143.63	300.6
Old Rep Intl Corp	OTC	14.50	0.0	3.7	0.92	6.3	14.88	14.50	32.8	Transamerica Corp (Occidental)	NYSE	19.63	-8.7	6.2	1.28	6.5	21.75	19.63	322.9
Pinehurst Corp	OTC	7.00	7.7	0.0	0.00	0.0	7.25	7.00	29.5	CONGLOMERATES/HOLDING COS.	AVERAGE			7.5		3.4			
Preferred Risk Life Ins Co	OTC	17.38	-9.2	5.1	0.80	4.6	19.13	17.38	7.9	Record high/low since Jan. 1, 1981.	System design: Altman Information Systems								
Provident Life & Acc Ins Co	OTC	44.00	-1.1	6.1	2.20	5.0	44.50	44.00	12.2										
Ryan Ins Group Inc	OTC	20.50	-4.7	8.6	0.12	0.6	21.75	20.50	3.8										

A down-to-earth view of container shipping



Longshoreman loading a container ship in Staten Island, New York.

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We think a big reason A&A has become one of the largest and most trusted insurance brokers worldwide is that we work the same way with every client. From the client's point of view.

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From the client's point of view.