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update

Pennsylvania supervision of Mutual Fire to continue

HARRISBURG, Pa.—Mutual Fire, Marine & Inland Insurance Co. will remain under some type of state supervision as it continues working on a plan to save itself from liquidation, the Pennsylvania Insurance Department says.

Mutual Fire, Marine was put under 90-day voluntary supervision of the Insurance Department after losses related to a financial

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Tax bill to hike offshore captive costs

By DOUGLAS McLEOD

WASHINGTON—Offshore group captive insurance companies will become more expensive to operate under provisions of the proposed tax reform act, industry observers agree.

However, captive experts are divided over the effect this added expense will have on current and proposed offshore group captives.

Some believe the tax bill will have a "devastating" effect on offshore captives, forcing an exodus of large numbers of the captives to onshore domiciles. And already, a proposed group captive for professional liability exposures has been shelved because of the tax proposal.

Some observers, though, contend that non-tax advantages of offshore domiciles will continue to attract group captive business despite the new tax burden.

Others add that until a final draft—not just a summary—of the bill can be reviewed, it may be premature to make a final judgment about the effect of the provision. A draft of the bill is expected this week.

The tax bill approved last month by a congressional conference committee includes a provision that would make shareholders of many offshore group captives liable for current-year taxes on the captives' income from insuring U.S. risks (*BI*, Aug. 25).

Currently, shareholders that each own less than 10% of an offshore group captive's stock could defer taxes on the captive's income until it was actually paid to the shareholders.

While a summary of the conference committee agreement says that the new group captive provision will not apply to offshore companies whose stock is "publicly and freely traded," sources note that yet another provision in the conference committee's bill could hit even some publicly traded group captives with current-year taxes.

THE NEW TAX BILL

If the tax bill—approved by the conference committee Aug. 16—is enacted by Congress as it is now written, one of the major advantages of forming an offshore group captive would be lost, captive experts say.

"I would think it would have a devastating effect, a very chilling effect, on new offshore companies," said Fred Howard, treasurer and chief tax counsel of Johnson & Higgins in New York.

"What it does is create a negative cash flow for any investor in a group captive, and that serves to further constrict the insurance market at a time when it can not stand any further constriction," said Richard J. Rice, a J&H director in New York.

"It raises some very severe problems for the offshore captive industry," noted H. Felix Kloman, a principal with the Tillinghast division of Towers, Perrin, Forster & Crosby in Darien, Conn.

If enactment of the tax bill is followed by congressional approval of an expanded federal Risk Retention Act, many group captives may see no advantage to remaining offshore, he added.

"I would not be surprised to see 30% to 40% of group captives coming back onshore," Mr. Kloman predicted.

The tax bill already has produced one casualty.

APEX Ltd., a group captive being developed by Marsh & McLennan Cos. Inc. and Morgan Guaranty Trust Co., has been shelved and an organizational meeting scheduled in Bermuda for Sept. 24-25 has been canceled, according to Walter S. Tomenson Jr., an M&M managing director.

APEX was intended to provide professional liability coverage with limits of $50 million excess of $50 million. Its sponsor/policyholders were to include accounting, law, investment banking, insurance brokerage and other professional service firms (*BI*, July 7).

But the captive provision in the tax bill approved the conference committee stopped the insurer's development, Mr. Tomenson said, because many of APEX's largest sponsors were partnerships, and the bill would have made individual partners liable for a share of the captive's current-year taxes.

M&M and Morgan Guaranty are studying alternatives to APEX's current structure that may resolve the tax problem, he said, adding that the captive may be revived later. He declined to describe the alternatives in detail.

But Mr. Tomenson and executives at other brokers report that other group captive projects are going ahead despite the tax bill. While the bill will make these group captives more expensive for their shareholders, it will not kill captives formed purely to fill insurance needs.

"We are still going ahead with captive formations notwithstanding these tax changes, and that's because the insurance crisis is still there," said Alan Page, a J&H vp, adding that offshore domiciles such as Bermuda

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Public entities seek insurance alternatives

By MEG FLETCHER

Public entities across the United States, hit hard by the tight commercial insurance market, are flocking to an expanding range of self-insurance alternatives.

"This whole thing has really taken off," said Murt Munson, a senior vp with Keenan & Associates, a Torrance, Calif.-based company that consults and manages self-insurance pools for school districts.

Some observers estimate public entity pool membership has increased at least 150% in the past year, to about 40,000 entities. In addition, the number of pools has increased 15% to 20% to more than 200 pools nationwide, they estimate (*BI*, July 15, 1985).

"The dramatic increase has been in liability pools," according to Don Jones, special assistant to the executive director of the National League of Cities.

Fourteen of the leagues's 49 state associations have formed liability insurance pools, four of which—pools in Connecticut, New Hampshire, North Carolina and Virginia—were established July 1. Six additional state associations—Georgia, Maine, Massachusetts, New Mexico, South Carolina and Vermont—are actively developing liability insurance pools, Mr. Jones said.

An informal survey of league pools conducted in the spring found that pool membership had often quadrupled and that premium volume increased 194% to $233 million this year from $80 million in 1985, said Bill Martin, president of The Joseph Ivy Co., an Austin, Texas-based consultant.

One broker and public entity pool designer, Arthur J. Gallagher & Co. of Rolling Meadows, Ill., said it has helped form 15 pools since

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Risk managers developing new excess liability facility
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Plaintiffs' attorneys challenge state tort reform measures

By STEPHEN TARNOFF

WASHINGTON—In a counteroffensive to the burgeoning tort reform movement, groups of plaintiffs' attorney in at least 10 states are seeking to overturn recent sweeping changes in state tort laws enacted by legislators.

Legal challenges attacking the laws' constitutionality have taken place or are being planned in Colorado, Connecticut, Florida, Kansas, Maryland, Michigan, New Hampshire, New York, Utah and Washington state, according to Robert Lembo, state legislative counsel for the Assn. of American Trial Lawyers.

In addition, a legal battle is now under way in California over whether Proposition 51, which repeals joint and several liability for non-economic damages, should be applied retroactively. Plaintiffs' attorneys are asking that the courts bar application of the new act in suits filed before June 4, when Proposition 51 took effect (*BI*, Aug. 18).

Challenges of tort reform measures 'could eventually be everywhere where something's enacted,' says Mr. Lembo of the Assn. of American Trial Lawyers.

And challenges may be mounted in other states as well.

"The challenges could eventually be everywhere where something's enacted," Mr. Lembo said.

A *Business Insurance* survey recently found that 34 states have enacted some type of tort reform this year to reduce liability exposures and make insurance more available and affordable for businesses, professionals, governmental entities and non-profit organizations.

In its efforts to overturn at least some of these tort reforms, ATLA has set up a Constitutional Challenge Committee to coordinate with plaintiffs' attorneys in various states to make sure that the best test cases are chosen.

According to the committee's chairman, Jerry R. Palmer of the Topeka, Kan., law firm of Palmer, Marquardt & Snyder, part of the committee's task is to set up a mechanism to assist attorneys in challenging the laws by:

- Giving them information on bringing suits.
- Offering legal research on which statutes to challenge.
- Providing data on relevant court decisions from various states.

The committee also hopes to put together a brief filled with data from studies and other sources that will illustrate how the liability insurance crisis has been manufactured by the insurance industry, Mr. Palmer added.

While in some states, plaintiffs' attorneys are waiting for an appropriate case in which to challenge the laws, some attorney groups are already involved in litigation.

In Florida, the Academy of Florida Trial Lawyers has been allowed to intervene on behalf of the insurance industry in litigation seeking to overturn recent tort reform and insurance regulation legislation enacted by the Florida Legislature in June (*BI*, June 16; July 7).

Tort reforms enacted in Florida include establishing a $450,000 cap on awards for non-economic damages, changing the application of joint and several liability and restricting punitive damages.

The law also freezes most commercial insurance rates, mandates liability insurance premium refunds this year and authorizes that 1987 commercial insurance rates generally be rolled back to 1984 levels.

Although plaintiffs' lawyers are focusing on the tort reform provisions of the law while the insurance industry is focusing on the insurer regulation provi

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update

Mutual supervision extended

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guarantee program it wrote and reinsurance it assumed forced the insurer to stop writing new business and paying claims earlier this year (*BI*, July 28).

While the supervision was scheduled to expire last Thursday, the "Insurance Department will continue to have an order in place, controlling the company's expenditures, transfers of assets and things of that nature," a spokesman for the department said last week.

"We're not certain that it will be a supervisory order, but it will give them another form of further protection of their assets," the spokesman said.

Mutual Fire, Marine has had encouraging response to its plan to eliminate its liabilities by issuing interest-bearing notes to its cedents and to lenders involved in the financial guarantee program, the department said.

Lenders representing around 82% of the outstanding exposure in the financial guarantee program have agreed verbally to participate in the plan and a slightly higher percentage of cedents have indicated their approval, the spokesman said.

"At this point, the department has reason to be optimistic," he added.

Manville warns against meeting

NEW YORK—Manville Corp. believes U.S. Bankruptcy Judge Burton R. Lifland will again rule in its favor by disallowing an annual meeting requested by shareholders.

Judge Lifland previously barred such a meeting, saying it could derail Manville's proposed reorganization plan.

Last week, the 2nd U.S. Circuit Court of Appeals in New York reversed a U.S. District Court's ruling that upheld a decision by Judge Lifland to not allow Manville shareholders to hold an annual meeting.

In a 2-1 decision, the appeals court sent the case back to Judge Lifland for a further study of the facts and to determine whether a shareholder meeting would jeopardize the reorganization plan.

Last week's decision probably will not have any adverse effect on the plan, said G. Earl Parker, Manville's executive vp-law. However, Mr. Parker said he believes that if an annual meeting is held, a proxy fight will ensue that could endanger Manville's reorganization plan.

"Another change in direction in this case would seriously damage the nearly total agreement of the interested parties," Mr. Parker said.

Meanwhile, Manville began sending out ballots last week to more than 100,000 creditors, stockholders and security holders in preparation for a Dec. 15 hearing on the reorganization plan.

Raymark proposes new entity

TRUMBULL, Conn.—Asbestos defendant Raymark Corp. is proposing to form a new holding company named Raytech Corp. in an effort to protect its future business from ongoing asbestos litigation.

The company says Raytech is expected to have access to sources of new capital and borrowed funds currently unavailable to Raymark. Therefore, Raytech should be in a position to acquire new businesses in a corporate structure that should not subject it or acquired businesses to the asbestos-related liabilities faced by Raymark, the company says.

Raymark currently is facing more than 25,000 lawsuits brought by asbestos victims.

Ruling delayed in Florida case

TALLAHASSEE, Fla.—Leon County Circuit Court Judge Charles E. Miner will hear more testimony Wednesday and Thursday in the insurance industry's challenge to the Florida law that enacts new tort reform measures while rolling back commercial property/casualty insurance rates and forcing premium refunds.

The judge is expected to rule later this month on the constitutionality of the law, which was challenged by three major property/casualty insurance trade associations and more than two dozen insurers shortly after the legislation was signed (*BI*, July 7; July 21).

Judge Miner announced his decision to postpone a ruling and hear more testimony after three days of arguments earlier this month from witnesses that included insurance industry representatives and officials of the Florida Insurance Department.

"Basically, (insurers) are contending that the law won't allow a reasonable rate of return and we are contending that it will," says an Insurance Department spokeswoman who was on hand for the hearing.

The Florida law, passed June 7, calls for premiums to be rolled back to 1984 levels, requires premium refunds that amount to 10% of the annual cost of a policy and gives the department more authority to control rates.

In addition, the law includes tort reform measures that put a $450,000 cap on awards for non-economic damages like pain and suffering and make changes in the state's joint and several liability requirements.

While no decision was made on the challenge to the legislation, Judge Miner did postpone two deadlines set by the law.

He ruled that premium refunds under the law do not have to be placed into escrow accounts until Oct. 15. In a July ruling, the judge had said the premiums would have to be placed in escrow on Oct. 1.

In addition, the judge extended to Oct. 15 an Oct. 1 deadline for insurers to file liability rates.

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Risk managers developing new excess liability facility

By MICHAEL BRADFORD

A group of risk managers is attempting to form an excess liability insurance facility that would provide up to $50 million in limits over a minimum of $1 million in underlying coverage.

Developers of the facility, which would be called Corporate America's Risk Exchange, say the insurer will be capitalized by investor/policyholders at $500 million.

After the company is established, the sale of stock to nonfounder policyholders would increase CARE's capitalization to $620 million.

'If the insurance industry is not providing coverage at reasonable costs, risk managers have to develop alternatives,' says Mr. Ryan.

The risk managers, who are working on the project under the banner of Project CARE, have hired the Tillinghast division of Towers, Perrin, Forster & Crosby to handle actuarial and accounting work for the proposed company, while the New York law firm of Baker & McKenzie has been retained to provide legal services.

"Risk managers have to get together and try to restructure and develop the coverages the insurance industry is not providing at adequate prices," said William Ryan, director of risk management at the University of Michigan in Ann Arbor and one of CARE's developers.

The effort to develop the new facility shows that risk managers are "looking out for the best interests of their companies and institutions," Mr. Ryan said.

"We've not seen that concern in the insurance industry.

"If the insurance industry is not providing coverage at reasonable costs, risk managers have to develop alternatives," he added.

Plans call for the company to differ from existing excess liability facilities, such as A.C.E. Insurance Co. Ltd. and Tortuga Casualty Co. Ltd., in a number of ways.

For example, the excess liability insurance written by CARE will attach above as little as $1 million in underlying coverage, far less than other excess liability facilities. A.C.E. requires at least $100 million of underlying insurance, while coverage written by Tortuga attaches above $50 million.

Developers of CARE say the facility may be domiciled in the United States, Bermuda, Barbados or the Cayman Islands. Both A.C.E. and Tortuga are domiciled in Cayman.

CARE should begin writing coverage for its members sometime in the first quarter of 1987, said Timothy B. Sterling, manager of risk and property taxation at Mississippi Chemical Corp. in Yazoo City, Miss.

"It would be difficult to say it will be ready by Jan. 1," he said, "but it's feasible that it will be ready shortly thereafter."

Mr. Sterling said he has received "expressions of interest" from about 400 potential investors whose

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Hijack losses may not trigger Pan Am cover

By ROBERT A. FINLAYSON and STACY SHAPIRO

Losses stemming from the hijacking of Pan American World Airways Flight 73 in Karachi, Pakistan, probably will not exceed Pan Am's aviation insurance deductible, aviation underwriters say.

Claims from the Sept. 5 incident, in which 18 people were killed and scores were wounded, should remain below Pan Am's $10 million deductible, underwriters say, provided the damage to the Boeing 747 aircraft is minimal as has been reported.

New York-based Pan Am, which retained a deductible on its hull and liability coverage starting in July 1984, is believed to be the first airline to accept a deductible in its aviation coverage (*BI*, July 30, 1984).

Pan Am's $500 million in aviation liability coverage includes coverage for war risks. Liability coverage for hijacking and terrorists acts are normally covered under aviation war risk coverage.

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Bhopal litigation moves to Indian courts

By DAVE LENKUS

NEW YORK—As the litigation stemming from the 1984 poison gas leak in Bhopal, India, moves into Indian courts, U.S. plaintiffs' attorneys are continuing their efforts to return the case to the U.S. courts.

Meanwhile, attorneys for defendant Union Carbide Corp. of Danbury, Conn., are appealing a U.S. District Court ruling that limits how they may gather evidence in the case.

The Indian government filed suit against Union Carbide Corp. in a court in Bhopal on Sept. 5 for damages resulting from the December 1984 poison gas leak in that city. In its suit, the Indian government names only Union Carbide and requests unspecified compensatory and punitive damages.

The Union Carbide India Ltd. plant, where the leak occurred, is 50.9%-owned by Union Carbide. The plant also is owned in part by the Indian government and by private Indian citizens.

The Indian government noted in its suit that it will specify the amount of damages it is seeking once it evaluates the claims filed by the more than 500,000 claimants it is representing, according to Bud G. Holman, an attorney with the New York firm of Kelly Drye & Warren, which represents Union Carbide.

The poison gas leak killed 2,000 Bhopal residents, injured thousands more, killed livestock, damaged crops and interrupted business.

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inside

- A proposal now moving through Congress, under which employers cou'd be assessed to help fund health insurance pools for uninsured individuals, should be stripped from the budget bill in which it is contained, this week's editorial notes. **PAGE 8**
- The lack of predictability in U.S. courts is turning the civil justice system into a "lottery," asserts Edward J. Noha, chairman and chief executive officer of CNA Financial Corp. in Chicago. **PAGE 18**
- The risk management movement will demand changes in the insurance distribution system, predicts H. Felix Kloman, principal and vp with Tillinghast/Towers, Perrin, Forster & Crosby in Darien, Conn. In a Speaking Out column, Mr. Kloman warns that if insurance brokers do not respond to these demands for change, someone else will. **PAGE 27**
- Can the claims-made liability form morass be eased with risk management information systems? In RMIS Commentary, David A. Tweedy, a risk management consultant with D.A. Betterley Risk Consultants in Worcester, Mass., points out that the potential of an RMIS in helping risk managers cope with claims-made forms is great, but the software is lacking. **PAGE 29**

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10 to select Risk Manager of Year

Ten distinguished leaders in the commercial property/casualty insurance and risk management professions will judge the nominations for the 1987 *Business Insurance* Risk Manager of the Year and Risk Management Honor Roll awards.

The judges, who recently accepted invitations to serve on the panel, include two previous winners of the Risk Manager of the Year award and the two members of the 1986 Risk Management Honor Roll.

Other judges include representatives of a mutual insurer and a stock insurance company, an academician, a consultant and two brokers.

The judges for this year's competition are:

- Larry C. Ballard, chairman and chief executive officer of Sentry Insurance Group in Stevens Point, Wis., representing the viewpoint of a mutual insurer. This is Mr. Ballard's first year as a judge of the Risk Manager of the Year competition.
- John H. Bretherick Jr., president of Continental Corp. in New York, representing the viewpoint of a stock insurance company. Mr. Bretherick was a judge in last year's competition.
- Bob A. Hedges, professor of insurance and risk at Temple University in Philadelphia since 1967, representing the viewpoint of an insurance academician. He has co-authored three textbooks, has written chapters in three others and has had articles published in both academic and trade journals. This is the first time Mr. Hedges has judged the competition.
- Ronald E. Seaver, president of Corporate Policyholders Council Inc. in Park Ridge, Ill., representing the viewpoint of a risk management consultant. This is Mr. Seaver's first year on the panel.
- Thomas M. Scott, president of Insurance Management Corp. in Kansas City, representing the viewpoint of an insurance agency. This is Mr. Scott's second year on the panel.
- Richard M. Page, chairman and chief executive officer of Fred S. James & Co. Inc. in New York, representing the viewpoint of an international insurance brokerage. This is Mr. Page's second year on the panel.
- Harold C. Lang, director of insurance and risk management for Leaseway Transportation Corp. in Cleveland, representing the risk management profession. Mr. Lang, who served on last year's panel, was named *Business Insurance* Risk Manager of the Year in 1985.
- Donald Nelson, director of risk management at ARA Services Inc. in Philadelphia, also representing the viewpoint of a risk manager. Mr. Nelson was the 1986 Risk Manager of the Year.
- Delmer Ison, risk manager of the Washington Metropolitan Area Transit Authority, and a member of the 1986 Risk Management Honor Roll representing government entities. Mr. Ison represents the viewpoint of a risk manager.
- William E. Rogers, risk manager, Conemaugh Valley Memorial Hospital in Johnstown, Pa., and a member of the 1986 Risk Management Honor Roll representing not-for-profit institutions. Mr. Rogers also represents the viewpoint of a risk manager.

The winners of the 1987 Risk Manager of the Year competition will be announced in the March 30, 1987, issue of *Business Insurance*, which will coincide with the annual Risk & Insurance Management Society conference.

Anyone who is in charge of the risk management function for any corporation, government entity or financial or not-for-profit institution is eligible for nomination.

Nominations must be submitted according to the detailed instructions contained in a special nominating form available from the *Business Insurance* editorial office in Chicago. The deadline for submitting nominations is Nov. 23, 1986 (see related story).

The candidate whose nomination receives the highest collective score from the 10 independent judges of the competition will be named the 1987 Risk Manager of the year. Then, the candidates in each employment category not represented by the Risk Manager of the Year are grouped together. At the discretion of the judges, the highest-scoring candidate in each of the remaining categories could be named to the 1987 Risk Management Honor Roll.

The employment categories are:

- Corporations with sales exceeding $300 million.
- Corporations with sales less than $300 million.
- Government entities.
- Tax-exempt or not-for-profit institutions.
- Financial institutions.

In addition to Mr. Nelson and Mr. Lang, other previous winners of the Risk Manager of the Year Award are:

- Richard M. Inserra, director of insur-

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The Judges



Mr. Ballard — Sentry Insurance
Mr. Bretherick — Continental Corp.
Mr. Hedges — Temple University
Mr. Ison — Wash. Transit Authority
Mr. Lang — Leaseway Transportation



Mr. Nelson — ARA Services Inc.
Mr. Page — Fred S. James & Co.
Mr. Rogers — Conemaugh Valley Hosp.
Mr. Scott — Insurance Management
Mr. Seaver — Corporate Policyholders

More rate increases needed despite rebound: Reinsurers

By JUDY GREENWALD

NEW YORK—U.S. reinsurers, which continued their spectacular underwriting recovery in the second quarter, say rates need to be increased even more before the nation's reinsurance industry returns to full health.

The 71 reinsurers surveyed by the Reinsurance Assn. of America posted a 106.3% combined ratio during the first half of 1986, compared with a 126.2% combined ratio for the comparable period a year ago.

However, reinsurance executives noted 108 reinsurers reported year-end 1985 results, and that many of those that have dropped out of the survey are no longer in business.

The 20 largest U.S. reinsurers based on written premium volume showed a somewhat less dramatic underwriting improvement than the entire industry.

The Top 20 reported a 105.9% aggregate combined ratio, compared with 119.9% for 1985's first half.

LeRoy Simon, senior vp of Prudential Re Group in Newark, N.J., noted that 58 of the 62 reinsurers that reported results to the RAA both this year and last reported improved combined ratios. "For all practical purposes, everyone is better off this year than last year," he said.

Rates still need to be bolstered, however, Mr. Simon said. "The reinsurance rates will not be adequate until the return on equity is appropriate for the risk that reinsurers take and we're not at that point yet," he maintained.

"There's a lot of talk about dramatic rate increases," said N. David Thompson, president and chief executive officer of North American Reinsurance Co./Swiss Reinsurance Co. in New York, the fourth-largest U.S. reinsurer. "But people forget they are absolutely necessary just for the industry to get back to the point where it should be, which it has still not reached."

"We should not be misled by these results into believing that everything is really great," agreed Ronald E. Compton, president of American Re-Insurance Co. in New York. American Re reported a 97.2% combined ratio for the first half, compared with a 122.2% ratio in 1985.

The industry's return on equity is now about equal to that obtainable on a certificate of deposit, Mr. Compton said. While returns two years ago were either negative or close to it, the industry still has "some distance to go" to make a sufficient profit, he explained.

Both the entire group of 71 reinsurers included in the RAA survey and the 20 largest companies reported an aggregate 81.1% loss ratio in the first quarter.

However, the 20 largest reinsurers edged ahead of the industry on the expense side, with the Top 20 posting a 24.8% ratio compared with the 25.2% ratio reported by all the reinsurers surveyed.

The Top 20 also reported somewhat stronger premium growth. Net premiums written by the 20 largest reinsurers increased 63.7% to $4.8 billion, compared a 57.3% increase to $6 billion for the entire reinsurance industry.

Reinsurance executives generally said they are happy with the first-half results.

"We had an extraordinary improvement over the first six months of last year, and we're pleased with the progress toward our objective—which I hope is shared by the reinsurance community—of an underwriting profit," Pru Re's Mr. Simon said.

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Lowest combined ratios

Reinsurer	First half 1986	1985
American Re	97.2%	122.2%
Home Re	97.5	108.0
St. Paul Re	99.1	123.4
Munich Re	101.2	111.9
USF&G Corp.	101.9	102.1

Highest combined ratios

N.Y. Insurance Exchange	139.4%	148.4%
Skandia America Group	114.4	128.1
Transatlantic Re	111.1	134.4
North American/Swiss Re	110.7	116.7
Buffalo Re	110.6	133.7

Source: Reinsurance Assn. of America — Chart: Amy Palmer

NAIC panel examines insurance market data

By CAROL CAIN

DES MOINES, Iowa—The insurance industry, which demands, produces and uses more data than any other comparable segment of the U.S. economy, may never have enough information to satisfy consumers and critics, says an insurance data expert.

But, existing data is adequate to assess the extent of problems in the industry and the civil justice system, says Carole Banfield, vp of the Insurance Services Office in New York, an insurance industry rating and statistical organization.

"Available data from all sources clearly demonstrate that past prices have been too low and that losses have increased far beyond what could have been predicted," she noted.



Ms. Banfield

However, an independent source of insurance industry data should be found to more objectively evaluate the industry, a representative of the Risk & Insurance Management Society suggests.

"A void exists now in that no independent source of data collection exists," said Jon Harkavy, director of governmental affairs for RIMS in New York.

Ms. Banfield and Mr. Harkavy made their remarks during a panel discussion held at a National Assn. of Insurance Commissioners zone meeting last week in Des Moines, Iowa.

Panel members discussed what data currently exists and what may be needed to more effectively monitor the industry and assess the impact of tort reforms.

Ms. Banfield furnished the regulators with numerous statistics illustrating the scope of ISO's current data-gathering program:

- Individual insurers provide ISO with 28 data submissions annually.
- ISO collects data on more than 1,100 separate classes of general liability insurance alone.
- ISO processes more than 800 million data records annually.
- At any one time, more than 1.7 billion records exist in ISO's data bank.
- To accomplish its tasks, ISO employs more than 350 people and spends about $39 million annually.

All of these bits and bytes of information historically have been used by state insurance regulators to evaluate insurers' solvency, as well as by the Internal Revenue Service, the Securities and

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Lawyers' action

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sions, both groups want to see the law declared unconstitutional.

"In the end, we hope to come out in the same place," says Steve Masterson, executive director of the Tallahassee-based academy. "We are arriving by different roads."

One basis for the challenge is that the legislation addresses more than one subject, in violation of the Florida constitution, Mr. Masterson says.

Also, plaintiffs' attorneys believe the cap on damages is unconstitutional because it discriminates against handicapped persons—namely, the victims of injuries who are bringing suit, Mr. Masterson said.

Leon County Circuit Court Judge Charles E. Miner is scheduled to hear more testimony in the case later this week and is expected to issue a ruling on the law's constitutionality later this month.

Meanwhile, in Kansas, plaintiffs' attorneys are seeking to have declared unconstitutional recent medical malpractice legislation, as well as a law passed last year implementing the collateral source rule.

Kansas plaintiffs filing medical malpractice lawsuits are now limited to $250,000 in non-economic damages and to a total of $1 million in both non-economic and compensatory damages. While additional money for future medical expenses can be obtained from a special state fund financed by health care providers, total compensation to a plaintiff cannot exceed $3 million.

The new legislation also permits awards for future economic losses in medical malpractice cases to be funded through structured settlements.

The collateral source legislation allows defense attorneys to introduce evidence of payments that plaintiffs have received from other sources, and requires deduction of those amounts from any award.

Plaintiffs' attorneys filed a declaratory judgment suit in Johnson County in July challenging these and other Kansas tort reform provisions on behalf of plaintiffs, including the Kansas Malpractice Victims Coalition and victims injured before the statute went into effect.

The suit names the state insurance commissioner as a defendant.

According to Mr. Palmer, one basis for the challenges is a section of the state constitution that requires a statute that takes away certain rights to be balanced by statute that gives back certain rights.

This is similar to trade-offs in workers compensation where denial of a worker's right to sue his employer is balanced by a no-fault system of recovery, Mr. Palmer said, adding that such a trade-off does not exist in the tort reform laws.

In addition, the suit alleges that sections in the state constitution concerning the right to trial by jury are violated by the new laws, and that victims' equal protection under the law and due process rights under the state and federal constitutions are violated.

Mr. Palmer said he hopes a decision will be handed down by the first quarter of 1987 and a decision by the state Supreme Court on any appeal by July 1, 1987.

In Colorado, plaintiffs' attorney Jerry Malman said attorneys in that stare are focusing on having declared unconstitutional a $250,000 limitation for non-economic damages, the abolition of joint and several liability and limitations on punitive damages recently passed by the state Legislature.

"Those three impact the victims and the plaintiffs' trial bar the most," explained Mr. Malman, with the Denver law firm of Malman & Malman.

One possible basis for a challenge to the tort reforms is that the state Legislature unconstitutionally encroached on the powers of the judiciary.

Also, the Colorado Trial Lawyers Assn. hopes to educate the public on how it has been "duped" by the insurance industry, Mr. Malman commented.

So far, there have been no challenges filed in the state as plaintiffs' attorneys are trying to find the right test case and examine research being done around the country, Mr. Malman said.

In Washington state, several committees have been formed for the purpose of filing lawsuits challenging a tort reform statute that went into effect Aug. 1, said plaintiffs' attorney Daniel F. Sullivan, with the Seattle firm of Daniel F. Sullivan & Associates.

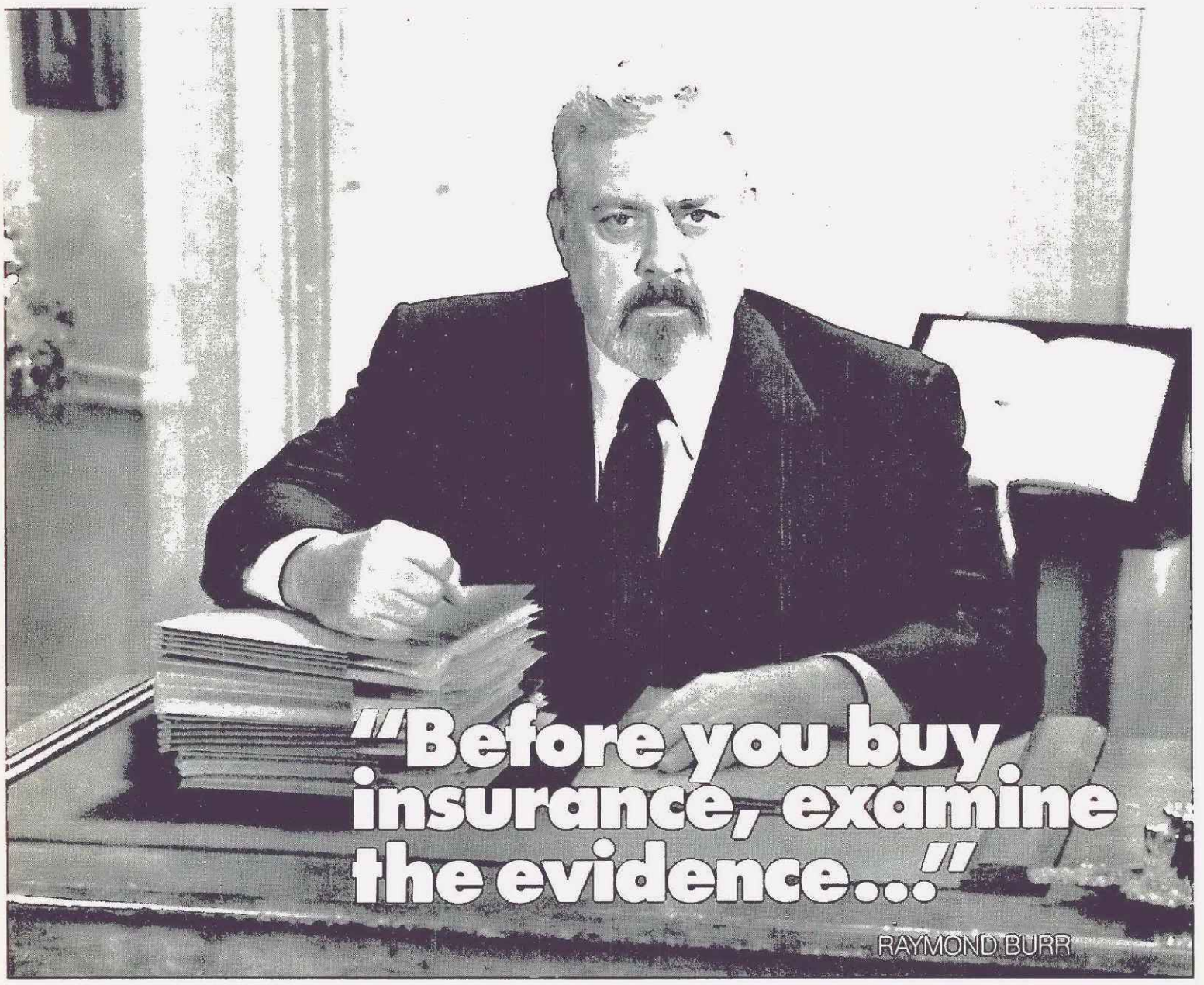
"We're waiting for cases to come up," said Mr. Sullivan, who says that challenges will be filed by the end of the year. "There will be a number of lawsuits filed. There's no question about that."

Among the portions of the Washington statute that he questions are restrictions on the statute of limitations pertaining to children in medical negligence cases, the abolition of joint and several liability in almost all cases, a cap on non-economic damages and imposition of structured settlements.

The Washington State Trial Lawyers Assn. is working on its own and in conjunction with the national ATLA and also with the Trial Lawyers for Public Justice, a Washington, D.C.-based organization, Mr. Sullivan added.

A Utah attorney who spoke on condition he not be identified said that attorneys in that state are looking for appropriate cases to test recently enacted tort reforms, but that "it's too early to take on any specific items of legislation."

Tort reforms enacted in Utah included placing a $250,000 cap on non-economic damages in medical malpractice cases and the abolition of joint and several liability. ■



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More cases going to ADR program

NEW YORK—The American Arbitration Assn.'s Insurance Claims Alternative Dispute Resolution program is receiving and settling more cases, according to the New York-based group.

Robert E. Meade, AAA vp for case administration, says that claims filed under the ADR program increased 46% in the second quarter of 1986 over the first quarter of the year.

In the second quarter, 1,407 cases were filed and 1,217 were closed. Of the cases that were closed, 438, or 36%, were resolved through ADR procedures, a 2% increase over the first quarter.

Of the 438 cases settled, 60.5% were settled by direct negotiation through the AAA but prior to the use of either mediation or arbitration, 27% were mediated and 12.5% were arbitrated.

The ADR program, which was initiated less than three years ago to alleviate the backlog of pending suits, offers mediation or arbitration procedures as an alternative to litigation. In 1985, 5,065 cases were filed by more than 50 insurance companies.

"With a settlement rate of 36%, a 90-day turnaround for case processing and AAA administrative costs averaging $275 to $300 per party per case, the AAA program is making a significant contribution to reducing the claims logjam," according the the AAA.

The AAA has 31 offices nationwide. For more information, contact the American Arbitration Assn., Department of Case Administration, 140 W. 51st St., New York, N.Y. 10020-1203. ■

Panels to advise NAIC legal liability task force

By CAROL CAIN

DES MOINES, Iowa—More than two dozen "advisers," including employer representatives, will help state insurance regulators study how legal costs affect the commercial liability insurance industry.

Two advisory committees were appointed last week to the Legal Liability Insurance Task Force of the National Assn. of Insurance Commissioners. The NAIC held a zone meeting last week.

In the past, insurance buyers were rarely represented on NAIC advisory committees, which were made up almost exclusively of insurance industry representatives.

The task force was charged earlier this year with conducting a comprehensive study evaluating the impact of settlements, awards and legal processes on predicting liability losses (*BI*, Feb. 24).

The task force also will study, from the buyers' perspective, the cost and availability of liability insurance; the ability to calculate and establish adequate, but not excessive, liability loss reserves; and the availability of reinsurance.

"Insurance regulators are literally inundated with numbers, but current information is directed solely toward ratemaking or solvency concerns," said Kansas Insurance Commissioner Fletcher Bell, who chairs the task force.

The NAIC had hoped the study could be completed in time for its winter meeting, Dec. 7-11 in Orlando, Fla. But members of the "general" advisory committee think it will take at least a year to complete the task, says Thomas A. Harnett, a New York attorney and the committee's chairman.

The general advisory committee will evaluate proposals to perform the study; assist the task force in monitoring the study and analyzing the results; and prepare any necessary reports.

Also appointed to the general advisory committee are representatives from the U.S. Chamber of Commerce, FMC Corp., National Federation of Independent Businesses, Beech Aircraft Co., Aetna Casualty & Surety Co., General Motors Corp., the Assn. of Trial Lawyers of America and broker Rollins Burdick Hunter Co.

A representative from the Conference of Insurance Legislators will serve in an ex-officio capacity.

After a brief meeting last week, the general advisory committee recommended that the task force hire a project director to coordinate the study. The task force will discuss this during its subsequent meetings and has asked the advisory committee to suggest ways to fund such a position.

Meanwhile, a second advisory committee assigned to deal with statistical information also began its part of the study process.

This committee will identify available statistical information, as well as help the task force develop a system to integrate and disseminate the data in a manner that addresses consumer concerns.

The Insurance Services Office was appointed to chair the statistics advisory committee. Its representative, Vp Carole Banfield, said a report showing what data is available will be presented to the task force by its Nov. 18 meeting.

Others on the statistics advisory committee include representatives from the Risk & Insurance Management Society, State Farm Fire & Casualty Co., the National Assn. of Independent Insurers, the Reinsurance Assn. of America, the Independent Insurance Agents of America, the National Assn. of Professional Surplus Lines Offices, Travelers Insurance Co., the American Assn. of Insurance Services, the National Independent Statistical Service, the National Assn. of Professional Insurance Agents and the American Academy of Actuaries.

Another member of the task force, Texas Insurance Board Chairman Lyndon Olson Jr., hopes that the members of the advisory committees, which represent factions at "war" over the legal liability issue, will be able to work together in a "loving manner."

"This is an environment (the NAIC) that hopefully, it (the war) will be politically defused" within, Mr. Olson said.

State insurance regulators, however, are concerned that the job facing the task force and its advisory committees may be too great—a point the two advisory committees also will consider before the Nov. 18 task force meeting.

Or, the committees may recommend changes or additions to the original assignment, Mr. Bell explained. ■

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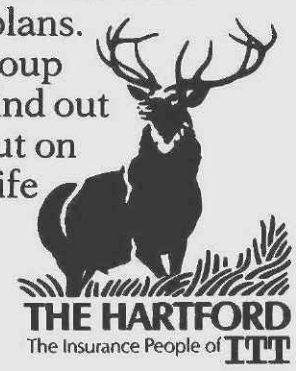
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*Source: Based on *Employee Benefit Plan Review*, April, 1986.



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Union Carbide

Continued from page 2

The Indian government filed the suit following U.S. District Judge John F. Keenan's conditional order in May that dismissed the case from U.S. courts and essentially transferred it to India's jurisdiction (*BI*, May 19).

Meanwhile, U.S. attorneys representing 40,000 Indian plaintiffs have filed a brief with the 2nd U.S. Circuit Court of Appeals in New York appealing two of Judge Keenan's rulings:

- That India is a more appropriate forum for the case because most of the witnesses and evidence are located in India and that the plant was regulated by Indian agencies.

U.S. plaintiffs' attorneys argue that since Union Carbide is a U.S. company, the case should be heard in the U.S. courts.

- His refusal to grant a hearing on the fairness of a $350 million settlement offered by Union Carbide earlier this year.

The Indian government rejected the offer as inadequate, but plaintiffs' attorneys contend the government does not have the legal standing to unilaterally block a settlement.

Meanwhile, defense attorneys are appealing the U.S. District Court ruling that allows the Indian government to gather evidence in the case under U.S. discovery rules while limiting Union Carbide's attorneys to gathering evidence under Indian discovery rules, which are more restrictive.

The ruling concerning discovery procedures was one of three conditions that Judge Keenan imposed in his order dismissing the case from the U.S. court system.

Under the other two conditions, Union Carbide agreed to submit to the jurisdiction of the Indian courts and abide by rulings handed down by those courts.

Defense attorneys are scheduled to file their brief with the appellate court by Sept. 25.

U.S. attorneys representing the Indian government are scheduled to file a brief with the appellate court Oct. 16. ■

opinions

Pool concept shouldn't swim

THEY'RE AT IT again.

A band of congressmen is trying to ram legislation through the House and the Senate during the closing weeks of the session that would require states to establish health insurance pools for high-risk uninsured individuals.

If the pools fail to take in sufficient premiums from participants to pay claims, as is almost certain, employers would be slapped with special assessments to make up the difference.

This proposal, attached to a budget reconciliation bill, H.R. 5300, has been approved by the House Ways and Means Committee and is scheduled to be considered this month by the full House.

We would be the first to recognize that individuals, especially those with serious pre-existing medical conditions, face major difficulties obtaining comprehensive health care coverage.

All told, close to 35 million people lack health insurance, according to the Employee Benefit Research Institute, and the number has been rising in recent years. These people run the risk of being bankrupted by a catastrophic illness.

This is a major societal problem, one that Congress should be examining.

But why should employers be asked to bail out the pools when premium income falls short of claims payments?

Most companies, at great expense, already voluntarily provide comprehensive health care benefits to employees and their dependents. Certainly, employers, especially those companies that offer group health care programs, shouldn't be expected to subsidize health insurance costs for individuals who never worked a single day for them.

In effect, the pool proposal punishes employers with group health insurance plans. Those companies would have to pay for health care coverage twice: once for their own employees and once for individuals covered by the pools.

We object not only to this unwise proposal, but also to the way it is being considered. Its supporters are trying to rush the proposal through with only cursory hearings.

Given this haste, it is not surprising that the proposal is poorly drafted and there are no answers to vital issues in the bill.

For example, the measure says states can require pool participants to pay a premium of up to 150% of the premium charged by commercial insurers for a



standard individual policy. But the bill never defines "standard individual policy."

Employers are told that they would be required to pay special assessments if the pools are not self-supporting. But the measure lays down no guidelines on how such assessments would be made.

Many observers are calling the pool proposal "Son of COBRA." COBRA is short for the Consolidated Omnibus Budget Reconciliation Act, which Congress passed earlier this year and requires employers to extend health care benefits to former employees and employees' widowed or divorced spouses.

COBRA's broad benefit mandate, enacted without a single hearing, was so poorly drafted that Congress already is considering technical corrections.

The lesson of COBRA is that sound benefit legislation cannot be developed without careful consideration and a free and open public debate. The pool proposal has received neither.

We hope members of Congress recall that lesson and strip the pool proposal from the budget bill, where it doesn't belong.

letters

School employees get mail-order benefits education

To the editor: I was very much interested in the Benefits Communications Program developed by Mr. Donald J. Olsen of Bell Atlantic Enterprises Corp., which was described at the 1986 Employee Benefits Communications Conference, and I congratulate him for winning third place in the total benefits communications program category of the 1985 *Business Insurance* Employee Benefits Communications Awards Competition (*BI*, Aug. 18).

We at the School Board of Pinellas County, Fla., are in our second year of offering just three optional benefits together with Prudential Preferred Provider Program and three HMOs: PruCare of Tampa Bay, CIGNA Health Plan of Florida Inc. and Tampa Bay Health Plan Ltd.

Benefit communication funds in a public agency are limited, so we developed a low-budget communication system for our Oct. 1, 1986, effective date. The health insurers have agreed to assist in the cost. We mailed packets of information to our 12,000-plus employees at their homes. Included in the packets were:

- A letter from the director of risk management.
- Benefits brochures from all providers.
- The premiums for all benefits.
- Enrollment forms.
- A schedule of times for day and evening meetings at our 14 high schools.

All this material was placed in large, sturdy envelopes with the following information on the outside: "Do not destroy—new heath premiums enclosed. NOTICE!!! DO IT NOW!!! Transfer period ends Aug. 25, 1986."

We used computer labels, which included name, addresses and cost center numbers (return addresses, forwarding, postage guaranteed and address correction requested). Any packets that were returned because of incorrect address were routed to the cost center by interschool pony express.

The program seems to have worked well.

Arthur E. Pulver
Director of Risk Management
School Board of Pinellas County
Clearwater, Fla.

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. We will not publish unsigned letters. Send your comments to Letters to the Editor, Business Insurance, 740 N. Rush St., Chicago, Ill., 60611.

Tort reform issue 'of the utmost importance'

To the editor: The *Business Insurance* reports and editorial on tort reform of Aug. 18 deserve special commendation.

This was an extremely thorough review of an issue of the utmost importance to all Americans.

James K. Coyne
President
American Tort Reform Assn.
Washington, D.C.

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Illinois comp system needs changes: Study

By CAROL CAIN

CHICAGO—The average Illinois workers compensation case takes four years to settle, about twice as long as cases in California, Massachusetts and New York, according to a recent study.

"This is a clear indication that severe problems are inherent in Illinois' workers compensation system," according to findings in a study conducted by the Illinois Alliance for Economic Initiatives, an affiliate of the Illinois State Chamber of Commerce.

"Our findings indicate that severe problems are inherent in our system, which puts us at a disadvantage with other states in the high-stakes race for new industrial development," said ISCC President Lester W. Brann Jr.

In its report, the Alliance for Economic Initiatives notes that it is not suggesting that the Illinois Industrial Commission, which administers the state's work comp system, process its decisions so quickly that quality suffers.

But, the alliance notes that much of the delay can be traced to critical "logjam" points:

- The hearing process at the arbitration level is plagued with continuances.

It is not uncommon for a case to be on the docket for 1½ years before the hearing actually is held, the alliance says.

- Transcription of the arbitration hearing can add an additional six months to the case disposition process.
- The entire oral argument procedure adds at least five months—and often closer to a year—to the process.

The alliance also points out that resources available to the Industrial Commission for managing the state's workers compensation system are much less than in other states when measured against the number of contested claims.

For instance, the IIC will spend $5.7 million and manage 50,000 contested claims in fiscal year 1986, while California will spend $436.9 million and manage 150,000 claims, the report notes.

The alliance makes three recommendations to eradicate delays in processing contested claims:

- Implement the IIC chairman's recommendations on motion procedures. IIC Chairman Mervin Bachman, who asked the alliance to undertake the study, already has started working with others on the development of uniform motion standards to expedite hearings and eliminate frustrating continuances, according to the report.
- Computerize court reporters' transcripts of arbitrators' hearing records.

During the period between the arbitrator's decision and the completion of court reporter transcripts—which the report says can be up to six months—the appeal to the IIC is held in abeyance.

New York has implemented a computerized system for transcription of court reporter notes, the report adds. Court reporters in New York, who previously transcribed four pages per hour, now are able to transcribe 16 pages per hour.

Initial installation of a similar system on a smaller scale in Illinois would cost about $40,000, the alliance projects.

- Streamline the review hearing process so that only those truly requiring oral arguments be scheduled and allow more time for those cases requiring additional explanation.

One key component of the review hearing process in Illinois is the oral argument step, the alliance notes.

"Many have questioned the routine nature of the oral argument process. Our review of the system showed that this oral argument step adds from five months to one year to the review process.

"Currently, virtually all appealed cases include oral arguments. Much of this is due to a long-held IIC view that those who do not orally argue a case are in effect asking for an affirmation of the arbitrator's decision," notes the report.

The time frame permitted in oral arguments—five minutes for "nature and extent" appeals and 10 minutes for other appeals—might not do justice in complicated cases, but adds little in more routine cases, concludes the alliance.

Other states examined by the alliance each differ in how they handle oral arguments. New York has no oral argument time limit, while Massachusetts permits 15 minutes and California does not allow oral arguments at all.

The alliance believes the IIC should establish criteria needed before granting of oral arguments.

And, in another recommendation, the alliance believes there is a need for an increase in the IIC's overall budget.

The Illinois governor, Legislature and the Bureau of the Budget should consider increasing the IIC's budget to enable it to expeditiously fulfill its statutory requirements and meet the needs of both injured workers and the employers whose resources are being employed to rehabilitate them, notes the alliance.

"While the alliance is sensitive to the overall growth in state government and budget considerations, we must question if the IIC is given necessary financial support. A thorough review of the staffing level of the IIC is a must. False budget savings, shifting even greater cost upon injured workers and employers, is counterproductive," concludes the alliance, calling for a "modest" increase in the budget.

This study, released late last month, was the second phase of the alliance's workers compensation administrative practices study. The first part was completed in May 1985 (*BI*, May 27, 1985).

"We have been searching for some time for administrative reforms and efficiencies that would lead to needed cost savings for Illinois employers," Mr. Brann said.

"We believe, however, that the suggested changes will benefit all interested parties, not just business. There have been numerous complaints and concerns about administrative problems, such as excessive delays on case resolution, backlogs of claims and excessive paperwork," he said, adding these complaints have come from both employer and employee representatives over the past several years.

"This study confirms that our sluggish workers compensation system lags woefully behind other state systems. It continues to generate expensive and time-consuming decisions while other states have abandoned their old systems and replaced them with streamlined programs," Mr. Brann observed. ■

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Insurance data

Continued from page 3

Exchange Commission, financial analysts, stockholders and rate analysts, Ms. Banfield said.

Recently, consumer groups, as well as state and federal legislators, have turned to the insurance industry for data to support the push for tort reform legislation. In addition, many states that adopted some type of tort reform measure this year are asking the insurance industry to supply data to document the impact of those new laws.

But this use of insurance data goes far beyond the industry's original intent in gathering financial and statistical information, Ms. Banfield said.

"Generally, this data is not designed or suited for analyzing the impact of specific legal documents on liability losses," she said.

For example, loss data provided by insurers can only identify total dollar amounts for settling claims, Ms. Banfield said.

"It is not possible to separate amounts for economic loss vs. noneconomic loss," she said, adding that it also is not possible to discern the amount paid on behalf of one policyholder from that paid on behalf of other defendants.

But insurers already provide plenty of data, asserted panelist William D. Courtney, vp and general counsel at CNA Insurance Cos. in Chicago. That data should be used before more is requested because it was expensive to collect and disseminate, he added.

Douglas G. Olson, the panel's moderator and managing director of Philadelphia Insurance Research Group Inc., questioned whether the insurance industry should be the watchdog of the civil justice system.

"The insurance industry doesn't require such a massive data base for its own purpose. . . .And I'm not sure why policyholders and investors of insurance companies should pay for this collection," said Mr. Olson.

And, there may not be any information or a specific source that identifies the causes of today's civil justice problems to everyone's satisfaction, Ms. Banfield said.

However, the industry should disseminate more of the data it has on hand and another source of data should be found, the non-insurers on the panel said.



Mr. Harkavy

For example, Mr. Harkavy applauded legislation, H.R. 4877, now pending in Congress that calls for an independent source to collect data on the civil justice system and insurance industry. However, he was wary of other provisions in the bill.

"While I do have serious reservations about the federal bill, I strongly believe in the necessity of an independent source of data collection. . . .Such an effort is vital not just for tort reform, but to maintain public confidence in the regulation of the insurance industry," Mr. Harkavy said.

"Indeed it is incumbent for all of us in favor of tort reform to have independently verified data to press our case," he said.

H.R. 4877, known as the Insurance Information Act, calls for insurers to report a wide range of specific data to the U.S. Department of Commerce, said Julius Genachowski, legislative and press assistant to U.S. Rep. Charles Schumer, D-N.Y., who introduced the bill. Mr. Genachowski also was a panelist at the NAIC meeting.

Once the Commerce Department has culled the various information from insurers, the department would be required to send reports and analyses to state insurance regulators, state and federal legislators and various federal departments, he said.

RIMS' Mr. Harkavy believes the reporting requirements in the bill —which also apply to self-insurers, risk retention groups and captive insurance companies—may create too onerous and costly an administrative burden.

"This can be worked out. However, the major modification I would make. . .would be to have the NAIC serve as the central clearinghouse for data collection," Mr. Harkavy said.

"I do not take lightly the Herculean task that I am asking the NAIC to assume. However, it is vital that they do. The need for the data is there, and I—as an insurance consumer—would prefer that the state insurance departments, through their collective organization, the NAIC, perform this regulatory role rather than the federal government," Mr. Harkavy said.

"I believe that serving as a data clearinghouse would greatly enhance the credibility and effectiveness of the state regulation of insurance," he added.

Shifting this data collection responsibility to the NAIC from the Commerce Department probably would be too expensive for the NAIC to handle, Mr. Genachowski said. However, he added, "we'd love to see the NAIC make the congressional gathering of data redundant."

Rep. Schumer introduced the bill because he believes that before civil justice reform is enacted, all available data must be properly examined, Mr. Genachowski said.

The bill was not intended to be passed by the Congress as introduced, he explained; rather, it was introduced to open up discussion on the data-gathering issue.

H.R. 4877 is now pending in the House Energy and Commerce Committee's Commerce, Transportation and Tourism Subcommittee. No action is expected before Congress adjourns this year, but Mr. Genachowski said Rep. Schumer is planning to reintroduce the measure next year.

Another panelist cited numerous sources—including a consumer magazine—that are calling for more data to better evaluate tort reform proposals.

"More study is needed," said Robert L. Habush, a Milwaukee attorney and president of the Assn. of Trial Lawyers of America, with about 70,000 members from the United States and Canada.

Mr Habush agrees with those who believe changes are needed in the tort system, noting that frivolous lawsuits are filed and legal fees are sometimes excessive.

But, more study must be conducted before the civil justice system is "trashed," he added.

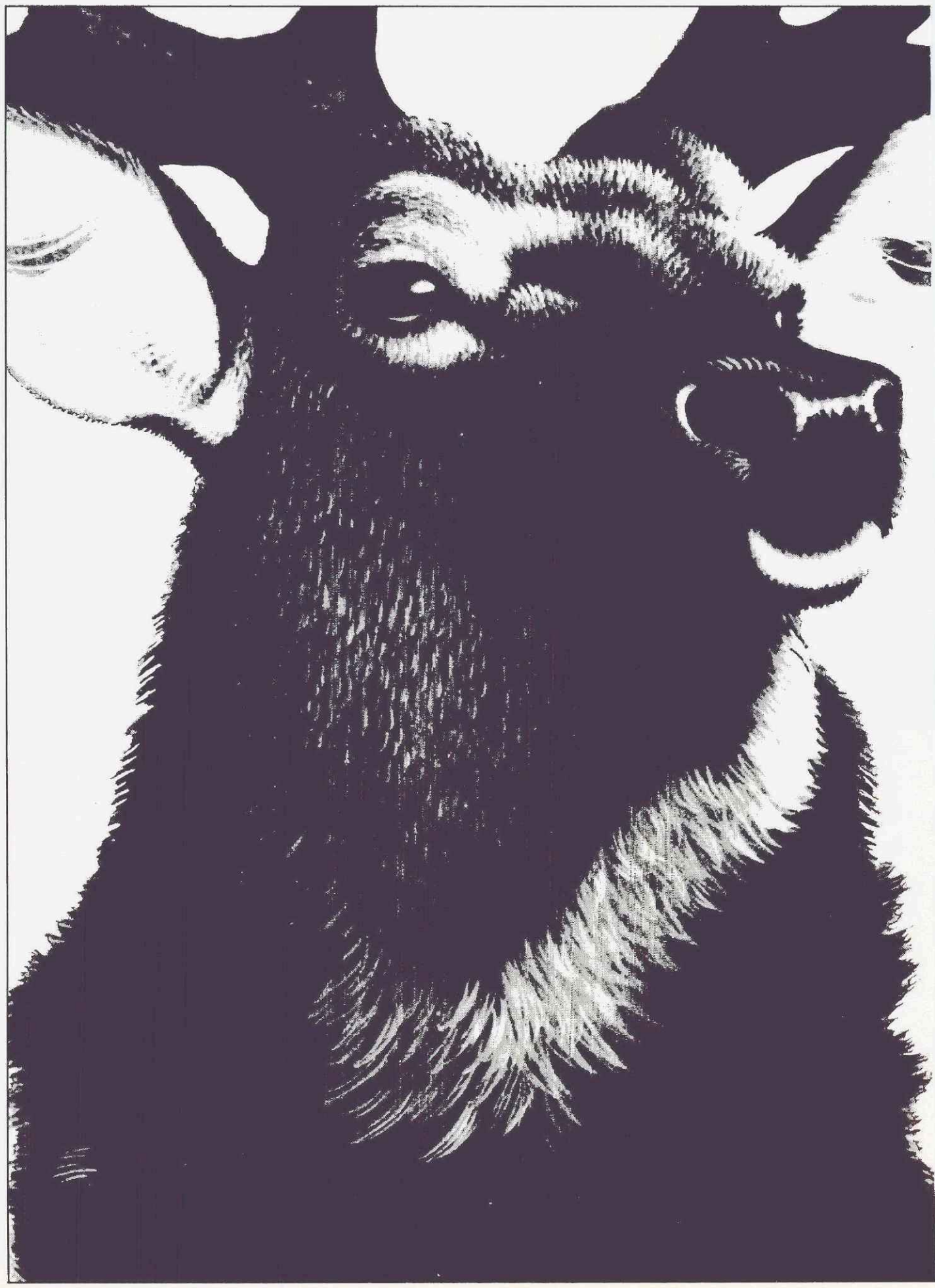
"More study is needed. . .light, not heat," he said, acknowledging efforts made by the NAIC in creating a legal liability insurance task force to study establishment of a program to coordinate statistical data reporting (see story, page 7).

Data collection also was addressed by Sen. Tom Harkin, D-Iowa, who made remarks during the opening session of the NAIC meeting.

Many members of Congress believe the federal government needs to get a better handle on the insurance industry, said Sen. Harkin, noting the industry should disclose more data voluntarily.

While there is evidence that the worst of the market crunch may be over, if a similar crisis occurs in the next decade, there will be increased pressure on Congress to establish strict controls over the insurance industry, similar to controls governing the banking industry, Sen. Harkin said.

Insurance regulators and their staffs from 44 states attended the NAIC zone meeting, as well more than 400 representatives from the insurance industry. ■



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Bonds to finance city self-insurance fund

PRESCOTT, Ariz.—The city of Prescott is setting up a self-insurance fund financed by a $2 million bond offering after it was unable to obtain liability insurance to replace coverage not renewed earlier this year.

The City Council, which approved the offering earlier this month, also budgeted $550,000 to serve as a deductible fund, says Kay Schmitt, the city's budget and financial planning director.

Prescott doesn't intend to tap the $2 million fund, she says.

"It will sit there and the earnings off that investment will pay for the interest payments that are due on the bonds," she explains. "The $550,000 we will be using on a more routine basis to pay claims."

The bonds were sold by the city at an interest rate of 6.89%.

Ms. Schmitt said the city paid National Union Fire Insurance Co. of Pittsburgh a $480,000 premium for $2 million in liability coverage for the 1985-86 fiscal year, a leap over 1984-85's premium of $96,000 for $10 million in coverage.

But National Union, an American International Group Inc. unit, would not renew the coverage for the 1986-87 fiscal year, and no insurer responded to a request for bids issued by the city.

Ms. Schmitt says she wasn't surprised that no other insurer was willing to write coverage for Prescott, a city of 23,000 people.

"We had been working on this (self-insurance) concept for quite a while, just in case—with all the warnings out there—municipalities were not being insured," she said.

Based on past claims experience, Ms. Schmitt says she does not expect to have to tap the $2 million raised by the bond issue. She says Prescott has been averaging between $40,000 and $113,000 in liability claims a year, including adjustment expenses.

"We really think what we can do is continue to budget each year at the $550,000 level and have that deductible fund grow. Then, hopefully, at the end of five years we'll have enough in our own fund so that we can pay off those bonds without ever touching them."

In an effort to further curtail losses, Prescott is initiating a loss prevention program.

The city will consider purchasing excess insurance above the $2 million fund if it is available, she said.

California comp

SACRAMENTO, Calif.—Time ran out this year on a proposed major overhaul of California's workers compensation system, but backers are looking forward to renewing their efforts next year.

"The fruits of our labors will serve as the starting point for the next round of negotiations," said Joseph E. Markey, legislative advocate for the California Self-Insurers Assn.

"People I know are more excited about next year. Maybe there will be a better bill," said John H. Lewis, a Coconut Grove, Fla., attorney who assisted drafters of S.B. 1617, the major workers comp reform measure considered this year in California.

Amending the California work comp system—labeled costly and inequitable by many—is a priority for all the players in that state's workers compensation arena. Employers, employees, insurers, physicians and attorneys have been organizing, negotiating and lobbying for specific changes for more than a year, and they intensified their efforts during recent months (*BI*, Aug. 4; June 2).

The Legislature, originally slated to adjourn Aug. 30, extended the session until at least Sept. 15, but S.B. 1617 was not scheduled to be considered before adjournment.

The legislation, among other things, would have:

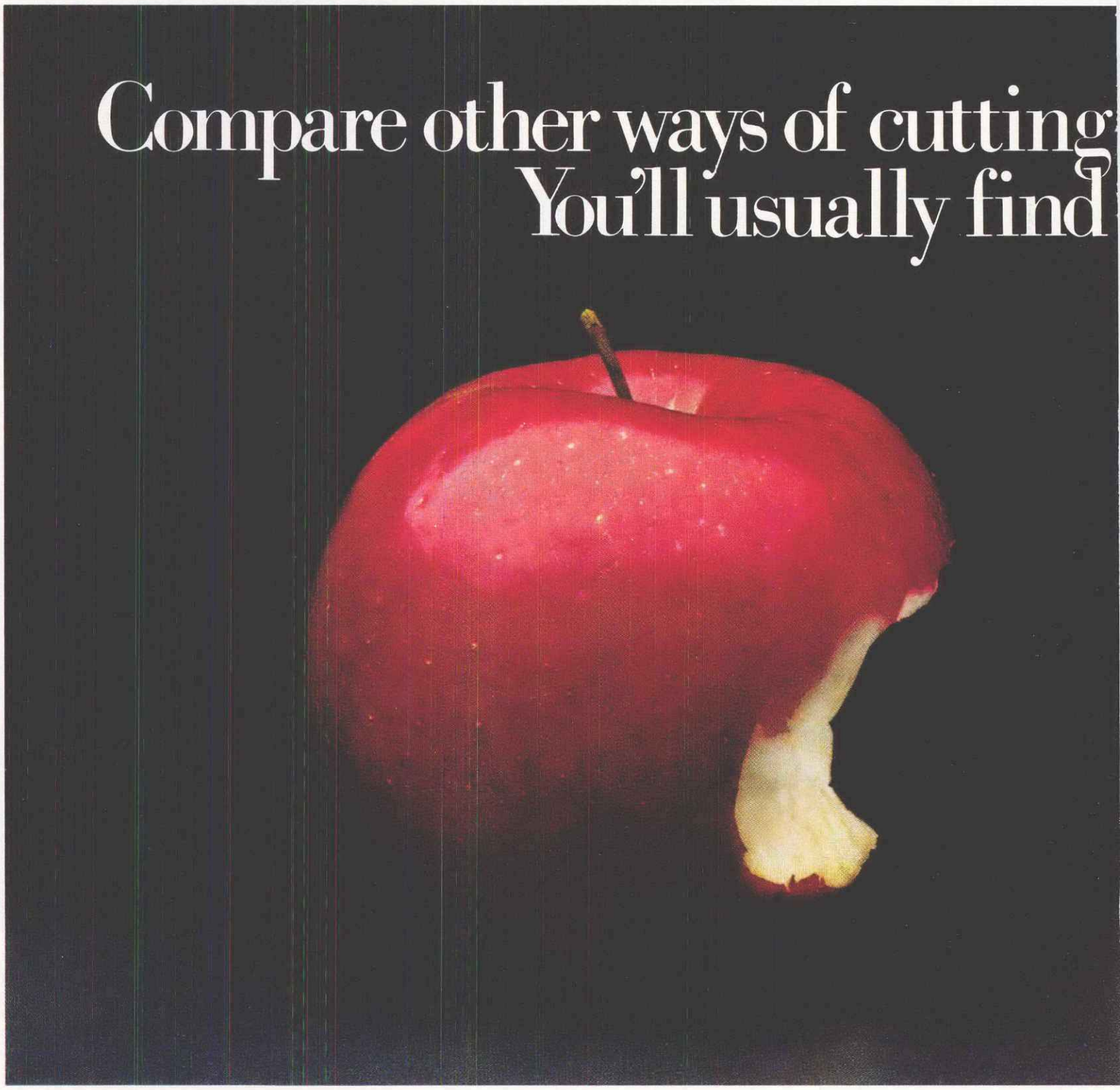
- Increased the maximum weekly benefit to 200% of the statewide average weekly wage, about $875 in 1988, with the minimum set at the lesser of 30% of the SAWW or 80% of the employee's gross earnings. The current maximum weekly temporary total benefit is $224.
- Repealed the current permanent disability rating schedule and replaced it with a new schedule developed by a six-member labor/management committee.
- Allowed supplemental permanent disability benefits to be paid to workers with a disability rating of at least 70% but less than 100%.
- Integrated vocational rehabilitation with permanent disability benefits to reduce vocational rehabilitation costs.
- Made employers liable for reasonable attorneys' fees necessarily incurred by the worker in proceedings before the appeals board in certain cases.

Sen. Bill Greene, D-Los Angeles, introduced the measure earlier in the session and asked for comments during the Legislature's summer recess. The response was staggering, says Casey Young, a consultant to the Senate Industrial Relations Committee, which Sen. Greene heads.

"Most folks came back with lists of problems and concerns," Mr. Young said, adding that some groups thought the bill was unamendable and began an effort to have the measure killed.

Sen. Greene is committed to reintroducing the bill next session, and can do so as early as December, though committee action wouldn't begin until January, Mr. Young said. ■

around the states



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California bank offers on-site day care

By MARGARET LeROUX

LOS ANGELES—Union Bank employees who have preschool children have a special reason to enjoy working at the bank's recently opened data processing and service center: The site will include a child-care center for employees' children that is scheduled to open Jan. 5.

A feasibility study conducted by consulting firm Sandra Burud & Associates of Pasadena, Calif., projects that Union Bank will save $3 for every $2 it will spend on the on-site child-care center, according to Sandra Burud.

The center, the first on-site day-care facility supported by a private-sector employer in Southern California, will provide full-time care for 58 children from 3 months to 5 years old.

It will be located next to the bank's new data processing and service center in Monterey Park, Calif., which is northeast of Los Angeles.

Parents will pay $80 per week for care for infants and $60 per week for care for children aged 1 and over.

However, the bank will provide some tuition adjustment for the children of its low-income employees.

The bank will subsidize the center by paying one-third of its annual operating expenses, or about $138,000 of an estimated $350,000.

However, the bank expects that the child-care center will result in savings to the bank of more than $200,000 annually in the cost of employee recruitment, turnover and absenteeism.

The savings were projected in a feasibility study of the child-care center that was conducted by Sandra Burud & Associates, a Pasadena, Calif.-based child-care consulting firm.

The study showed that Union Bank will save $3 for every $2 it will spend on the center, according to Ms. Burud.

After the center opens, "We'll be doing a before and after comparison of the costs of absenteeism, employee turnover and recruitment," she said.

The data from that comparison will be used to check the projections that were made by the consulting firm in the feasibility study, according to Ms. Burud.

Ms. Burud said that Union Bank considered other forms of child-care assistance, such as operating an information and referral service or making a corporate contribution to community-based child-care programs.

But, she said, the bank decided it would benefit more from having its own child-care center.

Still, it was not an easy decision to make.

"Top management was skeptical at first," commented Carolyn N. Savely, vp and manager of the service center's human resources department.

However, "The numbers sold them. The center more than cost-justified itself," Ms. Savely explained.

And, the bank expects use of the center to be high. A survey of employees showed that 84% of parents with preschool children said they would use an on-site child-care center.

The survey also showed that there are 131 children of bank employees who are in need of care; however, there are only 58 slots available, and those slots will be filled on a first-come, first-served basis.

"At least we're addressing employees' child-care needs, if not meeting them entirely," Ms. Savely said.

The center was designed and will be managed for the bank by Burud & Associates.

It will have a child-to-staff ratio of 7-to-1 for 4-year-olds, 6-to-1 for children aged 1 to 3 and and 4-to-1 for infants.

"We're planning for a teaching staff of 11 or 12 who have a background in early childhood education," Ms. Burud said.

"The curriculum will have a strong emphasis on education," Ms. Savely added. "It will be a real preschool program."

Parents will be encouraged to visit the center whenever they want.

"They might want to come for lunch or to help celebrate their child's birthday," Ms. Burud said, adding that nursing mothers may come to the center to feed their babies.

Ms. Burud said the bank is not worried that some employees will feel the child-care center is an inequitable benefit.

"Child-care assistance is seen as a positive benefit by most employees," she said.

"If they don't have children who would use the center, they may be planning a family and will use it in the future. Or they are grandparents of children who use child care and understand the problems working parents face.

"Even single employees realize a child-care center makes everyone's life a lot easier: They're not having to cover for a co-worker whose child-care problems are interfering with the job," Ms. Burud said. ■



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Size of claims against PBGC increasing

By JERRY GEISEL

washington

WASHINGTON—The Pension Benefit Guaranty Corp. is getting hit with bigger claims.

In fiscal 1985, the average claim among the 39 underfunded pension plans that the PBGC took over was $4.8 million, which is up from an average claim of $300,000 in 1984 and $1.6 million in 1983, the federal agency says in its latest annual report.

At the same time, the assets the PBGC recovers when it takes over terminated overfunded pension plans are slipping as a percentage of benefits that the agency guarantees to participants.

In fiscal 1985, assets in terminated plans were equal to just 28.3% of guaranteed benefits.

By contrast, in fiscal 1984 assets in terminated plans were equal to 38.3% of the benefits guaranteed to participants.

Between 1984 and 1985, the PBGC's deficit—the difference between the agency's assets and the value of the benefits the agency has guaranteed to participants in terminated pension plans—increased to $1.3 billion from $462 million.

The deficit is currently estimated at $1.7 billion, a level that the PBGC earlier projected would not be reached until 1989.

Pension plan change?

A little-noted provision included in the tax overhaul bill approved by a congressional conference committee last month will prevent companies from sponsoring qualified pension plans for key executives.

Under this so-called minimum participation test, a qualified pension plan must cover at least 40% of all employees, or at least 50 people.

This provision is aimed at professional corporations that have tailored individual plans for each of their partners or for key executives who wants them, according to benefits consultant Martin E. Segal Co. of New York.

Companies would have until the end of 1988 to terminate such plans. If this deadline is met and the plan is overfunded, the company will not be subject to 10% excise tax that applies to most other pension plan reversions under the measure.

Legislative agenda

In addition to the tax overhaul measure, Congress—which returned last week from a three-week summer recess—may consider many other measures affecting employees before the session adjournment. Adjournment is expected to occur in early October.

Those measures include:

- State health insurance pools. Under a provision attached to a House budget bill, H.R. 5300, states would be required to establish health insurance pools for high-risk individuals.

If premiums paid by pool participants were not sufficient to cover claims, employers would be slapped with special assessments to pay the difference (*BI*, Sept. 8).

- Hazardous waste cleanup. A congressional conference has approved major elements of an $8.5 billion reauthorization of the federal Superfund law, but still hasn't decided on how an expanded program should be financed (*BI*, Aug. 4; Aug. 11).
- Federal product liability law. Business lobbyists are pressing the Senate to approve legislation, S. 2760, to establish a uniform federal product liability law.

The measure, approved by the Senate Commerce Committee, would, among other things, abolish joint and several liability for non-economic damages, set a $250,000 ceiling on pain and suffering awards if a defendant made certain settlement offers, establish a 25-year statute of repose for capital goods products, punish attorneys who file frivolous lawsuits or frivolously delay cases by making them liable for attorneys' fees and court costs, offset product liability awards by workers compensation benefits and eliminate subrogation actions (*BI*, June 30).

- Bermuda tax treaty. Pending before the Senate is a tax treaty between the United States and Bermuda. The proposed treaty would exempt premiums paid by U.S. companies to Bermuda-based insurance and reinsurance companies from U.S. excise taxes (*BI*, July 21).

The federal excise tax currently is 4% on direct premiums and 1% on reinsurance premiums paid to foreign-based companies.

Federal tort reform

Federal product liability reform legislation headed for a Senate vote should be modified to abolish joint and several liability, a business lobbyist says.

Under a key provision in the legislation, S. 2760, joint and several liability would be abolished for non-economic damages in product liability suits.

While welcoming that change, Washington attorney Victor Schwartz, who is counsel to The Product Liability Alliance, a group that has lobbied for federal product liability reform, says it is difficult to justify retaining joint and several liability for economic damages.

"Other than a basis of let us find a 'deep pocket,' how can we justify making Peter pay for the sins of Paul," Mr. Schwartz said last week in testimony submitted to the Senate Judiciary Committee.

"It is only logical and reasonable to limit liability of a person to his own area of responsibility," Mr. Schwartz added.

In making a pitch for passage of the bill, which the Senate Commerce Committee approved in June (*BI*, June 30), Mr. Schwartz stressed the need for a uniform federal product liability law to provide more certainty to the legal system.

"We forget that 99% of product liability law today is formed by courts on a day-to-day basis. Unfortunately, the courts have gone a myriad of ways in formulating product liability rules," Mr. Schwartz said.

"With 51 sets of ever-changing rules and thousands of courts, it is no wonder that the law simply is a mess. It is crystal clear that product liability law can no longer be left to the vagaries of the common law; it must be put in a legislative framework," he noted. ■

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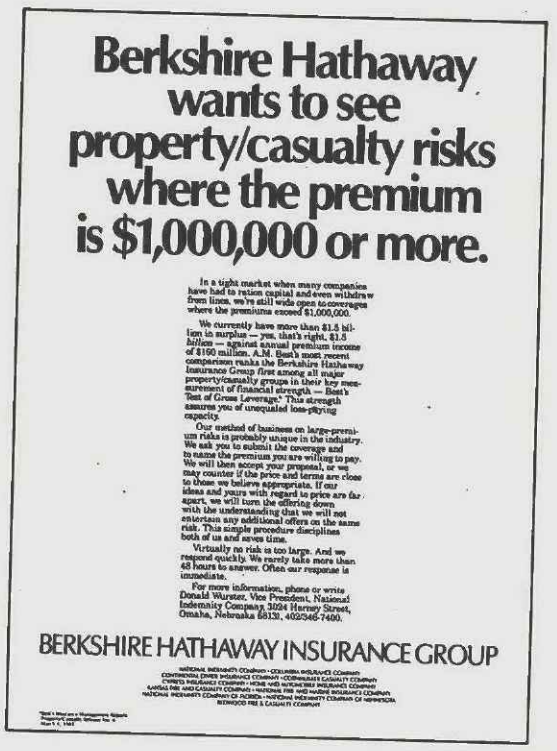
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Government's health care costs to rise again

By JERRY GEISEL

WASHINGTON—After a brief respite, the costs of the federal government's health care plans are rising again.

Last year, premiums paid by employers for employees covered under the Federal Employees Health Benefit Plan, the nation's largest group health insurance program with about 10 million participants, declined about 6% (*BI*, Oct. 28, 1985).

In addition, several insurers and prepaid plans last year offered refunds to participants and the federal government because of favorable experience.

But next Jan. 1, double-digit premium increases will be in store for both the government and its employees, as was the case in the late 1970s and early '80s.

The Office of Personnel Management, which administers the federal workers' health care benefit program, says premiums paid by participants will rise by an average of 14%, while premiums paid by the federal government will increase by an average of 22%.

The government pays up to 60% of non-postal employees' health insurance premiums and up to 75% of postal employees' premiums.

In the most popular plans, those sponsored by Blue Cross/Blue Shield, which cover about 3 million federal employees and dependents, premium increases for participants will range between 11% and 29%.

For example, the total monthly premium for BC/BS high-option family coverage will rise 15% next year to $289.14, from $251.42.

Employees covered by the BC/BS high-option family plan next year will pay monthly premiums of $159.81, up from $143.28, an increase of 11.5%. And, the federal government will pay a monthly premium of $129.33, compared with $108.14, a 19.6% increase.

The total monthly premium for BC/BS high-option coverage for individuals will rise Jan. 1 to $132.17 from $114.92, up 15%.

Employees covered by BC/BS high-option coverage for individuals will pay monthly premiums of $73.65, up 11% from $66.33, while the monthly premium for the government will climb to $58.52, up from $48.59, a 20.4% increase.

The total monthly premium for the standard BC/BS family plan will rise 19% next year to $164.58 from $138.32.

Employees covered by the standard BC/BS family plan will pay monthly premiums next year of $41.14 up from $34.58, a 19% increase, while the federal government will pay monthly premiums of $123.44, also up 19% from $103.74.

The total monthly premium for the standard BC/BS plan for individuals will rise 29% to $73.97 from $57.35.

For individual coverage under the standard BC/BS plan, participants next year will pay monthly premiums of $18.49, a 28.9% increase from $14.34, while premiums paid by the government will jump 29% to $55.48 from $43.01.

Premiums also will rise by double-digit percentages in the popular National Assn. of Letter Carriers plan, which is self-funded.

For example, the total monthly cost for family coverage in the letter carriers' plan will rise to $205.99 from $168.85, up 22%.

Participants in the letter carriers family plan will pay monthly premiums of $76.66, up from $60.71, a 26.3% increase, while the federal government will pay $129.33 a month, compared with $108.14, a 19.6% boost.

The total monthly premium for individual coverage under the letter carriers plan will increase 22% to $103.07 from $84.48.

The monthly premium paid by participants with individual coverage under the letter carriers' plan next year will increase to $44.55 from $35.89, up 24.1%; premiums paid by the government will rise 20.4% to $58.52 from $48.59.

Total monthly premiums for family coverage in the Foreign Service Benefit Plan, which is underwritten by Mutual of Omaha, will increase next year to $232.07 from $183.65, up 26.4%.

Monthly premiums for Foreign Service Benefit Plan participants opting for family coverage will rise to $102.74 from $75.51, up 36.1%, while premiums paid by the government will increase 19.6% to $129.33 from $108.14.

The total monthly premium for individual coverage in the Foreign Service plan will increase next year to $95.44 from $75.49, up 26.4%.

Monthly premiums paid by participants with individual coverage will climb to $36.92 from $26.09, up 37.2%, while premiums paid by the government will increase 20.4% to $58.52 from $48.59.

However, premiums actually will drop for participants in some major health maintenance organizations offered by the federal program.

For example, participants who receive family coverage from Kaiser Foundation Health Plan of Northern California next year will pay monthly premiums of $58.95, a 13.3% decrease from $68.03. The government's share of the premium, though, will rise to $129.33 from $108.14, making the total monthly premium for family coverage increase to $188.28 from $176.17, a 6.9% rise.

For individual coverage in the Kaiser plan, the monthly premium next year will fall 19.1% to $21.56 from $26.64, while the premiums paid by the federal government will increase 20.4% to $58.52 from $48.59. Total premium for individual coverage will rise to $80.08 from $75.23, a 6.4% increase.

In the Health Insurance Plan of Greater New York, or HIP, monthly premiums paid by participants next year for family coverage will total $66.10, down from $83.55, a 20.9% decrease, while premiums paid by the government will increase 19.6% to $129.33 from $108.14.

The total monthly premium for family coverage in HIP next year will be $195.43, up 2% from $191.69.

Participants in the HIP plan who opt for individual coverage will pay monthly premiums of $17.67, down from $18.79, a 6% decline. The government premium for individual coverage will rise 9.1% to $53.01, compared with $48.59.

The total monthly premium paid for individual coverage in HIP next year will be $129.33, up 19.6% from $108.14.

Next year, a total of 396 different health insurance plans will be available to federal employees, up by about 100 over this year.

Employees will be allowed to change health care plans between Nov. 10 and Dec. 5 during the annual open season. ■

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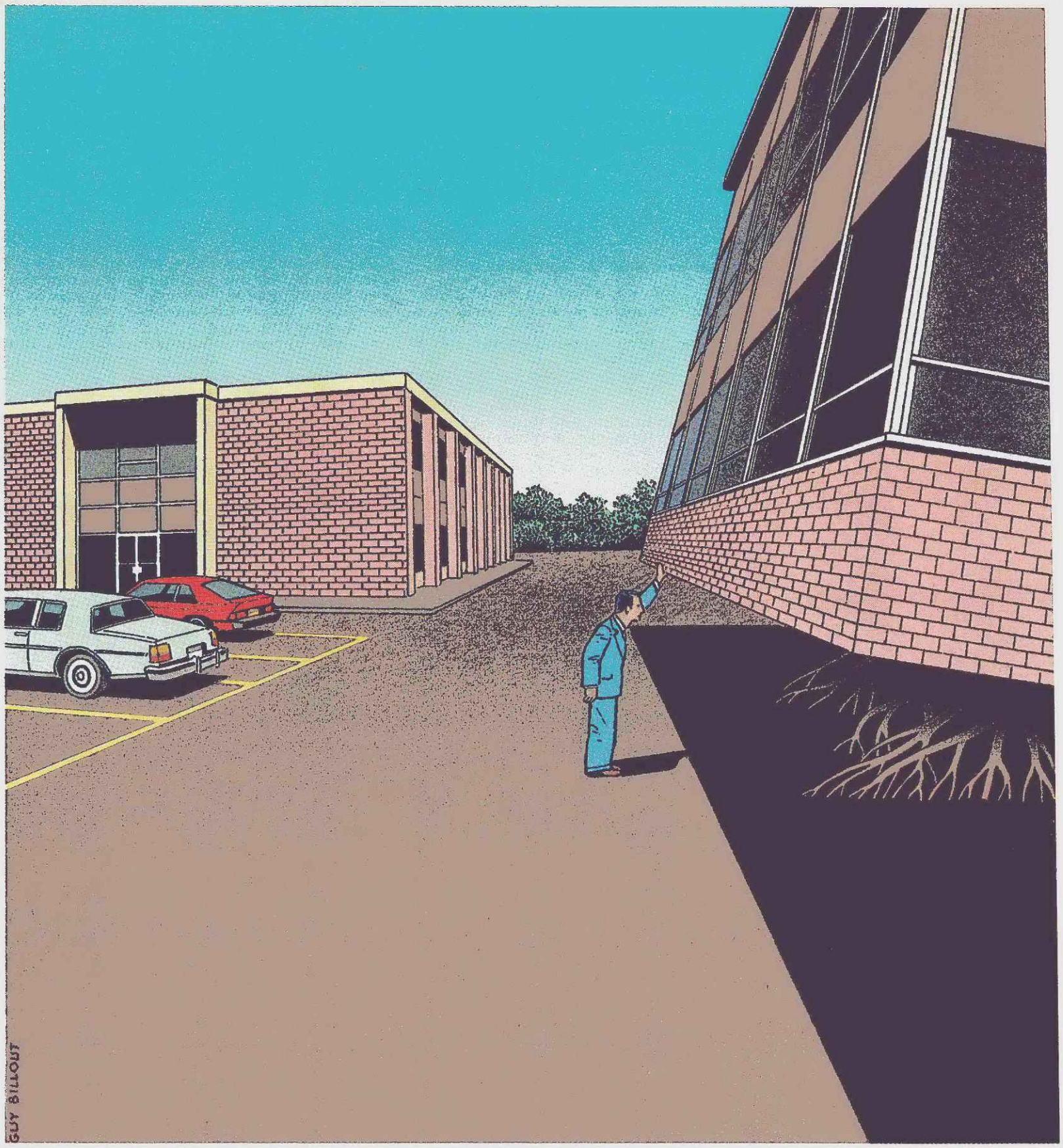
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Tort system twisting law, CNA chief says

By LINDA J. COLLINS

CHICAGO—The American public is at the mercy of a "lottery masquerading as a tort system," charges an insurance company chief executive.

The civil justice crisis "was created by judicial fiat, on a piecemeal basis, decision by decision. It spread, took hold and gradually twisted common law into an entirely new configuration," according to Edward J. Noha, chairman and chief executive officer of Chicago-based CNA Financial Corp.

Consumers now are being faced with an "historic choice": whether to attempt to salvage "our centuries-old tradition of common law" or to replace it "with a system of social entitlement that virtually ignores the concept of fault," Mr. Noha said in prepared remarks delivered to employees attending a CNA executive conference in Chicago on Sept. 4.

Judges often reinterpret judicial concepts out of compassion for injured plaintiffs, Mr. Noha conceded. However, these judges' good intentions have collectively eroded the "concepts of responsibility and accountability" upon which theories of liability are based.



Mr. Noha

And, by attempting to "make people whole" through the insurance mechanism, "judges and juries have indicated that they do not understand the function of insurance or its resources," he added.

Mr. Noha noted that the role of insurers is to spread the risk of loss among a number of policyholders, "add up the costs and settle the claims," he said.

For insurers to be successful in this role, they must be able to predict "the extent of the risk, the standards we're held to in insuring the risk" and the ultimate costs involved, Mr. Noha explained.

"Today there is literally no predictability in the way the courts have defined our responsibilities. And where there is a lack of predictability, the insurance mechanism cannot function," he said.

Business owners and consumers "ultimately foot the bill for every dollar spent on our civil justice system," Mr. Noha warned.

He said that if the American people decide they want an entitlement system of justice, "that's their decision." But consumers also must decide whether they can afford to fund such a system, because insurers cannot, he said.

"Private insurance companies can no longer participate in a no-win game that penalizes their shareholders and other policyholders," Mr. Noha said.

A better way to administer such a "social entitlement system" might be through a governmental or quasi-governmental agency, he added. But this type of a risk mechanism would create a "gigantic bureaucracy" at a "staggering" expense that would be borne by consumers through premiums or hidden taxes, he predicted.

"We are at a crossroads and the American public must decide which route to take," he stressed.

Mr. Noha cited a number of statistics to reinforce his positions about the nation's civil justice crisis. For example:

- Since the 1950s, tort costs have increased by 37 times, while the Gross National Product has only risen by a factor of 12.
- The number of product liability cases filed in federal district courts increased by 758% between 1974 and 1985.
- The number of medical malpractice lawsuits filed against physicians more than doubled from 1976 to 1985, and the number of suits filed against obstetricians and gynecologists during that period tripled.
- A survey of 1,200 local governments revealed a 141% increase in the number of municipal liability claims filed between 1979 and 1985.

'Today there is literally no predictability in the way the courts have defined our responsibilities. And where there is a lack of predictability, the insurance mechanism cannot function,' says Edward J. Noha, chairman and CEO of CNA Financial Corp.

But, while these statistics make it clear that problems with the civil justice system have been building for a long time, "it has moved into the spotlight most recently because of the weakened condition of the property/casualty industry," Mr. Noha said.

He explained that consumer attention did not focus on the civil justice crisis during the late 1970s and early 1980s because of the cut rates charged at the time by insurers.

When "the stock market faltered, interest rates slid, the value of the dollar soared and reinsurers began withdrawing from the market," and the capital base for the property/casualty industry fell "rapidly and alarmingly," he added.

Commercial liability business was a major source of the industry's problems, so insurers "raised premium rates or pulled out of certain liability classes altogether. As a consequence, the public and the media for the first time took serious note of a crisis that had been brewing for many years," Mr. Noha pointed out.

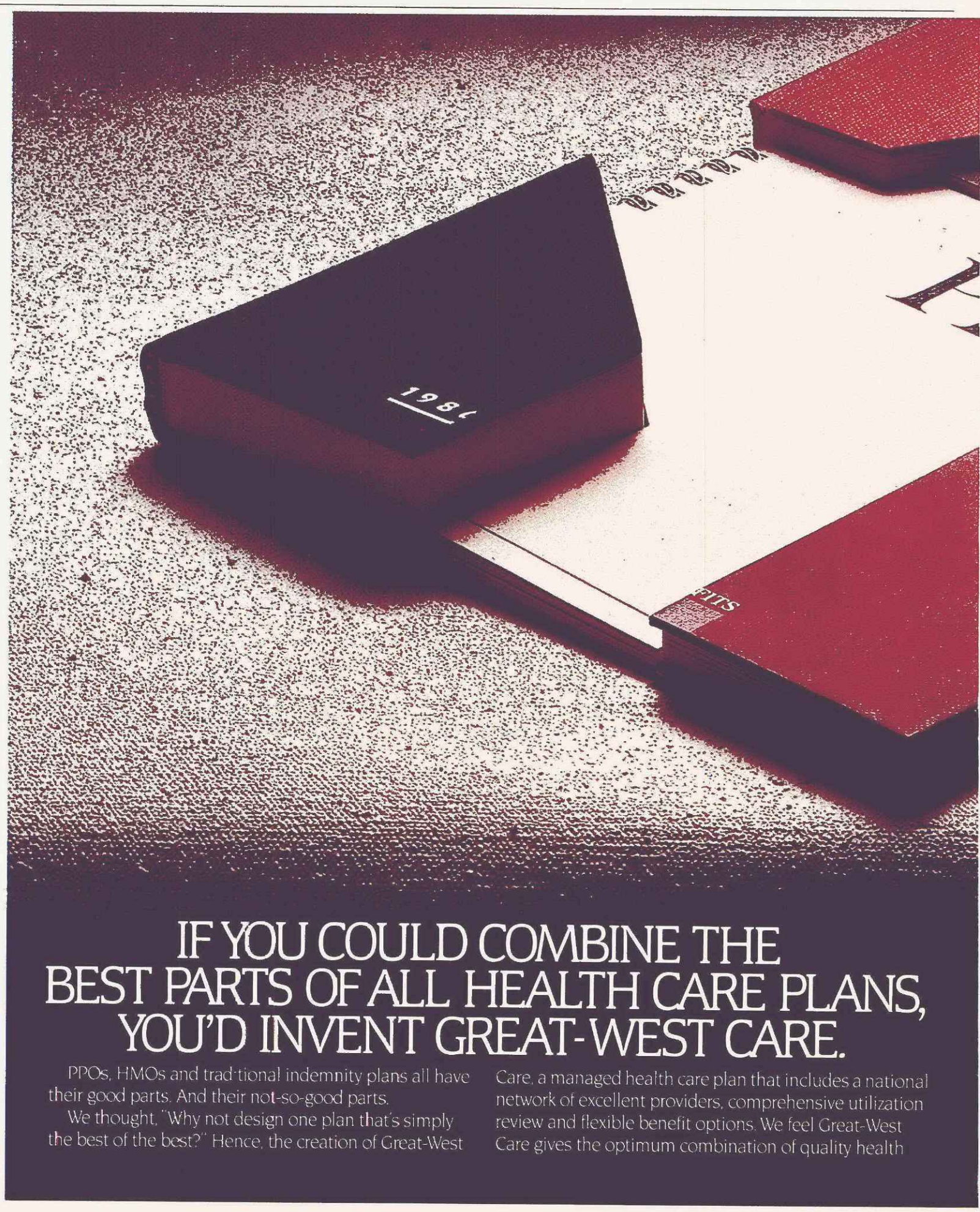
But while reduced capacity helped push the liability issue "into national prominence. . .lack of capacity did not create this problem," he stressed.

Critics of the insurance industry who charge that the liability insurance crisis "will fade away shortly after enough insurance companies strengthen their surpluses" are simply inaccurate, Mr. Noha said.

While the property/casualty insurance industry's capacity has increased substantially in the last year and a half, "the liability crisis is not abating. . .because the fundamental and enduring cause of the crisis is our civil justice system," he said.

But Mr. Noha believes an increasing number of people are

Continued on next page



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Continued from previous page
"becoming aware of the hypocrisies, the absurdities and the inequities in this system."

For instance, studies show that juries levy higher judgments against businesses than they do against individuals involved in similar lawsuits, Mr. Noha said.

"Basing the settlement on how much the jury thinks the defendant is worth blatantly disregards the legal principle that a litigant's characteristics should not influence the verdict," Mr. Noha said.

Another inequity is the fact that injured plaintiffs receive only about 55% of settlement costs, while the rest is "consumed by the litigation system," he added.

One indication that the American public is tiring of these inequities in the civil justice system is the passage of Proposition 51 in California last spring, because "it's the first civil justice reform measure to be voted on and passed by referendum," Mr. Noha said, adding that California residents "had the opportunity to speak out directly."

Proposition 51 limits defendants' liability for non-economic damages to the degree they are judged responsible (*BI*, June 9).

Civil justice reform measures that have been approved by state legislatures throughout the country also are an encouraging sign, he said (*BI*, Aug. 18).

Mr. Noha ended his talk by calling upon the executives attending the meeting to assist him in educating the public on the need for tort reform.

"It's important that they understand the facts and the consequences," he explained.

"I'd like to urge you to get involved. . .to familiarize yourselves with the specific reforms that have been proposed. To talk them up with your clients, your employees, your friends, your acquaintances. . .and to let your state legislatures know how you feel." ■

Timothy Hoffman to direct Hanna's insurance activity

comings & goings: buyers

Timothy H. Hoffman, 38, has been named executive vp and general manager of M.A. Hanna Co.'s Insurance Services division in Cleveland. Mr. Hoffman will be responsible for risk management activities and management of Hanna's captive management subsidiary, Hanna Insurance Management Ltd. of Bermuda, and Hanna's insurance subsidiary, Erieview Insurance Co. Ltd. He replaces **Dan A. McCoy**, who has resigned from the company, and reports to William P. Holmes, corporate vp of finance and chief financial officer. Mr. Hoffman joined Hanna in 1984 as manager of Hanna Insurance Services. M.A. Hanna is principally involved in management services, mining and oil and gas. The Insurance Services division provides insurance management, underwriting, risk management and consulting. Prior to joining Hanna, Mr. Hoffman served as director of insurance for North American Van Lines Inc. in Fort Wayne, Ind. He received a bachelor of arts degree in economics from Indiana State University in Terre Haute and a master of business administration degree from Indiana University in Fort Wayne. In addition, he is a deputy member of the Risk & Insurance Management Society.

* * *

Peter L. Parisi, 42, has been named vp-benefits at Crum & Forster Corp. in Morristown, N.J. In this newly created position, Mr. Parisi will have charge of the company's benefit programs and human resource systems. He reports to C.H. Eissfeldt, senior vp. Prior to joining Crum & Forster Corp., Mr. Parisi was director of benefits administration and development at Nabisco Brands Inc. in East Hanover, N.J. He received a bachelor of arts degree in history from University College, New York University in Bronx, N.Y. Mr. Parisi is a member of the American Pension Conference.

* * *

Gregory G. Wilcox, 49, has been named risk manager at Jerrico Inc. in Lexington, Ky. In this position, Mr. Wilcox will be responsible for developing and implementing programs that safeguard personnel, property and assets of the company and its subsidiaries. He reports to William E. Anderson II, senior vp, secretary and general counsel, and replaces **Charlotte DeLucia**, who previously handled the risk management function as claims analyst, and has been promoted to assistant risk manager. Prior to joining Jerrico, which owns and operates nationwide restaurant chains, Mr. Wilcox served as risk manager at Sencorp in Cincinnati. He received a bachelor of arts degree in psychology and history from the University of Toledo in Ohio. In addition, Mr. Wilcox is a past president of the Cincinnati Chapter of the Risk & Insurance Management Society.

* * *

Sandra Van Slyke has been named senior insurance analyst for Contra Costa County, Calif. In this newly created position, Ms. Van Slyke will be responsible for analysis of the county's property/casualty insurance programs. She reports to Joseph Tonda, risk manager. Prior to joining Contra Costa County's risk management department, Ms. Van Slyke was assistant risk manager for the Port of Oakland, Calif. She holds a bachelor of arts degree in marketing and economics from Rutgers University in New Brunswick, N.J., and a master of business administration degree from Golden Gate University in San Francisco.

Also in Contra Costa County, **Anthony J. Schleder** has been appointed workers compensation insurance officer. In this newly created position he will be responsible for administration of the county's workers compensation claims management program, reporting to Joseph Tonda. Prior to joining the county administration, Mr. Schleder was northern California claims manager for Insurance Co. of the West in Walnut Creek. Mr. Schleder holds a bachelor of arts degree in physical education and health from San Jose State University in California. In addition, he serves on the board of directors of Diablo Valley Industrial Claims Assn.

●

We'd like to report on staff changes in your company's risk management, safety or employee benefits department. Just drop a note to Paul Winston, assistant copy editor, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611, or call 312-649-5442. Please send a photograph, too.



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Risk Manager of Year judges

Continued from page 3

ance and risk management at American Can Co. in Greenwich, Conn., in 1984.

● John A. O'Connell, executive director/risk manager at Holy Cross Shared Services Inc. in Notre Dame, Ind., in 1983. Mr. O'Connell was the first risk manager of a not-for-profit institution to receive the top award.

● Eckart Russell, then risk and insurance manager at Alcan Aluminium Ltd. in Montreal, in 1982. Mr. Russell is now vp-client services for broker Johnson & Higgins in Montreal.

● Duane E. Allen, then assistant treasurer at Hanna Mining Co. in Cleveland, in 1981. Mr. Allen is now a principal of American Risk Funding Services in Laguna Hills, Calif., a consulting, management and administration firm specializing in captive insurance company funding programs. He also is director of Corporate Insurance & Reinsurance Co. Ltd., a group-owned captive insurer in Bermuda.

● Thomas V. Hallett, then risk manager at General Motors Corp. in Detroit, in 1980. Mr. Hallett is now senior vp of broker Frank B. Hall & Co. Inc. in Briarcliff Manor, N.Y. He also is chairman of Risk Sciences International and chairman and chief executive officer of Adjustco Inc., both Hall affiliates.

● Edward L. Erickson, director of insurance at American Broadcasting Cos. Inc. in New York, in 1979.

● Howard T. Weber, director of insurance at Minnesota Mining & Manufacturing Co. in St. Paul, Minn., in 1978.

In addition to Mr. Ison and Mr. Rogers, other members of the Risk Management Honor Roll have included:

● In 1985, Susan N. Weiner, executive director of the division of risk management for Dade County Public Schools in Florida, representing a government entity; and Eva F. Goodrich, manager of insurance and risk management for Cincinnati Electronics Corp., representing corporations with sales of less than $300 million.

● In 1984, Sidney D. Blatt, risk and administrative manager of the Holloway Cos. in Wixom, Mich., representing corporations with less than $300 million in annual sales; and Gene Snyder, administrator of the Department of General Services' Risk Management Division for the state of Oregon.

● In 1983, Jerri Nelson MacMillian, risk manager of Aetna Life & Casualty Co.'s real estate investment department—now subsidiary Realty Investors Inc.—in Hartford, Conn., representing large corporations; and Robert L. Sinclair, then risk manager of the Metropolitan Government of Nashville and Davidson County, Tenn., representing a government entity.

Mr. Sinclair is now director of risk and insurance management at Vanderbilt University, also in Nashville.

● In 1982, George N. Pierce, risk manager of Orange County, Fla., representing government entities; Paul B. Harvey, then risk manager of Ponderosa Homes in Irvine, Calif., representing small companies; and Gene M. Marsh, then executive vp for risk management for the General Conference of Seventh-day Adventists in Takoma Park, Md., representing a not-for-profit entity.

Continued on next page

Judges use 10 specific criteria

The 10 independent judges who will score the nominations for the 1987 *Business Insurance* Risk Manager of the Year Award and Risk Management Honor Roll will use 10 criteria.

The judges will score each candidate on a scale of one to 10 according to how well he or she:

● Established and implements an effective risk management program within the organization.

● Tackled and solved one or more major problems for his or her organization.

● Innovatively applies the diverse tools of risk management and insurance.

● Creatively and effectively uses the insurance markets to structure an insurance program that serves the needs of the organization.

(This criterion specifically addresses the types of policies purchased and manuscripted policies, if any, developed.)

● Established a workable intelligence system inside and outside the organization that culminates in a flow of information about events and activities that affect the organization's risk management and insurance programs.

(How the risk manager secures information on risks from other departments and the use of risk management information systems are addressed in this criterion.)

● Skillfully performs the functions of management in the overall organization and within the risk management/insurance department.

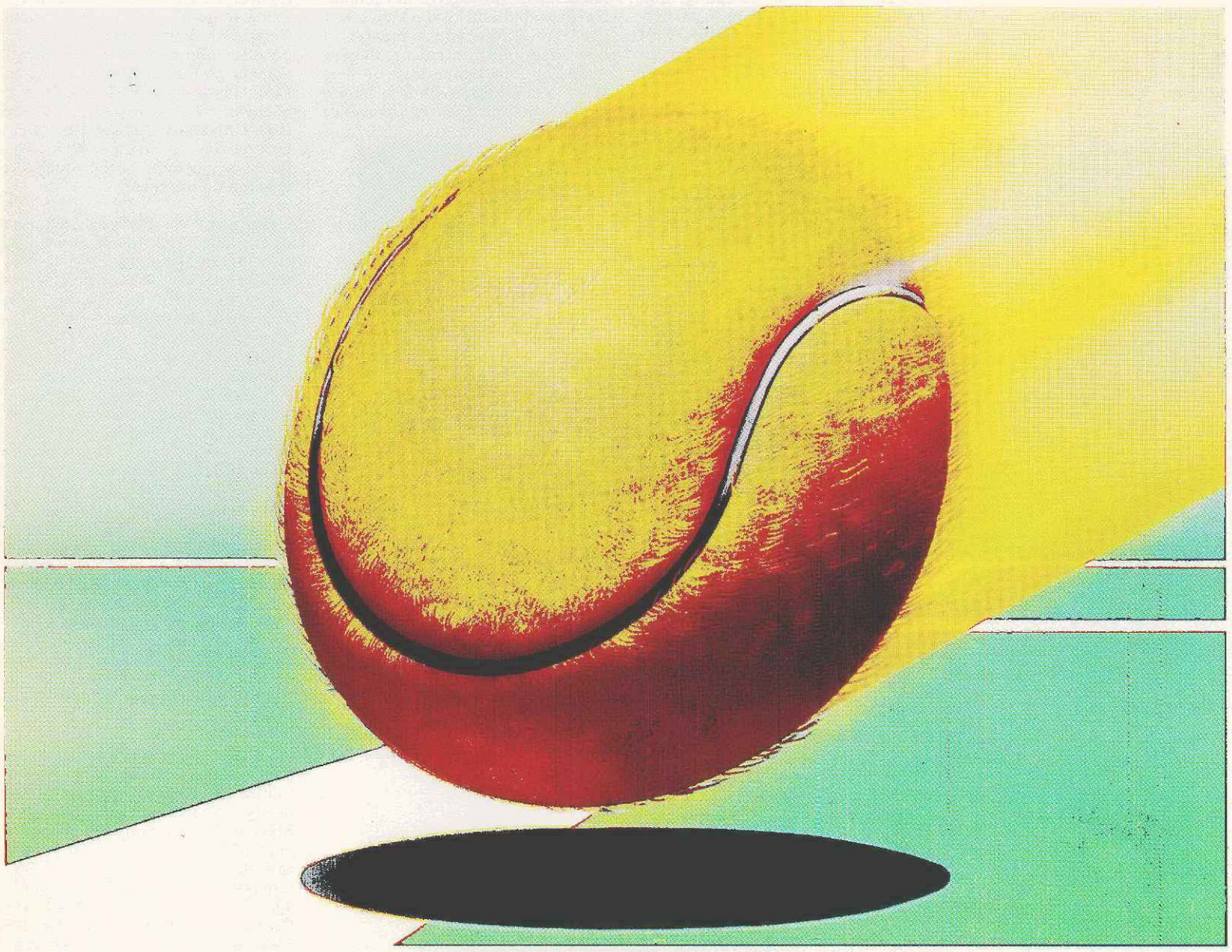
(The management functions include planning, organizing, directing and controlling.)

● Achieves 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 leading to a better managerial grasp of the operations aspects of the job.

● Exhibits an attitude and performs activities fostering the advancement of the risk management profession (such as professional activities, speaking engagements, teaching and related activities).

● Is developing his or her career (as exhibited by job history, including current job description, education, honors and memberships).



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Continued from previous page

Also in 1982, Spencer J. Traver, then assistant treasurer of the B.F. Goodrich Co. in Akron, Ohio, was named runner-up to the Risk Manager of the Year.

Mr. Marsh is now president of California Hospital Assn. Insurance Services Inc., and Mr. Traver is now president of Pine States Risk Management Inc. in Charlotte, N.C.

- In 1981, Robert Bieber, then risk manager of Westchester County, N.Y., representing government entities; and William Ryan, insurance and risk manager of the University of Michigan at Ann Arbor, representing not-for-profit institutions.

Mr. Bieber is now president of Ebasco Risk Management Consultants Inc. in New York.

To nominate a candidate for the 1987 Risk Manager of the Year award, request a nominating form by writing *Business Insurance*, 740 N. Rush St., Chicago, Ill. 60611.

A candidate may be nominated by anyone familiar with the risk management professional's work.

A candidate may be nominated by anyone familiar with the risk management professional's work. Any employee or group of employees can nominate the organization's risk manager; a broker, consultant or other service supplier can nominate a client; and a risk manager can nominate a colleague.

Information supplied in the nominating statements, which must be endorsed by the candidate's superior, will be kept in strictest confidence. ■

Transit unit now offering back program

GARDEN GROVE, Calif.—The Orange County Transit District is hoping a back training program and back support cushions can help it reduce workers compensation claims among its 750 drivers.

The OCTD, which introduced the cushions to its coach drivers a year ago, requires all newly hired drivers to use the cushions after completing an on-site back care course conducted by OCTD personnel.

The training program and the cushions aren't required of employees hired before the program took effect, although about 200 of the OCTD's existing drivers voluntarily took the course and started to use the cushions, says Jackie Duncan, supervisor of safety and health benefits at the OCTD in Garden Grove, Calif.

Every six weeks, about 10 to 15 drivers go through the two-hour back care program during working hours, she says.

The course stresses proper use of the back muscles when lifting, standing, sitting, walking and resting. It also emphasizes the importance of controlling weight to reduce pressure on the lower back.

Drivers are given the support cushion during the training session. Manufactured by Accu-Back Inc. in Carson, Calif., the fabric-covered cushion is unique because of its versatility, Ms. Duncan notes. Two parts can be removed and reattached with Velcro to suit each driver's own lumbar and upper back support needs.

"This one best met our needs because of its adaptability to each coach operator," she explains. OCTD purchased 400 cushions at a bulk discount of less than $20 each and provides them to drivers at no cost, she says.

The program has not been in place long enough for the OCTD to track how much it has saved in workers compensation costs, but Ms. Duncan says he expects the cushions and training to reduce the number of comp claims filed against the OCTD.

About one-third of the OCTD's new comp claims are related to "body mechanics," most of which are back injury claims, she says. The OCTD self-insures its work comp exposures up to $150,000 per claim. ■

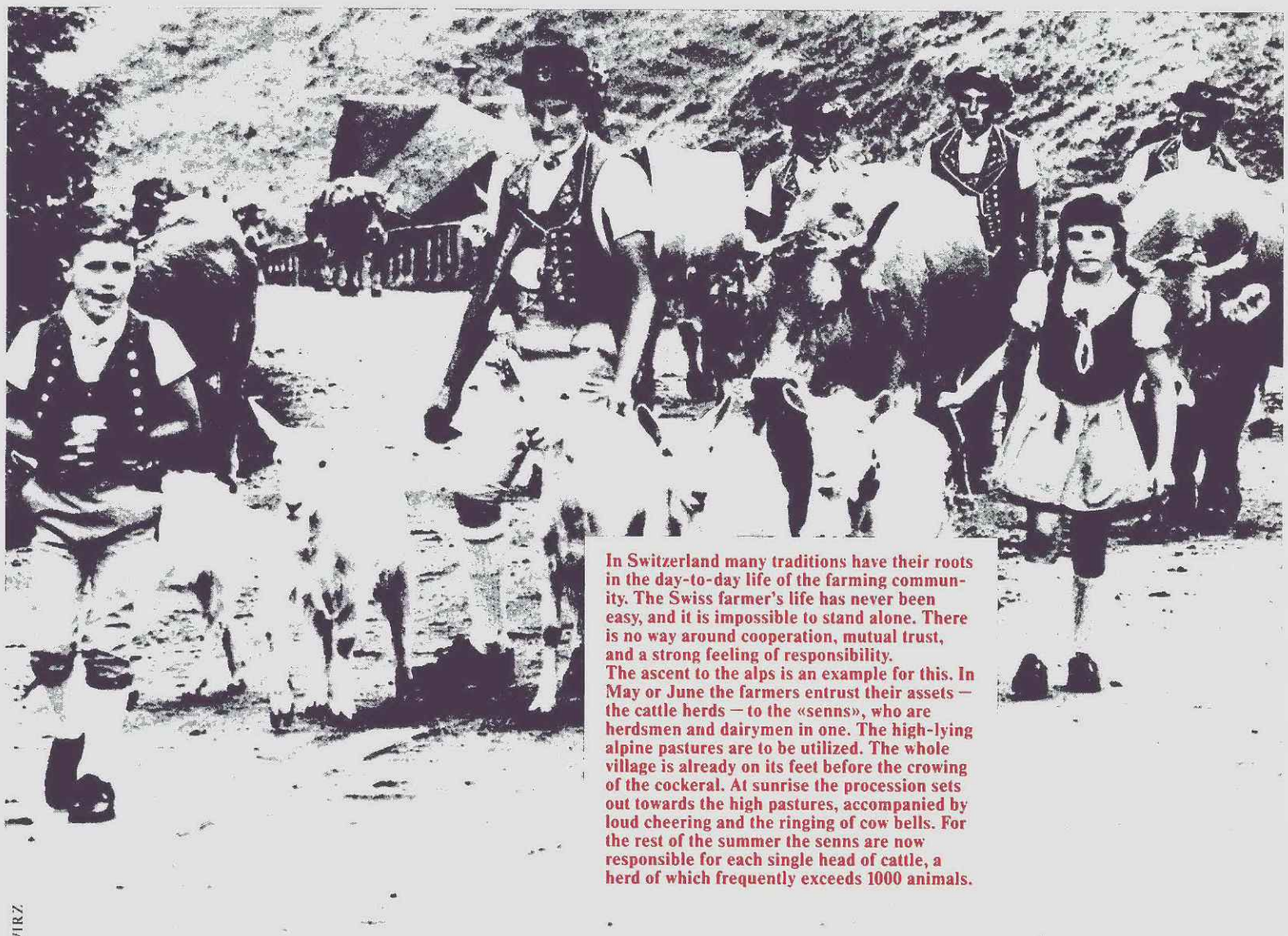
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• **"Catastrophe: A Natural Catastrophe Planning and Management Guide"** is the title of a new publication from American Reinsurance Co. The 28-page brochure details the causes of natural catastrophes, underwriting against catastrophes, developing and implementing a plan of action and recent developments in catastrophe handling. In addition, a pamphlet, "Preparing for a Hurricane," is included. For a free copy contact Terese Rosenthal, Corporate Communications, American Re-Insurance Co., One Liberty Plaza, 95 Liberty St., New York, N.Y. 10006; 212-618-7000.

• Jury Verdict Research has published a recent review of electrical work cases, finding that plaintiffs/employees injured while performing electrical work are receiving favorable verdicts. Copies of **"Employees Injured While Performing Electrical Work"** are available for $19.50 each from Jury Verdict Research Inc., 5325 Naiman Parkway, Suite B, Solon, Ohio 44139-1065.

• "Stop Bleeding" is the title of a **first aid poster** from C.A.B Consultants. The 8½ x 11 poster illustrates first aid for the extremities, mentions the use of tourniquets and how to transport severed body parts. Cost of the poster is $3. In addition, a brochure is available that describes **wellness programs** the occupational health and welfare consultant offers. For a copy of the free brochure, a $10 self-addressed stamped envelope must be provided. Contact C.A.B. Consultants, 503 N. Clayton, Hillside Ill. 60162; 312-544-2087.

• Krames Communications has published a new eight-page motivational resource, **"Fitness at the Terminal—Comfort Tips for Computer Users"** The colorfully illustrated pamphlet shows simple exercises to relieve fatigue and discomfort that may result from sitting in front of a computer terminal for a long period of time. For a free sample copy write to Krames Communications. Department FAT17, 312 90th St., Daly City, Calif. 94015-1898.

• **"Comfortable Retirement: Your Guide to Achieving a Financially Secure Future"** is the title of a new 16-page booklet from Fax Communications Inc. that details basics of financial planning, including investments, what to expect from Social Security and where to go for more information. For a free sample copy of the booklet write Fax Communications Inc., Department BI, 3279 20th St., San Francisco, Calif. 94110.

• The first edition of DIGEST, a quarterly review of **workers compensation issues** published by the National Council on Compensation Insurance, discusses such topics as workers compensation in the age of Gramm-Rudman, video display terminals and workers health and safety. The book is distributed, without charge, to insurance professionals, regulators, legislators, academics and libraries. A copy may be obtained from the National Council on Compensation Insurance, Kathy Spicer, Public Affairs, 1 Penn Plaza, New York, N.Y. 10119; 212-560-1014.

• State legislatures enacted more than 235 laws in 1985 covering almost every aspect of workers compensation benefits, and a new record number of U.S. workers were covered for such benefits, according to the **1986 Analysis of Workers' Compensation Laws** published by the U.S. Chamber of Commerce. The annual analysis tracks statutory provisions of workers compensation laws in all 50 states, the District of Columbia, Guam, Puerto Rico, American Samoa and the U.S. Virgin Islands, as well as the federal, provincial and territorial laws of Canada. It also contains 16 detailed charts of such things as the type of law and insurance requirements. Copies are available at a single copy cost of $12 postpaid with reduced costs for bulk orders. Orders should specify both the title and publication No. 6893. Contact the U.S. Chamber of Commerce, 1615 H. Street, N.W., Washington D.C. 20062; 301-468-5128.

• Want to know what industry leaders are saying about **civil justice problems**? The Insurance Information Institute and Fordham University have published a comprehensive bibliography entitled "Civil Justice Information Resources. Among the subjects covered in the bibliography are alternative dispute resolution, automobile accident compensation, civil justice and litigation issues, frivolous lawsuits, jury trials, statutes of limitations, statues of repose and tort law and reform. Types of insurance covered in the book include liquor liability, medical malpractice, product liability, professional liability and workers compensation. Single copies of the bibliography are available for $20 from Insurance Information Institute, CJIR, 110 William St., New York, N.Y. 10038.

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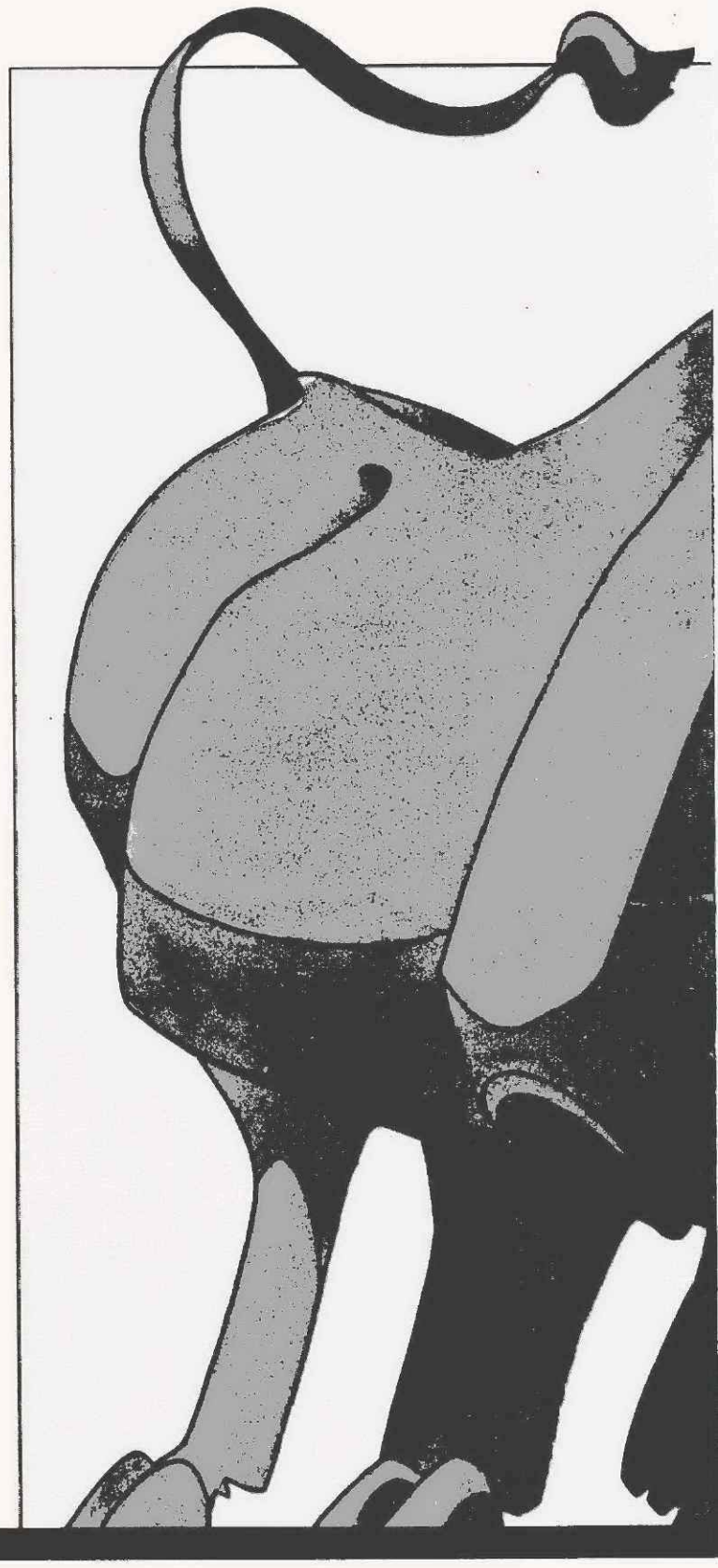
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Persian Gulf hull war risk claims increase

By STACY SHAPIRO

london

LONDON—Marine underwriters face roughly $30 million in hull war risk claims from fighting last month between Iran and Iraq in the Persian Gulf near Sirri Island, says Richard Outhwaite, chairman of Lloyd's of London's Underwriters' Assn.

In August, 15 vessels were hit near the Iranian oil terminal on Sirri Island, according to Mr. Outhwaite. About 12 of these vessels, two or three of which may be total losses, were at least partially insured by Lloyd's war risk underwriters, he said.

Lloyd's List has estimated about 49 vessels have been damaged in the fighting between Iran and Iraq during the past six months. Claims from these ships total about $150 million, Mr. Outhwaite said.

Underwriting resumes

Lloyd's of London is allowing a syndicate managed by Posgate & Denby (Agencies) Ltd. to resume underwriting after Lloyd's forced the syndicate to stop writing in May.

Marine/incidental non-marine syndicate 488/522 was told by Lloyd's to stop underwriting on May 1 because Posgate & Denby had failed to obtain errors and omissions coverage for the syndicate, which is required by Lloyd's.

In addition, Lloyd's told Posgate & Denby in mid-May that the syndicate should not recommence underwriting even if the agency did obtain E&O coverage because the syndicate was close to exceeding its premium limit. However, last week Lloyd's announced that Posgate & Denby has decided to delegate its management authority for the syndicate to Philip N. Christie & Co. Ltd. As a result, Lloyd's says syndicate 488/522 "is free to commence underwriting" under the management of Philip N. Christie.

Coverage for lawyers

About 30 to 40 British law firms are forming a mutual insurance company in London to provide additional professional liability coverage.

London market observers say it may be the first of what could be many similar mutuals that will be formed to provide British professionals with additional coverage.

The mutual, Solicitors' Indemnity Mutual Insurance Assn. Ltd., which opened for business last week, will write excess professional liability coverage limits of about 1 million pounds ($1.5 million) for its members, which are all London law firms with 10 or more partners, said Michael Summerskill, directors of Solicitors' Indemnity Mutual Insurance Assn. Management Ltd., which manages the mutual.

The mutual will write coverage excess of a 500,000-pound ($750,000) self-insured retention, Mr. Summerskill said.

Two Lloyd's brokers, Thomas Miller & Co. and Tindall, Riley & Co., will manage the new mutual jointly through SIMIA Management, said Mr. Summerskill, who is also a director of Thos. Miller.

SIMIA will pay dividends to member law firms depending upon the insurer's loss experience, Mr. Summerskill said. He would not reveal the financial details of the mutual except to say that they had been approved by the British Department of Trade and Industry.

Plans for the mutual were started about a year ago when British lawyers "noticed that there was a shortage of capacity," said Mr. Summerskill.

British lawyers must purchase at least 500,000 pounds of professional liability coverage, according to the rules of The Law Society, which represents lawyers throughout the country. This coverage can be obtained through an insurance program led by Guardian Royal Exchange Assurance P.L.C. and sponsored by the British Law Society.

IUMI conference

This week's International Union of Marine Insurance conference in Hamburg, West Germany, will be an important forum for marine underwriters worldwide, said David Lowen, chairman of the Institute of London Underwriters, which represents London insurance companies that write marine coverages.

"No one will deny in Hamburg that we are already embarked on one of the most challenging periods we have ever known," said Mr. Lowen.

Delegates to the conference representing marine insurers worldwide will discuss hull, cargo, war risk and oil rig coverages at a time when the world's shipping industry is depressed and activity in the oil and gas industry has slowed measurably, he noted.

"One of the two workshops at this year's IUMI conference in Hamburg will pose the question, 'Where is the hull market going?' At the risk of being facetious, it is a question to which all marine underwriters would like to know the answer," said Mr. Lowen.

Hull rates have increased over the past year, and underwriters are tallying profits considering there haven't been any major hull losses in three years, he said. But, Mr. Lowen asks, "are we being lulled into a false sense of security by this? When the casualty pendulum swings again, as it surely will, is premium income currently sufficient—or rating levels high enough—to put aside reserves to cope with large losses in the future? I doubt it very much."

The most worrisome area for marine underwriters is the state of the insurance market for offshore oil and gas rigs, he said, noting massive investments in drilling rigs and production platforms had been a boon to marine underwriters for years.

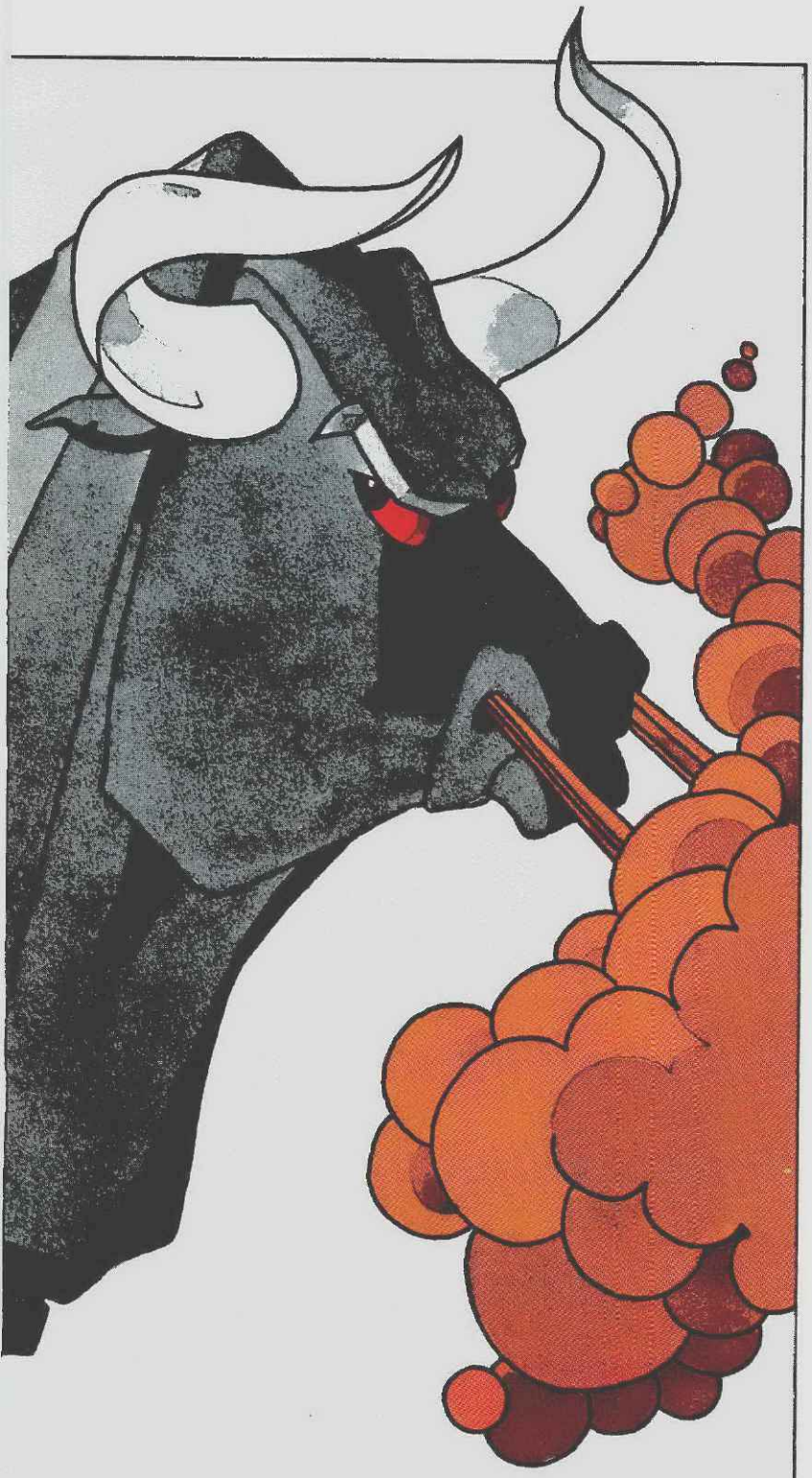
"Overall the premium income generated by the offshore industry has been a welcome buffer against losses on the traditional marine book of business," he said.

But, he added, "I doubt whether this will continue" with the decreased activity in oil drilling.

Non-U.S. reinsurance

London reinsurers appear to be more willing to reinsure U.S. liability risks faced by non-U.S. companies during the upcoming year-end renewal season.

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Continued from page 23

When London market reinsurers renewed non-North American casualty reinsurance programs last year, they banned coverage for all North American operations except strictly sales and distribution offices.

The reinsurers also said last year that, starting in January 1987, they would exclude coverage for U.S. and Canadian exports in non-North American reinsurance programs, unless the coverage was written on a claims-made basis. And, they said they would no longer reinsure policies that covered litigation taking place in the United States or Canada.

However, according to the Reinsurance Offices Assn. in London, "it is now clear that this will not be a coordinated market requirement but will be the subject of individual negotiation between reinsurers and the reinsured."

The ROA says that these so-called Expona exclusions have been the subject of "considerable discussion and revision." The ROA hopes that the latest Expona 1987 revision will be available by year-end renewals.

Brooks & Dooley

About 90% of the 915 Lloyd's of London members who belong to syndicates managed by Brooks & Dooley (Underwriting) Ltd. have agreed to release expelled Lloyd's underwriter Raymond Brooks from any liability arising out of alleged misappropriation of the syndicate's funds.

Jack Alston, chairman of Brooks & Dooley, and Mark Farrer, chairman of the committee representing the Brooks & Dooley names, announced that 824 members agreed by July 25 to accept Mr. Brooks' offer to help return more than 2 million pounds ($3 million) in syndicate funds. The agreement was made on the condition that Mr. Brooks be released "from any liability" arising from a Lloyd's disciplinary report concerning the actions of Mr. Brooks, Lloyd's underwriter Terence Dooley, their associates and Brooks & Dooley (*BI*, July 21).

In 1984, Lloyd's charged Mr. Brooks and Mr. Dooley with benefiting from reinsurance placed for the syndicates with Fidentia Marine Insurance Co. of Bermuda. Lloyd's expelled Mr. Brooks, while Mr. Dooley was temporarily suspended (*BI*, July 16, 1984; Dec. 18, 1985).

Mr. Alston and Mr. Farrer announced last month they had received no reply from the executors of the estates of 19 syndicate members who had died. Also, four members of Brooks & Dooley syndicates "expressly repudiated the offer, and several others complained that the papers have not reached them—which matter is being attended to," Messrs. Alston and Farrer said.

PWS acquisition

Lloyd's of London broker PWS International P.L.C., which recently completed its merger with Howard Group, has acquired another Lloyd's broker.

PWS is now buying Lyon Holdings Ltd. for 928,000 pounds ($1.4 million) in cash. PWS announced that it intends to retain Lyon's Lloyd's brokerage subsidiary, Lyon Traill Attenborough Ltd., and sell Lyon's life and pension business to Windsor Securities (Holdings) P.L.C. for 400,000 pounds ($600,000).

Sir Alan Traill, chairman of Lyon and the former Lord Mayor of London, will join the PWS board. Lyon Traill Attenborough brokers international non-marine and marine insurance and reinsurance business.

Comings and goings

John A. Barton, formerly insurance manager for Sketchley P.L.C., has been appointed assistant insurance manager at Tetra Pak Insurance Services Ltd. and will report to Hugh R. Loader, group insurance manager for Tetra Pak.

David P. Trezies, formerly chairman of the aviation and aerospace division of Lloyd's broker Alexander Stenhouse Ltd., has been appointed deputy chairman and managing director of Lloyd's broker Sedgwick Aviation Ltd. Alexander Stenhouse has not yet announced a new chairman.

John H. Shapiro has been promoted to deputy chairman of broker Sedgwick Marine Ltd. ■

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FUTURE SHOCK

Brokers must evolve to continue major role in industry

By H. Felix Kloman

PERHAPS IT ISN'T fair to offer some coldly sobering thoughts on the future of the insurance distribution system in the United States at a time of dramatically increasing profits for brokers. But, fair or not, that's the assignment. These comments, then, are designed to challenge conventional thinking in periods of euphoria.

Biological analogies have been the stuff of instruction from Aesop and the Biblical authors to George Orwell and Lewis Thomas. It is perfectly fitting, therefore, that we reflect on a few animals—lemmings, sea turtles and "rough beasts"—in order to help focus our thoughts on the insurance distribution system and how it works.

Let's begin with the current insurance industry environment—it's one of extreme ambivalence. On the one hand, both insurer and broker profits are increasing rapidly. The general economy appears sound.

On the opposite side of the ledger, there are real notes of pessimism and muted rumblings of change. My actuary associates, for example, still say property/casualty insurance companies are under-reserved. Many insurance buyers simply can't obtain the coverage they want. The industry is under attack and review by consumer advocates, regulators and Congress.

Despite the apparent black ink, I suggest that the insurance industry may well already be a paraplegic.

First, it shot itself in the foot with unbridled price competition from 1978 to 1984. Now the insurance industry may well have shot itself in the other foot—with price increases, cancellations, coverage restrictions and, perhaps most importantly, its seeming inability to communicate effectively with its customers and with the public.

While the ledgers gleam brightly, the industry has no feet left to shoot off.

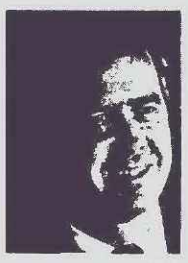
The aphorism of Henry James about science being "the absence of prejudice in the presence of money" comes to mind. Looking back on the most-recent years of the "soft market," we could say that insurance underwriting has been "the absence of judgment in the presence of premiums." Furthermore, whatever image the industry had is severely tarnished.

Are underwriters truly condemned to repeat, over and over, the same self-destructive steps they have taken before? Will brokers follow blindly?

Recently, a prominent and responsible risk manager returned from Europe and London with the comment, "I can't believe the outright gourmandizing and greed that I found." That's the image he brought back to North America to his chief financial officer and his peers. He is experienced, perfectly willing to pay a fair price and to maintain loyalties, but his confidence had been shaken and he now sees a new image in the market. Perhaps it is incorrect, but it's the image that he, and others, are passing on.

This mad rushing from one market extreme to another brings to mind the first biological analogy: the lemming.

The lemming is an extraordinary and not fully understood animal, much like the insurance underwriter. According to the 1926 edition of the Encyclopaedia Britannica: ". . .in certain districts and at uncertain intervals, they steadily and slowly advance, always in the same direction. The onward march of survivors never ceases until they reach their goal, at which time they perish. Impelled by the restless instinct possessed by many of them, the whole body moves forward slowly, always in the same general direction, notwithstanding the destructive influences to which they are exposed. The progress may last from one to three years, till the goal is reached, and those remaining perish, committing what appears to be voluntary suicide. They are only acting under the same blind impulse that has led them previously to the same conclusion."



H. Felix Kloman is a principal and vp with Tillinghast/Towers, Perrin, Forster & Crosby in Darien, Conn. He delivered this address to the annual meeting of the National Assn. of Insurance Brokers in May.

speaking out

Are underwriters truly condemned to repeat, over and over, the same self-destructive steps they have taken before? Will brokers follow them just as blindly? If they are to avoid a lemminglike periodic self-extinction, brokers and insurers alike will have to face some key issues very realistically. I suggest that there may be seven such issues, among others, that could significantly affect the insurance industry in the next decade:

- **Expenses.** First, there is the ogre of expense control. Allowing expenses to rise (and fall) strictly as a function of premiums may eventually be tantamount to seppuku (remember that our subject is already footless!). The current high expense ratios, bespeaking relative inefficiency, especially in the distribution system, may well kill the industry or at least open the door to other, more efficient financial services organizations.

The key is to learn how to understand and use improved technology to respond innovatively to key and individual market segments. To permit a 30% expense ratio to remain unaddressed by the industry is to leave the Achilles' heel uncovered!

- **Globalization.** Over and over in the past few years, we have been hammered with the need to think and act globally. Customers of the insurance industry, even smaller commercial organizations, have international exposures. The larger brokerage houses have addressed these needs and have led the industry, but most smaller intermediaries really haven't come to grips with the problem (and its opportunities). International organizations are going to be necessary to serve these customers. But only a few insurers have taken steps to build themselves internationally.

- **Competition.** The distribution system no longer will be restricted simply to direct insurers, agents and brokers. Banks, securities firms, investment houses, accountants, utilities, retail giants and even consultants will be trying provide a wide range of insurance services that once were considered a private preserve. More and more, even the customers of the industry are entering the business and becoming fresh competition.

- **Consolidation.** With increased economic stress, increased economic volatility and the cyclical nature of the business that has been demonstrated over and over again, we will need to consolidate and concentrate our resources. There are probably 50% too many insurers in the United States. While we probably have sufficient capacity and surplus to meet the needs of the buying public, we simply do not have a system to tap those resources as intelligently and efficiently as possible. As a result, the next decade probably will produce reduced market fragmentation and therefore increased financial stability and capacity.

Banks, investment houses, accountants, utilities, retail giants and even consultants will be trying provide a wide range of insurance services.

- **Consumer focus.** Most insurers in the United States traditionally have not sold directly to their marketplace, but have sold indirectly to their agents and brokers. They have catered to the agency/brokerage system. While the American agency system served its public well for a rather long period of time, its time may well have come and gone. The insurance industry has needlessly insulated itself from its real market. Risk managers and chief financial officers today in the commercial market are significantly more knowledgeable and sophisticated. They want a direct part in their risk-financing negotiations.

- **Regulation.** Deregulation is continuing, with the prospect that some form of re-regulation will occur within the next five years, probably on the federal level. The McCarran-Ferguson Act's exemption from antitrust shows signs that it may have outlived its usefulness, and if financial stability continues to be a problem, we must look for a stronger, more-centralized regulatory structure.

Frankly, the best approach may be that now open to the banks: the ability to elect either state or federal regulation, depending on the scope of operations.

- **Tort reform.** This issue has been argued incessantly in the press and legislatures. Federal tort reform is unlikely in the short term. State-by-state tort reform is more likely, but such an approach will be fragmented, and in many cases new laws may be overthrown by court challenges.

The problem, in reality, is not the structure of our tort liability system. It is *how* it is used. It also lies in a national societal problem: Americans have adopted a lottery complex. We seem to survive solely in hopes of the high hit: winning a state-sponsored numbers game or cashing in on a large jury award.

I don't believe there is anything structurally wrong with our tort liability system. The users, *not* the system, are at fault. While fine-tuning is absolutely necessary, we won't make any real progress until we start to address the underlying social problem that pervades this country.

Now let's look at the future insurance and risk-financing distribution system in light of these critical issues. I have some suggestions for today's brokers and tomorrow's survivors.

There are two key concepts surrounding my view of the future. First, brokers are here *primarily* to distribute ideas and information, not insurance. Some brokers would accept that basic assumption.

Second, these ideas and information pertain to the risk management process, not just to insurance. Brokers must focus as much on risk assessment and risk control as on risk financing. If these concepts are valid, and they may not be, my forecast is that traditional insurance will become only a minor part of broker services in the next decade.

Robert Nevins, former executive vp and chief operating officer at Fred S. James & Co. Inc., presented a very thoughtful analysis of some of the problems facing brokers in March 1986 at a symposium sponsored by Corroon & Black Corp. His comments stimulated my ideas on the future of the distribution system. The following five suggestions for those who will survive in the insurance brokerage business are, in part, drawn from Mr. Nevins' predictions:

- **Improvement in credibility.** The key problem that brokers and insurers face with their customers

Continued on next page

perspective

Brokers must assess role in industry

Continued from previous page
is a lack of credibility, and the recent market turmoil has only accentuated the problem. How can this problem be turned around?

One way is to address seriously the broker's relationship with the client. The commission system, tying remuneration to premium volume, causes friction in both hard and soft markets. When rates are low, the broker starves; when they are high, he may receive a windfall profit. Neither is conducive to a consistent level of risk management (or even insurance placement) services and to a solid relationship with a client financial officer.

Participation in underwriting organizations is another sore point. Can a broker both be an intermediary and participate in underwriting profits?

Investment in fiduciary funds is yet another problem. Is it right to withhold funds from underwriters, even legally, and earn investment income on these funds? Can a broker serve as both agent and broker? Is it right to advance one's firm as a "broker," serving only the interests of a client, and yet retain an agent's license so as to take higher agency commissions?

While there are some plausible answers to these criticisms, each is a point of friction with customers. Unless they can be addressed intelligently and thoughtfully, they may well further erode the credibility of the broker.

For a long time, going back to the mid-1960s, I have suggested that, for larger commercial accounts, a fee-based remuneration system would be a start to removing some of these credibility problems and to helping restore some credibility between brokers and customers.

Negotiated commissions may well be an equally satisfactory way of reaching that goal. Fuller disclosure of operating procedures and results also may improve the situation.

The issue remains credibility. The insurance business, however, has a long way to go before it can attain the same level of credibility as that achieved, for example, by banking.

I see a complete transition coming. By the year 1995, most larger commercial clients will be on a fee system, based on hourly time charges. If this seems improbable, just look back at the employee benefits business. Thirty-five years ago, it was a commission-based business. Today it is 90% fee-based, even in the largest brokerage houses.

- **Relationship with clients.** More structure and definition is needed in the broker's relationship with the client. In the next decade, there will be more formal written agreements between broker and client. Many will be three to five years in term. And, there will be more direct contact, fostered and encouraged by the broker, among the risk manager, the insurance company underwriter and the reinsurance underwriter.

Recently, a leading European reinsurance executive remarked that his underwriters wanted to see, face-to-face each year, the risk managers and financial officers of the corporations covered by the insurers they were reinsuring. The reinsurers wanted a better handle on the initiator of the risk.

There will probably be significantly less bidding and less competition per account, in part because the fee or negotiated commission relationship will enhance the credibility of the broker/adviser. There will be more time devoted to client needs and less to the needs of the insurance industry.

- **Quality of staff.** There is already keener competition for staff from other service organizations, like accountants, lawyers, consulting firms and banks. The highest level of professional competence probably will require more building and training of staff from within, as most of the above organizations already have done. Continuing education will become a major internal responsibility.

This should, I hope, lead to less paper shuffling and less individual producer-control of clients. A corporation will be a client of the firm and not of any one individual: This will accentuate the team approach to service.

- **Nature of work.** The work performed by the broker will become much more advisory and problem-solving in nature and much less involved in the pure marketing of insurance. One advantage to this will be longer-term relationships with insurers and reinsurers. Some organizations are now discussing a possible 10-year insurance contract: five years followed by a five-year guaranteed renewal for major primary property and casualty insurance policies.

There will be more emphasis on highly skilled technical services such as actuarial analysis, risk assessment, crisis management, captive management, claims management, risk control and serving as a third-party administrator.

There will be more emphasis on thorough and continuous communications with the client. Frankly, this is one of the areas where the brokerage community has been the weakest. Consider the almost chronic complaint of chief executive officers, chief financial officers and risk managers about renewal quotations that are dumped on their desks 24 hours prior to anniversary, with a "take it or leave it" attitude.

The failure to keep a client advised, from risk manager to chief executive officer if necessary, on the progress of renewal negotiations and their probable outcome has been a continuing problem. Many brokers have indeed been working very hard, but they have failed to communicate to the client what they have been doing

The annual stewardship report is another sound tool for communication. They soon will be considered absolutely essential in a sound client relationship. A stewardship report will include a full and explicit discussion of what has transpired during the past year, the objectives for the coming year and a recap of broker income and expenses on the account for the year, among other items.

Other innovative ideas will be adopted in dealing with clients. The "risk management retreat," another of Mr. Nevins' ideas, is worth considering. The broker, risk manager and their staffs go off to the country for a two-day retreat to discuss and review the entire risk management program. At the conclusion of these two days, senior management from the brokerage firm and the corporate client come in to listen to conclusions and approve direction for the next 12 months.

These are the kinds of communication ideas that work and that will change both the nature of the broker's work and the relationship with the client.

- **Time and organization.** It is likely that survivors in the insurance brokerage world will be either very large or boutiques.

In order to meet global demands, some will have to be quite large to meet the requirements of their clients. This will result in a major challenge to management: How do we manage firms this large? How can we provide proper incentives to our professionals?

On the other end of the scale, we probably will see a drastic shrinkage in independent agents and smaller firms, possibly by as much as half by 1995. The remaining smaller firms will be narrowly focused boutiques, with very specific market niches.

Whether the future successful brokerage firms will be public or private is a question that probably cannot be answered at this time. There is a strong voice that argues that a professional service organization can operate successfully only if it is owned by its employees (a few, but not many). The pattern established by lawyers, accountants and consultants is too strong to overlook.

While public ownership may have accounted for the rapid growth of major brokers over the last 20 years, there could be a renewed interest in privatization, especially if the nature of the work moves more toward consulting and a fee basis of remuneration.

Without the potential for large windfall profits to sustain outside investors, and with privately owned firms cutting into their traditional territories, public investors may decide to employ their funds elsewhere.

This leads to the second biological analogy. The survivors in this business may be akin to the giant sea turtles. They are, as you know, toothless reptiles, but in part because they are calm and placid, they are long-lived. They have persevered. Perseverance, especially in the face of changing conditions, calmness in storms and pacificity may well be the new habits of broker survivors.

Where does all this lead us?

The future of the distribution system will be epitomized by, first, a continued blurring of the traditional lines of separation in financial services. That will affect clients as well as brokerage firms.

Second, the large will be larger, and the small will be highly focused boutiques.

Third, the old-fashioned agency mentality will be replaced by a stronger client orientation, including a transition to a fee basis of remuneration over the next decade.

Fourth, expect increased pressure from more-knowledgeable and more-responsible risk managers. The business schools every year are producing leading MBA candidates who are entering risk management. The high quality of students entering the risk management field will stimulate a more-professional response from all service providers.

Fifth, a global response is absolutely necessary.

Sixth, and finally, competition no longer is restricted to those who call themselves "insurance brokers" or who hold brokers' licenses. There will be many new players offering counsel, advice and even placement. They will be accountants, banks, consultants and even clients themselves.

This is why it must be obvious that the future is less one of competition than one of cooperation. We are all in this together. The risk management movement is broader and wider than insurers and brokers and consultants and regulators and accountants and all of the others combined.

Carl Sloan, who stepped down last year as president of ACME Inc., the association of management consulting firms, and who heads Temple, Barker & Sloane in Boston, gave in his final president's speech to the consulting community some important observations. He said that we have within the profession a strong but generally unappreciated community of interests.

Though he was referring to management consultants, it could also be applied to risk management when he said, "When your firm produces superlative work, my firm wins because in doing superlative work you upgrade the strategic value and validity of all consulting services generally, and by so doing, expand the total size of the market. When your firms fail to do superlative work, my firm loses in the same way. We are inextricably intertwined in this manner."

Mr. Sloan's conclusion suggests that if we don't respond to this new environment, someone else is likely to step in and solve the problem for us. Major change is called for and will probably occur. We cannot continue to do what we did in the past and survive.

Richard Stewart, writing last year in Commentary, Marsh & McLennan Cos. Inc.'s quarterly publication, summed it up: "Most likely, therefore, is the. . .probability that our present problem will be met by a newcomer barging in and rewriting the rules of the game. It may look like an association captive daring new heights. It may be a fund to compensate without fault, but as an exclusive remedy, those injured by an approved new drug. It may look entirely new."

This brings up the final biological analogy. In "The Second Coming" by William Butler Yeats, the poet wrote, "What rough beast, its hour come round at last, slouches toward Bethlehem to be born?"

So I leave you to think about lemmings, sea turtles and some rough, unnamed beast, a future competitor. . .

Will RMIS solve claims-made morass?

By David A. Tweedy

THE CONTROVERSY surrounding claims-made commercial general liability policies continues, as any risk manager knows. But the discussion now seems to focus on the realities of the new claims-made CGL form as risk managers seek to adjust their current risk management and insurance programs to cope with the changes this new form brings.

Inevitably, astute risk management professionals already have been asking questions concerning how a risk management information system could be applied to the problems created by the new CGL form.

However, since all the implications surrounding the claims-made issue have not been identified, the RMIS-vendor community has been relatively silent in how to offer remedies to beleaguered risk managers.

I don't blame them. There are many complex issues involved. Some can be remedied through the use of a well-designed RMIS, others can't.

In considering this issue, three major questions occur to me regarding risk management information systems and the advent of the claims-made general liability revolution. One of these questions will be examined in this month's column; the other two questions will be examined next month.

The first question is: Are risk management information systems the panacea to the problems created by the new claims-made form?

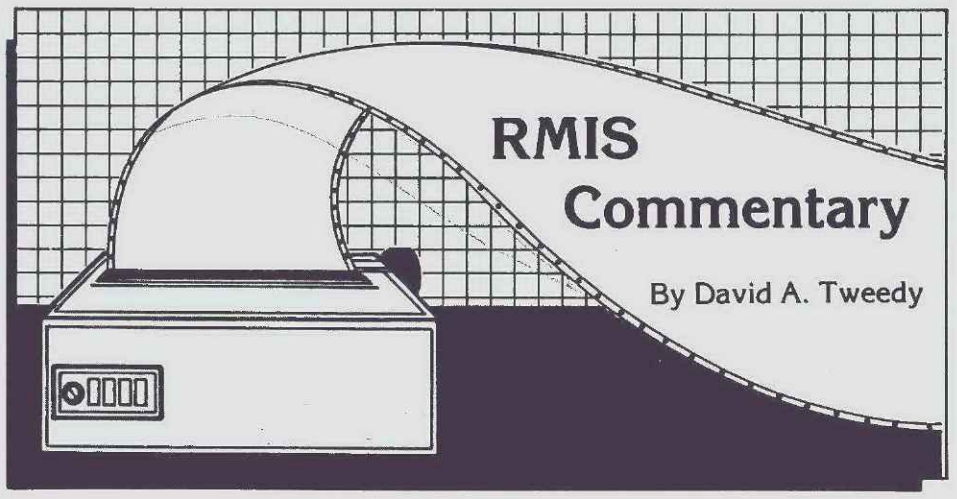
Probably not. We already know that the computer is not the solution for every problem. It is only a tool; the risk manager is the only problem solver. In some cases, a yellow legal pad, a pencil and timely loss runs may be all the risk manager needs to track incidents or monitor aggregate layers for impending exhaustion.

Nevertheless, as an effective tool, the RMIS could be used in several key areas pertaining to claims-made CGL forms:

• **Incident tracking.** Many risk management information systems perform this function already. The new claims-made CGL requires that notice of an incident be made to the insurer as soon as possible in order to trigger the coverage. Under this definition, the risk management professional will be forced to report volumes of potential claims as incidents to the insurance company, to satisfy that definition of the policy. That means an increased frequency in reporting to the insurer.

An RMIS would be quite useful in accurately documenting these incidents—when they occurred, when they were reported, when they actually became claims, etc. The records stored by the RMIS would be a backup document to verify when the incident was reported if there is a question by the insurance company.

It would also serve as a data-base foundation for a coverage tracking module designed to help the risk manager report and list claims under the right policy and in the right aggregate column (i.e., between products/completed operations and bodily injury/property damage).



• **Monitoring aggregates.** Although claims-made policies are not new, the claims-made CGL, with its greater frequency of potential claims and new aggregate limit on bodily injury/property damage claims, increases the possibility of piercing excess layers of coverage.

Because of the annual aggregate now placed on much of the coverage provided under a CGL policy, the monitoring of remaining aggregate amounts becomes critical, especially to those companies with no umbrella or excess liability policies.

• **Flexible data base.** One of the key advantages of an RMIS is its ability to track and sort on a variety of topics. A large multilocation corporation with high general liability claims frequency not only needs to record and measure claims from a reserving standpoint, they must now also worry about nasty constraints such as prior acts dates, aggregate limits exhausting, extended report periods, laser endorsements, whether the ERP (or tail's) limits are replenished, etc.

By interfacing the claims incident reporting data base and a specific coverage module that allows for segmenting claims by the type of exposure (i.e., bodily injury/property damage, personal injury, product/completed operations, etc.), a risk manager can monitor high frequencies of general liability claims and exhaustion of aggregate layers and begin to predict when the umbrella limits will be reached.

Further, the data base allows verifying documentation to an insurer in case a dispute arises over whether an aggregate has been reached.

• **Marketing tool.** An obvious advantage to the risk manager is the ability to present claims-made loss data to excess insurers when looking for coverage. This has always been a significant contribution of risk management information systems.

The key to a successful software application in this area, however, is flexibility. It is probable that excess insurers will ask for supporting underwriting data in a variety of formats. Some may wish to see the last five years of bodily injury/property damage claims; some may want to focus on products/completed operations claims. The RMIS must have significant data-base flexibility to sort a wide variety of data elements.

• **Management tools.** There is another existing asset of an RMIS, especially useful to the risk manager on the claims-made problem. An RMIS is a great management tool.

The ability of an RMIS to summarize vast quantities of data into a single table, chart or graph aids the risk manager in briefing his or her superiors on topics ranging from loss experience three years ago to the cost of risk projected in the upcoming year.

It also promises to provide an ability to assist the risk manager to capsulate divergent general liability claims information for a variety of locations over a period of time under certain assumptions.

For example, a well-designed coverage/claims module could instantly tell the risk manager and superiors about which aggregates are in danger of exhaustion, which claims were not covered due to prior acts and/or tail provisions, etc. Data base and reporting flexibility, as well as the ability to summarize information quickly and efficiently, are two key tools of an RMIS that the risk manager can employ in solving the problems caused by the claims-made liability forms.

This sounds wonderful. It would appear that the RMIS may be a panacea to the gremlins caused by the claims-made policy.

In next month's RMIS Commentary I will analyze the problems confronting the vendors in the creation of a suitable software module, as well as other issues related to CGL forms.

David A. Tweedy is a risk management consultant for D.A. Betterley Risk Consultants Inc. in Worcester, Mass. He is the assistant editor of Betterley Risk Management Commentary and the author of RMIS Update, a yearly publication analyzing major risk management information systems and vendors. His column on risk management information systems appears the third Monday of the month.



Construction damage covered by owner

legal briefs

Liability for water damage to a condominium construction project was covered by a property insurance policy purchased by the project owner, according to the U.S. Court of Appeals for the Second Circuit.

Kajima International was the general contractor on a condominium project, Seawinds Joint Venture, in Florida.

Kajima retained South Florida Air Conditioning Inc. as a subcontractor to install the air conditioning system.

During construction, a clamp and hose slipped off the adapter of the air conditioning unit causing water to flow out of the hose, down the elevator shaft and down 16 floors of the project.

Under Kajima's contract with Seawinds, the latter was required to purchase property insurance that would cover the interests of the owner, contractor and subcontractors.

This insurance was provided by Tokio Marine & Fire Insurance Co., which indemnified for loss to the property of the project.

Furthermore, Seawinds and Kajima waived all claims against each other and against all subcontractors to the extent covered by the above insurance.

Employers Insurance of Wausau provided liability insurance covering damage to third parties arising from the construction project. This insurance policy was obtained by South Florida Air Conditioning pursuant to its subcontract with Kajima.

Tokio indemnified Kajima for the full damages of over $700,000, and then brought this suit, along with Kajima, to collect from Employers of Wausau. The trial court ruled in their favor and against Employers of Wausau.

The appellate court reversed, stating that the only reasonable, conceivable purpose of the construction contract provision placing an obligation on the owner to carry insurance was to benefit the contractor by providing him protection and exculpation from risk of liability for the insured loss.

The contract insurance provision, the court said, was valuable to the contractor for the very purpose of limiting the owner to insurance proceeds even though the loss may have been caused by the negligence of the contractor.

Thus, the court said that Tokio and Kajima had no claim against Employers of Wausau. *Tokio Marine & Fire Insurance Co. vs. Employers Insurance of Wausau*, U.S. Court of Appeals for the Second Circuit, March 20, 1985.

These abstracts were prepared by Cases Unlimited Inc. Copies of these decisons are temporarily unavailable.

datebook

SEPT. 22-23. Case Management: High Cost, High Risk, High Rewards conference in Chicago, sponsored by Charles D. Spencer & Associates Inc.; $475; $400 for EBPR Research Report subscribers. Charles D. Spencer & Associates Inc., 222 W. Adams St. Chicago, Ill. 60606; 312-236-2615.

SEPT. 22-23. Offshore Insurance Company Operations for Banks and Other Financial Institutions: The Mechanics of How to Set Up an Offshore Insurance Company conference in Washington, D.C., sponsored by the Banking Law Institute; $795; $95 for each additional registrant from the same organization. Executive Enterprises Inc., 22 W. 21st St., New York, N.Y. 10010-6904; 800-223-0787; 800-831-8333 within New York.

SEPT. 22-24. Twenty-first Annual Meeting of the American Academy of Actuaries & 37th Annual Meeting of the Conference of Actuaries in Public Practice in San Antonio, Texas; $320 for AAA/CAPP members; $370 for non-members. Conference of Actuaries in Public Practice, 500 Park Blvd., Itasca, Ill. 60143.

SEPT. 22-25. Thirty-second Annual Seminar and Exhibition of the American Society for Industrial Security in New Orleans; $295 for ASIS members; $395 for non-members. American Society for Industrial Security, 1655 N. Fort Meyer Drive, Suite 1200, Arlington, Va. 22209; 703-522-5800.

SEPT. 23. Workers Compensation for the Day-to-day User in Anaheim, Calif., sponsored by Xordium; $95. **Also Sept. 25** in Bakersfield, Calif.; **Oct.8** in Corona-Norco, Calif.; **Oct. 15** in Los Angeles; **Nov. 5** in San Fernando Valley, Calif. Karen Gillett, Xordium, P.O. Box 8422, Newport Beach, Calif. 92658-8422; 714-759-1707.

SEPT. 23. Occupational Safety and Health Administration/Chemical Safety conference in Chicago, sponsored by the Illinois State Chamber of Commerce; $90 for ISCC members; $135 for non-members. Carol Jensen, Illinois State Chamber of Commerce, 20 N. Wacker Drive, Chicago, Ill. 60606; 312-372-7373.

SEPT. 23. Commercial Property Insurance course in Buffalo, N.Y., sponsored by the Professional Insurance Agents of New York; $55 for PIA members; $80 for non-members. **Also Sept. 24** in Rochester, N.Y.; **Sept. 25** in Syracuse, N.Y.; **Sept. 30** in Smithtown, N.Y.; **Oct. 1** Mt. Kisco, N.Y.; **Oct. 2** in Albany, N.Y. Professional Insurance Agents of New York, P.O. Box 98, Glenmont, N.Y. 12077; 518-434-3111.

SEPT. 24-27. CIC Life and Health Institute in Mystic, Conn., sponsored by the Professional Insurance Agents of Connecticut; $240. Professional Insurance Agents of Connecticut, P.O. Box 98, Glenmont, N.Y. 12077; 800-252-2726.

SEPT. 25-26. 1986 Tax Reform Act Conference in Chicago, sponsored by Charles D. Spencer & Associates Inc.; $425; $332.50 for each additional registrant from the same organization. Charles D. Spencer & Associates Inc., 222 W. Adams St., Chicago, Ill. 60606; 312-236-2615.

SEPT. 25-26. Sixteenth Annual Employee Benefits Institute in New York, sponsored by the Practising Law Institute; $395. Practising Law Institute, 810 Seventh Ave., New York, N.Y. 10019; 212-765-5700.

SEPT. 25-26. Managed Health Care: Legal and Operational Issues Facing Providers, Insurers and Employers seminar in New York, sponsored by the Practising Law Institute; $390; $40 for course handbook only. Practising Law Institute, 810 Seventh Ave., New York, N.Y. 10019; 212-765-5700.

SEPT. 26-27. Workers Compensation Lawyers Assn. Medical Seminar in Itasca, Ill.; $30 for arbitrators, commissioners, judges, professors, new bar admittees, law students; $50 for all others. Kenneth Gurber, Workers Compensation Lawyers Assn., 2 N. LaSalle St., Suite 1500, Chicago, Ill. 60602.

SEPT. 29. Association Captives: Answer to the Insurance Crisis seminar in Chicago, sponsored by Tillinghast, Nelson & Warren Inc.; $350. Conference Director, Tillinghast, Nelson & Warren Inc., 722 Post Road, Darien, Conn. 06820; 203-655-9791.

SEPT. 29-30. Strategic Planning for Organizing, Capitalizing and Implementing Industry-Owned Insurance Companies seminar in New York; $795; $695 for each additional registrant from the same organization. Executive Enterprises Inc., 22 W. 21st St., New York, N.Y. 10010-6904; 800-223-0787; 800-831-8333 within New York.

SEPT. 29-30. 1986 Casualty Loss Reserve Seminar in Chicago, co-sponsored by the American Academy of Actuaries and the Casualty Actuary Society; $300. Casualty Loss Reserve Seminar, 1720 I St. N.W., Seventh Floor, Washington, D.C. 20006; 202-223-8196.

SEPT. 29-30. Strategic Planning for Direct Marketing of Insurance Products Through New Distribution Systems in Boston, sponsored by Executive Enterprises Inc.; $795; $695 for additional registrant from same organization. Executive Enterprises Inc., 22 W. 21st St., New York, N.Y. 10010-6904; 800-223-0787; 800-831-8333 within New York.

SEPT. 29-30. Association Captives: Answer to the Insurance Crisis? seminar in Chicago, sponsored by Tillinghast, Nelson & Warren Inc.; $350; $50 for briefing, "Basics of Captives." Tillinghast, 722 Post Road, Darien, Conn. 06820-4798; 203-655-9791.

SEPT. 29-OCT.3. Managing Program Implementation course in Atlanta, sponsored by the International Loss Control Institute; $695. International Loss Control Institute, P.O. Box 345, Loganville, Ga. 30249; 800-554-6001; within Georgia 404-466-2208.

SEPT. 30. Automating Risk Management for Profit and Survival seminar in Miami, sponsored by SOFTEC Inc.; free. **Also Oct. 1** in Tampa, Fla.; **Oct. 2** in Jacksonville, Fla.; **Oct. 7** in Livonia, Mich.; **Oct. 7** in Dallas; **Oct. 9** in Houston; **Oct. 14** in Chicago; **Oct. 16** in Minneapolis; **Oct. 21** Washington, D.C.; **Oct. 23** in Baltimore; **Oct. 28** in New York; **Oct. 30** in Boston; **Nov. 4** Kansas City, Mo.; **Nov. 6** in St. Louis; **Nov. 11** in Cincinnati; **Nov. 13** in Cleveland; **Nov. 18** in Los Angeles; and **Nov. 20** in San Francisco. Jack Bergers, SOFTEC Inc., 33063 Schoolcraft Road, Livonia, Mich. 48150; 313-261-4440.

SEPT. 30. Sales, Marketing and Automation workshop in Clifton, N.J., sponsored by the Professional Insurance Agents of New Jersey; $35 for PIA members; $45 for non-members. Professional Insurance Agents of New Jersey, 130 W. State St., Trenton, N.J. 08608; 609-393-2228.

SEPT. 30-OCT.2. Corporate Healthcare Management '86 conference in Chicago, sponsored by the Illinois State Chamber of Commerce; 3-day rate after July 31: $350 for ISCC members, $450 for non-members; one-day rate: $140 for ISCC members, $180 for non-members. Marsha Woods, Andry Montgomery & Associates. 101 N. Seventh St., Louisville, Ky. 40202; 508-582-1672.

OCT. 1-3. Establishing and Auditing an Effective Product Safety Management Program in Chicago, sponsored by the National Safety Council; $415 for NSC members; $520 for non-members. Russell E. Marhefka, National Safety Council, 444 N. Michigan Ave., Chicago, Ill. 60611; 312-527-4800. Ext. 8130.

OCT. 2. Alcohol and Substance Abuse in the Workplace seminar in Miami, sponsored by the South Florida Health Action Coalition Inc.; $40. Dana L. Ferrell, Director of Health Resources, South Florida Health Action Coalition Inc., Suite 330, 7925 N.W. 21st St., Miami, Fla. 331126; 305-592-4936.

OCT. 2-3. Occupational Health Conference: Legal and Ethical Issues—Hazards at the Workplace conference in Sayre, Pa., sponsored by Guthrie Medical Center; $195. Donna Mundt, Employee Health Service Office, Robert Packer Hospital, Sayre, Pa. 18840; 717-888-666. Ext.4608.

OCT. 2-3. Thirty-fifth Governor's Industrial Safety and Health Conference in Spokane, Wash., sponsored by the State of Washington Department of Labor & Industries; $15. Lucille Cooper, P.O. Box 207, Olympia, Wash. 98504; 206-753-9648.

OCT. 2-3. Product Safety and Liability Prevention: Successful Defense of the Products Liability Lawsuit course in Madison, Wis., sponsored by the College of Engineering, University of Wisconsin at Madison; $595. Professor Richard A. Moll, Engineering Professional Development, University of Wisconsin, 432 Lake Street, Madison, Wis. 53706; 800-262-6243; 800-362-3020 within Wisconsin.

OCT. 2-3. International Insurance and Financial Services: A World View of Insurance Strategies and Operations seminar in Hamilton, Bermuda, sponsored by Tillinghast, Nelson & Warren Inc.; $850; $725 for each additional registrant from the same organization. Tillinghast Seminars, 3340 Peachtree Road N.E., Atlanta, Ga. 30026-4301; 404-261-5420.

OCT. 6-7. Successful Financial and Legal Strategies for Recovering Uncollectible Reinsurance conference in New York, sponsored by Executive Enterprises Inc.; $795; $695 for additional registrant from same organization. Executive Enterprises Inc., 22 W. 21st St., New York, N.Y. 10010-6904; 800-223-0787; 800-831-8333 within New York.

OCT. 6-8. Seventh Annual Governor's Safety and Health Conference in Anchorage, Alaska, sponsored by the Alaska Safety Advisory Council; $200. Nancy Cannington, Alaska Department of Labor, P.O. Box 7-018, Anchorage, Alaska 99510.

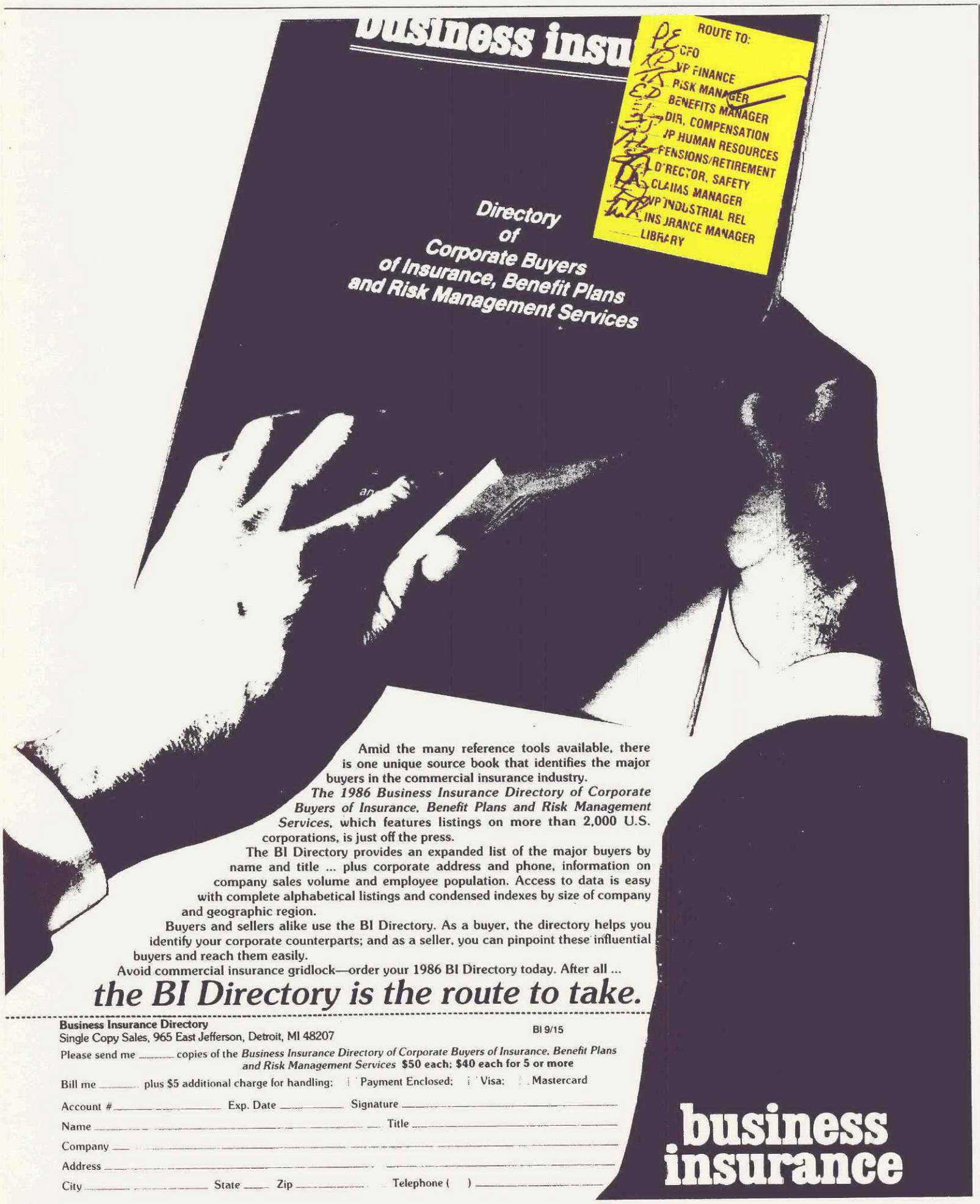
OCT. 6-10. Management and Administrative Skills for the Occupational Health Professional course in Los Angeles, sponsored by the University of Southern California, Institute of Safety and Systems Management; $700. Office of Extension and In-service Programs, 3500 S. Figueroa St., Suite 202, Los Angeles, Calif. 90007; 212-743-6523.

OCT. 7. Advanced Commercial Lines Rating course in Hartford, Conn., sponsored by the Professional Insurance Agents of Connecticut; $50 for PIA members; $75 for non-members. **Also Oct. 8** in Stratford, Conn.; **Oct. 29** in Hartford; **Oct. 30** in Stratford. Professional Insurance Agents of Connecticut, P.O. Box 98, Glenmont, N.Y. 12077; 800-252-2726.

OCT. 7-8. The Bermuda Insurance Marketplace seminar in Hamilton, Bermuda, sponsored by Malcolm Butterfield Associates; $155. **Also Oct. 14-15, Oct. 16-17, Oct. 30-31, Nov. 4-5.** Malcolm Butterfield Associates, P.O. Box HM 2100, Hamilton 5; 809-295-5472.

OCT. 8. In One Marketing Era—Out the Other course in Woodbridge, N.J., sponsored by the Professional Insurance Agents of New Jersey; $50 for PIA members; $75 for non-members. Professional Insurance Agents of New Jersey, 130 W. State St., Trenton, N.J. 08608; 609-393-2228.

Continued on next page



Amid the many reference tools available, there is one unique source book that identifies the major buyers in the commercial insurance industry.

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business insurance

Continued from previous page

OCT. 8-10. Risk Management Information Systems course in New York, sponsored by the Risk & Insurance Management Society; $600 for RIMS members; $700 for non-members. Risk & Insurance Management Society, 205 E. 42nd St., New York, N.Y. 10017; 212-286-9292.

OCT. 9. Protecting Directors and Officers: Risk Management Alternatives seminar in New York, sponsored by the Risk & Insurance Management Society; $125 for RIMS members; $175 for non-members. **Also Oct. 24** in Anaheim, Calif.; **Nov. 7** in New Orleans. Risk & Insurance Management Society, 205 E. 42nd St., New York, N.Y. 10017; 212-286-9292.

OCT. 9-10. National Institute on Workers Compensation in New York, sponsored by the American Bar Assn. Tort & Insurance Practice Section; $350 for ABA members; $325 for TIPS members; $375 for non-members; $300 for young lawyers; $75 for law students. American Bar Assn., Division for Professional Education, 750 N. Lake Shore Drive, Chicago, Ill. 60611; 312-988-6200.

OCT. 9-10. Coping with Employee Benefits Reform seminar in New York, sponsored by the Practising Law Institute; $390; $40 for course handbook only. **Also Oct. 23-24** in San Francisco. Practising Law Institute, 810 Seventh Ave., New York, N.Y. 10019; 212-765-5700.

OCT. 12-15. International Assn. of Industrial Accident Boards & Commissions 72nd Annual Convention in Louisville, Ky.; $175 for active member or associate member; $240 for non-member; $100 for spouse or guest. IAIABC 72nd Annual Convention, P.O. Box 10103, Bowling Green, Ky. 42101; 502-223-4018.

OCT. 14. The Risk Bearing Phenomenon—Alternatives to Traditional Insurance workshop in New Orleans, sponsored by the Society of Chartered Property Casualty Underwriters; $125 for CPCU members; $140 for non-members. **Also Nov. 17** in Washington, D.C.; **Nov. 19** in Los Angeles; **Nov. 21** in Seattle. Mari Jennings, Society of CPCU, Kahler Hall, 720 Providence Road, CB ‡9, Malvern, Pa. 19355; 215-251-2741.

OCT. 15. Cost Containment and Quality Assurance: The Impact on Today's Dental Profession symposium in East Rutherford, N.J., sponsored by Delta Dental Plan of New Jersey Inc.; $60. Delta Dental Plan of New Jersey Inc., 299 Cherry Hill Rd., P.O. Box 222, Parsippany, N.J. 07054; 201-334-6300. Ext. 342.

OCT. 15-17. Fortieth Annual Fall Conference Council on Employee Benefits in Boston, sponsored by the Council on Employee Benefits; $300 for CEB member company or association (for each individual); $350 for non-members. C.S. Lazaroff, Goodyear Relief Assn., 1144 E. Market St., Akron, Ohio 44316; 216-796-4008.

OCT. 15-17. Meeting Your Responsibility for Worker Training and Right to Know course in Los Angeles, sponsored by the University of Southern California, Institute of Safety and Systems Management; $400. Office of Extension and In-service Programs, 3500 S. Figueroa St., Suite 202, Los Angeles, Calif. 90007; 212-743-6523.

OCT. 15-17. Retirement Advisors Workshop in Chicago, sponsored by Retirement Advisors Inc.; $495. **Also Nov. 5-7.** Retirement Advisors Inc., 919 Third Ave., New York, N.Y. 10022; 212-421-2400.

OCT. 16. Risk Management: Challenges of Changing Times workshop in Northbrook, Ill., sponsored by Chicago, Wisconsin and Northeastern Illinois chapters of the Risk & Insurance Management Society; $75 for members of RIMS and prospective members. Patricia Benedick, Ameritech Corp., 30 S. Wacker Drive, Chicago, Ill. 60606; 312-750-5196.

OCT. 16-17. Buying Reinsurance in 1987 conference in New York, sponsored by Executive Enterprises Inc.; $795; $695 for additional registrant from same organization. Executive Enterprises Inc., 22 W. 21st St., New York, N.Y. 10010-6904; 800-223-0787; 800-831-8333 within New York.

OCT. 16-17. Risk Financing Alternatives: Coping With the Crisis in Coverage course in New York, sponsored by the American Management Assn.; $695 for AMA members; $800 for non-members. **Also Nov. 6-7** in San Francisco; **Nov. 24-25** in Chicago. American Management Assn., P.O. Box 319, Saranac Lake, N.Y. 12983; 518-891-0065.

OCT. 18. Burns: Emergency Management for Occupational Health Nurses course in Los Angeles, sponsored by the University of Southern California, Institute of Safety and Systems Management; $125. Office of Extension and In-service Programs, 3500 S. Figueroa St., Suite 202, Los Angeles, Calif. 90007; 212-743-6523.

OCT. 19-22. Asia/Pacific Conference in Singapore, sponsored by the Risk & Insurance Management Society; $500. Risk & Insurance Management Society, Conference Department, 205 E. 42nd St., New York, 10017; 212-286-9292.

OCT. 20-21. How to Audit and Check Insurance Policy Costs and Coverage course in St. Louis, sponsored by the American Management Assn.; $675 for AMA members;$775 for non-members. **Also Oct. 27-28** in Philadelphia; **Nov. 6-7** in St. Petersburg, Fla.; **Nov. 13-14** in Dallas; **Nov. 17-18** in Bloomington, Minn.; **Nov. 20-21** in Boston; **Nov. 24-25** in Parsippany, N.J. American Management Assn., P.O. Box 319, Saranac Lake, N.Y. 12983; 518-891-0065.

OCT. 22-23. Strategic Planning for Raising Capital for the Insurance Industry conference in New York, sponsored by Executive Enterprises Inc.; $795; $695 for additional registrant from same organization. Executive Enterprises Inc., 22 W. 21st St., New York, N.Y. 10010-6904; 800-223-0787; 800-831-8333 within New York.

OCT. 29-30. Insurance Industry Mergers and Acquisitions conference in New York, sponsored by Executive Enterprises Inc.; $795; $695 for additional registrant from same organization. Executive Enterprises Inc., 22 W. 21st St., New York, N.Y. 10010-6904; 800-223-0787; 800-831-8333 within New York.

OCT. 31. Managing and Controlling Asbestos Contamination/Exposure course in Los Angeles, sponsored by the University of Southern California, Institute of Safety and Systems Management; $150. Office of Extension and In-service Programs, 3500 S. Figueroa St., Suite 202, Los Angeles, Calif. 90007; 212-743-6523.

NOV. 3. Hedging with Financial Futures in the Insurance Industry seminar in New York, sponsored by Peat, Marwick, Mitchell & Co.; $400. Peat, Marwick, Mitchell & Co. Executive Education, 810 Seventh Ave., New York, N.Y. 10019; 212-603-3811.

NOV. 5-7. Marine Cargo Insurance and Ocean Cargo Claims seminars in New York, sponsored by the World Trade Institute; one day: $410, $365 for additional registrant from the same organization; two days: $640, $575 for additional registrant; three days: $815; $730 for additional registrant. (Marine Cargo Insurance seminar will be held Nov. 5-6. Ocean Cargo Insurance seminar will be held on Nov. 7.) Registrar, The World Trade Institute, One World Trade Center, Floor 55 West, New York, N.Y. 10048; 212-466-4044.

NOV. 7-8. Municipal Liability: The Search for Deep Pocket course in Orlando, Fla., sponsored by the American Bar Assn. Tort & Insurance Practice Section; $350 for ABA member; $325 for TIPS member; $375 for non-member; $300 for young lawyer; $75 for law student. American Bar Assn., Division for Professional Education, Department NI 438, 750 N. Lake Shore Drive, Chicago, Ill. 60611; 312-988-6200.

NOV. 13-14. Sixth Annual Occupational Health Nursing Principles and Certification Review course in Orlando, Fla., sponsored by the Occupational Health Consulting division of Fireman's Fund Risk Management Services Inc.; $275. **Also Dec. 4-5** in San Rafael, Calif.; **Jan.9-10** in Newark, N.J.; **Feb. 19-20** in Schaumburg, Ill.; **March 5-6** in Dallas; **March 19-20** in Philadelphia; **April 2-3** in Torrance, Calif. Annette B. Haag, Occupational Health Consulting, Fireman's Fund Risk Management Services Inc., P.O. Box 3890, San Rafael, Calif. 94911; 415-492-6646.

NOV. 14-19. Thirty-second Annual Employee Benefits Conference in Las Vegas, Nev., sponsored by the International Foundation of Employee Benefit Plans; $450; $150 for pre-conference institutes. Members only. International Foundation of Employee Benefit Plans, P.O. Box 69, Brookfield, Wis. 53008-0069; 414-786-6700.

NOV. 17-18. Making the PPO Choice: A Purchaser's Guide to Assessing and Implementing the PPO Product conference in San Diego, sponsored by the American Assn. of Preferred Provider Organizations; $550 for general registration; $500 each for multiple registrants from same organization; American Assn. of PPOs, 101½ S. Union St., Alexandria, Va. 22314; 703-683-4918.

NOV. 30-DEC. 3. Corporate Health Care Cost Management Conference in Hollywood, Fla., sponsored by the International Foundation of Employee Benefit Plans; $530 for members; $605 for non-members. International Foundation of Employee Benefit Plans, 18700 W. Bluemound Road, P.O. Box 69, Brookfield, Wis. 53008-0069; 414-786-6700.

DEC. 10. Personal Liability Risk Management workshop in Georgetown, Del., sponsored by the Insurance Society of Philadelphia; $105 for members; $120 for non-members. **Also Dec. 10** in Philadelphia. Insurance Society of Philadelphia, 737 Public Ledger Building, Philadelphia, Pa. 19106; 215-627-5306.

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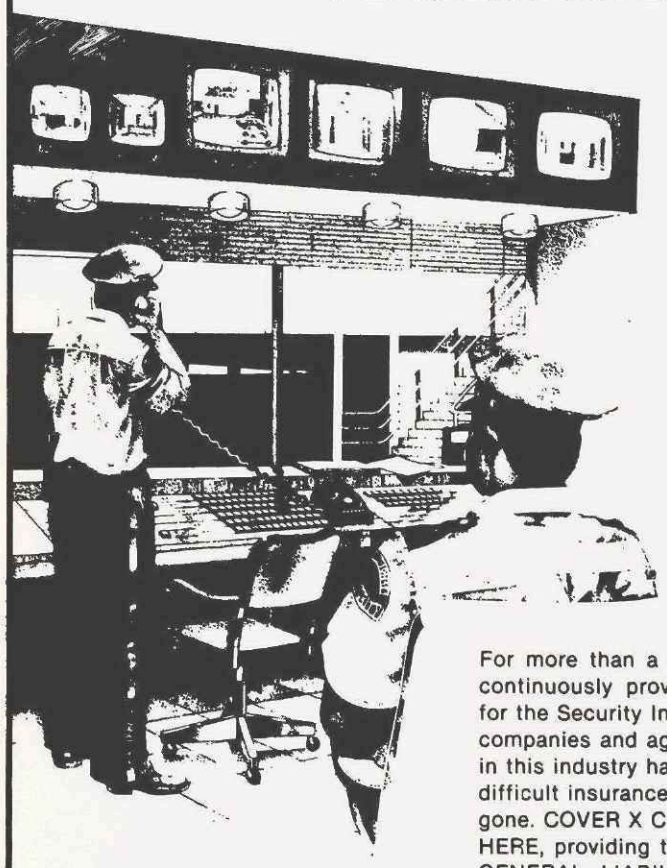
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benefit beat

Houston city workers to receive PPO option

Dallas-based Health Economics Corp. is developing a preferred provider organization for Houston city employees, which HEC says will result in significant savings to the city.

The city of Houston PPO, in combination with utilization review and other cost-containment services already provided to the city by HEC, will result in a 20% savings in the city's $24.5 million annual health care bill over the next three years, a spokesman for HEC said.

The PPO is expected to be operating by Nov. 1 and will become part of the group medical coverage options the city offers its 18,000 employees.

Currently, employees of the city of Houston can choose health care coverage under the city's traditional self-insured indemnity health plan or three health maintenance organizations.

The self-insured indemnity plan, which is administered by Dallas-based Life Insurance Co. of the Southwest, requires city employees to pay a 20% copayment with a yearly out-of-pocket maximum of $750.

Under the PPO, users of the preferred providers will pay a $5 "time-of-service fee" collected by the physician at the time of office visits.

In addition, employees must pay $50 plus 10% of total hospital bills.

But, the maximum out-of-pocket expense in the preferred provider organization is capped at $600.

Unlike many other PPOs, physicians in the Houston program are not required to charge discounted fees.

However, they must agree to cooperate with HEC's utilization review and other cost-containment services.

The HEC spokesman said about 700 physicians have applied to join the PPO.

"By providing utilization review services for several months and by studying medical claims data, we can identify which physicians the employees currently are using and can learn a great deal about the relative efficiency of those physicians," said Stephen F. Coady, president and chief executive officer of HEC.

"A PPO that focuses on the physicians currently being used by employees is essential because it preserves most of the existing patient/physician relationships," he added.

"This is an important requirement for acceptance of the PPO by employees."

Illinois Bell changes

Chicago-based Illinois Bell Telephone Co. is expanding its health care plan and implementing a profit-sharing plan under its new contract with the International Brotherhood of Electrical Workers union.

The changes in the health plan, effective Jan. 1, 1987, include a preferred provider network, some increased coverages and lower family deductibles for the 15,700 union employees.

The plan also covers about 6,000 salaried management employees, said William Watson, director of benefits.

Under the plan, employees will not contribute to premiums, but they will pay a $150 deductible for individual coverage and a $300 family deductible.

Employees also will pay 10% of the first $2,500, for a maximum out-of-pocket expense of $250 after the deductible.

This out-of-pocket maximum expense will increase to $350 on Jan. 1, 1988, and to $500 on Jan. 1, 1989.

Under the company's current health care plan, employees also do not contribute to the premium, but they pay a $150 individual deductible and a total family deductible of $450.

There is no copayment for hospital room and board charges, but employees pay 5% of total surgical expenses and 10% of total expenses for other hospital care.

Employees also pay 20% of the first $5,000 of major medical expenses up to a maximum out-of-pocket expense of $1,000 after the deductible.

The new plan will cover home health and hospice care at 100% and well child care at 100%, up to $125 a year.

The current plan does not cover these expenses.

Second surgical opinions will be mandatory, with a non-compliance penalty that reduces coverage to 50%.

Under the current plan, second surgical opinions are voluntary, with the 5% surgical copayment waived if employees obtain a second opinion.

If employees have certain surgeries performed on an outpatient basis, their copayments also will be waived.

This is unchanged from the current plan.

The new plan also puts a $50,000 lifetime cap on psychiatric care coverage, which previously had been unlimited.

However, major medical and hospital coverage are still unlimited under the new plan, which Illinois Bell will continue to elf-insure.

Claims will continue to be administered by Blue Cross/Blue Shield of Illinois.

The PPO network will be offered to Illinois Bell employees has not been chosen yet, but the company has "looked at existing PPOs such as the Blues' network," Mr. Watson said.

Copayments will be waived if employees use preferred providers, he said.

Illinois Bell's profit-sharing plan also will be implemented on Jan. 1, 1987, with the first distribution occurring by the end of the first quarter of 1988.

Regular full-time or part-time employees who belong to one of the union's collective bargaining units and have one year of service as of Dec. 31 of the plan year are eligible.

Distributions will be calculated based on employees' annual salaries and the company's profits during the plan year.

The three-year contract was ratified by 84% of the union members and is the first labor agreement ratified by one of the regional Bell companies since the American Telephone & Telegraph Co. divestiture, said an Illinois Bell spokesman.

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markets

Lincoln National acquires two HMOs, PPO in Arizona

Lincoln National Administrative Services Corp. has acquired two Arizona health maintenance organizations and a preferred provider organization.

The Fort Wayne, Ind.-based company acquired Patient's Choice, a federally qualified HMO based in Phoenix, Ariz., said a spokesman for Lincoln National. There are 45,000 enrollees in the plan.

The company also acquired Access Patient's Choice, another statewide HMO based in Phoenix. Access Patient's Choice covers 27,000 Medicaid recipients, the spokesman said.

Lincoln National also acquired Producer's Choice, a Phoenix-based PPO and third-party administrator. Producer's Choice administers medical and dental claims for 2,000 people, the spokesman said.

Terms of the transactions were not released.

There are more than 2,000 physicians and hospitals in the three managed care plans, the spokesman said. The plans will retain their current staffs and identities in Phoenix.

Mergers/acquisitions

Tampa, Fla.-based **Poe & Associates Inc.** has acquired **Broderick-Babb Insurance Inc.**, an agency in Fort Lauderdale, Fla. The agency generates about $550,000 in commissions annually, said according to a spokesman for Poe. Terms of the transaction are not being disclosed, he said. The operations of Broderick-Babb will remain at the agency's current location at 2382 W. Oakland Park Blvd., Fort Lauderdale 33311; 305-731-8111.

The **Human Resource Management Group** of **Alexander & Alexander Inc.** has acquired Union, N.J.-based **Actuarial Services Inc.**, which provides a full range of employee benefits services to companies nationwide. The 50 employees of Actuarial Services are being combined into A&A's Fair Lawn, N.J. office.

Fred S. James & Co. Inc. has acquired **Don A. Harris & Associates**, a Las Vegas-based agency specializing in property/casualty, life insurance and employee benefits programs for the construction industry. Harris & Associates has 20 employees and annual revenues of about $1.8 million.

Fred S. James also has acquired **Perdue & Associates**, an insurance agency in Miami that specializes in marine coverages, property/casualty insurance, life insurance and employee benefits programs for commercial clients. The company also owns a claims adjusting company, Southern Marine Claims Service, which handles claims for cruise lines, shipping concerns and insurance companies. Perdue & Associates has annual revenues of more than $1 million.

Rolling Meadows, Ill.-based **Arthur J. Gallagher & Co.** has acquired **Manning, Malcolm & Kelley Inc.**, an insurance brokerage and services firm located in Norcross, Ga.

Gallagher also has signed a letter of intent to acquire the San Francisco-based insurance brokerage and services firm of **Heffernan, Keiler & Doble Inc.** and its wholly owned subsidiary, **Pacific Atlantic Administrators**, a risk management services firm. "The acquisition is still subject to negotiations but hopefully will be completed by the end of the year," said Michael J. Cloherty, vp of finance for Gallagher. The transaction also will involve an exchange of stock, he said.

New offices

Johns Eastern Co. Inc., an independent Sarasota, Fla., insurance adjustment firm, has opened a new office in Virginia. The office will handle all types of claims but will specialize in workers compensation and specialty commercial property and liability. The office is located at 1 Kroger Center, P.O. Box 13111, Norfolk, Va. 23506; 804-455-5090. ■

Public entities

Continued from page 1

January.

Public entities are flocking to pools and other forms of self-insurance because of the serious problems faced by many public entities trying to find affordable commercial insurance, especially liability coverage, according to a recent survey of 145 cities by the U.S. Conference of Mayors.

While pools are the most popular self-insurance mechanism for public entities, public risk managers have a variety of alternatives from which to choose, depending upon the mechanisms available in their states.

A *Business Insurance* survey of more than two dozen public entity self-insurance programs established since January found five main types of self-insurance mechanisms (see story, page 35):

- Pools that operate without excess insurance coverage.

Most of the pools surveyed cannot find or afford excess insurance for liability coverages to offer their members. Excess coverage for municipalities is more available for property coverages.

- Pools with excess insurance.

Fewer pools have excess insurance and those that do are often organized by brokers specializing in municipal risks whose ties to excess insurers remain strong despite the dwindling market for public entity risks.

- Captive or mutual insurance companies.

Some groups of public entities have established their own insurance companies, often because pooling was not allowed in their states when the program was established.

Insurance officials in at least one state, Wisconsin, have made it easier for pools to establish an insurance company by waiving or reducing requirements, including capitalization requirements and participation in the state's guaranty fund.

- Statewide programs.

A few less populous states with many small public entities have responded to the municipal liability insurance crisis by establishing statewide programs providing coverage for a wide variety of public entity exposures and some non-profit corporations.

- Superpools, or pools of pools.

These combinations of pools, which join together to create additional insurance capacity, exist in California.

While establishing a self-insurance mechanism can solve many problems for municipal officials, most agree it is not an easy task.

"The process has been very complicated," explained Dolores Jarvie, treasurer of the New Jersey

Continued on next page



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Public entities

Continued from previous page

School Boards Assn.'s insurance group, which established a self-insurance pool to provide liability coverage for asbestos cleanup operations.

As a result of a late start, only two schools have joined the pool thus far, although more are expected.

North Dakota's establishment of a statewide reserve fund program with broad liability coverages solved a serious problem for public entities that faced the prospect of operating without insurance when they could not find affordable coverage from an insurer late last year.

"It really put us in straits when it happened," said Robert Johnson, executive secretary of the North Dakota League of Cities. But even though the program was set up in January, it was not the end of the problems because "we didn't have the time to develop all the organizational structure we should have,' he said. That is being done now, he added.

Establishing a liability insurance pool is a "much more difficult process" than setting up a workers compensation pool, said Alec Hansen, executive director of the Montana League of Cities & Towns, which formed both types of pools this year.

Formation of the liability insurance pool was prompted by incidents such as a telephone call Mr. Hansen received about how a small town's mayor and four council members were about to resign because they feared having their personal property attached to pay a claim stemming from actions they took as public servants.

"They didn't know what the hell to do," he said.

West Virginia's statewide program provides a market for public entities and non-profit corporations that "can't go anywhere else," said Bob Corey, the state's risk manager. "The thing will stand on its own."

Today's new pools differ from those established in the past because of the general lack of affordable and available excess insurance to protect the pool members from all or most catastrophic losses.

Greg Berg, a vp with the Tillinghast division of Towers, Perrin Forster & Crosby in Darien, Conn., said that excess insurance for professional liability risks is generally not available.

Excess insurance for general liability and automobile liability is available, but only on a limited basis and above high retentions. Excess property and workers compensation insurance is also available, he said.

The lack of available excess liability insurance is having repercussions on the designs of various programs.

"I see this as a trend that new pools aren't offering the world and everything in it to their members," said Elizabeth "Sue" Puddington, executive director of the New Hampshire School Board Insurance Trust. She is also president of the Public Risk & Insurance Management Assn.'s pooling section.

Most self-insurance programs are concerned about having enough money to pay claims.

The 3-to-1 premium-to-surplus ratio required of insurers is generally considered too stringent a standard for a not-for-profit pool or insurer that generally has fewer expenses and whose members are assessable.

Some pools have actuarially determined caps on assessability. Others can assess members any amount up to the limits of their coverage, while still others required members to agree to share in fellow members' losses with no upper limit.

Concern about the fiscal integrity of self-insurance programs has spawned to discussions about realistic capitalization needs.

Public entities like those in Louisiana and Montana have issued bonds to capitalize their programs. The use of public finance techniques like bonding is "the hottest topic around," Mr. Berg said (*BI*, July 7).

In another approach, states including Wyoming have established a fund to provide pools in their state with a cushion in the event of greater than predicted losses.

Thus far, no public entity pools have become insolvent, although a few may be in the position of funding a potential deficit, experts say. The time lag involved with most liability claims allows the pools to generate sufficient funds to meet loss payments, they explain.

Mr. Munson of Keenan & Associates, which specializes managing school district pools, said that it has never had any of its 87 pools run totally dry.

But without the cushion of excess insurance, there is more discussion about the legal liability of self-insurance program members to pay assessments in the future to help fund large claims.

While solvency is the main concern, public entities must also be careful about being too conservative and setting aside too much money, said Lee Van Slyke, an actuary with Coopers & Lybrand in Los Angeles. Public entities have a fiscal responsibility not to allocate taxpayers' money unnecessarily, he explained.

Other factors that affect a pool's financial stability include how long a period members must commit to the pool.

Most pools want to require members to belong for at least three years, although states like Colorado technically permit public entities to make one-year commitments.

While some pooling experts emphasize that pools should get a private letter ruling from the Internal Revenue services affirming their tax-exempt status, most pools do not think that is necessary because they are composed of public entities that are already tax-exempt.

However, the Assn. of Bay Area Governments in California has applied for such a ruling; the Alaska School Board's accountant recommends it; and a public transit insurer in Wisconsin has obtained similar assurances in the form of a state attorney general's opinion, according to spokesmen for those programs.

The speed with which public entities are forming self-insurance alternatives is causing some observers to ask if they are trying to do too much too soon.

"That is a particular concern in this market," New Hampshire's Ms. Puddington said.

Consultants say it takes eight to 15 months to conduct a study to determine the feasibility of a pool and refine the pool design (*BI*, May 26).

Sophisticated risk managers like those in the Authority for California City Excess Liability were able to trim that to "77 days, start to finish," said Don West, the city of Palo Alto's risk manager.

However, experts warn that risk managers for smaller public entities with less know-how may be tempted to do the same.

Without proper control, public entities are going to wind up with canned programs rather than something that will meet their specific needs now and in the future, Ivy's Mr. Martin added.

Yet, experts predict more and more public entities will turn to pools and other self-insurance programs.

During the next market cycle, 60% of public entities will belong to some form of self-insurance programs, Mr. Martin estimates. ■



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Public entities using variety of risk financing methods

By MEG FLETCHER

Public officials seeking alternative risk-financing mechanisms have a wide range of choices, although some options may be limited by state laws.

Interviews with officials of more than two dozen self-insurance programs, which were established or have been in planning stages since January, found that common approaches include pools without commercial excess insurance; pools with commercial excess insurance; superpools, or pools of pools; U.S.-domiciled captive and mutual insurers; and state-sponsored programs.

Following are highlights of those programs, grouped by their self-insurance approach:

Pools/no excess coverage

The **North Dakota** Insurance Reserve Fund, which was organized by the North Dakota League of Cities, is offering liability coverages to a diverse group of more than 300 public entities including cities, counties, townships, special districts—including zoos and water districts—and state government agencies, according to Jim Holm, president of Missouri River Underwriters Inc., which helps administer the fund.

The pool provides claims-made liability coverage limits of $250,000 per person and $500,000 per occurrence for general liability, public officials errors and omissions, police professional liability, automobile liability and inland marine exposures.

North Dakota public entities' state tort immunity is capped at those limits.

Coverages provided through the pool are underwritten primarily by local agents because the fund does no direct writing.

Deductibles are small, including $250 per person for officials' errors and omissions coverages.

Participants capitalized a reserve fund with a contribution equal to 30% of their annual payment to the fund.

The fund expects to collect between $5 million and $6 million in premium annually. Members are not assessable.

The state's insurance commissioner is seeking legislative approval to bring the fund under the control of his office, Mr. Holm said.

The **Montana** Municipal Insurance Authority began operating a liability pool in April following the establishment of a new workers compensation pool in January.

About 30 public entities participate in the pool and another 39 are expected to join the program, which offers general liability, public officials liability, police professional liability and some automobile coverages.

The pool began with limits of $500,000, although those limits are being raised to $1.5 million following a $6.3 million bond issue offered in late August to increase the pool's capital, said Greg Trout, a consultant with Advanced Risk Management Techniques in Sacramento, Calif.

Montana's program is considered the first independent pooling operation to use bond financing for an already-established pool, according to Alec Hansen, executive director of the Montana League of Cities & Towns, though Louisiana's Public Facilities Authority issued $280 million in bonds in August to establish and capitalize a statewide liability program (*BI*, Aug. 18).

The limits offered by the Montana pool mesh with caps on public entities' liability that were recently reinstated by the Montana Legislature after they were struck down by the state Supreme Court. The limits are $750,000 per person and $1.5 million per occurrence (*BI*, Aug. 18).

Individual deductibles for program participants range from $500 to $10,000.

All pool participants can be assessed up to 25% of their annual contribution to pay claims in any one year, Mr. Hansen said. A participant's annual contribution varies from member to member based on size, loss experience and other factors, Mr. Hansen said.

Seven cities across **California** established the Authority for California City Excess Liability (ACCEL) in April.

The cities, which range in population from 47,000 to 180,000, can obtain liability coverage by participating in one of two pools.

All seven cities participate in a pool that offers $9 million in coverage above a $1 million self-insured retention. Three smaller cities have formed their own pool to reduce their individual retention to $500,000 by pooling a $500,000 layer excess of $500,000, explained Don West, risk manager for the city of Palo Alto.

Coverages that are provided

Continued on page 36

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Risk financing

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through the pools include general liability, police professional liability and public officials liability.

About $4 million in annual contributions have been collected, based on an assessment equal to 1.2% of each entity's payroll. The program includes a retrospective rating feature.

The program, which operates as a joint powers authority, can assess members to a maximum of their policy limits.

Meanwhile, the Assn. of Bay Area Governments' began its Pooled Liability Assurance Network with 21 California cities in June.

The program offers $5 million in per occurrence liability coverages including general liability, public officials liability, police professional liability and automobile liability.

Deductibles range from $50,000 to $500,000.

The pool expects to collect $2.7 million in premiums annually, according to Eugene Leong, the ABAG's deputy executive director.

The **New Jersey** School Boards Assn. established a self-insurance pool this summer to provide liability insurance because the insurance crisis threatened to halt asbestos cleanup at New Jersey schools.

Because the program did not start until late June, only two schools have joined the pool thus far, but more are expected, says Dolores Jarvie, treasurer of the association's insurance group.

The program offers limits of $2 million per person and $5 million per occurrence to school districts and asbestos-removal contractors, architects, engineers and environmental monitoring firms, which had been reluctant to do the work mandated by state health officials because coverage was unavailable or not affordable.

The coverage applies only to asbestos removal and excludes asbestos disposal and any building refurbishing that may be needed after the hazardous substance is removed, Ms. Jarvie said.

Premiums paid by schools joining the pool are equal to the cost of the asbestos removal, and premium payments can be spread over five years.

The **Wyoming** Assn. of Risk Management, which became operational July 1, began with two cities and two counties, although four additional public entities are expected to join soon, according to Frank Gardner, risk manager for Natrona County.

The pool offers members $500,000 in occurrence-based liability coverage, which is the limit of their liability under state tort law. Coverages written include general liability, public officials liability, auto liability and sudden and accidental pollution liability.

The pool offers "first-dollar coverage," with no individual retention. Annualized premiums are expected to total $681,000. Members are assessible up to 25% of their annual contributions through a formula that also factors in their loss experience.

The pool is now seeking excess insurance coverage.

The **North Carolina** Assn. of County Commissioners is in the process of forming what may be the first intergovernmental pool for pollution liability coverage only. The association hopes to have the pool operating by early October, according to James Blackburn, the group's staff counsel.

The pool does not expect to be able to find excess insurance.

Organizers hope to offer $1.5 million in per-occurrence limits. The coverage would be funded in part through members' contributions of about 55 cents per county resident for each of the next three years, which will create a $10 million loss fund after three years.

Most programs established by Gallagher provide varying limits of property and liability insurance, including general liability, auto liability and often police professional liability and workers compensation coverages.

Pools/excess coverage

Arthur J. Gallagher & Co. has been involved with the establishment of at least 15 new pools backed with commercial excess insurance since January, according to John Durkin, a Gallagher account executive.

The Rolling Meadows, Ill.-based brokerage usually acts as a program designer for the pools, but also places the excess insurance, he said. Its affiliated company, Gallagher Bassett Services Inc., often provides claims services.

Most programs provide varying limits of property and liability insurance including general liability, auto liability and often police professional liability and workers compensation coverages. Some programs also include coverage for public officials' actions.

A typical program includes a self-insured retention of between $50,000 to $100,000. The typical pool provides per occurrence limits of $1 million or more on a claims-made basis for third-party liability exposures, while excess coverage written by commercial insurers can raise overall limits to as high as $5 million, he said.

Meanwhile, PENCo, a subsidiary of broker Corroon & Black Corp., has helped establish two pools since the beginning of the year for associations of counties in **Tennessee** and **North Carolina.** The pools typically offer $1 million limits above a participant's self-insured retention. Excess insurance is underwritten by underwriters at Lloyd's of London and some U.S. insurers.

PENCo is working on 14 other pooling proposals, according to George Schmelzle, the company's president.

Colorado Counties Inc., which is an association of county commissioners, established a property/casualty pool July 1. The pool provides 47 counties with general liability, public officials liability, police professional liability and auto liability coverages.

The pool provices liability limits of $150,000 per person and $400,00 per occurrence for claims filed in Colorado state courts, and limits of $1.15 million per person and $1.4 million per occurrence. Annual contributions total about $4.75 million, according to pool administrator Terry Bone.

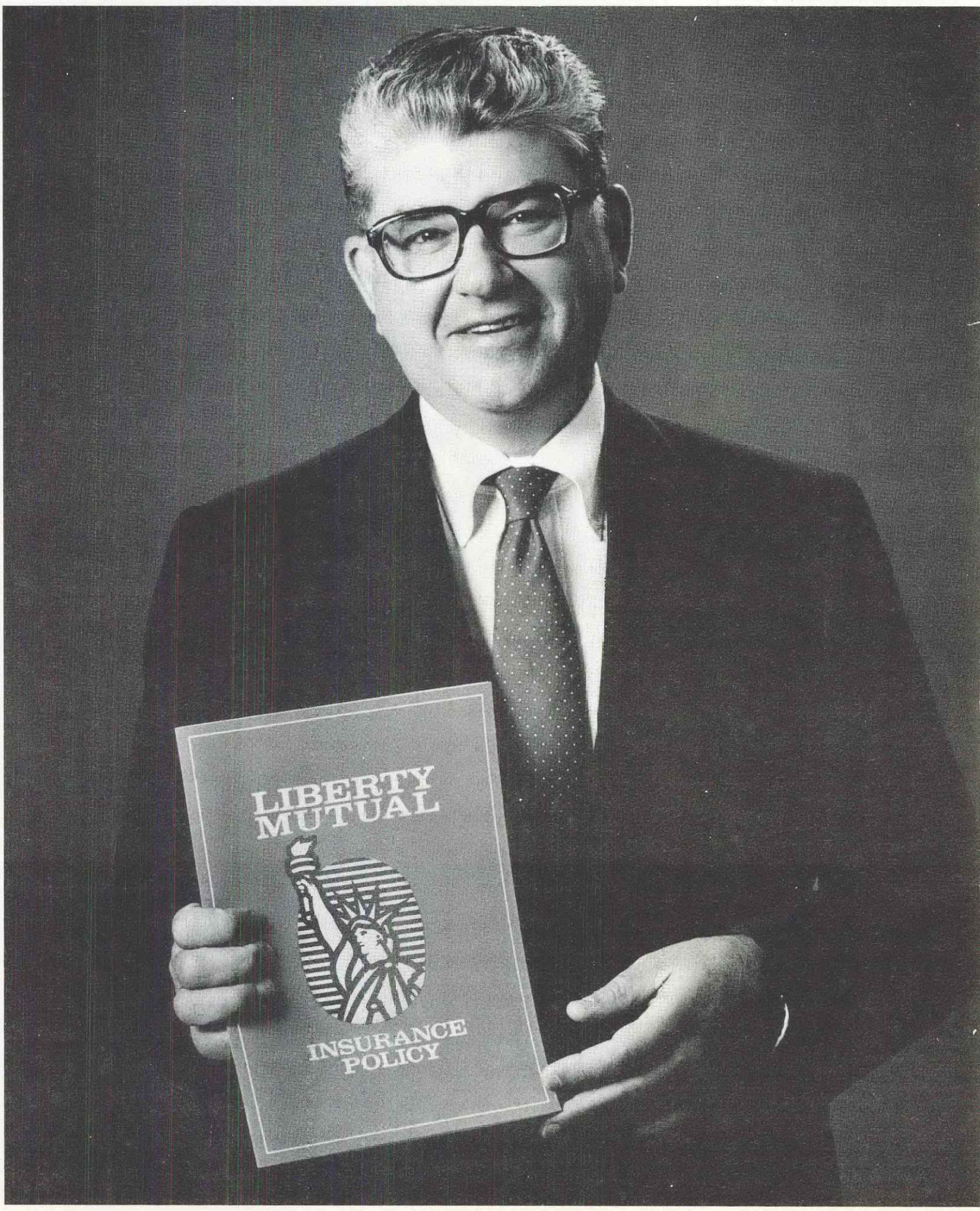
Excess insurance—$50 million in property limits, excluding flood and earthquake exposures, and $1 million in liability limits—is written by Lloyd's underwriters, International Surplus Lines Insurance Co. and Hartford Insurance Group units.

Superpools

The first superpool—a group of pools that band together—to operate without excess liability insurance was the **California** Joint Powers Insurance Authority, which began operating in February (*BI,* Feb. 24).

The Cal JPIA pools members'

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catastrophic general liability, automobile, policy liability and public officials errors and omissions coverages.

Participants can choose any one of four programs, which are stair-stepped layers of occurrence-based coverage ranging from $250,000 to $10 million: $250,000 excess of $250,000; $500,000 excess of $500,000; $4 million excess of $1 million; and $5 million excess of $5 million.

Contributions are determined by multiplying a superpool participant's workers' compensation payroll for the time of the coverage by a predetermined factor. The pool is expected to collect about $4 million in deposits this year.

Claims are paid from annual deposits, and retrospective adjustments will be made five years after the pool's inception and annually thereafter.

Among the newer superpools is the Regional Liability Excess Fund, dubbed ReLiEF, which operates two regional superpools in California consisting of 17 joint powers authorities representing 189 school districts. Member schools have a total average daily attendance of 557,000 in kindergarten through high school.

Sixteen community colleges that formed the Statewide Assn. of Community Colleges, another JPA, in late June had been part of ReLiEF, but differing coverage needs caused SWACC to spin off, Mr. Munson says.

Since late June, ReLiEF has been offering $1 million in per occurrence limits for general liability, public officials errors and omissions, employee discrimination, sexual harassment and sudden and accidental pollution coverages.

The superpool requires that members retain at least the first $25,000 of any loss, although most choose to retain $50,000, said Murt Munson, senior vp of Keenan & Associates in Torrance, Calif., which consulted on the superpool's formation and now manages it.

The superpool also offers property coverage, which is supported by commercial excess insurance, while there is no excess insurance above the liability limits offered by the superpool.

The superpool's north and south regional pools have a combined annual budget of $5.3 million. The superpool is capitalized through contributions, which are determined by a formula that takes into account loss experience, exposure and other factors.

The superpool's members are totally assessable, with no cap.

ReLiEF has close ties with one other pool in California and helped to start another.

The Sacramento-based Schools Excess Liability Fund (SELF) was established in April by a group of school business managers to provide $9 million in liability insurance, excess of $1 million, Mr. Munson said. However, schools had a major problem finding underlying coverage. ReLiEF was later formed to solve that problem.

The SELF JPA now includes schools with more than 3 million average daily attendance, which is about 75% of the state, Mr. Munson added.

Sixteen community colleges that formed the Statewide Assn. of Community Colleges, another JPA, in late June had been part of ReLiEF, but differing coverage needs caused SWACC to spin off, Mr. Munson said.

The community colleges faced less risk from parent claims and more from programs such as those that train law enforcement officers, Mr. Munson explained.

Captive and mutual insurers

Fifteen medium-sized cities' bus systems in **Wisconsin** formed Transit Mutual Insurance Corp. of Wisconsin in January.

The insurer, which primarily provides auto liability insurance, evolved after the cities found that trying to place municipal package policies that included bus system exposures limited their ability to obtain general liability insurance.

Transit Mutual policyholders are not required to have a self-insured retention, though they pool exposures up to $1 million. The insurance company writes $2 million in auto liability coverage excess of the $1 million pooled layer for some members, said Michael Kaddatz, a principal with Advanced Risk Management Techniques, based in Laguna Hills, Calif.

The program is reinsured through Trenwick America Reinsurance Corp., said Nancy Kreutzman, Transit Mutual's president. Service providers are hired to pay claims and control losses.

Annual premiums total about $1 million.

While state tort law caps some public entities' liability exposures, no cap relates to vehicular accidents, Mr. Kaddatz said.

The mutual is totally assessable, with no maximum limit, which made it possible for the mutual to get the Wisconsin Insurance Department to waive capitalization requirements, Mr. Kaddatz said.

In addition, the mutual does not pay state premium taxes and does not have to contribute to the state guaranty fund, Mr. Kaddatz said.

The **Alaska** Schools Insurance Co., a mutual insurer domiciled in Vermont, was formed July 1 to meet the property insurance needs of 29 Alaskan school districts with kindergarten through high school students.

The program offers $240,000 in primary property insurance, excluding flood and earthquake coverage, above a $10,000 deductible. Commercial excess insurance above the coverage offered through the mutual brings the total limits available to policyholders to $25 million excess of $250,000.

The Assn. of Alaska School Boards took the captive approach because state law did not allow pooling until legislators approved it July 1, said John Haywood, a Seattle-based consultant with Advanced Risk Management Techniques.

Premiums are expected to total $750,000 annually.

Rates charged by the insurer are about 75 cents per $100 of valuation. Outside consultants and claims handlers were hired to help with the mutual's operations.

Participants capitalized the captive with contributions totaling $750,000.

Policyholders are jointly assessable up to an aggregate of $2.5 million annually, which is the attachment point for $1 million in aggregate stop-loss insurance, said Sharon Young, vp of the insurer.

Other proposed programs include **The National League of Cities'** efforts to establish a mutual insurance company to provide reinsurance for workers compensation and liability insurance pools operated by league members (*BI*, July 7).

The league is seeking approval of Tennessee insurance officials to incorporate the insurer in Tennessee. Its effort to establish the captive in Vermont earlier this spring was unsuccessful because officials required that a fronting company

Continued on page 37

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Risk financing

Continued from page 37

be used for the workers compensation program, and the league could not find an affordable fronting arrangement, a spokesman said.

In addition, the **New York** School Boards Assn. is taking steps to establish a reciprocal insurer, according to Robert J. Rader, the association's director of risk management services.

State-sponsored programs

Any political subdivision in **Wyoming** will be able to obtain $500,000 in per occurrence liability coverage through a statewide program that is expected to become operational Oct. 1.

That limit meshes with recently adopted state tort immunity caps of $250,000 per person and $500,000 per occurrence.

The optional program, which was approved by the state this summer, will offer general liability, auto liability and public officials liability coverages. Police professional liability coverage was not included because it is provided by another statewide program.

The program, which is assessable, can borrow up to $5 million from a fund appropriated by the Legislature.

South Dakota is seeking a master contract to provide insurance for the state and all political subdivisions that want to participate. However, if such a contract cannot be found, the state will allow public entities to pool their risks and has agreed to allocate $2 million for the capitalization of new pools.

Robert Miller, executive director of the South Dakota Municipal League, said he is not optimistic about the state's ability to find the master contract.

Action by **West Virginia** officials this summer broadened the state board of risk and insurance management's insurance program.

The program now provides mandatory liability coverage for county boards of education and offers optional liability and property insurance to most other political subdivisions and non-profit organizations, says Bob Corey, risk manager for West Virginia.

About 80 entities have signed up for the liability insurance program, which offers $1 million per occurrence limits for general liability, public officials errors and omissions, police professional liability and automobile liability claims. Whether pollution liability coverage also will be offered is still being decided, Mr. Corey said.

The liability insurance portion of the program was established by executive order of Gov. Arch Moore, who also declared that political subdivisions should be charged at a rate comparable to what they had been charged last year by commercial insurers, Mr. Cory said. Because of many public entities' urgent need for coverage, the program was established with little or no detailed actuarial work.

Projected annual contributions are unknown at this time, he said.

The property program offers up to $10 million limits, with the state assuming the first $5 million in any fiscal year.

While there is no reinsurance support for the liability program, the property program is reinsured through CNA Insurance Cos., Mr. Corey said.

Meanwhile, **Missouri** is establishing a risk management fund to provide public entities with $800,000 in per-occurrence liability coverage, the maximum liability faced by a public entity in state tort cases (*BI*, July 7). ■

Public entity liability mutual faces obstacles to operation

By MEG FLETCHER

Organizers of Mutual Municipal Insurance Co. have postponed activating the mutual until fall.

A proposed liability insurance program for public entities is off to a slow start as some state insurance officials question whether municipalities can legally buy the coverage it writes.

Also, consultants criticize the program because it sets an annual aggregate limit on its members' combined losses—something that no other comparable municipal self-insurance program has done.

Since last February, Mutual Municipal Insurance Co. has received fewer than three dozen commitments from the 1,300 U.S. public entities informed about the high limits of occurrence-based liability coverage that would be available through the Cayman Islands-based insurer.

As a result, MMI's organizers have postponed activating the mutual until fall.

MMI is offering municipalities with up to 300,000 residents or school districts with up to 20,000 average daily attendance liability coverage for claims stemming from automobiles; actions by public officials, members of boards of education, police and fire personnel; and employer's liability.

The program is designed to offer about 600 public entities $10 million in per-occurrence catastrophic liability coverage above an individually determined self-insured retention. The program, which is subject to a $50 million annual aggregate among all policyholders, also offers up to $2.5 million in stop-loss coverage that caps a policyholder's aggregate retention.

Formation of the mutual was sponsored by The Committee for the Organization of Municipal Self-Insurance Pools, also known as COMSIP Inc., a non-profit organization of public entity representatives founded in 1979.

The program has been endorsed by Johnny Ford, mayor of Tuskegee, Ala., and president of the World Conference of Mayors based in Washington, D.C., because "where municipal liability coverage is available, it's just not affordable."

"Since its formation in mid-May, over 500 U.S. municipalities of all sizes have requested applications to the program," the mayors' group said in a June press release.

But as of Sept. 3, only 35 public entities—mostly municipalities, some counties and two school districts—have committed themselves to the point of paying a $250 nonrefundable application fee, says Charles M. Gruber, a spokesman for MMI and an actuary and vp with E. James Stergiou Risk Consultants Inc. in New York.

These applicants represent about $7 million in premium volume, he said.

MMI originally wanted 100 public entities to commit to the pool and at least $20 million in premium collected—preferably $30 million—before operations were to begin early this summer.

However, premium quotations have been averaging about $240,000 per member, which means the $20 million target may be reached with only 80 or 90 participants, Mr. Gruber said.

Another obstacle impeding the mutual's start-up is that 15 of the public entities that have applied are from either New Jersey or New York, where state insurance officials say it is illegal for public entities to participate in the offshore program.

MMI is an unauthorized insurer that is not eligible for surplus lines status because it is less than 1 year old, according to David Grubb, special deputy commissioner for the New Jersey Insurance Department.

"It is illegal in New Jersey for an ineligible, unauthorized carrier to solicit or conduct business in the state of New Jersey," he said, adding that state officials are taking the position that an entity "would appear not to have the power" to buy insurance from MMI.

"It would not be lawful for a New York state municipality to participate" in MMI because it is an unapproved offshore insurer, added Richard Hsia, deputy superintendent of the New York Insurance Department.

To negotiate those legal obstacles, MMI has begun preliminary talks with officials of the New York department about the possibility of becoming licensed in that state.

"We ran into regulatory problems we didn't foresee," acknowledged MMI's Mr. Gruber. MMI's offshore location, which was chosen for quicker start-up, "seems to be the sticking point," he added.

State insurance regulators tend to be "a bit fussy" about public entities getting involved with offshore insurers they can't regulate, he contended.

MMI board member Thomas DeVincenzo, village clerk and risk manager for the village of Freeport, N.Y., agreed. "We have a major problem in a lot of states because we can't have people selling this product because it is offshore," he said.

But the mutual's offshore location doesn't bother Richard Devine, finance commissioner for New Rochelle, N.Y., and an MMI board member.

"The question really is: How safe is the MMI mechanism," Mr. Devine said. The answer, he said, is that he understands the mutual is "very conservatively structured."

In light of recent domestic insurer insolvencies, Mr. Devine said he is not concerned about MMI operating outside of the scrutiny of state insurance regulators.

"I'd rather have us looking over the operation than the insurance department, considering their track record," he said.

However, Greg Berg, a consultant with the Tillinghast Division of Towers, Perrin, Forster & Crosby in Darien, Conn., said that despite MMI's "well-thought-out and well-drafted" program, "anyone who buys insurance from this company has less security that their claims will be paid in the long run. . .than with other insurance arrangements."

Mr. Berg based his conclusion on three program features:

- The $50 million overall annual aggregate.

If a public entity files a claim late in the policy year, there is a potential that the $50 million annual aggregate may have already been reached, Mr. Berg contended. He said he knows of no other statewide municipal pooling program with an annual group aggregate.

Michael Kaddatz, a principal with risk consultant Advanced Risk Management Techniques in Laguna Hills, Calif., added that, in general, "If you have any other reasonable choice, you shouldn't take the program with the (maximum annual) aggregate because how do you know what's available when your claim comes in?"

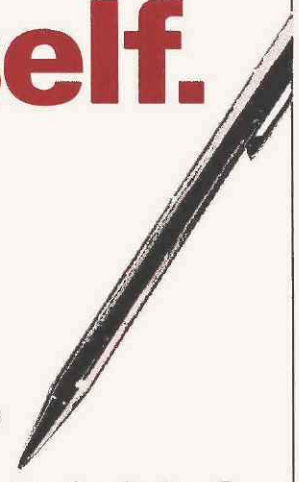
Even Tuskegee's Mayor Ford acknowledges that the annual aggregate may be a concern. "It's conceivable that $50 million in claims may not be that much for a group," he said.

However, "we don't feel the annual aggregate will be exceeded," asserted MMI's Mr. Gruber.

The annual aggregate "is nec-

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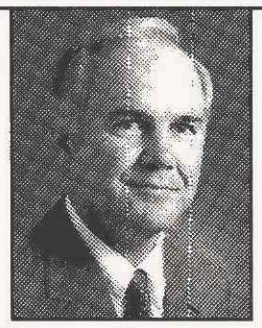
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Continued from previous page
essary if we are going to get some realistic premiums," Mr. DeVincenzo added.

- The participants cannot be assessed for additional contributions beyond their premiums.

If MMI is underfunded in one year, the assumption is that it will offset that shortfall with rate increases in future years, rather than assessing members of the mutual.

- MMI has no concrete plans to buy reinsurance at this time.

However, MMI officials say the mutual may buy reinsurance if it becomes affordable. In addition, another company official indicated that MMI may explore the concept of a superpool arrangement with other public entity pools, Mr. Berg said.

The non-profit insurer will be governed by a board of nine public entity representatives, which will be expanded after the insurer begins operating. They will serve without pay, although expenses probably will be reimbursed, said Mr. Gruber.

A group that hopes to provide management services to the non-profit mutual has been the moving force behind MMI's formation.

MMI's documents say Municipal Management Specialists Ltd. in Cayman would provide specialized data analysis and actuarial services.

Municipal Management is principally owned and managed by Martin Patrick Carter, a broker and president of New York-based Patrick Carter Associates; Martin Beitler, president of Philadelphia-based Homestead Insurance Co.; and E. James Stergiou of E. James Stergiou Risk Consultants with offices in New York City and Carlstadt, N.J.

But, "there is no guarantee" that the mutual's organizers will become its managers, Mr. DeVincenzo said.

Another unresolved issue includes whether public entities participating in the program must pay a 4% federal excise tax on premiums paid to an offshore insurer.

Although MMI's program documents say that member municipalities will have to pay the 4% tax, MMI officials have said that is a legal question that participants' attorneys may want to consider.

Mr. Berg also noted that although MMI's program documents require each participating public entity to hire an approved third-party administrator to handle its claims, mutual officials say that a public entity could seek MMI's approval to self-administer its claims.

However, only those public entities that use an outside professional's administrative services will be eligible to receive a 10% premium discount—based upon the assumption that the public entity will have fewer losses as a result.

Despite the questions that have been raised, MMI officials and prospective policyholders emphasize the program's high limits of broad, occurrence-based coverage with the stop-loss provision capping each policyholder's aggregate retention.

The attachment point for the stop-loss coverage is generally at double the participant's expected aggregate retention for the year. So, in the case of a city with a $100,000 per-occurrence retention and an expected annual aggregate retention of $300,000, the city would continue to pay its share of losses until it had paid out $600,000, at which time MMI would cover all subsequent losses falling within the city's retention until MMI paid out $2.5 million.

The SIR is individually determined for each participant and is supposed to equal predictable losses plus defense costs in a given year.

Larger members, including municipalities with populations exceeding 10,000 or schools with more than 500 average daily attendance, are expected to retain from $100,000 to $1 million.

MMI will offer up to $95,000 in primary liability coverage over a $5,000 deductible for entities with fewer than 10,000 residents or school districts with less than 500 average daily attendance. The $10 million of excess coverage written by MMI will attach above this primary layer.

The likelihood that MMI will become operational by its new target dates of Oct. 1 or Nov. 1 depends upon whether applications continue to be submitted. It also may depend on whether its planners modify the program.

MMI officials also emphasize that MMI offers:

- Relatively low overhead expenses.

Because it is a non-profit captive, MMI expects to pay only 17.5% of collected premiums as a management fee, rather than the 30% that most insurers collect, MMI says. Expenses are estimated at 0.1%, leaving 82.4% for loss reserves and investments.

However, two public entity pool managers said MMI's administrative costs are higher than some public entity pools' costs.

- A dividend plan that returns all profits to policyholders.
- The potential for lower costs because of risk management and safety engineering that MMI will offer.

The likelihood that MMI will become operational by its new target dates of Oct. 1 or Nov. 1 depends upon whether applications continue to be submitted. It also may depend on whether its planners modify the program.

For example, MMI may consider offering limits of $5 million per occurrence, or 50% less than originally planned, if its collects $10 million in premium. The annual group aggregate under such a plan would be $17.5 million, Mr. Gruber said.

However, MMI officials and consultants note that MMI may face yet another obstacle—competition—because many states have adopted tort reform measures that foster the development of risk-sharing pools for public entities. ■

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Survey respondents oppose five-year vesting proposal

BROOKFIELD, Wis.—More than half of the respondents to a national survey do not support five-year cliff vesting for employer-sponsored pension plans as proposed by the tax bill approved last month by a congressional conference committee.

Fifty-five percent of the respondents to the International Foundation of Employee Benefit Plans' National Opinion Panel survey, indicated that the five-year vesting requirement is likely to have a negative impact on new pension plan formation.

When asked to evaluate the employer costs of administrating and providing additional vested benefits vs. the value of these benefits to the recipient at retirement, panelists' responses ranged from "severe cost implication" to "minimal additional expense."

One respondent indicated that for all but the oldest employees, "benefits received upon five-year vesting are likely to be so small as to be meaningless at 65," according to Melody A. Carlsen of the IFEBP's research department.

"Obviously, a small vested pension which is not payable for 20 or 30 years will result in administrative expense extremely disproportionate to the benefit value. The plan can avoid the expense by a lump-sum cashout," said one benefit manager who responded to the survey.

Another survey respondent added that "better vehicles are needed for rollovers to ease the administrative burden of carrying small amounts on records while not paying out lump sums."

An actuary who also responded to the survey noted the long-term impact of mandated five-year vesting.

"The value of accrued defined benefits after five years of service could be equal to one-half year's pay to an employee hired at age 60 and one week's pay to an employee hired at age 20. Younger employees will become even more attractive than presently," the actuary said.

"At the same time, the aging workforce will make younger employees relatively less available. The net result is higher costs for older employees through increases in vested costs, and higher costs for younger employees through competition for scarce resources. Either way, costs go up dramatically," he said.

A considerable difference of opinion exists among panelists as to the "value" of the five-year vested benefit. A Midwest corporate executive comments that there is "no question that the value to the recipient outweighs any administrative cost anticipated."

Another writes, "I believe it is worth the cost in terms of employee morale."

At the other end of the spectrum, "It is highly unlikely that employees would perceive an additional benefit of any value," according to another respondent.

The IFEBP's National Opinion Panel is a quarterly measurement of the attitudes and opinions of prominent employee benefit plan trustees, administrators and professionals on issues affecting 5,000 trust funds, corporation and public employee organizations in North America and abroad.

More information about the panel is available by writing the IFEBP, Public Relations Department, P.O. Box 69, Brookfield, Wis. 53008-0069.

Home of Indiana offers D&O liability coverage

products & services

The Home Insurance Co. of Indiana, a subsidiary of The Home Insurance Co., is now writing directors and officers liability insurance.

The company will underwrite primary D&O coverage limits of up to $2 million and excess limits of $2.5 million excess of $10 million for small to medium-sized companies with assets up to $350 million, said Vp John Sheeran.

The company will offer only excess D&O limits of $2.5 million excess of $10 million to companies with assets exceeding $350 million.

Home of Indiana will specialize in "other risks which fall outside the traditional directors and officers marketplace," Mr. Sheeran said. "These risks include new and emerging companies; companies going public for the first time; companies subject to cancellation and non-renewal by other insurers; and companies coming out of bankruptcy or reorganization," he explained.

For more information, contact Janine Dore at The Home of Indiana, 59 Maiden Lane, New York, N.Y. 10038; 212-530-6503.

COBRA software

A complete software system designed to help employers comply with the Comprehensive Omnibus Budget Reconciliation Act has been developed by Travis Software Corp. of Houston.

The system, named Corporate COBRA Manager, was designed by employee benefits professionals to meet the requirements of the COBRA law, according to the microcomputer software publishing firm. It enrolls principal qualified beneficiaries, monitors qualifying events, handles premium billing and maintains a history file for audit purposes.

The program comes complete with documentation and runs on the IBM PC, PC/XT or PC/AT. Because Corporate COBRA Manager incorporates a relational database and is a complete system, it requires no other software to perform its functions. Also, no spreadsheet or word processor program is required.

The system, priced at $1,295, will be updated by Travis Software as information on new regulations becomes available.

For more information, contact Travis Software Inc., 10333 Richmond Ave., Suite 900, Houston, Texas 77042; 713-789-4650.

Work comp program

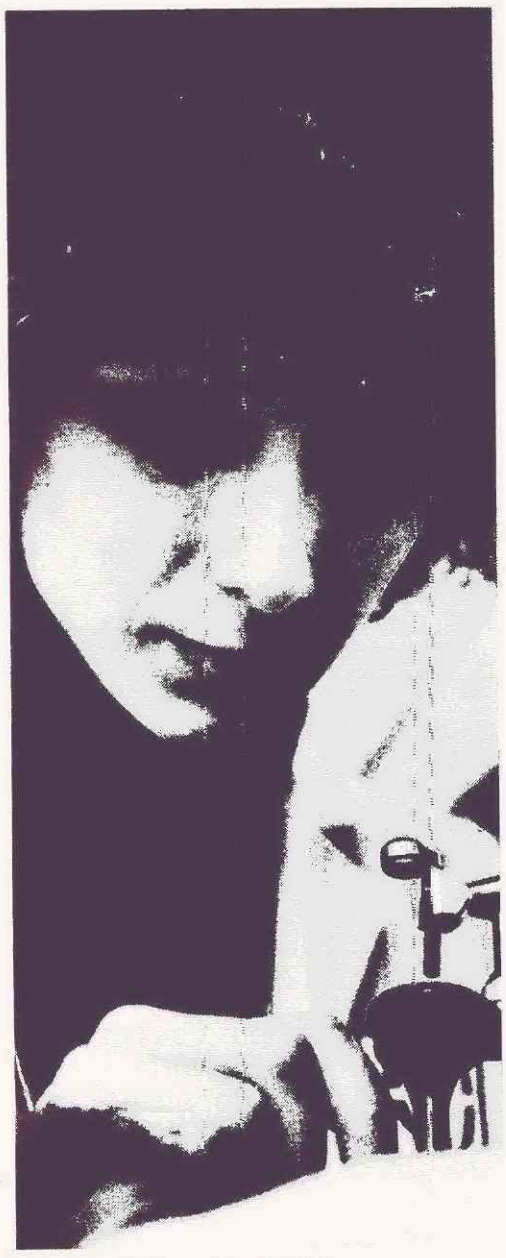
A personal computer program that cuts down on the time it takes to calculate workers compensation experience modification factors is available from The Market Planning Group in Boston.

The program—ModComp—has been used by employer pools that self-insure their workers compensation risks to reduce the time spent manually calculating specific modification factors for individual risks. The program enables individual factors to be calculated by plugging in payrolls and claim amounts—saving broker fees and ensuring accuracy, noted one user.

ModComp, a $495 software package, works on any IBM Personal Computer or compatible with at least 128K of memory and version 2.0 or higher of the MS DOS operating system. It can be used with data in all states that use the National Council on Compensation Insurance's experience rating plan. Additionally, special versions for Wisconsin, Florida and California are available.

ModComp can calculate a modifier for an employer with up to 1,200 claims over three years and up to 40 classification codes per year. It also can handle interstate modifications for up to 10 states at a time.

More information about ModComp and a $10 demonstration disk can be obtained from The Market Planning Group, 80 Boylston St., Suite 860, Boston, Mass. 02116; 617-542-4417. ■



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Hijack coverage

Continued from page 2

However, Pan Am's hull war risk coverage is written separately from its normal hull coverage. The hull is valued at $22 million.

About 80% of Pan Am's coverage is written by U.S. insurers, led by United States Aircraft Insurance Group, according to sources in the United States and London.

USAIG officials refused to comment on the Pan American coverage or the hijacking.

Sources say virtually every U.S. aviation insurer participated on the Pan Am risk.

The other 20% of the Pan Am coverage is written by French insurers, the sources add. Paris-based La Reunion Aerienne wrote 13.5% of the hull war risk coverage and 17.5% of the all-risk liability coverage, which includes war risks.

None of Pan Am's coverage is written by Lloyd's of London or other London aviation underwriters, the sources say.

Pan American officials refused to offer information on the hijacking or its insurance coverage, referring inquiries to USAIG. Officials at Pan Am's broker, Frank B. Hall & Co. Inc., could not be reached for comment.

Pan Am's potential liability for deaths and injuries in the hijacking is largely capped by two international aviation treaties: the Warsaw Convention of 1929 and the Montreal Agreement of 1966.

Under the international agreements, recoveries by passengers bound for the United States on international flights are capped at $75,000 unless plaintiffs can prove willful misconduct or reckless disregard for passengers' safety on the part of the airline.

However, under the Montreal Agreement, airlines also have "objective automatic liability," according to legal experts, which means that even if Pan Am is not judged liable for deaths or injuries stemming from the hijacking, it is still liable for damages up to the $75,000 cap.

In addition, passengers not bound for the United States are not covered by the Montreal Agreement, but only by the Warsaw Convention, which limits recoveries to $20,000. Under the Warsaw Convention, airlines also are not automatically liable for damages if the carrier can prove it took all necessary measures to prevent injury to passengers.

The incident is the second in recent years involving fatalities aboard a Pan Am jetliner.

A Pan American Boeing 727 aircraft crashed near the New Orleans airport in July 1982, killing all 146 people on board and an additional eight people on the ground (*BI*, July 19, 1982).

The federal government in 1983 agreed to pay more than $27 million, or half of the hull and liability losses stemming from that disaster (*BI*, Sept. 2, 1985). The government also agreed to pay 100% of the cost of settling crew claims. ■

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Captive taxes

Continued from page 1

retain regulatory advantages that may be important for some group captives.

"It's possible that there may be some changes in domicile, but the captive movement will not be killed," Mr. Page said.

The tax bill also may produce growth for offshore rent-a-captives, which are not owned by their U.S. corporate policyholders and, therefore, could provide needed coverage without imposing the tax burden shouldered by group captive owners, he explained.

"Everybody has been saying for the last couple of years, 'Don't set up a captive for tax reasons,' and this is another reason why," added Richard W. Wright, vp and manager of captive development for Fred S. James & Co. Inc.

Captives established for "sound risk management" reasons will now carry an added tax burden but will continue to serve a useful purpose, Mr. Wright explained. However, "if they were set up only to shelter income offshore, they're in trouble."

'Everybody has been saying for the last couple of years, "Don't set up a captive for tax reasons," and this is another reason why,' says Richard W. Wright, vp and manager of captive development for Fred S. James & Co. Inc.

"Nobody has told us to turn the burner off" on group captive projects under development, Mr. Wright says.

Under the tax bill, U.S. shareholders of any foreign insurance company that is at least 25% U.S.-owned will have to pay current tax on income derived from insuring risks of the shareholders or related parties.

The provision—which will be effective for tax years beginning after 1986—applies to all U.S. shareholders, regardless of their degree of ownership in the insurer.

Currently, such group captives were treated as "non-controlled foreign corporations" as long as they met certain tests, including that each shareholder own less than 10% of the captive's voting stock. Under these circumstances, group captive shareholders could defer taxes on their part of the captive's income until the income was actually repatriated to the shareholders.

The tax bill passed by the conference committee will—among other things—make it more difficult for offshore group captives to build up policyholder surplus and loss reserves with retained earnings, observers note.

For example, an offshore group captive conceivably will have to pay dividends to shareholders each year amounting to 34% of its earnings—the rate at which most corporations will be taxed under the new bill—to allow the shareholders to cover their new tax liability, says J&H's Mr. Page.

This means that the captive would give up roughly one-third of the money that otherwise would become part of its policyholder surplus, along with the interest that would have accumulated on those funds, he noted.

"If the plan was to build up reserves with tax-free compounding, that's probably gone," added John W. Weber Jr., an attorney with the firm of LeBoeuf, Lamb, Leiby & MacRae in New York.

The provision will be especially tough on group captives writing catastrophe coverages, Mr. Weber noted.

"If they don't have a catastrophe (loss), they have a lot of profits" and would be hit with a big tax bill, he explained. "If they make a big tax payment this year and then have the loss next year, they don't have as much to cover the loss."

The tax bill as proposed does not allow captives to carry back losses to previous tax years to recoup taxes already paid, Mr. Weber explained.

The group captive provision of the conference tax bill did not appear in the bills passed by either the House or Senate and came as a surprise to captive insurance industry observers.

"It put us all in kind of a stunned state, and we are trying to figure out how to mitigate the dire results," said one source who spoke on condition of anonymity.

The group captive provision replaced a provision in the House bill that would have increased the federal excise tax on reinsurance premiums paid to foreign underwriters to 4% from 1%.

Observers say the conference committee adopted the group captive provision at the behest of House Ways and Means Committee Chairman Dan Rostenkowski, D—Ill., in response to the Treasury Department's negotiation of a yet-unratified tax treaty with Bermuda. Mr. Rostenkowski had objected to the Bermuda treaty, under which excise taxes on insurance premiums paid to Bermuda companies are dropped (*BI*, July 28).

Bermuda Premier John Swann confirmed in an interview that he has written to Treasury Secretary James Baker regarding the tax bill, though Mr. Swann refused to disclose the letter's contents.

"Obviously we are concerned about anything that adversely affects our economic base," Mr. Swann said.

"Some effort is being made to (convince) the conference committee of the lack of wisdom" of the group captive provision in the tax bill," said one Washington lawyer who requested anonymity. The lawyer added, though, that any attempt to significantly change the substance of the provision now has "a very low chance of success because in the scope of things, this is a very small phenomenon."

Nevertheless, captive insurance industry representatives are lobbying for changes in the provision, including:

- An allowance for loss carrybacks or carry-forwards to offset taxes due in other tax years.
- A "transitional rule" that would delay implementation of the group captive provision for up to five years to give captives time to make public stock offerings and thus escape current-year taxation.

Through such a transitional rule, the Washington lawyer said, captive interests are hoping to buy enough time to allow them to convince legislators to pass an amendment that would negate the entire provision.

- A provision allowing group captive shareholders to pay excise taxes on premiums ceded to offshore insurers rather than a tax on the captive's income.

For captives in domiciles that have no tax treaty with the United States—such as the Cayman Islands—the tax bill will result in double taxation, as shareholders pay both excise tax on premiums and tax on captives' income, notes J&H's Mr. Howard.

However, congressional conference committee staffers are more inclined to exempt captive shareholders from the excise tax and require payment of the income tax, Mr. Howard said.

Although large group captives such as A.C.E. Insurance Co. Ltd. and X.L. Insurance Co. Ltd. may escape the group captive provision in the conference committee bill by going public, another provision in the conference bill could saddle them with increased taxes, sources say.

Under the bill, any shareholder of a "passive foreign investment company" that sells shares or receives distributions from the company must pay a "deferred tax amount" equal to the taxes due on the gain from the sale or distribution, plus interest accumulated over the years the stock was held.

Alternatively, shareholders may elect to be treated as a 10% U.S. shareholder of a controlled foreign corporation and be taxed currently on its share of the offshore company's income.

Passive foreign investment companies are defined, in part, as those whose assets consist 50% or more of assets that produce "passive" income. Passive income includes dividend and interest income, but for insurance companies does not include dividends and interest produced by investment of unearned premiums, ordinary and necessary reserves and one-third of premiums earned on unrelated risks.

Observers note that relatively new, highly capitalized group captives that have written relatively little business in comparison to surplus—and that thus have relatively small loss and unearned premium reserves and little earned premium—could fail this 50% test.

"They have a huge problem. They can't get out of it by going public," said one tax attorney who asked not to be identified.

The attorney added that the PFIC provision—if it is applied to these group captives—may serve as an impediment to their attempts to go public.

"They are going to have a serious problem going public," he said. "You cannot take a company public and tell the shareholders you are going to be taxed currently."

Sources add, however, that the conference bill does not make clear how the group captive and PFIC provisions will be applied.

Taken together, the two could constitute double taxation, and the conference committee may add a "carve-out" provision exempting insurance companies from the PFIC provision, according to Mr. Weber.

"It's very hard—until you see the bill—to know how those two will work together," he said.

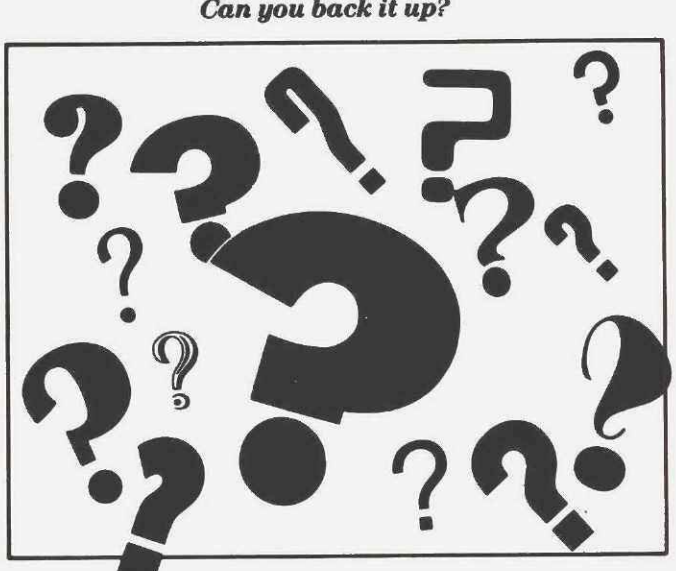
"They are probably holding their breath to see how that comes out in the draft," the Washington lawyer said of the large group captives.

In addition to these changes, the conference committee bill expands currently taxable Subpart F income of controlled foreign corporations to include all income from risks located outside the insurer's country of incorporation.

Current tax law provides for current taxation of income from insuring U.S. risks and foreign risks of captive shareholders or related entities. The new provision effectively adds to this the income from insuring foreign unrelated risks. ■

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Auditor has coverage in E.S.M. case

FORT LAUDERDALE, Fla.—Grant Thornton, the accounting firm that audited the bankrupt E.S.M. Government Securities Inc., said last week it has enough professional liability insurance to easily cover all damages stemming from a former Grant partner's certification of E.S.M.'s fraudulent financial statements.

"We believe that all suits will be well within the limits of our insurance coverage," said Peter Skomorowsky, managing partner of Grant's New York office.

The firm's professional liability insurance primarily is written by Lloyd's of London underwriters through a program administered by J.H. Minet & Co. Ltd., Mr. Skomorowsky said. However, he declined to elaborate on the coverage.

The Chicago-based accounting firm already has agreed to pay about $73 million to settle claims filed in U.S. District Court in Fort Lauderdale, including a $22.5 million out-of-court settlement reached last week with American Savings & Loan Assn. of Florida, Mr. Skomorowsky said.

American Savings, an E.S.M. client, claimed that Grant Thornton shares responsibility for the thrift's $80 million losses caused by E.S.M.'s fraudulent operations.

Grant earlier agreed to pay out about $50 million to 17 public entities that had lost about $105 million in the E.S.M. affair (*BI*, June 9).

Grant still faces three major lawsuits seeking about $131 million in compensatory damages and an unknown amount of punitive damages, Mr. Skomorowsky said.

The lawsuits have been filed by C. Thomas Tew, E.S.M.'s bankruptcy trustee; the Ohio Deposit Guarantee Fund; and the state of Ohio.

E.S.M. closed in March 1985 through a court order obtained by the U.S. Securities and Exchange Commission. The firm owed customers approximately $320 million. ■

comings & goings: industry

Aspland named chairman at North Star Reinsurance

Joseph R. Aspland has been named chairman, president and chief executive officer of North Star Reinsurance Corp. in Stamford, Conn., a subsidiary of General Re Corp.

Most recently, Mr. Aspland was vp and general manager of Allstate Reinsurance Co.

Other reinsurance industry changes:

Michael H. Hayes named vp for treaty reinsurance underwriting at Trenwick Group Inc. in Westport, Conn. He had been a director of Merrett Underwriting Management Ltd., which manages syndicates at Lloyd's of London.

Peter Adams named underwriting director for the San Francisco office of the U.S. branch of Zurich Insurance Co., an affiliate of Zurich-American Insurance Group.

Francis D. Ruyak elected executive vp of Constitution Reinsurance Corp. in New York. He will continue to be responsible for the treaty underwriting department. He was formerly a senior vp.

Fred McMurray named executive vp of Nobel Insurance Ltd. in Bermuda. Mr. McMurray previously was president of Crump Co. in Knoxville, Tenn., a subsidiary of The Crump Cos. Inc.

William A. Wolfe promoted to vp-casualty at Associated Intermediaries Inc. in Atlanta, a subsidiary of Associated Reinsurance Management Corp.

James G. Long appointed vp of U.S. life operations for Winterthur Swiss Insurance Co. in New York. Also, **George G. Smyth** named vp and manager of U.S. life operations for the insurer's international group life and pensions unit.

Agents/brokers

Dennis S. Zimmerman named a partner, vp and manager of the commercial lines department of A.J. Benet Inc., an agency in Mamaroneck, N.Y. He had been an account executive with Franklin Co. in New York.

John E. Scanlon and **Lawrence P. Clark** elected vps of Connecticut Underwriters Inc. in Portland, Conn.

Hiram P. Hampton named vp of Lykes Brothers Insurance Agency in Tampa, Fla.

Insurers

George T. Viosky promoted to vp and director of property/casualty field operations at Hartford Insurance Group, succeeding **Lawrence J. Kerwin Jr.**, who retired after 38 years with the company.

Neil H. Ashley appointed executive vp and chief legal officer of 20th Century Insurance Co. in Woodland Hills, Calif. Also, **G. Robert Thompson** named executive vp at the company. The office of president, previously held by Mr. Thompson, will be consolidated with the office of chairman, which is held by **Louis W. Foster**.

Takeshi Nozki named chairman and president of Tokio Marine Management, the U.S. manager for Tokio Marine & Fire Insurance Co. Ltd. He succeeds **Takashi Kagza**, who became general manager of the overseas department for the parent company.

Arthur D. Perschetz appointed vp of Royal Insurance Co. in Charlotte, N.C.

Gene S. Yerant, 39, named chairman and president of Transport Insurance Co. in Dallas, succeeding **Mike McCrary** and **Jim Jones**, who resigned to pursue other interests.

Robert A. Patulo elected vp of Chubb & Son Inc. in Warren, N.Y. He retains his responsibilities as branch manager of Chubb Group's New Haven, Conn., office.

Laurence P. O'Connor promoted to vp and general manager-reinsurance at Allstate Insurance. He retains responsibility for the special lines department, which manages national and corporate accounts for Allstate Insurance Co. and Northbrook Property & Casualty Insurance Co. ■

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The City of Melbourne is seeking a qualified individual to analyze its insurance programs, and who is capable of preparing recommendations to reduce insurance risks and costs. A Bachelor's degree in Public or Business Administration, Insurance, or a related field with 3 years public risk management experience required. Knowledge of govermental safety techniques and risk management; statistical techniques; and ability to communicate with employee groups necessary. Salary range low to mid 20's plus benefits. Send resume with letter of application to the personnel Division, City of Melbourne, 900 E Strawbridge Ave., Melbourne, FL 32901. Resumes will be accepted until 5 p.m. Friday, September 25, 1986. All aplications are subject to public inspection. The City of Melbourne is an Equal Opportunity/ Affirmative Action Employer.

POOL RISK MANAGER
NW Washington pool of 70 school districts offers challenging position to candidate with demonstrated ability to manage self-insured property/liability program. Experience with schools' risk management preferred. Excellent benefits; salary negotiable.
Request application from: Pugent Sound Schools Risk Management Pool, 1410 S. 200th, Seattle, WA 98198 (206) 242-9400

PROPERTY/CASUALTY CLAIMS MANAGER

(Salary Range: $1781-2465/mo.) Responsible for the Administration of the City Property/Casualty Claims Management Program, including adjustment of self-insured liability claims, in-house coordination of unemployment insurance claims, insured loss claims, third-party recovery claims and liability/risk analysis. Requires experience in risk and claims management preferably in the public sector, with considerable experience in multi-line claims adjusting; graduation from a 4-year college or university and/or equivalent combination of course work, experience and training. Closing date: October 3, 1986. Obtain application between 8:00 a.m. and 1:00 p.m. at **Personnel Services, City of Eugene, 777 Pearl Street, Eugene, OR 97401. (503) 687-5061. AA/EOE**

BI CLASSIFIEDS WORK!

CLAIMS EXAMINER
Growth in our company has created an opening for a casualty claims examiner in our Nashville, TN. Office.

Qualified candidate will possess a college degree and have at least 5 years of strong general liability experience. Medical malpractice expertise is required.

We offer a highly professional atmosphere, opportunities for growth and an excellent benefits package. Please forward resume and current compensation to:

Vice President, Claims, Box 2104, Business Insurance, 740 N. Rush Street, Chicago, IL 60611.

Insurance

INSURANCE/ REINSURANCE OPPORTUNITIES

American Universal Insurance Group, a multi-line insurance company, has the following opportunities due to expansion:

SENIOR REINSURANCE UNDERWRITING OFFICER

Treaty negotiation, outward reinsurance of AUIG. Build inward reinsurance for AUIG as a profit center. 5+ years reinsurance background. 10+ years insurance background.

ACTUARY

Build pricing and related reinsurance information support functions. Reinsurance background preferred, not necessary. ACAS, FCAS, not required however, working towards ACAS, FCAS.

SENIOR ACCOUNTANT

Prepare reinsurance reports. Design and manage accounting systems. 3+ years reinsurance background.

OTHER OPPORTUNITIES AVAILABLE FOR THOSE EXPERIENCED IN REINSURANCE UNDERWRITING, CLAIMS AND ACCOUNTING.

The company offers an excellent salary and comprehensive benefit program. Most importantly, a creative, flexible working environment encourages independent thinking and offers much latitude for individual contributions with corresponding recognition and rewards.

Please submit a resume to:

American Universal Insurance Group
144 Wayland Ave.
Providence, RI 02940
Attn: Martha Wheaton

Commitment to Excellence

AMERICAN UNIVERSAL INSURANCE GROUP
Equal Opportunity Employer

COST CONTAINMENT SPECIALIST

New York City Life Insurance Company is looking for a Cost Containment Specialist to assist with and develop and implement specialized diversified programs. This position requires a strongly motivated and knowledgeable candidate. Techical skills includes expertise in the areas of U.R., & Pre-certification, MSSOP, PPO's, HMO's, and cost saving plan design modifications. Familiarity with current legislations and benefits trends, as well as familiarity with effective communications and reporting techniques also required. Knowlecge of benefits administration helpful.

We offer you an excellent compensation package that is based on the quality of your experience. Excellent company-paid benefits.

Send your resume and salary requirements, in confidence to:

Box 125, AM, Cooper Station, NY, NY 10002
Equal Opportunity Employer M/F

INSURANCE EXCHANGE OF THE AMERICAS, INC.
President/CEO

The "Florida Exchange", which is one of three membership-based Exchanges in the U.S., generally patterned after Lloyd's of London, is seeking a successor for its retiring President this fall. Candidate must be dynamic, have first-rate management skills, and ideally, be a seasoned, well-known insurance executive with a strong administrative background obtained in a company and/or brokerage environment. Position will entail close liaison with Florida regulatory authorities, contacts with authorities of other states and with private associations and companies. Candidate should be a capable speaker as PR work will form a goodly part of the task. As Exchange is self-regulating under the supervision of the Florica Insurance Department, candidate must have the strength of character to patrol and police ably and fairly for the common good, a diverse group of entrepreneurial personnel drawn together on the Exchange. Position involves some travel and a compensation package commensurate with experience and credentials. Age is no barrier. Interested candidates should send detailed resume to Mr. Arturo Toro, Jr., President/Ceo, 245 Southeast First Street, Miami, FL 33131.

CLAIMS PROFESSIONALS

Due to record premium volume, General Reinsurance Corporation, the nation's largest and most successful property/casualty reinsurer, will be expanding its Claim Department, both at the Stamford, Connecticut Home Office and at two of its domestic branch locations. As a result of this planned growth, outstanding opportunities are now available for experienced claims professionals.

PROPERTY—Stamford, CT
Qualified candidates will have 8+ years' commercial property claims experience, will adjust and settle large and complex property losses. Strong negotiation skills required. 15% travel.

CASUALTY—Atlanta, GA
6+ years' experience in General Liability required. Medical malpractice and worker's compensation backgrounds desirable. JD a plus. 25% travel.

CASUALTY—Dallas, TX
6+ years' experience with strength in medical malpractice and General Liability required, worker's compensation background and JD a plus. 25% travel.

General Reinsurance offers a highly professional atmosphere, outstanding growth opportunities and an excellent benefits package. Compensation commensurate with experience. Please forward resume and current compensation in confidence to:

General Re

John E. Foulds
Assistant Vice President
General Re Services Corporation
Financial Centre, P.O. Box 10353
Stamford, Connecticut 06904-2353

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Business Insurance
Circulation Breakdown*
Commercial Consumers

Administrative:

CEO's Presidents and Owners ..2,803
Vice-presidents, General Managers and Other Administrative Personnel ..2,601

Financial:

Chief Financial Officers and Vice-presidents of Finance ..1,890
Secretaries, Treasurers, controllers and other Financial Personnel..6,127

Risk/Employee Benefits:

Vice-presidents, directors, managers, and other related department personnel of: insurance, risk, employee benefits, personnel, compensation, pension, safety, security, industrial relations, human resources and employee/labor relations....7,471

Sub-total ..20,892

Associations ..477
Government, Unions and Educational Institutions ..1,357

Commercial Consumers

Sub-total ..22,726

Insurance Agents and Brokers 10,795
Insurance Companies..7,168
Financial Institutions..897
Actuaries, Attorneys, Adjusters, Appraisers and Consultants..4,536
Others Allied to the Field..1,505
TOTAL..47,627

* Source Business/Occupational breakdown of qualified circulation, May 26, 1986 issue, as submitted to BPA for June 1986 BPA Publisher's Statement.

the professional marketplace

FRONTING & OFFSHORE FACILITIES

Our group own domestic Life & A&H, Property and Casualty Companies. We FRONT for 5%. Our Cayman Company provides group and association captive facilities for minimum capital investment. Contact: Wm. T. Harris or Waymond Lightfoot (512)494-1234, P.O. Box 32565, San Antonio, Texas 78284.

Wanted

CLAIMS MANAGER

Home Office insurance operation in personal and commercial lines. Financially strong company in university town. Need strong claims and supervisory skills. Contact Ray Johnson, P.O. Box 1348, Laramie, Wyoming 82070, (307) 745-4835.

Manager of Payor Accounts

An excellent opportunity to take over responsibilities for a newly created position with a leading home health care company experiencing an outstanding record of growth.

Sales, public contact experience is required to represent the company in contacting major insurance companies offering PPO's, carriers with group health plans, HMO's and national accounts. Sales force assistance and researching new areas of opportunity are additional challenges.

Compensation includes an excellent salary plus bonus and extensive benefits. Please forward your resume in confidence to:

J. Richard Capatch
Capatch, Cassie & Associates
200 Madison Avenue
Morristown, N.J. 07960
Executive Recruiters

Risk Management Consultant

Individual with 7 or more yrs. experience in risk consulting, risk management, or both combined. Position requires excellent communication skills, written & oral. Should have an ARM, CPCU designation, MBA or Law Degree. We are looking for a person who has the talent & ambition to move up to management in 5 to 10 years. Excellent base salary, incentive compensation & comprehensive benefits. Approximately 40% of time will be spent traveling. Send resume to:

Executive Assistant, Financial Insurance Service, Inc., 2603 W. 22nd Street, Suite 22, Oak Brook, IL 60521.

WANT PC COMPANY

Desire to purchase Property Casualty shell, or existing PC company. Either publicly or privately owned. Licensed primarily in Western United States. All replies held confidentially.

COMMERCIAL LINES ACCOUNT EXECUTIVES

Prestigious Westchester and Fairfield County clients offer growth opportunities for professionals with strong technical ability.

For further discussion regarding these and other fine agency and company positions, contact the insurance staffing specialists at 914-682-7040.

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701 Westchester Avenue—Suite 308 W
White Plains, NY 10604

This ad reaches 133,000 Corporate Risk, Employee Benefit & Financial Executives

RISK MANAGEMENT
MEIJER, INC.

Meijer, a company recognized for quality and excellence is seeking a Risk Manager. Meijer, Inc., is a large highly successful Michigan based retailer with its corporate offices located in Grand Rapids, MI. We have over 60 Multi-line retail units and over 25,000 employees throughout Michigan, Ohio and Kentucky.

We prefer thecandidates applying have:

- *Bachelors Degree
- *Minimum 3 years of Risk Management experience

This is a management position where your supervisory skills and knowledge will be challenged. Meijer also offers a competitive salary and a comprehensive benefits package that includes hospital, medical, prescription, dental and optical coverage. Also included are paid holidays/vacation, and sick pay, paid life and long term disability insurance, a company pension plan and voluntary 401(k) savings plan.

Persons interested in applying should submit a resume, in complete confidence, detailing work experience and current salary requirements to:

MEIJER, INC.
Employment Department
2727 Walker N.W.
Grand Rapids, MI 49504
ATTN: Risk Management Opportunity
An Equal Opportunity Employer

DIRECTOR OF RISK AND SAFETY

Excellent opportunity to manage multi-state Risk and Safety programs for a national leader in health-care. Require Bachelors Degree in Business or equivalent (preferably in finance), and 5+ years experience managing the Risk and Safety functions, with heavy emphasis on loss prevention and safety, Workers' Compensation, and managing a self-insured function. Experience must demonstrate strong organizational ability. Competitive compensations and benefits package. Send resume to:

THE HILLHAVEN CORPORATION
Personnel Department
Caller Service 2264
Tacoma, WA 98401-2264
EOE/H

FIRE PROTECTION ENGINEER

The position of Fire Protection Engineer is available in the Risk Management Department at Nebraska Public Power District's General Office in Columbus, Nebraska.

The person selected will assist in the planning, implementation and administration of various property loss control programs for Nebraska Public Power District. The applicant should have three to five years experience in fire protection engineering on highly protected risk properties, electric and nuclear utility operations, fire codes, ordinances and administration of property loss control programs. A technical degree with registration as a professional engineer (Fire Protection) is preferred.

Excellent fringe benefits. Send resumes to:

NEBRASKA PUBLIC POWER DISTRICT
Human Resources Department
P.O. Box 499
Columbus, NE 68601

Equal Opportunity Employer M/F

SENIOR RISK MANAGEMENT ANALYST

To assist implementation of a comprehensive Risk Management Program for our businesses in hotels, casinos, land development, and aviation services.

5 years of commercial *multiline* underwriting experience needed, preferably with an A+carrier. Special Risk or Jumbo Account background wanted.

Excellent interpersonal, negotiating, and writing skills are vital.

B.A.-Business; CPCU and/or ARM desirable.

Summa offers excellent salary, benefit, and relocation package.

Please forward resume to:
Personnel Representive
Summa Corporation
P.O. Box 14000
Las Vegas, NV 89156
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DIRECTOR OF RISK MANAGEMENT AND INSURANCE

The Johns Hopkins University is seeking a person to administer its risk management, self-insured and captive programs. This is a diversified, highly respected research institution with national and international exposures. The University employs approximately 10,000 persons and has property assets of some $1 billion. The Director is responsible for a fully self-insured workers compensation program, property and liability programs with a major self-insured element, participation in the management of a captive reinsurer and management of commercially insured lines, which include: liability, bonding, ocean marine, professional liability, directors & officers and specialty lines. The position requires an individual with an undergraduate degree in business with additional coursework in insurance and/or law helpful. Experience requirements are: 10 years in the insurance field with at least 5 years in corporate risk management and experience in higher education or the non-profit sector preferred. Experience in claims management highly desireable.

The salary is highly competitive and includes an above average benefits package. To be assured of consideration replies should be received by October 6, 1986 and addressed to: Edward S. Warfield, The Johns Hopkins University, Office of Personnel Svcs., Rm. 146 Garland Hall, Charles & 34th Sts., Baltimore, Md. 21218.

THE JOHNS HOPKINS UNIVERSITY

The Johns Hopkins University is an affirmative action equal opportunity employer.

SAFETY/LOSS CONTROL MANAGERS *AND* RISK MANAGEMENT ANALYST

Come grow with National Medical Care, Inc., a highly respected provider of health care treatments and products here and abroad. Please forward your resume and salary history to Mary Gilgun, Manager of Employee Relations, National Medical Care, Inc. 1601 Trapelo Rd., Waltham, MA 02154.

nmc National Medical Care, Inc.

Equal Opportunity Employer

UNDERWRITER ASSISTANT ACCOUNT EXECUTIVE

CIGNA Special Risk is looking for an individual with 3-5 years commercial property underwriting experience. Position is fast paced and excellent growth potential. Good communication skills, both oral & written are a must for this position. Faculative reinsurance knowledge necessary & driver's license required. Benefits package is a leader in the industry. For confidential consideration, please send resume to:

CIGNA

Attn: Steven Montanez
3333 Wilshire Blvd.
Suite 300
Los Angeles, CA 90010

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MARINE CLAIMS SUPERVISOR

Insurance

MARINE CLAIMS SUPERVISOR

Intermodal Technical Services, Inc. is a nationwide organization and a subsidiary of GAB Business Services providing surveying and adjusting services in the insurance and transportation industries. We are seeking an experienced marine claims supervisor for our Manhattan location.

Individual will be responsible for supervising the technical and procedural aspects of ocean and inland marine, national and international flow of assignments.

In addition, you will function as liaison with clients. Starting salary is $35,000 and we offer a comprehensive medical package. Please call:

212-815-8974
ITS, INC.
123 William Street
New York, NY 10038

An Equal Opportunity/Affirmative Action Employer M/F

A CENTURY OF SERVICE
GAB BUSINESS SERVICES, INC.

INSURANCE ACTUARY

The Hertz Corporation, a leading service organization is seeking an Insurance Actuary reporting to the Vice President-Insurance. In this capacity, responsibilities are:

- PROJECTION OF ANNUAL COST OF AUTO PL/PD PROGRAMS INCLUDING RESERVE PROJECTIONS.
- TO REVIEW, ENHANCE AND DEVELOP EXISTING DATABASE METHODOLOGIES FOR PROJECTING ULTIMATE COSTS.
- ANALYZE ACCIDENT TO IDENTIFY HIGH RISK AREAS AND MAKE RECOMMENDATIONS TO MANAGEMENT ON COST REDUCTIONS.

The ideal candidate must be an Associate Member of The Casualty Actuary Society, have rotational experience in evaluating a variety of insurance programs with a minimum of 4 years auto public liability and property damage area, 2-5 exams, and must operate a personal computer.

This position offers an attractive salary and an excellent benefits program. Please forward resume with salary history to:

EMPLOYEE RELATIONS

THE Hertz CORP

3 Entin Road, Parsippany, NJ 07054

An Equal Opportunity Employer

RISK AND INSURANCE SUPERVISOR

$38,925 to $48,656 Annually

SMUD is currently accepting applications for a Risk and Insurance Supervisor position located in SACRAMENTO, CA. This newly created position will be responsible for the development and administration of risk management and insurance programs and the supervision of professional staff. Requires extensive experience developing and maintaining risk management and insurance programs.

SMUD is a progressive electric utility which offers an excellent benefit package including 19 days vacation, comprehensive medical, dental, and vision plans, deferred compensation, and employee pension plan.

Applications will be accepted until a sufficient number of qualified candidates have applied. SACRAMENTO MUNICIPAL UTILITY DISTRICT, 6201 S Street, P.O. Box 15830, Sacramento, CA 95852-1830. Phone (916) 732-6050. Equal Opportunity Employer.

SMUD

Sacramento Municipal Utility District

Equal Opportunities

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1986	
~~Sep 8~~	~~Aug 26~~
~~Sep 15~~	~~Sep 3~~
Sep 22	~~Sep 9~~
Sep 29	Sep 16
Oct 6	Sep 24
Oct 13	Oct 1
Oct 20	Oct 7
Oct 27	Oct 15
Nov 3	Oct 22
Nov 10	Oct 28
Nov 17	Nov 5
Nov 24	Nov 11
Dec 1	Nov 18
Dec 8	Nov 25
Dec 15	Dec 3
Dec 22	Dec 9
Dec 29	Dec 16
1987	
Jan 5	Dec 23
Jan 12	Dec 30
Jan 19	Jan 7
Jan 26	Jan 13
Feb 2	Jan 21
Feb 9	Jan 26
Feb 16	Feb 3
Feb 23	Feb 11
Mar 2	Feb 18
Mar 9	Feb 25

business insurance

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Project CARE

Continued from page 2

combined annual revenues total about $500 billion. CARE's developers haven't yet sought firm commitments to the project, he noted.

Mr. Sterling said potential investors that have contacted him include municipalities, universities, food manufacturers, hotels, publishers, real estate developers, automobile manufacturers, hospitals and many others.

Based on current plans for capitalizing the company, he said CARE needs at least 200 participants to enable it to begin operating.

Although he said it was premature to release details of how initial investors would capitalize the facility, Mr. Sterling said a tentative capitalization plan calls for each of the 200 founders to buy 250 shares of stock for $2.5 million.

This stock would include 50 shares of "founder's own stock" and 200 shares of "founder's redeemable stock," both at $10,000 per share.

After CARE begins operations, new investor/policyholders would be required to purchase one share of common stock at $12,500 per share for each $1 million of coverage limits they purchase.

"Other facilities have flat amounts of capital," Mr. Sterling noted. "But if a company is only going to use the facility for $5 million of protection, that should be tied to his capitalization requirement."

As the common stock is sold to new policyholders, CARE would redeem the founder's redeemable stock for $12,500 per share, allowing a founder to recoup its initial investment. That part of the plan, explains Mr. Sterling, is an incentive to attract founding members.

CARE eventually hopes to write coverage for 1,200 to 1,500 organizations, he says.

Mr. Sterling, who first proposed the idea of an excess liability facility to members of the Risk & Insurance Management Society in April, noted that CARE would offer buyers several advantages over other competing facilities, apart from the lower minimum attachment point.

For instance, CARE would offer greater flexibility in choosing limits and attachment points.

'We're not looking at guaranteed five- to 10-year commitments. The group is convinced that the modus operandi of the company, with its dividend formula, will be sufficient to retain its constituency,' explains Mr. Sterling.

"The insured can use $5 million to $50 million of coverage anywhere between the minimum attachment point and $100 million," he explained. For example, if a policyholder already had $75 million in underlying liability coverage, it could buy up to an additional $25 million in coverage from CARE.

"In most cases, the attachment point will be $1 million. There may be cases where it will be higher," he said.

Participants in CARE won't be required to make long-term commitments to the program like other excess liability facilities require.

"We're not looking at guaranteed five- to 10-year commitments," said Mr. Sterling. "The group is convinced that the modus operandi of the company, with its dividend formula, will be sufficient to retain its constituency.

"If any facility loses its economic utility, it's fruitless for people to stay with it," he said.

CARE would write coverage on an occurrence form, he said, adding that the form the company is intending to use is now in its fifth revision and is expected to be revised further.

"We're trying to correct the occurrence form's deficiencies," said Mr. Sterling. CARE is trying to develop a form that "definitively identifies when an occurrence happens," and specifically states "how many occurrences have happened," he explained.

The form used by CARE will respond to an occurrence "anywhere in the universe," said Mr. Sterling.

The proposed policy form is being reviewed by a RIMS committee and independent insurance consultants, he added.

The CARE form will include coverage for sudden or accidental pollution incidents, but damage caused by gradual pollution will be excluded. It will also exclude coverage for damages related to asbestos and tobacco products.

Because "there is still a decent market out there," Mr. Sterling says CARE will not cover maritime risks. In addition, it will not provide coverage for nuclear facilities.

While CARE now is planning only to write excess liability coverage, the facility will consider writing other coverages—including workers compensation and directors and officers liability—after it gets off the ground.

Mr. Sterling said Project CARE has determined the insurer would have such a broad spread of risk that it would be able to operate without reinsurance.

Retaining all risk also would insulate the pool from high reinsurance costs, he pointed out.

"One of the principal advantages is that (CARE) is free of sins of the past. It has no uncollectible reinsurance, no incurred-but-not-reported losses, no claims," Mr. Sterling pointed out.

Rates charged to policyholders will not be "pulled out of thin air," adds Mr. Sterling. Rates will be determined from a published rate structure that reflects loss exposure, size of the policyholder, attachment point and limits.

Prospective policyholders would be able to access the facility directly or through agents and brokers. In fact, Mr. Sterling said he has been contacted by two of the largest U.S. brokers about writing coverage for clients, but he would not identify the brokers.

According to the proposal, CARE would declare dividends 39 months after the close of each fiscal year. Dividends would be payable to investors of record on the date the dividend is declared if they were also investor/policyholders during the fiscal year for which the dividend is paid.

Apart from Mr. Ryan and Mr. Sterling, members of Project Care include Bob Barrett, director of corporate risk insurance at National Gypsum Corp. in Dallas; Joe Anastasio, manager of corporate insurance at Sun Chemical Corp. in New York; Phillip Bly, risk manager at Brush-Wellman Inc. in Cleveland; Howard Helberg, director of risk management at Carlson Cos. in Minneapolis; Erv Pfingstag, vp and treasurer of KDI Corp. in Cincinnati; Bill Walters, manager of risk and insurance at the DeKalb Corp. in DeKalb, Ill.; and Lawrence Bell, assistant vp of risk management at Revco Drug Stores Inc. in Twinsburg, Ohio. ■

Reinsurance results

Continued from page 3

"We're not there, and neither is the industry yet, so we've all got some work to do, but we're headed in the right direction. We're appreciative of the progress that's been made," he added. Pru Re reported a 106.8% combined ratio for the first half, compared with a 128.5% combined ratio a year ago.

"I'm pleased that we're improving, and we're still working hard to achieve an underwriting profit," said Michael G. Fitt, chairman and chief executive officer of Employers Reinsurance Corp. in Kansas City, Mo. Employers Re reported a 104.7% combined ratio for the first half, compared with 117.7% a year ago.

Mr. Fitt said he was concerned, however, about what was happening in the overall market. After only two improving quarters, he said, "We can already see the marketplace softening, and this to me is absolutely incredible. I see already some companies going after market share across the board.

"I'm very concerned we're going to go straight back into another irresponsible underwriting cycle," Mr. Fitt added. "I hope I'm wrong, but certainly all the indications are there. The problem with our industry is they can't stand prosperity."

Mr. Fitt said Employers Re has no plans to change its strategy and pursue market share.

"The trend is definitely encouraging for us," commented North American Re/Swiss Re's Mr. Thompson, who added "our combined is not yet where we want it to be, but it shows significant improvement. We expect it to trend better over the rest of the year," barring catastro

Continued on next page

update

Andersen judgment upheld

Continued from page 2

NEW YORK—A federal appeals court has upheld a $17 million judgment against Arthur Andersen & Co. in connection with losses suffered by Manufacturers Hanover Trust Co. after the collapse of Drysdale Government Securities Inc. in 1982.

In a decision last week, a three-judge panel rejected a number of Andersen arguments seeking to overturn the award (*BI*, April 1, 1985).

However, the appellate court vacated an award of prejudgment interest and sent back to the trial court the issue of whether payment of such interest was appropriate.

Andersen would have had to pay more than $5 million in such interest.

The court also denied an appeal by Manufacturers Hanover for a mini-trial in which it could seek to recover punitive damages from Andersen.

A spokesman for Chicago-based Andersen said last week it was too early to tell whether Andersen would seek review from the U.S. Supreme Court. The spokesman declined to discuss the accounting firm's liability coverage. However, Andersen is believed to have adequate coverage for the award. A Lloyd's of London syndicate managed by Merrett Syndicates P.L.C. with Robin A. Jackson as underwriter is the lead underwriter of Andersen's primary professional indemnity coverage.

The suit arose out of the 1982 collapse of Drysdale, a unit of Drysdale Securities Corp., which was involved in the sale and purchase of government securities known as repurchase agreements. Andersen was the auditor of Drysdale.

In March 1985, a federal court jury found that Andersen violated three sections of federal securities laws and was guilty of common law fraud and negligence.

In a prepared statement, Andersen said it was "extremely disappointed" with the decision and believes the merits of its appeal are "well-founded. We are reviewing the opinion to determine what options are available to us."

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Largest U.S. reinsurers' first-half 1986 results

(All amounts in thousands of dollars) (Ranked by net reinsurance premium written)

Reinsurers	Policyholders' surplus (reinsurers only)	Net reinsurance premiums written 1986	Net reinsurance premiums written 1985	Net reinsurance premiums earned	Losses & loss adjustment expenses	Loss ratio	Underwriting expenses	Expense ratio	Combined ratio 1986	Combined ratio 1985
General Re	$1,567,558	$1,214,235	$643,511	$1,001,295	$817,070	81.6%	$283,218	23.3%	104.9%	113.5%
Employers Re	620,891	556,852	299,143	484,465	400,253	82.6	123,172	22.1	104.7	117.7
American Re	349,734	454,547	316,647	425,031	311,600	73.3	108,525	23.9	97.2	122.2
North American/Swiss Re	376,614	367,533	269,881	309,680	250,290	80.8	109,992	29.9	110.7	116.7
Munich Re	216,058	301,602	177,620	276,756	196,653	71.1	90,927	30.1	101.2	111.9
Prudential Re	288,462	288,292	235,495	262,407	205,933	78.5	81,648	28.3	106.8	128.5
Kemper Re	211,139	197,042	112,988	185,075	163,434	88.3	37,061	18.8	107.1	118.6
National Re	130,833	163,925	77,068	155,119	146,638	94.5	21,135	12.9	107.4	120.9
INA Re	146,656	134,030	101,590	121,328	91,443	75.4	38,139	28.5	103.9	127.0
Transatlantic Re	108,142	130,970	61,598	113,810	97,979	86.1	32,781	25.0	111.1	134.4
Continental Re	104,279	130,615	93,325	116,494	93,242	80.0	35,347	27.1	107.1	111.8
St. Paul Re	N/A	115,445	62,830	104,206	75,510	72.5	30,711	26.6	99.1	123.4
Skandia America Group	164,571	114,109	96,001	112,045	95,246	85.0	33,569	29.4	114.4	128.1
Constitution State Mgt.	N/A	103,625	44,182	82,743	69,958	84.5	25,615	24.7	109.2	117.5
New York Ins. Ex.	N/A	101,482	100,732	110,091	113,747	103.3	36,658	36.1	139.4	148.4
Constitution Re	94,380	93,937	61,092	79,692	62,016	77.8	23,238	24.7	102.5	112.2
Continental Cas	N/A	92,609	38,090	80,733	65,334	80.9	27,116	29.3	110.2	126.2
Buffalo Re	116,358	88,737	78,218	94,987	87,244	91.8	16,705	18.8	110.6	133.7
Home Re	53,401	81,764	36,659	62,258	49,961	80.2	14,140	17.3	97.5	108.0
USF&G	N/A	78,302	31,881	62,743	45,814	73.0	22,666	28.9	101.9	102.1
Totals for top 20	**4,549,076**	**4,809,650**	**2,938,551**	**4,240,958**	**3,439,365**	**81.1**	**1,192,363**	**24.8**	**105.9**	**119.9**
Total for all companies	**5,949,583**	**5,998,185**	**3,813,828**	**5,317,786**	**4,312,721**	**81.1**	**1,512,354**	**25.2**	**106.3**	**126.2**

Source: Reinsurance Assn. of America

Continued from previous page

phes.

The company's combined ratio improved to 110.7% in the first half of 1986, compared with 116.7% in the first six months of 1985.

A. William Urquhart, vp, general counsel and secretary at the New York Insurance Exchange, said, "We're encouraged by the six-month results, in that the syndicates that have continued to place business seem to have turned the corner.

"A number are showing profits," he added, and all those who are continuing to write are showing a big decrease in their losses, in a reflection of general market conditions.

The exchange reported the worst combined ratio among the Top 20 at 139.4%, compared with a 148.4% combined ratio for the comparable period a year ago.

"Our combined ratio figures are being impacted to a significant extent by the syndicates which, either by direction from us or by choice, are not writing any business," said Mr. Urquhart.

The 18 syndicates that are no longer writing business have no premium income but are continuing to book losses, and "your ratios are terrible" as a result, he said. If the numbers for these syndicates were to be eliminated, he added, the exchange's ratios would be "in line with the industry as a whole" (*BI*, Sept. 1).

Mr. Urquhart said he is encouraged by the outlook for the second half and 1987. The exchange has recently seen "quite a surge" in premiums that will be reflected in second-half figures. "We're on target now" for at least $300 million in premiums written for the year, he said. The exchange posted $101.5 million in premiums in the first half, up slightly from $100.7 million in the first half of 1985.

Gary French, executive vp of Continental Reinsurance Corp. said, "We're reasonably pleased with these results and expect them to continue to improve for the second half."

Continental Re reported a 107.1% combined ratio for the first half, compared with 111.8% for the comparable period a year ago.

Mr. French added Continental Re never suffered the "horrendous" results the U.S. reinsurance industry as a whole did and consequently will not have a great profit swing.

Charles Widder, senior vp and chief financial officer of Home Reinsurance Co.—which reported a 97.5% first-half combined ratio, compared with a 108% combined ratio in the first half of 1985—said his company is also a relative newcomer and does not have a big tail of losses like other reinsurers.

Home Re only started writing business in late 1982, he said, adding he expects 1986 to be a profitable year.

"Barring significant catastrophes, I would anticipate a small underwriting profit for the remainder of the year," said Jim Stanard, senior vp at F&G Re in Morristown, N.J., the reinsurance arm of USF&G Corp. The company reported a 101.9% combined ratio, compared with a 102.1% combined ratio for the comparable period a year ago.

"I think that our premiums written in the second six months will be somewhat larger than the first six months," he added. USF&G reported $78.3 million in reinsurance premiums written, compared with the $31.9 million posted in 1985's first half.

Richard Hopkins, president of St. Paul Reinsurance Management Corp. in St. Paul, Minn., which manages the reinsurance business of St. Paul Fire & Marine Insurance Co., said its combined ratio deteriorated to 99.1% in the second quarter from 96.1% in the first quarter because of reserve strengthening. St. Paul's reinsurance business reported a 123.4% ratio in the first half of 1985.

"We expect our results to hold about where they are, pending no catastrophes over the next few months," and 1987 and 1988 should be profitable as well, he said.

While Mr. Hopkins thinks the entire reinsurance industry's results will be good as well, "I think there'll be a lot of increases of loss reserves from prior years which will have an impact on current results."

Current business, he predicted, will post about a 100% combined ratio, but losses on prior business will be "considerably worse" as firms increase reserves for incurred-but-not-reported losses.

Bard E. Bunaes, chairman and president of New York-based Constitution Reinsurance Corp., said he is satisfied with his company's improving results, "but it ought to be better." Constitution Re reported a 102.5% combined ratio for the first half, compared with a 112.2% ratio for the comparable period a year ago. ■

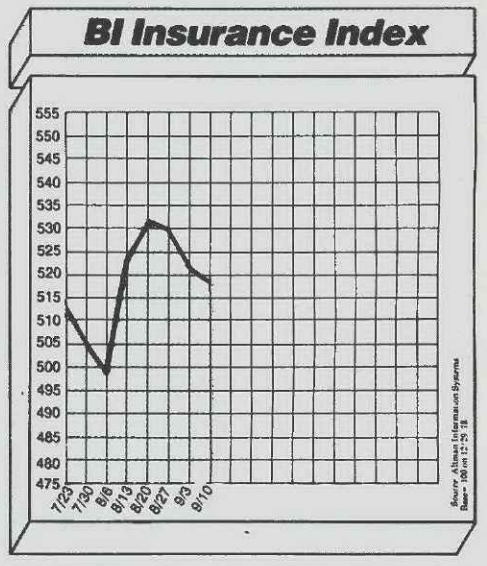
BI Industry Stock Report

September 10, 1986 9/4/86 thru 9/10/86

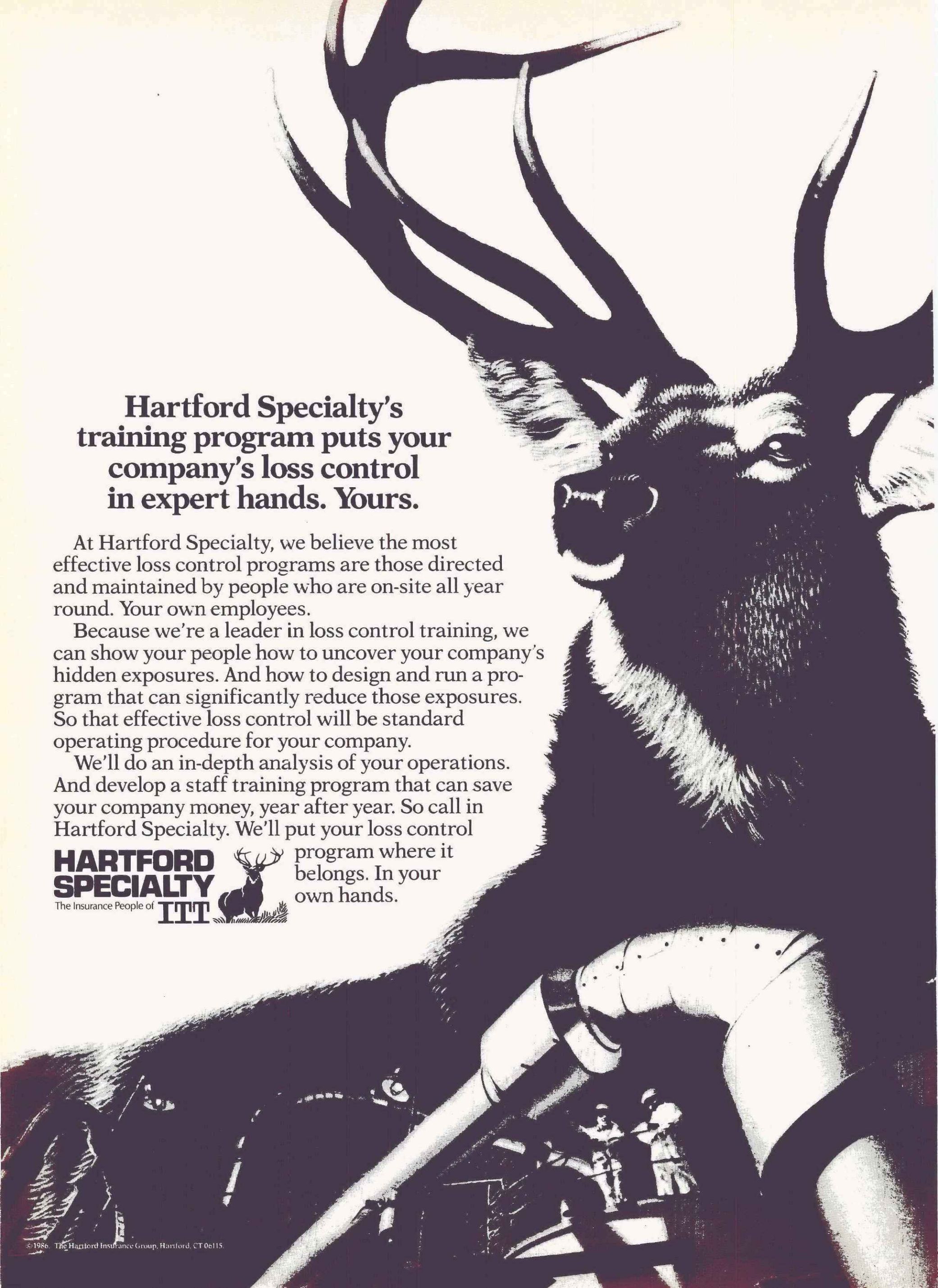
Brokers		Price	% Chg.	P/E	$ Div.	% Yld.	High	Low	Vol.(000)
Alexander & Alexander Svcs	NYSE	37.75	-10.1	251.7	1.00	2.6	41.75	37.75	646.6
Baldwin & Lyons Inc	OTC	24.00	0.0	30.8	0.16	0.7	25.00	24.00	1.6
Corroon & Black Corp	NYSE	34.75	-6.1	17.5	0.65	1.9	37.00	34.63	1,193.3
Crump E H Cos Inc	OTC	32.13	0.0	30.9	0.25	0.8	32.38*	32.13	479.0
Gallagher Arthur J & Co	OTC	30.50	-1.6	24.6	0.20	0.7	33.00*	30.50	247.3
Hall Frank B & Co Inc	NYSE	20.00	-8.6	0.0	0.00	0.0	21.63	20.00	304.3
Marsh & Mclennan Cos Inc	NYSE	65.25	-8.1	23.0	1.50	2.3	71.50	65.00	853.1
Poe & Assoc Inc	OTC	14.50	7.4	0.0	0.32	2.2	14.50*	13.50	10.8
AGENTS/BROKERS	AVERAGE			-59.1		1.6			
Conglomerates & Holding Cos.									
American Express(Fireman's Fd)	NYSE	61.88	-4.4	11.8	1.36	2.2	65.38	61.88	4,552.0
Anderson Clayton(Ranger/Panam)	NYSE	55.88	0.0	31.9	0.00	0.0	0.00	0.00	0.0
Armco Inc	NYSE	5.75	-22.0	0.0	0.00	0.0	7.25	5.75*	1,589.2
Berkley W R Corp	OTC	32.00	-13.5	24.2	0.24	0.8	37.00	32.00	314.0
Berkshire Hathaway Inc Del	OTC	2990.00	0.0	531.1	0.00	0.0	0.00	0.00	0.0
CIGNA Corp	NYSE	58.75	-4.5	0.0	2.60	4.4	61.75	58.75	1,538.2
CNA Finl Corp (CNA)	NYSE	60.88	-4.5	16.9	0.00	0.0	64.88	60.88	262.2
General Re Corp	NYSE	62.25	-7.1	27.1	0.88	1.4	68.88*	62.25	1,250.5
ITT (Hartford Group)	NYSE	52.50	-1.4	24.9	1.00	1.9	53.88	52.50	2,790.0
Sears Roebuck & Co. (Allstate)	NYSE	44.25	0.0	12.6	1.76	4.0	44.88	44.25	6,628.8
Teledyne Inc (Argonaut)	NYSE	329.25	4.6	12.0	0.00	0.0	331.38	319.00	193.0
Transamerica Corp (Occidental)	NYSE	36.25	-2.4	15.9	1.68	4.6	37.38	36.25	543.1
CONGLOMERATES/HOLDING COS.	AVERAGE			97.6		0.3			
Insurers									
Aetna Life & Cas Co	NYSE	60.63	-3.6	12.1	2.64	4.4	62.13	60.25	2,109.5
American General Corp	NYSE	42.25	-1.7	12.6	1.12	2.7	44.88*	41.63	1,748.5
Amern Heritage Life Invt Co	NYSE	41.00	-1.2	14.8	1.32	3.2	41.38	41.00	2.9
American Indty Finl Corp	OTC	18.00	-2.7	0.0	1.12	6.2	19.25	18.00	27.1
American Intl Group Inc	NYSE	133.38	-5.9	21.8	0.44	0.3	143.00*	133.38	582.7
Aneco Reins Ltd	OTC	2.63	0.0	0.0	0.00	0.0	2.63	2.63	2.1
Avemco Corp	NYSE	30.25	-2.4	15.9	0.50	1.7	31.25	30.25	5.3
Business Mens Assurn Co Amer	OTC	28.25	0.9	23.2	1.10	3.9	28.75	28.00	62.2
Chubb Corp	NYSE	68.25	-7.5	50.9	1.56	2.3	73.00	67.50	682.7
Combined Intl Corp	NYSE	55.75	-4.3	10.8	2.24	4.0	58.25	55.75	184.0
Continental Corp	NYSE	45.38	-6.9	0.0	2.60	5.7	48.88	45.38	733.8
Crown Life Ins Co	OTC	340.00	0.0	3.4	6.40	1.9	340.00	340.00	0.5
Durham Corp	OTC	44.00	-1.7	12.3	1.36	3.1	44.75	44.00	8.9
Farmers Group Inc	OTC	43.75	-3.3	15.2	1.00	2.3	46.00*	43.75	1,716.1
Fairmont Finl Inc	AMEX	18.13	-1.4	18.7	0.00	0.0	18.25	17.50	74.8
Fireman Fd Corp	NYSE	37.00	-5.4	0.4	0.30	0.8	38.75	36.50	896.5
Fremont Gen Corp	OTC	22.88	-12.0	0.0	0.48	2.1	25.38	22.63*	370.5
Great West Life Assurn Co	OTC	790.00	-0.6	7.9	18.00	2.3	795.00	790.00	0.6
Home Group Inc	AMEX	20.88	-1.8	99.4	0.00	0.0	22.50	20.63	840.3
Hanover Ins Co	OTC	67.50	-2.5	19.5	0.56	0.8	69.75	67.50	108.7
Hartford Steam Boiler Insptn	OTC	44.75	-8.7	25.1	0.84	1.9	49.00	44.75	79.2
Kans City Life Ins	OTC	31.00	-4.6	12.2	0.87	2.8	31.75	31.00	8.0
Kemper Corp	OTC	31.50	-6.7	14.3	0.60	1.9	33.50	31.50	1,125.8
Liberty Corp S C	NYSE	39.75	-0.3	14.7	0.72	1.8	40.88	39.75	13.8
Lincoln Natl Corp Ind	NYSE	52.25	-3.5	11.3	2.00	3.8	54.25	52.00	1,212.8
Mission Ins Group Inc	PAC	3.75	0.0	0.0	0.00	0.0	4.38	2.88*	3.5
Monumental Corp	OTC	55.63	0.0	18.8	0.00	0.0	55.63	55.63	1.1
Nac Re Corp	OTC	33.00	-3.6	0.0	0.00	0.0	34.63	33.00	47.2
Nobel Ins Ltd	OTC	16.25	-1.5	21.4	0.37	2.3	16.75	16.25	218.7
Northwestern Natl Life Ins	OTC	31.50	0.0	11.6	0.86	2.7	31.75	31.50	180.9
Ohio Cas Corp	OTC	80.00	-0.9	17.1	3.00	3.8	81.50	80.00	225.3
Old Rep Intl Corp	OTC	36.38	-2.3	12.1	0.78	2.1	37.00	36.25	114.7
Orion Cap Corp	NYSE	33.00	-5.4	0.0	0.76	2.3	34.25	33.00	39.1
Protective Corp	OTC	23.25	1.1	12.5	0.70	3.0	23.50	23.25	334.7
Provident Life & Acc Ins Co	OTC	25.00	1.0	9.2	0.84	3.4	25.00	24.88	204.8
St Paul Cos Inc	OTC	40.25	-4.2	24.0	1.50	3.7	42.50	39.25	1,911.2
SAFECO Corp	OTC	62.00	-2.4	14.8	1.68	2.7	63.75*	62.00	320.8
Seibels Bruce Group Inc	OTC	16.00	4.9	0.0	0.80	5.0	16.00	15.50	428.7
Selective Ins Group Inc	OTC	22.00	-0.6	0.0	0.92	4.2	23.00	22.00	232.4
Statesman Group Inc	OTC	5.63	0.0	62.5	0.05	0.9	5.75	5.38	66.4
Tokio Marine & Fire Ins Co	OTC	596.00	2.9	112.2	1.66	0.3	596.00	558.00	14.2
Torchmark Corp	NYSE	28.50	-6.2	11.5	0.60	2.1	30.50	28.50	965.0
Travelers Corp	NYSE	46.25	-1.6	11.5	2.16	4.7	47.00	46.25	1,197.2
Trenwick Group Inc	OTC	20.25	-5.8	0.0	0.00	0.0	21.50	20.25	199.7
United Fire & Cas Co	OTC	32.25	-4.4	16.9	0.80	2.5	34.50	32.25	22.2
United States Fid & Gty Co	NYSE	40.13	-1.5	0.0	2.32	5.8	41.13	40.13	1,926.2
Uslife Corp	NYSE	45.50	-1.6	11.9	1.12	2.5	46.50	45.00	173.9
Washington Natl Corp	NYSE	32.63	-1.5	14.7	1.08	3.3	33.88	32.63	61.0
Zenith Natl Ins Corp	OTC	26.50	-3.6	45.7	0.80	3.0	27.50	26.50	224.7
INSURANCE COMPANIES	AVERAGE			9.4		2.0			

System design: Altman Information Systems

BI Insurance Index



The *Business Insurance* index of insurance industry stocks plummeted to 518.8 points on Sept. 10, down 16.3 points from 535.1 points on Sept. 3. A total of 46 stocks posted losses, while five advanced and nine remained unchanged. Stocks that posted the biggest declines were: W.R. Berkley Corp., down 13.5%; Fremont General Corp., down 12.0%; Alexander & Alexander Services Inc., down 10.1%; and Hartford Steam Boiler Inspection & Insurance Co., down 8.7%. Stocks advancing the most were: Poe & Associates Inc., up 7.4%; Tokio Marine & Fire Insurance Ltd., up 2.9%; Protective Life Corp., up 1.1%; and Provident Life & Accident Insurance Co., up 1.0%. The *BI* index averaged a 3% decline for the trading period, underperforming the major market indicators.



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