WEEK OF SEPTEMBER 20, 1982

business insurance®

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update:

Crum & Forster board considers takeover offer

NEW YORK—Directors of Crum & Forster will meet today to vote on a proposed acquisition of the insurance holding company—reportedly by Sears, Roebuck & Co. —for about $60 a share.

Sears officials declined to comment on the possibility that the Chicago-based retailer and financial services giant would

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Keeping up with comp changes

Employers give claims a closer look

By LORRIE GAWLA

The sagging economy is boosting investigation of workers compensation claims by employers, a *Business Insurance* survey shows.

While less than a fifth of the employers surveyed said layoffs and hiring freezes are prompting employees to file more workers compensation claims, more than a third said that invalid or inflated claims have increased as a percent of total claims filed.

In response, 39% of the survey respondents said they have instituted new procedures to verify the validity of workers compensation claims.

They are monitoring claims more and are fighting the claims they think are invalid. However, they are getting little assistance from their workers compensation insurers, according to a survey of the *Business Insurance* Risk Management Board.

rm board

The Risk Management Board includes risk managers in a wide variety of businesses and institutions who have volunteered to respond to regular surveys. Forty-nine of 94 board members completed the most recent survey for a 52% response rate.

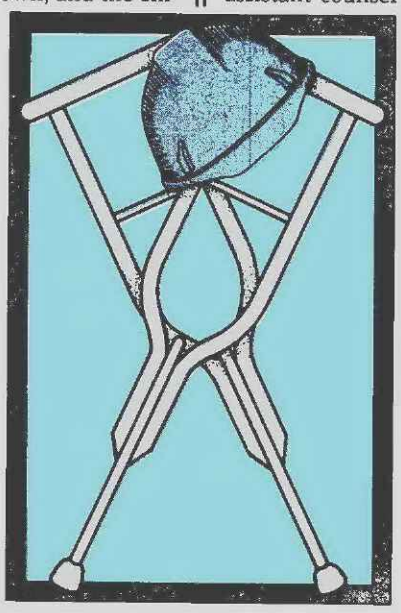
Frequently criticizing the ease with which employees can obtain hefty benefits for on-the-job injuries, nine survey respondents, or 18%, directly link the increases they are seeing in workers compensation claims this year to layoffs and hiring freezes. Sixty-seven percent of the risk managers surveyed said their companies have cut their workforces this year or at least stopped expanding them.

"Illinois employees are very aware of the liberal attitude that prevails at the Illinois Industrial Commission," wrote the manager of corporate insurance for an Illinois manufacturer who says employees laid off at his company are specifically filing more back injury claims.

"Employees are conscious of all avenues to try and keep a certain flow of dollars coming into the home," wrote the risk manager for a governmental unit that employs 5,400 workers. "Workers compensation is one that is well-known, and the employee is aware of other employees who have collected benefits for a very minor or even faked injury." He said both laid-off employees and active employees are filing more back, hand and eye injury claims.

"Workers compensation benefits are greater than unemployment compensation, plus the payment period is or can be longer," points out the vp of industrial relations for a medium-sized manufacturer. He says the new workers compensation claims he is handling most often involve injuries that are not readily or easily

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Graphic: Amy Palmer

Oregon's open rating paying off

By RHONDA L. RUNDLE

PORTLAND, Ore.—Employer groups in Oregon are turning thumbs up on the state's new deregulated workers compensation insurance system following the first round of rate filings and policy renewals July 1.

Most Oregon employers that insure their workers compensation risks will pay substantially less for coverage because open rating went into effect two months ago.

"The change seems to have had a salutary effect—it's a buyer's market for employers," observes Karl Frederick, vp and assistant counsel for Associated Industries of Oregon, a trade group representing 2,500 Oregon employers of all sizes.

Oregon and Kentucky are the first states to institute open rating for workers compensation risks and will be closely watched by all segments of the insurance industry. Oregon is probably the better test case because insurers there have had more than a year to prepare for open rating, compared with only three months in Kentucky.

Minnesota, Illinois, Michigan, and Rhode Island will implement open competition over the next year, and at least four other states—New York, Arizona, Utah and Maine—are considering enabling legislation (*BI*, June 28, Sept. 6).

The file-and-use system adopted by Oregon permits insurers to price policies as they please above a pure premium set by the National Council on Compensation Insurance to fund losses only. Each insurance company individually adds a factor to that pure premium for administrative expenses, taxes and profit.

The factors filed by about 160 insurance companies operating in the state range from less than 1% to 70% of pure premium, reports Michael Lamb, casualty actuary in the state Insurance Division.

But while insurance costs have declined for buyers, operating costs of the state's workers compensation department have been going up for various reasons. To meet its $55 million funding requirement for the fiscal year ending next July, the department has raised its assessment on employers to 16.8% of earned premium from 7.7%.

This increase will eat up some of the savings from lower insurance costs. But Mr. Lamb estimates that insured employers will still pay an average of 8% less for their total workers compensation coverage costs.

Mr. Frederick, representing Oregon employers, agrees.

"We expect the savings to still average 5% to 10% despite the assessment," he summed up.

"The change is being very warmly received by employers," confirmed Jack Kalinoski, public affairs manager for Associated General Contractors, a trade group of 700 construction contractors and sup-

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Tort reforms at state level few in '82

By JERRY GEISEL

WASHINGTON—Businesses that want sweeping product liability reform at the state level are getting nowhere this year.

For the first time since 1977, no comprehensive product liability reform legislation was passed in any state during the year's initial legislative sessions (see Product Liability Score Card, page 34).

And the outlook for the rest of 1982 is not too promising. Only Pennsylvania and Ohio have viable comprehensive legislation pending, and business leaders in those two key industrial states admit they aren't sure they can get the votes before adjournment.

Product Liability Score Card. . .Page 34

While a product liability bill was enacted in Maryland, it could hardly be labeled comprehensive. The Maryland law only makes it more difficult to sue retailers and wholesalers. It offers no protection from product liability suits for manufacturers.

The lack of tort reform on the state level this year contrasts sharply with the almost feverish pace in which state legislatures passed tort reform bills during the late 1970s.

For example, three states enacted tort reform measures in 1977 and 13 states followed suit in 1978. Six states passed bills in 1979. In 1980, Idaho passed a reform bill, and last year Kansas and Washington enated reform legislation.

The zip has gone out of the state tort reform movement for several reasons, according to one business lobbyist. These reasons include:

- Most of the bills passed during the early years of the tort reform movement were in conservative, sparsely populated states where business groups have lots of clout in state legislatures.

Most of the remaining states where tort reform bills have not been enacted are heavily industrialized. And, the labor, consumer and legal groups that oppose pro-business product liability bills wield considerable clout in these states.

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The 26th Rendez-Vous de Septembre report Page 3

Reinsurers renew contacts at Rendez-Vous

Continued from previous page

& Co., the largest reinsurance intermediary, and General Re Corp. of the United States. Also missing were many top executives, who instead sent their underwriters or middle managers.

"It's really an historical anachronism," remarked one participant, recalling the days when more policymakers gathered in the South of France to decide the future of the reinsurance business.

The Rendez-Vous began 27 years ago when three reinsurers from France, West Germany and Switzerland met at the Hotel de Paris in Monte Carlo during their vacation to discuss their reinsurance treaties. Mr. Christie says he remembers sitting outside in the car while his boss at Union Reinsurance Co. popped in to say hello to the reinsurers.

"Little did I realize then that that was the start of the Rendez-Vous," he said.

The next year, the first official Rendez-Vous was held.

The Rendez-Vous is still the largest single gathering of the reinsurance industry from around the world and considered a command performance by many. Reinsurance company executives, underwriting managers and managing general agents, reinsurance brokers and executives of primary insurance companies gather, not to attend the few formal meetings but to make their own rendezvous with important clients in hotel lobbies, cafes and elegant restaurants.

They meet not to hammer out final terms for reinsurance contracts but to review the year's results, begin preliminary discussions about 1983 renewals, renew old contacts and make new ones.

"If you accept that the world reinsurance industry is a club, then this is the club's annual meeting," says Jonathan Crawley, president of Aneco Underwriting Ltd. in Bermuda, who has been attending the meeting since 1964 when he was a reinsurance broker. "It's rather like a five-day-long business cocktail party. The business is done mostly with cups or glasses in one's hand."



Mr. Crawley

The business is to see people and be seen, to keep one's name known and to link faces with names of companies and those who sign telexes.

It's also a way of reducing air fares to the faraway places where reinsurers may be located. Participants pay for one flight to the Riviera instead of many separate trips to see various reinsurers around the world.

"This is the most valuable week in the business calendar," said Mr. Springbett, who brings a staff of 12 to the conference, which he's been attending for 15 years. "In the course of a full week here, I can say hello to 400 of my clients or reinsurers. I try to come with a minimal set of appointments.

"I have to keep in touch as a brokerage underwriting for 300 companies worldwide," he said. "Sixty percent of my reinsurers come to Monte Carlo. They ask about problems and results, and I tell them. And if you circulate, your face is not forgotten."

Only a couple hundred people attend the lectures, where speakers present papers that have already been distributed to the registrants.

Mr. Crawley, who moved to Aneco just a year ago after a brief stint with Beneficial International in Bermuda and a long career at a Lloyd's broker, notes: "It's very important for someone in the first year after a change of jobs to present himself and his philosophy of his company to the industry. This is a very good place to do it. Besides the prearranged appointments, one bumps into more reinsurance people here than anywhere else in the world."

Indeed, there were 79 countries represented.

"The continental guys are here," says John Van Cleave, president of Professional Managers Inc. in Chicago, which specializes in professional liability insurance underwriting. "You can see the people in London in London, but rather than bounce from Paris to Brussels, this is the place to be."

The French particularly support professional liability programs, he said.

Mr. Van Cleave, however, was not lining up reinsurers for the $10 million limit he offers on behalf of Fremont Indemnity Co. and, most recently, New Zealand Insurance Co. He had done his renewals on Sept. 1, before he arrived in Monte Carlo.

"I'm talking about our record. It's important to keep your face in front of people," he said.

PMI has underwritten $4.5 million in annualized premiums this year, about 8% below budget. Mr. Van Cleave expects to meet budget by the end of the year since adding New Zealand Insurance Co., which gives PMI licensed markets in every state.

"It's an economical way to renew relationships with foreigners," noted Mr. Delaney, referring to the annual cocktail party hosted by his colleague, Bill Delaney, who is not related. The male-only cocktail party has yet to admit a woman reinsurance executive, for which the younger Dave Delaney apologizes. Bill Delaney says it is merely a limitation imposed by space.

Americans are not used to the casual way Europeans conduct business, one European reinsurer pointed out. "Americans have to have conferences," he said. But British participants, the largest group registered at the Rendez-Vous, are accustomed to doing business over cocktails and lunches.

Some London insurance brokers rent tents on the Old Beach and tell their clients to come visit whenever they want for sun, wine and talk. One tent rented by a British underwriting agency drew a queue of brokers waiting to talk.

"It is just like Lloyd's underwriting room," the reinsurer said.

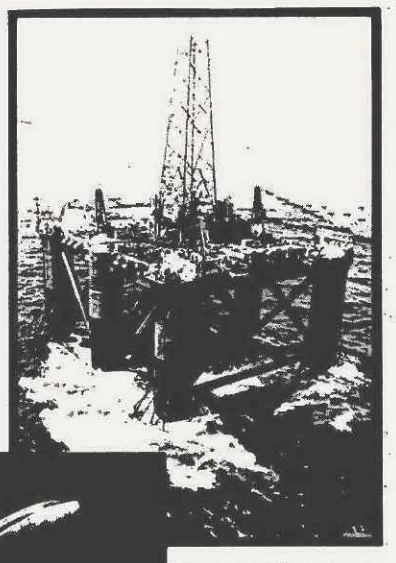
Other insurance brokers, like Richard Shaw, the chairman of Lowndes Lambert P.L.C., visit with their clients in the comfort of their yachts in Monaco's sheltered harbor.

However, the gaiety that surrounds Monte Carlo and the Rendez-Vous was broken just one week later by the unexpected death of Princess Grace. Many of the places where registrants had met and discussed business, including the famous casino, were shut down during the mourning period.

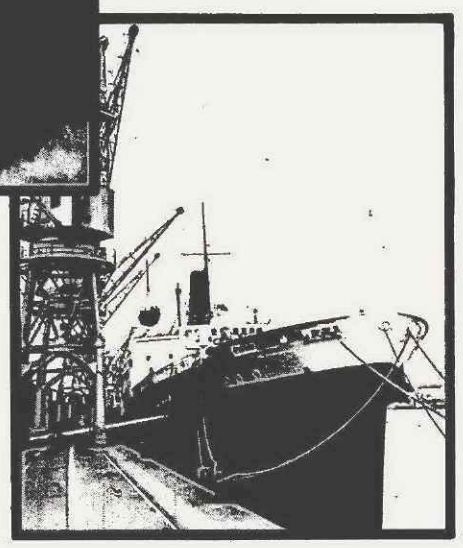
While North Americans come to the Rendez-Vous to meet Europeans, Europeans are just as anxious to meet Americans without having

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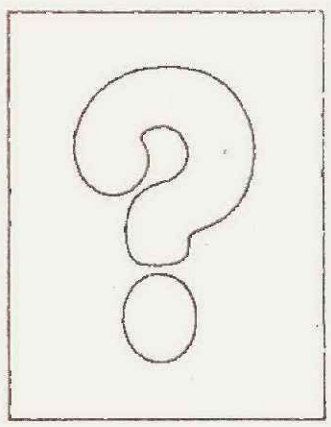
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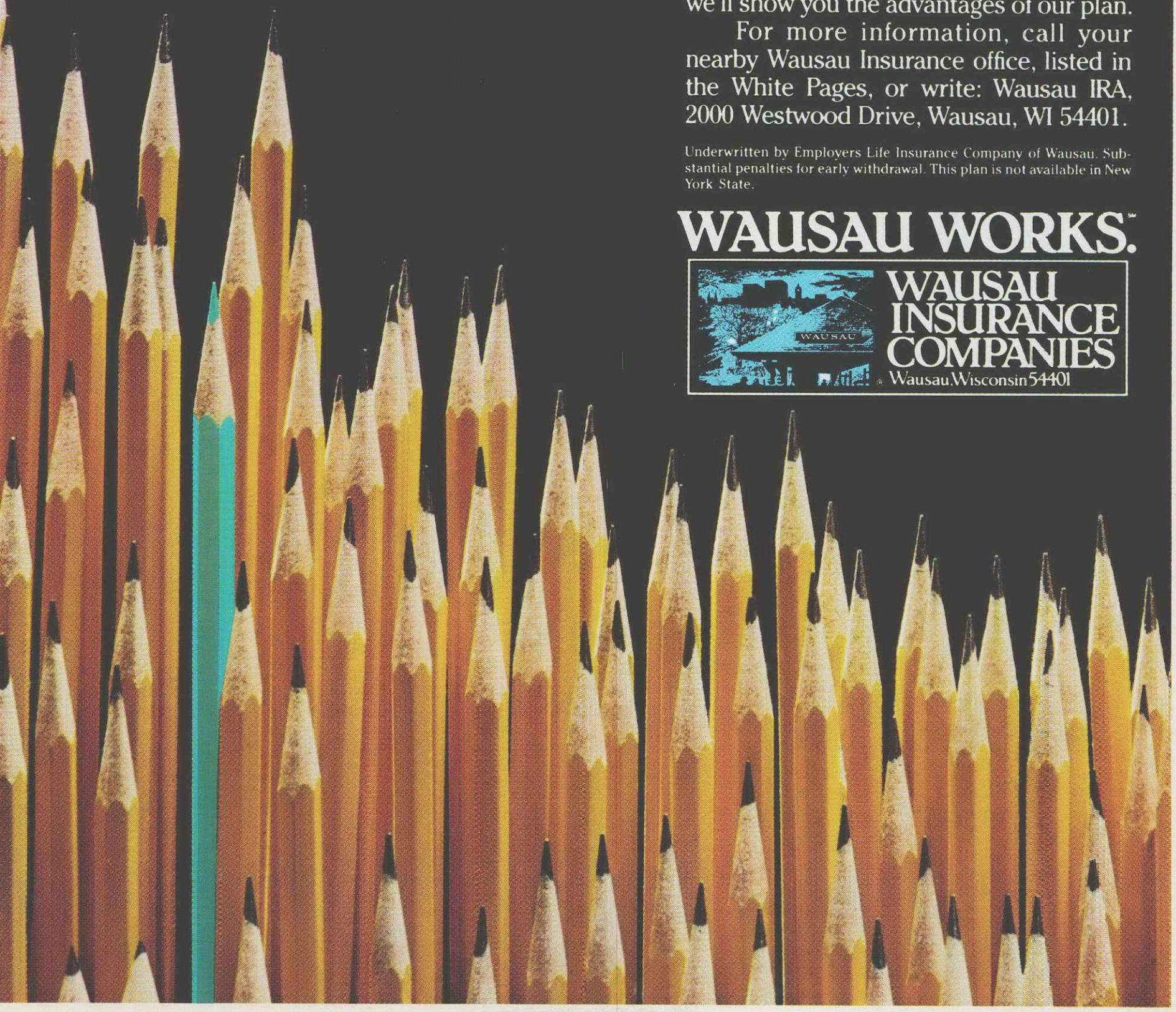
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Few reinsurers expect market to turn in '83

Continued from page 4
to cross the Atlantic.

"It's a good opportunity to contact people in one place, and to see Americans who are not in New York City," said Hans Raffler, president of Munich Reinsurance Co.'s U.S. branch, who spends weeks at a time in New York away from his Munich offices.

"It's not a place to sign contracts, but to exchange views and prepare for detailed discussions."

Others who come to the Rendez-Vous are specifically looking for business or a special new business contact.

Francis Carter, president of Belvedere Insurance Co. and Belvedere Underwriting Agency Ltd. in Bermuda, was looking for a European insurer to sign on with his agency to bring its current $60 million capacity up to $100 million. "We want to offer a direct market to U.S. insurers," he explained.

Mr. Carter also was looking for a European company with a presence in European countries to provide local technical expertise for the financial treaty business he is developing.

"We have a number of possible companies," Mr. Carter said with a smile when asked if his search was successful.

Also looking for business partners was Milos Knorr, formerly president of INA Trading Corp., which managed INA's Syndicate 1792 on the New York Insurance Exchange. He is trying to organize one or more syndicates and claims to have commitments totaling $1 million from friends alone.

"It's the greatest thing since Columbus discovered America," he said of the New York Insurance Exchange.

Norman Reitman, president of Norman Reitman Co. Inc., a New York reinsurance auditing company, cheerfully admitted that he, too, was "looking for business" during his 18th Rendez-Vous. But, he added more seriously, "I'm really here to find out what's happening around the world."

Mr. Reitman lists among his accomplishments meeting merger and acquisition specialists from Chase Manhattan Bank. Mr. Reitman would like to be called in to audit reinsurance procedures and payments before a merger or to run off business no longer wanted after a merger.

Run-off business, which is handling the claims and reinsurance recoveries or business that a company no longer underwrites, is growing for Mr. Reitman's 75-person company, which maintains offices in 11 cities around the world. Almost half the staff, 32, work on run-off accounts, often for members of underwriting pools who have fired their managers after results turned sour.

Mr. Reitman denied he is somewhat controversial among the registrants of the Rendez-Vous, claiming most of them as his clients and friends. Any controversy surrounding his company stems, he said, from the kind of work it does: delving into other companies' reinsurance procedures, contracts and reporting.

When asked about associations with less reputable members of the reinsurance community, Mr. Reitman frankly admitted he has refused to serve some potential clients after examining their business.

Also looking to make business contacts were those with new ventures. H. Donald Lindell threw a champagne breakfast and passed out pamphlets concerning his new company, H.D. Lindell & Co. Inc., which is now offering $10 million in facultative reinsurance for international property risks.


David Delaney

The company, owned by Mr. Lindell with an interest held by Pearson Webb Springbett, is underwriting for The Continental Insurance Co., Employers Reinsurance Corp., San Francisco Reinsurance Co. (a subsidiary of Fireman's Fund Insurance Cos.) and St. Paul Mercury Insurance Co. (a subsidiary of The St. Paul Cos. Inc.).

Mr. Lindell, who retired in May from Continental as its senior vp and manager of its international insurance operations, projects his new company will underwrite $7.5 million in annualized premiums in 1983. With Pearson Webb Springbett supplying business, it appears it can reach that goal, even without other takers.

Lindell & Co. offers one of the largest available lines underwritten by such well-known companies, Mr. Lindell notes, and will reinsure captive insurance companies as well as commercial insurers. He expects 60% of his business to come from Europe with the rest from Latin America, Southeast Asia and the Middle East.

Two other principals of the company, Jake Fehl Jr. and Stephen J. Leavey Jr., also were previously with The Continental Insurance Co.

The Rendez-Vous has grown tremendously from the first conference in 1956 when the 300 participants met mostly at the Hotel de Paris. Now the center of activity has moved to the larger Loew's Hotel, although the lobby of the Hotel de Paris between 10 a.m. and noon is mobbed with reinsurers and brokers moving from one table to another. They meet in 15-minute and half-hour intervals, trying to see as many people as possible during the week.

Years ago, all participants followed an unwritten rule that ties and jackets would be worn until the afternoon. "But things have changed," said Mr. Springbett. "The topless beaches have come in, thank goodness. And ties have disappeared. Even on Monday morning (the biggest day of the conference), ties have gone.

"Today, dress sense is much better, though there are one or two old stalwarts who refuse to take off their suit and tie."

Some registrants complain they can't find the people they want among the crowds milling about now.

Among the crowds are the growing numbers of Americans who attend, looking for more international business, not necessarily more foreign reinsurers.

"I sense a tremendous movement back to the U.S. reinsurance market," observed Dave Delaney of Delaney Offices. "With the exception of Lloyd's, there is growing opposition to using non-U.S. security. And we feel strongly about using our friends in Bermuda and elsewhere who have been there when we needed them."

Delaney Offices and its affiliates handle about $100 million in reinsurance and insurance premiums. ■



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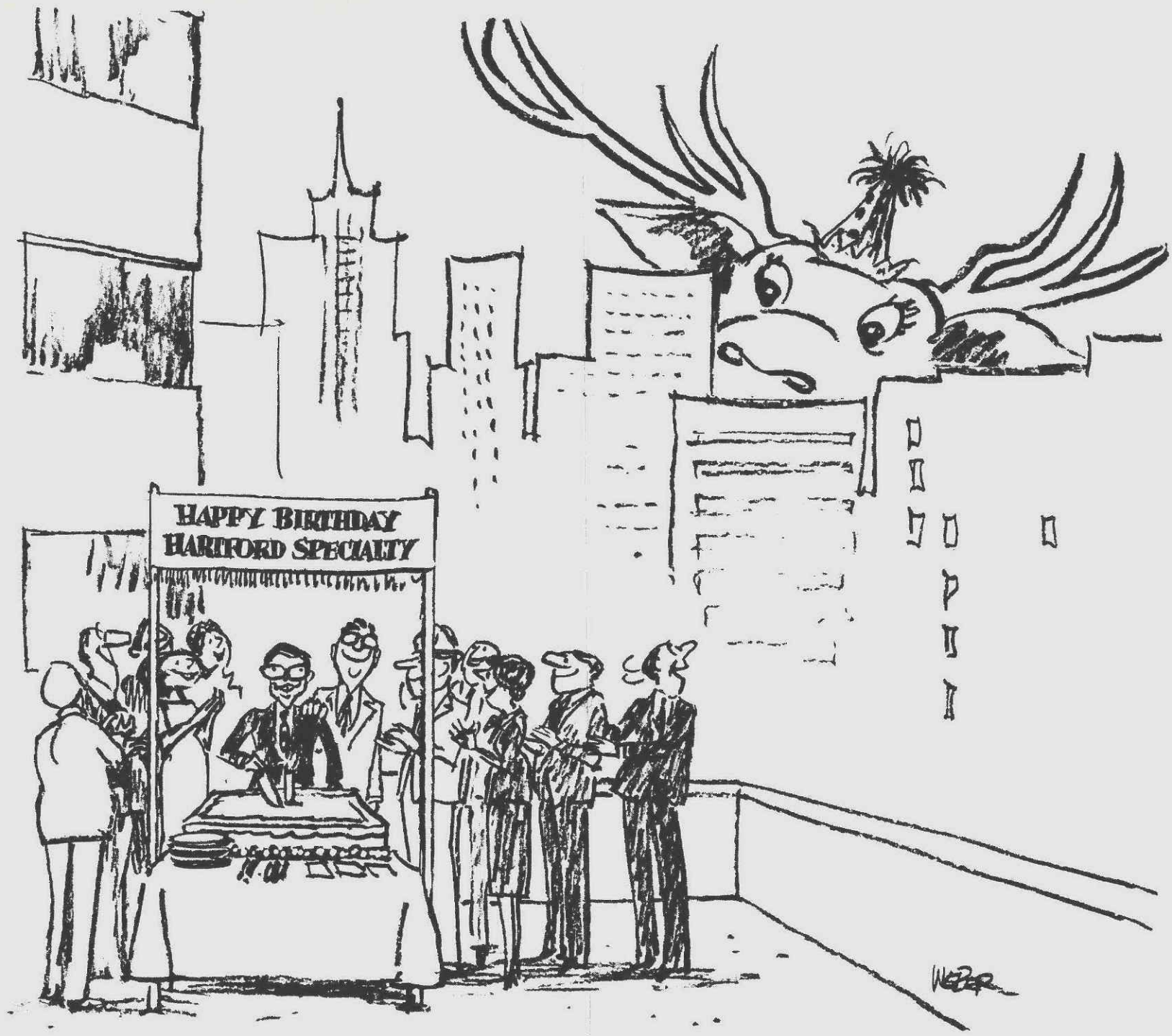
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editorial opinions

Don't settle for less

TO THE RISK managers who refuse to pay invalid workers compensation claims: Keep up the fight.

To those who haven't checked lately to see if suspicious claims are being filed: Get going.

And to any insurers that aren't helping employers vigorously monitor workers compensation claims: Come on.

Our most recent Risk Management Board survey (see story, page 1) indicates that the sagging economy is prompting workers to file more invalid or inflated workers compensation claims as they look for ways to make ends meet after a layoff or because the economy has cut into their cash flow.

While only 18% of the risk managers surveyed directly linked increased workers compensation claims to layoffs, 16% said the total number of claims had risen this year compared with last year, and 35% said the number of invalid or inflated claims had increased this year as a percent of total claims.

And, as several of the survey respondents point out, it's nothing new for employees to try to make a few extra dollars off workers compensation during a recession. It's happened before when the economy was going downhill.

However, only 39% of the survey respondents said they are doing anything new to more closely monitor work comp claims. Granted, some of the respondents said their current system of checking claims is good and they are on top of the problem already, without instituting any new procedures.

However, if you can't honestly say your current method of monitoring claims is top-notch and you aren't looking at what you could be doing better, you just may be in for a surprise before this recession ends.

Our survey also shows your workers compensation insurer might be sharing that surprise with you. While almost half of the respondents—24—purchase workers compensation insurance rather than self-insure their risks, only three said their insurers are doing anything new to scrutinize claims more closely during this recession.

One respondent even said his insurer refused to cooperate with the employer's effort to check suspicious claims.

We agree that the employer should be on top of both the number and nature of workers compensation claims generated by his workforce, and that it is mainly his responsibility to curb excesses by changing reporting procedures and instituting safety programs to prevent accidents.

But to be successful, the buyer needs the insurer that pays the claims to share the same hard line. . .and the claims analysis resources it may have.

An insurance buyer should settle for no less than this level of service.

Take the time

A JOB WELL DONE should receive the attention it deserves, and you can single out a risk manager for praise by nominating him or her for the *Business Insurance* Risk Manager of the Year Award.

Eleven expert judges are waiting to pick the winner of the competition, as the story on page 3 points out. They will also select members of *BI's* Risk Management Honor Roll, which honors those candidates with the highest scores in the contest categories not represented by the Risk Manager of the Year. The categories are large corporations; small corporations; government entities; and tax-exempt or non-profit organizations.

Know a risk manager worthy of this honor? Then, request nomination forms from *BI's* Chicago office now. They must be returned by Dec. 6.

letters

Importance of market value

To the editor: In the Perspective article, "Checking E/S lines: Financial factors are critical" (*BI*, Aug. 9), David F. Anderson made an attempt to relate the declining market value of bonds to the net worth of The Travelers. By deducting the difference between the cost and market value of the bonds held by The Travelers from the shareholders' equity, it was concluded that, on a liquidation basis, the company had a negative net worth.

The Travelers, as well as other insurance companies, carries bonds in good credit standing at amortized cost. Since 1976, insurers have been required by regulatory authorities to show, as supplementary information, the market value of the bond holdings. From time to time observers have used that information and, as in the Perspective article, imagined dire consequences.

Bonds are carried at amortized cost for several sound reasons:

- Bonds are purchased by insurance companies to provide secure, fixed income. They are generally held to maturity so that changes in market value caused by interest rate movements during the bond's life are of no concern.
- Statement No. 60 of the Financial Accounting Standards Board requires that: "Bonds shall be reported at amortized cost if the insurance enterprise has both the ability and intent to hold the bonds until maturity. . . ." The Travelers does have the intent and the ability to hold bonds to maturity. The best evidence that The Travelers has the ability to hold bonds is that it has never been required to sell bonds prior to maturity. Occasionally bonds are earmarked for sale prior to maturity for tax purposes or for reasons of credit. In these instances, the carrying value is changed from cost to market value.
- The practice of reporting bonds at amortized cost contemplates that, in the aggregate, as bonds approach maturity and return to par values, related liabilities become payable. Our investment policy recognizes this concept of seeking to match assets and liabilities, and it is a major reason, together with strong cash flow, for The Travelers' ability to hold bonds to maturity.

As the writer states, "The market value of bonds is only important if the company has to sell them." This is a key statement and one that should be kept in mind to prevent any incorrect conclusions about the impact of a decline in market values. In the 27 years that I have been in the investment department of The Travelers, the company has never sold a bond before maturity to meet cash needs.

Thank you for the oppotunity to set the record straight.

Philip R. Reynolds
Senior vp-finance
The Travelers Insurance Cos.
Hartford, Conn.

Group legal stop-loss

To the editor: While I do appreciate the brief story about our stop-loss coverage for group legal plans (*BI*, Sept. 6), there were some errors that affect the main theme of the product.

The stop-loss product offered by Lloyd's is an aggregate cap of a minimum of $100,000 and not written on a per-occurrence basis. That is a significant difference since there is no need for a "per-occurrence" coverage.

Secondly, the stop-loss product was confused with a general description of the self-insured group legal plan itself. The premiums for the stop-loss coverage are not collected on an incurred or a "pay-as-you-go" basis. The claims are paid on an incurred basis, and the plan is funded by the employer on a pay-as-you-go basis. That is also a significant difference.

Alvin J. Sims
President
Alvin J. Sims & Associates
Boston

Specialized policies

To the editor: Your article "Broker smokes Lloyd's" (*BI*, Sept. 6) would seem to give the impression that this policy was unique.

In fact for many years there has been a highly specialized market for such events as quitting smoking, as Mr. Catalli did, together with weddings, births and retirements.

The inventiveness of those that subscribe truly reflects the "raison d'etre" of Lloyd's and the London companies and can give the recipient many hours of amusement when read in some "private" place.

I may add that many British charities have benefitted in this way.

A.E. Clements
Bishopsgate Insurance P.L.C.
London

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AIG chief tells insurers to write for profit

By KATHRYN J. McINTYRE

MONTE CARLO, Monaco—American International Group Inc. President Maurice R. Greenberg often preaches against cash-flow underwriting. During his most recent sermon, he added a prop.

Projected on the screen above his seat at the 26th Rendez-Vous de Septembre was a slide of the painting "The Shipwreck" by Ivan K. Aivazovski.

Mr. Greenberg said the painting, which he saw recently in a Romanian art museum, reminded him of the state of the insurance and reinsurance business.

He called for the lights, but the technicians didn't respond. The image of a ship in extremis at sea remained projected as Mr. Greenberg criticized cash-flow underwriting and implored insurers to underwrite for a profit.

"It's time for everyone to get back to the basics of our business of underwriting," Mr. Greenberg said.



Mr. Greenberg

His speech was based on a paper he had prepared for the Rendez-Vous (see related story, page 11), but he spoke extemporaneously before a crowd of more than 300, the largest turnout for any speaker at the conference.

"It's quite clear the industry is paying the price for chasing high interest rates," Mr. Greenberg observed, citing the poor results shown by many insurers for the first half of 1982 (*BI*, Aug. 30).

AIG is the only leading commercial property/casualty underwriter whose combined loss and expense ratio was below 100% at midyear. AIG reported 96.9%.

Industry observers sometimes suggest that AIG is able to maintain a low loss ratio because it reinsures heavily, but a recent study by Conning & Co. shows business reinsured by AIG has produced a combined loss and expense ratio for reinsurers of 82% over the last seven years (see story, page 3).

Mr. Greenberg predicted that the current competition in the insurance business will end, but not before certain conditions exist.

"Fear has to be one condition," he said. Insurers must admit their behavior has been wrong. Already there has been deep concern, he noted.

"Adverse results" also must be reported, he said. He predicted that insurers will end 1982 with a $12 billion underwriting loss and investment income of $13 billion to $14 billion, a small margin for error. When losses on the 1982 accounts develop, the underwriting loss will be greater, he said. "The time for action is now."

Security of insurers and reinsurers also must be of greater concern before the market will change, Mr. Greenberg said. He thinks that security is becoming more important already. "Everyone is trying to rearrange security, and that's a good sign."

However, "the last three or four years will not leave the industry unscathed," he warned. Insurers may not be able to collect under some of their previous reinsurance contracts.

"And there must be less talk about market share," Mr. Greenberg said. "Market share has no place in our business. We aren't sowing potatoes or corn."

Adding another condition necessary before insurance prices will go up, Mr. Greenberg said, "There has to be less bragging about running the business at 110% loss ratio and making a profit. People are chewing those words."

Some people in the audience believe Mr. Greenberg was specifically referring to John Cox, president of CIGNA Corp's Insurance Co. of North America subsidiary. He has publicly said insurers can make a profit while suffering underwriting losses.

Mr. Greenberg, however, said later such an interpretation is not fair. "Cash-flow enthusiasts are more than one person," he said.

Adding a final condition for a change in insurance pricing, Mr. Greenberg said, "Shareholders and directors must begin to say something. They can't sit back quietly as management enforces a dumb strategy."

Asked from the audience if insurance company officers and directors could be sued by shareholders over current competitive strategy, Mr. Greenberg replied, "It's time for shareholders and directors to change the strategic plans of management. I don't want to get into the question of are they (directors and officers) subject to shareholder suits if they don't.

"Directors and shareholders ought to say, 'We want underwriting results.' We don't have to go beyond that point."

In reponse to other audience questions, Mr. Greenberg said:

- Insurers should underwrite for a profit because "investors are entitled to a profit from our basic business." He conceded, however, that in some classes of business, like workers compensation, investment income is taken into account.

"But until we are more scientific in basing our rates on the totality of risk," Mr. Greenberg said the industry cannot afford to give up investment income as the cushion to balance the unknown factors in long-term loss development.

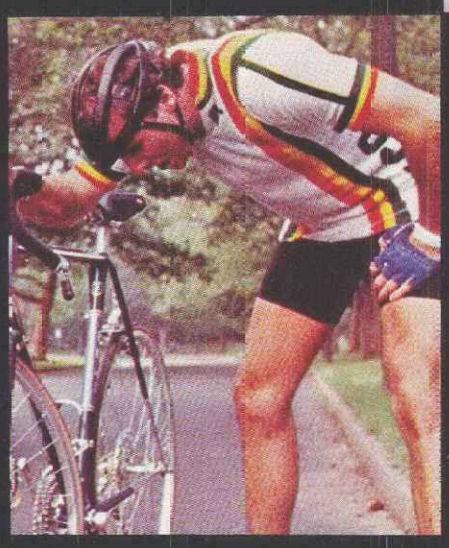
- Everyone is holding on to cash throughout the insurance system, from policyholders to reinsurers.
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"All are guilty," said Mr. Greenberg. "It takes two to make a contract." ■

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Cash-flow underwriting to end badly: Greenberg

MONTE CARLO, Monaco—Cash-flow underwriting will end badly for the insurance industry, contends Maurice R. Greenberg, president of American International Group Inc.

The competition for premiums to invest at high interest rates and the fear of losing market share are driving insurance rates below what is needed for an underwriting profit, Mr. Greenberg wrote in a paper distributed at the 26th Rendez-Vous de Septembre.

The shorthand expression for this competitive behavior is cash-flow underwriting, he noted, and he argued against it.

"There are five basic reasons to expect this fever of cash-flow underwriting to end badly," he explained:

- "It implicitly discards the most widely accepted measure of underwriting performance—the combined ratio," Mr. Greenberg explained.

While the combined ratio ignores some components of insurer profit, it measures better than anything else the market worth of the insurer's services, he said, and is the tool for managing the insurance business.

"Imagine instructing an underwriter in an insurance company branch office to price farm implement product liability insurance the following week to an annual, post-tax return of 2.1% on attributed equity," he said.

"It would be interesting to see what happens, but the instruction is certainly not much of a successor to the combined ratio," Mr. Greenberg said.

The combined ratio "governs not just our numbers, it governs our organizations. Only at our peril do we throw away the keystone to a received set of restraining beliefs before we have anything tested to take its place."

- "Cash-flow underwriting shifts the locus of decision-making in an insurance operation away from underwriting people and toward financial and administrative people."

Financial people, Mr. Greenberg argued, will translate their analysis into unmanageable directives. When expenses are trimmed as much as possible, these administrators will press for more written premium to push the expense ratio down, he said. The results should not "be any less violent than a struggle for cash premium to push investment income up.

"A concern about administrators and financiers pushing underwriters aside in insurance may sound stodgy. But the same American business schools that preached transferable management and finance for decades now attribute many of the country's industrial problems to a lack of long corporate vision and to a decline in the status of creative and operative talent."

- Emphasis on total return pushes an insurer toward liability insurance and toward excess levels they offer the longest asset float, Mr. Greenberg said.

Price competition is now most unruly in commercial excess casualty insurance where costs are most difficult to know because mistakes are the longest hidden and accepted standards of price adequacy are rare, he explained.

- Buyers of insurance also have become concerned about the float, Mr. Greenberg said.

"When the buyer responds to the same financial analysis we have been attributing to sellers, he naturally wants to hold onto as much cash as possible for as long as possible. That means retaining, in one way or another, the most predictable exposures and only buying fixed-cost insurance for what is left. If insurance is bought only for the exposures that are more dangerous and difficult to price, it is all too clear what happens to the insurer's book."

- Insurers are under pressure to give up interest earnings or a part of them in the long-tailed liability lines, Mr. Greenberg said.

"Compound interest from holding premiums is the only significant cushion for error the insurer and reinsurer can have" when pricing insurance, Mr. Greenberg wrote. "Even compound interest is unlikely to be a fully adequate cushion."

Cash-flow underwriting, Mr. Greenberg suggested, requires a "kind of blind confidence that does not have a good record in the casino at Monte Carlo. Even when the present competitive episode is over, we may find that this has set us on a false course for a long time." ■



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Security is top concern of '80s: Lloyd's broker

By STACY SHAPIRO

MONTE CARLO, Monaco—Insurer and reinsurer security "is going to be known as the topic of the '80s," the managing director of a Lloyd's of London broker says.

"Everyone knows there are going to be collapses and scandals in the reinsurance industry," says David Springbett of Pearson Webb Springbett Ltd. With devastating losses, compounded by lower interest rates and cheap premiums, reinsurers are bound to go under, he adds.

That's why many ceding companies are now looking for the strongest security at the most reasonable price, participants at the 26th Rendez-Vous de Septembre said. They are scrutinizing the credibility of the underwriters they deal with, checking their balance sheets to make sure they are sound and conducting business as professionally as possible.

"That means never signing anything while meeting your reinsurer or broker at the reinsurance Rendez-Vous," one reinsurer commented. Someone looking for a signed treaty at the Monte Carlo conference probably does not have good security, he explained.

Some ceding companies are paying extra premiums for top-notch reinsurance security, experts say.

"In the old days, price used to be a motivating factor. Now you pay for the best security," said David G. Christie, president of United Americas Insurance Co., a New York-based reinsurer.

But a ceding company doesn't always have to pay the highest price to obtain the best security, others point out.

"The reinsurance broker's primary objective is to buy the best product at the cheapest price," said Michael J. Till, managing director of Burgoyne, Alford & Co. Ltd., a British reinsurance brokrage.

As long as reinsurance capacity continues to expand, brokers will be able to find low premium rates quoted by known, secure reinsurers, he added.

However, it is sometimes difficult in today's market to determine which companies have good security and which have not, conference participants agreed. Some said Lloyd's of London is about the only insurance market that has impeccable security.

"I do not mind how Lloyd's window-dresses its accounts," explains Mr. Springbett. "Lloyd's is Lloyd's, Lloyd's will pay and Lloyd's is safe. It is the No. 1 insurer in the world."

Other reinsurers, like Swiss Reinsurance Co. and Munich Reinsurance Co., are held in high esteem.

But Mr. Till said it is difficult to assess the security of some of the new players in the reinsurance market.

For example, a new reinsurer may have capitalization of $300 million and employ London-trained underwriters. Its balance sheet may look excellent and nothing may seem wrong, so the ceding company places reinsurance with the "virgin" company.

"But how can you determine that the company will be solvent in 10 years' time?" Mr. Till asked. Rock-bottom premium rates, combined with falling investment yields and a deluge of losses, could push the new company into the red, forcing it to close its doors, he said.

Instead, buyers have to use other methods to make sure their reinsurance portfolios are secure.

"I am interested in people with whom I have the utmost good faith and trust," said Mr. Springbett. "Someone with $5 million in paid-up capital with a sound underwriting policy is worth more than someone who has $20 million capital in a tax haven with unknown partners."

Security may also be established by using more in-depth accounting practices than underwriters now use, he said.

Mr. Springbett says he is "trail blazing" a new type of accounting statement for one of his underwriting companies that details its catastrophe reinsurance protection and names its reinsurers. The statement also details the company's reinsurance treaties and reinsurers.

"I know of no other company that gives details of who their reinsurers are," he said.

Another source buyers can use to make sure an insurer's reinsurance treaties are secure is a recently published statistical analysis of London insurance companies called "Reinsurance Companies in the London Market—Solvency Status & Underwriting Performance."

The report, issued by Financial Intelligence & Research in London, is a "comprehensive security analysis of companies authorized to operate in the London Reinsurance Market," the introduction says.

In the first volume of the report, statistics gathered from the British Department of Trade examine the gross premiums of direct, facultative and non-facultative reinsurance business of every insurance company registered in Britian, including some U.S. insurers. It also examines the amount of reinsurance each company cedes and lists its underwriting ratios and profits.

In addition, the amount of premium generated from British and non-British reinsurance accounts is also examined.

In a second volume, the report compares the amount of unearned premiums of each company with its outstanding claims and its total amount of available reserves.

"One of the most important practical results of this research is that is provides for the first time a sufficiently comprehensive analysis to enable reasonable conclusions to be drawn on all material criteria used in the evaluation of security in the London market," the report says. ■



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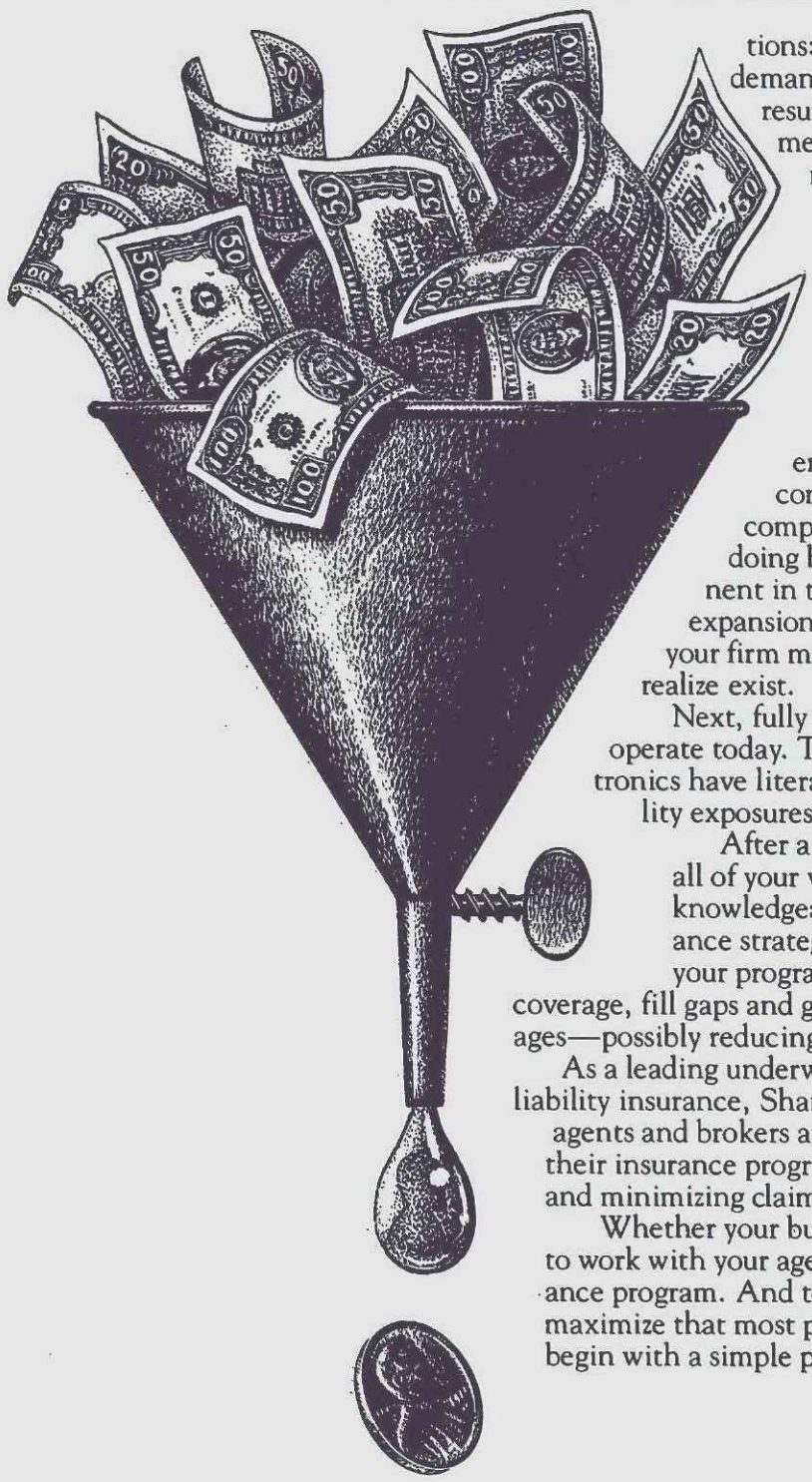
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Insurers' use of reinsurance, 1975-1981

Company	% Dollars spent*	% Losses reinsured**	Company	% Dollars spent*	% Losses reinsured**
American International Group	44.3%	82.0%	The Home Insurance Group	9.0	179.0
Kemper Corp.	38.0	85.0	The Travelers Corp.	8.8	130.0
Mission Insurance Group	28.1	139.0	American General Corp.	8.0	141.0
Fremont General Corp.	22.3	128.0	Reliance Group	7.6	99.0
Continental Corp.	20.6	93.0	Aetna Life & Casualty Co.	7.4	118.0
Chubb Corp.	20.5	85.0	GEICO Corp.	6.8	94.0
INA Corp.	19.6	108.0	USF&G Corp.	5.4	107.0
Connecticut General Corp.	19.2	93.0	Transamerica Insurance Co.	3.5	109.0
Security Insurance Group	17.7	58.0	SAFECO Corp.	3.1	88.0
Crum & Forster	15.6	107.0	Ohio Casualty Corp.	2.6	70.0
Hartford Fire Insurance Co.	15.5	105.0	Colonial Penn Group	1.9	62.0
The St. Paul Cos. Inc.	11.9	81.0	Farmers Insurance Cos.	1.7	131.0
Western Casualty & Surety Co.	11.7	107.0	Progressive Corp.	1.4	98.0
Employers Casualty Co.	11.4	100.0	Criterion Insurance Co.	0.9	96.0

*Dollars spent on reinsurance (net of premiums less commissions) as a percentage of direct and assumed premiums earned.

**Losses reinsured as a percentage of dollars spent on reinsurance.

Source: Conning & Co.

Underwriters ceding more to reinsurers

Continued from page 3

in 1980, and 18.2% in 1981—probably is related to the shift in the insurance business toward liability lines, which typically require more reinsurance.

Other possible influences increasing the use of reinsurance may have been greater operating leverage in primary companies, increased competition among reinsurers and an increase in fronting arrangements, particularly for captives, Conning said.

Losses reinsured as a percent of dollars paid for reinsurance also generally increased during the seven-year period. This ratio, Conning explains, measures what percentage of the cash flow to the reinsurer was returned to the primary company in the form of reimbursement for loss payments to the primary company's policyholders.

For example, a ratio of 90% indicates that if the primary company paid $100,000 (net of ceded commissions) for reinsurance on an earned basis, the primary company would receive $90,000 on an incurred basis from the reinsurer.

Conning notes that to calculate reinsured losses, it added the dollars received from reinsurers, the increase in case reserves reinsured, the increase in the IBNR reserves reinsured and the reinsured portion of the loss adjustment expenses. All figures except the reinsured portion of the IBNR reserve are publicly available. Conning approximated the unavailable figure under an elaborate formula explained in the study.

AIG was the largest user of reinsurance among the 28 primary insurers studied.

The average losses reinsured as a percent of dollars spent on the reinsurance by the 28 companies over the seven-year period was 99.1%. The highest percentage was 179%; the lowest, 58%.

The analysis, however, ignores investment income earned by the reinsurers on the premiums paid by the primary insurers, an amount "which is likely to be substantial," Conning notes.

The results from 1975 and 1980 also depart from the general trend of increasing losses reinsured. The year 1975 was especially bad for reinsurers at 113.6% and the year 1980 was exceptionally good at 95.2%. Otherwise, the pattern of increase holds at 88.9% in 1976, 93.7% in 1977, 93.8% in 1978 and 105.7% in 1979. In 1981, the average increased to 104.1% from 95.2% in 1980.

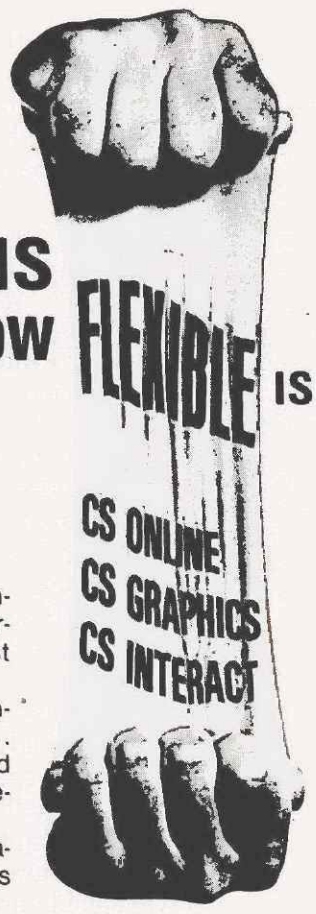
American International Group was the largest user of reinsurance among the 28 primary companies studied. Over the seven-year period, AIG spent on reinsurance an average of 44.3% of its direct and assumed premiums earned.

AIG's use of reinsurance increased from a low of 29.5% in 1975 ($329.2 million on reinsurance on premiums of $1.1 billion) to a high of 49.1% in 1981 ($2.6 billion on reinsurance on premiums of $5.2 billion).

While spending more on reinsurance, AIG has been recovering a smaller percentage of its premiums in loss payments from reinsurers over the seven years. Losses insured as a percent of dollars spent

Continued on page 16

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AIG recovers 82% of reinsurance costs

Continued from page 14

on reinsurance at AIG have decreased steadily from 157% in 1975 to 77% in 1981 for an 82% average loss and expense ratio to reinsurers.

AIG's average of 82% was the fifth-lowest of the 28 companies studied. The four primary insurers recovering even smaller percentages of reinsurance costs bought far less reinsurance. They were: The St. Paul Cos. Inc., recovering 81% but spending only 11.9%; Ohio Casualty Corp., recovering 70% but spending only 2.6%; Colonial Penn Group, recovering 62% but spending only 1.9%; and Security Insurance Co., recovering 58% but spending only 17.7%.

(For an analysis of how the other 27 primary insurers used reinsurance, see chart on page 14.)

Conning & Co. drew several other conclusions about the use of reinsurance based on its study:

- Larger primary insurers tend to cede a higher proportion of their business to reinsurers.
- Reinsurance appears to have followed the same business cycles recently as the property/casualty industry as a whole. The year 1975 appears to have been a bad year for reinsurers, while 1976-80 were better.
- Primary insurers whose combined ratios are better than average appear to cede a better class of reinsurance business.
- There is no correlation between the amount of reinsurance purchased and loss ratio on the reinsured business, or the primary insurer's own combined ratio on its retained business.

●

Copies of the Conning & Co. study, "Extent of Reinsurance Use and Cost of Reinsurance vs. Benefit," are available for $200 from Conning & Co., 41 Willis St., Hartford, Conn. 06103; 203-527-1131.

How primary insurers use reinsurance

Year	% Dollars spent*	% Losses reinsured**
1975	12.1%	113.6%
1976	13.3	88.9
1977	14.9	93.7
1978	15.6	93.8
1979	15.6	105.7
1980	13.0	95.2
1981	13.2	104.1

*Dollars spent on reinsurance (net of premiums less commissions) as a percentage of direct and assumed premiums earned.

**Losses reinsured as a percentage of dollars spent on reinsurance.

Source: Conning & Co.

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French insurers want rate hike for fire cover

MONTE CARLO, Monaco—French fire insurers will probably lower their rates this year because fire losses have declined substantially, members of the French fire insurers' association say.

Although underwriters were hoping to raise rates by as much as 12%, the good loss experience compiled by French companies may force rates down instead of up.

"But things change suddenly," Michel Marchal, chairman of the Assemblee Pleniere des Societes d'Assurances Contre l'Incendie et les Risques, said at the 26th Rendez-Vous de Septembre.

For example, if fire losses are as high as they were in July, insurers may get their rate increase after all. In July, fire losses rose to 1.3 billion francs (approximately $24 million), 74% higher than last year, Mr. Marchal said.

Right now, however, it looks like French companies can buy fire insurance policies at cheaper rates than they did last year, said Christian Strulovici, the Assembly's assistant general secretary.

"Premium rates in 1980 were 1.57 francs per 1 million francs (of insured value), even though the rate did grow to 2.15 francs per million in the 1970s," Mr. Strulovici said. "There must be a decrease now, too, but we do not know what precisely it will be."

Mr. Marchal says fire coverage rates aren't high enough to fund a catastrophe.

There are many reasons why French fire insurers must cut their rates from the amount they charged for fire policies during the last decade, he pointed out.

For example, there is now fierce competition among French fire insurers, which are not controlled by the government as are other types of insurers.

"Also, there is a big economic crisis and one might say there is less activity in industry that results in fewer sources of ignition for fires," he said. "Maybe there are fewer goods in the warehouses. And with the high rate of unemployment, workers are more concerned about fires and safety in the workplace."

It may also be that companies are taking the fire prevention advice that French insurers have given. The Assembly, whose 200 insurance company members account for 95% of all fire insurance written in France, issues leaflets on how to prevent fires. It also provides its members with statistics on claims and their costs and compares them to past years.

The Assembly, founded in 1906, is also hoping to reduce overhead for member companies by establishing sometime next year a central claims office, said Mr. Marchal. This will simplify claims handling and coverage, he said.

But Mr. Marchal warned his fellow insurers that fire insurance rates in French are too low to handle a major catastrophe. Although loss experience is currently good, he suggested that it may be time to raise premiums.

"The French prices are just enough to cover small or normal claims," he said. "But they are not enough for the important claims. When they hit, it will be an unbearable situation."

Mr. Marchal added that it is folly to think that investment income will help fund catastrophic losses. ■

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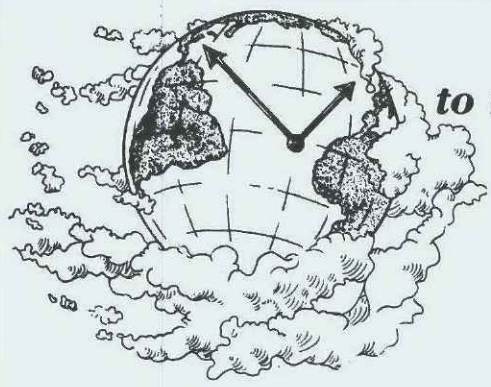
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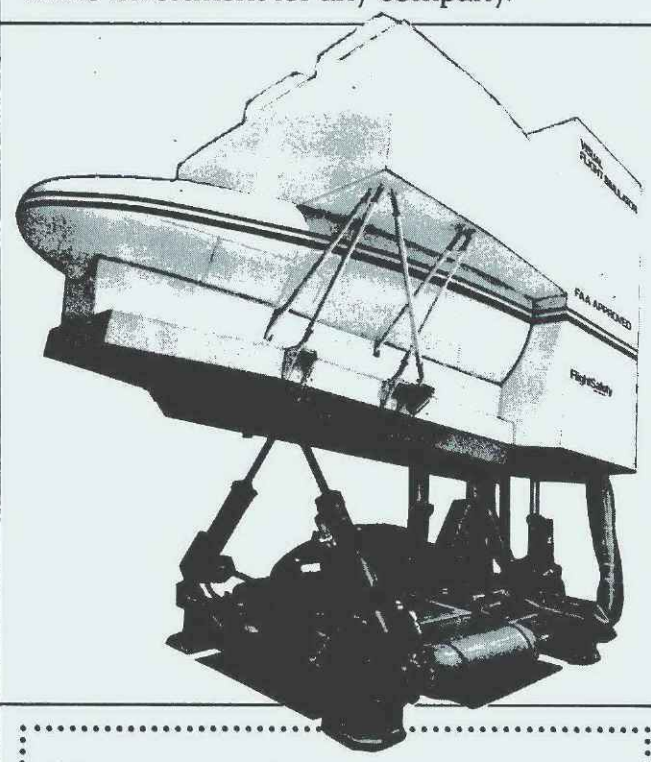
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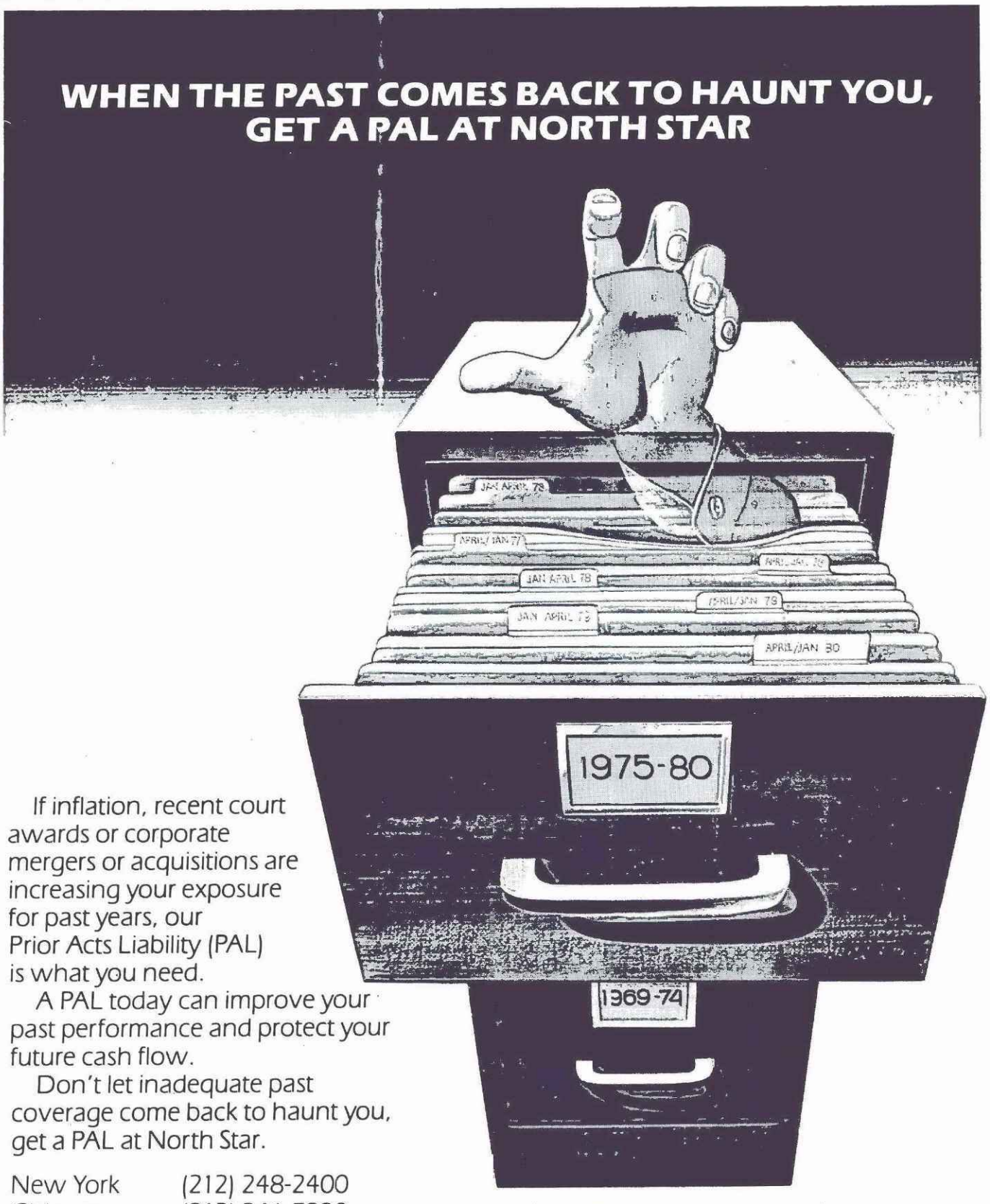
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OCT. 4-5. Bankers Blanket Bond and D&O Insurance: Your Liability seminar in Chicago, sponsored by the Bank Administration Institute; members $375, non-members $565. Diana Castellanos, BAI, 60 E. Gould Center, Rolling Meadows, Ill. 60008; 800-323-8552; 800-942-8861 in Illinois.

OCT. 4-5. Mergers and Acquisitions seminar in New York, sponsored by the Wharton School; $940. Also **Dec. 6-7** in Palm Beach, Fla. Information Services, University Conference Center, 360 Lexington Ave., New York, N.Y. 10028; 212-392-9441.

OCT. 7-8. Basic Radiation Hazard Control: Meeting Licensing Requirements course in Washington, sponsored by the International Institute of Safety & Health; $295; $250 for three or more registered from the same company. IISH, 5010A Nicholson Lane, Rockville, Md. 20852; 301-984-8969.

OCT. 7-8. Capitalizing on Self-Insurance Opportunities conference in Toronto, sponsored by the Self-Insurance Institute of America; members, $325; non-members, $400. James Kinder, SIIA, Box 15466, Santa Ana, Calif. 92705. 714-979-6318.

OCT. 7-9. Conference of Actuaries in Public Practice annual meeting in Cambridge, Mass.; before Sept. 30: members, $200; non-members, $225; after Sept. 30: members, $225; non-members, $250. Conference of Actuaries in Public Practice, 208 S. La Salle St., Chicago, Ill. 60604; 312-782-8683.

OCT. 10-13. Coping with the Cycles through the '80s seminar in Miami Beach, Fla., sponsored by the Society of Chartered Property & Casualty Underwriters; $200. Society of CPCU, Kahler Hall, Providence Road, Malvern, Pa. 19355; 215-648-0440.

OCT. 11-15. OSHA Guide to Voluntary Compliance course in Los Angeles, offered by the University of Southern California; $500. USC, Institute of Safety & Systems Management, Office of Extension & In-Service Programs, Los Angeles, Calif. 90007; 213-743-6523/6524.

OCT. 13-15. Techniques of Finance & Accounting course in Boston, sponsored by the Risk & Insurance Management Society; members, $345 ($195 for each additional registrant from the same company); non-members, $445. Claudia Shnider, RIMS Schools Administrator, RIMS, 205 E. 42nd St., New York, N.Y. 10017; 212-286-9292.

OCT. 15-20. 28th Annual International Foundation of Employee Benefit Plans conference in Montreal; $390 for conference; $130 per day for pre-conference sessions. IFEBP, Box 69, Brookfield, Wis. 53005; 414-786-6700.

OCT. 18-20. Safety for the Oil Field Industry seminar in Houston, sponsored by the International Safety Academy; $375. ISA, 10575 Katy Freeway, Box 19600, Houston, Texas 77024; 713-932-9400.

OCT. 18—21. 70th Annual National Safety Congress and Exposition in Chicago, sponsored by the National Safety Council; members, $90; non-members, $135. Congress Planning, National Safety Council, 444 N. Michigan Ave., Chicago, Ill. 60611; 312-527-4800.

OCT. 22. Legal Trends in Workers Compensation seminar in New York, sponsored by the National Council on Compensation Insurance; members, $125; non-members, $165. Mary Ellen Mazzeo, NCCI, One Penn Plaza, New York, N.Y. 10019; 212-560-1066.

OCT. 25-26. Risk Management Concepts for the Safety Professional and Insurance Buyer course in Los Angeles, offered by the University of Southern California; $225. USC, Institute of Safety & Systems Management, Office of Extension & In-Service Programs, Los Angeles, Calif. 90007; 213-743-6523/6524.

OCT. 25-27. Managing Employee Benefits workshop for financial executives in Lincolnshire, Ill., sponsored by Hewitt Associates; $850. Beverly McRae, Hewitt Associates, 100 Half Day Road, Lincolnshire, Ill. 60015; 312-295-5000.

OCT. 27-29. Recognition of Accident Potential in the Workplace Due to Human Error course in Los Angeles, offered by the University of Southern California; $300. USC, Institute of Safety & Systems Management, Office of Extension & In-Service Programs, Los Angeles, Calif. 90007; 213-743-6523-6524.

OCT. 28-29. Environmental Liability Management conference in Arlington, Va., sponsored by the Center for Energy & Environmental Management; $485; discounts available for three or more registrants from the same company. CEEM, Box 536, Fairfax, Va. 22030; 703-250-5900.

OCT. 28-29. Hazard Control Management Fundamentals seminar in Washington, sponsored by the International Institute of Safety & Health; $295; $250 for three or more are registered from the same company. IISH, 5010A Nicholson Lane, Rockville, Md. 20852; 301-984-8969.

NOV. 1-2. Communicating Employee Benefits conference in Chicago, sponsored by *Business Insurance*; $475; 10% discount for additional participants from same company. Ann Vazquez, *Business Insurance*, 220 E. 42nd St., New York, N.Y. 10017; 212-210-0137.

NOV. 3-4. Risk Financing seminar in Chicago, sponsored by St. Paul Risk Services Inc.; $335. Kathleen Moriarty, St. Paul Risk Services Inc., 230 Hamm Building, 408 St. Peter St., St. Paul, Minn. 55102; 612-221-7763.

NOV. 4-5. Product Safety Concepts and Practice course in Washington, sponsored by the International Institute of Safety & Health; $245. IISH, 5010A Nicholson Lane, Rockville, Md. 20852; 301-984-8969.

NOV. 5-6. The Banking and Insurance Forum in Scottsdale, Ariz., sponsored by Risk Planning Group Inc.; $600. Eileen B. Callahan, Conference Coordinator, Risk Planning Group, 722 Post Road, Darien, Conn. 06820; 203-655-9792.

NOV. 7-10. Health Care Cost Containment seminar in Hollywood, Fla., sponsored by the International Foundation of Employee Benefit Plans; members, $390; non-members, $465. IFEBP, 18700 W. Bluemound Road, Box 69, Brookfield, Wis. 53005; 414-786-6700. ■

Brazilian reinsurer trims its operations in Britain

By STACY SHAPIRO

MONTE CARLO, Monaco—The Instituto de Resseguros do Brasil, which recently paid $7.5 million to members of the defunct Sasse Syndicate at Lloyd's of London, is now cutting back its London operations.

"We are reducing our London branch drastically," Dulce Pacheco da Silva Fonseca Soares, the IRB's director of international operations, said at the 26th Rendez-Vous de Septembre earlier this month.

At one point in 1978, the IRB produced $170 million in gross premium volume from its London branch. But losses totaling $200 million or more from marine and other claims are causing the IRB to underwrite less than $24 million from London during the current year.

"About six months ago, there was a final recognition from the IRB board (in Brazil) that the linkup had gotten out of hand," said Trevor M. Legget, senior non-marine underwriter for the IRB in London. "We realized we had underwritten too much."

The trouble at the IRB's London office arose because of the poor judgment of a former marine underwriter, said Mr. Legget.

"He was good in theory, but not in practice," he said. "He couldn't segregate the good figures brokers were showing him from the ones that were doctored."

The resulting onslaught of claims plus the dire state of the reinsurance market in general has pushed the IRB into the red. Although its 1981 net premium income was $90 million, losses soared to $200 million, said Mr. Legget. "That year was a bloody disaster."

The IRB is planning to form a British underwriting company from whatever remains after the current cutbacks, says Mr. Legget. The new company, of which the IRB will own 75% and other Brazilian insurers 25%, will not have the burden of past claims, Mr. Legget explained. The London office will continue to deal with past claims, but IRB's main office in Brazil will be paying them.

"Part of the reason for cutting back and forming a U.K. company is to start again," said Mr. Legget. "We know the past and we would like to separate it totally."

The move to reduce London operations is not due directly to IRB's involvement with the defunct Sasse syndicate, Mrs. Soares and Mr. Legget say.

The IRB at first refused to pay reinsurance claims filed by Sasse for fire losses in New Jersey that were discovered to be arson. Sasse later folded because it couldn't pay the claims.

Earlier this year, the IRB settled with Lloyd's and agreed to pay Sasse members $7.5 million.

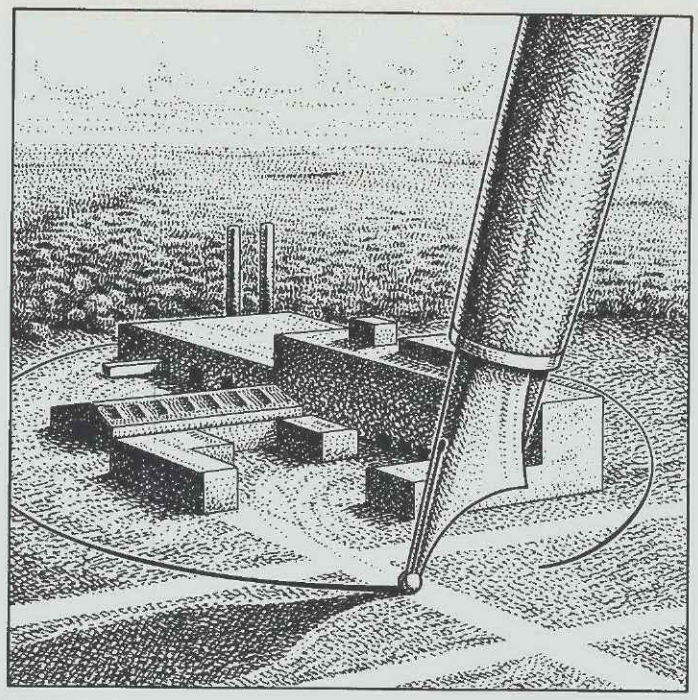
"The Sasse claim was quite small really," said Mrs. Soares. "We were the first to say 'no' to paying the Sasse claim. Now we have made an agreement with Lloyd's and this is the final payment. It was a gesture to the London insurance community."

Despite its troubles in London, the IRB hopes to expand in other areas of the world, Mrs. Soares said. The IRB is the majority shareholder of New York-based United Americas Insurance Co., along with 69 other Brazilian companies. United Americas writes all lines of reinsurance except life.

The IRB also wants the Latin American insurance and reinsurance market to grow and mature, said President Ernesto Albrecht.

"Right now, there is no Latin American insurance market," he said. "Each market in each country has its own size and legislation."

But the formation of the Assn. of Latin American Reinsurers last year may help underwriters form a viable reinsurance market, he said. The association is intended to ease the exchange information and statistics among Latin American reinsurers in hope of unifying them. ■



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Telecommunications demands changes: Reeves



Mr. Reeves

By KATHRYN J. McINTYRE

MONTE CARLO, Monaco—The insurers and reinsurers that will thrive in the 1980s will be those that capitalize on the telecommunications revolution, a risk manager says.

Telecommunications—communication at a distance by telegraph, telephone, radio and televison—coupled with computer technology will change the insurance marketplace in this decade and the next, said Robert A. Reeves, risk manager for Hospital Corp. of America in Nashville, Tenn., in a paper presented at the Rendez-Vous de Septembre.

"Telecommunications has become more than an evolution; it is an explosion," Mr. Reeves said. "The 1980s are predicted to be the telecommunications decade. The competitive edge belongs to those companies that can receive, process and distribute information efficiently and make prompt decisions based on the information, capitalizing on the rapidly increasing technology in this field."

These telecommunications developments will force changes in risk identification, loss reduction, risk analysis and risk transfer, he predicted. And the successful insurer and reinsurer will respond.

"Risk management information systems will become commonplace, Mr. Reeves said. "Incident and claim analysis software packages will be available for the risk management department to run its own minicomputer. Paperwork will be greatly reduced with data-entry occurring at the division or subsidiary company level where accidents occur."

Combination of exposure units as a risk-reduction technique also will gain popularity in the 1980s as telecommunications develop, Mr. Reeves predicted. Simply stated, the more exposure units included under a common insurance program, the more predictable loss experience becomes.

Large amounts of data relating to insurance will be easily gathered in the future by a major corporation's divisions and subsidiaries for analysis. This will make the decision to consolidate insurance programs much more paramount than it has been in the past.

The 1990s, Mr. Reeves forecasts, will be the age of risk analysis. "The ability through telecommunications to handle large amounts of information easily complements the desire of every risk manager to analyze his company's data in a prompt and more sophisticated manner."

The data, which will be easier to gather and more reliable, will increase the accuracy of the projected probability of loss.

"The increasing use of risk analysis will make the insurance consumer much more knowledgeable. As insurance programs are consolidated and analyzed, self-insured retentions will continue to increase."

Claims costs, too, will be reduced by more prompt reporting and investigation, which will be handled in-house by major corporations with direct communication links to insurers.

"This evoluation will start with the processing of basic medical insurance claims and spread to workers compensation," he predicted.

As a result of this additional information, corporations will demand more accurate pricing from insurers, Mr. Reeves maintained. "Insurance companies will be able to determine their costs more easily on a certain account, and insurance consumers will see through the average pricing techniques which plague the industry today. More specific account pricing will be demanded by knowledgeable insurance consumers."

Change also will occur in group insurance programs, Mr. Reeves said. "Telecommunications makes handling group insurance so much easier. Claims can be handled internally."

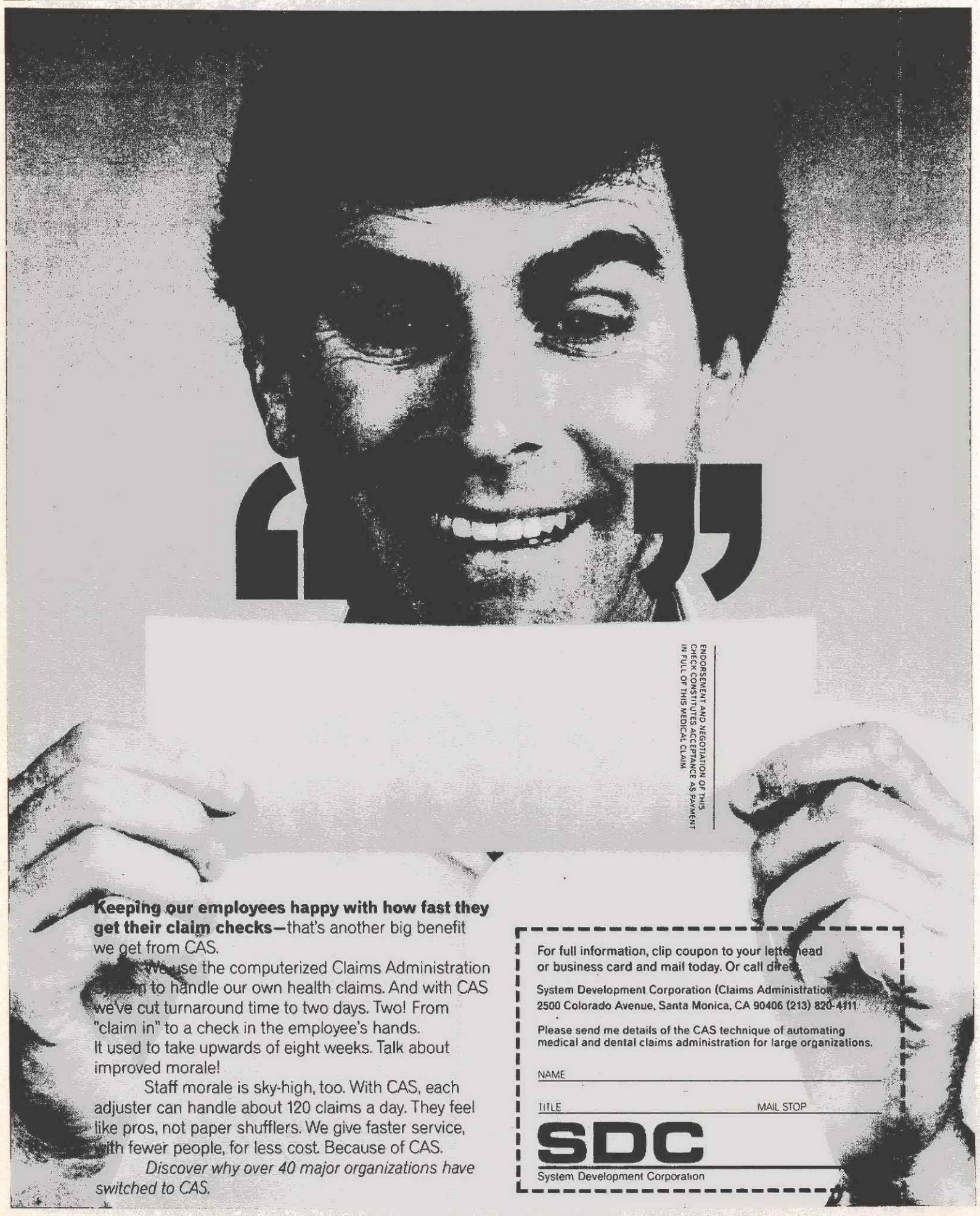
> 'More specific account pricing will be demanded,' Mr. Reeves says.

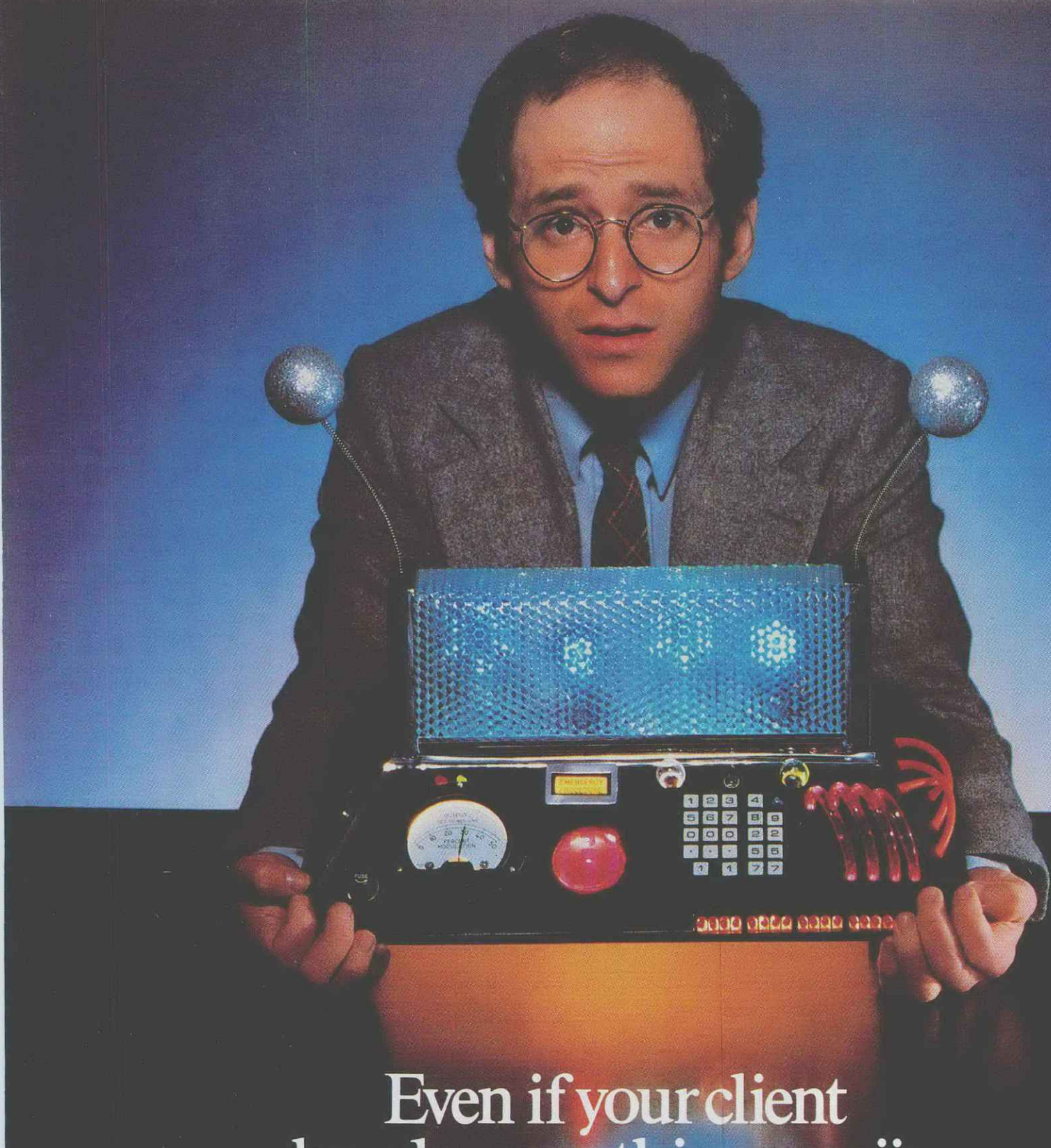
With this information control, corporations will be able to change insurers more easily than they do now, he predicted.

Telecommunications developments will also affect small- and medium-sized employers, he said. They will gravitate to trade association programs that will be able to service them, thanks to the development and marriage of telecommunications and computers, he said.

Mr. Reeves advised reinsurers that to survive during the telecommunications explosion, they should:

- Plan for change rather than react to it. Allocate the premiums of the many to the unfortunate few who have claims in the most financially efficient manner. Use new data-handling and transmission techniques to reduce expenses.
- Design and implement a management information system that will permit your managers to manage better. Through proper data management, overlining and pyramiding of risks will become obsolete terms.
- Be a leader rather than a follower in developing new insurance products required by risk managers during the telecommunications age.
- Know the needs and desires of your ultimate customers, the risk managers. Assist in the design and implementation of risk management information systems, suggest the use of up-to-date technology to handle claims more promptly and with less cost. Assist in analysis and the consolidation of insurance programs of divisions and subsidiary companies into a common worldwide insurance program for the entire corporate client. ■





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Government says it's not liable for asbestos

By JERRY GEISEL

washington

WASHINGTON—The Reagan administration doesn't believe the federal government should help compensate people with asbestos-related diseases.

The government "has no liability to the victims of asbestos-related diseases," says J. Paul McGrath, assistant U.S. attorney for civil litigation in the Justice Department.

"If they were not government employees, then they must look to other workers compensation schemes or to litigation against their employer or others for compensation," he told the House Labor Standards subcommittee.

Mr. McGrath was not the only official who rejected a proposal by a coalition of asbestos manufacturers that would require the federal government to pay half the cost of a special trust fund to compensation asbestos victims (*BI*, July ?).

Rep. George Miller, D-Calif., chairman of the subcommittee, said the asbestos industry has a "snowball's chance in hell" of getting the government to pay a chunk of the cost of compensating victims.

Such compensation is the responsibility of private industry—not the government, Mr. Miller added.

A coalition of asbestos manufacturers told the subcommittee that because the government was negligent in carrying out essential safety measures at Navy shipyards, where many workers were exposed to asbestos during World War II, it should bear half of the cost of a special compensation fund.

Coal mining deaths

Fatalities in the nation's coal mines are increasing.

During the first six months of 1982, 69 coal miners lost their lives in accidents, up from 62 deaths during the same period in 1981, according to the Labor Department's Mine Safety and Health Administration.

However, the injury rate declined slightly. During the first half of 1982, there were 8.47 mine injuries per 200,000 employee hours, compared with an injury rate of 8.92 in 1981.

Lead standards

The Occupational Safety and Health Administration says it will give three lead industries an extension to prepare and implement programs to reduce employees' exposure to lead.

The three industries—primary and secondary smelters of lead and battery manufacturers—were scheduled to have lead exposure reduction programs in place by Aug. 30.

However, in response to numerous requests for more time, OSHA agreed to set Nov. 15 as the new effective date.

Multiemployer plan

An employer that withdrew from a multiemployer pension plan during a five-month period in 1980 would not have to pay for a share of the plan's unfunded vested benefits under recently introduced legislation.

Sen. John Danforth, R-Mo., and Sen. John Chafee, R-R.I., want to overturn a retroactive provision in the Multiemployer Amendments Act that allows plans to collect withdrawal liability payments from employers that left the plans between April 29, 1980, the law's effective date, and Sept. 26, 1980, the date President Carter signed the legislation.

Under the Danforth-Chafee legislation, S. 2680, the effective date of the withdrawal liability provision would be pushed back to Sept. 26, 1980.

As a result, several dozen companies that left multiemployer plans during that five-month period would not have to pay tens of millions of dollars in withdrawal liability claims.

Some employers contend that they were unaware that the 1980 law gave multiemployer plans the power to demand enormous payments from them to cover a portion of the plan's unfunded vested benefits.

For example, one of those firms, Republic Industries of Kansas City, Mo., withdrew from the Central States, Southeast & Southwest Areas Teamsters Pension Fund in August 1980, just before President Carter signed the Multiemployer Amendments Act.

Several months later, Republic was notified that it owned a withdrawal liability payment of $16.9 million to Central States. That claim alone is more than double Republic's net worth.

Pushing back the effective date of the Multiemployer Amendments Act is needed to prevent the bankruptcy of employers that withdrew from the plans between April and September 1980, Sen. Danforth said.

ERISA violation

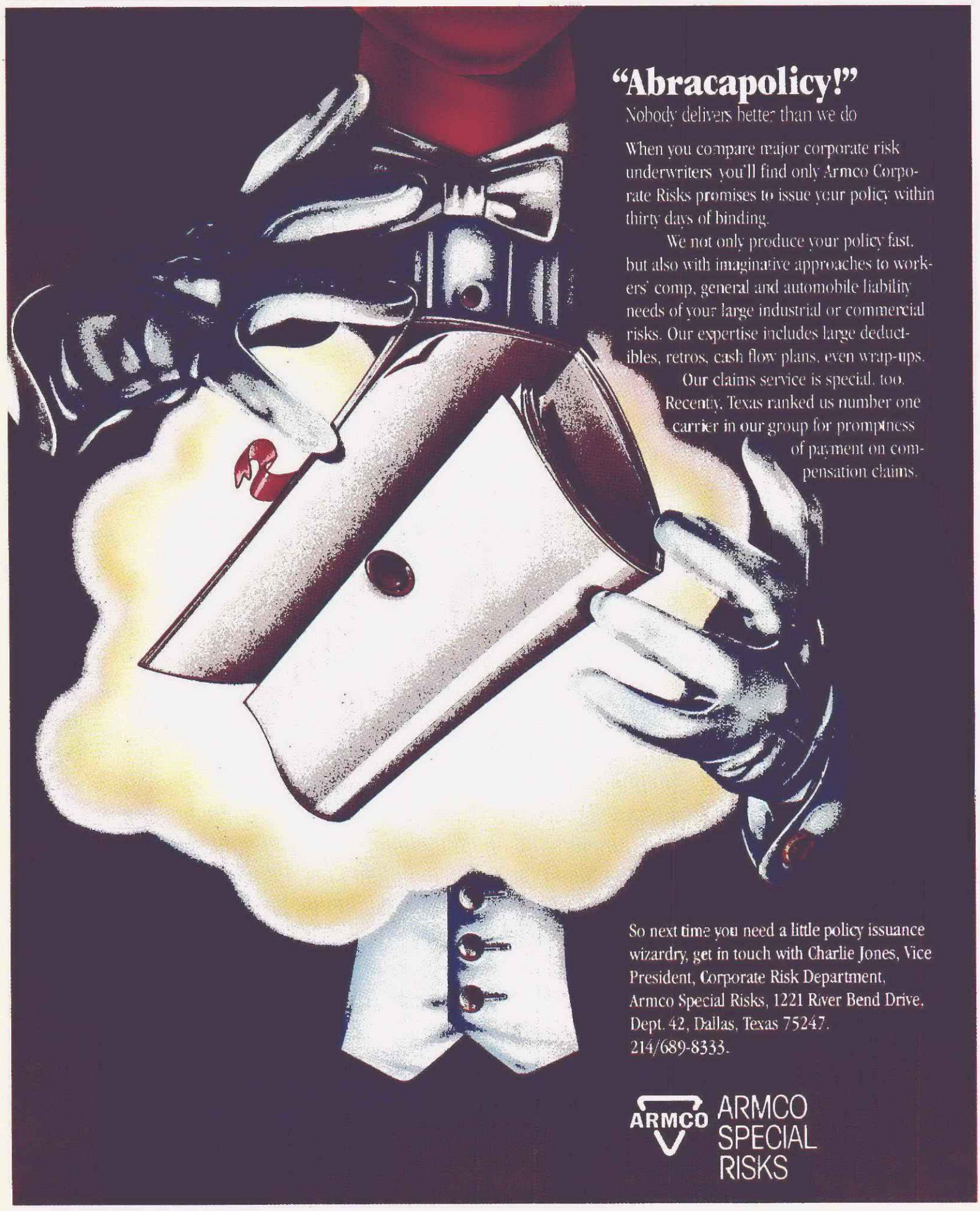
Two officials of a Miami-area union benefit plan illegally received payments from employers who contributed to the plan, the Labor Department says.

William Boyle and George Barone violated their fiduciary duties as trustees to the Southeast International Longshoremen's Association Pension, Welfare, Vacation/Holiday & Guaranteed Annual Income Fund, the Labor Department charges, by accepting money for personal gain from employers who contributed to the plan.

In a suit filed in U.S. District Court in Florida in Miami, the Labor Department asked the court to require the defendants to reimburse the plans for any losses that occurred as a result of their alleged fiduciary breaches.

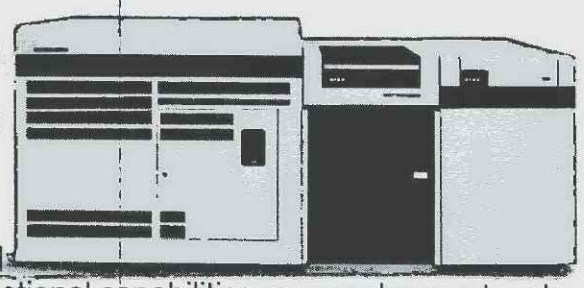
Under the Employee Retirement Income Security Act, plan trustees may not use the assets of a plan to benefit themselves.

Mr. Boyle and Mr. Barone currently are appealing a 1979 conviction for labor racketeering and extortion. ■



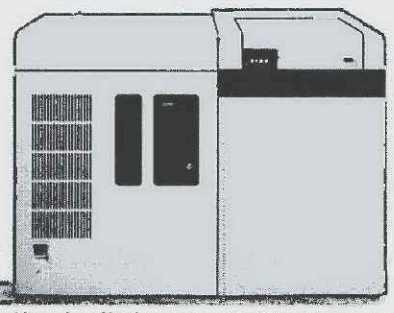
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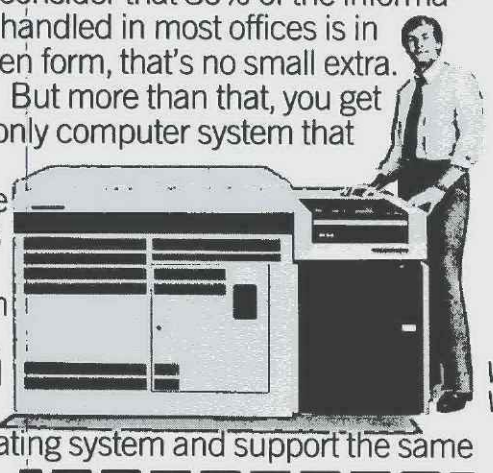
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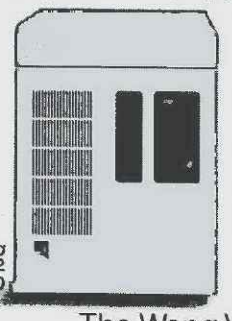


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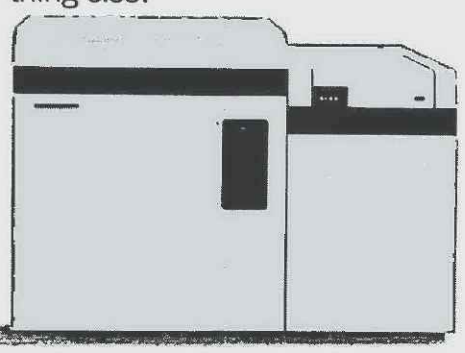


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Something Extra offers high life insurance protection at younger ages because benefit amounts are based on need rather than base salary or job classification. Coverage decreases as the employees grow older. At age 55, employees have the option of freezing the amount of coverage at a higher premium.

The Something Extra plan can be offered along with Group Life Plus, another Metropolitan group life insurance plan, to offer flexibility in benefit plan design.

The plan is designed to be fully funded by employees and offers administrative simplicity to an employer since all employees, regardless of age or rank, are charged the same premium, except for those over age 55 who freeze their coverage level.

The maximum coverage available under the plan is $100,000, or $150,000 for employees under age 40. Payments range from $3.50 to $5.50 per week per employee, depending upon the maximum amount of coverage offered. A minimum 35% participation level is required in most states.

The Something Extra plan complies with the Age Discrimination in Employment Act and avoids any imputed income to employees under the IRS Code Section 79 Uniform Tax Table.

For more information on the plan, contact Jerry Buckley, Vp, Group Insurance Marketing, Metropolitan Life Insurance Co., 1 Madison Ave., New York, N.Y. 10010; 212-578-8060.

Cotton gin floater

M.J. Hall & Co. is introducing its cotton gin bail yard floater.

This broad-form coverage policy insures the cotton from the time it is picked until it is "signed off" by the gin.

The easy-to-read policy also features monthly reporting periods. It is available in California, Arizona and New Mexico.

The limits are $1 million per location, although higher limits can be purchased.

For more information, contact Mark Humphries, Resident Vp, M.J. Hall & Co. Inc., Box 32038, Phoenix, Ariz. 85604; 602-274-0515; or Don Morgan, Branch Manager, M.J. Hall & Co. Inc., Box 192, Stockton, Calif. 95201; 209-948-8108.

Investment coverage

Industrial Development Bond Insurance is new coverage introduced by The Continental Corp. that insures that principal and interest payments are made on bonds even if issuers default.

The coverage is intended to increase the marketability of industrial development bonds, since a purchaser's investment is insured.

Continental will underwrite coverage in cases where the bond's face amount does not exceed $2.5 million, the limit of the policy.

For more information, contact Beverley B. Wadsworth, Vp, Continental Corp., 80 Maiden Lane, New York, N.Y. 10038; 212-440-2301.

Safety film

Fire Protection Through Films Inc. has released a new safety film entitled "Safety Elements in Laboratory Practice."

The 20-minute, 16mm film can be used to teach employees and students at hospitals, universities or industrial corporations the basic safety principles for using chemicals in a laboratory.

The movie specifically points out how to wear protective clothing and eye shields.

The film costs $335, or it can be rented for $57.50 for a three-day period. A full rebate of the rental cost is provided if the film is purchased within a year of rental.

For more information, contact Fire Prevention Through Films Inc., Box 11, Newton Highlands, Mass. 02161; 617-965-4444. ■

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B1

Baldwin promoted at Travelers Marine Corp.

Henry N. Baldwin appointed executive vp and chief operating officer of the The Travelers Marine Corp., a subsidiary of The Travelers Corp. in Hartford, Conn.

Mr. Baldwin was most recently a vp at the company. He joined The Travelers in 1958.

Other insurer changes:

Kathryn Paul appointed vp and regional manager of Kaiser Foundation Health Plan of Connecticut. In this post, Ms. Paul will share overall management responsibilities for Kaiser's health maintenance organizations in the region with a representative of participating physicians. She was formerly regional medical facilities administrator and associate regional manager of Kaiser's Colorado region.

Harleysville Insurance Cos. in Harleysville, Pa., announced a number of promotions. **William G. Schuler** was promoted to executive vp of Harleysville Mutual Insurance Co. He will be responsible for special projects, agency relations and industry affairs. Mr. Schuler was previously senior vp of operations and agency relations. Mr. Schuler is succeeded by **Richard B. Neiley Jr.**, who was named senior vp of a reorganized division. Mr. Neiley will head claims, underwriting marketing and product development departments. He will also supervise reinsurance, branch office and general agency business. Mr. Neiley will also direct the operation of the Huron Insurance Co. of Indianapolis, a newly acquired firm.

In addition, Harleysville promoted **Bruce Bassman** to vp and actuary responsible for rating, reserving, financial analysis and statistical reporting. Mr. Bassman was an assistant vp and actuary.

Reinsurers

James P. Smith elected president and chief executive officer of Northwestern National Life Reinsurance Co. in Minneapolis. Mr. Smith has been with NWNL for 34 years. He is succeeded as executive vp and chief operating officer by **Leonard J. Meredith,** who joined NWNL Re as a senior vp in 1979. In addition, **John A. Leppa** was elected treasurer. Mr. Leppa was previously the company's director of administration.

James F. Allen joined Boston Reinsurance Corp. in Boston as senior vp in charge of treaty underwriting. He was previously with Ormond Reinsurance Corp. in Ormond Beach, Fla.

Glenn H. Reid appointed executive vp in charge of internal oprations at H.A. Enan & Co. (Reinsurance) Ltd.'s office in Burlingame, Calif. H.A. Enan & Co is a reinsurance intermediary.

Agents/brokers

Roger C. Gustafson promoted to vp of Bayly, Martin & Fay Aviation Insurance Services Inc. in Los Angeles. He was previously an account executive with Bayly, Martin & Fay Aviation.

Robert J. Walters joined Crump/Harris Inc. in Philadelphia as employee benefits manager. He is responsible for matters relating to group insurance, pension plans and individual and business life insurance for Crump/Harris Inc. clients. Mr. Walters had been employed by Penn Mutual Life Insurance Co.

Robert L. Jones named senior vp of Reed Stenhouse Inc. responsible for the operation of the San Francisco office. Mr. Jones was most recently vp for business development with Reed Stenhouse Inc.

Kurt S. Urban named general manager and vp of Reed Stenhouse Inc. of Oregon in Portland. Mr. Urban had been with Johnson & Higgins as an account executive.

E. Ray Carter named managing vp of the Alexander & Alexander office in Hartford, Conn. He had been managing vp of A&A's Richmond, Va., office.

John S. Childress elected executive vp and director of Daniel & Henry Co. in St. Louis. He was most recently a senior vp at Marsh & McLennan Inc. in St. Louis.

Vincent J. O'Gorek appointed vp of George J. Siebers Co. in Kansas City, Kan. Mr. O'Gorek had been vp at Western Casualty & Surety Co.

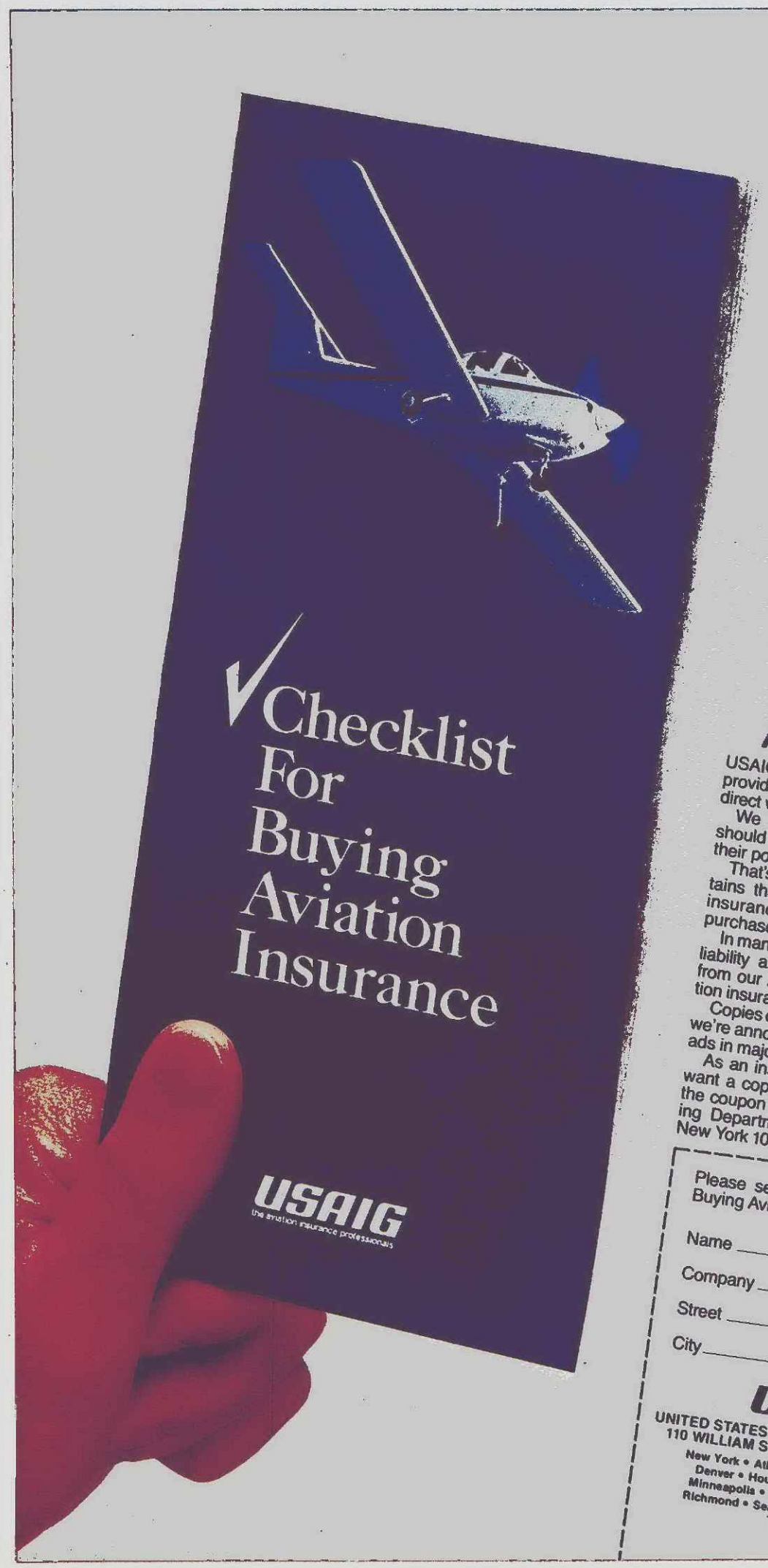
Other suppliers

Three promotions were announced at Certified Claims Corp. in Chicago, a subsidiary of Stewart Smith Inc.: **Walter B. Kendall** elected executive vp, **Robert Gavin** elected vp and **James J. McGrath** elected vp. Mr. Kendall had been a Certified Claims vp. He is in the Chicago office. Mr. Gavin was previously assistant vp and established the company's Kansas City office. He remains in Kansas City. Mr. McGrath had been an assistant vp of Stewart Smith East. He is located in Certified Claims' office in Teaneck, N.J.

Lisabeth A. Schafer elected vice president of Creative Risk Management Corp. in Mount Clements, Mich. She had been manager of administrative services for the company.

Thomas Curtis named vp of operations at Employee Benefit Services of Florida Inc. in Tampa, Fla.

Robert L. Lindsay joined the New York office of Tillinghast, Nelson & Warren as vp. He was previously with Mutual of New York. ■



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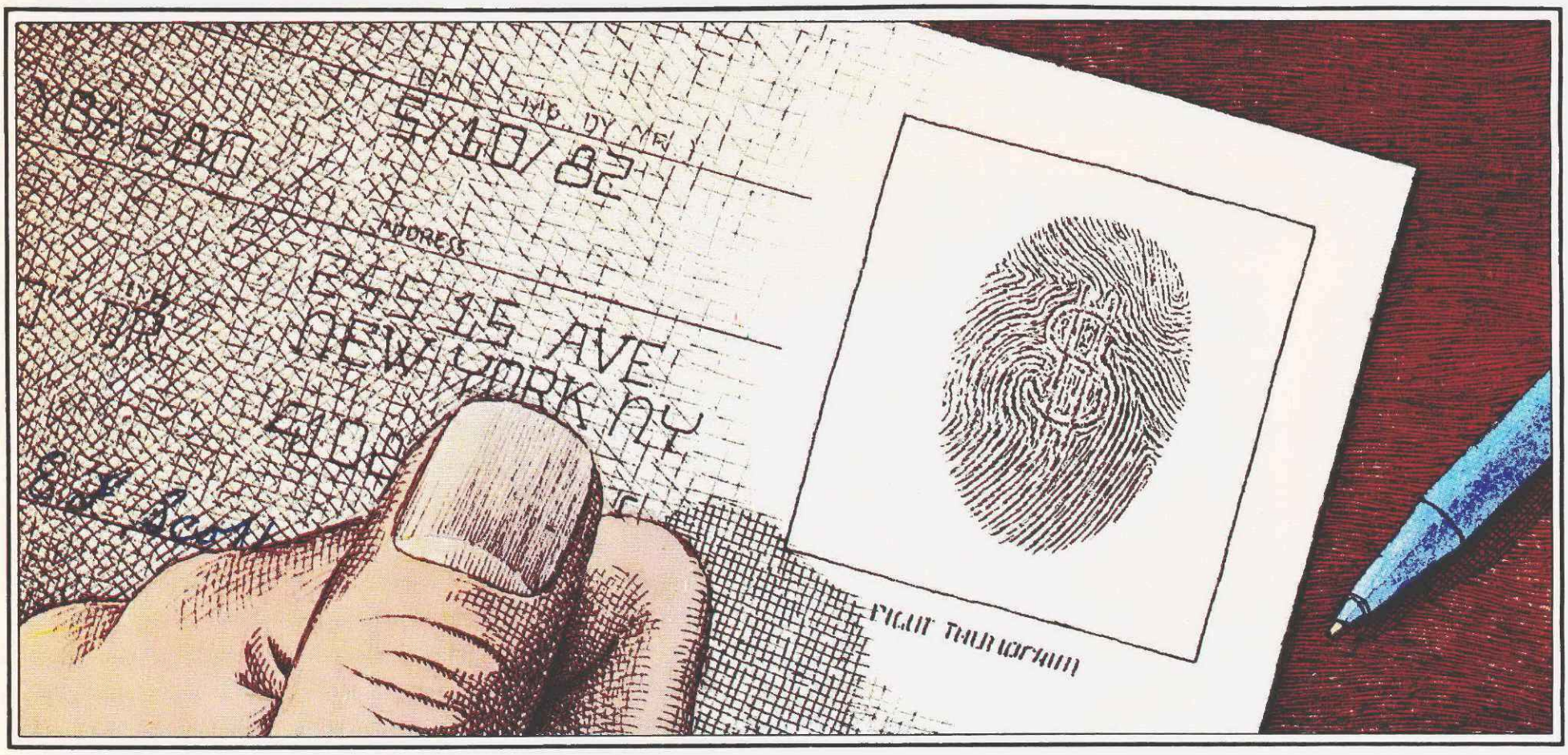
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Insuring Against



No one knows how much American companies lose to embezzlement and fraud each year. Much white-collar crime goes undetected, many thefts take years to surface and some firms fail before they find out they were robbed.

INA reviews the problem and outlines the best forms of insurance coverage.

White-collar crimes are sometimes harder to uncover than they are to solve. Often no one notices that anything is gone. And, all too frequently, when a thief is caught, it turns out he or she was tripped up, not by theft prevention measures, but by accident.

Consider the New York executive who took $1.4 million to cover his horseracing debts. His embezzling was amateurish, but he was caught only because his name was found in a police raid on his bookie. Or take the bookkeeper in a small town bank who kept two sets of books. She took $2.1 million over the course of 23 years before the loss was noticed.

The advantage goes to the crooked

Most experts believe that recorded employee dishonesty losses—$1.8 billion in 1980—represent but the tip of the iceberg. And business scholars suspect that many small business failures can be traced to undetected inside crime.

The fact is, by the very nature of the crime, the inside criminal has most of the advantages.

Embezzlers, for one, are likely to be trusted, reputable, long-time employees.

As insiders, they may understand the very system built to stop them—leaving it about as useful as a plan for locking out the locksmith.

Computers were once thought to make it harder to embezzle funds. Not anymore. More sophistication may be needed to commit the crime, but unlike manual bookkeeping, a computer can be programmed both to steal and to remove the evidence of its theft.

Lastly, outside auditors and accountants are invaluable in

Invisible Crime

detecting losses and devising control methods, but cannot be expected to provide infallible early warning systems. They are not, in fact, responsible for sniffing out employee crime–nor is the standard audit set up to bring criminal discrepancies to light.

Keeping the tempted apart –and uncertain

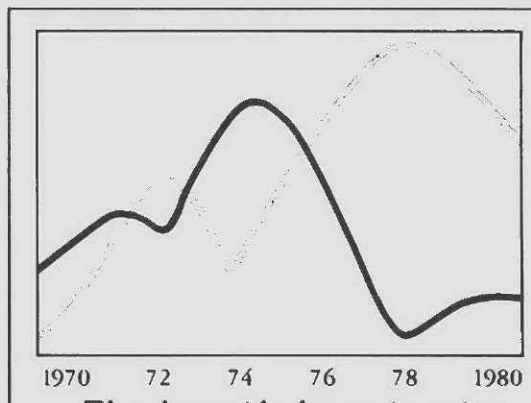
What is the prudent risk manager to do? The first step is loss control–beginning with the separation of functions. Those who order goods, for instance, should not receive or pay for them. Surprise is also a useful tactic. Potential embezzlers are less likely to steal when faced with unexpected job rotations or unannounced audits.

But even the best prevention systems still fall short. And a well thought out insurance program is essential.

Risk managers at banks and other financial institutions are usually familiar with the range of coverage available. Often they're required by law or regulation to carry adequate protection. Other large companies sometimes underestimate their exposure, and only about 15% of smaller firms carry any coverage at all.

Employee dishonesty coverage, for most businesses, is not difficult to administer nor to obtain. Small companies can cover only those in positions of great trust, but most need blanket policies that apply to all employees. Most policies cover both staff members and conspiracies that involve outsiders.

INA is one of America's major suppliers of this kind of coverage. The company will cover employee dishonesty alone, or, as is more common, provide protection as part of a broader liability insurance program–one that includes directors and officers insurance, kidnap and ransom protection, and errors and omissions coverage.



The downside boom in crime. Arrests for embezzlement and other frauds tend to go up whenever the economy goes down. (The black line shows FBI arrest data, the gray line, Federal Reserve figures for industrial production.) No one can prove the two are connected–another common element might be at work–but some underwriters do recommend increased protection when times are lean.

The professionals in property and casualty

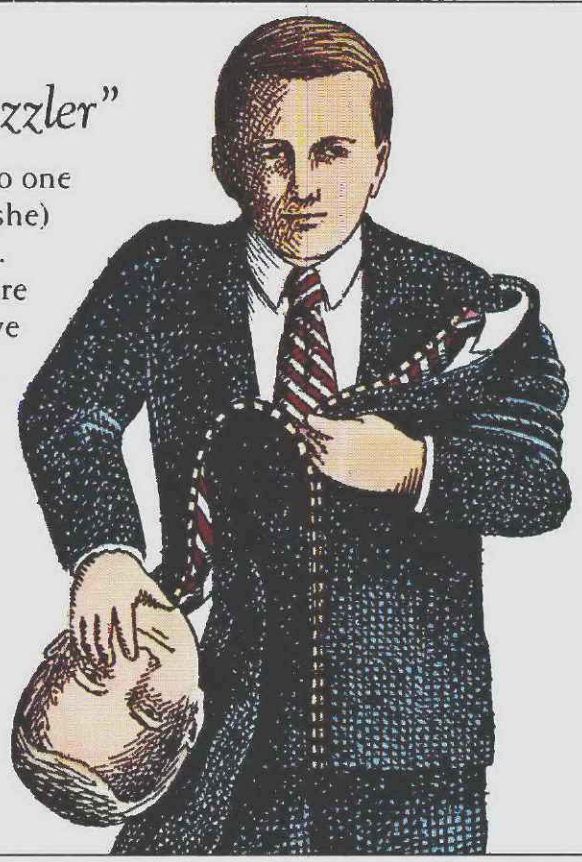
The Insurance Company of North America was founded in 1792 in Independence Hall in Philadelphia. Today it is a major component of CIGNA Corporation's international network of insurance and financial service companies.

Sophisticated embezzlement protection is typical of the responsive coverage for which the company is known.

For an informative booklet on employee dishonesty write INA, Dept. R, 1608 Arch Street, Philadelphia, PA 19101.

"He didn't look like an embezzler"

The typical embezzler is the worker no one would suspect of theft. That's how he (or she) wound up in such a good position to steal. Quiet, industrious, reliable, embezzlers are almost always long-time employees who've never been in trouble with the law before. What makes them turn to crime? The common element, the experts say, is a misfortune or a weakness the embezzler must hide. A gambling loss, a secret liaison, a debt that can't be paid–the motive, usually, is something shameful that requires a lot of cash.
And that, combined with easy access, is what drives an honest employee to commit a crime.



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perspective

Containing expenses and budgeting group insurance fairly can be accomplished

By Michael S. Massey

Tracking the cost of a plan

speaking out

A CORPORATION'S BENEFIT department is gaining more and more recognition today because it is controlling larger and larger expenditures to provide the varied group employee benefit programs offered by most companies.

Although the number of programs offered and the breadth of coverage each entails will vary considerably from company to company, most will include some form of the following: medical and life insurance, long-term disability insurance, travel accident coverage and pension or profit-sharing plans or both.

In addition to these core benefits, companies may also be offering supplemental plans like dental coverage, optional extra life insurance, short-term salary continuation, thrift or savings plans, vision care, legal services, adoption payments, day-care centers, wellness and physical fitness programs, Individual Retirement Accounts, 401(k) plans and others.

All of these cost bucks—big bucks—and these costs are frequently increasing by percentages larger than for any other area in the company, including sales and profits.

Because of this increased scrutiny of the benefit-cost area, the benefit manager must make sure that he or she is doing everything possible to help control and communicate the associated expenses.

The primary thrust, cost containment, is one that is just now starting to get the attention it deserves. It is an area that every benefit manager has to be sure is being both thoroughly explored and fully implemented.

This article, though, will address the second duty of every benefit department: to properly communicate the benefit costs to top management, field management and employees. Within that topic, we will focus on field allocation programs.

Certain basic questions have to be answered regarding allocating group insurance costs, specifically the medical insurance for your field locations. Those questions are:

- Is the allocation fair and equitable?
- Is it easy to understand?
- Are there clear incentives for cost containment?
- Is there a provision for mitigating the impact of catastrophic claims? For example, is the use of corporate absorption or the purchase of stop-loss coverage an answer?
- If you use experience that is more than 12 months old, do you upgrade the numbers to take inflation into account?
- Have you considered both inflation and utilization in projecting future claims?
- Have you taken into account additional administrative costs?
- Have you personally reviewed your allocation system to be sure that it incorporates these items rather than just continuing what a predecessor may have set up?

You should have a close working relationship with your accounting department. It determines the answers to the following questions:

- Are the group insurance expenses separately identified for each division or are they lumped under "miscellaneous," "fringes" or some other general title?
- Does the department hold the field location to the budget that you provide for them?
- Learn from accounting how miscalculations affect a division's bottom line and profit or bonus situations.
- Does the home office absorb any excess costs due to unpredictably poor experience, especially if the company does not have stop-loss coverage?

Be sure you communicate your budget to the accounting department and data processing department, if applicable to your organization.

Prior to the budget developed for fiscal 1980 for Chelsea Industries, we used a system similar to what a number of companies use. We based our budget for the coming fiscal year on a projection of our claim experience for the prior three-year period, by location. We would take the average claim level experienced over this rolling three-year period and increase this number by an inflation and utilization factor. (Our claim figures already included administrative costs and we did not purchase stop-loss coverage.)

At this stage, discussions also would be held with top management in order to determine whether there were any plans for significant acquisitions, divestitures or changes in benefit design. A location's percentage of the three-year average would then be applied against the newly determined total that included inflation, utilization and benefit projections.

Judgment would then be used to adjust any numbers that were totally out of line. This was not a formal process whereby we agreed to limit any one location's budget increase to a certain percentage of the prior year's budget. Instead, it was just a method of "eyeballing" each budget figure to make sure that it made sense and that it was not more than a location could absorb. Otherwise, each location was fully responsible for paying for their prior claims experience.

Unfortunately, there were problems with this system. We found that there were too many instances of a location not being able to absorb their full experience and the corporate office would not want to subsidize their medical claims.

We would see small, six-to-10-person operations develop experience-rated budgeted monthly premiums of $1,500 to $2,000 due to one or more substantial claims, like a hip replacement case, a heart attack or a cancer operation. They obviously could not absorb these types of expenses.

Also, we had to be somewhat competitive with the "community rates" for local Blue Cross/Blue Shield plans, since these were what we would be compared to. We also did not want two locations across the street from each other, with a similar workforce makeup, using the same doctors and hospitals but being charged two substantially different premiums.

Because of all of the above reasons, we changed our budgetary system. We now divide our plants around the country into three geographical regions: Massachusetts, Southern and all other. We have roughly one-third of our operations in Massachusetts and we found that there were significant differences in our claim experience among these three areas.

We now only use the prior claim experience for the most immediate 12-month period and project this amount forward, taking into account inflation, utilization and workforce changes. Since we don't plan on changing our benefit program in the near future, we don't need to consider this aspect.

We have found this system to be well-received by the financial officers at our field locations. One of the main attributes of this system is that locations in the same area

Continued on next page

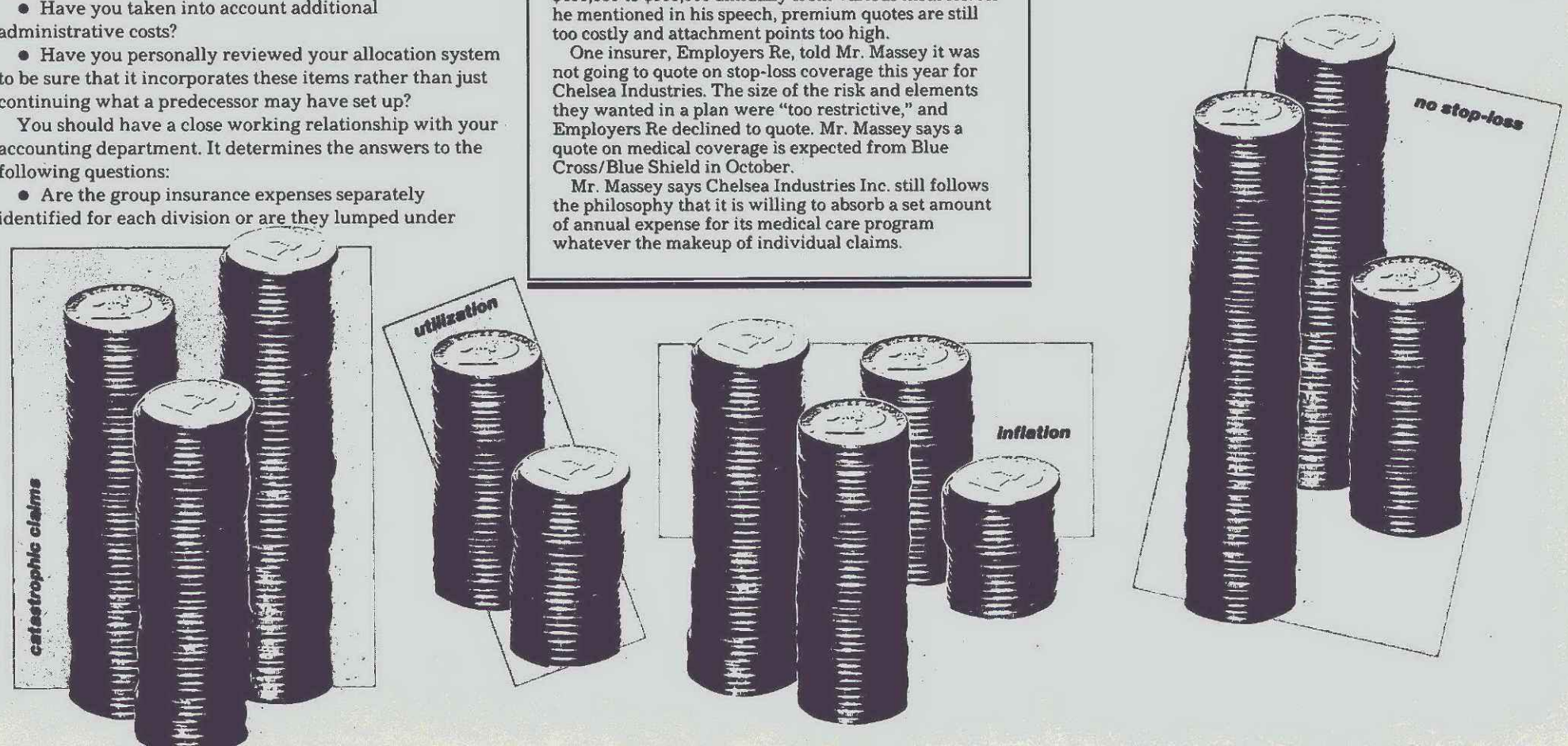
Going without stop-loss still Chelsea's best option

What happened with the updated quotations Mr. Massey was looking for on stop-loss coverage for Chelsea Industries Inc.?

Insurers are giving premium quotes that are too much of a "buffer" between the amount of protection provided and the amount of expected claims level, Mr. Massey said. This buffer amount was ranging from $400,000 to $500,000 annually from various insurers. As he mentioned in his speech, premium quotes are still too costly and attachment points too high.

One insurer, Employers Re, told Mr. Massey it was not going to quote on stop-loss coverage this year for Chelsea Industries. The size of the risk and elements they wanted in a plan were "too restrictive," and Employers Re declined to quote. Mr. Massey says a quote on medical coverage is expected from Blue Cross/Blue Shield in October.

Mr. Massey says Chelsea Industries Inc. still follows the philosophy that it is willing to absorb a set amount of annual expense for its medical care program whatever the makeup of individual claims.



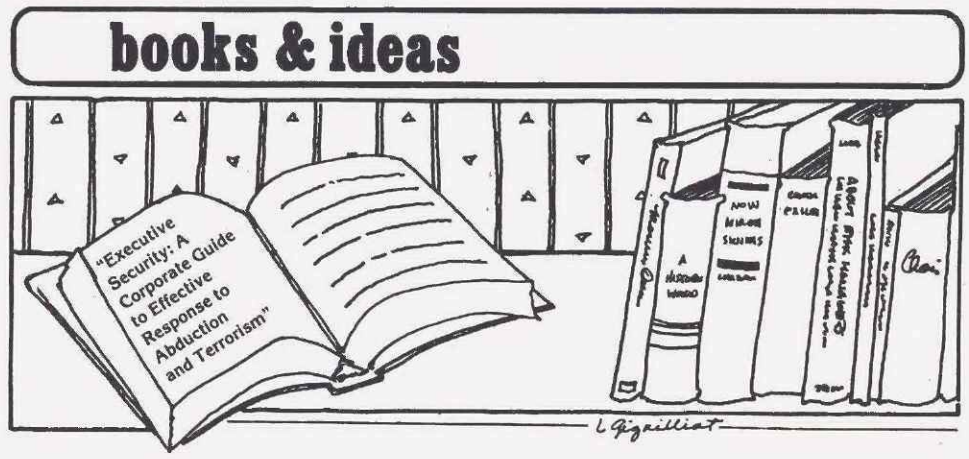
perspective

Meeting the threat of death: Preventing executive assault

By Belden Menkus

books & ideas

"Executive Security: A Corporate Guide to Effective Response to Abduction and Terrorism"
By Richard Cole
Wiley-Interscience, 605 Third Ave., New York, N.Y. 10158
323 pages, $39.50



THIS BOOK DEALS with a serious corporate problem that expanded insurance coverage alone can do little to resolve. It is a problem that risk managers cannot assume will be taken care of routinely by the law-enforcement community. It is a problem from which no corporation or worksite can truly be safe; it can be dealt with only with a carefully framed corporate risk-reduction effort. The problem is the threat of kidnapping, assaulting or killing a key executive.

Those risk managers who must find ways to minimize the likelihood of key executives being kidnapped, wounded or killed as in a terrorist attack will find this book exceptionally helpful.

This book, by Richard Cole, corporate security director of Allied Chemical Corp., offers reasonable and thorough guidance in reducing the threat of abduction and terrorist attack. Cole has drawn upon extensive law-enforcement experience and upon the insights gained in resolving problems generated by Allied's worldwide activities in preparing this book. He is rare among those who have written on this subject because he recognizes that the corporate response to executive security should be based on thorough and thoughtful analysis and program development.

This book is organized into three basic divisions that reflect this systems-oriented approach. This first deals with problem definition. It touches on such matters as defining vulnerabilities and formulating corporate policy for dealing with them. This division includes a chapter on insurance coverage planning. It is followed, incidentally, by a very practical discussion of financial arrangements for handling a response to a ransom demand.

The second division discusses in detail the more formal aspects of crisis response planning, simply framed as who is responsible for doing what.

The final division examines risk reduction techniques, like so-called defensive driving and the role of personal bodyguards. An example of the thorough way in which Mr. Cole treats this material is found in the discussion of clothing for bodyguards.

This book has multiple checklists that will prove exceptionally useful in analyzing vulnerability and framing a comprehensive response to it. Typical of these is the 11-item list that provides a basis for determining the on-site level of vulnerability to unauthorized entry during the workday.

This book quite simply is an essential volume for any risk manager who must create and sustain a program for protecting key executives against kidnapping or terrorist assault. ■

Belden Menkus is a security consultant in Middleville, N.J.

Cashier qualifies as 'custodian' of property

legal briefs

A LOUISIANA appellate court ruled that a grocery store cashier was a "custodian" of insured property within the meaning of a robbery and burglary insurance policy.

A food store was covered under the policy issued by Northeastern Fire Insurance Co. Margaret Little was a cashier employed by the store. Her general duties included servicing customers, bagging groceries and, when the manager was away from the office, responsibility for protecting the office from unlawful intrusion.

Under the Northeastern Fire policy, robbery consisted, in part, of taking property of the insured by putting a custodian in fear of violence.

On the day in question, Mrs. Little saw a suspicious person lurking about the manager's office in the front of the store. When she approached to investigate, an unknown male ran toward her from the office and fled the store. The owner and manager were at the rear of the store, unaware of what happened. An investigation of the incident determined that $6,775 had been taken from an unlocked safe in the store's office.

The food store filed a loss claim with the insurer but it was denied. The store then sued the insurer and won in lower court.

On appeal, the insurer argued that Mrs. Little was not a custodian of the insured property and, thus, there was no coverage. The appellate court observed that "care and custody" was an ambiguous term that was subject to differing interpretations acording to the circumstances.

"Since Mrs. Little was responsible for the office and its contents in the absence of the manager," the court said, "we agree with the trial court that she was a 'custodian' of the property at the time of the robbery."

70th St. Food Store vs. Northeastern Fire Insurance Co., Court of Appeal of Louisiana, Dec. 7, 1981 (*BI*/05/Jy.-$5). ■

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

Tracking group insurance expenses

Continued from previous page

have the same rates. The companies do talk to each other and feel more comfortable with the comparable-rate or "misery-loves-company" program that we now have. We also guarantee the rates for each location for the projected fiscal year with the corporate office absorbing any miscalculations. The miscalculations are then taken into account during the next budgetary process.

The corporate office becomes involved in absorbing any catastrophic claims or exceedingly poor experience because we do not purchase either aggregate or specific stop-loss coverage. Our reasons for not having such coverage are:

- The premium quotes were too costly. (The lowest quote would have provided $1 million of protection for $13,500, but at an attachment point that was roughly $400,000 above our expected claim level.)
- The attachment points were too high. (The lowest attachment point was at 110% of our anticipated claim level of $1.55 million for the year Oct. 1, 1979, to Oct. 1, 1980.)
- We only felt a possible need for aggregate and not for specific. This was true due to our philosophy that we were willing to accept a certain annual expense for our medical care program, and we really did not care what the individual makeup of claims was.

We are in the process of obtaining updated quotations, and have been told that Blue Cross/Blue Shield will quote a 10% attachment point, so we'll wait and see what the numbers look like (see related story).

Merely communicating your allocation system is not enough. You have to follow this up with constant details regarding each location's actual experience as well as how the overall corporation is doing with respect to the budget.

We supply our field offices with reports that show a rolling average of their last eight to nine years while relating their health care costs to a consistent comparison base (cost per employee) so that workforce variations do not distort the cost picture. We also give them monthly claim reports for audit purposes plus special reports highlighting such areas as all employees who have incurred claims higher than a certain dollar figure.

It must constantly be stressed that even though their rates are guaranteed for the fiscal year, we still expect them to assist wherever possible in areas of cost containment. This, of course, is the main thrust—to control these rapidly rising health-care costs. The accounting allocation system, regardless which method you use, is only of secondary concern when compared with cost containment. It is merely a system necessary for allocating those claims that do occur.



Michael S. Massey is corporate risk manager of Chelsea Industries Inc. in Boston. This speech was delivered earlier this year at the RIMS conference in Washington, D.C.

HOW ALLENDALE HELPS RISK MANAGERS SLEEP NIGHTS.

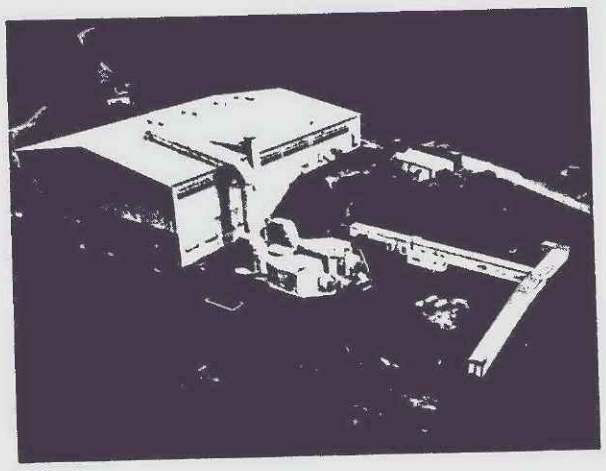
It's not easy, being a risk manager. The responsibility is tremendous and, with the constantly expanding function of risk management in corporate decision making, the responsibility grows.

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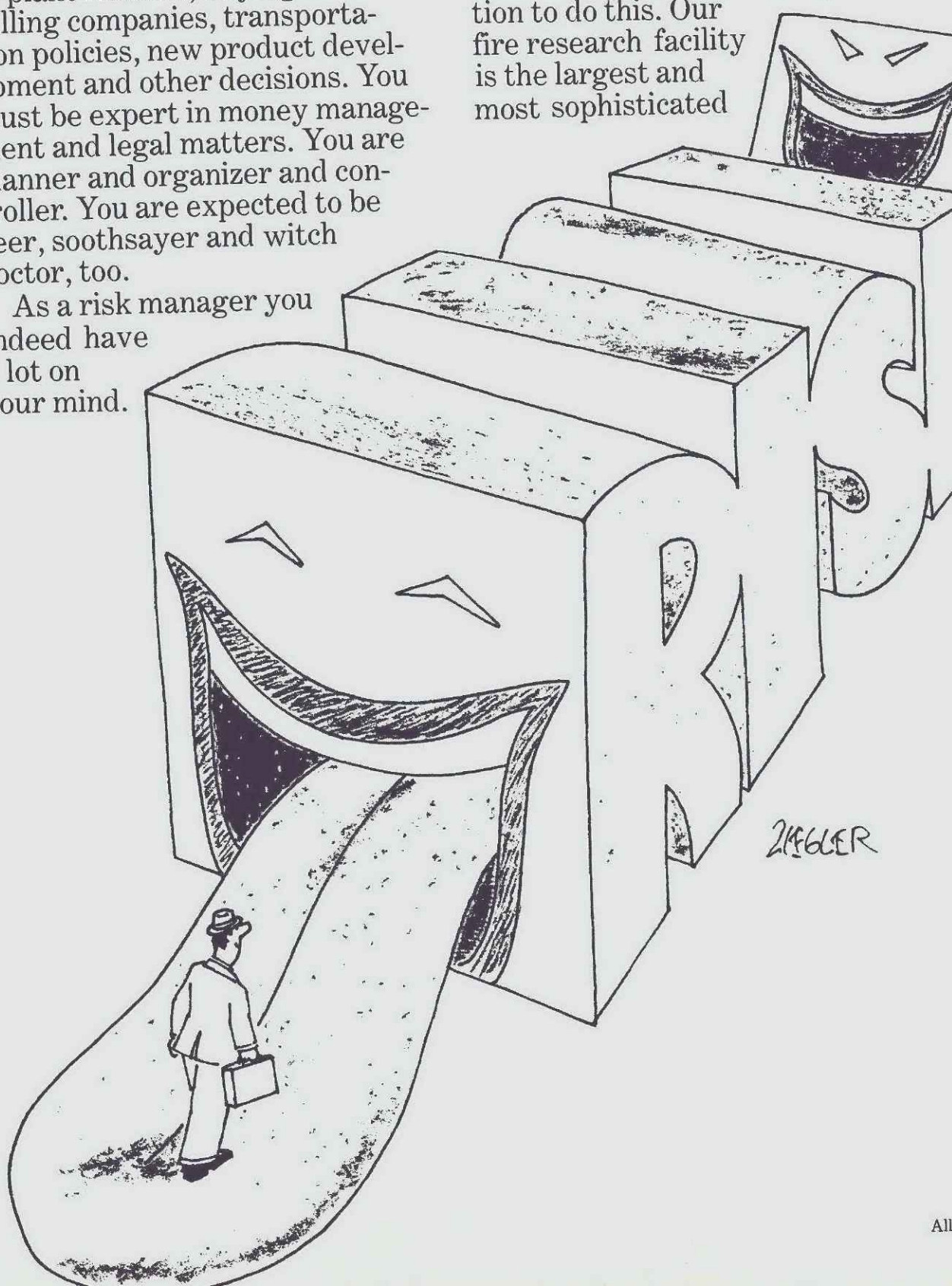
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Product Liability Score Card

By Jerry Geisel
Washington Editor

	Status of Legislation				Defenses*						
State	Tort reforms enacted	Bill pending	Cleared house	Cleared senate	Statute of repose	State of the art	Failure to warn	Standards	Alteration	Sellers' exclusion	Remarks
Ala.	1979(R)				X(R)						Ten-year limitation on filing suits found unconstitutional.
Alaska											No action expected.
Ariz.	1978				X	X	X	X	X	X	Bill also prohibits asking for specific damages in a suit.
Ark.	1979										New legislation expected.
Calif.											Tough battle ahead.
Colo.	1977				X	X		X		X	Second state to pass major reform legislation.
Conn.	1979				X				X		Closely resembles model Commerce bill.
Del.[2]											Cloudy outlook in state.
Fla.	1978(R)				X(R)						Twelve-year limitation on filing suits found unconstitutional.
Ga.	1978				X				X	X	Establishes a 10-year limitation on filing suits.
Hawaii											No information available.
Idaho	1980				X					X	Establishes a 10-year limitation on filing suits.
Ill.	1978				X						Bill establishes 10- and 12-year limitations on filing suits.
Ind.	1978				X	X	X	X	X	X	Establishes a 10-year limitation on filing suits.
Iowa											Gloomy outlook.
Kan.	1981				X			X	X	X	Resembles Commerce Dept. model bill.
Ky.	1978				X	X	X	X	X	X	One of the most comprehensive bills passed.
La.											No chance of action.
Maine											No action.
Md.	1982									X	Bill protects wholesalers against product liability suits.
Mass.[1]		X			P	P	P	P	P	P	No chance of passage.
Mich.	1978										Award could be reduced if plaintiff were negligent.
Minn.	1978									X	Law prohibits asking for specific damages in a product liability suit.
Miss.											No action expected.
Mo.											No action expected.
Mont.											No action until 1983.
Neb.	1978				X	X	X		X	X	Establishes a 10-year limitation on filing suits.
Nev.											No information available.
N.H.	1978				X				X		Establishes a 12-year limitation on filing suits.
N.J.					P	P	P	P	P	P	Poor chance of getting major legislation passed.
N.M.											No information available.
N.Y.		X	X		P				P		No action expected.
N.C.[1]	1979				X		X		X	X	Establishes a six-year limitation on filing suits.
N.D.	1979				X			X	X	X	Establishes 10- and 11-year limitations on filing suits.
Ohio		X			P	P	P		P	P	Major battle lies ahead.
Okla.											Uncertain outlook.
Ore.	1977				X				X		Third state to pass p/l legislation, 8-year s/r.
Pa.		X		X	P		P		P		Possible chance of success.
R.I.	1978				X				X		Establishes a 10-year limitation on filing suits.
S.C.											No information available.
S.D.	1979,1978				X				X	X	Establishes a six-year limitation on filing suits.
Tenn.	1978				X	X	X	X	X	X	Establishes a 10-year limitation on filing suits.
Tex.											Legislation died after major battle.
Utah	1977				X	X	X	X	X		First state to pass reform legislation.
Vt.											No information available.
Va.[1]											No action expected in near future.
Wash.	1981				X			X	X		Similar to Commerce Dept. model bill.
W.Va.											Uncertain outlook.
Wis.											Little chance of success.
Wyo.[1]											No information available.

Business Insurance's Product Liability Score Card summarizes efforts to enact tort reform in state legislatures. The first section details the status of tort reform legislation in the state; the second section indicates what tort reform proposals are included in the legislation. When a bill is pending, the tort reforms alive are indicated: P.

*The tort reform elements charted are: a statute of repose, which limits suits to certain time periods after a product was first sold or manufactured; allowing a defense that a product met the state of the art at the time it was manufactured; elimination or restriction of a failure to warn claim; allowing a defense that a product met government standards or specifications; allowing a defense if the product were altered or modified; and reducing retai ers', wholesalers' or distributors' exposure to strict liability suits.

[1]These states do not permit product liability suits on the basis of strict liability.

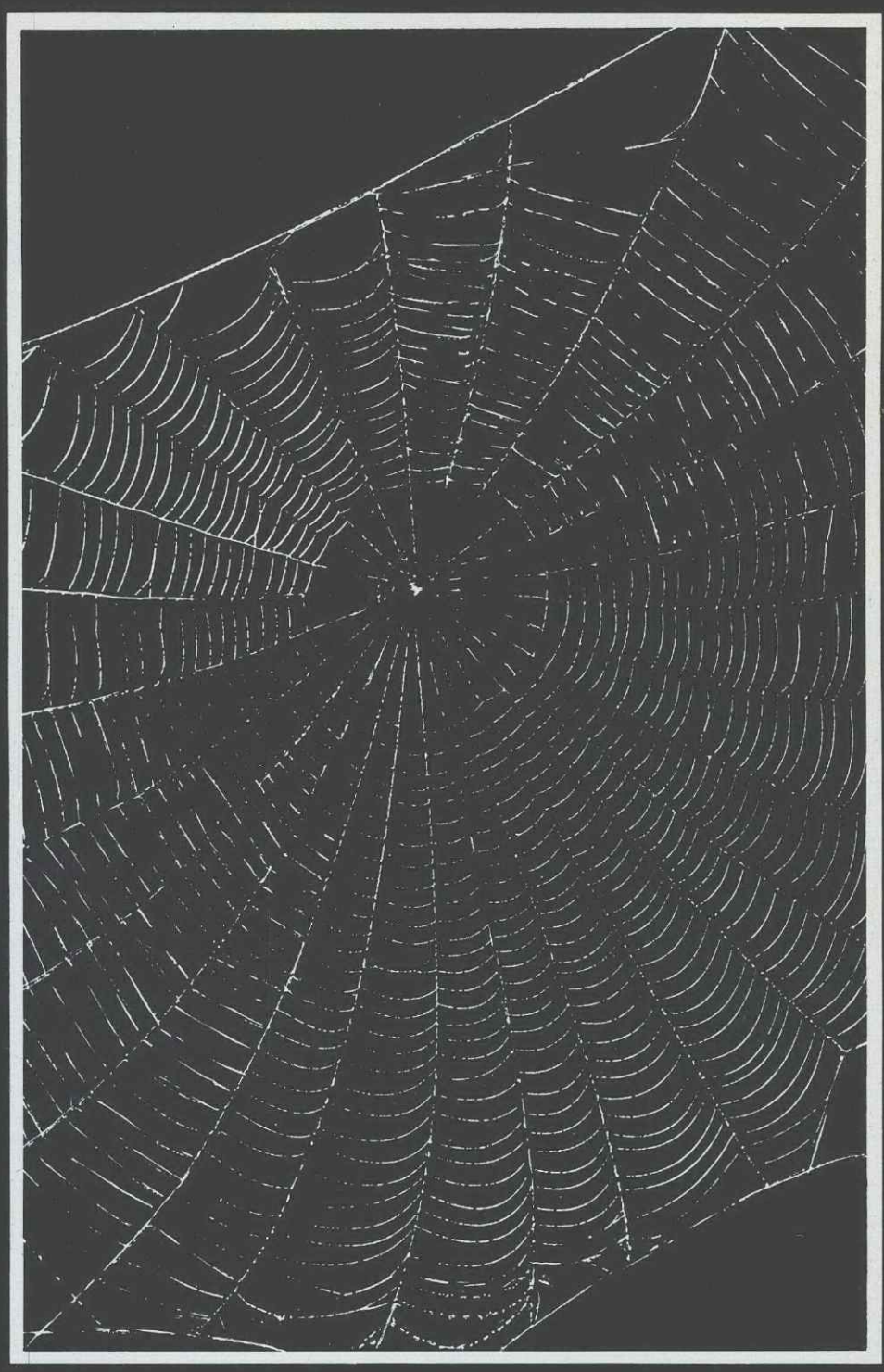
[2]Some legal experts contend Delaware does allow suits based on strict liability.

(R) indicates that tort reforms have been repealed.

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Few states approving tort reform measures

Continued from page 1

- The competitive commercial insurance market. As product liability insurance rates have stabilized or declined because of competitive pressures in the insurance market, employers have moved on to tackle other more pressing problems, like state workers compensation laws.
- The decision of business groups to concentrate their lobbying efforts at the federal level to convince Congress to pass a uniform, federal tort law. More than 200 business and trade associations have joined The Product Liability Alliance, which is trying to develop a business consensus on federal product liability issues.

More and more businesses are beginning to recognize that only a uniform, federal law will give insurers the kind of certainty they say they need to measure risk more precisely, one product liability attorney says.

A federal product liability bill is pending in Congress, but passage this year is not likely (*BI*, Sept. 13).

Meanwhile, the courts have rescinded some of the progress made on the state level to limit businesses' liability for faulty products.

Earlier this summer, the Supreme Court of Alabama threw out a 1979 business-backed law that prohibits product liability suits 10 years after a product is first put into use.

The 10-year statute of repose is "arbitrary and capricious, thus violating the rights of these plaintiffs to equal protection under the law," the Alabama high court said.

In a similar case in Florida in 1981, the state Supreme Court ruled that a 1978 law requiring product liability suits to be filed within 12 years after the date a product was delivered to the first user violated accident victims' constitutional guarantee of access to the courts.

Despite these type of setbacks, tort reform backers keep plodding along with some small victories.

In Maryland, for example, the legislature approved a so-called "sealed container" bill that will protect product sellers that are not manufacturers, like wholesalers and retailers, from most product liability suits.

Under the measure, wholesalers or retailers could not be found liable unless they altered the product or if the manufacturer were bankrupt or could not be brought to trial for other reasons.

"It took a real grassroots effort. We made a case with the legislators," said Cal Clemons, executive director of the Maryland Assn. of Wholesaler-Distributors in Baltimore.

"We told the legislators that the bill was not pro-business or anti-consumer. But we explained that its passage was in everyone's interest because it laid down the lines of responsibility," he added.

In Pennsylvania, the state Senate already has approved legislation that would, in the case of consumer goods, bar product liability suits 12 years after a product is made. A 30-year limitation would apply to non-consumer goods, like printing presses.

But passage of the bill is threatened by a split between the state's two leading business groups: the Pennsylvania Chamber of Commerce and the Pennsylvania Manufacturers Assn.

The manufacturers' association says the bill is so weak that it cannot support it.

The chamber says passage of the measure would lay the foundation for more comprehensive legislation next year.

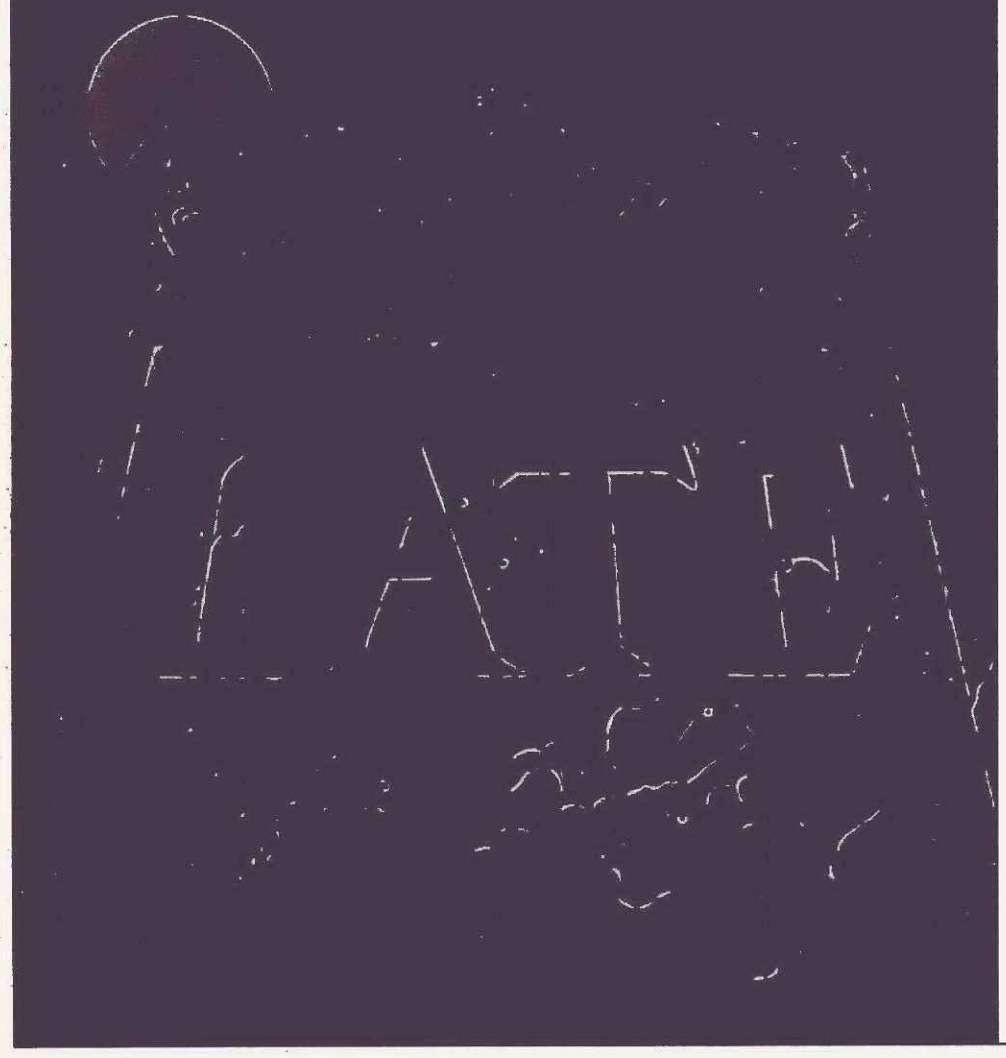
Because of this split, passage of a bill this year has only a 50-50 chance, observers say.

The Ohio Legislature currently is considering two reform bills. A bill proposed by Sen. Kenneth Cox would shield from liability the seller of a product who has no responsibility for a product's design or manufacture.

A more comprehensive bill proposed by Rep. Terry Tranter would bar most product liability suits 10 years after a product is made.

"The chances are six or seven out of 10 that some kind of bill will pass," predicts Harvey Graves, chairman of the Ohio Product Liability Task Force in Akron. ■

There's a word for people who always do things too late.



For some people, procrastination is a way of life. Unfortunately, it can also lead to heart disease and untimely death.

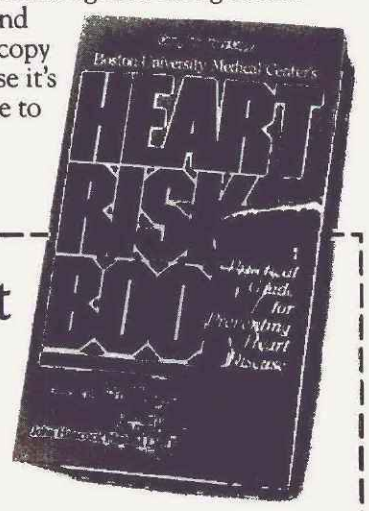
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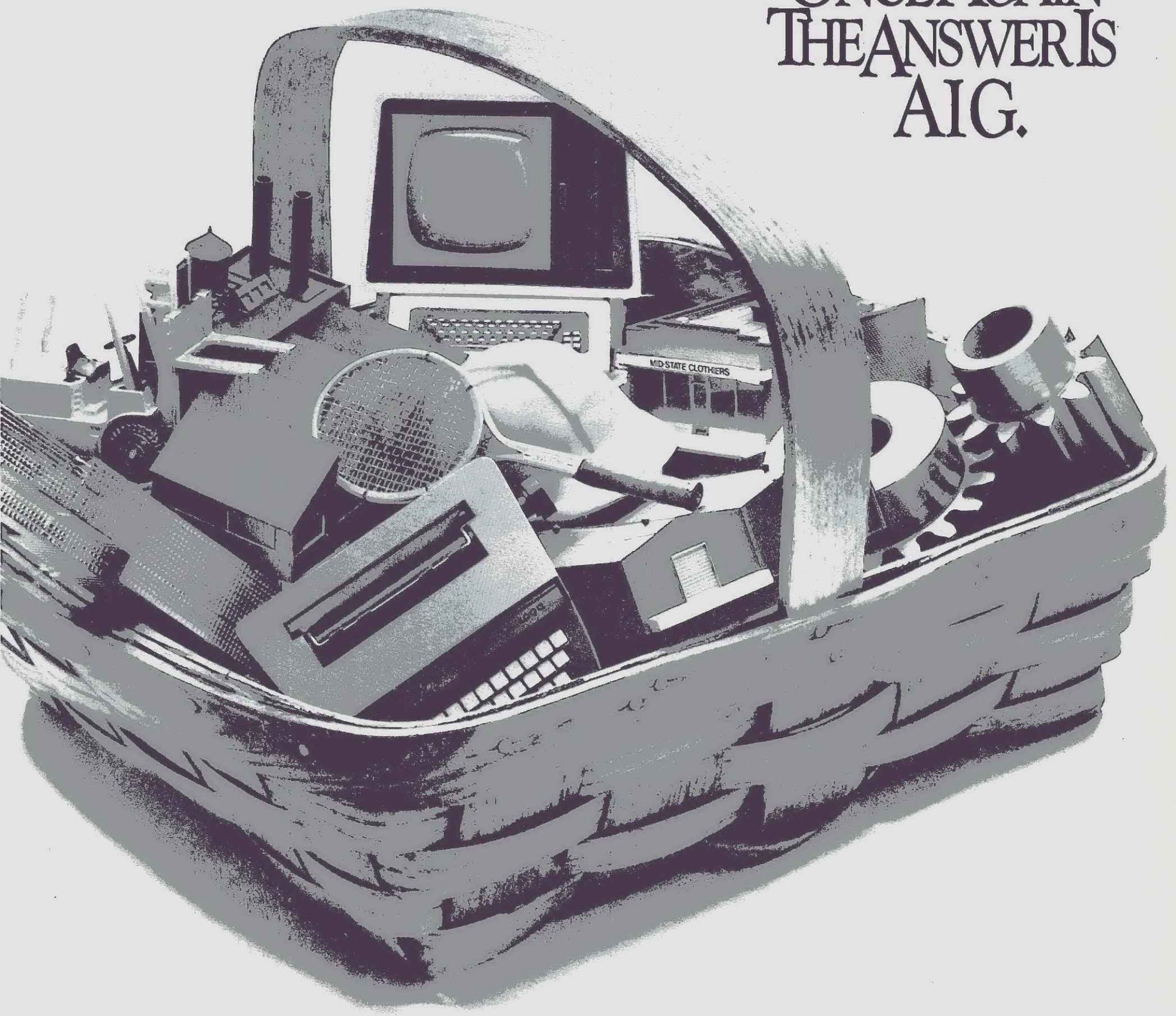
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BI-9-20-82

ONCE AGAIN THE ANSWER IS AIG.



Employers examine comp claims more closely

Continued from page 1
diagnosed, such as strains.

Overall, 16 risk managers (33%) said they are seeing more workers compensation claims this year compared with last year, but seven said the increases have nothing to do with layoffs.

In fact, a few say the recession is discouraging invalid or inflated workers compensation claims.

Historically, comp claims increase after layoffs, agreed the manager of general insurance for a heavy manufacturing company that employs 12,000. "But, this time, it has not been true for us. I believe we have a more conscientious worker, an older worker who is less daring and concerned about his future. There are not many other jobs available."

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Another risk manager who has not seen work comp claims increase despite layoffs at his company believes the impact of the recession makes the employee more cost-conscious, willing to work harder and careful to not be injured on the job.

Others say their loss-control procedures are keeping workplace accidents down despite layoffs and the need for those remaining on the job to be more productive.

But, while 67% of the Risk Management Board say their workers compensation claims have not increased this year compared with last year, 35% are reporting more invalid or inflated claims as a percent of total claims filed, a sign that workers whose pocketbooks have been pinched by inflation or otherwise affected by the economy are increasingly tapping workers compensation as a supplemental source of income.

And this is forcing more companies, equally hard-pressed to make ends meet, to crack down. Nineteen of the 49 survey respondents are setting up new ways to spot and stop offenders.

The manager of corporate insurance for a medium-size manufacturer is no longer making "any offer to settle on a lump-sum contractural basis."

"We do not attempt to get employees to not file a workers compensation claim if it is legitimate," he explained. "But, if it is a 'phantom claim,' we investigate, prepare our defense and make no offer. Employees learn there will be a long wait for their money if the accident has never been reported."

"We deny suspicious claims and force the employee to prove the validity of the claim," stressed the vp of industrial relations for a manufacturer that employs 1,800 people.

Echoing that stance, the corporate insurance administrator for a conglomerate with 3,000 employees adds, "We are taking a hard line on questionable, unwitnessed or mysterious injury claims that seem to be unlikely as result of claimed cause."

"We are attempting to fight all occupational disease claims to attempt to prevent establishment of precedents," said the administrator of workers compensation and employee-oriented programs for a bi-state transportation agency.

He said the agency's 7,000 employees are filing more occupational disease claims related to air pollution and asbestosis.

Other companies did not report such head-on battles with the employees, but they have implemented numerous new procedures to monitor claims better.

A governmental unit with 5,400 employees forces workers to complete an "employee report" of an accident.

"Each employee must complete an employee report of injury, stating exactly how, where and why the accident happened and list the names of all witnesses. The supervisor must also put on the claim form his opinion of the accident and verify that the employee's report is correct."

A heavy manufacturing corporation that employs 12,000 workers is in the process of implementing a totally new plan for controlling invalid work comp claims. "This includes better exit interviews, knowledge (on the part of the employee) that we have and will continue to defend out cases and more complete and immediate reporting of accidents," wrote its manager of general insurance.

> 'We are taking a hard line on questionable injury claims,' one risk manager reports.

A retail drugstore chain with 21,000 employees is attacking the problem of increased claims by trying to get employees back to work more quickly through a new rehabilitation program.

"We are instituting aggressive rehabilitation. Evaluation is recommended within 30 days for back and other strain-type injuries."

While companies are looking for new ways to control workers compensation claims, very few of their insurers are attacking the problem with equal vigor.

Of the survey respondents, 24 either purchase insurance to cover all their workers compensation risks or buy insurance in some states and self-insure in others, depending on state laws.

Of these 24, only three said their insurer had instituted any new procedures to verify the validity of workers compensation claims. Eighty-six percent—or 21 of the 24—said their insurer is doing nothing new to control work comp claims.

In fact, the director of risk management for a manufacturing firm with 5,900 employees said his efforts to monitor claims were hampered by his former insurer's lack of cooperation.

"We've attempted to monitor claims adequately for some time, but haven't had the degree of cooperation and communication from our former insurer that we desired," he said.

Others are working more closely with their insurers to have claims monitored more closely.

"We are following up on claim reporting by ourselves and pushing our insurance company harder to investigate claims," said the corporate secretary/treasurer for a small multilocation manufacturer.

The senior financial analyst for another manufacturer said his

Continued on page 42



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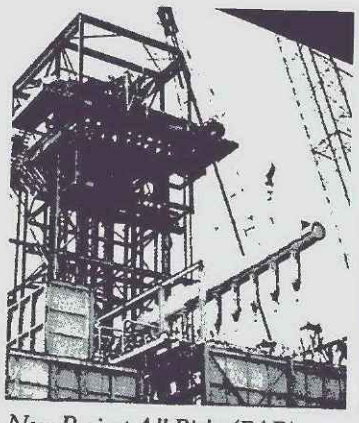
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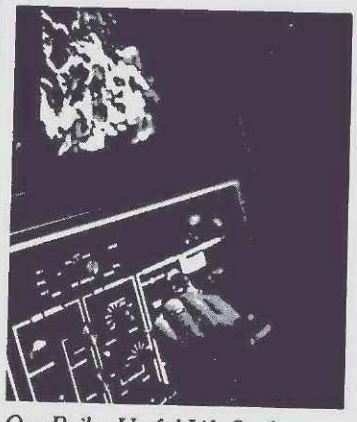
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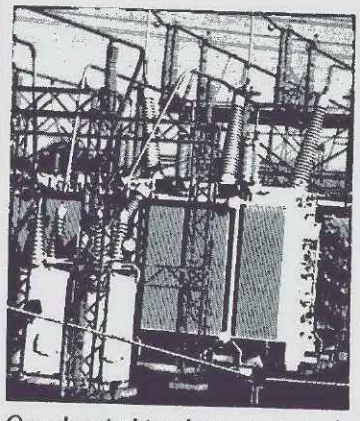
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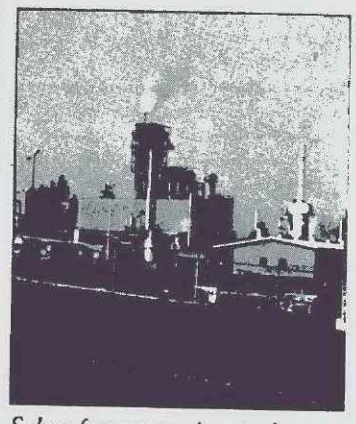
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Firms take closer look at work comp claims

Continued from page 40

company is taking an active role in reviewing claims with both the insurer and witnesses to the accident and is in better contact with the attending physician.

"We are maintaining closer control over carrier claim administration," said the corporate safety and insurance administrator for a heavy equipment manufacturer. "We also have assigned one house counsel to oversee all litigated workers compensation cases."

Some employers are attacking workers compensation claims from other avenues, the survey showed.

More than two-thirds (33) of the respondents pre-screen employees for pre-existing conditions, while 22% do not.

Another third (16) check to see if job applicants have filed workers compensation claims with previous employers. However, none said the filing of a workers compensation claim would bar the employee's hiring.

One risk manager pointed out he has been hampered in his efforts to screen past work comp claims because previous employers are seldom eager to cooperate.

Some employers also have taken specific steps to motivate employees not to file workers compensation claims once they are hired.

Most mentioned instituting safety programs to make employees aware of dangers on job and feel an involvement with the company's efforts to reduce injuries.

Some, however, have gone a little further to make it worth the employee's while to not get hurt.

For example, a small refuse hauling company has instituted an incentive program to reward employees who do not lose time from on-the-job injuries.

A construction and manufacturing company with 5,000 employees determines the size of employee bonuses according to claims costs.

> 'The employee is aware of others who have collected benefits for a very minor or faked injury.'

Several risk managers reported that their companies have reduced the length of the workweek to avoid layoffs and the defeating effect they seem to have on employee morale, which many say prompts employees to retaliate by filing more workers compensation claims.

One government agency, to alleviate the need to lay off workers, allows its employees to take leaves of absence without pay but retain all company benefits while they're away.

A commercial bank, in a move to assure that employees believe their employer treats them fairly and to reduce the desire to file bogus work comp claims, pays workers compensation benefits for employees injured during company-related athletic events.

The Risk Management Board survey also polled respondents on increases in the length of disability leaves during the current recession.

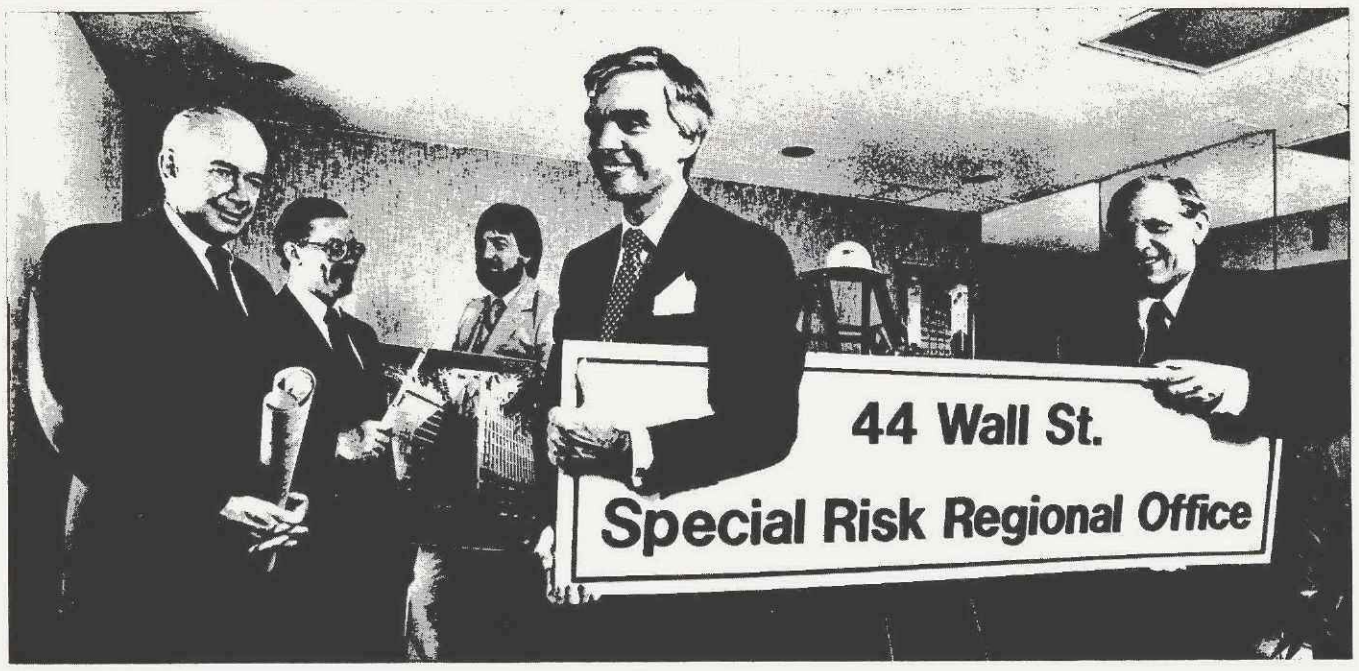
Eighteen respondents, or 37%, said they are seeing a trend among those on disability to stay out longer and resist returning to the job. About 60% of those respondents linked this trend to employees' fears about the future of their jobs.

However, two risk managers who have not seen any increase in the length of disability leaves believe the recession is keeping workers on the job rather than off.

Workers on sick leave are more eager than ever to get back to their jobs for fear that if they stay out too long, their job won't be there when they get back, they say.

•

Risk managers and buyers of property/casualty insurance are invited to join the Business Insurance Risk Management Board. Just send a card with your name, title, company and address, noting you would like to join the Risk Management Board, to Kathryn J. McIntyre, Editor, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611.



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Some employers see patterns in comp claims

In one large Texas public school district, the director of loss control prepares each spring for an onslaught of workers compensation claims from teachers and other employees.

But, the nature of their injuries is rather unusual, he pointed out in his response to the most recent *Business Insurance* Risk Management Board survey.

The school district "has had a dramatic increase in workers compensation claims just prior to school closing in the summer each year since 1974," he explained. "But, employees 'get well' in August and return to work when school opens in September."

He's not the only loss-control or risk manager who is noticing a mysterious pattern to some of the injuries that are being reported.

Fourteen other risk managers, most of whom are receiving more comp claims from their workers this year, also cited patterns to the type of injuries being reported.

For one thing, it's a sure bet that if the number of claims goes up, the number of reported back injuries will increase, too, according to the survey.

Of the 14 risk managers who have seen certain types of injuries reported more often than others, 11 or 79% said back injury claims are on the rise.

"The 'old faithful' mysterious back strain" is the way the insurance administrator for a conglomerate with 3,000 employees phrased it when asked if any type of injury claim is increasing more than others.

While most of the risk managers that reported additional back injury claims work for manufacturing firms, the increases were not restricted to the manufacturing area.

More back injury claims also were reported by an electric utility, a wholesale/retail distributor, a transportation agency, a service company, a government agency and a political subdivision.

The vp of industrial relations for a manufacturer with 1,800 employees pointed out that the injuries that seem to be increasing in number are those that "are not readily or easily diagnosed, such as strains and pains."

Five other risk managers agreed that they had seen more strains and sprains, or as several called them, "soft tissue, nontraumatic injuries."

An increase in stress claims, including claims for heart attacks linked to job stress, was reported by two risk managers—one from a conglomerate with only 3,000 employees and the other by the assistant vp/director of risk management for a company with 27,000 employees that is involved in wholesale/retail distributing, food, agriculture, horticulture and hotels and resorts.

Two other survey respondents cited increases in respiratory disease claims.

"There has been a marked increase in occupational disease-type claims, such as air pollution and asbestosis," said the administrator of workers compensation and employee-oriented programs for a bi-state transportation agency.

He added that his company is fighting all occupational disease claims to attempt to prevent establishment of precedents.

The risk manager for a forest products company also cited an increase in respiratory problems and more back injury and permanent partial disability claims among his firm's 23,000 employees.

Other risk managers said they are handling more claims for impaired vision and hearing, while the corporate insurance administrator for a conglomerate with 3,000 employees said his workers are filing more claims for injuries related to repetitive action trauma. In one case, an employee said being forced to do a job that required he repeat one particular movement again and again caused him to develop a tumor.

Risk Manager of the Year judges named

Continued from page 3

The candidate with the highest aggregate score will be named the Risk Manager of the Year.

A Risk Management Honor Roll will be named including those candidates with the highest scores in each employment category not represented by the winner of the Risk Manager of the Year Award. The employment categories are: large corporation (more than $300 million in sales); small corporation (less than $300 million in sales); government entity; and tax-exempt or not-for-profit institution. A runner-up to the Risk Manager of the Year may be named.

All nominations must be submitted according to instructions and forms available from *Business Insurance*. In addition to the completed forms, each nomination must include a letter from the sponsor, nominating the candidate, and a letter of endorsement of the candidate by an executive of his or her corporation or organization, who can be the candidate's superior or any higher officer. The letter must certify the accuracy of the information submitted in the nomination.

All information submitted in nominations will be held in strictest confidence by the judges and *Business Insurance* and will not be released without permission of the winning candidate.

Requests for nomination forms and instructions should be sent to *Business Insurance*, 740 N. Rush St., Chicago, Ill. 60611, Attn.: Risk Manager of the Year. All nominations must be received by Dec. 6, 1982.

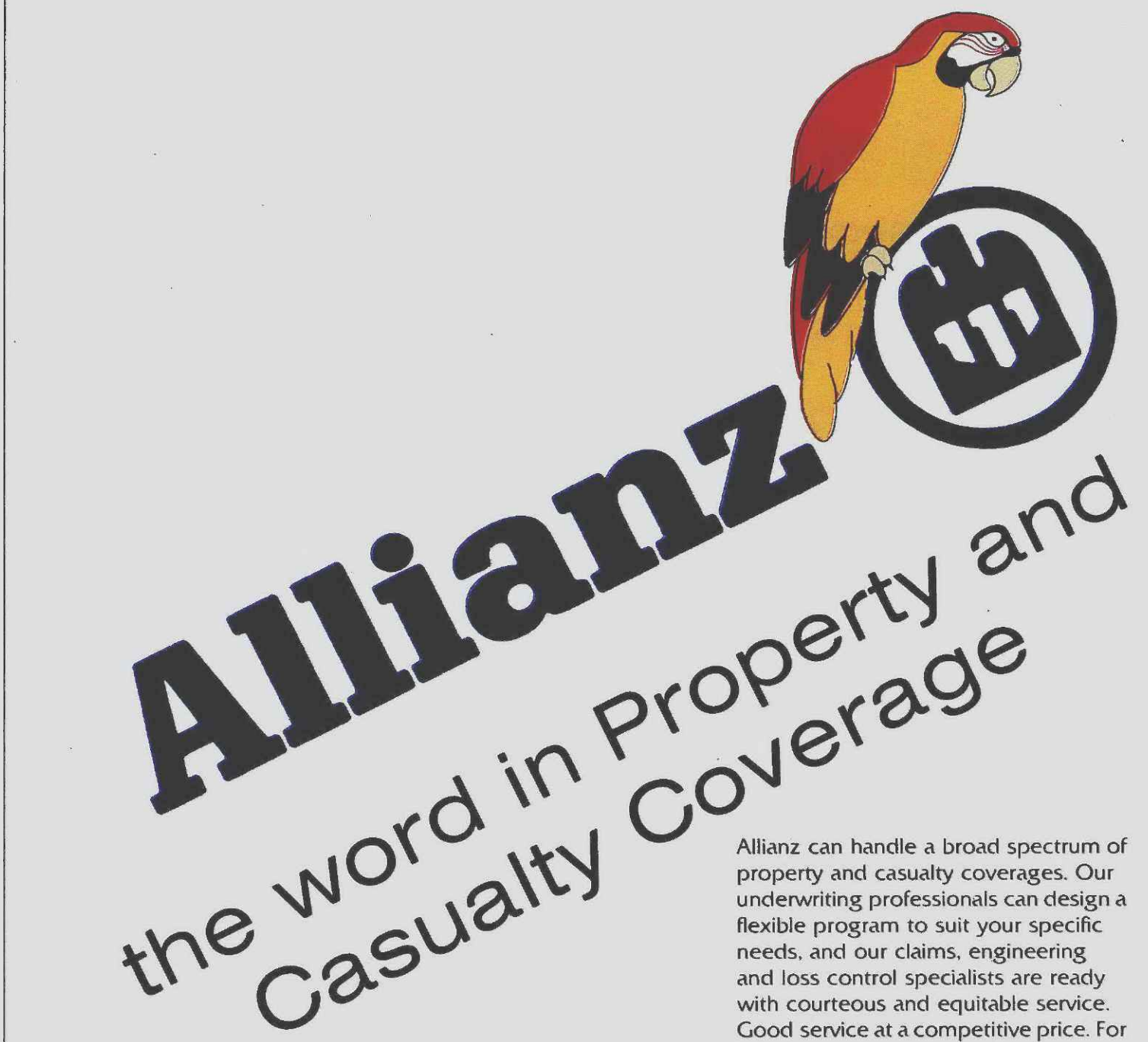
The winners will be announced in the April 25, 1983, edition of *Business Insurance* that coincides with the annual Risk & Insurance Management Society conference. ■

L.A. RIMS chapter to hold conference

LOS ANGELES—The Los Angeles Chapter of the Risk & Insurance Management Society will hold its 26th annual one-day conference Oct. 12.

The theme of this year's conference is "Government's Contributions to Risk Management and Insurance." Topics will range from "The Legislative Process—Initiation to Enactment" to "The Positive Tax Aspects of the 1981 Tax Act."

For more information contact Catherine M. Bennett at 213-553-6262 or Pamela A. Kofmehl at 213-981-6840. ■



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Armstrong rolls out improved benefits

benefit beat

Armstrong Rubber Co., the nation's sixth-largest tire manufacturer, is offering its employees a new vision care program and improved health, life, short-term disability, prescription drug and pension benefits.

The company, based in New Haven, Conn., is also increasing retirees' pensions and benefits for surviving spouses and is further extending life insurance coverage to laid-off workers.

The upgraded benefits, the result of contract negotiations with the United Rubber Workers, went into effect Aug. 5 for 2,893 URW members and 1,500 salaried and other non-union hourly workers.

For the first time, the company is offering employees and their dependents a vision care program, which provides for one eye examination and a set of lenses and frames or, if medically necessary, a set of contact lenses every 24 months.

The plan, underwritten by Vision Services Plan of McKeesport, Pa., pays for the examination, lenses and frames if the employees have services performed by an approved practitioner. The plan pays reasonable and customary charges for services performed by other practitioners.

The plan also will pay up to $70 for contact lenses for cosmetic purposes.

The employee must pay a $5 deductible per examination and a $10 deductible for lenses and frames. Employees do not have to make premium contributions.

Armstrong's medical coverage now provides employees with a maximum $1,600 for X-rays and therapy, a $450 increase. Inpatient physician visits now are covered to a maximum of $35 for the first visit and $20 for each visit thereafter. Previously, the plan paid $25 for the first visit and $17 thereafter.

The plan will now pay $60 per claim for in-hospital therapy and treatment for nervous disorders, a $15 rise. The maximum benefit for such treatment has been increased to $1,500 per year, up from the previous $1,125.

Chiropractic visits have been limited to a maximum of 30 per year. The old plan paid for unlimited visits to a chiropractor.

The major medical annual maximum has been increased to $100,000, up from $75,000, for active employees and boosted to $60,000 for retirees, a $20,000 increase. The new lifetime maximum is $400,000 for active workers, up from the previous $300,000. There is no lifetime maximum for retirees.

Major medical coverage requires a $100-per-person deductible and a 20% co-payment on all charges. The health plan is underwritten by Connecticut General Life Insurance Co., which also underwrites Armstrong's life and short-term disability plans.

Life insurance has been upgraded to provide an additional $2,000 of coverage to all employees. Workers with less than five years of service now receive $15,000 in life coverage, while those with more than five years of service receive $15,500.

Employees do not have to make premium contributions for life coverage, but can elect to purchase additional life coverage through payroll deductions. They can also boost their coverage by 50% or 100% for an added premium.

In addition, employees can purchase $5,000 of life coverage for their spouse and $2,000 for their children through payroll deductions. These amounts can be increased if the employee increases his or her own coverage.

Laid-off workers now recieve life insurance benefits for up to 30 months instead of the previous 24 months.

Benefits paid under Armstrong's short-term disability plan have been increased to a maximum of $150 per week for a maximum of 52 weeks. The benefit will be increased to $170 per week next July and will be boosted again in 1984 to $185 per week.

The company's prescription drug plan now includes the purchase of syringes and injectable medicines. The plan, underwritten by Pharmaceutical Card System, a prescription drug plan underwriter, covers 100% of purchases less a $1-per-purchase deductible. Armstrong pays the entire premium for the plan.

Pension benefits for both active workers and retirees have been increased. Active workers will now receive a monthly pension of $16.50 a month multiplied by the number of years worked at Armstrong. The former pension base was $15 a month.

For retirees, pension benefits will increase by 50 cents, multiplied by the number of years worked.

Surviving spouses now will receive $300 a month, up from the previous $200, until they remarry, die or reach age 62.

401(k) plans

Although the Internal Revenue Service has not finalized regulations governing salary reduction plans, many are being established, although most contain conservative rules.

Most of the plans now set up only allow an employee to receive a tax deferral on 5% of his or her annual pretax salary, explains Joel F. Levy, a principal with consultant Coopers & Lybrand.

The companies are setting up plans with relatively low deferral rates so that the IRS will not later rule that their plans discriminate against lower paid workers who cannot afford to defer a large percentage of their wages for retirement.

Some companies allow employees to contribute more than the established deferral rate, but do not allow tax savings on the additional amount.

In the plans set up so far, Mr. Levy estimates that about 70% of the participants take advantage of additional salary deferral, despite the lack of tax savings.

To avoid withdrawal problems, some firms allow employees to freely withdraw non-tax-deferred contributions, Mr. Levy says. Deferred contributions however, can only be withdrawn in hardship situations.

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Benefit beat keeps benefit managers informed on what others are doing and of current developments in the employee benefit field. We'd like to know if you've made any changes. Write James Lawson, Business Insurance, 220 E. 42nd St., New York, N.Y. 10017; 212-210-0143.

MCAUTO ENTRY

COMPUTER SERVICES NEWS

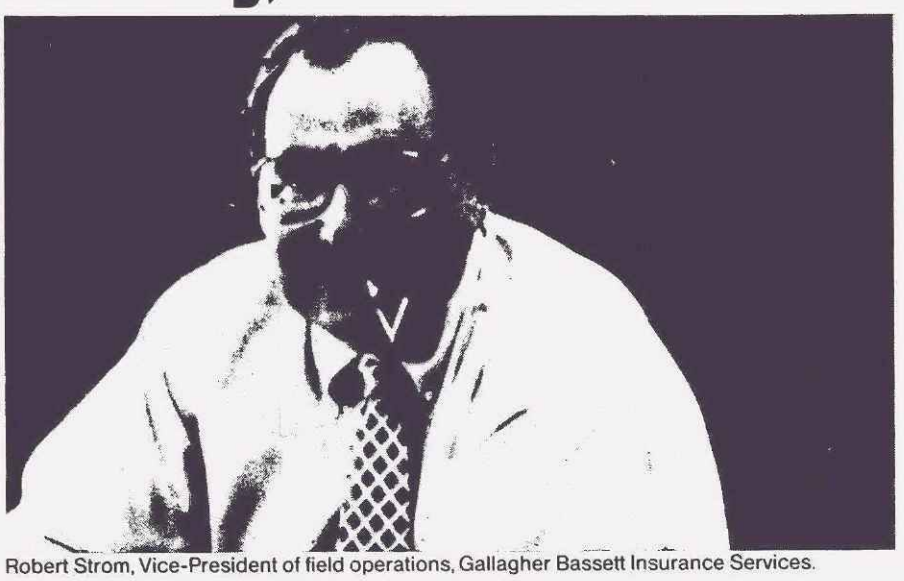
Automated group claims reporting boosts productivity, attracts clients.

Gallagher Bassett: MCAUTO system provides a competitive edge.

The Gallagher Bassett Insurance Services, Division of Arthur J. Gallagher & Co., a national administrator of self-insurance plans, found that the MCAUTO group claims reporting system (GCRS) does more than decrease paperwork; it's responsible for attracting as many as four new clients in a single month.

According to Robert Strom, vice-president of field operations, the system allows the company's employee benefits administration division to offer better client service.

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Robert Strom, Vice-President of field operations, Gallagher Bassett Insurance Services.

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MCAUTO GCRS handles all types of health benefits including medical, dental, orthodontia, vision care, prescription medication, and weekly indemnity. At Gallagher Bassett, it has substantially improved accuracy and efficiency.

Strom states, "Before GCRS, our monthly reports were released 35 days after close of business for the claim month. Now reports are ready for distribution by the third working day. Daily claims output is up 30%.

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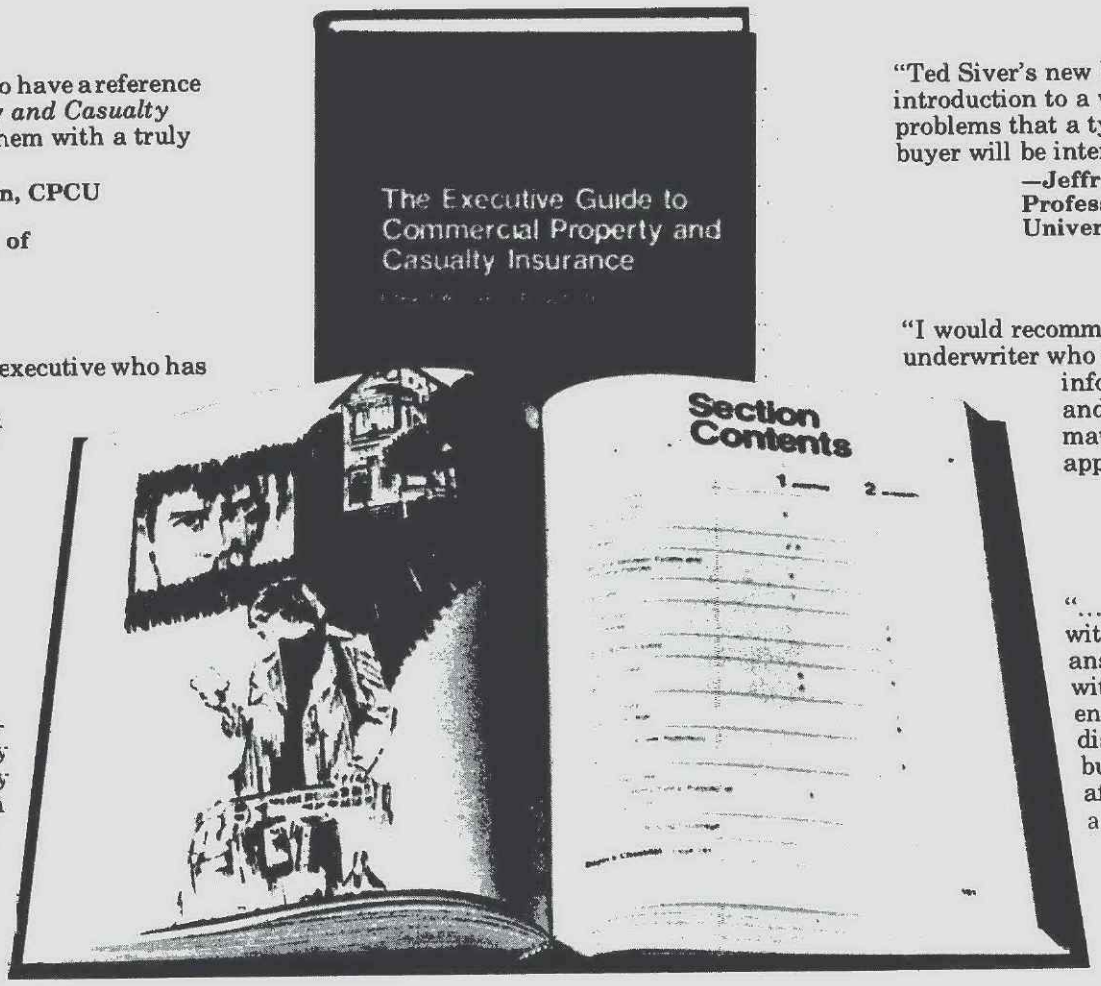
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Siver shows you how to locate the answers to your questions in seconds. Each section contains questions and answers dealing with a particular line of coverage plus a glossary of terms, and a buyer's checklist. Just look what you get:

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About the Author

Ted Siver, CPCU, CLU, the founding principal of E.W. Siver & Associates, has been very active in the insurance industry for over 25 years as a broker and consultant. He has contributed numerous articles to such publications as *Business Insurance, Agent & Broker,* and others.

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Open comp rating reducing costs for Oregon employers

Continued from page 1

plier members.

"Many employers are being charged less for workers compensation insurance than in California or Washington—that's a welcome change," added Mr. Kalinoski.

Employers that self-fund their work comp costs are angrier about the assessment hike because it is not offset by reduced insurance costs. The dramatic increase is fueling a long-standing dispute between self-insurers and the workers compensation department.

The controversy focuses on the way the department converts self-insurers' payrolls to an estimated premium upon which the assessment is based. The workers compensation department has made some concessions, but it is discussing further changes with members of the Oregon Self-Insurers Assn.

"All we want is something equitable to all classes of employers," declares Dick Hart, manager of workers compensation at Willamette Industries in Portland and current president of the self-insurers association. Self-insurers want assessments to be based on paid losses rather than on an arbitrary premium conversion, he explains.

The workers compensation department needs $55 million this year, compared with $44 million last year, reports Larry Young, administrator of the department's compliance division. He says the big jump in the assessment is caused by three factors:

- Lower insurance rates and shrinking employment payrolls have depressed the premium base upon which the assessment is calculated. That base, which includes the payroll conversion factor for self-insurers, will be only $330 million in 1982, compared with $426 million last year, according to department estimates.
- The vocational rehabilitation program, which consumes 42% of the department's budget, is experiencing heavier use and fewer job placements due to poor general economic conditions in Oregon.
- New duties and responsibilities of the department have increased the general staff workload. This includes the extra administrative duties open rating creates.

Self-insurers have a clearer notion than employers that buy insurance of how much the higher assessments will take out of their pockets. Myriad changes in the way commercial insurance rates are calculated make it difficult to compare total program costs before and after July 1.

The assessment to fund the workers compensation department used to be included in the rate; now it is treated as a separate item added onto a policyholder's insurance bill. Previously, many policyholders were unaware that premium payments contained an assessment collected by the insurer but paid to the state.

There also has been a proliferation of rate classifications. A company whose employees formerly were lumped into one classification for rating purposes today may find its workforce divided into two or more categories according to the riskiness of individual jobs.

This differentiation helps many employers to pay lower insurance premiums, but obscures the impact of the higher assessment on their total program costs.

"We are trying to give more recognition for finer distinction between risks," explains Everett Brookhart, division manager of Industrial Indemnity Co. in Portland.

Another way of achieving this distinction is through use of separate insurance company subsidiaries. In Oregon many insurers have formed "pup" companies to write preferred risks at reduced rates.

Industrial Indemnity, which already uses two insurance companies to write workers compensation risks in Oregon, plans to introduce a third company this month. Other insurers also may add subsidiaries in reaction to rates filed by their competitors in July. All companies will be permitted to refile rates Jan. 1.

"Competition has intensified since file-and-use went into effect," says Lee Briggs, resident vp and division manager of Fremont Indemnity Co. It's also causing some confusion for buyers, he believes.

Many employers are accustomed to receiving a large dividend at the end of the policy period based on individual loss experience and the insurer's profitability. Lower rates now offered through file-and-use create a substantial front-end insurance cost reduction, but eliminate or minimize the back-end dividend.

Despite the dynamic workers compensation environment, Mr. Briggs believes most employers have stayed with the same workers compensation insurer.

"Surprisingly enough, there hasn't been too much shifting around," he says. "We've been able to retain 98% of a small book of business."

Mr. Everett agrees that most buyers have stayed put. The competition appears to be fairly equally distributed among insurers, he believes.

Employers Insurance of Wausau, a Mutual Company, sees things differently.

"We wrote 107 new policies worth $2.5 million in premium on July 1," says Everett Anderson, regional manager. He estimates that the company lost about $150,000 in business at the same time.

The July renewals represent about a 25% increase in the company's Oregon workers compensation business, adds Mr. Anderson. "And we have almost as many requests for quotes on new business for Oct. 1 as we did July 1."

Employers of Wausau was one of the last major workers compensation writers in Oregon to offer deviated rates that reduced standard manual rates. Now that it is offering competitive rates again, it is attracting a bonanza of new policyholders.

Proponents of open rating in Oregon predicted that the competitive system would bring self-insurers back into the commercial insurance fold. Many Oregon employers began self-funding their workers compensation risks when rates in the state became among the highest in the nation.

So far, there's no evidence self-insurers are returning to the commercial market, but many industry observers still believe they will.

"I don't think we'll see evidence for that soon," says Mr. Anderson. "But I have a hunch that we might see it eventually. There are lots of self-insurers in the state that are not terribly large and who might save money buying coverage."

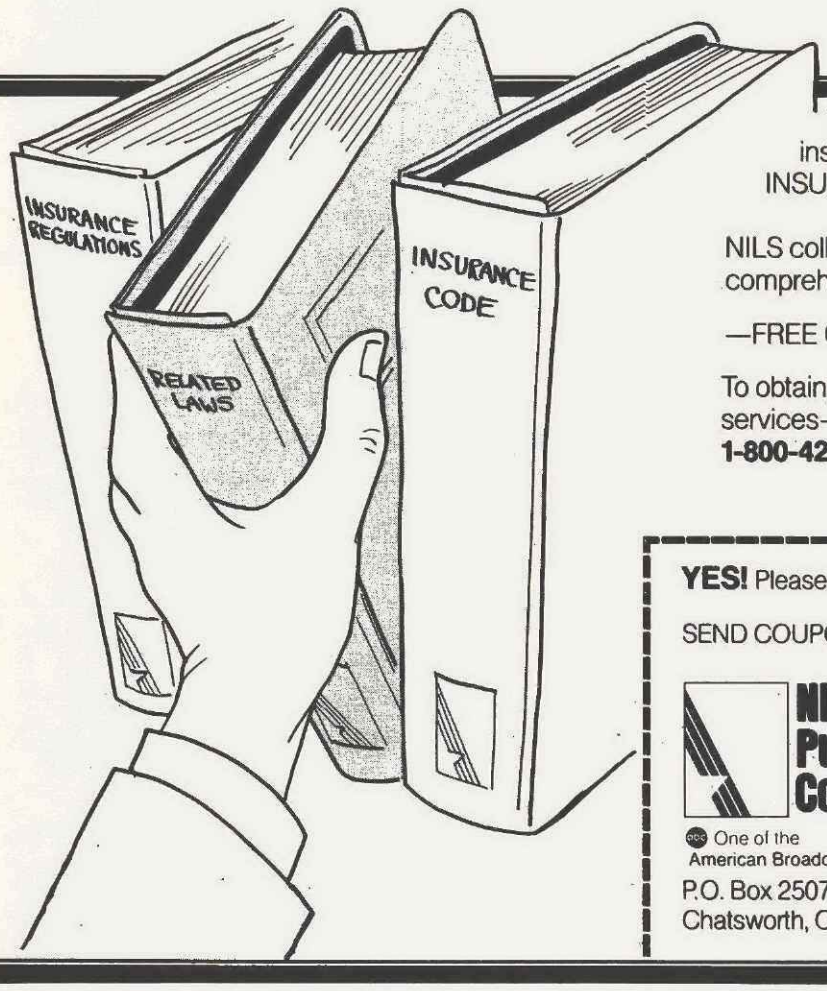
If current economic conditions in the Pacific Northwest persist, some formerly large companies could become a lot smaller, another insurance company executive pointed out.

Oregon Insurance Commissioner Josephine M. Driscoll also is pleased with the state's open rating experience to date.

"We don't want to go too far too fast," she says. "But we're getting lots of competition and that's what we were striving for." ■

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Risk Management Board Survey	SEP 20	Sep 8
EMPLOYEE BENEFITS: PERSONNEL ADMINISTRATION	SEP 27	Sep 14
	OCT 4	Sep 22
FINANCIAL SERVICES: FOR CAPTIVES & SELF-INSURERS	OCT 11	Sep 28
Employee Benefits Board Survey	OCT 18	Oct 6
REINSURANCE: NAII Conference	OCT 25	Oct 12
	NOV 1	Oct 20
NEW ENGLAND MARKET REPORT	NOV 8	Oct 26
Risk Management Board Survey	NOV 15	Nov 3
INTERNATIONAL INSURANCE	NOV 22	Nov 9
	NOV 29	Nov 17
	DEC 6	Nov 23
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Stockholder suit

DENVER—A stockholder is suing Manville Corp.'s officers and directors over the company's Chapter 11 bankruptcy petition.

A New Jersey couple filed suit Sept. 8 for an unspecified sum against 11 Manville officers and/or directors, charging the company should have told stockholders as far back as five years ago that its asbestos liability could force it to file a petition for reorganization.

Lawyers for Jeffrey and Linda J. Herrmann of Fair Lawn, N.J., seek actual and punitive damages and certification of a class action to include all those who purchased Manville common stock from June 1978 through Aug. 26, 1982,—the date the company's reorganization petition was filed.

The suit, noting provisions of the bankruptcy laws that stay the filing of any suits against a debtor, does not name Manville. ■

Cases proceed without Manville, UNR

Continued from page 2

are telling courts across the nation that it's not fair for them to remain open to claims. In five courts, those pleas have been denied:

- On Sept. 15 in Chicago, U.S. Bankruptcy Judge Edward B. Toles ruled the automatic stay provisions of Chapter 11 are not intended to protect defendants who have not filed for bankruptcy. Judge Toles, who is presiding in UNR's bankruptcy petition, vacated an order by another bankruptcy judge that had extended the stay to other defendants.
- On Sept. 14 in San Francisco, Chief Judge Robert F. Peckham of the U.S. District Court for the Northern District of California ordered both Manville and UNR severed as defendants in asbestos cases with multiple defendants and directed that claims may proceed against other manufacturers.

"These plaintiffs should not be denied a forum in which to pursue their claims against those defendants who remain unshielded by the bankruptcy laws," Judge Peckham wrote in a ruling that ultimately will affect about 70 cases filed in the court.

- On Aug. 11 in Tyler, Texas, Chief Judge William J. Justice of U.S. District Court for the Eastern District of Texas ordered UNR severed as a defendant in about 60 cases before him and ordered claims against UNR stayed. The order did not apply to Manville, which had already settled with plaintiffs in those cases and was no longer a defendant. Also, Judge Justice's ruling came before Manville filed for reorganization.

Some 527 cases could be affected by Judge Justice's ruling.

- Two trials set for Sept. 13 in Norfolk, Va., were canceled after four asbestos defendants agreed to pay $120,000 per plaintiff to settle the actions, according to Richard S. Glasser, a local plaintiffs' attorney handling hundreds of cases involving the naval shipyard in Norfolk.

He said the four defendants—Pittsburgh Corning Corp., Raybestos-Manhattan Inc., Celotex Corp. and Eagle-Picher Industries Inc.—agreed to settle after U.S. District Judge John A. McKenzie severed Manville from both cases and set a trial date. UNR had been severed from the litigation earlier because of its bankruptcy petition.

However, Mr. Glasser says that, if necessary, he will proceed against Manville and UNR in bankruptcy court to get damages from them also.

- In U.S. District Court in Oklahoma earlier this month, Judge Thomas R. Brett told asbestos-litigation attorneys in a letter that he intends to go ahead with all cases in his jurisdiction after severing Manville Corp. and its subsidiaries. UNR is not a named defendant in the cases.

Defense attorneys in the cases say they are seeking a temporary stay of all litigation on grounds other than the bankruptcy issue.

Judges in other asbestos cases across the nation have either allowed litigation to continue against Manville and UNR despite their Chapter 11 petitions, or have temporarily halted proceedings against all asbestos defendants while the judges decide which path to take. ■

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Insurance Management: vps, directors, managers of insurance, risk, benefits, compensation, safety, security, etc.	5,948
Government, Associations, Unions, Educational Institutions	1,004
Commercial Consumers Sub-total	**23,083**
Insurance Agents & Brokers	9,629
Insurance Cos.	4,944
Financial Institutions	314
Actuaries, Attorneys, Adjusters, Appraisers & Consultants	2,408
Others allied to the field	854
TOTAL	**41,232**

*Source: Business/Occupational breakdown of qualified circulation, May 3, 1982 issue, as submitted to BPA for June 1982, BPA Publisher's Statement.

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Broker planning ski competition

LOS ANGELES—If you missed the insurance industry ski race in France earlier this year, and even if you didn't, here's a chance to strut your stuff on slopes this side of the Atlantic.

The first U.S. Insurance Ski Race will be held Sunday, Feb. 27, 1983, at Mammoth Mountain Ski area in California. All risk managers, insurance company personnel, brokers and others who work in the industry are invited to participate.

"Here's a chance for people in the same business to meet and share a common interest in an exciting sport," says Eric Petersen, a broker with Frank B. Hall & Co. in Los Angeles, who is organizing the event.

Two races will be held, one in the morning and one in the afternoon. The first race will be an individual slalom event. Two courses will be skied once with the best combined time winning.

The second race will be a team event if enough teams enter. Each team will consist of four members from the same company or organization. The winners of each heat will advance until only two teams are competing for the gold medal.

An award presentation ceremony and party will follow the races.

There is a $6 entry fee per individual. Those interested should make their checks payable to Mammoth Mountain Ski Area and mail them to Eric Petersen, Frank B. Hall & Co., Southern Division, 3200 Wilshire Blvd., Los Angeles, Calif. 90010.

For information, Mr. Petersen can be reached at 213-386-8553. ■

ISO vp says rates to rise next year

Continued from page 2

limited to one or two areas or product lines, he explained.

"It's not just a few problem states that are pushing up the overall combined ratio. A high combined ratio is now and will be common to most states.

"And remember, these dismal but realistic forecasts assume no unusual catastrophes, no devastating natural disasters. An investment disaster will only compound the problem," Mr. Marcon said.

Losses, according to ISO statistics, are spread throughout major commercial insurance categories:

- Commercial auto insurance lines reached a combined ratio of 112% in 1981, and is likely to reach 118% by the end of 1982. The combined ratio for the lines will climb to 120% by 1983.
- Comprehensive general liability lines generated a combined ratio of 116% in 1981, will grow to 120% in 1982 and will go even higher in 1983.
- Commercial multiperil insurance is also generating combined ratios comparable to the other coverages, ISO says.

"Premiums have to achieve a closer relationship with underlying loss cost. If not, insurers' bottom lines are going to fall to the floor," Mr. Marcon remarked. "Cost-containment efforts won't be enough. The people in our industry know that premiums have to go up—it's sooner rather than later—to have impact on any 1984 results."

But rates must rise in reasonable increments, Mr. Marcon added, if insurers want to avoid the coverage and rate crises of the mid-1970s. When rates rose anywhere from 30% to more than 100% in the mid-1970s, insurance buyers turned to alternative risk financing methods to get coverage that was unavailable from insurers.

"Captives and self-insurance were self-inflicted wounds upon the insurance industry," Mr. Marcon said. But if rate increases are planned carefully and communicated properly to buyers, most buyers won't switch. ■

RIMS chapter elects officers

WASHINGTON—Alex Riebe Jr. of the American Bankers Assn. has been named the new president of the Potomac Chapter of the Risk & Insurance Management Society.

Other newly elected officers are:

- Vp-member services—Susan Stevens of Communications Satellite Corp. in Washington.
- Vp-programs—Alice Bryan of the Smithsonian Institution.
- Vp-communications—Kathy Bayly of MCI Telecommunications Corp. in Washington.
- Secretary—Lynn Gold of Allegheny Beverage Co. in Cheverly, Md.
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Crash may tighten aviation market further

Continued from page 2
tive damages. But the agreements place no limit on the liability of airframe manufacturers or engine suppliers.

Early speculation about a possible engine malfunction and problems with rear emergency exit doors, combined with no liability limit for manufacturers, will likely draw both McDonnell Douglas Corp., which built the DC-10, and General Electric Co., which made the engines, into many U.S.-filed lawsuits, insurance sources added.

McDonnell Douglas is one of the defendants in the most costly aviation disaster, the May 1979 American Airlines DC-10 crash near Chicago that killed 273 people.

Officials at Overseas National Airways Inc., a New York-based charter airline, confirmed that Spantax purchased the DC-10-30 hull from ONA in 1979. ONA said the craft contained 380 seats when it was sold and was equipped with General Electric CF-6 engines.

Some versions of the DC-10 are equipped with Pratt & Whitney engines.

Spantax insured the DC-10 hull for about $35 million, Mr. Clark said. Another hull policy purchased paid only if the plane was a total loss, which may have raised its insured value to $37 million, an aviation reinsurer said. Mr. Clark said the total-loss-only policy is minimal.

Both policies were 98% reinsured by Lloyd's of London and the London insurance market through a Spanish government group of insurance companies called La Equitativa & Agara, he said.

Liability insurance totaling 30 billion pesatas ($263 million) was 99% reinsured in the London market through La Equitativa, Mr. Clark said.

So far, Spantax's underwriters have paid for airfares of surviving passengers who wanted to travel on to New York, plus any hotel expenses they may have incurred. They also will pay more than the normal standard of $500 per package for any baggage that has been lost, said Mr. Clark.

Spantax's underwriters and the Spanish government are examining the crash site to discover what caused the accident. The National Transportation Safety Board in Washington also sent a senior investigator to Malaga to help Spanish authorities determine the cause.

An NTSB safety official said it was too early to tell whether the aircraft's cockpit voice recorder and digital flight data recorder would be analyzed and read by U.S. or Spanish experts.

Some passengers on the ill-fated airliner reported that they heard strange engine noises before it took off. ■

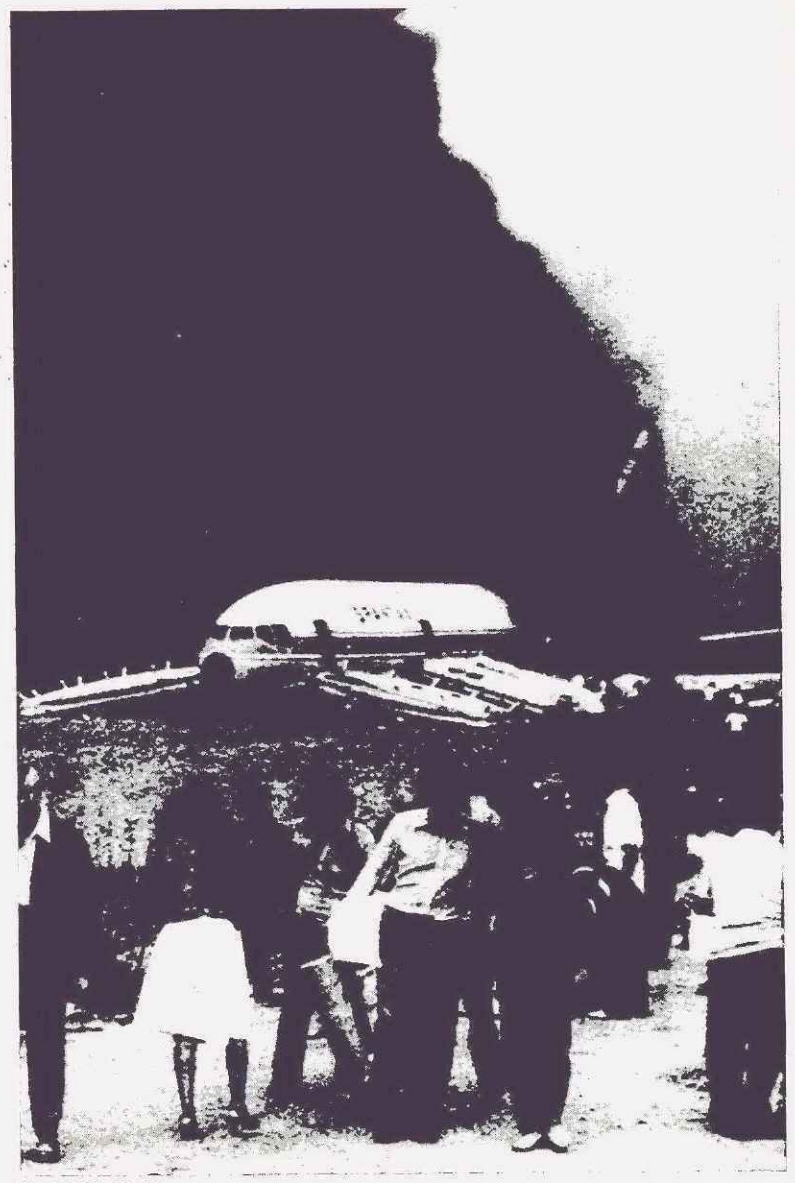


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Some survivors of the DC-10 crash were able to walk away.

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Satellite losses could boost rates

Continued from page 2
could be declared a total loss.

Underwriters may also recalculate premium rates for satellites launched by the European Space Agency after its second commercial launch failed earlier this month.

Underwriters earlier raised rates after a test launch failed.

Other Ariane launches will probably be delayed, said Mr. Shimrock, but he added that he is still placing an insurance program for a pair of European communications satellites.

The first of the spacecraft is scheduled to be launched by an Ariane rocket in January. "I do not know whether the premiums will be affected, but we hope not," he said.

Two satellites were lost when the Ariane rocket failed just 14 minutes after launch.

The SIRIO II meteorological satellite owned by the Italian government was not insured, said the ESA spokesman.

However, The MARECS B telecommunications satellite, owned by INMARSAT, an international maritime satellite consortium, was covered by a $20 million launch insurance policy, an ESA spokesman confirmed.

The satellite also was insured under a two-satellite package for $82.5 million, Mr. Shimrock confirmed.

The policy, though, had a one-satellite deductible. The first MARECS satellite was successfully launched earlier this year, so the deductible is applied to this loss.

Underwriters may ask for similar one-launch deductibles for every satellite program scheduled to be launched by Ariane rockets, sources say.

Mr. Shimrock says, however, the European communications satellite to be launched in January will be insured. "We cannot financially afford a failure," he said. ■

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British insurers report sagging profits

By ALAN H. CLIFTON
and PHIL V. OLSEN
Special to Business Insurance

THE PROFITABILITY of British property/casualty insurance companies collapsed in the first half of 1982. The damage was partly the consequence of the highly competitive state of world insurance markets, but it is chiefly being blamed on the severe winter weather in the United Kingdom, Europe and North America.

Of the 150 million-pound (approximately $265.5 million) decline in pretax earnings posted by the six largest companies (Eagle Star excluded), 135 million pounds ($230.9 million) has been attributed to the harsh weather in Britain alone.

While the deep freeze that hit Britain last January was certainly accompanied by an exceptional increase in claims in the first half of 1982, it would be wholly misleading to infer that, had the winter been mild, the British property/casualty insurance companies would have posted an additional 135 million pounds in pretax earnings for the period.

Such results would mean that the industry's profits declined only slightly for the first half of 1981, an outcome that would have been totally at odds with the conditions that now exist in the major insurance markets of the world, even after allowing for buoyant investment income.

Perhaps it is only human nature to seek to explain a severe setback by referring to a single factor or occurrence that is outside a person's or company's control. Thus, the major British insurers may well be deluding themselves that the weather is wholly to blame for their dismal performances. On the one hand, they continue to grumble about the perilous state of competitive market whilst, on the other, they are busily compiling figures to explain just why their earnings have collapsed.

The truth is that, by and large, underwriting conditions worldwide continue to worsen and that a heavier-than-usual incidence of catastrophes is tending to exacerbate the problem. The danger in seeking to explain poor results by reference to specific catastrophes is that the managements of the property/casualty insurers may not immediately take the measures that are necessary to correct their perilous underwriting postures.

The sooner disappointing results are attributed to inadequate pricing and/or excessive expense levels, the better.

For the record, the British property/casualty insurer that has so far posted the best earnings performance for the first half of 1982 is Guardian Royal Exchange Assurance P.L.C. The insurer, Britain's fourth-largest, has a broad spread of operations around the globe and has recently been adding to its U.S. interests. Its net earnings declined only 17% in the first half, a considerably better showing than the average earnings decline of 58% posted by the other five insurers surveyed.

The other comparatively good performer was Royal Insurance P.L.C., despite the relatively poor results from its U.S. subsidiaries. Like Guardian Royal Exchange, Royal is strong in Australia and Canada. Although both markets remain decidedly unprofitable for insurers, the good news is that they are not nearly as bad as they were last year, following some hefty rate hikes that are, for the most part, sticking.

The other major British property/casualty insurers had few things go right for them in the first half. Sun Alliance & London Insurance P.L.C. suffered more than most from the harsh winter weather in the United Kingdom since it heavily underwrites homeowners and commercial property coverages. Phoenix Assurance P.L.C. likewise seemed to suffer most from poor results in its home territory.

Meanwhile, Commercial Union Assurance P.L.C. and General Accident, Fire & Life Assurance Corp. P.L.C. suffered severe losses in the United States as well as in Britain. CU saw its combined ratio rise to 115.8%, despite a hefty rise in premiums written. British investors have yet to be fully convinced that the company's bold growth strategy in the United States will pay off and, in the interim, are worried by the number of times the company is mentioned in asbestos coverage litigation.

General Accident has taken a lower profile, and misgivings about its long-term strategy arise far less frequently. Nonetheless, according to our projections, General Accident stands to suffer the sharpest earnings decline of all the major British insurers.

Turning to the Lloyd's of London brokerages, the main focus of recent attention has been the problems within Alexander Howden Group P.L.C. that have been discovered since its acquisition by New York-based Alexander & Alexander Services Inc.

Most of Howden's problems are well-known by this time (*BI*, Sept. 3), and we can do no more than echo the concern of many members of the British insurance community at the potential damage that the whole episode could have upon the standing of the London market.

Quite apart from the immediate problems that A&A is facing from asset shortfalls, increased goodwill amortization and the new-found practice of diverting its own assets into underwriting, A&A's long-term strategy of transferring its business from other Lloyd's brokers to Howden may now need an added dose of public relations if clients are to be persuaded to sever their ties with their current Lloyd's brokers.

As this time, none of the independent Lloyd's insurance broking groups—with the exception of Minet Holdings P.L.C.—has posted any results for the first half of 1982. Minet, in which Corroon & Black Corp. has held a 20% share for two years, has attracted another major U.S. shareholder, The St. Paul Cos. Inc., which bought 20% of the brokerage about two months ago.

In the first quarter of the year, Minet posted a 134% increase in pretax earnings to 2.8 million pounds ($4.8 million), but this was not a representative quarter for Minet and these increases should not be taken as indicative of their full-year gains. The weakness of the British pound against the U.S. dollar had a material influence on the results and the outcome was also affected favorably by certain shareholding changes.

Elsewhere, the progress from C.T. Bowring & Co. Ltd., Marsh & McLennan Cos. Inc.'s British subsidiary, has been good enough to inspire the parent to approve the publication—two years after the acquisition—of separate first-half results.

Those figures have been sanitized following the disposal of most of Bowring's non-insurance interests, but they reveal a 33% increase in brokerage operating revenues to 45 million pounds ($77 million pounds) and a near doubling of operating earnings to 14.3 million pounds ($24.5 million). Pretax earnings, after the inclusion of affiliates, residual non-insurance interests and the group's underwriting subsidiaries, increased by about 75% to 19.2 million pounds ($32.8 million) from 10.9 million pounds ($18.3 million).

Although Bowring's results have benefited significantly from the weakness of pound against the dollar—particularly in the dollar-dominated reinsurance and London market activities—it seems doubtful whether any of the independent Lloyd's brokers, even allowing for the favorable effect of exchange rates, will be able to perform quite so well.

The first-half results from Willis Faber P.L.C. and Sedgwick Group P.L.C. are due momentarily. They are generally expected to be good, with increases in pretax earnings of around 30% possible. However, the companies may temper that good news with cautionary insight into second-half prospects. Exchange rate comparisons seem likely to be much less favorable, significantly lower interest rates will erode investment income, there may less room to further cut expenses and there remains, as yet, no sign that premium rates will rise substantially. At the same time, the brokers are not going to find their task of securing problem reinsurance recoveries any easier than they have to date. ■

Alan H. Clifton, left, and Phil V. Olsen are analysts with London-based Kitcat & Aitken. They report quarterly on the British insurance industry for Business Insurance, in addition to supplying weekly earnings reports on British companies for BI Ticker.

BI ticker

British Issues

14 Sept Companies	Price pence	P/E	Div. pence	Yield %	1 Week High—Low pence	pence
Commi Union	130	13.7	16.86	13.0	135—	130
Eagle Star	340	12.1	21.43	6.3	340—	334
Genl Accident	316	11.7	23.21	7.3	316—	312
Gdn Royal Exch	326	8.3	25.00	7.7	332—	326
Phoenix	274	10.5	14.00	8.8	276—	272
Royal	398	10.8	36.07	9.1	400—	393
Sun Alliance	790	11.3	61.43	7.8	790—	786
Brokers						
CE Heath	340	9.3	18.71	5.5	345—	340
Hogg Robinson	105	8.1	8.57	8.2	108—	105
JH Minet	135	12.3	5.43	4.0	136—	135
Sedg Grp	168	10.8	8.57	5.1	175—	168
Stenhouse Hldg	103	9.1	7.28	7.1	107—	103
Stew Wrightson	267	9.5	18.57	7.0	277—	267
Willis Faber	492	12.3	21.43	4.4	498—	490

Source: Philip Olsen/Alan Clifton, Insurance Industry Specialists Kitcat & Aitken Stockbrokers, London

BI Industry Stock Report

SEPT. 14, 1982 — 9/8/82 THRU 9/14/82

Insurance Cos.		Price	% Chg.	P/E	$ Div.	% Yld.	High	Low	Vol. (000)
Aetna Life & Cas Co	NYSE	35.63	-5.6	5.7	2.52	7.1	37.50	35.63	935.6
American Bankers Ins Group	OTC	9.00	0.0	6.7	0.48	5.3	9.38	9.00	174.1
American Gen Ins Co	NYSE	41.00	1.9	5.6	2.20	5.4	41.00	40.25	157.9
American Indty Finl Corp	OTC	13.63	0.0	10.2	1.12	8.2	13.63	13.63	13.2
American Intl Group Inc	OTC	69.00	0.7	10.5	0.48	0.7	69.25	67.75	298.9
American Natl Ins Co	OTC	13.75	0.0	5.9	0.76	5.5	13.75	13.75	8.4
American Sts Life Ins Co	OTC	17.50	0.0	5.6	0.80	4.6	17.50	17.50	1.7
Aneco Reins Ltd	OTC	2.75	0.0	0.0	0.00	0.0	2.75	2.75	4.8
Avemco Corp	AMEX	10.88	-6.5	6.8	0.54	5.0	11.50	10.88	21.8
Banks Iowa Inc	OTC	36.00	0.0	6.8	1.48	4.1	36.50	36.00	8.2
Bitco Corp	OTC	27.50	0.0	4.3	1.92	7.0	27.50	27.50	6.8
Carolina Cas Ins Co	OTC	7.00	0.0	6.9	0.32	4.6	7.00	7.00	2.1
Chubb Corp	OTC	34.88	-3.8	5.6	2.92	8.4	35.88	34.38	155.6
Combined Intl Corp	NYSE	22.88	4.0	6.5	1.80	7.9	22.88	21.50	322.6
Continental Corp	NYSE	24.50	-1.0	7.4	2.60	10.6	24.50	23.63	294.5
Crawford & Co	OTC	15.25	0.0	11.2	0.56	3.7	15.50*	15.25	2.3
Crown Life Ins Co	OTC	75.00	15.4	5.6	3.10	4.1	75.00	65.00	1.1
Crum & Forster	NYSE	27.38	3.8	5.3	1.76	6.4	27.38	26.38	297.7
Employers Cas Co	OTC	28.25	0.0	12.5	1.20	4.2	28.25	28.25	4.6
Equifax Inc	NYSE	38.25	4.8	10.8	2.60	6.8	38.25*	36.75	19.2
Excelsior Ins Co	OTC	11.00	0.0	28.6	0.70	6.4	11.00	11.00	0.1
Farmers Group Inc	OTC	34.75	-1.8	9.7	1.24	3.6	35.38	34.75	387.1
Foremost Corp Amer	OTC	29.50	1.7	8.8	1.12	3.8	29.50	29.00	62.8
Great West Life Assurn Co	OTC	185.00	2.6	15.1	10.00	5.4	185.00	185.00	0.0
Hanover Ins Co	OTC	31.50	-0.8	4.3	0.88	2.8	32.25	31.50	11.6
Hartford Steam Boiler Insptn	OTC	36.75	0.0	7.3	2.80	7.6	36.75	36.50	2.9
Jefferson Natl Life Ins Co	OTC	35.50	-2.7	9.9	0.76	2.1	36.50	35.50	1.5
Kemper Corp	OTC	28.50	-0.4	5.1	1.80	6.3	29.13	28.50	36.0
Lincoln Natl Corp Ind	NYSE	40.00	4.2	6.9	3.00	7.5	40.00	37.50	71.7
Mission Ins Group Inc	NYSE	21.63	3.0	5.0	0.80	3.7	21.63	20.88	98.4
Nationwide Corp Ohio	OTC	25.75	0.0	7.3	0.70	2.7	25.75	25.75	0.4
Northwestern Natl Life Ins	OTC	20.88	0.0	4.5	1.50	7.2	20.88	20.75	55.8
Ohio Cas Corp	OTC	36.88	-3.0	6.7	2.36	6.4	38.25	36.88	102.5
Old Rep Intl Corp	OTC	19.88	-0.6	4.6	0.92	4.6	19.88	19.88	49.0
Preferred Risk Life Ins Co	OTC	20.75	-5.7	5.8	0.92	4.4	21.25	20.75	18.6
Provident Life & Acc Ins Co	OTC	42.50	-1.2	6.1	2.44	5.7	43.00	42.50	18.6
Ryan Ins Group Inc	OTC	33.75	0.0	13.6	0.16	0.5	33.75	33.75	0.0
St Paul Cos Inc	OTC	44.00	-0.8	5.8	2.60	5.9	44.38	43.75	118.3
Safeco Corp	OTC	36.75	-3.3	6.8	2.20	6.0	38.00	36.75	100.8
Sri Corp	OTC	22.75	-1.1	5.1	1.12	4.9	23.00	22.50	28.8
Seibels Bruce Group Inc	OTC	23.50	-3.6	13.8	0.80	3.4	23.75	23.50	105.0
Statesman Group Inc	OTC	6.13	0.0	5.6	0.15	2.4	6.13	6.13	25.0
Tokio Marine & Fire Ins Co	OTC	81.25	-2.1	6.5	0.92	1.1	82.75	81.25	1.0
Travelers Corp	NYSE	21.88	1.7	5.7	1.64	7.5	21.88	21.13	725.9
United Fire & Cas Co	OTC	32.50	8.3	8.5	0.88	2.7	32.50*	30.00	3.4
United States Fid & Gty Co	NYSE	38.88	3.3	8.2	3.60	9.3	38.88	37.88	118.3
United Svcs Life Ins Co	OTC	12.50	-2.9	4.6	1.00	8.0	12.75	12.38	11.6
Uslife Corp	NYSE	18.50	-1.3	3.9	0.84	4.5	18.50	18.25	221.2
Washington Natl Corp	NYSE	18.38	-2.6	8.8	1.08	5.9	19.00	18.38	83.3
Zenith Natl Ins Corp	OTC	15.00	-1.6	7.0	0.76	5.1	15.25	15.00	23.8
INSURANCE COMPANIES	AVERAGE			7.2		5.0			
Agents/Brokers									
Alexander & Alexander Svcs	NYSE	21.88	-3.8	8.0	1.94	8.9	22.63	21.75	340.1
Baldwin & Lyons Inc	OTC	34.50	0.0	6.0	0.80	2.3	34.50	34.50	0.0
Corroon & Black Corp	NYSE	21.13	-2.3	10.4	1.80	8.5	21.75	21.13	8.3
Crump E H Cos Inc	OTC	8.50	0.0	15.7	0.40	4.7	8.50	8.50	2.8
Emett & Chandler Cos Inc	OTC	8.13	-1.5	12.2	0.00	0.0	8.25	8.13*	22.9
Hall Frank B & Co Inc	NYSE	25.88	-1.0	10.0	1.70	6.6	27.00	25.88	132.5
Integrated Res Inc	AMEX	18.25	4.3	6.2	0.00	0.0	18.25*	17.50	55.7
James Fred S & Co Inc	NYSE	23.00	0.0	11.2	1.60	7.0	23.00	21.63	36.6
Marsh & Mclennan Cos Inc	NYSE	36.50	-2.0	11.1	2.20	6.0	37.25	36.00	201.5
Penncorp Finci Inc	NYSE	11.00	0.0	7.7	0.16	1.5	11.75*	10.88	798.1
Poe & Assoc Inc	OTC	9.00	0.0	10.2	0.80	8.9	9.00	9.00	2.0
Reed Stenhouse Cos Ltd	OTC	11.50	2.2	16.7	0.60	5.2	11.50	11.13	52.8
Rollins Burdick Hunter Co	OTC	15.00	0.0	10.7	1.32	8.8	15.00	14.75	14.5
AGENTS/BROKERS	AVERAGE			9.0		5.5			
Conglomerates/Holding Cos.									
American Express(Fireman's Fd)	NYSE	48.75	3.2	8.6	2.20	4.5	48.88	47.00	1,317.5
Anderson Clayton(Ranger/PanAm)	NYSE	25.50	-3.8	5.7	1.32	5.2	28.13	25.50	152.3
Armco Inc	NYSE	16.00	1.6	6.3	1.20	7.5	16.25	15.50	600.2
City Investing Co. (Home Ins.)	NYSE	20.88	-3.5	6.5	1.70	8.1	21.00	20.38	350.5
CNA Finl Corp (CNA)	NYSE	13.88	-5.9	5.8	0.00	0.0	14.63	13.88	5.2
Control Data (Commi. Credit)	NYSE	31.25	5.0	7.5	0.55	1.8	31.25	30.25	813.3
General Re Corp	NYSE	48.13	3.5	11.0	1.08	2.2	48.13	47.00	219.0
Gulf Utd Corp	NYSE	22.88	1.7	8.0	1.32	5.8	23.00	22.50	321.2
Cigna Corp	NYSE	36.13	0.0	5.1	2.30	6.4	36.63	35.25	599.9
ITT (Hartford Group)	NYSE	27.00	0.5	6.2	2.68	9.9	27.25	27.00	922.7
Optimum Hldg Corp	OTC	8.00	0.0	6.3	0.00	0.0	8.00	8.00	1.2
Sears Roebuck & Co. (Allstate)	NYSE	23.38	5.6	10.9	1.36	5.8	23.38*	22.38	2,789.3
Baldwin Utd Corp	NYSE	28.50	-0.9	6.0	0.88	3.1	29.75	27.75	624.1
Teledyne Inc (Argonaut)	NYSE	106.50	8.3	6.1	0.00	0.0	107.00	101.75	1,125.1
Transamerica Corp (Occidental)	NYSE	20.50	0.0	6.2	1.40	6.8	20.63	20.00	223.3
CONGLOMERATES/HOLDING COS.	AVERAGE			6.8		3.8			

*Record high/low since Jan. 1, 1982

System design: Altman Information Systems

BI Insurance Index



The recent rally posted by insurance industry stocks faltered slightly during the week ending Sept. 14 as the *Business Insurance* stock index gained only 0.1 points to 181.3 from 181.2. Eighteen stocks gained, 26 declined and 24 were unchanged. The largest gains were reported by Crown Life Insurance Co., 15.4%; United Fire & Casualty Co., 8.3%; Equifax Inc., 4.8%; Integrated Resources Inc., 4.3%; and Lincoln National Group, 4.2%. The largest losses were reported by Avemco Corp., 6.5%; CNA Financial Corp., 5.9%; Preferred Risk Life Insurance Co., 5.7%; Aetna Life & Casualty Co., 5.6%; and Chubb Corp., 3.8%. The 0.05% increase in the *BI* index was less than the gains posted by the Dow Jones 30 industrials and New York Stock Exchange composite index.

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