

business insurance

update:
Riddell will appeal award in helmet lawsuit

LOS ANGELES—Helmet maker Riddell Inc., a subsidiary of Bell-Riddell Inc., will fight a jury verdict against it that was reduced to \$2.34 million from \$7 million by a federal judge in Pikeville, Ky.

Plaintiff Ronald Stewart Wright alleges that a Riddell helmet caused his broken neck and quadriplegia sustained in a high

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MGM fire: Coping with the loss



Courtroom battles involve cast, props of epic proportion

By RHONDA L. RUNDLE

LAS VEGAS—Legal battles brewing in the wake of the worst hotel fire in recent U.S. history will be waged on an epic scale that might have been scripted by Metro-Goldwyn-Mayer.

More than 60 attorneys have filed more than 600 lawsuits against MGM Grand Hotels in federal courts around the country that have been consolidated in Las Vegas. Hundreds of other cases have been filed in state courts, primarily in Nevada and California.

Within hours after the smoke cleared at the fire-ravaged hotel last Nov. 21, plaintiff attorneys rushed in with court orders to preserve every shred of evidence. Plaintiff, government and MGM investigators conducted the most thorough investigation ever after a major catastrophe.

Experts from around the country were assembled on short notice to rescue evidence that could explain the origin of the fire or its rapid spread. A special team examined the exact locations where 84 bodies were found in the hotel and casino.

Liability for the fire probably will not be decided for many years, but in the meantime attorneys in the cases must carve out a master plan for dealing with hundreds of peripheral—and often critical—legal issues.

The sheer volume of evidence and number of parties involved makes simple administrative routine very complicated. U.S. District Judge Louis C. Bechtle, named to preside over the federal litigation, is resigned to a long assignment.

"I'm here for life," he quipped during a light moment at a recent *Continued on page 40*



Judge needs expert to decipher MGM back-dated insurance: Page 41.



Details on other defendants' insurance—and a problem: Page 41.

Retroactive insurance saved Penn Central purchase of GK

By RHONDA L. RUNDLE

GREENWICH, Conn.—While MGM Grand Hotels awaits bona fide insurance policies to replace temporary binders, GK Technologies already holds most—if not all—of its policies in a \$40 million package of retroactive liability insurance.

GK Technologies' boosted coverage will be available to pay claims against California Electric Construction Co., a subsidiary that installed electric wiring in the MGM Grand Hotel-Las Vegas in 1973.

Cal Electric is defending 62 lawsuits seeking more than a half billion dollars in damages from last year's fire.

The retro coverage is spread among eight U.S. insurers and an unspecified number of Lloyd's and British companies (see chart).

GK's broker, Marsh & McLennan in New York, placed the insurance and delivered most of the policies within 20 days following underwriters' commitments.

Slow delivery of actual policies to MGM Grand Hotels, which stunned the insurance industry earlier this year with the purchase of \$170 million in back-dated insurance, has become an issue in fire claims litigation (see story on page 41).

The purchase of retroactive insurance above existing coverage of \$60 million coincided with the acquisition of GK Technologies and its subsidiaries by financial giant Penn Central Corp. on March 30 of this year.

MANUSCRIPT EXCESS UMBRELLA POLICY

Assured: G.K. TECHNOLOGIES INC. and all Subsidiaries.
Limits of Liability: \$40,000,000 each occurrence and in all Excess of \$60,000,000 each occurrence and in all which is excess of underlying primary insurance.
Period: Covering all Assureds Liability arising out of a fire at the MGM Grand Hotel, Las Vegas on or about the 21st of November 1980.

SUBSCRIBING COMPANIES

INSURERS	SUM INSURED
Gibraltar Cas.	\$ 4,000,000
Employers Mutual Cas. Co.	2,000,000
Transit Casualty	4,600,000
Evanston Ins. Co.	5,000,000
ISLIC	4,250,000
North Star Re	3,000,000
St. Paul Surplus Lines	2,000,000
Hartford	2,700,000
Lloyd's & British Companies	12,450,000

Immediately after the Nov. 21 fire, Penn Central called off its initial tender offer for GK Technologies, slated to go forward a few days later. Penn Central said it needed time to evaluate GK's financial exposure.

The purchase of retroactive in-

surance four months later apparently quieted Penn Central's fears about that financial exposure. GK Technologies' officials declined to comment.

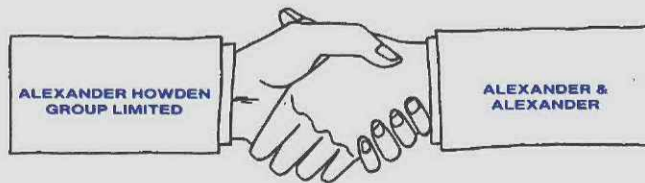
Penn Central worried more about the appearance than about *Continued on page 40*

A&A takes Howden for its London mate

By KATHRYN J. McINTYRE and STACY SHAPIRO

In a move akin to ringing up the childhood sweetheart on the rebound from an ill-fated engagement, Alexander & Alexander proposed last week to the familiar waiting and willing London-based broker Alexander Howden Group Ltd.

Eight years since the two managements first talked about combining their interests, the companies hammered out a mutually acceptable \$295 million tender offer for Howden, which analysts characterize as "hefty" to ensure a "fast and friendly" takeover.



The all-out A&A acquisition of Howden, compared with the merger-marriage that fell through with London's Sedgwick Group Ltd. due to tax problems (BI, Aug. 6), is expected to

clear regulators and shareholders by early 1982.

A&A now gains the presence in London it has lacked compared with other leading U.S. brokers, but the acquisition will create a far different A&A than the company that would have emerged from a combination with Sedgwick.

The acquisition of Howden leaves A&A the second largest U.S.-based insurance broker compared with the top position it could have commanded over Marsh & McLennan if the merger with Sedgwick had succeeded.

The combined year-end 1980 gross revenues of A&A (\$412 million) and Howden (\$159 million at the year-end exchange *Continued on page 44*

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- CU says government liable for asbestos injuries Page 3

NEWSPAPER

update:

Riddell to appeal helmet verdict

Continued from previous page school football accident.

This is the first verdict against Riddell since the highly publicized Stead case in 1975 and only the second in the company's history. It follows a recent series of defense verdicts and favorable settlements (BI, Nov. 10, 1980).

The outcome was "contrary to evidence presented at trial," says Bell-Riddell president James M. Galbraith. "Because society provides no remedy for catastrophic injury, the jury fashioned its own out of sympathy for the victim."

Medical lab sues strike insurer

NEW YORK—Still smarting from mounting losses from the air traffic controllers walkout, Metpath Inc., the nation's largest clinical laboratory service firm, is seeking \$9 million in damages from Birmingham Fire Insurance Co. of Pennsylvania, an American International Group unit.

In its suit filed in New York state Supreme Court, the Teterboro, N.J., firm alleges Birmingham Fire Insurance Co. breached the terms of its \$3 million strike insurance policy when it refused to pay claims.

In addition to the suit, Metpath has answered a declaratory judgment filed by Birmingham Fire Insurance in U.S. District Court here late last month (BI, Sept. 7). The insurer had filed suit asking the court to determine its liability. It contended it was no longer liable because the air traffic controllers strike ended two days after it began when President Reagan fired the controllers.

Judge OKs TMI settlement

HARRISBURG—Persons or businesses that suffered an economic loss from the Three Mile Island nuclear accident will be able to file claims against a \$20 million loss fund beginning Oct. 9.

The \$25 million out-of-court settlement of a class action suit was approved by U.S. Middle Court Judge Sylvia H. Rambo. An additional \$5 million has been set aside for a public health fund.

Two nuclear pools that insured the TMI facility, American Nuclear Insurers and Mutual Atomic Energy Liability Underwriters, earlier negotiated the settlement with the plaintiffs.

The \$5 million public health fund also will be administered under the court's direction and will be used for cancer detection studies, public education on nuclear power and radiation monitoring.

Any money left over after claims are paid will be added to the public health fund. Payments of attorneys fees for the plaintiffs have not been decided yet.

J&H's Purnell to retire

NEW YORK—Richard I. Purnell, chairman and chief executive officer of Johnson & Higgins, announced his retirement earlier this month after 35 years with the company.

Mr. Purnell's resignation becomes effective Jan. 1, 1982. He will step down as CEO Oct. 1 but will continue as chairman until the end of the year. He has been CEO since 1972 and chairman since 1974.

In a letter to company employees, Mr. Purnell said he took a first step toward formally announcing his intention to retire at a board meeting the week of Sept. 14, when he suggested that he step down as CEO and that Robert V. Hatcher Jr., president, be his successor. His retirement had been expected.

Lanoff leaving Labor post

WASHINGTON—Ian Lanoff, the U.S. pension administrator since 1977, is leaving the Labor Department Dec. 1 to join the Washington office of Strook, Strook and Lavan, a New York law firm.

Mr. Lanoff, who was appointed administrator in May 1977, played a major role in simplifying pension reporting procedures required by the Employee Retirement Income Security Act.

Ryder acquires 4.9% of Hall

NEW YORK—A Miami-based transportation services company has acquired 4.9% of Frank B. Hall & Co. with the intention of acquiring up to 15% of the insurance brokerage firm.

Ryder Systems Inc. purchased 539,000 outstanding shares of Frank B. Hall & Co. and expects to purchase more, pending regulatory approval, in a move to invest in financial services companies.

The purchase, Hall officials said, is expected to be worth just slightly less than \$15 million. The firm's board executive committee is studying the implications of the stock purchase.

The transportation services firm has two subsidiaries that market property and casualty insurance.

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TMI cleanup debts hurt other electric utilities

By JOHN W. MILLIGAN

NEW ORLEANS—The unfunded \$1 billion cleanup bill at the damaged Three Mile Island nuclear reactor may limit the access of cash-hungry electric utilities to capital markets and consequently limit their growth.

While the disaster at Three Mile Island has placed its owner, General Public Utilities Service Corp., under tremendous financial pressure, it may have a negative impact on the entire industry until it is determined who will pay the cleanup bill, says John Graham, GPU vp and treasurer.

This funding problem and its impact stem largely from an industry that is woefully underinsured, as the TMI affair has so dramatically illustrated.

Mr. Graham made his observation at the Nuclear Insurance Conference last week in New Orleans, which was attended by some 200 representatives of U.S. and foreign nuclear utilities, insurance companies and brokerage firms.

GPU, which had \$300 million in property coverage—the maximum amount of coverage available at the time of the accident—feels that all affected parties should share in the cost of decontaminating the plant.

This includes the utility, its customers and state and federal governments, Mr. Graham said. The utility hopes that a plan along these lines, proposed by Pennsylvania Gov. Dick Thornburgh, will provide an answer to the funding problem.

And as long as the cleanup problem remains unresolved, Mr. Graham said, it will have an impact on all electric utilities, including those that operate only coal- or oil-fired plants.

Mr. Graham pointed to concerns of financial markets over the continued inability to deal with the cleanup problem, as well as the specter of a GPU bankruptcy should the problem finally pull it under.

The cleanup problem will significantly increase the cost of capital for all electric utilities, he said, based on
Continued on page 4

Maryland changes E&O rules

BALTIMORE—Professional liability coverage in Maryland can now be written on a claims-made basis without the addition of an unlimited "tail" to cover possible future claims.

The action by the Maryland Insurance Division reverses its earlier requirement that policies be written on an occurrence basis under which claims resulting from acts that occur while a policy is in effect are paid under the policy.

The decision came after hearing conducted by J. Frank Nayden, staff specialist for Maryland Insurance Commissioner Edward J. Birrane. Mr. Nayden found that state insurance laws do not prohibit claims-made policies. The commissioner Sept. 16 ordered that claims-made policy forms submitted to the division be approved.

Essentially, a claims-made policy provides coverage only for claims submitted while the policy is in effect. Many also provide coverage for claims submitted for prior acts of the policyholder.

Insurers and buyers testified at the hearing that the requirement of a tail, which effectively turns a claims-made policy into an occurrence policy, makes professional liability insurance more expensive and difficult to obtain.

The insurance division was concerned that a claims-made policy would leave its holder without coverage should the policy be allowed to lapse for any reason.

Several companies submitted claims-made policies for approval and "rather than turning them

down because they didn't have tails, the commissioner decided to see if the policies would be in violation of the law," Mr. Nayden said.

"My decision was that they were not, and until the Legislature decides a tail is necessary, we can't prohibit them."

Shand, Morahan & Co. of Evanston, Ill., is the managing general agent for two insurers and three

surplus insurers that will sell professional liability coverage in Maryland.

A Shand, Morahan spokesman said a major advantage of a claims-made policy is that it provides flexible limits and certain results.

"At the conclusion of the policy period, the insurer knows how many claims will be coming in," he said.

Hyatt may reopen Oct. 1

KANSAS CITY, Mo.—There won't be any fanfare if the Hyatt Regency Hotel in Kansas City reopens on Oct. 1.

With more than \$2.6 billion in legal claims filed in the wake of the July 17 skywalk tragedy and more damages being sought daily, officials plan to resume operations quietly, sources say.

Spokesmen haven't said the hotel definitely will reopen on the Oct. 1 target date, but reservations are being accepted at the Hyatt's highly rated Peppercorn Duck Club restaurant and other activities are being scheduled at the hotel in October.

The hotel has been closed since two concrete and steel skybridges fell on hundreds of partygoers attending a tea dance in the hotel lobby July 17, killing 113 people and injuring 188 others.

The Hyatt is constructing a new, stronger skybridge spanning the lobby to replace the walkways that fell. A new elevator at the end of the lobby is also under construction.

Federal investigators probing the tragedy have asked courts for permission to move 13 pieces of the fallen skybridges to Washington for testing. However, plaintiffs' attorneys have complained that the pieces will be destroyed in the testing and, therefore, not be available for private inspection.

The National Bureau of Standards investigators have asked for three pieces of the beam portions of the skybridges, three sections of the steel rods that supported the walkways, core samples of concrete used in the skybridges and parts of the walkway support welded sections and bolted connections.

So far, 101 suits have been filed in Jackson County Circuit Court, and 16 have been filed in U.S. District Court in Kansas City.

Pension emphasis to shift to employers, study predicts

By STEPHEN TARNOFF

More employer-paid pension coverage, increased incentives for personal retirement savings and Social Security reform are required to save the nation's retirement system, a national business and educational group study says.

The reforms, which would cut the role Social Security plays in providing retirement income, are needed if a retirement income disaster is to be avoided, according to the report.

"...Unless basic changes are begun now in the way this nation views retirement income and in the public and private systems that provide it, future working generations will bear impossible funding burdens, and future retirees will face insecurity and hardship," the report says.

The study was authored by the Research and Policy Committee of the Committee for Economic Development, a non-profit, non-partisan organization of 200 of the nation's top corporate executives and university presidents.

In its conclusions, the report indicates the reforms are needed in light of soaring pension costs for employers, an aging population and continued inflation.

William C. Greenough, chairman of the CED subcommittee that prepared the report, indicated that it was an attempt to "look at the whole picture" and recommend an integrated structure rather than the "bits and pieces" approach that Congress has used.

He said the recommendations, if implemented, would strengthen the retirement system and provide for capital formation and productivity.

Under the plan, employer-sponsored pension plans would be strengthened to improve funding and increase capital formation. Specifically, the tax and regulatory recommendations include:

- Making employee contributions to pension plans tax deductible and including the eventual benefits in taxable income when received. "This will encourage the growth of employer pension plans in all industries, thereby enlarging this channel for saving and investment," the report says.

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AMA conferences

Cost containment, efficiency are keys to benefit planning: Expert

By STEVE SHERWOOD

NEW ORLEANS—Cost containment and efficiency will become watchwords of the 1980s as demand for better benefits and cutbacks in Social Security add to private industry's benefit burden, one expert predicts.

The '80s also will bring more flexible compensation, accelerated growth of defined contribution plans and more emphasis on retirement counseling, he says. High costs will cause benefit management to be perceived as a vital part of a corporation.

Dallas L. Salisbury, executive director of the Employee Benefits Research Institute, made these forecasts at the American Management Assns.' National Conference on Employee Benefits Management earlier this month.

"Efficiency in the financing of benefit programs will be increasingly emphasized; cost containment will be the watchword," Mr. Salisbury said. Cutbacks in federal government expenditures for Social Security and Medicare programs will lead to "cost shifting" to other benefit programs, both public and private.

Efficiency in benefit design will become more important, eliminating overlapping programs and providing participants with the specific benefits they need, he said. "Depending on economic develop-

ments, this could include benefit cutbacks during the 1980s."

Flexible compensation and benefit plans will expand as cost pressures close in and as the makeup of the workforce continues to change, Mr. Salisbury predicted. A continuing emphasis on employee productivity will speed this trend, he said.

Dental plans, vision care plans, group legal plans and other benefits that grew during the 1970s will keep expanding, he said. "Should tax rates not be indexed and should fringe benefits continue to be taxed on only a limited basis, employee choice will lead to benefit additions rather than more wages."

Relatively new employee benefits such as group automobile and group homeowners insurance will spread, Mr. Salisbury said, adding that profit-sharing, thrift/savings and employee stock option plans will continue to grow.

"Such plans provide a way to compensate relatively short-service workers and help to stave off more drastic policy changes," he said. However, he also said more large pension plans will adopt faster vesting schedules, which could lead to more defined benefit plans.

Pre-retirement counseling and financial counseling will assume greater importance, he predicted. Benefits will continue into retirement more often, and

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Salisbury



Source: American Management Assns.

About 400 risk managers, employee benefit managers, corporate treasurers and financial officers and others concerned with risk and employee benefit management gathered in New Orleans Sept. 14-16 to attend the annual concurrent conferences sponsored by American Management Assns.: The National Conference on Employee Benefits Management and the National Conference on Risk and Insurance Management.

By day, registrants moved between the two conferences to learn the latest developments in effectively and efficiently managing corporate risk and employee benefit programs. By night, they sampled New Orleans' jazz and creole cooking, which was easily accessible from the conference headquarters at The Fairmont Hotel near New Orleans' French Quarter.

Computer risks should be pinpointed

By STEVE SHERWOOD

NEW ORLEANS—In this age of electronic brains, there is at least one thing that computers cannot calculate: the potential business interruption and property losses a large company would suffer should its mechanical thinkers be crippled or destroyed.

Pinpointing these exposures is still the risk manager's job, and many discover that potential data processing losses are greater than they think.

"Large corporations have all kinds of security, fire protection systems and insurance coverage on their main data centers, but often forget about all the minicomputers in other locations that can present great exposures," said Edward R. Lloyd, director of insurance for Dan River Inc. in Greenville, S.C.

Mr. Lloyd spoke at the American Management Assns.' National Conference on Risk and Insurance Management.

He said risk managers have to conduct an in-depth survey to locate the company's minicomputers, learn what processes they perform and how computer damage would affect the company's overall operation.

"Most of us don't have the luxury of a large staff," Mr. Lloyd said. "The way I've done it is to hire a college student, one majoring in insurance."

The student was told to determine the locations of all units, evaluate the impact of possible damage and determine replacement and business interruption costs. The results were somewhat startling.

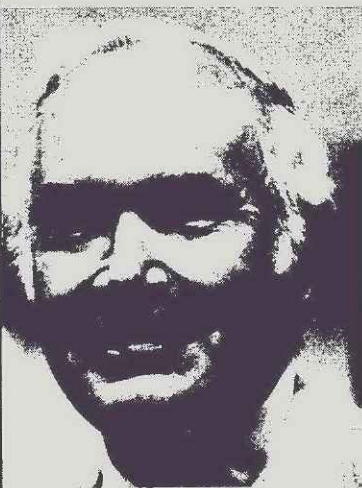
"The survey does two things: identifies and evaluates risks," Mr. Lloyd said. "When ours

were measured, we came up with an all-risk exposure of over \$45 million."

Dan River, a textile manufacturer, has three main data processing centers. Combined surveys showed potential damages to property to be \$4.8 million for the environment or computer facilities, \$7.2 million for hardware and \$16.4 million for software. Business interruption losses could run to \$13 million and extra expense losses could run to \$3.7 million.

"We ran into all kinds of installations," Mr. Lloyd said. "We have a computer system running boilers at optimum efficiency to reduce the cost of energy. We found a \$900,000 minicomputer running one of our dye houses, and we have one that runs 80 knitting machines. If we lost that one, we would have to go back to knitting by hand. There would be a large business

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Edward Lloyd says a firm's computer losses can be huge.

Government liable for asbestos ills: CU

By KATHRYN J. MCINTYRE

Commercial Union, taking the point position in the insurance industry fight against asbestos litigation, is waging a full-scale effort to lay the liability for asbestos claims with the federal government.

It's the insurer's latest attack to

try to eliminate or at least reduce asbestos manufacturers' liability for asbestos claims, the single largest wave of product liability litigation to ever strike an industry.

Already Commercial Union policyholders are suing to bring the tobacco industry into the fray because smoking cigarettes greatly

increases the chance of suffering lung disease from exposure to asbestos (*BI*, March 2).

The suits against the government contend that the government, which ordered, supplied and used asbestos, knew of the dangers of asbestos and did not warn the workers, making it liable for their in-

juries.

"So far, we have brought the government into cases involving 412 plaintiffs in five states," said Leonard L. Rivkin, a partner in the Garden City, N.Y.-based law firm of Rivkin, Leff, Sherman & Radler, which has been retained by Commercial Union to represent its asbestos policyholders in this phase of the asbestos litigation.

Mr. Rivkin expects to file complaints against the government in cases involving ultimately thousands of plaintiffs, asking the government to indemnify or at least contribute to the cost of asbestos liability claim payments to former shipyard workers.

In addition, Commercial Union counsel William Bailey told *Business Insurance* the complaint against the tobacco industry will be amended to name the federal government. The government knew that workers exposed to asbestos who smoked stood a far greater chance of contracting lung disease than those who did not and it did not warn the workers, Mr. Bailey charges.

Commercial Union policyholders suing the tobacco industry and now

the federal government include Sepco Corp. of Birmingham, Ala., and Standard Asbestos Manufacturing & Insulating Co. in Kansas City, Mo.

Product liability claims pending against asbestos manufacturers are estimated at 45,000 and being settled at an average of \$200,000 with another \$200,000 spent on each claim for expenses, Mr. Bailey said. Those numbers produce a potential liability for current asbestos claims of \$18 billion.

Mr. Bailey estimates ultimate potential liability for asbestos claims at \$120 billion to \$150 billion if future expected claims filed at a rate of 60,000 to 70,000 by 1985 are litigated and handled on today's basis.

Asbestos makers and their insurers couldn't survive this kind of liability with insurers being assessed under an exposure theory of insurance coverage, Mr. Bailey contends.

Commercial Union is taking the point position in the asbestos litigation because it believes the current course of asbestos litigation could mean a "total disaster" for the U.S. court system and the insurance industry.

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Punitive asbestos awards criticized

By STEPHEN TARNOFF

CHICAGO—Claiming that punitive damages are "unjust, unfair, unsupportable and probably unconstitutional," an attorney for the asbestos industry decried the awarding of such damages in asbestos suits.

Speaking before members of the Defense Research Institute here, Dennis H. Markusson, assistant corporation counsel for the Johns-Manville Corp., said that new and old legal arguments will have to be used to combat the growth in punitive damage awards.

"The tide of punitive damages must be stemmed," Mr. Markusson told a sympathetic audience of mostly defense attorneys. He predicted "more awards, in more cases, against more defendants" in the future.

Mr. Markusson said that not only are punitive damages unfair, but that U.S. businesses will not have the capacity to pay the awards that stem from the "greed and avarice" of the plaintiffs.

Nor is the problem limited to asbestos, he said. It is applicable to all types of product liability lawsuits.

No rational person would claim justice demands punishment in these cases, Mr. Markusson added.

The old common-law approach that permitted such damages because compensatory damages were not available no longer applies, he said.

Punitive damages are those awarded over and above the damages thought to be suffered by the plaintiff. They are awarded to punish the defendant and deter similar conduct in the future.

So far, four asbestos cases have resulted in punitive damage assessments against defendants Johns

Continued on page 14

Changes in retirement plans urged

Continued from page 2

Current law permits tax deductions for up to \$2,000 in employee voluntary contributions to a qualified corporate pension plan or an Individual Retirement Account.

- Allowing employers with fully funded plans to give an employee who leaves the option of transferring vested benefits to an Individual Retirement Account or to a life insurance annuity.

- Allowing employers to have maximum flexibility in setting their own pension and retirement policies, such as raising the normal retirement ages within their company pension plans.

- Requiring all public employer pension plans to report their unfunded liabilities and normal total annual costs.

The report also opposes 100% indexing of public employer pension for inflation.

It also recommends that any benefits paid by public employers for early retirement or

"short service" employment be actuarially reduced in amount from a normal retirement age of 68.

The report recommends raising "substantially" the maximum annual tax-deductible contributions to personal retirement plans (Keogh plans and Individual Retirement Accounts) and supports the recently passed Economic Recovery Tax Act in its attempt to expand personal savings by increasing tax deductions for them.

It also recommends that businesses with pension plans integrate a measure of individual saving into their benefit packages through thrift programs, profit-sharing and voluntary employee contributions.

Concerning Social Security, the committee recommends raising the retirement age to 68 from 65, raising the early retirement age to 65 from 62 and revising the way benefits are indexed to inflation.

The retirement age should be raised gradually,

by two months a year until the end of the century, the report says. The move should help solve both the short-term financing crisis and long-term deficits.

It also recommends that increases in benefits no longer be linked to the Consumer Price Index. Instead, a price index better reflecting spending patterns of older workers should be implemented.

In addition, the report says that Social Security taxes could be paid from pretax income and that benefits be included in taxable income.

Such changes in tax treatment would be phased in and would still exclude most people receiving benefits from paying taxes on them.

Finally, the report recommends that all federal and other workers not covered by Social Security now be brought into the system as soon as possible and that the Social Security system's financing problems should not be solved by general revenue financing.

TMI debts could hurt entire industry

Continued from page 2

comments by some representatives of capital markets. He said that access to the markets could be totally eliminated for some weaker companies.

Citing the "fragile" level of investor confidence in electric utilities, financial markets question whether the industry can withstand a "GPU bankruptcy and the blatant exposure of its under-insurance problem," Mr. Graham pointed out.

"The absence of a solution to the lack of funding of the TMI cleanup is having, and will continue to have, a serious and costly impact on the ability of the electric industry to finance," Mr. Graham said.

The impact of the TMI accident on GPU has been, to say the least, dramatic.

The utility estimates that decontaminating the damaged reactor unit at Three Mile Island will cost about \$800 million. About another \$150 million has been added for operating and maintaining the plant during cleanup.

Additional expenses include \$500 million to \$600 million in plant damage, fuel replacement and costs of restarting the reactor, which Mr. Graham said could bring GPU's final cost to \$1.6 billion.

GPU also has had to reduce its 1980 and 1981 construction budget by \$750 million, eliminating the construction of a second nuclear plant.

"These will have a cost in the future in the form of either catch-up expenditures or less reliable service," Mr. Graham said.

GPU's common stock has dropped from \$18 to \$5 a share, a market value loss of about \$800 million. The company's bond ratings have been reduced below investment grade and it has lost all access to permanent capital markets.

GPU has been "held on the edge" by state regulators in Pennsylvania and New Jersey who determine what amount of accident-related expenses may be passed on to the consumer, giving the utility just enough funds to stay afloat, said Mr. Graham.

As nuclear insurers strive to hit a \$1 billion property coverage target, Mr. Graham questioned whether that level is sufficient.

The representative of a major banking concern close to GPU's situation has questioned the adequacy of \$1 billion in coverage, Mr. Graham said, and observed that there should be "no finite limit on an unbounded obligation."

"To the extent the financial community perceives the \$1 billion to be inadequate, this will be reflected in the cost and availability of the capital needed by our industry to operate our business."

Mr. Graham also dislikes the present practice of combining decontamination and property insurance into one policy. This arrangement affects investors like banks or bond holders, whose interests are protected under the property side of the coverage when the utility tries to use policy dollars for decontamination, he said.

Another concern expressed by Mr. Graham are provisions in existing and proposed insurance programs that stipulate that losses claimed are payable only after a complete proof of loss has been filed with the insurer.

"This is inconsistent with the nature of the decontamination problem and the need for adequate funds to deal immediately with that problem," he said.

Look who's joined the party. Gallagher.

Top Ten And Growing Faster.

A hand is shown holding a stack of business cards for various insurance brokers. The cards are arranged in a fan shape, with the top card being Arthur J. Gallagher & Co. The other cards visible include:

- Burby Martin & Co.
- Robins, Burdick & Hunter
- Insurance Management Corp.
- Corroon & Black
- Frank B. Hall
- Fred S. James
- Alexander & Alexander
- Johnson & Higgins
- Marsh & McLennan

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Goodwin Clark

Goodwin Clark CPCU
Vice President

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A division of Northbrook Property & Casualty Insurance Co.
Northbrook, Illinois 60062

Bermuda Insurance Assn. doesn't attract all

markets

The Bermuda Insurance Assn., conceived as a multifaceted group to represent all the interests of the growing offshore insurance business in Bermuda, is beginning life with a missing limb—the Bermuda Independent Underwriters Assn.

The underwriters aren't joining the new BIA, formed without public announcement last month, for many reasons, BIUA President Brian O'Hara said.

"We just formed (last December) as a professional organization for underwriters—to study contracts and compare notes. And we're looking toward self-regulation of the market, such as helping out if a Bermuda insurer became insolvent. We want to get a feel for what we are first before joining another organization," said Mr. O'Hara, senior vp of Bermuda-based Trenwick

Ltd.

The BIUA membership is composed of 26 commercial insurance and reinsurance companies based in Bermuda, including insurance subsidiaries of U.S. corporations now underwriting insurance for unrelated companies.

The BIA has long been sought by some Bermuda insurance industry leaders as an industrywide association, which could provide a forum for the diverse interests of Bermuda's insurance professionals and eventually serve as an insurance business self-regulatory group (BI, April 6).

The BIUA, however, isn't convinced that such an umbrella orga-

nization always would represent the interests of insurance underwriters. "Underwriters feel they have the most to lose—and they do. We're the ones putting up capital here. If self-regulation or government changed the rules of the game here, it could have the heaviest impact on the insurers," Mr. O'Hara explained.

Underwriters are concerned that underwriting in the new BIA could dilute their influence with the government.

The BIUA members also want to give the current regulatory mechanism in Bermuda—with committees representing the different interests of the business advising the

government on regulation—more time before suggesting an alternative.

The BIUA's decision not to join the umbrella group is seen by some as the first public crack in the united front previously presented by the industry in Bermuda. Mr. O'Hara, however, says the two groups will "maintain a dialogue."

And despite some public comments by John Campbell, the lawyer who has worked on the formation of the BIA, there is no "hostility" between the two groups, Mr. O'Hara said.

The BIUA decision has clearly miffed the new BIA's supporters. Mr. Campbell referred during a recent speech to what he called the "unexpected opposition, almost hostility" from Mr. O'Hara's association.

Mr. Campbell described the BIA as a forum that would eventually become "a logical and effective mechanism for voicing the views of the industry."

He stressed that the BIA fully recognizes the diverse interests of its members and pointed out that these interests would not be prejudiced in any way. The forum's founding members are scheduled to meet next week to consider the BIA's draft constitution.

Mr. O'Hara allowed that "eventually this umbrella group may come into effect. We want to be sure it is the best way and the most harmonious way to work with government."

In the meantime, he views it as "the old broker vs. underwriter relationship: the brokers trying to pressure the underwriters to make fast decisions."

The Bermuda Insurance Assn.'s council is to be chaired by E. John Sainsbury, executive director of The Argus Insurance Group, a local Bermuda insurance group. Burt Hunt, director and vp of Pearson Webb Springbett (Bermuda) Ltd., will be vice chairman and John Speller of the Sedgwick Group has been appointed secretary.

Founding members of BIA are the Bermuda Insurance Brokers & Brokers Assn., the Insurance Brokers Assn. of Bermuda, the Life Underwriters Assn. of Bermuda and the Health Insurance Assn. of Bermuda.

Five additional associations, including the marine underwriters, have each appointed a liaison officer to serve on the council because their constitutions don't allow them to participate fully.

Price changes

Large corporations will not see insurance prices changing much in the face of a tightening insurance market, predicts an insurance company executive.

"Insurers have forced you into high retentions and the risk transfer is minimal in your programs, so pricing on your basic insurance won't change dramatically," Jon T. Carothers, CNA's assistant vp for national accounts, told the Chicago Chapter of the Risk & Insurance Management Society this month.

"On excess, we'll see a little higher," Mr. Carothers predicted. He suggested risk managers watch the facultative reinsurance market, which insurers are using heavily, for signs of price changes.

So far, however, Mr. Carothers said he sees no signs of price changes, thanks to high interest rates and the large insurance capacity beefed up by captive insurers and other new reinsurance companies.

"It's certainly a buyers' market with almost limitless quotes available," he observed.

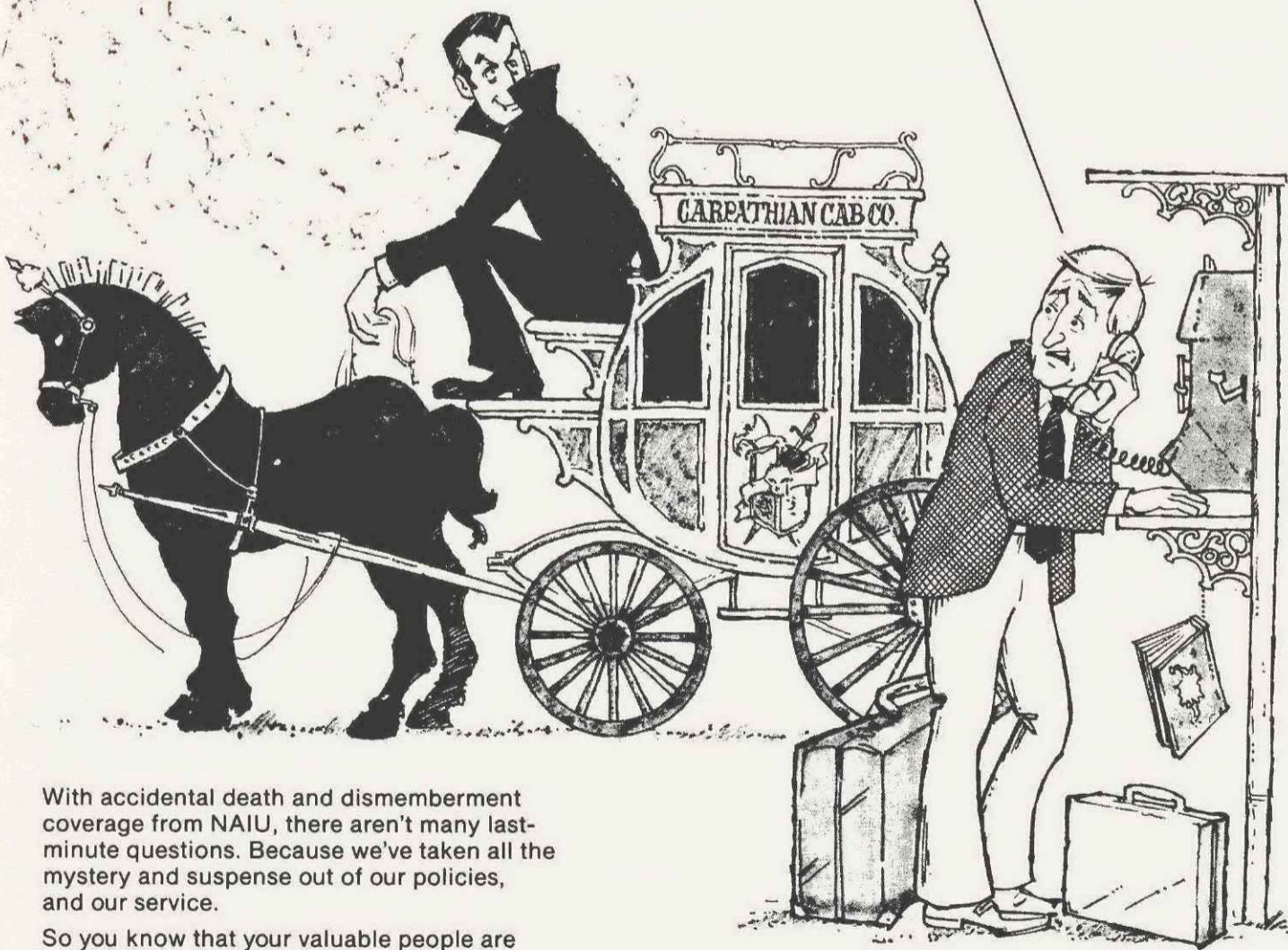
Buyers also enjoy influence over the types of products the insurance market offers, Mr. Carothers noted.

Reviewing the plethora of cash-flow insurance programs available, Mr. Carothers said, "I wouldn't be surprised to find something new tomorrow."

As an example, he cited what he calls accrued liability policies, also known as retroactive or prior acts liability insurance. "The MGM fire is what generated interest in this," he noted, referring to the retroactive and backdated insurance that MGM Grand Hotels purchased to increase the liability insurance available to pay losses arising out of the November fire at its Las Vegas hotel (see stories on page 1).

"We are quoting business on an accrued liability basis," he said, but CNA has not written any accrued liability insurance policies yet. ■

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editorial opinions

A long battle won

THERE'S ONE THING we have to say: It's about time.

The passage of the Risk Retention Act by Congress earlier this month ends a more than two-year-long drive for a new product liability funding mechanism—a battle that at times seemed as frustrating as the struggle Sisyphus had with that rock and that mountainside.

And now, even though the law isn't the exact bill drawn up by product liability expert Victor Schwartz and the Commerce Department's Task Force on Product Liability and Accident Compensation, we are satisfied. It accomplishes what was needed. It allows manufacturers to pool their product liability risks and self-fund them free of most state regulation, and it pre-empts the many state insurance laws that prohibit groups from forming to purchase insurance.

Although it was slow in coming, passage of the law is a tribute to insurers and buyers who showed that they can work together to solve common problems. The buyers had to bend on what type of pooling law they sought, but insurers also had to give in and admit the buyers did need this flexibility to ease product liability insurance woes. We urge both sides to continue such creative cooperation.

■ We saw a straw man in the industry's fear that federal chartering of the pools, as first proposed, would be a first step toward federal regulation of the insurance industry, but we are just as glad that provision was finally dropped by Congress. First, eliminating that provision removed a stumbling block that had stalled the bill last year, and, secondly, it is obvious the new law will work without additional governmental bureaucracy.

What makes us most enthusiastic, however, is that the Risk Retention Act paves the way for companies of all sizes to efficiently solve their problems of availability of product liability insurance at reasonable costs.

Although the current competitive insurance

market has made most coverage available to most corporations, there have been reports that some still could not get product liability insurance, or only at prohibitive prices. The new group pooling of risks will give these firms an option to have protection instead of living without and keeping their fingers crossed that they would not be the target of a lawsuit by a disgruntled consumer.

■ The act opens new doors to the small manufacturers who don't usually have the in-house risk management expertise to form and manage offshore captives as an alternative to expensive or hard-to-find coverage.

It also is a boost for large corporations with sophisticated risk management departments that can afford traveling the offshore captive route as an alternative to paying high premiums for product liability coverage.

Now these risk managers have the chance to pool and self-fund their risks in the United States, eliminating the need for costly business trips to Bermuda and other offshore captive havens just to avoid run-ins with state insurance regulators. Granted, some will still make the trips to stay clear of U.S. income tax problems when needed, but for others without this concern who may miss the trips to the islands, the convenience of doing their insurance business on the mainland may make up for it.

Although many risk managers may not feel they need this pooling power now in this soft market, we're glad it's available. Now companies can prepare to creatively handle their risks when the market does harden. And we agree with Mr. Schwartz, who suggests that all risk managers look at their product liability risk programs to see if they could be handled more efficiently under the new law.

Like many others, we don't believe the Risk Retention Act is the ultimate solution to product liability insurance problems, but it is a step in the right direction. We urge insurers, buyers and legislators to continue the journey.

letters

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

Health costs not being cut . . .

To the editor: Your editorial opinion on "Cutting health costs" (BI, Sept. 14) is laudable, but I must disagree with your suspicions about the accuracy of the survey commissioned by the Department of Health and Human Services.

My experience would indicate that there exists a small, extremely vocal minority of concerned companies who are actively and aggressively pursuing health care cost containment, while the vast majority of companies are passively indifferent to the problem.

During a recent visit with our insurer, I was shocked to learn that our inquiries on topical health care cost-control issues were considered unique.

We were told that even client companies much larger than ours were not willing to invest the time and effort required to comprehend the complexities of the problem.

I have read countless times in your publication about the importance of data collection as a basis for beginning a health care cost-containment program, and yet it appears that only a handful of companies have even bothered to request such information from our insurer.

I fear that many people feel that health care cost containment is like the weather: You can complain about it, but there's not much you can do about it. The measure of private industry's initiative will be its willingness to overcome this misconception and to aggressively address the health care cost-containment issues that we all must face.

Larry Hicks

Director of human resources
Lindberg Corp.
Chicago

. . . But many talk about it

To the editor: At the recent American Management Assns.' employee benefits conference in New Orleans, cost containment in health care seemed to be a topic of much conversation. Rightfully so!

The irony of the cost-containment debate is that, though few people would dispute the worthiness of the objective or the economic significance to plan sponsors (and participants), there is little structure of the health care industry. Neither the Reagan administration's "pro-competition" proposals nor the "employer coalitions" movement seem capable, conceptually or in pragmatic terms, of developing either the momentum or the substance to challenge the overwhelming economic domination of health care by the industry's providers (hospitals, doctors, suppliers, carriers).

It strikes me that we are all flirting with the revival of the "company town," that odious form of economic paternalism that marked the early years of this nation's economic development. If that trend is an inevitable route to redressing the economic imbalance, then we should perhaps accept the inevitable, not with resignation, but with a sense of confidence, commitment and preparation so that the undesirable aspects of the "company town" will be controlled and eliminated. After all, the "company town," though a closed economic system, was cost-effective as far as the employer was concerned.

The "company town" approach may appear to be an act of desperation, but it has a far more logical basis for cost control than many of the vacuous ideas tossed around so far. Once plan sponsors are willing to take a more aggressive role in their local health care industry to the point of forcing the hospitals, the doctors and suppliers to justify their charges and profit expectations, there will be no end to the label that the health care industry is a "growth market."

Ralph N. Galascione

Senior vp
Bayly, Martin & Fay Inc.
Tulsa, Okla.

Mideast's insurance focus

To the editor: "Saudi risk management: A lesson in irony" (BI, Aug. 17), concerning Bill Thomas of Alexander & Alexander, has much to recommend it. However, I would question the exact manner in which the subject is approached.

Is a business card written in both Arabic and English so unusual? For at least 16 years, I've done the same, and so have countless other people who wish to accord the Arab world a modicum of "gentillesse."

Bill Thomas rightly praises the Saudis as good businessmen, but so is the rest of the Middle East. Insurance has been a long time arriving and it is only natural that general lines (the most lucrative) would be the first to succeed.

In 1982, the Third World Insurance Congress will be held in Nairobi, Kenya, and for the first time there is a movement afoot to discuss life and pensions in what

was before only a "general lines" conference.

Is this not an indication to the future?

Employee benefits for experts, TCNs (third-country nationals) or MIEs (mobile international executives) are often neglected, mainly due to the relatively high salaries these people command. As often as not, no provision is made for their future.

Having recently done a comprehensive survey of Africa and the Middle East, I feel that it is time we looked at the overall concept of insurance in these areas, including employee benefits, and it is time we started treating the whole subject in a serious view.

Roger Allford
Marketing coordinator
Insurope Secretariat
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Thinking in a different dimension.

British farmers are covering their coops

By STACY SHAPIRO

LONDON—The British government has just declared the country free from Newcastle disease, a poultry infection, but the British Poultry Federation isn't taking any chances.

The federation is levying poultry producers for the cost of a 16 million-pound insurance policy, called the British Poultry Health Improvement Scheme.

The annual premium of 2.2 million pounds covers the entire industry against one-tenth of its total value of 160 million pounds. It will compensate farmers for the destruction of diseased birds and contaminated chicken feed.

In the United States, the Department of Agriculture picks up the bill for the destruction of conta-

london line

minated birds and clean-up costs. But the British Ministry of Agriculture won't put up the money, says Terence Goulder of Bain Dawes' southern region, which is brokering the policy.

"The government will slaughter any chickens with the disease," he said. "But there are no funds to compensate the farmers so they turned back to the federation, and they've turned to insurance. The insurance premium is funded by a levy on the industry, mostly on hatcheries."

The policy, which will cover one-tenth of the industry's value at any one time, is led by Lloyd's syndicates under Ian Posgate and by

Excess Insurance Co. Ltd.

Lloyd's bill

Three members of Parliament want to know why Lloyd's of London needs an immunity clause in its self-regulation bill.

The legislators asked Lloyd's Chairman Peter Green recently if the clause that gives the proposed Council of Lloyd's immunity from liability is necessary for the future of Lloyd's organization, a Lloyd's spokesman explained.

Not even the Queen has such a privilege, say opponents to the immunity clause.

The Parliament members are

waiting for a reply to their questions, due this week from Lloyd's of London lawyers.

The Lloyd's bill, which passed the crucial committee stage after a struggle, will be presented before the entire House of Commons in November when Parliament reconvenes.

If there are no further objections to the bill, it will go to the House of Lords, and if approved, the self-regulation proposal becomes law.

A cluster of individuals, however, led by members of the Alexander Howden Group Ltd., may petition against the bill's clause that demands that brokers divest themselves from their underwriting agencies within five years.

Alexander Howden Group, however, has just sold one of its Lloyd's syndicates.

Worker responsibility

A company can improve production and reduce risks if it involves its employees in the everyday decision-making, says the British Department of Employment's work research unit.

Giving workers partial control of their workplace means improved results, said a spokesman.

"By having this sort of approach, it gives you a healthier, leaner organization. . . You have to have the workers involved," he said.

Management should especially advise their workers on new technology or new plants that are on the drawing board, the report says.

A major electronics company changed its linear production lines to U-shaped lines because of employee involvement.

Bureau plans to compile pension facts

Crain News Service

CAMBRIDGE, Maine—The National Bureau of Economic Research, a non-profit think tank here, has disclosed plans for a major compilation of statistics on pension systems in the United States.

The publication is part of an ongoing National Bureau pension project involving 20 to 30 economists.

Co-authored by Laurence Kotlikoff, an associate professor at Yale University now on leave to the Council of Economic Advisers, and Daniel Smith, a staff researcher, the intensive study will cover issues concerning private and public plans.

Roughly pegged to run 700 pages, the report will survey private plans and outline their coverage, distribution and financing.

For example, the study will look at private pension fund assets and the status of large corporate pension fund liabilities.

"We'll include information from the 1980 annual reports of the Fortune 1,000 firms," Professor Kotlikoff said.

"Together with this analysis we hope to cover the general performance of pension funds," he continued.

While the study will exclude Social Security, it will focus on state and local pensions.

"We tried to provide unbiased data and bent over backward to insure their quality," Professor Kotlikoff said.

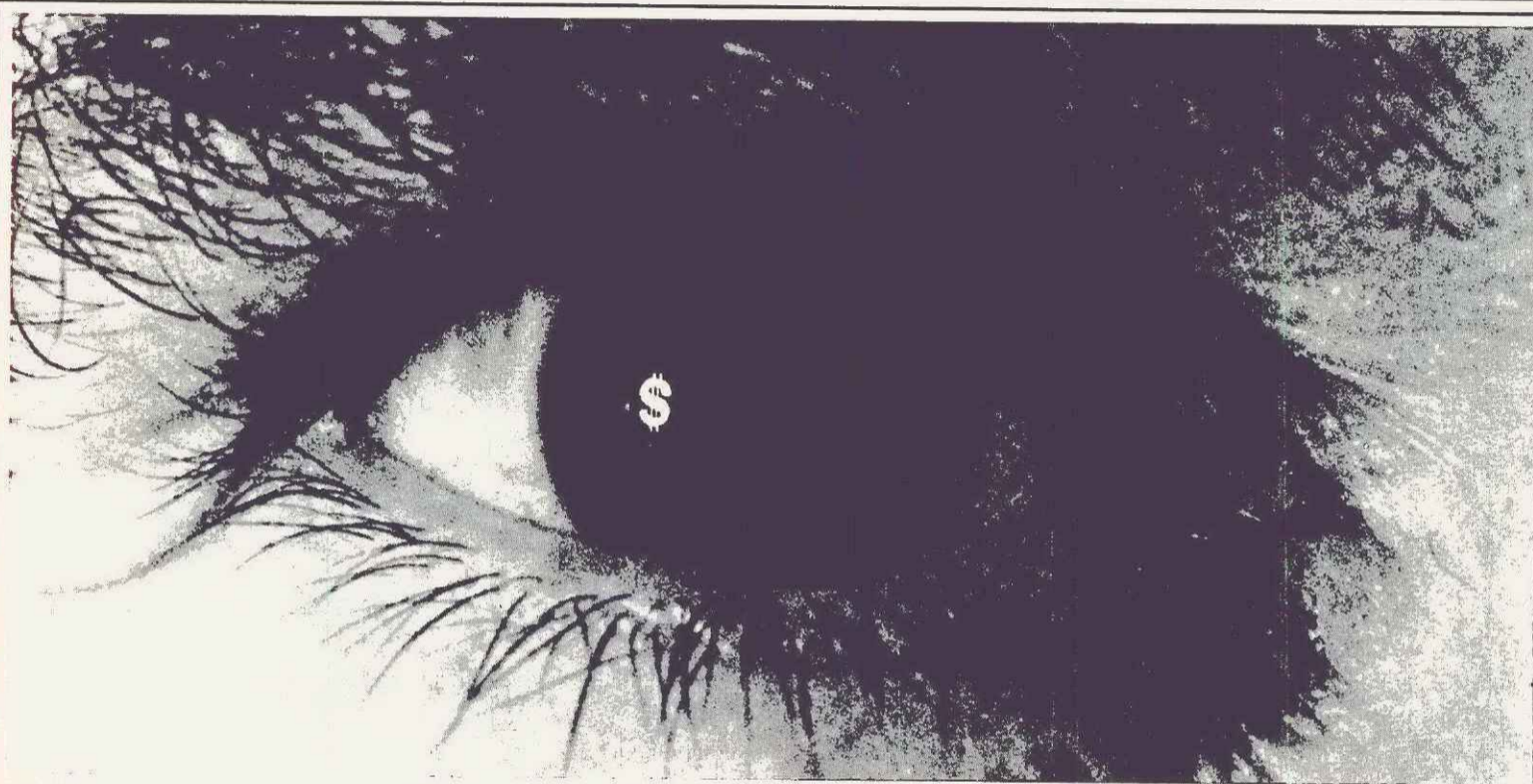
He added that the book will probably be the most complete compendium of pension data when it is goes to press some time next year.

Based on data from the National Bureau, the government's Bureau of the Census and SRI International in Menlo Park, Calif., the book will cover, among other things, a considerable number of statistics on the unfunded liabilities of state and local pension funds under the assumptions of 5% and 9% inflation rates.

In addition, the project will include data supplied by the U.S. Department of Labor, the Internal Revenue Service and the Social Security Administration.

"I intend to indicate what we think is surprising about the data," he said.

"There is some indication that the inflation protection for defined benefit plans is somewhat less than we expected and we plan to show that in the book," Professor Kotlikoff added.



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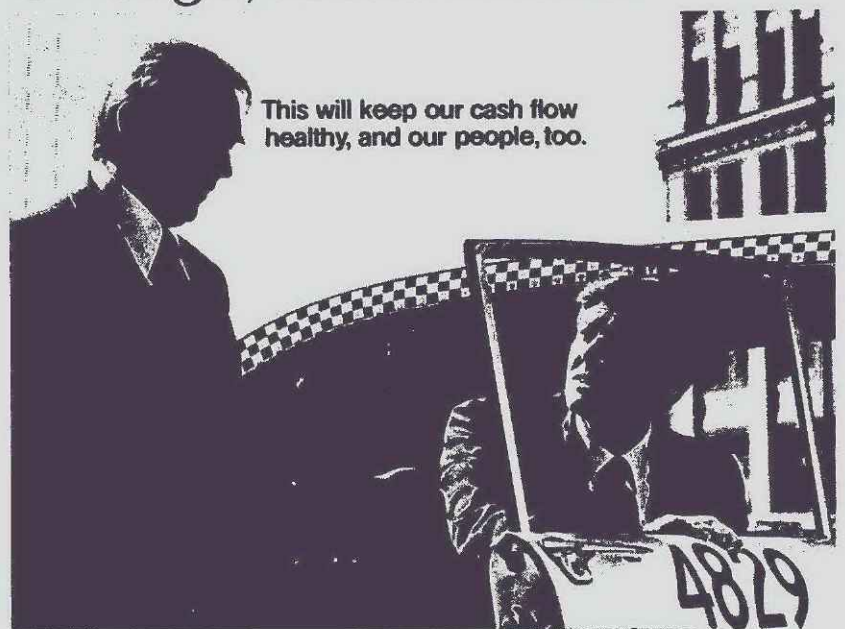
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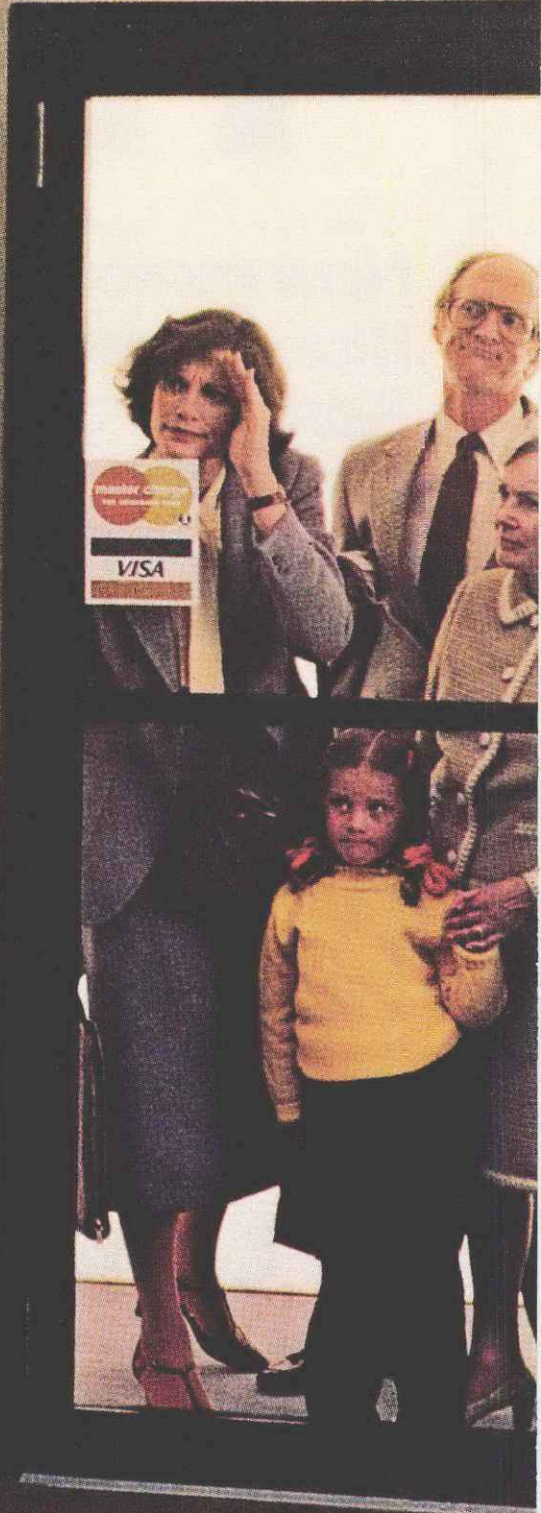


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are under way. So you can pay employees, retain key accounts and generally get on with the business of staying in business.

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This is just one example of how Continental goes beyond the standard, textbook coverages to provide innovative solutions to complex insurance problems—an approach that has made us a leader not only in the specific areas of property and income protection but in the broader area of package policies as well.

Of course, that should come as no surprise. After all, Continental created the first package policy ever made available to a broad spectrum of businesses. Which means that we were the first to offer the majority of companies one consolidated plan tailored to their needs. Without gaps or duplications in coverage. And with significantly reduced paperwork and premiums.

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Insurers taking selected asbestos suits to court

CHICAGO—The greatest weapon insurers and defendants in asbestos cases have against plaintiffs is judiciously selecting which cases to take to court, says a spokesman for the insurance industry.

Peter D. Shea, supervising examiner for the asbestos unit at Liberty Mutual Insurance Co. in Boston,

said that trying the right cases and efficiently disposing of the rest through settlement will be paramount in handling the skyrocketing number of lawsuits plaguing the asbestos industry.

"We can safely anticipate that we will be participating in very few trials," Mr. Shea told the members

of the Defense Research Institute meeting in Chicago. "Efficient disposition of the cases must be the first priority."

To date, insurers have tried only several tenths of 1% of the cases closed, he said.

Mr. Shea said the goal should be to provide "the most efficient and

least expensive total disposition of all the cases, considering both the loss and expense costs."

However, he pointed out that settlements are costing defendants three or four times as much as several years ago.

But the difficulty in defending asbestos suits and the cash-flow

problems of policyholders determine whether the insurer should go to trial or settle.

Defendants are facing larger verdicts and punitive damages, Mr. Shea said. "Every time we try a case, we take a chance."

In addition, many policyholders do not have a lot of money to spend

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Lawyer decries punitive awards for asbestosis

Continued from page 3

Manville Corp., the Jim Walter Corp. and North American Asbestos.

But according to Mr. Markusson about 90% of the 8,500 pending asbestos cases also seek punitive damages.

The magnitude of the cases call for a re-examination of old arguments previously rejected and consideration of new ones, he explained.

Arguments suggested by Mr. Markusson are that punitive damages violate the due process and equal protection clauses of the U.S. Constitution, can constitute double jeopardy where there are multiple claims and are an undue burden on interstate commerce.

He also cited the lack of objective standards in awarding punitive damages, the inconsistency in awarding them and the fact they are no longer needed.

Mr. Markusson said the argument that punitive damages are needed to punish defendants and deter similar action is no longer valid.

"The sheer number of (asbestos) cases has a punitive element," he added, noting that current shareholders are being wrongfully punished.

"By punishing innocent shareholders, you are punishing the wrong people," he continued. "You're doing more harm than good."

Mr. Markusson said that businesses are already deterred from engaging in similar conduct and marketing the product.

The doctrine of punitive damages has been left on the "very shaky legs of raw windfall compensation," he said.

"I for one am not going to let the foundation of American industry fall on the basis of greed," Mr. Markusson stated.

Robert St. Leger Goggin, an attorney with the Philadelphia firm of Marshall, Dennehey, Warner, Coleman and Goggin, said attorneys must help educate judges on the nature of punitive damages and their destructive effect on American business.

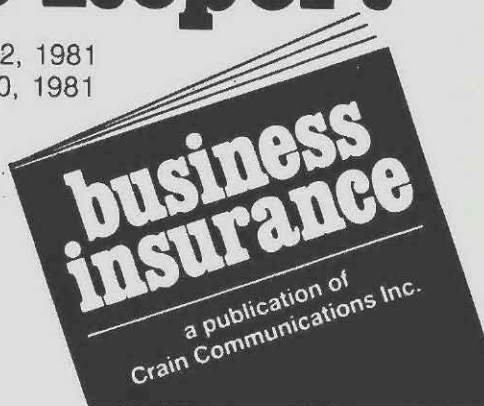
Mr. Goggin explained that many plaintiff arguments to support punitive damages can be "watered down."

Defendants must bring out at trial that there was confusion as late as 1964 about the danger of asbestos, that concerns about asbestos are similar to those being debated over other items today such as coffee, and that the punishment inflicted by punitive damages would be on shareholders who were not around when the damage was done.

Mr. Goggin added that juries should be informed that the asbestos industry had much to do with the initial research on the harmful effects of asbestos, that they were selling to sophisticated buyers and that medical knowledge about asbestos evolved over a long period of time.

Coming Up! Reinsurance Report

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on defense costs.

Defendants must carefully choose when they go to trial. Ideal elements include:

- The litigation is in a jurisdiction where defendants can get a reasonably unprejudiced jury.
- Insurers and defendants have something to gain by going to trial; for example, if a settlement would be more than the claim is worth.
- The case has little emotional appeal or the plaintiff's credibility can be attacked.
- The plaintiff was exposed to a number of health hazards besides asbestos.

The fewer of these characteristics a case has, the less-inclined a defendant should be to go to trial, Mr. Shea said.

"Experience has shown us that the most important item in defending these cases is our ability to attack the causal relationship to the medical injury," he said.

"We strive to demonstrate that either there is no injury or that the

injury results from other than exposure to asbestos," Mr. Shea continued.

Because of the vast number of cases and the relatively few that will go to trial, Mr. Shea said techniques must be developed to dispose of cases.

He said "bulk settlements" of individual cases and group cooperation of defense attorneys will play a role, but that they should not interfere with realistically evaluating and disposing of the cases.

He also said that attorneys will have to find "imaginative" ways to settle cases that may involve non-traditional approaches.

Such methods may include annuity settlements, multiple annuity settlements, scheduled future payments for immediate settlements, pre-set prices or agreed figures on cases subject to verification and the use of multiple package settlements to include both strong and weak cases.

Insurers show new militancy

CHICAGO—A new militancy among direct and excess underwriters and reinsurers is developing due to asbestos and other hazardous substances litigation, an attorney told a Defense Research Institute conference in Chicago this month.

Michael J. Merlo of the Chicago firm of Pretzel, Stouffer, Nolan & Rooney said these types of suits were never contemplated by insurers, so some companies may have charged too little premiums or established reserves that were too small.

But the common problems the industry is facing are not resulting in common solutions, he said. They are instead creating a new militancy among insurers.

Mr. Merlo indicated that the struggles within the industry will involve:

- Primary insurers fighting over whether insurance coverage in place when a person was exposed to the hazardous substance or if coverage in place when the disease was diagnosed applies.
- Primary and excess insurers that, in some cases, are both looking for ways to modify insurance contracts.
- Reinsurers that are scrutinizing their obligations under treaties.

Parties will strictly construe contracts they are involved in, Mr. Merlo said. An example is the increased litigation between ceding companies (those who place part of the risk with the reinsurer) and the reinsurers.

Mr. Merlo cited several cases where reinsurers have successfully claimed that they were not liable because they were not given prompt notice as required by the treaties or certificates they were a party to.

Mr. Merlo said that another issue may be whether excess insurers have to defend after primary companies settle a case.

He indicated that policyholders may turn to excess insurers for defense after the primary insurer has expended its policy limits.

Mr. Merlo predicted that the expansion of litigation to include all types of substances besides asbestos will continue to cause increasing problems for policyholders and insurers.

"Many other chemical and mineral compounds including but not limited to zeolites, urea foam, DES, Agent Orange and benzene are the basis for claims and litigation," he said.

The result is that the tort system and traditional concepts of insurance law are buckling, creating "internecine warfare" among insurers and policyholders, he said.

CROSSWORD PUZZLE

ACROSS

- Primary property coverage in which insurers accept stated percentage of risk. 2 words pl.
- Auditor of accounts. abbr.
- Person who runs a business. abbr.
- E.g. Eskimo and pizza
- A kind of session
- The first one occurred in New Mexico on July 16, 1945. comp.
- Am. dramatist. *The Man Who Came to Dinner*
- Insurance payment
- What one does with initial stated portion of insurance claim
- Compass point
- Musical compositions intended mainly for practice of technique
- U.S. Attorney General, 1961-1964. Initials
- Island of Immigration entry
- Shortened version of girl's name
- Realistic. practical
- and behold
- You might have one of these in the fire
- Type of excess insurance coverage. abbr.
- Leader in underwriting management of excess and surplus lines
- Cubic meter. abbr.
- Capital of Tarn. France
- id. Roman poet
- Agreement between primary insurer and reinsurer
- Section of playing field. abbr.
- Cowboy
- New England state. abbr.
- One of President Reagan's principal advisers. first initial and last name
- British scientific institution. abbr.
- Vertical windows projecting from sloping roof
- Baccala & Shoop's northwesternmost city
- God of love

- Duke or Day. 2 words
 - Paulo
 - In a —, jiffy
 - Actor Colman
 - Dutch airline. abbr.
 - When an insurance company has not been licensed in a state. comp.
- ### DOWN
- Commercial casualty coverage insuring third parties against any risk
 - Stare at
 - Trolley
 - Unit of mechanical energy. abbr.
 - N —, national insurance organization
 - Insurance prefix
 - Affirmative. Sp.
 - What Baccala & Shoop is known as. 2 words
 - Go separate ways
 - Urban living spaces. abbr.
 - Vaulted semicircular recess in building
 - Midday rest
 - For shame!
 - Mail a letter a second time
 - Exclamation of joy
 - Stan the Man
 - Plaza — Toros
 - Free of wear or decay
 - Place to store belongings during athletic participation. 2 words
 - Affirmative. a la Gary Cooper
 - Where Kings and Red Wings play. 2 words pl.
 - Louisville Slugger
 - Payments in accordance with insurance policies
 - How excess coverage is structured. pl.
 - Division of risks among insurance companies
 - Commitment by insurer beyond normal capacity
 - Salmon eggs and lobster coral
 - Title prefixed to woman's name that does not indicate marital status
 - Red or Dead
 - Office furnishing
 - Spoken
 - Act for which injured party is entitled to compensation
 - Gait between a walk and a run
 - culpa
 - Attendant of sick. abbr.
 - Chemical symbol for tin
 - Money market instrument. abbr.

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The crack troop in underwriting management

Cargo business declining, IUMI official says

By JOHN MILLER

worldwide

CORFU, Greece—The general cargo insurance climate has worsened considerably in the past 12 months, according to Niklas Kihlbom, chairman of the International Union of Marine Insurers' cargo committee.

He told the group's annual conference that the volume of cargo business reaching underwriters is slipping, despite growth in the world trade.

"This is a worrying trend," he said, explaining that one of the causes is the expansion of some major transport groups.

"Several of the marine insurance market's larger clients have become so big through growth and mergers that their own capital resources are very large in relation to

their pattern of shipments in foreign trade," Mr. Kihlbom explained at the meeting.

"This has enabled many of them, often with the aid of modern risk management techniques, to carry a large portion of their cargo transport risks by themselves."

The firms are using captive insurers, self-insured retentions and larger deductibles to cover their own risks.

Those moves, he said, have reduced the volume of premium income reaching underwriters.

"So underwriters are scrambling for the remaining cargo business at almost any cost in the present overheated climate of competition," he

complained.

"They are writing business at suicidal rates, hoping that investment income will make up for any underwriting losses."

But if world interest rates tumble, many cargo underwriters could suffer. Hopes for a return to prudent underwriting rest on a tougher attitude by reinsurers or by corrective action on the "lunatic fringe," he said.

Mr. Kihlbom, who is chairman of Atlantica Insurance Co. of Göteborg, Sweden, based his comments on reports from more than 20 member countries of the IUMI. He spoke to representatives from more than 40 maritime nations, including the

United States.

New Zealand insurer

WELLINGTON, New Zealand—The State Insurance Office, which has now been in existence for 76 years, has doubled its premium income for fire, accident and marine coverage to \$89 million in New Zealand currency in the past six years.

The office competes with New Zealand's commercial insurance industry for non-life risks, and last year returned a gross underwriting surplus, after claims and reserves, of \$21 million, compared with a surplus of \$28 million in 1979.

The decline was partly due to a 27% rise in claims costs, including \$500,000 for floods in the Taieri District.

The State Insurance Office posted a net underwriting profit of \$4.42 million after management expenses and other costs in 1980, compared with \$13.98 million the previous year.

The office had a premium income of \$26,254 when it was founded by the New Zealand government in 1905.

"The remarkable growth which the office has experienced is a tribute to the foresight of those who were responsible for its formation. It is now a clear leader in the insurance industry in New Zealand, both in terms of current policies and premium income," the office's 1980 annual report says.

The State Insurance Office is financially self-supporting and has some 1.5 million policies now in force.

Reimbursement plans governed by new rules

CHICAGO—The Internal Revenue Service has issued final non-discrimination regulations for self-insured medical reimbursement plans set up under the Revenue Act of 1978.

If non-discrimination requirements are not met, all or part of the benefits paid to "highly compensated employees" can be counted as taxable income, according to The Wyatt Co., actuaries and consultants.

Highly compensated employees are defined by the IRS to be the five highest-paid officers, employees owning 25% of the company's stock and employees that rank in the top 25% in salary.

The new requirements for such plans are:

- The plan must cover 80% of all employees or 80% of eligible employees if more than 69% of all employees are eligible.

The reimbursement plan can also cover a group of employees if the secretary of the treasury rules that the group is not discriminatory in favor of highly compensated employees.

Union members may be excluded from a such a plan if medical expenses have been a bargaining topic.

- Reimbursable benefit limits and coverage must be uniform for all employees, regardless of age or years of service.

Formulas that provide medical benefits in relation to employee compensation are considered discriminatory.

- Treatment for known illnesses, physical incapacity and specific symptoms must be provided on a non-discriminatory basis.

However, such a plan is allowed to provide routine health examinations to a group of highly compensated employees on a discriminatory basis.

Wyatt believes there are two approaches available for companies that wish to continue a self-insured medical reimbursement plan that would be considered discriminatory by the government:

- Provide benefits through an insured contract, which is not governed by the new Internal Revenue Service regulations.

- Continue the plan on a self-insured basis but increase benefit reimbursements to cover the anticipated tax to participating employees.

If a non-discriminatory plan covers a limited group, like salaried employees only, Wyatt suggests the company get approval from the IRS to avoid the possibility of tax penalties.



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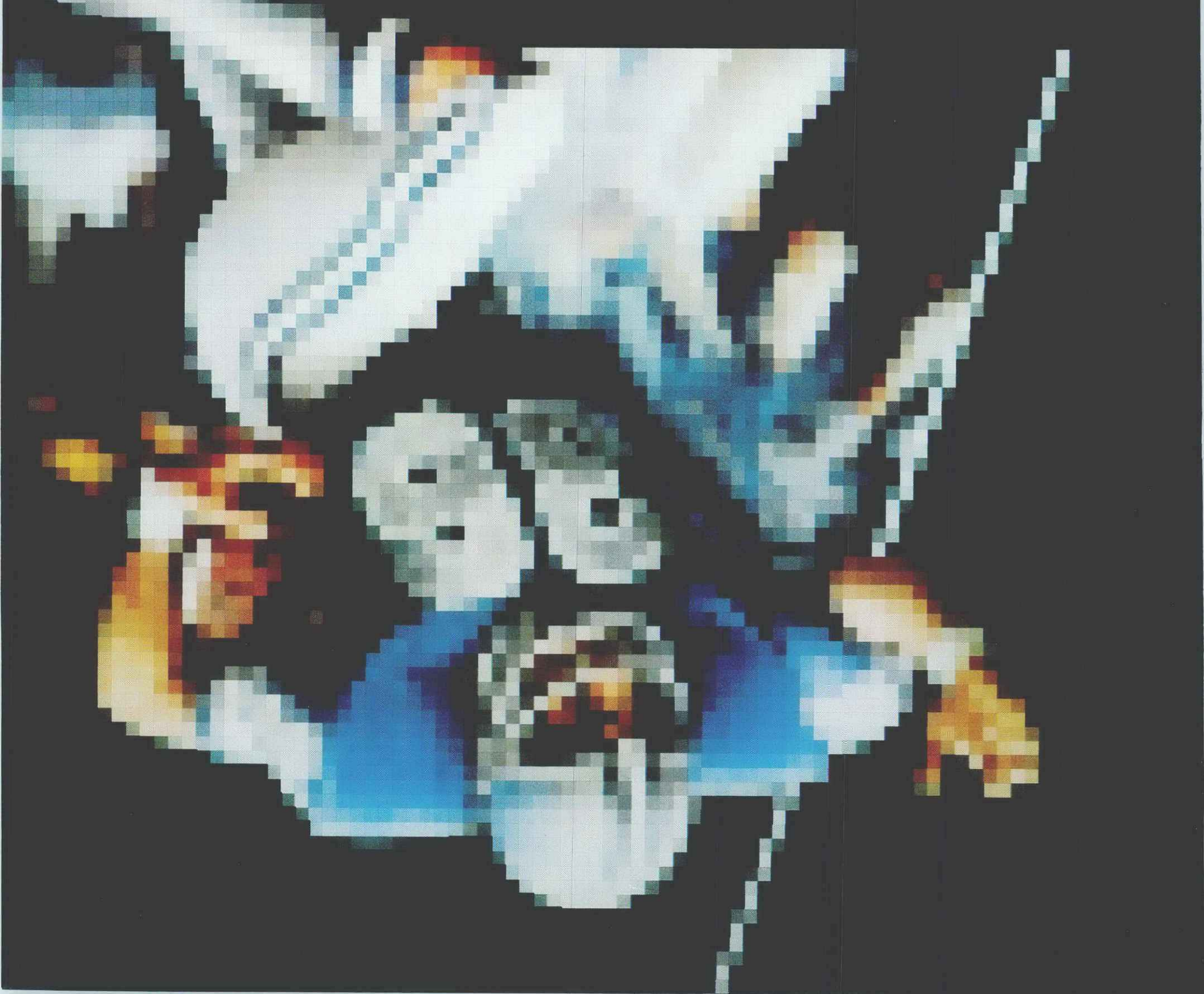


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OCT. 25-28. 1981 Corporate Benefits Management conference in San Francisco, sponsored by the International Foundation of Employee Benefit Plans; members, \$440; non-members, \$515. IFEBP, 18700 W Bluemound Road, Box 69, Brookfield, Wis. 53005; 414-786-3700.

OCT. 25-29. Washington Insight on Employee Benefits program in Washington, D.C., sponsored by the U.S. Chamber of Commerce; \$825. Nancy Turnbull or Suzanne Lulewicz, U.S. Chamber of Commerce, 1615 H St. N.W., Washington, D.C. 20062; 202-659-6138.

OCT. 26-27. Eighth Annual Environment and Safety Briefing sessions in Washington, sponsored by BNA Education Systems; \$250. Environment Conference Secretary, BNA Education Systems, Suite S-602, 1231 25th St. N.W., Washington, D.C. 20037; 800-424-6890; 202-452-4420.

OCT. 26-27. Industrial Hygiene for Managers of Hazardous Activities seminar in Arlington, Va., sponsored by the International Institute of Safety & Health; \$295; three or more from same firm, \$250. IISH, 5010-A Nicholson Lane, Rockville, Md. 20852; 301-984-8969.

OCT. 26-28. Product Safety Engineering course in Baltimore, sponsored by the Institute of Product Assurance; \$450. IPA, 9811 Mallard Drive, Suite

213, Laurel, Md. 20811; 301-792-0710.

OCT. 26-29. Loss Control Management seminar in Cleveland, sponsored by Factory Mutual Engineering & Research. Open to Factory Mutual-insured members only, \$495. Also Nov. 16-19 in San Francisco and Nov. 30-Dec. 4 in Dallas. Training Resource Center for Loss Control Management, Factory Mutual Engineering Corp., 1151 Boston-Providence Turnpike, Norwood, Mass. 02062; 617-762-4300.

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

OCT. 28-30. Techniques of Loss Control course in Chicago, sponsored by the Risk & Insurance Management Society; members, \$295; non-members, \$395. Also Dec. 2-4 in New York. Rebecca Zimm, RIMS, 205 E. 42nd St., New York, N.Y. 212-286-9292.

OCT. 29-30. Radiation Protection of the Public in a Nuclear Accident course in Arlington, Va., sponsored by the International Institute of Safety & Health; \$295; three or more from same firm, \$250. IISH, 5010-A Nicholson Lane, Rockville, Md. 20852; 301-984-8969.

OCT. 29-31. Longshoremen's & Harbor Workers' Act Outlook '81 seminar in San Francisco, sponsored by the Industrial Claims Assn. in cooperation with the U.S. Department of Labor; \$250. Jon W. Chaloner, Seminar Chairman, Industrial Claims Assn., 582 Market St., Suite 1909, San Francisco, Calif. 94104.

NOV. 1-4. Benefits Processing Institute program in Williamsburg, Va., sponsored by the International Foundation of Employee Benefit Plans; members, \$360; non-members, \$435. IFEBP, 18700 W. Bluemound Road, Box 69, Brookfield, Wis. 53005; 414-786-8700.

NOV. 2-4. 38th Annual Meeting in Honolulu, sponsored by the National Assn. of Independent Insurers; members, \$175; non-members, \$275. NAII Convention Office, Suite 1632, 333 N. Michigan Ave., Chicago, Ill. 60601.

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

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

NOV. 5-6. Defending Intentional Tort Cases course in Kansas City, Mo., sponsored by the Defense Research Institute; members, \$235; non-members, \$270. Anthony K. Karpowitz, Defense Research Institute, 1100 W. Wells St., Milwaukee, Wis. 53233; 414-272-5995.

NOV. 8-10. Mining Product Liability and Safety conference in St. Louis, sponsored by The Energy Bureau Inc.; \$650. Carol Hertzoff, The Energy Bureau Inc., 41 E. 42nd St., New York, N.Y. 10017.

NOV. 12-14. Public Employees conference in Williamsburg, Va., sponsored by the International Foundation of Employee Benefit Plans; members, \$360; non-members, \$435. IFEBP, P.O. Box 69, Brookfield, Wis. 53005; 414-786-8700.

NOV. 15-17. Business Insurance Communicating Employee Benefits conference in Chicago, sponsored by Business Insurance. The latest tips and techniques to effectively communicate benefits to employees; \$395; \$355 for two or more registrants from the same company. Registration fee includes Nov. 16 awards dinner honoring winners of the BI Benefits Communications competition. Valerie Adams, Crain Educational Division, 740 N. Rush St., Chicago, Ill. 60611; 800-821-6877.

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

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

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

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

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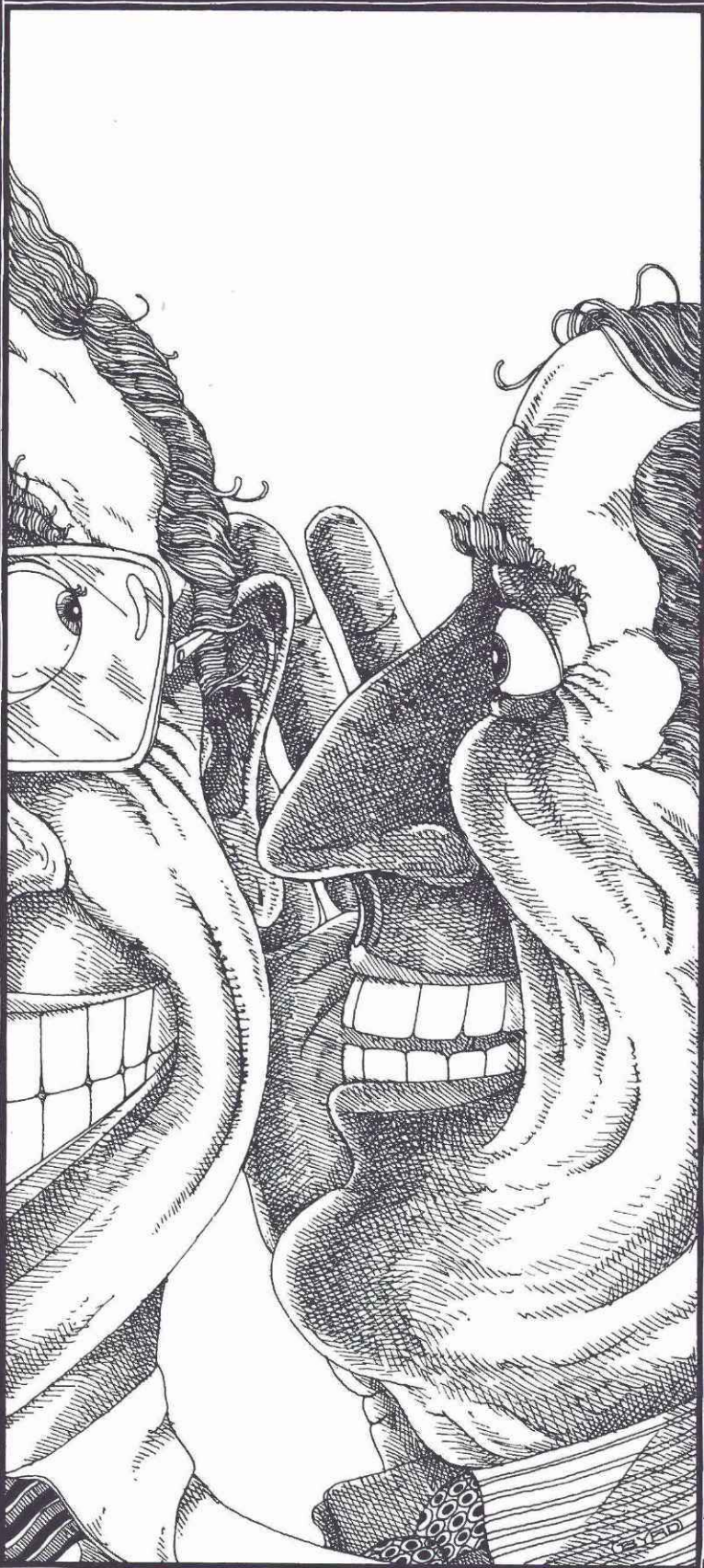
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• **"Armed and Dangerous: A Study of Safe Loading"** is the title of a new safety film produced by Allied Corp. Available from BNA Communications Inc., the 15-minute film explores the dangers in loading and unloading trucks and rail cars. It also reviews safety practices for supervisors and workers in each stage of the operation. A 20-page workbook with background information, general safety precautions and questions and answers for different types of rail cars and trucks are included with the film. It is available in 16mm film and ¾-inch video cassette (either Beta or VHS). License cost is \$295, a 3-day rental costs \$95 and a 24-hour preview is \$30. Workbooks are \$1 each. A minimum order of 10 copies is required. For further information write BNA Communications Inc., 9417 Decoverly Hall Road, Rockville, Md. 20850; 301-948-0540.

• A new textbook, **"Principles of Insurance Production,"** has been released by the Insurance Institute of America. It is the first of three texts in a program leading to a new designation, Accredited Adviser in Insurance. The text will deal with background material and common personal lines insurance products, including life insurance. Commercial lines insurance products are also analyzed. The new text has been prepared under the direction of Peter R. Kensicki, director of producer education for the institute. The cost is \$15. To obtain a copy contact Insurance Institute of America, Providence and Suggartown Roads, Malvern, Pa. 19355.

• A booklet entitled **"A Comprehensive Accident and Fire Prevention Program for Nursing Home Personnel"** has been published by Hirsch Wolf & Co. Inc. The cost of the booklet is \$1 but is free of charge to the health care facilities. For copies contact Hirsch Wolf & Co. Inc., 1505 Coney Island Ave., Brooklyn, N.Y. 11230; 212-252-2800.

• The Employee Benefit Research Institute has completed seven new **pamphlets on benefit topics.** They are: "The Flexible Compensation Plan," "Defined Benefit and Defined Contribution Plans: Understanding the Differences," "Integrating Pension Plans with Social Security," "The Legal Services Plan," "Retirement Planning," "The Multiemployer Plan" and "Tax Sheltered Annuities." The pamphlets are available for \$1 each and may be purchased individually or as a group. Discounts are available for purchases in large quantities. The pamphlets are available in a "bookshelf box" for \$12. Write EBRI Publications, 1920 N St. N.W., Suite 520, Washington, D.C. 20036.

• Walton Insurance Ltd., a Bermuda-based insurance company, has published a **brochure** introducing its new corporate look, describing management philosophy and presenting its professional staff. For a free copy write Rockmoor Associates, Ocean Ave., Newport, R.I. 02840.

• The Insurance Brokers'

Assn. of the State of New York Inc. has published a new **brochure** describing the association's structure, activities and goals and the benefits of becoming an association member. For a free copy of the brochure write The Insurance Brokers' Assn. of the State of New York Inc., 116 John St., Suite 822, New York, N.Y. 10038; 212-962-7771.

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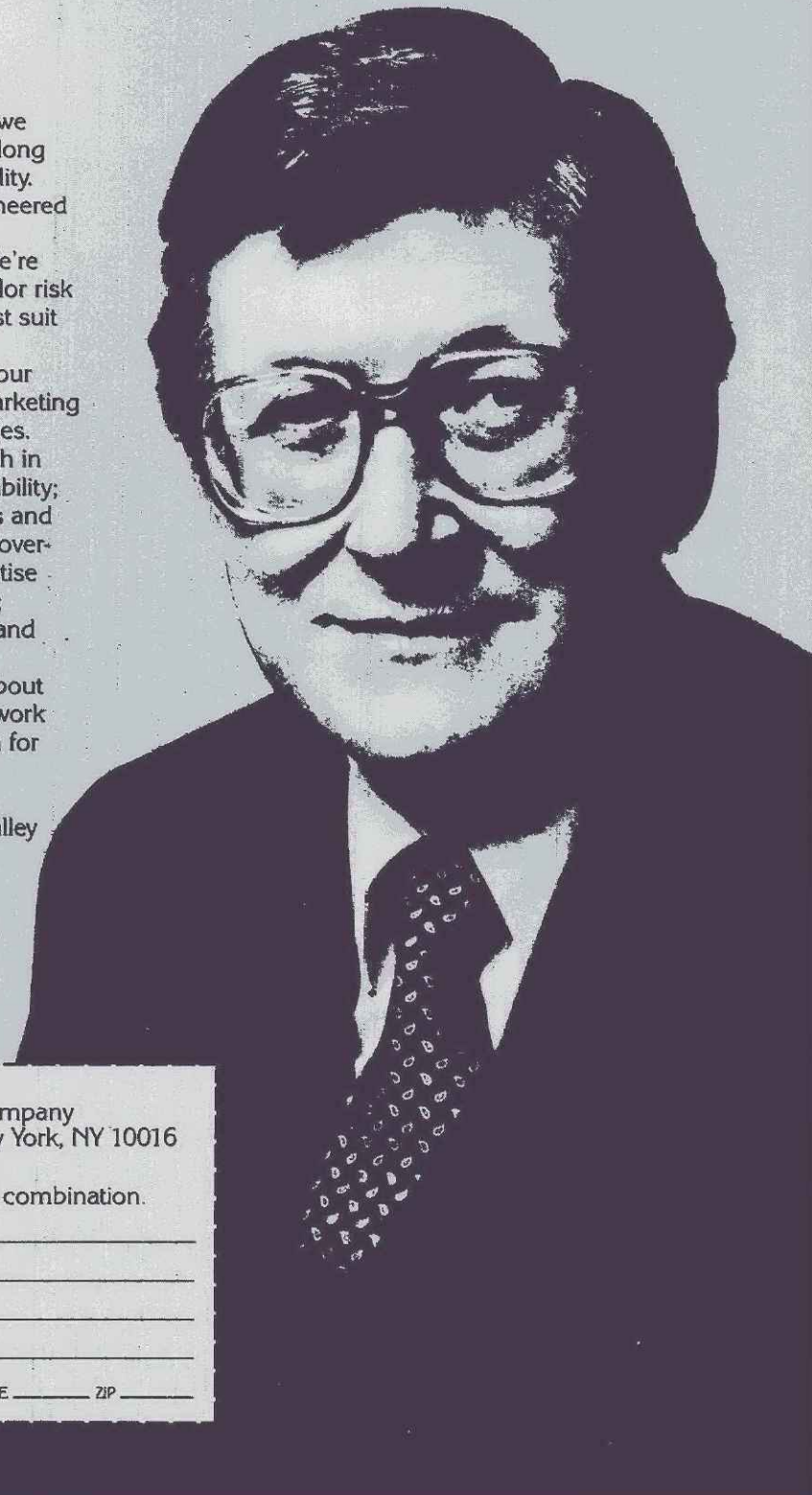
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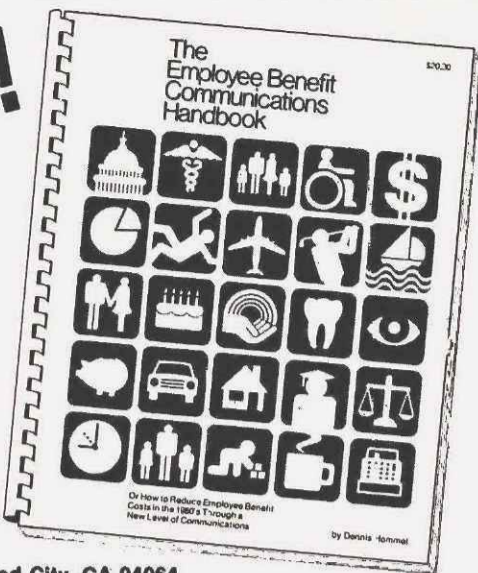
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INA Corp. through its INAPRO subsidiary has introduced a professional liability policy to protect public employees and officials.

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For further information contact Corinne F. Berke, Assistant Vp, INAPRO, 1185 Ave. of the Americas, New York, N.Y. 10036.

Security system

The JC/85 Access Control System is a new badge access system

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The JC/85 system can be adjusted and expanded to suit the needs of individual companies. As many as 16 communication trunk cables can relay information to and from field hardware or units. The badge processing units are micro-processor based. These units provide English language use prompting and a backup mode operation for the main processor unit.

The JC/85 system has search capabilities to scan historical transaction data, the ability to produce hard and soft copies and other standard application features.

For further details contact Mr. Hollrith, Johnson Controls Inc., 50 E. Michigan St., Milwaukee, Wis 53201; 414-277-4128.

British market report

Conning & Co. of Hartford, Conn., in conjunction with its London associate, Fox-Pitt, Kelton & Partners, has developed The Insurance Security Report. This financial reporting service covers more than 250 companies in the British property/casualty market.

The primary sources of data are British and other foreign-based company returns. The first volume of The Insurance Security Report covers 1977 to 1979 reports of companies incorporated in Britain.

For more information write The Insurance Security Report, Conning & Co., 41 Lewis St., Hartford, Conn. 06103; 203-527-1131.

Smoke mask

Ziamatic Corp. has developed the Zico emergency smoke mask. The mask filters out smoke and harmful gases such as chlorine and ammonia.

The mask is a non-combustible hood with a built-in filter/respirator. It can provide 15 to 20 minutes of safe breathing. The mask slips on, with the fog-resistant window and respirator covering the face. Because of its standard size, it can be worn by adults and children.

For details on the Zico emergency smoke mask write Ziamatic Corp., 10 W. College Ave., P.O. Box 337, Yardley, Pa. 19067; 215-493-3618.

Training course

"Principles of Time Element Coverage" is a new property/casualty insurance training course introduced by Pictorial Publishers Inc.

This new manual replaces the chapters on time element in Pictorial's "Commercial Fire Coverage." "Principles of Time Element Coverage" explains time element and business interruption insurance, the difference between gross earnings forms, how to compute previous and projected gross earnings from a company's financial statement and how to apply payroll endorsements.

The product is a self-study kit with a 168-page text, forms and endorsements booklet, business interruption expenses chart, examination and answer key, certificate of completion and instructor's guide all in a three-ring binder.

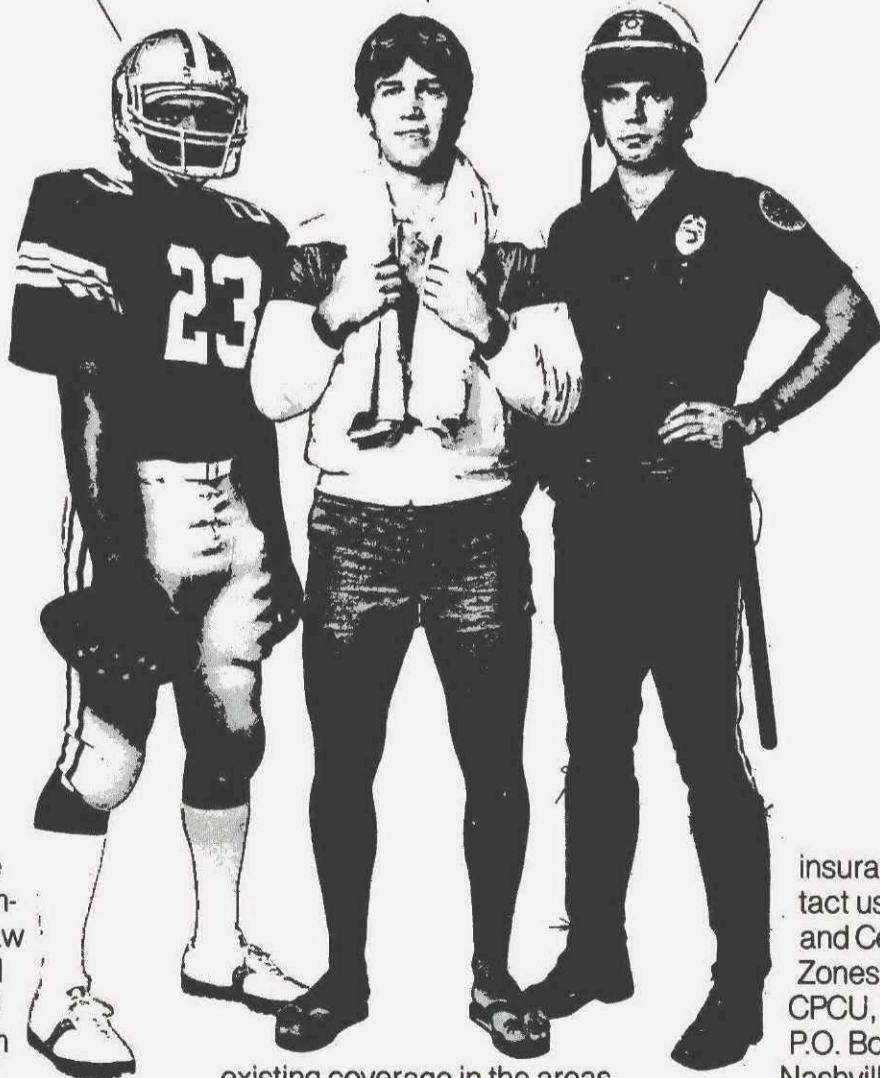
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615-361-4065 For Mountain and Pacific Time Zones: Joel Ganze, PENCo WEST, 3580 Fifth Avenue, San Diego, CA 92103, 714-297-6825.



Utah agencies to examine suggested comp changes

SALT LAKE CITY—The state Insurance Department, in conjunction with the Utah Insurance Fund and the workers compensation division of the state Industrial Commission, will hold a meeting Oct. 14 to discuss possible administrative and legislative changes involving workers compensation coverage.

Among the wide range of issues to be discussed at the special hearing are:

- The level of rate competition in workers compensation insurance, including marketing alternatives; rate adequacy; the state fund vs. rates filed by the National Council on Compensation Insurance; rate deviations; the use of dividend options by private insurers; and the duties of the insurance commissioner in providing for uniform rating.

- The reliability of premium and loss statistics submitted by the NCCL, the state fund and private insurance companies, including their loss-reserving methods; reporting of collected and or uncollected earned premiums; standards of verification of classification and payroll reports; and the uniformity of experience ratings for multi-state employers.

- The extent of loss prevention and rehabilitation services provided by the state fund, the Utah Industrial Commission, private insurers and self-insurers.

- If benefit levels and service levels are sufficient to justify the loss of an individual's constitutional right to sue one's employer.

- The extent of the availability of workers compensation insurance, the public's awareness of the private insurance market and the different levels of benefits, service and prices.

- The validity of the employer classification system and the allowance of justified deviations from the system.

- The public's knowledge of statutory changes affecting workers compensation, including interest on late payment of claims; availability of workers compensation benefits if light duty work is not available; and the requirement that claims be filed with the Utah Insurance Fund.

- If health insurers delay payment of claims while a workers compensation claim or appeal is pending.

Insurer fined

NEW YORK—Compass Insurance Co. of Dallas has been fined \$20,000 by the New York State Insurance Department.

Compass has admitted that it executed and implemented several reinsurance agreements and amendments to existing agreements with other members of its holding company system without prior written notification to the superintendent, which are violations of state insurance law.

The company has paid the fine and stated that the violations were due to administrative problems arising in the course of restructuring its holding company.

Compass is a domestic insurer licensed to write various lines of property casualty insurance in New York state.

N.Y. fines broker

NEW YORK—The state Insurance Department has fined Joseph H. Starr Jr., a Harrison, N.Y., insurance broker, \$2,500 following a departmental hearing.

From 1973 to 1978, Mr. Starr allegedly executed performance bonds and labor and material pay-

around the states

ment bonds without the proper insurer authorization. At the hearing, the transactions were found to be matters of poor judgment and were judged improper, but did not demonstrate a lack of trustworthiness, the department said.

Mr. Starr has paid the fine.

Commissioner to quit

RICHMOND, Va.—James W. Newman Jr. will resign as state insurance commissioner, Nov. 1.

Mr. Newman said he will pursue opportunities in private industry. No successor has been named. ■

business insurance

INSURANCE SERVICES GUIDE:

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O'Malley named Union Standard president

James E. O'Malley Jr. has been named president and chief executive officer of Union Standard Insurance Co. in Dallas.

Mr. O'Malley succeeds **Maurice R. Gerleman**, who left the company but will continue as a consultant to Union Standard.

Union Standard is a subsidiary of the W.R. Berkley Corp. a holding company that owns specialty property/casualty, reinsurance and management companies.

Other insurer changes:

Malcolm D. MacKinnon promoted to senior vp and actuary of The Prudential Insurance Co. of America's group pension department. He succeeds **Meyer Melnikoff**, who is retiring.

Richard E. Davis elected secretary of Reliance Special Risk Inc. in Philadelphia, a member of The Reliance Cos.

William G. Lichtenberg promoted to vp of the special risk department of Michigan Mutual Insurance Co.

Richard Packard named senior vp in charge of group employee benefits operations at Fireman's Fund American Life Insurance Co.

Richard Ostafin named special accounts underwriting manager for Celina Group, St. Marys, Ohio.

Mary Beth Tormey promoted to commercial lines underwriting manager and **Edward H. Scott** to administrative manager, both at SAFECO Corp.'s Denver division.

William E. Lachner named general manager of the Los Angeles office of INA. Mr. Lachner is responsible for establishing an international and special risk office.

Marvin P. DeHeus appointed resident vp of INA Underwriters Insurance Co. and its subsidiary, Pacific Employers Insurance Co. He was also named general manager of a new INA office in San Francisco.

J. Allan Hall named president of the Fiduciary & General Corp.'s Nassau, Bahamas, office.

Mark Swantek joined Fremont Indemnity Co. as workers compensation underwriting supervisor for the new Portland, Ore., division. **Stanford Watson** and **Jack Eglin** appointed managers of Fremont's Portland division.

Jack Johnson promoted to resident vp of Fremont's Ventura, Calif., division.

Ralph D. Mayes promoted to vp and manager of the data systems and planning department at The National Life & Accident Insurance Co., Nashville, Tenn.

Ronald L. Kuczynski elected vp of Interstate Fire & Casualty Co., Chicago Insurance Co. and Interstate Indemnity Co., members of the Interstate Insurance Group.

Reinsurers

General Reinsurance Corp. an-

James S. Kemper is dead at age 94

LONG GROVE, Ill.—James Scott Kemper, former president and chairman of the Kemper Group, died Sept. 17 at the age of 94.

Mr. Kemper started his own insurance company in 1911 and soon headed a company that grew to the 14th-largest property/casualty insurer in the nation in 1980. He was also a founder of James S. Kemper & Co. agency, which was acquired by Ryan Insurance Group of Chicago this year.

He retired as chairman of the Kemper Group in 1966 but remained active in the organization.

Mr. Kemper also served as U.S. Ambassador to Brazil during the Eisenhower administration.

He is survived by his wife, Gertrude, and four children. ■

comings & goings: industry

nounced several promotions: **Stephen L. Lunsford** and **Kevin T. Riley** named vps, and **Raymond F. Dostal**, **Timothy P. Mitchell**, **James E. Hackett Jr.** and **David W. Sherwood** named second vps.

Jack Howison promoted to vp of reinsurance operations for Neckura, a Nationwide Insurance subsidiary headquartered in West Germany.

W. Brian Smith, director and senior vp of Intere Intermediaries Inc., has assumed expansion of production and servicing duties in the New York office. **Charles F. Harrison**, vp, appointed manager of Intere's Atlanta branch.

Paul R. Whitters joined Stewart

Smith Reinsurance Intermediaries in Kansas City, Mo., as senior vice president.

Prudential Reinsurance Co., a subsidiary of Prudential Insurance Co. of America, elected **James D. Hulett** regional vp in charge of European operations. He will continue to serve as director general of Le Rocher, Compagnie de Reassurance S.A., Prudential Re's Brussels-based European subsidiary.

Agents/brokers

George H. Griffin promoted to senior vp of the Marsh & McLennan Seattle office. **Ralph E. Turisini** named senior vp/controller of

Marsh & McLennan and **Ralph O. Hanley** promoted to senior vp.

Robert C. Buckner joined the Houston office of Frank B. Hall & Co. Inc. as vp for marine and offshore oil risks.

John P. Olsen appointed director of risk management for Fred S. James & Co. Inc.'s New York region. **Frank D. Riehle** named head of James' National Boiler & Machinery Service Division.

Philip K. Glick joined The Graham Co., a Philadelphia-based brokerage firm, as a property/casualty producer.

David W. Bianchi elected chief executive officer of Johnson & Higgins of Michigan.

Excess/surplus

James H. Butler named vp of

property underwriting for American Special Risk Insurance Co. in Atlanta.

Pam Davis joined IMS Excess & Surplus Lines in Los Angeles as head of the managing general agency division.

G. F. Burke named senior vice president of J.H. Blades & Co. Inc. in Houston. **Michael F. Dowling** promoted to assistant vice president.

Andrew J. Herbert promoted to vp of Stewart Smith Southwest Inc. in Dallas.

Edwin V. Hughes appointed executive vice president of Foremark Corp., formerly Swett & Crawford Group.

Lawrence A. Brennan named property manager of the Los Angeles office of American National General Agencies. ■

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Tax act revives stock options' effectiveness

CHICAGO—Most employers realize that recent tax-cut legislation may mean changes in employee retirement programs, but other portions of the act may have a large effect on corporate benefit plans, according to William M. Mercer Inc., an employee benefits consulting firm.

President Reagan's Economic Recovery Tax Act will allow employees covered by a pension plan to take a tax deduction for contributions of up to \$2,000 to an Individual Retirement Account or a qualified employer-sponsored pension program (BI, Aug. 24).

The new tax law also has revived stock options as a tax-effective incentive to reward executives and other key employees, according to Mercer. The old tax rules for "qualified" stock options, which were

eliminated in 1976 tax legislation, have been brought back to life by the new law as "Incentive Stock Options."

There will be no tax consequence when an Incentive Stock Option is granted, nor when it is actually exercised. When the employee sells the stock acquired through exercise of the option, any gain will be taxed at capital gains rates. The maximum capital gains rate will be reduced from 28% to 20% in 1982.

The requirement for Incentive Stock Options are:

- The option must be made under a plan approved by shareholders and the grant must be made within 10 years from the effective date of the plan.

- The term of the option must not be longer than 10 years from the date of the grant (five years if

the employee owns more than 10% of the stock).

- The option price must not be less than the fair market value of the stock at the date of the grant. If the employee holds more than 10% of the company's stock, the option price must be 110% of the stock's value.

- The employee must not dispose of the stock within two years after date of the grant nor within one year after exercising the option and receiving the stock.

The maximum fair market value of the stock received in a calendar year is \$100,000 based on the price at date of grant. Limited carryovers are permitted.

Options dated before 1981 may be converted to incentive stock options, with limits of \$50,000 per year and \$200,000 aggregate.

The 1981 tax act also provides federal estate tax reform for moderate-size estates, Mercer says.

Beginning in 1982, no federal estate tax will be imposed on any amount left to a surviving spouse. There will be an exemption of \$225,000 on all other estates for persons dying in 1982. That exemption will increase to \$600,000 by 1987.

Also, beginning in 1982 the maximum 70% federal estate tax rate will be reduced by 5% a year until it reaches 50% in 1985. The top rate is applicable to transfers more than \$2.5 million.

These changes will probably affect the current benefit tax strategy. Now many workers irrevocably assign group life insurance certificates to a trust in order to avoid estate taxes upon their death.

Also, the change in estate tax exemptions will allow many beneficiaries who are paid a lump sum from a benefit plan upon the death of an employee to use income tax advantages, like capital gains and 10-year averaging, without being liable for federal estate taxes.

Other changes mandated by the new tax law that will affect employee benefit plans, according to Mercer, are:

- Elimination of the "constructive receipt" doctrine. Employees will be allowed to withdraw from profit-sharing plans amounts exceeding their actual contributions to the plan and be taxed only on the amount exceeding their contribution.

- An increase in the annual limit a self-employed person can contribute to a personal retirement plan to \$15,000. The same limit has been extended to Simplified Employee Plan, under which employers contribute to their employees' IRAs.

- Extension of tax-free Qualified Group Legal Services Plans to the end of 1984. Before the new law was enacted, employers were to have ended such plans by the end of this year.

Occupational safety course to be offered

LOS ANGELES—The University of Southern California's Institute of Safety and Systems Management will offer "Ergonomics," a two-day occupational safety and health course, on Dec. 17 and 18.

Designed for practicing industrial and safety engineers, the course covers the principles, concepts and applications of anthropometry, work/rest guidelines and workplace design to improve performance and reduce stress.

The basic principles of hand tool design, like the skeletal components of the hand and its range of movement, are included. The cardiovascular system, physical work capacity and methods for measuring energy cost are also discussed.

The workshop has been approved by the American Board of Industrial Hygiene for 4½ certification maintenance units. It will be taught by Dr. M.M. Ayoub, a professor at Texas Tech University.

For further information contact the University of Southern California, Institute of Safety and Systems Management, Office of Extension and In-Service Programs, Los Angeles, Calif. 90007; 213-743-6523.

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This ad is a dramatization taken from a new Business Insurance presentation. If you'd like to see it, contact Don Walsh, Advertising Sales Director, (212) 210-0133.

perspective

Arson bill becomes law. . . with a fight

By John R. Dunne

VISITORS TO STATE capitols often receive a brochure entitled "How a Bill Becomes a Law." But the booklet, despite its concise language and colorful graphics, says next to nothing about what really happens. It never mentions the banging of heads and the weighing of political realities that are such an essential part of hammering out laws.

This can be especially true when it comes to insurance legislation. One of the best examples is New York's recent experience with the National Assn. of Insurance Commissioners' Anti-Arson Application model bill.

The NAIC model authorized the state superintendent of insurance to mandate that fire insurance buyers in geographic areas that he found to have a "high incidence of arson" complete a special information form designed to identify potential arsonists.

The NAIC had approved the model legislation overwhelmingly when the commissioners met in New York late last year. And an unprecedented joint resolution of the NAIC and the Conference of Insurance Legislators (COIL) cited the Anti-Arson Application legislation as a needed weapon in the war both organizations pledged to wage on arson.

Early in January, the model was included as a centerpiece in a comprehensive anti-arson bill that I proposed in the New York Senate. The bill also toughened criminal penalties for arson fraud, broadened immunity for law enforcement officers investigating arson and increased the time in which insurers can investigate for arson without having to pay a claim.

The bill attracted the bipartisan support of more than 40 senators in the 60-member chamber. But, despite that broad backing, the application provision caused enough of a fight to jeopardize its passage.

Failure to approve the model legislation would have been unfortunate because the idea had lots going for it.

What would be better than to spot an arsonist before he got the insurance money he needed to make his crime pay? Arsonists do just that at the expense to insurance companies and premium-paying insurance buyers of \$2 billion a year.

What would be more efficient than to target the use of the form only where arson was most likely? And, after the recent fatal fires, including one at the Stouffer's Inn in Westchester County, who could deny there was solid public support for strong laws against arson?

The problem surfaced at a meeting called to explain key provisions to the chairman of the Assembly's Insurance Committee and staff representing that body's leadership.

"How," key Assembly people asked, "could anyone really decide what precise areas or neighborhoods in the state were likely 'hot spots' for arson?"

"By looking," replied those of us who had drafted the

bill. "You can't miss the burned-out blocks in Brooklyn and the South Bronx, so the adjacent streets, shops and factories are next unless we do something." We argued that to do nothing to help the threatened areas would be to cede a vast inner-city area to profit-hungry arsonists.

The Assembly people opposed sticking an "arson" label on inner-city areas which that many members of the Democratic majority in the Assembly represented. They saw such a designation as tantamount to "redlining." They raised counter arguments. "What about Upstate? There's arson there too." They argued for mandatory anti-arson applications everywhere in the state.

"No way," reacted one key Upstate Republican staff member. "There's no arson for profit where I come from."

Stalemate became deadlock: a deadlock born of political perceptions rather than the likely location of arson or the cost of paperwork.

Realistically, Downstate and inner-city Democrats feared that their specific neighborhoods would be labeled arson-prone. They could not, as a practical matter, go home and say: "Well, folks, we got a great law passed up in Albany. It's going to fix it so the superintendent of insurance can come in and say all the shops and factories—just about everything standing around here—is likely to get blown up by arsonists. . ."

On the other hand, Upstate Republicans would have one big hassle explaining to their constituents that they must take the time to fill out anti-arson applications on resort properties in the Finger Lakes and shopping malls near Cooperstown just to fight arson fraud in Coney Island.

After weeks of fruitless negotiations, we broke off talks and worked on getting our bill passed in the Senate. We did, 51-0.

In the relative calm that followed, two things happened. A Bronx Assemblyman introduced legislation requiring what his fellow Democrats argued for: statewide use of anti-arson information forms.

Gov. Hugh Carey, with the backing of Superintendent of Insurance Albert B. Lewis, recommended a bill to require the disclosure of anti-arson information by fire insurance claimants. That wasn't a bad idea, and it was clearly one that avoided the "redlining" issue, since claims pretty much have to follow an actual fire. But it didn't do the whole job of preventing arson because it could spot an arsonist only after he burned the barn.

Then, late in June, when my staff met to decide how to realize some results from our efforts on arson, an idea emerged. Why not give each side what it wanted, or at least part of what it wanted? Why not have mandatory applications throughout New York City, thus saving legislators and their neighborhoods from the embarrassment of being specifically identified as arson-prone? Why not let the use of the applications everywhere else in the state be based on the initiative of the superintendent or upon petition to him by a municipal government—which is what the bill proposed?

The initial reaction from the other chamber: The idea was worth thinking about. Two days later, we received the following message: New York City can't go it alone. Let the application be mandatory in Buffalo, also. Elsewhere, any municipal government can request the

N.Y. is only state to pass model bill

The problem of arson is something states can't afford to ignore.

The September issue of *Fire Journal*, a publication of the National Fire Protection Assn., says that incendiary and suspicious fires cost U.S. businesses \$1.76 billion in 1980.

These losses do not include such items as airplanes, autos and forest property.

No one knows exactly how many states will adopt the Anti-Arson Application legislation, but Charles Stonehill of the Alliance of American Insurers says a model arson reporting immunity bill is already law in 47 states. Perhaps by 1983, the Anti-Arson Application bill could be as well received, he says.

Even though the model bill was approved by both the National Assn. of Insurance Commissioners and the Conference of Insurance Legislators in December 1980, only a few states are even considering the bill.

Nancy Tibwell, executive director of the National Conference on Arson in Columbus, Ohio—a task force of legislative, municipal and safety representatives—says that it is "being considered" and has been "introduced in five or six other states."

In Pennsylvania, for example, Martha Lester, press secretary and special assistant to Insurance Commissioner Michael Brown, says a statewide arson task force is reviewing the model bill and a tax lien bill. The Anti-Arson Application bill would be similar to the New York version because certain areas of the state would be designated as "arson-prone" (see related story).

The tax lien bill stipulates that "back taxes must be paid by insurance proceeds." This requirement is a "disincentive to torching," especially if the owner of the building, hoping to collect a large claim, ultimately had to pay a sizable bill for back taxes, Ms. Lester points out.

Yet she says the bill probably won't get to the Legislature "till after January."

Such lag time isn't unusual. It can take states up to a year or more to even start passing a model bill, says Randall Strand, managing editor of the NAIC's model insurance regulations and guidelines at the National Insurance Advertising Regulation Service in Milwaukee, Wis.

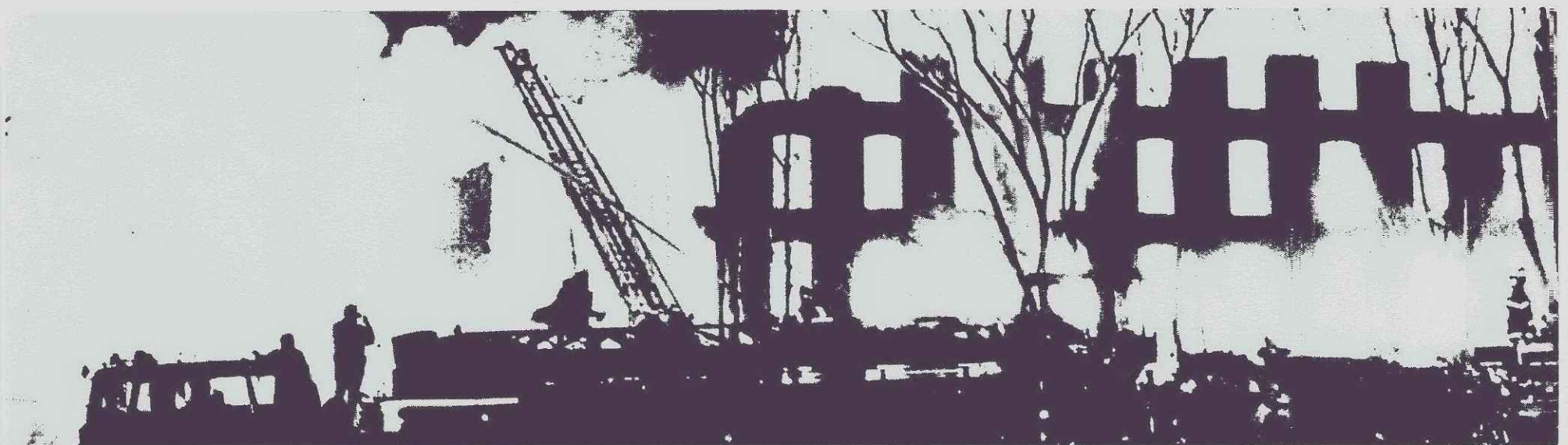
—By Claudette Dampier

insurance superintendent to mandate use of the form. But the statute should give the superintendent no discretion. No one wants the power to put the finger on specific localities. Also, the governor's claims form provision should be included.

The final bill, with a revised but much more usable anti-arson application provision, passed both houses within 48 hours and is now law in New York.

That, like it or not, is the way the legislative process works. In lawmaking, like in so many other things, success has many partners.

New York state Sen. John Dunne is chairman of that body's Committee on Corporations, Authorities and Commissions. He was formerly chairman of the Insurance Committee. He lives in Garden City, N.Y.



“AFIA’s image is that of a company. That’s one thing



conservative old insurance we'll never change."

Paul F. Butler
President & Chief Executive Officer

"Before I became president of AFIA the thing I kept hearing was what an old-fashioned conservative company it is. And I, like just about everyone else, took that in its negative context.

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"Finally (for this advertisement, at least) is the thing I like most about this conservative old-fashioned company. Our knowledge. Do you know, for example, that some of AFIA's offices provide information on port conditions for the American Institute of Marine Underwriters? Or that, when all else failed, AFIA was able to use our local contacts in an extremely politically sensitive North African situation to cut through

the red tape and get a surveyor to inspect the fire damage to a shipment of barley. By cutting through the massive political red tape we cut through years of litigation for our insured.

"If there's a company writing worldwide insurance that knows more about local laws, regulations, customs, idiosyncracies and actual ways of doing business in more countries around the world than AFIA, I have yet to meet it or work for it.

"Now, in addition to experience, dependability and knowledge, some of the old-fashioned ways of doing business I discovered at AFIA and value highly and won't change, I'd like to make you aware of a few more ways of doing business I value equally and found at AFIA as well. They are aggressiveness, eagerness and competitiveness.

"I discovered young thinking at today's AFIA, to go along with our old values. We're willing, and eager, to talk to you and quote insurance in markets you probably wouldn't have even considered AFIA for a few short years ago. Today, AFIA is active in and aggressively pursuing energy-related risks, casualty risks, marine cargo risks and global insurance, to name but a few.

"In short, what I'm saying is there's a new AFIA in the kind of business we're willing to do. And the good old AFIA in the way we do it.

"I believe that makes AFIA the kind of company you should be doing business with."

AFIA

The older we get
the younger we think.

perspective

In defense of agents

Independents do professional work

By Frank E. Walton

THE ATTACK ON independent insurance agents by Edward W. Siver (*BI*, June 29) seems calculated more to provoke thought among supporters of the system than to prove any of the points it attempts to make.

If that was Mr. Siver's objective, he succeeded admirably—submitting not one shred of evidence, yet prompting those of us who know the value of independent agents to review their many positive contributions and to look briefly at the trends that indicate a bright future for them.

First, Mr. Siver talks about professionalism, or the agents' alleged lack of it. With his experience as an agent and his obviously high qualifications, as indicated by his designations as a Chartered Life Underwriter and a Chartered Property Casualty Underwriter, Mr. Siver is well aware of the demands of professionalism. He and the thousands of independent agents who have earned these badges of individual achievement certainly qualify, according to the definition he cited, as members "of a group that is involved in a calling which requires specialized knowledge, long academic preparation and a commitment to a high level of personal conduct."

Thousands of independent agents have studied long and hard to attain these designations of professional accomplishment. Nationally, more than

Frank E. Walton is executive vp of The Travelers Insurance Cos. in Hartford, Conn.

20,000 independent agents are CLUs and many more are studying in this arduous five-year program.

About 15,000 people have earned the CPCU designation, and half of them are agents (the rest are insurance company personnel). Of the agent CPCUs, the majority are independent agents.

With about 65,000 independent agencies in the United States, it is difficult to understand how Mr. Siver could issue his blanket indictment of an entire profession, if he'll pardon the expression. I don't pretend to speak for all independent agents, but I can discuss in general the performance of the 8,100 agencies contracted to write business for The Travelers in the United States.

Responding to the blanket accusation that independent agents are not effective salespeople, I can only wonder where that misperception came from. Our company, which has no captive agency force and relies 100% on independent agents, has been most impressed by the efforts of the independents.

Their individual life sales in 1980 made it the best year in our history. New paid annual life premiums were up 32% over 1979, against an industry increase of between 3% and 4%, and sales of our individual annuities rose 38%.

I might add that we have no complaints about independent agents' sales in property/casualty and group lines, either. All of this leads me to conclude that independent agents are highly effective salespeople.

There is no denying that direct writers have gained a large share of the private automobile market, but whatever the

reasons, we cannot blame the independent agent alone for it. It is interesting to note, however, that some direct writers are now contracting with independent agents, indicating that these aggressive marketers know the value—and effectiveness—of the independent agency system.

Mr. Siver says that "perhaps the greatest myth of all" is that the larger the agent or broker, the better the service to the client. I don't remember anyone suggesting that bigger is best.

The growth of the big brokers "has been through the acquisition of local agencies and the continued employment of local entrepreneurs and producers," Mr. Siver says. If this is true, then brokers are placing their faith in

individual independent agents and the personalized professional service they provide. As Mr. Siver himself says, "The fundamental quality of the service rendered to a client will turn on the competency of the individual producer managing the account." Obviously, brokers are striving to meet that requirement.

Finally, Mr. Siver contends that the agent leaves the insured high and dry when a property loss occurs, failing to explain the policy adequately and leaving the insured to the mercy of the insurer and the professional adjuster. Again, there are no statistics or other facts to back up this dig at a group of people who I have found to be quite devoted to their clients.

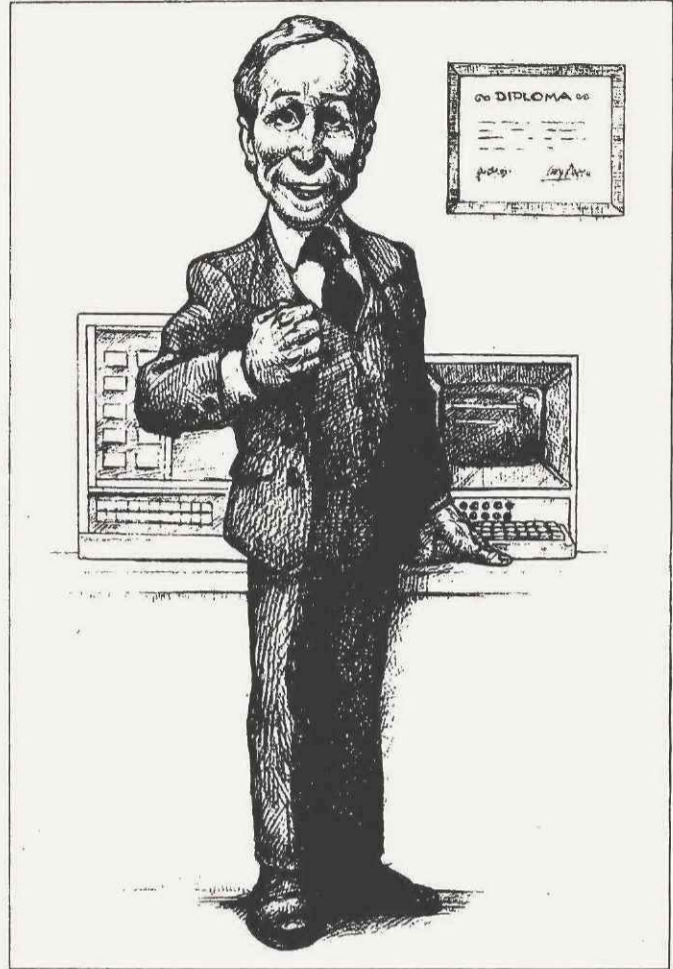
He overlooks that companies have become much more responsive to consumer concerns, including the ones he complains about. From the perspective of the insurer, independent agents have been and remain the primary contact with consumers, for information as well as sales and service, often including paying the loss. Some companies, for example, have reinforced that contention for more than a decade with toll-free telephone information services available to the general public.

To put a positive light on what is really going on in the independent agency system, there are steps that are being taken to make it even better.

First, independent agencies are rapidly automating. At the end of 1979, some 3,250 agencies, or about 5%, were operating their own in-house computers. Estimates from surveys show that the number using their own computers doubled last year to 6,500 and will double again this year. Continued at that pace through 1983, an estimated 52,000 agencies would own some kind of computer. I doubt that will happen, but it is likely that more than half our agencies will own computers by then.

Several companies are coupling the independent agents' deepening interest in computers with their extensive data processing capacity. The combination presents the agents with an outstanding opportunity to use the data processing strength of the insurers to support their marketing and sales.

This service capability enables the independent agent to be more independent than ever. By feeding customer information from the agency's computer directly into the companies' data processing system, the agency can perform



Illustrations: Scott Gustafson

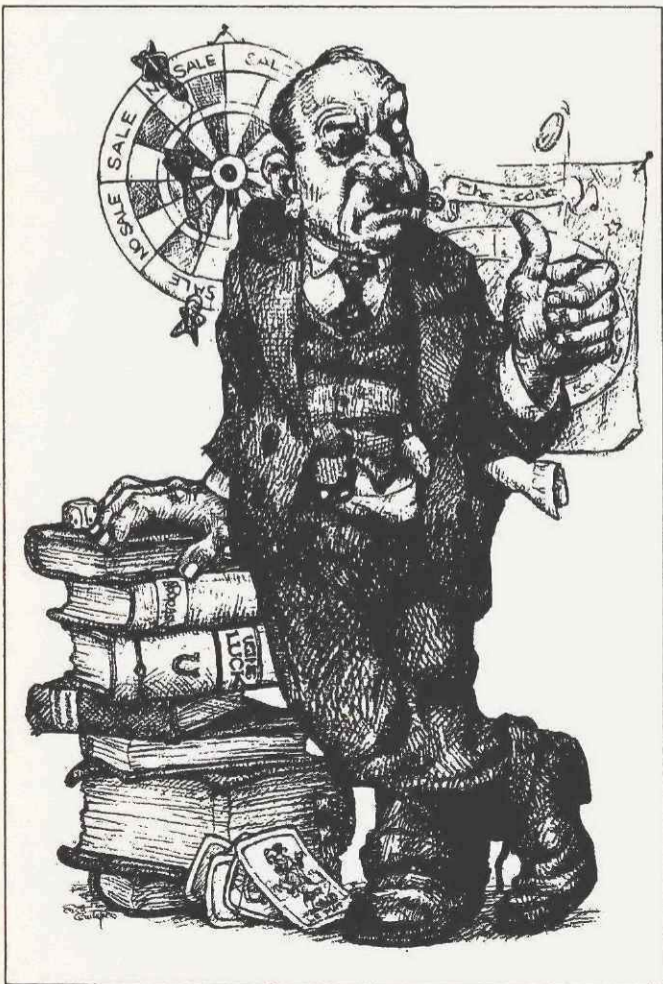
a wide variety of services, saving time and money and improving service. Further, the agent will have more time to practice his or her professionalism.

Computerization speeds the flow of information between independent agent and company. But there is another exchange that cannot be automated: the input we receive from agents about their needs and the needs of customers.

Many companies have long recognized the importance of agents' contributions to the development of products and services. To take advantage of agents' knowledge of their marketplace, various groups of agents meet periodically to channel suggestions to insurers. They have proved their worth many times over with the high quality of improvements they have recommended. I maintain that is the practice of professionalism, too.

My third point is that, as these examples of cooperation demonstrate, the insurance companies are partners with the independent agents, not their employers. Let there be no doubt that it is a partnership, which the dictionary defines as "a legal relationship between two or more persons contractually associated as joint principals." It is this partnership, strengthened by closer cooperation made possible by technological advances, that will bring insurers and independent agents through the 1980s in better shape.

In calling attention to independent agents, Mr. Siver has done us a service. Even though his criticisms were wide of the mark, he reminded us of the responsibilities that agents and companies have, both to our customers and to each other. We can never be reminded too often that without commitment to professionalism, efficient service and sensible prices, we cannot survive for long.



Battling rising employee benefit costs

There's good news and bad news . . .

By KATHRYN J. McINTYRE

NEW ORLEANS—Good news and bad news herald from the front lines battling to contain the rising cost of employee benefits.

First the bad news: You won't find a quick fix to reverse the trend of rising employee benefit costs caused by open-ended benefit plan designs, too little understanding and control of benefit plans and a failure to constrain the medical profession.

The good news: Forces are at work and pressures are being exerted to change the supply, price and use of health care services. Also, pension plans can be altered to save money.

The good and bad news came from a panel of speakers at the American Management Assns.' National Conference on Employee

Benefits Management, which painted a current picture of cost-containment efforts in health care and retirement programs.

Any effective health care cost-containment effort has to attack the problems of open-ended plan design, administration of benefits and costly medical services, suggested Thomas A. Wahlrobe, a consultant with The Wyatt Co. in Washington. These efforts will require "substantial expenditures now for a return later," he said.

"It's hard to get a corporate commitment to this when the company wants immediate results," he said.

Employers asked for trouble with open-ended benefit plan designs, Mr. Wahlrobe said. The old norm of paying for medical services according to a schedule of reasonable and customary charges offered employers more control over their health plan costs. But, not foreseeing rampant inflation, employers dropped the schedules because they grew tired of updating them by a few percentage points every year.

Now, employers find it almost impossible to reintroduce schedules, so they can't easily control how much they pay for medical services.

Mr. Wahlrobe stressed improved claims adjudication as the one method for controlling current health care costs. Instead of pressuring insurers to trim their retentions, or expense charges, by a few percentage points, employers should pressure them to better investigate claims and charges before paying them, he said.

The 2% to 5% of premium that can be saved on the expense side is just one-quarter to one-third of what could be saved under improved claims adjudication systems with careful auditing, he maintained.

Employers unwittingly frustrate their own desire for better claims handling, however, by emphasizing fast claims payment, he added. "Demanding faster claims services forces insurers to develop systems with bulk processing," he ex-

Continued on page 39

Cost containment defined

NEW ORLEANS—You want to control the rising cost of employee benefits at your company, but you don't know where to begin? How about first defining the almost-passe term "cost containment?"

Or how about defining what cost containment is not?

These definitions were offered by two speakers at the American Management Assns.' National Conference on Employee Benefits Management in New Orleans Sept. 14-16.

Henry A. DiPrete, vp of group insurance operations at John Hancock Mutual Life Insurance Co. in Boston, offered this definition of cost containment:

"A cost containment program is a set of interrelated components which produce employer benefit plan cost savings. Included among the components are special features of plan design, claim policy, professional review activities, educational programs and administrative procedures. These features permit the Hancock to contain benefit

- plan costs by:
- Controlling disability payments.
 - Minimizing duplicate coverage.
 - Encouraging consumer wellness.
 - Influencing consumer decisions in seeking care.
 - Influencing provider decisions in supplying and pricing health care services.

"These activities are geared to encourage optimal utilization in

Continued on page 39



Wahlrobe



DiPrete

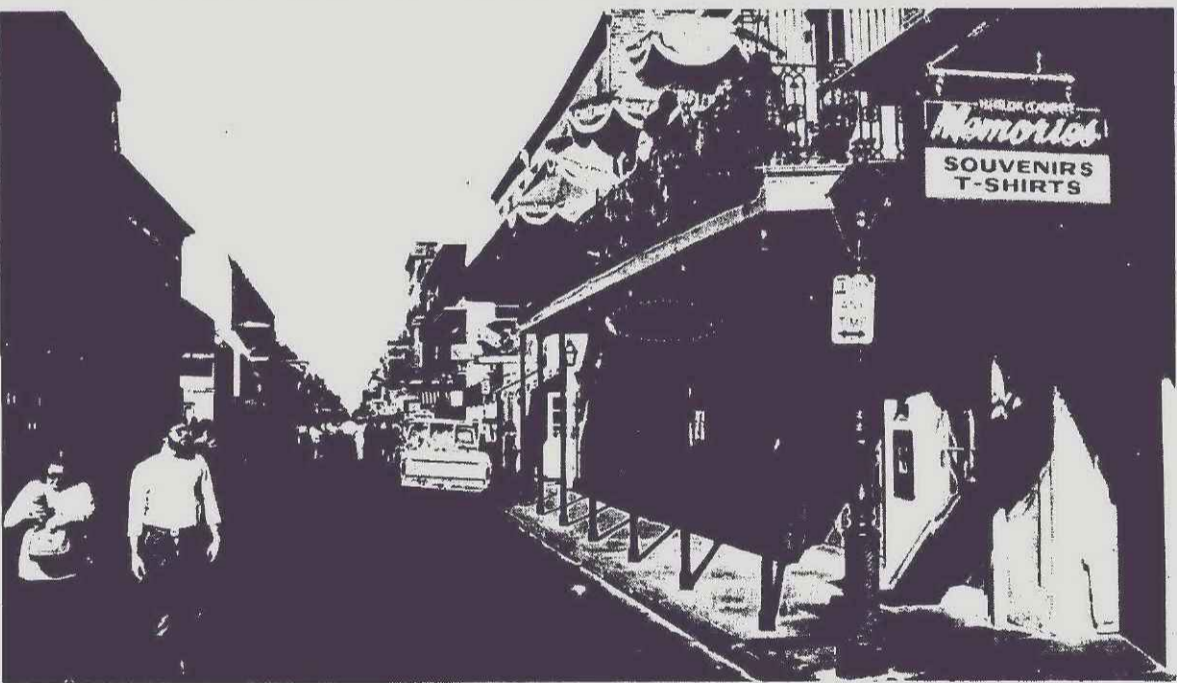


Photo: Dave Galanti

Those attending the American Management Assns.' employee benefits and risk and insurance management conferences could also soak up the atmosphere of New Orleans.

Florida wage-loss law one of a kind: Expert

By STEVE SHERWOOD

NEW ORLEANS—While other states can learn from Florida's success with its wage-loss program, most could not possibly apply the Florida law to their own workers compensation problems, the law's author says.

Since the wage-loss law took effect in 1979, workers compensation insurance rates in Florida have been reduced three times—15%, 11.4% and 15.6%—and the weekly benefit for injured workers has been increased to \$228 from \$130. (See BI, Aug. 3.)

Such results have focused national attention on the Florida law and created some misconceptions about the concept of wage loss, said John Lewis, the Miami attorney who authored the original wage-

loss proposal. Mr. Lewis, who also has worked on wage-loss laws for Louisiana and Delaware, spoke at the American Management Assns.' National Conference on Risk and Insurance Management.

"I would like to correct the impression that wage loss is the Florida law," Mr. Lewis said. "This is absolutely incorrect. The Florida law is one version of wage loss, not the only one."

Further, while workers compensation rates and costs to employers appear to have declined as a result of wage loss, that may not happen in another state. Much would depend on how each law is drawn up.

"Wage loss is a system that first and foremost is to replace loss of income," Mr. Lewis said. "The Florida law is bare bones, but you can create a wage-loss system far more expensive than any other system by adding benefits on top of wage loss. Florida didn't go that way."

In Florida, "anyone able to return to work at 85% of his old income receives no benefits beyond medical expenses and temporary wages. If the worker returns to work at less than 85% of his former earnings, the wage-loss system makes up the difference between his pre- and post-injury wages."

Problems with workers compensation systems vary among states, and wage loss may or may not be the solution. In Florida, large amounts of workers compensation funds were going to those suffering permanent partial disabilities and to their attorneys.

Before wage loss, during 1977, permanent partial disability cases made up 30% of compensation cases, but accounted for more than 67% of the benefits paid. Attorneys were involved in 70% of the permanent partial cases (see BI, June 22).

"People with minor losses were being paid more than those with serious injuries," Mr. Lewis said. "We found the overwhelming majority of people receiving funds were going back to work."

The concept of wage loss is to take money from one group—those who can work—and give it to people who can't, he said. By eliminat-

Continued on next page

Buy retro coverage now, broker says

By KATHRYN J. McINTYRE

NEW ORLEANS—If you think you might need more insurance to cover losses from past years—known and unknown—shop now.

Policies to cover prior losses may not be as available when interest rates go down and at the very best will be a lot more expensive than they are now, says a broker who has marketed the new type of coverage.

Corporations should review their potential losses accumulating from years past and the insurance limits available to cover the losses, advised Joseph Fahys, senior vp of Marsh & McLennan in New York.

"Go look at your risk and see what you bought 10 years ago. You'll be surprised—very surprised. The liability limits that appeared adequate a few years ago seem thin now," he said.

Underwriters' willingness to issue what is called retroactive or prior acts liability insurance is boosted by today's high interest rates, Mr. Fahys explained in a speech at the American Management Assns.' National Conference on Risk and Insurance Management here.

Without the hot competition among insurers for premium dollars, which is fueled by high interest rates that allow rate-cutting, insurers may not be as interested in underwriting this type of insurance. Without the prospect of earning a hefty income on the investment of the premium for this coverage, insurers certainly will have to charge higher premiums for the coverage.

Mr. Fahys stressed there is a difference be-

tween insurance placed to cover a known loss and insurance placed to cover prior acts that may or may not develop into losses in the future. M&M has placed both types of insurance, but more common and needed by more businesses is the later type: insurance to beef up prior limits purchased that are dwindling or appear too thin by today's claim costs.

The coverage was first widely discussed publicly when MGM Grand Hotels Inc. purchased back-dated liability insurance (BI, Feb. 9).

Regardless of the circumstances of the prior acts to be covered—known or unknown—the critical factors that make this type of policy insurance are that the amount and timing of the loss payments are unknown, he said. In a product liability suit, for example, the time from the occurrence to the loss payment is about seven to nine years but sometimes 15 years.

"Clients have increased their limits dramatically," Mr. Fahys said. One pharmaceutical company, for example, has purchased \$19 million excess of \$1 million in retroactive coverage.

Generally, Mr. Fahys recommends that companies purchase this prior acts coverage as part of their umbrella insurance policy, which will cost a fraction of the umbrella premium. Only when the coverage involves known losses is it usually written separately from the umbrella.



Fahys

Insurer prepares for open rating of comp

NEW ORLEANS—Employers Insurance of Wausau is preparing for the passage of open rating for workers compensation in one or two industrialized states, admits John Schoneman, president and chief executive officer.

But preparing for it doesn't mean he or other insurers like it, he made clear in a speech during the National Conference on Risk and Insurance Management held here by American Management Assns. earlier this month.

Open rating, which requires insurers to file their own workers compensation insurance rates instead of using bureau rates filed by insurance rate-making organizations, isn't needed to increase competition among workers compensation insurers, he argued.

"We already have open competi-

tion," he maintained.

Defending his position, he noted that Employers of Wausau lost a lot of business at renewal time last January but turned June, July and August into "record months because we set out to be competitive."

"We did it on price through dividend and cash-flow plans," he explained.

The insurer, for example, accepted a \$16 million letter of credit in lieu of premium to land a large account that wanted to hold onto its premium until the losses come due. "That's pretty stupid, too," Mr. Schoneman chuckled, "but we want to stay in business."

Proponents of open rating, however, argue that dividend and cash-flow plans don't create enough competition among insurers for all sizes of accounts.

Open rating will not benefit all insurance buyers, Mr. Schoneman countered.

Larger policyholders with more than 150 covered employees can be successfully rated on their experience and will gain lower rates under open rating, he said. Medium-sized employers, with 50 to 100 lives, may get better rates. Smaller employers, with fewer than 25 or 30 covered employees, will end up paying more, he predicted.

Under current experience rating regulations with structured methods of determining credits and debits for loss experience, small employers are not experience-rated on all their losses but only the first \$2,000 of each loss. Larger employers, who are experience-rated on a larger portion of their large losses,

subsidize the cost of insurance for small employers, he admitted.

Insurers oppose a change to open rating because it will create new unknowns in a system that is well organized and managed, he argued. Open rating will throw insurers into chaos when the rules are changed, he maintained.

The company is preparing for the eventual creation of open rating laws by appearing at hearings on the issue to argue for at least uniform statistical reporting of losses and exposures so insurers can properly price the product, he said.

"If passed, the world won't come to an end," he conceded. "But insurance companies with inland or wet marine experience will do better." Their experience at independently developing marine rates will make them better work comp

rate makers, he explained.

So far, Oregon and Minnesota have passed laws requiring open rating for workers compensation (BI, May 25, Sept. 14). Minnesota's law provides for a use-and-file system of rate regulation; Oregon provides for file-and-use of rates not less than the pure loss component of rates set by the National Council on Compensation Insurance, the largest rate-making workers compensation bureau.

Arkansas has changed its rating law to require individual filings by insurers but retained prior approval of rates.

Other states that have considered some form of competitive rating but did not adopt it yet include Alaska, California, Georgia, Illinois and Wisconsin, Mr. Schoneman said.

Wage-loss law has variants

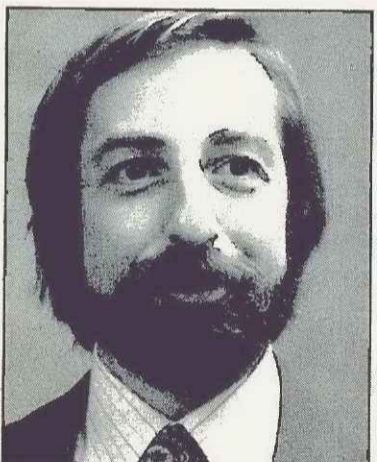
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ing or reducing payments to those with permanent partial disabilities who can earn livings and reducing attorney involvement, compensation costs were decreased.

In addition, the wage-loss system makes it more profitable for injured workers to go to work and encourages rehabilitation, he said. "Wage loss has made rehabilitation work for the first time in Florida, without high administration costs."

Wage loss solves about 95% of the problems in Florida workers compensation and similar problems can be solved within the context of a wage-loss-based law in other states, he said.

"Right now there are a lot of peo-



John H. Lewis

ple out there working or capable of working who are receiving permanent partial benefits," Mr. John Lewis said.

But the Florida law cannot be taken in totality and put into any other states. Other states can learn from what Florida has done, but must take long, rational looks at their own situations.

"Florida has done the groundwork for other states," Mr. Lewis said. "Two years tells us a lot, but is not enough for a final, definitive answer. Florida's wage-loss and any wage-loss system is based on concepts, ideas and realities that may or may not exist in your state. The only way to find out is to take time and look at the cases."

Florida's law is unique in that it was born of a rare coalition of labor and management drawn together against the state's old, costly workers compensation system.

Without that coalition, the law would not have passed and it is doubtful that it would receive the same reception if brought up again, Mr. Lewis said. "It was the product of several years' work in an atmosphere that will never happen again."

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Attorney says ERISA hasn't hurt employers

By STEVE SHERWOOD

NEW ORLEANS—Employers' fears that the Employee Retirement Income Security Act would lead to excessive litigation over pension plans are apparently unfounded, an attorney says.

In the seven years since the law went into effect, lawsuits involving alleged breaches of fiduciary duty in pension plan administration generally have favored employers, says Albert Grasso, a Chicago attorney involved in the ERISA casework.

"How many of you are presently being sued for breaches of fiduciary duties?" Mr. Grasso asked benefit managers attending the American Management Assns.' National Conference on Employee Benefit Management. No one raised a hand.

Many of the doomsayers said ERISA would mean excessive litigation and that employers would be in court constantly, he said. "But this has not happened."

ERISA itself is acting as a buffer between the pension plan administrators and plan participants, he said. The act discourages breaches through sanctions against those failing to uphold fiduciary duties but has provisions that would make it difficult for plan participants to claim that breaches have occurred.



Grasso

At the same time, courts have tended to find in favor of employers who are sued.

"The concern we all had is that if something is put into a pension plan booklet one way, but in the actual plan document another way, does this mean you have to provide the best of both to employees?" Mr. Grasso stated.

Recent cases have shown that in a dispute over language in the plan and language in the booklet, it is what the plan itself says that counts, he said. And if there is a breakdown in communications, employers are safe if the benefit is clearly described to the participant in the booklet.

Courts also are finding that those challenging a pension plan award or denial do not have an express right to a jury trial.

"Widows with small children who are denied benefits because of the untimely death of their spouse or a disabled individual who has received a reduced benefit inspire sympathy if they get before a jury," Mr. Grasso said. The trend is to have benefit awards or denials tried before a judge alone, he said.

"It is quite clear that plan participants seeking to claim benefits must exhaust the claims procedures before going to court," Mr. Grasso said. If a claimant rushes to court before going through the normal procedure, courts may summarily dismiss the claim.

The fact that the plaintiffs' bar is generally inexperienced in dealing with ERISA cases is also a plus for employers.

"ERISA is complicated. Those who know it tend to be working for management or the unions," he said. "They're not many interested in working for plan participants."

Beyond doubt, there are those who further litigation so that employers are forced to settle the case and make payments to attorneys, he said. However, where payment of attorney fees are at the discretion of the court, fees have not been

substantial.

However, several trends appear to be unfavorable to employers. Among them is an increase in the number of divorced spouses claiming rights to pension plan funds.

Most person's assets consist of a house, some life insurance and an interest in some kind of retirement program, he said. Marital breakups with a division of assets may leave the spouse demanding pension plan funds. And denials may lead to lawsuits.

"This is why there has been and will continue to be litigation here," he said. Courts are being forced to make creative pension judgments.

"What we are seeing in these cases is that benefits are being paid to former spouses," he said.

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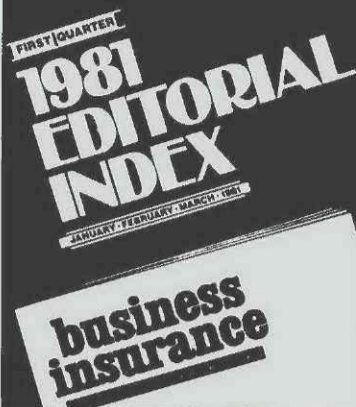
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Computer risks should be pinpointed

Continued from page 3

interruption and extra expense loss."

All of the company's shipping labels are printed by computer. Accounts receivable, personnel records and payroll are also done by computer, representing huge exposures if the electronic system doesn't work.

"We have 15,000 employees on the same machine for payroll," he said.

"Our workers compensation records, property values—every item and asset of the company—are on computer runs."

In most cases, business interruption figures to be the biggest loss per occurrence, he pointed out.

By using the completed survey to identify risks, a risk manager can then decide how to protect his company from loss, he said.

"When I went through our survey, I wanted different limits for different items," he said. "Some exposures were below our deductible and I didn't cover them. In my company, we're

only interested in insuring against catastrophic losses."

Dan River's electronic data processing policy was written by Allendale Mutual Insurance Co. of Johnson, R.I., a member of the Factory Mutual System. All computer-related coverage is combined into one policy.

Asked about the extent of his coverage, Mr. Lloyd said, "All I can say is I didn't buy \$45 million of insurance."

The EDP policy is an all-risk form, said John Kolb, an Allendale account executive. A number of insurance companies write it, including Allendale, St. Paul Fire & Marine and others.

Policy owners are covered for physical damages to hardware, damage to the media or software, business interruptions and extra expenses. The electronic data-processing policy provides coverage for areas that are often excluded in fire and physical damage insurance policies.

"You no longer see exclusions for change in temperature or for breakdown," Mr. Kolb said. "The special EDP form covers electrical breakdown. The information I have is that the vast majority of losses are from arching or electrical short-circuiting in machines."

If a company's analysis of its computer system shows large exposures, its risk manager should give serious thought to an EDP policy, he said.

Mr. Kolb said rates vary greatly, but added that computer coverage would probably cost less than fire coverage.

Mr. Lloyd agreed, saying a risk manager can tailor the coverage to fit his own computer system, including outlying minicomputers that may now be high-risk exposures.

"It's the best way to go in my opinion," he said.

He added that the only way to know where computer exposures are is to physically send someone to find them.

Benefits to change, expert says

Continued from page 3

more retirees will be employed part-time.

As a result of the Age Discrimination in Employment Act, employers have greater incentives to make retirement attractive, Mr. Salisbury said.

Retirees are now recognized as a growing market and a political force, he explained.

"Both their numbers and life expectancies are increasing and the market is beginning to respond. Further, flexible programs make it easier to fill their needs by balancing pre- and post-retirement benefits," he said.

Employers are already reacting to changes in the structures of families, and there will be a move toward improved spouse benefits during the 1980s, Mr. Salisbury predicted. This includes the treatment of vested pension rights as property subject to division in divorce suits.

"These changes will become more and more likely as the percentage of women and single parents in the workforce continues to grow," Mr. Salisbury said. Change will provide added pressure for the development of flexible compensation and benefit programs.

Mr. Salisbury said he expects other recent additions to benefit packages to grow in the next five years.

The percentage of employers offering child care should rise to 67% from 14%, paid personal days will be offered by 49% of companies instead of 32%, availability of job service for spouses will rise to 59% from 22%, paternity leave will be offered by 57% of employers from 23%, benefit choice will increase to 70% of companies from 11%, full benefits for part-time employees will rise to 50% from 27% and a flexible work schedule will be offered by 66% of employers from 20%, he said.

Mr. Salisbury also predicted:

- Growth in individual retirement savings and in employer contributions to pension plans.
- More focus on "wellness" and preventive medicine encouraged by mounting medical costs.
- Increased public awareness and press coverage of employee benefit issues and benefit litigation.

Government policies of the past several years have begun shifting costs and responsibilities to the private sector, he said. Such policies can be expected to accelerate in the '80s with changes coming in Social Security, reductions in Medicare and new federal involvement in insurance.

"The overall role of government is not likely to expand significantly in the 1980s," Mr. Salisbury said. "It may, however, continue to reduce flexibility through regulation and will continue to be active. Knowledge of the regulatory environment will become no less necessary, in spite of the Reagan administration's emphasis on fairer regulation."

Because of all these changes, benefit management will be recognized as an important and vital business function, Mr. Salisbury said.

It will be given more prominence and responsibility in organizations and will become more of a career area "rather than a stop along the management training schedule," he said.

"This should lead to increasingly responsible management of benefit programs, to the advantage of employers and employees", Mr. Salisbury said.

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Flexible plans require planning: Consultants

NEW ORLEANS—As the number of young, single workers and two-salary families continues to grow, many companies are turning to flexible benefit plans to meet employees' needs.

Flexible plans work well in some cases, but before beginning such a program, employee benefit managers should know exactly what they want to accomplish and how to go about it.

Otherwise, the hoped-for solution to benefit problems could come back to haunt them.

Two Johnson & Higgins consultants, Tom Freeman, a vp in the Dallas office, and Bernard Schoen, a vp in the New York office, explained the advantages and disadvantages of flexible plans at the American Management Assns.' National Conference on Employee Benefits Management in New Orleans Sept. 13-16.

A company that targets a standard benefit plan at employees with wide differences in attitude and salary, based on what it believes the "typical employee" needs, may be missing the mark, Mr. Schoen said.

"When you compare long-service employees to those recently hired, you find their views of the job and their personal lives differ," he explained.

"Young, single people may feel a lot of benefits offered them are not significant. Second wage earners are becoming a force and their needs are different—two medical plans are not needed in a two-wage family."

Employers are waking up to these changes in the workforce, Mr. Schoen said. "They need to know that dollars are being spent efficiently for things employees want and need."

For a diversified industry, flexible benefit plans may allow a company to stay with a core package for all employees, but give those in

different parts of the country benefits that best suit them.

Some companies are adopting flexible plans because they are not sure what to do for an encore in keeping up with their competitors, he said.

"Flexible benefits demonstrate this is a good place to work. Employees feel a part of the process and can learn more about the plan. This has to be of value," Mr. Schoen said.

But the plan can present some problems as well. Mr. Schoen and Mr. Freeman emphasized that "we are not saying flexible benefits are the right way to go. We are saying they are an alternative."

Such flexible plans can be quite expensive to start and administer, with complicated record-keeping

systems, education of employees and continual communication required.

"One Minnesota firm with 2,800 employees estimates costs of setting up a flexible program to be in excess of \$700,000," Mr. Schoen commented.

"The question is: Are the dollars you are spending worth the rewards received?"

In designing a flexible benefit plan, the employer must identify problems that will be solved by adopting specific benefits, Mr. Freeman said.

"The plan should solve definite problems of the corporation and its employees. If it is addressed this way, a company should be able to use a flexible plan," Mr. Freeman explained.

Most companies approach flexi-

ble benefits—which may mean choice in as few as two benefits—in three ways, Mr. Freeman said:

- The basic plan remains the same, but employees are given extra credits to apply toward adding new benefits or improving existing ones.

- A basic plan may be reduced in one area such as life insurance to allow an employee to use the difference to increase medical, dental or other benefits.

- A core benefit package the company believes its employees cannot do without is established and employees are given the option of buying more benefits.

Benefit managers must consider tax implications and legal aspects if considering any of these approaches, Mr. Freeman said.

They must be sure the flexible plan does not unwittingly increase an employee's taxable income or make the employer's contribution to the plan taxable by failing to meet Employee Retirement Income Security Act regulations.

Educating the employee about what is available, how much each benefit will cost and the consequences of each choice is vital, he said.

"There are serious legal problems as to educating employees on their choices and making sure they don't come back to haunt you."

Mr. Schoen agreed.

"This must be reviewed a second and a third time. You must keep it simple; employees should be able to recite the broad range of choices. If not, you could be in deep trouble," he said.

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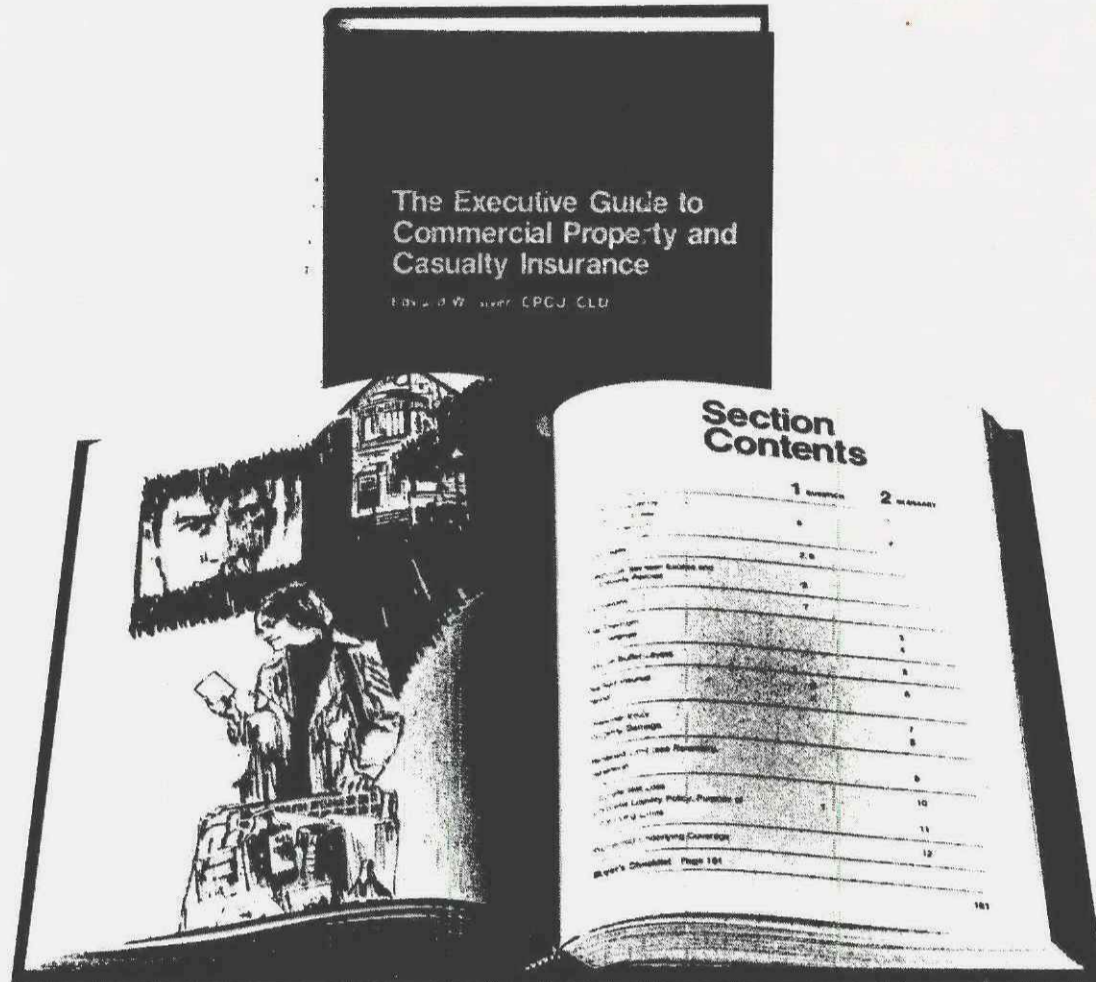
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About the Author

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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Cutting health care costs isn't simple

Continued from page 31
plained.

Even employer coalitions formed to control the rising cost of health care won't make immediate changes, said Henry A. DiPrete, vp of group insurance operations at John Hancock Mutual Life Insurance Co. The 75 employer coalitions around the country are the only activity inspiring employers to attack the problem, "but you won't see the results quickly," he advised.

Two problems confront these employer coalitions, Mr. DiPrete observed. The employers find that even when they band together, they don't have the statistics they need to analyze and solve the problem. He also said, "They don't want to offend anyone in the community."

These coalitions, however, are

among the pressures at work to control costs, Mr. DiPrete said.

Also pressuring the health care system for change are alternative health care delivery systems, he said. He predicted that health maintenance organizations, which provide prepaid health care and stress preventive care, will develop further into new kinds of delivery systems offering more efficiencies.

The present system also is undergoing refinements to improve its cost effectiveness, he added.

More hospital treatment, for example, is subject to peer review for proper treatment and length of stay.

He said plan design changes, like insurance coverage for ambulatory surgery and incentives to seek a second opinion before undergoing

surgery, also help.

One proposal to change the health care system was criticized by both speakers: the so-called pro-competition health care bills now being discussed in Washington.

This concept of imposing tax incentives and penalties to force employers to offer employees both rich and bare-bones health care plans "will eliminate group benefits and union and employer interest in health care," Mr. DiPrete predicted.

Mr. Wahlrobe dismissed the proposed government-mandated competition as "a bad idea whose time has passed."

"Passage of this type of bill will make me as rich as ERISA has made the lawyers, accountants and actuaries," he quipped.

Regarding pension plans, Leon-

ard Mactus, a partner with Kwasha Lipton in Englewood Cliffs, N.J., advised employers to review all their retirement programs.

The combination of Social Security, defined benefit and defined contribution plans may offer the retiree more money than needed, he said.

A review of retirement income needs would involve determining the amount of spendable income available to the working employee after taxes, savings and work-related expenses. The ideal retirement program will provide the employee with the same spendable income, minus the money needed for work-related expenses. "Providing better than the ideal benefit is bad management," Mr. Mactus said.

Companies also should review

their early retirement provisions and supplements for possible savings, especially if employees begin to retire later, as some indications suggest.

Converting the pension formula to a career average instead of final average pay and planning to periodically improve the benefit will provide the employer with more control over costs, he added.

Employers also should review their retirement benefit packages to eliminate any duplication of benefits, such as a life insurance benefit offered with a spouse benefit under the pension plan.

Finally, employers should get involved in the selection of the actuarial method used to determine pension costs. "Management can intelligently select an actuarial method," Mr. Mactus said. ■

Experts define cost containment

Continued from page 31
cost-effective settings consistent with timely access, safety and acceptable professional standards."

Mr. DiPrete admitted "no one is doing all those things today, but they are goals."

Thomas E. Wahlrobe, a consultant with The Wyatt Co. in Washington, D.C., offered his definition of what cost containment is not by playing off the title of the morning session on cost containment: "Benefits—What to Do When the Well Runs Dry."

"Too many people don't know the difference between a benefits well and a benefits cesspool," he chided.

Continuing the analogy, he offered the "Wahlrobe Cesspool Index" as a test of how effective a company can expect to be at controlling benefit costs. The test:

Does your organization believe your consultant, broker or insurance company when told that:

- A particular benefit can be added or increased at no additional cost?
- Your high level of premium waiver reserves are mandated by state law or an insurance commissioner?
- Your insurer has an effective cost-containment-oriented claims adjudication system?
- A flexible benefit plan will reduce benefit costs?
- The proper way to view retention (insurer expense) costs is as a percent of paid claims or paid premium?
- Going self-insured on a risk is an effective cost-containment technique?
- The Reagan administration is going to deregulate the health care industry with its competition legislation?

"If you answered yes to these questions, you are at the bottom of the index," he said. ■

Coverage placed

The London market is covering the construction of a \$740 million East German steelworks to be built by Austrian contractors.

Lowndes Lambert Construction Ltd. reinsured 85% of the coverage through the London market for Austrian contractor Voest Alpine A.G. of Lins, the brokerage announced.

The plant, to be built 70 miles outside Berlin in Eisenhüttenstadt, will be one of the largest steelworks in Europe. It is scheduled to be completed in 1984.

Lowndes Lambert says the project is the largest single construction contract to emerge from East Germany. ■

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Retro cover saved GK merger deal

Continued from page 1

the substance of GK's dangling liabilities, said a source close to the insurance negotiations. Auditors want a merger partner's balance sheet to be clean, he added.

The retroactive insurance was obtained very quickly—within 10 days after GK and Penn Central agreed to pursue it. Coverage attaches only after GK Technologies' underlying umbrella insurers have paid \$60 million on the MGM Grand loss.

"If this limit is reduced in part or in full prior to settlement of claims arising out of the MGM Grand occurrence, that portion of exhausted limit will be borne as self-insurance by the named insured," the policy specifies.

Unlike at least one layer of the MGM Grand retro coverage, GK's is not backdated but carries a retroactive endorsement. There is no material difference between the two approaches, according to a broker whose company places retroactive insurance.

It may be years before the courts decide liability in the MGM Grand Hotel fire, but in the meantime GK Technologies and other defendants are seeking early dismissal from suit under Nevada statute of limitations provisions.

They say that a contractor cannot be held responsible for damages once six years have elapsed after "substantial completion" of their work. Attorney Peter Arturo, representing Cal Electric, says the company wrapped up its MGM job in June of 1974—six years and several months before the fire.

Insurers participating in GK's \$40 million retroactive liability coverage include: Gibraltar Casualty for \$4 million; Employers Mutual Casualty Co. for \$2 million; Transit Casualty for \$4.6 million; Evanston Insurance Co. for \$4.25 million; International Surplus Lines Insurance Co. for \$4.25 million; North Star Reinsurance for \$3 million (written through three different policies); St. Paul Surplus Lines for \$2 million; The Hartford for \$2.7 million; and Lloyd's and British companies for \$12.45 million.

British companies are underwriting 21.04% of the risk, including: Insurance Corp. of Ireland Ltd. for 7.56%; Stronghold Insurance Co. Ltd. for 1.51%; British National Life Insurance Society Ltd. for .76%; CNA Reinsurance of London Ltd. for 2.27%; Compagnie d'Assurances Maritimes Aeriennes et Terrestres Societe Anonyme (CAMAT) for 3.78%; UnionAmerica Insurance Co. Ltd. for 4.54%; Folksam International Insurance Co. (U.K.) Ltd. for 0.61%.

GK Technologies' existing \$60 million in liability insurance at the time of the fire, which underlies the retroactive coverage, is written as follows: \$1 million in primary insurance provided by Aetna Casualty & Surety Co.; first layer excess totaling \$20 million including The Hartford for \$5 million, Lloyd's underwriters (placed through C.T. Bowring & Co.) for \$5 million and other London markets for \$10 million.

GK's second excess liability layer for \$30 million is underwritten by American Centennial Insurance Co. for \$3 million; Northbrook Excess & Surplus Insurance Co. for \$5 million; Granite State Insurance Co. through C.V. Starr & Co. for \$7 million; Puritan Insurance Co. for \$5 million, and other unidentified insurers.

The top \$10 million layer is split in equal portions between Transit Casualty Insurance Co. and another unidentified insurer.

Penn Central Corp. was added as a named insured to most, if not all, GK Technologies policies effective March 30, 1981.

MGM litigation of epic proportions

Continued from page 1

pretrial conference attended by scores of attorneys involved in the cases—or thinking of joining the action.

The MGM Grand Hotels fire cases offer a fascinating look at the U.S. legal system in action. They also illustrate—to the extreme—the heavy burden and high costs carried by business to defend the products and services they provide.

Besides the MGM Grand Hotel in Las Vegas, at least 10 companies have been sued by fire victims and their families. Among those defendants are Taylor Construction Co., California Electric Construction Co., architect Martin Stern Jr., Orvin Engineering Co., Clark County, Nev., Continental Mechanical Corp., Upholstery Supply Co., Otis Elevator Co. and Del Webb Corp.

MGM Grand is also suing some of these same companies, plus about a dozen others. And there is a bewildering collection of cross-complaints among all the parties.

Many of the hotel's suppliers that built the MGM Grand are seeking early dismissal from the litigation, claiming that a state statute of limitations for suits against them has expired.

Liability for construction work performed by a contractor ends six years after "substantial completion" under Nevada law. The constitutionality of that statute is currently under review by another state court. The outcome is eagerly awaited by defendants whose jobs ended before the hotel opened on Dec. 5, 1973.

The first round of document discovery has included plaintiffs' requests for insurance policies, permitted under federal rules of procedure. Plaintiff attorneys maintain the hotel is underinsured because of questions about the validity of MGM's retroactive insurance (see story page 41).

MGM attorneys call such contention "ridiculous" and chastise their adversaries for trying to halt the orderly progress of settlements.

The interest of plaintiff counsel "lies with the multiplicity of federal lawsuits transferred to the District of Nevada and not with those individuals tragically injured at the MGM Grand Hotel on Nov. 21, 1980, who desire present use of moneys advanced to them by way of settlement," writes an attorney for Taylor Construction Co. in response to a motion requesting limitation of settlements.

To resolve minor squabbles about proceedings, U.S. District Court Judge Philip M. Pro meets in Las Vegas with attorneys every Wednesday at 9:30 a.m. Judge Bechtel, who lives in Philadelphia, travels to Las Vegas to attend periodic meetings as needed.

Some of the question that continue to occupy his time include:

- Who should assume custody for tons of physical evidence collected from the hotel?
- Where will it be stored?
- Under what circumstances will destructive testing of samples be permitted?

A "joint warehouse" paid for by all parties has been established in Las Vegas to store most of the evidence—some of which is still floating around the country with insurance investigators and others. Arrangements have been made to preserve human blood and tissue samples.

MGM Grand already has produced more than 2 million pages in documents requested by other parties which are being microfilmed prior to general distribution. Forty people are working in three shifts around the clock to do the job. They occupy four out of 10 rooms rented by MGM from a local motel to accommodate document pro-

Rhonda L. Rundle, West Coast Editor, spent two days in Las Vegas earlier this month attending a pretrial conference concerning the retroactive insurance MGM Grand Hotels Inc. purchased to cover losses from the Nov. 21 hotel fire in Las Vegas and then combing reams of court papers to detail the insurance of MGM and the other defendants in lawsuits stemming from the fire.



duction efforts.

There are about 4,000 pages in other documents that MGM Grand wants to keep confidential—including a list of guests and patrons at the hotel the night of the fire. Innkeepers have historically treated such information as confidential and proprietary, pleaded MGM attorney Allan Goldman during the last pretrial conference.

MGM has agreed, however, to provide the court with a list of all its stockholders who own a 10% or greater share in the corporation.

Other defendants also are gearing up for massive microfilming of documents. California Electric Construction Co., which performed electrical work at the hotel, has estimated it will produce 60,000 documents for the court. Architect Martin Stern Jr. expects to produce about 30,000.

Less than three weeks after the fire, an interim committee of plaintiffs' counsel was appointed by the Las Vegas federal court to coordinate the litigation. That committee has now swollen to 12 and renamed the Plaintiffs Legal Committee.

The defendants have a parallel committee, but it is less cohesive because of the diverse interests of defendants. Many of them are adversaries in related third-party and cross-claims.

One attorney with 30 years of catastrophe litigation experience terms the MGM Grand fire investigation "unprecedented." Plaintiffs experts alone logged more than 3,000 hours combing through fire

ruins.

Their fields of expertise included: fire investigation, fire protection engineering, building and electrical code requirements, electrical engineering, structural design and construction, mechanical engineering, materials science, air movement and ventilation, elevator design and operation, chemistry, toxicology, pathology, plastics and architecture.

The investigation was especially intense in the hotel deli, the area of suspected origin of the fire. "Piece by piece, this area was disassembled, measured and photographed," court documents reveal. Nearby debris was sifted, removed and identified.

Plastic pipe, furnishings and other decorative materials found in the first floor casino will be tested to determine how they react to heat, reported James L. Fetterly, a Minneapolis attorney who sits on the Plaintiffs Legal Committee.

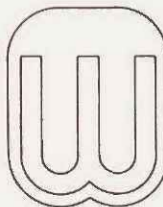
Mr. Fetterly recently tried a product liability lawsuit in Arkansas that set a precedent for use of certain scientific techniques, including autopsies to determine if off-gassing of toxic chemicals caused death.

Following a recent court order, attorneys for parties in the fire litigation are arranging for all exhibits and remnants of hotel and personal property to be tagged, identified and cataloged in the joint warehouse.

"We need to get control of what's there," summed up Judge Bechtel.



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THE SPECIALISTS

Details of MGM coverage found in binders

LAS VEGAS—If you are a renowned insurance expert, your credentials may be under review by a federal judge who will ask someone to resolve disputed MGM Grand Hotels coverage questions.

U.S. District Judge Louis C. Bechtle has received six or eight names from plaintiff and defense attorneys in the litigation stemming from the hotel fire and more are coming. Attorneys for both sides declined to reveal their recommendations.

If Judge Bechtle sticks to a tentative schedule outlined during a pretrial conference in Las Vegas Sept. 9, he will announce his choice within the next several days. He wants the expert's report 10 days after the appointment is made.

Plaintiff attorney Stanley Chesley questions the validity of \$170 million in back-dated liability insurance claimed by MGM Grand Hotels.

The hotel company has filed three insurance binders with the court listing insurers and their participation in the risk. The binders, however, leave many unanswered questions such as are the policies written on a claims-made or occurrence basis and how policies with different dates will respond to losses. Broker Frank B. Hall & Co. told *Business Insurance* last winter that the coverage was written on an occurrence basis (BI, Feb. 9).

The last binder dated Sept. 2 was filed with the court two weeks later. It outlines a \$75 million layer excess of \$125 million underlying coverage (see chart). The policy includes a retroactive endorsement to provide coverage for fire claims including defense costs.

Punitive damages and unallocated loss adjustment expenses are specifically excluded. The coverage attaches July 31, 1981, and expires one year later.

Other defendants' coverage

LAS VEGAS, Nev.—Insurers of the MGM Grand Hotel will have plenty of company if the courts eventually find hotel architects, builders and suppliers partly to blame for last year's catastrophic fire.

Besides the hotel-casino company's \$200 million in liability insurance, court documents show other defendants who have been sued by fire victims and surviving family members are insured as follows:

- California Electric Construction Co., a unit of GK Technologies Inc., for \$100 million including \$40 million in retroactive insurance (see story on page 1).
- Construction subcontractor Del E. Webb Corp. for \$150 million.
- Otis Elevator Co., a unit of United Technologies Inc., for \$275

MGM's top \$75 million layer of retro coverage

Insurers	Sum Insured
Lloyd's & British Cos.	\$39,375,000
Union International—U.S. branch*	19,825,000
Federal Insurance Co.	2,000,000
Mercantile Mutual	3,000,000
Grand Union Insurance Co.	1,500,000
Travelers Insurance Co.	2,000,000
Oriental Fire & Marine	225,000
Home Insurance Co.	1,000,000
Employers of Wausau	3,000,000
Birmingham Insurance Co.	1,500,000
Angencie Interoceania	75,000
Falcon Insurance Co.	1,500,000
Total	\$75,000,000

*\$3 million reinsured by Resolve Reinsurance Co. and balance by General Reinsurance Corp.

Although two other binders are dated Jan. 30 and April 24, actual policies have not been provided by broker Hall, MGM attorneys said.

"It is most probable the policies themselves were not provided plaintiffs because they indicated that the insurance set forth is not immediately available," argues Mr. Chesley in a court document.

He also has complained that premium amounts are deleted from binders submitted to the court.

"The purpose is clear," he says. "The premium amounts will most probably indicate that insurance... is not immediately available to the defendant but available over a long period of time; i.e., only annual payments of lesser amounts for settlement purposes."

Indeed, it is questionable whether MGM's contracts constitute risk transfer, an industry

source privately told *Business Insurance*. MGM bought lines equivalent to what it paid in, plus the time value of money. The sum collectable under the coverage at a given time is less than the reported limits, according to the source.

"To preserve the fund of insurance moneys that now exists and so as not to deplete the fund of moneys," plaintiffs sought a court

order to halt out-of-court settlements. Judge Bechtle denied the request on the grounds that MGM appears to have sufficient assets to meet its financial responsibilities.

The issue has been the focus of some animosity among plaintiff and defense attorneys, who were admonished by Judge Bechtle to avoid further "exaggeration of lack of good faith by other parties."

MGM Grand Hotels' complete \$170 million retroactive insurance program purchased above \$30 million in existing coverage at the time of the fire is as follows:

The first \$70 million attaches Nov. 1, 1980 and expires Nov. 1, 1983, and includes Union Indemnity Insurance Co. of New York for \$35 million; Central National for \$16.125 million; American International Group for \$10.5 million; General Reinsurance Corp. for \$3.5 million; Chubb & Son for \$2 million; Lloyd's and British companies for \$1.75 million; and Crum & Forster for \$1.125 million.

The coverage was written in two equal layers believed to have cost about \$20 million for the first \$35 million layer and \$7 million for the second \$35 million layer.

The second binder attaches April 1, 1981, and expires April 1, 1982. It provides \$25 million excess of \$100 million underlying coverage and is believed to have cost \$2.5 million. Participating companies include

National Union Fire Insurance Co. for \$10.35 million; Insurance Corp. of Ireland for \$5 million; St. Paul Surplus Lines Insurance Co. for \$3.2 million; Northbrook Insurance Co. for \$2.5 million; Travelers Indemnity Co. for \$1 million; Crum & Forster Group for \$1 million; The Home Insurance Co. for \$1 million; Northumberland General Insurance Co. for \$750,000; and Guardian Insurance Co. of Canada for \$200,000.

The third binder attaches July 31, 1981, and expires one year later. It provides \$75 million in coverage excess of \$125 million underlying coverage. Participants include Lloyd's and British companies for \$39.375 million; Union International-U.S. Branch for \$19.825 million (of which \$3 million is reinsured by Resolute Reinsurance Co. and the balance by General Reinsurance Corp.); Federal Insurance Co. for \$2 million; Mercantile Mutual for \$3 million; Grand Union Insurance Co. for \$1.5 million; The Travelers Insurance Co. for \$2 million; Oriental Fire & Marine for \$225,000; The Home Insurance Co. for \$1 million; Employers of Wausau for \$3 million; Birmingham Insurance for \$1.5 million; Angencie Interoceania for \$75,000; and Falcon Insurance Co. for \$1.5 million.

No estimates of the cost of the final \$75 million layer were available.

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A&A offers \$295 million to buy Howden

Continued from page 1
rate) total \$571 million compared with M&M's \$677 million.

A&A President John Bogardus steadfastly maintained throughout the Sedgwick negotiations that being largest was only incidental to developing the international brokerage network Sedgwick offered A&A, but observers close to Mr. Bogardus say he was disappointed he couldn't bump M&M to second place in size.

And, instead of a worldwide network of retail brokerage operations with Sedgwick, A&A now acquires a set of insurance operations in the U.K. and the U.S. that seem to put it on the road to a vertically integrated insurance operation.

"We see nowhere we compete," said A&A Executive Vp Tinsley H. Irvin, stressing the complementary nature of the deal.

Howden is primarily an insurance wholesaler with an international reinsurance brokerage network and risk-taking interests.

The Lloyd's of London syndicates it manages hold 6,000 of Lloyd's 19,000 underwriting members and generated 7% of Howden's 1980 income. Combined with other insurance company holdings, including some in the U.S., the risk-

taking business accounted for 16% of Howden's 1980 revenues.

The other 84% of Howden's 1980 income was generated 70% in brokerage, 12% from investment income, 1% from ship broking and 1% from other trading income.

Mr. Irvin, however, balked at the suggestion A&A was embarking on the kind of expanded vertically integrated operation the acquisition offers and instead stressed the new international capabilities Howden offers A&A.

In London, A&A's Mr. Bogardus responded to questions on his company's intent saying, "Our own reasons for buying Howden's is not to get directly in Lloyd's. We have more of an interest in developing more global capacity."

With Howden's retail brokerage operations limited to the U.K., Australia and South Africa and partial ownership of brokers in Spain and Italy, Mr. Irvin said A&A will be looking to expand its equity interests in other foreign brokers.

Analyst Leonard M. Wilson at First Manhattan Co. in New York suggested A&A's foreign acquisition efforts could be boosted by Howden's foreign wholesale ties.

In the U.S., A&A is picking up Alexander Howden Group U.S.

Inc., which owns insurance company, wholesale brokerage and insurance-related operations.

The U.S. insurance company holdings include 90% of Atlanta International Insurance Co., formerly The Drake; 80% of American Special Risk Insurance Co., formerly Cranford Insurance Co.; and 100% of Stone Mountain Insurance Co.

The wholesale brokerage operation is Alexander Howden Insurance Services Inc. in Georgia with subsidiaries in New York, Illinois, Connecticut and Ohio. The company is an amalgamation of the former Wohlreich & Anderson and new acquisitions (BI, Aug. 10).

The U.S. holding company also owns a controlling interest in Reinsurance Services of America Inc., an intermediary; 100% of Southeastern Aviation Underwriters Inc., an underwriting pool; 80% of Robert Hughes Associates Inc. in Dallas, a risk management consultant, and 50% of Howden-James Holding Co. Inc., a joint venture with U.S. broker Fred S. James & Co., which operates a syndicate of the New York Insurance Exchange.

A&A has not revealed its plans for the U.S. operations, but one analyst said they will benefit from

A&A's strong management.

A&A repeated its long-standing promise during the Sedgwick negotiations that its combination with a London broker would not mean all A&A London-bound business would land with the partner.

Nor does A&A expect any mass exodus of business from Howden, pulled out by disgruntled U.S. competitors. "I don't think Howden has anything like the volume of business with other brokers that Bowring had," said Mr. Irvin, reminded of the business that moved from Bowring after the M&M takeover. "We don't expect any substantial movement," he added.

But Howden executives obviously are looking forward to the certain source of U.S. risk business that ownership by A&A suggests.

"It will make my life easier because they will send more business to us," said Ian Posgate, director of the Howden-managed syndicates.

Mr. Posgate, however, supports the pending legislation in Parliament to force Lloyd's brokers to divest their underwriting management interests, an unpopular view with other Howden executives.

Until that bill is passed, A&A can and will hold the underwriting management interests. They will be operated as before under the same management at Howden's as a subsidiary of A&A.

Mr. Bogardus claimed to be "neutral" on the Lloyd's broker-underwriting manager divestment controversy. "We will abide by how it comes out," he said.

The A&A acquisition strengthens U.S. broker influence over Lloyd's of London, where Frank B. Hall & Co. and Marsh & McLennan own syndicate managers.

A Lloyd's spokesman admitted that with the acquisition of Howden by A&A, the three U.S. brokers will control about half of the Lloyd's underwriting members. Even if divestment of the underwriting managers were forced, the brokers would still exert influence over the market through ownership of member agencies, he added.

Although the Committee of Lloyd's is among those who must approve of the acquisition, "The committee is pretty relaxed about it," the Lloyd's spokesman said.

A&A only needs to assure the committee it will abide by the committee's authority over the market.

Bruised by the end of its merger-marriage plans with Sedgwick, A&A wasted no time in reviving talks that began in 1974 with Alexander Howden.

"Did you hear the news?" asked A&A president Mr. Bogardus in a phone call soon after the Sedgwick announcement to Howden chairman Ken Grob who was on holiday in France.

That phone call was "the happiest day of my life," Mr. Grob said at a press conference in London, last Thursday, compared with "the saddest day in my life when Sedgwick decided to merge with A&A."

"This time, after eight years, we think we have it right," Alexander Howden chief executive officer Michael Glover told BI.

A&A and Howden talks in 1974 were doomed by unfavorable stock market conditions and the 1977 talks were abandoned when the Committee of Lloyd's attitude links with the U.S. were considered an insurmountable obstacle.

The 1977 talks, however, led to a joint venture in Bermuda and A&A's business with Howden made it Howden's largest non-group producer (although revenues from A&A-generated business account for only about 1.5% of Howden's brokerage revenues).

With this history and close business ties between the two, the announcement last Tuesday that the two had finally come to agreeable terms surprised few.

"A&A had to do something" was the response of analysts who were otherwise less than enthusiastic about the acquisition.

Mr. Wilson at First Manhattan called it a "first step, a beginning entry to international business that Sedgwick has."

Some stock analysts are concerned about the apparent earnings dilution that will result from the merger, but James B. Stradner, general partner at Alex Brown Sons in Baltimore, expects Howden will have a "tremendous year," turning the purchase price from 15 times earnings to more like 11 times earnings.

Howden's six month interim report, released at the London press conference, showed a 33% increase in profits to 8.1 million pounds sterling from 6.1 million pounds in the first half of 1980. U.K. business had increased about 30%. Earning per share were 8.9 pence compared with 6.78 pence last year.

A&A is offering 6.77 shares of A&A common stock and \$113 of A&A 11% subordinated convertible debentures due 2007 for each 100 ordinary shares of Howden. The debentures are convertible at any time before maturity at a rate of 25.64 shares of A&A common stock for each \$1,000 face amount of debentures.

On the basis of an exchange rate of \$1.85 to the British pound and stock prices of \$31 for A&A and \$2.62 for Howden, the offer values each Howden share at \$3.23, a 23% premium.

The price of both stocks, however, fell after the announced tender offer, perhaps out of disappointment among Howden shareholders at the premium and moves among A&A shareholders to buy A&A stock at a discount by selling their current holdings and buying Howden stock, analysts speculate.

Upon full conversion of the debentures, Howden shareholders would hold 32% of the enlarged A&A share capital.

The speculation now turns to what Sedgwick will do. U.S. analysts contend that in order to guarantee U.S. risk business, Sedgwick will have to buy a U.S. broker.

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Survival of independent agents is topic too often overlooked

By MYRON M. PICOULT
Special to Business Insurance

AS INDUSTRY observers laboriously attempt to pinpoint the precise quarter when the property/casualty underwriting cycle will bottom and as they attempt to predict quarterly earnings trends, a much more important subject is not being given an appropriate amount of attention: the survival of the independent agency system and the rejuvenation of market share growth of agency companies.

To stave off the encroachment of the direct writers and captive agency companies, small agencies must reduce their operating costs and improve their service. To the extent that the property/casualty product is becoming more of a commodity, service and price will become increasingly important.

Just as the life insurance industry has been going through a period of market segmentation, so will the property/liability industry. We envision the defining of four major market segments: large commercial accounts, medium-sized commercial accounts, "retail commercial" accounts and the personal lines market.

We suspect that the large commercial accounts—those that are not self-insured—will increasingly gravitate toward forms of administrative service and minimum premium plans that are becoming increasingly prevalent in the group health area. While margins are clearly lower on this type of business, there is a greater degree of consistency.

The retail commercial and personal lines markets will increasingly become the province of the direct writers and captive agency

Myron M. Picoult is a vp and senior insurance analyst with Oppenheimer & Co. in New York. He is the past president of the Assn. of Insurance & Financial Analysts and a member of the New York Society of Security Analysts. His column for Business Insurance appears the fourth Monday of every month.

BI ticker

companies if the independent agency system cannot get its act together to pare distribution costs and increase service levels.

That leaves the middle market as the battleground.

The Insurance Institute for Research was created to provide guidance and direction to agents, companies and vendors on all key aspects of agency automation and industrywide electronic interface. There is obviously a certain amount of fractionalism in the industry as many key underwriters do not belong to this industry group, preferring to develop and implement their own in-house agency systems and methods of electronic interface.

From the developing company's point of view, such a procedure would seemingly tie agents more closely to their company. On an overall basis, however, it only seems to add to an already complex and difficult situation. We sense that the reluctance of some companies to "endorse" a comprehensive effort to develop and promote a uniform electronic interfacing capability is aimed at keeping some smaller concerns from surviving.

For those underwriters that subscribe to this theory of going it alone, it should be pointed out that the real test is not necessarily access to the system, but whether a company can make effective use of the facility after it has gained access.

No matter how it is sliced, the acceptance of a master plan by all key interested parties can result in reduced costs, better systems performance and more control for the insurers.

Intertwined with this subject is the not-so-subtle merging of financial service corporations that is under way.

To be sure, the property/liability industry is not immune to this trend. The relatively recent mergers of American Express and Shearson Loeb Rhodes, Prudential and Bache, and the recent announcement by American General that it was going to acquire Creditthrift Financial underscore the point.

At first glance, it would appear that the catalyst for the trend is a strong conviction about the coming of a disinflationary eco-

nomie environment and the corresponding impact on financial assets. Financial service companies are considered to be beneficiaries of disinflation because they hold net monetary assets. With a high rate of inflation, capital held as net monetary assets depreciates, whereas capital invested in hard assets may appreciate. When inflation recedes, net monetary assets depreciate less.

Another argument often presented is the incentive to become a "full-service financial department store."

In our opinion, the real reason behind the trend is the recognition that distribution costs must be brought down. In so far as property/casualty insurance operations are concerned, the current activities of the IIR relative to an industry-wide electronic interface is one of the major projects under way that addresses the "squeeze play" on the U.S. agency system.

As inflation raises the cost of doing business, competition is reducing the pricing structure. Hence, the big will grow even bigger and the small will disappear. Consolidation will surely reduce the number of players in the insurance delivery system.

Financial Briefs Zurich American

Zurich American Insurance Cos. of Schaumburg, Ill., posted improved profit, revenue and underwriting results for its property/casualty operations during the first half of 1981.

The company's after-tax income on property/casualty business rose to \$12.7 million in the first six months of 1981 from \$7.7 million a year earlier.

Net written premium for the first half rose 1.3% to \$193.7 million from \$191.1 million a year ago.

The company's combined ratio dropped to 105.0 from 108.8 in the first half of 1980.

However, total premiums and considerations for Zurich American's life/health operations dipped to \$16.3 million in the first half, down from \$17.1 million last year.

Voyager Group

The chairmen of Voyager Group Inc. and Associated Madison Cos. Inc. have recommended that the boards of their respective companies abandon the proposed merger of the two companies.

The current economic and market conditions were cited as the reason for the decision.

Munich Re

Munchener Ruckversicherungs Gesellschaft, the German reinsurance group better known as Munich Re, says that losses on reinsurance during the year that ended June 30 are likely to exceed the 106 million deutsche marks (\$43.4 million) that the company lost on reinsurance in 1979-80.

However, the company says that it expects to maintain a dividend of 9 deutsche marks (\$3.75) per share for the year despite the losses.

AVEMCO

AVEMCO Corp. has declared a regular quarterly dividend of 12½ cents per share of common stock payable Oct. 28 to shareholders of record Oct. 5.

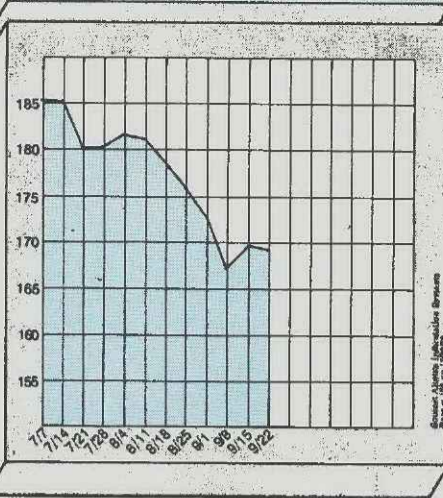
Alexander & Alexander

Alexander & Alexander Services Inc. has declared a regular quarterly dividend of 46 cents per share of common stock, which is payable Nov. 25 to shareholders of record Nov. 5.

E.H. Crump

E.H. Crump Cos. Inc. has declared a regular quarterly dividend of 10 cents per share of common stock payable Oct. 9 to shareholders of record Sept. 30.

BI Insurance Index



Insurance industry stocks slipped slightly last week as the Business Insurance stock index dipped 0.4 points to 169.2 from 169.6. Twenty-four stocks posted gains, 39 declined and 10 issues remained unchanged. Largest gains were posted by Central National Financial Corp., 44.7%; Aneco Reinsurance Ltd., 36.8%; E.H. Crump Cos. Inc., 14.8%; American Indemnity Financial Corp., 8.3%; and AVEMCO Corp., 7.1%. Leading the declines were Tokio Marine & Fire Insurance Co., 26.4%; Armco Inc., 12%; Rollins Burdick Hunter Co., 9.8%; Alexander & Alexander Services Inc., 9.6%; and PennCorp Financial Inc., 8.7%. The 0.3% decline in the index was not as steep as the declines in the major market averages.

British Issues

9/22	Price	P/E	Div.	Yield	High-Low
Companies	pence	pence	%	%	pence pence
Comm Union	152	10.1	16.07	10.6	157-150
Eagle Star	295	9.5	21.43	7.3	300-293
Genl Accident	336	7.8	21.07	6.3	350-332
Gdn Royal Exch	316	8.2	23.21	7.3	330-312
Phoenix	272	8.9	22.43	8.2	280-268
Royal	373	9.6	35.00	9.4	380-370
Sun Alliance	910	9.1	53.57	5.9	935-900

Brokers	Price	P/E	Div.	Yield	High-Low
CE Heath	296	11.6	15.00	5.1	296-283
Hogg Robinson	113	9.0	8.57	7.6	112-105
Alex Howden	140	8.8	10.00	7.1	143-141
JH Minet	140	12.8	6.50	4.6	140-133
Sedg Grp	136	10.0	7.50	5.5	151-136
Stenhouse Hldg	100	9.2	6.64	6.6	100-96
Stew Wrightson	230	11.5	17.14	7.4	230-218
Willie Faber	375	12.9	17.85	4.8	378-358

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



Picoult

BI Industry Stock Report

SEPT. 22, 1981

9/16/81 THRU 9/22/81

SEPT. 22, 1981

9/16/81 THRU 9/22/81

Insurance Cos.	Price	% Chg.	P/E	\$ Div.	% Yld.	High	Low	Vol. (000)	
Aetna Life & Cas Co	NYSE	37.50	2.0	6.8	2.32	6.2	37.88	36.75	424.3
American Bankers Ins Group	OTC	5.75	2.2	10.8	0.44	7.7	5.75	5.50*	105.9
American Gen Ins Co	NYSE	39.50	5.3	6.2	2.00	5.1	39.63	37.75	331.9
American Indty Finl Corp	OTC	14.63	8.3	5.9	1.12	7.7	14.63	13.75	14.7
American Intl Group Inc	OTC	55.50	-0.9	10.1	0.40	0.7	56.00	55.00	239.0
American Natl Ins Co	OTC	12.50	-2.0	5.7	0.68	5.4	12.75	12.50*	69.8
American Sts Life Ins Co	OTC	18.00	-5.3	5.8	0.72	4.0	19.00	18.00	0.9
Aneco Reins Ltd	OTC	3.25	36.8	0.0	0.00	0.0	3.38	2.50	29.8
Appalachian Natl Corp	OTC	2.13	6.2	6.1	0.00	0.0	2.13	2.00	3.4
Avemco Corp	AMEX	9.38	7.1	7.7	0.50	5.3	9.38	8.75	6.3
Banks Iowa Inc	OTC	36.50	-7.6	5.8	1.44	3.9	38.50	36.50	2.3
Bltco Corp	OTC	35.00	-7.3	4.9	2.16	6.2	37.75	35.00	2.9
Carolina Cas Ins Co	OTC	6.75	0.0	6.8	0.32	4.7	6.75	6.75	1.2
Central Natl Finl Corp	OTC	17.00	48.7	5.5	0.65	3.8	17.00*	12.00	15.9
Chubb Corp	OTC	42.25	-4.5	5.2	2.68	6.3	43.63	41.75	121.1
Combined Intl Corp	NYSE	20.25	0.0	5.5	1.60	7.9	20.25	19.38	89.2
Connecticut Gen Ins Corp	NYSE	46.88	-1.1	6.2	1.76	3.8	47.00	46.50	392.8
Continental Corp	NYSE	23.63	-2.1	7.5	2.40	10.2	24.38	23.63	86.8
Crawford & Co	OTC	15.25	0.0	11.7	0.52	3.4	15.25	15.25	34.4
Crom Life Ins Co	OTC	102.00	1.0	11.1	2.80	2.7	102.00	101.00	0.1
Crum & Forster	NYSE	30.75	1.7	5.4	1.64	5.3	31.00	30.38	128.1
Employers Cas Co	OTC	32.50	-1.5	5.3	1.20	3.7	33.00	32.50	2.6
Equipax Inc	NYSE	22.88	0.5	5.2	2.40	10.5	23.25	22.88	1.8
Excelsior Ins Co	OTC	16.50	0.0	17.6	0.70	4.2	16.50	16.50	2.5
Farmers Group Inc	OTC	27.63	2.3	8.5	1.12	4.1	27.75	26.75	157.5
First Colony Life Ins Co	OTC	57.50	-5.7	17.5	1.00	1.7	59.50	57.50	4.4
Foremost Corp Amer	OTC	25.50	-1.9	7.6	0.80	3.1	25.75	25.50	7.4
Great West Life Assurn Co	OTC	250.00	0.4	10.1	10.00	4.0	252.00	250.00	1.3
Hanover Ins Co	OTC	27.38	-3.1	3.7	0.72	2.6	28.25	27.38	12.4
Hartford Steam Boiler Insptn	OTC	40.00	-4.8	7.2	2.60	6.5	41.00	40.00	5.2
Jefferson Natl Life Ins Co	OTC	35.50	-1.4	28.6	0.64	1.8	35.50	35.50	3.3
Keener Corp	OTC	31.88	3.2	5.2	1.60	5.0	31.88	31.13	94.2
Lincoln Natl Corp Ind	NYSE	35.50	-3.4	5.4	3.00	8.5	36.75	35.50*	98.4
Mgic Inv Corp	NYSE	34.50	-0.7	9.0	1.28	3.7	35.25	33.50	270.3
Mission Ins Group Inc	NYSE	37.75	2.4	6.9	1.00	2.6	37.75	36.00	24.1
Nationwide Corp Ohio	OTC	24.63	0.0	7.6	0.70	2.8	24.63	24.63	4.0
Northwestern Natl Life Ins	OTC	24.63	-1.5	6.0	1.36	5.5	25.00	24.50	7.3
Ohio Cas Corp	OTC	39.63	0.0	6.1	2.04	5.1	39.75	39.63	41.8
Old Rep Intl Corp	OTC	14.25	-3.4	3.6	0.92	6.5	14.38	14.00*	37.5
Plenhurst Corp	OTC	7.38	1.7	0.0	0.00	0.0	7.38	7.25	6.0
Preferred Risk Life Ins Co	OTC	18.25	0.0	5.3	0.80	4.4	18.25	18.25	0.8
Provident Life & Acc Ins Co	OTC	44.00	0.0	6.1	2.20	5.0	44.00	44.00	16.2
Ryan Ins Group Inc	OTC	19.50	-2.5	8.2	0.12	0.6	20.25	19.50	4.1
St Paul Cos Inc	OTC	46.00	2.5	7.9	2.32	5.0	46.00	44.75	76.0
Safeco Corp	OTC	34.38	-1.4	6.5	2.00	5.8	34.38	33.88	86.2
Sri Corp	OTC	22.00	-2.2	4.6	1.00	4.5	22.25	22.00	31.7
Subalta Bruce Group Inc	OTC	22.38	-4.3	12.0	0.80	3.6	23.38	22.13	29.2
Statesman Group Inc	OTC	6.25	-3.8	5.3	0.15	2.4	6.50	6.25	7.4
Tokio Marine & Fire Ins Co	OTC	102.50	-26.4	12.2	1.00	1.0	138.00	102.50*	2.6
Travelers Corp	NYSE	43.75	0.9	5.1	2.88	6.6	44.50	42.88	152.5
United Fire & Cas Co	OTC	32.00	-4.5	8.4	1.00	3.1	33.50	32.00	0.9
United States Fid & Gty Co	NYSE	39.75	-2.2	5.9	3.20	8.1	40.63	39.25	129.1
United Svcs Life Ins Co	OTC	14.25	2.7	5.8	1.00	7.0	14.25	13.88	12.4
UsLife Corp	NYSE	22.25	-6.3	5.3	0.76	3.4	23.63	22.25	152.4
Washington Natl Corp	NYSE	20.63	-2.9	6.1	1.08	5.2	20.63	20.25	59.7
Zenith Natl Ins Corp	OTC	15.25	0.0	8.5	0.60	3.9	15.25	15.25	9.2
INSURANCE COMPANIES	AVERAGE			7.3		4.3			
Agents/Brokers									
Alexander & Alexander Svcs	OTC	28.25	-9.6	9.8	1.84	6.5	31.25	28.25*	349.3
Baldwin & Lyons Inc	OTC	33.75	-2.2	5.7	0.80	2.4	34.50	33.75	5.0
Corroon & Black Corp	NYSE	18.88	-0.7	9.9	1.76	9.3	19.13	18.38*	12.1
Crump E H Cos Inc	OTC	11.63	14.8	13.1	0.40	3.4	12.63	10.25	65.3
Hall Frank B & Co Inc	NYSE	26.63	-2.3	9.9	1.66	6.2	27.50	26.13	220.9
Integrated Rea Inc	AMEX	13.00	-7.1	5.7	0.00	0.0	13.75	13.00	34.8
James Fred S & Co Inc	NYSE	24.50	-3.9	11.3	1.60	6.5	25.25	24.38	71.1
Marsh & McLennan Cos Inc	NYSE	35.00	1.4	11.6	2.00	5.7	35.00	34.50	132.5
PennCorp Fincl Inc	NYSE	5.25	-8.7	9.4	0.16	3.0	5.63	5.25*	106.9
Poe & Assoc Inc	OTC	11.00	-2.2	9.6	0.80	7.3	11.00	11.00	0.1
Reed Stenhouse Cos Ltd	OTC	10.50	6.3	8.3	0.60	5.7	11.00	9.75	11.4
Rollins Burdick Hunter Co	OTC	20.75	-9.8	11.5	1.24	6.0	22.50	20.75*	8.2
AGENTS/BROKERS	AVERAGE			9.0		5.4			
Conglomerates/Holding Cos.									
American Express(Fireman's Fd)	NYSE	41.25	-2.7	7.5	2.00	4.8	42.63	41.00	1,125.9
Anderson Clayton(Ranger/Panam)	NYSE	22.63	-1.6	5.5	1.20	5.3	22.75	22.38	17.2
Arncos Inc	NYSE	27.50	-12.0	6.4	1.80	6.5	3		

Put A&A's environmental risk planning to the acid test.

Alexander & Alexander's special National Environmental Action Team can help safeguard your company's assets. We view financial risk through your eyes. Look beyond the treatment, transportation and storing of hazardous wastes to the entire spectrum of pollution liabilities — from generation to disposal.

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This insider's vantage point enables us to be in the vanguard, formulating contracts that go beyond hazardous waste coverage to full pollution liability protection.

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We are ready to look at any business — medium or large — in any industry and help create a total compliance program.

We think a big reason A&A has become one of the largest and most trusted insurance brokers worldwide is that we work the same way with every client. From the client's point of view. And in our business, that's the acid test.



Experts from Advanced Environmental Technology Corp. of Morris Plains, New Jersey, cleaning up improperly handled hazardous wastes.

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From the client's point of view.