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update

Damaged race track receives $75 million from insurer

ARLINGTON HEIGHTS, Ill.—Owners of the Arlington Park Race Track have received a $75 million insurance settlement for the spectacular July 1985 fire that destroyed the track's grandstand and clubhouse facilities.

Track owners received $65 million for the damage to track structures. However, $5 million of that must be returned if construction of

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Health pool proposal would sting employers

By JERRY GEISEL

WASHINGTON—Employers would be forced to help pay for health care for potentially millions of high-risk uninsured Americans if legislation now on a fast track in Congress is approved.

A provision tacked onto a budget bill, H.R. 5300, approved by the House Ways and Means Committee and set for a vote by the full House this month, would require states to set up pools to provide comprehensive health care coverage for the uninsured.

If the premiums paid by these individuals are not suffiecient to cover the pools' costs, as many experts predict is likely, employers would be assessed to make up the difference.

The legislation, sponsored by Rep. Fortney "Pete" Stark, D-Calif., has outraged employer-supported benefits lobbying organizations, which are mounting a last-ditch effort to derail the proposal.

Those groups—including the Assn. of Private Pension & Welfare Plans, the ERISA Industry Committee, the National Assn. of Manufacturers and the U.S. Chamber of Commerce—say they understand why legislators are concerned about the millions of Americans who have no health insurance and could be bankrupted by a single illness.

"We understand the importance of the issue," says Stuart Brahs, executive director of the APPWP.

The Ways and Means Committee says, "The establishment of these health insurance pools will take some pressure off the need for new or existing public programs for people who do not have access to health insurance."

An estimated 34.7 million Americans were not covered by health insurance in 1984, according to the Employee Benefit Research Institute in Washington.

But benefit experts are asking why employers, especially those that offer group health care coverage to employees, should have to pick up the costs of the uninsured, who have no employment relationship with a company.

"A societal obligation is being shifted to employers," says Edward J. Davey, vp with Johnson & Higgins in New York.

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Velsicol ordered to pay in toxic waste litigation

By STEVE TARAVELLA

MEMPHIS, Tenn.—Velsicol Chemical Corp. plans to appeal a $12.7 million award to a group of people who alleged they suffered injuries from exposure to a dump site where the company stored chemical wastes.

The U.S. District Court for the Western District of Tennessee last month awarded $5.2 million in compensatory damages to five plaintiffs and $7.5 million in punitive damages to those five and 120 other area residents.

Compensatory damages for the 120 other members of the court-appointed class are yet to be determined and potentially could push up the total award against Velsicol by tens of millions of dollars.

The case may mark the first time that plaintiffs prevailed in a class-action toxic-waste case that went to trial in the United States, according to a lead plaintiffs' attorney.

Judge Odell Horton declared that Velsicol's actions in locating, creating, maintaining and operating its chemical-waste burial site in Toone, Tenn., "constituted gross negligence and a willful and wanton disregard for the health and well-being" of nearby residents.

"If there has ever been a civil action filed in this court that cried out for the levy of punitive damages, it is the case at bar," the judge wrote in his 574-page ruling. "In fact, failure to award punitive damages in this case would, in itself, be an act of injustice."

The court concluded that "Velsicol's activity on the farm was not only ultra-hazardous activity, but

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Photo: Thomas Busler

Mrs. Steve Sterling's family well hasn't been used since 1978 because of alleged contamination from the nearby toxic waste site.

Collision not likely to affect aviation rates



Photo: AP/Wide World

Firefighters in Cerritos, Calif., battle flames from a burning home as they straddle pieces of fuselage from the AeroMexico jetliner.

By STACY SHAPIRO and ROBERT A. FINALYSON

LOS ANGELES—Last week's midair collision between an Aeronaves de Mexico S.A. DC-9 jetliner and a single-engine Piper Archer jet near Los Angeles, which killed at least 85 people, will have little impact on aviation insurance rates, market observers say.

While aviation insurers face a $9.5 million claim for the Aeromexico hull and an estimated $67 million in potential liability claims, aviation losses so far in 1986 have been relatively mild and much less than last year's record losses, brokers and underwriters add.

The Aeromexico crash "won't have a huge influence" on rates, said John Palmer-Brown, deputy chairman and managing director of broker Stewart Wrightson (Aviation) Ltd. "Underwriters are still making profits."

So far this year, worldwide commercial aviation insurance claims total only about $170 million, including last week's disaster, compared with $1.1 billion during 1985. Aviation insurance underwriters already have collected between $1 billion and $1.2 billion in worldwide premiums this year.

"There won't be a major impact on rates" as a result of the Aeromexico crash, agreed one European underwriter who did not wish to be named.

Federal investigators late last week were still studying the cause of the crash, which killed all 67 people aboard the two planes, including three aboard the Piper, and at least 18 on the ground. After the collision, both planes fell to the ground in the Los Angeles suburb of Cerritos. Property damage was estimated by local fire department officials at $2.6 million.

Among the scenarios being investigated last week was the possibility that the pilot of the Piper, William Kramer, suffered a heart attack before the collision. In addition, authorities were investigating whether an air traffic controller may have been distracted by another plane on his radar screen shortly before the collision occurred.

Last week, Aeromexico's aviation underwriters had not been notified by attorneys how much should be reserved to pay liability losses from the disaster.

L.H. Wilcox, chairman of international aviation division of Frank B. Hall & Co. Inc. in New York, Aeromexico's broker, said last week that it is "entirely too early to even come up with a guesstimate" for setting up a claims reserve.

"Right now they don't even know how many people

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update

Arlington Park settlement

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a permanent grandstand is not begun by July 31, 1987, or if the owners have not entered into an enforceable agreement to purchase a comparable racing facility, according to a report the owners filed recently with the Illinois Racing Board.

The insurance settlement also included $10 million for business interruption losses, the report said. Those losses were minimized by Arlington's lease of Hawthorne Race Course to run the remainder of its racing dates last season.

The coverage was written by Park Ridge, Ill.-based Protection Mutual Insurance Co., a member of the Factory Mutual System, which wrote an estimated $120 million in property and business interruption insurance for the track on a replacement-cost basis (*BI*, Aug. 5, 1985).

Meanwhile, the village of Arlington Heights has been waiting until the recent two-week race meeting at the damaged track to calculate its losses and file claims with underwriters at Lloyd's of London.

The village's package insurance policy, brokered by Arthur J. Gallagher & Co., includes $350,000 in contingent business interruption coverage above a $150,000 self-insured retention, to compensate it for tax revenue lost when races after the fire were held elsewhere, said Jeff McNary, the village's assistant finance director and comptroller.

Insurer's stock sale challenged

NEW YORK—A shareholder of North East Insurance Co. has filed a class-action lawsuit in U.S. District Court in Manhattan to block the sale of a majority of the insurer's shares to Bernard D. Gershuny, chairman of American Transit Insurance Co. of New York.

The shareholder, Dusan Mladen—who was outbid by Mr. Gershuny for a block of North East stock—charges that North East and several of its directors and officers falsified the insurer's financial statements for 1983, 1984 and 1985.

The suit also charges that, in his purchase of North East shares, Mr. Gershuny is acting as a "front" for Howard Gunty, North East's president; Mitchell Gunty, a North East director; and Nicholas Neu, a New York businessman.

Mr. Neu, who is not named as a defendant, is president of American Motor Club Inc., which has been charged by the New York Insurance Department with writing auto insurance without a license.

In an interview, Mr. Neu denied Mr. Mladen's charges but confirmed that American Motor Club's parent, Vancouver, British Columbia-based International Telex, had offered to buy North East shares. The offer was later withdrawn, he said.

David Webb, North East's treasurer and chief financial officer, declined to comment on the lawsuit, saying the company had not yet been served with a copy.

North East—which reported net premiums of $7 million and policyholders surplus of $5 million in 1985—has been categorized as "below minimum standards" for a rating by A.M. Best Co.

Agent Orange plan stayed

NEW YORK—A federal appeals court ruling stays a plan to administer more than $200 million in claims payments to 250,000 servicemen exposed to the defoliant Agent Orange.

The 2nd U.S. Circuit Court of Appeals stayed the 2-year-old plan in late August in light of opposition by some veterans as to how benefits would be paid under the plan. The group says veterans with illnesses directly attributable to an exposure to the defoliant should receive priority claims payment status. Under the current plan, all disabled veterans—or survivors of deceased veterans—who were exposed to Agent Orange would be given equal claims payment status.

Other veterans favor the current plan and contend that the court's action may cause delays in providing benefits to injured veterans.

Opposing briefs in the case are scheduled to be filed by Sept. 19.

Aetna Life & Casualty Co., assisted by its employee benefit division, and Aetna Technical Services will administer the claims. Aetna will be paid $6.8 million for its services through 1994.

Aetna insured two of the seven chemical companies that agreed to the settlement in 1984. The settlement fund, which was originally $180 million, has grown to more than $200 million with interest.

Briefly noted

The federal **Pension Benefit Guaranty Corp.** has filed 27 claims in U.S. Bankruptcy Court in Pittsburgh seeking a total of $667 million for the termination of several underfunded pension plans covering employees of Wheeling-Pittsburgh Steel Corp., which filed for bankruptcy last year. . . .Dallas-based **LTV Corp.** announced last week that it would not be able to make a $215 million annual contribution to 12 pension plans covering some 100,000 salaried employees and retirees. "Because the company is in Chapter 11, we will not make the payment. We have filed for a waiver on the payment from the IRS," a spokesman said.

errors & omissions

● Business underwritten for American Centennial Insurance Co. by Inter-Cas Ltd. in Jerricho, N.Y., currently is producing a profit, an American Centennial executive says. In addition, business written by New York-based Robert Plan Corp. is profitable, the official said. A spokesman for Beneficial Corp., American Centennial's parent, earlier said all business written by managing general agents for the insurer was producing losses (*BI*, Sept. 1).

Jurisdiction of state courts over foreign firms to be heard

By STEPHEN TARNOFF

WASHINGTON—In a case with significant implications for business, the U.S. Supreme Court in its upcoming term will examine the extent to which state courts have jurisdiction over foreign companies sued in product liability litigation.

In *Asahi vs. Superior Court*, the high court will look at whether a Japanese manufacturer, with no contacts in California other than knowledge that its valves would be sold there as parts of finished products, can be brought into product liability litigation in the state.

Asahi and various foreign business groups, seeking to reverse a decision by the California Supreme Court that, argue that permitting jurisdiction in California would hurt foreign and perhaps even domestic businesses—potentially increasing lawsuits, legal costs and insurance rates for manufacturers.

But other businesses contend that if the U.S. Supreme Court fails to affirm the state Supreme Court decision, U.S. companies would be deprived of recoveries from foreign manufacturers that are liable in product liability actions. They also contend higher legal costs and insurance rates for companies could result if the high court decision is reversed.

Oral arguments in the case are expected this fall.

If the state court decision is upheld, "it could tremendously increase the risks of businesses who don't do business in California," but whose products are sold there, including domestic and foreign companies, says Richard D. Hoffman, an attorney for Asahi.

"It is a very important case," says Quentin Riegel, assistant general counsel for the National Assn. of Manufacturers. "It could open up any foreign company to U.S. jurisdiction."

The American Chamber of Commerce in the United Kingdom, the Confederation of British Industry and the Brazilian company Alcan Aluminio de Brasil have filed amicus briefs with the U.S. Supreme Court seeking a reversal of the California court's decision.

But Ronald R. Haven, who represents a Taiwanese company that sued Asahi, argues the California court's ruling "will make foreign companies responsible for the quality of their goods."

The California Manufacturers Assn. has filed an amicus brief asking that the decision be affirmed, arguing that the ruling benefits the state's businesses and consumers.

The case stems from a 1978 motorcycle accident in California in which a passenger was killed and the driver severely injured, allegedly because a sudden loss of air and an explosion in the motorcycle's rear tire caused the driver to lose control.

In 1979, the driver brought a product liability action in Solano County Superior Court against various defendants, including Cheng Shin Rubber Industrial Co. Ltd., the Taiwan manufacturer of the tire tube, and Sterling May Co. Inc., the California retailer who sold the tire. The suit alleged that the tire and tube were defective.

Cheng Shin subsequently filed a cross-complaint seeking indemnity from its co-defendants and also from Asahi Metal Industry Co. Ltd., the Japanese manufacturer of the tube's valves.

The case ultimately was settled for $300,000 with Cheng Shin and Sterling May each paying $150,000. The settlement left Cheng Shin's cross-claim against Asahi. Sterling May also has filed an action against Asahi.

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Guernsey has new regulator, insurance law

By CAROL CAIN

ST. PETER PORT, Guernsey—This Channel Island soon will have an insurance supervisor to oversee the enforcement of a new law governing captive insurance companies.

On Sept. 24, Steve W. Butterworth, who has been an insurance regulator in the Cayman Islands since 1982, will become the first insurance supervisor for Guernsey, one of the largest British-owned Channel Islands off the French coast.



Mr. Butterworth

Guernsey is now home to about 200 captive insurance companies.

The island has never had a formal insurance law or a specific insurance regulator. Insurance company registration has been supervised recently by John Roper, the government's commercial relations adviser. He replaced Bruce Riley, who left in May to become managing director of two subsidiaries of

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Two Fremont units stop writing business

By STEVE TARAVELLA and ROBERT A. FINLAYSON

LOS ANGELES—Fremont Reinsurance Co. and affiliate Comstock Insurance Co. are no longer writing new or renewal business.

Fremont Re, which had written treaty reinsurance, and Comstock, which had written umbrella and excess liability coverage, announced the actions last week, though the decision had taken effect Aug. 28. The decision stems from a restructuring at parent Fremont General Corp. in Santa Monica, Calif.

Current management at Comstock and Fremont Re, including Fremont Re President Wesley Kinder, will remain at the companies during the runoff.

And, in a similar move, Integrity Insurance Co. in Paramus, N.J., said last week that it has begun to significantly reduce the amount of new and renewal business it writes.

Fremont General said it will attempt to sell Fremont Re and Comstock and reorganize its other property/casualty operations—Fremont Indemnity Co., Fremont Compensation Insurance Co., Fremont Insurance Co. Ltd. (U.K.) and Fremont Syndicate Inc. on the New York Insurance Exchange—under the banner of a new publicly held company, Fremont Insurance Group Inc.

The restructuring is expected to be completed in the first quarter of 1987. Fremont General will account for Fremont Re and Comstock as discontinued operations beginning this quarter.

Comstock last year pulled out of the primary liability market (*BI*, Sept. 2, 1985). Since then, Comstock has been writing

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inside

✔ Pick up the phone this Tuesday and urge your senator for passage of S. 2760, the Product Liability Reform Act, this week's editorial urges. The bill, among other things, would eliminate joint and several liability for non-economic damages in product liability suits. **PAGE 8**

✔ The prosperity among the publicly held insurance brokers has not run its course judging from their second-quarter performance, stock analyst Leonard M. Wilson contends. **PAGE 35**

✔ A recent U.S. Labor Department report concludes that Congress should establish participation, vesting and funding guidelines for employer-provided retiree health care plans. **PAGE 24**

✔ Providing health benefits for retirees represents one of the fastest growing costs of doing business today, according to the Joseph Duva, director of employee benefits at Allied-Signal Corp. In Ask a Benefit Manager, he explains why this cost will continue to grow. **PAGE 22**

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How Wausau earns its stripes at Rust-Oleum Corporation.



Rust-Oleum is famous for stopping rust in applications that range from heavy industrial to do-it-yourself projects. Naturally, a company that knows this much about protection has an appreciation for what makes business insurance work.

"We have very active loss-prevention programs," says Robert D. Tranter, Assistant Vice President at Rust-Oleum. "As a direct result, we've been able to reduce our experience modification from 1.46 as of a few years ago, to a current 0.74.

"Our plant people work with Wausau's safety engineers and field people on everything from fork-lift driving, to proper ways of lifting heavy items, to air sampling.

"We've always had the philosophy that it takes quality people to make quality products. To do that, we need quality insurance programs so we can hire — and keep — quality people.

"An important factor is Wausau's cooperation. When we have questions on our loss-prevention programs, Wausau is right there to help us find the answers."

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Velsicol settles dispute with insurers

By STEVE TARAVELLA

JACKSON, Tenn.—The same day Velsicol Chemical Corp. was hit with a $12.7 million court award in a toxic-waste case, the company settled a dispute with four liability insurers that allegedly had refused to pay Velsicol's defense costs.

Velsicol, which had sued the insurers for defense and indemnification costs last December, settled the suit last month, according to Frederick Mueller, the company's environmental counsel in Chicago. The suit had been pending in the Chancery Court of Tennessee for Madison County in Jackson.

Mr. Mueller, citing a confidentiality provision, could not discuss terms or conditions of the settlement. Several other parties involved, however, report that the settlement only ends the dispute over defense costs and that the chemical company retained its right to pursue claims for indemnification.

According to the original suit, the settling insurers and details of the comprehensive general liability policies they issued are:

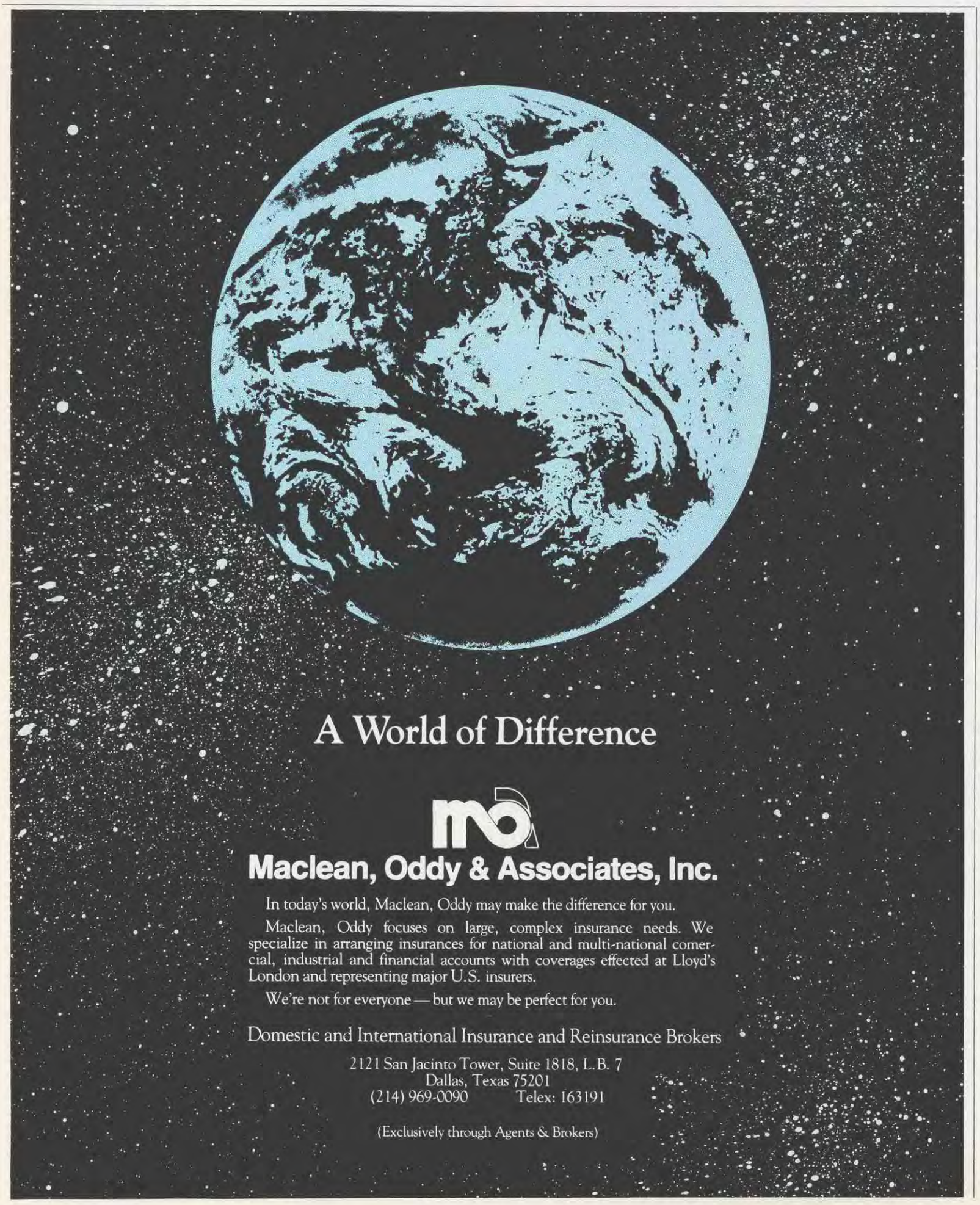
- American Mutual Liability Insurance Co. in Wakefield, Mass. From Sept. 1, 1964, to Nov. 2, 1966, the insurer issued coverage with bodily injury limits of $100,000 per accident and property damage limits of $100,000 per accident and $100,000 aggregate.

In a similar toxic-waste case, American Mutual is denying coverage for defense costs and indemnity to Beatrice Foods Co. (*BI*, Aug. 4; July 28).

- Globe Indemnity Co., part of Royal Insurance Group Inc. From Nov. 1, 1966, to Feb. 1, 1972, Globe wrote liability coverage with bodily injury limits of $100,000 per person, $300,000 per occurrence and $300,000 aggregate, and property damage limits of $100,000 per occurrence and $200,000 aggregate.
- Travelers Indemnity Co., a unit of Travelers Corp. From Feb. 1, 1972, to Oct. 1, 1978, Travelers issued coverage with bodily injury limits of $1 million per occurrence and property damage limits of $1 million per occurrence and $1 million aggregate.
- Transportation Insurance Co., part of CNA Insurance Cos. Transportation began issuing coverage to Velsicol on Oct. 1, 1978, with bodily injury limits of $1 million per occurrence and property damage limits of $1 million per occurrence and $1 million aggregate.

It wrote coverage for Velsicol as recently as 1984, but declined to comment on whether coverage ended or continues.

Velsicol alleged that all four insurers refused to pay its defense costs, but it also accused Globe and Travelers of bad faith, saying the two insurers failed to determine whether they had a duty to defend Velsicol. The chemical company had sought $5 million in punitive damages from these two insurers.



Velsicol award

Continued from page 4

length of time—21 years, a Tennessee record—and in that it was awarded in a personal injury case, not a death case. This is the first case in Tennessee in which prejudgment interest was awarded for personal injury, says Mr. Wilder.

Velsicol is asking in separate post-trial motions that the prejudgment interest award be overturned or that it be calculated as simple, not compounded, interest, according to James W. Gentry, a Velsicol attorney with Gentry & Boehm in Chattanooga, Tenn.

The ruling does not specify compounded interest, but the entry of judgment does; Mr. Gentry surmises this might be merely a clerical error.

Awarding pre-judgment interest from the approximate date of exposure, rather than the more usual date of initial suit filing, can practically guarantee that liability insurers will not return to writing policies for pollution risks, according to Samuel A. Alcorn, vp-operations at broker Bayly, Martin & Fay International Inc. in Fort Worth, Texas.

- A fund, financed by Velsicol, might be set up to assist plaintiffs with anticipated medical costs. The judge agreed to hear a request for such a fund, and Mr. Wilder says plaintiffs will probably ask the court for $25 million to establish it. This would be one of a handful of mechanisms set up to deal with injuries anticipated but not yet manifested.

In a similar case, residents who sued Jackson Township, N.J., over wells contaminated by a sanitary landfill were denied funds for increased susceptibility for cancer but were collectively awarded $8.2 million for monitoring of their health.

However, a New Jersey appellate court later threw out that award, saying evidence in the case was too tenuous to demonstrate the residents were at increased risk of disease as a result of their exposure (*BI*, June 17, 1985).

The $180 million trust fund established to compensate victims of Agent Orange was orchestrated via settlement, not by a court ruling (*BI*, Jan. 14, 1985; May 14, 1984).

A dispute still exists over which party is responsible for the punitive damage award: Velsicol's current parent, Farley/Northwest Industries Inc., or its parent at the time the exposure took place, Northwest Industries Inc.

Farley Industries Inc. acquired Northwest Industries last year to form Farley/Northwest.

Velsicol has asked the court in a post-trial motion to remove Farley/Northwest from liability for the punitive damages. Plaintiffs have until Sept. 11 to respond.

"It will probably take several months if not years before we realize which is the responsible party, other than Velsicol," Mr. Wilder says.

"The question is whether someone who's acquired a business subsequent to the occurrence that gave rise to the punitive damages should be responsible for any wrongdoing which they, by definition, were not a part of," says Kenneth Greenbaum, vp and general counsel at Farley/Northwest.

"We don't think we did anything wrong; we think it's kind of hard to hold someone responsible when they didn't do anything wrong," Mr. Greenbaum says.

A similar issue was raised in an unrelated case in Florida. There, the state Supreme Court ruled in May that Celotex Corp., as successor to Philip Carey Corp., was liable for $100,000 in punitive damages resulting from Carey's misconduct as an asbestos producer before its purchase by Celotex (*BI*, June 9). ■

Cleanup costs do not trigger coverage: Court

By STEPHEN TARNOFF

BALTIMORE—A liability insurer does not have a duty to defend or indemnify a policyholder in a lawsuit brought under the federal Superfund Act that seeks funds to clean up a hazardous-waste site, a federal judge says.

U.S. District Court Judge Joseph Young ruled last month in *Maryland Casualty Co. vs. Armco Inc.* that such an action does not constitute "damages" that trigger coverage under a liability policy.

As a result of the decision, Maryland Casualty does not have to defend or indemnify Middletown, Ohio-based Armco in litigation brought by the federal Environmental Protection Agency arising out of a hazardous-waste site in Kansas City, Mo.

Attorneys say the decision is one of the first on the issue, which they add will be litigated more often as companies and insurers fight over the enormous defense and indemnification costs stemming from hazardous waste suits.

An attorney for Armco said last week the company would appeal the ruling to the 4th U.S. Circuit Court of Appeals.

The insurance dispute arose from a suit filed by the EPA alleging that a toxic-waste site in Kansas City leaked hazardous-waste substances into the water tables of the Missouri and Blue rivers.

That suit, filed in 1982 in U.S. District Court in Kansas City, was brought under the Comprehensive Environmental Response, Compensation and Liability Act, better known as the Superfund Act.

The site was owned and maintained by Chemical Conservation Co. Armco, as one of several companies that allegedly generated hazardous waste that was dumped at the site, was named as a defendant.

In its complaint, the EPA sought an injunction against Armco barring further dumping at the site and reimbursement for "all costs of removal or remedial action incurred" by the federal government.

Attorneys in the case say Armco and other defendants entered an agreement to settle the EPA action last year and that Armco is attempting to recover from CCC insurers.

Outside attorneys for Maryland Casualty and Armco said last week they did not know how much had been spent on defense costs in the CCC litigation or the total limits of the liability insurance policies written by Maryland Casualty for Armco between 1966 and 1983.

However, estimates of the cleanup costs at the Kansas City site range from $12 million to $15 million, a government attorney said.

At issue in the insurance litigation

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Lloyd's global results

PCW losses responsible for 37% drop in 1983 profits

By STACY SHAPIRO

LONDON—The huge losses at syndicates managed by PCW Underwriting Agencies Ltd. are the main reason for Lloyd's of London's poor 1983 profit levels, Lloyd's Chairman Peter Miller says.

Lloyd's profits for the 1983 accounting year, which were released last week with the rest of Lloyd's 1983 global results, fell 37% to 35.8 million pounds ($51.9 million at Lloyd's official exchange rate for the 1983 results) from 57 million pounds ($66.1 million at the applicable exchange rates) in 1982.

But, these figures include 143.3 million pounds ($207.8 million) in losses from PCW-managed syndicates in 1983 and 73.2 million pounds ($84.9 million) in losses in 1982.

Not counting the PCW syndicates, Lloyd's produced 1983 profits of 179.1 million pounds ($259.7 million), up 37% from Lloyd's 1982 profits—also not including the PCW syndicates—of 130.2 million pounds ($151 million).

"In the interests of presenting a fair picture of real trends, we have set out the effects of the extraordinary position of the PCW syndicates by showing figures with and without their results," Mr. Miller explained (see charts).

Mr. Miller also pointed out that Lloyd's 1983 results were hurt by other factors, including a loss of 27.2 million pounds ($39.4 million) from currency exchange. Lloyd's had reported a currency exchange profit of 18 million pounds ($20.9 million) in 1982.

Lloyd's main trading currency is the U.S. dollar, although its accounts are reported in British pounds, Mr. Miller explained, adding that the exchange rate of the pound to the dollar has been "unusually volatile."

For example, on Dec. 31, 1985, when Lloyd's closed its 1983 accounts under its unique three-year accounting system, the exchange rate was $1.45 to the pound. At the end of 1984, when the 1982 accounts were closed, the exchange rate was $1.16 to the pound.

Mr. Miller said the 1983 results also were hurt by a relatively poor showing in the market's general liability account. The account had overall losses of 285.5 million pounds ($414 million) in 1983, including PCW syndicate losses, only a 9% improvement from losses of 314.4 million pounds ($364.7 million) in 1982.

General liability business accounted for 12% of Lloyd's overall premiums in 1983, but it also accounted for more than 100% of Lloyd's losses, Mr. Miller said.

However, he noted, "There are some signs of an increasing realism in the all-important North American liability market, not only in

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Lloyd's 1983 global results*
(In millions of pounds[1])

	Income[2]		Expenditures[3]		Profits	
	1983	1982	1983	1982	1983	1982
General liability	2,006.3	2,015.1	2,291.8	2,329.5	-285.5	-314.4
Ships damage & liability	1,737.8	1,953.2	1,520.6	1,763.4	217.2	189.9
Property	814.6	925.3	774.0	829.8	40.5	95.5
Aircraft	503.4	565.6	479.7	539.7	23.7	25.9
Motor	446.8	432.4	439.9	410.1	6.9	22.3
Goods in transit	390.2	445.6	371.4	407.1	18.8	38.4
Accident & health	248.2	227.9	235.0	228.9	13.2	-1.0
Life	4.0	3.5	3.3	2.9	0.8	0.6
Pecuniary loss	1.0	0.8	0.8	1.0	0.2	-0.2
Totals	6,152.3	6,569.3	6,116.5	6,512.3	35.8	57.0

*Includes losses from syndicates managed by PCW Underwriting Agencies Ltd.

[1] British pound = $1.45 (1983); $1.16 (1982)

[2] Reinsurance premiums received from previous accounts, premiums, investment income, appreciation of investments, profit on currency exchange and other items.

[3] Reinsurance premiums paid to close the account, claims, syndicate expenses, annual subscriptions and levies, other expenses.

Source: Lloyd's of London — Chart: Amy Palmer

How PCW losses reduce Lloyd's 1983 profits
(In millions of pounds)

	PCW syndicates		All other syndicates	
	1983	1982	1983	1982
General liability	-113.3	-87.5	-172.2	-226.9
Ships damage & liability	-29.3	22.6	246.5	167.3
Property	-8.2	2.3	48.7	93.2
Aircraft	1.5	-1.2	22.1	27.1
Motor	—	—	6.9	22.3
Goods in transit	6.9	-9.3	11.9	47.7
Accident & health	-1.0	-0.1	14.1	-0.9
Life	—	—	0.8	0.6
Pecuniary loss	—	—	0.2	-0.2
Totals	-143.3	-73.2	179.1	130.2

Source: Lloyd's of London — Chart: Amy Palmer

Mississippi freezes rates until '87

By MICHAEL BRADFORD

JACKSON, Miss.—Rates for most types of commercial property/casualty insurance written in Mississippi are frozen until 1987.

The three-member Mississippi Insurance Commission will decide early next year whether to extend its moratorium on property/casualty insurance rate increases based on the findings of a task force comprised of non-insurance professionals.

Under the moratorium, which went into effect Aug. 22 and expires Jan. 1, no rate changes can be made on commercial or personal lines property/casualty coverages. The moratorium does not affect rates set prior to Aug. 22.

There are four exceptions under the moratorium, one of which affects buyers of personal lines coverage:

- Insurers may increase the price of coverage for risks that increase in exposure.
- Workers compensation coverage is exempted. If workers compensation rates were not exempted, insurers would refuse to write it and the coverage would be placed in the state's already overburdened assigned risk pool, according to Bob Gibson, director of the commission.

Workers compensation insurers were granted an average 11% rate increase last month.

- The commission will consider exempting an insurer from the rate-hike moratorium under emergency conditions. Mr. Gibson said the commission has not established a definition of emergency conditions.
- Coverage written for mobile home owners is exempted.

The five-man task force is charged with determining whether property/casualty insurance rates are too high in the state.

Mr. Gibson explained that the task force "will make a study of a number of things, including looking at why insurance companies are doing so much better, yet are continuing to file rate increases."

Continued on page 34

Humana to acquire troubled Florida HMO

By DONNA DiBLASE

MIAMI—Humana Inc.'s acquisition of International Medical Centers Inc., one of the largest Medicare health maintenance organizations in the country, bodes well for the troubled HMO, observers say.

The HMO, which has 185,000 members in south Florida and receives $30 million a month from the federal Health Care Financing Administration for the payment of Medicare benefits, has been under investigation by various Florida and federal agencies for the past several months, according to authorities.

The agencies—which include HCFA, the Florida Department of Insurance and a joint task force of the FBI and the inspector general of the U.S. Department of Health and Human Services—are scrutinizing IMC's finances, management system and the handling of patients by some of its affiliated providers, authorities say.

"IMC has obviously operated under a cloud by virtue of allegations in the press and our own office's investigations," said Kevin Moley, director of the HCFA's Office of Prepaid Health Care in Washington.

"It would be to IMC's advantage to have another name—particularly one as reputable as Humana. But, that is not to say IMC could not lift the cloud themselves," according to Mr. Moley.

The Florida Department of Insurance thinks "a company like Humana, that has experience, could really help IMC," according to a spokeswoman.

"The problem is that IMC grew so fast and maybe didn't develop good management procedures," said Ruth Stack, executive director of the National Assn. of Employers on Health Care Alternatives in Key Biscayne, Fla.

"Humana has a lot of experience at running successful hospital chains and will be a very positive change," Ms. Stack added.

IMC would not comment in detail on investigations into its practices, and Miguel Recarey Jr., IMC's president, could not be reached by telephone.

However, a Humana spokesman said, "We'll cooperate with all ongoing investigations as fully as possible."

Louisville, Ky.-based Humana's acquisition of the HMO is expected to be completed within the next few months, said spokesmen for both companies. Terms of the transaction were not disclosed.

Humana decided to acquire IMC in order to further expand its presence in the south Florida market, a Humana spokesman said.

In addition to hospitals it owns and operates throughout the rest of the country, Humana currently owns and operates 17 hospitals in Florida.

Humana's prepaid health care plans, called Care Plus, have about 622,000 members nationwide, said the spokesman.

Continued on page 29

Velsicol award

Continued from page 1

also abnormally dangerous activity and therefore the defendant is strictly liable for any damages that have occurred."

Velsicol, a subsidiary of Chicago-based Farley/Northwest Industries Inc., says it will appeal Judge Horton's ruling to the 6th U.S. Circuit Court of Appeals in Cincinnati after the lower court addresses three post-trial motions the company filed Aug. 22.

Velsicol would not comment on any insurance it may have to cover the award.

However, according to court papers, Velsicol had at least $2.4 million in liability coverage for bodily injury claims and $2.3 million for property damage claims from four insurers between 1964 and 1984.

Velsicol and four insurers—American Mutual Liability Insurance Co., Globe Indemnity Co., Travelers Indemnity Co. and Transportation Insurance Co.—last month settled a dispute over coverage for defense costs, but attorneys for both sides would not comment on the terms of the settlement (see story, page 6).

Judge Horton's ruling may only be the beginning of Velsicol's liability headaches. Judge Horton had decided to split the trial into two sections, and plaintiffs' attorneys selected five members of the class for the first portion of the trial. The success of those five plaintiffs paves the way for the remaining 120 plaintiffs to pursue their compensatory damage claims.

The second phase of the trial will begin after Velsicol's appeal is concluded, which could take 18 months to two years, estimates James S. Wilder, one of the lead plaintiffs' attorneys. Plaintiffs in the second phase will have to prove the degree of their injuries, but will not have to prove the Velsicol should be held liable.

The initial $5.2 million compensatory award was allocated by the judge among the five plaintiffs as follows: James O. Maness Jr., $2.3 million; Daniel R. Johnson, $1.275 million; James E. Wilbanks $675,000; Steve Sterling, $673,500; and Curry A. Ivy, $350,000.

The remaining plaintiffs probably will receive an average award of about $500,000 each, Mr. Wilder estimates, in addition to a total of $5 million to $7 million in property damage claims.

However, a Velsicol defense attorney, Sidney W. Spragins, with Spragins & Murchison in Jackson, Tenn., says these estimates represent "an outrageous assumption."

Each plaintiff's portion of the $7.5 million punitive damages award will be determined by the size of his compensatory award. For example, if a compensatory award is 4% of the total compensatory damages awarded to all 125 parties, that plaintiff will receive 4% of the $7.5 million damage award.

The case began Dec. 4, 1978, when about 100 plaintiffs sued Velsicol for $1.5 billion, claiming they sustained a variety of injuries from chemical waste that Velsicol let seep from its dump into their residential water supply from October 1964 through June 1973.

The injuries allegedly included kidney problems, eye injuries, temporary paralysis, vomiting, dizzy spells, numbness and loss of the sense of taste.

In that period, the company buried approximately 300,000 55-gallon steel drums in shallow trenches on a 45-acre parcel of land Velsicol owned in Hardeman County, Tenn. The drums were not always sealed properly and sometimes leaked during transport, the judge concluded. Waste was also dumped in fiber cartons, which were subsequently compacted, causing rupture and release of their contents.

The plaintiffs claimed Velsicol was negligent not only in its storage and transport methods, but also in not appropriately surveying that land before making it a dump site. If it had, the company would have realized that local water aquifers were too close to the earth's surface for any such project, plaintiffs—and, eventually, the judge—said.

Chemicals buried at the site include carbon tetrachloride, chloroform, chlorobenzene, napthalene, toluene, endrin and heptachlor, among others. The dump site has since been covered with a 3-foot cap of clay.

Velsicol maintained in court papers that the site exceeded the known state of the art in its selection, implementation and operation of the disposal facility.

Further, Velsicol questioned whether the chemicals dumped at the site posed a health hazard, considering the exposure the plaintiffs suffered, according to court papers.

The company also held that punitive damages were unwarranted because it relied on a 1967 U.S. Geological Survey indicating that the possibility of Velsicol's waste contaminating the local aquifer was "nil."

Velsicol did acknowledge limited liability for injuries sustained by two of the plaintiffs, Mr. Sterling and Mr. Johnson, but still will appeal the awards granted to them.

Attorneys in the case and other observers say several points set this case apart from others like it:

- It may be the first time plaintiffs were successful in a class-action toxic-waste case that went to court in the United States, according to Mr. Wilder.

Prior to this, cases alleging injury due to toxic waste have either been dismissed, settled out of court or concluded in favor of the defendant.

For example, the famous case involving Occidental Chemical Corp. for damages allegedly caused at the Love Canal dump site in Niagara Falls, N.Y., never went to trial.

"It's been very tough to get a judgment for the plaintiffs," says Mr. Wilder.

- Compensatory damages were awarded not just for existing health problems, but for damage to plaintiffs' immune systems and for increased risk of developing cancer.

About $875,000 of the $5.2 million in compensatory damages was awarded to the plaintiffs for damage to their immune systems.

Mr. Wilder said this was the first case of which he was aware in which compensatory damages were awarded for impairment of the immune system.

- Plaintiffs were able link a specific ailment to exposure to the chemicals. The judge determined that Velsicol's contamination caused two plaintiffs to suffer optic nerve damage and neuritis. He also found exposure caused a plaintiff to lose a kidney because of cancer.

The eye injury aspect "gave the case a little different flavor," said Ronald Simon, general counsel for the Public Interest Law Clinic, part of the Washington College of Law at American University in Washington, D.C.

- A substantial amount of compensatory damages, $1.25 million, was awarded for psychiatric damage, such as post-traumatic stress disorders and fear of future disease manifestations.

- Pre-judgment interest of 8% on the compensatory damages awarded to the plaintiffs is to be computed from July 1965, when chemicals were first found in the drinking wells, and not from the time the lawsuit was filed.

The award of pre-judgment interest is also unique both in the

Continued on page 6



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opinions

Phone in your opinion

MARK YOUR calendars to pick up the phone on Tuesday, Sept. 9, to call your U.S. senators to urge passage of S. 2760, the Product Liability Reform Act.

The day has been designated "Product Liability Phone-in Day" by The Product Liability Alliance, a broad-based coalition supporting enactment of federal product liability legislation. If you support a federal product liability law, it is critical that you place the phone calls. Senators' phones must ring off the hook to leave no mistake that there is popular support for a federal product liability law.

The Product Liability Reform Act, reportedly out of the Senate Commerce Committee and ready for floor action, would:

• Eliminate joint and several liability for non-economic damages in product liability suits.

Why? Currently, a defendant who is only partially liable for an injury can be held totally liable for the pain and suffering award. In addition, the threat of this liability drives up settlement costs with defendants only partially liable in a suit.

• Shield manufacturers from product liability lawsuits stemming from accidents involving capital goods that are more than 25 years old.

In the case of consumer goods—except automobiles, aircraft parts and other transportation products—products would be assumed not to be defective 10 years after they were manufactured. Suits regarding transportation products could be filed regardless of the age of the product.

Why? With technology advancing so quickly, it is unreasonable to expect old products to meet today's standards or not to have been altered over time by users without the manufacturer's knowledge.

• Offset product liability awards by workers compensation benefits received and eliminate subrogation actions between an injured worker's employer and the manufacturer found liable.

Why? This would save the transaction costs now generated by subrogation cases.

• Eliminate most punitive damage awards against pharmaceutical and aircraft manufacturers whose products were approved by the Federal Drug Administration or the Federal Aviation Administration. Only if the manufacturer withheld relevant information about its product from the FDA or FAA could punitive damages later be awarded in cases involving the product.

Why? The federal approval process required establishes a fair standard of care.

• Allow punitive damages in other product liability lawsuits only if the plaintiff could prove by "clear and convincing evidence" that a defendant exhibited "conscious, flagrant indifference to the safety of those who might be harmed by the product."

Why? Myriad state standards for awarding product liability damages are unfair to defendants and plaintiffs.

• Require liability lawsuits to be filed within two years of injury or within two years of the time a plaintiff discovered or should have discovered his or her injury.

Why? To create a reasonable time frame on bringing product liability actions to fairly try the case.

• Eliminate liability for wholesalers and retailers except if they are proved to have been negligent or if the product manufacturer is bankrupt.

Why? Right now, a wholesaler can be sued for merely handling a defective product simply because it is in the chain of distribution.

• Make it more difficult for U.S. manufacturers to be sued in U.S. courts for accidents that occur in other countries. It would be presumed that such suits should proceed in the foreign jurisdiction.

Why? We should not chauvinistically impose our justice system on events that occur abroad.



• Bar recovery if a plaintiff was under the influence of an intoxicating liquor or drug and his or her impaired condition was more than 50% responsible for the accident or injury.

Why? A drunk driver can't prove that a defect caused an accident when he couldn't properly operate the car.

• Punish attorneys who file frivolous lawsuits or frivolously delay cases by making them liable for other parties' legal fees and court costs.

Why? It's in the interest of both plaintiffs and defendants to encourage speedy justice.

• Limit to $250,000 awards for pain and suffering if the plaintiff rejects the defendant's offer to settle.

Why? Pain and suffering awards are a potential lottery, with some awards far exceeding any reasonable relationship to compensatory damages.

This provision, however, probably will be modified by an amendment offered on the Senate floor. Lobbyists say there is too much concern that the cap is too low for very serious cases.

In addition, The Product Liability Alliance is urging callers to support the Kasten/Lugar/Kassebaum amendment that would provide a defense when a product is altered, misused or manufactured in compliance with state-of-the-art scientific and medical knowledge and the Pressler amendment that would completely eliminate joint and several liability for all awards, economic and non-economic.

Not everyone who advocates a federal product liability law supports these two amendments, and some lobbyists warn that including them in the bill could kill its chances of passage.

There may be only a month left for the Senate to consider the federal product liability legislation, if Congress adjourns in early October as it is planning to do. We know there is no time for the House to consider the legislation this year, but it's important to win a victory in the Senate now to keep the momentum going for passage of a federal product liability law in the next session.

We urge everybody to call their senators on Sept. 9. Your phone calls will help carry the momentum to finally pass a federal product liability law.

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Lear Siegler names director of insurance

comings & goings: buyers

John E. Stokdyk, 55, has been named corporate director of insurance at Lear Siegler Inc. in Santa Monica, Calif. In this position, Mr. Stokdyk will oversee corporatewide property/casualty insurance, risk management and loss control programs. In addition, Mr. Stokdyk will be responsible for product liability coverage for Piper Aircraft Corp., a Vero Beach, Fla.-based subsidiary of Lear Siegler. Mr. Stokdyk, who reports to Senior Vp-Administration Charles F. Pitts, replaces **Gary Pew**, who became director of risk management and assistant treasurer at Pacific Lighting Corp. in Los Angeles. Before joining Lear Siegler, which produces aerospace, automotive and commercial/industrial products, Mr. Stokdyk was president and chief executive officer of Wichita, Kan.-based Travel Air Insurance Co. Prior to that he was director of insurance at Teledyne Inc. in Los Angeles. He holds a bachelor of arts degree in economics from Yale University in New Haven, Conn., and a master of business administration degree from Harvard University in Cambridge, Mass. In addition, he is a Chartered Property Casualty Underwriter and a deputy member of the Risk & Insurance Management Society.



Mr. Stokdyk

* * *

Kenneth M. Maher, 32, has been promoted to vp for corporate risk management at Meridian Bancorp Inc. in Reading, Pa. In addition, Mr. Maher has been named a board member of subsidiary Meridian Life Insurance Co. Mr. Maher will continue to design, coordinate and administer the bank holding company's insurance, loss control and claims management programs. He reports to Michael Mizak, senior vp-finance. Mr. Maher, who was assistant vp-corporate risk management prior to this promotion, joined Meridian in 1985. Before that he served as director of risk management at Jeanes Health Systems in Philadelphia. He holds a bachelor of arts degree in criminal justice from C.W. Post College of Long Island University in Greenvale, N.Y., and a master of business administration degree in insurance and risk management from Temple University in Philadelphia. Mr. Maher is assistant treasurer of the Risk & Insurance Management Society. He also is a member of the American Bankers Assn., the Hospital Assn. of the Pennsylvania Risk Management Society and the Philadelphia Workers Compensation Claims Assn. Mr. Maher also is past president of the Delaware Valley Health Care Risk Management Society. In addition, Mr. Maher is pursuing an Associate in Risk Management designation.



Mr. Maher

* * *

Charles J. Salek, 35, has been named corporate assistant treasurer and director of the corporate risk management department at W.R. Grace & Co. in New York. In this position, he will be responsible for risk management, including property/casualty insurance, safety and loss prevention for Grace, an international chemical company with interests in natural resources and consumer services. He replaces **Charles F. Krauter**, who died earlier this year, and reports to Frank J. Brennan, treasurer. Mr. Salek joined Grace in 1974 as an insurance supervisor and was promoted to assistant insurance manager in 1978 and insurance manager in 1981. Mr. Salek holds a bachelor of arts degree in business administration from Rutgers College in New Brunswick, N.J., as well as the Associate in Risk Management designation.



Mr. Salek

* * *

Owen Kaplan has been named vp-corporate insurance at Avis Inc. in Garden City, N.Y. In this position, Mr. Kaplan will be responsible for Avis' insurance subsidiary as well as other corporate insurance responsibilities. Before joining Avis, Mr. Kaplan was assistant vp at Corroon & Black Corp. in New York, in charge of foreign and domestic insurance on behalf of multinational clients. Prior to that, he was assistant vp at Marsh & McLennan Inc. Mr. Kaplan holds a bachelor of business degree in business administration from the City University of New York.

* * *

Arthur E. Wheatley, 42, has been elected vp and director of risk management at the Pittston Co. in Greenwich, Conn. In this position, Mr. Wheatley will oversee all risk management functions, including property/casualty insurance, claims and loss control. Mr. Wheatley reports to Frank T. Lennon, vp of corporate administration. Pittston is involved in mining, airfreight, security transportation and home security through its operating groups: Pittston Coal Group, Burlington Northern Air Freight Inc., Brink's Inc. and Brink's Home Security Inc. Prior to joining Pittston as risk and insurance manager in 1985, Mr. Wheatley was risk and insurance manager with Scovill Inc. in Waterbury, Conn. Prior to that, Mr. Wheatley served with Liberty Mutual Insurance Co. and Becton, Dickinson & Co. Mr. Wheatley received a bachelor of science degree in economics from Davis & Elkins College in Elkins, W. Va., and holds the Associate in Risk Management designation.

●

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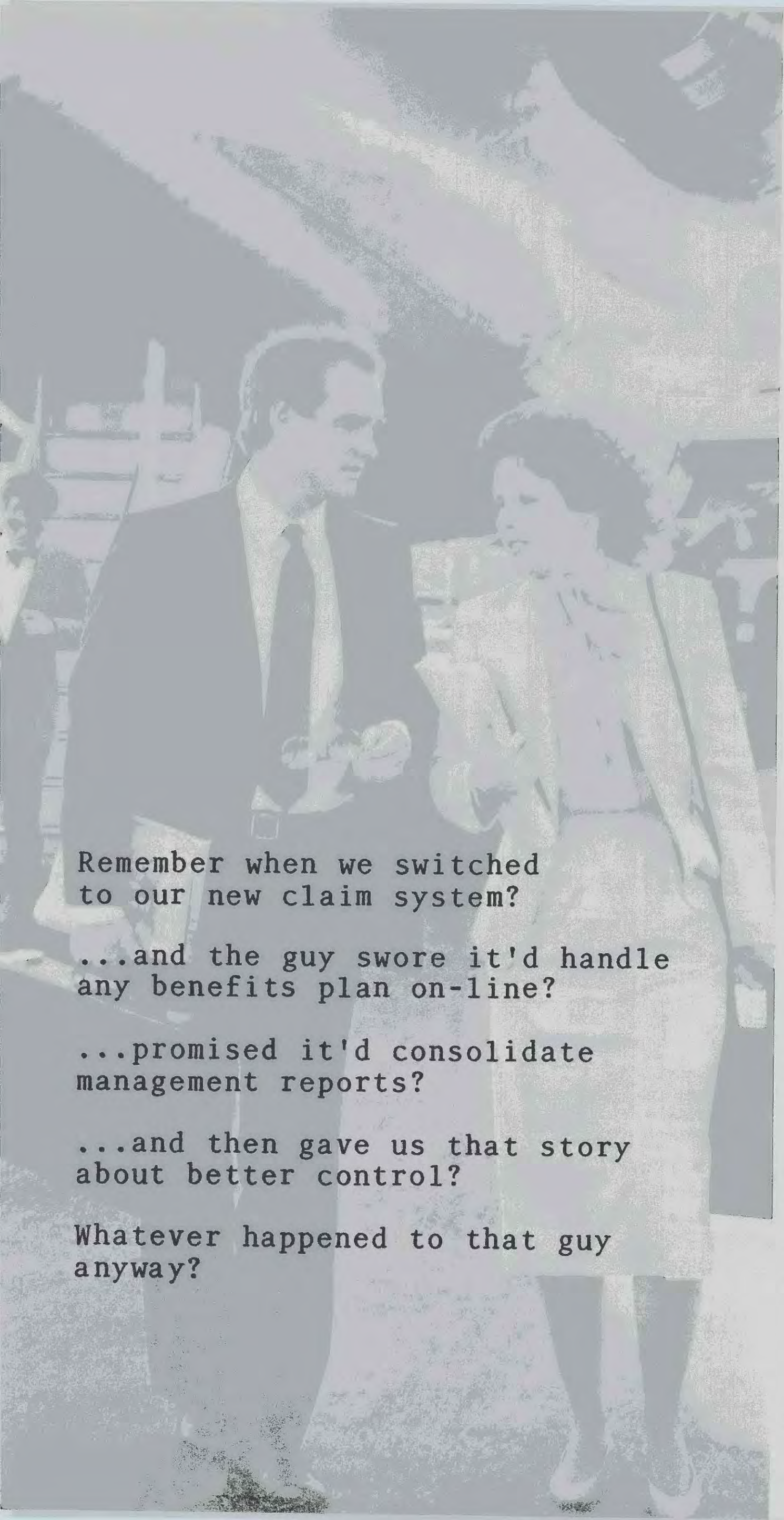
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...and then gave us that story about better control?

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update

MONTE CARLO RENDEZ-VOUS REPORT

Plus—Distribution at IIAA

Issue Date: September 22
Ad Closing: September 9

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business insurance

around the states

Florida residents request JUA for commercial lines

MIAMI—The creation of a Florida joint underwriting association for commercial lines of insurance appears likely following a recent public hearing.

"All indications point to an acute need for the JUA," said Insurance Commissioner Bill Gunter following the Aug. 28 hearing in Miami, at which some 30 people—including architects, engineers and truckers—testified about the commercial insurance shortage in the state.

Provisions in the new insurance rate regulation/tort reform law signed June 26 by Florida Gov. Bob Graham give the commissioner the authority to form a JUA (*BI*, July 7; June 16).

"If Mr. Gunter finds sufficient evidence of an insurance availability shortage, he may activate a provision of the new (law) that allows him to create a commercial insurance JUA," an Insurance Department spokesperson confirmed.

During the hearing, Austin Tupler, owner of Tupler Trucking Inc. in Davie, Fla., said that companies like his cannot wait another year for the market to stabilize.

"They say some good things will happen in a year or so. But what about (having insurance) next week?" he asked.

Mr. Tupler advised those attending the hearing to "move over" if there's a truck behind them, "because the trucker may not have insurance."

Also testifying was the co-owner of an oil spill cleanup firm who said that she could not get insurance even with the firm's "no-claim" history.

Gloria Daniel, who with her husband Harold owns Danmark Inc., a 15-year-old Miami-based firm, said that other waste cleanup firms are having similar difficulties.

"If we can't get insurance, there won't be anyone left to clean up after a disaster," Ms. Daniel asserted.

Mr. Gunter said: "We must make provisions for the people who need insurance now. One way to do this is by activating the JUA."

"I believe the JUA can bring help to those business people who are going without insurance, the people who will be wiped out the first time they have a claim," he said.

A final decision on the JUA proposal will be made after tabulation of the results of an August survey, in which the Insurance Department asked insurers in the state what types of coverage were being written.

Insurer fines

ALBANY, N.Y.—Several commercial insurers and the nation's 12th-largest brokerage have been fined a total of $113,015 by the New York Insurance Department for failure to comply with state insurance regulations.

Two insurers—Aetna Casualty & Surety Co. and United States Fidelity & Guaranty Insurance Co.—admitted to violating insurance regulations and paid fines totaling $73,565.

In addition, Municipal Bond Insurance Assn.—an underwriting facility owned by Aetna, Fireman's Fund Insurance Co., the Travelers Indemnity Co. and the Continental Insurance Co.—was fined $25,000 for printing advertisements the department judged to be misleading.

Broker Republic Hogg Robinson Inc. will pay $14,450 in fines for violations that included failure to file timely returns and pay taxes to the Insurance Department on surplus line policies. The brokerage also failed to meet a 30-day filing deadline on 96 affidavits required by the department for business placed with unauthorized insurers, according to the department.

Aetna, fined $59,915, was charged with violations including: failure to timely pay some claims; failure to use correct valuations for automobile claims; and failure to pay or deny some claims within 30 days of receipt of information or proof of claim.

In a stipulation signed by the

Continued on page 16

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update

EMPLOYEE BENEFITS: INNOVATIONS

Issue Date: September 29
Ad Closing: September 16

Look to BI to learn what's new and different in a changing healthcare environment.

business insurance

around the states

Continued from page 16

company, Aetna attributes these violations to clerical errors resulting from the reorganization and relocation of Aetna's New York offices and states that the clerical errors have been corrected and restitution has been made in all instances.

USF&G, fined $13,650, was charged with violations associated with the handling of automobile claims in its Purchase, N.Y., branch office.

"We were relocating our New York office and changing our central processing headquarters and this caused some of the problems," said a USF&G spokeswoman.

The MBIA advertisements, which appeared in the New York Times and other media, compared the assets of MBIA to those of other municipal bond insurers in a manner that misrepresented the amount of assets backing MBIA municipal bond policies, according to the Insurance Department spokesman.

The five MBIA members each own a percentage of the facility and a corresponding percentage of policies issued by MBIA, but the advertisements failed to disclose that each insurer's liability is limited to the percentage of the policy it insures, the spokesman said.

The ads implied that the total assets of the five MBIA members backed the municipal bond business written, when 96% of the assets actually backed other commercial policies the insurers wrote, he explained.

"The implication of the advertisement was clearly that all assets listed were strictly backing MBIA's municipal bond policies when that was not the case," he said.

MBIA has agreed to revise its advertisements in a manner approved by the department.

An Insurance Department spokesman said $10,450 of broker Republic Hogg Robinson's fine represents unpaid surplus lines taxes and tax penalties. "The remaining $4,000 is an additional penalty imposed by the department," he said.

According to William Eckstein, executive vp at the brokerage, the violations were the result of an administrative filing backup.

A spokesman for the Insurance Department said the violations were detected during a market conduct examination initiated after consumer complaints. Fines were assigned according to the frequency and size of the violations.

Illinois PAC

CHICAGO—The Illinois Self-Insurers Assn. is soliciting its members for contributions to its new political action committee formed to support state and local candidates sympathetic to employers that self-insure their workers compensation risks.

The ISIA is a "young, aggressive trade association," according to a letter to members from President Carl P. Haupt, who also is director of risk administration for Osco Drug Inc. in Oak Brook, Ill.

"It is the only trade association in Illinois exclusively representing. . .self-insurers in Springfield," Mr. Haupt said.

The ISIA believes it is of "paramount importance" that Illinois employers actively support candidates for the Illinois Legislature and other offices to achieve reforms, such as:

- Re-establishing the exclusive remedy doctrine in the Illinois Workers' Compensation Act.
- Implementation of a wage-loss compensation system for work-related injuries and illnesses.
- Elimination of duplicative benefits for pre-existing conditions, and a move to offset benefits with payments from other insurance plans.
- Implementation of legislation to streamline the Illinois Industrial Commission judicial processes that adjudicate contested work comp claims, as well additional budgetary support for more staffing and equipment for the commission.

The PAC was formed in November 1985, but was inactive until recently, said James Spizzo, the ISIA's lobbyist who also is an attorney with Pope, Ballard, Shepard & Fowle.

The fund-raising effort began in July, he said, but he would not disclose the amount collected.

The group's leadership also is in the process of determining which candidates it will support in this November's statewide elections, Mr. Spizzo said. ■

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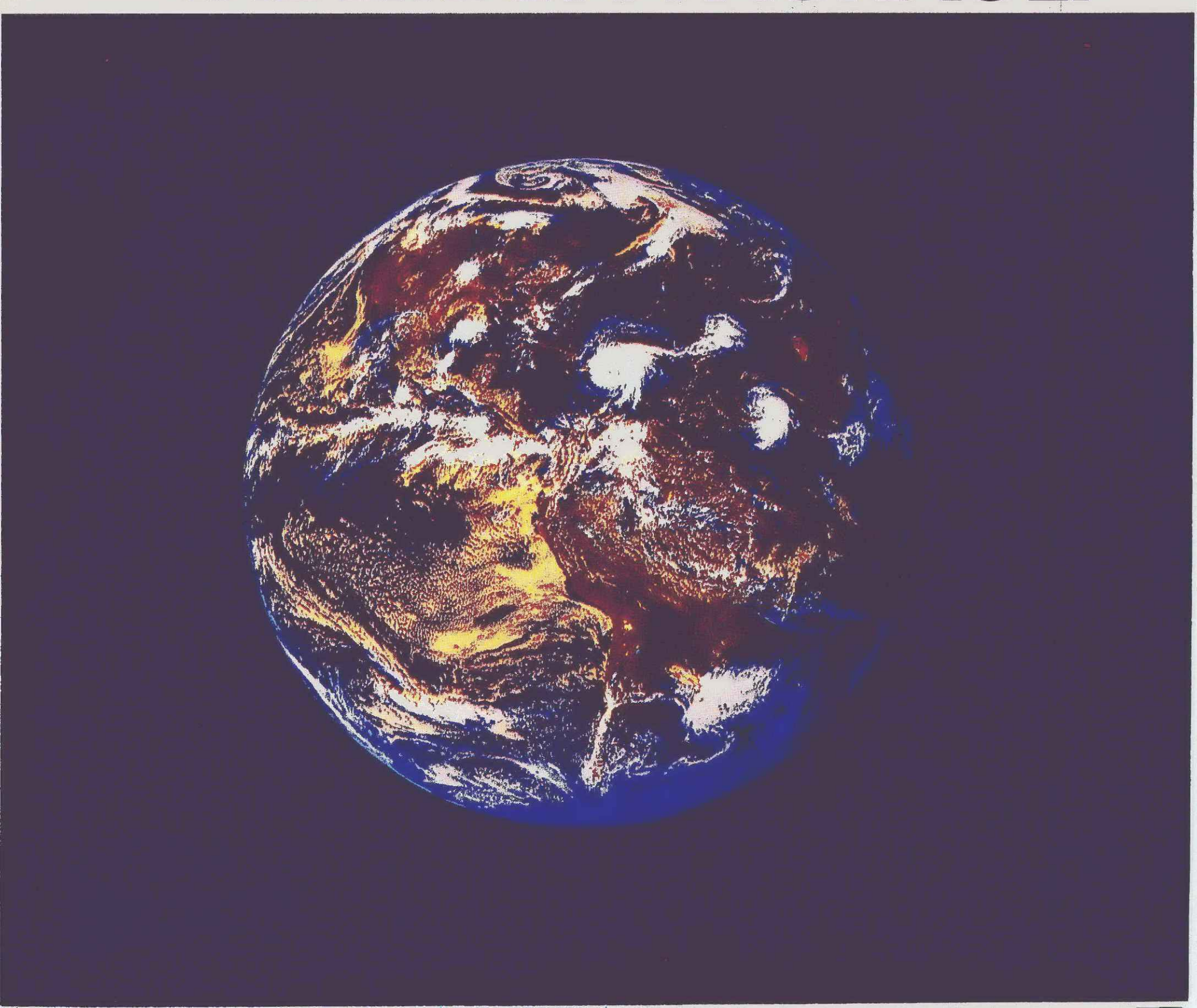
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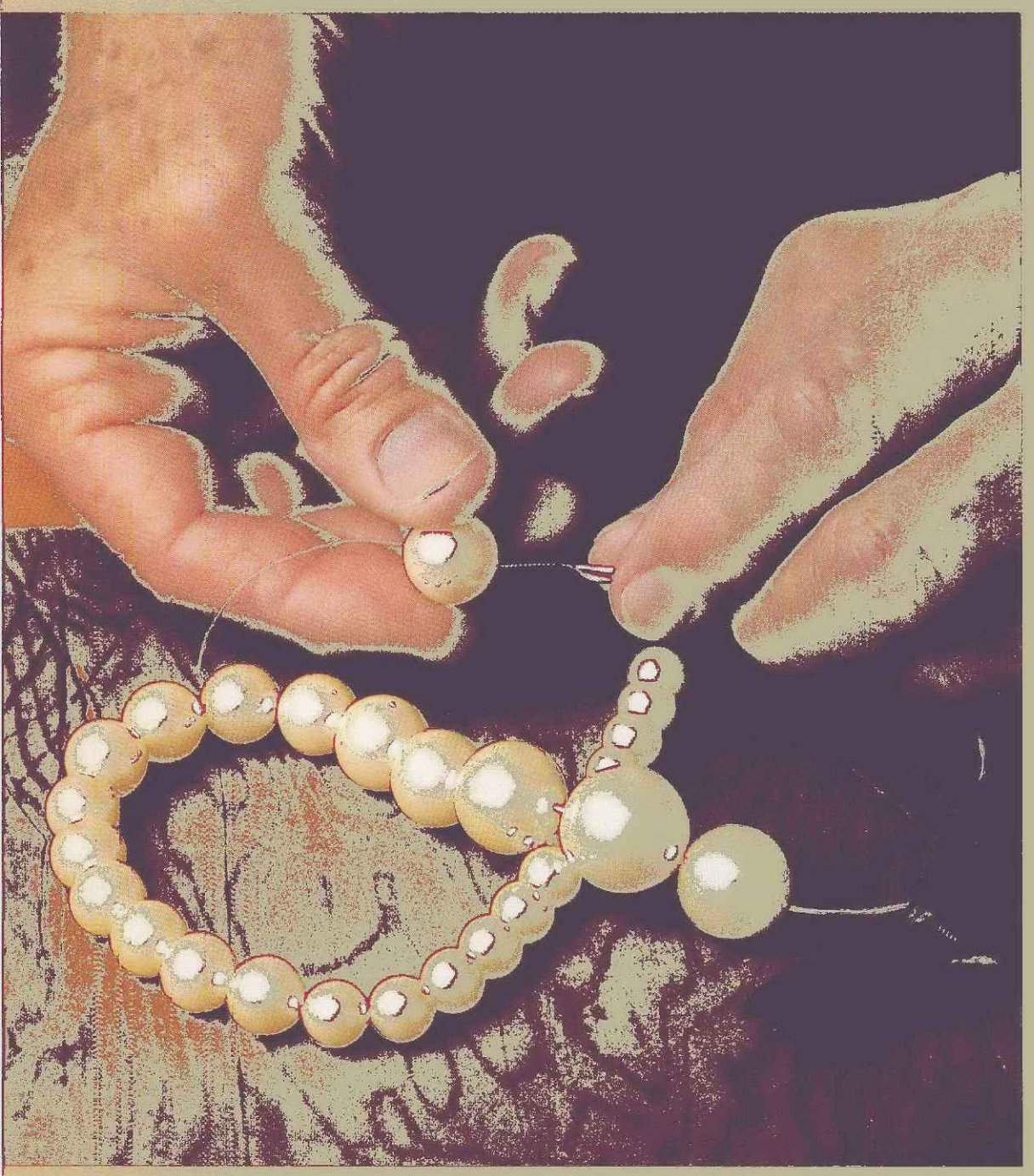
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Controlling loss costs

Hold-harmless agreements, accident theories can help cut cost of risk

By The Insurance Institute of America

The following questions and answers are drawn from the curriculum for the Associate in Risk Management designation awarded by the Insurance Institute of America. They represent the type of question asked, and possible answers to, the three examinations for the A.R.M. designation.

Although most organizations use hold-harmless agreements to rid themselves of loss exposures, this question, taken from the May 1986 examination for ARM 55—Risk Control, examines when an organization may wish to retain or take on loss exposures, to be the transferee, under hold-harmless agreements.

Q: Chopper Corp., as a manufacturer of helicopters for commercial (neither military nor other governmental) use, has separate contracts with many suppliers of helicopter components.

Virtually all suppliers request contracts in which Chopper assumes legal and/or financial responsibility for a particular type of loss that may arise out of their business relationships.

Chopper's risk management specialist has recommended that Chopper's legal department and senior management consider four factors, which are listed below, in deciding whether Chopper should be a transferee or a transferor under the non-insurance transfer provisions of its contracts with various suppliers.

With respect to each factor, and without repeating any answers, describe two specific conditions that indicate that Chopper should be the transferee—not the transferor—under these contract provisions.

- Ability and willingness of the transferee to bear losses.
- Control of conditions leading to the loss.
- Economically efficient allocation of resources.
- Enforceability of the contract.

A: It is crucial to Chopper that restoration of any major accidental losses it or its subcontractors may suffer be adequately and reliably financed at reasonable cost.

Therefore, directly or through appropriate insurance, Chopper may wish to be responsible for financing both its own and its subcontractors' losses, rather than trying to shift the financial burden of these losses to perhaps unreliable subcontractors and their insurers.

Chopper can strengthen its risk financing program by becoming a transferee, rather than a transferor, of loss exposures for subcontractors financially weaker than Chopper or who may not be able to arrange risk financing as favorable as that which Chopper can secure.

- Regardless of how a production process is allocated between a major contractor and subcontractors, responsibility for controlling related hazards should rest with whatever firm best able to control hazards.

Furthermore, responsibility for risk financing should follow responsibility for risk control, because the obligation to pay for any unprevented losses stimulates good risk control. Therefore, Chopper should not seek to transfer either the risk or the risk financing responsibility for those losses that Chopper is in the best position to prevent.

- Productive resources are efficiently allocated within a total production process whenever the total cost of risk for that production—the sum of insurance premiums, retained losses, loss control expenditures and risk management administrative costs—is minimized.

Minimizing the cost of risk also permits—but does not guarantee—charging a lower price to buyers of the resulting good or service, because less money is needed to cover costs of risk. By agreeing to become the transferee, rather than the transferor, of its own and its subcontractors' loss exposures, Chopper will contribute to efficient resource allocation if:

- ✔ Chopper is better able than its subcontractors to prevent accidental losses and to absorb retained losses without raising the price for which it sells helicopters.
- ✔ Chopper's overall management of risk will prevent duplication of risk costs among its subcontractors.
- ✔ Its subcontractors will recognize their lessened costs of risk in prices they charge Chopper.

- Clear writing and fair bargaining contribute to the enforceability of non-insurance transfer agreements.

If Chopper has access to better legal resources than does its subcontractors, Chopper should be able to draft agreements that clearly state the parties' intentions in ways which meet any state or other legal standards governing their enforceability.

Furthermore, if Chopper agrees to become a transferee—to take on rather than to shift loss exposures—there is little basis for challenging these agreements on the ground that Chopper misused its bargaining power to others' disadvantage.

* * *

This question and answer, also taken from the May 1986 examination for ARM 55-Risk Control, illustrates how knowledge of various theories of accidents—how they are caused and how they can be prevented—can suggest to a risk management professional a wide variety of specific measures for reducing the frequency or severity of any particular accident.

While the two theories discussed here—the "energy-release" theory and the "industrial hygiene control" theory—are not entirely consistent, they each have value for the risk control alternatives they imply.

A.R.M. exercises

Q: Continuing efforts to prevent industrial accidents have led to the development of a number of systems for classifying ways of preventing these accidents or the injuries they may cause, or both.

For example, William Haddon Jr. has developed 10 such general "strategies," and industrial hygienists like Julian Olishifski have developed 12 "general control methods."

Assume that the work injury records of a clothing manufacturer indicate that many assembly line workers have suffered cuts, sprains and even some minor amputatis2ons cause after hair, clothing or fingers are caught in the drive belts and gears that power the assembly.

With respect to reducing the frequency or severity of these injuries:

- Identify and describe five of Mr. Haddon's "strategies" and explain how each strategy could be applied to these injuries.
- Identify and describe five "general control methods" of industrial hygiene as set forth by Mr. Olishifski and explain how each method could be applied to these injuries.

A: Noting that both Mr. Haddon and Mr. Olishifski provide more than the five "strategies" or "general control methods" called for in the questions, the following answers deal with each of the "strategies" and "general control methods" applicable to assembly line injuries, going beyond the requirements for full national examination credit.

- The "energy-release" theory developed by Mr. Haddon holds that accidents result when once confined energy is released and strikes an object or a person not capable of withstanding that energy.

Therefore, the frequency of accidents or the severity of the damage they cause can be reduced by:

- ✔ Preventing the buildup of energy, here mechanical energy in the assembly line by, for example, either halting production or using a non-mechanized production process.
- ✔ Reducing the amount of energy marshalled in the system by using less-powerful (or less sharp or treacherous) machinery in the assembly line.
- ✔ Preventing the release of accumulated energy by equipping machinery with safety switches or automatic stopping devices.
- ✔ Modifying the rate or spatial distribution of the release of energy by operating the machinery at slower speeds or by equipping the machinery with overload devices to stop production if any machine component becomes overstressed.
- ✔ Separate in time or space people from the marshalled energy by automating the entire process or by stationing employee operators some distance from the machinery.
- ✔ Erecting barriers between persons and the marshalled energy source by enclosing all or part of the assembly line or by putting employee operators in enclosed control rooms.
- ✔ Modifying the points of contact between the energy source and vulnerable structures by, for example, redesigning the machinery to eliminate such pinch points.
- ✔ Controlling the characteristics of those whom the energy may injure by, for example, allowing only the most able-bodied employees to work near the assembly line and requiring employees to wear appropriate personal protective equipment.
- ✔ Counter immediately any damage that may occur by providing first-aid and hospital care as needed and by instituting emergency procedures to protect any property or other equipment from further damage.
- ✔ Repairing damage and stabilizing the situation through rehabilitation of the injured and restoration of any damaged property.

- Industrial hygienists, studying manufacturing processes for many industries, have developed a checklist of measures for controlling workplace hazards to employees.

These controls are applicable at the immediate source of the hazard, along the path from the source to an exposed employee, and directly to the employee.

Of the 12 types of such controls, the ones germane to protecting assembly line workers are:

- ✔ Changing the production process, such as by automating it or switching to less-mechanized techniques.
- ✔ Isolating the process by, for example, enclosing the assembly line machinery or the workers operating it, or by locating the assembly line in a separate building.
- ✔ Improving ventilation, if it appears that deficient ventilation is contributing to employee fatigue or inattention by reducing visibility or creating high room temperatures.
- ✔ Practical good housekeeping, particularly if it appears that tripping hazards have contributed to past injuries.
- ✔ Instituting administrative controls, such as rest periods or job rotation, to enhance employee alertness and caution.
- ✔ Adopting medical controls, such as screening employees for physical dexterity and endurance, so employees do not become careless in their work.
- ✔ Implementing initial and refresher employee training programs in the proper use of assembly line machinery and approporiate protective devices.

The sample questions and answers used in this column are taken from the Associate in Risk Management designation curriculum of the IIA. For more information on the content of the A.R.M. program, write Dr. G.L. Head, Vp, Insurance Institute of America, P.O. Box 314, Malvern, Pa. 19355.

perspective

ASK A BENEFIT MANAGER

Retiree health benefits portend growing liability

Q **My company is implementing a retiree medical plan to remain competitive with other companies in our industry. Although we presently have only a few retirees, we are concerned with the longer-term costs and legal implications of the plan. How do you measure and control these future costs and does the employer have the right to reduce or discontinue these plans at some future date?**

A You are certainly justified in being concerned with the financial liability represented by the health benefits provided for your current and future retirees. The underlying liability that these benefits represent for many companies can become enormous. In many cases, the unfunded present value of these retiree benefits exceeds the unfunded present value of future pensions.

In 1985, the U.S. Department of Labor estimated the cost to private-sector employers of providing retiree health insurance benefits to be $4.6 billion; the present value of the accrued liability for these benefits was estimated to have been $98.1 billion in 1983.

In fact, the cost of providing health benefits for retirees represents one of the fastest growing costs of doing business today, according to the Washington Business Group on Health. And, for the following reasons, we can expect these costs to continue to grow:

- Health care costs for both active and retired employees are still rising and can be expected to continue to increase at a rate higher than the general rate of inflation.
- The cost of providing medical coverage for retirees and their dependants under age 65 is greater than the cost of providing it for retirees over age 65 and employees are continuing to retire early.
- Virtually all health care plans for retirees are secondary to Medicare.

Medicare tax rates, however, are currently inadequate to sustain the Medicare program through the 1990s, and—faced with increasing budget deficits—we can expect the government to continue to reduce the benefits payable under Medicare. This, in effect, shifts these costs to the private sector.

It is also possible that, sometime in the future, the federal government may legislate that private plans be primary or even apply standards, such as those mandated under the Employee Retirement Income Security Act, to post-retirement medical benefits.

The first step toward controlling the costs of your retiree program is, of course, to measure them.

Pension expense and the present value of future pension payments are routinely measured in pension actuarial valuations and the same methodology can be applied to other post-retirement benefits. The application of this methodology would involve projections regarding levels of participation and assumptions on the increase in health care costs.

Although your company currently has only a small number of retirees, a longer-term program may well show a retiree health care cost that rapidly increases over the years.

Given the results of the projections, you may wish to consider whether you want to fund your retiree health care program costs in advance of an employee's retirement. The vast majority of companies providing retiree medical benefits finance them on a "pay-as-you-go" basis; only a very small percent of the companies are prefunding the cost of retiree health benefits.

If you want to prefund the liability you may want to consider a 501(c)(9) trust, the purchase of group permanent life insurance policies or some other method. Be sure to consider provisions in current and proposed tax laws that limit such prefunding.

In general, the health care coverage provided retirees is a continuation of the coverage provided active employees with the retiree plan being secondary to Medicare for those retirees and their dependents over age 65.

You should be aware of the following plan design considerations, which can help you to control future costs of your program:

- Benefits under the plan, like those under your pension benefits, can be service-related.

The amount of the plan's deductible, coinsurance or employee contributions, for example, can be related to an employee's length of service.

- Certain benefits, such as dental or vision care, are not appropriate to a retiree health care plan where the major objectives are to provide coverage for catastrophic or chronic illness.
- Employee contributions for retirees' health care coverage should be communicated and expressed as a percentage of the company's cost; when the company's cost increases, the employee's contribution also can be increased.
- Be sure to include the same cost-control provisions in your retiree health care program—such as pre-admission review or mandatory second surgical opinions—that you have implemented for in the health plan covering active employees.

Finally, although employers have assumed in the past that they have the right to reduce or even terminate retiree health care coverage, there is a growing concern over the legal status of these benefits.

You should review the recent court decisions regarding retiree health benefit plans. A retiree's rights to lifetime health insurance have been issues raised in the courts and continue to be questioned when companies have attempted to discontinue these plans.

Federal law sets minimum standards for employer-sponsored pensions, requiring that employees earn a non-forfeitable right to pension benefits after a specified period of service. No federal law protects retiree health benefits. Currently, courts have found that retirees have a right to benefits only if the employer promises lifetime benefits to them. If employers clearly reserve the right to cancel benefits, retirees are not protected.

This is an extremely important area for management to watch closely and to monitor the legislative and court activities as the long-term cost implications to employers are significant.

Would you like advice from an experienced colleague on a risk management, benefits management or actuarial problem? Four features in the Perspective section of Business Insurance can give you some answers.

Ask A Benefit Manager, Ask A Risk Manager, Ask A Casualty Actuary and Ask A Benefit Actuary answer written questions from readers on risk and benefits management issues and actuarial problems.



Mr. Duva

This month's column on employee benefits issues is written by Joseph W. Duva, director of employee benefits at Allied-Signal Inc. in Morristown, N.J. Ralph F. Perry Jr., vp and director of risk management at Amfac Inc. in San Francisco answers risk management questions. And, William J. Miner, an actuary with The Wyatt Co. in Chicago, answers actuarial questions on benefits issues. Richard E. Sherman, a principal with Coopers & Lybrand in San Francisco, answers actuarial questions in the casualty field. Mr. Duva's and Mr. Perry's columns appear alternately on the second Monday of each month. Mr. Miner's and Mr. Sherman's columns appear alternately on the first Monday of each month. Mr. Duva's next column will appear in November.

Address your questions to ASK, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611. Please give us your name, title and employer; however, Business Insurance will consider unsigned letters.

Georgia rejects compensation for depression

Disabling depression and anxiety, possibly resulting from job stress, is not a compensable injury, the Court of Appeals of Georgia ruled.

An employee had worked as a college housekeeper for 15 years until January 1983, when ARA Environmental Services Inc. contracted to provide the institution's cleaning services.

She stayed on, however, as an employee of ARA. Her workload was increased and became stressful for her.

On May 24, 1983, while performing her duties, she became nauseous and faint. She was treated at a hospital for dizziness, weakness and palpitations. She was diagnosed as suffering from depression and anxiety, probably related to her job. The employee filed for work comp benefits but was denied. The appellate court said there was evidence to support the finding that her physical complaints were psychosomatic and were precipitated by a psychic or emotional stimulus.

Since the employee's disability arose from a psychic disability rather than any discernable physical occurrence, the appellate court ruled that compensation was properly denied. *Williams vs. ARA Environmental Services Inc.*, Court of Appeals of Georgia, July 10, 1985, *rehearing denied* July 31, 1985, *certiorari denied* Sept. 12, 1985.

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

legal briefs

Stepchild dependency

A North Carolina appellate court ruled that a stepchild was not entitled to a conclusive presumption of dependency to be eligible for workers compensation benefits in the absence of a finding of substantial dependency.

In January 1983, George Capps Sr. was driving a truck for Standard Trucking Co. during a Teamsters union strike when he was fatally wounded by a bullet from a high-power rifle.

Mr. Capps' widow filed for workers compensation benefits including benefits for her son, Robby Wayne Evans. Robby had lived with Mr. Capps and his mother at the time of Mr. Capps' death. Mr. Capps also had a natural son, George Capps Jr., who lived with his natural mother, Mr. Capps' former wife.

The Workers Compensation Commission allowed benefits for the widow, natural son and stepson. Standard appealed the ruling.

The appellate court concluded that the case had to be remanded for a determination of whether Robby Evans was "substantially dependant upon Capps" at the time of the latter's death.

According to the court, a stepchild must be factually dependant upon the decedent in order to qualify as a "child" dependent upon the deceased under the law. *Capps vs. Standard Trucking Co.*, Court of Appeals of North Carolina, Oct. 15, 1985.

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Federal guidelines needed for retiree health care: Study

By ALISON KITTRELL

WASHINGTON—Congress should establish participation, vesting and funding guidelines for employer-provided retiree health care plans because issues surrounding those plans have become increasingly important and confusing, a recent U.S. Labor Department report says.

"Although Congress chose not to address directly the issues of rights and obligations for retiree health insurance benefits at the time ERISA (the Employee Retirement Income Security Act of 1974) was enacted, the issue has now become a national concern for three reasons," the report says.

According to "Employer Sponsored Retiree Health Insurance," prepared by the department's Pension and Welfare Benefit Administration Office of Policy and Research, the guidelines may now be necessary because:

- Employer-sponsored health care coverage is becoming an increasingly important benefit as the cost of health care rises and life expectancies and the number of elderly people increase.
- Medicare tax rates currently are inadequate to support the system through the 1990s. And, at the same time, Congress has made it nearly impossible to prefund these increasingly costly health insurance benefits for retirees.
- Faced with continuing increases in health care costs, many companies have reduced or eliminated health insurance coverage for retirees. This issue is being resolved in the courts, creating confusion about employer responsibilities and employee rights.

Of the approximately 6.9 million people covered by employer-sponsored retiree health plans in 1983, about 4.6 million were retired workers and 2.3 million were dependents, the report says.

And, 62%, or 4.3 million, of those covered by employer plans were over age 65. Of those, 3 million were retirees and 1.3 million were dependents, the report says.

The report further noted that the 4.3 million covered retirees and dependents over age 65 represented 16% of the total U.S. population over age 65 in 1983.

Because of the federal Medicare program for people over age 65, private health insurance covers only a small percentage of the total health care expenditures for the elderly in the United States. However, private group health insurance is a significant benefit for those who have it, the report notes.

The report states that in 1977, private health plans paid 6.4% of the total health care bill for the U.S. population over age 65. In 1984, private health plans still paid only 7.2% of total health care costs for those 65 and older.

However, for retirees in employer-sponsored group plans, private insurance paid 23% of their total health care expenditures in 1977, the latest year for which figures are available. For retirees with individual rather than group coverage, private insurance paid slightly less than 12% of their total health care expenditures in 1977.

Those with employer-sponsored group coverage paid 17% of their total income in out-of-pocket medical expenditures, including the cost of any premium contribution.

In contrast, those in individual private plans paid 28% of their total income for out-of-pocket health care expenses, and those with only Medicare spent 33%.

However, most employer-sponsored group plans for retirees—as well as most non-group plans and Medicare—provide coverage for acute care rather than for the type of long-term care that the elderly often need, the report notes.

The report also notes the portion of the premium for the retiree coverage paid by the employer varies dramatically among companies.

The average annual premium for retirees age 65 and older covered by employer-sponsored group plans was $942 in 1983. And, on average, the employer paid $547, or 58%, of the premium.

The total cost to private-sector employers of providing health care coverage for retirees and dependents was estimated at $3.9 billion in 1983, the report says.

Based on the increase in health care costs, that is estimated to have grown to $4.6 billion in 1985.

Also, the potential employer liability for promised health insurance benefits to retirees is significant, especially in light of increased life expectancies and the aging workforce, the report notes.

In 1983, the value of the accrued liability for private-sector retiree insurance was estimated at $98 billion, the report says. This represents the value of benefits both current and future retirees had accrued as of 1983.

Despite this huge potential liability, very few employers prefund these benefits. The report notes that the majority of employers that provide health-care benefits for retirees do so on a pay-as-you-go basis, which is the most costly to employers.

Part of the problem is that "Congress, concerned with potential tax abuse, has essentially precluded the prefunding of health insurance benefits for retirees," the report notes. In fact, employers have only two options for prefunding these benefits:

- Establishing a trust according to rules established by the Deficit Reduction Act of 1984. Under DEFRA, employer contributions to fund future retiree health care benefits are tax-deductible.

However, any interest earned on these contributions is taxable to the employer. And, computation of these contributions must be based on the assumption that future benefits will cost the same as benefits currently provided, without considering inflation or changes in experience.

- Providing health insurance benefits under a qualified pension or annuity plan under Section 401(h) of the Internal Revenue Code. Under this method, interest income from employer contributions can accumulate tax-free.

However, these regulations are essentially pension regulations, not health insurance regulations, and they may not offer the best protection for employers or retirees, the report notes.

To encourage employers to provide retiree health insurance benefits and to guarantee that funds are available to pay promised benefits, the report questions whether it may be time to reconsider the tax restrictions against prefunding these benefits.

The report further notes that the nature of promised benefits is often unclear. Many employers have assumed that they could alter, reduce or eliminate retiree health care benefits when the cost of providing those benefits got too high. But, increasingly, courts are saying employers cannot alter these benefits.

The report notes that setting guidelines by court decisions is slow and confusing.

"If the problems are to be resolved through the courts, it may be years before a clear and consistent law in this area is established," it says.

In light of all these issues, the report concludes that it is time to study the issue of private-sector health care coverage for retirees and the role of government in encouraging and regulating such coverage.

However, the report warns: "If enacted, participation, vesting and funding standards must strike a balance between the needs of workers for greater protection and those of the employer not to be encumbered with a potentially unpredictable or uncontrollable cost.

"Unless such a balance is struck, the voluntary nature of our welfare benefit system will be undermined, discouraging further expansion, improvement and innovation." ■

Kenneth L. Moore, M.D.,
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Mercer acquires cost management firm

Benefit consultant William M. Mercer-Meidinger Inc. of New York has acquired National Medical Audit, a San Francisco-based cost management consultant.

Working with a nationwide board of 90 physicians, NMA evaluates an employer's or insurer's utilization review program by examining random samples of medical records of hospitals in the program's jurisdiction and comparing them with the results of the client's utilization review program.

"Our evaluations focus on using expert physician judgment to determine the degree to which utilization review is working," Dr. Arnold Milstein, president of NMA, explained. The firm also audits the quality of health care at facilities within a program's jurisdiction and provides audits for health maintenance organizations and preferred provider organizations. In addition, NMA designs and implements utilization review programs for employers and insurers, Dr. Milstein said.

NMA is located at 130 Montgomery St., Suite 1400, San Francisco 94104; 415-398-5105.

Tenneco sale

Houston-based Tenneco Inc. has finalized an agreement with I.C.H. Corp. of Louisville, Ky., for the sale of four Tenneco insurance subsidiaries.

Under the agreement, I.C.H. will purchase one group life and health insurer and three personal life and health insurers for about $1.4 billion. An agreement in principle was announced in June (*BI*, July 14).

Philadelphia American Life Insurance Co., the group health and life insurer, reported 1985 premiums of $36.4 million, a Tenneco spokeswoman said.

The four subsidiaries reported combined 1985 profits of $93 million.

markets

While the directors of both companies have reached a final agreement, the transaction is subject to regulatory approvals. However, the purchase is expected to be completed by the end of the year, the spokeswoman said.

TPA acquisition

The Travelers Plan Administrators, a recently formed subsidiary of Travelers Corp., has acquired its sixth third-party administrator, Employer Services Corp. of Dallas.

The Travelers Plan Administrators, which was formed earlier this year, markets health care claims processing services to employers with 200 to 3,000 employees. (*BI*, May 12).

The claims processing services provided by Employer Services include billing, eligibility screening and statistical reporting, said a spokeswoman for Travelers in Hartford, Conn. Employer Services will continue to operate under its own name with Dawn E. Charbonneau remaining as president.

The TPA is located at 4020 McEwen Drive, Suite 280, Dallas, Texas 75244; 214-788-2555.

Partners acquisition

Irving, Texas-based Partners National Health Plans has signed an agreement to acquire American Medical Centers Inc. of Minneapolis for about $41 million.

Partners is the joint venture between Aetna Life & Casualty Co. and VHA Enterprises Inc., the equity division of Voluntary Hospitals of America Corp. (*BI*, July 22, 1985).

Partners operates HMOs through about 600 VHA hospitals in 40 states, a spokesman said.

American MedCenters manages HMOs in seven cities and has approximately 297,000 members. The Park Nicollet Medical Center is the HMO's major provider.

Under the terms of the agreement, Partners will pay $8.50 a share for the outstanding public stock of American MedCenters, representing about 40% of the company's outstanding stock, said the Partners spokesman.

Partners will purchase the company's common stock for $7.71 per share in cash and notes, contingent upon stock performance, the spokesman said. The Park Nicollet Endowment Trust owns this stock, representing about 60% of the company's total stock, he said.

The deal is expected to close by the end of the year, he said.

New Charlotte PPO

A new preferred provider organization is available to employers in the Charlotte, N.C., area with 15 or more employees.

The PPO is a joint venture between Richmond, Va.-based Life Insurance Co. of Virginia and Health Care Savings Inc. of Charlotte, said a spokesman for Life of Virginia. Health Care Savings negotiates contracts with providers for self-insured employers and provides utilization review services, he said. The company's currently provides services to 16,000 employees of about 45 self-insured employers in the Charlotte area.

"This joint venture will make a PPO available to smaller employers who may not be able to afford to self-insure their health plans," he said.

Life of Virginia is located at 6610 W. Broad St., Richmond, Va. 23230; 804-281-6000.

Mergers/acquisitions

San Francisco-based insurance broker **ABI Management Inc.** has acquired **San Francisco Agencies Inc.**, a commercial and personal lines agency. San Francisco Agencies is moving to ABI Management's corporate headquarters at 160 Spear St., San Francisco, Calif. 94105; 415-541-0404.

New offices

Rollins Burdick Hunter Co. has opened an office in Tampa, Fla. at 2805 W. Busch Blvd., Suite 102, 33618; 813-933-0602.

J.W. Terrill Inc., a commercial and personal lines insurance agency, has relocated to 701 Emerson Road, St. Louis, Mo. 63146; 314-991-1730.

IPC Group of America Ltd., which specializes in reinsurance, has relocated to 1 Penn Square W., 15th St. at City Hall, Suite 1900, Philadelphia, Pa. 19102; 215-569-1800. **Commonwealth Risk Services Inc.**, which specializes in managing captive insurers, has relocated to the same address and can be reached at 215-569-1480.

Structured Financial Associates, a company that arranges structured settlements, has opened a new office at 12125 Woodcrest Executive Drive, Suite 170, St. Louis, Mo. 63141. ■

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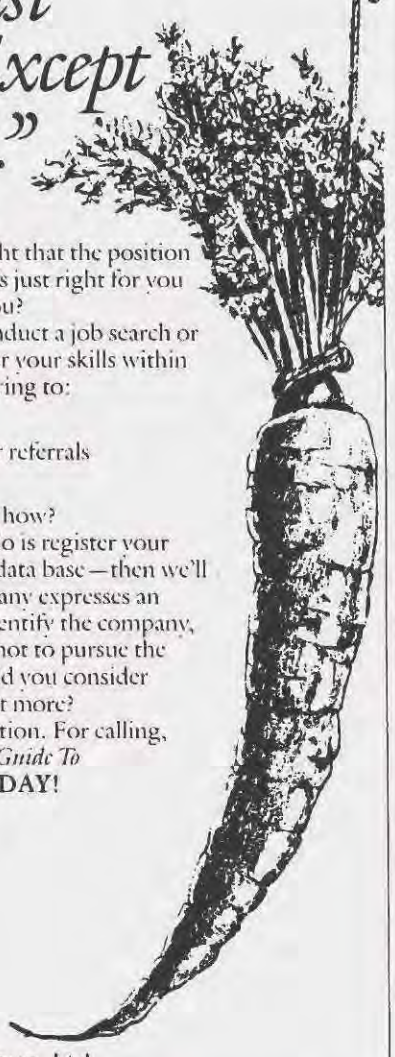
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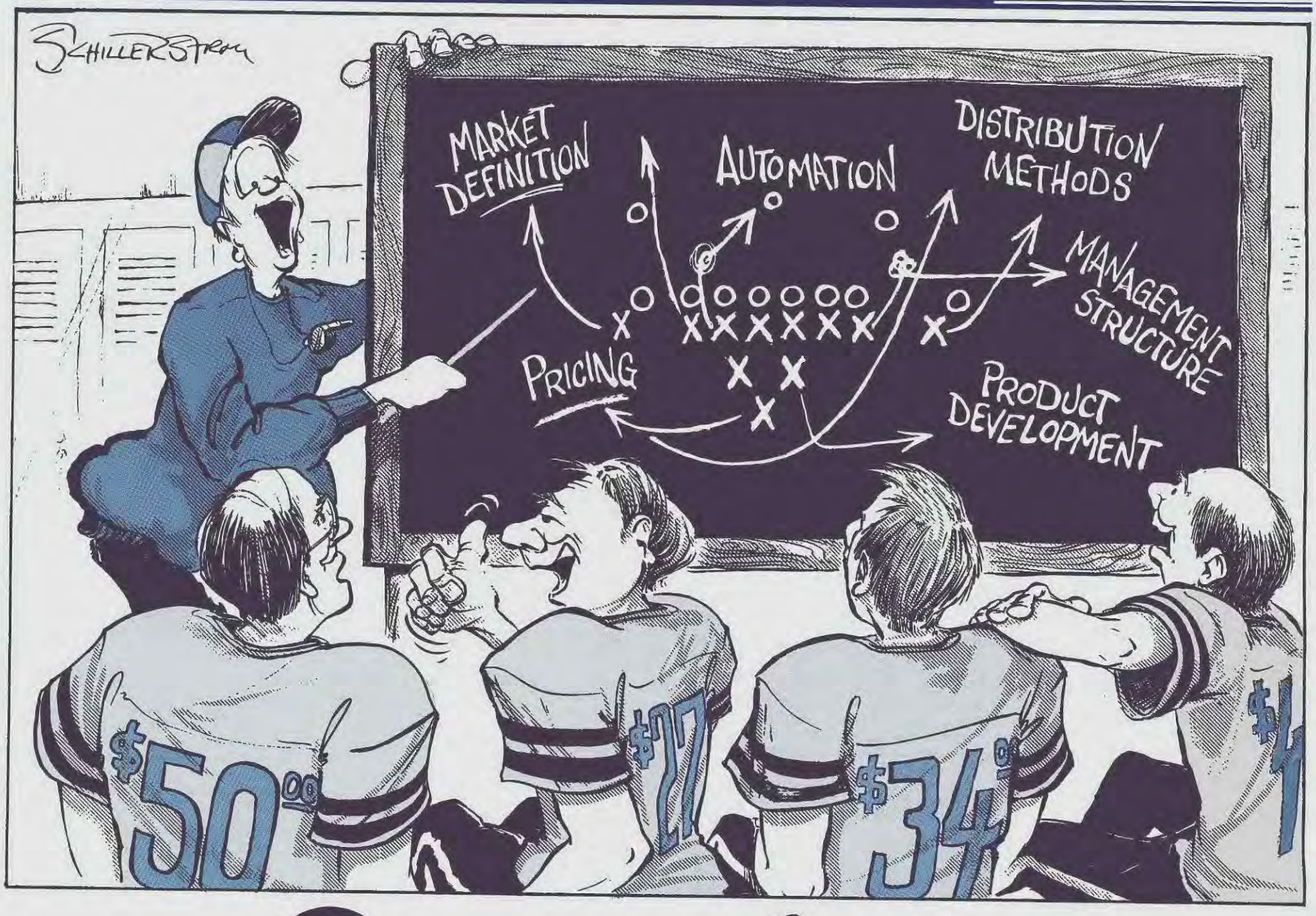
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Game plans

Consultants coach insurers to plot winning strategies

By AVRA WING

A strategic plan can help an insurance company successfully negotiate today's economic and legal obstacles, but few insurers are utilizing such plans, according to consultants.

In the wake of marketplace changes over the past 10 years, strategic plans that require insurers to modify several elements of their operations—from organizational structure to distribution systems—are necessary to compete more effectively today and over the next few years, consultants say.

But many insurers don't undertake strategic planning, and instead make decisions on an "opportunistic basis," says Richard Delaney, a vp with Tillinghast, Nelson & Warren Inc. in Philadelphia.

"That is a cop out," Mr. Delaney contends.

Strategic planning is "not an art that's terribly well-developed in the (insurance) industry," notes Pedro Galban, a stock analyst with Donaldson, Lufkin & Jenrette in New York.

But, he suggests, it may be for good reason. "My impression is once (insurers) have done (strategic planning), so much is beyond their control it often makes business plans irrelevant."

The consultants disagree.

And, while strategic planning has not been utilized extensively in the insurance industry, Peter Grant, an insurance management consultant for Coopers & Lybrand in Hartford, Conn., says he sees signs that insurers have begun to do more planning.

"A lot more of that is going on," he noted. Insurers are both calling in outside consultants and setting up corporate planning functions where none existed previously.

"Certainly there's a consciousness that (planning) is needed. There's not a great deal done, but it's being undertaken," says Robert Posnak, a partner with Ernst & Whinney's insurance group in New York.

Extensive planning is necessary today, Mr. Posnak maintains, because the market is much more complicated than it was 10 years ago.

One major change in the marketplace that has forced insurers to increase their strategic planning is the deregulation that occurred during the competitive insurance marketplace, according to Mr. Grant. Referring to rating by the Insurance Services Office, he said the days of "just taking ISO rates" and "following lockstep" ended, forcing insurers to "rethink" their rating structures.

Unstable conditions, especially those resulting from the uncertainty about the extent of tort reform measures, "create more of a need" for planning, according to Peter Porrino of Ernst & Whinney's national insurance group in New York.

"The fundamentals of the industry have changed. Insurers have to be in a better position to respond," Mr. Grant observed.

Advances in computer technology make it easier for insurers to plan, Mr. Grant pointed out, based on the accumulation of accurate data.

The general availability and increasing affordability of computer systems have put a valuable tool in the hands of even the smallest competitors, he said, adding that computers allow companies to act as "modern players," and to "think ahead."

"One thing that separates the leaders," he commented, "is good use of technology."

Getting accurate information, however, is the key element in planning, notes Mr. Posnak. "Managements don't have the information they need to figure out what's going on," he commented.

Insurers should develop and implement strategic plans to address several elements of their operations,

Continued on next page

Strategic planning

Continued from previous page

consultants say, including:

- Organizational structure.
- Marketing.
- Product development.
- Distribution systems.

Examining the organizational structure of the company is important in the planning process, because the company's foundation "may have gotten a little stale," Mr. Posnak pointed out.

An "astute" company looks at its corporate structure during successful periods, not just during downturns in corporate profits, he added.

Allstate Insurance Group reorganized its structure beginning three years ago, to attain ambitious financial goals (see story, page 24G).

Often, organizational structure is changed when new management is installed and charged with laying plans for the future.

For example, after John Mascotte became chairman of Continental Corp. in 1982, an extensive restructuring of the company was mandated, and executives were recruited from outside the company to direct the process (see story, page 24D).

Planning marketing strategy involves answering such questions as "Who are we serving? What is our identity?" Mr. Grant pointed out.

"No one should say 'This is an attractive market. We don't have it. Let's go after it,'" he said.

But, many insurers have not approached the task of developing a marketing strategy by first answering the important questions. Instead, some insurance companies are still offering older products that may not be a good fit with today's markets, Mr. Grant advised.

The goal is to develop a better alignment of customers, products and distribution, says Mr. Delaney.

Insurers clearly agree. Travelers Corp., Crum & Forster Corp. and The Hartford Insurance Group are among insurers with definite plans to achieve that goal (see stories, pages 24E, 24F and 24H).

Computerization can be a key tool in finding the answers needed for successful planning, according to Mr. Grant.

Computerization, with its ability to process large amounts of data and crunch numbers in a variety of ways, can be used to examine what customers want and then redesign products to fit that profile, he explained.

Computerization also can prevent an insurer from making a mistake, Mr. Grant suggested.

A company might decide to start selling homeowners coverage to automobile policyholders and merge the operation of the two lines, he said.

But if running the data through the computer system reveals that the auto and homeowners markets have strikingly different demographics, it clearly would not make sense to put them together.

Closely examining market niches also can help insurers counter the trend toward self-insurance by commercial insurance buyers, a trend which has been fostered by the tight property/casualty insurance market, Mr. Posnak said.

Companies should focus more on identifying those specialty risks that still can provide profitable returns, he said, adding that insurers might have been too quick to write off all exotic lines of property/casualty insurance.

In addition, Mr. Posnak suggested that insurers develop services for self-insurers. These services would involve insurance companies in a "no-risk business."

In planning marketing strategies, insurers also have to look at pricing strategy, according to Ronald Freres of Ernst & Whinney's national insurance group in Chicago.

A company must ask itself to what extent it wishes to participate in price wars and in which markets, he said.

Planning product development is an area in which Mr. Grant feels insurers are lagging behind the times, especially on the property/casualty side.

"Where's the new generation of products?" he asks.

Mr. Grant noted that as insurers have been moving into the financial services field in recent years, what they are offering may be new for the insurance industry but they are not new products.

Multiple line offerings have not been reexamined, because insurers are "still stitching together individual products," he claimed.

Mr. Posnak agreed, saying that he did not see much that was new, only "drastic reconfiguring of old offerings."

However, Mr. Delaney disagreed somewhat, pointing to the new products tailored for specific market segments such as senior citizens.

He maintained that while "basic products don't change very much," the key is to modify those products with "very unique features."

Distributing products is another major area demanding more strategic planning by insurance companies, the consultants say.

Insurers must understand how to work effectively with their agents—if they use an agency distribution system—to bring the product to the customer, Mr. Grant said.

Relationships with agents were hurt during the soft market when premium cuts translated into lower agent commissions, Mr. Grant pointed out.

So planning for insurers today should include "trying to rebuild agency relationships," he added.

In working out a plan for working with agents, insurers should determine what their goals are and "how will agents get us there," Mr. Grant advised.

It's necessary to look at the agent's book of business and, if some discrepancy exists between the available market and the business the agent is writing, either "work with the agent to get more of the market or get a new agent," Mr. Grant said.

Tying the agent into the insurer's computer system also is a necessary, though sometimes difficult, measure to ensure more productive relations between producers and insurers, Mr. Posnak noted.

Insurance companies also are examining other distribution systems.

Mr. Grant believes that multiple distribution channels are necessary. However, insurers must make clear to agents that the products distributed through alternate means will be distributed only in those markets not served by the agents. Insurers must reassure agents that business is not being taken out of agents' offices.

Mr. Delaney sees more movement toward direct mass-marketing approaches for personal lines of insurance through channels such as banks, noting that "companies are looking for new ways of doing things particularly on the distribution side."

Besides attaining the goals established when beginning to plan, insurers will find that strategic planning provides their companies with other benefits, the consultants say.

Planning is an "important communications vehicle" within a company that crosses divisional lines, according to Mr. Grant. "It helps people understand where they are, where they're going and how they're going to get there."

Corporate planning is a way of having the financial and underwriting sides of a company work closer together, Mr. Grant added.

Size is no excuse for not planning, the consultants agree.

"The size of a company and its sophistication have zero correlation," Mr. Grant maintained.

But, a plan is not worth the paper on which it is written unless management is committed to following it.

In the past, there was a tendency to "develop a plan, bind it in a nice book, put it on a shelf and go about running the business," Mr. Delaney explained.

That is still a danger, if companies do not recognize planning as an ongoing activity, he warned. ■

Kemper units design own plans

Kemper Group, which first recognized the importance of strategic planning in the early 1970s, now gives its operating units flexibility in designing their own plans.

As Long Grove, Ill.-based Kemper became more diversified in its range of insurance and financial services, it changed its planning process, recognizing that each operating unit needed flexibility in devising its own plan, explains Karen Beidel, Kemper's director of corporate planning.

"You don't work with stockbrokers the same way you do with insurance people," Ms. Beidel notes.

The head of each unit "drives the process," although there is "some overall direction" from top corporate management, she says. Kemper wants its strategic plan to recognize the "culture and management style of each operating unit," she adds.

The yearly planning cycle is not a "prescribed process," although certain group-wide financial goals are set, she said.

In addition, each unit is asked to address such areas as major competitors, distribution methods and customer markets, as well as to assess its own competitive stance. The various units then supply an outline to corporate management for the executive planning conference held each fall. Each year, a five-year plan is developed.

Ms. Beidel says Kemper's policy of granting autonomy and responsibility to its many units has worked well. Plans fail "when the people who implement them don't own them," she observed.

Informal game plan succeeds at AIG

By AVRA WING

NEW YORK—American International Group Inc., a company envied for its success, adopts an "informal" approach to planning, according to Douglas Paul, vp of strategic planning.

There are no institutionalized procedures or a fixed staff dedicated to planning, he says.

But AIG knows what its overall goal is: to secure a "superior rate of return for our shareholders," Mr. Paul says.

To do this, the multinational is looking to "expand what we do and is looking at opportunities outside of what we do," he said.

That means strengthening its existing multibillion-dollar domestic and international business and expanding the number of businesses it is in.

Most of the planning at AIG evolves out of the day-to-day interactions of the executives from AIG's many businesses with corporate management, Mr. Paul explains.

"We don't want to institutionalize" the process, he said. "There is no single game plan."

AIG is "line-driven," he added, with each line of business, or profit center within a company, retaining autonomy. This "entrepreneurial" approach works well in the insurer's approach, Mr. Paul commented.

No radical changes in AIG's philosophy or operation have occurred in recent years, he said, adding: "We've always been market-driven."

Sometimes, staff may be assigned on a "special projects" basis to do planning when necessary on a particular subject, and there is a research and development function at the corporate level which, with support from the controller's office, works with the various profit centers to develop new products.

Occasional management retreats are scheduled at which executives at various levels can discuss current operations as well as new ventures.

Senior management is involved in planning sessions perhaps once a quarter, he says, while below the senior corporate management level, "ad hoc" planning sessions take place every month or so.

His own job, established at the start of 1983, is primarily one of guidance, Mr. Paul says.

In part, he "challenges" AIG executives to "think about some things" to which they might not otherwise attend. His function is one of "helping to drag them along," rather than doing the planning for them.

Mr. Paul also provides a degree of coordination among the life and property/casualty operations and domestic and international operations.

At present, Mr. Paul estimated, AIG's domestic and international business is pretty much balanced. AIG's life operations are stronger outside of the United States, he said, while its property/casualty business is stronger within the country.

In the last two years, AIG has shifted some capital out of overseas ventures into domestic businesses, Mr. Paul said, adding that the insurer doesn't intend to "milk" any of its companies to help others.

One area into which the insurer is looking to expand its operations is health care. AIG recently acquired Jurgovan & Blair, a Maryland company which supplies systems and consulting services for health maintenance organizations.

In markets such as health care, where conditions are changing, AIG sees the "opportunity to carve out a business," Mr. Paul added.

"We haven't closed off any particular routes," he said. "We'll make acquisitions where appropriate. We're prepared to be flexible, to adjust strategy."

AIG also is exploring mass marketing of personal financial services and money management services, through such organs as AIG Global Investors.

All the various groups at AIG are "looking to find ways to offer products," Mr. Paul said.

The insurer's worldwide presence has given it an advantage in terms of marketing expertise, Mr. Paul said. AIG has "a lot of experience in what works and what doesn't work in different cultures."

For example, in Japan, the insurer offers its products at department stores.

As a result, it has built up an extensive, multichannel distribution network, which includes mass marketing and agents and brokers. If a distribution method exists, "We've either tried it or are using it," he said.

One method upon which AIG currently is focusing is "sponsored" distribution channels in which the insurer markets its products with another institution. These avenues are the way insurance "will be delivered in the future," Mr. Paul predicted.

AIG is looking at offering products through banks, places of employment through payroll deduction plans, and major associations such as the Veterans of Foreign Wars and various professional groups.

The idea is "to remove excess expense" from distribution costs, he noted.

The insurer is "innovative" when it comes to developing new product offerings, Mr. Paul commented. He pointed to the specialty risk lines AIG has brought out over the last decade, including coverage for sensitive risks such as kidnap and ransom; coverage for limited partnerships and investor bonds; insurance against fine wine spoilage; and policies to cover weather-related risks.

AIG is "pretty streamlined," Mr. Paul said, and has not needed to cut back operations in recent years. He attributed this to a management attitude at all levels of "watching the bottom line."

In addition, last year and at the beginning of 1986, AIG raised some $800 million from common stock offerings and the issuance of preferred stock (*BI*, Jan. 13; Feb. 3; July 22, 1985).

The insurer, therefore, was "in a position" when the reinsurance market tightened to assume more risk over the last year or so, rather than ceding as much to reinsurance. This was "part our choice, part the market," he said.

In addition to his other duties, Mr. Paul was named head of AIG's political risk division last year (*BI*, June 3, 1985).



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Continental hatches production plan

By AVRA WING

NEW YORK—Continental Corp. is pulling all of its distribution eggs out of one basket.

Prior to implementing its relatively new strategy, under which the company is attempting to utilize several distribution systems, Continental had relied almost entirely on a single distribution system to generate revenues, according to William Thiele, executive vp of Continental's Brokerage & Special Operations group.

Continental management implemented its plan after determining that 85% of its revenues was generated from business produced by independent agents while industrywide independent agents produced only one-third of revenues, Mr. Thiele noted. Business produced by brokers and through direct sales accounted for the other two-thirds of revenue industrywide.

Under the Continental plan, the company was segmented into three product groups that are aligned with specific distribution systems.

The plan was implemented after John Mascotte became chairman and chief executive officer in 1982.

The three groups are:

- The Agency Group, whose market is split evenly between small and medium-sized commercial accounts and personal accounts. The Agency Group offers its products exclusively through independent agents.
- The Brokerage & Special Operations Group, which focuses on larger commercial accounts, 65% of its market, and niche markets, including personal accounts, 15% of its market. The group operates primarily through the nine largest national brokers.
- The Financial Services Group, which sells personal life/health policies through agents, some brokers, and directly through its exclusive Insurancenters agents. This group also is charged with exploring alternative distribution channels.

Continental is beginning to see a shift in the percentage of revenue produced by each distribution system. Independent agents account for approximately 75% of Continental's revenues this year—a drop of 10 percentage points from last year. And, the company expects that by 1990, agents will account for 50% of revenues, brokers 30% to 35%, and other distribution systems 20% to 15%.

Each group has "near total authority" for its operations and planning, although the units are assisted by a corporate planning staff, Mr. Thiele explained.

He characterized Continental's planning process as "very formal, very sophisticated." He noted that the planning process filters down to all profit centers and branches of the company.

"We do a lot of planning," he commented. "If we did any more, we wouldn't have time to do anything else."

In 1985, the Agency Group generated $2 billion in revenues, or 39% of total company revenues, up from $1.6 billion, or 40% of the total in 1984.

The segmentation plan also was designed to weed out Continental's least productive agents. The insurer today is writing business for 4,000 agents, compared with 11,000 agents before the plan was implemented.

Continental works closely with the remaining agents, especially those top producers it enters in its Circle Agent program, according to Mr. Thiele.

Under the Circle Agent program, the insurer lends agents money to make acquisitions and offers training and automation support. Currently, approximately 1,850 agents participate in the program.

There are 30 branch offices for the Agency Group, most of them in suburban locations. All of the group's business is domestic.

For 1985, the Brokerage & Special Operations Group reported total revenues of $1.8 billion, or 35% of total company revenues, up from $1.3 billion in 1984.

Currently, the Brokerage Group is focusing on three projects: workers compensation, excess casualty, and is "developing an approach" for medical malpractice insurance, of which it now writes very little.

Mr. Thiele's Brokerage Group, which includes international operations, targets "very discrete niches," he explained, noting that it writes policies for bowling alleys, day care centers, motels and hotels, broadcast companies and underground coal mining operations among other businesses.

The only common characteristic of accounts serviced by this group is that they all require a "customized response," Mr. Thiele observed. He characterized its customers as "sophisticated buyers with heavy demands." Often they are multinational corporations.

An insurer's strength "now and forever" is in specialties, he contends.

The Broker & Special Operations Group has four branches in major cities: New York, Chicago, Dallas, and Los Angeles.

The group consists of National Brokerage Services, Marine Office of America Corp., International Special Facilities, Casualty Insurance Co., First Insurance of Hawaii, Phoenix Continental Management in Canada, Puerto Rican-American Insurance, Continental Risk Services, Continental Reinsurance and Harbor Insurance.

Financial Services' revenues dropped to $1 billion in 1985 (19% of total company revenues) from $1.1 billion in 1984 because of a decrease in single premium deferred annuity sales to $184.9 million from $481.9 million.

Mr. Thiele attributed that drop to declining interest rates.

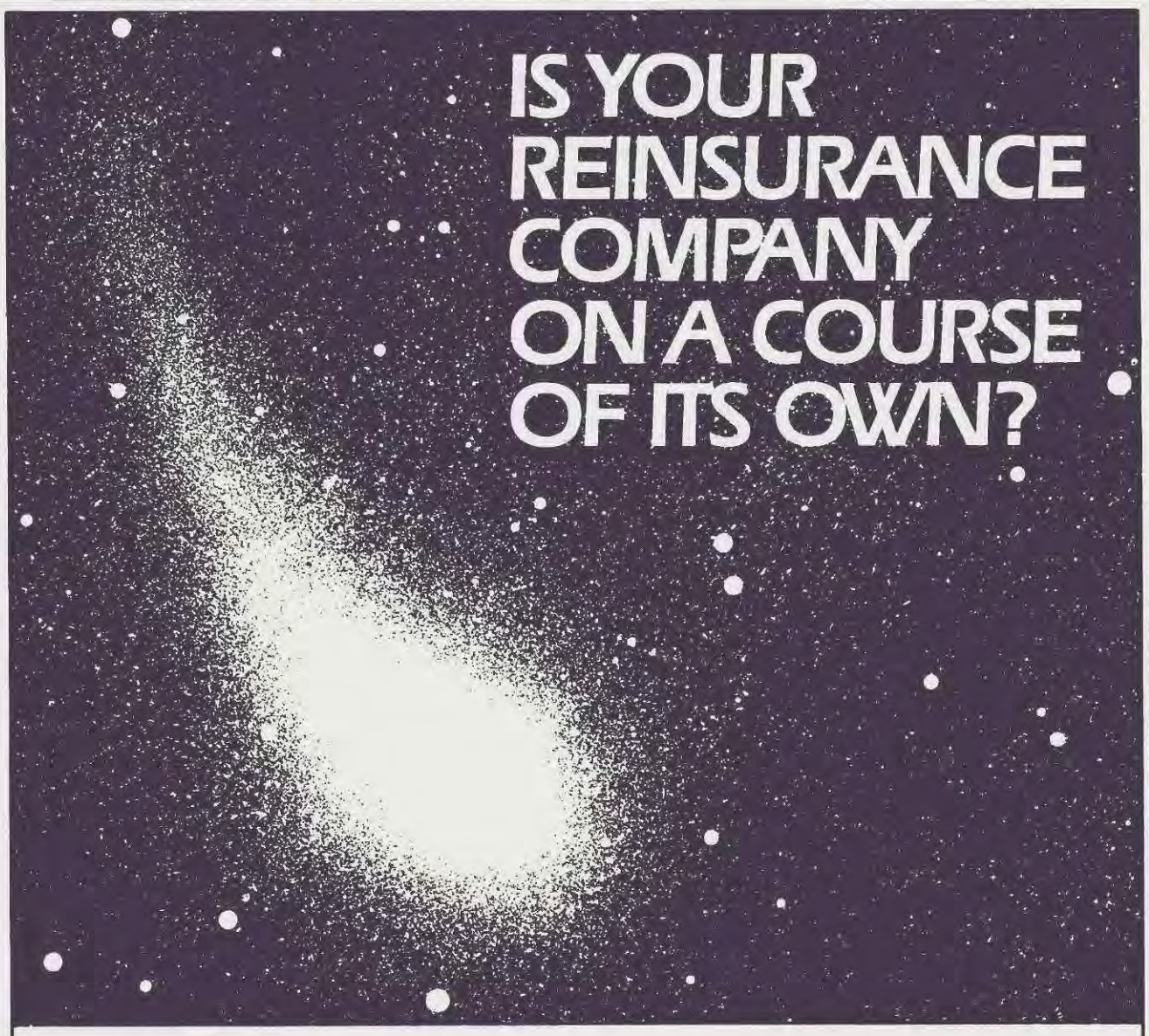
He maintained that the SPDA offer had demonstrated that stockbrokers were a "powerful distribution source," although he added there's "not too much action now through that channel."

Continental has also terminated its program of offering products through the Century 21 real estate network, he said.

However, the group began offering a mutual fund last year through a broker-dealer subsidiary, Continental Equity Corp. of America.

And, Continental is "pretty steadily shifting the mix away from personal toward commercial" business, Mr. Thiele said. However, he added, "We wouldn't abandon a field as big as personal lines."

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C&F units slice up insurance market

BASKING RIDGE, N.J.—Crum & Forster Corp.'s operating strategy is to slice up the insurance marketplace into bite-size pieces.

C&F's commercial insurance operations are divided by geographic area, a strategy developed four years ago.

As a result, C&F's three commercial lines profit centers have the "flexibility of regional carriers," says William E. Buckley, Jr., chief executive officer of U.S. Insurance Group, one of the three units.

Each of the three commercial units—as well as Crum & Forster Personal Insurance, which operates nationally—has "a full complement of resources," including their own products and their own staffs for underwriting, processing and sales, Mr. Buckley said. Each unit also deals separately with producers.

The only corporate-wide functions are investment management and data processing, he said.

USIG serves 27 states, mostly in the Southeast, Southwest and Midwest.

Each of USIG's eight regions is under a vp who reports through an executive vp to Mr. Buckley. In this "flat organization," USIG's chief underwriters are only two management levels removed from Mr. Buckley.

The other two commercial units are Crum & Forster Underwriters Group, which serves 13 Northeastern states and Canada, and Industrial Indemnity Group, which operates in 10 Western states.

Each group "has a different character" because of the various economic and legislative conditions of the states in which they operate, Mr. Buckley said.

As a result, each group devises it own plan, Mr. Buckley explained. "There's no attempt to have the three strategies aligned," he said. "That would defeat the purpose."

For example, USIG has decided it is "not going to deal with national accounts," Mr. Buckley said. "Our objective is to maintain ourselves as a very strong regional company," he added.

The planning process at USIG is done "from the bottom up," Mr. Buckley said. It is based on a state-by-state examination of economic and legal "climates."

A game plan is developed for each of three USIG-defined market segments in each state with participation by all management levels in the region and the group's planning executive. Each region then presents its plan to a senior management committee.

The three market segments are:

- Business accounts, or smaller businesses with premiums under $10,000.
- Commercial accounts, or medium-sized businesses with premiums between $10,000 and $250,000.
- Specialty accounts, or complex customized accounts in terms of products and pricing, with premiums starting at $250,000.

The markets are segmented because they have different characteristics, Mr. Buckley explained. Business accounts primarily require "off-the-shelf" insurance products and not a lot of underwriting because whether an account will be profitable depends on local conditions, he said.

Commercial accounts require more flexibility in rates and "more technically trained" underwriters.

USIG is "not doing a great deal in new products," Mr. Buckley said. "We don't see the need."

However, the insurer is "repack-aging" certain products for industries such as heating and plumbing contractors and beer distribution.

USIG has "pulled back" recently from fronting business for captive insurance companies, because USIG "didn't have the system or people to operate" in that business. "We lost a lot of money," he said.

C&F's decentralized system is not problem-free, however, Mr. Buckley pointed out.

USIG and Crum & Forster Underwriters often lack recognition from customers, he said. To promote USIG's identity, the insurer is stressing its connection to the Xerox Financial Services organization, Mr. Buckley noted.

—By Avra Wing

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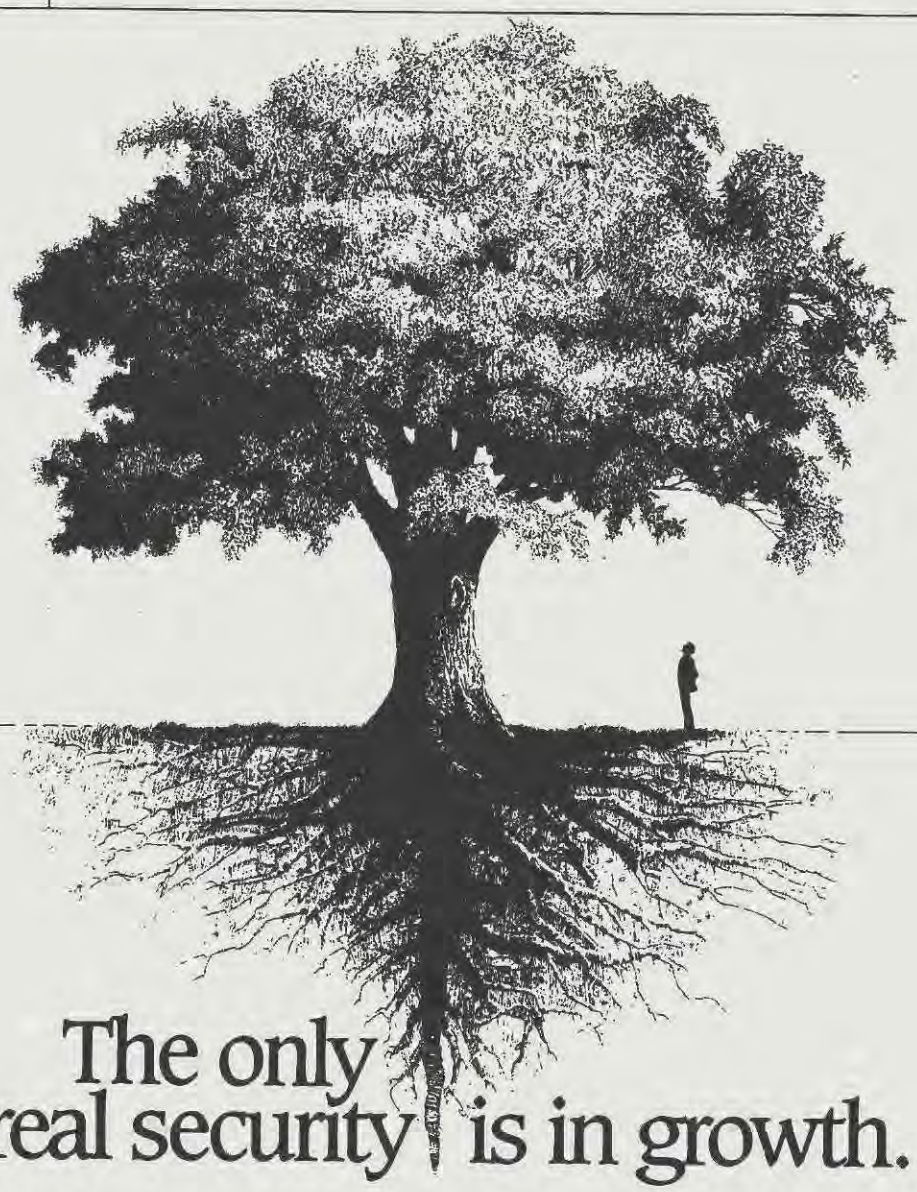
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Hartford reinforces its four-pillar plan

By AVRA WING

HARTFORD, Conn.—The Hartford Insurance Group, now the flagship of ITT Corp.'s services division, plans to stick to the same "four pillars" that have guided the corporate strategy for about five years, says David Klein, senior vp for marketing.

"Nothing has changed from Hartford's perspective," Mr. Klein said. "Our goals and expectations are the same."

However, changes have occurred at ITT.

Since July 1979, the company has divested more than $2 billion in assets and divided itself into two segments. One division, led by The Hartford, focuses on services, while the other concentrates on ITT's industrial, automotive and technical products.

"Business as usual" at The Hartford means relying on those "four pillars," Mr. Klein said: being more responsive to the needs of customers, improving distribution, reducing expenses and increasing automation.

"The critical strategic issue is to orient toward market segments, customer groups," Mr. Klein stressed. "That will be the measure of success."

The insurer, in shifting its focus away from lines of business to customers, has divided its markets—personal lines; small commercial accounts (up to $10,000); medium commercial customers (to $500,000); and larger commercial customers (up to $1 million)—and is working to identify each group's product needs, he said.

In personal lines, the insurer is targeting the over-50 market with a direct-mail campaign that offers discounts on policies to members of the American Assn. of Retired People. It also has added a homeowners' policy written on a replacement value basis.

In the commercial area, Hartford is going after more small- and medium-sized businesses. It has, for example, added "The Works" program for family-style and fast-food restaurants and written a special program for the printing industry.

Hartford remains active "across all segments of the market," Mr. Klein emphasized, though not necessarily for all classes of business within those segments.

For example, while interested in adding small commercial accounts, Hartford does not want them "if they have pollution exposures," Mr. Klein noted.

Hartford stopped writing EIL coverage last year (*BI*, Sept. 9, 1985).

It also has discontinued writing medical malpractice coverage for doctor groups and last year, and withdrew from the facultative reinsurance business.

"It's a tough business," he commented, noting that operating losses at Hartford's First State Insurance Co. unit had been driven by facultative business.

However, Hartford's treaty reinsurance, written by New England Reinsurance Co., has been growing.

Also growing "aggressively" is Hartford's excess business written through Hartford Specialty. Established in 1981, Hartford Specialty also writes "jumbo" and "unique and unusual" risks. "We have been inundated with submissions," Mr. Klein noted.

Hartford "had virtually withdrawn" from the excess and specialty markets during the early 1980s, Mr. Klein said.

"As long as we think there is money to be made" Hartford will continue to nurture its excess business, he added, explaining that the growth will be "controlled" by carefully examining risks.

While concentrating more on market segments, Hartford also is cutting costs. It consolidated its commercial lines field offices to achieve "economies of scale," Mr. Klein noted. The company now has 41 regional locations, compared with 51 in 1982.

"We can't afford full-blown regional offices" which handle everything from personal lines to small through large commercial business, he added. "We have to keep expenses down."

But, Hartford still operates smaller contact offices to maintain local presence in areas where it has closed regional offices.

In personal lines, the company has drastically cut back field offices. While all 51 locations that existed before 1981 had personal lines responsibilities, now only 12 do. And, Hartford plans to reduce that number to five, Mr. Klein said, declining to reveal the timetable for doing so.

Even after consolidation, a personal lines underwriter will remain in the region to generate business.

While cutting field offices, Hartford has doubled the number of processing centers to four from two.

The company's cost-cutting drive has been "eminently successful," according to Mr. Klein. "There has been almost no increase in the dollar amount of expenses over the last two years."

"We've become a leaner organization. That's the key issue," he added, acknowledging, however, that this has required some staff cuts.

Automation has enabled Hartford both to target specific market segments and streamline its organization, which ultimately improves product distribution, Mr. Klein explained.

Hartford "bit the automation bullet" in 1978-1979, he said, and had its system in place some four years after that. The company now markets packages of internally developed software that has been integrated with programs from outside vendors.

One such product, "The Solution," is marketed to large users through Hartford's HITECH division. Developed by Wang, the software has general analytical applications and can be run on personal computers and minicomputers as well as on mainframes.

Through another division, CLA Corp., Hartford sells to insurers a mainframe program that performs policy rating, quoting and issuing.

Hartford also has set up computer networks throughout the country and put all of its branches on-line.

About 200 agents are "interfaced directly" into Hartford's system, according to Mr. Klein. With their largest producers tied into the system, "our loss and growth experience is better," Mr. Klein said.

One negative element, however, is that agents need extensive training to use the automated equipment. ■

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Guernsey

Continued from page 2

Guernsey Ltd., a U.K. merchant bank in Guernsey.

"Business is absolutely booming," Mr. Roper said. "Applications are coming in daily."

After years of discussing implementing formal insurance regulations, Guernsey's unicameral legislature—the States of Guernsey—passed the Insurance Business Law this summer and sent it for approval to the Privy Council in London. However, formal Council approval of such legislation can take several months, Mr. Roper noted.

The States of Guernsey's Advisory and Finance Committee also decided this summer to appoint an insurance supervisor.

The new law, as well as the new insurance supervisor, are expected to be enthusiastically embraced by captive managers, who previously have told *Business Insurance* that the lack of such formal regulation has damaged Guernsey's reputation as a captive domicile (*BI*, April 4).

The several-month search for an insurance regulator ended when Mr. Butterworth was tabbed for the job earlier this summer.

Since then, the island is gaining recognition as an offshore financial center without any secrecy laws, noted Mr. Butterworth, 43, who has spent only three days in Guernsey.

He also notes that "a lot of big names" are managing the captive business in Guernsey.

Among the captive managers in Guernsey are Transglobe Underwriting Management (Guernsey) Ltd., Transnational Risk Management (Guernsey) Ltd., Risk Management Ltd. and Hogg Robinson (Guernsey) Ltd.

Because of the reputation of these and other captive managers, Mr. Butterworth believes the "insurance house" on the island already may be in order, so that his job primarily will involve administering provisions in the new law.

The provisions in the new law are expected to take effect early next year, according to Guernsey officials. The officials explained that once the law is approved in London, the States of Guernsey will set up a timetable for implementing its provisions.

One of those provisions is insurer licensing, which Mr. Butterworth expects will result in more than 150 licenses.

Under this new law, captives and other Guernsey-domiciled insurers that are not registered with the British Department of Trade and Industry or in another European Community nation must:

- Apply to the island's Advisory and Finance Committee for approval.
- Have a minimum paid-up capital of 100,000 pounds (about $150,000 at the current exchange rate).
- Satisfy a solvency margin of 18% for the first 5 million pounds ($7.5 million) of net written premiums and 16% for net premiums exceeding 5 million pounds.
- Prove that the company's manager is suitably experienced. Each insurer must have a representative on the island who can be an executive of the insurer or its management company.
- File annual financial statements with the government.
- Maintain at least 75% of the company's assets as approved liquid assets.

Mr. Butterworth, a native of England, believes he was selected for the Guernsey post because of his experience in the Cayman Islands, where he has been deputy superintendent since 1982.

In addition, he served as the Caymans' acting superintendent for 11 months, until Peter W. Bates was named superintendent in July 1984.

Mr. Bates said he is "delighted" that Mr. Butterworth has the opportunity to take charge of the Guernsey insurance regulation.

"He certainly is well-capable of the job," Mr. Bates said.

Mr. Butterworth is a chartered accountant and worked briefly as an accountant for an insurance company until he joined an accounting firm in the Cayman Islands in 1973. He then became a financial controller for an insurance group in the Seychelles, a group of islands in the Indian Ocean.

By 1981, Mr. Butterworth returned to the United Kingdom as an independent consultant, until he became the Caymans' deputy superintendent in 1982.

A replacement for Mr. Butterworth in the Caymans has not been named, Mr. Bates said. He added that he is searching for someone with an accounting background similar to Mr. Butterworth's. ■

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Supreme Court

Continued from page 2

According to court papers, Asahi had done business with Cheng Shin for about 10 years and sold 1.35 million valves to Cheng Shin between 1978 and 1982 with all sales occurring in Taiwan. Other manufacturers also purchased tire tube valves from Asahi.

However, Asahi had no officers, property or agents in California, solicited no business there and made no direct sales there, although it knew some valve assemblies sold to Cheng Shin would be incorporated into tubes sold in California.

Initially, Asahi sought to quash service of the summons and the complaint because the court lacked jurisdiction and because California was an inconvenient forum. But the trial court denied the motion, in effect saying it had jurisdiction over Asahi.

The state appellate court reversed, however, and ordered the trial court to quash service. Cheng Shin then filed a petition with the state Supreme Court.

In a July 1985 opinion written by Chief Justice Rose Bird, the Supreme Court ruled that Asahi was subject to the jurisdiction of the state court.

The Supreme Court ruled that Asahi had sufficient contacts with California to establish jurisdiction because it was aware that a substantial number of its products would be sold in the state. Jurisdiction also was "fair and reasonable," the court said.

California had a strong interest in protecting its consumers by making sure that foreign manufacturers comply with the state's safety standards, the court found.

Asahi then sought review from the U.S. Supreme Court, which granted review earlier this year.

In its brief, Asahi contends that there are insufficient contacts with California to allow jurisdiction.

"The supposed contact, tie or relationship of Asahi with California here was much less substantial than the contacts found insufficient in past cases, and inadequate to suggest under any available standard that they should have led a Japanese corporation in the circumstances to expect it could be subjected to jurisdiction in California," the brief said.

"The assertion of that jurisdiction does not accord Asahi fair play and substantial justice," the company argued.

In addition, the brief filed by the American Chamber and the Confederation of British Industry contends that upholding the California court's ruling would have serious adverse effects on international commerce, including:

- Substantially increasing the costs and uncertainties of international trade to British companies.
- Encouraging other nations to exercise comparable jurisdiction over American manufacturers with few ties there.
- Creating conflicts between the governments and laws of the United Kingdom and the United States, to the detriment of trade between those nations.

The state Supreme Court ruling "is not an anti-business decision," says Michael J. Breining.

"California's desire to adjudicate the issue of Asahi's liability to Cheng Shin would apply policies that will significantly increase costs and uncertainties of international commerce," the brief says.

"If this court establishes a precedent that a U.S. adjudication is appropriate in these circumstances, conflicts with the available remedies of other states are likely to result," the brief states.

Cheng Shin's brief, however, argues that there are sufficient contacts with California to establish jurisdiction over Asahi and that jurisdiction is "fair and reasonable."

"In this case, Asahi's conduct satisfies minimum contact requirements, and jurisdiction over petitioner is proper," the brief says.

"Asahi could reasonably anticipate being sued in California, since they had knowledge that Cheng Shin was incorporating Asahi's valve into its own product and selling the product in California."

Moreover, Cheng Shin argues that a reversal of the state Supreme Court would favor foreign over U.S. manufacturers, while affirming the ruling would not hinder international trade relations significantly.

"The likely deleterious effect of shielding foreign manufacturers of component parts from jurisdiction in products liability cases will further hinder the domestic manufacturer already struggling to compete with foreign competition," the brief says.

"Domestic companies not actually at fault for defects in foreign-made components will have to bear the financial burden, either directly or by the ever-increasing costs of insurance, for derivative liability," the brief states.

The California Manufacturers Assn. agrees that reversal would be detrimental to U.S. businesses.

"A reversal of the California court's holding may jeopardize the lives, safety and health of California consumers, businesses and manufacturers, by providing another barrier which increases the difficulty an individual or company presently confronts when seeking a legitimate and lawful solution to the assignment of responsibility," it says.

In addition, if alien or foreign manufacturers can escape responsibility, this will remove an incentive to produce safer products, the association argues.

However, in a recent interview, Asahi attorney Mr. Hoffman argued that if the U.S. Supreme Court affirms the California decision, it would increase the burdens on foreign and domestic companies.

He suggested that a small company in Connecticut, for example, might find itself subject to suit in a state such as Alaska where it never contemplated doing business.

If foreign countries impose similar rules, small companies also might have to defend in those countries, adds Mr. Hoffman, with the San Francisco firm of Lillick, McHose & Charles.

Adds Lawrence A. Salibra, who represents Alcan Aluminio: "It could have a very dramatic impact on the way nations and businesses interact."

And, Mr. Hoffman says the extended jurisdiction will make it more difficult to assess risks for both risk managers and insurers. He said that could increase insurance rates because of the difficulty insurers will have in underwriting risks that are essentially worldwide. "It will be more difficult for risk managers to determine the types of risks they will be subject to," says Mr. Hoffman.

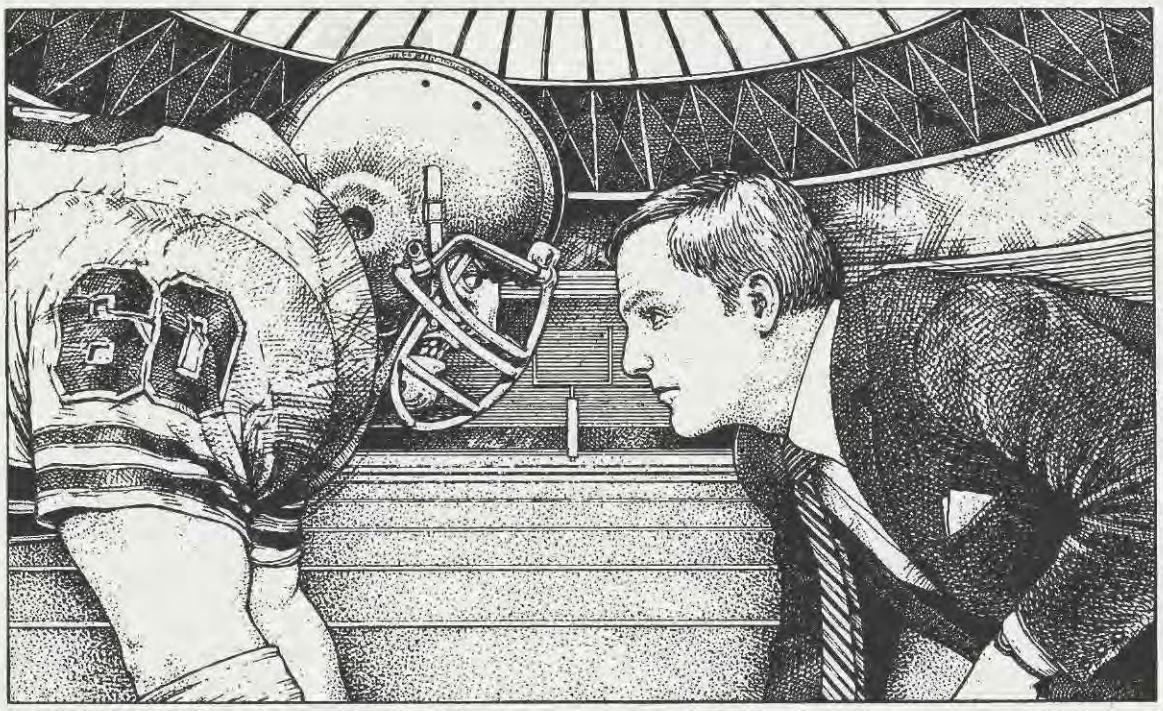
But Michael J. Breining, general counsel for the California Manufacturers Assn., said defense costs and insurance costs should not increase if the decision is upheld.

"It is a concern, but the potential for an increase in defense costs and insurance rates is minimal if it is there at all," Mr. Breining said.

He added that the state Supreme Court decision "is not an anti-business decision."

"In this particular situation, where a manufacturer incorporates millions of components into products sold in California, it should have to answer in California courts," he said. ■

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CEBS

Insurer offers day care for workers' sick children

Transamerica Life Insurance Co. is giving its employees a way to provide quality care for their sick children without missing work.

The Los Angeles-based subsidiary of Transamerica Corp. has introduced a program to provide day care for employees' children who are mildly ill to reduce absenteeism caused by parents staying home with sick children.

The day-care center, "Supercare for Kids," is located in a hospital two blocks from the Transamerica Life office, said Pat Becker, manager of employee communication and support services.

The facility is open to the children of all 3,700 Transamerica Life employees. However, only children with mild illnesses, such as those recovering from colds or the flu, are admitted to the center. Children with serious communicable diseases, such as chicken pox, are not admitted, Ms. Becker said.

Transamerica Life pays $675 a day for access to 15 spaces in the center, whether they are used or not.

Employees who use the center pay $10 per child for the first day of care, and $5 per child for any subsequent days.

Ms. Becker said the decision to offer the program began with a general survey conducted by the company at the end of 1984 that turned up some surprising statistics on employee absenteeism: Absenteeism due to parents staying home to care for sick children was costing the company almost $200,000 a year.

"After we got the results of the survey, we determined the cost of the absenteeism by converting the number of days employees stayed home with sick children into the amount of salary each lost day was worth. We came up with $180,000—and that doesn't even count the cost of other employees in the department who have to take up the slack for absent employees," she said.

The company first considered establishing an on-site day-care center for sick children, Ms. Becker said. But, instead, it decided to propose that a nearby hospital open the facility.

"Supercare really fell into place because we have a good relationship with a nearby hospital, California Medical Center. We sent them a proposal for the center and they were real interested," she added.

Supercare is staffed by a full-time nurse and a teacher, she said. Because the children staying at the center are not seriously ill, a hospital environment is avoided.

"We felt it was important to keep their environment as stimulating as possible. It's a bright, colorful day-care center with toys and books so they can play and read," Ms. Becker said.

Employees with children "preregister" to use the center by filling out a standard medical history form, she said. They then call the center in the morning if they plan to use the facility.

So far, employee response to the center has been slow, with an average of only two to three beds being used a day. But, Ms. Becker says the company is confident that use will pick up once cold and flu season arrives and once employees become accustomed to the center.

"It's a bit like when day-care centers started and parents weren't sure if this is what they should do with their children," she said. "But, most employees have started to realize that there are many days that they really don't need to be home with their children and, if their child took a turn for the worst, there is no better place for them to be" than in a hospital.

benefit beat

CIGNA expands EAP

About 2,200 CIGNA Corp. employees based in the United Kingdom now can use the company's employee assistance program.

The company has offered its 30,000 U.S. employees an employee assistance program since 1978, said Charles Sapp, assistant vp of the program in CIGNA's Philadelphia office.

To use the service, which is free to employees, workers having any kind of personal or work-related problem meet with a CIGNA adviser for referral to the proper agency or counselor.

The company's largest locations —in Philadelphia and Hartford, Conn.—have EAP counselors in-house. In other locations, CIGNA contracts with outside counselors.

"Ours is an assessment and referral program. We do not provide counseling," Mr. Sapp said. "The program is designed to help employees with their problems by having them talk to a third party."

The company made the program available to its United Kingdom-based employees in May."It has been my intention to make the employee assistance program available to all employees. And, the next logical step was the United Kingdom, because we have enough employees to justify having a program," Mr. Sapp said.

He declined to reveal the cost of the program, but he said, "I don't think the actual amount of money we spend on the program is important. The important thing is that we are helping employees."

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SEPT. 14-17. Basics '86: Highlighting Risk Management Options conference in Winnipeg, Manitoba, sponsored by the Manitoba Chapter of the Risk & Insurance Management Society; $275. Basics '86, P.O. Box 337, Winnipeg, Manitoba R3C 2H6.

SEPT. 14-19. Loss Control Management course in Atlanta, sponsored by the International Loss Control Institute; $695. International Loss Control Institute, P.O. Box 345, Loganville, Ga. 30249; 800-554-6001; within Georgia 404-466-2208.

SEPT. 15. Hedging with Financial Futures in the Insurance Industry seminar in New York, sponsored by Peat, Marwick, Mitchell & Co.; $400. **Also Nov. 3.** Peat, Marwick, Mitchell & Co. Executive Education, 810 Seventh Ave., New York, N.Y. 10019; 212-603-3811.

SEPT. 15-16. The Revised Commercial General Liability Policies: New Implications for the Insurance Industry conference in New York, sponsored by Executive Enterprises Inc.; $795; $695 for each additional registrant. Executive Enterprises Inc., 22 W. 21st St., New York, N.Y. 10010-6904; 800-223-0787.

SEPT. 16. Occupational Safety and Health Administration/Chemical Safety conference in Springfield, Ill., sponsored by the Illinois State Chamber of Commerce; $90 for ISCC members; $135 for non-members. **Also Sept. 23** in Chicago. Carol Jensen, Illinois State Chamber of Commerce, 20 N. Wacker Drive, Chicago, Ill. 60606; 312-372-7373.

SEPT. 16-18. Reinsurance Seminar in Irving, Texas, sponsored by the University of Dallas Reinsurance Managemen: Institute; $525. Bruce Evans, executive director, Reinsurance Management Institute, University of Dallas, Irving, Texas 75601; 214-721-5360.

SEPT. 17. Insurance Professional Liability: The Claims-Made Form seminar in East Elmhurst, N.Y., sponsored by Harvey, Pennington, Herting & Renneisen; $75. Janice Staskin, Harvey, Pennington, Herting & Renneisen, 1600 Market St., Philadelphia 19103; 215-563-4470.

SEPT. 17-19. Techniques of Loss Control course in Chicago, sponsored by the Risk & Insurance Management Society; $490 for members; $590 for non-members. Fran Jordan, administrator-continuing education, Risk & Insurance Management Society, 205 E. 42nd St., New York, N.Y. 10017; 212-286-9292.

SEPT. 18-19. Controlling Special Public Risks seminar in San Francisco, sponsored by Tillinghast, Nelson & Warren Inc.; $595. Tillinghast, Nelson & Warren, 722 Post Road, Darien, Conn. 06820; 203-655-9791.

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

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

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

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

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

SEPT. 23-24. National Conference of the American Dental Assn. in Chicago; $55. American Dental Assn., 211 E. Chicago Ave., Chicago, Ill. 60611; 312-440-2746.

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

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

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

SEPT. 26-27. Workers Compensation Law yers Assn. Medical Seminar in Itasca, Ill.; $30 for arbitrators, commissioners, judges, professors, new bar admittees, law students; $50 for all others. Kenneth Gurber, WCLA, 2 N. LaSalle St., Suite 1600, Chicago, Ill. 60602.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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HMO acquisition

Continued from page 3

Humana reported 1985 revenues of $2.9 billion on all of its operations.

IMC, which serves about 135,000 Medicare recipients, includes a network of about 2,000 physicians and 180 offices and hospitals in south Florida.

The company reported gross revenues of $368.5 million in 1985, with a net income of $4.2 million, according to a company spokeswoman.

The federally qualified HMO was founded in 1972 and acquired in 1977 by Mr. Recarey, who was then a member of the board of directors of a Miami hospital and is now president of IMC, said IMC's spokeswoman.

The hospital is now a subsidiary of IMC and also will be acquired by Humana.

IMC entered into a contract with HCFA in 1982 to provide medical treatment to recipients of Medicare.

Normally, federally qualified Medicare HMOs must have an equal ratio of Medicare enrollees to "commercial" enrollees, what is known as the "50-50" requirement, according to Mr. Moley.

However, "because of the large Medicare population we would be serving in south Florida, the 50-50 rule was waived in our contract," explained the spokeswoman for IMC.

"As a demonstration project, IMC, in good faith, had enrolled more than 50% Medicare recipients.

"But, in hindsight, it was a mistake," Mr. Moley said.

"We've always believed that having 50% commercial enrollment is a very good indicator of your standing in the marketplace," he added.

Mr. Moley explained that "commercial enrollees—employers—have a position for leverage if their employees are not getting quality care from the HMO. But, Medicare patients do not."

Therefore, in an HMO with predominantly Medicare enrollees, it may be difficult to assess and obtain quality care, according to Mr. Moley.

HCFA is also concerned that IMC "didn't have an appropriate management system for their network of delivery systems," Mr. Moley said.

"IMC is a network-model HMO and they weren't managing the network from a central location," Mr. Moley explained.

A network-model health maintenance organization is one that provides care through arrangements with outside facilities.

"Also, another requirement for qualification of a Medicare HMO is that you have to have an internal quality assurance program. IMC's wasn't acceptable to HCFA," Mr. Moley added.

HCFA wrote to IMC earlier this year "informing them that they had to come up with a plan of action to improve some of the problems they were having in complying with the requirements of being a federally qualified Medicare HMO," Mr. Moley said.

If the HMO did not take some action, it would be forced to disenroll its Medicare beneficiaries, he added.

IMC did submit a plan to correct these problems, and HCFA will continue to monitor the HMO "whether Humana or IMC is running the centers," according to Mr. Moley.

Meanwhile, in April, the Florida Insurance Department conducted an audit of IMC's financial statements and "found IMC was very close to insolvency," a department spokeswoman said.

"There were loans the company had made that weren't being repaid and that were listed as assets in their statements," she added.

'It would be to IMC's advantage to have another name—particularly one as reputable as Humana. But, that is not to say IMC could not lift the cloud themselves,' says Kevin Moley of the federal Health Care Financing Administration.

The department found that some of the loans were made to subsidiary companies and family members and friends of Mr. Recarey who are on the HMO's payroll, according to the spokeswoman.

The Insurance Department ordered the HMO to add an additional $9.135 million in capital after the audit, she said.

IMC satisfied this requirement in July and the company's net worth is now more than $25 million, IMC's spokeswoman said.

In addition to these actions, the joint investigation by the FBI and the Department of Health and Human Services "is looking into allegations by Rep. (Dan) Mica's staff concerning questionable practices," said Paul Miller, a special agent and spokesman for the FBI's Miami office.

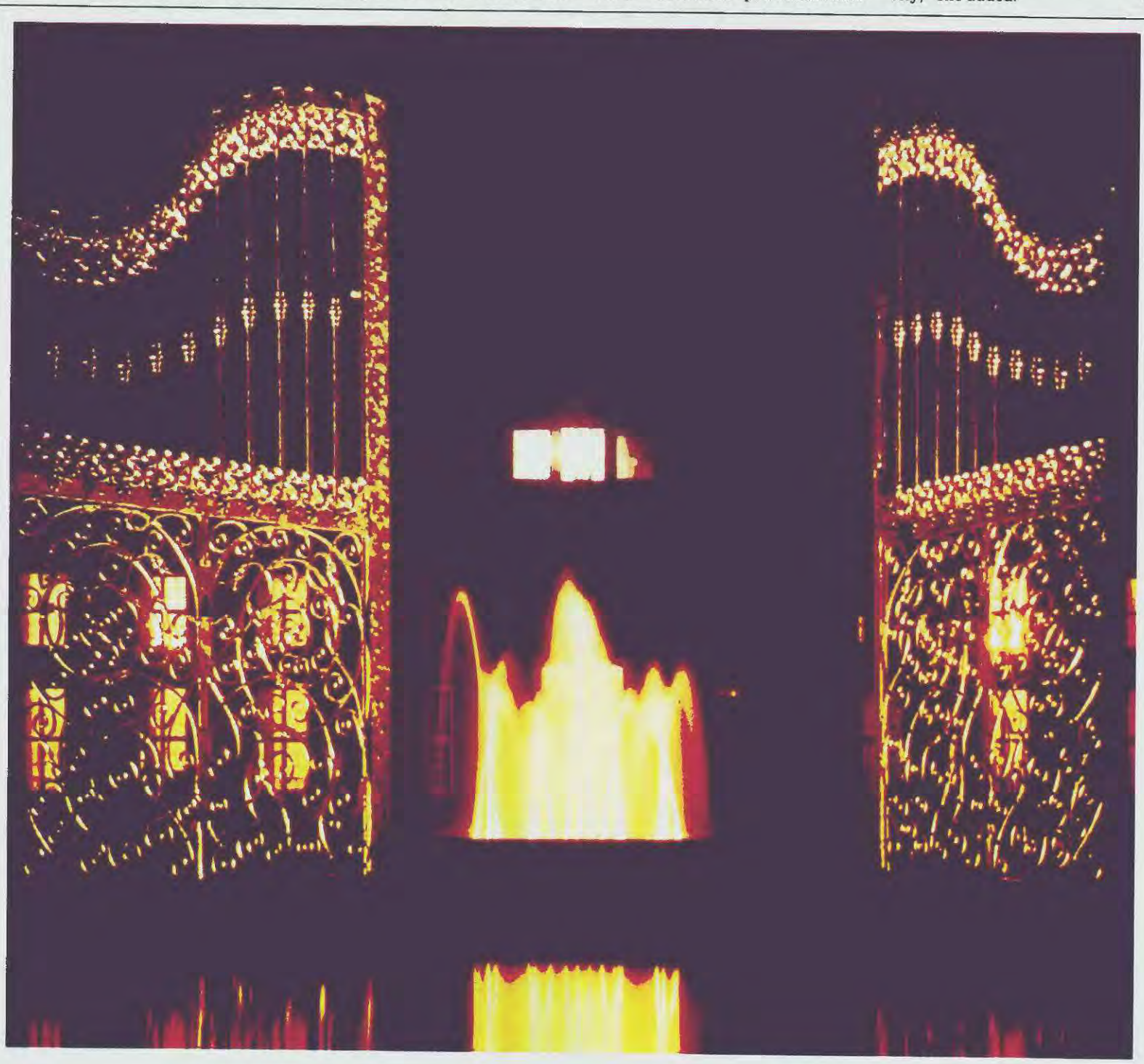
Rep. Mica, D-Fla., and his staff believe some doctors' offices or clinics that have contracted with IMC may have committed Medicare fraud by "disenrolling people when they needed surgery and prescreening potential enrollees," to eliminate those who may have illnesses that are expensive to treat, said an aide to the congressman.

The FBI is investigating these allegations as well as the possibility that some of the clinics may have "conducted pre-enrollment physicals and charged them to Medicare," Mr. Miller said.

IMC has terminated its contracts with the suspect facilities, IMC's spokeswoman said.

"IMC was not a target of that investigation. There were two clinics in Fort Lauderdale that were owned by the same management. After we found out about the investigation, IMC conducted its own internal review and terminated its contracts in April," she explained.

"We have been very clear on our position that if we find that there is any affiliated provider violating their contract at any time, we will terminate the contract immediately," she added. ■



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Health care pools

Continued from page 1

The legislation intends for the pools, which would have to be established by 1988, to be self-supporting through premium payments by participants. Pools would be allowed to charge a premium up to 150% of the premium charged by commercial insurers for a standard individual policy.

The maximum annual deductible could not exceed $1,000 and the maximum out-of-pocket expense per individual could not be more than $1,500. The pools would have to offer a minimum lifetime maximum benefit of $500,000.

Pre-existing conditions would have to be covered within six months after an individual joined the pool.

But experts say the experience of the pools would be horrendous because the only people who would opt for the costly coverage would be the worst risks with the most serious health care problems.

As a result, it is almost certain, experts say, that claims costs would far exceed the pools' premium income.

"The pools are likely to take a real beating. . .I don't see how 150% could be adequate to cover costs," says Elliot Segal, a principal in the Washington office of consultant William M. Mercer-Meidinger Inc.

If that happens, the legislation requires the pools to slap employers with more than 20 employees the do business in the state with special assessments to pay for the losses, which could be huge.

If a company went out of business and couldn't pay its special assessment, other employers would have to make up the difference.

Employers that refuse to pay the assessments would be liable for an excise tax equal to 5% of gross wages paid by the employer.

Experts warn that if the legislation passes, employers might be forced to cut back on the health care coverage they provide to their workers because of the cost they would face in financing the pools.

"Some employers, faced with additional state-mandated indemnification costs of financing an insurance risk pool, would be forced to cease or limit coverage for their own employees, whose only recourse would be far more expensive state-run pools," according to the ERISA Industry Committee, also known as ERIC.

Establishment of the pools also would be maddening to benefit managers, who have devoted huge resources to reduce spiraling health care costs at their companies and now would be powerless to control the costs of the pools.

"Employers would find that other people's behavior—over which they have no control—would adversely affect their own costs," said Mercer-Meidinger's Mr. Segal.

And experts also say that since employers would be required to bail out the pools, a state wouldn't face pressure to keep pool costs under control.

In fact, ERIC, the Washington-based benefits lobbying organization, notes that the pools would be pressured by special interest groups to add benefits.

Aside from objecting to the employer bailout of the pools, benefit lobbyists are enraged at the way legislators are considering the legislation.

They say that, despite its impact, the proposal only has received cursory hearings.

And instead of being considered on its own merits, the pool proposal has been attached to an unrelated piece of legislation, known as the budget reconciliation bill. A budget reconciliation bill implements general budget resolutions set by Congress each fiscal year through specific provisions.

Because legislators are more likely to look only at budget reconciliation items that directly affect federal spending and the budget deficit, it is difficult to get legislators to focus on other items in the measure, experts say. That means that non-budget items, like the health care pool provision, are often poorly drafted and considered hastily.

Observers point to benefit provisions in a budget reconciliation bill—known as the Consolidated Omnibus Budget Reconciliation Act or COBRA—approved by Congress this year that require employers to extend group health insurance programs to former employees and employees' divorced and widowed spouses. They say the measure was so sloppily drafted that employers now are having administrative nightmares trying to comply (*BI*, July 7).

The latest budget bill, which some are calling "Son of COBRA," shares its predecessor's drafting defects, some observers say.

For example, the measure says a pool can charge a participant a premium equal to 150% of "average premium rates for individual standard risks in the state for comparable coverage."

But the legislation never defines what is an individual standard risk, notes J&H's Mr. Davey.

In addition, the measure says if pool losses exceed revenues, losses would be made up by equitable assessments, which are not defined, by employers in the state.

With no guidance on how assessments would be made, experts fear that each state would devise its own method for calculating assessments.

"You could have 50 different assessment formulas," says Mark Ugoretz, ERIC's executive director. If that occurred, multistate employers would face serious administrative difficulties in trying to comply with varying state statutes.

The measure also doesn't make clear what would happen if a state failed to heed the federal mandate and set up a pool for the uninsured.

Indeed, questions have been raised whether Congress has the authority to require states to establish pools.

"This would be the first time that Congress ordered states to create a program as if the state were an agency of the federal government or otherwise under its control," Mr. Ugoretz wrote in a letter delivered last month to federal legislators.

Observers say it is unlikely that the pool provision would be stripped from the budget reconciliation bill on the House floor.

"A reconciliation bill is like a fast-moving train. . .making it difficult to uncouple a component," said Mr. Segal.

However, the Senate budget reconciliation bill, S. 2706, approved by the Senate Finance Committee, does not contain a pool provision.

Since the Senate budget reconciliation bill so far lacks a pool provision, the issue would have to be resolved by a conference committee that would meet after the House and Senate pass their respective budget bills.

It also is possible that legislators might tack on the pool provision to other legislation if there is a stalemate on the budget measures.

"There are other available legislative vehicles," Mr. Ugoretz noted.

In an election year where legislators want to demonstrate how they favor increasing health care coverage, the pool legislation stands a good chance of passage, said Mr. Brahs.

If it does not pass this year, "the issue is going to keep coming back. Those who favor the concept won't give up," added Larry Lenahan, a consultant with Buck Consultants Inc. in New York. ■



Cleanup coverage denied

Continued from page 3
was the interpretation of various manuscript liability policies that were issued by Maryland Casualty to Armco from 1966 to 1983.

The policies, which used language similar to comprehensive general liability policies, limited Maryland Casualty's duty to defend to "suits against the insured seeking damages."

The policies also limited the duty to indemnify to "sums which the insured should be legally obligated to pay as damages."

Maryland Casualty argued that it was not obligated to defend Armco because the EPA complaint, although asserting claims for injunctive relief and cleanup costs, did not assert claims for legal "damages" within the meaning of the Maryland Casualty policies.

In his decision, Judge Young agreed with a special master in the CCC hazardous-waste litigation that the EPA suit alleged "property damage."

But, Judge Young disagreed with the special master's recommendation, which was subsequently adopted by the court trying the EPA suit, that "damages" included cleanup costs and injunctive relief.

He said the special master's recommendations are not binding against Maryland Casualty.

"This court agrees with the special master's common sense conclusion that toxic-waste dumps that contaminate the environment cause 'property damage,'" the court said. "'The property damage' issue is distinct from the 'damages' issue, however."

"In the unambiguous wording of the policy, even if a lawsuit against the insured alleges 'property damage,' it must also make claims for 'damages' before the insurer becomes obligated to defend or indemnify," the court said.

The court also rejected the decision handed down by a Michigan appellate court in *United States Aviex Co. vs. Travelers Insurance Co.*, which said that a requirement that Aviex clean up a waste site represented "damages" that should be covered by an insurer.

In that case, the appeals court noted that if the state had sued to recover its own costs in cleaning up the contamination, then the insurer would have had to pay defense costs and indemnify its policyholder.

The Michigan appellate court said it was "merely fortuitous" that the state chose to have the policyholder remedy the contamination problem rather than incurring the cleanup costs itself and subsequently suing the plaintiff to recover those costs.

"It was no coincidence that the Aviex court did not cite a single authority in support of its 'mere fortuity' argument, because that argument violates one of the major tenets of black-letter insurance law," Judge Young said in the Armco case.

"An insurer has an obligation to assess its duty to defend and indemnify against the allegations in the complaint alone," he ruled.

"Traditionally, courts have found no insurance coverage for the costs of complying with an injunction even in cases where the suits could have been brought for damages," the court added.

Judge Young noted that the EPA also could have brought its suit under the Superfund Act "for damages for injury to, destruction of or loss of natural resources," and that this would have alleged claims for damages that would be covered under the insurance policies.

"But the government chose not to bring suit under the 'damages' provisions of CERCLA, apparently preferring the equitable remedy of restitution. Maryland Casualty is obligated to defend or indemnify real lawsuits, not hypothetical ones.

"Every court that has considered the question has held that CERCLA response cost suits fall on the equity side of the line," the court concluded.

"Arbitrary as it may appear, Maryland Casualty is entitled to the benefit of its bargain," the court ruled.

Armco attorney Benjamin Rosenbers, with the Baltimore firm of Venable, Baetjer & Howard, said last week, "I hope and believe our position will be upheld on appeal."

"Maryland was pleased the court gave this important issue an impartial, thorough review," said the insurer's outside counsel, Thomas Brunner, with the Washington firm of Piper & Marbury. ■

Claims deadline set in UNR case

CHICAGO—Persons alleging bodily injury or property damage caused by products made by asbestos producer UNR Industries Inc. have until Dec. 1 to file claims with the U.S. Bankruptcy Court in Chicago.

U.S. Bankruptcy Court Judge Edward B. Toles issued the order as part of UNR's reorganization proceedings. Representatives of current and future asbestos claimants are seeking to appeal the order.

UNR filed for reorganization under Chapter 11 of the Federal Bankruptcy Act in August 1982 because of overwhelming asbestos claims (*BI*, Aug. 9, 1982).

An attorney for the company said the order instituting the Dec. 1 date facilitates UNR's eventual reorganization and emergence from bankruptcy proceedings.

The company recently filed a reorganization plan with the bankruptcy court, but UNR still must negotiate terms with creditor groups.

UNR will launch a court-ordered advertising, public relations and public service announcement campaign to inform potential claimants of the claims deadline and a simplified claims filing method. ■

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Insurers stop writing

Continued from page 2

about $15 million in gross premiums on an annualized basis, while Fremont Re is expected to report about $95 million in 1986 gross premiums, estimates David L. McIntyre, president and chief executive officer of Fremont Insurance Group.

"There's absolutely no financial problem whatsoever," Mr. McIntyre maintained. "It's strictly a business decision to discontinue two lines of business that haven't been profitable."

Fremont Re's loss ratios have been "reduced substantially" in both 1985 and 1986, Mr. McIntyre noted. "But we didn't feel we could continue even at the improved level."

Fremont Indemnity continues to write medical malpractice insurance and facultative casualty reinsurance, Mr. McIntyre said. It also will continue to write workers compensation insurance until mid-October or November, when Fremont Compensation will begin writing that business, he said.

Facultative casualty business has been written for Fremont Indemnity since 1978 by Facultative Managers Corp., an affiliated MGA in Norwalk, Conn. Facultative Managers expects to write gross premiums of $22 million for Fremont Indemnity by year-end, estimates Jerry King, executive vp of the MGA. Of that amount, about $7 million will be written for Fremont Syndicate Inc. on the NYIE, he said.

Both the existing Fremont General insurance companies and those whose business is being discontinued have a statutory surplus of about $150 million, Mr. McIntyre said. The parent has given its companies, which have a B rating from A.M. Best Co., more than $200 million in cash contributions to surplus over the past three years, he noted.

Integrity reduced its writings because of a continuing decline in its policyholder surplus, according to Eugene M. McGee Jr., senior vp.

"It was a plan that we began to implement very early this year as soon as we realized our surplus position would be down from the prior year," he explained.

The company write commercial general liability, excess and umbrella liability, automobile and property coverages.

Mr. McGee also noted that the insurer will continue throughout the year to limit its new and renewal business to "bring it in line with our current surplus."

Integrity's policyholder surplus was $20 million at year-end 1985, down from $40 million in 1984, Mr. McGee said. He predicted that Integrity's 1986 direct written premium will be about 40% of its 1985 direct premium of $220 million, or about $88 million.

However, the insurer has no plans to cancel any business en masse, Mr. McGee pointed out. In fact, Integrity is working on a plan to raise additional capital so it can begin underwriting again by the end of the year, he said.

Most of Integrity's business is written by managing general agencies. Mr. McGee noted that some of those agreements either have been terminated or suspended because of the insurer's decision to reduce its new and renewal business.

Part of Integrity's difficulties are related to its reinsurance arrangements. Integrity has a substantial amount of reinsurance with Mission Insurance Co., which is not paying reinsurance claims pending its reorganization. ■

Bermuda's Malvern halts underwriting

HAMILTON, Bermuda—Bermuda-based captive insurer Malvern Insurance, which is owned by energy exploration group Sonat Inc. of Birmingham, Ala., has stopped underwriting and is running off its portfolio of non-related business.

The company closed its 27-year-old Bermuda office Aug. 29, citing lower earnings from Sonat's oil and gas exploration activities and the company's subsequent decision to avoid the island's high operating costs, said David Nicholls, Malvern's managing director.

Related business generated gross premiums of about $20 million for Malvern and included coverage written for Sonat's pipelines, oil rigs and other drilling risks, Mr. Nicholls said.

Non-related business was mostly marine insurance and generated about $1 million a year in gross premiums, he added.

Mr. Nicholls said the runoff will be handled by Bermuda-based Finance & Risk Services under a contract that began Sept. 1. Sonat will now buy coverage for its own risks from commercial property/casualty insurers, he said. ■

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Chief Financial Officers and Vice-presidents of Finance 1,890
Secretaries, Treasurers, controllers and other Financial Personnel .. 6,127

Risk/Employee Benefits:

Vice-presidents, directors, managers, and other related department personnel of: insurance, risk, employee benefits, personnel, compensation, pension, safety, security, industrial relations, human resources and employee/labor relations.... 7,471

Sub-total 20,892

Associations 477
Government, Unions and Educational Institutions 1,357

Commercial Consumers

Sub-total 22,726

Insurance Agents and Brokers 10,795
Insurance Companies 7,168
Financial Institutions 897
Actuaries, Attorneys, Adjusters, Appraisers and Consultants 4,536
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TOTAL 47,627

* Source Business/Occupational breakdown of qualified circulation, May 26, 1986 issue, as submitted to BPA for June 1986 BPA Publisher's Statement.

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Lloyd's results

Continued from page 3

a sharply increased rating structure, but also in the increasingly widespread acceptance of the claims-made form and the need for a measure of tort law reform."

On the plus side, Lloyd's 1983 results were helped by substantial profits in ships damage and liability coverage, where profits increased 14% to 217.2 million pounds ($315.7 million) from 189.9 million pounds ($220.3 million) in 1982. Results were stable in every other market category.

"While 1983 is still within the trough of poor results to which I referred last year, it is nevertheless pleasing to be able to report at least an overall profit of 36 million pounds—or 179 million pounds excluding the PCW syndicates," Mr. Miller said.

Specifically, Lloyd's 1983 global results show:

- Total income decreased 6%, to 6.2 billion pounds ($9 billion) from 6.6 billion pounds ($7.7 billion) in 1982. This was primarily because premium volume fell 10% to 2.6 billion pounds ($3.8 billion) from 2.9 billion pounds ($3.4 billion).

Total income, which corresponds to gross revenues in the United States, included an 8% drop in investment income to 117.6 million pounds ($170.5 million) from 128.5 million pounds ($149 million) in 1982; a 5% drop in appreciation of investments, to 299.3 million pounds ($434 million) from 313.5 million pounds ($363.7 million) in 1982; and a slight drop in reinsurance premiums received from the previous account to just less than 3.2 billion pounds ($4.6 billion) from just more than 3.2 billion pounds ($3.7 billion).

- Total expenditures, including syndicate expenses, dropped 6% to 6.1 billion pounds ($8.8 billion) from 6.5 billion pounds ($7.5 billion) in 1982.

This includes claims, which dropped 12% to 2.2 billion pounds ($3.2 billion) from 2.5 billion pounds ($2.9 billion) in 1982, and a 3% decrease in reinsurance premiums paid to close the account, to 3.7 billion pounds ($5.4 billion) from 3.8 billion pounds ($4.4 billion) in 1982.

But, the size of the PCW losses overshadowed the underlying results. For the first time, Lloyd's broke out the results of one group of syndicates to show its results not including those syndicates.

For example, according to Lloyd's, PCW syndicates accounted for 113.3 million pounds ($164.3 million) of the total losses for the general liability accounts; without PCW, the accounts would have lost only 172.2 million pounds ($249.7 million) rather than 285.5 million pounds ($414 million).

Lloyd's also included a lengthy explanation concerning recent PCW syndicate developments.

Lloyd's says that Additional Underwriting Agencies (No. 3) Ltd., established last year by Lloyd's to assume the responsibility for managing PCW and related syndicates, advised that "grounds exist for legal proceedings against a number of parties," based on its investigation of the syndicates' former management.

Lloyd's also says that because discounting techniques were used to tally PCW losses in 1982, members were told last year that 1982 losses totaled 62 million pounds. However, the syndicates' current management and Lloyd's believe discounting is not appropriate and the 1982 PCW losses have been restated at 73.2 million pounds.

PCW syndicate members have refused to pay the 1982 and 1983 losses and have drafted—but not yet filed—a lawsuit charging negligence and fraud against 37 parties, including Lloyd's.

Lloyd's currently is working with the other defendants and the members to negotiate a settlement of the lawsuit. And, in the meantime, Lloyd's has earmarked 92% of its Central Fund—235 million pounds ($352.5 million at current exchange rates)—to allow PCW members to meet Lloyd's solvency test until a settlement can be made to pay the syndicate losses.

This earmarking will continue until the PCW affair is settled or until June 30, 1987, "whichever is the earlier," Lloyd's said.

But, despite the PCW problems, Mr. Miller emphasizes that Lloyd's security is not diminished.

The Lloyd's gross premium-to-surplus ratio is 1.2-to-1, while its net premium-to-surplus ratio is 0.9-to-1. The ratio of technical reserves to gross premiums is 1.3-to-1, while the technical reserve-to-net premium ratio is 1.6-to-1.

"Lloyd's security ratios demonstrate that the Lloyd's policy remains as strong as ever and one of the most secure in the world," Mr. Miller said.

He also noted last week that Lloyd's capacity has now grown to 8.5 billion pounds ($12.75 billion) from 4.2 billion pounds ($6.1 billion) in 1983, partly because of a growth in Lloyd's membership to 28,944 in 1986 from 21,601 in 1983. He also attributed the increased capacity to the willingness of existing members to write more premium volume.

In 1987, Lloyd's capacity will grow by as much as 1.5 billion pounds, Mr. Miller believes. ■

Lloyd's non-marine results not yet up to par: Jackson

LONDON—Lloyd's of London non-marine underwriters are disappointed with 1983 non-marine results despite a reduction in general liability losses, says Robin Jackson, chairman of Lloyd's Non-Marine Underwriters' Assn.

Lloyd's last week reported that general liability losses, including those produced by syndicates managed by PCW Underwriting Agencies Ltd., totaled 285.5 million pounds in 1983 ($414 million at applicable exchange rates), down from 314.4 million pounds ($364.7 million) in 1982.

The Asbestos Claims Facility now operating in the United States, "is making significant savings in the legal costs involved," Mr. Jackson said.

But, he said Hurricane Alicia "may ultimately turn out to be the largest loss yet suffered by the market from one storm." Winter weather losses also played havoc with property insurance profits, said Mr. Jackson.

Profits from property damage accounts fell drastically to 40.5 million pounds ($58.7 million) from 95.5 million pounds ($110.8 million) in 1982.

Mr. Jackson says the outlook for 1984 is brighter because "very badly needed premium rate increases" began to take effect by mid-1984.

He added that although the 1985 results will be hurt by two major U.S. hurricanes and the earthquake in Mexico City, he is "cautiously optimistic" that rate increases will yield even better results in 1985. And, 1986 may be "the best year for many years for the non-marine market."

"Changes in both premiums and conditions have been most dramatic in those classes of business which have caused most of the problems of the last decade, namely the insurance and reinsurance of North American liabilities," he said. "Many underwriters have come to the conclusion that they can no longer write American liability business unless there are changes in the United States civil justice system. Those Lloyd's underwriters who are willing to write U.S. liability business are now only doing so with changes in policy wordings where the date of loss can be more defined."

Lloyd's Underwriters' Assn. Chairman Richard Outhwaite said he "applauds" the Lloyd's marine market's 1983 results, "particularly as this was during a period of considerable competition and depressed rates."

The only area of marine business that showed poor results was cargo coverage, known as goods in transit. Cargo profits fell to 18.8 million pounds ($27.3 million) from 38.4 million pounds ($44.5 million) in 1982.

However, the ships damage and liability account showed a 217.2 million pound ($314.9 million) profit, up 14.4% from 189.9 million pounds ($220.2 million) in 1982.

"The modestly improving trend of the total account is maintaining its momentum," Mr. Outhwaite said.

Profits for Lloyd's aviation market fell 8% in 1983 to 23.7 million pounds ($34.4 million) from 25.9 million pounds ($30 million) in 1982, including an underwriting profit of 12 million pounds ($17.4 million), said David Peachey, chairman of Lloyd's Aviation Underwriters Assn.

"We are now able to see that 1983 was a watershed for the aviation market," he said, explaining that it marked the end of surplus underwriting capacity and the beginning of a sequence of losses of "an unprecedented nature." ■

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~~Jul 14~~	~~Jul 1~~
~~Jul 21~~	~~Jul 8~~
~~Jul 28~~	~~Jul 16~~
~~Aug 4~~	~~Jul 23~~
~~Aug 11~~	~~Jul 29~~
~~Aug 18~~	~~Aug 6~~
~~Aug 25~~	~~Aug 13~~
~~Sep 1~~	~~Aug 19~~
~~Sep 8~~	~~Aug 26~~
Sep 15	~~Sep 3~~
Sep 22	Sep 9
Sep 29	Sep 16
Oct 6	Sep 24
Oct 13	Oct 1
Oct 20	Oct 7
Oct 27	Oct 15
Nov 3	Oct 22
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Aeromexico crash

Continued from page 1

were killed. They're still sifting through the ashes to determine what people were or were not at home" at the time of the crash, he noted.

However, one London aviation underwriter calculated that the reserve would be about $67 million, based on a settlement of between $500,000 and $1 million for each victim. Another London underwriter said that London sources are calculating the liability reserve at between $40 million and $70 million.

Mr. Wilcox pointed out, though, that the Warsaw Agreement and the Montreal Protocols, international aviation treaties that limit damage awards stemming from international flights to $75,000 per person, could apply in this case.

But George N. Tompkins, a partner with the New York law firm of Condon & Forsyth, which represents aviation reinsurers, says there is no limitation of liability for those killed or injured on the ground.

Reinsurers have asked Condon & Forsyth for an estimate of the potential liability associated with the crash, Mr. Tompkins added, but the law firm last week had not calculated such an estimate.

Aeromexico has up to $500 million in liability insurance and sufficient hull insurance to cover the $9.5 million value of the DC-9, according to U.S. and London sources.

The airline's hull and liability coverage is written by Aseguradora Mexicana in Mexico City, but nearly all of this coverage is reinsured in the British, French and U.S. markets through Hall and Hall affiliate Leslie & Godwin Aviation Ltd. in London, said Mr. Wilcox.

Mr. Wilcox declined to identify the reinsurers, though he noted "a controlling factor in the reinsurance would be the London market. However, the actual spread of risk is throughout the world."

Mr. Wilcox also said that no single U.S. reinsurer had a percentage of the risk that "would be a controlling factor."

According to London sources, about 62% of the reinsurance is placed in London, led by The British Aviation Insurance Co. Ltd. The lead underwriter at Lloyd's is the Ariel syndicate, sources say.

BAIC refused to comment. Eddie Simms, underwriter for the Ariel syndicate, was unavailable for comment.

Roughly 15% of Aeromexico's reinsurance is placed in France, with about 10% alone placed with La Reunion Aerienne in Paris, according to sources in Europe.

Hall's Mr. Wilcox noted that the Aeromexico coverage is written in terms of U.S. dollars, so continuing devaluation of Mexico's currency will not affect the airline's limits.

Aeromexico has up to $500 million in liability insurance and sufficient hull insurance to cover the $9.5 million value of the DC-9, according to sources.

"Not in Mexico, but I've seen it in other places, what might have started out as $200 million winds up at a $100 million. So most international airlines are insuring in our currency," he said.

Within hours of the crash, Hall sent several aviation insurance experts to Los Angeles and to Aeromexico's headquarters in Mexico City to assist the airline in evaluating its coverage and providing loss information to the underwriters, Mr. Wilcox said.

"The U.S. broker, as far as we're concerned, works with the underwriters and the airline to be sure that everybody understands what the situation is, what the coverage is and to be sure that the adjusters and lawyers appointed by underwriters have all of the information in order to set the wheels in motion for the payment of the hull claim and to set up the payment of liability claims as may be required," he said.

Sources in London and the United States say that Mr. Kramer, the owner and pilot of the Piper, has an aviation liability policy with a $1 million combined single limit written by United States Aircraft Insurance Group.

USAIG officials would not comment.

John Stokdyk, corporate director of insurance for Lear Siegler Inc., parent of Piper Aircraft Corp., says the company does not believe the aircraft itself caused or contributed to the Aeromexico accident.

Mr. Stokdyk said Piper does have "adequate" aviation products liability insurance, with a self-insured retention, but he would not disclose the limits of that coverage or the size of the retention.

Underwriters noted last week that it was not yet clear who would be held liable for the deaths, injuries and property damage caused by the disaster.

If it is determined that air traffic controllers could have prevented the accident, the U.S. government may be asked to contribute to loss payments, aviation underwriters say, noting that such contribution is not without precedent.

Last year, the federal government agreed to pay more than $27 million to help settle liability claims stemming from the July 1982 crash of a Pan American World Airways jet near New Orleans that killed 154 people (*BI*, Sept. 2, 1985; July 19, 1982).

Underwriters also say the federal government has offered to pay a small portion of the claims from last year's crash of a Delta Air Lines Lockheed L-1011 jetliner in Dallas, which killed 131 people and injured 31 others, underwriters say (*BI*, Aug. 12, 1985). However, underwriters say they and the government are still discussing the government's contribution.

The Aeromexico crash comes at a time when aviation underwriters are still trying to recover from record losses.

Stewart Wrightson's Mr. Palmer-Brown noted that underwriters have paid out more in airline accident losses than they have have collected in premium in three of the last four years.

In 1982, total worldwide aviation claims totaled $590 million, while premiums totaled $430 million, he said. In 1983, total claims rose to $620 million while total premiums amounted to $500 million. And in 1984, claims plummetted to $290 million while premiums increased to $640 million, he noted.

But that improvement was wiped out last year with the record $1.1 billion in total claims and only $850 million in premiums.

This year, he said, underwriters have collected about $1.2 billion in premiums and only faced about $100 million in claims before the Aeromexico loss.

But those losses have caused many aviation underwriters to take a "cavalier attitude" toward negotiating airlines' insurance programs, Mr. Palmer-Brown said. As a result, there is a "poor relationship" between underwriters and airline risk managers, he said.

Referring to the arbitrary terrorist surcharges imposed by aviation underwriters on airlines in May, "there is absolutely no doubt in my mind that the market and their clients are as far away from each other in sympathy and understanding as they have ever been and they are not looking likely to get any closer."

In May, world aviation insurers announced that major U.S. and British commercial airlines would immediately be forced to pay a surcharge of five cents per 1,000 revenue passenger miles for liability war risk insurance. Other world airlines were forced to pay a surcharge of four cents per 1,000 revenue passenger miles.

The surcharge was initiated following a May 3 bomb explosion aboard an Air Lanka Ltd. jet in Columbo, Sri Lanka, that killed 16 people (*BI*, June 23). ■

Mississippi freezes rates

Continued from page 3

"The panel will report back to the commission at the end of the year and, depending on the findings," the moratorium will be lifted or extended.

The Insurance Commission, an independent state agency, formed the task force on the recommendation of Insurance Commissioner George Dale at the same time it issued the rate-hike moratorium.

But, the non-insurance backgrounds of the task force members lead one of the state's largest commercial insurance buyers to question the underlying purpose of the group.

"My first reaction to the fact that non-insurance professionals were chosen to study the insurance problem leads me to believe it must be politically motivated," said Tim Sterling, risk manager at Mississippi Chemical Corp. in Yazoo City.

Mr. Sterling pointed out that Commissioner Dale has little power in matters such as determining rate regulations and forms that are approved in the state.

That responsibility falls on the insurance commission, of which Mr. Dale is not a full member.

Mr. Sterling speculated that the commissioner recommended the study to send a message to consumers that he is concerned about high prices rather than to bring about sweeping changes.

"Politically, I think it's an excellent move," said Mr. Sterling, who also doubts that the moratorium on rate increases will help the state's insurance buyers.

The moratorium "is not going to help my company one iota," he said.

"I don't believe it's going to make any difference. I think insurers have enough flexibility in terms of deviations already filed to arrive at prices that are equitable," Mr. Sterling added.

In addition, "all our programs were renewed on July 1," before the moratorium was declared, Mr. Sterling pointed out.

He said the chemical fertilizer manufacturer experienced "some increases" when its property/casualty coverages were renewed in July, but bigger headaches resulted from the lack of availability of coverage for sudden and accidental pollution risks.

An official with one of the three largest insurers in the state agreed the moratorium will solve few problems for insurance buyers.

"The moratorium will solve nothing," asserted Bill Allison, branch manager of United States Fidelity & Guaranty Co.'s office in Jackson, Miss.

Mr. Allison noted that the insurance crisis is a two-pronged problem involving availability as well as affordability of coverage. The moratorium may temporarily ease the affordability problem but could make the availability problem worse if insurers refuse to offer coverage, he pointed out.

"You can't freeze the underlying causes of the crisis," such as size and frequency of claims, Mr. Allison said.

Meanwhile, the moratorium has not caused insurers in the state to restrict their writings, unlike when Florida enacted legislation this summer that attempts to roll back rates to 1984 levels, Mr. Gibson noted. At least one dozen insurers in Florida announced they would not write new or renewal business in the state because of the law (*BI*, June 16; July 7).

"What we've done is not nearly what Florida did," Mr. Gibson added.

"I haven't heard of any insurers responding that they will be cutting back or withdrawing from the state on the basis of the moratorium," observed Charles Klinck, president of Jackson-based broker Robinson & Julienne, Bailey & Co., which places large accounts for buyers in Mississippi.

However, he added, if the evaluation of the companies "doesn't move in a favorable way, some of them may reconsider."

According to A.M. Best Co., State Farm Group wrote $144.3 million in premiums in Mississippi in 1985, more than any other insurer. State Farm held 14.4% of the market share in the state.

United States Fidelity & Guaranty Co. held 14% of the market share and Southern Farm Bureau Casualty Insurance Co. wrote 8.4% of all the premiums in Mississippi in 1985, according to Best's figures. ■

insurance services guide

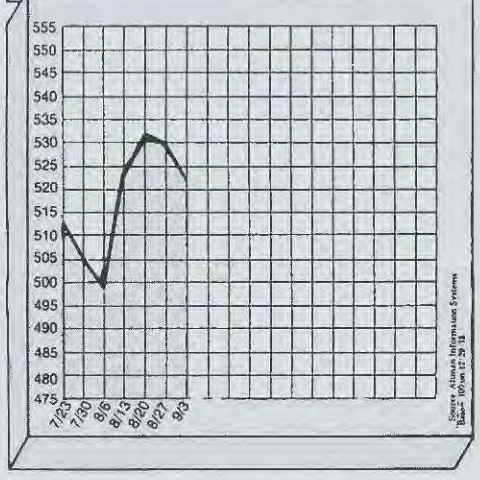
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BI Insurance Index



The *Business Insurance* index of insurance industry stocks continued to decline last week, falling to 523.2 points on Sept. 3, a drop of 6.4 points from 529.6 points on Aug. 27. The last advance was recorded on Aug. 20, when the index closed at 531.6 points. A total of 37 stocks posted losses while 16 advanced and eight remained unchanged for the trading period. Stocks that posted the biggest losses were: Frank B. Hall & Co. Inc., down 10.3%; Aneco Reinsurance Ltd., down 8.7%; The Home Group Inc., down 7.7%; CNA Financial Corp., down 5.5%; and Corroon & Black Corp., down 5.2%. Stocks reporting the largest gains were: Tokio Marine & Fire Insurance Ltd., up 7.0%; American Indemnity Financial Corp., up 4.2%; Alexander & Alexander Services Inc., up 3.8%; Farmers Group Inc., up 3.2%; and Nobel Insurance Ltd., up 3.1%. Stocks included in the *Business Insurance* index declined an average of 1.2% during the most recent trading period, while the New York Stock Exchange composite dropped 1.1%, the Standard & Poor's 500 index fell 1.3% and the Dow Jones 30 Industrials average declined 1.2%.

British Issues

Sept. 2 Companies	Price pence	P/E	Div. pence	Yield %	1 Week High-Low pence pence
Comml Union	304	23.4	18.3	6.0	304-301
Genl Accident	878	15.4	37.7	4.3	878-848
Gdn Royal Exch	879	16.9	46.5	5.3	880-854
Royal	853	12.0	42.2	5.0	855-842
Sun Alliance	727	24.2	28.2	3.9	727-705
Brokers					
CE Heath	485	8.6	38.0	7.8	485-479
Hogg Robinson	324	11.2	16.2	5.0	326-322
JH Minet	255	9.8	14.1	5.5	255-251
Sedg Grp	348	14.5	18.3	4.9	348-340
Stew Wrightson	433	13.7	19.0	4.4	433-425
Willis Faber	422	15.9	15.5	3.7	422-409

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

Brokers' results suggest prosperity will continue

By LEONARD M. WILSON

Special to Business Insurance

NOW THAT THE dust has settled on the second-quarter results of the publicly owned insurance brokers, we can make some general as well as specific observations. As we reviewed the quarter's comparisons, it became apparent that several notions we long had entertained about the insurance brokers as a group seemed obsolete.



Mr. Wilson

One idea we espoused was industry homogeneity. The public brokers seemed at one time sufficiently alike in business mix to share fairly equally in the industry's prosperity. This is no longer true.

The gains posted in the second quarter varied considerably. Marsh & McLennan Cos. Inc.'s total revenues rose 40%, while Frank B. Hall & Co. Inc. recorded an 11% advance.

Results in 1986 also have dispelled the belief, at least for now, that international revenues would outstrip domestic revenue growth.

Marsh & McLennan and Alexander & Alexander Services Inc. both have a large base of international business. Marsh & McLennan is heavily oriented toward the wholesale side, and Alexander & Alexander is primarily retail in orientation.

In both instances, domestic revenues surpassed the gain in foreign revenues, excluding a boost from favorable exchange rates.

The comparative performance of the largest broker—Marsh & McLennan—vs. that of the other brokers refuted the thinking that size, per se, might be an impediment to faster growth.

A smaller broker, presumably having a reduced market share and working off a narrower total base of renewals, logically ought to grow faster than the large competitor. Yet in 1986, Marsh & McLennan has surpassed the growth of its rivals rather handily, and in almost all sectors of operation.

The proposed acquisition of The Crump Cos. Inc. by Sedgwick Group P.L.C. disposed of another notion. We had thought that future acquisitions of public brokers might be deferred until 1988, when earnings presumably would be appreciably higher than in 1986. Of course, Crump is, in a sense, a special case because of the availability of a control block of shares that smoothed the path of a potential acquirer.

So much for the general conclusions. As for the specifics, domestic insurance commissions continue to sparkle.

We estimated that the public brokers' year-over-year domestic commissions grew from 25% to 35% in the second quarter. Performance did not slacken materially from the pace of the first quarter for the group. Increases in rates probably contributed 12% to 15% of the advance. Brokerage commissions, though, continue to increase somewhat less than total premium volume.

Reinsurance brokerage domestically benefited from a reluctance on the part of foreign reinsurers to write U.S. liability coverage. Marsh & McLennan, through its reinsurance brokerage subsidiary, Guy Carpenter & Co. Inc., once again recorded a rise in commissions of probably 35% to 40%. Growth in reinsurance brokerage at the ther brokers fell well short of this advance.

Other activities, like employee benefits, did not increase as much as insurance brokerage. The absence of premium rate increases is one factor. Another is a more temperate new-business environment. But for those brokers with a presence in actuarial consulting, the proposed new tax bill could prove to be a bonanza.

New business in domestic property and casualty persists as a potent source of growth. Dollar realizations for new business are, to be sure, inflated by the rise in premium rates, and therefore make the comparisons easier.

But, even with this qualification, it is clear that tight markets are working in favor of the professional broker.

Self-insurance demand can best be gauged, though only approximately, by the growth in fees of Arthur J. Gallagher & Co., a leader in this segment. Gallagher's fees expanded 22% in the second quarter, an impressive gain given the absence of premium rate changes.

International business, by most accounts, reflects firmer prices in most geographical markets. But the price increases have not matched those in the United States. As a consequence, our calculations suggest that the growth abroad in local currencies fell well short of domestic progress, as we indicated earlier.

Expenses, like revenues, are bounding ahead. Notwithstanding the stellar top-line expansion, the shift from the expense austerity of 1984 to today's more freewheeling expense growth is fairly dramatic.

However, costs are not rising at the same pace as revenues and reflect an inherent variable relationship to revenues.

The average increase in expenses for the public brokers in the second quarter amounted to about 20%.

Head count is accelerating, and we perceive a desire to build professional staff more rapidly to handle increased volume, match the competition and anticipate the needs of 1988-1990.

Profitability is very much on the rebound. Profit margins are still a notch below those of the 1970s, but not much. Pretax profit margins should surpass 20% for many of the brokers in 1986. Further profit margin improvement could be attained in 1987 if premium rates are still advancing, even moderately.

Second-quarter performance as a window on the rest of the year indicates that gains in the last half should be strong. The prosperity of insurance brokerage has not run its course.

The rapid growth in this cycle of tight markets has markedly increased the size of the public brokers, whether measured by head count or total dollar value of outstanding shares.

The consequences for the future of the public insurance brokers should be better management, greater profitability and diminished earnings volatility.

Leonard M. Wilson, a principal at L.F. Rothschild, Unterberg, Towbin in New York, specializes in insurance brokerage stocks. He is a member of the New York Society of Security Analysts.

Maxicare Health Plans

Moody's Investors Service Inc. has lowered the ratings on the convertible subordinated debentures of Maxicare Health Plans Inc. to Ba3 from Ba1. Moody's has also assigned a Ba3 rating to Maxicare's proposed senior subordinated notes.

Maxicare has announced that it is acquiring HMO operators HealthAmerica Corp. and HealthCare USA Inc. The acquisitions would make Maxicare the nation's largest HMO operator (*BI*, Aug. 4; July 21).

Moody's said it downgraded Maxicare's debt rating because it believes the protection of the company's debt will decline substantially as a result of the borrowing needed to finance the takeovers, though it added that in the future, cash flow will be used primarily to reduce debt. Moody's also noted the increasing price competition in the HMO industry "as the number of plans offered continues to rise and more aggressive, well-capitalized companies enter the industry."

Southeastern Insurance

Southeastern Insurance Group Inc., formerly known as Southeastern Casualty Indemnity Co., has closed a $30.1 million offering of stock and debenture. The money was raised through a private placement of 134 investment units at $224,000 each.

The private offering was the second made by the company. In August 1983, the company concluded a private placement of stock and debentures that raised about $3 million.

Southeastern Insurance Group, with offices in Plantation, Fla., and West Orange, N.J., is the parent of Southeastern Casualty & Indemnity Co. Inc. of Florida and Southeastern Casualty & Indemnity Insurance Co. of New Jersey Inc. Both companies specialize in writing surety and fidelity coverages.

Old Republic

Old Republic International Corp. has declared a regular quarterly dividend of 19.5 cents per share of common stock, payable on Sept. 19 to shareholders of record Sept. 10. ■

BI Industry Stock Report

September 3, 1986 8/28/86 thru 9/3/86

Brokers		Price	% Chg.	P/E	$ Div.	% Yld.	High	Low	Vol.(000)
Alexander & Alexander Svcs	NYSE	41.13	3.8	274.2	1.00	2.4	41.13*	40.25	821.6
Baldwin & Lyons Inc	OTC	24.00	-25.0	30.8	0.16	0.7	28.00	24.00	1.3
Corroon & Black Corp	NYSE	36.63	-5.2	18.4	0.65	1.8	38.50	36.63	91.9
Crump E H Cos Inc	OTC	32.00	0.4	30.8	0.25	0.8	32.00*	31.75	1,295.2
Gallagher Arthur J & Co	OTC	29.75	-0.8	24.0	0.20	0.7	30.00	29.00	142.3
Hall Frank B & Co Inc	NYSE	21.75	-10.3	0.0	0.00	0.0	22.88	21.75	117.2
Marsh & Mclennan Cos Inc	NYSE	71.00	-3.6	25.0	1.50	2.1	74.75*	71.00	270.9
Poe & Assoc Inc	OTC	13.50	-1.8	0.0	0.32	2.4	14.00*	13.50	23.2
AGENTS/BROKERS	AVERAGE			-61.6		1.5			
Conglomerates & Holding Cos.									
American Express(Fireman's Fd)	NYSE	63.63	-3.4	12.1	1.36	2.1	65.88	63.63	1,470.6
Anderson Clayton(Ranger/PanAm)	NYSE	55.88	0.0	31.9	0.00	0.0	0.00	0.00	0.0
Armco Inc	NYSE	7.13	1.8	0.0	0.00	0.0	7.25	7.00	438.2
Berkley W R Corp	OTC	36.25	-2.0	27.5	0.24	0.7	38.00	36.25	223.7
Berkshire Hathaway Inc Del	OTC	60.50	-97.9	10.7	0.00	0.0	2950.00	60.50	3.1
CIGNA Corp	NYSE	60.63	-0.4	0.0	2.60	4.3	62.75	60.63	1,029.7
CNA Finl Corp (CNA)	NYSE	60.50	-5.5	16.8	0.00	0.0	64.25	60.50	108.0
General Re Corp	NYSE	66.25	-1.9	28.8	0.88	1.3	68.75*	66.25	548.7
ITT (Hartford Group)	NYSE	52.50	-3.9	24.9	1.00	1.9	54.50	52.50	1,215.8
Sears Roebuck & Co. (Allstate)	NYSE	44.13	-5.1	12.6	1.76	4.0	46.25	44.13	1,169.1
Teledyne Inc (Argonaut)	NYSE	311.88	-3.3	11.4	0.00	0.0	322.50	311.88	41.3
Transamerica Corp (Occidental)	NYSE	36.50	-3.6	16.0	1.68	4.6	38.00	36.50	422.5
CONGLOMERATES/HOLDING COS.	AVERAGE			22.0		1.1			
Insurers									
Aetna Life & Cas Co	NYSE	62.00	-2.9	12.4	2.64	4.3	64.75	62.00	1,028.5
American General Corp	NYSE	42.50	2.4	12.6	1.12	2.6	42.50	42.25	1,489.8
Amern Heritage Life Invt Co	NYSE	41.50	0.9	15.0	1.32	3.2	41.75	41.50	7.2
American Indty Finl Corp	OTC	18.50	4.2	0.0	1.12	6.1	18.50	18.00	10.1
American Intl Group Inc	NYSE	137.25	-0.5	22.4	0.44	0.3	141.50*	137.25	360.2
Aneco Reins Ltd	OTC	2.63	-8.7	0.0	0.00	0.0	2.81	2.63	8.0
Avemco Corp	NYSE	31.00	-0.8	16.3	0.50	1.6	31.38	31.00	9.2
Business Mens Assurn Co Amer	OTC	28.00	-1.8	23.0	1.10	3.9	28.00	28.00	4.8
[illegible]hh Corp	NYSE	72.50	-4.1	54.1	1.56	2.2	75.63	72.50	253.1
[illegible] Intl Corp	NYSE	58.00	-2.9	11.2	2.24	3.9	59.50	58.00	109.5
Continental Corp	NYSE	47.75	-3.8	0.0	2.60	5.4	48.88	47.75	385.5
Crown Life Ins Co	OTC	340.00	-2.9	3.4	6.40	1.9	350.00	340.00	0.3
Durham Corp	OTC	44.75	1.1	12.5	1.36	3.0	45.00	44.50	4.5
Farmers Group Inc	OTC	44.88	3.2	15.6	1.00	2.2	45.00	44.25	447.2
Fairmont Finl Inc	AMEX	18.13	-2.7	18.7	0.00	0.0	18.88	18.13	16.3
Fireman Fd Corp	NYSE	38.50	-3.7	0.4	0.30	0.8	39.75	38.50	413.5
Fremont Gen Corp	OTC	25.63	-3.8	0.0	0.48	1.9	26.88	25.63	196.3
Great West Life Assurn Co	OTC	795.00	0.0	8.0	18.00	2.3	795.00	795.00	0.0
Home Group Inc	AMEX	20.88	-7.7	99.4	0.00	0.0	22.75	20.88	606.1
Hanover Ins Co	OTC	69.25	0.0	20.0	0.56	0.8	69.75*	69.25	46.8
Hartford Steam Boiler Inspctn	OTC	49.00	-0.5	27.5	0.84	1.7	49.00	49.00	34.6
Kans City Life Ins	OTC	32.50	-2.3	12.8	0.87	2.7	33.75	32.50	32.4
Kemper Corp	OTC	33.38	-2.6	15.2	0.60	1.8	35.00*	33.38	756.3
Liberty Corp S C	NYSE	39.88	-0.9	14.7	0.72	1.8	40.63	39.88	5.7
Lincoln Natl Corp Ind	NYSE	53.75	-1.1	11.7	2.00	3.7	55.00	53.75	392.6
Mission Ins Group Inc	PAC	3.88	0.0	0.0	0.00	0.0	4.38	2.88	79.0
Monumental Corp	OTC	55.63	0.0	18.8	0.00	0.0	55.75*	55.63	1.6
Nac Re Corp	OTC	34.13	0.4	0.0	0.00	0.0	35.00	34.13	71.4
Nobel Ins Ltd	OTC	16.50	3.1	21.7	0.37	2.2	17.00	16.50	181.1
Northwestern Natl Life Ins	OTC	31.50	-0.8	11.6	0.86	2.7	31.88	31.50	174.9
Ohio Cas Corp	OTC	80.25	1.3	17.1	3.00	3.7	82.00	79.25	99.9
Old Rep Intl Corp	OTC	37.00	-2.6	12.3	0.78	2.1	38.13	37.00	44.4
Orion Cap Corp	NYSE	34.25	0.0	0.0	0.76	2.2	34.38	34.00	113.4
Protective Corp	OTC	23.00	2.2	12.4	0.70	3.0	23.00	22.50	94.4
Provident Life & Acc Ins Co	OTC	24.75	1.0	9.1	0.84	3.4	24.88	24.75	155.5
St Paul Cos Inc	OTC	41.75	0.6	24.9	1.50	3.6	43.00	41.75	1,096.6
SAFECO Corp	OTC	63.13	1.6	15.0	1.68	2.7	63.38*	62.63	282.8
Seibels Bruce Group Inc	OTC	15.00	1.7	0.0	0.80	5.3	15.25	14.75	50.7
Selective Ins Group Inc	OTC	22.13	-1.7	0.0	0.92	4.2	22.75	22.13	26.4
Statesman Group Inc	OTC	5.50	-4.3	61.1	0.05	0.9	5.88	5.50	44.7
Tokio Marine & Fire Ins Co	OTC	579.00	7.0	109.0	1.66	0.3	579.00	531.13	5.4
Torchmark Corp	NYSE	30.25	-1.2	12.2	0.60	2.0	31.13	30.25	486.7
Travelers Corp	NYSE	46.25	-2.9	11.5	2.16	4.7	48.38	46.25	769.1
Trenwick Group Inc	OTC	21.50	0.0	0.0	0.00	0.0	21.75	21.50	164.4
United Fire & Cas Co	OTC	33.75	-2.2	17.7	0.80	2.4	35.25*	33.75	84.6
United States Fid & Gty Co	NYSE	40.50	-1.2	0.0	2.32	5.7	41.25	40.50	1,795.4
Uslife Corp	NYSE	45.50	-3.4	11.9	1.12	2.5	47.25	45.50	210.5
Washington Natl Corp	NYSE	32.88	0.8	14.8	1.08	3.3	33.25	32.88	26.2
Zenith Natl Ins Corp	OTC	27.25	0.0	47.0	0.80	2.9	27.50	27.13	102.9
INSURANCE COMPANIES	AVERAGE			9.4		2.0			

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51 W. Higgins Road
South Barrington, IL 60010
(312) 551-2500 Telex: 283513

Allstate REINSURANCE