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Johns-Manville

Internal Correspondence

To: J. J. Tracy 3-21

Date: 7/17/78

From: W. R. Curtner 3-21, *WRC*

Copies: Chrono

Subject: The Insurance Department and Management Development

E. M DeCoursey's 6/30 letter on "Management Development" prompted me to evaluate two different but related topics, my own career development, and the present and future needs of the Insurance Department.

Looking at the latter first, I believe that the Insurance Department is facing an extremely heavy workload which, for the most part, is due to the many changes that have occurred over the past three years. The specific causes of this additional workload, which continues to increase, are the following:

1. For 25 years prior to July 1976, J-M simply renewed its primary casualty program with Travelers. Starting with 7/76 J-M has had two major changes in this program with the last change resulting in the establishment of a captive insurance company program. These changes plus the operation of the captive have required additional work and sophistication to monitor and control changes in policies, reporting requirements, and accounting.
2. For 10 years prior to 7/76, J-M simply renewed its umbrella policy with essentially the same companies as the year before. Starting with 7/76, J-M has had three major changes with the last requiring a one-month extension before coverage could be placed. These changes not only caused a tremendous amount of work at renewal, but they also created coverage problems that we are still trying to work out with the Legal Department.
3. J-M is having to face and deal with very difficult insurance coverage questions which most other companies do not have. Many of these questions relate to asbestos disease claims, one of which is the date of accident question for product liability claims, Workers' Compensation claims and employers' liability claims. Other open issues relate to our pipe products for which many coverage questions remain unsolved. These questions have become more difficult to deal with because J-M is no longer insuring with the same carriers year after year.

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4. JM is also faced with an increasing volume of difficult claims, especially in the employers' liability area. We have gone from possibly one claim in this area in 1976 to over 60 in 1978. Certainly we have seen the same kind of dramatic volume increase in the asbestos-related product liability area and to some extent in the auto liability area as well.
5. Since Insurance became a separate department with its own budget, which it didn't have in 1975, there has been a significant increase in budget and personnel duties which did not previously exist.
6. Previous to 7/76 there was very little need to keep in-house records. J-M had the same insurance carriers year after year, and they used the same insurance broker, M&M, year after year. Now that we have made numerous changes, J-M is attempting to develop records and record-keeping procedures that were previously left up to the brokers and insurance companies to maintain. In other words, we find ourselves trying to catch up to fulfill the needs of today by changing procedures that were based on the nearly static situation of three or four years ago; at the same time, we continue to deal with a greater number of claims and coverage questions.
7. The philosophy of the Insurance Department has changed from one of keeping people in the dark about insurance coverages and premiums to one of keeping people fully informed. This not only requires additional work, such as updating the J-M Insurance Program Manual, Annual Audit Report, and Property Loss Report, it also requires responding to additional questions (by phone & letter) due to the greater interest and understanding of insurance matters.
8. Finally, the cost in insurance has risen 75% from 1975 to 1977 going from 3.6 mil. to 6.1 mil. (excluding Canadian W/C). Moreover, this increase does not even include the \$1.5 mil. paid for product liability. Certainly these numbers indicate the importance of controlling these costs as effectively as possible.

All of these changes have been dealt with by essentially the same headcount as existed in 1975. The only change was that in 1976, we lost one headcount, along with a small part of the Employee Benefit Insurance for which the Insurance Department then had the responsibility. We added one person at this time, but essentially we added only 1/2 to 3/4 of a person because the departing employee was not working full time on Employee Benefits, and so some of her work remained the responsibility of the new replacement.

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Because of the extremely heavy workload, due to the causes stated above, many tasks that need to be done are not getting done. Specifically, these tasks are the following:

1. We need to establish a procedure by which all potential and actual insurable product liability claims are reported to the Insurance Department so that we can properly report them to the carriers in a timely manner. In the recent past we have depended on the Legal Department for this information, and this procedure hasn't worked. For example, there are approximately \$1 million of small shingle claims which have not been reported to the insurance companies and which are potentially insurable. This is only one example; there are others. My problem is that I do not have enough time to spend on developing a system of identifying insurable claims. I could do it, however, if I had a person whom I could direct and who could commit a significant amount of time in working with the Quality Assurance managers to develop reporting procedures.

It is worth noting that Dick Von Wald has indicated to me that he is hiring another lawyer as a Manager of Product Liability. My concern is that if the Insurance Department does not have the resources to tackle this problem, which is an insurance problem, it will soon fall within the Legal Department's responsibility.

2. We need to improve our analysis of J-M's insured Workers' Compensation claims, which amount to \$1 million per year. We should be analyzing the claim information received from insurance carriers to determine:
 - a. Are the reserves being correctly calculated by Crawford.
 - b. Do the claims paid by Crawford all belong to JM.
 - c. Do the claims indicate a pattern of losses that could be corrected?

As you know, the Legal Department is forming a six-person group to handle the self-insured Workers' Comp. As expressed in item #1, my concern is that, if Insurance does not have the resources to adequately perform these tasks, they will soon become the responsibility of the Legal Department.

3. Although we have improved the accounting for insurance premiums, we still depend on the Accounting Department in providing, coding and allocation assistance. Also, we still do not allocate all our policies on the basis of current loss experience (when possible). With more resources, we could do all the coding and allocations of premiums by current loss experience within the Insurance Department.

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4. I think the Insurance Department, as part of Finance, should maintain enough information on the asbestos liability suits to allow us to make our own evaluation and projections. We would, of course, continue to consult with Legal. We do not have the resources to maintain this information.
5. More time should be spent studying new types of policies which can be placed in Rocky Mountain as well as considering new reinsurance arrangements to be used in conjunction with new policies. The possibilities for savings in this area cannot be accurately quantified, but it is worth noting that ARM calculated that it can reduce our property insurance costs by over \$400,000 a year by placing our policies into Rocky Mountain and reinsuring into their pool, Hopewell.
6. We should be analyzing the policies of J-M's joint ventures and controlled minority companies, which have separate insurance programs such as Advocate, REPC, Kingsly Falls, and Elkhorn. It is important to avoid both gaps and duplications in coverage, especially in the case of liability exposures which can amount to many millions of dollars.
7. Not enough time is spent in risk identification. J-M does not have anyone within its organization who spends a significant amount of time attempting to identify existing and potential exposures to accidental losses which may be controlled and/or insured. Related to this is the fact that more analyses of insurance policy exclusions need to be made to avoid important gaps in coverage. I do not believe that we can depend on insurance brokers to do this task, especially now that we place different policies with different brokers.

As indicated earlier, I believe the above tasks are important and should be completed within a relatively short time; however, the Insurance Department with its current resources cannot accomplish these tasks in the near future. As you might surmise, my solution is to add one person to the Insurance Department staff. I believe these tasks warrant the expenditures involved in acquiring a new person. More specifically, I would like to add a person at a level 24 or 25 because of the importance and complexity of the tasks for which the additional person would be responsible. This new person would work on the first four items listed above; also, this addition would allow me more time to work on the last three items listed, in addition to training and directing the new person's activities.

Another benefit of increasing the Insurance Department's resources is that it would allow time for management development. More specifically, I am concerned that without an additional person there won't be enough resources within the Insurance Department to allow time to train a new Insurance Manager (when and if there is an opportunity for me to broaden my experience within J-M) without letting a number of insurance responsibilities slide and/or be neglected. This slide in performance of existing tasks would be especially serious in light of the number of areas that are already being neglected.