WEEK OF APRIL 13, 1981

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update:
Shell may recover full loss from tanker

LONDON—Shell International stands to recover its full $56 million claim settlement for the loss off its oil cargo on the 214,000-ton tanker Salem, which sank in late January.

The South African Oil Purchasing Agency reimbursed Shell about $30 million of the original loss, but the remaining $26

Continued on next page

Asbestos: Judge ties Calif. suits

BY ELLIS SIMON

SAN FRANCISCO—A California judge will determine which insurance coverages apply to more than one-sixth of the pending asbestos product liability suits in the United States.

State Superior Court Judge Ira Brown has issued an order coordinating four pending actions seeking to determine whether insurance coverage would apply under "exposure, manifestation or pro rata" theories.

Cases affected by the order are Johns-Manville vs. Home Insurance Co. in San Francisco, Armstrong Cork vs. Aetna Casualty & Surety Co. in Los Angeles, Fireman's Fund vs. Fibreboard et al in San Francisco and GAF vs. INA in Los Angeles.

A fifth case pending in Los Angeles, American Universal Insurance Co. vs. Amtex et al, was not included in the order but is likely to be added, according to Victor Levit of Long & Levit, a Los Angeles law firm representing Travelers Insurance Cos.

Travelers, which provided primary insurance for Johns-Manville, the largest asbestos defendant, intervened in Johns-Manville vs. Home and sought the order consolidating the actions.

"It probably will be the most complex case in terms of number of parties and issues ever coordinated in the California courts," Mr. Levit says. The four existing cases were "stopped in their tracks," he adds.

Travelers sought consolidation of the cases to avoid conflicting court decisions and reduce legal expenses for all involved parties, Mr. Levit says.

Conflicting opinions in four or five separate cases would have been "an absolute disaster," he says. Insurers would have had their hands tied if the courts invoked the principle of collateral estoppel, forcing them to apply a practice ordered in one case to all other clients, he explains.

Consolidation also would sharply cut legal expenses, he contends. There are more than 100 law firms involved in litigating the exposure versus manifestation versus pro rata issue in California, he says.

The court would probably ap-

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Wage-loss: States hunger for Fla. data

BY EILEEN NORRIS

CHICAGO—"Wage-loss" is the term that is snapping the business community to attention—provoking the desire to know more.

Virtually every state in the nation is monitoring Florida's cost-cutting measure and a ground swell of legislative support is pending in at least five states.

Oregon, Delaware, Louisiana, and Maine have legislation pending or are about to introduce bills for consideration. The state of Washington just last week stripped the wage-loss concept from its workers compensation reform bill, but a new bill is being planned.

In other states, the research is building a head of steam.

California's workers compensation insurance rating bureau last week started surveying its insurance company members for disability data. The bureau plans to evaluate wage-loss possibilities for the state. Illinois, too, is reviewing the concept.

The wage-loss system Florida adopted in August, 1979 replaces permanent partial disability benefits except for extreme impair-

ments, with benefits given only for proven lost wages after an accident.

The state boasts a minimum 35% reduction in claims, with lump sum settlements being cut more than 27%.

One respected expert on workers compensation, Dr. Arthur Larson, Professor of Law at James B. Duke University, said every state should be able to incorporate the principle into law.

In fact, he argues, the concept of wage-loss is the original form of workers compensation.

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Photo: Jerry Geisel

Competition for sale

SAN FRANCISCO—One exhibitor at the RIMS Conference was not selling a product or service.

Fred Roberts Jr., campaign manager of the Ohio Committee for Free Enterprise Competition, was selling an idea at his booth, one of more than 75 in the Hilton.

The idea is to allow private insurers to write workers compensation coverage to give employers an alternative to the state's monopolistic fund or self-insurance.

Ohio residents will vote in November on whether to allow private insurance of workers compensation risks. Mr. Roberts of the competition committee, an alliance of insurers, agents and business trade groups, believes the people of the state will vote to end the monopolistic fund.

"Given a choice between competition and a system of noncompetition, the people of Ohio will go pro-choice," Mr. Roberts says.

Responses of risk managers who visited the committee's booth ranged from " 'Yeah, I'm for it' to 'Damn it, we need a competitive system,' " Mr. Roberts said.

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For more news from the floor of the Risk & Insurance Management Society Conference, turn to page 3. This first report focuses on benefits.

RIMS: New survey reports captive, risk management growth

By JERRY GEISEL

SAN FRANCISCO—More than 20% of half the members of the Risk & Insurance Management Society will use a captive insurance company in the future to fund risk, according to a just-released survey.

About 15% of surveyed RIMS members now use the captive tool for liability risks, up from just 5% of a surveyed group in 1975.

The growing use of captives is one of several key findings of a massive survey of risk managers conducted by RIMS and Time Magazine. The survey was released at the RIMS Conference here last week.

The survey was mailed in 1980 to 2,897 RIMS members in the U.S. The findings are based on 1,429 returned questionaires, a response rate of 49%.

The findings reveal the growing use of captives, the recognition corporations now give to risk management, the move of risk managers into the legislative arena and the importance risk managers attach to purchased services.

The spectacular growth of captives in the liability area is mainly the result of the crunch on the product liability insurance market in the mid- and late 1970s, said Hunter Long, vp at Frank B. Hall Co., who was chairman of the advisory board for the study.

The sophisticated captive tool, however, is much more likely to be used by full-time risk managers than part-timers. The survey shows 14.3% of full-time risk managers have captives to cover property risks, while only 6.4% of firms who lack full-time risk managers use captives to cover property risks.

Forty-one per cent of risk managers work for companies with a written risk management policy. In 1975, only 22% of risk managers said they had written policy statements.

About 40% of risk managers said they have complete authority to select insurers and brokers. When

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Court approves Shell's claim

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million was disputed by insurers, including Lloyd's, who balked at paying the remainder of the claim.

Last week, the British court in London ruled in favor of Shell and the $26 million payment apparently wll be shared by 69 Lloyd's syndicates and 24 insurance companies. Lloyd's overall portion of the loss is said to be about 56%, according to a spokesman.

The spokesman said underwriters are planning to meet to decide if they will pay the judgment or contest the decision. Scotland Yard investigators in South Africa continue to research the Salem sinking and cargo loss.

Eastern, U.S. split crash award

BROOKLYN—A 24-year-old Greek sailor who survived a 1975 air crash at Kennedy Airport was awarded $1 million last week in the first case to be tried from the crash.

Grigorios Georgakis, a passenger on an Eastern Airlines flight from New Orleans that crashed June 24, 1975, killing 114, received the award for injuries that left him incapable of working as a sailor.

The cost of the award is being split between Eastern and the U.S. government, but Robert Alpert, senior vp and director of claims at U.S. Aircraft Insurance Group, Eastern's liability insurer, would not disclose who would pay how much.

The government was named in the suit because federal air traffic controllers directed Eastern's pilot to land despite reports from other pilots of turbulent conditions on the approach.

To date, 85 claims were settled out of court and 30 cases remain to be resolved, Mr. Albert said.

He would not disclose the total liability payments, explaining that the information could prejudice outstanding cases.

A repeat of the 1975 tragedy was averted April 8 when another Eastern Airlines flight from New Orleans to New York was forced to make a belly landing at Kennedy Airport after its landing gear malfunctioned. All 72 persons on board escaped without injury.

Jury settles another DC10 suit

LOS ANGELES—A jury here last week awarded $1.8 million to a Woodland Hills, Calif., widow of a man killed in the 1979 DC 10 crash at O'Hare International Airport near Chicago.

The award against American Airlines and McDonnell Douglas Corp. was the fourth and largest award in superior court here in recent weeks as the result of the crash which killed 272.

American Airlines is insured for all awards and is sharing all of them pursuant to a settlement agreement with McDonnell Douglas, according to Robert Alpert, senior vp and director of claims at U.S. Aircraft Insurance Group.

Lead liability underwriters for American Airlines are U.S. Aviation Underwriters and Lloyd's of London.

The recent $1.8 million award was given to Sharon Lent, widow of Richard, an aerospace salesman for a unit of United Technologies Inc. Other recent awards in the California court were: $750,000 in the Pohlson case; $275,000 in the Fowler case, $675,000 in the Cady case, Mr. Alpert said.

The Valladares case was settled late last year in Chicago U.S. District Court for $277,500, Mr. Albert added.

Bill reduces liability for charity

CHICAGO—More food contributions for the needy may follow in Illinois now that a bill to protect food donors from liability has been introduced in the legislature.

The "Good Samaritan Food Donor" bill proposed here follows the lead of 24 other states that have already introduced similar measures.

California, the first state to enact the bill about three years ago, is said to have tripled its food donations for the poor with the new protection.

State Sen. John D'Arco, one of the bills's sponsors in Illinois, said, if enacted, the bill would exempt food donors from any civil or criminal proceedings resulting from the condition of the donated food, unless the resulting injury could be shown to have been caused intentionally.

He said donors in the state have not been sued for tainted food, but charitable grocery chain stores were reluctant to accept liability for surplus food that was delivered in bulk to various food banks.

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Photo: Wide World

New York police and fire fighters may earn early retirement for heart disease.

N.Y. police, firefighters earn heart-ills benefits

By STUART EMMRICH

NEW YORK—City firefighters and policemen with disabling heart ailments can retire with special benefits without proving the job caused the disease, the state's highest court ruled.

The Court of Appeals ruling, which also applies to special death benefits for families of those who die from a heart ailment, is expected to cost New York $12 million a year, city officials estimate.

A spokesman for the Patrolmen's Benevolent Assn., one of the groups that sued the city, said the decision would have little immediate impact on other states.

The New York law upheld by the courts is unique, he says, but the favorable ruling might spur police and fire organizations in other areas of the country to push for similar benefits in their states.

The law upheld in the decision was passed in 1979 and allows a firefighter or police officer who develops a heart ailment during his or her employment to retire at three-quarters pay.

Under the law, the city can still get out of this responsibility by proving that the ailment is hereditary or otherwise not job-related, but cannot shift the burden to the employee to prove that the ailment was caused by his work.

The city lawyers had contended that in order to qualify for the additional benefits, the officers or the survivors had to prove that the disability had been caused by a specific on-the-job accident.

But the court rejected that argument, pointing out passing a special law for firefighters and police officers and not all other state employees granted special consideration to their employment.

City officials said they would stand by the court's decision but would aggressively move to have the law amended at next year's legislative session.

In addition, a city spokesman said officials would be "very aggressive in presenting evidence to rebut the presumption" that a heart ailment was caused on the job. The spokesman said that a case of a clerical worker in the police department who had a family history of heart trouble would be vigorously fought by the city as eligible for the special benefit. ■

Contraceptive maker fights lawsuit demanding recalls

BY MARGARET LeROUX

BOSTON—A recall of Dalkon Shields, intrauterine contraceptives manufactured by the A.H. Robbins Co. of Richmond, Va., is the target of a class-action lawsuit scheduled for hearing here in late June.

The lawsuit, filed by the Womens' Health Network, a Washington D.C.-based group and the Dalkon Shield Assn. of England, a London-based group, contends there are an estimated 500,000 Dalkon Shields still in use worldwide even though Robbins took the IUD off the market in 1974.

About 2.2 million Dalkon Shields were distributed in the U.S. and 1.5 million distributed overseas before 1974, according to a Robbins company spokesman.

The lawsuit also asks that Robbins pay the medical costs of removal of the IUD from women who are still using the device.

The action is the first attempt at recall of the Dalkon Shields, which has been named in more than 2,600 product liability lawsuits against Robbins. The manufacturer has self-insured for product liability since 1978.

Robbins' former product liability insurer, Aetna Casualty & Surety Insurance Co., is also involved in litigation with the company over the occurrence basis of the policies. The manufacturer claims that Aetna is liable for claims resulting from Dalkon Shields that were inserted prior to the 1978 expiration date of the policies; the insurer denies liability for claims made after 1978.

A civil lawsuit Robbins filed against Aetna in the Circuit Court of Richmond, Va., has not yet been settled (*BI*, July 7, 1980).

On the Dalkon recall attempt, a Robbins spokesman noted a letter sent by the company to physicians and birth control counselors

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errors & omissions

• Shand, Morahan & Co.'s standard errors and omissions policy for realtors does include coverage for prior acts.

A March 16 article, "Realtors encounter litigation explosion," incorrectly said that the coverage was not included in the standard policy offered by the Evanston, Ill., company.

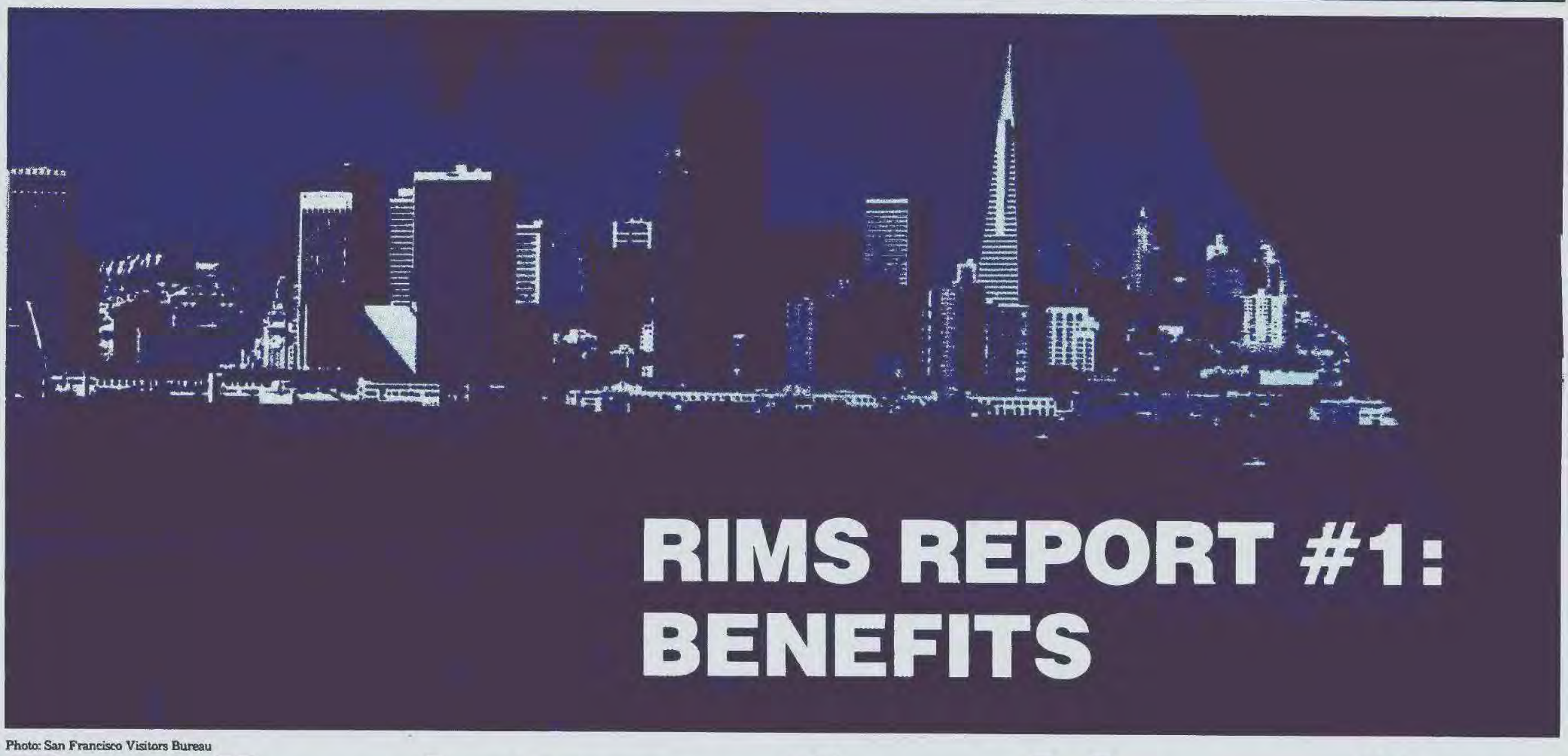
Drachman earns new BI post

Drachman

NEW YORK—Ronnie Drachman, promotion manager of *Business Insurance*, has been named director of communications, announced publisher Alfred Malecki.

The University of Hartford graduate assumes responsibilities for all promotional, research and public relations activities for the weekly newsmagazine. She is also the awards coordinator for the annual *Business Insurance* Employee Benefits Communications Competition.

Ms. Drachman began her career at *BI* in 1971.



RIMS REPORT #1: BENEFITS

Photo: San Francisco Visitors Bureau

Pooling international benefits

BY RHONDA L. RUNDLE

SAN FRANCISCO—Multinational corporations can muscle sizable savings by funding employee benefits through vast international insurance networks, a consultant and insurer agree.

The parent company ultimately enjoys the advantages of a group purchase with a pooling of local country benefit plans for experience rating purposes.

The insurer's administrative expenses are lower and claims costs are stabilized, generating dividends to be returned to the corporate pool and then allocated to local subsidiaries.

"Six stand-alone policies cost more than one jumbo master contract," Kent Barker, president of Swiss International Services Inc., told a RIMS Conference meeting.

"Pooling is the approach most widely used and the most beneficial that I've come across," said Burt A. Murdock, manager of The Wyatt Co.'s international consulting division in Stamford, Conn., and a speaker at the meeting.

About 800 to 1,000 multinational pooling agreements are in force today, estimates Mr. Barker. Some corporations have two or more master contracts with global networks. A network is an arrangement among insurers in various nations to offer an international benefits plan to a multinational corporation. Typically, they consist of such large insurers as American International Group, The Travelers or Swiss Life and their subsidiaries or associates throughout a geographical service area.

Pooling cuts worldwide pension costs to a corporation up to 10% and term insurance between 10% and 30%, said Mr. Murdock. The actual savings depends on the number of employees in the pool, the countries where they work, the types of benefits insured and the contracts used.

A contract is issued by the foreign insurer in the network in accordance with regulations in that country. The policy is underwritten on the basis of the local group experience and premiums are collected in the local currency.

"As far as the foreign subsidiary is concerned, insurance is provided by the local insurance company," explains a Wyatt Co. report.

Pool statements

At the end of the contract year, an accounting is made to the international underwriter who prepares an annual statement for the pool. If the total premiums paid exceed charges against the contract (including claims paid, reserves, commissions, taxes, retention and local dividends), an international dividend is paid to the parent corporation.

To qualify for multinational pooling, a corporation must meet insurer premium volume requirements, operate in two or more countries and extend benefits to a specified number of people, explains Mr. Barker.

In selecting a network, the corporation should consider the countries that it covers, its reputation and the size and reputation of its local subsidiaries, said Mr. Barker.

He advises careful study of the master pooling agreement and the insurer's investment performance. "Look hard at the risk charge factors," he stresses.

"As a management tool, pooling may not work without a cooperative attitude at the local level," adds Mr. Barker.

Cost advantages are realized through pooling because policy expense loading is reduced as a percentage of premium. Risk charges are spread over a larger group and insurers will likely forego some profit to reap vast premiums paid to the network.

Besides the cost advantages, there are other reasons to go this route, say Mr. Barker and Mr. Murdock. They include:

- Improved communications with local subsidiaries on benefit plan changes.
- Strengthened influence of foreign subsidiaries with local underwriters.
- Master contract termination guarantees.
- Ease in retaining benefits coverage when employees are transferred from one subsidiary to another.
- Experience rating of the corporation, not mixed with that of other foreign enities outside the corporate family. ■

Centralize all planning for benefit cost control

By RHONDA L. RUNDLE

SAN FRANCISCO—Corporations with employees working worldwide must centralize benefits planning to get a grip on real costs, advises a vp with benefits responsibilities spanning 28 countries.

Bringing benefits planning into corporate offices may ruffle a few feathers, concedes W.L. Hyland, vp-insurance for GTE Service Corp. in Stamford, Conn.

W.L. Hyland

"But the parent corporation needs to know what benefits cost to make judgments about acquisitions, expansions, spin-offs and other operations changes," Mr. Hyland told a general session on international benefits at the RIMS Conference here last week.

Corporations tend to focus on what benefits approach will provide a maximum tax deduction, rather than on the total liabilities they run up for benefits, says Mr. Hyland.

The corporation presumes that benefits costs are built into the local product costs, but that's not necessarily true, he believes. Unless the corporation knows its real costs of providing benefits, it can't properly price its products.

Variations in benefits offered by multinational corporations to foreign employees should be reduced to a common denominator, suggests Mr. Hyland.

This takes some of the headaches out of transferring foreign managers because the aggregate value of benefits is approximately the same for equivalent jobs within the parent corporation.

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Trenwick buys, underwrites coverage

SAN FRANCISCO—A $5 million special events liability insurance policy buoyed the standard liability insurance coverage for a blue grass musical boat cruise of San Francisco Bay when Trenwick executives hosted a private party here before the RIMS Conference began last week.

Red & White Lines provides $5 million in coverage, but Trenwick asked broker Marsh & McLennan to double the special protection above the firm's own general liability insurance. Mutual Fire & Marine underwrote the coverage for an undisclosed premium.

The cruise theme, "Trenwick Writes," drew a few jibes at Trenwick executives whose publicized underwriting philosophy of not cutting rates—against industry trends—restricted 1980 business to just $3 million of premium against $30 million in capital and surplus.

The Bermuda-based reinsurer reports that it requoted terms on half the risks submitted to them but underwrote just 4% of all the business submitted to them that they looked at.

Photo: Kathryn J. McIntyre

Try more private pensions: Expert

Manadatory pensions are overkill, says consultant Ken Keene.

By JERRY GEISEL

SAN FRANCISCO—Voluntary approaches to expand pension coverage should be tested before any mandatory private pension system is established, said a benefits expert.

The recommendation of the President's Commission on Pension Policy for a mandatory system represents regulatory overkill at its worst, says Kenneth Keene, senior vp at Johnson & Higgins in New York.

He warns that the cost of mandatory pensions would devastate small business.

Speaking before a RIMS Conference session on the commission's impact on employee benefits, Mr. Keene said the commission exaggerated the lack of private pension coverage.

While the commission said only 50% of workers participate in a pension plan, Mr. Keene said if the working population is defined as those over 25 with more than one year of service with a firm, the pension participation rate is about 70%.

The remaining 30% not covered are mainly part-time or low-paid workers in small companies for whom Social Security is the crucial coverage, Mr. Keene said.

"Do we need a mandatory system for this (30%) gap?" Mr. Keene asked. "Wouldn't such a system represent overkill before we have tried other methods, such as tax inducements, to solve the problems voluntarily?" he added.

The commission's recommendation on mandatory pensions, which is one of dozens of recommendations it made to overhaul the nation's pension and retirement programs (*BI*, Feb. 2), would require every employer in the United States to offer a pension plan.

Under the plan, a worker over age 25 with more than one year of service would be entitled to an immediately vested benefit equal to 3% of salary.

While a 3% payroll increase may sound modest, once mandatory pensions were established, pressures might build to increase the benefit, Mr. Keene said.

"There are many precedents for programs starting modestly and ending up as crushing blows to the taxpayer," he pointed out.

For example, when Social Security was enacted in the 1930s, the maximum tax paid by an employee was $30. Now, the maximum tax is $1,975, a 66-fold increase.

"The point is a 3% MUPS (Minimum Universal Pension System) today can easily turn into a 4%, 5% or 10% MUPS of tomorrow," Mr. Keene said. "Let's not be deluded by the modest nature of the introductory offer."

Some experts charge that the complexity of the Employee Retirement Income Security Act has discouraged employers, particularly smaller firms, from starting new pension plans.

If ERISA were simplified, more employers would start new plans and the coverage gap would ease, Mr. Keene said.

Before legislators consider a compulsory approach, legislation should be passed to give employees tax credits or tax deductions for their contributions to corporate pension plans, he said.

Because employee pension contributions are not tax-deductible, workers lack an incentive to reduce the impact of inflation on retirement income by supplementing employer contributions with their own, Mr. Keene said.

"It is a technique which should be tried long before we consider a compulsory approach," he said. "Once started, there is no turning back if we go the compulsory route." ■

More members won't revive federal plan

SAN FRANCISCO—Requiring all workers to participate in the Social Security system won't ease the public retirement program's massive long-term financial problems, says one consultant.

If the 10% of the working population not covered by Social Security—federal civil servants, state and local public employees, workers employed by not-for-profit organizations—were added to the rolls, Social Security would receive an immediate shot in the arm from the new contributions flowing in, said James Ozark, manager of Hewitt Associates' Los Angeles office at a RIMS Conference session.

But over the long haul, Social Security financing problems would remain bleak because benefits would eventually have to be paid out to this new pool of workers, Mr. Ozark said.

But pressures are building to establish universal Social Security. Many people say that it isn't fair that certain workers should escape taxes for an income redistribution system, Mr. Ozark said.

The issue of universal Social Security "will be thrashed out" for the next five or six years in Congress with public employee unions resisting a change, Mr. Ozark predicted.

'Bottom line' rules prevention programs

BY CAROL G. BLITZER

SAN FRANCISCO—The jury's still out on whether preventive health care programs can pay for themselves—or save corporations money, says Conrad Greim, director of compensation and benefits at Crown-Zellerbach in San Francisco.

Leading a seminar on preventive health care at the RIMS Conference last week, Mr. Greim said when corporations invest money, they consider "bottom line" reasons, not altruism. So far, the value of preventive health is being taken on faith.

But with the country's health costs running away, utilization of medical services up and the practice of defensive medicine growing, something has to be done.

"It's a conflict between wellness forces and illness forces," Mr. Greim noted.

"We know that prevention works in one area—dentistry," he pointed out, noting the use of fluoridated water and instruction in flossing and dental hygiene can improve dental health.

Some preliminary studies of preventive health programs do show an effect on productivity, Mr. Greim said.

In Canada, a study showed that a program emphasizing lifestyle change cut absenteeism and employee turnover, saving the company more than $500,000 a year.

A participant in the session noted that his plant in Windsor, Colo., has cut absenteeism and workers compensation with an extensive lifestyle change program, which includes drug and alcoholism rehabilitation programs, fitness plans and at-home exercise programs.

Early detection of illness is key to prevention programs, but the benefit of annual physicals to detect medical problems early is being questoned, Mr. Greim noted.

He said many of the annual tests are now recommended only every three to five years.

For example, a chest X-ray "has little payoff for a well person," he said.

Dr. Richard Patterson, a San Francisco internist who is writing a book on preventive health, defended use of a chest X-ray as a diagnostic tool.

"There's a wide variation of decisions on how often things should be done," he said, pointing out that the recommendations were made by people who do not take care of patients.

"Doctors don't practice this way. If they did, they'd be sued for malpractice," he insisted.

"A chest X-ray gives far more evidence of health than any other test," he explained.

By examining the X-ray, he can tell heart size and detect lung damage from smoking, tuberculosis or emphysema, alcoholism, calcification of bones and even stress level.

Mr. Greim suggested that it is more important for a doctor to talk to a patient about lifestyle, nutrition, alcohol and tobacco use, work history, seat-belt use, feelings of depression, family problems and sexual concerns.

Health promotion also is essential to preventive health care, he continued. This includes physical fitness programs, lifestyle counseling (an employee assistance program that helps them deal with stress, alcohol, etc.), drug and alcohol abuse programs and health education classes.

He pointed out that Kodak, Kimberly-Clark, Shaklee and Hospital Corp. of America are planning to pay employees to bike, run or walk to improve their physical condition.

Communication of preventive health measures to employees is important. At one company, certain industrial workers were frequently straining muscles. A warm-up program of exercises was explained to them and implemented before work, reducing the number of injuries.

"Blue Cross is working more in preventive health than others. Most insurance companies are just bill-payers," Mr. Greim said. A representative from Blue Cross noted that benefit plans can be innovative and can be written to include things such as a program to curtail alcohol and drug abuse.

A major point in preventive health is taking responsibility for one's own well-being, said Mr. Greim. He described a San Francisco-based fitness program, Physis, used by Crown-Zellerbach employees.

After finishing the 13-week program, employees had reduced coronary risk factors.

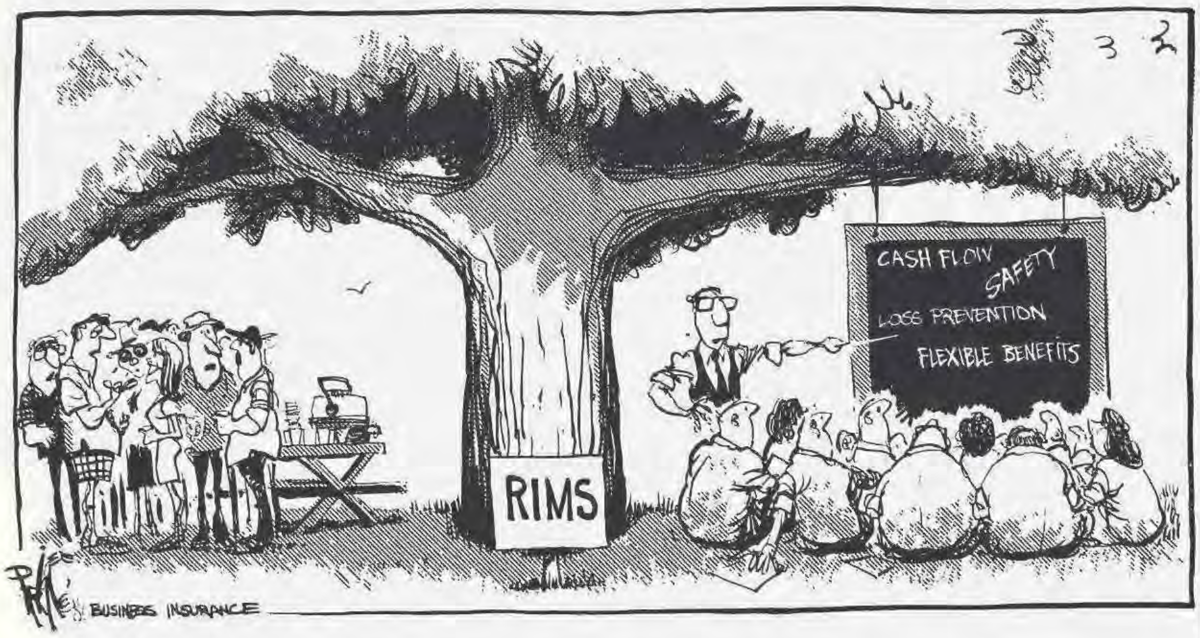
"It does work from the standpoint of reducing risk factors, but the problem is it's expensive," says Mr. Greim, who took the program himself.

People completing the program tend to sleep better, feel better about themselves and have fewer complaints about being tired, Mr. Greim said. But time is a problem because the program, which involves three 30-minute sessions of aerobics a week, demands time away from the workplace.

"You have to make personal sacrifices to find the time," Mr. Greim said.

Dr. Patterson noted that the most common ailment among Americans is depression, "so getting people motivated to take an interest in their own health and their own life is the best you can do." ■

editorial opinions



Stronger every year. . .

One leading member of the Risk & Insurance Management Society told our managing editor before she left to attend her first RIMS conference, "From 9 to 5 it's the greatest education event of the year. From 5 on it's the greatest social event of the year."

We have to agree.

Even with the crowd RIMS has to manage and the number of hotels needed to accommodate all the registrants and sessions now held during the 4½ day conference, you can find your way to meetings, meet friends if you prearrange it and get dinner reservations if you don't go to the big name restaurants.

But it's not the size that matters; it's the quality of the program. And RIMS improves it every year.

Aware that the huge general sessions restrict interaction among registrants, RIMS switched its program emphasis to holding more miniseminars in which registrants can pull up a chair, roll up their sleeves and chomp into a topic.

We were especially impressed this year with the clear indication in the program of which of the nearly 100 miniseminars were targeted to a general overview of an issue, a technical analysis of a problem or a nitty-gritty case study.

The topics discussed covered the waterfront of risk management concerns. The director general of the British Safety Council, who in last week's issue criticized RIMS for not sponsoring enough sessions on safety, was speaking from his particular bias.

There's a lot of kidding about the opulence of the social events held after 5 p.m., but as you tour hospitality suites, or take a cruise on a boat in San Francisco Bay, you hear a lot of business being discussed.

A friend met at a RIMS social event may help you out later with a new idea, a lesson from his or her experience or a contact.

The broker you meet may be the person who can help design the comprehensive package of coverage you have been considering or the marketer who can renew the troublesome coverage that has been baffling your present agent.

The insurer you meet may offer you the cash flow deal you've been waiting for.

This week, benefit and risk managers are home recovering from more than the parties at RIMS.

They are digesting hordes of new facts, figures, techniques and approaches gleaned from structured sessions and informal chats.

■ Our compliments to Richard Hackenberg, staff vp of Allegheny Ludlum Industries Inc., who was vp of the conference, all his colleagues on the conference committee and those who organized sessions and the RIMS staff that never stops organizing and executing conference plans.

A third of our staff was in San Francisco to bring you a full report of the programs—this week on benefits and next week on risk management.

But if you never have attended a RIMS conference, you should.

Next year it will be in Washington, D.C., April 18-23, too late for cherry blossoms, but a great time for a conference where new ideas bloom in each gathering.

letters

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

E&O competition can't last

To the editor: I read with interest your recent article "Realtors encounter litigation explosion" (*BI*, March 16). I found it interesting to note that your magazine correctly reported the history of realtors' errors and omissions policies and how they are underwritten.

Unfortunately, in view of overall soft market conditions, the same type of mistakes that resulted in the 1976 insurance crisis for realtors is occurring again.

As was correctly reported, many of the current E&O policies are being charged very low premiums, unlimited prior acts coverages are being given away and expense deductibles are not being charged.

Even if the realtor wins the lawsuit, legal deductible expenses can be devastating not only to the uninsured realtor, but to the insurance carrier that does not provide for any expense deductible.

This is precisely what caused one carrier to go out of the market in 1976 in view of tremendous underwriting losses.

Another primary problem being experienced is the fact that many of the current E&O carriers are not using adjustors, but are sending all claims directly to law firms, whether in litigation or not. This, too, in the absence of an expense deductible, is creating horrendous expense costs.

In addition, we know of one instance where an insurance carrier whose policy did not provide for a consent clause cannot settle without the insured's written consent and is still allowing the insured to determine whether or not the policyholder wishes a contribution of not more than $1,500 to settle a $10,000 claim.

More than $8,000 has been put up by the other defendants and all that is needed is the remaining $1,500.

Although the insurance carrier admits freely that it is going to cost him more than $5,000 to defend the case, he clearly points out that the insured does not want any settlement on this matter, in which case they are going to defend the case.

We have never heard of a situation where in the absence of a consent clause, an insurance carrier is willing to spend $5,000 to save $1,500. We have also never heard of a situation where an insurance carrier allows the insured to control the handling of a claim.

We have also seen instances where many insurance companies are allowing the insured's personal attorneys to defend the case and wish only to be "kept advised." This, again, is unusual as we also have rarely seen insurance companies allow an insured's personal attorney to defend a case as a matter of course and as a matter of right.

Insurance carriers have traditionally been reluctant to do so because they are not familiar with the qualifications or capabilities of an insured's personal attorney who may be an excellent business attorney, but inexperienced in the defense of litigation cases.

Unfortunately, many of the insurance companies mentioned in your article will someday soon experience exactly what happened in 1976 as a result of the underwriting guidelines and claims handling practices. We trust that carrier we represent in real estate E&O will still be around when this new crisis occurs as a result of more realistic underwriting practices and claims handling procedures.

Frederick J. Fisher
Vp
Miller & Gilbert Inc.
Bellevue, Wash.

Doubletake story

To the editor: The front page article "Grand jury probes reinsurance deals" (*BI*, March 9) mentions a complaint filed against Robert G. Burnham of Burnham Insurance Brokerage Inc.

Neither Robert G. Burnham nor Burnham Insurance Brokerage Inc. is in any way connected with John Burnham & Co., and Robert G. Burnham is absolutely no relation to the current president of John Burnham & Co., Malin Burnham. Malin Burnham is the grandson of the founder of our company, John Burnham.

John Burnham & Co. and Burnham Insurance Brokerage Inc. both have offices in Orange County in Southern California. As a result of the geographical proximity of the two firms, it is our feeling that our clients, insurance company suppliers and competitors could easily assume that the two firms are somehow related. We believe that if such a connection were made our reputation could be damaged.

William L. Pope
Vp
John Burnham & Co.

■ The *Business Insurance* story did not connect the two firms.

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Plot your premiums to judge HMO

KATHRYN J. McINTYRE

> 'Straight allocation of costs always beats the HMOs,' says B. Scott Rich of Flowers Industries.

SAN FRANCISCO—Companies self-insuring employee benefit plans need to establish a local cost of the plan to come up with a premium figure when a local Health Maintenance Organization (HMO) comes calling.

The HMO act of 1973 requires companies to contribute the same amount to the cost of an employee enrolling in an HMO as it spends on the corporate health insurance plan.

A self-insured company needs to know by location what that cost is to determine what it should contribute to the HMO, it was pointed out during a miniseminar at the RIMS Conference.

Health claim costs vary by location because hospital and doctor charges vary by region.

The calculations required to determine local costs are the same ones performed to allocate benefits costs to profit centers, a cost control technique that makes operating managers want to hold down increases in their benefits costs.

"Straight allocation on costs will always beat HMOs" on price, noted B. Scott Rich, director of corporate insurance and cash management at Flowers Industries in Thomasville, Ga.

Mr. Rich uses what he describes as a "simple" method of allocating the costs of his company's health insurance program, which is centrally purchased by the corporation for 24 plants within three corporate divisions.

He begins by projecting the total cost in the coming year of the health insurance program that is purchased from an insurer under a minimum premium plan. Dividing the total cost by the number of covered employees, he arrives at an average cost per employee.

Looking at three years of claims experience, Mr. Rich determines what percent of total cost of claims is attributable to each plant profit center. This percent becomes the experience modifier to multiply times the average cost to determine the experience-rated premium for each plant.

Each year the premium is revised, based on the previous three years' experience.

However, decreases in premium are limited to ten percent and increases to 25% to prevent huge swings from unusual experience.

An annual aggregate stop-loss of $10,000 per employee is also applied to prevent an an unusually large loss from throwing one plant's premium unfairly high.

Mr. Rich determines one cost per employee at each plant, not differentiating between employees with dependents and single employees.

This experience-rated premium doesn't include changes in benefits. If a plant alters its benefit plan, Mr. Rich consults a rating manual.

Each plant is a profit center and the president's year-end bonus depends on profitability.

The experience-rated premium allocation program, which increases or decreases the plant's cost of health insurance based on the cost of employee claims, provides incentives for plant presidents to institute programs to hold down claim costs.

Sid Osofsky, assistant treasurer of the Grand Union Co. in Paramus, N.J., allocates premium costs to profit centers somewhat differently.

The insurer, which underwrites a minimum premium plan, provides the annual cost of the program, reviewed by Mr. Osofsky and his broker.

Premiums are allocated to the division on a payroll basis, modified by experience and type of benefits. Divisions allocate the premium cost to the stores as they choose. ■

Your auditor could reject no-reserves

SAN FRANCISCO—A no-reserve clause in a minimum premium on a contract will send the auditors hunting for your reserves, one company found.

A Southeast-based company convinced its auditors for a couple of years that the fronting insurer on its essentially self-insured employee benefit program would be liable if the company failed to pay a claim.

"But the auditors bought that for just a couple of years," said the risk and benefit manager who asked not be identified with his comments made during a minisession at the RIMS Conference.

The company probably will establish a 501 (c) (9) trust, named for the section of the Internal Revenue Service code governing the trust, to provide the company with the wanted tax deduction.

The auditors discovered the no-reserve clause in the insurance policy, which means the insurance doesn't maintain reserves for losses allowing the company the maximum use of its cash until needed to pay losses, by reading the policy.

This case exemplifies auditors' heightened interest in the adequacy of funding for benefit and property/casualty risks. ■

Top management makes cost-cutting work

By RHONDA L. RUNDLE

SAN FRANCISCO—A firm and long-term commitment by top corporate management is the key to a comprehensive health care cost containment strategy, says a human resources manager.

Health care planning must become an integral part of the corporation's overall long-range strategic planning, he explains.

"Without a firm commitment by all levels of management to provide support, funds, time and manpower to solve our health care problems, success will not be achieved," says Robert B. Bogart, managing director of corporate human resources at American Can Co.

But individual companies acting alone command limited influence. What is needed to battle inefficient health care delivery is a comprehensive employer-wide attack, Mr. Bogart told a large group at the RIMS Conference here.

But even concerted action will not bring significant change quickly, he notes. "Just as the problem emerged over 20 or 30 years, so will the solution evolve slowly," he says.

"Costs will not decline from the present levels," he says. "Instead, if our efforts are successful, the rate of increase in the escalation of these costs will slow. Such a change will be difficult to quantify, yet it will be real," he stresses.

For example, he says, a company that spent $100 million on health-

Photo: Rhonda L. Rundle

Cost-containment plans need support, says Robert Bogart.

related costs in 1980 will spend almost $310 million in 1990 if health costs increase at an average rate of 12% a year.

But if cost containment efforts can keep the rate of increase 1% lower, that company's health care bill in nine years will be $284 million, a potential net savings of more than $25 million in that one year alone.

"The time for complacent acceptance of the status quo has passed," says Mr. Bogart. "We are faced with the challenge of bringing about fundamental changes in the way health care in the U.S. is delivered, utilized and perceived."

American Can has the full support of its chairman, Bill Woodside, in its cost containment efforts, says Mr. Bogart. The chairman of the Connecticut-based firm was a prime mover in the establishment of the Fairfield-Westchester Business Group of Health and is a director of Blue Cross/Blue Shield of Greater New York.

To combat its rising health care costs, American Can has set up a health care effectiveness committee overseeing policies aimed at improving employee health and utilization of health benefits. The group is chaired by the corporate medical director and includes representatives from human resources, labor and finance departments.

Also on the committee is the manager of health care strategic planning — a newly created position at American Can. This individual is responsible for integrating human resources and health planning into overall corporate planning.

As its first major task, the committee developed a comprehensive health system/cost containment strategy. It represents a "real attempt by our company to formulate and implement a fully coordinated, all-encompassing health policy," explains Mr. Bogart.

The approach focuses on three major categories: plan administration, plan design and health promotion.

Insurers have a crucial role to play in improving plan administration, says Mr. Bogart. Corporations need more data about their employees' claims to spot trends, pinpoint abuses and fine tune benefits to make them more cost-effective, he says.

On this score, Mr. Bogart gives high marks to American Can's two primary health plan insurers, Metropolitan and Prudential.

There are many possible changes in a benefits package that are cost-effective but are not "benefit take-aways," observes Mr. Bogart. These include extended care facilities, home health care, alcohol and drug rehabilitation, ambulatory surgery, HMOs' financial incentives, pre-admission/post release testing and second surgical opinions.

The flexible benefits approach, used at American Can for all salaried employees since 1979, is a cost-effective system for providing benefits, believes Mr. Bogart.

"We found that given a choice, employees will voluntarily reduce their coverage and do more self-insuring to meet other personal needs," he says. By getting employees more involved in their own benefits, they also appreciate them more, he adds.

To promote better health, American Can publishes booklets, newsletters and communications directed to employees. In many cases, health information is sent directly to the employee's home so all family members will see it.

The health care effectiveness committee also is reviewing all requests for grants and financial support made to the company by hospitals and other health-related organizations, reports Mr. Bogart. Only those approved by the committee will be made.

Another step business can take is to directly negotiate fees with doctors, hospitals and other providers. Initially, this approach is likely to be most successful in areas in which the majority of residents are employed by one company, he notes. ■

Get involved to trim costs: Benefits exec

By CAROL G. BLITZER

SAN FRANCISCO—Get involved in the health care delivery system to hold down health care plan costs, employee benefit managers suggest.

"If you want to control costs, you have to get involved. Nobody is going to do it for you, particularly insurance companies," said Gordon J. Decker, manager of group benefits administration for Allis-Chalmers Corp. in West Allis, Wis., who moderated a session on health care cost containment during the RIMS Conference last week.

Getting involved was defined during the session as joining a business group concerned with the issue, signing up for professional standard review services, paying the cost of second opinions before surgery reviewing claims and taking advantage of subrogation rights.

Among business groups tackling the health care cost issue are the veteran Washington Business Group on Health, which lobbies for business's point of view, and the newer Midwest Business Group on Health, which concentrates on collecting uniform data, educating hospital trustees and encouraging use of professional standards review organizatons.

A PSRO monitors a patient's hospital stay against lengths of stay according to the diagnosis. Doctors must justify extra days in the hospital.

Allis-Chalmers began using a PSRO five months ago. On 273 hospital admissions, the average length of stay was 5.3 days, compared to 6.3 days last year.

"It's too early to draw conclusions but it tends to indicate there is something there," Mr Decker says. "When someone watches, you're a little more careful."

Allis-Chalmers Corp. pays $14 per admission for the hospital review under its administrative services only contract with Aetna Life & Casualty.

"What we're trying to do is change the thinking of the doctor of how long patients should be there. We all have medical necessity wording, but nobody's been monitoring it," Mr. Decker says. PSROs also review quality of care, he noted.

Employee/patients hardly seem to notice a PSRO, Decker reports. "I haven't heard a peep from anybody. I'll bet 80% don't even know they're being reviewed."

Most of the 40 people participating in the cost containment session were in second-opinion surgery programs, health maintenance organizations and subrogation.

No one reported success with second-opinion programs that are mandatory in some corporations but optional in most.

One manager noted that in three years of running a mandatory program, in no case did the second opinion differ from the original. The second doctor is chosen by the employer.

Another manager whose company offers a voluntary second-opinion program notes employees have no incentives to use it or disincentives not to use it and its effectiveness is unknown.

His company is concerned with possible liability if it is discovered later that the surgery was indeed needed.

Mr. Decker endorsed HMOs as a viable option.

An HMO can cost less than an indemnity plan, but HMO prices vary widely in different locations, he noted.

Cost and HMO location determine employee use, it was agreed.

One manager notes that his company offers nine HMOs with enrollment varying from one-half of 10% to 25%. "We try to counsel our employees. If their medical expenses are over $500 per year, it pays to join the HMO. We prefer to unload adverse section cases on the HMO," he adds.

Catching payment errors controls costs, too, it was agreed.

One manager suggested insurers and administrators will reduce costs when all errors are deducted from the administration fees. Overpayments dropped by 40% under this method, he said.

Another noted that his company holds a two-week claims audit once a year, reviewing 5% of all the cases. Each "error" is then negotiated with the insurer on a case-by-case basis.

Subrogration, or recovering for a

Photo: Carol G. Blitzer
Join an employer group, suggests Gordon Decker.

claim payment from another liable party, requires work.

One manager suggested filing a lien so the case cannot be settled until the employer is repaid for medical payments already made; another said to send a certified letter to the lawyer pointing out the reimbursement clause.

Most agreed it's difficult to catch subrogation opportunities without reviewing claims on a case-by-case basis.

Employers also are trying to educate employers.

One company sends out a quarterly newsletter and offers mid-management salaried personnel free annual physicals. Another company sends out an annual statement showing how much was spent for that employee's various benefits. "It doesn't save money, but it's good public relations," a manager notes.

Mr. Decker lays blame for high health care costs on hospitals, doctors, insurance companies, goverment, labor unions, patients, employers, and also benefit and risk managers.

There's no point in waiting for someone else to force the issue, it's time for benefits and risk managers to get involved, Mr. Decker concludes. ■

Insurers respond to medical costs

SAN FRANCISCO—Insurance companies are responding to employers' demands for stronger health care cost containment, says Kenneth L. Simmons, group department vp at the Prudential Insurance Co.

"Those activities go beyond attempts to tinker with the financing system and involve the carrier directly in the delivery of health care," he told the RIMS Conference here.

But it's a tough assignment, he emphasized, because cost containment programs tend to conflict with other social goals.

"We want cost containment, but we also want every citizen to have access to care without money being a barrier to receiving that care," Mr. Simmons said.

The virtue of past efforts, such as coordination of benefits, hospital audit programs and claims payment on a usual and customary basis, is that they don't pose much conflict in other societal objectives, Mr. Simmons pointed out.

"The bad news is that these efforts don't do as much in the way of cost containment as employers are demanding."

Nontraditional approaches to cutting costs may involve higher social costs, he observed.

"Everybody agrees that to make progress we need to know more about what is going on in the system." Insurers are making the shift to provide that data, Mr. Simmons confirmed.

"But there is also a real danger that we are going to spend a lot of money producing 'interesting' data that doesn't lead to any savings," he cautioned.

"We must develop a reasonable standard for data requests that assures we collect and provide only that data that is likely to prove useful."

Mr. Simmons itemized seven other approaches to cost containment presently under consideration or in use at Prudential and other group insurers. They are expanding HMO development, second-opinion surgical programs, patient management programs, preadmission reviews, preauthorization, hospices and preferred provider plans.

Twelve insurance companies already have developed 40 HMOs with a membership of more than 750,000 since the passage of the HMO Act in 1973, reported Mr. Simmons.

Prudential currently covers about 1 million people under 450 second-opinion plans, said Mr. Simmons. He believes it is crucial that the second opinion be rendered by a board certified specialist who is not affiliated with the attending physician.

To encourage use of second opinions, a smaller surgical benefit is paid for surgery performed without a confirming second or third opinion.

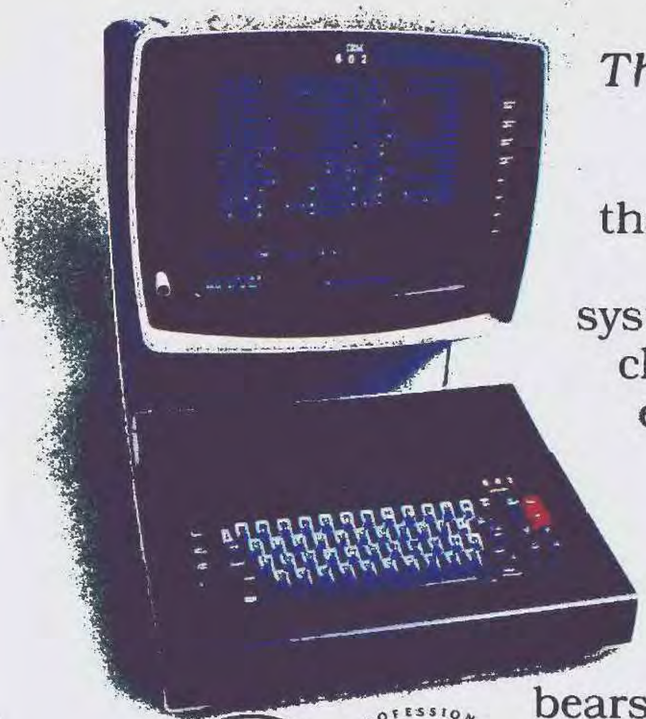
Second-opinion programs are difficult to adminsiter in rural areas where there is only one surgeon within 100 miles, noted Mr. Simmons. They are also expensive to administer—about $80 per diagnosis, he estimated.

Patient management programs are an example of insurer intervention with the health care delivery system on a local level. An insurer representative, frequently a registered nurse, coordinates patient care to use available benefits in a cost-effective manner.

Mr. Simmons says Prudential and several other insurers are experimenting with hospital preadmission review programs for nonemergency surgery. Such programs, which require advance certification of the need for treatment, are widely accepted by dentists.

Many insurers also support hospices for terminally ill patients on humanitarian grounds, but they also appear to be cost-effective, said Mr. Simmons.

Preferred provider plans represent a hybrid form of intervention with the cooperation of health care providers. Under such plans, insurers form a network of individual doctors to provide needed servive to policyholders in a geographic area for fixed charges. ■



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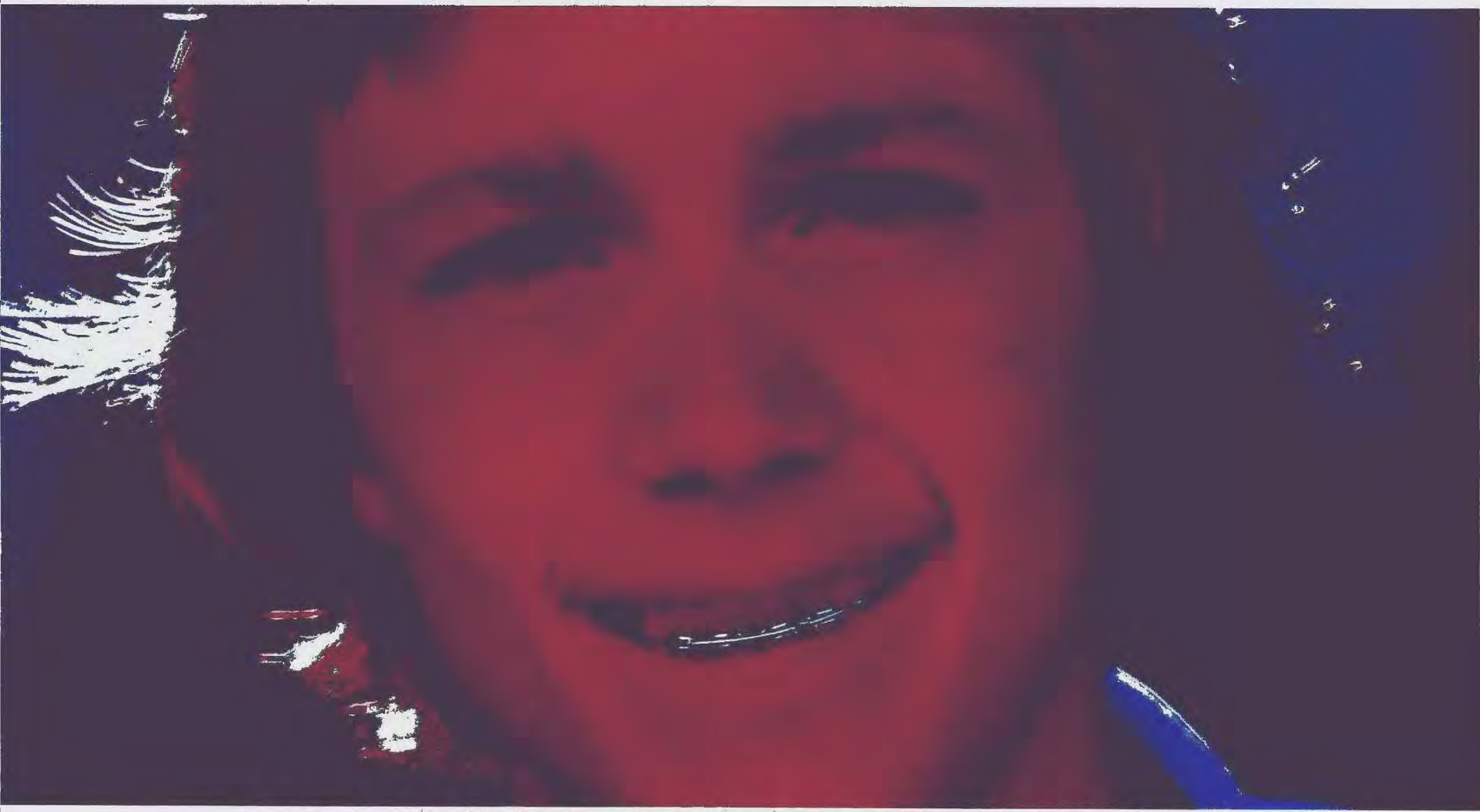

ANOTHER REASON WHY THE TRAVELERS IS NUMBER ONE IN INSURING SMILES.

Trends will force higher benefit age for Social Security

By JERRY GEISEL

SAN FRANCISCO—A higher Social Security retirement age is inevitable, says a top benefits expert.

The active work force will shrink as the population ages and more older workers will have to stay on the job to keep the country running, says Philip Green, manager of Buck Consultants Inc.'s San Francisco office.

Speaking before a RIMS session on the government's impact on employee benefits, Mr. Green says a higher Social Security retirement age would help solve the financial problems of the ailing public retirement program.

Pressures for a higher Social Security retirement age are mounting, Mr. Green says. The President's Commission on Pension Policy, for example, recommended raising the age at which a retiree could collect full Social Security benefits to 68 from 65 by the year 2002 (*BI*, Feb. 2).

Other research groups, including the National Commission on Social Security, also have recommended raising the retirement age.

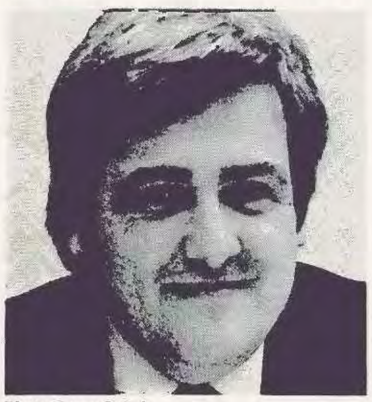

Photo: Jerry Geisel

Higher age limits are inevitable, says Philip Green, consultant.

Mr. Green predicts Congress will act soon to allow the Social Security old age retirement fund to borrow from the financially stronger health and disability trust funds. The Social Security fund could run out of money next year.

Interfund borrowing will buy time until long-term solutions are found for Social Security financing problems.

"It is a safe bet that interfund borrowing will go through," Mr. Green says. Congress won't allow the massive old age retirement fund, which provides benefits to 36 million retirees, to collapse, he adds.

Congress also is expected to examine whether Social Security benefits should continue to be automatically indexed to increases in the Consumer Price Index, Mr. Green says.

With the high inflation rate, Social Security benefit increases have been rising faster than wage hikes.

"This rubs people the wrong way," Mr. Green says. He does not see Congress implementing the President's Commission on Pension Policy's recommendation to tax Social Security benefits for retirees as taxable income.

"Politically, they (Congress) couldn't get away with it," Mr. Green says. Retiree groups, unions and several Congressmen already have denounced the idea.

However, employers and employees, who make equal contributions to the FICA payroll tax, will find their taxes rising sharply during the next 10 years.

The current 6.65% payroll tax will climb to 6.7% next January. In 1985, the tax will rise to 7.05% and in 1990 it will hit 7.65%. ■

Federal HMO handouts spurred shaky plans: Consultant

SAN FRANCISCO—The helping hand of the federal government, which has provided more than $300 million in grants and loans to health maintenance organizations, may have done the HMO movement more harm than good.

The easy availbility of federal funds led to the development of financially unsound HMOs, said Philip Green of Buck Consultants Inc., speaking at a RIMS seminar on the government's impact on employee benefits.

The collapse of poorly managed HMOs has given the entire HMO movement a black eye, says Mr. Green.

About one-third of the 125 federally qualified HMOs has had funding or operational difficulties and 11 have gone bankrupt, Mr. Green says.

HMO development is bound to proceed at a slower, more careful pace now that the Reagan administration wants to eliminate federal grants and loans to new HMOs.

Mr. Green believes HMOs face an uncertain future, but the success of the prepaid health care movement will be bolstered if Congress gives HMOs more flexibility in setting rates and providing benefits.

Counseling sells retirement plans best

By KATHRYN J. McINTYRE

SAN FRANCISCO—A preretirement counseling program is the most effective way to give employees the message about their retirement benefits, says a full-time counselor at Fluor Corp in Irvine, Calif.

"Sell what you're spending," Eldos N. Cable, one of the few full-time preretirement counselors employed by a U.S. corporate benefits department, told a RIMS Conference seminar here.

The cost of a preretirement counseling program is just a manager's salary if he or she is on staff or $40 to $60 per employee to contract for the program.

The programs are beginning to catch on. Hartford Steam Boiler & Inspection Co., for example, is contracting with the Manpower Institute in New York to counsel employees ages 60 to 65 beginning this summer.

Fluor Corp., which developed a preretirement counseling program in 1975 at the request of top management, offers the counseling to employees age 55 or older and their spouses.

About 50% to 60% of the eligible employees accept the company offer to spend two full Saturdays in the program, during which retirement issues from finances to lifestyles are discussed.

The program had been held on company time until "economic cutbacks" forced the switch to Saturday sessions, Mr. Cable said.

Employees are most concerned about health and financial issues in old age, Mr. Cable noted.

But besides giving them what they want to know, Mr. Cable advises that a preretirement counseling program also touch on all issues of retirement: where to live in retirement; how to get along with one's mate on a 24-hour round-the-clock basis; coming to grips with the possibility of death of either spouse; how to spend one's new free time, and what one wants out of retirement.

Mr. Cable, an industrial psychologist, was trained at the University of Southern California's Ethel Percy Andrus Gerontology Center and granted a certificate as a preretirement program planner.

His 16-hour program includes guest speakers, such as Social Security Administration representatives, and investment counselors.

Mr. Cable recommends companies tap the knowledge of area bank trust officers, for example, to expand the program.

As long as the employees are told they can go elsewhere for a service, there's nothing wrong with allowing a vendor to share his knowledge of his services, Mr. Cable said.

But be sure to review with potential speakers what they intend to tell employees to avoid surprises, Mr. Cable advised.

The Fluor Corp. counselor, who has led about 500 employees through the program in the last six years, also asks retired couples to address groups.

"I choose those who are happy and have a positive attitude," he noted.

Mr. Cable would like to expand the program to begin financial counseling for retirment at age 45. At that age, children are graduating from college and it's an appropriate time for people to begin planning their retirement income, but many don't, he said.

"A lot of people at 55 to 58 haven't given it any thought," he added.

Don Pellicano, manager of retirement communication services at Benefacts Inc. in Baltimore, had qualified agreement with Mr. Cable's approach on one point: the range of topics to be discussed.

The communicaton specialist suggested that the discussion of death can be depressing and interfere with the message of "plan for retirement."

"Telling about pension benefits and social security is just part of it. You have to get them also to think about what income they need to live and a survivor would need to live."

A company with a poor pension plan risks upsetting employees when they discover inadequate retirement benefits, he warned.

"Employees can get mad and force a change (in the benefits)," he noted. "Or at least they can plan their own savngs."

Salaried and hourly employees can be mixed into the same groups, both speakers agreed, if the pension benefits are the same. It works at Fluor Corp., Mr. Cable noted.

Mr. Pellicano suggests starting a program for salaried workers and then deciding if it should be expanded.

Participation in the voluntary counseling can be hurt by employee perception that the program is designed to convince them to retire. This fear seems to be diminishing with the increased mandatory retirement age.

A company conducting a program to convince people to retire will fail, Mr. Pellicano warned.

A 35% participation in the first years of a program is not bad, Mr. Pellicano said.

Word-of-mouth endorsement of the counseling by alumni will eventually improve the participation, he suggested. ■

Rising medical costs scare Canada, too

By STEVE SHERWOOD

SAN FRANCISCO—Controlling hospital and medicare costs will be one of the most crucial problems facing Canada in coming years, says Guy Jobin, president of J & HWF Inc., a Montreal consulting firm.

Mr.Jobin, speaking to benefit managers at the RIMS Conference here, says Canada is spending increasing chunks of its gross national product on health care. In 1971, $900 million went to medicare and $2.6 billion to hospital services.

By 1978, these costs rose to $2.1 billion and $7.4 billion, respectively, and are still rising.

"It will be one of the major problems facing us in the next five years," he says. "Medical-related costs are growing at a faster rate than the population or the economy."

Canada's Health Insurance Plan originally was designed to provide 100% coverage for all residents, Mr. Jobin says.

This coverage is being eroded by increasing costs, by the addition of new, expensive services and by doctors billing patients in excess of fees set by provincial health commissions.

Health bills are paid on a cost-share basis between the Canadian federal government and the provincial governments, he says. The federal cut comes out of general taxes.

The provincial cut comes from general taxes, payroll taxes or premiums charged per citizen.

Quebec recently raised its employer payroll tax, through which it funds its health care plan, from 1.5% to 3% because of increased costs. Annual rates charged families in Alberta, British Columbia and Ontario are $255 and $480, respectively.

Premiums are not charged in Manitoba, New Brunswick, Newfoundland, Nova Scotia, Prince Edward Island or Saskatchewan.

Coverage under each provincial health plan varies. Nearly all, however, cover anesthetics, diagnostic services, obstetric needs, oral surgery, physical exams, psychiatric treatment, surgical procedures and use of hospital facilities free of charge or for token payments.

Dental coverage is more varied. A study by Mr. Jobin's firm shows that Alberta reimburses 100% of dental costs to residents over 65 years and up to $1,000 every two years for others; British Columbia reimburses 50 cents on the dollar up to $1,400 to children 4 to 14 and 100% to persons over 65; Manitoba reimburses costs of certain services for children born between 1969 and 1974; New Brunswick provides no dental coverage, and Newfoundland reimburses costs for children up to age 13, with a $2 service charge.

There are other differences. In Alberta, patients pay a $5 admission fee to hospitals and in British Columbia, patients pay $5.50 per day for hospitalization. Other health plans do not charge for hospital use.

Extra billing by physicians to cover costs over fees set by provincial health service commissions is permitted in Alberta, British Columbia, New Brunswick and Ontario if the extra fee is explained before treatment. In Manitoba, Saskatchewan and Nova Scotia only physicians not participating in the health plan may charge extra. In Prince Edward Island, physicians may bill patients for the difference between the set fee and that approved by the province's medical society. In Quebec and Newfoundland, physicians may not bill extra.

In five years Canadians may be paying 50% of medical expenses

"As extra billing increases, this means the plan is no longer one of full reimbursement," Mr. Jobin says. "Extra fees are borne by the individual, who cannot insure against them or recoup them under employee benefit plans."

Five years from now, Canadian citizens may be bearing up to 50% of their medical costs by way of doctors' fees, he says. "This would go against the whole principle of the Canadian Health Benefit Plan."

Higher salaries, more epensive hospital equipment, more complex treatments and a broader base of services available through the health plans have sent costs up, Mr. Jobin says. "One of the reasons pressure is increasing is that the federal government has put a limit on its own contribution, which is roughly 50% of what the provinces are paying. All this has happened in the last couple of years."

The whole area of services has been changing, increasing in scope, he says. He predicts Canadians will have to rethink what should be covered, and they may have to cut back.

"This is a hidden problem, but one that will become more evident as it becomes more serious," Mr. Jobin says."I think people will have to realize what health is costing and be willing to absorb it. Health is an area in which we tend not to want to compromise on economy." ■

The Assurex Journal

VOL.MCMLXXXI . . . . No. 3 APRIL, 1981 INTERNATIONAL EDITION

LONDON ASSOCIATE IS APPOINTED

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C. E. Heath & Co., Ltd., one of the largest Lloyd's broking firms, has been appointed the London associate of Assurex International Corporation. The appointment extends Heath's full range of professional services to clients of Assurex partners.

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Assurex International President Cites Reasons For Exceptional Growth

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The Assurex president replied, "Assurex partners will continue to grow because of new programs to improve client services, and much closer company relationships. We're committed to finding creative ways to represent companies and to serve our clients. We have," he concluded, "over 4,000 men and women dedicated to these goals."

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RISK MANAGEMENT INSTITUTE TO EXPAND SERVICES

With over 50 risk management assignments completed for regional clients, the Assurex Risk Management Institute (ARMI) has announced an expansion of services to this important market segment.

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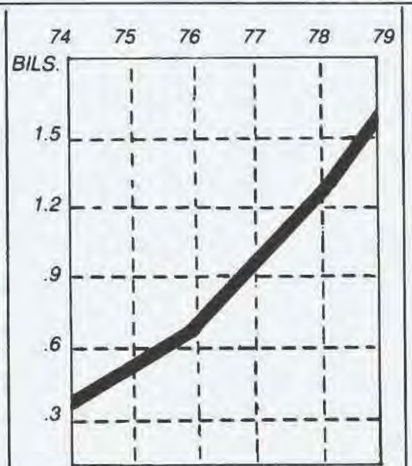

ASSUREX PARTNER CONSOLIDATED PREMIUM VOLUME continued its upward trend through 1979, and now exceeds $1.5 billion annually. Since 1974, Assurex has achieved a 37% annual compound growth rate.

MANY BELIEVE THAT TIME IS AT A PREMIUM

COLUMBUS, O.—A billion minutes ago, Mt. Vesuvius erupted and buried the city of Pompeii (79 A.D.).

A billion seconds ago, severe blizzards isolated 2,000,000 cattle and sheep in the western U.S. (1949).

But a billion dollars ago was just last August for Assurex International partners.

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Perpetuation Planning Newest Addition To Corporation's Services To Shareholders

Assurex shareholders have approved the establishment of a Financial Consulting and Planning Division within the corporation. Formed to provide Assurex partners with unique perpetuation planning capabilities, the division will be headquartered in Columbus, Ohio.

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Partner Spotlight

FRED. C. CHURCH, INC.
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Lowell, MA 01853
617/458-1281

* * *

DeJARNETTE & PAUL, INC.
307 West Main Street
Richmond, VA 23220
804/648-2882

* * *

THE FRANKEL COMPANY
Lieberman/Frankel Associates
Brinton Executive Center
1051 Brinton Road
Pittsburgh, PA 15221
412/244-7500

* * *

GENERAL UNDERWRITERS, INC.
730 Buhl Building
Detroit, MI 48226
313/963-5240

* * *

McDONOUGH-CAPERTON-SHEPHERD GROUP
One Hillcrest Drive East
Charleston, WV 25326
304/346-0611

* * *

THE JAMES B. OSWALD COMPANY
1718 Bond Court
Cleveland, OH 44114

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HONOLULU
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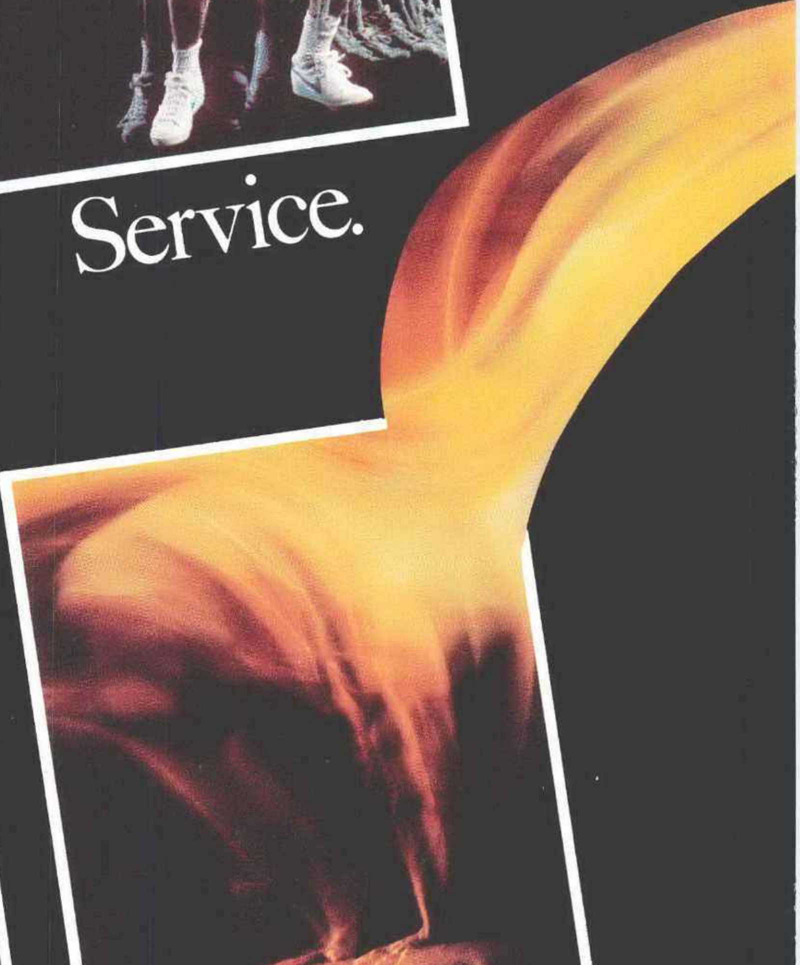


Agility.

Drive.

Clout.

Sensitivity.

info

• Hogg Robinson (Guernsey) Ltd. has published two booklets on captive insurance. **Guernsey as a Base for Captive Insurance** and **Captive Insurance in Guernsey** are available free by writing to M. J. Savage, director and general manager, Hogg Robinson (Guernsey) Ltd., Provident House, Havilland Street, St. Peter Port, Guernsey, Channel Islands.

• A complimentary copy of the weekly **Smart's Insurance Bulletin** is available free from Darrell Heppner & Associates, 1120 E. 14th St., Suite F, San Leandro, Calif. 94577.

• The second edition of **Workers Compensation and Employers Liability Experience Rating** by John R. Stafford features the National Council on Compensation Insurance's workers compensation experience rating plan using illustrated single-state and interstate calculations. Descriptions on eligibility, jurisdictions and experience modification adequacy considerations are included in the publication. Cost is $8.25 prepaid, or $9.15 billed. For a copy, write J&M Publications, Box 338, Palatine, Ill.

• The first security journal designed for corporate managers and data processing personnel, **Computer Security Journal**, has been published by Computer Security Institute. This new periodical tells how a corporation can protect its computer system. The first issue of Computer Security Journal features articles on three software security systems, threat teams and establishing standards for operation system security. Charter subscriptions to Computer Security Journal cost $45, $55 for overseas delivery, for two issues. To subscribe, write Patricia A. Redden, Computer Security Institute, 5 Kane Industrial Drive, Hudson, Mass. 01749.

• Is your umbrella coverage water-tight? Rimco's **Manual of Umbrella Forms and Interpretations** details gaps in coverage, cost, availability, markets, limits, exclusions, conditions, layer requirements and premiums. Rimco also sends revised materials as developments occur. The cost for the umbrella manual and updates for one year is $95. To order a copy, write International Risk Management Institute Inc., Suite 208, Building IV, 10300 North Central Expressway, Dallas, Texas 75231.

• LABELMASTER has published a 20-page, full-color brochure featuring the **new signs and labels required by the Environmental Protection Agency and the Department of Transportation for hazardous wastes and substances.** To receive a free brochure illustrating the products, write LABELMASTER, 7525 N. Wolcott Ave., Chicago, Ill. 60626; 312-793-5100.

• The New York Free Trade Zone and the New York Insurance Exchange are covered in a special issue of **The Bulletin,** the publication of the New York Insurance Department. The articles cover the background and operation of the New York Free Trade Zone and the New York Insurance Exchange, an analysis of the Free Trade Zone regulations, placing insurance in the Free Trade Zone and management and progress of the exchange. A free copy of the bulletin is available by writing to Library, New York Insurance Department, Two World Trade Center, New York, N.Y. 10047.

• M&M Protection Consultants has issued a new booklet, **"The Supervisor's Role in Hazard Control."** Free single copies are available from James G. Perkins, M&M Protection Consultants, 222 S. Riverside Plaza, Chicago, Ill. 60606. Booklets also may be ordered in quantities. Prices for bulk orders are $1 each to nine copies; 90 cents each, 10 to 49 copies; 80 cents each, 50 to 99 copies; 70 cents each, 100 copies or more. ■

Senate rejects Social Security boosts

washington

By JERRY GEISEL

WASHINGTON—The Senate has soundly rejected a proposal to cut back automatic cost-of-living increases for Social Security benefits.

The proposal, by Sen. Ernest Hollings (D-S.C.), would have based Social Security benefit hikes on increases in the national average weekly wage whenever wages rise slower than prices.

Sen. Hollings said the CPI benefit indexing has to be changed because "we're spending it (funds) faster than we're receiving it."

But the Senate refused to go along with Sen. Hollings, rejecting the plan 86-12.

The Reagan administration consistently has opposed any tampering with the Social Security benefit increase formula.

IRA limit

Rep. John Erlenborn (R-Ill.) has introduced legislation (H.R. 2882) to increase to $2,000 from $1,500 the annual limit a person may contribute to an Individual Retirement Account.

Mr. Erlenborn's 1981 Employee Retirement Savings Bill also would allow employees in corporate pension plans to deduct up to $2,000 for contributions to an IRA or to the corporate plan.

Federal law now bars employees covered by a corporate pension plan from setting up an IRA. In addition, employee contributions to a company-sponsored plan are not tax deductible.

Cotton dust

The Occupational Safety and Health Administration will review a 1978 standard that limits textile workers' exposure to cotton dust.

The standard is under review to determine if the cost of compliance outweighs the possible health benefits, says OSHA chief Thorne Auchter.

Exposure to cotton dust has been linked to brown lung or byssinosis, a lung disease that can be fatal.

The OSHA regulation limits workers to 200 micrograms of cotton dust per cubic meter of air in yarn manufacturing, 500 micrograms in textile manufacturing and 750 micrograms per cubic meter of air in slashing and weaving production over an eight-hour period.

Public pensions

About 90% of state and municipal employees are covered by pension plans, according to an analysis by William M. Mercer Inc.

As of mid-1979, employers were contributing $6 billion annually to fund the 6,630 public plans.

Like their private counterparts, most public plans require 10 years of service for vesting. The pension benefit usually is based on final average annual salary during the last three to five years of employment.

About 75% of state and local employees are covered by Social Security; the remainder have dropped out under Social Security Administration rules.

The threat of a federal law to regulate public plans has encouraged some state and local governments to evaluate their pension plans, William M. Mercer notes.

Florida and Texas, have passed legislation establishing state regulatory oversight of all public plans.

OPIC nominee

President Reagan will nominate Florida banker Craig A. Nalen to be president of the Overseas Private Investment Corp.

Since 1978, Mr. Nalen has been director of Barnett Bank of Palm Beach County, Fla. From 1975-80, he was president and chairman of STP Corp. of Fort Lauderdale, Florida.

College of Insurance

Registration for summer classes of the evening division of the College of Insurance will be held Wednesday and Thursday, April 29 and 30. The first term runs May 4 to June 25, while the second term is June 29 to Aug. 14.

datebook

APRIL 21-24. Third ASIS Telephone Security Training Course in New Orleans, sponsored by American Society for Industrial Security; $415 for members, $490 for nonmembers. Education and Seminar Programs Department, ASIS, 2000 K St. N.W., Washington, D.C. 20006; 202-331-7887.

APRIL 23-24. Risk Management Seminar in Los Angeles (**April 30-May 1 in** New York City), sponsored by The College of Insurance; $357. The College of Insurance, 123 William St., New York, N.Y. 10038; 212-962-4111.

APRIL 24. Effective Safety Committees Seminar in Los Angeles, sponsored by the International Safety Academy; $150. Also **June 12** in Cleveland. Registrar, ISA, 10575 Katy Freeway, P.O. Box 19600, Houston, Tex. 77024; 713-932-9400.

APRIL 25. Aviation Law Seminar in Newark, Del., sponsored by the University of Delaware; $25. Candice Dalrymple, Division of Continuing Education, University of Delaware, Newark, Del. 19711; 302-738-1171.

APRIL 28. Employee Communciations, Compensation and Benefits Issues in the '80s Seminar in Chicago, sponsored by The Wyatt Co.; $175. Robert Ellis, The Wyatt Co., Suite 5600, Sears Tower, Chicago, Ill. 60606; 312-876-1616.

APRIL 30-MAY 1. Libel Litigation in New York City, sponsored by the Practising Law Institute; $265. Practising Law Institute, 810 Seventh Ave., New York, N.Y. 10019; 212-765-5700.

MAY 4-5. International Benefits Seminar in Chicago, sponsored by Meidinger Inc.; $50 two days, $30 one day. Also **May 11-12** in Boston. Stephen F. West, Meidinger Inc., 2440 Grinstead Drive, Louisville, Ky. 40204; 502-499-1240.

MAY 6-7. The Life Safety Code NFPA 101 in Indianapolis, sponsored by the National Fire Protection Association; members, $195; nonmembers, $220. Also **June 8-9** in San Francisco, **June 15-16** in Dallas. NFPA, 470 Atlantic Ave., Boston, Mass. 02210; 617-482-8755.

MAY 6-8. Aviation Risk Management Course in London, sponsored by Risk Research Group Ltd., $680. Caroline Atkinson, Risk Research Group Ltd., Bridge House, 181 Queen Victoria St., London EC4V 4DD; 01-26-2175.

MAY 6-8. Insurance Claims Supervisor Seminar in Des Moines, sponsored by the Defense Research Institute; members, $160; nonmembers $200. Anthony Karpowitz, DRI assistant research director, Defense Research Institute, 1100 W. Wells St., Milwaukee, Wis. 53233; 414-272-5995.

MAY 7-8. First International Political Risk Management Conference in Washington, D.C., sponsored by The Wharton School of the University of Pennsylvania; $695 plus $85 registration, company discounts available. Registrar, 14th floor, University Conference Center, 360 Lexington Ave., New York, N.Y. 10017; 212-953-9022.

MAY 12. Toxic and Hazardous Waste-The Insurance Challenge Seminar in Chicago, sponsored by the Society of Chartered Property & Casualty Underwriters, suburban Chicago chapter. No charge, reservations suggested. Edward L. Page Jr., Park PM Corp., 300 S. Northwest Hwy., Park Ridge, Ill. 60068.

MAY 13. One Day Benefits Briefing in Seattle, Wash., sponsored by the International Foundation of Employee Benefit Plans. Also **May 14** in San Francisco; **June 3** in Huron, Ohio; **June 4** in Washington, D.C.; **Aug. 6** in Milwaukee; **Aug. 7** in Minneapolis. IFEBP, 18700 W. Bluemound Road, P.O. Box 69, Brookfield, Wis. 53005.

MAY 15. University of Connecticut Centennial Forum, "The Economic Issues of the '80s, Particularly as They Impact on the Life Insurance Industry," in Hartford; $7.50. Center for Insurance Education and Research, 39 Woodland St., Hartford, Conn. 06105.

MAY 17-20. The National Council of Self-Insurers Annual Meeting in San Antonio, Tex., with guest speaker Sen. Orrin Hatch, sponsored by the council; $250 for members, $350 for nonmembers. Mary Ann DeSanto, NCSI Administrator, The National Council of Self-Insurers, 420 Lexington Ave., Rm. 2910, New York, N.Y. 10017.

MAY 17-20. Offshore Oil Drilling and Insurance Seminar in McAfee, N.J., sponsored by The College of Insurance; $285 for sponsoring members, $330 for others. The College of Insurance, 123 William St., New York, N.Y.10038; 212-961-4111.

JUNE 1-3. Linking up the Risk Manager in Lincolnshire, Ill., sponsored by The Risk Management Institute, University of Dallas, will examine how a risk manager fits into his/her organization; panelists include consultants Richard T. Bergsund and Arthur X. Deegan, Charles McDowell of the Public Television Broadcasting System, R.L. Whynot of Reliance Risk Management Inc., E.W. Altstaetter of Rockwell International and Professor Bruce Evans of The Risk Management Institute; $795 for each risk manager; risk manager supervisors pay $300 for first day and $150 for each additional day. The Risk Management Institute, University of Dallas, Box 3685, Irving, Texas 75061.

JUNE 10-12. Techniques of Risk Management Seminar in Chicago, sponsored by the Risk and Insuranace Management Society; members, $295; nonmembers, $395; additional participants attending with member, $175. Also **Sept. 9-11** in Toronto, Canada, and **Dec. 14-16** in Charlotte, N.C. Rebecca Zimm, RIMS, 205 E. 42nd St., New York, N.Y. 10017; 212-286-9292.

JUNE 14-17. Safety Engineers' 1981 Professional Development Conference in Salt Lake City, sponsored by the American Society of Safety Engineers; ASSE members, $275; $325 for nonmembers. ASSE, Education dept., 850 Busse Hwy., Park Ridge, Ill. 60068; 312-692-4121.

JUNE 15. The New Outlook for Hazardous Waste Management Seminar in Washington, D.C., sponsored by Booz, Allen & Hamilton; $750. Karen Smolens, Center for Management Research (Briefing Coordinators), 850 Boylston St., Chestnut Hill, Mass. 02167; 617-738-5020.

JUNE 17-18. Reinsurance Management Conference in New York City, sponsored by Interforum Group Inc.; $495. Also **June 22-23** in Atlanta; **Sept. 14-15** in Chicago; **Oct. 5-6** in Houston, **Oct. 28-29** in San Francisco. Interforum Group Inc., 68 William St., New York, New York 10005; 212-269-2240.

JUNE 23-25. Seventh Annual Benefit Plan Administrators Institute in Chicago, sponsored by Charles D. Spencer & Associates Inc.; $400. Charles D. Spencer & Associates Inc., 222 W. Adams St., Chicago, Ill. 60606; 312-236-2615.

JUNE 28-JULY 1. Collection of Employer Contributions Program in Lake Tahoe, Nev., sponsored by the International Foundation of Employee Benefit Plans; members $360, nonmembers $435. IFEBP, P.O. Box 69, Brookfield, Wis. 53005; 414-786-6700. ■

comings & goings: buyers

Butler flies Cioci up to higher post

Gerald R. Cioci has been named vp and treasurer of Butler International Inc., based in Montvale, N.J. Mr. Cioci, who most recently was treasurer at Butler, is responsible for the firm's insurance functions and is executive vp of its reinsurance company in Bermuda. He joined the firm in 1973 as credit manager and was promoted to assistant treasurer-financial administration. Before that he held various management positions at Gulf & Western Industries, Borden, Federal Paper Board and Englehard Industries. Mr. Cioci has a bachelor of business administration degree and a master of business administration from Fairleigh Dickinson University, is a member of the Risk and Insurance Management Society and is on the faculty of Fairleigh Dickinson.

* * *

James Strunk, former risk manager for the city of Everett, Wash., has been named risk manager for the Puget Sound Insurance Authority in Seattle. In this newly created position, he will be responsible for developing, implementing and administering a risk management program for a newly formed insurance pool for nine cities. He has a master's degree in public administration from the University of New York at Albany.

* * *

Moore International Corp. in Portland, Ore., has named **Michael Force** to the new position of vp-legal and risk services. Mr. Force, who reports to company president George Weaver, will be responsible for risk management at the firm's six plant locations and serve as counsel. He has a bachelor's degree in business administration, a law degree and is working toward his ARM designation.

* * *

Vincent A. Oliva, formerly assistant vp and manager of insurance and risk financing at Irving Trust Co. in New York, has joined Marsh & McLennan as an account executive. Irving Trust has not yet replaced him. Mr. Oliva joined Irving Trust in 1972 as assistant insurance manager, was named assistant secretary in 1976 and assistant vp and manager in 1978. Before that, he was an underwriter and claims representative at Reliance Insurance Co. Mr. Oliva graduated from the College of Insurance and belongs to the New York Chapter of RIMS.

* * *

Paul F. York, 31, has been named director of risk management for The Penn Central Corp. in New York. He leaves National Semiconductor Corp. in Santa Clara, Calif., where he served as director of corporate insurance. Mr. York holds a bachelor of arts degree from the University of New Hampshire and a master of business administration degree in finance and risk management from the University of Georgia.

* * *

Barbara J Dailey, 36, is director of industrial relations for Cosco Industries Inc. in Spring Valley, N.Y., a new position created in January to oversee risk management, employee benefit management, leases, patents and trademarks and personnel.

She was personnel manager and was promoted to her current position at the same time **Edward Sinott** joined the company as risk manager, as previously reported. Ms. Dailey reports to executive vp William Downey.

•

We would like to report on staff changes in your risk management or employee benefit department. Just drop a note to Business Insurance, 740 N. Rush Street, Chicago, Ill. 60611 or call 312-649-5482. We would also like to receive pictures of the people.

Allstate tops Umbrella Book test

NEWPORT BEACH—A leaky umbrella policy will not provide the maximum protection you need on a rainy day in the risk management department.

But if the umbrella is underwritten by Allstate Insurance Co., Liberty Mutual Insurance Co., Gibraltar Casualty Co. or Northumberland General Insurance Co., the cover is more loss-resistant.

The basic umbrella liability policies sold by these four insurers were judged as the best in overall coverage and superior to the policies of 66 other insurers by a major independent risk management consulting firm.

The purpose of an umbrella is to provide broad excess coverage, points out James A. Robertson, C.P.C.U., editor of The Umbrella Book published by consultants Warren McVeigh & Griffin in Newport Beach.

"If a policy is cluttered with a lot of confusing restrictions, that purpose is defeated."

Mr. Robertson gives insurers high marks for clear expression, but wordy, contorted policy language is often a clue to restrictive coverage. Insurers that make policies difficult to interpret earn the industry a bad name, he adds.

The rankings of 70 umbrella forms published in the March, 1981 supplement to The Umbrella Book continues a practice begun by the consultants last year. The group grades umbrella policy forms on the basis of specific coverage strengths and weaknesses.

Grades are assigned by Mr. Robertson with associate editor Jonathon K. Fish after analysis and comparison of umbrella forms submitted by insurers andbrokers.

"We discuss our results to try to be sure we've been fair to every company and consistent in evaluation of policy terms," said Mr. Robertson.

Forms are evaluated on the basis of three chief criteria, explained Mr. Robertson—clarity of language, number of policy restrictions and presence of ambiguities that could give rise to coverage disputes with policyholders.

After the analysis, policies are assigned to one of four categories: umbrellas with best overall coverage terms, umbrellas with minor correctable defects, umbrellas with easily corrected major defects and umbrellas with major defects not easily corrected (see chart).

The most striking change in this year's evaluations is the plunge of CNA's umbrella liability form from the top category in the last analysis into the cellar.

One reason the form was named to the "best overall" category last year is that it carried a separate insuring agreement stating that umbrella coverage followed underlying primary coverage. But now CNA has introduced conditions that dilute and confuse that clear statement, the editors say.

New limitations may make the CNA umbrella more restrictive than the underlying primary policy, but the old insuring agreement obscures this change. The result is that a policyholder might think following form coverage is included when it is not.

The biggest problem with the form would arise if it is excess of a primary claims-made policy, said Mr. Robertson. Less critical problems might crop up if CNA were excess of an underlying occurrence.

Guaranty National Insurance Co. also tumbled out of first place into the second category after reverting to a standard umbrella form this year. Until recently, Guaranty National used a policy similar to CNA's old form with the desirable insuring agreement that provides following form coverage.

Guaranty National also changed its definition of "occurrence" to cover only accidents—a flaw that could be quickly fixed with an endorsement to extend the definition to include all events.

Both Allstate and Liberty Mutual forms were top-rated last year but Northumberland General Insurance Co. and Gibraltar Casualty Co. are newcomers to the consultants' analysis. This is the first year their forms have been reviewed.

Both forms earned editors' praise for clear wording and minimal restrictiveness. The Gibraltar Casualty policy has only four exclusions.

"Seldom do you find umbrellas with fewer than six or seven," said Mr. Robertson.

Gibraltar Casualty may not offer more liberal underwriting, said Mr. Robertson, but they start out with a cleaner basic form. Restrictions that may be added later stand out because an endorsement will be attached.

"It's an honest approach to providing coverage," he said.

Most companies put many more restrictions in the basic form where they tend to be buried. Insurers will eliminate those exclusions for a price. But standard language in the printed policy doesn't call attention to itself. Onerous terms are likely to be overlooked by the broker and buyer, he adds.

Allstate's policy has the best definition of persons insured among the 70 forms analyzed, said Mr. Robertson. "Best" means degree of benefit or scope of coverage from the policyholder's point of view, he clarified.

Liberty Mutual was again included in the top grouping, largely on the strength of its definitions of personal injury and property damage. The personal injury coverage is unique, Mr. Robertson expalined, because it includes but is not limited to specific perils named in the policy.

Forms with minor defects that are listed in the second category can be corrected with extra care and attention by the insurer and broker, noted Mr. Robertson.

Payments for defense costs under a Home Insurance Co. umbrella reduce the limits available for liability judgments and settlements, for example. But this problem can be cured by increasing the total umbrella limits.

Forms with major defects are so severely restricted or poorly worded as to make coverage uncertain, said Mr. Robertson. The third group contains listings of forms whose major defects can be corrected by simple endorsements to the policy form.

In the cellar category, however, the forms are so defective that corrections are impossible. A deficiency in the named insured definition or a key insuring agreement may be repeated throughout the form.

Some contracts in this category

contain so many separate restrictions that they provide less coverage than standard primary liability policies, the editors say.

Attaching a bundle of modifying endorsements to a bad basic policy confuses coverage even further. Because of the difficulties in resolving such ambiguities, it is probably better to seek a more generous, coherent umbrella from another insurer, says Mr. Robertson.

Although the umbrella rankings are intended to guide buyers to the broadest and clearest available policy terms and coverages, they do not address the issue of value received per premium dollar spent. Some insurers, for instance, may offer narrow coverage, but also charge a modest premium.

The Bituminous Casualty Insurance Corp., listed in the third category, is an example of a company that made a deliberate decision about where it wanted to be in the market, notes Mr. Robertson. The coverage isn't as broad as some policies, but the form itself is written in plain, easy-to-understand language.

Confusing language in umbrella policies results from widespread plagiarism of forms within the industry, the editors say. Some contracts are actually cut out and repasted together from other insurers.

Five fold-out charts accompanying The Umbrella Book show specific coverage provisions contained in individual policies. The color charts make over 9,500 form comparisons on 138 specific coverage items including defense provisions, definitions and limits and exclusions.

The Umbrella Book, in its sixth year of publication, is a generally recognized reference tool for agents, brokers and risk managers negotiating liability policies. It is also used by reinsurers to check policy terms and conditions. ■

Grading the Umbrellas

Best Overall Coverage Terms

Allstate Insurance Co.
Gibraltar Casualty Co.
Liberty Mutual Insurance Co.
Northumberland General Insurance Co. (Toronto)

Minor Correctable Defects

California Union Insurance Co.
Guaranty National Insurance Co.
Home Insurance Cos.
Integrity Insurance Co.
St. Paul Fire & Marine Insurance Co.

Major Easily Corrected Defects

Aetna Casualty & Surety Co.
AIU Insurance Co./AIG
American States Insurance Co.
Bituminous Casualty Corp.
Centennial Insurance Co.
Central Mutual Insurance Co.
Central National Insurance Co. of Omaha
Chicago Insurance Co./
Interstate Group-Fireman's Fund
Chubb/Pacific Indemnity Group
Comstock Insurance Co./ Fremont
Continental Insurance Co.
Crum& Forster Cos.
Delta Lloyd's Insurance Co.
Employers Insurance of Wausau
/Wausau Insurance Cos.
Fireman's Fund Insurance Cos.
First State Insurance Co.
Gerling Global General Insurance Co. (Toronto)
Great American Insurance Cos.
Gulf Insurance Co.
Harleysville Mutual Insurance Co.
Hartford Insurance Group
Indiana Insurance Co./ Crum & Forster
Industrial Indemnity Co.
Insurance Co. of North America
Interstate Fire & Casualty Co./
Interstate Group-Fireman's Fund
JEVCO Insurance Co. (Toronto)
Lexington Insurance Co./ AIG

Watch plans in mergers

NEW YORK—Hospital mergers and increasing costs of Social Security are two critical problems facing benefit managers for hospitals and heath care fields groups, consultants say.

Faced with mergers, benefit managers should "avoid the danger of going toward the highest common denominator in benefits," said William M. Mercer senior consultant Charles Blanksteen.

"In a merger you have the chance to fix and mend everything. And you have the chance to alienate key employees, which is something you don't want to do," Mr. Blanksteen said during a seminar for health care executives.

"You're going to have to consider everthing. Make sure those leaving are treated fairly and those staying are receiving adequate compensation."

He suggests asking how they feel about various parts of the benefit packages.

"You'd be surprised how people feel about benefits," said Mr. Blanksteen.

"Communications will be the biggest issue of all. You're going to have to explain all the new systems to people," said Mr. Blanksteen.

Social Security presents another key decision for benefit managers.

With cost projections for Social Security at 25% of payroll in just one generation, nonprofit groups such as hospitals are considering opting out.

"This is probably the single most important decision you will make," Ethan Kra, assistant vp at Mercer, told hospital administrators. "Opting out of Social Security is a decision that is irrevocable."

Increasingly, he and others explained, hospitals are giving the required two-years' notice to opt out, and use that time to study its feasibility.

Key questions that should be examined are: whether a replacement will cover all areas Social Security does, such as retirement, Medicare, disability, survivor benefits, lump sum death benefit and cost-of-living adjustments.

"You need to quantify and qualify the risks involved. The issues are complex and the decision is enormous. The whole hospital must opt in or out," Mr. Kra said.

Quantification should take into account: the economy—interest rates, salary increases, productivity and inflation, demographics, mortality rate, disability, morbidity, salary levels, new entrants, retirement age, marriage rate and dependent children, legal environment and revenue sharing benefit level changes and tax changes. ■

Can the insurance industry meet the needs of America's drive for energy independence?

The transition from imported oil to new domestic energy sources is creating enormous challenges—social, political, technological, and commercial. Not the least of these is the challenge to insurance brokers with clients in the business of providing energy. It will cost at least $100 billion in current dollars to equip the domestic synfuels industry, according to a leading energy company executive. But unless the risks can be managed, the investments will not be made. "We are not going to expose assets that are uninsured," the same executive said.

This $100 billion investment will be an *additional* burden. Existing capital expenditure programs are already running at *$75 billion a year* to meet the demand for new oil exploration, enhanced recovery systems, and new refinery capacity for heavy crudes.

Energy companies and their risk managers look primarily to the insurance broker to help with this enormous and unprecedented increase in the value of assets at risk. The broker must provide energy companies with all of the risk-management alternatives, including the transfer of risks to insurance markets. The broker's most important functions will be threefold: developing and providing access to new insurance capacity, developing new coverages to attract that capacity, and providing loss-control and environmental-protection services which will be essential to minimize risks and make those coverages available.

The insurance capacity crunch

Where are the new sources of capital to provide the huge catastrophic coverages that will be needed? Captive insurance companies and association insurers will play a role. New American insurance exchanges will also make a contribution later in this decade if regulatory impediments are removed. But the most important source of all will be the international insurance markets. American capital will not be sufficient to build a vast new industry and to insure it, too. Energy executives are well aware of this. "We view the broker primarily as a source of entrance into the world insurance marketplace," one of them recently commented.

Brokers must therefore have strong relationships with the worldwide underwriting community in order to reach the sources of capital and introduce the new coverages that will be required. New organization and new concepts will have to be developed, but the brokerage industry has met such challenges before. The needs of the nuclear-power industry led to the creation of special insurance syndicates, reciprocal self-insurance pools, and industry-owned mutual insurance companies, all through the efforts of brokers, underwriters, and industry. Today, the nuclear industry needs insurance capacity in still greater amounts and in forms responsive to its particular technological characteristics.

Merely finding new capital sources is only the beginning. Completely new coverages will have to be designed to attract this capital into the markets at acceptable premiums. This will require informed risk analysis of all types of new energy installations. Obviously, processes as diverse as coal gasification, coal liquefaction, and direct combustion cannot be lumped together. The exposures they create vary enormously. Tar sands and oil shale also present different problems, as do solar installations, solid waste conversion, biomass processing, and tidal and wind-powered systems. To serve their clients in these areas, brokers will have a greater need for loss-control and risk-management talent than ever before.

Risk management in the eighties: an exploratory review by Marsh & McLennan

This message is the first in a series dealing with major issues likely to affect the risk-management process in the 1980s. Vast and rapid changes are taking place in our economic, political, social, and technological environment. We plan to focus on the implications of these changes for risk-management clients and on the specific role of the insurance broker. Our purpose is to provoke constructive debate. We have solicited and received opinions from a number of corporations and underwriters on these subjects which we intend to share with you in this series. If you would like to send us your views, we will be pleased to add them to the comments we already have.

Write to: Mr. Philip J. Brown, Jr., Executive Vice President, Marsh & McLennan, Incorporated, P.O. Box 839, Radio City Station, New York, N.Y. 10101.

The growing need for specialized talent

Insurance capacity alone will not be enough. Unless it is available to energy companies at premiums compatible with profitability, the huge investments needed for energy independence will not be made. Loss-control engineering is therefore a *sine qua non*. Risk-management specialists will have to be involved at the earliest possible stages when new installations are being planned and designed.

Implementing the risk-management approach in any field calls for the broker to have strong teams of specialists in many engineering disciplines. To meet the future needs of clients in the energy industry, these teams will have to be enlarged and strengthened, so that risk-analysis and loss-control specialists can evaluate any new installation, operation, or process as a whole, rather than as a series of disconnected technical problems.

Brokers will therefore have to make important investments in the training of specialists to provide the risk-management and technical services which their clients will require. It will be more necessary than ever that we "speak our clients' language," and this effort will have to be made at a time when shortage of technical talent will be aggravated by the increased planning and operational demands of the entire energy industry.

Environmental concerns

Asset-protection, though vital, is only one of the insurance problems posed by the drive for energy independence. The inevitable environmental impact will also place heavy demands on insurance capacity, new coverage development, and loss-control resources.

Certain forms of environmental liability insurance are dependent on engineering surveys conducted before coverage is provided. But energy companies and their publics must be assured that the environmental risks can be managed, or the installations will not be built. So input from brokers with extensive environmental engineering experience will be essential through all the stages of designing and planning any new energy installation.

The increased need for risk-analysis, loss-control, and insurance-brokerage skills will have an impact on every field of energy industry activity, from ocean floor to outer space. New marine coverages will have to be developed for tidal and ocean-thermal systems. Oil-rig "life insurance" is also a probability. Energy-collection by satellite will pose totally different problems.

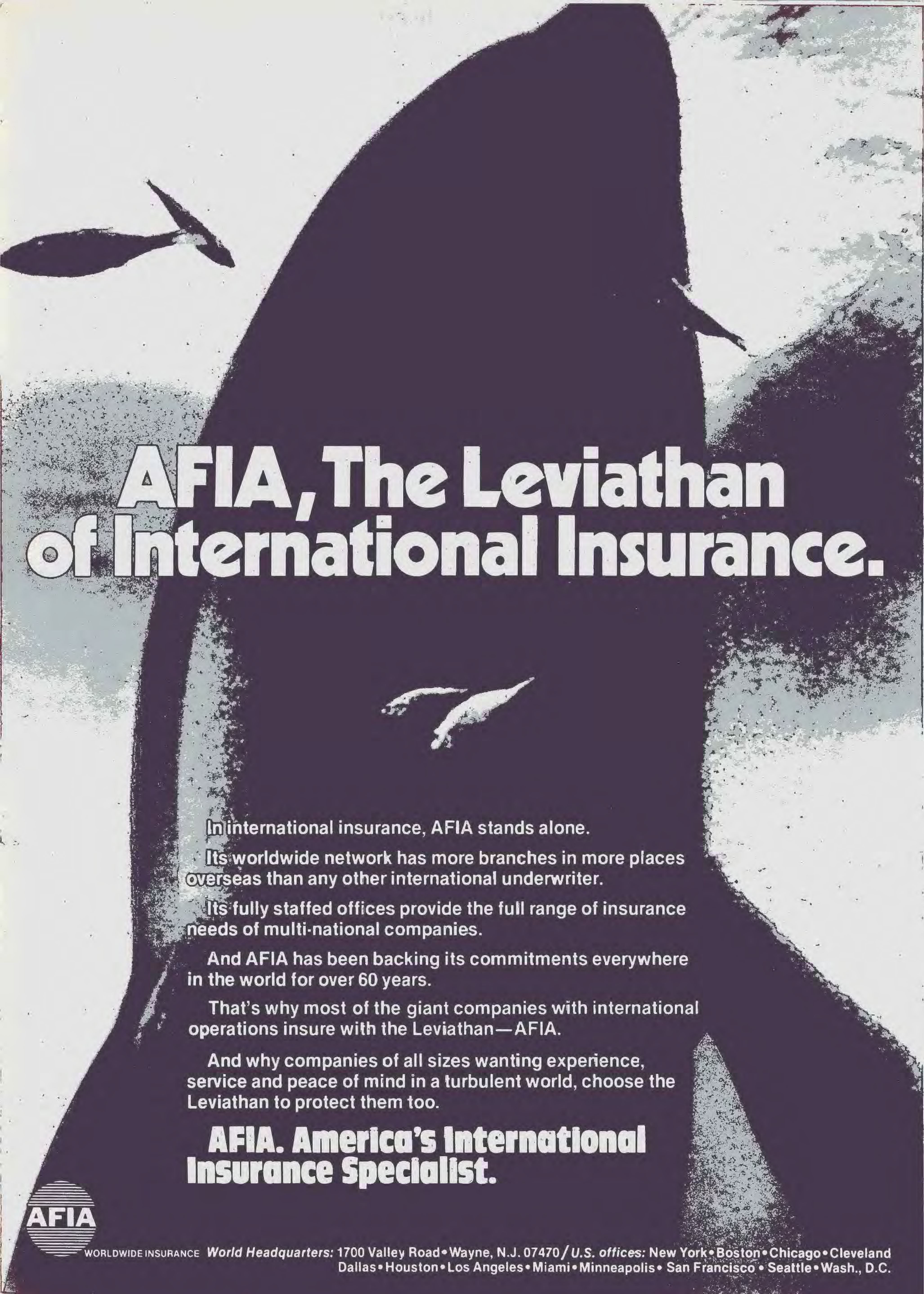
Summary: the challenge for the insurance broker

To solve the risk-management problems of this energy transition era, a broker must have, and must continue to develop, certain major strengths in serving its clients:

- Broad access to international insurance markets to obtain the needed capacity.
- Technical capabilities: both to develop new insurance coverages and to provide loss-control services.
- Environmental knowledge and experience.
- Depth of professional talent to meet the challenges that lie ahead.

Recognizing these needs is a first step. Meeting them will take imagination, careful planning, and sustained effort. At Marsh & McLennan, we are confident that both the talent and the resources will be found.

Marsh & McLennan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perspective

Talking benefits

Teamwork shapes description

By Michael Clive

"In the event of any discrepancy between information set forth in this summary plan document, the official plan document shall govern."

Does that clause look familiar? It shouldn't. Known as the "ERISA disclaimer," it's widely used to guard against the supposed perils of plain language in a summary plan description (SPD).

Unfortunately, it doesn't work. The U.S. Dept. of Labor has said the disclaimer is valueless when a participant is denied benefits that might reasonably be expected according to an SPD.

The disclaimer is just one of the myths still plaguing benefit communications. ERISA's communications regulations, like much else in the act, set minimum standards that benefit plans must meet. For fiduciaries and plan designers, the conservative approach, following the minimum standards to the letter, is most economical. But applying this approach to communications can lead to disaster.

The problem lies both in the regulations themselves and in the way corporate communicators have chosen to comply. For example, the regulations skirt the issue of readability, mandating "language calculated to be understood by the average plan participant." Considering the complexity of some plan provisions, that might seem like a tall order. But it allows much more latitude than many state laws that set numerical standards of readability or restrict the vocabulary insurers may present to consumers.

Plan communicators rarely take advantage of this flexibility. Instead of creating a style that really fits provider, participant and plan, they use "calculated" language: short words, short sentences, and short on creativity. Where the regulations provide examples of acceptable language to protect the participant, such as the ERISA "rights statement" or information on legal process, most SPDs quote verbatim.

They treat this information first by eclipsing plan features and benefits behind legal rights, administrative details and precautions in case things go wrong.

If benefits have the potential to improve the employment relationship—and they do—then effective communications are the most important tool in achieving this potential. Like cash compensation, benefits are one way a company can tell employees they are valued.

But there is a lot more to the benefits message than just numbers, and it won't come across unless a clear, credible "voice of the provider" presents the plan in a positive way.

How? SPDs should follow readers' real-life needs and interests. There are only two moments when plan participants will take the initiative to read an SPD: when first learning about a plan, and when they have specific questions about their benefits.

The SPD may never be your first choice for reading enjoyment, but its style should enhance readability and reference utility. It should have an attractive look and crisp writing. And the total effect should link the benefit with the organization providing it. A consistent, recognizable voice can forge this link, uniting separate plan descriptions as part of a single, valuable compensation package.

Who should write and design the SPD? In most cases, there is no single person qualified to do the job. Legal and actuarial consultants can only "translate" language into simpler vocabulary and shorter sentences. Professional writers can anticipate the participant's point of view, telling the story with greater impact, but they can't often cope with the technicalities of the plan. In fact, writing legal documents to meet consumers' needs is a major new specialty known (though misleadingly so) as language simplification. Benefit communications lie within this specialty, but it has not yet gained wide acceptance in writing summary plan descriptions.

Many administrators feel once the lawyers, underwriters and actuaries have done their jobs, the financially pruduent course is to save the cost of communications consultants by doing the SPD in-house. Where there is no alternative, careful planning can help avoid the usual weaknesses of the home-made SPD.

Remember these methods:

- Create a task force with one member for each major area of responsibility: legal sufficiency, plan administration and participant advocacy.
- Plan for at least three drafts, allowing two weeks or so for review and revision between each.
- Limit the task force to their areas of responsibility. Avoid free-for-all controversies on writing style, graphics or technical points.
- Foster a sense of teamwork. Set up a problem-solving method that defuses conflicts through group interaction and familiarize the task force with the process.

One successful approach gives the participant advocate the primary role in drafting. The advocate is best selected from the personnel or communications departments. The task force then reviews each draft. It's a sizable commitment of time that doesn't end when the SPD goes to press. Creating follow-up communications and media for feedback takes still more time and expense.

In the face of that kind of commitment, the minimally compliant approach can look awfully attractive. But the expenses hidden in effective plan communications far outweigh the savings.

How much? Start with short-term dollars, the costs of more-frequent updating and refinement needed because the SPD was less than professionally-prepared. Then add the incentive value lost because the SPD failed to show benefits in the best possible light. If that's not enough, consider what just one participant's "unpleasant surprise" could cost in court. ■

Michael Clive is a vp with Lister Butler Inc., a New York consulting firm.

perspective

Pooling work comp

Group risk retention offers benefits, pitfalls

By Keith C. Kakacek

Nationally, associations are finding strength in numbers. It started in employeee benefits and is expanding steadily to other risks.

The "law of large numbers" first headed to the forefront in the purchasing of group employee benefit insurance coverage. The move received its initial thrust from groups that provided employee benefits such as life and disability insurance and medical and dental coverage to members.

The initial entries into the group-sponsored self-insurance arena were fostered by the lack of regulation of these lines of coverage and ready access to stop-loss coverage.

Spurred on by initial successes, associations throughout the country have turned to state legislatures to modify workers compensation laws to allow for the group pooling of risk, too. To date, the states which currently allow or are in the process of reviewing self-insurance through association pooling are: Arkansas, Florida, Kentucky, Louisiana, New York, North Dakota, Georgia, Virginia, Alabama, South Carolina, Maine, Michigan, and Illinois. The results are causing undercurrents in the remaining states.

Even in states that have not yet approved self-insurance, similar benefits may be possible through other funding mechanisms such as captives or fronted plans. Smaller firms, previously barred from risk retention because of their size, are now organizing. By banding together, the pools offer attractive alternatives such as:

• Interest on reserves. It is common knowledge that interest on workers compensation claim reserves are not included in rates Today, this lost profit opportunity has substantial impact on the cost of benefits.

Individually, smaller employers cannot get a self-insurance plan which would make these reserves available. However, collectively, a pool can generate sufficient volume to benefit participants.

• Tax deductions. A pool can meet Internal Revenue Service requirements for deductions. This is highly unlikely with individual plans. The smaller employer can gain some of the same cash-flow advantages available to larger operations utilizing offshore captives.

• Group purchasing discounts. By pooling premium and developing a "pot" large enough to encourage competition, services such as claims, engineering, and reinsurance can be purchased on a volume basis with discounts of 10% to 15% on standard premium.

• Strong underwriting control. The program can be strengthened by utilizing a board of trustees to review underwriting requirements and administration, along with claims and loss control. Risk management techniques can produce loss ratios better than those currently found in ratemaking.

But pooling is not without its disadvantages:

• Joint liability pool members must usually agree to be jointly and individually liable. This extension of liability creates a bond to ensure members live up to their responsibilities.

• Adverse selection. Often, the first firms within an industry to call for pool-

Continued on page 36

Keith C. Kakacek, CPA, CPCU, ARM, is president of Rimco Inc. in Dallas.

Occupational disease expands worker risk

By Z'ev Kronish

books & ideas

Workers' Compensation and Work-Related Illnesses and Diseases
By Peter S. Barth with H. Allan Hunt
The MIT Press, 28 Carelton St., Cambridge, MA 02142
391 pp., $27.50

Occupational disease is the stepchild of workers compensation. Accidents have an immediate impact, but illness often escapes notice because it takes time to unfold and become evident. It is difficult to trace or pinpoint to the workplace.

This book succeeds in depicting why coverage extension has been a hassle. The task of convincing board officials as well as employers that many illnesses originate in the workplace has been uphill all the way. Against the backdrop of "excessive claims," Mr. Barth has a difficult case before him, for compensation officialdom fears abuse by employees and even by doctors.

Only a few years ago, a guide to workers compensation claims warned examiners to beware of "so-called heart cases," which "rest on speculative grounds."

This overlooks the complexities of occupational disease. States increasingly recognize responsibility for this condition, but this doesn't diminish the barriers to effective administration.

A major goal of workers compensation is to avoid drawn-out arguments. In an accident, the circumstances and extent of injury are not too difficult to evaluate but the imprecise nature of disease complicates matters.

Adding to the complication is that disease control is a mixed bag. Industry accepts changes in manufacturing processes when they are found to be viable, but these improvements account for small progress in the wake of a fresh breed of hazards as business expands into other fields.

Compensability might depend on several factors, such as initial exposure and medical background. Because medical knowledge is limited, there are pockets of ignorance about the variables which impact illness. Claims that might prove valid are automatically disallowed by arbitrary time limits. Labor mobility compounds the confusion.

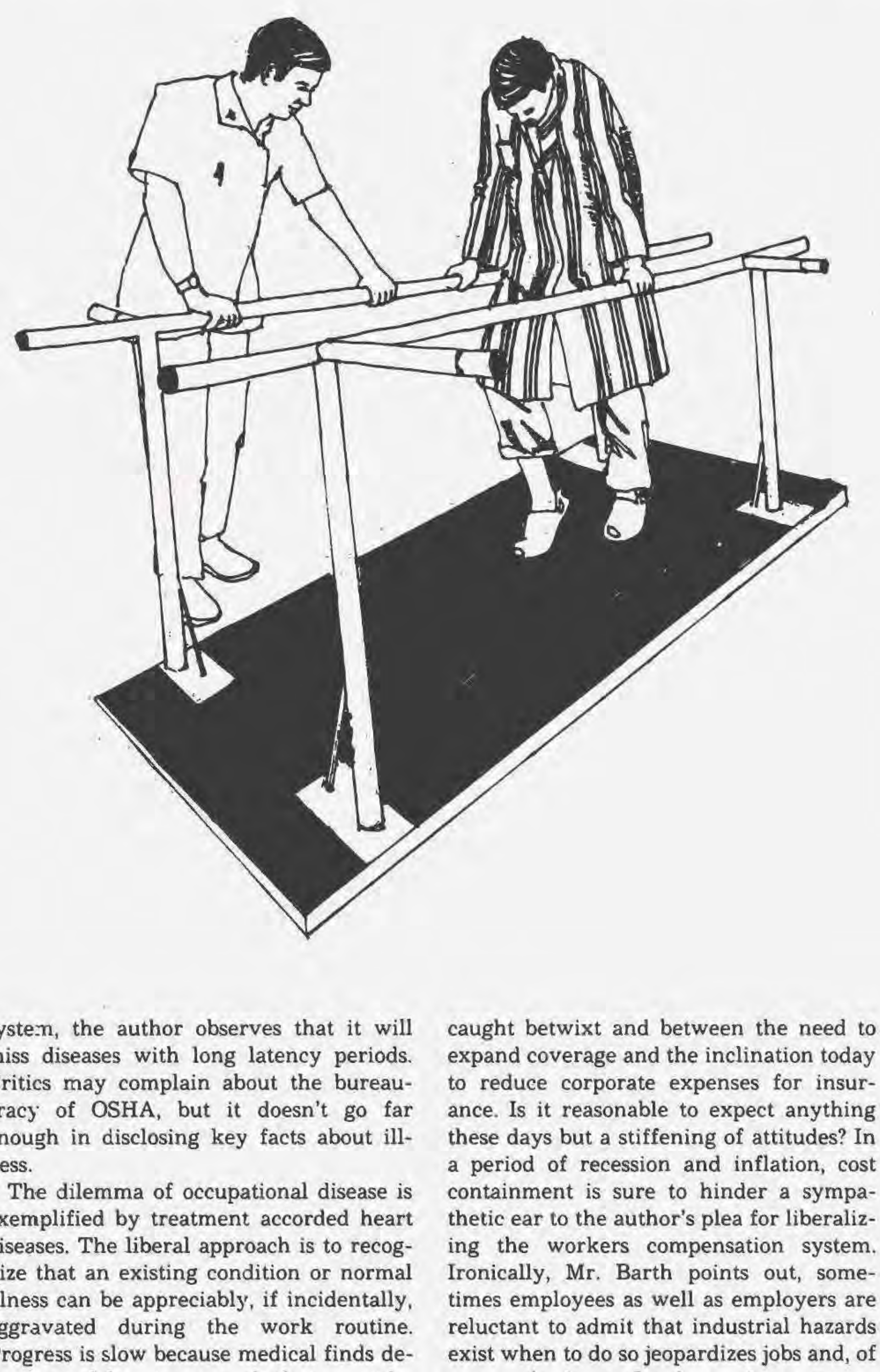
There is, however, a trend to liberalize "discovery period" rules as recognition mounts that occupational disease doesn't easily fall into the standard concept of time limitations. The lag between injury and the extent of the damage typically confounds efforts to simplify the insurance procedure.

But in illness, the issues are more baffling.

Observing that "few physicians specialize in occupational medicine," Mr. Barth explains that this hampers efficient diagnosis. Respiratory ailments pose a special problem: zeroing in on silicosis, a widespread condition, is a matter of trial and error. X-rays don't tell the full story, yet in some cases, this is considered a valid test.

Misdiagnosis frequently occurs because occupational diseases appear as ordinary impairments to the untrained eye. Keeping track of the extent of occupational disease is in itself a problem. The data is not reliable because it's incomplete.

Commenting on the OSHA reporting



system, the author observes that it will miss diseases with long latency periods. Critics may complain about the bureaucracy of OSHA, but it doesn't go far enough in disclosing key facts about illness.

The dilemma of occupational disease is exemplified by treatment accorded heart diseases. The liberal approach is to recognize that an existing condition or normal illness can be appreciably, if incidentally, aggravated during the work routine. Progress is slow because medical finds depend on elaborate research that can take years.

The issue of occupational disease is caught betwixt and between the need to expand coverage and the inclination today to reduce corporate expenses for insurance. Is it reasonable to expect anything these days but a stiffening of attitudes? In a period of recession and inflation, cost containment is sure to hinder a sympathetic ear to the author's plea for liberalizing the workers compensation system. Ironically, Mr. Barth points out, sometimes employees as well as employers are reluctant to admit that industrial hazards exist when to do so jeopardizes jobs and, of course, business. In these circumstances the sudden threat to income takes precedence over long-range fears over health. ■

Z'ev Kronish is in the claims department at National Health & Welfare Mutual Life Insurance Assn. His reviews of management books appear regularly in BI.

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management

Employers can do more than just fire

By Kenneth P.Shapiro

Firing. Terminating. Outplacing. No matter how it's said, managers must eventually face the task of releasing employees who no longer fit the organizational environment. Even in the best of circumstances, separation often induces guilt and strains relationships.

Recently, our personnel professionals have developed a program known as career continuation.

In it, practitioners emphasize the positive aspect of separation, stressing that an employee's release is not the end of a career, but actually can be a forward step which the releasing employer can share with the employee.

In our experience, there is evidence that:

Kenneth P. Shapiro is a vp for Hay Huggins & Co. and a partner of Hay Associates in Philadelphia. His column on management appears monthly in BI.

- Over 80% of all career continuation candidates receive from one to three job offers within four months of release.
- The average candidate accepts an offer after about three months in a career continuation program.
- More than 60% obtain job offers with higher salaries and more responsibility.
- The average salary increase is 29% or more.

Although the reasons for release may vary, most fired workers share an understandable level of uncertainty, depression and fear of an inability to market their own skills.

The career continuation process helps them cope with their emotions, retain their sense of dignity and learn new job-seeking strategies. Here is how a typical program works:

- Career continuation professionals consult with the employee's superiors. If release is unavoidable, advice will be given about handling the separation interview.
- Immediately following the interview, the career counselor meets the released employee and encourages the venting of feelings. Immediate problems are discussed and suggestions and advice are given.
- The candidate attends a seminar with others in his position. The seminar leader encourages a positive approach. During this process, the leader attempts to match candidates with counselors.
- The candidate and counselor meet several times to develop strategies. Working together, they clarify career objectives, identify job markets, improve marketing skills, prepare resumes, develop contact networks and sharpen interview skills.
- Psychological testing identifies intellectual and personal strengths and weaknesses as well as areas of special interest.
- Consultation in salary negotiations and guidance in assessing and accepting job offers are included.The candidate is given access to extensive library and research facilities.

A career continuation program not only helps individuals, but also benefits an organization by improving morale and public relations, by reducing the likelihood of legal problems and by relieving some of the guilt felt by management and thus enhancing the organization's ability to make timely personnel changes.

Court denies coverage for recovered sight

legal briefs

At issue in this case before the Missouri Supreme Court was whether the term "irrevocable loss of sight" in a group health policy was ambiguous when vision could be substantially corrected by a contact lens. The court ruled the language was unambiguous.

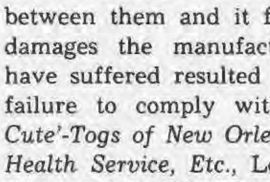
James Crim was covered under the group policy issued by The National Life & Accident Insurance Co. Accidental coverage included a one-half benefit for bodily injuries resulting in the loss of sight of one eye.

Mr. Crim sustained an eye injury that left him with 2/200 vision in his right eye after surgery.

However, with the aid of a contact lens, his depth perception was essentially normal. National denied coverage for the accidental benefit. Mr. Crim sued and won in the trial court.

On appeal, National argued Mr. Crim did recover the sight in his right eye and, therefore, he had not suffered a loss within the clear and unambiguous policy language. Mr. Crim argued that irrevocable loss of sight did not consider correction of lost eyesight by the use of an artificial lens. The court concluded the language was not ambiguous because the fact that vision might be recovered through medical treatment or naturally does not exclude recovery by artificial means. *Crim vs. The National Life and Accident Insurance Co.*, Missouri Supreme Court, Sept. 9, 1980, rehearing denied Oct. 15, 1980 (BI/04/A.-$5).

Exclusion applicable



An exclusion in a liability policy released an insurer from defending a suit arising out of a breach of contract, the Louisiana Supreme Court ruled.

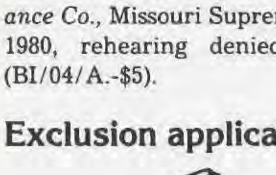
A manufacturer insured its employees under a Blue Cross group health insurance policy. An employee applied for the insurance; subsequently, his wife was hospitalized. When the employee discovered Blue Cross had not yet processed his application, he allegedly resigned.

The manufacturer sued Blue Cross alledging negligence in processing the policy and contending a skilled employee quit as a result of that negligence, causing a loss of production. Blue Cross was insured under a liability policy of Aetna Fire Underwriters. This policy excluded coverage for loss of use of tangible property that had not been physically injured or destroyed because of Blue Cross' delay in or lack of performance in any contract.

Blue Cross tendered the defense of the manufacturer's suit to Aetna. Aetna refused. A trial court ruled in favor of Aetna, but was reversed by an intermediate court.

The state Supreme Court upheld the trial court, concluding Aetna had no duty to defend. The court said Aetna's duty to the manufacturer arose from the contract between them and it followed that any damages the manufacturer claimed to have suffered resulted from Blue Cross' failure to comply with its agreement. *Cute'-Togs of New Orleans vs. Louisiana Health Service, Etc.*, Louisiana Supreme Court, July 8, 1980 (BI/01/M.-$5).

Incontestable clause



An incontestable clause in a group life insurance policy did not prevent an insurer from contesting eligibility requirements, according to a Georgia appellate court.

Federated Life Insurance Co. issued a group life insurance policy to employer members of a hardware association that elected to enroll their employees under the plan. Only full—time employees, defined as working 30 to 40 hours per week, were eligible for coverage.

David Schulman had been listed on the monthly premium billing as an employee of Dux-Mixture Hardware & Supply Co. until July 1977, when his name was crossed out as having died in June. There was a dispute as to whether Mr. Schulman was a full-time employee because he also owned and operated a separate hardware store. Apparently, Mr. Schulman actually ceased working for Dux three to four months before his death. His widow filed a death benefit claim, which Federated denied. She sued and lost in trial court.

On appeal, Federated agreed the incontestable clause prevented it from challenging the validity of the policy on the grounds that Mr. Schulman was not a full-time employee because the policy had been in force 10 years at the time of his death. But the insurer argued it was not precluded from disputing Mr. Schulman's eligibility because it was undisputed that he had ceased work three to four months before his death. The court agreed that Federated could insist upon the eligibility requirements. *Schulman vs. Federated Life Insurance Co.*, Georgia Court of Appeals, April 8, 1980, *certiorari denied*,June 11, 1980 *(BI/01/F.-$5)*.

These abstracts were prepared by Cases Unlimited Inc. Copies of an entire decision may be obtained by sending a check for $5 made out to Cases Unlimited to Business Insurance, 740 N. Rush St., Chicago, Ill. 60611. Please list the number for each opinion.

Workers comp pooling

Continued from page 34

ing are the worst risks. This situation can be a devastating experience if not avoided. Once the trend has been set, it may be impossible to reverse.

- Administrative time. The commitment will require more administrative time, and management must become involved.
- Specialized management ability. Many times, associations are lulled into a false sense of security by consultants or brokers who oversimplify the whole process.

The concept is outlined as "a panacea," but trustees and professional staff often take on responsibilities and duties for which they are ill-equipped. If considering an association, follow this game plan:

- Realize the uniqueness of your legislative environment. Each state has created rules and regulations specifically covered within the enabling legislation. This legislation must be studied. It is never appropriate to utilize a plan formalized and implemented in a neighboring state. These plans may show pitfalls and highpoints, but should never be used as blueprints.
- Don't generalize. In each association, the body of risk inherent in the operation creates a whole new problem. It is related to the members, the level of staff sophistication the commitment by officers, the operations of the members themselves, and applicable state law.
- Survey the membership.The design of the survey and information will be developed in response to the particular hazards and risk profile of the association.
- Perform feasibility studies. This step is probably the most important. The study should be done by someone who will not provide services. The association should require that anyone who performs a feasibility study agrees to not provide services or insurance for five years.
- Design program and services. Once it seems feasible to move ahead, the administration and risk-bearing potential of the pool can be established.
- Design requests for proposals. The request for program proposals will be comprehensive and designed specifically to meet the objectives of the group. Once the program is in effect, the Achilles' heel lies in the association leadership. Trustees will be responsible for the direction of the program. Personnel, hired internally or on contract, will control it. In either case, the association must provide safeguards.

The leadership must be able to screen members and assist in the underwriting process.

If the association attracts a broad membership, the program is much more likely to succeed.

It also must be strong enough to eliminate poor performers. Sound underwriting requires identification and elimination of bad risks. The rating mechanism must also reward good risks and penalize the bad.

The leadership must also be prepared to crack down on delinquent premium payment.

The most difficult problem is the stability and cooperation of members. There must be a formal communication channel between all members in the pool for complaints and details. It is crucial to program success.

Seattle brokerage realigns top executives

comings & goings: industry

Victor Parker elected president and chief executive officer for Parker, Smith & Feek Inc., Seattle insurance brokers. **John N. Zefkeles** elected executive vp and chairman of the executive committee; **Donald L. MacLane** named vp-professional services; **Dennis Westover** appointed vp-commercial operations, and **John Tracey** named vp-personal services and employee benefits.


Parker

Daniel R. Giles has joined Emett & Chandler in San Francisco as senior vp.

Barbara Giberson Ausherman named managing general partner of The Giberson Insurance Agency in Alton, Ill. Ms. Ausherman will become principal owner of the firm. **Dudley F. Giberson** will continue as executive partner.

Patrick T. Meagher joined NOVA Reinsurance Brokers Inc. in Chicago to handle facultative reinsurance for ceding companies with whom NOVA is associated.

Gale W. Tenney and **Marilyn Micare** joined the employee benefit division of the Robert F. Driver Co. in San Diego, Calif. The two are life and health underwriters who will head a new employee benefits communication service.

Insurers

American International Underwriters, a division of New York-based American International Group Inc., has appointed **Frank J. DeFini** manager of the casualty management department. He will be responsible for all aspects of primary casualty lines for AIU worldwide and AIG foreign general subsidiary and affiliated companies.

LeRoy E. Kennedy elected president and chief executive officer of the Milwaukee-based Northwestern National Insurance Co. He succeeds **William D. McGinn,** who was named executive vp of the Armco Insurance Group Inc., parent organization of Northwestern National Insurance Co.


Kennedy

George Naslund named loss-control manager in the San Bruno, Calif., branch of Western Employers Insurance.

Raymond Goossen named vp and **William L. Plander** elected assistant vp in the underwriting department of Omaha Indemnity Co., Mutual of Omaha's property/casualty insurance affiliate.

Bruce D. Barton and **James A. Faichnie** were each elected to the position of assistant vp of The Lincoln National Life Insurance Co., Fort Wayne, Ind.

Norman Humphries, director of international operations, Hartford Steam Boiler Inspection & Insurance Co., has been elected an officer of the company. In addition to his responsibility for development of international business, he will have assignments involving special risk and projects in the underwriting department.

M. James Hawkins, former assistant manager of the Pacific Ocean marine division of Fireman's Fund Insurance Cos., appointed marine secretary and division manager. **Dennis E. Arnold** and **Clarence J. Costa Jr.** appointed assistant vps of the Fireman's Fund and its subsidiary, The Excess & Special Risk Market Inc.

Richard J. Spross joined the Harleysville Insurance Cos. as claims supervisor of the Philadelphia service office, Harleysville, Pa.

Gilbert C. Hubbell appointed senior underwriter by Fremont Indemnity Co. in the Sacramento division's new property/casualty department.

Donald L. Olson, Bituminous Insurance Co.'s branch manager at Omaha since 1974, will become branch manager at the company's St. Louis office. He succeeds **Jack Gabler,** who has been St. Louis branch manager since 1969 and is entering the agency segment of the industry. **Jean Lee,** regional multiline underwriter at Bituminous' home office in Rock Island, Ill., will succeed Mr. Olson as branch manager at Omaha.

Lester R. Lockwood promoted to director-group pension planning staff in Prudential Insurance Co.'s group pension office in Florham Park, N.J.

James E. Hayes and **Donald R. Kurtz** elected executive vps of The Equitable Life Assurance Society; **Ralph R. Verni** promoted to senior vp.

Delores A. Clancey and **Guy D. Herring** of Wausau Insurance Cos. appointed to new positions. Ms. Clancey is now vp of the group claim administration department of the Employers Life Insurance Co. of Wausau in the home office and Mr. Herring is regional vp of the company's Indianapolis regional office.


Clancey

Other suppliers

Norman R. Minor has been named managing partner of Compensation & Capital Inc.'s new New York office. Mr. Minor was formerly employed with Johnson & Higgins as vp and member of the employee benefits management committee.

Consolidated Group Trust, a Framingham, Mass.-based firm providing employee benefit plans for thousands of small businesses nationwide, has announced three appointments:

Holyoke L. Whitney, chairman; **Woolsey S. Conover,** president, and **Michael V. Clark,** executive vp.

Adrian N. Baker II named president of the newly formed Ibex Corp. in St. Louis. **Lewis B. Shepley,** formerly a senior partner of Bryan, Cave, McPheeters & McRoberts, elected executive vp and chief operating officer. Ibex Corp. will provide corporate planning, financial analysis, economic consulting and analysis of investment programs. ■

Reinsurance consultants edit data on alien insurers

NEW YORK—A new source of financial statistics and commentary on the sometimes mysterious market of alien insurers and reinsurers is heading for the presses this summer.

Two reinsurance consultants preparing International Insurance Financial Service say their product will solve some of the mystery in dealing with alien reinsurers and insurers and lay their financial security on the table.

Michael Miron and Robert W. Daum Jr. are betting there are enough insurance companies, reinsurance intermediaries and multinational corporations willing to pay over a thousand dollars a year for the service that, they say, is the only one of its kind.

Multinational corporations need financial information on the insurance companies protecting their properties around the world.

"A big overseas construction program has lots of direct placement of layers of liability and the risk manager needs financial information on who's accepting the risk," says Mr. Daum.

Insurance buyers who want to know more about the reinsurers on their risks would be able to look up a company's financial report and read an analysis of the company written by the two reinsurance veterans whose combined reinsurance market experience totals 60 years.

Financial statements on foreign insurers are not always readily available and when they are, they are sometimes outdated, printed in a foreign language or use different reporting standards than those used in the United States, Mr. Miron explains.

Another difficulty is the different standards used to evaluate assets. Asset evaluation is critical to determining a company's security, which is usually based on a comparison of a firm's written net premium to its capital or surplus.

A three-to-one premium-to-surplus ratio is the standard used in the United States, but Japanese companies write insurance at ratios of 20-to-1 and 30-to-1 because they hold their stocks at cost rather than market value, Mr. Miron says.

Editorial comments accompanying the financial statements will be based on market information supplied by International Insurance Financial Service's network of correspondents around the world.

The comments will include extracts from the companies' annual reports with information on changes in management and other key personnel.

Unlike *Best's*, the financial reporting service on U.S. insurers, International Insurance Financial Service will not rate the companies.

Major reinsurance buyers and intermediaries have security committees to evaluate reinsurers, but the procedures are costly, says Mr. Daum.

"Everyone in the U.S. has done something on their own to solve the security problem," Mr. Miron says. "We're trying to do it for a number of people."

Insurers profiled will be those most frequently appearing on the Schedule F section of major U.S. insurers' financial statements.

International Insurance Financial Service also intends to provide information on reinsurers operating in such markets as Bermuda, where financial information is not in public records.

"Companies who want to accept international reinsurance are prepared to release financial data on request," Mr. Miron contends.

The "plain vanilla" financial reporting service will cost subscribers $1,250 per year. Messrs. Miron and Daum will also offer more comprehensive services custom designed to clients' needs at negotiated prices.

Persons seeking additional information about the service can contact Insurance Management Group, One Landmark Square, Stamford, Conn. 06901; 203-357-7169.

products & services

Umbrella plan

A new commercial umbrella program for retail stores, small business houses and apartment building owners has been announced by MBC-Colby Associates Ltd. in New York.

Coverage is offered to retail businesses with up to $1 million in sales or less than 50,000 square feet of space.

Policies are written with a single limit of $1 million. Underlying requirements for auto liability and general liability are $300,000 combined single limit. Minimum premiums are as low as $300 annually.

The only exclusions in the policy are aircraft, E&O, D&O and professional liability.

For more information, contact MBC-Colby Associates Ltd., Box 5009, 200 Garden City Plaza, Garden City, N.Y. 11530; 212-343-118 or 516-248-1188.

Fire detectors

Detector Electronics Corp. has introduced a new micromodule line of fire detection systems especially for areas where panel space is limited.

A micro-module controller requires a quarter of the space of conventional units, which makes it ideal for offshore oil and gas platforms or pipeline pump and compressor stations, the company says.

The controller handles up to 16 fire detectors in eight separate zones and monitors each for optical integrity, wiring defects and faulty conditions.

For information, contact Detector Electronics Corp. at 6901 W. 110th St., Minneapolis, Minn. 55438; 612-941-5665.

Inflation guard

J.H. Ferguson & Associates Inc., a surplus lines underwriting manager, is offering an inflation guard endorsement for all jewelry floaters.

Under the special policy, losses are adjusted to replacement value, subject to a 12% increase in value per policy year.

The policy is written in three-year terms with set annual installments based on the values at the time the policy is written. The value of the items covered may increase as much as 40% with no premium increase.

Total value for personal inland marine coverages under binding authority contracts is increased to $125,000. A qualified appraisal is required at least 45 days before the policy is in effect.

Equipment policy

Commercial Union Insurance Cos. has a new contractors equipment policy.

It is available to contractors, public works departments and private industries with heavy equipment.

The policy covers owned or leased heavy equipment and is available in all-risks and named-perils versions.

An automatic extension of coverage to new equipment, equal to 25% of the policy limits but not more than $100,000 with a 45-day reporting clause.

An automatic waiver of depreciation for insured partial losses, which are not more than 20% of the item's actual cash value, also applies.

For more information, contact a local independent agent who represents CU or call Commercial Union at 617-725-6000.

Limits doubled

Armco Underwriters, Armco Insurance Group underwriting managers, is doubling limits for umbrella liability coverages to $10 million. ■

Ariz. court allows 'bad faith' claims suit

PHOENIX—The Arizona Supreme Court has allowed a $50,000 suit filed by a woman against her health insurer alleging bad faith in a $1,503 claim denial.

The ruling affirms a lower court position.

The woman, Rosemarie Noble, of Glendale, Ariz., sued National American Life Insurance Co., contending the refusal of her claim left her in debt to physicians and hospitals. She also charged that she was threatened with lawsuits and her credit rating was endangered.

She was then forced to obtain medical care because of stress related to the case, she charged.

Insurance companies should not be immune to lawsuits when they subject policyholders to financial difficulty and emotional stress, argued attorneys for the woman.

around the states

Iowa OSHA

DES MOINES—The Occupational Safety & Health Administration (OSHA) has approved several additions to the Iowa State Job Safety and Health Plan that, among other changes, will require rollover protection on farm equipment and the preservation of worker medical records.

Also ordered are new controls on worker exposure to the pesticide DBCP, along with arsenic and cotton dust.

ISO sues state

CHEYENNE—The Insurance Services Office says it will take Wyoming Insurance Commissioner J.T. Langdon to court for suspending the rating organization's license in the state and fining it $2,500.

Mr. Langdon took the action alleging irregularities by the organization in rate information and classification of territories.

Penn. hikes rates

HARRISBURG—Pennsylvania Blue Shield has announced an average 11.9% decrease in rates for two dental programs, the first such move in 10 years of covering dental care in the state.

Insurance Commissioner Michael L. Browne said the cut was due partially to Blue Shield's dental care review program that monitors dentist's procedures and patient charges.

The decrease will save some $602,000 for 67,000 policyholders, according to Blue Shield.

Awards increase

SAN FRANCISCO—Product liability awards are up in California, but the defense is winning more often.

The average award handed down by Califonia superior court juries in 1980 was $398,823, an increase of 33% over the $299,466 average award in 1979, says the Insurance Information Institute here.

The defense, however, won 62% of the 138 cases in the 1980 survey, compared to 57% of 120 cases in the 1979 survey.

In 1980, five of the verdicts involved million-dollar awards, compared to three million-dollar awards in 1979.

Jury verdicts often are appealed and final settlements usually are substantially lower.

However, the awards "reflect jury thinking. They want to give this kind of money," an III spokeswoman said.

Work comp losses

PROVIDENCE, R.I.—Workers compensation losses in Rhode Island already have made a 59.6% rate hike request outdated.

Figures for the first six months of 1980, introduced at a rate hearing here recently, show the loss experience of Rhode Island employers was worse than expected.

Steven P. Lattanzio, actuary for the National Council on Compensation Insurance, said that the 59.6% request was based on 1977-79 data and that insurers now need an increase of 83.2%. Litigation, legal fees and lump sum settlements have skyrocketed since 1974, Mr. Lattanzio told state officials.

$30,000 award

LINCOLN, Neb.—A former nurse at Seward Memorial Hospital here has been awarded $30,000 for a disability she suffered after a patient bit her.

The nurse, Marilyn E. Anderson, originally filed a claim against the hospital with the Nebraska Workmen's Compensation Court saying she suffered a staphylococcus infection that later resulted in the amputation of three fingers of her right hand. She also claimed she became totally disabled and continues to suffer from related disorders.

She filed suit in court when the workers compensation court dismissed her case.

Royal Globe Insurance Co. is at risk in the settlement and is expected to pay the claim. ■

New Mercer office

William M. Mercer Inc. has moved its offices here from 51 Bank St. to larger facilities at 1600 Summer St. The Stamford office, which offers a full range of actuarial and consulting services for employee benefit plans, serves clients in Fairfield, New Haven and Westchester counties.

Disaster Masters gear for trouble

Photo: Ellis Simon

Disaster Masters keep equipment ready to repair and report losses for clients.

RICHMOND HILL, N.Y.—A flood drenches the showroom of a garment manufacturer two days before the market season.

"All the business interruption insurance in the world won't cover the sales you would lose by not being able to open for market," says Ron Alford, president of Disaster Masters Inc.

Disaster Masters specializes in quickly restoring businesses and homes to normalcy following a calamity.

The plight of that garment manufacturer was one of the situations the eight-month-old concern has handled.

Businesses call on Disaster Masters and similar firms not only when they are in a hurry to get running again, but also when damaged articles are irreplaceable and require restoration. In most instances, these services are covered under property insurance policies.

From their headquarters in this blue-collar neighborhood of New York City, Mr. Alford and his crews roll at all hours to clean up after fires, floods and other misfortunes in the 11-county metropolitan New York region. Depending on what's needed, they will send out "one man or an army".

Speed is of the essence in this kind of work, to minimize inconvenience to the client and to keep down the cost of repairing or replacing damaged rooms and articles, says the robust Mr. Alford.

"You must get the job done in 72 hours or you can't get mold and mildew out of carpets and waterlogged walls and ceilings begin to deteriorate," he says.

If Disaster Master crews can quickly get to a site, they can clean soot from walls without requiring repainting. "After 72 hours, dynamite won't get residue out," he adds.

But this kind of service does not come cheap. Disaster Masters gets more than $600 to dry out, reset and deodorize a flooded carpet covering an area the size of a large living room.

Mr. Alford contends his firm has saved clients more than they have paid him in fees. His treatment of flooded carpets demonstrates how.

Using powerful vacuums and fans they have fabricated in their shop, Disaster Master crews can extract water from and blow dry a carpet without taking it back to their plant. They then reset the carpet and use a thermal fog generator to deodorize it.

"Often we don't even need to change the padding," Mr. Alford adds.

When carpets are dried out at another location, they often do not come back the same size, he says.

When that happens, insurers not only must pay for the cost of drying out the carpet, but must pay for a new carpet if they cannot convince an insured to accept it back, says an adjuster for a major insurer that has used Disaster Masters.

Sometimes insurance adjusters are willing to pay for replacing damaged items when the policyholder would be better served if something were repaired, Mr. Alford contends.

He recalled the garment manufacturer whose carpet was flooded two days before the opening of market season.

Disaster Masters' crews had begun drying out the carpet when the adjuster arrived on the scene and declared the carpet a total loss. It would have taken six weeks to replace the carpet and the client needed to have his showroom open in two days, Mr. Alford explained.

Mr. Alford admits to disagreeing with more than one adjuster. Often adjusters reach the scene of a disaster after Disaster Masters has been called in by a policyholder and they are unwilling to authorize payment for his services.

He points out that when a policyholder retains him, the insured is living up to his part of the insurance agreement that requires the insured to "prevent further losses" and separate undamaged and damaged articles.

Lack of familiarity and experience in dealing with Disaster Masters contributes the problem. "If you're not an adjuster's favorite guy, he doesn't give you business," Mr. Alford says.

To alleviate this problem, he publishes a newsletter for adjusters which tells them how they can use Disaster Masters' services.

Insurance adjusters face a dilemma if they arrive at a loss site after the damage has been cleaned up, one adjuster explained. It could appear to them that no loss ever occurred.

So Mr. Alford carries a tape recorder and camera to document losses. He even offers to videotape losses for insurers to prevent them from being victims of fraud.

Disaster Masters restorative services have not been limited to drying out carpets. Mr. Alford and his crews repaired paintings and antique furniture.

Each employee serves a four-year apprenticeship at Disaster Masters

Although four-fifths of Disaster Masters' business comes from homeowners and small businesses, the firm has come to the rescue of such businesses as Mitsubishi Ltd., Gucci's and Brentano's.

Mr. Alford's thermal fog generators were used to remove smoke odor at the Hotel Wellington after a fire in one room caused an entire floor to become uninhabitable.

Disaster Masters's minimum service charge is $90 and Mr. Alford charges 35 cents per square foot to extract water from carpets. Drying fans rent for $15 per day with a three-day minimum. Resetting and deodorizing services are billed separately.

Ron Alford trains his 20-member staff in a classroom in the three-story building he has renovated for Disaster Masters' headquarters. Employees must serve a four-year apprenticeship before they can serve as crew chiefs.

Those currently serving as crew chiefs were with Mr. Alford in the carpet cleaning business he ran, and continues to run, which was the genesis of Disaster Masters.

Disaster Masters' office manager, Marie Grimm, is a licensed insurance agent, which often helps clients straighten out disputes with their insurers over what services are covered by their policies.

Mr. Alford predicts fire and flood restoration will become a "hot business" in the next 10 years as insurace companies will look to "cash out" or settle for a dollar amount with their insureds rather than hire competent people to do repair work.

As a result, a lot of incompetent people will be drawn into the field, he fears.

Disaster Masters is a member of the National Assn. of Fire Restorers, which has established a professional certification program for its members.

Five members have completed that program and Mr. Alford is studying to join their ranks. ■

Lloyd's doctors bookies' horse disease

By STACY SHAPIRO

london line

LONDON—Foot-and-mouth disease could rear its head at the racetracks, quarantining horses and virtually shutting down the legal bookmaking business here.

But a Lloyd's underwriter has taken the reins by offering a bookmakers foot-and-mouth disease contingency insurance policy for the 13,000 betting shops here.

The idea for the policy came about 24 hours after the first outbreak of the disease in the Isle of Wight last month, said lead Lloyd's underwriter Tony Cassidy of Cassidy Davis Ltd.

"We're meeting the demand," he said. "Unless there's a panic, no one would want to buy it."

"It's being run like a war book," he said. Every morning Mr. Cassidy rings up the foot-and-mouth specialist at the Ministry of Agriculture to confirm the status of the outbreak.

He then determines the rating. The rating has gone down because the disease has been contained and no further outbreak is expected.

But bookmakers, who earn 80% of their income on horseracing, are still phoning Mr. Cassidy in case the disease breaks out again.

"One more notice of an outbreak and they'll be diving in," he said. And rates also will go up.

The policy is based on the experience of bookies during the last foot-and-mouth epidemic in the 1960s when racetracks were shut down for 10 weeks.

It insures one betting shop for up to 1,000 pounds per week for 80% of standing charges while there is a ban on horseracing.

"We will pay up to 10 weeks in excess of the first three weeks of a ban," Mr. Cassidy said.

But most bookmakers would only take 400 to 500 pounds per week of the 2½ million Lloyd's is putting on the policy.

Choosing brokers

Hiring an insurance broker is expensive business, risk managers say. So when can you afford not to use a broker?

That's the question asked by Tony Benson, the chairman of the Assn. of Insurance and Risk Managers in Industry and Commerce at a recent conference here. Benson is group risk manager for Arthur Guinness Son & Co. Ltd.

Most risk executives consider their choice of broker to be a key decision and many say the broker/buyer relationship should be as steady as a good marriage. But many risk managers in the U.K. are setting up internal broking houses to conduct their companies' insurance business, a concept called the "captive broker."

In this way they search for bargains, keep personal contact with their insurers and avoid paying brokers commissions.

One risk manager said he saved 25% in the last four years on his insurance portfolio by not using a broker. Another said his claims are paid more quickly because he doesn't have an intermediary to contend with.

And some insurers at AIRMIC say they would rather do business directly with their clients than go through a broker.

"We have more of a duty to our direct clients than we do to a broker," said one insurer.

But brokers need brokers, other risk managers say.

The brokers can supply services the risk manager hasn't time for in his job as insurance buyer and safety adviser.

The broker can spread risk throughout the world because he knows international markets and has contacts. And sometimes brokers can save a risk manager money rather than spend more.

Perhaps the risk manager can save 25% by broking his own business, but the broker could save 40% simply because he knows where the soft markets are and how to get discounts, said one risk manager. "Then you've lost 15%," he said.

Sometimes risk managers can't place risks because they are too big for a small internal broking operation to insure.

"We couldn't do without a broker," said one risk manager of an oil company.

"We have platforms that are worth almost $3 billion dollars each. Hiring an internal staff to handle such business would cost more than hiring a broker," he said.

"We can take a large slice in-house, but the majority of it is in the market. We have skills in marketing, but not in spreading risks and premiums," he said.

The large brokers also keep an eye on a company's risks around the world, something that a local risk manager can't always do, said one broker. And reinsurers are accessible to brokers who have connections all over the world.

"I found it easier to obtain (insurance) in the market through a broker," said one risk manager.

But the best team is the broker/risk manager team, conference participants agreed.

"Me plus the broker equals bigger power," summed up one risk manager.

Pension planning

Employers and employees can share in pension contributions here through a new plan sold by Hogg Robinson (Benefit Consultants) Ltd.

An employer can fix his pensions contribution as a percentage of earnings through the plan. Different limits can be set for different employees, says Hogg Robinson.

"Different limits can be set for different groups of employees, ensuring that resources are deployed to attract the right people at the right price," the firm announced in marketing the plan.

Individual accounts are set up in the "moneymaker" plan, where the employer and employee deposit contributions.

But employees can only contribute up to 15% of taxable income permitted by the inland revenue, the portion ruled tax deductable income.

The new plan, which can be incorporated into old pension programs, provides employees who leave within five years with a full refund of his or her contributions plus the interest that has been earned, less a tax deduction. After five years, the employee gets both his and the company's contribution plus all the interest accumulated in the program. ■

Financial problems force shutdown of Maryland HMO

benefit beat

BALTIMORE, Md.—Monumental Health Plan, a health maintenance organization operating here since 1973, closed March 31.

The federal Department of Health and Human Services revoked the plan's qualification status March 10, but the decision was contested in U.S. District Court here.

On March 30, the court ruled in favor of HHS and the following day the HMO was in the receivership of the state, according to a spokesman for the HHS.

The HMO had debts of $1 million and 8,000 total subscribers.

HMO reorganizes

BOISE, Idaho—Health Guard, a federally qualified health maintenance organization serving more than 10,000 subscribers here, is being reorganized by the state.

The plan, offered by about 50 area employers, appears to be financially solvent although the state is still reviewing its accounting practices, according to Trent Woods, director of the insurance department.

"The HMO asked for voluntary rehabilitation. They felt they were not in a position to manage it and requested the department take over and manage it," Mr. Woods explained.

New deductible

Cosco Industries Inc. in Spring Valley, N.Y., cut its health insurance premium this year 18% to $600,000 when it raised the annual deductible $50 to $150 and increased the employee contribution for a family plan.

The increased deductible cut the premium for the 1,000-employee group by 6%.

Increasing the employee contribution for a family health insurance plan to $4.25 a week encouraged some employees who already were insured under a spouse's plan to drop the duplicative insurance.

The reduction in family plans reduced the premium 12%.

Additionally, increasing the employee's share of the premium 10% for a single employee, 15% for a family, is saving the company another 8%.

The plan, underwritten by Aetna Life & Casualty Insurance Co., was improved at the same time.

Renewable lifetime maximum benefit was increased to $1 million from $250,000, and coversage was added for second opinions on surgery and for mental and nervous disorders.

UAW strike

HUDSON, Mass.—A strike, stemming from a dispute over health benefit improvements, is in its fifth month for United Auto Workers (UAW) Local 1596 here and has forced a plant closing.

The dispute dates from December, 1980, and centers on two health insurance proposals by the employer, Arrow Automotive Industries. Both have been rejected by the UAW.

One proposal, a Blue Cross/Blue Shield plan, would pay 70% of premium with employees paying the remainder plus any premium increases.

The other plan, underwritten by Prudential Insurance Co. of America, also pays 70% and would include any premium increases made later by the insurer.

However, employees would be required to pay aggregate deductibles of $600 for in-patient and out-patient treatment.

Officials of the union local said the first proposal would cut too deeply into pay raises while the deductibles in the second plan, according to a union spokesman, are just too high. ■

INA plans HMO centers in Tampa Bay, Florida

DALLAS—INA Healthplan Inc. of Dallas says it will spend some $6 million in the next three years to set up a prepaid health plan with medical centers in the Tampa Bay, Fla., area.

The company will begin work on the plan in July and expects to be operating three new medical centers in Tampa and Hillsborough counties by 1984, according to Dirk DeLange, director of development for INA Healthplan.

The first center in North Tampa will open next year. Prepaid health services will be offered through area employers.

The plan will offer three health care options with fees ranging from $36 to $42 per month for individuals and from $96 to $114 for a family.

The lower fee options involve copayments for some services, such as a $5 charge for each doctor's office visit.

William F. Norsworth, project director, said the decision to launch the Florida project followed an analysis of the 70 largest metropolitan centers and commercial marketplaces in the U.S.

markets

Consolidation

Corroon & Black Corp. has consolidated operations of its benefits group and promoted two senior managers to executive vp.

Promoted are Richard B. Carpenter, who will direct retail and wholesale operations, and Frank White Jr., who will oversee group specialty operations and underwriting research and development operations.

Donald R. King, benefits group president, announced formation of a benefits planning committee of 16 corporate executives.

The group's retail operations will include a direct sales force that markets commercial life/health products and a wholesale operation of independent brokers who sell prepackaged programs of commercial employee benefits.

Speciality operations include sales of specialized products to specific markets and other products to be developed by the firm's research and development team.

Underwriting research and development operations arrange coinsurance, reinsurance and life/health products.

Branch network

Spencer Douglass Insurance Associates has consolidated its statewide branch office network into three regional offices, also concentrating its bond underwriting staff to improve service.

The firm also announced it has been appointed managing general surety agent for the Classified Insurance Corp. of Waukesha, Wisconsin.

Consulting service

John H. Ellen has established an insurance and risk management consulting service, Insurance & Risk Management Services (IRMS), in Bloomfield, Conn.

Mr. Ellen will consult on engineering, hazard control, building construction and valuation, time analysis, account coverage and review and agency evaluation.

Acquisition

Atlanta-based Georgia U.S. Corp. has agreed to acquire First of Georgia Insurance Group of Augusta, a property/casualty insurer. The company is to be purchased from the American General Insurance Co. of Houston.

Georgia U.S. is the parent company of Life Insurance Company of Georgia and Georgia U.S. Data Services Inc.

Broker named

R.N. Crawford & Co. Inc. of Chicago is exclusive broker for a new comprehensive mortgage bankers bond with errors and omissions coverage included.

The coverage is available to all mortgage bankers and was developed as an alternative to existing coverages. ■

IRS research targets profit from offshore subsidiaries

By MARGARET LeROUX

WASHINGTON, D.C.—At least one person in the Internal Revenue Service would like to go after the money in offshore insurance companies, but the IRS is understaffed to enforce new regulations, a special report reveals.

Richard A. Gordon, special counsel for international taxation at the IRS, is the man interested in captives. In a 235-page report, he asks the IRS to consider:

- Seeking legislation to make premiums paid to captive insurance companies for foreign risks taxable income for U.S. taxes.
- Issuing a ruling that the business underwritten by captives can be fragmented between related business and unrelated business to determine the deductibility of premiums paid by related companies.

These proposals are among several affecting captives contained in the Mr. Gordon's report.

While the recent victory in the Carnation case (*BI*, March 16) "may strengthen our position (on captives)," Mr. Gordon says, he is interested in other issues in the tax haven report, though the IRS may not be staffed to enforce new rules.

He proposes legislation be considered to expand the definition of Subpart F income to tax not only income related to underwriting U.S. risks but also income related to insurance of foreign risks.

Currently, U.S. corporations with captive insurers underwriting insurance for foreign subsidiaries are not taxed on income earned on the foreign risks in the year it is earned.

The report further notes "the IRS might consider publishing a ruling stating that a captive can be fragmented for purposes of determining whether premiums are deductible."

The recommendations on captives "are causing a lot of concern among corporate captive owners," said Bruce Wright, attorney with Trubin, Sillcocks, Edelman & Knapp in New York.

"But at this point, we don't know what effect the report will have on the IRS position on captives," he added.

Other legislative options suggested in the report include:

- Adding a management and control test to the present jurisdictional test for subjecting corporations to U.S. tax "to enable the IRS to deal better with tax haven businesses that are run in the U.S.," the report said.
- Imposition of a no-fault penalty of a fixed percentage of a large deficiency resulting from a tax haven transaction "to discourage taxpayers from taking overly agressive positions on the chance they won't be identified."
- Provisions for a specific disallowance of a tax haven related deduction unless the taxpayer establishes by clear and convincing evidence that the underlying transactions took place, the substance of those transactions and the amount of the deduction is reasonable.

The report also suggests increasing taxes on payments to those tax havens the IRS considers abusive to discourage U.S. businesses from investing in them and to encourage those tax haven countries to enter into exchange of information agreements with the U.S.

The report defines tax havens as "any country having a low or zero rate of tax on all or certain categories of income and offering a certain level of banking and commercial secrecy."

It specifically mentions Bermuda and the Cayman Islands.

Captives were just one of several tax haven businesses examined in the report which focused on the growth in U.S.-controlled tax haven business to $23 billion in 1978 from $4.7 billion in 1968, a 500% increase.

In Bermuda, direct investments increased to $7.2 billion in 1978 from $200 million in 1968, an increase of more than 300%, while earnings were up to $959 million in 1978 from $25 million in 1968.

"Most of the increases in Bermuda occurred between 1972 and 1978, which partially reflected the growth in captive insurance business," the report stated.

The report showed an 82.7% growth rate of U.S.-owned foreign corporations in Bermuda from 1970 to 1974 and 19.3% increase from 1974 to 1979.

In the British West Indies, which include the Cayman Islands, the increase in tax haven business was 81.3% from 1970 to 1974 and 284.8% from 1974 to 1979, much of it in banking.

"The IRS could adopt, generally, the position taken in the French protocol, under which the exemption is applicable only to the extent that the foreign insuer does not reinsure such risks with a person not entitled to exemption from such tax under this or another convention," the report said. ■

HOW TO RECEIVE A SPE
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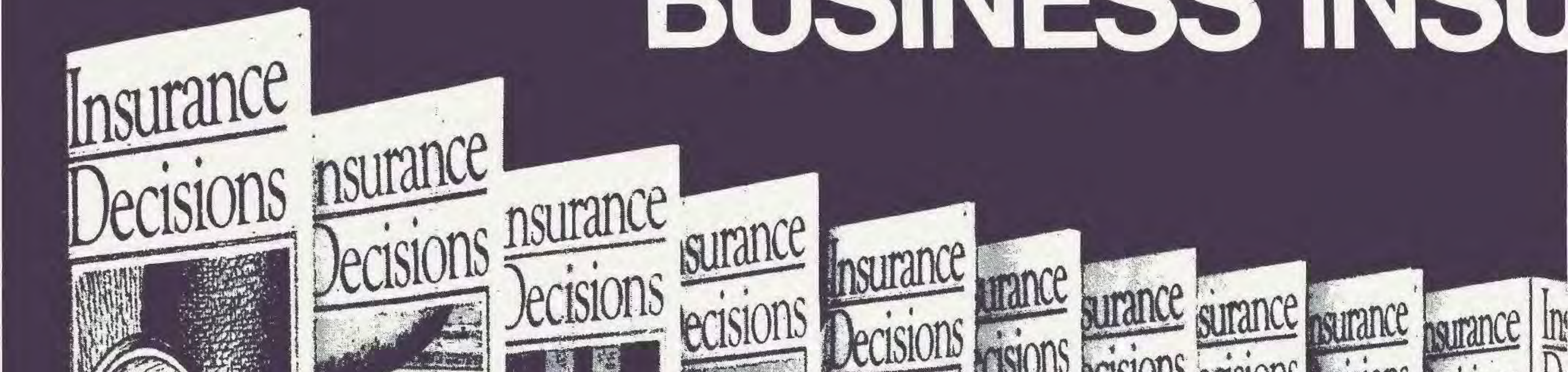

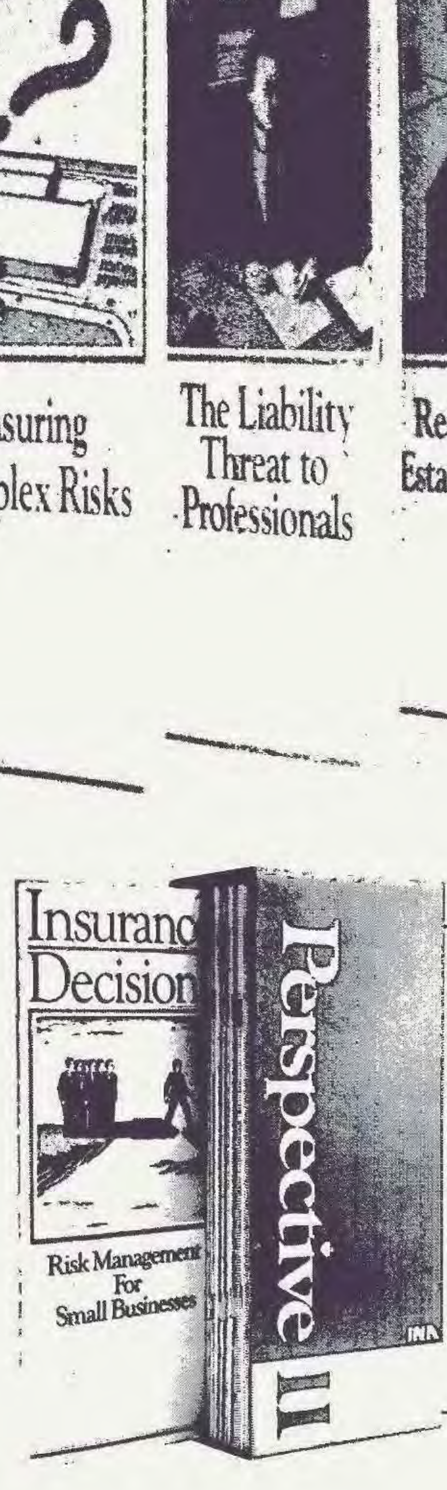

INA's Business Insurance Portfolio:
Anticipating and Preventing Losses/Insuring Complex Risks/The Liability Threat to Professionals/Reducing Estate Taxes/Mounting Pressures on Corporate Directors/Losses in Transit/Deferred Income/Business Flying/Insuring Abroad/Self-Insurance/Risk Management for Small Businesses/Executive Security/Workers' Compensation/Product Liability/White Collar Crime/Self-Funding Employee Benefits/Captive Insurance Companies/The Economics of Rehabilitation/Determining Risk Retention Levels/Handling Insurance Claims/The New York Insurance Free-Trade Zone

Florida cooperative cuts college coverage costs

By MARY ANN MATLOCK

GAINESVILLE, Fla.—A cooperative insurance and risk management program, started just over a year ago by 27 community colleges, has cut insurance costs 52.4% in the first year.

Savings estimates made before the program began on March 1, 1980, were 50.5%, or $1.2 million as compared to a fully-insured cost estimate of $2.5 million, according to Donald R. Hayes, director of the Florida Community College Risk Management Consortium.

Actual costs for the program's first year were: excess insurance, $669,982; claims agent fee, $120,745; consortium office, $170,000; loss experience (includes subrogation and deductible monies recovered), $351,501; state workers compensation assessment, $29,327.

In all categories, cost savings beat earlier estimates: excess insurance, $746,800; claims agent fee, $135,000; consortium office, $80,000; loss experience, $400,000. No estimate of state workers compensation assessments was made.

The bottom-line net cost of the program to participants was actually $1,173,555, slightly less than the estimated net cost of about $1.3 million predicted in 1980.

The consortium, in which each college has a direct management participation, is an effort to develop, implement and participate in a risk management program utilizing self-insurance, excess insurance, standard insurance and spread of risk.

It provides for:

- General administration of the consortium, consultant services, staff assistance for inspections and investigations as appropriate, reporting and data analysis.
- All-risk protection against general liability claims or occurrences arising against the board of trustees, officers and employees of the colleges.
- Protection against liability arising from the provision of the Florida Workers Compensation Act.
- Purchasing services used to obtain insurance protection against loss or damage to property owned or controlled by the community college members.
- Claims services contract awarded by competitive selection that includes investigating and resolving claims submitted, both casualty and property, loss prevention services, collection and analyzing experience data and distributing periodic reports of claims activities. ■

Balloonists to the sky

By JOHN MAES

GREENSBORO, N.C.—When the World's Greatest Balloon Race casts off from Las Vegas, Nev., Sept. 1, insurance agent Kent Urbine will head skyward with other contestants.

Mr. Urbine's motive is not to make sure all participants are practicing proper loss control, nor to offer on-the-spot claims service.

The 22-year-old agent, an accomplished balloonist, will be vying for the $500,000 first prize money in his firm's own balloon.

Mr. Urbine is more than just a hobbyist. He frequently takes the giant hot air bag aloft for promotions and carrying passengers for hire.

"I've spent quite a few hours in balloons," said Mr. Urbine, whose firm, Urbine-Sides agency in Greensboro, has been insuring hot air balloons for about five years.

The agency is owned by his father Robert W. Urbine, who also operates Aviation Insurance Ltd., which has been insuring general aviation risks for some 20 years.

Urbine-Sides, one of three U.S. agencies for balloon coverage, has contracts with Lloyd's of London, said Mr. Urbine. The agency insures 70% of the 50 balloons that have entered the race. Most of the contestants are large corporations and organizations.

Racing balloonists customarily buy combined single limits of $1 million for third party liability, bodily injury and property damage, he said. Lloyd's insures Mr. Urbine's own balloon for the same amount.

The World's Greatest Balloon Corp., sponsors of the race, are also insured through Mr. Urbine's agency. The sponsors have $50 million in third party and passenger legal liability coverage because some of the balloons will carry celebrities along certain legs of race as they float toward the finish line of Atlantic City, N.J.

The racers will be required to observe strict safety procedures that will be written into the race rules, adds Mr. Urbine. For instance, no balloons will be launched in winds higher than 20 miles an hour with no flying two hours before sunrise or two hours after sunset.

The balloonist-insurance agent handled coverage for race entrants last year, and his interest in the sport got the better of him. "Since we own two or three balloons ourselves, we decided to go ahead and enter the race.

"It will be good to be right there in the middle with them," he said.

N.Y. tightens reinsurance rule

By ELLIS SIMON

NEW YORK—State regulators here are asking Illinois and Florida insurance exchange syndicates to meet local capitalization requirements before seeking reinsurance.

New York Insurance Exchange syndicates need a minimum capital of about $3.5 million. Illinois requires insurance exchange members there to have $2 million minimum capital and Florida's insurance exchange requires a $1.5 million minimum.

For a New York insurer to get credit for reinsurance ceded to an underwriting member of a U.S. insurance exchange outside New York, the reinsurer must meet the same standard imposed on underwriting members of the New York Insurance Exchange.

This is required by an amendment to state Regulation 20, adopted March 20.

By getting credit for premium paid to reinsurers, insurance companies can write larger amounts of direct business since their premium-to-surplus ratio is affected only by the risk they retain.

The changed rule, though, may not threaten Florida and Illinois much. Both states say they expect syndicates in the two exchanges to beat minimum requirements.

"We never felt a majority of our syndicates would capitalize at the minimum," said George Love, surplus lines director with the Florida Insurance Department.

Underwriting members would have to decide on their own whether they wanted to bring their capitalization up to New York's standards to write business from New York, he added.

Another amendment to Regulation 20 prevents New York insurers from taking credit for reinsurance ceded to reinsurers domiciled in Canada unless those reinsurers have trust funds for the benefit of U.S. insureds.

That change is not expected to affect existing reinsurance arrangements since all Canadian reinsurers currently accepting business from New York insurers have U.S. branch offices, said Donald D. Gabay, first deputy superintendent of insurance.

New Canadian reinsurers would have to put $10 million in a U.S. trust fund before New York insurers could get credit for reinsurance ceded to them, he added. ■

Austrailian regulators assess workers comp guarantees

worldwide

MELBOURNE—The Australian Capital Territories Authority has set up a workers compensation fund guaranteeing claims payment in case of failure by a local insurance company.

The fund will be financed by employers who will pay a special assessment to their insurers equalling 7% of current workers compensation premiums, according to Sedgwick International Insurance Brokers.

The assessment, however, will be recalculated at the end of an employer's policy period before renewal plans.

In another Australian workers compensation development, the Tasmanian Legislative Council has amended its workers compensation legislation to include four new diseases for which workers could be compensated.

They are: leptospirosis, which affects slaughterhouse workers; vascular necrosis, which affects underwater divers; serum hepatitis, and diseases caused by inhalation of asbestos dust.

Australian brokers

SYDNEY—The growing Australian brokerage field will continue to flourish with new services and expertise despite the prospect of high insurance industry losses again for 1981, said David C. French, chairman of Reed Stenhouse, the largest broker in Australia.

Mr. French said Australian brokers are expanding markets and services to meet the needs of national business, like U.S counterparts.

"They have plunged into the complex and technical area of prevention and risk management to ensure that clients get maximum value and security."

He assailed, however, an increase in government intervention into the country's insurance industry, noting that Australian insurers paid out $820 million in losses in 1980 and will probably pay out a like amount for 1981.

Chilean terrorists

SANTIAGO—Many Chilean corporations are purchasing extended coverage insurance in the wake of terrorist activities that have caused millions of dollars in losses to industry, stores and restaurants, according to Johnson & Higgins International.

Businesses are purchasing the coverage to avoid "possible difficulties" that might arise with claim denials under standard fire policies from losses attributed to terrorists' attacks.

China watch

PEKING—Officials of the Peoples' Republic of China will continue to encourage foreign insurance ventures as a part of its overall effort to attract new industrial development, commerce and export/import business, according to the China News Agency.

Last year, Fireman's Fund Insurance Cos. agreed to reinsure cargo shipments for the People's Insurance Co. of China and to help the insurer set up a branch office system as a door-opener to expanded business relations between the U.S. and China (*BI*, May 19, 1980).

War risks

LONDON—Return of the U.S. hostages from Iran triggered a slow return to normal war risk hull insurance rates, say underwriters here.

"The basic level of rating for vessels away from the fighting is about half of where it started 12 months ago," a leading war risk underwriter here noted recently.

Hull war risk rates climbed dramatically last year when the American hostages were first taken captive and the Iran/Iraq war began.

Lloyd's underwriters then increased rates from 0.025% to 0.05% for ships entering the Arabian Gulf and up to 0.1% for vessels going to Iran. Market rates were ignored and each ship line was individually rated.

Individaul rating continues and charges still depends on destination.

"Each country on the Arabian Gulf has a different rating," an underwriter noted.

The Arab war risk syndicate, which started when Lloyd'd first began raising rates, has also reportedly cut most premiums by 25%. The 26 gulf member syndicate is expected to gross $10 million in premium this year. ■

Bus pass benefits may tax employees

By STEVE SHERWOOD

Dallas—A Hunt Energy Corp. employee here flashes a $70 pass at the bus driver and hops on, tucking the bargain back in his pocket.

The monthly pass cost him just $35 because his company picks up 50% of the tab.

Next week, however, the employee will realize the pass isn't quite the bargain he thought it was.

The $35 per month subsidy is taxable income.

A bill to be reintroduced in Congress this session could provide not only a tax-free subsidy to the employee but also tax credits to employers who buy employees free public transportation passes.

Rep. Richard Gephardt (D-Mo.) will reintroduce the bill this year. "We're hopeful the bill and its objectives will be seen as a worthwhile expenditure by Congress," said an aide.

The cost in lost federal taxes could be $4 billion, he says.

Despite the tax bite, transit benefits keep rolling.

High gasoline prices and rush-hour crushes are driving companies here and elsewhere to subsidize fares for employees riding buses to and from work.

Some look upon the discounted tickets as an employee benefit; others see them as a way to assure workers of a way to work.

Hunt Energy Corp. is only one of 250 Dallas firms participating in a Dallas Transit Service discount plan. DTS offers tickets for $2 off normal price to employers, who in turn sell them to employees at low rates.

Houston METRO runs a similar program and now has 45 area employers taking part. By this plan, any company wishing to purchase at least 50 monthly passes saves 10%.

For the month of March, sales per company varied from 50 to 842 passes with an average of 234 per company.

Hunt pays half the cost of bus passes for 160 of 350 employees.

"We started it a year ago because we were concerned about the energy crisis and felt this would be an attractive benefit for employees," says Carolyn York of Hunt.

Tickets, depending on the distance traveled from city center, range from $22 to $70 per month.

"I'm not saying a $10 or $20 discount is going to net us employees, but little things like this help," says Ms. York.

"Considering a lot of our people drive company cars, we have a large percentage taking advantage of the bus fare program."

Mobil Oil in Dallas provides a $10 per month bus ticket subsidy for around 800 employees. Another 115 to 120 people are in carpools.

"This is to encourage energy savings, to cut down on the number of cars using the highways and reduce congestion and parking," says Wanda Hulet, coordinator of Mobil's program. She started out riding the bus, but has since switched to a carpool.

"I consider it a benefit," she says. "I don't know that it would draw people, it sure helps take care of those already here."

Ms. Hulet says buses cover Dallas fairly well and a lot of Mobil people use the Park & Ride service, coming into the city from suburbs such as Garland, Carrollton and Irving. The company began offering discounted fares in 1979.

Union Fidelity Life in Dallas buys the bus passes from DTS at $2 off and adds a $3 discount of its own before selling them to employees.

"We make payments available by payroll deduction," says David Dranchek, who handles the program for Union Fidelity.

"Ninety-two of 200 employees take part in the program," he says. "One of the real purposes was to make sure everyone had a way to get to work. If someone spends $20 a month for a bus pass, he has a motivation to use it.

"It is getting to be necessary to provide transportation for employees," Mr. Dranchek says. "Just to compete with other companies, you have to offer some sort of plan. It is a selling point for the company."

First City National Bank of Houston pays $20 of each employee's bus pass fare, says Glenda Tharp, manager of the bank's employment club office.

"We get bus passes from the METRO office at a 10% discount and subsidize $20 of passes costing from $25 to $75 a month," Ms. Tharp says. "We're up to an average of 650 employees a month out of 2,100."

The discount program was started with hopes of saving gasoline, reducing parking congestion and saving employees money, she says.

Ms. Tharp rides the bus herself each day, saying, "It's kind of like getting a raise. For $5 a month I ride 13 miles to the office. It would cost me at least $200 a month to drive."

Kansas Gas & Electric of Wichita, Kan., has been paying half the cost of bus fare for 60 of its 20) employees during the past year. Each two-week ticket costs $10 and the company sells it for $5 in a special employee offer.

"It's bound to help employees' attitudes," says Don Telford, claims manager for the utility. "People who ride seem to enjoy it. The bus system is good and with the employees driving less, there is less chance of their being in an accident."

Mr. Telford says Kansas Gas & Electric considered buying vans for employees, but decided the cost was too high. It does not have enough employees to make the vans pay for themselves, so elected to stay with the bus fare subsidy program.

Seattle First National Bank pays 100% of the metropolitan bus fare for its employees. Some 3,000 of 8,000 workers take advantage of the free yearly passes.

"It reduced the cost of getting ourselves to work not only directly, but by cutting down on wear and tear on the cars," says a company spokesman. "There are fewer cars on the road now and reduced air pollution. Downtown parking is at a premium. It costs from $60 to $100 a month and that is saved through the bus fare program." ▪

New IRS ruling fattens cafeteria benefits

By MARY ANN MATLOCK

NEW YORK—The Internal Revenue Service has bent the rules for cafeteria benefit plans, allowing employers to serve up a three-way trade-off of cash, benefits and deferred compensation.

Before this change in the Miscellaneous Revenue Act of 1980, plans allowing choice between taxable and nontaxable benefits could not offer a deferred compensation selection, according to Section 125 of the Revenue Act of 1978.

In turn, plans offering a choice between cash and deferred compensation could not offer health and welfare benefits, according to Section 401 (K) of the IRS Code.

The new rule is effective this tax year. Deferred compensation, as defined in the 1980 ruling, is an employee selection of a contribution to a profit-sharing or stock bonus plan under a cash or deferred arrangement.

The IRS change, while not expected to suddenly make cafeteria plans attractive to those who had rejected them before, will make some existing plans easier to administer, consultants say.

"It is a big deal in a sense that companies interested in flexible compensation can make the program a lot more flexible and practical," said Hewitt Associates attorney and partner John Hoos.

"Prior to the amendment you could do it, but it was impractical. You could have had two separate programs."

"An employer who already has a cash deferred profit-sharing plan now has a fund from which employees can choose," commented Martin E. Segal vice chairman Robert Paul. "Now, the employee can take the cash from the cash deferred profit-sharing plan and with pretax dollars buy health and welfare benefits."

Both consultants have noted an increased interest in cafeteria benefit plans this year, though not conclusively attributable to the IRS change.

"We're working with 75 companies on flexible benefits," said a Hewitt spokeswoman. "The interest is there, but this (IRS change) won't open a watershed."

"There are inquiries," said Mr. Paul. "I think it (the change) will be an impetus if you already have cash deferred profit-sharing—which many small employers do. Employees can now tax-shelter some dollars."

Another consultant, however, has a dimmer view of the change.

"Its a relatively narrow change, but it will again make cafeteria compensation more attractive," said William M. Mercer vp Howard Risher.

"But, you have to have a deferred compensation mechanism to begin with. And a lot of people can't afford to defer income now."

Though not optimistic about cafeteria plans expanding from the eight or nine now offered nationwide, Mr. Risher still believes in the technique. "It is an idea whose time will come."

For cafeteria plans now in place, the three-way selection is expected to have little impact.

"Most of the ones now in existence do not include taxable benefits or group term life in excess of $50,000," said Mr. Hoos. "They won't have to struggle."

One of the employers offering cafeteria selections—Educational Testing Service in Princeton—affirmed the IRS decision will not impact their plan.

However, at American Can, the decision is being examined. "Certainly we are analyzing the new legislation and the options that area associated with it," said director of salaried benefits Robert Felder.

"Now our plan provides a two-way trade-off between now-taxable benefits and money deferred in a savings plan. The ruling may encourage more employers to convert benefit dollars into cash." ▪

Court ties asbestos suits

Continued from page 1

point one firm as lead counsel to argue each theory and the total number of firms involved would probably be reduced to four or five, he predicts.

A single case would provide a master discovery schedule and depositions of key witnesses would be taken once instead of four times, Richard Wolf of Long & Levit firm adds.

A California ruling is three years away, says asbestos attorney Victor Levit.

The exposure theory argues that insurers covering a risk during the time a plaintiff was exposed to the product defend claims and provide coverage in proportion to the length of time their policies were in effect, according to Mr. Wolf.

The manifestation theory holds that an insurer must defend claims if it was covering the plaintiff at the time harm was manifested or was discovered.

The pro rata theory states all insurers share in payment of claims in proportion to the length of time they covered an insured. Further, the manufacturer shares in payment to claimants for periods when no coverage was in effect, but does not share in defense costs.

In the highest federal court ruling on this question, INA vs. Fourty-Eight Insulations Inc., the Sixth Circuit Court of Appeals supported the exposure theory (*BI*, Nov. 3, 1980).

INA, which supports manifestation, has not yet decided whether it will appeal to the U.S. Supreme Court (*BI*, March 23).

Mr. Levit doubts the Supreme Court would rule on the questions because it is an issue normally left to the states. The California ruling, which Mr. Levit says is probably at least three years away, will only affect California asbestos cases, but will be important because of the large number of actions pending there.

More than 2,000 asbestos suits are currently pending in California. Asbestos litigation reports estimate 10,000 to 12,000 suits are pending nationwide.

Within a month, California Chief Justice Rose Bird is expected to select a trial judge who will preside over the unified actions, Mr. Wolf says. Early hearings will focus on which issues are to be resolved on a coordinated basis and which will continue to be litigated separately.

Johns-Manville Corp. opposed coordination of the cases because some of its issues in dispute are not in the other three cases says its attorney, Curtis Caton of Heller, Ehrman, White & McAuliffe of San Francisco.

Although all cases involve disputes over the theory of coverage applying to asbestos suits, J-M's case includes questions of insurers' duty to defend and disputes over coverage of property damage claims, he explains.

Johns-Manville's primary coverage with Travelers is nearly exhausted (*BI*, March 23), but Mr. Caton does not expect interruption in provisions of insurance coverage by Home Insurance Co. and other excess insurers named in Johns-Manville's declaratory suit.

Mr. Caton says excess insurers will continue funding settlements and judgments against Johns-Manville. ■

Computer breakdown plan

NEW YORK—Companies that rely on computers for a crucial part of their daily operations are often faced with a nagging fear: What happens if that computer system breaks down?

Valuable information can disappear forever, work can grind to a halt and untold dollars can be lost in missed business.

Crum & Forster has introduced a new minicomputer/word processor policy designed to help a company meet the additional costs of operating with rented or new equipment. The policy protects against floods, water damage and earthquakes—perils for which claims are generally not made.

Marketed by U.S. Insurance Group, a C&F subsidiary, the all-risk policy provides up to $10,000 for reproduction of lost information, up to $10,000 for extra expenses to enable a company to rent computer time or equipment, up to $10,000 for loss or damage of equipment in transit, a $50,000, 60-day coverage for equipment moved to a new location and full cost of debris removal, up to policy limits.

An unusual aspect of the C&F policy is its flat dollar limit on automatic coverages, according to the insurer.

"While other companies provide a percentage of the equipment's limit, not to exceed a dollar amount, our policy has an upfront dollar limit which in most cases is the maximum offered by competitors," said USIG assistant vp Elroy Dyksen.

Limits are flexible and can be increased as required by the insured, Mr. Dyksen added.

The policy carries a minimum $100 deductible.

Robbins fights recall demand

Continued from page 2

throughout the U.S. and 70 other countries in September of 1980 recommended removal of the IUD from any patients still using the device.

The letter suggested removal of the Dalkon Shields as part of a routine gynecological examination and Robbins based its recommendation on recent medical literature linking long-term usage of the IUD to pelvic infection.

It is Robbins' contention that the letter was sufficient. "We don't believe a recall is warranted at this time," the company spokesman said.

The attorney representing the women's health group, however, maintains the wording of the letter was too "innocuous. I'm still getting clients who have been injured by them (Dalkon Shields)," said Robert Manchester, of Burlington, Vt.

The attorney described the recall as "cost-effective" for Robbins and its insurer in terms of avoiding future lawsuits from long-term use of the Dalkon Shields. Incidents of problems from use are still reported.

Mr. Manchester estimated the recall would cost Robbins approximately $2 million. The company has already spent more than $60 million in settlements of product liability lawsuits naming the Dalkon Shield. ■

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More from RIMS...

New study marks rise of risk exec

Continued from page 1
rity is shared, it is usually in conjunction with the corporate president, treasurer, vp-finance or chief financial officer.

More than 50% of risk managers have been active in workers compensation legislative or regulatory issues, and nearly all risk managers surveyed say they expect to be involved in the workers compensation area in the future.

Another 27% of risk managers have been active in such product liability issues as the drive for tort reform. But less than 10% of risk managers expressed current interest in the foreign regulation of services, such as transborder data flows, or the establishment of new markets, such as the New York Free Trade Zone.

"Services are the most important growth area in risk management," said Mr. Long, a point brought home by the survey.

Full-time risk managers are about 10% more likely to use various risk management services than part-time risk managers, Mr. Long noted.

Claims adjusting and loss control lead the list of services most frequently used by risk managers. More than 86% of those surveyed used loss control or claims adjusting services, up from about 78% in 1975.

Other services used by more than 50% of those surveyed include property appraisal, computer-based information systems, industrial hygiene and salvage recovery plans and subrogation.

Risk managers say insurers are their first choice for supplying claims adjusting, rehabilitation, structured settlements and salvage and subrogation services,dispite the proliferation of vendors.

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Copies of "The Present Status and Future Role of Risk Management: A Survey of U.S. Risk Managers" are available from the Risk & Insurance Management Society Inc., 205 E. 42nd St., New York, N.Y. 10017.

Single copies are available for $20 for RIMS members, $40 for nonmembers. Discounts are available for bulk orders.

Photo: San Francisco Visitors Bureau

Many risk and benefit managers were too busy to see San Francisco's famoustrolley cars, but most said the RIMS Conference put them on track to new ideas for their return home.

Risk planning means more than buying

SAN FRANCISCO—Risk managers are getting corporate recognition that their jobs involve a lot more than buying insurance.

According to the RIMS-Time survey, the exact title of the person in charge of risk management operations now is likely to contain the word "manager" and/or "risk" instead of insurance.

In 1975, 60% of those surveyed said risk management was handled by someone with an insurance title.

Now, only 34% say someone with an insurance title is responsible for risk management.

Use of the word "risk" to designate the head of risk management operatons has more than doubled since 1975.

Risk managers also have begun to nail down top management jobs. There are 126 full-time risk managers who are vice presidents of their corporations, a 260% increase from the 35 full-time risk managers who were vps in 1975.

Most risk managers report to the finance department. Five years ago, risk managers were more likely to report to a corporate vice president or the treasurer.

Some 27% of the risk managers surveyed say they have employee benefit responsibilities, too.

The average full-time risk manager controls three times the property/casualty insurance premium as a part-time risk manager. Last year, full-time risk managers spent $2.16 million on property/casualty insurance premiums, while the part-timers controlled $698,000 in property/casualty premiums.

The growth of risk management has fueled the enormous expansion of RIMS. Between 1975 and 1980, RIMS U.S. membership grew to 2,897 organizations from 1,786, a 62% increase.

With the sharp rise in new members, many of which are smaller firms, employee size of the median RIMS member company has dropped to 3,931, down from 5,940 employees in 1975.

The number of full-time risk managers rose from 994 in 1975 to 1,729 in 1980, a 74% gain.

Nearly all risk managers hold college degrees; 23.4% also have earned post-graduate degrees. About 21% of full-time risk managers have ARM desgnations while 16.2% have earned a CPCU designation. ▪

Coordinate benefits with a master plan

Continued from page 3
"The third-party national may be a guy without benefits if he never stays long enough to vest pension benefits in one country," points out Mr. Hyland. But eventually he will retire and come knocking on the door, demanding loosely promised benefits.

To develop a multinational benefits common denominator, Mr. Hyland recommends that corporations establish a master plan for benefits management.

It should consider: labor force competition in different countries, pension plan valuation criteria (turnover rate, entry and retirement age), alternative funding vehicles, applicable interest rates and employee contribution levels.

Centralized benefits planning is being imposed by financial regulators, added Mr. Hyland. Financial Accounting Standards Board (FASB) Ruling 36 requires disclosure of foreign pension liability in consolidated financial statements if the data is available.

Most companies say they haven't been able to develop that information. But they probably will be required to produce it within the next few years and should be thinking about how they will, observed Kent Barker, president of Swiss International Services Inc., another panelist.

In formulating a master plan for international benefits, the manager must ask if the assumptions are made in accordance with a wide variety of tax and other local laws and mandates.

He or she also must check to verify that assets are measured in a way that does not distort true value.

No benefits manager can expect to grasp all the tax laws and accounting rules in every foreign country where the corporation operates and probably should retain a consultant to provide that expertise, said Mr. Hyland.

The trick is to meet management demands for information, employee demands for benefits and tax authority demands all at the same time, Mr. Hyland says.

Funding issues are becoming increasingly complex, he noted. In some countries outside the Anglo-Saxon community, pension trusts are unknown. In Germany and Japan, for example, pension plans typically are funded through book reserves, supported by the general assets of the corporation.

The real value of pension plans may be undervalued due to laws in some countries that demand investment income be assumed at a low rate of interest. In Holland, that interest rate assumption is 4½% and in West Germany it is 5½%.

Benefit increases must be amortized over three years in West Germany, whereas U.S. accounting principles allow for a longer amortization schedule. ▪

Barker

States hunger for Florida wage-loss data

Continued from page 1

"In principle, every state should have been using wage-loss all along," says Dr. Larson, the author of a 10-volume treatise on workers compensation.

"Literally, 80% of the workers compensation dollar has been frittered away on small impairments," he said.

"Florida took the lead in what appeared to be a dramatic revolution, but it's really just putting the system back where it should have been," he added.

He's confident Florida will handily withstand court challenges to the system. Wage-loss, in effect, takes away a workers' right to receive compensation beyond the time off work unless the employee can prove the injury caused a loss in wages when they returned to work.

Two pending lawsuits question the constitutionality of the state's new law and allege benefits payments are insufficient (*BI*, March 30, 1981).

Even though many industry agencies and state administrators admit to be carefully watching Florida's court challenges to its wage-loss system, the states are forging ahead with new legislation.

• Oregon, a state that has come the closest to realizing a new law, has a bill pending (H.B. 2600). Rep. Jim Chrest says the bill is a revision of a similar attempt he introduced more than two years ago. The latest bill, which is currently before the house labor committee, goes a step further than Florida's bill by mandating that an employer of 10 or more workers re-employ an injured worker and place that worker in a rehabilitation program to facilitate the employee's early return to work.

Workers compensation expert Dr. Larson says Oregon's proposal is one of the most creative and "splendid" proposals he has seen.

• Delaware's Rep. John Burris is scrambling to make last-minute modifications on former H.B. 87, which was killed last week in committee, so that he can reintroduce a compromise bill this week.

The stricken bill, which Rep. Burris says he is simply rewriting for stategy's sake, closely resembles Florida's wage-loss concept. The bill doesn't have the remployment feature that Oregon's proposed bill does, but it does prevent benefits from exceeding an injured employee's former wage.

• Louisiana's Association of Business and Industry is backing a bill, based on the Florida plan, to revamp the state's benefit system to a system of replacing lost income rather than a lump-sum disability payment, says Johnny Coch, attorney for the group.

A major portion of the bill, however, will serve to establish a workers compensation administrator for Louisiana, the only state in the U.S. that doesn't have a central agency where workers can file for workers compensation. Employees in that state are forced to file a lawsuit in circuit court if they cannot get satisfactory disability benefits from his or her employer.

• Maine, a state also revising its entire workers compensation system under legislative docket No 1033, has legislation pending that would revise disability payments under the model wage-loss concept, says Sen. Charlotte Sewall, the bill's sponsor.

She says she has hope for the bill, but admits that the labor community is picking away at the proposed system. The legislation remains in committee.

Larson

• Washington state, which is in the process of revamping its entire workers compensation law under H.B. 31, had the wage-loss concept portion of the proposal killed last week by a senate committee after organized labor in the state let their opposition be known, said Charlie Murphy, assistant director of the industrial insurance division in the Department of Labor.

The plan, which was stricken from the bill, would have switched workers to compensation simply for wages lost from a disabling injury. It wasn't immediately clear whether a counter proposal for wage-loss compensation would appear, he said.

The wage-loss concept, says Eric Oxfeld, associate director of employee benefits for the U.S. Chamber of Commerce, has caught the imagination of the entire workers compensation community.

"There is no discussion of compensation that doesn't include the wage-loss concept," said Mr. Oxfeld.

He cautioned states not to copy Florida's system without first looking at their own state's special interests and intricacies.

"I would bet that every state is aware of or studying wage-loss and several are at the point where they're seriously considering a law change," he said.

"Wage-loss is a better way to keep track of losses than the impairment rating system most states have," adds Michael Gillman, legislative committee chairman of the International Assn. of Industrial Accident Boards and Commissions. Mr. Gillman also is chairman of Michigan's workers compensation appeals board.

That positive nod for wage-loss is echoed by the National Council on Compensation Insurance, a group that is waiting for Florida's loss figures to "ripen" a little more before endorsing the wage-loss concept.

The National Assn. of Independent Insurers hasn't taken a policy position on the new system, but the association is monitoring states that are actively pursuing it, says attorney Sam Sorich.

"We support wage-loss in states that have a good administration and oppose it for states that have a poor administration," he said. "The state we're watching now is Florida," he added.

The American Insurance Assn. supports the idea, too, but says wage-loss requires an effective administrative system to work well. The Alliance of American Insurers predicts it will take another one to two years before Florida's loss experience can be evaluated.

"If it proves successful and withstands the test of time, most states will look at wage-loss. That's if they haven't already," said Jack Doyle, senior legislative anaylyst of workers compensaton for the Alliance. ■

Vermont aims for captives with industrial group law

By STEVE SHERWOOD

SAN FRANCISCO—Lower capital and surplus requirements, no tax on reinsurance premiums, and the creation of a new type of captive— the industrial insured group—are all designed to draw captive business to Vermont under a bill passed by both houses of the state's legislature.

Vermont Insurance Commissioner George Chafsee announced at the RIMS conference last week that the new captive law will be effective July 1.

Vermont's "Special Insurer Law" makes domestic captives more feasible than do other state regulations, Mr. Chafsee said. Colorado, Tennessee, and Virginia all have special captive laws.

"It does not begin with the premise that there must be a market restriction before a captive can be formed," he says.

"The bill is designed to capsulize on the captive phenomenon and to bring good, clean industry to the state."

Reg Beane, RIMS government affairs director, says the measure is novel because it provides for traditional pure and association captives and introduces the concept of the industrial insured captive.

Under the bill, an industrial insured captive would consist of a group of entities, each of which must have 25 or more employees, premiums of more than $25,000 a year and a full-time employee responsible for insurance.

To form an industrial insured captive requires a minimum capital and surplus deposit of $200,000 and $300,000. For a pure captive, capital and surplus deposits of $100,000 and $150,000 must be made. This compares to $400,000 and $350,000 for capital and surplus deposits required under Colorado's captive law.

John Sarchio, an attorney with LeBoeuf, Lamb, Leiby and MacRae of New York, a law firm advising RIMS on the captive bill, says he thinks the deposits are sufficient.

"The basic difference is between captives that are large and would not impact private individuals and group association captives that could have an adverse impact," said Mr. Sarchio. The financial standing of a pure captive, formed by a single parent company, would only affect that company so a smaller deposit is required.

Association captive losses would have a more widespread effect, so the desposit is larger ($400,000 for capital, $350,000 for surplus).

"We have tried to match the level of the captive with the level of the security requirements," he said.

A safeguard provided in the bill is the formation of an industry advisory commission to the Vermont Insurance Commission comprised of persons prominent in the state's insurance industry.

This commission will review all applicant captives to assure they are desirable and can meet solvency requirements.

The law's tax structure, calling for a one percent state tax on direct-written premiums and no local tax on reinsurance premiums, is the same as in Colorado. The principle advantage is over offshore captives whose premiums from the U.S. are subject to the excise tax of four percent on direct premiums and one percent on reinsurance premiums.

There are no minimum premium requirements in Vermont, except for the industrial insured captive. This contrasts with the Colorado law that requires annual minimum premiums of $500,000 for pure captives and $1 million for association captives. ■

Monsanto faces workers' lawsuit

By JOHN MAES

CHARLESTON, W. Va.—A group of employees of Monsanto Co. have filed a $1.7 billion suit in federal court here contending their employer exposed them to dangerous chemicals over a 32-year-period, with full knowledge of the hazards.

The suit was filed on behalf of 54 current and former employees of the Monsanto chemical plant in Nitro, W. Va., including the survivors of eight who died, allegedly from disorders caused by chemical exposure.

W. Stuart Calwell Jr., a Charleston attorney representing the workers, said the suit also accuses Monsanto of self-insuring costs for testing and treatment of employees who contracted diseases from exposure to para-aminobiphenyl (PAB) over the last 20 years, avoiding workers compensation.

In addition to PAB, the suit identifies the chemical 2,4,5-T, a defoliant, as a hazardous substance to which workers were exposed. The use of both has been discontinued by Monsanto, a company spokesman said.

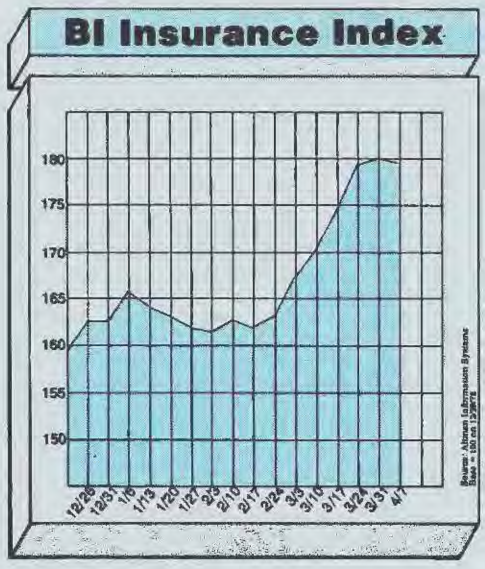
Mr. Calwell said he wants to find out whether the employees involved received all the workers compensation benefits to which they were entitled.

However, the company and West Virginia workers compensation commissioner Gretchen Lewis said the firm does not self-insure the risk at the Nitro facility.

The firm is a member of the state workers compensation fund and paid more than $324,000 in premiums to it in the 1980 fiscal year, according to Ms. Lewis.

The affected workers labored in various areas of the plant in a "spectrum of job classifications and duties," such as production and utility workers, maintenance workers and mechanics. They suffered mostly from cancer of the bladder, heart disease, leukemia and other disorders, Mr. Calwell said.

Monsanto would not discuss its liability insurance, but a company spokesman said the firm denies charges that it knowingly endangered the health of its employees. ■



The Business Insurance stock index declined 0.4 to 179.9 from 179.5 even though 34 stocks rose and only 30 dropped. Seven wereunchanged. Posting the largest drops were: Frank B. Hall & Co., 9.5%; Aneco Reinsurance Ltd., 8.6%; Aetna Life & Casualty, 7.3%; Marsh & McLennan Cos., 7.3%, and Armco Inc., 6.6%. Biggest increases were by: United Fire & Casualty Co., 10.2%; Bitco Corp., 6.3%; SRI Corp., 5.7%; Tokio Fire & Marine Insurance Co., 5.6%, and Avemco Corp., 5.3%. The 0.2% index drop was slower than the fall of the three major market indicators. Standard & Poor's dropped 1.5%, the New York Stock Exchange was down 1.2% and the Dow Jones industrials fell 1.1%.

British Issues

4/7 Companies	Price pence	P/E	Div. pence	Yield %	1 Week High—Low pence pence
Comml Union	167	8.7	15.43	9.3	171—167
Eagle Star	246	9.2	15.00	6.1	248—242
Genl Accident	348	8.7	19.19	5.5	356—348
Gdn Royal Exch	350	8.7	22.14	6.3	364—348
Phoenix	278	10.0	21.29	7.7	284—276
Royal	390	8.4	34.29	8.8	390—387
Sun Alliance	838	10.0	47.14	5.6	849—822
Brokers					
CE Heath	236	11.5	13.87	5.9	240—233
Hogg Robinson	120	9.6	8.14	6.8	120—116
Alex Howden	123	9.4	10.00	8.1	124—123
JH Minet	102	12.8	6.45	6.3	103—102
Sedg Grp	121	12.0	7.14	5.9	122—119
Stanhouse Hldg	81	7.7	6.64	8.2	82— 79
Stew Wrightson	228	11.1	17.14	7.5	228—227
Willis Faber	313	13.1	17.14	5.5	315—310

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

Brokerage stocks outpace overall industry indicators

By LEONARD M. WILSON

BI ticker

Insurance brokerage stocks have perked up lately. Nothing has been dramatic, but since January they have seen a creditable 20% advance compared with a gain of around 10% for the Standard & Poor's 400 Industrials.

Performance of the brokerage stocks generally depends on the premium rate environment, and their price movement closely parallels the ups and downs of rate-making in commercial lines through the 1970s.

So the current rate war in commercial lines remains a central concern. Severe rate-cutting in the property/casualty industry has stymied brokers' earnings growth and, simultaneously, diminished investor interest in their stocks.

There is little doubt the present cycle of rate competition reflects a quest for a new equilibrium between underwriting results and investment income. High interest rates coming on the heels of accelerating inflation has caused investment income to soar.

This has fostered a preoccupation with cash flow and a willingness to accept underwriting losses of indeterminate magnitude as a trade-off for a predictable level of incremental investment income.

Though spokesmen for the brokers hope rates will firm late in 1981, there is still no sign of a letup in rate competition, unless Aetna Life & Casualty Insurance Co.'s turnabout can be taken as a portent of change. Aetna's recently proposed rate increases and more stringent underwriting standards might be encouraging if this were, say, 1974, but competition has been so bruising that most observers are doubtful, if not downright skeptical, that a single underwriter can change the situation.

Caution about rates is dictated by the abundant capacity in primary and reinsurance markets and the lofty level of investment income. Aetna's underwriting experience, it is felt, may be worse than the industry's and, therefore, not sufficiently representative to enlist followers yet.

What will it take to turn the market? A decline in interest rates might help, but strength in the economy could rule out that possibility. Probably, the underwriting cycle will have to unwind as mounting underwriting losses become unacceptable even in the light of exalted levels of investment income.

Problematical, and so the brokers have little alternative but to pursue a three-pronged strategy of restraining costs, developing new services, and intensifying the search for new business. This strategy makes sense in all circumstances, but it is particularly critical when soft markets are in sway.

Unfortunately, the magnitude of rate reductions is so pronounced that the adverse effect cannot be fully overcome by new business and attention to costs.

True, the publicly-owned brokers have developed a knack for finding a great deal of new business despite soft markets, but that usually has not helped the production effort. And cost controls generally have worked well. But a policy of restraining costs can only go so far before it undermines the ability to service the client.

Maintenance of client service has remained a paramount goal for all public brokers. Notwithstanding new business and expense control, the public brokers, as a group, have experienced an erosion in profit margins that is expected to continue in 1981 and hold back earnings growth.

Because markets are still soft and rising rates are a prerequisite to better price action for the brokerage stocks, how can the recent price strength of the brokerage shares be explained? Stocks tend to anticipate developments before they are generally visible. It could be that the brokerage shares are discounting a letup in competition even though the light is not yet shining at the end of the tunnel.

In addition, the group has demonstrated an underlying resiliency that adverse operating conditions have masked. Rate competition has effectively prevented the brokers from raising their commissions sufficiently to offset expense increases for about three years. Few companies in other industries, given the current inflation in costs, could endure a similar inability to increase prices without great damage to profits. Yet the brokers, in contrast, have been able to maintain earnings power.

Upcoming earnings reports may not be especially encouraging, and there may be a few more bumps in the road to improved investment performance. Nonetheless, investors may have begun to focus on the possibility that firm markets are not that far off and that brokers, in an environment of stable rates, retain a potential for strong growth.

Leonard M. Wilson, a senior analyst at First Manhattan Co. Inc. in New York, specializes in insurance brokerage stocks. He is a member of the New York Society of Security Analysts.

Financial Briefs

Overall forecast

Underwriting results for the property/casualty industry, which showed a predividend combined ratio of 100.8 in 1980, will continue to deteriorate over the next few years, according to Data Resources Inc.'s forecast for the coming year.

Premium growth, which is not expected to keep pace with rising claims costs and increasing frequency patterns over the next three years, will cause the predividend combined ratio to hit 103.1 this year and remain close to that throughout 1983.

The predicted downturn, however, is not expected to match the 1974 and 1975 experience. In 1975, the all-lines combined ratio hit 106.7, a significant increase over the 103.1 forecasted for the next three years.

The combined ratio for general liability, which climbed to 125 in 1975, the highest of all lines, is predicted to peak in 1982 at 118.5, while auto physical damage, which peaked at 113 in 1975, is expected to stay below 100 this cycle.

"The weakness in 1980 net written premium in commercial multiperil was the most noteworthy event in 1980 product line results. Prior to 1980, this line had never suffered from revenue shortfalls during the competitive phase of the underwriting cycle," said DRI senior insurance economist Stan Wright.

The forecast expects net written premium in this line to increase 6% in 1981 despite predicted competition.

Orion Capital Corp.

Orion Capital Corp. has increased its 1980 operating earnings 2.5%, to $13.3 million—$1.75 per share—from $12.9 million—$1.74 per share on fewer shares—in 1979. But after a dramatic 73% drop in investment gains, to $412,000 in 1980 from $1.5 million in 1979, net earnings dropped 6%, to $13.7 million from $14.5 million.

Net earnings per share dropped to $1.80 in 1980, from $1.94 per share the previous year.

The company's property/casualty underwriter, Security Insurance Group, posted a good year by lowering its combined ratio to 101.6 in 1989 from 101.9 in 1979, while increasing earned premiums 11.4%, to $125.3 million from $112.5 million.

"We believe that our performance in 1980 was very satisfactory given the difficult conditions in our industries and the economy in general, as well as special factors we faced during the year," said Alan R. Gruber, chairman and president. ■

BI Industry Stock Report

Insurance Cos.		APR. 7, 1981 Price	% Chg.	P/E	$ Div.	% Yld.	4/1/81 THRU 4/7/81 High	Low	Vol. (000)
Aetna Life & Cas Co	NYSE	33.13	-7.3	5.3	2.32	7.0	35.13	33.13	654.7
American Bankers Ins Group	OTC	6.88	0.0	4.6	0.22	3.2	7.00	6.88	142.6
American Finl Corp Ohio	OTC	28.00	0.9	5.7	0.50	1.8	29.38*	27.75	58.9
American Gen Ins Co	NYSE	44.38	2.3	6.8	2.00	4.5	44.38	43.50	205.9
American Indty Finl Corp	OTC	17.00	-3.5	6.6	1.12	6.6	17.50	17.00	10.2
American Intl Group Inc	OTC	78.75	-2.2	10.5	0.60	0.8	80.50	78.50	123.2
American Natl Ins Co	OTC	14.50	0.0	6.6	0.68	4.7	14.50	14.38	57.3
American Sts Life Ins Co	OTC	18.00	2.9	6.2	0.72	4.0	18.00	17.50	1.6
Aneco Reins Ltd	OTC	4.00	-8.6	0.0	0.00	0.0	4.38	4.00	33.6
Appalachian Natl Corp	OTC	2.13	0.0	6.1	0.05	2.4	2.13	2.13	0.6
Avemco Corp	AMEX	10.00	5.3	8.6	0.50	5.0	10.00*	9.38	12.5
Banks Iowa Inc	OTC	30.50	-1.6	5.1	1.44	4.7	30.50	30.50	1.1
Bitco Corp	OTC	42.00	6.3	6.0	2.16	5.1	42.00*	40.00	29.4
Carolina Cas Ins Co	OTC	9.00	-5.3	5.7	0.32	3.6	9.25	9.00	0.3
Central Natl Finl Corp	OTC	10.88	0.0	4.0	0.65	6.0	10.88	10.88	1.3
Chubb Corp	OTC	42.88	-3.4	5.0	2.68	6.3	44.38	42.38	109.5
Combined Intl Corp	NYSE	21.25	-1.2	6.0	1.60	7.5	21.50	21.13	185.7
Connecticut Gen Ins Corp	NYSE	50.75	-5.4	6.6	1.76	3.5	53.00	50.75	329.0
Continental Corp	NYSE	25.00	-6.1	6.7	2.40	9.6	26.50	25.00	182.4
Crawford & Co	OTC	19.25	-1.3	14.7	0.52	2.7	19.50	19.25	67.1
Crown Life Ins Co	OTC	101.00	2.5	8.5	2.80	2.8	101.00*	100.00	0.1
Crum & Forster	NYSE	29.63	1.3	5.5	1.44	4.9	30.00	29.50	221.6
Employers Cas Co	OTC	34.00	2.3	5.5	1.20	3.5	34.00	33.25	5.2
Equifax Inc	NYSE	21.13	0.6	6.7	2.40	11.4	21.25	21.13	9.2
Farmers Group Inc	OTC	30.50	-2.0	9.7	1.12	3.7	31.25	30.38	292.5
First Colony Life Ins Co	OTC	39.50	1.3	13.5	0.80	2.0	39.50	39.50	2.1
Foremost Corp Amer	OTC	25.50	1.0	8.4	0.80	3.1	26.13*	25.50	15.3
Great West Life Assurn Co	OTC	270.00	0.0	11.2	10.00	3.7	270.00	270.00	0.0
Hanover Ins Co	OTC	44.75	0.6	4.1	0.72	1.6	44.75	44.50	14.6
Hartford Steam Boiler Insptn	OTC	39.50	3.9	7.9	2.60	6.6	40.00	38.50	10.4
Jefferson Natl Life Ins Co	OTC	46.50	-1.1	32.3	0.64	1.4	47.00	46.50	6.8
Kemper Corp	OTC	32.88	-1.5	5.0	1.60	4.9	33.38	32.88	37.7
Lincoln Natl Corp Ind	NYSE	41.75	-5.6	5.8	3.00	7.2	44.75*	41.75	72.5
Mgic Invt Corp	NYSE	35.63	2.2	9.8	1.28	3.6	36.38	35.63	328.2
Mission Ins Group Inc	NYSE	43.25	-0.3	8.5	1.00	2.3	43.63	42.25	47.3
Nationwide Corp Ohio	OTC	23.75	2.7	6.8	0.70	2.9	23.75*	23.13	4.0
Northwestern Natl Life Ins	OTC	29.50	0.9	6.5	1.25	4.2	29.50	29.25	32.1
Ohio Cas Corp	OTC	41.00	0.9	6.9	2.04	5.0	41.88	40.75	102.6
Old Rep Intl Corp	OTC	18.00	-1.4	4.9	0.92	5.1	18.38*	17.88	107.4
Pinehurst Corp	OTC	6.63	3.9	0.0	0.00	0.0	6.63	6.38	31.9
Preferred Risk Life Ins Co	OTC	19.25	2.0	6.5	0.80	4.2	19.25*	19.25	4.8
Provident Life & Acc Ins Co	OTC	45.00	-1.1	6.6	2.20	4.9	45.50	45.00	7.2
Republic Natl Life Ins Co	OTC	27.00	0.5	16.3	0.70	2.6	27.25*	27.00	11.7
Ryan Ins Group Inc	OTC	23.50	2.2	9.3	0.12	0.5	23.50	23.00	5.5
St Paul Cos Inc	OTC	39.75	-2.2	7.5	2.32	5.8	40.88	39.63	165.2
Safeco Corp	OTC	39.50	1.9	7.1	2.00	5.1	40.50*	39.00	98.5
Sri Corp	OTC	23.25	5.7	5.8	0.80	3.4	23.50*	22.00	31.4
Seibels Bruce Group Inc	OTC	21.88	1.2	11.0	0.80	3.7	22.00*	21.88	26.4
Statesman Group Inc	OTC	5.63	-6.2	4.3	0.15	2.7	5.75	5.50	56.2
Tokio Marine & Fire Ins Co	OTC	157.88	5.6	17.5	1.03	0.6	157.88	153.25	2.6
Travelers Corp	NYSE	45.75	-0.5	5.3	2.88	6.3	47.88	45.75	402.8
United Fire & Cas Co	OTC	48.50	10.2	12.7	1.00	2.1	48.50*	45.00	11.1
United States Fid & Gty Co	NYSE	44.88	2.9	5.5	3.20	7.1	45.13*	43.88	160.9
United Svcs Life Ins Co	OTC	15.75	-3.1	6.4	1.00	6.3	16.25	15.75	12.2
Uslife Corp	NYSE	31.38	-3.5	7.8	0.72	2.3	33.25	31.25	365.0
Washington Natl Corp	NYSE	34.00	-2.5	6.7	1.62	4.8	35.38	34.00	31.2
Zenith Natl Ins Corp	OTC	16.75	0.0	10.4	0.50	3.0	17.50*	16.75	35.6
INSURANCE COMPANIES	AVERAGE			7.8		3.8			

Agents/Brokers

		APR. 7, 1981 Price	% Chg.	P/E	$ Div.	% Yld.	4/1/81 THRU 4/7/81 High	Low	Vol. (000)
Alexander & Alexander Svcs	OTC	37.00	3.5	12.1	1.84	5.0	37.00*	36.50	100.6
Baldwin & Lyons Inc	OTC	31.50	0.8	5.5	0.80	2.5	31.63	31.25	2.6
Corroon & Black Corp	NYSE	25.00	-3.8	10.6	1.76	7.0	25.75	25.00	13.8
Crump E H Cos Inc	OTC	12.25	-3.9	10.7	0.40	3.3	12.75	12.25	10.0
Hall Frank B & Co Inc	NYSE	25.00	-9.5	9.1	1.60	6.4	26.88	25.00	13.8
Integrated Res Inc	AMEX	16.38	3.1	7.6	0.00	0.0	16.38	15.13*	46.6
James Fred S & Co Inc	NYSE	26.25	4.0	11.3	1.60	6.1	27.13*	26.25	54.3
Marsh & Mclennan Cos Inc	NYSE	35.00	-7.3	11.2	2.00	5.7	37.50	35.00	224.1
Penncorp Fincl Inc	NYSE	6.38	-3.8	5.7	0.16	2.5	6.63	6.25	101.9
Reed Stenhouse Cos Ltd	OTC	12.00	3.2	11.4	0.56	4.7	12.25	11.75	26.3
Rollins Burdick Hunter Co	OTC	25.00	3.1	12.1	1.24	5.0	25.00*	24.50	19.6
AGENTS/BROKERS	AVERAGE			9.4		4.8			

Conglomerates/Holding Cos.

		APR. 7, 1981 Price	% Chg.	P/E	$ Div.	% Yld.	4/1/81 THRU 4/7/81 High	Low	Vol. (000)
American Express(Fireman's Fd)	NYSE	44.75	-1.9	8.5	2.00	4.5	45.50	43.00	568.6
Anderson Clayton(Ranger/PanAm)	NYSE	21.38	-1.2	5.8	1.20	5.6	21.63	21.38	24.2
Armco Inc	NYSE	38.88	-6.6	9.9	1.64	4.2	41.25	38.88	159.6
City Investing Co. (Home Ins.)	NYSE	24.88	-4.8	6.8	1.60	6.4	26.13	24.88	214.5
CNA Finl Corp (CNA)	NYSE	16.50	2.3	6.1	0.00	0.0	17.00	16.25	127.8
Control Data (Comml. Credit)	NYSE	69.25	0.5	8.4	0.90	1.3	70.75	68.75	357.9
General Re Corp	NYSE	63.38	0.6	9.0	1.76	2.8	63.63	63.38	64.0
INA Corp (Ins. Co. of NA)	NYSE	43.63	2.3	6.1	2.40	5.5	43.63	43.00	257.7
ITT (Hartford Group)	NYSE	32.00	1.1	5.4	2.60	7.9	33.75*	33.00	1,082.8
Reliance Group Inc	NYSE	75.50	3.4	6.0	3.00	4.0	76.00*	73.00	20.6
Sears Roebuck & Co. (Allstate)	NYSE	18.88	2.7	9.8	1.36	7.2	19.63*	18.75	3,514.5
S & H Co. (Bayly Martin & Fay)	NYSE	32.75	-0.4	15.2	1.00	3.1	33.00	32.75	33.0
Teledyne Inc (Argonaut)	NYSE	145.63	-2.9	9.6	0.00	0.0	149.50	145.00	276.3
Transamerica Corp (Occidental)	NYSE	20.63	-1.8	5.6	1.28	6.2	20.88	20.25	408.0
CONGLOMERATES/HOLDING COS.	AVERAGE			7.8		3.2			

*Record high/low since Jan. 1, 1981.

System design: Altman Information Systems